looking back building forward

A COLLECTION OF ESSAYS ON SRI LANKA'S ECONOMIC CRISIS AND EMERGING PRIORITIES

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CENTRE FOR A SMART FUTURE

Looking Back Building Forward

A Collection of Essays on Sri Lanka's Economic Crisis and Emerging Priorities.

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PREFACE

Sri Lanka has had multiple and overlapping crises since the constitutional coup of 2018. The Easter Sunday tragedy in 2019, COVID-19, the foreign currency shortage and economic crisis that followed have inflicted severe and lasting strains on the Sri Lankan economy and society at large. CSF researchers had been writing on the fallout of these crises since 2022, with a focus on helping audiences to better understand some of the macroeconomic causes, as well as better recognise some of the debilitating impacts on communities. Our writing was published in national newspapers, international platforms, and our own institutional website. As the country begins to experience macroeconomic stability, signs of a recovery in growth, alongside a conclusion of debt restructuring, it is timely to recall some of the issues that we had written about.

The purpose of this publication - a collection of essays of our writing since 2022 - is twofold. Firstly, to serve as a reminder of some of the key contributing aspects of the crisis, as well as the impacts faced by vulnerable communities. With a desire to quickly ‘move on’ and celebrate recovery, these aspects have been forgotten. Secondly, to serve as reference points to inform and influence a more just, inclusive, and sustainable economic recovery, which is our idea of a ‘smart future’.

This collection of essays represents more than a compilation of academic analyses; it is a testament to the collective expertise and commitment of researchers dedicated to understanding Sri Lanka’s challenges and contributing to its recovery. The diverse perspectives presented here - spanning economics, social policy, environmental sustainability, and technology - reflect the interdisciplinary nature of CSF’s work and our approach, and the multidimensional nature of Sri Lanka’s polycrisis and the solutions needed for a just recovery.

We wish to thank Open Society Foundations, Institute of Development Studies U.K, United Kingdom Research and Innovation whose partnerships and steadfast support for our work and purpose continue to encourage us. Partners in research and advocacy projects including the London School of Economics Inequalities Institute, Institute of Development Studies, SEVANATHA Urban Resource Centre, Voice of Plantation People Sri Lanka, Biodiversity Sri Lanka, Blue Resources Trust have enriched the contents of this publication with our collaborations over the years.

We thank our team members Anisha Gooneratne, Senith Abeynayake, Pahani Fernando, Akshie Wickremesinghe, Chamindhi Abeywarna who helped put this publication together.

Iromi Perera and Anushka Wijesinha
Centre for a Smart Future
Colombo, March 2025

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FOREWORD

'LOOKING BACK, BUILDING FORWARD' is an extremely timely collection of essays put together by Iromi Perera and Anushka Wijesinha for the Centre for A Smart Future (CSF). This publication is multidisciplinary in its approach to understanding the toxic combination of policy mis-steps and exogenous shocks which culminated in the most severe economic crisis of the post-Independence era. The causes and consequences as well as the proposed solutions, are presented through a multidisciplinary lens which provides valuable insights from economic, ecological and social perspectives. The knowledge base and analytical rigour embedded in these essays is timely and relevant at a time when the new government has committed itself to evidence-based policy-making. The focus on drawing out lessons and putting forward practical action points makes these essays of particular value to policy makers.

The essays will also be of interest to a broader group of scholars and those members of the public with an interest in understanding the crisis and imagining what it takes to build a stable, inclusive and prosperous future. They also cover topics which have not received the attention they deserve, and contribute to the knowledge base for policy-makers in those important areas. In this regard, the section on the impact on, and solutions for, the urban poor is particularly illuminating by focusing attention on a segment of the population which is arguably the most severely affected by the crisis. The attention paid to sustainability is also very relevant for Sri Lanka, which the World Bank has classified among the ten countries most vulnerable to climate change.

This publication is divided into two parts: 'Looking Back: the Economic Crisis, its Roots and its Impacts'; and 'Building Forward: A Just, Inclusive and Sustainable Future'.

The strong orientation towards equity and social justice in the writing is well aligned with the priorities of the new government. It also reflects the orientation of the Centre for a Smart Future's quest for a more just, inclusive and sustainable recovery. The CSF's multi-disciplinary approach is also well placed to understand the multidimensional nature of the crisis and the solutions required for a just and sustained recovery.

Dr. Indrajit Coomaraswamy
Former Governor of the Central Bank of Sri Lanka
Member of CSF's Global Advisory Board

INTRODUCTION

The economic crisis that engulfed Sri Lanka beginning in 2022 represents one of the most profound challenges in the nation's post-independence history.

Economic activity, reeling from the 2019 Easter Sunday Attacks and the Covid-19 pandemic, was severely affected by the crisis with annual growth in Gross Domestic Product (GDP) plummeting to -7.3 in 2022 - the lowest recorded level in the past 50 years. The inflation rate (measured by the Colombo Consumer Price Index), which was in single digits from the end of the civil war in 2009 until November 2021, increased sharply, peaking at 69.8 percent year-on-year in September 2022. Food inflation rose to 94.9 percent in the same month. The severe shortage in foreign reserves and the resulting inability to import fuel caused an energy and transport crisis with power cuts averaging over 10 hours a day by April 2022 and the annual total energy generation reducing by 4.6 percent in 2022 (Central Bank of Sri Lanka 2022). Between July 2021 and 2024, public and informal private sector real wages contracted by 16.9 percent and 22 percent respectively (World Bank 2024).

The crisis had deep impacts on the livelihoods and development outcomes. Though estimates during and after the crisis vary, all available data indicates an acute increase of poverty. The World Bank estimates a doubling of the poverty rate from 11.3 percent in 2019 to 25.9 percent in 2023 (Schoch et al. 2024) and a rise of extreme poverty from 1 percent to above 5 percent over the same period (World Bank 2024). The National Citizens Survey of 2022-2023 estimates that 55.7 percent of the population, or 12.34 million people are multi-dimensionally vulnerable (UNDP and OPHI 2023). The Household Survey on the Impact of the Economic Crisis 2023 found that over 90 percent of the households experienced an increase in average monthly expenditure and 22 percent have become indebted due to the crisis (Department of Census and Statistics 2023). Furthermore, schooling of over 50 percent of individuals aged between 3-21 were affected by the crisis (Department of Census and Statistics 2023). Stunting of children in Grades 1 through 10 increased from 2022 and 2023 (World Bank 2024), and these impacts were more acute in poorer districts with preexisting systemic inequalities (Coomaraswamy and Wignaraja 2024).

While output is recovering (5.5 percent growth in GDP by the third quarter of 2024), and inflation is now in negative territory (4.20 percent deflation in February 2025), the extent of the scarring effects on health, education, nutrition, and other development outcomes remain unknown for now. The impacts on environmental degradation - including the effect that the lack of public finances have had on enforcement and regulation of environmental issues - is unknown.

As the country works to rebuild its economy, help communities recover, and chart a path toward sustainable development, this collection of essays provides critical insights into both understanding the crisis and imagining a more resilient future.

This publication brings together the perspectives of CSF's in-house and visiting researchers who have closely studied the origins, impacts, and potential solutions to Sri Lanka's predicament. The essays are organised into two major parts: Part 1 on "Looking Back" examines the roots and consequences of the crisis, while Part 2 on "Building Forward" explores constructive approaches for a just, inclusive, and recovery.

Part 1: Looking Back - The Economic Crisis, Its Roots, and Its Impacts

The first section of this publication aims to provide some perspectives on how Sri Lanka arrived at the point of economic distress and the wide-ranging consequences of the crisis across different sectors and communities.

Perspectives in Framing the Crisis: The opening essays offer critical frameworks for understanding the crisis. Beginning with an "Anatomy of a Crisis and the Path Ahead," the section establishes the structural foundations of Sri Lanka's economic collapse and outlines preliminary steps toward recovery. Subsequent essays examine the country's "Misplaced Priorities" and the "Wider Implications" of the crisis to other countries. The section also introduces the particular challenges faced by urban populations, with a focused examination of pressing priorities and the continuing struggles of Colombo's working class poor. The analysis extends to specific dimensions such as the Urban Development Authority's controversial Urban Regeneration Project, which has links - often underexplored links - to Sri Lanka's debt and fiscal crises, and impacts on the crucial exports sector.

Understanding the Impacts on the Urban Poor: This subsection delves deeper into how the economic crisis has affected the most vulnerable urban populations. The essays document the lived experiences of working-class poor families in Colombo, illuminating how the crisis has pushed many to a "Breaking Point" and forced others into unsustainable coping strategies such as "Borrowing To Eat". Collectively, these contributions highlight how existing inequalities have been exacerbated, with many vulnerable households "Falling Through The Cracks" of support systems.

Energy Justice, Gendered Burdens, and Social Protection: The final subsection of Part 1 examines specific dimensions of the crisis that have received less attention in mainstream discourse but are crucial to understanding its full impact. Essays on "Energy Justice" and electricity tariff increases highlight how essential infrastructure services have become increasingly inaccessible to the poor. Other contributions examine the disproportionate burden placed on women and critically assess social protection measures such as the 'Aswesuma' programme, questioning its effectiveness and transparency.

Part 2: Building Forward - A Just, Inclusive, and Sustainable Future

The second part of this publication shifts focus from diagnosis of the past, to contending with the challenges of the future - offering frameworks, research insights, and policy ideas that could guide Sri Lanka toward a more just future.

Social Infrastructure and Inclusive Urbanisation: These essays advocate for development approaches that prioritise people's needs and well-being. From "Mainstreaming Social Infrastructure" to rethinking housing policy and food systems, the contributions emphasise the importance of inclusive urbanisation that benefits all citizens, not just the privileged few. Proposals for "transformative social protection" and improved "food environments" suggest concrete ways to build resilience among vulnerable populations, and introduce new and holistic ways of thinking about familiar policy challenges.

Sustainability and Green Recovery: This subsection explores how environmental sustainability can be integrated into Sri Lanka's economic recovery. Essays on "Rethinking ESG", "Green Jobs," and "Nature-based Solutions" outline how ecological considerations can align with economic

growth rather than compete with it. Contributions on urban agriculture, sustainable tourism, and green reporting systems provide sectoral perspectives on development pathways that more meaningfully consider nature.

Financing Nature and Climate Adaptation: Recognising that sustainable development requires adequate funding, these essays tackle the challenge of financing biodiversity and nature, and in particular marine ecosystems. The subsection also addresses the potential for expanding green finance within Sri Lanka's financial services sector, drawing insights from pioneering research. An essay published internationally on sustaining climate finance ambitions despite changes in political administrations is also featured in this section.

Trade Reforms, Inclusive Technology and Innovation: The final subsection explores how technology, innovation, and trade can contribute to Sri Lanka's economic renewal. An essay featuring pioneering research on platform-based gig work and the need to consider equity and technology justice aspects, is presented in the essay on "Precarious Paychecks". From examining the "Digital Focus in Sri Lanka's National Education Policy Framework" to assessing the country's "Innovation Landscape" and prospects for trade reforms, these essays highlight how Sri Lanka can enhance its competitive position in the global economy while ensuring the benefits of technological progress are widely shared.

A Collective Vision

In addition to the issues discussed in this publication, many other aspects have shaped Sri Lanka's economic crisis and its persistent impacts. The role of weak governance around public finances, corruption in procurement, bureaucratic mismanagement, fragmented policy formulation and implementation, lack of consultation, transparency and information disclosure have all contributed to the various polycrisis we discuss in this publication. Of the numerous policy missteps that culminated in the 2022 crisis, only some have been dealt with in these essays. In terms of the impacts, there are many dimensions that remain underexplored in Sri Lanka, including the adverse lifetime effects on children, households, workers, and businesses. These are beyond the scope of this publication, but merit noting here.

As Sri Lanka continues to navigate the aftermath of economic collapse, this publication aims to inform policymakers, researchers, civil society organiszations, international development partners, and citizens about both the depth of the challenges and the breadth of possibilities ahead. The election of a new President and new legislature presents an opportunity to rethink missteps of the past, and chart new policy pathways. We hope that the issues and ideas presented in this publication help to inform this process. By learning from the past while boldly imagining a different future, Sri Lanka has the opportunity to transform the crisis into a catalyst for building a more resilient, equitable, and sustainable society.

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PART 1

LOOKING BACK: THE ECONOMIC CRISIS, ITS ROOTS, AND ITS IMPACTS

PERSPECTIVES FOR FRAMING THE CRISIS

ANATOMY OF A CRISIS AND THE PATH AHEAD

By Anushka Wijesinha
10th August 2022
Article published on the Centre for a Smart Future website

Even though much of the recent foreign media coverage of Sri Lanka's economic crisis and external commentary or analysis of it has focussed rather narrowly on the policy missteps in the last two years, the country's economic problems have been at least a decade in the making. This article serves to provide an international reader with a more useful reference point for the recent origins, evolution, and dimensions of Sri Lanka's economic crisis, and selected perspectives on the policy issues and path ahead. It is written largely from an economics lens, and would need to be read alongside work by others that focuses more closely on human rights, the environment, and social justice issues.

Post-war building spree

The debilitating economic collapse Sri Lanka is experiencing today is in no small part due to the flawed economic model followed in the years after the end of the civil war in 2009. As the armed conflict ended, and a victorious President Mahinda Rajapakse aimed to set the economy on a new growth trajectory, the underpinning growth model relied largely on the construction sector. The public sector went into a debt-financed connective infrastructure spree. The private sector invested in real estate and mixed property development and hotel construction.

Public spending on post-war reconstruction, but also on long-neglected connective infrastructure like new roads, bridges, highways, ports and so on, was financed by borrowing

from multilateral development banks, bilateral lenders, and international capital markets. Sri Lanka was desperate for capital to finance this infrastructure spending boom, and it was easier to tap major capital exporters at the time like China. The Chinese government and government-linked banks and state-owned enterprises were willing to give large envelopes of money, with little to no conditions attached. China was the only lender able to provide the kind of large financing outlays that the government wanted at the time.

Debt for dud projects

Part of the money Sri Lanka borrowed from China no doubt went into productive projects, for instance the Southern Expressway construction, which has dramatically opened up economic connectivity between the capital and the south of the country. But many parts of those borrowings went into less productive projects. For instance, projects like the Lotus Tower – a telecoms tower in the capital that was constructed with Chinese debt and styled as a 'lotus bud', which was the campaign logo of the Rajapakses. The debt is on the books of the Telecommunications Regulatory Commission, has been unused for years and is too expensive to operate. Visible from every part of the city of Colombo, the Lotus Tower has become emblematic of mal investment made with Chinese debt. There were other projects too – the Hambantota Port, the airport nearby, a convention centre, and a cricket stadium – all made in the Rajapakse family's home district, which have all failed to yield any meaningful returns.

Flawed policy priorities

Alongside this, military spending reached historic highs, and allocations to the Ministry of Defence remained consistently the largest among all ministries. Meanwhile, public spending on research and development, education (especially expanding tertiary education and training), healthcare, and energy capacity, were compromised. Consequently, productive parts of the economy – these sectors that would support production, the exports of goods and services, and enhancing economic competitiveness – received less attention. The guiding principle at the time seemed to be ‘build and they will come’.

The essential reforms to improve productivity, efficiency, competition and competitiveness in the economy did not take place. In fact, on trade reform and state-owned enterprise reform, Sri Lanka regressed over the past decade. Trade policy became increasingly inward-looking and protectionist. State-owned enterprises became more politicised (in their hiring of staff, internal operations, and end-user pricing). No meaningful business regulatory reforms took place to make the investor climate more conducive for foreign direct investment (FDI). Trade facilitation – to improve ‘behind the border’ procedures – made tepid progress.

Tenuous investment climate

The little FDI that did come, were enticed mainly by generous tax holidays under discretionary regimes (like the Strategic Development Projects Act), and were mostly market-seeking, i.e., were in domestic non-tradable sectors like hotels and leisure, high-end housing, and mixed property development. Investment in export-oriented sectors was few and far between. Not only did progressive reforms not take place, political disruptions affected the country’s international standing. Most notably, the constitutional coup of October 2018, where the then President Maithripala Sirisena, sacked the Prime Minister Ranil Wickramesinghe and installed the defeated former President Mahinda Rajapakse in his place. It was illegal (as the courts determined 2.5 months later) and strained the political climate for running the economy. Sri

Lanka had never seen that kind of unconstitutional power grab before, and it spooked investors.

The political fallout that followed then led to a breakdown in governance, which was the backdrop for the deadly Easter Sunday terror bombings a few months later – in April 2019. Investor sentiment deteriorated further and tourism collapsed. The government had to more or less jettison its fiscal consolidation plans, and pull out the fiscal stops to help the economy recover and help its own chances of reelection. Yet, this wasn’t enough to keep the Sirisena-Wickremasinghe government in power and the government changed in November 2019 with the election of Gotabaya Rajapakse.

Cascading policy errors

In December 2019 the new government fulfilled a campaign promise and introduced sweeping tax cuts, despite overwhelming advice to the contrary. This severely damaged an already precarious fiscal position, and ratings agencies promptly downgraded Sri Lanka’s sovereign rating. Sri Lanka was downgraded so much that it was effectively locked out of international capital markets. Any chance of being able to refinance maturing international sovereign bonds was eliminated.

A month or so later, the Covid-19 pandemic struck, cutting off tourism earnings for close to two years, slashed worker remittances, and hurt exports to key western markets. Health expenditure soared. The exchequer had little to no fiscal space to provide any meaningful income support during the pandemic and associated lockdowns.

The government then took a series of bad policy decisions, which further precipitated the decline. It did not pursue an emergency agreement with the IMF to shore up its balance of payments – something many countries did in the context of Covid pressures. Instead, it was foolhardy in pursuing a so-called “home grown solution”.

The government banned a range of imports in a bid to preserve foreign currency reserves – ranging from automobiles and refrigerators, to – most famously – agricultural chemicals. Chemical fertilisers and other inputs like pesticides and weedicides, were banned under the guise of a shift to ‘organic farming’. Despite some reductionist analysis by parts of the right-wing media in the US that this decision was influenced by ‘global ESG lobbies’, the explanation was more simple – it was purely due to faulty domestic policy making. The overnight ban on agrochemical inputs slashed agricultural output, and many farmers (and agriculture-dependent districts around Sri Lanka that rely on farming), went into deep distress. That was perhaps the start of when the general electorate began to resent the government, around mid 2021.

Worsening conditions

Even as economic conditions steadily worsened through the latter half of 2021 and early 2022, politicians and key officials at the Central Bank and Treasury were adamant about not seeking any IMF support. There was an acute shortage of foreign currency and essential goods, but there was no shortage of hubris and false bravado about ‘having things under control’ and being able to ‘get out of this on our own’. The currency was held artificially low, using coercion on the banking sector. Exporters were forced to convert their foreign currency earnings to local rupees. Importers were given permission selectively, if they could obtain 6 months credit from suppliers.

The economy also did not have any buffers against the spikes in oil, fertiliser, and wheat prices following the Russian invasion

of Ukraine. The country’s entire dollar reserves reportedly fell to less than 10 million dollars on the day the Government announced the debt standstill on the 12th of April 2022 – insufficient for even half a shipment of fuel. By then the damage was done: there was no fuel, no cooking gas, a shortage of critical medicines and several categories of food items. And by then the political damage was also done. A wide spectrum of society began protesting around the country, taking to the streets to oppose the government. What started with pockets of farmer protests a year earlier, had crescendoed to massive protests with thousands of people marching to the capital.

Protests and path ahead

After months of public protests that came in waves and was marked by violent flashpoints from time to time, President Gotabaya Rajapakse and his brother Prime Minister Mahinda Rajapakse have resigned. A new President and Prime Minister – Ranil Wickramasinghe and Dinesh Gunawardena (former schoolmates) – have assumed office under extraordinary circumstances. The new regime has little popular legitimacy. Nevertheless, perhaps a mix of protest fatigue and people’s desire for some normalcy in their daily lives, have muted the protest movement. By the time of writing in August, fuel has become more easily accessible, queues for cooking gas have shortened, and the duration of power cuts has reduced. Alongside this, the new President has also overseen the intimidation and arrest of key protest leaders, in an attempt to clamp down on public opposition more broadly.

At the time of writing, Sri Lanka is close to reaching an agreement with the IMF, that sets the stage for several years of austerity measures and policy adjustments. While the focus of recent IMF programmes have typically been revenue-based fiscal consolidation (i.e., raising tax revenue and widening the taxpayer base), this time the focus would need to be much broader if the reforms have any chance of winning broader public support. There is a surge in public consciousness around public money, and any programme that focuses narrowly on taxation alone, is likely to be poorly received. Chiefly, then, there would need to be greater emphasis on the government spending side – stronger public procurement regulations to guard against politicisation of projects, stricter domestic laws about transparency of public contracts, tighter fiscal rules to prevent borrowing from getting out of hand, and better Parliamentary oversight of debt and public finances.

Opportunity for reforms

The key near-term risk to the economic recovery and reform pathway is domestic politics. Even amidst the scale and severity of the crisis, there does not seem to be any meaningful political consensus on the policy pathway for sustained growth and competitiveness of the Sri Lankan economy. Domestic political consensus on the core economic reform areas must accompany policy plans under an IMF programme. Otherwise they risk being jostled about by calculating politicians and being jettisoned after the next election cycle. The most crucial reforms must be legislated now, to better anchor them to weather short-term political winds. There is a window of opportunity to enact key changes that have eluded Sri Lanka for too long – tighter fiscal rules, independence of the central bank to reduce fiscal dominance of monetary policy, more robust procurement rules to ensure wasteful and corrupt debt-fuelled projects do not reoccur, and re-set trade policy away from the current inward-looking and uncompetitive stance.

REVERSING SRI LANKA'S MISPLACED PRIORITIES AND ECONOMIC MISERY

By Anushka Wijesinha

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The Sri Lankan government is close to finalising (Press Trust of India 2022) a Staff-level Agreement with the International Monetary Fund (IMF), after months of discussions. This would pave the way for securing a bailout from the emergency lender, of around US$800Mn a year, and bridge financing from other multilateral development banks, providing much-needed foreign currency inflows to the country. Shortages in fuel availability have eased with the introduction of a rationing system and freeing up foreign currency by collapsing non-oil imports. Cooking gas imports for three months are being financed by World Bank money repurposed from existing commitments (World Bank Group 2022). Electricity cuts have reduced with a rise in hydropower generation (Jayasinghe 2022) due to favourable weather. Yet, this is just temporary respite and not a sustainable solution in the near-term.

To place the economy on firmer ground, Sri Lanka needs to get on a path towards debt sustainability, which is contingent on expeditious renegotiation (Latiff and Wijesinha 2022) with Sri Lanka's creditors (private and bilateral). The IMF's Executive Board would approve an assistance package and release bailout funds only once they have received 'adequate financing assurances' from Sri Lanka's various creditors. This means that, even as formal conclusion of restructure negotiations could take up to a year, Sri Lanka would have to secure some initial concurrence from major creditors, and the Fund's major shareholders like the United States are confident that all creditors would be treated fairly. In the interim, the SLA is expected to set the contours of Sri Lanka's economic reform programme - tax hikes, spending cuts, and rationalising state-owned enterprises - to give comfort to international creditors that the country is on an adjustment path.

But it is not a foregone conclusion that Sri Lanka will be able to implement a comprehensive reform programme. Anti-IMF public posturing by politicians, protests by the public around budget cuts and privatisation, and intra-government disagreements on the reform pathway could risk derailing urgent stabilisation measures, and undermine near-term recovery efforts.

This latest IMF bailout would mark the 17th time that the country sought help from the emergency lender. In successive recent political cycles, policy reform agendas have been promptly reversed by the next government, resulting in policy whiplash, and consequent macroeconomic damage. These have been especially worrying, considering Sri Lanka's problematic post-war economic growth model (Wijesinha 2014).

Growth background

To be sure, the current economic crisis has been years in the making and was in large part due to economic mismanagement and the growth model followed in the years after the end of the civil war in 2009. The post-war growth boom prioritised public debt-driven infrastructure spending, private investment in domestic non-tradable sectors (like real estate and property development), and a lack of fiscal discipline required of a middle-income country that was increasingly borrowing on commercial terms.

As large financing envelopes were needed for the publicly-funded infrastructure construction spree, Sri Lanka turned to China, Japan and international capital markets. As the

economy graduated into upper middle-income status (narrowly defined using per capita income) (World Bank Data Team 2019), loans at commercial rates had to be relied upon more. Sri Lanka soon enjoyed the 'optics' of being in this income category, but ignored the structural reforms needed to ensure the 'mechanics' (Wijesinha 2013) of what it takes to continue to grow through middle income and beyond. There was little focus on building better institutions, building better human capital, and building a more competitive and innovative economy.

Instead, public institutions were deeply politicised as well as captured by rent-seeking business elite, spending on defence (Publicfinance.lk 2021) was prioritised over education (Publicfinance.lk 2020), hiring into the civil service was rapidly expanded, and protectionist trade and industrial policies (Echelon 2021) were pursued in favour of narrow vested interests.

Many export-oriented sectors were consistently under-supported, and tourism was over-relied upon. The necessary reforms to improve productivity, efficiency, and competition in the economy did not take place. Debt service payments kept racking up (Moramudali and Panduwawala 2022), even as foreign revenue earning sectors narrowed. The underlying weaknesses on both the fiscal side and the external account laid the groundwork for vulnerability to macro shocks that came in quick succession: a constitutional coup in October 2018, Easter Sunday bombings in April 2019, the onset of the Covid-19 pandemic in early 2020, and the Russia-Ukraine war in early 2022.

While much of the reforms should have ideally been done in a sequenced manner and steadily over the past decade, due to the urgency they are now being done swiftly in a precarious macroeconomic context.

Navigating austerity

The austerity measures under an IMF-led programme will be pervasive. It will affect firms, workers and households, on the back of an already weak economy, depressed quality of life, and rising prices. Sri Lanka's economy contracted by 1.6% in the first quarter of the year (Department of Census and Statistics n.d.) continuing the trend of tepid growth seen even before the deadly Easter Sunday attacks of April 2019. The combination of Covid-19 and the current crisis has led to severe malnutrition among other socio-economic issues, with 86% of families buying cheaper, less nutritious food, and in some cases, skipping meals altogether (World Food Programme n.d.)

The most vulnerable communities will be worst affected by the forthcoming austerity measures. Political leaders are yet to articulate what measures will be taken to help these communities adjust.

We have already seen substantial revisions to end-user prices of energy. In March this year, fuel prices were revised sharply upwards (EconomyNext 2022a) The reintroduction of fuel pricing formula (DailyFT 2022) has increased fuel prices with petrol and diesel prices increasing from 128% in June 2022 to 143% in July 2022, year-on-year (Central Bank of Sri Lanka 2022) Cooking gas prices have increased by 229% between October 2021 (Hamza 2022) and August 2022 (de Silva 2022a) while shortages have substantially eased. Increases to electricity tariffs have just been announced, ranging from between 125% and 264% depending on the usage (de Silva 2022b). There are planned increases in water tariffs (Mudugamuwa 2022). Sri Lankans have not seen this kind of energy and utility prices revisions, all at the same time, in recent memory. The crisis has induced a widespread need to reform state-owned enterprises, and part of this is

the reckoning about more cost-reflective pricing. However, making these sharp revisions suddenly, especially at a time of depressed incomes and consumer demand, will undoubtedly cause pain at household level. Recent analysis by the Colombo Urban Lab (Perera 2022) explores CEB's recent revision of prices, which fails to account for the ground realities faced by domestic consumers, particularly the urban poor.

The Government is yet to come up with a meaningful social safety net, beyond announcing some modest cash transfers (The Hindu 2022a) and doubling down on existing flawed programmes like 'Samurdhi'. The Samurdhi household welfare scheme is widely acknowledged (Centre for Public Impact 2017) as being politicised, incomplete and poorly targeted (Wanigasinghe 2021). The World Bank helped the previous government come up with a better-structured scheme, but it's unclear if it was fully implemented. Samurdhi cannot be easily done away with, without a suitable alternative in its place. A research company (Verité Research 2022) suggested using electricity tariffs to design welfare benefit payments, but this ignores lived realities of many vulnerable communities - not least informal workers and the urban poor.

The recent energy and utility pricing revisions appear to be readying the ground for more adjustment measures in the months and year ahead. Sri Lanka has postponed structural reforms for too long, and now they are being pushed through with urgency and with little time or effort to consider the impacts on the poor and vulnerable. This could have dangerous consequences. Efforts to push through these reforms without clear articulation of its rationale, expected outcomes, and measures to protect the vulnerable, will be met with resistance by politicians and the public. Already, some influential politicians have doubled down on a familiar anti-IMF narrative (Daily Mirror Online 2022). One of them has gone so far as to suggest (EconomyNext 2022b) that the IMF (and in general Western institutions) are responsible for the current crisis in Ukraine.

Challenges for the new administration

The new government of President Ranil Wickramasinghe and Prime Minister Dinesh Gunawardena have a daunting task ahead. They are expected to bring about a range of reforms that had been ignored for over a decade, in a period of just a few years. And this too at a time when trust in politicians in general, and the current leadership in particular, is at an all-time low (Centre for Policy Alternatives 2022). The Cabinet of Ministers currently consists entirely of individuals who were part of the regime that oversaw the economic collapse.

The new President seems to be making some perfunctory efforts to form an 'all-party government' (The Hindu 2022b) - bringing in opposition parties into the Cabinet. This could complicate matters, given the wildly divergent political views and economic ideologies among these parties. Yet, the chances of this unity government seem unlikely, with key smaller parties like the JVP rejecting the offer (Samarawickrama 2022).

Even as efforts to forge political consensus continue in all earnest, an honest and open conversation with the electorate is now essential. The President, Prime Minister and key Cabinet of Ministers would need to come forward and dialogue with the people on what the next 1-2 years will be like, why the steps being taken are necessary, and how the Government will help the most vulnerable adjust to the new conditions. Alongside this, ensuring that key economic decision-making roles are filled by individuals with credibility and competence would help rebuild confidence in the Government's ability to manage the economy. Most notably, the President would need to decide soon if he continues to retain the Finance Minister role, or hands it over to a colleague in Cabinet or potentially

someone who might join under a multi-party arrangement. It is startling that Sri Lanka has had seven (7) finance ministers in as many years, and with the arduous economic recovery and reform path ahead, a capable and credible full-time finance minister would be essential.

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SRI LANKA'S ECONOMIC CRISIS AND WIDER IMPLICATIONS

By Anushka Wijesinha

Originally written in January 2023 for the G20 Think20 South Asian conclave; Revised in January 2024 and appears as a chapter in 'Think20@G20: Towards A Resilient South Asia' by Manohar Parrikar Institute for Defence Studies and Analyses (MP-IDSA), India, published by Pentagon Press

Introduction

During the year 2022, the Sri Lankan economy underwent an unprecedented economic turmoil and political upheaval, with dwindling foreign reserves, critical shortages in essential goods, and a popular people's uprising that lasted several months. While the tipping point for the crisis was the erroneous policy decisions in the immediate years preceding, the roots of the crisis lie in the flawed post-war growth model followed by the country. As Sri Lanka attempts to chart a course of economic stabilisation and recovery, the country's experience with sovereign debt, macroeconomic distress, and restructuring has laid bare some critical elements that similar economies would need to consider. Emerging global economic risks (the protracted Ukraine-Russia war and impacts on commodity prices) as well as emerging international economic governance questions (China's role in resolving sovereign debt issues in developing countries) do get raised in the context of Sri Lanka's recent crisis. This essay reviews some key elements of Sri Lanka's economic crisis, and puts forward some thoughts on what the wider implications could be for South Asia, and indeed the global governance platforms like the G20.

Tumultuous Years for the Sri Lankan Economy

2021 and 2022 were two tumultuous years for Sri Lanka, which saw an unprecedented economic crisis on the back of the economic fallout of Covid-19. The economic crisis had several triggers, and had different features. Following the economic downturn due to Covid-19 (and its impacts on major export-earning sectors like tourism, and lockdowns affecting export production), the first sector to be impacted outside of these was agriculture. Sri Lanka's agriculture sector experienced a debilitating impact due to the poorly thought-out ban on agrochemicals implemented overnight. This triggered what many believe to be the start of public dissatisfaction with the government. Farmer protests were seen across the country, demonstrating against the ill-conceived policy and its impact on their livelihoods and on national food prices.

In addition to the tax revenue impacts due to depressed domestic economic activity on account of Covid-19 and associated lockdowns, government finances were under severe pressure because of income tax cuts introduced by the government. These tax cuts were an election promise of the then President Gotabaya Rajapaksa, and were widely acknowledged by Sri Lankan economists and international organizations as being irresponsible. It immediately triggered sovereign rating downgrades which, in turn, locked Sri Lanka out of international capital markets — making external debt servicing highly problematic.

The fall in tourism earnings, and the depressed demand for Sri Lanka's exports in the West, hurt foreign currency inflows. The government had to first restrict, and then outright ban, nearly all imports except for essential items, in a bid to preserve foreign reserves. The balance of payments crisis was accompanied by a domestic fiscal crisis. There was no fiscal space to provide relief to firms and households when the crisis hit. Dwindling foreign currency reserves, a collapsing currency that was artificially held on to, caused a downward spiral.

Despite calls from a wide cross-section of society — including civil society, opposition politicians, and external experts —to the government to seek international assistance early, the government resisted it, and favoured 'homegrown solutions' instead. The delay in seeking IMF assistance proved to be highly damaging to the economy, and painful for people. Sri Lanka did not have any foreign reserves buffers, and so eventually, it announced its first-ever sovereign debt default in April 2022 (Srinivasan 2022) In fact, this is the first Asian country to default on its external obligations in this century.

In contrast, around the same time, another South Asian country — Bangladesh — took pre-emptive action, and sought an emergency funding facility from the IMF to provide an early buffer against possible deterioration of macroeconomy conditions (Paul 2022).

The default and the foreign reserves crisis led to an acute shortage of essential goods, like cooking gas and fuel, with days-long queues seen across the country. Medicines and medical equipment were in short supply in hospitals, and treatments were being postponed or cancelled. Children were unable to get to school, and nutrition was being compromised. The social impacts of the events between 2020 and 2022 will be felt for decades to come, as nutrition, health, sanitation, and education outcomes deteriorated, and hard-won human development gains got reversed. By the first quarter of 2023, reports showed families had reduced their food intake (United Nations 2022) and child malnutrition was on the rise (United Nations 2023).

Longer Roots of the Crisis

Even as many observers have pointed to the near-term factors that catalysed the Sri Lanka economic crisis of 2021–2022 (like Covid-19 and the Ukraine-Russia war), it is important to distinguish between these and the more fundamental roots of the crisis.

The seeds of the economic collapse were already sowed in Sri Lanka's post-war growth model. Sri Lanka followed a post-war growth model that relied on public debt-fuelled infrastructure construction, and what the economists call the domestic non-tradable sector. For a small domestic economy, where growth necessarily must rely on international trade, the economy became steadily more inward-looking (Echelon 2023).

No doubt Sri Lanka had an infrastructure gap by the end of the war, and new infrastructure was needed. The problem was that it was primarily debt-financed. Little attempts were made to forge private-public partnerships, or seek foreign direct investment to bridge the financing gap. In fact, there was a lot of debt taken for so-called 'white elephant projects' — projects that were over-capitalised, had little to no commercial return in the short- to medium-term, and had plenty of rent-seeking opportunities for corrupt political and business elites. Emblematic of this sort of investment was the 'Colombo Lotus Tower' — ostensibly built as a communications tower and entertainment venue — which was financed with expensive Chinese loans. The design was overtly political — since the lotus flower is the symbol of the Rajapaksa's political party.

Meanwhile, there was little attempt to drive growth-enhancing, efficiency-improving reforms that would generate sustainable income to pay for the debt being taken on. There was little attempt to improve fiscal discipline, even as the country was taking on more and more external debt from both commercial as well as bilateral creditors. Sri Lanka's external debt was increasingly becoming more complex and more expensive. Earlier, Sri Lanka enjoyed a lot of highly concessional debt from multilaterals. However, once it graduated to upper-middle income status (mainly led by growth driven through consumption and construction), these funding sources dried out, and the country quickly shifted to commercial debt.

Politicians and public authorities failed to install credible and robust governance mechanisms around project selection, project implementation, financial discipline, and debt repayment. Alongside this, there was a stated policy ideology around expanding the State's role in the economy, rather than encouraging private sector entrepreneurship. The type of private entrepreneurship that was being encouraged was in rent-seeking sectors, reliant on state excesses — like publicly-funded infrastructure projects. Overall, in the private sector, there was over-leveraging again in real estate and construction. Households also took on debt for consumption at low interest rates.

Fast-Forward to Early 2023

In the first month of 2023, consumer price inflation was running at over 60 per cent year-on-year (Central Bank of Sri Lanka 2022) and households were struggling with the high cost of living. Poverty had risen from 13 per cent to 25 per cent over the last year (EconomyNext 2022). Around 6.2 million people were deemed food insecure (The Island 2022). The economy shrank sharply by 7.8 per cent in 2022 (EconomyNext 2023) and was forecast to shrink further by around 4.3 per cent in 2023 (World Bank 2023). Fuel availability had improved, but was rationed per user. Fiscal consolidation efforts were underway, with strict spending cuts across government, and higher taxes on individuals and businesses. The sharp increase in personal income taxes, along with market lending rates of

over 20 per cent, severely affected the spending power at the household level. Meanwhile, Sri Lanka was steadily moving towards securing an IMF bailout by way of an Extended Fund Facility (International Monetary Fund 2023), as a first step towards completing debt restructuring talks with bilateral (official) and private (commercial) creditors.

Immediate Path Ahead

The public has become increasingly distrustful of politicians, but also economic fatigue has set in. There is also a heightened security apparatus around demonstrations, and noticeable attempts to discourage protests and clamp down on activists. Nevertheless, there is greater public interest around public finance, and an interest in parliamentary oversight committees that are looking into macroeconomic issues — this is unique to the Sri Lankan polity in recent years.

The economic reforms being rolled out during 2023 range from measures to strengthen Central Bank independence, curb corruption, privatise loss-making State-owned enterprises, and improve the business regulatory environment. These can have medium-term benefits to strengthen economic governance, foreign investor confidence, and domestic policy credibility, if properly implemented. However, political reforms (which were a big part of what led to the crisis and the public outcry that followed) have been slower. In fact, genuine corrections to governance structures may not happen, since those in government today were directly and indirectly involved in the problematic economic decision-making that led to the crisis. Perhaps it is at the next general and presidential elections that the public will have an opportunity to spur a course correction on the political front. However, these elections are not expected till at least 2024.

Key Cautionary Messages

A key message to other developing countries would be to watch out for a deteriorating economic growth model. Sri Lanka's debt servicing as a share of export earnings was increasing, resulting in fewer foreign currency resources to meet annual debt servicing needs. When external debt servicing is rising more than external income, it leads to balance of payments pressures that become hard to reverse quickly.

Alongside this, is watching out for the signs of an increasingly inward-looking economy. In Sri Lanka, with its small domestic economy that necessarily must rely on international trade, this international trade was forming a smaller and smaller part of the economy. Trade to GDP was steadily declining and, in fact, at reached levels not seen since 1970 when the country was markedly autarkic. The country was trading less with the world, and relying more on domestic non-tradeable sectors, like construction. Exports as a share of GDP was in secular decline, and the export composition did not diversify over time.

Foreign direct investment (FDI), which are non-debt creating inflows rather than loans, was weak in Sri Lanka. Manufacturing FDI was in decline, whereas FDI in domestic non-tradeable sectors — like housing, mixed property development, shopping and office complexes — were sharply rising, until the crash towards the end.

Salient Lessons and Agenda for Action

For national stakeholders, what the Sri Lanka story tells us is that public dissatisfaction triggered by repeated policy missteps, macroeconomic mismanagement, and livelihood loss, can quickly deteriorate into chaos if it is not addressed early with genuine and meaningful solutions. Moreover, not having necessary fiscal buffers during good economic times can severely hurt in the bad times because the government has no fiscal space to provide the people with relief and welfare.

For international stakeholders — and particularly in the context of the G20 and global agenda — the main concern is around the need to rearchitect the frameworks around international finance. What Sri Lanka's case shows is that middle-income countries (MICs) in particular, require a specific framework for resolving sovereign debt challenges, given their unique circumstances. Such countries are no longer eligible for concessional finance, but do not have the macroeconomic discipline nor the buffers to manage commercial debt capital influenced by sovereign ratings and US federal interest rates.

The 'G20 Common Framework Beyond the Debt Suspension Initiative' is primarily tailored to low-income countries, and is not useful for MICs. The world does not yet have proper international coordination, response, and resolution framework for MICs in times of financial and macroeconomic distress. MICs increasingly have not just bilateral (official) debt — and that too from countries beyond the Paris Club (for instance, China and India) — but increasingly from commercial creditors based in highly financialised business capitals in the West.

Importantly, commercial creditors are not part of these discussions. There is yet to emerge a framework in which they can be incorporated firmly and meaningfully. The UN Secretary General's a tweet on 15 January 2023 summed this challenge up cogently: 'The global financial system is broken; it favours wealthy nations and penalizes low- and middle-income countries.' (Guterres 2023). He went on to urge leaders and international financial institutions to develop creative ways to ensure that developing countries can access financial help when they need it most.

Finally, it is important to consider bringing together the debt distress agenda, the climate finance agenda, and making it a vital point for the G20 to carry forward. In Sri Lanka, the Centre for a Smart Future launched a series of knowledge products relating to sovereign debt instruments linked to nature — like debt-for-nature swaps and blue bonds (Centre for a Smart Future 2023). Most countries in our region know little about these new green financing instruments for strengthening public finances, and this knowledge and implementation gap could be brought into the G20 agenda. Rather than seeing the resolution to the ongoing debt distress issue that is afflicting many countries around the world as separate from the climate financing challenge, there is an opportunity to bring them together. Perhaps the G20, under India's leadership, and all of us in South Asia, could lead the way in demonstrating the practical deployment of these instruments, given our rich natural resources. Sri Lanka can aim to be the first in South Asia to issue a biodiversity bond or a blue bond in response to the debt crisis.

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MAKING ENDS MEET IN SRI LANKA – URBAN POOR FAMILIES IN CRISIS IN COLOMBO

By Iromi Perera
14th October 2022
Article published on the Institute of Development Studies website

The economic and political crisis in Sri Lanka (Institute of Development Studies 2022) has affected almost every home in the country in some way, and for the working-class poor of the capital Colombo, the effect has been devastating (Srinivasan 2022). Whether they recover from it, and the long-term implications of it cannot even be comprehended.

"We spend more on eating than what we earn. No matter how frugal we try to be, it isn't possible. We have to buy everything from the shop. Coconut oil is expensive now, coconut is expensive, rice is expensive. Just think how much it costs to buy just those three...How to buy vegetables, fish, dry fish? It takes a lot of money to eat."

- Self-employed mother of two from Colombo.

Over the past year we have seen lower middle-class families that were able to make ends meet comfortably slip into poverty, sometimes unable to put more than two meals on the table a day (Colombo Urban Lab 2022). Food and nutrition were the first to be affected, with education, livelihood, transport soon to follow. The Sri Lankan economic crisis and the severe impact on the households all the way up to even including the middle classes, cannot be addressed with short term measures like cash transfers or ration packs. Instead, policies must look at the intersecting issues and opt for a universal social protection approach to mitigate the long-term impact.

Impact of the pandemic

The onset of the Covid-19 crisis in 2020 disproportionately affected working class poor households in Colombo. Many who relied on daily wage work were no longer able to go to work following the impositions of lockdowns, which resulted in many households losing their income. This reduced cash in hand they had to spend on food was also exacerbated by high food inflation over 90 percent by August 2022 (World Food Programme 2022), making food even less affordable to households. In addition, other monthly expenses add stress to already stretched household budgets like utility bills, rent, mortgages, vehicle leasing, loans, children's education and tuition, transport, medicines etc.

Deepening existing precarity

Low-income settlements in Colombo experienced greater food insecurity even before the pandemic, with 72 percent of households being food insecure. Women in low-income households in Colombo were more likely to be underweight and overweight, with higher instances of blood pressure, diabetes, heart disease and anemia when compared to their rural counterparts. Low dietary diversity and poor nutrition among urban poor people was largely attributed to the high cost of living in Colombo, with both food expenditure and non-food expenditure being more expensive in Colombo.
The economic crisis has undone whatever recovery was made since Covid-19 lockdowns were lifted. A sharp increase in the price of gas means that many households have switched to cheaper, alternative methods of cooking. The most popular choice for many households is the rice-cooker, with many cooking all their meals, including tea in the rice cooker. However, for houses with arrears in electricity bills from the Covid-19 lockdown period when they did not have the ability to pay, a rice cooker represents a higher electricity bill – a

luxury not many can afford. An increase in electricity tariffs in August 2022 has seen bills significantly increase, making this no longer a viable option (Perera 2022).

Universal, not targeted support

From a policy perspective, there must be a significant shift in the way that we approach any long-term policies. Civil society organisations have been calling for universal support schemes instead of targeted support (The Morning 2022) as that would only exacerbate existing divisions in communities and favour some over others based on political affiliations, ethnicity etc. Communities needs at present are beyond the point of targeted measures. A realistic understanding of the household budget must be reached before determining the threshold of support schemes.

Approaches to calculating food expenditure must show an appreciation for dietary diversity, cultural practices of cooking, as well the varied nutritional needs and demands of households. Dry rations packs alone will not fully meet the nutritional needs of households and will place a burden on the health sector in the longer term.

Nutrition levels in children can also be targeted through meal programmes at every school irrespective of whether they previously had a school mid-day meal programme or not. While this would ease the burden on the families who have to send food for their children every day to school, it would also provide daily access to nutritious food that the children may otherwise not receive. The current allocation per school meal is not sufficient to provide a nutritious meal and should be changed to secure dietary diversity and cost.

A system of basket goods

Given the rapid increase in the price of goods, a system of basket goods should be available to households as opposed to a certain amount of money or vouchers. If households are guaranteed a consistent amount of rice, pulses, vegetables, fruit, milk, eggs every week for at least one year, for example, it would enable them to continue to buy the same quantities of food, irrespective of inflation, and have a nutritious diverse plate that includes protein and fibre, as well as carbohydrates. Beyond food expenditure, other needs require cash in hand, ranging from rent, utility bills and transport to medicine, children's education, loans, mortgages and everyday items like soap and clothes.

Finally, policies must address the disproportionate impact that the crisis has had on women and the increased unpaid care work that has fallen on them to simply make ends meet. Strategies to improve urban food security, including community kitchens (Attanayake 2022), or urban home gardening initiatives (Gooneratne 2022) rely heavily on the unpaid labour of women to deliver support to communities. From putting food on the table to running the household to their own livelihoods – women have shouldered a greater burden through this time.

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SRI LANKA'S ECONOMIC CRISIS IS HURTING EDUCATION AND STUDENTS' FUTURE PROSPECTS

By Nimaya Dahanayake

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Sri Lanka is currently facing its worst economic crisis yet – an acute foreign currency shortage, looming debt repayments, high inflation and food fuel and medicine shortages. Islandwide protests have made clear the need for systemic economic and political reform. While some reform areas have gained more traction than others (for instance, the debt restructuring), the critical state that the education sector is in has received relatively less attention; and this risks Sri Lanka's future growth prospects.

Education was already in crisis prior to the current economic conditions, due to the Covid-19 pandemic. During the height of the pandemic, Sri Lankan students (approximately 4.3 million students (de Mel 2021a) of them) were among the worst affected, with prolonged and repeated school closures. The Covid-era shift to remote learning was far from equitable, with internet-based education being limited to 45% of the total student population (de Mel 2021b) groups. This exacerbated socio-economic gaps and contributed to significant learning losses (UNICEF 2021). While school-goers did experience some semblance of normalcy with the reopening of schools in the last few months, this is now being offset by the ongoing economic crisis.

The latest concern facing both teachers and students alike is that the surge in petrol and diesel prices has made transportation to and from school unaffordable. Over the past few months, fuel prices have sky-rocketed (Ians 2021) with the price of petrol rising by 33.1% and the price of diesel increasing by a record 64.2%. In response to these price hikes, a collective of government school principals and teachers' unions declared sick leave in late April, as part of a token strike (Jayasinghe 2022). In addition to price increases, fuel shortages have severely hampered operations of school transport service providers, who spend hours in never-ending queues at fuel stations. The Ceylon Teachers' Union (CTU) has warned that (Samaraweera 2022) school attendance has been dropping sharply due the ongoing fuel shortages and high cost of transport, and observed that "certain students who come to school for just a day or two".

A temporary solution (Jayasinghe 2022) to this issue was proposed by the CTU – to allow students and teachers to attend schools in closest proximity to their homes. While the solution sounds a creative one, in practice it seemed unlikely to work, due to disparities in quality of education across different schools. In other words, it may be difficult for students and teachers to seamlessly transition from one school to another, just for this short duration and in an ad hoc manner. The proposal was subsequently rejected by the Ministry of Education.

It is not just shortages of fuel, but also other imports that are affecting education. The lack of foreign currency to import essentials, and the sharp depreciation of the Rupee, have caused severe import shortages, including for printing paper. In March this year, education authorities announced an indefinite postponement (France-Presse 2022) of scheduled term tests, on account of the acute paper shortage in the country and the inability to print exam papers. This meant that there was an undue delay in the completion of relevant assessments, which time students could have used to pursue other academic/ extracurricular activities.

Fuel shortages have also led to shortages of electricity. Frequent island-wide power cuts have worsened the learning constraints being faced by Sri Lankan students, who are unable to complete their school work, iron their school uniforms and even at times get enough sleep due to long power cuts that last between six to ten hours daily.

The forex shortage and depreciation of the rupee (by over 30% by April) has also adversely affected those students pursuing their higher education abroad and at affiliate centres of foreign universities in Sri Lanka. As state-funded tertiary education is limited to a select few, many students pursue their higher education through private educational institutions. In most cases, tuition fees and examination fees at these institutions are required to be paid in foreign currency. Due to the current forex shortage, parents are scrambling to secure the requisite foreign currency to pay for their children's tuition and examination fees. While some have resorted to any means available for such purposes, (including transacting in the black market) others with tighter finances, have been left helpless. Some students engaged in study abroad have had no choice but to halt their education and return back to Sri Lanka, while those studying in local foreign affiliate institutions have also had to cut short their academic pursuits, in light of sharply higher examination fees. The ability to pursue tertiary education, which was already quite restrictive to the few who got into state universities and those who could afford private colleges, has now become substantially more restrictive today.

As of 2018, government expenditure on education as a percentage of GDP (World Bank Group, 2018) was a meagre 2.14%. This figure is well below the crucial reference point proposed by the Education 2030 Framework for Action (UNESCO 2016) which requires an allocation of at least 4% – 6% of GDP on education. While there have been proposals to improve budget allocations to the education sector in 2022, there is no doubt that the now cash-strapped Sri Lanka will have other priorities. Under an austerity programme, the government of Sri Lanka may be required to make budget cuts, including those in the education sector. It is likely that the development of schools as proposed in the budget will not materialise, as the government cuts down on its capital expenditure as part of these measures.

Even so, the government must strive to formulate a comprehensive action plan that is student-centric, in order to revive Sri Lanka's education system and help students and teachers manage the current crisis. According to global surveys, there is a tendency for many students to leave the country in search of better educational opportunities, in times of economic crises (Packer 2022). If the government does not address the concerns of its students, and provide immediate solutions to their needs, the country will not only see an entire generation of young people affected by lower educational attainment in crucial development years, but also experience a severe brain drain in the years ahead. While the country tackles macroeconomic stabilisation measures, it is vital to tackle the education crisis as well.

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THE COST AND BENEFIT OF THE URBAN REGENERATION PROJECT – REVIEWING A DECADE OF DISPOSSESSION

By Meghal Perera, Nimaya Dahanayake and Iromi Perera
12th November 2024
Excerpt from CSF report 'Built on Sand: A Review of Colombo's Urban Regeneration Project' (November 2024)

In Sri Lanka's post-war development trajectory, discourse around large scale infrastructure projects has focused on debt incurred, concerns about due process and even questions around necessity. The projects that have received the most amount of attention and scrutiny have mostly been those funded with Chinese loans, which have been often termed white elephants. Problematic infrastructure investments that have seen little to no return or are currently running at a loss include the Mattala International Airport (cost of USD 209 million, with a USD 189 million loan from Exim Bank of China payable in 15 years with a 2 per cent interest rate), the Colombo Lotus Tower (cost of USD 113 million, with a USD 88 million loan from the EXIM Bank of China), and the Sooriyaweva Cricket Stadium at a cost of USD 28 million.

A post-war infrastructure project that has not received similar scrutiny in terms of its financing or the overall feasibility has been the Urban Regeneration Project of the Urban Development Authority. Much of the attention on the Urban Regeneration Project (URP) has focused on dispossession of thousands of families since 2012 from the heart of Colombo, from their settlements or wattes into Urban Development Authority (UDA) built high-rise complexes. Some of the larger complexes have over 1000 flats and a mix of residents from different areas in Colombo. The lived experiences of these relocated communities and the loss they have experienced – in terms of assets, care and kinship networks, livelihood and quality of life – have been covered extensively over the years.

The Government of Sri Lanka invested LKR 60 billion (USD 447 million taking the average exchange rate from 2010 – 2018) on the URP till 2018. In addition to budget allocation, a public debenture in the amount of LKR 10 billion (USD 88.5 million) was issued in the local capital market in 2010 to finance the initial phase of the URP. This means by 2018, the URP had cost the country twice as much as the Mattala International Airport and four times the cost of the Lotus Tower. The financing model of the URP as well as the overall project has been questionable from the beginning, with inadequate information disclosure to date around any feasibility studies, market research, alternatives analysis that led to its conceptualisation. The UDA continues to build these high-rise complexes in Colombo, now with a USD 200 million loan from the Asian Infrastructure Investment Bank. The Principal Repayment dates of the loan are to begin on 15th November 2027 with instalment shares of 2.27% to be paid off through 15th November 2048.

For the AIIB, the URP is "in line with the Bank's thematic priority of supporting sustainable urban infrastructure" and among some of the listed value additions, the Bank notes - Given that this will be the first urban regeneration project supported by the Bank, it is anticipated that valuable experience will be gained during project preparation and implementation, which will help to strengthen the Bank's engagement in the sector. In addition, it will be the Bank's first project in Sri Lanka, which is also a standalone project, and it will enhance the Bank's position in the country and contribute to the diversification of the Bank's portfolio.

The cost of a 'World Class City'

Even after a decade of implementation, fundamental processes are still not in place. Communities due to be moved are informed in ad hoc ways: the first indication appears to be when the UDA officials come to a watte and start spray painting enumeration numbers on gates or pasting stickers. They are often in limbo for over a year about next steps. Communities are given documents to be signed without adequate time to read them or consult with a lawyer and are most often in English or Sinhala and translated copies in Sinhala or Tamil are simply not made available. Households often sign documents without copies being given to them and have no idea about what the content of the documents are. Relocated households (now over 20,000 families across 24 complexes) still do not have any official housing documents or copies of any documents signed so far.

In July 2024, under the 'Urumaya' programme, former President Ranil Wickremesinghe handed out over 1000 deeds that were claimed to be full freehold ownership to the flats. However, a legal opinion on the deeds handed over at Sugathadasa Stadium noted that they "constituted merely deed-like documents, that did not transfer on the day of the ceremony ownership rights to these families. The deed distribution ceremony appears to amount to a symbolic gesture with no real beneficial rights transferred to the occupants."

As this report sets out to document, the URP has continued for over ten years without reaching any of its objectives – in fact achieving just the opposite. Key takeaways from our analysis include -

1. The financing model was flawed from the beginning. The logic of the URP was that by moving communities from their central Colombo homes to high-rises, the vacant land could be released for private investment, which would in turn pay for the URP. It appears this model was devised with no market research or data to back it up. Much of the "liberated" land still stands vacant with no investors.

2. Does the debt incurred by the country justify the impact on the relocated communities? Between the initial debenture, GoSL investment and AIIB loan, the URP has cost over USD 700 million since 2012. The majority of those relocated to the high-rises claim their lives have been made worse off. People have to pay LKR one million for each flat in order to receive a deed, irrespective of whether they owned their previous home or not.

3. Relocated communities have paid a very heavy price. The involuntary relocation of low-income communities into high-rise buildings has not worked in other countries, and the continued insistence on applying this model to Colombo is deeply troubling. In a country that has had exemplary participatory housing programmes, the URP goes against housing principles and good lessons learnt. For working class communities - location is everything. It is where they have lived for generations, it is closely entwined with livelihood, care networks and schooling. The URP has moved people across the city, sometimes over 5km. Our research has shown that even a 2km move can have detrimental effects for these communities. They are also locked into the flats at least for the next 30 years with no alternatives. Those who were moved under Phase 1 (or prior to 2015) are worse off as the buildings designs were extremely unsuitable, and subsequent phases have changed the design of the buildings based on the experience of Phase 1.

4. The URP is a land grab in the guise of better housing for low income communities. Colombo is one of the few cities in the Global South that does not have sprawling slums and boasts good physical development indicators across low income settlements in the city. Surveys done in all wattes in the city in 2001, 2012 and 2023 show

high levels of housing upgrading, over 95% connectivity to the formal grid and incremental building over time (SEVANATHA and Colombo Urban Lab 2023). Those who live in precarious areas or are in need of better housing were not prioritised under the URP. The call from communities themselves as well as civil society has been to cease the high-rise model, and to consider in situ housing development or low-rise alternatives.

5. The URP needs to be halted, and a complete forensic audit must be done. Those resettled under Phase 1 must be given an option of alternative housing and all those relocated must be given official housing documents. Finally, the housing model must be shifted to in-situ development or low-rise housing, but be demand driven with meaningful participation from communities.

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IMPACT OF SRI LANKA'S ECONOMIC CRISIS ON THE EXPORTS SECTOR

By Nimaya Dahanayake and Janaka Wijayasiri
5th August 2022
Article published on the Centre for a Smart Future website

While steady growth in exports (Central Bank of Sri Lanka 2021a) was recorded in the year 2021, Sri Lanka's deepening economic crisis runs the serious risk of impacting the export recovery achieved to date. In March 2022, merchandise exports, consisting largely of industrial and agricultural exports, recorded a decline of 3.4% in earnings (Central Bank of Sri Lanka 2022), compared to the previous year, due to a reduction in both volume and prices of exports. In addition to this, industry representatives predict a decline of about 20% – 30% in total exports as a result of the current crisis (Daily Mirror 2022a) with tea exports being among the lowest it has been in 23 years (France 24 2022) and the apparel sector expecting a 20% – 25% drop in output by August 2022 (Daily Mirror 2022). Latest figures for June indicate that apparel sector has exceeded expectations and pre-Covid export numbers (Daily FT 2022a).

In the context of the economic crisis, escalating now to a de facto lockdown across the country, understanding the challenges posed to the country's external sector performance, one of Sri Lanka's main sources of foreign exchange (Daily Mirror 2022b) is crucial. At present, exports of goods and services, which account for 17.7% of GDP (World Bank Group 2021) as of 2021, have been adversely affected by several factors including most significantly, the worsening fuel and energy crisis.

How has the economic crisis affected exports?

Policy Missteps

Certain government policy decisions have affected/continue to affect exporters in general, while others are specific to some sectors. For example, a Government gazette published in March this year required the repatriation of foreign exchange earnings within 180 days of transactions as part of the policy decision to convert foreign exchange proceeds into Sri Lankan rupees which was introduced last year (Central Bank of Sri Lanka 2021b). While the move was designed to boost Sri Lanka's dwindling foreign exchange reserves, it led to complications (Jayasinghe 2021) in the ability of exporters and suppliers to import raw materials that would be required for their export production processes. Moreover, it has led to a situation whereby export companies, especially those with foreign ownership are discouraged to repatriate money into their businesses in Sri Lanka given the economic and political instability in the country.

In addition to this, a sector-specific (i.e., agricultural sector) policy decision was taken last year to ban chemical fertilizer. The ill-advised policy resulted in a 15% drop in tea production (Pal and Jayasinghe 2022) and export earnings in the first quarter of 2022, the lowest it has been since 2009. Although the ban was later lifted, the lack of foreign reserves made it difficult to secure the requisite fertilizer from abroad for agriculture production including tea. Consequently, in April this year, the price of a kilogram of tea surpassed Rs. 1500, for the first time in 127 years, as production fell (The Morning 2022). While the price of fertilizer has increased almost fourfold, rendering it an unbearable cost to producers, industry representatives are hopeful that the drastic increase in tea prices will offset the decline in the volume of tea exports, estimated at approximately 4.24 million kgs for the first quarter of this year.

Fuel Crisis

One of the key channels of impact through which the crisis is impacting exports is the ongoing fuel crisis. Lack of fuel has disrupted the day-to-day operations of industries in the export sector. With the onset of long hours of scheduled power cuts across the country, many export-driven businesses invested in generators, as a means of ensuring the smooth operation of their businesses. However, the lack of diesel to operate the generators in the factories and offices, together with the high fuel costs, has adversely affected these businesses and constrained their productive capacities.

In addition to this, the fuel crisis has also made it almost impossible for workers to travel to work with an almost 50% decline in operative public transport (Shukla 2022). This is especially problematic for those industries where it is impossible to transition to a Work from Home (WFH) model, such as those that require onsite, manual labour for production purposes.

In the apparel sector, some exporters are now compelled to spend 400% more on fuel and generator costs (Jayasinghe 2022), which has significantly increased overheads, possibly contributing to making Sri Lankan apparel exports less competitive in the international market. For instance, there is a concern that exporters may lose their orders to neighbouring competitors. Additionally, the fact that some exporters may be required to air-freight their goods if they fail to meet the delivery targets (Jayasinghe 2022) is also a cause for concern amongst exporters who lack the requisite funds for such a purpose. Jet fuel shortage (Daily Mirror 2022c) has forced airlines to limit payload of each flight, cutting down both passenger and cargo capacities and driving up fares and air freight rates. As a representative of the tea industry pointed out, 'without fuel, there is no economy'. This rings true in the present context, where it has become difficult for industries to transport staff and goods.

The ongoing fuel crisis and its impact on exporters are further exacerbated by the government's lack of a plan to streamline the distribution of fuel on a priority basis for exporters. As highlighted by an industry representative, the government should ideally allow exporters to receive some prioritization at certain centralized depots (Daily Mirror 2022d) whereby they can secure diesel and petrol to power their generators and provide transport for their workforce. The lack thereof has deprived exporters of key resources required to run their businesses though there have been subsequent measures for exporters to buy fuel and pay in US dollars.

Electricity Crisis

The energy crisis is another key channel of impact through which the export industry is presently affected. Frequent and long hours of power cuts have disrupted the energy supply for exporters, affecting agricultural, industrial and services sectors. The disruptions in power cuts have affected the operation of factories/businesses and the production processes therein, at times requiring some factories to halt production altogether which in turn affects their efficiency and delivery.

In the IT/BPM sector; the fifth largest export earning sector in Sri Lanka (Thowfeek 2022), long hours of power disruptions at different times of the day, have affected the levels of productivity of workers in light of an inability to meet the demands of high-performance work including work that requires teamwork, performed by the workers' in the IT/BPM sector. According to an Investment Monitor report, the apparel sector too may not be able to achieve its 6 billion USD target for the year 2022 in light of the long hours of

power disruptions. This concern is more so for SMEs, as large-scale manufacturers have proactively adopted alternative renewable energy sources, and this has mitigated some of the worst disruptions to production.

Foreign Currency Crisis

Another significant channel identified is the shortage of foreign exchange in Sri Lanka (Hamza 2022). The shortage of dollars has made it difficult for exporters and importers to import raw materials and other goods that may be required for export production processes. In April this year, the Export Credit Guarantee Corporation, which provides credit risk insurance and related services for exports, put Sri Lanka in the Restricted Cover Category-I (Mathew 2022), which has resulted in international suppliers being wary of shipping goods to Sri Lanka (Kannan 2022). The threat this poses to exporters' production is significant, particularly for those industries that rely on imports for value addition/production purposes. Moreover, the forex restrictions are likely to further dissuade exporters with foreign ownership from investing in Sri Lanka due to the current economic situation.

Loss of Buyer Confidence

In addition to the aforementioned, the loss of buyer confidence (Daily Mirror 2022a) in certain industries in light of the worsening economic instability in Sri Lanka has also posed a threat to key industrial sectors like the apparel sector, which accounts for approximately 40% of total export revenue earned by Sri Lanka (Daily Mirror 2022a). Buyer confidence, which depends heavily on the information buyers' are provided on Sri Lanka's economic predicament, informs their decision on whether exporters will be able to (i) meet delivery targets and (ii) maintain the quality and technical standards of those orders. These are increasingly under threat given the worsening situation in the country (Daily FT 2022b).

If the unstable economic situation continues into the second half of the year (which it most likely will) there is a serious concern that an estimated 30% – 40% (Akileish 2022) of orders intended for Sri Lanka originally, could be diverted (The Economic Times 2022) to other neighbouring countries like India. It has been reported that the textile hub of Tirupur in Tamil Nadu and Tea Estates in Assam are experiencing a surge in overseas orders (The Times of India 2022) as a result of the economic crisis in Sri Lanka although exporters in Sri Lanka stated that they haven't yet experienced any loss of orders. Nonetheless, international buyers are likely to de-risk Sri Lanka and scale back on future orders if the situation in the country does not improve soon. Given the significance of these sectors as sources of foreign exchange, the diversion would be detrimental to Sri Lanka's forex situation.

Impacts on R & D and Innovation

As exporters prioritize certain aspects of their business (i.e., expenditure on fuel and energy for instance) over others such as research and development and innovation; it is easy for the latter to be overlooked. One of the important concerns raised by an industry representative in this regard was the fact that almost all exporters, except for a few large exporters, are not currently involved in any research and development of export-oriented products, given the need to prioritise the more urgent needs facing exporters. This will undoubtedly have an impact on the ability of exporters' to enter new markets and adapt to the emerging needs of the international market.

Brain Drain

The current economic crisis has made living in Sri Lanka a daily struggle for many. A survey published last November by the Institute for Health Policy in Sri Lanka indicated that the number of individuals that want to migrate had doubled, with

about 50% of the young and educated considering migration. The crisis has only exacerbated this situation. This is a serious concern for the future of export industries that depend on a skilled workforce, which is already limited and unable to meet the needs of the export industry.

As highlighted by an industry representative of the IT/BPM sector, the sector derives its competitive edge through the talent it possesses and attracting the best talent in the country. With many of the technically skilled staff in these businesses looking to migrate, especially those with families, the industry is at a serious juncture and may need to prioritize staff retention measures to ensure the continuity of the industry. Despite pegging salaries to the US dollar to ensure that their workers get paid adequately in the context of substantial depreciation of the rupee and runaway inflation, the representative noted that there has been an uptick in people migrating abroad looking for stability and security compared to other years.

Path ahead

Exporters have displayed resilience and responded to the crisis by taking initiatives to ride through difficult times by adapting to the situation. Respective industry associations also have assisted their members in terms of sharing information regarding regulatory changes, securing fuel to run factories and businesses via LIOC and bunkering companies (Daily News 2022) by paying in dollars in the short term whilst looking at alternative sources of energy in the medium term to overcome the fuel and energy crisis, voicing their concerns to the government and calling for an early resolution to the crisis. The main ask of the exporters from the government is to restore stability and trust and confidence in the country through economic and political reforms. In the immediate and medium term, an early resolution to the energy and fuel crisis is a necessity and exporters have suggested: prioritising and streaming the distribution of fuel to operate the factories; informing about the power cuts in advance so that production could be planned accordingly and renewing emphasis on renewable energy sources like solar. Also, reactivation of the Export Development Council of Ministers (a high-level forum chaired by the President) and a better consultative process were suggested to formulate and implement decisions affecting the sector and resolve export related issues respectively.

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THE CRISIS IS FAR FROM OVER FOR COLOMBO'S POOR

By Anisha Gooneratne
25th March 2024
Article published on the Groundviews website

The long lines at fuel stations have disappeared as have the frequent power outages; it's almost as if the economic crisis is a thing of the past. For Colombo's working class poor it is anything but. The last few years have brought upon crisis after crisis, leaving many families at breaking point struggling to put a meal, let alone three, on the table today.

Since 2020, Colombo Urban Lab has been exploring how access to grid infrastructure such as water, electricity, cooking fuel and transport impacts access to food and diets in working class communities in Colombo. This is part of a larger multi-country collaboration called the Living off Grid Food and Infrastructure Collaboration (Colombo Urban Lab 2023a) exploring this nexus across Asia and Africa. The fieldwork for the project started amidst COVID-19 lockdowns and since then we have worked closely with working class poor families, both households and vendors in Wanathamulla to explore how access to the grid impacts access to food. This timeline (Colombo Urban Lab 2023b) depicts the shocks these communities have experienced since 2020 and the ways in which they have had to respond to multiple crises. When referring to shocks on the economy or impact to households, it's very easy to consider them in isolation without understanding that actually they are all interconnected and having compounding effects on households.

Prior to the pandemic, families were able to have three diverse meals a day that featured meat, fish or eggs and fruit; they were using gas as their primary means of cooking fuel and their children were going to school daily. With the onset of the pandemic and prolonged periods of lockdown, many households lost access to income as they were mainly daily wage earners. At this time, many began to dip into their savings to find money to feed their families. They were also avoiding meat as it was unaffordable and with the X-Press Pearl disaster, they stopped eating fish too due to health concerns. However, over time we saw households eating less fish not because of health reasons alone but also because it was unaffordable.

The gas explosions in December 2022 left families looking for alternative energy sources for cooking. Women had to stand for hours to procure kerosene or switch to a wood fire stove although it would take two to three times longer to cook. These changes were taking place in a community that hardly had wood fire available in their vicinity prior to the pandemic. As a result, women were spending about three hours cooking, or procuring cooking fuel – all which impacted women's time poverty (Perera 2024). The infrastructure-food nexus that we were exploring presented itself very obviously at this time, as women were prioritising food that would cook fast and not take up too much cooking fuel. Items like manioc, jackfruit and chickpeas were removed from diets as families selected food that would cook quickly or could be eaten without accompaniments. This was the first instance of how we see infrastructure determining the food plate.

Around May 2022 families started to buy food daily on credit and even bought milk powder in smaller quantities. Vendors would react to changing demand patterns by breaking milk packets, distributing them into smaller containers and selling them in smaller quantities to match demand and purchasing abilities of communities. Milk that was bought for the household was given to the child as a priority with many parents foregoing milk in their tea.

In August 2022 came the first of a series of electricity tariff hikes of around 75%. As a result, families started unplugging fridges and not using time saving cooking devices such as rice cookers amid electricity bills that were in arrears of about Rs 80,000-90,000 (Perera 2022a). At this point, families were pawning jewellery, taking loans at high interest rates from loan sharks or undertaking a second job to pay their utility bills. For those living in the Urban Development Authority (UDA) built high rise housing complexes, they had no other option but to somehow find the money to pay their utility bills because if they didn't the UDA would disconnect their water supply (Perera 2022a). With no other public infrastructure that they could access, unlike in the wattes they came from, they had no choice but to settle their arrears. The situation at this time was so dire that families were choosing to cook on woodfire stoves in the corridor of their high rise despite knowing the risks because they couldn't afford gas, they couldn't get kerosene due to shortages and they couldn't afford electricity due to the tariff hikes so what choice did they have to feed their families?

The start of 2023 brought yet another electricity tariff hike of around 66%. By this point, families were eating less, many having one meal a day with meals mainly consisting of rice and a small quantity of vegetables, foregoing meat, fish and even eggs.

In addition, our research highlighted that although many children of working class poor families go to government schools, many of these schools don't have a free midday meal programme. As such, teachers often demand that a nutritious meal be sent to school and, in some cases, even dictate a menu where on certain days of the week, certain food items have to be brought. Not only are these meals expensive to procure, they also consume a significant amount of energy to cook. Reports of teachers reprimanding children for not bringing nutritious food to school has resulted in parents opting to keep their children at home without sending them to school for fear that they will be scolded for not bringing nutritious food to school. Keeping in mind the high degree of learning loss during COVID-19 when children could not access remote education, further school absenteeism is likely to have long term impacts on their education.

Amid these compounding crises we see increased expenses, hikes in VAT on essential items like school books, medicine and a rise in utilities, all which impact these households disproportionately (Colombo Urban Lab 2023c). Existing and new social security programmes such as Aswesuma, are inherently problematic (Perera 2023) as they exclude many working class poor families who have access to assets and grid connections. As such these communities, some of which require it the most, are found facing these crises with limited state support.

The crisis is far from over. Compounding shocks have left families reducing the quantity and quality of meals, unplugging devices and even disconnecting from the grid, not sending children to school, pawning jewellery or taking high interest loans, foregoing essential medication and even undertaking a second job just to pay utilities or feed their family. These are just a few out of many methods families are using to survive, leaving many in precarious positions, facing generational poverty and severe long term nutritional impacts.

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UNDERSTANDING THE IMPACTS ON THE URBAN POOR

UNDERSTANDING AND SUPPORTING COLOMBO'S URBAN POOR FAMILIES IN CRISIS

By Colombo Urban Lab
19th May 2022
Excerpt from Policy Brief published on the Centre for a Smart Future website

Low-income settlements in Colombo experienced greater food insecurity even before the pandemic, with 72% of households being food insecure (Gunawardhana and Ginigaddara 2021). Women in low-income households in Colombo were more likely to be underweight and overweight (Weerasekara et al. 2020), with higher instances of blood pressure, diabetes, heart disease and anemia when compared to their rural counterparts. Low dietary diversity and poor nutrition among the urban poor was largely attributed to the high cost of living in Colombo, with both food expenditure and non-food expenditure being more expensive in Colombo.

In 2018, the cost of a diet that met the nutrient requirements of a family of five was over Rs. 17,000 per month (WFP 2018). Another study calculated that meeting the government's suggested diet would cost an individual in Colombo Rs. 215 a day (Dizon and Herforth 2018), which would bring the monthly cost for a family of five to an eye-watering Rs. 32,250. The exorbitant cost of nutritious food is an issue that preceded the pandemic and economic crisis.

The onset of the COVID-19 crisis in 2020, disproportionately affected working class poor households in Colombo. Many who relied on daily wage work were no longer able to go to work following the impositions of lockdowns, which resulted in many households losing their access to income. Not only did this reduce their cash in hand to spend on food, but was also exacerbated by high food inflation, making food even less affordable to households. A report by the Central Bank (Central Bank of Sri Lanka 2020) highlighted higher domestic food inflation in Sri Lanka compared to what was being experienced globally. In addition to food related expenditure there are also other monthly expenses that stress the already stretched household budget like utility bills, rent, mortgages, vehicle leasing, loans, children's education and tuition, transport, medicines etc.

Limited support by the Government meant that Colombo's low-income families had to dip into their savings, or make do with what they had. Families in Seevalipura (Wanathamulla), said they only got one cash handout by the Government of Rs.5000, which wasn't enough to sustain them for a long period of time.

Two years later, the economic crisis has undone whatever recovery was made since COVID lockdowns were lifted. A sharp increase in the price of gas means that many households have switched to cheaper, alternative methods of cooking. Some houses switched to kerosene, but now find that they cannot spare the time to stand in kerosene queues for long periods of time in order to acquire it. The wood-fire stove was also an option considered by many households, however, given the spatial limitations in their houses, along with the strong fumes that are emitted from wood-fire stoves, it was deemed unsuitable for most. The most popular choice for many households is the rice-cooker, with many cooking all their meals, including tea in the rice cooker. However, for houses with arrears in electricity bills from the COVID lockdown period when they did not have the ability to pay, a rice cooker represents a higher electricity bill – a luxury not many can afford. Some houses have seen a doubling in their electricity bill since they started to rely on the rice-cooker for their meals.

Food inflation reached a record high of over 30% in April, a figure that hasn't been seen in Sri Lanka since August 2008 (Praneetha 2022). The diminishing value of money has made it even more difficult for low income families to afford healthy and nutritious meals. This could have serious repercussions for food security of the urban poor, worsening the severity of insecurity faced by some, and pushing more households to food insecurity. The longer term impact of this on health, and productivity have yet to be seen, but is likely to be severe, especially at a time when medicines and medical equipment are in short supply.

The shortage of fuel has also resulted in many not being able to afford transport. Families that rely on transport to commute to work, or to take their children to school, are also looking for alternative ways to travel or to cut back on items of expenditure such as these.

Recommendations

As policy discussion shifts towards social security mechanisms and food related interventions to help low-income households recover from the shocks of the economic crisis, it is vital that the unique context of urban households is understood. More broadly, state support at this time should also target a diverse array of interventions in order to account for the dynamic nature of the economic crisis permeating all aspects of life. With the cost of food rising almost daily, a cash-handout alone would not be sufficient, given that the value of money will decrease over time.

Below are a list of immediate term recommendations that have been formulated together with community members as well as studying relief measures elsewhere. It must be highlighted that one intervention alone will not adequately support urban households and these recommendations have been formulated on the assumption of a variety of interventions being implemented simultaneously. We also recommend that these measures are universal to every household below a particular income or need threshold and not targeted as that would only exacerbate existing divisions in communities and favour some over others based on political affiliations, ethnicity etc.

Furthermore communities are beyond the point of targeted measures and a realistic understanding of the household budget must be reached before determining the threshold. For urban poor households our research shows even those with a monthly income of Rs. 50,000/- are struggling to make ends meet. This understanding will only be reached with meaningful and robust consultations at a community level, and with the active participation of women.

1. **Addressing nutrition, not hunger –**
   Approaches to calculating food expenditure must show an appreciation for dietary diversity, cultural practices of cooking, as well the varied nutritional needs and demands of households. Dry rations packs to household alone will not fully meet the nutritional needs of households which will place a burden on the health sector in the longer term. Nutrition levels in children can also be targeted through meal programmes at every school irrespective of whether they previously had a school mid-day meal programme or not. While this would ease the burden on the families who have to send food for their children everyday to school, it would also provide a daily access to nutritious the children may otherwise not receive. The current allocation of Rs. 30/- per school meal is not sufficient to secure a nutritious meal, and should be revised in order to ensure that this meal can account for dietary diversity and cost.

2. **Goods instead of cash/vouchers for food –**
   Given the rapid increase in the price of goods, we recommend a system of a basket of goods being available to households as opposed to a certain amount of money/ vouchers, as that amount may purchase less and less goods as cost of living increases. If households are guaranteed a certain amount of rice, pulses, vegetables, fruit, milk, eggs every week for at least one year for example, it would enable them to continue to buy the same quantities of food, irrespective of inflation and eat food that addresses hunger such as those that are carbohydrate heavy and instead have a nutritious diverse plate that includes protein and fibre.

3. **Distribute locally –**
   In terms of access and distribution, households would prefer to receive these weekly goods through their local community vendors and shops so as to give them business as well as not having to queue up at supermarkets and other outlets every week. This will also ensure that families do not have to travel far to access these goods. Linking these weekly bag of goods to local, smaller scale grocery shops will also help local businesses to stay afloat, whilst also driving community development.

4. **Promote sustainable urban gardening –**
   Given the built environment in urban settlements in Colombo, urban vegetable gardening is not a viable option for most communities due to lack of space. However there are innovative ways in which households with small spaces can grow certain type of nutritious food in a small space – such as mushrooms, spinach, tomato, chillies – if such methods and tools can be made accessible to them. Wherever space is available could be used as community allotments as well, but would require a methodical and sustainable engagement with the communities to do so. Methods such as this can help to supplement nutrition,

and also improve diversity of diet, mitigating severe food insecurity.

5. **Adjusting the food plate –**
   At a time where the concept of a nutritious diet seems almost impossible when people are struggling to even eat a meal a day, targeted information and communication campaigns can better help households to identify meals that are low in cost and high in nutrition. A nutrition awareness campaign can better help households to plan their meals, and to help identify food rich in nutrition, to mitigate against long-term health impacts. Campaigns such as this should run on a range of communication channels (TV, Radio, Facebook, physical posters etc) in order to reach a wide demographic.

6. **Monthly cash transfers –**
   Households have needs beyond food expenditure which require cash in hand. These range from rent to utility bills to transport to medicine to children's education to loans/ mortgages to everyday items like soap and clothes. We recommend a minimum of Rs. 25,000 per household per month for at least one year in the form of cash transfers for these non-food expenditures.

7. **Lessen the burden –**
   Many urban working class poor communities are struggling to pay utility bills and other debt that have accumulated since the first COVID-19 lockdown in March 2020. These arrears are of such high rates for some families that they will never be able to pay off that debt to the utility companies and the Urban Development Authority. The UDA also takes draconian measures such as cutting off water supply to households in the UDA high-rises flats as a way of making households pay. This places an extraordinary burden on households already struggling to make ends meet, not to mention the effect on people's mental health. We

   recommend analysing the various debt to the State across the various settlements in Colombo and moving towards cancelling the arrears or finding sustainable ways of making those payments.

8. **Don't normalise queuing –**
   Over the last few months, queueing has been normalised especially in the working class poor communities whether it is for fuel, kerosene, gas or food. The State must look at different ways in which gas and fuel for example can be distributed even more locally and using token systems which would mean that people who need fuel, gas and kerosene for their day to day survival would not have to spend an extraordinary amount of hours everyday in queues. This could be done through already existing community/ livelihood organisational structures.

Notes: While the measures listed here are ones that must be implemented immediately, there are short and longer term measures that also must be discussed and budgeted for the near future. These include medical needs, passes for public transport, supporting livelihoods (formal and informal) of communities and connecting them to access to finance, markets, new skills and vocations so that they are able to come back to a stable position where they are able to meet their needs without being dependent on State or private support. This also extends to addressing the high rate of unemployment – both from lack of qualifications/skills and lack of jobs – among urban youth.

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IMPACT OF SRI LANKA'S ECONOMIC CRISIS ON COLOMBO'S WORKING CLASS POOR

By Colombo Urban Lab
7th April 2023
Excerpt from a Policy Brief published in April 2023 on the Centre for a Smart Future website

Introduction

The impact of the economic crisis on the working class poor of Colombo over the past year cannot be overstated. As we highlighted in our May 2022 policy brief (Colombo Urban Lab 2022) most of these households that were already affected by the pandemic due to a loss of daily wage work following the imposition of COVID-19 lockdowns, were cash-strapped and struggling to make ends meet when the economic crisis hit last year. The April 2023 policy brief gives an update on the current status of working class poor households and those working in the informal sector in Colombo. This includes the impact of the electricity tariff hikes on them, a commentary on the ongoing Welfare Benefits Board enumeration of households, and recommendations on how the State and policy makers can support these families in crisis.

As of February 2023, CCPI based headline inflation was 50.6%, while food inflation (Y-o-Y) was at 54.4% in the same month. Sri Lanka's nominal food inflation is the seventh highest in the world, as of January 2023. In September 2022, Sri Lanka recorded its highest food inflation at 94.5%. A recent survey by Save the Children Foundation (Save the Children 2023) found that half of Sri Lanka's families are reducing their children's food intake with 36% of the households surveyed indicating that they were unable to provide any or adequate nutritious food for their children. In December 2022, 33%

of all households were deemed food insecure, while 68% of households were seen to be using food coping strategies to deal with the rising food prices. Low income households were also affected by the hike in bus fares, which was increased by 22% in June 2022. An April 2023 update by the World Bank (World Bank Group 2023) states that poverty doubled from 2021 to 2022, pushing an additional 2.5 million people below the poverty line, and that urban poverty rates have tripled from 5% – 15%.

Making Ends Meet

During the past two and a half years, while conducting fieldwork and engaging with the working class poor communities in Colombo, our research has documented a gradual deterioration in the quality of life and coping mechanisms in their households. In the second half of 2021 when the milk powder and gas cylinder shortage began to set in, households **were still attempting to recover from the loss of income and accumulated arrears and debt from the 2020 – 2021 lockdown period.** During this period, households were beginning to comment on the increase in the price of food and adding other types of cooking energy sources to replace gas. However, they were still able to put three meals on the table and it was a diverse food plate with proteins such as fish and eggs, fresh vegetables and leafy greens as well as fruit. By mid 2022, families had already started cutting back on nutritious meals with some cutting back on the number of meals altogether.

Today, **many families are barely eating.** What they eat is not necessarily nutritious either – food that fills them up easily, cooks fast and is cheap are the main considerations. Expenses are competing in an unprecedented way, and what (and sometimes whether) you eat determines if you have money to go to work or school the next day or if instead that money

can go towards avoiding disconnection of water or electricity or the loss of a gold chain that has been pawned. We've also been told of situations where families share the thriposha supplement given to young children as a means of meeting the entire family's nutrition requirements. It is not just nutrition that is unaffordable – families interviewed tell us that many medicines they require monthly for non-communicable-diseases and even heart medication are not always available at the government clinics, forcing them to purchase them from private pharmacies.

In 2022, children who experienced significant learning loss from 2020 – 2021 were back at home as parents could not afford to send them to school or schools were closed altogether. Tuition classes used to be a way for parents to ensure children were coping with the learning loss that happened during COVID lockdowns, but by the second half of 2022 when food inflation was over 90% and electricity tariff hikes were imposed, tuition and extra curricular activities became unaffordable. Today we see that **children are not sent to school regularly because families cannot afford the transport or additional costs like school shoes, school bags, books etc.** Food is also linked to school attendance – parents say that if their child's school provides a mid day meal, they make sure their child goes to school. However, many families tell us that their children's school does not have a meal programme and as they are required to send a nutritious meal for their child, there are days where they just cannot send their child to school as there is no food at home. Some days when they do have food at home, they do not have money for the transport to school.

While there are no more long queues in the city for gas cylinders or kerosene, the reality is that **availability does not mean affordability**. Today, stacks of firewood have become a common sight at low-income settlements around Colombo. In 2020 during our fieldwork in North Colombo, families pointed out that they had shifted away from firewood as a cooking source to gas over time, and that sourcing firewood was almost impossible as there was no demand. During the gas shortage last year, many families relied on cooking on electric stoves or rice cookers, but electricity price hikes from August 2022 onwards have made it costly for those households to rely on them for preparing their everyday meals. In many households, stacking is used as a means of avoiding price shocks for fuel sources like gas, which still remains unaffordable for low-income households in Colombo. While the use of wood-fire stoves and coal stoves is also prevalent among the urban poor, spatial limitations and health considerations make them less-preferred sources of cooking.

People have also run out of coping strategies. Many people we interview make the same point over and over again – what more can they sell or pawn to make ends meet? What more can they possibly give up to cut down their expenses? Totals of accumulated bills, loans and debt are in the six figures – this is money they will never be able to earn or pay back. While the prices are gradually coming down right now, the financial situation of the working class poor communities are so dire that **even if everyday costs go back to pre-2020 prices, life will still not go back to normal any time soon.** The case studies in this policy brief show how interconnected all the issues are and why we cannot isolate food inflation from electricity tariff hikes or fuel prices from quality of life or social security.

Recommendations

Much of the crisis specific responses, reporting and policies have focussed on food security and nutrition, health and medicine, or fuel and fertiliser in isolation. We reiterate that there needs to be a more **holistic approach to assessing and understanding the impact,** particularly on working class poor and lower middle class families. While a year ago the crisis

was primarily around putting food on the table and energy, today the issues are varied and yet interconnected. Therefore any support or policy making must consider all of this, and also prioritise not just short term **recovery (like putting food on the table) but also address how these communities will recover in the long term from the debt, asset loss, livelihood impact and learning loss.**

In this context, social security becomes a very important consideration for low-income settlements and the informal sector in Colombo. Discourse and policy surrounding social security must take into account the lived realities of the working class poor, and ensure that it actually offers tangible support that will better their quality of life. If not, the impact of this crisis will be generational and people will have lost the decades of investment and hard work they have put in towards creating a better and comfortable life for themselves. The end goal of Sri Lanka's recovery process must not be to recover to a point where people can make ends meet, but one where the **recovery is just and equitable, and people experience a better quality of life within this lifetime.**

Below are a list of immediate term recommendations that have been formulated together with community members as well as studying relief measures elsewhere. Many of these recommendations we have made last year as well, and unfortunately have not seen a meaningful effort beyond increasing efficiency of cash transfer mechanisms to be implemented and increase in school midday meal programmes around the country. One intervention alone will not adequately support urban households and these recommendations are proposed based on the **assumption of a variety of interventions being implemented simultaneously.** We also recommend that these measures are **universal to every household below a particular income or need threshold and not targeted** as that would only exacerbate existing divisions in communities and favour some over others based on political affiliations, ethnicity etc. Furthermore communities are beyond the point of targeted measures and a realistic understanding of the household budget must be reached before determining the threshold. This understanding will only be reached with **meaningful and robust consultations at a community level, and with the active participation of women.**

Address nutrition, not hunger. Calculating food expenditure must show an appreciation for dietary diversity, cultural practices of cooking, as well the varied nutritional needs and demands of households. Households must be guaranteed a certain amount of rice, pulses, vegetables, fruit, milk, eggs every week for at least one year and this would enable them to meet nutrition requirements irrespective of inflation, as well as freeing up income that can be put towards other expenses.

Nutrition levels in children can also be targeted through meal programmes at every school irrespective of whether they previously had a school mid-day meal programme or not. While this would ease the burden on the families who have to send food for their children everyday to school, it would also provide daily access to nutrition the children may otherwise not receive. The current allocation of per school meal should be revised in order to ensure that this meal can account for dietary diversity and cost.

Source and distribute locally. For recommendation #1, households state that they would prefer to receive these weekly goods through their local community vendors and shops so as to give them business, as well as not having to queue up at supermarkets and other outlets every week. This will also ensure that families do not have to travel far to access these goods. Linking these weekly basket of goods to local, smaller scale grocery shops will also help local businesses to stay afloat, whilst also driving community development.

For school meal programmes, this method should also be adopted where fruit and vegetable and other ingredients should be sourced as locally as possible, providing income to local farmers and shops, and reducing food miles.

Promote sustainable urban gardening. Given the built environment in urban settlements in Colombo, home gardening is not a viable option for most communities due to lack of space. However there are innovative ways in which households with small spaces can grow certain type of nutritious food in a small space – such as spinach, tomato, chillies – if such methods and tools can be made accessible to them. Wherever space is available could be used as community allotments as well, but would require a methodical and sustainable engagement with the communities to do so. Methods such as this cannot meet total nutritional requirements of families but can help to supplement nutrition, and also improve diversity of diet.

Adjust the food plate. At a time where the concept of a nutritious diet seems almost impossible when people are struggling to even eat a meal a day, targeted information and communication campaigns can better help households to identify meals that are low in cost, high in nutrition and how they can be sourced locally. This could also support households to identify food rich in nutrition and mitigate long-term health impacts. Campaigns such as this should run on a range of communication channels (TV, Radio, Social Media, physical posters etc) in order to reach a wide demographic.

Provide monthly cash transfers. Households have needs beyond food expenditure which require cash in hand. These range from rent to utility bills to transport to medicine to children's education to loans/mortgages to everyday items like soap and clothes. We recommend a minimum of LKR 25,000 per household per month in the form of cash transfers for these non-food expenditures.

Cancel or restructure defaults on utility bills. Many urban working class poor communities are struggling to pay utility bills and other debt that have accumulated since the first COVID-19 lockdown in March 2020. These arrears are of such high rates for some families that they will never be able to pay off that debt to the utility companies and the Urban Development Authority. This places an extraordinary burden on households already struggling to make ends meet, not to mention the effect on people's mental health. We recommend analysing the various debt to the State across the various settlements in Colombo and moving towards cancelling the arrears or findings other ways of making those payments – for example a long term repayment plan for amounts accumulated so far.

Do not increase the burden on women. Over the last two years we have seen women shoulder the additional burdens of the crisis, whether it be finding ways to put food on the table through time consuming cooking methods, shifting to washing clothes by hand or handwriting children's homework sheets when they cannot afford print outs. Recovery efforts such as school meal programmes, community gardens and community kitchens rely heavily on the unpaid labour of mothers and women of the community. If such labour is required, those programmes must build in budgets to pay for the time put in by the women instead of making it a requirement for the functioning of the programme. The programmes could also be envisioned as livelihood opportunities for the women and men of that community instead of demanding their unpaid time towards it.

Provide free public transport for school children. With the increase in fuel prices and the effect it has on modes of transportation such as three-wheels and private school van costs, many families have switched to public transport over the past year. However with the increase in bus fares even

this cost is not one that is borne easily and there are those who do not have enough bus fare on some days to send their children to school. We recommend free public transportation for school going children or dedicated school transportation that is free of charge in order to ensure children go to school regularly.

Prioritise a Just Recovery. While support for communities to recover from the impact of the crisis in the immediate future is necessary, the Government must also plan and budget for addressing the long term recovery. These include more budgetary allocations to the health, education and social welfare sectors, supporting livelihoods (formal and informal) of communities and connecting them with access to finance, markets, new skills and vocations so that they are able to come back to a stable position where they are able to meet their needs without being dependent on State or private support. This also extends to addressing the high rate of unemployment – both from lack of qualifications/skills and lack of jobs – among urban youth.

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BORROWING TO EAT

By Colombo Urban Lab
September 5, 2023
Excerpt from Policy Brief published on the Centre for a Smart Future website

Introduction

Colombo Urban Lab's third policy brief on the impact of Sri Lanka's economic crisis on Colombo's working class poor communities focuses on household debt and social security (Colombo Urban Lab 2022a) (Colombo Urban Lab 2023b). Our ongoing research with communities in Colombo show an increase in household debt as families struggle with competing expenses - food, utility bills, transport, education, health, livelihood. Poverty and vulnerability presents itself very differently in Colombo, and while the streets of Colombo may look like it is back to normal, the crises faced by working class families tell a different story.

In April 2023 our policy brief detailed various coping strategies households were employing to make ends meet, such as cutting back on number of meals and nutrition, not sending children to school everyday, reducing electricity usage to a bare minimum, pawning jewellery and selling/ mortgaging assets. This latest brief looks at borrowing money / taking multiple loans from informal credit markets in order to make ends meet - sometimes just to put food on the table. We also provide on update on the Aswesuma experience by highlighting the dangers of targeted support and asset based selection through case studies of households not selected for the new social security registry.

The Colombo Consumer Price Index (LKCCPI=ECI) (CCPI) reflected food inflation reaching a negative 4.8% in August, after hitting a negative 1.4% in July. Non-food inflation was 8.7%, the Census and Statistics Department said in a statement (Reuters 2023). However, reports from rights groups across the country (Feminists Collective for Economic Justice 2023), as well as our own research in Colombo continues to indicate that availability of goods and shifts in inflation does not mean affordability or change in the quality of life for working class communities as they battle with severe debt and accumulated bills and payments. To put it simply, even if the prices of food were to come down to pre COVID-19 prices, families would still struggle to put three nutritious meals on the table. Women continue to shoulder the burden of household debt and care work, with increasing time poverty and sacrifices by way of nutrition and health. Compounding effects of significant increases in electricity tariffs and prices of essential items such as kerosene and medicine, increase in Value Added Tax (VAT) and public transport rates during one of the most severe economic crisis in the country has devastated working class households and their savings/assets, to a point of no return for many.

Burden of Utility Payments

Low-income households continue to face the burden of high electricity bills as a result of electricity tariff hikes in August 2022 and February 2023 (Perera 2022). While a slight reduction in tariffs for low user households was implemented in July 2022 (Public Utilities Commission of Sri Lanka 2023), these changes merely seek to soften the blow of February's disproportionate increases. Tariffs are still higher than the initial increase in August 2022 and as such have a limited effect for low-income households. In addition, these changes have little bearing on urban low-income households whose electricity consumption is often higher than their rural counterparts.
Nayana and her husband run a grocery store in Wanathamulla which generates a monthly income that fluctuates between

LKR 11,000 and 25,000. Their electricity bill varies from between LKR 7000 - 8000 a month, mostly because they keep a fridge stocked with cold drinks for their shop. “If we don’t have these items people will go to another shop and we will lose more business.” In addition, their water bill is LKR 1500. Electrical appliances like fridges can run bills into higher tariff brackets but many households do not have a choice. Farah is a senior citizen who lives by herself in Hulftsdorf. She uses only one light, one fan and a fridge but consumes about 124 units of electricity leading to a bill of LKR 7400 after taxes and surcharges (Data collected in July 2023). As she is a diabetic reliant on insulin which must be stored in the fridge, she has no choice but to continue running it.

Even without a fridge, washing machine and iron, a family of four may still run up a bill of LKR 5054 for 103 units of electricity a month. Moreover, households in UDA high-rises who consume just 50-65 units per month have seen their bills skyrocket from LKR 700 to 4000 (Data collected from ongoing research). While the latest water tariff increase supposedly does not affect those living in UDA high-rises and tenement gardens, as well as those on Samurdhi (GoSL Extraordinary Gazette No. 2343/28 of August 2023), the impact of last year’s water bill hikes continues to affect these households, with water bills now comprising LKR 1500-2000.

Coping with utility bills cannot be read as a means of balancing consumption with income, as households have varied needs related to health, livelihood and safety. Factors such as increased heat due to the drought also affect energy and water demands. For urban low-income households, the effects of heat may be compounded by poor-quality housing as well as urban heat island effects. As households prioritise utility bills in their monthly budgets, this often means reducing expenditure on food. Households frequently reported skipping or reducing the number of meals, and parents forgoing eggs

and fish so that their children could consume these expensive items. Worryingly, even pregnant and lactating mothers in urban settlements adopt these strategies of reducing meals and cutting back on expensive nutrient-dense food (Amnesty International 2023), in order to pay utility bills and education expenses for other children. Furthermore, our work with families relocated to Urban Development Authority high-rise complexes in Colombo show that authorities continue to elicit payments for monthly rent and utility bills (both water and electricity) by threatening to disconnect water connections of individual flats that are in arrears for either rent, electricity or water bills.

Household Debt

Three years of disruption and crisis in the form of COVID-19 lockdowns, followed by economic crisis have decimated the savings and assets of low-income households. As such, households have limited resilience to cope with sudden shocks such as illness or unemployment, and are already rendered precarious by informal livelihoods. The latest report by the United Nations Development Programme on the multidimensional vulnerabilities of Sri Lankans stated that that 33.4% of the population are deprived by the debt status of their household, which includes getting into debt to pay for essential needs like food, medical care and education, as well as pawning jewellery or selling items (United Nations Development Programme 2023).

The FAO/WFP Crop and Food Security Assessment Mission (CFSAM) to Sri Lanka in May 2023 found that 62% of households were adopting coping strategies such as withdrawing savings, borrowing money, purchasing food on credit to access food compared to 48 percent in May 2022 (Food and Agriculture Organisation 2023). In particular, 41% of households reported borrowing money to purchase food in May 2023, compared to 11% in May 2022.This indicates that households are taking loans to survive, rather than to navigate one-off shocks.

In Colombo, loans are often taken to pay off electricity arrears to avoid disconnection, or help relatives migrate in the hope of employment, which still represent an inability to cope with day-to-day expenses. As low-income households do not have access to formal channels of finance, they are frequently reliant on informal credit markets who charge exorbitant interest rates. Opportunities for taking loans are also extremely visible and easily accessible, as loans are advertised on online apps or disseminated through SMS.

It is important to note that individuals taking loans advertised through SMS or on online mobile apps may be aware of the dangers posed by these unregulated schemes, but the urgent need for cash in hand may outweigh potential risks of unregulated loans. Some households also take loans to buy food for the week or at times for the day. Coping mechanisms such as pawning jewellery and borrowing from relatives have been exhausted, while looming payments continue to accumulate. Our research shows that households take multiple small, short term loans as needs arise, including to pay off interest or the total of another loan. Money lenders of today are still the "Poli Mudalali" type figures, except they also now come in the form of SMS loans and salespeople (doubling as debt collectors) that visit small businesses and households, or paste posters on lamp posts and public spaces advertising quick and easy loans. Usually a photo of a person's identity card along with their bank details being Whatsapped to such lenders are sufficient for money to be immediately released to the borrower's account. Debt collection is another matter of concern with households reporting threats when unable to make the payments, interest being increased arbitrarily on non payment and in some instances messages sent to friends of the borrowers on Facebook informing that their friend or acquaintance is in default.

In such a context, advocating for "increased awareness and financial literacy" is not adequate if households continue to be inundated with promises of fast and easy cash, along with crushing pressures of the cost of living. While discourse around regulating Microfinance and informal credit markets must continue, it should also be accompanied by an understanding of the complex and intersecting needs that are driving households to take loans. If households are borrowing to meet basic needs such as food, health or education, regulating microfinance or moneylenders will still not solve the crisis at the household level.

While some households take loans to pay for household expenses or even to put food on the table, others take loans to aid income-generating activities. Those running a business from the house such as a shop will take a loan to buy inventory because they do not have the capital at hand. This is particularly after COVID-19, where lockdowns meant that many informal businesses could not operate.

While microfinance encourages entrepreneurship and seeks to support small businesses, it is worth noting that there is little advice or alternative support for small businesses. As a result individuals may begin a business that is not viable due to market saturation and be sucked into a cycle of increasing debts and diminishing returns as they struggle to keep their business afloat. Several households began to run shops from their houses after COVID-19 leading to increased competition in settlements. In addition, some individuals may be unsuited to entrepreneurship and may instead require livelihood support in the form of equipment or training. Furthermore, microfinance lending cannot reap the expected benefits in a context where the cost of living is exorbitant.

On Aswesuma

Amidst Sri Lanka's worst economic crisis, catalysed by soaring inflation and diminished real income, the discourse surrounding social protection has emerged as key for improving the lives of 31% of the Sri Lankan population living in poverty (i.e., an additional 4 million people since 2019) in 2023 (LIRNEasia 2023). The new social security scheme Aswesuma, funded by the World Bank was intended to create a poverty free, entrepreneurial Sri Lanka by 2048. The Welfare Benefits Board of Sri Lanka that also receives funding from the World Bank to carry out Aswesuma, began an enumeration exercise in 2023 whereby all those who applied to receive welfare benefits were scored across a 22 indicator list (many of them asset based) to determine their eligibility. According to the WBB 3.7 million applications were received to be included in this registry. It is noteworthy that the indicator list was developed in 2019 and gazetted under the Welfare Benefits Act No. 24 of 2002 as the 'Methodology for identifying low-income families for welfare benefits payments' when Mangala Samaraweera was Finance Minister (GoSL Extraordinary Gazette No. No. 2128/24, June 2019). During a time where Sri Lanka is still recovering COVID-19 impact and an ongoing economic crisis, that welfare eligibility criteria developed long before these crises was used to select beneficiaries in 2023 is of serious concern.

With the first transfer of cash to the Aswesuma beneficiaries taking place in August 2023, the process of and criteria for determining which families are eligible for the cash transfer, has attracted widespread criticism, as many deserving households have been excluded from this new scheme. Excluding deserving households who applied to be a part of the new social welfare registry from welfare benefits payments compounds the difficulties already faced by households, for

whom receiving a cash transfer could improve access to the very basic necessities like food, utility or medication. More importantly, the inclusion in a social welfare registry also means being eligible for future welfare benefits or specific support like the cash transfers during COVID-19 lockdowns or access to low interest loans. Our ongoing research in low income settlements across Colombo indicate that many vulnerable households don't receive any support from the government. Many households that previously received Samurdhi payments have been excluded from the new list under Aswesuma.

In response to the large number of people who did not get selected for Aswesuma, the government implemented an appeals and objections process to allow individuals to appeal their exclusion from the programme at their respective Divisional Secretariats (DS). At a very basic level we have seen an information gap in the appeals and objections process at the household level. Many were not aware of the deadline for filing an appeal, or where they should go to in order to file an appeal. In addition to the gap in information, there is also the time spent on the appeals process (travelling to the DS, time spent waiting in line etc.) for a payment that they may or may not be deemed eligible for, following evaluation, has made the entire process a tedious one, resulting in some households not appealing the existing list. It was reported that 1,024,059 appeals and 124,495 objections related to the programme have been received by the Welfare Benefits Board (WBB) in August 2023. In addition, 84,374 families who have been selected to receive benefits under the programme, have appealed to be placed under a higher benefit category (Samaraweera 2023).

A recent report published by Human Rights Watch takes a look at Jordan's Unified Cash Transfer Program (formerly Takaful), financed by the World Bank (Human Rights Watch 2023).

A major criticism of the Program is that it uses an algorithm to rank families based on their economic vulnerability, which helps identify families that require cash transfers. The use of poverty targeting as opposed to universal social protection, particularly in the context of rising levels of poverty in Jordan deprived many families of their right to social security. The Human Rights Watch Report criticises the Program on the basis that the formula (used to identify eligible families) flattens the economic complexity of people's lives into a crude ranking that pits one household against another, fuelling social tension and perceptions of unfairness. Furthermore, the report 'found that asset-based profiling can force some people into an unacceptable tradeoff between their right to social security and the assets they need to exercise other economic and social rights, such as their rights to a decent living, health, and food'.

The use of a series of eligibility criteria including electricity usage, ownership of a vehicle or house, usage of gas cylinder for cooking etc. under Aswesuma too, fails to take into account the economic complexity of people's lives and deprives them of their right to social security. This type of targeting fails to consider the everyday struggle to make ends meet, and the social tension that exclusion from Aswesuma precipitates. Some of the households we interviewed mentioned that households that have been deemed eligible for Aswesuma are those that are favoured by politicians. This creates an unnecessary divide and an erosion of trust in communities. As we have previously recommended, Sri Lanka must move away from targeted social welfare schemes to systems that offer universal social protection, particularly in the context of crises. According to the UNDP report on multidimensional vulnerability of Sri Lankans, as many as 12.34 million people in Sri Lanka (55.7% of Sri Lankans) are multi-dimensionally vulnerable (United Nations Development Programme 2023), and yet only 2 million households have been selected as beneficiaries under Aswesuma.

Particularly in the context of growing household debt that is taken on to meet basic expenses such as electricity bills, education expenses, food and medicine, cash transfers offer some degree of stability in the form of a regular monthly payment that can be relied on. This is particularly important for the urban poor, whose informal livelihoods result in fluctuating and uncertain incomes, and are without benefits such as sick leave or pensions. However unless the monthly cash transfer amount is substantial, it would be meaningless.

Those with Chronic Kidney Disease have been allocated LKR 5000 a month, when dialysis costs per session can range from LKR 20,000 - 25,000 - and many have been relying on private healthcare given the crippled status of the country's healthcare system. Furthermore, pregnant and lactating mothers have not been identified as a specific group in need of assistance under Aswesuma. Moreover, there is an attempt to limit maternal social protection interventions such as provision of Thriposha along with vouchers for nutritious food, which were previously universally available to all mothers registered under the Ministry of Health. Emergency Nutrition Plan 2022-2024 has proposed to target supply of Thriposha to the most needed, and in addition, proposes to limit the provision of food vouchers to pregnant women in families whose monthly income is less than LKR 50,000 (Amnesty International 2023). These targeted interventions will result in pregnant women falling through the cracks of various social protection schemes, which will have long lasting health effects on the country's next generation of students and workers.

The Government of Sri Lanka must increase the fiscal allocation for social welfare. At present the World Bank in Sri Lanka and the WBB maintain that the choice is between expanding the safety net and transferring people a smaller amount of money versus selecting the most vulnerable and transferring them a larger amount of money. However, this larger amount of money is rather paltry at LKR 2500, 5000 and 8500 across three categories, except for the 'Severely Poor' category that has been allocated LKR 15,000 a month for three years.

Furthermore, we have not seen any reduction in spending on Defense, or on State events and functions, and the Government continues the practice of the creation of grandiose new development masterplans; therefore the reason for a lack of fiscal space for increasing beneficiaries for social welfare is unacceptable. In the 2023 budget, the Government allocated LKR 539 billion for defense and public security (Hamza 2022) while household cash transfers and food relief (which includes all the key social welfare programs such as Samurdhi, allowances for elders, disabled, kidney disease, school meal programs and nutrition programs for mothers and children) was allocated LKR 187 billion (Ministry of Finance 2023). Sri Lanka continues to remain one of the countries in the region that spends the least of its GDP on social welfare.

Recommendations

Universal social protection must be a very important consideration for working class communities and the informal sector in Colombo. Discourse and policy surrounding social security must take into account the lived realities of the working class poor, and ensure that it actually offers tangible support that will better their quality of life. If not, the impact of this crisis will be generational and people will have lost the decades of investment and hard work they have put in towards creating a better and comfortable life for themselves.

We reiterate that there needs to be a more holistic approach to assessing and understanding the impact of the crisis, particularly on working class poor and lower middle class families. The end goal of Sri Lanka's recovery process must not be to recover to a point where people can make ends meet,

but one where the recovery is just and equitable, and people experience a better quality of life within this lifetime. While the current economic crisis is nowhere close to being over, other crises such as the implications of heat and unpredictable weather patterns due to climate change are already affecting how people in cities work and live.

Therefore the consideration of universal social protection is an important one as people can be vulnerable through various periods in their life and in different ways - whether it is through personal health, livelihood or impact of a family member, or external like an economic crisis or pandemic. Furthermore, as we see in Colombo and have highlighted through this policy brief, poverty and vulnerability in the city presents differently and in diverse ways, and targeted welfare will not reach those who are technically not poor but are far from enjoying a decent quality of life.

While we reiterate that all recommendations in our April 2023 policy brief remain valid to date, the following interventions would substantially ease some of the burden at a household level for working class poor families.

1. Cancel or restructure defaults on utility bills. Many urban working class poor communities are struggling to pay utility bills and other debt that have accumulated since the first COVID-19 lockdown in March 2020. These arrears are of such high rates for some families that they will never be able to pay off that debt to the utility companies and the Urban Development Authority. This places an extraordinary burden on households already struggling to make ends meet, not to mention the effect on people's mental health. We recommend analysing the various debt to the State across the various settlements in Colombo and moving towards cancelling the arrears or findings other ways of making those payments - for example a long term repayment plan for amounts accumulated so far.

2. Addressing nutrition, not hunger. Calculating food expenditure must show an appreciation for dietary diversity, cultural practices of cooking, as well the varied nutritional needs and demands of households. Households must be guaranteed a certain amount of rice, pulses, vegetables, fruit, milk, eggs every week for at least one year and this would enable them to meet nutrition requirements irrespective of inflation, as well as freeing up income that can be put towards other expenses. Nutrition levels in children can also be targeted through school meal programmes at every school. While this would ease the burden on the families who have to send food for their children everyday to school, it would also provide a daily access to nutrition the children may otherwise not receive. Furthermore, our research shows that students who receive a daily meal through their school are more likely to be regularly sent to school than those who do not receive a meal at school.

3. Free public transport for school children. With the increase in fuel prices and the effect it has on modes of transportation such as three-wheels and private school van costs, many families have switched to public transport over the past year. However with the increase in bus fares even this cost is not one that is borne easily and there are those who do not have enough bus fare on some days to send their children to school. We recommend free public transportation for school going children or dedicated school transportation that is free of charge in order to ensure children go to school regularly.

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FALLING THROUGH THE CRACKS

By Colombo Urban Lab
18th June 2024
Excerpt from Policy Brief published on the Centre for a Smart Future website

Colombo Urban Lab’s fourth policy brief on the impact of Sri Lanka’s economic crisis on the city’s working class poor communities focusses on energy, education and health. These findings are from our ongoing qualitative research with communities in Colombo as well as a household survey conducted in April 2024 with thirty households in a settlement in North Colombo.

Looking back at the two years of analysing the impact of the economic crisis on these families who had not yet recovered from the pandemic period, it is disheartening to see a continuation of lack of commitment from not just the government and state officials but also of development agencies to address the long term impacts of the inadequate actions taken since 2022 to support Sri Lankans affected by the crisis. From Aswesuma to school meal programmes, policy efforts have prioritised piecemeal initiatives to bridge urgent social protection gaps. There is a failure to understand how the messiness of the lived realities of households has intersected with the broader impacts of the crisis. Aswesuma has not had a transformational impact as promised, as targeted social security never could; however, it has been the face of social protection efforts with little else rolled out in parallel.

Two years ago, there was greater scrutiny on the situation in Sri Lanka and the impacts on families. Since then, media attention has waned and the increased cost of living, higher utility bills and the burden of income taxes and VAT has also constrained the ability of higher income groups to provide assistance.

Daily wage workers and those engaged in self employed livelihoods (like tailoring or welding work) in communities we work with say that volume of work and days of work have reduced over the past year as customers and employers do not have the same income as they did previously. Those who say that their income has not changed in the last few years do note that their expenses have significantly increased so the income mismatch makes it harder to make ends meet. Even while analysing our findings regularly, we acknowledge that our insights are not new, as we continue to caution that the situation in working class poor households continue to be precarious with generational impact and undoing decades of development gains.

While most issues cut across nutrition, livelihood, health, education in households, the severity and ability to cope differ based on a host of variables ranging from gender, time of month, regularity of income, accumulated debt or borrowings, whether or not there are school going children in the household or whether someone has diabetes. Two selected case studies below illustrate the complexity of household precarity and caution against assuming one or two interventions would lead to transformational impact. It is in understanding this that we continue to advocate for universal social protection in Sri Lanka, and moving away from targeted schemes.

Energy poverty continues to increase

Despite a reduction in electricity tariffs in March 2024 (Public Utilities Commission of Sri Lanka 2024), utility bills continue to eat away at household incomes. For two thirds of surveyed households, utility bills were the main monthly expense, and for a third electricity bills alone were reported the highest expense. This remains the same in other settlements we work as well. This is a significant change from previous years, where

households consistently reported that food was their main expense. In 2019, households spent an average of 5% of their income on electricity, but as of 2024 this had increased to 10%. On average, the monthly bill in surveyed households was LKR 6261.

This is significant because spending 10% of income on energy is considered the threshold of energy poverty. When considering how much households are spending on cooking fuel as well as electricity, their total expenditure on energy is likely to be even higher. Urban working class households consume more electricity (Perera 2022a) as they may have larger families and often have more than one independent family residing in the same house and sharing an electricity meter. In addition, residencies may double as the site of livelihood generation, incurring a higher electricity bill. For example, one family reported an electricity bill of LKR 14,000 due to a tailoring business that required two sewing machines.

When looking at the differences in households receiving Aswesuma and those not (either due to not applying or not being selected despite applying) we see a higher proportion of the household budget of non-Aswesuma families going towards utility bills. Those receiving the cash transfer state they put it towards their monthly electricity bills.

Adopting maladaptive coping strategies

All households reported limiting electricity consumption to reduce their bill, giving up rice cookers and refrigerators and curtailing the use of fans and lights. These coping mechanisms revealed constant adjustments, sacrifices and trade-offs to minimise electricity consumption (Perera 2022b).

‘Since we live close to the canal the wind blows through in the morning, so I switch off the fan at that time’

‘The TV broke recently and I decided not to fix it because of the bill’

‘We switched from the ceiling fan to the table fan because it uses less electricity’

Not everyone is able to make these adjustments. For example, one family had to purchase a fridge to store insulin because a family member had diabetes.

Many of those who had borrowed money the previous month had done so to pay their electricity bill arrears, borrowing amounts ranging from LKR 10,000-30,000. These are borrowed from the informal credit market on high interest ranging from 10% - 15%, even for an amount as low as LKR 5000. Interestingly, when asked how they would allocate a cash transfer received as government welfare, most respondents said they would use it to pay their electricity bills. This indicates that welfare payments will not have a transformative effect on households as they are immediately diverted to meet monthly utility payments. Electricity is a public good that is essential for health, education, safety and affording the minimum quality of life. As such, households will prioritise staying connected at great expense, including incurring debt, pawning jewellery and diverting from other important expenses.

Education loss continues

A majority of the households surveyed had family members between the ages of 3 and 21. Households’ list children’s expenses (education, tuition or otherwise) as a main expense in their household expenditure. The imposition of an 18% value added tax (VAT), which raised the price of school supplies (Abeywickrema 2024), made it difficult for families already struggling to educate their children. Some households

mentioned that they have had to borrow money for their children’s education. One household mentioned that they had to borrow LKR 8000 from a money lender, at an interest rate of 15%, to buy school books for their children as well as to pay school-related fees. Another household mentioned that they had to borrow money to admit their children to school. Many households spend more than LKR 5000 a month on transportation to and from school, with some who use private transport for schooling spending between LKR 8000 - 10,000.

COVID-19 and the economic crisis has resulted in an increase in the number of school dropouts. While in Sri Lanka, a student is officially considered a school dropout if they miss two months of school consecutively, this data may not be very useful and may obscure the reality, which may be that many students don’t attend school regularly (Alphonsus and Fernando 2024). Our ongoing work shows that while most children attend school regularly, there are several households where children miss school at least one week per month due to various reasons ranging from unaffordability of transport or stationary, inability to send a nutritious meal to school, and other income related reasons.

On nutrition and health

Food plates that shrunk to a bare minimum with almost little to no intake of fresh fruit or regular proteins (as they did pre-COVID19) continues. Our research with the Institute of Development Studies, U.K since 2020 that has looked at the infrastructure - nutrition nexus (Institute of Development Studies 2024) as well as more recent research that focussed only on the access to fresh fruit and vegetables in low income communities (Colombo Urban Lab and Institute of Development Studies 2023) saw that competing expenses at the household level - for utility bills, education and health - has resulted in families compromising on quantity, quality and diversity of meals, even while having good awareness on nutrition.

Meagre food plates are not a result of lack of nutritional awareness, but of other pressing needs that force families to prioritise hunger over nutrition. In the survey conducted in April 2024, all households cooked only once a day or combined the cooking of two meals (when previously the majority would cook all three meals regularly), and said that price is the key consideration when deciding what to cook. Households that shared that they cook only once a day, have tea for breakfast or a bun from a shop instead of a meal.

In almost all the households Colombo Urban Lab has worked with since 2020, none of the school going children received a mid day meal from their school. Instead they had to take a nutritious meal to school from home, and school regulations state that buns and biscuits are not allowed - which means that families have to send rice and curry or pulses for example - and this is yet another reason for school absenteeism. Even with the introduction of the school meals for all programme in March of this year (Newswire 2024), there does not appear to be a systematic meal programme in place in Colombo in either the national or private schools among communities we work with in North Colombo.

Non-communicable diseases account for 80% of deaths in Sri Lanka (Ada Derana 2024a). In recent years, there has been a rise in non-communicable diseases across Sri Lanka (Fernandopulle 2024). In May of this year, the Ministry of Health reported that the number of patients with high blood pressure reported in Sri Lanka, has increased (Ada Derana 2024b). In the majority of the households we have worked with in the last few years, at least one individual had a non-communicable disease like diabetes or cholesterol. One of the recommendations provided by the Consultant Community

Physician of the Ministry of Health (Directorate of Non-Communicable Diseases) to reduce high blood pressure is to increase physical activities to reduce mental stress. Apart from the context of high costs of living and struggles to make ends meet, there is a shortage of recreational spaces (Colombo Settlements Survey 2023 revealed that only 4% of settlements in Colombo have access to green spaces/ recreational spaces within the settlement (Colombo Urban Lab 2024)). Managing mental stress as recommended is therefore easier said than done. Our findings also reveal that despite the number of households with non- communicable diseases, only a handful regularly visit clinics or interact with healthcare professionals.

Households also continue to use a combination of government medication, treatment and tests (usually free or for a small fee) and private medication, treatment and tests (comparatively more expensive) due to a shortage or unavailability of medicines as well as high prices. One respondent stated that due to high prices of arthritis medication which he has to purchase on his own, there are days where he forgoes the medication.

Recommendations

We continue to advocate for universal social protection as a vital consideration for working class communities and the informal sector in Colombo. Discourse and policy surrounding social security must take into account the lived realities of the working class poor, and ensure that it actually offers tangible support that will better their quality of life. If not, the impact of this crisis will be generational and people will have lost the decades of investment and hard work they have put in towards creating a better life for themselves.

We reiterate that there needs to be a more holistic approach to assessing and understanding the impact of the crisis, particularly on working class poor and lower middle class families. The end goal of Sri Lanka's recovery process must not be to recover to a point where people can make ends meet, but one where the recovery is just and equitable, and people experience a better quality of life within this lifetime. While the current economic crisis is nowhere close to being over, other crises such as heat and unpredictable weather patterns due to climate change are already affecting how people in cities work and live.

Therefore the consideration of universal social protection is an important one as people can be vulnerable through various periods in their life and in different ways - whether it is through personal health, livelihood or impact of a family member, or external like an economic crisis or pandemic. Furthermore, as we see in Colombo and have highlighted through this policy brief, poverty and vulnerability in the city presents differently and in diverse ways, and targeted welfare will not reach those who are technically not poor but are far from enjoying a decent quality of life.

Towards energy justice

Ensure that public consultation processes on tariff increases feature a cross-section of Sri Lankan households and are gender sensitive.

Place working class poor households in urban settlements eg. tenement gardens, Samurdhi and Aswesuma beneficiaries, UDA high-rises and estates into a different domestic consumer category with a lower tariff rate.

Adopt a transparent disconnection policy that outlines clear thresholds, timelines and exemptions for disconnection for non-payment of electricity bills for all categories of consumers including state and religious organisations.

Moratorium on disconnecting electricity for vulnerable households including those with dependents, patients of chronic diseases eg. diabetes, and single parent families.
Provide mechanisms for working class poor households to apply for forgiveness of arrears and mechanisms to restructure payments of arrears in sustainable increments.

Conduct a public awareness campaign educating consumers on tariff calculation and realistic energy saving techniques that do not impede quality of life.

Towards better health and education

Address nutrition, not hunger. Calculating food expenditure must show an appreciation for dietary diversity, cultural practices of cooking, as well the varied nutritional needs and demands of households. Households must be guaranteed a certain amount of rice, pulses, vegetables, fruit, milk, eggs every week and this would enable them to meet nutrition requirements, as well as freeing up income that can be put towards other expenses.

Nutrition levels in children can also be targeted through school meal programmes at every school. While this would ease the burden on the families who have to send food for their children everyday to school, it would also provide a daily access to nutrition the children may otherwise not receive. Furthermore, our research shows that students who receive a daily meal through their school are more likely to be regularly sent to school than those who do not receive a meal at school.

We recommend free public transportation for school going children or dedicated school transportation that is free of charge in order to ensure children go to school regularly.

Multi-dimensional approach to addressing non-communicable diseases

Health campaigns that focus on improved awareness and early detection of non-communicable diseases such as diabetes, cholesterol, Chronic Kidney Disease of Unknown aetiology (CKDu) that are highly prevalent in working class communities in Colombo, which could prioritise food-based interventions to reduce severity.

Health literature to reflect the importance of periodic health check ups and testing for NCDs.

Increased focus on providing health-based interventions such as mobile clinics and testing centres at a community level to make it more accessible for communities that may not have the means to travel to government clinics.

Ensure adequate supply of medications for NCDs at clinics, so that working class poor families don't have to spend at pharmacies for medicine that is essential but not available for free at government clinics.

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ENERGY JUSTICE, GENDERED BURDENS, AND SOCIAL PROTECTION

DEBT OR DISCONNECTION: PRIORITISING ENERGY JUSTICE IN ECONOMIC RECOVERY

By Meghal Perera and Shanil Samarakoon

14th August 2022

Article published on the Centre for a Smart Future website and The Morning newspaper

In Part One of this article (Perera 2022) we considered the proposed electricity tariff revision from the perspective of the urban poor in Colombo, arguing that the revisions failed to account for ground realities faced by domestic consumers, both in terms of understanding the financial pressures of the economic crisis as well as how electricity usage has changed in response. In light of the approved tariff increase that averages at 75% in all categories, we take a closer look at low-consumer tariffs, and offer recommendations that uphold principles of energy justice.

Need for transparency and public awareness around tariff revisions

While PUCSL insists that low-consumers enjoy a subsidised rate, PUCSL Chairman Janaka Ratnayake also stated that they were "looking at how we can generate some revenue from high income earners to subsidise the low income earners". If a new mechanism to aid low-income households is proposed, it is vital that its details are communicated to consumers. Furthermore, PUCSL must demonstrate how the current subsidy scheme will benefit low-income earners in all consumer categories, recognizing that low-income earners are not a homogenous group.

In keeping with the distributive principles of energy justice, we argue for a rigorous socio-economic modelling of the impacts

of tariff hikes on domestic consumers. Tariff changes should be informed by an in-depth understanding of how different customer types/groups consume energy, rather than just blanket raises. This speaks to the importance of recognising the interests of consumers, and their inclusion in decision making processes, as forms of energy justice. Thus, public consultations featuring a diverse cross-section of households should include direct input from households and communities. It is also imperative that the gendered nature of energy use is recognised.

While PUCSL has relied on the media to communicate tariff raises to the public, what that means for a monthly bill may be lost in the sea of figures, rates, unit costs, fixed costs and tariff brackets. A news update that leads with '75% increase in electricity tariff' does not help households truly understand what the change will mean to their monthly bill. We recommend that tariff revisions should be accompanied by public awareness campaigns that break-down revisions and are supplemented with information that the public needs to make decisions about energy use.

Pitfalls of using electricity consumption as a proxy for vulnerability

With the approval of the PUCSL, the CEB has raised electricity tariffs for the first time in nine years. Those who consume under 30 units a month will see the greatest increase in rates of 264%, while those who consume between 30-60 units face a 211% increase. Fixed monthly charges have increased for all domestic tariff brackets and those who consume over 180 units will see their fixed charges jump from Rs.540 to Rs.1500. While low-consumers face the highest increases, PUCSL insists that they receive a subsidised rate. Even an earlier iteration of the tariff revision presented a 'SafetyNet' mechanism supposedly for low-income groups aimed at those who consume under

60 units per month. This hinges on a problematic assumption made by the PUCSL – the conflation of low-income with low levels of consumption. This has the effect of placing all low-income earners into this category of electricity consumption, which does not necessarily align with the real experiences of these households.

The logic of electricity consumption as a proxy for vulnerability also informs a proposal by Verite Research Sri Lanka Economic Policy Group (SLEPG), to use electricity consumption to determine eligibility for welfare. The recommended threshold of 60kwh a month would reach 50% of the population, expanding those eligible for welfare well beyond the limited scope of Samurdhi. However, it fails to account for the electricity consumption patterns of the urban poor, particularly in the context of the economic crisis. The SLEPG brief is based on Household Income and Expenditure Survey data from 2016, and it identifies those with a monthly expenditure of Rs.565.30 or less as consuming 60kWh or less of electricity.

In 2013, one study found that the average electricity bill for low-income urban communities was 956 rupees or 8% of total expenditure. Nine years later, it is a given that this figure is much higher for urban households. During fieldwork conducted in two low-income communities in Colombo in the last eight months, we observed that households' electricity consumption invariably exceeded 60kWh, with the lowest bill averaging at Rs.800. Even a household consisting of a mother and an adult daughter reported consuming 86 units resulting in a bill of Rs.1255.10, while a family of five racked up a bill of Rs.5008.50< or 201 units. These households received at least one cash transfer of Rs.5000 as a part of the government's COVID-19 relief scheme, despite none of them being Samurdhi recipients. It is uncertain why such households should be excluded from a welfare scheme, particularly when the SLEPG

brief acknowledges that social protection should be widened to include "a significant segment of the "middle class" that has been disproportionately affected by the pandemic as well as the current economic crisis. The assumption that electricity use can communicate information about a distinct family unit is problematic. The cost of installing a new metered connection is Rs.20,000, which when coupled with the burden and costs of bureaucracy and obtaining documentation, is a significant barrier to getting a separate meter. Often multiple households share an electricity connection, particularly when grown children have received a divided property. In such instances, limiting consumption is impossible, and installing another electricity meter is burdensome and expensive. Using electricity consumption as criteria for welfare access, also lays the groundwork for moralising about the lifestyles of the working-class poor and policing what is considered to be 'wasteful or unproductive' usage. Welfare should not be contingent on a household's frugality, particularly when an economic crisis has completely transformed electricity use. As highlighted in our previous article, COVID-19 lockdowns and the economic crisis have seen significant shifts in electricity consumption in urban poor households – with more reliance on electrical appliances for cooking, more household members being home and so on. If there is an insistence on allocating subsidies on the basis of low consumption, then it is necessary to investigate what levels of electricity consumption can guarantee an acceptable standard of living. One significant recommendation calls for a policy declaration on what constitutes basic electricity requirements in the household for example lighting, fan, refrigerator, iron etc and an accompanying technical and social survey to establish how much electricity is required to satisfy this basic entitlement.

Structural reforms and accountability

Citizens who rely on this essential public service are being asked to shoulder the brunt of the CEB's burgeoning operational costs without receiving any meaningful commitment to efficiency, transparency and accountability in exchange. Despite burdens that would be imposed by the hike, there is no evidence of accompanying structural reforms to the CEB's operations in response to the current crisis. Indeed, the proposed tariff increases are even more galling for citizens when one considers that the CEB is failing to comply with key requirements of the Sri Lanka Electricity Act 2009. This includes a lack of independent auditing to gauge the true efficiency of the CEB, a lack of financial separation between CEB-owned licensees, and a failure to establish a "Bulk Supply Transactions Account" to better administer subsidy requirements e.g. for low-income users. These were "key conditions" for a previous tariff revision approved by PUCSL in 2013 and remain unaddressed to date. Therefore, there are critical questions of justice that may be raised about the precedent that PUCSL could set by conditionally approving a tariff revision yet again, and whether they have the means to hold the CEB to account.

Finally, tariff revisions cannot be viewed in isolation. Cost-reflective tariffs aligned with IMF recommendations have included a call for "energy pricing reforms to reduce fiscal risks from loss making public enterprises". Tariffs can sway public opinion about reforming the CEB but also about the future of public enterprises. Privatisation has been touted as the cure for 'under-performing' enterprises such as the CEB, but even proponents of electricity privatisation acknowledge that it fails in contexts of recession and weak governance. Justifications of cost-reflective tariffs rely on the same logic that assumes public institutions must be profitable, rather than guarantee essential services for people. At this crucial

juncture, it is vital to recognise that electricity is a public good. Treating it as such has ensured that almost 99% of citizens in Sri Lanka have access to electricity and the quality of life it provides.

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CHASING EFFICIENCY WHILE LEAVING THE VULNERABLE TO THEIR OWN DEVICES

By Channaka Jayasinghe
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Article published on the Centre for a Smart Future website

According to the Central Bank's annual report of 2021, The National Water Supply and Drainage Board (NWSDB) recorded an operating loss of Rs. 3.1 billion during the year 2021 (CBSL 2021). The report compares it to the loss of Rs. 370.5 million recorded during the previous year, making it an 8 fold increase over the span of a year (CBSL 2021).

The poor financial position of the NWSDB has been an ongoing issue at least since 2012 (Fan 2015). The underlying causes of this include accumulated net losses from practices such as poor asset management and tariff setting, consumption rates which are lower than design projections and losses as non-revenue water (NRW) (Fan 2016). Wickramasinghe, (Wickramasinghe 2018) describes Non-Revenue Water (NRW) as "the gap between the volume of water supplied through a system and the volume of water which is billed as authorized consumption" (NWSDB 2017. The main causes of NRW are Physical water losses (leakages, wastage), Commercial losses and Unbilled authorized consumption (Malithi 2016). The NRW estimates for Colombo are quite high, although it is in a downward trajectory. In the years 2005, 2011 and 2016, the estimated NRW was respectively 54%, 49.97% and 46%. ADB, (ADB 2016) notes that physical losses from leaky old pipes is the main contributor to NRW.

The NWSDB has been submitting proposals since 2012 to increase water tariffs, and except in 2016, these requests have not been considered (De Silva and Perera 2022). However, on the 1st of September 2022, while the country is going through a financial crisis, the NWSDB revised its tariffs (NWSDB 2022). It is unsurprising that this would be an attractive choice to make from an economic efficiency point of view. As part of a broader set of strategies, tariff setting is a way to make the supply of water part of Demand Responsive Approaches (DRAs) which are commonly understood as measures one could take to "reduce water demand without compromising water related services" (McGranahan 2002). However, it has been observed in Sri Lanka, that DRA approaches which are biased towards cost recovery, exclude poorer sections of society due to the inadequate flexibility of offered solutions that fail to acknowledge constraints such as inconsistencies in income (Ariyabandu & Aheeyar, 2004). Therefore, economic efficiency related arguments cannot be presented as being politically neutral. Impacts from such policy decisions have real consequences on people's abilities to meet their material needs. Therefore, sites where people struggle to work within the system, are important to be constantly aware of when implementing DRA approaches.

Multi-storey housing complexes built by the currently ongoing Urban Regeneration Programme and the previously concluded Sustainable Township Programme are such sites where people who were previously living in working class poor settlements were relocated to. Economic efficiency related arguments are at the heart of these relocation projects as well, for they served the purpose of liberating the lands on which tenement gardens existed on in order to make them available for commercial and mixed-use developments. The people are in turn expected to make payments to the Urban Development Authority towards ownership of their apartments. Here, the economic efficiency related approach taken towards developing the City of Colombo, entangles with the economic efficiency related arguments of governing water infrastructure, for according to the residents living in Sirisara Uyana and Methsara Uyana (located in Borella, Colombo 8),

delays in payments to the UDA are met with threats of being disconnected from the building's water supply. Being located among housing units spread across 12 storeys, there are very few easily accessible alternative sources of water, if people find themselves disconnected from the water grid.

In Seevalipura, located in Wanathamulla which is Colombo's oldest Tenement Garden, many households have water connections. Users are at least partly incentivised to obtain household water connections because water bills can be used as acceptable proof of residence when applying for a bank loan and/or when enrolling children into schools. Furthermore, Seevalipura also has several public wells. Sometimes people supplement the water from their household water connection with that collected from public wells. One resident whose household cannot afford a water connection, consistently relied on their neighbour's water connections to supply their drinking water needs, while using the public wells for other needs. The responsibility of maintaining these wells are not formally borne by any public institution. Instead, the residents maintain them, except when they require major repairs. In such situations people request assistance from the municipal authorities who will make the necessary arrangements.

Although struggles to pay the bills exist in Seevalipura as well, there are more options to access water, and somewhat more space for people to innovate solutions for themselves as well. One such solution is the case of a communally managed water connection which has been connected to a publicly accessible toilet. This water connection is about 10 years old (though the toilet itself is far older) and served 34 households of which 30 were occupying state lands. However, since 2021, the state has begun evicting these 30 households from this land. Since the location is publicly accessible, some people use water from this connection without paying into the pool, however, if this behaviour is consistently observed they would be requested to pay a nominal fee. As the paying members grew smaller and the costs keep rising, at least two members have applied to get household water connections, citing that the benefits outweigh the costs. However, with the rising costs of living (including the water tariffs), the pool of paying users has increased and lengthened the lifespan of this collective project.

Upon consulting an engineer from the NWSDB about such forms of infrastructure, it does appear as if such requests are considered on a case-by-case basis after a field team is deployed. The NWSDB's interest in facilitating access to infrastructure was noted by a user when they described how they wrote to the NWSDB at the beginning of 2022 when this connection was disconnected as part of a process of upgrading the pipes. Following which a few officers from the NWSDB visited the premises and assessed the need, and restored the connection in July, 2022.

The cost recovery imperative at the core of DRAs seems hard to fault when thinking about it in the abstract. The revenue collected from tariffs collected by an institution provisioning public infrastructure should be sufficient to cover the cost of water sold, operations and maintenance, debt services, capital or interest payments of expansion projects, while also generating a reasonable surplus.

However, the policies taken to meet this end need to acknowledge that broad approaches with sweeping underlying assumptions about capacities to access infrastructure tend to be based on hypothetical people who are similar to one another differing only by "level of income". It must be noted that the current tariff structure does offer a special rate for Samurdhi beneficiaries. However, the limitations of the Samurdhi scheme to target those who need assistance the most is a matter that needs to be considered seriously if this

dedicated tariff band is considered to be an effective fix. Interventions to support people and communities who lack access to infrastructure need to consider solutions that stem from the question "what do their (collective or individual) capacities allow" rather than "what should they do". When comparing the urban environment within high-rise apartments and tenement gardens such as Seevalipura, it is apparent that the urban environment people live in and their relationships with structures of power such as state institutions also have a bearing on their capacities to access infrastructure.

Therefore, solving issues related to people's capacities to access infrastructure requires a more grounded approach which is sensitive to understanding the variety of contexts in which people live, and not only counting and accounting revenue generated, costs incurred, and average monthly incomes.

This is not an unreasonable suggestion for state institutions, for according to literature pertaining to the in situ upgrade programmes such as the Million Houses Programme conducted in the 80s written by Lankatilleke, (Lankatilleke 1985) and Simon, (Simon 1985), practices of state institutions have in the past entangled with the field at a deeper level, in order to understand specific needs and their contexts.

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THE GENDERED BURDEN OF CARE IN SRI LANKA'S POLYCRISIS

By Iromi Perera
18th March 2024
Article published on the Institute of Development Studies website

For women in working-class poor settlements in Colombo, since Covid-19, it seems that crises have kept on coming with no respite. At the height of Sri Lanka's economic crisis in 2022 when food inflation reached 90% (Adu 2022) the shocks were far from over. Electricity tariff rates were revised and increased (Reuters 2023a) by 75%, followed by an increase of 65% on top of that hike in early 2023.

The economic and health indicators (Reuters 2023b) for Sri Lanka are currently at unprecedented and alarming rates. Decades of investment in health and education have been undone. There is no meaningful attempt by the Government of Sri Lanka to address the ability for families to be cared for, and for their basic needs to be met (The Feminist Collective 2023).

From our research (as part of the FRESH (Institute of Development Studies 2024a) and LOGIC (Institute of Development Studies 2024b) collaborations with IDS), we can see that many in the middle classes – who have also felt the economic crisis – have seemingly found it hard to understand just how increasing debt and the daily struggle to eat, to work, to send children to school, to attend to health needs, has impacted the urban working classes, and how it has fallen hardest on the shoulders of women.

Women handle much of the day-to-day care not just of their households but also of the physical infrastructures – such as the work they do towards maintenance and repair of the grid (Mitra, Peddibhotla and Vrashali 2023), or of their food environment and so much more.

In Colombo we've seen that urban infrastructures of care (Binet et al. 2022) – specific aspects of the urban environment that support or impede a care giver's work – have been either absent or inadequate to support carers, leading them to work harder or experience significant loss along the way to fulfil their care work. How do we care for the carer? How do our cities adapt and build our infrastructures to enable caring to happen in a meaningful way, without overburdening the carer?

Cooking through crisis

One way to understand the impact of Sri Lanka's crisis on urban working-class poor people is to look at the household eating habits. When we look at what people are eating, it is not enough to look at prices of food or food inflation but we need to also look at competing expenses, grid infrastructure connections such as energy, water and electricity and affordability, taxes such as value added taxes and so on. By looking at the intersection of these variables and policies, rather than in isolation we can understand the food plate and the gendered burden of crises.

While Colombo was food insecure even before Covid-19 (Food and Agriculture Organisation, CGIAR, International Water Management Institute and the RUAF Foundation 2018) due to high non food expenses like utilities and transport, working class families were still able to eat three meals a day and maintain a diverse food plate. Through Covid-19 lockdown and the ongoing economic crisis families have significantly changed their food plate – eating fewer vegetables, proteins, and fruits daily, cutting down on quantities and even number

of meals. In households with children, parents (especially mothers) are more likely to sacrifice their own nutrition for their children.

Through 2021 – 2023 we saw households stacking energy in a way they had never had to before (Perera 2022a)– using more than one cooking fuel at one time and switching between energies to cook, when previously they all used only gas cylinders as cooking fuel. Women were navigating spatial limitations as well as the availability and affordability of cooking energy such as gas, kerosene, electric, wood fire and even homemade solutions using material such as coconut shells. Stacking in this way requires planning and time, and has a different impact on what is cooked as women would then prioritise food that cooked faster, could be eaten by itself or a fewer number of dishes.

When the electricity tariffs were increased, it further curtailed the ability to stack by removing time-saving electrical appliances like rice cookers (which were by then being used to cook curries as well) for the fear of increased bills.

Households even disconnected refrigerators and washing machines (Perera 2022b) – further adding to the time poverty of women who then had to adjust for this by waking up earlier, or adjusting what they were cooking in order to gain some time. Cuts in social protection over the years have resulted in no school meal programmes in most Colombo schools. Children are required to come to school with a nutritious meal. This has placed an additional burden on mothers to provide this meal, with children not being sent to school on the days when a meal cannot be prepared.

Local policymakers and advisors claim that low-income communities do not know or care about nutrition and that they favour quick and easy meals. Our primary qualitative research shows that families have a good understanding of nutritious diets but have very pressing decisions to make on a day-to-day basis where they juggle not only food costs but also time, cost of cooking fuels, ability to afford electricity and water, education expenses, transport, health, debt and many other things.

Accounting for a constellation of shocks

While the health and nutrition indicators in Sri Lanka today gives some sense of the dire crisis in households, less is understood about the impact that these constellation of policies, lack of social protection and economic adjustments (Colombo Urban Lab 2023) – including IMF reforms – happening simultaneously, recurring, overlapping, continuously – have had on women and their ability to fulfil their care work. It is also vital to go beyond looking at the impact on time and health of carers, but also look at the right to leisure and to have access to spaces that allow some respite from the day, and that does not require being a parent to access these spaces (for example, accessing public space through playgrounds).

The built environment and its infrastructures and design can add to the burden of care work (Perera 2023) or enable socialising. It needs to be considered as seriously as nutrition or health when thinking about urban infrastructures of care (Nisbett 2023). When policymaking or the discourse on care is holistic, we can better see what is needed for people to be able to access support that would enable them to look after their families and communities, and more importantly, themselves. What we've seen in Colombo (Centre for a Smart Future 2023) is that our infrastructures, policies and even the responses to the crisis are hugely inadequate to support families in time of need. To address pressing issues across health and development indicators, it is vital to look at the

different ways in which households, particularly caregivers, are impacted in order to work towards a just recovery from crisis.

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DEBT OR DISCONNECTION: CEB'S TARIFF HIKES AND THE URBAN POOR

By Meghal Perera
August 7, 2022
Article published in The Morning newspaper and the Centre for a Smart Future website

Sometime in November 2021, Swarna stopped using her gas cylinder for cooking. Anxiety over exploding gas cylinders prompted the shift, but with gas queues lengthening and prices rising, she bought a second electric rice cooker to feed her family of four. Her husband's salary remitted from the Middle East used to be sufficient, but now she is struggling with the rising cost of living.

From her accumulated electricity bill arrears of Rs. 90,000 during Covid-19 lockdowns, she managed to pay off half the amount, but the switch to electricity for cooking has sent her bills spiralling again. She often takes loans to purchase food, while using her husband's salary to pay utility bills and interest. Recently, she unplugged her fridge to minimise her energy consumption (Perera 2022).

The Ceylon Electricity Board (CEB) in July sought an increase in tariffs from the Public Utilities Commission of Sri Lanka (PUCSL) (Waravita 2022), proposing a regressive scheme of tariffs that will see the lowest consumers burdened with the highest increases in rates. The rationale for this revision is that the CEB (excluding LECO costs) requires an 82.4% increase in revenue to meet their forecasted costs for 2022.

The proposed raise is likely to increase energy poverty among a population that is already burdened by inflation with a Consumer Price Index (CPI) that is nearly at 60%. Domestic consumers who use fewer than 30 units of electricity per month will have their bills increase by 835% to Rs. 507.65 from the current Rs. 54.27 (Newsfirst.lk 2022).

Overall, it has been identified that 50% of domestic electricity consumers in Sri Lanka (Ada Derana 2022)– 3.14 million households who use fewer than 60 units a month – will face the greatest increase in electricity bills due to the proposed increase in tariffs.
We argue that the proposed tariff revision is unjust for several reasons, with a focus on the impact on urban poor households in Colombo – it fails to account for the ground realities faced by domestic consumers, is insensitive to the financial pressures exerted on households by the economic crisis, and lacks recognition of how electricity usage was reconfigured due to the crisis.

Urban households spend a greater proportion of their monthly expenditure on non-food items (Perera 2022), including electricity bills. They tend to have higher electricity bills and more electrical appliances (UN Habitat, Centre for Policy Alternatives and SEVANATHA 2013). Discussions about tariff hikes need to account for differences within urban populations, including the diverse experiences and heterogeneous nature of low-income communities in Colombo. While these communities are designated as 'Underserved Settlements' (USS) (These figures are for July 2022) by the Urban Development Authority (UDA), the term erases a rich history of community mobilisation towards infrastructure development and upgrading (Siyambalapitiya 2018), including electrification. A majority access electricity through metered connections, with some studies suggesting the figure is as high as 85% (PUCSL 2013).

Electricity is essential for wellbeing and social mobility in urban contexts; high temperatures necessitate fans and livelihoods require mobile phones, fridges, washing machines,

rice cookers, and blenders, which save time and labour in households where incomes are uncertain and fluctuating. It is difficult to generalise when calculating how much a household spends on electricity. During our research this year with urban poor households in Colombo, we found that electricity bills ranged from Rs. 800 to as high as Rs. 17,000 per month.

Energy and nutrition nexus reshaped by economic crisis

The prevailing economic crisis is reshaping the use of electricity in households in important ways. For several months, securing an LPG cylinder became a time-consuming, unpredictable, and expensive endeavour, prompting many households to abandon their use altogether. Electricity became an important source of energy for cooking among urban households, particularly the urban poor, whose houses often lack the space and ventilation needed for wood stoves. For example, during the past eight months of researching infrastructure and food security in Colombo, we worked with Kamala (name changed), whose family of five lives in a UDA-run highrise in Wanathamulla. In March, they switched to cooking predominantly on the rice cooker, which led to their monthly electricity bill increasing from Rs. 1,400 to Rs. 3,000. Kamala and her mother now cook only once a day. Under the proposed tariff hikes, their bill will increase by roughly 70-80%, leading to a monthly bill of approximately Rs. 5,100-5,400. While other respondents reported that switching to wood stoves after electric rice cookers raised their bill, to those residing in UDA-run highrise flats, wood stoves will pose a serious fire hazard. In May, a fire broke out at a 10th floor apartment of the Sahaspura Housing Complex (IMF 2022), due to the use of a wood stove. Spiralling electricity costs may make incidents like this more common, as residences gamble on affordable cooking fuel.

Impact of Covid-19 lockdowns

The tariff hike is also blind to the cumulative effects of Covid-19 lockdowns on low-income communities as well as how the disruption of livelihoods has reshaped access to electricity. When daily wage earners in low-income communities were unable to work during lockdowns, coping strategies for the most part were directed at securing food. There were also more people at home during the day every day and new activities like online schooling meant an overall increase in electricity usage.

While the Government approved a six-month grace period for domestic consumers in isolated areas in January 2021, electricity arrears were not forgiven (Blagrave and Furceri 2021). Low-income households have accumulated massive arrears in electricity bills, some even as high as Rs. 70,000. To avoid disconnection after the grace period ended, households diverted funds from other expenses or in some instances took out loans to pay off a portion of the arrears. Any significant increase in tariffs is likely to result in more families being trapped in a cycle of debt and arrears, with the threat of disconnection looming over their heads every month. Families pawned jewellery and sold off assets like scooters or three-wheelers, televisions, etc. in order to have a cash injection at various points just to pay off at least minimum amounts across various utility bills and other expenses like tuition fees and purchasing mobile data for online schools or health-related expenses like monthly medicines.

In some UDA highrises, access to the grid is weaponised, with households which have not paid their electricity bills receiving notices that threaten to disconnect their water connection if bills are not paid. Electricity bills are generated by the CEB for each apartment, while the monthly apartment payment and the water bill are generated as one bill by the UDA.

Each apartment has its individual water metre next to its front door, therefore it is possible to cut off the connection easily in each flat. Over the years this was an effective way of making people pay, irrespective of which bill payment they had fallen behind on. Residents report having their water connection cut off over non-payment of electricity bills or monthly apartment payments, even though these are all separate services, but water disconnection is where people are hit the hardest and instantaneously.

It’s important to note that a host of strategies and cost-cutting measures have already been employed by low-income households seeking to navigate skyrocketing food inflation. The burden of implementing these measures usually falls on women, who must juggle the complex and varied needs of their families with an income that at best is stable, but more often shrinking. Energy-saving efforts have also already taken a toll on nutrition, with households cooking fewer curries or cooking fewer times a day to save energy. Fridges are unplugged because families want to save on electricity costs and clothes are washed by hand instead.

Women who already perform the majority of housework will bear the brunt of this planned price increase. The gendered impacts of energy poverty will constrain a generation of women and girls, stripping them of time and inhibiting their access to education and the workforce. In a deteriorating economy that places a massive and disproportionate burden on the urban poor, these tariff hikes represent an additional cost that will increase energy poverty and even threaten access to the grid. The tariff hikes are insensitive to the changing consumption patterns of electricity among residents in urban areas, as well as to the significant debt that many households have already fallen into.

Beyond the tariff hikes, any policy recommendations regarding support to families during this crisis period must be mindful of these diverse consumption patterns. For example, a recent policy recommendation that suggested household electricity use of 60 kWh or less of electricity (or monthly expenditure of Rs. 565.30 according to the report) as a determinant for eligibility for welfare (Kadirgamar, and Gunawardena 2021) may see high rates of exclusion of those most in need of support and deepening divisions between communities. It further makes the case for a universal approach rather than targeted support, given the inability to capture the household diversity through a single determinant like electricity usage.

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POWER STRUGGLES: ELECTRICITY AND COLOMBO'S WORKING CLASS POOR

By Meghal Perera
10th December 2022
Article published in The Morning newspaper

"After we finish paying the electricity bill we can't lift our heads"

Just four months after a 75% increase in tariffs, Cabinet has reportedly granted approval for further tariff increases in January and June 2023.

The idea of all consumers paying a cost-reflective tariff is gaining momentum and has been promoted by the Minister of Power and Energy, who prefers a cash transfer as a silver bullet to all the woes of low-income households.

Such approaches continue to treat all electricity consumers as a homogenous group and assume that electricity consumption has no implications on livelihood, education, safety, and nutrition.

Qualitative research conducted in low-income communities in Colombo shows that the effects of the August 2022 tariff hike on the working-class poor have been deep and far-reaching and the coping strategies they have adopted are as diverse as they are complex.

The research also shows that monthly unit usage of working-class poor households in Colombo also exceeds what is considered the lowest usage group, thereby cutting them off from any offset benefits like cash transfers even though they do fall into a category that requires assistance.

Cutting down consumption impossible

Cutting back on electricity consumption is impossible when informal livelihoods are often dependent on domestic electricity connections. It is not uncommon for vendors to set up shops within their houses or in some cases run their domestic connections to a nearby stall for lighting.

Mala, a respondent from Wanathamulla, has started a small retail shop from her house and says she will continue to use her fridge because cool drinks are one of her best-selling items. Instead, she no longer uses her ceiling fan during the day.

Less than a kilometre away, Seela has unplugged her fridge and washing machine and has switched from cooking on her rice cooker to using a gas stove again. She admits that the ceiling fan is switched on for most of the day and that she allows her two children to watch television. She points out that there is nothing else to occupy them – she doesn't feel safe sending them to play outside.

It is important to note that the response to increased bills is not as simple as switching off the lights and conserving energy. Rather, these strategies are based on a personalised balancing act of livelihood, income, safety, and comfort, and they all invoke a cost in terms of time and energy.

This cost is disproportionately borne by women as well, who are left to cope with and strategise to make ends meet with every changing aspect of the economic crisis.

Common coping strategy

Another common coping strategy has been to simply not pay the electricity bill and then take a loan to pay off arrears once the threat of disconnection is made.

In October 2022, 15 houses in one apartment building in a Urban Development Authority (UDA)-highrise scheme in Dematagoda with arrears of over 30,000 were disconnected and households took loans and pawned jewellery to pay off a portion of the arrears and get reconnected.

For some households it has become an issue of choosing which bill to pay. For example, Kamala who lives in a UDA highrise in Wanathamulla, says: “My daughter gave me Rs. 10,000 for all the bills – electricity, water, rent. But I had to buy a gas cylinder for Rs. 5,400 and then after paying the electricity bill (Rs. 5,008), I had no money for anything else.”

She has accumulated over Rs. 80,000 worth of instalment payments for her UDA flat and notes that the building manager has threatened to cut her water supply if she does not pay off her arrears. For many low-income households utility arrears seem inevitable.

Bills and legitimacy

While electricity bills rise, the physical size of paper bills has shrunk, with residents in some parts of Colombo now receiving smaller receipts instead of the usual electricity bills over the last three months.

Reading an electricity bill and understanding unit costs, fixed charges, and interest on arrears is already a confusing task for many households, but this is made more complicated by the fact that the new bills are only in English.

These new bills – which are more like “supermarket receipts,” as one interviewee put it – are not only smaller and flimsier, but more liable to wear and tear. Even in the course of a few weeks, the ink rubs off and key information is erased.

It is also important to note that for low-income households with insecure tenure, electricity bills are an important document that prove their place of residence. Electricity bills are notably used as proof when applying for entry to Government schools. During shortages, utility bills were required to prove residence to receive the few gas cylinders trickling into a particular locale. Any proposal to eliminate physical bills needs to reckon with legitimacy that these documents provide the urban poor.

Injustice of increasing tariffs

During public consultations by the Public Utilities Commission of Sri Lanka (PUCSL) for the proposed tariff increases in August 2022, many voiced the injustice of increasing tariffs at a time when the Ceylon Electricity Board (CEB) has been unable to provide people with a continuous supply of electricity.

Apart from a few weeks of abundant rain, daily power cuts of one to 2.5 hours have continued and are likely to worsen next year (1). Unlike middle class or luxury apartments, the UDA-run highrises do not have generators so daily power outages leave common and public areas of the complexes unlit.

Quality of life impacted

The outages also mean that the basic premise of apartment living – lifts – do not work for periods of two-and-a-half hours a day. Whether this is out of indifference or incompetence, this has inhibited the quality of life of all the inhabitants of such highrises, effectively constraining the movement of the elderly, disabled, young, and vulnerable.
A community leader in a highrise in Dematagoda notes that a majority of residents of the highrise are elderly and struggle with climbing up 14 storeys, while school children simply wait out the power cut when they return from school so as not to climb steps with heavy bags.

Beyond the inconveniences and discomfort caused by power outages, the absence of lighting in common areas at night also raises security concerns. While he has written to both the UDA and CEB requesting that a generator be provided to ensure the functioning of lifts and public lighting, he has funded small-scale solar-powered lighting for public areas.

While such stories of communities coming together to cope with the effects of the crisis are inspiring, they reveal a history of neglect and underfunding by the State.

Preferential treatment

Colin McFarlane writes that "the inequalities woven through urban infrastructures are rarely more evident or visible than in times of crisis or rupture" (McFarlane 2010) and nearly a year of energy crises has shown this to be true. It has also raised questions of who deserves electricity and how the State should distribute or withdraw it.

These questions are answered when religious institutes are granted relief from increased tariffs while low-income households forego meals to conserve energy (Ada Derana.lk 2022). They are answered when the Government uses a $ 100 million Indian credit line to fix rooftop solar panels in Government institutions and religious places (Razeek, 2022).

While the Minister of Power and Energy is keen that all citizens pay a single tariff, the State does not subject all its citizens equally to power outages. Those who are not citizens receive even more preferential treatment as tourist zones in the Southern Province and Ella will be exempt from power cuts (Daily News 2022).

Rather than upholding energy justice principles, the electricity grid has created its own form of stratified citizenship which determines who receives power.

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ASWESUMA: HIGH EXCLUSION, LOW TRANSPARENCY?

By Iromi Perera
12th April 2023
Article published on the Groundviews website

The Welfare Benefits Board (WBB) called for applications last year for people to be included in the new registry that will bring all the current benefits schemes under one platform named Aswesuma. In 2023, the WBB began an enumeration exercise whereby all those who applied to receive welfare benefits were scored across a 22 indicator list to determine their eligibility. According to the WBB, 3.7 million applications were received to be included in this registry. These key milestones of Aswesuma were prior actions in the World Bank Development Policy Options and closely monitored by the Bank. On June 20, 2023 the list of selected beneficiaries were published online with reports of around two million out of the 3.7 million being selected under four categories.

Key Issues

Aswesuma uses proxy means testing to select beneficiaries. They are scored across 22 indicators. These indicators were formulated by the Ministry of Finance and Department of Census and Statistics in 2019 (GoSL Extraordinary Gazette No. No. 2128/24, June 2019). It was put together at a time that had not even imagined the state of the economy as it is today. The impact of this crisis is unprecedented and generational and therefore welfare measures and indicator lists developed at a time when the economic situation of the country was in a completely different state will not suffice. Selection of vulnerable households from an expanding pool of households are causing further tensions and divisions at a community level.

Our research with working class poor communities in Colombo shows that having a permanent house, assets such as machinery or vehicles, use of a gas cylinder, grid access such as electricity and water does not protect people from precarity or vulnerability and in fact may exacerbate it. Families that have all these assets receive a score of zero in the Aswesuma enumeration and our work shows that such families to date are also unable to put three meals on the table, have cut back on nutrition and medications, are unable to send children to school daily and are severely in debt, even to the extent of borrowing to eat (Colombo Urban Lab 2023a). These are also families that had not begun to recover from the impact of the COVID-19 lockdown period and now in addition to being impacted by the economic crisis are also severely affected by economic adjustments such as increase in VAT and electricity tariff rate hikes.

Furthermore, being included in a social registry (Feminist Collective for Economic Justice 2023) is not about the cash transfer alone but what it also affords access to – low interest loans, saving schemes and access to support during times of crisis.

Using asset based targeting (Feminist Collective for Economic Justice 2023) imagines poverty presenting itself in a particular way and leaves room for more exclusion errors. According to the latest UNDP report (Oxford Poverty and Human Development Initiative and United Nations Development Programme 2023) on multidimensional vulnerability of Sri Lankans, as many as 12.34 million people (55.7%) are multi-dimensionally vulnerable and yet only two million households have been selected as beneficiaries under Aswesuma.

Many development experts have highlighted the dangers of targeted social security programmes and in light of the Human Rights Watch recent report (Human Rights Watch

2023) on Jordan's Takaful social welfare programme funded by the World Bank, where HRW "found that asset-based profiling can force some people into an unacceptable trade off between their right to social security and the assets they need to exercise other economic and social rights, such as their rights to a decent living, health, and food", we have continued to question why the World Bank supports the government in targeted schemes instead of strongly advocating for universal programmes, especially when similar programmes have failed in other countries.

The government must increase the fiscal allocation for social welfare. At present we are told by the World Bank in Sri Lanka and the WBB that the choice is between expanding the safety net and transferring people a smaller amount of money versus selecting the most vulnerable and transferring them a larger amount of money. However, we have not seen any meaningful cut backs on government spending elsewhere or larger allocations for social welfare in the recently presented budget. While the government meets the social protection floor set by the IMF, we still remain one of the severely underfunded social security systems in the region.

If the rationale for targeting is that a smaller pool of beneficiaries gets a larger allocation, how does the WBB justify the amounts allocated for all categories (Rs 2,500, 5,000 and 8,500) except for the severely poor category that has been allocated Rs.15,000 a month for three years. Even those with Chronic Kidney Disease have been allocated only Rs.5,000 a month when dialysis costs per session can range from Rs.20,000 to 25,000 and many have been relying on private healthcare given the crippled status of the country's healthcare system. We have not seen a justification of how the allocations were arrived at, when it was arrived at and how are these allocations expected to respond to the cost of living.

Information disclosure and transparency continue to remain a huge issue. The WBB has not publicised how the district level allocations were arrived at and families also do not know what their scores were and how far they were from the cut off mark. If we are to believe that the new system leaves no room for politicisation or corruption, all this information must be made public. There has also been no information about data security and storage and whether the WBB in fact has the capacity for managing such an amount of data. A significant amount of personal and economic information was collected at a household level including photographs of the home, individuals and assets. The WBB website alone has been badly managed with a lot of personal data of beneficiaries being publicly available before it was taken down.

What do we need for Sri Lanka?

Civil society organisations, activists and development specialists have been reiterating the need for a universal social protection system (Feminist Collective for Economic Justice 2023) and moving away from targeted schemes. Unfortunately Aswesuma is what is being reiterated by the government and the IMF as the social safety net (Macan-Markar 2023) they have put in place to support people from the crisis and the economic adjustments. Economic adjustments like increasing electricity tariff hikes and increase in VAT are crippling for working class families (Colombo Urban Lab 2023b) who are coping by pawning jewellery, borrowing from the informal credit market, not sending children to school just in order to put food on the table. Our research in the past year alone has shown significant cuts in nutrition, school attendance and increase in household debt. As the new school year begins soon, parents are already wondering how to pay for uniforms, shoes and stationary at a time when they don't even have a meal to send with a child to school.

What is needed is a constellation of social protection beyond cash transfers and that at its core is mindful that many of those who are in need of support now were actually able to make ends meet pre-2020 and that human dignity and quality of life should not be compromised for the sake of efficiency. A constellation of support could include free midday meal programmes at all schools for all grades free public transport for school going children a guaranteed basket of fresh produce and proteins for families every week the public health system be allocated far more resources not just for clinics and medicines but also for vital check-ups and procedures such as dialysis increased allocations for nutrient support such as thriposha and supplements for pregnant and lactating mothers livelihood support for the informal sector writing off utility bill arrears for low income families more investment in public care infrastructures such as creches and day care centres.

While Aswesuma is riddled with issues, the alternative is not to do away with cash transfers but to make it universal – expand it, remove targeting and allocate more funding. By focussing more on creating an “efficient” system to minimise inclusion errors, the WBB and the World Bank has in fact created far more exclusion at a time when people need support in ways not required before. Furthermore, implementing a variety of social protection mechanisms across various sectors like health and education would also expand the safety net in different ways and ease the burden on Sri Lankans. Cash transfers are important for the household and they are important for the economy. But given where Sri Lanka is at present, a targeted cash transfer alone will never result in a just recovery.

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PART 2
BUILDING FORWARD - A JUST, INCLUSIVE, AND SUSTAINABLE FUTURE

SOCIAL INFRASTRUCTURE AND INCLUSIVE URBANISATION

MAINSTREAMING SOCIAL INFRASTRUCTURE IN DEVELOPMENT

By Nimaya Dahanayake
28th November 2024
Article published on the Centre for a Smart Future website

Infrastructure is an important part of the contemporary urban fabric, as background technological networks and systems that support urban life (Latham and Layton 2019). A quick search on google would define infrastructure as the "basic physical and organisational structures and facilities (e.g. buildings, roads, power supplies) needed for the operation of a society or enterprise." However, the idea of infrastructure and what counts as such has been challenged and expanded over time from "physical infrastructure", to even notions of "people as infrastructure" (Simone 2004).

What is Social Infrastructure?

The concept of "social infrastructure" is a result of the expansion of this understanding of infrastructure, as popularised by sociologists such as Eric Klinenberg. To put it simply, social infrastructure refers to networks of spaces, facilities, institutions, and groups that create affordances for social connection (Latham and Layton 2019). In Sri Lanka, social infrastructure is largely tied to health and education (Ministry of Finance, Planning and Economic Development, 2020) –but the concept is much more complex and nuanced than this.

Key among the qualities of social infrastructure is its ability to facilitate sociality (Latham and Layton 2019), and as Klinenberg highlights–address some pressing issues of contemporary urban life such as social isolation. Latham and Layton (2019) in their work, provide list of spaces of

social infrastructure, which include public institutions such as schools and parks; commercial spaces such as markets, street vendors; recreational spaces such as gyms and sports fields; places in which you can practise your religion; as well as spaces and infrastructures of mobility such as bus stops and walking trails. While the list is non-exhaustive, they draw on the work of sociologists, anthropologists, social and urban geographers etc., providing a guide to understanding different types of social infrastructure.

Social Infrastructure under the Urban Regeneration Project

The Urban Regeneration Project (URP) by the Urban Development Authority (UDA) is a key post-war infrastructural project in Colombo, that sought to relocate communities living in wattes (also called settlements) to high-rise buildings, in a bid to "liberate" land for development purposes (UDA 2023). With the URP, the government's primary intention was to provide "seemingly" better infrastructure facilities for low income communities, in exchange for commercially viable land on which most wattes have existed/exist. In doing so, little to no attention has been given to people's social lives and how they lived their lives in the watte. While communities were promised better access to social infrastructure such as schools, parks etc., these promises have not materialised, leaving communities with feelings of disappointment and isolation.

One of the biggest challenges of the URP is catering to the varying social needs of communities that are unique and different from each other. The way communities interact with each other, the way they use and negotiate spaces, are far from homogeneous. So, when different communities from different wattes are relocated to one high-rise building – most span 12 to 14 floors – , with low levels of social infrastructure or spaces that facilitate sociality, it only exacerbates the feelings of loneliness and isolation residents may already feel–especially as high-rises are often criticised for their negative social impacts, such as social isolation and low levels of interaction and social cohesion (Nguyen et al. 2024).

Our research has shown that social infrastructure provision and maintenance is not consistent across all high-rises built under the URP. For example, in many of the high rises under the URP, children don't have access to open spaces where they can play. In instances where it is available within the high-rise, it has sometimes gone into disrepair or is considered unsafe for children to play in unsupervised. As these spaces are typically located downstairs, parents who live on the upper floors are left with no choice but to accompany their children if they were to go out to play. Although it may not be immediately perceptible, this places a burden, and that too, a gendered one, on the time of the women in the family. In the wattes, the community had a sense of safety and security and could leave their children to play by themselves, while spaces for leisure often spilled over to passageways and streets (Perera 2023). The lack of safe, open spaces where children can play without the supervision of their parents, has meant that children's play is now confined to the narrow corridors of their high-rise buildings and parents–especially mothers, have to sacrifice time they could utilise for themselves or other work.

A recent study (Rathnayake and Hettiarachchi 2024) on intentional and adaptive outdoor play spaces in housing schemes in Colombo, highlighted the importance of taking into consideration the social factors that influence childhood play behaviour. Adaptive outdoor play spaces such as those found in Mihindusenpura–a high-rise under the URP, were found to attract male children or older age groups due to safety reasons. The study concludes that it is important to acknowledge social factors (for example, societal norms and community dynamics) when designing play spaces for

children, so that the spaces are not only architecturally sound but also socially responsive.

Looking Beyond Sri Lanka

In Iztapalapa, a borough in Mexico City, UTOPIA's or Units for Transformation and Organisation for Inclusion and Social Harmony, were introduced as large community centres operated by local government (PAHO 2024), providing a variety of services, mostly free of charge (Navarro 2024). UTOPIA's were created with the intention of reducing widespread inequality, and offers a space for recreation and socialisation. Most UTOPIA's offer services such as laundromat services, spas where women can practise self care and even centres that deal with addiction (Navarro 2024). Today, these spaces serve as collaborative spaces that promote community well-being.

These UTOPIA's were inspired by Manzanas del Cuidado or CARE blocks in Bogota, Colombia, which was an innovative solution to address time poverty experienced by women–the main caregivers in the community. The CARE blocks allow women to pursue education, training, sports (Moro 2024) etc. while having CARE block staff members take care of their loved ones like their children or elderly parents. The blocks were also established in close proximity to their neighbourhoods (i.e., walking distance), eliminating the need for transport (Moro 2024). Interestingly, there were different variations of the CARE blocks, such as, for example, CARE buses–a mobile alternative for those that could not access the CARE blocks and CARE home delivery for those that may not be able to leave their homes at all.

As the above examples show, in both Iztapalapa and Bogota, the cities have come up with innovative solutions to pressing urban issues–one addressing inequality and the other addressing the time poverty of caregivers. They are good examples of incorporating social infrastructure into communities, because they have taken into account community needs and addressed it in a way that is sensitive to the context of the community. Their approaches are complemented by the collaborations they have with different stakeholders including academia, civil society, NGOs and even volunteers.

Conclusion

As our recent report on the URP (Colombo Urban Lab 2024) shows, the standard of social infrastructure in many high-rises is poor, and unlike what was promised to residents at the outset of their relocation process. While the latter phases of the URP (SCURP funded by the Asian Infrastructure Investment Bank for instance), have taken steps to remedy some of the issues of the previous high-rises through community consultations, it is important that development projects, especially those that include housing and public spaces, mainstream the idea of social infrastructure. It must go beyond its physical manifestations like parks or even community centres and look at the social needs of a community, drawing from aspects such as community dynamics that are crucial for creating liveable spaces that contribute to higher levels of social cohesion, and improving the overall well-being of communities.

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REORIENTING HOUSING POLICY FOR COLOMBO'S URBAN POOR

By Meghal Perera
5th December 2024
Article published on the Centre for a Smart Future website

For over a decade, Sri Lanka's Urban Development Authority's Urban Regeneration Project (UDA 2023) has reshaped Colombo's fabric. The ambitious plan, initiated in 2010, involved relocating the urban poor, numbering roughly 68,000 or 50% of the population to free up 9% of land (Rathnayake 2013). While explicitly the brainchild of the then Defence Secretary, Gotabaya Rajapaksa, it continued under the Yahapalanaya government and is currently under its third phase, funded by the Asian Infrastructure Investment Bank (AIIB). A recent report (Perera, Dahanayake and Perera 2024) published by Colombo Urban Lab reviews the project, which has cost over USD 700 million since its inception, arguing that the URP has failed in its objectives. Rather than ushering in a new age of urban renewal and improved standard of living, the URPs expenditure (and debt) has left a legacy of poorer living conditions and precarity for the people it was meant to help.

As the third phase of the project draws to a close next year, there is a new window of opportunity for a new government to review and change course, to create and implement evidence-based housing policy. Apart from the widely cited critiques of autocratic leadership, poor governance and military force leveled against the project, the genesis of its failure lies in a set of assumptions, mostly about the nature of the urban poor. An interrogation of these assumptions shows that they have not been based on evidence or fact, thus placing the whole project on shaky foundations.

Assumption 1: Colombo's poor live illegally on government and private lands, in slums and shanties.

The URP was conceptualised to achieve the goal of a slum-free Colombo (Government of Sri Lanka 2010), an objective that was popularised in policy documents such as the Mahinda Chinthana, in speeches and media reporting that uncritically parroted assertions about Colombo's urban poor. There was considerable work done into convincing the public, particularly a voter-base commuting to the city from the suburbs (Perera and Spencer 2023), that the urban poor were living 'illegally' on government land. This is despite the fact that the majority of the urban poor reside in upgraded settlements that were created under the Million Houses Programme in the 1980s. This amounted to an exercise in collective amnesia as a highly successful housing project, lauded by international development organisations and seen as an innovative success story, was forgotten. Rather than punish squatters, MHP ran by the logic that people were willing to mobilise resources to invest in houses if they had secure tenure of land. Land regularisation happened with the National Housing Development Authority and Community Development Councils drawing boundaries, blocking out land, surveying – as far as possible it encouraged in situ upgrading rather than relocation. Residents were given leasehold tenure rights over land for 40-30 years. It is estimated that 60-70% of residents in underserved settlements benefitted and gained tenure and upgraded shelter.

Painting urban settlements as illegal and unauthorised (Perera 2024) was a key strategy in manufacturing consent for mass scale involuntary relocations. By sowing doubt about the tenure status of the urban poor, the state was able to ensure that these evictions were seen as regrettable but legitimate.

Assumption 2: The urban poor will receive better service provisioning, infrastructure and housing in high-rise apartments.

The URP promised facilities and service provisioning that already existed in a majority of settlements. In 2012, 83% of settlements had permanent housing and 97% of settlements had metered electricity. 75% had individually metered water connections (a statistic which in 2023 went up to 97%) (Colombo Settlements Survey 2023). Safe in the knowledge that their house would not be torn down, communities and households invested in their houses and neighbourhoods, improving drains, building communal toilets and paving roads.

The second issue with this assumption is that households reported new problems with service provisioning once they moved to high-rise apartments. For example, many reported that the UDA would cut off water connections of households due to non-payment of monthly rental payments as leverage. Households were now trapped in a system where the grid was weaponised against them. In addition, high-rise living requires additional amenities – but these are often absent or inadequate in UDA-run high-rises. Lifts are broken and left unrepaired – in the event of a power-outage there is no generator. Daily tasks such as cooking and laundry become difficult due to design flaws or policing of the building on grounds of aesthetics. Fire extinguishers are often missing or behind a locked compartment. This is to say nothing of the neglect, poor maintenance and other infrastructure issues that have emerged as a consequence of breaking up communities and their social ties.

Assumption 3. The urban poor are residing on commercially lucrative lands which are highly in demand by investors.

The financial model of the URP relied on releasing the land occupied by the urban poor to the private sector. This was the rationale behind the UDA issuing LKR10 billion debentures in 2010 to finance the initial stages of the project. The debentures were backed by the Treasury. Even when communities were relocated and land acquisition finalised, investors failed to rush in. There is no information on whether a commercial assessment of the lands was conducted prior to acquisition. Given the other parallel activities to attract investment in the city at the time, Port City being the obvious example – there was no evidence to suggest a coherent strategy to attract investors to particular lands. While some have been used for infrastructure and real estate projects, many lands are car parks or garbage dumps, while others are simply vacant and fenced off (see Chapter 4 of Built on Sand: A Review of Colombo's Urban Regeneration Project for more details) .

There was also a misconception that Colombo's slums were sprawling. Rather, a majority of settlements have fewer than 20 houses (Rajapakse and Dahanayake 2024) and these small fragmented plots of land are often not suitable or desirable for commercial investment. This is especially the case for the minority of settlements residing on canal and railway borders and other land that simply has no commercial value. The sad irony is that the minority of settlements desperate for new housing were not prioritised because they lived on land that nobody wants. It is clear that while the URP disguised a landgrab as a housing project, these investments have failed to generate revenue and justify the cost to the taxpayer.

A renewed vision for housing policy

At a juncture we need to reevaluate the effectiveness of these projects, and why they are not achieving their outcomes. It is also worth examining lessons that were learned from Sri Lanka's impressive track record of participatory housing. The Million Houses Programme was revolutionary at the time of its implementation 40 years ago, because its assumptions were wildly different. These included the assumptions that people knew what was best for them and that they would live well if they had the resources to do so. In order to deliver these housing outcomes, planners and other experts had to listen to people. This is a far cry from the box ticking consultations practiced by contemporary development advocates, which is more an exercise in informing than including. Importantly, this institutional knowledge can still be found in the older cadre of the NHDA.

The second lesson is thinking about housing as equity instead of development, a distinction made by Abeyasekera and Gunasekera (2023) when comparing Pieter Keuneman's housing vision with Premadasa's. This involves freeing our policies from a vague yet seductive notion of development which is about aesthetics rather than improved material conditions. This paradigm has made our cities more unequal, more hostile and more dull as the Global South simply imitates the aesthetic of Dubai or Singapore, ignoring context and vernacular rhythms of life. Reframing housing as equity means respecting tenure security and understanding that people cannot thrive with the constant threat of displacement. This requires treating them as equal members of the city who live and vote and work here and enable its running. This would also enable the relocation of those who actually want better houses and are living in flood-prone or otherwise substandard housing – who are not prioritised because the lands they occupy

are too small to be commercially valuable. Furthermore, it leaves ample opportunity for small scale grassroots housing interventions that are climate and context-sensitive.

Lastly there is a need to decouple housing from charismatic leadership, and in this there is a lesson to be learned from the failures of the MHP, which was the explicit political project of Premasada, just as the URP was seen as Gotabaya's. Housing is political, but leaving it to politicians to drive these projects simply results in myopic and often wasteful efforts that stall after their architects leave their seats of power.

A simple cost-benefit analysis reveals that this model of development has failed to provide adequate and appropriate housing as well as generate revenue. This burden will no doubt be borne by taxpayers in the years to come. The change that needs to occur is not technical but an adjustment of values and the structures that uphold them.

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RETHINKING HOME GARDENING AND SUBSISTENCE AGRICULTURE

By Anisha Gooneratne
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With food inflation (Y-oY) in Sri Lanka rising to a staggering 82.5% in July 2022 (CBSL 2022), organisations such as the World Food Programme and OCHA have warned of rising food insecurity in the country. A recent report published by the World Food Programme (World Food Programme 2022) in August highlighted that 6.3 Million people in Sri Lanka are food insecure, with numbers expected to rise as the crisis unfolds. In Colombo, the Colombo Consumer Price Index has highlighted food inflation (Y-o-Y) at 93.7 % in August 2022 (Department of Census and Statistics, Sri Lanka 2022), which is significantly higher than national inflation. This further compounds the impact to food insecurity that has been experienced in Colombo over the past few years.

To mitigate the rise in food insecurity, "home gardening" has emerged as a popular buzzword amongst policy makers. In May, the Minister of Agriculture encouraged the public to start growing food in their home gardens (Amaraweera 2022). In June, the Secretary to the Ministry of Public Administration, Home Affairs and Provincial Councils issued a circular encouraging all public servants to stay at home on Friday and engage in growing food in their homes (Wijayaratne 2022). Globally, urban agriculture has been used as a coping mechanism against crises to ensure food security. Dating back to the period as early as World War 1, to as recently as the economic crisis of 2008 in Spain, urban agriculture emerged as a way to secure food, and counter dependencies on market systems for the provision of food (Simon 2022). At a household level it has proved effective in promoting dietary diversity, better access to more nutritionally rich food and can help weather against shocks in the supply of food through market systems (Zezza and Tasciotti 2010).

It's important to highlight that whilst home gardening can help improve dietary diversity and reduce the severity of food insecurity, it will, in no way, completely eradicate food insecurity for Colombo's working class poor. It also cannot be the Government's way of absolving themselves from Colombo's food crisis. Additional targeted measures are needed to better support the urban poor at a time such as this.

Despite strong messages from Government officials to grow, for many living in Colombo, space is a luxury that hinders their ability to grow food. The need for more targeted support to Colombo's working class poor is the need of the hour, given that Colombo suffers a heavier burden of food insecurity.

Even before the COVID-19 pandemic hit, Colombo reflected the largest percentage and largest absolute number of food insecure people in Sri Lanka, consuming less than the FAO recommended per capita calorie intake of 1810kcal a day (FAO et al. 2019). Accessibility to a safe, stable and nutritious diet has been the lowest nationally in Colombo, which has led to 40% of Colombo's population consuming less than the recommended calorie intake a day (FAO et al. 2019). These figures would be far worse today.

In addition to fluctuating food prices, the rising cost of living in Colombo has reduced the purchasing power of the urban poor. In 2016, whilst median household income in Colombo was 11% higher than that of other urban areas and, 49% higher than rural areas, residents in Colombo spent less on food comparatively. According to the HIES, residents in Colombo spent 6 percentage points less on food than rural residents,

owing to the high price of housing, utilities and transportation in Colombo (Department of Census and Statistics 2017; CBSL 2020). This has resulted in residents of Colombo having less disposable income to spend towards food.

Thus, the need to rely on alternative methods of procuring food, has become significantly heightened especially now, given the soaring price of food and households' need to allocate their budgets to other expensive items such as electricity, cooking gas and fuel. However, "home gardens" are only accessible to a few residents in Colombo, leaving most of Colombo's working class poor, highly vulnerable to food insecurity. In addition to this, the Urban Development Authority under Colombo's Urban Regeneration project has identified 68,812 families for relocation to Government built high-rise apartments (UDA n.d.). These apartments are between 450 to 550 square feet in size with common areas that feature long corridors with minimal sunlight. In 2019, under phase 1 and 2 of the project, 12,855 families were relocated, with the third phase of the project likely to relocate another 5,500 households to these high rises (Perera 2021). Many of these families have lost access to communal spaces where they used to grow, and with the number of families being relocated rising, it is likely that many more will struggle to grow their own food going forward.

Based on research conducted in two communities in Wanathamulla, 20 respondents said that whilst they would like to grow food, they lacked the space to do so. Shanthi*, who was relocated to high-rise Sirisara Uyana noted, "I would love to grow food, but we lack the space. We used to grow food where we used to live (Colombo 08), and we could use that to supplement our meals. However, after we were relocated to this building, we don't have space to grow food, or much sunlight either."

Further compounding the lack of space, is the lack of support and incentives from Local Government. Rani* from Seevalipura, says that in the late 90's, targeted government initiatives encouraging them to grow food have proved very successful. She further elaborates that people used to even grow food on their roof, thinking creatively around space limitations. However, in the past few months, she hasn't had any support or encouragement to help her to grow.

For those living in Colombo facing a burden of duality of both food insecurity and space restrictions, instructions to "stay at home and grow food", is simply not enough. There needs to be more targeted focus on supporting communities that don't have the space or resources to grow. Whilst the Colombo Municipal Council has started a project called "Urban Harvest" which is taking an initiative to support communities in Colombo to grow, there is urgent need to expand this programme to provide support to the working class poor of Colombo, especially communities with space limitations.

In order to better support Colombo's working class poor to grow food to help increase dietary diversity, and to reduce the impact of food insecurity, we have detailed some recommendations based on empirical evidence from our field work:

> 1. Involvement of Grama Niladhari: Given that strategies need to be implemented at a local level, and given varied contextual differences in Colombo, it is essential that Grama Niladhari are empowered to help support communities in Colombo, taking into account varying contextual needs of different communities. This will help communities receive contextually relevant targeted support, compared to a "one size fits all" policy.

2. Easy access to seeds: There is limited knowledge on where seeds can be acquired, and what type of seeds one should buy based on available growing conditions (space, access to sunlight, resources etc).

3. Resources to help growing in space constrained areas: For those living in space constrained areas such as the high-rises, space is a luxury that many don't have to grow food. Better support in teaching communities how to grow in small spaces, such as the use of racks, balconies and common areas is vital to support working class communities grow food. Alternatively, the use of land in schools, and religious establishments can also work towards an allotment system to help mitigate spatial limitations.

4. Learning material designed at management of resources: Given the recent increase in the prices of water, home gardening poses an additional struggle for communities trying to limit water usage. There is a need for learning materials to be developed and shared with communities to spread awareness on how water for daily use can be recycled for the growing of food.

5. Health and nutrition education: Out of 20 households that were interviewed as part of our study, all 20 said they haven't received proper guidance on nutrition. They noted that their knowledge comes from what they have been taught when they were young. Targeted programmes at raising awareness on nutrition of locally grown food, can better help families plan what food to grow to help support diversity of diet and better nutrition, whilst also helping to reduce dependency on imported items.

6. Empowerment of all family members: Urban agriculture has been identified as an activity that could further burden women, as often, the role of tending to a home garden can fall disproportionately on women (Bryld 2003). For women who are not engaged in other ways of income generation, household duties and caring for the family usually fall on their shoulders. In Colombo, women are already overburdened with managing shortages of cooking fuel, power cuts and online classes. In order to ensure that women aren't further burdened, it is important that all members of the family are empowered to engage in urban agriculture.

7. Cross-Ministerial committees: At a national level, more reforms are needed to look at food insecurity and its consequences more holistically. The nexus of food and health is one that is inherently interdependent and cannot be served in isolation. It is imperative that cross-ministerial committees are formed to ensure that policies are deployed in conjunction to have compounding effects and not in isolation.

8. Evaluation: For programmes and strategies that are deployed and driven, evaluation mechanisms throughout the programme provide mechanisms to ensure efficacy in programmes. It also provides a way to document progress and weaknesses thereby enabling future programmes to be built stronger, based on learnings from implementation.

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BEYOND ASWESUMA: INVESTING IN TRANSFORMATIVE SOCIAL PROTECTION

By Iromi Perera
March 2025
Excerpt from Policy Brief published on the Centre for a Smart Future website

Introduction

Sri Lanka's polycrisis since 2019 has demonstrated that existing social protection systems are inadequate not only because they are underfunded, but they lack information, are too fragmented, lack coordination between institutions and are not robust or dynamic enough to understand structural issues or capture the different ways in which people can be vulnerable or need support. It has demanded that we invest more meaningfully in social protection, going beyond the targeted schemes of social safety nets towards universal social protection, and seeing it has something that is not charity or a handout, but a right that every citizen is entitled to.

The impacts of COVID-19 lockdowns followed by a crushing economic crisis provided Sri Lanka the perfect opportunity to rethink what social protection means for the country, who it should be for, what it should entail and how it should be operationalised. Unfortunately what we saw was a heavy focus on one new cash transfer programme Aswesuma, which replaced the existing Samurdhi programme. A detailed critique of the Aswesuma programme is available in the following section, and this Policy Brief also presents some pathways to the new government and policy makers to strengthen social protection in Sri Lanka.

Our framework for transformative social protection draws from the seminal paper by Stephen Devereux and

Rachel Sabates-Wheeler in 2004, where they urged a shift towards policies that centered social equity, and 'policies that relate to power imbalances in society that encourage, create and sustain vulnerabilities'. They distinguished between social protection measures like targeted cash transfers and insurance schemes as 'economic protection' and not necessarily social protection and noted that "If the need for social protection is defined in the narrow "safety net" sense, as mechanisms for smoothing consumption in response to declining or fluctuating incomes, then the focus of interventions will logically be on targeted income or consumption transfers to affected individuals".

The National People's Power (NPP) policy statement of 2024 contains strong language on social protection, stating that the NPP views "social protection and welfare as a core responsibility of the state" and that they aspire to provide "a universal social protection system based on the life cycle approach for all Sri Lankans." The activities detailed in that section go beyond the traditional protective and preventive measures like cash transfers to various vulnerable groups and social insurance and pension funds to promotive measures like establishing care centres and regulations for care centres, and support for care workers. It falls slightly short at transformative measures that address concerns of social equity and exclusion - for example better social protection policy or regulations for the informal sector, like minimum wage laws for domestic workers.

The National Social Protection Policy of Sri Lanka which was launched by the previous government in August 2024 states its mission is to "develop and manage an effective and efficient social protection system which enables all citizens to access social protection by enabling cohesion in planning, greater coordination in implementation, and monitoring and evaluation". There is a lot of language on existing issues of fragmentation, lack of coordination between agencies, duplication of welfare, there is also mention in the policy statement on working towards “progressive realization of universal social protection to cover all citizens across the life cycle with special attention to the poor and vulnerable”. Overall, the policy remains quite narrow in its formulation of what social protection means, defining it as “policies and programmes that help individuals and societies to manage risk and volatility, protect them from poverty and inequality, and help them to access economic opportunity throughout the life cycle.”.

For the new NPP government, this is an opportune time to revise the National Social Protection Policy and the strategy document that is meant to accompany it. It’s a belated opportunity to start building a transformative long term vision on social protection that is not only meaningful but one that can go beyond just being a policy document, to actually laying a strong foundation for implementation. It is also necessary to have a strong institution that has the vision and the oversight powers to convene not just the schemes and programmes that are by the Government, but also schemes and even pilot programmes by development actors and civil society to see how everyone engaged in social protection in Sri Lanka can consolidate, avoid duplication, share learning experiences and information and work together in a more holistic way. While World Bank project documents state this as a key objective, and is also mentioned in the National Social Protection Policy, we don’t see this actually being carried out. Furthermore, it raises the question about whether the institution to lead this should be the Welfare Benefits Board, and whether it even has the capacity.

Why Beyond Aswesuma?

The objective of Sri Lanka’s recovery process must not be to recover to a point where people can make ends meet, but one where the recovery is just and equitable, and people experience a better quality of life within this lifetime. While economic indicators have improved, inflation and utility tariffs have decreased, the impact of 2021-2023 is still deeply felt among the working classes and even the middle class. Availability in no way indicates affordability, and the absence of queues in the city is no indication that life is back to normal.

Our ongoing research with the working class poor in Colombo shows that families are still unable to afford to eat three meals a day, have experienced significant asset loss and are trapped in cycles of debt. For example, in a household survey in a low income settlement in Colombo in December 2024, we asked households receiving Aswesuma and not receiving Aswesuma what their key expenses were, whether they were able to meet them and how they met them if not. We see no significant difference between those who receive the cash transfer and those who don’t, mainly because the amounts received LKR 5000 - 8500 are inadequate to meaningfully support needs. The majority of household expenses are for utility bills like electricity or repayment of debt. On the topic of debt it appears the cycles of debt from the informal credit market continue to trap households, with many borrowing more money on high interest or pawning/selling assets as negative coping strategies. When asked what they borrowed the money for, the reasons mostly included to buy food, to pay electricity bill or prevent electricity disconnection or to pay back another loan. The gendered burden of this crisis continues to add fuel to the fire burning in households since 2020.

Furthermore, other external crises like climate impacts - from heat stress and decreasing air quality create further financial and health implications on people who are already struggling. We need to rethink how we understand poverty and vulnerability and look at transforming Sri Lanka's approach to social protection from that lens, instead of one that focuses heavily on increasing efficiency and preventing inclusion errors.

Since 2020 our research and advocacy on social protection in Sri Lanka has shifted significantly once we more deeply understood the existing gaps and vulnerabilities of the working class poor, particularly in Colombo. While we have engaged with communities and the informal sector on housing and land rights, livelihood, infrastructure and public space for example - it was through COVID-19 lockdowns and the economic crisis that deepened our understanding of how shocks and crisis are experienced and how that impact can vary based on several variables, that one single shock - like electricity disconnection or selling of an asset - can set families back years. It reverses gains made in nutrition and education of their children, depletes savings and assets. It was with this engagement on the ground that we have continued to push for two key asks -

1. To move away from targeted schemes and to invest in universal social protection schemes. Targeted schemes imagine poverty and vulnerability presenting itself in a particular way and assume the deprivation or absence of certain factors - like not having a permanent structure for a house or having low levels of education as indicators of people in need of a safety net. However, people can be in need of a safety net even with many assets and to be deprived of social protection especially at a time of crisis simply by virtue of having achieved certain human and development milestones is a deprivation of their socio-economic rights.

2. To see social protection as a constellation of investments and interventions that need to happen in parallel and incrementally and not to assume that one key programme can be an adequate safety net. 2021 - 2023 is an important reminder that impacts on households due to the compounding crisis stemming from global shocks, austerity measures and fiscal adjustments cannot be cushioned by one or even a handful of welfare measures. Having a cash transfer during then was important, but it only allowed people to meet basic needs and did not address nutrition, learning loss, livelihood support and even contributed to increasing the gendered burden of the crisis

NAVIGATING FOOD ENVIRONMENTS IN SRI LANKA

By Colombo Urban Lab
1st December 2024
Article published on Centre for a Smart Future website

What fruits and vegetables do working class poor communities consume? What are the drivers behind the choices they make and how do they experience their food environment? Since July 2023, together with the Institute of Development Studies we have been researching these questions in Colombo and Deniyaya as a part of our work for Fruit and Vegetables for Sustainable Healthy Diets (FRESH). FRESH is a multi-partner research initiative under CGIAR aimed at enhancing diet quality, health, and livelihoods, while promoting gender equality and minimising environmental impacts. Our research was conducted with working class poor families in Seevalipura, Colombo from July 2023 - October 2023, and with the Malaiyaha community in Deniyaya from February 2024 - June 2024.

What We Learned from Both Sites

The nutritional landscape of Sri Lanka's working-class poor is complex, shaped by institutional and systemic challenges that go beyond lack of income or limited access to fresh produce. Improving their nutrition isn't merely a matter of building marketplaces or distributing informational leaflets on healthy diets. Real change requires addressing multiple competing costs, conducting inclusive discussions, educating communities on affordable meal preparation, and even reforming land rights policies to enable self-sustained food production.

This article explores how the State and development stakeholders can support both urban and estate working-class communities in a post-COVID-19, economically challenging environment. By identifying the similarities and differences in these areas, we aim to outline the reasons behind these variations, present policy recommendations, and share insights from our comprehensive research methodology.

Similarities in both Sites

Awareness of Nutrition and Access to Local Produce

Communities in Colombo and Deniyaya already understand what constitutes a balanced diet and have access to fresh produce locally. This challenges some common misconceptions found in our stakeholder roundtables, especially regarding a widespread lack of nutritional knowledge. Contrary to this idea, we found that people strive to purchase fresh produce as much as their limited budgets allow, choosing items that they believe have health benefits. For example, families in both sites buy foods they believe combat prevalent non-communicable diseases (NCDs) in their households, such as bitter gourd for diabetes or passion fruit leaves for high blood pressure.

Similarly, the notion that poorer communities lack access to fresh produce proved inaccurate; our mapping of vendors recorded the presence of multiple vendors offering diverse fruits and vegetables in both locations. In Colombo, 121 of the 344 vendors in Thotalanga and Wanathamulla sold fresh produce, while in Deniyaya, 66 of 153 vendors sold it along the main road from Kotapola to Deniyaya.

Price is not the only Factor in Food Choices

"What I consider the most when buying produce is what my family likes to eat."

– Farina (43), Muwadora Uyana high-rise, Colombo

It is often assumed by policy-makers that price is the primary factor influencing food purchases for working-class families. In reality, families consider a range of factors, including nutritional value, taste preferences, and even the energy and water consumption required for meal preparation. Price of produce does play a key role, as decisions are made around competing expenses such as health, children's education expenses, unexpected urgent expenses - given that the majority of those interviewed do not have a regular monthly salary.

Reduced diversity in food plates after the rise in food, infrastructure and utility expenses.

"We rarely get to eat fruit, only when some fall from our neighbour's trees."

– V. Piyasena, Deniyaya

"It's almost impossible for us to eat fruit. Occasionally, we ask neighbours with fruit trees to share some with us.",

Pushpa, Deniyaya

In the years following COVID-19 and Sri Lanka's economic crisis, families were forced to cut spending and even reduced expenditure on essential components like nutrition.This is because their salaries are not inflation adjusted to reflect the extra income needed to finance the increase in the cost of living. Whereas families were able to consume different quantities of carbohydrates, meat, eggs, vegetables and fruits

pre-COVID 19 - through 2022 - 2024 families reported cutting back on meat, fish and especially fruits due to economic constraints.

"For breakfast, we usually prepare rice with a single curry. Before the economic crisis, we had 2-3 types of curries, but now it's just one."

– M. Aishwarya (68), Diyadawa division,
Deniyaya Estate, Deniyaya.

Utility and infrastructure costs are also heavy competing costs for families, representing another significant financial burden. In Deniyaya, for example, medical costs rank as the second-highest expense due to the lack of accessible healthcare facilities and dwindling state provisioned medication. Residents often travel long distances for medical care, adding to their financial strain.

In contrast, Colombo residents incur higher utility costs, especially with electricity tariff hikes of 75% in August of 2022 and further subsequent hikes in 2023, as well as water rate increases. Over 90% of working class poor households in Colombo are connected to the national grid, and even with rates coming down in 2024, families have not financially recovered from the economic strain and asset loss. Increases in Value Added Tax and other fiscal adjustments under the country's IMF programme has also increased expenses of goods beyond food and utilities - such as school accessories and everyday household items. These competing costs often reduce what families can afford for essential needs, namely; nutritious food.

"Gas now costs 4000 Rs, so we don't buy it. Instead, we manage for 15 days with the 4000 Rs allocated for gas."

- Wasanthi (41), Sirisara Uyana Housing Complex,
Colombo.

Differences between both sites

Spatial Justice

In Deniyaya, land ownership restrictions severely impact the Malaiyaha community's ability to ensure food security. Under the purview of the plantation companies, the Malaiyaha community do not own the land they reside on, preventing them from cultivating fresh produce. Although a few families grow low-maintenance crops like chilies and spinach in small amounts, they are restricted from expanding. This restriction significantly limits their ability to independently cultivate food for consumption. Land ownership restrictions in Deniyaya are rooted in historical policies that continue to affect the Malaiyaha community's daily life. The inability to cultivate on their own land impacts their food options and increases their reliance on purchased produce. Furthermore, without the means to grow fresh vegetables locally, families face higher travel expenses to purchase produce in markets.

"We grow vegetables on a small scale. However, this land is not owned by us, so we cannot grow vegetables on a larger scale."

– K. Selvi (74), Deniyaya.

In Colombo, residents face a different but related issue: limited space for growing produce. Those living in state high-rise apartments for low income families find it challenging to set up even small vegetable gardens.

Furthermore, the food miles of fresh produce coming to Colombo is very high as most produce comes from as far as Dambulla, Nuwara Eliya and even Deniyaya. This leaves the supply chain vulnerable to the same shocks across the grid - namely energy and transportation - which leads to increase in prices and impact on quality.

Inconsistent School Meal Programmes creates an irregular landscape

Most children in households we interviewed in Deniyaya receive one nutritious meal a day at school, alleviating some of their family's economic burdens. However, children in Colombo receive free school meals less frequently, if at all. While both sites reported the presence of an advisory school meal plan to advise parents against sugary and less nutritious foods such as buns and biscuits, the enforcement and monitoring of this varies in different localities. In Colombo, families are more likely to keep their children at home on days the budget doesn't extend to a nutritious meal that can be sent to school.

My children (ages 9.5 and 5.5) don't receive any free meals from school but the teachers check the contents of the packed lunch, if it contains prohibited items such as buns, the teacher forbids the child from eating, in some instances even throwing away the bun or sending it back home

- Samali (48), Seevalipura, Colombo.

For many families in Deniyaya, the daily meal provided by the school reduces the stress of securing nutritious food for their children. However, this programme benefits mainly younger children, leaving older students without meal support.

Policy Recommendations

Our policy recommendations are tailored to address each site's specific challenges, focusing on solutions that address local realities instead of a generalised approach. Our StoryMaps from Colombo and Deniyaya contain more comprehensive explanations.

For Colombo:

- Establish a universal school meal programme that spans all grades to ensure regular and nutritious meals.
- Source fresh produce for school meals locally or regionally to reduce costs and support local vendors.
- Relax restrictive food bans in schools that do not have a meal programme that discourage attendance
- Explore options for private CSR initiatives and international NGOs to supplement existing nutrition programs.
- Update nutrition awareness materials to reflect current socioeconomic conditions.
- Invest in microcredit support for street vendors and improve public infrastructure to increase accessibility.
- Strengthen collaboration across State institutions, local authorities and Ministries to create well-rounded, coordinated policy interventions.
- Involve community-based officials such as midwives and Public Health Inspectors in policy development and implementation for more grounded decision-making.
- Offer utility subsidies to alleviate financial pressures on low-income families, enabling them to reallocate funds to nutrition.

For Deniyaya:

- Grant land rights to enable residents to grow their own food.
- Design nutrition programmes that reflect current socioeconomic conditions.
- Introduce food-based welfare programmes to supplement residents' nutritional intake.
- Deploy mobile health clinics to reduce travel expenses for medical needs.
- Expand microcredit access for local vendors to encourage economic growth and community support.

SUSTAINABILITY AND GREEN RECOVERY

SRI LANKA'S PRIVATE SECTOR NEEDS TO RETHINK ESG

By Arpana Giritharan and Anushka Wijesinha
2nd January 2025
Article published in the DailyFT newspaper and the Centre for a Smart Future Website

Aligning business and finance with climate and biodiversity targets requires deep engagement from the private sector. Sri Lanka has seen a rise in ESG (environmental, social, and governance) initiatives in recent years – from special conferences and workshops discussing ESG, to consulting firms setting up dedicated teams to offer ESG advisory services. But will relying on ESG alone effect change? The answer, as ever, is – it's not that straightforward.

The concept of ESG, which gained traction in the UN Global Compact's 'Who Cares Wins' report in 2004 (World Bank 2004), underpins private sector responses to complex global challenges such as climate change, biodiversity loss and defending human rights. While ESG sets a foundation for action, more work needs to be done to create and scale up sustainable outcomes. This includes creating ambitious, credible, and well-structured plans that assess double materiality, supported by proper capital allocation and strategic management decisions, all within robust accountability frameworks.

There is recognition that a focus on the components of ESG is a positive step for businesses to identify and address negative externalities. Around the world, the upward trajectory of financing instruments that embody ESG principles — like 'ESG bonds' — reflects increasing interest in aligning financial strategies with sustainability goals. That said, it is crucial to understand the nuances of ESG and be cognisant of its shortcomings.

While ESG seeks to channel investment towards companies that are environmentally responsible, socially conscious, and well-governed, their true sustainability impact remains debated. Several issues have been highlighted in recent reports.

Caveats of ESG rankers and raters

Firstly, aligning investments solely with ESG indexes can lead to capital misallocation, focusing on short-term gains rather than long-term sustainability outcomes. This can be attributed to the fact that ESG ratings generally fail to gauge "a company's impact on the Earth and society. In fact, they gauge the opposite: the potential impact of the world on the company and its shareholders" (Simpson et al., 2021). Recent ESG market analysis by Fitchner et al. (2023) (Fitchner et al. 2023) examined the role of ESG indices in setting de facto standards for sustainable capital allocation. This research showed that most ESG funds fall under "broad ESG" indices which have limited sustainability impact compared to "dark green" portfolios. The former mainly mitigate investor risk and focus on input ESG (instead of output ESG) contributing to a "ESG capital allocation gap."

Secondly, rating agencies often provide widely differing assessments of the same company, causing confusion and skepticism among investors. S&P dropped ESG scores (Lester 2023) from their credit ratings in 2023 and warned (Naik 2024) against oversimplifying climate risk models. Critics argue that ESG metrics are too simplistic and fail to capture the full range of actions needed to address climate change and nature loss. The lack of standardisation and transparency weakens the framework's reliability and allows for over-credited projects.

Linked to this issue of scoring is the inherent bias in capital allocation that it influences. The London Stock Exchange Group (London Stock Exchange Group 2022)showed that there is an ingrained bias in ESG scoring which favours advanced economies over developing or emerging economies. Consequently, less than 10% of ESG funds go to emerging economies, despite their global economic significance. Ratings penalise companies in developing markets for factors beyond their control, such as political risk or government debt, leading to exclusion from ESG funds. A recent FT Adviser poll found that 83% (Jackson-Obot 2024) of experts agree that investor interest in ESG funds has diminished as a result of other economic and geopolitical concerns.

Greenwashing risks

There is growing concern that ESG enables greenwashing – where companies overstate sustainability efforts through marketing and outreach whilst continuing business-as-usual, exacerbated by a lack of accountability over sustainability claims. There are several examples of this seen in Sri Lanka too, where companies alter colours in their logos to reflect a new commitment to sustainability, or claim to be net zero entirely through offsets. Greenwashing takes place on a vast scale globally too. DWS, Germany's largest asset manager, paid a settlement of €21 million (Hannay 2023), after overstating ESG assets in its 2020 annual report. Kenneth Newcombe, a well-known figure in the offsetting industry was indicted in September 2024 (Greenfield 2024) for manipulating data from projects in rural Africa and Asia to secure carbon credits valued at tens of millions of dollars. In January 2023, an investigative report (Greenfield 2023) showed that 94% of forest-related projects validated by a leading certifier of carbon offsets – Verra – did not represent genuine carbon reductions. These discrepancies, amongst several others, between declared intentions and actual actions have undermined ESG as a credible framework.

Shifting from voluntary to mandatory schemes

While ESG is self-regulated in Sri Lanka, many other jurisdictions have passed transformative policies that include mandatory climate disclosure regulations. Research across literature shows a tangible reduction in GHG emissions by corporations that are subject to mandatory disclosures regimes, compared to those that have adopted voluntary disclosure regimes. Institutional investors demonstrate the same tendency to reduce their investment portfolio's aggregate emissions by reducing their exposure to fossil fuel intensive industries and investment vehicles when they were forced to disclose climate-related risks to their investments and transition plans for reducing emissions.

Moving beyond self-regulated initiatives would require reorienting laws and policies that provide the necessary foundations to achieve a just and equitable transition. Sri Lanka's new government's election manifesto (Jathika Jana Balawegaya 2024) proposed that we "move away from anthropocentric thinking that places man as the sole owner of the earth which conflicts with nature...[and] will support the realities of a systematic journey that is required for the economy to become a circular economy". The first step to achieving this ambition is through evidence-based environmental policies followed by enforcement, and accountability.

Focusing on the E in 'ESG'

Sri Lanka is beginning to rebuild its economy, after experiencing a polycrisis followed by its first sovereign default in 2022. Research by Intercontinental Exchange (ICE) (ICE Sustainable Finance Research and Content 2024) shows that the chances of default are correlated with climate risks. The Intergovernmental Panel on Climate Change (IPCC) (IPCC 2018) reports that tropical countries and those in the Southern

Hemisphere subtropics will likely face the greatest economic impacts from climate change.

Climate hazards, which result from climate change driven by human activity, will undoubtedly impact our industries and disrupt markets in the near future. As climate change is a risk multiplier, it is imperative for businesses to enhance their capacity in risk management and resilience. For instance, climate hazards such as droughts or flooding lead to impacts of concern such as crop failure, which may subsequently lead to food insecurity, unemployment, market disruption and more. Chatham House's landmark study 'Climate change risk assessment 2021' (Quiggin et al. 2021) outlines such cascading climate risks in detail.

There is a growing sense that many Sri Lankan corporates are taking only cursory efforts in addressing environmental challenges. They focus too heavily on headline ESG reporting efforts rather than meaningful and sustained impact, and undertake ad-hoc environmental CSR projects that are not science-based. Cheering such initiatives whilst continuing business-as-usual approaches that exacerbate environmental pressures cannot continue. Instead, corporate actors need to fully integrate environmental considerations into their strategy and operations.

This includes corporates in the financial services sector. Research by CSF in 2023-24 (Centre for a Smart Future 2024a) showed that only 8 Sri Lankan financial institutions (FIs) (of the 56 reviewed) had adopted an internal policy or strategy focused on the environment. Just 5 FIs systematically assess environmental impacts and risks in granting loans, and only 4 reported that they quantify/measure environmental and/or climate risks in their portfolio.

Export competitiveness and capital flows

Sri Lanka's main export sectors are intrinsically linked to nature and are influenced by climate change – including tea, rubber, coconut, spices, or processed food and beverage exports. In an increasingly environmentally-conscious global market, raising forex earnings and attracting foreign direct investments are more likely if Sri Lanka positions itself as a sourcing location that minimises environmental degradation, and a tourism destination that is charting a nature-positive path.

The international capital available for climate and nature-aligned investments is also growing. Climate finance now tops USD 1.3 trillion (Buchner et al. 2023) annually and is expected to see more private financing, not only multilateral and aid financing. The Green Climate Fund, which committed USD 2.3 billion in 2024 and has total pledges for USD 12.8 billion (Green Climate Fund 2023), now has a Sri Lankan bank (Green Climate Fund 2023) as a direct access entity. Sri Lanka's private sector must tap into green funds, climate funds and biodiversity funds – all of which now have a large private sector presence globally and no longer just appeal to development organisations like in the past.

Priority agenda for Sri Lanka

By 2050, over 90% of Sri Lanka's population (19 million people) will live in areas forecasted to become climate hotspots (World Bank 2018), and consequently, the economy is projected to experience a 3.86% reduction in GDP (Centre for a Smart Future 2024b). Sri Lanka faces a shoreline retreat of 200,000 to 300,000 m^2 (Ministry of Environment Sri Lanka 2022) annually, with 40% (Ministry of Environment Sri Lanka 2022) of the population living within 2 km of the coast. As one of 36 (Ministry of Environment Sri Lanka 2024) biodiversity hotspots, the country is home to 66 critically endangered and 102 endangered species.

While the 'S' and 'G' have had steady attention among our private sector, as a result of improved efforts around employee and community welfare and enhanced governance requirements stipulated by regulators, the 'E' still receives insufficient attention. Clubbing 'S' and 'G' with environmental considerations risks losing focus on this agenda. We need concerted and dedicated efforts on the environment, beyond generic ESG frameworks. With macroeconomic stabilisation achieved and a sovereign re-rating well underway, we must now put environmental concerns at the heart of our economic recovery, and natural capital at the centre of our economic growth model.

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PRIORITISING GREEN JOBS IN SRI LANKA'S ECONOMIC RECOVERY

By CSF researchers in the Nature, Climate, and Economy thematic

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We hear regularly that a defining feature of the future job market is the impact of technological advancements, like robotics and artificial intelligence. Yet, the impact of green growth imperatives are likely to be an equally profound feature of the future job market, and often attracts less focus in many developing countries – including Sri Lanka.

Alongside the launch of the 2023 Future of Jobs report by the World Economic Forum, it was noted by a Managing Director of WEF that (World Economic Forum 2023), "relative to today, the highest amount of growth is expected to be in sectors that require green jobs and green skills". The report also noted that year-on-year growth in hiring of green jobs exceeds the overall hiring rate growth every year since 2019. Consequently, the job market is responding. According to data from the professional networking platform, LinkedIn, 'sustainability jobs' make up three (3) of the top ten (10) fastest growing roles on the platform over the last four years – this includes 'Sustainability Analysts', 'Sustainability Specialists', and 'Sustainability Managers'.

What are Green Jobs and Green Skills?

According to the ILO (2022) green jobs are defined as *"decent jobs that contribute to preserving or restoring the environment, be they in traditional sectors such as manufacturing and construction, or in new, emerging green sectors such as renewable energy and energy efficiency".*

Even this definition is quite limiting – the 'emerging green sectors' are not just in energy, but also in pollution abatement, conservation, ecological restoration, green reporting, and many more. Meanwhile, 'green skills' can be explained as those skills that enable the environmental sustainability of economic activities, which could be in new green growth sectors, or those required in new roles or new competencies in existing sectors. The latter point is important because the increase in green jobs in the labour market is not just limited to typically identifiable "green" careers like ecology, renewable energy, natural resource management, environmental science, and so on – it is fast growing in more mainstream careers like industrial processes, corporate services, and data analysis.

Perhaps a more organized way to understand the spectrum and typology of jobs in the green economy is through the following categories: Core green jobs, Green-enabled jobs, and Green-enabling jobs. Let's explore each of these briefly:

- Core green jobs: jobs that have a direct role on environment conservation or climate change adaptation and mitigation, and have emerged specifically because of transition into a green economy (e.g., solar engineers, EV battery technician, conservation ecologist);

- Green-enabled jobs:jobs that are tangentially linked to the green economy and are seeing a rise in green skills required (e.g., HVAC/MVAC technicians for energy-efficiency retrofitting);

- Green-enabling jobs: jobs that have emerged in firms that are directly in the green economy, but the roles do not necessarily require green skills (e.g., sales manager at a solar company).

Rise of Green Jobs Globally and in Sri Lanka

On the LinkedIn platform, some of the fast growing green jobs include Wind Turbine Technician (24%), Solar Consultant (23%), Ecologist (22%), and Environmental Health and Safety Specialist (20%). These would come under the category of 'Potential green jobs' and 'Core green jobs'. Other such jobs would be Geotechnician (to analyse soil samples), Flood Risk Engineer, Recycling Operative, and EV Installer. In Sri Lanka, too, we can observe the rise in solar energy companies, and automobile garages that specialise in hybrid and electric vehicles. These all lend themselves to a growth in technical and vocational jobs.

A CSF analysis of job listings on five online job portals (TopJobs, JobPal, XpressJobs, IkmanJobs, and DreamJobs) show a number of roles across all three of the earlier mentioned three categories. We analysed job listings in a randomly selected week and clustered them into sectors/groups[i]: Environmental management (like wastewater treatment); Environmental sustainability; Electric vehicles (EV); and Solar and other renewable energy. During just the week under review, there were nearly 75 job listings in these areas, across four out of five online job portals[ii].

Solar and other renewable energy had the highest number of job listings (40), followed by Environmental sustainability (19) and Environmental management (13). Example job roles in Solar and other renewable energy ranged from 'core green jobs' in this space like 'Solar Engineer', and 'Solar PV Technical Officer/Assistant Maintenance Engineer; to 'green-enabling jobs' in this space like 'Procurement Officer – Solar' and 'Sales Manager – Solar PV'. Example job roles in Environmental sustainability ranged from 'Sustainability and Compliance Executive' to 'Environmental Health and Safety Officer' and 'Intern – Environmental Sustainability'. Jobs in the EV space included 'core green jobs' like 'Electric Vehicle Technician' and 'Technical Consultant to Prepare Code of Practice and Technical Standards for EV Charging Stations', as well as 'green-enabling jobs' like 'Sales Executive – Electric Vehicles/LED/Solar'. The array of job roles across just these online platforms and just these 75 listings was revealing. Notably, though, we did not find any live listings across any of these platforms on disciplines and roles in 'Conservation', 'Restoration', 'Ecology' that we were also interested in looking for.

We complemented this online review with field interviews with firms in the green economy space. We identified a captive group of potential interviewees at a trade show in Colombo[iii]. The 15 companies interviewed were in the Environmental management (primarily in water treatment), EV, and Solar energy industries. A minimum estimate of 27 new jobs across these industries could be identified as being generated in the near-term, including by Indian companies that intend to set up operations in Sri Lanka. Across the board, companies were primarily looking for engineering graduates (mechanical, electrical and chemical). When asked about the need for environmental engineering know-how, many considered it to be the most preferred but observed that such graduates were hard to find in Sri Lanka. Two companies in the water treatment sector indicated they preferred hiring people with no work experience, as their in-house training programmes (on their specific equipment) would be easier and faster.

Importance for Sri Lanka's Recovery

It is now well established that the pressures on Sri Lanka's natural ecosystems and impacts from global climate change are acute and increasing. The confluence of climate risk (ranked 23rd of 180 countries in the Global Climate Risk Index, and 19 million Sri Lankans live in locations set to become moderate or severe climate hotspots by 2050); biodiversity loss (66 critically endangered and 102 endangered species and is one of 36 biodiversity hotspots with high species endemism; and coastal vulnerability (shoreline retreat is estimated to be 200,000 to 300,000 m2 per year, while 40% of the country lives and works within a coastal belt of 2km) among other pressures will crucially define the next two to three decades of Sri Lanka's development. This then means both that new types of jobs will emerge as these challenges throw up new requirements in the labour market, but also that the job market needs to rise to provide new skills to help the Sri Lankan economy meet these challenges.

The sheer range of new opportunities that will arise is exciting. Designers of green and climate resilient building materials, naturalists and conservationists for tourism properties, ecologists for measuring natural capital in protected areas, and upcycling specialists in creative industries like fashion, are just some of the new opportunities that come to mind. In addition to these 'core green jobs' or 'emerging green jobs', there will be requirements for green competencies in traditional professions – like finance, manufacturing, and auditing. In banking and finance, the need for green finance experts in Sri Lanka is already emerging among banks and non-bank finance companies. In manufacturing, resource efficient circular production is gaining ground in Sri Lankan production facilities. In audit and compliance, the need for green compliance specialists as more corporates and exporters strive to meet net zero targets and are pushed by buyers (e.g. the EU) to keep adding new green credentials.

Green job opportunities will not just be in 'green sectors', but increasingly in 'brown' ones too, because all sectors of the economy that exist today, whether it be apparels, tea, rubber, light engineered goods, and tourism, will be under pressure to adopt green practices. Very little empirical work

has been done on this topic in Sri Lanka, with just one from over a decade ago (Jayaweera, Manatunge and Witharana 2012) which surveyed 50 firms and noted that, "Sri Lankan organizations need comprehensive training packages in order to create green jobs in their respective sectors". International development partners in Sri Lanka are also supportive of this agenda, with the Global Green Growth Institute's (GGGI's) Country Partnership Framework (2021-2025) supporting the creation of 15,000 new green jobs (Sri Lanka Country Planning Framework 2021).

National Prioritisation

Sri Lanka is yet to give dedicated national priority to this agenda, unlike several other countries that have placed the green jobs and green skills agendas at the heart of public policies on Technical and Vocational Education and Training (TVET) and employment. Most notably, Australia forged the 'Green Skills Agreement' with multi-stakeholder involvement. It includes the Australian federal, state and territory governments, employer and employee representatives, the TVET sector, and community organisations. The primary focus of the agreement was to build the capacity of the TVET sector to deliver the skills that will enable individuals, businesses and communities to adjust to, and prosper in, a sustainable, low-carbon economy. Another notable example, from among emerging economies, is the Philippines. The 'Philippines Green Jobs Act (2016)' is notable piece of national legislation among developing countries, in that it mandates the government to boost TVET to help "produce goods and render services for the benefit of the environment, conserve natural resources for the future generation and ensure the sustainable development of the country and its transition into a green economy". Similarly in Ghana, the 'National Green Jobs Strategy' (2021-2025) focuses on creating a framework for green job development, to align with the country's Paris Agreement commitments.

Meanwhile, Indonesia included a green jobs initiative as part of national development plans, to promote environmental sustainable employment opportunities in key sectors such as sustainable forestry, waste management and renewable resources.

The closest national document that comes to articulating the green jobs potential is Sri Lanka's Climate Prosperity Plan (CPP), launched by the President on the sidelines of COP27 in 2023, which contains some references to, and ambitions around, green job creation. The document refers to "…a green job expansion, enabling Sri Lanka to maximise the employment benefits of a sustainable and climate secure transition" (p.14). Of the three (3) main objectives outlined in the CPP, the third clearly is aimed at green jobs[iv] – 'Accelerated Transition and Modernization Through Re-skilling and Training'. The CPP envisages creating green jobs from both climate mitigation (areas like reforestation, renewable energy, energy efficiency, etc.), as well as climate adaptation actions (areas like flood protection of roads and buildings, installation of irrigation systems, climate-smart agriculture, etc.). The CPP estimates the creation of a minimum of 242,000 green jobs by 2030 and 333,000 in 2040 (with implementation of the CPP), from a baseline of 38,500 in 2022. Overall, the CPP estimates creation of 300,000 additional green jobs over the plan's timeframe, rather than a Business-As-Usual scenario.

It is essential to build on the national recognition given in the CPP, to now articulate a 'National Green Jobs Strategy' with specific interventions for the TVET system, timelines, and key implementing partners.

To support this, Sri Lanka could request the International Labour Organization for a 'Green Jobs Policy Readiness Assessment', to take stock of where we are yet and what is needed to bridge the gaps. This can build on previous ILO support to Sri Lanka

under the 'Green Jobs in Asia' project implemented during 2010-2012. An ASEAN and ILO (2011) report 'Regional Study on Green Jobs Policy Readiness in ASEAN' helped provide a reference framework to assess individual countries. For instance, Indonesia has undertaken this assessment (PAGE 2023) and used its inputs to inform its green jobs initiatives. Another key priority is setting new standards and certifications. As rightly pointed out by (Jayalath 2015) a former leader in the TVET Commission, *"comprehensive green skill standards and certification systems need to be developed. Benchmarking of internationally recognized standards, establishing protocols for standards in new green jobs […] will require leadership of regulatory institutions and the industry".*

TVET Focus

A challenge observed in the Sri Lankan skills and TVET ecosystem is the lack of clarity and recognition about what green jobs actually are and what skills are involved. In fact, this was acknowledged by the former Deputy Director General of the TVE Commission (Jayalath 2015), who observed that, "a widespread lack of clarity about what green jobs actually are, and until you know what jobs are involved, it is very difficult to identify the sort of training that needs to be planned and provided". This then impacts the extent to which TVET institutions can plan and provide future-oriented services. A review of programmes offered by 33 TVET institutions across Sri Lanka, show only a very limited number of courses available in the green jobs space – 'National Certificate – Solar Photovoltaic System Technician', 'National Certificate – Solar PV System Installer', and 'National Diploma in Water & Environmental Engineering'.

This space is moving so quickly that the pressure is on our TVET sector to work closely with industry and understand the new demands and emerging requirements, and align curriculum and course offerings accordingly. Simple online searches of the type we conducted can be done by Sri Lanka's TVET institutions to assess market requirements (and their changes) and orient their programmes accordingly.

Even as TVET institutions now work more closely with industry to improve programming relevance, Sri Lankan industry may themselves be somewhat behind the curve and not fully know what the future holds – as such, they may not be able to provide TVET institutions with a futuristic perspective of the needs. So, the TVET sector will themselves need to look at the evolution of the green jobs and green skills elsewhere, assess global and regional trends, learn from countries that have gone ahead of us (like Philippines, Ghana, Indonesia, and Australia cited earlier), and plot a future-oriented course for the provision of TVET.

Updated (12th Aug) with information on TVET programmes/ courses in selected state TVET institutions.
This article drew on, and expanded from, the remarks given by Anushka Wijesinha (Director, CSF) at the 'Green Dialogue' hosted by GIZ, which focussed on the role of the TVET sector in promoting green skill development towards a green economy. The author acknowledges research inputs provided by Shenara Fernando, Project Intern – CSF. This article is published under CSF's thematic pillar 'Nature, Climate, and the Economy' where we conduct research and advocacy towards influencing an economic recovery that puts environmental considerations at the core.

Endnotes

[i] We used a keyword search approach, using terms 'waste', 'environment', 'sustainability', 'green', 'solar', 'EV', 'conservation', 'restoration', 'renewable', agriculture', and then refined the results based on the specific job listing hits.

[ii] The portal DreamJobs had no listings under the searched keywords.

[iii] The trade show held in July 2024 featured renewable energy, water management, and EV.

[iv] As per the CPP, 'Green jobs are jobs that result from the implementation of interventions in the CPP scenario'.

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ANCHORING MEANINGFUL COMMUNITY PARTICIPATION AT THE HEART OF NATURE-BASED SOLUTIONS IN CITIES

By Anisha Gooneratne and Iromi Perera
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Nature-based solutions (NbS) has emerged as a term that encompasses approaches to repair, sustain and protect ecosystems and ecosystem services whilst working to address societal challenges. The multifaceted nature of NbS has allowed for policy makers and officials alike to utilise ecosystem services, to not only address sustainability initiatives such as biodiversity conservation, erosion control, wetland reforestation but also address societal challenges such as climate change mitigation and adaptation, food security and water security to name a few. Estimates suggest that NbS can provide nearly 37% of the mitigation needed (World Bank Group 2022) until 2030 in order to achieve the targets set out by the Paris Agreement, in addition to contributing towards achieving the Sustainable Development Goals. South Asian countries like Sri Lanka, Bangladesh, Bhutan, Pakistan and Nepal have all explicitly included NbS in their Nationally Determined Contributions (Nature Based Solutions Initiative 2022) as part of the Paris agreement.

Against this backdrop, Colombo Urban Lab together with People's Alliance for Right to Land (Sri Lanka), Transitions Research (India) and International Centre for Climate Change and Development (Bangladesh) hosted a Policy Lab, 'Integrating Equity and Reframing Urban NbS in South Asian Cities', in Colombo last month. The Policy Lab had attendees from Sri Lanka, India, Bangladesh and Pakistan who came together to discuss the current framings of NbS, and to better re-align it to the context of South Asian cities. As part of this, a key discussion point was the importance of community engagement in achieving successful NbS initiatives.

Although NbS has received increased attention recently, much of it is targeted towards rural use-cases with less focus on the role and impact that NbS can play in rapidly urbanising cities. Given the densely populated nature of South Asian cities, and the many ways it can impact city resilience, therein lies an opportunity to leverage NbS to achieve sustainable development. Since the 1980s, sustainability concepts and approaches have been used (Bayulken, Huisingh, and Fisher. 2021) to steer urban development through efforts such as flood management and waste management. More recently this shift has also encompassed a new element which is linked to NbS, where a key consideration is on societal well being and quality of life (Bayulken et al. 2021) of residents.

With 'urban' as an under explored context of NbS, the focus shifts to the complexities of deploying NbS in cities, in a just and equitable manner that achieves both environmental objectives along with plural objectives of societal well being. South Asian cities have high population density, with cities like Mumbai, and New Delhi ranking higher than those of other global cities (Ellis and Roberts 2016) as of 2012. In Sri Lanka alone, Colombo has the highest population density (FAO 2018) of the country. Hence, urban NbS cannot focus on its sustainability objectives alone, as the urban ecosystems are already likely to be inextricably linked to the residents of that city.

Keeping the nexus between residents and ecosystem services in mind, community participation emerges as a key factor when it comes to NbS projects. Participation is not a new term or concept- its emergence can be traced back to the 1970s and 1980s. Success from empowerment and capacity development led to it being a key consideration (Cornwall

2009) in project interventions. However, the importance here lies in the nature of community participation.

Historically, and more often than not, community participation has taken the form of "consultations" to satisfy engagement criteria for projects, a sort of 'tick-box' exercise. These can take the form of awareness raising initiatives to inform communities that projects are taking place in their communities or with the ecosystems they engage with. In these instances, communities have little autonomy to guide the direction of these projects or voice their opinion and provide feedback. For NbS initiatives to be successful, meaningful engagement is essential to ensure project success. Thus, it is paramount that we move to a model of meaningful community engagement in a way that is equitable and just with the communities who will be impacted either directly or indirectly, by NbS projects. The following detail out principles of community engagement that should be taken into consideration when designing NbS projects to ensure meaningful engagement and participation throughout the project lifecycle from conception through to completion and finally to review evaluation.

Reframing NbS objectives: Understanding that NbS has the potential to impact more than just environmental indicators, but have impacts on societal and well-being too. In addition, a shift away from economic objectives alone, to plural ones is essential to identify the many ways in which it can impact the environment and communities.

Engagement throughout the whole lifecycle of the project: Communities, especially those who closely interact with ecosystems are likely to know the ecosystem in-depth. Thus, we recommend community participation throughout the whole lifecycle of the project – from the conception phase, through to implementation, evaluation and long term monitoring. This also provides a way to amplify and utilise indigenous knowledge that communities have, that have the potential to be more successful than solutions that may not be as contextually relevant.

Ensuring NbS projects are justice centred: Being mindful that NbS can also contribute to nature-enabled dispossession (Anguelovski and Corbera 2022) through the appropriation of resources used by communities. Their livelihoods and ability to remain in places (i.e. when they are close to an ecosystem), are likely to be impacted, thus it is important to take this into account to ensure that NbS practices are justice centred.

Addressing community opposition: If communities have an opposition to a NbS project, it is important to identify why they hold this belief. Identifying the opposition, and working with communities to help overcome it can be a time-consuming process but it is essential that these are taken into account and resolved at the outset to improve project success. Understanding that community interaction with the ecosystem in question has likely happened over a long period of time, so project partners and policy makers should not rush to implement projects but rather be patient and work with communities to achieve better long-term results.

Context-based approaches: Ecosystems, especially those in urban areas are likely to spread over a large area, and even across regional boundaries.

Initiatives should take into account the views of communities who interact with the ecosystem, and keep in mind that each community's interaction with the ecosystem is likely to be different. The heterogeneity of this interaction would mean that each community would need a specific context based approach when designing and implementing NbS initiatives, as a one size fits all approach won't work. As highlighted by Wolff et al. (2022), it is imperative that projects "identify

the nuances of particular environments and the priorities of communities".

Capacity building: It is important to build capacity within communities not only to support the short term objectives of the project, but with a view to build more long term resilience within communities.

Compensating communities for their time: In any form of participatory engagement communities give of their time to be present in consultations, trainings etc. Given that this can negatively impact their time spent earning and income or tending to other activities, it is essential that communities are compensated for their time in order to facilitate meaningful engagement.

Compensation and alternative methods of support for disrupted livelihoods: NbS also has the potential to disrupt livelihoods. Thus, NbS projects should not only think of compensating communities for lost livelihoods and impact, but also building long term alternative livelihoods that are accessible to communities.

Being mindful not to recreate or exacerbate existing power dynamics: With NbS projects, especially those that rely on community participation for implementation (e.g. urban agriculture), it is imperative that we are mindful of the existing power dynamics between communities, so that these aren't being recreated. For example, it is often the woman who end up attending meetings or tending to urban gardens in addition to her own work and unpaid household and care work. This further increases the unseen labour and unpaid care work of women. Thus, projects should be mindful to create spaces that foster gender inclusion without recreating existing dynamics which can further burden women.

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CITY RESILIENCE THROUGH URBAN AND PERI-URBAN AGRICULTURE

By Anisha Gooneratne
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Diminishing crop yields, high inflation, along with disruptions to global supply chains, and bans on imported items have left Sri Lanka grappling with serious and worrying levels of food insecurity. For those based in Colombo, the risk of food insecurity is much greater compared to rural areas, considering they bear a higher degree of expenditure on non-food items such as rent and transport, leaving only a little to be spent on food. This, combined with the higher prices of food in Colombo compared to other areas of the country, leaves Colombo exposed to a greater degree of risk of food insecurity. With the city’s population expected to grow to nearly 3 million by 2035 (Japan International Cooperation Agency 2014) the need to build resilience in the city by strengthening food systems interacting with Colombo is essential to ensure food security for its residents. With the Colombo Municipal Council (CMC) piloting urban agriculture in their gardens, perhaps the time has come to think of moving production closer to the capital.

The problem

Despite its population density, there is close to no agricultural production being undertaken in Colombo (Fernando et al. 2016) to support the demand for food. Currently, distribution of food to the city of Colombo is not planned according to the closest production source, which has resulted in food being transported across the country from the North Central and Eastern Provinces (Fernando et al. 2016), approximately 265 km away from Colombo. Variation in distance has resulted in fluctuating food prices with the price of food being higher in

Colombo compared to other regions that are closer to the source of production (Fernando and Santini 2019). While your food could be grown in your neighbourhood (Fernando 2022), it is likely that it will travel all the way to Dambulla before it finds its way back to Colombo.

Furthermore, the poorly planned food distribution system is worsened by the lack of supporting infrastructure to transport food across the country to Colombo. Lack of robust storage and refrigeration facilities along the value chain and in Colombo results in food spoilage and wastage (South Asia Policy and Research Institute et al. 2017). A 2020 report conducted by the National Audit Office revealed a post harvest loss of between 30%-40% of fruits and vegetables owing to unsuitable packaging and transport among other reasons. This translates into increased prices for residents in Colombo as the supply of food coming into Colombo is diminishing.

These underlying weaknesses in the system have been further compounded by rising fuel prices. Mahen*, a vegetable seller in Wanathamulla who is severely affected by the rising price of food said, “The price of vegetables in the wholesale market is unaffordable. Not only has the rise in fuel prices increased the price of vegetables but as less vehicles are carrying vegetables into Colombo due to the fuel shortage, this reduced supply has further increased the price of these goods. I also have to spend more money to travel back and forth from the wholesale market – the cost of my trip has doubled. My clientele also can’t afford to spend too much money on vegetables, so there isn’t even a demand for what vegetables I bring to sell.”

The complexity of existing value chains transporting food to Colombo has led to high food miles, which can be defined as the distance food travels from source to consumption. Increased food miles can result in increased greenhouse gas

emissions and pollution, further reiterating the necessity to move production of food closer to Colombo and peri-urban areas.

Re-building food systems

The need for resilience in times of crisis cannot be underscored enough. Drawing from the works of Johannes Langemeyer (2021) we take resilience to mean the “capacity of an urban system to absorb disturbances, reorganise and maintain essentially the same functions during its development along a particular trajectory”. In this regard, preventing and reducing the impact of disruptions such as fuel shortages, price increases and improper storage and transportation to the food value chain can better help to mitigate the severity of food insecurity for Colombo.

Urban agriculture can be defined as (Zezza and Tasciotti 2010) “the production of crop and livestock goods within cities and towns”. While the term is facing increased popularity now, it has very much been a part of past policy interventions. For example, in 2014, in partnership with the international network of Resource Centres on Urban Agriculture and Food Security (RUAF), the International Water Management Institute (IWMI), UN-Habitat Wageningen University–PPO and the School of Forestry at University of Florida, the Western Province undertook a project (Dubbeling 2015) in the city of Kesbewa to rehabilitate abandoned paddy lands for crop cultivation under the banner of urban agriculture. The Divi Neguma programme (Hirimuthugodage 2012) under the Mahinda Chinthanaya in 2011, also promoted urban agriculture in the form of home gardens. More recently, the CMC in partnership with Cargills Ceylon, has started growing vegetables on the grounds of the Town Hall, with the CMC expected to expand its urban agriculture programme to Viharamahadevi Park and other CMC lands (Wijedasa 2022).

Urban agriculture has long been considered a viable option to counter crises and shortages in food. Expanding food production closer to the city can help to reduce food miles and associated greenhouse gas emissions, minimise food wastage during transportation and counter shortages of fuel which could in turn help to counter the increased price of vegetables and fruits in Colombo. In addition to this, urban agriculture has been reported to have supported employment, inclusion and empowerment, especially in the global south, which can help to reduce inequalities (Langemeyer et al. 2021) that have been heightened by urbanisation.

Thinking ahead

If Colombo is to truly fulfil its commitment to urban and peri-urban agriculture it is essential that certain factors are taken into consideration. The first is ensuring that urban wetlands and other ecological sites are not destroyed for the promotion of urban agriculture. Rather than destroying or replacing these sites, it is important to do it in a way that it complements the existing ecosystem. This also includes sustainable ways to irrigate such as rain water harvesting and the use of organic waste as compost to name a few.

Urban agriculture also does not need to merely take the form of land use in urban and peri-urban areas. Emerging alternative methods include various forms of vertical farming such as hydroponics that can be used in indoor, space constrained areas or even rooftops have gained popularity in cities worldwide. In Singapore, 10% of leafy green vegetables are produced through indoor farming mechanisms (Benke and Tomkins 2017). In Japan, commitment to indoor agriculture has resulted in companies moving production of crops to indoor environments. The Mirai Company in Japan has built a 25,000 sqm indoor farm producing lettuce at 100 times more per square foot compared to traditional methods. Compared

to traditional methods of land use farming, their endeavours have resulted in energy usage reducing by 40%, 80% less food waste and 99% less water usage (Benke and Tomkins 2017). Indoor/vertical farming has the potential to help reduce the burden of land use, especially in space constrained areas where traditional farming is not an option. It is also a way in which production can move closer to the city to better help food supply into Colombo.

The transition to urban agriculture is not an opportunity for the private sector alone, nor should be seen as one that justifies the acquisition of land in the name of city resilience. Herein lies a unique opportunity to also support the urban poor better with access to food. Allotments in urban areas have been a popular part of urban planning in European cities; in Germany (van den Berg 2002) and Portugal (Matos and Batista 2013), allotment gardens have been created by Local Government to give access to the urban poor to grow their food and better weather against food insecurity. Following similar principles in Colombo could better support Colombo's urban poor, as many struggle with adequate space to grow at home. Moving production closer to home in the form of allotments could also take into account empty spaces in high rise buildings, such as the UDA high rise buildings used to relocate the urban poor. Creating allotments in urban spaces such as this could better support their access to food without having to travel great distances to reach their allotments while also creatively using empty spaces. The many forms urban agriculture can take is vast and, more importantly, its potential impact to food systems and food security especially for the urban poor cannot be underscored enough.

However, merely growing food closer to the city is not enough. More needs to be done to strengthen the existing infrastructure in the food value chain. For example, the creation or better use of distribution hubs closer to the city can help to ensure that food is not travelling great distances before it reaches a collection/sorting hub. This can help to prevent wastage during transportation, and also reduce greenhouse emissions. Additionally, further strengthening cold storage along the value chain can better help to mitigate the wastage that is experienced post harvest.

Thinking more long term, it is important that food systems are thought of as part of city planning and not outside it. In this way, there is better commitment to ensuring food is more accessible for residents in cities as opposed to re-actively introducing crops into existing urban infrastructures retrospectively.

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RE-DEFINING DESTINATION IDENTITIES FOR SUSTAINABLE TOURISM IN SRI LANKA

By Senith Abeyanayake
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"The tourism industry can be developed as an immediate measure to uplift the economy...We have good beaches, central hills, wildlife zones, good civilisation, and ancient inheritance which are ideal for tourism." This is what then-presidential candidate Anura Dissanayake said at a penultimate-week rally (Siriwardana 2024a) while declaring the party's intention to reach four million tourist arrivals per year, almost doubling the post-war peak of 2018 (Newswire 2024). So, it was no surprise that when the president and his three-member cabinet of ministers were appointed, tourism was assigned to the President himself (Siriwardana 2024b) alongside traditionally critical portfolios such as defense, finance, energy, and economic development. It is the latest instance in which national leaders have prioritized the tourism sector in attempts to support economic recovery.

Sri Lanka's tourism and nature – a paradoxical relationship

It is widely acknowledged that the traditional Sri Lankan tourism brand is overwhelmingly reliant on its endowed natural assets (Wicramasooriya, Chandralal, and Jayawickramal 2020) In addition, nature-based tourism models conducted in protected areas are becoming increasingly sought after by tourists, both foreign and local. While Sri Lanka is a biodiversity hotspot (Abeyratne 2023), it is facing considerable environmental degradation (Wijesingha 2022) and adverse impacts from climate change (Samaraweera et al. 2024).

Unfortunately, Sri Lanka's brand of tourism to date has adversely (International Development Group LLC 2023) impacted the environment due to rapid, unsystematic, and unsustainable tourism development. A popular and unfortunate example of this phenomenon is Ella, where within a decade, tourism mushroomed at such a speed and scale that it threatened to destabilize the surrounding environment (Wijesena 2020). While some bright spots exist that show how to balance (Brown and Frost 2022) economic and environmental considerations, such examples are few and far between. By and large, the tourism sector is yet to meaningfully integrate nature at the core of the country's tourism business model. Some development partners are beginning to push the conversation forward by including such considerations in their lending programmes (Senewiratne 2024) to the Government. Additionally, even if there is an increasing focus on environmental considerations in tourism, it is doubtful whether such initiatives can keep up with the fast-growing demand-side stresses from short-sighted promotional efforts that are prioritizing boosting short-term gains over longevity.

There are many factors often cited as barriers to making tourism truly sustainable – ranging from a lack of regulation (Mudugamuwa 2019), and lack of enforcement (EconomyNext 2025), to management issues (Fernando et al. 2024), and political influences (Miththapala 2024a). However, these factors alone may not explain why although Sri Lanka markets its tourist attractions to be 'wild', 'pristine' and 'scenic' (Sri Lanka Tourism Promotion Bureau 2025), tourism development on the ground is far from protecting such qualities. So could this gap also be symptomatic of a conceptual disconnect between Sri Lanka tourism's brand aspirations and the ground realities of Sri Lankan tourism destinations?

Destination identities – Moving beyond 'top-down' destination branding

Destination branding is the process of building a unique image which aims to differentiate a tourism destination from its competitors. At the national level, Sri Lanka has engaged in multiple (and short-lived) destination branding efforts in the past – from 'Land like no other' in the year 2000, to the current 'You'll come back for more'. Additionally, and in parallel, provincial tourism authorities have launched sub-national destination branding, for instance, 'Discover Wayamba: Kingdom of Diversity'.

While there are many conceptions of what destination branding entails, the Digital Tourism Think Tank (DTTT) identifies three fundamental drivers of a destination brand: 1) reputation, 2) identity, and 3) perception (Digital Tourism Think Tank 2024). While reputation captures tourists' beliefs and opinions, perceptions are subjective interpretations of tourist experiences. What is critical to our conversation is identity, which according to DTTT "has to be driven by authenticity, unique selling points of the destination, consistency and strong personality." So a destination brand should be inspired by, and rooted in, the destination identity. Building destination brands without clarifying destination identities is like building a house without a foundation – unsustainable.

At the national level, the constantly changing destination branding efforts (three during the last decade, and several more before) hint that Sri Lanka has not established a clear sense of destination identity (Miththapala 2024b). There is even less discussion about the efficacy of provincial destination branding efforts.

The strength of Sri Lanka's natural and cultural endowments lies in the diverse spread of such places across the country

(Gan, Auvity, and Perera 2024), with each place having its own unique selling proposition. For example, Kurunegala, Kalpitiya, and Wilpattu are three destinations located within the North Western Province (Wayamba Tourism). Though located nearby, each of these destinations has very different tourism and environmental attributes. However, beyond occasional (and often project-focused) stakeholder consultations, little formal efforts have been made to collaboratively develop the identity of each of these destinations. So, alongside national destination branding, should we also be flipping the equation and thinking about building up sub-national destination identities? Would formulating such 'local' identities that place nature at their core inspire and facilitate truly sustainable tourism? A deeper look into how destination identities can be formed could be a starting point for answering these questions.

Formulating destination identities – Aspects to consider

There are many ways in which destinations have set out to formulate their identities, and there is a non-convergent body of literature analyzing this process. So, the following are some considerations that would be pertinent to Sri Lanka's context if we are to start co-discovering local destination identities.

1. Destination identity formulation is a multi-stakeholder process: A critical question when formulating an identity of a destination is to identify and accommodate relevant and diverse stakeholders. A destination can mean very different things to different stakeholders operating in the same place. This diversity in perspectives can be a powerful bedrock on which an inclusive, sustainable, and equitable brand of tourism can operate on. This will also ensure that destination identities are formulated with enough space for them to evolve over time. Kalpitiya is an example of how destination identities

can radically change through tourism activity in a destination. Initially popular for whale and dolphin watching, Kalpitiya soon became Sri Lanka's kite surfing hub through the entrepreneurship of several tourism actors. Furthermore, as highlighted in this insight by The Place Brand Observer (2022), a collaborative approach inspires tourism actors to build trust and take ownership of broader destination issues such as conservation.

2. Focusing on the residents' perceptions of a destination: An under-explored perception in destination identity (Wassler, Wang, and Hung 2019) and branding efforts are those of the residents of a destination. Destination branding efforts are crucially contingent on how the residents of a destination respond to destination branding. This is because residents are both a part of the destination identity and also a potential tourism actor. For example, a traditional fisher in Kalpitiya can be a part of its destination identity (a fishing-based tourism destination) and if they have aspirations to provide boat tours, then they are potential tourism actors as well. So, the success of a destination identity and brand is dependent on the attitude of residents towards it. This is especially critical because the introduction and expansion of tourism in a destination also influences the residents' place identities (Kneafsey 1998). For residents, the identity in question is not one of destination (which is tourist-oriented) but of place, since they are living in the said tourist destination. Additionally, this is important for nature-related impacts of tourism because resident behavior can be nature-positive (eg: stewards of nature) or negative (eg: poaching practices).

3. Destination identities as a multisensory concept: A growing body of literature is analyzing how a destination identity can be formed through some or all the five senses (Kah, Shin, and Lee 2022) of sight, sound, smell, taste, and touch. This is seen to an extent through the Sri Lanka destination branding thematic such as "bliss" and "essence" used by the SLTPB. This principle can be extended to sub-national destinations. The importance of looking at destination identities from a multisensory angle is that it pushes a focus on often overlooked forms of pollution such as light, sound, and visual pollution. It is encouraging to see instances like the recognition of locally rooted small-scale hotel architecture blending with the environment (visually and otherwise) in the Urban Development Authority Kalpitiya Development Plan (2019). However, the challenge remains in mainstreaming such emphasis and embedding it in policy and regulation.

4. Destination identities bounded by natural capacities: Destination identities should also be bounded by natural carrying capacities because especially in the Sri Lankan context, sustained gains through tourism can only be realized if the natural environments of tourism destinations continue to thrive (Wijetunga 2024). Concepts such as Doughnut economics have been adapted for tourism destination management (Paradise Found 2024) to incorporate boundaries into destination identities. Sri Lanka already has a growing body of public and private research on the carrying capacities of tourism destinations (UNDP 2022). Consistently integrating insights from such research into destination identity and branding formulation will be a good starting point to meaningfully align tourism with nature.

Kalpitiya and Yala – Starting points for 'co-discovering' destination identity?

How can co-discovering destination identities potentially mitigate adverse impacts from tourism to nature in Sri Lanka? A good place to start could be Kalpitiya, where the delays in proceeding with an island-development project offer the opportunity for a re-think. The SLTDA initiated the Kalpitiya Island Resort Project back in 2010 when there were little to none of the current tourist activities that Kalpitiya is well-known for today. Since then, the Sri Lanka Tourism Development Authority (SLTDA) has leased out 10 islands in Kalpitiya to 7 investors with an aim of spurring tourism footfall and local development. Some of these islands have been leased for more than a decade, but investors have not been able to commence any of the projects, prompting the SLTDA to threaten lease cancellations (Fernando 2024) if projects do not commence soon. Reasons for not proceeding with the resort projects included the changing geology of the islands (Mudugamuwa 2024) and the opposition by fisher communities (SLTDA n.d.) who are using the islands. These problems seem to stem from a misalignment between SLTDA's vision for Kalpitiya through this Island Resort Project and destination identity factors such as natural resource features and local activities. A collaborative exercise to formulate Kalpitiya's destination identity before commencing such resource-intensive tourism projects may not only ensure that tourism activities practiced in Kalpitiya are just by its people and nature, but also that investment propositions made by SLTDA are credible, bankable, and sustainable.

The destination branding of the Yala National Park is a different case. The park is traditionally known for several charismatic species (leopard, elephant and sloth bear). The branding in Yala has prominently highlighted the elusive leopard (Eco Team n.d.) and promoted it as a park with the highest leopard densities in the world (Kittle, Watson, and Fernando

2017). This has resulted in supply-side actors such as tourist establishments and jeep drivers (Wickramasinghe 2024) placing an unhealthily high value on leopard sightings in Yala, despite the growing evidence that visitor satisfaction is not entirely reliant on leopard sightings (Egrisi and Prakash, 2019; Fernando et al. 2024). During our field work, local tourism actors noted that they are actively reducing the emphasis on the leopard due to concerns about overcrowding and misbehavior during leopard sightings. There are arguments for (Miththapala 2024c) and against (Athukorala 2024) deprioritising the emphasis on the leopard (or any one animal) in the destination branding of Yala. Even as Yala's troubles are often talked about, there has been no consistent and meaningful effort to discuss and collaboratively shape what Yala's destination identity should be, with the diverse (and indeed evolving) range of local tourism actors operating here. A 'co-discovery' process would bring the different actors to the same page, as well as give them a greater sense of ownership for the sustainability of the destination. This is critical especially in the context of Yala where the solution to overcrowding relies on a behavioral change from many different actors – from government authorities, to hoteliers, jeep drivers, guides, and travel agents.

Formulating destination identities: Policy space for 'Co-discovery'?

Encouragingly, there is no shortage of high-level policy recognition for many of these ideas. Although the Strategic Plan for Tourism 2022-2025 (SLTDA 2022) does not specifically mention collaborative branding approaches, it recognises authenticity and diversity as guiding visions. Its gap analysis identified the need for holistic positioning, branding, and marketing. It places emphasis on local-level awareness campaigns on sustainable tourism and community engagement initiatives.

The more recent National Tourism Policy (2024) emphasizes that all stakeholders – public and private – must have a voice in tourism development. It focuses on integrated governance which includes restructuring the sub-national governance of the sector to better involve local actors and position tourism in regional development agendas.

In the recently concluded Presidential elections, both the leading presidential candidates' parties published their own comprehensive tourism policies ahead of the election, which had an increased focus on themes relating to sub-national destination identity. The Samagi Jana Sandhanaya (SJS) policy document (2024) recognized the complexity and sensitivity of the interactions between tourism and local communities. It placed particular emphasis on "working with local communities to develop genuine and distinctive tourism experiences" to "foster ownership and pride in local tourism developments". Meanwhile, the Jathika Jana Balawegaya (NPP) policy document (2024) posits formulating a nationwide destination branding for Sri Lanka – to be a green destination "offering authentic experiences, ensuring sustainability and inclusiveness". It places a general emphasis on environmental considerations such as identifying the carrying capacities of destinations and reducing visual pollution. While it hasn't said much about the process, it hoped to develop main tourist destinations and promote them with distinctive physical and iconic recognition involving town planners and architects.

In short, continuing Sri Lanka's current brand of tourism development is not an option – it risks nature loss and threatens environmental sustainability. As Sri Lankan leaders once again tout higher tourist arrivals as a priority for economic recovery, there is an urgent need to rethink many aspects of our current tourism model. It is not just about formulating and projecting national destination brands, taglines, and campaigns. It is also about critically assessing, and re-defining, our destination

identities. Such identities, if meaningfully crafted, may unlock pathways to make Sri Lanka's tourism truly sustainable.

This article is an early glimpse into CSF's research study on tourism and nature in Sri Lanka, that explored three tourism destinations (Kalpitiya, Yala, and Maskeliya). One of the themes drawn out from this work is around co-discovery of destination identities, which this article discusses. Future articles will discuss other themes, like destination management, tourism regulations, and tourism infrastructure stresses.

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FROM REDUNDANCY TO RELEVANCE: REVIVING THE NATIONAL GREEN REPORTING SYSTEM IN SRI LANKA

By Medhini Igoor
2nd February 2025
Article published in the Sunday Observer newspaper

Corporate environmental disclosures are essential for fostering transparency and accountability, allowing businesses to communicate their environmental impacts and risks, while aligning with global climate goals. In Sri Lanka, the disclosure landscape is rapidly evolving as companies grapple with the dual pressures of meeting international expectations and local requirements. A recent report by CSF ("Acronyms and Accountability: Strategic Insights on Corporate Environmental Disclosures in Sri Lanka") delves into the importance of these disclosures for the country's sustainability journey.

Amid the myriad of international frameworks, two national frameworks shape the Sri Lankan environmental disclosure landscape: the Sri Lanka Financial Reporting Standards (SLFRS) and the National Green Reporting System (NGRS). The SLFRS sustainability standards were made mandatory for publicly listed companies from this year. However, the NGRS, overseen by the Ministry of Environment (MoE), is a voluntary framework aimed at integrating environmental, social, and governance (ESG) metrics into local business practices, particularly in manufacturing and services sectors. Based on the triple bottom line approach of profit, people, and planet, the NGRS framework aligns with the Global Reporting Initiative (GRI) G3 Guidelines from 2006.

NGRS in context with global frameworks

Although introduced in 2011, the NGRS has now become dormant. Despite registering over 150 organisations, the framework failed to gain traction, with only a few companies achieving NGRS certification before its implementation stalled in 2020. A glaring issue now is the lack of awareness of the NGRS framework among many corporate stakeholders and prominent sustainability professionals. The underperformance of the NGRS is largely attributed to its outdated structure. While GRI has undergone numerous changes and updates over the years to address complex emerging challenges, including biodiversity and supply chain emissions, the NGRS remains based on the older and 'simpler' version of GRI. Many companies deemed it redundant, opting instead for internationally recognised frameworks that offered greater credibility in global markets. The primary driver for corporate environmental reporting in Sri Lanka is access to export markets and foreign investments. In this context, a national framework like the NGRS, lacking global recognition, offers limited value to companies aiming to remain competitive internationally. Additionally, from an investor's perspective, globally accepted frameworks provide greater comparability and consistency across countries and sectors. The MoE, in collaboration with the United Nations Industrial Development Organisation (UNIDO), has initiated a review of the NGRS with the goal of increasing registrations and NGRS-compliant reporting by 2030. However, there is limited information on crucial updates to the NGRS, its processes, and its scope. Questions remain about the framework's ability to adapt to the rapid evolution of global sustainability standards. Updating and maintaining such systems demand significant resources and regulatory effort. Without clear revisions to reflect international standards, or expand beyond manufacturing and services sectors, the framework risks falling further behind global best practices.

In a world moving towards uniform reporting frameworks, the value of maintaining separate national frameworks must be carefully assessed. As Sri Lanka positions itself for economic recovery amidst evolving global sustainability standards, the question arises: can the NGRS be revitalized to bridge the gap between global frameworks and local realities?

Empowering SMEs to overcome data barriers

Sri Lanka's environmental reporting landscape is fraught with challenges unique to its local context, particularly in data availability and accessibility. Scope 3 emissions reporting stands out as one of the most complex tasks in reporting. Tracking emissions across the value chain demands extensive data collection, data management, and engagement with suppliers and other stakeholders, often involving high costs and resource investments.

In Sri Lanka, small and medium enterprises (SMEs) make up the majority of businesses and form the backbone of most supply chains. Limited resources, lack of expertise, and complexity of reporting frameworks often leave SMEs struggling to meet the growing demands for data collection and sustainability compliance from larger corporations. Despite these challenges, the inclusion of SMEs in environmental reporting is vital for achieving systemic change in Sri Lanka's corporate landscape. Supporting these smaller players with an inclusive framework and institutionalised capacity-building programs will ensure they become active participants in environmental reporting practices. Such measures would enable SMEs to collect and contribute valuable data, aligning their operations with the broader sustainability goals of larger supply chains. However, the scale of this effort cannot be underestimated – reaching and equipping all SMEs is a formidable task.

Reinventing the NGRS

The NGRS can be repackaged as an entry point for Sri Lankan businesses to embrace sustainability reporting. While global frameworks dominate sustainability discourses in Sri Lanka, the NGRS has the potential to carve out a niche as a localised solution that balances simplicity with effectiveness. The NGRS could serve as a tool to support the inclusion of SMEs in Sri Lanka's reporting landscape by integrating elements from advanced frameworks such as GRI to ensure relevance in the global reporting landscape, but could offer a simpler and more accessible approach for smaller organisations. This would enable these SMEs to communicate effectively with stakeholders and collect essential data without the complexities of global frameworks. A foundational framework like this could drive progress even for larger organisations in streamlining basic data collection processes.

However, to fully integrate SMEs into sustainability reporting, frameworks alone are insufficient. SMEs require robust support systems, including targeted training, capacity building, and technical guidance. The MoE could play a pivotal role by offering subsidised training programs and creating easily accessible toolkits for smaller organisations. In this capacity, the reach and resources of the MoE can become a critical enabler, bridging the gap between SMEs and global sustainability frameworks.

The path forward for the NGRS lies in its reinvention as a dynamic and inclusive framework that aligns with both global standards and local needs. However, its success will hinge on collective action of policymakers, corporate leaders and sustainability professionals. With the right support and strategic interventions, the NGRS can evolve from a dormant initiative into a cornerstone of Sri Lanka's environmental reporting landscape, empowering businesses of all sizes to contribute to a sustainable and resilient future.

FINANCING NATURE AND CLIMATE ADAPTATION

FINANCING BIODIVERSITY AND NATURE AMIDST DEBT DISTRESS IN SRI LANKA

By Anushka Wijesinha
25th October 2024
Article published in the DailyFT newspaper and the Centre for a Smart Future Website

This week's 16th Conference of the Parties (CoP) to the Convention on Biological Diversity is crucial for global ambitions on nature conservation. Looking to advance progress towards the Kunming-Montreal Global Biodiversity Framework (GBF) (Convention on Biological Diversity 2024) goals and targets adopted by almost 200 countries (including Sri Lanka) at the last CoP in 2022, all attention this year is on the 700 billion dollar question, "So where will the money come from?". US$ 700 billion is the annual biodiversity finance gap, identified in the GBF and analysed in detail by The Nature Conservancy (2021). Recognising the urgent need to fill this gap, Target 19 of the GBF (Convention on Biological Diversity 2024) commits to "mobilize $200 billion per year for biodiversity from all sources". As Conservation International's Chief Strategy Officer remarked ahead of the summit (Conservation International 2024) in Cali, Colombia, "...negotiators cannot leave Cali without deciding where some of that funding will originate, when it will be delivered, and what groups will receive it".

Amidst Sri Lanka's acute fiscal constraints alongside rising risks to nature and biodiversity, the outcome of this global conversation will certainly matter. But what we do here at home may matter even more – not just for biodiversity conservation, but also for the wider state of the economy, growth, and people's basic wellbeing and livelihoods.

Sri Lanka and biodiversity financing

Sri Lanka has been a contracting party to the Convention on Biological Diversity since 1994, and in 2022 we adopted the GBF. So, we are also committed to the GBF targets, including reversing nature loss and conserving 30% of the world's land and sea by 2030. The GBF calls for a whole-of-economy approach that involves shifting to new ways of producing, consuming and investing (Likhachova, Dill, and Phillips. 2024). In August 2024, the Sri Lankan government launched a special '30×30' programme to draw renewed attention to the agenda.

Estimates for Sri Lanka by UNDP back in 2018 (based on work by Vidanage, et al.) showed that the financing to achieve biodiversity targets between 2016-2022 was already short by US$ 190 million, on top of the resources allocated by the government budget between 2018 and 2024. These were pre-Covid and pre-crisis numbers. With the sharp fiscal cuts since then, it is clear that the financing pressures have greatly intensified. There are no new official figures on the financing gap, or to what extent the previous figures are relevant today.

Quick Primer: What is biodiversity finance?

Biodiversity finance (often used interchangeably with the terms nature finance and conservation finance) comes under the larger umbrella of sustainable finance, and are broadly defined as 'mechanisms and strategies that generate, manage and deploy financial resources and align incentives to achieve nature conservation outcomes' (Conservation Finance Alliance n.d.). It is rooted in the idea (Filewod 2023) that by recognising the economic value of nature and incorporating it into economic decision-making, we would yield better environmental outcomes. It helps channel capital toward more sustainable use of nature and supports the transition to new production and consumption patterns that allow nature to heal and regenerate, as well as offering lucrative new nature-positive, business and economic opportunities.

The looming threats require us to accelerate our efforts. Biodiversity is in decline, with economy-wide impacts on ecosystems, livelihoods, and human health, that we haven't even begun to comprehend yet. It is estimated that one-fourth of our bird species, half of our freshwater fish, over half of our mammals, two-fifths of our reptiles, and two-thirds of our amphibians are under threat. Among keystone species, we have lost over 700 elephants in under two years. Between 2001 and 2023, the country lost 222,000 hectares of tree cover.

These issues matter not only from a pure conservation perspective, but also from a socio-economic one. The dependence of the Sri Lankan economy, key export sectors, and rural livelihoods on biodiversity, as well as the critical role that natural ecosystems play in securing clean and regular water supplies, pollination, disaster risk reduction, climate adaptation and other key services, is poorly appreciated by mainstream stakeholders in economics and finance. Moreover, there are lucrative new markets and return-generating investment opportunities that are emerging in relation to sustainable supply chains and nature-positive business. As yet, we have barely started to tap into these valuable economic opportunities.

Improving understanding, Reorienting priorities

In recent years Sri Lanka has taken some steps that improve policy conditions for financing nature. The Central Bank's sustainable finance roadmap and green finance taxonomy are now well-anchored in the financial sector. A sovereign green bond framework is being finalised. And multi-stakeholder

discussions around revising targets contained in the National Biodiversity Strategic Action Plan (NBSAP) relating to financing and private sector involvement, disclosure and reporting have been active.

Yet, CSF's work in this space – engaging with policymakers, financial institutions, conservation organisations, corporates, and environmental professionals – has shown that the understanding around biodiversity financing mechanisms is still nascent.

At the policy level, conversations on financing of nature descend into narrowly talking about financing of climate change mitigation. There is a tendency for local stakeholders to conflate climate finance and biodiversity finance – although of course linked, the two are quite distinct. A small sub-set of climate finance – those relating to 'natural climate solutions' or 'ecosystem-based' mitigation and adaptation approaches – goes to biodiversity. But the rest is overwhelmingly focused on energy and transport sectors, not on agriculture, forestry, and other land use (AFOLU) and nature-based solutions. Indicative of this conflation is that at a World Bank biodiversity finance forum in April, the then State Minister focussed the majority of his comments not on biodiversity and nature conservation, but on the government's plans for renewable energy.

At the financial institutional level, our work has shown (CSF, 2024a) that bankers have a narrow understanding of green finance – primarily focussing on lending to clean energy projects. Although biodiversity has been emerging as an asset class over recent years, it is only just beginning to be incorporated into the credit lines and investment portfolios of our financial institutions.

At the level of conservationists and ecologists, there is often either a sharp distrust of innovative financing instruments, or a loose embrace of all and any concepts – from credits to bonds. Most conservation organisations are yet to fully embrace the important economic and financial opportunities that exist to not just support biodiversity conservation, but at the same time strengthen the economy.

Budgeting processes in Protected Areas (PAs) remain underdeveloped, making estimates of conservation financing needs difficult. CSF's work in the Vidaththalvitu Nature Reserve (in partnership with Blue Resources Trust) revealed that PA management plans and financing plans are not fully-aligned, that there is under-estimation of costs and cost-bearers. We also observed substantial capability gaps in modern conservation finance planning among conservation mandate holders in government.

Looking at financing mechanisms critically

Sri Lanka needs to become much more open to, and informed about, the new sources and mechanisms that are available for biodiversity financing. These range from environment fees and levies, biodiversity credits and blended finance mechanisms, to blue bonds and nature-themed insurance. All offer opportunities to better finance conservation and strengthen our natural ecosystems (which in turn improves our economy), as well as to kick-start new and sustainable sources of income and livelihoods. As part of a much-needed shift of our post-crisis economic recovery to a more nature-positive path, these biodiversity financing mechanisms are important allies.

Over the last year, CSF has been guiding stakeholders in this space on the options that exist, how to think about their relevance and practical application, and what cautionary notes to look out for. While nature-linked sovereign debt instruments (like blue bonds and debt-for-nature swaps) are

often spoken of, there are many critical considerations for Sri Lanka, as highlighted in a recently published Analytical Note by CSF (2024b). Without due recognition of global capital market trends, domestic debt management weaknesses, and the need for inclusive approaches in identifying credible and impactful projects, such sovereign biodiversity finance can only add to the country's debt troubles.

Meanwhile, attempts to establish small, site-specific Conservation Trust Funds (CTF) – as some projects have mooted – may be futile. It would be more compelling to global funders to have a marine seascape-wide CTF for Sri Lanka, and structure it as a special purpose vehicle for mobilising a mix of funding (bilateral, multilateral, philanthropic, and commercial) over a longer term. This resonates with the advice shared by the international Conservation Finance Alliance's CEO David Meyers during a webinar hosted by CSF earlier this year.

There is also a growing recognition of the role of corporates in financing biodiversity efforts, and in benefiting from the new nature-based markets and investment opportunities that have been emerging over recent year. There is also a responsibility for businesses and enterprises to better factor biodiversity into their business, with an increasing attention on (and requirement for) nature-related disclosures and reporting. At this year's CoP16, discussions on advancing the Taskforce on Nature-related Financial Disclosures (TNFD) and Science-Based Targets Initiatives (SBTI) will be quite prominent. Sri Lankan corporates would also find IFC's recent Biodiversity Finance Reference Guide (2023) useful in understanding how to practically mobilise investment and identify credible projects.

Readiness of domestic financial institutions

Sri Lankan financial institutions (FIs) provide a vital bridge between international funding sources, and domestic financing needs, across sectors, and at all levels of scale. Whether it is new foreign credit lines that fund nature-positive projects, blue bond issuances that have a window for lending to reef-positive businesses, the domestic financial industry will have a role to play. But still there is some progress needed to shift their thinking and prepare them to take a wider perspective. Two recent studies by CSF reinforce this view. An assessment of 'Environmental Integration by Sri Lankan Financial Institutions' (CSF 2024c) showed that very few Sri Lankan lenders systematically assess environmental impacts and risks in granting credit facilities – just 5 of 47 FIs. The research also uncovered that only two FIs quantify/measure environmental and/or climate risks in their portfolio. With many of Sri Lanka's productive sectors heavily reliant on biodiversity and nature in some way (whether it is export crops like tea, rubber, coconut and spices, fish and seafood products, services like tourism or, indeed, any industry that requires clean and regular water supplies, or protection against floods, soil erosion and tidal surges), FIs that lend to these sectors need to urgently increase their attention to these considerations that have hitherto been ignored.

Encouragingly, though, another CSF study on green finance maturity among Sri Lankan banks, showed that there is a growing prevalence among them in engaging with environmental organisations. Two-fifths of surveyed banks reported that they 'Engage with environmental organisations to better understand environmental issues in the country', and nearly half reported that they 'Engage with environmental organizations to better understand risks and risk mitigation'. Unfortunately, none of them report that they 'Engage with environmental organizations to introduce third-party checks

and balances on our green finance practices', and only one-third said that they have formal partnerships or collaborations with environmental organizations, not in a CSR capacity but specifically for informing and advising on green finance-related matters. These all point to a growing need to reorient Sri Lanka's finance sector to look beyond the narrow field of view of mitigation finance, to adaptation finance – given Sri Lanka's need to chart a nature-positive economic recovery.

Cautious engagement with international private capital

As for international private investment interest – there are some initial signs. A leading global firm, Anthropocene Fixed Income Institute (Erlandsson, Mielnik, and Leigh-Bell 2024), wrote to the financial industry in 2022 that, "Sri Lanka exhibits exceptional levels of terrestrial and marine biodiversity whilst having an economy highly dependent on nature and its services (for sectors such as fisheries, agriculture and tourism)", and that, "there are a number of potential high impact target areas linked to biodiversity that could be considered in a sustainability linked bond and would be attractive for investors looking to participate and access the sustainable debt markets". They highlighted forest conservation, marine biodiversity protection, and whale habitat protection specifically, as areas of interest. Additionally, over the past two years following the unilateral debt standstill, there have been visits from global banks and financial advisors seeking a mandate from the government to proceed with sovereign green debt strategies.

While being open to these, the government as well as civil society conservation stakeholders need to be acutely aware of the nuances of such instruments, including both potential gains and risks. This includes reviewing the ongoing global critiques of sovereign debt (notably, the lack of a multilateral architecture for sovereign debt workout for middle-income countries like Sri Lanka). Domestic policy and institutional coordination gaps – especially between state bodies handling public finance issues and those handling environmental issues – exacerbate the risks.

Lessons and inspirations from others

As we strengthen Sri Lanka's ability to access new finance for nature, we can look to other interesting cases. Through our research specifically in the marine finance space, we have unpacked examples ranging from Belize and Seychelles (on blue bond-financed debt-for-nature swaps), to Indonesia and Fiji (on blended finance mechanisms), Mikoko Pamoja and Vanga Blue Forest in Kenya (blue carbon credits), and Palau (small-ticket crowd-funding for marine protected areas).

All of these point to the need for a) inclusive, multi-stakeholder approaches to designing mechanisms and monitoring impacts; b) the need for domestic stakeholders (government as well as civil society) to be open to including international partners in domestic mechanisms – not just as providers of capital, but also providers of expertise and accountability); c) the need for policy and institutional coordination, overcoming turf wars and risk-aversion; and importantly, d) the need for a pipeline of 'bankable' nature projects, that have been carefully vetted not only for their pure conservation objectives, but rooted in local community and livelihood realities.

Concluding thoughts

With the current mandate given by the GBF, there is currently a great deal of international interest in funding biodiversity. Amidst a problematic international financial architecture, bright spots for attracting conservation finance do exist – whether it is from global philanthropies, multilateral agencies, or via leveraging new nature-positive markets and investment flows. By the end of August 2023, Fitch put biodiversity-tied

bond sales at a record USD 165 billion. About 16% of green, social and sustainability bonds issued in 2023 included biodiversity conservation as a use of proceeds, up from just 5% in 2020. According to Credit Suisse and McKinsey (Berry 2016), the total private conservation finance investment potential is estimated at USD 200-400 billion.

The world is constantly looking for success stories, amidst dire news about climate failure in many places. Sri Lanka can offer the world the next success story – a country that emerged from debt distress, to chart a more nature-positive economy that benefits rural communities, MSMEs, larger corporates, consumers, and society as a whole.

With the right domestic mechanisms, a credible policy commitment, open-mindedness among government and non-government stakeholders, and a nuanced view of the financing options, Sri Lanka can rise up to meet the challenge. While the outcome of the COP16 is uncertain, and the commitment of the developed world to expand financing is yet unknown, Sri Lanka must work on putting its own house in order and get prepared.

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FINANCING SRI LANKA'S MARINE CONSERVATION AMBITIONS: TIME FOR A RESET?

By Simra Riyaz
10th October 2024
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2024 marks a significant milestone for Sri Lanka's biodiversity conservation ambitions - three decades of commitment to the Convention on Biological Diversity (CBD) (Convention on Biological Diversity 2024), since its ratification after the Rio Earth Summit. In line with the CBD, Sri Lanka is currently in the process of updating its National Biodiversity Strategic Action Plan (NBSAP) (Convention on Biological Diversity 2024) for 2024 to 2030. This key document will guide the nation's conservation efforts and will need to demonstrate its alignment with the Kunming-Montreal Global Biodiversity Framework (GBF), which consist of global goals and targets that collectively hold a vision of living in harmony with nature.

The 23 GBF targets (Convention on Biological Diversity n.d.), adopted at the 15th Conference of the Parties (COP15) in 2022, set ambitious targets for global conservation efforts. Notably, Target 2 focuses on restoring 30% of degraded ecosystems, while Target 3, colloquially referred to as "30 by 30", calls for the effective protection and management of 30% of the world's terrestrial, inland water, and coastal and marine areas by 2030. Together, these targets represent the most substantial conservation commitment in history, with over 190 countries pledging their support. As global momentum builds towards the ambitious "30 by 30" conservation target, Sri Lanka, as it slowly recovers from the nation's most severe economic crisis, finds itself at a critical juncture. The need to recover economically must be balanced with the imperative to protect and regenerate our natural environment in line with global targets.

Prioritizing Marine Conservation

When we think of protected areas in Sri Lanka, our minds often wander to the lush forests of Sinharaja or the hills of Knuckles. However, as an island nation surrounded by the Indian Ocean, our marine ecosystems and species deserve equal - if not more - attention. Sri Lanka's oceans boast a rich and diverse array of ecosystems and habitats, including coral reefs, seagrass beds, lagoons, mangroves, and deep-water trenches. Marine protected areas (MPAs) (Perera and De Vos 2007) play a crucial role in safeguarding the rich biodiversity of our waters and support over 3,000 species of marine flora and fauna, such as coral reef vertebrates, invertebrates, dugongs, marine turtles, sharks, dolphins, and whales. As climate change, coral bleaching events, and human-induced pressures such as overfishing, pose significant threats to these vital habitats, they are deteriorating at a rapid and dangerous rate (Azmy et al. 2021).

Sri Lanka's marine economic zone, a vast expanse covering over 532,000 square kilometers (nearly four times our land area), is also essential for our economic growth. Coastal communities in 14 of the country's 25 (SLYCAN Trust, n.d.) districts rely heavily on marine and coastal ecosystems for their livelihoods. This sector directly and indirectly employs over 583,000 people, with an additional 2.7 million individuals in the coastal workforce providing crucial support (National Aquatic Resources Research and Development Agency 2019).

Despite this, our current Marine Protected Areas (MPA) system safeguards less than 1% of our territorial waters and Exclusive Economic Zone (EEZ). Given the inherent economic value of our marine resources, alongside their broader ecological significance, we must confront a critical question: Has Sri Lanka done enough to protect these vital natural assets? Can we afford to continue with business as usual, or is

a transformative approach urgently needed?

Out of the major candidates who ran in the 2024 Presidential Election, only one had mentioned the need to protect and conserve Marine Protected Areas in their manifesto (Centre for Policy Alternatives 2024). Amidst this seemingly lower attention by our political leaders, global interest and investments in environmental conservation are at an all-time high. Sri Lanka, if we tap into this interest tactfully, has an opportunity to reframe our development into a success story and 'build forward differently'.

Financing Conservation - Key Insights

Many of the difficulties faced in marine protection ultimately trace back to inadequate funding. There simply isn't enough money to meet all our conservation needs.

During 2023-2024, the Centre for a Smart Future (CSF), partnered with Blue Resources Trust (BRT) on a research and advocacy project to advance sustainable marine conservation finance in Sri Lanka. Funded by the Oceans 5 consortium, this project seeks to enhance stakeholders' existing knowledge, address gaps between the marine conservation community and the finance sector, and demonstrate practical deployment at sites across the country. Over the course of ten months, CSF convened six Knowledge Roundtables and one Multi Stakeholder Roundtable with a diverse group of participants, introducing them to marine conservation finance concepts and approaches, and exploring the relevant instruments and financial mechanisms that can be used to fund conservation efforts. The results of these discussions led to key insights regarding both the challenges stakeholders face in combating the financing of MPAs and what we need to consider moving forward.

Findings from the project (Centre for a Smart Future 2024) revealed that there are a plethora of interconnected issues and urgent threats requiring attention in relation to our MPAs, some that are unique to each MPA and others that are broadly relevant to the country's marine ecosystems as a whole. Although it's crucial to acknowledge these diverse challenges, this article will specifically concentrate on those related to conservation financing.

A key insight developed in relation to this challenge is the need to demonstrate that conservation isn't just the right thing to do— but it's the economically smart thing to do. As one participant in the Roundtable (Centre for a Smart Future and Blue Resources Trust 2024) remarked, "It's not about convincing every stakeholder of a coral reef's intrinsic value but about showcasing the greater economic potential of sustainable blue economy enterprises". It is vital to develop project pipelines that make economic sense while safeguarding our natural resources. Market volatility and economic fluctuations also pose a significant risk to funding stability. To mitigate this, diversification of funding sources is crucial to reduce reliance on any single source and enhance financial resilience.

It is also essential to tackle the underlying structural financing issues (Centre for a Smart Future and Blue Resources Trust 2024) head-on. Simply increasing funding for MPAs won't be enough if the systemic financial barriers to effective management remain unaddressed. Bureaucratic hurdles which lead to lengthy processes and red tape were also identified as a major obstacle, leading to delays in project implementation. Sri Lanka's environmental decision-making landscape is notoriously bureaucratic, often requiring decisions to navigate multiple layers of authority before approval. Our roundtable discussions highlighted the need for greater autonomy (Centre for a Smart Future and Blue Resources Trust 2024)

in decision-making, among government agencies involved in conservation. Financial incentives should ideally be structured to promote effective systems and empower stakeholders at all levels, from on-site personnel to central offices. Exploring alternative financing instruments could empower local conservation managers to have more control over spending and contribute more effectively to conservation efforts. The ultimate goal would be to foster a sense of ownership and encourage a more agile and responsive approach to conservation decision-making.

Another significant challenge lies in aligning the diverse interests and priorities of various stakeholders for effective conservation. The governance of protected areas involves a complex web of actors, including government agencies, NGOs, local communities, and others. Coordinating these entities can be difficult, given their differing priorities and regulatory frameworks. Successful conservation financing therefore hinges on stakeholder consensus regarding key issues, limitations, mechanisms, instrument design, and desired outcomes. This therefore necessitates a collaborative approach that bridges the perspectives of these stakeholders.

Conducting thorough stakeholder mapping and analyses at PAs is identified as a crucial preliminary step to a finance plan as it provides detailed stakeholder categorizations, identifies users and their uses and needs, assesses costs and benefits, and contributes to improving completeness of conservation finance budgeting.

To navigate the complex challenges outlined above, Sri Lanka must now more than ever opt to embrace innovative strategies. Conservation Trust Funds (CTFs) are one of many innovative financial mechanisms that can be used to mobilize longer-term, sustained conservation finance. As CSF noted in this Knowledge Primer (Centre for a Smart Future 2023), CTFs face operational risks involved with management, including governance issues, regulatory compliance, and administrative challenges. The implementation of robust management practices and diversifying spending strategies can help mitigate these risks.

For Sri Lanka, establishing a national Conservation Trust Fund is a possible approach. However, creating two separate funds—one for marine and one for terrestrial conservation—may also be justifiable if donors have specific interests. In moving forward with such an approach however, building trust with donors is paramount, and will require transparency, good governance, and a capable management team, as noted by a global expert during a CSF webinar. While two CTFs are feasible, ensuring they have sufficient scale and aligned missions is crucial.

Concluding thoughts

As the 2030 deadline for attaining our global biodiversity commitments draws closer, the pressures around conservation and financing are becoming more acute. The health of our marine ecosystems - which is inextricably linked to our economic prosperity and resilience - continues to face mounting threats. A "business as usual" approach is no longer tenable. In light of the challenges of financing conservation, we face a stark choice - innovate or stagnate. A previous article by us (Handy 2023) highlighted many examples from our peer countries of innovative ways that Sri Lanka can draw inspiration from, covering mechanisms such as blue bonds, blended finance, and crowd-funding.

It's time to revisit financing approaches that rely heavily on annual budget allocations and cannot keep up with the urgent needs, and forge new and innovative approaches. By carefully considering these various options and aligning them with our

unique context, Sri Lanka can work towards charting a more nature-positive economic recovery path - one that safeguards our natural environment, and at the same time fosters a sustainable and vibrant future.

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EXPANDING GREEN FINANCE IN SRI LANKA'S FINANCIAL SERVICES SECTOR

By Anushka Wijesinha, Errol Abeyratne and Heshal Peiris

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Developing countries currently account for just 1.6 billion US dollars of the estimated 33 billion US dollars in outstanding green loans, even as many of these countries are some of the most vulnerable to climate change but also have the biggest investment needs in driving nature-positive economic growth (World Bank 2021). In Sri Lanka, there is now a growing interest in the concepts and prospects for green finance among Sri Lankan policymakers, regulators, and financial intermediaries, and some initial steps have been made to orient towards green lending. Yet, how far has actual implementation come and what are the prospects for the near-term? What are some of the critical issues that the financial sector must contend with, as it aims to support investments in a climate-resilient and nature-positive economic recovery? We explore some of these themes in this article, and provide ideas for action.

Understanding green finance

In traditional banking, when a bank makes a loan it considers certain factors about the client to determine the loan's financial impact to its bottom line – what the funds are for, the repayment capacity, the borrower's financial standing, tenor, pricing and overall risk are considerations a bank would make. Environmental considerations would not be a factor that is considered, except if environmental clearances are needed by the borrower's project. Under green financing, however, it goes much beyond.

Green finance involves collecting funds for addressing climate and environmental issues (green financing), on the one hand, and improving the management of financial risks related to climate and the environment (greening finance), on the other (European Parliament 2021). Green finance is simply a financial structure, such as a loan, designed to achieve environmental outcomes (Rare n.d.). A green loan, as further defined by the IFC (2023), '…is a form of financing that enables borrowers to use the proceeds to exclusively fund projects that make a substantial contribution to an environmental objective'. Such loans are strictly tagged with use-of-proceeds clauses, governed by the Green Loan Principles and the Green Bond Principles (GBP) of the International Capital Market Association (ICMA). These specify that 100% of the proceeds should be used only for green eligible activities. Other global standards, frameworks or best practices have been published by the Sustainable Banking and Finance Network (SBFN) (Sustainable Banking and Finance Network n.d.) and the Equator Principles Financial Institutions (EPFI) (The Equator Principles 2025), which are membership-based and aim to improve standardization, adoption and technical capacity among industry players.

Even as there is difficulty for green projects to get the financing they need, evidence from the region suggests that the capital does exist. The Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC 2023) observed that there is sufficient global capital and liquidity to close the global investment gap. However, lenders have been slow to orient themselves to the needs of the market. This is a finding emerging from ongoing assessments being done by CSF for the Sri Lankan market, but we are not the only country facing this challenge. As a UNESCAP (UNESCAP 2023) report noted, "The slowness of banks in Asia and the Pacific to commit to net zero and transition their lending and investing portfolios with interim 2030 science-based targets

is a serious brake on driving finance towards climate action in the region"(p.6).

Multilateral banks and development partners need to work closely with the banking sector to leverage more private capital and de-risk projects. As observed in UNESCAP (2023), "A 1:5 ratio, like ADB's goal, can be one benchmark to ensure that concessional funds truly leverage private finance and go towards well-structured projects. This will also guarantee well-designed projects in which concessional finance truly catalyzes and mobilizes greater private finance"(p.7). In Sri Lanka, much of these partnerships up to now have largely focussed on SME concessional lending (refinanced schemes, at lower interest) or at most, renewable energy credit lines. In fact, an online review of products on offer show that most of the 'green loans' by Sri Lankan banks tend to be for purchasing energy-efficient equipment (solar power systems, EVs, biogas units, etc.), rooftop solar deployment (with relatively small ticket-sizes) and medium-scale non-conventional renewable energy generation (i.e., wind or solar farms). These now must expand to the full gamut of not only mitigation projects, but also adaptation activities where private sector investment has potential.

The role of private capital in financing adaptation cannot be forgotten. As is clear from recent data, public financial flows simply are not able to meet the large and growing needs. A UNEP (2023) report released ahead of the recent COP28 summit revealed that, 'Adaptation finance needs of developing countries are 10-18 times as big as international public finance flows – over 50 per cent higher than the previous range estimate' (UNEP 2023) – The current adaptation finance gap is now estimated to be between 194 – 366 billion US dollars per year, while developing countries experienced a 15% decline in public multilateral and bilateral finance flows for adaptation in 2021. The Central Bank of Sri Lanka (CBSL) has reiterated that, in light of ongoing fiscal tightening by the government, "...fiscal support on incentivising the financial sector for adopting sustainable financing initiatives is rather limited...", and that, "...it is expected that the private sector will take the initiative to explore [...] climate financing options"(p.52) (Central Bank of Sri Lanka 2023a).

For a highly climate vulnerable country like Sri Lanka, the banking sector cannot only focus on mitigation finance (for instance, supporting an energy transition by lending to renewable energy projects), it must necessarily also finance adaptation. This would range from lending for regenerative agriculture, nature-positive tourism projects, reef-positive fisheries enterprises, and manufacturing that adopts circular business models. The financial services industry needs to recognize the risks posed by climate change, and that the risks permeate to the financial sector. According to the World Bank, climate change will approximately cost Sri Lanka an annual GDP loss of 1.2% by 2050 (Jayasinghe 2023).

In fact, in its latest Financial Stability Review 2023 (Central Bank of Sri Lanka 2023b), the CBSL had an explicit section on 'Mitigating the Impact of Climate Risk on Financial System Stability', demonstrating that the highest regulatory authorities are increasingly concerned about this. It noted that, 'Both physical and transition risks of climate change are linked to price stability and financial system stability of an economy where the physical damages will result in low production leading to increase in price levels while financial institutions will be exposed to increasing non-performing assets due to unsustainable business activities being financed'(p.52).

Policy and regulatory progress

Some early steps have been made that lay a foundation for further action in Sri Lanka. In 2015, the Sri Lanka Sustainable

Banking Initiative (SL-SBI) was launched by the Sri Lanka Banks Association in (Sri Lanka Bank's Association 2015). More recently, the regulator has also taken initiatives to help catalyze action. In 2019, the Central Bank of Sri Lanka (CBSL) launched its 'Roadmap for Sustainable Finance' that broadly proposes an action plan for regulators and financial intermediaries to follow. This was complemented with the 'Sri Lanka Green Finance Taxonomy' released in 2022, which is a classification system to define and categorize economic activities that are environmentally sustainable. While these are essential steps to finance climate change action, such policies are not currently mandatory, and so adoption of these policies by financial intermediaries vary widely.

The regulator has also issued directions and guidelines to FIs regarding sustainable financing and banks have begun reporting sector-wise sustainable lending. Accordingly, it is estimated to be just 1% of the total lending portfolios of banks by mid-2023. This reporting is expected to get more robust with the release of the green finance taxonomy, and the adaptation of International Financial Reporting Standards (IFRS) S1 and S2 on sustainability-related financial information and climate related risks. In an encouraging message that the financial services industry should wholeheartedly welcome, the CBSL has noted that it "...may consider granting regulatory forbearances/ incentives for the financial institutions who are committed to greening their portfolios and support the transitioning of the country into a green economy" (Sri Lanka Bank's Association 2015).

Connecting intent with action

Globally there is to be a growing disconnect between what banks say and what banks do. In an incisive 2023 report on 'Green lending: do banks walk the talk?' (European Central Bank 2023), staff at the European Central Bank observed that among 100+ institutions they studied in the Eurozone, banks which portray themselves as more environmentally-conscious lend more than others to 'brown industries', and that there is sharp disconnect between the extent of 'green disclosures' by the banks and their actual lending to green projects.

Sri Lankan regulators and industry players should take notice, because the disconnect appears in Sri Lanka too – albeit not studied as empirically as in the Eurozone. Simply adding the colour green to the institution's logo, or the mention of environmental principles in an Annual Report message by the Chairman or CEO, does not demonstrate advanced adoption of green lending and environmental integration in practice. Some early research on some of these aspects for Sri Lankan financial institutions (FIs) are emerging.

Evidence from Sri Lanka

A recent CSF assessment of environmental integration[1] in Sri Lanka's financial services industry showed that (of the 56 FIs that were assessed [2]) while 22 firms' demonstrated environmental integration intent [3], only 12 of them refer to adherence to national policy frameworks and guidelines [4], and of them only 7 refer to international guidelines[xix]. Moreover, only 4 FIs mention any environmental targets in alignment with a strategy or regulatory guidance. The research also found that just 8 FIs had adopted an internal policy or strategy focused on the environment, while 12 reported having dedicated internal resources (for instance, a "climate task force", "ESG team" with emphasis on the environment, a "sustainability officer", or other environmental related committee, sub-committee, or management team). Encouragingly, 12 FIs reported taking steps to build staff capacity building on environmental integration. It was revealing that not a single FI mentioned having an external inquiry/complaint/ grievance mechanism related to its 'ESG' or 'environmental practices', which is a vital component in building credibility in, and stakeholder engagement in making improvements to, its activities. Basic environmental impact reporting seems to be more widespread, though, with 27 of 56 FIs explicitly reporting one or more of the following: electricity consumption, water consumption, paper consumption, GHG emissions, carbon footprint, renewable energy produced, etc. But moving beyond this basic tenet, the research found little evidence that Sri Lankan lenders systematically assess environmental impacts and risks in granting loans (5 of 47 lending institutions). The research also explored whether FIs indicate that they quantify/measure environmental and/ or climate risks in their portfolio. Just 2 FIs indicate they categorize sectors most vulnerable to climate risk, and 2 indicate they review environmental risks such as 'Transition risk' and 'Physical risk' in their portfolio.

Tapping into global and domestic funding sources

The good news for Sri Lanka's banking sector is that the money is available – Sri Lanka just needs to know where to look and how to access it cleverly. Sustainability and green financing accounted for one-third of all money in assets under management (AUM) in 2020, according to Bloomberg (Landberg, Massa and Pogkas 2019), and this number is only expected to have grown to date. Following the conclusion of debt restructuring and a subsequent country sovereign re-rating, funding sources are likely to steadily open up.

Already some banks have set up the foundations for accessing new sources of green finance. In July 2023, DFCC broke new ground by being the first private sector bank in the country to obtain Green Climate Fund (GCF) accreditation (DFCC 2023a), with access to possible project financing between 50 to 250 million US dollars ('Medium size'). In fact, the bank became the first so-called 'Direct Access Entity' in Sri Lanka (DFCC

2023b), as prior to this, only the government and multilateral institutions were able to apply for, and channel money into, Sri Lankan projects from the GCF.

Some FIs have also begun introducing green deposits (DFCC 2025), where individuals or corporates can save with the bank where their funds will specifically be allocated to the bank's green lending portfolio (aligned to the CBSL Green Taxonomy). However, evidence of uptake and information on what specific environmental projects the proceeds will be used for are often lacking. In principle these types of products can tap into domestic sources of 'conscious capital' – especially high networth investors. Innovation among Sri Lankan financial institutions is urgently needed. As they develop credible and meaningful green finance products, they can access international pots of funds that are tied to sustainability and green financing AUM, and utilize these domestically for green projects. Sri Lankan banks do not need to 'reinvent the wheel' – they can use the typical products it has like loans or leases, but where innovation is required is to explicitly link these products to climate-positive activities and outcomes. Alongside this, the demand-side needs to be strengthened. Particularly SMEs, continue to struggle. Our demand-side assessments have shown that SMEs often lack investor readiness for green finance opportunities and may not be able to meet the reporting requirements that financial institutions require for green financing. They are also less able to face long and uncertain payback periods from green investments, along with difficulties in ensuring user demand for green products and services they provide. So, firm-level upgrading is needed to grow the demand-side.

Looking ahead

Overall, credibility will be key, as concerns of 'green-washing' have increased and skepticism around so-called 'ESG practices' have heightened. So, the credibility of the projects that funds are lent to need to be ensured, and for this FIs should look to forge partnerships with groups that can help strengthen this – for instance, organizations like Environmental Foundation, Blue Resources Trust, and Biodiversity Sri Lanka that have the technical know-how to advice on environmental integration as well as collaborate on monitoring effectiveness and impact.

Moving towards the future, there is an agenda for action for all stakeholders. For the industry, FIs need to look inwards at their internal lending capabilities and green product structuring and offerings, while continually looking at whether they are making true commitments to climate-resilience and a nature-positive economic recovery. For policymakers and regulators, a key question in the near-term would be what further regulatory and policy action would be required to accelerate authentic and innovative green finance among Sri Lankan banks and non-bank financial institutions.

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Endnotes:

[1] We defined 'Environmental integration' as the extent to which firms regard the environment in their financial and non-financial business decisions, and utilized a bespoke assessment tool with criteria informed by global and local frameworks and knowledge (Sustainable Banking and Finance Network 'ESG Integration' pillar; Road Map for Sustainable Finance in 2019; and SBFN Sri Lanka Financial Sector Country Progress Report 2022.

[2] For selection of FIs for the review, we used the Global Industry Classification Standard (GICS) among CSE-listed firms, and the data sources were the Annual Reports of these firms, followed by some In-depth Interviews with industry leaders to validate selected aspects of the findings.

[3] Assessed by the Chairmans' or CEOs' Annual Report messages mentioning aspects like "ESG" (with a specific reference to environmental issues), "environmental consideration(s)", and "ESMS (Environmental Services Management System)".

[4] Mentions either the CBSL Sustainable Finance Roadmap or the Green Taxonomy

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SUSTAINING SRI LANKA'S NASCENT CLIMATE FINANCE AMBITIONS

By Anushka Wijesinha
13th January 2025
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At the 28th session of the Conference of Parties (COP28) to the United Nations Framework Convention on Climate Change (UNFCCC), President Ranil Wickremasinghe delivered a compelling speech that highlighted the urgent need to address climate change and its disproportionate impact on low-income countries. He stated, "We, the developing countries, are both disproportionately vulnerable and disproportionately impacted due to our lower adaptive capacity in terms of investments in finance, technology, and climate resilience". This address was notable, as it was the first instance where a Sri Lankan President used a high-profile platform like the UNFCCC COP to advocate for accelerating climate finance for countries most vulnerable to the effects of climate change.

Sri Lanka's Climate Diplomacy Moves

Alongside this, and thereafter, the Sri Lankan government continued to play an active role in forging collaborations with developing countries to take a global position. On the sidelines of that same summit, the Sri Lankan President launched the 'Tropical Belt Initiative', a regional cooperation effort for countries that share common climate challenges, but also are rich in ecosystems that are globally significant for carbon sequestration. Wickremasinghe's initiative was ostensibly aimed at attracting investments into these ecosystems. He even mooted the idea that the West should offer debt relief to countries that commit to this initiative, or similar climate mitigation projects within the tropical belt. He suggested that the savings would support ecosystem restoration and

rehabilitation of degraded sites in tropical regions, thereby contributing to the global fight against climate change. This idea of debt relief to help boost finance climate ambitions was reiterated at a panel on 'greening the Belt and Road Initiative (BRI)', where President Wickremasinghe advocated for debt relief for low-income countries to facilitate their green transitions (Reuters 2023). At the 10th World Water Forum, he went a step further by proposing a 10 percent levy on annual profits of global tax evasion assets deposited in tax havens (EconomyNext 2024). He argued that the funds raised from this levy, estimated at $1.4 trillion per annum, could be used to support measures to combat climate change. In May 2024, Sri Lanka joined the Global Blended Finance Alliance, which aims to strategically use development finance (such as public and philanthropic funds) to mobilize additional commercial finance towards sustainable development in developing countries.

While at first reading, many of these seem like lofty ambitions and pronouncements, interviews with international diplomats and notable players in the global climate finance landscape acknowledge that these remarks by the country's leaders did help put Sri Lanka's climate ambitions on the global map. It generated interest among peer developing countries and sent signals to international development organizations that this was a space that the country was interested in pursuing. Unfortunately, the lack of an institutionalized mechanism to follow-up on these pronouncements meant that by late-2024 and with the election of a new government, it has become unclear how the country would build on the gains made on the global stage and make meaningful progress.

To be clear, this is an important agenda for the country's future – not only from an ecological and climate pressures point of view, but from an economic recovery point of view too.

Nature and Climate Matter for Sri Lanka's Recovery

Sri Lanka ranks 23rd out of 180 countries (Venkiteswaran 2024) most impacted by extreme weather events, and estimates show that around 19 million Sri Lankans (over 90% of the population) live in locations that could become moderate or severe climate hotspots (World Bank 2018) by 2050 under a carbon-intensive scenario. The country is also experiencing a shoreline retreat of 200,000 to 300,000 square meters per year (Ministry of Environment Sri Lanka 2022), posing a threat to coastal livelihoods, tourism, and infrastructure. Sri Lanka is home to 66 critically endangered and 102 endangered animal species (Mombauer 2018), and 156 critically endangered or endangered plant species, which are at risk from the impacts of global climate change. Addressing these challenges will require new and additional sources of capital, given the severe strains on public finances and limitations on fiscal expansion.

Under the current IMF program (International Monetary Fund 2023), Sri Lanka is required to have achieved a primary fiscal surplus of 0.8% of GDP by 2024, and then increase the surplus to 2.3% of GDP by 2025. It must reduce the debt-to-GDP ratio from 128% in 2022 to 95% by 2032 (International Monetary Fund 2023). While Sri Lanka's economy has stabilized from the severe crisis of 2022, the pathway to sustained recovery remains precariously narrow.

The good news is that Sri Lanka is making steady progress towards debt sustainability, having secured agreements with official creditors, and completed the issuance of restructured sovereign bonds to commercial creditors. International ratings agencies have already raised the country's sovereign rating out of default status. The deal with commercial creditors includes a so-called Macro-linked Bond (MLB), which is a state-contingent instrument where the level of GDP and GDP growth by 2027-28 would determine different restructuring pathways from

there onwards. Sri Lanka would be the experimental case for this type of restructuring, putting further focus on the quality and stability of growth over the forthcoming decade. As such, climate shocks - such as changing rainfall patterns that affect the country's agricultural and commodity export output, as well as hydropower generation and consequences for oil imports - will be a critical determinant of Sri Lanka's growth pathway. Additionally, many of its key economic sectors - ranging from export products like tea, rubber, coconut, and spices, to its recovering tourism services industry, are reliant on natural ecosystems.

Sri Lanka's Climate Prosperity Plan (CPP) (Aroha, Financial Futures Center and Global Center for Adaptation 2022) estimates that $26.5 billion in investments will be required by 2030, with 69% allocated to mitigation efforts and 31% dedicated to adaptation actions. Additionally, the country requires $100 billion to become a net zero emitter by 2050 (Asian Development Bank 2024).

Recognizing the Realities of Global Climate Finance

No doubt, the high profile efforts noted earlier have helped in putting Sri Lanka on the global stage for climate financing, but securing those sources of funding will not be easy amidst acute gaps and inequities in the global climate financing landscape. Notably, for debt-distressed countries like Sri Lanka, OECD data (Organisation for Economic Co-operation and Development 2022) shows that 72% of international climate finance was made up of loans, with only one-quarter of it being in the form of grants.

According to an Independent High-Level Expert Group Report on Climate Finance (Songwe, Stern, and Bhattacharya 2022), an estimated $1 trillion per year is required by 2030 for emerging markets and developing countries (excluding

China) to establish adaptation and resilience mechanisms necessary to combat climate change. In 2009, developed countries committed to providing and mobilizing USD 100 billion of climate finance each year by 2020 through to 2025. But, studies have shown that only eight countries contributed their fair share of the goal (Pettinotti et al. 2023).

There is also much less finance available for adaptation (investments in infrastructure, technology, and practices designed to reduce vulnerability to climate-related hazards), compared to mitigation (investments to reduce or prevent greenhouse gas emissions, like renewable energy and sustainable transportation). According to OECD assessments (Organization for Economic Cooperation and Development 2024), out of the $115.9 billion raised in climate finance for developing countries in 2022, only $32.4 billion was raised for adaptation, compared to the $69.5 billion raised for mitigation.

The geographic concentration of climate finance will also matter. According to the Climate Policy Initiative's (CPI), climate finance remains heavily concentrated in specific regions (Buchner et al. 2023). Ten countries most affected by climate change (between 2000 and 2019) received less than 2% ($23 billion) of total climate finance. Emerging markets and developing economies (EMDEs) and least developed countries (LDCs), which are disproportionately vulnerable to climate change despite not being major historical emitters, face the most significant funding challenges.

Laying the Domestic Groundwork

Even as the global landscape remains uneven and unjust, Sri Lanka has begun preparing its own groundwork for accessing and managing these new sources of prospective funding. The Central Bank has developed a Roadmap for Sustainable Finance (Central Bank of Sri Lanka 2019), which

guides banks and non-bank financial institutions and outlines key actions these institutions must take to promote and develop green financial products. An update to the Roadmap is expected later this year. The Central Bank also released a Sri Lanka Green Finance Taxonomy (Central Bank of Sri Lanka n.d.), which helps classify economic activities that can be considered environmentally-sustainable. It is intended to assist financial market actors raise capital for green activities in local and international financial markets and deploy them credibly in domestic projects. The Ministry of Finance is nearing the completion of the country's first Green Bond Framework, designed to help raise sovereign green finance from international capital markets, useful for a return to capital markets after 2027. Meanwhile, the Colombo Stock Exchange has introduced the listing and trading of Green Bonds (Colombo Stock Exchange 2023), and since then several banks have raised money using this instrument. The proceeds from green bonds are expected to be exclusively invested in projects that generate climate or environmental benefits.

Priorities for the New President

In recent years, Sri Lankan leaders' proactive stance on climate finance in global fora reflected a new urgency in making a transition to a green economy, even as it was ostensibly also aimed at sourcing new development financing following the economic crisis and debt default. As Sri Lanka grapples with macroeconomic, environmental, and growth challenges, substantial investment in both mitigation and adaptation actions will undoubtedly be needed. Sri Lanka's new President - Mr. Anura Kumara Dissanayake - and his National People's Power (NPP) party have made powerful references to charting a more sustainable growth path. Their election manifesto (National People's Power 2024) proposed that, Sri Lanka "move away from anthropocentric thinking that places man as the sole owner of the earth which conflicts with nature...".

While international diplomacy efforts have helped signal Sri Lanka's climate finance ambitions and interest up to now, Sri Lanka's new President must focus on establishing the institutional mechanisms needed to sustain these efforts. His efforts to combat corruption and 'clean up' government can strengthen the enabling environment to attract new investment. He must also continue – and indeed step-up – Sri Lanka's international engagement on these issues and build on the gains made thus far. These could be critical to meaningfully advance Sri Lanka's climate finance ambitions.

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TRADE REFORMS, INCLUSIVE TECHNOLOGY AND INNOVATION

DISSECTING THE DIGITAL FOCUS IN SRI LANKA'S NATIONAL EDUCATION POLICY FRAMEWORK

By Anisha Gooneratne and Anushka Wijesinha
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In 2023, CSF was invited to provide inputs and comments to the proposed National Education Policy Framework 2023-2048, as a member of the Expert Committee and specifically as part of the 'Core Group on ICT/ AI Integration'. A key focus of the new education framework was the role that digital transformation could play in enhancing the education system of the country, and this was a key area of focus in our inputs and comments during the process. This article shares our perspectives drawing from these inputs, specifically comments we shared, in response to the final draft circulated to working groups (dated September 1st 2023), and a previous draft (August 27th 2023). CSF's submissions were anchored to one of our thematic areas of work: 'Inclusive Technology and Innovation', and so this article situates those inputs in the wider context of digital inclusion issues. Given the strong and ambitious focus on digital transformation in the new framework, our overarching observation was the need for a much greater emphasis on bridging the digital divide, without only considering the potential upside opportunities from greater digitisation of education. This is especially important considering that families may not already have access to affordable technology and infrastructure, both before the economic crisis, as well as exacerbated subsequent to it. But before we look at the Sri Lankan policy framework, firstly let's explore the global context.

Global focus on equity and inclusion in digital education

Globally, digital equity and digital inclusion has been given priority in education frameworks, fuelled predominantly by disparities highlighted during the COVID-19 pandemic. The UN Committee on the rights of the child, general comment no. 25 (2021) on Children's Rights in Relation to the Digital Environment (UNCRC 2021) note the importance of the digital environment supporting, promoting and protecting safe and equitable engagement. Under this, the first General Principle focuses on Non-Discrimination, requiring that, 'State parties ensure that all children have equal and effective access to the digital environment in ways that are meaningful for them' and, 'States parties should take all measures necessary to overcome digital exclusion', with a focus on digital technologies in educational settings, communities and homes.

These sentiments are further amplified by the RewirEd Global Declaration on Connectivity for Education developed by UNESCO (2022) with the objective of ensuring that digital transformation of education is aligned to the 2030 Sustainable Development Agenda. It sets forth inclusion as a primary principle. Principle 1, 'Centre the most marginalised' suggests that connectivity and technology must be deployed to close educational divides, keeping those who are marginalised at the centre. It further highlights that digital tools too often benefit those who are privileged, with strategies to make tools more inclusive and accessible only emerging as a secondary focus – often widening educational inequity.

Keeping these in mind, an OECD working paper (Gottschalk and Weise 2023) published in 2023, highlights the impact that digital technology can play in education, however stresses that without focus on equity and digital inclusion, technology can be a barrier to achieving wider and more inclusive education.

Sri Lankan context of digital gaps

In Sri Lanka, even prior to the pandemic – digital access and skills were a cause for concern. In a report published in 2019 by the International Labour Organisation (ILO), language and skill gaps in English literacy, digital literacy and soft skills were identified as challenges for workers pursuing skilled jobs and gains from technology. Further, in 2019, desktop or laptop ownership (Department of Census and Statistic 2021) per household was only 22% nationally, with ownership as low as 4.6% in estate sectors.

Against this backdrop, it is no surprise that during the COVID-19 pandemic in 2020, many children lost access to education when internet-based or remote learning was introduced, as they did not have the tools needed to access it. Research conducted by Colombo Urban Lab revealed that children of working class poor families in Colombo struggled to access online education due to lack of access to smartphones and data, at times where parents were unable to earn a daily wage due to lockdowns. A nationally representative survey (Hurulle 2022) conducted by LirneAsia in 2021 highlighted that out of the students enrolled in primary and secondary school, only 63% had access to online learning during the pandemic.

Wijesinha (2022) also highlights pre-existing regional and gender disparities in digital literacy, device ownership, and technology usage, and observed that pandemic-induced income disruptions may have influenced a drop in mobile subscriptions. The recent economic crisis and currency depreciation has also raised prices of devices sharply, making smartphones less affordable.

In a roundtable (Wijesinha, Gooneratne, and Dahanayake 2023) interview hosted by CSF, renowned education expert Dr Tara de Mel expressed similar sentiments, noting that even

prior to the pandemic Sri Lanka was far behind comparable countries in several digital education-related indices. She also flagged the acute learning losses that have arisen from COVID-19 school shutdowns, and cautioned against presumptions about digital learning being able to address learning losses. Dr. de Mel did note that technology can play a role in widening access to education, if investments are made in ensuring inclusive access to digital learning – affordable good quality devices, data packages, and teachers trained in delivering remote education.

Even today, nearly four years after the pandemic, digital access and connectivity required to effectively facilitate remote learning is still low. A survey of 25,042 households conducted by UNDP between 2022-2023 revealed that only 42.6% of surveyed households have access to a smartphone with 43.5% of households relying on mobile data cards for internet access. Only 8.9% of surveyed households had access to home broadband. The most recent statistics available on computer literacy and digital literacy (Department of Census and Statistics 2021), highlight that computer literacy and digital literacy are at 34.3% and 57.2%, respectively – with desktop or laptop ownership per household being as low as 4.1% in estate areas and 20.7% in rural areas.

Reflections on the Policy Framework

Whilst the draft framework acknowledged the presence of the digital divide in general education (primary and secondary) as a key constraint (page 8), there was little reference made to bridging these gaps in the rest of the framework. Investments in infrastructure, connectivity and devices are only mentioned once, under financing and not thereafter. Similarly, whilst 'democratising access to education' is identified as a key policy objective (page 6), irrespective of race, ethnicity, religion, class, caste, nationality and disability – digital is not.

We strongly felt that digital is a key factor that should be included, given that existing digital divides hinder democratic access to education. It is only once we acknowledge this, that key steps can be taken to remediate it.

Overall, we recommended that the focus on digital inclusion should be more explicit and a near-term goal, with progress aimed for within the next 2-3 years, coupled with a broader mandate to ensure digital equality in the 2048 agenda. The importance of prioritising bridging the digital divide and ensuring digital equity was repeatedly emphasised by us, given the impact of the digital divide on education during COVID-19. It is expected that this would have since been exacerbated by the economic crisis, impacts on household incomes due to rising cost of living and higher taxes on telecoms and digital devices.

Another aspect we focussed on was digital literacy. Digital literacy is mentioned as a key constraint in general education – 'limited exposure to future-centric curriculums that integrate concepts like AI, digital literacy, data science, and associated ethical considerations' (page 9). Whilst the focus here is on weaknesses in existing curricula with reference to digital literacy amongst others, there is no mention of digital literacy or its importance in education, anywhere in the document. Given the ambitions of the framework, and also given that a key area of focus on the National Digital Strategy 2030 (ICTA 2023) is on 'Digital Industry, Skills and Jobs', digital literacy should be given more prominence in this framework. Countries such as Indonesia (UNESCO – UNEVOC 2021) and Nigeria (NITDA 2023) have developed National Digital Literacy Frameworks to help drive targeted action in closing the digital skill gap. More recently in November 2023, Malaysia launched a Digital Education Policy (digwatch 2023) to foster digital literacy and skills amongst students. The prominence given to improving digital literacy in comparable countries is one that

Sri Lanka should draw inspiration from, perhaps with a move to build a national framework to address this or to include it more meaningfully in the existing framework.

Along these lines, we also provided comments around creating ecosystems that promote long-term digital learning. The creation of any centres or facilities which the framework envisages doing in partnership with state and non-state institutions(page 16) should be accompanied with a strategy of making the facility future-proof, and sustainable over a long period of time. This is especially relevant for any digital centres or hubs that may be created. This includes the creation of maintenance funds for software and hardware updates, infrastructure improvements, maintenance, repair and security, and similar aspects that ensure sustainability and long-term use, avoiding having centres that quickly become obsolete with new waves of technology.

Similarly, we commented that a supporting ecosystem should be created for those who engage in digital remote learning, for instance facilitating affordable access to repairs of devices and access to tech support lines for those in areas with much less technology support services. In some instances, where there is low coverage of technology, infrastructure and connectivity, measures should be taken to provide offline learning materials and enable one-to-one question and answer sessions, to ensure that any shortfalls in digital access don't hamper digital learning.

We also made additional comments that there needs to be a focus on parental-controls on devices being used by children, to ensure a safe learning environment. Whilst the framework mentions that the school curriculum and teacher development curriculum will 'follow guidelines and regulations on ethical use of data and technology tools such as artificial intelligence, privacy, security, fairness, accountability and transparency issued in data use' (page 13 and page 16 respectively) , there was no mention of how device security and data security will actually be implemented to ensure the safety of children. Given the high and growing rate of cyber-crime, and cyber abuse, it is important that safety and security become key considerations to keep children safe online.

Concluding thoughts

Sri Lanka's multiple and overlapping crises since the Easter Sunday bombings in 2019 have impacted digital inclusion, exacerbating pre-existing inequalities, and in turn impacting the prospects for inclusive digital education. These cannot be ignored when crafting national education policy frameworks where 'digital' features so prominently, and must be dealt with in a considered and coherent manner.

Whilst 'digital' – and related terms and ideas – are mentioned throughout the National Education Policy Framework in different ways, we felt that at times they lacked clear intent. In the creation of such frameworks, it is imperative that words like 'digital' and 'AI' do not simply become buzzwords that are loosely included, but rather are linked to tangible objectives and outcomes. Digital inclusion needs to be a key focus in the short-term with a renewed understanding of the magnitude of the problems of digital inequity, and strong intent to make transforming it a priority, with practical measures accompanying it. Otherwise the idea of greater digital education – as envisaged in the Framework – will remain just a prospect, without achieving the expected potential.

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SRI LANKA'S EVOLVING INNOVATION LANDSCAPE AND PRIORITIES FOR THE MEDIUM-TERM

By Anushka Wijesinha

A version of this article was originally published in the National Innovation Agency's 'National Innovation Report 2024'.

The Sri Lankan economy, and consequently the innovation landscape, has undergone significant transformation and significant strain over the past decade. There has been steady progress in the innovation and entrepreneurship ecosystem, amidst multiple and overlapping crises that have hurt jobs, dented incomes, and at times dampened entrepreneurial enthusiasm. Yet, there remains continued optimism that by steadily addressing the challenges and implementing the right policies, Sri Lanka can strengthen innovation's role in our post-crisis economy.

Bright spots in an evolving landscape

One of the most notable developments in recent years has been the emergence of a vibrant startup ecosystem. A new generation of young, tech-savvy entrepreneurs is challenging the status quo and creating innovative solutions to address pressing social and economic problems. This wave of entrepreneurial activity has been fueled by various factors, including increased access to and use of technology, improved connectivity, a steadily growing culture of risk-taking, and a dissatisfaction with 'business as usual' ways of doing things.

In the realm of science and technology, Sri Lanka has made significant strides in information and communication technology (ICT), biotechnology, and renewable energy. The ICT sector, in particular, has experienced rapid growth, driven by the proliferation of smartphones, 4G connectivity, and affordable internet access. This has further fuelled the growth of a thriving IT services export sector, with Sri Lankan software - and indeed software engineers - now silently powering global businesses. The sector has evolved from simple provision of outsourced services, to providing productions and solutions built by engineers here.

New cutting-edge institutions like the Sri Lanka Institute of Biotechnology, with modern equipment, have been established through state support and provide a platform for private and public collaboration in advancing biotech innovation. New climate-friendly, and nature-positive, business models have emerged, supported by a growing number of development catalysts. There are new businesses emerging in Sri Lanka that are connecting the dots between tradition and innovation. Many of these firms are now exporting to competitive, eco-conscious markets in the US and EU.

Challenges remain

However, despite these positive developments, Sri Lanka still faces numerous challenges in its pursuit of innovation-led growth. Sri Lanka's export basket has remained largely unchanged for two decades, and the share of technology-intensive exports is low. One of the most significant hurdles is the country's weak innovation ecosystem. While there has been progress in recent years, there is still a need for a more supportive environment for innovation, including improved access to finance, intellectual property protection, and skilled talent. Additionally, the country's education system needs to be reformed to produce graduates with the skills and knowledge required to thrive in a knowledge-based economy. Another key challenge is the lack of a strong culture of research and development (R&D). While there are some excellent research institutions in Sri Lanka, public and private sector investment in R&D remains relatively well below our

middle-income peers, and the enterprise-orientation of public research institutions is weak. This limits the country's ability to generate new knowledge and develop innovative products and services.

A comprehensive and inclusive view

As part of the Global Future Council on Innovation Ecosystems at the World Economic Forum, we prepared a toolkit to help nascent innovation ecosystems assess and improve how inclusive the ecosystem is. Assessing the strength of our innovation ecosystem requires recognizing the diverse players involved, including government, the private sector, research and development institutions, and digital technology hubs. Each entity, from large corporations to SMEs and startups, contributes to the ecosystem's vitality. To address this complexity, we must acknowledge and fortify every facet of the ecosystem. This points to inclusivity being a paramount consideration in the approach to innovation where we ensure equitable access and participation for all stakeholders. Past initiatives, such as the Sri Lanka Innovation and Entrepreneurship Strategy (2018-2022), recognized this multifaceted nature of innovation, and the need for comprehensive programmes and policies.

Priority agenda for post-crisis growth

To address the challenges and unlock the full potential of innovation and entrepreneurship, Sri Lanka needs to prioritise a number of key policy areas. The government must create a conducive environment for innovation by implementing policies that encourage risk-taking, protect intellectual property, and simplifying regulations. There is a need to invest in education and skills development to build a strong talent pipeline. The government should promote public-private partnerships to foster collaboration between academia, industry, and government.

Even though the digital innovation ecosystem often gets more prominence in Sri Lanka, there is plenty of scope for innovation in our traditional sectors as well - whether it is blockchain-based traceability for our unique spices, or materials innovation in manufacturing to reduce waste and resource intensity. We must broaden our perspective to encompass the entirety of innovation and consider the role of innovation in broader economic transformation. For this, we must strengthen the innovation ecosystem across the full gamut of players – which ranges from large corporates, startups and small and medium firms, public actors, R&D institutions, financial institutions, fiscal authorities, and global technology companies' presence.

Innovative businesses require innovative types of financing support. Typical schemes like 'concessional SME loans must give way to approaches that help de-risk the early years and reduce the likelihood of failure, that subsidise the cost of expensive certifications and testing fees, that connects them with international buyers and reduces their go-to-market expenses, that helps them access global capital and funding partnerships, etc.

Concluding thoughts

There is no doubt that for Sri Lanka's next stage of growth – beyond the current economic recovery – the innovation imperative is key. Exports in diversified and technology-intensive segments need to grow. Process innovation can help reduce resource and material use, and also bring about cost efficiencies amidst high energy costs. Product and process innovation is needed to embrace new compulsions around green growth, environmental sustainability, and circularity for Sri Lankan firms to be competitive globally.

While there are significant challenges to overcome, the country has the potential to become a leading player in the global innovation economy. By prioritising innovation, investing in education, and fostering a supportive ecosystem, Sri Lanka can unlock its full potential and build a brighter future for our people. The National Innovation Agency (NIA) is uniquely positioned, and eminently qualified, to drive this agenda for the country and continue to champion innovation-driven pathways for growth.

PRECARIOUS PAYCHECKS: THE RISE OF THE GIG ECONOMY IN SRI LANKA AND ITS IMPLICATIONS FOR THE FUTURE OF WORK

By Anisha Gooneratne
7th March 2025
Article published on the Centre for a Smart Future website

Growth of platforms in Sri Lanka

The speed and scale of technological advancements have changed the way people work, giving rise to new business models facilitated by technology. The platform economy is one such example, allowing people to sell goods and services online on platforms mediated by technology, matching supply and demand efficiently. Sri Lanka too, has seen a rise of platform mediated work. The Online Labour Index highlighted that as of 2024, Sri Lankan gig workers ranked among the top 15 countries worldwide when accounting for the share of workers on major online freelancing platforms (Stephany et al. 2021).

Gig workers operating on platforms are not classified as employees, but rather independent contractors, own account workers or self employed - based outside the scope of the traditional employer-employee relationship. Given this, they are often classified as informal workers, and not included in statistics that classify formal employment. In Sri Lanka, the most recently published Annual Labour Force Survey 2023, highlighted that the contribution of informal sector employment to total employment was 58% (Department of Census and Statistics 2023).

Workers in Sri Lanka are drawn to gig work for various reasons, with freedom and flexibility and the ability to supplement income being cited as key reasons (Ramamoorthy and Adikaram 2024). Although no national level study has been undertaken to understand the scale of gig-work in Sri Lanka, a study done by CSF found that over 50% of interviewed gig-workers operate on these platforms full time (Dahanayake 2023).

In the aftermath of the COVID-19 pandemic and amidst Sri Lanka's economic crisis, it is expected that more workers started to register on these platforms, in need of supplementary income. For example, popular ride hailing and delivery platform PickMe registered 40,000 new drivers in 2022 alone (Daily FT 2023). Despite the benefits that working in the platform economy brings, gig-work in Sri Lanka is precarious. From the COVID-19 pandemic, Sri Lanka's economic crisis - to the more recent trends shaping gig work, this article explores the precarity of the Sri Lankan gig economy and the implications for the future of work.

Escaping crisis

Research done by CSF in the aftermath of the pandemic highlighted that restrictions on travel in the form of lockdowns and health concerns significantly impacted gig-workers engaged in ride hailing occupations. However, for those engaged in delivery, there was an increase in the demand for food through delivery platforms such as PickMe and Uber, as these riders were permitted to carry-out services. However, the series of lockdowns impacted livelihoods with workers having to survive many weeks without work and income, with workers also finding it difficult to adapt to the sudden halting of work. Although the crisis negatively impacted geographically tethered gig-work such as those operating in ride hailing and delivery, experts interviewed for research conducted by CSF highlighted that the increased internet use across the country, led to an increase in awareness of online work, and an increase in the number of individuals engaged in freelancing on platforms.

Sri Lanka's subsequent economic crisis also had an impact on those engaged in the gig-economy. For those operating in ride-hailing and delivery sectors, Sri Lanka's fuel shortage meant that many gig workers could not proceed with their operations. Research conducted by CSF at the time highlighted that many workers left the platform either permanently or temporarily to find other ways of earning an income (Dahanayake 2023). Those that continued to operate on the platform noted that they reduced their area of coverage, usually travelling shorter distances which negatively impacted their income. Delivery riders also noted a reduction in the orders they were getting owing to increased costs, and reduced number of deliveries being made.

For those who worked for online freelancing platforms, frequent and long-power cuts soon became a barrier to completing work. Interviewees noted that given the competitive nature of these freelancing platforms, inability to complete work in a timely manner impacted income and ability to get time sensitive opportunities via these platforms.

Despite the constraints of the crisis being less prevalent than they were three years ago, gig workers continue to work with increased precarity. Three key areas shaping this are algorithmic management of work, lack of social security and lack of employment safeguards.

Algorithmic management of work

Platforms like Uber and PickMe use computer programmes to manage workers which use step-by-step instructions, called algorithms. The use of algorithms to manage workers and their work is referred to as algorithmic management of work and is a key feature of how digital labour platforms operate. On platforms, algorithms are used for a range of functions such as to determine which worker gets allocated work; how much a worker gets paid (with higher pay rates afforded at peak times and lower rates when demand is low); structure incentives and bonuses and also automatically implementing decisions such as deactivating workers from platforms who may cancel too many tasks or receive poor ratings.

In Sri Lanka, as workers aren't usually made aware of what factors would help them get prioritised by the algorithm, whether its a higher star rating, or longer period of time operating on the application - workers usually find themselves guessing and trialling new tactics to try and be able to determine what factors are likely to give them more work. As a result, workers on gig platforms are operating under opaque conditions, without the clarity and the guidance they need to be able to maximise work and income on these platforms (Gooneratne 2024).

Worker rights and social protection

The second trend shaping the precariousness of gig work is the lack of social security afforded to gig workers. Unlike in a traditional employer-employee relationship, gig workers are classified as independent contractors, which limits their access to employment rights (Katiyatiya and Lubisi 2025). As a result, gig workers in Sri Lanka do not have access to minimum wage, paid leave and job security. They also lack social protection such as pensions and unemployment benefits.

One of the most pressing social security gaps faced by workers is regarded as income replacement in the face of illness or disability (Schanz 2022). In Sri Lanka, this is particularly important given that CSFs research has highlighted that the majority of gig-workers operate on platforms full time without the benefits and protection that full time employment brings (Dahanayake 2023). As a result, workers are forced to work despite being ill, or under other circumstances or find other ways of earning money, in order to manage their income. Whilst some ride hailing and delivery platforms in Sri Lanka have introduced insurance schemes, such as Uber in partnership with Allianz (Uber 2023) for both drivers and passengers, this is not widespread in the platform economy, leaving many gig-workers at risk.

Safety and the lack of employment safeguards

The third trend exacerbating gig worker precarity is safety and the lack of employment safeguards. Gig workers, especially those who work in ride hailing or delivery are exposed to higher degree of physical stress due to greater risk of injury through accidents, compared to those that work on online freelancing platforms. Gig-workers operating on geographically tethered platforms, have also highlighted that they also have to contend with extreme climate conditions such as intense heat or working in periods of heavy rain. In a recent study conducted by CSF, gig-workers noted facing skin irritation and dehydration due to extreme exposure to heat and navigating flooded roads during periods of heavy rain.

Given that not all platforms in Sri Lanka limit how long a gig-worker can work, gig workers have noted working longer hours in order to maximise income or meet incentive targets set by the platform. A recent study by the Solidarity Centre on gig workers in Sri Lanka highlighted that 93% of surveyed gig workers worked more than 11 hours of the day and 37% of surveyed gig workers operated more than 16 hours of the day (Solidarity Centre 2024).

Unlike employees, they lack protection from labour laws that regulate working conditions. Whilst employees are protected by local labour laws such as the Shop and Office Act or the Factories Ordinance Act, there are no protections afforded to gig workers who may have to work long hours or work in extreme conditions at a risk to their health.

Implications for the future of work

Globally, around these three areas of algorithmic management, social protection and safety - we are seeing increased regulation to provide workers with better support. Whilst countries in the Global North are looking to promote better working conditions for gig-workers, gig work in low to middle income countries is being presented as a way to increase labourforce participation without the safeguards that are needed in place to protect workers (Wood et al. 2019).

Whilst a blanket approach to regulating gig work can hamper platform innovation and may not fully extend to the nuances of gig work, countries have taken steps to protect workers from different aspects of gig work.

- The draft EU Platform Workers Directive pushes for greater transparency on automated monitoring and decision-making systems, and responsibility for more human- driven decision making;
- Ley Rider or 'Riders Law' (Spain): includes gig workers in employment and labour laws with greater social security safeguards and protection from algorithmic management
- Platform Workers Bill (Singapore): Seeks to provide compensation for injury, improved housing and retirement benefits, and also allow for worker representation

- Code on Social Security (India): Includes gig and platform workers under social security schemes, with some provisions for occupational safety and benefits like accident insurance

These examples highlight just a fraction of the evolving landscape of gig work regulation. As the platform economy continues to expand, striking the right balance between the flexibility that gig work offers and the protections needed to safeguard workers from its risks will be crucial. For Sri Lanka, this will likely become an increasingly important focus in the near future as the demands of the digital economy continue to grow.

Looking forward, at a national level we recommend relooking at existing policies and implementing new regulations to ensure that gig workers have fair wages, social security, and protections like health insurance and retirement benefits. The growth of the platform economy also provides a new role for traditional employer organisations to promote industry standards for fair pay, job security, and worker protections. However, ultimately the onus rests firmly on platform companies to improve working conditions of gig workers by offering better algorithmic transparency, fair payment policies and simpler and more transparent contracts in local languages.

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PROSPECTS FOR TRADE AND COMPETITIVENESS REFORMS IN 2025 AND BEYOND

By Anushka Wijesinha

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President and Finance Minister Anura Kumara Dissanayake's maiden budget speech in February 2025 showcased several promising proposals on trade and competitiveness, maintaining welcome consistency with previous administrations' approaches. By prioritising exports and international trade at the start of his budget proposals, the President signalled a clear focus on growth-enhancement beyond the hard-won macroeconomic stability of recent years. This consistency in policy direction, particularly in trade and competitiveness initiatives, marks a positive development for Sri Lanka.

Renewed attention on exports?

The Government's proposed 'National Export Development Plan' represents a strategic approach to export development, crucial for a trade-dependent economy like Sri Lanka. This initiative should build upon the efforts of the National Export Strategy of 2018-2022, which featured comprehensive action plans developed through private-public collaboration. The previous strategy had sector-specific approaches and strong private sector ownership, providing valuable lessons in developing the new plan. To succeed, the new plan must maintain this collaborative approach while incorporating current market trends around sustainability. Technical support from international bodies like the International Trade Centre (ITC) could provide valuable market insights and ensure practical implementation. The ITC's experience in developing export strategies across multiple countries would help ground

Sri Lanka's plans in market realities while ensuring achievable and pragmatic sector-wise strategies.

Tariff reform – a strategic shift?

The President's approach to tariff reform marks an interesting departure from previous attempts. Rather than positioning it as 'trade liberalisation', he framed the proposed new 'National Tariff Policy' as an 'export growth' imperative, emphasising how streamlined and predictable tariffs can provide affordable inputs for exporters. This strategic framing acknowledges the interconnected nature of imports and exports, where high import costs due to para-tariffs affect both consumer welfare and export production costs. Previous attempts at unilateral tariff liberalisation often faced resistance from sectors dependent on protection. However, the new Government's focus on export growth and production costs may provide a more palatable narrative for necessary reforms. The groundwork for a new tariff policy was already laid by the reforms undertaken under the World Bank's Development Policy Operation, and a National Tariff Policy Framework was approved by the Cabinet in June 2024. To support this transition, safeguards such as the Anti-Dumping and Countervailing Measures Acts need stronger implementation capabilities. This requires building capacity within Government Departments, particularly in international trade law and economics. Reviving the Trade Adjustment Program from 2018-2019 could provide a transparent mechanism for addressing industry concerns about tariff reforms while offering necessary support for firms and workers to adapt.

Regional integration and trade agreements

The President's commitment to regional integration and expanded trade agreements helps dispel concerns about potential protectionist policies. While specific priorities regarding bilateral versus plurilateral agreements weren't detailed, a key priority should be concluding an enhanced agreement with India, covering goods, services, investment, and technology cooperation. With India's middle class estimated at over 200 million people – ten times Sri Lanka's population – this presents a significant export opportunity. Immediate attention should focus on resolving existing trade facilitation issues and revisiting the current apparel quota of eight million pieces annually. Previous negotiations on the Economic and Technology Cooperation Agreement (ETCA) with India provided a valuable mechanism for addressing bilateral trade issues, and this approach should be revived to build confidence between both nations.

Modernising trade support and trade facilitation

The focus the President's Budget speech placed on modernising the national quality infrastructure (NQI) system shows recognition of how standards and certifications impact export competitiveness, especially for SMEs. The Government can draw from the earlier National Quality Infrastructure Strategy, developed with support from UNIDO, ITC, and the World Bank, to make standards and certification institutions and systems more business-friendly. This modernisation is crucial for helping Sri Lankan businesses meet international standards and access new markets.

The Budget's emphasis on trade facilitation, including the National Single Window (NSW) and a new Customs Act, demonstrates continuity with previous reform efforts. Success will require not just technological advancement but also institutional reform of processes and personnel. The Government's digitalisation drive under Dr. Hans Wijesuriya's leadership could provide fresh momentum for the NSW, particularly if it addresses both technical and organisational challenges.

Implementation: the critical factor

While these proposals build on previous foundations, their success depends entirely on execution – historically a weakness of past budgets. However, the trade reforms outlined in Budget 2025 have the advantage of building on existing groundwork rather than starting from scratch. The Government can improve implementation chances by learning from past efforts, leveraging technical expertise, and fostering strong public-private partnerships.

As Sri Lanka seeks to build prosperity beyond stability, effective implementation of these trade reforms becomes crucial for boosting exports, foreign direct investment, and overall competitiveness. The key will be maintaining momentum while ensuring reforms are implemented systematically and with proper stakeholder consultation.

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