Integrating Sri Lanka into the Global Economy

Did the Blue-Green Budget Forget Migrants and their “Greenbacks”?

Is Sri Lanka’s Grade Five Scholarship Exam Akin to a Fool’s Errand?

Sri Lanka Reaping the Benefits from Preferential Trade

Did the Blue-Green Budget Forget Migrants and their “Greenbacks”?

Measuring Sri Lanka’s Sustainable Tourism: Missing Piece of the Puzzle

Integrating Sri Lanka into the Global Economy
Clarity in Thought Translate to Clarity in Action?
A Necessary Synergy with Trade Agreement: Sri Lanka Reaping India-Sri Lanka Free Trade Agreement’s Cards Right?

Is Sri Lanka’s Grade Five Scholarship Exam Akin to a Fool’s Errand?

Ending the Test Score Horse Race: Transforming Sri Lanka’s Education
Regulating Microinsurance in Sri Lanka: Shaking a Balance

Easy and Affordable Access to Finance: A Lifeline for Female-centric MMEs in Sri Lanka

Fueling Sri Lanka’s Tourism Sector to Achieve SDGs

Did the Blue-Green Budget Forget Migrants and their “Greenbacks”?
The Gendered Face of NGOs: Can Sri Lanka Beat the Odds?

Human Development: Sri Lanka’s Achievements and Challenges

Green Initiatives in the Blue-Green Budget: Can Sri Lanka become Climate-Resilient?

Building Resilience for Climate-induced Disasters in Sri Lanka

A Mess as Old as Time: The Economic Cost of Natural Disasters in Sri Lanka

Achieving Food Security: A Prausible Reality or a Pipe Dream for Sri Lanka?

Inside IPS
IPS News
Latest Publications
Fast Facts
In a Nutshell

Climate-induced Disasters in the SDGs

With increasingly protectionist policies of the West and the rapid emergence of new superpowers in the world, especially from the Asian region, Sri Lanka is facing a whole new set of challenges, as it tries to position itself as a rising middle-income country in the world. It is also important for Sri Lanka to strategically and systematically balance the competing interests of its two main development partners, China and India. In such a context, the theme of this edition of the Talking Economics Digest – “Integrating Sri Lanka into the Global Economy” – is both timely and timely.

In one of our articles, former Executive Director of IPS, Dr. Kanishka Abeywardana explains the benefits that Sri Lanka can reap from a Free Trade Agreement (FTA) with India, Dr. Kirigama, who served as the Chief Trade Negotiator of Sri Lanka until his demise in 2017, relays, “the objective of a FTA is not to bring about a balance in trade, but to work out a ‘win-win’ situation for both producers and consumers in the FTA member country.” This is a message that needs to be communicated clearly to both policymakers and the public. Meanwhile, Nitha Arunatilake highlights the importance of looking beyond South Asia and broadly engaging with East Asia – “Integrating Sri Lanka into the Global Economy” – is both fitting and timely.

Keeping up with the world is not possible without a skilled pool of human resources, especially since the Sri Lankan government is geared towards developing a knowledge-based, highly competitive economic environment in the country with this in mind, the Talking Economics Digest presents a number of articles which deal with a wide range of labor and education reform. Nitha Karunaratne and Kithminna Hewage, in an article following a microscopic view on Sri Lanka’s new Human Rights Act and its implications on the income of the people, as well as on the economy as a whole, address the question of education, as an issue. As new qualified and experienced teachers can make a major difference in the country. Meanwhile, Ashani Abayasekara looks at another pertinent issue facing this sector – the highly rigid, exam-intensive education system in the country – and the latter sector which has engulfed children and parents, as a result. Skill mismatch and the effects of poverty on education are other pressing issues that have been addressed in the latest edition of the Digest. On another significant note, women’s contribution to the economy and policies that encourage more women to participate in the labour force, are also looked at closely.

The tourism industry, which boasts of enormous unrealized potential in Sri Lanka, is discussed in detail. Wimal Nandakumara delves into a widely debated topic in this regard – regulating the informal accommodation providers, such as Airbnb, and the impact of such a move on this growing sector. Wimal Nandakumara highlights how tourism can help achieve Sustainable Development Goals (SDGs), while Kanchana Wickramasinghe notes the importance of measuring sustainable tourism practices, a largely ignored area until now. As always, the Digest also pays attention to an unavoidable challenge that plagues not just Sri Lanka, but the world – climate-induced natural disasters. The importance of becoming climate smart and climate resilient as a country cannot be overstated. Therefore, several articles in the magazine are dedicated to offering an effective and efficient Green initiatives that should be adopted by Sri Lanka. These however, are not the only issues you will find within the pages of the Digest. Issues ranging from the achievement of SDGs, to food security, human development, health, and many more are examined by our team of authors, who all possess a research background. A comprehensive analysis of the macroeconomic aspects of Sri Lanka’s Budget for 2018 is also included in this issue, while other articles analyze various aspects of the government’s general policy direction. In addition, the Digest contains news from IPS, as well as the Institute’s latest publications, including the annual flagship report, “Sri Lanka: State of the Economy 2017.”

We hope that you find the latest edition of the Talking Economics Digest engaging, insightful and informative. We have always strive to do better, and invite you to share your thoughts and comments with us by emailing us or posting on our blog.

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Sri Lanka’s New Regionalism: Looking beyond South Asia

By Kithmina Hewage

Since the conclusion of a nearly three-decade-long conflict in 2009, Sri Lanka’s prominence in Indian Ocean politics has grown significantly. Whereas during the conflict its outlook was predominantly security-oriented, the island nation has now become prominent in economic and political matters in the region. However, despite its role as a pioneer of South Asian regionalism through the South Asian Association for Regional Cooperation (SAARC), Sri Lanka is increasingly turning towards broader engagement with East Asia. In doing so, the country is recognizing its pivotal position as a strategic asset to both India and China. The island nation’s move towards engagement beyond South Asia has placed Sri Lanka in the midst of Indo-China politics, which, if balanced astutely, could largely benefit its economy and political standing in the region.

The Pivot to East Asia

Sri Lanka’s shift away from a South Asian focus was initiated under former President Mahinda Rajapaksa in the immediate aftermath of the civil war. This was prompted mostly by political necessity. Sri Lanka was facing growing political pressures from the international community regarding alleged war crimes, and China offered much-needed cover at the United Nations and other international forums. Moreover, China was willing to provide unconditional economic support to finance large-scale infrastructure development, albeit through loans at market-rate interest. India’s reluctance to fully embrace the Rajapaksa administration provided China with the opportunity to embrace Sri Lanka as an ally with vital geostrategic importance. In return, Sri Lanka shifted away from its carefully curated non-aligned foreign policy in the Indian Ocean and started engaging in activities that demonstrated its new allegiance with China. Over the past five or so years, China has provided the island nation with financial support to develop an international seaport and airport, while also investing heavily in the Colombo Port City project. Each of these investments and actions has consequently raised concerns with India and its allies.

Sri Lanka’s current look to establish closer political-economic ties with countries beyond South Asia is driven by economic necessity as much as political expediency. As a small island economy with a population of 21 million, Sri Lanka depends heavily on foreign direct investment (FDI) and its export sector to catalyze economic growth. However, Sri Lanka’s post-conflict economic progress has been underwhelming, especially in its export sector. Domestic protectionist policies hinder the competitiveness of Sri Lankan firms, and the country is in dire need of diversifying its export basket and expanding exports beyond its traditional markets in the United States and United Kingdom.

The inadequacy of regional value chains within South Asia has further heightened the need for Sri Lanka to look elsewhere for profitable economic linkages. Unlike those in East Asia, Latin America, and Europe, production and trade networks in South Asia are almost non-existent. Intra-regional trade in South Asia stands at a meager 5 percent, and that too is heavily influenced by bilateral trade with India. Cognizant of its weak position on the global economic platform and the failures of regional trade agreements such as the South Asian Free Trade Agreement (SAFTA), Sri Lanka is currently negotiating a trilateral of bilateral trade and investment agreements with India, China, and Singapore. These agreements are expected to act as the platform upon which Sri Lanka’s economic pivot across the Indian Ocean takes place.

Recalibrating Indo-China Politics

The most critical consequence of Sri Lanka’s new regionalism is an acute awareness of its need to balance the interests of India and China. Immediately following the January 2015 presidential election, the new Sri Lankan government halted the Colombo Port City project in an attempt to appease India by signaling independence from Chinese influence. The government has since recognized that Sri Lanka’s economic dependence on China for investment and debt relief makes close cooperation imperative. Yet Sri Lanka has taken considerable measures over the past two years to demonstrate its willingness to balance both Indian and Chinese interests. This effort was evident when the Sri Lankan Prime Minister welcomed Indian Prime Minister Narendra Modi to Colombo, then visited China immediately afterward to attend a summit on the Belt and Road Initiative. The Sri Lankan government is also currently negotiating a debt-to-equity swap with China by granting it access to an industrial park and management of the Hambantota Deep Sea Port and Mattala International Airport, while at the same time agreeing to work with India to develop a war-era oil tank farm in Trincomalee, a strategic port on the East Coast of the island.

While India initially seemed concerned by the Sri Lankan shift towards China, it now views the country’s amended Indian Ocean focus more favorably. This is especially important as India itself moves towards broader regional engagement. Along with its growing relationship with the Association of Southeast Asian Nations (ASEAN), India is also a critical stakeholder in negotiating the Regional Comprehensive Economic Partnership (RCEP). Thus, Sri Lanka’s expanding relations align well with India’s priorities. Sri Lanka is beginning to establish itself as a logistical hub for Indian manufacturing and trade, while also positioning itself as an increasingly reliable political ally. In fact, India appears to be facilitating Sri Lanka’s broader Indian Ocean focus by providing greater credence to the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) as a potential alternative to SAARC.

At the same time, even though China undoubtedly prefers to be Sri Lanka’s prominent partner, China also appears to support Sri Lanka balanced regionalism. For example, China has been willing to compromise on issues of land ownership and investment conditions while providing the Sri Lankan government adequate policy space to engage with India. India will support this balance so long as it is allowed to pursue its strategic investments in Sri Lanka and Bangladesh. In fact, if Sri Lanka’s free trade agreements with India, China, and Singapore proceed as expected, the island nation could be positioned as a conduit for further economic engagement between the regional superpowers, which would be in all three nations’ interests. For instance, Chinese investors could invest in industrial zones in Sri Lanka to export to both China and India under an improved free trade agreement between Sri Lanka and India.

Conclusion

Sri Lanka’s shift towards East Asia is somewhat inevitable given the decades-long stagnation of SAARC and the necessity for the country to reduce its dependence on American and European markets. Additionally, an increasingly inward-looking American foreign and economic policy and the consequent shift in global economic power towards the East increases opportunities for Sri Lanka to position itself as a regional economic hub. The change in focus, however, could pose potential challenges in terms of balancing Indian and Chinese interests. Both nations consider Sri Lanka a strategic asset, while also recognizing the concerns of their counterpart. Therefore, to balance Indian and Chinese interests to its advantage, Sri Lanka will need to pursue a form of “strategic prudence” that will enable it to leverage the benefits of both regional superpowers.
A Temporary Slave: Implications of an Oil Bear Market on the Sri Lankan Economy

By Vishvanathan Subramaniam

Sri Lanka’s fuel bill has been signaling as of late. According to a recent Central Bank press release, external sector performance, petroleum purchases for the first four months of 2017 were estimated at US$ 1.2 billion. This represents a colossal 75% increase in the value of such imports, when compared to tabulated estimates for the corresponding period last year.

This development is of great concern. Given Sri Lanka’s dependency on imported fuel for domestic consumption, swings in global non-renewable energy markets will have direct implications on the nation’s ability to reduce its trade deficit and sustain growth prospects.

This article examines recent trends in global oil markets and analyzes corresponding impacts on the domestic economy. It suggests that while global oil prices are expected to decline in the short to medium term, Sri Lanka cannot afford to maximize growth potential and ensure energy independence due to several structural inefficiencies. Rather, bearing oil market outlooks provide a thin window of opportunity to implement timely socio-economic reforms, sans excessive concerns of exogenous shocks.

International Markets

International markets witnessed a precipitous drop in oil prices during the last four years. Crude prices – as per the Organization of Petroleum Exporting Countries (OPEC) reference basket – plunged from an average of US$ 112/barrel in June 2014 to US$ 26.50/barrel by February 2016. While a brief resurgence in the market led to prices reaching US$ 54/ barrel by April 2017, recent announcements of production gains in several producer nations has exacerbated market volatility. As of mid-July 2017, the average price of the OPEC crudes had decreased to US$ 45/barrel.

Looking ahead, oil price forecasts are contingent upon the production decisions of major suppliers. It is common knowledge that oversupply has been the principal cause of sluggish market conditions. However, while calls for production cuts have continued to resonate amongst producer circles, they have not been backed by adequate implementation mechanisms. Rather, major oil producers such as the United States, Iran, Libya and Nigeria are expected to increase their supply capacity in the coming months.

Considering the above, market experts view future prospects with reserved pessimism. Projections appear to indicate that crude prices are expected to hover at a reduced US$ 45-55 range for the rest of 2017.

Domestic Concerns

The import price of crude oil had risen from US$44 per barrel in April 2016 to US$56.5 per barrel by April 2017, proving to be a principal cause for escalating fuel purchase values. Therein, projections as indicated above suggest that Sri Lanka can be expected to register a lower fuel import bill over the coming months. While this translates as good news, the actual scale of benefits is contingent upon contemporary economic conditions. Potential outcomes can perhaps be gauged by reviewing the effects of the previous oil slump experienced between the years 2014 and 2016.

In 2013, Central Bank reports indicate that Sri Lanka’s annual petroleum import was valued at US$ 4.2 billion, and encompassed 23% of the aggregate import bill. By 2016, the value of petroleum imports had decreased by 45% to US$ 2.3 billion, and comprised 11% of aggregate imports. In addition, prices of petrol and diesel in retail markets (calculated using Central Bank annual reports) were decreased by approximately 25%, while the price of kerosene was slashed by 40% during the given period.

Despite declines in fuel import values, Sri Lanka’s trade deficit continued to linger at the 11% of GDP threshold between 2014 and 2016. Gross Official Reserves dipped from US$ 8.2 billion in December 2014 to US$ 6 billion in December 2016, regardless of significant reductions in the fuel bill. Moreover, Sri Lanka’s GDP growth averaged 4.7% per annum, considerably lower than the South Asian average of 7.1% per annum for the three-year period.

A cursory glance of such comparisons might tempt readers to surmise that favorable oil market outlooks have not translated to tangible benefits to Sri Lanka’s economy. However, this is not true – Sri Lanka’s somber performance can be attributed to a complex interplay of several determinants. In such a scenario, one can argue that dampened fuel prices did indeed play a beneficial role in alleviating economic pressures.

Notable contractions in the value of fuel imports helped to counterbalance external sector risks caused by lackluster export performance. Stark reductions in retail prices (oil derivatives) assuaged inflationary pressures, kindled by disruptions in agricultural sector performance, and weakened rupee outlooks. Cheaper fuel provided industries a cost-effective and dependable energy alternative to the national power grid, which has unfortunately been riddled with capacity issues as of late.

In this context, it can be surmised that lower oil prices, during the period 2014 to 2016, played a crucial role in buttressing a fragile Sri Lankan economy. It helped the island nation tolerate structural inefficiencies that would have otherwise hastened an economic downturn.

Given that such inefficiencies will continue to linger in the short to medium term, predictions of a bearish oil market will be met with signs of relief. Sri Lanka has now been offered a vital, albeit undeserved, breathing space to usher in urgent economic reforms.

Energy Dependence

In addition, Sri Lanka’s dependency on external petroleum sources necessitates the establishment of a streamlined and cost-effective energy procurement platform for stable growth. An examination of recent import history reveals concerning trends in this regard. Between 2013 and 2016, quantities of refined petroleum imports increased by 33%, while the quantity of crude oil imports decreased by 3%. Concurrently, domestic petroleum consumption increased by 25% within the given period. Therein, swelling rates of domestic petroleum consumption has been largely satisfied by an increased inflow of refined petroleum derivatives.

This development will be met with concern given its adverse impact on cost efficiency. Refined petroleum products are priced higher than crude oil, due to high margins placed on refinery operations. Sri Lanka could have made tremendous savings by importing crude and utilizing domestic industry to process derivatives. Unfortunately, this strategy is unviable due to capacity and process constraints in the country’s sole refinery in Sapugaskanda.

Furthermore, increased reliance on refined petroleum imports exposes Sri Lanka to additional layers of extraneous risk. Petroleum inflows will now be contingent upon producer and processor stability, regardless of contractual developments. In Sri Lanka’s case, UN trade statistics indicate that approximately 36% (US$ 460 million) of Sri Lanka’s refined petroleum imports for 2016 were purchased from Singaporean refineries. However, Singapore does not possess a significant indigenous source of crude oil. Rather, its refineries depend on crude imports from the Middle East and Malaysia. Through such a trade, Sri Lanka is sensitized to intra-industrial and geographical shocks over which the country has minimal control.

Future Prospects

While the current drive to maximize Sri Lanka’s trade potential is encouraging, the long-drawn nature of contemporary decision-making is of concern. A sense of urgency is essential, given that Sri Lanka remains exposed to external sector shocks precarious to fluctuations in energy costs. Fortunately, slumping oil market sentiments – anticipated in the short to medium term – mean that the country has been provided a narrow window of opportunity to initiate reforms measures that foster energy and economic sustainability. It is imperative that actions are hastened to capitalize on this breathing space. If such chances remain untaken, Sri Lanka will soon be forced to face economic concerns on multiple fronts.
Path to Skills Development: Helping Sri Lankan Youth Navigate the Hurdle of O-Level

By Ashani Abayasekara and Nisha Arunatilake

The G.C.E Ordinary Level (O-Level) exam is a watershed in education for youth in Sri Lanka. Success at the O-Level opens avenues for further education and better skills, but this is a full stop in education for many, due to poor performance. Education and skills are essential ingredients to any strategy that aims to empower youth, a key goal embodied in World Youth Skills Day that is commemorated on 15 July.

This March, as usual, when the O-Level results were released, articles spotlighting the island’s top performers and their schools abounded in the media. But what factors really contribute to good performance at exams? Is it mainly the ability of individual students or is it the influence of schools and teachers? In the meantime, low scorers at the O-Levels received hardly any attention. According to the Ministry of Education (MOE), in 2015, close to half the students and teachers who teach a given subject most 2-Grade II or above in a large share of unqualified teachers. The share of whom are both in-field and experienced. In addition to pedagogical training. In-field teachers: teachers who have at least three years of experience in the subject they teach. With good subject knowledge in the language – the two subjects for which at least a simple pass is compulsory at the O-Levels – report better average results. Teacher leave, on the other hand, lowers O-Level results considerably. A school’s ranking based on type, size, and principal’s service grade also affects performance, with poorer average O-Level results being observed for inferior/smaller schools and those managed by principals of lower rankings (Figure 1).

Figure 1: O-Level Performance by School Type, Size, and Principal Service Grade

Source: Author Calculations Using School Census Data.

Notes: The four categories are defined based on shares that qualify to proceed to A-Level classes: very poor (0), poor (0.0-0.33), average (0.34-0.67), and good (0.68-1). See Box 1 for categorization of teachers.

Develop policies to ensure that schools attract and cultivate in-field and experienced teachers (Box 1). As Figure 2 shows, schools that report the best O-Level results (good performers) have more than adequate numbers of mathematics teachers (a share of over one), a majority (44%) of whom are both in-field and experienced. In contrast, very poor performing schools have a shortage of mathematics teachers, and a large share of unqualified teachers. The share of in-field but inexperienced mathematics

Policy Suggestions

Pay special attention to improving performance standards in smaller, 1C schools that offer only Commerce and Arts streams for A-Levels, and Type 2 schools (secondary schools that end at O-Levels). The finding that O-Level performance is lower for both smaller schools and 1C and Type 2 schools holds, even after controlling for the share of scholarship holders, indicating that lower performance is not only due to differences in ability. These schools thus require special attention if overall O-Level performance is to be increased nationally.

Put in place incentive schemes for teachers to reduce leave of absence, and take measures to provide substitute teachers in the absence of regular teachers. The findings show that student achievement is low in schools when the number of days of leave taken by teachers is high. The average share of teacher leave days of total working school days stands at 15%, which is a significant figure.

Enhance the quality of principals’ training programmes, and ensure that recruitment to Principals Service is carried out in a systematic and merit-based manner. The results suggest that schools managed by better qualified and experienced principals perform better at the O-Levels. It is disturbing to note that, on average, 27% of schools in the sample are managed by principals belonging to low ranking grades – a figure which increases to 46% in very poor performing schools.

Developing schools and improving O-Level performance based on the above recommendations should be a priority, to give Sri Lanka’s youth better access to training for better skills.

Box 1: Categorization of Teachers

Recommended teachers: the number of required secondary-level teachers for each subject based on class sizes, determined by the MOE as stated in circular No. 1 of 2016.

In-field teachers: teachers with a degree in the given subject or those with special training to teach the subject – i.e., teachers with good subject knowledge in the subject they teach.

Experienced teachers: teachers with a Class 2–Grade II or above in Sri Lanka’s Teacher Service. These teachers usually have at least three years of experience in addition to pedagogical training.

Other teachers: teachers, either experienced or inexperienced, who do not teach a subject of their experience, i.e., teachers who teach a given subject most of the time but are not qualified or trained to teach that subject.

Notes: School type refers to the number and type of functioning classes: 1AB school have grades up to the A-Levels in all streams, 1C schools only have commerce and arts A-Level streams, and Type 2 schools end at O-Level. The Principal Service grade is determined by order of recruiting see: (1) Sri Lanka Education Administration Service (SLEAS); (2) Sri Lanka Principals Service (SLPS); and (3) Sri Lanka Teachers Service (SCTS).
The objective of a free trade agreement (FTA) is not to bring about a balance in trade, but to work out a ‘win-win’ situation for both producers and consumers in the FTA member countries. In doing so, there can be instances where the trade deficit increases for one partner. For instance, the inflow of necessary consumer goods, machinery and spare parts for industrial activity, and intermediate goods like textiles and oil, to one trading partner can be huge, while the supply capacity of the same trading nation may be limited and cannot immediately expand its exports to match the import flow. In the case of India-Sri Lanka Free Trade Agreement (ISFTA), Sri Lanka has been able to reap benefits from the FTA, contrary to general belief, if one looks beyond the Sri Lanka’s trade deficit vis-à-vis India.

Usage of the Preferential Tariffs in the Free Trade Agreement

If one looks at the composition of imports from India to Sri Lanka, the bulk of it comes mainly to fulfill consumer needs, like vehicles, pharmaceuticals, sugar, etc. Some other imports are intermediate imports for the industry, like textiles, vehicle parts, and oil. For example, Sri Lanka annually imports close to US$60 million worth of yarn and US$300 million of fabric from India as inputs in the apparel industry. All these items constitute, on average, nearly 80% of Sri Lanka imports from India, and they are imported outside the provisions of the ISFTA. In other words, these items are subject to normal customs duties, and they do not benefit from any tariff concessions. Hence, they enter the Sri Lankan market because they are the most competitive input source, and provide value for money for intermediate and/or final products for local producers and consumers.

Contrary to imports, nearly 70% of Sri Lanka’s exports go to India using FTA provisions. Thus, these exports benefit from the zero tariffs granted by India. Clearly, Sri Lanka has been using the FTA more than India. (Figure 1). Plotting the goods traded between the two countries under the bilateral FTA with India in six of the sixteen years since the FTA came into force.

Trade Balance and the Export Basket

On the basis of the above data, one can convincingly argue that the trade balance between the two countries would have been more in favor of India if the FTA was not in existence. These facts demonstrate that it is misleading and incorrect to claim that India has benefited more from the FTA, merely by citing the size of the overall bilateral trade deficit.

If we look at the import/export ratio between the two countries, we can clearly see that the ratio has declined from 10.3 in 2000 to 6.6 in 2015 (reaching a peak favorable ratio of 3.2 in 2005, as shown in Table 1). This indicates that the Sri Lankan exports to India have grown faster than Indian exports to Sri Lanka (Table 1). While India has been the largest source of imports for Sri Lanka (even before the FTA) for many years, India has acquired the position of being the 3rd largest destination for Sri Lankan exports – a rank achieved through the benefit of the tariff preferences in the FTA. In that sense, India is the most balanced trading partner for Sri Lanka – ranking high in both imports and exports of Sri Lanka.

If one looks at the Sri Lankan export basket destined for India before the FTA, which was dominated by agricultural products such as cloves, pepper, areca nuts, dried fruits, nutmeg, etc., exports have now (after the FTA) become more diversified. It includes boats/ships, wires and cables, glass and glassware, apparel, woven fabric, etc. In 2013, the largest Sri Lankan export to India was boats and ships.

Critics of the India-Sri Lanka FTA often state that Sri Lanka does not export items to India similar to those it exports to the European Union or the United States (apparel, leather products, etc.). The point to note here is that the export basket may vary from country to country, but what eventually matters is the overall exports. There was a time when copper was the largest export to India (in 2003), likewise vanaspathi (in 2005) and areca nuts (in 2014). These fluctuations do occur in FTAs, especially when shrewd entrepreneurs exploit loopholes in such agreements.

The case of vanaspathi (a type of processed vegetable oil) highlights the volatility that can sometimes be brought about by distortionary protectionist measures in place. Indian investors began to process vanaspathi in Sri Lanka for export to India, due to the low preferential tariff rates that were available to Sri Lankan exporters, contributing to the surge in exports between 2003 and 2006. This eventually caused an outcry in India, leading to the imposition of quotas on vanaspathi imports on Sri Lanka. This eventual imposition of quotas negatively affected close to 4,000 jobs in Sri Lanka.

Sri Lanka should not lament about the trade deficit or the export basket, but move forward with the rest of the world to gain maximum benefits from FTAs. The India-Sri Lanka FTA has certainly worked in favor of Sri Lanka, but more work needs to be done to broaden and deepen it to reap the maximum benefits from it for Sri Lanka in an equitable manner.

One of the key areas currently being addressed are non-tariff barriers in the Indian market. Non-tariff measures are not barriers to all Sri Lankan exports, but for some of them, like marble, maggi boards, and perishable food items. These barriers have been clearly identified through stakeholder consultation by the Department of Commerce. Trade facilitation shortcomings were identified by an extensive survey in the report prepared by the Institute of Policy Studies of Sri Lanka (IPS). All such findings have now been submitted to the Indian Commerce Department for early resolution. The Government of Sri Lanka is attaching high priority to resolving these issues expeditiously.

What needs to be noted is that even with some non-tariff barriers in the Indian market, Sri Lankan exports have made a mark in that market. Based on this, one can argue that a deeper economic engagement with India can generate even more positive and beneficial outcomes provided the negotiations ensure that Sri Lanka’s interests are pursued vigorously. That is precisely what is being attempted through the proposal of the Economic and Technology Cooperation Agreement (ETCA). It will lay the foundation for Sri Lankan exports and investments to benefit more from the rapidly growing Indian market.

Dr. Saman Kelegama was Executive Director, Institute of Policy Studies of Sri Lanka (IPS). Dr. Kelegama passed away on 23 June 2017 in Bangkok. This blog is an abridged version of the Asia-Pacific Research and Training Network on Trade (ARTNeT) Policy Brief (No. 50, July 2017), which moving forward with the rest of the world to gain maximum benefits from FTAs. The India-Sri Lanka FTA has certainly worked in favor of Sri Lanka, but more work needs to be done to broaden and deepen it to reap the maximum benefits from it for Sri Lanka in an equitable manner. All such findings have now been submitted to the Indian Commerce Department for early resolution. The Government of Sri Lanka is attaching high priority to resolving these issues expeditiously.

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South-South Investment: A Necessary Synergy with Development Finance

By Kithmina Hewage

Even though 35 developed countries pledged to provide 0.7% of its Gross National Income (GNI) to foreign aid, only six nations – the UK, Denmark, the Netherlands, Norway, Luxembourg, and Sweden – currently fulfill this obligation. In fact, the failure to adequately financially assist developing countries is considered one of the foremost failings of the Millennium Development Goals (MDGs). As a result, the Sustainable Development Goals (SDGs) have looked at alternate means of financing development, including the potential expansion of South-South cooperation (exchange of aid, technology, and other forms of cooperation from one developing country to another). With developing countries left to their own devices, it is becoming increasingly important that countries find feasible and sustainable means of finance that do not potentially affect the macroeconomic stability of the country. Consequently, developing countries are increasingly looking towards creating outward oriented economies that are more suitable for foreign direct investment and export promotion.

South-South Investment

Investment flows from developing economies to other developing economies are commonly referred to as South-South investment. These investments are mostly due to the emergence of Emerging Market Multinational Enterprises (EMNEs). The share of South-South Foreign Direct Investment (FDI) of total world FDI has risen from 3% at the beginning of the century to around 17% in 2018. Crucially, while FDI from developed economies fell by approximately 57% between 2007 and 2012 due to the global recession, South-South FDI rose by 15%. Companies based in the BRICS countries (Brazil, Russia, India, China, and South Africa) in particular, are increasingly contributing to shape the South-South FDI landscape, while acquiring close to $100 billion worth of assets globally in 2016. These trends clearly demonstrate the growing influence of South-South investment within the realm of the global economic sphere.

Figure 1: Global FDI Inflows by Group of Economics (1990-2015)

Aid and Investment

Beyond the growth of the private sector in developing economies, the respective governments are also playing a more prominent role in international political economics. Rapid economic growth among these nations and the consequent increase in political power, combined with the rise of anti-globalist sentiment in developed countries, have allowed emerging economies to play a more prominent role on important issues such as trade and investment. For example, US’ withdrawal from the Trans-Pacific Partnership (TPP) and its collapse will allow the likes of China, India, and other East Asian nations to determine the future of international trade, if the Regional Comprehensive Economic Partnership (RCEP) is successfully negotiated. Similarly, these emerging economies have also increased their engagement with other developing countries in terms of increasing South-South cooperation, especially in improving infrastructure and capacity building. State Owned Enterprises, in particular, are playing a more active role in South-South investment, since the introduction of South-South economic initiatives such as China’s Belt and Road initiative.

Notably, these countries appear to align South-South cooperation with the interests of their respective private sector investment decisions. China’s Belt and Road Initiative is one such example, where the government has engaged in a network of infrastructure investments to facilitate the relocation of Chinese investments to these partner nations in the future. Other emerging economies such as India are also pursuing similar strategies in terms of using South-South cooperation to complement the flow of South-South FDI, albeit at a lesser scale than China. India’s growing partnership with Afghanistan that integrates both development aid and private investment is one such example.

Sri Lanka: Leveraging the Policy Space

In addition to the emergence of EMNEs, rising production costs in developing economies such as China have also led to the increase of South-South investment. Consequently, many Chinese firms are relocating to smaller economies such as Bangladesh and Vietnam due to cost advantages. In addition, companies are also moving to locations that provide easy access from its source to final markets. Given Sri Lanka’s location between Africa and East Asia, it is ideally placed to attract South-South FDI seeking efficient host markets. However, the island nation has failed to attract South-South FDI from China and other emerging economies. In fact, Chinese investment in the country has been largely in the construction and tourism sector, rather than in the manufacturing sector.

Even though Sri Lanka is unable to compete on wages with its counterparts in the region, the country has also failed to effectively attract investment that warrants a more skilled labour force. Inconsistent, and at times protectionist economic policies over the years have become a severe hindrance in attracting FDI from around the world, let alone from other developing countries. Furthermore, EMNEs in particular, look towards investment destinations that can easily integrate into their regional value chains. Sri Lanka’s complex tariff and para-tariff structure undermines the country’s potential to do so. Therefore, even proposals such as the Hambantota Industrial Zone are unlikely to generate the intended benefits, unless the economy reforms its trade and investment policies at a more holistic level.

The issue of development finance garners considerable debate, and requires policies that are tailored to the needs of a country and global economic conditions at the time. Nevertheless, it is vital that developing economies such as Sri Lanka adopt policies that are able to sustainably finance its development, rather than seek short-term gains through debt-led development strategies. Therefore, a greater emphasis on South-South investments is likely to provide an adequate alternative to traditional means of development finance such as external loans and dependence on foreign aid by developed countries. That said, high volumes of borrowing by developing countries, such as Sri Lanka, could simply lead to a mere shift of debt exposure from traditional finance sources (e.g. IMF), to those from developing countries (e.g. China). The synergy between South-South cooperation and South-South investment, on the other hand, provides an impetus towards filling capacity deficiencies while also providing a sustainable means of development finance geared towards an outward oriented economy. Therefore, the emphasis should be on attracting South-South FDI.
Tax Proposals: Ability to Meet Fiscal Targets?

A tax on transactions among financial institutions, sugar tax on sweetenened beverages, cellular tower and SMS-advertising levy, and a carbon tax on motor vehicles are among the newly introduced taxes; several of these address environmental and health concerns. Furthermore, there is an expansion of the list of items no longer liable for exemptions on VAT and NBT (continuation from the previous Budget). Moreover, we see a commitment in the 2018 Budget towards “rationalizing the tax system by minimizing exemptions, holidays, and special rates, towards a fair and effective tax administration” as stated in Vision 2025. Although these are positive steps taken towards improving the tax base, it is questionable as to how far the government’s objective of shifting tax dependency towards direct taxation (from an indirect to direct tax ratio of 80:20 to 60:40) can be achieved with these proposals. This will largely depend on the implementation of the Revenue Administration Management Information System (RAMIS) in line with the new Inland Revenue Act. The adequacy of these measures to achieve the revenue target of 16% of GDP from a level of 12% at end 2016, depends on how far the government is able to follow-through with its stated commitments. For instance, in the 2015–2016 period the government struggled to implement budget proposals on the upward revision of VAT due to public opposition; proposals were implemented, repealed and re-implemented. This kind of back and forth behaviour in budget implementation should be avoided, if desired fiscal targets are to be achieved.

Focus on Investment and Industry

Given the macroeconomic situation and the necessity to improve the capacity to repay loans over the next three years, a significant amount of emphasis is directed at attracting FDI. In order to achieve this, the budget statement has committed itself to implementing several policy reforms that seek to address factors undermining the investment climate. Sri Lanka has long suffered from a complex para-tax structure introduced to finance military spending during the conflict and continued thereafter due to a protectionist economic vision. Consequently, Sri Lanka’s economic competitiveness has eroded over the years and few firms have successfully integrated into global value chains. In this regard, the Budget 2018 has proposed to remove 1200 para-tariffs on import items that at successfully integrated into global value chains. In this regard, the Budget 2018 has proposed to remove 1200 para-tariffs on import items that at

Beyond budgetary measures, the statement also proposed several policy reforms that are expected to improve the ease of doing business in Sri Lanka. The current restriction on foreign ownership of shipping and freight forwarding business has been lifted. The relaxation of this restriction and the subsequent entry of large, international shipping and freight forwarding players will be vital if Sri Lanka is to realistically establish itself as a logistics hub in the region. Furthermore, restrictions on foreigners acquiring freehold rights of land are also to be lifted. It should be noted, however, that this proposal was initially put forward in Budget 2017, but was not legislated upon. Issues pertaining to land ownership have been cited, for many years, as a severe hindrance to attracting foreign investment, due to the absence of investment security. In a similar vein, in order to provide greater security for foreign investment, the government has also expressed its intent to repeal the “Revival of Underperforming Enterprises or Underutilized Assets Act”.

While these proposals are commendable, the absence of a clear timeline under which they are to be implemented is a cause for concern.

Implementation: Vision 2019?

Sri Lanka faces its largest foreign debt-service requirement amounting to approximately US$ 15 billion between 2019 and 2022, and the vision of the Budget 2018 is geared towards facing this challenge. As a result, the focus of the Budget has rightly been on addressing the twin-challenge facing the Sri Lanka economy: stabilizing macroeconomic fundamentals while stimulating growth. Therefore, the economy is in urgent need of creating non-debt creating foreign currency inflows. In the short-term, it is unlikely that the country’s export sector will successfully transform to generate adequate revenue, and therefore the onus is firmly on FDI. The opening of new industrial zones, liberalization of investment and trade policies and the conclusion of Free Trade Agreement (FTA) negotiations with India, China, and Singapore are all expected to create the necessary incentive in attracting FDI and stimulating the economy. In the medium to long term, the Budget’s proposals in transforming the education and healthcare sectors, along with providing viable means of finance for SMEs will have a positive impact as well.

The relative clarity in linking the needs of the economy with the Budget’s policy proposals, and the absence of populist and ad hoc measures are particularly encouraging. Moreover, the complementarity of the Budget 2018 and the government’s Vision 2025 agenda also provides much needed policy consistency. However, many of the proposals made lack a defined timeline of implementation and will undeniably be subject to lobbying by special interests. As a result, the effectiveness of these proposals and its impact on the economy depend on the political will towards successful implementation. While the establishment of a Budget Implementation Unit under the Ministry of Finance is a positive first step, Sri Lanka’s economic sustainability depends on a lot more.
The Proof of the Pudding is in the Eating: Distribution and Revenue Implications of Sri Lanka’s New Inland Revenue Act

By Nisha Arunatilake and Priyanka Jayawardena

Earlier this month, the Parliament passed a new Inland Revenue Act, effective from 1 April 2016. How will the new tax regime affect the tax revenue and what will be the tax burden on Sri Lankan citizens? Is it more pro-poor? This blog tries to answer these questions, using the results of a recent study done by the Institute of Policy Studies of Sri Lanka (IPS), in collaboration with the World Bank.

Direct taxes paid by the people include personal income tax (PIT), pay-as-you-earm (PAYE) tax, corporate income tax and tax on interests earned. However, the blog concentrates only on PIT and PAYE taxes. As stipulated in the Inland Revenue Act No. 10 of 2006, PAYE taxes are deducted by the employers from the employees at the time of payment of their salaries and wages. The personal income tax is collected by the Department of Inland Revenue on the profits and income of every person or partnership, under the Inland Revenue Act No. 10 of 2006 and its subsequent amendments.

In terms of the personal income tax (PIT), the annual tax free threshold of Rs. 500,000 does not change with the new tax regime. However, as with the PAYE taxes, the tax rates are changed. In the current tax regime, the tax exempted amount, every Rs. 500,000 earned is taxed at 4%, 8%, 12%, 16%, 20% progressively, until a maximum tax rate of 24%.

With the new system, after the tax exempt amount of Rs. 500,000, every subsequent Rs. 600,000 earned is taxed incrementally at 4%, 8%, 12%, 20%, up to a maximum of 24%. As the tax rates are increased at wider income blocks (i.e., at blocks of Rs. 600,000 as oppose to blocks of Rs. 500,000) the tax rates increase at a slower pace. For example, the tax rate of a person with an annual income of Rs. 100,500 is 8% at present, but with the new tax regime it will be only 4%.

The annual tax free threshold for PAYE tax in the current tax regime is Rs. 750,000. The new tax regime will increase this threshold to Rs. 1,200,000. Thus, under the current tax regime, anyone earning more than Rs. 62,500 a month is obliged to pay PAYE taxes. But, according to the new tax regime, only those earning a monthly wage of Rs. 100,000 or more are subject to PAYE taxes. PAYE is taxed on an incremental basis. Under the current tax regime, the first Rs. 750,000 is tax free, the next Rs. 500,000 is taxed at 4% and every subsequent Rs. 500,000 earned is taxed at 8%, and 12%, till a maximum tax rate of 16% (Figure 1) is reached. With the new tax regime, the first Rs. 1,200,000 is tax exempt, and every subsequent Rs. 600,000 earned is taxed incrementally at 4%, 8%, 12%, 16%, 20%, up to a maximum of 24%.

How do these changes to the tax regime affect the payment of taxes?

With the newly-introduced tax regime, less people are required to pay PAYE taxes, due to the tax exempt income threshold being higher. Also, as the tax rates increase at larger income blocks, individuals in the middle income brackets would pay lower taxes than at present. But, because under the new tax regime tax rates will increase beyond 16%, the rich are obliged to pay a higher tax rate than at present (Figure 1).

As the tax exempt threshold did not change for PIT taxes, there is no change in the number of individuals required to pay PIT. However, as with PAYE taxes, those in the middle income brackets pay lesser taxes, as the tax rates increase at a slower pace under the new system.

How will this affect tax revenue?

According to our simulations based on Household Income and Expenditure Survey 2013/14 (HIES) data, the overall revenue from income taxes will decrease due to the proposed tax changes. This is mainly because there is a large revenue drop from lower PAYE taxes. However, it must be noted that the HIES does not capture the income levels of individuals with very high incomes, due to underreporting. Hence, the actual revenue collected may be higher than the estimated value. Although PAYE tax rates will increase for individuals with high incomes (monthly income of more than Rs. 300,000), the number of taxpayers with high incomes is low. One reason for the decrease in tax revenue is the higher threshold at which individuals are taxed. Although due to the higher threshold less people pay taxes, the new tax regime has also removed concessions (e.g., the earlier tax regime provided a lower tax rate for professionals). Under the new system this has been removed that are allowed under the current system.

Conclusion

The new PAYE tax regime is slightly more progressive and income equalizing than the current PAYE tax system. This means, the richer will pay more personal income taxes than the poor. For example, according to our simulations, under the new tax regime, 98% of the revenue from PAYE taxes will come out of the pockets of the richest 30% of Sri Lankans. This is an increase of 3 percentage points from the current tax regime. The increase in the share of PIT paid by the richest 30% of individuals also increases, albeit marginally. Under the new tax regime, 79% of the PIT will be paid by the 30% at the top of the income ladder.

The new tax regime is more income equalizing, as the richest pay a higher share of the taxes. However, if the main objective of the new tax regime is to increase tax revenue, our simulations show that this may not be achieved. On the other hand, along with the changes introduced to the tax regime, the new law eliminates deductions, which can also increase tax revenue

The Inland Revenue Department (IRD) is at present taking measures to improve tax administration to increase tax compliance and collection from high income earners. At present, only a small share of persons in each tax decile is actually paying taxes in Sri Lanka. According to IRD, as of 2015, just 426,496 employees paid PAYE taxes and only 135,170 individuals paid PIT. If the tax administration process can be improved to net more tax payers, the revenue collected can increase. The share of individuals paying PIT is especially low. According to our estimates, only 2 out 5 required to pay PIT, is actually complying. Therefore, including more people in the tax net can increase the revenue collected.
There has been renewed interest among policy makers to get more women to enter the workforce. Most solutions for encouraging women to enter the labour market look at helping women balance home and market activities through initiatives such as expanding access to day care facilities, and providing more flexible work opportunities. The labour force participation of women differs considerably across education levels (see Figure 1). The labour force participation of highly skilled women is on par with that of males, while the labour force participation of lower skilled women lag behind. As such, along with the above mentioned measures, policies for improving access to education beyond lower secondary level, and the creation of better jobs are also important to encourage women to participate in the labour market.

The female labour force participation (FLFP) rate in Sri Lanka is low and has not changed much over time. According to the Department of Census and Statistics’ 2015 Labour Force Survey data, of the working age population, only 35.9% of females were engaged in the labour market, compared to nearly 75% of males. These percentages have remained more or less unchanged over the years. However, as seen in Figure 1, the proportion of females engaged in the labour market steadily increases at higher levels of education. Further, the disparity between the male and female labour force participation rates decreases steadily for those with higher levels of education. The gap between male-female participation in the labour force lowers at educational levels beyond lower secondary. This gap is lowest for those with an education level higher than a degree.

The proportion of the 15 and above population with more than a lower secondary level education is very low in Sri Lanka. According to Census and Housing 2012 data, of the 15 and above population, only 3.3% (this statistic is the same for both males and females) had a degree, and only slightly more than 15% – 16% of females and 14% of males – had passed A-Levels. These results clearly show that the more educated women are, the more likely they are to enter the labour market.

Education influences female labour force participation in several ways. Women with higher levels of education delay marriage and childbearing. Lower fertility enables females to increase their participation in the labour market. Also, education increases the earning potential of females, making it more worthwhile to work than stay at home. Further, with education females can expect to earn better wages which allows women to obtain child care and domestic help in the market, thereby giving them more space to enter the workforce.

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The above findings suggest that policies for improving the education level of females up to A-Levels and beyond will encourage females to enter the labour market more. As shown in the recent IPS blog, only a little more than half of those sitting for O-Levels quality to do A-Levels. This implies the importance of improving education, starting from the school level, to increase the share of skilled females in the population.

However, education alone will not get more females into the workforce. Along with education, the market has to create jobs that are desirable to more educated workers. The Sri Lankan labour markets skewed towards lower skilled work categories. The share of workers in occupations requiring higher level skills is lower, while most of the workers are concentrated at the lower end of the skill spectrum. The lack of opportunities in the types of occupations preferred by females with higher skills could also be a deterrent for females to enter the labour market.

Lastly, lessons learned from other countries show that to successfully encourage women to participate in the labour force, holistic policies must be implemented. Measures to facilitate work-life balance and job flexibility must go hand in hand with measures to improve skills of females and the creation of better jobs.
There is broad consensus that women’s empowerment underpins the success of the new 2030 Development Agenda for Development (also known as the Sustainable Development Goals). While gender equality itself constitutes one of the seventeen development goals (Goal 5), it is widely acknowledged that the empowerment of women and girls is an important prerequisite for the realisation of all other goals, including the reduction of poverty (Goal 1), inequality (Goal 10), and the promotion of inclusive and sustainable economic growth through decent work for all (Goal 8).

This new development agenda also has an important focus on unpaid care work. Accordingly, target 5.4 of the Sustainable Development Goals (SDGs) calls upon nations to ‘recognize and value unpaid care and domestic work through the provision of public services, infrastructure, and the promotion of shared responsibility within the household and the family.’

Unpaid care work – which refers to all unpaid services provided within a household for its members, including care of persons, domestic chores, and voluntary community work – is an area that has long been neglected by economists. Traditionally, this work was considered to be ‘women’s work’, performed in the ‘private sphere’, for the benefit of ‘loved ones’. The gendered, private, and voluntary nature of this work formed the basis for its invisibility in the economy, and led to its sustained exclusion from national income accounts and macroeconomic statistics around the world.

The inclusion of unpaid care work as a target in the 2030 Development Agenda, therefore, marks an important watershed in the recognition and valuation of this type of work. It has shed light on the immense economic value of unpaid care work and, more significantly, prompted an important conversation on women’s contributions to the global economy.

Unpaid care work is largely because prevailing gender norms define domestic work as a female prerogative. Studies reveal that over 75% of the world’s total unpaid care work is performed by women. In South Asia, and Middle East and North Africa (MENA), this share is much higher, with women undertaking nearly 80-90% of total care and domestic work in the economy. Time-use data from across the world support these findings: statistics from six different countries – with varying income levels and socio-economic structures — reveal that women everywhere devote 1 to 3 more hours each day to housework than men. 2 to 10 times the amount of time a day to care (for children, elderly, and the sick), and 1 to 4 hours less a day to market activities (Figure 1). Notwithstanding minor differences, it is clear that this trend holds true in almost every region of the world (Figure 2).

The gendered distribution of unpaid care work has important implications for the well-being of individuals and households, as well as for the economic development in a country. It has a direct effect on labour market outcomes, particularly with respect to women’s labour force participation, wage distribution, and job quality. It also has direct, negative impacts on the health and well-being of women. It is in light of this revelation that Diane Dixon, professor of Economics at the University of Essex, developed the 3R Framework, distribution, and job quality. It also has direct, negative impacts on the health and well-being of women. It is in light of this revelation that Diane Dixon, professor of Economics at the University of Essex, developed the 3R Framework, and macroeconomic statistics around the world.

Why Should Sri Lanka Recognize, Reduce and Redistribute Unpaid Care Work?

Sri Lanka too remains blind to all but paid, visible forms of women’s economic contributions. This has led to significant gaps in economic policymaking and governance. Outlined below are the some of the reasons why Sri Lanka should address the unequal distribution of unpaid care and domestic work in the economy.

1. Increase female labour force participation: The gender gap in unpaid care work has significant implications for women’s ability to actively participate in the labour force. Unpaid care work shapes the duration, quality, and type of paid work that women can undertake. For every hour that a woman spends on domestic chores, she foregoes the opportunity to engage in the labour market or to invest in educational activities. In many respects, unpaid care work is the missing link that influences gender gaps in labour outcomes. Therefore, in countries like Sri Lanka, where female labour force participation is low, redistribution of care work could help to increase women’s participation in the labour force.

2. Increase women’s financial independence and access to the social protection: The opportunity cost associated with unpaid care work is the foremost potential to earn an income, to save and to accumulate assets. Statistics reveal that in countries where women spend twice as much time as men on unpaid care work, they earn 65% of what their male counterparts earn for the same job. Furthermore, women who forgo gainful employment, or spend intermittent periods of time in the labour force, lose access to vital social protection (such as pensions) in the long-run. This, in turn, places women at a much higher risk of poverty at old age.

3. Increase returns on education and reduce wage-inequalities: The gendered nature of the relationship between unpaid care work and paid work has also led to higher wage differentials in the labour market. Studies reveal that the gender wage gap is much larger among parents than among men and women who have no children. In the United States, childless women (including married and unmarried) earn 93 cents on a childless man’s dollar. On the other hand, married mothers with at least one child under age 18 earn 76 cents on a married male’s dollar. In addition, research has shown that the burden of unpaid care work has also led to lower returns on education for women. In Sri Lanka, female graduates outnumber male graduates at the tertiary level, but constitute only 35.9% of the labour force. Thus, the re-distribution of care responsibilities and domestic chores could result in greater returns on education in the country.

4. Increase women’s quality of life: Unequal care responsibilities contribute to time-poor, limited mobility, and poor well-being among women. A robust body of evidence reveals that care and domestic responsibilities render women ‘time-poor’. This is because responsibility for care work leaves only a few hours for engaging in leisure activities that improve health and well-being. This is particularly significant for women who are engaged in the labour market full-time. Despite the fact that women spend as much time as their male partners in paid work, they are required to fulfil domestic responsibilities. As a result, women ‘work’ much longer hours than men. In fact, a recent study estimated that women perform an average of four years’ more work than men – or an extra month’s worth of work per year – in order to balance their commitments to both paid and unpaid care work. Addressing the gender division of unpaid care work is therefore vital to improving women’s quality of life and standard of living.
Poverty and Access to Education: An Old Problem Affecting the Young Generation of Sri Lanka

By Wimal Nanayakkara

Although the percentage is small, according to above calculations, poor children are nearly 8 times more likely to not attend school, in comparison to the non-poor children in the same age group. Out of the 3.08 million non-poor children (5 to 14 years), 0.8 per cent (or 25,728) are not attending school or any other educational institute, which is also concerning.

Way Forward

After 14 years of age, a significant number of poor children leave formal school education. In-depth analysis is needed to find out why a significantly large proportion of poor children leave school education after 14 years of age. According to an article by Nisha Arulathanase in the International Journal of Educational Research, a reason could be that the distance to schools being too far, making travelling too costly. As Arulathanase points out, some poor children, especially males may be forced to provide labor or assist the breadwinners. Due to high dependency burden, some of the children from large families could also be kept away from school. Disability could be another reason for poor children dropping out of school early.

As stated in Education Transforms Lives (UNESCO), it is important to ensure that all children, regardless of their family income, where they live, their gender, their ethnicity or whether they are disabled, are provided with equitable quality education, which will increase their chances for employment and thereby help move out of poverty.

Implementing the policy decision to increase the compulsory age to 16 years, as stated in Education First Sri Lanka, Ministry of Education (2013), may also help poor children who are capable and wish to continue their studies to stay in school.
The 2017 grade five scholarship exam results were released in early October, with 356,728 candidates sitting for the exam across Sri Lanka. As usual, details of the top scorers were highlighted in the media. But, apart from a handful of successful students, how many manage to score above the cut-off mark each year? Does the exam serve its intended objectives? Is it worth the time, money, and effort spent by young children and their parents? This blog seeks to answer these questions, using data from the 2016 School Census conducted by the Ministry of Education (MOE).

The scholarship exam, introduced in 1948, aims to meet two main objectives: (1) admitting talented students to popular and more prestigious schools; and (2) providing bursaries to bright, but economically disadvantaged, students. It measures ability and learning potential across 14 specified areas, and tests knowledge on the first language, mathematics, and environment. Regardless of its specific purposes, the exam is taken by students in both privileged and underprivileged schools, as well as across different socioeconomic groups. Children are coached from as early as grade 2 to achieve high scores, not only in schools, but increasingly in many private tuition classes.

Ironically, those for whom the exam is most relevant, are the least privileged. Children who sit for the exam obtain sufficient marks to qualify for bursaries and to apply for better schools, each year. This figure is not surprising, given that students need to score around 80% to meet the cut-off mark, while getting access to more popular schools requires scoring as much as 90%. This is no mean feat for a 10-year-old, as it leaves very little margin for error.

What share of students gets financial aid?

Only around 36% of students who scored above the cut-off mark in 2015 were eligible to claim financial aid, according to School Census data. As a share of all grade five students who sat for the exam, this amounts to a mere 3.6%. To receive these funds, a child needs to be from a household earning an annual income of less than Rs. 50,000, in addition to scoring above the cut-off mark.

A reason for this low share is that a fair number of poor students do not even sit for the exam. As Figure 2 shows, national schools account for the largest share of scholarship exam candidates, at 96% of the total. These are the best schools in the country, mostly attended by children from affluent families. Comparatively, only 79% of grade five students in underprivileged provincial schools – which accommodate the poorest – take the exam. Ironically, those for whom the exam is most relevant, are the least likely to take it. This could in part be due to lower access to educational resources, including private tuition.

Is financial aid adequate?

The monthly stipend for those who qualify for the bursary is a mere Rs. 500. This is negligible, compared to funds spent over the years on private tuition, which can cost between Rs. 600 to as much as Rs. 5,000 a month, depending on the quality and the popularity of tuition classes. Moreover, with inflation, the real value of the monthly stipend falls over time.

Moving forward

The above analysis suggests that the scholarship exam fails markedly in meeting its intended objectives. Given the pressure and the stress young children are put through in preparation for this exam, a serious reconsideration of its need and purpose is warranted.

An essential step in moving forward is developing better quality secondary schools, especially in rural areas. A defining feature of the Finnish education system, which is consistently ranked first in the world, is its equitable school system. Over and above aiming for top results, its key target is to provide good schooling for all children. As a result, there are no required standardized tests, apart from one exam at the end of high school. Nor are there any rankings, comparisons, or competition between students or schools.

If the Sri Lankan government’s proposed project to build 1,000 high quality secondary schools across Sri Lanka is carried out effectively, students will have more access to better quality schools without being forced to perform within the top 10% at the scholarship exam. Capitalizing on this initiative, the classification of ‘national’ versus ‘provincial’ schools should also be removed, which will eventually eliminate the need for the exam altogether.

Another option is to enhance the quality of existing ‘feeder primary schools’ – primary-only schools which are linked and have guaranteed access to a given secondary school – as has been suggested in the proposed Education Sector Development Framework Programme (2012–2016). Graduates from these schools can then transfer to an upgraded and nearby secondary school, without the burden of performing well at the scholarship exam. While addressing the current unfair system where children who begin their education in good schools enjoy continued privileges at the secondary level, over time this should reduce the intense demand for distant schools, and the need for the exam. Any financial needs of students can be met by extending support to all poor children via income supplement schemes.

Figure 1: Composition of grade six students in school (%), 2016

Figure 2: Share of grade five students that sat for the scholarship exam in 2015

Despite the overzealous preparation, according to the Department of Examinations (DOE), only around 10% of students who sit for the exam obtain sufficient marks to qualify for bursaries and to apply for better schools, each year. This figure is not surprising, given that students need to score around 80% to meet the cut-off mark, while getting access to more popular schools requires scoring as much as 90%. This is no mean feat for a 10-year-old, as it leaves very little margin for error. The large share of grade five students admitted to national schools, based on scholarship exam results, is 29%. When national schools without a primary section, i.e. schools offering only secondary classes (grade 6 and above) are excluded, this share falls further to 12%. This is because many students who are in national schools at the primary level automatically continue to grade six, irrespective of performance at the scholarship exam. This trend is seen in the large share of grade six students – 75% in all national schools and 88% in national schools with primary classes – who are from the same school. As such, the chances to enter better schools via the scholarship exam are limited. The situation is similar in privileged provincial schools. Those entering through exam results are a mere 3–4%, compared to over 90% who automatically enter grade six from the primary level.

What are the chances of getting into better schools?

Figure 1 shows that the chances of getting into good schools based on the scholarship exam marks are slim. The share of grade six students admitted to all national schools, based on scholarship exam results, is 29%. When national schools without a primary section, i.e. schools offering only secondary classes (grade 6 and above) are excluded, this share falls...
Chandrika has just received her G.C. E. Ordinary Level Examination (O-Level) results. To the delight of her family, she has passed with flying colors, obtaining ‘A’ grades for all nine subjects. Chandrika’s success story, along with an enlarged, smiling picture of her, is now visible to anyone passing through her village; several of her tuition masters have taken the liberty to promote their tuition classes by drawing attention to Chandrika’s outstanding performance. But, Chandrika’s grandmother is not thrilled about her results. She laments that Chandrika’s sole focus on passing exams has not allowed her to get involved in household chores, family and community functions, or extra-curricular activities in school. Most of her life has been spent in the classroom, at tuition classes, or studying in her room.

This is a common scenario in many Sri Lankan households. Sri Lanka’s education system has often been criticized for its overloaded school curriculums and the undue stress placed on students as a result. A poll conducted by the Sunday Times in 2011 saw 67% of those interviewed agreeing that private tuition has become essential – rather than optional – to successfully navigate the current education system. Indeed, the importance of private tutoring – also known as shadow education (Box 1) – has been increasing at a rapid rate. It is currently the largest component of Sri Lanka’s household education budget, with a recorded share of 45% in 2012/13, according to a forthcoming Asian Development Bank (ADB) Country Diagnostic Report.

Other Activities

Test Scores

Shadow Education

Test Scores

Ending the Test Score Horse Race: Transforming Sri Lanka’s Education

By Ashani Abayasekara

Chandrika’s sole focus on passing exams has not allowed her to get involved in household chores, family and community functions, or extra-curricular activities in school. Most of her life has been spent in the classroom, at tuition classes, or studying in her room.

This is a common scenario in many Sri Lankan households. Sri Lanka’s education system has often been criticized for its overloaded school curriculums and the undue stress placed on students as a result. A poll conducted by the Sunday Times in 2011 saw 67% of those interviewed agreeing that private tuition has become essential – rather than optional – to successfully navigate the current education system. Indeed, the importance of private tutoring – also known as shadow education (Box 1) – has been increasing at a rapid rate. It is currently the largest component of Sri Lanka’s household education budget, with a recorded share of 45% in 2012/13, according to a forthcoming Asian Development Bank (ADB) Country Diagnostic Report.

Overshadowing Education?

The sole focus of shadow education is developing the skills needed to do well in exams – primarily old-school, rote learning and memorizing. Its growing prevalence has turned education into a commodity, and society appears to associate success in student life with good examination results. Therefore, private tutoring runs the risk of reducing education to mere academic achievement, whereas education is a much broader concept including physical, aesthetic, and social development, through sports, music and arts, and relationships with society.

The narrow focus of the shadow education system, has in part, contributed to the skill mismatches observed in the Sri Lankan labour market. A World Bank study titled ‘Building the Skills for Economic Growth and Competitiveness in Sri Lanka’ notes that Sri Lanka’s education and training system does little to develop soft skills. Despite the ever increasing lists of paper qualifications, traits such as teamwork and presentation ability, communication and leadership skills, conscientiousness, and decision making – for which the demand is growing – are lacking among many job applicants. Any potential gains in academic performance brought about by shadow education could mute the growth of a child’s morals, interpersonal skills and sense of responsibility. In particular, a child’s character development could be compromised by the overemphasis placed on academic accomplishments.

In Singapore, national examination results are now released without highlighting top scorers. While schools still recognize good performers – more as a group rather than individually – they also celebrate the achievements of those who show notable improvements, overcome challenges such as a disability or sickness, or excel in other areas such as sports, music, drama, and volunteer work. Sri Lanka too spotlights examination top scorers in the media, with them even being used for promotional materials. Changing emphasis on examination scores will eventually lower the relentless chase for better grades, supposedly guaranteed by tuition classes.

Box 1: Why is Private Tuition Known as Shadow Education?

Private tuition mimics mainstream education:

- It exists only because mainstream education exists.
- Its content changes when the content of mainstream education changes.
- It grows along with growth in mainstream education.

Way Forward

In curbing the excessive growth of private tutoring, Sri Lanka has a lot to learn from Singapore. Famous for its obsession with test scores, with a shadow education industry worth over a billion dollars annually, the Singaporean government introduced several measures to limit further growth of the tuition industry and to promote more holistic development of students.

- Revamping primary level examinations
- Expanding the eligibility for scholarships
- Broadening school and university admission criteria

Singapore’s Direct School Admission (DSA) scheme, initiated in 2004, focuses on admitting school and university students based not just on test scores, but also on other factors such as sports and artistic talents. At the National University of Singapore (NUS), students are able to omit grades of some subjects in their first semester. Additionally, aptitude-based admissions have been expanded, allowing students who fall short of academic requirements, but show passion and interest, to get into the course of their choice. While a limited number of openings based on sports-related achievements are available in Sri Lanka as well, these should be expanded to cover other areas such as drama, music, education, and music. Moreover, such non-academic skills should be given recognition, not only within each respective field, but also at the national level.

Changing the underlying mindset of students, parents, teachers, and society that academic achievement is all that matters is no doubt a challenging task. It is nevertheless essential to produce individuals who are able to successfully respond to the needs of a rapidly changing world in the future.
Budget Allocations for Teacher Training: Is Sri Lanka Playing its Cards Right?

By Nisha Arunatilake

Who is a qualified teacher?

We consider a teacher who has either a degree in a particular subject, or have been specially trained to teach a particular subject, to be a qualified teacher (i.e., a teacher with the subject knowledge to teach a subject).

Who is an experienced teacher?

Usually teachers are recruited to class 3 of the teacher service. Only those with a degree in education are directly required to Class 2 – Grade II. Those who have been recruited to Class 3, depending on their initial recruitment, need to obtain three to five years’ experience in teaching and pass the efficiency bar exam to be promoted into to Class 2 – Grade II. This suggests that all Class 2 teachers are with subject and pedagogical knowledge as well as with at least three years of experience.

Hence, in our analysis we consider teachers with a grade higher than Class 2-Grade II to be experienced teachers.

The 2018 budget proposals presented in parliament on 09 November 2017 has correctly recognized the importance of good quality teachers for improving education in the country. The budget has allocated Rs. 50 Mn to increase the allowance given to teacher trainees to Rs.5,000 a month and allocated another Rs. 50 Mn for the establishment of a center for training English teachers. Highly qualified teachers in all classrooms are necessary for implementing education reforms aimed at modernizing and improving education in the country; as such proposals for improving teacher training are welcome. But, recent IPS research, conducted using School Census data for 2016, shows that there is no shortage of teachers for English language, science, and mathematics at the national level. However, there is a shortage of qualified and experienced teachers to teach these subjects. This shortage is apparent at the national level as well as the sub national levels. The shortage is worst for mathematics teachers, followed by for science teachers.

The findings of the study show that the country has a large deficit of experienced and qualified cadre of teachers to teach mathematics, science, and English. The teacher training and teacher recruitment in the country is inadequate to meet the need for qualified teachers. As a result, a high share of novice teachers recruited to teach different subjects are not qualified to teach those subjects. Although, once recruited teachers are provided with in-service training to upgrade their skills, this process takes time to produce quality teachers. In the meantime, children are without access to a quality teacher.

The existing facilities to provide pre-service teacher training needs to be improved, expanded, and made more relevant. At present, pre-service teacher education is conducted by the universities, colleges of education, and different teacher training centers. Improving and expanding the pre-service training of teachers and giving priority for recruiting teachers with proper pre-service training can help to improve the availability of qualified teachers. Such training programmes should especially cater to the demand for teachers in different subject areas.

Teachers should be certified to teach different subjects while the subject knowledge of teachers should be taken into consideration when filling vacancies. At present the teacher recruitment does not consider subject knowledge. As done in other countries, all teachers should be certified in their ability to teach a subject. Only under very special conditions should teachers be allowed to teach subjects that they are not certified to teach.

In this regard, the proposed budget allocations for improving teacher training are a welcome initiative. However, budget allocations should not only be made for improving training facilities of English teachers. They should also be improved for training science and mathematics teachers. This is especially necessary given the emphasis given in the budget for improving science, mathematics, and technology training in the country.
Despite Sri Lanka’s 2018 budget proposals, presented on 09 November 2017 being built around blue-green colors, greenbacks (US dollars in a color combination) related to the country’s migrant workers toiling overseas received little or no attention. A good portion of Sri Lanka’s foreign exchange earnings are received as migrant remittances; in 2016, a total of 7.2 billion in greenbacks was remitted, which accounted for 8.9% of GDP, surpassing foreign exchange earned by apparel exports or tourism. Remittances account for 40% of the trade balance, or 4.5 months’ worth of imports. Similarly, almost one in every eight households in Sri Lanka receives remittances, and annually over 250,000 Sri Lankans leave for foreign employment. Yet, the proposed Blue-Green Budget had no reference to remittances, nor the migrant workers who send them home. Does this mean migration and remittances are not priorities of the Sri Lankan economy? One hopes not.

Previous Proposals
Previous budget proposals have included a pension scheme for overseas employees (proposals for 2017), and dedicated immigration/emigration counters at the Bandaranaike International Airport for “Commercially Important Persons” heading to Middle Eastern countries (proposals for 2016), among others. Indeed, the absence of any reference to migrants and remittances in the 2018 Budget appeared to generate speculation that a tax imposition was imminent on the remittances of migrant workers. The speculation was promptly addressed by the authorities to deny any intention to tax remittances (“No Tax on Remittances of Migrant Workers: Thalatha”, by Kalathma Jayawardhane, in Daily Mirror, Saturday 09 December 2017, p. A4).

Vision 2025
To compensate for the absence of migration/remittance focus in budget proposals for 2018, Vision 2025 – the medium term economic policy direction of the government – notes that “the Government will only promote foreign migration in sectors without domestic labour shortages, and where there is potential for higher earnings and increased remittances.” Migration and remittances in Sri Lanka today are at a crossroads with fluctuations in remittances, and simultaneous changes in the composition of the skills mix of those departing. This signals a need for support and incentives to carve out a sustainable future trajectory for remittances.

Fluctuating Remittances
Until 2014, remittances experienced a steady growth, with the five year annual average growth rate standing at 13.7%. This upward trend reversed in 2015, with a 0.5% decline to USD 0.98 billion. Coincidently, in the same year, the share of skilled workers surpassed other skills groups. This change in momentum in remittance receipt was followed by a smaller than before growth of 3.5% in 2016 to reach USD 7.2 billion – just above the 2014 amount of USD 7.02 billion.

Against this backdrop, 2017 is also expected to record a decline in remittances and an increase in skilled migration. As a result, a decline in remittances to about USD 6.5-6.7 billion can be projected, based on available monthly remittance data. When such fluctuations occur to the amount of remittances received, while the share of skilled workers is rising, it is uncertain if the policy focus of attaining the twin objectives of higher earnings and increased remittances identified in Vision 2025 is achievable. Moreover, focusing only on the ‘promotion of foreign migration’ in sectors with potential for higher earnings and increased remittances appears to bank on the assumption that those with potential for higher earning and remittances will in fact remit to Sri Lanka.

Earnings vs. Remittances
The occupational categories and associated benefits of better skilled workers from Sri Lanka indicate that they would earn higher salaries than lower skilled workers or housemaids. But compared to lower skilled migrants, skilled workers are more likely to migrate as families, leaving fewer ties in the home country. This may causes Sri Lanka’s receipt of remittances to decline in the face of growing skilled and professional migration. In the absence of a clear understanding of the dynamics between remittances and changes in skills composition of departures, incentive schemes to boost growth in remittances would be beneficial. Hence, the 2018 Budget would have been the ideal platform to pave the way towards the remittances vision identified in Vision 2025.

Value and Frequency of Remittances
One of the compelling issues in migration and remittances that could have been addressed via the Blue-Green Budget is the promotion of remittances by better skilled migrants. Two critical areas to target in terms of remittances by skilled migrants are the value of each remittance transaction and the regularity/frequency of remittances. Possible proposals to enhance the value of remittances include payment of bonus interest for accounts that receive monthly remittances in excess of a specified amount, and payment of bonus interest for accounts that receive an annual total remittance in excess of a specified amount. Viable incentives to promote regular remittances include special higher interest rates for savings/foreign currency accounts that receive regular remittances, and special lower interest rates on loans (housing/student/ etc.) for households receiving regular remittances.

Informal Remittances
Apart from the documented remittances, a significant portion of remittances to Sri Lanka are believed to be channeled via informal channels. The Foundation for Development Cooperation (2007) estimates that informal remittances account for about 50% of all remittances to Sri Lanka, while a Gallop Study (2013) found that about 84% of their sample of migrants originating from Sri Lanka have used informal channels of remitting. Often these informal channels operate via networks in sending and receiving countries, where a broker in Sri Lanka delivers money from his cash reserve or account at the request of his counterpart at the destination country. The speed, coverage, and flexibility of these transactions contribute to the popularity of informal remittances.

However, from an economic point of view, one downside of informal remittances is that the relevant amounts of greenbacks never reach Sri Lanka. Hence, the diversion of informal remittances to the formal channel would increase the flow of greenbacks to Sri Lanka. Some efforts the budget proposals could have aimed at are channeling greater investment into remittance technology; minimizing restrictions on foreign currency accounts (subject to changes introduced in the new Foreign Exchange Act of 2017), providing incentives to the banking sector to expand geographic coverage, promoting flexibility of remittance products, incentives to micro-finance institutions to engage in the remittance transfer process, and incentives to minimize cost of remittances via formal channels.

Finally, having not made it to the Blue-Green Budget, perhaps the above proposals to increase greenbacks could at least find their way into the near term economic policy direction of the government, identified as Vision 2020, through the interim Budgets that will follow.

By Bisletha Weeraratne

1 in every 8 households receive remittances
Females are more likely to fall victim to NCDs. WHO reports that NCDs cause two in three deaths among women annually. NCDs affect women inequitably because of three enduring myths that lead to the neglect of NCDs in females: (i) persistent view that health-related issues of women are defined through their reproductive capacity; (ii) the misperception that NCDs primarily affect men; and (iii) the notion that only women in high-income countries are affected by NCDs, caused by lifestyle choices.

The Gendered Face of NCDs

Studies done all over the world have found that women and men have different levels of exposure and vulnerability to NCD risk factors. Women are significantly more likely to be obese than men. The higher rates of obesity, in turn, make them more vulnerable to NCDs, particularly diabetes. Disparities in physical activity between men and women are directly related to social customs such as restrictions on mobility, and clothing of women, and the perception that sports are ‘unfeminine.’ Such misconceptions hinder women from getting enough exercise and being fit.

Furthermore, a majority of studies diagnosing NCDs have been performed on men, and women are less likely to be diagnosed with NCDs at the early stages. Symptoms for cardiovascular diseases are also less apparent in women and, therefore, go unnoticed and untreated.

Evidence also suggests that NCDs affect women more harshly on economic and social fronts. The majority of the world’s poor constitute women. Although alcohol and tobacco consumption is far less prevalent among Sri Lankan females, compared to men, the prevalence of other risk factors is higher (obesity, high blood pressure, high sugar level, and heart diseases). This could mainly be due to insufficient levels of physical activity, as there is no significant difference between men and women in dietary patterns. The STEPwise approach to surveillance (STEPS) survey of NCD risk factors in Sri Lanka, carried out jointly by Sri Lanka’s Ministry of Health and the WHO in 2015, among adults aged 18-69 years, found the mean minutes of total physical activity per day by men is 202.4 minutes whereas women spent only 153.9 minutes. The lowest value among females was recorded in the age group 20-29 years. The STEPS survey highlights that the prevalence of combined risk factors is higher for women (Table 2).

Protecting Women from NCDs: Policy Options

Since women are more vulnerable for NCDs, making NCD prevention and management more gender sensitive is of utmost importance in this backdrop, three important gender-focused opportunities to address NCDs can be used to tackle this issue effectively.

Pro-poor and gender-sensitive health policies - Sri Lanka has experienced a rise in out-of-pocket expenditure for health over time. Limiting and/or reducing out-of-pocket costs for NCD prevention and treatment can be especially beneficial for women, who may otherwise be unable to afford essential NCD medication and treatment. Moreover, attention should be given to changing life-styles and increasing women’s physical activity levels. In this regard, providing a safe and supportive environment for exercise, and addressing social norms on clothing and mobility concerns, which restrict girls and women from being physically active, are some important measures. Schools should give an equal place to boys and girls in physical education and sports, which empowers girls and lowers their risk of being overweight. Generating sex-disaggregated data is an important aspect of formulating more gender sensitive NCD health policies.

Using primary health care for NCD prevention and control - Sri Lanka has a well-established primary healthcare network, with a high coverage, providing domiciliary care and clinical care for infants, children, and mothers. Women in Sri Lanka are very familiar with seeking and utilizing this system. The same system could be used for NCD screening, detection, management, treatment, and education. ‘Well Women Clinics’ is one such initiative taken by the Ministry of Health. These clinics provide screening services for women against common NCDs (diabetes, mellitus, hypertension, and breast and cervical cancers).

Invest in girls, women, and their health – Investments on girls, women, and their health have many economic and social benefits. Healthy females can contribute to the economy more productively and empower themselves. There is an inter-generational effect in investing in women’s health, as healthier women would have healthier children, contributing to more productive societies. Education and awareness are powerful tools in investing in women’s health.

The death toll from Non-Communicable Diseases, or NCDs, (diseases of long duration and generally slow progression) is on the rise, and accounts for more than a half of total deaths globally. According to the World Health Organization (WHO), NCDs kill 38 million every year around the world, and around 75% of these deaths are reported from low and middle income countries, such as Sri Lanka. Cardiovascular diseases, cancers, chronic respiratory diseases, and diabetes are the four main culprits behind these deaths.

The Case of Sri Lanka

Similar to the global context, Sri Lanka too is experiencing a rising trend in the incidence of NCDs, and deaths attributed to NCDs. Evidence suggest that the prevalence of obesity, diabetes, and cardiovascular diseases is high among women in Sri Lanka (Table 1).

Although alcohol and tobacco consumption is far less prevalent among Sri Lankan females, compared to men, the prevalence of other risk factors is higher (obesity, high blood pressure, high sugar level, and heart diseases). This could mainly be due to insufficient levels of physical activity, as there is no significant difference between men and women in physical activity levels.

Table 1: NCD Screening Activities, Distribution of Risk Factors by Sex - 2014

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco chewers detected</td>
<td>15.1</td>
<td>15.1</td>
</tr>
<tr>
<td>Smokers detected</td>
<td>5.4</td>
<td>6.6</td>
</tr>
<tr>
<td>Raised BP (SBP &gt; 140 and/ or DBP &gt; 90 mmHg or currently on medication for raised BP)</td>
<td>24.4</td>
<td>23.9</td>
</tr>
</tbody>
</table>

Table 2: Prevalence of Combined Risk Factors

<table>
<thead>
<tr>
<th>Risk Factors</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage with none of the above risk factors</td>
<td>12.0</td>
<td>12.1</td>
</tr>
<tr>
<td>Percentage with 1 of the above risk factors, aged 45-69 years</td>
<td>36.2</td>
<td>36.4</td>
</tr>
<tr>
<td>Percentage with 2 or more of the above risk factors, aged 45-69 years</td>
<td>50.7</td>
<td>50.8</td>
</tr>
</tbody>
</table>
Sri Lanka, though a developing country, has been performing well with regard to human development. Free education and health services, being provided to all citizens and various social welfare programmes to assist the poor, which continued for more than five to six decades, coupled with various development programmes to provide housing, electricity, water and sanitation, efficient communication facilities, etc., have contributed to this success. This has helped Sri Lankan citizens achieve long, healthy lives, and impressively high levels of education, which are reaching the levels of developed countries.

The status of human development in a country is measured using the Human Development Index (HDI), developed by the United Nations Development Programme (UNDP). The HDI is a composite index, which could be used to measure the economic and social development of a country. It consists of three equally weighted components:

1. “Long and healthy life”, measured by “Expectation of Life at Birth”
2. “Knowledge”, measured as a combination of adult literacy and gross school enrolment
3. “A decent standard of living”, measured by GDP per capita

The countries are classified into four levels, based on the HDI values. The categories are:

- Very High Human Development (0.800 and above)
- High Human Development (0.700 to 0.799)
- Medium Human Development (0.550 to 0.699)
- Low Human Development (less than 0.550)

Sri Lanka is classified under the “High Human Development” category, with a Human Development Index value of 0.766, and was ranked 73 out of 188 countries in 2015. Maldives, with a HDI value 0.701 and a rank of 105, is the only other country in the SAARC region, classified under “High Human Development”. India, Bhutan, Bangladesh, Nepal and Pakistan are classified under “Middle Human Development”, while Afghanistan is in the “Low Human Development” category. Singapore, Japan, South Korea, and Malaysia, are the only countries, with a HDI above that of Sri Lanka, out of the 19 selected countries in Asia (Figure 1). It is interesting to note that Sri Lanka is ranked above a fast developing and powerful country like China, in terms of human development.

Indicators related to “Knowledge” are also impressive. Adult literacy rate was 92.6 percent in 2012; youth (15-25 years) literacy was 99.2 per cent for females and 98.4 per cent for males, and the percentages of population (25 years and above) with at least some secondary education is more than 80 per cent for both males and females. Almost universal gross school enrolment ratios up to age of 14 years is another achievement of Sri Lanka, compared to other Asian countries considered in this analysis. For example, only Japan, Singapore, South Korea and Malaysia, are above Sri Lanka in terms of population (25 years and above) with at least some secondary education (Figure 3).

Challenges

While Sri Lanka can be proud of the achievements in many areas, there are a number of concerns which need to be addressed. However, only the following issues will be discussed in this article:

- High suicide rate, especially among men
- Low Labour Force Participation Rate of females
- Low participation of women in the parliament

Male suicides: Among the SAARC region, and other selected countries in Asian Region, Sri Lanka ranks first followed by South Korea, Nepal and Japan. Worryingly, out of the 188 countries in the world, Sri Lanka ranked third, in terms of male suicides. The two countries above Sri Lanka are, Guyana (70.8 per 100,000 males), and Lithuania (51.0 per 100,000 males). Data on suicides in Sri Lanka show that nearly 6,000 people are committing suicide each year and around 75 per cent of them are males. A special study may need to be conducted, covering those who have attempted suicide, to ascertain the causes for this high incidence of male suicides. Ministry of Health, Nutrition and Indigenous Medicine and Ministry of Social Empowerment, Welfare and Kandyana Heritage, may have to consider improving easily accessible counselling services for troubled persons.

Female Labour Force Participation: In Sri Lanka, as already explained, most of the indicators related to “Knowledge” show that females have performed better in terms of education when compared to their male counterparts. The statistics also show that in Sri Lanka, there are more girls than boys in Advanced Level classes and Universities.

Even with these achievements, the Labour Force Participation Rate (LFR) of females remains extremely low (29.9% in 2015), compared to most of the countries in the Asian Region (Figure 3). Except in three countries (Afghanistan (19.1%), Pakistan (24.3%) and India (26.8%), out of the 19 countries in Asian Region considered in this analysis, in all other countries, female LFR is much higher than in Sri Lanka. In the three countries mentioned above, the level of education is much lower comparative to Sri Lanka.

One of the reasons for low female LFR in Sri Lanka, despite high levels of education, is the unavailability of decent employment opportunities, in close proximity to their hometowns. Availability suitable employment opportunities, in their hometowns, will make it easier for them to balance their child-care and household responsibilities with work (MDG Country Report 2014). Flexible working hours and/or facilitating working from home in certain type of jobs (e.g. Information Technology related jobs), may also help in increasing the female LFR. This will also help in increasing their family incomes and therefore raise the living standards of such families.

This will also help to reduce the persisting income inequality to a certain extent.

Female Representation in the Parliament: Another concern is very low female representation in the parliament in Sri Lanka, which is only 4.9 per cent and is the lowest in the SAARC region, and one of the lowest in the world. In the SAARC region, female representation in the parliament is highest in Nepal (29.3%), followed by Afghanistan (27.4%), Bangladesh (20.0%) and Pakistan (20.0%). SDG Target 5.5 is to “ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision making in political and public life”. Sri Lanka will never achieve this target by 2030, with such low female representation in the parliament. More educated females will have to be encouraged to actively participate in politics so that they could get involved in decision making process at all levels of decision making, in the political and public life. Sri Lanka will face many challenges in the development of this country, to make it a better place for everyone live. It should also be their responsibility to make a voice for thousands of voiceless women and children in Sri Lanka, who are facing various difficulties.

Figure 1: Human Development Index and Ranks for SAARC and Other Selected Countries in Asia in 1990 and 2015

Figure 2: Suicide Rates (per 100,000 Males/Females) in 19 Selected Countries in Asia in 2015

Figure 3: Labour Force Participation Rates for Males and Females - 2005/2015

By Wimal Nanayakkara

Human Development: Sri Lanka’s Achievements and Challenges
Brief Overview of the Social Dimension of the SDG Framework

The SDG Framework affirms that poverty is the greatest global challenge which must be overcome in order to realize sustainable development. Hence, this article reviews the relevance of the SDG Framework to Sri Lanka’s national policy outlook, specifically in terms of reducing inequalities and attaining social development.

The SDGs outline a transformative agenda which urges the world towards a more resilient path and underscores the importance of unifying economic, social, and environmental interests – the three pillars of sustainability – when formulating national policies and strategies. As a result of the global consensus on the necessity to adhere to the principles of sustainability, the world leaders have committed to achieving 17 SDGs and 169 targets upon reaching the 2030 Agenda.

The SDG Framework identifies several areas where Sri Lanka’s performance is lagging, and it is imperative to focus on Non-communicable Diseases (NCDs), considering that 71% of all annual deaths in government hospitals are due to chronic Non-communicable Diseases. Despite the availability of free healthcare services, private healthcare expenditure accounts for more than a half of total health expenditure. Evidently, there is a need to improve access to quality and affordable healthcare, while also reducing vulnerability to financial risks. Sri Lanka must also address the health implications arising from the increasing elderly population.

Adhering to the SDG Framework – which presents a comprehensive approach to achieve universal health coverage – propels Sri Lanka to address these needs and paves the way to improve the overall healthcare system in the country.

Education is another theme under the MDGs where Sri Lanka performed commendably in terms of health under the MDGs. Nevertheless, an area where Sri Lanka’s success in mitigating certain communicable diseases, reducing poverty: the poverty headcount ratio was 6.7% in 2012/13, the incidence of extreme poverty as per the World Bank’s US$ 1.90 per day (2011 PPP) is low in Sri Lanka, accounting for only 1.9% of the population. However, the incidence of moderate poverty (i.e., the percentage of the population living below US$ 3.10 per day) is considerably higher at 14.6% in 2012/13. This signifies the presence of highly vulnerable segments of the population. Additionally, income inequality remains a persistent concern in Sri Lanka.

With regard to access to essential services, Sri Lanka has performed commendably in terms of health under the MDGs. Notwithstanding Sri Lanka’s success in eradicating poverty, it is evident that Sri Lanka has made considerable progress in reducing poverty; the poverty headcount ratio was 6.7% in 2012/13, the incidence of extreme poverty as per the World Bank’s US$ 1.90 per day (2011 PPP) is low in Sri Lanka, accounting for only 1.9% of the population. However, the incidence of moderate poverty (i.e., the percentage of the population living below US$ 3.10 per day) is considerably higher at 14.6% in 2012/13. This signifies the presence of highly vulnerable segments of the population. Additionally, income inequality remains a persistent concern in Sri Lanka.

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Way Forward

It is evident that that current national policy outlook vis-à-vis social development is on a par with the social development approach advocated by the SDG Framework. A number of existing policies and strategies are in-line with the SDGs, but it is necessary for them to be reviewed systematically to identify any development gaps. Considering that multiple government bodies are involved in the policy-making and implementation, adherence to SDGs as a guiding principle in national strategy formation could be a step towards improving policy coherence.
Regulating Microinsurance in Sri Lanka: Striking a Balance

By Manavee Abeyawickrama

The introduction of the Microfinance Act in 2016 has caused many to believe that concurrent regulation for the microinsurance sector is a natural consequence. In fact, the Insurance Board of Sri Lanka (IBSL) has intimated that the introduction of new regulations is to encourage the growth of the ‘pro-poor’ insurance market.

Since its introduction as a subsidiary service for microfinance activities, microinsurance has focused on loan protection and insurance for life savings, and soon evolved into policies that provide welfare benefits specifically targeting the needs of the low-income population. Despite the steady progress of the formal insurance sector with a 16% growth in Gross Written Premium (GWP) and a 15% rise in insurance density (per capita premium) in 2015, insurance penetration (premium as a percentage of GDP) seems to have stagnated at around 1%, indicating a large untapped potential in the market. Low penetration levels have been attributed to a number of factors including the low levels of disposable income, a lack of awareness of the benefits of insurance, and a sense of lost confidence in the industry. Alternatively, stakeholders argue that low recorded penetration is a result of widespread social welfare schemes offered by the government, and the largely undetected informal sector whose efforts are not reflected in the official statistics.

Microinsurance has been identified as a potential tool for minimizing gaps in insurance penetration and a means of improving social safety nets in the country. However, the absence of a clear focus on microinsurance within insurance legislation continues to be an impediment. It is against this backdrop that this article aims to bring cognizance to the implications of such regulation on the existing microinsurance sector.

The Necessity for Regulation

Currently, the insurance industry in Sri Lanka is regulated by the Regulation of Insurance Industry Act No. 43 of 2000. Though microinsurance is arguably subsumed by the definition of insurance provided for in the Act, it fails to provide an explicit classification. As a result, microinsurance has assumed a secondary role to regular insurance – often carried out as a Corporate Social Responsibility (CSR) activity. Despite numerous promotional efforts by the Insurance Association of Sri Lanka and the IBSL, the industry remained cautious against actively engaging in microinsurance. This reluctance is a result of the stringent regulatory conditions that came into effect towards the latter half of 2015 – particularly the introduction of a rigid risk based capital framework, mandatory segregation, and listing requirements.

As formal providers struggled to overcome regulatory bottlenecks, Sri Lanka saw the emergence of a parallel sector of microinsurance providers comprising of village-level co-ops and community based organizations (CBOs). Though many of them are monitored by government agencies such as the Department of Cooperative Development and the NGO Secretariat, their insurance services are carried out unregulated and their reach and strength is unknown. Despite their success in catering to the needs of the poor, their capacity to take on high risk remains uncertain. As the risk exposures undertaken by these organizations are non-transparent, even a potential systemic risk to the industry could go undetected. Thus, regulatory interventions are imperative to ensure the sustainability of the industry, particularly, to safeguard against the threat to already vulnerable segments of society.

Avoiding Over-Regulation

Regulation could promote or impede the development of any industry. A microinsurer would typically depend on volumes and accessibility over high returns. Thus, it is fair to assume they would not have the infrastructure to meet stringent regulatory requirements, especially since costs of compliance cannot be transferred to low-income policyholders.

Countries have employed various tactics to create an enabling environment for microinsurance. For example, in India, all insurers are expected to sell a percentage of their products to select rural sectors. Whilst the policy was instrumental in improving insurance penetration levels, critics argue that it was too restrictive, reducing the flexibility of a demand-driven market. Contrastingly, countries like Belize have looked at formalizing small-scale CBOs with the intention of encouraging participation in insurance. In Sri Lanka, the informal sector holds an incomparable reach in the grassroots as CBOs leverage their extensive networks to cater to poorer communities. Therefore, regularization should be done with careful consideration – without disrupting the existing financial eco-system on which rural communities depend.

Way Forward

Legislation should create a level-playing field in the industry by encouraging participation from the formal and informal spheres. It should promote a supply of diverse insurance products that would complement and not duplicate the existing social protection mechanisms in Sri Lanka. In this regard, a possible solution would be to adopt a reporting or disclosure mechanism that would allow the IBSL to monitor the activities of informal providers. In doing so, insurers will be expected to maintain separate portfolios for microinsurance so progress could be regularly evaluated. As a supervisor, the IBSL will be able to screen microinsurance activities without hindering their everyday operations. Facilitating such supervision would, however, demand improved regulatory networks – possibly the establishment of supervisory units across the island. Alternatively, the IBSL could adopt a “light-touch” regulatory approach to microinsurance. This would call for the relaxation of strict capital requirements, restrictions on owners and employees, and rigid operational procedures warranted by current regulations.

The regulatory emphasis should be on bringing professionalism to the microinsurance industry without overextension that might kill a thriving, living system which works well for the marginalized.
Easy and Affordable Access to Finance: A Lifeline for Female-centric MSMEs in Sri Lanka

By Janaka Wijayasiri and Dilani Hirimuthugodage

Indrani is a 41-year-old cinnamon oil producer living in Meetiyagoda, Ambalangoda in the Galle district, which is well-known for cinnamon production. She is a single mother and entrepreneur, owning a cinnamon oil distillery unit. Prior to this, she had worked as a day worker at the distillery unit, but found balancing work and family challenging. “When we work as day workers we are like labours, we have to stick to a fixed time. It was difficult for me to handle household work and work at distilleries as a day worker.” In 2003, her husband passed away due to a tragic accident, leaving Indrani to provide for their young children. Thereafter, she went abroad to earn money to support her family. After returning in 2008, she started her own cinnamon distillery unit, with funds partly raised from her savings abroad.

Constraints to Finance

According to a study by IPS on Women-owned and Led Micro, Small Medium Enterprises (WMSMEs) in Spice and Coir Sectors of Sri Lanka, it was found that more than half of the women surveyed, ranked ‘financial concerns’ as the biggest barrier to operating and expanding their businesses. While they have access to formal institutions, WMSMEs prefer to use informal arrangements to fulfill their financial needs. High interest rates, difficulty in meeting loan requirements (such as providing suitable guarantors and collaterals), lengthy loan processing time, and low outreach of financial institutions are some of the problems encountered by women entrepreneurs in accessing financial institutions in the county. Informal money lenders, seettu (a Rotating Savings and Credit Association also known as ROSCA, where a group of individuals agree to meet for a defined period to save and borrow together), and loan arrangements with buyers are preferred over the formal financial institutions despite the higher interest rates, mainly because of the flexibility and speedy loan disbursements without much formal paperwork.

Moreover, cinnamon producers are confronted by the uncertainty of making repayments due to seasonality of income. According to Indrani, cinnamon oil producers earn an income for half a year, as cinnamon trees are chopped during a selected period in a year. During the six months where oil cannot be produced, they have to look for other work. Therefore, they are unable to obtain loans from banks. “When we do not have work, it is difficult to pay interest during that period.” Once, when she failed to settle a loan, she decided to go abroad as a housemaid again. “I went abroad in 2008 once more to settle my bank loans and returned in 2011.” Indrani is thinking of obtaining a loan from bank to expand her business but is cautious. “We can repay any amount but we need support during off season or rely from making the full monthly repayment, when we do not earn from our business.”

Obstacles Facing WMSMEs in Spice & Coir Sectors

<table>
<thead>
<tr>
<th>Source: Madurawala, Hirimuthugodage, Premaratne &amp; Wijayasiri (2017)</th>
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<tbody>
<tr>
<td>Access to Finance</td>
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<tr>
<td>Skills &amp; Training</td>
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<td>Infrastructure</td>
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<td>FInancial institutional</td>
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There is a need to scale up lending and commitment to assisting WMSMEs across all branches amongst the financial institutions. While the services such as SME banking are set up at head offices, if the local branch managers of financial institutions find lending to MSMEs unprofitable, they tend to serve other customers, namely larger companies and entrepreneurs. Such situations can be avoided by close monitoring and supervision to assess the progress of special programmes targeting micro and small enterprises in Sri Lanka, while strengthening the capacity and skills of managers for SME-focused lending and appraise methods. These efforts need to be complemented by providing training on financial management to WMSMEs.

In addition, there is a need to incentivize lending to WMSMEs. For small amounts that MSMEs seek, the administrative procedures, including paper work, can be reduced. The formal financial institutions try to reduce lending risks by securing collateral or guarantors, which itself is a big hurdle for WMSMEs. Alternative ways to allow WMSMEs to build credit within the institution are needed, such as gradually increasing the amount of small loans, as proved in microfinance.

Although Indrani is single-handedly running her business, she is happy, as she is able to balance her housework while working at the distillery, which she wants to expand with time. “I can look after my family while working in my hut. Sometimes, I keep the boiler on and go to school to pick-up my children. My expectations are to upgrade and expand my business and be a good mother to my children, and a caring daughter to my old age parents. I’m sure I can fulfil my responsibilities as a mother and as a daughter while doing my business.” However, WMSMEs like hers need better access to finance to invest, expand, and operate their businesses, which are the backbone of Sri Lanka’s economy.
Tourism Sector to Achieve SDGs

By Wimal Nanayakkara

Since the end of Sri Lanka’s civil war in 2009, the number of tourist arrivals to the country has increased significantly, from 448,000 in 2009 to 1.8 million in 2015. By 2017, tourism had already become the third main foreign exchange earner (US$ 2.96 billion) in Sri Lanka. According to the Sri Lanka Tourism Strategic Plan 2017-2020 of the Ministry of Tourism Development, the tourist arrivals have further increased to 2 million, and revenue from tourism has risen to US$ 3.5 billion. In 2015, the Forbes Magazine placed Sri Lanka among the ‘top ten coolest countries to visit’. These facts clearly show the huge potential of the tourism sector and how it can bring in more foreign exchange to the country. Tourism can improve the overall economy, and thereby make a substantial contribution to achieving the Sustainable Development Goals (SDGs). According to the United Nations World Tourism Organization’s (UNWTO) brochure, Tourism and the SDGs, and the revised list of SDG indicators, tourism could improve performance in all SDGs; this alone is reason enough to harness benefits of tourism.

Interrelation between Tourism and SDGs

Tourism creates jobs countrywide, by offering direct and indirect employment opportunities, particularly for youth, in both urban and rural communities. Domestic tourism accounts for a significant share of the sector’s income, while expenditure by international tourists counts as exports for Sri Lanka. Thanks to its heritage and culture which dates back to thousands of years, unmatched biodiversity, beautiful beaches, and some of the world’s best marine resources, beautiful mountain ranges, and other natural resources, Sri Lanka boasts of a huge potential for tourism-led growth. As such, if tourism is promoted more effectively, it would be one of the most important sources of foreign exchange earnings for the country. As tourism encompasses a wide range of goods and services, it generates multiple positive effects across other economic activities, penetrating the local economy and expanding the growth impact from trade. That said, while it is important to maximize on the economic benefits and other positive effects of tourism, it is equally important to develop strategies to ensure that the possible evil effects of tourism, such as the prevalence of drugs, prostitution, child abuse, are effectively controlled and minimized, so that Sri Lanka’s social and cultural values can be kept intact.

Tourism sector is linked to all 17 SDGs and it would be useful to give due consideration to those links when developing strategies to improve the tourism sector, while taking a closer and more coordinated look at its contribution to achieving SDGs. To this end, it would be essential for the Ministry of Tourism Development to collaborate with all Ministries, Departments, other governmental agencies, as well as with the private sector agencies, involved in planning and implementing strategies to achieve SDGs. Some of the ways in which tourism could make useful contributions towards achieving SDGs by 2030 are discussed in this blog.

Reduction of poverty and inequality, and indirect contributions to agricultural, health, and education sectors: Tourism fosters economic growth and development at all levels, as it promotes and helps entrepreneurship, especially among small businesses, and the creation of employment opportunities, which reduces poverty and the grassroots level. It can spur agricultural productivity by promoting the production, use, and sale of local produce in tourist destinations, resulting in higher and more stable incomes, which leads to more resilient and sustainable agricultural communities. Tourism can be a powerful tool for developing communities and reducing inequalities, if it engages local populations and all key stakeholders in its growth. It can reduce regional disparities by giving communities various opportunities to prosper in their own regions.

Tourism’s contribution to economic growth and development can also have a knock-on effect on health and education sectors in the country. Foreign exchange earnings and tax income from tourism can be reinvested in healthcare and services and in improving the educational facilities. As a well-trained and skillful workforce is crucial for tourism to prosper, the sector should also provide incentives for training and skill development among the employees.

Conserving and preserving the environment: Tourism contributes to and is affected by climate changes. As such, it is in the sector’s own interest to play a leading role in lowering energy consumption and shifting to renewable energy sources, especially in the transport and accommodation sectors, in order to minimize any adverse effects to the environment. As a sector that requires substantial energy input, tourism can accelerate the shift towards renewable energy, and thereby contribute to innovative energy solutions. Sustainable tourism has the potential to advance urban infrastructure and universal accessibility, promote regeneration of the area, and preserve cultural and natural heritage sites – the assets on which tourism sector depends. Greater investment in green infrastructure, such as efficient transport facilities with minimum air pollution, conservation of heritage sites, and greener open spaces, will result in smarter and greener cities, which benefit locals as well as the tourists. As coastal and maritime tourism is important for Sri Lanka’s tourism sector, any tourism development activity in these regions should serve as a vehicle to enhance economic growth, improve livelihoods and create jobs, while ensuring the sustainability of the oceans and coastal areas. Sustainable tourism can also play a major role, not only in conserving and preserving biodiversity, but also respecting the terrestrial ecosystems.

Improving public-private partnerships: Tourism development relies on excellent infrastructure and an innovative environment. Making infrastructure more sustainable, resource-efficient, and clean could attract more tourists and other sources of foreign investment. Due to its cross-sectoral nature, tourism has the ability to strengthen public-private partnerships, and engage international, national, regional, and local stakeholders to work together to achieve the SDGs and other common goals.
The end of the civil conflict in 2009 resulted in significant developments in Sri Lanka’s tourism industry. The immediate aftermath saw a short term, unprecedented growth of tourist arrivals by two folds from 438,475 in 2008 to 1,305,605 in 2012, surpassing the milestone of a one million tourist destination. Arrivals further rose since then, passing the 2 million mark in 2016. The publicly Sri Lanka received from the international community, including travel guide books and other tourists’ reports, which promoted the country as a tourist destination, contributed to this increase in arrival numbers.

Given that room capacity in tourist hotels was constrained severely by the lack of investments during the conflict period, excess demand was met by supplementary establishments. According to the Annual Statistical Report 2016, tourist hotels (or the formal sector) are establishments registered with the Sri Lanka Tourism Development Authority (SLTDA), and consist of classified, unclassified, luxury, and boutique hotels. Supplementary establishments are guest houses, home stays, bungalows, rented touristic homes and apartments, heritage hotels, and bungalows approved and registered by the SLTDA, considered to be suitable for occupation by foreign visitors. Online Travel Agencies (OTAs) such as Agoda, Bookings.com, Trip Advisor, travel blogs, guides, and reviews, which have been gaining popularity in the recent past, led to the burgeoning of supplementary establishments in Sri Lanka, fuelled by direct marketing activities via low cost online platforms.

Today, tourism is the third largest revenue earner for Sri Lanka, accounting for US$ 3.5 billion in 2016, and contributes 14.2% of foreign exchange earnings of the country. As the industry continues to expand, there has been a rapid growth in homeowners leasing spare capacity to meet the escalating demand for tourist accommodation. Unfortunately, some have failed to register their business with the SLTDA and are thus unregulated and exempt from paying taxes. This has led to the birth of the informal sector, which is a cause for concern in the industry. Although it is difficult to state the size of the informal sector and its contribution to the economy due to the absence of data and information, according to industry stakeholders, the informal sector generates a sizable income and employment opportunities while catering to a new, vibrant market segment. In this context, it is essential that informal sector service providers are encouraged to participate in the development of the industry, but under the purview of the SLTDA.

Services Provision

The growing proportion of unregulated service providers are a risk for all stakeholders in the industry if minimum quality standards are not adhered to. While reviews and blog posts are likely to capture substandard experiences offered to visiting tourists, it is central that authorities make concerted efforts to monitor and regulate the performance of these service providers since this could create a negative perception of Sri Lanka in the eyes of foreigners. For example, an industry stakeholder pointed out ‘home stays in particular is a relatively new concept in Sri Lanka and they are usually operated by inexperienced small scale facility providers unaware of maintaining hygiene, housekeeping, and quality standards required to need the services of modern day travelers.’ This trend is particularly apparent in the North and the East, in locations such as Avaragay, Pasikuda, etc. Hence, it is vital that awareness programmes are conducted to disseminate knowledge on the basic requirements for homestays, including adequate marketing and promotional activities for them. Thus, regulating these service providers with the SLTDA can facilitate programmes on both technical and non-technical aspects of service delivery at a nominal fee or free of charge. Further, 21 Codes of Conduct have been formulated by SLTDA on home stays, units, bungalows, apartment hotels, ecofriendly lodges, etc. which will gazetted in the next few months. These Codes will help educate smaller service providers on the required standards and create an environment which encourages smaller service providers to participate in the development of the industry in a responsible manner. Moreover, by regulating the informal sector, the negative impact of unplanned construction on the environment can also be reined as well as provide them easy and better access to finance and land which have been issues due to its relative size and vulnerability.

Way Forward

Sri Lanka’s tourism is a buoyant industry and is estimated to expand even further in the future. Authorities should recognize that independent travelers are an emerging market segment and prefer low cost accommodation which cater to their needs and meet their budget. While some efforts have been made by the SLTDA to ensure minimum standards for establishments through the codes of conduct, more could be done to uphold industry standards and mainstream the informal sector through legal enforcement and the provision of training and better access to finance to help mainstream the informal sector. It is imperative to create an environment which will facilitate rather than dissuade low cost service providers to register their establishments with the SLTDA.
Missing Piece of the Puzzle

Measuring Sri Lanka’s Sustainable Tourism:

By Kanchana Wickramasinghe

Sustainable tourism represents numerous avenues for development in any destination and will be achieved only when its social and environmental benefits are realized, in addition to its economic benefits. This is applicable to any form of tourism, ranging from mass tourism to small scale tourism. The Sri Lanka Tourism Strategic Plan 2017 – 2020 identifies core strategies to foster sustainable tourism.

Informed decision making is a fundamental requirement in achieving these policy objectives and positioning Sri Lanka as a sustainable tourism destination in the world. This requires comprehensive information on all aspects of the tourism industry. Such information that enables effective decision making is sorely lacking in Sri Lanka. Sustainable tourism indicators are a fundamental tool which can help make information-based, effective decisions. The adoption of such indicators in a sensible manner lowers the costs associated with inappropriate tourism policy interventions. A comprehensive set of indicators have the ability to demonstrate the economic, social, and environmental issues that constraint sustainable tourism. The indicators also allow periodical monitoring of the progress in various aspects of the industry and are helpful in assessing the efficacy of various interventions.

Efforts at the International Level

The Sustainable Development Goals (SDGs) identifies tourism as a tool for sustainable development, and presents targets and indicators for measuring progress under three SDGs. These goals are, Goal 8 (promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all), Goal 12 (ensure sustainable consumption and production patterns), and Goal 14 (conserve and sustainably use the oceans, seas and marine resources for sustainable development). The tourism related indicators for Goal 8 include, tourism led GDP as a proportion of total GDP and in growth rate, and proportion of jobs in sustainable tourism industries out of total tourism jobs.

The tourism related indicator in the Goal 12 deals with the number of sustainable tourism strategies or policies and implemented action plans with agreed monitoring and evaluation tools.

As the United National World Tourism Organization (UNWTO) Guide Book on Indicators of Sustainable Development for Tourism Destinations illustrates, the indicators can support effective decision making at all levels. Thus, indicators can be developed for a country, a region, specific destinations (such as coastal zones), key tourist use sites (such as beaches), tourism companies (such as tour operators), and individual tourism establishments (such as hotels). Manila Call for Action on measuring sustainable tourism, which was produced in June 2017 at the 6th International Conference on Tourism Statistics of the UNWTO, highlights the global commitment to sustainable tourism and the need for measuring it.

National Attempts

Though statistics on the economic aspects of tourism are currently being compiled and published, there are huge gaps in terms of social and environmental implications of the tourism industry, and insufficient information leads to incorrect decision making.

Challenges and Way Forward

The development of a technically-sound and meaningful set of indicators to measure sustainable tourism in itself is a daunting task. Wide data and information gaps exist with regard to environmental and social aspects. A study undertaken to measure the environmental management practices in the hotel sector in Sri Lanka revealed that majority of hotels which obtain ground water do not maintain water consumption data, as water is obtained at zero price (apart from the cost of extraction). Comparatively, energy data is more available, as they are recorded in the electricity and fuel bills. The same study found that only 37 per cent of hotels maintain good records on environmental management aspects (energy, water, and waste).

National data mostly focuses on economic aspects. Even so, there are gaps in economic data, which can ideally be addressed through TSA. Economic indicators on sustainable tourism take a step further to formulate vital ‘processed’ information for decision making. In order to capture the important environmental and social aspects of tourism, a dedicated approach will be required to collect data. Both quantitative and qualitative indicators have to be developed depending on the availability of data and information.

The indicators presented in the Sri Lanka Tourism Strategic Plan 2017 – 2025 can be considered as a first step towards the development of a set of broad sustainable indicators at the national level. The indicators can be applied for provincial and district levels in a meaningful manner, depending on the availability of data and information. Extensive stakeholder consultations, covering all the sub-sectors and associated sectors, are a must in this regard.
Green Initiatives in the Blue-Green Budget: Can Sri Lanka become Climate Resilient?

By Kanchana Wickramasinghe

Sri Lanka’s Budget proposals for 2018 explicitly identify that changing weather patterns and the increased frequency and severity of natural disasters (droughts, floods, and landslides) had posed a substantial challenge to the country’s economic performance in 2017. The cost of such disasters is calculated to be 1 per cent of GDP in 2017. The 2018 Budget proposals take a pioneering nature, as it pays due attention to enhancing climate resilience of the country through short, medium, and long term interventions.

The proposals mainly focus on increasing resilience in rural agricultural areas, mitigating urban floods, and bolstering the technical and human resource capacities of the Department of Meteorology. Among those, the proposal to design an index-based insurance scheme to enhance farmers’ resilience towards weather shocks is a commendable step.

Why is Index-based Insurance Important?

A weather indexed insurance scheme is proposed in the Budget, as a partially subsidized insurance, with a premium contribution from the farmers. The crop insurance programmes provided by the government in the past have been indemnity-based by nature. It requires farm level assessments of crop damages before making the pay-outs to the farmers. As such, there are many inefficiencies associated with indemnity-based insurance.

The need for an index-based insurance programme, and its technical feasibility, was assessed by an IPS study, with financial and technical support from the Global Development Network (GDN) through Japanese Award for Outstanding Research in Development 2014. The study findings, which were presented to major stakeholders in January 2017, mainly highlighted the necessity for improved data availability of the weather index — rainfall. At present, the number of rain gauge stations in Sri Lanka are not adequate to carry out an index-based insurance programme. In the case of index-based insurance, the pay-outs to the farmers are calculated based on the rainfall levels. Therefore, the accuracy and the timely availability of rainfall data is a must for processing the pay-outs in an efficient manner. This is also helps in maintaining the farmers’ trust.

One of the major obstacles to popularizing insurance among vulnerable farmers is the lack of knowledge and understanding about crop insurance. Index-based insurance is a further novel concept for the majority of the farmer population in Sri Lanka — except in the case of a small number of farmers, who were targeted by the previous index-based insurance scheme, carried out by a private insurance company. Therefore, the proposed index-based insurance should certainly have a component to provide education and awareness programmes to all stakeholders involved, especially to the farmers.

Experience from other countries reveal that insurance should bring in tangible benefits to farmers to ensure the viability and popularity of such insurance schemes. It is vital to consult farmers to identify specific needs that should be covered through the insurance scheme. Further, studies in other countries’ experience suggest that the insurance has to be integrated with other climate resilience programmes or developmental programmes. The close coordination with agencies providing rainfall data is also much important in this regard.

The Budget proposals for improving the technical and human resource capacities of the Department of Meteorology is a significant step forward when it comes to achieving climate resilience. Improved climate information is an essential requirement for improved climate resilience of any country. It will undoubtedly help the successful implementation of the proposed index-based insurance, as the availability of data is likely to be enhanced, with the capacity development of the Department of Meteorology. This will also boost the Met Department’s ability to provide climate and weather forecasts with improved accuracy to all users, including the vulnerable communities. Improved climate data is also vital in other development planning activities.

The IPS’ action research study, funded by the Think Tank Initiative (TTI) of the International Development Research Centre, which aims at overcoming the information and communication gaps in providing climate information to farmers, will make a useful contribution towards the budget proposal objectives. This project aims at assessing farmers’ climate information needs and bridging the existing information communication gap with the support of the Department of Meteorology, thereby ensuring improved availability of climate information, including short-medium term weather forecasts and seasonal climate outlooks. The index-based insurance programmes in Sri Lanka will undoubtedly benefit through this initiative. The proposed Budget also has allocations to scale up the existing climate resilience programme in the Kelani river basin, with the aim of mitigating urban floods, as well as extending such programmes to other important river basins. In addition, under the Urban Rehabilitation Project (URP), a specific component is included for an integrated flood mitigation mechanism within the Colombo city limits and its suburbs. This is expected to extend to other important cities in the country in the future. Allocations are proposed to rehabilitate the roads, which were affected by floods and landslides.

There are several other budget proposals which can address issues such as water scarcity in Sri Lanka. Support to develop rural irrigation, drip irrigation, and rainwater harvesting can help farmers find solutions for the increasing water scarcity in dry areas. The Budget proposals also aim at continuing the initiative to desilt small and medium tanks in a systematic manner for rainwater harvesting.

It is commendable that climate resilience is given considerable attention in several Budget proposals. However, climate resilience can only be achieved if the proposals are strategically translated into programmes and actions in a timely manner.
Building Resilience for Climate-induced Disasters in Sri Lanka

By Kanchana Wickramasinghe

With the arrival of monsoon rains, Sri Lanka is just seeing the end of the drought that impaired many parts of the country. However, its negative effects continue to be felt by the affected communities. Unfortunately, droughts are not the only natural disaster Sri Lanka has seen in the recent past; the country has been wrecked by a series of floods and landslides alternatively, during the past few years, while Sri Lanka is at risk for such calamities in the future too. The economic costs of these climate-induced natural disasters are immense, and the government spends significant amount of funds on disaster relief activities alone. The Ministry of Disaster Management provided more than Rs. 117 million to district secretariats just for the disasters that occurred in 2016. Additionally, the Ministry of Defense has spent around Rs. 60 million for disaster mitigation measures in the country as well. As DRR is an important cross-cutting issue, it is linked to many agencies that deal with various aspects related to DRR. Thus, sectoral policies have clear linkages with DRR, though such linkages may not be explicitly stated in the policy documents. There are many policies and regulations with direct reference to DRR, such as the Mahaweli Authority Act, the Flood Ordinance, and the National Land Use Policy.

As disaster management is a cross-cutting issue, it is essential to mainstream and integrate disaster management aspects in development policies and planning. This is a highly considered area in Sri Lanka’s policymaking, and certain steps have been taken to integrate disaster management in development activities. However, it needs further improvement. If not, the absence of a common and shared framework constraints donor investments in DRR. Aspects of disaster risk management have to be streamlined to sectoral policies and regulations to be effectively implemented. Involvement of the sectoral agencies, facilitated by a proper coordination mechanism, is a must in DRR activities. For instance, the National Physical Plan lacks focus on natural disasters and other climate change related issues, although it is now being revised to incorporate these.

Sri Lanka’s disaster management system is now more geared towards DRR, shifting away from the previous approach of emphasizing relief interventions after disaster events. Government investment on risk reduction and disaster mitigation has shown an increasing trend over the years. However, there is enough evidence to prove that post-disaster activities have distributional and targeting issues.

There are gaps in the existing social protection system, particularly in disaster related social protection schemes. Crop insurance/climate insurance have a key role in this regard, given that agriculture is one of the sectors highly affected by floods, droughts, and landslides as highlighted by an IPS study. However, these insurance schemes operate far below their potential.

What Needs to be Done?

Resilient development should synergise DRR and climate adaptation at the national level. A collaborative mechanism should be in place to coordinate the actions taken under DRR and climate adaptation. DRR should not be a standalone sector in the overall development framework of Sri Lanka. Currently, there are signs of mainstreaming the important aspects into sectoral policies and plans.

As disaster management is a cross-cutting issue, it is essential to mainstream and integrate disaster management aspects in development policies and planning. This is a highly considered area in Sri Lanka’s policymaking, and certain steps have been taken to integrate disaster management in development activities. However, it needs further improvement. If not, the absence of a common and shared framework constraints donor investments in DRR. Aspects of disaster risk management have to be streamlined to sectoral policies and regulations to be effectively implemented. Involvement of the sectoral agencies, facilitated by a proper coordination mechanism, is a must in DRR activities. For instance, the National Physical Plan lacks focus on natural disasters and other climate change related issues, although it is now being revised to incorporate these.

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A Mess as Old as Time: The Economic Cost of Natural Disasters in Sri Lanka

By Semini Satarasinghe

The recent floods in Sri Lanka, triggered by the monsoon rains, affected over 700,000 people in 15 districts, killed over 200, fully destroyed over 2,000 houses and partially damaged around 12,529 houses. In addition to the recurring downpours, Sri Lanka has also experienced similar environmental crises due to droughts and landslides in recent years. Meanwhile, the Tsunami in 2004 that affected over a million people in Sri Lanka highlighted the country’s vulnerability to low frequency, but high impact events.

Despite the fact that all countries suffer from disasters, they have the greatest impact on developing and less developed nations, such as Sri Lanka. The economic costs of natural disasters have a macroeconomic impact when cyclone Mora hit Bangladesh’s southeastern coast this year, it is important that the authorities carefully analyze the benefit-cost ratio of projects and operations is yet to be observed. Further, it should be noted that natural disasters are not constrained to national boundaries. Hence, it is essential to address key issues and solutions through better regional integration for mutual benefit.

<table>
<thead>
<tr>
<th>Natural Disasters</th>
<th>Total Cost of Damages and Losses Due to Floods in 2017</th>
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<tbody>
<tr>
<td>Recent Floods in Sri Lanka (2017)</td>
<td>US$ 7 billion</td>
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<tr>
<td>Flooded over 200,000 people and over 2,000 houses</td>
<td>Rs. 690 million</td>
</tr>
<tr>
<td>Partially damaged around 12,529 houses</td>
<td>Rs. 1.7 billion</td>
</tr>
<tr>
<td>Fully destroyed over 2,000 houses</td>
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The Penalty for such Cataclysm in Sri Lanka

The Disaster Management Centre (DMC) was established in Sri Lanka, for the purpose of assuring national-level safety, through a systematic management of natural, technological, and man-made disasters. Yet, the DMC has consistently failed to inform vulnerable communities about the potential dangers posed by such disasters beforehand. Lack of prior planning and communication has been the main reason for the failure to avoid devastating effects of natural disasters in Sri Lanka.

Although the Disaster Management Act of 2005 allows the National Council for Disaster Management to formulate national policy to effectively use resources to prepare, prevent, respond, and provide relief through construction and rehabilitation, Sri Lanka lacks the technological capabilities to identify threats early on. While the cost of expenditure borne by the local government due to the recent floods is yet to be determined, the Ministry of Disaster Management estimates the total cost of damages and losses during last year’s floods to be Rs. 690 million. Between the years 2007-2011, government expenditure on food aid and relief supporting expenses due to natural disasters exceeded Rs. 1.7 billion. Such government expenses on reconstruction and relief efforts impose unexpected fiscal shocks to the economy. Natural disasters such as floods, landslides and droughts cause contractations in economic activity, especially in the agriculture sector, which heavily relies on terrain and weather patterns. Disasters will further derail development when buildings and infrastructure are totally destroyed or partially damaged.

This will put unsustainable fiscal pressure on governments, with increased expenditure for reconstruction and rehabilitation activities. The indirect losses incurred would include a reduction in labour involved in domestic production, forcing households to divert their spending from leisure consumption to reconstruction and rehabilitation activities and other social protection needs stemming from such calamities. For this reason, it is pivotal for Sri Lanka to have efficient systems and processes installed to reduce the detrimental impact of disasters.

Standpoint of a Developed Nation

Japan is yet another example of a nation with a strategic disaster management system. Japan is affected by typhoons almost every year and volcanic disasters triggered by earthquakes. To lessen the negative impact of such disasters, the Basic Disaster Management Plan is implemented in the country. The plan, made in accordance with the Disaster Countermeasure Basic Act (Article 34), covers the sequential measures taken during a disaster, ranging from preparation, emergency response, recovery and reconstruction, according to the type of disaster.

It should be noted that the proactive measures taken by the state for disaster risk reduction have taken key issues in to account, such as the state’s infrastructure, policy planning, information sharing, and capacity building requirements. Such vigilant preparation and effective implementations of policy are aspects Sri Lanka should reflect upon in developing disaster risk reduction strategies. Since the Great East Japan Earthquake and Tsunami in 2011, Japan has invested heavily on technologically advanced early-warning systems. Emergency drills have been organized by public organizations. The nation’s Tsunami warning system has the technological capability of monitoring seismic activity 24/7. Tsunami prone areas have more than 10,000 evacuation facilities, while some of the cities have tsunami walk and floodgates to prevent waves from traveling inward through river systems, amongst many other processes.

Key Challenges in Establishing a Disaster Management System

The proliferation of public debt and other economic concerns hinder the implementation of the proposed strategies. It is yet crucial to understand the importance of implementing an effective disaster management policy in reducing the risk of imminent disasters.

While the Sri Lanka Comprehensive Disaster Management Programme (SLCDMP) aims at reducing the potential disaster risks and impact on people, property and the economy; one of the crucial challenges that has received little attention is incorporating all segments of society including women, children, differently abled, and the poor when designing the comprehensive national policy. Political leadership should play a focal role in establishing inclusive comprehensive policies for disaster risk management.

Leaders in a democratically elected government, who have a period of a mere 5-6 years to execute policy measures, generally focus on issues in the economy that need immediate solutions. Hence, investing on disaster risk management systems might be of less interest to politicians. Although a Japan Disaster Relief (JDR) expert team is assigned to prepare a comprehensive national action plan for efficient management of disasters for Sri Lanka, the implementation and order of operations is yet to be observed. Further, it should be noted that natural disasters are not constrained to national boundaries. Hence, it is essential to address key issues and solutions through better regional integration for mutual benefit.

Additionally, there will be an opportunity cost in investing on systems such as the Japanese Doppler Meteorological Radar System, as high costs have to be borne by the government. For a developing nation like Sri Lanka, there would be an alternative developmental activity that could be undertaken with the limited resources the government holds. However, it is important that the authorities carefully analyze the benefit-cost outcomes from a long-term perspective.

While not all natural disasters can be prevented, the damage caused by such catastrophes could be mitigated using systematic procedures that comprise of evacuation planning, environmental planning, training of personnel and post-disaster actions plans. There is a widespread need for effective disaster risk reduction mechanisms to be developed as well as implemented. Sri Lanka would be better placed with the presence of a stronger institutional framework on disaster risk management, where the government will be able to better utilize the resources by effective allocation of resources to more concerning issues in the long-term.
Almost 900,000 people in North Central and Eastern parts of Sri Lanka faced serious food insecurity issues in 2016 due to the country’s worst drought in 40 years. The situation was further exacerbated by severe floods in May 2017 in South Western parts of the country. The United Nations Food and Agriculture Organization (UNFAO) estimates that about 4.7 million people of the 21 million population of Sri Lanka, or one-quarter of the population, do not have sufficient food to sustain a healthy life. The country’s population is projected to rise by more than 600,000 by 2030 and the demand for food is expected to jump sharply. With the continuously increasing pressure on food supply, the need for addressing the challenges of food security is of greater urgency than before.

However, despite a multitude of different policies and programmes, implemented by various institutions to help Sri Lanka achieve food security, the situation has not improved over the years, and the country does not yet have a clear and comprehensive strategy to reach this target. It is in this backdrop that this article aims to bring attention to the possible ways of addressing major issues of prolonged food insecurity in Sri Lanka.

Achieving Food Security: A Plausible Reality or a Pipedream for Sri Lanka?

By Manoj Thibbotuwawa and Erin Leonard

Are We Food (In)secure?

The United Nations Food and Agriculture Organization estimates that about 795 million people of the 7.3 billion people in the world, or one in nine, were suffering from chronic undernourishment in 2014-2016. Almost all the hungry people, 780 million, live in developing countries, representing 12.9 percent, or one in eight, of the population of developing countries. Food insecurity, which is associated with adverse dietary and health outcomes in both adults and children, occurs when people are deprived of sufficient and nutritious food consistently. Hunger and malnutrition are the major outcomes of food insecurity and are measured using several indicators. The Global Hunger Index (GHI) and the Global Food Security Index (GFSI) both rank Sri Lanka poorly in terms of food security (Figure 1). Based on the GHI statistics, the level of calorie deficit in Sri Lanka, 192 Kcal/capita/day on average in 2014-2016, is the highest in South Asia. With regard to the prevalence of undernourishment, Afghanistan (26.8 per cent) is the only country that is worse off than Sri Lanka (22 per cent) in South Asia. Moreover, Sri Lanka (29 per cent) is only trumped by Afghanistan (36.6 per cent) and Pakistan (30.5 per cent) in South Asia, with regard to the prevalence of food inadequacy.

National Nutrient and Micro Nutrient Survey in 2012 has identified that the lack of food security in Sri Lanka has led to a high prevalence of developmental and growth issues – measured in terms of stunting (low height for age), wasting (low weight for height) and, weight, the key indicators of a country’s nutritional status. Sri Lanka suffers from high levels of stunting (13.1 per cent), wasting (19.6 per cent) and underweight (23.5 per cent), among children less than 5 years of age. It faces the third highest prevalence of wasting in the world, only behind Djibouti and South Sudan; the incidence of wasting in Sri Lanka has increased from 11.7 in 2009 to 19.6 in 2012. Moreover, severe regional disparities prevail in malnutrition, as in the case of poverty and economic growth. Estate sector population in the up-country districts and those in the formerly war-affected Eastern Province, are ravaged with the worst levels of malnutrition in the country. These figures suggest that Sri Lanka still has a long way to go to overcome current challenges, by ensuring availability, accessibility, utilization, and stability of nutritious food.

What Makes Us Food Insecure?

Food security is largely dependent on the agricultural sector. Therefore, the focus must be on developing national agriculture, to increase the quantity and diversity of nutritious food, as well as to act as a driver of economic transformation for the rural poor, the most food insecure population in Sri Lanka.

There are several food-production related factors which keep Sri Lanka food insecure. The yield levels of domestically grown food crops have stagnated during recent years, indicating a potential mismatch between the domestic production and national demand, which is on the rise due to population growth and growth of real per capita income. Additionally, lack of crop diversification has created a significant gap between what is available for consumption and what is needed to ensure proper nutrition as illustrated in Figure 2. Moreover, about 30-40 per cent of crops are wasted along the value chain, never making its way to hungry people.

Sri Lanka also faces issues with rising food prices. Erratic weather, caused in part by climate change, and haphazard changes of import duties and non-tariff barriers have been the sources of rising cost of food. Higher food prices may limit poor households’ access to food, and cause them to shift to less nutritious diets, resulting in negative health consequences. IMF claims that over 50 per cent of the households in the Eastern Province, and 38-48 per cent in the Uva Province could not afford an adequately nutritious diet in 2014. Sri Lanka does not have a comprehensive agriculture policy to address the above issues; this has resulted in the adoption of popular, non-evidence based, and erratic policy decisions.

The Way Forward

The development of sustainable agriculture is the central element of ensuring food security, as Sri Lanka’s food production sector is the backbone of the country’s food security. However, it is mandatory that nutrition and health interventions are also undertaken concurrently to ensure food is being utilized in healthy and nutritious ways. Therefore, development of a comprehensive national agriculture policy, in close consultation with national nutrition policies, should be the priority to ensure food security. Policy strategies of relevant institutions that relate to output, land, and other resource utilization need to be identified and harmonized across the overall policy framework. The problem of poor coordination and inter-agency friction has to be eliminated by bringing down the number of agencies or/and placing all policies and programmes related to food security under a single institutional umbrella, at the highest levels of political authority in the country.

On the food production front, the current incoherent land use policies need to be reformed and appropriate technologies (e.g., drip irrigation, green house) need to be adopted widely. Together, these policies will foster an increase in agricultural productivity, while simultaneously promoting sustainability and nutrition sensitivity – both important for food security. Private sector investments should be promoted in agribusiness and public-private-producer partnerships (PPPs) should be established to integrate the small-holders with global value chains. Additionally, public investment allocations should be transitioned from subsidies and price/marketing interventions towards strengthening economically profitable and socially justifiable interventions, particularly agricultural infrastructure development (e.g., irrigation, storage, and rural roads), extension and agricultural research and development.

The regulatory framework on food production protocols needs to be reviewed and revised to minimize the loss of macro and micronutrients in food preparation, and to maximize appropriate micronutrient fortification, especially in state-sponsored food programmes, to ensure proper food utilization. Actions to encourage production and consumption of traditional indigenous food should also be emphasized. Nutrition education should be streamlined to support proper utilization of food.

The government needs to address long term threats to food security, such as climate change, by enhancing the country’s climate change adaptive capacity as presented by the National Adaptation Plan and by adopting different resilience strategies, such as buffer stocks and index-based agricultural insurance. However, long term solutions must be coupled with short-run social safety nets to address the welfare of vulnerable groups. If these measures are undertaken with a coordinated approach, achieving food security would not be a distant reality.
Janaka Wijayasiri

In this edition of the Talking Economics Digest we feature Janaka Wijayasiri, a Research Fellow and Head of International Economic Policy research at the IPS. Dr. Wijayasiri joined IPS in 1999 and has been carrying out research in international economics and trade, regional integration and WTO issues. He has been part of Sri Lanka’s official delegation representing the academia at regional forums such as Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC). He has also participated in various bilateral trade negotiations with other countries with which Sri Lanka currently seeking agreements. He obtained his PhD from Monash University, Australia.

Q: Can you briefly describe your journey at IPS? How long have you been with IPS and what is your role at the Institute?

I have been at IPS since year 2000 – I joined as a Research Assistant and moved up to become a Research Officer, Research Economist, Research Fellow and my current position is the Head of International Economic Policy Unit. I joined IPS following my Masters degree and in between I took study leave to pursue my PhD. My role at IPS spans both research and administrative work in connection with my Unit. These include formulating, implementing, and supervising the Unit’s research programme, developing research proposals, undertaking research to preparing studies/reports, and disseminating the findings. I am also a member of a number of Committees within the IPS looking into research, publications, web, communications, and the Annual Report.

Q: What inspired you to specialize in trade and investment-related research?

I joined the International Economic Policy Unit, which looks into trade and investment-related research at IPS. So I happened to stumble upon research into this area, though I specialized in international trade for my Masters degree, without realizing I would be working on the area after I returned to Sri Lanka. Since joining the IPS, my areas of research interest have been primarily related to trade issues at the bilateral, regional, and multilateral levels. These include issues of policy significance to Sri Lanka in areas covering bilateral and regional preferential trade initiatives, multilateral negotiations, and issues related to the textile and garment, tea, and spice industries in Sri Lanka.

Q: Why do you think research on trade is important to Sri Lanka in the current economic climate?

As a small economy with a limited market, Sri Lanka needs to increasingly engage with the rest of the world to meet the needs of its population, not only to seek business abroad, but also ensure that consumers of the country have better access to variety of price competitive and quality goods. There is so much growth that can be generated by pursuing inward policies before the country runs out of steam as demonstrated by past experiences in the country. No economy has been able to grow sustainable without opening to the world and expanding its trade.

Q: As Sri Lanka is looking to expand its trade relations, especially with the East, what are the challenges you anticipate when it comes to trade policy and negotiations?

Balancing the interests of seeking market access abroad, whilst safeguarding domestic industries and livelihoods, which would be affected by liberalization. There are also likely to be revenue implications, given that much of the government revenue is generated by taxing imports. The question remains how willing Sri Lanka is to open up the economy and to what extent, given that such change has not only economic but political implications as well. Moreover, the losses may be more immediate and concentrated in the short term, while the benefits can take time to materialize and more dispersed across the country. Sri Lanka also needs to prioritize countries which it seeks to negotiate with, as there is limited capacity to engage in lengthy talks with multiple countries at the same time. Also, gaining market access through trade negotiations is not enough, if we don’t have the capacity to supply a variety of goods demanded. Supply side constraints in the country need to be addressed if we are to really make use of the trade agreements negotiated and those in the pipeline.

Q: What are the areas of research that you would like IPS to branch out into in the future, and why?

I would like to look into growing importance of standards – both public and private – governing the trade in goods. Difficulties in meeting the quality requirements of international buyers and technical requirements and standards abroad are amongst the top five most pressing issues of Sri Lankan exporters. In this context, the future trade research agenda will look at identifying various standards affecting main exports from Sri Lanka and assess the capacity of producers, manufacturers and exporters in Sri Lanka in adhering them.

Also another area of research which I will be focusing on is global value chains or GVCs. The growth of GVCs has increased the interconnectedness of economies and led to a growing level of specialization in specific activities and stages in value chains. GVC trade in the Sri Lanka continues to be dependent on a handful of medium sized investments. The manufacture of parts and components is significantly low compared to other countries and the country’s share does not appear to be increasing adequately to keep pace with the rest of the world. Participation in GVCs are determined by many factors, some of which are inherent to the country, while others can be shaped by policy. Governments can play an important role to promote firms to insert themselves into GVCs.

Q: What are your proudest moments during your career?

Obtaining my PhD, which I completed in 2013 while I was on study leave from IPS. It was a product of four years of work, which would not have been possible without the help of a multitude of people – from supervisors to family and friends, including those at IPS. It was a journey which tested me both mentally and physically, but I am glad to have experienced and completed it, though at times it seemed I will not see the light at the end of the tunnel.

Q: What advice do you have for young researchers who are starting out their careers in this line of work?

Researchers must have an inquisitive mind, a hunger for knowledge, and a passion for the subject. They also need to be resourceful in finding ways to gather information and, sourcing funds to undertake the research. It takes an analytical mind to interpret the data you find, and communication skills to present your findings. You have to be determined and willing to accept failure because, more often than not, you will wind up at several dead ends. Researchers must have an inquisitive mind, a hunger for knowledge, and a passion for the subject. They also need to be resourceful in finding ways to gather information and, sourcing funds to undertake the research. It takes an analytical mind to interpret the data you find, and communication skills to present your findings. You have to be determined and willing to accept failure because, more often than not, you will wind up at several dead ends.
SRI LANKA’S ECONOMIC OUTLOOK HIGHLIGHTED AT ADB-ATTN DEVELOPMENT FORUM 2017

IPS Executive Director, Dr. Dushni Weerakoon, highlighted the importance of seeking efficient financing mechanisms to fund urbanization projects in Asia and the Pacific, such as the much-touted Megapolis project in Sri Lanka, estimated to cost around US$ 40 billion. She also noted that it was vital to use smarter resources for sustainable urbanization – a challenge for the rapidly growing cities in the region.

She made these remarks at the fifth ADB-ATTN Development Forum 2017, held in Colombo. The Forum, which saw the participation of more than 25 countries, was co-organized by the Asia Development Bank (ADB) and the IPS around the theme ‘ Financing for Sustainable Urbanization in Asia and the Pacific.’

GLOBAL COMPACT ON MIGRATION: WAY FORWARD FOR SRI LANKA

Highlighting the importance of Global Compact on Migration (GCM), IPS Research Fellow, Bishwa Weeraratne, noted that this mechanism offers the international community an opportunity to contribute to global migration governance.

Dr. Weeraratne was making a presentation titled ‘Global Compact on Migration: Way Forward for Sri Lanka’ at the Global Compact of Safe, Orderly and Regular Migration Workshop organized by the International Organization for Migration (IOM) at IPS.

SRI LANKA AND GSP+: ENSURING SUSTAINABLE SUPPLY CHAINS

While Sri Lanka regained the GSP+ status in May 2017, the country needs to comply with requirements needed to retain this status. The GSP+ is conditional on Sri Lanka complying with 27 international conventions on human rights, environment and labour rights. The removal of custom duties will be accompanied by a monitoring process.

Given that businesses can play an important role in assisting the Sri Lanka government in this regard, a forum on ‘Sri Lanka and GSP+: Ensuring Sustainable Supply Chains,’ aimed at the business community, civil society and governmental officials to foster dialogue, was held at JACC Hilton Residences, Colombo. IPS Research Fellow, Janaka Wijayasiri, made a presentation at the forum on the topic ‘Impact of the GSP+ on Key Sectors of the Economy: Some Preliminary Estimates.’

IPS DRAWS ATTENTION TO THE SHORTAGE OF QUALIFIED AND EXPERIENCED TEACHERS

IPS Director of Research, Nishita Aranathilake, noted that while Sri Lanka had a surplus of teachers, the country was experiencing a shortage of qualified and experienced teachers, especially in subjects of mathematics and science.

She made these remarks on at the press conference to launch IPS’ latest publication, ‘Better Schools for Better O-Level Results in Sri Lanka,’ authored by IPS Research Officer, Ashani Abayasekara, and herself.

THIRD TRANS-HIMALAYA DEVELOPMENT FORUM

Protectionist trade and investment policies serve only special interests and hurt long-term growth of an economy, IPS Research Officer, Kithmina Hewage, argued recently.

He noted this while making a presentation titled ‘Industrial Policy and Development in Sri Lanka’ at the Third Trans-Himalaya Development Forum, organized by the China Institutes of Contemporary International Relations, held in Mangrik, China.

LATEST PUBLICATIONS

Why People Choose to Participate in the Non-Standard Forms of Employment in Sri Lanka

Workers of non-standard forms of employment are often subjected to exploitable employment, with insecure employer contracts, limited social security, low pay, poor working conditions, etc. As of 2017, more than half of Sri Lanka’s wage employees were engaged in non-standard forms of employment – temporary, casual workers or workers without a permanent employer. This study investigates how these non-standard forms of employment affect the workers in terms of job security, employment based social security coverage, and wages.

By Priyanka Jayawardena | Industrialization Series No. 19 | July 2017

SRI LANKA: STATE OF THE ECONOMY 2017: DEMOGRAPHICS, LABOUR MARKETS AND GROWTH

The IPS’ annual flagship report Sri Lanka: State of the Economy provides a critical assessment of the country’s economic performance and recent economic trends. Each year, the report also examines the factors behind the decline in tax revenue.


By Priyanka Jayawardena | Industrialization Series No. 19 | July 2017

Better Schools for Better O-Level Results in Sri Lanka

In attempting to identify the causes behind poor academic performance and possible remedial measures, examining the importance of school-level resources in determining education outcomes is of substantial interest and policy relevance. This study investigates the impact of school-level resources— including student socioeconomic, school, teacher, principal, and provincial characteristics—on student performance at the O-Level examination.

By Ashani Abayasekara and Nishita Aranathilake | Human Resources Development Series No. 06 | November 2017


Women-owned and led Micro, Small Medium Enterprises (MSMEs) are known to be an important source of employment and poverty reduction. In Sri Lanka, spices and coir-based industries are amongst the few sectors in the economy that have high female participation.

Given the importance of participation of women in MSMEs and the export sector to the economy, the role of government is critical in developing and promoting the sectors where women entrepreneurship is concerned.

By Sumitakshi Madurawala, Dilani Hirimuthugodage, Dhanshini Premaratne, Janaka Wijayasiri | Working Paper Series No. 28 | September 2017

Tax Policy in Sri Lanka: Economic Perspectives

In recent years, Sri Lanka’s tax revenue as a percentage of GDP has been declining against the increase in per capita income of the country; revenue ratio has averaged around 13 per cent—far below the average of developing countries, which is generally closer to 20 per cent. What are the factors behind the decline in tax revenue?

Is the tax regime characterized by low elasticity and buoyancy?

Edited by Saman Kelegama

Are there Good Quality Teachers for All Classrooms in Sri Lanka?

Teachers are the key ingredient in bringing about much-needed reforms to the education sector in Sri Lanka. Proper allocation of qualified teachers will improve the quality in public finance in education as well as equity in education outcomes. Thus, this study examines adequacy of teachers for teaching mathematics, English, and science at the secondary level in Sri Lanka, and across provinces and different school categories. (Free e-book available.)

By Nishita Aranathilake and Ashani Abayasekara | Human Resources Development Series No. 07 | December 2017

Visit our YouTube Channel ‘IPS Sri Lanka’ for interviews with the Authors.

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2017 monsoon rains and related floods in Sri Lanka affected over 700,000 people in 15 districts, killed over 200, fully destroyed over 2,000 houses and partially damaged around 12,529 houses.

Sri Lanka has been slipping from her privileged position in Global Gender Gap and Gender Equality index since 2010, to 79th in 2014, from her privileged position in 2011. How can Sri Lanka delicately balance both its interests to its advantage?

Parliament passed a new Inland Revenue Act to boost tax revenues and improve tax administration in the country. The law comes into effect from 1 April 2018 onwards.

Sri Lanka’s export revenue for 2017 surpassed US$ 11 billion while total FDI flows almost doubled from the previous year to US$ 1.63 billion.

Sri Lanka’s Tea industry celebrated 150 years in August 2017.

The United States decided to discontinue its GSP programme, which applied to 120 countries, including Sri Lanka.

Fast Facts

**FAST FACTS**

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Much needed tax reforms were introduced, with the Sri Lankan parliament passing the new Inland Revenue Act, effective from 1 April 2018.

How will this new tax regime affect the tax revenue and what will be the tax burden on the people?

The grade five scholarship examination is usually the first significant academic hurdle that most youngsters in Sri Lanka face. But, does the exam serve its intended objectives of providing better schools and financial aid to bright students?

Recognizing, reducing and redistributing unpaid care work is vital to fostering economic growth, and ensuring gender equality in the labour market.

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