SRI LANKA STATE OF THE ECONOMY 2020

Pandemics and Disruptions: Reviving Sri Lanka's Economy COVID–19 and Beyond



INSTITUTE OF POLICY STUDIES OF SRI LANKA

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Table of Contents

Towards Growth and Stability

1. Policy Perspectives 1

2. Macroeconomic Policy Responses COVID-19 and Beyond 12

2.1 Introduction 12
2.2 COVID-19: Channels of Transmission and Policy Responses 13
2.3 Sri Lanka's Weak Public Finances Constrain Fiscal Intervention 16
2.4 Leaning on Monetary Policy: A Lopsided Combination 20
2.5 Will COVID-19 Stimulus Measures be Deflationary or Inflationary? 23
2.6 Exchange Rate Regimes and Coping with Shocks 24
2.7 Foreign Debt as a Binding Constraint 27
2.8 Economic Recovery and Growth Outlook 29

3. COVID-19 and Global Economic Developments 31

3.1 Introduction 31
3.2 Prospects for the Global Economy 31
3.2.1 Advanced Economies: Hit Hardest but Best Equipped 33
3.2.2 Prospects and Policy Responses of Emerging Economies to COVID-19 36
3.3 Sectoral Impacts of COVID-19 38
3.4 External Environment Impacts on Sri Lanka 41
3.4.1 Merchandise Trade 42
3.4.2 Tourism and Remittances 47
3.4.3 Capital Flows: FDI and Capital Market Trends 49
3.5 Concluding Remarks 51

Pandemics and Disruptions: Reviving Sri Lanka's Economy COVID–19 and Beyond

4. COVID-19 and Beyond: Minimising the Costs of Pandemics 52

4.1 Introduction 52
4.2 Importance of Pandemic Preparedness 53
4.2.1 Why Countries Should Prepare for Pandemics 53
4.3 How Countries Can Prepare for Pandemics 56
4.3.1 Reducing Pandemic Exposure 56
4.3.2 Reducing Vulnerabilities to Pandemics 59
4.3.3 Integrated Risk Management 60
4.3.4 Financial Space for Reducing Vulnerability to Risks 61
4.3.5 Measures for Reducing Vulnerability to Risks 62
4.4 Pandemic Related Economic Impacts 63
4.4.1 Impact on Economic Activities 63
4.4.2 Impact on the Labour Market 65
4.4.3 Impact on Households 67
4.5 Government Responses 68
4.5.1 Disaster Risk Preparedness at the Onset of the Pandemic 69
4.5.2 Fiscal and Monetary Policies Aimed at Providing Relief 70
4.5.3 Health Sector Response 70

4.5.4 Relief Payments to Households 72
4.5.5 Policies to Safeguard Businesses and Stimulate the Economy 73
4.6 Conclusions and Policy Recommendations 74

5. Towards Pandemic Resilience: A Crisis Response Strategy for COVID-19 78
5.1 Introduction 78
5.2 Nature of the COVID-19 Threat 80
5.3 Economic Impact of Pandemic Shocks 84
5.3.1 Global and Regional Experiences 84
5.3.2 Sri Lanka's Experience 86
5.4 A Crisis Response Strategy (CRS): Core Elements and Essential Steps 90
5.4.1 Core Elements of the Solution 91
5.5 Institutional and Policy Challenges 97
5.5.1 Limited Fiscal and Monetary Policy Space 97
5.5.2 Targetting 98
5.5.3 Institutional Coordination 98
5.6 Way Forward 99

6. Harnessing Social Protection during Pandemics 100
6.1 Introduction 100
6.2 COVID-19 and its Impacts: Identifying Vulnerable Groups 101
6.3 Role of Social Protection during the COVID-19 Pandemic 103
6.4 Overview of Sri Lanka's Social Protection System 106
6.5 Social Protection Responses: Cash Transfers to Vulnerable Groups 108
6.5.1 Horizontal Expansion 110
6.5.2 Vertical Expansion 111
6.5.3 Implementation Gaps 111
6.6 Conclusion and Policy Recommendations 113

7. COVID-19 and the World of Work 118
7.1 Introduction 118
7.2 COVID-19 Pandemic and the Labour Market 118
7.3 Impact of COVID-19 on Sri Lanka's Labour Market 120
7.3.1 Background 120
7.3.2 Informal Employment and COVID-19 121
7.3.3 Workers at Risk: Sectoral Perspective 124
7.3.4 Labour Market Challenges 125
7.3.5 Government Response 127
7.4 Better Prepared for Pandemics: International Best Practices 129
7.4.1 Social Protection for All 130
7.4.2 Employment Retention: Preventing Job Losses 131
7.4.3 Unemployment Protection and Supporting those Who Lose Jobs 131
7.4.4 Tax and Other Relief for Enterprises 133
7.5 Towards a Job-rich Recovery in Sri Lanka 133

8. International Mobility Beyond COVID-19 138
8.1 Introduction 138
8.2 Burden, Preparedness and Experience 138
8.2.1 Return and Repatriation 138
8.2.2 Constraints on Repatriation 142
8.3 Pre-COVID-19 Labour Migration from Sri Lanka 142
8.4 Migrant Workers and COVID-19 146
8.4.1 Rights, Protection and Vulnerability 146
8.4.2 Disproportionate Burden 148
8.4.3 Lost Opportunities and Decline in Remittances 149
8.5 Future of Labour Migration 152

8.5.1 Improve Rights and Protective Mechanisms 152
8.5.2 Rebalancing Assimilation, Return and Reintegration 153
8.5.3 Paradigm Shift at National Level 155

9. Pandemics, Women and Women in the Workforce 159
9.1 Introduction 159
9.2 Gender Implications of the COVID-19 Pandemic 159
9.3 The COVID-19 Pandemic and its Impact on Women 161
9.3.1 Health Vulnerabilities 161
9.3.2 Education 163
9.3.3 Nutrition and Food Security 163
9.3.4 Safety and Protection 164
9.4 COVID-19 and Working Women 165
9.5 Improving Female Labour Force Participation, COVID-19 and Beyond 171
9.5.1 Work from Home 172
9.5.2 Changes in Social Norms and Role Models 174
9.6 Conclusion and Policy Implications 174

10. Building a Crisis-resilient Education System in Sri Lanka 177
10.1 Introduction 177
10.2 School Closure Policies and Potential Impact on Infection Control 178
10.3 Risks and Opportunities for Education 181
10.3.1 Risks and Challenges 181
10.3.2 Opportunities for Education 186
10.4 Way Forward for Sri Lanka 188
10.4.1 Readjust Curricula and Recover Learning Losses 188
10.4.2 Safeguard Education Equity 189
10.4.3 Develop a Strong and Resilient Information System 190
10.4.4 Enhance Professional Development of Teachers 191
10.4.5 Initiate and Deepen Collaborations 191
10.4.6 Leverage the Dividend in Innovative Capacity 192

11. Tackling Pandemics through Technology, Innovation and IPRs 194
11.1 Introduction 194
11.2 TRIPs Agreement and COVID-19 195
11.2.1 TRIPs Agreement and Public Health 195
11.2.2 COVID-19 and Global Responses to TRIPs on Public Health 197
11.2.3 Technology, Innovation and the TRIPs Agreement 200
11.3 Features of Technology and Innovation 201
11.3.1 COVID-19 and International Best Practices in Using Technology 205
11.4 COVID-19 and Sri Lanka: Technology, Innovations and IPRs 207
11.5 Way Forward and Policy Recommendations 211

12. Smart Digital Farming in Agriculture: Status and Prospects for Sri Lanka 214
12.1 Introduction 214
12.2 Disruptions to Global Supply Chains and Impacts on SMEs 215
12.3 Role of SMEs in Middle-income Economies 217
12.4 Managing Supply Chain Disruptions to SMEs 222
12.4.1 Firm-Level Solutions to Supply Chain Disruptions 222
12.4.2 Opportunities Arising from Supply Chain Disruptions 223
12.5 Policy Solutions to Support SMEs 225
12.5.1 Immediate Policy Support 226
12.5.2 Transition Period Policy Support 229
12.5.3 SME Policies in a Post-COVID-19 Economy 231
12.6 Conclusion 233

13. Building a Resilient Food System in an Age of Pandemics 234
13.1 Background 234
13.2 Sri Lanka's Food Systems 235
13.3 Restoring Food Security Amidst COVID-19 238
13.4 Pandemics and Food System Vulnerabilities 239
13.4.1 Immediate Impacts on Food Supply and Prices 240
13.4.2 Gathering Momentum Bbeyond Supply Disruptions 245
13.5 Way Forward 249

Policy Briefs

14. Global Disruptions and Fiscal Policy Responses 253
14.1 Introduction 253
14.2 How Pandemics Affect Economies 254
14.3 How to Mitigate Adverse Impacts 255
14.4 Fiscal Policy Responses from the International Context 257
14.4.1 Fiscal Measures 257
14.4.2 How Do Economies Adopt Fiscal Policies? 260
14.5 Sri Lanka's Fiscal Policy Responses 261
14.6 Policy Implications 263

15. Pandemic Disruptions in Urban Settings 264
15.1 Introduction 264
15.2 Urbanisation and Global Disruptions: Lessons from Global Experiences 265
15.2.1 Lessons from Global Public Health Emergencies 266
15.2.2 Lessons Learned 268
15.3 Country Preparedness: Where Does Sri Lanka Stand? 270
15.4 Way Forward 272

16. Building Resilient Cities in an Era of Pandemics 275
16.1 Introduction 275
16.2 Why Should Cities be Focal Points? 276
16.3 Where Do Sri Lankan Cities Stand? 277
16.3.1 Housing 277
16.3.2 Transport 279
16.3.3 Provision of Essential Services 280
16.3.4 Informal Economies 281
16.3.5 Vulnerable Groups 281
16.4 Strengthening Preparedness and Resilience in Sri Lankan Cities 281

17. COVID-19 and Supply Disruptions: The Case of Sri Lanka's Tea Sector 284
17.1 Introduction 284
17.2 Sri Lanka's Tea Industry and the Impact of COVID-19 285
17.3 Supply Shock: COVID-19 and Falling Tea Production 288
17.4 Trade Shock: Global Competitiveness and Rising Auction Prices 289
17.5 Demand Shock: Changing Consumption Behaviour 291
17.6 Policy Responses 293
17.7 Policy Challenges Ahead 294

18. COVID-19: Challenges to Sri Lanka's Upper Middle-income Country Status 296
18.1 Introduction 296
18.2 National Poverty Estimates 296
18.3 COVID-19 and Socio-economic Impacts 298
18.4 Where are the Poorest in Sri Lanka? 301
18.5 COVID-19 and Disproportionate Impacts on the Poor 302
18.6 Conclusion 303

List of Figures

Figure	2.1	:	Global Fiscal and Monetary Policy Responses	14
Figure	2.2	:	Comparative Expenditure and Revenue Indicators	17
Figure	2.3	:	Debt and Cost of Borrowing	18
Figure	2.4	:	Monetary Policy Outcomes	21
Figure	2.5	:	Credit Growth and Inflation Trends	22
Figure	2.6	:	Inflationary Trends	23
Figure	2.7	:	Exchange Rate Movements	26
Figure	2.8	:	External Debt Dynamics	28
Figure	2.9	:	Quarterly GDP Growth	29
Figure	3.1	:	Brent Crude Oil Price	39
Figure	3.2	:	Regional FDI Changes	40
Figure	3.3	:	Sri Lanka's Trade Performance	43
Figure	3.4	:	Oil Imports and Global Prices	44
Figure	3.5	:	Trends in Apparel and Tea Export Sectors	45
Figure	3.6	:	Workers Remittances, Earnings from Tourism and Foreign Placements	48
Figure	3.7	:	FDI Flows	49
Figure	4.1	:	Preparing for Pandemics	53
Figure	4.2	:	Trends in Government Response Stringency Index and Bi-weekly Growth in Cases	58
Figure	4.3	:	Sri Lanka Purchasing Manager's Index	64
Figure	4.4	:	Total Confirmed COVID-19 Cases per Million People	72
Figure	5.1	:	Global Growth Prospects in 2020 and 2021	85
Figure	5.2	:	Loss of Hours Worked in Selected Enterprises in USA	86
Figure	5.3	:	Agricultural Production	87
Figure	5.4	:	Index on Industrial Production	88
Figure	6.1	:	Social Protection Composition	105
Figure	6.2	:	Adaptations in Cash Transfers – Global Scenario	106
Figure	6.3	:	Social Protection System in Sri Lanka	107
Figure	7.1	:	Workers at Risk; Informality, Social Protection and Hard Hit Sectors	126
Figure	7.2	:	Level of Education and Skills	127
Figure	7.3	:	Policy Framework - Four Key Pillars to Fight COVID-19 based on International Labour Standards	130
Figure	7.4	:	The Golden Triangle of Flexicurity Model	132
Figure	8.1	:	Remittances	143
Figure	8.2	:	Composition of Migrant Workers	145
Figure	8.3	:	Employment and Wages of Skilled Workers in the Middle East and Western Countries	147
Figure	8.4	:	Number of COVID-19 Patients in Sri Lanka	149
Figure	8.5	:	Monthly Worker Remittance	150
Figure	8.6	:	Remittance Receiving Households by Income Quintile	151
Figure	8.7	:	Dependency of Households on Remittances for Daily Expenses	151
Figure	8.8	:	Self-reported Impact of Remittances	152
Figure	9.1	:	Gender Differentiated Transmission Mechanisms and Implications of COVID-19	160
Figure	9.2	:	Female and Male Frontline Workers	161
Figure	9.3	:	Employed Persons by Industry Group	168
Figure	9.4	:	Participation Rates in Nine Major Activity Categories	169
Figure	9.5	:	Employment Status by Gender	170
Figure	10.1	:	Household Availability of Devices and Internet Connections	183
Figure	10.2	:	Urban-rural and Urban-estate Gaps in Household Device Ownership	186
Figure	11.1	:	Medical and Pharmaceutical Product Imports	199
Figure	11.2	:	Invention, Innovation and Commercialisation	201
Figure	11.3	:	Types of Innovations in High Middle-income and Low and Middle-income Countries	202

List of Figures

Figure	11.4	:	R&D Expenditure as a % of GDP	203
Figure	11.5	:	Fixed and Mobile Phone Subscription	208
Figure	11.6	:	Patent Filling and Registration in Sri Lanka	210
Figure	11.7	:	National R&D Expenditure	211
Figure	12.1	:	Drivers of Potential Supply Chain Vulnerability	216
Figure	12.2	:	Bottlenecks Faced by SMEs in Developing Countries	220
Figure	12.3	:	Average Employment Contribution	221
Figure	12.4	:	SME Support Measures in Response to COVID-19	226
Figure	13.1	:	Illustration of COVID-19 Impacts on Food Systems	240
Figure	13.2	:	Wholesale Food Price Fluctuations at the Dambulla Market	242
Figure	13.3	:	Retail Food Price Fluctuations at the Dambulla Market	242
Figure	13.4	:	Fruits and Vegetables Received and Unsold	243
Figure	13.5	:	Retail and Wholesale Price Spreads at Dambulla and Colombo Markets	244
Figure	13.6	:	FAO Food Price Index Value	247
Figure	13.7	:	Fluctuation of Global Crude Oil and Fertiliser Prices	248
Figure	13.8	:	Fluctuation in Global Crude Oil, Sugar and Maize Prices	249
Figure	14.1	:	COVID-19's Multiple Strikes in the Circular Flow of Income Diagram	254
Figure	14.2	:	Key Principles for Instrument Choice	257
Figure	14.3	:	Discretionary Spending and Revenue Measures	258
Figure	14.4	:	Fiscal Support Measures for Non-health Sectors	259
Figure	14.5	:	Fiscal Stance of Economies	260
Figure	15.1	:	Major Drivers behind Global Disruptions Under Urban Settings in a Nutshell	269
Figure	15.2	:	Top Five Most COVID-19 Prevalent Districts and their Population Densities	270
Figure	16.1	:	Distribution of Local Governing Bodies in Sri Lanka	278
Figure	16.2	:	Temporary Housing Stock	278
Figure	17.1	:	Tea Production, Export Volumes and Export Earnings	286
Figure	17.2	:	Channels of Transmission of COVID-19 Shock on Tea Supply Chains	287
Figure	17.3	:	Cost of Production for Tea	288
Figure	17.4	:	Quarterly Tea Production in Sri Lanka	289
Figure	17.5	:	Tea Auction Price Changes	291
Figure	17.6	:	Volume of Tea Imported	292
Figure	17.7	:	Tea Export Earnings	293
Figure	18.1	:	Poverty by Socio-economic Group	299
Figure	18.2	:	Poverty Headcount	301

List of Tables

Table	2.1	:	Fiscal Operations	17
Table	2.2	:	Fiscal Outcomes	18
Table	3.1	:	World Output	33
Table	4.1	:	Influenza Pandemics of the Past 100 Years	55
Table	4.2	:	Status of Business Operation	66
Table	4.3	:	Fiscal Stimulus Packages	71
Table	4.4	:	COVID-19 Relief Payments	73
Table	5.1	:	Recessions in 2009 and 2020	85
Table	5.2	:	Dependence on Remittances	86
Table	5.3	:	External Sector Performance	89
Table	5.4	:	CRS : A Tentative Time Plan	96
Table	5.5	:	Debt Burden in South Asia	97
Table	7.1	:	Main Sectors of Employment	121
Table	7.2	:	Workers at Risk, Sectoral Perspective	125
Table	8.1	:	Departures by Destination	144
Table	9.1	:	Employed Population by Occupation and Gender	172
Table	9.2	:	Network Readiness Index	173

Table	9.3	:	ICT Literacy and Usage	173
Table	11.1	:	Patent Grants by Income Groups	204
Table	11.2	:	Number of Patent Applications	204
Table	12.1	:	Number of Establishments and Persons Employed	218
Table	12.2	:	Contribution of the SME Sector to Broader Economic Measures, Selected Countries	221
Table	12.3	:	SME Focussed Relief Measures, Selected Middle-income Economies	227
Table	12.4	:	SME Focussed Relief Measures, Selected South Asian Economies	229
Table	13.1	:	Summary of Food Balance Sheets	237
Table	13.2	:	List of Export Restrictions on Food Products Linked to the COVID-19 Crisis	246
Table	14.1	:	Fiscal Indicators	258
Table	14.2	:	Fiscal Package and GDP Forecasts in Emerging Markets and MICs in Asia	261
Table	15.1	:	Background Summary of Three Cases	266
Table	15.2	:	Brief Background on the Chosen Countries	267
Table	18.1	:	Incidence of Poverty in Sri Lanka	296

List of Boxes

Box	2.1	:	Macroeconomics and Changing Policy Levers	15
Box	3.1	:	Highlights of Fiscal and Monetary Policy Responses from Selected Advanced Economies	35
Box	3.2	:	Policy Responses of Selected Upper Middle-income Countries to Coronavirus	37
Box	5.1	:	History of Economic Recessions	81
Box	5.2	:	Mirror Curves of Pandemic and Recession	83
Box	5.3	:	Business and Income Support Measures	94
Box	7.1	:	Laws on Welfare of Private Sector Employees	122
Box	7.2	:	Potential Precariousness of Temporary Employees	123
Box	10.1	:	Singapore's Justification for Postponing School Closures	180
Box	11.1	:	Sri Lanka's Pharmaceutical Sector	198
Box	11.2	:	International Best Practices in Using Cutting-edge Technologies to Combat COVID-19	205
Box	11.3	:	Innovations During COVID- 19	209
Box	12.1	:	Identifying Small and Medium Enterprises (SMEs)	219
Box	17.1	:	Global Tea Supply Trends in 2020 Amidst COVID-19	290

Acronyms

4IR	Fourth Industrial Revolution
AI	Artificial Intelligence
ASEAN	Association for Southeast Asian Nations
ATMs	Automated Teller Machines
BLAs	Bilateral Agreements
CBSL	Central Bank of Sri Lanka
COD	Countries of Destination
COVID-19	Coronavirus
CRS	Crisis Response Strategy
DCS	Department of Census and Statistics
DOL	Department of Labour
DRM	Disaster Risk Management
DS	Divisional Secretariat
Edtech	Education Technology
EFC	Employer's Federation of Ceylon
EFF	Extended Fund Facility
EMDEs	Emerging Market and Developing Economies
ESM	European Stability Mechanism
EVD	Ebola Virus Disease
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FS	Food Systems
GBP	Sterling Pounds
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GN	Grama Niladhari
GNI	Gross National Income
GOSL	Government of Sri Lanka
GPLs	Global Poverty Lines
GSP	Generalised Scheme of Preference
GVC	Global Value Chain
H1N1	Swine Flu
HICs	High-income Countries
HIES	Household Income and Expenditure Survey
ICT	Information and Communication Technology
ILO	International Labour Organisation

IMF	International Monetary Fund
INR	Indian Rupees
IPS	Institute of Policy Studies of Sri Lanka
IPs	Intellectual Properties
IRM	Integrated Risk Management
ISBs	International Sovereign Bonds
LFS	Labour Force Survey
LKR	Sri Lankan Rupee
LMICs	Low and Middle-income Countries
MDP	Multidimensional Poverty
MERS	Middle East Respiratory Syndrome
MFIs	Microfinance Institutions
MIC	Middle-income Country
MNEs	Multinational Enterprises
MOE	Ministry of Education
MOH	Ministry of Health
NFIS	National Financial Inclusion Strategy
NOCPCO	National Operation Centre for Prevention of COVID19 Outbreak
NPL	Non-performing Loan
NRI	Network Readiness Index
NSPD	National Secretariat for Persons with Disabilities
OMO	Open Market Operations
PHC	Poverty Headcount
PHIs	Public Health Inspectors
PMI	Purchasing Manager's Index
PPE	Personal Protective Equipment
QE	Quantitative Easing
SARS	Severe Acute Respiratory Syndrome
SDGs	Sustainable Development Goals
SDOs	Samurdhi Development Officers
SDRs	Special Drawing Rights
SFS	Sustainable Food System
SGBV	Sexual and Gender-based Violence
SLBFE	Sri Lanka Bureau of Foreign Employment
SMEs	Small and Medium Enterprises
SPV	Special Purpose Vehicle
SRH	Sexual and Reproductive Health
SRR	Statutory Reserve Requirement

SSN	Social Safety Net
T&G	Textile and Garment
TEWA	Termination of Employment of Workmen's Act of 1971
TRIPs	Trade-Related Intellectual Property Rights
TTI	Test-Trace-Isolate
UAE	United Arab Emirates
UDA	Urban Development Authority
UID	Unique Identity Number
UIDAI	Unique Identification Authority of India
UMIC	Upper Middle-income Country
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations Children's Fund
US	United States
USD	United States Dollar
USSs	Urban Underserved Settlements
VAT	Value Added Tax
WB	World Bank
WFH	Work from Home
WHO	World Health Organisation
WIPO	World Intellectual Property Organisation
WTO	World Trade Organisation
YOY	Year-On-Year

TOWARDS GROWTH AND STABILITY

1. Policy Perspectives

The year 2020 will be remembered for the unprecedented global health pandemic – coronavirus (COVID-19) – that saw the world collectively embrace new terms and behavioural guides such as 'lockdowns', 'self-isolations', and 'social distancing'. What started as a viral outbreak in China's Wuhan city in late December 2019 spiralled swiftly into a public health emergency of international concern, prompting the World Health Organisation (WHO) to declare COVID-19 a pandemic by mid-March 2020. The declaration of a pandemic by the WHO is by geographic spread and not the severity of the disease. By any measure though, COVID-19 fits; by end August 2020, the total number of countries/regions impacted stood at 188, with over 26 million confirmed cases and 865,000 deaths worldwide.[1]

The worst-hit initially was the US and key European countries such as the UK, Spain, Italy and France. But, others such as Brazil, Russia and India soon saw large numbers of infections and deaths, as countries adopted varying responses aligned towards containment or suppression measures. Stringent lockdowns in support of the latter were argued to have short-run trade-offs – i.e. 'lives or livelihoods' – as the longer an economy is not at full capacity, the more severe the economic downturn. By and large, developing countries with more stretched health facilities opted to impose stringent containment measures, while the response amongst advanced economies was more relaxed.

With global hyper-connectedness at an all-time high, the rapid transmission of the virus across borders is no surprise. If a more interconnected world was expected to also deliver a strong coordinated global response to the pandemic, the outcome has been disappointing. For most countries, the instinctive response was to retreat inwards and act alone, with little coordination in border closures, development of a vaccine, or indeed in the provision of economic relief. On the contrary, as the pandemic spread, the blame-game for the COVID-19 outbreak heated up, with major powers threatening tit-for-tat economic retaliatory action.

The vacuum in global leadership to address the health and economic fallout of COVID-19 is not helpful. Aside from the devastating loss of lives, populations around the world are facing an unprecedented loss of incomes, livelihoods and elevated threats of poverty. In this struggle, developing economies will fare far worse, with greater exposure to contractions in world trade, declines in commodity prices, loss of remittances, capital flight, etc. With more thinly stretched

[1] Johns Hopkins Coronavirus Resource Centre. (n.d.). *COVID-19 Map.* Retrieved August 28, 2020 from Johns Hopkins Coronavirus Resource Centre https://coronavirus.jhu.edu/map.html

If a more interconnected world was expected to also deliver a strong coordinated global response to the pandemic, the outcome has been disappointing.

health resources, precarious jobs, and limited social security, their near-term outlook remains rather grim.

All available estimates suggest that the world economy as a whole will experience its worst-ever downturn since the Second World War. Unlike other major shocks in recent history, the COVID-19 is both a supply and demand shock. Quarantine and social distancing disrupt supply chains, while loss of incomes, jobs and uncertainties squeeze demand; in turn, weak demand feeds back into supply, as firms suffer from low cash flows and liquidity; in this loop, more job and income losses depress consumer demand further.

Overall, the impact of the demand shock is expected to be larger than the initial supply-side shock – i.e. the economic effects from reduced spending will be larger than those coming from supply chain and labour market disruptions. Thus, household consumption-smoothening behaviour of saving more and spending less during times of economic insecurity is expected to be the dominant concern under COVID-19 conditions.

With no certainty on the pandemic's trajectory, putting an exact figure to what is a 'synchronised economic contraction' is near impossible. From a range of possible outcomes, the most recent tally by the International Monetary Fund (IMF) suggests that the global economy will contract by around -5% in 2020.[2] To mitigate the shock, multilateral financial institutions (MFIs) have urged governments across the world to ramp up spending to protect health and livelihoods.[3]

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[2] International Monetary Fund. (2020, June). *World Economic Outlook.* Washington D.C.: International Monetary Fund.

[3] Georgieva, K. (2020, April). *Exceptional Times, Exceptional Action: Opening Remarks for Spring Meetings Press Conference.* Retrieved August 28, 2020 from International Monetary Fund https://www.imf.org/en/News/Articles/2020/04/15/sp041520-exceptional-times-exceptional-action

Overall, the impact of the demand shock (from reduced spending) is expected to be larger than the initial supply-side shock (from supply chain and labour market disruptions).

By the early mitigation phase at end May 2020, substantive fiscal and monetary policy packages had already kicked in, with both together estimated at around 8.6% of gross domestic product (GDP) for advanced economies.[4] For emerging markets, the figure is a more conservative 2.8% of GDP, with low-income countries spending only 1.4% of GDP. Fiscal interventions (direct cash transfers, tax deferrals, wage subsidies, loan guarantees, etc.) are at the forefront, with monetary policy tools (policy rate cuts, liquidity injections, etc.) helping to cushion the shock.

Fiscal policy as the dominant lever in response to COVID-19 is a continuum of an economic paradigm shift since the 2008 global financial crisis (GFC). Indeed, macroeconomic policy shifts have occurred regularly in response to crises; advocacy for large government spending in the 1940s following the great depression, shifted to low and stable inflation in the 1970s, and a hybrid compromise of sorts towards flexible inflation targetting in the 1990s. In the aftermath of the GFC, as even unconventional monetary policy tools such as quantitative easing (QE) struggled to stimulate aggregate demand, fiscal policy gained ground once again. With weak growth and low inflation, and no further room for interest rate reductions, fiscal interventions can indeed act as the stimulus-of-last-resort.

Today, as central banks resort to direct financing of fiscal spending – including suggestions for 'helicopter money' drops,[5] or 'yield curve control measures' – the role of monetary policy is becoming even more relegated. In fact, in this

[4] Muhleisen, M. et. al. (2020, June). *Courage Under Fire: Policy Responses in Emerging Market and Developing Economies to the COVID-19 Pandemic.* Retrieved August 28, 2020 from International Monetary Fund https://blogs.imf.org/2020/06/03/courage-under-fire-policy-responses-in-emerging-market-and-developing-economies-to-the-covid-19-pandemic/

[5] Where money is distributed directly to households and businesses, and funded as a permanent increase in the money supply – i.e. it does not need to be repaid through higher taxes or spending cuts in the future.

Fiscal policy as the dominant lever in response to COVID-19 is a continuum of an economic paradigm shift since the 2008 global financial crisis.

extraordinary stimulus effort, the lines between fiscal policy – i.e. government debt management – and monetary policy can become rather blurred.

Whatever the economic paradigm, the ability of advanced and developing countries to enact fiscal and monetary tools differs. The 'do whatever it takes' advice pushed out by the MFIs is much harder for developing countries to implement. Though the latter are more severely impacted, they suffer from weaker fiscal positions and limited access to capital markets. By contrast, advanced economies can manage large funding gaps better. Not only are they able to borrow more cheaply in their own currencies, but some, as issuers of international reserve currencies, can print money with limited risks. Thus, unconventional tools like 'helicopter money' drops to households and businesses as a direct and permanent means of financing government spending, carry fewer threats.

Amongst developing countries too, the risks are spread. Those with higher initial public debt levels – especially, mounting volumes denominated in foreign currency – need to be concerned more than ever about the economic fallout. Sri Lanka is one such country, with particularly weak initial conditions; by end 2019, the country was saddled with a high fiscal deficit of 6.8% of GDP and public debt of 87% of GDP – half of which is denominated in foreign currency. The vulnerabilities mounted amidst slowing economic growth that saw GDP growth reach an 18-year low of 2.3% in 2019. It is not surprising then that from a ranking of emerging economies at most peril from COVID-19, Sri Lanka came in at 61 out of 66 on the basis of its public debt, foreign debt, cost of borrowing, and reserve cover indicators.[6]

[6] The Economist. (2020, May). *Which Emerging Markets are in Most Financial Peril.* Retrieved August 28, 2020 from The Economist: https://www.economist.com/briefing/2020/05/02/which-emerging-markets-are-in-most-financial-peril

Countries with higher initial public debt levels – especially, mounting volumes denominated in foreign currency – need to be concerned more than ever about the economic fallout.

Sri Lanka's economic distress rankings, however, are in stark contrast to its health outcomes related to COVID-19. A very creditable response – through a tightly coordinated and effectively led strategy of contact tracing and quarantine – has earned the country international plaudits. As at end August 2020, the total number of infected patients was still just above 3,000 – and that too owing mostly to returnee Sri Lankans from overseas – and the number of deaths at 12.

The COVID-19 containment successes offer the country a head start on the economic recovery effort. So too does the successful conclusion in August 2020 of the postponed parliamentary elections. An assured period of political stability, and the government's past track record for decisive leadership and strong implementation, can encourage more investment, create jobs and boost growth.

Sri Lanka's crisis-fighting economic stimulus package leans heavily on monetary policy in view of existing weak fiscal conditions. The monetary policy interventions include substantive liquidity injections by way of cuts to Statutory Reserve Requirements (SRR) and policy interest rates, and direct cash injections to support businesses through debt moratoriums and refinance schemes, as well as fiscal spending. On the fiscal side, amongst an array of tax deferrals and exemptions, a two-month cash subsidy of Sri Lankan Rupees (LKR) 5,000 to deserving households was the most direct policy intervention. However, substantive tax relief offered in the months immediately preceding COVID-19 can be counted as a part of the stimulus effort. These tax measures, announced after presidential elections in November 2019, are estimated to trim 20-25% off tax revenues.

The lopsided combination is not the best. In the initial mitigation phase, it may not matter much; fiscal multiplier effects are muted anyway as economies stay under lockdown, whereas monetary tools that inject liquidity can have an expanded immediate impact (on the assumption that complementary policies to keep businesses afloat are in place), albeit with lags in monetary policy transmission. In this phase, the most that can be hoped for is to prevent a collapse of businesses and employment so that there is something to build from, in the recovery phase.

The COVID-19 containment successes offer Sri Lanka a head start on the economic recovery effort.

As the COVID-19-induced supply shock morphs into a demand shock as people's livelihoods and incomes plummet, boosting public spending to counteract a slump becomes important. Whilst there is a commonality in fiscal responses in the initial phase, more country and context specific interventions can be expected in the second phase, contingent on available fiscal space.

Based on stimulus efforts so far, government expectations are to prevent the Sri Lankan economy from suffering a major contraction by end 2020. The Central Bank of Sri Lanka (CBSL) for instance, projects an optimistic 1.5% growth,[7] against substantial negative projections for the country by most MFIs.

The -1.6% contraction in GDP growth in the first quarter of 2020 – well before the full brunt of COVID-19 emerged – points to the potential sizeable impacts of prolonged lockdowns in the mitigation phase. The full brunt will be visible in second quarter 2020 estimates, with any signs of revival evident only from the third quarter onwards, as the economy moves into a recovery phase.

An economic contraction in 2020 seems almost inevitable. A sharp V-shaped recovery thereafter is also a very real possibility.

Tax cuts meant to encourage spending and investment, and low interest rates to help maintain demand and keep government borrowing costs down, make possible some attractive short-term numbers for the Sri Lankan economy.

Such a recovery presents both an opportunity and a challenge for Sri Lanka. It presents an opportunity to lay the foundation for sustained forward long-term growth; the challenge is to manage the stimulus measures that promise to test the resilience of a heavily indebted economy.

The stimulus package, to the extent that money creation finances an excess of domestic consumption over supply in the Sri Lankan economy, would typically spill over into more imports of consumer goods, a widening trade deficit, and downward pressure on the exchange rate. To mitigate these risks, curbs on a range of imports as well as some capital outflows were imposed as temporary short-term measures.

However, these must be seen as emergency measures necessary to combat the immediate deflationary shock. If persisted with for any length

[7] Central Bank of Sri Lanka. (2019). *Annual Report 2019.* Colombo: Central Bank of Sri Lanka.

An economic contraction in 2020 seems almost inevitable. A sharp V-shaped recovery thereafter is also a very real possibility.

of time, the monetary financed stimulus can push up inflation.

Contrary to expectations, Sri Lanka's monetary base has shrunk despite direct financing of COVID-19 related government spending. This is largely because the CBSL drew down its official reserves for debt settlement purposes. Additionally, credit growth to the private sector remains sluggish at 4.2% as of July 2020; this is to be expected with depressed labour markets and lower household spending as they smoothen consumption behaviour owing to economic uncertainty.

But, as banks expand their balance sheets, the possibility of more money chasing fewer goods and services and stoking inflationary pressures is very real. Sri Lanka's money supply growth is picking up sharply, to nearly 16% in July 2020 compared to 7% at end 2019. The pick-up in inflation to around 6% by mid-2020 is not a cause for immediate alarm; this initial burst is driven by supply-side impacts, seen in rising food prices. Beyond the short-term, however, aggregate demand growth can quickly outpace supply growth and stoke price pressures, especially when inflation expectations are not as well anchored.

Inflation reduces the real value of debt, benefitting the government, but not without major costs for the economy. Sri Lanka's structurally weak economic growth of the past decade – concentrated on a narrow base of non-tradable sectors like construction – provides ample examples of excessive money expansion finding its way to asset and real estate bubbles, leading to undesirable swings in interest rates and economic activity.

Detailed assessments of tax and spending policies to help by-pass such macroeconomic risks are necessary. While the government has shown creditable political determination to curb spending, Sri Lanka can no longer be a low tax and low spend economy. The country does poorly already against its Asian emerging market competitors – raising only a half in revenues and spending only a half of what they do. As Sri Lanka's population ages and growth in the labour force slows, it must rely on a skilled workforce and adequate infrastructure to compete with technology driven growth as an aspiring upper middle-income country (UMIC). All these require a solid foundation from healthy public finances.

With sizeable foreign debt rollovers in the pipeline, any persistent signs of macroeconomic instability, and accompanying rating downgrades, carry heavy risks for debt sustainability.

While the government has shown creditable political determination to curb spending, Sri Lanka can no longer be a low tax and low spend economy.

The COVID-19 fallout is seeing investor flight to safe havens, resulting in sharp increases to risk premiums, or borrowing costs. As previously noted, Sri Lanka is high on the watch list; this is not surprisingly in view of its back-to-back foreign debt settlements to the tune of USD 3-4 billion, without adequate reserves in hand. Indeed, the Institute of Policy Studies of Sri Lanka (IPS) cautioned as early as 2013 that the country will face a "significant bunching of its external debt repayments during 2020-22 …and the surest way of ensuring a degree of long-term stability in the face of higher volumes of foreign debt accumulation, is to ensure that there is a healthy growth in earnings from exports of goods and services that allows a country to build a 'war chest' of non-borrowed reserves".[8]

Instead, with official reserves of only USD 7.4 billion in hand as of August 2020, there is steady pressure on the Sri Lankan currency. With limited resources in hand to manage vulnerability to crises, a flexible exchange rate – with limited intervention to smoothen excessive volatility – seems to be the surer bet. Defending an exchange rate that is not reflective of economic fundamentals will only lead to a futile rundown of official reserves as a short-term solution.

Beyond the short-term, restricting trade is also self-defeating. While curbs on motor vehicle imports to deter non-essential expenditures at this point are reasonable, external sector pressures will need to be addressed directly over time. Sri Lanka is not an exception in re-examining trade policies to support livelihoods, food security and other priorities in the wake of COVID-19. In fact, such strands of populist nationalism have been in the making for decades since the fractious WTO Doha round, and rekindled with the 2008 GFC. In the COVID-era too, there is a re-set. States have become involved in directing health and quarantine controls with the support of military and police personnel, and supplying basic goods and services. As cross-border economic activity came to a virtual halt, looking inwards was almost instinctive.

[8] Institute of Policy Studies of Sri Lanka (2013). Economic Performance. In *Sri Lanka: State of the Economy 2019.* Colombo: Institute of Policy Studies of Sri Lanka, p. 25.

For Sri Lanka though, its indebtedness makes exports vital for a steady stream of foreign currency earnings to build up reserves and ward off speculators.[9] As global supply chains networks take new shape – possibly in the form of more compact regional networks – the country must not lose out by an unwieldy import tariff regime.

Thus, once the immediate COVID-19 crisis recedes, Sri Lanka has a very real opportunity to refashion its economic policy choices. Policy choices will play a critical role in determining the outcomes, and help greatly to mitigate risks of disruptive impacts from similar crises in the future.

With that in mind, this report examines the policy contours of a country that builds back better from COVID-19. Under the thematic focus of 'Pandemics and Disruptions: Reviving Sri Lanka's Economy COVID-19 and Beyond' the *Sri Lanka: State of the Economy 2020* report addresses the many socio-economic dimensions tied in to the health and economic fallout of the pandemic.

The disruptive effects on incomes and livelihoods, particularly in the context of large numbers in informal employment, with inadequate social protection cover, elevate the risks of widening existing income disparities in Sri Lanka. The country's social protection schemes fall well short of providing adequate cover to withstand economic shocks; in fact, only 29% of the country's workforce is covered by social protection which mainly includes all public sector employees and the majority of private sector permanent employees.

Sri Lanka's high indebtedness makes exports vital for a steady stream of foreign currency earnings to build up reserves and ward off speculators.

[9] Financial Times. (2020, August 31). *Exports Key to Rescue COVID-19 Hit, Debt Ridden Economy.* Retrieved August 28, 2020 from Financial Times http://www.ft.lk/top-story/Exports-key-to--rescue-COVID-hit--debt-ridden-economy--says-Bandula/26-705314

In contrast, according to the 2018 Labour Force Survey (LFS), of Sri Lanka's 8 million workers, 5.4 million (or 68%) are informal workers. Of these, 4.7 million (or 59%) are in the informal sector, and another 0.7 million are in the formal sector as casual and temporary workers. Adding to these large numbers of workers without adequate social protection and job security are Sri Lanka's migrant workers. With as many as 45,000 migrant workers still awaiting repatriation as of July 2020, their vulnerability to precarious employment conditions and health risks in countries of destination is very evident in the wake of COVID-19.

For these large numbers with low, irregular and uncertain incomes, COVID-19 also poses additional risks from poor housing, sanitation facilities, etc., that make households more vulnerable to pandemics. Estimates of such multidimensional poverty (MDP) show that those in MDP and 'near to' MDP add up to 2.4 million people in Sri Lanka.

Such inequities, if allowed to persist in the COVID-19 recovery phase, will become more entrenched. For instance, LFS data suggest that only one out of every five households (23%) owns either a desktop or a laptop computer in Sri Lanka. This not only limits the ability of a vast majority to work from home, but limits access to alternative means of education offered to students during COVID-19. Women and girls are disproportionately impacted; their access to information is poorer, owing to lower information and communication technology (ICT) literacy; at the same time, they are significantly more vulnerable to pandemics from holding front line occupations. In Sri Lanka's health sector for instance, an overwhelming 63% of employees are female.

Thus, enacting an effective and resilient economic recovery is vital to swiftly close the gap between pre and post-COVID-19 output losses – and hence, of incomes and standards of living. For this, a functioning ecosystem of suppliers and producers, and easy access to technology are vital.

Enacting an effective and resilient economic recovery is vital to swiftly close the gap between pre and post-COVID-19 output losses.

Agricultural production is a sector that can lead the recovery process. In doing so, food supply chains are being reset as never before with digital market alternatives. The adoption of e-commerce and other ICT platforms during COVID-19 is increasing food system resilience through better trace-track linkages, storage, etc. Such platforms are more impactful on small and medium enterprises (SMEs). In Sri Lanka too, the repurpose of transport facilitators such as PickMe to a broader spectrum of services is an example of consumer and behavioural changes prompted by COVID-19. For these and other ongoing technological shifts to gain traction, adequate investments in research and development (R&D) and strong intellectual property (IP) protection to support innovation and commercialisation must be built-in.

The foundation for a resilient and forward-looking recovery is robust institutions. Given that the recurrence of pandemics like COVID-19 in the future is high, building the capacity of existing institutions to deal with crises, and adopting a viable and effective crisis response strategy (CRS) will go a long way to mitigate the costs of future pandemics.

These and many other issues are discussed in some detail in the rest of the report. Sri Lanka is well placed to address them within the government's overall national policy framework – Vistas of Prosperity and Splendour – to mitigate the disruptive effects of the pandemic without major run long costs for the economy, and place it on a sustained and resilient recovery path beyond COVID-19.

2. Macroeconomic Policy Responses COVID-19 and Beyond

2.1 Introduction

The global economic impact of the unprecedented coronavirus (COVID-19) health pandemic is expected to result in one of the most severe downturns in recent history, with the latest available estimates suggesting a global economic contraction of -5% in 2020 alone.[1] The reach and scale of the current crisis are unprecedented, extending into every corner of the global economy, with not a single country left unscathed. Even those fortunate to have escaped relatively lightly from the debilitating health hazards are still caught up in the growing global economic maelstrom.

For Sri Lanka, COVID-19 and its aftermath provide a mixed score card. On the health front, the country did remarkably well with the limited resources and no previous experience in handling a health pandemic. On the economic front too, despite a few missteps initially, the population at large were able to access basic necessities throughout stringent lockdown measures. That aside, financial relief to affected households and businesses too began to be dispensed.

With the worst of the health crisis over, and electoral uncertainties behind with the successful conclusion of parliamentary elections in August 2020, all attention is now focussed on the economy. At the time COVID-19 struck, the Sri Lankan economy was at a particular low ebb, mired in persistent low growth and a high and escalating public debt burden. At end 2019

At the time COVID-19 struck, the Sri Lankan economy was at a particular low ebb, mired in persistent low growth and a high and escalating public debt burden.

[1] International Monetary Fund; International Monetary Fund. (2020, June). *World Economic Outlook – June*. Washington D.C.: International Monetary Fund.

therefore, policy attention was firmly on how to revive growth; an immediate solution to which came by way of announced tax cuts hot on the heels of presidential elections in November 2019. However, as the scale of the COVID-19 outbreak became clearer from early 2020, Sri Lanka's economic agenda – like those of countless others around the world – began to be reset in significant, and at times, in irrevocable ways.

With weak growth petering to a low 2.3% in 2019 – the lowest since an economic contraction of -1.5% last seen in 2001 – public debt at 87% of gross domestic product (GDP) and heavy foreign debt settlements coming due, even as hard currency inflows dry up, the economic challenges are heavy. This chapter discusses these macroeconomic dimensions, examining the shifts in economic paradigms and related policy levers to deal with external shocks like COVID-19, Sri Lanka's fiscal and monetary policy responses to date, and the impacts of these on currency shocks and debt sustainability. In doing so, the chapter also suggest possible policy options to help by-pass risks, and mitigate the disruptive effects of the COVID-19 pandemic without major run long costs for the Sri Lankan economy.

2.2 COVID-19: Channels of Transmission and Policy Responses

The early phase of COVID-19 emerged in the form of a supply shock from disruptions to global supply chains and labour markets. Soon, demand-side impacts began to be felt as income and job losses dampened spending. In addition, as countries enforced strict lockdown measures, travel and related services also came to a virtual halt. Thus, very soon, the COVID-19 became a simultaneous demand and supply shock.

Continued uncertainty about the progress of the pandemic feed into increases in precautionary savings by households, etc. These demand-side impacts in turn feed into depleting firms' cash flows and liquidity, reinforcing the supply-side shock. Bankruptcies and loss of employment drag down consumption further, and lead to a further lowering of aggregate demand in the economy.

Typically, supply shocks move inflation and real economic activity in opposite directions – for instance, a natural disaster that lowers agriculture output can generate food price inflation. In the same vein, demand shocks typically move inflation and real economic activity in the same direction – e.g. government reconstruction efforts after a war that leads to higher spending can generate inflationary pressures.

The channels of transmission related to COVID-19 differ from typical external shocks that countries like Sri Lanka most often face, such as natural disasters or wars. In the case of the latter, the primary source is in the form of a supply shock – from destruction of infrastructure or a permanent loss to the labour force. The typical response, such as reconstruction efforts by the government, increases demand, prompting a supply response.

The COVID-19, however, has loop back effects on both aggregate supply and aggregate demand; in this race , the demand-side impact is expected to be much larger than the supply side impact.

In such circumstances, fiscal policy responses are optimal (Box 2.1). By putting money into people's hands, the impact is more immediate; the resultant spending stimulus is an effective tool owing to fiscal 'multiplier' effects. Relative

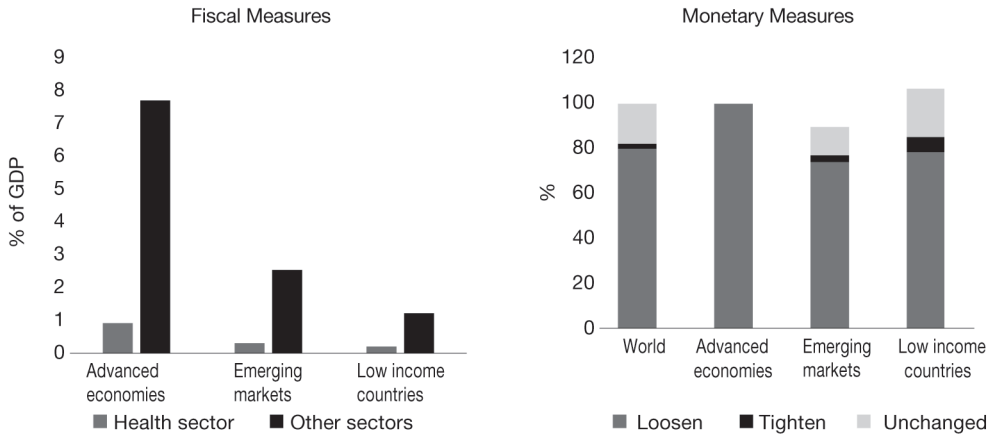
COVID-19 has loop back effects on both aggregate supply and aggregate demand; in this race, the demand-side impact is expected to be much larger than the supply side impact.

to fiscal policy, the pass-through of monetary policy measures occurs with a longer time lag. Not surprisingly then, most countries around the world are responding with an array of fiscal schemes such as expanding cash transfer programmes, tax deferrals, wage subsidies, loan guarantees, etc.

The coordination of fiscal and monetary interventions to maximise and multiply impact is essential. Thus, fiscal measures are being complemented by monetary policy efforts, primarily focussed on providing more liquidity to banks and businesses, raising cash for government fiscal expenses, and a general easing of monetary conditions through interest rate cuts or measures to control yield curves. In this extraordinary effort, the lines between fiscal policy – i.e. government debt management – and monetary policy can become blurred.

As of mid-2020, the initial round of fiscal and monetary policy measures has been substantial (Figure 2.1). With multilateral financial institutions

Figure 2.1
Global Fiscal and Monetary Policy Responses



Source: International Monetary Fund. (2020, June). *Courage under Fire: Policy Responses in Emerging Market and Developing Economies to the COVID-19 Pandemic*. Washington D.C.: International Monetary Fund.

(MFIs) urging advanced economies to do 'whatever it takes', the size of their total stimulus packages far exceed those of developing countries. The benefits of issuing international reserve currencies mean that most advanced economies can do so with little sovereign risk on large public debt thresholds. By contrast, developing economies are hamstrung by more fragile fiscal conditions, with the added pressures of capital flight and loss of earnings from trade, tourism and remittances from COVID-19 impacts.

With subdued demand-side impacts expected to be stronger than COVID-19 related supply

Box 2.1
Macroeconomics and Changing Policy Levers

Even before COVID-19, there was a discernible shift in macroeconomics, especially in the aftermath of the GFC. Economic paradigm shifts have occurred throughout recent history, notably in response to major global economic shocks. In response to the Great Depression, from the 1940s, Keynesian economics guided large government spending – and indeed a larger role for the state – to stimulate employment. But, by the 1970s its policy prescriptions failed to resolve persistently high inflation and high unemployment, paving the way to a monetarist era with Friedman as it most influential proponent. With the aim of reining in inflationary expectations, monetarist ideas typically targeted money supply to create an environment of low and stable inflation that was expected to generate conditions for economic efficiency. By the 1990s though, as monetarism grappled with recessionary conditions and rising unemployment, flexible inflation targeting emerged as a hybrid compromise. Aside from forward guidance using short-term interest rates to achieve low and stable inflation, a key additional factor was employment as an indicator of its general success.

With the 2008 GFC, fiscal policy began to assert itself once again. Unconventional monetary policy tools like asset purchases under QE failed to revive aggregate demand – i.e. with a substantive monetary stimulus, GDP growth and employment picked up gradually over time, but inflation rates continued to remain low. Thus, monetary policy effectiveness, via interest rate adjustments, was severely hampered in dealing with the problem of demand generation. In these circumstances, as COVID-19 emerged primarily as a demand shock, large fiscal stimulus efforts are seen as the more obvious solution. The question is on how to finance large spending. The policy levers and tools used, in turn, point to whether monetary or fiscal policy is more ascendant.

The tussle between monetary policy by way of asset purchases by central banks, and fiscal policy by way of higher spending and/or tax cuts, is leaning in favour of the latter. As the role of monetary policy becomes more relegated – even to the extent of helping governments to manage their public debt by lowering interest rates – some argue for more direct monetary financing of fiscal policy. This includes renewed interest in 'helicopter money' – direct financing of budgets without the need to be repaid through higher taxes or spending cuts in the future. Variations on this theme also include calls for interest rates to be pegged at zero, and a more radical call for negative interest rate regimes to stimulate spending and borrowing. The overall impact of such financial repressive outcomes, however, may be more harmful than beneficial in the longer run.

disruptions, globally, there is only limited concern on immediate inflationary impacts of large stimulus packages. This is particularly so for advanced economies that battled low growth and low inflationary pressures in the post 2008 global financial crisis (GFC) era, despite substantive stimulus efforts. For developing countries too, inflationary pressures will likely be low in the initial phase of recovery. The outlook thereafter will depend on country specific conditions.

For many emerging economies that already carry heavy government debt and are dependent on access to international capital markets that subject them to harsher scrutiny of sovereign risks, the macroeconomic policy levers and tools at hand are much more limited.

2.3 Sri Lanka's Weak Public Finances Constrain Fiscal Intervention

For Sri Lanka, the initial macroeconomic conditions from which it had to face the COVID-19 threat were very weak. Concerns about a deteriorating fiscal outlook – with the overall deficit climbing to a higher than anticipated 6.8% of GDP and public debt to 87% of GDP by end 2019 – became more pronounced in the wake of a substantive package of tax give-aways estimated to trim about 20-25% off tax revenues, following presidential elections in November 2019.

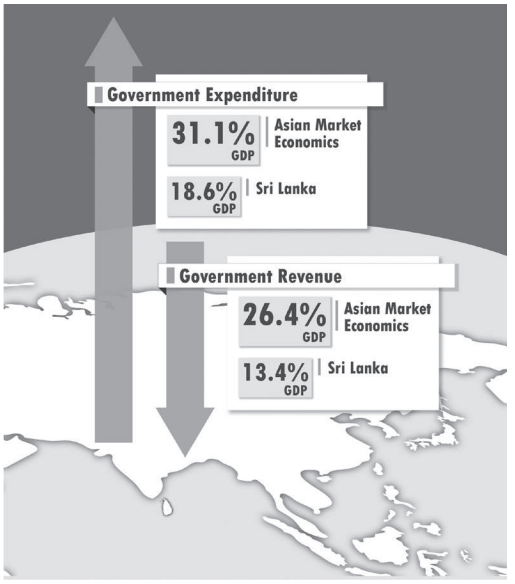
The tax cut stimulus was meant to address Sri Lanka's recent below-potential low growth – i.e. the economy' capacity to grow without inflationary pressure. With the government's hands tied with expenditure limits set by a vote on account,[2] tax revisions pushed through under an International Monetary Fund (IMF) revenue enhancing programme are the main casualties of the stimulus effort. Some of the key changes include a cut in the value added tax (VAT) rate from 15% to 8%, and lower personal and corporate income taxes.

A low and simplified tax system is expected to boost investments and growth, as well as broaden the tax collection base, and thereby generate higher revenue collections. There are no guarantees, however, that such tax buoyancy is present and that tax reforms will pay off. In Sri Lanka's immediate post-war years for instance, a progressive lowering of tax rates in a climate of robust growth failed to stem a persistent decline in the tax-to-GDP ratio.

A decade on, Sri Lanka's priorities have changed. As an economy in transition to an upper middle-income country (UMIC), policymakers should be mindful that the country already raises less than half of revenues collected in a comparator group of Asian emerging market economies, while the expenditure gap too is widening similarly (Figure 2.2). To succeed as a UMIC, Sri Lanka has to ready itself to spend, in order to compete with technology-driven growth; it will not be able to bridge these gaps as a low tax and low spend economy.

The onset of COVID-19 however, means that all such fiscal considerations have to be set aside temporarily. The unprecedented scale of the shock is such that all necessary means have to be used to provide income and livelihoods

[2] Sri Lanka's Parliament stood dissolved on 2 March 2020 with general elections to be held on 25 April 2020. The latter was postponed to 5 August 2020, and public finances continued to be managed under constitutional measures that allow the president to draw on the consolidated fund.

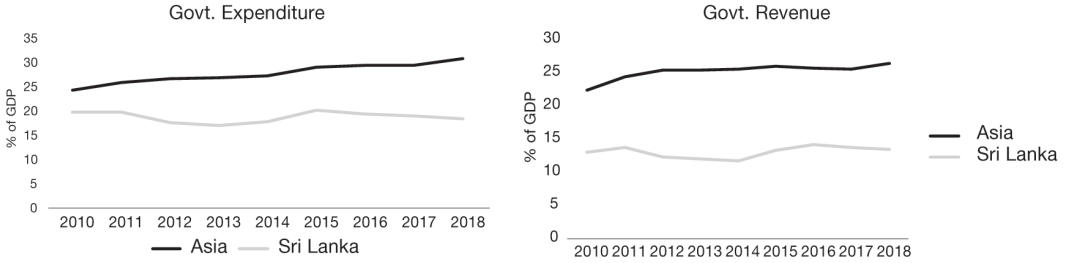


support, and ensure that businesses stay afloat. Thus, the pre-pandemic tax relief measures should be viewed as a part of the overall fiscal support on offer.

The COVID-19 related direct fiscal measures by necessity are limited to additional health spending, tax deferments and exemptions, settlement of outstanding government payments to cash hit sectors, price ceilings on essential goods, and a cash transfer to deserving households. In all, however, the total additional COVID-19 related spending stimulus is relatively low (Table 2.1).

Despite the restrained spending, fiscal outcomes for the first half of 2020 confirm the overall trends

Figure 2.2
Comparative Expenditure and Revenue Indicators



Source: Illustrated from data available from World Bank, *World Economic Indicators*, retrieved from https://data.worldbank.org/indicator?tab=all

Table 2.1
Fiscal Operations (% of GDP)

	2019	2020[a]
Tax revenue	11.6	8.3
Current expenditures	15.3	15.0
Salaries and wages	4.6	4.8
Goods and services	1.1	0.9
Interest	6.0	5.5
Subsidies and transfers	3.7	3.9
Public investment	4.2	2.9
Overall balance	-6.8	-8.5

Notes: a: Estimates.

Source: Ministry of Finance. (2019). *Annual Report 2019*. Colombo: Ministry of Finance.

Table 2.2
Fiscal Outcomes: January-June (LKR Mn.)

	2019	2020	% Change
Tax revenue	811.6	580.8	-20.0
Current expenditure	1120.3	1237.4	10.0
Overall balance	-521.7	-735.6	-41.0
Foreign borrowing	-58.3	146.8	
Domestic borrowing	-463.4	-882.8	

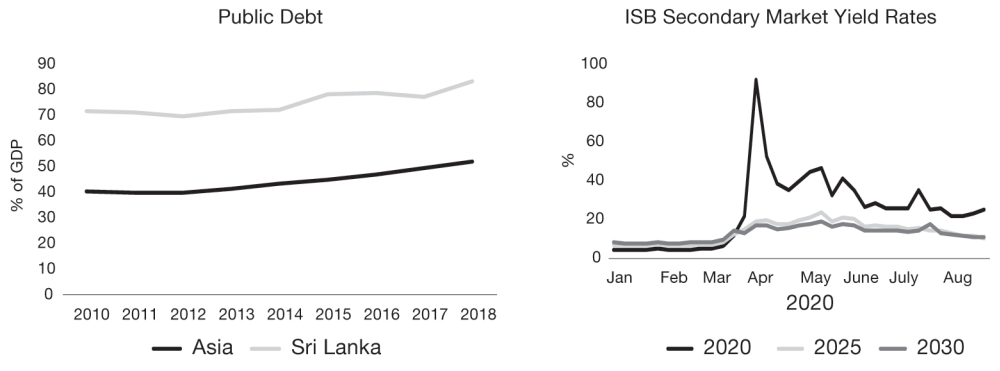
Source: Ministry of Finance.

(Table 2.2). Tax revenues dropped by -20% relative to the same period in 2019. Domestic financing of the expanded deficit has almost doubled.

The severe strain on the government budget is compounded by Sri Lanka's high initial public debt levels and riskier debt composition in the form of elevated exposure to commercial foreign debt. The transmission is predictable: access to international capital markets dry up, domestic borrowings adds to fiscal and broader macroeconomic uncertainties, and together, the cost of foreign borrowing escalates.

As evident, Sri Lanka's public debt to GDP ratio is twice that of its key peer group average for Asian emerging market economies (Figure 2.3). Not surprisingly, the country did poorly in financial stress rankings as the scale of the COVID-19 crisis began to be felt; for instance, by early May 2020, Sri Lanka came in at a low 61 out of

Figure 2.3
Debt and Cost of Borrowing



Notes: ISBs include ten-year tenure USD 1 billion with coupon rate of 6.25% maturing in 2020, USD 1.5 billion with coupon rate of 6.85% maturing in 2025 and USD 1.5 billion with coupon rate of 7.55% maturing in 2030.

Source: Illustrated from data available from World Bank, *World Economic Indicators,* retrieved from https://data.worldbank.org/indicator?tab=all; and Central Bank of Sri Lanka.

66 emerging economies on the strength of four key indicators – public and foreign debt, cost of borrowing and reserve cover.[3]

Given the necessity of doing everything possible to avert a sharp economic contraction, the tolerance levels for fiscal laxity will be much higher, at least in the immediate recovery phase. It will also be an opportunity for Sri Lanka to work towards a framework for public finances that is more resilient to shocks. Carving out some space to practice responsible fiscal policy offers policymakers more tools. These allow for counter-cyclical fiscal policy (accumulating surpluses in good times to be used in downturns) or to build-in automatic fiscal stabilisers (offsetting fluctuations in the economy without direct government intervention) such as cash transfers kicking-in if unemployment falls below a certain threshold.

Thus, while the absence of hard and fast rules for 2020 fiscal policy outcomes can be overlooked given the extraordinary challenges to revive economic activity and business and consumer confidence, signaling the direction of medium term fiscal policy is important.

The role and direction of fiscal policy are subject to renewed debate in the COVID-19 era. The 2008 GFC prompted a loosening of 'fiscal orthodoxy' – broadly interpreted as governments keeping balanced budgets over some specified time horizon. As advanced economies grappled with weak growth in the decade since the GFC, diminished effectiveness of monetary policy,[4] instilled a greater tolerance for the idea of second or even third-best fiscal policies. The COVID-19 is likely to affirm these trends.

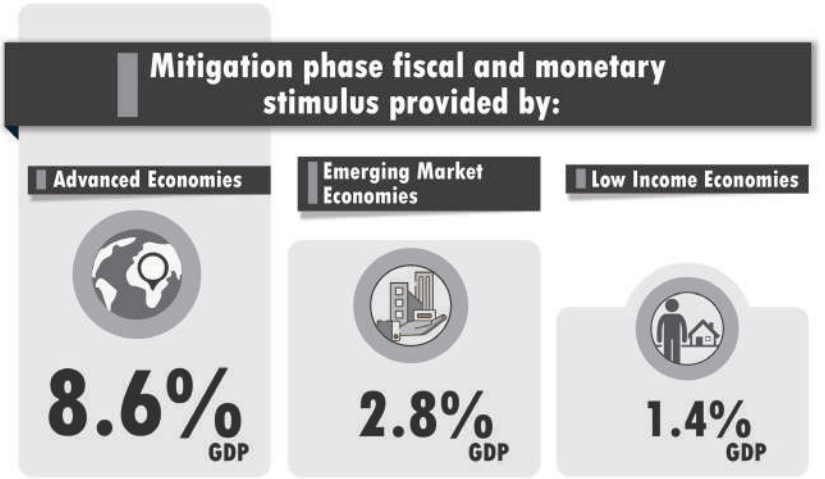
Given the necessity of doing everything possible to avert a sharp economic contraction, the tolerance levels for fiscal laxity will be much higher, at least in the immediate recovery phase.

[3] The Economist. (2020, May 2). *Which Emerging Markets are in Most Financial Peril.* Retrieved May 13, 2020, from The Economist: https://www.economist.com/briefing/2020/05/02/which-emerging-markets-are-in-most-financial-peril

[4] 'Unconventional' monetary policy – i.e. quantitative easing where central banks created piles of new money through various measures had some successes, but has become less effective over time. The problem for many advanced economies today, particularly Japan for instance, is that inflation and interest rates are stagnant at historically low levels, even as new money was pumped in.

Thus, some governments opt to maintain balanced budgets while others consider a more relaxed fiscal policy stance, and resultant accumulated debt thresholds, as acceptable. Advanced economies that do so, can still manage shocks such as COVID-19 much more safely than emerging economies. For a country like Sri Lanka with severely strained government budgets and initial conditions of high public debt, the ability to weather this crisis depends crucially on access to and the cost of borrowing in the domestic economy. This, in turn, has its own ramifications on monetary policy.

quantitative easing (QE), whereby central banks created piles of new money through various measures. While these measures had some successes, for many advanced economies, conventional monetary policy tools of slashing interest rates to spur consumption, investment, and employment have become much less effective. Inflation and interest rates remained stubbornly low even as new money was pumped in. In effect, the typical relationship between unemployment and inflation depicted by the Phillips Curve is found not to hold true in many of these countries.[5]



2.4 Leaning on Monetary Policy: A Lopsided Combination

Much more so than fiscal policy, monetary policy has been undergoing seismic changes since the GFC. The first policy tool to be tested in a new form of 'unconventional' monetary policy was

Similarly, in the COVID-19 era, renewed interest in tools such as 'helicoptor money' drops by central banks to distribute cash to households and businesses is finding favour. True helicopter money would be funded by a permanent increase in the money supply and does not need to be repaid – in effect, there will be no impact on government debt figures. While many central banks have stepped in to directly finance

[5] According to the Phillips Curve, if unemployment falls too low, inflation will rise and vice versa, leading to a U-shaped curve. However, that curve is now flattening as many advanced economies experience low unemployment and low inflation.

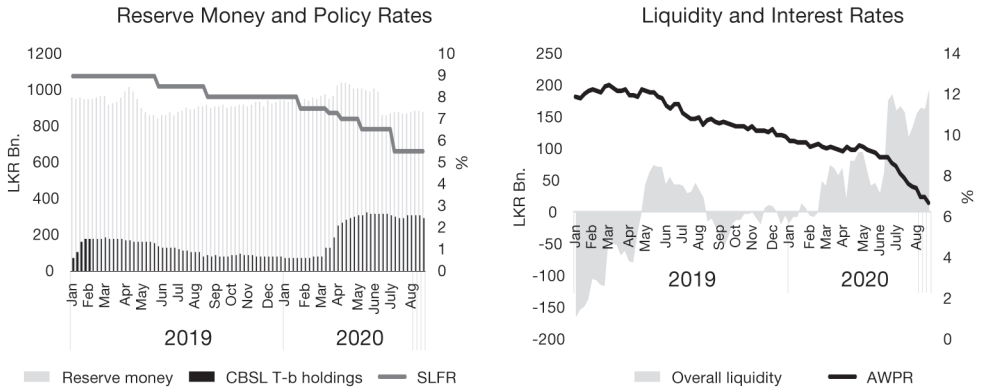
government fiscal spending on COVID-19 relief and stimulus measures, adopting the concept of helicopter money in its original form appears to be a step too far for most. Instead, the undertaking mostly is to repay direct financing of fiscal costs in the future through higher taxes or spending cuts.

In the case of Sri Lanka, without much room on the fiscal front to fight COVID-19, immediate policy measures rely heavily on monetary instruments. These include sharp cuts to policy interest rates and statutory reserve requirements (SRR) of commercial banks, debt moratoriums and refinance schemes, and monetary financing of fiscal expenditures. Given that the pass-through of monetary policy measures typically occurs with a lag effect, the Central Bank of Sri Lanka (CBSL) has also been at pains to exert moral suasion on financial institutions to pass on interest rate reductions and debt moratoriums to affected businesses and households.

Unlike fiscal policy, Sri Lanka's initial conditions on the monetary front were supportive of the subsequent COVID-19 related policy measures. Persistent low growth in a single-digit stable inflationary environment and the need to assist businesses hit by the Easter Sunday terror attacks of April 2019 had already prompted an easing of monetary policy, including interest rate caps. Cuts to policy interest rates, reductions in SRR and mandated capital buffers of commercial banks, direct financing of government spending, and other liquidity support measures for debt moratoriums and loan refinancing, the Sri Lankan economy was flush with excess liquidity by mid-2020 (Figure 2.4).

That the pass-through of monetary policy measures is slower is evident from the sluggish pick up in credit growth to the private sector – at a low 4.2% in July 2020 – despite the sharply reduced lending rates (Figure 2.5). First, government programmes to assist struggling businesses through debt moratoriums and refinancing schemes were slow to get off the ground. The absence of a credit guarantee scheme at the outset added to banks' reluctance to fast track approvals, whilst a continuing decline in asset quality of the banking sector added to concerns on financial sector stability. Sri Lanka's banking sector non- performing loan (NPL) ratios

Figure 2.4
Monetary Policy Outcomes



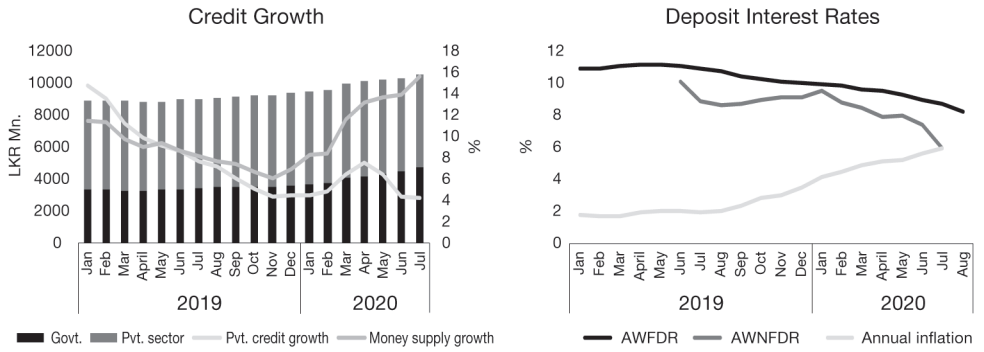
Notes: SLFR = Standing lending facility rate; AWPR = Average weighted prime lending rate.
Source: Illustrated from data available from the Central Bank of Sri Lanka.

rose to 4.7% in 2019 from 3.4% a year earlier as overall economic conditions in the country weakened. It had risen further to 5.6% by May 2020.[6] Moratoriums and restructuring of loans in the near term will mean that reported numbers will not present an accurate picture of NPLs, but it is clear that the financial sector needs to be monitored closely.

search out higher returns in often riskier assets; the resultant bubbles generate bouts of market instability and boom-bust cycles that undermine sustained medium-term economic expansion.

Measurements of inflation in Sri Lanka suffer from outdated information, with a base year that is not truly representative of the consumption habits of

Figure 2.5
Credit Growth and Inflation Trends



Notes: AWFDR = Average weighted fixed deposit rates; AWNFDR = Average weighted new fixed deposit rates.
Source: Illustrated from data available from the Central Bank of Sri Lanka.

As expected, the key beneficiary of the massive liquidity injection is the government as evidenced by a sharp increase in CBSL Treasury bill holdings, with credit to the government and public corporations picking up swiftly to over 37% by July 2020. The CBSL also introduced a pre-set yield ceiling on government securities to nudge interest rates down. While low interest rates will help the government to better manage its interest payments on debt, they will also hurt a large majority of households that depend on fixed incomes. This will be especially so if inflation pressures pick up to erode the real value of their incomes. It could drive investors and savers to today's households. Nonetheless, available data suggests that new depositors are in danger of earnings yielding negative real returns on their savings, as interest rates decline and annual inflation creeps up (Figure 2.5).

With central bank financed spending – i.e. fiscal dominance – concerns on inflationary build up would typically be uppermost. In the COVID-19 environment however, despite excessive liquidity and plummeting interest rates, demand destruction can lead to a deflationary process. This is an important issue; whether inflationary or deflationary trends are uppermost matters for

[6] Daily Mirror. (2020, July). *Banking Sector NPL Ratio Hits 5.6% in May.* Retrieved August 25, 2020 from Daily Mirror: http://www.dailymirror.lk/business-news/Banking-sector-NPL-ratio-hits-5-6-in-May/273-191606

countries in designing coordinated fiscal and monetary measures as lockdowns give way to easing and exit strategies, and a recovery phase.

In this struggle, governments may also be tempted to give low priority to inflationary worries. For fiscally constrained governments, inflation will also help reduce the real value of debt, but not without major costs for the economy.

2.5 Will COVID-19 Stimulus Measures be Deflationary or Inflationary?

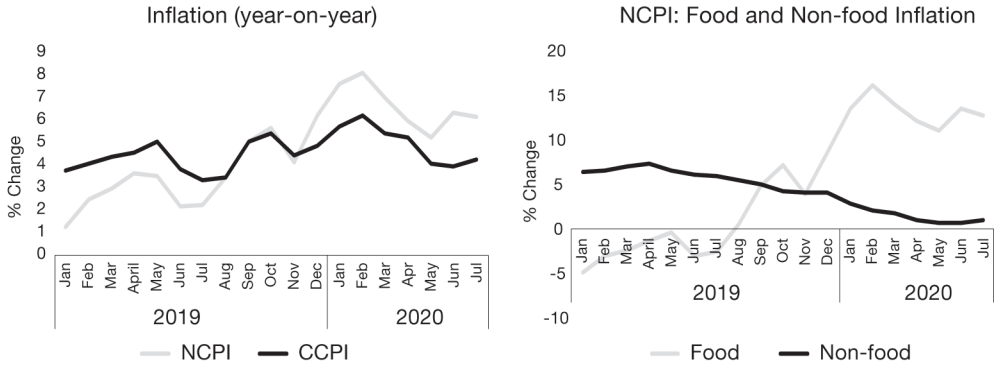
A vital question for Sri Lanka is whether the COVID-19 recovery path will be an inflationary or deflationary process. The strengths of demand and supply-side impacts on price levels vary through the different phases of the pandemic. In the initial lock down, supply disruptions were almost immediate, as was consumer spending. The impact of such simultaneous shocks on prices is expected to be downwards.

As economies ease out of lockdown – but with continued limits on large gatherings, social distancing, etc. – there will be relative prices changes from both supply and demand-side impacts.

Supply-side constraints such as social distancing etc., will have an impact on productivity, and hence on costs. However, the demand-side impacts on prices are expected to be far greater. Aside from curtailed demand on services from bans on large social gatherings, etc., reduced incomes and employment uncertainties will prevail. This deflationary bias can continue into the exit and recovery phase in the medium-term if large scale unemployment and business failures were to occur. Under such conditions, households, expecting bad times to persist, will save more and spend less by way of consumption smoothening behaviour, while depressed labour markets (and falling commodity prices) add to the deflationary bias.

For advanced economies, inflationary pressures will not be an overriding concern. Indeed, stimulus measures following the 2008 GFC failed to spark

Figure 2.6
Inflationary Trends



Notes: NCPI = National Consumer Price Index; CCPI = Colombo Consumer Price Index.
Source: Department of Census and Statistics.

an inflationary spiral. However, it is not beyond the bounds of possibility for pent-up demand – backed by income replacements during lockdown such as unemployment benefits – to lead to price pressures. This time around, not only have fiscal and monetary stimulus efforts been far greater than during the GFC, and unlike then, it is flowing mostly to non-financial corporates and households.

Sri Lanka's experience of inflationary pressures to date offer early indications of possible variations through the stages of recovery. In the first quarter of 2020, inflation picked up owing to rising food prices caused by climatic conditions (Figure 2.6) But, price pressures began to ease as the country went into lockdown from mid-March, with year-on-year inflation rates declining swiftly thereafter, before reversing by mid-2020.

In the initial stimulus phase, there was new money printed to support the stimulus effort as evidenced by a net increase in the reserve money base (see Figure 2.4). However, by mid-2020, the reserve money base had shrunk. Central banks use open market operations (OMO) to manage excess/shortage of liquidity by transacting on its holding of government securities and foreign exchange holdings. From holding Sri Lankan Rupees (LKR) 320 billion of Treasury bills in May 2020, the CBSL had dropped this to LKR 250 billion by July 2020 in a bid to mop up excess liquidity.

The cautionary moves are to ensure that inflationary expectations and price pressures remain within a targeted range. Reserve money is merely the base from which banks expands their balance sheets to push up total money supply in the economy. As of July 2020, growth in money supply was at 15.7%, up sharply from the 8.3% at the beginning of the year (see Figure 2.5).

Beyond the short-term, there is a very real possibility that aggregate demand growth in the Sri Lankan economy will outpace the increases in aggregate supply. Renewed confidence post-August 2020 parliamentary elections in an environment of low interest rates and high liquidity can mean more money chasing fewer goods and services. In particular, there is also the threat of rising food prices as evident from Figure 2.6.

Monetary authorities therefore have to judge whether movements in inflation are being driven by demand or supply-side factors and use monetary policy accordingly. Tightening monetary conditions in response to supply-side drivers – domestic supply disruptions, import tariffs and levies, etc. – makes the economy suffer, and is counterproductive. But, a permanent increase in the money supply that raises inflation expectations require swift action.

Unlike in advanced economies, anchored inflation expectations are weaker in emerging economies like Sri Lanka. Therefore, though the impact of stimulus measures in the early phases may help to combat deflationary conditions, the possibility of a build-up of inflationary pressures in the medium-term is very real. If such inflationary pressures are allowed to build, the ultimate loser will be the government through costlier borrowing when interest rates have to be forced up.

2.6 Exchange Rate Regimes and Coping with Shocks

Monetary policy measures have to be carefully synchronised with exchange rate policy setting. The impossible or inconsistent trinity allows for only two policy choices out of three between

Though the impact of stimulus measures in the early phases may help to combat deflationary conditions, the possibility of a build-up of inflationary pressures in the medium term is very real.

capital mobility, exchange rate management and monetary autonomy. Most emerging economies with a relatively low level of global capital market integration – like Sri Lanka – tend to favour a 'flexible' exchange rate. In times of crises in particular, the choice of exchange rate regime has a strong impact on a country's vulnerability to ride out the impacts.

The COVID-19 impacts are seen in plummeting foreign currency inflows from exports, tourism and remittances (Table 2.2). The hardest hit is Sri Lanka's tourism sector, still struggling to recover from the Easter Sunday terror attacks in April 2019. Remittances continue to register a decline in earnings amidst growing concerns on the large numbers who have lost employment overseas and are unlikely to be reabsorbed on the same scale as before even after a degree of normalcy is regained.

Inflows by foreign investors into Treasury bills and bonds too dried up as they sought safe assets in advanced economies. Despite permitted foreign investment in Sri Lanka's gilt-edged securities being set at 5%, a steady withdrawal had seen the share decline to under 2% (approximately USD 600 million) at the beginning of 2020. By mid-2020, foreign investment outflows dropped the total further to a low USD 115 million (0.2% of total).

Table 2.2
Foreign Exchange Flows (January-June)

	Inflows (USD Mn.)			Growth (%)		
	2018	2019	2020	2018	2019	2020
Exports	5,732	5,999	4,413	6.2	4.7	-26.4
Imports	11,441	9,596	7,675	12.7	-16.1	-20.0
Tourism	2,186	1,901	956	15.3	-13.4	-49.7
Remittances	3,624	3,270	2,980	0.9	-9.8	-8.9
Treasury bills and bonds	553	376	90	-24.2	-32.0	-76.1

Source: Central Bank of Sri Lanka. *External Sector Performance*. Colombo: Central Bank of Sri Lanka.

Thus, even backed by sound economic fundamentals, the COVID-19 shock under a flexible exchange rate regime implies more volatility in currency movements. The reality of an expanding monetary base on the back of a strong monetary stimulus elevates the risks of currency depreciations. For Sri Lanka, the most common transmission channel is a spillover of excess liquidity into higher demand for consumer goods imports that in turn impacts the currency swiftly, owing to a thin forex market.

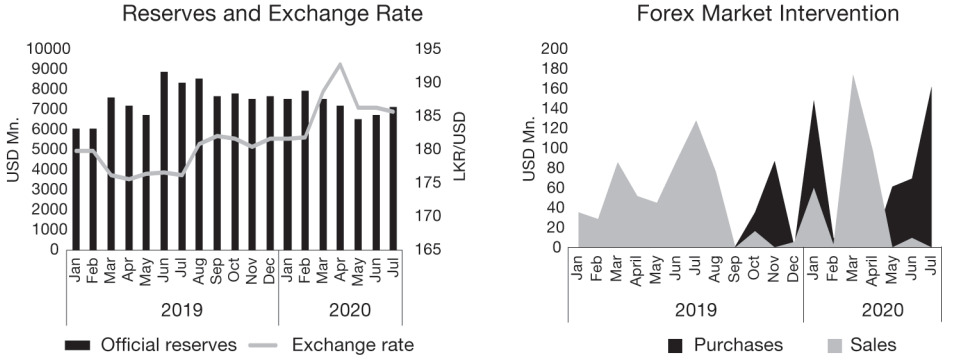
As seen in Figure 2.4 previously, despite the injection of new money for stimulus purposes, the monetary base has not been allowed to expand. This is largely on account of a significant drawing down of CBSL's holding of foreign reserves (Figure 2.7). Between February-May 2020, forex reserves dropped by nearly USD 1.4 billion – with the bulk of it used for debt servicing – with reserves cover adequate for only 4.2 months of imports by May 2020.

As the currency came under pressure, the CBSL also stepped in to defend the rupee (Figure 2.7). This often proves to be a costly and futile exercise that ultimately leads to a sharp devaluation. In the current extraordinary circumstances, however, other policy measures were adopted to cushion the impact. These included the introduction of temporary curbs on a range of imports in March 2020; the announced three-month curb was extended for a further period of six months. Additionally, in April 2020, restrictions were imposed on certain capital outflows. In another move, a special deposit account (SDA) scheme was announced in May 2020 to attract foreign currency deposits.

Since June 2020, the CBSL has been intervening in the forex market to purchase dollars and build up reserves. Sterilised intervention - using OMO to sell bonds and mop up the extra domestic currency – cushions possible inflationary impacts. But, most crucially, a weaker currency makes it harder to service foreign currency denominated debt.

In these circumstances, governments will be tempted to aim for stability in exchange rate regimes, often under the misconception that a falling currency denotes a faltering economy.

Figure 2.7
Exchange Rate Movements



Source: Illustrated from data available from the Central Bank of Sri Lanka.

A stable exchange rate backed back sound economic fundamentals is desirable; in the absence of sound fundamentals, artificially set and maintained rates through forex market intervention and rundown of reserves are ultimately counterproductive.

2.7 Foreign Debt as a Binding Constraint

Sri Lanka's experience demonstrates the challenges of enacting an effective COVID-19 stimulus without coming up against a binding foreign exchange constraint. As at end 2019, commercial and non-concessional loans made up 57% of total foreign debt, with 43% accounted for by ISBs, and a debt service ratio at a high 29.7%.[7]

The pandemic struck as the country enters a critical debt cycle, with foreign debt settlements averaging USD 3.5-4.0 billion per annum over the next few years. Ever since the country embarked on foreign borrowing on commercial terms without adequate attention on how such borrowings would be repaid, the economy has faced elevated risks to an external shock such as COVID-19. In particular, the heightened risks arising from a "significant bunching of external debt repayments during 2020-22" and the need to ensure "that there is a healthy growth in earnings from exports of goods and services that allows a country to build a 'war chest' of non-borrowed reserves" was noted as far back as 2013 for instance by the Institute of Policy Studies of Sri Lanka (IPS).[8]

However, official reserves accumulation shows no improvement in the interim, while government foreign debt holdings rose by 60% in the same period – from USD 22.3 billion in 2013 to USD 35.4 billion in 2019 – with outstanding ISB issues accounting for 18% of GDP.[9] It is clear that while exposure to external debt vulnerabilities have risen markedly in the interim, Sri Lanka's preparedness to face shocks like COVID-19 have weakened (Figure 2.8).

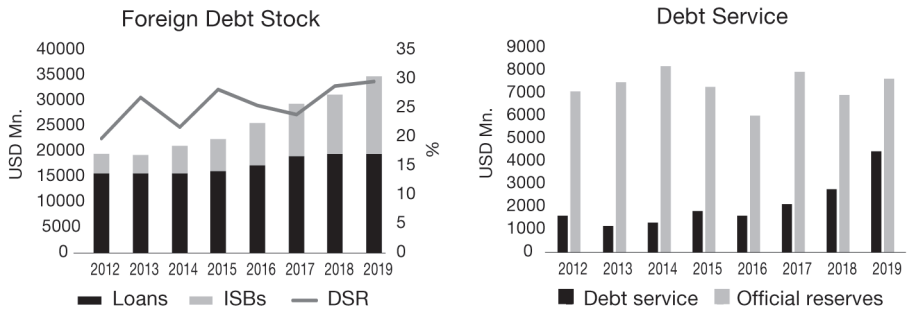
While exposure to external debt vulnerabilities have risen markedly, Sri Lanka's preparedness to face shocks like COVID-19 have weakened considerably.

[7] Central Bank of Sri Lanka. (2019). *Annual Report 2019.* Colombo: Central Bank of Sri Lanka.

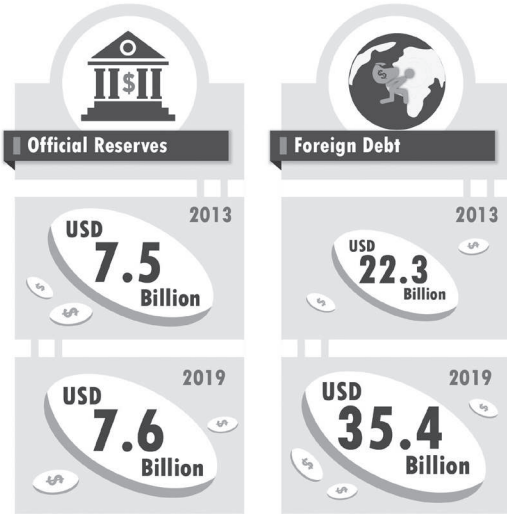
[8] See Institute of Policy Studies of Sri Lanka (2013). Economic Performance. In *Sri Lanka: State of the Economy 2013.* Colombo: Institute of Policy Studies of Sri Lanka, p. 25.

[9] Central Bank of Sri Lanka. *Annual Report 2019.* Colombo: Central Bank of Sri Lanka.

Figure 2.8
External Debt Dynamics



Notes: DSR = Debt service ratio (debt service as share of exports of goods and services).
Source: Illustrated from data available from the Central Bank of Sri Lanka.



Sri Lanka suffered a series of sovereign credit rating downgrades in recent months. In December 2019, Fitch affirmed an underlying rating of 'B', but downgraded to 'negative' from 'stable' following the government's tax cut announcements. It followed this with a downgrade to B- in April 2020. In January 2020, Standard & Poor's (S&P) too downgraded the credit rating to negative from stable and followed up with a lowering of Sri Lanka's long-term sovereign credit rating to B- from B May 2020. In April 2020, Moody's put Sri Lanka's B2 rating on watch for a possible downgrade. As previously noted, Sri Lanka's ISB yields in the secondary market rose markedly as the COVID-19 pandemic hit.

As immediate steps to manage external repayment obligations, Sri Lanka requested a USD 400 million swap arrangement with the Reserve Bank of India (RBI) in April 2020 under the South Asian Association for Regional Cooperation (SAARC) framework, with an additional USD 1.1 billion requested in the following month. The former was signed in July 2020. Sri Lanka's request in April 2020 to the IMF under its Rapid Financing Instrument (RFI) window is moving slowly, pending clarity on fiscal and government budgetary positions. In June 2020, Sri Lanka sought a USD 500 million foreign currency term financing facility (FTFF) as it readied to settle a USD 1 billion ISB maturing in October 2020. In the absence of its finalisation, in July 2020, the CBSL entered into an overnight Repurchase (Repo) facility to ease dollar liquidity by pledging USD 1 billion of reserves. While Sri Lanka is expected to meet all its foreign debt settlements owed in 2020, continuing pressure on the external front from future debt settlements will continue.

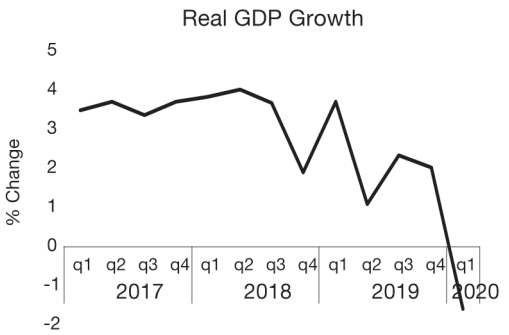
The outlook on a sustainable debt path will depend on many factors, not least the country's medium-term growth prospects. Indeed, growth is said to be the best solution for debt. However, that growth process has to be durable, and sufficiently broad-based to generate hard currency earnings and a taxable domestic resource base.

2.8 Economic Recovery and Growth Outlook

In 2019, Sri Lanka's GDP growth rate of 2.3% was the lowest recorded over the last 18 years. The previous worst performance – a -1.5% growth contraction in 2001 – was a one-off outlier amidst a generally robust phase of growth. By contrast, the country's growth outlook more recently has been marked by bouts of instability – a short-lived post-war boom and a persistent deterioration from 2014 that quickened over the last three years.

With the onset of COVID-19 however, Sri Lanka's growth outlook has become the least of its economic concerns; where once, the country stood out as a low growth outlier, it is now one more casualty alongside the vast majority of countries around the world. But, the structural weaknesses underpinning its growth process should not be overlooked. It reflects systemic weaknesses over the last decade that has made the economy over-reliant on sectors like construction for growth, with the domestic production structure skewed heavily towards non-tradables. The converse is the rapid decline in Sri Lanka's export share in output, from 25% of GDP in 2006 to a low of 12.5% in 2016 before recording a marginal reversal to 14.2% of GDP by 2019.

Figure 2.9
Quarterly GDP Growth



Source: Department of Census and Statistics.

The contraction of the economy by -1.6% in the first quarter of 2020 is sharper than anticipated by the CBSLs predicted annual growth figure of 1.5%. The contraction can be explained; a sharp reversal in early February 2020 of the positive business sentiment generated after the November 2019 presidential election, and a relatively high base growth effect in the first quarter of 2019. The full impact will be felt in the second quarter of 2020, with potential for signs of recovery to be expected only from the third quarter onwards. It seems almost inevitable though that the economy will contract in 2020.

For all intents and purposes, Sri Lanka's low growth base makes possible a sharp V-shaped recovery thereafter. The assurance of political stability following parliamentary elections in August 2020 and the early start Sri Lanka gained in easing COVID-19 restrictions – thanks to a successful containment drive – allow the government to speed up on recovery efforts. Implementing some of the outstanding large infrastructure projects, including those related to the Colombo Port City, will be attractive for two reasons: first, construction related activities will provide needed employment, and second, any related FDI inflows will help ease pressing forex constraints.

Sri Lanka must be watchful that the possibility of some attractive short-term numbers does not take attention away from the need to instil a resilient growth process.

Sri Lanka must be watchful that the possibility of some attractive short-term numbers does not take attention away from the need to instil a resilient growth process . If economic growth becomes firmly entrenched on a narrow non-tradable base, the risks are twofold: first, in the near term, cheap money in search of higher returns can find its way to form asset and real estate bubbles; and second, a domestic consumption-driven growth process will not help allay investor concerns on the country's more medium-term debt sustainability path.

As Sri Lanka's new government prepares to present its first full year budget for 2021, it must not miss the opportunity to enact fiscal and monetary policies for a resilient recovery and sustainable long-term growth. A robust road map will go a long way to help by-pass risks, and mitigate the disruptive effects of the COVID-19 pandemic without major run long costs for the Sri Lankan economy.

3. COVID-19 and Global Economic Developments

3.1 Introduction

Sri Lanka's transitional graduation to upper middle-income country (UMIC) status coincided with the 'Great Lockdown';[1] the global economy effectively shut down in March 2020 due to the rapid spread of the coronavirus (COVID-19), sending nearly a third of the world into lockdown. Originating in Wuhan, China in December 2019, the Chinese economy was the first to experience the brunt of the virus, sending shock waves across global supply chains and financial markets. Subsequently, with the rapid spread of the virus across continents, containment measures such as isolation, curfews, lockdowns, and widespread closures have been required to slow the spread of the virus. This health crisis is therefore having an unprecedented impact on economic activity.

The COVID-19 promises to cause a demand, supply and financial shock in one blow. As entire populations move into lockdown, and consumer demand falls drastically, the demand shock is clear. According to the June 2020 forecasts of the International Monetary Fund (IMF), the global economy is projected to contract sharply by –4.9% in 2020, 1.9 percentage points below its April 2020 forecasts, indicating not only the severity of the crisis, but also the many uncertainties in predicting its economic impacts. What is clear though is that the growth downturn will be much worse than during the 2008 global financial crisis (GFC). As countries look inwards for solutions to both their health and economic problems, COVID-19 is also likely to accelerate the push back against globalisation that has been gaining ground since the GFC. These trends will be accentuated as trade, tourism, and migration across borders face unprecedented challenges.

According to the forecasts, the global economy is projected to contract much more sharply than during the 2008 global financial crisis.

[1] Sri Lanka was re-classified as a lower middle-income country by the World Bank in July 2020.

Leaving aside the consequences of the global economic contraction on Sri Lanka's external sector outlook, the economy will also face a gamut of challenges owing to domestic factors. The COVID-19 comes at a time where Sri Lanka's public finances are weak, with the pandemic fallout acting as a binding constraint on raising foreign borrowing to help finance economic policy responses to mitigate the outbreak. This is against a drying up of regular hard currency inflows from exports, FDI, tourism and remittances – the hardest hit by the global nature of the COVID-19 pandemic. Against these mounting challenges, this chapter examines in some detail the outlook for the global economy and the likely impact of those developments on the Sri Lankan economy.

3.2 Prospects for the Global Economy

Although there were indications that global growth might be bottoming out towards end 2019, and that as a result, the global economy will stabilise in 2020, the COVID-19 pandemic changed this scenario drastically. The outlook for the rest of 2020 remains dire, as restrictions will likely continue throughout the year – albeit more relaxed than nationwide lockdowns – until such time as a vaccine is found. With economic activity effectively grinding to a halt in the first half of the year, and with the subsequent and gradual exit from lockdown to a status of semi-functionality that is being dubbed as the '90% economy',[2] the worst global economic contraction since the 'Great Depression' is anticipated.

Unlike with previous global (and regional) shocks resulting from pandemics that have occurred over the last century – such as the Spanish Flu in 1918, the severe acute respiratory syndrome (SARS) outbreak in 2002, or the H1N1 outbreak in 2009 – the unprecedented nature of the COVID-19 toll on the global economy emanates from the higher degree of globalisation and economic integration today. It is for this very reason that the virus is able to spread so rapidly across borders, unlike any other health crisis witnessed in this century. Today, people move across borders for migration, jobs and tourism, more than ever before. This means that the toll on global trade, remittances, and tourism in particular, will be especially heavy.

Growth forecasts were revised down sharply from by the IMF in its various quarterly and annual updates. At the time of its April 2020 forecasts, the pandemic had swept across 187 countries with over 2 million reported cases worldwide.[3] Then, the expectation was a global economic contraction of -3% for 2020; but this was revised sharply to -4.9% in the IMF's June 2020 forecasts (Table 3.1).

Although a recovery is expected in 2021, there is a great deal of uncertainty around this forecast for a number of reasons. There is still much uncertainty around the pathway that the pandemic will take, the intensity and effectiveness of containment efforts, the extent of supply disruptions, shifts in spending patterns, behavioural changes (such as people avoiding public spaces like malls, public transportation and international travel) and volatile commodity prices.[4] As such, the global economy will have to work around unprecedented levels of uncertainty which will no doubt hinder its functionality.

[2] The Economist. (2020, April 30). *The 90% Economy: Life After Lockdowns.* Retrieved May 1, 2020 from The Economist https://www.economist.com/leaders/2020/04/30/life-after-lockdowns

[3] Johns Hopkins University. (2020, May 13). *Case Tracker.* Retrieved May 13, 2020 from Johns Hopkins Coronavirus Resource Centre: https://coronavirus.jhu.edu/map.html

[4] International Monetary Fund. (2020). *World Economic Outlook – April.* Washington D.C.: International Monetary Fund.

Table 3.1
World Output (% Change)

	Estimates		April 2020 Projections		June 2020 Projections	
	2019	2020	2021	2022	2020	2021
World Output	**3.6**	**2.9**	**-3.0**	**5.8**	**-4.9**	**5.4**
Advanced Economies	**2.2**	**1.7**	**-6.1**	**4.5**	**-8.0**	**4.8**
US	2.9	2.3	-5.9	4.7	-8.0	4.5
Euro Area	1.9	1.2	-7.5	4.7	-10.2	6.0
Germany	1.5	0.5	-7.0	5.2	-7.8	5.4
France	1.7	1.3	-7.2	4.5	-12.5	7.3
Italy	0.8	0.2	-9.1	4.8	-12.8	6.3
Japan	0.3	1.0	-5.2	3.0	-5.8	2.4
UK	1.3	1.3	-6.5	4.0	-10.2	6.3
Emerging Market and Developing Economies	**4.5**	**3.7**	**-1.0**	**6.6**	**-3.0**	**5.9**
Russia	2.3	1.1	-5.5	3.5	-6.6	4.1
China	6.6	6.1	1.2	9.2	1.0	8.2
India	6.8	4.8	1.9	7.4	-4.5	6.0
ASEAN-5	5.2	4.7	-0.6	7.8	-2.0	6.2

Source: International Monetary Fund. (2020). *World Economic Outlook – April.* Washington D.C.: International Monetary Fund; International Monetary Fund. (2020). *World Economic Outlook – June.* Washington D.C.: International Monetary Fund.

3.2.1 Advanced Economies: Hit Hardest, but Best Equipped

Growth projections for the advanced economies were revised downwards in April 2020 to -6.1% and further to -8% by June 2020 (Table 3.1). Before the repercussions of COVID-19 were felt by advanced economies, intermittent favourable news on US-China economic relations and diminished fears of a hard Brexit supported investors' risk appetite.

However, several economies in the advanced economy group faced widespread outbreaks and are forecasted to contract in 2020. In parts of Europe such as Italy and Spain, the outbreak has been as severe as in China's Hubei province. As of July 2020, the US remains the country with the highest case load globally, accounting for 4 million of 15+ million total confirmed cases.[5] Initial jobless claims filed in the US over the two months of April and May amounted to a massive 36 million, compared with about 280,000 claims in the months before. The numbers are not surprising as surveys of purchasing managers pointed to plummetting economic activity in the Euro area, Japan, and the US.[6] As such, although essential to contain the virus, lockdowns and

[5] Johns Hopkins University. (2020, July 30). *Case Tracker.* Retrieved July 30, 2020 from Johns Hopkins Coronavirus Resource Centre: https://coronavirus.jhu.edu/map.html

[6] International Monetary Fund. (2020). *World Economic Outlook – April*. Washington D.C.: International Monetary Fund.

restrictions on mobility are extracting a sizable toll on economic activity in these economies. Adverse confidence effects are likely to further weigh on economic prospects.

Different approaches have been taken by advanced economies to contain the virus and to minimise economic damage. Overall, advanced economies have been resistant to lockdowns and have been keen on keeping economies functioning. The UK for instance, has been criticised for imposing lockdown measures too late, with its initial approach to create a herd immunity called a 'death sentence'.[7] In the US, mixed responses to the crisis across states have resulted in undermining overall containment efforts. Meanwhile, Sweden has taken an unconventional containment approach; unlike in other affected European nations, Sweden did not impose any form of lockdown citing it as a 'stop-gap measure'. Instead, people were instructed to adhere to strict social distancing measures in public spaces, asked to work from home as far as possible, with schools for children under 16 remaining open, while the elderly were asked to stay home to protect themselves. While its mortality rate has been higher than other Nordic countries that imposed lockdowns, it has not been as high as that of UK, France or Spain, and experts anticipate lower economic damage from adopting this approach.[8]

Advanced economies can afford to resist extreme containment measures, due to their better equipped healthcare systems than in the developed world. Nevertheless, a combination of high levels of movement and international migration in these countries, along with delayed containment measures, at initial stages, have resulted in advanced nations experiencing some of the highest numbers of infections and death rates from COVID-19.

Advanced economies can afford to resist extreme containment measures, due to their better equipped healthcare systems than in the developed world.

[7] The Economist. (2020, May 16). *How Coronavirus Britain Looks from Abroad.* Retrieved May 22, 2020 from The Economist https://www.economist.com/britain/2020/05/16/how-coronavirus-britain-looks-from-abroad

[8] The Economist. (2020, May 16). *Controlling Covid-19: The Swedish Way.* Retrieved May 22, 2020 from The Economist https://www.economist.com/europe/2020/05/16/is-swedens-approach-to-covid-19-wise-or-reckless

The response to support affected households and businesses has been swift and sizable in most advanced economies. The US Federal Reserve initiated the stimulus measures by cutting interest rates in March 2020, and implementing measures to inject liquidity in the financial system. The Eurozone and others followed suit (Box 3.1).

Box 3.1
Highlights of Fiscal and Monetary Policy Responses from Selected Advanced Economies

USA:

- Federal rate cuts in March, taking the federal funds rate to 0-0.25 % and US dollar (USD) 700 billion in asset purchases or QE.
- An estimated USD 2.3 trillion (11% of GDP) Coronavirus Aid, Relief and Economy Security Act (CARES Act), including tax rebates to individuals, expansion of unemployment benefits, food safety nets, 'forgivable small business administration' loans and guarantees, finances for hospitals, transfers to state and local governments and for international assistance.
- USD 8.3 billion Coronavirus Preparedness and Response Supplemental Appropriations Act and USD 192 billion Families First Coronavirus Response Act which together account for around 1% of GDP, providing virus testing; transfers to states for Medicaid funding; development of vaccines, therapeutics, and diagnostics; support for the Centers for Disease Control and Prevention responses; paid sick leave; up to three months emergency leave for those infected; food assistance; transfers to states to fund expanded unemployment insurance, etc.

Euro Zone:

- In March, the European Central Bank added Euro (EUR) 120 billion euros to its existing asset-purchase programme of EURO 20 billion a month.
- The European Commission's latest package of about EUR 540 billion (4% of EU27 GDP) includes allowing the European Stability Mechanism (ESM) to provide Pandemic Crisis Support up to 2% of 2019 GDP for each euro area country to finance health related spending; government guarantees to the European Investment Bank (EIB) to support companies, with a focus on small and medium sized enterprises (SMEs); creating a temporary loan-based instrument (SURE) of up to protect workers and jobs, supported by guarantees from the EU Member States. The Pandemic Crisis Support from the ESM has become operational and the European Council has adopted the SURE.

United Kingdom:

- The Bank of England cut interest rates in March taking the rate to a record low of 0.10%; and announced sterling pounds (GBP) 200 billion worth bond purchases.
- Launched the joint HM Treasury-Bank of England Covid Corporate Financing Facility which, together with the Coronavirus Business Interruption Schemes, makes GBP 330 billion of loans and guarantees available to businesses (15% of GDP).

- The government paid 80% of the earnings of self-employed workers and furloughed employees (to a maximum of GBP 2,500 per employee per month) for the period March-May. For the furloughed employees, the scheme has been extended until end-October. The scheme for the self-employed has been extended for three more months but at a reduced level of 70 percent of earnings.

Source: International Monetary Fund. (2020, July 2020). *Policy Responses to COVID-19 – Policy Tracker.* Retrieved July 21, 2020 from International Monetary Fund: https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#E; Reuters. (2020, April 14). *Factbox: Global Economic Policy Response to Coronavirus Crisis.* Retrieved May 22, 2020 from Reuters: https://www.reuters.com/article/us-health-coronavirus-economy-factbox/factbox-global-economic-policy-response-to-coronavirus-crisis-idUSKCN21W2AJ

3.2.2 Prospects and Policy Responses of Emerging Economies to COVID-19

Emerging economies managed to contain the spread of COVID-19 more successfully than its developed country peers, at least initially. Governments were quick to implement lockdowns, which enabled faster flattening of the curve. Swift and strict containment measures were essential in this part of the world, owing to stretched healthcare resources, which would be unbearably burdened in the event of large caseloads. China, Hong Kong, South Korea and certain Indian states such as Kerala are looked to as examples of success. Some of the successes are also due to recent experiences these regions have had with previous health outbreaks (albeit less widespread) such as SARS, Middle East respiratory syndrome (MERS) and Nipah virus.

Nevertheless, emerging markets which were the backbone of economic recovery from the GFC are now been hard hit. Stretched healthcare resources, limited fiscal space, exposure to international capital markets, and a heavy dependence on commodities, remittances, and tourism have meant that emerging markets are equally – if not more – vulnerable to large economic losses in the coming months. This has left many countries struggling to pay for imports and to service their dollar-denominated debts, let alone fund emergency health or economic programmes. Over 90 countries have approached the IMF for help. In light of this, G20 nations have agreed to freeze bilateral government loan repayments for low-income countries (LICs) until the end of 2020, in order to prevent an emerging market debt crunch.

Similarly, the IMF is providing immediate debt service relief to 27 countries under its revamped Catastrophe Containment and Relief Trust (CCRT) as part of the IMF's response to help address the impact of the COVID-19 pandemic. However, many argue that more can be done by the IMF in addition to its regular lending programmes, given the scale of the crisis; tools such as special drawing rights (SDRs), and swap facilities to alleviate dollar liquidity shortages should be deployed, in addition to persuading the world that many of the poorest countries are insolvent and in need of debt relief.

As of June 2020, emerging market and developing economy growth expectations were revised down to -3% (see Table 3.1). In January 2020, the growth profile for the group reflected a combination of underperforming emerging market economies recovering from deep downturns and an ongoing structural slowdown in China. By

April 2020, these concerns had taken a turn for the worse.

The numbers coming from China – having first experienced the economic consequences of the pandemic – hinted at what could be in store for other economies. In the first quarter of 2020, all major indicators suggested a deep dive, and not surprisingly, China's growth contracted by as much as -6.8%.[9] The last economic contraction in China was reported to be more than four decades ago, at the end of the 'Cultural Revolution'. Despite a rebound to positive growth in the second quarter of 2020, pandemic related issues and unresolved disputes on US-China economic relations as well as much needed domestic financial regulatory strengthening are expected to continue weighing on activity. These will no doubt be exacerbated by the heightened Sino-American tensions over the 'blame-game' behind the origin of COVID-19.

By June 2020 – while China and other developed countries gradually exited lockdowns – the virus spread rapidly in other parts of the developing world, primarily in Brazil and India which saw the second and third highest infections as of July 2020. India's growth forecast has been revised down by a sizeable 6.4 percentage points to -4.5% in June 2020, relative to the IMF's April 2020 forecast when the virus was temporarily contained during a strict two-month lockdown. India is a case in point to demonstrate the difficulty in projecting growth trajectories for countries during a pandemic of this nature, where even a scenario of a virus containment can drastically change course.

In terms of economic policy responses taken by other middle-income countries in dealing with the repercussions of the COVID-19, many have already undertaken supportive fiscal and monetary policies. Some have cut interest rates, continuing a cycle of easing that began in 2019, and others are also putting in place supportive fiscal measures and disbursing stimulus packages (Box 3.2).

Box 3.2
Policy Responses of Selected Upper Middle-income Countries to Coronavirus

China:

- The People's Bank of China administered the largest cut to interest rates in nearly five years and cut the amount of cash that banks must hold as reserves, releasing Chinese Yuan (CNY) 550 billion.
- An estimated 4.2 trillion CNY (4.1% of GDP) of discretionary fiscal measures have been announced, including increased spending on epidemic prevention and control, production of medical equipment, accelerated disbursement of unemployment insurance and extension to migrant workers, tax relief, waived social security contributions, etc.

[9] The Economist. (2020, March 19). *Paying to Stop the Pandemic*. Retrieved March 23, 2020 from The Economist: https://www.economist.com/leaders/2020/03/19/paying-to-stop-the-pandemic

Thailand:

- A three phase fiscal package amounting to 9.6% of GDP or Thai Baht (THB) 1.5 trillion, including health-related spending, assistance for workers, farmers, and entrepreneurs affected by COVID-19, support for individuals and businesses through soft loans and tax relief, lowering water and electricity bills, and social security contributions.
- Measures to maintain liquidity in the bond market using a number of measures. A facility has been set up to provide liquidity for mutual funds through commercial banks and a corporate bond stabilisation fund will be set up to invest in high quality, newly issued bonds by corporates that cannot fully roll over maturing corporate bonds.

Malaysia:

- Malaysia issued an emergency stimulus package worth RM 6 billion (0.4% of GDP) with multi-pronged strategies that include spurring economic growth, promoting investments, and encouraging businesses to adopt automation and digitalisation in their processes. These have been phased out both to mitigate the immediate impacts of the outbreak and to support economic growth and investments in the medium-term.
- In March, Bank Negara Malaysia (BNM) lowered the Overnight Policy Rate to 2.5%; in May 5, the BNM lowered the overnight policy rate (OPR) again to 2%, citing weakening global economic conditions and subdued inflationary pressures.

Source: International Monetary Fund. (2020, July 2020). Policy Responses to COVID-19 – Policy Tracker. Retrieved July 21, 2020 from International Monetary Fund: https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#E; Reuters. (2020, April 14). Factbox: Global Economic Policy Response to Coronavirus Crisis. Retrieved May 22, 2020 from Reuters: https://www.reuters.com/article/us-health-coronavirus-economy-factbox/factbox-global-economic-policy-response-to-coronavirus-crisis-idUSKCN21W2AJ

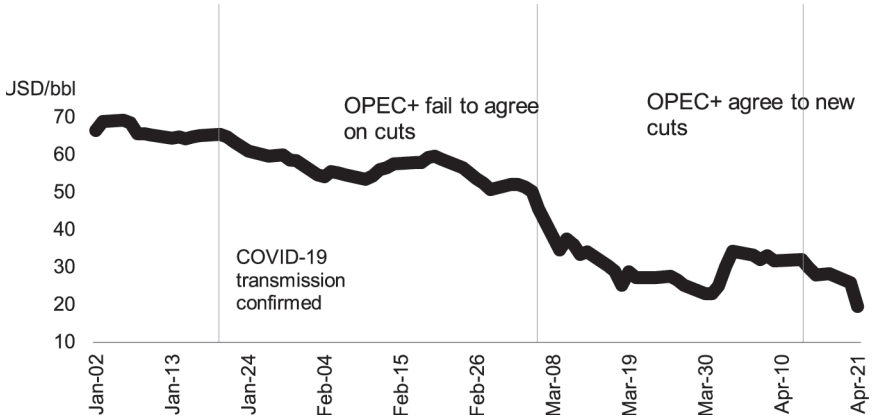
As the crisis impacts both advanced and emerging economies around the world, global indicators are reflecting the scale of the impact across key sectors – trade, commodity markets, foreign direct investment (FDI) flows, tourism and international capital markets – as discussed in the following sections.

3.3 Sectoral Impacts of COVID-19

World trade volumes are expected to drop by 9-13% in 2020, based on the latest projections by the IMF and the World Trade Organisation (WTO). According to the WTO, if the pandemic is not brought under control, and governments fail to coordinate policy responses, the decline could be as high as 32% or more. To add to the turmoil, the rapid deterioration in the outlook for the global economy, coupled with a breakdown of an agreement amongst the Organisation of Petroleum Exporting Countries (OPEC) plus other key oil producers like Russia is weighing heavily on commodity prices. In the first quarter of 2020, base metal prices fell about 15%, natural gas prices declined by 38%, and crude oil prices dropped by about 65% (a fall of about

USD 40 a barrel).[10] These developments are expected to weigh heavily on oil exporters with undiversified revenues and exports, and compound the shock from domestic weaknesses, tighter global financial conditions, and weaker external demand.

Figure 3.1
Brent Crude Oil Price



Source: World Bank (2020). Commodity prices dataset from the *Commodity Market Outlook – April 2020.*

FDI flows remained flat in 2019, at USD 1.4 trillion, recording a 1% decline over the previous year.[11] This was against the backdrop of weaker macroeconomic performance and policy uncertainty for investors, including trade tensions. With developing economies absorbing more than half of global FDI flows, the disruptions from COVID-19 will be a significant set back (Figure 3.2).

In 2020, the investment impact of COVID-19 will be even more concentrated than the economic impact, depending on where the virus spreads most intensely. It will be strongest in those countries that have been forced to take the most drastic measures to contain the spread of the virus. The outbreak will slow down capital expenditures of multinational enterprises (MNEs) and their foreign affiliates. Production locations that are closed or those that are operating at lower capacity will temporarily halt new investment in physical assets and delay expansions. To add to this, the pandemic is likely to bring about a shift in investment policy making, which will in turn impact global supply chains. Countries are likely to bring about more restrictive policies for FDI which will exacerbate what was already a growing pattern; in 2019, restrictions on FDI reached the highest level seen in 20 years.[12] At present, several countries have tightened foreign

[10] International Monetary Fund. (2020). *World Economic Outlook – April.* Washington D.C.: International Monetary Fund.

[11] United Nations Conference on Trade and Development. (2020). *Global Investment Monitor No. 33.* Geneva: United Nations Conference on Trade and Development

[12] World Bank Blogs. (2020, May 22). *FDI and Global Value Chains in the Wake of COVID-19:Preparing for the New Normal.* Retrieved May 25, 2020 from World Bank Blogs: https://blogs.worldbank.org/psd/foreign-direct-investment-and-global-value-chains-wake-covid-19-preparing-new-normal

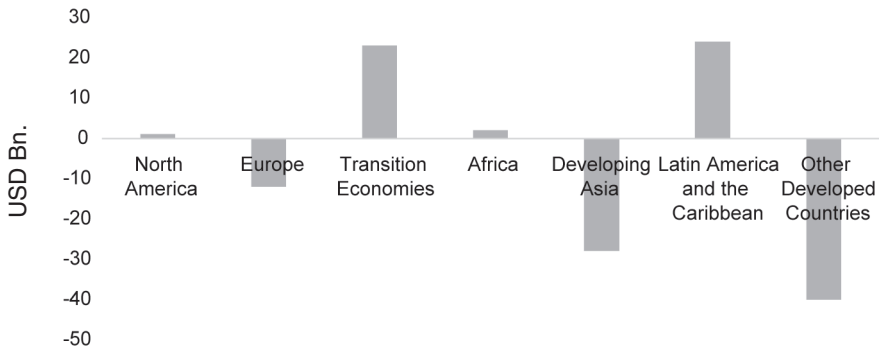
investment screening mechanisms to protect their health sector and industries in other sectors, considered as particularly important in the crisis.

The negative effect on efficiency-seeking investment – i.e. in production facilities that are closely integrated in global value chains – will be concentrated primarily in China and East and Southeast Asia at first.[13] However, this can spread rapidly outside the region through global value chains (GVC) linkages. The transmission will concern economies that feed intermediate goods and services into China's exports, as well as those that rely on inputs of intermediates from China. The United Nations Conference on Trade and Development (UNCTAD) projects a negative impact on global FDI flows ranging from -5% to -15% in 2020, with the effect of the demand shock filtering through to 2021.[14]

Of equal concern is the impact of the pandemic on global tourism, migration and remittances. The contribution of the tourism sector to global GDP was 10% in 2019. With border closures and mandatory quarantine requirements for travelers, the global tourism industry has taken an unprecedented hit. Unlike other industries which are gradually resuming work activities, hotels and other shared tourist spaces have to be more cautious in reopening. Non-essential international travel is likely to be off the cards for the rest of 2020.

Similarly, restrictions on the movement of labour will impact international labour migration and remittance flows that many middle-income economies are dependent on. In 2019, remittance flows to low and middle-income countries (LMICs) reached a record of USD 554 billion, overtaking

Figure 3.2
Regional FDI - Changes between 2018-2019



Source: United Nations Conference on Trade and Development. (2020). *Global Investment Monitor No. 33.* Geneva: United Nations Conference on Trade and Development.

[13] United Nations Conference on Trade and Development. (2020). *Impact of the Coronavirus Outbreak on Global FDI: Special Issue.* Geneva: United Nations Conference on Trade and Development.

[14] *Ibid.*

FDI; however, in 2020, they are projected to fall by nearly 20% to USD 445 billion, one of the sharpest declines witnessed in recent history,[15] as migrant workers face a fall in wages and employment.

The economic effects of the pandemic have also panicked investors in emerging markets, with a surge in foreign investor pullouts from emerging market debt and equities early on, before bottoming out in March 2020. The relative strength of the dollar played a role in this capital flight, along with concerns over how the crisis and the associated collapse in demand for exports will hit emerging economies. Recent widening of yield spreads, particularly in emerging market dollar debt has raised concerns about a wave of emerging market debt defaults, based on the scale of the COVID-19 shock. Unlike in the GFC where emerging markets escaped contagion and default rates were lower than predicted – where these economies benefitted from spillover effects from G7 quantitative easing (QE) – the COVID-19 shock is global, and therefore risks to emerging market economies are higher. Default probabilities can be approximated from yield spreads; these imply much higher default rates than those seen historically, which reflects the scale of the economic and financial shock.[16]

3.4 External Environment Impacts on Sri Lanka

The impact of the COVID-19 outbreak on the global economy will exert its own impacts on the Sri Lankan economy. Even leaving aside these direct impacts however, developments on the domestic front amplify or mitigate such adverse external trends. In Sri Lanka's case, unfavourable external conditions are amplified by domestic constraints.

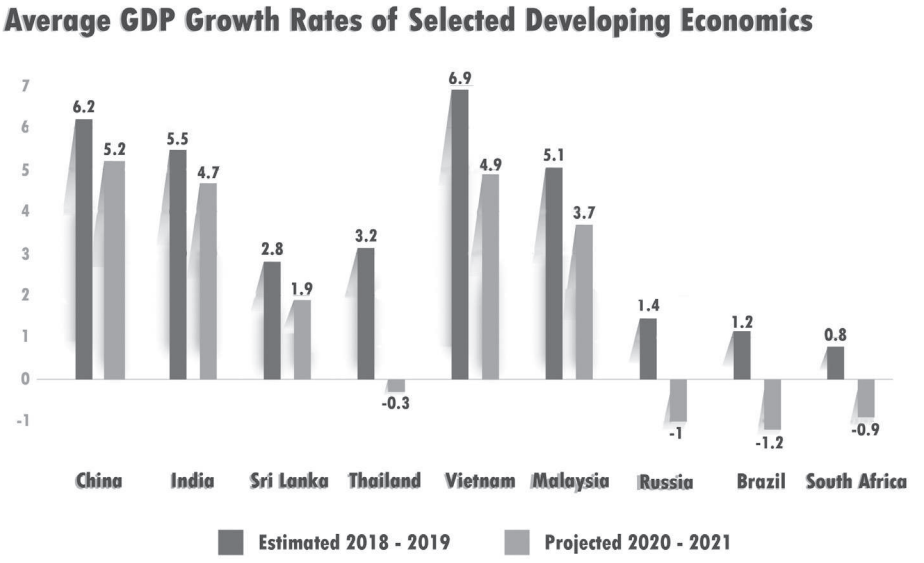
Sri Lanka implemented stringent curfew and lockdown measures for a two-month period between March and May, thereby effectively halting economic activity, barring essential services. Many businesses ranging from SMEs to export-oriented manufacturing firms were affected. Import restrictions as well as controls on certain capital outflows – purportedly for a temporary period only – are in place to manage depreciating pressure on the exchange rate. These measures come at a time where Sri Lanka's public finances are at a very weak point, raising questions as to how the country will finance economic policy responses to mitigate the outbreak.

Aside from weak public finances as initial conditions, Sri Lanka was also a very poor performer on the growth front, with GDP growth slowing to 2.3% in 2019. Its performance is disappointing relative to other developing country peer groups, as evident from two-year average growth rates of selected developing economies depicted in Table 3.2.

Based on past growth, Sri Lanka briefly graduated to an UMIC in 2019, but saw a reversal of its status to LMIC once again in 2020. Despite this setback, it still remains in transition to UMIC, although a considerable distance behind in its development trajectory relative to China and Southeast Asian economies like Thailand and Malaysia. These countries hold important lessons for Sri Lanka on using technology transfer and export-led growth

[15] World Bank Group and KNOMAD. (2020). *COVID-19 Crisis Through a Migration Lens: Migration and Development Brief 32.* World Bank Group.

[16] FTSE Russel. (2020, April 29). *Can Emerging Market Soveriegns Cope with COVID-19?* Retrieved May 25, 2020, from FTSE Russel: https://www.ftserussell.com/blogs/can-emerging-market-sovereigns-cope-covid-19

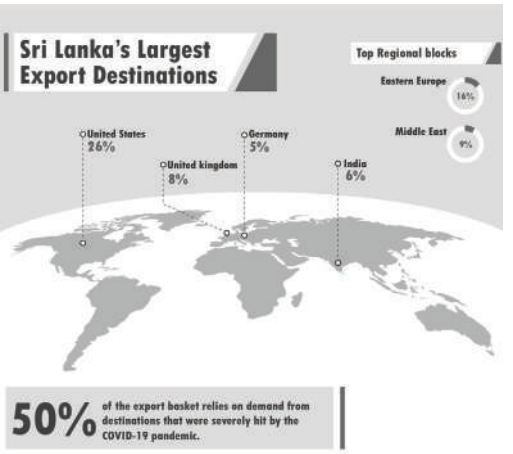


to spearhead an upward transition through the middle-income country status. Their current growth rates are much stronger than that of Sri Lanka and indicate the pace at which Sri Lanka must aim to grow at, on a sustained basis, if it is to regain and hold on to its UMIC categorisation. The latter is important for a country that is marketing itself to international investors as an emerging economy with substantive growth potential in the medium to longer term.

3.4.1 Merchandise Trade

Sri Lanka's external sector performance faced significant stresses in 2019, not least the disruptions emanating from the Easter Sunday attacks of April 2019, which had an immediate negative impact on economic activity. The prospects for 2020 remain gloomy with the demand shock from the COVID-19 pandemic.

Export earnings grew by a meagre 0.4% in 2019 to an estimated USD 11.9 billion, displaying low growth in exports relative to previous years (Figure 3.3). In the first five months of 2020, exports have contracted by -30%, recording declines across all sectors. This is to be expected with Sri Lanka's key export markets – US (26%), UK (8%) India (6%) and Germany (5%) –severely hit by the COVID-19 pandemic.

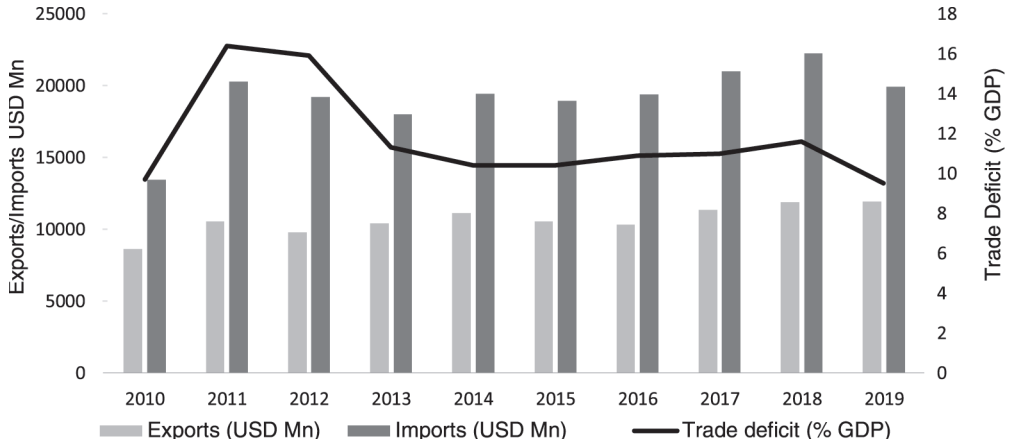


Imports on the other hand witnessed a sharp drop in 2019, contracting by 10% to USD 19.9 billion, driven by the policy induced reductions in the importation of gold and motor vehicles. This has meant that for the first time in nearly a decade, the trade deficit narrowed to 9.5% of GDP (Figure 3.3). This trend is likely to continue in 2020, supported by import restrictions – including a temporary suspension of the importation of selected motor vehicles and non-essential consumer goods for three months – and a landslide dip in oil prices following the COVID-19 outbreak.

The dramatic reduction in Sri Lanka's fuel import bill – the country's largest import category – is a welcome relief from pressing current account pressures on the balance of payments (BOP). The OPEC is currently engaged in an oil price war with Russia over proposed oil production cuts in the midst of the coronavirus pandemic, triggering a major fall in oil prices (Table 3.4). The oil price reductions at this critical juncture is providing temporary relief to energy import dependent countries like Sri Lanka.

For the first time in nearly a decade, Sri Lanka's trade deficit has narrowed to 9.5% of GDP.

Figure 3.3
Sri Lanka's Trade Performance



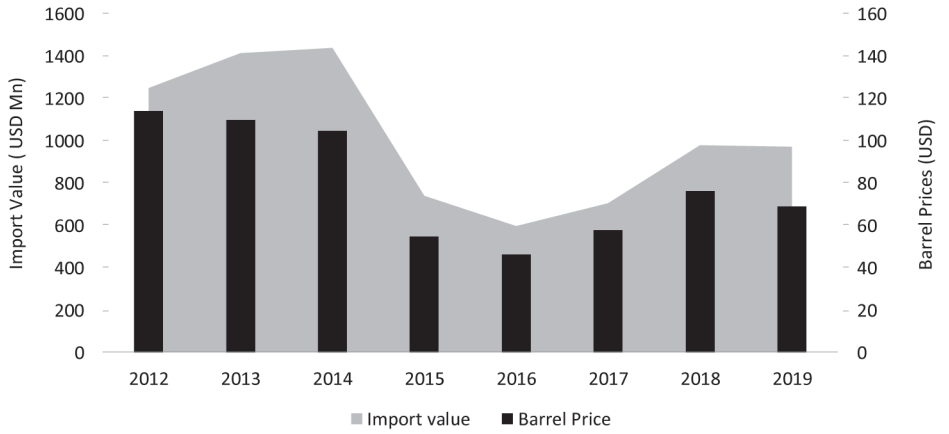
Source: Central Bank of Sri Lanka. (2019). *Annual Report.* Colombo: Central Bank of Sri Lanka; *External Sector Performance Review* (Various). Colombo: Central Bank of Sri Lanka.

Overall, COVID-19 presents enormous challenges to Sri Lanka's trade sector. The country's single largest revenue generating merchandise exports – the textile and garment (T&G) sector accounting for 47% of total exports – will see its 2019 USD 5.6 billion revenues drop. The Joint Apparel Association Forum (JAAF) estimates employment losses in the range of 80,000-100,000 as major export markets experience multiple waves of COVID-19.[17] Despite some early new opportunities to manufacture products such as face masks, medical wear, personal protection gear, medical bed linen, etc., JAAF expects T&G exports for the year to be around USD 2 billion less than in 2019. In the first five months, T&G exports shrank by nearly 32%. The recovery will therefore be slow, with industries having to seize whatever openings are available.

Sri Lanka's second highest export revenue contributor is the tea sector, accounting for around 11% of total merchandise exports, earnings USD

To accompany shrinking demand for apparel exports, Sri Lanka can also expect significant job losses in the sector as a consequence of a global recession.

Figure 3.4
Oil Imports and Global Prices



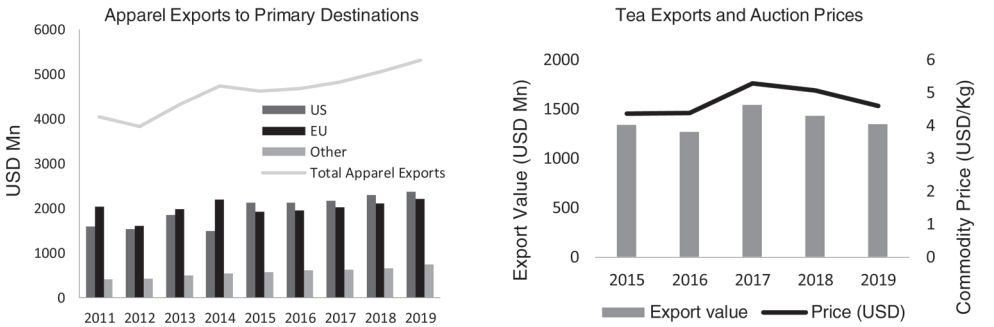
Source: Central Bank of Sri Lanka. (2019). *Annual Report*. Colombo: Central Bank of Sri Lanka.

1.3 billion in 2019. Turkey, Russia, Iraq and Iran are Sri Lanka's top four export destinations. Tea export earnings contracted by -6% in 2019 even before COVID-19 on account of unfavourable factors such as the imposition of sanctions on Iran by the US which impacted Colombo auction prices. Also, key Middle Eastern and Russian markets remained subdued as their currencies depreciated against the USD. Thus, despite higher export volumes, total revenues declined. The weak outlook for the sector will likely worsen in 2020 given the steep decline in commodity prices in the wake of the COVID-19 pandemic. Whilst domestic labour market disruptions impacted tea production, its exports fared better than T&G, contracting by -20% in the first five months of 2020. Again, the onset of the pandemic offered new opportunities for the industry to use technology and conduct tea auctions through online platforms.

The COVID-19 impacts on Sri Lanka's export sector is less related to supply chain disruptions than for countries that are more integrated into such regional and global networks. The impact is therefore primarily from declining demand from key markets and disruptions to domestic supply. The T&G sector for instance, remains heavily reliant on the EU and US markets, which collectively account for 86% of total T&G exports (Figure 3.5). Thus, the need to take steps to diversify not only the export basket, but also export markets is underscored once again.

Calls for diversifying into alternative markets and products in the long run needs a fresh rethink for Sri Lanka than ever before. Indeed, COVID-19 crisis can be the catalyst in reshaping global supply chains. There is possibility that given the risks that were shown up from the pandemic, global supply chains of the future will be much

Figure 3.5
Trends in Apparel and Tea Export Sectors



Source: Data from the Joint Apparel Association Forum; *External Sector Performance Review (Various)*. Colombo: Central Bank of Sri Lanka; Central Bank of Sri Lanka. (2019). *Annual Report.* Colombo: Central Bank of Sri Lanka; Data from Tea Exporters Association Sri Lanka.

[17] Financial Times. (2020, August). *Apparel Industry fears 100,000 Job Losses Post COVID-19*, Retrieved August 18, 2020 from Financial Times: http://www.ft.lk/top-story/Apparel-industry-fears-100-000-job-losses-post-COVID-19/26-704360

more compact, and not as spread out as before. In fact, this is recognised as an accelerating trend of regional rather than global supply chains, as China too adapts to a post-pandemic economic landscape. In the longer term, changes to global supply chains networks as a result of COVID-19 can be an opportunity for Sri Lanka to aggressively link its industries, starting at the regional level.

Much will depend on policy responses. The prospect of significant job losses due to downsizing amongst manufacturing firms may encourage governments to look-inwards. Indeed, for many countries, faced with COVID-19, the initial reaction has been to look inwards. Sri Lanka too has imposed restrictions on a range of imports and is actively encouraging domestic production for import substitutes, especially in the food production sector. This is a practical policy choice to address immediate concerns, and prioritising export sectors that have the potential to generate employment and income in the wake of the COVID-19 crisis. At this stage, government intervention to boost value added and efficient agriculture and agriculture supply chains such as warehousing, cold storage, distribution and e-commerce-based channels are potential alternatives to the traditional export focus.

In the medium to longer term, however, the competitiveness of the export sector should not be hampered by cascading import tariffs on raw material and intermediate goods. In 2020, import restrictions will help cushion the impact of falling export earnings on the country's trade balance. But as global recovery kicks-in, tighter competition and protectionist measures can be



expected to exert pressure on Sri Lanka's export earnings. Retaining international competitiveness will be a key measure to succeed in the post-pandemic recovery phase.

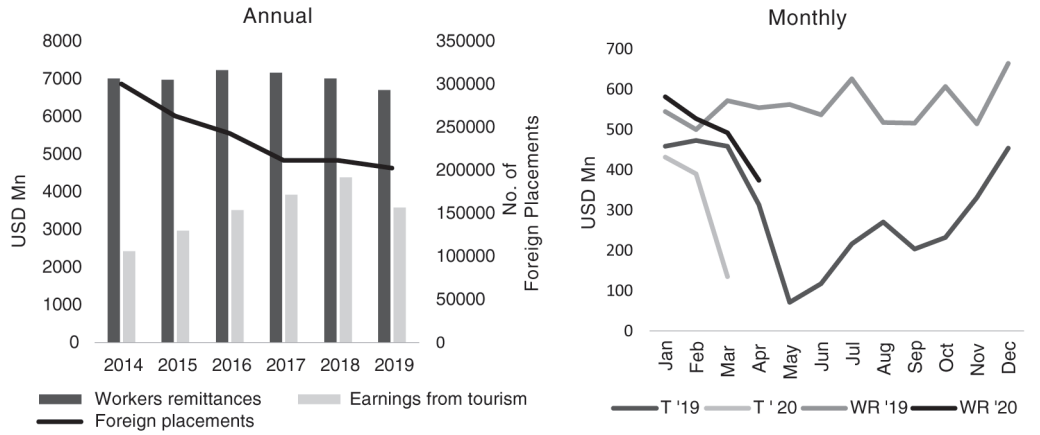
3.4.2 Tourism and Remittances

Sri Lanka's tourism sector had already suffered a severe blow on account of Easter Sunday terror attacks of April 2019. As a result of the economic fallout, earnings dropped significantly by 21% to USD 3.6 billion in 2019 (Figure 3.6). This was a bad hit for the sector which was poised to grow in 2019, on the back of aggressive promotional campaigns, endorsements and accolades received from reputed international tourism organisations. In fact, Sri Lanka was ranked first in the 'Lonely Planet's' list of top travel destinations for 2019. Unfortunately, the loss of confidence in the country's security situation post-Easter Sunday attacks resulted in a sharp drop in tourist arrivals and bookings. A series of relief packages granted to the tourism sector – including a debt moratorium, working capital facilities, reduction in value added tax (VAT) on hotels and tour operators – were supplemented by COVID-19 relief measures in 2020.

A year on from the Easter Sunday attacks, the tourism sector faces one of its biggest crises with the imposition of travel bans, lockdowns and social distancing requirements.

The tourism sector recovery – not just in Sri Lanka, but the world over – will be prolonged. COVID-19 related travel bans, quarantining and closure of borders brought global tourism to a grinding halt. The cancellation of non-essential travel, closure of borders and airports and requests for postponing/cancelling all tourism related activities will continue as countries experience 'waves' of the pandemic. It is quite likely that even once curfews and airport closures are lifted, people will still be required to maintain social distancing and minimise non-essential international travel. With such restrictions, the cost of travel too will increase substantively.

Figure 3.6
Workers Remittances, Earnings from Tourism and Foreign Placements



Notes: T is Tourism earnings, WR is Worker Remittances.

Source: Central Bank of Sri Lanka. (2019). *Annual Report*. Colombo: Central Bank of Sri Lanka; *Monthly Economic Indicators (Various).* Colombo: Central Bank of Sri Lanka.

In January and February 2020 alone, tourist arrivals to Sri Lanka fell by 6.5% and 17.7% respectively, compared to 2019.[18] The closing of the Sri Lankan border for foreign passenger arrivals in mid-March 2020, combined with global travel restrictions, led to a 70% drop in arrivals in that month. As a result, tourism earnings fell to USD 135 by March 2020 (Figure 3.6). By July 2020, the hotel sector reported that weekend bookings by local tourists have picked up following lifting of curfew in the country.[19] However, the sector faces much uncertainty in 2020 and beyond.

Worker remittances have been experiencing a consistent decline since 2016. Nevertheless, it is currently positioned well ahead of other top foreign exchange earners such as T&G and tourism, posting USD 6.7 billion earnings in 2019 which amounts to 8% of GDP. The number of foreign placements too has also declined year-on-year (Figure 3.6). This is reflective of a number of external and internal factors affecting foreign employment. On the external front, geopolitical uncertainties in the Middle Eastern region – due to fluctuations in oil prices and sluggish global growth – have resulted in a moderation of migrant employment. The drastic reduction in oil prices in 2020 will no doubt further affect economic activity in this oil supplying region, affecting the demand for workers. In addition, structural changes to Sri Lanka's migrant stock – such as upskilling and the shift towards more male migration – are also potentially impacting these fluctuations in earnings and placements.

[18] Sri Lanka Tourist Development Authority. (2020). *Monthly Tourist Arrival Reports 2020.* Retrieved March 31,2020 from Sri Lanka Tourist Development Authority: http://www.sltda.gov.lk/monthly-tourist-arrivals-reports-2020.

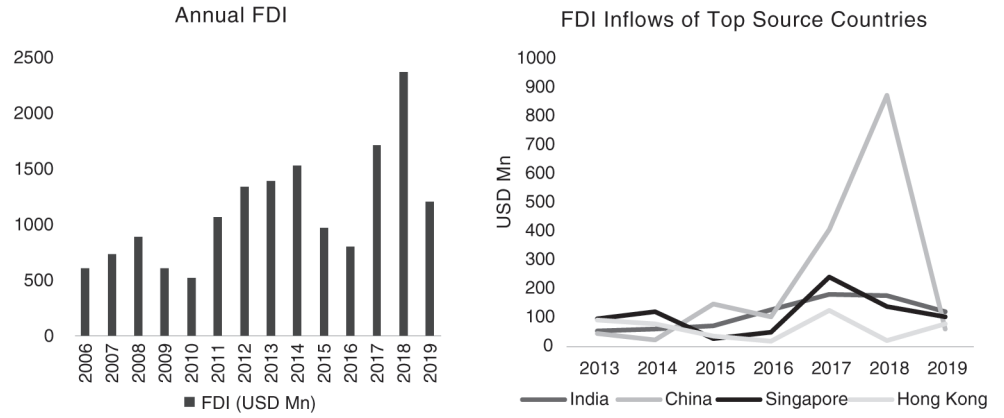
[19] Economynext. (2020, July 6). *Sri Lanka hotels see weekend trippers, delayed weddings as Covid-19 curfews end.* Retrieved July 7, 2020, from Economynext: https://economynext.com/sri-lanka-hotels-see-weekend-trippers-delayed-weddings-as-covid-19-curfews-end-71700/?utm_campaign=EconomyNext%20News&utm_medium=email&utm_source=Revue%20newsletter

To add to these concerns, migration and remittance flows will be heavily affected by the spread of the coronavirus. Travel restrictions and the temporary ban on foreign employment by the Sri Lanka Bureau of Foreign Employment (SLBFE) imposed in March 2020, will delay or prevent those with jobs abroad to travel to destination countries, which will negatively affect remittance inflow to Sri Lanka. In addition, migrants in severely virus affected countries, especially in Europe and the Middle East, will be at risk of loss of employment earnings. The many negative experiences of migrants 'stuck' abroad in isolation due to the imposition of lockdowns and travel bans, might colour their experience abroad, and deter them from future migration cycles as well. As of mid-2020, nearly 40 Sri Lankan migrants had died from COVID-19. For the authorities, the adverse experiences of migrants in such circumstances should be used as an opportunity to address long standing problems of migrant safety and rights in host destinations.

3.4.3 Capital Flows: FDI and Capital Market Trends

Despite geographic and structural advantages, Sri Lanka has struggled to attract FDI inflows, even in recent post-war years. Inflows have been volatile due to the investor sensitivity to domestic economic and political developments. Although inflows increased in the aftermath of the war, and peaked in 2014, this was followed by a dip in 2015-2016. FDI inflows peaked again in 2017-2018 but declined drastically to USD 1,204 million in 2019 (Figure 3.7). Investor sentiment was damaged significantly in the aftermath of the Easter Sunday attacks in April 2019.

Figure 3.7
FDI Flows



Notes: Includes loans, excludes inflows to non-BOI companies and direct investments in listed companies in the CSE. Excludes foreign loans to BOI companies.

Source: Central Bank of Sri Lanka. (2020). *Annual Report.* Colombo: Central Bank of Sri Lanka;
Data obtained from the Board of Investment (BOI).

Sri Lanka's FDI breakdown by sector shows that over the years, investments in the infrastructure sector have dominated. In 2019, for instance, most FDIs were received by projects in port infrastructure, property development and hotels and the telecommunications sector. On the other hand, attracting FDI into export-oriented manufacturing and services sectors is desirable to raise the competitiveness and efficiency of the economy, overall. More efficiency seeking investments rather than incentive seeking investments must be attracted, in order to maximise the benefits of managerial and other technological spillovers.

India, Singapore, Canada, Hong Kong and China were the top five source countries of FDI inflows in 2019. In recent years, FDI (excluding foreign loans) to Sri Lanka have been dominated by China, Singapore and India (Figure 3.7). Inward flows from China moderated in 2019 following the Hambantota port investment in the previous year, as indicated by the spike in 2018.

Despite some moderation in FDI inflows in the near term, it is expected that the Hambantota industrial zone, the Colombo Port City, the hotel sector and mixed development sector will attract significant inflows in the coming years. It is also expected that the implementation of the Strategic Project Development Act (SPDA) as well recent tax revisions will also provide impetus to attract FDIs. However, persistent issues such as high wage rates and utility costs compared to regional peers, high costs of land acquisition and rigidity in labour laws remain obstacles to attracting FDI.[20] Recent events such as the Easter Sunday terror attacks have had a negative impact on investor sentiment and this will be further exacerbated by the COVID-19 outbreak.

Capital market developments are another key concern for Sri Lanka. The outstanding liability position of international sovereign bonds (ISBs), based on market value, amounted to US dollars 15.2 billion at end 2019 compared to USD 11.6 billion in the previous year. This was a net result of the government raising USD 4.4 billion through the two issuances ISBs, while repaying two ISBs amounting to USD 1.5 billion during the year in a rollover exercise.

As capital moved out of emerging market economies with the COVID-19 outbreak, yield rates on their bonds widened substantially. Sri Lanka was one of the worst hit, with its ISB secondary market yield rates rising dramatically. For example, yield rates on the 10 year USD 1 billion ISB with a coupon rate of 6.25% set to mature in October 2020, jumped from 4.50% as at 6 March 2020 to 91.93% on 3 April and dropped to 39.23% on 30 April. In fact, Sri Lanka was placed 61 out of 66 emerging economies, in a ranking of four measures of financial strength – public and foreign debt, cost of borrowing and reserve cover.[21] Even as capital outflows from emerging markets eased, access to such financing is going to be costlier for countries like Sri Lanka with rising public debt levels following COVID-19 economic stimulus measures. In the wake of such

[20] Central Bank of Sri Lanka. (2019). *Annual Report.* Colombo: Central Bank of Sri Lanka.

[21] The Economist. (2020, May 2). *Which Emerging Markets are in Most Financial Peril.* Retrieved May 13, 2020, from The Economist: https://www.economist.com/briefing/2020/05/02/which-emerging-markets-are-in-most-financial-peril

developments, Sri Lanka is exploring options for bilateral and multilateral debt relief measures and other short-term arrangements such as swap facilities, to tide over immediate foreign exchange needs for the rest of the year.

3.5 Concluding Remarks

The pandemic will no doubt exacerbate what was already a struggling external sector climate in Sri Lanka. The priority is for the country to implement continued containment measures to mitigate the spread of the virus; of equal importance is to manage the economic fallout that is accompanying the health crisis.

COVID-19 has hit Sri Lanka where it hurts the most – i.e. the sources of its top foreign exchange earnings from remittances and tourism. These sectors are likely to face a prolonged downturn due to restrictions on mobility which will exist in some form or another for the rest of 2020. To add to this, Sri Lanka's weak financial footing will make it harder to mitigate damages to these sectors, and to the country's workforce at large. However, alternative export earnings opportunities that have arisen in the wake of the pandemic such as in the T&G sector should be explored. Additionally, Sri Lanka must reexamine its options of linking to regional value chains that are reshaping their production and operating processes to be more pandemic resilient in the future.

Linked to these and looking at the longer-term from a global perspective, COVID-19 will be a driver that will reinforce moves towards de-globalisation, a trend already in place even before the crisis. With a greater emphasis to strengthen 'regionalisation', Sri Lanka must be ready to position itself to adjust to this shift, and map its strategic, political and economic interests accordingly. As demonstrated through the COVID-19 pandemic, global and regional power rivalries are intensifying, and they will continue to do so in what will be a highly competitively charged fight for economic recovery the world over.

PANDEMICS AND DISRUPTIONS: REVIVING SRI LANKA'S ECONOMY COVID–19 AND BEYOND

4. COVID-19 and Beyond: Minimising the Costs of Pandemics

4.1 Introduction

The coronavirus (COVID-19) pandemic, which started as a public-health crisis, swiftly progressed into a social, economic and a humanitarian crisis. With COVID-19 cases still on the increase, and a means of treating or preventing the disease yet to be found, the pandemic will continue to stress health systems around the world for some time to come. Besides, measures taken by countries across the globe to minimise social interactions and reduce the movement of people will dampen economic activities and lead to job and income losses. Indeed, pandemics of this nature are estimated to have catastrophic global effects. With most recent forecasts suggesting that the world economy will contract by -4.9% in 2020,[1] a contraction much worse than the one experienced during the 2008 global financial crisis (GFC), the effect on individual countries will vary widely. A variety of factors including the severity of the pandemic, the extent to which economic activities are hampered, the preparedness of the country to respond, as well as the fiscal space available to the governments to cushion the adverse impacts will determine final outcomes.

Sri Lanka was fairly quick to respond to the pandemic. Schools were closed early for the April holidays and an island-wide curfew was imposed on 13 March 2020, soon after the detection of the second COVID-19 case in Sri Lanka. In addition, air and sea ports were closed for arrivals from mid-March. The measures are seen as being largely successful in limiting adverse the health impacts.

COVID-19, and the measures taken to contain the pandemic, will having a bearing on the Sri Lankan economy in several ways. The most direct effect stems from the numbers of people infected, their caregivers and those in quarantine. With the total number of COVID-19 cases still under 3000, the direct effect of the pandemic is still low in Sri Lanka. The larger impact will be from the earlier mentioned preventive action taken by the government to contain the disease.

In the short-term, the main problem facing policymakers is the quandary of whether to continue with constraints (to reduce mortality and morbidity costs) or to relax containment measures (to reduce the socio-economic costs). The trade-offs between the two types of costs can be managed with proper government policies for managing the disease, as well as for managing the adverse effects on the economy due to the disease.

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[1] International Monetary Fund. (2020, June). *World Economic Outlook* and International Monetary Fund. (2020, May). *Policy Responses to COVID-19*. International Monetary Fund: Washington, D.C.

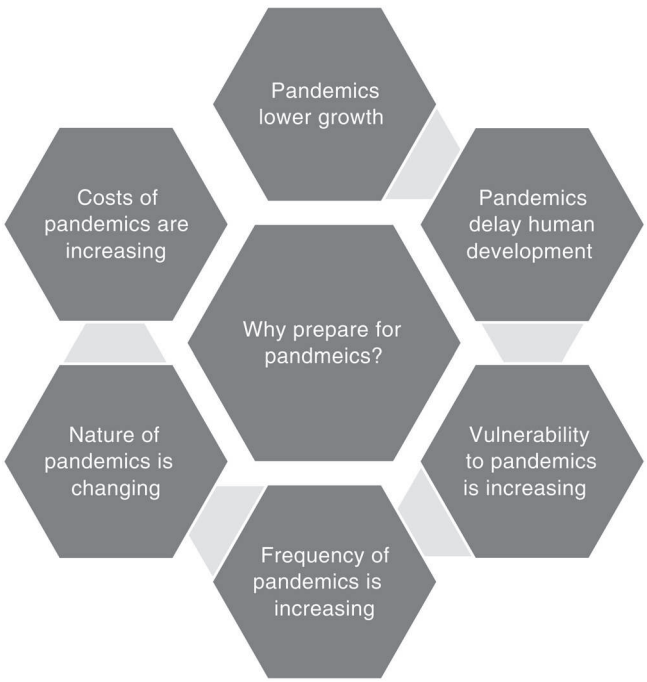
In the long-run, the challenge for governments is to strengthen institutions and expertise so that the socio-economic costs of disasters, such as COVID-19, are minimised. For Sri Lanka, the onset of COVID-19 started during an already weak economic environment of low growth and high fiscal pressures, partly owing to the Easter Sunday bomb attacks that took place in April 2019. The recurrence of such manmade and other kinds of natural disasters place considerable constraints on socio-economic development efforts of a country. The effectiveness of government responses to minimise the costs of a pandemic, or a similar disaster, will depend on the disaster preparedness of a country and the fiscal space available to initiate plans to minimise costs. This chapter will analyse and discuss the importance of strengthening such policies in Sri Lanka.

4.2 Importance of Pandemic Preparedness

4.2.1 Why Countries Should Prepare for Pandemics

The world has experienced pandemics for centuries. However, the attention given to pandemic preparedness by different countries is less than desired. This is partly due to the low frequency of pandemics. Despite this, there are several reasons for increasing pandemic preparedness (Figure 4.1). First, the diversity and the frequency of pandemics are increasing over time. The world experienced six influenza pandemics over the past 100 years (Table 4.1).

Figure 4.1
Preparing for Pandemics



Source: Author's illustration.

Three of them occurred in the 20th century, while the other three occurred in the first two decades of the 21st century. In addition to the influenza pandemics, the world has experienced other types of pandemics in the last couple of decades. For example, the Ebola virus disease that first occurred in 1976 in the Democratic Republic of Congo re-emerged in different parts of Africa during the 2014-2019 period.[2] Another example is the Zika virus outbreak in the Latin American and the Caribbean region in the 2015-2016 period.[3] Pandemics can also originate anywhere in the world. As such, it is prudent for all countries to have the capacity to detect, assess and respond to pandemics. Early detection of pandemics is important for controlling its spread.

Secondly, the vulnerability of countries to pandemics and their costs have increased over time. Advances in health have managed to reduce the number of deaths due to pandemics (Table 4.1). However, the cost to economies due to mortalities and morbidities due to pandemics are very large. The Global Risks Report (2019) identifies five main drivers of disease outbreaks: globalisation, urbanisation, deforestation, climate change and displacement of people.[4] Increased globalisation has resulted in significant increases in travel, trade and interconnectedness of economies. According to World Bank data, 1.4 billion people travel across countries for tourism.[5] Another 272 million people travel for work.[6] Urbanisation has also increased the interactions and proximity of people. In 2017, 4.1 billion people – equivalent to more than half the world's population (55%) – was estimated to live in urban areas.[7]

Thirdly, increasing deforestation has been linked to disease outbreaks such as Ebola and Zika. Globalisation affects not only the spread of diseases, but also the costs associated with disease containment efforts. Many production processes are connected by global value chains (GVCs). A disruption to one link of this value chain can result in a slowdown of production activities throughout the value chain. Examples from the recent past show that infectious diseases like the severe acute respiratory syndrome (SARS), Middle East respiratory syndrome (MERS) and Ebola can cause large scale economic costs and dampen growth (Table 4.1). The effect of the ongoing COVID-19 pandemic is likely to be larger than the economic costs of these pandemics due to the extensive spread of the disease across the globe, and the higher severity of the disease experienced in more advanced countries.

Fourthly, pandemics can delay progress in human development in the world. Although poverty levels in the world has decreased over time, a large number of people are living just above the poverty line. These people are at risk of falling back into poverty following a pandemic outbreak. Pandemic related disruption to health and education services, economic slowdowns and job losses can also result in delaying the development progress in countries.

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2 Schwarzburg, M. (2020, April). *A Century of Pandemics - Counting the Economic Costs.* Retrieved May 3, 2020 from Finance: https://www.toptal.com/finance/market-research-analysts/pandemic-cost.

3 *Ibid.*

4 World Economic Forum. (2019). *The Global Risks Report 2019.* Geneva: World Economic Forum.

5 World Bank Group. (2019, July 01). *New Country Classifications by Income Level: 2019-2020.* Retrieved May 3, 2020 from World Bank Blogs: https://blogs.worldbank.org/opendata/new-country-classifications-income-level-2019-2020.

6 Migration Data Portal. (2020, April). *Data.* Retrieved May 3, 2020 from Migration Data Portal: https://migrationdataportal.org/data?i=stock_abs_&t=2019&m=1

7 Ritchie, H., & Roser, M. (2019, November). *Urbanisation.* Retrieved May 3, 2020 from Our World in Data: https://ourworldindata.org/urbanization#number-of-people-living-in-urban-areas.



Finally, although disaster preparedness may not be able to prevent the occurrence of a pandemic or a disaster, it can reduce costs associated with a disaster. For example, the loss of lives due to cyclones was vastly reduced in Bangladesh by being better prepared.[8] Japan has successfully reduced the damages from earthquakes by developing innovating ways of constructing buildings that can withstand earthquakes. In addition, disaster preparedness will allow households and businesses to take advantage of opportunities without fear, thereby contributing to development. For example, farmers in India were more willing to invest in fertiliser and other means of improving land productivity when provided with rainfall insurance.[9]

Table 4.1
Influenza Pandemics of the Past 100 Years

Name of the Pandemic	Where and When Occurred	Estimated Case Fatality Ratio	Infected (Number)	Mortality (Number)	GDP Loss (% Change)
Spanish influenza[a]	Global[c] (1918-20)	2-3%	About 500 million[c]	20-50 million	-16.9 to 2.4
Asian flu[a]	Global[c] (1957-58)	0.1 to 0.2%	About 500 million[c]	1-4 million	-3.5 to 0.4
Hong Kong flu[a]	Global[b] (1968-69)	0.2-0.4%		1-4 million	-0.4 to 1.5
Severe acute respiratory syndrome (SARS)[b]	Southern China[c] (2002-3)	9.6%	8,098[c]	774	NA
Swine flu[a]	Global[c] (2009-10)	<0.025%	About 6.7 million[c]	> 1 million	-0.03 to 0.05
Middle East respiratory syndrome (MERS)[b]	Middle East[c] (2012-13)	34%	2,506[c]	862	NA

Notes: NA – Not Available.

Sources: a: Department of Health, UK. (2011). *UK Influenza Pandemic Preparedness Strategy 2011*. Retrieved May 3, 2020 from Department of Health Social Services and Public Safety: http://www.dh.gov.uk/publications; b: Baldwin, R., & di Mauro, B. W. (2020). *Introduction.* In R. Baldwin, & B. W. di Mauro, Economics in the Time of COVID-19 (pp. 1-30). London: Centre for Economic Policy Research (CEPR); c: Schwarzburg, M. (2020, April). *A Century of Pandemics - Counting the Economic Costs*. Retrieved May 3, 2020 from Finance: https://www.toptal.com/finance/market-research-analysts/pandemic-cost

[8] Bangladesh Red Crescent Society. (2019). *Cyclone Preparedness Programme*. Retrieved May 3, 2020 from Bangladesh Red Crescent Society: http://www.bdrcs.org/programmes-and-projects/cyclone-preparedness-programme.

[9] World Bank. (2013). *World Development Report 2014: Risk and Opportunity—Managing Risk for Development*. Washington D.C.: World Bank.

4.3 How Countries Can Prepare for Pandemics

The costs of a pandemic arise from two sources. The first source is the direct morbidity and mortality cost, and related indirect costs. The second source is the socio-economic costs associated with containing the disease. Countries need to take two different approaches in managing these two types of costs.

According to the United Nations Office for Disaster Risk Reduction, disasters are not natural. They occur due to human activities and lives being exposed to natural hazards such as floods, cyclones, and pandemics.[10] For example, flooding is a natural hazard; but the exposure to these hazards can be minimised either by better management of rainwater or by restricting the use of lands that are prone to flooding.

The poor are more likely to incur losses due to natural hazards. Their vulnerability to losses arises partly from their location in areas that are more susceptible to natural hazards. For example, during the ongoing COVID-19 pandemic, people were asked to frequently wash hands and practice social distancing to avoid being infected by the disease. The poor, whose houses are small and crowded and who live in congested neighbourhoods with low access to running water and sanitary facilities, are less able to follow these recommendations, thereby increasing their risk of contracting the disease. The vulnerability of the poor to economic losses are further increased as they are less likely to be cushioned against economic losses through social protection and social insurance. In this backdrop, policies intended to reduce losses should consider reducing both the exposure to risks, as well as vulnerability to economic losses, due to the risk.

4.3.1 Reducing Pandemic Exposure

As mentioned before, epidemics can occur anywhere in the world and spread quickly across communities. The early detection and control of these diseases can vastly reduce the damages cause by pandemics. The World Health Organisation (WHO) provides six areas that need to be tightened to improve pandemic preparedness of a country.[11] These include, proper prior planning, clear identification of roles and responsibilities of different actors and institutions at various levels of government involved in pandemic prevention, proper risk assessment for strategic planning, established means of communicating risks, flexibility to manage legal and ethical issues that may arise during the response to a pandemic, and locally customised response planning appropriate for different phases of the pandemic.

Planning to prevent pandemics is not easy. This is because pandemics can occur anywhere in any form. Strong institutions and well-trained staff are necessary for executing efficient, effective, and quick responses to pandemics. Involvement of multiple stakeholders at different levels is vital in responding to a pandemic. To be effective, systems must be put in place and procedures and protocols for action should be determined prior to the occurrence of a pandemic. Clear demarcation

[10] United Nations Office for Disaster Risk Reduction. (2019). *Disaster Risk Reduction in Sri Lanka.* Bangkok: United Nations Office for Disaster Risk Reduction.

[11] World Health Organisation. (2005). *WHO Checklist for Influenza Pandemic Preparedness Planning.* Geneva: World Health Organisation.

of authority (i.e. who should do what, and how) and sufficient resources and funds can avoid confusion and disagreements when executing a pandemic response plan.

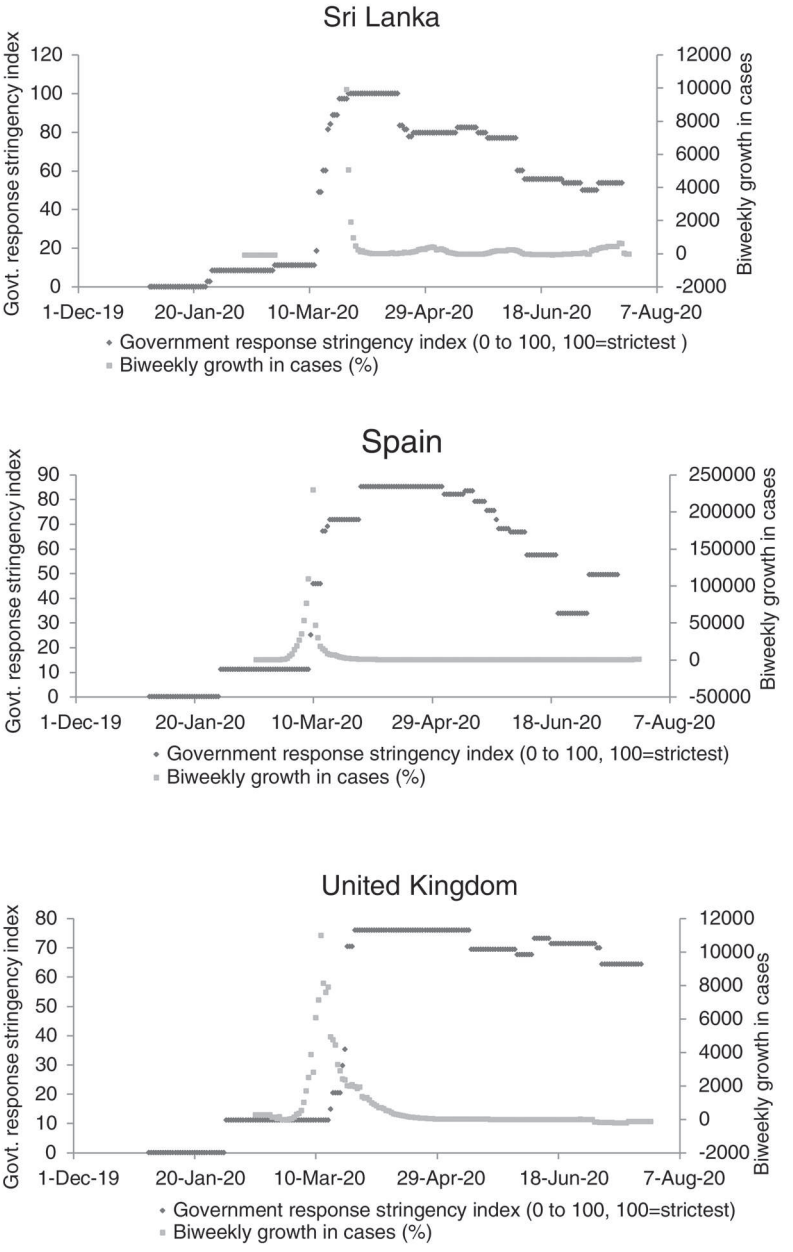
For example, most epidemics are diseases that are caused by zoonotic diseases – i.e. animal-borne pathogens. As such, farmers and farming communities and others who work in close contact with animals are most likely to be the immediate persons to be infected by these pathogens. Building awareness among farmers, and improving the capacity of veterinarians and public health officials to identify and contain pandemics is the first step towards containing pandemic outbreaks. Often pandemics are identified at the local level, but the actions taken to contain the pandemic has to take place at the regional, national or global level. In order for these processes to function smoothly, clear lines of authority at each level, and coordination are necessary.

Strong institutions and well-trained staff are necessary for executing efficient, effective, and quick responses to pandemics.

An important aspect of pandemic preparedness is risk assessment. As pandemic containment efforts can lead to large economic and social costs, clear understanding of the morbidity, mortality risks of the pandemic, and the rate at which it spreads are important for strategic decision making. The COVID-19 containment efforts by various countries clearly show that proper risk assessments can help save lives and reduce morbidities. For example, Spain and the UK delayed introducing lockdown measures during the onset of COVID-19. As a result, these nations were unable to control the escalation of COVID-19 cases in the initial stages, which resulted in higher casualties (Figure 4.2).

Effective and clear communication of risk assessments and pandemic containment measures at different phases of the pandemic, and at different geographical levels, are very important in controlling the spread of a disease. On the one hand, the wider use of social media, with improved access to information is also facilitating the spread of misinformation. To avoid confusion and disharmony due to false information, different lines of official communication channels must be used to keep communities, as well as national and global level stakeholders, better informed.

Figure 4.2
Trends in Government Response Stringency Index and Bi-weekly Growth in Cases, by Selected Countries



Note: The stringency index is a simple additive score of nine indicators (i.e., school closures, work place closures, cancellation of public events, restrictions on gatherings, closure of public transport, public information campaigns, stay at home measures, restrictions on internal movements, and international travel controls) measured on an ordinal scale, rescaled to vary from 0 to 100.

Source: Thomas Hale, Sam Webster, Anna Petherick, Toby Phillips, & Beatriz Kira. (2020). *Oxford COVID-19 Government Response Tracker*, Blavatnik School of Government Retrieved July 28, 2020 from Our World in Data: https://www.bsg.ox.ac.uk/research/research-projects/oxford-covid-19-government-response-tracker

Pandemic containment related decisions by different stakeholders can lead to legal and ethical issues, which can result in disharmony. Proper and fair mechanisms to address grievances, and clear and transparent means of arriving at solutions to the complaints, are important to avoid conflicts. For example, delaying employees' provident fund (EPF) payments is a criminal offence by law, but, during the COVID-19 pandemic, the Employers' Federation of Ceylon (EFC) granted permission to delay payments to the EPF, to provide relief to companies who are facing cash flow issues due to the pandemic. To overcome this difficulty, the Commissioner General of Labour who has been vested with the statutory authority to delay EPF payments, agreed to look into the need to grant this relief, on a case by case basis.[12] In another example, the government of Sri Lanka (GOSL) gazetted its decision pertaining to cremating the bodies of all victims who die from the COVID-19. This was contested by Muslim parliamentarians, who believe that the rights of Muslims who usually bury their dead are violated by this decision.

Decisive and rapid action by stakeholders involved at all levels is essential for responding to a pandemic or a disaster in a timely manner, and reduce exposure to risks. This can be facilitated by clearly setting out roles and responsibilities and adequate resources. The experience of Sri Lanka's the Easter Sunday bomb attacks in April 2019 clearly shows the confusion and losses that can occur, due to improper demarcation of roles and responsibilities.

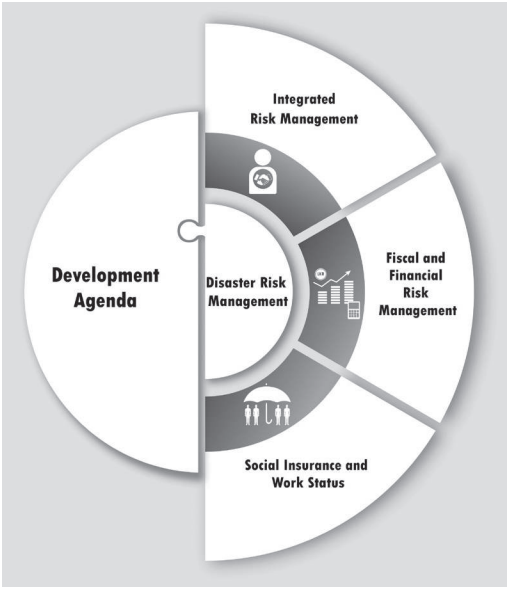
4.3.2 Reducing Vulnerabilities to Pandemics

Once a pandemic is identified, a different set of policies are needed to mitigate its socio-economic impacts. Synergies are clearly evident between policy initiatives needed to mitigate different types of disasters such as tsunamis, floods, terrorist threats, as well as pandemics. Given this, it is not cost effective to develop different response procedures for different types of disasters. Policies towards mitigating pandemics should be developed as part of a wider or an integrated framework for disaster risk management (DRM). These involve a wide range of plans surrounding a multitude of stakeholders. Some examples of the types of measures needed include plans to help businesses continue activities with reduced number of workers, as well as plans for supply chain management in environments of restricted mobility.

The World Development Report 2014 provides a framework for DRM which can be adapted for improving pandemic preparedness.[13] Disasters as well as risks come in all different forms, shapes and sizes. In the 21st century, Sri Lanka has faced many disasters including a tsunami, floods, droughts, a civil war and a terrorist attack. Responding to disasters need to be conducted in several stages involving a multitude of stakeholders at different levels. In the first stage, it is about providing relief to affected people, and in subsequent stages, it is about helping people

[12] The Employer's Federation of Ceylon. (2020, April). *Approval for Companies to Delay EPF Remittances.* Retrieved May 3, 2020 from The Employers' Federation of Ceylon: http://www.employers.lk/efc-news/746-approval-for-companies-to-delay-epf-remittances.

[13] World Bank. (2013). *World Development Report 2014: Risk and Opportunity—Managing Risk for Development.* Washington D.C.: World Bank.



to recover from social and economic setbacks experienced due to the disaster. Mainstreaming DRM to the development agenda can help reduce the socio-economic costs of disasters. This can be executed using a variety of ways. The World Development Report 2014 provides guidance on three selected areas, where this can be performed at the national level. These include: integrated risk management, fiscal and financial risk management, and social insurance and work status.

4.3.3 Integrated Risk Management

Integrated risk management (IRM) involves strengthening the overall capacity of a country to manage all types of risks, rather than strengthening the capacity of isolated agencies to manage specific risks. An IRM system will analyse the risks and risk management policies and practices across a wide range of risks, prioritise policy action depending on the risk assessments and country capacity to respond to risks, and make recommendations on the appropriate risk management policies to pursue.

As discussed above, although risks come in all forms and shapes, IRM can allow countries to exploit/tap synergies in the management of risks, and balance different trade-offs across risks. For example, building capacity to manage supply chains under restricted mobility environments can be useful in the context of different types of disasters. As such, it is cost-effective to build the necessary/required capacity with a single government agency rather than with many. As described earlier, most governments give low priority to prepare for pandemics as these occur less frequently, although these are of high impact. An IRM system will take into account both low probability high impact risks (e.g. tsunami's and pandemics) as well as high probability low impact risks (e.g. floods and droughts).

An IRM system will also be helpful to manage trade-offs between different types of risks. For example, balancing the spread of COVID-19 due to the spread of the disease versus reducing the economic impacts of the disease. Lastly, an IRM system will help to balance idiosyncratic risks with systemic risks, so that protection can be given to people without compromising policy instability. For example, providing a universal pension to elderly reduces the individual risks of old age poverty, but increases the fiscal management risks.

IRM is usually carried out by risk management boards or risk management committees. Many developed countries already have risk assessment committees consisting of representatives from different government ministries, private sector and civil society organisations (e.g. US, UK,

Singapore).[14] Nevertheless, many of these committees have been appointed for temporary assignments, and delegated with limited authority to make long-term recommendations. Singapore is an exception. The type of institutional design that is most effective for a country will depend on its political and institutional context. The institution should consist of a balance of stakeholders who are credible, legitimate, relevant and have the necessary expertise, and should consist of a mix of policymakers, advisors, individual experts as well as implementing partners.

4.3.4 Financial Space for Reducing Vulnerability to Risks

The ability of a country to respond to a disaster effectively depends largely on its available fiscal space. Evidence shows that countries that have sufficient funds to cushion the impacts of an adverse shock are able to minimise costs and facilitate a faster recovery. A long-run perspective in financial planning is needed to build financial stability so that countries can practice counter-cyclical spending patterns, whereby governments save when an economy is expanding and spend more during economic downturns. On the contrary, when faced with weak public finances, the tendency to increase taxes and reduce spending during economic downturns is not helpful in recovery efforts.

A country's ability to respond to a disaster effectively depends largely on the fiscal space available.

Fiscal authorities in many countries regulate government spending by imposing fiscal or debt targets. Maintaining these targets are more difficult in economic downturns, as with contractionary economic activities, tax revenues fall and expenses increase. This also restricts the ability of a country to spend more during a recession. More than 90% of developing countries adopt pro-cyclical spending patterns, which result in fiscal instability.

Political economy considerations and lobbying from different interest groups often prevent countries from saving during expansionary periods. Some developed countries achieve long-term financial stability by allowing governments

[14] World Bank. (2013). *World Development Report 2014: Risk and Opportunity—Managing Risk for Development. Washington* D.C.: World Bank.

to target structural balances with clear guidelines on how to achieve these targets, rather than targetting fiscal balances and debt.[15] Structural balances are deficits which are adjusted for cyclical changes. Targetting structural balances allow governments more flexibility for counter-cyclical spending. Chile and Norway are two countries that target structural balances; they were able to recover faster from the 2008 GFC by increasing government spending during the economic downturn using money saved from 2007, which was an expansionary year for both countries. Currently more than 40% of developed countries benchmark government spending using structural balance targets. However, the effectiveness of these policies depends on the credibility and transparency of budgets, the flexibility given to governments to manage spending to control economic fluctuations, as well as the capacity of institutions to monitor the structural budget balances.

A process to evaluate fiscal plans and their execution and hold policymakers accountable for budgetary decisions made by governments could improve the macro stability of countries. In the Netherlands, for example, the Bureau for Economic Policy is responsible for monitoring the fiscal sustainability of government policies.

4.3.5 Measures for Reducing Vulnerability to Risks

Social protection and social insurance protect people from falling into poverty or financial constraints during adverse shocks. The effectiveness of these policies to protect people against adverse shocks depend on the coverage and the adequacy of their benefits. Most countries, including Sri Lanka, have social protection policies that are means-tested – i.e. only identified poor benefit from these programmes. Although this seems sensible, identifying the poor is not an easy task. Also, people's circumstances change over time. Most programmes do not have a means of entering and exiting the programme, when income of people covered by these fluctuate. As a result, many poor do not receive benefits (i.e. exclusion error) while many who are non-poor receive benefits (i.e. inclusion error).

During a pandemic many people fall into poverty due to loss of income. But, many of the programmes do not have ways of extending benefits to those who have fallen to the newly poor category. One solution is to ensure that a minimal level of protection is given to all funded programmes through the general budget. Such universal social insurance is provided by several countries. For example, Nepal provides old-age insurance to all who are 70 years of age or above, financed by the government budget. In the Maldives, all citizens are covered by a universal health insurance scheme.[16] Such schemes, although attractive, must be carefully planned out. Benefit levels that are too low will not be able to protect people adequately, while those that are too high might lead to difficulties in sustaining the programme.

Job losses are a common occurrence in the aftermath of a disaster. Most developed countries have unemployment insurance schemes in place. These can serve several purposes. At the basic level, such schemes provide those without a job an income. Some countries effectively use

[15] This paragraph dews from the following: World Bank. (2013). *World Development Report 2014: Risk and Opportunity—Managing Risk for Development.* Washington D.C.: World Bank.

[16] International Policy Centre for Inclusive Growth (IPG-IG) and United Nations Children's Fund. (2019). *Social Protection in Asia and the Pacific: Inventory of Non-contributory Programmes.* Brasília: International Policy Centre for Inclusive Growth.

unemployment insurance schemes to reskill individuals and match them with new/emerging jobs. Many developing countries, including Sri Lanka, do not have an unemployment scheme. Usually, a person has to contribute to an unemployment scheme over a specified period to be eligible for unemployment benefits. But, in countries such as Sri Lanka, where a large share of the population is in informal employment arrangements, unemployment insurance can be impractical. Some developing countries, including Sri Lanka, provide income protection to workers through job protection. For instance, according to the Termination of Employment of Workmen's Act of 1971 (TEWA), a company should either get the written consent of workers or the approval of the Commissioner General of Labour to terminate a worker. In addition, workers have to be compensated for being laid off. Usually workers with more experience are compensated at a higher level.

Such schemes are not effective during pandemics, as well as in times of financial difficulties. Then, companies are unable to pay for a large number of workers. Also, when facing financial difficulties, it is not easy be pay compensation for a large number of workers. In an economic downturn when companies are experiencing cash flow issues, retaining a full workforce over a long period can lead to financial difficulties. Further, the process involved in terminating workers by obtaining the approval of the Commissioner of Labour could be lengthy, making it financially infeasible. To overcome this problem, many advanced countries now offer flexsecurity schemes to provide compensation during unemployment. In these schemes, workers are compensated through a contributory fund, rather than by the employers. These programmes allow workers the flexibility to move from one job to another, without having to lose their benefits.

4.4 Pandemic Related Economic Impacts

4.4.1 Impact on Economic Activities

COVID-19 comes at a time that is politically and economically vulnerable for Sri Lanka. A new president assumed duties in November 2019, with an interim government set to face early elections in April 2020. With the onset of the pandemic and lockdown measures, parliamentary elections were postponed and the country provided relief measures through interim budgetary arrangements.

Pre-existing economic conditions were also weak. Economic growth had slowed to 2.3% in 2019, while the Easter Sunday bomb attacks had already dealt a severe blow to the tourism sector and related economic activities. With a budget deficit of 6.8% of gross domestic product (GDP) in 2019, and a debt-to-GDP ratio of 86.8% of GDP – of which, close to half of government debt is owed to foreign sources, which places considerable foreign debt service obligations each year – Sri Lanka's fiscal space is virtually non-existent.

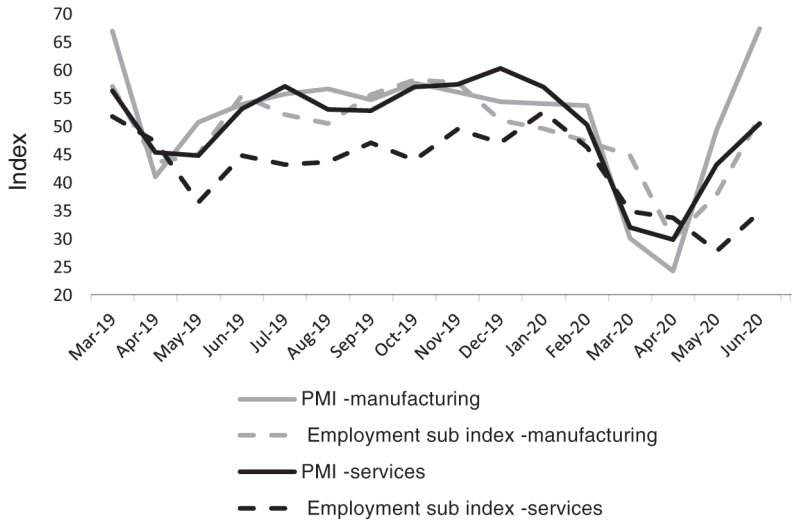
In 2020, external conditions facing the economy are daunting. The ability to borrow cost effectively from international markets is severely weakened, while the slowdown in the global economy will impact Sri Lanka's main exports, migrant worker remittances, and tourism earnings that typically help to fill gaps in foreign exchange earnings. The slowdown in economic activities due to COVID-19 will reduce remittances from all key destinations in the Middle East, EU, and East Asia. The decrease is likely to be largest from the Middle-East, owing to sharply reduced oil

prices. The high deficit levels and the increasing debt to GDP ratio can further dampen Sri Lanka's market outlook, which can increase the costs of debt rollovers.

Both service and manufacturing sector activities have slowed down due to the pandemic. The services and manufacturing purchasing manager's indices (PMIs) were above 50,[17] indicating expansionary expectations in February 2020. Both these indices dropped to a record low in April 2020 (Figure 4.3). The 'New Orders' sub-index of the manufacturing PMI was at 11.1 in April 2020 indicating a record low level of demand for manufactured goods. Although the manufacturing sector has picked up since the gradual opening of the economy in May 2020, the recovery is slow.

With the gradual return of civilian activities, the services sectors also picked up in May 2020 (Figure 4.3). In particular, activities such as transport, wholesale and retail trade, professional services and telecommunication sub-sectors are showing some improvement.[18] However, those relating to the tourism sector, including accommodation, and food and beverage sector activities continue to decline owing to the non-arrival of foreign tourists and restrictions imposed on the operation of hotels and restaurants. Despite the recovery of the services sector by May 2020, the employment sub-index of the services PMI contracted, and only saw a moderate recovery in June 2020 (see Figure 4.3). This indicates that the sector has not gained sufficient confidence to invest in new recruitments.[19]

Figure 4.3
Sri Lanka Purchasing Manager's Index



Source: Central Bank of Sri Lanka. (2020). *Sri Lanka Purchasing Manager's Index.* Colombo: Central Bank of Sri Lanka.

[17] The 'Purchasing Managers Index' (PMI) takes values between 0 and 100. It indicates whether a sector is expanding or slowing down, as viewed by business managers. A value above 50 indicate an expansion, while a value below 50 indicates a contraction.

[18] Trading Economics. (2020). Sri Lanka Services PMI. Retrieved July 27, 2020 from the Trading Economics: https://tradingeconomics.com/sri-lanka/services-pmi?user=nunote

[19] *Ibid.*

Agriculture sector activities are less affected by the pandemic. The importance of supporting the agricultural activities in the country in order to ensure food security, protect jobs as well as bring in foreign exchange earnings has been recognised by the government from the start of the COVID-19 containment measures. However, agriculture sector activities overall can still slowdown in 2020 due to difficulties in securing workers for agricultural activities, and reduced demand owing to lower buying power of consumers, both within and outside Sri Lanka. In addition, the slowdown in activities in the hotel sector, reduced demand from global markets for agricultural crops and the constraints faced by the transport sector can also affect the demand for agricultural outputs.

The above developments are confirmed by a survey conducted by the Employers' Federation of Ceylon (EFC) of 100 firms during mid-April to mid-May 2020.[20] According to the survey, one-third of the firms had completely suspended operations during the survey period, while most others were only partially operational. Operations were affected especially in export-oriented firms, while food and agriculture related firms were less affected. A half the firms were facing 'serious' cash flow issues.

4.4.2 Impact on the Labour Market

Firstly, the most immediate impact of COVID-19 is on the people who actually fall ill/who get infected by the disease. This could be either workers or their relatives. In either case, the labour supply will go down. Secondly, as governments put in controls to limit the spread of the disease, the supply becomes even more constrained. Some countries, including Sri Lanka, have instructed workers/employees to work from home. The success of working from home depends largely on the type of company, the type of work being done, and the facilities available for workers to work from home. However, not all workers have computers and internet connections that allow them to work from home effectively.

With economic prospects looking bleak, the demand for labour in the recovery phase is likely to be poor. The returns from business activities will also likely to decline. The expected slowdown in both the manufacturing and services sectors are lowering the employment outlook for both sectors. The employment sub-indicator of the services and manufacturing PMIs have been falling from February to April 2020 (see Figure 4.3). Although the employment sub-indicator has improved since April, its recovery is slower.

During the global recession of 2008-10, when economic activities slowed down in the service and manufacturing sectors, many workers moved to informal jobs in the agriculture sector. With the COVID-19 pandemic and related mobility restrictions also affecting the agriculture sector, the availability of jobs in this sector will also be less. The unemployment rate in the country was already on the increase with the Easter Sunday bomb attacks in April 2019, increasing to 4.8% in 2019 from 4.4% in 2018.[21] The overall unemployment rate for the first quarter 2020 was 5.7%, compared to 4.7% in the corresponding

[20] Employers' Federation of Ceylon. (2020). *Employers' Federation COVID-19 Survey Exposes Triple Shocks for Firms.* Retrieved, August 10, 2020, from EFC: http://www.employers.lk/efc-news/773-employers-federation-covid-19-survey-exposes-triple-shocks-for-firms

[21] Central Bank of Sri Lanka. (2019). *Annual Report.* Colombo: Central Bank of Sri Lanka.

quarter in 2019.[22] These numbers are likely to further increase in the coming months. As shown in Figure 4.3, the employment sub-index for services is still below 50, indicating contractionary expectations by service sector managers. The services sector, contributing 45-48% of jobs in the past five years, is the highest contributor to overall employment in the country. A contraction in this sector will limit overall job creation in the near future. For example, as seen in Table 4.2, a large percentage of establishments were closed for business during the lockdown period. Smaller businesses were more likely to be fully closed than larger businesses. The competition for jobs in the labour market is also likely to increase owing to the low demand for foreign workers abroad, due to COVID-19 related economic contractions and low oil prices.

The worst affected will be the informal sector workers, as their jobs are not protected and they do not enjoy social protection. According to the 2018 Labour Force Survey (LFS),[23] of the 8 million workers in Sri Lanka, 4.7 million (or 59%) were workers in the informal sector.[24] Wage workers, such as domestic workers, gardeners, and helpers will be affected by mobility restrictions in place. Also, because of social distancing and reduced incomes, the demand for these workers will be less. The self-employed and small-scale employers would also be affected by mobility restrictions and reduced demand, in addition they will also find it difficult to get the necessary inputs to engage in their businesses.[25] However, it is not only informal sector workers who are affected. According to the earlier mentioned survey by the EFC, firms expect 7% and 9% of job losses for

Table 4.2
Status of Business Operation, by Size of Establishment

Size of the Establishments by No. of Employees	Fully Closed (%)	Partially Operational (%)	Fully Operational (%)	All (%)
0-15	68.8	27.2	4.1	100.0
16-50	56.6	41.2	2.2	100.0
51-250	39.6	56.4	4.1	100.0
251-500	30.7	67.3	2.0	100.0
More than 500	16.5	80.5	3.0	100.0

Source: Wimalaweera, A. (2020). *COVID-19 and Beyond – The Impact on the Labour Market of Sri Lanka.* Colombo: Retrieved from May 20, 2020 from the Department of Labour: http://www.labourdept.gov.lk/images/PDF_upload/notices/survey%20report%202020.pdf

[22] Department of Census and Statistics. (2020). *Sri Lanka Labour Force Statistics - Quarterly Bulletin.* Colombo: Department of Census and Statistics.

[23] Department of Census and Statistics. (2018). *Labour Force Survey - Annual Report 2018.* Colombo: Department of Census and Statistics.

[24] Informal workers include all workers in the informal sector (i.e. informal sector workers) plus formal sector workers who are not receiving superannuation benefits such as pensions (i.e. formal sector informal workers such as temporary and casual workers). In 2018, 5.4 million (or 68% of employed) were informal workers in Sri Lanka. These comprise 4.7 million (or 59% of employed) informal sector workers, and 0.7 million formal-sector-informal workers.

[25] Wimalaweera, A. (2020). *COVID-19 and Beyond – The Impact on the Labour Market of Sri Lanka.* Retrieved May 20,2020 from the Department of Labour: http://www.labourdept.gov.lk/images/PDF_upload/notices/survey%20report%202020.pdf

executive and non-executive staff, respectively.[26]

The formal sector workers are less affected as they will continue to get paid, even if they do not report to work. But some companies have paid reduced salaries during the lockdown period, to sustain economic activities.[27] Further, labour intensive companies with large labour costs are finding it particularly hard to keep their work forces. Some informal workers provide services to the formal sector as casual or contractual workers. According to the LFS, about 22.6% of workers in the formal sector in Sri Lanka are casual and contractual workers who work for formal sector enterprises.[28] With the labour laws in the country restricting dismissal of permanent workers, these non-permanent workers are more likely to lose their jobs or have reduced work hours. Further, the recruitments of new workers will also likely be delayed until the resumption of economic activities.

Females are more likely to be affected by COVID-19 and related containment measures. This is because they are more likely to be engaged in casual and temporary work as well as other types of vulnerable work activities.

4.4.3 Impact on Households

The poorest will be the hardest hit by job and income losses. Although Sri Lanka has rolled out several relief measures to help households, not all households will benefit. A rapid assessment of the impact of COVID-19 on the three-wheeler industry by the Institute of Policy Studies of Sri Lanka (IPS) revealed that most three-wheeler drivers did not earn any income during the curfew.[29] Also, as they are not eligible for the government's social protection scheme, Samurdhi, they have been left behind by the first wave of relief payments given to households. The second wave of relief payments were extended to the self-employed as well as Samurdhi beneficiaries. Nevertheless, these payments were channelled through Grama Niladaris, and as many three-wheeler drivers have temporarily relocated to urban areas, they were again left out from receiving the second wave of relief transfers.

The poorest will be the hardest hit by job and income losses.

[26] Employers' Federation of Ceylon. (2020). *Employers' Federation COVID-19 Survey Exposes Triple Shocks for Firms.* Retrieved, August 10, 2020, from EFC: http://www.employers.lk/efc-news/773-employers-federation-covid-19-survey-exposes-triple-shocks-for-firms

[27] *Ibid.*

[28] *Ibid.*

[29] De Silva, T., & Nisha Arunatilake. (2020) *COVID-19 and the Road Ahead for Sri Lanka's Three-Wheeler Industry.* Retrieved July 27, 2020 from The Institute of Policy Studies: https://www.ips.lk/talkingeconomics/2020/04/21/covid-19-and-the-road-ahead-for-sri-lankas-three-wheeler-industry/

According to the World Bank, global remittance flows are expected to decline by about 20% owing to the economic downturn resulting from the COVID-19 pandemic and related shutdown measures.[30] This projected decline is due to the loss of income and employment of migrant workers, who are most vulnerable to the adverse effects of the economic downturn. In addition to the impact of COVID-19, the remittances to countries like Sri Lanka – where a majority of migrant workers are to be found in the Middle East – will also be affected by low oil prices. The decline in remittances will possibly increase the vulnerability of households. Many households are dependent on remittances, for food security, health care and education related expenses.

Another area that is impacted is education. As mentioned before, schools were closed early in Sri Lanka, and reopening has been delayed. Some private schools, universities and vocational training schools started online classes, though most students do not benefit from this method. The number of students with access to computers and internet is very low in the country. According to the Computer Literacy Survey of 2019, only about 22% of households own a personal computer while the proportion of the population using internet was only 30.3% in the country.[31]

The Household Income and Expenditure Survey (HIES) carried out by the Department of Census and Statistics (DCS) shows that 86.3% of Sri Lankan households own a television, and 88.2% own a mobile phone. Sri Lanka's marginalised children will be the least able to benefit from online methods of delivering education. They are least likely to have access to laptops or smart phones and have home environments that are conducive for learning. As such, they are least likely to go to schools which have the authority or the resources to organise online classes. Rather, such children are more likely to go schools which have less qualified teachers, with limited information and communication (ICT) facilities to teach children online. The government has also started using mass media (i.e. television channels) to educate children, especially those sitting government exams such as the grade five scholarship exam, O-levels and A-levels in 2020. Using television to teach and sending assignments through smart phones can only be a partial solution, as these methods do not allow for student-teacher interactions.

4.5 Government Responses

Policy responses in a disaster scenario depend on the phase of the disaster. At the onset of a disaster, the need is to provide relief to those who are most affected. In the context of COVID-19, this involved improving the capacity of the health sector, ensuring food security and shelter, and protecting firms and families from bankruptcy. At the end of the disaster response stage, governments need to pay attention to helping the economy recover to shorten the costs of the disaster. This is achieved through measures intended at boosting demand, providing income support through job creation and cash transfers, as well as facilitating investments. A variety of measures including debt moratoriums, delays on loan payments, allowing delayed payment of

[30] World Bank. (2020, April 22). *World Bank Predicts Sharpest Decline of Remittances in Recent History.* Retrieved May 3, 2020 from the World Bank: https://www.worldbank.org/en/news/press-release/2020/04/22/world-bank-predicts-sharpest-decline-of-remittances-in-recent-history

[31] Department of Census and Statistics. (2018). *Computer Literacy Statistics – 2019 (Annual)*. Colombo: Department of Census and Statistics.

utility and tax payments, etc. are some measures that can be taken to provide immediate welfare relief to affected populations.

Countries with well established social protection systems are able to provide relief to the affected population more easily. Even when existing social protection systems are not efficient, countries can take measures to widen the existing systems, and increase benefits to expand the coverage and adequacy of social protection.

4.5.1 Disaster Risk Preparedness at the Onset of the Pandemic[32]

The epidemiology unit of Sri Lanka's Ministry of Health (MOH) has taken a central role in managing the COVID-19 pandemic in the country. The unit, established in 1959, with assistance from the World Health Organisation (WHO) manages disease outbreaks. It is been responsible for providing guidelines for preventing, detecting, testing and treating different diseases. The unit has published regular updates on the COVID-19 pandemic situation in the country, advising the government on disease prevention measures and collecting data on the development of the pandemic. However, its functions are largely restricted to the health sector related responses.

Since the 2004 tsunami, Sri Lanka has made concerted efforts to improve its disaster preparedness. In 2005, a Disaster Management Act was enacted, which paved the way for establishing a National Council for Disaster Management (NCDM) and a Disaster Management Centre (DMC). The Sendai Framework for Disaster Risk Management (DRM) calls for strengthening four priority areas to improve disaster preparedness.[33] These include understanding disaster risks, improving risk governance and risk management, investing in disaster risk reduction, and enhancing disaster risk preparedness for fast recovery and rehabilitation. Sri Lanka has built capacity along all these priorities over the years. Despite

Countries with well established social protection systems are able to provide relief to the affected population more easily.

[32] United Nations Office for Disaster Risk Reduction. (2019). *Disaster Risk Reduction in Sri Lanka.* Bangkok: United Nations Office for Disaster Risk Reduction.

[33] The Sendai Framework for Disaster Risk Management 2015-2030 was adopted at the third United Nations World Conference in Sendai, Japan in 2015.

these efforts, lack of information for early warning, slow response, lack of preparedness at local levels were issues that hampered the success of disaster preparedness. Also, although the Disaster Management Act of 2005 has specified clear roles and responsibilities for different actors at various levels, their implementation is not satisfactory due to lack of capacities for enforcement. This is partly due to insufficient funds allocated for resources and improving capacity. Further, overabundance of institutions and policies have hampered the smooth functioning of operations.

Sri Lanka's existing disaster management framework looks mainly at hydro-meteorological events. In the event, a National Operation Centre for Prevention of COVID19 Outbreak (NOCPCO) was established by the president, and all activities relating to COVID-19 has been coordinated by this centre. It was responsible for maintaining essential services in the country during curfew, as well as for providing basic needs such as food and medicine to the people.

4.5.2 Fiscal and Monetary Policies Aimed and Providing Relief

As discussed, available fiscal space to respond to the pandemic and provide relief to businesses and individuals is weak. Despite this, the GOSL is estimated to have allocated 0.1% of GDP for COVID-19 containment measures.[34] In addition, a cash payment totalling 0.25% of GDP was allocated for vulnerable groups.[35] On the monetary front, the Central Bank of Sri Lanka (CBSL) took several initiatives to increase liquidity in the market, lower lending rates, etc. while adopting several initiatives to stabilise the exchange rate.

The components of Sri Lanka's immediate stimulus package are similar to those of other countries, but its size is quite small (Table 4.3).

4.5.3 Health Sector Response

The characteristics of a resilient health system include infrastructure and a workforce that are both healthy. Such systems are not only able to treat and manage a pandemic, but are also able to detect and prepare populations against potential pandemics early, limiting its spread. Sri Lanka's health sector has put an action plan in place to prevent the spread of the disease, detect and treat the infected, and isolate those exposed to the infection. A successful implementation of these activities requires planning, coordination and monitoring of all stakeholders, to ensure they have the resources and the capacity to effectively face the pandemic. The action plan includes improving facilities at existing hospitals, as well as identifying and preparing hospitals throughout the country to locate and treat patients. As shown in Figure 4.4, Sri Lanka has done well to contain the spread of the disease. The mortality rate in Sri Lanka was also fairly low, indicating good case management and preventive measures.

A COVID-19 Healthcare and Social Security Fund was created in March 2020, with contributions from the government and private sector individuals. The main purpose is to use the fund for strengthening the COVID-19 responsiveness

[34] International Monetary Fund. (2020, May). *Policy Responses to COVID-19.* Retrieved May 3, 2020 from International Monetary Fund: https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19

[35] *Ibid.*

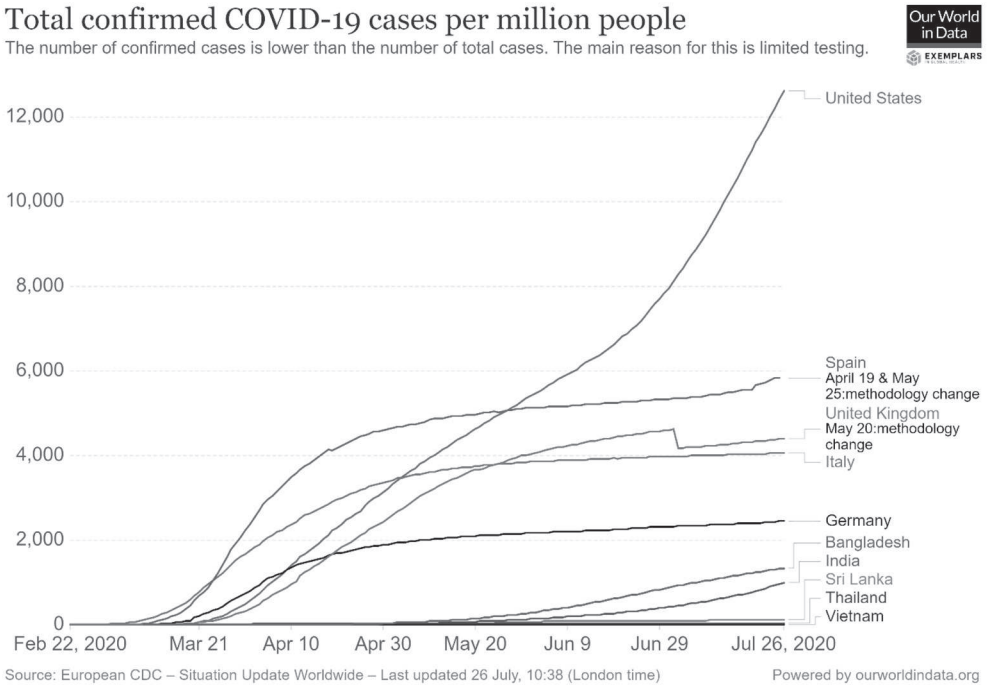
Table 4.3
Fiscal Stimulus Packages by Various Countries

Country (World Bank Classification by Income)	Number of Cases and Deaths as of 21 May 2020 (or Latest)	Fiscal Responses as of 21 May 2020
Vietnam (LMIC)	324 cases; 0 deaths	3.5% GDP – stimulus package
Indonesia (LMIC)	19,189 cases; 1,242 deaths	0.2% GDP – initial fiscal package 3.9% of GDP – second wave stimulus package
Myanmar (LMIC)	199 cases; 6 deaths	0.3% GDP – health related expenses 0.1% GDP – COVID-19 fund
India (LMIC)	62,634 cases; 3,435 deaths	0.8% GDP – stimulus package 0.1% GDP – health sector 2.7% GDP support to businesses
Thailand (UMIC)	3,037 cases; 56 deaths	9.6% GDP – stimulus package
Malaysia (UMIC)	7,009 cases; 114 deaths	0.4% GDP – fiscal stimulus package 0.1% GDP – additional measures
Sri Lanka (UMIC)	1,045 cases; 9 deaths.	0.1% GDP for containment efforts 0.25% GDP for cash payments to households
Japan (HIC)	16,385 cases; 771 deaths	21.1% GDP – stimulus plus future preparedness (0.5% GDP – health sector; 16.0% GDP – revive businesses; 1.5% GDP – revive economy; 2.8% GDP – rebuild resilience in economic structure; 0.3% GDP – enhance future readiness)
Australia (HIC)	7,081 cases; 100 deaths;	9.9% GDP – stimulus package (of which 6.7% GDP is for wage subsidies and income support)
Germany (HIC)	178,748 cases; 8,195 deaths;	4.9% GDP – fiscal package

Notes: LMIC = Lower middle-income country; UMIC = Upper middle-income country; HIC = High income country.

Source: International Monetary Fund. (2020, May). *Policy Responses to COVID-19.* Retrieved May 3, 2020 from International Monetary Fund: https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19

Figure 4.4
Total Confirmed COVID-19 Cases per Million People



Source: Roser, M., Ritchie, H., Ortiz-Ospina, E., & Hasell, J. (2020, May 17). *Our World in Data.* Retrieved July 28, 2020 from Coronavirus Pandemic (COVID-19): https://ourworldindata.org/coronavirus

of the health sector by increasing testing facilities, drugs, healthcare and safety of health sector workers and logistics providers of essential services.

4.5.4 Relief Payments to Households

The initial relief effort by the GOSL was to channel LKR 5,000 to households through the existing social safety net scheme, Samurdhi. The main issue that arose in the process was that of targetting. A recent study shows that the Samurdhi programme suffer from large inclusion and exclusion errors, where 59% of the recipients should not be receiving Samurdhi as their household income is larger than the threshold level.[36] In addition, it finds that 59% of the poor who should be receiving Samurdhi are not benefitting from the programme. Subsequently, the cash transfer was extended to other safety net programmes to increase the coverage (Table 4.4). Channelling relief through multiple programmes to increase coverage of poor households can result in duplication. Some households may receive relief payments twice, while there is still a possibility that some households will be left behind. According to an estimate by the

[36] Kidd, S. et. al. (2020). *Investing in the Future: A Universal Benefit for Sri Lanka's Children*. Colombo: United Nations Children's Fund.

Table 4.4
COVID-19 Relief Payments as at 30 March 2020

Name of Scheme	Number of Recipients	Transfer Value (LKR)
Samurdhi	2,398,994	Increased to 5,000 for one month
Those enrolled in the farmers' pension insurance scheme'	160,675	5,000
Senior citizens' allowance	559,109	5,000
Disability allowance	119, 300	5,000 (same as prior to the crisis)
Chronic illness allowances (kidney disease)	39,170	5,000
Self-employed	1,500,000	5,000

Source: President's Media Division. (2020, March). C*oncessions from President Gotabaya as Country Battles with COVID19.* Retrieved May 3, 2020 from President's Media Unit: http://www.pmdnews.lk/concessions-from-president-gotabaya-as-country-battles-with-covid19/

United Nations Children's Fund (UNICEF), 34% of eligible households may be excluded from receiving the relief, while 38% of households will receive transfers more than once.[37]

To ease cost-of-living pressures, price controls on essential goods such as canned fish, eggs, lentils, etc. was set by the government. The payment of certain taxes was deferred, while Samurdhi beneficiaries and other identified households received weekly food rations. A 6-month moratorium was granted on loan payments for self-employed, three-wheeler drivers, bus and van owners, etc. Deductions on personal loans from public workers and repayment of personal loans below LKR 2 million were deferred. The salaries (LKR 20,000) of newly recruited graduates from poor households were paid, starting from March 2020.

4.5.5 Policies to Safeguard Businesses and Stimulate the Economy

A presidential task force empowered with the responsibility to maintain civilian life came up with several measures to support the agriculture sector. These include the provision of essential inputs (such as seeds, plants, fertiliser and equipment) to farmers for the production of major food crops such as rice, grams, vegetables, fish, eggs and poultry as well as the production of export crops such as tea, cinnamon and pepper. The activities of the task force extended beyond helping farmers and ensuring that crop value chains were facilitated by functioning of ports, providing credit facilities to farmers through banks as well as coordinating activities between relevant

[37] United Nations Children's Fund. (2020). *COVID-19 in Sri Lanka: Averting the Forthcoming Economic, Health and Social Crises through Lifecycle Cash Transfers.* Colombo: United Nations Children's Fund.

stakeholders. The activities also extended to coordinating the distribution of food crops from farmers to consumers to ensure that markets for final goods were up and running.

Several relief measures were announced with the objective of safeguarding businesses in most affected sectors. To provide concessions to households and businesses, the government allowed delayed payment of taxes, a six-month moratorium on debt repayment for most affected sectors (i.e. tourism, garments, plantation, information technology (IT) and small and medium scale industries). Besides, these businesses were allowed to borrow at a lower rate to finance their working capital and investments.

One main problem facing businesses is a cash flow problem. Because of the TEWA, businesses are unable to lay off permanent workers even when their business activities slow down. As such, many businesses had to continue to cover the wage bill, even with a low turnover. The EFC asked for concessions in the form of delaying contributions to the EPF without a surcharge. At present, because of TEWA, considerable time is taken to lay off workers. In addition, it is required to expedite the lay-off process by dispensing the inquiry process.

4.6 Conclusions and Policy Recommendations

Sri Lanka is highly vulnerable to different types of disasters. Frequent disasters have undermined economic growth and human development in the country. Preparedness can reduce the socio-economic costs of a disaster. The epidemiology unit at the MOH is well experienced in handling public health risks and has taken a central role in the prevention, treatment and controlling of the COVID-19 disease. However, its functions are limited to the health sector.

Preparedness can reduce the socio-economic costs of a disaster.

Since the 2004 tsunami, Sri Lanka has followed international frameworks to improve the disaster preparedness of the country through legal and institutional reforms and building capacity – from identifying disaster risks, to respond in a disaster recovery through relief and rebuilding measures. However, the current framework is highly focussed on addressing hydro-meteorological disasters, as its occurrences are more frequent. The relief activities of the current pandemic were mainly coordinated by a newly set up task force under the Presidential Secretariat. The involvement of a high-level office is important for responding to a crisis of this magnitude, which is affecting multiple social and economic sectors in the country.

However, it is also important to build the capacity of existing institutions to implement relief and recovery activities in the long term. This has three reasons in common. Firstly, such an institution can take a lead role in improving the disaster preparedness of the country, and not only on the disaster response measures. Secondly, the experience of responding to the current pandemic will help officials in a permanent institute be better prepared to respond to future pandemics. Thirdly, strong and stable institutions can bring in necessary leadership in a future disaster, even in a weak political environment.

In an integrated disaster response mechanism, relief and rehabilitation functions would also be mainstreamed into the disaster response framework. Since there are different institutions responsible for various aspects of disaster response in the country, the integrated disaster response mechanism can be established through linking these institutions through a committee. Such temporary committees are already brought together to respond to various disaster situations at different times. But, having a permanent committee can improve the coordination of activities among different stakeholders. Further, such a committee could make the country better prepared for all types of disasters (i.e. low occurrence high impact disasters, as well as high occurrence low impact disasters), and reduce the overlap in roles and responsibilities of various institutions.

Ensuring Long-term Fiscal Sustainability: The experience of the COVID-19 pandemic further emphasises the importance for long-term fiscal management in the country. As highlighted earlier, fiscal constraints not only hamper the response efforts during a disaster, but also hinder disaster preparedness. Most households received LKR 5,000 for the whole family for one month which is insufficient to cover basic needs. These levels are also much lower than those provided by other countries. A better fiscal position would have allowed Sri Lanka to respond more effectively.

Many developed countries are giving governments more freedom to expand spending by relaxing fiscal rules. These are aimed at targetting structural budgets that are implemented together with fiscal committees established for monitoring fiscal management. As Sri Lanka transitions to an upper middle-income country (UMIC), with less access to concessionary funding offered by multilateral financial institutions (MFIs), the country should aim for better fiscal management to face adverse shocks.

Strengthening Coverage of Social Protection: The COVID-19 experience shows the need to strengthen social protection coverage in the country. The inadequate coverage of existing programmes has hampered the effective channelling of relief to the most affected individuals. A universal programme can overcome some of the issues related inadequate coverage. Such a programme can also be more efficient, as the administrative costs incurred will be minimised.

Another problem relating to these programmes is the means of distributing transfers efficiently. At present, manual and person-to-person methods are used to transfer funds to individuals. Such methods result in large crowds gathering to receive benefits (not adhering to social distancing), creating unnecessary risks in the face of pandemics. Such risks can be avoided if funds can be channelled to the individuals through the banking system. The Kerala government in India is providing social protection to those holding Aadhaar – i.e. the Unique Identification Authority of India (UIDAI). The UIDAI was created under the Aadhaar Act 2016 of India and its amendments, with the main objective being to provide a

unique identity number (UID) to all citizens of India. UIDAI is not without critics. Concerns on issues of data security and privacy continue to be expressed. Despite these reservations, the system has been able to increase the coverage of safety nets, especially for those without identifying documents, and improve the efficiency of providing transfers. Since issuing the first UID in October 2010, India has issued 1,240 million UIDs in the country.

Prior to UID, India did not have unique identification system. Many marginalised individuals were unable to receive benefits from social protection schemes due to lack of identification. Different state and non-state agencies were issuing identification documents which were rather inconsistent. Also, some have had multiple identification documents, or received benefits multiple times by creating fake identifications. The UID was setup to overcome almost all these problems, where it assigns a 12-digit random number authenticated using bio-metric data, to all citizens of India. As such duplication is not possible. Also, anyone anywhere in India can get enrolled in the systems. Updates to the system (e.g. change of address) can be easily done either online or by visiting the nearest UIDAI office. Consequently, the receipt of benefits is not linked to an individual's location. The system allows governments to provide cash transfers to individuals through bank accounts, and these can be accessed at their convenience. Such an identification scheme can accommodate universal coverage of relief efforts as well as channeling funds more efficiently to the needy.

Investing to Build Back Better: Once the relief phase is over, the government needs to bring in measures to help the economy for a fast-paced recovery. The pandemic and related economic slowdown has resulted in job losses, income losses and reduced economic activity. Many countries increase public investments during economic downturns to create jobs and to revive economic growth. For example, in the aftermath of the 2008 global financial crisis (GFC), the Chinese government rolled out a massive investment plan to stimulate the economy, mainly focussed on improving infrastructure. With emphasis on building high speed rail lines, train stations, metro systems, and airports, the stimulus package amounted to USD 575 billion (i.e. 13% of China's 2008 GDP). These efforts were facilitated by the availability of fiscal space, that in turn allowed China to maintain growth rates above 9% during the 2008 to 2010 period, despite recessions in Europe and the US. And beyond the immediate crisis, China was able to leverage these investments to support economic growth through improved connectivity.

Similarly, in the post-COVID-19 recovery phase, China is focussing on 'new infrastructure' aimed at improving the efficiency and sustainability of the Chinese economy. These include investments in big data centres, 5G infrastructure, as well as new energy vehicles (NEVs). Such investments serve several purposes, specifically of improving China's technology readiness, reducing pollution as well as generating jobs and stimulating the economy in the short run.

Moving to a More Flexible Labour Market: Given the present method of protecting jobs to protect incomes, companies are compelled to pay their workers, regardless of whether they work or not. Continuing to retain a full workforce during financially difficult times can be a challenge to many companies. Introducing a scheme that is not linked to the employer to provide unemployment insurance can help the survival of employers while providing relief to workers. Such a system can also be used to reskill workers for newly emerging jobs. In today's fast changing world of work, continuous retraining is necessary

to ensure workers acquire the skills that are demanded by the market.

In summary, the COVID-19 presents unprecedented economic and social challenges to countries across the world. Sri Lanka has been largely successful in containing the spread of the disease and maintaining low casualty levels. The health sector response was largely handled by the epidemiological unit of the MOH. The relief activities were guided by the NOCPCO, a centre established specifically for handling COVID-19 relief efforts. The country has also rolled out a stimulus package comparable to those of other countries in its design. However, its effectiveness could have been improved if the size of the stimulus package was larger. As in the past, the experience of the COVID-19 once again highlights the importance of maintaining responsible fiscal policies to meet unanticipated shocks. Planning ahead is also essential. In the absence of detailed information on the vulnerable, Sri Lanka has based its relief package largely on the existing social protection and social insurance programmes. These programmes are noted for their limitations in coverage. The use of several social safety net programmes to fill the gaps in coverage has improved targetting, but has also increased the incidence of double targetting.

Further, manual methods of distributing funds, which result in large crowds, is not practical in relation to recommended safety guidelines such as maintaining social distances. A universal social protection floor, with digital identities linked to bank accounts would have distributed funds more effectively and efficiently.

Despite providing debt payment relief and credit at concessionary rates, many companies with large workforces are facing difficulties in retaining their workforces with reduced business activities. Further, many small establishments that closed for business during the COVID-19 lockdown, resulted in their workers either receiving reduced wages or no wages. This highlights the need to move towards a system where income protection is not linked to the employer. During economic downturns, employers face cash flow difficulties. As such, in such circumstances, making employers responsible for compensating workers can further stress the financial position of those establishments. Flexsecurity arrangements, where workers contribute towards an insurance fund, can improve the flexibility of the labour market given that such arrangements do not need to be dependent on the employer. Such a system can also benefit workers in the informal sector.

Given that Sri Lanka will remain highly vulnerable to the growing threat of pandemics like COVID-19 and other forms of disasters, improving the country's disaster preparedness can mitigate the human and economic development setbacks arising from them.

5. Towards Pandemic Resilience: A Crisis Response Strategy for COVID-19

5.1 Introduction

The coronavirus (COVID-19) pandemic is having catastrophic impacts on nearly all countries in the world. It created a global public health emergency on an unprecedented scale,[1] spreading rapidly within a short period of time, and every so often shifting its epicentre across continents. The threat posed by COVID-19 to the global economy is visible from every corner of the world, leaving in its wake immense suffering from illness, death, social unrest and economic devastation on a massive scale.

Faced with such an unprecedented shock, the world community has offered a poorly coordinated emergency response, acting alone as individual nations.[2] Depending on how national policymakers perceived the severity of the pandemic, countries adopted a combination of containment measures that forced total or partial lockdowns of economic and social activities.[3] The emergency responses have yielded different levels of success as evident by the number of COVID-19 patients and death toll, notwithstanding other socio-economic

Faced with an unprecedented shock from COVID-19, the world community has offered a poorly coordinated emergency response, acting alone as individual nations.

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1 World Bank. (June 2020). COVID-19 has Triggered a Global Crisis Like No Other—is Leading to the Deepest Global Recession Since the Second World War. *Global Economic Prospects.* Washington D.C.: World Bank.

2 The pandemic has exposed the lack of unity in the global community, UN Secretary-General Antonio Guterres. UN Wire and National Public Radio (2020, June 9). *U.N. Chief: Security Council Gridlock Blocks Effective Coronavirus Response.* Retrieved June 9, 2020 from UN Wire and National Public Radio: www.npr.org/transcripts/873060941

3 'Lockdown' is a collective term for a number of social distancing measures taken together.

repercussions. Regardless of the level of success (or failure) of emergency measures, policymakers in many countries were also increasingly under pressure to ease lockdown measures, totally or partially, as the scale of the economic crisis became clearer. As some countries still struggle with rising COVID-19 cases, others experience a 'second wave' and yet others are slowly opening up to 'normalcy', what is clear is that countries will be compelled to rethink their actions to face similar pandemics in the future.

Sri Lanka has recorded a reasonable degree of success in containing the COVID-19 related health hazards. The number of infected cases has been kept well within the management capacity of the country's healthcare system; the reported number of deaths per patients can be considered as very low relative to that of many other countries. However, the health hazard is only one aspect of the pandemic shock; the COVID-19 has many other social and economic impacts which are partly triggered by the emergency response to the pandemic. Sri Lanka is yet to make a comprehensive assessment of its real impact on the economic and social spheres. The debt-ridden economy was already under stress when the COVID-19 shock struck, and the resultant downturn is therefore likely to be far worse despite the reasonable efficacy displayed in handling the health hazard.

All available evidence suggests that the pandemic problem will remain for a while until a reliable pharmaceutical solution – i.e. a vaccine or an effective medical treatment – is found. This still remains a matter of uncertainty, and until then, any false move or act of negligence is likely to see a resurgence of the COVID-19 threat. In this sense, it is similar to other persistent global threats such as climate change or the rising risk of natural disasters, despite differences in the nature and scale of such threats. As such, the need of the

All available evidence suggests that the pandemic will remain for a while until a reliable pharmaceutical solution – i.e. a vaccine or an effective medical treatment – is found.

hour is to devise a viable and an effective crisis response strategy (CRS) which is coordinated at local, national, regional and global levels. Unlike the panic-stricken initial emergency response from which countries are now exiting, the CRS needs to be better thought through. It should be initiated primarily at the national level, with backward and forward linkages to sub-national as well as supra-national levels.

This chapter makes an attempt to outline the essential elements of a COVID-19 CRS for Sri Lanka that policymakers should take into consideration when formulating their actions to overcome the challenge of the pandemic. It mainly focusses on the economic fallout, whereby the health and epidemiological aspects are explored only to the extent necessary to understand its association with the socio-economic impacts.

The chapter begins by assessing the nature of the threat posed by the pandemic on the economy. It then reviews key features of the global and national experiences of the COVID-19 driven economic fallout. By examining the nature of the threat and the experiences in the initial outbreak, the next section outlines some essential elements and key steps for a national COVID-19 CRS. The strategy attempts to cover the economy as a whole, without targetting specific sectors. Nevertheless, the chapter highlights the necessity to target vulnerable populations and critical sectors of the economy. Institutional and policy challenges which are likely to affect the CRS are discussed thereafter. The chapter concludes with a discussion on key policy and institutional measures that can be adopted to overcome similar challenges in the future.

5.2 Nature of the COVID-19 Threat

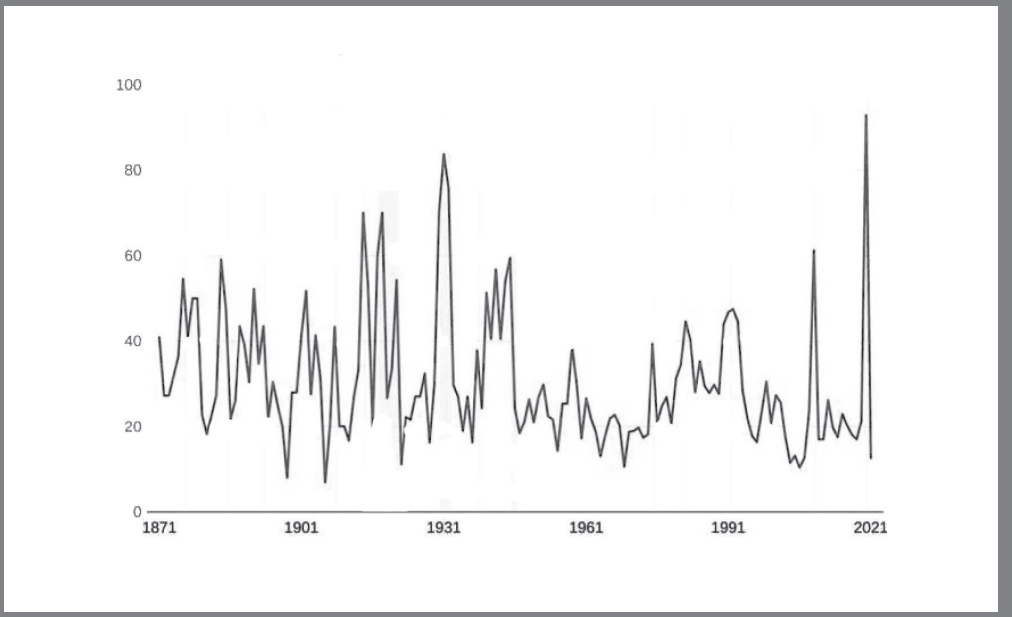
The first step towards developing an effective CRS is to understand the nature of the COVID-19 threat on the economy. This requires reviewing key features of the impact on the economy, in light of the experience gained so far, nationally and internationally.

Affects the Economy Through the Human Resource Factor: Unlike other hazards such as natural disasters, climate change or conflicts, pandemics do not cause damage to physical or natural capital assets of an economy. Importantly, they impact human capital, which is the fundamental factor that determines the functionality of any economic enterprise. Also, human capital contributes to an economy in multiple ways such as entrepreneurship, management skills, technical knowhow, as well as being a physical force of unskilled labour. The interaction between different segments of human capital is critical for an efficient functioning of any economic activity. The sudden outbreak of COVID-19 and emergency containment measures led to a situation of total or partial lockdown of economic activities. Thus, restrictions on movements and imposition of social distancing measures blocked essential human capital contributions necessary for running an economy.

An Acute Economy-Wide Shock that Leads to a Deep Recession Worldwide: Due to its direct impact over the human resource factor, the COVID-19 created a shock that is sudden, acute and economy-wide. As a result, the outbreak is expected to trigger simultaneous recessions in

Box 5.1
History of Economic Recessions

Share of Economies in the World in Recession 1871-2021



Source: World Bank. (June 2020). COVID-19 has Triggered a Global Crisis Like No Other—is Leading to the Deepest Global Recession Since the Second World War. Global Economic Prospects. Washington D.C.: World Bank.

The graph denotes the share of economies in the world that underwent recessions due to global crises during last 150 years. It shows that the great depression (1930-33) was the most severe global economic crisis that brought the highest share of world economy to recessionary conditions, affecting over 80% of the global economy. Nevertheless, projections indicate that the COVID-19 driven recession may surpass this record in terms of its global reach during the period 2020-21. While these projections are uncertain – predictions can go either way – the universal nature of the COVID-19-driven recession amidst the healthcare tragedy has presented an unprecedented challenge to policymakers, even where past experience of recovery from crises situations offers little help.

Source: World Bank. (June 2020). COVID-19 has Triggered a Global Crisis Like No Other—is Leading to the Deepest Global Recession Since the Second World War. *Global Economic Prospects.* Washington D.C.: World Bank.

almost all economies around the world within a short period of time. In the past, the global economy has witnessed recessions due to shocks caused by world wars, great famines and natural disasters, etc. On several occasions, these disasters had ripple effects on others. However, at least in the short run, COVID-19 has generated a near universal recession which is far deeper in scale and speed (Box 5.1). The world economy is yet to see how long its direct and indirect effects will, adding to concerns from emerging evidence on near-term growth prospects and food insecurity.[4]

Crisis of COVID-19 Cannot be Overcome through Economic Policies Alone: Unlike many global recessions of the past, the pandemic-driven recession has not been created by an imbalance in financial or other sub-sectors internal to the economic system. Hence, COVID-19 can be considered as an external shock to the economy. For this reason, macroeconomic or sectoral economic policies alone are insufficient to address the issues fully. In terms of sectoral policy, health sector measures towards mitigating pandemic hazards naturally assume the central role. In the meantime, macroeconomic policies and other sectoral policies have to play a supportive role by minimising and mitigating spillovers through the economy until the health hazard is contained. A policy dilemma encountered here, at least in the short run, is the intensity of measures targetted at containing the health hazard that can determine the severity of a recession (Box 5.2). On the other hand, if the time span required to bring the pandemic under control lengthens, it can hinder long-term economic recovery prospects. Hence, when selecting policies, a delicate balancing act is required.

Variable Impact Over Economic Activities Transmitted to the Entire Economy through Value Chains: The impacts from pandemics vary, depending on the nature of human interactions involved in a given type of economic activity. Those activities that require close physical interaction such as labour-intensive job roles are naturally more susceptible to pandemic shock. These include manufacturing activities, public transport services, travel and tourism enterprises, recreation and entertainment activities and mass marketing facilities such as super market chains. On the other hand, economic activities which can run on limited physical contact between human actors by means of information and communication technology (ICT) based connectivity can function with fewer disturbances. These include private transportation and activities with high levels of automation/mechanisation.

However, economic enterprises cannot function in isolation. Rather, economic activities are interconnected through value chains that operate at local, national and global levels. There is a multitude of market transactions involved in value chains with varying levels of human economic interactions. Pandemics can affect certain critical links along value chains, impacting the functionality of entire value chains. Regardless of its impact on individual economic activities/ enterprises, in the final count, value chains escalate the impacts arising from COVID-19

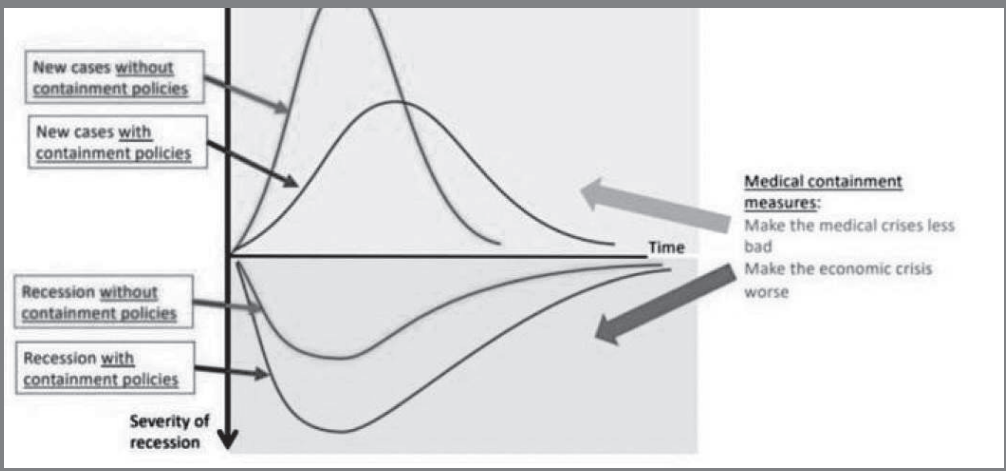
[4] World Bank. (June 2020). COVID-19 has Triggered a Global Crisis Like No Other—is Leading to the Deepest Global Recession Since the Second World War. *Global Economic Prospects.* Washington D.C.: World Bank; Food Security Information Network. (April 2020). *2020 Global Report on Food Crises.* Retrieved May 19, 2020 from World Food Programme: https://www.wfp.org/publications/2020-global-report-food-crises

across the entire economy. Thus, policies should be devised considering value chains in their entirety, and not as individual economic activities or enterprises alone.

Transitory or Persistent Nature of the Threat: The threat of pandemics can be transitory or persistent in nature, depending on the success of health sector efforts to find a robust pharmaceutical solution – i.e. the development of a successful vaccine or/and medicines that can manage its virulence. Until then, the COVID-19 threat may resurface from time-to-time, with waves of outbreaks generating social and economic disruptions locally, nationally or globally. Thus, the global community may have to adapt to COVID-19, and similar disease outbreaks in the future.

Box 5.2
Mirror Curves of Pandemic and Recession

Interdependence of Epidemics and Recession Curves



The graph illustrates the model of a general relationship between COVID-19 and its economic impact. The upper part of the figure shows the epidemic curve while the bottom part represents the recession resulted from it. The severity of the pandemic is shown by the number of cases along the vertical axis above the origin. The depth of recession is measured along the vertical axis below the origin. The uppermost curve shows the path taken by the epidemic without adequate containment measures in place. Lack of containment measures can lead to an escalation of the pandemic as indicated by a higher number of new cases. It assumes, however, that the population will develop resistance to the disease (herd immunity) and the number of cases will come down within a relatively short period of time. The lower curve in the upper part shows a flattened epidemic curve with effective containment measures in place. It records lower numbers of infected cases compared with the former, under unmitigated conditions.

The bottom part of the figure suggests that a recession when containment measures are in operation can be much deeper, compared with a recession caused by an unmitigated pandemic. This is due to the lockdown effect of containment measures on the economy. The model implies that there is a trade-off between containment of a pandemic and the economic losses due to a recession. However, this trade-off appears to be inescapable, since certain projections on epidemic have indicated the possibility of massive human losses unless effective containment measures are taken on time. Moreover, given the deep uncertainty associated with the pandemic, there is no assurance that humans will develop a natural immunity fast enough, to bring the number of cases down within a short period of time as assumed in the model. In such a scenario, the pandemic can cause lasting damage in terms of loss of human lives as well as economic recessions. Therefore, the choice set for policymakers appears to be highly restricted.

Source: Baldwin, R., & di Mauro, B.W. (2020). *Mitigating COVID Economic Crisis: Act Fast and Do Whatever it Takes.* Retrieved June 10, 2020 from VOX CEPR Policy Portal https://voxeu.org/content/mitigating-covid-economic-crisis-act-fast-and-do-whatever-it-takes

5.3 Economic Impact of Pandemic Shocks

A review of the global and national experience of the COVID-19 shock since its outbreak is useful to understand the emergency healthcare and economic challenges faced since. Given that accurate impacts of the shock are yet to be captured in detail, the discussion will be based on a limited number of sources.[5]

5.3.1 Global and Regional Experiences

The World Bank's Global Economic Prospects (GEP) report predicts that in 2020, the world economy will record its deepest recession in recent history after the Second World War. Comparing the impact of COVID-19 and the 2008 global financial crisis (GFC), it is clear that the global economy is expected to shrink by a significant margin in 2020. As in the GFC, advanced economies are to be hit hardest, while the impact is relatively more mild on low-income countries (LICs), with emerging market and developing economies (EMDEs) placed in between (Table 5.1). South Asia too closely follows the trend for EMDEs, with Sri Lanka's economy predicted to shrink as well.

COVID-19 is expected to generate an acute and deep worldwide recession, but for a short duration of time. The GEP model has three scenarios: the baseline scenario assumes that three months of mitigation measures will be sufficient to stem the pandemic; thereafter, recovery will start at a sluggish pace once mitigation measures are lifted (as depicted in Table 5.1).

The other two scenarios assume downside and upside deviations from the baseline. Downside scenario presumes an additional three months of mitigation measures are required to contain the pandemic, while the upside scenario presumes that all major economies will quickly return to 'normalcy' in the third quarter of 2020. Figure 5.1 shows the lower and upper boundaries of growth

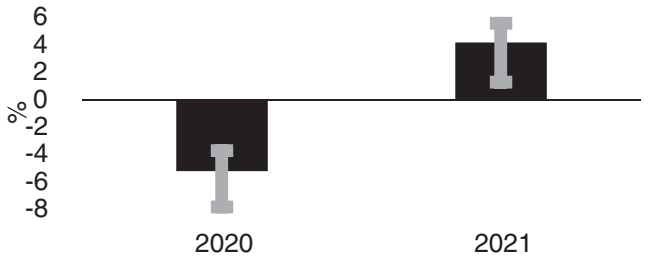
[5] The discussion relies on the 'Global Economic Prospects (GEP)' published by the World Bank (June 2020) and national data sources such as the Weekly Economic Indicators (WEI) published by the Central Bank of Sri Lanka (CBSL).

Table 5.1
Recessions in 2009 and 2020

	2009		2020	
	GDP	Per capita GDP	GDP	Per capita GDP
World	-1.8	-2.9	-5.2	-7.3
Advanced economies	-3.4	-4.0	-7.0	-6.2
Emerging market and developing economies (EMDE)	1.8	0.4	-2.5	-3.6
Low-income Countries	5.9	3.0	1.0	-1.2
South Asia	4.8	3.3	-2.7	-3.8
Sri Lanka			-3.2	

Source: World Bank. (June 2020). COVID-19 has Triggered a Global Crisis Like No Other—is Leading to the Deepest Global Recession Since the Second World War. *Global Economic Prospects.* Washington D.C.: World Bank.

Figure 5.1
Global Growth Prospects in 2020 and 2021



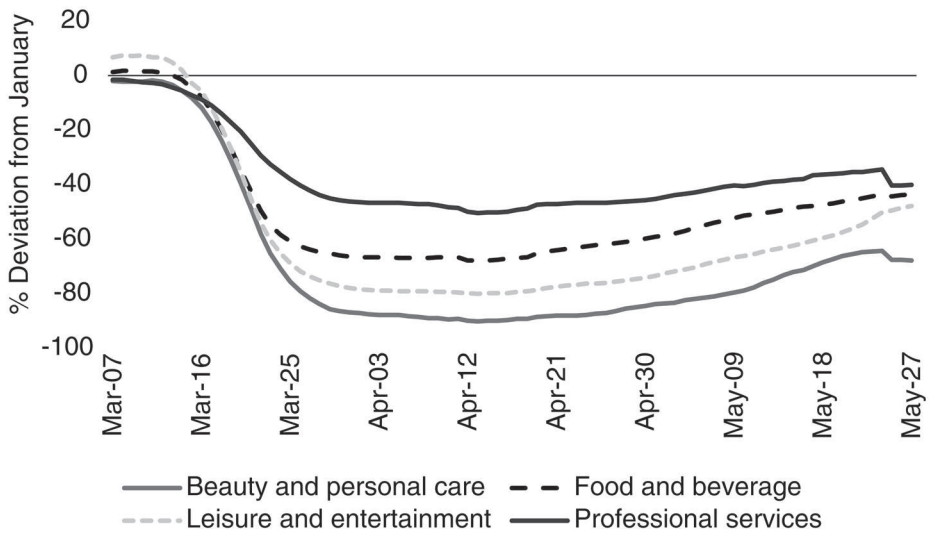
Source: World Bank. (June 2020). COVID-19 has Triggered a Global Crisis Like No Other—is Leading to the Deepest Global Recession Since the Second World War. *Global Economic Prospects.* Washington D.C.: World Bank.

projections associated with downside and upside scenarios, respectively.

The impact of pandemics on different activities varies across the economy. An analysis based on a sample of 60,000 small businesses and one million hourly employees in the US beauty and personal care, leisure and entertainment, food and beverage and professional services is shown in Figure 5.2. By comparing hours worked for observed days against the median hours worked for the same day of the week during a pre-COVID-19 period, the data identifies the level of impact on each category of business. The findings show that loss of hours worked is proportionate to the level of personal contact required in each business. Beauty and personal care services are the highest affected, followed by leisure and entertainment, and food and beverage services.

At a regional level, South Asia too is expected to see an economic contraction in 2020. Dwindling demand for exports, disruptions to production, a sharp drop in tourism and declining remittances are key channels of transmission. All South Asian economies are dependent on remittances sent by migrant workers based in Middle East countries (Table 5.2). In this backdrop, a sharp downward

Figure 5.2
Loss of Hours Worked in Selected Enterprises in USA



Source: World Bank. (June 2020). COVID-19 has Triggered a Global Crisis Like No Other—is Leading to the Deepest Global Recession Since the Second World War. *Global Economic Prospects*. Washington D.C.: World Bank. (for more information https://joinhomebase.com/data/covid-19/)

pressure on oil prices is likely to further impact remittance flows to South Asia. The plunge in oil prices, however, is also helpful given that most economies in the region are net oil importers. Even though the region is projected to recover in 2021 with a moderate growth rate, the prospects are not uniform across countries.

5.3.2 Sri Lanka's Experience

When the first Sri Lankan COVID-19 patient was reported in mid-March, the government acted swiftly and introduced lockdown measures with stringent policies on quarantine, travel restrictions and social confinement. Although these measures

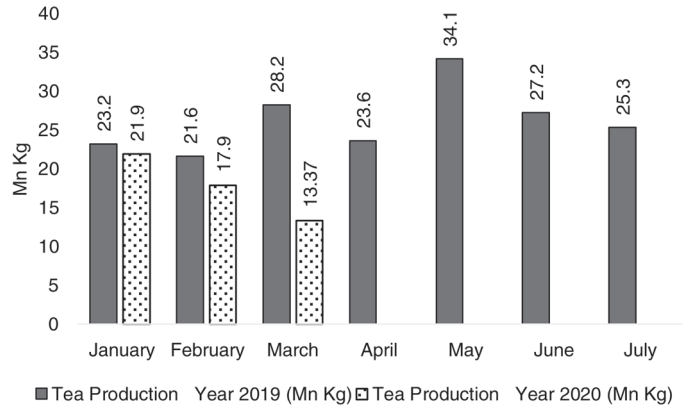
Table 5.2
Dependence on Remittances (% of GDP)

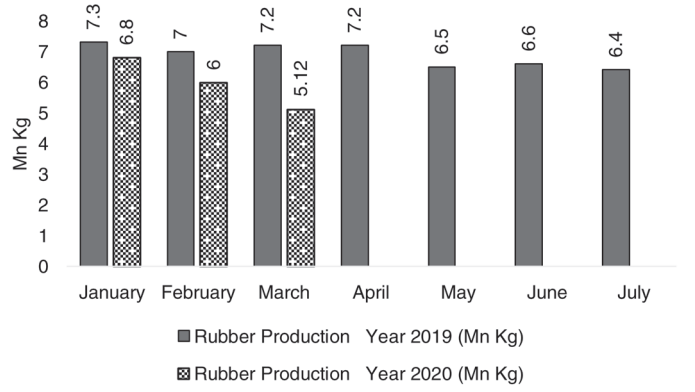
	Nepal	Sri Lanka	Pakistan	Bangladesh	Afghanistan	India	Bhutan	Maldives
GCC[a]	16.2	3.8	4.5	2.7	0.8	1.8	0.0	0.0
Other MENA[b]	0.0	0.1	0.0	0.0	1.5	0.0	0.0	0.0
Non-MENA countries	12.4	4.5	2.2	2.7	2.4	2.4	2.3	0.1

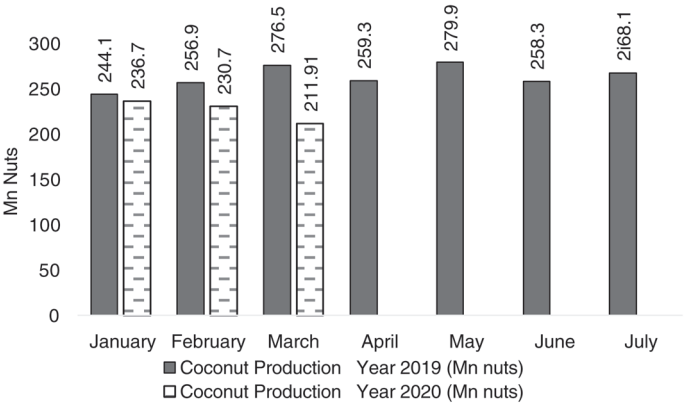
Notes: a: GCC = Gulf Cooperation Council (includes Bahrain, Oman, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates); b: MENA = Middle East and North Africa region.

Source: World Bank. (June 2020). COVID-19 has Triggered a Global Crisis Like No Other—is Leading to the Deepest Global Recession Since the Second World War. *Global Economic Prospects.* Washington D.C.: World Bank.

Figure 5.3
Agricultural Production (Year on Year % - January to March)

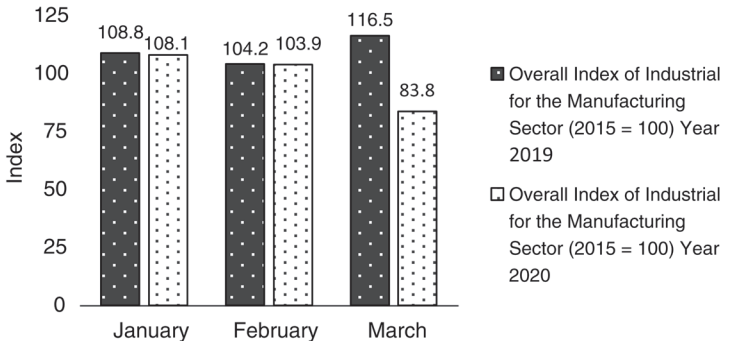






Source: Based on Weekly Economic Indicators, Central Bank of Sri Lanka (June 2020).

Figure 5.4
Index on Industrial Production (Year on Year % - January to March)



Note: 2015=100.
Source: Based on Weekly Economic Indicators, Central Bank of Sri Lanka (June 2020).

were quite effective in controlling the spread of the disease within the country, returning expatriates remain a potent source of fresh COVID-19 cases.

Sri Lanka's strict containment measures together with declining global demand saw sharp declines in production output (Figures 5.3, 5.4 and Table 5.3). The gradual build-up of the impact of COVID-19 on the economy can be traced back to January 2020 as shown by a decline in exports, even before mitigation measures were introduced from mid-March. On the other hand, early declines in agricultural commodities and industrial production are difficult to trace back to COVID-19 related impacts.

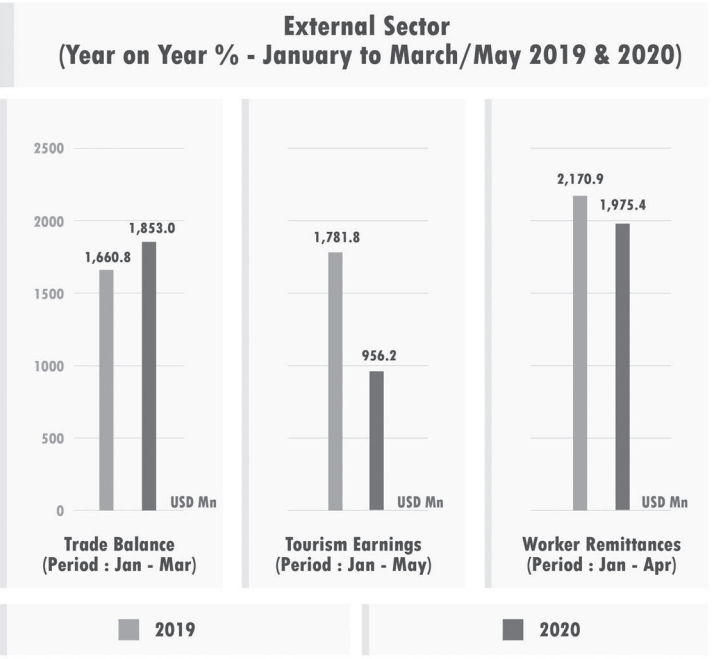
Nevertheless, the domestic food crop sector was able to avoid a major loss of production as the Maha season crop had already reached the harvesting stage at the time of lockdown. Instead, farmers experienced difficulties in marketing their harvest. They faced severe disruptions to income, especially in the case of perishable agricultural produce such as vegetables etc., due to restrictions imposed on transportation and periodic closure of agricultural marketing centres.

The gradual build-up of the impact of COVID-19 on the Sri Lankan economy can be traced back to January 2020, even before mitigation measures were introduced from mid-March.

Table 5.3
External Sector Performance (Year on Year % - January to March/May)

	2019		2020	
	LKR Bn	USD Mn	LKR Bn	USD Mn
Trade balance (Period: January – March)	298.75	1,660.8	338.2	1,853.0
Total exports	567.3	3,156.1	483.2	2,649.7
Agriculture	116.4	647.7	92.4	506.5
Industrial	448.4	2,494.3	389.2	2,134.1
Mineral	1.6	9.1	0.9	4.9
Other	0.9	5.0	0.8	4.2
Total imports	866.9	4,816.9	821.4	4,502.7
Tourism earnings (Period: January – May)	318.5	1,781.8	174.0	956.2
Arrivals (number)	945,377		507,311	
Workers remittances (Period: January – April)	387.5	2,170.9	364.6	1,975.4

Source: Based on Weekly Economic Indicators, Central Bank of Sri Lanka (June 2020).



Beyond the gloomy short-term indicators, the real long-term economic challenges are likely to be deeper. Falling demand from domestic and foreign sources can result in massive losses to livelihoods and business failures. This affects both formal and informal sectors; formal sector entities will struggle to pay their workforces while a collapse of informal economic activities will mean significant losses in livelihoods for Sri Lanka's labour force – 60% of whom are in the informal sector.

In the absence of very recent data to analyse the scale and depth of the economic problem, the channels of transmission can be summarised as follows:

Tumbling demand as orders dry up or are cancelled result in loss of business revenues for companies. This can be a gradual or sudden loss in cash flows, leaving companies to face a cash crunch, and depriving them of working capital to run the businesses. Normally, essential working capital includes fixed costs such as worker salaries, rentals, and commitments such as debt servicing, etc. With loss of revenue and lack of cash resources, fixed costs and commitments are difficult to service. This leaves many businesses in a state of liquidity stress, with limited options to bridge unexpected cash deficits. Some of them are unable to keep their businesses afloat, and hence, are forced to consider large scale layoffs or shutdowns. Such conditions can have lasting consequences, affecting economic recovery even after the pandemic shock recedes.

Sri Lanka being an economy with a large informal sector, job losses in the formal sector will be augmented by even greater losses in livelihoods of urban and rural daily wage earners, freelance workers (e.g. tourist guides) and self-employed workers. Even with many formally registered business entities, a large share of the workforce is employed on a casual daily wage basis without formal employment contracts and benefits. In addition, there are self-employed or freelance workers involved in many sectors (e.g. tourist guides, craft workers associated with tourism). Besides, large numbers of casual daily wage earners in urban areas (e.g. porters, cleaners, construction workers) as well as in rural areas (e.g. agricultural labourers, construction workers) and self-employed workers (e.g. masons, carpenters) are hired on a daily pay basis without any longstanding employer affiliation.

Finding policy options to assist economic recovery is the principal issue that national policymakers are currently faced with. This has to be achieved while also maintaining controls to deal with any signs resurging COVID-19 cases, providing support to those who lost livelihoods, and assisting businesses that are struggling to survive a liquidity crisis. Finding the appropriate solutions to these issues, therefore, constitute the main purpose of the CRS that needs to be orchestrated against the pandemic-driven economic crisis.

5.4 A Crisis Response Strategy (CRS): Core Elements and Essential Steps

A rapid, decisive and collective response is necessary to overcome the dual crisis of a health emergency and an economic recession triggered by the COVID-19. The overall aim of the CRS should be to save lives and livelihoods. This can be achieved through a multi-dimensional policy strategy, where the main components are: a public health policy response, an economic policy response, and a social protection policy response.

A rapid, decisive and collective response is necessary to overcome the dual crisis of a health emergency and an economic recession triggered by COVID-19.

The aim of the public health policy response is to prevent a further spread of the pandemic or its resurgence. Given that Sri Lanka appears to have passed the most critical stage of COVID-19 already, policymakers can concentrate more on the economic and social protection policy responses. In addition, they should be on alert to swiftly detect new cases or secondary outbreaks, and respond speedily.

Economic and social protection policy responses are invariably interconnected. The general objective of the economic policy response is to flatten the recession curve. This involves a recovery from the crisis and a rebuilding of the economy, restoring it to a path of inclusive, sustainable development. The aim of the social protection policy response is to relieve the distress of those who suffered the most from the socio-economic impacts of the pandemic, and can be considered as part of the overall economic response package. The response strategy requires bold policy initiatives aimed at achieving desirable changes in health and economic behaviour of the public through positive and negative policy incentives.

5.4.1 Core Elements of the Solution

The core elements of the CRS can be identified as:

- Containing the threat of health hazards at a manageable level
- Limiting the economic fallout from the threat
- Supporting recovery and rebound, and
- Building a pandemic resilient economy.

Given the many uncertainties associated with pandemic shocks, the CRS should adopt the principles of adaptive management. This implies that the strategy should be flexible and policymakers should be vigilant over emerging

information and new developments so that policies can be adjusted to meet evolving conditions.

Containing the Threat of Health Hazards at a Manageable Level: The main aim of the health policy response is to contain the threat of a health hazard at a manageable level through appropriate mitigation measures. Finding a pharmaceutical solution to counter the threat may take several months. Presently, the strategy is dependent on non-pharmaceutical interventions (NPI). It is reasonable to assert that Sri Lanka had already passed the peak stage of the COVID-19 hazard by mid-2020 even though the pandemic was still spreading around the world. This makes the country a 'cordoned space' in a pandemic ravaged world, an important fact that policymakers should always be mindful of. Hence, more attention can be devoted to enhance surveillance measures, simultaneously promoting best practices for disease prevention among the public.

The main course of action available for surveillance is a test-trace-isolate (TTI) strategy. The successful implementation of a TTI strategy needs higher capacity for virus testing in a greater number of public and private health facilities; it also includes establishing permanent quarantine centres in place of temporary facilities set up under emergency situations,[6] and upgrading the capacity for emergency treatment of COVID-19 in hospitals. These may also require that training and upskilling of healthcare staff is strengthened to handle emergency cases; in addition, it is necessary to provide protective gear and other emergency healthcare facilities required on such occasions. Among other essential aspects of enhanced surveillance are strengthening the capacity of public health officials to detect and track suspected cases of infection, and establishing channels for public reporting.

Continuous promotion of best practices of disease prevention among the public should also constitute an essential part of the health policy response. Public health officers should continue monitoring the situation in public places/ gatherings on a regular basis. This requires that guidelines are issued regarding social distancing and essential hygienic standards to be used in public activities. Sri Lanka's health system has achieved commendable improvements when handling the pandemic during its peak period. Consolidating these accomplishments as standard features of the local healthcare system is the need of the hour. By doing so, such a healthcare system will be geared to provide the foundation for a pandemic resilient society.

Limiting the Economic Fallout from the Threat: This implies managing the short run trade-off between health policy actions and their economic impacts. Health hazards leads to a crisis in the economic production system, resulting in a severe recession. The short-term objective of economic policy response is to prevent the crisis from escalating further. Hence, this can be considered as the emergency response of economic policy. This needs to be undertaken in close coordination with the health sector response. Increased public expenditure on healthcare is also an integral part of it.

The recession can be identified as a result of both demand and supply-side factors. Global and national economic indicators suggest that the impact of demand-side factors had already been

[6] In Sri Lanka, the government established a number of emergency quarantine facilities in places like security force camps, hotels and educational institutes, etc.

in effect, even before the lockdown measures were imposed. The lockdown introduced supply-side constraints, thereby slowing the economy further, and bringing some activities to a standstill. Due to a pervasive drop in global and national demand, the economy cannot be expected to return to normalcy rapidly, even after lockdown measures are eased. Therefore, the initial period is critical in terms of business survival – especially those in the category of small and medium enterprises (SME) – and employment security of the workforce in formal and informal sectors.

Emergency economic policy interventions are necessary at this stage to ensure that the economic fallout is minimised in order to avoid a further collapse. The essential measures to forestall the collapse of the economy include providing emergency relief to affected SME businesses and those who lost livelihoods. In the case of formal business entities, this implies efforts to prevent businesses from shutting down with mass layoffs. Helping businesses to remain solvent together with their workforces is an essential precondition for the economy to recover speedily once demand begins to recover. Policymakers have to identify options effectively within a limited time frame (see Box 5.3).

Emergency economic policy interventions are necessary at this stage to ensure that the economic fallout is minimised, in order to avoid a further collapse.

Sri Lanka being an economy with a high level of informal economic activities, formal business entities represent only a small share of the economic system. The large mass of informal workers plays a crucial role, with even the formal sector business entities dependent significantly on their contributions through value chain connections. The informal workforce in the country is the most affected group due to the economic crisis caused by the pandemic. A significant segment of them already falls below the poverty line and thus, is highly vulnerable to acute and chronic food insecurity. Loss of livelihoods for this category of workers cannot be addressed through a uniform blanket approach solution approach – i.e. the same strategies as applied to formal sector business entities cannot be replicated, and social protection measures are necessary to address their needs.

Box 5.3
Business and Income Support Measures

The COVID-19 has sparked a global dialogue on economic and health policy measures. Various suggestions have been exchanged on ways of assisting businesses and avoiding the collapse of economies. Some of the proposed measures are summarised below.

Evergreening of Loans: This refers to temporary adjustments of loan agreements, so that only the interest payments are made without repayment of principal for a specified period.

Forbearance Measures: This refers to automatic postponement of loan repayments of companies under stress. This can be introduced as a blanket or on the basis of selective applications. Blanket applications that apply to all firms create risks to individual banks as well as to the entire financial system. Hence, selective application is preferred by banks.

Hibernation of Businesses: Bankruptcies and permanent shutdown of businesses are longstanding losses to economies that can act as barriers for recovery. 'Hibernation' of companies has been proposed as an alternative in a transitory shock such as COVID-19 to avoid bankruptcies and liquidation. This arrangement is intended to freeze a firm's relationship with its stakeholders temporarily, without closing the company permanently. Companies need some minimal funds to stay alive and remain ready to reopen when the lockdown is lifted. Schemes of hibernation are aimed at providing this minimal assistance, subject to different thresholds (e.g. total shutdown, operate under reduced capacity) through fiscal policy measures.

Corporate Bond Purchasing Schemes: Central banks purchase corporate bonds to assist companies to survive liquidity crisis. Applicable on selective basis for entities with high credit ratings.

Source: World Bank. (June 2020). COVID-19 has Triggered a Global Crisis Like No Other—is Leading to the Deepest Global Recession Since the Second World War. *Global Economic Prospects*. Washington D.C.: World Bank.

A targetted scheme of income support to be phased out with the gradual recovery of the economy is the obvious solution. The numbers that need social protection support is further swelled by employees laid off by formal sector businesses and workforces of companies that collapse due to the crisis. According to social protection measures taken by other countries, providing conditional cash transfers offer a practical alternative.[7] Nevertheless, given the highly restricted fiscal space available to Sri Lanka, and perennial issues of targetting and distribution of benefits, implementing such a scheme is a daunting challenge. Instead, an innovative and feasible mechanism needs to be worked out.

Supporting Recovery and Rebound: As mentioned previously, rescue efforts to prevent the economy from further shrinking alone are

[7] Fiszbein, A., & Schady, N. (2009). *Conditional Cash Transfers. Reducing Present and Future Poverty.* Washington D.C.: World Bank.

not sufficient. What is essential is a proactive strategy to drive the economy through a path of recovery. This should involve stimulation of the economy through macroeconomic and sector specific policies. In doing so, the aim is to support the worst affected as well as dynamic sectors that can lead the economy through a recovery process. An economic stimulus package should include both fiscal and financial policy responses. Sri Lanka has already introduced some measures of a fiscal stimulus comprised of tax concessions, deferral of tax payments, exemption of certain taxes and extension of deadlines for tax filing. These are broad-brush actions applicable across multiple sectors. Additionally, targetted measures for selected industries have also been proposed. The suspension of the export levy on tea for a period of three years is an example.

COVID-19 severely affected the main buyers of Sri Lanka's exports too. The rapid spread of the pandemic worldwide is likely to keep world demand in check for the foreseeable future. On the other hand, loss of livelihoods and income of households and frugal spending patterns under perceived uncertainties exert a downward pressure on local demand. The scope to stimulate foreign demand through national policies is narrow in the current context. Hence, policymakers should focus on efforts to enhance local demand first. Policy actions for recovery should include efforts to reach consumers whose disposable incomes determine the pace of demand restoration. It may also call for the continuation of income support programmes for some time in the future.

However, support for local consumption alone will not be sufficient to stimulate the economy. It is imperative to undertake investments on projects that create employment opportunities and demand for local products/resources. Projects that can generate productivity improvements within a short period, together with employment opportunities such as agriculture development, uplifting of rural infrastructure and urban development are a few areas that policymakers can focus on. The government can handpick projects in the pipeline, considering their potential to invigorate local demand. Alternatively, development partners can be approached with new proposals for funding through existing windows of concessionary loans and grant facilities. Moreover, the government can introduce incentive schemes to encourage the private sector to invest in select areas either as private ventures or as public-private partnerships (PPP). The projects can be designed in such a way that the economic benefits flow directly to households, while engaging local businesses in development activities. This way, the economy can be stimulated by means of both supply and demand side interventions.

Building a Pandemic Resilient Economy: It is perhaps premature as yet to discuss details about the path towards a pandemic resilient economy due to continuing uncertainties associated with COVID-19. Therefore, only few key characteristics are outlined.

- Preparedness of the heath system to pandemic hazards will be stronger so that the system will be more alert to possible threats on a regular basis. Sufficient resources and procedures will be in place that can be deployed rapidly to neutralise threats when detected.

- Macroeconomic policies will be managed to ensure that economic fundamentals are stable to absorb a sudden, acute and economy-wide shock such as the

COVID-19, with limited overall damage. Moreover, policies will ensure enhanced monetary and fiscal space to address future shocks and cope with their impacts effectively.

- A scheme of contingency facilities to address impacts of sudden shocks developed on the basis of scientific principles of risk management will be in place. The lack of such a mechanism has led to common funds being raised as a reactive approach quite often, when the country is hit with disaster situations. Hence, a permanent scheme of contingency facilities with a transparent institutional mechanism needs to be established. Th purpose is to address emergency needs of future shocks.
- The lockdown allowed a 'glimpse' of the environment that can be achieved if not for the aggressive interference by human economic activities. It is no secret that the occurrence and severity of hazards such as pandemics are closely connected to poor environmental conditions. Hence, post-COVID-19, rehabilitation efforts will give priority to 'green development' alternatives as far as possible.

Timeline for the Strategy: Setting a strict timeline for the CRS is neither feasible nor desirable given the uncertainties involved. It is necessary to adopt the principles of adaptive management, following the structure of a rolling plan with periodic evaluations and path corrections. However, a tentative time plan for action is identified in Table 5.4.

Table 5.4
CRS: A Tentative Time Plan

Action Frame	Time Frame	Actions/Activities
Actions/Activities	3-6 months	Containing the threat of health hazards • Surveillance and disease prevention measures are in place to stop the spread of pandemics Managing the economic fallout from the threat • Income support programmes and business support schemes are in place to minimise economic damage
Medium run	6 months-3 years	Recovery and rebound • Monetary and fiscal stimulus measures are introduced • Strategically designed projects to restore demand and invigorate growth are launched Building a pandemic resilient economy • Healthcare system improvements are in place • A scheme of contingency facilities is established • Measures to rationalise macroeconomic policies to absorb shocks initiated • Green development measures introduced

Source: World Bank. (June 2020). COVID-19 has Triggered a Global Crisis Like No Other—is Leading to the Deepest Global Recession Since the Second World War. *Global Economic Prospects.* Washington D.C.: World Bank.

5.5 Institutional and Policy Challenges

The success of a crisis strategy is not automatic and it will have to traverse a path with various challenges. These involve institutional and policy issues that need to be addressed through careful evaluation of the same. This section examines a few of the key challenges that can be expected under the current policy and institutional circumstances in Sri Lanka.

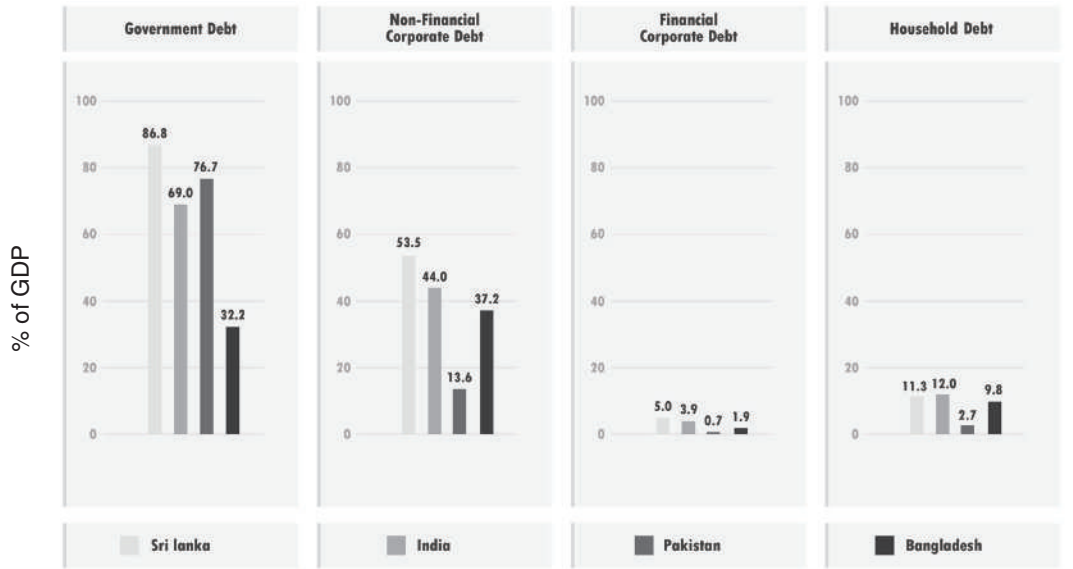
5.5.1 Limited Fiscal and Monetary Policy Space

The most critical challenge that the government has to cope with is limited fiscal space constrained by a large debt burden and poor state of public revenue collection. Table 5.5 shows the debt burden as a share of GDP in Sri Lanka and those of other South Asian nations. It shows Sri Lanka's position is unfavourable even among its South Asian counterparts. A poor fiscal standing

Table 5.5
Debt Burden in South Asia (% of GDP)

	Government Debt	Non-financial Corporate Debt	Financial Corporate Debt	Household Debt
Sri Lanka	86.8	53.5	5.0	11.3
India	69.0	44.0	3.9	12.0
Pakistan	76.7	13.6	0.7	2.7
Bangladesh	32.2	37.2	1.9	9.8

Source: World Bank, Global Economic Prospects 2020 based on Institute for International Finance.



invariably restricts a country's capacity to attract funds from the global financial system. Therefore, this scenario significantly restricts the monetary policy space as well.

In the short run, this situation curtails the government's capacity considerably to offer income support for needy groups and assistance to businesses under stress. In the medium term, the options available for the government to direct a recovery process through fiscal and monetary stimulus and strategic investments is also severely restricted. Hence, fiscal limitations faced by the government can be considered as the most critical challenge for orchestrating a viable CRS against the pandemic-driven economic crisis.

5.5.2 Targetting

Another challenge that can constrain the successful implementation of a CRS is issues related to targetting of beneficiaries. Sri Lanka provided income support in the form of cash transfers to nearly one-third of the population during the lockdown period, using existing institutional channels of social protection. Targetting and distribution issues were observed in a number of places; the scheme attracted criticism from different groups on allegations over political bias and poor implementation.

Errors of exclusion and inclusion remain perennial issues in targetting social protection in Sri Lanka and allegations of political manipulation have always been associated with such schemes. Sri Lanka has also experience of targetted schemes of assistance to SME and other businesses under various donor funded projects and public funded institutional programmes. Some of these were implemented in partnership with public and private sector banks and targetting issues were observed in many of these projects/programmes as well. These projects/programmes have generated mixed results. Often, poor targetting has been identified as a factor that contributes to below expectation outcomes.

Both errors of exclusion as well inclusion can jeopardise the CRS from achieving its objectives. This is more crucial in the case of business support schemes since they need to be handled through the banking system. Given the scale of the crisis and the number of businesses affected, gaps and weaknesses can create pressure on the entire banking system. If a proper selection of borrowers is not done, it could lead to a high number of defaulters. Sri Lanka's banking system has limited experience in handling a similar crisis situation in the past. Hence, poor targetting of borrowers can aggravate the crisis further, instead of solving the same, and thereby drawing the financial system also in to the crisis.

5.5.3 Institutional Coordination

The CRS requires cooperation and coordination across sectors, involving multiple agencies. During the peak period of the COVID-19 hazard, institutional coordination achieved commendable successes, especially between health and the defence sectors. This mechanism, which was coordinated by a presidential task force, helped to combine the strengths of health professionals and armed forces to run a successful programme for containment of COVID-19.

However, beyond the core process of handling the health hazard, the same level of coordination is not observed among other agencies that are involved. For instance, the government had to call the support of armed forces to purchase farmers'

harvest during the health emergency, reflecting the capacity limitations and poor coordination among specialised agencies such as the Paddy Marketing Board. Subsequent controversies occurred related paddy price control and delays. Also, delays in passing on the benefits of financial incentives to support SMEs initiated by the CBSL drew criticism. This indicates that optimal coordination is lacking in terms of institutional cooperation among public agencies as well as between public agencies and private entities.

Another issue is the lack of a streamlined regulatory framework to address health hazards of a COVID-19 scale. The government had to use powers vested under a number of legislations such as the Quarantine Ordinance, Police Ordinance and Disaster Management Act to handle emergency situations. However, on a positive note, even under such a complex regulatory context, the cooperation between heath and defence authorities flourished and produced favourable results. This implies that even gaps in regulatory frameworks can be bridged through effective institutional coordination.

5.6 Way Forward

Sri Lanka is currently facing one of its severest economic crises in its post-independent history. Despite early successes in containing the COVID-19 outbreak, the country stands highly vulnerable to the socio-economic impacts of the pandemic, perhaps more than any other South Asian nation due to Sri Lanka's poor macroeconomic position. Weak fiscal conditions in particular has left the country's policymakers with very limited policy space to direct the economy through a path of recovery and sustainable growth. In such straitened circumstances, Sri Lanka needs the support of a well-orchestrated CRS to find its way through to a sustained recovery. Such a CRS needs to strike a balance between health and socio-economic policies in a timely manner. The foregoing discussion presented a broad outline of a CRS towards building a pandemic resilient sustainable economy in the long run. However, the path towards success is strewn with serious challenges. Sri Lanka's economic future will depend on how effectively these challenges are countered through innovative policies.

6. Harnessing Social Protection during Pandemics

6.1 Introduction

The coronavirus (COVID-19) pandemic is affecting the lives of a majority of the world's population. Many are experiencing adverse health effects, disruptions in their livelihoods and declines in their incomes. While the impact may vary across countries and regions, it is likely to increase poverty and inequality at a global scale.[1] The pandemic is also creating unemployment and food-insecurity in many parts of the world. However, the severity of its effects tends to differ across population groups; vulnerable segments such as the poor, informal workers, elderly, and persons with disability are among the hardest hit.

Strengthening health and social protection systems is of critical importance to respond to shocks such as COVID-19. They play a vital role in addressing consumption shortfalls and supporting income and job security for those affected. Additionally, social protection systems "increase resilience, contribute to preventing poverty, unemployment and informality and are powerful economic and social stabilisers that can contribute to a swift recovery".[2] Thus, effective social protection systems are central to safeguard the poor and vulnerable groups from various crises.

Globally, countries are adopting diverse social protection measures such as cash transfers, unemployment benefits and wage subsidies in response to the COVID-19 pandemic.[3] Sri Lanka too introduced several relief measures, one of which is a cash transfer programme as a key measure to support vulnerable groups such as the poor, elderly, disabled persons and individuals whose livelihoods are being affected by the pandemic.

In the above context, this chapter looks at the role of social protection during the COVID-19 pandemic. It begins with a discussion on the likely effects of the pandemic on various vulnerable groups like the poor (and near-poor), elderly and disabled persons, and goes on to examine the role of social protection in supporting vulnerable segments as well as social protection measures taken by countries during the COVID-19. The chapter also provides a detailed analysis of Sri

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1 United Nations. (2020, April). *A UN Framework for the Immediate Socio-economic Response to COVID-19.* Retrieved June 10, 2020 from https://unsdg.un.org/resources/un-framework-immediate-socio-economic-response-covid-19

2 International Labour Organisation. (2020). *Social Protection Responses to the COVID-19 Crisis: Country Responses and Policy Considerations, ILO Brief,* 23 April 2020.

3 Gentilini, U., et. al. (2020, June 12). *Social Protection and Jobs Responses to COVID-19: A Real-time Review of Country Measures.* Living Paper Version 11. Retrieved June 25, 2020 from World Bank:https./documents.worldbank.org/en/publication/documents-reports/documentdetail/590531592231143435/social-protection-and-jobs-responses-to-covid-19-a-real-time-review-of-country-measures-june-12-2020

Lanka's social protection response to COVID-19, in the context of its prevailing social protection system. Finally, a concluding section offers some policy recommendations to strengthen Sri Lanka's social protection system to enhance its preparedness and build resilience against future crises.

6.2 COVID-19 and its Impacts: Identifying Vulnerable Groups

Vulnerable segments of the population such as the poor, elderly, disabled and migrant workers are particularly at risk when faced with shocks such as the outbreak of COVID-19 owing to their health and overall social and economic circumstances.

The poor often face multiple risks, stemming from diverse shocks and crises such as natural disasters, economic shocks and life cycle related shocks. As such, they face significantly elevated risks, which are also likely to have a sizeable impact on their livelihoods and incomes. At the same time, the effects of a pandemic like COVID-19 on the poor appear to be even more severe than many other shocks, with the potential to prompt multiple and overlapping vulnerabilities, with both short-term and long-term impacts.

Low income households are often engaged in informal work with little or no social security benefits. They lack regular sources of employment and face a 'triple whammy' of income – i.e. their incomes are low, irregular and uncertain.[4] The COVID-19 pandemic that was accompanied by unprecedented months of lockdown worsen such income flows, with some experiencing a complete loss of work/income, while others undergo short-term disruptions to their livelihood activities. These effects could last for several months or years.

The adverse effects of COVID-19 on the poor go beyond its impact on their livelihoods. The lockdowns and restrictions on mobility also meant more limited access to regular financial services like savings, loans and pawning facilities from formal and semi-formal financial institutions. The latter in particular is a popular option and key coping strategy used by low-income groups at times of emergencies/crises. The pandemic also restricted their access to available social capital like friends, relatives, neighbours and community, as well as money lenders, on whom the poor often tend to rely on at times of crises. In Sri Lanka too, borrowing from such informal sources in the village and community are common practices among low-income households. However, their access to such social capital may have been minimal during the COVID-19 pandemic, given its 'covariant risk' nature, where the entire community is likely to be affected during the crisis.

The COVID-19 being a global crisis is also taking a toll on other economic sectors such as migrant workers and related remittance receiving households. This situation too affects the income of many low-income households, who depend on their family member employed abroad. A recent study shows that one in every 11 households in Sri Lanka receives international remittances, and that the average monthly remittance is approximately Sri Lankan Rupees (LKR) 40,000.[5]

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[4] Collins, D., Morduch, J., Rutherford, S. & Ruthven, O. (2009). *Portfolios of the Poor: How the World's Poor Live on $2 a Day.* Princeton and Oxford: Princeton University Press.

[5] Weeraratne, B. (2019). *Migration & Remittances: Impact on Financial Behaviour of Families Left Behind in Sri Lanka.* Labour and Migration Research Series No. 201. Colombo: Institute of Policy Studies of Sri Lanka.

A decline in income (both labour income and other income sources like remittances) pose serious challenges to poverty reduction and food security measures among low-income households. With their low savings, there is little space for these households to smoothen their consumption behaviour. Lack of access to other financial and social assets too may further reduce their ability to purchase adequate food, which can in turn effect their nutrition levels. These trends can be exacerbated by additional factors such as lack of access to schemes such as school mid-day meals due to closure of schools. In such circumstances, any adverse effects on the nutritional status of children will be higher amongst low-income groups.[6] Such reduced nutritional status can have long-terms effects on children, while making them even more vulnerable to the pandemic impacts in the short run. As such, the effect of the pandemic on low-income households is like a 'vicious cycle' of vulnerability.

In the case of Sri Lanka, despite a significant decline in the percentage of poor (as per the national poverty line), still there are over 840,000 poor people.[7] With just a 20% increase in the poverty line, this number would increase to over 1.8 million, indicating that there is a considerable number of vulnerable people 'just above' the poverty line. They are the 'near-poor' who live with the risk of slipping back into poverty due to various shocks. The effects of COVID-19 on this near-poor group can be as severe as that of the poor group. Such a shock can push these near-poor households into poverty, while pushing those who are already below the poverty line into deeper poverty.

In addition, the poor are often faced with multiple deprivations (in addition to low levels of income) such as lack of access to safe drinking water, improved sanitation and electricity, lack of quality health and education, and poor housing conditions. Poor housing conditions – particularly small houses built in small plots of land next to each other, with communal water and sanitation facilities – are common to many poverty-stricken areas, especially urban slum areas and the estate sector in Sri Lanka. Such conditions make these households more susceptible to contagious diseases like COVID-19. Such multidimensional poverty (MDP) aspects can be quite acute. Estimates show that in Sri Lanka, around 1.9% of the population (around 400,000 persons) are in MDP, while an additional 9.6% of the population (nearly 2 million people) are in near-multidimensional poverty (NMDP), making a total of around 2.4 million in MDP/NMDP.[8]

In addition to the poor and the near poor, there are other segments of the population, such as the elderly and persons with disabilities/chronic illnesses who are more vulnerable to COVID-19. This is due to their pre-existing health conditions and overall social and economic conditions. The elderly in particular are disproportionately affected by this pandemic in many countries. Social distancing – through restricted mobility – also makes it more difficult for these groups to obtain news and information, as they often have

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6 Jayawardena, P. (2020, June 09). *No School, No Meals: Sri Lanka's Battle Against Child Malnutrition Amidst COVID-19*. Retrieved May 28, 2020 from Talking Economics https://www.ips.lk/talkingeconomics/2020/06/09/no-school-no-meals-sri-lankas-battle-against-child-malnutrition-amidst-covid-19/

7 Department of Census and Statistics. (2017). *Poverty Indicators*. Battaramulla: Department of Census and Statistics.

8 Nanayakkara, W. (2019 June 06). *Lurking in the Shadows: A Closer Look at Multidimensional Poverty in Sri Lanka.* Retrieved on May 28, 2020 from Talking Economics https://www.ips.lk/talkingeconomics/2019/06/06/lurking-in-the-shadows-a-closer-look-at-multidimensional-poverty-in-sri-lanka/

little or no access to computers and smartphones. This situation is further exacerbated by the fact that a notable share of the elderly in many countries lack adequate social protection.

Currently, Sri Lanka accounts for the fastest ageing population in South Asia. The 60+ population that stood at 14% in 2015 is projected to increase to 21.2% by 2030.[9] Yet, more than half of the elderly in Sri Lanka are not covered by any form of social protection – pensions, other retirement benefit schemes or cash assistance. Moreover, over 1.6 million people in the country record some form of disability or chronic illness,[10] while only a fraction of them are covered by any form of social protection.

Furthermore, informal workers, including daily wage earners like labourers in agriculture and non-agricultural sectors, as well as small-scale traders, craft workers and the self-employed are among the hardest hit by the COVID-19 pandemic. About 68% of total workers in Sri Lanka are informal workers,[11] which include not only the informal sector workers but also the casual or contractual workers in the formal sector. The situation is further exacerbated by the fact that informal workers often lack social security benefits such as paid sick leave and medical insurance. For example, without paid leave and medical insurance, informal workers cannot afford to stop working even when they are sick. Such a scenario is likely to exacerbate their medical conditions and increase susceptibility towards transmission of COVID-19 to the general public.

6.3 Role of Social Protection during the COVID-19 Pandemic

Effective social protection systems are crucial to safeguard the poor and vulnerable groups from various crises. Social protection measure like cash or in-kind transfers can be deployed to address consumption and income shortfalls in the immediate/short term. Such social protection support to the poorest help to prevent them from using any negative coping strategies, such as resorting to lowering their food consumption or selling important assets, and help to protect human capital.[12] Social protection measures like livelihood support can also help the poor and vulnerable groups to accelerate the recovery process by helping them to restore their incomes and livelihoods.

Effective social protection systems are crucial to safeguard the poor and vulnerable from various crises.

[9] Tilakaratna, G., Sooriyamudali, C., & Perera, A. (2019). *Working Beyond the Age of Retirement: Patterns and Determinants of Elderly Labour Force Participation*. Poverty, Demography and Social Welfare Series 200. Colombo: Institute of Policy Studies of Sri Lanka.

[10] Department of Census and Statistics. (2012). *Population Census and Housing 2012.* Battaramulla: Department of Census and Statistics.

[11] Department of Census and Statistics. (2018). *Sri Lanka Labour Force Survey- Annual Report 2018*. Battaramulla: Department of Census and Statistics.

[12] Rutkowski, M. (2020 April 15). *How Social Protection Can Help Countries Cope with COVID-19.* Retrieved May 28, 2020 from World Bank: https://blogs.worldbank.org/voices/how-social-protection-can-help-countries-cope-covid-19

Evidence from previous crises such as the Ebola outbreak in West Africa showed that "the lack of social protection measures in the context of health epidemics aggravate poverty, unemployment and informality, leading to a vicious circle of even greater fragility".[13] By contrast, countries with effective health and social protection systems with universal coverage are better prepared to respond to pandemics like COVID-19 and their socio-economic impacts.

In this context, it is important to understand what is social protection, and what it entails. Social protection can be broadly considered as a set of policies and programmes designed to reduce poverty and vulnerability by minimising individual's/households' exposure to risks and enhancing their capacity to protect themselves against risks. As such, social protection is not just cash transfers but includes a range of measures like old-aged retirement benefit schemes. These include pensions, livelihood assistance, cash and in-kind support to vulnerable groups, unemployment protection measures as well as sick leave, maternity benefits and medical insurance.

Social protection measures can be disaggregated into three broad categories: (i) social assistance (including cash and in-kind assistance), (ii) social insurance programmes (including pensions and other retirement benefits and health insurance), and labour market programmes (including support for income generation activities through public works, grants or subsidies and skills development).[14]

In response to the COVID-19 pandemic, many countries around the world are taking various measures to strengthen their social protection systems. Some of the key measures adopted by countries in the Asia and Pacific Region include income support through cash transfers, unemployment protection measures such as wage subsidies and unemployment benefits, old-age, survivor or disability benefits and sickness benefits.[15]

As a result, there is evidence to suggest a significant increase in social protection measures taken by countries during March-June 2020 for instance, in response to the COVID-19.[16] By June 2020, 195 countries/territories had devised or introduced over 1,000 diverse social protection measures to address the COVID-19 fallout. Overall, social assistance that includes conditional and unconditional cash transfers, in-kind support like food or voucher schemes, and social pensions accounted for over 60% of total social protection measures adopted by countries worldwide. Additionally, social insurance measures like unemployment benefits, social security contribution waivers/ subsidisation, paid sick leave, health insurance support and pensions accounted for another 26%. Active labour market related measures such as wage subsidies, training measures and labour regulation adjustments too had been adopted

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[13] International Labour Organisation. (2020). *COVID-19 and World of Work: Impacts and Responses*, Geneva: International Labour Organisation. p.15.

[14] Asian Development Bank. (2011). *The Revised Social Protection Index: Methodology and Handbook.* Manila: Asian Development Bank.

[15] International Labour Organisation. (2020). *Social Protection Responses to the COVID-19 Crisis: Country Responses in Asia and the Pacific- Bangkok and Geneva.* Retrieved June 12, 2020 from International Labour Organisation https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/briefingnote/wcms_739587.pdf)

[16] Gentilini, U., et al (2020, June 12). *Social Protection and Jobs Responses to COVID-19: A Real-time Review of Country Measures.* Living Paper Version 11. Retrieved June 21, 2020 from World Bank https://documents.worldbank.org/en/publication/documents-reports/documentdetail/590531592231143435/social-protection-and-jobs-responses-to-covid-19-a-real-time-review-of-country-measures-june-12-2020

by around 85 countries, although they accounted for only 14% of total social protection measures.

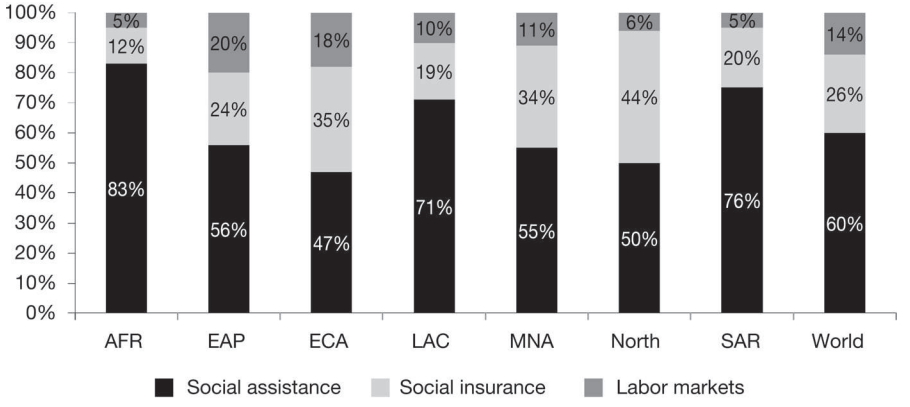
However, there are notable differences across regions in the social protection measures adopted by countries in response to COVID-19. As depicted in Figure 6.1, in the South Asia (SAR), Africa (AFR) and Latin America and Caribbean (LAC) regions, the social protection measures taken are primarily social assistance related measures like cash and in-kind transfers (accounting for 71-83% of total measures). By contract, in North America (NA) and European and Central Asian (ECA) countries, social insurance measures and labor market measures together account for about 50% of total social protection measures, with social assistance measures making up the other half.

Social assistance measures, and cash transfers in particular, are being adapted to the pandemic in three different ways: (i) vertical expansion (i.e. more generous or adequate benefits), (ii) horizontal expansion (i.e. coverage scale up), and (iii) administrative adaptation (e.g. advance payments waiving conditionalities, remote applications, etc.).[17]

Many countries are expanding the coverage of their social assistance measures by implementing new programmes as well as scaling up existing programmes. Scaling up coverage/horizontal expansion is found to be the most widely used method that was adopted by 167 countries by June 2020; the total number of measures under coverage reached 466, including over 400 new programmes. These cash transfer programmes have largely been of short duration and relatively generous in terms of benefit amounts.

Vertical expansion of social assistance programmes – in terms of higher benefits and additional payment cycles – is noted in 54 countries, while a small number of countries

Figure 6.1
Social Protection Composition, by Region



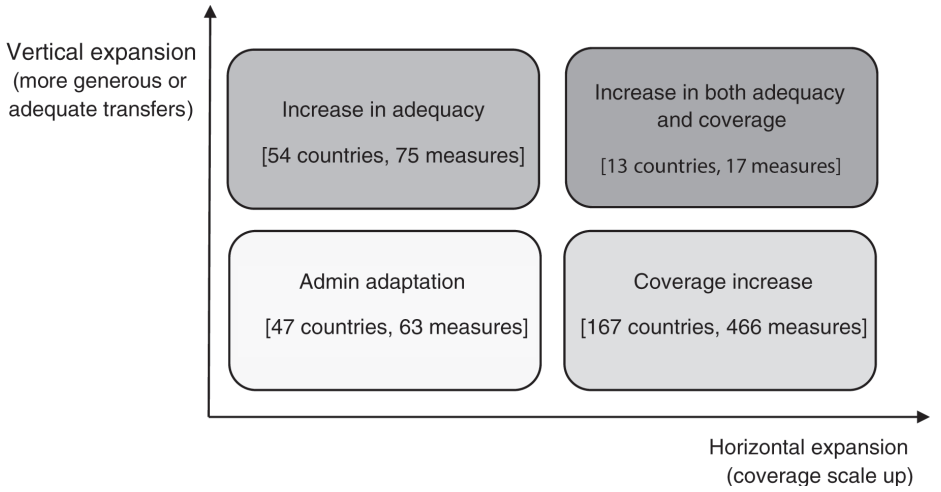
Source: Gentilini, U. et. al. (2020, June 12). *Social Protection and Jobs Responses to COVID-19: A Real-time Review of Country Measures*. Living Paper Version 11.

[17] Gentilini, U., et al (2020, June 12). *Social Protection and Jobs Responses to COVID-19: A Real-time Review of Country Measures.* Living Paper Version 11. Retrieved June 21, 2020 from World Bank https://documents.worldbank.org/en/publication/documents-reports/documentdetail/590531592231143435/social-protection-and-jobs-responses-to-covid-19-areal-time-review-of-country-measures-june-12-2020

are using both vertical and horizontal expansion in their social protection measures. Moreover, administrative adaptation measures too are being deployed by around 47 countries.[18]

Sri Lanka's social protection system consists of several social assistance, social insurance as well as active labour market programmes.[19]

Figure 6.2
Adaptations in Cash Transfers – Global Scenario



Source: Gentilini, U., et. al. (2020, June 12). *Social Protection and Jobs Responses to COVID-19: A Real-time Review of Country Measures.* Living Paper Version 11.

6.4 Overview of Sri Lanka's Social Protection System

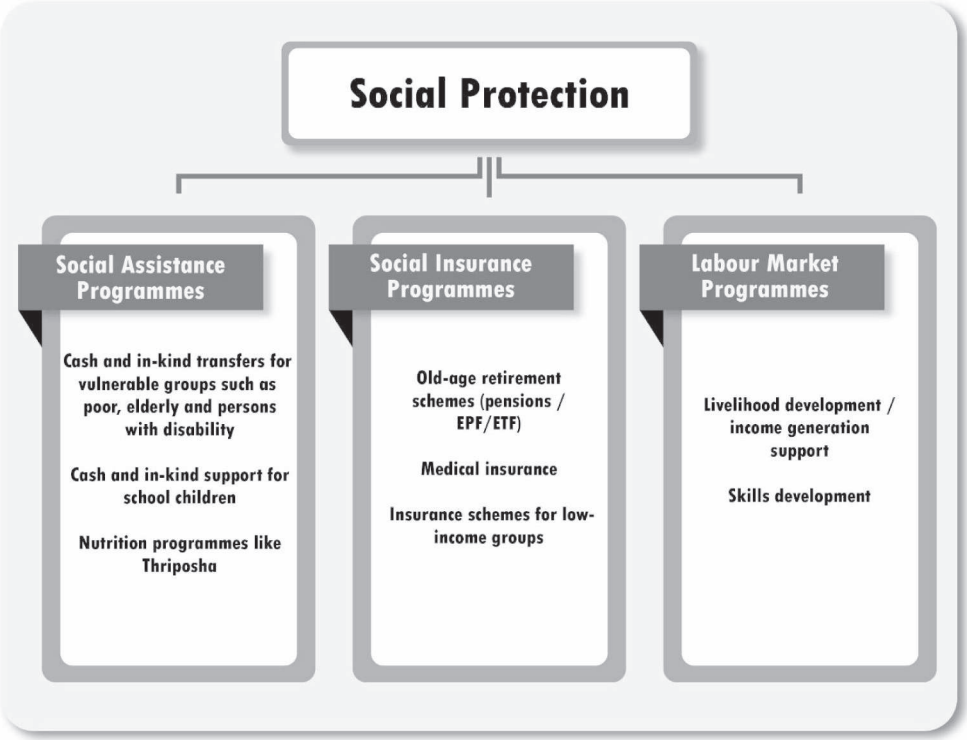
Prior to the discussion on social protection responses to the COVID-19 pandemic by the Government of Sri Lanka (GOSL), it is important to look briefly at the country's existing social protection system to understand its composition, key features and gaps.

There are many social assistance programmes in Sri Lanka that provide cash and in-kind support to vulnerable groups. The Samurdhi cash transfer (or the subsidy programme) implemented by the Department of Samurdhi is currently the largest social assistance initiative in Sri Lanka, both in terms of the number of beneficiaries and the size of the budget. In 2019, the Samurdhi subsidy programme covered around 1.8 million families, with total payments disbursed at approximately Rs 44.7 billion or 0.3% of gross domestic product

[18] Gentilini, U., et al (2020, June 12). *Social Protection and Jobs Responses to COVID-19: A Real-time Review of Country Measures.* Living Paper Version 11. Retrieved June 21, 2020 from World Bank https://documents.worldbank.org/en/publication/documents-reports/documentdetail/590531592231143435/social-protection-and-jobs-responses-to-covid-19-areal-time-review-of-country-measures-june-12-2020

[19] Tilakaratna, G., & Jayawardena, S. (2015). *Social Protection in Sri Lanka: Current Status and Effect on Labour Market Outcomes.* SARNET Working Paper No. 3. New Delhi: Institute of Human Development.

Figure 6.3
Social Protection System in Sri Lanka



Source: Based on Tilakaratna, G., & Jayawardena, S. (2015). S*ocial Protection in Sri Lanka: Current Status and Effect on Labour Market Outcomes.* SARNET Working Paper No. 3. New Delhi: Institute of Human Development.

(GDP).[20] These families who are identified as eligible under the Samurdhi subsidy programme, receive a monthly cash transfer in the region of LKR 420 and LKR 3,500, depending on the family size.[21]

As for assistance for the disabled, the National Secretariat for Persons with Disabilities (NSPD) has a disability assistance programme that provides a monthly allowance of LKR 5,000 for identified low-income families with disabled members. Moreover, the NSPD carries out a cash assistance programme for kidney patients, under which the identified patients are granted LKR 5,000 on a monthly basis. The National Secretariat for Elders (NSE) also carries out a cash transfer programme, under which identified persons above 70 years of age who belong to a family earning a total monthly income of less than LKR 6,000 are entitled to a monthly allowance of LKR 2,000. Additionally, there are other cash transfer programmes such as public

[20] Central Bank of Sri Lanka. (2019). *Annual Report 2019*. Colombo: Central Bank of Sri Lanka.

[21] For a detailed discussion on Samurdhi programme, also see: Tilakaratna, G., & Sooriyamudali, C. (2018). Food–based Social Assistance Programmes in Sri Lanka: Evolution and Transition to Cash Transfers (Chapter 4). In H. Alderman, U. Gentilini, & R. Yemtsov (Eds.), 1.5 *Billion People Question: Food, Vouchers or Cash Transfers?* Washington D.C.: World Bank; Institute of Policy Studies of Sri Lanka. (2016). *Sri Lanka State of the Economy 2016* (Chapter 9). Colombo: Institute of Policy Studies of Sri Lanka.

assistance for monthly allowance (PAMA) to support vulnerable groups.

Various in-kind transfer programmes too are in place, in particular, free textbooks, free school uniforms and mid-day meal programmes for school children as well as nutrition programmes such as the Thriposha programmes for children and pregnant mothers.

Social insurance programmes generally cover against contingencies such as old age-related problems, death or permanent disability, and other life cycle events. A number of old-age retirement benefit schemes operate in Sri Lanka. The public servants pension scheme (PSPS) is a non-contributory pension scheme available for public sector workers. Moreover, there is a public servants' provident fund (PSPF), a contributory scheme for public servants who are not eligible for the PSPS. Private sector workers are mandated to contribute towards the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF). These provide retirement benefits as well as permanent disability and survivor's benefits to its members in the form of a lump sum, based on the total contributions made by the employee and the employer(s).

There are also a handful of contributory pension schemes (and insurance schemes) designed for specific groups of informal sector workers like farmers and fishermen. These are often voluntary and contributory schemes. Moreover, a medical insurance scheme (Agrahara) available for public sector employees, and the Samurdhi social security programme (a component of the Samurdhi programme) are other key examples of social insurance schemes in Sri Lanka.

With regard to labour market programmes, there are two types of programmes: livelihood development and skills development programmes. One of the main livelihood development programmes for low-income groups is the Samurdhi livelihood development programme (a component of the Samurdhi programme) that provides families with both cash and in-kind support (grants, loans, inputs, and technical assistance) to start or expand livelihood activities in the areas of agriculture, livestock, fisheries, and cottage industries.

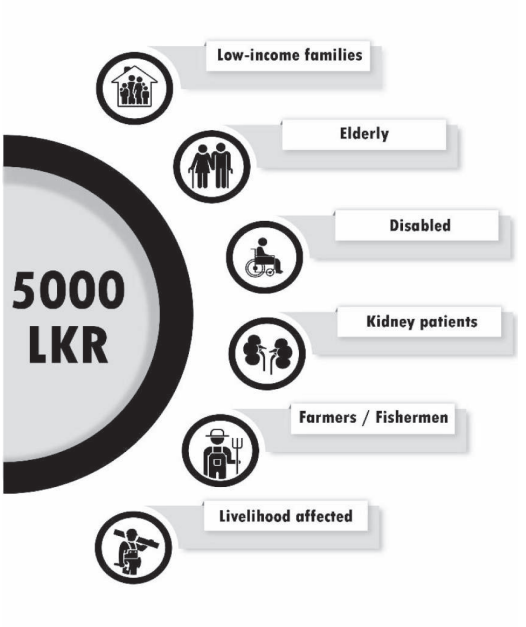
Despite the multitude of social protection programmes ranging from cash and in-kind transfers, insurance, old-aged retirement benefits like pensions, education welfare programmes, nutrition programmes and livelihood development programmes, a number of gaps and weaknesses exist in Sri Lanka's social protection system; low coverage, poor targeting and inadequacy of benefits are common to many cash assistance programmes. In addition, lack of coordination among implementing institutions and programmes, and inefficient allocation of resources within the social protection system are some other issues that need to be addressed.[22]

6.5 Social Protection Responses: Cash Transfers to Vulnerable Groups

The GOSL introduced a relief package that includes both financial and non-financial assistance to help low-income and other vulnerable groups affected by the pandemic. One

[22] Tilakaratna, G., & Jayawardena, S. (2015). *Social Protection in Sri Lanka: Current Status and Effect on Labour Market Outcomes.* SARNET Working Paper No. 3. New Delhi: Institute of Human Development.

of the key measures taken by the GOSL is the provision of a monthly allowance of LKR 5,000 to low-income families and other vulnerable groups, including the elderly and disabled from low-income strata, and individuals whose livelihoods are affected by the pandemic. Other measures include relief on lease instalments for the self-employed, including owners of three-wheelers, trucks, school buses, vans and self-employed motorists, and relief for the private businesses that are unable to pay employees' wages due to economic hardships.



As mentioned previously, the main social protection measure in response to COVID-19 was a social assistance measure, i.e. a cash transfer of LKR 5,000 for two consecutive months (April and May 2020) to various vulnerable groups. This social assistance measure was based on a number of existing social protection schemes discussed earlier – e.g. Samurdhi cash transfer programme, disability assistance and assistance for kidney patients implemented by the NSPD, the elder's assistance programme of the NSE, and the farmer's and fishermen's pension and insurance schemes.

In addition, committees were set up in each Grama Niladhari (GN) division/ward to identify and/or approve other deserving individuals and families for this cash grant. These committees consist of key officials at the divisional level such as the GNs, Samurdhi development officers, economic development officers, agriculture research officers and health officers.[23] Individuals and families identified/approved by the committees also included those who are eligible for existing social protection schemes (e.g. elders and disability assistance programmes or assistance for kidney patients) but had not been included in the beneficiary list or the waitlists of the respective programmes. In addition, individuals/households whose livelihoods were affected by COVID-19 and the two-month lockdown were also eligible for the LKR 5,000 allowance under the approval of the committee. These beneficiaries included informal sector workers who are engaged in construction related jobs (e.g. brick makers, carpenters, electricians, masons), industries such as coir and batik as well as local service providers (like barbers, three-wheeler drivers, dress makers and traders). Moreover, the committees had the authority to identify/approve other deserving households, including those with family members working abroad but who are unable to remit money during the pandemic.

The rest of this section provides an analysis of this cash transfer programme, particularly considering its (i) horizontal expansion (i.e. coverage scale up), (ii) vertical expansion (adequacy or generosity of benefits), and (iii) implementation gaps.

[23] Prime Minister's Office. (2020). Circular PTF/03/2020 issued on 31 March 2020.

6.5.1 Horizontal Expansion

The GOSL's social protection response to COVID-19 clearly shows a horizontal expansion/ scaled-up coverage compared to the pre COVID-19 levels of the programmes considered. For example, it covered not only the current beneficiaries of the programmes (like Samurdhi cash transfer, elder's assistance, disability assistance programmes) but also those who are in the waitlists of these programmes. Moreover, the divisional level committees also selected potential beneficiaries who were left out from the current lists as well as the waitlists.

Sri Lanka's social protection response to COVID-19 shows a horizontal expansion/ scaled-up coverage compared to the pre COVID-19 levels.

For example, in addition to the 416,667 elders who were beneficiaries of the elder's assistance programme since the pre COVID-19 period, 157,720 elders in the waiting list were also granted the cash transfer of LKR 5,000 for two months. Moreover, over 54,000 elders identified by the committees also received the LKR 5,000 allowance.[24] This indicates around 50% additional coverage of elders compared to the pre COVID-19 period.

Similarly, with regard to the disability assistance where the regular beneficiaries were reported to be around 72,000, an additional 37,492 persons with disabilities who were registered in the waiting list as well as over 14,000 persons approved by the committees were granted the cash grant.[25] This indicates over 70% additional coverage of disabled persons compared to the pre COVID-19 level. A somewhat similar level of scale up in coverage (over 70%) can be seen with regard to the cash assistance for kidney patients too. Moreover, over 700,000 low-income families included in the waiting list of the Samurdhi

[24] Based on information from the National Secretariat for Elders.

[25] Based on information from the National Secretariat for Persons with Disabilities.

programme were granted the LKR 5,000 cash allowance.[26] This was in addition to the nearly 1.8 million existing Samurdhi beneficiary families. Furthermore, the LKR 5,000 cash assistance was extended to nearly 2 million individuals,[27] self-employed persons in particular, and whose livelihood activities had been affected by the pandemic and the lockdown.

While the scale-up measures discussed above may have helped to minimise to some extent any exclusion errors (i.e. exclusion of deserving groups) of the social protection programmes during this period, inclusion errors associated with these programmes (i.e. inclusion of those who are clearly not eligible for such benefits), are still likely to have continued. This could particularly be the case given the considerable levels of inclusion errors associated with the Samurdhi cash transfer programme.[28]

6.5.2 Vertical Expansion

The infographic below shows the vertical expansion of the GOSL's LKR 5,000 scheme for different categories of beneficiaries. The data reveal that the generosity of this cash transfer (compared to the pre COVID-19 level) varies from 0% to over 100% or infinity depending on the beneficiary category. Nevertheless, it can be argued that this cash transfer programme indicates a vertical expansion, considering that it covered a notable number of individuals/ families who did not receive any benefits in the pre COVID-19 period (under these social protection schemes). These 'new' beneficiaries include individuals/families in the waitlists of the key social assistance programmes like Samurdhi, elders and disability assistance, individuals whose livelihoods were affected by the pandemic and others who have been identified as those in need by the committees.

Moreover, the existing beneficiaries of the elder's assistance programme received an additional payment of LKR 3,000 (i.e. 150% higher than their regular benefit amount of LKR 2,000) for the months of April and May. Furthermore, Samurdhi beneficiaries received a monthly allowance of LKR 5,000 for two months in addition to their regular subsidy amounts that vary between LKR 420-3,500 per month. This represents over 100% increase in benefits for these beneficiaries. For the beneficiaries of the farmers and fishermen's pension schemes, the LKR 5,000 payment was more than double that of the regular monthly payment received by many of them under this scheme.[29] By contrast, for the existing beneficiaries of the disability assistance programme and cash assistance scheme for kidney patients, it was a mere continuation of receipt of their regular monthly allowance of LKR 5,000 without any additional payments.

6.5.3 Implementation Gaps

Despite some level of horizontal and vertical expansion, the cash transfer scheme in response to the COVID-19 shows some implementation gaps.

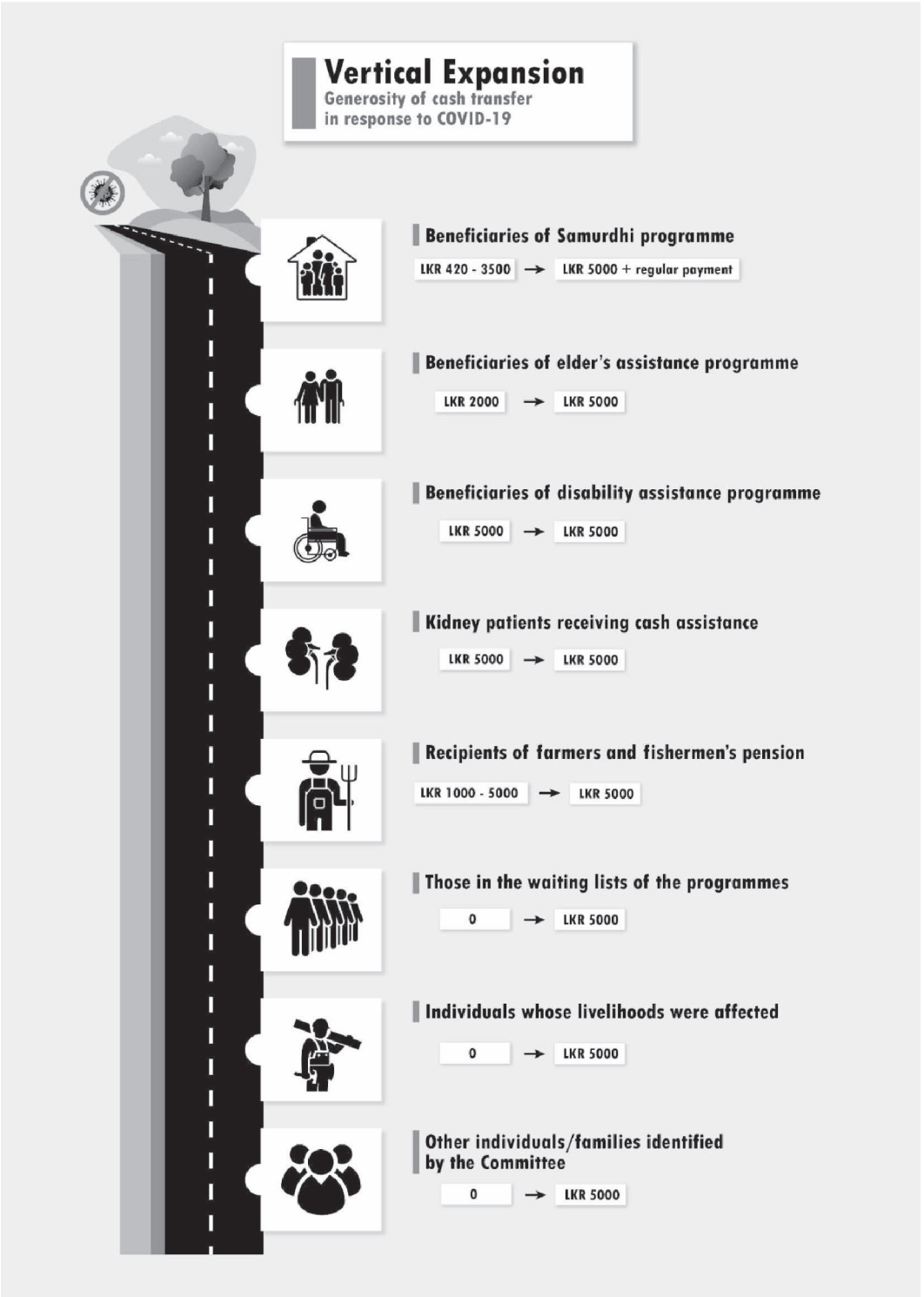
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[26] Based on information from the Department of Samurdhi.

[27] United Nations Children's Fund, Sri Lanka. (2020, June 01). *Tackling the COVID-19 Economic Crisis in Sri Lanka: Providing Universal, Lifecycle Social Protection.* Retrieved June 25, 2020 from United Nations Children's Fund, Sri Lanka: https://www.unicef.org/srilanka/reports/tackling-covid-19-economic-crisis-sri-lanka-providing-universal-lifecycle-social-protection

[28] Tilakaratna, G., & Sooriyamudali, C. (2018). Food–based Social Assistance Programmes in Sri Lanka: Evolution and Transition to Cash Transfers (Chapter 4). In H. Alderman, U. Gentilini, & R. Yemtsov (Eds.), *1.5 Billion People Question: Food, Vouchers or Cash Transfers?* Washington D.C.: World Bank.

[29] Under the farmers and fishermen's pension scheme, current recipients aged 60-63 years receive Rs 1000 per month, 64-70 years Rs 1,250/-, 71-77 years receive Rs 2,000/- and 78 years and older receive Rs 5,000/-.



Source: Author's analysis based on information/data obtained from various sources.

As discussed earlier, the committees formed with key officials at the village level were set up in each GN division/ward to select potential beneficiaries for the cash transfer measure. In the absence of an integrated social protection system, and lack of preparedness and capacity of existing programmes to cover a large number of additional beneficiaries at once within a short period of time, such committees can be thought of as the best method to select beneficiaries at the village/divisional level.

However, in practice, this method seems to have created issues leading to some division between committee members and dysfunction of committee to a certain extent in some areas. In some villages/divisions, it appears that the allowances for existing beneficiaries and those in waitlists for Samurdhi as well as the individuals whose livelihood activities were affected by the COVID-19 were disbursed through Samurdhi officers, while allowances for other beneficiaries like disabled and elderly persons were handled by GNs.[30] Additionally, allowances for recipients of farmers and fishermen's pensions were granted through post offices. Nevertheless, the operation of such multiple systems/distribution channels can lead to inefficiencies such as exclusion of eligible families and duplication of payments. In addition, inefficiencies related to the delivery process/method such as long queues to collect cash allowances and delays in distributing grants in some areas were also observed.

6.6 Conclusion and Policy Recommendations

Social protection can be considered an integral part of any coordinated policy response to a pandemic such as COVID-19. They can play a vital role to address consumption shortfalls, restore incomes and livelihoods, and thereby contribute to the recovery process. The unprecedented COVID-19 pandemic reiterates the need to strengthen social protection systems to build resilience against future crises.

The unprecedented pandemic reiterates the need to strengthen social protection systems to build resilience against future crises.

[30] Based on interviews with some GNs and SDOs of randomly selected divisions.

Around the world, most countries are already taking measures to strengthen their social protection systems as a response to the COVID-19 crisis. These include social assistance measure like cash and in-kind transfers, social insurance measures like pensions, unemployment benefits, social security contribution waivers/subsidisation, and active labour market related measures such as wage subsidies and training measures. Sri Lanka's main social protection measure in response to COVID-19 was a social assistance measure, i.e. a cash transfers with a total cost of around LKR 55 billion or 0.33% of GDP.[31] This fiscal stimulus measure through a cash transfers is on par with the social protection responses of other middle-income countries in Asia like Indonesia, Iran, and the Philippines and about half that of Malaysia's.[32] Nevertheless, such immediate/short-term measures are often inadequate to sustain the recovery and to mitigate future crises. Long-term measures are required to strengthen Sri Lanka's social protection system in order to enhance its preparedness and build resilience against future crises.

The following are some policy suggestions to strengthen the social protection system:

Integrated Social Protection System: The COVID-19 pandemic highlights the need for an integrated social protection system and a unified and coordinated structure at the national level, as well as at the divisional level in Sri Lanka. The existing system is a fragmented/ disintegrated system with parallel structures. The fragmented nature of the current social protection system has also resulted in programme overlap and duplication of beneficiaries leading to high administrative costs. It also causes potential beneficiaries to be left out of the social protection system. Thus, integrating the social protection system will promote synergies between programmes, improve their efficiency and outcomes.

The pandemic highlights the need for an integrated social protection system and a unified and coordinated structure at the national level as well as at the divisional level.

[31] United Nations Children's Fund, Sri Lanka. (2020, June 01). *Tackling the COVID-19 Economic Crisis in Sri Lanka: Providing Universal, Lifecycle Social Protection.* Retrieved June 25, 2020 from United Nations Children's Fund, Sri Lanka: https://www.unicef.org/srilanka/reports/tackling-covid-19-economic-crisis-sri-lanka-providing-universal-lifecycle-social-protection

[32] *Ibid.*

Developing a centralised beneficiary registry is a vital component of an integrated social protection system. Such an integrated beneficiary registry helps identify programme overlaps and duplication of benefits and helps reduce administrative costs. However, beneficiary registries include information on only those who have enrolled or have been selected for programme, but not all applicants (registrants) for the programme. The latter is often included in 'social registries', which can serve as a common registration and eligibility 'gateway' for people to apply for multiple programmes.[33] The experience of countries like Chile show how integrated beneficiary registries and integrated social registries are combined to form an integrated social protection information system. Such systems can serve as powerful tools to assess the 'demand' for social programmes (via integrated social registries) and monitor and coordinate the 'supply' of social programmes (via integrated beneficiary registries), thereby addressing beneficiary overlaps and targeting errors to improve the efficiency of the social protection system overall.[34] Such an integrated system can also play an important role at times of crises like the COVID-19 pandemic, in identifying potential beneficiaries to be covered under immediate new measures taken in response to disasters.

Scaled-up /Universal Coverage: The COVID-19 pandemic has also shown that not only the poor and vulnerable, but all segments of the population require protection. This calls for a universal social protection system, including social protection floors.[35] In fact, "implementing nationally appropriate social protection systems and measures for all, including social protection floors, and achieving substantial coverage of the poor and vulnerable" is a sustainable development goal (SDG) target that Sri Lanka has already committed to achieve by 2030.

Despite the large number of social protection programmes, the existing social protection system in Sri Lanka excludes a considerable proportion of its population. This includes particularly some middle-income groups whose income is insecure and who engage in work/jobs of a precarious nature, referred to as the 'missing middle'. This stresses the need to strengthen the country's social protection system to ensure that everyone has access to a basic level of income security across life cycles. In particular, the considerable proportion of 'missing middle'[36] in Sri Lanka's existing social protection system indicates the need for basic income security for all persons in active age, including informal workers.

The introduction of an unemployment insurance scheme covering all formal sector workers (including contractual workers attached to the formal sector) can be an important measure to protect the vulnerable against job/income loses at times of crises like COVID-19. In the meantime, it is vital to take strict measures to bring all firms that continue to operate as informal employers, yet satisfy the criteria for formal sector institutions

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[33] Leite, P., Karippacheril, T.G, ., Sun, C., Jones, T., & K Linde. (2017). *Social Registries for Social Assistance and Beyond: A Guidance Note and Assessment Tool.* Social Protection and Labour Discussion Paper No 1704, World Bank Group. Washington D.C.: World Bank.

[34] *Ibid.*

[35] International Labour Organisation. (2020). *Social Protection Responses to the COVID-19 Pandemic in Developing Countries: Strengthening Resilience by Building Universal Social Protection, International Labour Organisation, May 2020*. Retrieved June 25, 2020 from International Labour Organisation: https://www.ilo.org/secsoc/information-resources/publications-and-tools/Brochures/WCMS_744612/lang--en/index.htm

[36] United Nations Children's Fund, Sri Lanka. (2020, June 01). *Tackling the COVID-19 Economic Crisis in Sri Lanka: Providing Universal, Lifecycle Social Protection*. Retrieved June 25, 2020 from United Nations Children's Fund, Sri Lanka: https://www.unicef.org/srilanka/reports/tackling-covid-19-economic-crisis-sri-lanka-providing-universal-lifecycle-social-protection

(e.g. number of regular employees greater than or equal to 10 and/or keep formal accounts) into the formal sector. The employees of these firms should also be given access to the suggested unemployment insurance scheme. Nevertheless, it is not feasible to cover informal sector workers like the self-employed/own-account workers by an unemployment insurance scheme. Thus, measures need to be taken to cover these groups by the country's social assistance programmes such as Samurdhi. This requires clear identification of an entry and exit strategy for the Samurdhi programme, periodic monitoring of clients, and putting in place mechanisms to enable the absorption of new groups that fall into poverty at times of crises.

Digitisation of Payments: In response to the pandemic, many countries including Sri Lanka were compelled to scale up their existing social protection measures. In doing so, most granted cash transfers to a considerable number/ proportion of individuals who were outside the traditional social protection mechanisms. However, in the absence of digital payment systems, scaling up of social protection measures at times of emergencies is a challenging task. By contrast, countries with advanced government-to-person (G2P) payment ecosystems are able to disburse transfers instantly.[37] Digital payment systems do not require both physical mobility of people and payments in cash. As such, digital payment systems are key to improve efficiency of the delivery process, without delays and higher transaction costs, while complying with health guidelines to combat a pandemic. It is time for Sri Lanka too to consider digital payment systems for delivery of cash transfers.

It is time for Sri Lanka to consider digital payment systems for delivery of cash transfers.

It is argued that cash assistance can be delivered most efficiently "when the percentage of the population that has access to the three components – identity documents (IDs), phones, and financial accounts – is high, systems are well-integrated, the existing system of benefits and transfers has wide coverage, and benefits

[37] Rutkowski, M., et. al. (2020). *Responding to Crisis with Digital Payments for Social Protection: Short-Term Measures with Long-term Benefits.* Retrieved May 31, 2020 from World Bank: https://blogs.worldbank.org/voices/responding-crisis-digital-payments-social-protection-short-term-measures-long-term-benefits)

are paid through financial accounts linked to the ID".[38] The experience of India has been cited as a best practice model in this regard, where a large share of the country's adults have bank accounts and around 80% of the country's bank accounts are linked to its biometric ID system (Aadhaar). This has enabled the Indian government to shift to digital transfers for many of its cash and in-kind support programmes and distribute payments faster to needy groups as part of its COVID-19 response.[39]

Given Sri Lanka's high proportion of adults with bank accounts, high mobile penetration and the well implemented national ID system, the country is in a fairly good position to move to a digital G2P payment system. Nevertheless, in the digitisation process of cash transfers, it is important to ensure that such digital methods do not lead to the exclusion of vulnerable segments such as the elderly, the disabled, and people living in remote areas, who may not have access to/or knowledge of the required technology.

[38] Gelb, A., & Mukherhee, A. (2020, April 6) *Covid-19: How Countries Can Use Digital Payments for Better, Quicker Cash Transfers.* Retrieved 12 August from CGDEV https://www.cgdev.org/blog/covid-19-how-countries-can-use-digital-payments-better-quicker-cash-transfers

[39] *Ibid.*

7. COVID-19 and the World of Work

7.1 Introduction

The coronavirus (COVID-19) pandemic originated as a public health crisis, then developed into a global economic crisis, with severe impacts on economic activity, employment and trade. The International Labour Organisation (ILO) describes COVID-19 as the "worst global crisis since the second world war".[1] The worldwide lockdowns, business disruptions, travel restrictions, and mandatory or recommended workplace closures are having drastic impacts on workers and enterprises, especially among smaller enterprises, while millions of workers are vulnerable to loss of income and layoffs.

According to the ILO, more than four out of five people (80%) in the global workforce are currently affected by full or partial workplace closures.[2] Further, a majority of job losses and declining working hours are occurring in hard-hit sectors like accommodation and food related services, manufacturing, wholesale and retail trade, and real estate and business activities. The ILO also estimates that 1.25 billion workers employed in these sectors are now facing a sharp decline in output and a high risk of workforce displacement – i.e. increases in layoffs and reductions in wages and working hours. As a result, in many countries, employment retrenchment has already started on a large scale, although exact estimates are not available owing to the absence of proper data.

Governments are struggling to safeguard their businesses and workers from financial hardship and potential collapse. It is critical to provide immediate relief to workers to protect livelihoods, as well as adopt measures to ensure employee retention, adequate social protection for all, and aim to finally achieve a job-rich recovery. In this context, this chapter discusses key areas that need to be addressed to ensure worker protection as well as a sustained recovery in the medium-term. The rest of the chapter is organised to provide a brief background on the impact of the COVID-19 pandemic on Sri Lanka's labour market, to assess the channels through which the impacts are transmitted, to examine possible solutions from international best practices, and identify key areas that need policy attention to better prepare Sri Lanka to face similar emergencies in the future.

7.2 COVID-19 Pandemic and the Labour Market

As COVID-19 spread, many countries imposed partial or total lockdowns that restrict operations of businesses and movement of a vast majority of workers, with workers advised to work from home. However, for many, it is not a workable solution. For instance, even in an advanced

[1] International Labour Organisation. (2020). *ILO Monitor: COVID-19 and the World of Work. Second Edition.* Geneva: International Labour Organisation.

[2] *Ibid.*

economy like the US, according to its Bureau of Labour Statistics, only one in four American workers have a job that allows them to work from home.[3] The survey also reveals that workers at the lowest income group are the least likely to be able to work from home – for instance, a mere 9% of workers in the lowest 25th percentile income group can work from home, compared with 62% of workers in the highest 25th percentile.

This situation is worst for low and middle-income countries that tend to have a high proportion of workers in informal employment. For instance, Sri Lanka's labour force survey (LFS) suggests that only one out of every five households own either a desktop or a laptop computer,[4] limiting the ability of its labour force to work from home. It is also the case that there is a high proportion of workers in the informal sector, estimated at around 68% of total employed.[5] Many are temporary and casual workers who depend on daily wages for survival. As such, low and middle-income countries tend to be more vulnerable to crisis situations like COVID-19, where workers face high risks of falling into poverty as well as greater challenges in regaining livelihoods.

Informal workers are usually engaged in low-wage and precarious jobs – i.e. temporary and casual workers as well as the self-employed. These jobs lack basic protection that formal jobs typically provide such as social protection coverage, paid leave, etc., and such informal sector workers are often left without any income replacement if they are unable to work in case of sickness, etc. As such, lockdowns and other containment measures imposed due to the COVID-19 pandemic situation – closure of businesses, travel restrictions etc. – affect income-generating activities of millions of informal workers, putting them at risk of falling into poverty during the crisis.

Thus, the impact of COVID-19 on income-generating activities is especially harsh for unprotected workers and the self-employed in the informal economy. This is so mainly because of weak institutional arrangements. For instance, (i) the self-employed, temporary employees and daily wage workers lack contractual arrangements which lead to lack of job security, and (ii) they lack social protection and social safety nets that provide health or unemployment insurance coverage. Thus, these vulnerable groups face high risks of poverty due to various external shocks, even those such as natural disasters, seasonal unemployment, etc.

Amidst the intensifying and expanding repercussions of COVID-19, businesses across a range of economic sectors in manufacturing, travel and tourism, etc. are undergoing catastrophic losses. Significant drops in demand mean widespread worker redundancies. In turn, unemployed individuals will be desperate to find new jobs to survive in this time of uncertainty.

Some sectors like supermarket supply chains, health/social care, and medical supply manufacturers will experience high demand. It will create more labour demand in these sectors which can also result in the exploitation of labour. High labour demand in a few sectors can lead to exploitation in two ways: first, existing staff may be forced to work overtime and do extra shifts while

[3] Chalabi, M. (2020, March 27). *Coronavirus Quarantine: Only One in Four Americans Can Work from Home.* Retrieved May 2, 2020, from The Guardian: https://www.theguardian.com/world/2020/mar/27/coronavirus-working-from-home-privilege

[4] Department of Census and Statistics. (2018). *Sri Lanka Labour Force Survey Annual Report.* Battaramulla: Department of Census and Statistics.

[5] *Ibid.*

undermining their worker rights; second, at this time of crisis, businesses might choose instant solutions like cost-saving decisions that do not support decent labour standards. Also, employers may hire new temporary staff, abiding by minimal labour worker rights.

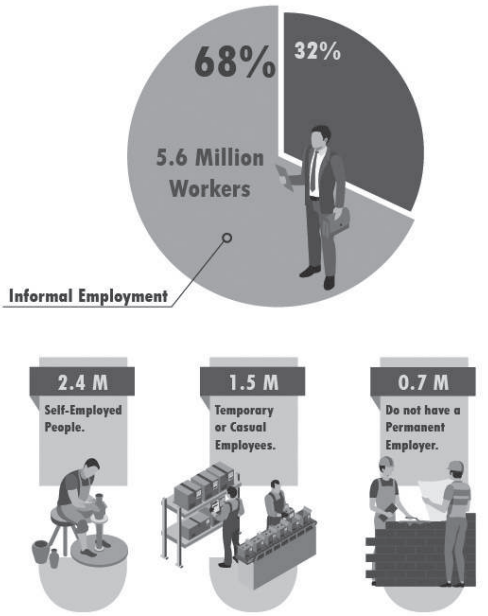
These labour market changes will result in significant shifts in workforces from struggling sectors to booming sectors. However, unscrupulous employers can take advantage of these upheavels to exploit labour. Such risks will be exacerbated by labour enforcement authorities adopting a more remote system of working. Not only will a majority of staff be working from home during a crisis like COVID-19, there is likely to be a complete absence, or very limited numbers of employees physically visiting premises to carry out assessments. If there is an inability to ensure labour standards, vulnerable workers may be forced into taking risks if employers are tempted to misuse labour rights.

7.3 Impact of COVID-19 on Sri Lanka's Labour Market

7.3.1 Background

Similar to other low and middle-income countries, the informal economy plays a major economic role in Sri Lanka too, which contributes to jobs, incomes and livelihoods of millions of people. Based on employment characteristics, informal workers can be clubbed into three: (i) self-employed like agricultural workers, petty traders, tailors, barbers, trishaw/taxi drivers and many others, (ii) temporary/casual employees, who are not benefitted under employment based social security, and (iii) daily wage workers who do not have a permanent employer such as construction workers, labourers etc. According to the labour force survey (LFS) 2018, of the total employed, around 68% (5.5 million workers) are in informal employment.[6] This includes 2.4 million self-employed people,1.5 million temporary/casual employees and 0.7 million employees who do not have a permanent employer (Table 7.1).

During a pandemic such as COVID-19, the presence of a large informal sector is particularly worrying because informal workers are highly



susceptible to an economic shock. Almost all informal workers were deprived of their livelihoods during the crisis containment measures, and are desperately in need of government assistance.

[6] According to the informal employment definition, all of the contributing family workers, self-employed, employees whose employers are not contributing to a pension scheme or provident fund on their behalf and employees who do not have permanent employer are considered as informal employment.

Furthermore, due to the evolving economic and social crisis, the share of workers in informal employment appears set to increase further. This is because as businesses close during the crisis, it is more than likely that even some permanent employees in the small and medium enterprise (SME) sector will lose their jobs too.

these temporary workers lack basic protection like job security, are entitled to limited social security benefits, and suffer from low-paid and occupational safety and health issues, etc.[7] In a disaster situation like COVID-19, as businesses face severe losses which put their operations at threat, unprotected workers who do not have an

Table 7.1
Main Sectors of Employment

Employment Status	No. of Workers	Informal Employment	Social Protection Coverage (%)	Contract Letter (%)
Public sector employees	1,158,474	79,646	93	95
Private sector employees	2,819,493	1,692,098		
Permanent	1,092,787	140,233	92	78
Temporary/ casual	1,092,787	1,551,865	12	11
No permanent employer	655,055	655,055		
Employer	2,586,135	2,389,485		
Self employed	574,814	574,814		
Unpaid family workers	221,194	128,394		
Total	8,015,165	5,519,492		

Source: Author's calculations based on LFS 2018 data.

7.3.2 Informal Employment and COVID-19

Precariousness of Temporary Employees: As in other global economies, Sri Lanka is also experiencing an expansion of temporary forms of jobs in recent decades. For instance, based on LFS data, out of 2.8 million private-sector wage employees, 61% were temporary or casual workers (Table 7.1). As mentioned previously, employment contract but work on a temporary basis and are not entitled for employment-based social security, are at high risk of facing drastic wage cuts and layoffs.

Data reveal that most of the temporary employees are not given any written contract. Although the law imposes an obligation to issue a letter of appointment to employees, around 89% of temporary and casual employees do not receive

[7] Jayawardena, P. (2017). *Why People Choose to Participate in the Non-Standard Forms of Employment in Sri Lanka.* Colombo: Institute of Policy Studies of Sri Lanka.

a written contract (Table 7.1). In the absence of documentation to establish employee-employer relationships, the rights of employees such as terms and conditions of employment, superannuation benefits, compensation, etc. are hindered. As such, employers can dismiss or layoff workers, or recruit them on short-term or ad hoc basis without much difficulty.

Further, a majority of temporary/casual workers are not benefitted under social security schemes. The Employees' Provident Fund (EPF) Act covers any employee irrespective of whether they are permanent, temporary, casual or shift workers (Box 7.1). However, data reveal that out of temporary workers, 88% are not covered by either the pension scheme or the EPF (Table 7.1). Such gaps in social protection coverage add to the financial vulnerability of workers in a disaster situation.

Of total temporary workers in Sri Lanka, 88% are not covered by either a pension scheme or EPF.

Box 7.1
Laws on Welfare of Private Sector Employees

Employees' Provident Fund (EPF)

Employees' Provident Fund (EPF) is a retirement benefit which was established to provide for the payment of superannuation benefits to persons employed in the private and corporate sectors, through a contributory mechanism provident fund. According to the EPF Act, regardless of the nature and category of the business, an employer even with one employee is required to register their employees with the Department of Labour for the government social security scheme, EPF. Further, it states that all employees should be enrolled for EPF regardless of whether they are permanent, temporary, apprentice, casual or shift workers.

Employees' Trust Fund (ETF)

Employees' Trust Fund (ETF), which has been in place since 1980, serves as a social welfare fund. The employer is required to contribute 3% of salary for each employee, while the employee does not contribute. The employee's credit balance in the fund can be withdrawn once every five years to provide income support due to cessation of employment. Reasons for cessation could be retirement, resignation, dismissal, vacation of post, etc.

Sources: EPF Department, Central Bank of Sri Lanka. (n.d.). *What is EPF.* Retrieved May 2, 2020 from Employees Provident Fund http://www.epf.lk/whatisepf.php; Employees Trust Fund Board. (n.d.). *Statutory Benefits.* Retrieved May 2, 2020 from Employees Trust Fund Board http://www.etfb.lk/sub_pgs/ben_statutory.html

Data reveal that 75% of wage employment created in the private sector during the 2006-2018 period was to do with recruitment for temporary and casual jobs.[8] However, the current COVID-19 crisis reveals the worrying consequences of a high proportion of temporary employees with limited job security and social protection. Without appropriate policy measures, around 1.5 million unprotected temporary workers face a high risk of falling into poverty due to income and job losses.

Research findings reveal that there are two key reasons for the increasing trends in temporary forms of employment in Sri Lanka.[9] One issue is related to labour supply-side factors such as less educated, unskilled workers, and the other relates to new labour market entrants, which combined have meant that more are likely to be engaged in temporary forms of employment. Further, as in many other countries, Sri Lanka also experiences exploitation of labour through recruitment of temporary workers to fill permanent job needs, while denying them permanent employee rights.

In addition, excessively restrictive legislation can also discourage formal job creation, and fail to provide real protection, as employers find loopholes and ways around the rules. For example, Sri Lanka does not permit a 'hire and fire' policy that employers in many foreign

Box 7.2
Potential Precariousness of Temporary Employees

- The job can be terminated with little or no prior notice by the employer.
- Hours of work are uncertain or can be changed at the discretion of the employer.
- Earnings are uncertain or irregular.
- Functions of the job can be changed at the discretion of the employer.
- No explicit or implicit contract for ongoing employment.
- No protection against unacceptable working practices, jobs of a dangerous nature that pose health risks, etc.
- The job is low income, at or below the minimum wage.
- Limited or no access to 'standard' non-wage employment benefits such as sick leave.
- There is limited or no opportunity to gain and retain skills through access to education and training.

Sources: Tucker, D. (2002). *Precarious Non-Standard Employment – A Review of the Literature*. Department of Labour Occasional Paper, 2002/02, Wellington.

[8] Over the 2006-2018 period, private sector temporary and casual workers have increased by around 400,000 while private sector permanent employees have increased by only 130,000 during the same period.

[9] Jayawardena, P. (2017). *Why People Choose to Participate in the Non-Standard Forms of Employment in Sri Lanka.* Colombo: Institute of Policy Studies of Sri Lanka.

countries enjoy. According to Doing Business 2019 data,[10] the severance pay for redundancy dismissal in Sri Lanka is the fourth highest in the world.[11] In this context, employers make use of gaps in legislation to evade rigid employment security policies.

Self-employed Workers: The self-employed represent 32% of Sri Lanka's workforce. In general, these workers live on low incomes, and lack social protection to supplement their low earnings or compensate in the event of loss of their income. Due to lockdowns and recommended closure of businesses, self-employed workers are especially exposed to a sudden drop in earnings. In such situations, most self-employed thus find themselves redundant as there is no demand for their jobs, or markets for their products, or they are not in a position to produce due to the scarcity of raw materials.

Of Sri Lanka's total self-employed, 40% are cultivators (farmers with land or self-employed in agriculture) and the rest are employed in non-agricultural sectors like industries and services. Given that agricultural sector workers continuously engaged in their farming activities during the lockdown period, non-agricultural sector constitutes the most-affected population group, particularly for businesses and workers operating in the informal economy. As such, the current crisis affects around 1.54 million self-employed in the non-agricultural sector.

Daily Wage Workers: Sri Lanka has around 700,000 workers who are not in permanent employment. With the entire country under a social and economic lockdown for nearly two months, those who survive on daily labour are the hardest hit. Most of these vulnerable workers live on day-to-day earnings, hold little money for transactional purposes and have almost no savings. As such, these workers mostly depend on grants received under government COVID-19 relief measures.

7.3.3 Workers at Risk: Sectoral Perspective

Based on real-time economic and financial data, the ILO has assessed key economic sectors which are considered at high risk of disruption from a drastic fall in output due to the COVID-19 crisis. Accordingly, these sectors are accommodation and food services related activities, manufacturing, and wholesale and retail trade and repair of motor vehicles. Further, transportation and storage are considered as medium to high-risk sectors, while the construction sector is deemed a medium-risk sector. Based on the ILO sector assessment, as well as taking into consideration the Sri Lankan context, Table 7.2 depicts five sectors considered as hardest-hit due to the COVID-19 crisis. These sectors are labour intensive and employ thousands of workers in the country.

According to the LFS 2018, 64% of temporary/ casual workers, 51% of self-employed and 50% of daily wage workers are employed in these most affected economic sectors. The economic risks will therefore be particularly hard for these workers. Those in the manufacturing sector –which employs around one million informal workers – are facing a devastating reduction in working hours, wage cuts and layoffs, as workers

[10] Doing Business. (n.d.). *Labour Market Regulations*. Retrieved May 2, 2020 from Doing Business https://www.doingbusiness.org/en/data/exploretopics/labor-market-regulation#difficultyFiring

[11] Average pay-out for workers with 1, 5 and 10 years of tenure, in weeks of salary.

are instructed to stay at home, factories close, and global supply chains come to a standstill. Closure of retail stores, and cancelled orders owing to suppressed demand are noticeable in key industries such as textiles, clothing, leather and footwear, etc.

Only 29% of Sri Lanka workforce is covered by social protection which mainly includes all public sector employees and the majority of private sector permanent employees (Table 7.1). Although, employees in temporary forms of employment are entitled to be enrolled for the EPF

Table 7.2
Workers at Risk: Sectoral Perspective

Employment Sector	Temporary/Casual		Self Employed		Daily Waged	
	Persons	(%)	Persons	(%)	Persons	(%)
Manufacturing	434,976	24	377,291	15	62,163	9
Construction	248,643	14	95,832	4	226,106	35
Wholesale and retail trade, repair of motor vehicles	287,002	16	518,003	20	17,791	3
Transportation and storage	121,058	7	257,081	10	15,168	2
Accommodation and food services	80,007	4	71,690	3	4,091	1
Total	1,171,686	64	1,319,897	51	325,319	50

Source: Author's calculations based on LFS 2018 data.

7.3.4 Labour Market Challenges

Workers at Risk: Informality, Social Protection and Hard-hit Sectors: As discussed under previous sections, it is evident that not all sectors nor all types of workers are equally affected. Workers at risk due to the COVID-19 crisis are those that have limited access to social protection coverage; this includes those employed in the informal sector and as well as those employed in hard-hit sectors as discussed above.

If workers at risk are compared, based on the above three aspects – informality, social protection and hard hit-sectors – it is noteworthy that a majority of Sri Lankan workers are at risk, as they have less access to social protection coverage (Figure 7.1). Sri Lanka's social protection coverage is only at 30%, much less than that of the average coverage in the Asia and Pacific region (40%).

social security scheme, only 12% of temporary/ casual workers are covered. This is mainly because the adherence to labour laws are not properly monitored in the informal sector. Thus, many informal sector workers are not enrolled in EPF. Furthermore, there is no established social security scheme for self-employed workers.

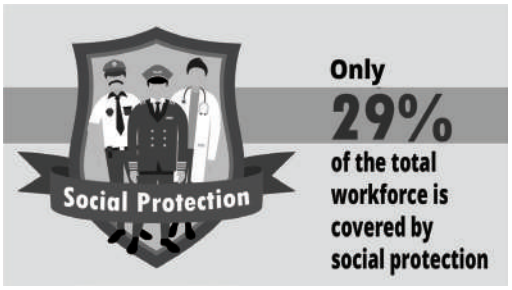
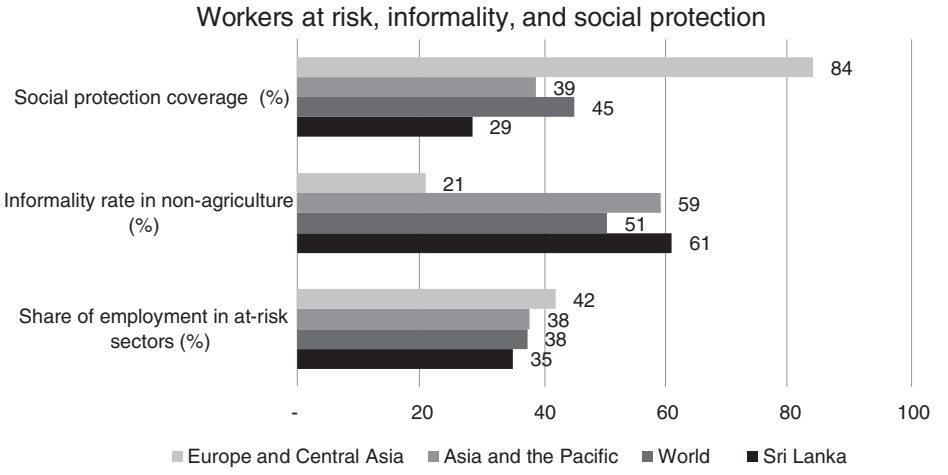


Figure 7.1
Workers at Risk: Informality, Social Protection and Hard-hit Sectors



Note: Sri Lanka estimates are constructed based on LFS 2018 data. Sectors considered at high-risk are accommodation and food service activities; manufacturing; real estate, business and administrative activities; and wholesale and retail trade, repair of motor vehicles and motorcycles.[12]

Source: International Labour Organisation. (2020). *ILO Monitor: COVID-19 and the World of Work. Second Edition.* Geneva: International Labour Organisation.

Lack of Unemployment Insurance: Sri Lanka does not have an unemployment insurance scheme and its active labour market policies are generally weak. The country is constrained by limited fiscal resources and lack of an adequate administrative framework to govern enterprises and implement unemployment insurance. Employers already contribute to the two social security funds, namely EPF and ETF, and to two termination schemes – severance pay, and gratuity.[13] As such, although unemployment insurance has been proposed in 2003 by the government, lack of agreement with regard to financing between employees', employers and the government have held it back.[14]

Limited Job Placements and Unskilled Workers: As already noted, around 1.5 million temporary or casual workers are employed in Sri Lanka's private sector. These workers are the most vulnerable to job losses due to the adverse business and economic conditions arising from COVID-19. Further, an increased number of migrant returnees (especially from the Middle East) can aggravate labour market pressures in Sri Lanka. Beyond the immediate placement

[12] In Sri Lanka's case, all the above sectors are considered, but public sector employees are excluded considering that their job is guaranteed.

[13] Gratuity is paid after five years of service regardless of the reason that the worker leaves the employer.

[14] Vandenberg, P. (2008). *Is Asia Adopting Flexicurity? A Survey of Employment Policies in Six Countries.* Geneva: International Labour Organisation.

The 1.5 million temporary or casual workers employed in Sri Lanka's private sector are the most vulnerable to job losses due to adverse economic conditions arising from COVID-19.

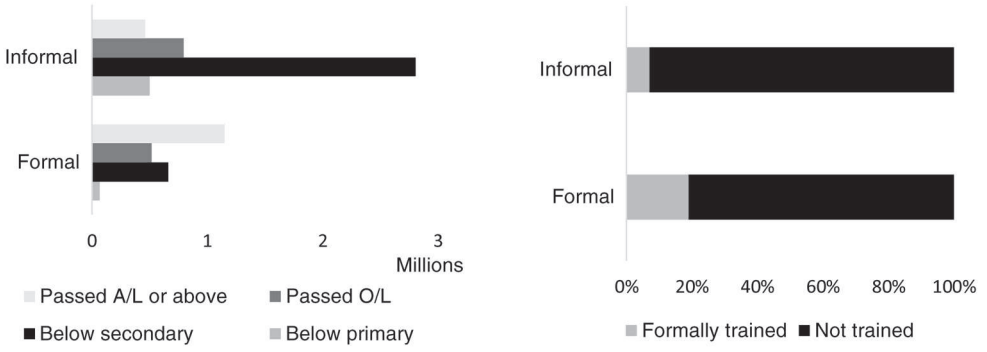


challenges, re-deploying workers is another problem given Sri Lanka's large unskilled workforce. For instance, of the working-aged (15-59 years) informal sector workers, around 72% have not passed the Ordinary Level Examination (O-Level), and 92% i .e. temporary, daily wage,are unskilled (Figure 7.2). As such, relevant skill development programmes are key to preparing unemployed workers for re-deployment between various economic sectors.

7.3.5 Government Response

Cash Assistance for Informal Workers: The government announced several relief measures for low income and vulnerable families in the face of COVID-19 outbreak in Sri Lanka. Key

Figure 7.2
Level of Education and Skills, 15-59 Year Olds



Source: Author's calculations, based on the LFS 2018.

measures which focussed on vulnerable workers include the LKR 5,000 stipend to Samurdhi recipients, cash allowance for farmers who are registered under the farmers' insurance scheme, relief schemes for private businesses that are not in a position to pay employees' wages due to economic hardships, relief on lease instalments for self-employed persons, etc. In the first stage, the government paid a cash allowance to the above mentioned groups who had been identified as directly qualified for financial assistance. Subsequently, the government identified that there are thousands more informal workers who had lost their livelihoods, lost employment or their avenues of income.

Accordingly, the government extended the financial assistance programme to preschool teachers, private bus drivers and conductors, indigenous medical practitioners, those engaged in handloom and domestic industries, small-scale tea growers and provincial journalists, etc. Small-scale business providers such as service providers attached to construction services, household-level businesses, are also covered under this relief measure. To be entitled for the financial grant, applicants must duly fill a form obtained from the Grama Niladhari (GN), certified by the relevant Divisional Secretary (DS) and the village committee.

However, such procedures that require people to physically visit places is not in accord with the prescribed COVID-19 control measures such as social distancing, avoidance of large gatherings, etc. Also, lack of computerised registration details, databases and limited coordination between government departments create additional issues on the transparency of the government relief measures in crisis conditions. In the absence of reliable data, it may be impractical to identify the needy, whose livelihoods are seriously jeopardised because of the lockdown. Some vulnerable workers are excluded from these relief payments due to unclear application procedures and targeting, while some better-off people receive grants using loopholes in procedures.

Employment Retention: Sri Lanka introduced some relief measures to enable enterprises to ease financial pressures to pay salaries. These included voucher-based schemes for affected employees in retail, hospitality and leisure businesses, and SME entrepreneurs.[15] Alternatively, an employer grant can be established to pay salaries depending on the number of employees. However, the government should link these measures to secure employment of both permanent and temporary workers of the beneficiary industries.

Further, the COVID-19 crisis has served as a wake-up call by revealing serious gaps in employee protection systems such as limited information on private sector employees, low social protection coverage, etc. Due to limited data, labour authorities are unable to grasp the overall impact of the COVID-19 crisis, on businesses as well as on workers. As an initial step, the Department of Labour launched an e-survey on private sector establishments affected by COVID-19, to capture important data in order to take appropriate decisions in terms of protecting both the businesses and employees. The survey requests details ranging from the nature of the business, the total number of employees (permanent/temporary), employment status, whether companies have already terminated its employees and how many, etc.

[15] PricewaterhouseCoopers (Private) Limited. (2020). *COVID-19- Outbreak - Impact on Sri Lanka and Recommendations.* PricewaterhouseCoopers (Private) Limited.

Remote Working System: The Sri Lankan government took every possible measure to contain the spread of COVID-19. To prevent the unnecessary gathering of people, a period of 'work from home' was declared for both public and private sectors. This was applicable with the exception of essential services such as health, public administration, transportation, banking, food, water, electricity, distribution of fertiliser and purchasing and distribution of paddy. The remote working system started from mid-March 2020 and lasted for about one month for the entire country, with an extended work from home period of another one month in Colombo, Gampaha and Kalutara districts. When implementing the remote working system, the government advocated the use of alternative technological approaches such as e-mail, SMS and telephone, as well carrying out paper-based work from home.

The COVID-19 outbreak has prompted an anxious trial run for remote working for a country like Sri Lanka in several ways. The remote working system is not practical for most of the public sector institutions due to two key reasons. First, most public sector institutions are largely paper-based and have very limited computerised systems available for routine work. Second, employees have limited access to the internet and therefore working from home is not always a practical solution. According to the LFS 2018, at least one computer is available to only 22.3% of households in Sri Lanka. In other words, only one out of every five households own either a desktop or a laptop computer. Further, only 26.8% of the population use internet facilities as limited as once during twelve months.[16]

Further, remote work is not practical in many industries operating in the country. The industries where workers find it most difficult to work from home include manufacturing, transport, leisure and hospitality, as well as agriculture, forestry and fishing. However, working from home is strategic for some sectors, especially for the information technology (IT) sector. Given that most of the departments and institutions do not practise a work from home culture in Sri Lanka, it remains a challenge for employers to communicate with staff and monitor and manage workloads. However, COVID-19 also provides an opportunity for businesses to offer more flexible work arrangements for workers, and thereby reduce congestion and increase productivity. Importantly, the experience derived during the COVID-19 can help shape the future of remote work systems in Sri Lanka.

7.4 Better Prepared for Pandemics: International Best Practices

Given the rapidly deepening economic consequences of the COVID-19 crisis, many governments have put in place measures to provide income support to the population through social assistance programmes. Immediate support is essential for the most-affected sectors and population groups, particularly for enterprises and workers operating in the informal economy. To minimise short-term economic pain, specific and targetted measures are needed for countries with high levels of informality, including cash transfers to support those who are most affected by the lockdown and repurposing production to provide alternative employment. Immediate relief measures taken by governments include

[16] Department of Census and Statistics. (2018). *Sri Lanka Labour Force Survey Annual Report*. Battaramulla: Department of Census and Statistics.

the scaling up of existing social assistance benefits (including cash and in-kind benefits), increasing the adequacy of benefits, advancing payments, relaxing the eligibility criteria to increase coverage, and creating new social assistance benefits. Along with supporting those in the informal economy, efforts are needed to support formal workers and enterprises to ensure that they do not backslide into informality as a result of the crisis.

According to the ILO, large-scale, integrated policy measures are needed for a sustainable recovery. This is represented by its four-pillar post-COVID recovery priorities: (i) supporting enterprises, employment and incomes; (ii) stimulating the economy and jobs; (iii) protecting workers in the workplace; and, (iv) using social dialogue to find solutions (Figure 7.3). The rest of the section discusses possible solutions for Sri Lanka mainly under pillar 2 – i.e. supporting enterprises, employment and incomes so that the country is being better prepared to face similar emergencies in the future.

7.4.1 Social Protection for All

By exposing serious gaps in social protection systems, the COVID-19 crisis is a wake-up call for many countries. Evidence from previous crises shows that countries that have effective social protection systems in place, which provide universal coverage, are better prepared to respond to the COVID-19 crisis and its socio-economic impacts.[17] The current crisis has expedited much-needed reform by compelling governments to temporarily extend social protection to uncovered groups by introducing

Figure 7.3
Policy Framework - Four Key Pillars to Fight COVID-19 based on International Labour Standards



Note: OSH = Occupational Safety and Health

Source: International Labour Organisation. (2020). *ILO Monitor: COVID-19 and the World of Work. Second Edition*. Geneva: International Labour Organisation.

[17] International Labour Organisation. (2020). *Social Protection Responses to the Covid-19 Crisis. Country Responses and Policy Considerations. Spotlight Brief.* Geneva: International Labour Organisation.

additional relief measures. It is important to ensure adequate social protection coverage for workers in all forms of employment that is adapted to their circumstances, in line with international social security standards. This is particularly the case for benefits, that have low coverage and are often overlooked, such as sickness benefits and unemployment protection.

Thus, governments should seize this opportunity to strengthen their social protection systems, together with social partners and other stakeholders. In particular, the comparative advantage of a universal social protection system is that it reaches everyone, who are primed to be protected and all those affected by an external shock. Furthermore, in an emergency, social protection transfers can be scaled up easily with minimal administrative work. Thus, in a complex, fast-moving and unpredictable crisis like COVID-19, universalism is preferable to targetted approaches.[18] This is especially true where a very high proportion of the population is vulnerable. Universalism makes more practical sense than ad-hoc efforts to 'effectively' target, which can otherwise result in dropping vulnerable workers as well as misuse of relief funds. The ILO stresses this as an important step towards promoting decent work, while every effort should be taken to deliver sustainable social protection mechanisms for all categories of workers.

7.4.2 Employment Retention: Preventing Job Losses

Specific measures taken by governments to prevent job losses, while supporting companies to retain workers through short-time work benefits/partial unemployment benefits are important in crisis conditions. Japan relaxed its 'employment adjustment subsidy' qualifications to pave the way to incentivise employers, to retain workers by paying leave allowances and letting employees take partially paid leave.[19] The subsidy reimburses two-thirds of the leave allowance for SMEs or half for large enterprises. Then, upon recovery from the crisis, Japan can mobilise these workers (due to the continued employment relationship), much more quickly than those countries that have let workers go indefinitely. Such partial unemployment benefits have played a critical role in supporting recovery after the 2008/2009 global financial crisis (GFC). For instance, in Germany, partial unemployment benefits allowed employers to retain their workers during the crisis, avoiding firing and rehiring costs and quick responses as markets picked up again, thereby allowing for a faster recovery from the crisis.[20]

7.4.3 Unemployment Protection and Supporting those Who Lose Jobs

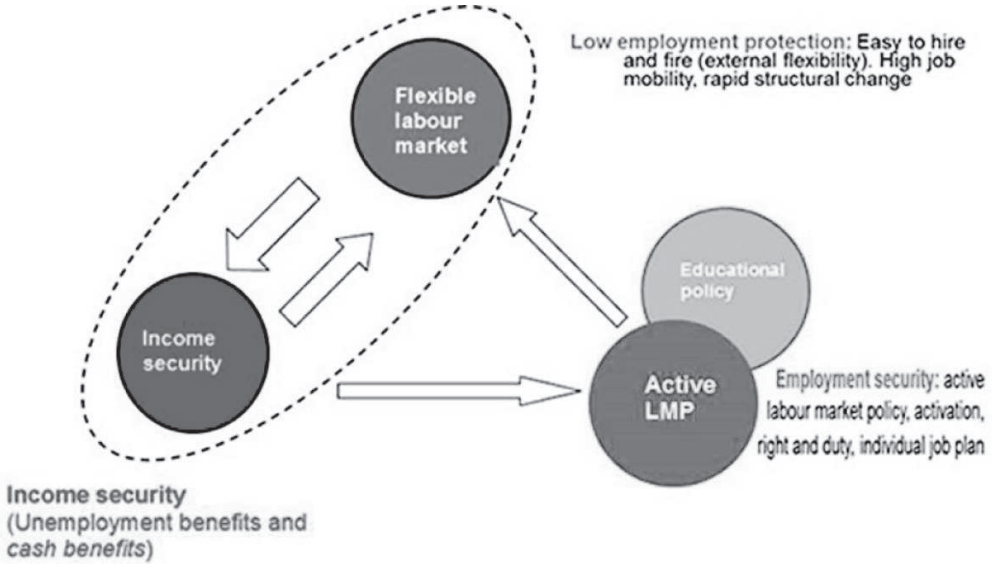
Many of the Organisation for Economic Cooperation and Development (OECD) countries practise a 'flexicurity' labour market model. It is one in which the twin elements of flexibility and security are both present, whereas some effort is also made to balance these (Figure 7.4). Some countries emphasise security, while others focus more on flexibility. Flexicurity is often closely associated with 'labour market security' in which key elements of security are unemployment insurance or re-training, which are administrated by or through the state.

[18] International Labour Organisation. (2020). *Social Protection Responses to the Covid-19 Crisis. Country Responses and Policy Considerations. Spotlight Brief.* Geneva: International Labour Organisation.

[19] *Ibid.*

[20] International Labour Organisation. (2011). *Social Protection Floors for Social Justice and a Fair Globalisation, Report IV(1), 101th Session of the International Labour Conference 2012.* Geneva: International Labour Organisation.

Figure 7.4
The Golden Triangle of Flexicurity Model



Source: Danish Agency of Labour Market and Recruitment. (2020). Flexicurity. Retrieved May 2, 2020 from Danish Agency of Labour Market and Recruitment https://www.star.dk/en/about-the-danish-agency-for-labour-market-and-recruitment/flexicurity/

Unemployment Social Insurance: In responding to the COVID-19 crisis, many governments utilise their unemployment protection schemes for coping with the devastating employment impact of the crisis. For instance, China extended unemployment assistance for unemployed workers, who do not meet the minimum criteria for employment social insurance. Hence, such workers can apply for unemployment assistance. In Thailand, the Social Security Office (SSO) is legislating an increase in unemployment benefits and its duration for 2020 and 2021 for cases of layoffs.[21]

Re-skilling: Some countries coordinate unemployment protection with measures to facilitate access to employment services. These include job-matching, skills development and active labour market policies (ALMP) to support temporarily displaced workers find a new job, including through online job counselling. For instance, Philippines Technical Education and Skills Development Authority (TESDA) conducts free courses for all who prefer to acquire new skills from the convenience of their own homes, mobile phones and computers through the TESDA online programme.[22] The Indonesian government is implementing a new scheme called 'Pre-employment Card Programme' which primarily aims at up-skilling two million young workers while paying a lump-sum allowance to cover their accommodation and transportation

[21] International Labour Organisation. (2020). *Social Protection Responses to the Covid-19 Crisis. Country Responses and Policy Considerations.* Geneva: International Labour Organisation.

[22] *Ibid.*

costs during the training programme. Hong Kong is increasing its annual funding for employment programmes and raising the allowance ceiling for on-the-job-training. The Korean government foresees job re-training for workers who have lost their jobs. Further, the government may provide wage support for small merchants and increase job seekers' allowance for young adults, and reintroduce job seekers' allowance for those from low-income households.

7.4.4 Tax and Other Relief for Enterprises

To alleviate liquidity constraints on enterprises, many governments decided to temporarily modify the payment of social security contributions and tax payments for enterprises. For instance, in China, provinces are allowed to exempt SMEs from employers' contribution to three social insurance schemes – pension, unemployment and employment injury – for up to five months and larger enterprises can reduce their contribution by 50% for up to three months.[23] In Thailand, the SSO will reduce financial contributions pertaining to both the employees and employers – from 4-5% for six months with an extension of the deadline for financial contributions for three months.[24] However, the ILO stresses that although the above measures can provide important short-term relief towards affected enterprises, it is essential to consider that these are temporary, and do not undermine the financial sustainability of social security institutions, especially in times when social protection systems need to increase expenditures to meet increased demands.[25] Further, it is important to assure that this suspension of contributions will not affect future entitlements.

7.5 Towards a Job-rich Recovery in Sri Lanka

As in the case of many other countries, the COVID-19 pandemic is resulting in major public health challenge as well as serious economic and social impacts in Sri Lanka. The government implemented several immediate relief measures like cash transfers, tax concessions, etc., to provide immediate support for the most-affected sectors and population groups, particularly for workers operating in the informal economy. Without these relief measures, workers face a much higher risk of falling into poverty and therefore, they will experience greater challenges in regaining their livelihoods during the recovery period. While implementing these relief measures, the government had to face several issues related to targetting vulnerable groups due to lack of integrated systems, limited data, and so forth.

Evidence from previous crises shows that countries that have effective social protection systems in place are better equipped to respond to COVID-19. These economies have the capacities to scale up the already developed systems relatively quickly in response to the crisis. The comparative advantage of a universal social protection system is that it is a comprehensive database of all income earners on their economic activities. In a fast-moving and unpredictable crisis like COVID-19, social protection transfers can be scaled up quickly and with relative administrative ease. This is an opportunity and a wake-up call for countries to prioritise investments in their social protection systems to better address future challenges. Especially countries like Sri

[23] International Labour Organisation. (2020). *Social Protection Responses to the Covid-19 Crisis. Country Responses and Policy Considerations.* Geneva: International Labour Organisation.

[24] *Ibid.*

[25] International Labour Organisation. (2020). *Social Protection Responses to the Covid-19 Crisis. Country Responses and Policy Considerations. Spotlight Brief.* Geneva: International Labour Organisation.

Lanka with a large informal sector, extending social protection to those not covered yet should be at the centre of future policy efforts.

The COVID-19 crisis revealed the coverage gaps of Sri Lanka's social protection system for informal workers – i.e. temporary workers, daily wage workers as well as self-employed workers. With the current social security system, only 29% of the workers benefit from employment-based social protection schemes. Further, many migrant returnees who have lost or are at the risk of losing their jobs due to the current crisis, are not receiving social protection in either the host or home country.

With the existing social security system, Sri Lanka faces challenges with pressing issues on how to meet the social security needs of a large and growing informal sector within the current systemic capacity. To extend coverage to those not currently eligible for any existing scheme, a social insurance scheme can be introduced. It is necessary to ensure adequate social protection coverage that can be adapted to the circumstances of all categories of informal workers – temporary workers, daily wage workers, self-employed and migrant workers. Such a social insurance scheme will safeguard those who have lost livelihoods in a crisis.

Further, with a focus on job retention by easing the cost of employment of affected sectors, governments of many countries have implemented wage subsidies to enable employers to continue paying employee wages during the crisis period. However, given Sri Lanka's fiscal constraints, any such wage grants can come via indirect channels such as interest free loans, concessions on pay-outs for social security contributions and reduced utility bills, etc. However, all such measures should be linked with a company employee retention programme,

It is necessary to ensure adequate social protection coverage that can be adapted to the circumstances of all categories of informal workers – i.e. temporary, daily wage, self-employed and migrant workers.

as tax concessions will enable enterprises to pay salaries and refrain from job redundancies. Further, it is essential to ensure that employers do not undermine the future financial sustainability of social security funds.

As discussed before, labour market policies in Sri Lanka provide employment security, but not labour market security. The COVID-19 crisis shows the importance of increasing the flexibility of the labour market, and the need to move towards income protection (through flex-security) rather than job protection. The government can facilitate permanent employment in the private sector by introducing strategic protective measures to safeguard the rights and benefits of workers, such as unemployment insurance, universal pension schemes, etc. Currently, there is no unemployment insurance in Sri Lanka, where financing is the key constraint. Given that ETF provides some income support in an unemployment situation, the government may consider converting the ETF to a proper unemployment insurance scheme.[26] Discussions between employers, unions and the government will be needed to explore if the ETF should be transformed into an unemployment insurance (UI) scheme for all categories of workers, based on a fair sharing of the cost between employers, workers and government. This may be an important step towards promoting decent work and supporting a transition from the informal to the formal economy, and a job-rich recovery in Sri Lanka.

The ETF can be transformed into an unemployment insurance scheme for all categories of workers, based on a fair sharing of costs between the employers, workers and government.

Beyond employment retention measures, it is important to support job seekers who have lost jobs. Due to the current crisis, there are possible labour market changes which result in

[26] Resigning from a job allows the employee to withdraw the credit balance in the fund once in every five years.

significant shifts of workforces from struggling sectors to booming sectors. For instance, sectors like hospitality, retail, manufacturing, and travel and tourism are experiencing drastically low demand that can trigger worker layoffs. At the same time, supermarkets' supply chains, social care sectors and pharmaceutical supplies are experiencing significantly higher demand, and might be looking to hire new temporary staff. The government could mediate in these shifts in the labour market to assure a more decent transition for these vulnerable workers. For example, companies may be requested to provide data on employment shortages and surpluses. With such data, the government can facilitate re-deployment of human resources between diverse economic sectors, as well as plan for required re-skilling measures related to job seekers.

Additionally, the government can take measures to re-skill unemployed workers, as it is the key to the transition to new employment in booming sectors. To build recognition for re-skilling, public-private partnerships (PPPs) and recruitment schemes that feed directly to the job market are prerequisites. These allow re-skilling programmes to keep up-to-date with emerging trends, identify skills required in the job market, and provide relevant training. Also, training programmes should be developed in collaboration with the private sector, ensuring that these are relevant to skills in demand. Such programmes should be more work-oriented and focus on the types of skills that are in high-demand.

The COVID-19 crisis also provides an opportunity for firms to build the kind of technology and culture that can make remote work easier for those who want to capitalise on it in the future. For many companies, the current outbreak has triggered an anxious trial run for remote work on a grand scale. Businesses have to accept the fact that remote work is rather different. Employers should

Re-skilling programmes are necessary to keep up-to-date with emerging trends, identify skills required in the job market, and provide relevant training.

review their remote working policies and ensure that the use of appropriate home workstations are required and comply with relevant company procedures, if using personal devices for work. If employees are offered the option of working from home, employers should ensure compliance on occupational safety and monitoring of productivity. Managers have to develop a better system of judging productivity by setting targets and monitoring specific goals.

The experience gained during the last few months can help shape the future of a remote working system which might be an inevitable investment. For the government too, the experience derived during the crisis period is a classic opportunity to implement a distant-public service mechanism in the future. Further, this crisis is a good opportunity to expand digital technologies for payment systems, thereby saving time for both the service providers as well as clients. However, for many industries, working from home is not an option, especially for blue-collar workers. In such a situation, it is important to have a clear understanding as to providing a safe workplace for workers, such as sterilised working areas, sanitising of processes, providing transport facilities etc. Occupational safety and health guidelines have been issued by the Ministry of Health to help employers and workers prepare for, and respond to COVID-19 in the workplace, and to meet such emergencies in the future.

8. International Mobility Beyond COVID-19

8.1 Introduction

The rapid spread of the coronavirus (COVID-19) pandemic globally is partly a symptom of a highly integrated and interconnected world in an era of globalisation. Sri Lanka too is highly connected to various channels of international mobility such as movements across borders of tourists and migrant workers. Indeed, the country's first patient, diagnosed on January 27 2020, was a tourist from China. The second patient to be diagnosed (on March 13, 2020) was the first Sri Lankan with the virus, who had contracted it while serving as a tour guide to a group of Italian tourists. The fourth patient was the first returning Sri Lankan migrant to be diagnosed with the virus. Subsequent to the diagnosis of the second patient, the spread of COVID-19 in the country has been closely linked to international mobility of Sri Lankans. For instance, the examination of the history of exposure of the first 100 COVID-19 patients in Sri Lanka shows that 54 patients were Sri Lankans returning from other countries, four were foreign nationals returning to Sri Lanka, while another four contracted the virus from direct exposure to Sri Lankan returnees with COVID-19.[1]

As such, it is rational to argue that the contagion of the Sri Lankan population to COVID-19 escalated owing to the influx of returning migrant workers. Similarly, the spread of the disease was also fuelled by returnee Sri Lankan tourists/ pilgrims from countries such as India, despite the adoption of many restrictive measures. Given these critical trends, this chapter examines the interconnectedness between mobility and the spread of COVID-19 in Sri Lanka, and highlights resultant issues in labour migration that require policy attention if migration is to be repositioned for the better, in a post-COVID-19 era.

8.2 Burden, Preparedness and Experience

8.2.1 Return and Repatriation

As the scale of the COVID-19 began to emerge, the first group of Sri Lankans to request repatriation were 33 students in the Hubei Province in China – the epi-centre of the virus. Whilst the returning student migrants and their families underwent a 14-day state sponsored quarantine in Sri Lanka, a much larger crisis emerged with the return of large numbers of Sri Lankan migrants from various countries, especially from Italy, Korea and Iran.

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[1] Epidemiology Unit Ministry of Health. (2020). *Novel Coronavirus (2019-nCoV) - Situation Report – 2020.01.28.* Retrieved May 12, 2020 from Epidemiology Unit Ministry of Health: http://www.epid.gov.lk/web/images/pdf/corona_virus_report/sitrep-sl-eu-28-01.pdf

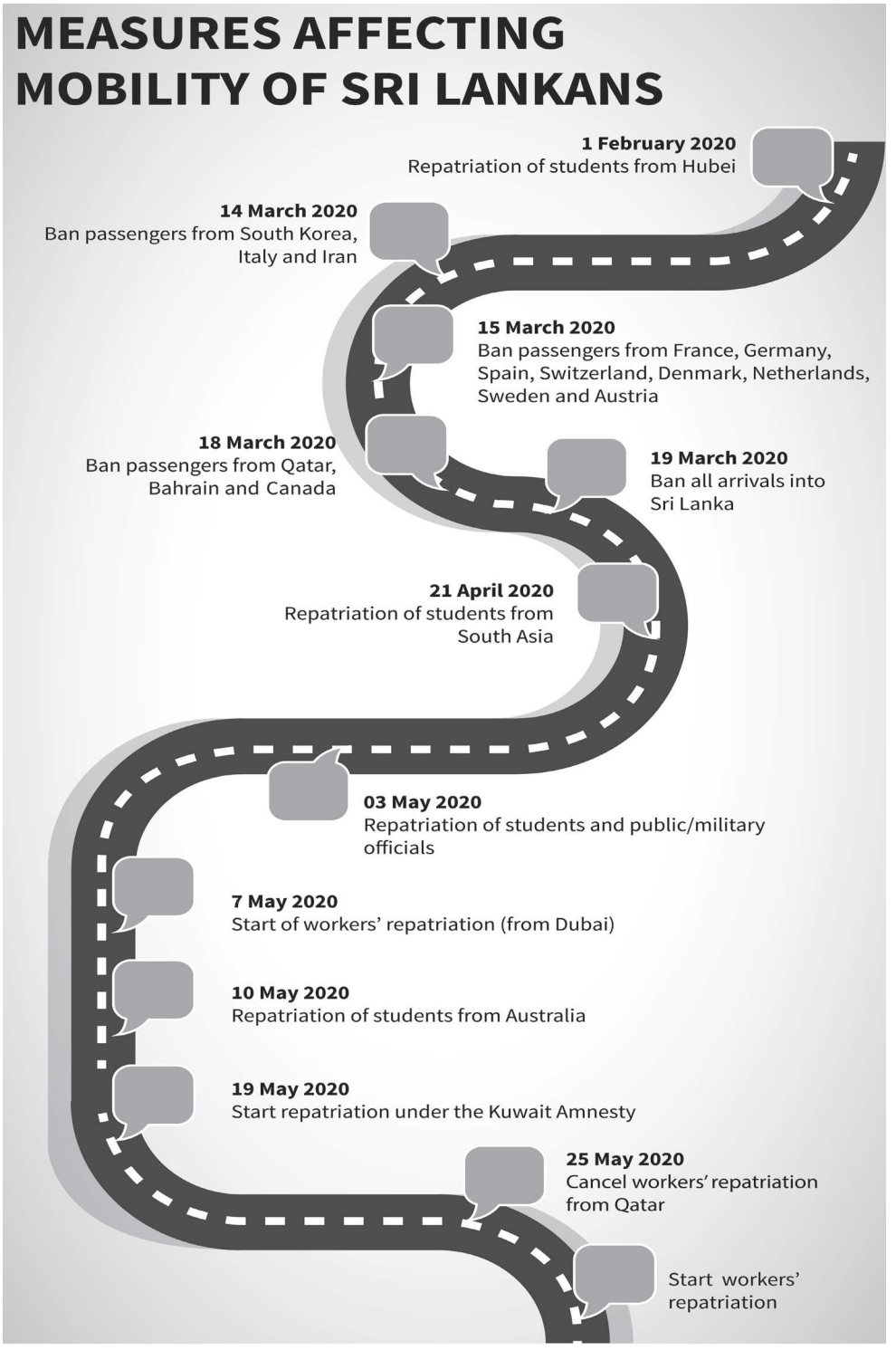
During these early stages, preparations to handle the influx of returnees was not optimal; some were sent to quarantine centres, some were requested to self/home quarantine, while others were allowed to join their communities without precautions. As a result, many reactive measures were needed to identify returning migrants and direct them to quarantine centres, including registration. To draw migrants who evade registration, outward migration for returnees was permitted only with a quarantine certificate issued by public health inspectors (PHIs). During this early stage of the pandemic in Sri Lanka, returning migrants were considered as the main cause for the spread of COVID-19, and were also stigmatised in the process.

As the virus spread, and the number of returning Sri Lankans increased, in addition to quarantine procedures, other restrictive measures were put into effect. These included barring arrivals from identified countries, and finally, closure of the Bandaranaike International Airport (BIA). Despite inward travel restrictions, outward travel from Sri Lanka was allowed in the initial phase. Except for migrant workers registered with the Sri Lankan Bureau of Foreign Employment (SLBFE), other Sri Lankans and all foreigners were allowed to leave the country.

As the spread of COVID-19 accelerated globally, the numbers of Sri Lankans overseas requesting repatriation grew. As of mid-June 2020, a total of 52,400 overseas Sri Lankans (OSLs) remained to be repatriated, out of which 2,590 (4.9%) were students, 5,825 (11.1%) were short-term visa holders, and the remaining 39,001 (74.4%) were migrant workers. From the latter group, 26,321 (50.2%) were living in the Middle East.[2]

During the early stage, preparations to handle the influx of returnees was not optimal; as a result, many reactive measures were needed to identify returning migrants and direct them to quarantine centres, including registration.

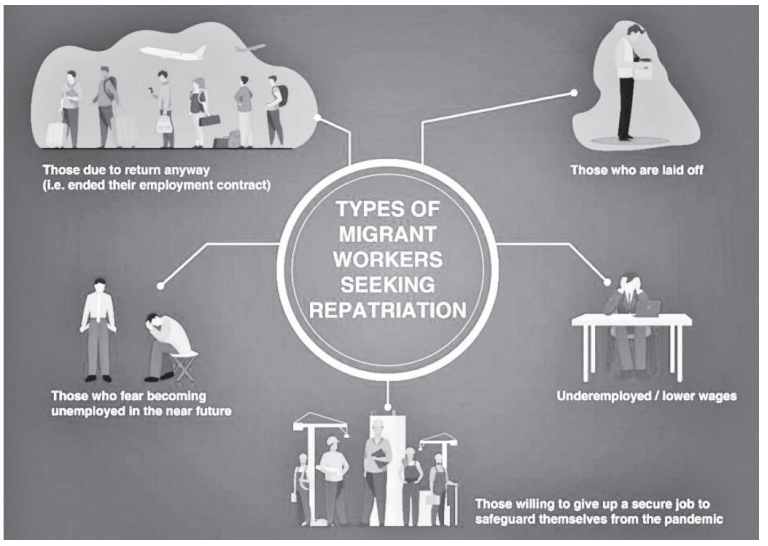
[2] Ministry of Foreign Relations. (2020). *Foreign Secretary Aryasinha Elaborates Cabinet Decision to Give Priority in Repatriation of Vulnerable Sector Among Overseas Migrants Workers*. Colombo: Ministry of Foreign Relations.



Source: Sri Lanka Travel. (n.d.). *Updates on COVID-19*. Retrieved May 20, 2020 from Sri Lanka Tourism Development Authority HYPERLINK "https://srilanka.travel/covid19/" https://srilanka.travel/COVID-19/

With closed borders, government facilitated returnees started to arrive in large numbers, starting with students, followed by stranded short stay visitors such as pilgrims, etc. Nevertheless, those requesting to return exceeded Sri Lanka's capacity to facilitate air transport as well as quarantine centres. Amidst criticism of delays, repatriation of migrant workers commenced in May 2020, based on a pre-planned priority of countries as well as migrant workers within such countries. For instance, some migrant workers in the Maldives and Bangladesh were considered as more vulnerable than in Kuwait in view of an amnesty granted by the latter to support repatriation efforts, etc. Amongst the many awaiting repatriation, large numbers were without employment as a result of being laid off. There were others who had completed their employment contracts and were aiming to return anyway. Additionally, two types of migrants holding jobs also sought to return – i.e. those still holding a job but are underemployed or fear becoming unemployed in the near future, and those risking their secure job to safeguard themselves from the swiftly spreading pandemic.

Amidst criticism of delays, repatriation of migrant workers commenced in May 2020, based on a pre-planned priority of countries as well as migrant workers within such countries.



Source: Weeraratne, B. (2020). *Repatriation and Replacement of Lost Foreign Jobs: Handling Labour Migration in Sri Lanka during COVID-19.* Talking Economics. Colombo: Institute of Policy Studies of Sri Lanka.

8.2.2 Constraints on Repatriation

In pandemic situations such as COVID-19, the repatriation of citizens from various parts of the world is a complicated exercise, with high costs. Repatriations are carried out when most airports are not operational, requiring special permission, and with airlines required to carry fuel, catering services, and all supplies in sufficient quantities for a round trip. Moreover, in the absence of any service contracts between airlines and suppliers at some airports, services such as landing, parking, and ground handling, etc., have to be obtained at rates which are relatively higher than when under service contracts. Further, to add to costs, repatriation efforts are run at 50% of capacity, to ensure social distancing of passengers. Special COVID-19 airline operational procedures – the use of personal protective equipment (PPE) for staff, disinfection of aircrafts, etc. – also add up to higher operating costs in repatriation efforts.[3]

Beyond the cost of air transport, all repatriated Sri Lankans and other returnees were quarantined for two weeks. Initially the entire cost of quarantine facilities was borne by the Government of Sri Lanka (GOSL). However, as centres started nearing their capacity, options were made available for returnees to choose between paid quarantine at tourist hotels converted into quarantine centres or state sponsored facilities. Both types were operated under the guidance of Sri Lankan health authorities and the Sri Lanka Army. The cost structure in paid quarantine facilities varied based on the hotel, and basis of occupancy. However, the lowest available rate was LKR 7,500 per day per person for a shared occupancy in a double room.

8.3 Pre-COVID-19 Labour Migration from Sri Lanka

COVID-19 is bringing into sharper focus many pre-existing issues concerning labour migration from Sri Lanka. The two most important trends are a decline in aggregate labour migration and a decline in aggregate remittance inflows.

Total departures in 2019 dropped by 4% compared to 2018, continuing a recent trend; over the five-year period from 2015, the decline in labour migration in 2019 is 23%. At the same time, remittance inflows of USD 6.7 billion in 2019 also recorded a 4% decline over the previous year. On the one hand, the decline in departures and remittances are mainly due to recent geo-political and economic developments in the Middle East – the primary region of destination for Sri Lankan migrant workers. On the other hand, the declines are also due to structural transformations in the demand for foreign labour. The latter includes the displacement of blue-collar jobs, and the emergence of digital collar jobs, and remote employment and temporary work assignments.[4]

Additionally, Sri Lanka's decision in 2016 to set minimum wages for migrant workers – USD 350 for low skilled and USD 450 for skilled – aimed at encouraging more skilled labour migration and strengthen the welfare of migrant workers, may also be inadvertently contributing to lower the demand for Sri Lankan migrant workers. The

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[3] Statement from SriLankan Airlines. (2020, April 26). *Did SL Airlines Charge an Excessive Sum of Money from Repatriated Students ? SL Airlines Replies.* Retrieved May 15, 2020 from http://www.newswire.lk/2020/04/26/did-sl-airlines-charge-an-excessive-sum-of-money-from-repatriated-students-sl-airlines-replies/

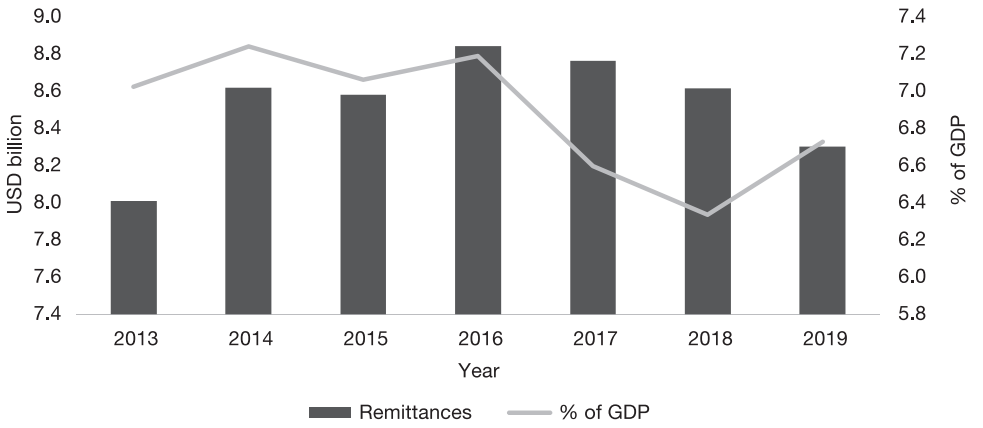
[4] Central bank of Sri Lanka. (2019). *Annual Report 2019.* Colombo: Central Bank of Sri Lanka.

declining trend in labour migration may also be related to the introduction of a family background report (FBR) in 2013 – aimed to discourage women with young children from taking up employment and thereby minimise the psycho-social cost of children left behind. The other is the upward revision in the minimum age limit for female labour migrants.[5]

workers, with most heading to Qatar and Saudi Arabia. But even despite changes in the relative importance of individual countries within the group across years, the top destinations for Sri Lanka remain the Gulf region.

The high concentration of Sri Lankan migrant workers in the Middle East accentuates certain

Figure 8.1
Remittances 2013-2019



Source: Central Bank of Sri Lanka. *Annual Report.* Colombo: Central Bank of Sri Lanka (Various years).

A decline of this nature in labour migration and remittances is exacerbated by Sri Lanka's over reliance on the Middle East region, which has been experiencing economic problems. In 2019, over 85% of migrants headed to the Middle East and the largest share (21%) headed to Kuwait, followed by Qatar and Saudi Arabia with 20% and 18%, respectively (Table 8.1). Until 2018, Kuwait attracted a relatively low percentage of migrant

adverse trends. Specifically, the 'kafala' or the sponsorship system that manages migrant workers in the Middle East lacks pathways for integrating migrant workers into society, and retains migrants in a temporary state.[6] As such, some countries of destination (COD) operate on the premise that "non-assimilated migrants are more likely to leave once their employment is concluded" and hence "actively

[5] Current age related restrictions on female migrant workers are a minimum age of 25 years for female domestic workers (FDW) to Saudi Arabia; 23 years for FDW to all other Middle Eastern countries; 21 years for FDWs to all other countries; and 18 years for females for all other occupations outside FDW, to any country.

[6] Rahman, M. M. (2018). Beyond Labour Migration: The Making of Migrant Enterprises in Saudi Arabia. *International Sociology,* 33(1); Valenta, M., et. al. (2019). Temporary Labour–Migration System and Long–term Residence Strategies in the United Arab Emirates. *International Migration*, 58(1).

Table 8.1
Departures by Destination: 2015-2019

Country	2015		2016		2017		2018		2019	
	Number	(%)	Number	(%)	Number	(%)	Number	(%)	Number	(%)
Saudi Arabia	74,894	28	63,389	26	37,745	18	35,866	17	35,478	18
Qatar	65,139	25	59,527	25	56,637	27	50,774	24	40,785	20
Kuwait	38,473	15	32,415	13	37,410	18	46,951	22	43,089	21
UAE	43,666	17	40,124	17	36,667	17	32,836	16	32,866	16
Other	41,271	16	47,475	20	43,533	21	45,032	21	50,968	25
Total	263,443	100	242,930	100	211,992	100	211,459	100	203,186	100

Source: Central Bank of Sri Lanka. *Annual Report.* Colombo: Central Bank of Sri Lanka (Various years).

discourage integration by providing no pathway to permanence".[7] For Sri Lanka too, such practices add to migrant challenges. For instance, accessing grievance and other dispute resolution mechanisms for alleged violation of their rights become more difficult.[8] Despite attempt by the SLBFE to mediate with labour officials in these countries, there has been limited success in instituting action against stakeholders in destination countries.[9]

The above region-specific assimilation issue becomes more acute when Sri Lankan migrant workers are disproportionately concentrated in the lower end of the skills distribution. As seen in Figure 8.2, over 50% of migrant workers departing in 2019 were concentrated in groups identified to possess minimal skills (female domestic workers and unskilled). Over the years, many conscious efforts such as the FBR requirement and promotion of more skilled occupation have been taken to diversify the skills composition in labour migration, with limited success so far. The group identified as skilled, accounts for less than a third of departures, with very small proportions accounting for higher skills levels such as middle level and professional categories. In addition to low skilled workers, female migrant workers are also prone to issues of vulnerability in COD. The recent increase in the share of females among Sri Lankan migrant workers from 34% in 2015 to 40% in 2019, highlights the re-emergence of these issues. Such female migrant workers and those with minimum skills are more prone to issues related to violation of human rights and protection in the COD.

It is noted that "low skilled migrants are regularly denied the same rights as high-skilled migrant workers" and in many destination countries female domestic workers do not have reproductive rights.[10] In the case of Gulf Cooperation Council (GCC) countries, maternity benefits are not available to female migrant workers; if found to be

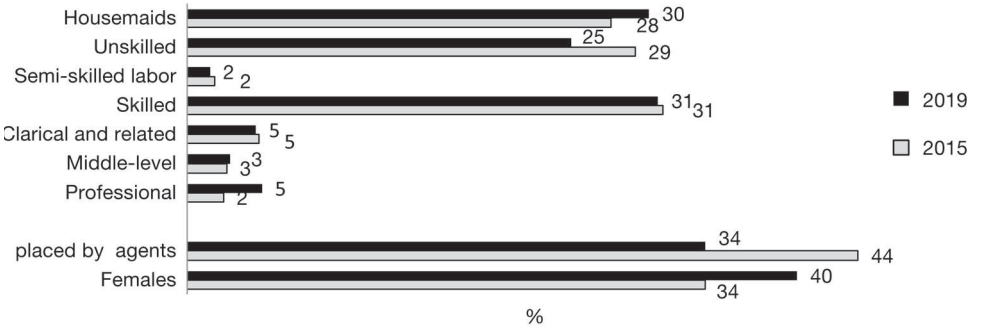
[7] World Bank. (2018). *Moving for Prosperity: Global Migration and Labour Markets.* Policy Research Report, p.24. Washington D.C.: World Bank.

[8] International Labour Organisation. (2019). *Fair Recruitment Country Brief: Sri Lanka.* Geneva: International Labour Organisation; ILO. (2019). *Review of Policy, Law and Practice of Recruitment of Migrant Workers in Sri Lanka.* Geneva: International Labour Organisation.

[9] *Ibid.*

[10] Migrant Forum Asia. (2013). *Social Protection for Low-skilled Migrant Workers and their Families.* Policy Brief No. 7, p.3. Philippines: Migrant Forum Asia.

Figure 8.2
Composition of Migrant Workers 2015 & 2019



Source: Central Bank of Sri Lanka. Annual Report. Colombo: Central Bank of Sri Lanka (Various years).

pregnant, they are often charged with adultery or sex outside of marriage, while in other destination countries, pregnant women are usually dismissed and repatriated.[11] Similarly, other low skilled migrant employees such as agricultural workers and caregivers also face discrimination by being excluded from social protection; these workers are also denied unemployment benefits and right to a family life via the absence of family unification policies.

Moreover, disparities between the officially provided benefits (such as work injury and basic healthcare), and actual access are faced by all skill levels and genders. For instance, when migrant workers become seriously ill, their contracts are usually terminated and they rarely receive sick pay, while their healthcare benefits are limited.[12] Many CODs adopt a fictitious temporary basis for some migrant occupations, while their contracts are frequently renewed, disqualifying workers from long-term employment benefits and social security. These malpractices give way to so called 'temporary' migrant workers living and working for the same employer for years. At the same time, migrant workers' rights to social security are not portable across countries. As a result, despite being entitled to social security benefits in destination countries, many workers often lose their accumulated funds upon their return to their countries of origin.

Similarly, minimum duration requirements disqualify migrant workers from social security despite having made regular contributions. For instance, Sri Lankan migrant workers and their employers in Cyprus contribute towards social security of migrant workers, which can be claimed after continuous employment and related contribution for more than 10 years. Nevertheless, under normal circumstances, Sri Lankan migrant workers are only allowed to work in Cypress for up to five years. As such, the benefits do not materialise under prevailing labour migration conditions. And despite formal entitlement rules, migrants may not always be able to negotiate with employers and administrators on claims, to secure their rights.[13]

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[11] Migrant Forum Asia. (2013). *Social Protection for Low-skilled Migrant Workers and their Families.* Policy Brief No. 7, p.3. Philippines: Migrant Forum Asia.

[12] *Ibid.*

[13] *Ibid.*

Labour migration outside the framework of licensed recruitment agencies contribute to some issues in the COD. In Sri Lanka for instance, during 2015-2019, employment placement by licensed recruitment agents declined from 44% in 2015 to 34% in 2019. The flip side of this indicates rising capability of migrant workers to find employment on their own, through their own contacts. This is a reflection of the often under-explored facet of the changing world of work, and also the changing world of 'finding work'. Recruitment for employment, including foreign employment, is now moving away from traditional 'brick and mortar' recruitment agents towards modern methods which involve networks and platforms, where potential migrant workers and the employers can connect without a mediator. While the absence of a third party in recruitment can keep costs lean, it also removes the recruitment agent from the recruitment process, who is normally held responsible by the SLBFE for the wellbeing of migrant workers at destination.

Similarly, there is a growing trend for labour migration outside the purview of the SLBFE. Such migration for foreign employment outside the SLBFE is void of both a recruitment agent and the SLBFE to work towards the protection of migrant workers in case of any issues in the destination country. As noted by the International Labour Organisation (ILO), finding recruitment through own contacts and remaining unregistered with the SLBFE leaves such migrant workers highly vulnerable, as "once they leave Sri Lanka, not even family can be certain of their whereabouts as the employment details have not been verified. These workers run the risk of exploitation or abuse, without any possibility of requesting assistance from a licensed foreign employment agent (LFEA) or the Sri Lankan diplomatic mission." [14]

As such, prior to the onset of the pandemic, labour migration from Sri Lanka had already accumulated the required preconditions to heighten migrant workers' vulnerabilities in the COD.

8.4 Migrant Workers and COVID-19

As discussed above, prior to the onset of COVID-19, a high concentration of Sri Lankan labour migrants in the Middle East region, the prominence of lower skilled workers and females among those departing, and departures outside the purview of the SLBFE or licensed recruitment agents had created a series of vulnerability issues in terms of limited assimilation, rights and protection. The spread of COVID-19 is triggering a series of implications for Sri Lankan migrant workers and the Sri Lankan economy.

8.4.1 Rights, Protection and Vulnerability

Vulnerabilities related to rights and protection of migrant workers are gaining global attention in the COVID-19 era. Sri Lanka's experience is no exception. A rapid online survey of Sri Lankan migrant workers in the Middle East and Western countries conducted in April 2020 indicate that many had already experienced wage cuts and termination of jobs, while others were expecting similar treatment in the future.[15] Other issues

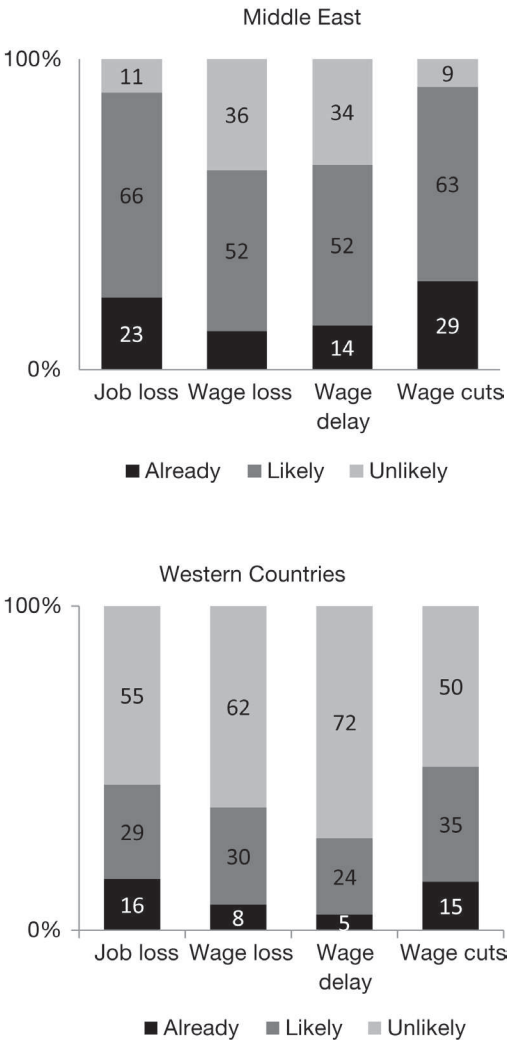
[14] International Labour Organisation. (2019). *Fair Recruitment Country Brief: Sri Lanka.* Geneva: International Labour Organisation, p.13; International Labour Organisation. (2019). *Review of Policy, Law and Practice of Recruitment of Migrant Workers in Sri Lanka*. Geneva: International Labour Organisation.

[15] Weeraratne, B. (2020). *Sri Lankan Migrants Abroad: Results from a Rapid Online Survey during the Spread of COVID-19.* Policy Discussion Brief April 2020. Colombo: Institute of Policy Studies of Sri Lanka.

A high concentration of Sri Lankan labour migrants in the Middle East region, the prominence of lower skilled workers and females among those departing, and departures outside the purview of the SLBFE or licensed recruitment agents are creating a series of vulnerability issues.

included non-payment of wages, loss of benefits, etc. Overall, migrant workers in Western countries appeared more secure than those in the Middle East (Figure 8.3).

Figure 8.3
Employment and Wages of Skilled Workers in the Middle East and Western Countries



Source: Author's illustration based on online survey conducted in April 2020.

In terms of health implications, there are fears about access to health care, especially amongst low skilled workers due to their employment packages, income levels, education level as well as housing conditions. The latter include cramped accommodation with limited facilities in terms of water and sanitation, making them vulnerable to the contagious nature of COVID-19. Disparities in testing and treatment were also evident among locals and migrants, despite the availability of free testing and treatment.[16] For unauthorised/ undocumented migrant workers, access to health care is even more challenging. Many tend to be employed in informal or under-regulated sectors, with few rights and benefits, and their informal employers are unlikely to provide them with protection.

The policy position of the GOSL is to assist all migrants, regardless of their migratory status. For instance, efforts are underway to help undocumented workers by issuing temporary travel documents. Similarly, Sri Lankan missions abroad are providing dry rations and other assistance, irrespective of their migratory status. Despite these and other welfare measures being offered, there is criticism about delays in repatriation and provision of appropriate responses to migrant grievances.

8.4.2 Disproportionate Burden

Formal large scale repatriation of Sri Lankan migrant workers started in May 2020. Migrant-specific COVID-19 response measures in the Gulf region are primarily aimed to return migrants to their countries of origin. This approach is similar to that carried out during the 2008 global financial crisis (GFC) where the region "exported much of its unemployment to countries such as Pakistan and Sri Lanka, minimising the social and political unrest that could be caused by job losses among nationals".[17] As such, during the COVID-19, there is a disproportionate responsibility on country

During COVID-19, there is a dis-proportionate responsibility on country of origin govern-ments to ensure the wellbeing of migrant workers in the destination countries.

[16] Migrants-Right.Org. (2020, May 28). *Decades of Migration Mismanagement has Saudi Scampering to Contain the Spread.* Retrieved May 30, 2020 from Migrant-Right.org: https://www.migrant-rights.org/2020/04/decades-of-migration-mismanagement-has-saudi-scampering-to-contain-the-spread/; Migrants-Right.Org. (2020, May 11). UAE not *"Making it Happen" for its Migrants.* Retrieved May 15, 2020 from Migrant-Right.org: https://www.migrant-rights.org/2020/04/uae-not-making-it-happen-for-its-migrants/

[17] Carnegie Endowment for International Peace. (2009, October 19). *The Middle East and North Africa: Exiting the Great Recession?* Retrieved May 13, 2020 from Carnegie Endowment for International Peace: https://carnegieendowment.org/2009/10/19/middle-east-and-north-africa-exiting-great-recession-event-1402

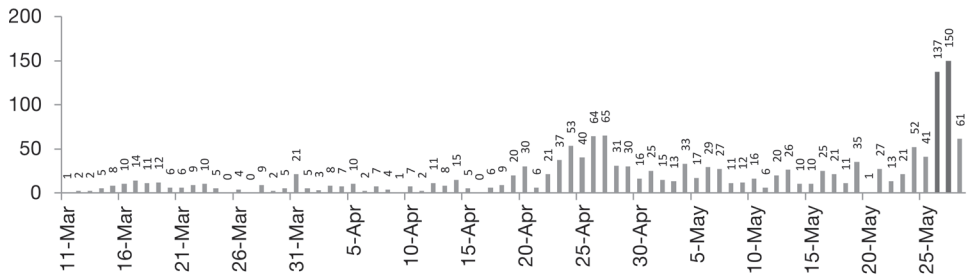
of origin governments to ensure the wellbeing of migrant workers in the COD. The challenge for home governments becomes greater in the context of their own struggling domestic labour markets from COVID-19 related economic disruptions.

Another dimension of this disproportionate responsibility is evident with the spike in COVID-19 patients in Sri Lanka with migrant repatriations. For instance, 127 out of 137 reported cases of COVID-19 on 26 May 2020, and 92 out of 150 reported cases on 27 May 2020 in Sri Lanka were returnees from Kuwait. Despite repeated attempts by the GOSL to ensure COVID-19 tests are carried out before repatriation, these requests are mostly declined.[18] As a result, a partial reversal of Sri Lanka's successful containments efforts are seen, in addition to disturbing its repatriation efforts.[19]

8.4.3 Lost Opportunities and Decline in Remittances

COVID-19 is leading to many potential migrant workers being unable to travel overseas, and barring those who have already secured employment from taking up their jobs. Specifically, compared to the approximately 30,000 Sri Lankans who left for foreign employment in April and May 2019, there were zero departures of migrant workers through the SLBFE in April and May 2020. As such, from mid-March to end of May 2020, the missed opportunities in Sri Lankan migrant workers are estimated at around 37,500 jobs. These migrant workers who missed their foreign employment opportunities add to the displacement in the Sri Lankan labour market. In addition to potential migrants, the examination of the supply/value chain of recruitment for foreign employment shows that the decline in foreign

Figure 8.4
Number of COVID-19 Patients in Sri Lanka



Source: Epidemiological Unit, Ministry of Health and Indigenous Medical Services. (2020, May 29). *COVID-19, Situation Report.* Retrieved June 10, 2020 from Epidemiological Unit, Ministry of Health and Indigenous Medical Services https://epid.gov.lk/web/images/pdf/corona_virus_report/sitrep-sl-en-29-05_10.pdf

[18] Weeraratne, B. (2020). *Return and Reintegration without Assimilation: South Asian Migrant Workers in the Gulf during COVID-19.* Singapore: Institute of South Asian Studies, National University of Singapore.; Weeraratne, B. (2020). *Sri Lankan Migrants Abroad: Results from a Rapid Online Survey during the Spread of COVID-19*. Policy Discussion Brief April 2020, pp.11-12. Colombo: Institute of Policy Studies of Sri Lanka.

[19] *Ibid.*

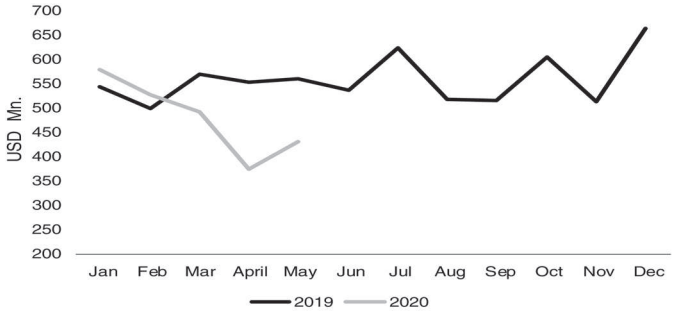
employment also affects the recruitment agents, both formal and informal, and their approximately 150,000 direct and indirect employees.[20]

Reflecting these trends, remittance inflows too are seeing a sharp contraction. In March 2020 – traditionally a high remittance month ahead of new year celebrations – there was a -14% reduction year-on-year, mainly due to the inability of migrants to remit as lockdowns and curfews were imposed in their COD. Specifically, even among skilled migrants in the Middle East, 73% were in the habit of physically visiting a remittance service provider to remit. As relatively more skilled migrants are more likely to use online methods, this indicates that among the lower skilled migrants the popularity of 'brick and mortar' methods would be even higher. Additionally, unexpected flows and volatilities in exchange rates made it difficult for remittance service providers to manage their liquidity, while forced closures and remote working challenged their ability to continue operating.[21] As such, in the case of regular remitting migrant workers, the need of the hour initially was a mechanism to remit amidst interrupted or reduced working hours of traditional remittance service providers.

This vacuum was not filled at either end. For instance, remittance service providers were not classified as essential services during the period of lockdown in the COD of migrant workers.[22] By end April 2020, in addition to difficulties in remitting in the COD, migrant workers were experiencing layoffs and wage cuts contributing to lower remittances. All these factors – together with reduced numbers leaving to take up employment – has seen remittances contract by -12% up to May 2020 year-on-year (Figure 8.5).

Despite policy measures introduced to attract remittances – Special Deposit Accounts on which higher interest rates are to be paid – the outlook remains subdued. In general, migrant

Figure 8.5
Monthly Worker Remittance 2019-2020



Source: Central Bank of Sri Lanka. *External Sector Performance.* Colombo: Central Bank of Sri Lanka (Various issues).

[20] Association of Licensed Foreign Employment Agencies. (2020). *Effects of the COVID-19 Pandemic on Foreign Employment Trade in Sri Lanka Proposals to Revival of the Trade.* Colombo: Association of Licensed Foreign Employment Agencies.

[21] KNOMAD. (2020). *Remittances in Crisis: How to Keep them Flowing.* Retrieved May 25, 2020 from KNOMAD https://www.knomad.org/covid-19-remittances-call-to-action/#Contex

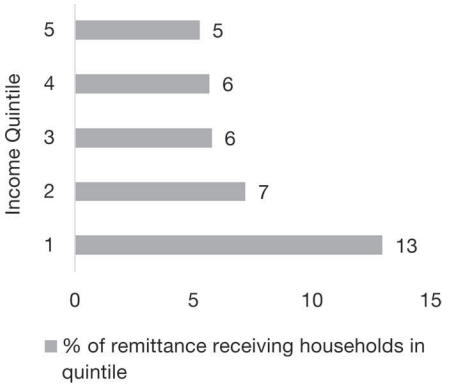
[22] World Bank. (2020). *COVID-19 Crises Through a Migration Lens.* Migration and Development Brief 32. Washington D.C.: Migration and Remittances Team, Social Protection and Jobs, World Bank.

workers remit regularly for the welfare of their family members, regardless of interest rates on offer. Previous such attempts were also not very successful. Overall, the World Bank estimates a 19% decline in remittances to Sri Lanka in 2020.[23]

Reduced remittances have a bearing on the resilience of households at a time of a pandemic. Based on 2016 data, about 8.8% households in Sri Lanka receive remittances, and on average such remittances account for about 27% of their income.[24] The average amount remitted per month per migrant household in 2019 was approximately LKR 40,000.[25] However, there are large disparities in terms of dependence on remittances by income level. For instance, Figure 8.6 shows that at the bottom 20% of income distribution, nearly 13% of households receive remittances, while at the bottom 40% of income distribution, over 20% of households receive remittances. As such, the decline in remittances due to COVID-19 affects the already vulnerable households in Sri Lanka.

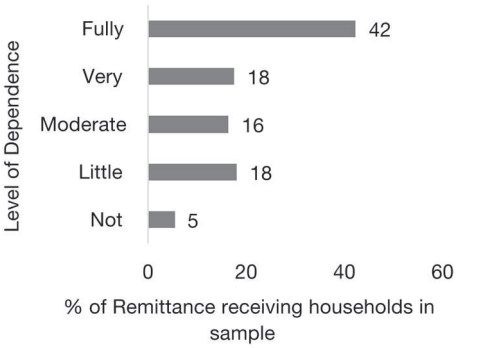
Specifically, it is noted that 42% of households in the sample of 602 households self-reported that they are fully dependent on remittances for daily expenses, while 76% of these households were moderate to fully dependent on remittances for daily expenses (Figure 8.7).[26] As such, the decline in remittances will affect their capacity to spend on food, health, education, etc. This is worrying given that a third of remittance receiving households self reported that receipt of remittances has positively contributed towards education and health of household members (see Figure 8.8).

Figure 8.6
Remittance Receiving Households by Income Quintile



Source: Author's compilation based on the HIES, 2016 data.

Figure 8.7
Dependency of Households on Remittances for Daily Expenses



Notes: (self-reported), sample size 602 households.

Source: International Labour Organisation. (2020). *Comprehensive Analysis of Remittances Sri Lanka*. Colombo: International Labour Organisation, Country Office for Sri Lanka and the Maldives.

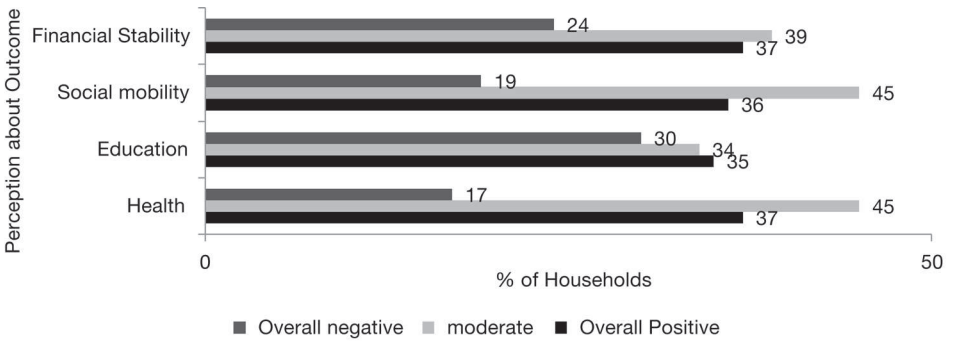
[23] Migration and Remittances Team. (2020). *COVID-19 Crisis Through a Migration Lens*. Migration and Development Brief 32. KNOMAD, World Bank.

[24] Weeraratne, B. (2019). *Migration & Remittances: Impact on Financial Behaviour of Families Left Behind in Sri Lanka.* Labour and Migration Research Series No. 201. Colombo: Institute of Policy Studies of Sri Lanka.

[25] International Labour Organisation. (2020). *Comprehensive Analysis of Remittances Sri Lanka.* Colombo: International Labour Organisation, Country Office for Sri Lanka and the Maldives.

[26] *Ibid.*

Figure 8.8
Self-reported Impact of Remittances



Source: International Labour Organisation. (2020). *Comprehensive Analysis of Remittances Sri Lanka.* Colombo: International Labour Organisation, Country Office for Sri Lanka and the Maldives.

8.5 Future of Labour Migration

The medium-term and long-term implications of COVID-19 on Sri Lankan migrant workers and their families are closely tied to the projected economic conditions of the major migrant receiving countries. As in other parts of the world, GCC countries are expected to see sharp contractions in growth, especially as international oil prices plummet. Even non-oil activities are expected to be a major drag on the near-term outlook. As such, given that these are the same sectors that Sri Lankan migrant workers rely on heavily for jobs, any recovery any employment prospects will be long drawn.

Nevertheless, many of the key economies such as Kuwait, Qatar, Saudi Arabia, and UAE, have sufficient fiscal buffers and policy space to combat the pandemic successfully.[27] Temporary stimulus measures, such as increased infrastructure spending to prop aggregate demand wherever possible, can stimulate demand for migrant workers. At the aggregate level, Kuwait is projected to be the least affected and could be the starting point for Sri Lanka.

In the longer run, however, the many issues faced by migrant workers and their families that have been spotlighted by COVID-19 needs policy attention. If not addressed, the same issues will resurge and continue to affect migrant workers in general, and more so during another pandemic or similar shock. As such, the following are some recommendations to reposition labour migration from Sri Lanka in a post COVID-19 era.

8.5.1 Improve Rights and Protective Mechanisms

The main reason for the high level of layoffs of Sri Lankan migrant workers in the COD and their return to Sri Lanka are due to the gaps in rights

[27] International Monetary Fund. (2020). *The Regional Economic Outlook: Middle East and Central Asia Update.* Washington, D.C.: International Monetary Fund.

and protection and related high vulnerabilities of migrant workers, which were experienced even before the pandemic. As such, if unaddressed, these same issues will affect migrants in similar situations in the future as well. In order to avoid such a scenario, strategic efforts are needed to improve the rights and protective mechanisms for migrant workers. In doing so, it is also important to ensure that the rights and protection of migrant workers are improved in a manner that will not threaten their ability to compete for jobs in the international labour market. As such, the inclusion of rights and protective should be carefully crafted and strategised. The following are some recommendations:

i. Involve the Sri Lankan diplomatic missions in COD to push for gradual improvements in rights and social protection of Sri Lankan migrant workers.

ii. Identify employers who ensure rights and protection of Sri Lankan migrant workers, and facilitate such employers to recruit more from Sri Lanka, by providing faster and efficient recruitment processes, as well as promoting such employers among potential labour migrants.

iii. Examine the reasons as to why some employers are able to ensure rights and social protection of Sri Lankan migrant workers, while others cannot. Such knowledge should be extracted and formulated into a set of recommendations for employers.

iv. Involve the staff in the Sri Lankan diplomatic missions to regularly cross check on housing conditions, working conditions, access to health, and employment contracts of Sri Lankan migrant workers.

v. Request CODs with bilateral agreements (BLAs) with Sri Lanka, to update the BLAs to incorporate rights and protection of migrant workers in a more binding manner.

8.5.2 Rebalancing Assimilation, Return and Reintegration

Some issues related to rights and protection experienced by migrant workers are connected to limited opportunities for migrant workers to assimilate in some CODs. Most Middle Eastern CODs are purposefully restricting opportunities for migrant workers to integrate. This has a tendency to make migrant workers feel isolated in the COD. As a result, migrant workers are reluctant to seek medical help, or assistance with other work related issues. Such conditions result in migrant workers returning to Sri Lanka with multiple problems, some of which could have been addressed while in the COD, had there been an adequate opportunity to assimilate. In turn, in addition to the responsibility of return and reintegration, sending countries like Sri Lanka often have to deal with residual issues of limited assimilation in the COD. A clear example of this is the disproportionate burden shared by Kuwait during the return process of Sri Lankan migrants under the Kuwaiti amnesty with the spread of COVID-19. For instance, despite repeated requests by the Sri Lankan authorities, the Kuwaiti authorities did not conduct PCR tests on those being repatriated.[28] As a result, many of the returnees under the amnesty were in fact COVID-19 patients, and Sri Lanka was left to

[28] Weeraratne, B. (2020). *Return and Reintegration without Assimilation: South Asian Migrant Workers in the Gulf during COVID-19.* Singapore: Institute of South Asian Studies, National University of Singapore.

deal with a disproportionate burden in terms of assimilation, return and reintegration.

However, it is unlikely that Sri Lanka as a single sending country can work alone towards rebalancing the responsibilities of assimilation, return and reintegration between sending and receiving countries, without adversely impacting the employment opportunities of its migrant workers. But given that other sending countries are experiencing many of the same challenges, collaborative action can also be pursued. The following are some recommendations for Sri Lanka to champion:

i. Introduce rebalancing responsibilities of assimilation, return and reintegration between sending and receiving countries, specifically focussing on improving global health care access for migrant workers, and portability of social security as priorities in international fora such as:

   - Abu Dhabi Dialog (ADD)
   - Colombo Process (CP)
   - Global Forum of Migration and Development (GFMD).

ii. Harness the potential of international development and migration frameworks to push for rebalancing the responsibilities of assimilation, return and reintegration between sending and receiving countries. Currently, there are two main development frameworks:
   - Agenda 2030 and its broad-based Sustainable Development Goals (SDG) and
   - Global Compact for Safe, Orderly and Regular Migration (GCM)

By developing a strong case based on recent experiences, Sri Lanka should drive the global migration community and stakeholders to work within these fora and frameworks to advocate to receiving countries to improve their stance on assuming greater responsibility in ensuring assimilation for migrant workers.

iii. Harness the social capital of recruitment agents

Some recruitment agents have vast social capital in terms of contacts and rapport with employers and recruitment agents in the COD, which can be harnessed towards improving the assimilation of migrant workers abroad, as well improving their rights and protection.

Sri Lanka should also support the initiatives to establish international justice mechanisms for repatriated migrant workers. There is growing momentum to address the need for more robust mechanisms to expedite payment of wages and other entitlements owed to repatriated migrant workers. As such, a coalition of civil society organisations and trade unions working on labour migration has appealed for an international justice mechanism for repatriated migrant workers. This appeal focuses on establishing an International Claims Commission, to be administered jointly by the ILO and the International Organisation for Migration (IOM), where repatriated migrant workers can seek redress on issues such as unresolved wages and other outstanding claims.[29]

[29] Ministry of Foreign Affairs, CCRM, Lawyers Beyond Borders, Solidarity Center & SARTUC. (2020). *Call for an Urgent Justice Mechanism for Repatriated Migant Workers.* Ministry of Foreign Affairs, CCRM, Lawyers Beyond Borders, Solidarity Center & SARTUC.

i. Given the significance of repatriation and returnee migrant workers in Sri Lanka, it is recommended that Sri Lanka should support this initiative of the coalition of civil society organisations and trade unions working on labour migration.

8.5.3 Paradigm Shift at National Level

Regulating Migrants: Currently foreign employment from Sri Lanka is concentrated to the Middle East region, and largely concentrated on low skilled and medium skilled jobs. Official data suggests that attempts to diversify this skills profile has had limited success. Nevertheless, in reality, this diversification has already taken place to some extent, but mainly outside the regulatory framework of the SLBFE. As such, labour migration for skilled occupation and to other destination regions take place largely without SLBFE registration. As such, a paradigm shift is required in terms of regulating labour migration to promote such diversification in terms of destination as well as skills.

Some suggested strategies for such a paradigm shift are by first making SLBFE registration of migrant workers two tiered, where basic registration is required by all departing migrant workers and added services such as insurance and bank accounts, made optional. For this, basic registration should be free of charge and simpler, where migrant workers can register online, or on the way to the country of destination at the airport, or at the SLBFE office.

i. Towards this, one suggested strategy is to integrate basic SLBFE registration into the embarkation card filled at departure by all persons departing Sri Lanka, by establishing two separate types of embarkation cards for Sri Lankan and foreign passport holders.

Retaining Skills, Experience and Knowledge: Similar to the case experienced during COVID-19, in future also there may be situations where migrant workers who have completed training and other preparation etc., are delayed from departing. As such, the current situation provides an excellent opportunity to introduce a mechanism to retain skills, experience and knowledge of potential migrant workers until they take up their next employment position.

Some suggested strategies to retain skills, experience and knowledge are:

i. The SLBFE to provide free online refresher programmes; communicate such short videos via social media to help them maintain their skills and training at their peak level.

ii. The SLBFE to team up with Tertiary and Vocational Education Commission (TVEC) and the Information and Communication Technology Agency (ICTA) to introduce 3D simulator sessions/videos that enable users to brush up their skills training in a modern and involved manner.

iii. Facilitate such potential migrants to reskill and upskill themselves during their waiting period and provide appropriate certifications, so that their options for employment are widened.

Revisit Restrictive Policies: Among many, restrictive policies may also be contributing to the declining trend in labour migration from Sri Lanka. Minimum wage requirements, minimum age requirements and the FBR requirement are some. All these restrictions were imposed with the objective of minimising the social cost of labour migration from Sri Lanka. Nevertheless, while addressing their objectives, such policies

have also contributed to the declining numbers of migrants who are able to find jobs. As such, whilst uplifting social benefits, such restrictions also need to strike a balance with the need for thousands of unemployed migrant workers to find jobs in international labour markets once re-hiring commences. As such, it is important to:

i. Revisit these restrictive aspects of minimum age requirements and re-assess how Sri Lanka's minimum age requirements compare against other sending countries, and revise same without compromising the wellbeing of Sri Lankan migrant workers.

ii. Revisit these restrictive aspects of minimum wage requirements and re-assess how Sri Lanka's minimum wage levels compare against other sending countries, and revise same without compromising the wellbeing of Sri Lankan migrant workers.

Improve Social Protection for Migrant Workers and their Families: Remittance receiving households are commonly considered well off and not eligible for social security schemes such as Samurdhi. Nevertheless, as seen during COVID-19, in the event of cessation of remittances, these households do not have sufficient savings nor any social safety nets for their protection. As such, in order to avoid a similar situation in the future, it is important to devise a social safety net, which can be activated in the event of a migrant worker being unable to remit for a specified period of time, due to valid reasons, while employed overseas. Some suggestions in this connection include:

i. Expand the existing insurance cover provided by the SLBFE to give additional benefits in the case of sudden and genuine cessation of remittances to the family.

ii. Introduce a mechanism to consider migrant households for social protection schemes such as Samurdhi, in the event a migrant worker becomes unemployed in the COD or is unable to remit.

iii. Introduce a contributory pension scheme targeting migrant workers.

Stabilise Remittances: Due to the importance of remittances in Sri Lanka, both at the micro and macro levels, specific measures need to be adopted to enhance remittances. While COVID-19 indicated some situation specific issues, the overall experience during the pandemic is influenced by some pre-existing conditions in terms of remittances to Sri Lanka. The following are some recommendations to address these issues:

i. Support migrant households to better manage remittances

Given that many remittance receiving households are fully dependent on remittances for their daily expenses, it is important to make such households sustainable in the long run. As such, it is important to provide regular support and guidance for migrant households to improve remittance management at the household level to encourage savings and avoid unnecessary indebtedness. This can be conducted by expanding the sporadic remittance management guidance provided by civil society organisations (i.e. ESCO in Batticaloa) in a more systematic manner to cover all areas in Sri Lanka, through the network of migration development officers.

ii. Promote modern channels of remitting

Promote modern remittance methods among migrant workers during pre-departure training. For instance, to train them on online transfer of remittances, and introduce them to mobile money.

Migrant workers in COD can be updated with information as well refresh their understanding about modern methods of remitting. The SLBFE and the Ministry of Foreign Employment can adopt a targetted social media campaign to reach Sri Lankan migrant workers abroad, about continuous refreshing on online transactions.

iii. Attract remitters from informal channels towards formal channels

Encourage those using informal channels to use formal channels. To achieve this, formal channels have to closely study their informal counterparts and understand the attractive features of the latter, and emulate the same. Some such measures are to encourage Sri Lankan banks operating in CODs to adopt door step collection methods to encourage remittances. Similarly, commercial banks and money transfer operators (MTOs) in COD should be encouraged to provide door stop delivery of remittances in Sri Lanka. Another strategy is to streamline documentary requirements in formal channels to attract more remitters into formal channels. Specifically, it is important to introduce risk-based supervision for customer due diligence (CDD) and reduce the over reliance on face-to-face and largely paper-based know-your-customer (KYC) compliance measures. In order to promote remittances in the short-term, KYC requirements for low risk accounts can be simplified to accept alternative forms of identification i.e. SIM card registration, which can be validated subsequently.[30]

iv. Continuously engage with diaspora

Sri Lanka's engagement with overseas Sri Lankans for the development of the country is sporadic. Sri Lanka can learn from more successful engagement with diaspora carried out by countries such as India and adopt a better and a continuous engagement with diaspora, beyond times of crises. This can help develop a comprehensive diaspora engagement policy.

v. Support the Swiss-UK call to mitigate a sharp decline in remittances

Some initiatives to stabilise remittances cannot be initiated only within Sri Lanka, and would require greater international support. During the spread of COVID-19, Switzerland and the United Kingdom initiated a call on the international community to keep remittance channels open to ensure the unhindered flow of remittances worldwide. The aim of the call is to ensure that the families of migrant workers can continue to receive this vital income and avoid falling into poverty. Such internationally applicable recommendations of the Swiss-UK call are as follows:

- Declare the provision of remittances as an essential financial service
- Establish economic support measures that will benefit migrants and remittance service providers
- Support the development and scaling up of digital remittance channels for migrants and families
- Advise banks to apply risk-based due diligence measures with a view to continuing to provide banking services to remittance service providers during the crisis

[30] UN Network on Migration. (2020). *The Impact of COVID-19 on Family Remittances: A Lifeline Cut for Migrant Families.* Retrieved May 25, 2020 from United Nation Network on Migration https://migrationnetwork.un.org/sites/default/files/policy_brief-_remittances_in_the_time_of_covid-19.pdf

- Consider clarification of compliance and license renewal requirements for remittance service providers during the crisis

- Provide regulatory guidance for proportionate KYC requirements that are critical to scale digital financial services, especially for unbanked and undocumented individuals

- Explore measures to provide relief to migrants, such as reducing remittance transaction costs, free cash pick-up and delivery, and other value-added services

- Invest in financial education and awareness, including on digital remittance channels and available agent locations

- Promote inter-operable open systems that can enable a foundation upon which migrant-centric financial products can be offered

In the context of this international initiative to 'keep remittances flowing', it is important for Sri Lanka to support and subscribe to this Swiss-UK Call, as well as align Sri Lanka's initiatives to increase remittances with such international initiatives.

Overall, considering the above suggested recommendations, Sri Lanka should strive to address the adverse implications that were pre-existing before the pandemic. In doing so, the country can reposition as a strong migrant workforce that can endure similar issues with minimal implications to the migrant workers, their families and the economy.

9. Pandemics, Women and Women in the Workforce

9.1 Introduction

The coronavirus (COVID-19) pandemic is infecting millions of people and claiming thousands of lives around the world. The impact is unprecedented, although not everyone, in every place, is affected in the same way. Past experiences from previous disease outbreaks and other crises affirm that men and women, boys and girls are affected differently; in most contexts, women and girls are often disproportionately impacted. This is mainly due to their relatively disadvantaged position, distinct social obligations, and responsibilities. The COVID-19 pandemic is no exception and has already started exacerbating existing gender issues. While early reports suggest that men are more likely to succumb to COVID-19, eventually girls and women pay the social and economic toll disproportionately.

Understanding gender issues in a crisis is important to ensure nuanced policy responses. There are gender differences in responses by women and men, changes in gender roles across age categories over time, changes in power dynamics, and differences in concerns, perspectives, experiences and solutions to the issues, as well as differing perceptions and concerns regarding culturally acceptable practices. In this context, this chapter examines the gender implications of the COVID-19 pandemic while giving special attention to exploring how gender dynamics work differently for men and women in the labour market in a crisis situation. The chapter identifies and discusses opportunities that arise from COVID-19 to potentially reduce gender inequalities in the labour market in the long-term. It examines the main transmission channels of the gender differentiated implications of public health crises, and the gender implications of the pandemic on selected areas such as health, education, nutrition and food security, safety and protection, to understand the pandemic's effect on women in the labour market. It goes on to look at two special segments of females in the labour force – those working in the informal sector and migrant workers – and concludes by discussing new opportunities to promote gender equality in the labour market and the feasibility of adopting them in the Sri Lankan context.

9.2 Gender Implications of the COVID-19 Pandemic

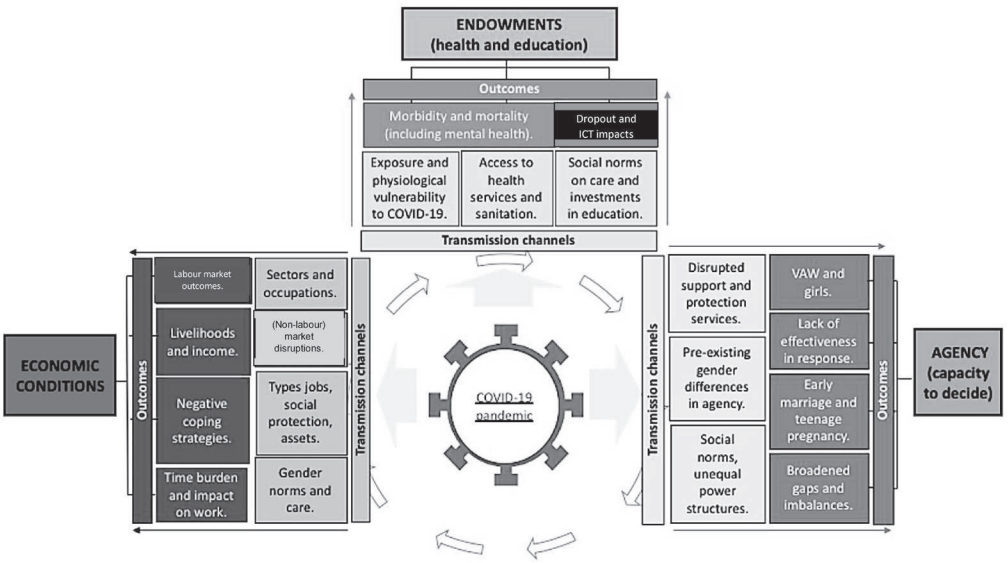
COVID-19 is disrupting lives and further entrenching existing gender inequalities in many ways. The negative impacts can aggravate existing disparities as more individuals are affected, and deepen them as the conditions/ disadvantages of some individuals worsen.

The COVID-19 global outbreak that is disrupting the lives of people will further entrench existing gender inequalities in many ways.

Gender gaps will be affected differently depending on the context and specific characteristics of different groups of women. In addition, these same differences may call for varying roles in efforts to fight the crisis, not only in the first phase of prevention and containment, but also in the phase of recovery.

Accordingly, Figure 9.1 depicts the main transmission channels of the gender differentiated implications of public health crises for various outcomes that can serve as a reference in response to COVID-19. Access to economic opportunities, endowments (health and education), and voice and agency (capacity to make decisions and act on them) are the main broad areas where the gendered implications of COVID-19 can be easily identified.

Figure 9.1
Gender Differentiated Transmission Mechanisms and Implications of COVID-19



Note: ICT - Information Communication Technology
VAW – Violence Against Women
Source: World Bank (2020). *Gender Dimensions of the COVID-19 Pandemic,* Policy Note, April 16, 2020. Washington D.C.: World Bank.

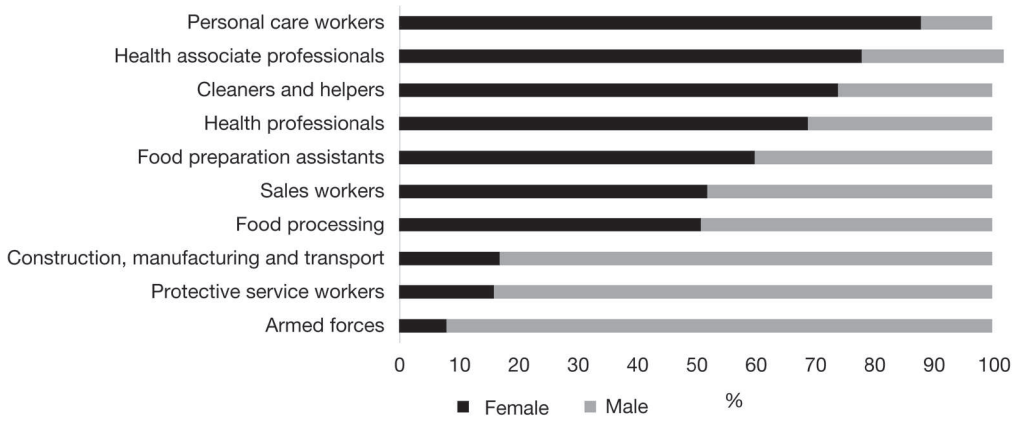
9.3 The COVID-19 Pandemic and its Impact on Women

9.3.1 Health Vulnerabilities

Global statistics so far indicate that men are at a significantly higher risk of COVID-19 infections and dying from the virus when compared to women. In Sri Lanka too, as of mid-2020, out of reported COVID-19 patients, 65% are male whilst only 35% are female.[1] Even though the reasons behind this gender difference in mortality rate is yet unclear, initial investigations and observations point to some possible reasons such as higher incidence of chronic diseases (i.e. hypertension), adverse health-seeking behaviour among men (i.e. smoking), and immunological differences between the two sexes.[2] Further, gender differences in physical activity, food consumption habits, occupational exposure to smoke and dust, etc., and associated comorbidities are important factors for the difference between the two sexes. The demise of more men also means the possibility of losing the bread winners in many families. The death of an income earner can severely affect women, adding extra pressure on them.

At the same time, more women are exposed to the COVID-19 disease than men as they dominate many frontline jobs which have a higher exposure to the disease. (Figure 9.2). As such, women may also be called on to bear higher physical and emotional costs, as well as an increased risk of infection in crisis response conditions.

Figure 9.2
Female and Male Frontline Workers

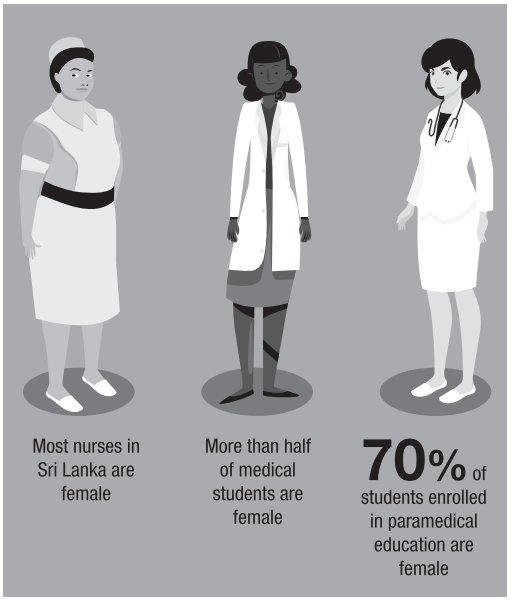


Source: World Bank. (2020). *Gender Dimensions of the COVID-19 Pandemic,* Policy Note, April 16, 2020. Washington D.C.: World Bank.

[1] Coronavirus (COVID-19) Sri Lanka - Analytics Dashboard (Coronavirus (COVID-19). *Sri Lanka - Analytics Dashboard, 2020*. Retrieved June 20, 2020 from Coronavirus (COVID-19) Sri Lanka - Analytics Dashboard: https://covid.iq.lk/

[2] World Bank. (2020). *Gender Dimensions of the COVID-19 Pandemic,* Policy Note, April 16, 2020. Washington D.C.: World Bank.

Globally, 70% of the health and social sector workforce are women.[3] The healthcare workforce in Sri Lanka is also dominated by females. Most nurses in Sri Lanka are female; since 2000, more than half of medical students and around 70% of students enrolled in paramedical education are female.[4] A predominantly feminised healthcare workforce means that women are at the frontline of the COVID-19 crisis. Further, this also increases exposure and vulnerability of their family members to the virus. Emerging data show that infection rates amongst women healthcare workers are higher than that of male healthcare workers (e.g. in Spain 71.8% of infected healthcare workers are women and 28.2% are men; in Italy, 66% are women and 34% are men).[5]



Prevailing gender roles and responsibilities is another factor that disproportionately expose women to the disease. In most societies, women and girls are traditionally responsible for caring for the ill, which further exposes them to infection. Studies on past disease outbreaks show that the role of women as a 'primary caregiver' and cultural practices expose them to significant health risks of infection as well as psychological trauma.

A pandemic crisis like COVID-19 also means that sexual and reproductive health (SRH) services, both in the public and private sectors, are heavily curtailed.[6] Usually, when pandemics occur, issues arise in terms of accessing regular SRH services (such as clean and safe deliveries, access to contraceptives and safe abortions, and pre and post-natal health care) during the outbreak. At such times, health system resources can undergo a shift as priorities change, from regular health services to one that is geared to fight the outbreak. In several countries that experienced previous epidemics, the provision of SRH services tended to be reduced at such times.[7]

The mental health of women is negatively and disproportionately affected during pandemics like COVID-19. Women carry a 'triple load' during such crises, which includes paid work, care work, and mental worries. A study conducted in the US confirmed that as a result of the COVID-19 lockdown measures, existing gender gaps in

[3] World Health Organisation. (2018). *Women in the Health Workforce.* Retrieved June 21, 2020 from World Health Organisation https://www.who.int/hrh/events/2018/women-in-health-workforce/en/

[4] Ministry of Health, Nutrition and Indigenous Medicine and World Health Organisation. (2018). *Health Labour Market Analysis: Sri Lanka.* Colombo: World Health Organisation, Country Office for Sri Lanka.

[5] UN Women (2020). *COVID-19: Emerging Gender Data and Why it Matters.* Retrieved April 17, 2020 from UN Women https://data.unwomen.org/resources/covid-19-emerging-gender-data-and-why-it-matters

[6] International Planned Parenthood Federation. (2020). *COVID-19 Impact: What We Know So Far – Sri Lanka.* Retrieved June 20, 2020 from International Planned Parenthood Federation from https://www.ippf.org/blogs/covid-19-impact-what-we-know-so-far-sri-lanka

[7] Quaglio, G., et. al. (2019). *Impact of Ebola Outbreak on Reproductive Health Services in a Rural District of Sierra Leone: A Prospective Observational Study.* BMJ Open. 2019;9(9): e029093. doi:10.1136/bmjopen-2019-029093 https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6731846/

mental health increased by 66%.[8] Increased childcare responsibilities due to closure of schools and day-cares, more home-schooling, more domestic work without assistance from external sources, are some of the factors behind this gender difference in mental health. These factors also can mean that women work less or give up their jobs entirely, or feel less satisfied with the work they can fit in to their compressed time, thereby adding more pressure on them.

9.3.2 Education

Past experiences with disease outbreaks affirm that the negative consequences of school closures as a control measure are graver on girls. Increased domestic burdens, healthcare demands, domestic violence, and SRH issues are some critical conditions girls face when schools are closed for a prolonged period.[9] The closure of schools can also lead many girls that already experience pressure to drop out, to stay out of education permanently.[10] Even though at present, a gender gap exists in Sri Lanka's education sector in favour of girls, the prolonged school closure can impact them negatively, especially those from low-income settings. Girls are expected to take more responsibility for caregiving for the ill and household chores than boys, limiting their time and energy to continue learning efforts in the home environment. There is also a greater possibility of girls discontinuing their education, post-pandemic.

With the closure of schools and other educational institutes, online education is increasingly used and promoted. However, there are disparities in online learning, particularly among income groups and sexes, where low-income groups and females are at a more disadvantageous position. Girls who are already disadvantaged by existing gender digital divides will be further deprived by extensive use of digital devices and online platforms for education. Across low and middle-income countries, women are still 8% less likely than men to own a mobile phone, and 20% less likely to use the internet on a mobile, which limit their capacity to keep up with home-schooling materials.[11] Sri Lanka is no exception and experiences a gender digital divide as well, implying prevalence of disadvantages in attaining educational targets during pandemics.

9.3.3 Nutrition and Food Security

Women and girls are particularly affected by difficulties in accessing nutritious and safe food during a health crisis. This is mainly due to closure of food services in schools and communities, the overall scarcity of food, and restricted circulation. Fluctuations in the prices of staple and other foods can have negative effects, especially for women and girls in some of the most vulnerable households.[12] It is important to assess the difficulties that women and girls may face in accessing nutritious and safe food in the Sri

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[8] Adams-Prassl, A., & Boneva, T. (2020). *The Impact of the Coronavirus Lockdown on Mental Health: Evidence from the US*. Cambridge-INET Working Paper Series No: 2020/21.

[9] United Nations Educational, Scientific and Cultural Organisation. (2020). *COVID-19 School Closures: Why Girls are More at Risk.* Retrieved May 30, 2020 from: http://www.iiep.unesco.org/en/covid-19-school-closures-why-girls-are-more-risk-13406

[10] O´Donnell. (2020). *Playing the Long Game: How a Gender Lens Can Mitigate Harm Caused by Pandemics*. Retrieved May 28, 2020 from Center for Global Development: https://www.cgdev.org/blog/playing-long-game-how-gender-lens-can-mitigate-harm-caused-pandemics

[11] GSMA. (2020). *The Mobile Gender Gap Report.* London: GSMA Head Office. Retrieved May 28, 2020 from GSMA: https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2020/05/GSMA-The-Mobile-Gender-Gap-Report-2020.pdf

[12] Botreau, H., & Cohen, M. J. (2019). *Gender Inequalities and Food Insecurity: Ten Years After the Food Price Crisis, Why are Women Farmers Still Food-Insecure?* Retrieved May 30, 2020 from: https://www.oxfam.org/en/research/gender-inequalities-and-food-insecurity

Lankan setting as well. This is important if national nutritional indicators are already unsatisfactory and show poor nutrition status among women, particularly those within the reproductive age as in Sri Lanka's estate sector.[13] Further, the risk of heightened food insecurity and malnourishment during public health emergencies is particularly grave for women and girls in Sri Lanka. Social norms in some contexts (especially in rural settings) which dictate that women eat last and least, further worsen their risk of food insecurity.[14]

Women play an important role in the food system as growers, sellers, buyers, and in food preparation. Females account for 38% of Sri Lanka's agriculture sector workforce, and more than one-fourth of the employed females (28%) are employed in the agriculture sector.[15] Increased care responsibilities, limited access to information (mainly due to a gender digital divide), and difficulties in accessing markets, limit women's role as a grower. Likewise, lowered mobility, decreased immunity (when a crisis hits, women are usually the first to start eating less, or eating last) and increased risk of gender-based violence impose limitations on women's ability to sell, buy, and prepare food. Thus, in a crisis, women's role as a player in the food system is weaker – with less or no participation. The consequences of food insecurity often compel women and girls to adopt extreme coping mechanisms (such as reductions in food consumption, borrowing money or falling into debt to pay for food).[16]

9.3.4 Safety and Protection

Women experience increased risks of sexual and gender-based violence (SGBV) and domestic violence during pandemics like COVID-19. This escalation is mainly due to economic stress, quarantines and social isolation, the potential breakdown of societal infrastructures or family separation, reduced access to services, or the inability to escape abusive partners.[17] The United Nations (UN) estimates that six months of lockdowns around the world can result in 31 million more incidences of gender-based violence, while lockdowns and disruptions continuing for nine months can bring the toll to an additional 45 million cases.[18]

In Sri Lanka too, mounting numbers are reported on SGBV and domestic violence.[19] A free helpline operated by the National Women's Committee reported a steep increase in calls to helplines since the outbreak of the pandemic.[20] Limited access to essential protection and support

[13] Food and Agriculture Organisation. (2018). *Country Gender Assessment of Agriculture and Rural Sector in Sri Lanka.* Colombo: Food and Agriculture Organisation.

[14] Herath, H.M.A. (2015). Place of Women in Sri Lankan Society: Measures for their Empowerment for Development and Good Governance. *Vidyalaya Journal of Management,* 1(1).

[15] Department of Census and Statistics. (2018). *Sri Lanka Labour Force Survey 2018.* Battaramulla: Department of Census and Statistics of Sri Lanka.

[16] CARE. (2020). *Gender Implications of COVID-19 Outbreaks in Development and Humanitarian Settings.* Retrieved May 30, 2020 from CARE: https://www.care.org/sites/default/files/gendered_implications_of_covid-19_-_full_paper.pdf

[17] Peterman, A., et. al. (2020). *Pandemics and Violence Against Women and Children. Center for Global Development. Working Paper 528.*

[18] United Nations Population Fund. (2020). *Impact of the COVID-19 Pandemic on Family Planning and Ending Gender-based Violence, Female Genital Mutilation and Child Marriage, Interim Technical Note.* Retrieved May 30,2020 from United Nations Populations Fund: https://www.unfpa.org/sites/default/files/resource-pdf/COVID-19_impact_brief_for_UNFPA_24_April_2020_1.pdf

[19] Tegal, E., & Galappatti, A. (2020). *Unsafe Homes: Sri Lanka's COVID-19 Response Must Address Violence Towards Women and Children.* Retrieved May 30, 2020 from Daily Mirror: http://www.dailymirror.lk/news-features/Unsafe-Homes-Sri-Lankas-COVID-19-Response-Must-Address-Violence-Towards-Women-and-Children/131-186718

[20] News First. (2020). *Rate of Violence Against Women Increases Amidst COVID-19*. Retrieved May 30, 2020 from News First: https://www.newsfirst.lk/2020/05/06/rate-of-violence-against-women-increases-amidst-covid-19/

services is a major concern for SGBV and domestic violence victims during a disease outbreak situation. Despite the fact that crucial services related to health, safety, security, and justice are in high demand in crisis situations, the availability of their services in other areas is also likely to be more limited and disrupted. As mentioned previously, the main reason is that government institutions are forced to shift their resources to meet a public health crisis. Unavailability or limited access to these services may lead to a higher perception of impunity by perpetrators.

9.4 COVID-19 and Working Women

Health crises such as the COVID-19 pandemic trigger economic crises which affect women disproportionately, particularly in low-income countries.[21] It is observed that although men's labour force participation remained largely unchanged during previous economic crises, women's labour force participation rose in the poorest households and fell in richer households.[22]

An economic crisis creates two rounds of impacts on women. The first-round impacts on women's employment is particularly salient in the current downturn; this is due to the fact that women's participation is high in the frontline jobs and globalised workforce. Therefore, women are more directly affected by the contraction of employment than in the past. The second-round impacts are created as vulnerable households respond to declining incomes with coping strategies that can vary significantly by gender. Past experiences during crisis situations show that women from low-income households typically enter the labour force, whereas women from rich households often exit the labour market in response to economic crises.[23] However, in contrast to women's labour market response, men's labour force participation rates remain largely unchanged.

Economic impacts of the COVID-19 pandemic will be largely channelled through labour market outcomes. Although the pandemic's effect is global, initial data indicate an uneven breakdown in job losses between genders. Women are bearing the impact of layoffs at a much higher rate

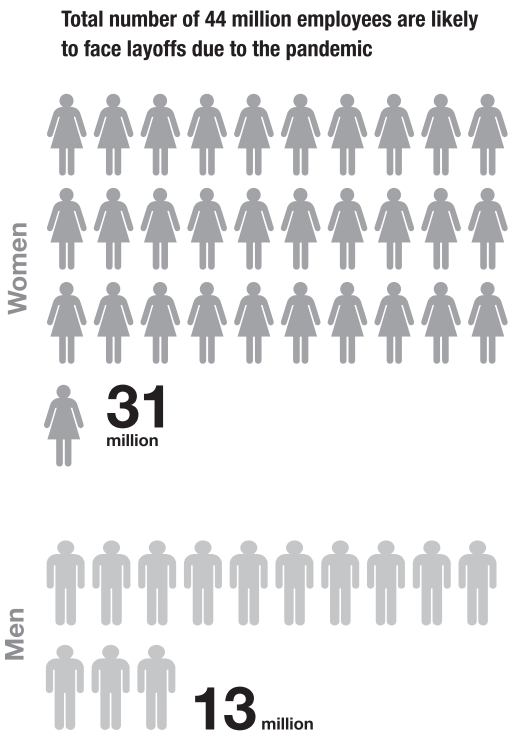
Health crises such as COVID-19 trigger economic crises which affect women dis-proportionately, particularly in low-income countries.

[21] Evans, D. (2020). *How Will COVID-19 Affect Women and Girls in Low and Middle-income Countries?* Retrieved May 30, 2020 from Center for Global Development: https://www.cgdev.org/blog/how-will-covid-19-affect-women-and-girls-low-and-middle-income-countries

[22] Shwetlena, S., Sinha N., & Buvinic M. (2010). *How Do Women Weather Economic Shocks? A Review of Evidence. Policy Research Working Paper 5496.* The World Bank Poverty Reduction and Economic Management Network. Gender and Development Unit.

[23] *Ibid.*

than men. The International Labour Organisation (ILO) estimates that the COVID-19 crisis can wipe out 6.7% of working hours globally in the second quarter of 2020 – equivalent to 195 million full-time workers, with a majority in sectors predominated by women.[24] Another estimation on a subset of economies (excluding China), suggests a total of 44 million employees are likely to face layoffs due to the pandemic.[25] Of these, nearly 31 million are likely to be women compared to 13 million men.



Two factors are important in determining the magnitude of the COVID-19 impact on labour markets: (i) whether demand for the sector's output is affected by stay-at-home orders (e.g. no impact on sectors deemed 'critical', such as pharmacies and grocery stores, large negative effect on sectors such as travel and hospitality), and (ii) whether the nature of the work in the sector allows for telecommuting or not (e.g. larger impact on manufacturing as against higher education and business services).[26]

The gendered impact of the COVID-19 pandemic on employment or labour markets mainly depends on sex segregation in sectors an d occupations – i.e. whether industries and jobs which are male or female-dominated will be sustained during the pandemic and recovery phases. Some sectors and industries are more prone to a crisis than others. Compared to 'regular' recessions,

The gendered impact of COVID-19 on employment or labour markets mainly depends on sex segregation in sectors and occupations.

[24] International Labour Organsiation. (2020). *COVID-19 Causes Devastating Losses in Working Hours and Employment.* Retrieved May 30, 2020 from ILO News Room on: https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_740893/lang--en/index.htm

[25] Peterson, D. M. (2020). *COVID-19 Eroding Female Labour Force Participation and Growth, Citi Global Perspectives & Solutions.* Retrieved May 30, 2020 from https://www.citivelocity.com/citigps/eroding-female-jobs/

[26] Alon, T. M., Doepke, M., Olmstead-Rumsey, J., & Tertilt, M. (2020). *The Impact of COVID-19 on Gender Equality*. NBER Working Paper No. 26947.

which affect men's employment more severely than women's employment, the employment drop related to social distancing measures has a larger impact on sectors with high female employment shares.[27] In typical recessions, some sectors such as manufacturing and residential construction are much more severely affected compared to other sectors (e.g. education and health care). Men's employment is on average more concentrated in sectors with high cyclical exposure, whereas women are highly represented in sectors with relatively stable employment over the cycle.[28] Employment in 'government' and 'education and health services' which are female-dominated is found to be countercyclical. Conversely, 'manufacturing', 'construction' and 'trade, transportation, and utilities' are the highly cyclical sectors; these sectors are mainly male dominated.

However, the impact of COVID-19 on industries and employment is different from a normal recession. On the one hand, social distancing, lockdowns, mobility restrictions, and other control measures is hitting service sectors where frequent interactions occur between consumers and providers, in which women tend to be overrepresented. Leisure, travel, hospitality, and retail sales (other than supermarkets and pharmacies) are some of the economic activities that are likely to be most adversely affected.[29] At the same time, control measures have had a large impact on occupations where it is more difficult to adopt telecommuting (or remote work).

Education and health sectors that are considered as countercyclical sectors are dominated by females, with 68% and 63% of female employees respectively in Sri Lanka. Industrial sectors that

Social distancing, lockdowns, mobility restrictions, and other control measures have naturally hit service sectors where frequent interactions occur between consumers and providers, in which women tend to be overrepresented.

[27] Alon, T. M., Doepke, M., Olmstead-Rumsey, J., & Tertilt, M. (2020). *The Impact of COVID-19 on Gender Equality.* NBER Working Paper No. 26947.

[28] *Ibid.*

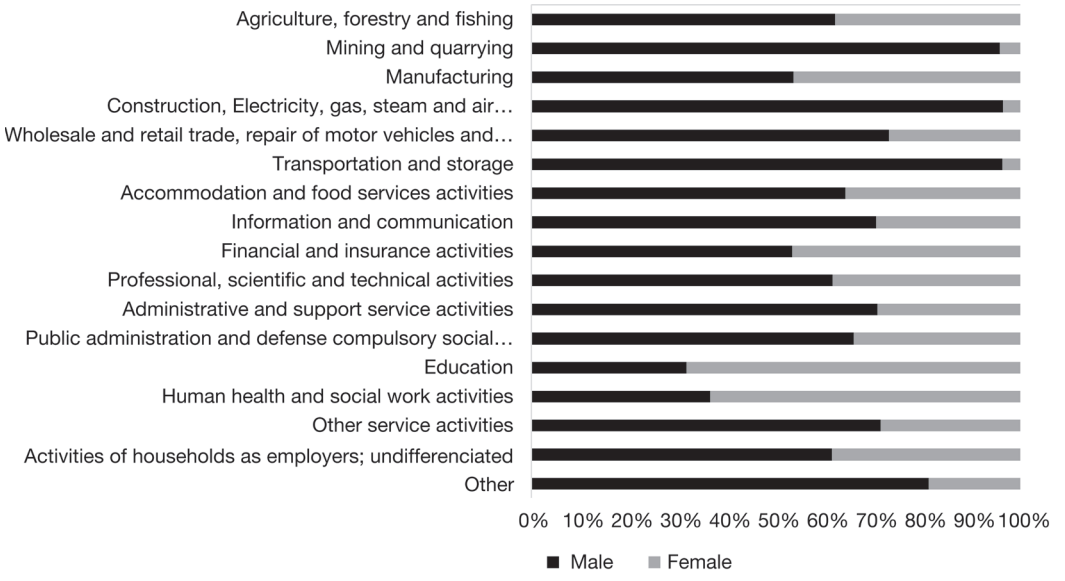
[29] *Ibid.*

are highly cyclical in a regular recession such as construction, transportation, and mining and quarrying are highly male-dominated having more than 95% of male employees (Figure 9.3). Tourism, textile and garments (T&G), construction and engineering, retail and consumer, and banking and finance are identified as the most vulnerable sectors in Sri Lanka due to the COVID-19 pandemic.[30]

In the manufacturing sector, a considerable share is female employees (i.e. 46%). This is mainly due to high female representation in the T&G industry. In 2018, out of the 52,806 total persons engaged in the manufacture of textiles, 53% was female; out of the 729,426 total persons engaged in the manufacture of wearing apparel, 74% was female.[31] The T&G industry is experiencing a slowdown in new orders and employment due to the pandemic. This has major implications for thousands of females working in this sector. Apart from the construction and engineering sector, a considerable share of employed persons are females in sectors which are identified as highly affected by COVID-19 in Sri Lanka (female employment share in financial and insurance, accommodation and food services and wholesale and retail trade, repair of motor vehicles and motorcycle sectors are 47%, 36%, and 27%, respectively).

Another important factor for differential impacts on women and men is the increased demand for unpaid care work during a health crisis. Past

Figure 9.3
Employed Persons by Industry Group



Source: Department of Census and Statistics. (2019). *Sri Lanka Labour Force Survey 2018.* Battaramulla: Department of Census and Statistics of Sri Lanka.

[30] PricewaterhouseCoopers. (2020). *COVID-19 Outbreak: Impact on Sri Lanka and Recommendations.* Retrieved May 30, 2020 from PricewaterhouseCoopers: https://www.pwc.com/lk/en/assets/COVID-19-Impact-on-Sri-Lanka-PwC.pdf

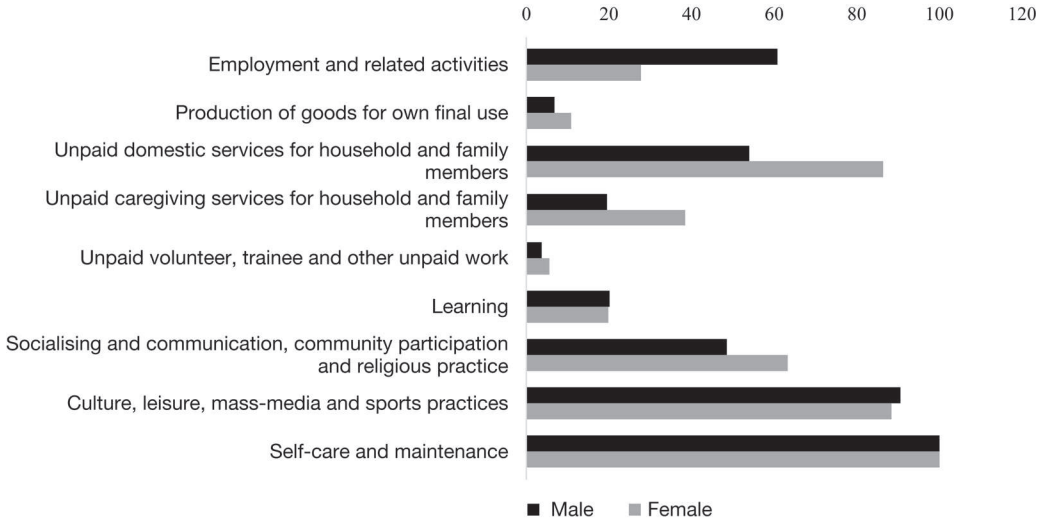
[31] Department of Census and Statistics. (2018). *Annual Survey of Industries 2018*. Battaramulla: Department of Census and Statistics.

experiences with disease outbreaks indicate that the burden of unpaid care work by women and girls are exacerbated. When healthcare systems are strained by efforts to contain outbreaks, care responsibilities inevitably pass onto women and girls, who usually bear responsibility to care for ill family members and the elderly. Besides, due to the closure of schools and day-care centres, childcare needs also increase. Based on the existing distribution of childcare responsibilities in most families, mothers are likely to do more of these tasks than fathers. Globally, women perform 76.2% of hours of unpaid care work, and on average, they dedicate 3.2 times more time than men to unpaid care work.[32]

Reflecting a similar pattern, a time use survey carried out in Sri Lanka finds that women's participation in unpaid care work is more than that of men's (Figure 9.4). The same survey



Figure 9.4
Participation Rates in Nine Major Activity Categories, by Sex



Notes: Data include age 10 years and above persons.

Source: Department of Census and Statistics. (2017). *Sri Lanka Time Use Survey – 2017 Bulletin*. Retrieved May 30, 2020 from Department of Census and Statistics: http://www.statistics.gov.lk/samplesurvey/TUSBulletin2017.pdf

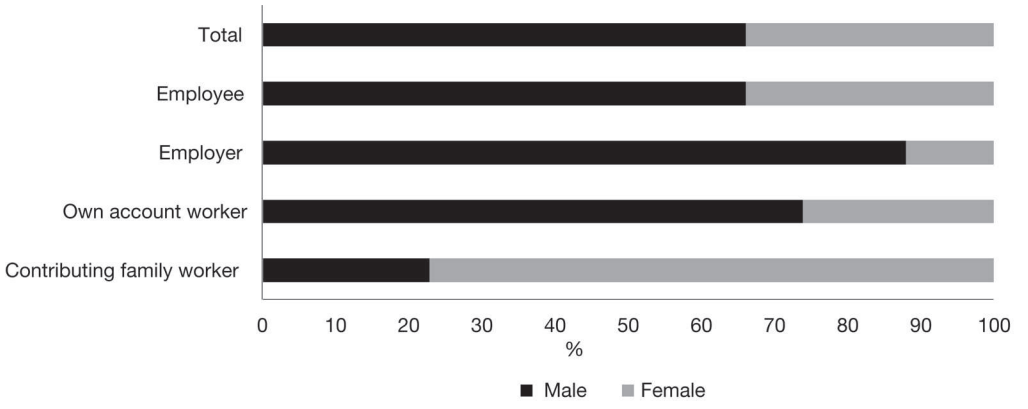
[32] International Labour Organisation. (2018). *Care Work and Care Jobs for the Future of Decent Work.* Geneva: International Labour Office.

finds that on average, Sri Lankan women do four hours more housework and care work per day than men. During the time of a pandemic with lockdowns and other mobility restrictions, women are therefore more burdened with unpaid care work. These additional care responsibilities constrain their participation in economic activities, and can even force them to completely withdraw from current economic activities.

The overrepresentation of women in vulnerable forms of work heightens their vulnerability to poverty in times of a crisis. In most countries, regardless of their income level, women tend to be more present than men in all forms of vulnerable employment, such as informal and domestic work. Informal and low-wage workers have minimal or no protection against exploitation and harassment. Further, they are largely left out of social protection coverage, including assistance targetted at workers during crises. As a result of the slowdown in economic activities, the decrease in income and livelihoods, combined with the absence of adequate safety nets, mean many households have to engage in negative coping mechanisms. In Sri Lanka, 51.3% of employed females were to be found in the informal sector, with 61.8% of employed females doing informal jobs as of 2018.[33] Both segments – those working in the informal sector and doing informal jobs – are vulnerable to economic crises. Further, women representing 77% of the contributing family worker employment category, are mainly engaged in informal employment in informal sector enterprises (Figure 9.5).

Women migrant workers are another segment susceptible to negative repercussions of COVID-19. Out of total migrant worker departures from Sri Lanka in 2019 (203,186), 40% is female. A majority of females had been recruited as housemaids, accounting for 75% of total female migrant workers. Women migrant workers,[34] particularly those engaged in domestic and care work are experiencing severe economic consequences, mainly due to prolonged and

Figure 9.5
Employment Status by Gender (2018)



Source: Department of Census and Statistics. (2018). *Sri Lanka Labour Force Survey 2018.* Battaramulla: Department of Census and Statistics of Sri Lanka

[33] Department of Census and Statistics. (2018). *Sri Lanka Labour Force Survey 2018.* Battaramulla: Department of Census and Statistics of Sri Lanka.

[34] Central Bank of Sri Lanka. (2019). *Annual Report 2019*. Colombo: Central Bank of Sri Lanka.

unpredictable travel bans that hinder employment. Travel restrictions associated with the outbreak may keep women away from reaching or leaving their jobs, leading to severe financial implications for them and their families. In the meantime, unequal power dynamics between workers and employers may expose female migrant workers to additional risks.

Job insecurity, exploitation, and socio-economic impacts, xenophobic rejection (the stigmatising attitude that migrants have COVID-19 just because they are migrants), greater insecurity against the virus, and increased gender-based violence are some specific risks faced by female migrant workers due to the COVID-19 pandemic.[35] The pandemic is compelling many migrant workers to return home. In the case of Sri Lanka too, an estimated 40,000 migrant workers and their families are awaiting to return. These returnees can exert additional pressures on an already disrupted domestic labour market, as well as face significant economic hardships.[36] Female migrant returnees, especially those who worked as housemaids, will find it difficult to source new employment opportunities, and can thus face a period of unemployment.

9.5 Improving Female Labour Force Participation, COVID-19 and Beyond

Despite the negative impact of the COVID-19 pandemic on working women, it may also create some counteracting forces to reduce gender inequality in the labour market in the long-term. More flexible work arrangements – such as work from home, flexible working hours, and telecommuting – and changes in social norms and role models are two important positive changes that can promote gender equality.[37]

Despite the negative impact of the COVID-19 on working women, it may also create some counteracting forces to reduce gender inequality in the labour market in the long-term.

[35] International Organisation for Migration, UN Migration. (2020). *The Additional Risks of COVID-19 for Migrant Women, and How to Address Them*. Retrieved April 10, 2020 from International Organisation for Migration: https://rosanjose.iom.int/site/en/blog/additional-risks-covid-19-migrant-women-and-how-address-them-0

[36] Weeraratne, B. (2020). *Repatriation and Replacement of Lost Foreign Jobs: Handling Labour Migration in Sri Lanka during COVID-19.* Retrieved May 30, 2020 from Talking Economics: https://www.ips.lk/talkingeconomics/2020/05/14/repatriation-and-replacement-of-lost-foreign-jobs-handling-labour-migration-in-sri-lanka-during-covid-19/

[37] Alon, T. M., Doepke, M., Olmstead-Rumsey, J., & Tertilt, M. (2020). *The Impact of COVID-19 on Gender Equality NBER Working Paper No. 26947.*

9.5.1 Work from Home

As a solution for control measures such as lockdowns and restrictions in mobility, businesses began to adopt work from home (WFH) options and telecommuting on a larger scale. While the pandemic offered the opportunity to test such work arrangements, they are also identified and recommended as policy solutions to increase female labour force participation in Sri Lanka,[38] which remains at a low level of around 35%. Reduced travel time and cost, avoiding sexual harassment in using public transport and increased time with family and community are some of the benefits of such work arrangements. Some of these changes are likely to persist even post-COVID-19, leading to more workplace flexibility in future. Mothers currently carry a disproportionate burden in combining work and child care duties. In such a setting, working mothers stand to benefit relatively more than men from these changes. Lack of flexibility in work arrangements and hours is one of the sources of the gender pay gap, and such arrangements can contribute to bridge existing gaps.

Given the positive aspects of WFH as an option to increase female labour force participation, the feasibility of adopting the same in the Sri Lankan context need to be evaluated. The major occupation categories (with more than 10% contribution to total female employment) for employed women in Sri Lanka are 'elementary occupations' (such as cleaners, helpers, and labourers), skilled agricultural, forestry and fishery workers; craft and related trades workers; and professionals (Table 9.1). Except for the professional employment category, practical difficulties remain in adopting the WFH option. Even many occupations under the professional

Table 9.1
Employed Population by Occupation and Gender (2018)

Occupation	Total	Gender		% Contribution of Females to Total Employment
		Male	Female	
Total	100.0	100.0	100.0	33.9
Managers, senior officials and legislators	7.7	8.6	5.9	26.0
Professionals	7.0	3.7	13.4	65.0
Technical and associate professionals	8.3	8.3	8.1	33.3
Clerks and clerical support workers	3.6	2.7	5.3	50.5
Services and sales workers	8.8	9.5	7.3	28.1
Skilled agricultural, forestry and fishery workers	16.3	16.6	15.7	32.6
Craft and related trades workers	16.2	16.8	15.0	31.3
Plant and machine operators and assemblers	8.8	11.5	3.6	14.0
Elementary occupations	22.9	21.6	25.5	37.6
Armed forces occupations	0.5	0.6	0.2	16.2

Source: Department of Census and Statistics. (2019). *Sri Lanka Labour Force Survey 2018*. Battaramulla: Department of Census and Statistics of Sri Lanka.

[38] International Labour Organisation. (2016). *Factors Affecting Women's Labour Force Participation in Sri Lanka.* Colombo: ILO Country Office for Sri Lanka and the Maldives.

category are difficult to perform in a home environment – e.g. science, engineering, and technical professionals who need to have certain lab facilities to carry out their work, health professionals, and professionals working in the field of law.

Making use of internet, email, and telephone (telecommuting) is an essential part of WFH, where information and communication technology (ICT) plays an important role. In this regard, it is important to see a country's readiness to adopt telecommuting in the long run, especially, the potential to offer WFH as a working option for females. According to the Network Readiness Index (NRI) 2019 that measures the propensity for countries to exploit the opportunities offered by ICT, Sri Lanka is ranked at 83 out of 121 countries (Table 9.2). The NRI assesses four major pillars in ICT: technology (access, content, and future technologies); people (individuals, businesses, governments); governance (trust, regulation, inclusion); and impact (economy, quality of life, SDG contribution).

Apart from Sri Lanka's relatively poor performance in exploiting opportunities offered by ICT, Table 9.3 further indicates that the country's computer and digital literacy rates are not at a satisfactory level. More importantly, it also highlights the prevailing gender digital divide; only 8.2% and 22.7 % of the female household population use email and the internet respectively, which are important components in telecommuting.

Table 9.2
Network Readiness Index (2019)

Country	NRI		Technology		People		Governance		Impact	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Sri Lanka	83	42.42	78	40.46	98	28.36	79	54.66	83	46.19
Sweden	1	82.65	4	82.28	2	78.17	9	87.43	3	82.73
Singapore	2	82.13	6	78.45	9	73.55	6	88.19	1	88.33

Source: Portulans Institute. (2019). *Network Readiness Index 2019*. Washington D.C.: Portulans Institute.

Table 9.3
ICT Literacy and Usage

	Sri Lanka	Male	Female
Computer literacy rate (%)[a]	29.0	31.0	27.2
Digital literacy rate (%)[b]	42.4	46.5	38.7
Percentage distribution of household population (aged 5-69) using internet	26.8	31.4	22.7
Percentage distribution of household population (aged 5-69) using email	10.2	12.3	8.2

Notes: a: Ability to use a computer on one's own; b: Ability to use a computer, laptop, tablet, or smartphone on one's own.

Sources: Department of Census and Statistics. (2019). *Sri Lanka Labour Force Survey 2018*. Battaramulla: Department of Census and Statistics of Sri Lanka.

Another aspect of WFH is balancing home and job-related requirements. It is important to ensure that WFH will not place additional pressure or burden on working women as there may be issues in allocating time for office work, care responsibilities and household chores in a home environment. Sri Lankan women who already carry out the lion's share of caring responsibilities can be further burdened with their official obligations.

9.5.2 Changes in Social Norms and Role Models

It is expected that there will be changes in social norms and role models owing to the COVID-19 pandemic. Typically, mothers are responsible for most of the additional childcare and home-schooling during the crisis. However, it is expected that there will also be a sizeable fraction of families where role models will be reversed. This is mainly due to fathers' presence at home for an extended period, bearing additional childcare, home-schooling, and other household responsibilities.

Many fathers were compelled to WFH during the crisis and, at the same time, to undertake childcare responsibilities. This increased exposure is likely to have some persistent effects on future contributions to childcare. In particular, the greatest impact on the division of labour is expected to occur in households where fathers have temporarily turned out to be the primary childcare provider – for instance, where the mother is in an 'essential' occupation (such as health care professional) while the father is in an occupation that switches to telecommuting during the crisis (such as education and a lot of non-critical office work).

These changes are expected to push and reshape social norms, at least to a certain extent towards more equality in the provision of childcare and house work. Such shifts in social norms and gender roles will be stronger in certain settings such as developed countries with high levels of gender equality. However, in more 'patriarchal' societies such as Sri Lanka, where gender role stereotype beliefs and norms are more ingrained, the likelihood of a paradigm shift of this nature is much more minimal. As such, it is highly unlikely that in Sri Lankan society, this revision of gender roles and norms will benefit working women, and be in favour of women in general, at least in the immediate or short run.

9.6 Conclusion and Policy Implications

The COVID-19 pandemic is creating major impacts on every aspect of human life in an unprecedented manner. The negative repercussions are already visible in many forms, and it is expected that the impacts will last for a considerable period of time. Similar to past crises in human history, the COVID-19 pandemic also affects men and women differently, where women tend to be affected disproportionately. In a time of crisis, pre-existing gender inequalities are exacerbated and prevailing social norms and gender stereotypes create more pressure on women. Evidence indicates that gender implications of COVID-19 are visible in many areas, including, but not limited to health, economic well-being, education, nutrition and food security, and safety and protection.

Although a normal recession situation will affect male-dominated sectors in an economy, the implications of the COVID-19 pandemic are

different. COVID-19 preventive measures such as lockdowns, social distancing, and mobility restrictions affect female-dominated employment sectors to a greater extent. These sectors – that provide a considerable amount of employment opportunities for females in Sri Lanka – include T&G, finance and insurance, accommodation and food services, and wholesale and retail sectors.

During a health crisis such as the COVID-19, the demand for unpaid care work increases dramatically. This in turn limits labour market activities of females who do a bulk of the care work, even under normal circumstances. Females who do informal work are largely affected by this unexpected increase in care work; in most cases, they may be compelled to completely withdraw from being involved in productive activities. It is vital to adopt mechanisms to support economic empowerment of women with a heavy load of unpaid care and low paid work roles during this crisis. Similarly, such an approach can be beneficial in post-crisis recovery, as a medium and long-term policy response. Income support in the form of childcare vouchers or allowances are being provided in Italy, Poland and South Korea.[39]

In Sri Lanka as well as worldwide, females are overrepresented in the informal sector and vulnerable work forms, which places a disproportionate toll on them due to the COVID-19 preventive measures. Extending social protection to women in the informal economy is thus critical. Many countries have started providing cash transfers to informal workers. In Bolivia, Namibia and Thailand, new cash transfers target anyone unemployed and unregistered in social security or grant systems.[40] Further, ensuring the rights and safety of essential informal workers and supporting informal worker organisations are also important measures in safeguarding women, especially those who are employed in the informal sector.

Counter forces that can promote gender equality in the labour market have also emerged due to the COVID-19. The extensive use of flexible work forms (such as WHF and telecommuting) and changes in social norms and role models are such two important counter forces. In the medium and long run, it is important to take necessary action to capitalise on these opportunities.

Providing flexible working arrangements has been identified as an important policy measure in enhancing the prevailing low level of female labour force participation, which is a persistent issue in Sri Lanka. There is potential to further promote such work arrangements even post-crisis. Gaps need to be addressed, especially for major employment categories associated with female employment in Sri Lanka. However, sectors that can adopt such arrangements (such as ICT-based industries), should be encouraged to practice WFH in the long run. Further, individual companies have to test and identify approaches that work best for them, to facilitate remote working, and encourage female employees to reap the maximum benefits.

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[39] Gentilini, U., Almenfi, M., & Orton Ian. (2020). *Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures*. Retrieved May 28, 2020 from World Bank: http://documents1.worldbank.org/curated/en/399531587419876045/text/Social-Protection-and-Jobs-Responses-to-COVID-19-A-Real-Time-Review-of-Country-Measures-March-20-2020.txt

[40] Moussié, R., & Staab, S. (2020). *Three Ways to Contain COVID-19's Impact on Informal Women Workers.* Retrieved May 28, 2020 from UN Women: https://data.unwomen.org/features/three-ways-contain-covid-19s-impact-informal-women-workers

Effective online communication between employees and use of appropriate online tools are salient features of WFH. Yet, Sri Lanka's current readiness in seizing opportunities offered by ICT is not at a satisfactory level. Apart from this, Sri Lanka is also challenged by the gender digital divide that limits women's access to, use of, and benefits from ICT. If the country is to adopt WFH as a means of increasing female labour force participation, issues in ICT infrastructure and prevailing gender digital divide should be considered as areas of priority. In this regard, enhancing access to and improving the affordability of digital technologies, and improving ICT skills of females are important policy measures.

It is also important to ensure that flexible working arrangements will not place additional pressure or burden on working women. There may be issues in allocating time for office work, care responsibilities and household chores in a home environment, where that flexibility can simply translate into greater stress. The availability of reliable childcare is important in this regard as it will help working mothers to balance their official obligations and family commitments in a home environment. Better regulatory and monitory oversight of existing day-care centres and crèches is important, as is encouraging the private sector to invest in them, as important steps to help close the gap in supply and ease pressure on working mothers.

10. Building a Crisis-resilient Education System in Sri Lanka

10.1 Introduction

The novel coronavirus (COVID-19) is having an unprecedented impact on every sphere of life, in countries across the world. For education, the immediate consequences are a record number of children, youth, and adults not attending schools or universities. By mid-April 2020, at the peak of the pandemic's first wave, over 190 countries had implemented nationwide closures, affecting more than 90% of the world's student population.[1]

While other critical needs such as health, water, and sanitation are receiving worldwide attention, educational needs cannot be sidelined. In what has been recognised as the world's largest educational crisis, interruptions to education can have long-term implications – especially for the more vulnerable – beyond mere losses in learning, to increased dropout rates, loss of nutrition, and reductions in future earnings. The world was already experiencing a global learning crisis, where many students were in school but not learning the key skills needed for life. This pandemic has the potential to worsen these outcomes further, if prompt action is not taken.

Since closing schools and universities, governments are adopting various modes of

In what is recognised as the world's largest educational crisis, interruptions to education from COVID-19 can have long-term implications – beyond mere losses in learning.

[1] United Nations Educational, Scientific and Cultural Organisation. (2020). *COVID-19 Educational Disruption and Response*. Retrieved May 25, 2020 from United Nations Educational, Scientific and Cultural Organisation: https://en.unesco.org/covid19/educationresponse

distance learning solutions, and grappling with multiple challenges, ranging from delivering content and supporting teachers to providing guidance to parents, and addressing accessibility and connectivity issues. Nevertheless, every crisis also brings about opportunities for transformation, and past education crises have shown that it is possible to 'build back better'.[2] COVID-19 presents an ideal opportunity to catalyse critically-needed transformations in education systems across the world, particularly in the context of the emerging technology-driven fourth industrial revolution (4IR).

Sri Lanka implemented nationwide school and university closures in mid-March 2020, with alternative means of education being implemented in various capacities in both schools and universities. This chapter aims to examine the implications of COVID-19 on Sri Lanka's education sector. It first examines school closure policy decisions taken by different countries, reasonings supporting these decisions, and their potential impact on minimising health risks. The chapter then discusses immediate and longer-term impacts of COVID-19 on education – including both risks and opportunities – with a specific focus on Sri Lanka's education system. The concluding section explores policy measures Sri Lanka can adopt in building an education system that is more open, flexible, and resilient to future crises, by minimising challenges and leveraging opportunities presented by the pandemic.

10.2 School Closure Policies and Potential Impact on Infection Control

There is an ongoing debate regarding the impact of school closures in containing the spread of the COVID-19 pandemic. Data from the severe acute respiratory syndrome (SARS) outbreak in China, Hong Kong, and Singapore suggest that school closures did not contribute to the control of the epidemic.[3] Further, according to a recent review conducted by the University College of London, modeling studies of COVID-19 predict that school closures – as a stand-alone measure – will prevent only 2-4% of deaths, a negligible figure compared to other social distancing interventions.[4] Nevertheless, this review does not consider school closures in combination with other lockdown measures; some scholars argue that while school closures on its own have a limited impact in preventing the spread of infections, when combined with other social distancing measures, it can lower chances for children to transmit the virus to their families and communities, especially to the elderly and other risk groups in multi-generational households.[5] A subset of studies using data of a novel influenza outbreak in the US and the UK found that school closures reduce the cumulative infection rate by about 25%, and delay the peak of the pandemic in a specific area by around two weeks, in turn helping to flatten the curve.[6]

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[2] Winthrop, R. (2020). *Top 10 Risks and Opportunities for Education in the Face of COVID-19*. Retrieved May 25, 2020 from Brookings: https://www.brookings.edu/blog/education-plus-development/2020/04/10/top-10-risks-and-opportunities-for-education-in-the-face-of-covid-19/

[3] Viner, R.M., et. al. (2020). School Closure and Management Practices during Coronavirus Outbreaks Including COVID-19: A Rapid Systematic Review. *The Lancet: Child and Adolescent Health*, 4(5), 397-404.

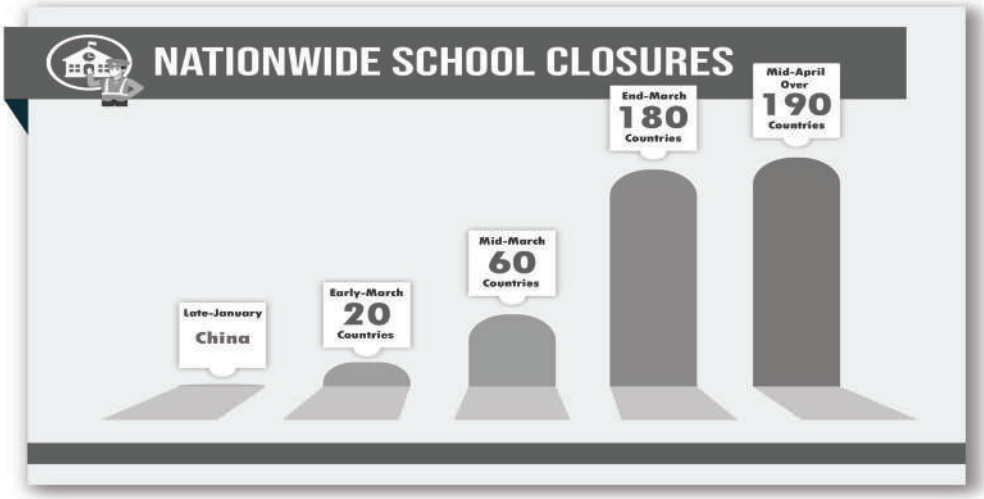
[4] *Ibid.*

[5] Weale, S. (2020, April 6). *School Closures Likely to Have Little Impact on Spread of Coronavirus, Review Finds.* Retrieved May 2, 2020 from The Guardian: https://www.theguardian.com/education/2020/apr/06/school-closures-have-little-impact-on-spread-of-coronavirus-study

[6] Ferguson, N.M., et. al. (2006). Strategies for Mitigating an Influenza Pandemic. *Nature,* 442, 448–452.

Indeed, a majority of countries implemented nationwide school closures – along with other lockdown measures – in response to the fast-spreading pandemic, albeit at different time periods and stages. China, expectedly, was the first to respond, closing all schools and universities across the country in late-January. By early-March, another 20 countries had shutdown schools and universities, which spiraled to 61 by mid-March, tripled to over 180 by end-March, and exceeded 190 in mid-April, at the peak of the pandemic.[7] Many countries in Africa closed schools early – largely out of caution – given their experiences with prior pandemics such as the Ebola outbreak in 2014. So was the case in South Korea – which has also been hard-hit by multiple health crises – where an early lockdown was enforced, combined with aggressive testing and high-tech contract tracing.[8] Sri Lanka too was an early responder, closing schools immediately, following a school student's parent testing positive for the virus. Other early responders include Italy, Brazil, Greece, Norway, Denmark, and the United Arab Emirates (UAE), to name a few.

In contrast, some countries initially chose to keep schools open – in view of the high economic and social costs and practical difficulties for families associated with shutting down schools – while taking steps to ensure safety. These include establishing procedures for schools' management of potential cases (Egypt, Russia, Belarus); using the education system's infrastructure and human resources to address the spread of infections in communities (Liberia and Sierra Leone); and limiting physical contact by restricting social and extra-curricular activities (Singapore and Russia).[9] Box 10.1 presents points supporting Singapore's decision to keep schools open in the initial stages, as explained by the Singaporean Minister of Education on a Facebook post.



[7] UNESCO. (2020). *COVID-19 Educational Disruption and Response*. Retrieved May 2, 2020 from United Nations Educational, Scientific and Cultural Organisation: https://en.unesco.org/covid19/educationresponse

[8] Thompson, D. (2020). *What's Behind South Korea's COVID-19 Exceptionalism?* Retrieved May 3, 2020 from The Atlantic: https://www.theatlantic.com/ideas/archive/2020/05/whats-south-koreas-secret/611215/

[9] Azzi-Huck, K., et. al. (2020). *Education Systems' Response to COVID19: Brief: March 24, 2020.* Retrieved May 2, 2020 from World Bank: http://pubdocs.worldbank.org/en/294261585235616975/COVID19-Education-Sector-Brief-March-24.pdf

Box 10.1
Singapore's Justification for Postponing School Closures

- There is a body of scientific evidence showing that COVID-19 does not affect the young as much as adults. Neither is there evidence to show that the young are transmitters of the virus.
- Those who tested positive for the virus in Singapore were not infected at school.
- If schools are closed, many will not stay home, but will associate with more people, exposing themselves to greater risks. In effect, schools remain safe places for children, especially as they seem to be more resilient against the virus.
- A strict policy is implemented, not allowing anyone to be in school if they have been overseas since the beginning of March. 100% checks on travel history will be conducted at the gates.
- Students will only interact with their class and sit apart. Any activities that involve mingling will be suspended.
- Every morning, every student who is not feeling well, be it with a cough or sore throat, apart from just fever, will be placed in a separate room or sent home.

Source: Facebook @ongyekung. Retrieved May 2, 2020 from: https://www.facebook.com/ongyekung/posts/3319748438039735; cited in Azzi-Huck, K., et. al (2020). *Education Systems' Response to COVID19: Brief: March 24, 2020.* Retrieved May 2, 2020 from World Bank: http://pubdocs.worldbank.org/en/294261585235616975/COVID19-Education-Sector-Brief-March-24.pdf

Partial closures were adopted in the US, where schools in high-risk areas were closed first. Sweden – a notable outlier among its Scandinavian neighbours – chose to keep both primary and middle schools open based on a public health perspective, pointing out that: (1) learning losses have adverse long-term impacts on health outcomes, particularly during the first 10 years of life; (2) school closures make it difficult for healthcare worker parents to go to work; and (3) the elderly who often care for children are placed at risk.[10] The context of the country's history, culture, and beliefs, where the 'rights' of all people – including that of children's – are highly valued, is another related factor, where the state views the decision to attend schools as belonging to each child and parent, and not to itself.[11]

Many countries that delayed closures were subsequently compelled to shutdown schools and universities in light of the rapidly spreading virus. In Mexico, parents themselves stopped sending children to schools, prompting the government to shutdown schools, while Switzerland was forced to declare school closures and a country-wide lockdown with infections fast-rising to reach the extent of Italy's rates. Further, Singapore and South Korea had to revert to closures upon reopening schools, after being hit by a second wave of infections.

[10] Anderson, J. (2020). *Sweden's Very Different Approach to COVID-19.* Retrieved May 2, 2020 from Quartz: https://qz.com/1842183/sweden-is-taking-a-very-different-approach-to-covid-19/

[11] *Ibid*.

While it is too early to estimate the contribution – or the lack thereof – of school closures in containing the spread of COVID-19, initial observations seem to suggest that countries that closed schools sooner, rather than later, have been more successful in handling the pandemic. For example, Africa was the least affected region globally as of end-May, recording only 1.5% of the world's reported COVID-19 cases and less than 0.1% of deaths.[12] South Korea's exceptional success in containing the first wave of the virus has been widely applauded, with estimates of it being the largest democracy to lower new daily cases by more than 90% from the peak.[13] Sri Lanka's performance is also commendable, having recorded only 11 COVID-19 related deaths and a low fatality rate of 0.6% of total confirmed cases – compared to a corresponding global figure of 5.7% – as of June 2020.[14]

Relatively late responders to the crisis have not been as effective in crisis management. The US, recording a similar number of COVID-19 victims as South Korea in mid-March 2020, reported a number over 700 times that of South Korea a month later. Sweden too is seeing much higher deaths per one million people, significantly above fatalities in neighbouring Norway, Finland, and Denmark whose populations are about half of Sweden's. However, the high numbers of cases and deaths reported in countries such as Italy and Brazil who closed schools early, suggest that school closures alone are likely to have a limited impact, unless combined with other safety measures, as shown by existing research.

10.3 Risks and Opportunities for Education

The sudden shift to remote learning across the world has led to speculations that COVID-19 is changing education systems for good. Even prior to COVID-19, there was a fast-growing demand for education technology (edtech), with global edtech investments reaching USD 18.7 billion in 2019, and the overall market for online education projected to reach USD 350 billion by 2025.[15] COVID-19 has prompted a further surge in usage through multiple platforms including language apps, virtual tutoring, video conferencing tools, and online learning software. In response to rising demand, many edtech companies are offering free access to their services and experiencing unprecedented growth. For example, BYJU – a Bangalore-based highly-valued educational technology and online tutoring firm established in 2011 – is seeing a 200% increase in the number of students using its products, following the pandemic.[16] This section examines the potential risks and opportunities that this unprecedented transformation can bring about.

10.3.1 Risks and Challenges

The unplanned and hurried shift to distance learning can potentially generate a number of risks and challenges for education, both in the immediate-term and in the longer run. The reluctance to close schools in several countries

[12] Bruce-Lockhart, A. (2020). *Africa 'Least Affected' by COVID-19; Hydroxychloroquine Trial Suspended - WHO Briefing.* Retrieved May 3, 2020 from World Economic Forum: https://www.weforum.org/agenda/2020/05/covid19-africa-hydroxycholoroquine-world-health-organization/

[13] Thompson, D. (2020). *What's Behind South Korea's COVID-19 Exceptionalism?* Retrieved May 3, 2020 from The Atlantic: https://www.theatlantic.com/ideas/archive/2020/05/whats-south-koreas-secret/611215/

[14] Health Promotion Bureau. (2020). *COVID-19: Live Situational Analysis Dashboard of Sri Lanka.* Retrieved May 3, 2020 from Health Promotion Bureau: https://hpb.health.gov.lk/covid19-dashboard/

[15] Li, C. & Lalani, F. (2020). *The COVID-19 Pandemic Has Changed Education Forever. This is How.* Retrieved May 3, 2020 from World Economic Forum: https://www.weforum.org/agenda/2020/04/coronavirus-education-global-covid19-online-digital-learning/

[16] *Ibid.*

The sudden shift to remote learning across the world is leading to speculations that COVID-19 is changing education systems for good.

stems from high social and economic costs that school closures entail, not only for students, but for people across societies. Moreover, interruptions to learning – including opportunities for personal growth and development and economic benefits such as higher future earnings – will be disproportionately experienced by underprivileged students who tend to have fewer educational opportunities outside school, and by those with special needs for whom distance learning often has limited provision.

In addition to lost learning, school disruptions can affect several other aspects of student lives. These are discussed below, with particular reference to Sri Lanka.

Widening Education Equity Gaps: Only around 60% of the world's population is online,[17] and many households in poor countries lack the capacity, technology infrastructure, and financial resources to engage in remote learning. Moreover, the ability of parents to provide time and resources to facilitate learning at home also vary significantly by socio-economic circumstances, once again disproportionately affecting poorer students. Data from the Centre for Global Development indicate that, as of May 2020, less than 25% of low-income countries were providing any type of remote learning – predominantly in the form of television and radio – compared to close to 90% of high-income countries that offered distance learning, mainly via online platforms.[18]

Sri Lanka's free public education system introduced in 1943 has ensured increased educational opportunities and access for students from economically disadvantaged families over the years, despite differences in quality. The conventional classroom – notwithstanding the many institutional and regional disparities – has played an important role as an equaliser to some extent, bringing students from different socio-economic and cultural backgrounds to a common place. The sudden shift to distance education excludes students who lack devices and internet access to connect to such platforms.

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[17] Lloyds. (2020). *Digital Trends 2020: Every Single Stat You Need to Know About the Internet.* Retrieved May 3, 2020 from Lloyds: https://thenextweb.com/growth-quarters/2020/01/30/digital-trends-2020-every-single-stat-you-need-to-know-about-the-internet/

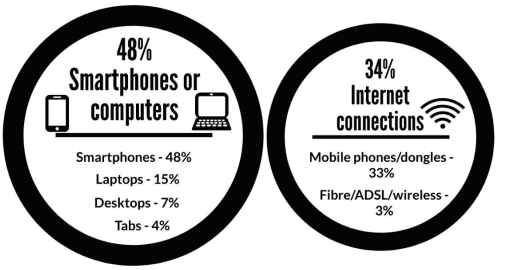
[18] Vegas, E. (2020). *School Closures, Government Responses, and Learning Inequality Around the World during COVID-19.* Retrieved May 3, 2020 from Brookings: https://www.brookings.edu/research/school-closures-government-responses-and-learning-inequality-around-the-world-during-covid-19/

Less than half of all households in Sri Lanka can benefit from e-learning opportunities; it is crucial that the shift to online education does not contribute to exacerbating inequalities already ingrained in the education system.

Recent survey data indicate that only 48% of Sri Lankan households with school-aged children owned a smartphone or computer – essential for online learning – at the start of 2019, and only 34% had an internet connection, a majority of whom are connected via mobile phones (Figure 10.1). Thus, less than half of all households in Sri Lanka can benefit from e-learning opportunities . Further, these are average figures, meaning that poorer, rural households are even worse-off. In addition, the fact that many students connect and learn via mobile phones – with only 15% and 4% of students having access to laptops and tabs, respectively – is concerning, given the difficulties associated with reading and absorbing content from a phone screen.

Threat to Free Public Education: A related concern is the threat to free public education posed by an unprepared and rapid embracing of online learning, further commercialising

Figure 10.1
Household Availability of Devices and Internet Connections



Notes: Percentage of households with children aged 5-18 years.

Source: LIRNEAsia. (2020). *Internet access for households with children under 18 in Sri Lanka is 34%*. Retrieved August 13, 2020 from LIRNEAsia: https://lirneasia.net/2020/05/internet-access-for-households-with-children-under-18-is-34/

[19] Kadirgamar, N. & Thiruvarangan, M. (2020, May 15). *Learning Lessons: The COVID-19 Challenge to Education.* Retrieved May 20, 2020 from Daily FT: http://www.ft.lk/columns/Learning-lessons-The-COVID-19-challenge-to-education/4-700218

education where the profit motive supersedes social transformation and equity motives.[19] Free public education is based on the fundamental principle that it should not, at any cost, become a marketable commodity that can be exploited to earn commercial profits. In many countries, however, governments do not view it as their mandate to develop online platforms, allowing private companies to take the lead. The profit maximisation objective of private institutions – including the manipulation of educational activities, apart from advancing their business interests – can undermine the transformative and justice-oriented goals of education, generating new inequalities while deepening existing ones.[20]

In the case of Sri Lanka, increasing dependence on private institutes for online educational activities can intensify the pressure to open education to foreign investments, and further reduce government spending on education, which has stagnated at less than 2% of gross domestic product (GDP) over the years, compared to averages of 4% and 5% in middle-income and high-income countries, respectively.[21] For instance, the growing use of online learning platforms can provide the government with a case to limit spending on education – particularly in areas such as physical infrastructure and human resources – placing the future of free education at greater risk.

Nutrition Losses: Half of the world's school students in low-income and middle-income countries – amounting to around 310 million – rely on free or subsidised meals provided at schools for food and healthy nutrition.[22] When schools close, nutrition is compromised, most severely affecting the neediest of students. Nutritional losses during childhood can have long-lasting effects on health and education outcomes.

In Sri Lanka, a currently functioning daily school meal programme provides essential nutrition to close to one million children in primary grades, covering over 80% of public schools.[23] Under the programme, schools are required to follow approved guidelines in providing nutritious meals, which are often healthier than food brought from home. World Bank estimates suggest that children miss out on food services amounting to at least LKR 650 per month when schools are shutdown.[24]

Confusion and Stress for Teachers and Parents: When schools close – especially unexpectedly and for unknown durations – teachers are often unsure of their responsibilities and how to maintain connections with students to support learning. It can be overwhelming to deal with a sudden influx of material, products, and apps, while poor digital skills further worsen the situation. Similarly, parents can find themselves

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[20] Kadirgamar, N. & Thiruvarangan, M. (2020, May 15). *Learning Lessons: The COVID-19 Challenge to Education.* Retrieved May 20, 2020 from Daily FT: http://www.ft.lk/columns/Learning-lessons-The-COVID-19-challenge-to-education/4-700218

[21] World Bank. (2020). *World Development Indicators.* Retrieved May 3, 2020 from World Bank: https://databank.worldbank.org/source/world-development-indicators

[22] World Food Programme. (2019). *The Impact of School Feeding Programmes.* Retrieved May 3, 2020 from World Food Programme: https://docs.wfp.org/api/documents/WFP-0000102338/download/?_ga=2.183437477.264851155.1596097731-1078580805.1596097731

[23] Ministry of Education of Sri Lanka. (n.d.). *Manual on School Nutrition Programme.* Retrieved May 21, 2020 from Ministry of Education of Sri Lanka: http://43.224.127.162/moe/images/Information/Publications/Guidelines/PDF/sch_manual_e.pdf

[24] World Bank. (2020). *Assessing Public Financing for Nutrition in Sri Lanka (2014–2018).* Retrieved May 2, 2020 from World Bank: https://openknowledge.worldbank.org/bitstream/handle/10986/33419/PER-for-Nutrition-in-Sri-Lanka-Assessing-Public-Financing-for-Nutrition-2014-2018.pdf?sequence=1&isAllowed=y

unprepared and ill-equipped to educate children at home, especially those with limited education and resources.

Sri Lanka's current teacher training programmes have no provisions for online teaching, and the digital competencies of teachers, particularly in rural areas, are likely to be poor. Moreover, the shares of internet-using population among 35-39 and 40-49-year-olds – representing the average age range of school-going children's parents – are only 34% and 24%, respectively, while the urban-rural gap stands at a large 43%.[25] This suggests that parents, particularly in rural areas, would find assisting their children with e-learning a daunting task.

Challenges in Creating, Maintaining, and Improving Distance Learning: Escalating demand amidst school and university closures often overwhelms existing portals to remote education. Moving entire systems of learning from classrooms to homes in a short time span presents enormous challenges, both human and technical. Additionally, many approaches adopted can be very solitary and instructional, where students are required to passively study lesson material, watch videos, read documents online, or browse through presentations.

In Sri Lanka, e-learning in a majority of schools has been administered by means of teachers sending large volumes of lesson material as PDF documents to students using smartphones, via WhatsApp and Viber. This mechanism has not served much purpose, given that: (i) social media tools are not geared to transfer bulk material; (ii) students already have textbooks, making material sent on social media redundant; and (iii) high expectations placed on parents in deciphering content received and instructing children.[26] Of even greater concern is the reinforcement of teacher-centered education – a long-standing problem in Sri Lanka's education system – where students have limited room for developing independent and creative thinking, and problem-solving skills, instead having to absorb what is fed to them, now via social media platforms.

There has also been limited use of other modes of distance education, apart from: (i) telecasted lesson material for students facing nationally qualifying examinations on television via a collaboration between the Ministry of Education (MOE) and a local telecommunications partner, Dialog Axiata PLC; and (ii) the launching of two television channels – Channel Eye and Nethra – that broadcast content from primary to advanced levels, initiated post-crisis by the MOE in partnership with the Sri Lanka Rupavahini Corporation. While these are positive steps, such alternate modes – also including the radio and delivery of printed material to homes – can be used more extensively for remote learning, particularly in reaching marginalised students who cannot engage in online education.

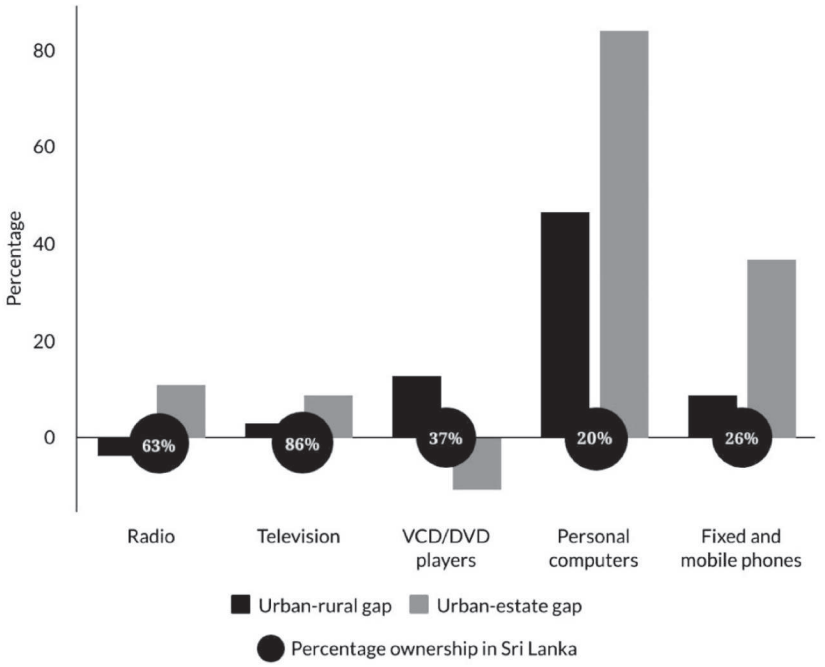
As seen in Figure 10.2, the urban-rural and urban-estate gaps in device ownership are lowest for radio and television, with the rural sector owning more radios compared to the urban sector. As a whole, 63% and 86% of households owned a radio and television, respectively, in 2016, compared to a 20% share of computers.

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[25] Department of Census and Statistics of Sri Lanka. (2019). *Computer Literacy Statistics – 2018 (Annual)*. Retrieved May 2, 2020 from Department of Census and Statistics of Sri Lanka: http://www.statistics.gov.lk/education/ComputerLiteracy/Annual%20BuletinComputerLiteracy-2018.pdf

[26] Fernando, C. (2020, 17 May). *Education from a Distance: Is Sri Lanka Really Ready?* Retrieved May 21, 2020 from The Sunday Morning: http://www.themorning.lk/education-from-a-distance-is-sri-lanka-really-ready/

Figure 10.2
Urban-rural and Urban-estate Gaps in Household Device Ownership (2016)



Source: Department of Census and Statistics of Sri Lanka. (2018). *Household Income and Expenditure Survey – 2016: Final Report.* Battaramulla: Department of Census and Statistics.

Challenges in Measuring and Validating Learning: Scheduled assessments – particularly high-stakes examinations that determine admission or progression to higher education levels and institutions – become uncertain when schools and universities close. Strategies to postpone, cancel, or administer examinations at a distance raise serious concerns about fairness, especially when access to distance learning is not equal. Disruptions to assessments results in stress for students and can cause demotivation and disengagement.

This concern particularly applies to Sri Lanka where competitiveness levels of nationally qualifying examinations are overwhelmingly high, causing stress among students even under normal circumstances. The postponement of the grade five scholarship and the General Certificate of Education (GCE) Advanced Level exams – initially scheduled to be held in August – is a welcome move, although other compensatory measures, such as limiting curriculum content to what was covered before closures and giving some weight to past performance records – especially for disproportionately affected students – should also be considered.

10.3.2 Opportunities for Education

While some believe that the unplanned and hurried shift to distance learning will result in a suboptimal user experience undermining sustained growth, others envisage the emergence of a new model of education, with e-learning becoming an integral component of education systems across the world. Changes are already

underway; the Zhejiang University in China shifted over 5,000 courses online within two weeks of the transition to online education using the platform DingTalk ZJU, while the Imperial College of London launched a course on the science of coronavirus on Coursera – a world-wide online learning platform established in 2012 – which, as of April, was the largest enrolled class in 2020.[27] Benefits including the enabling of more efficient and effective teaching via chat groups, video meetings, and document sharing, and easier communication between teachers and students, are already cited.[28]

Changing Education Imperatives: An optimistic view of potential educational transformations suggests that COVID-19 is disrupting an education system that was already losing its relevance. Educational institutes have been continuing to focus on conventional teaching and rote learning methods, instead of developing skills such as adaptability, collaboration, and higher order cognitive skills, which are becoming increasingly important for success in the future. COVID-19-stimulated online education can act as a catalyst to create new and more effective methods of teaching and learning, such as opportunities for teachers to engage in multiple methods of collaboration and professional development, and fostering independent student learning that can facilitate the acquisition of essential 21st century competencies.[29] E-learning is one of the few areas that has continued to attract investments, presenting potential for rapid technological innovation. There is also the possibility of adopting 'blended learning' approaches, which can draw on the best of both worlds to create a richer learning experience.

This is an important opportunity for change in Sri Lanka, where the content-heavy and examination-centric education system has compelled teachers to act as spoon-feeding machines of material, which students merely absorb and memorise. Encouragingly, the pandemic has driven a few schools and universities to launch and use platforms such as Google Classroom, Microsoft programmes and Zoom, with positive learning experiences.[30]

Potential for Building Back Better: Apart from technological innovations, there are other means and aspects through which education systems can emerge stronger from the COVID-19 crisis. First, this is an opportunity for other distance education modes, such as television and radio stations, to recognise the key role they play in supporting national education goals, which will hopefully motivate them to improve the quality of their programming. Second, parental engagement in children's education will increase – research has shown that such engagement helps students perform better, especially those of low-income families where schools find it more difficult to build meaningful networks with parents.[31]

[27] Li, C. & Lalani, F. (2020). *The COVID-19 Pandemic has Changed Education Forever. This is How.* Retrieved May 2, 2020 from World Economic Forum: https://www.weforum.org/agenda/2020/04/coronavirus-education-global-covid19-online-digital-learning/

[28] *Ibid*.

[29] Reimers, F.M. & Schleicher, A. (2020). *Schooling Disrupted, Schooling Rethought: How the COVID-19 Pandemic is Changing Education.* Retrieved May 2, 2020 from OECD iLibrary: https://read.oecd-ilibrary.org/view/?ref=133_133390-1rtuknc0hi&title=Schooling-disrupted-schooling-rethought-How-the-Covid-19-pandemic-is-changing-education

[30] Fernando, C. (2020, 17 May). *Education from a Distance: Is Sri Lanka Really Ready?* Retrieved May 21, 2020 from The Sunday Morning: http://www.themorning.lk/education-from-a-distance-is-sri-lanka-really-ready/

[31] Henderson, A. T. & Mapp, K.L. (2002). *A New Wave of Evidence: The Impact of School, Family, and Community Connections on Student Achievement. Annual Synthesis, 2002.* Retrieved May 2, 2020 from Southwest Educational Development Laboratory: https://files.eric.ed.gov/fulltext/ED474521.pdf

Third, ministries of education will acquire a clear understanding of the gaps and challenges relating to using technology effectively, opening avenues to take necessary action. All of these factors, collectively, can significantly strengthen a country's education system.

Impetus to be Better Prepared for the Future: The COVID-19 pandemic can also act as an incentive for education systems to be better prepared to handle future crises. The current challenges in distance learning encountered in many countries point to a crucial gap in school-based contingency planning – a management tool that aids in evaluating the impact of potential crises and ensuring appropriate provisions are in place to respond in a timely and effective manner.

Sri Lanka's education system was fully unprepared to transition seamlessly to distance learning when COVID-19 struck. Given the country's exposure to multiple crises over the years which have severely disrupted education – including the civil war, tsunami, floods, and landslides – it should have been better prepared for another crisis. The present opportunity to do so cannot be missed.

10.4 Way Forward for Sri Lanka

The mission of every education system is to overcome the learning crisis that it was already engulfed in, and respond effectively to the current pandemic. Key challenges that this undertaking entails include: (i) minimising – to the maximum extent possible – the negative impact on learning; (ii) building on opportunities offered by this experience to get back on a path of faster learning progress; and (iii) developing more resilient education systems with contingency capacities to mitigate and manage future emergencies. This section examines how Sri Lanka can best move forward in this direction, drawing from international examples, where relevant.

10.4.1 Readjust Curricula and Recover Learning Losses

To deal with considerably reduced curriculum time, governments and schools need to develop revised curricula and academic programmes based on different public health scenarios, that also take into account distance learning modes. Results from a survey of education systems in 59 countries that have shown outstanding flexibility, resilience, and commitment in establishing strategies for education continuity during the pandemic, point to two areas of prioritisation: (i) core curriculum content that is essential for student progression and examinations, with a main focus on numeracy and literacy; and (ii) fostering a wider range of cognitive, social, and emotional skills.[32] Sri Lanka should focus on both areas – maintaining flexibility in giving priority – taking into account the socio-economic profile of the school's community and levels of resource and institutional capacity. Leading schools in districts of urban areas, for example, might be well-positioned to focus on 21st century higher-order skills, whereas nurturing numeracy and literacy skills could be paramount in small rural schools.

To compensate for learning losses due to prolonged school closures and minimise long-term impacts of these losses, additional learning

[32] Reimers, F.M. & Schleicher, A. (2020). *Schooling Disrupted, Schooling Rethought: How the COVID-19 Pandemic is Changing Education.* Retrieved May 2, 2020 from OECD iLibrary: https://read.oecd-ilibrary.org/view/?ref=133_133390-1rtuknc0hi&title=Schooling-disrupted-schooling-rethought-How-the-Covid-19-pandemic-is-changing-education

time must be made available, particularly for students disproportionately affected. Creating supplementary learning opportunities can involve extending the duration of the school day, extending the number of days of instruction per week by utilising weekends, or working during school and other public holidays. Additionally, it is important to devise mechanisms to identify students who have significantly lagged behind in their learning during the crisis – such as administering a general assessment covering material taught during the closure period – and implementing remedial measures for poor performers. Evidence of effective strategies from Kenya include providing extra lessons, reorganising classes by ability, or using technology to adapt lessons to individual student needs.[33]

10.4.2 Safeguard Education Equitys

In preparing to face potential future crises more resiliently, it is important to continue ongoing efforts to build infrastructure for online and other methods of remote learning. However, it is crucial that the shift to online education does not contribute to exacerbating inequalities already ingrained in Sri Lanka's education system. To this end, the government should take steps to eliminate or lower e-learning costs for both students and teachers, by providing required equipment, connectivity, and data package allowances. Every successive government has pledged to deliver universal internet accessibility, but none have been earnest in implementation. While acknowledging the large sums of finances required for this endeavour, such investments have been made on other projects, but not on the education sector.

A good example in this regard is the 'ensuring learning undisrupted when classes are disrupted' programme launched by China following school closures. Considered by the World Bank as the "largest simultaneous online learning exercise in human history,"[34] this initiative provides computers to students from low-income families and offers mobile data packages and telecommunication subsidies to poor students, to ensure equitable access.

Providing access should also be combined with infrastructure that can handle an increase in network traffic to key learning management systems – which is likely to be severely lacking in rural and remote areas – to avoid inefficiencies in online learning caused by slow and unresponsive systems.

Safeguarding education equity also calls for a more dedicated effort to expand other forms of distance learning, in reaching the poorest of students. In Argentina, for example, in addition to online material provided on its education ministry website, specific programmes were also launched for those without internet access or devices. These include: (1) broadcasting of educational programming 14 hours per day on television and seven hours a day on radio – the material of which is aligned with content on the ministry's website – and accompanied by a teacher and a conductor (journalist, artist, or scientist); and (2)

[33] Duflo, E., Dupas, P. & Kremer, M. (2011), Peer Effects, Teacher Incentives, and the Impact of Tracking: Evidence from a Randomised Evaluation in Kenya. *American Economic Review*, *101(5),* 1739–74.

[34] World Bank (2020). *How Countries are Using Edtech (Including Online Learning, Radio, Television, Texting) to Support Access to Remote Learning during the COVID-19 Pandemic*. Retrieved May 2, 2020 from World Bank: https://www.worldbank.org/en/topic/edutech/brief/how-countries-are-using-edtech-to-support-remote-learning-during-the-covid-19-pandemic

'notebooks' containing learning resources that are delivered to student homes for those without access to televisions and radios or electricity.

Further, it is important to address economic hardships of poor students – likely aggravated during the crisis – by employing well-targetted and administered social security measures. In Armenia, unemployed parents with young children receive a special allowance for each child. In Argentina, a currently existing cash benefit programme that supports mothers with children under five years of age has been increased to cover the costs of missed school meals, while school lunch programmes in Liberia have been transformed into pick-up services.[35] Many universities in developed countries, including Australia and Canada, have developed university student support packages to assist low-income students, in the form of academic support, well-being programmes, and emergency financial support.

Similarly, Sri Lanka should bolster its social safety net system to assist in minimising educational disruptions. Some options include: (i) converting allocations for school meal programmes to cash vouchers or food packs in the case of extended school closures; (ii) expanding school meal programmes with extra-nutritious meals in post-crisis operational schools; and (iii) raising the Mahapola scholarship for university students, combined with accommodation support and emergency student housing facilities.

10.4.3 Develop a Strong and Resilient Information System

Initiating remedial measures to counter adverse effects of the pandemic calls for high quality detailed data, readily-available prior to a crisis, given difficulties associated with collecting data during a crisis. For instance, to develop an effective mechanism to deliver cash vouchers or food packs to needy students, comprehensive data that show who is most at risk and in which precise locations, are essential to mobilise funding and guide an effective and targetted response. Similarly, in providing learning devices to students, it is important to acquire accurate information on who has home access to devices, and how many devices each district or province must provide. Further, schools should have a strategy in place to identify which of the students enrolled before the pandemic return to school, and determine reasons for dropouts in the case of non-returnees, for which comprehensive data is key.

Given its history of poor targetting that has hindered the effectiveness of many social security programmes, this is an essential area for Sri Lanka to focus on. A good illustration of a solid information system is that in Burkina Faso – a landlocked country in West Africa – which following escalating violence experienced in 2015, developed a mechanism to collect bi-weekly data on displaced children, which has helped its education system to become more crisis-resilient.[36]

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[35] International Social Security Association. (2020). *COVID-19: Supporting Families Through the Crisis.* Retrieved May 2, 2020 from International Social Security Association: https://ww1.issa.int/news/supporting-families-through-crisis

[36] Seeger, A. & Ndabananiye, J.C. (2020). *Effective Leadership in Crisis: What it Takes for Ministries of Education.* Retrieved May 2, 2020 from International Institute for Educational Planning: http://www.iiep.unesco.org/en/effective-leadership-crisis-what-it-takes-ministries-education-13429

10.4.4 Enhance Professional Development of Teachers

The survey of commendable responders to the pandemic has also highlighted the integral role played by teachers in delivering distance learning opportunities; two-thirds of survey respondents indicated that students were accessing learning content directly from their teachers.[37] Data from the Organisation for Economic Cooperation and Development's (OECD) Teaching and Learning International Survey, however, show that even in high income countries, teachers' fluency in educational technology – especially in integrating technology into instructional practice – is limited. Teaching online requires specialised skills sets such as the knowhow of conducting classes in a virtual environment, knowing when and how to use video conferencing, sharing content, designing and grading students' assignments and examinations, and providing feedback, among others. There is thus a pressing need for training and developing platforms for knowledge sharing among teachers.

Teachers also need to be trained and supported to address students' mental health and social and emotional needs, via online professional development and coaching or mentoring. Moreover, the approach to teaching has to change, placing more emphasis on equipping students with tools to learn independently, as opposed to note-dictating methods. Distance education in the absence of face-to-face interaction, will be hard to manage unless students themselves are prepared and motivated to actively participate.

Given that teacher training in Sri Lanka currently has no provisions for the eventuality of distance teaching, educational and training programmes need to be substantially revised. Teacher education and training at National Colleges of Education, universities, and the National Institute of Education, should be developed to include content on best practices in distance teaching methods – including online teaching and professional development – based on well-researched evidence and in consultation with experts from fields including education, medicine, and psychology.

10.4.5 Initiate and Deepen Collaborations

One clear illumination of this pandemic is the incapability of any country to confront its consequences alone. There is huge potential for global collaboration to combat the crisis in every area of public policy, including education. There also exist many opportunities to foster clear communication and partnerships across different levels of government, between public and private sectors, and engaging multiple actors in civil society in generating educational innovations – a process which is still in its infancy.

Ministries of education have a specific role in initiating rapid and decisive action, in coordination with sub-central education offices, schools, and communities. Decision makers and other education actors at a decentralised level are more aware of local risks and capacities, and involving them in the design and implementation of strategies is key in building a resilient education

[37] Reimers, F.M. & Schleicher, A. (2020). *Schooling Disrupted, Schooling Rethought: How the COVID-19 Pandemic is Changing Education*. Retrieved May 2, 2020 from OECD iLibrary: https://read.oecd-ilibrary.org/view/?ref=133_133390-1rtuknc0hi&title=Schooling-disrupted-schooling-rethought-How-the-Covid-19-pandemic-is-changing-education

system. In Jordan, its education ministry worked with field directorates to prepare for reopening of schools, particularly focussing on the needs of vulnerable learners who may lack access to the online learning tools that the ministry implemented at the start of the pandemic.[38]

Similarly, the Sri Lanka's MOE should work in close collaboration with provincial and zonal educational directors, as well as school principals and School Development Societies –representing the wider school community including past pupils and parents – in developing a long-term strategy to build a more robust education system.

10.4.6 Leverage the Dividend in Innovative Capacity

COVID-19 has demonstrated the enormous potential for innovation that is dormant in many education systems, including in Sri Lanka. In aspiring to capitalise on the opportunities presented by the pandemic to build-back-better and make education more relevant to the needs of the 21st century, there is a need to take stock of the processes that lead to innovative potential, and how such capacity can be sustained, going forward. It is critical that the positive lessons learnt during the crisis are not lost when things return to 'normal', but instead provide inspiration for further development and improvement of education.

Sri Lanka's positive experiences to date with virtual and blended learning experiences – both during school closures and in smart classrooms that were in operation prior to the crisis[39] – need to be promoted and further expanded. Such platforms have so far been limited to a few

COVID-19 is demonstrating the enormous potential for innovation that is dormant in many education systems, including in Sri Lanka.

[38] Seeger, A. & Ndabananiye, J.C. (2020). *Effective Leadership in Crisis: What it Takes for Ministries of Education.* Retrieved May 2, 2020 from International Institute for Educational Planning: http://www.iiep.unesco.org/en/effective-leadership-crisis-what-it-takes-ministries-education-13429

[39] Institute of Policy Studies of Sri Lanka (2019). The Future of Sri Lanka's Education in the 4IR. In *Sri Lanka: State of the Economy 2019.* Colombo: Institute of Policy Studies of Sri Lanka, for information on Sri Lanka's smart schools.

schools –currently only around 10 out of over 10,000 public schools in the country are furnished with smart classrooms, while these classrooms are limited to a given grade or to a few select classes.[40] Additionally, means of more effectively deploying other distance learning modalities – such as television and radio – which are often more accessible to disadvantaged students, should also be explored. This calls for a more intentional and strategic approach to innovation, backed by methodologically sound well-funded research. To do so, education research budgets need to be substantially boosted from existing meagre levels.

Lastly, to mobilise support for innovation and change, all key education stakeholders, including education sector officials and other policymakers, teachers, researchers, employers, parents, and students – need to strongly communicate the need for change, via policy forums, awareness campaigns, and media outlets. Education actors should also be involved in designing technological innovations, apart from campaigning for change and implementation. The government can facilitate this endeavour by creating an environment conducive for risk-taking and developing new ideas, as well as establishing means of recognising, rewarding, and celebrating success.

[40] Ministry of Education of Sri Lanka. (2019). *Information and Communication Technology* Branch. Colombo: Ministry of Education of Sri Lanka.

11. Tackling Pandemics through Technology, Innovation and IPRs

11.1 Introduction

The importance of technology and innovation is being felt around the world as the coronavirus (COVID-19) pandemic spreads. In the fight against COVID-19, countries are exploring many ways to harness the best use of available technology. Those that are already successful in emerging fourth industrial revolution (4IR) technologies – such as big data, artificial intelligence (AI), robotics, etc. – are reaping early benefits, alongside increased usage of available digital technologies. The latter include broadband, digital platforms, social media, video conferencing, online teaching, online purchasing, e-commerce, etc. These technologies are playing a key role in the COVID-19 crisis even in emerging economies like Sri Lanka, to find more effective and feasible solutions to a host of challenges.

However, technology itself cannot directly prevent pandemics. What technology can do, if used effectively, is minimise the ill effects that occur from pandemics and help in the economic revival and recovery efforts. Some technological developments help provide various healthcare facilities, discover new medicines and vaccines, educate people, support and facilitate trade, teach via virtual classrooms, and deliver food and other essential needs. In sum, technology coupled with innovation can ensure effective social and economic functionality during the mitigation phase. There is ample evidence of this during COVID-19, with much effort put into develop drugs, identify an effective vaccine, synthesise traditional knowledge and traditional medicine, etc.

In this drive for innovative solutions, the ability of a country to be at the forefront of innovations varies considerably. The number of innovations produced and its magnitude differ from country to country, where an effective intellectual property rights (IPRs) system plays a critical role. Such a system stimulates and creates an environment that provides incentives for innovations. Thus, in the fight against COVID-19, enactments such as the trade-related intellectual property rights (TRIPs) agreement of the World Trade Organisation (WTO) become more relevant than ever before, in generating innovations and disseminating newly produced technology and methods.

However, the TRIPs agreement itself is subject to intense debate. Some argue that the agreement, and related intellectual properties (IPs), act as a barrier to both innovation and access to public health for the world's population at large. This occurs if patent holders – typically from advanced economies – refuse to grant licenses. Thus, the World Health Organisation (WHO) and the TRIPs agreement have adopted measures and flexibilities to ensure equitable access to public health and technologies, especially during pandemics. Patent barriers to the production

and provision of low-priced treatments can be addressed through compulsory licencing provisions which suspend the monopoly effect of a patent, and allows others than the patent holder to produce and supply the product.

In the face of COVID-19, Sri Lanka too has deployed available technologies – such as robotics, drones, broadband, digital, video technologies, etc. – to deliver services. Several innovations and new technologies are also in use to detect and treat patients, and protect the general public. Ways of using traditional medicine, traditional knowledge and traditional food crops are also being explored. Despite this, the process of obtaining patents and commercialising products are still hindrances. Additionally, Sri Lanka is weak in innovations and technological developments. Even today, nearly 80% of the country's medicinal requirements are dependent on imports.[1] Thus, it is highly dependent on important aspects of the TRIPs agreement that touch on public health, contract licensing, technology transfer, etc. to meet medicinal requirements for COVID-19 and beyond. In this context, this chapter explores some aspects of the TRIPs agreement in the face of COVID-19, the role of technology and innovation to combat the pandemic, and some policy options and recommendations for better preparedness, beyond COVID-19.

11.2 TRIPs Agreement and COVID-19

The TRIPs agreement is the most relevant trade agreement in relation to the application of technology, innovation and traditional knowledge in a pandemic. COVID-19 is generating several challenges to existing technologies and methods, especially in the field of medical sciences. Almost all countries are accelerating their capacities in medical science innovations in some form or the other to increase research and development (R&D) and devise solutions to combat the virus. Several countries are taking steps to ensure that flexibilities are available in the TRIPs agreement, but many developing countries are unable to take advantage of these owing to lack of capacity in science and technology fields. Furthermore, developing countries may face legal, technical and institutional challenges in using TRIPS flexibilities, especially those who have never utilised flexibilities such as compulsory licenses before.

11.2.1 TRIPs Agreement and Public Health

IPRs largely intend to strengthen market-based incentives for private-sector stakeholders, in order to invest resources in product development. Such incentives are considered especially valuable, since the development of medical and other technologies are costly. Further, while many medical technologies are expensive to develop, they can also be relatively cheap to reproduce.[2] Amongst seven types of commonly used IPs, patents play a crucial role in protecting innovations by providing exclusive rights to an inventor.

The TRIPs agreement provides patent protection for any invention, whether products or processes, in all fields of technology, including pharmaceutical products and processes. Patents are valid for a period of twenty years. In order to obtain a patent,

[1] Based on the interview with General Manager, State Pharmaceutical Manufacturing Corporation (SPMC), Sri Lanka.

[2] Temesgen Boru, Z. (2020). Equitable Access to Covid-19 Related Health Technologies: A Global Priority, *Research Paper: No 114:* Geneva: South Center.

the inventor is required to disclose the patented invention to the public. This can encourage others who can further develop the technology. The patent system therefore is created to balance the interests of both inventors and the general public.[3]

Empirical evidence highlights both positive and negative effects of patents on innovation. The use of exclusive rights can itself contribute to market distortions and lead to high prices.[4] The impacts of patents in promoting the development of new medicines, as well as related pricing factors were identified in the Doha declaration of the WTO at the WTO Ministerial Conference in 2001. The declaration addresses several aspects of TRIPS, including the right to grant compulsory licenses.[5]

The principles of Article 8 of TRIPs expressly state that WTO members may adopt measures necessary to protect public health and nutrition, provided that such measures are consistent with the provisions of the TRIPS agreement. It highlights the importance of amending national laws and regulations to protect public health and nutrition of people. In this sense, the Doha declaration reiterated these objectives and principles to guide the implementation of TRIPS provisions in line with public health policy.[6]

The impacts of patents in promoting the development of new medicines, as well as related pricing factors are identified in the Doha declaration.

Compulsory Licensing during a Pandemic: A compulsory license is where the government authorises someone to produce a patented product without the consent of the patent owner, when there is an emergency situation. These compulsory licenses have been generally used for pharmaceuticals, although as per amendments to the TRIPs agreement, this can be applied in any field including robotics, agriculture, nanotechnology, etc. The option to grant a compulsory license under Article 31 of the agreement for the purpose of manufacturing or import, is available to all members. It can cover all products or technologies needed to treat a disease or to fight a pandemic. However, there are some conditions to protect the legitimate interests

[3] Isaka, M. (2013). *Intellectual Property Rights: The Role of Patents in Renewable Energy Technology Innovation*. Bonn: International Renewable Energy Agency.

[4] World Health Organisation, World Intellectual Property Organisation and World Trade Organisation (2013). *Promoting Access to Medical Technologies and Innovation: Intersections between Public Health, Intellectual Property and Trade.*

[5] *Ibid.*

[6] World Health Organisation. (n.d.). *The Doha Declaration on The TRIPs Agreement and Public Health.* Retrieved May 30, 2020 *from https://www.who.int/medicines/areas/policy/doha_declaration/en/.*

of the patent holder, whereby payment of royalties or adequate remuneration to patent holders is a must. Furthermore, compulsory license holders cannot export patented products, but can only use them for domestic purposes.

Several developing countries do not have the capacity to manufacture medicines domestically. Therefore, when using medicines and other pharmaceutical products, all countries rely on imports to a greater degree. The dependency ratio is particularly noticeable for the national health systems of smaller developing countries.[7] Although the TRIPs introduced a compulsory license mechanism, some of the developing countries have been unable to materialise effective results from it. This is due to insufficient or no manufacturing capacities in their pharmaceutical sectors, including in Sri Lanka.

Parallel Importation: During a pandemic situation, parallel importation is also important. Parallel importation provides permission to import without the consent of the patent-holder of a patented product marketed in another country, either by the patent holder or with the patent-holder's consent. Price discrimination – substantial price differences between the same pharmaceutical products sold in different market – is seen in many patented products which are sold at different prices in different markets. Hence, the rationale for parallel importation is to enable importation of lower priced patented products. In this light, parallel importing can be an important tool enabling access to affordable medicines.

11.2.2 COVID-19 and Global Responses to TRIPs on Public Health

Several countries declared COVID-19 as a public health emergency and introduced compulsory licenses; in addition, countries also allowed parallel imports of essential medicine, vaccines and other medical products. For example, Chile introduced legislation relating to compulsory licenses for medicines, vaccines and technologies which are effective for prevention of COVID-19; Israel introduced a specific compulsory license to allow importation of generic drugs to treat COVID-19; Ecuador introduced legislation which allows compulsory licenses for patents related to COVID-19 technologies, as well as competent authorities in the country to authorise third parties to access undisclosed information, including clinical test data; and Canada too introduced legislation which accelerates the process of issuing compulsory licenses for medicinal products.[8]

However, the question is whether irrespective of legislation, countries have the capacity to produce the generic drugs to meet their requirements as well as to export during pandemics. Large numbers of developing countries depend on imported generic drugs. Even advanced countries such as the US depends on drug imports, especially from countries like China.[9] In a pandemic situation especially, it is practically impossible to forecast the demand and supply related to drugs. Even

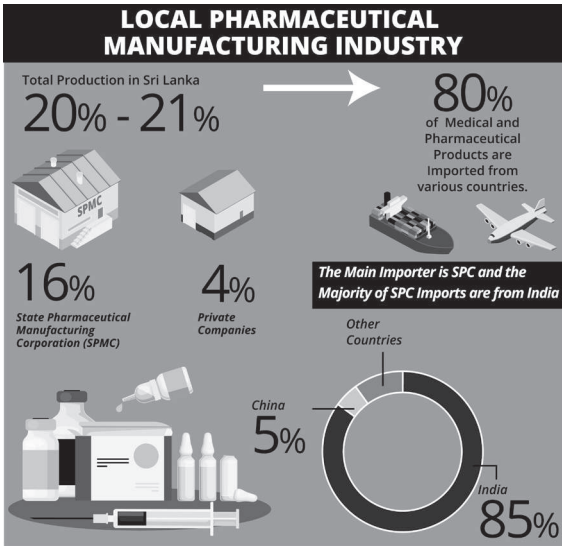
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[7] World Health Organisation, The World Intellectual Property Organisation and World Trade Organisation (2013). *Promoting Access to Medical Technologies and Innovation: Intersections between Public Health, Intellectual Property and Trade.*

[8] Syam, N. (2020). Intellectual Property, Innovation and Access to Health Products for COVID-19: A Review of Measures Taken by Different Countries, No:80, *Policy Brief*, South Center.

[9] Huang, Y. (2019). US Dependence on Pharmaceutical Products from China. Council for Foreign Relations. Retrieved May 31, 2020 from https://www.cfr.org/blog/us-dependence-pharmaceutical-products-china

Large numbers of developing countries depend on imported generic drugs.



six months after the COVID-19 outbreak globally, what drugs are effective to cure it remain largely unknown. Thus, although provisions in the TRIPs agreement specify how to act during pandemics, how countries will react is debatable, as well as how they stand to benefit from these provisions.

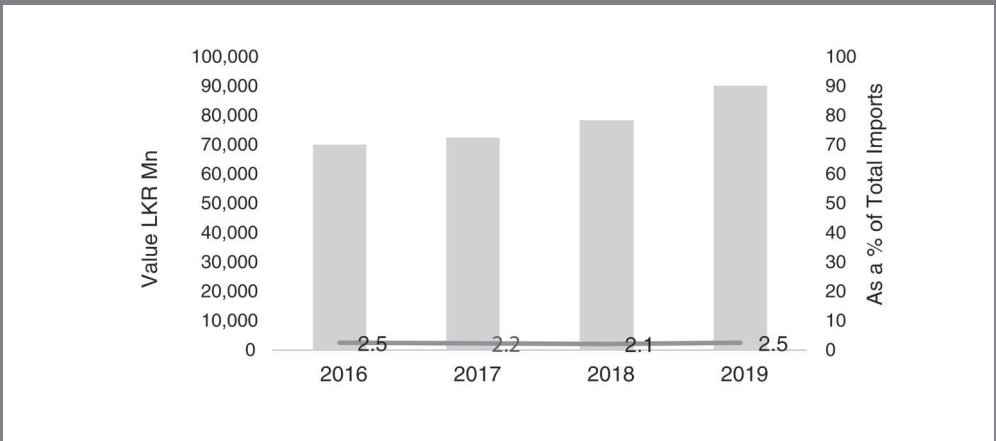
This is even more so for countries like Sri Lanka, where 80% of medical requirements are fulfilled by imports and the country lacks capacity to increase production even with compulsory licenses. Box 11.1 briefly sets out Sri Lanka's dependence on imported drugs.

Box 11.1
Sri Lanka's Pharmaceutical Sector

The pharmaceutical manufacturing industry in Sri Lanka is relatively small. Especially, expertise in industrial pharmacy, technology management and other related areas of pharmaceutical manufacturing is limited. Sri Lanka produces only 20-21% of its medical and pharmaceuticals requirement and the balance is imported from other countries. About 16% of the local production is from the State Pharmaceutical Manufacturing Corporation (SPMC) while the balance is from private companies, registered with the National Medicines Regulatory Authority (NMRA).

In 2019, 2.5% of the country's total imports comprised of medical and pharmaceutical products. The State Pharmaceuticals Corporation (SPC) is the main importer, accounting for nearly 30% of direct imports (with directions from the Director General Health Services of Sri Lanka to distribute amongst government hospitals). Moreover, it purchases imported drugs from registered private companies too. The SPC thus holds a share of 75-80% of imported drugs. A majority of SPCs imports are from India (85%), while China accounts for 5% and the balance is imported from Bangladesh, Pakistan, UK, US, etc.

Figure 11.1
Medical and Pharmaceutical Product Imports



Source: Central Bank of Sri Lanka. (2019). *Annual Report 2019*. Colombo: Central Bank of Sri Lanka.

With nearly 80% of the medical and pharmaceuticals products imported from various countries, Sri Lanka imports drugs in generic and branded versions. The majority is of generic versions produced by countries with the permission of the patent holder at a lower price. Sri Lanka's dependence on such imported drugs seems set to continue. Pharmaceutical manufacturing data suggests that the current capacity to develop pharmaceuticals products and related technologies is weak in Sri Lanka. Investments in pharmaceutical sector, technology gaps in pharmaceutical products, limited amount of technology transfer are some of the issues faced by the sector in enhancing local production.

Source: Beneragama. H, Shrihar. M, Ranasinghe. T. & Dissanayake, V.H.W. (2016). Sri Lanka's National Assessment on Innovation and Intellectual Property for Access to Medical Products. *WHO South-East Asia Journal of Public Health, September 2016, 5(2);* interviews with the General Manager, State Pharmaceutical Manufacturing Corporation (SPMC), General Manager and Manager-Research & New Projects, State Pharmaceutical Corporation (SPC).

Around the world, some countries like China, Thailand, India and some African countries too, are using their traditional medicine and knowledge to fight against COVID-19. Traditional knowledge is the experience and know-how that have been passed down from generation to generation, related to key areas such as food security, health care, agriculture development, etc. The TRIPs agreement provides protection for traditional knowledge and traditional medicines through patents, sui generis systems or geographical indications (GI). Some countries have already documented details relating to traditional knowledge and taken measures to protect traditional medicine and healing systems.

Traditional medicines have been widely used to treat COVID-19 patients, learning from past experiences. For instance, China's National Health Commission observes that traditional

medicines were used to treat over 85% of confirmed COVID-19 patients,[10] and combined treatment has proven to be effective.[11] Moreover, the WHO is working with African traditional medicine experts in the fight against COVID-19.[12] In Sri Lanka too, the traditional medicine system – Ayurveda treatments – is used by many as prevention measures, although there is no scientifically proven remedy. In a more broader context, Sri Lanka's traditional medicines are yet to be protected under the TRIPs agreement. Anecdotal evidence suggests that due to lack of a proper protection system, a large amount of traditional knowledge which relates to medicinal use is being exploited.

11.2.3 Technology, Innovations and the TRIPs Agreement

One of the main objectives of the TRIPs agreement is to promote technological innovations, and transfer and disseminate technology through IPRs (Article 7). A well-built IP system motivates innovation by attracting investments, encouraging inventors to develop their products, and rewarding inventors. In doing so, IPRs ensure that the new knowledge of inventors is protected. Especially during pandemics such as COVID-19, patents, trade secrets and copyright protection are important as costly innovations mainly relating to pharmaceuticals, medical products and devices, AI related algorithms, databases etc. need to be encouraged. Moreover, strong IPR protection encourages technology transfer through increased trade, foreign direct investment (FDI), technology licensing and joint ventures.

Sri Lanka's traditional medicines are yet to be protected under the TRIPs agreement; a key determining factor of success is the national law and its enforcement in individual countries.

[10] Yang. Y, et. al. (2020). Review Traditional Chinese Medicine in the Treatment of Patients Infected with 2019-New Coronavirus (SARS-CoV-2): *A Review and Perspective, International Journal of Biological Sciences, 16*(10), 1708-1717.

[11] TianCu. H, et. al. (2020). Traditional Chinese Medicine for Treatment of Coronavirus Disease 2019: *A Review, Traditional Medicine Review. 5(2)*, 65-73.

[12] World Health Organisation. (2020, May 04). *WHO Supports Scientifically-proven Traditional Medicine*. Retrieved May 31, 2020 from World Health Organisation: https://www.afro.who.int/news/who-supports-scientifically-proven-traditional-medicine.

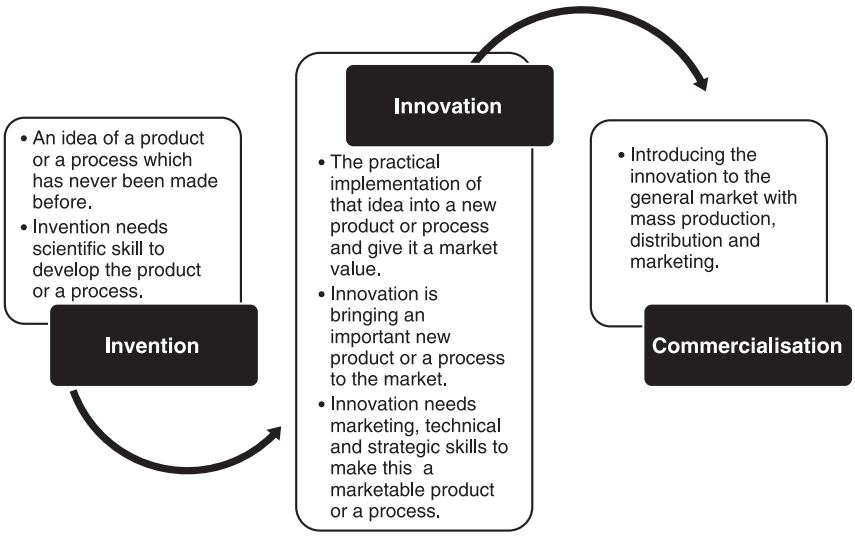
Despite the main key stated objective of the TRIPs agreement – to promote technological innovations and transfer and disseminate technology through IPRs – a key determining factor of success is the national law and its enforcement in individual countries. The TRIPs agreement is flexible, where it provides the freedom to each member to implement their respective national laws according to their settings, taking account of a country's economy, financial ability, etc.

11.3 Features of Technology and Innovation

With the spread of COVID-19, entrepreneurs, universities and other educational institutions, scientists, researchers, etc., embarked on several projects and studies to find innovative solutions to fight the virus. Many of these innovators are driven by a desire to develop and use new designs, ideas, and science to solve the health problems arising from COVID-19. Three concepts are vital in introducing new products and processes to the market: invention, innovation and commercialisation. It is crucial to commercialise the new product or process for the betterment of society. Again, the importance of patents or other IPRs will be paramount in the process of commercialisation. Only the product or process which is protected from IPRs will benefit from the commercialisation process.

The types of technologies that countries deploy will vary depending on its level of development in science and technology. Several other crucial factors also come into play. These factors include the number of innovations produced, R&D in the science fields, the number of scientists, the number of scientific publications, the number of patents obtained, and collaborations between research institutes, universities and the private sector for the commercialisation process,

Figure 11.2
Invention, Innovation and Commercialisation

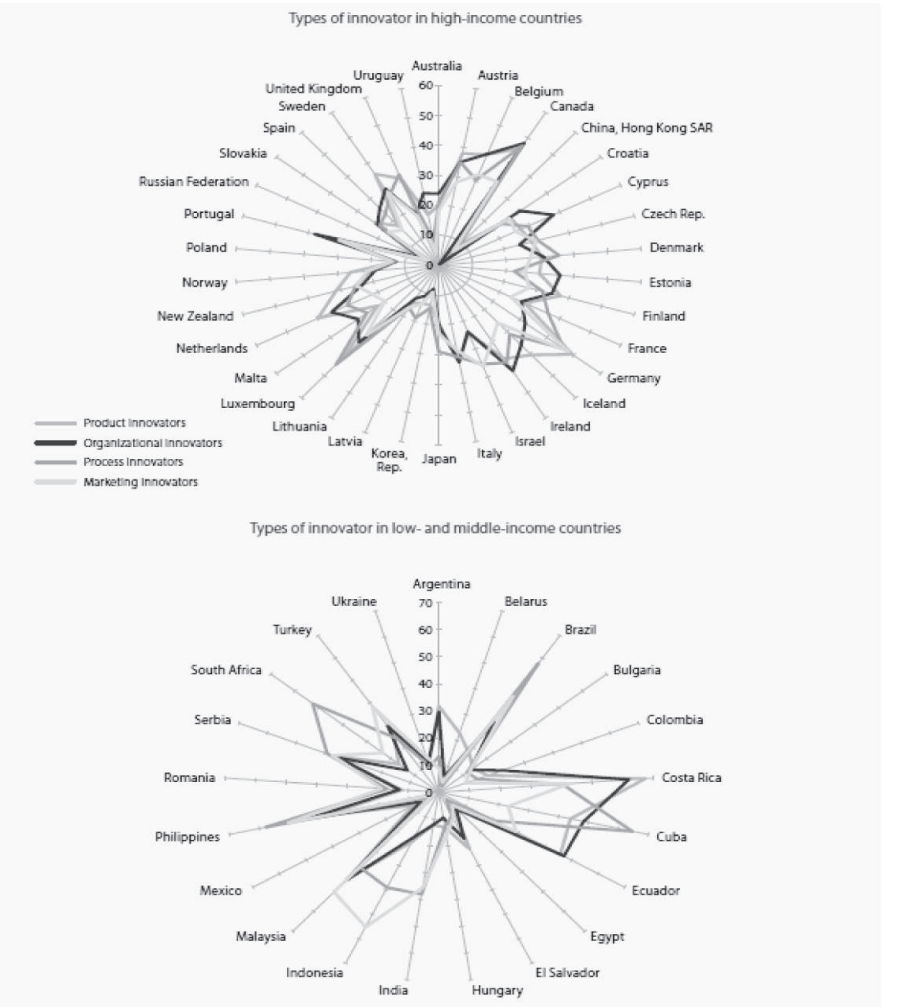


Source: Compiled by the author.

development of information communication technology (ICT) sector, and the number of internet and smart phone users.

As stated in the United Nations Educational, Scientific and Cultural Organisation (UNESCO) Science Report 2030, "the creation and transfer of scientific knowledge are critical to build and sustain socio-economic welfare and integration in the global economy. In the long run, no region or nation can remain a simple 'user' of new knowledge but must also become a 'creator' of new knowledge". More importantly, the report notes that the level and types of innovations will depend on the level of income of each country (Figure 11.3). Product and process innovations are widespread in high-income countries. However, in low and middle-income countries, the types of innovations vary significantly from country to country. For example, marketing

Figure 11.3
Types of Innovations in High Middle-income and Low and Middle-income Countries



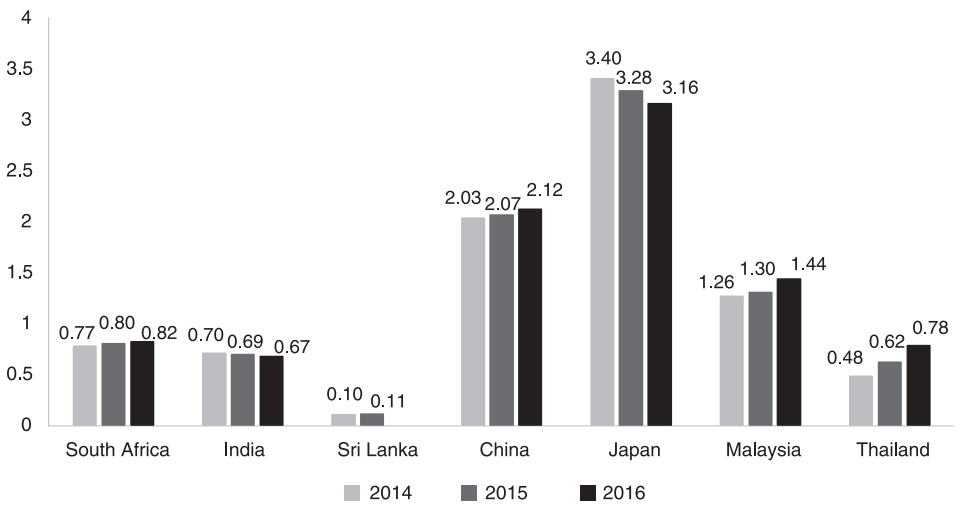
Source: United Nations Educational, Scientific and Cultural Organisation. (2015). *UNESCO Science Report: Towards 2030.* Washington D.C.: World Bank.

related innovations are prominent in Malaysia and Indonesia; product innovations are the least implemented in low and middle-income countries.

The opportunities and challenges of deploying technologies and innovations during the pandemic situation depend on an individual country's economic, social and governance policies. Moreover, the availability of a country's human capital, level of education and skills, quality of employment, protection given for innovations, commercialisation, etc. also matter. These factors determine the deploying of technologies and whether growth in innovations is sustained. A COVID-19 Innovation Map – a global directory with hundreds of innovations and solutions that help people cope and adapt to life amid the pandemic – indicates that the US leads the global innovation efforts. In contrast, China and India lead the Asian region.[13]

Science and technology indicators are not freely available worldwide, despite the fact that they provide valuable information on innovation inputs and outputs. Innovation performance inputs are R&D expenditures, number of scientists in a country, etc. Some of the innovation outputs are numbers of scientific publications, numbers of patents, high-technology exports. etc.[14] Thus, R&D expenditure as a percentage of GDP is one of the leading indicators to identify a country's level of science and technology. The gross expenditure on research and development (GERD) benchmark for developing countries is 1% of GDP. As indicated in Figure 11.4, selected developing countries fall below the standard

Figure 11.4
R&D Expenditure as a % of GDP in Selected Countries



Source: United Nations Educational, Scientific and Cultural Organisation. (2015). *UNESCO Science Report: Towards 2030*. Washington D.C.: World Bank

[13] Startup Blink. (n.d.). *Coronavirus Innovation Map*. Retrieved May 31, 2020 from Startup Blink https://coronavirus.startupblink.com/

[14] Global Innovation Index. (2011). World Intellectual Property Organisation.

GERD score, except for Malaysia. The low GERD correlates with low research intensity and limited integration into global research networks.[15]

One indicator of a country's level of innovation is the number of patents obtained. As indicated by the World Intellectual Property Organisation (WIPO), under patent statistics, 62% of the patents are granted to high income countries (HICs), whereas only 35% are granted to upper middle-income countries (UMICs), with a further 1.7% to the low middle-income (LMIC) category (Table 11.1).

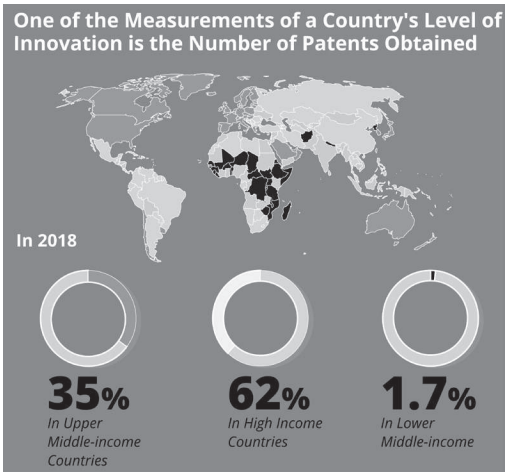


Table 11.1
Patent Grants by Income Groups (2018)

Income Group	Number of Grants	World Share (%)
High-income	874,800	62.3
Upper middle-income	874,800	35.4
Lower middle-income	24,500	1.7
Low income	5,100	0.5

Source: Patent Statistics, WIPO https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2018-chapter2.pdf

Table 11.2
Number of Patent Applications (2018)

Country	Number of Patent Applications Per 100,000 Inhabitants
China	100.08
Japan	200.45
Thailand	1.30
Malaysia	3.54
Sri Lanka	1.58

Source: Patent Statistics, WIPO (https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2018-chapter2.pdf)

[15] United Nations Educational, Scientific and Cultural Organisation. (2015). *UNESCO Science Report: Towards 2030,* Washington D.C.: World Bank.

Table 11.2 gives the number of patent applications produced by selected countries. It shows that in terms of patent applcaitions, Thailand, Malaysia and Sri Lanka are far below those of China and Japan.

11.3.1 COVID-19 and International Best Practices in Using Technology

Most countries are using several types of technology to make lives easier during COVID-19. These include solutions to provide medicine, facilitate trade, deliver education, etc. Most developed and several emerging economies are deploying 4IR technologies to combat COVID-19. In this setting, AI, robotics and big data are the most commonly used technologies (Box 11.2).

Most countries around the world are using a combination of technologies, including 4IR, to counter the spread of COVID-19. However, when compared with low-income countries (LICs), HICs and UMICs show a relatively higher usage of 4IR driven techniques. Such tools and techniques

Box 11.2
International Best Practices in Using Cutting-edge Technologies to Combat COVID-19

China

China has taken several steps to use the latest technologies in combating COVID 19. These include using AI, big data, drones, robots in many areas including health, education, food, trade etc., where human contacts are very minimal. Several leading tech companies in China like Alibaba, Baidu, and Huawei have developed several solutions using the 4IR technologies. For example, AI-based solutions to effectively screen large populations and detect a change in human body temperature. Such technologies can be implemented in crowded areas, hospitals, train stations, airports, etc., to identify sick people quickly and quarantine them before they infect a larger population.

In China, autonomous vehicles are used to transport viruses that affect people to and from healthcare facilities without risking the lives of others. Robots and drones are used to deliver groceries and medicines to quarantine locations, sterilise hospitals and patrol the streets.

DingTalk and WeChat Work are the two most widely used workplace apps in China. Further, video conferencing too is used widely, alongside a massive 'National Online Cloud Classroom', etc. China contracted companies like Baidu, Huawei, and Alibaba together with telecom providers China Telecom, China Unicom, and China Mobile to work together to provide cloud capacity and bandwidth. Fifty million students now use this platform.

The Chinese government, in collaboration with the private sector, has taken several other initiatives such as identifying a person who is wearing a face mask using facial recognition technology, using drones to monitor people's movements and ensure they are staying at home. Moreover, the police in some Chinese cities have taken to patrolling the streets wearing smart helmets equipped with thermal screening technologies that sound an alarm if a person's temperature is higher than the threshold.

Malaysia

Malaysia too uses technologies similar to those used in China such as robots, drones to sanitise public spaces and hospitals. Several innovations in relation to COVID-19 include robots to help officials with nation-wide disinfection, to use in disinfection activities, and to deliver food, medicine and other products and screen patients' temperature, etc.

Moreover, a new TV channel named TV Okey from the public broadcaster, Radio Television Malaysia (RTM), was launched in April 2020 to deliver education television programmes to all students, especially those without internet access. The television and radio programmes will also be live-streamed, and made available on Freeview TV, with broadcasting schedules available on the website of its Ministry of Education. Besides, EduwebTV, the online learning platform of the Ministry of Education also hosts on-demand content for students across pre-kindergarten to secondary school as well as digital textbooks.

Thailand

Thai hospitals are using AI solutions and 5G technology to fight against COVID-19. The Thai government, in collaboration with the China's Huawei technologies, initiated this programme to use AI technology in hospitals for doctors to analyse computed tomography (CT) quantification results of infection cases with high accuracy. Furthermore, the Thai government is implementing integrated digital technologies using 5G, AI, big data and cloud computing, in addition to using 'ninja' robots to treat COVID-19 patients in hospitals.

In addition, AI and big data solutions are being used to analyse business activities such as supply chain delays, develop tools to supplement employee and customer call centres, etc. It includes deploying voice and text chatbots to field the high volume of inquiries from internal and external stakeholders. AI is also serving to boost financial forecasting by leveraging curated external data sets and advanced analytical techniques for measuring and forecast the impact of COVID-19 on businesses.

Source: Sahbaz, U. (2020). *China's Technology Use in the Fight Against COVID-19 is a Learning Opportunity*. Retrieved May 18, 2020 from China Daily http://www.chinadaily.com.cn/a/202002/27/WS5e5720c4a31012821727aafa.html;

Shanghai, H.W. (2020). *Cloud Tools Becoming Popular with More Employees*. Retrieved May 18, 2020 from China Daily https://global.chinadaily.com.cn/a/202002/12/WS5e4358c6a310128217276e19.html

The Smart Local Malaysia. (n.d.) *Robots and Drones are Being Used for COVID-19* Disinfection in Malaysia, Following in China's Footsteps. Retrieved May 31, 2020 from The Smart Local https://thesmartlocal.com/malaysia/robots-drones-disinfection/

Sharon, A. (2020). *Thai Hospitals to get AI Solutions and 5G Tech to Fight COVID-19.* Retrieved May 18, 2020 from OPENGOVAsia. https://www.opengovasia.com/thai-hospital-to-get-ai-solutions-and-5g-tech-to-fight-covid-19/

are AIs, robots, big data and supercomputers to develop drugs, identify patients, etc. Overall, all these countries use broadband technologies that carry high volumes of data (high-speed internet connectivity), using a wide range (band) of frequencies, over fixed lines or wireless.

People are increasingly using mobile networks and devices very often to communicate (call, text), watch television, play games and for other entertainment activities, etc. Their portability and attractive inbuilt features make them more user-friendly. During COVID-19, social media platforms

for virtual connectivity were popularised even further, as were video conferencing, e-commerce, online food delivery services, etc.

11.4 COVID-19 and Sri Lanka: Technology, Innovations and IPRs

Sri Lanka too is using some of the latest technologies – such as automated guided vehicle (AGV) robots, isolation pods, etc. – as well as more commonly in use innovations such as sterilised umbrellas/beds, testing methods such as swab testing, peddle wash basins, amongst others. Moreover, online purchasing, online teaching, virtual meetings, use of social media platforms for retail shopping, purchasing and selling etc., is becoming more widely used in Sri Lanka as a result of COVID-19.

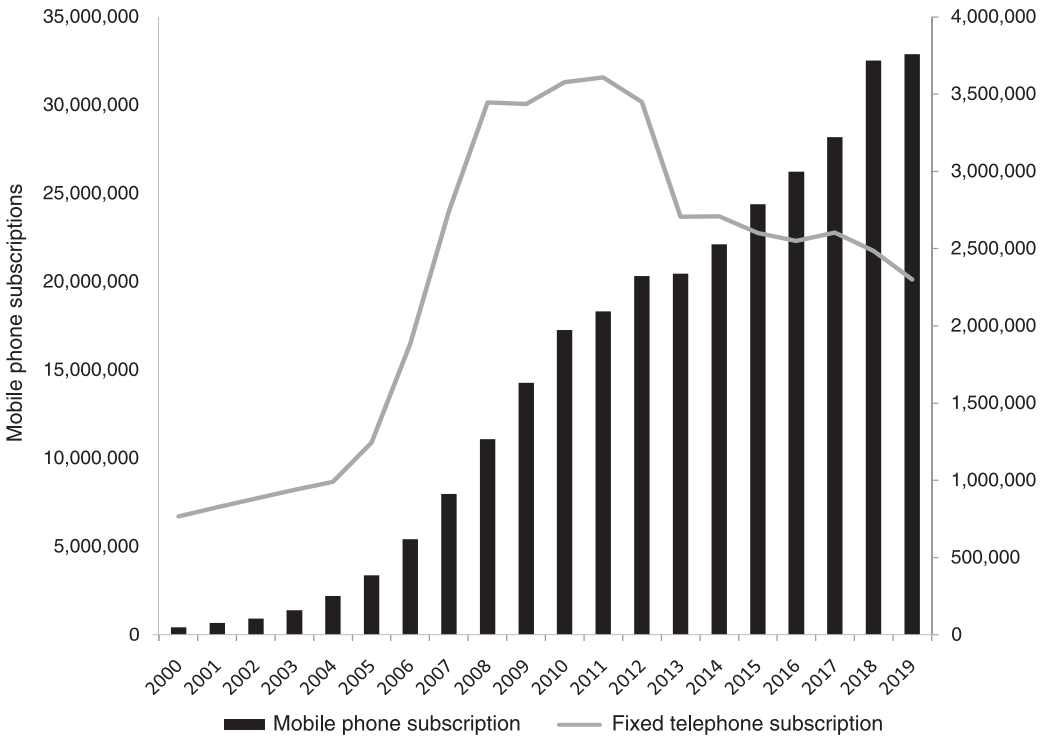
Thus, regardless of physical distancing, people are connecting with each other in several ways, deploying common technologies via a mobile or fixed broadband, smartphones and the internet. Nevertheless, a paramount problem is that many Sri Lankans do not have access to these facilities, and many are not privy to access the benefits of technology and innovations. Mobile phone subscriptions in Sri Lanka have increased over the years, marking a rapid increase after 2006 (Figure 11.5). Alongside this, fixed phone subscription increased rapidly until 2008, and declined after 2012 as mobile phone usage increased. As of 2019, the mobile subscription for 100 inhabitants is 150.8, and for fixed phones, it is 10.5.

In 2019, internet usage for individuals in Sri Lanka was around 34%.[16] There is a sizeable regional

A paramount problem is that many Sri Lankans do not have access to technological facilities, and many are not privy to access the benefits of technology and innovation.

[16] Amarasinghe, T. (2020). *Internet Access for Households with Children Under 18 in Sri Lanka is 34%.* Retrieved May 31, 2020 from LirneAsia https://lirneasia.net/2020/05/internet-access-for-households-with-children-under-18-is-34/

Figure 11.5
Fixed and Mobile Phone Subscription



Source: Telecommunication Network, Sector Analysis Report (Various years), Telecom Regulations Commission Sri Lanka (TRCSL).

disparity in fixed broadband (ADSL) facilities. For example, in terms of subscribers, Colombo district (2,830,272), Kalutara (58,589), Jaffna (40,302), and Badulla (9,974) record large numbers, but there are no ADSL facilities in some districts such as Monaragala, Mullaitivu and Killinochchi. Fixed broadband and mobile services are managed by Sri Lanka Telecom through its 45,000km wide fiber network, but it does not cover the entire island. Thus, usage of technologies differs from person to person. As such, if only 34% of Sri Lankan households where there are children (age 18 years or below) have some type of internet connection in 2019, a high percentage of students is unable to participate in online learning provided during COVID-19.

The availability of ICT infrastructure provides some indication of the level of usage of technology. But, the development of technology itself depends on the technological and scientific innovations in a country. Such technology preparedness is important during pandemics such as COVID-19, both to meet the immediate crisis requirements as well as in efforts to revive the economic fallout. As stated by the Sri Lanka's Inventors Commission (SLIC), there were nearly 200 innovations during the nationwide curfew period. In terms of numbers alone, this is a large increase during a very short period. These innovations are mostly targetting scientific or technological developments, focussing on various practical and medical issues arising from COVID-19. As a

country, what is more important at this juncture is to make these inventions and innovations commercially viable products. There are a few success stories reported during the COVID-19 pandemic (Box 11.3).

overseas patents are issued annually. Business enterprises are leading in developing, transferring and commercialising innovations, whereas the higher education sector performance is unsatisfactory.

Box 11.3
Innovations During the COVID -19

Invention on S7 Antiviral Bio Mask with Seven Sieves Antiviral Approach

A young inventor, Ms. Shahani Savindika Hettiarachchi, a M.Sc. student in Nanoscience and Nanotechnology of the Post Graduate Institute of Science (PGIS) at the University of Peradeniya (UOP) developed a face mask which is referred to as an 'antiviral bio mask'. It is a medical face mask designed for medical purposes, especially to filter the inflow of air. The S7 antiviral bio mask technology was developed at the PGIS with the support of the National Institute of Fundamental Studies (NIFS). Since its introduction in April 2020, the inventor was successful in filing a patent application at the National Intellectual Property Office (NIPO) and also a Patent Cooperation Treaty (PCT) application at the WIPO which provides international recognition. The SLIC, UOP and one of Sri Lanka's leading garment exporters (MAS Holdings) supported the process of PCT application by providing financial and advisory facilities. With the guidance and support of NIF and SLIC, the inventor was able to find private entities that were willing to support the commercialisation process. OREL Company, MAS Holdings, PGIS Start up Engine Programme have shown an interest in commercialising the product and discussions are ongoing. This is a classic example where public and private support provided for an invention can lead to innovation and commercialisation.

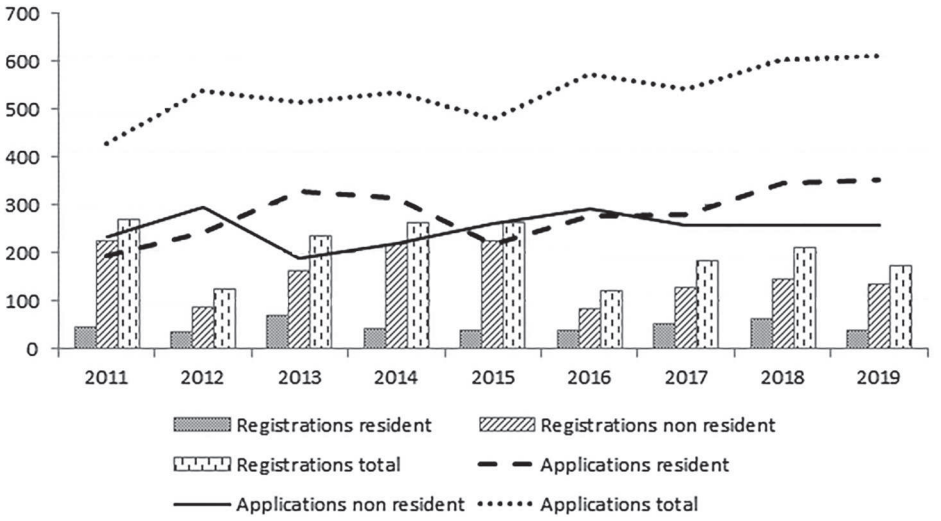
Source: Based on an interview with the inventor.

There are several criteria to evaluate Sri Lanka's generation of innovations. One such important criterion is the number of IP filings at the National Intellectual Property Office (NIPO). Figure 11.6 indicates the numbers of patents registered by residents and non-residents over the past few years. There is an increasing trend in the total number of patents registered locally by residents and non-residents. It also indicates a gradual increase in the number of innovations and how many have made it through to be commercial used. Moreover, some patents are registered overseas, and as of 2015, approximately 10-12

In 2015, the highest number of patents issues were in the following fields: chemical production and related findings, drugs, cosmetics and other related product developments, process technologies, agriculture related developments, etc. This is according to the latest available data from the Sri Lanka Science, Technology and Innovation handbook.

Sri Lanka's GERD is at around 0.1% of GDP. The public sector contributes the most towards R&D in Sri Lanka (nearly 56%). This is in line with most developing countries, where the public sector

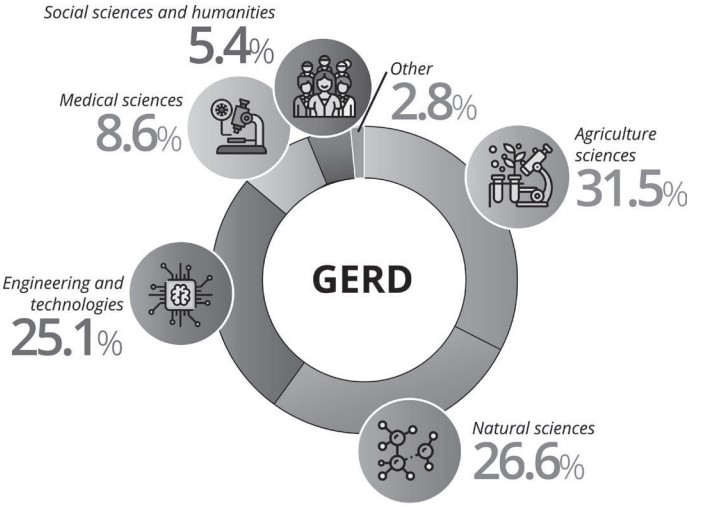
Figure 11.6
Patent Filling and Registration in Sri Lanka



Source: Publication of Granted Patents, National Intellectual Property Office, Sri Lanka

provides a higher percentage of a country's total investments in R&D. Public sector investment is essential in R&D, as past incidents reveal that markets fail due to difficulty in assuring profits for investors. However, most developed countries have successfully attracted private investments in R&D by providing effective protection via strong IPRs systems.

In Sri Lanka, GERD is high in agriculture sciences (31.5%) followed by natural sciences (26.6%), engineering and technologies (25.1%), medical sciences (8.6%), and social sciences and humanities (5.4%) etc. as of 2015. As shown in Figure 11.7, R&D expenditure on medical sciences has reduced from 17.3% to 8.6% from 2008 to 2015.

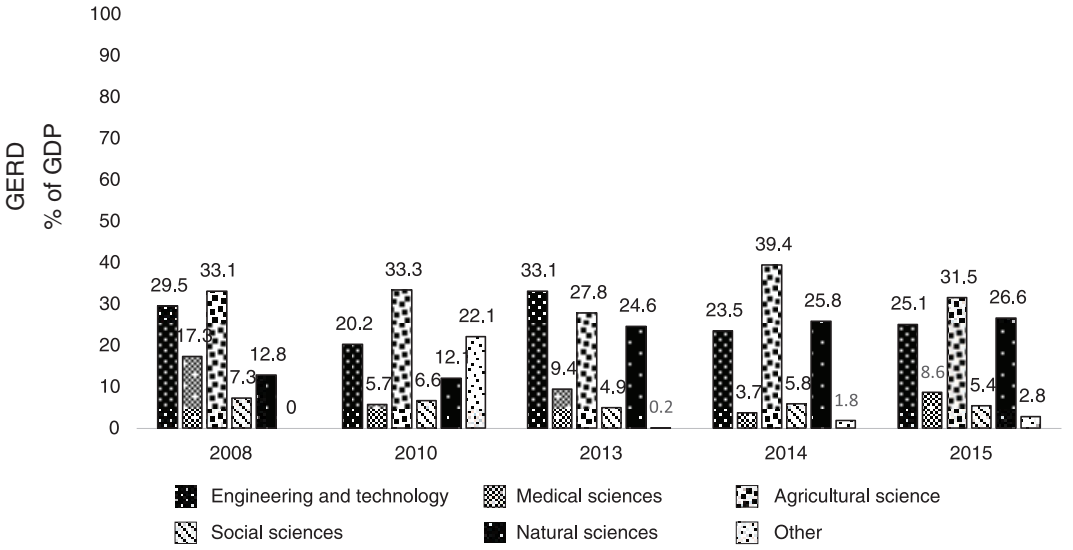


Presently, some countries are increasing their R&D expenditure on medical and pharmaceutical sectors substantively to find a drug to combat the COVID-19. For example, well known pharmaceutical companies such as Pfizer, Gilead and others have dropped their involvement in on-going research and funded over USD 1 billion for R&D in finding COVID-19 treatments. Moreover, the world's top ten pharmaceutical companies are estimated to have invested over USD 82 billion for R&D.[17] Thus, in what appears increasingly to be an era of pandemics, it is important for Sri Lanka too, to allocate R&D funds in more appropriate ways and reallocate funds and resources to ensure better preparedness in the future.

11.5 Way Forward and Policy Recommendations

The chapter highlights the importance of technology and innovations during pandemics such as COVID-19. In addition, it highlights the application of the TRIPs agreement and its flexibilities in encouraging innovations, and commercialisation of products to meet emergency situations such as pandemics and assist in mitigating the health and economic fallout. The discussion recognises that disparities exist in terms of usage of available technology, as well

Figure 11.7
National R&D Expenditure by Disciplines



Source: Sri Lanka Science, Technology and Innovation Handbook: 2015, National Science Foundation.

[17] Mattina, J. (2020). *Large R&D Investments by Big Pharma Crucial in Fighting Covid-19, But Can it Last?*. Retrieved May 31, 2020 from Forbes https://www.forbes.com/sites/johnlamattina/2020/06/16/large-rd-investments-by-big-pharma-crucial-in-fighting-covid-19-but-can-it-last/" \l "3735eb3a24df

as the creation of innovations. These can be due to country's level of infrastructure, financing of innovations, allocation of R&D funds, etc. In order to learn from and to adopt some of the international best practices, countries like Sri Lanka can consider some critical policy recommendations to be better prepared for similar pandemics situations in the future.

Improve GERD and Attract Private Investments in R&D: It is important to increase investments on R&D, at least to meet the benchmark level of developing countries. This also means that it is necessary to allocate R&D funds efficiently amongst relevant fields. As highlighted, most of the developed countries R&D is high in engineering, medicine, science and technology fields. In Sri Lanka by contrast, R&D in the field of medicine in the past years report a decrease.

In attracting R&D, sustaining confidence among investors and investees that the investment is secure is important. Therefore, to attract private investments in R&D, most developed and upper middle-income countries have introduced strong IP protections. Thus, Sri Lanka too can use its IPRs to provide necessary protection for investments, especially for technology transfer, commercialisation, sui generis protection for traditional medicines, traditional knowledge, plant varieties, protection for new start-ups, etc. Furthermore, to utilise the flexibilities provided by the TRIPs agreement on compulsory licensing it is important to promote innovations in health and medicine through institutional development. This process should be focused on minimising technical and legal challenges.

Expand Commercialisation, Technology Transfer and Business Linkages: It is critical to understand the importance of the practical and commercial viability of innovations. Presently, several government institutes have adopted several strategies to encourage inventors to obtain patents and commercialisation of products; these include the Ministry of Higher Education, Technology and Innovations, NIPO, SLIC, Sri Lanka Institute of Nanotechnology, the Coordinating Secretariat for Science, Technology and Innovation (COSTI), National Engineering Research and Development Centre (NERD), technology faculties of the universities, etc. Moreover, some private entities such as Ceylinco Insurance, Atlas Axillia PLC, MAS Intimate Ltd, OREL Company etc., too are linking with research institutes in the commercialisation process. However, in the long run, these emerging linkages need to be strengthened and formalised.

Encourage Innovations and Patenting: Sri Lanka can adapt several strategies to encourage innovations and speed up the process of patenting and commercialisation, especially after the experiences of the COVID-19 pandemic. As a first step, it is vital to create public awareness on IPR services, such as patenting. In doing so, spreading awareness on how patents support and encourage inventors by providing recognition and rewards, and how to transform their knowledge into tradable assets need to be emphasised. The NIPO has introduced an online patent application system since April 2020 and are conducting online patent examinations. Further, it is vital to recruit technically sound IP examiners and provide IT facilities for virtual examinations, and remote working to examine IP applications. It is also important to speed up the patent examination process so as to avoid technological obsolescence.

Sri Lanka can also introduce an online search facility for PATENTSCOPE database – an online dashboard to monitor operations in line with WIPO – to support innovations. Fees relating

to patents and renewals are costly. According to the WIPO COVID-19 IP Policy Tracker, some countries have reduced patent fees, extended deadlines, etc. Sri Lanka too can consider waving off patent fees and renewal fees. Further, alternative solutions to share the high cost of patenting can be explored, such as integrating with regional patenting organisations, sharing information and relationship building with other national patenting offices.

Improve Availability and Accessibility of ICT Infrastructure: COVID-19 has already accelerated online teaching and learning, online healthcare, online selling and purchasing, etc. Additionally, new technologies, techniques and digital methods will be innovated in the era of the 4IR. Thus, it is vital to have developed ICT infrastructure facilities. A survey finds that 63% of Sri Lanka's population owns a phone and 47% of these are smart phones. However, it is quite discouraging to note that 61% of mobile users do not use internet, simply because they lack the knowhow to access such features. Thus, it is important to address the issue of digital literacy gap by strengthening facilities in 'Nanasala' and other grassroot level technology centres. It is also important to improve mobile subscriptions by providing facilities to mobile operators; this is more practical than improving fixed subscriptions. Alongside efforts to raise usage, Sri Lanka must also accelerate the process of implementing new laws and regulations to protect data privacy, and introduce relevant amendments to the existing Computer Crime Act of No: 24 of 2007.

12. Protecting SMEs During Global Disruptions

12.1 Introduction

Around the world, small and medium enterprises (SMEs) are being hit hardest by the economic impacts of the coronavirus (COVID-19) pandemic. SMEs in emerging economies are particularly vulnerable as they contend with reduced demand, disruptions to supply chains, and worsening access to finance. The pandemic is intensifying traditional vulnerabilities amongst SMEs such as low levels of savings, assets, and inventories and consequently creating a unique set of policy challenges associated with them.

These policy challenges are heightened as economies such as Sri Lanka attempt to mitigate downside risks and grow their SME sectors within a narrow fiscal space, whilst aiming for a successful middle-income transition. To begin with, such transitions are rare and there are many countries that fall into a 'middle-income trap'. The economic development arc of each of the case studies, for each of income group, is varied. However, while changes in technology and globalisation affect these transitions, some of the fundamentals facilitating successful transitions have been somewhat constant. Investment, and the availability of domestic savings for investment, to finance investment have been the primary determinants for sustained economic growth, the duration of that growth, the ability of an economy to land softly, and the means of

The pandemic is intensifying traditional vulnerabilities amongst SMEs such as low levels of savings, assets, and inventories and consequently creating a unique set of policy challenges associated with them.

avoiding protracted crises and growth reversals.[1] Especially as economic growth becomes innovation intensive, a healthy ecosystem of SMEs is playing an increasingly important role in facilitating middle-income transitions.

In addition to accounting for a major share of economic activity at any given point, SMEs drive gross domestic product (GDP) and productivity growth of an economy. This growth is fuelled through: (i) the entry and exit of firms that make an economy dynamic, and which tend to happen more often amongst SMEs, and (ii) within firm productivity levels that lead to broader productivity gains in the overall economy.[2] One of the fundamental distinctions between low middle-income countries (LMICs) and upper middle-income countries (UMICs), as well as countries that successfully make the middle-income transition, is the marginal difference in productivity levels between small firms and large firms.

Across the spectrum, small firms tend to be less productive than their larger counterparts. However, small firms tend to be far less productive than large firms in LMICs as opposed to UMICs, and the differences are even smaller amongst high-income countries (HICs). As a result, LMICs tend to accommodate more, small, low-productivity firms that fail to innovate or grow but continue to survive than in countries that are at a higher stage of economic development. These firms are thus more vulnerable to domestic and external economic shocks, as they operate on very narrow margins, low levels of savings, and have few alternative options to pursue during a recovery, which consequently increase the vulnerability of the economy at large.

Sri Lanka's policy responses geared towards SMEs, therefore, need to contend with the immediate impacts of COVID-19 on the sector as well as broader issues that inhibit the country's growth trajectory, especially in terms of vulnerability to global disruptions. This chapter analyses the impacts on SMEs from disruptions to global supply chains, examines potential policy responses and provides recommendations from international best practices.

12.2 Disruptions to Global Supply Chains and Impacts on SMEs

COVID-19 impacts reveal vulnerabilities in both domestic as well as global supply chains. At the global scale, a decades long focus on supply chain optimisation to minimise costs, reduce inventories, and improve asset utilisation has led to a corresponding reduction in buffers and flexibility to absorb disruptions. Even though companies have faced supply chain disruptions before, especially due to natural disaster related events (e.g. volcanic eruption in Iceland, Japanese earthquake and floods, etc.), the global economy has not faced a disruption of this magnitude, both in scale and time – especially one that is focussed on China. A vast majority of countries have largely been dependent on China to supply raw materials, components, and finished products. As a result, the closure of factories in China led to disruptions in production capacity as early as February 2020.

As noted in Figure 12.1, supply chain vulnerability tends to take place across five dimensions: (i) planning and supplier network; (ii) transportation

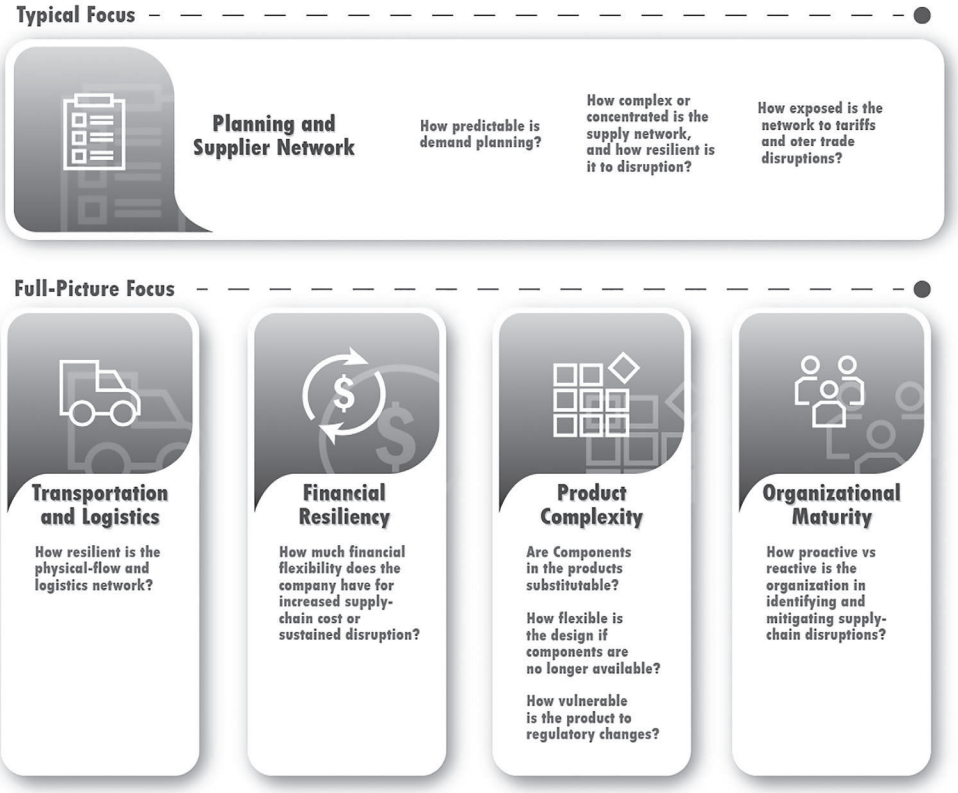
1 European Bank for Reconstruction and Development. (2019). *Eight Things You Should Know About Economic Transitions.* London: European Bank for Reconstruction and Development.

2. Tewari, P. S., Skilling, D., Kumar, P., & Wu, Z. (2013). *Competitive Small and Medium Enterprises: A Diagnostic to Help Design Smart SME Policy.* Washington D.C.: World Bank.

and logistics; (iii) financial resiliency; (iv) product complexity; and (v) organisational maturity.[3] The relevance of each of these dimensions and the extent to which vulnerabilities affect firms vary, based on factors such as the size of a firm, involved sector, and its primary customer base.

industrial supply chain. Enterprises downstream in the supply chain directly provide goods to consumers, while upstream enterprises produce intermediate goods required by those downstream. Traditionally, upstream enterprises enjoy economies of scale and rely on their capital

Figure 12.1
Drivers of Potential Supply Chain Vulnerability



Source: Alicke, K., Azcue, X., & Bariball, E. (2020). *Supply-chain Recovery in Coronavirus Times—Plan for Now and the Future.* Washington D.C.: McKinsey & Company.

The extent of the impact of supply chain disruptions especially varies based on whether the firm is upstream or downstream in the

structure to form large enterprises. In contrast, downstream enterprises tend to be more labour intensive SMEs.[4] The vulnerabilities of SMEs

[3] Alicke, K., Azcue, X., & Bariball, E. (2020). *Supply-chain Recovery in Coronavirus Times—Plan for Now and the Future.* Washington D.C.: McKinsey & Company.

[4] Choi, T., Rogers, D., & Vakil, B. (2020). *Coronavirus is a Wake-Up Call for Supply Chain Management.* Cambridge: Harvard Business Review.

to disruptions are particularly laid bare, as they tend to have limited resources to diversify their supply chains, replicate resources, maintain large inventories, and remain competitive.

The challenge for SMEs, therefore, is twofold. Firstly, SMEs will need to respond to the short-term shock to global supply chains and find meaningful ways to survive the consequent limitations to production capacity. Even as the Chinese economy reopens, the sporadic emergence of COVID-19 outbreaks in parts of China, as well as elsewhere, and subsequent closures mean that short-term disruptions to supply chains are likely to persist throughout 2020. Secondly, SMEs will have to assess the viability of continuing with China-centric supply chains in a post-COVID-19 economy. In doing so, firms will be best placed to adjust their respective supply chains to move away from a single source.

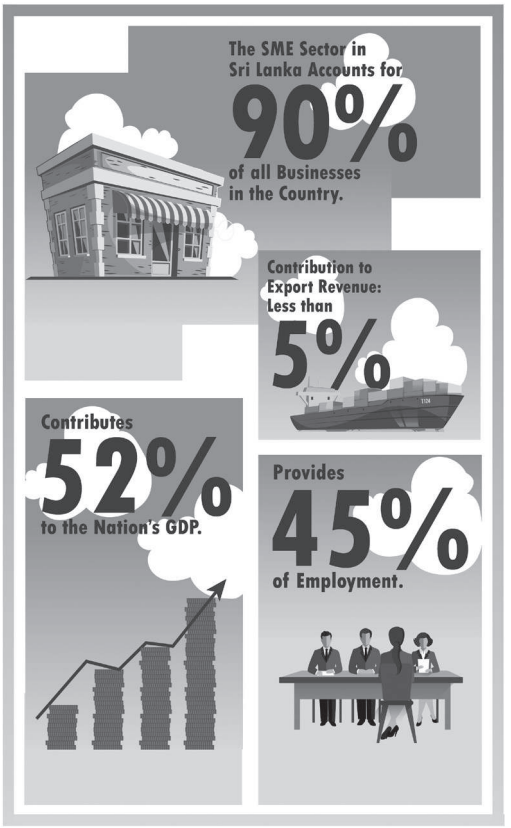
12.3 Role of SMEs in Middle-income Economies

The SME sector in Sri Lanka accounts for 90% of all businesses in the country, provides 45% of employment, and contributes 52% to the nation's GDP.[5] Successive governments have thus correctly identified the importance of the SME sector as one of the main drivers of growth and development. However, whilst SMEs make up the backbone of the Sri Lankan economy, they continue to be one of the most vulnerable sectors during times of local and global economic disruptions.

Whilst SMEs make up the backbone of the Sri Lankan economy, they continue to be one of the most vulnerable sectors during times of local and global economic disruptions.

The approximately one million SME establishments in Sri Lanka that employ around 2.25 million people are generally concentrated in labour-intensive production sectors such as retail, and small-scale manufacturing. Moreover, nearly 20% of agricultural sector establishments are made up of SMEs. As detailed in Table 12.1, over 90% of all establishments in non-agricultural sectors are micro enterprises. Meanwhile, close to half of those employed in these same sectors are engaged in micro enterprises as well. Notably, 45% of micro enterprises and 10% of small enterprises are not formally registered. Overall, micro enterprises account for 98% of total unregistered enterprises in Sri Lanka.

[5] Ministry of Industry and Commerce. (2017). *National Policy Framework for Small Medium Enterprise Development.* Colombo: Ministry of Industry and Commerce.



Furthermore, Sri Lankan SMEs contribute less than 5% of total export revenues.[6] Many of these characteristics of the SME sector in Sri Lanka are similar to those in a LMIC, and at times, a low-income country (LIC).

Characteristics of the SME sector in Sri Lanka are similar to those in a low middle-income country, and at times, a low-income country.

Table 12.1
No. of Establishments and Persons Employed, by Economic Sector and Size

	No. of Establishments				No. of Persons Engaged			
	Total	Industry (%)	Trade (%)	Services (%)	Total	Industry (%)	Trade (%)	Services (%)
Total	1,019,681	26.6	41.1	33.4	3,003,119	40.6	26.6	33.8
Micro	935,736	25.3	42.0	32.7	1,338,064	27.1	39.1	33.8
Small	71,126	28.8	31.3	39.9	529,248	32.3	24.4	43.4
Medium	10,405	32.0	19.6	48.4	387,859	52.5	11.1	36.4
Large	2,414	31.6	36.9	31.5	747,948	64.6	9.8	25.7

Source: Department of Census and Statistics. (2015). *Key Indicators of Industry, Trade and Services Sectors Economic Census: 2013/2014.* Colombo: Department of Census and Statistics.

[6] Wijayasiri, J. (2016). *Trade is Not Just for Big Businesses: The Role of Sri Lankan SMEs in Trade.* Retrieved June 10, 2020 from TalkingEconomics https://www.ips.lk/talkingeconomics/2016/11/28/trade-is-not-just-for-big-businesses-role-of-sri-lankan-smes-in-trade/

Box 12.1
Identifying Small and Medium Enterprises (SMEs)

Different countries use different methods to define its SME sector, based on their respective level of development. However, broadly speaking, these definitions focus on three main criteria: (i) total number of employees, (ii) annual turnover, and (iii) total investment. In the Sri Lankan context, the SME policy framework defines its SMEs based on the number of employees or annual turnover. Based on these criteria, the SME sector is disaggregated into micro, small, and medium enterprises. In Sri Lanka, and for the purposes of this chapter, the criteria for the definition of each sub-category of SMEs is as follows:

Size/Sector	Criteria	Micro	Small	Medium
Manufacturing	Turnover (LKR Mn)	15 or less	16-250	251-750
	No. of Employees	10 or less	11-50	51-300
Services	Turnover (LKR Mn)	15 or less	16-250	251-750
	No. of Employees	10 or less	11-50	51-200

In comparison, the metrics used by Malaysia and Thailand to define SMEs are given below:

Country	Size/Sector	Criteria	Micro	Small	Medium
Malaysia	Manufacturing	Turnover (RM. Mn)	< 0.3	0.3 < 15	15 ≤ 50
		No. of Employees	< 5	5 < 75	75 ≤ 200
	Services	Turnover (RM. Mn)	< 0.3	0.3 < 3	3 ≤ 20
		No. of Employees	< 5	5 < 30	30 ≤ 75
Thailand	Manufacturing	Capital (THB. Mn)		≤ 50	51 – 200
		No. of Employees		≤ 50	51 – 200
	Services	Capital (THB. Mn)		≤ 50	51 – 200
		No. of Employees		≤ 50	51 – 200

Sources: SME Corporation Malaysia. (2013). *SME Definitions.* Kuala Lumpur: Government of Malaysia.

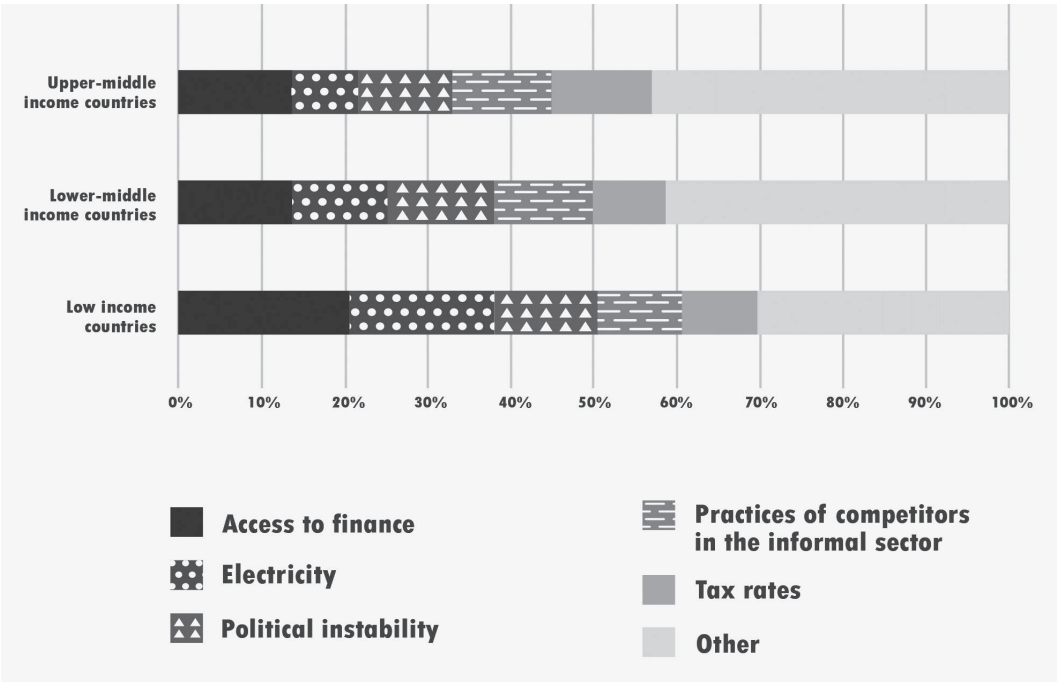
Government of Sri Lanka. (2015). *National Policy Framework for SME Development.* Colombo: Government of Sri Lanka.

Ministry of Industry Thailand. (2016). *Definition of SMEs.* Bangkok: Ministry of Industry Thailand.

In many ways, the general obstacles faced by SMEs to grow and succeed in UMICs are similar to those faced by SMEs in LMICs, with a focus on access to finance, accommodating infrastructure, and governance and policy challenges (Figure 12.2). These bottlenecks are the main obstacles that stymie the growth and productivity of SMEs in developing economies (Figure 12.2).

However, the composition of the SME sector in each of these economic groups is slightly different from each other. Thus, the impact of global

Figure 12.2
Bottlenecks Faced by SMEs in Developing Countries



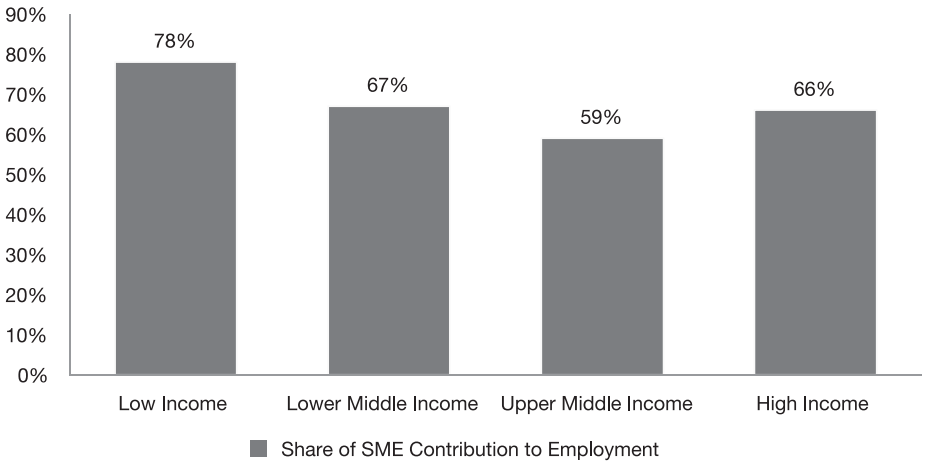
Source: International Trade Centre. (2019). *SME Competitiveness Outlook.* Geneva: International Trade Centre.

disruptions and potential policy prescriptions to mitigate the impact of those disruptions vary. Although currently classified as a LMIC, Sri Lanka is placed at the upper threshold of the grouping. Therefore, Sri Lanka effectively competes with UMICs such as Thailand and Malaysia rather than LMICs such as Vietnam and Bangladesh. Thus, when comparing Sri Lankan SMEs to those of comparator UMICs, Sri Lankan SMEs constitute a smaller share of establishments in the country, a smaller share of total employment, and most starkly, a significantly small contribution to total exports (Figure 12.3 and Table 12.2).

In fact, Sri Lanka's SME contribution to total exports is smaller than South Asian comparators such as India (40%), and Bangladesh (70%). This demonstrates that Sri Lankan SMEs are significantly less integrated into global supply chains and contribute far less to the export basket than its counterparts. In some aspects, this means that a majority of Sri Lanka's SMEs are less affected by disruptions in global demand such as the 2008 global financial crisis (GFC). However, this does not insulate SMEs from crises such as the current COVID-19 pandemic, which has broader repercussions than simply on global demand.

Another distinctive characteristic amongst SMEs in comparator UMICs is the growing consolidation of micro firms to become small sized enterprises. The consolidation of such entities is seen as an important step in creating economies of scale even at the SME level and consequently, integrating more into domestic supply chains, leading to higher levels of productivity. In doing so as part of a broader SME competitiveness

Figure 12.3
Average Employment Contribution by SMEs



Source: World Bank (2012). *SME Finance Policy Guide.* Washington D.C.: World Bank

Table 12.2
Contribution of the SME Sector to Broader Economic Measures, Selected Countries

	% of Establishments	% of GDP	% of Total Employment	% of Total Exports
Sri Lanka	90.0	52.0	45.0	< 5.0
ASEAN	97-99.0	42.2	66.3	22.0
Indonesia	98.5	58.9	97.0	15.4
Malaysia	97.3	38.3	57.5	17.3
Peru	99.6	43.0	75.9	9.3
South Africa	98.5	21.0	28.0	36.0
Thailand	98.0	36.0	80.4	28.8

Source: Economic Census and SME status reports of multiple countries.

strategy, Peru for instance, has been able to increase the amount of export revenue through SMEs by 122% within a 15-year period between 2003 and 2018.[7] Meanwhile, Sri Lanka's composition of SMEs has remained unchanged over the years during a comparable time period with micro enterprises accounting for 91.7% of all enterprises in the country.[8] This composition is particularly important when discussing policy responses to crises.

[7] Ministry of Foreign Trade and Tourism - Peru. (2019). *SME 2021: Working For an Exporting Peru.* Lima: Government of Peru.
[8] Department of Census and Statistics. (2015). *Economic Census 2013/2014.* Colombo: Department of Census and Statistics.

As noted earlier, SMEs face a significant number of internal and external risks and their survival and resilience is critical for the national and global economy. However, unlike large firms, SMEs are less equipped to manage disruptions due to lower capacity and the institutional support available to navigate through such events tend to be relatively weaker as well. During the 1997-98 Asian financial crisis, a rise in interest rates, tight monetary policies, and a decline in domestic and international demand led to many bankruptcies amongst SMEs. For example, the number of bankrupted SMEs in South Korea increased by almost 100% from 1996 to 1998.[9] Similar impacts were also felt amongst SMEs during the 2008 GFC. With the current COVID-19 pandemic, however, much broader economic impacts are affecting supply, demand, and finance.

12.4 Managing Supply Chain Disruptions to SMEs

12.4.1 Firm-Level Solutions to Supply Chain Disruptions

In the immediate-term, SMEs in developing economies have few options to respond to supply chain disruptions beyond managing at a lower capacity or seeking alternate sources domestically (near-sourcing). At the domestic level, this requires far greater levels of coordination than what existed pre-COVID-19.

To an extent, Sri Lanka has already seen some elements of domestic supply chain consolidation taking place through online and social media-based tools such as PickMe, that are being repurposed from its original platform as a transport facilitator to facilitating a broader spectrum of services. It should be noted, however, that only a very narrow segment of SMEs is able to adequately switch to domestic supply chains. Many are priced out, since the price differential between domestic and traditional suppliers is significant, or do not have access to the required raw materials in the domestic market. Beyond the immediate need, however, the consolidation of the SME sector of developing countries will be highly beneficial in creating more cost effective domestic supply chains. Not only would consolidation create economies of scale, but it would also enable SME networks to better integrate to broader supply chains with larger firms.

Consolidation of the SME sector of developing countries will be highly beneficial in creating more cost effective domestic supply chains.

[9] Asgary, A., Ozdemir, A., & Ozyurek, H. (2020). Small and Medium Enterprises and Global Risks: Evidence from Manufacturing SMEs in Turkey. *International Journal of Disaster Risk Science, 11, 59-73.*

Integrating a greater amount of technology into supply chain management and firm-level operations will be critical for SMEs to address supply chain vulnerabilities. For instance, digitising supply chain management is seen to improve speed, accuracy, and flexibility of supply-risk management. A 2016 Boston Consulting Group study found that adopting digital supply chain technologies helped companies achieve, on average, 10% higher product availability and 25% faster response to market changes compared to companies lagging in digitisation.[10] New fourth industrial revolution (4IR) technologies such as the internet of things (IoT), blockchain technology, and artificial intelligence (AI) based platforms were starting to be introduced even before COVID-19.

However, the rate of technological absorption is likely to increase rapidly in a post-COVID-19 world, as the necessity to mitigate supply chain vulnerabilities in a cost effective manner increase, and consumer preferences change in ways that require a restructuring of supply chains around digital technology. For instance, the SARS outbreak in 2003 is credited by some for moving Chinese consumers towards online shopping, accelerating Alibaba's rise.[11] Moreover, small firms could altogether circumvent the need for traditional supply chains by embracing technologies such as 3D printing. For example, Italian startup Isinnova succeeded in addressing a shortage of ventilator valves in the country due to supply chain disruptions by reverse engineering the valve and 3D printing it, in a matter of days.[12]

12.4.2 Opportunities Arising from Supply Chain Disruptions

As discussed earlier, the severe disruption caused by COVID-19 on supply chains has required developed economies to reconfigure their supply chains and reduce its dependence on China through diversification. This could mean that companies in high-income nations that outsourced production in China may consider alternatives in other parts of Asia. Prior to the pandemic, in 2019, Malaysia experienced a surge in foreign direct investment (FDI) in electronics manufacturing amounting to an increase of 456% compared to the previous year, as companies shifted production away from China due to the escalating trade war with the US.[13] Reliable infrastructure, established supply chains, and a skilled labour force were identified as the main components leading to this relocation. Similar changes are likely in the near future as companies attempt to move away from China and diversify their supply chains through other Asian middle-income economies.

A restructuring of global supply chains can thus create some opportunities for Sri Lanka to attract manufacturing plants that wish to relocate out of China. However, such shifts would require

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[10] Chambers, J. (2020, April 12). *Coronavirus Should Inspire Businesses to Prepare their Supply Chains for the Future.* Retrieved April 28, 2020, from Fortune : https://fortune.com/2020/04/12/coronavirus-supply-chain-disruption-risk/

[11] Huddleston Jr, T. (2020, March 26). *The SARS epidemic threatened Alibaba's survival in 2003—Here's How it Made it Through to Become a $470 Billion Company.* Retrieved April 28, 2020, from CNBC: https://www.cnbc.com/2020/03/26/chinas-2002-2003-sars-outbreak-helped-alibaba-become-e-commerce-giant.html

[12] Feldman, A. (2020, March 19). *Meet the Italian Engineers 3D-Printing Respirator Parts for Free to Help Keep Coronavirus Patients Alive.* Retrieved Apri 24, 2020, from Forbes: https://www.forbes.com/sites/amyfeldman/2020/03/19/talking-with-the-italian-engineers-who-3d-printed-respirator-parts-for-hospitals-with-coronavirus-patients-for-free/#64b038cf78f1

[13] Department of Statistics - Malaysia. (2020). *Statistics of Foreign Direct Investment - 2019.* Kuala Lumpur: Government of Malaysia.

substantial domestic economic reforms that create a complementary economic ecosystem by reducing barriers to trade, improvements in domestic competitiveness, policy consistency, and security of investments. Attracting such investments into the country would be a major boon to Sri Lanka's SMEs as well, as they will have more access to integrate into global supply chains.

COVID-19 related supply chain disruptions appear to have also created a greater onus on regional supply chains. As discussed earlier, a part of the rationale behind an increased focus on regional supply chains is to reduce the complexity of supply chains in order to mitigate potential vulnerability. In addition, as countries begin to reopen economies, the concept of 'trade and travel bubbles' is gaining traction. Even though domestic economic activity is restarting, countries have restricted inward travel considerably to prevent imported cases of COVID-19. However, in order to ease the burden on some export and travel dependent sectors such as tourism, governments are starting to form regional bubbles. Effectively this allows for easier travel and trade between countries that have mutual assurances of having curbed the spread of the virus in their own countries and thus present a low risk. For example, Australia and New Zealand initiated such a 'travel bubble' to facilitate supply chains and business travel between themselves and are considering a wider scheme that includes Canada and some Asian nations such as Taiwan, South Korea, China, and Hong Kong.[14] A similar 'bubble' has also been proposed amongst the Association for Southeast Asian Nations (ASEAN) members. As Sri Lanka proceeds to successfully curb the spread of COVID-19 in the country and gain the

A restructuring of global supply chains can create some opportunities for Sri Lanka to attract manufacturing plants that wish to relocate out of China.

[14] Harper, J. (2020, May 05). *Coronavirus: 'Travel Bubble' Plan to Help Kick-Start Flights.* Retrieved May 05, 2020, from BBC: https://www.bbc.com/news/business-52526272

confidence of these nations, it too can join these travel bubbles, providing much needed relief to hard-hit sectors such as tourism.

12.5 Policy Solutions to Support SMEs

In addition to global and local supply chain disruptions, SMEs around the world are mostly affected by the stall in domestic economic activity as a result of lockdowns and curfews imposed by governments to curb the spread of COVID-19. Lockdowns resulted in a near complete fall in consumer demand for SME-produced goods and services. Alongside the demand shock, since SMEs tend to be more labour intensive, lockdowns resulted in disruptions in access to labour. Moreover, as firms may well be forced to layoff workers in order to cut costs and survive through the crisis, there will be consequent impacts on livelihoods.

The combination of demand and supply shocks result in SMEs facing a liquidity squeeze since traditionally, these firms have thin liquidity reserves and limited financial alternatives. In many instances, SMEs lack assets that can be disposed of, or that can be used as collateral to gain new lines of credit. The path towards growth for SMEs will depend on a range of factors, such as the degree to which demand will be delayed or foregone, whether the shocks are a spike or more long lasting, and the possible structural damage the current crisis may have caused due to severe disruptions. Policy solutions , therefore, need to be designed to address three inter-connected periods: the immediate, transitional, and post-pandemic recovery period.

Policy solutions need to be designed to address three inter-connected periods: the immediate, transitional, and post-pandemic recovery period.

12.5.1 Immediate Policy Support

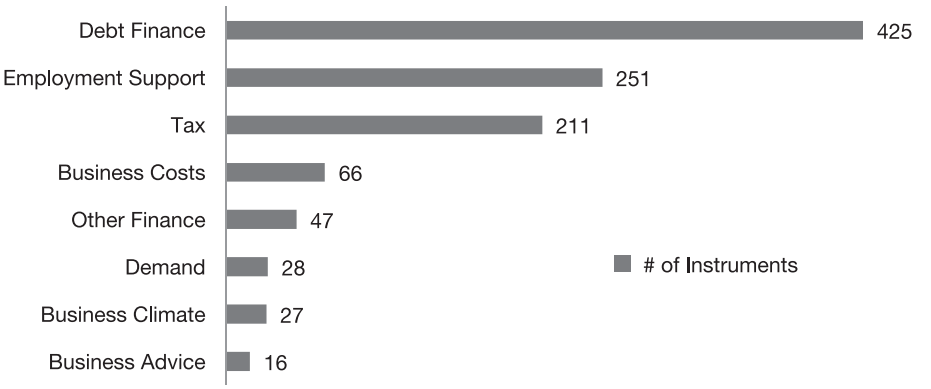
The immediate period that governments should focus on is essentially the three months or so since the outbreak of pandemics such as COVID-19, under which many nations moved into severe restrictions on social movements or lockdowns. During this period, given thin reserves amongst SMEs, the most immediate concern that requires attention is to provide greater liquidity for survival and minimise foreclosures and job losses. Moreover, attention is also required to provide support for individuals operating or employed in SMEs whose wages and livelihoods are disrupted.

Economies around the world have undertaken a plethora of policy instruments in order to provide immediate SME relief as COVID-19 spread. As noted in Figure 12.4, according to the World Bank's 'Map of SME Support Measures', the most number of instruments deployed by governments fall into the category of debt finance tools, followed by employment support, and tax support. Fewer nations, especially developed economies, have also implemented instruments to cover business costs and demand-based policy instruments.

Sri Lanka's immediate policy response to create greater liquidity in the SME sector has largely been limited to debt finance instruments and a monthly allowance of LKR 5,000 for those in low income households. Like many other countries, the Central Bank of Sri Lanka (CBSL) increased the level of liquidity available to banks and non-bank finance companies that lend to SMEs, in order to provide new lines of credit for firms to cover their working capital needs. In addition, the government introduced short-term debt and tax moratoriums to further ease liquidity constraints, whilst creating a debt guarantee scheme aimed at reviving non-performing advances.

Whilst debt finance instruments are an important measure to provide SMEs greater liquidity, the composition of the SME sector in Sri Lanka

Figure 12.4
SME Support Measures in Response to COVID-19



Source: World Bank. (2020). *Map of SME Support Measures in Response to Covid-19*. Retrieved May 05, 2020, from World Bank: https://www.worldbank.org/en/data/interactive/2020/04/14/map-of-sme-support-measures-in-response-to-covid-19

is such that a vast majority of them are micro enterprises. These enterprises have historically faced challenges in accessing finance through traditional banks and other formal non-bank lending institutions. Currently, banks tend to prioritise existing customers and thus, informal and micro enterprises who may not have already established links with formal lending institutions can continue to face challenges in access to finance. Even where a banking relationship exists, banks have the authority to reject applications based on prior credit performance evaluations through Credit Information Bureau (CRIB) reports – a common experience for many micro and small enterprises. Under such circumstances, debt finance instruments similar to those implemented to date in Sri Lanka may not have broad coverage amongst SMEs.

One of the potential policy solutions that can balance the necessity for greater liquidity amongst SMEs without overburdening the banking sector, is to create a special purpose vehicle (SPV) – a temporary public entity tasked with the specific purpose of facilitating new working capital loans for SMEs. The success of such an initiative would depend on the CBSL purchasing these loans from banks whilst being secured by assets of the SPV and some loss protection through the government's initial equity investment. In order to share the risks, however, banks will retain the remaining portion of the loan.[15] Such an arrangement releases more liquidity for banks to lend to SMEs without excessively internalising risks. Therefore, the unique benefit of an SPV of this nature is in its risk-sharing mechanism. The SPV concurrently reduces the fiscal burden on the government that gets accrued through direct fiscal spending whilst preserving central bank independence and banking sector stability. Similar SPVs with a focus towards increasing working capital to SMEs have thus far been introduced in countries such as India, China, and the US. Whilst India created its SPV to support non-bank financial companies, others have focussed on the traditional banking sector.

It is important to note that compared to Sri Lanka, comparator middle-income economies are undertaking a more diverse set of policies

Table 12.3
SME Focussed Relief Measures, Selected Middle-income Economies

Country	Debt Finance	Employment Support	Tax	Business Costs	Demand	Business Climate	Business Advice	Other (Regulatory)
Sri Lanka	x		x					
Indonesia	x		x	x	x	x		x
Malaysia	x	x	x	x	x	x	x	x
Peru	x	x	x		x			
South Africa	x	x	x					x
Thailand	x	x	x	x	x			x

Source: World Bank (2020). *Map of SME Support Measures in Response to Covid-19.* Retrieved May 05, 2020, from World Bank: https://www.worldbank.org/en/data/interactive/2020/04/14/map-of-sme-support-measures-in-response-to-covid-19; and multiple government policy announcements.

[15] Kang, K., & Rhee, C. (2020). *A Post Coronavirus Recovery in Asia – Extending a Whatever It Takes" Lifeline to Small Businesses.* Retrieved June 17, 2020, from IMFBlog: https://blogs.imf.org/2020/04/23/a-post-coronavirus-recovery-in-asia-extending-a-whatever-it-takes-lifeline-to-small-businesses/

in order to expand coverage amongst SMEs. For example, in addition to debt finance instruments, amongst several other policies, Malaysia has also undertaken to reduce business costs by reducing rent (if the government is the landlord) and encouraged private landlords to follow suit, whilst reducing utility costs by providing 15-50% discounts on monthly electricity bills for SMEs in identified high-risk sectors. Moreover, the government has allocated funds worth 0.7% of GDP to provide employment support in the form of wage subsidies to reduce the wage cost of SMEs, whilst providing limited direct payments to informal or self-employed workers. Notably, the Malaysian government also introduced a voucher system to help SMEs in the agriculture sector purchase teleworking service products, in order to sell their products on e-commerce platforms. This has been especially beneficial due to the switch in economic activities to digital platforms due to social-distancing measures.

Similarly, Thailand proposed a slew of tax measures with a focus on expediting value added tax (VAT) reimbursements to domestic entrepreneurs, whilst reducing the social security fund commitments of employers and employees in the short-term. Meanwhile, Indonesia has undertaken measures to improve the business ecosystem by reducing import restrictions (e.g. import and export restrictions on certain goods) for 735 reputable traders with a good track record of compliance in order to accelerate the importation of raw materials and intermediate goods necessary for local manufacturers. The Indonesian government has also deployed its existing network of free trade and double tax agreements with international partners to address disruptions to global supply chains.

It is important to note that compared to Sri Lanka, comparator middle-income economies are undertaking a more diverse set of policies in order to expand coverage amongst SMEs.

From a South Asian perspective, India unsurprisingly has introduced the most diverse policy instruments to support SMEs. In addition to debt relief and tax deferrals, the government has also introduced wage subsidies in the form of paying employee provident fund contributions on behalf of both the employers and employees for a three-month period, for firms with up to 100 employees and where 90% of them earn less than USD 200 per month. It should be noted, however, that in addition to the Indian central government's economic measures, state-level economic relief packages have also been introduced mainly targetting SMEs and informal sector workers.

Policy measures introduced by other South Asian economies, however, are somewhat narrower, albeit at times broader than Sri Lanka. For instance, in addition to debt relief measures, Bangladesh has also committed to paying the wages of a selected number of small and medium sized factories. Nepal has granted discounts between 30-50% on monthly utility bills, and suspended the requirement for SMEs to pay to its contributory social insurance programme from March to June 2020, whilst committing to pay the employer and employee contributions for two months. Meanwhile, Pakistan has followed a similar strategy to Sri Lanka by focussing almost exclusively on debt finance instruments.

What is particularly important in reviewing these policy measures is that in addition to debt relief, governments are creating emergency funds to subsidise wages and targetting rent reductions of government owned properties in order to reduce costs for SMEs in order to contain layoffs. Amongst the different wage subsidy instruments, many developing countries appear to adopt wage subsidies by covering employer and employee contributions to social security and pension schemes. Where stimulus packages are unfeasible, some governments are fast recognising the value of regulatory relief as a means of easing the burden on SMEs. Such measures are especially valuable for countries such as Sri Lanka whose policy options are severely restricted due to its narrow fiscal space. Therefore, where policies such as wage subsidies are unavailable due to fiscal realities, governments can consider targetted easing of domestic regulations and trade measures to support SMEs.

12.5.2 Transition Period Policy Support

The period of 6-9 months since economies in lockdown begin reopening under considerable social distancing requirements can broadly be categorised as the transition period during

Table 12.4
SME Focussed Relief Measures, Selected South Asian Economies

Country	Debt Finance	Employment Support	Tax	Business Costs	Demand	Business Climate	Business Advice	Other (Regulatory)
Sri Lanka	x		x					
Bangladesh	x	x	x					
India	x	x	x					x
Pakistan	x							
Nepal	x	x	x	x				x

Source: World Bank (2020). *Map of SME Support Measures in Response to Covid-19.* Retrieved May 05, 2020, from World Bank: https://www.worldbank.org/en/data/interactive/2020/04/14/map-of-sme-support-measures-in-response-to-covid-19; and multiple government policy announcements.

Where stimulus packages are unfeasible, some governments are fast recognising the value of regulatory relief as a means of easing the burden on SMEs.

pandemics like COVID-19. With an effective vaccine expected to be available only in 2021, public health officials suggest that countries will have to manage the risk of occasional COVID-19 outbreaks in the interim. As a result, economies are likely to operate under government imposed and self-imposed social distancing practices. This means that consumer behaviour in terms of demand preferences can alter accordingly.

Moreover, supply chains will likely continue to face certain disruptions, especially since many countries will continue to restrict travel in order to prevent imported cases of the virus. Therefore, even once economies reopen, SMEs will continue to face hardships; a majority are likely to downsize and some may even be forced to shut down. For example, a survey of Indian SMEs in late April 2020 revealed that 61% of SMEs is expected to scale down during the next six months while 13% is expected to shutdown, 7% is expected to sell their business, whereas only 13% is expected to grow.[16] Policies tailored towards supporting SMEs during this period, therefore, should take transitional realities into account.

One of the foremost challenges for SMEs under these conditions will be to alter their production processes and instruments of service provision. For instance, depending on the severity and prevalence of COVID-19 during this period, consumers may prefer to reduce shopping at bricks and mortar outlets and switch to online platforms such as websites, apps, and social media outlets. Consequently, the increased demand for home delivery is likely to persist as well, particularly in urban areas. Unlike large firms, SMEs have fewer capital and knowledge capacity to transition into e-commerce within

[16] Kapur, M. (2020, April 27). *Over 80% of India's Small Businesses Expect to Scale Down, Shut Shop, or Sell Off in Six Months.* Retrieved May 06, 2020, from Quartz India: https://qz.com/india/1846225/indias-coronavirus-lockdown-may-spell-doom-for-startups-smes/

such a short time period. In addition to losing consumers, failure to transition fast could mean that large firms crowd out smaller firms in the market permanently as well.

Therefore, the government would be best placed to initiate efforts to support SMEs at least in identified sectors to move towards e-commerce. This can occur directly through government initiatives using state institutions such as the Information and Communication Technology Agency of Sri Lanka (ICTA), local and foreign civil society partners who have established links with SMEs in the country, or even private sector firms, especially mobile and internet service providers who possess the critical infrastructure and outreach. Such efforts would further facilitate the integration of technology into other aspects of business operations amongst SMEs such as the digitisation of supply chains.

As noted earlier, Malaysia has already implemented a voucher programme for SMEs in the agriculture sector to support a transition to e-commerce and has proposed to expand the programme to other sectors in the future. South Korea too has established a programme to provide exporting SMEs with remote business services, including support to transition to local and global e-commerce platforms, and knowledge capacity on how to identify potential buyers in countries with travel restrictions.[17] Even though a HIC, Greece faces a narrow fiscal policy space, similar to Sri Lanka, due to its broader macroeconomic fundamentals. Therefore, instead of providing government funded support for digitisation, Greece launched a digital solidarity initiative – a platform where large tech corporations provide free online marketing and account management training to SMEs.

Fundamentally, however, Sri Lanka has to contend with the unfortunate reality that many SMEs will struggle to survive through the current crisis or even if they do, will only do so by downsizing operations. These effects will continue to accumulate during the transition period as some SMEs, especially those who are in sectors such as tourism, are unlikely to see an improvement in demand until at least next year. As a result, unemployment within the SME sector is likely to increase, alongside default rates. Therefore, it is inconceivable that Sri Lanka can proceed without providing some form of a larger fiscal stimulus package to those in the SME sector whose livelihoods have been disrupted.

12.5.3 SME Policies in a Post-COVID-19 Economy

The unprecedented nature of the pandemic and the rapid pace at which public health, political, and economic factors are shifting in response, almost on a daily basis, makes the prediction of the exact nature of a post-COVID-19 economic order futile. However, the current crisis highlights structural weaknesses in the Sri Lankan SME sector that need urgent policy attention in order to minimise vulnerabilities for the future.

One such structural weakness is the high concentration of informality among SMEs. Currently, many developing economy governments struggle to effectively broaden the coverage of policies due to information and institutional gaps to capture informal enterprises. As a result, during the implementation process, micro enterprises in particular, are falling through gaps and not accessing adequate relief measures. The policy response to address these information and institutional gaps, however, is not

[17] KPMG. (2020). *South Korea: Government and Institution Measures in Response to Covid-19.* Seoul: KPMG.

Currently, many developing economy governments struggle to effectively broaden the coverage of policies due to information and institutional gaps to capture informal enterprises.

solely based on formalising the informal sector. There is no consensus on whether it is effective for governments to focus on formalising a large informal sector and there are many nations that have grown exponentially whilst hosting a large informal sector.[18] However, even where formalisation is unnecessary or not viable, the government should create mechanisms to obtain better data on informal sector enterprises.

Thailand's policy of 'managed informality' of street vendors in Bangkok, for instance, is an example of successfully creating an institutional mechanism that links government policy directly with the informal economy. In addition to creating some regulatory standards amongst these vendors, the policies also provide the government with valuable information on SMEs, which can in turn be used to direct relief during a crisis.[19] As a first step, therefore, Sri Lanka should consider the implementation of an informal SME database. Especially now, linking relief measures to registration with the database, alongside guarantees that the database is not being used for forced formalisation, will create an incentive for informal micro and small enterprises to register.

Furthermore, as the government looks towards a post-COVID-19 recovery in the SME sector, it should consider a holistic perspective where other structural issues restricting the growth of SMEs in Sri Lanka, such as access to finance and financial literacy deficits, regulatory inconsistencies, and a lack of technological absorption are given adequate attention. As discussed earlier, the adoption of technology and providing necessary facilities to integrate more technology into the

[18] Benjamin, N., Beegle, K., Recanatini, F., & Santini, M. (2014). *Informal Economy and the World Bank*. Washington D.C.: World Bank.

[19] Batreau, Q., & Bonnet, F. (2015). Managed Informality: Regulating Street Vendors in Bangkok. *City & Community, 15* (1), 29-43.

operational processes of SMEs will help not only in terms of responding to shifting dynamics in supply chains, but also in demand preferences.

Finally, recent developments also suggest that many nations will be inward looking when dealing with the economic impacts of COVID-19. This means that protectionist measures are likely to increase in the hopes of providing domestic firms a greater opportunity to recover. For instance, India's Prime Minister announced a new policy of 'self-reliance' in mid-May 2020 as a path towards economic recovery. Effectively, this means that India will increase protectionist measures.[20] Notably, similar language is used by several other world leaders in response to the economic impacts of COVID-19. The rise in protectionism is particularly problematic for Sri Lankan SMEs that export, even though they make up only a small proportion of all SMEs. Moreover, it is also concerning for SMEs that are involved in the supply chain of larger firms that export. A fall in demand for Sri Lankan exports, therefore, could have a knock-on effects on the SME sector. From a policy perspective, therefore, the government would be best served by proactively taking measures to assist the export sector find alternate markets in countries that are less protectionist, whilst at the same time developing stronger supply chains amongst the SMEs, as well as between SMEs and large enterprises.

12.6 Conclusion

The impact of COVID-19 on SMEs around the world is well documented. Crucially, even though Sri Lanka is placed close to the threshold between LMIC and UMIC status, characteristics of its SME sector are mostly similar to those of an average LMIC and at times similar to those of a LIC. Therefore, the structure of the sector in Sri Lanka makes it particularly vulnerable to the demand, supply, and finance shocks caused due to the COVID-19 pandemic crisis.

Moreover, Sri Lanka's fiscal position has significantly narrowed the policy options available to meaningfully provide relief for SMEs, especially for micro enterprises who have far less access to debt finance instruments through formal lending institutions than their larger counterparts. As a result, debt relief measures will have to be complemented by other policies such as wage subsidies, direct cash injections, and tax relief. As discussed above, many of Sri Lanka's comparators in the UMIC group as well as several South Asian neighbours have introduced a much broader package of policies geared towards providing relief to SMEs. Notably, in addition to policies geared towards directly improving liquidity issues amongst SMEs, some governments are also undertaking regulatory reforms in order to provide more flexibility for SMEs to survive through the crisis.

SME focussed policy options, however, should not merely concentrate on supporting these firms through the economic lockdown. Policymakers should also consider the transitional period during which the Sri Lankan economy will reopen, albeit under social distancing measures and international border closures, which would thus affect supply chains and consumer demand. Towards this end, policies to facilitate technology adoption will be vital for SMEs in order to successfully navigate through this period as well as to operate during a post-COVID-19 economic order.

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[20] Beniwal, V. (2020, May 13). *Modi's Self-Reliance Call may Spell Protectionist Turn for India.* Retrieved May 13, 2020, from Bloomberg: https://www.bloomberg.com/news/articles/2020-05-13/modi-s-self-reliance-call-may-spell-protectionist-turn-for-india

13. Building a Resilient Food System in an Age of Pandemics

13.1 Introduction

Among the many adverse spillover impacts unfolding in the wake of the coronavirus (COVID-19) pandemic, the threat of rising food insecurity associated with the economic lockdown measures and supply chain disruptions can be considered as one of the most critical. The United Nations Food and Agriculture Organisation (FAO) Global Report 2020 on 'Food Crises' suggests that COVID-19 will reduce access to dietary energy and diversity, safe water, sanitation and healthcare, and contribute to high levels of malnutrition as a result.[1] In the face of these fresh challenges, achieving global food security requires a new approach that integrates not only all aspects of food production, but also the many complexities associated with food systems. Such an approach is necessary if countries are to meet the global agenda on sustainable development goals (SDG), specifically goal 2 on 'end hunger, achieve food security and improved nutrition, and promote sustainable agriculture'.

To do so, countries must begin with their food systems (FS). This is a complex web of activities which involve the production, collection, processing, distribution, and consumption of food products, as well as parts of the broader economic, social and natural environments in which they are embedded.[2] In other words, it refers to the processes through which food from farm gates ends up on tables as meals. As such, it encompasses all activities associated with the flow and transformation from a state of raw material to the end user, as well as the associated information flow, both up and down the supply chain.[3]

A sustainable food system in turn is a FS that delivers food security and nutrition for all in such a way that the economic, social and environmental bases to generate food security and nutrition for future generations are not compromised. This lies at the heart of the SDGs. The primary goal is to reshape the global FS to be more productive, inclusive of poor and marginalised populations, environmentally sustainable and resilient, and deliver healthy and nutritious diets to all.[4]

Properly functioning market chains and flow of agricultural products are key elements for

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[1] Food Security Information Network. (n.d.). *2020 Global Report on Food Crises.* Retrieved June 12, 2020 from Food Security Information Network: https://docs.wfp.org/api/documents/WFP-0000114546/download/

[2] Oxford Martin School. (n.d.). *What is the Food System?* Retrieved June 12, 2020 from Oxford Martin School: https://www.futureoffood.ox.ac.uk/what-food-system

[3] Kot, S. (2013). Main Issues of Supply Chain Management. In Virgil Popa, Marta and Starostka-Patyk (Eds.), *Supply Chain Management.* Fundamental and Support Elements. (pp.1-17).

[4] Food and Agriculture Organisation of the United Nations. (2018). *Sustainable Food Systems, Concepts and Framework*. Retrieved June 15, 2020 from Food and Agriculture Organisation of the United Nations: http://www.fao.org/3/ca2079en/CA2079EN.pdf

food and nutrition security. Communities are increasingly dependent on markets for their food and nutrition security, whereby shocks such as disasters and pandemics can wreak considerable damage. Despite the fact that Sri Lanka too has suffered from large scale natural disasters and long-standing human induced conflicts, the country has not endured a pandemic of the scale and severity of COVID-19. Not only is the impact felt domestically, but the global nature of the crisis is unprecedented.

In the past, the FS in Sri Lanka has proven to be vulnerable and inefficient to cope with even much smaller shocks than COVID-19. Inefficiencies at various points along food supply chains is a perennial problem. Not surprisingly, malnutrition – which is partly attributed to inefficiencies of a FS – continues to be a persistent problem in Sri Lanka, with severe regional disparities in its prevalence.[5] Therefore, there is a clear challenge for policymakers to both mitigate the impact of COVID-19 in the short and medium term, and strengthen the resilience of the FS in the long term. In this background, this chapter looks at the impacts of COVID-19 on Sri Lanka's FS, thereby assessing the sources of vulnerabilities which hinder the efficient functioning of a FS under a pandemic shock. The chapter also attempts to identify measures that can ensure a speedy recovery of Sri Lanka's FS, while helping to build a more resilient, sustainable, and inclusive FS in the long term.

13.2 Sri Lanka's Food Systems

The COVID-19 pandemic is testing the resilience of Sri Lanka's FS in ways it has never been tested before. The FS in Sri Lanka comprises of several food supply chains that involve a large number of intermediaries, handling a number of agricultural commodities that are seasonal, bulky, and in some instances are highly perishable. The traditional subsistence FS has undergone several transformations to generate a mixed and modern FS at present. A mixed and modern FS is characterised by more commercialised food manufacturing with packaging, labeling, branding and advertising that caters to both local and international markets.[6]

Historically, Sri Lanka had been a self-sufficient economy comprising of/resembling a peasant agricultural sector, with limited international trade, until the country fell under British colonial rule in 1815.[7] After several transformations in agricultural and trade regimes over time, the current FS in Sri Lanka comprises of both locally produced food (79%) as well as imported food (27%) as illustrated in Table 13.1.

Domestic production of major food categories like rice, meat, eggs, fish, vegetables and fruits exceeds 87% of total supply. Yet, many essential food products such as wheat and canned fish

[5] World Food Programme. (2017). *National Strategic Review of Food Security and Nutrition, Towards Zero Hunger.* Retrieved June 15, 2020 World Food Programme from: https://docs.wfp.org/api/documents/WFP-0000039591/download/

[6] Marambe, B., Dandeniya, W., & Weerahewa, Jeevika. (2020). *Agricultural Research for Sustainable Food Systems:* Recommendations with Special Reference to Sri Lanka. Springer.

[7] Institute of Policy Studies of Sri Lanka. (2004). *Land Policy in Sri Lanka. In Sri Lanka State of the Economy 2004.* Colombo: Institute of Policy Studies of Sri Lanka.

Sri Lanka's food system involves several food supply chains with large numbers of intermediaries handling agricultural commodities that are seasonal, bulky, and in some instances are highly perishable.

(100%), pulses (90%), sugar (85%), vegetable oil (81%), onions and potatoes (70%) and milk products (54%) are imported. As people become increasingly dependent on markets for the supply of essentials, properly functioning food supply chains and flow of food products become key elements for food and nutrition security.

Since the early 1970s, successive governments in Sri Lanka intervened in food supply chains in various ways. The aim has been primarily to stabilise food prices and ensure that farmers receive remunerative prices for their produce. Since the liberalisation of the Sri Lankan economy in the late 1970s, state intervention gradually diminished and private sector participation expanded in every facet of agricultural supply chains. However, ad hoc procurement of a few products under guaranteed price schemes have continued throughout.

The Paddy Marketing Board (PMB) which was re-established in 2005 procures paddy at a guaranteed price and keeps a small buffer stock in its 210 warehouses. The Cooperative Wholesale Establishment (CWE) distributes rice through its Lak Sathosa system. Other than that, guaranteed prices are often imposed on agricultural commodities like fresh milk, green tea leaves, rubber, as well as other essential food products such as chilli, onion, and potato to ensure better prices for producers.[8] For the most part though, agricultural marketing is private sector driven, except for necessary government intervention to smoothen prices during bumper harvests or poor harvests owing to inclement weather.[9]

[8] Weerahewa, J. (2017). Modernising Agriculture in Sri Lanka: Status and Challenges. In: P. Athukorala, E. Ginting, H. Hill, U. Kumar (Eds.), *The Sri Lankan Economy: Charting a New Course.* Manilla: Asian Development Bank.

[9] *Ibid.*

Table 13.1
Summary of Food Balance Sheets (2015-2018)

	Domestic Supply (1,000 MT)					% Share	
	Production	Imports	Stock Change	Exports	Total Domestic Supply	Domestic	Import
1. Cereals	2,847	1,598	17	89	4,373	65	37
2. Starchy roots	497	172	-	7	662	75	26
3. Sugar crops	709	-	-	-	709	100	0
4. Sugar	121	595	2	18	699	17	85
5. Pulses	41	247	-	12	275	15	90
6. Tree nuts	68	10	-	4	73	92	13
7. Oil crops	967	21	-	237	750	129	3
8. Vegetable oils	58	168	-	19	207	28	81
9. Vegetables	3,003	324	-	15	3,312	91	10
10. Fruits	1,114	92	-	36	1,170	95	8
11. Stimulants	316	4	-	293	27	1,192	16
12. Spices	106	41	-	29	118	89	35
13. Alcoholic beverages	230	8	-	2	235	98	3
14. Meat	231	1	-	2	230	100	0
15. Animal fats	10	2	-	0	12	85	13
16. Milk products	407	473	-	5	875	46	54
17. Eggs	117	1	-	0	117	100	1
18. Fish & sea food	589	107	-	22	673	87	16
19. Miscellaneous	-	18	-	1	17	-	106
Total	11,426	3,880	19	790	14,532	79	27

Notes: Percentage shares of domestic production and imports from total domestic supply exceed 100% when stock change and exports are accounted for (total domestic supply = production + imports + stock change -exports).

Source: Author's illustration based on Department of Census and Statistics of Sri Lanka. (n.d.). *Summary of Food Balance Sheet 2015-2018.* Retrieved from Department of Census and Statistics of Sri Lanka:

As in other developing countries, the food retail market in Sri Lanka gradually evolved from fragmented local markets to centralised wholesale markets, and eventually to the emergence of supermarkets. This has simplified the traditional complex value chains of domestically produced food commodities to more modern value chains that integrate small producers with dynamic markets. However, the share of farmers who have been left out of these initiatives is still considerably high. In addition, the traditional supply chains are still plagued with issues like high price fluctuations, high margins for marketing of produce/harvest, lack of integration among the supply chain actors, and heavy post-harvest losses.

Traditional supply chains are still plagued with issues like high price fluctuations, high margins for marketing of produce/ harvest, lack of integration among supply chain actors, and heavy post-harvest losses.

Overall, existing inefficiencies in Sri Lanka's food supply chains are contributing to food insecurity through reduced food availability at the national level,[10] reduced access to food and nutrition at the household level, and reduced rural household incomes.[11] Therefore, there is constant public pressure for the government to engage actively in managing food supply chains more efficiently.

13.3 Restoring Food Security Amidst COVID-19

In the midst of an unprecedented health hazard, the Government of Sri Lanka (GOSL) – burdened with the responsibility of ensuring household food security – took several early initiatives to make food available and accessible to consumers during the COVID-19 lockdown period.

In order to prevent agriculture sector activities being curtailed by an island-wide curfew imposed on 20 March 2020, the sector was released early from curfew and mobility restrictions starting from 25 March. Farmers were allowed to continue with their usual farming operations, while traders too were permitted to transport essential agricultural inputs like fertiliser without any restriction.

In early April 2020, the government relaunched its 'Saubhagya National Programme on Harvesting and Cultivation' with the aim of utilising the under lockdown labour to develop one million home gardens island-wide, and make those households resilient to food shortages. Under this programme, seeds and plants were distributed at a nominal price of LKR 20 per packet of seeds or a plant

[10] World Food Programme. (2017). *National Strategic Review of Food Security and Nutrition Towards Zero Hunger.* Retrieved June 15, 2020 from World Food Programme: https://www.wfp.org/sites/default/files/NSRFSNZH_FINAL.pdf.

[11] Thibbotuwawa M. (2019). Post-conflict Agricultural Modernisation in Sri Lanka. In: D. Weerakoon, and S. Jayasuriya (Eds.), *Managing Domestic and International Challenges and Opportunities in Post-conflict Development.* South Asia Economic and Policy Studies. Singapore: Springer.

pot. Subsequently, the government declared guaranteed prices to encourage the cultivation of 16 major crops,[12] along with a new loan scheme (Aswenna) up to LKR 30,000. Enhanced demand for agricultural inputs was visible, with complaints from farmers about unavailability of fertiliser at the market. Consequently, the government approved an allocation of LKR 10 billion to import 150,000 MT of fertiliser to cultivate 253,000 acres in the Yala season.[13]

Households' physical access to food declined owing to the temporary closure of dedicated economic centres – in Dambulla, Tambuttegama, Nuwara Eliya, Keppetipola, and Embilipitiya – to curb the spread of COVID-19. In response to rising food insecurity as a result, in early April 2020, a new system was initiated to distribute essential food items such as fruits and vegetables at the Divisional Secretariat (DS) level. Apart from this, the increasingly important need to set up online retail platforms for farmers, markets and the public to purchase/sell agricultural products, access food items, etc. was becoming clear. E-commerce companies and leading supermarket chains were facilitated to procure agricultural products from both farmers and markets. The intention was also to sustain consumer demand through online platforms during the lockdown. When, these online platforms were overwhelmed with delivery orders, state-owned supermarket, Sathosa, partnered with delivery businesses like PickMe to ease food accessibility issues.

Several other efforts were made to ensure consumer access to food. These included the imposition of maximum retail prices to provide relief – for instance, in mid-March 2020, the Consumer Affairs Authority (CAA) announced maximum retail prices for dhal and canned fish, which was later withdrawn at end April due to the rapid devaluation of the LKR. Other measures included setting maximum wholesale prices for vegetables, with LKR 40 per Kg mark-up for retails sales, to control rising vegetable prices. This was done to safeguard farmers too, to prevent them from being exploited by wholesale traders/middlemen who are price makers.

With rice being the staple diet in Sri Lanka, different rice varieties were also bought under maximum retail prices in mid-April 2020. Further, consumption support of LKR 5,000 was granted to each household, covering about four million Sri Lankans composed of the more vulnerable population groups. This included senior citizens, people with disabilities, kidney patients, Samurdhi recipients and farmers registered with the farmers' insurance scheme.

However, these efforts, while commendable, also exposed significant gaps and issues in ensuring food security during crises such as the COVID-19 pandemic. Certain inherent problems in Sri Lanka's FS can make it particularly vulnerable to such disruptions.

13.4 Pandemics and Food System Vulnerabilities

There are different avenues through which pandemics like COVID-19 impact the different elements of a FS – from factor markets, to primary supply, to processing, to trade, to logistics systems, to intermediate and final demand. Moreover, these can include various

[12] Price guarantees include on maize, potato, big onion, red onion, orid dhal, green gram, peanut, dried chilli, soybeans, finger millet, cowpea, sesame, kollu, turmeric, ginger, and garlic.

[13] Daily FT. (2020, May 01). *Cabinet Approves Rs. 10 b for Fertiliser Imports.* Retrieved June 15, 2020 from Daily FT: http://www.ft.lk/front-page/Cabinet-approves-Rs--10-b-for-fertiliser-imports/44-699568

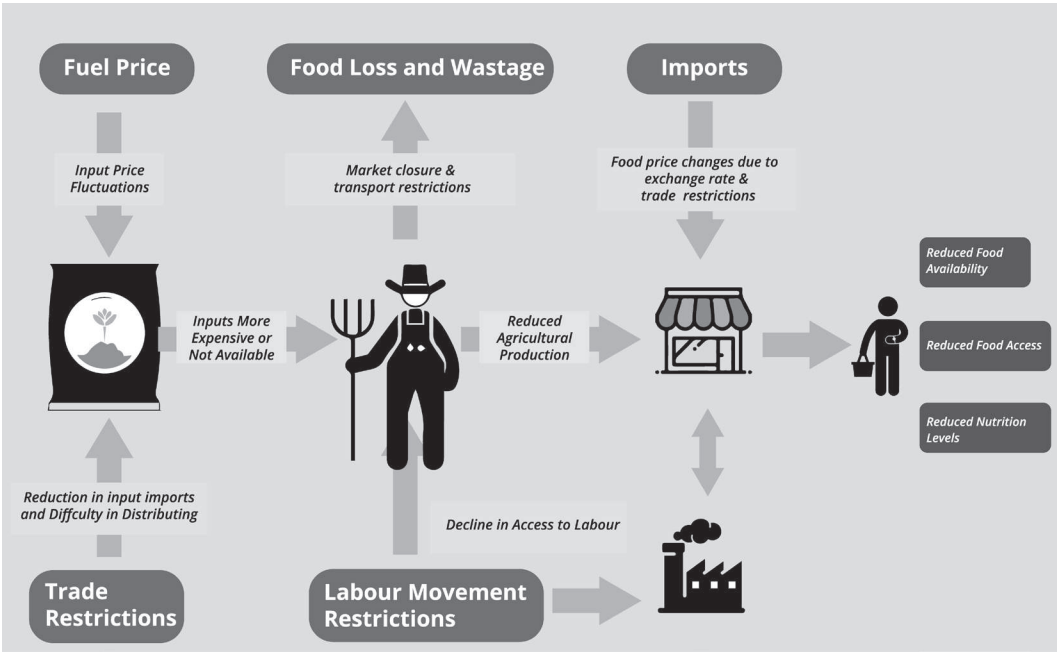
macroeconomic factors, such as fluctuations in exchange rates and fuel prices.[14] Figure 13.1 illustrates the main avenues and their links thorough which the immediate and long-term impacts of COVID-19 can affect Sri Lanka's FS.

13.4.1 Immediate Impacts on Food Supply and Prices

COVID-19 lockdown measures highlight the vulnerability of Sri Lanka's FS to disruptions. Despite the fact that food supplies were adequate in the local market, the measures adopted to contain the pandemic – such as restricted transport and storage facilities, and closure of major wholesale and retail markets – caused major disruptions to food supply chains, raising concerns about food security overall.[15]

It turn, the containment measures eroded people's access to food – particularly in poor and marginalised households – and led to price spikes. These issues added to the difficulties faced by the urban poor especially, in the midst

Figure 13.1
Illustration of COVID-19 Impacts on Food Systems



Source: Author's illustration based on J. Schmidhuber, J., Pound, B., & Qiao. 2020. *COVID-19: Channels of Transmission to Food and Agriculture.* Retrieved June 25, 2020 from Food and Agriculture Organisation:http://www.fao.org/3/ca8430en/CA8430EN.pdf

[14] J. Schmidhuber, J., Pound, B., & Qiao. 2020. COVID-19: *Channels of Transmission to Food and Agriculture.* Retrieved June 25, 2020 from Food and Agriculture Organisation: http://www.fao.org/3/ca8430en/CA8430EN.pdf

[15] The Netherlands and You. (2020). *Impact of COVID19 on Food Supply Chains in Sri Lanka.* Retrieved June 25, 2020 from Netherlands and You: https://www.netherlandsandyou.nl/latest-news/news/2020/06/02/impact-of-covid19-on-food-supply-chains-in-sri-lanka

Despite adequate food supplies, restricted transport and storage facilities, and closure of major wholesale and retail markets caused disruptions to food supply chains, raising concerns about food security overall.

of massive unemployment for daily wage earners etc. Also, food insecurity prompted panic buying in an effort to store essential food as an emergency measure during the pandemic, and contributed to rising food prices of both domestically produced and imported food items.

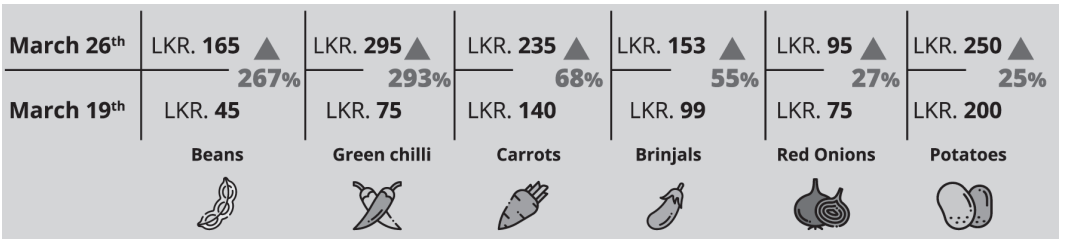
While global markets for staples – including wheat, maize, rice, and soybeans – remained relatively stable through the COVID-19 outbreak, what matters to consumers are the prices they face in the local markets where they buy their food.[16] Figure 13.2 shows the fluctuations in wholesale prices of some key food items in the case of Sri Lanka.

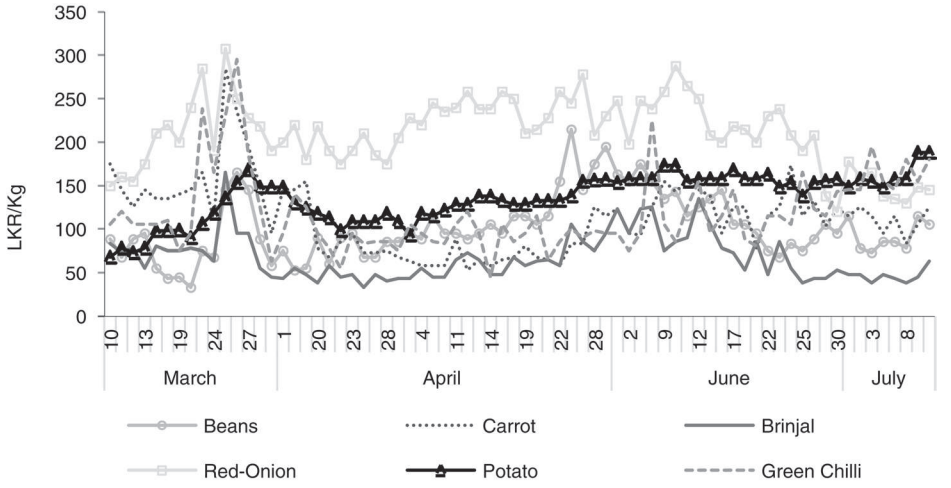
In the Dambulla Economic Centre (DEC), wholesale prices were on the rise during the first few days of curfew. For example, a Kg beans that was sold for about LKR 45 a day before the imposition of curfew (19 March) was selling at LKR 165 after a weeks' time (26 March), signaling a massive 267% price hike. Similarly, green chilli that was sold for LKR 75 per Kg shot up to LKR 295 per Kg recording a 293% increase, over the same week. Similarly, price hikes in carrots, brinjals, red onions and potatoes were 68%, 27%, 25% and 55%, respectively.

The retail prices of key food items in the DEC too followed a similar path during, over the same period (Figure 13.3). The retail price of beans that was sold for about LKR 65 per Kg on 19 March increased to LKR 185 per Kg by 26 March, posting a 185% price increase, while the price of green chillies increased by 232%, from LKR 95 per Kg to LKR 315 per Kg. Similarly, price hikes in carrots, brinjals, red onion and potatoes were 59%, 21%, 24% and 50%, respectively.

[16] Hernandez, Manuel., Kim., Soonho., Rice, Brendan., & Vos, Rob. (2020). *IFPRI's New COVID-19 Food Price Monitor Tracks Warning Signs of Stress in Local Markets.* Retrieved June 25, 2020 from International Food Policy Research Institute: https://www.ifpri.org/blog/ifpris-new-covid-19-food-price-monitor-tracks-warning-signs-stress-local-markets

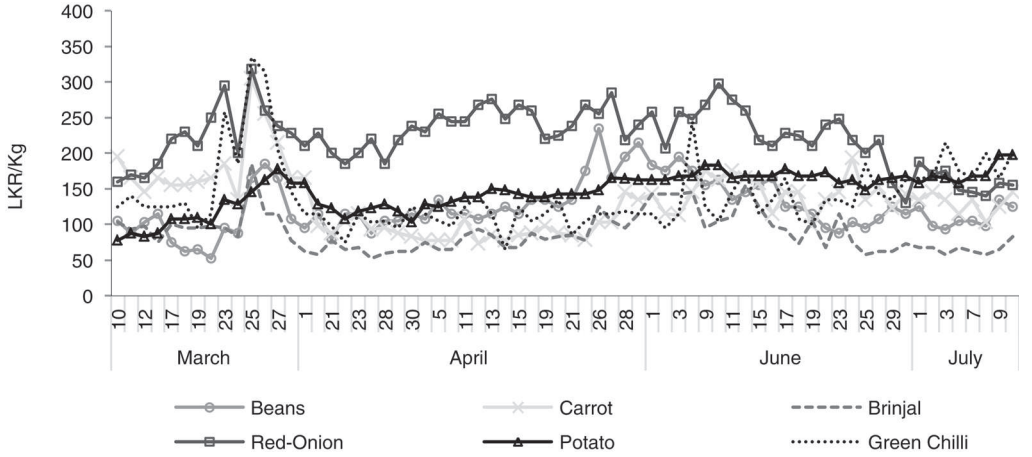
Figure 13.2
Wholesale Food Price Fluctuations at the Dambulla Market





Source: Author's illustration based on Central Bank of Sri Lanka. (n.d.). *Daily Price Report.* Retrieved June 15, 2020 from Central Bank of Sri Lanka: https://www.cbsl.gov.lk/en/statistics/economic-indicators/price-report

Figure 13.3
Retail Food Price Fluctuations at the Dambulla Market



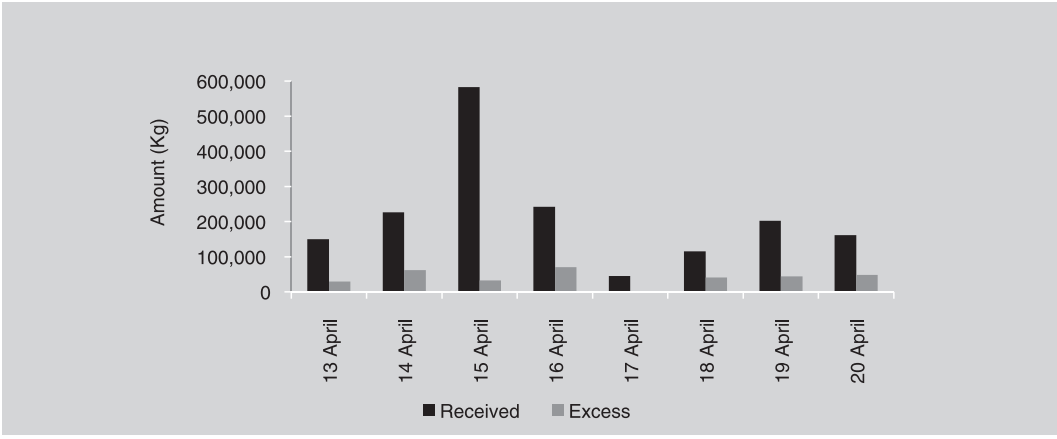
Source: Author's illustration based on Central Bank of Sri Lanka. (n.d.). *Daily Price Report.* Retrieved June 15, 2020 from Central Bank of Sri Lanka: https://www.cbsl.gov.lk/en/statistics/economic-indicators/price-report

Traditionally, agricultural markets in Sri Lanka are not readily available to absorb the produce at the time of harvest. Generally, the purchase of agriculture produce is left to those who function as organised traders, and these traders typically purchase at relatively low prices. This is clear from evidence at the ground level during the early lockdown period; the benefit of price rises/hikes is not necessarily passed on to farmers. These farmers lack bargaining power and are deprived of the higher prices that their produce fetch; often, they are also left with some amounts of their produce unsold at the market, which partly contributes to food waste (Figure 13.4).

As seen in Figure 13.5, wholesale-retail price spreads widened, and price peaks at times in favour of food retailers did not benefit farmers, who are usually price takers. The situation exacerbated with a decline in wholesale and retail prices in the second week of lockdown, owing to blockages along transport routes as well as declining demand. For example, the wholesale price of beans selling at about LKR 165 per Kg on 26 March reduced to LKR 53 per Kg by 2 April, recording a 68% drop; the price of green chillies reduced by 53% from LKR 295 per Kg to LKR 140 per Kg, with similar declines noted for other products as well (see Figures 13.2 and 13.3).

Direct impacts of COVID-19 on agriculture is limited, as the virus does not affect the natural resources upon which production is based.[17] However, constrained labour movements due to mobility restrictions/social distancing associated with COVID-19 posed a threat to food security and livelihoods initially, since agricultural production systems in Sri Lanka are more labour-intensive. Moreover, restricted access to agricultural inputs such as fertiliser and seeds, and lack of support services and infrastructure affected food production. Increased food loss and wastage due to closure of regional wholesale markets like the DEC to control the spread of COVID-19, added

Figure 13.4
Fruits and Vegetables Received and Unsold

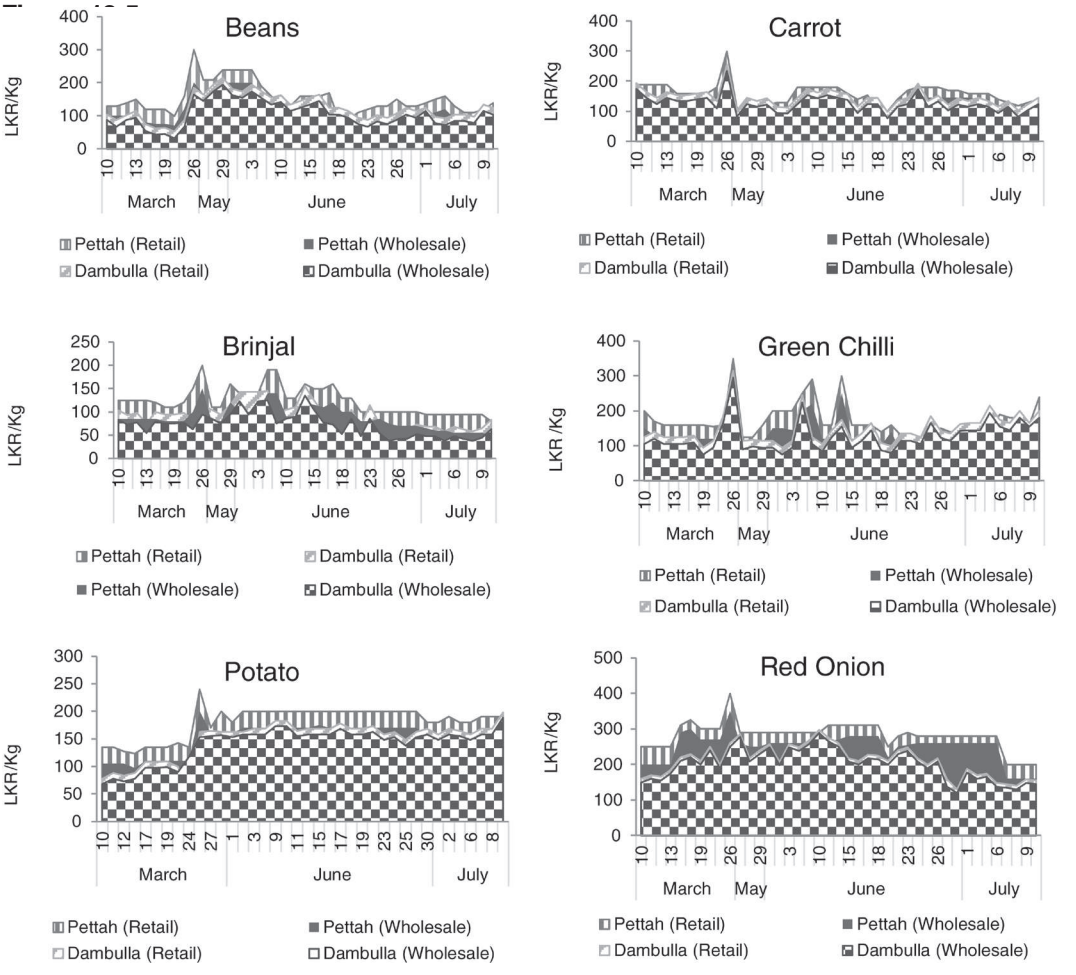


Source: Author's illustration using the data from Tambuttegama Dedicated Economic Centre.

[17] Organisation for Economic Cooperation and Development. (2020, April 29). *Covid-19 and the Food and Agriculture Sector Issues and Policy Responses.* Retrieved June 15, 2020 from Organisation for Economic Cooperation and Development: http://www.oecd.org/coronavirus/policy-responses/covid-19-and-the-food-and-agriculture-sector-issues-and-policy-responses-a23f764b/

further to losses suffered by farmers who were already impacted by low prices.[18]

Digital market alternatives such as online platforms and mobile applications, despite their potential to connect people under lockdown, failed to deliver early on, primarily owing to lack of capacity and unfair prices.[19] As a result, even amongst the relatively sophisticated middle-class consumers, initial hopes regarding online ordering and home delivery of food under lockdown conditions began to fade. At the other



Source: Author's illustration based on Central Bank of Sri Lanka. (n.d.). *Daily Price Report*. Retrieved June 15, 2020 from Central Bank of Sri Lanka: https://www.cbsl.gov.lk/en/statistics/economic-indicators/price-report

[18] The Netherlands and You. (2020, June 02). *The Impact Of COVID-19 Supply Chains in Sri Lanka*. Retrieved June 15, 2020 from Netherlands and You: https://www.netherlandsandyou.nl/latest-news/news/2020/06/02/impact-of-covid19-on-food-supply-chains-in-sri-lanka

[19] United States Department of Agriculture. (2020, April 27). *COVID-19 and Food and Agriculture in Sri Lanka - Update on Impact of Lockdown March 20.* United States Department of Agriculture, Foreign Agricultural Service.

end of the income quantiles, anecdotal evidence suggests that certain daily wage workers who had meager savings were compelled to depend on friends and family, use their savings, or borrow from informal sources to buy essential food. In many countries, concerns over challenges in physical and economic access to food resulted in public dissent against lockdown procedures, especially in densely populated urban areas with a preponderance of those who depend on daily wages and are hardest hit by lockdown measures.

13.4.2 Gathering Momentum Beyond Supply Disruptions

While there is no evidence of shortages in food availability so far in Sri Lanka, the crisis created by the breakdown in supplies can have a reverse impact at the producers' end of value chains, resulting in income losses to farmers and low farm gate prices. As Sri Lanka is a net food importing country, global production, trade restrictions and global food prices affect the country's local food supply as well as food prices. Also, energy prices affect the domestic FS through both input and output markets, while exchange rate fluctuations have a compounding effect on domestic prices of imported food and inputs, and on food supply.

Import Restrictions and Food Prices: As COVID-19 spread around the globe, fears mounted that food supplies will run short, especially if supply chains and agricultural production are disrupted. While this may be the case for food commodities like fruits and vegetables, which have complex supply chains, the production and supply of key staple crops such as rice, wheat, and maize are unlikely to be disrupted. The major reasons are that the global stocks of these commodities are healthy, and most countries have designated the agriculture sector as essential and exempted it from COVID-19 related restrictions for the most

While there is no evidence of shortages in food availability, the crisis created by supply breakdowns can have a reverse impact at the producers' end of value chains, resulting in income losses to farmers and low farm gate prices.

part.[20] Even any impact globally on the supply of perishable fruits and vegetables on Sri Lanka's FS is minimal since a major share of fruits and vegetables are produced domestically.

There are concerns though that export restrictions in several countries can lead to food supply shortages that can easily turn into a price crisis similar to the food price crisis of 2007/2008. A number of countries including Cambodia, Pakistan, Thailand and Vietnam from Asia have already temporarily suspended exports of several food commodities including cereals, pulses, oilseeds and vegetables (Table 13.2).

However, these temporary restrictions are not constraining global food supplies nor are they pushing world food prices upwards. The FAO Food Price Index (FPI) which was on a declining trend since the beginning of 2020 (102.5 points in

Table 13.2
List of Export Restrictions on Food Products Linked to the COVID-19 Crisis

Country	Products	From	To
Algeria	Semolina, flour, pulses and rice, pasta, oils, sugar, coffee, tomato paste, food preparations, milks in all its forms including those intended for children, fresh vegetables and fruit, red and white meats	05-July	06-Jun
Armenia	Onions, garlic, turnips, rye, rice, buckwheat, millet, cereals, peeled buckwheat, crushed and uncrushed soybeans and sunflower seeds	04-Oct	30-Jun
Belarus	Buckwheat, onions, garlic	04-Jan	30-Jun
Cambodia	Rice, white rice	04-May	19-May
Egypt	Pulses	28-Mar	28-Jun
Kazakhstan	Buckwheat, wheat, rye, including flours and sugar, potatoes, carrots, turnips, beets, onions, cabbages, sunflower seeds and oil	22-Mar	01-Apr
Kyrgyzstan	Onions, garlic, turnips, rye, rice, buckwheat, millet, cereals, wholemeal and granules from cereal grains, peeled buckwheat, prepared foods from buckwheat, crushed and uncrushed soybeans and sunflower seeds	10-Apr	30-Jun
Pakistan	Food	29-Apr	13-May
Pakistan	Onions	24-Mar	31-May
Romania	Wheat, barley, oat, maize, rice, wheat flour, soybean, sunflower, seed oil, sugar, and some bakery and pastry product	10-Apr	16-Apr
Russia	Onions, garlic, turnips, rye, rice, buckwheat, millet, cereals, wholemeal and granules from cereal grains, peeled buckwheat, prepared foods from buckwheat, crushed and uncrushed soybeans and sunflower seeds	10-Apr	30-Jun

[20] International Food Policy Research Institute. (2020, March 27). *COVID-19: Trade Restrictions are Worst Possible Response to Safeguard Food Security.* Retrieved June 15, 2020 from International Food Policy Research Institute: https://www.ifpri.org/blog/covid-19-trade-restrictions-are-worst-possible-response-safeguard-food-security

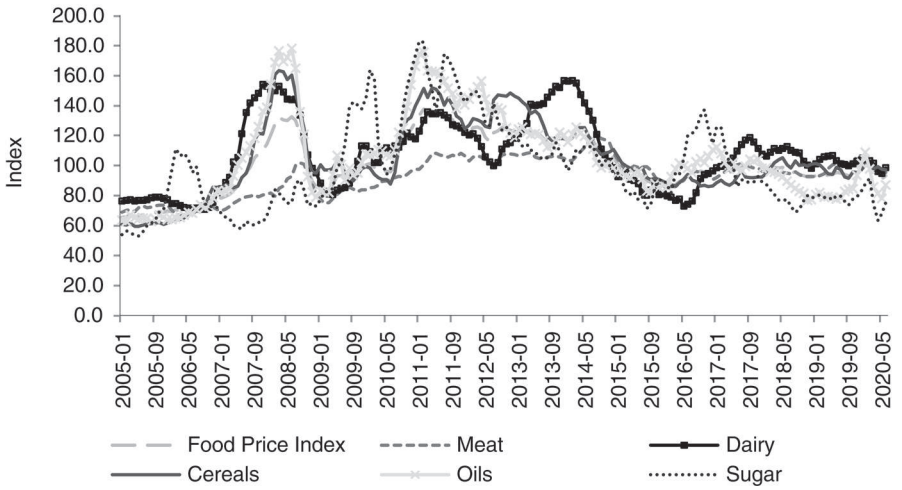
Serbia	Sunflower oil, molasses, yeast	21-Mar	21-Apr
South Africa	Beer, spirits	25-Mar	16-Apr
Syria	Eggs, cheese and yogurt, canned and packed cereals and beans	08-Apr	08-May
Thailand	Eggs	26-Mar	30-Apr
Ukraine	Buckwheat; buckwheat grain	09-Apr	01-Jul
Vietnam	Rice	24-Mar	30-Apr
Kyrgyzstan	Wheat, flour, vegetable oil, sugar, chicken eggs, rice, pasta, disinfectants and antibacterials, napkins, as well as compound feed and bran.	23-Mar	22-Sep
Turkey	Lemon	08-Apr	31-Aug

Source: Food Export Restrictions Tracker. (n.d.). *Export Restrictions Tracker*. Retrieved June 25, 2020 from Tableau Public from: https://public.tableau.com/profile/laborde6680#!/vizhome/ExportRestrictionsTracker/FoodExportRestrictionsTracker

January) started to increase marginally from May (91.1 points) to June 2020 (93.2 points) because of market uncertainties posed by COVID-19 for vegetable oils, sugar and dairy products (Figure 13.6). Cereals and meat prices remain under downward pressure since the beginning of 2020.

Global Energy Market and Import Prices: Since the beginning of 2020, crude oil prices have fallen sharply as the economic fallout of the COVID-19 pandemic spread globally.[21] Lower fuel prices are affecting agricultural markets through both input and output markets.

Figure 13.6
FAO Food Price Index Value



Source: Author's illustration based on Central Bank of Sri Lanka. (n.d.). *Daily Price Report.* Retrieved from Central Bank of Sri Lanka: https://www.cbsl.gov.lk/en/statistics/economic-indicators/price-report

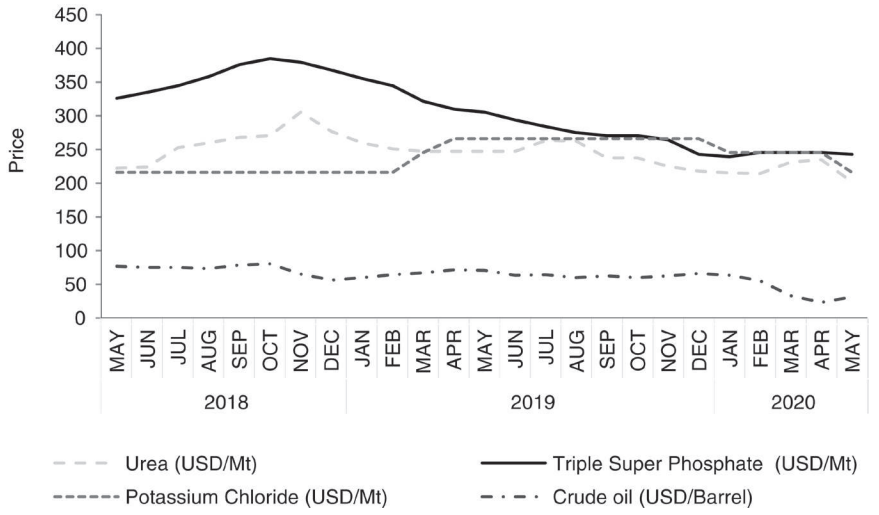
[21] Statista. (2020, June 15). *Weekly Brent, OPEC Basket, and WTI Crude Oil Prices.* Retrieved June 25, 2020 from Statista: https://www.statista.com/statistics/326017/weekly-crude-oil-prices/

From the agricultural input side, lower energy costs affect agricultural production costs through reduced machinery operational costs as well as lower costs of energy intensive inputs like fertiliser. For Sri Lanka, the impact of the former will be negligible since the farming systems are hardly ever capital-intensive; moreover, fuel prices are also not subject to continuous revision domestically as of more recent times.

While there is a recent reduction in fertiliser prices in the world market following lower fuel prices, the real impact on domestic fertiliser prices in Sri Lanka is yet to be seen (Figure 13.7). A majority of farmers already enjoy a significant fertiliser subsidy targeted at the staple commodity of rice and some other crops. Therefore, these lower input costs are not expected to act as an automatic stabiliser for farm incomes. Instead, they can ease the budgetary pressure on the government with regards to fertiliser subsidy costs which amounted to 0.2% of gross domestic product (GDP) in 2019.

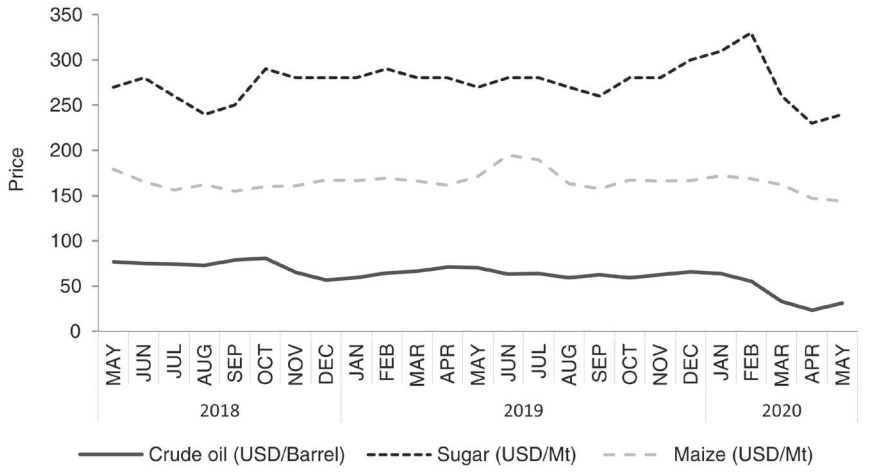
On the agricultural output side, lower energy prices can lower the amounts of agricultural outputs used for the production of biofuels, and as a result see a contraction in demand with downward pressure on prices. The prices of the two mostly used agricultural products for biofuel production – sugar cane and maize – have been decline since January 2020 (Figure 13.8). Sri Lanka imported USD 200 million worth of sugar and USD 346 million worth of wheat and maize in 2019. However, the surge in crude oil prices will provide strong support to sugar mills to use more sugarcane supplies to produce ethanol instead of sugar, pushing sugar prices up.

Figure 13.7
Fluctuation of Global Crude Oil and Fertiliser Prices



Source: Author's illustration using data from Commodity Price. (n.d.). *Commodities.* Retrieved June 25, 2020 from Commodity Price: https://www.indexmundi.com/commodities/

Figure 13.8
Fluctuation in Global Crude Oil, Sugar and Maize Prices



Source: Author's illustration using data from Commodity Price. (n.d.). *Commodities*. Retrieved June 25, 2020 from Commodity Price: https://www.indexmundi.com/commodities/

13.5 Way Forward

Whilst government efforts to ensure food security through the COVID-19 outbreak were commendable, they were also shown up to be insufficient to ensure food security during crises situations. This is mainly owing to inherent problems in Sri Lanka's FS.

These include, but are not limited to, gaps in supplying high-quality inputs especially seed and fertiliser on time, lack of market integration, low adoption of technology, heavy post-harvest losses and ineffective food distribution mechanisms. For instance, despite the fact that control prices and government purchase programmes provided some relief to consumers and farmers, there are many issues at the lower end of the supply chain. This occurs with most vulnerable farmers, who fail to sell their products even at unprofitable prices (some with post-harvest losses) due to exploitation by middlemen. Also, unless the significant interest shown by households in home gardening during lockdown continues post COVID-19, home gardening promotion programmes can be a waste of valuable resources. In fact, many vulnerable people may not have received consumption support due to lack of reliable information; without with, such programmes cannot be targetted and administered effectively.

The complexity of such crises demands well thought-out policy responses based on robust evidence. Even if the COVID-19 pandemic begins to reverse its progress shortly, governments around the world will not be able to pass it off as a temporary shock and take a respite. With the unprecedented turmoil that the outbreak generated globally, national governments need to be prepared to face similar shocks in the future.

COVID-19 has shaken the world's FS by its foundation, revealing high vulnerability to pandemic shocks. The impacts of the crisis can become more challenging in the coming months if the situation continues to worsen. Even otherwise, pandemics are fast becoming a chronic source of

shocks, and as such they call for policy measures that will strengthen FSs nationally and globally, to face future shocks.

Thus, strengthening the FS is an integral part of economic revival for Sri Lanka in post COVID-19 and beyond. Firstly, it is important to continuously monitor the FS – especially domestic food production, imports, domestic and world market prices, input availability, transportation and logistics systems – to ensure national food availability and maintain household access to food. A regular monitoring system safeguards the local food supply from international trade restrictions and possible malpractices by local traders. For instance, the government of Iran initiated an innovative agriculture monitoring system to improve the quality of agricultural information and reporting, crop status monitoring, area estimates and yield forecasting with the aim of developing more efficient and transparent agricultural market systems, and to encourage coordinated policy action in response to market uncertainties.[22]

In this respect, establishing a holistic and coherent mechanism should be the first priority to ensure that high quality data and information are available. Such information should be made easily accessible across sectors to monitor and analyse the FS to support policy formulation and implementation. Big data tools such as satellites, telecommunication networks, sensors, drones, and smart phones have the potential to address the FS challenges by improving how information is collected, combined, analysed, and shared. Such tools are able to capture shortfalls and deficits in markets, guide farmers and traders by feeding real time information about market prices, locations etc., and thereby facilitate effective distribution/movement of food produce. These systems can also deal with issues related to large scale rice millers who dominate Sri Lanka's rice market, accumulate large stocks that can be used to create supply shortfalls and manipulate prices, etc.

Secondly, Sri Lanka needs to strengthen its storage capacity and to maintain a buffer stock of essential food items as a 'national food bank' with nodal points at the Provincial Council level. Also, permanent mechanisms for public food distribution should be established at the central level, with clear linkages to provincial and local government institutions, for timely and economical delivery and distribution of food to food-deficit, remote, rural and vulnerable areas. Further, the integration of food markets in the immediate region through existing frameworks such as the South Asian Association for Regional Cooperation (SAARC) Food Bank should be pursued more effectively to create opportunities for individual countries to make use of regional food reserves in crisis situations.

Thirdly, diverting public investment allocations from inefficient subsidies towards socially profitable interventions, particularly agricultural infrastructure development and agricultural research and extension, will be crucial. As proposed during the lockdown, railway services should be increasingly utilised to distribute food economically, to minimum food miles and post-harvest losses. However, in the long run, investing in cold storage and refrigerated trucks to store and transport perishable products with the partnership of private entrepreneurs should be done. In Nigeria, a social enterprise called

[22] Food and Agriculture Organisation. (n.d.). *Improve Agricultural Monitoring Systems through Satellite Imagery for Iran*. Retrieved June 15, 2020 from Food and Agriculture Organisation: http://www.fao.org/in-action/improve-agriculture-monitoring-systems-for-iran/en/

ColdHubs which comprises of a 'plug and play' solar-powered walk-in cold room, for 24/7 off-grid storage and preservation of perishable foods, offers farmers a flexible pay-as-you-store subscription model ensuring small-scale farmers and traders can continue marketing their fruits and vegetables even during crisis situations.[23]

Fourthly, the government must make sure new technologies and farming techniques is made readily available, including micro-irrigation systems, and support their infusion to farmers at affordable prices. This can be achieved by facilitating increased access to credit and provision of such technologies at subsidised prices to farmers. Making sure that farmers are increasingly more familiar with new tech tools is vital. Also, amending seed and plant protection acts and regulations are mandatory to facilitate high quality planting materials and seeds are available.

Finally, increased demand for digital marketing platforms during the COVID-19 pandemic should be exploited to promote e-commerce at both ends of the food supply chain. Such information communication technology (ICT) platforms, despite capacity concerns, have already proven useful to increase the resilience of the FS, including to farmers, traders and consumers during COVID-19. Also, ICT-based tools have the capacity to reduce food miles and post-harvest losses; they can also be used to track and trace for linkages to certification systems such as good agricultural practices (GAP), enabling different actors in the FS to make better decisions. For instance, Swiggy – an innovative food delivery app for small and medium enterprise (SME)

Overall, COVID-19 is providing a fresh opportunity to re-examine vulnerabilities related to food systems, to identify necessary investments and reforms that will help strengthen their resilience to future shocks and challenges.

[23] International Food Policy Research Institute. (2018, November 20). *ColdHubs: Addressing the Crucial Problem of Food Loss in Nigeria with Solar-powered Refrigeration.* Retrieved June 15, 2020 from International Food Policy Research Institute: https://www.ifpri.org/blog/coldhubs-addressing-crucial-problem-food-loss-nigeria-solar-powered-refrigeration

restaurants in India – facilitated a surge in online commerce and connected smallholders SMEs in food processing, distribution and home-delivery services successfully as COVID-19 spread.[24]

Overall, COVID-19 is providing a fresh opportunity to re-examine vulnerabilities related to FSs, to identify necessary investments and reforms that will help strengthen their resilience to future shocks and challenges, including other frequent challenges such as climate change. Therefore, lessons from the COVID-19 pandemic should be viewed as learning experiences to help make and implement relevant sectoral policies, in order to make Sri Lanka's FS resilient to a range of different shocks.

[24] International Food Policy Research Institute. (2020, August 10). *Policy Seminar: How Food Businesses are Coping with COVID-19.* Retrieved June 15, 2020 from International Food Policy Research Institute: https://www.ifpri.org/blog/policy-seminar-how-food-businesses-are-coping-covid-19

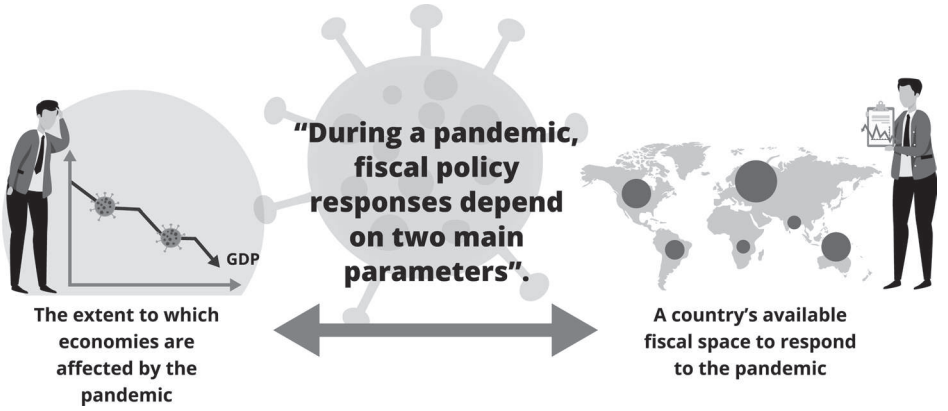
POLICY BRIEFS

14. Global Disruptions and Fiscal Policy Responses

14.1 Introduction

The true magnitude of the coronavirus (COVID-19) pandemic is yet to be assessed. Regardless of its varied health consequences, countries have been severely hit by its economic consequences. Despite national level policy responses to mitigate the downside risks, a sustained recovery cannot be assured unless coordinated action is pursued at the global level as well.

The length and depth of global economic shocks can be shortened by prudent fiscal measures by governments.[1] Cognisant of this, multilateral financial institutions (MFIs) like the International Monetary Fund (IMF) and the World Bank (WB) have recommended various fiscal policy measures that can help mitigate the economic costs of the pandemic. During a pandemic, the fiscal policy responses by different countries depend on two main parameters: the extent to which an economy is affected by the pandemic and its available fiscal space to respond. Given the fact that Sri Lanka is at the threshold of becoming an upper-middle-income country (UMIC), this policy brief examines the options available to countries at different income levels – i.e. as low-income countries (LICs), middle-income countries (MICs) and high-income countries (HICs); in addition, it aims to compares such responses with the measures taken by Sri Lanka.



[1] Baldwin, R., & Mauro, B. W. (2020). *Mitigating the COVID Economic Crisis: Act Fast and Do Whatever.* London: Centre for Economic Policy Research. p.16.

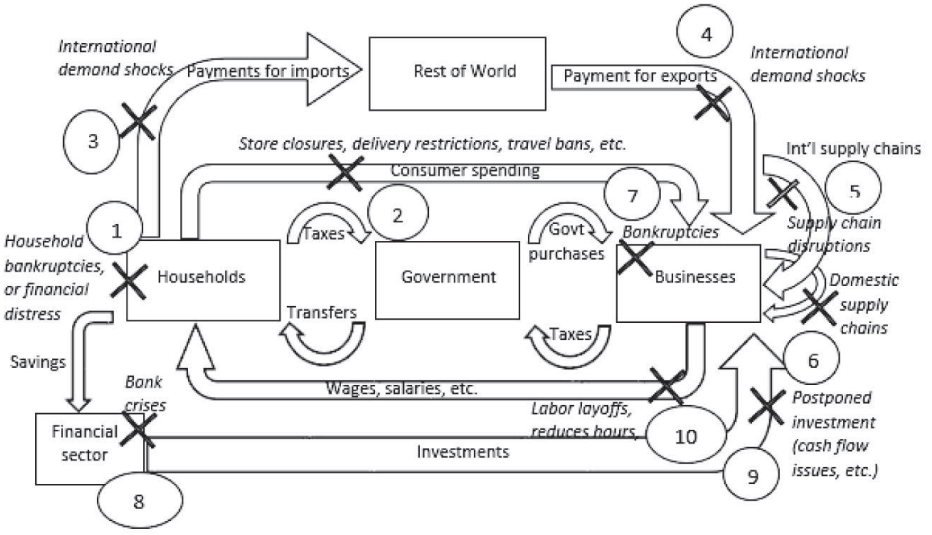
14.2 How Pandemics Affect Economies

Governments need to address different aspects of the economy at various levels, in order to prevent or limit a catastrophic economic collapse during disasters. These include fiscal policies to ensure protection of lives, as well as policies to reduce socio-economic costs (Figure 15.1).[2]

and salaries. Households purchase commodities with money (wage, salaries, etc.) received from businesses. The economy continues progressively with its activities only when the flow of money is uninterrupted; a disruption to this flow results in the slowdown of economic activities.

The points where such disruptions can occur are shown by a cross in Figure 15.1. First, due to

Figure 14.1
COVID-19's Multiple Strikes in the Circular Flow of Income Diagram



Source: Baldwin, R., & Mauro, B. W. (2020). *Mitigating the COVID Economic Crisis: Act Fast and Do Whatever.* London: Centre for Economic Policy Research.

Figure 14.1 explains how an economy can be affected by adverse shocks – such as a pandemic – and where fiscal policies can be adopted to help mitigate the associated costs. Households own labour and capital (factors of production) which they sell to businesses in exchange for wages

the economic fallout of COVID-19, households cut down expenses when they do not receive incomes and experience financial distress (cross 1 and 2). This can lead to a decline in aggregate demand. In turn, this affects the production process adversely through reduced orders. It will

[2] Hutt, R. (2020, March 23). '*Act Fast and Do Whatever it Takes' to Fight the COVID-19 Crisis, Say Leading Economists.* Retrieved April 2, 2020 from The World Economic Forum COVID Action Platform https://www.weforum.org/agenda/2020/03/covid-19-economic-crisis-recession-economists/

also adversely impact imports, through reduced demand and reduced import volumes (cross 3). A similar decline in demand will occur worldwide; along with this, disruptions to exports (collapse/ loss of export markets) occur due to lockdown measures, which affect export prices and volumes (cross 4). In addition, disruptions to supply chains impact the availability of raw material required by businesses (cross 5). Uncertainty and reduced business activities result in declining investments (cross 6). Lower turnover causes cash flow related issues for businesses. These become especially serious when businesses are unable to layoff workers owing to legal restrictions. If the situation is not arrested, businesses are susceptible to bankruptcy, or they will be forced to shut down (cross 7).

At the same time, the financial sector experiences difficulties when there are reductions in cash flows (e.g. from households as savings, as well as due to loan defaults), leading to bank crises (cross 8), and disruptions to investments (cross 9). Due to these reasons, regular business activities are hampered. Accordingly, businesses are likely to reduce their operations and run at low capacity; hence, they are more likely to reduce their workforce through layoffs and/or reductions in working hours (cross 10). Such actions interrupt regular cash flows to households in the form of wages and salaries. At the same time, the status of employment can get adversely affected by sick leave and quarantine requirements relating to COVID-19 (e.g. daily wage workers unable to travel to work due to social distancing and related attitudes/beliefs that such workers are prone to be virus carriers). The adverse effects of this vicious cycle of events can be minimised by government interventions.

14.3 How to Mitigate Adverse Impacts

MFIs recommend that governments follow specific fiscal measures to minimise the adverse effects arising out COVID-19. In a broader context, fiscal policy measures needed can be described as spending-side and revenue-side measures, government-supported liquidity measures and supplementary economic revival measures. The different types of policies are summarised as follows:[3]

MFIs recommend that governments follow specific fiscal measures to minimise the adverse effects arising from COVID-19.

[3] International Monetary Fund. (2020, April). *Fiscal Monitor: Policies to Support People during the COVID-19 Pandemic*. Washington D.C.: International Monetary Fund; World Bank. (2020). South Asia Economic Focus. Washington D.C.: World Bank.

Spending-side measures: These include immediate relief related spending on health and non-health sectors. The former includes spending related to preventing, detecting, controlling, treating, and containing the virus, and to provide basic services to people that have to be quarantined. Non-health sector expenditure includes targetted transfers to affected households and firms, wage subsidies, expanded unemployment insurance, energy subsidies, advancements of refunds for firms, support to parents for school closures, government-funded paid sick leave, and support to hard-hit sectors. Particularly, providing cash transfers to affected households and firms is intended to maintain demand for businesses to continue and prevent job layoffs. Such government interventions can protect against demand shocks and mitigate supply chain disruptions.

Revenue-side measures: These include relief measures such as tax deferrals, deferrals on social security payments, reduced social security contributions, value added tax (VAT) cuts, depreciation allowances, etc. These measures provide some financial relief to vulnerable parties, allowing them more space to manage their cash flow. Such measures can in turn minimise labour layoffs, reduction of working hours, and minimise disruptions in supply chains.

Government-supported Liquidity Measures: Governments can take action to support businesses by providing cash flow support in the form of loans, umbrella guarantees,[4] and other liquidity support under concessions/relaxed conditions. These measures can reduce cash flow issues faced by businesses.

Supplementary Economic Revival Measures: As well as providing relief, economies need to fast-track recovery in a post-disaster scenario to reduce the intensity and duration of a recession. Particularly, revenue-side measures and government supported liquidity measures can help reduce the severity of the impact, while economic revival measures can help boost growth in the medium and long run. For instance, increased infrastructure expenditure can accelerate the revival of economic activities, and create employment opportunities.[5] Along with public sector driven projects, the private sector can also be mobilised to initiate and continue infrastructure projects. Once economies come out of lockdown, well-targetted fiscal support can be an effective tool for reviving the economy.

Most cash trapped countries are burdened with large debt service obligations. While debt service restructuring programmes can provide some relief, such economies may also be challenged by other factors such as liquidity pressure and solvency issues, as well as difficulties in improving coverage and adequacy of social safety nets (SSNs).[6] The extent of support to firms and households, and the choice of instruments to provide such support depend on the above-mentioned factors. Countries with fiscal space can follow measures in a comprehensive manner, while those with limited fiscal and institutional capacity have to be selective in their policy choices (Figure 14.2).

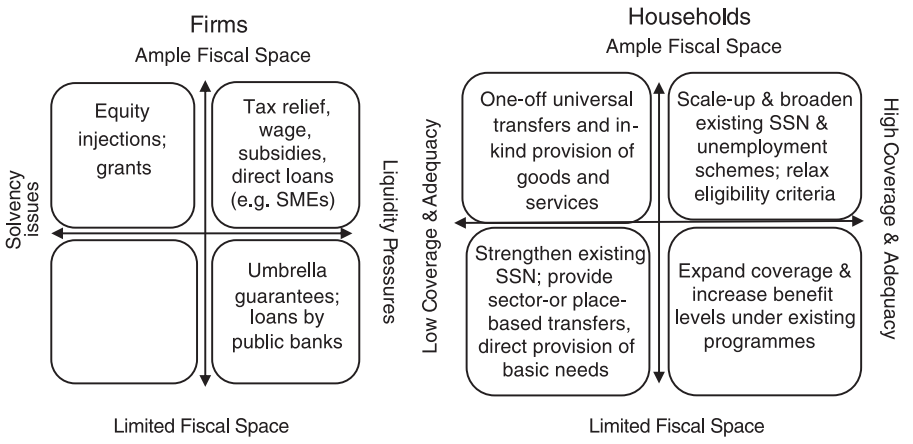
In countries with relatively weak institutional capacity (limited fiscal space and liquidity pressures), the transaction costs of distributing subsidies or loans to multiple beneficiaries are

[4] Umbrella guarantees include those that cover loans to small and medium-sized enterprises (SMEs) and other liquidity support such as government provision of loans.

[5] World Bank. (2020). *South Asia Economic Focus.* Washington D.C.: World Bank.

[6] International Monetary Fund. (2020, April). *Fiscal Monitor: Policies to Support People during the COVID-19 Pandemic.* Washington D.C.: International Monetary Fund.

Figure 14.2
Key Principles for Instrument Choice



Note: SSN = social safety nets.

Source: International Monetary Fund. (2020, April). *Fiscal Monitor: Policies to Support People during the COVID-19 Pandemic.* Washington D.C.: International Monetary Fund.

relatively high. Therefore, 'umbrella guarantees' such as covering loans to small and medium enterprises (SMEs) can be more efficient than direct cash transfers. However, countries with fewer constraints (ample fiscal space and high solvency) can use equity injections and loans for firms effectively.[7] In terms of support for households, countries with ample fiscal space can provide direct cash transfers to vulnerable households which can complement other targeted social protection spending. Countries with limited fiscal space can strengthen existing SSNs and expand coverage and increase benefit levels of existing programmes. Improving SSNs can provide protection in the event of a return of the current pandemic and/or future adverse shocks.

14.4 Fiscal Policy Responses from the International Context

14.4.1 Fiscal Measures

Globally, governments of COVID-19 affected countries have adopted various fiscal policy measures in line with IMF/WB recommendations. Table 14.1 provides a summary of fiscal positions adopted by different country groups by their income level. As seen, more advanced countries collect more revenue as a per cent of their gross domestic product (GDP). These countries also spend more as a per cent of GDP. In fact, as a share of their GDP, government expenditure

[7] Liquidity pressure is related to the problem of cash flows of financial bodies. Solvency: Net financial worth is a measure of fiscal solvency. It is calculated as assets minus liabilities.

incurred by more advanced countries is higher than that of low-income countries. More advanced economies benefit from being able to borrow more without adverse risk factors.

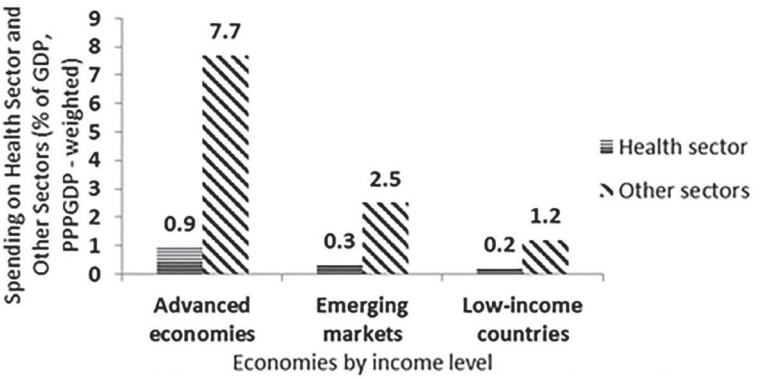
Advanced economies or HICs, emerging markets and LICs have allocated on average 8.6%, 2.8% and 1.4% of GDP as fiscal stimulus packages as of May 2020, respectively. Figure

Table 14.1
Fiscal Indicators, by Income Level (% of GDP)

	Advanced Economies	Emerging Market and Middle-income Economies	Low-income Developing Countries
Net lending/Borrowing (Overall balance)	-10.7	-9.1	-5.7
Primary net lending/Borrowing (Primary balance)	-9.5	-7.2	-3.8
Revenue	33.6	25.3	13.6
Expenditure	44.3	34.4	19. 3
Gross debt position	122.4	62.0	47.4
Net debt	94.2	45.8	43.9

Source: IMF Data Mapper.[8]

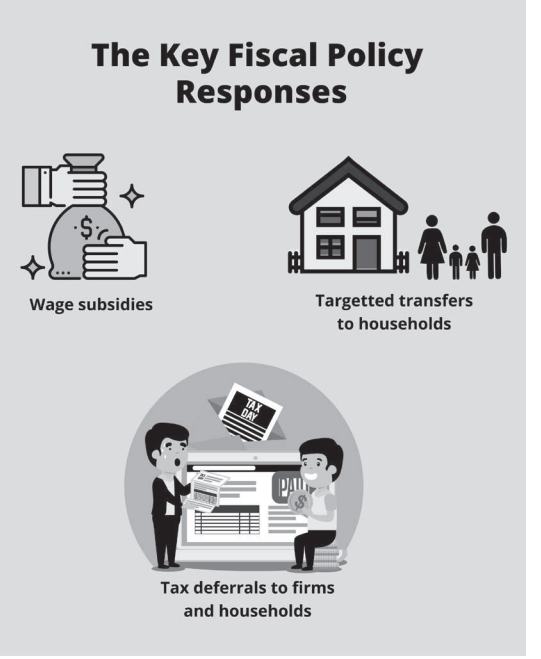
Figure 14.3
Discretionary Spending and Revenue Measures, by Income Level



Source: Mühleisen, M., Klyuev, V., & Sanya, S. (2020, June 03). *Courage under Fire: Policy Responses in Emerging Market and Developing Economies to the COVID-19 Pandemic.* Retrieved June 15, 2020 from IMF Blog https://blogs.imf.org/2020/06/03/courage-under-fire-policy-responses-in-emerging-market-and-developing-economies-to-the-covid-19-pandemic/

[8] International Monetary Fund. (2020). *IMF Data Mapper: Country Data Profile.* Retrieved June 10, 2020 from International Monetary Fund: https://www.imf.org/external/datamapper/profile

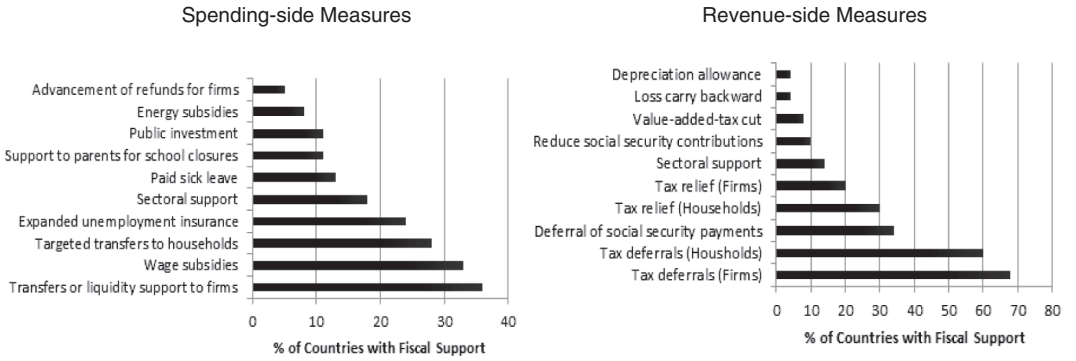
The generosity of fiscal policy responses increases with the income level of the country group.



14.3 indicates the discretionary spending and revenue measures followed by the main three groups of economies. As seen, the generosity of fiscal policy responses increase with the income level of the country group.

Overall, the key fiscal policy responses followed by a majority of economies have been to provide transfers or liquidity support to firms, wage subsidies, targetted transfers to households, tax deferrals to firms and households (Figure 14.4).

Figure 14.4
Fiscal Support Measures for Non-health Sectors



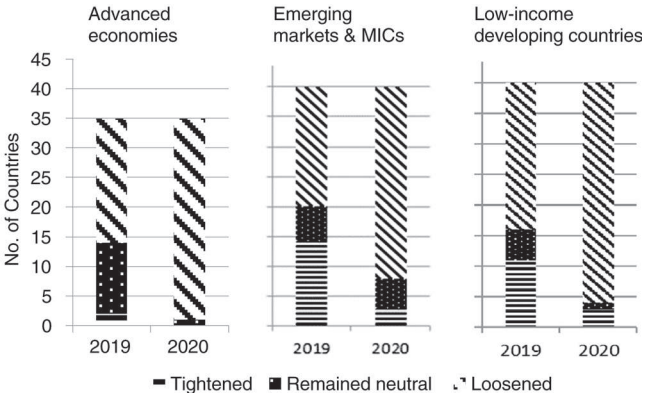
Notes: Public investment (medium-term and long-term) is considered as an economic revival measure
Liquidity support to firms is considered as a measure under government-supported liquidity measures.

Source: International Monetary Fund. (2020, April). *Fiscal Monitor: Policies to Support People during the COVID-19 Pandemic.* Washington D.C.: International Monetary Fund.

14.4.2 How Do Economies Adopt Fiscal Policies?

Most countries have adopted expansionary fiscal policy to help boost their economies. As shown in Figure 14.5, countries in all income groups have loosened their fiscal policies in an attempt to help restart economic activities.

Figure 14.5
Fiscal Stance of Economies, by Income Level



Source: Author's compilation based on International Monetary Fund. (2020, April). *Fiscal Monitor: Policies to Support People During the COVID-19 Pandemic.* Washington D.C.: International Monetary Fund.

Discretionary fiscal measures can offer powerful countercyclical support.[9] Many advanced economies have adopted quick, sizeable, and targetted discretionary fiscal action to counterbalance the effects of COVID-19. For example, EU countries have undertaken discretionary measures (e.g. cash transfers to affected households and firms, wage subsidies), amounting to 3.1% of EU-27 GDP; G7 economies announced a fiscal package of weighted average of 5.9% of GDP; the US announced discretionary measures including spending, tax and liquidity-support measures, amounting to approximately 10% of GDP.[10]

Emerging markets and MICs have also adopted discretionary fiscal measures (Table 14.2). The types of measures used are tax break for firms, loans or loan guarantees, and support for workers (particularly for those on short hours and lost jobs), with amounts spent varying across countries. Public debt levels across emerging countries in Asia are substantially lower compared with other emerging economies, which gives governments ample fiscal space to provide extensive support to households and businesses.[11] However, these discretionary measures can also lead to fiscal deterioration,

[9] Discretionary fiscal measures are when changes to levels of government spending and tax rates are brought about deliberately.

[10] International Monetary Fund. (2020, April). *Fiscal Monitor: Policies to Support People during the COVID-19 Pandemic.* Washington D.C.: International Monetary Fund.

[11] Oxford Economics. (2020, April). *The Economic Impact of COVID-19 on Asia Pacific*. Singapore: Oxford Economics.

resulting in wider overall imbalances in 2020. For example, the overall fiscal balance is projected to widen up to -11.2 and -7.4% of GDP in China and India, respectively.[12]

14.5 Sri Lanka's Fiscal Policy Responses

Like other countries, Sri Lanka has also taken a range of measures to contain the spread of COVID-19. During this process, strengthening its health sector preparedness, as well as adopting measures to minimise the economic fallout have been priorities. As of mid-May 2020, the government is estimated to have allocated

Discretionary measures can also lead to fiscal deterioration, resulting in wider overall imbalances in 2020.

Table 14.2
Fiscal Package and GDP Forecasts in Emerging Markets and MICs in Asia

Country	Fiscal Package as a % of GDP	Annual Percentage Change in Real (Inflation-adjusted) GDP-2020 (Projected)
China	1.3	1.2
India	0.9	1.9
Indonesia	2.6	0.5
Malaysia	17.2	-1.7
Philippines	1.3	0.6
Thailand	11.4	-6.7
Sri Lanka	0.4[a]	-0.5
Vietnam	3.6	2.7

Note: a: This is an approximate value which includes the spending on containment measures and cash transfers

Source: Lucas, B. (2020, May). *Impacts of Covid-19 on Inclusive Economic Growth in Middle-income Countries.* Helpdesk Report.; Oxford Economics. (2020, April). *The Economic Impact of COVID-19 on Asia Pacific.* Singapore: Oxford Economics.; International Monetary Fund. (2020). *Policy Responses to COVID-19.* IMF Policy tracker. International Monetary Fund.

[12] International Monetary Fund. (2020, April). *Fiscal Monitor: Policies to Support People During the COVID-19 Pandemic.* Washington D.C.: International Monetary Fund.

0.1% of GDP for containment measures and announced an additional allocation of nearly 0.25% of GDP for cash transfers (as mentioned previously, for affected/vulnerable households and businesses), under its fiscal package.[13]

The ability to allocate resources is limited due to Sri Lanka's rather narrow fiscal space. The fiscal position was already weak at the start of 2020, due to overall weak economic performance. The Easter Sunday bomb attack of April 2019 that called for higher government expenditures, and a series of tax cuts announced after presidential elections in November 2019 took a toll on revenues. The fiscal policy responses implemented as of May 2020 are as follows:

Spending-side measures: The government has given priority for healthcare spending such as scaling up emergency response mechanisms, expanding COVID-19 surveillance, laboratory testing, and case management.[14] In terms of non-health spending, cash transfer payments were made to vulnerable groups (e.g. cash grant of LKR 5,000 as a lump sum payment for low income and vulnerable families and individuals), as short-term relief. In addition, concessional loans and food allowances to the poor, insurance benefits for those in the public sector, price ceilings on essential food items were some other measures.

Revenue-side Measures: In terms of tax-based initiatives, relief measures on debt obligations such as extending payment deadlines for income tax, tax exemptions on health imports, and other forms of tax relief were offered. In addition, significant tax cuts – e.g. reduction in the VAT rate from 15% to 8% for all business sectors (excluding financial services), abolition of Nation Building Tax (NBT), and Economic Service Charge (ESC) in late 2019/early 2020 prior to the COVID-19 outbreak – can also be counted as relief measures.

Government-supported Liquidity Measures: The Central Bank of Sri Lanka (CBSL) allocated LKR 50 billion (expanded to LKR 150 billion) re-financing facility to support businesses. The key concessions are debt moratoriums, working capital loans, etc. These are meant to assist businesses engaged in direct and indirect export-related activities in tourism, apparels, spices and plantations including tea, and information and communication technology (ICT) industries, SMEs in manufacturing, services, construction, agriculture and agro-processing business, etc.

Supplementary Economic Revival Measures: In addition to the above measures, loans for investments at concessional rates were made available to businesses in IT, apparel, plantation and tourism sectors, including SMEs.

It is rational to consider these measures adopted as fairly comprehensive, when compared with other country practices. However, the available fiscal space has limited the adequacy of allocations. In fact, Sri Lanka's fiscal package is relatively small compared with other emerging and MICs in the Asian region such as Thailand (11.4% of GDP) and Vietnam (3.6% of GDP).[15]

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[13] International Monetary Fund. (2020). *Policy Responses to COVID-19.* IMF Policy tracker. Washington D.C.: International Monetary Fund.

[14] Ministry of Health and Indigenous Medical Services. (2020 April). *Sri Lanka Preparedness & Response Plan – COVID-19.* Colombo: Ministry of Health and Indigenous Medical Services.

[15] Oxford Economics. (2020, April). *The Economic Impact of COVID-19 on Asia Pacific.* Singapore: Oxford Economics.

14.6 Policy Implications

The COVID-19 is expected to dampen growth substantially through reduced export earnings, private consumption and investment in the short-run. In the circumstances, it is a challenge to bring about effective policy measures. Countries with relatively weak initial conditions such as Sri Lanka must therefore ensure that resources are utilised efficiently, taking into account the time path and feasibility.

In addition to measures implemented so far, some complementary measures that can be considered are: (i) provision of financial assistance such as umbrella guarantees to start and continue e-commerce for industries such as healthcare, agriculture and ICT, where new opportunities have emerged during the current pandemic; (ii) increasing infrastructure expenditure given large employment multiplier effects.

However, in view of Sri Lanka's high fiscal deficits and public debt ratios, such programmes need to be well-focussed and followed up with pre and post-implementation evaluation to ensure optimum impact on the economy. As such, policymakers can focus on a number of factors in determining the extent of support and key instrument choices:[16]

- Clear objectives with an emphasis on solidarity and equity – measures should try to strengthen solidarity and avoid being perceived as favouring vested interests.

- Targetted, temporary, and progressive fiscal policy measures – measures should be targetted to households to maintain basic needs and to businesses to prevent layoffs and exits from supply chains.

In view of Sri Lanka's high fiscal deficits and public debt ratios, such programmes need to be well-focussed and followed up with pre and post-implementation evaluation to ensure optimum impact on the economy.

- Cost-effective and embedded tax and spending measures in medium-term budget frameworks – tax and spending measures should not result in long-lasting deterioration of public finances.

[16] International Monetary Fund. (2020, April). *Fiscal Monitor: Policies to Support People during the COVID-19 Pandemic*. Washington D.C.: International Monetary Fund.

15. Pandemic Disruptions in Urban Settings

15.1 Introduction

Throughout recorded history, global disruptions have had notable impacts on a country's trajectory in terms of its human development, economy, environment and politics. As the world becomes increasingly more integrated, such disruptions have even more concentrated impacts across borders. Within countries, the urban-centric nature of pandemics such as the coronavirus (COVID-19) outbreak underscores the profound linkages between urbanisation and global disruptions.

Urbanisation in general, refers to the demographic shift of people from rural to urban areas. It is a socio-economic process which is quite complex in nature, and one that transforms the built environment – i.e. converting the formerly rural into urban settlements. In this transformation, the spatial distribution of a population shifts from rural to urban.[1] Urbanisation itself provides a plethora of opportunities for economic growth and development of a country through openings to employment, access to advanced infrastructure, better health facilities and connectivity among cities and people. Nevertheless, if a narrowing of the distance between urban and rural life is associated with poor management, it can result in many adverse consequences.

One such is the impact in times of health pandemics such as COVID-19. A greater concentration and connectedness of people – if not properly planned and managed – can result in more underserved settlements such as slums, shanties, and poor housing. Typically, underserved settlements do not have adequate sewage facilities, which help pandemics to spread. Rapid urbanisation can also interfere with previously untouched ecosystems, creating new and closer encounters with wildlife, which in turn can be a potential source of zoonotic pandemics.[2] As such, unprecedented global disruptions like COVID-19 are also an opportunity to change the face of urbanisation based on experiences on how it becomes an incubator for new pandemics and spreads them rapidly.[3] In this context, the main objective of this policy brief is to explore how countries can better prepare to control and manage global disruptions like health pandemics in urban settings.

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1 United Nations. (2019). *World Urbanisation Prospects: The 2018 Revision.* New York: United Nations, Department of Economic and Social Affairs, Population Division.

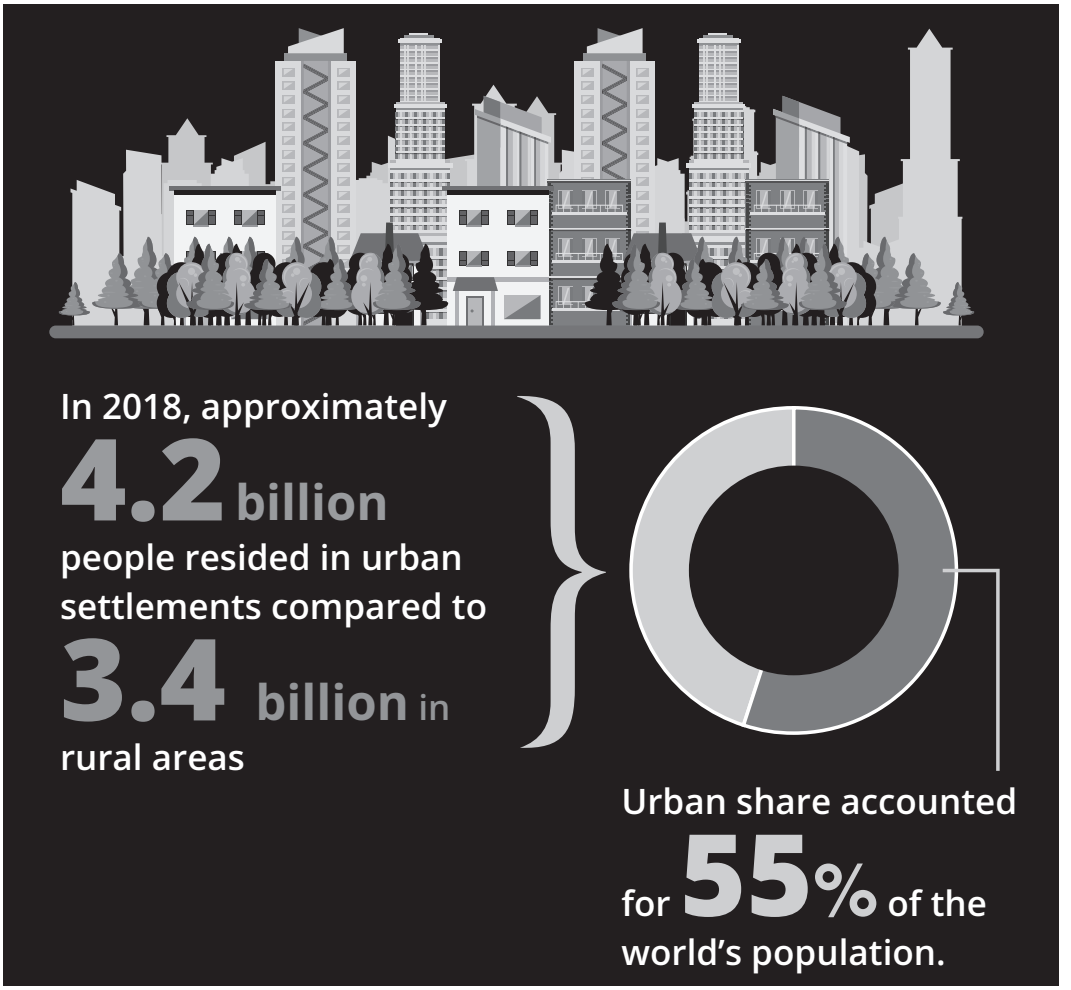
2 Neiderud, C. J. (2015). How Urbanisation Affects the Epidemiology of Emerging Infectious Diseases. *Infection Ecology & Epidemiology, 5* (1).

3 Keil, R. (2020). The Limits of Global Urbanisation and the Challenges to Planning. *The Planning Review, 56* (1), 4-7.

15.2 Urbanisation and Global Disruptions: Lessons from Global Experiences

Globally, at present, more than half of the people live in urban settings, compared to rural areas. In 2018, approximately 4.2 billion people resided in urban settlements compared to 3.4 billion in rural areas,[4] accounting for 55% of the world's population.

A high population density in urban areas, in close proximity to each other, if accompanied by sub-par facilities, underserved settlements and poor housing are potential health hazards. These criteria can lead to the rapid spread of health epidemics.[5] Indeed, urbanisation can be a catalyst in the spread of outbreaks. While it is still too early to learn from the latest pandemic, there are lessons to learn from how other countries successfully managed global disruptions in the recent past, with special reference to urban aspects.



[4] United Nations. (2019). *World Urbanisation Prospects: The 2018 Revision.* New York: United Nations, Department of Economic and Social Affairs, Population Division.

[5] Neiderud, C. J. (2015). How Urbanisation Affects the Epidemiology of Emerging Infectious Diseases. I*nfection Ecology & Epidemiology, 5* (1).

15.2.1 Lessons from Global Public Health Emergencies

Three cases – severe acute respiratory syndrome (SARS), swine flu (H1N1) and Ebola virus disease (EVD) – were declared as global public emergency situations in the recent past. They shed some useful lessons on certain urban related aspects of health pandemics (Table 15.1).

Table 15.1
Background Summary of Three Cases

Outbreak	Epidemic/ Pandemic Period	Total Confirmed Cases	Case Fatality Rate (%)	Emergence	Countries Mostly Affected
Severe acute respiratory disease (SARS)	2002 – 2004[a]	More than 8,000 cases (spread in 26 countries)[a]	11[a]	China[a]	China, Hong Kong, Taiwan, Canada, Singapore[a]
Swine flu (H1N1)	2009 – 2010[b]	More than 250,000 cases (spread in more than 214) countries and territories)[c]	2.9[d]	Mexico[e]	US, China, Hong Kong, Australia, Italy[e]
Ebola virus disease (EVD	2014 – 2016[f]	More than 28,500 cases (spread mostly in the West African region)[f]	50[f]	Guinea[f]	Guinea, Liberia, Sierra Leone[f]

Source: Compiled by the author based on a literature survey. a: World Health Organisation. (2003). *Emergencies Preparedness, Response* - SARS. b: Centre for Disease Control and Prevention, (2019). *2009 H1N1 Pandemic Timeline.* c: World Health Organisation. (2010). Emergencies Preparedness Response: Pandemic (H1N1) 2009 - Update 112; d: Simonsen, et al (2013). *Global Mortality Estimates for the 2009 Influenza Pandemic from the GLaMOR Project: A Modeling Study.* PLoS Med, 10(11); e: World Health Organisation. (2010). *Emergencies Preparedness Response: Pandemic (H1N1) 2009 - Update 112;* f: World Health Organisation. (2020). *Fact Sheets: Ebola Virus Disease.*

Available evidence from all three cases suggests that urbanisation and its determinants had crucial impacts on the emergence and spread of diseases. For instance, in the case of SARS, it

In order to explore both successes and failures of the three episodes (i.e. SARS, H1N1 and EVD), this section looks at the experience of five countries – China, Hong Kong, Australia, Liberia and Sierra Leone – representing different income cohorts (high-income, middle-income and low-income), different geographic regions (Asia, Oceania and West Africa) and countries exhibiting higher urbanisation rates compared to others in their regions (Table 15.2).

emerged in China's highly urbanised Foshan city.[6] The largest number of cases were concentrated in Guangzhou city, another highly urbanised city in China. Beijing, China's second most urbanised city, was also severely affected, reporting 1,934 of the total 5,318 cases in the country.[7] Similarly, the

[6] Yang, C., et al. (2019). Detecting Spatiotemporal Features and Rationalities of Urban Expansions within the Guangdong-Hong Kong-Macau Greater Bay Area of China from 1987 to 2017 Using Time-Series Landsat Images and Socioeconomic Data. *Remote Sensing, 11*(19), p.26.

[7] Cao, C., et al. (2016). Analysis of Spatiotemporal Characteristics of Pandemic SARS Spread in Mainland China. *BioMed Research International,* 12.

Table 15.2
Brief Background on the Chosen Countries

	SARS		H1N1	EVD	
	China (Asia)	Hong Kong (Asia)	Australia (Oceania)	Liberia (West Africa)	Sierra Leone (West Africa)
GNI per capita 2018[a]	9,470 (UMIC)	50,310 (HIC)	53,190 (HIC)	600 (LIC)	500 (LIC)
Urban population 2018[b] (%)	55	100	86	51	42

Notes: UMIC = upper middle-income country; HIC = high income country; LIC = low income country.

Source: Compiled by the author based on a literature survey. a: The World Bank. (2019). *Classification of Countries by Income;* b: The World Bank. (2018). United Nations Population Division. World Urbanisation Prospects: 2018 Revision.

first ever incident of the Ebola outbreak was to be found in urban areas of West Africa, with the three most impacted countries being Guinea, Liberia and Sierra Leone. All three had seen rapid urban growth, resulting in unplanned development, inadequate resources and facilities, including infrastructure, water, sanitation and electricity, as well as a rise in informal settlements owing to internally displaced persons.

In terms of dominant factors behind the rapid transmission of the diseases, the three cases indicate that shortcomings in healthcare facilities, inadequate resources, poor sewage facilities in urban areas, rise in informal settlements, high urban densities, and commuting to nearby cities are decisive elements. For instance, there was a sharp rise in SARS cases in Guangzhou as a result of amplification during hospital care. The surge of patients, resulting from poor disease handling, placed a massive burden on health services requiring intensive care facilities, provisions for isolation and more capacity in hospitals. In turn, the high numbers of patients in hospitals, including healthcare workers who got infected, resulted in the closing down of some hospitals. Aside from poor urban health care, Hong Kong's experience of the SARS outbreak highlights the dangers of inadequate



urban infrastructure facilities. For instance, more than 300 residents in an apartment complex in Hong Kong were adversely affected by severe symptoms owing to faulty sewage disposal. In almost all cases, high population densities – whether in China or Australia – aggravated the spread of viruses.[8]

Outbreaks in urban areas bring its own challenges. Imposing quarantine in dense informal settlements with high population movements can be problematic. For example, in the case of EVD in West Africa, the logistical dynamics of informal settlements – high density and lack of clear access – made quarantine quite impractical. As the scale of pandemics spread, challenges mount as people hide from authorities owing to fear, confusion, distress and anxiety. In other words, such attitudes are rooted in a country's ability and capacity to provide adequate facilities and infrastructure. Doubts about the capacity of poorly positioned institutions to handle a large scale crisis trigger the above condition.[9]

15.2.2 Lessons Learned

SARS: SARS points to the need to prioritise and strengthen health care facilities in urban areas. Drawing on China's experience, it shows that pandemics start to spread within highly dense and urbanised cities, gaps in urban health facilities permit emerging epidemics to amplify, and that it then spreads to nearby urbanised cities and towns through commuting.

Post pandemic responses adopted by China hold useful lessons. The responses include rectifying long standing and often neglected issues that weaken healthcare systems such as changing hospital policies, new mechanisms for patient management and infection control, and utilising the entire transportation system as a diagnostic tool for potential SARS cases. All modes of public transportation were monitored by taking temperatures of travelers, enforcing travel restrictions in affected areas, providing screening facilities, setting up fever clinics, etc. Moreover, nationwide media campaigns were organised to encourage people to be more vigilant about their health. Overall, the need for quick identification, isolation and treatment processes were important measures that helped to tackle the spread of SARS within urban China.

For Hong Kong, the critical lessons were from the public health response in urban centres. Hospitals were unprepared and not expecting a large transmission. Furthermore, Hong Kong lacked a designated hospital for infectious diseases, creating difficulties in referring patients to isolation and treatment. In highly urbanised settings with large numbers housed in apartment complexes, issuing quarantine orders to residents and tracing the source of infection helps to tackle the spread of epidemics. The five key control measures that proved to be successful in Hong Kong are: compulsory self-isolation and surveillance of contacts, closing schools and universities, exchange of epidemiological information between Hong Kong and mainland China, temperature checks of travellers at points of entry and exit in urban areas, and district-wide cleansing campaigns.

H1N1: Australia was proactive in tackling the H1N1 outbreak by identifying the most vulnerable

[8] Xiao, H., et. al. (2014). Urban Structure and the Risk of Influenza A (H1N1) Outbreaks in Municipal Districts. *Chinese Science Bulletin,* 59(5 - 6), 554 – 562; Zachreson, C., et. al. (2018). Urbanisation Affects Peak Timing, Prevalence, and Bimodality of Influenza Pandemics in Australia: Results of a Census-calibrated Model. *Science Advances,* 4(12).

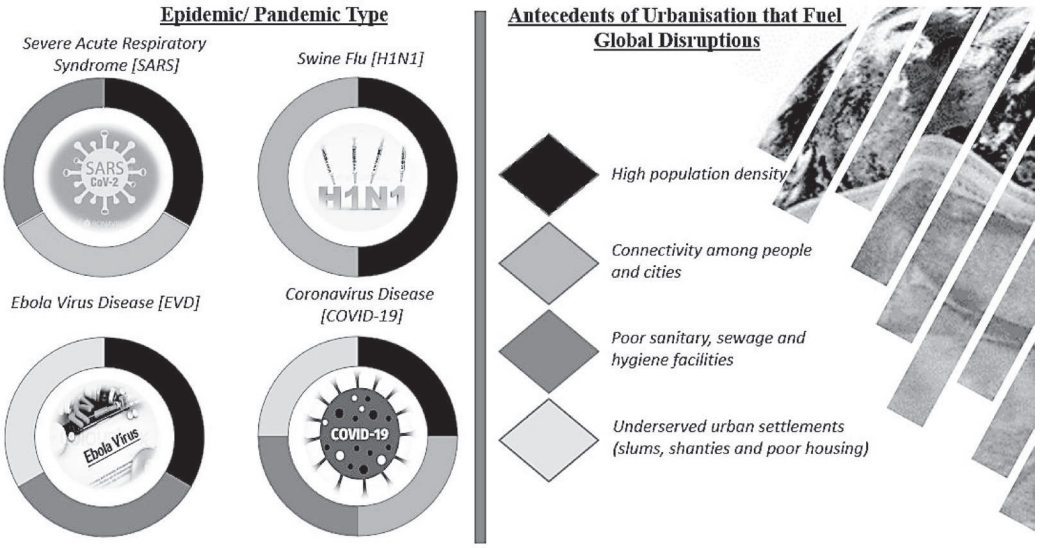
[9] Campbell, L. (2017). *Ebola Response in Cities: Learning for Future Public Health Crises.* London: ALNAP Overseas Development Institute.

cohorts in the urban sector, such as those with serious medical conditions, pregnant women, children, etc. With a strong urban public health response, the country was able to manage the outbreak through a highly coordinated response. In addition, China too established an active national surveillance system in the areas affected by the pandemic. The installation of thermal scanners at all airports to detect the temperature of travelers, speedy approach in hospitalising patients for isolation purposes, and continuous investigation on the spread of the pandemic helped to contain and bring H1N1 under control.

EBV: Lessons from Ebola show how West Africa handled it, despite being confronted with a global pandemic for the very first time. Amidst many challenges such as poor urban planning and lack of urban infrastructure facilities, the initial

Dense populations, poor urban facilities and underserved settlements continue to provide a ready conduit for the re-emergence of COVID-19.

Figure 15.1
Major Drivers behind Global Disruptions under Urban Settings in a Nutshell



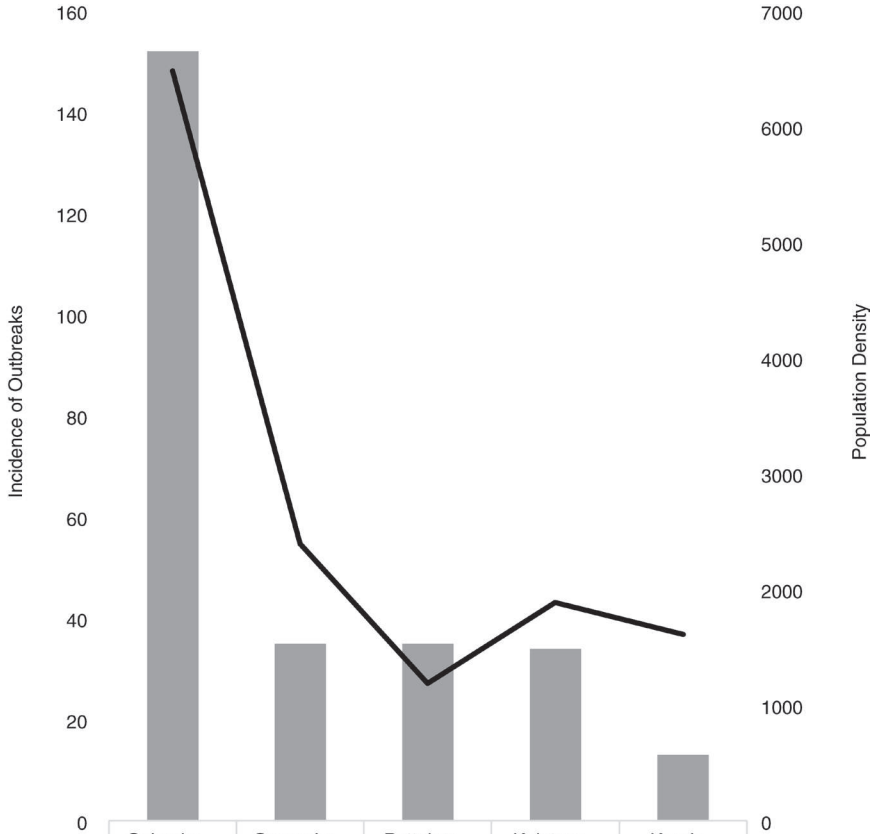
Source: Compiled by the author based on the literature survey.

response – relying solely on public healthcare and quarantine measures – were found to be impractical in terms of controlling the disease spread in urban areas. Therefore, the approach began to shift from solely relying on healthcare towards a more holistic approach to eradicating the pandemic. Although the epidemic is officially declared to be under control in the region, dense populations, poor urban facilities and underserved settlements continue to provide a ready conduit for its re-emergence.

15.3 Country Preparedness: Where Does Sri Lanka Stand?

Sri Lanka has not been a victim to major pandemic outbreaks like SARS, EVD or H1N1. Despite lack of prior exposure, the country is considered to be quite successful in dealing with

Figure 15.2
Top Five Most COVID-19 Prevalent Districts and their Population Densities



	Colombo	Gampaha	Puttalam	Kalutara	Kandy
Incidence of outbreaks	152	35	35	34	13
Population density	6481	2392	1186	1886	1610

Note: Incidence of outbreaks are based on Sri Lanka's COVID-19 live situational analysis dashboard as at 15 May 2020, 4 p.m.

Source: Health Promotion Bureau, Sri Lanka (2020) and *Redefining Urban Areas in Sri Lanka,* Weeraratne (2016).

the COVID-19 crisis. This was through disease control measures such as self-isolation, contact tracing, referring suspected cases to quarantine centres, hospitalisation of confirmed cases, curfews, lockdowns, closure of schools and work places, etc. at very early stages.

COVID-19 clusters were quickly identified in urbanised areas/districts in Sri Lanka. The scenario in urban settings in Sri Lanka is quite similar to that of global experiences with previous pandemics. For instance, as shown in Figure 15.2, the number of outbreaks is high in districts where population densities are also high. The Colombo district reported the most number of reported cases, which is also the district with the highest population density of 6,481 per km^2.[10]

In terms of the share of urban population, Colombo district records the highest share of urban population (90.5%), followed by Gampaha (67.3%) and Kalutara (62.1%) districts. Therefore, it is clear that urban areas have acted as epicentres of the pandemic. As such, urban dwellers residing in such locations are more vulnerable to the disease spread.

For instance, the emergence and spread of the COVID-19 outbreak at Bandaranayake Mawatha in Colombo is a good example of how diseases spread in underserved settlements in urban areas. The cluster consisted of small living spaces, home to around 62 families on a 20 perch land. Not only do the small housing units lack basic amenities such as sanitation, water, and ventilation, but they also make social distancing an impossible task. In such neighbourhoods, residents tend to congregate in public spaces, and visit neighbours. Tracking and controlling socialising patterns in highly congested areas adds to the challenges. In many instances, curfews and lockdowns in such cases are not as effective as expected.

Sri Lanka's COVID-19 experience clearly shows that lockdowns and curfews disproportionately impact the urban poor. Fundamentally, a majority of slum dwellers are employed in self-managed low wage jobs in the informal sector, earning daily wages.[11] The informal nature of their employment, with no protective measures, makes them

Tracking and controlling socialising patterns in highly congested areas add to the challenges of containing the pandemic.

[10] Weeraratne, B. (2016). *Redefining Urban Areas in Sri Lanka.* Institute of Policy Studies of Sri Lanka. Colombo: Institute of Policy Studies of Sri Lanka.

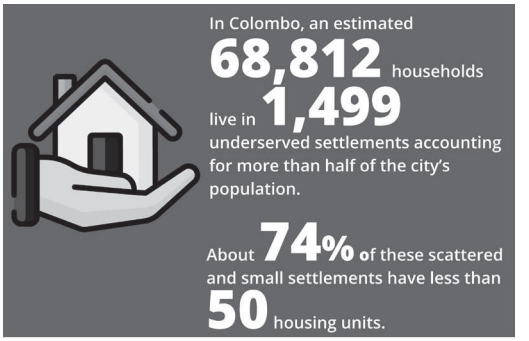
[11] Rasnayake, S. (2019). The Discourse of 'Slum-Free' City: A Critical Review of the Project of City Beautification in Colombo, Sri Lanka. *Sri Lanka Journal of Sociology,* 1, 87-120.

vulnerable to a sudden loss of earnings, access to food and other basic needs such as medicine. This also exposes them to higher risks.[12]

Thus, it is clear that the urban poor need particular attention in times of pandemics. According to the Household Income and Expenditure Survey (HIES) 2016, a majority of families who live in shanties and slums in Sri Lanka are from urban areas (0.9%). It is quite likely that the HIES does not capture the true picture as the current administrative definition of 'urban' significantly underestimates the real extent of urbanisation in Sri Lanka. As such, the share of slums and shanties in the urban sector is likely to be much higher. In Colombo, an estimated 68,812 households live in 1,499 underserved settlements accounting for more than half of the city's population; about 74% of these scattered and small settlements have less than 50 housing units.[13]

These factors underscore the importance of proper urban planning efforts; building houses with basic facilities for low-income groups, as well as ensuring that enforceable regulations and transparent processes are in place to determine whether urban settlements, land occupation and house constructions are taking place with due approval.

In the recent past, many interventions have been taken by successive governments to improve the conditions of slums, shanties and other underserved settlements in urban areas. Two broad initiatives are targeted at on-site upgrading



of underserved settlements, and a relocation programme for shanty dwellers. A number of regulatory reforms too have accompanied these initiatives.

The Urban Development Authority (UDA) started to pay special attention to rehousing underserved settlements after the end of the war as a part of the Colombo city beautification efforts. For instance, in 2010, a policy decision was taken to relocate 66,000 low-income people from underserved settlements into high-rise housing.[14] Further, a national housing programme – Janasevana – aimed to build one million houses during 2010-2015. Apart from this, the ongoing Colombo Urban Regeneration Project plans to construct 30,000 low cost housing units within the next three years and another 40,000 units in the three years thereafter to relocate households currently in Colombo's underserved settlements.[15]

15.4 Way Forward

The world's cities must be ready to react speedily to urban humanitarian crises. This kind of responsiveness and preparedness for future

[12] For instance, in the case of Bandaranayake Mawatha, an infected person who was a barber, visited his clients in the neighbourhood to earn a living, leading to further transmission; in another case, an infected person was selling garments in the neighbourhood during curfew, in order to earn a living and leading to further infections.

[13] United Nations. (2016). *Habitat III 2016 Sri Lanka.* United Nations.

[14] Samaratunga, T., & Hare, D. (2013, February 20). Reflections on Over 100 Years Of Urban Housing Policies In Sri Lanka. *Social Sciences, 2*(1), 14-21.

[15] Urban Development Authority. (2018). *Urban Regeneration Programme.* Retrieved June 30, 2020, from Urban Development Authority: https://www.uda.gov.lk/urban-regeneration-programme.html

outbreaks is crucial in protecting vulnerable urban populations from health pandemic such as COVID-19. Building resilience and ensuring preparedness is a worthwhile investment as the costs are minimal, compared to the greater burdens to be borne with an unmitigated health emergency. Although COVID-19 is Sri Lanka's initial experience with a deadly pandemic, it will not be the last by any means, and as such, the readiness to face future outbreaks is vital.

A part of Sri Lanka's success relates to its strong public healthcare system. There are however areas for improvement in tackling future pandemics. Proactive measures to identify the most vulnerable cohorts in urban areas, enabling active contact and trace systems, incorporating enhanced channels for informing and educating communities are some key policy measures to strengthen the health policy response.

While the containment of Sri Lanka's COVID-19 outbreak is praiseworthy, the numbers could have been further controlled had there been proper urban planning procedures. This is especially so given some clusters of large numbers located in small, urbanised areas in Colombo, etc. As mentioned previously, steps taken by successive governments to provide better housing for those who live in slums and shanties are noteworthy, but much more remains to be done.

Uplifting living conditions of slum dwellings are important. But, it is also important that slums are not only uplifted, but that they are also relocated. This requires proper urban planning and enforcement to ensure a successful relocation exercise not only in urban centres but also in peri-urban areas and suburbs. Managing the country's

Sri Lanka's relatively low infection numbers could have been further controlled had there been proper urban planning procedures.

population density through an effective urban planning process is important to build resilience and preparedness to contain the transmission of future outbreaks. In doing so, care must also be taken to incorporate disaster-risk-reduction planning and response in urban crises, integrating pandemic prevention planning into existing and future urban planning in Sri Lanka.

The COVID-19 has shown up gaps in the way that urbanisation is being planned and managed in the country. However, it has also given Sri Lanka an opportunity to re-think, re-plan and re-design urban settings for these to be more resilient to future outbreaks. In other words, COVID-19 is also enabling countries to learn from each other's experiences to build back better, and tackle global public health emergencies more effectively in the future.

An urban planning process is important to build resilience and preparedness to contain the transmission of future outbreaks.

16. Building Resilient Cities in an Era of Pandemics

16.1 Introduction

Cities possess unique characteristics that determine the level of preparedness and resilience for health emergencies like coronavirus (COVID-19). They are economic, social and cultural hubs with a wide range of interpersonal interactions among inhabitants, as well as visitors. The relatively favourable economic conditions that prevail in cities attract migrants from rural areas through extensive networks of transport. Hence, strengthening resilience of cities and urban settlements to meet health emergencies is an important part of a national response preparedness.

High population densities, extensive public transport networks and multiple entry points such as airports and seaports make them highly susceptible to health emergencies. Failure to implement adequate and rapid responses to control disease transmissions in cities can produce dire economic, socio-cultural and health consequences. The experiences under COVID-19 substantiate many of these realities. In Sri Lanka too, the experiences have been an eye opener, emphasising the necessity to build resilient cities that can withstand the worst of such crises. This policy brief examines how cities can successfully respond to health emergency shocks, and what policy measures should be adopted to address multi-sector issues through locally-oriented solutions, designed to ensure citizens' compliance.

Cities possess unique characteristics that determine the level of preparedness and resilience for health emergencies like COVID-19.

16.2 Why Should Cities be Focal Points?

Cities are receiving significant attention since the early stages of COVID-19, from the first reported outbreak in Wuhan city, and thereafter, the numerous cases globally from several large cities and megacities. Modern cities are highly complex entities – comprised of both planned or unplanned settlements – with certain characteristics that make them hotspots of pandemic outbreaks. A few of the more important ones are discussed below.

Cities are Entry Points: Transport hubs in cities are entry points to a country, and intra and inter-city transport channels serve as means of disease transmission. Thus, health emergencies like COVID-19 can be rapidly transmitted from points of entry such as seaports, airports, rail, road transport hubs and transits. If these modes are overburdened beyond their design capacities and exceed safety limits, the potential risks are higher. In most cases, public transport modes in cities like buses and trains are often found to be overcrowded, especially during peak hours.

Cities are Densely Populated: The density enables efficient use of scarce resources such as land, and facilitates services in a shorter period of time to a large number of recipients at a lower cost. Residential towers, neighbourhood districts and housing schemes are prominent examples of places with high population densities. Whilst this makes strong economic sense and supports better living standards for many, high population densities also make urban residents more susceptible to health emergencies. So far, research evidence from COVID-19 is mixed. Population density is found to be a critical factor that explains higher infections in cities like New York and London.[1] At the same time, cities with high infection rates are found to be those with relatively low population densities – one reason is perhaps that dense urban areas offer door-to-door delivery services and make it easier for residents to adhere to social distancing.[2]

Cities have Limited and Congested Public Spaces: Disease spread can escalate through close encounters of individuals in public spaces. Some examples are recreational parks, supermarkets, amenities like movie theatres and mass gathering spaces for cultural and religious purposes. In environments of this nature, social distancing cannot yield results as expected. Some early evidence suggests that 80% of secondary transmission may have been caused by a smaller number of infected individuals through social interactions.[3] This poses more risks to city dwellers compared to their rural counterparts.

Cities House a Diverse Population Mix: As followers of different religions and faiths, city dwellers often belong to various ethnicities resulting in high social and cultural diversity. Diversity presents challenges in efforts taken to contain health emergencies such as COVID-19,

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1 Nace, T. (2020, March 22). *Population Adjusted Coronavirus Cases: Top 10 Countries Compared*. Retrieved June 15, 2020, from Forbes: https://www.forbes.com/sites/trevornace/2020/03/22/population-adjusted-coronavirus-cases-top-10-countries-compared/#c08c44e974f3

2 World Bank. (2020, April 20). *Urban Density is Not an Enemy in the Coronavirus Fight: Evidence from China.* Retrieved June 25, 2020 from World Bank:https://blogs.worldbank.org/sustainablecities/urban-density-not-enemy-coronavirus-fight-evidence-china

3 Endo, A., Abbott, S., Kucharski, A., & Funk, S. (2020). Estimating the Overdispersion in COVID-19 Transmission using Outbreak Sizes Outside China. *Wellcome Open Research*(5), 67. Retrieved June 15, 2020 from https://d212y8ha88k086.cloudfront.net/manuscripts/17377/c1a64518-d24b-4fa1-bcb5-447af39f4324_15842_-_akira_endo.pdf?doi=10.12688/

whereby it induces different response patterns and willingness to comply with measures taken to contain health emergencies, in many circumstances.

Cities are Pockets of Vulnerability: Cities include urban poor living in informal settlements, homeless, elderly and people with disabilities and medical conditions. Especially those living in underserved areas in slums and shanties with unfavourable hygienic conditions even under normal circumstances, are vulnerable to health emergencies. In addition to economic impacts, vulnerable urban groups tend to experience severe socio-cultural issues. Prevalence of high drug addiction is an example. Such groups create extra risks during health emergencies, even breaking social distancing and lockdown regulations. Some move from one place to another in search of drugs, and break into residential and commercial properties to feed their habits.

Cities' Healthcare Capacity Can be Overwhelmed: In addition, city dwellers can face difficulties in accessing limited tertiary referral healthcare facilities due to financial constraints, limited bed numbers and limited numbers of available specialised healthcare workers. Such facilities tend to be overutilised and overwhelmed during a health emergency, whereby the same facilities are crucial to strengthen and prepare for potential health emergencies. Such facilities can significantly influence the effectiveness of nation-wide response strategies.

Cities Need to Function Under Lockdowns: Cities are usually hubs or centres of essential services for national economies. Such characteristics compel cities to be alive, busy and running, even under lockdown conditions. Adequate measures for continuous delivery of essential services – such as food, energy, water and sanitation, garbage disposal, etc. –determine the effectiveness of a city's efforts against a health emergency. Feeding people trapped in cities during lockdowns is quite challenging. The difficulties arise mainly from disruptions associated with logistics of supplying essential goods and services.

16.3 Where Do Sri Lankan Cities Stand?

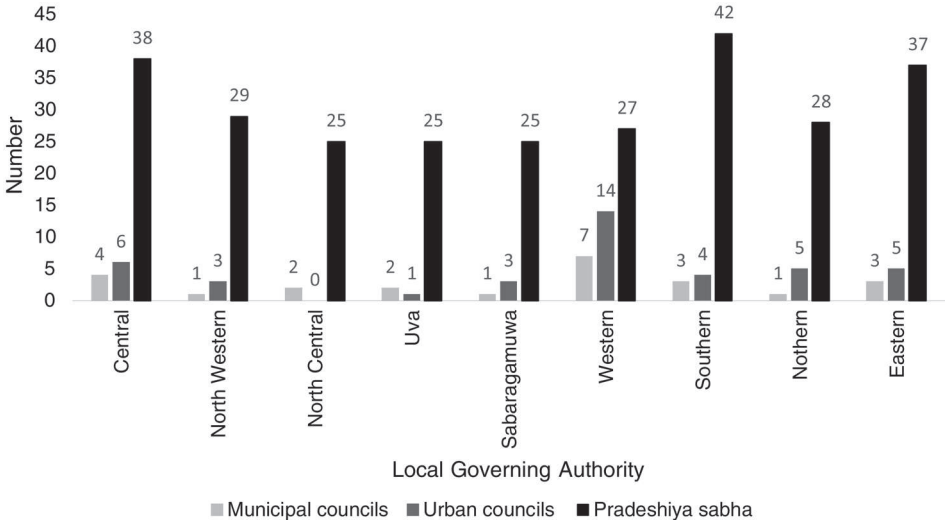
The administrative definition adopted by the Department of Census and Statistics (DCS) of Sri Lanka suggests that the country's urban population is a low 20%. However, a more robust definition suggests that it is probably in the range of 44%.[4] Municipal Councils (MC), Urban Councils (UC) and Pradeshiya Sabhas (PS) are the three local governing bodies, comprising of 24 MCs, 41 UCs and 276 of PSs.

16.3.1 Housing

Urban dwellers in Sri Lanka live in a variety of housing options which range from condominiums to slums and shanties. Housing complexes, multi-storied apartment buildings and unplanned settlements with high population densities exhibit a high level of vulnerability than single housing units during times of health emergencies. Multi-storied complexes increase vulnerability with the use of elevators, common/single entrance and exits, shared car parks, shared pools, etc.

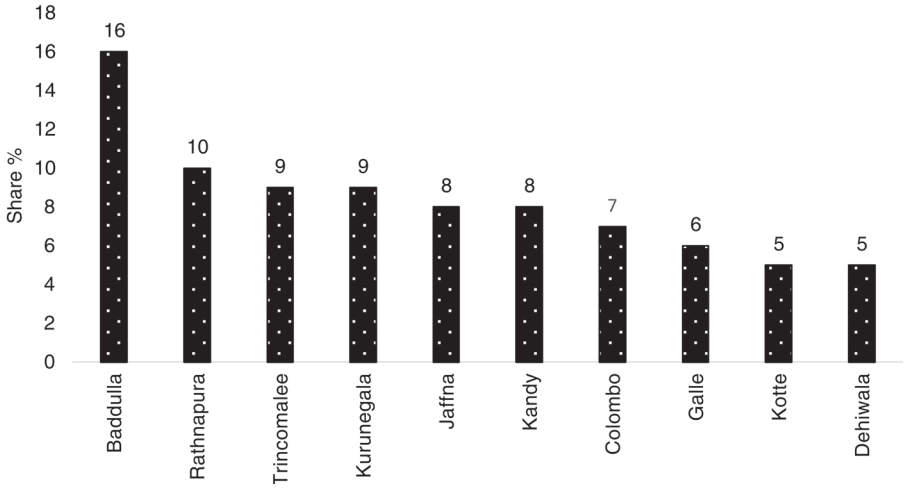
[4] Weeraratne, B. (2016). *Re-defining Urban Areas in Sri Lanka.* Retrieved June 15, 2020, from Institute of Policy Studies of Sri Lanka https://www.ips.lk/wp-content/uploads/2017/01/Redefining-Urban-Areas.pdf

Figure 16.1
Distribution of Local Governing Bodies in Sri Lanka



Source: Commonwealth Local Government Forum. (2018). *Country Profile – Local Government System in Sri Lanka.* London: Commonwealth Local Government Forum.

Figure 16.2
Temporary Housing Stock as a Share of Total (2012)



Source: Department of Census and Statistics. (2012) *Census on Population and Housing-Final Report.* Colombo: Department of Census and Statistics.

Poor availability of services and infrastructure is the defining feature of underserved settlements. About 1,499 underserved communities comprising of 68,815 housing units were identified within Colombo in 2018.[5] Thirty-one out of 34 Grama Niladhari (GN) divisions within the Colombo Divisional Secretariat (DS) comprise of the same. Central, East and North Colombo, Thimbirigasyaya and Borella are some of the areas where a majority of underserved communities are to be found.

Poor housing quality and overcrowding are notable conditions that lead to a unique lifestyle and a distinct sub-culture. Housing units in underserved settlements are densely populated, where small houses constructed in an area of one perch provide shelter for at least three families.[6] Even with widespread vaccination, quarantine and lockdown measures, the slum population can suffer a 44% higher rate of infection in contrast to the non-slum population.[7] Crowding, along with undernutrition among children as well as chronic medical conditions in adults, tend to increase infection rates. Constant indoor air pollution as a result of cooking with biomass fuel in inadequately ventilated small spaces lead to chronic respiratory conditions. These conditions pose health risks to inhabitants by increasing risks of infections.

16.3.2 Transport

City commuters and people from outside travel to and from, and within cities, using both intra-city and inter-city modes of mobility. In 2014, 6.9 million estimated person trips per day were reported within the Colombo Metropolitan Region (CMR).[8] Estimates indicate that in 2035, the total person trips in CMR would almost double, and rise to 12.2 person trips per day. The modal share of active and public transport in the CMR during 2014 was 75.5%.[9] Public transport facilitated by buses and trains accounted for 50% of the modal share of transport modes in Sri Lanka in 2017.[10]

Crowding is common in both modes of public transport, especially during peak hours. Moreover, public transport in Sri Lanka is often noted for inferior quality of service.[11] Traffic congestion in cities causes busses to operate at a slower speed, confining large crowds in an enclosed space for extended periods of time. With almost zero physical distancing, extensive human-to-human transmission is possible. Thus, congestion in rail and road transport can pose a high risk to commuters, exposing them to diseases like the COVID-19.

The latest official statistics on motor vehicles report that Sri Lanka's vehicle population

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5 Ministry of Megapolis and Western Development. (2018). *Resettlement Policy Framework for Colombo Urban Regeneration Project.* Colombo: Ministry of Megapolis and Western Development.

6 Subasinghe, W. (2017). A Sociological Analysis on Slum dwellers in Sri Lanka. *International Journal of Arts & Sciences' (IJAS) International Conference for Social Sciences and Humanities.* London: University of London Union. Retrieved June 20, 2020, from https://www.researchgate.net/publication/321348273_A_Sociological_Analysis_on_Slum_dwellers_in_Sri_Lanka

7 Adiga, A., et. al. (2017). Disparities in Spread and Control of Influenza in Slums of Delhi: Findings from an Agent-based Modelling Study. 1-12. Retrieved June 18, 2020, from *BMJ Open* https://bmjopen.bmj.com/content/bmjopen/8/1/e017353.full.pdf

8 Japan International Cooperation Agency. (2014). *Urban Transport Master Plan: Urban Transport System Development Project for Colombo Metropolitan Region and Suburbs.* Colombo: Japan International Cooperation Agency.

9 United Nations Economic and Social Commission for Asia and the Pacific. (2017). *Sustainable Urban Transport Index _ Colombo Sri Lanka.* Retrieved June 18, 2020, from UNESCAP https://www.unescap.org/sites/default/files/SUTI%20%20Mobility%20Assessment%20Report%20-%20Colombo.pdf p. 14.

10 Japan International Cooperation Agency. (2014). *Urban Transport Master Plan: Urban Transport System Development Project for Colombo Metropolitan Region and Suburbs.* Colombo: Japan International Cooperation Agency.

11 Chandrakumara, D. (2014). Urban Dweller Satisfaction on Public Bus Passenger Transport In Sri Lanka. *Asian Journal of Empirical Research, 4*(11), 514-525.

Due to constraints like labour shortages, managing waste in cities is extremely challenging during large scale health emergencies.

comprised of 7,139,687 privately owned vehicles, excluding buses used for public transport in 2017.[12] Hence, the rising demand for private vehicles can further escalate traffic congestions, endangering the lives of passengers in public transport during a health emergency.

16.3.3 Provision of Essential Services

In 2018, 8.6% of total land use in Sri Lanka's nine provincial capitals was under the purview of municipal services. Of this sizable portion dedicated for essential service functions of cities and the fringe population, a major portion falls under health and education. The provision of public utilities in Sri Lankan cities has improved over the years; for instance, electric grid connectivity increased from 70% in 2005 to 98% in 2015. Nevertheless, overall access to piped water is less in contrast to access to electricity, with large populations in the cities of Jaffna, Kurunegala and Ratnapura not having access to piped water,[13] despite 93% of urban households having access to a secure water source.

In addition, managing wastewater and garbage disposal in cities under hygienic and environmentally friendly manner is important. Onsite and off-site waste management are the two approaches available to manage municipal waste. Sri Lanka mostly disposes waste through physical dumping which is off-site. Colombo is the only city equipped with an operational municipal sewage system where 58% households are connected. Therefore, in most cases, untreated wastewater is discharged in to open environments, affecting water bodies. During pandemics, if such waste is from households or quarantine centres, it can endanger the community. In spite of the above, due to constraints like labour shortages, managing waste in cities is extremely challenging during large-scale health emergencies. Additionally, despite guidelines issued for garbage and waste handling with COVID-19, cities still lack the

[12] Department of Census and Statistics. (2018). *Transport and Communication - Registered Motor Vehicles, 2014-2018.* Retrieved June 19, 2020, from Department of Census and Statistics http://www.statistics.gov.lk/Pocket%20Book/chap08.pdf

[13] UN-Habitat. (2018). *The State of Sri Lankan Cities 2018 Report.* New York: United Nations Human Settlements Programme.

capacity to monitor, track and penalise people who dispose garbage irresponsibly.

16.3.4 Informal Economies

Informal economic activities built around a city's formal economy are a prominent feature of Sri Lankan cities. In 2019, nearly 60% of total employed were to be found in the informal sector. People employed in the informal sector are engaged in poor quality jobs, earning low incomes under poor working conditions, with limited access to technology, finance and training. A large proportion of informal sector employees of Sri Lankan cities dwell in underserved settlements,[14] with around half a million people in the urban sector estimated to be engaged in informal economic activities.[15] Usually, informal sectors in cities are mostly comprised of non-agricultural informal activities in contrast to the rural sector. About 230,000 informal establishments have been identified in the urban sector during the same period; about 44% were categorised as trade, 38% as services and 18% as industries. Retail trade, including repair of motor vehicles and motorcycles, manufacturing and accommodation and food service activities are the dominant types of informal economic establishments and employment in Sri Lankan cities. Gender biases in informal economies have been observed in favour of men over women.

16.3.5 Vulnerable Groups

The poverty headcount index (PHI) for Sri Lanka's urban sector was 1.9% in 2016.[16] Despite this low headcount figure, a significant proportion is multidimensionally poor in terms of access to drinking water, sanitation and assets ownership.[17] People who are homeless, elderly, those with disabilities and chronic disease conditions are disproportionately vulnerable to health emergencies. Inadequate access to safe water and sanitation is a common issue. In many underserved settlements, a single toilet is shared by several households. Lack of hygienic public toilets increases infection rates. Undernutrition among children and chronic medical conditions in adults tend to push them to the vulnerable category, thereby increasing infection rates.

16.4 Strengthening Preparedness and Resilience in Sri Lankan Cities

Possible interventions that can be implemented at national and local levels, with special attention on urban planning and management solutions to strengthen the resilience of Sri Lankan cities against pandemic hazards, are discussed below.

Offer Locally Organised and Coordinated Responses: The essential functions of cities should be identified and plans formulated for pandemic management, so that hazard preparedness and resilience of cities against pandemic can be enhanced. Planners should review the levels of existing human resources and available facilities, and conduct forecasts of

[14] UN-Habitat (2018). *The State of Sri Lankan Cities 2018 Report.* New York: United Nations Human Settlements Programme.

[15] Department of Census and Statistics. (2017). *Economic Census 2013/14 - Final Report on Informal Non Agricultural Activities.* Colombo: Department of Census and Statistics.

[16] Department of Census and Statistics. (2016). *Household Income and Expenditure Survey 2016 - Final Report.* Ministry of National Policies and Economic Affairs. Colombo: Department of Census and Statistics.

[17] Department of Census and Statistics. (2019). *Global Multidimensional Poverty for Sri Lanka.* Colombo: Department of Census and Statistics.

future requirements, review existing supply chains and logistic networks, and identify alternative channels of logistic facilities. These should take into consideration the social acceptability of solutions, since citizens' willingness to comply will crucially determine the effectiveness of any solution.

Continuous monitoring and evaluations on the effectiveness of the solutions, the level of compliance and violations of regulations, etc. should be built in. A coordinated approach between different levels of government, and a multi-sector approach – incorporating sectors like health, social services, transport, housing, education, communication, water and sanitation and waste management – should be adopted.

Offer Evidence-based Responses: Policy responses should be robust and evidence-based. At present, a major challenge is lack of reliable, timely and accurate information necessary to identify vulnerabilities related to COVID-19. Quality and comprehensive information is one of the crucial factors that determine the effectiveness of city-level policy responses. Therefore, relevant national agencies and local government authorities should devise action plans to carry out risk assessments, profile and map epidemiological risks, and identify and implement suitable urban planning and settlement solutions to overcome expected risks.

Focus on Vulnerable and Underserved Subpopulations: Measures to register people engaged in informal livelihoods will help in delivering relief, without overlaps. At the same time, transparency and trust should also be ensured to prevent malpractices. The existing transfer payment schemes like Samurdhi can have a dual payment strategy where emergency allowances can be topped-up over the base amount during crisis situations. Another alternative is to create a financial facility that offers non-employment benefits for informal sector workers during declared periods of emergency.

Maintain a Clean and Hygienic Environment: Managing waste in cities amid pandemics is crucial. Lessons from South Korea suggest that waste from the infected should only be stored for 24 hours and thereafter should subject to immediate incineration. Similarly, waste of self-quarantined must be disposed in sanitised bags.[18] Local authorities have to implement quick and efficient training programmes, on handling hazardous waste for existing workers. Potential origins of diseases such as animal slaughterhouses, animal/poultry farms and meat shops should be mapped and documented, with proper mechanisms for managing waste disposal from such entities.

Managing waste in cities amid pandemics is crucial.

[18] United Nations Economic and Social Commission for Asia and the Pacific. (2020). *The Safe Waste Treatment for COVID-19, Lessons from the Republic of Korea.* Bangkok: UN-ESCAP.

Organise Public Transport to Minimise Contagion Risks: To address congestion in public transport, demand spreading strategies should be developed. Therefore, adequate measures to restrict public transport only for essential needs, make working hours more flexible to minimise travel during the peak periods, etc. need to be considered. Given that maintaining social distance in these modes of transport is difficult, bus stops and railway stations can be provided with handwash and sanitising stations, so that the risk of viral spread via contact surfaces can be minimised.

Effective Communication: The most appropriate means of communication about disease control has to be devised. Mobile applications can significantly facilitate user-friendly and effective communication (like SMS alerts, etc.) since the majority of citizens have access to mobile phones. Mobile application will also enable timely and instant updating of information to multi-sector stakeholders, including health workers, civil defence and others.

Offer Technology-based Innovative Solutions: Automatic doors in buildings, voice-operated or face recognition technology-enabled infrastructure including elevators and doors, drone-based merchandise delivery, social distancing facilitated amenities, and a city-wide wireless network for uninterrupted internet access are possible technology-enabled smart interventions. Some of these are already in place in certain locations. Nevertheless, further efforts are required to scale up to benefit broader masses. High-quality infrastructure, well-designed institutions and effective interventions strengthened by technology-based solutions will invariably enhance a city's resilience to future waves of pandemics.

To address congestion in public transport, demand spreading strategies should be developed.

17. COVID-19 and Supply Disruptions: The Case of Sri Lanka's Tea Sector

17.1 Introduction

Sri Lanka is identified as one of the most vulnerable middle-income countries to the economic fallout from the coronavirus (COVID-19) pandemic.[1] A key channel through which vulnerabilities are heightened relates to a country's export earnings. While Sri Lanka is not highly exposed to global supply chain disruptions, its dependence on a limited basket of exports and export destinations is of concern.

COVID-19 will have significant negative impacts on Sri Lanka's exports. On the supply side, restrictions on movements, etc. will disrupt production, while on the demand side, the downturn in consumption across all key export markets will lead to cancelled or no orders. Thus, the main foreign exchange earning export industries – textile and garments (T&G), tea, rubber, coconut, and processed food – are all likely to suffer a major loss in earnings.

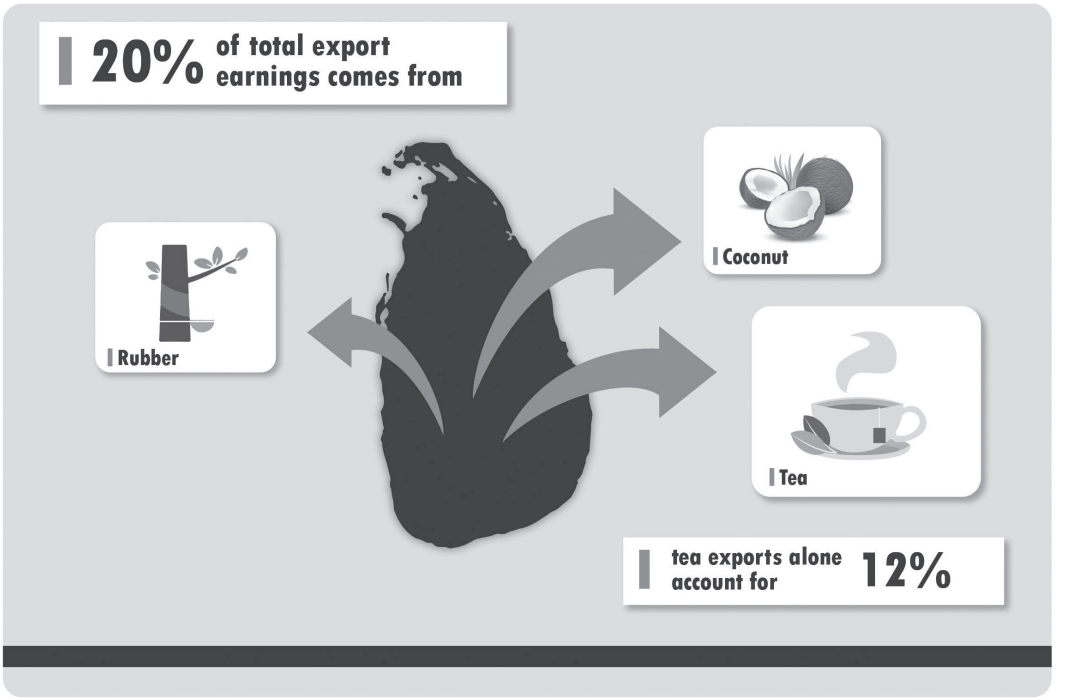
Sri Lanka's export agriculture sector – dominated by tea, rubber and coconut – is among the impacted sectors. They account for 20% of total export earnings annually, with tea exports alone

While Sri Lanka is not highly exposed to global supply chain disruptions, its dependence on a limited basket of exports and export destinations is of concern.

[1] Overseas Development Institute. (2020). *Economic Vulnerabilities to Health Pandemics: Which Countries are Most Vulnerable to the Impact of Coronavirus.* Retrieved April 18, 2020, from Overseas Development Institute: https://set.odi.org/wp-content/uploads/2020/02/Economic-Vulnerability.pdf

accounting for about 12%.[2] Thus, the export agriculture sector is important, not only in terms of export earnings, but also in terms of providing livelihoods and employment to low-income households.

discuss different strategies that governments can adopt to overcome the crisis, keeping in mind the need to be better prepared to face similar pandemics to safeguard the sustainability of the tea industry in the long run.



The largest contributor, tea, is Sri Lanka's main export plantation crop. Currently, Sri Lanka is the largest producer of 'orthodox tea',[3] and ranks as the fourth largest global tea producer and the third largest exporter of tea in the world. More than half of the tea produced is exported to international markets, including to the Russian Federation, Europe, Middle East and the US. This policy brief aims to explore the different channels by which the impacts of COVID-19 will be transmitted to Sri Lanka's tea industry, and

17.2 Sri Lanka's Tea Industry and the Impact of COVID-19

Since its beginnings in 1867, Sri Lanka's the tea industry has played an important role in terms of its contribution to national output, employment and foreign exchange earnings.[4] In 2019, tea production accounted for 0.7% of gross domestic product (GDP), with total export earning of USD

[2] Central Bank of Sri Lanka. (n.d.). *Statistics/External Sector.* Retrieved May 30, 2020, from Central Bank of Sri Lanka: https://www.cbsl.gov.lk/en/statistics/statistical-tables/external-sector

[3] Orthodox tea refers to the tea which is made or processed using traditional method and are generally bright and brisk and have a multi-layered flavour profile.

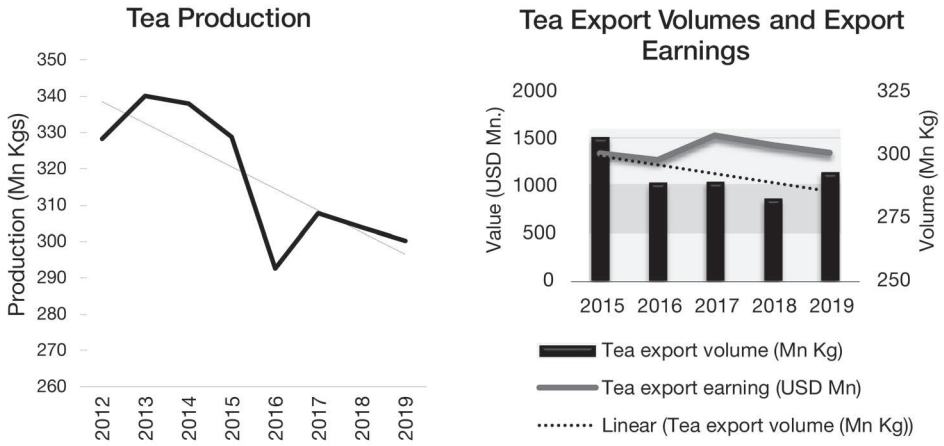
[4] Institute of Policy Studies of Sri Lanka. (2018). *Sri Lanka Tea Industry in Transition: 150 Years and Beyond.* Retrieved May 20, 2020, from Institute of Policy Studies of Sri Lanka: https://www.ips.lk/sri-lanka-tea-industry-transition-150-years-beyond/

1.3 billion, with Turkey, Iraq, Russia and Iran as the largest markets.[5] However, production and export earnings have been on a declining trend over the past few years (Figure 17.1). Whilst adverse weather conditions have not helped, other long term structural issues such as labour shortages, low levels of technology application, etc. have impacted production over time.[6] Export volumes also show a declining trend with slight fluctuations over the years, as the country faces stiffer global competition.

As supply chains in agricultural food systems globally readjust, Sri Lanka's tea supply chain too is undergoing some changes.

According to the United Nations Food and Agriculture Organisation (FAO), the impact of COVID-19 is transmitted through various channels both ways (forward and reverse supply chain movements) in the supply chain.[7] The tea supply chain comprises of diverse stakeholders, including producers, processors, distributors,

Figure 17.1
Tea Production, Export Volumes and Export Earnings



Source: Sri Lanka Tea Board. Annual Reports/Statistics (Various years); and Central Bank of Sri Lanka. Annual Report (Various years).

With initial weak conditions, an external shock such as COVID-19 can have far reaching consequences on Sri Lanka's tea industry. The immediate and direct impacts of COVID-19 were seen early as commodity prices plunged.

importers, national and international logistics systems and exporters who cater to both the domestic and international markets. Figure 17.2 illustrates different channels through which the effects of COVID-19 are transmitted. Any

[5] Teasrilanka. (2020). *Sri Lanka Tea Production – January to April 2020.* Retrieved May 21, 2020 from Teasrilanka: http://teasrilanka.org/market-reports

[6] Thibbotuwawa, M., Jayawardena, P., Arunatilake, N., & Gunasekara, N. (2019). *Living Wage Report Sri Lanka. Estate Sector*. Retrieved April 20, 2020, from Global Living Wage: https://www.globallivingwage.org/wp-content/uploads/2019/07/Sri-Lanka-Living-Wage-report.pdf

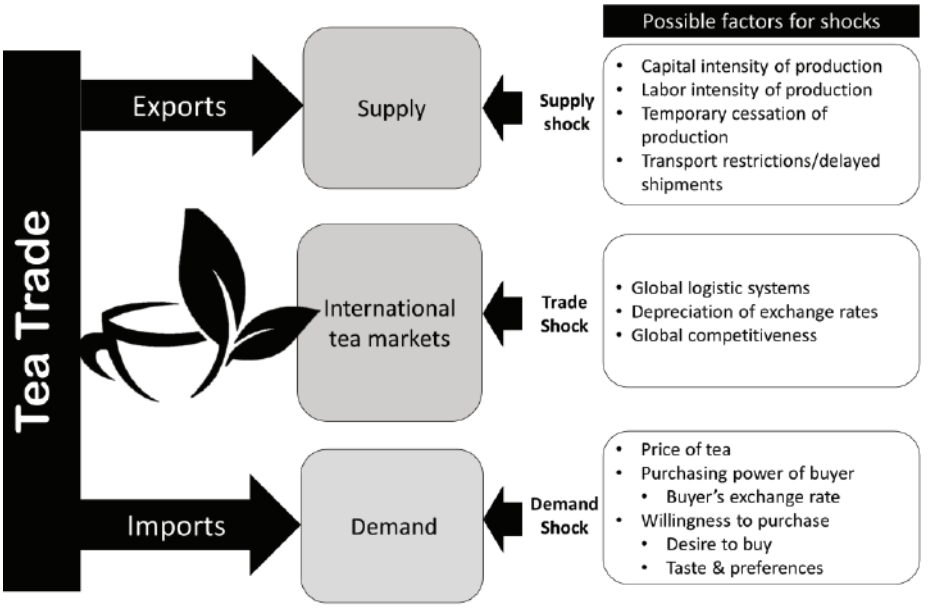
[7] Food and Agriculture Organisation. (2020). *COVID-19: Channels of Transmission to Food and Agriculture*. Retrieved June 02, 2020 from Food and Agriculture Organisation: http://www.fao.org/3/ca8430en/CA8430EN.pdf

With initial weak conditions, an external shock such as COVID-19 can have far reaching consequences on Sri Lanka's tea industry.

disruptions to any of the channels will affect the global tea industry (where the local industry is a key player) either through shocks on the supply side, trade flow, the demand side or a combination of all these.

Supply shocks can be caused by any change in the volume of tea output due to direct or indirect effects of COVID-19 such as restrictions on labour movements and transport restrictions on intermediate inputs. Likewise, detrimental effects can be triggered through demand shocks such as international price fluctuations, changes in purchasing power and consumer preferences in major importing countries. Additionally, the impacts of COVID-19 can be transmitted to the tea industry through trade channels such as global production and supply, import or export restrictions, issues in global logistics systems, transport restrictions and exchange rate fluctuations.

Figure 17.2
Channels of Transmission of COVID-19 Shock on Tea Supply Chains



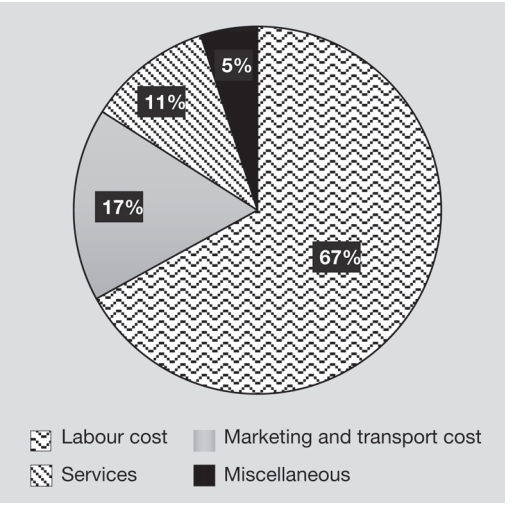
Source: Author's illustration based on the FAO report *'COVID-19: Channels of Transmission to Food and Agriculture'.*

17.3 Supply Shock: COVID-19 and Falling Tea Production

The contribution of different factors of production such as labour and capital can influence the magnitude of the COVID-19 impact on tea production and supply. According to available data, the average cost of producing a kilo of tea in Sri Lanka stood at LKR 483 in 2019. The labour cost (wages, benefits, staff cost) accounted for a major share (67%) of the cost of production (COP) of a kilo of tea, classifying it as a labour-intensive agricultural product. Marketing and transport costs and the cost of different services (maintenance of bungalows and roads, bank charges, insurance, rents, taxes, depreciation, etc.) constitute 17% and 11% of the COP, respectively; the balance 5% is categorised as the miscellaneous cost (Figure 17.3).[8]

According to the FAO, labour intensive agricultural production systems in low-income countries are more prone to be badly affected by the COVID-19.[9] For instance, labour restrictions due to lockdown procedures and/or prolonged curfews can lead to sharp contractions in production and supply. In the same vein, Sri Lanka's tea industry also experienced a drop in production. However, the impacts were not overly drastic owing to the fact that tea estate sector employees, residing within the estates, were less impacted by the spread of the virus. Nevertheless, overall, labour movements across different production processes of the tea value chain have been affected.

Figure 17.3
Cost of Production for Tea



Source: Department of Census and Statistics, Cost of Cultivation Data 2018/2019.

Labour intensive agricultural production systems in low-income countries are more prone to be badly affected by COVID-19.

[8] Department of Census and Statistics, Sri Lanka. (n.d.). *Cost of Production of Tea Per Kilogramme,2018/2019.* Retrieved July 03, 2020, from Department of Census and Statistics:http://www.statistics.gov.lk/agriculture/COP/COP_Tea.html

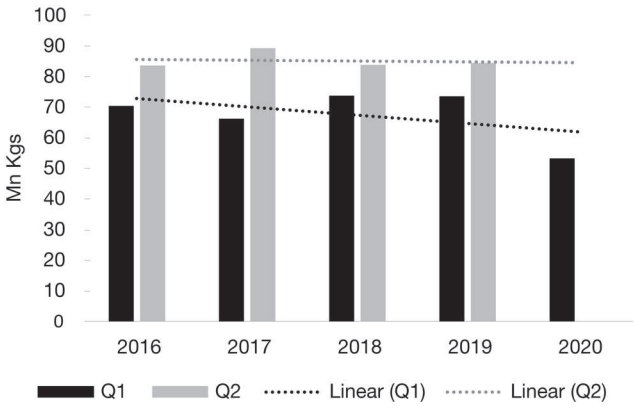
[9] Food and Agriculture Organisation. (2020). *COVID-19: Channels of Transmission to Food and Agriculture.* Retrieved June 02, 2020, from Food and Agriculture Organisation: http://www.fao.org/3/ca8430en/CA8430EN.pdf

In addition to labour, the supply of intermediate inputs like fertiliser, pesticides, fungicides, etc., to the tea industry were also affected by COVID-19. Curfew restrictions disrupted transportation channels. These disruptions are materialising in a slowdown in production and processes related to the tea industry (Figure 17.4). Tea production in the first quarter of 2020 dropped; while drought conditions during the first two months of 2020 was a factor, the steep drop in March is primarily due to measures taken by the authorities to contain the pandemic.

markets and supply chains.[10] The four biggest tea-producing countries – China, India, Sri Lanka and Kenya – account for 75% of the world's tea production. All are facing significant downside impacts from COVID-19 that will affect global tea supply as well as tea prices.[11] Not surprisingly, all major producers are witnessing supply disruptions in 2020 (Box 17.1).

Sri Lanka's 'Ceylon tea' has been losing competitiveness in global markets. However, a significant drop in production and exports from its

Figure 17.4
Quarterly Tea Production in Sri Lanka



Source: Central Bank Monthly Bulletin/ Sri Lanka Tea board (Various years).

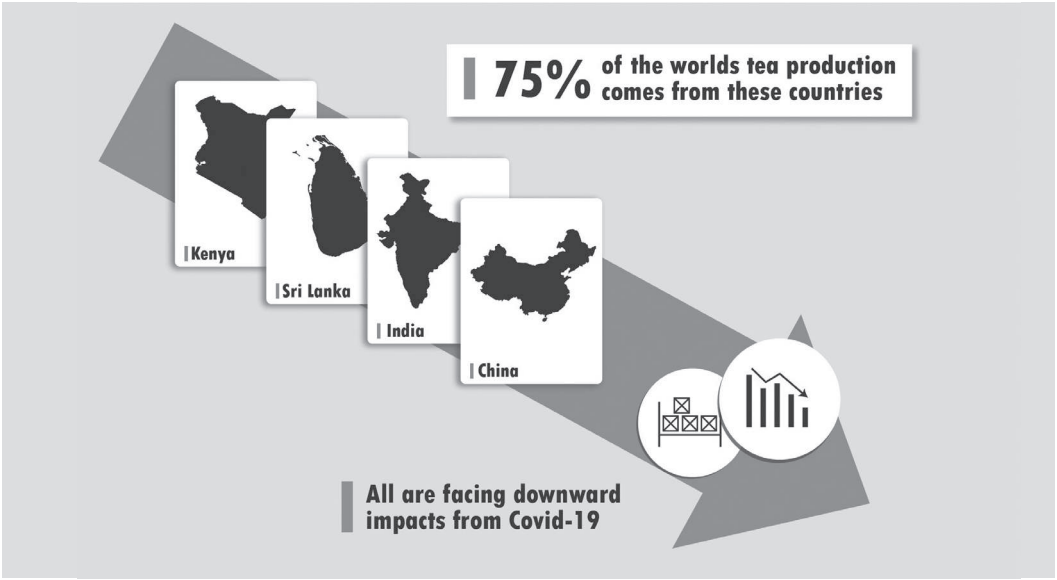
17.4 Trade Shock: Global Competitiveness and Rising Auction Prices

The direct impact of COVID-19 and measures taken to contain it by various countries are generating substantial impacts on commodity

main competitors enabled 'Ceylon tea' to attract a higher price with a short-term relative advantage over its competitors (Figure 17.5). A depreciating rupee also helped to give tea exports a price advantage. These are however very short run advantages, and will dissipate as Sri Lanka's key competitors return to normal levels of production.

[10] World Bank Group. (2020). *Community Markets Outlook. Implications of COVID-19 for Commodities.* Retrieved June 01, 2020, from World Bank Group: https://openknowledge.worldbank.org/bitstream/handle/10986/33624/CMO-April-2020.pdf

[11] IDH Trade. (2020). *Impact of COVID-19 Emergency Response in Tea Supply Chain.* Retrieved June 03, 2020 from IDH Trade: https://www.idhsustainabletrade.com/impact-of-covid-19-in-tea/



Box 17.1
Global Tea Supply Trends in 2020 Amidst COVID-19

Kenya: Kenya's tea production in March 2020 reached an all-time high of 55.7 million kg as against 26.5 million Kg recorded in March 2019. The cumulative tea production for January-March 2020 was 156.6 million Kg compared to 106.3 million kg recorded in the same period last year. This is due to favourable weather that prevailed in the country. Despite an increment in production, Kenyan tea exports in the first quarter of 2020 recorded a small downturn of about 9 million Kg. The reason for the drop was labour shortages due to lockdowns, disruptions and certain restrictions in trade associated with the COVID-19 in key markets for Kenyan tea such as Pakistan and Egypt where demand dropped. The average tea auction prices also fell owing to an increase in supply and depressed demand. Although, Kenya's performance in tea exports and auctions is slightly lower than that of 2019, it is performing better than most other tea producing countries so far in 2020.

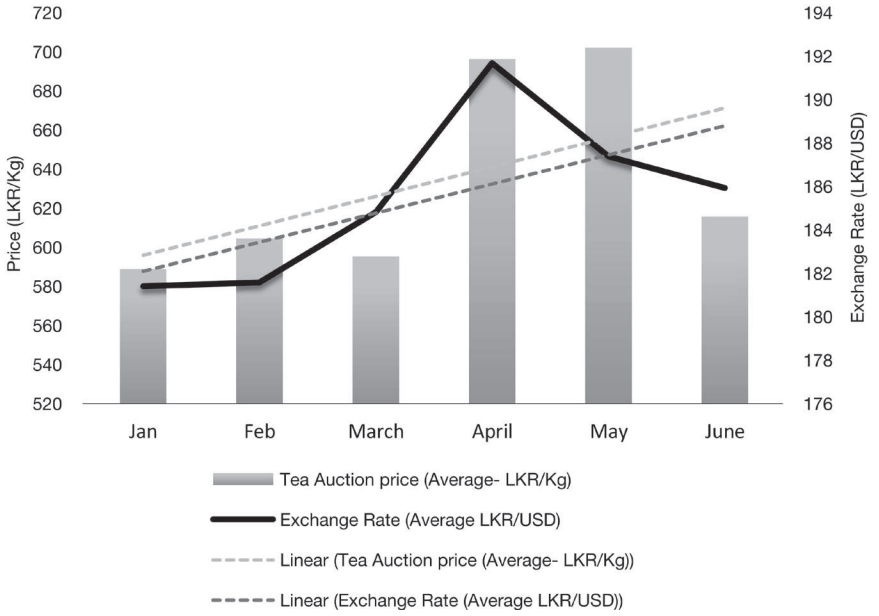
Vietnam: Vietnam also suffered a reduction in tea exports in the first quarter of 2020 due to the impact of the COVID-19 pandemic. Tea exports declined by 2.5% in volume and by 19% in value compared to the same period in 2019. Here too, the main cause was the pandemic, which had greatly impacted key export markets such as Taiwan, mainland China and Russia which stopped importing tea from Vietnam. Tea exports from Vietnam to China in particular period fell by 54.1% in volume and by 87.4% in value year on year, in the first quarter of 2020.

India: India too saw its tea production drop due to the COVID-19. India's April 2020 tea output had fallen by 54% in volume compared to the same period in 2019. In the first four months of 2020, India produced 113.4 million Kg of tea, down 40% from a year ago because of lower production

in March and April. Reasons included impacts of lockdowns which initially forced plantations to suspend tea plucking during the opening harvest to curb the spread of COVID-19. A shortage of truckers amid travel restrictions also delayed movement to auctions and ports.

Sources: Tea Exporters Association. (2020). *Tea Newsletter* 1Q 2020. Retrieved June 14, 2020 from Tea Exporters Association: http://teasrilanka.org/download/1Q2020.pdf ; CGTN Africa. (2020). *Kenya's Tea Production Expands in March*. Retrieved June 01, 2020, from CGTN: https://africa.cgtn.com/2020/05/04/kenyas-tea-production-expands-in-march/ ; Vietnam news. (2020). *Tea Exports Fall in Q1 Due to COVID-19*. Retrieved June 16, 2020, from Vietnam news: https://vietnamnews.vn/economy/684985/tea-exports-fall-in-q1-due-to-covid-19.html; Livemint. (2020). *Why Tea Prices are Rising During Lockdown.* Retrieved July 01, 2020, from Livemint: https://www.livemint.com/news/india/why-tea-prices-are-rising-during-lockdown-11588139236227.html

Figure 17.5
Tea Auction Price Changes (January-June 2020)



Source: Based on monthly tea auction price from Tea Export Association Sri Lanka and Exchange rates from Central Bank Sri Lanka.

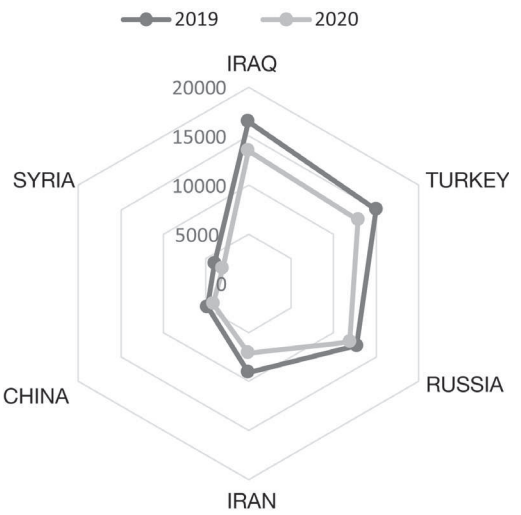
The demand for tea largely depends on the economic status of main buyers. For example, major tea buyers such as Iran, Turkey, Russia, Syria and Azerbaijan were already seeing their currencies depreciate, increasing the price of their tea imports. Turkey, the largest buyer of Sri Lankan tea, is experiencing major recessionary conditions similar to what other countries are also facing. Thus, subdued demand conditions will be a major threat to the tea industry.

17.5 Demand Shock: Changing Consumption Behaviour

The COVID-19 pandemic has already started changing consumer behaviour globally. Such behavioural changes can be expected to impact

the tea industry in the medium to longer term. More critically, the immediate impacts are visible via an observed drop in imports of 'Ceylon tea' by major tea importing countries (Figure 17.6). All major buyers – Iraq (-18%), Turkey (-14%), Russia (-6%), (-22%) and Syria (-24%) – have shown a significant drop in their import quantities during the first quarter of 2020.

Figure 17.6
Volume (MT) of Tea Imported by Major Tea Buyers in Q1 2019 and 2020



Source: Markets Reports from Tea Exporters Association (http://teasrilanka.org/market-reports).

Part of the explanation lies in the reduction of shipping volumes as a result of shrinking global trade and disruptions to global logistics systems due to the COVID-19 pandemic.[12] Shipment delays and delays in clearance processes at ports will be experienced for some time to come. In other instances, countries have resorted to import restrictions as a means of safeguarding their industries and employment, or alternatively to save on much needed foreign exchange earnings. Although Sri Lanka too is using this mechanism, so far it has not been subject to import restrictions by any of its global tea buyers.

Sri Lanka's export earnings from tea reduced sharply by -28% in the first four months in 2020 compared to export revenue values of the same period in recent years (Figure 17.7). This is despite a surge in Colombo tea auction prices. For the

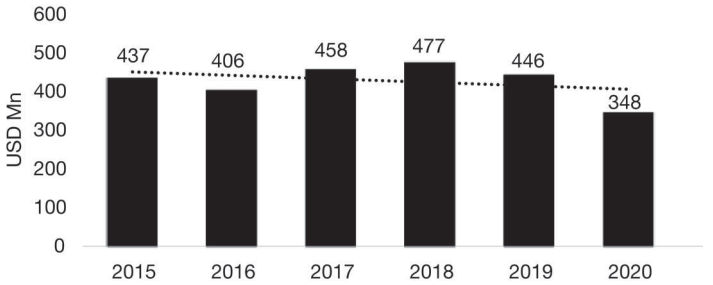
Even though negative growth was reported initially, the demand for tea is expected to pick up in the recovery phase, owing to it being an essential and affordable daily staple product.

[12] World Bank Group. (2020). *Community Markets Outlook. Implications of COVID-19 for Commodities.* Retrieved May 18, 2020 from openknowledge: https://openknowledge.worldbank.org/bitstream/handle/10986/33624/CMO-April-2020.pdf

remainder of 2020, demand for tea will depend on how the global tea industry copes with production in the first half of the year. Even though negative growth was reported during the initial period of the pandemic, the demand for tea is expected to pick up in the recovery phase, owing to it being an essential and affordable daily staple product in both premium/high quality and value-added market segments.[13]

sector and tea factories even during curfew,[14] the disruptions to labour movements were fairly minimal. Additionally, the usual daily operations were carried out adhering to health guidelines issued by the Ministry of Health at tea factories.[15] In addition, from the production front, curfew license were issued to small/medium land owners to transport labour to work. Tea industry officials were also allowed to travel for official purposes,

Figure 17.7
Tea Export Earnings (January-April)



Source: Sri Lanka Export Development Board/Central; Bank of Sri Lanka Monthly Bulletin.

17.6 Policy Responses

Several initiatives have been adopted to minimise the negative impacts of COVID-19 on the tea supply chain. In Sri Lanka, immediately after the imposition of curfew and lockdown procedures in mid-March 2020, estate workers were permitted to continue working. As a result, with relaxed labour restrictions on tea estates, the tea smallholder and commute between tea estates and offices.[16] Intermediate inputs to tea cultivation such as fertiliser, herbicides and other chemicals were exempted from curfew restrictions on transport, in order to prevent any shortages of supply.

Plantation workers are still considered as the lowest income earners in Sri Lanka, suffering from high levels of poverty and indebtedness.

[13] TRIWorld. (2020). *Covid-19 Brews Trouble for Tea Amid Disrupted Supply.* Retrieved June 01, 2020, from TRIWorld: https://www.trtworld.com/business/covid-19-brews-trouble-for-tea-amid-disrupted-supply-35858

[14] Hossain, S. T. (2020). Impacts of COVID-19 on the Agri-food Sector: Food Security Policies of Asian Productivity Organisation Members. *Journal of Agricultural Sciences – Sri Lanka.* Retrieved June 14, 2020, from: https://jas.sljol.info/articles/10.4038/jas.v15i2.8794/

[15] Ministry of Health and Indigenous Medical Services. (2020). *Guideline on Facilitating the Operations in Tea Factories During the COVID-19 Outbreak.* Retrieved June 05, 2020, from Ministry of Health and Indigenous Medical Services: https://www.chamber.lk/images/COVID19/pdf/Teafactory.pdf

[16] Agricultural Extension in South Asia. (2020). *Gearing Up Sri Lankan Tea Industry to Minimise Adverse Impact from COVID-19*. Retrieved June 05, 2020 from Aesa: HYPERLINK "https://www.aesanetwork.org/blog-121-gearing-up-sri-lankan-tea-industry-to-minimize-adverse-impact-from-covid-19/" https://www.aesanetwork.org/blog-121-gearing-up-sri-lankan-tea-industry-to-minimise-adverse-impact-from-covid-19/

Successive governments have taken several measures to ensure their wellbeing, as well as measures to address resultant problems of poor labour productivity and absenteeism in the tea sector. In the face of COVID-19, special measures were adopted. Factory owners were advised to hand over payments to tea smallholders to facilitate the provision of essential food items in each tea inspector's region; the special cash allowance of LKR 5,000 was extended to deserving tea smallholders; replanting subsidy payments for 2020 to eligible smallholders were to be released immediately; further, in addition to relief allowances given to victims of the drought that occurred in early 2020, the granting of equipment such as water pump, sprayers, field equipment etc., to selected farmers was continued.[17]

The Colombo Tea Traders Association (CTTA) took swift and decisive action to move the Colombo Tea Auction to an online platform, with the first of its kind held successfully in early April 2018.[18] Its purpose was to keep tea trade operational amidst COVID-19 lockdown procedures.

Additionally, the government is making several efforts to alleviate long-standing problems in Sri Lanka's tea industry. One such initiative is a special nursery project to establish 500 input nurseries among selected smallholders. The aim is to raise quality nursery plants by facilitating loan schemes etc. Despite all these initiatives, the industry will continue to face challenges beyond COVID-19 that require policy attention.

The government is making several efforts to alleviate long-standing problems in Sri Lanka's tea industry.

17.7 Policy Challenges Ahead

Sectoral policies related to Sri Lanka's tea industry should be viewed from two fronts: (i) how to best prepare the industry to cope with external shocks like the COVID-19 pandemic, and (ii) how to increase the long-term resilience of the tea industry.

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[17] Dishanka, S. & Ikemoto, Y. (2013). *Social Development and Labour Productivity: The Problem and a Solution for the Tea Plantation Sector of Sri Lanka.* Retrieved April 19, 2020, from Research Gate: https://www.researchgate.net/publication/286826151_Social_Development_and_Labour_Productivity_The_Problem_and_a_Solution_for_the_Tea_Plantation_Sector_of_Sri_Lanka

[18] Economy Next. (2020). *Sri Lanka's Online Tea Auction Sees Computers Trailing Human Sellers – So Far.* Retrieved June 22, 2020, from Economy Next: https://economynext.com/sri-lankas-online-tea-auction-sees-computers-trailing-human-sellers-so-far-64385/

There has not been a significant dip in the demand for tea even under pressing conditions of COVID-19. However, in such an eventuality, Sri Lanka will be at a disadvantageous position since its exports are primarily in the black tea segment which is likely to see a sharper drop. Shifts in consumer preference towards high-value products that hold 'health benefits' – healthier green, functional and herbal tea blends – are likely to further strengthen post COVID-19. Thus, more attention must be paid to enhancing value addition towards more herbal and healthy tea products as an option to increase the resilience of Sri Lanka's tea industry.

Even in the black tea segment, much more can be done to ride the wave of health benefits. Creating awareness on black tea properties to improve immunity, fight against adult-onset diabetes and lipid and glucose metabolism disorders, etc. can help. Further, Sri Lanka's tea exports should be expanded outside the traditional positioning of 'hot beverages', and instead look to new ready-to-go carbonated drinks and iced tea variants. Other consumption shifts such as towards organic foods, especially with regard to beverages, should be exploited.

All these will require a comprehensive reassessment of the long-term prospects for Sri Lanka's tea industry – beset by high costs of production from rising labour wages, energy and fertiliser costs, etc. that has allowed newcomers such as Kenya to outperform Sri Lanka. Introducing modern emerging production technologies, enhancing technical skills and innovation capacity, together with improvements in warehousing and packaging facilities and quality assurance throughout the value chain are critical areas to be addressed. The COVID-19 should be viewed as a wake-up call and an opportunity to for all stakeholders to collectively drive growth in the tea industry.

18. COVID-19: Challenges to Sri Lanka's Upper Middle-income Country Status

18.1 Introduction

Sri Lanka gained recognition as an upper middle-income country (UMIC) in July 2019, with the country recording a gross national income (GNI) of USD 4,060 per capita from that of USD 3,840 in 2018, according to thresholds set by the World Bank.[1] Despite the graduation, the risk of slipping back was conceivable in view of Sri Lanka's declining GDP growth momentum in recent years, from 5% in 2015 to just 2.3% in 2019. Thus, its slippage once again to that of a low middle-income country (LMIC) in 2020 is no real surprise.

Amidst the ongoing growth challenges, the coronavirus (COVID-19) shock will deliver another blow to Sri Lanka's near term economic prospects. However, its experience is not an exception, with COVID-19 expected to exert a sizeable toll on the world economy at large. In fact, the relatively successful handling of the pandemic in Sri Lanka compared to many other countries, including advanced economies, means that the country is better placed to begin its economic recovery efforts much sooner than many others. However, the challenges are many, not least to minimise job losses, and ensure that the vast majority of the population has adequate incomes and livelihoods. Towards this end, policymakers, including a presidential task force, are working to bring about a swift economic revival. Against this background, this policy brief examines the probable impacts on poverty conditions of the economic downturn and policy measures to avert a crisis in Sri Lanka's battle against COVID-19 impacts.

18.2 National Poverty Estimates

Over recent decades, Sri Lanka has managed to reduce poverty to a considerable extent. The poverty headcount (PHC) or the percentage of the poor based on the national poverty line (NPL) – the official poverty line used to estimate poverty by the Department of Census and Statistics (DCS) – declined from 26.1% in 1990 to 4.1% in 2016.[2] However, income inequality has not shown any reduction throughout this period. These existing disparities can be further entrenched as

[1] The World Bank's (WB) new threshold for UMICs is USD 3,996-12,375 GNI per capita.

[2] In measuring poverty, NPL is still the official poverty line used thus far and cannot be disregarded. However, it is necessary to revise the poverty line as the year 2002 is the base period for computing NPL. Hence, consumption patterns of the reference groups used to compile the NPL would have completely changed by now.

a result of COVID-19 related economic conditions, where the poor and lower middle-income groups are likely to be affected disproportionately.

An in-depth look at the incidence of poverty, and distribution of the poor and near poor to identify risk factors can help. Such an analysis pinpoints the regions and locations where the poor are mainly concentrated, and the types of population groups who are most vulnerable. Such information is essential to develop suitable strategies to prevent people slipping deeper into poverty due to the adverse effects of COVID-19.

Although Sri Lanka managed to bring poverty levels down, many people are not very far above the NPL. By this count, only 4.1% (about 850,000 persons) were in poverty in 2016. However, if the NPL increases by 10%, it is estimated that around 412,000 more people will be in poverty and the PHC increases to 6.1%; If the NPL increases by 20%, the PHC increases to 8.7%, which accounts for 1.8 million persons (Table 18.1). This clearly shows that there is a significant concentration of 'near poor' people who can easily slip into poverty due to economic shocks such as COVID-19.

To gain insights on the overall impact of COVID-19 on socio-economic outcomes, especially of the poor, it is necessary to have a deeper look at the other dimensions and measures of poverty, such as multidimensional poverty (MDP) which takes into consideration the multiple deprivations poor households face simultaneously. Estimating MDP involves three dimensions: health, education and living standards, which are measured through 10 indicators. Global poverty lines (GPLs) are used as follows: (i) USD 1.90 a day to measure extreme poverty, (ii) USD 3.20 a day to measure poverty in LMICs and (iii) USD 5.50 a day to measure poverty in UMICs.

There is a significant concentration of 'near poor' people who can easily slip into poverty due to economic shocks such as COVID-19.

'Extreme poverty' in Sri Lanka is insignificant at only 0.7% in 2016, although the risks of vulnerable groups getting pushed into extreme poverty under severe economic stress does remain. Based on the GPL for LMICs (i.e. USD 3.20 a day), 9.5% or 1.96 million Sri Lankans were in 'moderate

Table 18.1
Incidence of Poverty in Sri Lanka

Poverty Measure	Value in Rs. at National Level per Month per Person	GPLs and Equivalent (2011 PPP) for NPLs (per Day per Person)	% of Persons below the Specified Line or PHC	No. of Persons below the Specified Poverty Line	Remarks
National poverty line (NPL)	4,166	USD 2.60	4.1	843,913	Around one million persons within 20% above the NPL
NPL increased by 10%	4,582	USD 2.86	6.1	1,255,702	
NPL increased by 20%	4,999	USD 3.12	8.7	1,801,048	
Multidimensional poverty (MDP)			1.9	397,123	Nearly 2.4 million persons were in either MDP or NMDP
Near multidimensional poverty (NMDP)			9.6	1,988,487	
Global poverty line (USD 1.90) – Extreme poverty	3,065	USD 1.90	9.5	150,624	Extreme Poverty was insignificant
Global poverty line (USD 3.20) – GPL for LMICs	5,127	USD 3.20	9.5	1,961,914	The difference between the estimates of poor persons under the GPLs for LMICs and UMICs was 6.4 million
Global poverty line (USD 5.50) – GPL for UMICs	8,960	USD 5.50	40.4	8,352,385	

Source: Author's estimates based on the HIES 2016, conducted by the DCS.

poverty' in 2016. However, with the elevation of Sri Lanka to UMIC status in mid-2019, poverty levels also need to be measured using GPL USD 5.50 a day per person. Based on this GPL, 40.4% (or 8.4 million) of the country's population is in poverty.

COVID-19 will clearly have a significant impact on Sri Lanka's ability to even maintain income at current levels. As a country still at the lower end of the UMIC group, with a gross household income (GHI) of only USD 4,060 per capita in 2019, the possibility of slipping back to LMIC status did in fact materialise. Sri Lanka's status dropped back to that of LMICs in mid-2020.

18.3 COVID-19 and Socio-economic Impacts

As the COVID-19 pandemic related economic fallout continues, the experiences or impacts

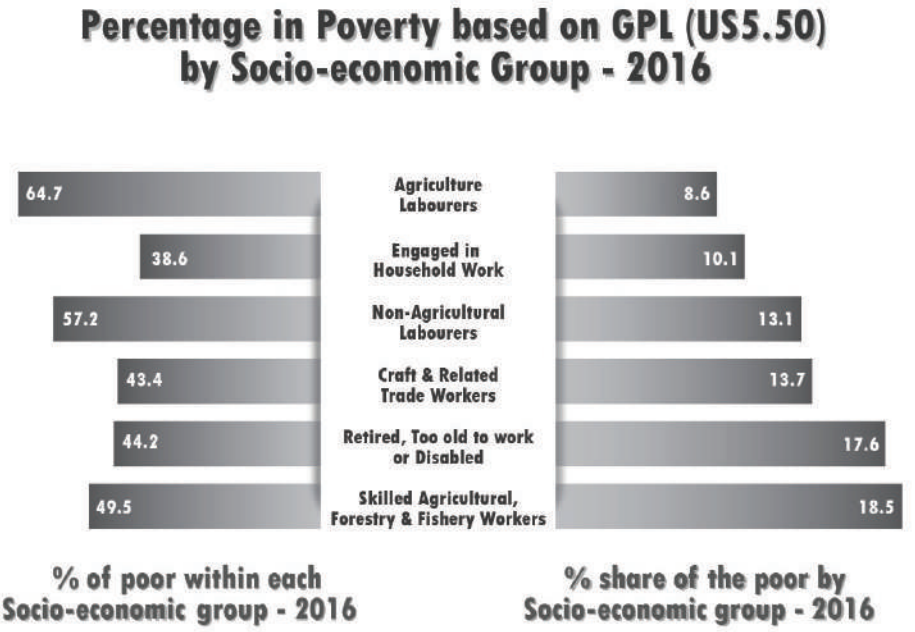
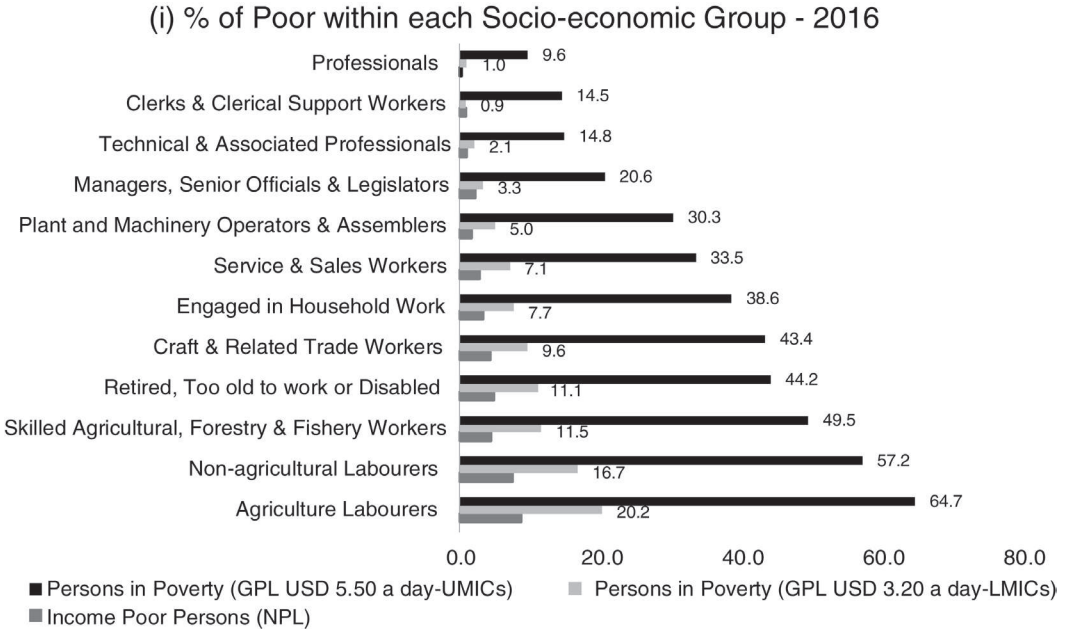
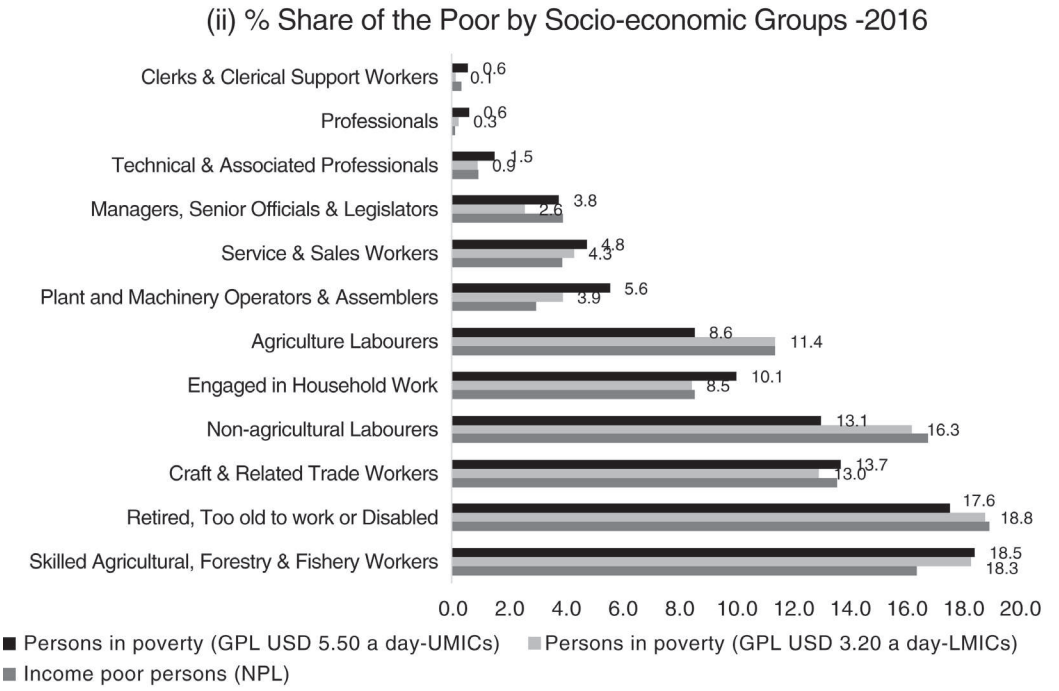


Figure 18.1
Poverty by Socio-economic Group





Source: Author's estimates based on the HIES 2016, conducted by the DCS.

will differ to a great extent according to a country's demographics – i.e. the composition of households, present living standards, regions they live in, types of employment they are engaged in and their income levels.

In Sri Lanka, there are six socio-economic groups identified as the most vulnerable (Figure 18.1). These groups are households headed by (i) agricultural labourers; (ii) non-agricultural labourers; (iii) skilled agriculture, fishery or forestry workers; (iv) retired, too old to work or disabled; (v) craft and related trade workers and (vi) engaged in household work. For these six groups, the PHC (or % of poor within each group) are high under all three poverty measures (NPL, GPLs for LMICs and UMICs) and are extremely high under UMICs standards.

For example, the PHC for households headed by agriculture labourers is as high as 64.7% under UMIC standards, while the corresponding estimate under LMIC standards is 20.2%. These six groups account for 33% (or 6.8 million) of Sri Lanka's total population under UMIC standards. This amounts to 81.5% of poor under GPL USD 5.50 a day.

Similarly, under GPL USD 3.20 a day for LMICs, 8.2% (or 1.7 million) of Sri Lanka's total population is in poverty. This amounts to 86.3% of the poor under GPL USD 3.20. These figures clearly show that persons in these socio-economic groups are the most vulnerable, irrespective of the measures being used to estimate poverty. There is also a significant difference of 6.4 million people between poverty estimates based on GPL USD 3.20 and GPL USD 5.50, indicating that there is a high level of concentration of persons between these two lines.

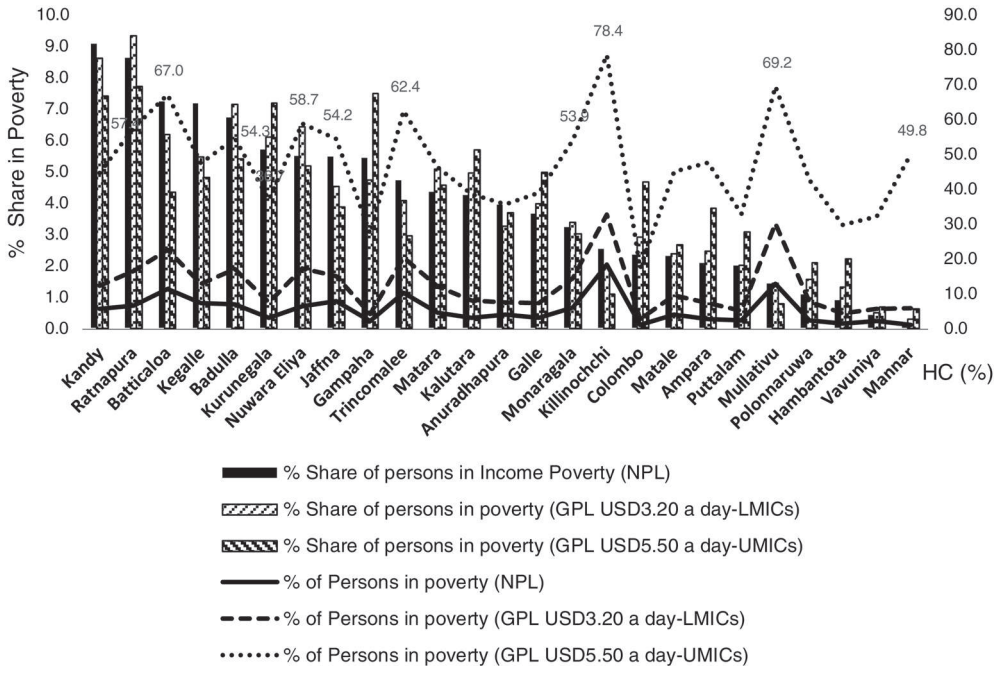
This shows that although Sri Lanka was elevated to UMIC status in 2019, with a GNI of USD 4,060 per capita, more than 40% of its population is in

poverty according to UMIC standards. More than 80% of them belong to the six socio-economic groups identified above. A majority of the heads of households of these six groups are either self-employed, earn daily wages, etc. They are therefore highly vulnerable to restrictions on movement during pandemics such as COVID-19. An exception is those engaged in agriculture and fisheries activities, as they were allowed to continue with their livelihoods. The poor in these six groups can be affected disproportionately due to the effects of COVID-19 unless responses are rapid, and effective measures are taken to mitigate the adverse effects.

18.4 Where are the Poorest in Sri Lanka?

Once the types of most vulnerable socio-economic groups are identified, it is important to identify the districts with large concentrations of the poor, as well as districts with high incidences of poverty. When the share of the poor in each district is considered, it is observed that nine districts account for 49.5%, 58.4% and 61.1% of poor, under GPL USD 5.50, GPL USD 3.20 and NPL respectively (Figure 18.2). The nine districts are Kandy, Ratnapura, Batticaloa, Kegalle, Badulla, Kurunegala, Nuwara Eliya, Jaffna and

Figure 18.2
Poverty Headcount



Notes: PHC is the percentage of poor within each district and percentage share is the share of poor in each district out of the total number of poor persons in the country.

Source: Author's estimates based on the HIES 2016, conducted by the DCS.

Gampaha. Ratnapura district accounts for the highest share under two GPLs and under NPL, followed by the Kandy district.

On the other hand, the incidence of poverty (or PHC) under GPL USD 5.50 a day, is highest in the Kilinochchi district (78.4%), followed by Mullaitivu (69.2%). However, the shares of the poor in these two districts are just 1.1% and 0.8% respectively. In districts such as Batticaloa, Nuwara Eliya and Badulla, both the shares of poor and the incidence of poverty are high. As such, it is necessary to consider the share of the poor, as well as PHC when developing strategies.

18.5 COVID-19 and Disproportionate Impacts on the Poor

COVID-19 is affecting the regular day-to-day lives of everyone from all walks of lives, in Sri Lanka and globally. Restrictions on movements, social or physical distancing, as well as concerns on health and economic risks are generating difficulties to everyone. However, the risks differ according to age, composition of the household, location, type of housing unit, type of employment, income level, etc. For example, self-employed persons or daily wage earners are at higher risks of adverse economic conditions as restrictions on movements impact their livelihoods more severely. Recommended social distancing is extremely difficult to practice for people living in highly congested urban areas or in poor housing conditions. In many of these aspects, the poor face higher risks of contracting the disease, and even of spreading the virus.

In addition to the persons who belong to the six socio-economic groups identified above, there are others who are affected disproportionately.

Self-employed persons or daily wage earners are at higher risk of adverse economic conditions as restrictions on movements impact their livelihoods more severely.

Sri Lanka's main revenue earning sectors – such as tourism, textile and garments (T&G) exports, migrant workers – are severely impacted. These industries also accommodate large swathes of low skilled workers.

A large number of migrant Sri Lankans who may lose their employment due to redundancies and job insecurity triggered by COVID-19 impacts are left with no choice other than to return to their

home country. In such a setting, Sri Lanka faces three problems: a reduction in foreign exchange earnings; a deterioration in living conditions of families of returning migrant workers due to loss of remittances to the households; and added pressure to create new employment opportunities for returning migrants, especially the unskilled or inadequately skilled. The household of such returnees may get pushed down to lower income levels or even to poverty as a direct consequence of the COVID-19 impacts.

T&G exports rank second after workers remittances as a source of foreign earnings. It provides direct employment opportunities to more than 300,000 persons and indirect opportunities for more than 600,000, mainly for women. As demand drops, jobs are at stake, unless the sector makes necessary adjustments to start producing new products which have a global demand. Already some apparel firms in Sri Lanka are commencing production of personal protective equipment (PPE), etc. For sectors such as T&G or other industries like tea, policy measures to encourage innovations, meet international standards, and find new markets for inventions, should be boosted.

As demand drops, jobs are at stake, unless the T&G sector makes necessary adjustments to start producing new products which have a global demand.

Tourism ranks third after workers remittances and T&G to bring in foreign exchange. Of the total tourism-based direct employment of about 170,000, about 80% is employed in hotels and restaurants according to Sri Lanka Tourism Development Authority (SLTDA). Tourists spending also generates another indirect employment of around 220,000 in ancillary industries, such as the handicraft trade, gems and jewellery shops, local food and beverage, launderettes. etc. If the dependents/households of these employees are also taken into account, an estimated total of around 1.5 to 2 million rely on this sector. The continued disruptions to tourism from COVID-19 – following on from the Easter Sunday terror attacks of April 2019 – is of concern to avert severe hardships with social and economic repercussions for the large numbers involved in this sector.

18.6 Conclusion

It is not possible to reliably predict the overall impact of the COVID-19 outbreak on Sri Lanka's economy. However, the total impact is likely to be extremely high, with disproportionate impacts on the less well-off and poor. To ease the financial and other difficulties faced by the poor and the

less well-off, a number of relief measures were offered by the government. These include two payments of LKR 5,000 to low income families, all senior citizen allowance recipients, farmers registered under the Farmer Insurance Scheme, kidney patients and Samurdhi recipients. In addition, relief was offered on lease instalments and debt repayments for many of the 1.5 million self-employed persons, including owners of three wheelers, trucks, school buses and vans and self-employed motorists.

The above relief measures will help the poor to a certain extent. However, they are temporary measures, and more concerted and targeted policies will be required during the recovery phase as the poor usually take a long time to regain livelihoods that are adversely affected for extended periods.

Many of the economic sectors that are severely affected – migrant workers, exports, tourism – in turn have direct impacts on the poor. Many migrant families depend on remittances, ancillary services like handicrafts depend on tourism, and large numbers of unskilled young females rely on Sri Lanka's garments exports industry for jobs.

Many of the economic sectors that are severely affected – migrant workers, exports, tourism – in turn have direct impacts on the poor.

Sustained recovery for the poor means reviving livelihoods and generating employment opportunities across the country. Craft and related trade workers – a large share of whom are in the construction sector – is one of the poorest socio-economic groups. An early revival of construction activities can help boost employment prospects for large numbers of low skilled manual workers. Other sectors that can get back to productive employment early are agriculture and fisheries sector. Here too, many are among the poorest, and government efforts to focus on domestic agriculture production can help them to get back on their feet. Thus, a prioritised and planned recovery strategy can help target Sri Lanka's poor and less well off, to ensure an equitable development path beyond COVID-19.

Themes of the "Sri Lanka: State of the Economy Reports"

1992	Macroeconomic Policy
1993	Export Sector
1994	Agriculture Sector
1995	Poverty Alleviation
1996	Workers' Charter
1997	Private Sector Expansion
1998	Demographic Change and Social Safety Nets
1999	Free Trade in South Asia
2000	Plantation Sector
2001	Competition Policy and Regulations
2002	Agriculture Sector
2003	Garment Sector
2004	Land Policy
2005	Post-Tsunami Economic Issues
2006	Agriculture Reforms: Irrigation Water Charges and Land Policy
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2016	Fiscal Policy for Growth: Sustainable Financing for Development
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2018	Climate Change, Food Security and Disaster Risk Management
2019	Transforming Sri Lanka's Economy in the Fourth Industrial Revolution (4IR)
2020	Pandemics and Disruptions: Reviving Sri Lanka's Economy COVID–19 and Beyond

Sri Lanka: State of the Economy 2020
Pandemics and Disruptions: Reviving Sri Lanka's Economy COVID-19 and Beyond

Sri Lanka's very creditable health response to COVID-19 gives it an early advantage to tackle the economic fallout of the pandemic. All indicators suggest an economic contraction in 2020, albeit with a very real possibility of a sharp V-shaped recovery thereafter. The emergency stimulus measures will combat the immediate deflationary shock, but they can eventually stoke inflationary pressures and undermine a resilient recovery path.

Once the immediate COVID-19 crisis recedes, Sri Lanka has a very real opportunity to refashion its economic policy choices to determine the outcomes beyond COVID-19, and help greatly to mitigate risks of disruptive impacts from similar crises in the future. The disruptive impacts on incomes and livelihoods, particularly in the context of large numbers in informal employment, with inadequate social protection cover, elevate the risks of widening existing income disparities in Sri Lanka.

The IPS' annual flagship report *Sri Lanka*: State of the Economy 2020 examines the policy contours of a country that builds back better from COVID-19, under the thematic focus of 'Pandemics and Disruptions: Reviving Sri Lanka's Economy COVID-19 and Beyond'.

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