
SRI LANKA STATE OF THE ECONOMY 2021

Pandemics and Policy:
Protecting Health and
Promoting Economic Recovery



INSTITUTE OF POLICY STUDIES OF SRI LANKA

SRI LANKA STATE OF THE ECONOMY 2021



INSTITUTE OF POLICY STUDIES OF SRI LANKA
100/20, Independence Avenue, Colombo 7, Sri Lanka

ISBN 978-955-7397-25-2

National Library of Sri Lanka-Cataloguing-In-Publication Data

Sri Lanka State of the Economy 2021 - Colombo:
Institute of Policy Studies of Sri Lanka, 2021
360p.; 25cm

ISBN 978-955-7397-25-2

i . 330.95493 DDC23

1. Sri Lanka - Economic conditions - 21st century
2. Sri Lanka - Economic conditions
3. Sri Lanka - Economic development

Please address orders to:

Institute of Policy Studies of Sri Lanka
100/20, Independence Avenue, Colombo 7, Sri Lanka
Tel: +94 11 2143100 Fax: +94 11 2665065
Email: ips@ips.lk
Website: www.ips.lk
Blog: 'Talking Economics' - <https://www.ips.lk/talkingeconomics/>
Twitter: [www.twitter.com/TalkEconomicsSL](https://twitter.com/TalkEconomicsSL)

This report was prepared by an IPS team led by Dushni Weerakoon, Executive Director. Contributing authors to the report are Dushni Weerakoon (Chapter 2), Tharindu Udayanga (Chapter 3), Asanka Wijesinghe and Chathurrdhika Yogarajah (Chapter 4), Harini Weerasekera (Chapter 5), Kithmina Hewage (Chapter 6), Nisha Arunatilake and Suresh Ranasinghe (Chapter 7), Bilesha Weeraratne (Chapter 8), Ganga Tilakaratna and Lakshila Wanigasinghe (Chapter 9), Sunimalee Madurawela (Chapter 10), Ashani Abayasekara and Thisali de Silva (Chapter 11), Priyanka Jayawardena (Chapter 12), Dilani Hirimuthugodage (Chapter 13), Manoj Thibbotuwawa (Chapter 14), Athula Senaratne (Chapter 15), Ruwan Samaraweera (Policy Brief 16), Nimesha Dissanayaka (Policy Brief 17) and Wimal Nanayakkara (Policy Brief 18). The contributions of Gayendri Karunaratne in providing editorial support, Nayomi Jayakody in providing administrative support, and Suresh Fernando and Tharindu Rajakaruna in preparing infographics under the overall guidance of Ayesha Zuhair are acknowledged.

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ABBREVIATIONS

AMC	Ayurveda Medical Council
ASEAN	Association of SouthEast Asian Nations
CBSL	Central Bank of Sri Lanka
CKDu	Chronic Kidney Disease of Unknown Etiology
COD	Country of Destination
CSOs	Civil Society Organisations
DEC	Dedicated Economic Centre
EMDE	Emerging Market and Developing Economy
EME	Emerging Market Economy
EMIS	Education Management Information System
EPR	Extended Producer Responsibility
ETF	Employees' Provident Fund
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GN	Grama Niladhari
GSP	Generalised System of Preferences
GVC	Global Value Chain
HIC	High-income Country
HIES	Household Income and Expenditure Survey
HMIC	High-income and Upper Middle-income Country
ILO	International Labour Organization
IOM	International Organization for Migration
IPS	Institute of Policy Studies of Sri Lanka
ISBs	International Sovereign Bonds
LICs	Low-income Countries
LMICs	Least and Middle-Income Countries/Low and Middle-Income Countries
LMS	Learning Management System
MFN	Most Favoured Nation
MOE	Ministry of Education
MSME	Micro, Small and Medium Enterprise
NAFTA	North American Free Trade Agreement
NCPI	National Consumer Price Index
NIE	National Institute of Education
NLMP	National Labour Migration Policy

NMRA	National Medicines Regulatory Authority
NPF	National Policy Framework
NPL	National Poverty Line
OECD	Organisation for Economic Co-operation and Development
OFC	Other Food Crops
OPEC	Organization of the Petroleum Exporting Countries
PET	Polyethylene Terephthalate
PHC	Primary Health Care
PMB	Paddy Marketing Board
PP	Polypropylene
PPE	Personal Protective Equipment
PPPs	Public-private Partnerships
RDB	Regional Development Bank
RTAs	Regional Trade Agreements
SDRs	Special Drawing Rights
SDGs	Sustainable Development Goals
SIA	Sustainable Intensification of Agriculture
SLBFE	Sri Lanka Bureau of Foreign Employment
WFH	Work From Home
SSB	Sugar-sweetened Beverages
TaRL	Teaching at the Right Level
TC	Transaction Cost
TCM	Traditional and Complementary Medicine
TM	Traditional Medicine
TPP	Trans-Pacific Partnership
TVET	Technical and Vocational Education and Training
UAE	United Arab Emirates
UIS	UNESCO Institute for Statistics
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UNWTO	United Nations World Tourism Organization
EPR	Extended Producer Responsibility
UV	Ultra Violet
WHO	World Health Organization
WTO	World Trade Organization

**TOWARDS
RESILIENT
GROWTH
AND
ECONOMIC
STABILITY**

1. Policy Perspectives

As the world struggles through a second year of the coronavirus (COVID-19) pandemic, a better than anticipated global economic rebound is the most encouraging news to date. Global economic growth is expected to reach 6%, up 0.5 percentage points from earlier forecasts.¹ Indeed, by 2022, the global economy is expected to have recovered to pre-pandemic levels, although the recovery will be uneven, with richer countries outpacing low and middle-income countries (LMICs) on average.

The uneven progress to recovery is being driven by the single most important factor – access to financial resources. In 2020, advanced economies were able to spend about 24% of gross domestic product (GDP) in fiscal stimulus measures alone, while the figure was a much lower 6% of GDP for emerging markets economies (EMEs) and an even lower 2% of GDP in low-income countries (LICs).² These differences in spending and recovery are being further accentuated by divergences in accessing the all-important vaccines against COVID-19. Richer countries were able to act swiftly and make advance purchases – often well in excess of their population size – while LMICs are still struggling

to secure adequate vaccination stocks. As of the beginning of August 2021, 4.5 billion vaccine doses had been administered worldwide; of these, 83% have been administered in high and upper middle-income countries and only 0.3% of doses had been administered in LICs.³

Thus, if 2020 was a year when all countries, rich or poor, struggled uniformly to cope with an unprecedented health and economic crisis, the year 2021 is seeing richer countries pulling ahead in the recovery. For the vast majority of LMICs, the damaging effects of the pandemic look set to drag on for longer as even more deadly mutations of COVID-19 variants than earlier, spring up. Indeed, the mortality distribution is shifting to LMICs now unlike in the initial phase, with COVID-19 now seen as more of a developing country pandemic.⁴ The target under a global vaccine scheme, COVAX, under which 20% of people in LMICs were to be vaccinated by the end of 2021 is more likely be met only in 2022, if not beyond.

Thus, despite the good news on the global economic growth front, there is a great deal of uncertainty surrounding the future impact of the

¹ International Monetary Fund. (2021, April). *World Economic Outlook*. Washington D.C.: International Monetary Fund.

² *Ibid.*

³ The New York Times. (2021). *Tracking Coronavirus Vaccinations Around the World*. Retrieved July 30, 2021, from The New York Times: <https://www.nytimes.com/interactive/2021/world/covid-vaccinations-tracker.html>

⁴ Gill, I., & P. Schellekens. (2021, May 27). *COVID-19 is a Developing Country Pandemic*. Washington D.C.: Brookings. Retrieved July 30, 2021, from Brookings: <https://www.brookings.edu/blog/future-development/2021/05/27/covid-19-is-a-developing-country-pandemic/>

If 2020 was a year when all countries, rich or poor, struggled uniformly to cope with an unprecedented health and economic crisis, the year 2021 is seeing richer countries pulling ahead in the recovery.

measures being implemented to combat the COVID-19 crisis. As the overriding preoccupation to contain the economic fallout gradually gives way to a withdrawal of stimulus packages and exit strategies, the growing concern now is how to deal with larger debt burdens weighing down the global economy.

Much of the unprecedented stimulus spending was raised through additional debt issuances. Monetary and fiscal policy coordination was employed to keep borrowing costs low as governments resorted to creating and printing their own money. In 2020 alone, the global borrowing binge is estimated at a hefty USD 19.5 trillion.⁵ As a result, government indebtedness is set to reach historic levels – soaring to 120% of GDP for advanced economies and 65% of GDP on average for emerging markets in 2020.⁶ At the global level, the risks related to this prodigious increase in government debt are deemed manageable for one key reason: the cost of servicing debt has fallen as interest rates have been slashed by central banks around the world. However, as the economic recovery gathers pace, and especially if it rises faster than expected, the balance of risks can change.

Monetary-fiscal coordination of the scale seen during the pandemic ignites a conflict of interest between fiscal objectives (cheap borrowing costs) and central banks (inflationary consequences). Before the global financial crisis (GFC) of 2008, such episodes of money creation would have triggered immediate worries of a price surge. However, inflation rates remained stubbornly well below a target of around 2% in most advanced

⁵ Bloomberg. (2021, January 27). *The COVID-19 Pandemic Has Added USD 19.5 Trillion to Global Debt*. Retrieved July 30, 2021, from Bloomberg: <https://www.bloomberg.com/graphics/2021-coronavirus-global-debt/>

⁶ International Monetary Fund. (2021, April). *Fiscal Monitor*. Washington D.C.: International Monetary Fund.

countries post-GFC, signalling a low probability of an inflation scare in the pandemic era as well.

But, a spike in global inflation cannot be entirely discounted. With a faster than anticipated global economic recovery, output gaps are being closed swiftly. The US economy, for instance, is expected to return to its pre-pandemic path by end 2021.⁷ In June 2021, annual price inflation in the US jumped to 5.4% – the highest since 2008 – while the inflation rate has more than doubled in the UK. Some of the inflationary pressures are no doubt a result of continuing supply chain disruptions, but some of it is a foretaste of a post-pandemic consumption spree.

In many advanced economies, precautionary savings, furloughs and other fiscal transfers have brought consumer savings to a record high. In the US, the equivalent of 7% of GDP is estimated to have been saved, while the figure is 5% in the Eurozone.⁸ Although COVID-19 related consumption behaviour remains unclear – consumers may yet want to save and pay down their debt – the amounts spent may still be large enough to support a strong recovery. If demand outpaces supply and economies begin to overheat, price pressures will mount. A transitory phenomenon can then become more persistent if price pressures go unchecked for any length of time, and raise expectations of upward price movements.

Anchoring expectations become harder if central banks are seen to be more tolerant of inflation as now. The risks become even more inherent if the

independence of central banks is also perceived to be slowly eroding, as monetary authorities and finance ministries collaborate to keep government borrowing costs low.

Doubts about the sustainability of such a policy mix are much higher in LMICs. Not only do they have weaker institutional frameworks to instil and maintain policy credibility over time, most also have much weaker initial fiscal conditions and limited instruments in hand.

Exercising their sovereign monetary authority to create and print money can lead to serious macroeconomic instability in LMICs. As issuers of reserve currencies with global demand, advanced economies can exercise and manage the inherent risks of such options. Indeed, the argument goes that they can pay down debt by creating money, without risks of a solvency crisis. The same is not true for LMICs – especially for those with already high debt ratios, and significant exposure to debt denominated in foreign currencies. Printing money can lead to depreciating pressure on the domestic currency and make debt payments more expensive. This is partly why LMICs are wary of spending their way out of COVID-19, with debt ratios still well below those of advanced economies.

For LMICs, an unprecedented decline in the net inflows of foreign capital – through a collapse in export demand, tourism, remittances, and capital flows – is bringing depreciating pressure and worsening foreign debt. As external financial conditions tighten, the LMICs that had diligently

⁷ Muhleisen, M. et. al. (2020, June). *Courage Under Fire: Policy Responses in Emerging Market and Developing Economies* Wall Street Journal. (2021, June 02). *The Economic Recovery is Here – It's Unlike Anything You've Seen*. Retrieved July 30, 2021, from Wall Street Journal: <https://www.wsj.com/articles/the-economic-recovery-is-here-rebound-jobs-stock-market-unemployment-biden-aid-package-11622642152>

⁸ Wall Street Journal. (2021, May 02). *Covid-19 Savings Stockpile Could Accelerate Economy – If Consumers Spend It*. Retrieved July 30, 2021, from Wall Street Journal: <https://www.wsj.com/articles/covid-19-savings-stockpile-could-accelerate-economy-if-consumers-spend-it-11619967601>

built up larger reserve stockpiles are better positioned to head off liquidity problems. Others are more precariously positioned, and face increasing concerns over sovereign solvency.

For Sri Lanka too, struggling with repeated waves of COVID-19, the true scale of the short, medium and long-term economic harm is yet to be fully gauged. It successfully avoided the worst of the pandemic at the outset, through the enforcement of concentrated and strict containment measures. The early, and gradual opening up of the economy as a result, saw a return to positive growth in the second half of 2020. However, a second burst of infections in October 2020, and an even more deadly third outbreak in April 2021, forced the government to restrict movement yet again. By August 2021, despite commendable progress on the vaccination front after a slow start, Sri Lanka was facing another spike of the highly infectious Delta variant. As a result, the early optimism of a strong economic recovery is receding, and 2021 is shaping up to be another difficult year.

The consensus forecasts suggest Sri Lanka's GDP growth will reach around 4% in 2021 from the low base of a -3.6% contraction in 2020. This is sufficient to post a V-shaped recovery and bridge the pre-pandemic output gap and return to trend growth. Given Sri Lanka's rather anaemic growth in the years leading up to the pandemic, the real test is to convert the return to positive growth in 2021 to a sustained high growth path in the medium to long-term. Crucially, it means addressing rising volatility and instability across the macroeconomic front.

These have arisen from pre-existing domestic imbalances that have since worsened with the pandemic. The single biggest manifestation of these imbalances is the uncomfortably high debt load that Sri Lanka carries. A legacy of past fiscal

Given Sri Lanka's rather anaemic growth in the years leading up to the pandemic, the real test is to convert the return to positive growth in 2021 to a sustained high growth path in the medium to long-term.

excesses – untrammelled government spending and borrowing, while revenue collection was whittled down – is getting worse as revenues dwindle further because of generous tax cuts introduced in November 2019, alongside the pandemic related impacts. Sri Lanka's restated fiscal deficit ballooned to 11.1% of GDP in 2020,⁹ with public debt rising to 101% of GDP. In 2020, more than 72% of total revenue was spent on servicing debt (up from 48% in 2019); it may rise higher still in 2021 if the revenue contraction offsets any gains from lower borrowing costs.

To make up for fiscal policy shortcomings, expansive monetary stimulus measures were rolled out. The CBSL's holdings of Treasury bills and bonds rose steadily, with rupee borrowings by the government and public corporations capturing 50% of total credit in the economy by mid-2021, compared to 40% as the pandemic unfolded. Policy interventions to control yield curves have kept borrowing costs low. But, unlike in advanced economies which can more easily create money without risks of a solvency crisis, a structurally imbalanced economy like Sri Lanka has reasons to be wary.

The argument that the government can print its own currency and spend to bridge the output gap ignores a fundamental policy miscalculation over the last decade. That is, that instead of improving fiscal capacity to generate domestic revenues and strengthen fiscal resilience, Sri Lanka embarked on a foreign debt binge, and that too without paying much heed to how repayments will be met.

Structural imbalances mean that as a high fuel and food import dependent economy, money creation spills over into import expenditures. Any

resultant depreciating pressure on the exchange rate worsens external indebtedness significantly. To avoid this, Sri Lanka swiftly imposed curbs on imports and capital outflows, but even with such restrictions in place, the rupee depreciated by 10% between March 2020 and March 2021. By July 2021, the CBSL had to go a step further and impose interbank forex market curbs to disallow any deals above LKR 200 to the USD, prompting a parallel market to emerge with the LKR trading well above the 'official' rate.

Sri Lanka's 'original sin' – issuing large quantities of foreign currency denominated debt – is now exposed to the adverse balance sheet effects of depreciation. Not only has the economy to contend with domestically generated volatility and instability, but it is also at the mercy of developments beyond its control. A strong US economic revival boosts the chances of a strengthening USD; this will not only weigh on Sri Lanka's current debt load, but it will also mean tighter global financial conditions for debt rollovers. The accumulated foreign exchange reserves amounting to only USD 2.8 billion at end July 2021 (sufficient for less than 2 months of imports) are entirely inadequate to avoid any 'disorderly' depreciation, let alone cover the country's foreign debt settlements averaging USD 4-5 billion per annum due in the foreseeable future.

As volatility and instability generate doubts about the sustainability of the policy mix, another danger that looms is the threat of a large money printing exercise leading to price inflation. In EMEs like Sri Lanka, inflationary expectations are not as well anchored as in more advanced economies. While some sources of price inflation

⁹ The fiscal deficits for 2019 and 2020 have been restated by the Ministry of Finance, shifting 2.8% of expenses incurred in 2020 on outstanding liabilities, to 2019.

Sri Lanka's 'original sin' – issuing large quantities of foreign currency denominated debt – is now exposed to the adverse balance sheet effects of depreciation.

can be treated as a one-off – such as imported inflation from currency depreciation and food supply disruptions, and upward adjustments to administered prices – price movements arising from excess demand need watching. For now, as the economic recovery drags on, the probability of an immediate inflationary rebound remains low, but inflation expectations will be the biggest worry. If expectations shift and lead to an abrupt climb in interest rates, there will be a sudden increase in domestic borrowing costs. Market expectations had already nudged up lending rates above the standing lending facility rate (SLFR) of the CBSL as government securities under a

price ceiling remained undersubscribed. A 50 basis point upward adjustment to policy rates in August 2021 is a forward guidance that the current monetary easing phase is under watch. Without complementary fiscal policy initiatives, it will do little to anchor expectations as direct financing of deficits under yield control measures seem set to continue.

The full impacts of these macroeconomic policy risks are still obscured by the health crisis. But, questions around the persistent weaknesses of Sri Lanka's public finances and high external vulnerabilities are never far away.

Attempts to raise taxes or cut government spending when the pandemic is still spreading is counterproductive, but some notion of sustainability is necessary to anchor confidence in the country's medium term macroeconomic fundamentals. Whether or not this demands an engagement with the International Monetary Fund (IMF) has become the sticking point.

A late approach to the IMF in its role of lender of last resort, having exhausted all other options, leaves little room to negotiate. In considering the pros and cons, two crucial factors would have been considered. First, IMF programme funds are rather small relative to the 'painful' adjustments necessitated by its conditionalities. Second, it no longer has much sway over debt relief considerations; much of foreign debt held by EMEs is owed to private hedge funds and institutional investors rather than to 'Paris Club' of lenders, and that excludes China. On the pros, the single biggest incentive is that an IMF programme can 'crowd in' other creditors and investors owing to the so-called 'confidence factor', although Sri Lanka has rarely completed such programmes. Having publicly announced its intentions to steer clear of a programme so far, the onus on the government to build effective policy strategies

that instil and maintain policy credibility over time is greater.

With the maturing USD 1 billion ISB settled successfully at end July 2021, the immediate focus is on rebuilding reserves. The announced measures include various short-term swap arrangements and loans negotiated with China, India and even Bangladesh – designated one step lower on the ladder as a low-income country (LIC). Additionally, private entities are being encouraged to borrow from abroad.¹⁰ These can only be viewed as interim measures; short term swap arrangements are costly and private foreign borrowing aggravates existing foreign debt risks.

Beyond these measures, the calculations appear to be on changing Sri Lanka's macroeconomic risk matrix by attracting some large foreign direct investment (FDI) projects. Aside from the star attraction – the Colombo Port City – a host of other projects of strategic interest to major powers are lined up in ports, energy and road connectivity. FDI can help shore up foreign reserves – albeit net of imports in capital intensive projects – as well as help lift economic growth. Both these factors can help tackle the debt load.

The question is, even if FDI-led investments lead the recovery, will it be sustainable beyond the pandemic? Much will depend on whether the temporary actions to curb imports and other such restrictions on the flow of goods and services become a more permanent policy fixture. Under such policy contexts, it will be harder to draw in the more desirable efficiency-seeking type of FDI. This type of FDI can help to raise national income through productivity gains much more sustainably than infrastructure-led FDI. The latter switches

incentives to the production of non-tradables and the growth burst can be short lived, as witnessed in Sri Lanka's immediate post-war years.

In a post-pandemic 'new normal' where rebalancing inequalities, addressing global challenges from climate change and health are reshaping policy strategies, perceptions about the appropriate settings for economic policy are more important than ever before. In this resetting, the pandemic has also recalibrated the role of the state. Greater state intervention in the delivery of public health services and managing the economic fallout has been accompanied by growing acceptance of a bigger role for the state. Indeed, the disproportionate impacts of the pandemic on those least able to bear the burden will further raise these expectations. To the extent that the post-pandemic policy setting sees increased state involvement in the economy, the quality of institutions and public governance will also be under greater scrutiny. To be judged favourably by their electorates, governments will have to deliver.

Against this backdrop, this report, focussed on the theme of 'Pandemics and Policy: Protecting Health and Promoting Economic Recovery' examines some of the critical socio-economic issues and policy choices facing Sri Lanka today.

Globally, regaining lost output during the pandemic depends on how swiftly impediments to international trade are lifted. The early signs are positive: global trade contraction in 2020 at -5.3% was much lower than early estimates, framed in part by the pre-pandemic trade war between the US and China. Despite the rapid rebound, the future of the trade war remains unclear as

¹⁰ Central Bank of Sri Lanka. (2021, June 7). *Measures to Encourage Offshore Borrowing by Private Sector*. Retrieved July 30, 2021, from Central Bank of Sri Lanka: <https://www.cbsl.gov.lk/en/news/measures-to-encourage-offshore-borrowings-by-private-sector>

To the extent that the post-pandemic policy setting sees increased state involvement in the economy, the quality of institutions and public governance will also be under greater scrutiny.

tariff hikes remain as big power competition for resources and technology heat up. What is clear though is that such trade related policy actions and intentions have a high cost. For Sri Lanka too, the trade rebound is positive, but retreats to protection can threaten a sustained export expansion. Curtailing imports to narrow current-account deficits do impede export

competitiveness and invite retaliatory action from key trade partners.

In EMEs like Sri Lanka, the businesses that drive trade are often micro, small and medium enterprises (MSMEs). Characterised by less resilience and flexibility than larger firms to deal with shocks, the pandemic has particularly impacted these enterprises, with sizeable revenue and employment losses. With the MSME sector estimated to account for 45% of total employment in Sri Lanka, policy assistance to weather the crisis has involved the rollout of liquidity support measures and debt moratoriums. But, existing obstacles in accessing capital continue to plague businesses with credit granted to MSMEs accounting for a relatively low 11% of total loans disbursed by banks to the private sector in 2020.

The pandemic related revenues losses for businesses and threats of insolvency transmute to job losses with far reaching socio-economic consequences. When the susceptibility of industries to economic risk from the pandemic shock is analysed, 39% of Sri Lankan workers are to be found in high-risk industries. Not surprisingly then, Sri Lanka too has seen its level of employment drop with the onset of the crisis, with workers shifting to more vulnerable employment types, such as self-employment. This has implications for a labour market that already has high levels of informality and large numbers of youth out of jobs. As the pandemic accelerates technological innovation and the transition to automation, Sri Lanka needs to think beyond the immediate crisis and improve digital infrastructure and the digital literacy of its workers.

Migrant workers have been some of the most impacted by labour markets disruptions around the world. Their vulnerabilities are evident from the unexpected return migration for many. Waves

of returnees – prompted by exposure to the virus and income loss – face further hardships from social exclusion and reintegration challenges. While COVID-19's impact on remittance flows has remained largely positive for Sri Lanka, it is still too early to determine whether those effects are merely temporary. With limited available jobs for returning migrants, many will opt to seek economic opportunities abroad once again. Sri Lanka has to be better prepared with targeted policies for returning migrants in future.

Indeed, the pandemic has crystallised the issue of social protection coverage for Sri Lankan workers, be it migrant workers or those employed in the domestic labour market. With some estimates suggesting that an additional 500,000 Sri Lanka's will fall into poverty,¹¹ Sri Lanka's low social protection coverage – with only 29% of the workforce covered – offers scant security during a severe shock.¹² The emergency cash transfers too suffered from mistargeting that continues to dog Sri Lanka's national poverty alleviation programmes. What is clear is that Sri Lanka must move towards a more consolidated social protection system that broadens coverage and improves delivery mechanisms to help prevent vulnerable populations from falling further into poverty to support recovery efforts.

Females are one important segment of the population that is disproportionately impacted. In particular, existing gender inequalities have made women more vulnerable to the economic impacts of COVID-19. In Sri Lanka too, loss of employment has impacted women more, accompanied by a sharp rise in economically inactive women that further worsens Sri Lanka's already low female

labour force participation. The gendered nature of work across industries, the burden of unpaid care and other societal barriers explain these outcomes, and threaten tangible progress toward gender parity both during the downturn and the subsequent recovery.

The widespread disruptions to education during the pandemic can heighten these inequities unless concerted efforts are made to deliver quality education. Not only are students expected to suffer a learning loss, COVID-19 will also not affect students equally. In Sri Lanka too, inequities in accessing digital learning and difficulties in adapting to the new learning environment are widespread. In the absence of appropriate policy measures to recover learning losses, such short-term shocks can have longer-term consequences on the quality of available human capital. Public spending as an investment in education to mitigate these detrimental impacts is paramount.

Similarly, public spending on health has to be maintained at a higher level now and in the years ahead. The demands on the health care system will be unrelenting, not only on spending related to the pandemic, but also to bridge foregone care created by disruptions to health services. With 75% of COVID-19 related deaths in Sri Lanka linked to those suffering from non-communicable diseases (NCDs), the importance of robust health systems to deal with multiple challenges simultaneously is evident. The pandemic also highlights the need for regulatory oversight on traditional health care therapies to ensure patient safety. As COVID-19 clearly demonstrated, they have an important role, subject to proper clinical trials, data and other protocols.

¹¹ World Bank. (2021). *Sri Lanka Development Update 2021: Economic and Poverty Impact of COVID-19*. Colombo: World Bank.

¹² Jayawardena, Priyanka (2020). "COVID-19 and the World of Work", in *Sri Lanka: State of the Economy 2020*. Colombo: Institute of Policy Studies of Sri Lanka.

As experienced, the health and wellbeing of people during pandemics are acutely threatened by food insecurity and malnutrition. Affordability and physical access to food have been the most impacted, with poorer households hit harder because food still remains a much higher proportion of their household spending. With Sri Lanka's food price inflation at a high 10.3% in May 2021, the threat of households cutting down on food intake and worsening the country's already poor nutrition indicators is high. Despite legitimate grounds for concerns that synthetic fertiliser and pesticides lead to health and environmental damages, the decision to ban its importation will also run up against major demand and supply-side challenges in converting Sri Lanka's agricultural production into a 100% organic system amid a hurried implementation.

The rest of this report examines these issues in more detail. Sri Lanka faces tough trade-offs in building effective policy strategies to manage its macroeconomic imbalances and maintain supportive policies to emerge from the pandemic better off than before. On the plus side, as vaccine roll-outs accelerate, investor confidence will pick up. If at the same time, policy goals are translated into concrete projects and programmes, with visible benefits for all Sri Lankans, the end of the COVID-19 crisis could mark the beginning of a resurgent phase of economic growth and development.

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2. Economic Performance and Outlook: Managing the Crisis and Promoting Recovery

2.1 Introduction

The economic fallout associated with the COVID-19 pandemic saw a -3.6% contraction in Sri Lanka's gross domestic product (GDP) in 2020. From this new lower base, it can be reasonably expected that the economy will bounce back in 2021 to re-establish the pre-pandemic output level and trend. Given the below par growth performance before COVID-19, the real challenge for the Sri Lankan economy is to convert the recovery into a robust increase in economic activity that will lift the current trend growth rate substantially over time.

For this to be realised, Sri Lanka must push for macroeconomic and financial stability. The pandemic has left the economy with notably higher public debt levels and thinly stretched fiscal resources. Monetary-fiscal stimulus efforts have relied heavily on direct financing of government spending, increasing risks of currency instability and encouraging a slew of restrictions on import purchases and capital flows. While many of these measures were to be temporary, as the health crisis dragged on in successive waves, Sri Lanka's preoccupation on the economic front has been to allay nervous investors that the country will be honouring its debt obligations.

Sri Lanka's strong vaccination rollout, after a few hiccups at the outset, bodes well for the economy,

pending other developments. This positive news will allow policymakers to focus on jobs and incomes given the considerable uncertainties about the pandemic's lasting damage on livelihoods and poverty. In this phase of the recovery, rebuilding policy space is a priority. Sustainable fiscal policies that support credible monetary policy interventions are needed to anchor expectations for a riskier economic future. Against this background, this chapter aims to analyse Sri Lanka's fiscal and monetary policy response to the pandemic-induced economic crisis and the impact of the policy interventions to create a virtuous circle of higher growth and lower indebtedness.

2.2 A V-shaped Recovery from a Crisis

Expectations of the economic recovery from COVID-19 take many shapes. The most desired is a swift 'V-shaped' recovery to mark a quick upturn. By contrast, a 'U-shaped' recovery suggests some considerable time taken to recover to pre-crisis levels, while a 'W-shaped' recovery once again suggests a quick upturn, only to be followed by a fall back into a recession. Given the widespread socio-economic devastation wreaked

by the pandemic, a ‘K-shaped’ recovery – marking a divergence between winners and losers – is also mooted.

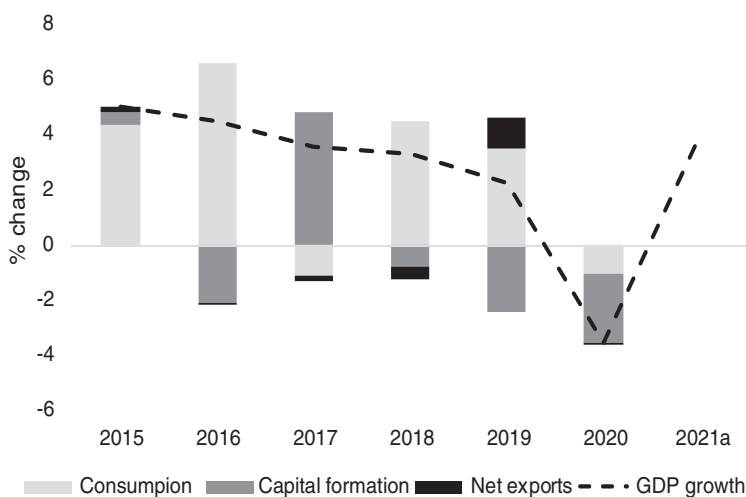
For Sri Lanka, with COVID-19 vaccine rollouts well underway, the prospects of growth firming up to post a sharp V-shaped recovery remain strong. While a successful vaccine strategy per se is no guarantee of a return to economic health, it is unlikely that the country’s output growth will fall even below its weak pre-pandemic levels to resemble a U-shaped or W-shaped recovery. Indeed, if consensus forecasts of around 4% GDP growth in 2021 is assumed, Sri Lanka would have regained its pre-pandemic output level and returned to trend growth rates (Figure 2.1).

The biggest driver of Sri Lanka’s economic contraction in 2020 was capital formation.

Investment spending will have to pick up in 2021, more so than consumption, to stimulate the recovery. A recovery in tourism to stimulate retail spending is still a long way off. Sri Lankan households too are unlikely to embark on a consumption spree as the health crisis drags on, battering household incomes and savings.

Advanced economies such as the US experiencing sharp rebounds in economic growth is the result of a release of pent-up demand driven by a surge in household savings.¹ Generous income support and other relief measures have meant a large increase in household savings in advanced economies. This may not be so in many developing economies, including Sri Lanka, where income support was necessarily limited owing to fiscal constraints and limited precautionary saving by households. As evident

Figure 2.1
Growth Decomposition



Notes: a: Forecast.

Source: Data obtained from the Department of Census and Statistics (DCS) of Sri Lanka.

¹ Valerio, Ercolani, Elisa, Guglielminetti, & Rondinelli, Concetta. (2021, June 26). *Fears for the Future: Saving Dynamics after the Covid-19 Outbreak*. Retrieved from VOX Eu: <https://voxeu.org/article/saving-dynamics-after-covid-19-outbreak>.

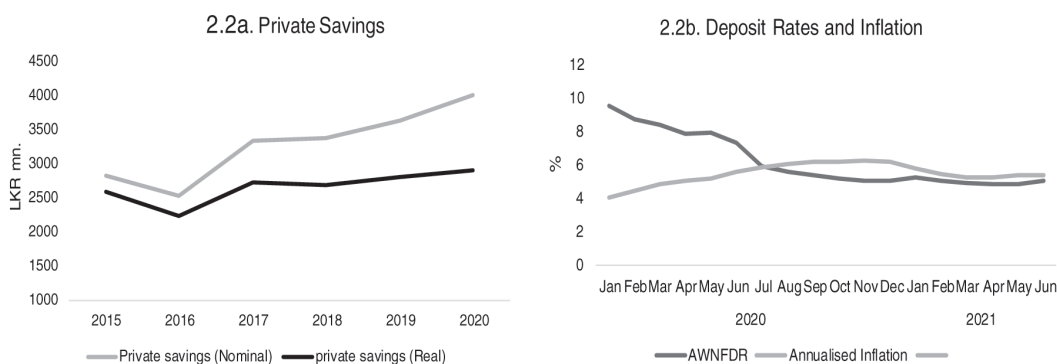
The biggest driver of Sri Lanka's economic contraction in 2020 was capital formation. Investment spending will have to pick up in 2021, more so than consumption, to stimulate the recovery.

from Figure 2.1, while Sri Lanka's private savings have grown in nominal terms, inflation-adjusted real savings have seen only a modest increase in 2020.

Indeed, there are at least three reasons to suggest that the purchasing power of households is unlikely to be very strong. First, the rise in unemployed numbers – with the unemployment rate rising to 5.2% in the fourth quarter of 2020 relative to 4.5% in the fourth quarter of 2019 – means that people who are out of work will cut back on spending in the absence of any unemployment insurance. Second, monetary stimulus efforts mean that savers are being forced to accept deposit interest rates that are not even covering price inflation effects (Figure 2.2b). And third, Sri Lanka's food price inflation is accelerating, impacting disposable incomes of large numbers of households with the food basket alone taking up 44% of average household consumption patterns in the national inflation index.

The unprecedented monetary stimulus efforts are shifting financial resources to struggling businesses and the government. But, whether these will yield the desired returns in the real

Figure 2.2
Private Savings and Deposit Rates



Notes: AWNFDR = Average weighted new fixed deposit rates.

Source: Data obtained from the DCS and CBSL.

economy will depend on a host of critical inter-related factors.

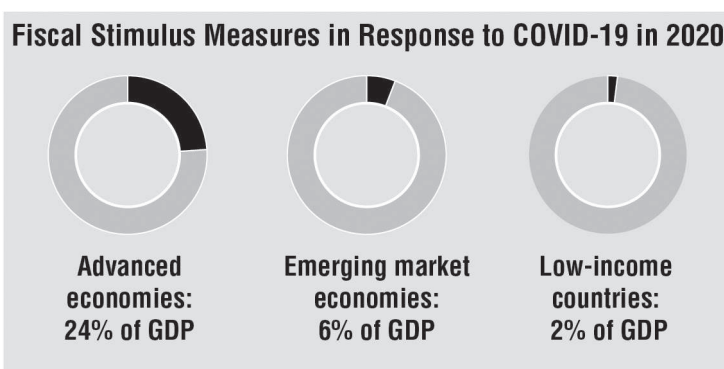
2.3 Monetary-fiscal Coordination: Finding the Balance

Given the scale of the COVID-19 crisis, countries around the world pushed out unprecedented fiscal and monetary stimulus packages. The global fiscal response in 2020 by way of direct budgetary support is estimated to be close to 7.5% of GDP with an additional 6% of world GDP in the form of liquidity support measures to companies and households.² As expected, the scale of stimulus measures varies significantly across income groups; while advanced economies on average deployed about 24% of GDP in fiscal measures, the figure stands at a much lower 6% of GDP for emerging market economies (EMEs) and even lower still at 2% of GDP for low-income countries (LICs).

In rolling out these stimulus packages, the distinction between monetary and fiscal policies has blurred notably during the COVID-19

mitigation efforts. Monetary and fiscal policy coordination during the pandemic has been employed in two crucial ways. First, monetary policy is being used to create fiscal space by keeping borrowing costs low and to provide last-resort support to shield government debt risks. In turn, fiscal authorities are helping central banks to create monetary space by providing back-stop reassurance to deliver the required support.

In the pandemic era, central bank support to be the back-stop that shields government debt risks has seen renewed interest in the notion that as sovereign monetary authorities, governments can create and print their own money. The revival of such theories that suggest central banks can increase the supply of money until the economy reaches full employment has seen direct financing of fiscal expenditures with a variety of interventions employed to lower the cost of borrowing for fiscal authorities. The risks inherent in exercising such options are far more manageable for countries that act as issuers of international reserve currencies, where their 'monetary sovereignty' allows them the wherewithal to print money and be confident of global demand for their currencies. But even



Source: European Commission (2021)

² European Commission. (2021). *One Year Since the Outbreak of COVID-19: Fiscal Policy Response*. Brussels: European Commission.

then, there are many other concerns, including a government's political bias when directing a central bank, and lack of fiscal discipline to curb spending and related inflationary consequences.

Such complementary efforts require strong institutional frameworks that instil and maintain policy credibility over time. In its absence, especially if 'temporary' or 'emergency' measures are seen to become the norm, conflicts of interest between fiscal imperatives – access to cheaper borrowing – and that of monetary authorities to rein in inflationary expectations, will flare up.

For EMEs, such policy alternatives have to be considered with a great deal of care and in a very context-specific fashion. As a group, institutional arrangements in EMEs are considered to have improved over time, helping to lower risks of monetary easing leading to large and persistent increases in inflation.³ Nonetheless, amongst the group, some EMEs have high levels of indebtedness, particularly private or public foreign debt. For such EMEs, the trade-offs associated with monetary policy easing related to the effects on exchange rate depreciations need particular attention. Under such conditions, printing money – which can lead to depreciating pressure on the domestic currency – risks worsening their foreign debt conditions and makes debt payments more expensive.

The channels of transmission highlight critical weaknesses. First, countries with a high dependency on foreign financing experienced an abrupt tightening of gross inflows. Those emerging markets with larger reserve stockpiles are faring better. However, emerging economies with low

levels of reserves are facing accentuated liquidity problems, aggravated further for those facing substantial foreign debt repayments. In turn, the increase in risk premia on their international sovereign bonds (ISBs) accompanying downward credit rating revisions, acts to further tighten access to international capital markets in a vicious cycle.

Under these conditions, the moment firms, workers, and markets doubt the sustainability of a country's monetary and fiscal policy mix, the skepticism can generate volatility and instability across the macroeconomic front.

2.4 Sri Lanka's Monetary Policy Interventions and Implications

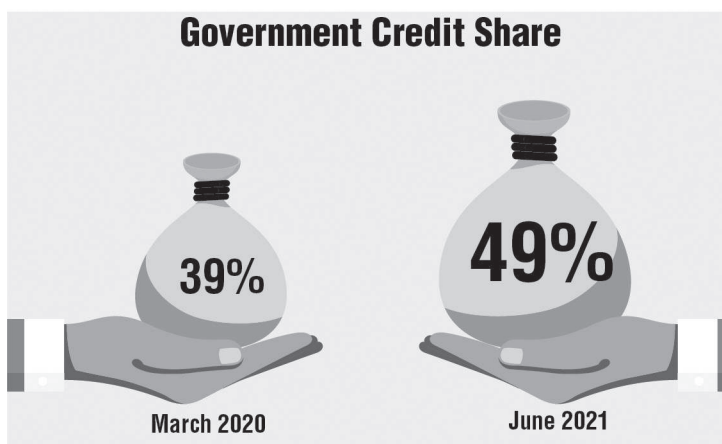
Given the scale of the COVID-19 crisis, Sri Lanka's monetary policy response is perhaps unprecedented, reinforced by the limited fiscal interventions in the face of weak public finance conditions. The broad range of measures introduced by the Central Bank of Sri Lanka (CBSL) to ease financial conditions and support economies activities included policy rate adjustments, expanded liquidity injections, direct financing of government expenditures, yield control measures and foreign exchange intervention, amongst others. Given a weaker pass through from policy rates to borrowing rates, moral suasion was also employed to ensure declining financing costs lead to the intended objective of reviving economic activity.

³ Aguilar, A., & C, Cantú. (2020). *Monetary Policy Response in Emerging Market: Why was it Different this Time*. BIS Bulletin No. 32. Bank for International Settlements.

Given the difficulties for Sri Lanka to access sufficient funding via international financial markets, domestic borrowing became the cornerstone of resource mobilisation. The primary means adopted was to purchase government bonds in the primary market to assist in financing the fiscal deficit. This was accompanied by the introduction of yield control measures to lower government borrowing costs. Credit growth to the government (inclusive of public corporations)

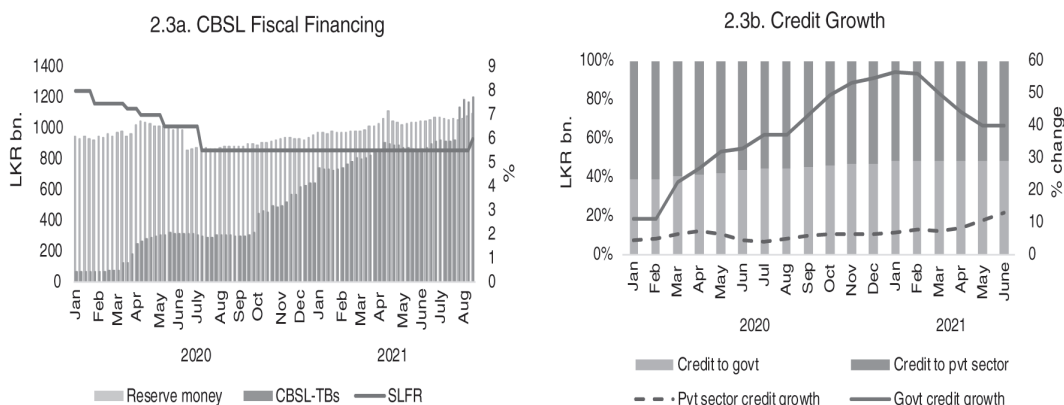
peaked at 57% in the first quarter of 2021 and by July 2021, the Treasury bill and bond holdings by the CBSL crossed the Sri Lankan rupee (LKR) 1 trillion mark (Figure 2.2). The share of total credit held by the government, which stood at 39% at the start of the COVID-19 crisis, had jumped to nearly 50% by mid-2021.

As Sri Lanka battles waves of COVID-19, demand for credit by the private sector has remained



Source: Data obtained from the Central Bank of Sri Lanka.

Figure 2.3
Monetary Policy and Credit to Government



Notes: SLFR = Standing lending facility rate.

Source: Data obtained from the Central Bank of Sri Lanka.

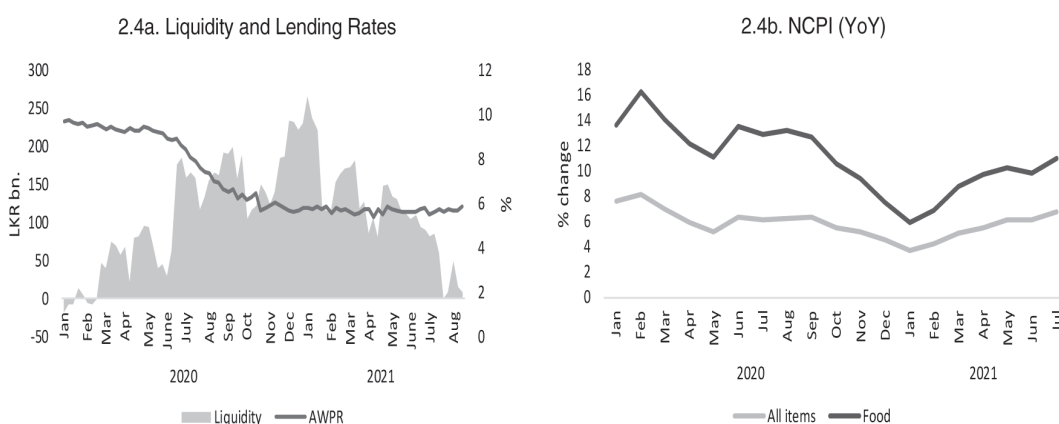
mutated. Available evidence suggests that the pass through of monetary policy interventions – borrowing rates and facilities to support the flow of credit to micro, small and medium enterprises (MSMEs) for instance – has been slow.⁴ This is to be expected to an extent given relatively underdeveloped financial systems and a large informal sector that place additional constraints on MSMEs' ability to access banking credit. But, the slow growth in credit extended to the private sector has also meant that the main beneficiary of monetary policy interventions has been the government, with direct CBSL financing to help meet deficit financing needs and lower its costs of borrowing.

With the economy entering what may hopefully be an uninterrupted recovery phase, a key question is whether the monetary easing measures and interest rates will remain low for some time, to support a strong revival in economic activities. Despite the large volume of financing made

available by the CBSL, changes to the monetary reserve base have been limited as a result of a decline in foreign reserves. If as expected, the CBSL begins to aggressively purchase dollars to build up reserves, whether or not it chooses to sterilise the intervention will have a bearing on market liquidity and interest rate structures.

In this unfolding scenario market expectations matter. Direct central bank financing of large fiscal deficits generally raises concerns about central bank independence and the ability in the long run to meet its price stability goals. Markets will then demand higher yields to compensate for greater uncertainty around inflation outcomes. The CBSL has been struggling to sell its Treasury bills offerings under a pre-announced yield ceiling, and lending rates have been edging up steadily. In August 2021, with lending rates above the standing lending facility rate (SLFR), the CBSL raised policy rates by 50 basis points as a forward guidance on monetary policy.

Figure 2.4
Liquidity, Interest Rates and Inflation



Notes: AWPR=Average weighted prime lending rate.

Source: Data obtained from the CBSL and DCS.

⁴ See Chapter 6 of this report on 'Assessing the Effectiveness of MSME Recovery Measures during COVID-19'.

Sri Lanka, like a significant number of EMEs, has experienced better inflation performance amidst strengthened monetary policy frameworks in recent years. Nonetheless, inflation expectations tend to be much more poorly anchored in EMEs relative to advanced economies. Nonetheless, advanced economies are also experiencing sharp spikes in inflation; consumer price inflation in the US accelerated to a 13 year high of 5.4% year-on-year in June 2021. Supply disruptions are acting in tandem to raise prices as consumer demand – fuelled by large household savings – surges.⁵ While the belief is that such price pressures will ease as supply bottlenecks are resolved, concerns remain that it will impact inflation expectations should prices continue to rise for some time.

For now, Sri Lanka too is witnessing rising price pressures as inflation edges up to the CBSLs threshold range of 4-6%. In July 2021, year-on-year inflation as measured by the National Consumer Price Index (NCPI) stood at 6.8%. The veracity of inflation data needs a qualifier; import controls and administered prices are likely to distort the true scale of recent price changes.

Immediate price pressures are being driven by rising food prices. Supply-side disruptions on food production and distribution have been the primary causes. There is also likely to be some inflation pass-through from the exchange rate depreciation as import curbs on food and other consumer products are lifted over time. With economic sentiments still rather subdued, the probability of a demand-driven inflation scare is still low, but such potential inflationary dangers cannot be ignored. Non-food inflation measured by the Colombo Consumer Price Index (CCPI) jumped from 2.5% to 3.2% between June and

July 2021. Additionally, monetary authorities must also be watchful that pent-up demand in the absence of household precautionary savings does not lead to excessive risk taking, stimulated by cheap credit cycles.

If the current upturn in inflation proves more persistent than transitory, anchoring inflation expectations to head off upward price pressures, especially through a wage-price spiral, is vital. Much will also depend on perceptions of whether monetary authorities are more tolerant of inflation and independence of CBSL in setting monetary

If the current upturn in inflation proves more persistent than transitory, anchoring inflation expectations to head off upward price pressures, especially through a wage-price spiral, is vital.

⁵ Financial Times. (2021, August 03). *America's Recovery: Is Joe Biden's Presidency Vulnerable to Inflation?* Retrieved August 10, 2021, from Financial Times: <https://www.ft.com/content/ef204bd1-d9e1-49c0-867f-11e2ce70d1fa>

policy. Policy rate hikes alongside continued direct financing of fiscal spending under yield control measures are unlikely to anchor expectations. The threat is that if expectations are not well anchored, market perceptions may shift abruptly to raise borrowing costs and add to an already high debt service burden on the Treasury.

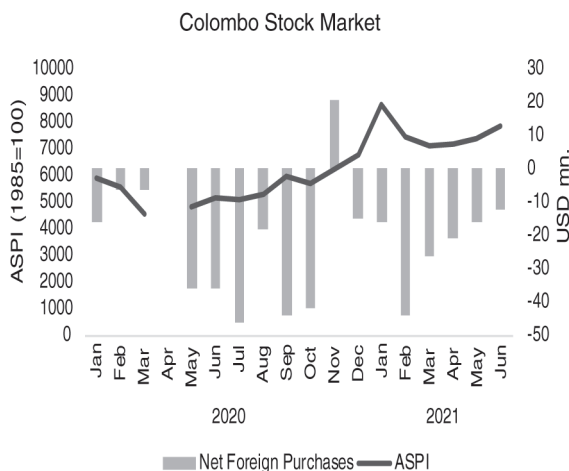
2.5 Foreign Exchange Intervention

For EMEs, downturns are typically accompanied by large capital outflows and significant currency depreciation which often adds to a hesitancy to practice counter-cyclical monetary policy. For instance, faced with the prospect of a sharp currency depreciation, central banks may opt to raise policy rates in order to defend the home currency. For Sri Lanka though, monetary easing as a counter-cyclical measure to the COVID-19 impacts was made easier because it faced limited

risks of large capital outflows. Foreign investors made up an insubstantial portion of participants in its capital markets, with the permitted ceiling at only 5% of total outstanding government securities. Even at the start of the pandemic, foreign holdings of government securities were a meagre 2% (USD 600 million) of the total in January 2020; this declined further to a negligible 0.03% (USD 12 million) by June 2021.

Portfolio outflows were also limited with foreign investor participation remaining under par in the Colombo Stock Exchange. Credit cycles – where a large majority of households that depend on fixed incomes see an erosion of their real value with negative real interest rates – often drive investors and savers to search out higher returns in often riskier assets. At the beginning of 2021, Sri Lanka's stock market saw a surge in activity driven by bullish sentiments. Notwithstanding this, foreign investors continued to exit, recording negative net purchases (Figure 2.5).

Figure 2.5
Net Foreign Purchases in the Colombo Stock Market



Notes: ASPI=All share price index.

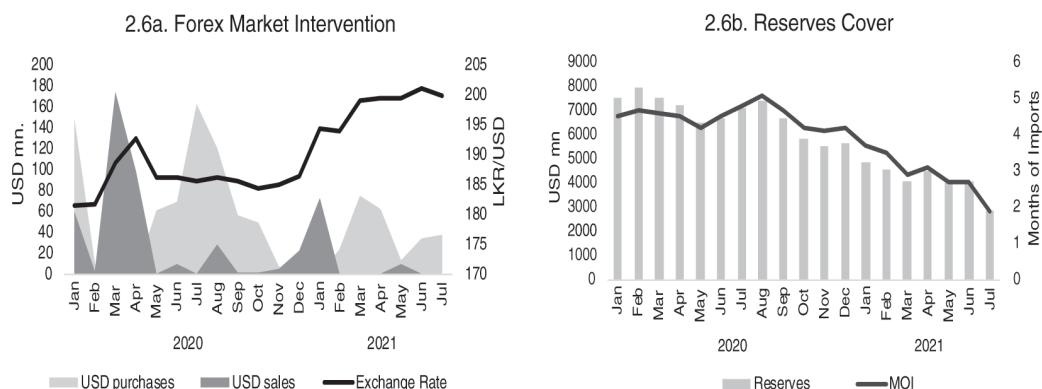
Source: Data obtained from the CBSL.

Table 2.1
Foreign Currency Inflows (January-June), USD Million

	2019	2020	2021
Exports	5,999	4,413	5,699
Tourism	1,901	682	23
Remittances	3,270	2,980	3,324
Gross inflows to govt.	5,555	1,1213	1,174

Source: CBSL.

Figure 2.6
Exchange Rate and Official Reserves



Notes: MOI=Months of imports.

Source: Data obtained from the CBSL.

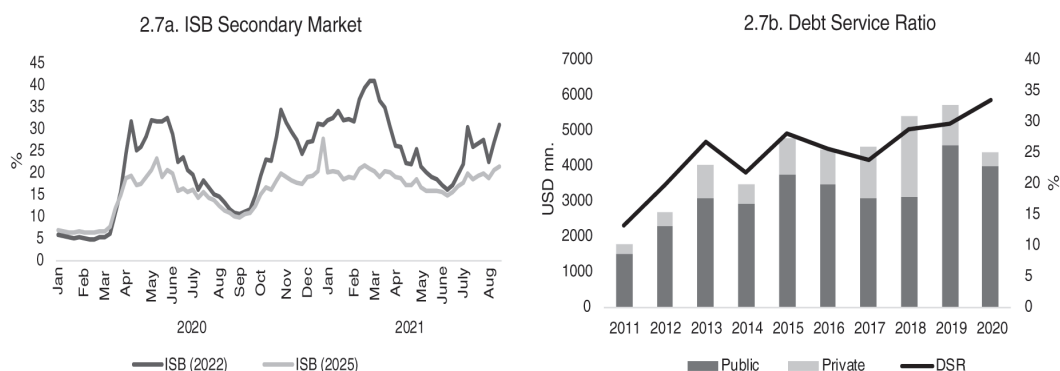
Unlike outflows, with a high dependence on foreign financing, Sri Lanka was vulnerable to a sudden cessation of capital inflows. Notwithstanding impacts on export earnings – from merchandise goods and services, tourism and remittances – credit lines were cutoff from international capital markets. Gross inflows to the government, inclusive of ISBs, dropped from USD 5.5 billion in the first half of 2019 to USD 1.1 billion in the corresponding period of 2021-2022 (Table 2.1). Sri Lanka's external vulnerabilities were intensified by the need for high gross inflows due to the substantial debt repayments and the absence of reserve stockpiles.

In this high risk matrix, the adoption of a large programme of government bond purchases in the primary market by the CBSL to bridge fiscal deficit financing raised early concerns on exchange rate impacts. To mitigate the risks, restrictions on certain categories of imports and capital outflows were introduced. Additionally, the CBSL intervened in foreign exchange markets to support the currency and avoid 'disorderly depreciation', but with limited reserves stockpiles in hand, it was never a long-term option. By mid-2021, the LKR had depreciated by 11% relative to the start of the pandemic crisis (Figure 2.6a).

A key motivation for the expansion in reserve holdings by most EMEs over recent decades was to give countries more policy space to manoeuvre and strengthen the capacity of central banks to deal with shocks such as COVID-19. For a heavily indebted economy like Sri Lanka, with a bunching up of heavy foreign debt settlements, the urgency was even more acute.⁶ For the most part, the CBSL continued to rely on market debt issuance for reserve accumulation. This will not work as an automatic stabiliser for foreign exchange reserves at times of crisis. Countries with weak economic fundamentals will face punitive rollover costs even if accessing markets is possible, exacerbating the problems from inadequate reserves. The failure to build up adequate stockpiles has had the CBSL seeking short-term swap arrangements, including USD 1.5 billion with China, besides negotiating funding lines with other central banks in the region such as India and Bangladesh as the pandemic unfolded.

With growing depreciating pressure on the exchange rate as Sri Lanka prepared to settle a USD 1 billion ISB in July 2021 – dipping into already depleted reserves to meet some part of the payment – interbank forex market curbs were announced by the CBSL. As at end July 2021, reserves stood at only USD 2.9 billion, sufficient for less than two months of imports (Figure 2.6b). Interbank forex markets were not allowed to deal above LKR 200 to the USD and import customers were not allowed to be given dollars above LKR 203 to the USD. The shortage of dollars in the market is indicated to have led to a parallel black market with the rupee trading at around LKR 225 to the USD.⁷ For the time being, with Sri Lanka expected to receive around USD 800 million in August 2021 under the new Special Drawing Rights (SDR) allocation of the International Monetary Fund (IMF) currency, it will help meet liquidity needs and shore up reserves temporarily.⁸

Figure 2.7
ISB Secondary Market Yields and Foreign Debt Servicing



Notes: ISB(2021) = USD 1 billion, coupon rate of 5.88%, maturity July 2022; ISB(2025) = USD 1.5 billion, coupon rate 6.85%, maturing in 2025; DSR = Debt service ratio.

Source: Data obtained from the CBSL.

⁶ See Institute of Policy Studies of Sri Lanka. (2013). *Macroeconomic Performance and Outlook: 2012/2013*. Colombo: Institute of Policy Studies of Sri Lanka.

⁷ EconomyNext. (2021, July 01). *Rupee Quoted at 225 to US Dollar in Kerb Market*. Retrieved July 18, 2021, from EconomyNext: <https://economynext.com/sri-lanka-rupee-quoted-at-225-226-50-to-us-dollar-in-kerb-market-amid-money-printing-83579/>

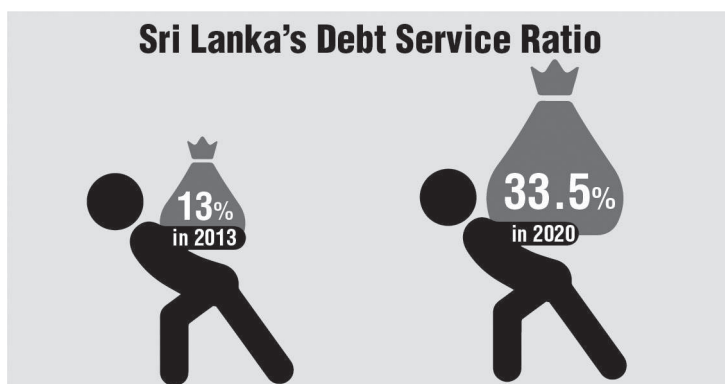
⁸ There are no conditions attached to the use of such funds. Governments pay 0.05% on the SDRs they use, with no deadline by which the funds must be repaid.

But, given the scale of gross foreign financing required, and despite having successfully settled the maturing ISB, Sri Lanka will continue to face the fallout of unfavourable rating downgrades in international capital markets. As of mid-2021, sovereign ratings by Standard and Poor's at CCC+, Moody's Investor Service at Caa1 and Fitch Ratings at CCC has left Sri Lanka without an investment grade rating. From time to time, as investor analyst reports raise doubts about Sri Lanka's public solvency, there is a substantive increase in risk premiums on maturing Sri Lanka dollar bonds. As Sri Lanka cleared one hurdle in July 2021 by settling its outstanding ISB, international investors will be eyeing the next ISB settlements of USD 1.5 billion due in 2022. The

looks to non-debt creating flows to boost reserves and prepare for annual foreign debt repayments averaging USD 4.5 billion over the next few years, much will depend on building effective policy strategies, especially on the fiscal front.

2.6 Fiscal Sustainability: The Key Macro Area of Concern

Discretionary fiscal support has been a cornerstone of COVID-19 related stimulus measures in an effort to save livelihoods and keep



Source: Data obtained from the CBSL.

yield on this 5.88% ISB rose to 30.35% even as Sri Lanka settled its maturing ISB debt in July 2021 (Figure 2.7a). Such volatility does not augur well to credibly rebuild investors' confidence on the country's longer-term economic outlook, and by extension, easing the rise in borrowing costs.

The country's debt settlement ratio – total foreign debt payments as a percentage of earnings from exports of goods and services – has been climbing steadily from a low 13% in 2011 to a high 33.5% by 2020 (Figure 2.7b). As the government

economies buoyant. In Sri Lanka's case, however, additional fiscal spending has been very limited with recurrent expenditures rising by 1% of GDP in 2020 (Table 2.2). The Ministry of Finance also took the unusual step of adjusting for arrears on expenses incurred on outstanding 2019 liabilities, a major component of which related to payments owed in the construction sector. As a result, the fiscal deficit for 2020 was contained to 11.1% of GDP while that of the previous years was re-adjusted to -9.6% of GDP from the originally confirmed 7.8% of GDP.

Table 2.2
Fiscal Targets

	2019	2020	2021 ^c
Total revenue	12.6	9.2	11.9
Tax revenue	11.6	8.1	10.4
Recurrent expenditure ^a	16.1	17.0	14.9
Salaries and wages	4.6	5.3	5.2
Interest payments	6.0	6.5	5.2
Subsidies and transfers	3.7	4.8	3.5
Public investment ^b	4.2	5.4	6.5
Overall deficit	-9.6	11.1	-9.5
Domestic financing	6.0	11.7	8.9
Primary deficit	-3.6	-4.6	-4.3

Notes: a: Adjustment for arrears includes shift of 0.8% of GDP to 2019; b: Adjustment for arrears includes shift of 2% of GDP to 2019; c: Estimates.

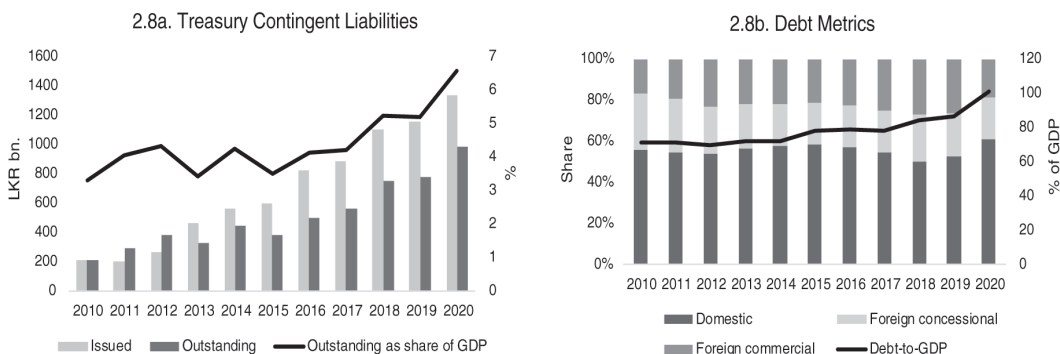
Source: Data obtained from the CBSL and Ministry of Finance.

The Budget 2021 estimates – arrived at the start of Sri Lanka's second wave of COVID-19 and well before the third wave in April 2021 – suggested even then that fiscal conditions will continue to tighten. Growth forecasts have been revised down since, with each successive health disruption. As a result, revenue targets are likely to be considerably lower than the estimates, while expenditures will be higher. The revenue crunch is not only because tax receipts are falling on account of the recessionary conditions, but also because of generous pre-pandemic tax cuts in an election year.

Aside from interest payments on debt, increases to the salaries and wages bill of the public sector are unrelenting. Even in the midst of strained finances, public sector employment grew by a high 4.2% to account for nearly 20% of employed in Sri Lanka – which means that every fifth employed person is now a public sector employee. Overall, the Budget 2021 estimates have built in considerable cushioning by allocating a high 6.5% of GDP for public investment

Overall, the Budget 2021 estimates have built in considerable cushioning by allocating a high 6.5% of GDP for public investment purposes.

Figure 2.8
Treasury Guarantees



Source: Data obtained from the Ministry of Finance and CBSL.

purposes. Even if only a half of this is spent, there is sufficient flexibility to keep close to the forecast overall deficit for 2021.

Other proposed changes to the Fiscal Management Responsibility Act (FMRA) of 2003 to raise Treasury guarantees to 15% of GDP from the original 4.5% of GDP will facilitate this. The higher threshold will allow for larger volumes of spending by state entities to bypass direct budgetary allocations. In 2020, outstanding contingent liabilities had already picked up sharply to 6.6% of GDP from 5.2% in the preceding year (Figure 2.8a).

With the Sri Lankan economy operating well below capacity even prior to the pandemic, public borrowing should have been less of a worry; public spending can then 'crowd in' additional investment by improving growth prospects. Crucially, though, the COVID-19 related fiscal measures and the broader economic fallout have deepened debt challenges. Sri Lanka's public debt to GDP ratio shot up to 101% of GDP in 2020 (Figure 2.8b). What is of concern is that interest payments on debt alone swallowed up

What is of concern is that interest payments on debt alone swallowed up 72% of total government revenue in 2020, crowding out other sources of government spending.

72% of total government revenue, crowding out other sources of government spending. Sri Lanka's structurally weak revenue base adds to the crowding out effect. The country's daunting debt-to-GDP ratio is an outlier amongst its peer group of emerging market and middle-income economy average of 65%.⁹ With high debt loads, the private sector may also under-invest due to uncertainty about future taxes. Thus, the strain of a high debt load can significantly damage Sri Lanka's COVID-19 recovery efforts and weigh down long-run growth prospects.

2.6.1 Debt Risks and Sustainability

While sharp spikes in fiscal deficits and debt levels will be largely tolerated during the pandemic recovery efforts, countries will be expected to set out credible measures to address fundamental imbalances once the immediate crisis recedes. With advanced economy debt-to-GDP ratios reaching an average of 120%, allowing economic growth to bring down the debt-to-GDP ratio is prompting a rethink on debt limits and debt sustainability.

If nominal GDP growth is higher than the average interest rates that governments pay on their debt – allowing for a persistently negative interest rate-growth differential ($r-g$) – governments in principle could run modest primary deficits (government borrowing excluding interest payments) and still have a stable or falling debt-to-GDP ratio. By contrast, when interest rates exceed economic growth, the government must run primary surpluses in order to stabilise or reduce the debt ratio. When economic growth rates and interest rates are the same, a primary balance will stabilise the debt ratio and primary surpluses will reduce it.

In most advanced economies, $r-g$ has turned negative with a persistent low interest rate environment of recent years. But, applying these same approaches in EMEs is far more problematic. Debt vulnerabilities depend on both the level and composition of government debt. In the case of EMEs, many have large foreign currency denominated borrowings. If the exchange rate depreciates, it adds to the real value of outstanding debt, relative to the size of the economy, even if interest rates remain modest. Shocks such as COVID-19 raise risk premia and borrowing costs, whereby marginal borrowing costs can rise suddenly and sharply, cutting countries out of financial markets abruptly.

For EMEs with higher the initial debt level, the more likely that they will not be able to persistently maintain a negative $r-g$. Interest costs tend to be higher with high public debt overhangs for many reasons: adjustments to primary balances have impacts on growth, and crowding out effects impact investments. Nominal GDP growth can be inflated by allowing prices to rise (inflating debt away) but this is often accompanied by financial repression and impacts on the real effective exchange rate. Higher relative consumer prices erode the country's competitiveness and in turn widens current account deficits.

In reality, determining all the related variables – inflation, growth, interest rates and the primary deficit – require coordinated policies on multiple fronts, especially for a country like Sri Lanka with troubling public debt metrics. These include a very high debt-to-GDP ratio, elevated exposure to foreign currency debt – and that too, costly commercial foreign debt (see Figure 2.8b). Additionally, Sri Lanka also has a high foreign public debt repayment schedule in the face of significant exchange rate vulnerability.

⁹ International Monetary Fund. (2021, April). *Fiscal Monitor*. Washington, D.C.: International Monetary Fund.

This is already evident as Sri Lanka faces upward pressure on interest rates. With the shift to domestic borrowing, almost the entirety of the estimated fiscal deficit for 2021 is to be domestically financed. But, the ability to sell local currency debt under yield control measures is not tenable beyond the short-term. As previously noted, despite such efforts, as liquidity drains, conditions for interest rates to rise will persist. Thus, persistent deficit spending financed by the CBSL or other forms of heavy domestic borrowing that crowds out of private investment will have inevitable impacts on growth outcomes. On the other hand, if inflation is allowed to raise its head, bondholders will expect a higher nominal interest rate on new debt. To complicate matters further, a depreciating domestic currency will also increase the interest burden as calculated in that currency.

With a high debt load, if interest rates are pushed above the economic growth rate in the medium to long term, the debt burden will grow steadily even in the absence of new borrowing – a context sometimes called a ‘debt spiral’.

There are no easy answers to bring about painless adjustments. Improving the primary budget balance calls for austerity measures that are, almost by definition, difficult, unpopular or both. This would appear to be the main reason why Sri Lanka has side-stepped a programme with the IMF so far. The benefit of an IMF programme is not considerable in terms of hard foreign currency; nor is the IMF a key player in EME debt relief with much of foreign debt held by institutional investors and non-Paris Club members like China. Rather, it provides the perception of a ‘safety net’ should imbalances escalate, and helps EMEs defend their sovereign ratings.

Improving the primary budget balance calls for austerity measures that are, almost by definition, difficult, unpopular or both.

While the IMF’s pandemic-related emergency financing had few strings, it was earmarked for member countries deemed to have sustainable debt. The uptake has been poor.¹⁰ Those countries with fiscal and debt sustainability issues may hesitate for fear of stringent conditionalities. The timing of an approach to the IMF also matters. Approaching it in its role as the lender of last resort, having exhausted all other options, leaves little room for negotiations. Under such conditions, that debt sustainability will be at the front and centre of a structured programme is a foregone conclusion.

¹⁰ The Economist. (2021, April 03). *How has the IMF Fared during the Pandemic?* Retrieved May 18, 2021, from Economist: <https://www.economist.com/finance-and-economics/2021/04/03/how-has-the-imf-fared-during-the-pandemic>

Relying on non-debt creating foreign direct inflows (FDI) as an alternative is seen as a way out. It will help ease the current foreign exchange crunch, but crucially, it can also lift growth, and thus lower debt-to-GDP ratios. The strategy has merits, but also pitfalls to be avoided.

2.7 Sri Lanka's Growth Dynamics in Recovery

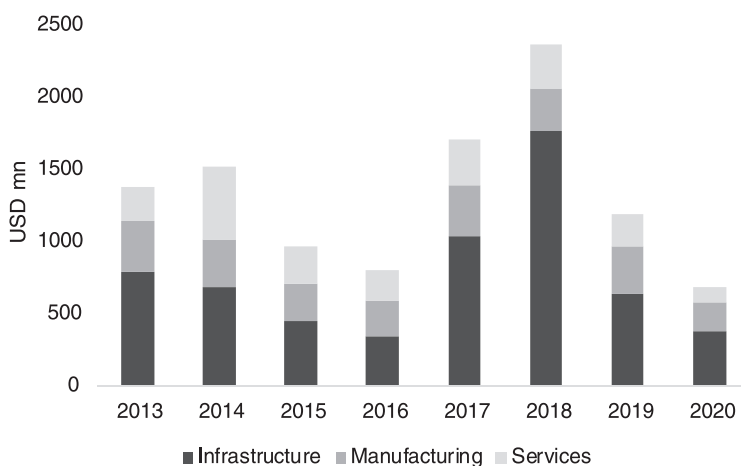
Fiscal austerity – raising taxes or cutting government spending – to trim Sri Lanka's large primary deficit when economic support measures to deal with the pandemic is most urgent is counterintuitive. In the recovery phase too, such measures will inevitably be a drag on growth just when a strong growth rebound is required. As discussed earlier, the economic recovery from the pandemic in many advanced economies is being driven by higher consumer spending with large household savings in reserve. For such economies, the challenge is to discourage further savings and raise aggregate demand. For Sri Lanka, the reverse holds; reviving growth

long-term must rely on investment rather than consumption.

With a large savings-investment gap, stimulating growth may also require taking on new debt. Unlike foreign borrowing – which involves transferring resources into and out of an economy – domestic borrowing does not bring in additional resources to an economy. Thus, despite Budget 2021 estimates of 6.5% of GDP set aside for public investment, it is more likely that the government will seek FDI to fill this role.

There are many forms of FDI: natural resource seeking, market seeking, strategic asset seeking, and efficiency seeking are some of the more common. Of these, efficiency seeking FDI – that helps raise exports and productivity, foster innovation and improve living standards – is the most desirable for a country like Sri Lanka, as an aspiring upper middle-income country (UMIC). This type of productivity-enhancing FDI is more sensitive to economic policies and the business environment in which they operate. Sri Lanka's current policy mix of import curbs and restrictions

Figure 2.9
Sectoral Inflows of FDI



Source: Data obtained from the Central Bank of Sri Lanka.

on capital outflows – where temporary actions can turn into a more permanent mode of engagement – can deter efficiency seeking FDI inflows. If Sri Lanka does not attract the right mix of FDI, persistent and sustained high growth over time will not materialise to help bring down debt ratios.

For now, the likely FDI profile for Sri Lanka appears to be weighted more heavily to attract other forms, including strategic asset seeking FDI as big powers seek to secure their commercial and geopolitical interests in a more competitive post-pandemic global economy. The biggest draw is expected to be the Colombo Port City with a regulatory structure to by-pass sluggish bureaucratic impediments related to foreign investment approval procedures as well as generous tax incentives. Other investments are flowing into ports, energy and road developments. FDI inflows into infrastructure is already high, averaging 55-60% of total FDI into the country during 2018-2020. But, if too much of FDI is concentrated in real estate, mixed-development projects and construction activities, growth may lift in the short-term, but its sustainability will be questionable.

Investing in infrastructure is crucial for a swift recovery, but infrastructure-led growth does cause some concerns about its sustainability. Previous rounds of public investment in infrastructure in Sri Lanka's immediate post-war years yielded a short burst of growth that petered out fairly quickly. The outcomes failed to deliver the anticipated higher tax revenues as well. The FDI mix, in tandem with more protectionist import policies, also led to a shift in incentives and resources towards non-tradable sector growth. The resultant progressive decline of Sri Lanka's exports-to-GDP ratio, worsened its foreign debt vulnerabilities. A repeat of similar outcomes will make the path to debt sustainability even much harder this time.

2.8. Conclusion

The pandemic related global economic fallout was not as devastating as was feared early on. This is largely because of the scale and size of stimulus measures used, especially in advanced economies. Differences in the scale of spending means that the recovery is also uneven. The divergence will likely become even more, owing to differences in securing COVID-10 vaccines and implementing successful vaccination programmes. Richer countries are again well ahead of their poorer counterparts. For low and middle-income countries (LMIC), battling successive waves of the pandemic will exhaust already thin fiscal resources to save lives and livelihoods, amidst rising debt vulnerabilities.

Sri Lanka too is struggling to bring a highly infections third wave of infections under control, despite a laudable vaccination programme. As the pandemic drags on, the inability to effect a sustained economic recovery effort is aggravating the country's already heightened macroeconomic imbalances. Fiscal weaknesses have become the key macroeconomic area of concern, with policy intentions on appropriate settings for fiscal policy and debt sustainability yet to be resolved. While it is counter-intuitive to target budgetary balances when pandemic conditions still prevail, with debt sustainability the key area of macroeconomic concern, Sri Lanka will need to anchor expectations of a credible fiscal policy path sooner rather than later. Indeed, once the peak of the COVID-19 crisis has passed, how willing the country is, to implement necessary fiscal adjustments can be expected to receive renewed investor scrutiny.

Sri Lanka can make a start on strengthening confidence in the country's ability to adhere to a fiscal consolidation path. This requires two

Once the peak of the COVID-19 crisis has passed, how willing the country is, to implement necessary fiscal adjustments can be expected to receive renewed investor scrutiny.

key responses: first, to commit to strengthening revenue mobilisation. While the government has repeatedly reiterated intentions to continue with the substantive tax cuts announced pre-pandemic that trimmed about 25% of prevailing revenue collection, it must spell out alternative sources and means of uplifting revenue generation. These include improving the efficiency of tax collection and strengthening policies to reduce fiscal leakages. Second, fiscal authorities must improve the efficiency of existing expenditure. This includes the efficiency of public investments, improved public sector services and employee productivity and better targeted transfers to state entities and households.

Policy choices too can enhance or reduce the availability of external financing over the longer term. Some of the possible consequences of temporary actions to deal with immediate threats – curbs on imports, capital outflows and other such restrictive measures – if persisted with, can hold Sri Lanka back from benefitting fully from emerging new opportunities in the global economy. Because of the unfolding economic challenges, Sri Lanka like other EMEs will remain a great deal more focussed on local jobs and incomes than ever before. But, as globalisation itself undergoes profound structural changes – for instance, to make global supply chains more flexible, digital and localised – this means adopting pragmatic policy choices that offer Sri Lanka the best path to better jobs, incomes and living standards.

3. COVID-19, Global Economic Developments and Impact on Sri Lanka

3.1 Introduction

The COVID-19 outbreak, with unprecedented lockdowns around the world, has triggered the biggest challenge facing the global economy in over a century. Despite a more optimistic global economic recovery than was previously forecast, world trade, foreign direct investment (FDI), and capital flows continue to exhibit significant volatility, generating risks to a sustained recovery path. Indeed, a rapid increase of COVID-19 infections and death rates in second and third waves as the virus mutates, compelling countries to once again prioritise public health measures, continue to add to the uncertainties.

As of April 2021, the International Monetary Fund (IMF) predicts that the world economy will grow by 6% in 2021, at 0.5 percentage points higher than its January 2021 projection.¹ Though the speedy vaccine developments and approvals supported this upward shift, emerging waves of the virus with new variants – seen most notably in India – can trigger major revisions to these growth expectations. The pandemic flux also means that the strength of the economic recovery can substantially differ from country to country based on medical interventions and policy adaptation. Here too, facilitating equitable

access to COVID-19 vaccines – especially for lower-income countries – to curb the spread of the virus will have substantive impacts on the pace at which an economic recovery takes place.

The strength of the economic recovery can substantially differ from country to country based on medical interventions and policy adaptation.

¹ International Monetary Fund. (2021). *World Economic Outlook – April*. Washington D.C.: International Monetary Fund.

Global economic developments will play a critical role in supporting Sri Lanka's economic recovery efforts. As with the global economic downturn, the Sri Lankan economy too experienced a significant contraction in 2020, but is expected to register positive growth in the region of 4% in 2021 as per the IMF's April 2021 forecast. This is a downward revision from the projected 5.3% growth forecast in October 2020, just before the country entered the second wave of infections. With a high reliance on advanced economies for key export markets, dependence on international capital flows for development finance, and tourism and cross-border labour migration sectors as other sources of foreign exchange earnings, Sri Lanka remains heavily exposed to external sector developments. Within this context, this chapter explores the prospects for the global economy and its potential impacts on Sri Lanka's external sector performance in a COVID-19 economic recovery phase.

3.2 Prospects for the Global Economy

The global economy contracted by -3.3% in 2020, with the recessionary conditions generating impacts such as high unemployment and rising levels of poverty. For the first time in 20 years, global poverty is estimated to have increased significantly in 2020; for instance, the World Bank estimates the new poor in 2020 to have risen to between 119 and 124 million.²

On a more positive note though, the most recent available forecasts suggest that a partial recovery is already underway, from the deep recession experienced in 2020. In 2021, global growth projections as of April 2021 suggest a positive

turn to 6%, up 0.5 percentage points from projections made in January 2021 (Table 3.1). As the low base effect wanes, growth is expected to taper off in 2022.

The strength of projected recoveries in 2021 vary across countries, dependent to a large extent on access to medical interventions, policy support effectiveness, exposure to cross-country spillovers, and structural characteristics. Further, achieving the projected growth rates may yet prove to be challenging in view of emerging second and third waves of infections, along with new variants of the virus. In sum, although macroeconomic policy support measures and vaccine rollouts have generated a more optimistic outlook than at the beginning of 2021, global economic activity and output are still expected to remain well below the pre-COVID situation until the end of 2022.³

Global economic activity and output are still expected to remain well below the pre-COVID situation until the end of 2022.

² World Bank. (2021, March 15). *Updated Estimates of COVID-19 on Global Poverty: Looking Back at 2020 and The Outlook for 2021*. Retrieved March 15, 2021, from World Bank Blog: <https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty-looking-back-2020-and-outlook-2021>

³ International Monetary Fund. (2021). *World Economic Outlook – April*. Washington D.C.: International Monetary Fund.

The economic downturn triggered by the COVID-19 pandemic has been very different from the nature and magnitude of past pandemics, reflecting exceptional contractions. In previous recessions, manufacturing sectors were hit hardest compared to service-oriented areas. However, the current crisis has generated more repercussions including mixed outcomes in service-oriented sectors such as healthcare, education, and tourism.

It has necessitated a slew of fiscal and monetary policy measures to ensure adequate support to mitigate the worst of the economic fallout and achieve a rebound in economic activities in 2021.

The global fiscal response to the COVID-19 pandemic with direct budgetary support in 2020 is estimated to be close to 7.5% of world gross domestic product (GDP) – more than double the amount provided in response to the global financial crisis (GFC) of 2008. On top of this, liquidity support measures to companies and households – such as equity injections, loans, asset purchases or debt assumptions, and guarantees – are estimated at around 6% of world GDP.⁴ With these sizeable stimulus efforts, the global economy is seeing a gradual recovery, but some countries and regions are faring better than others.

Table 3.1
World Output (% Change)

	Estimates 2020	January 2021 Projections		April 2021 Projections	
		2021	2022	2021	2022
World Output	-3.3	5.5	4.2	6.0	4.4
Advanced Economies	-4.7	4.3	3.1	5.1	3.6
United States	-3.5	5.1	2.5	6.4	3.5
Euro Area	-6.6	4.2	3.6	4.4	3.8
Germany	-4.9	3.5	3.1	3.6	3.4
France	-8.2	5.5	4.1	5.8	4.2
Italy	-8.9	3.0	3.6	4.2	3.6
Japan	-4.8	3.1	2.4	3.3	2.5
United Kingdom	-9.9	4.5	5.0	5.3	5.1
Emerging Market and Developing Economies	-2.2	6.3	5.0	6.7	5.0
Russia	-3.1	3.0	3.9	3.8	3.8
China	2.3	8.1	5.6	8.4	5.6
India	-8.0	11.5	6.8	12.5	6.9
ASEAN-5	-3.4	5.2	6.0	4.9	6.1

Source: International Monetary Fund. (2021). *World Economic Outlook – April*. Washington D.C.: International Monetary Fund.

⁴ European Commission. (2021). *One Year Since the Outbreak of COVID-19: Fiscal Policy Response*. Brussels: European Commission.

3.2.1 Prospects and Policy Responses of Advanced Economies to COVID-19

Even though advanced economies experienced a sizeable economic downturn, projections for the coming years, as revised in April 2021, indicate an expected growth rate of 5.1% for 2021 (Table 3.1). Most nations have taken substantive stimulus measures to minimise the pandemic's economic impact, through the provision of comprehensive fiscal support, including direct tax and spending measures, loans, and guarantees, while the central banks have reinforced existing expansionary monetary policy adjustments. Thus, advanced economies such as the United States (US), Germany, France, Italy, Japan, and the United Kingdom (UK) are all seeing a positive upturn from earlier projections.

The better-than-expected positive rebound in the US and European economies are occurring despite the fact that they experienced higher adverse health impacts from the COVID-19 outbreak. The US remains the country with the highest number of infections and deaths recorded, accounting for 28+ million total confirmed cases.⁵ As the health crisis mounted, so too did the immediate economic fallout; in 2020, the US experienced a record in terms of the increase in

unemployed workers, even more so than during the Great Recession from 2007 to 2009.⁶ But, the US, like many other advanced economies, was able to provide significant COVID-19 relief and funding measures to mitigate the adverse impacts and place the economy on a recovery path.

The US adopted budgetary measures close to 17% of GDP and liquidity support of 2.4% of GDP,⁷ providing strong momentum for the economy.⁸ With nearly 50% of the adult population vaccinated by April 2021, the US has seen its growth forecast revised up to 6.4% in 2021. With the vaccination rollout, and a new USD 1.9 trillion package (around 10% of GDP) announced in 2021, it is anticipated that the US will be able to meet these forecasts by year end.

The European economies, which contracted by 6.6% in 2020, are likely to undergo a considerably more challenging environment while aiming for a 4.4% growth rate in 2021 (Table 3.1). Germany, the leading economy had to undergo a second lockdown which commenced from mid-December 2020 until March 2021 and its economic activity is expected to fluctuate, burdened by business disruptions, vaccine shortages, and shrinking private sector activities in the Eurozone.⁹ In total, fiscal support in the EU in 2020 is estimated at 8% of GDP, with member countries also providing sizeable liquidity support of around 19% of GDP,

⁵ Johns Hopkins University. (2021, March 01). *Case Tracker. Coronavirus*. Retrieved March 01, 2021, from Johns Hopkins Coronavirus Resource Centre: <https://coronavirus.jhu.edu/map.html>

⁶ Pew Research Centre. (2020, June 11). *Unemployment Rose Higher in Three Months of COVID – 19 Than it Did in Two Years of the Great Recession*. Retrieved March 02, 2021, from Pew Research Centre: <https://www.pewresearch.org/fact-tank/2020/06/11/unemployment-rose-higher-in-three-months-of-covid-19-than-it-did-in-two-years-of-the-great-recession/>

⁷ European Commission. (2021). *One Year Since the Outbreak of COVID-19: Fiscal Policy Response*. Brussels: European Commission.

⁸ Between March 2020 and March 2021, the US enacted three fiscal packages: President Donald Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020, and the Coronavirus Response and Relief Supplemental Appropriations Act on December 27, and these were followed by President Joe Biden's American Rescue Plan on March 11, 2021.

⁹ Bloomberg. (2021, January 22). *Germany Cuts 2021 Economic Outlook Amid Lockdowns, Bottlenecks*. Retrieved March 02, 2021, from Bloomberg: <https://www.bloomberg.com/news/articles/2021-01-22/germany-cuts-2021-economic-growth-forecast-to-3-from-4-4#:~:text=Germany%20cut%20its%20prediction%20for,to%20be%20published%20next%20week.>

mostly in the form of public guarantees.¹⁰ In the UK, budgetary measures and liquidity measures each amounted to over 16% of GDP. With a more successful vaccine rollout programme than its European neighbours, the UK economy is expected to perform better in its economic recovery efforts.

By and large, advanced economies prioritised the functioning of economic activities until a significant number of infections and deaths were recorded. With the rapid increment of active cases with deaths, governments took necessary action to impose travel restrictions and lockdowns. However, recovery rates are now diverging, linked to stark differences in the pace of vaccine rollouts. These divergences are even more notable when the economic performance of advanced economies as a group is compared to that of low and middle-income countries (LMICs).

Developing economies had a head start in better managing their COVID-19 outbreaks with far more stringent lockdowns as the virus spread. This early advantage, however, is being lost as these countries struggle to source adequate stocks of vaccinations. As noted previously, speedy and large vaccine rollout programmes provide an advantage in the race to economic recovery. Though the 27 wealthiest economies account for only 10.5% of the world's population, they were able to access 35.6% of the world's COVID-19 vaccination stocks early on.¹¹ As a result, developing economies that did better in managing the initial COVID-19 outbreak are now falling behind in the economic recovery phase because of inequitable access to vaccine supplies (Box 3.1).

Developing economies that did better in managing the initial COVID-19 outbreak are now falling behind in the economic recovery phase because of inequitable access to vaccine supplies.

¹⁰ European Commission. (2021). *One Year Since the Outbreak of COVID-19: Fiscal Policy Response*. Brussels: European Commission.

¹¹ Bloomberg. (2021, May 06). *Vaccine Tracker*. Retrieved from March 08, 2021, from Bloomberg: <https://www.bloomberg.com/graphics/covid-vaccine-tracker-global-distribution/>

Box 3.1

Uneven Access to COVID-19 Vaccinations

USA – Pfizer-BioNTech, Moderna, and Janssen are the authorised vaccines in the USA. The US has 21.3% of the world's vaccination with 4.3% of the world's population. 44.9% of the population has been given at least one dose and 38.6 % of the population has been fully vaccinated.

UK – The authorised vaccines for emergency use in the UK are Pfizer-BioNTech, Moderna, and Oxford-AstraZeneca. The UK has 4.2% of the world vaccination with 0.9% of the world's population. 51.9% of the population has been given at least one dose and 23.3% of the population has been fully vaccinated.

Germany – Pfizer-BioNTech, Johnson & Johnson, Moderna, and Oxford-AstraZeneca have been authorised for emergency use. Germany has 2.5% of the world vaccination with 1.1% of the world's population. 28.3% of the population has been given at least one dose and 8% of the population has been fully vaccinated.

France – Pfizer-BioNTech, Johnson & Johnson, Moderna, and Oxford-AstraZeneca are the authorised vaccines for emergency use in the country. France has 1.9% of the world's vaccination with 0.8% of the world's population. 23.7% of the population has been given at least one dose and 9.8% of the population has been fully vaccinated.

China – The Sinopharm and Sinovac's vaccines have been authorised domestically for emergency use. China has 23.3% of the world's vaccination with 18.2% of the world's population. China has already given 280 million doses sufficient for 10% population coverage.

India – Covaxin, Oxford-AstraZeneca, and the Sputnik V vaccines have been authorised for emergency use in India. India has 13.3% of the world vaccination with 17.7% of the world's population. 9.4% of the population has been given at least one dose and 2.1% of the population has been fully vaccinated.

Nigeria – Oxford-AstraZeneca is the authorised vaccine for domestic use. Even though the country accounts for 2.6% of the world's population, it has only 0.1% of the world's vaccinations. Nigeria has given 1.25 million vaccines that cover only 0.3% of the population.

Indonesia – BIBP, CoronaVac, and the Oxford-AstraZeneca are the authorised vaccines in Indonesia for emergency use. Indonesia accounts for 3.5% of the world's population, yet the country still has 1.7% of the world's vaccination. 4.7% of the population has been at least one dose and 3% of the population has been fully vaccinated.

Bangladesh – Oxford-AstraZeneca, and Sputnik V are the authorised vaccines for Bangladesh. Even though the country accounts for 2.2% of the world's population, it has only 0.7% of the world's vaccinations. 3.6% of the population has received at least one dose, yet only 1.9% of the population has been fully vaccinated.

Pakistan – BIBP, CanSino, CoronaVac, Oxford-AstraZeneca, and Sputnik V are the authorised vaccines for Pakistan. The country accounts for 2.7% of the world's population. However, Pakistan has only 0.2% of the world's vaccinations.

Source: Bloomberg. (2021, May 06). *Vaccine Tracker* Retrieved May 06, 2021, from Bloomberg: <https://www.bloomberg.com/graphics/covid-vaccine-tracker-global-distribution>

3.2.2 COVID-19 and Emerging Economies: Prospects and Policy Responses

The impact of COVID-19 has been substantial on emerging economies in 2020, far exceeding the adverse impacts felt from the GFC of 2008. The pandemic has generated deep downturns in GDP, with a marked drop in consumption and economic activities, especially in the services sectors. Indeed, there are concerns that the challenging nature of the COVID-19 fallout can lead to fiscal and debt crises in emerging market economies (EMEs). These negative outcomes are reflected in a collapse of domestic and external demand, record capital outflows, higher external borrowing costs, a commodity bust, and depreciating currencies.¹²

As compared to advanced economies, growth prospects for emerging markets and developing economies saw only a marginal upward revision in April 2021, forecast at 6.7% for 2021 from a contraction of -2.2% growth rate in 2020. Excluding China, most countries are experiencing several social and economic issues; continuation of COVID-19 outbreaks, overwhelmed health care systems, and far more fragile public finance options. Additionally, the dominance of high impact sectors like tourism as GDP contributors, and greater dependence on external finance means that growth expectations of developing economies are subject to higher degrees of uncertainty.

Unemployment, debt sustainability, poverty, and inequality have emerged as fundamental issues for emerging economies during the pandemic. For the first time in over 20 years, the World Bank projects a rise in extreme global poverty to encompass 1.4% of the world's population,¹³ many of whom are to be found in developing economies. In this context, financing economic stimulus efforts of low-income countries, as well as expanding limited healthcare systems, implementing vaccination programmes, and providing social protection to vulnerable communities remain critical challenges.

**Unemployment,
debt
sustainability,
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inequality have
emerged as
fundamental
issues for
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economies
during the
pandemic.**

¹² International Monetary Fund. (2020, July). *COVID-19 and Emerging Markets: An Epidemiological Model with International Production Networks and Capital Flows*. Washington D.C.: International Monetary Fund.

¹³ World Bank. (2020, October 07). *COVID-19 to Add as Many as 150 million Extreme Poor by 2021*. Retrieved on March 09, 2021, from World Bank: <https://www.worldbank.org/en/news/press-release/2020/10/07/covid-19-to-add-as-many-as-150-million-extreme-poor-by-2021>

Emerging markets and developing economies took immediate steps to control the COVID-19 outbreak by imposing lockdowns and travel restrictions. Most governments attempted to manage the pandemic through such early measures, owing to the fact that if the pandemic surged in developing countries, as occurred in the advanced economies like the US and UK, access to critical healthcare supplies and services would have become increasingly constrained. The initial successes achieved through the rapidly implemented lockdowns also saw a speedy recovery at the outset. Though the growth forecast for 2021 remains positive, the projected rebound is still insufficient to regain the 2019 pre-COVID level of activity.¹⁴

China has outperformed expectations. The Chinese economy was the world's fastest-growing economy in 2019, but saw a contraction of -6.8% in the first quarter of 2020. Nevertheless, the Chinese government formulated several strategies from mid-February 2020, removing mobility and activity restrictions for prioritised essential sectors. These measures saw a rebound in GDP growth by 3.2% in the second quarter of 2020, with the recovery continuing into the second half of the year. In 2020, the Chinese economy grew by 2.3% during the pandemic, while all the other emerging economies experienced growth shrinkages.

The Indian economy, which is estimated to have contracted by -8% in 2020, is set to see the fastest recovery, with a forecast growth rate of 12.5% in 2021. These projections, made in April 2021, were on the back of successes in containing the first wave of the pandemic as of

early 2021 and India's perceived ability, as the world's biggest vaccine producer, to roll out an extensive vaccination campaign in the country. In January 2021, the country declared its intention to vaccinate 300 million people. However, India began to face significant disruptions to its fight against COVID-19 with a rapid surge in cases from April 2021, including more lockdowns and a slower than expected vaccination drive.

Thus, the pace of economic recovery between the two large Asian economies is expected to differ. China is experiencing a rapid economic recovery as of mid-2021, while India is struggling with a new and highly contagious variant of COVID-19 that is resulting in rising cases of infections – second only to the US. As India's health crisis spills across borders to neighbouring economies in the region, India's lost economic momentum will hold adverse implications for the region, as well as for trade and investment flows, globally.

3.3 Sectoral Impacts of COVID-19

Measures adopted globally to curtail the spread of the pandemic such as social distancing, quarantine, lockdowns, travel restrictions and increased travel outlays, contributed to a notable reduction of economic activities around the world. The impact on global trade flows was substantial (Figure 3.1). At the peak of the crisis in April 2020, the World Trade Organization (WTO) anticipated a -12.9% drop in world trade for 2020, but revised this to a more optimistic -9.2% in October 2020.¹⁵ The 2020 second quarter contraction was higher than that experienced during the 2008 GFC. In the end, merchandise trade expanded more

¹⁴ International Monetary Fund. (2020). *World Economic Outlook – October*. Washington D.C.: International Monetary Fund.

¹⁵ World Trade Organization. (2020, October 06). *Trade Shows Signs of Rebound from COVID-19, Recovery Still Uncertain*. Retrieved on March 09, 2021, from World Trade Organization: https://www.wto.org/english/news_e/pres20_e/pr862_e.htm

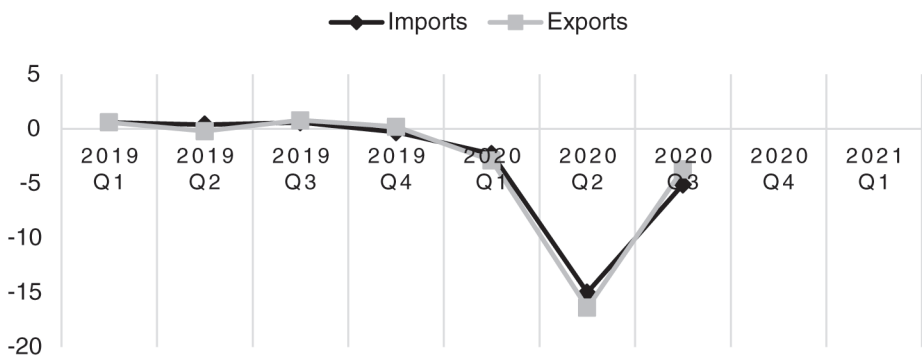
Merchandise trade expanded more rapidly than expected in the second half of 2020, contracting by -5.3% for the year as a whole.

rapidly than expected in the second half of 2020, contracting by -5.3% for the year as a whole, with the WTO anticipating a rebound to positive growth of 8% in 2021 (Table 3.2).

While all regions around the world experienced contractions in trade flows, Europe, North America, Africa and the Middle East indicated the highest drops. Africa and the Middle East, as regions with notable natural resources, experienced sharper downturns, while Asia saw positive growth of 0.3% in 2020, exhibiting a significantly lower impact than in other regions. Overall, though, the better-than-expected world trade performance is largely attributed to the sizeable fiscal and monetary policy stimulus measures adopted, which supported recovery efforts with much more limited trade-related disruptions than previously anticipated.

Nevertheless, supply and demand-side disruptions saw fluctuations in commodity prices with the onset of the pandemic. While the IMF’s primary commodity price index has remained broadly stable in the period from February to

Figure 3.1
World Merchandise Trade Growth – Quarterly (%)



Source: Based on quarterly growth rates of *Trade Value and Volume Growth Rates of Merchandise Exports and Imports*, United Nations Conference on Trade and Development. (2021).

Table 3.2
Merchandise Trade Volume and Export Growth (%)

	2019	2020	2021 ^a	2022 ^a
Trade volume	0.2	-5.3	8.0	4.0
Exports				
North America	0.3	-8.5	7.7	5.1
South America	-2.2	-4.5	3.2	2.7
Europe	0.6	-8.0	8.3	3.9
CIS	-0.3	-3.9	4.4	1.9
Africa	-0.5	-8.1	8.1	3.0
Middle East	-2.5	-8.2	12.4	5.0
Asia	0.8	0.3	8.4	3.5

Notes: a: Projections.

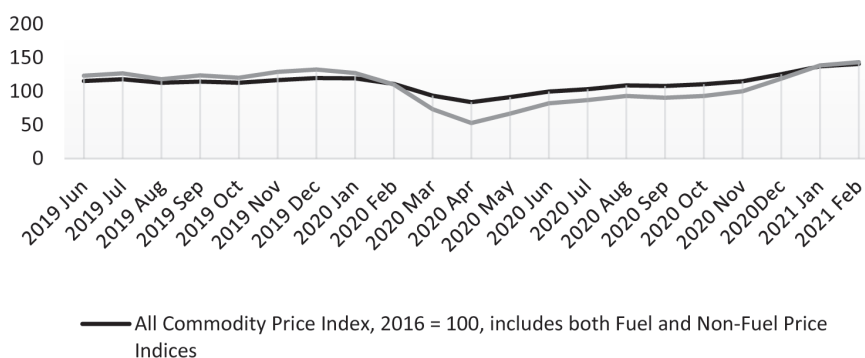
Source: Based on *Trade Shows Signs of Rebound from COVID-19, Recovery Still Uncertain*. Retrieved on March 09, 2021, from World Trade Organization: https://www.wto.org/english/news_e/pres20_e/pr862_e.htm

August 2020, it declined by 24% from February to April 2020. The easing of lockdown measures and restrictions saw the index rising once again by 31% from April to August 2020 (Figure 3.2). Overall, the IMF predictions suggest that a degree of stability in the commodity price index is likely for 2021.

The more critical commodity price changes to be watched relate to international oil prices. Weakened demand for crude oil caused a

significant price decline of around 60% from February to April 2020. Crude oil-exporting economies – the Organization of Petroleum Exporting Countries (OPEC), including Russia and other non-OPEC oil exporters – experienced income shocks during the period as a result. Thus, these parties agreed to curb production to ensure oil price stability. Therefore, oil production was reduced by 9.7 million barrels a day from May to July 2020, and 7.7 million barrels a day from August to December 2020. Declining oil

Figure 3.2
Primary Commodity Price Index



Source: International Monetary Fund. (2021). *Commodity Prices Index – Monthly*. Washington D.C.: International Monetary Fund.

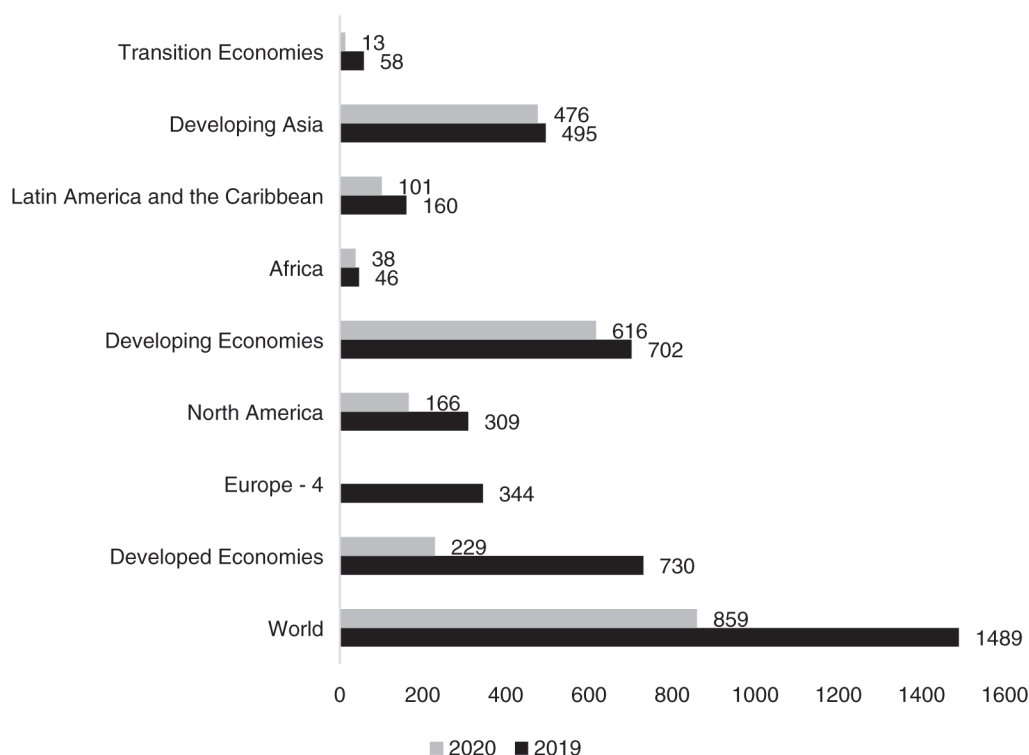
production has supported a price increase, and this upward trend may remain until 2022 in the event of a continuing cap on oil supplies.

As expected, global FDI flows saw a sharp decline in 2020. The United Nations Conference on Trade and Development (UNCTAD) estimates a -42% shrinkage of FDI flows in 2020 compared to 2019.¹⁶ Even though all economies experienced substantial downturns in FDI flows, UNCTAD estimations suggest that developed economies suffered the steepest fall with the onset of the

crisis, seeing a contraction of nearly -79% compared to that of 2019.

The UNCTAD estimates suggest that developing countries witnessed a much smaller contraction of -12% in FDI flows in 2020. Amongst them, developing Asia experienced the lowest contraction in FDI, indicating the region's more successful pandemic containment efforts, especially amidst the Chinese economy's speedy recovery. As health emergencies continue to dominate attention, investor confidence is

Figure 3.3
FDI Inflows by Region – 2019/2020 (USD Billion)



Source: Based on *Global Foreign Direct Investment Fell 42 per cent, 2020 Outlook Remains Weak*, Retrieved May 06, 2021, from United Nations Conference on Trade and Development: <https://unctad.org/news/global-foreign-direct-investment-fell-42-2020-outlook-remains-weak>

¹⁶ United Nations Conference on Trade and Development. (2021). *Global Foreign Direct Investment Fell 42 per cent, 2020 Outlook Remains Weak*. Retrieved May 06, 2021, from United Nations Conference on Trade and Development: <https://unctad.org/news/global-foreign-direct-investment-fell-42-2020-outlook-remains-weak>

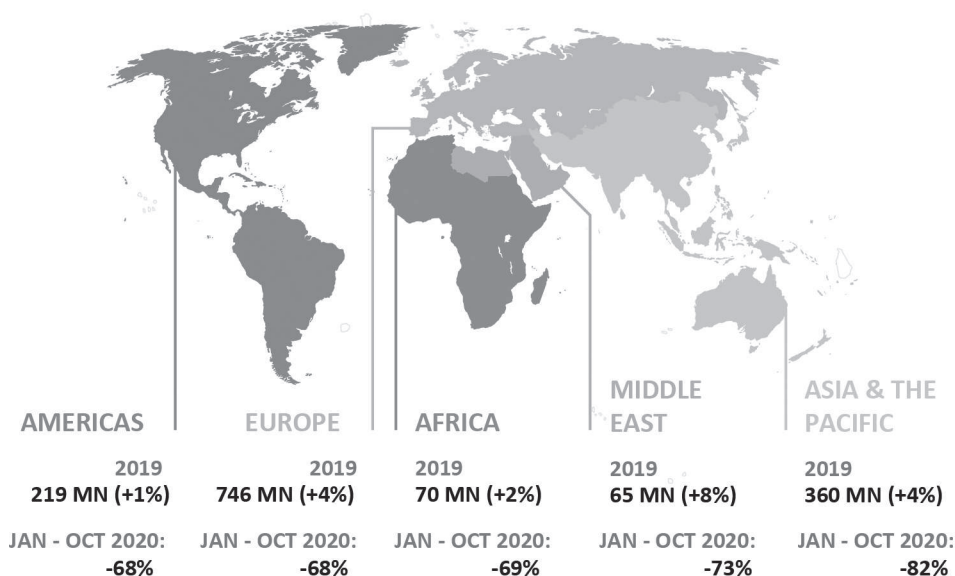
expected to remain fairly weak in 2021, with projected FDI flows not expected to see any substantial upturn in 2021.

Other forms of cross-border capital flows have also been impacted sharply by the COVID-19 pandemic. There have been significant impacts on world tourism, migration, and related cross-border remittance flows. For instance, from January to October 2020, international tourist arrivals are estimated to have declined by 72% (USD 935 billion), resulting in more than ten times the loss during the 2008 GFC.¹⁷ Based on these early projections, the United Nations World Tourism Organization (UNWTO) suggests that international arrivals will weaken by 70-75% for

the year 2020, amounting to a USD 1.1 trillion loss in world tourism receipts.

Remittances from cross-border worker migration are an important source of external funding for a majority of LMICs. In 2019, remittances were recorded at USD 548 billion, which was higher than FDI flows (USD 534 billion) reported in the year.¹⁸ However, the COVID-19 outbreak has considerably weakened remittances flows to LMICs. According to World Bank estimates, remittance flows declined by 7% in 2020 (Figure 3.4). Due to the weak employment conditions in migrant-hosting countries, the World Bank anticipates a -14% shrinkage of remittances in 2021.

International Tourist Arrivals: January to October 2020



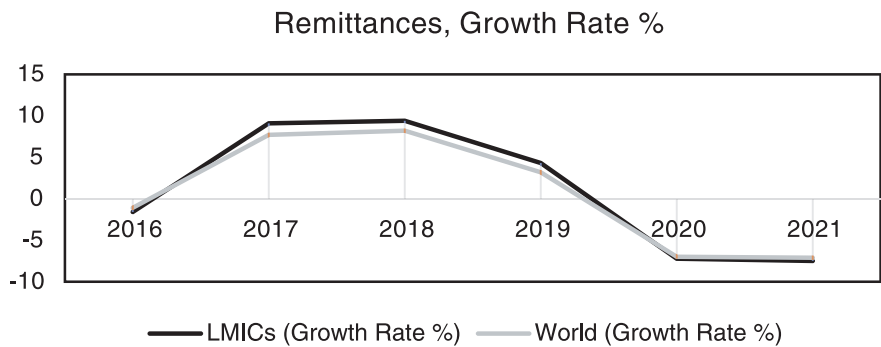
Source: United Nations World Tourism Organization (2020).

¹⁷ United Nations World Tourism Organization. (2020, December). *Impact Assessment of the COVID-19 Outbreak on International Tourism*. Retrieved on March 22, 2021, from United Nations World Tourism Organization: <https://www.unwto.org/impact-assessment-of-the-covid-19-outbreak-on-international-tourism>

¹⁸ World Bank. (2020). *COVID-19 Crisis through a Migration Lens*. Migration and Development Brief 33, October. Washington D.C.: World Bank.

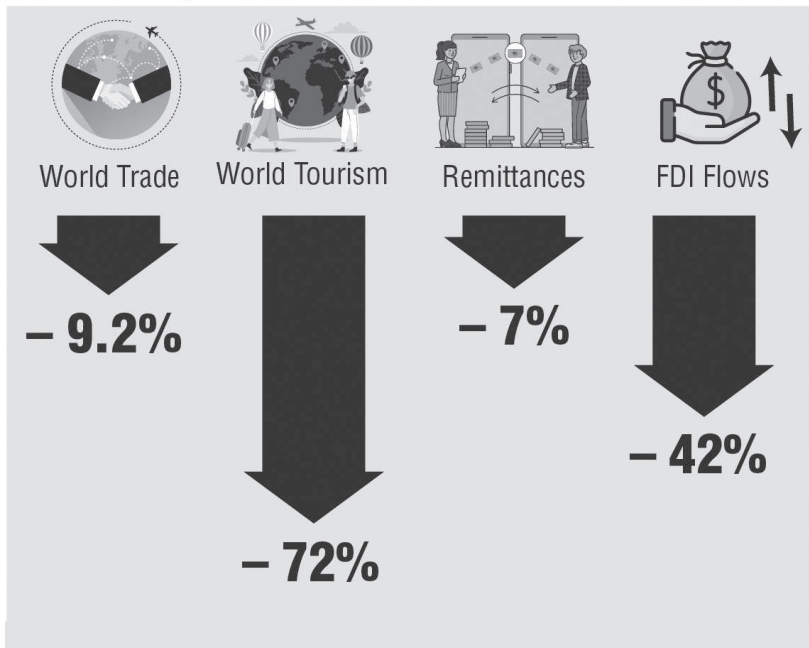
In addition to the downturn in remittance flows, many LMICs faced heightened health risks from returning migrants, as well as unemployment risks with sudden job losses experienced by migrant workers abroad. These developments, including an upturn in return migration, will continue to generate several challenges for LMICs in 2021, requiring support on resettling, providing jobs, and facilitating business openings as some of the more priority tasks.

Figure 3.4
Estimates and Projections of Remittance Flows



Source: Based on *COVID-19 Crisis through a Migration Lens*. Migration and Development Brief 33, October 2020, World Bank.

Sectoral Impacts of COVID-19 in 2020



Source: United Nations Conference on Trade and Development (2021); United Nations World Tourism Organization (2020); World Trade Organization (2020).

In sum, global economic developments will continue to remain fairly unpredictable as uncertainties related to the health crisis continue to plague a sustained recovery effort. For developing countries like Sri Lanka, external sector conditions will play an important complementary role in their recovery efforts. The relative performance of key export trading partner economies, commodity price trends – particularly of international oil prices – and foreign currency earnings from cross-border activities such as tourism and worker migration are all vital aspects of a sustained recovery effort. Aside from efforts to diffuse risks by achieving greater trade diversification – in both products and markets – building resilience to such shocks in the future involves modernising manufacturing and services through innovation and technological upgrading.

3.4 External Environment Impacts on Sri Lanka

Global economic developments have influenced and impacted Sri Lanka's external sector performance, and hence the economy overall. While Sri Lanka managed the first wave of the COVID-19 outbreak imposing curfew and lockdown measures for two months (March to May 2020), it has since been hit by a second outbreak since October 2020 and a third wave in April 2021. The latter is leading to a substantial increase in active cases of COVID-19, along with higher numbers of deaths, disrupting the gradual economic recovery witnessed from the second quarter of 2020. Merchandise exports, tourism earnings, and FDI inflows are all bearing the

brunt of the resultant fallout, with the exception of remittance inflows into the country.

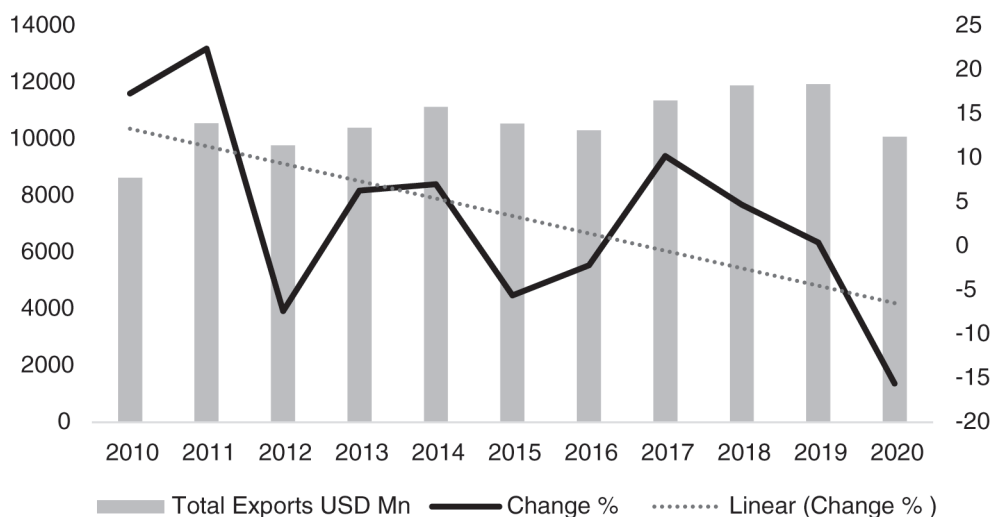
3.4.1 Merchandise Trade

Along with the considerable disruptions to world trade, Sri Lanka's merchandise trade flows also proved to be fairly volatile, with the overall result being weakened exports and imports during the pandemic. Even prior to the pandemic, Sri Lanka's long-term export growth rate was on a declining trend, albeit with some improvements in the immediate pre-COVID-19 years (Figure 3.5). In 2020, the pandemic amplified this long-term decline. Merchandise exports contracted by -15.6% in 2020 compared to the previous year, reflecting both demand and supply shocks. During the pandemic, destinations accounting for a large quantum of conventional exports, such as the US, EU and the UK also faced severe challenges. However, as economic conditions in these countries improve, with rising consumer demand, domestic developments will have a stronger bearing on how Sri Lanka's exports perform in 2021.

Sri Lanka's major merchandise export, apparels, faced disruptions with the onset of the pandemic, with earnings from textiles and garments (T&G) falling by -21% in 2020. A survey conducted by the Institute of Policy Studies of Sri Lanka (IPS) suggests that 89% of Sri Lankan apparel sector factory workers were temporarily retrenched, with partial or no pay during the first wave of COVID-19 (March-May 2020).¹⁹ Even though the apparel sector saw a dramatic decline in earnings from April 2020, from mid-2020, it again entered a recovery path as fresh orders trickled in. Thus,

¹⁹ Southern Voice. (2021). *Stitching Solutions: Protecting Sri Lanka's Apparel Workers during COVID-19*. Retrieved March 24, 2021, from Southern Voice: <https://southernvoice.org/stitching-solutions-protecting-sri-lankas-apparel-workers-during-covid-19/>

Figure 3.5
Export Performance



Source: Based on Central Bank of Sri Lanka. *Annual Reports* (Various years); Central Bank of Sri Lanka. (2021, January). *External Sector Performance*.

if Sri Lanka is able to contain the pandemic, it can expect a reasonable increase in T&G export revenues in 2021, compared to that of the previous year.

Exports of tea, the second-highest export revenue generator for Sri Lanka, contributed to 12.3% of the total export revenue in 2020. With tea production remaining fairly robust through the pandemic, the contraction (-7.8%) was much less than other sectors. Nevertheless, Sri Lanka's tea exports have been on a declining trend over the years, affected by adverse weather and some structural issues, especially labour shortages and lack of technological applications. In a post-pandemic setting, it is critical that these issues are addressed for the long-term health of the tea plantation sector and its sizeable employment contribution to the economy.

Overall, as Sri Lanka's export sector strategies and policies are not firmly integrated into regional

and global value chains (GVCs), the impact of supply chain disruptions to the country's export sector has not been very prominent. However, the country has been facing several adverse issues related to declining demand in its major export markets. Sri Lankan exports traditionally target product markets in a few destinations such as the US, UK and some EU countries. Its export basket too remains rather limited, with overwhelming dependence still on T&G and a few agricultural products. The need to revive export performance with sound strategies will take on even more urgency in the wake of the pandemic if the country is to build more resilience to face such events in the future.

As countries adjust to the economic fallout of the pandemic, existing global supply chains will change. Sri Lanka too must be prepared to change direction in favour of strengthening regional linkages. The Asian region is expected to recover swiftly, led by China's resurgent

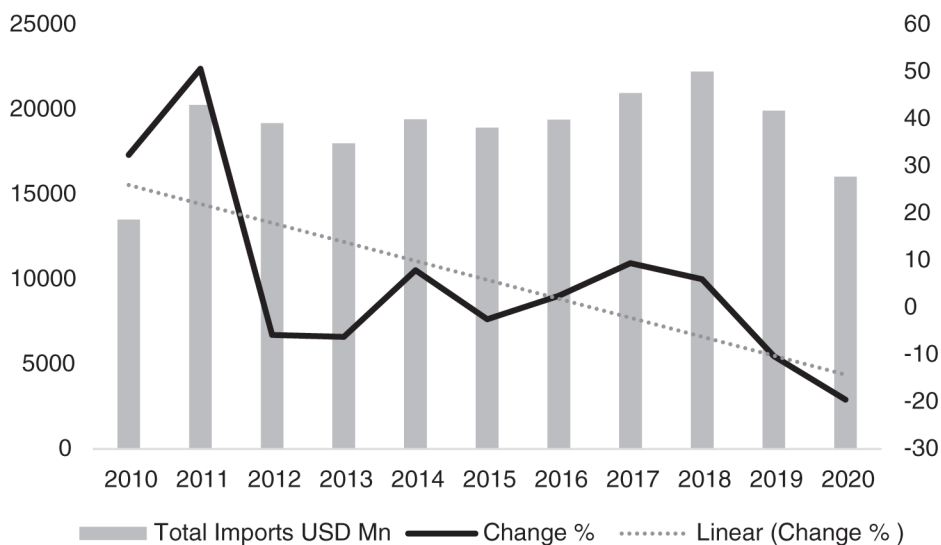
economy. Whilst India is struggling to bring its latest COVID-19 spread under control, the Indian economy too can be expected to record a strong bounce back eventually. Against these developments, Sri Lanka must exploit potential integration opportunities with the Asian region, to better connect to trade, technology and FDI flows.

Compared to exports, Sri Lanka's import expenditures fell even more sharply in 2020, contracting by as much as -19.5%. A part of the decline was no doubt a reflection of weakened private investment, declining oil prices and subdued consumer demand. However, a large quantum of the drop in import expenditures is due to restrictions imposed on 'non-essential' imports such as motor vehicles, as well as restrictions on import substitute sectors such as agriculture and processed agricultural food products. While there

has been a relaxation of some import controls, many more will continue in 2021, depressing import expenditure outlays. At the same time, however, rising international oil prices will exert upward pressure on Sri Lanka's total import bill.

Sri Lanka's fuel import bill accounts for the country's largest import category. The expenditure on fuel contracted by -34.7% in 2020 compared to 2019.²⁰ Weakened oil prices in the global market and the sharp decline in domestic demand supported this contraction. While the oil price war between the OPEC and Russia, and declining global oil demand created this unprecedented decline in prices, Sri Lanka cannot expect these advantages to continue as global demand picks up and oil producing countries agree to curb oil supplies.

Figure 3.6
Import Performance



Source: Based on Central Bank of Sri Lanka. *Annual Reports* (Various years); Central Bank of Sri Lanka. (2021, January). *External Sector Performance*.

²⁰ Central Bank of Sri Lanka. (2021, January). *External Sector Performance*. Colombo: Central Bank of Sri Lanka.

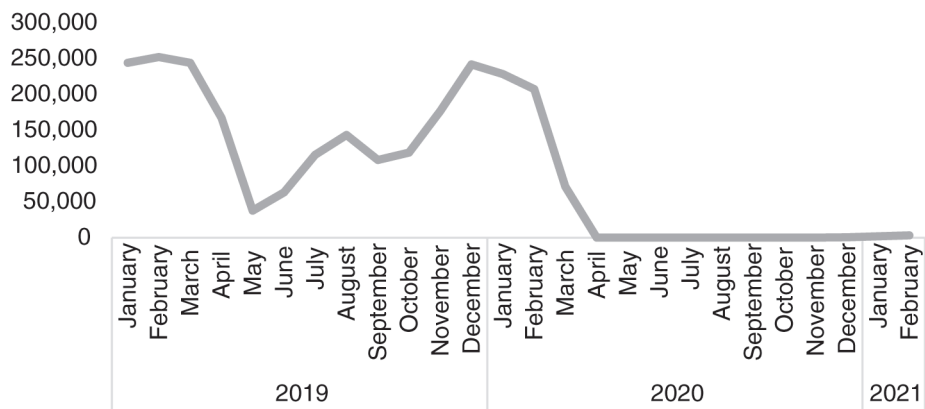
3.4.2 Tourism and Remittances

In the aftermath of the Easter Sunday attacks in April 2019, Sri Lanka’s post-war tourism sector recovery came to an abrupt halt. In response, several strategies were implemented, including financial assistance to the sector as well as promotional campaigns to secure visitors. The mobility and physical containment measures imposed with the onset of COVID-19 dealt a further blow to the Sri Lankan tourism industry. With the suspension of tourist arrivals from all countries with effect from mid-March 2020, tourist arrivals came to a complete halt more or less for nine months (April to December 2020). International arrivals to the Sri Lankan border saw a sharp decline of -73.5% in 2020.

14 days quarantine period, along with a preset travel plan, were enforced as Sri Lanka entered a second wave of infections in October 2020. Additionally, with the spread of new COVID-19 variants in different parts of the world, grave concerns were raised about a strong surge of cases in Sri Lanka, which materialised with the third wave in April 2021. All told, a recovery of the tourism industry is still a long way off.

By contrast, Sri Lanka’s worker remittance inflows have performed much better than what had been forecast. Remittances had been experiencing a consistent decline over the past few years, reflecting external and internal developments related to foreign employment. In 2020, after an initial brief drop, remittances grew by 5.5% to USD 7.1 billion. The increase is perhaps

Figure 3.7
Tourist Arrivals



Source: Based on *Monthly Tourist Arrivals*, Sri Lanka Tourism Development Authority.

In December 2020, the government commenced a pilot project to reopen the tourism sector. The project allowed Ukrainian tourists to enter the country in the form of a ‘tourism bubble’. However, mandatory precautionary measures such as

explained by Sri Lankan migrants who may be remitting larger amounts as coping mechanisms for their households, as well as those remitting funds in preparation for returning to Sri Lanka owing to loss of employment in host economies.

Additionally, the pandemic conditions, including limited mobility and greater uncertainty may have encouraged the diversion of remittances from informal to formal channels.²¹

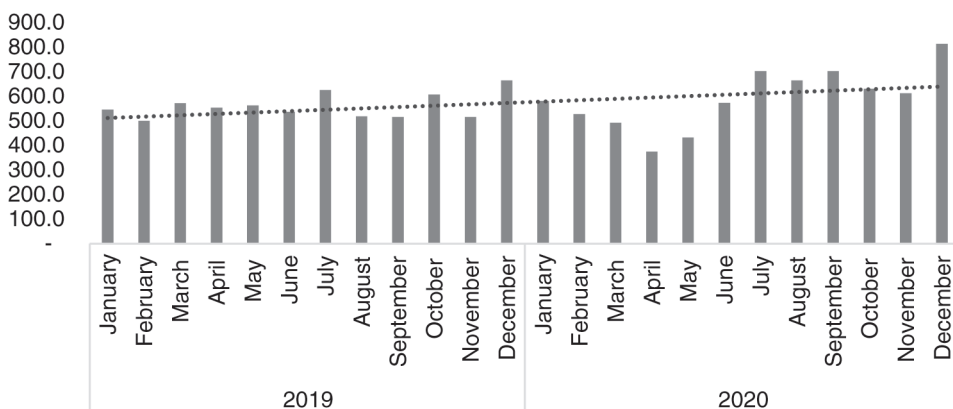
3.4.3 Capital Flows: FDI and Capital Market Trends

Even though Sri Lanka is argued to have a strategic geographical advantage straddling major shipping routes in the Indian Ocean, the country has not yet been able to convert this to substantive progress in attracting FDI inflows. FDI inflows saw some improvement in the post-war period and reached a peak in 2018, but has been on a declining trend thereafter. The pandemic has amplified this shrinkage.

Retaining investors' confidence through sound policy decisions, ensuring domestic security measures, and providing a transparent and accountable regulatory environment are vital to attract more FDI to the country. The government

The pandemic conditions, including limited mobility and greater uncertainty may have encouraged the diversion of remittances from informal to formal channels.

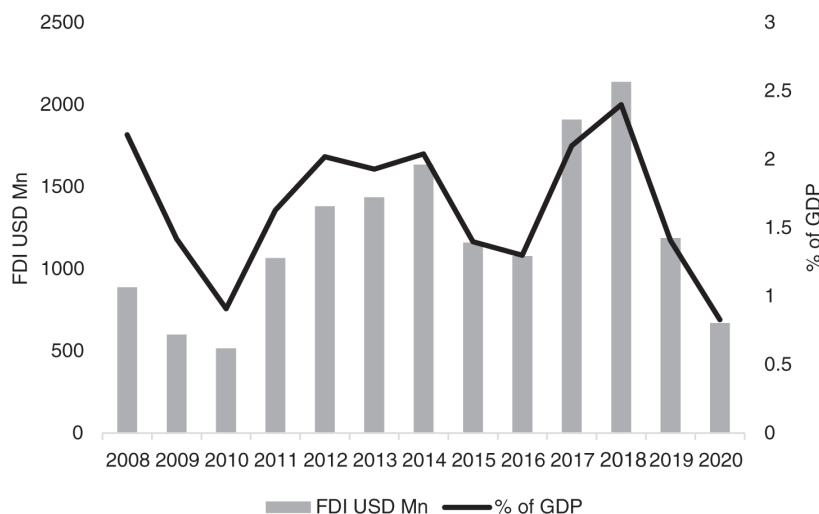
Figure 3.8
Workers Remittances (USD Mn)



Source: Based on *Statistics, External Sector*, Central Bank of Sri Lanka.

²¹ Weeraratne, Bilesha. (2021, January 28). *How Sri Lankan Remittances are Defying COVID-19*. Retrieved April 8, 2021, from East Asia Forum: <https://www.eastasiaforum.org/2021/01/28/how-sri-lankan-remittances-are-defying-covid-19/>

Figure 3.9
FDI Inflows (USD Mn)



Source: Central Bank of Sri Lanka. (2020). *Sri Lanka: Macroeconomic Developments*. Colombo: Central Bank of Sri Lanka.

is attempting to facilitate foreign investments into favourable locations in the country such as the Hambantota industrial zone, the Colombo Port City, as well as easing regulatory constraints to address time taken to set up a business in Sri Lanka, etc. The priority in these efforts appears to hinge on the Colombo Port City which will be granted special tax dispensations and other inducements to kick-start FDI inflows into mixed development projects and other infrastructure dominant sectors.

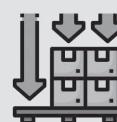
The urgency to attract more FDI is partly related to the governments stated policy intention to move away from debt creating capital inflows to non-debt creating sources such as FDI. In the context in which Sri Lanka is struggling to access international capital markets in a COVID-19 environment, an enhanced inflow of FDI will provide relief on the external front. However, Sri Lanka must be watchful that a growth recovery kick-started by FDI inflows are not solely dependent on sectors such as mixed

External Environment Impacts on Sri Lanka - 2020



Merchandise
Exports – Fell by
15.6%

Merchandise
Imports – Fell by
19.5%



Tourist Arrivals
– Fell by
73.5%

Remittances –
Increased by
5.5%



development projects, as the contribution of such activities to productivity-driven growth is rather minimal. In turn, the long-term sustainability of such a growth momentum is also in doubt.

Secondly, as geo-political tensions and rivalries heat up as countries race ahead to recovery, inviting FDI into strategic sectors such as ports and energy should be done in ways that safeguard the Sri Lanka's long-term sovereignty and security.

3.5 Conclusion

The COVID-19 pandemic has exerted significant downward pressure on global trade as well as the global economy at large. Unprecedented declines in merchandise trade, FDI flows, tourism and cross-border migration have all been hallmarks of the economic fallout. As a result, growth expectations for countries worldwide have become challenging, despite substantial expansionary monetary and fiscal policies being rolled out to achieve pre-COVID level economic recovery levels.

The Sri Lankan economy too has been impacted by these external sector developments, witnessing fluctuating fortunes in its external sector performance. Overall, there is a significant

weakening in earnings from exports and tourism, as well as declining FDI inflows, adding to several structural problem areas in these sectors, over the years. A positive development has been a better-than-expected outcome in migrant remittance inflows, helping efforts to stabilise exchange rate pressures emanating from reduced foreign capital inflows.

As countervailing measures, restrictions on imports and capital outflows have been adopted to cope with the downside impacts. Indeed, from a global perspective, it is argued that the pandemic has hastened de-globalisation, encouraging countries to expand their domestic production and manufacturing bases. However, for a country with a small domestic consumer base, Sri Lanka has to remain competitive in international markets as a source of goods and services. Calibrating trade policies to integrate into re-fashioned GVCs, especially in a regional context, should remain an important part of the country's medium-term recovery efforts towards a stable external sector environment that will support the country's long-term growth and development aspirations.

**PANDEMICS AND
POLICY:
PROTECTING
HEALTH AND
PROMOTING
ECONOMIC
RECOVERY**

4. The Emerging Global Order: Opportunities and Costs for Sri Lanka

4.1 Introduction

In 1989, a Washington-based journal published an influential article titled ‘The End of the History?’, offering an analysis of the Soviet Union, which was en route to an imminent collapse.¹ Its author, Francis Fukuyama, argued that ideological alternatives to liberalism have failed and paved the way to the global dominance of liberalism. In essence, Fukuyama postulated that if history is a process, and liberal institutions (representative government, free markets, and a consumerist culture) become the only form of governance, then all ideological battles against liberalism end. However, the history was not so kind to Fukuyama. In 2016, nativist, isolationist, and protectionist (characteristics that go against the spirit of liberalism) candidate Donald Trump, who campaigned on a populist platform, won the 2016 US presidential election. It was one of the more significant electoral upsets in modern history, prompting Fukuyama to postpone his ‘End of History’.²

The US electoral outcome – followed by Britain’s Brexit referendum – galvanised fresh analyses

on the future of globalisation and the causes behind the rise of populism.³ Moreover, the rise of populism was not limited to the UK and the US; it resonated with an emerging global trend in many other countries. The Trump presidency reversed the US’ role in cutting tariffs on international cross-border trade over the last half-century and paved the way for a costly US-China trade war.⁴ Such developments renewed concerns about a de-globalising world, in which countries stepped away from a rule-based international trade regime and resorted to beggar-thy-neighbour policies. In addition, the COVID-19 pandemic induced temporary supply chain disruptions, exacerbating the crisis of globalisation in modern days. In turn, it prompted politicians to openly advocate for decoupling from global value chains (GVCs) to reduce reliance on foreign inputs. Nevertheless, even as the world witnessed a serious political threat to globalisation and a disastrous pandemic that further encouraged the increased reliance on domestic supplies, the de-globalisation camp faced a crucial electoral defeat in the 2020 US presidential election.

¹ Fukuyama, F. (1989). The End of History? *The National Interest*, 16, 3-18.

² Menand, L. (2018). Francis Fukuyama Postpones the End of History. *The New Yorker*, 27.

³ See Rodrik, D. (2018). Populism and the Economics of Globalisation. *Journal of International Business Policy*, 1(1), 12-33; Antràs, P. (2020). *De-Globalisation? Global Value Chains in the Post-COVID-19 Age*. Working Paper No. w28115. Cambridge: National Bureau of Economic Research.

⁴ Bown, C. & Kolb, M. (2019). *Trump’s Trade War Timeline: An Up-to-date Guide*: Washington D.C.: Peterson Institute for International Economics.

These rapid developments pose three significant questions. First, was the rise of protectionism in Europe and the US supply-driven or demand-driven? That is, to ascertain whether it was spontaneous because of skilled and persuasive politicians or whether voters desired a change from globalisation which they perceived as a threat to their well-being. Second, how significant is the impact of post-2016 political developments on globalisation, particularly global cross-border trade? Third, what would a future rule-based cross-border trade regime look like in the COVID-19 era and a Biden presidency? This chapter attempts to answer these questions regarding costs and opportunities for Sri Lanka in a changing global order and the strategies to be adopted for rapid and resilient export-led economic growth.

4.2 The Rise of Protectionism: Politics and the Current Status

Globalisation, which accelerated during the 1980-2000 period, did not witness a severe threat of any kind until the 2008 global financial crisis (GFC). Between 1986-2008, world trade to gross domestic product (GDP) ratio rose as countries increased efforts to cut down tariffs and artificial barriers to trade. Although the lowering of tariffs began with the signing of the General Agreement on Tariffs and Trade (GATT) in 1947, the process accelerated in the 1990s through major regional trade agreements such as the North American Free Trade Agreement (NAFTA)

and the enlargement of free trade areas like the European Union (EU). In Asia, the Association of South-East Asian Nations (ASEAN) expanded to create a trade bloc of ten nations. Internationally, the World Trade Organization (WTO) was lowering 'Most Favoured Nations' (MFN) tariffs, while new countries gained WTO membership, including China, in 2001. After three decades of a 'golden era of globalisation', scholars and policymakers began to entertain the idea of a more inward-looking future again, in the aftermath of the GFC, while the US presidential outcome in 2016 generated further uncertainty on the future of globalisation.

4.2.1 The Politics of Globalisation

The election of Trump and the administration's tariffs on China's exports to the US were not spontaneous events. Economists had started to investigate the adverse impact of imports from low-wage developing countries on the labour markets of developed countries well before, especially after China acceded to the WTO.⁵ Trump, in his campaign, brought in the issue of declining manufacturing jobs in the US as an electoral issue to voters in crucial 'Rust Belt' states. In the political rhetoric, labour market issues allegedly resulting from global trade was elevated as critical electoral issues.⁶ The Trump administration's solution to domestic labour market issues was to embark upon protectionist trade policies. The US withdrew from a proposed Asia-Pacific trade deal – the Trans-Pacific Partnership (TPP). It halted discussions on a comprehensive US-Europe trade deal and

⁵ Autor, D. H., Dorn, D., & Hanson, G. H. (2013). The China Syndrome: Local Labour Market Effects of Import Competition in the United States. *American Economic Review* 103(6): 2121-68; Pierce, J. R., & Schott, P. K. (2016). The Surprisingly Swift Decline of US Manufacturing Employment. *American Economic Review*, 106(7), 1632-62.

⁶ Irwin, D. A. (2017). The False Promise of Protectionism: Why Trump's Trade Policy Could Backfire. *Foreign Affairs*. 96, 45.

blocked the new appointments to the WTO's dispute resolution body. The NAFTA, too was renegotiated. Import competition was put forward as the causal factor for declining manufacturing jobs in the US. A crucial question is whether a populist campaign coupled with anti-trade rhetoric created trade pessimism among voters or whether it capitalised on voters' prevailing discontent for electoral gains.

Standard welfare analyses in economic theory show that free trade has a welfare gain under normal conditions.⁷ Trade redistributes income, but the winners' gains are shown to offset the losses on those who are adversely affected by import competition. However, free trade does involve adjustment costs. There are winners and losers. Owners of a country's abundant factors gain from trade, but owners of a country's scarce factors lose. A critical feature of these costs is that the impact is localised, along with the geographic pattern of specialisation. For example, the US is a country abundant with high-skilled labour. International trade tends to make low-skilled workers in the US worse off. In fact, a strand of recent research finds that import competition from low-wage countries after 2000 is a vital factor in declining US manufacturing employment.⁸ It is, therefore, not surprising that in the political realm, the fall of manufacturing jobs in Rust Belt states was a prominent feature of US presidential campaigns.

Trade redistributes income, but the winners' gains are shown to offset the losses on those who face adverse effects of import competition. However, free trade has adjustment costs.

⁷ Autor, D.H., Dorn, D. & Hanson, G.H. (2016). The China Shock: Learning from Labour Market Adjustment to Large Changes in Trade. *Annual Review of Economics*, 8, 205-240.

⁸ Autor, D. H., Dorn D., & Hanson G.H. (2013). The China Syndrome: Local Labour Market Effects of Import Competition in the United States. *American Economic Review* 103(6): 2121-68; Autor, D. H., Dorn, D., Hanson G.H & Song, J. (2014). Trade Adjustment: Worker-level Evidence. *The Quarterly Journal of Economics* 129(4): 1799-1860; Acemoglu, D., Autor D.H., Dorn, D., Hanson, G.H., & Price, B. (2016). Import Competition and the Great US Employment Sag of the 2000s. *Journal of Labor Economics* 34(S1): S141-S198; Hakobyan, S., & McLaren, J. (2016). Looking for Local Labour Market Effects of NAFTA. *Review of Economics and Statistics*, 98(4): 728-741.

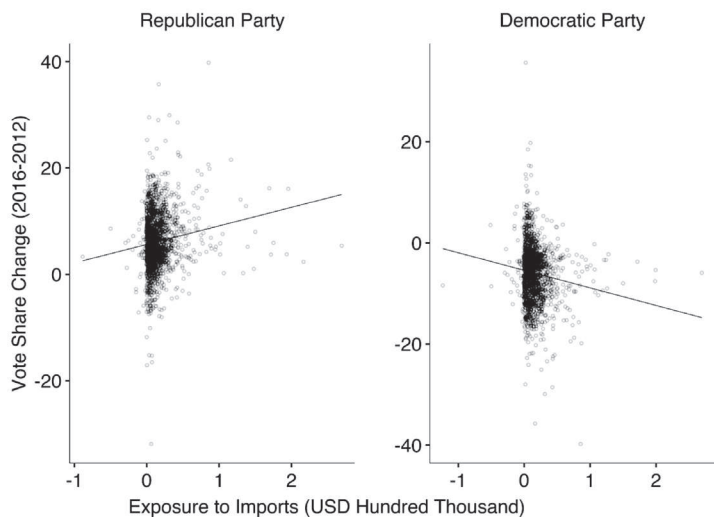
4.2.2 Import Competition and Voter Behaviour: Some Evidence

Economic downturns, including the GFC, generated increased trade pessimism amongst the US public. The adverse distributional effect of import competition was not compensated adequately as government programmes like the Trade Adjustment Assistance (TAA) package were highly ineffective.⁹ By the time Trump took over the US administration, the majority of US voters (71%) endorsed active trade policy engagement to promote favourable trade conditions for the

US. Moreover, in the post-GFC period, the proliferation of politicians catering to the rising demand for protectionism reflected the demand-side perspective of protectionism.¹⁰

That job losses from import competition weigh on voter behaviour is supported by existing literature. For instance, per worker import competition between 2000-2015 at the county-level in the US is found to be positively correlated with Trump’s vote gain in 2016 compared to the 2012 Republican presidential candidate Mitt Romney (Figure 4.1). More sophisticated theory-based econometric analyses also show that import competition – particularly from China – positively

Figure 4.1
Correlation between Democratic and Republican Two-party Vote Share Change (2016 minus 2012) and Per-worker Import Penetration



Notes: The vertical axes are two-party vote share change (left: Democratic party, and right: Republican party. The horizontal axes are per worker exposure to increased imports, scaled by 100,000).
 Exposure to imports was calculated using County Business Patterns from the US Census and Trade Map data.
 Source: Author’s illustrations using David Leip’s Atlas and Trade Data.

⁹ Baicker, K., & Rehavi, M. M. (2004). Policy Watch: Trade Adjustment Assistance. *Journal of Economic Perspectives*, 18(2), 239-255; Magee, C. (2001). Administered Protection for Workers: An Analysis of the Trade Adjustment Assistance Programme. *Journal of International Economics*, 53(1), 105-125; Meyer, T. (2017). Saving the Political Consensus in Favour of Free Trade. *Vanderbilt Law Review*, 70, 985
¹⁰ Antràs, P. (2020). *De-Globalisation? Global Value Chains in the Post-COVID-19 Age*. Working Paper No. w28115. Cambridge: National Bureau of Economic Research.

impacted Trump's successful presidential bid in 2016.¹¹ Thus, it is reasonable to infer that the Trump victory on a protectionist platform resulted from voter perceptions on adverse impacts of global trade. On the losing side too, import competition and global trade played a notable role (Box 4.1)

Similar empirical analysis suggests that voter perceptions of import competition from China positively affected the 'yes' vote share in the Brexit referendum in the UK.¹² Such perceptions of global competition were causal effects of

populism in other European countries.¹³ In the aftermath of Brexit, the rise of political discontent on globalisation was rampant, and it could be seen across both the left and the right of the ideological spectrum.

4.2.3 The Cost of 'Trade Wars'

The dominant manifestation of the post-2016 surge of protectionism was the US-China trade war. The academic literature on the US-China trade war – culminating in a US-China trade deal

Box 4.1 Import Competition and the US 'Left'

The public discontent induced by import competition stemming from international trade was visible in the 2016 Democratic primary election. As much as Trump, the Democratic party presidential aspirant Bernie Sanders ran his campaign on an anti-establishment and anti-trade platform. Empirical investigations show that Sander's vote share was positively affected by the import competition exposure in pivot counties, which Obama won in 2012, but Trump pivoted in 2016. One important inference is that import policy affected voters; those who voted for the Democratic party in 2012 were not satisfied with the party's handling of trade policy and voted for anti-trade candidates.

Counties Won by Sanders and Hillary Clinton in 2016 Democratic primaries

Winner	All Counties in 2016 Primary		Pivot Counties in 2016 Presidential Election	
	Number of Counties	%	Number of Counties	%
Hillary Clinton	1,660	57.5	89	46.1
Bernard Sanders	1,229	42.5	104	53.9
Total	2,889	100.0	193	100.0

Note: The sample of counties in the analysis has 193 from 223 total pivot counties.

Source: Author's calculation using David Leip's Atlas data.

¹¹ Autor, D.H., Dorn, D., Hanson, G. H., & Majlesi, K. (2020). Importing Political Polarisation? The Electoral Consequences of Rising Trade Exposure. *American Economic Review*, 110(10), 3139-83.

¹² Colantone, I., & Stanig, P. (2018a). Global Competition and Brexit. *American Political Science Review*, 112(2): 201-218.

¹³ Colantone, I., & Stanig, P. (2018b). The Trade Origins of Economic Nationalism: Import Competition and Voting Behaviour in Western Europe. *American Journal of Political Science*, 62 (4), 936-953.

Top Five States with Highest Pivot Counties which Sanders Won In the 2016 Primary Election

State	Number of Pivot Counties Won by Sanders	Number of Pivot Counties Won by Trump
Wisconsin	26	26
Iowa	16	32
New York	16	19
Michigan	9	12
Washington	7	26
Rest	30	108
Total pivot counties	104	223

Note: Wisconsin, Michigan, and Iowa were battleground states in 2016 which were pivotal for Trump.

Source: Author's calculations using David Leip's Atlas.

commonly known as a Phase 1 trade deal – aptly documents its economic and political costs.¹⁴ In the end, protectionism proved costly as the Trump administration lost mid-term elections early on in 2018, signalling the electoral unsuccessfulness of protectionist trade policies in the US. Not only did the trade war reduce global trade, but the cost for the US was high. US consumers had to pay higher tariffs on Chinese imports,¹⁵ while US farmers lost a vast majority of the USD 24 billion worth Chinese market. The resultant losses to US consumers and firms that buy imports were estimated at USD 51 billion (or 0.3% of GDP).¹⁶

Notably, the US tariffs diverted trade from China to other countries. The trade diversion was evident because the US's overall trade deficit continued to grow, though the US-China trade deficit shrank in

2019. Thus, while the US tariffs on China diverted trade flows from China, it caused the US trade deficit with Europe, Mexico, Japan, South Korea, and Taiwan to widen.¹⁷ While the economic costs were evident, the political cost of the protectionist trade policy began to appear in the 2018 mid-term election, as noted earlier. More importantly, bipartisan support for trade jumped after Trump took office in 2017. About 45% of the respondents to a Gallup survey in 2018 saw US-China trade war as economically harmful.¹⁸

As a response to US tariffs, China imposed tariffs on US agricultural exports, including a crucial 25% increase in soybean tariffs. The impact of Chinese tariffs was immediately visible as US soybean exports to China fell drastically (Figure 4.2). Economic analyses and anecdotes

¹⁴ Fajgelbaum, P.D., Goldberg, P.K., Kennedy, P.J. & Khandelwal, A.K. (2020). *The Return to Protectionism. The Quarterly Journal of Economics*, 135(1), 1-55.

¹⁵ Amiti, M., Redding, S.J. & Weinstein, D.E. (2019). The Impact of the 2018 Tariffs on Prices and Welfare. *Journal of Economic Perspectives*, 33(4), 187-210.

¹⁶ Fajgelbaum, P.D., Goldberg, P.K., Kennedy, P.J. & Khandelwal, A.K. (2020). The Return to Protectionism. *The Quarterly Journal of Economics*, 135(1), 1-55.

¹⁷ Nicita, A. (2019). *Trade and Trade Diversion Effects of United States Tariffs on China*. UNCTAD Research Paper No. 37 (UNCTAD/SER. RP/2019/9).

¹⁸ Saad, L. (2019). *Americans' Views on Trade in the Trump Era*. Retrieved May 18, 2021, from Gallup: <https://news.gallup.com/opinion/gallup/267770/americans-views-trade-trump-era.aspx>

point to a possible political motive behind the retaliatory tariff schedule, especially regarding soybeans.¹⁹ The retaliatory tariff burden was felt most heavily in Republican-leaning counties. As a result, the US government had to provide farm subsidies, including USD 1.65 per bushel of soybeans produced by US farmers, to mitigate the repercussions under a 'Market Facilitation Programme' (MFP).²⁰ Indeed, empirical analyses point out the impact of the soybean tariff burden on the Republican's mid-term election losses.²¹ In all, after a brief period of sensational advance, protectionism faced a major political setback in the US.

In a significant milestone of the US-China trade war, a trade deal was agreed by both countries in January 2020.²² Known as the US-China Phase 1 trade agreement, it aimed to avoid further escalations and granted the US selective, preferential access to the Chinese market, violating multilateral rules prohibiting discrimination between trading partners.²³ With the change of US political administration at the end of 2020, the emerging consensus is to reverse US-led protectionism globally. Biden's recognition that the US needs to 'write the rules of the road for the world' to create a level playing field for workers and protect the environment suggests

a middle path between unconstrained free-trade and Trump-style protectionism.²⁴ Salient features of US and China trade policies are discussed in Box 4.2.

In summary, three essential facts are to be noted. First, the rise of anti-trade and protectionist political rhetoric and trade policy, respectively, in the recent past was not a spontaneous development. After an era of hyper-globalisation between 1986-2008, rising income inequality, unemployment, and ineffective safety nets required to assist the globalisation 'losers' stirred public unrest, and paved the way for political events like Brexit and the election of Trump. Second, the protectionist policy formula did not solve problems; instead, it created trade wars, which proved to be economically and politically costly. Indeed, in the 2020 presidential elections, the Democratic party candidate won most of the Rust Belt states, though the protectionist trade policies targeted voters in these crucial states. Third, the future of global trade is at crossroads, albeit with a more favourable political development with the election of Biden, but facing heightened economic uncertainties caused by COVID-19. The world entered 2021 with a new US administration expected to resume its historical role of cutting cross-border tariffs. However,

¹⁹ Fetzer, T., & Schwarz, C. (2019). *Tariffs and Politics: Evidence from Trump's Trade Wars*. CEPR Discussion Paper No. DP13579, Retrieved May 18, 2021, from SSRN: <https://ssrn.com/abstract=3354445>

²⁰ Blanchard, E.J., Bown, C.P. & Chor, D. (2019). *Did Trump's Trade War Impact the 2018 Election?*. Cambridge: National Bureau of Economic Research.

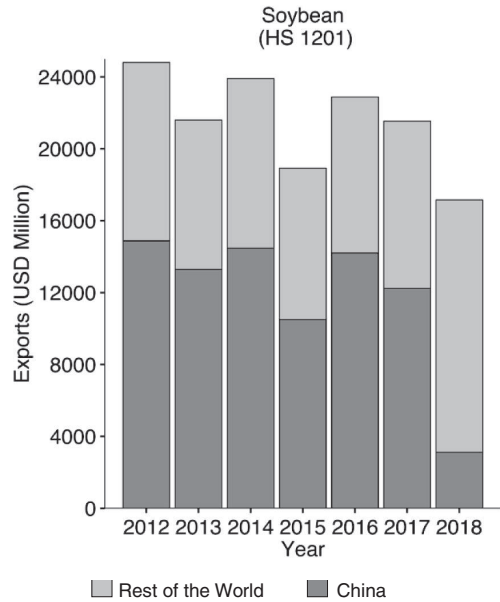
²¹ Wijesinghe, A. S. (2020). Retaliatory Tariff and 2018 Mid Term Election: Was There an Effect of Chinese Soybeans Tariff?. In *2020 Annual Meeting, July 26-28*, (No. 304505). Kansas: Agricultural and Applied Economics Association; Chyzh, O.V., & Urbatsch, R. (2021). Bean Counters: The Effect of Soy Tariffs on Change in Republican Vote Share Between the 2016 and 2018 Elections. *The Journal of Politics*, 83(1).

²² Bown, C. (2020). *Trump's Phase one Trade Deal with China and the US Election*. Retrieved May 18, 2021, from <https://www.piie.com/blogs/trade-and-investment-policy-watch/trumps-phase-one-trade-deal-china-and-us-election>.

²³ Freund, C., Maliszewska, M., Mattoo, A., & Ruta, M. (2020). *When Elephants Make Peace: The Impact of the China-U.S. Trade Agreement on Developing Countries*. Retrieved May 18, 2021, from World Bank: <https://doi.org/10.1596/1813-9450-9173>

²⁴ Council of Foreign Relations. (2020). *President-Elect Biden on Foreign Policy*. Retrieved May 18, 2021, from Council of Foreign Relations: <https://www.cfr.org/election2020/candidate-tracker#trade>

Figure 4.2
Annual Top Ten US Exports to China



Source: Author's calculations using COMTRADE data.

essential questions remain whether a phase of de-globalisation, if indeed there is any such phase, will gain traction in a COVID-19 economic recovery effort.

4.3 The De-globalisation Trend: Fact or Hype?

Although the process of globalisation is multifaceted, it is natural to initially focus on trade and determine whether de-globalisation is visible in recent cross-border trade trends. When examining the evolution of world trade to world GDP ratio between 1970-2019, a notable observation is that the slight slowdown after 2016 cannot be considered as a reverse of globalisation. In reality, after an accelerated period of hyper-globalisation between 1986-2008,

Box 4.2 US and China Trade Strategies in the Modern Thucydides' Trap

The Athenian historian Thucydides posited that the Peloponnesian War between Athens and Sparta had been inevitable as Spartans did not tolerate the growth of the new powerhouse Athens. Following Thucydides, the US political scientist Graham Allison postulates a tendency towards a conflict between the emerging power – China – and the existing great power, the US. The US-China trade war validates this postulation to some extent. The Trump era US-China trade war policies continue under the Biden presidency while China is keen to fill the vacuum created by the absence of the US in Asian trade deals. Moreover, both countries are actively pursuing new alliances for improved trade to countervail each other through multilateral partnerships.

China Races Toward Enhanced Trade Partnerships with Asia and the EU: China achieved a strategic victory in securing preferential access on Asian trade through the Regional Comprehensive Economic Partnership (RCEP). The agreement has 15 Asia-Pacific signatory countries with a combined wealth of 30% of world GDP. In addition, China has expressed interest in joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Deepening integration beyond Asia, China completed the EU-China Comprehensive Agreement on Investments in 2020. Although these agreements are yet to become fully functional, their successful implementation and subsequent preferential access to the partner countries will generate considerable benefits for China.

The Biden-Harris Administration's Push for Supply Chain Resilience: The new US administration has indicated its commitment to a multilateral and rule-based trade within a WTO framework. The need for a sophisticated evaluation of trade policy options that guarantee a careful balance between US global interests and domestic workers' well-being delayed the trade policy response of the Biden-Harris administration. The administration intends to create a 'diverse and healthy ecosystem of suppliers' of vital materials used in value chains and prefer allies that follow 'America's labour, environmental, equity, and other values.'

The White House identifies semiconductor manufacturing and advanced packaging, large capacity batteries, critical minerals and materials like lithium, cobalt, and graphite, and pharmaceutical and active pharmaceutical ingredients as vital sectors that need an uninterrupted and robust supply chain. Expansion of multilateral diplomatic engagements using the Quad and G7 platforms and strengthening international trade rules, including trade enforcement mechanisms, will be the policy measures of the US administration that will directly impact the global trade landscape. Increased collaboration with US allies, notably the EU, will be the prominent feature in the future trade agenda of the US. In addition, the US will use labour, environmental, and other values to counter China's dominance in supply chains of the above critical supplies.

Source: Compiled by the author.

a slight downturn is not something unexpected. In the previous section, the potential political and economic causes for such a slowdown were discussed. Additionally, the political demand from the constituency for less international trade did not perpetuate. In a world economy that converges to a balanced growth path, the ratio of world trade to world GDP may stabilise to a constant steady-state value which is not an unnatural phenomenon.²⁵

The COVID-19 pandemic brings added complexity to the question of de-globalisation. The pandemic is undoubtedly affecting supply chains worldwide. Further, most countries adopted trade policy as a tool to respond to the crisis. For instance, some countries are facilitating the import of food and health supplies while discouraging exports.²⁶ Moreover, a restricted flow of foreign

exchange due to COVID-19 is another factor prompting countries to embark upon restrictive trade regimes. Therefore, in this environment, inward-looking trade policy responses that discourage international trade and promote import substitution are gaining policymakers' attention.

However, trade data show that trade is recovering, and there is no significant divergence in industrial production and trade. Figure 4.3 shows the trend in world industrial production and world trade by volume. In comparison to August 2019, world trade had plunged as of May 2020. However, there are two notable facts. First, as depicted in Figure 4.3, industrial production also fell. Secondly, trade recovered swiftly during June-August 2020. It is essential to discuss the reasons behind the swift recovery of trade and

²⁵ Antràs, P. (2020). *De-Globalisation? Global Value Chains in the Post-COVID-19 Age*. Working Paper No. w28115. Cambridge: National Bureau of Economic Research.

²⁶ Evenett, S. J., Fiorini, M., Fritz, J., Hoekman, B.M., Lukaszuk, P., Rocha, N., Ruta M., Santi, F. & Shingal, A. (2020). *Trade Policy Responses to the COVID-19 Pandemic Crisis: Evidence from a New Dataset*. EUI Working Paper RSCAS 2020/78.



Note: Close to 80% of the increase occurred between 1986-2008. The ratio quickly recovered to the 1986-2008 trend line after the financial crisis-induced plunge to the pre-crisis level. The trend slightly slowed down again after 2016.

Source: Author's illustrations using World Development Indicators.

industrial output during the pandemic compared to the prolonged recovery during the GFC. The critical difference between the two shocks is that the production impact was not at the extensive margin in the pandemic. Therefore, firms reduced production activities temporarily, but did not lower the capacity to enable a quick recovery possible.

In addition, due to the nature of the health shock, the most affected was the services sector. As less human contact is needed in merchandise trade and production, both recovered swiftly once firms adapted to the situation. The salient features of world trade and production trends are similar in the major economies (Figure 4.4). Figure 4.3 can be decomposed into different goods using a novel dataset produced using

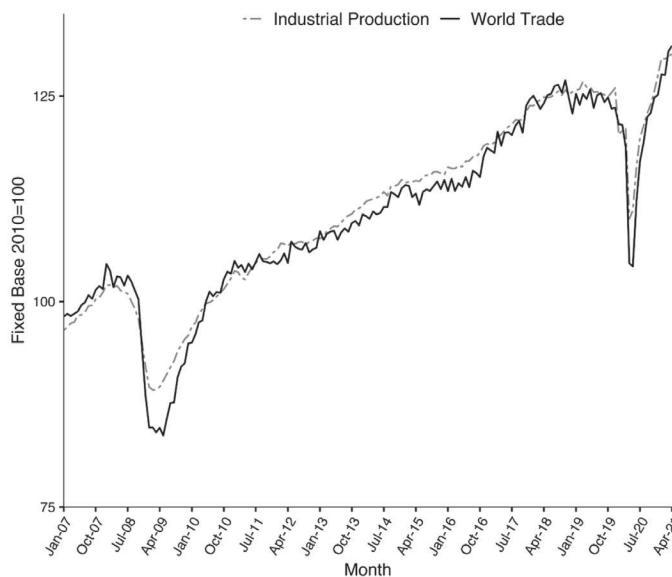
data from radio signals emitted by global vessels for navigational safety purposes.²⁷ Though the data is imperfect due to its experimental nature, the disaggregation provides rich information. The data show that world trade had fully recovered to its pre-pandemic level at the beginning of 2021, confirming that world trade is recovering much faster than world GDP (Figure 4.3).²⁸

Thus, world trade data shows no significant reversal to the globalisation process in world merchandise trade, but world trade is recovering fast, outpacing the recovery of global industrial production. Figure 4.5 shows that global supply chains are resilient as well. Vehicle production is a prototypical example of intensive GVCs. The seaborne vehicle trade collapsed within the first

²⁷ Cerdeiro, D.A., Komaromi, A., Liu, Y. & Saeed, M., (2020). World Seaborne Trade in Real Time: A Proof of Concept for Building AIS-based Nowcasts from Scratch. IMF Working Paper 20/57.

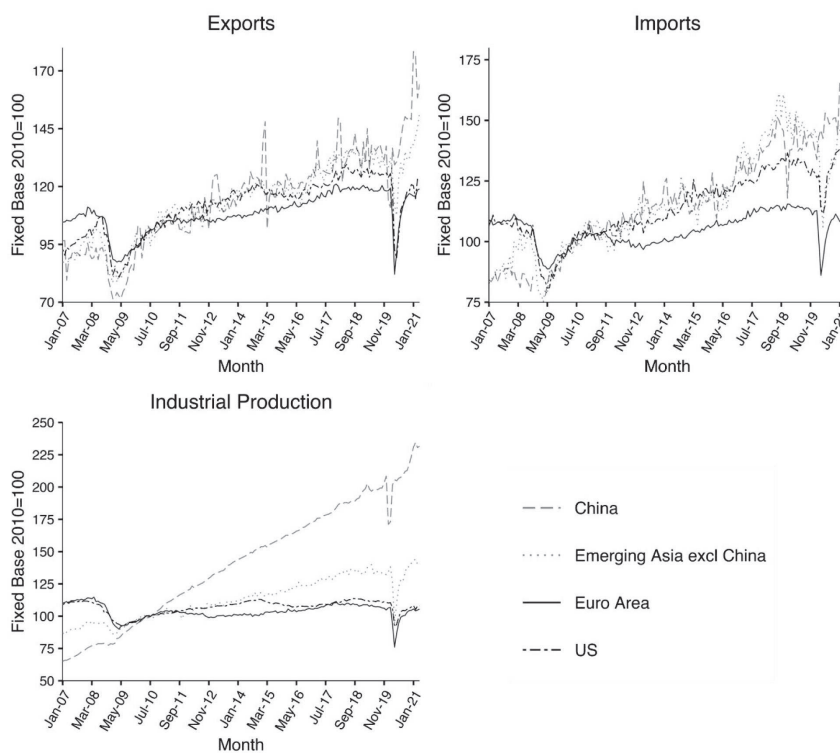
²⁸ Antràs, P. (2020). De-Globalisation? Global Value Chains in the Post-COVID-19 Age. Working Paper No. w28115. Cambridge: National Bureau of Economic Research.

Figure 4.3
World Trade and World Industrial Production, by Volume (2010=100)



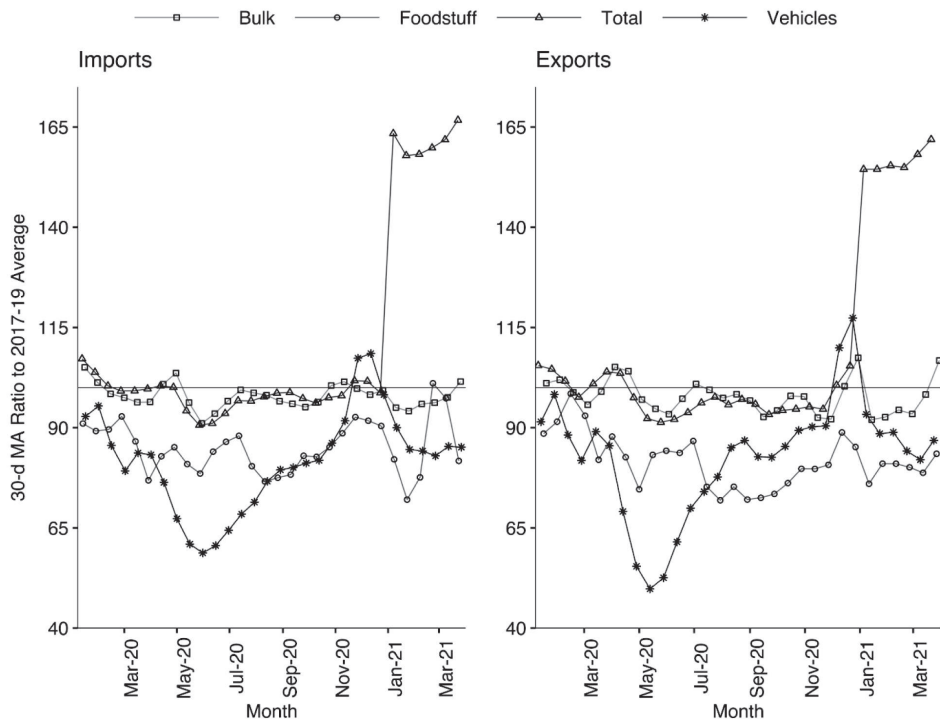
Source: Produced by the author using CPB (Netherlands Bureau for Economic Policy Analysis) World Trade Monitor Data.

Figure 4.4
Trade and Industrial Production, by Volume Statistics for Major Economies (2010=100)



Source: Produced by the author using CPB (Netherlands Bureau for Economic Policy Analysis) World Trade Monitor Data.

Figure 4.5
World Seaborne Merchandise Trade Volume



Notes: The lines show the deviation from 30 days moving average ratio to 2017-2019 average (horizontal line at $y=100$).
Source: Author's calculations and illustrations using COMTRADE data.²⁹

few months into the pandemic due to supply chain disruptions. However, vehicle trade recovered faster than the other components of the trade. By January of 2021, it reached the pre-pandemic level, indicating the resilience of GVCs to shocks. However, the sustainability of this recovery will depend on the future course of the pandemic.

The early disruptions to global supply chains in the pandemic prompted a questioning of the perceived benefits of GVCs owing to the

spillover of economic shocks through supply chains. Shocks in the central nodes of production networks contagiously transmit along the GVCs across countries.³⁰ Hence, it was natural to question whether countries would be better off by decoupling from GVCs to reduce their exposure to foreign shocks. However, counterfactual analyses clearly show that the benefits of joining GVCs prone to foreign supply shocks are greater than any benefits derived from policy intervention aimed at decoupling from GVCs to reduce

²⁹ Cerdeiro, D.A., Komaromi, A., Liu, Y. & Saeed, M., (2020). *World Seaborne Trade in Real Time: A Proof of Concept for Building AIS-based Nowcasts from Scratch*. IMF Working Paper 20/57.
³⁰ Friedt, F. (2021). *The Triple Effect of COVID-19 on Chinese Exports: GVC Contagion Effects Dominate Export Supply and Import Demand Shocks*. Retrieved May 18, 2021, from VoxEU.org: <https://voxeu.org/article/triple-effect-covid-19-chinese-exports>

such exposure.³¹ The available evidence further indicates that joining GVCs offers important advantages over fully developing domestic supply sources.³² Indeed, increased automation as an alternative to offshoring is considered a threat to the future of globalisation. However, reduced production costs in developed countries may generate scale benefits, leading to increased demand for raw materials from developing countries. The empirical question, whether automation will decrease GVC participation is addressed in the literature, and the answer is an emphatic no.³³

4.4 Changing Global Order? Costs and Opportunities for Sri Lanka

Structurally, fragmented production along GVCs is to stay globally. Notwithstanding the threats from business cycle effects, political backlashes, and the worst kind of pandemic, global trade recovered and will continue to grow. Politically, the current US administration will support the multilateral WTO to regain its role as the apex body for tariff reduction, reforms for rule-based trade, and enforcing rules to curtail any manipulation of the system. The US has already identified its need to reduce supply chain concentration on China – the dominant supplier in critical minerals and solar-panel production – through partnerships with its allies in the G7 group and the Quad (Australia, Japan, and India). The global trade system will no doubt face spillover

The benefits of joining GVCs prone to foreign supply shocks are greater than any benefits derived from policy intervention aimed at decoupling from GVCs to reduce such exposure.

³¹ Eppinger, P., Felbermayr, G. J., Krebs, O., & Kukharskyy, B. (2021). *Decoupling Global Value Chains*. Retrieved on May 18, 2021, from SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3848341

³² Shepherd, B. (2021). *The Post-COVID-19 Future for Global Value Chains*. UNDP Regional Bureau for Asia and the Pacific Strategy, Policy and Partnerships Working Paper.

³³ Artuc, E., Bastos, P., & Rijkers, B. (2020). *Robots, Tasks, and Trade*. Retrieved on May 18, 2021, from SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3560294; Antràs, P. (2020). *De-Globalisation? Global Value Chains in the Post-COVID-19 Age*. Working Paper No. w28115. Cambridge: National Bureau of Economic Research.

effects from the ideological battle between the US-led liberal capitalism, and China led state-sponsored capitalism. However, both camps need each other's markets for robust economic growth. The two camps will cooperate whenever possible and be extremely competitive with each other constantly.³⁴ Sri Lanka needs to identify and take into consideration the costs and the opportunities it faces in this new world order.

Sri Lanka's recent use of quantitative restrictions on imports can inhibit any potential gains from the new world order. In addition, unresolved political issues stemming from human rights concerns with the EU can generate costs. Thus, domestic trade policies, potential loss of preferential access to the EU, and competitors gaining preferential access to important markets are Sri Lanka's significant costs and challenges. The opportunities for Sri Lanka are the benefits it can derive from supply chain diversification, and capitalising on trade diversion from the US-China trade war.

4.4.1 Opportunities from US Policy Changes and China's Global Market Integration

As mentioned earlier, the US aims to diversify supply sources away from China to its allies. Among the key sectors identified by the US, electronic parts, including semiconductors and graphite for large scale batteries, are of vital interest to Sri Lanka. In addition, the US intends to provide consumer rebates and tax incentives to spur consumer demand for electric vehicles (EVs), increasing the demand for raw materials for large-scale batteries. Currently, Sri Lanka has shown remarkable growth in exporting electronic

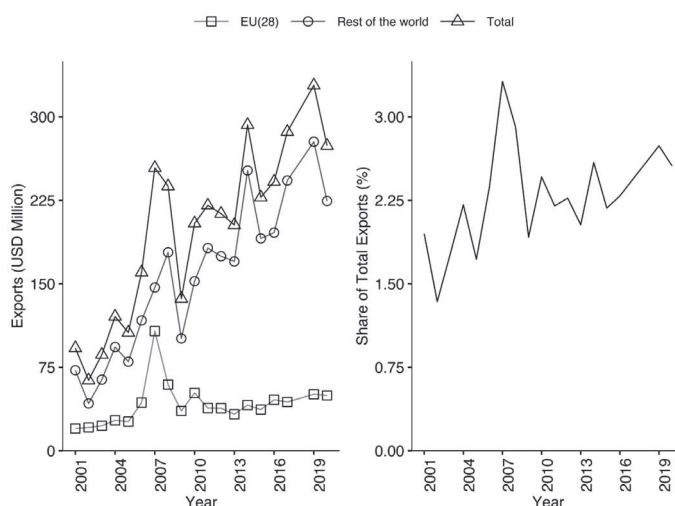
Domestic trade policies, potential loss of preferential access to the EU, and competitors gaining preferential access to important markets are Sri Lanka's significant costs and challenges.

³⁴ Ferchen, M. (2021). *Towards Extreme Competition: Mapping the Contours of US-China Relations*. Berlin: Merics Institute for China Studies.

machinery, equipment, and parts (Figure 4.6). Moreover, the sector's contribution to total exports grew from 1.9% in 2001 to 2.7% in 2019. A significant rise in exports of this category to the EU can be noted before 2008-2009. The clear break in the growth momentum is possibly a result of the withdrawal of the Generalised Scheme of Preferences (GSP+) in 2010. Generally, participation in the GVCs of electronic parts production occurs through intra-industry linkages

Another product with much potential for increased demand is graphite. Sri Lanka's natural graphite exports are currently less than USD 3 million. Developing forward GVC linkages with large scale battery producers in the US will provide an opportunity to utilise this domestic natural resource. Indeed, in 2019, more than 96% of exports of natural graphite was to the EU, UK, US, Japan, Korea, Australia, and India. Because these are the markets the US intends to diversify to, Sri

Figure 4.6
Sri Lanka Exports of Electronic Machinery and Equipment



Source: Author's illustrations using Trade Map data.

due to the attention paid to quality assurance and protection of intellectual property rights (IPRs). Notably, the growth rate in electronic parts exports was around 200% between 2001 and 2020, while overall export growth was just 126% in the same period. There is a slight uptick in electronics exports to the EU from USD 36 million in 2016 to USD 50 million in 2019, possibly resulting in regaining the GSP+. As the sector is showing robust growth, Sri Lanka should work on capitalising opportunities from input source diversification in the US.

Lanka has an opportunity to increase exports in the intensive margin.

Another potential opportunity for Sri Lanka arises from the US-China trade conflicts. It is noteworthy to point out again that tariffs have not been reversed even under the current US administration. China's export losses in the US should theoretically result in trade diversion to the advantage of other US trade partners. In August 2019, the Trump administration announced additional tariffs on US imports from China to

respond to Chinese retaliatory tariffs.³⁵ This round of tariffs included almost all textiles and apparel (T&A) products from China. The announced tariffs (10% to 15%) were on top of the MFN tariffs already in place.³⁶

Table 4.1 shows that most of the top 10 product clusters exported to the US by Sri Lanka at HS 4-digits are reported from T&A products.³⁷ Therefore, Sri Lanka has an opportunity to

increase its market share in these product clusters in the US market. Partial,³⁸ and general equilibrium analyses also show that under different trade war scenarios, low-income countries in Asia would see increased exports to members of the NAFTA, including the US.³⁹ However, a recent study that provides an initial comparison between the predicted gains and the actual gains for Sri Lanka states that the T&A industry is yet to capitalise on the trade diversion. It will take time

Table 4.1
Top 10 Exports to the US from Sri Lanka

HS Code-4 digits	Product Label	Value in 2017 (USD million)
6108	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, négligés, bathrobes	330.5
6212	Brassieres, girdles, corsets, braces, suspenders, garters, and similar articles and parts thereof	311.2
6104	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers	263.5
6204	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers	217.2
6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches	153.2
6205	Men's or boys' shirts (excluding knitted or crocheted, nightshirts, singlets, and other vests)	143.3
6109	T-shirts, singlets and other vests, knitted or crocheted	142.1
4012	Retreaded or used pneumatic tires of rubber; solid or cushion tires, tire treads, and tire flips	112.2
6110	Jerseys, pullovers, cardigans, waistcoats, and similar articles, knitted or crocheted	110.0
6116	Gloves, mittens, and mitts, knitted or crocheted (excluding for babies)	97.0

Source: Author's calculations using Trade Map-International Trade Centre (ITC) data.

³⁵ Bown, C. (2019). *US-China Trade War: The Guns of August*. Retrieved May 28, 2021, from PIIE: <https://www.piie.com/blogs/trade-and-investment-policy-watch/us-china-trade-war-guns-august>

³⁶ MFN tariff rates on Chinese knitted apparel (HS chapter 61) averaged 14.4%, and woven clothing (HS chapter 62) averaged 10.4%.

³⁷ About 32% and 35% of US imports in HS 61 and 62 clusters respectively are from China.

³⁸ Wijayasiri, J., & Wijesinha, A. (2021). US-China Trade War: Trade and Investment Implications for Sri Lanka. In *The China-US Trade War and South Asian Economies*, 137-172. Abingdon: Routledge.

³⁹ Robinson, S., & Thierfelder, K. (2019). *Policy Brief 19-17: US-China Trade War: Both Countries Lose, World Markets Adjust, Others Gain*. Retrieved May 18, 2021, from Ideas: <https://ideas.repec.org/p/iee/pbrief/pb19-17.html>; Robinson and Thierfelder (2019) analyse three policy scenarios. The first scenario in June 2019 is when the US imposed a 25% tariff on USD 250 billion Chinese imports, and the Chinese retaliate by raising tariffs on about USD 110 billion of imports from the United States. Scenario two is scenario one plus additional tariffs by the US and retaliatory tariffs by China. In the third scenario, they account for assumed costs associated with shifting capital across sectors, given the increased size of shocks.

for the trade diversion to materialise. US buyers may observe developments in the tariff war before switching suppliers. If Sri Lanka actively promotes its T&A products among US consumers, it may see firms increase exports as the trade diversion takes effect.

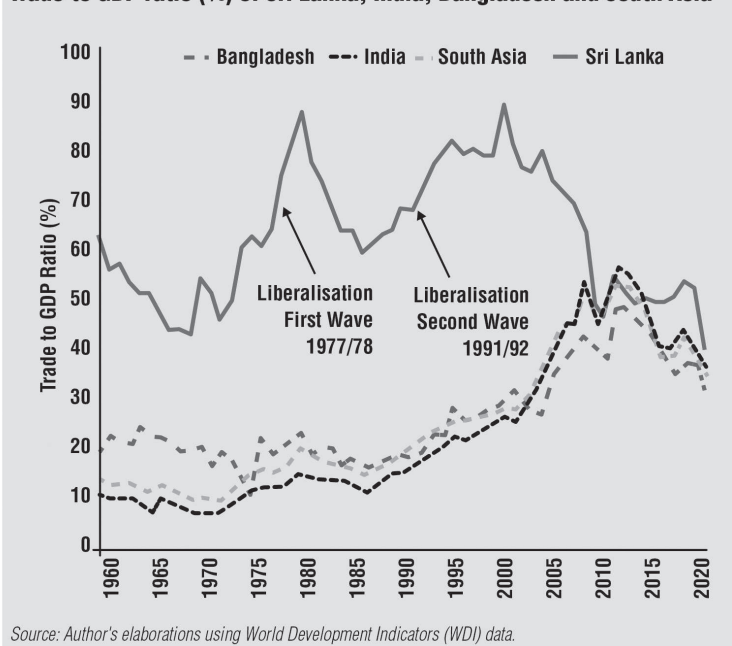
4.4.2 Trade Policy Constraints Affecting Sri Lanka's Global Value Chain

Sri Lanka's trade-to-GDP ratio shows a strong downward trend from 2005 after a commendable rise followed by two waves of trade liberalisation. More recent attempts to reverse this trend resulted in a slight uptick, but it failed to gain momentum. The post-2005 downward trend resulted from the higher relative growth of infrastructure dominant non-tradable sectors than the growth of the export

sector. The most recent downward trend resulting from the COVID-19 pandemic indicates that the trade sector contracted more relative to the GDP in 2020, mainly due to the sharp curb of imports.

In addition, the weaker outward orientation in Sri Lanka's trade policy is reflected in its low participation in GVC economic activities. A newly available Multi-Region Input-Output (MRIO) data allow the GVC component of gross exports to be identified. Compared to regional counterparts, Sri Lanka's upstream and downstream GVC activities are seen to diminish over time (Figure 4.7). It implies that the share of domestic value-added content in intermediate exports and the share of foreign value-added in final goods produced in the country are declining over time. The trade policy focus on import substitution that increased the domestic content of gross exports is the potential reason behind this downward trend.⁴⁰

Trade to GDP ratio (%) of Sri Lanka, India, Bangladesh and South Asia



⁴⁰ Athukorala, P. C. (2012). Sri Lanka's Trade Policy: Reverting to Dirigisme?. *The World Economy*, 35(12), 1662-1686.

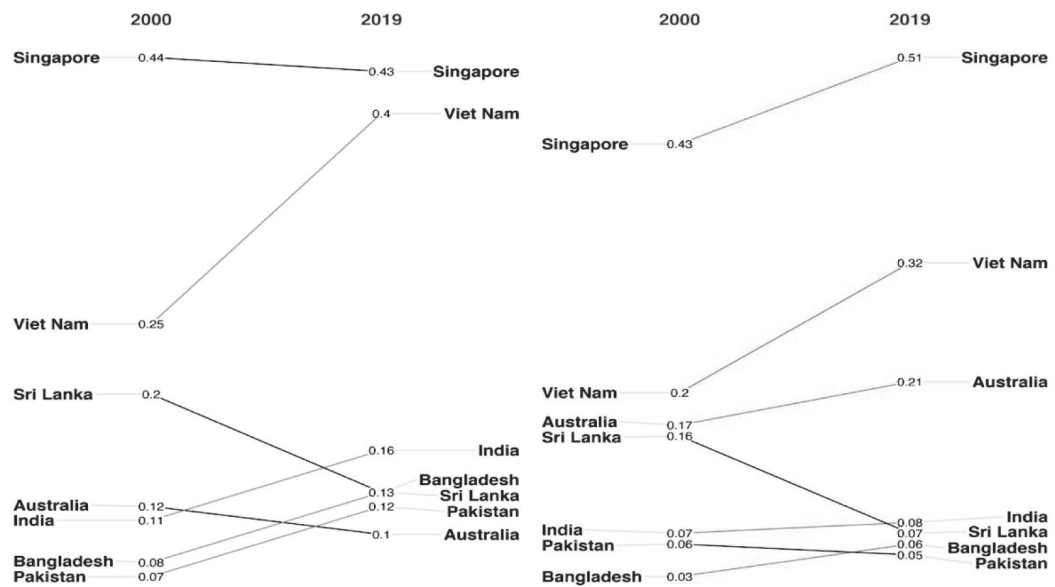
For instance, between 2004 and 2009, the average protection rate for agriculture increased considerably from 28.1% to 49.6%, for industrial products from 10.7% to 24.1%, and for all import lines from 3.4% to 27.9%.⁴¹

Recently, Sri Lanka started to use restrictive trade policy tools to mitigate the COVID-19 induced foreign exchange crisis. Various forms of quantitative restrictions and tariff increases were used to discourage imports. For instance, in April 2020, imports of 750 products at eight-digit HS

code, worth USD 1,353 million at 2019 imports, were suspended temporarily. Additionally, imports of 634 products at eight-digit HS code, worth USD 3,232 million at 2019 imports, were subjected to the requirement of a credit facility of three months.

In June 2020, import restrictions were relaxed to facilitate domestic production. However, many commodities including, rubber tires, personal vehicles, and T&A products were temporarily suspended, while in the second quarter of 2021, import controls were extended to vital raw

Figure 4.7
Backward and Forward GVC Participation Index for Selected countries



Note: The left panel depicts the evolution of the backward participation index between 2000 and 2019. The right panel depicts the evolution of the forward participation index. The former measures the percentage of a country's total production of final goods and services representing the value-added involved in GVC activities through upstream firms. The latter describes the domestic value-added generated from a given country's GVC activities through downstream firms (the domestic value-added embodied in intermediate exports) as a share of the respective country's total value-added.⁴²

Source: Author's illustrations using ADB-MRIO data.

⁴¹ Pursell, G. (2011). Para-tariffs and Sri Lanka's New Protectionism. *Economic and Political Weekly*, 31-34.

⁴² Wang, Z., Wei, S. J., Yu, X., & Zhu, K. (2017). *Measures of Participation in Global Value Chains and Global Business Cycles. Working Paper no. w23222*. Cambridge: National Bureau of Economic Research.

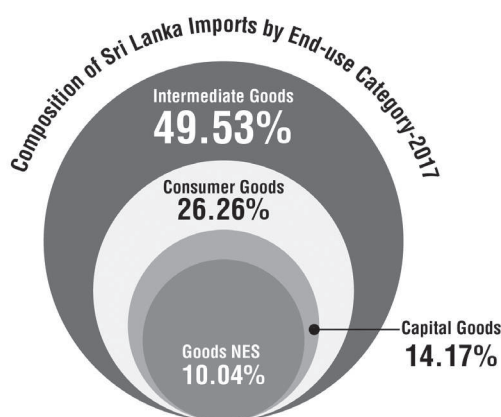
materials, including fertilisers. Although many reasons for these measures are put forward, ranging from boosting domestic production to health reasons, a vital underlying motive is to reduce pressure on the exchange rate. Whether import controls and increased protection to domestic industries is a viable solution to the exchange rate crisis, in the long run, is an important question.

The attempts to substitute imported goods by domestic production pulls out resources from the sectors where comparative advantage resides. Moreover, as Sri Lanka imports are capital-intensive goods (investment and intermediate goods) following comparative advantage, domestically substituting these will be costly. As a result, for a given fraction of saved national income, the real investment is now lower as the price of capital goods is higher, resulting in an overall slow-paced growth rate.

Another adverse impact of pulling out resources from sectors with comparative advantages is slow export growth.⁴³ In addition, as import

substitution itself demands imported raw materials, the demand for foreign exchange for imports grows at a rate higher than GDP. In contrast, the supply of foreign exchange from exports grows much more slowly. Historical evidence implies that the outcome of this mismatch is a widening gap between the demand and supply of foreign exchange.⁴⁴ Hence, inward-looking policies will not solve the forex crisis but aggravate it, resulting in additional costs like domestic monopolies, rent-seeking for quotas, corruption in granting licenses, encouraging black market and smuggling activities, and opening the door to retaliation from trade partners.

Inward-looking policies will not solve the forex crisis but aggravate it, resulting in additional costs.

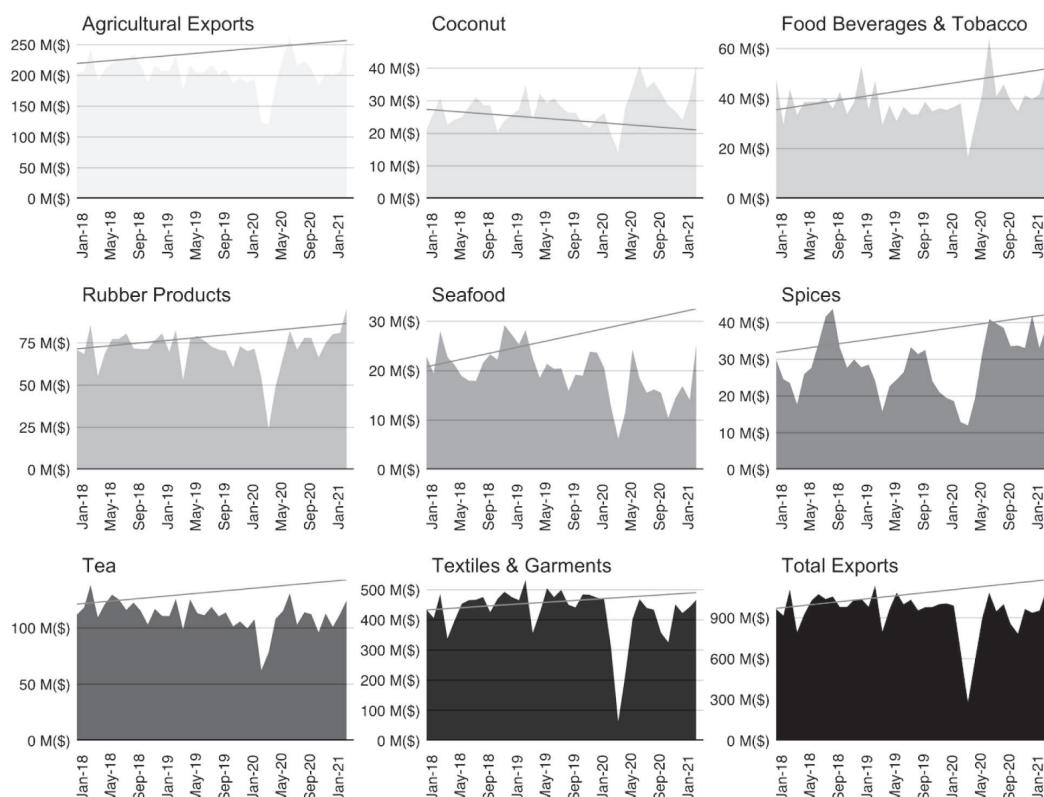


Source: Author's elaborations using WITS data on broad economic categories.

⁴³ The real effect of import controls on the export sector is yet to be determined empirically. Recent data is complicated by the COVID-19 impact. The trade recovery in the first quarter should not be interpreted as occurring despite import control effects. Importantly, overall exports and some other sectors are yet to revert to the pre-pandemic growth trend (Figure 4.8).

⁴⁴ Krueger, A. O. (1998). Why Trade Liberalisation is Good for Growth. *The Economic Journal*, 108(450), 1513-1522.

Figure 4.8
Growth of Sri Lanka Exports (January 2018 to April 2021)



Note: The straight line shows the trend of export growth based on 2016-2018 trade.

Source: Author's illustrations using external sector data by the Central Bank of Sri Lanka.

Sri Lanka should aim to retain preferential access to the EU through the EU's GSP+ due to several reasons. Partial equilibrium estimates show that if Sri Lanka is required to face MFN tariffs in the EU market and the UK, the value of its exports will be USD 627.5 million less than under the GSP+ scheme.⁴⁵ The real outcome may vary as the model-based estimates are contingent upon the elasticities incorporated in the analysis. However, Sri Lanka's experience in 2010 shows that the loss of GSP+ had an adverse impact on

the T&A industry.⁴⁶ This time around too, widely affected sectors will be T&A and seafood exports (Table 4.2). Moreover, estimates suggest exports of electronic machinery, equipment, and parts will contract by around USD 3 million. Importantly, it includes strategic products like semiconductors. As mentioned earlier, the US' attempt to diversify supply chains away from China to the EU and other allies in crucial electronic parts may benefit Sri Lanka through intra-industry GVC participation.

⁴⁵ Estimates are contingent upon the elasticities of estimates. Here, infinite export elasticity is assumed while Armington substitution elasticity was taken as 1.5. The simulation exercise was conducted using the SMART tool embedded in WITS.

⁴⁶ Bandara, J. S., & Naranpanawa, A. (2015). Garment Industry in Sri Lanka and the Removal of GSP Plus by EU. *The World Economy*, 38(9), 1438-1461.

Table 4.2
Impact of the Withdrawal of GSP+ on Sri Lanka's Exports to the EU

HS Chapter	Product Description	Current Tariff	Lower Bound of MFN Tariff	Exports in 2019 (USD million)	Exports after Withdrawal of GSP+ (USD million)	Trade Loss (USD million)
61	Knitted and Crocheted Apparel	0.0%	8.9%	1,489.5	1,172.8	316.7
62	Woven apparel	0.0%	8.9%	897.6	719.9	177.7
24	Tobacco and manufactured tobacco substitutes	0.0%	22.8%	68.1	13.9	54.3
03	Seafood	0.0%	7.5%	115.0	94.9	20.0
40	Rubber and articles	0.0%	4.5%	284.9	271.1	13.8
21,15,09,20,8 5,07,87,95,63, 06,69,64,57,7 1,16,44	Other	0%- 3.3%	2%- 33.4%	595.7	550.7	45.0
Total				3,450.8	2,823.3	627.5

Source: Based on the author's estimates of partial equilibrium analysis using SMART.

Trade diversion away from Sri Lanka will benefit its competitors in T&A exports, such as China and Bangladesh. Similarly, in the seafood sector, Turkey and the Maldives have the potential to gain while Malaysia and China will gain mostly in the rubber and rubber products sector. Notably, in the T&A sector, Bangladesh has duty-free and quota-free access to the EU market under the Everything-but-Arms initiative. Sri Lanka's products are likely to face stiff competition in the EU markets without GSP+ compared to major competitors like Bangladesh.⁴⁷

While Sri Lanka faces a risk of being cut off from the crucial channels of GVCs, the existing mechanisms for market access are proving to be ineffective. The empirical evidence based on gravity models in trade shows that participation in regional trade agreements (RTAs) has a trivial or, whenever non-trivial, a negative effect on gross exports and forward and backward GVC participation. As widely discussed in the literature, long sensitive lists and complex rules of origins are the reasons behind this unsatisfactory performance of RTAs in the South Asia region.⁴⁸

⁴⁷ Bangladesh will lose EBA preferential access to the EU possibly in 2027, after it graduates from LDC status. The United Nations recommends that entering into FTAs with countries including the EU as a strategy to compensate for the trade losses.

⁴⁸ Baysan, T., Panagariya, A., & Pitigala, N. (2006). *Preferential Trading in South Asia*. World Bank Policy Research. Working Paper, 3813. Retrieved May 12, 2021, from PERS: www.pers.ssm.com/so13/papers; Weerakoon, D., & Thennakoon, J. (2006). SAFTA: Myth of Free Trade. *Economic and Political Weekly*, 3920-3923.

South Asian countries include goods that partner countries export with a comparative advantage to their respective sensitive lists, and phase in the implementation of RTAs, effectively prohibiting immediate gains from lowered tariffs. Figure 4.9 shows the effect of phasing in of RTAs. Although the impact of RTAs is moving towards the positive side with time, the overall effect is still not positive.

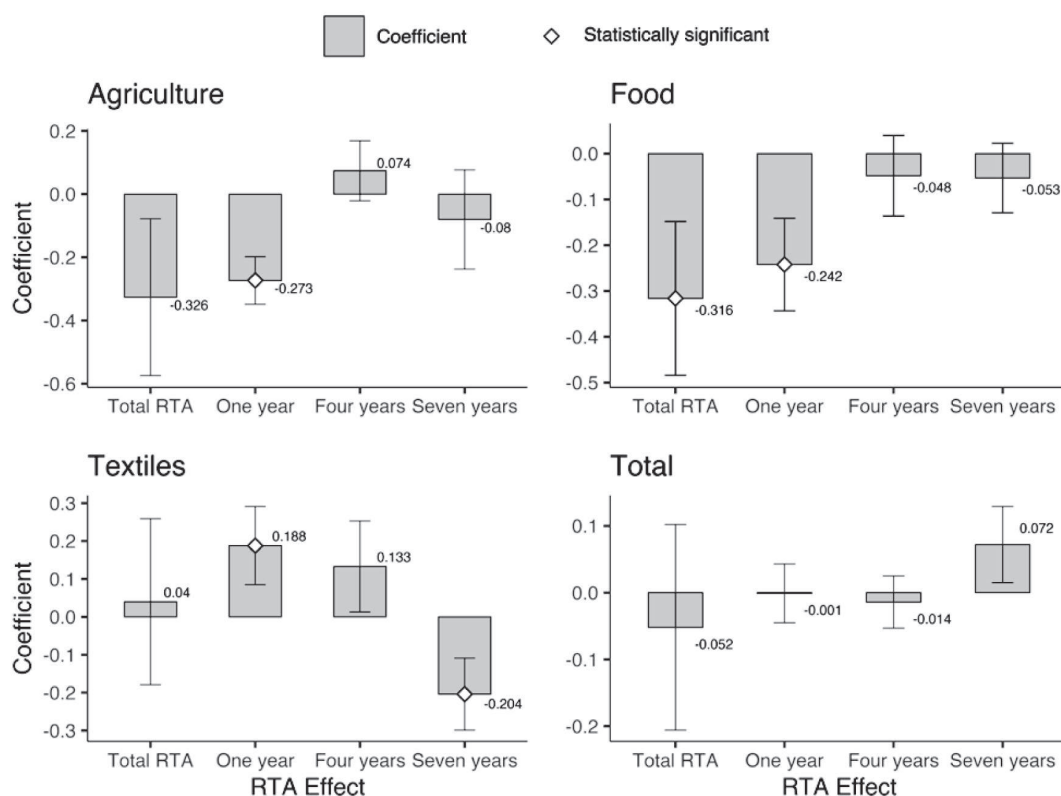
With Sri Lanka still in negotiations with countries like China and Bangladesh on free trade agreements (FTAs), to fully benefit, tariff reductions should be applied to sectors with a comparative advantage. There should be no prolonged phasing in, extended sensitive lists, and complex rules of origins that inhibit trade gains. Sri Lanka should form FTAs with countries that would grant preferential access to its exports with a comparative advantage, to benefit from trade integration fully.

4.5 Conclusion

This chapter discussed the trade-related causes of protectionism's political rise globally, the fate of globalisation under a post-Trump administration, and the opportunities and challenges for Sri Lanka in the changing global order. The analysis of available data shows that, despite a slight slowdown, there are no reasons to believe that the world is experiencing a de-globalisation effect. The future of globalisation seems assured as the current US administration resumes its historical role in driving tariffs reductions, removing barriers to trade, and ensuring a rule-based trade order. In this context, Sri Lanka should carefully weigh the challenges and opportunities it will face in the future.

**Sri Lanka
should form
FTAs with
countries that
would grant
preferential
access to its
exports with
a comparative
advantage
to benefit
from trade
integration
fully.**

Figure 4.9
The Effect of RTAs on Gross Exports



Note: The dependent variable is the domestic value-added final and intermediate goods exported. The partner country absorbs the intermediate goods.

Source: Author's illustrations using results from gravity model estimates.

The continuing trend of protectionism as a solution for foreign exchange pressures inhibits Sri Lanka's ability to capitalise on its comparative advantage by joining GVCs. Increased domestic content that does not involve value chains and a reduced trade-to-GDP ratio over time shows Sri Lanka's gradual journey to an inward-looking economy. The import substitution strategy will generate a widening gap between the demand and supply of foreign exchange, resulting in more trade-inhibiting import controls. As Sri Lanka

imports intermediate and capital goods, import controls will curb real domestic investment, generating slower economic growth. Moreover, Sri Lanka needs to trade openly, securing preferential access to important markets. These include attempts to capitalise on US efforts to diversify its sources of vital supplies, and retaining preferential access to the EU market. The EU emerged as a major destination for Sri Lanka's electronic parts exports before GSP+ was lost in 2010. Hence, losing such access to the EU again

will shrink the current level of exports, as shown by partial equilibrium analysis and will be inimical to the expansion of exports.

Sri Lanka needs to focus on restructuring its existing RTAs, incorporating the lessons learnt. The current crop of RTAs in the South Asian

region do not show a positive effect and but a statistically significant negative effect on some GVC components of gross exports. Thus, in any future FTA negotiations, Sri Lanka should keep in mind that it can reap substantial benefits if the country gets preferential access to products that it currently exports with a comparative advantage.

5. COVID-19 Fiscal Policy: Dealing with Debt and Deficits

5.1 Introduction

Sri Lanka's fiscal landscape left much to be desired even before the repercussions of the COVID-19 pandemic were felt. More than a year into the pandemic, the country's already tight fiscal space has become further constricted, leaving some tough decisions to be made in the pandemic recovery period. The immediate economic fallout saw Sri Lanka suffer from a growth contraction of -3.6% in 2020. The role that fiscal policy tools can play in enabling a rebound towards positive growth numbers and economic recovery in 2021 require deliberation and discussion.

The policy responses taken by the country thus far, have relied more heavily on monetary policy tools such as lowering interest rates, and on exchange rate/balance of payments (BOP) related measures such as imposing import controls. Although some fiscal tools such as raising social security allowances have been included in the country's overall recovery package, there is general consensus that the size and scale of Sri Lanka's fiscal stimulus package has been inadequate against the magnitude of the crisis. Conversely, on the global front, and rich countries in particular, have been rolling out some of the historically largest fiscal stimulus packages. For instance, the United States (US) has rolled out the largest stimulus package since World War II. It reflects a broader global tilt towards fiscal policy reliance in the wake of the

There is general consensus that the size and scale of Sri Lanka's fiscal stimulus package has been inadequate against the magnitude of the crisis.

2008 global financial crisis (GFC). Like advanced economies, emerging and developing economies too are using fiscal policy tools – albeit on a much smaller scale – to fight the downside economic impacts of the pandemic.

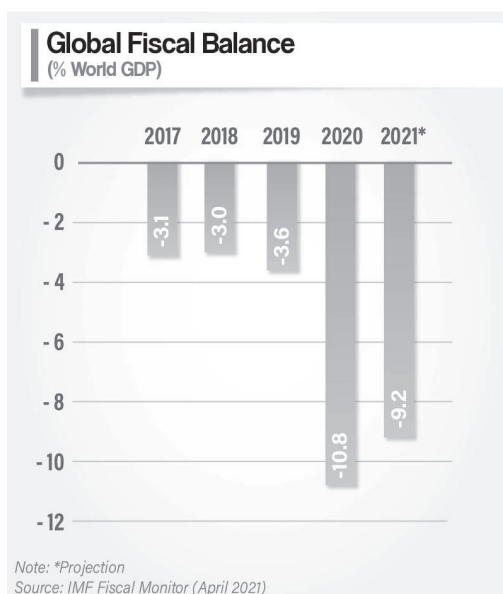
This re-orientation raises several questions about whether the developing world in particular can bounce back without the risk of unmanageable debt, high inflation and overheating of their economies in the near future. It has also sparked a debate about whether the rich world is doing ‘enough’ to support poorer countries – who cannot afford fiscal stimulus on the scale required – in their pandemic recovery efforts. As such, this chapter aims to examine some of these pressing issues. First, it delves into the debate on the global fiscal policy response to the pandemic, whilst investigating the evidence on the effectiveness and consequences of fiscal stimulus experienced by developing countries, including Sri Lanka; second, the chapter discusses the implications of such policies on developing country debt status; third, it provides recommendations on how best Sri Lanka can mitigate the economic repercussions of the pandemic whilst navigating the country’s weak fiscal landscape by employing available fiscal policy tools in a strategic manner.

5.2 Fiscal Stimulus to Manage the Pandemic: How has the World Fared?

Globally, the policy response to COVID-19 has been swift and decisive. Emphasising the central

role of fiscal policy in any COVID-19 policy response, the Economist noted early on that “the economic response to the financial meltdown of 2007-09 was big enough; but in answer to the COVID-19 pandemic, policymakers are launching even bigger, more radical interventions.”¹ Indeed, globally, politicians threw open the ‘fiscal spigots’ to support the economy. On a conservative measure, the global stimulus from government spending in 2020 is estimated at around 7.5% of global gross domestic product (GDP), a much bigger push than observed during the 2008 GFC.²

5.2.1 Fiscal Policy Tilt



Source: International Monetary Fund. (2021, April). *Database of Fiscal Policy Responses to COVID-19*. Retrieved May 18, 2021, from International Monetary Fund <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>

¹ The Economist. (2020, March 28). *Rich Countries Try Radical Economic Policies to Counter Covid-19*. Retrieved May 20, 2021, from The Economist: <https://www.economist.com/briefing/2020/03/26/rich-countries-try-radical-economic-policies-to-counter-covid-19>

² European Commission. (2021). *One Year Since the Outbreak of COVID-19: Fiscal Policy Response*. Brussels: European Commission.

Since the GFC crisis, there has been a shift in thinking around macroeconomic stimulus measures. Fiscal conservatism has given way to an acceptance of a much looser fiscal policy stance and the accumulation of higher volumes of debt. Unlike in the past, new thinking in the rich world is that debt is more sustainable than it was once thought to be, and fears around borrowing and spending leading to inflation are something of the past. This largely stems from the post-GFC experience, where unsuccessful austerity measures weakened economies faster than their tax revenues could sustain them. The belief now is that governments can outgrow even large volumes of debt (as long as asset prices are low), such that a country's interest payments can be outpaced by economic growth resulting from the stimulus.

However, this unprecedented level of fiscal stimulus that raises concerns on overheating and inflation, and reaching unmanageable levels of debt in the near future, is of particular worry for developing countries. The assumption of continued loose financial conditions relies on interest rates worldwide remaining at low levels. This underlies emerging markets economies' (EMEs) experimentation with unconventional monetary policy and bigger deficits pioneered in the rich world.³ However, there remains a concern that the large fiscal stimulus in the US, for instance, might result in a post-pandemic consumer boom which pushes up prices. Such concerns cannot be discounted entirely; in May 2021, US consumer price inflation rose to 13-year high of 5% on the back of household savings and pent up demand.

If inflationary spikes persist, it could force the US Federal Reserve to raise interest rates in order to clamp down on an overheating economy – the consequences of which will impact heavily on developing economies. They could potentially experience capital outflows if interest rates increase in the US and push up the United States dollar (USD), thus making it more challenging to manage and sustain high levels of debt, which are usually held in USD. As debt becomes heavier and costlier, financially constrained economies in the developing world would suffer as a result, and this would compound the difficulty of fighting the pandemic.

Notwithstanding the above, empirical data on the impact of discretionary fiscal policy on inflation is mixed. This is likely due to the offsetting effect of monetary policy, resulting in several empirical studies finding only inconclusive evidence on the link between fiscal policies and inflation.⁴ Nevertheless, in the sample of 15 OECD countries analysed, after controlling for monetary policy and other relevant factors, volatility in discretionary fiscal policies is found to contribute to inflation volatility. From a policy perspective, the results provide evidence that discretionary fiscal policies may have de-stabilising rather than stabilising effects on the economy.

5.2.2 Fiscal Response in Advanced Economies vs Developing/EMEs

Although the types and size of fiscal packages in response to COVID-19 have differed across

³ The Economist. (2021, March 11). *How Much of a Worry is Inflation?* Retrieved May 18, 2021, from The Economist: <https://www.economist.com/the-economist-explains/2021/03/11/how-much-of-a-worry-is-inflation>

⁴ Rother, P. (2004). *Fiscal Policy and Inflation Volatility*. Frankfurt: European Central Bank. International Monetary Fund. (2021, April 8). Policy Tracker. Retrieved May 18, 2021, from International Monetary Fund: <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>.

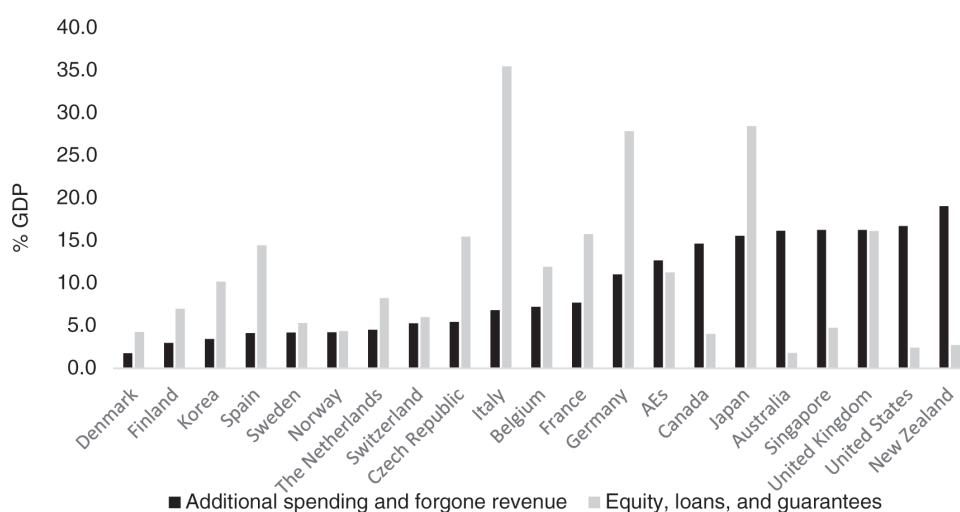
countries, most have been comprehensive and significant, particularly in advanced economies, where certain fiscal packages have grown to be as large as 30% of GDP in 2020.⁵

The measures introduced to support businesses have been similar across countries, with a strong focus on tax payment deferrals and other measures that support business cash flow. The introduction or expansion of job retention schemes and other employment support have also been some commonly used measures. However, there have been more significant differences across measures adopted to support households. For instance, many European countries and the US have extended support for families with children and expanded income support by enhancing eligibility and access to

paid sick leave and unemployment benefits. The US also provided direct cash transfers to low and middle-income households. However, in emerging economies, social assistance measures such as cash transfers to low-income households, informal workers, and beneficiaries of social benefits have been more common social insurance or job retention schemes.⁶ Several emerging economies, including Sri Lanka, have also introduced tax payment deferrals and tax waivers, particularly for small and medium-sized enterprises (SMEs).

Different factors may explain the differences in policy responses across countries. Differences in the scope, size and type of responses across countries are due to the availability of fiscal space, the existence of automatic stabilisers

Figure 5.1
Fiscal Response to COVID-19 in 2020 –Selected Advanced Economies (AEs)



Source: International Monetary Fund. (2021, April). *Database of Fiscal Policy Responses to COVID-19*. Retrieved May 18, 2021, from International Monetary Fund <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>

⁵ International Monetary Fund. (2021, April 8). *Policy Tracker*. Retrieved May 18, 2021, from International Monetary Fund: <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>.

⁶ Organisation for Economic Co-operation and Development. (2020, June 30). *Special Feature: Tax and Fiscal Policy Responses to the COVID-19 Crisis*. Retrieved May 10, 2021, from OECD iLibrary : <https://www.oecd-ilibrary.org/sites/da2badac-en/index.html?itemId=/content/component/da2badac-en>

and the characteristics of the welfare system, as well as administrative capacity.⁷ Although large variations can be observed in the size of fiscal packages, some countries have taken unprecedented action in this regard. Figure 5.1 shows that significant fiscal packages ranging between 15-20% of GDP have been introduced in the UK, US, Australia and New Zealand in 2020.

The budget effects of different types of measures have also varied widely. For instance, some measures involve permanent losses, even if only for one year (e.g. job retention schemes), whereas other measures likely have a temporary impact on budget balances (e.g. deferrals, filing extensions) as deferred taxes should be expected to be paid later on. Finally, state loans and loan guarantees, which appear to have been among the most significant measures in fiscal packages, do not represent a direct fiscal cost. However, these create contingent liabilities which, in some cases, could turn into actual expenses either in 2020 or later.⁸

As noted previously, the economic consequences of the pandemic are not felt equally across the world, where advanced economies and developing countries/EMEs face different challenges and, therefore, require different policy measures for a sustained recovery. The key differences for the developing world lie in: higher poverty rates where more people are made vulnerable due to the pandemic, larger informal sectors where governments find it more difficult to provide assistance, and weak public finances. While governments in the rich world have deployed trillions of dollars in fiscal relief measures for their economies to recover from the pandemic, developing countries do not have the fiscal space to sustain necessary countercyclical

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⁷ Organisation for Economic Co-operation and Development. (2020, June 30). *Special Feature: Tax and Fiscal Policy Responses to the COVID-19 Crisis*. Retrieved May 10, 2021, from OECD iLibrary : <https://www.oecd-ilibrary.org/sites/da2badac-en/index.html?itemId=/content/component/da2badac-en>

⁸ *Ibid.*

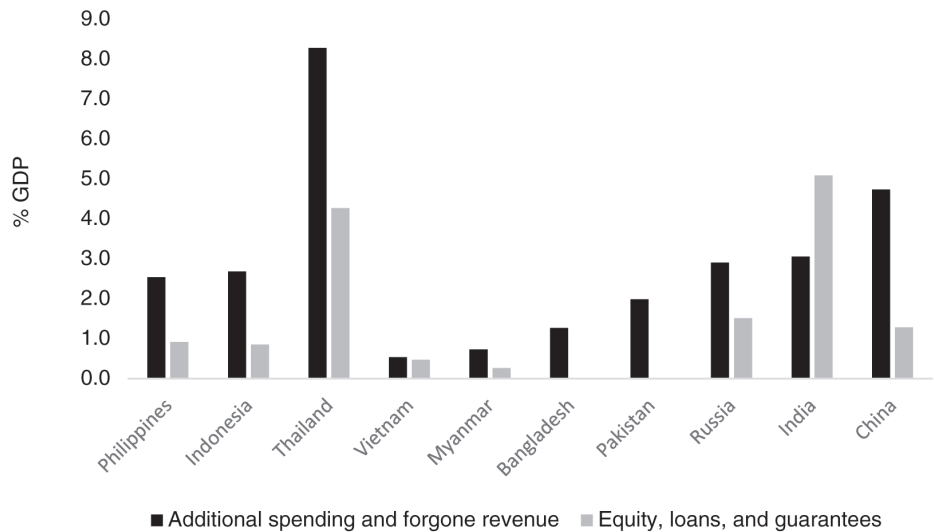
measures and invest in priority areas such as health, social protection and digital infrastructure.⁹

Given these challenges, the fiscal response from developing/emerging economies has been relatively weak. A few emerging markets such as Peru and Turkey have led the EME response with fiscal packages amounting to around 9% of GDP, close to some advanced economy levels. However, as seen in Figure 5.2, when considering neighbouring East and Southeast Asian economies, the response has been more limited, with a few exceptions such as Thailand (8.3%). The fiscal response has been even much smaller in the South Asian countries (other than India), at 1.6% of GDP on average, reflecting tight

fiscal space in countries such as Sri Lanka. In fact, Sri Lanka lags far behind even other South Asian neighbours such Bangladesh and Pakistan with a package of just 0.6% of GDP.

Initially, it was thought that the responsiveness to crises via fiscal expansion is mainly determined by the availability of fiscal space; i.e. factors such as low public debt, large fiscal surpluses, and better sovereign market access. However, in the case of COVID-19, a country's sovereign market access – their credit rating in particular – has been identified as the most important determinant of its fiscal response.¹⁰ An analysis of correlations reveals that for developing countries, the size of the fiscal response is strongly correlated with

Figure 5.2
Fiscal Response to COVID-19 in 2020 – Selected Developing/Emerging Economies



Source: International Monetary Fund. (2021, April). *Database of Fiscal Policy Responses to COVID-19*. Retrieved May 12, 2021, from International Monetary Fund <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>

⁹ United Nations Economic and Social Commission for Asia and Pacific. (2020). *An Assessment of Fiscal Space for Covid-19 Response and Recovery in Asia-Pacific Developing Countries*. Bangkok: United Nations Economic and Social Commission for Asia and Pacific.

¹⁰ Benmelech, E., & Tzur-Ilan, N. (2020). *The Determinants of Fiscal and Monetary Policies during the COVID-19 Crisis*. National Bureau of Economic Research Working Papers, No. 27461.

sovereign credit ratings and to a lesser extent, sovereign bond spreads and public debt to GDP. The same study finds that although countries with higher income introduced larger fiscal packages on average, their fiscal responses were not strongly correlated with infection rates, the stringency of lockdown or social protection expenditures. However, countries that swiftly adopted containment measures seem to have managed with smaller fiscal packages.

The fact that not all countries have been able to deploy a strong fiscal response to the COVID-19 pandemic is concerning, given the extensive empirical evidence from past episodes of adverse shocks that a strong fiscal response is essential for facilitating a recovery. For instance, Ma, Rogers, & Zhou (2020) in their assessment of major epidemics in the past 20 years – SARS (2002-03), H1N1 swine flu (2009- 10), MERS (2012), Ebola (2014-15) and Zika (2015-16) – found that the real GDP to be 2.6% lower on average in the year the outbreak is officially declared and remains 3% below pre-shock levels five years later.¹¹ However, the negative effect of epidemics on GDP is felt less in countries with large first-year responses in government spending, especially on health care. Despite the trade-off between spending and expanding fiscal deficits, there is a strong case for fiscal support in the wake of epidemics.

Fiscal deficits in the developing world will expand significantly as a consequence of COVID-19. Already, higher COVID-19 related fiscal expenditures, together with a sharp decline in revenues, have resulted in wider fiscal deficits. Together with maturing debt, wider deficits will

raise gross financing needs. As such, many countries have relaxed their fiscal rules and increased their borrowing plans for 2020 and beyond. For instance, in the Philippines, budget deficit targets have been raised to 9.6% of GDP in 2020 and 8.5% in 2021, well beyond the 3.2% planned for both years, pre-pandemic. Similarly, Indonesia revised its budget deficit target from 1.8% of GDP to 6.3% for 2020, and the proposed budget for 2021 preserves much of the support with a target of 5.5% of GDP. In India, the central government also raised borrowing limits for states from 3% of state GDP to 5%.

Increased deficit financing, together with the economic slowdown, will contribute to higher government debt to GDP ratios. In the medium-term, debt ratios are expected to stabilise with economic recovery in some countries but rise further in others. Wider fiscal deficits and higher debt will leave less room for manoeuvre. The share of interest payment in the government budget will rise, potentially crowding out development expenditures. Moreover, many developing countries saw debt servicing as a share of government revenues increase in the 2010s, in part due to a shift in the financing mix away from concessional to non-concessional debt; as such, COVID-19 is expected to push up the debt servicing ratio further in many countries, including Sri Lanka.¹²

5.2.3 Sri Lanka's Fiscal Response to the Pandemic

Before the COVID-19 crisis, Sri Lanka was already in a weak fiscal position, with low government tax revenue generation at 11.6%

¹¹ Ma, Chang., Rogers, John H., & Zhou, Sili. (2020, June 1). *Modern Pandemics: Recession and Recovery*. Retrieved June 10, 2020, from SSRN: <https://ssrn.com/abstract=3565646>.

¹² *Ibid.*

of GDP, a high public debt burden of 86.8% of GDP and a large fiscal deficits of 6.8% of GDP in 2019.¹³ Furthermore, the country suffered from persistently slow economic growth, averaging around 3.5%, before declining to an 18-year low of 2.3% in 2019. The post-pandemic numbers have only worsened these outcomes; Sri Lanka recorded an estimated budget deficit of 11.1% of GDP in 2020, while government debt reached a high 101% of GDP in 2020.¹⁴ While the Central Bank of Sri Lanka (CBSL) expects these numbers to come down to more comfortable levels in 2021, projections by multilateral financial institutions (MFIs) are less sanguine. For instance, the International Monetary Fund (IMF) forecasts a fiscal deficit of 10.5% for 2021, with public debt to GDP too set to climb even higher in 2021.¹⁵ The World Bank's estimates largely correspond with these numbers, where public debt is expected to rise to nearly 115% of GDP in 2021. This is amidst expectations that revenue generation will continue to remain low in the near term.

These numbers leave Sri Lanka in a bind with regards to mitigating the economic losses from the pandemic, along with the need to bear the added health cost burden from the pandemic, whilst injecting a fiscal stimulus to revive the economy. The government was quick to respond to the economic crisis by establishing a cash transfer response, providing over 5.7 million monthly payments of LKR 5,000 to households as lockdown conditions came into effect and severely disrupted livelihoods of the less well off. Although

the government was lauded for their initial response, much was left to be done to minimise the severity of the recession that followed and to provide significant protection to households. For instance, according to an analysis of stimulus packages provided in 18 countries, the stimulus package provided by Sri Lanka was found to be inadequate compared to an average of 3.5% of GDP allocated in other countries.¹⁶

By end 2020, the government had made cash transfers totalling around 0.6% of GDP to vulnerable groups, in addition to an estimated allocation of 0.1% of GDP towards containment measures.¹⁷ A stimulus package for small and medium enterprises (SMEs) was disbursed via a fund worth LKR 50 billion and this package also constituted a working capital loan of up to LKR 25 million. The loan was targetted at enterprises with an annual turnover of less than LKR 1 billion. However, when approximately 45,000 private sector businesses applied for this loan, the government realised that the allocation of LKR 50 billion was inadequate to meet demands, and so decided to increase the funds allocated up to LKR 150 billion.¹⁸

Apart from this, income tax arrears of SMEs were partially waived off, payment terms were relaxed and legal action against non-payers were frozen. Similarly, the government introduced a debt repayment moratorium which included a six-month debt moratorium for COVID-19 affected industries such as tourism, garment,

¹³ Central Bank of Sri Lanka. (2020). *Annual Report 2019*. Colombo: Central Bank of Sri Lanka. The fiscal deficit figure for 2019 was restated as 9.6% of GDP by the Ministry of Finance and announced in the Budget Speech 2020.

¹⁴ Central Bank of Sri Lanka. (2021). *Annual Report 2020*. Colombo: Central Bank of Sri Lanka.

¹⁵ International Monetary Fund. (2021, April 8). *World Economic Outlook Database*. Retrieved May 12, 2021, from International Monetary <https://www.imf.org/en/Publications/WEO/weo-database/2021/April>

¹⁶ Amaratunga, D., Fernando, N., Haigh, R., & Jayasinghe, N. (2020). The COVID-19 Outbreak in Sri Lanka: A Synoptic Analysis Focusing on Trends, Impacts, Risks and Science-policy Interaction Processes. *Progress in Disaster Science*.

¹⁷ International Monetary Fund. (2021, April 8). *Policy Tracker*. Retrieved May 18, 2021, from International Monetary Fund: <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

¹⁸ Amaratunga, D., Fernando, N., Haigh, R., & Jayasinghe, N. (2020). The COVID-19 Outbreak in Sri Lanka: A Synoptic Analysis Focusing on Trends, Impacts, Risks and Science-policy Interaction Processes. *Progress in Disaster Science*.

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plantation and information technology (IT) sectors and SMEs. The government also introduced a maximum retail price for selected essential items and established a fuel price stabilisation fund. Along with this, the 2020 payment deadlines for income tax, VAT and certain other taxes were also extended.

Despite such measures, Sri Lanka's fiscal response has been weak, relative to even low-income regional peers. Economic recovery is anticipated to be further delayed due to the third wave of infections experienced by the country in mid-2021. Of particular concern amidst a slowdown in the anticipated pace of recovery,

is the country's debt outlook. This a primary concern at hand, not only for Sri Lanka, but for the developing world at large.

5.3 Is the Developing World Headed Towards a Debt Crisis?

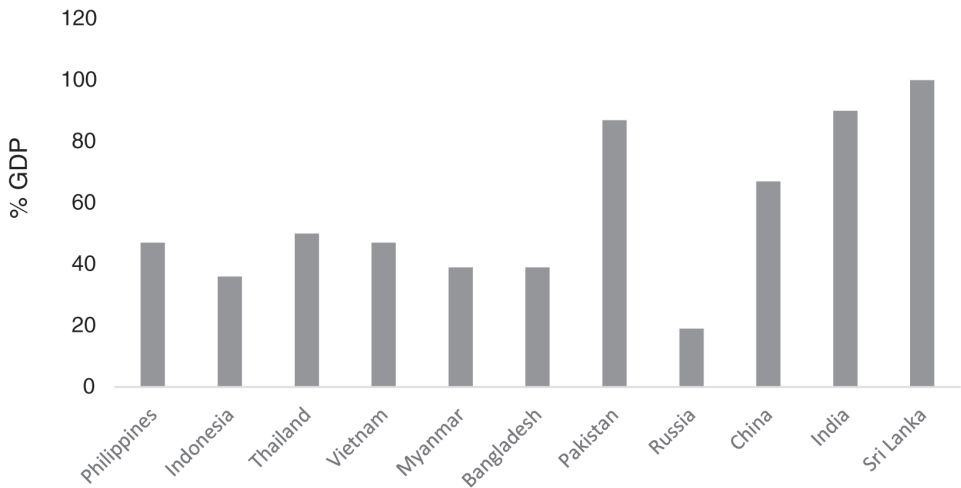
As discussed in previous sections, macroeconomic and fiscal vulnerabilities differ greatly across advanced and developing countries. A key reason behind this is that advanced countries issue debt denominated in their currencies – which are also international reserve currencies for the most part – often at zero interest rates. By contrast, developing countries hold large volumes of foreign currency denominated debt, whilst domestic debt is also more costly at higher interest rates. For the latter group, COVID-19 has significantly impacted commodities, tourism, remittances, foreign direct investments (FDI) flows and, importantly, other capital flows too. Thus, as borrowings rise further in the wake of COVID-19, there are questions on whether the world is heading towards a global debt crisis.

Fiscal support, along with drops in revenues, has raised government deficits and debt to unprecedented levels across all country income groups. Average overall deficits as a share of GDP in 2020 reached 11.7% for advanced economies, 9.8% for emerging market economies, and 5.5% for low-income developing countries.¹⁹ Average public debt worldwide reached an unprecedented 97% of GDP in 2020 and is projected to stabilise at around 99% of GDP in 2021.²⁰ Despite higher debt, average interest payments are

¹⁹ International Monetary Fund. (2021, April). Fiscal Monitor April 2021. Retrieved May 12, 2021, from International Monetary Fund: <https://www.imf.org/en/Publications/FM/Issues/2021/03/29/fiscal-monitor-april-2021>

²⁰ *Ibid.*

Figure 5.3
EME Public Debt to GDP Ratios - 2020



Source: International Monetary Fund. (2021, April). *World Economic Outlook Database April 2021 Edition*. Retrieved May 12, 2021, from International Monetary Fund: <https://www.imf.org/en/Publications/WEO/weo-database/2021/April>

generally lower in advanced economies as noted previously, given the trend decline in market interest rates. For some EMEs and low-income countries (LICs), however, financing large deficits continues to be challenging, given limited market access and little scope to raise revenue in the near term (Figure 5.3).

A study by the World Bank classifies a ‘fourth wave’ of debt accumulation to have begun in 2010, whereby global debt had reached USD 55 trillion by 2018, making this wave the largest and fastest growing of four classified waves.²¹ The preceding three waves ended in financial crises – the Latin American debt crisis of the 1980s, the Asian financial crisis of the late 1990s, and the GFC of 2007-09. Although debt financing can help meet urgent development needs such as basic

infrastructure, the concern is that much of the current fourth debt wave is taking riskier forms. LICs are increasingly borrowing from creditors outside the traditional Paris Club lenders, such as from China, as well as from international capital markets. Some of these new lenders tend to impose non-disclosure clauses and collateral requirements that make the scale and nature of debt loads somewhat ambiguous. Furthermore, there are concerns that governments are not as effective as they need to be in investing the loans in physical and human capital. Even otherwise, in many developing countries, public investment has been falling even as debt burdens rise.²²

Given these characteristics of the fourth debt wave, which is now being further exacerbated by the COVID-19 crisis, already debt-strapped

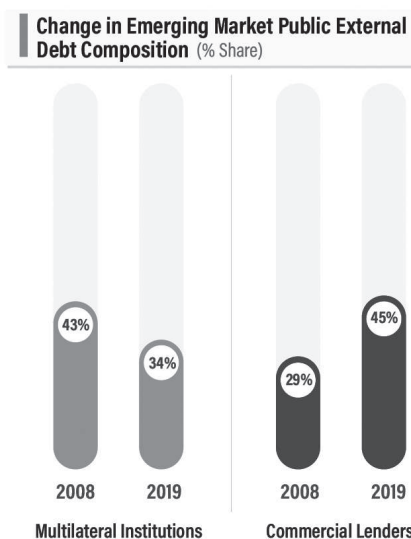
²¹ Kose, Nagle, Ohnsorge & Sugawara. (2021). *Global Waves of Debt: Causes and Consequences*. Washington D.C.: World Bank.

²² *Ibid.*

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economies such as Sri Lanka will find themselves in a particularly tight spot. In addition, this wave has coincided with multiple challenges for developing economies, such as weaker growth prospects in a fragile global economy, growing fiscal and current account deficits, and a compositional shift toward short-term external debt. As a result, these outcomes could amplify the impact of shocks such as COVID-19.²³

In terms of this compositional shift, for instance, by 2018, the share of emerging market and developing economy (EMDE) public debt held by non-residents had grown to 43% and foreign currency-denominated EMDE corporate debt had risen to 26% of GDP; by 2016, the share of non-concessional LIC government debt had risen to 55%.²⁴ Furthermore, emerging market public external debt owed to multilateral institutions dropped from 43% in 2008 to 34% in 2019, while the share of commercial lenders grew from 29% to 45%.²⁵ The rapid increase in debt and the shift from concessional toward international financial market and non-Paris Club creditors have raised concerns about debt transparency and collateralisation.



Source: *The Economist* (2021)

Source: The Economist. (2021, March 6). *Poor Countries Struggling with Debt Fight to Get Help*. Retrieved May 18, 2021, from The Economist: https://www.economist.com/international/2021/03/04/poor-countries-struggling-with-debt-fight-to-get-help?itm_source=parsely-api

²³ Kose, Nagle, Ohnsorge & Sugawara. (2021). *Global Waves of Debt: Causes and Consequences*. Washington D.C.: World Bank.

²⁴ *Ibid.*

²⁵ The Economist. (2021, March 6). *Poor Countries Struggling with Debt Fight to Get Help*. Retrieved May 18, 2021, from The Economist: https://www.economist.com/international/2021/03/04/poor-countries-struggling-with-debt-fight-to-get-help?itm_source=parsely-api

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Thus, despite current exceptionally low real interest rates, the latest wave of debt accumulation could follow the historical pattern and eventually culminate in financial crises in EMDEs. A sudden global shock, such as a sharp rise in interest rates or a spike in risk premiums, could lead to financial stress in more vulnerable economies. These risks were illustrated by the recent experiences of Argentina and Turkey, which witnessed sudden episodes of sharply rising borrowing costs and severe growth slowdowns.²⁶

Given the above, the developing world is not placed in a comfortable position to expedite discretionary fiscal policy in the manner seen in the advanced world. Specific policies need to be tailored for EMEs to handle this twin crisis, and specialised support required from the international community.

5.4 Fiscal Strategies for Resilient Recovery

This section looks at how developing economies, including Sri Lanka, can navigate the course of the pandemic with limited fiscal space available, while assessing options available for assistance from international organisations and the developed world. The recommendations are based on past international experience in post-crisis recovery, as well as more specific fiscal strategies that have been effective in other countries which are currently trying to recover from the pandemic.

5.4.1 International Assistance

The IMF and other major multilateral development banks committed USD 38 billion to assist

²⁶ Kose, Nagle, Ohnsorge & Sugawara. (2021). *Global Waves of Debt: Causes and Consequences*. Washington D.C.: World Bank.

developing countries in the Asian region to combat the pandemic. However, multilateral support was predominantly in the form of loans, with grants and debt relief provisions. A major form of international assistance has been the Debt Service Suspension Initiative (DSSI) by the members of the G20 and the Paris Club. Under this initiative, eligible debtor countries could request for temporary suspension of debt servicing to major official bilateral creditors (government-to-government debt) until mid-2021. Globally, of 73 eligible countries, 44 have applied to take part in the initiative, postponing about USD 5.3 billion in repayments – which is about a tenth of the increase in the external borrowing needs of the 73 eligible countries in 2021.²⁷

To receive DSSI relief, countries are required to apply for an arrangement with the IMF, either as a regular programme or a shorter-term emergency facility – Rapid Financing Instrument (RFI) or Rapid Credit Facility (RCF). Aside from that, several debtor countries are not participating due to concerns that it would curtail their access to non-concessional loans in the international capital market or because these countries did not need IMF financing at the current stage. The G20 has also called on commercial creditors such as banks and investment funds to participate on comparable terms, but there has been no sign of that happening so far.

During the pandemic, the IMF disbursed around USD 107 billion to poor and middle-income countries.²⁸ As of April 2021, the fund started issuing Special Drawing Rights (SDRs). The appeal in SDRs lies in the relative political ease

of disbursing this instrument, given that credit lines offered are unconditional, thus bypassing the time-consuming negotiations that often precede IMF lending. However, critiques argue that SDRs come with economic complexity, and so there is concern that SDRs may not be the ‘right’ instrument for pandemic assistance for the developing world. There is a call for the IMF to provide assistance in ways that are more transparent and targeted; for instance, to rewrite the eligibility rules for its existing programmes, or set up a relief fund that is specific to pandemic-related needs like health care and the purchase of vaccines with the aim of reducing the stigma of borrowing from SDRs.²⁹

5.4.2 Debt Relief and Debt Management

As already noted, although the rich world is able to sustainably manage larger volumes of debt, allowing them to expedite large spending packages to push their economies back into recovery from the pandemic, the same option is not available for most of the developing world. As such, there is a call for the IMF and other MFIs to provide debt relief to poor countries that have become severely debt-strapped during the pandemic. However, as discussed in previous sections, this is now more complicated because poor countries do not only borrow from bilateral/multilateral sources in the North, but from new lenders. For instance, China and Saudi Arabia have become key lenders to the developing world; so too have banks and investment funds. As such, the current debt relief architecture in place does not necessarily solve this issue for the developing

²⁷ United Nations Economic and Social Commission for Asia and Pacific. (2020). *An Assessment of Fiscal Space for Covid-19 Response and Recovery in Asia-Pacific Developing Countries*. Bangkok: United Nations Economic and Social Commission for Asia and Pacific.

²⁸ The Economist. (2021, April 3). *Issuing Special Drawing Rights will be a Sign of Failure for the IMF*. Retrieved May 18, 2021, from The Economist: <https://www.economist.com/leaders/2021/04/03/issuing-special-drawing-rights-will-be-a-sign-of-failure-for-the-imf>

²⁹ *Ibid.*

world. However, specific policy strategies can help mitigate a debt crisis, and also aid as an exit strategy from the pandemic.

Since it is not just high debt levels, but a riskier composition of debt (in terms of maturity, currency denomination, and type of creditor) that is associated with a higher probability of crises, sound debt management and debt transparency will help reduce borrowing costs, enhance debt sustainability, and contain fiscal risks. Creditors, including international financial institutions, can spearhead the effort in this area by encouraging common standards, supporting capacity building, and highlighting risks and vulnerabilities through timely analytical and surveillance work.³⁰ These mechanisms should be accompanied by proactive financial sector regulation and supervision. Further, in several previous crisis cases, borrowed funds had been diverted toward purposes that did not raise export proceeds, productivity, or potential output. As such, apart from effective public finance management, policies that promote good corporate governance can help ensure that debt is used for productive purposes.

Effective public debt management is required for countries to expand fiscal space to support pandemic related spending. Debt management preparedness to help respond to operational, liquidity and funding challenges in times of stress is critical for supporting both the efficacy of the government's emergency response and the smooth functioning of financial markets.³¹ In 2020, central banks in many EMEs, as elsewhere,

took unprecedented steps to ensure a smooth functioning of local bond markets through government bond purchase programmes.³² In these cases, monetary policy helped to expand fiscal space by lowering the financing costs or preventing capital flow reversals.

There is also scope for enhancing debt transparency through public debt statistics dissemination practices, publication of key debt management documents, and identification of fiscal risks stemming from contingent liabilities.³³ Furthermore, adopting a flexible approach to debt management will have benefits. Issuance techniques and pricing systems need to be adapted to market conditions; for instance, auctions can be announced with a shorter lag, price auctions can be uniform, etc. The set of offered instruments can also be amended to explore financing options in non-traditional markets. Sri Lanka currently lags on these fronts.

5.4.3 Tax Policy

Tax policy can play a key role in supporting vulnerable households and contributing to economic recovery, beyond immediate emergency relief measures that were adopted during the height of the pandemic. For instance, specific temporary tax relief could support the recovery, as Sri Lanka has already carried out; but since fiscal space is limited, a more progressive tax structure could still do so by shifting income from people with low propensity to consume to those with a high propensity to consume. Although the

³⁰ Kose, Nagle, Ohnsorge & Sugawara. (2021). *Global Waves of Debt: Causes and Consequences*. Washington D.C.: World Bank.

³¹ United Nations Economic and Social Commission for Asia and Pacific. (2020). *An Assessment of Fiscal Space for Covid-19 Response and Recovery in Asia-Pacific Developing Countries*. Bangkok: United Nations Economic and Social Commission for Asia and Pacific.

³² Hofmann, Shim & Shin. (2020). *Emerging Market Economy Exchange Rates and Local Currency Bond Markets Amid the COVID-19 Pandemic*. Bank for International Settlements Bulletin, No.5.

³³ *Ibid.*

pandemic has not changed the key principles underlying the main taxes on income, wealth and consumption, the recovery from COVID-19 offers opportunities to resolve longstanding weaknesses in tax systems.³⁴

Despite Sri Lanka having slashed tax rates across-the-board and adopted a low-tax regime pre-pandemic, it would be prudent to shift gear and be more strategic about leveraging revenue-generation options where possible. For instance, the government could take measures to broaden the tax base by rationalising tax exemptions and introducing new tax instruments. For instance, India raised fuel excise taxes at the outset of the pandemic, while Indonesia imposed a digital tax on foreign firms.³⁵ Sri Lanka was slow to respond to rising international oil prices, but was finally compelled to raise administered fuel prices in June 2021 in the face of rising debt levels and borrowings of state owned entities operating in the energy sector. Further, measures to strengthen tax administration and collection, in order to fully leverage existing taxes that are already being expedited, is a must to alleviate the revenue shortfalls.

Consumption taxes such as VAT and excises taxes are a major revenue source for most developing countries, due to their relative ease of enforcement and collection. Although such taxes are critiqued to be regressive, if the revenue is used for progressive spending and if the VAT system is structured appropriately, the net impact on the poor can be positive.³⁶ While Sri Lanka has adopted a single VAT rate as per best

practice, it halved the tax rate from 15% to 8% as part of the government's sweeping tax cuts, severely impacting total revenue collection, and as a result constricting resources available to fight the COVID-19 in a more targeted fashion.

Aside from VAT rates, another measure that can be taken is to set an appropriate VAT registration threshold. Exempting small traders from VAT registration has the appeal of relieving them from the compliance burden; it also allows the tax administration to focus its enforcement efforts on large taxpayers.³⁷ The threshold can strengthen the progressivity of the VAT in Sri Lanka, where the poorest often buy their goods from small informal sector traders.

5.4.4 Expenditure Policies: Improving the System of Cash Transfers

Expenditure policy too can help bridge some of the financing gaps by way of tighter controls to trim leakages and other unproductive spending. One of the key that has drawn attention in the COVID-19 era is that of payments to households and other direct transfers. Indeed, these are often more effective in their immediate impacts on economic activity compared to public investment spending. Delivering targeted support to households and firms particularly hard hit by the crisis, such as those having difficulties in accessing the financial system, or not included in the tax system, has been a challenge in most developing countries. While Sri Lanka extended

³⁴ International Monetary Fund. (2020, December 16). *Tax Policy for Inclusive Growth after the Pandemic. Fiscal Affairs: Special Series on COVID-19*. Washington D.C.: International Monetary Fund.

³⁵ United Nations Economic and Social Commission for Asia and Pacific. (2020). *An Assessment of Fiscal Space for Covid-19 Response and Recovery in Asia-Pacific Developing Countries*. Bangkok: United Nations Economic and Social Commission for Asia and Pacific.

³⁶ International Monetary Fund. (2020, December 16). *Tax Policy for Inclusive Growth after the Pandemic. Fiscal Affairs: Special Series on COVID-19*. Washington D.C.: International Monetary Fund.

³⁷ *Ibid*.

relief to households by increasing benefit levels within the existing social protection framework, and to firms by extending payment deadlines and granting waivers, concerns on targetting errors are clearly present.

SMEs are often in the informal sector with little available information on their employment levels or production activity, so reaching them is particularly challenging. Under these circumstances, informal sector firms are likely to be left out of this relief framework. However, support may be channelled to these firms by working closely with existing institutions that serve these groups, such as micro-credit institutions and informal sector organisations.

In terms of supporting households via existing cash transfer programmes such as Samurdhi, while the initial response during the lockdown period was laudable, targetting gaps that plagued the existing system meant that many vulnerable households were left out. In developing countries with weak social protection systems, alternative approaches can be explored for strengthening these systems in the short run. Alternative ways of supporting those not covered by existing programmes, include the following; cash transfers targetted at specific population groups such as elderly, families with children, or informal sector

workers, like those adopted in India; targetted at regions (most affected areas); or subsidies for key goods and services such as food, health, transportation and utilities like those adopted in Indonesia and Jordan.³⁸

5.5 Conclusion

As a consequence of the COVID-19 crisis, most countries are grappling with twin budgetary challenges of a hit to growth and the need to spend on health care and vaccines. Globally, a far bigger role is being played by fiscal policy in mitigating the current crisis, relative to past crises. However, developing countries cannot adopt the same discretion seen in the rich world, due to the costlier and riskier composition of their debt portfolios. The chapter identifies key areas in which the developing and, more specifically Sri Lanka, can improve its fiscal tools, whether by adopting new fiscal instruments or by tweaking existing ones; namely, managing debt more strategically, improving tax collection and exploring alternative methods of disbursing cash transfers to household and firms. The test lies in the country's political will to adopt fiscal prudence, and to do so in a manner that will support the transition from an economic recovery to sustained economic development in the long term.

³⁸ International Monetary Fund. (2020a, April 20). *Expenditure Policies in Support of Firms and Households. Special Series on Fiscal Policies to Respond to COVID-19*. Washington D.C.: International Monetary Fund.

6. Assessing the Effectiveness of MSME Recovery Measures During COVID-19

6.1 Introduction

The impact of the pandemic on micro, small and medium enterprises (MSMEs) is well documented. However, Sri Lanka's MSME sector began facing critical challenges a year prior to the pandemic, following the Easter Sunday attacks. The attacks dealt a severe blow to the country's tourism sector, of which nearly half the capacity and a majority of ancillary services are handled by MSMEs.¹ The COVID-19 pandemic increased the scope and magnitude of impacts across the entire economy, rather than a particular sector. MSMEs, therefore, are effectively facing challenges across a prolonged two-year long cycle, rather than just the past year.

Pandemic induced demand reductions, disruptions to supply chains and challenges in accessing finance, combined with structural factors such as limited capital and financial reserves have intensified the risk profile of MSMEs. In addition, stocks have led to increased vulnerabilities amongst MSMEs during the past year, heightening insolvency risks. The impact of the pandemic on MSMEs, however, have evolved since the initial shock faced due to lockdowns and reduced demand. The main concern amongst

MSMEs is not just about liquidity but also long term solvency. For instance, according to International Monetary Fund (IMF) projections, the share of MSMEs in advanced economies alone with negative equity – one definition of insolvency – may rise by 6% in 2020-21.² This would threaten one in ten MSME jobs and the share of insolvent MSMEs may rise to 8% with extended lockdowns and persistently weaker demand. Notably, these impacts are taking place amidst a plethora of policy interventions introduced by governments in advanced economies, including direct and indirect liquidity injections, to mitigate the negative effects of the pandemic on businesses.

The vulnerability among MSMEs in many developing economies is likely to be even greater since governments have far fewer policy options due to a narrower fiscal space. The emergence of new variants of COVID-19 and disruptions to national vaccination efforts in developing economies, are likely to increase these risks even further, especially in labour intensive sectors. This chapter will evaluate the policy responses directed towards supporting MSMEs in Sri Lanka with the onset of the pandemic and discuss

¹ Sri Lanka Tourism Development Authority. (2020). *Annual Statistical Report 2019*. Colombo: Sri Lanka Tourism Development Authority.

² Diez, E. A. (2021). *Insolvency Prospects Among Small and Medium Enterprises in Advanced Economies: Assessment and Policy Options*. Washington D.C.: International Monetary Fund.

The impact of the pandemic on MSMEs have evolved since the initial shock faced due to lockdowns and reduced demand. The main concern amongst MSMEs is not just about liquidity but also about long-term solvency.

additional policy interventions required to account for the latest hardships faced by the sector. These solutions will be placed in the perspective of policies presented by comparator economies in the region.

6.2 Impact of COVID-19 on MSMEs in Sri Lanka

The immediate impacts of the pandemic on industries in Sri Lanka can be broadly categorised into two major periods: (i) the initial lockdown phase between March and June 2020; and (ii) the post-lockdown period from July 2020 onwards. Notably, however, Sri Lanka experienced a short transition towards normalising economic activities before the emergence of a second wave of COVID-19 cases and related disruptions from the third quarter of 2020 onwards. While the first period is characterised by a complete shutdown of most economic activities, the second reflects an incremental reopening of the economy, alongside temporary lockdowns of specific regions and sectors due to the second wave.

6.2.1 Lockdown Period

As shown in Figure 6.1 below, MSMEs in Sri Lanka experienced a revenue loss of 56.8% during the lockdown period (March-May 2020) in comparison to revenue earned in the corresponding period of the previous year, which as noted earlier, was also affected by the Easter Sunday attacks. The revenue loss was experienced across all major sectors and especially pronounced in construction, mining and quarrying, and the services sector. Education, real estate activities, arts, entertainment and recreation, administrative and support services, and supply of accommodation and food service activities were amongst the service sub-sectors affected the most with revenue losses exceeding 75%.³ As expected, the highest level of losses occurred during April 2020, when the lockdown was imposed most severely.

³ Department of Census and Statistics. (2020). *Survey to Assess the Impact of COVID-19 (MSME Sector)*. Colombo: Department of Census and Statistics.

Box 6.1

Overview of MSMEs in Sri Lanka

The MSME sector in Sri Lanka amounts to 1.017 million establishments, employing approximately 2.25 million persons. This approximates to more than 90% of total establishments in the country and 45% of total employment.

No. of Establishments and Percentage Distribution, Economy Sector Wise

	Total No. of Est and %		Industry %	Trade %	Service %
Micro	935,736	91.8	25.3	42	32.7
Small	71,126	7.0	28.8	31.3	39.9
Medium	10,405	1.0	32.0	19.6	48.4
Large	2,414	0.2	31.6	36.9	31.5
Total	1,019,681	100.0	25.6	41.0	33.4

Source: Department of Census and Statistics. (2014). *Economic Census 2013/2014*. Colombo: Department of Census and Statistics.

No. of Persons Employed and Percentage Distribution, Economy Sector Wise

	Persons Engaged and %		Industry %	Trade %	Service %
Micro	1,338,675	44.6	29.7	68.1	44.6
Small	529,751	17.6	14.0	16.8	22.6
Medium	386,756	12.9	16.7	5.5	13.9
Large	747,937	24.9	39.6	9.5	18.9
Total	3,003,119	100.0	100.0	100.0	100.0

Source: Department of Census and Statistics. (2014). *Economic Census 2013/2014*. Colombo: Department of Census and Statistics.

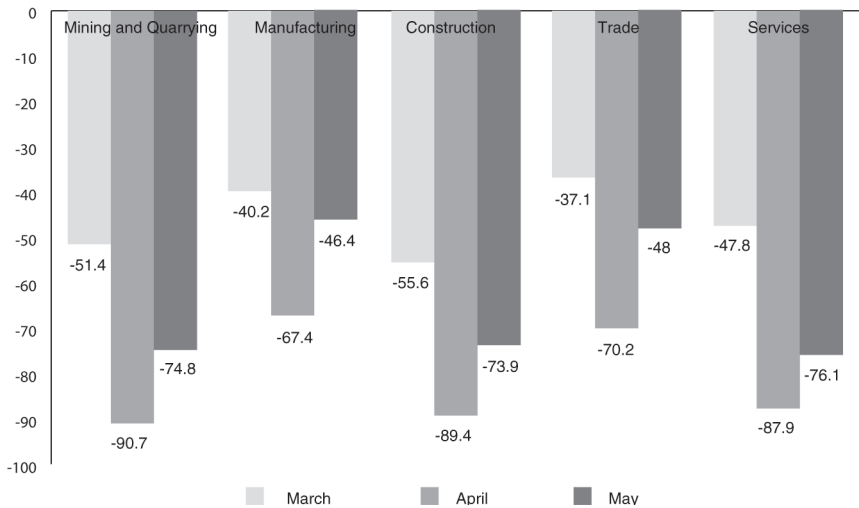
Amongst these firms, micro enterprises appear to have lost a greater proportion of revenue during the lockdown compared to SMEs. Micro scale enterprises saw revenue fall by 60.8% while SMEs saw revenue fall by 48%.⁴ The loss of revenue is particularly important in the MSME sector, as firms tend to have very limited savings and depend on continuous revenue to sustain their operations. In the absence of adequate savings or capital to use as emergency collateral

to improve liquidity, MSMEs are forced into cost saving measures such as wage cuts and layoffs or in many instances, completely shutting down operations.

Considering the above, the high impact of the lockdown period on employment in the MSMEs is unsurprising. In January 2020, when the economy was operating at a regular level, 2,747,156 individuals were employed in MSMEs. However,

⁴ Department of Census and Statistics. (2020). *Survey to Assess the Impact of COVID-19 (MSME Sector)*. Colombo: Department of Census and Statistics.

Figure 6.1
Revenue Loss of MSMEs in Sri Lanka



Source: Department of Census and Statistics. (2020). *Survey to Assess the Impact of COVID-19 (MSME Sector)*. Colombo: Department of Census and Statistics.

only 915,667 were employed in MSMEs in May 2020 and this scenario reflects an improvement even from a lower level a month prior (Table 6.1). Overall, employment fell by 62.4% in the MSME sector during the lockdown months, compared to pre-lockdown levels in January 2020. Similar to revenue, while these losses were felt across all economic sectors, the highest impacts were noted in largely labour intensive sectors that require a physical presence and cannot be continued remotely. Among these were mining and quarrying, construction, and services sectors such as education, arts, entertainment and recreation, and transport and storage.⁵

Even though the export sector was granted permission to continue operations during lockdown between March and May 2020, the MSMEs involved saw a sizeable reduction in revenue and experienced temporary job losses and wage cuts as well. This is mainly because

The loss of revenue is particularly important in the MSME sector, as firms tend to have very limited savings and depend on continuous revenue to sustain their operations.

⁵ Department of Census and Statistics. (2020). *Survey to Assess the Impact of COVID-19 (MSME Sector)*. Colombo: Department of Census and Statistics.

Table 6.1
No. of Persons Employed in MSMEs, by Sector (2020)

Activity	Jan	Feb	Mar	Apr	May
Mining and Quarrying	38,090	37,952	21,454	3,316	9,025
Manufacturing	440,925	434,162	275,854	101,885	166,048
Construction	31,228	31,265	19,016	4,553	7,649
Trade	561,763	559,485	367,010	147,948	255,009
Services	837,575	833,280	502,664	118,367	238,968
Total	2,747,156	2,729,424	1,688,662	494,436	915,667

Source: Department of Census and Statistics. (2020). *Survey to Assess the Impact of COVID-19 (MSME Sector)*. Colombo: Department of Census and Statistics.

Sri Lanka's export destinations were also facing lockdowns during this period, leading to a fall in demand. Moreover, due to mobility restrictions within the country, these enterprises faced difficulties in transporting their employees to factories or shifting their production processes to accommodate remote working. MSMEs also faced greater challenges than their larger counterparts in acquiring adequate capital to dedicate towards continuing their operations, while adhering to public health requirements related to social distancing in factories and COVID-19 testing. For instance, in a survey of exporters who faced a complete shutdown of production activity between March and May 2020, 70% were found to be SMEs.⁶

6.2.2 Post-Lockdown Recovery and Impact of the Second Wave

Following the initial lockdown period and relative success in containing the spread of the virus, Sri Lanka appeared to be on course towards returning to some form of economic normalcy. Barring the tourism sector, which continued to

be affected due to border closures, most other domestic industries reopened between June and September 2020, leading to a resurgence of economic activity. However, this period was short-lived as a second wave of COVID-19 cases swept through the country at a much faster rate than the initial wave. Even though national lockdowns were not implemented, sporadic lockdown of certain areas were imposed countrywide. These occurrences once again disrupted supply chains, reduced public trust, and curtailed retail activity, renewing challenges for all stakeholders, especially MSMEs. The availability of vaccines in early 2021 improved the probability of moving towards a post-COVID-19 recovery by the end of the year. However, a surge of the pandemic in India and other countries and consequent severe shortages in vaccine supplies, as Sri Lanka too began to see a rapid increase in infections, will likely mean that the MSME sector will have to navigate prolonged uncertainty and disruptions at least into the first half of 2022, if not beyond.

Data on the exact nature of the impact since the initial lockdown is not available yet. However, it is fair to note that the broader economic impact of the pandemic has not affected all sectors

⁶ Ceylon Chamber of Commerce; USAID PARTNER. (2020). *Business Survey on Trade and Labour Market Impacts of COVID-19 on Exporters in Sri Lanka*. Colombo: USAID.

equally. Due to prolonged border closures, the tourism sector and other affiliated service sectors continued to be severely affected and therefore, depended heavily on domestic tourism for sustenance. Similarly, weak external demand has also affected export-oriented MSMEs. Meanwhile, agriculture activities continued throughout the pandemic, albeit while experiencing occasional disruptions. Additionally, MSMEs in the healthcare and pharmaceutical sectors are shown to have performed relatively better due to increased demand created by the pandemic.⁷

6.3 Policy Responses Targetting MSMEs

6.3.1 Pre-COVID Policy Changes

As discussed earlier, Sri Lanka's MSME sector has been facing difficulties since the Easter terror attacks in 2019. In order to mitigate the adverse effects of the attack, especially on the tourism sector based MSMEs, the government introduced several fiscal measures such as reduction of value added tax (VAT) from 15% to 5%. Also, the Central Bank of Sri Lanka (CBSL) introduced a new scheme to provide short-term financial relief to affected MSMEs. Under the initiative, licensed banks were authorised to allow a capital and interest moratorium on loans to MSMEs in the tourism sector at the time of the attack. The scope of eligible MSMEs was expanded in August 2019 to include entities which suffered business disruptions directly or indirectly due to the attack.⁸ However, at the time of implementation, banks were asked to classify these loans as non-performing, therefore as noted in several

stakeholder interviews, it disincentivised banks from promoting the scheme actively.

Following the change of government in November 2019, a broader economic stimulus package was introduced in January 2020 to catalyse a stalling economy. In addition to a reduction in direct and indirect tax rates, the CBSL issued circulars directing banks to: (i) reduce lending rates and reschedule non-performing loans granted to SMEs, (ii) provide a moratorium on capital repayments for eligible SMEs, (iii) waive interest payments, and (iv) suspend legal action against delinquent accounts (ADB, 2020). In addition to MSMEs in the tourism sector, non-tourism related sectors such as manufacturing,

A notable amount of fiscal and monetary policy levers had already been utilised following the Easter attack and prior to the pandemic.

⁷ World Bank. (2021). *Sri Lanka Development Update 2021*. Colombo: World Bank.

⁸ Asian Development Bank. (2020). *Impact Assessment of Covid-19 on Small and Medium-Sized Enterprises Finance in Sri Lanka*. Manila: Asian Development Bank.

services, agriculture (including processing food), and construction were also made eligible for this relief. The above, therefore, demonstrates that a notable amount of fiscal and monetary policy levers had already been utilised following the Easter attack and prior to the pandemic. It was under these circumstances that the country was faced with the COVID-19 pandemic and the affiliated economic fallout since March 2020.

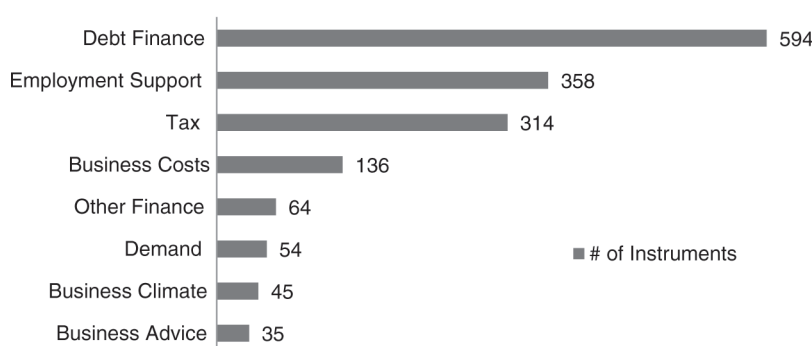
6.3.2 COVID-19 Relief: Debt Finance

Due to Sri Lanka's current macroeconomic challenges, when confronted with pandemic related disruptions, the country's economic policy options were considerably narrow compared to other comparator economies in the region.⁹ In this backdrop, Sri Lanka's responses, however, were largely restricted to debt finance and monetary policy interventions. Most other countries were able to support MSMEs through

debt finance schemes, tax concessions, and a variety of other policies including fiscal stimulus initiatives (see Figure 6.2 below).

The Saubhagya COVID-19 Renaissance Facility is the most direct relief measure granted to MSMEs in response to the pandemic. Under this scheme, businesses were eligible for a loan to cover working capital requirements of two months. Any business in the tourism sector, exports sector, and related logistics suppliers as well as business in other sectors with a turnover below LKR 1 billion were eligible for this scheme. The loans were to be repaid at a subsidised interest rate of 4% during a 24-month period, including an initial six-month grace period. This grace period has since been extended by a further six months since the second wave. Initially, the CBSL allocated LKR 50 billion for this relief scheme and subsequently increased it to LKR 150 billion.¹⁰ Since its initial introduction in March 2020, the CBSL has introduced three phases of

Figure 6.2
Global MSME Support Measures, by Type



Source: World Bank. (2021). *Map of SME Support Measures in Response to Covid-19*. Retrieved April 21, 2021, from World Bank: <https://www.worldbank.org/en/data/interactive/2020/04/14/map-of-sme-support-measures-in-response-to-covid-19>

⁹ Institute of Policy Studies of Sri Lanka. (2020). *Sri Lanka State of the Economy 2020*. Colombo: Institute of Policy Studies of Sri Lanka.

¹⁰ Central Bank of Sri Lanka. (2021). *COVID-19 Relief Measures*. Retrieved May 06, 2021, from Central Bank of Sri Lanka: <https://www.cbsl.gov.lk/en/covid-19-measures>

the scheme depending on broader economic conditions prevalent at the time. The key features of these phases are detailed in Table 6.2 below.

Across all three phases of the scheme, as noted in Table 6.3, a total of 62,573 loans worth LKR 179 billion had been approved at the end of 2020. The nature of disbursements appears to vary

based on the composition of the MSME portfolio of banks as well. For instance, the Regional Development Bank (RDB) has the third most loans approved, but the cumulative value of those loans is significantly lower compared to those of other larger banks. This is due to the larger proportion of micro and small enterprises within the RDB portfolio of customers, whereas other

Table 6.2
Key Features of Working Capital Loan Schemes

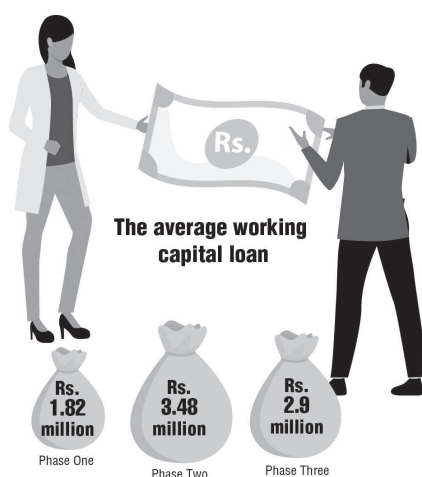
Feature	Phase I (Refinance Scheme)	Phase II	Phase III (Credit Guarantee and Interest Subsidy)
Participating Banks	LCBs & LSBs	LCBs only	LCBs & LSBs
Area of Operation		All island	
Funding	CBSL using reserves	CBSL under Section 83 of MLA	Credit guarantee – CBSL (Reserves), Interest subsidy – GOSL (CBSL Profits)
Implementation Period	01.04.2020 – 29.05.2020	19.06.2020 – 31.08.2020	01.07.2020 – 31.08.2020
Eligible Businesses	Any business adversely affected by COVID-19 with a turnover below LKR 1 billion. Businesses in the tourism sector, export sector, and related logistical supplies are exempt from the turnover cap.		
Interest Rate Applicable		4% p.a.	
Interest Rate Payable by PFI to CBSL		1% p.a.	N/A
Repayment Period		24 months, including a grace period	
Credit Guarantee		N/A	Guarantee cover is based on loan size: 80% - below LKR 0.5 mn 70% - LKR 0.5 – 1mn 60% - LKR 1 – 10mn 50% - LKR 10 – 25mn
Guarantee Premium		N/A	0.5 % of sub-loan value
Interest Subsidy		N/A	5% p.a.
Collateral	PFIs may obtain suitable collateral to mitigate the credit risk		Loans to be granted considering the viability of cash/revenue flow

Note: LCB = Licensed Commercial Banks; LSB = Licensed Specialised Banks; MLA = Monetary Law Act; PFI = Participating Financial Institutions; N/A=Not Applicable.

Source: Based on *Key Features of the Working Capital Loan Schemes Implemented by RDD*, CBSL (2020).

banks tend to have a larger proportion of medium enterprises. A similar trend can be noted amongst other banks whose customer portfolio has a greater proportion of micro and small enterprises as well, since their working capital requirements are likely to be much smaller in scale.

The average working capital loan approved during the first phase is LKR 1.8 million, while the average for the second and third phases are LKR 3.5 million and LKR 2.9 million, respectively. This increase in relief disbursement during the second phase in particular, is due to businesses exhausting their available savings and other capital inflows during the initial period of the lockdown before availing themselves of this credit facility. The prolonged nature of the pandemic and economic disruption was unexpected by many. Therefore, entrepreneurs felt they could potentially ride out the initial disruption with existing capital while banks were concerned with significantly restructuring their credit portfolios, for what was considered a short-term shock.



Stakeholder consultations with lending institutions also noted that the CBSL relaxed their definition of 'working capital requirements' and was more flexible in approving loan requests. Therefore, the combination of an increase in demand and a greater level of flexibility in loan approvals are likely to be the main drivers of increased disbursements during the second and third phases of the scheme, compared to the first. Overall, the outstanding balance of credit granted to MSMEs in 2020 worth LKR 743 billion, consisted 11.1% of total loans disbursed to the private sector by banks. Meanwhile, once large loans to the MSME sector are excluded (assumed to be granted to larger firms amongst MSMEs with stronger collateral and credit ratings), a significant gap of nearly three percentage points could be observed between the overall lending interest rate and average lending interest rate to MSMEs.¹¹

In addition to the Saubhagya COVID-19 Facility, concessions were also granted to existing non-performing loans (as of 25 March 2020) by waiving the penal interest charge, rescheduling loans and advances, and suspending recovery action for an initial six months. Moreover, the MSME sector was further granted relief through a short-term debt moratorium. An initial six-month debt moratorium on capital and interest payments was extended by a further six months in November 2020 due to the COVID-19 second wave and the resulting prolonged disruption. Selected sectors such as tourism, and all businesses and individuals affected by the pandemic were made eligible. Notably, however, rather than freezing loan repayments, the payment due during the moratorium period was to be converted to a term loan and subsequently paid with interest. Therefore, those availing themselves of the

¹¹ Central Bank of Sri Lanka. (2020). *Annual Report 2020*. Retrieved May 06, 2021, from Central Bank of Sri Lanka: <https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-2020>

Table 6.3
Saubhagya COVID-19 Renaissance Facility, CBSL Approvals

	Phase I		Phase II		Phase III		Total	
	Number	Value (LKR Mn)	Number	Value (LKR Mn)	Number	Value (LKR Mn)	Number	Value (LKR Mn)
Bank of Ceylon	1,831	4,732	8,147	14,882	9,709	22,010	19,687	41,624
Peoples Bank	3,596	4,787	6,072	10,663	554	347	10,222	15,798
Regional Development Bank	5,692	3,293	-	-	3,519	1,934	9,211	5,226
Hatton National Bank	707	2,459	1,335	6,367	3,731	15,357	5,773	24,184
Commercial Bank	718	2,775	4,083	18,814	833	6,415	5,634	28,005
Seylan Bank	423	1,587	2,150	10,687	223	1,112	2,796	13,386
Sampath Bank	893	2,752	1,677	8,185	55	581	2,625	11,518
National Development Bank	453	1,383	1,235	10,367	659	7,015	2,347	18,765
DFCC Bank	427	926	1,318	8,262	213	1,534	1,958	10,721
Sanasa Development Bank	1,001	1,312	-	-	-	-	1,001	1,312
Others	615	3,782	635	4,397	69	529	1,319	8,708
Total	16,356	29,788	26,652	92,626	19,565	56,834	62,573	179,248

Note: Data provided upon request (valid as of 31.12.2020).

Source: Based on data from Regional Development Department, CBSL.

moratorium were essentially increasing their debt burden in the long run. Stakeholder consultations suggested that as a result, only a few MSMEs sought this relief and banks too were hesitant to promote the moratorium unless necessary.

6.3.3 COVID-19 Relief: Other Policies

Import restrictions in the hopes of supporting domestic MSMEs are arguably the most significant policy measures introduced by the government, beyond debt relief. While a majority of these restrictions were placed on agricultural products, restrictions also extended to other manufactured goods as well as intermediate goods. The efficacy

of these measures, however, is mixed at best. While some agricultural sectors have benefitted from the absence of import competition, the retail and manufacturing sector has faced considerable challenges due to these restrictions. Domestic MSMEs have struggled to source raw materials at an adequate level, both in terms of quality as well as quantity from domestic sources. Under these circumstances, these firms were compelled to restructure production processes or source at a considerably higher price, which increased the cost of production. During consultations, some MSMEs in the manufacturing sector catering to the domestic market noted that their cost of production had increased by as much as 20-30% due to import restrictions.

At the micro-level, government departments and agencies along with support from international organisations and chambers of commerce have taken capacity development measures. Primarily, these measures have focussed on transitioning towards online and e-commerce platforms. In addition, government agencies such as the Department of Commerce have introduced online processes to submit documents to accommodate public sector work-from-home directives and reduce the necessity to visit offices to gain approvals. These measures, however, are narrowly targetted towards particular stakeholders and therefore, do not affect a vast majority of MSMEs.

6.4 Continuous Challenges Currently Faced by MSMEs

Amidst the above relief measures, the emergence of the second wave of COVID-19 cases since October 2020 and another resurgence of cases and associated lockdowns in April 2021 have renewed initial challenges faced by MSMEs, namely: (i) working capital concerns; and (ii) supply chain breakdowns.

6.4.1 Working Capital Concerns

Even though the government has provided working capital relief measures, these appear to be inadequate as MSMEs find it difficult to access this relief. These challenges are both capacity-

related and structural. Even though a subsidised loan scheme has been made available, banks still require suitable collateral to balance the risks associated with these loans. The CBSL has allowed for this condition to address concerns by lenders that the credit schemes require banks and their depositors to bear the risk of default by borrowers, particularly during a turbulent time. Micro and small industries, especially, have fewer capital and assets available to use as collateral. Therefore, these firms are 'priced out' of accessing much needed finance to address working capital concerns. These concerns are further heightened by the increase in operational costs during the year 2020 in order to maintain COVID-19 guidelines. These costs are particularly high in labour intensive sectors. For instance, small and medium apparel factories have seen costs increased by nearly 20%. This can be attributed to costs associated with creating adequate distance between machine operators and the necessity to conduct PCR tests on a proportion of its workforce weekly.¹²

Furthermore, the large proportion of informality amongst MSMEs, amounting to nearly 90% of firms, is a major structural impediment towards creating adequate access to the government's relief measures.¹³ The high proportion of informality amongst micro and small enterprises has historically created an absence of a formal banking relationship.¹⁴ Amidst measures within the banking sector to increase the MSME portfolio through measures such as micro-credit schemes and banking literacy initiatives, the proportion of credit given to MSMEs in many banks remain

¹² Moazzem, K.G., Khatun, F., Hewage, K., Ahmed, T., & Sandeepani, A. (2021). *Recovery of the Apparels Sectors of Bangladesh and Sri Lanka from the COVID-19 Crisis: Is a Value Chain Based Solution Possible?*. Dhaka: Southern Voice.

¹³ Ministry of Industry and Commerce. (2016). *National Policy Framework for Small and Medium Enterprises (SME) Development*. Colombo: Government of Sri Lanka.

¹⁴ Wijesinha, A. & Perera, N. (2015). *Banking on SME Growth: Concepts, Challenges, and Policy Options to Improve Access to Finance in Sri Lanka*. Colombo: Institute of Policy Studies of Sri Lanka.

The large proportion of informality amongst MSMEs, amounting to nearly 90% of firms, is a major structural impediment towards creating adequate access to the government's relief measures.

below 30% (Table 6.4). Even within MSMEs, a larger proportion is assumed to be concentrated amongst medium enterprises.¹⁵

During the pandemic, banks are largely observed to be justifiably risk averse and as such, have focussed on extending working capital loans and other relief measures to customers with an existing relationship. As a result, the vast proportion of MSMEs without a formal banking relationship has reduced access to finance. In fact, micro and small firms that bank in the informal sector are further vulnerable to exploitation and coercion, leading to wider socio-economic impacts. While available working capital relief has been effective to those who have access, these structural impediments have thus affected the overall impact of these policies on the economy.

6.4.2 Supply Chain Disruptions

Sri Lankan firms initially experienced supply chain disruptions in early 2020 during China's lockdown. China accounts for 17% of total imports to the country, thus Sri Lanka relies substantially on Chinese supplies. On top of this, a significant proportion of enterprises of all sizes depended on Chinese imports for its production processes and commercial activities. The second type of supply chain disruptions were observed domestically as the country moved into lockdown during the first wave of COVID-19. These included disruptions to the supply of labour as well as broader logistical and inputs related disruptions.¹⁶ Notably, since October 2020, MSMEs have been experiencing

¹⁵ Gamage, P. (2015). Bank Finance for Small and Medium-Sized Enterprises in Sri Lanka: Issues and Policy Reforms. *Studies in Business and Economics*, 10 (2), 32-43.

¹⁶ Institute of Policy Studies of Sri Lanka. (2020). *Sri Lanka State of the Economy 2020*. Colombo: Institute of Policy Studies of Sri Lanka.

Table 6.4
SME Banking Portfolio, Selected Banks

Bank	FY 2015 (%)	June 2019 (%)
Bank of Ceylon	1.4	-
Peoples Bank	1.5	1.0
Commercial Bank	23.4	19.7
HNB	26.0	28.7
Sampath Bank	-	14.7
Seylan Bank	30.2	28.5
NDB	13.9	22.2
Nations Trust Bank	22.8	28.9
DFCC	56.0	34.5
RDB	10.6	23.5

Note: Banks selected based on publicly available data; Definition of SMEs and SME portfolio varies from one bank to another. Therefore cross-bank comparisons do not draw any meaningful conclusion.

Source: Asian Development Bank. (2019). *Evaluation of Small and Medium Enterprises Line of Credit Project (2016-2019)*. Manila: Asian Development Bank.

a combination of both domestic and global supply chain disruptions, albeit at a lower individual intensity to the initial disruptions.

Current global supply chain-related disruptions for Sri Lankan firms are largely created due to import restrictions imposed by the government to address balance of payment (BOP) pressures and support domestic MSMEs. As detailed previously, continuous import restrictions beyond its initial application have been counterintuitive due to ensuing increases in production costs and inadequate capacity domestically to supply primary and intermediate inputs. Some firms, especially in the retail sector, are further affected by the recent outbreak of COVID-19 in India, which has severely disrupted their supply. As such, overreliance on a single supplier has posed a threat for MSMEs regarding continuity of their business operations. Overall, even though large firms have taken measures to recalibrate their global supply chains and reduce dependency

on a single source, MSMEs have less capacity to adopt to such changes within a relatively short period.

Domestic supply chains disruptions, meanwhile, are directly linked to the pandemic's spread in the country and resulting geo-specific lockdowns. Even though a country-wide lockdown has not been implemented since June 2020, MSMEs that rely on supply from specific locations in the country are challenged when those locations move into lockdown due to a cluster of cases. Limited storage capacity and narrow fiscal space available to change or diversify suppliers at short notice have exacerbated the impact of domestic supply chain disruptions on MSMEs in Sri Lanka.

Low levels of technology use amongst MSMEs is a further contributory factor. Continued supply chain disruptions have especially affected export-oriented MSMEs. Large manufacturers tend to have higher levels of ownership over its

Continuous import restrictions beyond its initial application have been counterintuitive due to ensuing increases in production costs and inadequate capacity domestically to supply primary and intermediate inputs.

supply chain and also possess a wide network of factories and outlets spread across the country. At times, such manufacturers have the capacity to move production outside the country. MSMEs, however, are more likely to be reliant on single source supply chains and production locations and face a high switching cost unlike large enterprises. Therefore, export-oriented MSMEs are disproportionately affected by policy decisions and COVID-19 outbreaks that cause supply chain disruptions, as these firms have to contend with regional competitors returning to relative economic normalcy. Thus far, government initiatives towards addressing continuous supply chain disruptions have been limited.

6.5 Successful MSME Support in Other Countries

Governments around the world introduced a diverse range of MSME and entrepreneurship policy measures during 2020 and 2021 to support MSME resiliency and recovery. Similar to Sri Lanka, the prolonged nature of the pandemic has led to a complex dilemma, which continues to make emergency liquidity support essential but at the same time unsustainable in the long run. These diverse policies across countries have garnered different results depending on individual country contexts, which could demonstrate potential policy paths for Sri Lanka moving forward.

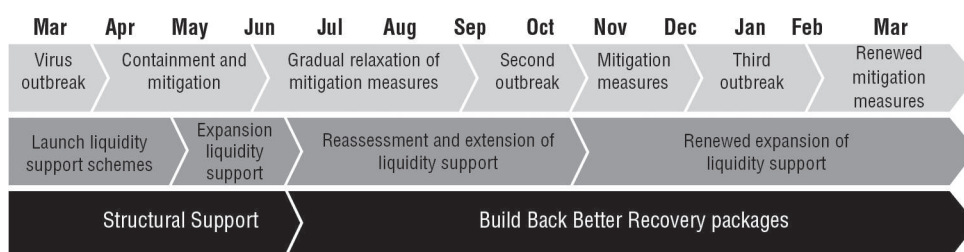
Stimulus and support measures directed towards MSMEs can be categorised into two measures: those aimed at providing liquidity relief, and those aimed at providing structural support. Fundamentally, however, countries with a better track record of managing the public

health impacts of COVID-19 during 2020 have experienced a much stronger recovery amongst MSMEs, as is evident with Vietnam's economic recovery.¹⁷

Alongside the public health response, suitable sequencing of policies is becoming increasingly important as well. Whereas initial policy responses were focussed on providing liquidity support to mitigate a collapse of the economy, since the third quarter of 2020, countries have moved towards policies that address structural impediments to the MSME sector recovery. Appropriate sequencing of policies supports a proactive policy stance that facilitates a post-COVID-19 recovery which could place the sector in a stronger position than before and less vulnerable to similar future shocks (see infographic below).

amidst the prolonged pandemic. However, direct fiscal stimulus policies can be accommodated by only a narrow group of developing countries, as most, like Sri Lanka, suffer from structural macroeconomic challenges. Even amongst countries with a narrower fiscal space, those that have improved access to such measures have improved the MSME sector's resiliency during the past year. Some countries, such as Thailand, had pre-COVID-19 initiatives to integrate informal enterprises into a functional government structure (without necessarily formalising them).¹⁸ These measures have significantly improved access to liquidity relief, as governments are better able to approach these firms whilst also providing suitable guarantees that mitigate the risks for financial institutions. Low administrative thresholds for accessing government support and

Sequencing of SME policy responses (March 2020-March 2021)



Source: Based on *One Year of SME and Entrepreneurship Policy Responses to COVID-19: Lessons Learned to "Build Back Better"*. Retrieved April 07, 2021, from Organisation for Economic Co-operation and Development: https://read.oecd-ilibrary.org/view/?ref=1091_1091410-rxwx81cfwj&title=One-year-of-SME-and-entrepreneurship-policy-responses-to-COVID-19-Lessons-learned-to-build-back-better

In terms of liquidity support, countries that granted direct stimulus support to enterprises have seen fewer foreclosures among MSMEs and a move towards an economic recovery

digital delivery systems have also helped improve access. South Korea for instance used digital portals to combine information from different sources and reduce the administrative burden on MSMEs when applying for relief.¹⁹

¹⁷ Onishi, T. (2021, March 29). *Vietnam Q1 GDP Grows 4.5% on Rising Exports to US*. Retrieved April 07, 2021, from Nikkei Asia: <https://asia.nikkei.com/Economy/Vietnam-Q1-GDP-grows-4.5-on-rising-exports-to-US#:~:text=The%20Asian%20Development%20Bank%20projects,the%20full%20year%20of%202021.&text=As%20a%20result%20of%20the,about%20%2470%20billion%20in%202020.>

¹⁸ Marsan, G. A., & Sabrina, L. M. (2021). *ASEAN MSMEs in a COVID World*. Jakarta: Economic Research Institute for ASEAN and East Asia.

¹⁹ Organisation for Economic Cooperation and Development. (2021). *One Year of SME and Entrepreneurship Policy Responses to COVID-19: Lessons Learned to "Build Back Better"*. Paris: Organisation for Economic Cooperation and Development.

Policies aimed at providing structural support and immediate assistance while also facilitating an eventual post-COVID-19 recovery complement 'build back better' initiatives of governments.

The most prominent of these structural support policies pertain to digitalisation. Traditionally, MSMEs have very low digital adoption and as such, face productivity constraints and are crowded out of economic opportunities. As the necessity for digitisation increased due to the pandemic, several governments such as Malaysia, Taiwan, and Indonesia have invested heavily towards subsidising digitisation among MSMEs.²⁰ These measures include direct government support as well as public-private partnerships (PPPs) to provide access to technological tools as well as capacity building measures such as workshops and tutorials. Digitisation has consequently allowed firms to recover from the pandemic's downturn at a faster rate as well. MSMEs in Singapore that digitised during the pandemic, for example, are expected to see stronger revenue growth in 2021 compared to non-adopters.²¹

In addition, countries are moving to strengthen MSME supply chains, both domestically and globally. In order to reduce the risk associated with lending to MSMEs, conglomerates and other large corporations are introducing measures to create a more enabling ecosystem for partners to share information more reliably. Using innovations such as blockchain technology, governments are attempting to create infrastructure that allows

stakeholders to operate in an integrated platform. This way, buyers, suppliers, banks, and third-party institutions can share data about on-boarding, credit, and payment behaviour in a more direct secure, speedy and transparent manner.²² This would also provide real-time assurances and greater transparency, allowing MSMEs to secure credit at lower cost and risk. Such measures are especially important for MSMEs who are integrated into the supply chains of large domestic and international firms. Such measures can be driven by private sector initiatives rather than relying on government funding.

6.6 Sri Lanka's Policy Future to Support MSME Recovery

Disruptions to Sri Lanka's COVID-19 vaccination efforts due to supply shortages and the emergence of variants will continue to place a significant burden on the country's public health infrastructure. Thus, this scenario can cause uncertainty, which is likely to continue at least for another year. Consequently, MSMEs may have to contend with further uncertain economic conditions and regular shocks, as public health regulations intensify and parts of the country move into lockdown. If current trends are to persist, even if other sectors of the economy face at least scope for partial recovery, the tourism sector will continue to be severely affected. This is due to the spread of COVID-19 variants in Sri Lanka as well as the rapid spread of the virus in

²⁰ Organisation for Economic Cooperation and Development/Association for SouthEast Asian Nations. (2020). *Enterprise Policy Responses to COVID-19 in ASEAN*. Jakarta: Organisation for Economic Cooperation and Development/Association for SouthEast Asian Nations.

²¹ UOB Group. (2021). *State of Digitalisation among Singapore SMEs*. Singapore: UOB Group.

²² Sanghvi, P. (2021, March 19). *Why Big Business is the Answer to Small Business Stability... and Vice Versa*. Retrieved April 10, 2021, from Accenture: <https://www.accenture.com/us-en/blogs/blockchain-mpps/why-big-business-is-the-answer-to-small-business-stability-and-vice-versa>

Box 6.2

Impact of COVID-19 on Women Owned MSMEs in Sri Lanka

Women owned MSMEs (WMSMEs) in Sri Lanka are a relatively low 25% of all MSMEs in the country. Comparatively, the International Financial Corporation (IFC) estimates that WMSMEs account for 38-47% of MSMEs in South and Southeast Asia. Moreover, WMSMEs tend to struggle with transitioning away from informal micro-scale businesses. This is in part due to limited access to finance and other structural impediments such as low levels of financial literacy and business capacity amongst women, an inadequate policy and regulatory framework for women entrepreneurship, and poor data and evidence on women entrepreneurship on which to base policies and practices. In addition, invisible structural barriers such as traditional customs and domestic and social expectations restrict mobility of women and prevent their participation in the economy as entrepreneurs.

Proportion of Male and female Owned MSMEs, by Firm Size

	Male	Female
Micro	73.7	26.3
Small	91.7	8.3
Medium	93.9	6.1
Large	95.4	4.6
Total	75.2	24.8

Source: Department of Census and Statistics. (2014). *Economic Census 2013/2014*. Colombo: Department of Census and Statistics.

Existing structural barriers to women's participation in the economy combined with structural barriers faced by micro firms in accessing financial and non-financial relief, exacerbate the disproportionate impact of COVID-19 on WMSMEs. Meanwhile, disparities in digital literacy between males and females further limit the scope for digitisation, slowing down opportunities for economic recovery. A recent IFC survey found that only 25% of WMSMEs tried a new digital business channel since the onset of COVID-19, compared to one third of all MSMEs in Sri Lanka. Similarly, WMSMEs were less likely to have obtained a loan from a formal financial institution and more likely to have borrowed from friends or family.

Sources: Asian Development Bank. (2018). *Promoting Women's Entrepreneurship in Sri Lanka*. Manila: Asian Development Bank.

International Trade Centre. (2018). *SheTrades: Promoting SME Competitiveness in Sri Lanka*. Geneva: International Trade Centre.

International Finance Corporation. (2020). *Gendered Impacts of COVID-19 on Small and Medium-Sized Enterprises in Sri Lanka*. Washington D.C.: International Finance Corporation.

key tourism markets such as India and Europe, leading to travel restrictions and a fall in demand as well.

Sri Lanka's policy response, however, cannot solely focus on addressing liquidity concerns as prolonged debt injections and the manner in which the current debt moratoriums are structured, MSMEs could potentially see a short-term liquidity crisis convert into a long-term insolvency crisis. Policymakers and relevant authorities, therefore, should consider a proactive approach rather than a reactive approach by exploring equity, quasi-equity, and other non-debt support. At the same time, responsible exit strategies for emergency liquidity support should also be developed. In addition, the government would be best placed to account for the increase in operational costs for MSMEs in implementing current COVID-19 restrictions and guidelines and support initiatives to subsidise these costs.

Moreover, as discussed earlier, the efficacy of current relief is diminished due to structural issues impeding financial access to MSMEs. These include high levels of informality within the MSME sector, and the absence of formalised banking relationships as well as formal MSMEs not having adequate collateral to access relief without incurring a high cost and risk. Thus, the government should invest more heavily in addressing structural weaknesses that slow down the path towards recovery. Furthermore, supporting digitalisation efforts through public-private partnerships will not just support recovery among MSMEs from the current crisis, but also place these firms in a much stronger position, in years to come.

The manner in which the current debt moratoriums are structured, MSMEs could potentially see a short-term liquidity crisis convert into a long-term insolvency crisis.

MSMEs are a highly heterogeneous group of firms, not just in terms of size but also in terms of other factors such as whether a firm is a women-led enterprise, a start-up in a dynamic industry, integrated into domestic and global supply chains, and the sector involved. This high level of heterogeneity means that broad emergency relief measures should simultaneously be complemented with more tailored policy responses. For instance, while the current import restrictions may support a narrow group of industries, a vast majority of MSMEs suffer directly or indirectly due to supply

shortages, difficulty in accessing raw materials, and overall price increases. Therefore, policy responses should be more cognisant of these implications and distinguish emergency short-term measures and those that can be prolonged without incurring negative repercussions.

Given Sri Lanka's narrow fiscal space, it is vital that resources are efficiently allocated. Therefore, a greater focus on addressing structural factors rather than exclusively responding to short-term shocks would likely have greater marginal utility to the MSME sector.

7. Pandemics and the New Normal: Sri Lanka's Labour Market

7.1 Introduction

The COVID-19 pandemic that started as a health crisis swiftly metamorphosed into an economic, social, and humanitarian crisis. Several new vaccines have given fresh hope that the pandemic's spread will be limited, enabling a sustained recovery to take effect. So far, containment efforts are slow due to supply shortages of vaccines and the emergence of new variants of the virus, some of which can be resistant to the available vaccines as well.

The crisis devastated both the supply and the demand sides of the labour markets globally. Restoration of labour markets is important to minimise the damage to human development and to speed up recovery. Especially in countries where social security systems are not well-developed, jobs are essential to channel funds to the most vulnerable households who are unlikely to have sufficient savings or assets to fill the gap from reduced earnings, even to meet their essential needs.

Almost all countries have come up with a variety of policy responses to minimise the adverse effects of COVID-19 on labour markets, to support industries, businesses, and workers. The employment and income losses have not affected all industries and occupations in equal magnitude. On the health front, due to the traits of their work,

frontline workers who handle the sick or work in spaces with more public exposure, are more susceptible to the virus. On the economic front, some industries are much more affected by the lockdown measures and the restricted mobility than others due to the nature of their work. For instance, the accommodation and food services industry, mainly operating through physical outlets and unable to open to the public due to mobility restrictions, is severely affected. On the contrary, the information and communication sector (ICT) is able to continue economic activities through technology, also tapping emerging opportunities to create demand for breakthrough services.

The effect of the crisis also varies across different types of workers. Workers in most affected industries are more likely to experience job and income losses. Also, formal sector workers with better social security are likely to experience a more limited impact from the crisis. Given the unprecedented magnitude of this crisis, many countries have extended and expanded existing social security benefits. The type and magnitude of these stimulus policies and their effectiveness vary widely across countries. Businesses too have been affected in varying degrees. The ability of various countries to support these pandemic affected industries, businesses, and workers has been shaped by the nature of the labour

market, the capacity of institutions, as well as the availability of fiscal space in the respective countries.

This chapter discusses the impact of the pandemic on labour markets, examines the policies adopted by different countries to improve labour market activities, and compares these with policies adopted in Sri Lanka. In doing so, the chapter draws lessons to strengthen labour market institutions in the country.

7.2 Impact of the Pandemic on the Labour Market

According to the International Labour Organization (ILO), globally, jobs equivalent to 225 million were lost in terms of employment and working hour losses in 2020 compared to the fourth quarter of 2019.¹ These working hour losses are four times higher than those experienced during the global financial crisis in 2009. Women and youth were the most affected, with 5% more women losing jobs compared to men and 8.7% young workers losing jobs compared to adult workers.

The labour income losses in 2020 are estimated to have declined by 8.3%, which amounts to 4.4% of global gross domestic product (GDP). The deterioration of labour markets has also adversely affected global unemployment rates, which increased by 1.1 percentage points. Along with this, and as noted at the onset, the inactivity of labour has also increased, unveiling another dimension of the pandemic's ill effects

on the labour market. The COVID-19 instigated recession has not only affected the quantity but also the quality of jobs, with increasing levels of temporary and informal types of work with lower remuneration and poor working conditions.

7.2.1 How has COVID-19 Affected the Labour Market in Sri Lanka?

Like in other countries, the pandemic has reduced employment levels and worsened the quality of work in Sri Lanka.² The level of employment in Sri Lanka reduced by 150,209 from the fourth quarter (Q4) 2019 to Q4 2020 (Figure 7.1). The decrease in employment levels is mainly observed in the services and the industry sectors, while the level of employment in agriculture increased. This shift towards employment in agriculture also implies a deterioration of employment conditions. Informal employment in the agriculture sector is much higher (92%), compared to the non-agriculture sector (58%).³ Further, agriculture workers earn less compared to workers in the industry and services sectors.⁴

Across types of employment, employees, employers, and contributing family workers have declined during the Q4 2019 to Q4 2020 period, while the share of own-account workers has increased. Small-scale employers may have resorted to becoming self-employed along with the slowdown in economic activities. The reduction in unpaid family work could also be due to reduced demand for goods and services. Despite an increase of public employees by 1,079,

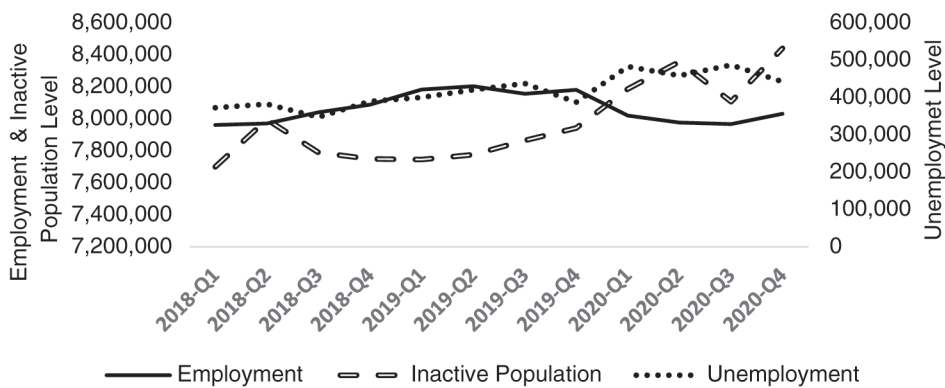
¹ The information in this section is mostly based on International Labour Organization. (2021, January). *ILO Monitor: COVID-19 and the World of Work - Fifth Edition*. Geneva: International Labour Organization.

² The data for this section is derived from various Quarterly Labour Force Surveys of the Department of Census and Statistics (DCS) and the Annual Report 2020 of the Central Bank of Sri Lanka (CBSL).

³ Department of Census and Statistics. (2019). *Labour Force Survey - Annual Report 2019*. Colombo: Department of Census and Statistics: Colombo.

⁴ *Ibid.*

Figure 7.1
Trends in Employment, Unemployment and Economically Inactive Population Levels (No.)



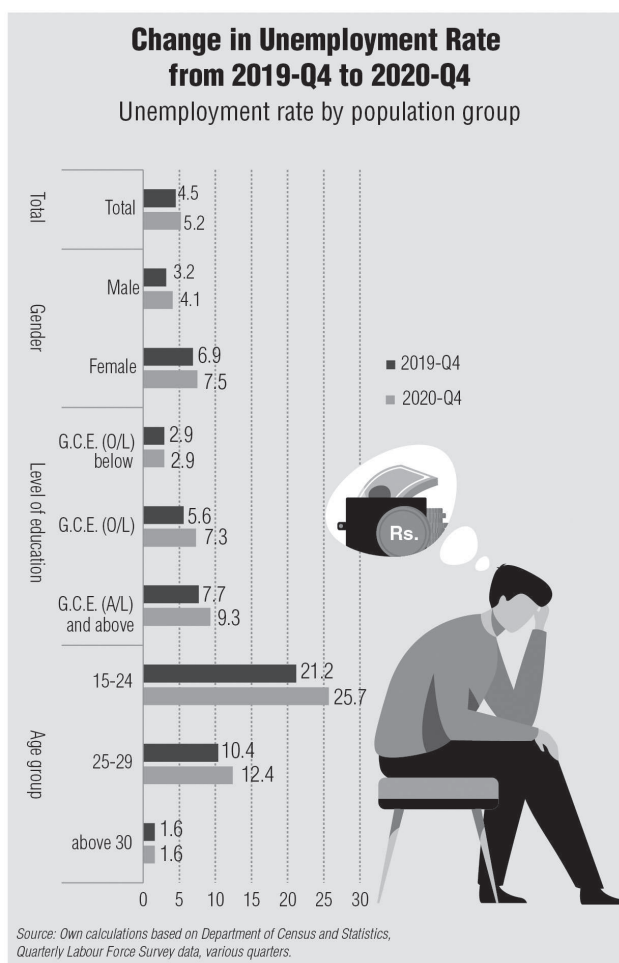
Source: Own calculations based on *Quarterly Labour Force Survey Data*, Department of Census and Statistics (Various quarters).

Like in other countries, the pandemic has reduced employment levels and worsened the quality of work in Sri Lanka.

the number of employees decreased by 163,870 due to the decrease in private sector employees. These numbers suggest that uncertainties and tightening labour market conditions have forced workers to shift to more vulnerable employment types, such as self-employment. The exception to this scenario is the marginal increase in public sector employment.

The pandemic has increased Sri Lanka's unemployment rate by 0.7 percentage points from Q4 2019 to Q4 2020, as well as those in inactivity. Somewhat unexpectedly, the increase in the unemployment rate is higher for males (by 0.9 percentage points) than for women (by 0.6 percentage points). The lower increase in the unemployment rate for women is mostly due to more women choosing to be inactive rather than being unemployed. The number of inactive women increased almost two-fold by 319,164 over time (compared to an increase of 178,257 inactive men).

Youth were affected more severely by the slowdown in the labour market. Across age groups, the highest increase in the unemployment



Source: Own calculations based on Department of Census and Statistics, *Quarterly Labour Force Survey Data*, (Various quarters).

rate of 4.5 percentage points is observed for 15 to 24 year-olds, while the unemployment for 24 to 29 year-olds increased substantially (by 2 percentage points). At the same time, the unemployment rate for age 30 and above remain unchanged over this period.

Across skill levels, the unemployment rate has increased the most for those with middle-level skills (i.e. those with O-levels and A-levels). This situation is not unusual in developing countries such as Sri Lanka with a large informal sector. The lowest skilled workers are probably the poorest.

As they unable to stay unemployed for long, this segment is likely to join the informal sector. The unemployment rate for those with O-levels has increased by 1.7 percentage points from Q4 2019 to Q4 2020.

7.2.2 Inequalities in Impact across Occupations and Industries

As discussed earlier, the effect of the pandemic on the labour market varies across various

occupations and industries. Based on real-time economic and financial data, the ILO has categorised sectors according to the impact of the COVID-19 on economic output (Table 7.1). According to the ILO analysis, sectors such as education, and human health and social work activities are less impacted by the pandemic, while sectors such as accommodation and food services, manufacturing and wholesale and retail sales are highly impacted by the pandemic.⁵

Frontline workers are at risk the most, to contract the disease. These include healthcare workers (i.e. doctors and nurses), workers in health support services (cleaners and other social workers who handle the sick), personal care workers, security guards and armed forces, and other cleaners and helpers, and other public sector workers who are in the front line. According to the nature of these frontline occupations and their work

composition, some types of workers are more vulnerable to the disease than others. The share of females in several frontline occupations is quite high, placing females in these occupations at a higher risk of contracting the disease. Compared to 34% of females in overall employment, a disproportionately higher share of females is employed as health professionals (74%) and health-related professionals (39%), personal care workers (72%), cleaners and helpers (52%), and food preparation assistants (67%). Similarly, a higher share of males employed as protective service workers (i.e. policemen), street vendors and refuse workers are at a higher risk of contracting the disease.

Table 7.1 shows how the ILO has classified industries (i.e. low, medium-low, medium, medium-high, and high) according to their susceptibility to economic risk from the crisis.

Table 7.1
Impact of COVID-19 on Economic Output

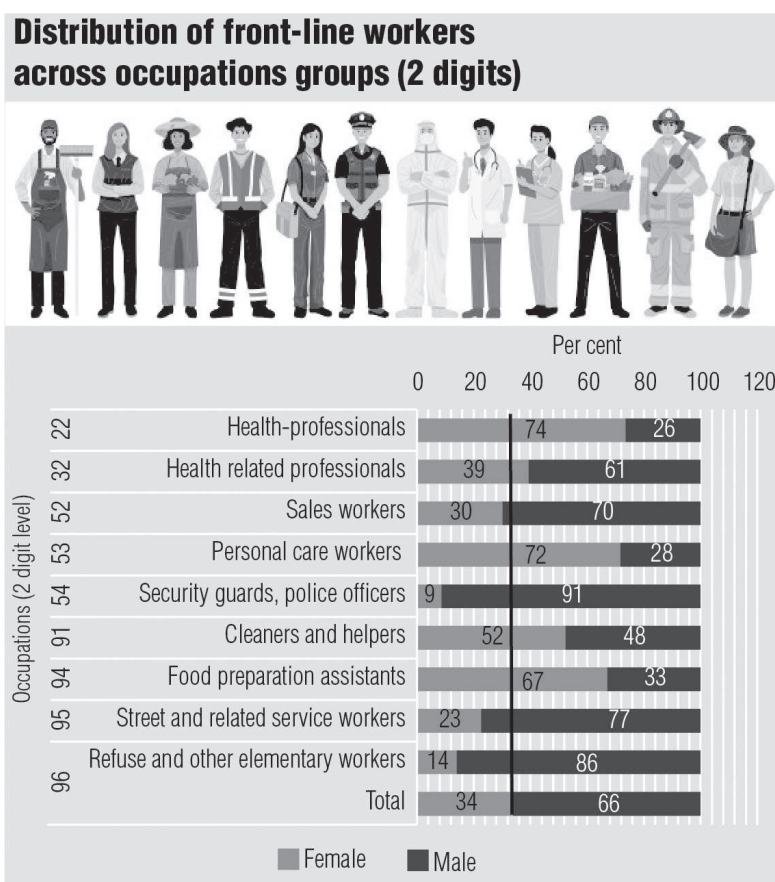
Impact of the Crisis on Economic Output	Economic sector
Low	Education; Human health and social work activities; Public administration and defense; Compulsory social security; Utilities
Low-medium	Agriculture, forestry, and fishing
Medium	Construction; Financial and insurance activities; Mining and quarrying
Medium-high	Arts, entertainment and recreation, and other services; Transport, storage, and communication
High	Accommodation and food services; Real estate, business, and administrative activities; Manufacturing; Wholesale and retail trade, repair of motor vehicles and motorcycles.

Source: Based on *ILO Monitor- COVID19*, Second edition.

⁵ Comparable data for Sri Lanka is only available through an online survey conducted by the Department of Labour in May 2020. However, this survey only assessed the impact of COVID-19 during the lockdown period from March 2020 to May 2020. For more information on this survey refer Wimalaweera, A. (2020). COVID-19 and Beyond - The Impact on the Labour Market of Sri Lanka. Colombo: Department of Labour.

These economic impact risks were assessed based on information on output, investment in fixed assets, domestic trade, foreign trade, and business expectations. In this categorisation, low-risk industries are the least affected economically by the crisis, while high-risk industries are the most affected. By assigning these economic risk factors, the exposure to economic risk for workers in Sri Lanka can be assessed. Such an analysis shows that more than one-third (39%) of workers are in high-risk industries in Sri Lanka (Figure 7.2). This average conceals differences of impact across population groups. As various

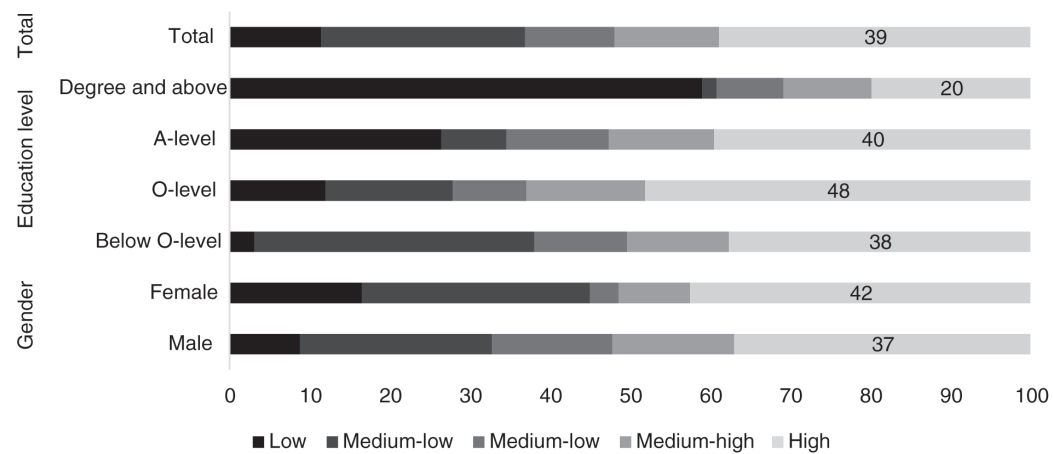
types of workers are employed in many types of industries, the economic risk to workers varies across population groups. For example, although overall, the share of workers in low-risk industries was low as 11%, among highly skilled workers (i.e. those with a degree or higher-level education) 59% of workers were in low-risk industries (Figure 7.2). In a similar light, across education groups, the middle-skilled workers were employed in industries that were the most affected by the crisis, with 48% of workers with O-levels working in industries that were high risk (Figure 7.2). A mixed exposure to economic risk was evident



Note: Occupations show the International Standard Classification of Occupations (ISCO) at the 2-digit level.

Source: Own calculation using *Labour Force Survey Data 2018*, Department of Census and Statistics.

Figure 7.2
Distribution of Workers across Industries according to COVID-19 Related Economic Output Risk, by Sex and Level of Education



Note: Industries are categorised according to the ‘Impact of the Crisis’ on their economic output using ILO classification. Industry classifications are as follows: Low risk - Education, Human health and social work activities, public administration and defense, compulsory social security, Utilities; Low-medium risk - Agriculture, forestry, and fishing; Medium risk - Construction; Financial and insurance activities; Mining and quarrying; Medium-high risk - Arts, entertainment and recreation, and other services; Transport, storage and communication; and, High risk - Accommodation and food services; Real estate, business, and administrative activities; Manufacturing; Wholesale and retail trade, repair of motor vehicles and motorcycles.

Source: Own calculation using Department of Census and Statistics, *Labour Force Survey Data 2018* and International Labour Organization. (January 2021). *ILO Monitor: COVID-19 and the World of Work- Seventh Edition*. Geneva: International Labour Organization.

across gender, proportionately with a higher share of females in both high-risk industries as well as low-risk industries.

7.3 The ILO Policy Framework for Tackling the COVID-19 Crisis⁶

The policy measures adopted by governments to support labour markets have changed throughout the pandemic. Policies that countries adopted at the onset of a crisis (i.e., the crisis phase) are different from those adopted during the recovery phase (i.e. the period when labour markets are

coming back to normal) and the adjustment phase (i.e. the phase when labour markets are renewing to be better prepared in the future). The ILO recommends differential policy measures at various stages of the pandemic along four main pillars. There are: 1) policies for stimulating the economy and employment; 2) policies for supporting enterprises, jobs, and incomes; 3) policies for protecting workers in the workplace; and, 4) relying on social dialogue for finding solutions. This section provides an overview of the policy options adopted by countries as stimulus measures during various relief, recovery, and adjustment phases of the crisis, to draw lessons to strengthen the functioning of labour markets in Sri Lanka.

⁶ Descriptions of main policy measures are adapted from International Labour Organization. (2021). *A Quick Reference Guide to Common COVID-19 Policy Responses*. Geneva: International Labour Organization.

7.3.1 Policies during the Relief Phase of a Crisis

In the initial stages of the crisis, when lockdowns were in force, economic activities were severely hampered. Hence, without incentives and relief schemes in place, large-scale unemployment and income losses can be triggered. In this phase, the primary need is to provide relief to affected industries, firms, and workers. As such, usually, the emphasis is to provide relief for enterprises to sustain business activities and for workers to maintain consumption levels on essential needs. The assistance should be differentiated to meet the needs of a broad gamut of industries, enterprises (e.g. micro and small enterprises in the informal sector versus formal enterprises), and workers.

The policies adopted in this relief phase can be broadly categorised into employment measures, extending social protection, extending support to sustain enterprises as well as the self-employed, facilitating temporary changes to work arrangements, and trade facilitation. Common employment measures adopted by countries include wage subsidies, job retention measures, incentives for work-sharing or short-term work schemes, cash grants, support to enterprises for retaining workers such as concessionary loans, and a temporary waiver of statutory obligations.

Employment Measures:⁷ Wage subsidies and job retention schemes are policies used commonly by high-income countries (HICs) to provide support to the firm to retain jobs. These

schemes assist enterprises through cash grants, low-interest loans or tax credit in exchange for retaining jobs. Although costly, this helps to protect jobs as short-term fixes facilitating a faster recovery, in the absence of additional retrenchment and hiring costs. Hence, these schemes which grant subsidies to employees of firms severely affected by the crisis, are favoured by many countries. Some classic examples include Australia's 'Job Keeper' scheme, the 'Canadian Emergency Wage Subsidy' scheme, Ireland's 'Temporary Wage Subsidy' scheme, and the US' 'Employee Retention Credit' scheme and 'Paycheck Protection Programme' schemes. Generally, the loss in turnover is taken into account to assess the severity of the impact. Some upper-middle-income (UMI) countries have also provided wage subsidies. In Malaysia, employment insurance provided wage subsidies to employers in exchange for retaining workers for at least six months.⁸ In the Dominican Republic, enterprises registered with the social security treasury received wage subsidies.⁹

Work sharing or short-term work schemes is another less costly measure adopted by countries to assist enterprises to retain workers. These schemes enabled enterprises to allow workers to share jobs and work reduced hours but maintain employer-employee links/relationships. In Germany, Kurzarbeit (short-term work) scheme was deployed to send their workers home or reduce their work hours substantially while retaining employment. The government compensated workers for earnings lost due to the loss of work hours.

⁷ Information on the US, Australia, Canada, UK, and Ireland in this section is from Tetlow, G., Pope, T., & Dalton, G. (2020, May 29). *Coronavirus and Unemployment: The Importance of Government Policy: A Five Nation Comparison*. London: Institute for Government.

⁸ International Labour Organization. (2020, May). *Social Protection Responses to the COVID-19 Pandemic in Developing Countries*. Geneva: International Labour Organization.

⁹ *Ibid.*

Layoffs, furloughs, and redundancy allow enterprises to adjust workforces when struggling with cash flow issues due to reduced demand. Under these arrangements, governments can temporarily amend workplace laws to allow firms to adjust their workforces. For example, Australia revised its workplace laws to allow more flexibility to firms to adjust their workforces. In the UK, around 24% of the workforce is furloughed, with up to 8% of their pre-COVID wages paid by the government. In Sri Lanka, a tripartite agreement (between employers, workers, and the government) allowed firms to make pro-rata payments to workers based on their work hours, which had to be reduced due to COVID-19 containment efforts.

Workers who lose their employment usually receive some kind of unemployment benefits and assistance to retrain and find new jobs in high income countries (HICs). The number of people claiming unemployment has seen a remarkable hike during the crisis. The share of workers claiming unemployment benefits increased by six percentage points to 12% in Australia, and by 17 percentage points to 18% in the US. In the UK, the share of the workforce of low-income earners receiving credit as an income supplement has increased by six percentage points. In Canada, around two-fifth of the workers have received at least one payment of Canada Emergency Response Benefit (CERB), a scheme that assists those who have substantially lost their work hours due to the pandemic. Canada, Ireland, and the US have expanded the bundle benefits as well as extending its coverage. In the US, unemployment benefits were made available/eligible to workers who are not usually eligible for such benefits as the self-employed, non-profit employees, and gig workers through the 'Pandemic Unemployment Assistance' (PUA) programme.

In addition to the above, governments deployed targeted public works programmes to create jobs for those in the informal sector. These programmes provided temporary jobs to low-skill workers who are therefore vulnerable to pay losses. Examples include road and other routine maintenance of infrastructure activities done by the government. India's National Rural Employment Guarantee Scheme, which guarantees at least 100 days of low-skilled manual work to every household, was granted an additional USD 5 billion to expand their programme to provide paid work for households. South Africa too deployed a public works programme to hire 20,000 workers for sanitising public spaces and to educate the public on hygiene. Another similar public works programme in South Africa supported the distribution of sanitisers and educating workers on hygiene practices.

Social Protection Measures: Extending social protection was one of the most widely used measures by governments across the world to provide relief to underprivileged families who are prone to income losses. As many as 108 countries used social protection measures to provide relief to households by April 2020 during the height of COVID-19. The Government of Philippines through their Emergency Subsidy programme granted 5,000 – 8,000 Philippine pesos to 18 million households as a relief to meet the cost of living/living expenses for two months. In Thailand, national social insurance saw that workers received unemployment compensation amounting to 62% of their salary for three months commencing from March 2020.

Additionally, countries with employees' provident fund (EPF) schemes provided extra benefits while granting more flexibility for employees to withdraw funds. For instance, in Malaysia, employees

Extending social protection was one of the most widely used measures by governments across the world to provide relief to underprivileged families who are prone to income losses.

below the age of 55 were permitted to withdraw 500 Malaysian ringgit per month from the EPF starting from March 2020 onwards. Plans are underway for the Malaysian government to extend this relief facility to other affected groups from COVID-19 such as laid-off workers to be eligible to withdraw funds from the EPF. The Indian government allowed employees to withdraw up to 75% from the EPF as a non-refundable advance or three months basic salary, whichever is lower (IMF, 2021).¹⁰

Policies to Support Businesses:¹¹ As noted previously, many governments have adopted relief measures to support enterprises affected by the pandemic. The types of measures used include rescheduling settlements of financial commitments, by extending the stipulated time. These cover loans, temporary debt suspensions, loans and loan guarantees, reduction or temporary suspension of taxes, and temporary reductions of statutory payments. Governments also adopted fiscal measures for a low-interest regime, whereby reduced interest rates help support enterprises and investments. Many economies introduced interest-free loan schemes to facilitate day-to-day business activities. Some countries also provided support for utility and rent payments, to ease the burden for business in servicing expenditure amidst the loss of turnover/revenue.

More advanced countries used a broad spectrum of fiscal and monetary policies to target various sectors, types of businesses, and industries to minimise the burden on fixed commitments such as taxes, rental etc., amidst the scenario of falling revenues. For example, in the UK, the

¹⁰ International Monetary Fund. (2021, May 07). *IMF and Covid-19. Policy-Responses-to-COVID-19*. Retrieved May 20, 2021, from International Monetary Fund: <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#>.

¹¹ Information in this section is based on Tetlow, G., Pope, T., & Dalton, G. (2020, May). *Coronavirus and Unemployment: The Importance of Government Policy: A Five Nation Comparison*. London: Institute for Government; Tetlow, G., Pope, T., & Dalton, G. (2020, October). *Support for Business during the Corona Virus Crisis – An International Comparison*. London: Institute for Government.

government relaxed conditions applicable on tax. This way, the UK permitted businesses to defer value added tax (VAT) payments until March 2021 and allowed them to pay VAT in interest-free instalments. In Singapore, the government slashed property taxes for all businesses, where property taxes were waived for the worst-affected businesses. New Zealand and Japan introduced similar systems to defer corporate tax on request.

Policy responses also included sector-wise policy measures to the worst-hit sectors. For example, Singapore and Japan widened the availability of export credit insurance and loans to support export sector companies. The UK introduced several low-interest loan schemes. Among these, the 'Bounce Back Loan Scheme' enables small and medium-sized enterprises (SMEs) to borrow up to 25% of their turnover at concessionary rates. A parallel low-interest loan scheme – the 'COVID-19 Corporate Financing Facility' – aims to facilitate large business through buying short-term corporate debt instruments.

Some low and middle-income countries (LMICs) also provided different types of concessions to enterprises. In Malaysia, the government relaxed regulations on EPF contributions, a drop from 11% to 7% for eight months while businesses were allowed to reschedule their EPF payments. Further, the severely affected (due to travel and social mobility restrictions, closure of borders) tourism sector firms were permitted to defer monthly income tax instalments and payments for six months. Accordingly, such companies were allowed to revise their profit estimates for 2020,

without a penalty. In India, the government also relaxed rules on employee EPF contributions reducing the rate from 12% to 10%.¹²

Many governments extended targeted relief to the self-employed and the SMEs and workers in the informal economy. They usually work on small budgets and thereby can be severely affected by a demand shortfall along with external shocks to the economy. For example, the UK's Self-Employed Income Support Scheme provides support to self-employed with annual profits amounting to less than GBP 50,000 and receiving at least half of their income from self-employment. The government of Singapore provided grants to cover rent payments of SMEs. For instance, in Sweden, self-employed can claim up to 70-80% of their previous profits if they are members of an unemployment insurance scheme and have stopped working. Similar schemes were in place in Denmark and France as well.¹³

Support for Informal Sector Workers: Many governments used targeted policies aimed at the informal sector, one of the most affected sectors by the pandemic. For example, in Burkina Faso, the government suspended charging fees on rent, security, and parking from informal workers. In Gabon, the government facilitated loans to both formal and informal sector enterprises. In Thailand, the government provided cash transfers for 1.4 million workers in the informal sector. Likewise,¹⁴ in Egypt, informal sector workers were eligible to receive payment as compensation for their lost income due to COVID-19.¹⁵ Some countries provided reskilling programmes for

¹² International Monetary Fund. (2021, May 07). *IMF and Covid-19. Policy-Responses-to-COVID-19*. Retrieved May 20, 2021, from International Monetary Fund: <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#>.

¹³ Tetlow, G., Pope, T., & Dalton, G. (2020, October). *Support for Business during the Corona Virus Crisis – An International Comparison*. London: Institute for Government.

¹⁴ International Labour Organization. (2020, August 19). *Social protection responses to COVID-19 in Asia and the Pacific: The Story So Far and Future Considerations*. Geneva: International Labour Organization.

¹⁵ International Labour Organization. (2020, July 06). *Social Protection Responses to the COVID-19 Crisis in the MENA/Arab States Region*. Geneva: International Labour Organization.

informal sector workers who lost their income. For instance, Indonesia launched a programme referred to as 'Kartu Pra-Kerja' to training and re-skilling unemployed workers.¹⁶ Some countries introduced 'public-works programmes' to facilitate income opportunities for informal sector workers.

Facilitating Temporary Work Adjustments:

Measures for protecting workers in the workplace include tightening occupational safety and health measures, introducing flexible working arrangements that help to contain the spread of the disease (e.g. teleworking), ensure equal treatment of all, and the provision of access to health care, and expansion paid leave.

Facilitating temporary adjustments to the workplace is a means of providing relief to workers and firms. Such adjustments include temporary amendments/revisions to paid sick leave and care leave, facilitating flexible working arrangements and work from home (WFH), including teleworking (discussed later in this chapter). Given the COVID-19 pandemic and the requirements for health-related leave, many countries also extended sickness benefits (i.e. providing wage support to workers who have to take sick leave for an extended period). For instance, the UK introduced a 'Statutory Sick Pay' scheme, which facilitates the SMEs for up to 14 days of COVID-19 related sick pay per employee.¹⁷

In addition to the above measures taken to retain workers in employment, governments supported changes to work arrangements so

that economic activities can continue regardless of mobility restrictions. One main policy option by governments was to facilitate WFH, where workers stay safe and continue with market activities. WFH is not a novel concept in HICs, in particular in ICT related sectors such as data entry occupations and online marketing, etc. However, the WFH concept is fairly new to LMICs where traditional on-site labour market practice prevailed. WFH was used to address COVID-19 related economic inactivity amidst social mobility restrictions imposed to contain the spread of the pandemic. According to the US Bureau of Labor Statistics, in the US, employees in full-time WFH increased to 42% from 15% during the COVID-19 pandemic.¹⁸

However, not all workers can work from home. According to a survey conducted by the Stanford University in the US, one in five jobs can be done in-home across the globe.¹⁹ This share is much higher in HICs (one in three jobs) compared to LICs (one in 26 jobs). This is partly due to the types of jobs available in these countries and the limitations of ICT infrastructure. The employment context and the type of activities carried out by workers determine the probability of WFH practices. Studies find that highly skilled workers and service sector workers are much more able to WFH compared to other types of workers.

7.3.2 Policies in the Adjustment Phase

In the adjustment phase, restrictive measures are relaxed and economic activities return to

¹⁶ International Labour Organization. (2021, January 19). *Skills Development in the Time of COVID-19: Taking Stock of the Initial Responses in Technical and Vocational Education and Training*. Geneva: International Labour Organization.

¹⁷ Descriptions of main policy measures are adapted from International Labour Organization. (2021). *A Quick Reference Guide to Common COVID-19 Policy Responses*. Geneva: International Labour Organization.

¹⁸ US Bureau of Labour Statistics. (2020, June 25). *US Bureau of Labour Statistics*. Retrieved May 20, 2021 from US Bureau of Labour Statistics: <https://www.bls.gov/news.release/atus.t06.htm>

¹⁹ Adams-Prassl, A., Boneva, T., Golin, M., & Rauh, C. (2020, April 24). Inequality in the Impact of the Coronavirus Shock. *Journal of Public Economics*, 189(19).

normalcy at a slow pace. This phase involves reviewing work arrangements and facilitating return to work under safe conditions, policies for reskilling, supporting the use of digital technology, and supporting high growth, high job creation industries. Stimulus to support economic activities aimed at uplifting businesses are likely to help create jobs and increase aggregate demand. Policies should aim to create an enabling business environment that can revive economic activities for promoting growth.

One of the main policy measures in the adjustment phase is to enable the resumption of economic activities under safe conditions. In this regard, ensuring occupational safety and health at work is pivotal. With the prevalent threat of the disease that can intensify with emerging waves and new variants, many countries advocated operating work under reduced capacity to minimise contagion. The types of policies include grants to support flexible, reduced capacity work arrangements, and guidelines for workplace health and hygiene practices.

Policies in the adjustment phase also include reskilling to train workers to adapt to new work environments as well as restart vocational training. The lockdown has resulted in reduced training activities. Examples of efforts made in this regard by governments to encourage training include, China's scheme for subsidising training for SMEs, and Ghana's use of a dedicated television channel to broadcast educational services.

Recognising the relevance and rise in the use of digital platforms for carrying out economic

activities, many countries undertook initiatives to increase access to digital technology and train workers to use digital platforms. China introduced measures to facilitate enterprises to adopt digital technologies and business practices. Some countries aimed to improve digital literacy.

Along with short-term measures discussed earlier for economic revival, promoting medium to long-term growth is critical. Many governments extended the use of policy measures for severely affected sectors to encourage entrepreneurship and innovation. The types of policy tools deployed for this include, reducing barriers to entrepreneurship by reducing the entry costs, fast-tracking legislative entry requirements and simplifying procedures, training, financial support, and incentives. The Netherlands and Belgium granted loans to encourage start-ups and scale-ups. Singapore established a Solidarity Fund through a public-private partnership (PPP) to provide support for innovations and expansions.²⁰ The Cambodian government allowed a six-month tax holiday to the garment sector; in Portugal, the government permitted state-backed credit guarantees to enterprises in hard-hit sectors.²¹

In some nations, public procurement was an effective tool to help generate demand for goods and services produced by SMEs.²² Mexico came up with the criteria that 35% of the total value of goods and services and public works by government entities must be contracted to SMEs. Similarly, in India, government agencies must procure at least 20% of their goods and services from SMEs. In South Africa, its Preferential Procurement Regulations call for subcontracting 30% of the value of contracts to SMEs.

²⁰ Descriptions of main policy measures are adapted from International Labour Organization. (2021). *A Quick Reference Guide to Common COVID-19 Policy Responses*. Geneva: International Labour Organization.

²¹ *Ibid.*

²² *Ibid.*

7.3.3 Policies in the Recovery Phase

As normalcy returns, policy responses are aimed at supporting the recovery phase. In this phase, emphasis is given to strengthen and restore the business environment to ensure resilience to future crises. As such, at this stage, policies aim to diversify and restructure the economy to foster sustainable and inclusive growth.

A key challenge in this phase is to promote investments to support growth. Some policies that can be adapted in this phase include: simplifying and speeding up administrative procedures relating to investments; reduce tax rates; launch public investment projects; support the use of online tools and e-platforms; and, set-up investment promotion agencies.

Legislative bottlenecks that hinder recovery through preventing enterprises from adjusting to different market conditions can be reviewed and adjusted, thus facilitating labour market flexibility. This could also help to promote growth, as more flexible labour markets help enterprises and workers make better matches according to job requirements that boost productivity. For example, as WFH becomes more customary, there would be a need to revise the legislature that was aimed at on-site workers.

This phase can also benefit from adopting policy measures to accelerate productivity. Aiming for better levels of productivity encourages enterprises to grow and be competitive in the local and global markets. Policies for education and skill development for helping workers to adjust to the changing labour market and research and development for facilitating long-term growth are examples of some measures. Productivity can also be enhanced through leveraging technology.

Extending social protection was one of the most widely used measures by governments across the world to provide relief to underprivileged families who are prone to income losses.

The crisis has highlighted the importance of social protection for ensuring welfare and sustaining human development. In the recovery phase, it is important to review the existing social security measures to assess means of improving social security so that workers are better protected against insecurity and uncertainties during a future crisis.

The informal sector was the hardest hit by the pandemic. The workers in this sector are involved in more vulnerable jobs, and they are not covered by social protection. Also, as limited information is available on them, it is difficult to target relief. Due to these factors, practical difficulties in the targetting process can arise. As such, the informal sector also faces greater hardships in receiving assistance during a crisis. Many workers and enterprises choose to remain informal when the costs of entering the formal sector outweigh the benefits of remaining informal. Reforming the business environment to offer benefits to the informal sector can encourage more firms to transition to the formal sector. Policies in this regard include improving access to affordable infrastructure, improving access to training, relaxing taxation procedures and reducing taxes to entry-level firms, and reduced administrative burdens of being formal.

Lastly, the crisis exposed shortcomings and loopholes of public institutions. It is important to review and address these issues head-on and improve public administration and coordination. This kind of approach opens avenues and opportunities to improve the business environment for sustained growth.

7.4 COVID-19 Policy Responses in Sri Lanka

7.4.1 Policy Responses in Sri Lanka²³

As shown earlier, the Sri Lankan labour market too was severely affected during the pandemic. The government adopted a combination of fiscal and policy measures to provide relief to affected workers and enterprises at the onset of the crisis.

The main means through which the government provided relief to the affected workers was by extending social protection through an emergency cash transfer to vulnerable groups, amounting to 0.6% of GDP in 2020, and 0.1% of GDP during January-April 2021. Initially, cash transfers targetted recipients of the Samurdhi social protection programme, but it was later extended to other groups, including the self-employed. Along with cash transfers, some in-kind benefits such as food were provided to the vulnerable.

A job retention scheme was implemented through social dialogue involving the Employers Federation of Ceylon (EFC), the trade unions, and the Ministry of Skills Development. Accordingly, employers were in a position to pro-rate wages of monthly paid employees in all sectors excluding leisure, hospitality, and tourism sectors in exchange for retaining jobs.²⁴

The government also provided concessions on statutory payments. The payment of income

²³ This section draws information from the Central Bank of Sri Lanka. (2020). *Annual Report 2020*. Colombo: Central Bank of Sri Lanka; and International Monetary Fund. (2021, May 07). *IMF and Covid. Policy Responses to Covid-19*. Retrieved May 20, 2021, from International Monetary Fund: <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#l>.

²⁴ Wijayasiriwardane, D. (2020). *Summary of Measures Announced by the Government of Sri Lanka in Response to the COVID-19 Pandemic*. Retrieved May 10, 2021 from D.L & F. De Saram: <https://www.desaram.com/BlogArticles/COVID19-srilanka.php>

tax, VAT, and other taxes were extended till the year end. SMEs were offered partial income tax waivers and payment under more lenient terms and conditions. The deadline for income taxes, VAT and other taxes was extended for another year in 2020. The income taxes of SMEs were deferred and these were eligible for more relaxed payment terms. Legal actions on tax evaders were suspended.

In addition, the government-backed relief to affected enterprises and sectors through a range of fiscal and monetary policy measures. On the monetary policy front, the Central Bank of Sri Lanka (CBSL) facilitated special credit support schemes and relaxed requirements on loan settlement and leasing facilities for affected businesses. Debt moratoriums were made available for affected SMEs, tourism, apparel, plantation, IT and related logistic service providers, and private sector non-executive employees. Backed by the CBSL's partial guarantee, concessionary lending facilities amounting to 1% of GDP were granted to selected sectors. Government guarantees were granted to loans for firms in the construction sector. To implement various relief measures and financing facilities, the CBSL introduced various measures to bring down interest rates. These included concessional loan schemes with interest rate caps under the 'Saubagya COVID-19 Renaissance Facility' to provide working capital requirements at 4% interest for SMEs, firms in the apparel, plantation, and IT sectors.

In addition to the above measures, the government supported workers and enterprises to adhere to

health guidelines. This was enabled by creating public awareness and periodic updates on health measures to ensure health and safety. The focus was on hygiene and sanitation at the workplace by minimising exposure to the virus through social distance, closure of offices to outsiders, and reduced number of staff physically in workplaces (i.e. flexible hours and roster-based work). The government also advocated a policy of WFH to facilitate the continuation of economic activities, while curbing social interactions.

7.4.2 Employer-employee Perception on Government Policy Responses²⁵

The discretionary fiscal policy measures adopted by the government to support the affected workers were commendable. But the relief given was small compared to those by other countries, and the relief was temporary. As shown earlier, the employment levels have dropped drastically in the country and the employment conditions have deteriorated. The macroeconomic situation in Sri Lanka, however, did not allow space for better and more widespread relief to workers and employers, and, large scale investments for reviving the economy.

A recent survey on the COVID-19 impacts on the labour market in Sri Lanka on the export sector reveals some valuable findings. Accordingly, most firms would prefer to receive government-backed assistance related to tax relief, financial assistance, digitisation of public services, market access, and timely communication on changes to regulations.²⁶

²⁵ Information in this section is from a study conducted by the IPS on 'Repositioning Social Security Systems for Private Sector Employment in Sri Lanka' funded by the ILO.

²⁶ Ceylon Chamber of Commerce and United States Agency for International Development. (2020, September). *Business Survey on Trade and Labour Market Impacts of COVID-19 on Sri Lankan Exporters*. Colombo: Ceylon Chamber of Commerce and United States Agency for International Development.

A recent survey conducted by the Institute of Policy Studies of Sri Lanka (IPS) covering 100 companies including a mix of small, medium, and large companies, across different industry sectors, captured responses on employer-employee perception on the government policy responses during COVID-19. The majority of respondents were of the view that compared to the concessions allowed to public sector workers, the incentives made available for the private sector workers were limited. They also indicated that similar to measures adopted in other countries, the government should use available social security measures to provide some financial support to private-sector workers during the crisis. The respondents also argued, that with the present levels of social security contributions, other countries provide more lifetime benefits to workers, especially during crisis periods. The types of benefits indicated by respondents included unemployment benefits and wage support to employers as in other countries. The wage support can be feasible through an insurance scheme, as a crisis is a low occurrence of high-cost events.

The trade unions also stressed the need for providing better income support to workers, either through a contribution by the government or through a fund set up separately, as carried out by other countries. The unions called for programmes for retraining and job search facilities for workers who lost jobs. They emphasised that the Employers Trust Fund (ETF) was specifically set up to provide benefits to workers while the latter are in employment. As such, this fund should be used for providing income support benefits and other reskilling programmes for workers during the crisis.

In many countries, social security contributions received are channelled to different funds to provide various types of social security benefits. A recent review of international best practices in providing social protection by IPS shows that Sri Lanka has the potential to extend its lifetime social security benefits provided to workers through the use of ETF funds. Sri Lanka is yet to ratify the ILO convention No. 102 (C. 102) on Social Security (Minimum Standards).²⁷ Some of the recommended social security measures incorporated to C. 102 such as unemployment benefits and sickness benefits could have provided added benefits to workers. As discussed before, many countries resorted to relief schemes aiming to ease the burden for workers during the crisis. According to C.102, at least 45% of the wage before unemployment should be set aside for at least three months for workers, as the minimum standard level of unemployment benefits, and at least 45% of wages should be allocated for up to six months as minimum standard sickness benefits.²⁸

The IPS analyses show how Sri Lankan firms can offer unemployment benefits and sickness benefits to their permanent sector workers using 0.7% of their wage bill according to the parameters specified in C.102. As 3% of the total wage bill is contributed by employers as ETF, this fund is more than sufficient to cover both unemployment and sickness benefits to workers. As indicated before, the unemployment rate increased by 0.7 percentage points during the crisis period. Further analysis carried out by the IPS shows that 0.2 % of the wage bill would have been sufficient to provide wage support (45% of the wages for three months) to retain the

²⁷ International Labour Organization. (2021). C102 - *Social Security (Minimum Standards) Convention, 1952 (No. 102)*. Retrieved on May 25, 2021, from International Labour Organization: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::p12100_instrument_id:312247.

²⁸ The duration of the benefit depends on the duration of the sickness up to six months maximum. According to ILO C.102, workers are eligible for this benefit even to provide care for their loved ones.

permanent workers unemployed by the crisis. As a crisis such as the present COVID-19 happens rarely, an insurance fund could be set up using less than 0.2% of the wage bill to offer disaster wage support to employers using a portion of the ETF funds.

7.4.3 Government Policy Measures on Teleworkability

The government recommended WFH to minimise worker mobility and sustain businesses to mitigate the downside impacts of the crisis. Unlike in many other countries, most firms in Sri Lanka were not accustomed to teleworking. For example, according to the US Bureau of Labour Statistics, employees involved in full time WFH increased to 42% from 15% during the COVID-19 pandemic period compared to the pre-COVID-19 period.²⁹ Consequently, two-thirds of US GDP is generated by WFH activities. Access to ICT devices at concessionary prices and expanding internet coverage and training could have enabled more economic activities through teleworking.

Dingel & Neiman (2020) examined the plausibility of WFH by assigning different occupations a 'plausibility to work from home' score based on their *work context* and *work activities*.³⁰ The work context aims to capture 'physical and social factors that influence the nature of work'. It is determined by factors such as frequency of using emails, involvement in outdoor job-related activities, need to deal with people, and the need to spend time walking and running. Work activities aim to capture the 'general types of job behaviours occurring on multiple jobs.' The work activities are determined by job-related activities

such as: the importance of performing general physical activities; handling and moving objects; controlling machines and processes other than computers and vehicles; operating vehicles, mechanised devices or equipment; performing for or working directly with the public; and, repairing maintaining and inspecting equipment.

Based on work context, an occupation where the employee usually carries out work outdoors, deals with people, and rarely uses e-mails is coded as a low teleworkability occupation. According to work activities, an employee whose work involves physical activities, operating machines other than computers, and repairing machines is considered as a low teleworkability occupation.

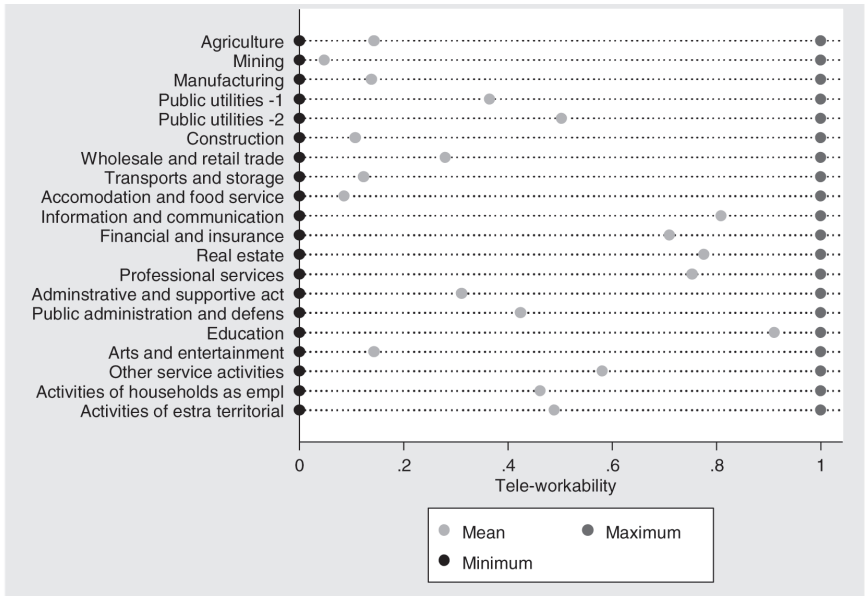
As shown in Figure 7.3, depending on the teleworkability of the diverse mix of workers in each industry, the ability to continue work activated through teleworking is quite high in some industries. Nevertheless, to use this potential to telework fully, training on the use of ICT and faster ICT infrastructure with more coverage have to be in place. Further, managerial level training requires a shift from time-based monitoring to task-based monitoring of workers.

Teleworking can be effectively used as a tool to improve female labour force participation as well, enabling female employees to handle both work and personal commitments. Teleworking is more feasible for the more educated (Figure 7.3). Also, among workers of similar education levels, females are to be found in jobs that could benefit more from teleworking. This can be used as a policy to improve female labour force participation in the future.

²⁹ US Bureau of Labour Statistics. (2020). *United States Department of Labour*. Retrieved on May 25, 2021, from US Bureau of Labour Statistics: <https://www.bls.gov/news.release/atus.t06.htm>.

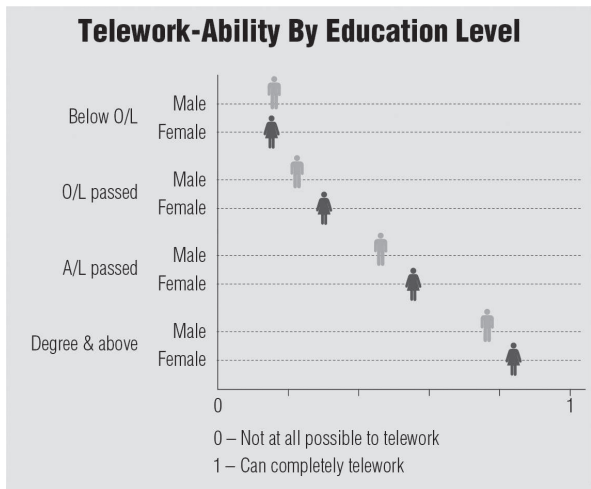
³⁰ Dingel, J., & Neiman, B. (2020). *How Many Jobs Can be Done at Home?* Working Paper 26948. Cambridge, MA: National Bureau of Economic Research.

Figure 7.3
Teleworkability across Industries



Note: The main industries are according to Sri Lanka Standard Classification of Industry Revision 4. The graph shows the minimum, mean, and maximum teleworkability of different occupation mixes in each main industry.

Source: Sri Lanka Labour Force Survey – Annual Report, 2018, Department of Census and Statistics and Authors’ estimations based on (Dingel & Neiman, 2020) teleworkable data and own calculation using Department of Census and Statistics, *Labour Force Survey Data 2018*.³¹



Note: The graph shows the minimum, mean and maximum teleworkability of different occupation mixes in each population group.

Source: Based on *Sri Lanka Labour Force Survey – Annual Report 2018*, Department of Census and Statistics and authors’ estimations (based on Dingel & Neiman, 2020) teleworkable data and own calculation using Department of Census and Statistics, *Labour Force Survey Data, 2018*.³²

³¹ Dingel, J., & Neiman, B. (2020). *How Many Jobs Can be Done at Home?* Working Paper 26948. Cambridge: National Bureau of Economic Research.

³² *Ibid.*

7.5 Conclusion

The COVID-19 pandemic has spread across the globe, reducing social and economic activities and decelerating economic growth. The COVID-19 itself, as well as the related containing measures and the dampening of economic activities have had devastating effects on labour markets. Due to tightening labour market conditions, millions of people have lost their jobs or have had to move to lower-quality jobs and the informal sector, thus ending up in low-paying jobs or sectors. The effect of the pandemic on various countries is influenced by the severity of the pandemic as well as the quality and coverage of mitigating policy measures adopted by the respective country. Most advanced countries have spent on average the equivalent of 5% of their GDP to assist firms and workers to minimise the adverse effects of the pandemic, as well as on activities for an economic rebound. Although many LMICs also undertook several countervailing measures to stifle the ill effects of the pandemic, their financial and institutional capacities have limited the benefits realized through such policy responses. In general, countries with well-established labour markets and social security schemes and institutions which are strong and resilient have fared better.

This chapter examined the effect of the pandemic on the labour market in Sri Lanka, to assess possible measures for strengthening labour market policies to build resilience in the country. Three main policy measures are highlighted, that can be taken into account for improving labour market activities in the future: a) improving and expanding access to social security for workers as well as firms; b) supporting firms to offer flexible

working arrangements, especially concerning WFH; and, c) improving general labour market institutions so that labour markets are better prepared to address disaster risks.

7.5.1 Improving Social Security

Social security is vital to ensure households move out of poverty and help economies to recover faster from crises, such as the COVID-19 pandemic. As discussed in this chapter, countries adopted a variety of measures to provide income support to affected workers through wage-subsidies, job-retention schemes and unemployment insurance. Given the magnitude of the COVID-19 pandemic, many countries increased the benefits of existing schemes and expanded their coverage. These schemes were also extended to the self-employed workers.

The above analysis shows that the current social security measures in Sri Lanka do not even meet the minimum social protection standards advocated by the ILO.³³ However, a recent IPS analysis shows that the current social security contributions collected through the ETF are sufficient to expand the types of social security provided to workers during their lifetime. For example, at present employers contribute 3% of the total wage bill as ETF, where the IPS analysis shows that 0.7% of the wage bill is sufficient to provide sickness and unemployment benefits to workers for a year. Further, ETF funds are sufficient to establish an insurance scheme to provide wage support to workers during a crisis. As stressed by the trade unions, the ETF was specifically set up to provide such lifetime benefits to workers. Expanding social security coverage

³³ International Labour Organization. (2021). *C102 - Social Security (Minimum Standards) Convention, 1952 (No. 102)*. Retrieved on May 25, 2021, from International Labour Organization: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::p12100_instrument_id:312247.

**In Sri Lanka,
current social
security
contributions
collected
through
the ETF are
sufficient
to expand
the types of
social security
provided to
workers during
their lifetime.**

and its benefits could also encourage more employers and workers to contribute to social security schemes.

7.5.2 Supporting Digital Access

Many countries resorted to teleworking during the pandemic. Teleworking not only allows countries to continue economic activities during the pandemic, but also results in secondary benefits. From the perspective of the worker, these include reduced exposure to the COVID-19 virus, reduced travel time, and more flexibility for work-life balance. From the perspective of firms, teleworking reduces the need for office space

and overhead expenses, such as electricity and office security. From the perspective of society, a greater tendency to teleworking reduces population density in cities, traffic congestion, and crowding in public transport. However, teleworking also has its drawbacks. Workers now have much more freedom as well as the onus to manage their own ICT devices and infrastructure. Also, some workers face challenges to WFH, specially those with young children, due to space limitations and disturbances. Firms that operated with close supervision of employee activities are now compelled to find alternative means of handling employees. These include measuring productivity (in addition to building trust, better communication, etc.) as workers are not physically present at work premises as they used to be. In spite of these, the outlook for teleworking being positive outweighs its negatives.

As discussed in this chapter, the ability to telework varies across industries and different types of workers. In the above mentioned backdrop, it is advisable to foster an organisational culture that is supportive of telework. One main way of implementing this is through expanding digital access and digital literacy. Not only firms and workers, but essential service sectors like health and education, were also highly dependent on ICT infrastructure to continue executing duties during the pandemic. In addition, to increase their efficiency, firms have called for digitising public services. For some industries, there is high potential to work remotely, where for some, even new opportunities have emerged. This potential can be realised with targeted policies and interventions aimed at improving digital gaps prevailing in these industries. These possibilities require investments to improve digital infrastructure and launching programmes to improve the digital literacy of workers.

Teleworking not only allows countries to continue economic activities during the pandemic, but also results in secondary benefits.

7.5.3 Improving Labour Market Institutions

As stressed in this chapter, the COVID-19 pandemic has presented labour markets with unprecedented challenges. It was easier for countries with well-established labour market institutions to respond to the crisis by expanding or extending existing social security schemes. Also, having better information on how different types of workers and industries are affected by the pandemic enabled countries to provide focussed interventions, which are more cost-efficient and produce better results.

The COVID-19 pandemic has had a significant impact on the Sri Lankan labour market as well. This impact has varied widely across sectors, industries, and various types of workers. Targetted policy interventions covering the most affected segments of the labour market are

essential for a faster revival of the economy. Instructions that are strong and resilient, which foster collaboration, gather timely information on labour market conditions, access and deploy these to generate knowledge to guide policies for labour market recovery are vital. It is crucial to review the existing institutions in the country and strengthen their capacity so that Sri Lanka is geared to better face future disasters. This includes establishing institutions for collecting better labour market data and analysing them to create knowledge that guides policy responses.

Instructions that are strong and resilient, which foster collaboration, gather timely information on labour market conditions, access and deploy these to generate knowledge to guide policies for labour market recovery are vital.

8. COVID-19 and Reintegration Challenges of Sri Lanka's Migrant Workers

8.1 Introduction

As the COVID-19 pandemic continued to spread, a large number of migrant workers had returned to Sri Lanka by 2021. While a relatively reasonable mechanism was in operation for return and repatriation, the upsurge in new waves of the virus proved to be disruptive. For instance, the attention given towards the successful reintegration of returnee migrants came to a halt as emerging new variants of the virus intensified the health aspects of reintegration, which focussed primarily on quarantine requirements.¹ In 2020, the initial stage of the reintegration process involved evaluating the COVID-19 risks with polymerase chain reaction (PCR) tests on arrival, followed by a mandatory 14-day quarantine for those testing negative and treatment at a government hospital for those testing positive. Thereafter, returnees were cleared for socio-economic reintegration, albeit with limited financial support.

Nevertheless, a holistic reintegration process is critical to ensure that returnee migrants are successfully reintegrated into their families,

communities, society, and the economy. Reintegration is “a process which enables individuals to re-establish the economic, social and psychosocial relationships needed to maintain life, livelihood and dignity and inclusion in civic life.”² As such, successful reintegration ought to involve social, psychosocial and economic reintegration. Social reintegration is access to public services and infrastructures, while psychosocial reintegration involves reinsertion into a personal support network and civil society structures, and re-engagement with broader cultural norms and way of living. Economic reintegration is the process of re-entering the economic life and sustaining a livelihood in the country of origin (COO). A successfully reintegrated returnee migrant would continue to effectively contribute to the socio-economic development of the COO.³

However, successful reintegration is a challenge for an average migrant worker even in normal times. The common challenges faced by Sri Lankan returnee migrants include economic

¹ Weeraratne, B. (2020). *Sri Lanka's Returning Migrants Need More than Plane Tickets and Quarantines*. Retrieved May 18, 2021, from Open Democracy: <https://www.opendemocracy.net/en/pandemic-border/sri-lankas-returning-migrants-need-more-than-plane-tickets-and-quarantines/>

² International Organization for Migration. (2019a). *International Migration Law - Glossary on Migration*. Geneva: International Organization for Migration.

³ MSERU. (2015). *Return Migration and the Importance of Reintegration Policies*. MSERU Policy Brief No. 3/2015.

challenges in terms of finding employment, lack of savings, and lack of information on potential business activities; in addition, weakened family ties with spouse, children and neighbours make social reintegration more difficult.⁴ In COVID-19 pandemic times, these challenges are likely to be further exacerbated for most returning migrant workers, mainly due to the prevailing weak socio-economic conditions in the country as a whole. The prolonged lockdown situations in some areas, already with high local unemployment numbers and overall subdued economic conditions, leave limited employment opportunities for returnees. Similarly, the emotional and psychosocial distress due to the pandemic among family members and migrant worker communities may have made them less receptive or welcoming towards returnees.⁵ Such factors in turn can weigh down the psychosocial reintegration of returnees.⁶

In this context, whilst underscoring pandemic specific reintegration issues faced by returnee migrants, this chapter aims to discuss policy recommendations to improve the reintegration experience and outcomes of migrant workers in the future. Insights are derived from available secondary data on returnee migrants compiled by the Sri Lanka Bureau of Foreign Employment (SLBFE) in March 2021 as well as primary data collected by the Institute of Policy Studies of Sri Lanka (IPS) in April 2021, supplemented by in-depth qualitative interviews.⁷ The chapter starts with a theoretical context for return and

reintegration and a framework of analysis followed by a brief discussion about the existing policy framework for the reintegration of returning migrant workers in Sri Lanka. Thereafter, the characteristics of returnees in the SLBFE returnee registry is outlined, followed by a discussion of their reintegration experience based on the IPS survey. Next, the chapter provides an update of reintegration support efforts in the COVID-19 pandemic period, followed by recommendations for a better reintegration policy environment for the future.

8.2 Reintegration Theory and Framework

Return and reintegration are an intertwined phenomena related to migration, as the manner in which the return takes place has a sizeable impact on reintegration outcomes. Different theoretical frameworks view return migration differently. At its simplest, the neoclassical school of thought posits return migration to take place when labour migrants miscalculate the costs of migration and do not reap the benefits of higher earnings in the country of destination (COD). By contrast, as per the new economics of labour migration (NELM) when migration is temporary, return migration is part of the calculated migration strategy resulting from the successful achievement of goals or target. The transnationalists and social network

⁴ Jayaratne, S., Perera, N., Gunasekara, N., & Arunathilake, N. (2014). *Returning Home: Experiences & Challenges: The Experience of Returnee Migrant Workers of Sri Lanka*. Labour Economic Series, No.17. Colombo: Institute of Policy Studies of Sri Lanka.

⁵ Aryasinha, Ravinath. (2020). *The Role of Foreign Employment in the Economic Revival of Sri Lanka; Challenges and Opportunities*. Address at the 33rd Annual Conference. Colombo: The Organization of Professional Associations.

⁶ Weeraratne, B. (2020) *Sri Lanka's Returning Migrants Need More than Plane Tickets and Quarantines*. Retrieved May 18, 2021, from Open Democracy: <https://www.opendemocracy.net/en/pandemic-border/sri-lankas-returning-migrants-need-more-than-plane-tickets-and-quarantines/>

⁷ The SLBFE data comprises of 12,896 returnee migrants. The IPS primary data comprises of telephone survey of 170 returnee migrants, and 17 in-depth interviews with randomly sampled returnees from the SLBFE returnee registry and another five in-depth interviews with officials of the State Ministry of Foreign Employment Promotion and Market Diversification, the SLBFE, the International Labour Organization (ILO) and the International Organization for Migration (IOM).

theorists view return as a stage in the circular migration process, where returnees prepare for reintegration through periodical and regular visits to their home countries. In the context of structuralists' approach, situational or contextual factors in the COO need to be taken into account when determining the success or failure of a return experience.

Returning during the COVID-19 pandemic is consistent with various facets of most of these theories. Consistent with the NELM, transnationalist and social network theories, labour migration from Sri Lanka is largely temporary or circular, and their temporary status in the COD necessitates migrants' return in the pandemic period. At the same time, the pandemic-related conditions in the COD proved to be challenging for many migrants, hindering them from reaping the benefits of wage differentials across countries. Thus, some return decisions can be explained by the neoclassical theories. Similarly, as described by the structuralists' approach, situational or contextual factors in Sri Lanka – such as the early better COVID-19 conditions in the home country or family expectation for the migrant to return – also contribute towards determining the success or failure of their experience.

Once returned, the next phase involves either reintegration or re-migration. Reintegration

frameworks acknowledge that various return experiences feed into reintegration outcomes. The nature of return in terms of the level of coercion,⁸ support, preparedness,⁹ time pattern,¹⁰ motive,¹¹ and as well as intended length of stay during migration are some such factors that determine the effectiveness of a returnee's reintegration outcomes.¹² For instance, the UN Special Rapporteur of the Human Rights of Migrants identifies that reintegration is effective when the return of migrants is voluntary (and decrease remigration) as freely chosen returnees experience greater freedom to plan their reintegration efforts. As such, the literature identifies that reintegration is a complex process and requires a holistic and needs-based response at the individual, community and structural levels. This process – covering economic, social and psychosocial dimensions – is defined as an integrated approach to reintegration.¹³ Similarly, the literature notes that “effective return and reintegration preparedness starts from the pre-migration phase and covers the entire migration cycle.”¹⁴

In the above context, this analysis of Sri Lanka's reintegration experience in the COVID-19 era draws on the existing frameworks of assisted voluntary return and reintegration of the International Organization for Migration (IOM) and considers psychosocial well-being, economic self-sufficiency and social stability as the key

⁸ Voluntary or forced.

⁹ Based on willingness to return and readiness to return.

¹⁰ Occasional returns, seasonal returns, return of temporary workers at the end of their work contracts; and return of permanent residents who were settled in other countries.

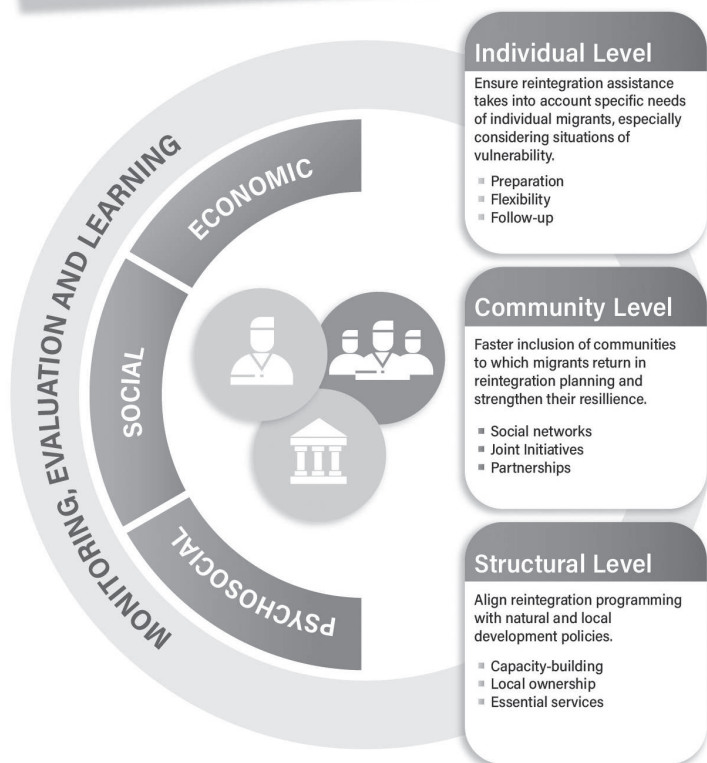
¹¹ Failure, conservatism, retirement, and innovation.

¹² Wickramasekara, P. (2019). *Effective Return and Reintegration of Migrant Workers with Special Focus on ASEAN Member States*. Bangkok: International Labour Organization; International Organization for Migration. (2019b). *Reintegration Handbook - Practical Guidance on the Design, Implementation and Monitoring of Reintegration Assistance*. Geneva: International Organization for Migration.

¹³ International Organization for Migration. (2019). *Reintegration Handbook - Practical Guidance on the Design, Implementation and Monitoring of Reintegration Assistance*. Geneva: International Organization for Migration.

¹⁴ Wickramasekara, P. (2019). *Effective Return and Reintegration of Migrant Workers with Special Focus on ASEAN Member States*, p.26. Bangkok: International Labour Organization.

An Integrated Approach to Reintegration



Source: International Organization for Migration. (2019). *Reintegration Handbook - Practical Guidance on the Design, Implementation and Monitoring of Reintegration Assistance*. Geneva: International Organization for Migration.

components for holistic reintegration, and to be the focus throughout the migration cycle.¹⁵

8.3 Pre-pandemic Reintegration Policy and Implementation

Sri Lanka is one of the few countries that is making concerted efforts to raise awareness of the importance of effective reintegration of

returnees. Accordingly, a Sub Policy and National Action Plan on Return and Reintegration of Migrant Workers was published in 2015.¹⁶ This sub policy was formulated on the principle of linking migration for development, as identified in the National Labour Migration Policy (NLMP) of 2008. The NLMP conceptualised the SLBFE as the main institution responsible for return and reintegration, and as such to develop the required mechanisms for the same. The sub policy focusses on five key areas of reintegration,

¹⁵ Fonseca, A. (2015). *Reintegration - Effective Approaches*. Geneva: International Organization for Migration; Rashid, S. R., & Ashraf, A. A. (2018). *A Framework of Services for Reintegration and Remigration of International Labour Migrants from Bangladesh*. Dhaka: International Organization for Migration.

¹⁶ Ministry of Foreign Employment. (2015). *Sub Policy and National Action Plan on Return and Reintegration of Migrant Workers Sri Lanka*, p.30. Colombo: Ministry of Foreign Employment.

Sri Lanka published a Sub Policy and National Action Plan on Return and Reintegration of Migrant Workers in 2015.

namely: social reintegration of returnees; economic reintegration of returnees; physical and psychological wellbeing of returnees and their families; mobilisation and empowerment of returning migrants; and effective management of the return and reintegration process.

Despite a well laid out policy, Sri Lanka's rollout of reintegration support prior to the pandemic was not entirely satisfactory. For instance, discussing the labour market reintegration aspects, some studies note that the "strategies generally adopted towards the reintegration of returnees to the local

labour markets are in great disarray" and that, over the years, a poor level of reintegration has been observed.¹⁷ In a sample of 600 returnees, the study also finds that "three-quarter of the migrant workers have indicated that they have not planned what they would be doing once they return from employment abroad." Indeed, the findings underscore the limited economic reintegration, showing that upon return, 24% were unemployed while another 21% were housewives in the respective sample.

Even prior to the introduction of the sub policy, there appears to be further dimensions of reintegration issues in Sri Lanka that have not been adequately or promptly addressed. For instance, an analysis of the effectiveness of existing programmes and institutions related to reintegration in Sri Lanka shows that some of the issues observed after the introduction of the sub policy prevailed even before the introduction of the sub policy in 2015.¹⁸ These issues include low involvement of returnees with institutions upon return, lack of awareness about existing government assistance programmes, lack of coordination among state and non-state reintegration service providers, and a lacunae in terms of specific reintegration programmes/offers targeting returnees.

Specifically, the analysis finds that there were no technical and vocational education programmes targeting returnee migrant workers, while the existing programmes led to accessibility issues due to the age range of 16-24 years being the focus of Technical and Vocational Education and Training (TVET) programmes on offer.¹⁹ Similarly,

¹⁷ Silva, W. I., Silva, R. D., Batagoda, M. P., & W.S.M. Goonatilake. (2020). Integration of Returned Labour Migrants to Local Labour Markets : A Case Study of Kalutara District in Sri Lanka. *Sri Lankan Journal of Business Economics*, 9(1), p.13, p.17.

¹⁸ Jayaratne, S., Perera, N., Gunasekara, N., & Arunathilake, N. (2014). *Returning Home: Experiences & Challenges: the Experience of Returnee Migrant Workers of Sri Lanka*. Labour Economic Series, No.17. Colombo: Institute of Policy Studies of Sri Lanka.

¹⁹ *Ibid.*

it finds the “financial assistance provided for returnee migrant workers by banks and financial institutions in Sri Lanka is limited to general loans available for low income generating households, while schemes specifically targetting the needs of migrants/migrant families are lacking.” Meanwhile, most available reintegration programmes catered to female domestic workers and other low-skilled categories, while programmes for semi-skilled and high-skilled workers were limited. This comparison of issues before and after the introduction of the sub policy appears to suggest that it has had a limited impact on improving reintegration support in Sri Lanka, and the challenges faced in reintegration during COVID-19 were systemic issues that prevailed from pre-pandemic times.

As such, the pre-pandemic or base level focus on reintegration in Sri Lanka was already lagging behind that of pre-departure and in-service; these two other stages of the migration cycle also lacked adequate focus on reintegration. At the same time, the existing frameworks/protocols and mechanisms for reintegration offered little guidance for reintegration support in a crisis such as the COVID-19 pandemic, where large scale repatriation was needed. The sub-policy identifies the development of a “contingency plan for emergency evacuation of migrant workers with the involvement of government agencies and international organisations” as a key activity. However, the return and reintegration experience, as well as outcomes in the pandemic times, highlight the absence or the inadequacy of the sub policy.

Nevertheless, such shortcomings are not unique to Sri Lanka. Many labour sending countries have also experienced similar challenges. For instance, the experiences of many COO point to lack of basic data on the number of migrants

A comparison of issues before and after the introduction of the sub policy appears to suggest that challenges faced in reintegration during COVID-19 were systemic issues that prevailed from pre-pandemic times.

abroad, their locations and circumstances. In turn, such shortcomings have impeded planning related to reintegration. Moreover, constraints in terms of resource and administrative capacity have also inhibited a coherent response to the needs of returnees.²⁰

As such, the pre-pandemic lacklustre emphasis on reintegration throughout all three stages of the migration cycle not only resulted in insufficient implementation of the reintegration sub policy, but it also deprived the development of necessary mechanisms for service delivery. Additionally, such weaknesses also meant that the sector was deprived of the experience needed for rolling out reintegration programmes effectively in the COVID-19 era. All told, the lack of existing structures, mechanisms, and experience in dealing with reintegration compounded the challenges faced in delivering reintegration support in the pandemic period. Thus, reintegration is required to be tackled as a fresh challenge in the pandemic crisis, with lessons learnt paving the way for better performance to deal with a similar shocks in the future.

8.4 Returnees during the Pandemic

During the COVID-19 pandemic in 2020, one of the highest priorities among migrants, and especially migrant workers of Sri Lankan origin, was to return to their home country. After Sri Lanka's closure of international borders for

commercial inward carriers in mid-March 2020, the government coordinated all returns and repatriation missions. This created a significant backlog due to the limited missions serving a growing demand. As such, estimates based on statistics by the Ministry of Foreign Affairs indicate that by early January, 2021 a total of 128,470 Sri Lankans wanted to return, while only 60,470 or 47% had been repatriated.²¹ Such limited capacity to repatriate and delays in repatriation is the first indication of weaknesses in Sri Lanka's preparedness for the return and reintegration of migrant workers in a crisis. The remainder of this section examines the characteristics of migrants who returned in 2020 and early 2021, based on the SLBFE returnee registry.

Gender and Country of Destination: Sri Lanka experienced a large number of migrant workers returning due to the pandemic.²² As of April 2021, a total of 56,403 migrant workers from 14 countries had returned. Of these, the SLBFE returnee registry has compiled information on a total of 12,896 returnee migrants; a majority are from the Maldives (24%) followed by the United Arab Emirates (UAE) accounting for another 20%. Other key countries from which the migrants returned include Qatar (7%), Kuwait (5%), and Saudi Arabia (5%). The large number of returnees from the Maldives was mainly due to the high concentration of migrant workers in the hospitality sector. These workers were rendered unemployed, and endangered due to the archipelagic landscape which limited travellers as well as food and medical supplies to the islands.

²⁰ Coz, C. L., & Newland, K. (2021). *Rewiring Migrant Returns and Reintegration After the COVID-19 Shock*. Policy Brief. Washington D.C.: Migration Policy Institute.

²¹ Ministry of Foreign Affairs. (2021, January 3). *68,000 Sri Lankans Awaiting Return – Foreign Secretary*. Retrieved May 2, 2021, from Ministry of Foreign Affairs: <https://mfa.gov.lk/si-awaiting/>

²² Due to the absence of returnee migrant data in previous years, it is not feasible to compare against the returns in 2020.

Among returnees, an overwhelming majority were males accounting for 74%. This could be due to multiple reasons. One reason is the higher proportion of male migrants among recent departures for labour migration. For instance, since 2013, on average males accounted for 63% of departures. Therefore, more Sri Lankan males were likely to be overseas, which lead to their larger proportion in terms of returns. Moreover, the two main countries, i.e. Maldives and UAE, from where migrants returned have been traditionally taking in/employing larger shares of male migrant workers. For instance, in the five year period from 2014-2018 (both years included), 94% of Sri Lankan workers to the Maldives were males, while to UAE this share was 66%. Similarly, this high proportion of males among returnees could also be due to the high airfare and quarantine fees associated with the return, which resulted in a self-selection process that was biased towards richer migrants who were male and skilled workers.

Similarly, the smaller share of female migrant workers among returnees may be owing to their nature of work, which puts them in a relatively more secure position (in terms of job security) in pandemic times. Specifically, a large share of females depart for domestic or caregiver work, which are less likely to become redundant even under pandemic conditions. For instance, from 2010 onwards, female domestic workers on average account for over 82% of female departures. Similarly, greater stability of female migrant workers was also seen among those in other South Asian countries.²³

Occupations: As seen in Figure 8.1, the largest reported category of returned migrants are chefs,

A high proportion of male returnees could be due to a self-selection process that was biased towards richer migrants who were male and skilled workers.

accounting for nearly 10% of returnees. Given their occupation in the hospitality sector – a high impact sector in the pandemic – a high number of such returnees is to be expected. However, there are other reasons too; the above mentioned self-selection of more skilled and richer migrants returning due to the high costs of the return process is one such explanation.

While the category of chefs is a more skilled occupation, the next highest reported categories

²³ South Asia Network on Economic Modeling. (2021). *Webinar on COVID-19 Impact on Employment and Migration: Findings from SANEM's Survey*. Retrieved March 10, 2021, from SANEM: <https://sanemnet.org/summary-webinar-on-employment-and-migration/>

are lower-skilled worker groups, namely female domestic workers (8%),²⁴ labourers (7%) and drivers (4%). Of the total returnees in the SLBFE registry after excluding the 15% with uncategorised occupations, skilled and semi-skilled workers account for about 56% of returnees, while low skilled workers account for about 27%.²⁵ The disproportionately high share of skilled and semi-skilled workers among returnees compared to low skilled workers is not consistent with the skills mix of recent departures. Possible reasons for higher numbers of such returnees could be a reflection of the greater layoffs experienced by such workers as part of efforts by employers to cut costs by laying off relatively higher-paid workers. Additionally, linking up with the foregoing discussion, this could also be the self-selection of those who could afford to return.

Location in Sri Lanka: In terms of where the returnees are residing within Sri Lanka, a majority are from Colombo (18%) and Gampaha (18%) districts, while the other main districts include Kandy (9%), Kurunegala (8%), Kalutara (8%) and Galle (8%). The location of returnees is important to focus on reintegration support, which entails devising strategies, setting out priorities and resource allocation. Similarly, having information on the types of skills of returnees and their future plans offer some guidance to authorities. Information on what sort of jobs and preferred locations sought by the returnee migrants is helpful in making important decisions on targeted assistance.

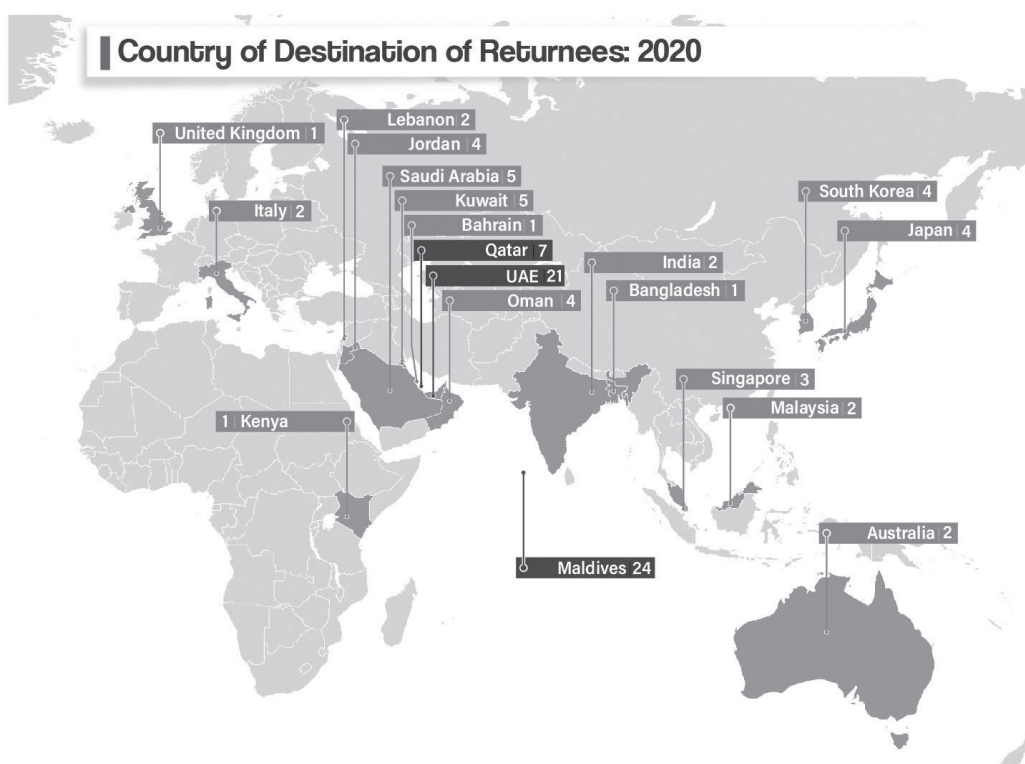
As mentioned before, 56% of returnees can be categorised as skilled or semi-skilled, and 27% as low skilled.²⁶ In the case of their economic reintegration expectations, at the time of arrival, 31% of returnees indicated their preference for remigration, 27% preferred employment in Sri Lanka, while another 13% preferred to pursue self-employment or entrepreneurship in Sri Lanka. Gender wise, noticeable differences were evident in terms of their preference for remigration and self-employment or entrepreneurship interests. For instance, where 26% of males preferred remigration, only 18% of women preferred the same option. Similarly, where 14% of men expressed an interest in pursuing self-employment or entrepreneurship, only 8% of females indicated a keenness on the same.

As such, in order to support reintegration, the district specific characteristic of migrants in key returning areas would offer some guidance for future efforts. The preliminary data suggest, for instance, that the Puttalam district requires priority over others in reintegrating a considerable proportion of females along with the male majority. On the contrary, the other districts should prepare for reintegrating a larger share of males with fewer females. The Kandy district needs to absorb a large proportion of males among its returnees. In terms of skills of returnees, the Puttalam district requires skilled and semi-skilled job opportunities in equal proportion to that of low skilled, while other districts appear to require the means to absorb 53-62% of returnees in skilled and semi-skilled jobs.

²⁴ The significance of female domestic workers (FDW) despite the possible more secure position due to working households could be owing to many reasons, including employer households fearing possible transmission of COVID-19 (see Foley, L., & Piper, N. (2020). *COVID-19 and Women Migrant Workers: Impacts and Implications*. Geneva: International Organization for Migration). Moreover, freelance domestic workers who were living on their own and working as daily workers were unwelcomed during the spread of the pandemic by the employer households. This is due to the higher risk of carrying the virus than a live-in domestic worker. Others who returned may be at the end of their contract and were anyway planning to return.

²⁵ The occupational categories for skilled, semi-skilled low-skilled workers are categorised by the author.

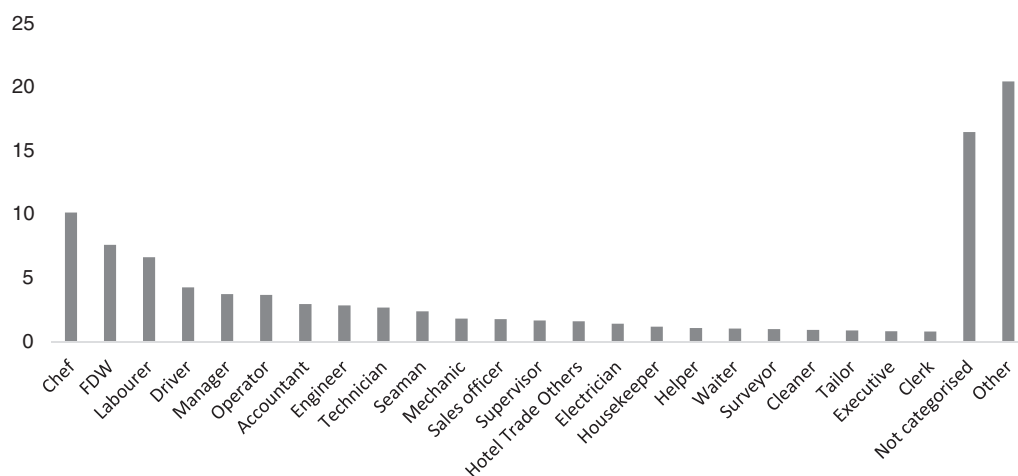
²⁶ Due to the absence of occupational information, 17% cannot be categorised.



Note: Figures given are percentages (%).

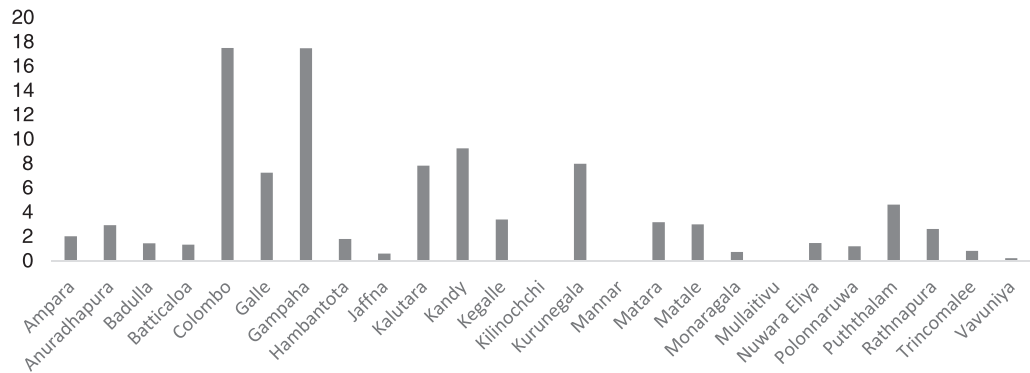
Source: Author's depiction based on SLBFE Returnee Database of 12,894 returnees.

Figure 8.1
Occupations of Returned Migrant Workers: 2020

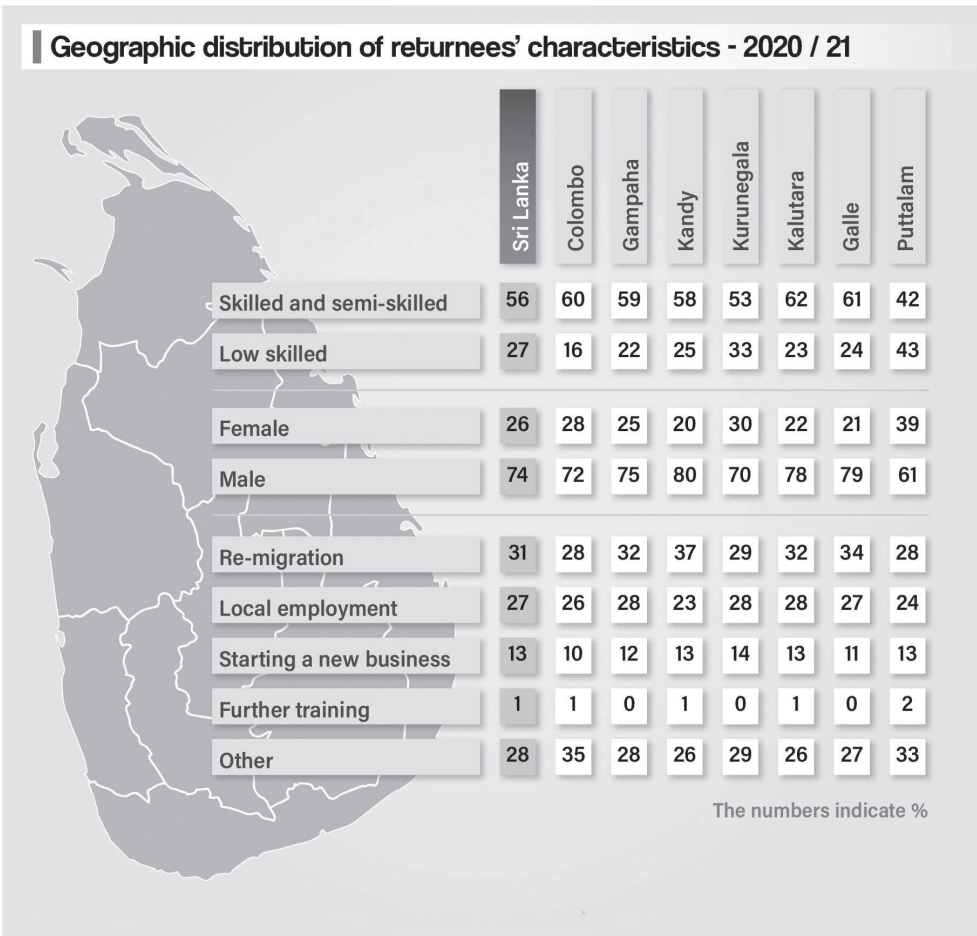


Source: Author's depiction based on SLBFE Returnee Database of 12,894 returnees.

Figure 8.2
Origin Districts of Returnees 2020



Source: Author's depiction based on SLBFE Returnee Database of 12,894 returnees.



Source: Author's depiction based on SLBFE Returnee Database of 12,894 returnees.

8.5 Micro Level Reintegration Experience

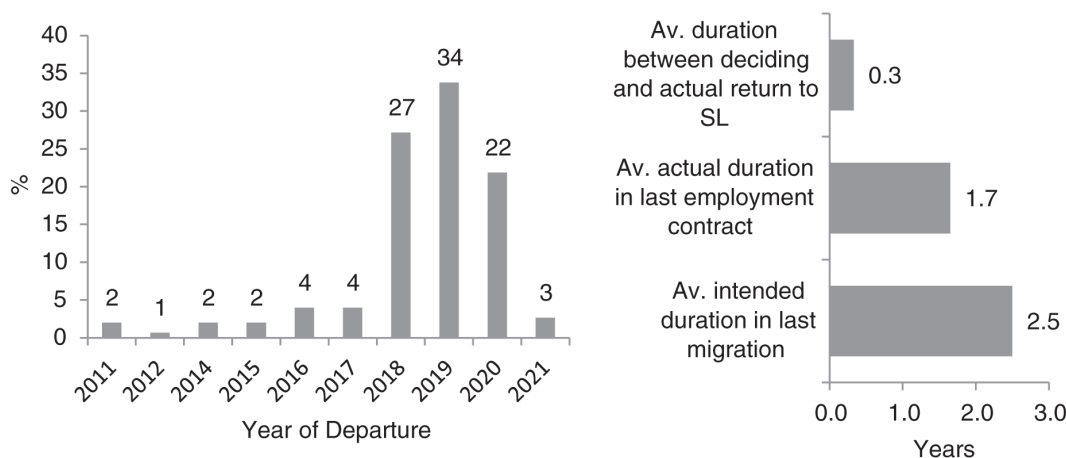
This discussion on the reintegration experience of returnee migrant workers in the pandemic era is based on the responses of 170 returnee migrant workers to the IPS return and reintegration experience survey, and 17 respondents in a detailed qualitative interview of returnee migrant workers.

Nature and Timing of Return: The IPS return and reintegration experience survey data confirms that a major portion of returnees is temporary migrant workers. The data further indicates that 85% had migrated in or after 2018 and only around 15% had been overseas since before 2018. The relatively low share of migrants with longer duration in the last migration cycle shows that labour migration is mostly temporary or they visit Sri Lanka around every two years. This is further supported by the average intended duration of 2.5 years in the last employment

contract and the average actual duration of 1.65 years in the last migration episode. Together, these facts confirm that a large quantum of returnees are temporary migrant workers who needed to be conscious about their return and reintegration.

Figure 8.3 shows over a 9.5 months gap between the intended and actual duration in labour migration among those who returned in the pandemic period. This reflects that many migrants had to return prematurely in the COVID-19 pandemic. Approximately, 54% of the returnees in the sample returned after being laid off due to the pandemic. One of the key implications of such layoff is the loss of potential wages. The average wage in the foreign job in this sample was LKR 144,733 per month, while among those who were laid off in the COD it was LKR 125,560. Together with the gap of 9.5 months between the intended and actual duration in COD, this translates to an average of LKR 1,192,820 in lost potential wages. Considering the pre-pandemic average monthly remittances of LKR 100,010 in this sample, the pandemic induced layoffs have

Figure 8.3
Details of Last Migration among Returnees in 2020



Source: Author's illustration based on survey data.

deprived a large amount of potential remittances to their households and the Sri Lankan economy as a whole as well.

Similarly, qualitative data show that the pandemic deterred migrants who had already completed their employment contracts or employment visas from obtaining extensions. Thus, being unable to renew or extend employer contracts have led to discontinuation of employment in CODs. At the same time, survey data show that 50% of the returnees have left CODs before receiving all their due wages from the employers, while 88% of those laid off,²⁷ had not received any severance pay from the employer at the time of ending employment.

Savings and Borrowings for Return and Quarantine:

As found out in the IPS return and reintegration experience survey, on average, a migrant worker has spent 4.5 months (or 0.38 years) in the COD between deciding to return and actually returning. Many returnees from the quantitative sample highlighted how their savings were spent on sustaining themselves without a job and an income. There were many migrants overseas who could not afford either food, accommodation or both, throughout their return-anticipated stay overseas. In certain locations such as Dubai, Sri Lankans were reported to be taking refuge in parks near the Sri Lankan embassy due to such accommodation issues.²⁸ These delays in return and associated costs in the COD are direct implications of the limitations associated with return and reintegration modalities in Sri Lanka.

The IPS return and reintegration experience survey also shows that 49% had self-paid for their return travel; the family had paid for 8%, while for 33% returnees, the employer had paid. This further supports the foregoing discussion on the possibility of why more skilled and male workers comprised a larger proportion of returnees. At the same time, the government of Sri Lanka (GOSL) or the COD governments have supported only 3% and 1% of returnees in this sample, respectively. This low share of return cost borne by the GOSL further underscores the inadequacy of the existing return/reintegration support structures and contingency planning in the country.

The qualitative data further reveal how air ticket pricing in the pandemic times resulted in an unexpected large expense for many. For example, a returnee from South Korea indicated that the return air ticket cost over LKR 220,000, which under normal circumstances would have cost LKR 80,000-90,000. Later on, with the introduction of paid quarantine facilities, often the return airfare was bundled with quarantine fees. The IPS return and reintegration experience survey data show that 42% of returnees had stayed in free quarantine facilities, while 58% had stayed in paid facilities.²⁹ Such financing for paid quarantine was a further burden on many. For many, the 14 days quarantine fees at the lowest possible rate – LKR 7,500 per day on a twin sharing basis – cost more than their average monthly wages or remittances. Moreover, the qualitative data indicate that after the paid quarantine option became available, the return of those who sought free quarantine was very much delayed. Therefore, migrants relied

²⁷ The proportion that was entitled to such severance benefits is unknown.

²⁸ It was also noted during qualitative interviews that many better off Sri Lankans provided meals etc., for helpless Sri Lankan migrant workers congregating near the Sri Lankan embassies in the Middle East.

²⁹ It is unclear what proportions of these opted for free facilities after paid facilities were in operation.

on family, friends and well-wishers to return home. For instance, a returnee from Saudi Arabia highlighted that the return was possible only because of quick action when an opportunity arose in a return and quarantine package deal. This entailed seeking support from family, which in turn meant borrowing the required LKR 150,000 from neighbours at an interest cost of LKR 3,000 per day. Similarly, another migrant worker in the Maldives relied on family in Dubai to pay for the return ticket, while an undocumented migrant in Dubai had benefitted from the generosity of a well-wisher to pay for the return airfare.

Employment, Income and Expenditure in Sri Lanka: The IPS return and reintegration experience survey shows that after eight months of returning, only 52% of returnees in the sample had looked for employment in Sri Lanka, while only 27% explored self-employment/entrepreneurship opportunities in the home country. Interestingly, 36% did not look out for employment or pursue self-employment/entrepreneurship in Sri Lanka. Of this 37%, nearly half of returnees had indicated that at the time of return, they intended to re-migrate. Nevertheless, finding employment locally or overseas or pursuing self-employment/entrepreneurship during the pandemic was challenging. The majority of those who searched for employment or self-employment indicated that finding the same was a tough task at varying levels in these pandemic times. For many returnees, their efforts on job search were futile amidst tightening labour market conditions, mismatch in labour demand and supply etc., due to the pandemic.

Upon their return to Sri Lanka, many households of return migrant workers experienced various issues that contribute to difficulties at the household level. In this survey, 78% of the respondent's households received less than LKR 25,000 per month as total income after excluding

After eight months of returning, only 52% of returnees in the sample had looked for employment and only 27% explored self-employment opportunities in Sri Lanka.

Box 8.1 Economic Reintegration and Success Stories

In addition to challenges in spending their savings or borrowings for return and quarantine, returnees faced challenges in terms of economic reintegration in Sri Lanka. Even those who did search for employment faced significant drawbacks in securing jobs in a tight labour market. At the same time, there was evidence of some success stories on economic reintegration.

Economic Reintegration upon Return: 2021			
Employment	Looked for %	Self-employment	
		Yes	No
	Yes	15	37
	No	12	36

Source: Author's tabulation based on survey data.

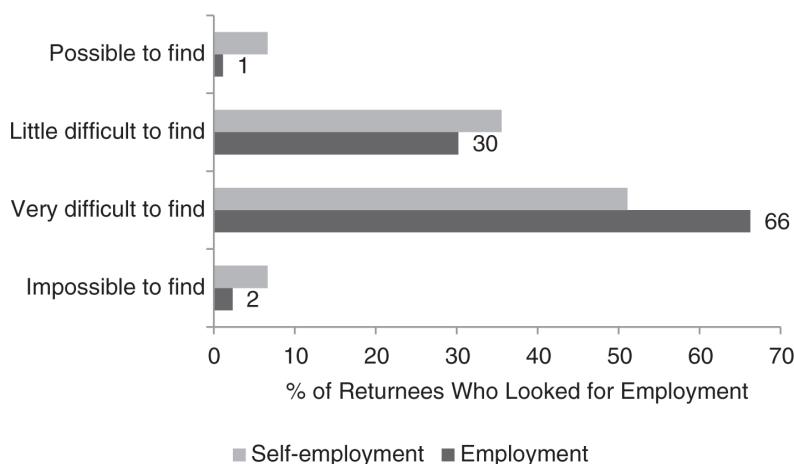
Limited qualitative evidence shows that a few returnees in fact succeeded in finding a livelihood despite the pandemic. For instance, a 23 year old male returnee from the Maldives who was employed as a mechanic, had informed the family to collect equipment to enable a workshop to be set up, ahead of the return to Sri Lanka. As such, after about a month of returning, this returnee was able to commence work on the startup workshop. Similarly, a 27 year old male returnee from the Maldives who was a hotel supervisor had tapped a network of friends to find a job in Sri Lanka, before arriving in the country. As such, upon arriving, employment was secured immediately. These success stories, however, also point to the reliance on family and other community networks for economic reintegration as opposed to any formal government sponsored mechanisms.

remittances. Another 15% of the respondents' households received between LKR 25,000 and LKR 75,000, while only about 7% of the respondents' households received an income of over LKR 75,000 per month after excluding remittances. This indicates that when migrant worker's income stream is cut off due to return, the majority of households fall below the average household income of LKR 62,237 or the median

household income of LKR 43,511, reported in the latest household income data for Sri Lanka.³⁰ In terms of the cash transfer of LKR 5,000 granted by the GOSL during the pandemic, 48% of household with income excluding remittances, amounting to less than LKR 25,000, received the transfer, while among the households receiving higher income levels excluding remittances, a total of 18% of households benefitted. Of all

³⁰ Department of Census and Statistics. (2016). *Household Income and Expenditure Survey 2016: HIES Final Report 2016*. Battaramulla: Department of Census and Statistics.

Figure 8.4
Difficulty in Finding Employment and Self-employment on Returning to Sri Lanka during the Pandemic: 2020



Source: Author's illustration based on survey data.

respondents, 41% indicated that their households received this cash transfer.

Moreover, survey data showed that the return of the migrant worker has resulted in increased expenditure in 93% of their households, while 93% indicated a decline in income. Qualitative data indicates that one reason for the increase in expenditure despite lower income is due to socialisation of the migrant with the family members by visiting relatives, entertainment and travel. Despite financial difficulties, social involvement of this kind is an important aspect that positively contributes towards the social reintegration of returnees. Among alternative strategies to manage the deficit between income and expenditure, the survey data show that borrowing was the commonly used strategy for returnees. This highlights the need for financial support for many returnees throughout their reintegration, for which no specific mechanism is in place.

Support Structures Accessed: In terms of returnees' views on adjusting back to life in Sri Lanka, the majority (58%) have experienced some difficulties, 18% were of the view that it is very difficult while 1% assumed that it is impossible (see left panel in Figure 8.5). At the same time, 18% felt that readjusting to life in Sri Lanka was not difficult at all.

As per the qualitative data, the key challenges faced by most returnees is related to lack of income, which adds to the stress already faced by many migrants. Similarly, many were concerned about the extended period they have had to spend in Sri Lanka without a regular stream of income. Even for those who were successful in finding employment, the income received in Sri Lanka is much lower than their wages earned in the COD, or were just a fraction of their income earned in foreign employment. For instance, one returnee who worked as a chef overseas was

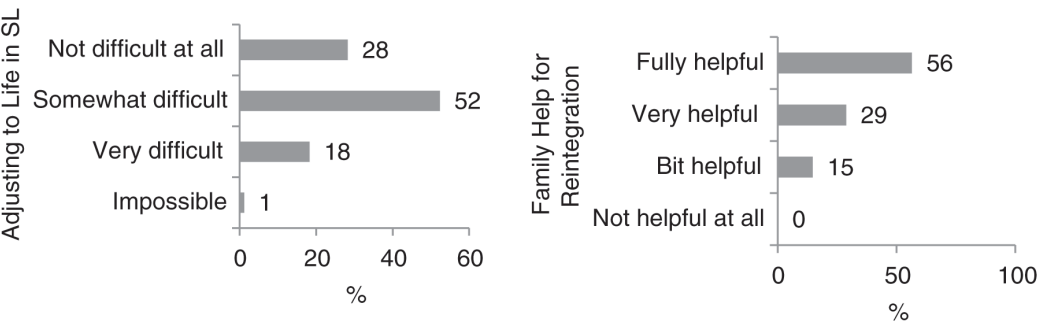
now working in Sri Lanka as a casual agriculture labourer; aside from job dissatisfaction, such labourers only earned much lower incomes than what can be earned while abroad. This real-life story of a migrant returnee worker, one among many with shattered hopes, unveils another facet of the prevailing weaknesses of poor reintegration mechanisms available in Sri Lanka.

The qualitative data points to families being identified as the biggest strength during the return and reintegration experience for returning migrant workers, as previously highlighted. Specifically, as seen in the right panel in Figure 8.5, a total of 85% of the respondents have indicated that families have been very or fully helpful in their reintegration. This is despite the fact that most were returning without much economic security unlike during their previous visits. At the same time, both the qualitative and quantitative data highlight the insufficient support by way of institutional mechanisms – especially for return, which subsequently affected their reintegration outcomes.

Among the three institutions focussed on in the survey about return support for migrant workers

The qualitative data points to families being identified as the biggest strength during the return and reintegration experience for returning migrant workers.

Figure 8.5
Support for Reintegration



Source: Author's illustration based on survey data.

– the Ministry of Foreign Affairs, the State Ministry of Foreign Employment Promotion and Market Diversification and the SLBFE – most migrants/their families have sought help from the SLBFE. Nevertheless, the returnees' level of satisfaction on the support extended by the authorities varied, depicting a mixed response. For instance, 19% of those who sought support from the SLBFE felt they were somewhat helpful while 6% were of the view that the SLBFE was very cooperative. On the contrary, a third felt that the SLBFE was not helpful at all. This was further elaborated in qualitative data where many returnees voiced their displeasure on the support provided by the SLBFE, especially for having charged them for an insurance scheme at the time of departure which provided nearly no support when they needed help during this pandemic.

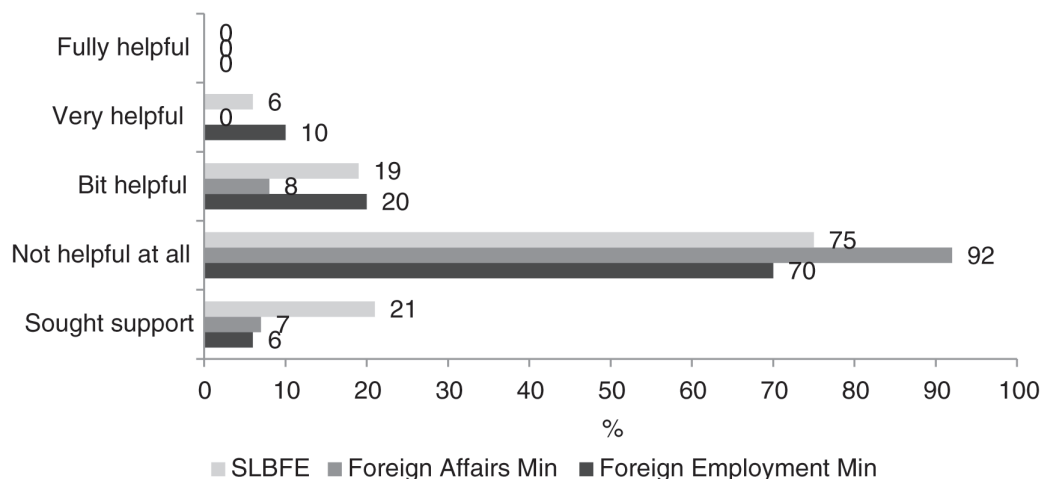
These sentiments were also echoed in other consultations such as that undertaken by the Community Development Services (CDS) with repatriated workers in the COVID-19 era, whereby migrants expressed a preference for an insurance scheme or a fund at the SLBFE that would compensate them in distress situations. In addition to extending support for return, the IPS return and reintegration experience survey also questioned respondents if they sought assistance either from the ministry in charge of foreign employment, or labour, the SLBFE, or Migration Development Officers for their reintegration efforts. Except for one respondent each in relation to the ministry in charge of labour and Migration Development Officers, no assistance was sought from the relevant institutional framework. This shows the near absence of a culture conducive for seeking reintegration support among returning migrant workers.

In addition to economic reintegration issues, the qualitative data also reveal that most returnees faced many psychological challenges related to their ability to find any employment or suitable employment in Sri Lanka. For instance, a male returnee who was a kitchen helper in a resort in the Maldives was now working in Sri Lanka as a casual worker at a small shop/restaurant for a daily wage of LKR 800. While not all returnees seeking employment are willing to work in other fields or take pay cuts, this returnee despite taking up the available job due to financial challenges in reintegration, was distressed about the lower wage as well as being underemployed. Similarly, many returnees were worried about their ability to fulfil responsibilities towards their family as the breadwinner. For instance, a returnee who was a finance manager in Dubai was distressed about the inability to meet educational costs of children. Nevertheless, qualitative data show that no returnee in this sample sought any formal psychosocial support for these challenges.

8.6 Macro Level Reintegration Activities

During the pandemic, the State Ministry of Foreign Employment Promotion and Market Diversification and the SLBFE, with technical support from the ILO and the IOM, finalised a National COVID-19 Response Plan for Migrant Workers, which involved a detailed plan for reintegration support measures. The planned efforts focussed on reintegration in terms of sustaining livelihoods, entrepreneurship, employment, reskilling and skills recognition, recover unclaimed dues in CODs, and psychosocial support.

Figure 8.6
Institutional Support for Return



Source: Author's illustration based on survey data.

Based on these plans, a few initiatives got underway.³¹ For instance, for entrepreneurship support, a follow-up telephone survey was conducted for 900 respondents to indicate their preference in entrepreneurship/self-employment and livelihood development in Sri Lanka. Remarkably, less than 50% of respondents who participated in the survey, continue to pursue this interest.³² Accordingly, the programme aims to offer basic training for entrepreneurship and an in-kind grant worth LKR 50,000 to support their start-ups.³³ Similarly, the ILO is currently involved in a needs assessment of 200 beneficiaries identified from seven districts for the 'Start and Improve Your Business' programme – which is parallel to its international counterpart. Under this scheme, the selected beneficiaries are expected to undergo a training programme (20 days for new entrants

and 8 days for those with an existing business) after which the participants are expected to have a well-developed business plan, which they could use for pitching and securing seed capital. The same group of participants are also earmarked to undergo occupational health and safety (OHS) training. Similarly, another 200 beneficiaries are to be selected from another 15 districts and referred to the Enterprise Development Division of the Ministry of Youth and Sports to uplift their entrepreneurship skills.³⁴

For those keen on remigration or local employment, the reintegration support programmes are aimed at identifying their skills gaps and providing training required for upskilling and sustaining existing skills that are relevant. Nevertheless, one of the main challenges recognised by

³¹ This update is based on key informant interviews (KIIs) of stakeholders at the State Ministry of Foreign Employment Promotion and Market Diversification, officials from the ILO and the IOM in mid-April 2021.

³² Others were no longer interested in this area or could not be contacted.

³³ KII with the State Ministry of Foreign Employment Promotion and Market Diversification.

³⁴ KII with officials from the ILO.

stakeholders is the difficulty in convincing returnees to engage in such activities, which does not offer immediate solutions to their employment needs. Having an awareness of this challenge, the ILO had called for proposals from technical and vocational education training (TVET) institutions to develop novel training programmes that can help engage this segment of returning migrants. Additionally, for those seeking employment in Sri Lanka, job matching efforts are planned with the support from diverse stakeholders and institutions, not limited to the public employment services system of the Department of Manpower, Human Resource Development Assistance at the divisional secretariat level and the Employers' Federation of Ceylon (EFC).

Furthermore, a grant of USD 1.8 million has been secured from the Japan for projects earmarked for skills recognition; this facility also extends to identification and filling of skills gaps, linking self-employed with buyers and markets and upgrading skills development training to online/distance training methods to improve access. Efforts under this grant are expected to adopt a community-level approach, with a participatory rural needs assessment (PRNA) to identify the needs of the returning migrant workers and their local communities. Reintegration support activities under this grant are aimed to cover approx. 2,000 returnees, while the infrastructure support component aims to cover 10,000 community members.

The grassroots level reintegration support extended during the pandemic mainly included assistance for returnees to register at the local authorities/district/divisional secretariats to receive livelihood support and distribution

of assistance to migrant families who were in economic distress. This was mainly routed through civil society organisations (CSOs).³⁵

8.7 Recommendations for Reintegration

Based on the reintegration experience and services provided in Sri Lanka a few key issues and challenges emerged on economic and psychosocial reintegration for returnees. Along with the identification of key issues, a set of recommendations and strategies to address the same are presented in the remainder of the section, as measures need to be taken in the short term and the medium term.

8.7.1 Short Term Measures

Speed Up Reintegration Service Delivery:

As evident in the above mentioned update of reintegration measures during the pandemic, Sri Lanka had drawn up a detailed National Plan to support returnees (among other things) by April 2020. The preparation of a plan within two to three months of the pandemic's escalation is commendable. Yet, the pace of implementation has been slow. After more than a year since the onset of COVID-19, only a handful of concrete/tangible measures have been rolled out for the reintegration of returning migrant workers. The main reason for this delay is the economic and other operational issues brought about by the protective measures to contain the pandemic. Nevertheless, it is important to adapt operations to the 'new normal' and deliver the required services to returnee migrant workers in a timely manner. In doing so, the purpose is to minimise further

³⁵ Samuel, Andrew. (2021). *Personal Communication from Andrew Samuel on May 6, 2021. Executive Director.* Colombo: Community Development Services; Community Development Services. (2020). *Brief Commentary based on CDS Weekly Labour Migration Media Monitor.* Colombo: Community Development Services.

economic hardships on the returnees. Based on available information, the key districts of origins of returnees are Colombo, Gampaha, Kurunegala, Kandy, Kalutara and Galle. Accordingly, financial resources should be adequately allocated to such areas so that reintegration activities are executed effectively and speedily.

The preparation of a detailed National Plan to support returnees within two to three months of the pandemic's escalation is commendable. Yet, the pace of implementation has been slow.

Some strategies to speed up reintegration service delivery in the short term include strengthening the government's agility to rapidly adapt to the 'new normal'. These can be carried out by identifying tasks related to reintegration support that can be done remotely and increasing the remote working capacity and support services provided to personnel involved in such tasks. Similarly, minimising the paperwork, administrative red-tape and focussing on allocating adequate resources for implementation activities, would also contribute to speed up service delivery.

At the same time, instead of developing new programmes, it is important to improve government coordination for quicker reintegration support by identifying key government stakeholders for reintegration and rollout reintegration efforts by modifying existing programmes. Another critical approach to speed up service delivery is to adopt the twin approaches of top-down as well as bottom-up. Here, the potential of grassroots level organisations can be harnessed to provide reintegration support from a bottom-up approach. Similarly, coordination among bottom-up approaches adopted mainly by grassroots level and CSOs, and top-down approaches adopted by more state-oriented efforts need to be coordinated.

Critically, it is important to speed up the return and repatriation process by improving government coordination for quicker repatriation, eliminating corruption in repatriation, and revisiting cost structures of return, repatriation and quarantine facilities. These enable migrant workers to plan out their return more systematically and save on their financial and other resources. Also as noted before, through these kinds of measures being operational, migrant worker returnees will be in a better position to minimise additional costs in the reintegration process. In sum, these efforts

will support reintegration of migrant worker returnees. Additionally, immediate efforts should also focus on enhancing the coverage of the current insurance policy offered by the SLBFE to include assistance for unemployment, return and reintegration.

Improve Macro Level Data on Returnees:

Even though Sri Lanka maintains relatively comprehensive data on annual departures of migrant workers through the SLBFE registration system, there is no similar mechanism to track returnees or identify the stock of migrant workers abroad. As such, severe data limitations about migrants overseas and their return to Sri Lanka, contribute to deficits in identifying and having a sound awareness of the needs and magnitude of returnee migrants. These in turn affect the speed of rolling out support for their reintegration.

To address this situation, one suggestion is to converge existing data collection strengths to arrive at an interim understanding of the returnees and their reintegration needs. Specifically, there are many sporadic surveys that collect information from returnees, especially during the pandemic. With the leadership of the State Ministry of Foreign Employment Promotion and Market Diversification, such resources can be converged to fill the existing data gaps. Another vital step for the development of data on returnees is the harmonisation of databases of the Department of Immigration and Emigration (DIE) with that of the SLBFE to identify the status and overall position of returnee migrant workers in a given situation. Here, it is important to note that previously there have been various efforts in this regard for several years, including a renewed interest in the COVID-19 pandemic period. Nevertheless, the progress of such efforts has been near zero. To date, the flow of returnee migrant workers and the stock of Sri Lankan migrant workers abroad

are not estimated using such harmonised data. As such, it is important to identify the bottlenecks and address them speedily to arrive at reliable data on the stock migrant workers abroad and the flow of returnees.

Introduce Psychological Support for Reintegration:

Currently, there are almost no formal mechanisms or support structures operational for psychological support for migrant workers for their reintegration in Sri Lanka. As noted earlier, almost all returnees relied on family for psychological support. Therefore, it is important to introduce a formal psychosocial support structure for returning migrant workers.

The GOSL can harness the strength of the family as a resource for psychological support for reintegration. This can be initiated by educating migrant workers' family members, thereby ensuring that families are better prepared to provide psychological support for returnees for their reintegration. Such support can initially be channelled virtually due to accessibility issues during the pandemic and gradually evolve to in-person support mechanisms, which can be developed into a formal psycho support mechanism offered at the divisional secretariat division level. Additionally, in the short term, the GOSL can provide assistance to establish returnee migrant circles and support groups to collectively share their experiences and brainstorm/learn from others, as well as to systematically deliver psychological support for reintegration.

Develop a National Level Mechanism to Claim Unpaid Dues:

As already noted, many migrant returnees during the pandemic had been deprived of their financial or other dues. Nevertheless, at the micro-level, it is challenging for returnees to successfully reach out to employers overseas. As

such, it is important to develop on an urgent basis, a national level grievance handling and redress mechanism to support returnees to reach out to foreign employers.

In this regard, awareness has to be increased among returnees about the importance of claiming their dues and the support extended by the GOSL to address this. Here, to identify and submit their grievances about unpaid dues and credentials, developing a national level mechanism and a support structure for returnees is vital. Similarly, it is important to collate all information on unpaid dues at the macro level in Sri Lanka. Such a macro level position needs to be disaggregated by the COD and communicated to foreign employers. The support of Sri Lankan diplomatic missions, foreign recruitment agents and international organisations such as the ILO and the IOM offices in Sri Lanka and abroad can be harnessed. Moreover, Sri Lanka as a sending country should collaborate and link up with the ongoing international campaign by a coalition of CSOs and trade unions that are calling for an 'Urgent Justice Mechanism for Repatriated Migrant Workers'.³⁶ Here, the purpose is to address wage-related grievances, claims and labour disputes.

8.7.2 Medium Term Measures

In addition to immediate and short-term measures to improve the reintegration of returning migrant workers, certain medium term efforts are also necessary. This is to bridge gaps in reintegration support and the existing return/reintegration frameworks.

Develop a Reintegration Support Culture: As seen in the foregone analysis, supply as well

as demand for holistic reintegration support – across all economic and psychosocial aspects – during all stages of migration is limited in Sri Lanka. The above analysis also shows there is limited reintegration support provided, and there are further limitations in terms of awareness on the part of migrants/returnees and their families about the support structures and mechanisms available.

There is limited reintegration support provided, and there are further limitations in terms of awareness on the part of migrants/returnees about the support structures and mechanisms available.

³⁶ Also known as Justice for Wage Theft. *Call for an Urgent Justice Mechanism for Repatriated Migrant Workers*, Retrieved May 2, 2021, from Justice for Wage Theft: <https://justiceforwagetheft.org/en/page/kjolr2n202>

This limited awareness in Sri Lanka during the pre-pandemic period is emphasised by the low level of support sought and provided. As such, there is an absence of a culture to seek reintegration support. As a result, most returnees micromanage reintegration. Therefore, it is critical to educate migrants/returnees on the importance of reintegration support, disseminate information about the available resources, and develop a culture that values and benefits from reintegration support. Towards improving the demand for reintegration service, one possible strategy is to disseminate information about available support structures for return and reintegration during all three phases of migration – pre-departure, in-service and return. Another strategy that can be considered by the SLBFE is to ramp up their emphasis on return and reintegration during the pre-departure training. This can be carried out by encouraging migrants to plan for return during the early stages of migration, to maintain their professional/economic networks and save for reintegration.

Improve Base Level of Reintegration Support:

The incipient base level of reintegration support offered (during normal times), and related lack of experience and well-established mechanisms contributed to challenges in assisting returnees when reintegration needs were brought under pressure due to the pandemic. As such, as a first step, the base level of reintegration support available in Sri Lanka needs to be improved.

To address issues on reintegration, it is important to allocate adequate resources, infrastructure and capacity building efforts, and decentralise reintegration activities at the regional level. More importantly, all such efforts need to be evaluated for their performance and periodically fine-tuned. Similarly, the existing sub policy on return and

reintegration has to be implemented, evaluated, periodically reviewed for its appropriateness and revised accordingly. Another critical component to improve base-level service reintegration support is to mainstream migration into development, where all development plans, activities and strategies in Sri Lanka would factor in improving the wellbeing of migrants and returnees. Towards improving this inter-agency cooperation, identifying overlapping areas and stakeholders in reintegration service delivery, and streamlining reintegration services to improve accountability is key. Another vital component of a long-term return and reintegration plan is the sustainability of income of returnees. In this regards, a social security scheme would be beneficial for returnee migrants. Here, the ongoing initiatives for the introduction of a contributory pension, which is also identified in the sub policy, need to be followed through to its implementation.

Develop a Pragmatic Contingency Plan: Along with changes to improve base level reintegration support, Sri Lanka needs to be better prepared to face crises that are likely to emerge. With a mature base level, a reintegration assistance culture that introduces a new and more pandemic-related reintegration service delivery would materialise within the capacity of the existing frameworks, structures and modalities.

The purpose of a contingency plan is to have in place sound fallback mechanisms to withstand external shocks triggered by uncertainty or disasters. Nevertheless, the experience during the pandemic indicated that the vision to “develop a contingency plan for emergency evacuation of migrant workers with the involvement of government agencies and international organisations” was merely a statement in the sub policy on return and reintegration. As such,

it is essential to develop a pragmatic contingency plan related to return and reintegration service delivery. Such a contingency plan also should have the capacity to be rolled out under pressure and within a short time. With experience gained in the crisis as well as in previous crises, a comprehensive and pragmatic contingency plan is the need of the hour, along with allocations on financial and other resources required. More importantly, such a contingency plan needs to undergo periodical rollout dry runs in normal times to gauge their implementation, efficacy and other issues which can be fixed prior to an actual rollout in a crisis period.

Make Psychosocial Support a Key Component of Reintegration Support:

The existing incipient reintegration support structures and frameworks mainly focus on economic reintegration, with minimal emphasis on psychosocial support for reintegration. Evidence noted earlier shows that many returnee migrant workers in the return and reintegration experience survey would have benefitted from psychosocial support. As such, it is important to allocate adequate resources, infrastructure and capacity building efforts to expand reintegration support to include a comprehensive psychosocial support component as well.

Given the poor uptake and stigma associated with formalised psychological support structures in Sri Lanka, efforts to integrate this dimension to reintegration support should mainly involve a supply-driven modality. Here, returnee migrants who can benefit from such services need to be sought by service providers rather than returnee migrants approaching the former. At the same time, it is important to make such support mechanism easily accessible with minimum administrative formalities, while maintaining the

privacy of returnee migrant workers receiving psychosocial support.

Improve Data on Migrants and Returnees:

The contribution of services from migrants and returnee migrants is of significance to the development process of Sri Lanka. Hence, it is crucial that regulatory authorities have access to high-quality data on migrants. As such, in addition to the short-term and immediate efforts, it is vital to harness the potential of various data collection efforts related to returnee migrant workers in the medium term as well.

For this purpose, the State Ministry of Foreign Employment Promotion and Market Diversification is well positioned to provide leadership to roll out a comprehensive census of returnee migrants. Here, the services of returnee migrants as well as the network of Migration Development Officers at the divisional secretariats can be deployed towards the data collection effort. Similarly, the Department of Census and Statistics could also incorporate a module on information regarding current and returnee migrants to their periodic surveys. Moreover, in the medium term, a simple format can be introduced as mandatory for capturing migrant worker information at the border.

Call for Improved Role Played by COD for Return and Reintegration:

As seen in the foregone analysis, most current labour migration regimes and CODs are associated with very limited responsibility for migrant workers' return and reintegration. As highlighted before, reintegration requires to be planned throughout the migration cycle. As such, the CODs also have a large role to play for successful return and reintegration, even while the migrant worker is abroad.

Hence, Sri Lanka should encourage the CODs to play a key role in return and reintegration by incorporating such commitments into bilateral agreements (BLAs) and in government-to-government labour migration arrangements (G-to-G arrangements). Sri Lanka could learn from South Korea's Happy Return Programme, which prepares and assists migrant workers in South Korea to reintegrate with the home country. Key modalities and mechanisms of such initiatives could be factored into future

BLAs. Moreover, G-to-G arrangements can be initiated to garner support from CODs to introduce reintegration support activities during the in-service and return stages of migration. In addition to working towards migrant worker reintegration all by itself, Sri Lanka could also channel such efforts through forums such as the Colombo Process, Global Forum on Migration and Development, as well as seek support from international organisations such as the ILO and the IOM.

9. Social Protection for Vulnerable Groups during Pandemics

9.1 Introduction

The COVID-19 pandemic has led to massive disruptions in the lives and livelihoods of people around the world. It has pushed millions of people into poverty, leading to a reversal in the global movement towards poverty alleviation.¹ While the full extent of the impact of COVID-19 is yet unknown, it is evident that its impacts are distributed disproportionately, with vulnerable groups such as the poor, informal sector workers and women having to absorb a higher chunk of the burden. Such groups of people are more likely to undergo higher rates of unemployment, income loss and food insecurities, thereby intensifying their vulnerabilities. As a result, forecasts suggest that the pandemic is likely to widen existing inequalities and leave lasting impacts, with these being higher on the poor and vulnerable.²

While countries continue to battle the adverse effects of COVID-19, the necessity and importance of well-developed social protection systems are evident now more than ever. The

COVID-19 pandemic has put social protection at centre stage as a shock response tool, and re-emphasised its importance in reducing poverty and inequality, and building resilience against crises. While various measures have been adopted by countries around the world in response to the pandemic, the provision of cash and in-kind support were popular global responses aimed at supporting the poor and vulnerable.³ The ability to reach vulnerable groups within the shortest time possible is essential when providing assistance in the event of a crisis of this magnitude. Therefore, the existence of resilient social protection systems that are up-to-date and well equipped to respond swiftly is necessary to ensure an all-inclusive recovery.

In this context, this chapter analyses the effects of COVID-19 on vulnerable groups, low-income households in particular, and the effectiveness of the social protection measures introduced by Sri Lanka as a means of easing the burden of the pandemic on the poor and vulnerable. First, the

¹ Lakner, C., Yonzan, N., Mahler, D. G., Aguilar, R. A., & Wu, H. (2021, January 11). *Updated Estimates of the Impact of COVID-19 on Global Poverty: Looking Back at 2020 and the Outlook for 2021*. Retrieved April 22, 2021, from World Bank: <https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty-looking-back-2020-and-outlook-2021>.

² World Bank. (2021, February 26). *Empowering the Poorest Countries Towards a Resilient Recovery*. Retrieved June 21, 2021, from World Bank: <https://www.worldbank.org/en/news/immersive-story/2021/02/26/empowering-the-poorest-countries-towards-a-resilient-recovery>.

³ International Labour Organization and Economic and Social Commission for Asia and the Pacific, United Nations. (2020). *Social Protection Responses to COVID-19 in Asia and the Pacific: The Story So Far and Future Considerations*. Bangkok: International Labour Organization and Economic and Social Commission for Asia and the Pacific, United Nations.

COVID-19 pandemic has put social protection at centre stage as a shock response tool.

chapter analyses the effects of the pandemic on vulnerable groups, taking the global context on board as well as Sri Lanka's experience based on results from a rapid household-level survey conducted by the Institute of Policy Studies of Sri Lanka (IPS). It then provides an overview of the social protection measures introduced by Sri Lanka in response to COVID-19, mostly focussing on the first and second waves of the pandemic, and analyses their effectiveness. Finally, the chapter concludes by outlining some policy recommendations that can assist in strengthening the existing social protection system and improve the lives of the vulnerable population segments.

9.2 Effect of COVID-19 on Vulnerable Groups

The COVID-19 pandemic has undoubtedly devastated the entire world. While it has impacted both the wealthy and the destitute, evidence

suggests that the adverse impact on the poorer segments have been much higher than that on the richer groups. This section examines the effect of COVID-19 on vulnerable groups, in particular low-income households. Section 9.2.1 outlines the global scenario of the effects of COVID-19, especially on the poor and vulnerable based on the existing literature; Section 9.2.2 examines the effect of the pandemic on low-income groups in Sri Lanka based on a rapid household-level survey carried out by the IPS.

9.2.1 Effect of COVID-19 on Vulnerable Groups: The Global Context

As previously noted, the COVID-19 pandemic is projected to push millions of people into poverty, thereby backsliding years of the forward momentum on global poverty reduction. The poorest nations have been more susceptible to the adversities of the pandemic in comparison to wealthier countries. Progress towards poverty alleviation in low-income countries (LICs) is predicted to suffer a setback by around five years with the number of people living in extreme poverty (less than USD 1.90 per day) rising by approximately 4% over 2020 and 2021.⁴ This is undoubtedly going to push countries further away from achieving the 2030 agenda for Sustainable Development and dampen future growth prospects.

The population affected by COVID-19 induced poverty – classified as 'new poor' – is a mix of those who under ordinary circumstances (in the absence of the pandemic) were likely to have exited poverty but now continue to be poor, and those who are susceptible to fall into poverty

⁴ World Bank. (2021). *Global Economic Prospects, January 2021*. Washington D.C.: World Bank.

due to COVID-19. The profiles of the new poor differ considerably from the existing poor who are typically more concentrated in rural areas, whereas approximately 30% of the new poor are likely to be from the urban population.⁵

In 2020 alone, between 119 and 124 million people have been forecasted to fall into extreme poverty (under the USD 1.90 a day poverty line) brought on by COVID-19. This documents an increase in global poverty for the first time since the Asian financial crisis of the late 1990s. Around 60% of this new poor are believed to be residing in the South Asian region. Estimates at the USD 3.20 poverty line are forecasted to be at least 228 million, with a larger share of the population emerging from South Asia yet again. Initial projections for 2021 estimate the number of individuals in extreme poverty to be between 143 and 163 million.⁶

A poll of nearly 30,000 people from 27 countries found that 69% of respondents from poorer countries witnessed a fall in their income due to COVID-19 in comparison to 45% of respondents from richer Organisation for Economic Co-operation and Development (OECD) countries.⁷ Furthermore, it suggests that a higher proportion of respondents residing in Asia, Africa and Latin America identified COVID-19 to have a more significant impact on their lives in comparison to residents of Europe and North America. According to Oxfam International, the poorest

people in the world could take longer than 10 years to recover from the adverse economic impacts of the pandemic whereas the world's top billionaires bounced back to their pre-pandemic income levels in over a mere nine months.⁸

While this confirms that ill effects of the pandemic are felt across the board, they are more pronounced for those that operate from a point of systematic disadvantage. As such, the adverse impacts of COVID-19 are felt on a larger scale by highly vulnerable groups. They are more likely to experience livelihood disruptions due to a multitude of reasons such as negative effects on income, deepening debt burdens, food insecurities and inequitable access to resources, etc. Therefore, groups such as the poor, low-skilled workers, informal sector employees, migrant workers and women are at higher risk of witnessing a drop in their standards of living due to declines in their per capita incomes.

Analysis of the impact of COVID-19 on low-income households in Kuala Lumpur, Malaysia revealed unemployment rates among heads of households to be 2.5 times higher than the pre-pandemic rate.⁹ The study also finds that average household earnings have dropped by 5% in comparison to pre-COVID levels. A study in Turkey found that the pandemic led to job losses of 2.6 million, where the majority of jobs lost were reported to be among informal sector employees, low-skilled workers and women. In

⁵ Sánchez-Páramo, C. (2020, August 13). *The New Poor are Different: Who They are and Why It Matters*. Retrieved April 22, 2021, from World Bank: <https://blogs.worldbank.org/developmenttalk/new-poor-are-different-who-they-are-and-why-it-matters>.

⁶ Lakner, C., Yonzan, N., Mahler, D. G., Aguilar, R. A., & Wu, H. (2021, January 11). *Updated Estimates of the Impact of COVID-19 on Global Poverty: Looking Back at 2020 and the Outlook for 2021*. Retrieved April 22, 2021, from World Bank: <https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty-looking-back-2020-and-outlook-2021>.

⁷ BBC. (2020, September 11). *Coronavirus: BBC Poll Suggests Stark Divide Between Rich and Poor Countries*. Retrieved June 1, 2021, from BBC: <https://www.bbc.com/news/world-54106474>.

⁸ Berkhout, E., Galasso, N., Lawson, M., Morales, P. A., Taneja, A., & Pimentel, D. A. (2021). *The Inequality Virus - Summary*. Oxford: Oxfam GB, Oxfam International. doi:10.21201/2020.6409.

⁹ United Nations Children's Fund, UNFPA, DM Analytics. (2021, May). *Families on the Edge*. Malaysia: United Nations Children's Fund.

addition, women were thrice as more likely to be unemployed than their male peers which led to a fall in the female labour force participation rate by 5.2% between the 12 months from April 2019-April 2020.¹⁰

Disruptions to schooling due to mandated school closures have adversely impacted children and youth worldwide, especially those from low-income backgrounds. A study conducted in the Philippines on the impact of COVID-19 on low-income households revealed that 30.5% of students in the sample consumed meals provided by their schools prior to school closures. As a result of the pandemic, these students reliant on such meals have lost access to them. This is likely to result in higher levels of food insecurity among low-income households. In the Philippines, pandemic induced food insecurity was reported to be higher among low-income families with three or more children.¹¹ Therefore, with the immediate effects of the pandemic spanning beyond learning interruptions, it is likely that these will aggravate adverse long-term consequences such as diminishing future earnings prospects, which may, in turn, contribute to intergenerational poverty among low-income families.

The negative impacts of COVID-19 will widen the gap between the rich and poor by increasing income inequalities, with those systematically disadvantaged having to absorb a larger chunk of the burden. A study by Oxfam International – surveying 259 economists from 79 nations – found that 79% of respondents expected a rise

in income inequality in their respective country due to the pandemic. In addition, over 50% of respondents believed there will be a rise in gender inequality.¹²

Due to COVID-19, the existing poor – especially in developing countries – will be pushed further into poverty while many new poor will follow suit. Many countries will witness a widening as well as a deepening effect with regard to poverty in the coming years. While the entirety of the socio-economic effects of COVID-19 is yet to be known, it is evident that the pandemic has resulted in massive adversities which are bound to leave lasting impacts, with these scars being more prominent amongst the poor and vulnerable.

In Sri Lanka too, evidence over the past year suggests that the pandemic has had significant adverse effects on the lives and livelihoods of people, in particular those from low and middle-income groups. A study by the World Bank estimates that over 500,000 people have fallen into poverty due to the pandemic, which has led to an increase in the USD 3.20 poverty rate from 9.2% in 2019 to 11.7% in 2020.¹³ This implies a reversal in the progress made towards poverty reduction in Sri Lanka since 2016 (11%). Apart from this, the study finds that extreme poverty (measured by the USD 1.90 a day poverty line) has doubled in 2020 from 2019 levels, while the poverty gap too, has increased, indicating that the poor have become even poorer. The study stresses the impact on employment such as job losses and fall in earnings as the main

¹⁰ Baez, J. E., & Demirgüç-Kunt, A. (2021, February 09). *The Urgency of Promoting a More Equal Recovery: Insights from the COVID-19 Crisis in Turkey*. Retrieved June 02, 2021, from World Bank: <https://blogs.worldbank.org/europeandcentralasia/urgency-promoting-more-equal-recovery-insights-covid-19-crisis-turkey>.

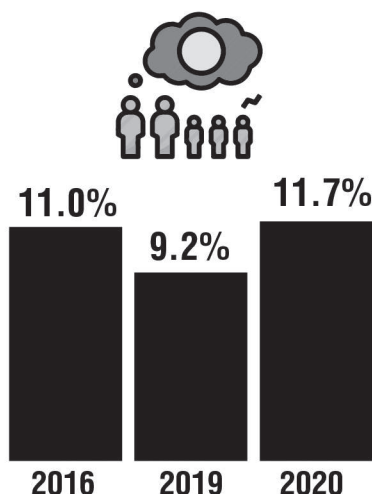
¹¹ Cho, Y., Johnson, D., Kawasoe, Y., Avalos, J. E., & Rodriguez, R. R. (2021). *The Impact of the COVID-19 Pandemic on Low Income Households in the Philippines: Impending Human Capital Crisis*. Washington D.C: World Bank.

¹² Berkhout, E., Galasso, N., Lawson, M., Morales, P. A., Taneja, A., & Pimentel, D. A. (2021). *The Inequality Virus - Summary*. Oxford: Oxfam GB, Oxfam International. doi:10.21201/2020.6409.

¹³ World Bank. (2021). *Sri Lanka Development Update 2021: Economic and Poverty Impact of COVID--19*. Colombo: World Bank.

contributory factors for the increased poverty rates in 2020 and argues that it could further increase the level of income inequality in the country.¹⁴

Poverty Rate at USD 3.20 Per Day



Source: World Bank (2021)

9.2.2 COVID-19 and Low-income Households in Sri Lanka: Survey Insights

The adverse effects of the pandemic on households, in particular, those from low-income groups are further confirmed by the findings of the rapid household survey conducted by the IPS across 10 districts during April-May 2021.¹⁵ The findings reveal that about 80% of the respondent households have experienced a reduction in their income during the first wave of the pandemic.

While a reduction of household income was observed in both the first and second waves, the impact of the former appeared to be more severe than the latter (in the second wave, about 60% of the households indicated an income fall). This decrease in household income was primarily due to employment-related shocks such as permanent job losses, temporary job losses/lack of work and reductions in salaries and wages during the pandemic.

Effect on Employment: The findings reveal that around 88% of those employed in the pre-COVID period have experienced an impact on their employment during the first wave. The most widely cited impact on employment was a temporary job loss or lack of work during this time, which was experienced by over 50% of those whose employment was affected during the first wave (Figure 9.1). Moreover, about 40% of those employed in the pre-COVID period faced temporary salary/wage reductions, while a smaller share lost their jobs permanently during the first wave. On the contrary, a small minority have found new jobs during this period.

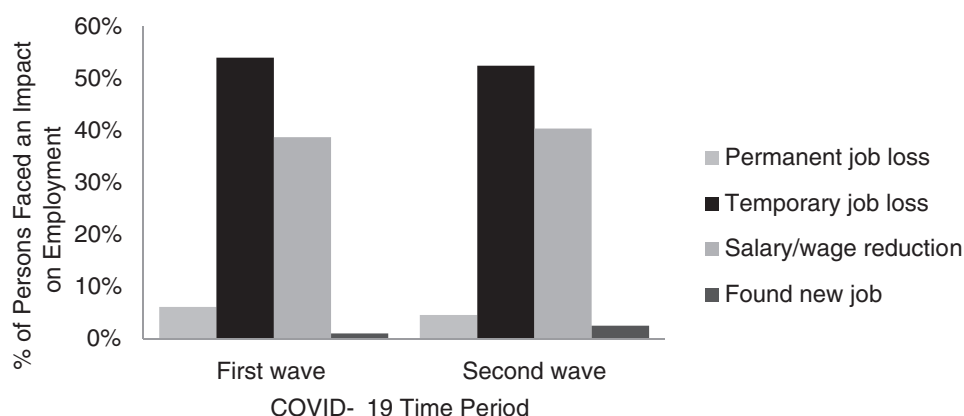
A somewhat similar pattern was observed in the second wave too, yet the share of impacted employees was lower than in the first wave (76%). By contrast, more individuals appeared to have found new jobs in the second wave with nearly 3% reporting to have found permanent new employment during this time.

The effect on employment was observed across all employment categories, but in varying degrees. Around 95-97% of daily wage earners, self-employed workers as well as private sector

¹⁴ World Bank. (2021). *Sri Lanka Development Update 2021: Economic and Poverty Impact of COVID--19*. Colombo: World Bank.

¹⁵ The survey aimed at investigating the effects of COVID-19 on households, income and employment, in particular, to assess the effectiveness of social protection measures taken by the government of Sri Lanka (GOSL) in response to the pandemic. It covered 300 households from 10 districts (9 provinces) and primarily focussed on low-income households.

Figure 9.1
Effect of First and Second Waves of COVID-19 on Employment



Source: Based on the IPS household survey on the impact of COVID-19

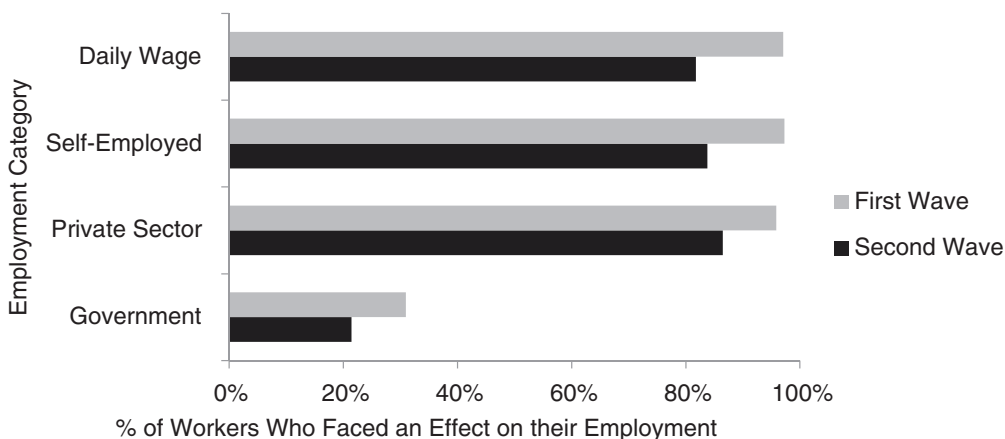
employees in the sample have faced employment shocks in the first wave, while these percentages were reported to be a little less in the second wave (82-86%). However, as expected, the share of government employees who experienced any impacts on employment due to the pandemic was relatively low – only 31% in the first wave and 21% in the second wave – indicating relatively higher job and income security in general within the government sector (Figure 9.2).

Over half of those who experienced permanent job losses in the first wave were daily wage earners, followed by private sector employees who accounted for about 28% of permanent job losses and self-employed persons. A similar trend was present in the second wave where the majority of permanent job losses were amongst daily wage earners followed by private sector employees and self-employed persons, respectively.

A larger share of daily wage earners (over 65%) underwent temporary job loss/no work during the first wave, while around 26% of the daily

**Adverse effects
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but in varying
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Figure 9.2
Effect of COVID-19 on Employment in the First and Second Waves, by Employment Category



Source: Based on the IPS household survey on the impact of COVID-19.

wage earners experienced a temporary wage cut. A similar pattern was observed among self-employed workers in the sample, where about 56% experienced temporary job loss/no work while another 6% lost their jobs permanently.

Somewhat different to the above pattern, nearly 60% of those private sector workers (who faced an employment shock in the first wave) experienced salary/wage cut, while those who lost jobs temporarily or faced a shortage of work was about 36%. However, about 5% of these private sector employees have lost their jobs permanently. This is a likely result of some private sector firms experiencing large scale losses or complete shutdown of their businesses due to prolonged revenue losses/market collapse, etc., as a result of pandemic led adversities.

Effect on Household Income: The above discussed labour market shocks were the main drivers of the fall in income among the households during the pandemic.

A reduction of household income was observed across all income groups, in both the first and the second waves of the pandemic, with the impact being more severe in the former than the latter. During the first wave, nearly 90% of households in the bottom income group of the survey sample experienced a fall in household income. Further, about 60% of households in the middle-income groups (LKR 25,000-49,000 and LKR 50,000-79,000) also underwent a reduction in their earning during this period. Although a decrease in household income is observed among a notable share of households in the higher-income group with over LKR 80,000, this would have to be interpreted with caution given the relatively smaller sample size in this category.

A categorisation of households surveyed into four groups based on their income levels allowed for an in-depth analysis of the income effect of the pandemic on households of different income strata (Table 9.1). As the survey purposively attempted to focus on low and middle-income

groups, a larger share of households in the sample was from low-income households with a monthly income less than LKR 25,000 (even prior to the pandemic). As shown in the transition matrix below, 70% of households in the sample have had a monthly income less than LKR 25,000 prior to the pandemic, and this share increased to 88.7% in the first wave (around 27% increase).

An interesting observation is that about two-thirds of households in the LKR 25,000-49,000 income category in the pre-COVID period have fallen into the bottom income group (below LKR 25,000) during the first wave. Additionally, nearly two-thirds of households in the LKR 50,000-79,000 income group have fallen to lower-income categories, with a considerable share of them falling into the below LKR 25,000 income category. In fact, there were households with income over LKR 80,000 (or even over LKR 150,000) prior to the pandemic, who experienced a significant fall in their income during the first wave. Interestingly, about 10% of those households who have fallen from a higher level to a lower-income strata in the first wave, have been able to move up again to their original income strata by the second wave. This indicates that the income effect of the first wave has been rather temporary for them. Nevertheless, for

the majority of households that encountered such income shocks, the effect of the pandemic appears to be more long-term.

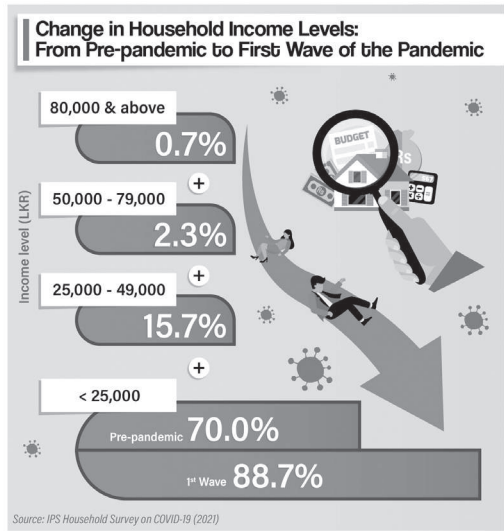
About 48% of households covered in the survey in the first wave have taken various measures to cope with income shocks during the pandemic. These coping mechanisms varied from borrowing from informal and formal sources, pawning/ mortgaging/selling assets as well as reducing consumption and non-consumption expenditure. Although a similar pattern was observed in the second wave too, the percentage of households that took such additional measures to cope with the crisis was much less (about 28%). In both waves, the majority of households that used additional measures to cope with the crisis have adopted multiple coping strategies.

Interestingly, the most common measures taken during both the first and second waves were reducing consumption expenditure and non-consumption expenditure. Around 24% of households in the first wave and around 21% of households in the second wave reported having curtailed their consumption expenditure, while 21% and 18% of households in the first and second waves respectively, have reduced

Table 9.1
Change in Household Income levels: From Pre-Pandemic to the First Wave of the Pandemic

		Income levels in the First Wave				
Income Categories		< LKR 25,000	LKR 25,000-49,000	LKR 50,000-79,000	LKR 80,000 and Above	All Income Groups
Pre-Pandemic Income Levels	< LKR 25,000	70.0%	0.0%	0.0%	0.0%	70.0%
	LKR 25,000-49,000	15.7%	7.3%	0.0%	0.0%	23.0%
	LKR 50,000-79,000	2.3%	1.7%	1.7%	0.0%	5.7%
	LKR 80,000 and Above	0.7%	0.3%	0.3%	0.0%	1.3%
	All Income Groups	88.7%	9.3%	2.0%	0.0%	100.0%

Source: Based on the IPS household survey on the impact of COVID-19



non-consumption expenditure (Figure 9.3). As expected, reducing consumption expenditure was largely a measure taken by households in the low-income group in both waves. Further, about 18% of households have borrowed from informal sources, while another 17% have pawned/

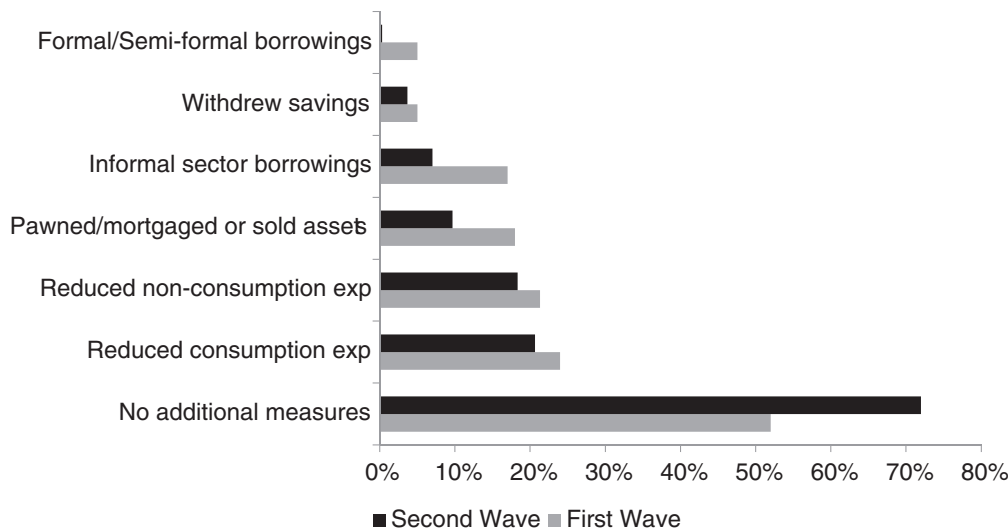
sold assets during the first wave. However, the percentages of households that have used such coping mechanisms were much less in the second wave.

9.3 Social Protection Responses to COVID-19

Sri Lanka introduced multiple measures as COVID-19 relief, especially targeting the poor and vulnerable. Some of the main initiatives were a cash transfer of LKR 5,000 to vulnerable groups and the provision of dry ration packs (*badu malla*) to those in lockdown areas/under home quarantine.

This section aims to analyse the GOSL's social protection responses with emphasis on the key measures mentioned above, that target the poor and vulnerable. It provides an overview

Figure 9.3
Measures taken by Households to Cope with Income Effects of the Pandemic



Source: Based on the IPS household survey on the impact of COVID-19.

of measures implemented during the first wave of COVID-19 (March–June 2020) and outlines the social protection responses initiated by the government during the second wave (October 2020) onwards.

9.3.1 Social Protection Measures in the First Wave

The main social protection measure introduced during the first wave of COVID-19 was the provision of cash transfers to vulnerable groups. Under this programme, an allowance of LKR 5,000 per month was provided to groups affected by the pandemic for two consecutive months in April and May 2020.

This programme mainly targetted beneficiaries of existing social protection programmes and those whose livelihoods were disrupted by the pandemic. The broad groups covered under the COVID-19 emergency cash transfer programme were as follows:

1. Beneficiaries presently receiving assistance under some of the main cash transfer programmes and contributory pension schemes.
2. Beneficiaries eligible and waitlisted to receive assistance under the above cash transfer programmes.
3. Households identified as vulnerable and in need of assistance by special rural-committees.

The cash transfer process was administered using several existing social protection programmes – the Samurdhi programme operated by the Department of Samurdhi Development, elders assistance programme operated by the National Secretariat for Elders (NSE), assistance for persons with disabilities and kidney patients operated by the National Secretariat for Persons with Disabilities (NSPD) and the farmers and fisherman's pension scheme operated by the Agriculture and Agrarian Insurance Board (AAIB). Besides, these programmes, special rural committees set up in each Grama Niladhari (GN) division identified other families that did not belong to these programmes but appeared to be deserving of assistance. Families approved by the committees included those whose livelihoods and incomes were directly or indirectly impacted by COVID-19.

The total number of beneficiaries supported by the COVID-19 emergency cash transfer programme during the first wave under each of the above mentioned beneficiary categories is presented in Table 9.2.

As evident from Table 9.2 this emergency relief programme resulted in both a horizontal and vertical expansion of the existing cash transfer programmes.¹⁶ Extending coverage to waitlisted beneficiaries and those especially selected via the rural committees showed a considerable horizontal expansion/scaling up in terms of the number of beneficiaries. Furthermore, extensions in the generosity of benefits (monetary value in comparison to pre-COVID assistance levels)

¹⁶ For a more detailed account of the COVID-19 emergency cash transfer programme initiated by the government during the first wave of COVID-19 see Ganga Tilakaratna. (2020). Harnessing Social Protection during Pandemics, In Sri Lanka State of the Economy 2020. Colombo: Institute of Policy Studies of Sri Lanka.

Table 9.2
No. of Beneficiaries Covered under COVID-19 Emergency Relief Payments (First Wave)

Beneficiary	Programme						Total
Category	Samurdhi	Elders	Disability	Kidney	Farmers & Fisherman's Pensioners	Livelihood Affected & Other	
Existing	1,793,553	417,067	72,000	25,320	165,275	-	2,473,215
Waitlisted	731,975	157,809	37,492	13,348	-	-	940,624
Committee selection	-	54,827	14,149	5,623	-	2,474,966	2,549,565
Total	2,525,528	629,703	123,641	44,291	165,275	2,474,966	5,963,404

Note: Slight differences in beneficiary numbers were observed between the two months.

Source: As per the compilation of information gathered from the Department of National Planning, National Secretariat for Elders and National Secretariat for Persons with Disabilities.

ranging from 0–100% indicated a vertical expansion of the prevailing social protection system.

9.3.2 Social Protection Measures in the Second Wave

The GOSL's social protection responses during the second wave were mainly targetted at poor and vulnerable households who were residing in lockdown areas and/or under home quarantine. Assistance was provided to these families in the form of either a LKR 5,000 cash transfer or a dry ration pack (*badu malla*).

As per a circular issued in November 2020, cash transfers were provided to households residing in lockdown imposed areas, if the lockdown lasted longer than one week. Such families received a single LKR 5,000 payment per family unit for a month. Eligible families were selected for this

based on the criteria used during the initial cash transfer programme (May 2020). As such, families that were eligible for assistance during the first wave were eligible again if they were residing in an area under lockdown. In the event that there were new families requiring assistance (those that did not receive the cash transfer in the first wave), they were considered upon approval of the rural committees.¹⁷

Households under home quarantine and/or in lockdown areas whose incomes were impacted were the main beneficiaries of the dry ration pack. Such households were provided with a bag of food containing rations to the value of LKR 10,000. This was provided either as a one-time package (worth LKR 10,000) or twice (with items worth LKR 5,000 each time). Families were not eligible to receive both the LKR 5,000 allowance and the LKR 10,000 food pack. Therefore, each household only received one of the above forms of assistance based on their eligibility status.¹⁸

¹⁷ The same rural committees that evaluated applicants in the first wave were set up to evaluate any new applicants.

¹⁸ Prime Minister's Office. (2020, November 02). *Circular PTF/03/2020(vi)*. Colombo: Prime Minister's Office

Further support was extended in late November 2020 to households that were in home-quarantine/lockdown areas for a period longer than 14 days. Such households were eligible to receive the LKR 10,000 worth of dry ration packs once again. However, during this time, rations worth LKR 5,000 were distributed per week (for each week beyond the first 14 days) until the conclusion of their lockdown/home-quarantine period.¹⁹

The total number of beneficiaries under each of the above mentioned programmes is presented in Table 9.3. As of 31 December 2020, the government incurred an expenditure of over LKR 9.5 billion in order to provide COVID-19 relief assistance in the second wave. Of this, over LKR 2.8 billion was spent on the provision of food packs and nearly LKR 6.7 billion on cash transfers.²⁰

disability assistance and support for chronic kidney disease received a one-time LKR 5,000 cash transfer in addition to their regular monthly allowance. Apart from this, households previously identified as low-income families and those who were approved by the rural committees under the above mentioned programmes (during the first wave) were also eligible for this one-time cash transfer. As per the payment guidelines, only a single LKR 5,000 payment was provided per family, even if a family consisted of multiple eligible beneficiaries under various programmes.

With the emergence of a rapidly spreading third wave of COVID-19 (April/May 2021 onwards), the government imposed movement restrictions island wide. In order to support vulnerable groups during this time, the LKR 5,000 payment was provided yet again for June 2021. The same

Table 9.3

No. of Beneficiaries Covered under COVID-19 Assistance (Second Wave) - until 31 December 2020

Assistance Type	Total No. of Beneficiaries
Food pack (<i>Badu Malla</i>)	417,427
LKR 5,000 Cash transfer	1,338,422

Note: Figures presents the total number of beneficiaries (second wave) as at 31 December 2020.

Source: As per information received through key informant interviews with the Department of National Planning.

In April 2021, the government extended the provision of the LKR 5,000 allowance to vulnerable groups as COVID-19 assistance/support during the seasonal time (Sri Lankan new year/*Avurudu*).²¹ As such, households that were recipients of Samurdhi, elders assistance,

families that were eligible for cash transfers in April 2021 received support in June. However, existing social protection programme recipients received a total sum of LKR 5,000 for the month of June (irrespective of their regular monthly allowance amount).²²

¹⁹ Prime Minister's Office. (2020, November 30). *Circular PTF/03/2020(vii)*. Colombo: Prime Minister's Office.

²⁰ Total government expenditure incurred during the second wave as of 31 December 2020.

²¹ Prime Minister's Office. (2021, April 10). *Circular PTF/03-2021*. Colombo: Prime Minister's Office.

²² As per information received through key informant interviews with the Department of National Planning.

9.4 Effectiveness of Sri Lanka's Social Protection Responses: Survey Insights

Despite the social protection measures implemented by Sri Lanka in response to COVID-19, various implementation gaps were observed in some areas of the country. As such, a detailed examination of these social protection measures in the first and second waves is vital to determine their effectiveness and usefulness to recipient households. In this context, the rapid household survey by the IPS attempted to examine the perspectives of households on the cash and in-kind transfers provided by the GOSL in the first and second waves of the pandemic. The rest of the section analyses the effectiveness of the LKR 5,000 relief programme carried out in the first and the second waves and briefly discusses the effectiveness of the in-kind support measures implemented by the government in the second wave.

9.4.1 Cash Transfer Programme

Coverage, Targetting and Eligibility: Of the 300 households covered in the IPS survey, nearly 84% received government assistance (LKR 5,000 cash transfer) during the first wave. The majority of these were relatively low-income earning households where over 75% of recipients earned a household income of less than LKR 25,000 per month on average in the pre-pandemic time, while nearly 20% earned a household income between LKR 25,000-LKR 49,000. A smaller share of recipients of the cash transfer was from higher income groups, yet many of them were

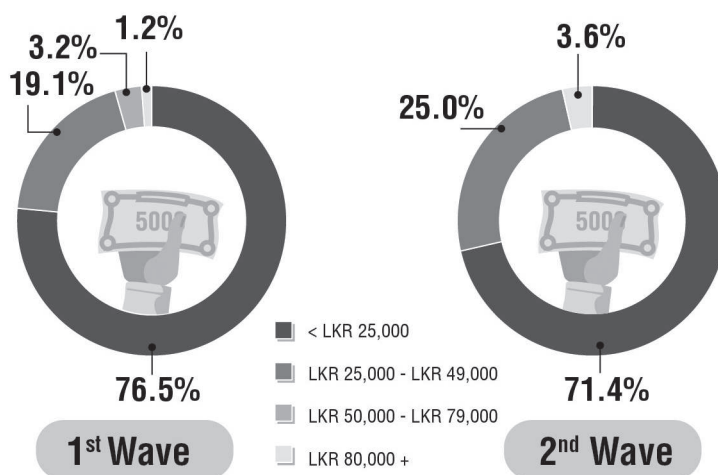
found to have faced significant income falls during this period.

In contrast, less than 20% of households covered in the survey received the LKR 5,000 cash transfer during the second wave. This is justifiable as only households under self-quarantine or in areas under lockdown received the payments in the second wave, while during the first wave, cash transfers were handed out throughout the country. Interestingly, over 70% of the cash transfer recipients were from low-income groups with an average household income of less than LKR 25,000 per month.

While a majority that received COVID-19 related assistance were low and middle-income families, there were a few relatively high-income households (with over LKR 80,000 per month) that received support in both waves as well. This amounts to around 1% of cash transfer recipients in the first wave, and 3.6% of recipients in the second wave. Given the widespread coverage of the programme, short duration to disburse payments and lack of preparedness of the existing social protection systems to face such a large scale crisis, such a modest level of leakage seems to be unavoidable.

The survey findings disclosed that nearly 49% of households that received the LKR 5,000 allowance in the first wave are existing recipients of other regular social assistance programmes such as Samurdhi, elders assistance, assistance for persons with disabilities and chronic kidney patients, etc. A larger share of these regular recipients belongs to the Samurdhi programme. Of the remaining households that received LKR 5,000 in the first wave, the majority became eligible for the cash transfer under the 'livelihood affected' category. To be selected to receive the LKR 5,000 allowance, the majority of them have

Share of Households that Received LKR 5,000/- by Income Category



Source - IPS Survey on the Impact of COVID-19 (2021)

had to fill out an application or make an appeal to the rural selection committee.

Similarly, around half of COVID-19 assistance recipients in the second wave too were beneficiaries of regular assistance programmes, with a majority of them being Samurdhi recipient households.

Amounts and the Frequency of Payment:

As discussed earlier in Section 9.4.1, the LKR 5,000 cash transfer was meant to be granted for two consecutive months in the first wave of the pandemic. Nevertheless, in the survey, only 86% of recipients of the LKR 5,000 cash transfer were found to have received the allowance for two consecutive months. The remaining households had received the cash transfer for only one month. A vast majority of these recipient households (around 97%) received a single LKR 5,000 payment each month. Only about 3% of households reported having received multiple LKR 5,000 payments. All such families that received more than one LKR 5,000 payment

received a total of LKR 10,000 in any given month, thus indicating that some houses received two LKR 5,000 payments per month.

In contrast, all households that received assistance payments in the second wave received support only for a single month. Of those, about 7% of families reported having received multiple LKR 5,000 payments (however, not more than LKR 10,000 in total).

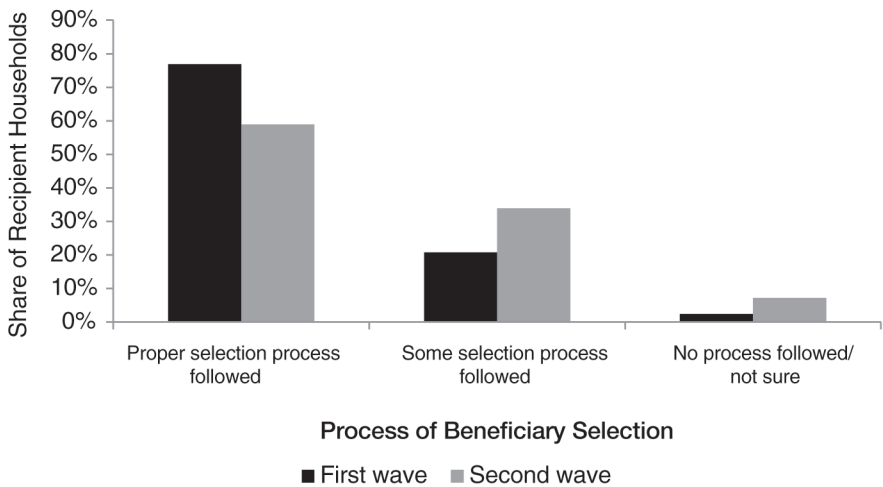
Receipt of multiple LKR 5,000 payments in a given month by these households is mainly due to multiple members being eligible for COVID-19 relief assistance under different categories (for instance, a member in a Samurdhi recipient household also being eligible for COVID-19 support under the livelihood affected category) or having regular recipients of multiple assistance programmes in the household.

Selection Process and the Method of Distribution: The survey further attempted to explore the process/criteria followed when

selecting beneficiaries and distributing payments. Interestingly, a majority of cash transfer recipients of the first wave (about 77%) and nearly 59% of recipients in the second wave felt that a proper procedure/selection process was followed when selecting families to receive the LKR 5,000 in their respective areas. This was followed by another 21% in the first wave and 34% in the second wave

collection was from a temple/school or other public location. While no households reported having their payments directly debited to their respective bank accounts during the first month of the first wave, 1% responded that this method was used during the second month of the first wave.

Figure 9.4
Selection Process for LKR 5,000 Payment in the First and Second Waves



Source: Based on the IPS household survey on the impact of COVID-19.

having felt a selection process was followed to some extent. By contrast, only a smaller share of households (around 2%) in the first wave claimed that a proper selection process was not followed. This proportion increased up to 5% of recipients in the second wave, followed by 2% being unsure of the existence of any procedure.

A larger share of recipients of the cash transfer in the first wave reported having collected their relief payments from the nearest Samurdhi bank/post-office/GN office (approximately 53% in the first month and 76% in the second month). The second most common method of payment

A similar trend was observed regarding the collection of assistance payments in the second wave, where the majority of recipients (about 84%) reported having collected their payments from the Samurdhi bank/nearest post office/GN office. A slightly higher share of recipients (around 4%) compared to the first wave received their payments directly to their respective bank accounts.

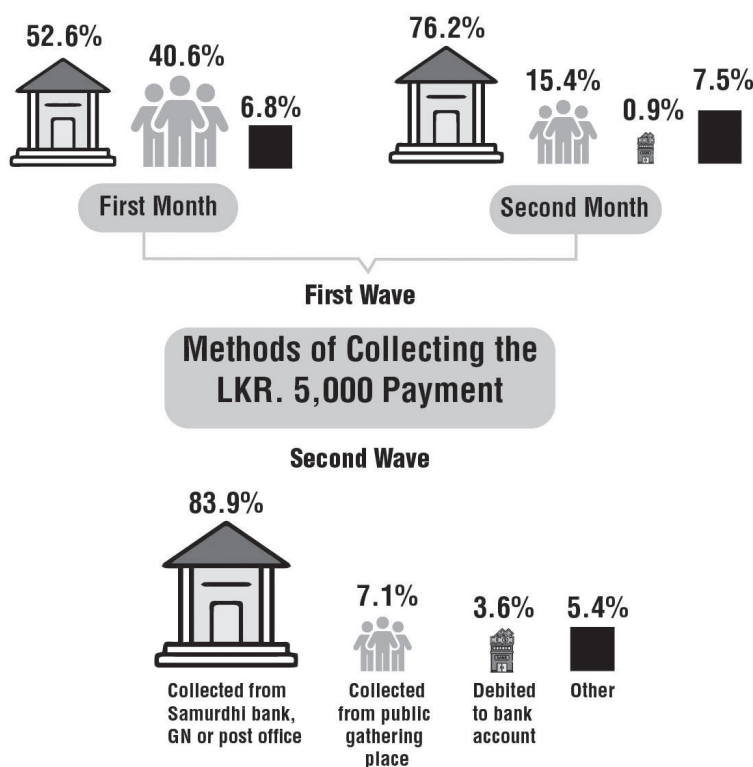
Efficiency and Satisfaction of Recipients:
Mixed responses can be observed in terms of the efficiency of the LKR 5,000 payment distribution process, as described by households

who received the cash allowance. Interestingly, a majority of recipients (about 76% in the first wave and 63% in the second wave) noted the LKR 5,000 relief distribution process to be very efficient in their respective divisions. This was followed by another 23-27% recipients in the two waves that felt the distribution process was somewhat efficient. However, in the second wave, 5% of households also reported the distribution process to be somewhat inefficient, with another 4% stating the process to be highly inefficient. The respective figures for the first wave were insignificant.

clothing items. Overall, the majority of recipient households (around 81%) found the LKR 5,000 relief amount to be 'extremely useful' during the first wave, while the respective figure was 64% in the second wave. The remaining recipients in both waves found the LKR 5,000 to be 'somewhat helpful' to meet their basic needs.

9.4.2 In-kind Support

As mentioned earlier, the government provided in-kind support in the form of dry ration packs (badu malla) during the second wave. This was

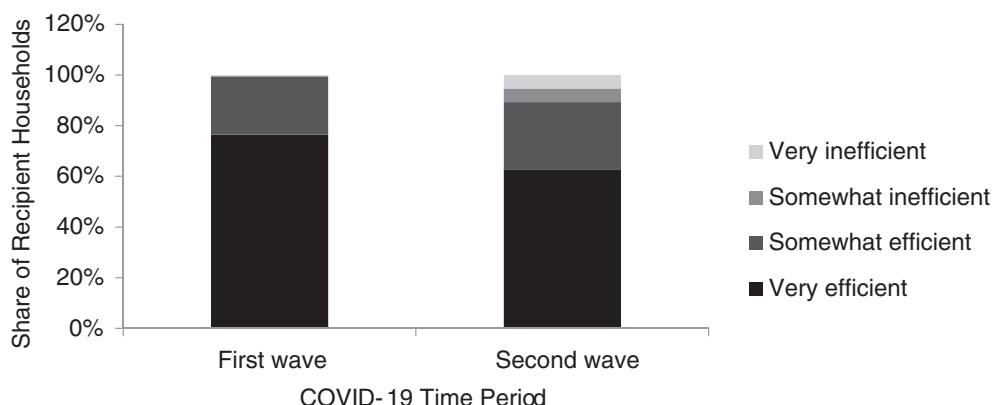


Source: IPS Survey on the Impact of COVID-19 (2021)

Remarkably, a vast majority (over 95%) of the recipients of the cash grant in both waves have used the LKR 5,000 cash grant to purchase food, while a few families stated that they utilised the payments to purchase medicine and

mainly targetted at deserving households placed under home quarantine and/or those living in lockdown areas during the second wave. In the sample survey, only 2% of households were reported to have received dry ration packs during

Figure 9.5
Level of Efficiency of the LKR 5,000 Payment Distribution Process



Source: Based on the IPS household survey on the impact of COVID-19.

the second wave while the majority of households in lockdown areas had received the LKR 5,000 cash transfer.

A larger portion of in-kind support recipients were low-income households, with over 50% earning an average household income of less than LKR 25,000 per month and nearly 30% earning between LKR 25,000–LKR 50,000 monthly. Interestingly, a smaller share of in-kind support recipients belonged to a higher income group earning an average household income greater than LKR 80,000 per month. However, it is vital to note that these higher-income earning households too were residing in areas under lockdown in the second wave, thus receiving the '*badu malla*' during this time is justifiable.

Overall, all in-kind support recipient households in the survey sample reported being highly satisfied with regards to the dry ration packs provided by the government during the second wave. Nevertheless, the above findings related to the in-kind support programme have to be interpreted with caution given the relatively smaller sample number of recipient households in the survey.

9.5 Conclusion and Policy Implications

The COVID-19 pandemic has had significant effects on the lives and livelihoods of people worldwide, in particular those from low-income groups. Sri Lanka is no exception in this context. A reduction in income was observed among households across all income groups during the first wave of the pandemic, with many households in middle-income categories falling into low-income strata (or into poverty) while those already in poverty, experiencing deeper levels of poverty. The fall in incomes was primarily a result of widespread employment shocks in the form of permanent/temporary job losses, and reductions in salaries and wages during the pandemic. Employment-related shocks were observed across all employment categories, with a larger share of daily wage earners and self-employed persons experiencing temporary and permanent job losses. Such employment shocks and the consequent reduction in earnings have contributed to an increase in poverty rates in the country (from 9.2% in 2019 to 11.7% in

A fall in incomes was primarily a result of widespread employment shocks in the form of permanent/temporary job losses, and reductions in salaries and wages during the pandemic.

2020 based on the USD 3.20 per day poverty).²³

This further implies a reversal of the progress in poverty reduction since 2016 and a likely increase in income inequality in the coming years.

In response to the pandemic, Sri Lanka, like many other countries in the world, adopted social protection measures like cash and in-

kind transfers to assist low-income and other vulnerable groups. While these measures have helped to minimise the adverse effects of the pandemic, in particular, to smoothen their consumption as revealed from the survey, these measures alone are inadequate to sustain the recovery and mitigate future crises. Nevertheless, the pandemic has created an opportunity for the country to build back better through strengthening the social protection system to ensure greater resilience against future crises.

In this context, broadening social protection to provide coverage to those who are currently excluded from the system is an important step towards building back better from the pandemic.²⁴ Social protection is not just cash and in-kind transfers; it is a broad range of measures that include old-age retirement benefit schemes like pensions, livelihood assistance, cash and in-kind transfers to vulnerable groups, unemployment protection measures as well as sick leave, maternity benefits and medical insurance. At present, Sri Lanka has many social protection programmes in place but the system as a whole has many weaknesses – such as low coverage, targetting issues, leakages and a fragmented system.

Similar to South Asian counterparts, one of the key reasons for the low coverage of social protection in Sri Lanka is the high prevalence of informal workers. Informal workers in Sri Lanka account for about 60% of the total workforce and this share has not shown a significant improvement over the past decades. Informal workers often lack employment-related social security benefits like pensions, Employees'

²³ World Bank. (2021). *Sri Lanka Development Update 2021: Economic and Poverty Impact of COVID--19*. Colombo: World Bank.

²⁴ Economic and Social Commission for Asia and the Pacific, United Nations. (2021). *Beyond the Pandemic- Building Back Better from the Crises in Asia and the Pacific*. Bangkok: Economic and Social Commission for Asia and the Pacific, United Nations.

Provident Fund (EPF) and maternity benefits and paid sick leave. At the same time, some informal workers tend to be excluded from the poverty-targeted cash transfer programmes, as they are often not 'poor enough' to receive those benefits. As such, part of the informal workers – including some small entrepreneurs, contractual workers and self-employed workers – are often not covered by the social protection systems. They account for a large portion of the so called 'missing middle' of the social protection systems of many countries. As indicated from the IPS survey too, informal workers were among the worst hit by the pandemic. Furthermore, evidence revealed that the pandemic has created 'new poor' by pushing those in middle-income groups into poverty, which stresses the need for 'adaptive' social protection systems to absorb these new groups.

Broadening social protection coverage to include the 'missing middle' is an important step towards achieving universal social protection by 2030. This would require substantial fiscal space as well as mechanisms such as designing new programmes to cater to the needs of those who are left out of the system. A starting point could be extending the coverage of the existing cash transfer programmes such as disability assistance, assistance for kidney patients and elders assistance programme. The COVID-19 pandemic has provided an opportunity (through rural committees set up at divisional levels) to identify elderly and disabled persons as well as chronic kidney patients who are currently excluded from the existing programmes. With careful evaluation of the eligibility of those identified by the rural committees in the first

Broadening social protection coverage to include the 'missing middle' is an important step towards achieving universal social protection by 2030.

wave of the pandemic, it is important to take measures to absorb these excluded groups into the respective programmes.

Also, it is vital to take steps to address widespread targetting errors of the Samurdhi subsidy programme and include the deserving poorest families who have been excluded from the programme. While broadening social protection is crucial, it is also important to take necessary measures to improve the efficiency of the existing social protection system. This will require building an integrated social protection system (with an integrated social registry and beneficiary registry) and creating sound delivery systems with digital payment mechanisms to ensure efficient and safe service delivery.²⁵

Nevertheless, social protection is not a panacea. While broadening social protection and strengthening the social protection system should be an integral part of the country's recovery plan to build back better from the crisis, these should be complemented with other macro and micro-level policies/strategies. In particular, this will require macro-level policies to ensure sufficient fiscal space, improve investment in the social sector and address labour market inequalities like a large informal workforce, low female labour force participation and high youth unemployment that are likely to worsen due to the effects of the pandemic. Furthermore, at the micro-level, it is vital to improve financial literacy among households to ensure prudent management of financial resources/instruments to help themselves to better cope with future crises similar to pandemics of this magnitude.

Improving the efficiency of the existing social protection system is critical. This will require building an integrated social protection system and creating sound delivery systems with digital payment mechanisms to ensure efficient and safe service delivery.

²⁵ See *Sri Lanka State of the Economy 2020* (Chapter 9), Colombo: Institute of Policy Studies of Sri Lanka for a detailed discussion on an integrated social protection system and digitisation of payments.

10. Female Employment: Ensuring Gender Equality Beyond the Pandemic

10.1 Introduction

The impacts of crises are never gender neutral, and the COVID-19 pandemic is no exception. Past experiences from previous crises affirm that men and women and boys and girls are affected differently and, in most contexts, women and girls are often disproportionately impacted. Across every sphere – from health to economic concerns, safety to social protection – the impacts of COVID-19 are aggravated for women and girls simply because of their sex.¹ Women's high vulnerability towards a public health crisis can be due to biological factors, but most importantly it is connected to their relatively disadvantaged situation in society, distinct social obligations and responsibilities linked to their gender roles and norms.

Additionally, women and girls face disproportionate impacts due to strained resources and limited institutional capacity that usually arise and intensify in times of crises. The COVID-19

pandemic emphasises society's reliance on women both on the frontline and at home, while simultaneously exposing structural inequalities faced by women across every sphere of their lives.² The data and evidence from different countries and regions across the globe indicate that the negative consequences of the pandemic on gender equality are grave; the effects have already derailed progress made thus far towards achieving gender equality.

A number of studies highlight the disturbing macro-level impact of COVID-19 on women. Women are more likely to work in harder-hit and higher risk sectors such as health care, social and domestic work.³ Women (and girls) have borne the brunt of school closures in terms of increased unpaid work and reduced levels of education. Gender-based violence is increasing exponentially. By 2021, an additional 47 million women are expected to be living on less than

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>

² UN Women. (2021). *How COVID 19 Impacts Women and Girls*. Retrieved May 18, 2021, from UN Women: https://interactive.unwomen.org/multimedia/explainer/covid19/en/index.html?gclid=EAlaIqObChMI2fvX67Wd8AIVhV1gCh37hw1TEAAYASAAEgLi1fD_BwE

³ International Labour Organization. (2020). *ILO Monitor: COVID-19 and the World of Work (Fifth edition), Updated Estimates and Analysis*. Geneva: International Labour Organization.

Women's high vulnerability towards a public health crisis can be due to biological factors, but most importantly it is connected to their relatively disadvantaged situation in society, distinct social obligations and responsibilities linked to their gender roles and norms.

USD 1.90 a day as a result of the adverse economic effects triggered by the ongoing COVID-19 pandemic.⁴ The erosion of female empowerment and poverty reduction due to the pandemic is challenging and weakening not only the progress made towards implementing the Sustainable Development Goals (SDGs), but also the development agenda in countries across the world.

However, with all these challenges and barriers, it is important to investigate and address the reasons behind the plight of women, and explore the ways in which these gaps can be filled to ensure gender equality in the post-pandemic context. The experiences from past outbreaks stress the importance of incorporating a gender analysis into preparedness and response efforts, to improve the effectiveness of health interventions and promote gender and health equity goals. Recognising the extent to which disease outbreaks affect women and men differently is important. It is a fundamental step of understanding the primary and secondary effects of a health emergency on different individuals and communities, and for creating effective, equitable policies and interventions.⁵

Past experiences indicate that gender equality can be strengthened even during periods of great adversity. After a combination of hazards under World War I and the Spanish flu, women in the United States (US) gained ground in multiple areas, from greater participation in the labour force and in leadership positions, and greater social, economic, and political freedom and rights.⁶ In China, women's participation in both

⁴ UN Women. (2020). *The Impact of COVID-19 on Women*. Retrieved May 18, 2021, from UN Women: <https://www.unwomen.org/en/digital-library/publications/2020/04/policy-brief-the-impact-of-covid-19-on-women>

⁵ Wenham, C., Smith, J., Morgan, R., & Gender and COVID-19 Working Group (2020). *COVID-19: The Gendered Impacts of the Outbreak*. 395(10227), 846–848. Retrieved May 18, 2021, from Lancet: [https://doi.org/10.1016/S0140-6736\(20\)30526-2](https://doi.org/10.1016/S0140-6736(20)30526-2)

⁶ Blackburn, C., Parker, G., & Wendelbo, M. (2018). *How the Devastating 1918 Flu Pandemic Helped Advance US Women's Rights?* Retrieved May 18, 2021, from The Conversation: https://theconversation.com/how-the-devastating-1918-flu-pandemic-helped-advance-us-womens-rights-91045?xid=PS_smithsonian

The erosion of female empowerment and poverty reduction due to the pandemic is challenging and weakening not only the progress made towards implementing SDGs, but also the development agenda in countries across the world.

the labour force and higher education increased during the Great Leap Forward and the Cultural Revolution.⁷

Public health crisis such as the COVID-19 pandemic has immediate effects as well as long-term effects and these could be due to the health crisis itself (increased mortality and morbidity) as well as due to response measures. Hence, the occurrence of initial health shocks, new or worse exposures, and economic shocks require various coping strategies. This chapter focusses on the economic impact on women, and more specifically on employed women in Sri Lanka. The chapter first explains the background context of the gendered impact of the pandemic. It then discusses the economic impact of the pandemic on employed women. Factors affecting the vulnerability of women's work during the pandemic are examined by way of (1) existing gender gaps in the labour market, (2) whether the sectors actively dominated by women are particularly affected by the pandemic, (3) ability to telecommute, and (4) amount of unpaid care work carried out by women. Lastly, the chapter concludes with policy implications derived from the discussion.

10.2 The Pandemic's Economic Impact on Employed Women

The pandemic is deepening pre-existing inequalities (such as gender and income) while exposing vulnerabilities in social, political and economic systems. These pre-existing

⁷ Li, Yuhui. (2000). Women's Movement and Change of Women's Status in China. *Journal of International Women's Studies*, 1(1), 30-40.

inequalities are in turn amplifying the impacts of the pandemic. Thus, the pandemic is not just a health issue, but a gender issue as well.

Women play a significant role in disease outbreak response efforts. Women contribute as frontline responders, health professionals, community volunteers, transport and logistics managers, scientists and more, to address the outbreak in every country. Moreover, the majority of caregivers at home and in the community are also women. Yet, the negative implications of the pandemic are visible more on women and girls.

Gender equality issues that arise due to the pandemic should be considered as a high priority area and receive immediate attention. The negative repercussions of not taking action in a timely manner are very costly. It is estimated that in a gender-regressive scenario in which no action is taken to counter these effects, global gross domestic product (GDP) growth could be USD 1 trillion lower in 2030 than it would be if women's unemployment simply tracked that of men in each sector.⁸ This estimation has not considered factors such as increased childcare burdens, attitudinal bias, a slower recovery, or reduced public and private spending on services such as education or childcare. If these factors are taken into account, the estimated loss would be much larger. Conversely, taking prompt action now to advance gender equality would add USD 13 trillion to global GDP in 2030 compared with the gender-regressive scenario. Taking action only after the crisis has subsided rather than now, would reduce the potential opportunity by more than USD 5 trillion.

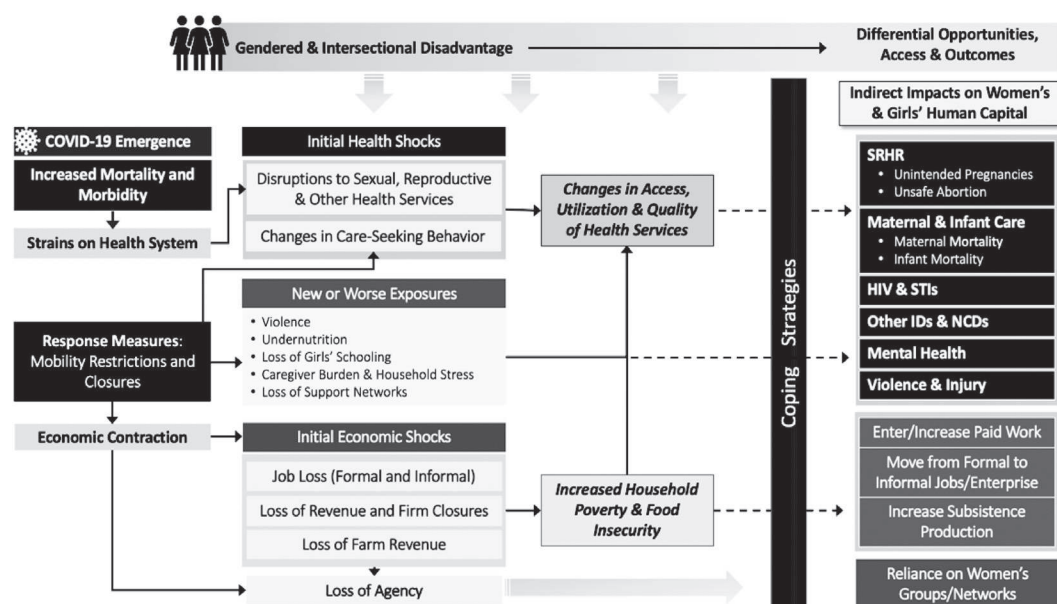
Gender equality issues that arise due to the pandemic should be considered as a high priority area and receive immediate attention.

The impact of a health crisis such as COVID-19 on women and girls can be visible through many dimensions. Figure 10.1 illustrates the ways in which existing gender norms and inequalities, combined with other forms of disadvantage impact due to the pandemic, how women and girls experience the initial shocks and longer-term effects of a health crisis, how various disruptions may affect their behaviour, coping strategies, and access to health services and income generating opportunities.⁹ The impact can be either direct

⁸ Madgavkar, A., White, O., Krishnan, M., Mahajan, D., & Azcue, X. (2020). *COVID-19 and Gender Equality: Countering the Regressive Effects*. Retrieved May 18, 2021, from McKinsey Global Institute: <https://www.mckinsey.com/featured-insights/future-of-work/covid-19-and-gender-equality-countering-the-regressive-effects>

⁹ O'Donnell, Megan., Buvinic, Mayra., Krubiner, Carleigh., & Bourgault, Shelby. (2021). *The Impacts of Health Crises on Women & Girls: How Historical Evidence Can Inform Assessment and Recovery Through a Gender Lens*. CGD Working Paper 574. Retrieved June 18, 2021, from Center for Global Development; <https://www.cgdev.org/publication/impacts-health-crises-women-girls-how-historical-evidence-can-inform-assessment-and>

Figure 10.1
The Impact of Health Crises on Women and Girls: A Conceptual Framework



Source: O'Donnell, Megan., Buvinic, Mayra., Bourgault, Shelby., & Webster, Brian. (2021). *The Gendered Dimensions of Social Protection in the COVID-19 Context*. CGD Working Paper 576. Retrieved May 18, 2021, from Center for Global Development: <https://www.cgdev.org/publication/gendered-dimensions-social-protection-covid-19-context>

or indirect and can be visible in different time lags (i.e. immediate effects, medium and long run effects). Even though the gendered impact of the current health crisis is evident from different dimensions such as access to economic opportunities, endowments or human capital, and voice and agency, the discussion of this chapter focusses on the economic impact.

The economic impact of the pandemic is mostly channelled through the labour market. Women participate in labour market activities in many ways – as employees, employers, own account worker, or contributing family worker. Globally, 53.2% of employed women fell into the wage

and salaried workers category in 2019 while 1.4%, 27.5%, and 17.9% of them were from employer, own account worker and contributing family worker categories, respectively.¹⁰ They are employed in formal as well as informal sectors; out of 2 billion workers in informal employment worldwide, more than 740 million are women.¹¹

The estimated global employment loss attributable to the pandemic for 2020 is 144 million.¹² In terms of absolute numbers, the loss is larger for men (80 million) than for women (64 million). This difference is mainly due to the long-standing gender gap in labour force participation rates. However, in relative terms, the employment loss

¹⁰ International Labour Office. (2020). *World Employment and Social Outlook: Trends 2020*. Geneva: International Labour Office.

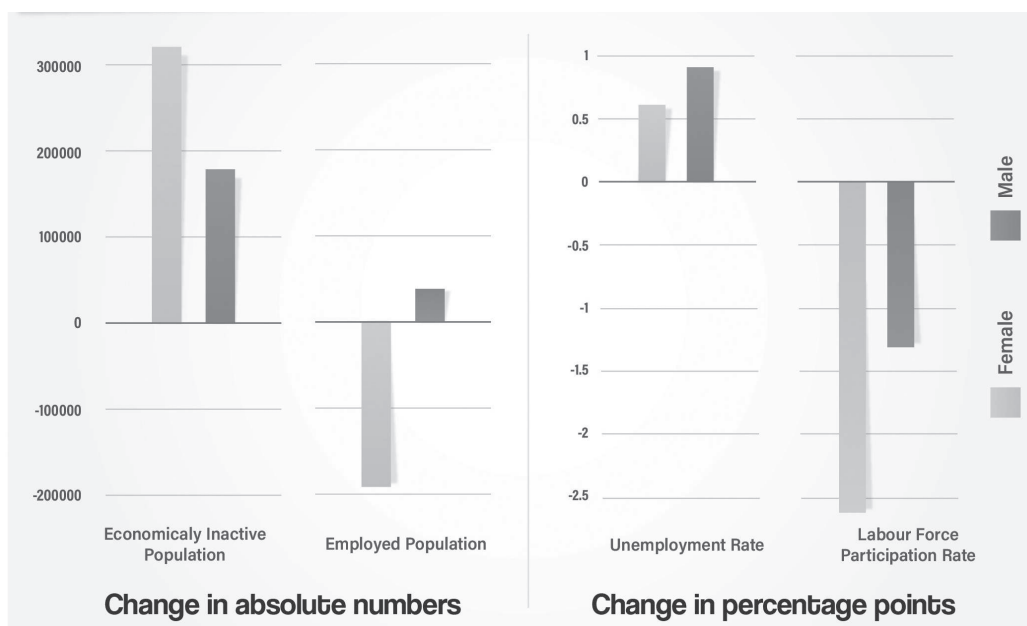
¹¹ International Labour Organization. (2018). *Women and Men in the Informal Economy: A Statistical Picture (Third edition)*. Geneva: International Labour Office.

¹² International Labour Organization. (2021). *ILO Monitor: COVID-19 and the World of Work. Seventh Edition Updated Estimates and Analysis*. Geneva: International Labour Office.

is much greater for women than for men where the employment loss for women stands at 5% in 2020, versus 3.9% for men at the global level. Across all regions, women have been more likely to become economically inactive than men – implying that more women are dropping out of the labour force during this crisis. Moreover, women's jobs are 1.8 times more vulnerable to this crisis than men's jobs.¹³ Even though women make up only 39% of global employment, they account for 54% of overall job losses. This means that women's employment is dropping faster than average, even accounting for the fact that women and men work in different sectors. According to some estimates, compared to men, women are 24% more likely to permanently lose their jobs due to the pandemic and expect their labour income to fall by 50% more than men do.¹⁴ Because of these concerns, as coping mechanisms, women tend to reduce their current consumption and increase savings.

10.2.1 COVID-19 Pandemic and Employed Women in Sri Lanka

Recent labour market data and indicators reported from Sri Lanka also reflect similar trends reported from the global labour market; the situation indicates an overall reduction in the number of employed population with a severe impact for women (Table 10.1). A comparison of the employed population figures of the Sri Lankan labour force in the fourth quarter of 2019 and 2020 conveys that the loss of employment has mostly affected women. In other words, the absolute number of employed men had increased from 2019(Q4) to 2020(Q4) by 38,938 but the number of employed females had decreased by 189,148 indicating the severity of the pandemic's effect on employed women.



¹³ Madgavkar, A., White, O., Krishnan, M., Mahajan, D., & Azcue, X. (2020). *COVID-19 and Gender Equality: Countering the Regressive Effects*. Retrieved May 18, 2021, from McKinsey Global Institute: <https://www.mckinsey.com/featured-insights/future-of-work/covid-19-and-gender-equality-countering-the-regressive-effects>

¹⁴ Dang, Hai-Anh H., & Nguyen, Cuong Viet. (2021). *Gender Inequality during the COVID-19 Pandemic: Income, Expenditure, Savings, and Job Loss*. Retrieved May 18, 2021, from World Development: <https://doi.org/10.1016/j.worlddev.2020.105296>

Table 10.1
Labour Market Indicators 2019 (Q4) and 2020 (Q4)

Indicator	2019 Q4	2020 Q4	Change 2019 Q4 to 2020 Q4
Employed Population			
Total	8,181,442	8,031,233	(150,209.00)
Male	5,353,552	5,392,490	38,938.00
Female	2,827,890	2,638,742	(189,148.00)
Economically Inactive Population			
Total	7,942,199	8,439,620	497,421
Male	2,127,648	2,305,905	178,257
Female	5,814,551	6,133,715	319,164
Labour force participation rate	%	%	Change percentage points
Total	51.9	50.1	-1.8
Male	72.2	70.9	-1.3
Female	34.3	31.7	-2.6
Unemployment rate			
Total	4.5	5.2	0.7
Male	3.2	4.1	0.9
Female	6.9	7.5	0.6

Source: Department of Census and Statistics. (2020). *Quarterly Report of the Sri Lanka Labour Force Survey Quarterly Report 2020, Fourth Quarter*. Battaramulla: Department of Census and Statistics of Sri Lanka.

Moreover, the number of economically inactive persons has increased, with females contributing to 64% of the increase in economically inactive persons. Labour force participation rates for both the sexes have decreased sizeably, but the fall is more prominent for women. In Sri Lanka, the female unemployment rate historically surpasses the rate for men. As a similar trend continues, the unemployment rate has increased for both sexes during the concerned time period, where the increase for men is marginally higher than for females. This is because more women have left the labour market – i.e. lower participation both due to their own choice and compulsions such as shut down of factories, etc.

10.3 Vulnerability of Women's Work during COVID-19

The vulnerability of women's work during COVID-19 mainly depends on four factors;¹⁵ (1) the existing gender gaps in the labour market, (2) whether the sectors actively dominated by women are particularly affected by the pandemic, (3) nature of work and the type of occupation – whether an occupation is considered critical and thus not affected by stay-at-home restrictions and whether the nature of work in the occupation allows for telecommuting, (4) the amount of

¹⁵ Profeta, Paola. (2020, December). *Gender Equality and Public Policy during COVID-19*, 66(4), 365–375. Retrieved May 18, 2021, from CESifo Economic Studies: <https://doi.org/10.1093/cesifo/ifa018>

Factors Affecting the Vulnerability of Women's Work During COVID-19



Existing gender gaps in the labour market



Employment share in high-risk industries

Ability to telecommute



Amount of unpaid care work



unpaid care work carried out by women. These vulnerability factors can be discussed in relation to the Sri Lankan labour market, illustrating global examples where applicable to see the extent of job vulnerability faced by the employed women in Sri Lanka.

10.3.1 Existing Gender Gaps in Sri Lanka's Labour Market

Like in most other countries, women's labour market involvement in Sri Lanka is weaker than men's (Figure 10.2). In 2019, the labour force participation rate (age 15 and above) for women was 34.5% whereas the rate for men was almost twofold higher at 73%. There is a notable difference in the unemployment rates between the two sexes; 3.3% and 7.4% for men and women, respectively. In addition, women's

income is lower than men's where both female monthly earners and daily earners earn less than their male counterparts.¹⁶

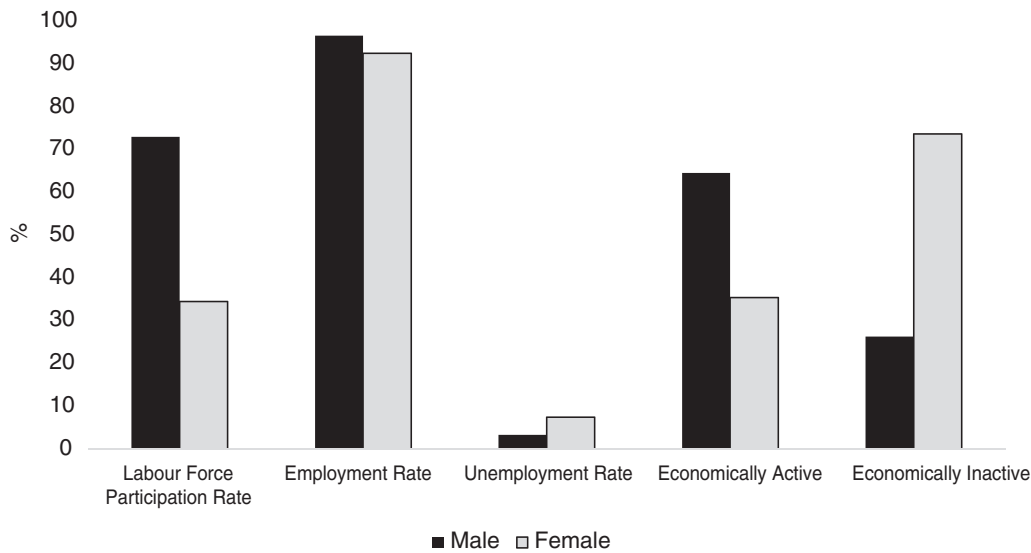
10.3.2 Employed Sector and Vulnerability: The Sector Matters

The greater impact on employed women due to the pandemic is linked directly with the sectors they are employed in. It is estimated that globally, 4.5% of women's employment is at risk in the pandemic compared with 3.8% of men's employment, just because of the industries that men and women participate in.¹⁷ The reason for this disproportionate effect is that women have more than the average share of employment in three of the four most-affected sectors due to COVID-19. Those three sectors

¹⁶ Department of Census and Statistics. (2020). *Sri Lanka Labour Force Survey Annual Report 2019*. Battaramulla: Department of Census and Statistics.

¹⁷ Madgavkar, A., White, O., Krishnan, M., Mahajan, D., & Azcue, X. (2020). *COVID-19 and Gender Equality: Countering the Regressive Effects*. Retrieved May 18, 2021, from McKinsey Global Institute: <https://www.mckinsey.com/featured-insights/future-of-work/covid-19-and-gender-equality-countering-the-regressive-effects>

Figure 10.2
Labour Market Indicators: Male vs Female



Source: Department of Census and Statistics. (2020). *Sri Lanka Labour Force Survey Annual Report 2019*. Battaramulla: Department of Census and Statistics.

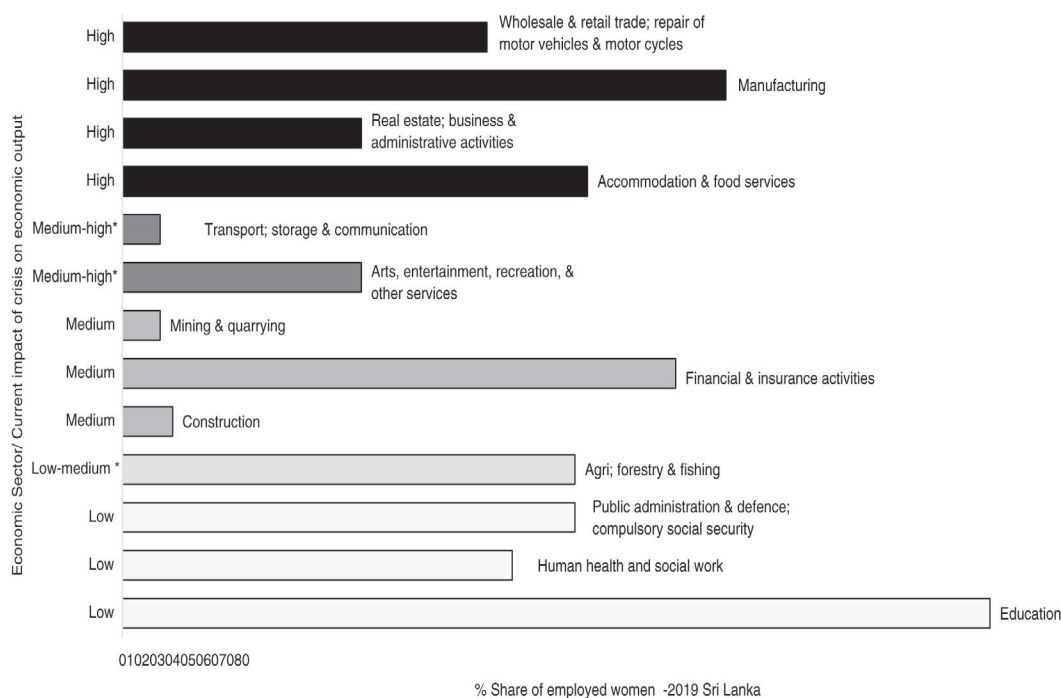
are ‘accommodation and food service sector,’ ‘retail and wholesale’ sector, and ‘other services’ sector which includes the arts, recreation, and public administration. Sectors, such as education and health care, where a majority of employees are women have suffered relatively a low impact.

The International Labour Organization (ILO) has assessed the impact of the crisis on economic output at the sectoral level based on real time economic and financial data. Figure 10.3 depicts the economic sectors according to its impact caused by the crisis on economic output and the share of employed women in Sri Lanka for those corresponding sectors.

Women’s employment share is high in low-risk as well as high-risk economic sectors. Those who are employed in the health sector have lower risks of unemployment as demand for health care workers increases with the pandemic.

The greater impact on employed women due to the pandemic is linked directly with the sectors they are employed in.

Figure 10.3
Women Workers at Risk: Sectoral Perspective



Note: * Denotes sectors that include subsectors that have been affected in different ways.

Sources: International Labour Organization. (2020). *ILO Monitor: COVID-19 and the World of Work*. Second edition Updated Estimates and Analysis and author's calculations based on published data in Department of Census and Statistics. (2020). *Sri Lanka Labour Force Survey Annual Report 2019*. Battaramulla: Department of Census and Statistics of Sri Lanka.

Even though women employed in the health care sector have a lower risk of unemployment, they are at a higher risk of contagion. This means that regardless of economic impacts such as unemployment risk, the health impacts are relatively high for women employed in essential services.

While women employed in the health sector could ensure their job security during the pandemic,

some other sectors dominated by women are negatively affected (e.g. manufacturing, and food and accommodation). While the industrial sector as a whole has been more impacted relative to services and agriculture sectors, large variations can be observed across subsectors.¹⁸ In the industrial subsectors, construction and textile manufacturing, which are sensitive to demand shocks and require workers to be physically present, suffered the largest decline.

¹⁸ World Bank. (2021). *Sri Lanka Development Update 2021 Economic and Poverty Impact of COVID-19*. Washington D.C.: World Bank.

In the services sector, transport, food and accommodation, and personalised services experienced the largest contractions, partly due to extended travel restrictions that forced shut all services associated with international tourism. Among those negatively affected sectors, female employment share is prominent especially in ‘textile manufacturing’, ‘food and accommodation’ and ‘personal services’ sectors.

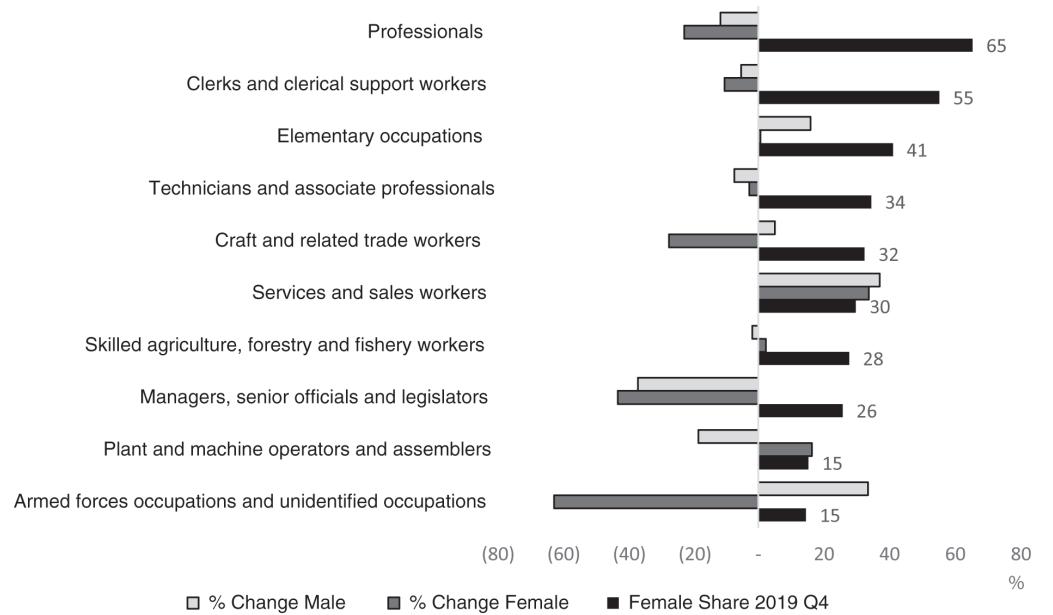
Apart from the sectoral perspective, it is important to identify the pandemic’s impact on different occupation categories. Figure 10.4 illustrates the percentage contribution of females for each occupation category and the percentage change in the number of persons (male and female) employed from 2019(Q4) to 2020(Q4) by occupation category. ‘Professionals’, ‘clerks and clerical support workers’ and ‘elementary occupations’

occupations’ are the top three occupation categories with the highest share of females with 62.4%, 51.9%, and 38.5%, respectively. Except for the elementary occupation category, in the other two top contributing categories, there is a considerable reduction in the number of employed females and this reduction is more prominent for females than for males. However, ‘services and sales workers’ and ‘plant and machine operators and assemblers’ occupation categories reported an increase in employed women.

10.3.3 Nature of Work and Type of Work: Ability to Telecommute

One important factor in determining the magnitude of the pandemic’s impact on the

Figure 10.4
Percentage Change in Employed Persons and Share of Female Employees, by Occupation Category (2019 Q4-2020 Q4)



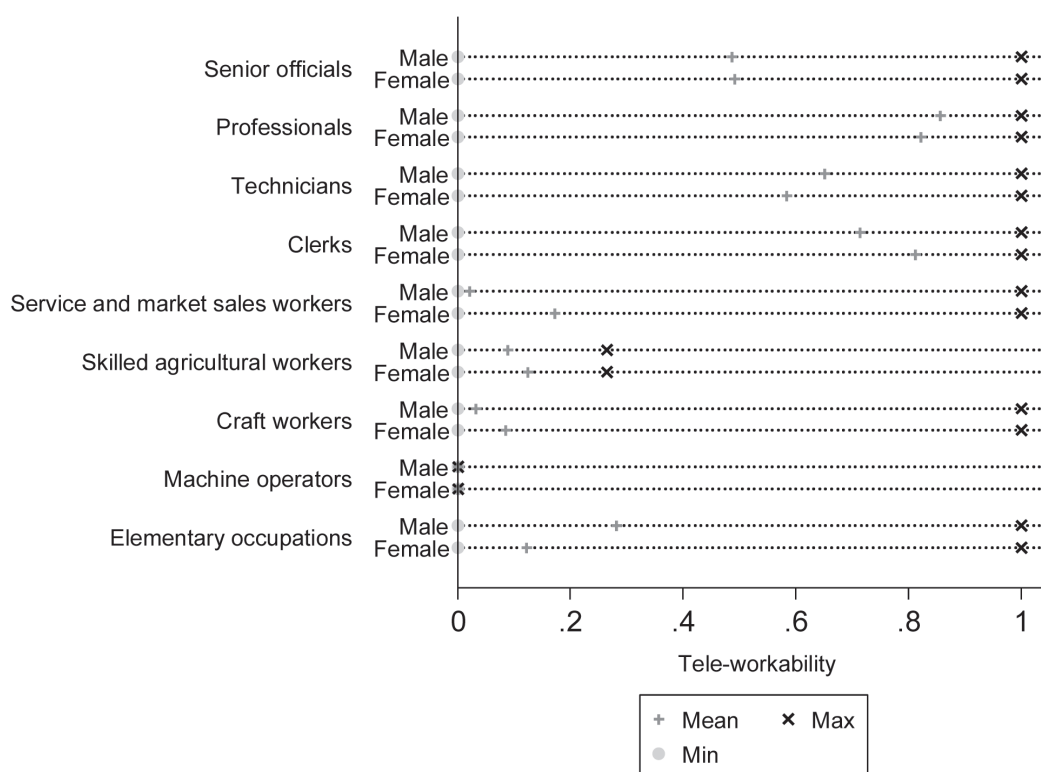
Source: Author’s calculations based on published data in Department of Census and Statistics. (2020). *Quarterly Report of the Sri Lanka Labour Force Survey Quarterly Report 2020, Fourth Quarter*. Battaramulla: Department of Census and Statistics of Sri Lanka.

labour market is whether the nature of work allows for telecommuting or not (e.g. a larger impact on manufacturing vs. higher education and business services).¹⁹ According to the latest available data for Sri Lanka, ‘elementary occupation, skilled agricultural, forestry and fishery workers, craft and related workers,’ and professionals’ are the occupation categories with more than 10% contribution to total female employment in the country. Therefore, it is evident

that these occupation categories – with the exception of ‘professional’ category – do not allow for telecommuting mainly due to their nature of work. This indicates the employment vulnerability faced by most of the employed women due to the pandemic.

Figure 10.5 depicts the plausibility to work from home (WFH) by major occupation categories in Sri Lanka based Labour Force Survey (LFS)

Figure 10.5
Plausibility to Work from Home, by Major Occupation Categories



Note: The plausibility to WFH varies between 0 and 1; 0 indicates occupations that cannot be done from home at all and 1 indicates occupations that can entirely be done from home. A number closer to one indicates an occupation that can mostly be done from home, and a number closer to zero indicate an occupation which can minimally be done at home. Based on Labour Force Data 2018 by the Department of Census and Statistics.

Source: Nisha Arunatilake (2020). Pandemics and the New Normal: Sri Lanka's Labour Market, in *Sri Lanka State of the Economy 2020*. Colombo: Institute of Policy Studies of Sri Lanka.

¹⁹ Alon, T. M., Doepke, M., Olmstead-Rumsey, J., & Tertilt, M. (2020). *The Impact of COVID-19 on Gender Equality NBER Working Paper No. 26947*.

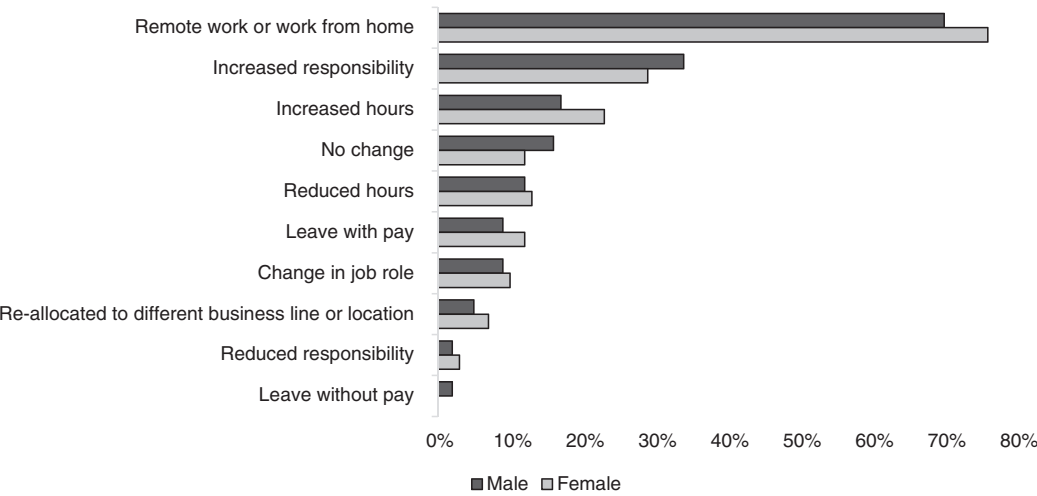
2018 data. Four out of the nine major occupation categories have a high plausibility to WFH and from these four categories, two are female dominated occupation categories ('professionals' and 'clerks'). Other occupation categories with notable shares of females stand a fairly low plausibility to WFH (e.g. elementary occupations, technicians and craft and related workers). The plausibility factor was determined based on the physical and social factors that influence the nature of work (e.g. frequency of using e-mails, frequency of job related outdoor activities, etc.) as well as tasks performed at work (e.g. handling vehicles, controlling machines, working directly with public, etc.).²⁰

10.3.4 Work from Home: Opportunities and Challenges

Employers have adopted various working options and modes because of the restrictions and constraints imposed due to the pandemic. A survey carried out by the International Finance Corporation (IFC) found that among the private sector, WFH is the most common work option adopted by employers (Figure 10.6).

As discussed earlier, the plausibility to WFH for different occupation categories varies significantly among occupation categories, yet the top two female dominated occupation

Figure 10.6
Employee Reported Workplace Adjustments Experienced Due to COVID-19



Source: International Financial Corporation. (2020). *Gendered Impact of COVID-19 on Employment in the Private Sector, Sri Lanka*. Washington D.C.: International Financial Corporation.

²⁰ Arunatilake, A., & Thilanka, C. (2021). *Working Remotely in the Age of COVID: Who is Left Behind?*. Retrieved May 15, 2021, from Talking Economics: <https://www.ips.lk/talkingeconomics/2021/03/08/working-remotely-in-the-age-of-covid-who-is-left-behind>

categories ('professionals' and 'clerks') have a greater plausibility to WFH. WFH is one of the major policy recommendations according to many studies conducted on enhancing female labour force participation in Sri Lanka.²¹ In this context, it is important to investigate the opportunities and challenges in adopting WFH beyond the pandemic.

WFH offers a range of benefits and opportunities to both employees and employers. While employees benefit from zero commuting time and costs, lower stress, less work-family conflicts, more flexibility, more time to care for dependents, and higher job satisfaction, employers can take advantage of reduced overhead costs, increased margins, lower turnover, and a greater pool of talent. Working women, especially working mothers, are better placed to benefit more than men from adopting flexible working options, such as WFH. Such arrangements help boost employment rates among mothers.²² Evidence affirms that countries which have the highest shares of women WFH also record the highest maternal employment rates (e.g. Sweden, Denmark), but no such correlation emerges for men. Additionally, flexible work arrangements such as WFH help sustain the balance of roles within the family, which is an essential step toward gender equality. As such, the beneficial impacts of WFH especially for employed mothers should be recognised and exploited in normal times even beyond the pandemic emergency.

The feasibility of adopting WFH depends on three main factors; (1) the nature of work and the possibility of conducting job-related activities from home, (2) the management capability and that of workers to adapt to WFH and, (3) availability of information and communication technology (ICT) infrastructure and access to the internet for both workers and businesses.²³ It should be noted that in Sri Lanka, most employers and employees had no prior experience in WFH arrangements. Additionally, both the state sector and private sector introduced this not as a family-friendly or gender policy but as a temporary preventive measure in response to the pandemic.

Both employers and employees encountered many issues in adopting WFH, especially as this method was introduced in an impromptu manner. Figure 10.7 summarises the issues faced by the private sector employees. For both men and women, the most pressing issue is connectivity (it includes difficulty in accessing internet, computer or other technology required) and the impact is more on women. This further confirms the gender digital divide – i.e. the relatively disadvantageous position of women in accessing technology products, the technology sector, and digital skills education prevalent in the country.²⁴ Further, more females have reported that they were affected by care responsibilities (direct care such as child and elderly care and indirect care such as cooking and cleaning) under WFH. Similarly, with access to childcare and elderly care support

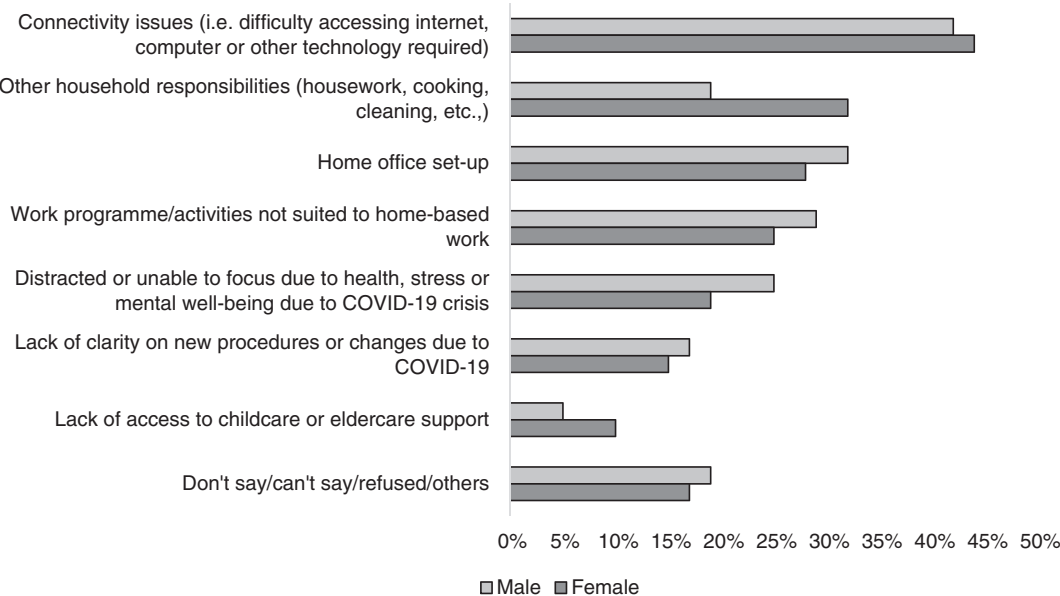
²¹ International Labour Organization. (2016). *Factors Affecting Women's Labour Force Participation in Sri Lanka*. Colombo: International Labour Organization, ILO Country Office for Sri Lanka and the Maldives.

²² Organisation for Economic Co-operation and Development. (2017). *Going Digital: The Future of Work for Women*. Policy Brief on the Future of Work. Paris: OECD Publishing.

²³ Arunatilake, A., & Thilanka, C. (2021). *Working Remotely in the Age of COVID: Who is Left Behind?* Retrieved May 18, 2021, from Talking Economics: <https://www.ips.lk/talkingeconomics/2021/03/08/working-remotely-in-the-age-of-covid-who-is-left-behind/>

²⁴ Madurawala, Sunimalee. (2020). The COVID-19 Pandemic, Women and Women in the Workforce in the *State of the Economy 2020*. Colombo: Institute of Policy Studies of Sri Lanka.

Figure 10.7
Factors Affecting Employee’s Ability to Work Effectively during COVID-19



Source: International Financial Corporation. (2020). *Gendered Impact of COVID-19 on Employment in the Private Sector, Sri Lanka*. Washington D.C.: International Financial Corporation.

adversely affected, the burden of household responsibilities on female employees piled up further. It is clear that the issues mentioned mostly by female employees are directly linked to gender roles and norms ingrained in society (i.e. providing caring and rearing).

Implementing WFH in the public sector was not fully successful according to the latest statistics.²⁵ Issues related to ICT infrastructure, ICT literacy, intensive usage of manual processes and procedures, and less suitability of most public sector jobs to perform in WFH arrangements are the main factors behind this ineffectiveness. It must be noted that even though most employers, including government institutions, were compelled to adopt WFH as an option to continue operations

amidst the COVID-19 outbreak in an ad hoc manner, WFH has potential as a long-term option.

10.3.5 Women and Unpaid Care Work

Unpaid care and domestic work refer to all non-market, unpaid activities carried out in households – including direct care of persons, such as children or elderly, and indirect care, such as cooking, cleaning or fetching water. Traditionally, even globally, unpaid care and domestic work are considered ‘women’s work’. Such care work directly affects women’s ability to participate in the paid economy, leading to gender gaps in employment outcomes, wages and pensions.

²⁵ Central Bank of Sri Lanka. (2020). *Central Bank Annual Report 2020*. Colombo: Central Bank of Sri Lanka.

A Time Use Survey carried out by the Department of Census and Statistics (DCS) in a pre-pandemic context in Sri Lanka found that women's participation in unpaid care work is more than that of men's.²⁶ The survey found that participation rates in unpaid domestic service activities for men and women were 54% and 86.4%, respectively. In addition, the time spent by men and women on unpaid domestic work and employment and related activities differed substantially between the two sexes; women spent 3 hours 12 minutes more than men on unpaid domestic work than men, while men spent 3 hours 36 minutes more on employed related activities than women. This difference in time allocation also implies the negative correlation between unpaid care work and labour market engagement. The pandemic has amplified various care needs resulting from preventive measures such as temporary school closures, job losses, increased care needs of dependents, and unavailability of support services.²⁷ Women, including elderly women, bear the heaviest of this care load.

Other than the occupational channel, whereby women's over-representation in sectors hardest hit by the pandemic preventive measures, the childcare channel, whereby the extra caregiving responsibilities brought about by school and childcare closures, also fell disproportionately on working mothers' shoulders.²⁸ Alternative forms of childcare arrangements and options are available and used during normal times. But these

options become limited or unavailable during the pandemic because of the preventive measures (e.g. closure of day care centres, difficulties in getting informal care provided by grandparents or relatives).

During the pandemic, the increase in bearing childcare responsibilities depends on three main factors; the current work arrangements within married couples (both members of the couple working versus just one member working), the division of the increased childcare needs, and the ability to telecommute and whether one or both members of the couple work in essential service sectors. The division of the increased burden of childcare between women and men will depend not just on labour force status, but also on the existing division of labour. Compared to fathers, mothers' involvement tends to be not only on overall time commitment but more on multitasking.²⁹ These gender differences in the quantity and nature of care apply even when women work full-time. In the absence of flexible work arrangements during a public health crisis such as COVID-19, it is likely that one spouse will temporarily have to quit work, which based on the existing division of labour, is much more likely to be the wife.³⁰

Factors such as pre-existing gender sensitive laws and family-friendly policies, women's temporary employment and related protection, and public childcare support prior to the pandemic

²⁶ Department of Census and Statistics. (2020). *Sri Lanka Time Use Survey – Final Report - 2017*. Battaramulla: Department of Census and Statistics.

²⁷ United Nations Sri Lanka. (2021). *Families Work As A Team: COVID-19 and Unpaid Care Work in Sri Lanka*. Retrieved May 30, 2021, from United Nations Sri Lanka: <https://lk.one.un.org/news/families-work-as-a-team-covid-19-and-unpaid-care-work-in-sri-lanka/>

²⁸ Alon, T. M., Doepke, M., Olmstead-Rumsey, J., & Tertilt, M. (2020). *The Impact of COVID-19 on Gender Equality NBER Working Paper No. 26947*.

²⁹ Craig, L. (2006). Does Father Care Mean Fathers Share?: A Comparison of How Mothers and Fathers in Intact Families Spend Time with Children. *Gender & Society*, 20(2), 259–281.

³⁰ Alon, T. M., Doepke, M., Olmstead-Rumsey, J., & Tertilt, M. (2020). *The Impact of COVID-19 on Gender Equality NBER Working Paper No. 26947*.

are found to be important potential contributors to changes in the gender gap in labour force participation.³¹

10.4 Conclusion and Policy Implications

Emerging evidence clearly indicates that women are more likely to be severely affected by changes in the labour market due to the pandemic than men. Transitions to unemployment, reductions in working hours and transitions to WFH have also been more frequent for women than for men. Once out of work, women take significant time to reintegrate into the labour force. In this context, it is important that governments take necessary policy measures in a timely manner to ensure job retention of women during the crisis. This is even more relevant for a country like Sri Lanka where the female labour force participation is already at a lower level.

The faster that policymakers act to push for greater gender equality even as the COVID-19 crisis continues, the bigger the benefits – not just for gender equality but also for economic growth. However, according to the United Nations Development Programme (UNDP) analysis of government action to tackle the COVID-19 crisis, only 42% of enacted policy measures by the governments across the globe can be considered as gender sensitive.³² Moreover, most of them are targeted on violence against women and

Taking immediate and specific policy measures is important to mitigate the adverse impact on working women due to the pandemic and to ensure gender equality beyond the pandemic.

³¹ Djankov, S., Goldberg, P., Hyland, M., & Zhang, E. (2021). *The Evolving Gender Gap in Labour Force Participation during COVID-19*. Washington D.C.: Peterson Institute for International Economics.

³² Gender-sensitive measures are defined as those that directly address gendered risks and challenges caused by the COVID-19 crisis. These risks include: (i) violence against women and girls, (ii) women's economic security, and (iii) unpaid care work. Measures to tackle violence against women are gender-sensitive by default. Gender-sensitive measures that support women's economic security include: (a) social protection measures that target women or prioritise them as the main recipients of benefits; (b) labour market measures aimed at improving women's access to paid work and trainings; and (c) fiscal and economic measures that channel support to female-dominated sectors of the economy. Gender-sensitive measures that address unpaid care include: (a) social protection measures that support women and men with care responsibilities or improve services for populations with care needs; and (b) labour market measures that help female and male workers with care responsibilities to cope with the rising demand for unpaid care.

Gender-sensitive Policy Responses to COVID-19 in Sri Lanka



Source: United Nations Development Programme (2021), *COVID-19 Global Gender Response Tracker*, Retrieved June 2021 from UNDP: <https://data.undp.org/gendertracker/>

girls.³³ Out of a total 3,112 measures taken by 219 countries and territories, only 287 measures were targetted at women's economic security (as at February 2021). Sri Lanka has taken 11 policy measures in response to COVID-19, of which only seven can be considered as gender sensitive (out of these seven, six are focussed on violence against women and one measure is focussed on social protection – i.e. none on women's economic security). This clearly indicates that both at the global level and local level, there is a dearth of gender sensitive policy measures focussed on ensuring women's economic security. Taking immediate and specific policy measures is important to mitigate the adverse impact on working women due to the pandemic and to ensure gender equality beyond the pandemic.

Introduce policies that reduce employment segregation of women: Given the nature of the pandemic, it is inevitable that some sectors become more vulnerable than the others. One of the main contributing factors for working women's greater vulnerability towards the pandemic is their overrepresentation or segregation in such sectors – e.g. leisure, travel, hospitality, and retail sales (other than supermarkets and pharmacies). Although the overrepresentation of women in the health sector could be seen positively in relation to job security, such women face high health risks. Women's overrepresentation in certain sectors is linked to the stereotypical gender roles they play in society. In the long term, it is important to introduce policies that reduce employment segregation of women by targeting

³³ United Nations Development Programme. (2021). *COVID-19 Global Gender Response Tracker*. Retrieved June 18, 2021, from United Nations Development Programme: <https://data.undp.org/gendertracker/>

supply-side factors (gender gaps in skills, capital, domestic and care responsibilities, safety and mobility, and role models and networks) as well as demand-side factors (recruitment, selection, hiring process, evaluation and promotion, and features of the workplace culture) contributing to employment and sectoral segregation.

Introduce interventions to address issues around child care:

Care work imposed a heavy burden on working women from the onset of the crisis, compelling many to completely withdraw from being involved in productive activities. Among these care activities, childcare is the most prominent to affect the economic participation of working women. Even in the pre-pandemic era, childcare has been identified as a crucial factor that determines labour force participation by females. Given that only a limited number of employed women has access to formal childcare, introducing interventions to address the issues around child care would benefit the economy in the long term, even after the pandemic.

Interventions to tackle this problem need to focus on three interconnected dimensions; recognition, reduction, and redistribution.³⁴ These include better recognition of unpaid work by valuing unpaid care work and integrating it into the system of national accounts, reducing the burden of unpaid work on women by expanding access to key infrastructure for care and investing in labour saving technology, and redistributing it between men and women (within households) and between households and state and other institutions. Sri Lanka is facing a growing need of childcare with gaps in existing childcare facilities.³⁵ Some potential interventions to address these issues are:

- establishing a professionalised childcare industry (this would enable many women to work and create employment for many others),
- identifying any gaps in supply and encourage the private sector to invest more in childcare facilities and promote innovative public and private partnerships,
- recognising the importance of the formal childcare workers and taking steps to attract more qualified people and to retain them in the industry (e.g. raise childcare workers' wages and introducing professional exams and assessments)
- increasing access to basic infrastructure, which in the long run can reduce the time women spend on unpaid work (e.g. access to safe water and electricity)
- introducing family-friendly policies (such as flexible and part-time working arrangements like WFH and paid parental leave) to support workers experiencing an increased childcare burden during the pandemic and beyond.

Intervening through family-friendly policies:

Interventions through family-friendly policies aim to help employees manage their family responsibilities, create flexible-work conditions and enable them to perform better on both domestic and work fronts. Family-friendly policies contribute not only to increase women's participation in the labour market but also to change traditional expectations regarding the division of responsibilities and roles between men and women within the household.

³⁴ Elson, D. (2017). Recognize, Reduce, and Redistribute Unpaid Care Work: How to Close the Gender Gap. *New Labour Forum*, 26(2), 52–61.

³⁵ Warnasuriya, R. (2020). *The Growing Need for Childcare Support in Sri Lanka*. Retrieved May 18, 2021, from World Bank Blogs: <https://blogs.worldbank.org/endpovertyinsouthasia/growing-need-childcare-support-sri-lanka>

However, when introducing WFH as a long term family-friendly policy measure, it should be also noted that there is a risk of WFH becoming a female-dominated option, with men going back to work at the usual workplace and women continuing with the WFH in the post-pandemic context.³⁶ In such a situation, the apparent advantage will backfire against women as WFH will become a marginalised scheme of work, with lower career opportunities, while at the same time, the advantage of equal sharing given by the presence of men at home will shrink and disappear. Hence, assuring both men and women will continue to use WFH equally and symmetrically is important in order to ensure the intended gender equality is achieved through adopting WFH in the long run. For example, by introducing Telework Law in Argentina, telework became regulated by law, including a clear gender perspective. Among other aspects, teleworkers who prove that they are responsible for persons under the age of 13, pregnant workers, disabled or older adults who require specific attention will

have the right to schedules that are compatible with their care responsibilities, as well as to have interruptions in their work days.³⁷

Investing in ICT and closing the gender digital divide: The COVID-19 pandemic has exposed the need to prioritise investments in ICT. The pandemic is accelerating work options such as WFH and independent-work platforms. It could be observed that women have a greater possibility of benefitting from these emerging trends. Nevertheless, poor ICT infrastructure and gender gaps in digital access may keep work opportunities away from many women. Gender specific interventions such as collecting and publishing gender data in the technology sector, adopting ‘meaningful connectivity’ as the target for internet use, promoting digital skills and ICT education for women and girls, supporting women’s participation in technology development, and safeguarding the online privacy of women are some key steps in closing the gender digital divide.³⁸

³⁶ Profeta, Paola. (2020, December). *Gender Equality and Public Policy during COVID-19*, 66(4), 365–375. Retrieved May 18, 2021, from CESifo Economic Studies: <https://doi.org/10.1093/cesifo/ifa018>.

³⁷ United Nations Development Programme. (2021). *COVID-19 Global Gender Response Tracker*. Retrieved June 18, 2021, from United Nations Development Programme: <https://data.undp.org/gendertracker/>

³⁸ Meaningful connectivity is using the internet every day using an appropriate device with sufficient data and a fast connection.

11. Education Delivery in the New Normal: Challenges and Policy Options

11.1 Introduction

Close to 1.6 billion students from over 180 countries were kept out of schools for extended periods in 2020, in response to the COVID-19 pandemic.¹ Despite commendable efforts by many countries to put in place alternative remote learning strategies and remedial measures, learning losses have been unavoidable and substantial. The UNESCO Institute for Statistics (UIS) estimates that by early November 2020, the world student population had lost between 41% and 68% of in-person schooling they would have received under usual circumstances.² School closures and the resulting disruptions to learning are projected to amount to losses equivalent to USD 10 trillion in terms of affected children's future earnings.³

In this second year of the pandemic, as many countries move away from emergency responses towards policies aimed for recovery, it is important to review the successes and challenges experienced. Such an analysis is vital

to inform future strategies in building back better and more resilient education systems. Simply reopening schools and resuming education will not be enough; students will need tailored and continuous support to help them adjust to learning in the new normal. Similarly, those at risk of dropping out of education need to be monitored and given support to return back to school. The significant cuts in education budgets experienced worldwide – at a time when additional spending is critical to adapt and recover lost learning – demonstrate the enormity of the challenges facing education systems in the months and years ahead.

Sri Lankan schools which first closed in response to the pandemic on 12 March 2020, are yet to resume operations across the country, despite some brief periods of reopening in selected grades and locations. This chapter examines Sri Lanka's distance learning experience during the period of prolonged school closures,

¹ United Nations Educational, Scientific and Cultural Organization. (2021, March 29). *Education: From Disruption to Recovery*. Retrieved March 25, 2021, from United Nations Educational, Scientific and Cultural Organization: <https://en.unesco.org/covid19/educationresponse#durationschoolclosures>

² UNESCO Institute for Statistics. (2021a). *Pandemic-related Disruptions to Schooling and Impacts on Learning Proficiency Indicators: A Focus on the Early Grades*. Quebec: UNESCO Institute for Statistics.

³ World Bank. (2020, June 18). *Simulating the Potential Impacts of the COVID-19 School Closures on Schooling and Learning Outcomes: A Set of Global Estimates*. Retrieved March 25, 2021, from World Bank: <https://www.worldbank.org/en/topic/education/publication/simulating-potential-impacts-of-covid-19-school-closures-learning-outcomes-a-set-of-global-estimates>

The significant cuts in education budgets experienced worldwide – at a time when additional spending is critical to adapt and recover lost learning – demonstrate the enormity of the challenges facing education systems in the months and years ahead.

with a view of informing the country's future education recovery strategy.⁴ It first reviews global evidence of the impact of school closures on education and learning. The chapter then assesses the effectiveness of education policy responses adopted in Sri Lanka since the onset of the pandemic. Drawing from this analysis, the concluding section offers suggestions in navigating education system challenges presented in a new normal education context, based on international best practice examples.

11.2 Impact of School Closures on Learning Outcomes

Over the course of 2020, at least 31% – or 463 million – of students from pre-primary to upper secondary schools could not be reached due to either a lack of remote learning policies or required devices and assets.⁵ Further, a recent global survey conducted among education officials on national education responses to school closures in 121 countries shows that remote learning methods, even where accessible, are being used by less than half of the student population in low-income countries (LICs); a large share of usage is via online platforms in high-income countries (HICs) and upper middle-income countries (UMICs) (Figure 11.1).

Despite substantial technological capability, research in HICs has documented strong evidence of learning losses and increasing inequality. According to a study projection in the United States (US), students who did not receive remote instruction in the spring would begin fall

⁴ The scope of the chapter is limited to general (school) education, i.e. primary and secondary education.

⁵ United Nations Children's Fund. (2020). *Covid-19: Are Children Able to Continue Learning during School Closures? A Global Analysis of the Potential Reach of Remote Learning Policies Using Data from 100 Countries*. New York: United Nations Children's Fund.

Over the course of 2020, at least 31% – or 463 million – of students from pre-primary to upper secondary schools could not be reached due to either a lack of remote learning policies or required devices and assets.

with approximately 63% to 68% of the learning gains in reading, compared to a typical school year, and with 37% to 50% of the learning gains in mathematics.⁶ A survey among parents of school children in Germany showed that the time children spent on school-related activities per day were halved during the COVID-19 school-closure period, from 7.4 to 3.6 hours.⁷ In Kazakhstan, evidence pointed to a significant reduction in existing knowledge during school closures, which was much higher among students from less-educated homes.⁸

These outcomes are likely to be even more acute in lower-income countries where there is much less technological capability and higher rates of poverty. A study using data from 27 lower-MICs found that in some countries, the estimated loss of learning as a function of school closure durations could be equivalent to over 50% of an average year's learning, while student skills could fall below the level they had reached at the end of the previous grade.⁹ A survey in Pakistan revealed that learning losses for the average student lie between 0.3 and 0.8 years of learning-adjusted schooling, while only 10% of households that were aware of remote learning opportunities made use of it.¹⁰ Similar findings were observed in Bangladesh, where while 86% of students in a sample of 2,000 grade nine students were aware of government provided television-based learning programmes, only half of the students with access chose to use these.¹¹

⁶ Kuhfeld, M., Soland, J., Tarasawa, B., Johnson, A., Ruzek, E., & Liu, J. (2020). Projecting the Potential Impact of COVID-19 School Closures on Academic Achievement. *Educational Researcher*, 49(8), 549-565.

⁷ Hanushek, E., & Woessmann, L. (2020, September). *The Economic Impacts of Learning Losses*. Paris: Organisation of Economic Co-operation and Development.

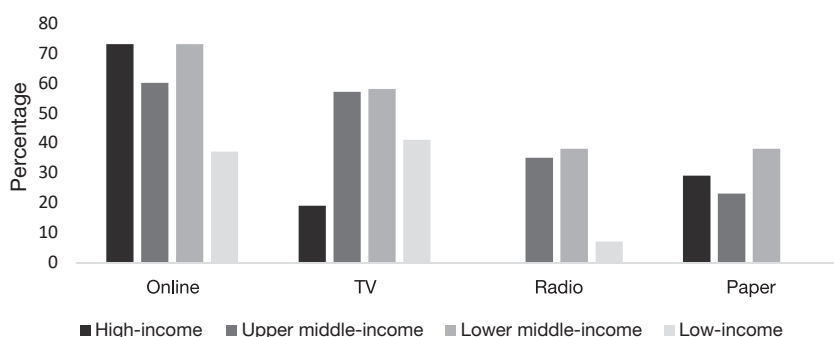
⁸ Donnelly, R., & Patrinos, H. (2020, December 8). *Is the COVID-19 Slide in Education Real?* Washington D.C.: World Bank.

⁹ Cummiskey, C., & Stern, J. (2020, June 1). *Understanding the Impact of COVID-19 in Low- and Middle-Income Countries*. Washington D.C.: RTI International.

¹⁰ Geven, K., & Hasan, A. (2020). *Learning Losses in Pakistan due to COVID-19 School Closures: A Technical Note on Simulation Results*. Washington D.C.: World Bank.

¹¹ Biswas, K. (2020). *TV-based Learning in Bangladesh: Is it Reaching Students?* Washington D.C.: World Bank.

Figure 11.1
Usage of Remote Learning across Country Income Groups and Mode



Source: United Nations Educational, Scientific and Cultural Organization, United Nations Children's Fund, & World Bank. (2020). *UNESCO-UNICEF-World Bank Survey on National Education Responses to COVID-19 School Closures – Key Results (2nd Iteration)*. Quebec: UNESCO Institute for Statistics.

11.3 Sri Lanka's Education Policy Responses during the Pandemic

This section reviews education sector policy responses in Sri Lanka during COVID-19 school closures, in line with measures proposed in the 'Sri Lanka: State of the Economy 2020' report.¹² The analysis is mainly based on information gathered from three sources: (1) a study examining perspectives of 86 teachers across the country and 44 parents in five districts on distance education efforts in Sri Lanka in 2020;¹³ (2) interviews with selected education stakeholders, including government officials, private sector representatives, and school principals; and (3) the global survey of education sector officials.

11.3.1 Distance Education Provision and Effectiveness

Distance education in Sri Lanka was primarily conducted online and via television (TV) broadcasts initiated by the Ministry of Education (MOE) in collaboration with the National Institute of Education (NIE). According to estimates of interviewed teachers, the average share of students reached online was around 45%, with the figure ranging from 8% in small schools with 100 or fewer students, to 59% in schools with a student population exceeding 1,000. The average share of students who reported having watched at least one TV programme is 28%, and shows no relationship to school size. As the data indicate, while the overall share reached by TV is low, it proved to be a better way of reaching students in smaller schools, which are typically

¹² Abayasekara, A. (2020). Building a Crisis-resilient Education System in Sri Lanka. *Sri Lanka State of the Economy 2020 - Pandemics and Disruptions: Reviving Sri Lanka's Economy COVID-19 and Beyond* (pp. 177-193). Colombo: Institute of Policy Studies of Sri Lanka.

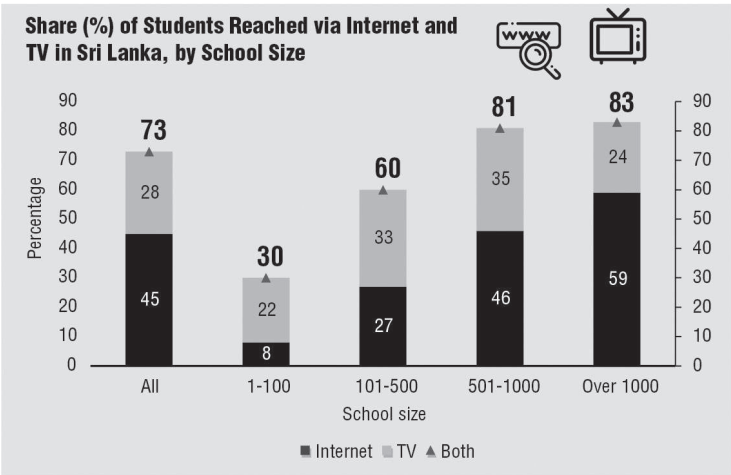
¹³ Gamage, S., & Zaber, M. (2021). Teaching and Learning in Distance Mode during COVID-19 in Sri Lanka and Bangladesh. *National Conference on COVID 19: Impact, Mitigation, Opportunities and Building Resilience*. Colombo: Education Forum Sri Lanka.

less privileged. As a whole, however, only 30% of students in the smallest schools were reached via both modes, compared to over 80% in the largest schools.

While the overall share reached by TV is low, it proved to be a better way of reaching students in smaller schools, which are typically less privileged.

Online education: Internet-based applications used during school closures include WhatsApp, Viber, Zoom, Jitsi, Big Blue Button – a video conferencing facility which was embedded with *E-thaksalawa*, the national online learning management system (LMS) – and other platforms created by the MOE, such as fee-levying commercial platforms (Microsoft Teams, etc.), free commercial platforms, (Blackboard, Google Class, etc.), and open-source platforms (Moodle, Canvas, etc.). Access to fee-charging commercial platforms was made free for all government schools, teachers, and learners, although the ability to use these was limited to those with internet devices and connectivity.

According to estimates of interviewed teachers, only around 4% of students used advanced platforms like Zoom and Microsoft Teams which provided a virtual classroom experience, with the remaining 41% being reached through platforms such as WhatsApp and Viber. While the materials initially consisted of notes that teachers would



Source: Gamage, S., & Zaber, M. (2021). Teaching and Learning in Distance Mode during COVID-19 in Sri Lanka and Bangladesh. *National Conference on COVID 19: Impact, Mitigation, Opportunities and Building Resilience*. Colombo: Education Forum Sri Lanka.

have shared in a regular classroom, as school closures continued, they increasingly shared links to online resources, or videos of master teachers. Teachers from a variety of schools drew attention to problematic issues relating to the *E-thaksalawa* platform, including being user-hostile and complicated to navigate, its instability as a network, and lack of parental support and guidance for student use in rural locations. The main concerns raised by parents include the lack of follow-up on assignments submitted by students, the inability of students to clarify any doubts about a lesson, and poor and costly internet connectivity.

The magnitude of the problems associated with online access has been exposed in recent news articles showing children having to climb rooftops, treetops, or mountains, or having to walk five to six kilometers in distant areas, to engage in their studies. In recognition of such difficulties, the MOE outlined plans to set up regional learning centres in early-July 2021 to facilitate access to online education, resourced with computers, laptops, and tablets.¹⁴ However, according to teacher unions, no guidelines have been issued on how teaching is to be conducted in these centres. They have also expressed concerns over limited attention on ensuring the health and safety of teachers and students, as well as practical problems such as poor signal facilities in some locations and the difficulties for teachers and students to travel to these centres under current circumstances.¹⁵ While the Telecommunication Regulatory Commission (TRC) is working alongside the MOE to install new telecommunication towers in all parts of the country to enable proper internet facilities,

teachers lament the fact that it has taken 16 months for such action to be initiated.

Television: The MOE, in collaboration with the NIE, started broadcasting lessons on TV through government-owned channels soon after school closures, first targeting students sitting for the three national examinations. Broadcasts of *GuruGedara*, a government-mandated TV programme, were also expanded from April 2020, and third-term lessons of grades 3-13 were telecasted from 4am to 12 midnight daily, with the support of the Rupavahini Cooperation, Nethra TV, and Channel-Eye. Revision lessons were telecasted in November 2020 on ART TV and Ada Derana 24, as well as on the Sri Lanka Broadcasting Radio channel for students with no TV access. More recently, in recognition of continuous online access issues students face, a private television channel (Swarnavahini) began telecasting live educational programmes under the supervision of the MOE, the State Ministry of Educational Reforms, and the NIE.¹⁶ Under this initiative, mathematics is taught for children in grades seven to 11 on weekdays, while other subjects are taught daily on the ETV YouTube channel.

Despite the wider reach of TV lessons in remote locations, connectivity issues were still experienced by both students and teachers. Other identified issues hindering effective participation include:

- Pedagogy: lack of links between televised programmes and teachers' lesson plans, the passive teaching style of broadcasted programmes and absence of interaction

¹⁴ Samaraweera, B. (2021, July 4). *Teachers to Boycott Online Education Centres*. Retrieved July 19, 2021, from The Morning: <https://www.themorning.lk/teachers-to-boycott-online-education-centres/>

¹⁵ *Ibid.*

¹⁶ Kannangara, A. (2021, July 17). *Minister Thanks Private TV Channel*. Retrieved July 20, 2021, from Daily News: <http://www.dailynews.lk/2021/07/17/local/254189/minister-thanks-private-tv-channel>

with students, and risks of weaker students being left behind given the lack of follow-up mechanisms.

- Logistics: confusion of timing and duration of different subjects and TV channels and poor communication of information about programmes to schools, students, and parents.
- Parental guidance: disinterest due to poverty, lack of technical know-how, and cultural practices such as engaging children in labour or prioritising entertainment over education.

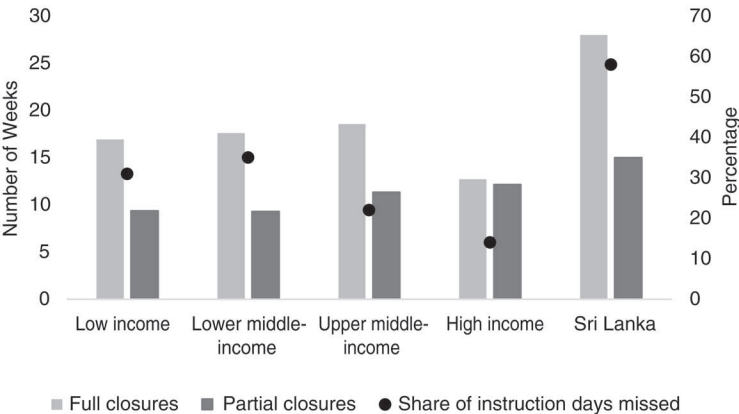
11.3.2 Recovering Learning Losses

As of March 2021, Sri Lankan schools are estimated to have been fully closed for 28 weeks (~140 days) and partially closed for 15

weeks (~75 days). As shown in Figure 11.2 the numbers for Sri Lanka – especially of full closures – and as a result, the share of total school days missed, are significantly higher compared to all country income group averages. Following the first nationwide closure on 12 March 2020, attempts to open schools on a staggered basis began in early July 2020; nevertheless, these attempts were interrupted at various points in time due to parliamentary elections in August 2020, the second wave of the pandemic in October 2020, and rescheduled national examinations. Schools for all grades across the island resumed operations in end-March 2021 – over a year later – but closed again indefinitely in just two weeks as a third wave hit the country.

Over 1.5 years into the pandemic, the MOE is yet to introduce systematic learning loss assessments or curricula adjustments, or a consistent policy on examinations. The approach to date is to postpone national examinations,

Figure 11.2
Duration of School Closures (Weeks) in Sri Lanka and by Country Income Group, March 2020 – March 2021



Sources: United Nations Educational, Scientific and Cultural Organization. (2021, March 29). *Education: From Disruption to Recovery*. Retrieved April 8, 2021, from United Nations Educational, Scientific and Cultural Organization: <https://en.unesco.org/covid19/educationresponse#durationschoolclosures>; United Nations Educational, Scientific and Cultural Organization, United Nations Children's Fund & World Bank. (2020). *UNESCO-UNICEF-World Bank Survey on National Education Responses to COVID-19 School Closures – Key Results (2nd Iteration)*. Quebec: UNESCO Institute for Statistics.

although specific dates are subject to periodic changes, increasing uncertainty and suspense among already burdened students. Some schools have taken initiatives at the school level to assess student learning during school closures in the form of informal assessments such as Google Form assessments, which are limited to schools where students and teachers are connected online. Many government schools have not been able to hold the usual term tests used to assess student learning each school term; students in grades 10 and 11 preparing for the O-Level examination, for example, have had only one term test so far.

11.3.3 Teacher Training and Support

Teacher training programmes in Sri Lanka very rarely include components on distance teaching. Following the pandemic, Zonal Information Communication Technology Education Centres (ZICTECs) established in each Zonal Education Office provided some training to teachers through seminars,¹⁷ where information on using virtual teaching and learning mechanisms were disseminated (e.g. use of open educational resources and sample lesson plans). But, such efforts were minimal and not very effective. Provincial and Zonal Education offices eventually gave teachers some guidance on online lessons this year, but it was a one-size-fits-all-solution that did not work in many rural settings in the context of access issues. Teachers have also not received any financial support from the government to cover the costs of data or to purchase new devices.¹⁸

As perceived by an interviewed school principal, there were two main challenges of distance teaching during the pandemic. One was the required digital competencies, training for which the schools were largely responsible in the absence of any centrally organised programmes, complicated further by the nature of the pandemic which did not allow for in-person training. In fact, teachers and other educational personnel were not officially required to teach during school closures, meaning that teachers would require considerable motivation to engage in a challenging task that was not compulsory. At the school level, some private schools conducted training programmes to familiarise teachers with platforms such as Zoom and Google Classroom. However, in many government schools, teachers continued transmitting notes and assignments over WhatsApp.

The second challenge identified was the changing dynamics in the Sri Lankan context of the classroom and the required change in mindset about ways of teaching. This was especially the case for older or less technically competent teachers whose prominent and powerful role risks being overturned when teaching moves to online platforms where students are often much more competent. At the school level, some better endowed schools were able to enlist the help of educational psychologists and school counsellors to provide socio-emotional support to teachers and students. These include examining the pros and cons of distance learning and educating on how to prevent digital fatigue, and encouraging the sharing of experiences during lockdown periods and coping mechanisms.

¹⁷ ZICTECs, originally known as the Computer Resource Centers programme, was established in 1993 to provide training to school staff in the use of information communication technology (ICT). The courses and curriculum are developed by the NIE, and five teachers in the schools of the zone are selected to serve as instructors, who are also trained by the NIE.

¹⁸ Kumarasinghe, K. (2021, June 24). *The Great Distance Learning Divide: Teachers Wary of Online Education, Warns of Knowledge Gap*. Retrieved July 19, 2021, from The Daily Mirror: <https://www.dailymirror.lk/insight/The-great-distance-learning-divide/374-214707>

11.3.4 Monitoring Progress through Information Systems

Education authorities have requested school teachers to submit weekly reports to monitor syllabus coverage and student attendance, as well as details of students with special needs. However, specific action to be taken for students who do not attend classes or means of contacting them remain unclear, with teachers fearing that many such students will completely drop out of the school system.¹⁹ Some private schools adopted their own methods to keep track of what students have learned, including regular telephone follow-ups by teachers and principals through a LMS developed by the school, and monitoring student progress. Data collected in one school includes daily attendance of students, the amount of work and assignments submitted during school closures, and marks obtained for assessments, as well as information on students and their families who were directly or indirectly affected by the COVID-19 virus.

11.3.5 Leveraging Innovative Capacity

A technology made advantage of during COVID-19 school closures in Sri Lanka's remote settings, is digital TV. Digital TVs now come with universal serial bus (USB) ports to which data storage devices like a flash drive can be attached, allowing for viewing of digital content. This means that a computer or internet connection is not essential for viewing digital content, and

TV lessons need not be accessed during the time of broadcasting. Digital TVs are also much cheaper than smart boards and other e-devices. Examples of applications include the distribution of educational videos broadcast by *Gurugedera* and provided over YouTube by philanthropists and civil society organisations on flash drives to families for use on TV.²⁰

11.3.6 Safeguarding Education Equity

As discussed previously, as in many other countries, Sri Lanka's distance education programmes were not accessible to a large share of disadvantaged students. A majority of initiatives to increase accessibility were taken by the non-state sector, including subsidies, easy payment schemes, and special offers to purchase laptops and similar devices; donations and distribution of laptops and tablets to students and teachers by non-governmental organisations (NGOs) and past pupil associations; and bank-financed education loans and scholarship programmes. At the government level, access to online distance learning platforms and devices were facilitated at subsidised or zero costs, while printed material and study packs were delivered to children's homes in smaller schools at the provincial and zonal levels. To assist students affected by the loss of access to school meals, the government provided take-home rations worth LKR 2,500 to 80,000 primary school children, with assistance from the World Food Programme (WFP).²¹

¹⁹ Kumarasinghe, K. (2021, June 24). *The Great Distance Learning Divide: Teachers Wary of Online Education, Warns of Knowledge Gap*. Retrieved July 19, 2021, from The Daily Mirror: <https://www.dailymirror.lk/insight/The-great-distance-learning-divide/374-214707>

²⁰ Education Forum Sri Lanka. (2020, December 11). *Policy Dialogue #10: Equitable Access to Distance Education*. Retrieved April 21, 2021, from Education Forum: <https://educationforum.lk/2020/12/policy-dialogue-10-equitable-access-to-distance-education/>

²¹ World Food Programme. (2021). *Global Monitoring of School Meals during COVID-19 School Closures*. Retrieved April 19, 2021, from World Food Programme: https://cdn.wfp.org/2020/school-feeding-map/?_ga=2.25218622.289118609.1615890957-1723682477.1615890957

However, there was limited assistance or guidance given to schools in widening access to remote education, placing the responsibility primarily at the school level. The significant delay in government action to provide potential distance learning solutions, many of which were initiated more than a year since schools closed, is also regrettable. Even in the Colombo District, there are some government schools where no teaching has taken place throughout the entire period of school closures. Indeed, a recurring theme emerging from the above analysis is that measures implemented at the central level have often been insufficient either in terms of coverage or effectiveness, necessitating schools to step in and initiate their own remedial measures. Apart from lower access to resources and community networks, centralised decision-making has made it difficult to implement school-level measures in less-privileged public schools, compared to their privileged counterparts, reinforcing existing inequalities in education delivery.

11.4 Rebuilding Sri Lanka's Education System in the New Normal

To develop a more robust and high-quality education system that leaves no one behind and has contingency capacities to better mitigate and manage future crises, Sri Lanka's education policymakers must take urgent action in designing an evidence-based comprehensive strategy for the new normal. This section explores some key areas deserving focus in moving forward in this direction, drawing from international best practices.

There was limited assistance or guidance given to schools in widening access to remote education, placing the responsibility primarily at the school level.

11.4.1 Measures Accompanying Reopening of Schools

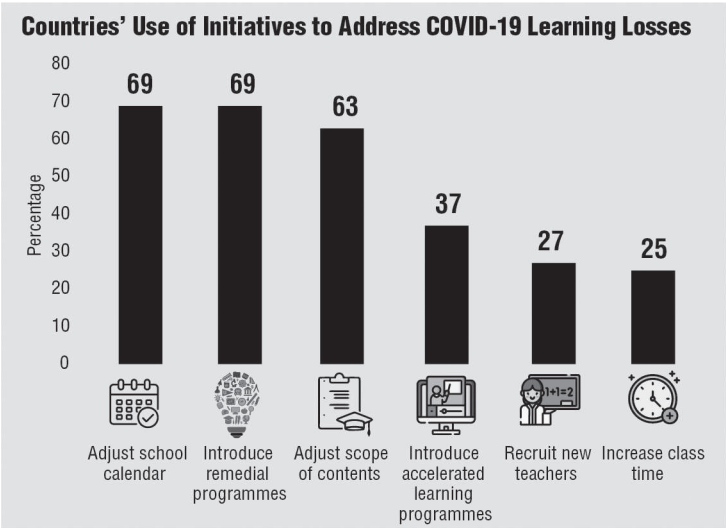
As of March 2021, 51 countries had fully returned to in-person education, while in over 90 countries, students were being instructed through multiple modalities, often including hybrid learning options.²² Given the difficulties

²² Johns Hopkins University; World Bank; United Nations Children's Fund. (2021, March 26). *New Global Tracker to Measure Pandemic's Impact on Education Worldwide*. Retrieved April 20, 2021, from Covid Education Recovery: <https://www.covideducationrecovery.global/stories/2021-03-26-new-global-tracker/>

associated with distance learning in many rural settings in Sri Lanka, there were discussions on the possibilities of opening schools with less than 100 students in July.²³ However, the emergence of another COVID-19 wave has halted such plans. If measures to reopen schools in rural COVID-19 low-risk areas are to be taken in the near future, this should be done by allowing schools to make decisions in discussion with relevant school committees and regional education authorities, as opposed to blanket decisions made at the central level for all schools. Such plans should also involve strategies for more permanent ways of keeping schools open, supported by efficient vaccination administration to all teachers and students above the recommended age, and regular cost-effective testing of both teachers and students.

Education authorities should also introduce solid measures to recover lost learning once schools are in operation. According to responses to a global survey among education officials, the most common measures taken to make up for lost learning include adjustments to the school calendar, remedial programmes, and revising curricula. At the extreme, Kenya has decided to repeat the entire school year, with the intention of placing all students on an equal footing.²⁴ In Tajikistan, all school breaks have been cancelled, while two-week breaks are being halved in Papua New Guinea.²⁵

Among countries adopting remedial programmes, a majority intend to review content covered by distance learning platforms during school closures, while over two-thirds reported increasing



Source: Nugroho, D., Pasquini, C., Reuge, N., & Amaro, D. (2020). *COVID-19: How are Countries Preparing to Mitigate the Learning Loss as Schools Reopen?* Florence: United Nations Children's Fund.

²³ The Times of India. (2021, July 3). *Education Ministry in Sri Lanka plans to Open Schools in July With Less Than 100 Children*. Retrieved July 20, 2021, from <https://timesofindia.indiatimes.com/home/education/news/education-ministry-in-sri-lanka-plans-to-open-schools-in-july-with-less-than-100-children/articleshow/84088492.cms>.

²⁴ Dahir, A. (2020, August 5). *Kenya's Unusual Solution to the School Problem: Cancel the Year and Start Over*. Retrieved April 8, 2021, from The New York Times: <https://www.nytimes.com/2020/08/05/world/africa/Kenya-cancels-school-year-coronavirus.html>

²⁵ Nugroho, D., Pasquini, C., Reuge, N., & Amaro, D. (2020). *COVID-19: How are Countries Preparing to Mitigate the Learning Loss as Schools Reopen?* Florence: United Nations Children's Fund.

investments in remote learning to prepare for future closures.²⁶ Remedial programmes have been particularly focussed on more disadvantaged students. One example is the ‘Teaching at the Right Level’ (TaRL) approach which was already being tested in 70 schools prior to the crisis. TaRL is an evidence-based intervention that has been effective in equipping primary grade students with basic skills, and consists of three steps: (1) individual oral assessment of children’s reading and arithmetic skills; (2) grouping children by ability level, as opposed to age or grade; and (3) devoting a period of the day or term to foundational reading and mathematics using a combination of evidence-based activities.²⁷

In terms of adjusting the school curricula, in Odisha State, India, the Central Board of Secondary Education has reduced the syllabi by 30%, to allow students to focus on a few subjects and learn these well.²⁸ Bangladesh’s education recovery programme includes a condensed syllabus for the next two years, focussing on important subjects such as mathematics, Bengali, English, and science in secondary schools.²⁹

Similarly, Sri Lanka’s NIE should identify essential learning competencies for students and limit curricula to these, and develop benchmark diagnostic tests for teachers to assess student learning. The MOE should also conduct careful evaluations on the timing of and the content to be tested at the highly competitive national

examinations, and establish a new examination policy which is clearly communicated to teachers and students. Some options include limiting the grade five scholarship examination to an intelligence test in line with its objectives of identifying talented students and awarding scholarships, replacing examinations from grades six to nine with diagnostic tests, and limiting the O-Levels to core subjects.

11.4.2 Monitoring School Closure Impacts

In aiming to maintain education continuity and recover lost learning, there is an urgent need for comprehensive information at the school level that can be used to guide decisions on policies, financial assistance, and implementation of educational platforms for delivering education in person and remotely. As part of a strategy for reopening schools, UNESCO, World Bank, and UNICEF have jointly developed a preliminary statistical framework for COVID-19 and a checklist of good practices, which can guide data collection and follow-up on COVID-19 impacts. Table 11.1 lists the suggested indicators to be monitored.

Past experience with school closures also suggests that there is a large risk of some students – especially from more disadvantaged backgrounds – not returning to schools once these are reopened. UNESCO estimates in June 2020 indicated that 23.8 million additional children (from pre-primary to tertiary) may drop

²⁶ Nugroho, D., Pasquini, C., Reuge, N., & Amaro, D. (2020). *COVID-19: How are Countries Preparing to Mitigate the Learning Loss as Schools Reopen?* Florence: United Nations Children’s Fund.

²⁷ Teaching at the Right Level. (2021). Strengthening Foundational Skills to Accelerate Learning. Retrieved April 19, 2021, from Teaching at the Right Level: <https://www.teachingattherightlevel.org/>

²⁸ Kalita, G. (2020, August 07). Odisha To Reduce School Syllabus in view of COVID-19. Retrieved April 19, 2021, from NDTV EDUCATION: <https://www.ndtv.com/education/odisha-reduce-school-syllabus-in-view-of-covid-19>

²⁹ Ahmed, M. (2021, January 24). A Blueprint for School Reopening and Learning Recovery. Retrieved April 8, 2021, from The Daily Star: <https://www.thedailystar.net/opinion/news/blueprint-school-reopening-and-learning-recovery-2032713>

Table 11.1
Proposed Indicators to Monitor COVID-19 Impacts on Education

Domain	Indicators
Access to education	• % of children supported with distance/home-based learning/tutoring programmes. • % of enrolled students who were asked to stay home (measured at national and regional levels). • % of students that benefitted from online learning resources during school closures. • % of children who return to school once the school system is reopened. • The number of radio stations/TV programmes/online platforms broadcasting emergency distance learning programmes.
Protection and well-being of children	• The number of children provided access to programmes and sensitisation campaigns that aim at minimising the negative impacts of school closures such as psychological impacts, gender-based violence, and issues related to unequal social norms. • Students not receiving meals through school meal programmes.
Teachers	• Number of teachers trained in using distance learning methods and/or provided materials to support distance learning. • After school reopening: number of teachers trained to provide remedial and accelerated programmes to mitigate the loss of learning during school closure.
Learning	• % of children whose learning was assessed to evaluate the loss of learning during school closures. • % of children assessed during school closure who meet relevant minimum learning standards. • % of parents/caregivers reached through mechanisms to inform parents and community leaders of distance learning content and teaching methods. • Number of girls, youth groups and community groups reached and supported to strengthen education response efforts.

Source: UNESCO Institute for Statistics. (2021). *Global Framework for Education Statistics Post-COVID-19*. Retrieved April 20, 2021, from UNESCO Institute for Statistics: <http://covid19.uis.unesco.org/global-framework/>

out or not have access to school in 2021 due to the pandemic's economic impact alone.³⁰ It is thus essential that reenrollment and attendance of students be continuously monitored, for which a comprehensive and well-functioning

Education Management Information System (EMIS) – a system for the collection, processing, and dissemination of data to support decision-making, policy-analysis and planning, monitoring and management at all levels of an education

³⁰ United Nations Educational, Scientific and Cultural Organization. (2020, June). *COVID-19 Education Response: How Many Students Are at Risk of Not Returning to School?* Retrieved April 20, 2021, from Advocacy Paper: <https://unesdoc.unesco.org/ark:/48223/pf00000373992>

system – is key.³¹ In Montenegro, a strong EMIS developed in cooperation with the country's Ministry of Education information technology (IT) Department in 2018/2019 has played a critical role in providing support and services during and after school closures.³² Drop-out indicators and thresholds were defined through a participatory process with schools, which included the number and types of absences, and incidences of violence and child marriage.

11.4.3 Improving Pedagogy for Remote and Hybrid Teaching

A key constraint experienced in many countries during distance education delivery is the pedagogical expertise required for remote teaching. The pandemic has demonstrated the need for effective teachers that can facilitate and support learning instead of merely delivering content; that use a hybrid of in-person and digital methods to deliver lessons; and that foster creative thinking, communication, and collaboration, and other central traits such as perseverance and self-control.³³

Effective teaching: 'Teaching presence' has been identified as key for effective remote teaching, where student success depends on having a strong sense of a teacher's virtual presence.³⁴

Effective teaching presence involves delivering well-structured and engaging learning activities and frequent feedback, while at the same time engaging students in their own learning, and encouraging them to take responsibility for their work.³⁵ Promoting teaching presence is particularly challenging when the mode of instruction is centralised TV or radio broadcasts, as opposed to online teaching. The design of these programmes has to ensure that there is continuity in the face or voice of the central teacher. The teacher should also be able to communicate well, taking an interest in each student and identifying opportunities to create a sense of community, such as discussion forums using short message service (SMS) or social media platforms.

As discussed, Sri Lanka's educational TV broadcasts during the pandemic also faced many pedagogical and logistical issues. In view of its potential to reach out to less privileged students, the government approved a special allocation of LKR 3,000 million in its 2021 Budget to provide TV sets to schools in disadvantaged areas;³⁶ however, it is essential to address current issues first before scaling up the programme. Box 11.1 discusses some best practice measures adopted by the Vietnamese government to provide high-quality TV educational programmes to students, which could be useful in improving the TV educational experience in Sri Lanka.

³¹ UNESCO Institute for Statistics & United Nations Children's Fund. (2016, December). *Monitoring Education Participation: Framework for Monitoring Children and Adolescents Who are Out of School or at Risk of Dropping Out*. New York: United Nations Children's Fund.

³² Nugroho, D., Pasquini, C., Reuge, N., & Amaro, D. (2020). *COVID-19: How are Countries Preparing to Mitigate the Learning Loss as Schools Reopen?* Florence: United Nations Children's Fund.

³³ Saavedra, J. (2021, February 02). *Realising the Promise of Effective Teachers for Every Child – A Global Platform for Successful Teachers*. Retrieved April 16, 2021, from World Bank Blogs: <https://blogs.worldbank.org/education/realizing-promise-effective-teachers-every-child-global-platform-successful-teachers>

³⁴ McAleavy, T., & Gorgen, K. (2020). *What Does the Research Suggest is Best Practice in Pedagogy for Remote Teaching?* Reading: Education Development Trust.

³⁵ *Ibid.*

³⁶ Ministry of Finance. (2020, November 17). *Budget Speech 2021*. Colombo: Ministry of Finance.

Box 11.1

Distance Learning through TV Broadcasting in Vietnam

As soon as schools closed across the country, Vietnam's Ministry of Education and Training (MOET) implemented a series of rapid responses in consultation with teachers and local education agencies, including amending the school year plan and simplifying the curriculum framework in light of the shortened timeframe available and in line with guidelines on switching to remote teaching. The time spent on topics that require significant rote learning was reduced, giving more focus to practical subjects and applying knowledge to enhance students' capabilities.

To maximise the effectiveness of educational broadcasts, the MOET issued specific guidelines on organising teaching and learning for TV lessons, emphasising coordination between schools and parents in the areas of class attendance/viewing lessons, testing, and assessment. Communication between the schools and parents was maintained by telephone, online teacher-parent meetings where access was available, and home visits for regular updates of the learning progress of students.

To reach a large audience, school lessons were broadcasted on one national and 27 provincial TV channels, where local education agencies were in charge of developing and producing TV lessons in each locality in line with local conditions. Teachers were involved in evaluating lessons to ensure their quality before these were broadcasted. In areas where planning and filming lessons at the provincial level were not possible, the province's TV station tuned in to an adjacent channel, thereby ensuring that between 70-80% of students in most provinces were able to access educational TV lessons during school closures.

Overcoming implementation challenges, including a limited budget and IT skills, coordinating a wide range of stakeholders, and supporting teachers' and students' competencies and motivation, was largely possible due to the perceptions, attitudes, and commitment levels of all parties involved. Teachers received professional training and support for IT and pedagogical skills, emotional support, and acknowledgement from school leaders and local educational authorities for their responsibility and commitment to address challenges. To motivate teachers and students further, the MOET also commenced a validation process of distance learning assessment results, with the content of course examinations and projects delivered during school closures being taken into account towards the 2019-20 academic year. In addition, the MOET is developing criteria for accrediting the completion of distance learning courses.

Source: Hoang, H., Le, A., & Reimers, F.(2020). *Vietnam: Distance Learning Through TV Broadcasting*. Washington D.C., Paris and Cambridge: World Bank, Organisation of Economic Co-operation and Development, and the Harvard Global Education Innovation Initiative.

Hybrid learning: The periodic interruptions to school reopening attempts brought about by the pandemic highlight the need for a well-developed hybrid system for education delivery. Recent

research based on different country experiences has identified three distinctive features of hybrid learning and different combinations of these features that have worked well in given contexts.³⁷

³⁷ Barron, M., Cobo, C., Munoz-Naja, A., & Ciarrusta, I. (2021, April 27). *What is Hybrid Learning? How Can Countries Get it Right?*. Retrieved April 28, 2021, from World Bank: <https://blogs.worldbank.org/education/what-hybrid-learning-how-can-countries-get-it-right>

The three distinctive features are:

- Time: synchronous (at the same time, also known as ‘real-time’) or asynchronous (sequential, at different times) or a mix of both.
- Space: in-person or remote.
- Interaction: in terms of the direction of the communication (one-way; bi-directional or multi-directional) or type of engagement (extent of participation).

Table 11.2 presents examples of varying hybrid learning combinations adopted successfully in different countries, listed by the level of sophistication. While the feasibility of more advanced systems is largely limited to HMICs, evidence shows that effective hybrid learning can also be offered in poorer countries, by identifying the best combination in line with available resources, skills, and technology. Sri Lanka, for

instance, should aim at developing models akin to numbers 3 and/or 4.

11.4.4 Using Technology Wisely

Since the onset of the pandemic, discussions on improving education systems often revolve around the role of technology. Indeed, technology holds a large potential to both drive student engagement in the immediate term and enhance pedagogy in the longer term. However, in many instances, technology is equated to education, and limited thought goes into conceptualising the desired education outcomes to be achieved, before identifying the technological modalities that best suit a given context and financial capacity. As a result, technology does not always deliver expected results or remains unevaluated. A guidance note developed by the World Bank lays

Table 11.2
Possible Degrees of Hybrid Learning Based on Country Experiences

No	Hybrid learning combination	Country examples
1	Synchronous, hybrid, multi-directional and high participation	Estonia and Uruguay
2	Synchronous and asynchronous, hybrid, bi-directional and limited participation	Cameroon
3	Synchronous and asynchronous, remote, multi-directional and limited participation	Nigeria (Edo)
4	Asynchronous, remote, bi-directional and high participation	Peru, Cambodia, Rwanda
5	Asynchronous, remote, bi-directional and limited participation	Brazil, Sierra Leone, Malawi
5	Asynchronous, remote, one-way and no participation	Kenya, Afghanistan, Nepal, Mozambique, Pakistan

Source: Barron, M., Cobo, C., Munoz-Naja, A., & Ciarrusta, I. (2021, April 27). *What is Hybrid Learning? How Can Countries Get it Right?*. Retrieved April 28, 2021, from World Bank: <https://blogs.worldbank.org/education/what-hybrid-learning-how-can-countries-get-it-right>

In many instances, technology is equated to education, and limited thought goes into conceptualising the desired education outcomes to be achieved.

out four key principles for investing in technology wisely.³⁸ These are summarised below:

Principle 1: While technology alone is not the solution to the learning crisis, it can be the solution to specific micro-problems within the education system.

Before blindly investing in technology, it is important to first focus on a specific problem to be addressed and deliberate if and how technology can help solve the problem. When approached on a problem-by-problem basis, education systems can have realistic expectations of the potential of technology and ensure that these assist teachers and students in teaching and learning.

Principle 2: Investing in technology means also investing in training, support, monitoring, and maintenance, to make it work.

Investing in the hardware or the software of a particular technology alone would be futile unless supported by investments in all the supplementary services required to make the technology work. For instance, education systems often underestimate the level of sensitisation and training required for teachers, principals, and other school staff to embrace new technology and then to use it effectively.

Principle 3: Test the technology to ensure it works, is used and increases learning.

If the infrastructure capacity of schools in the system cannot support and maintain a given technology, it will not deliver expected results. An initiative to use smartphones to monitor teacher attendance in Haiti failed due to repeated delays and challenges associated with the software.³⁹

³⁸ Evans, D. (2021). *Education Technology for Effective Teachers*. Washington D.C.: World Bank, Teachers' Thematic Group.

³⁹ World Bank. (2015, December). *HAITI: Can Smartphones Make Schools Better?* Washington D.C.: World Bank.

Further, teachers or students need to appreciate the worth of technology and be both conversant and comfortable in using it, for the technology to be effective. An intervention that provided computers to classrooms in Colombia failed because even though the computers were delivered, these were largely disregarded by teachers, given that the technology was not integrated with the school curriculum.⁴⁰ Lastly, even if a given technology works and teachers use it, there is no guarantee that it will increase learning. In Kenya, a programme that provided tablets to teachers with teacher guides, audio and visual aids, and assessments, while used by many teachers, had the same impact on student learning compared to teachers who received printed teacher guides, despite being considerably costlier.⁴¹

Principle 4: Political backing is essential for technology to work.

Endorsement of and participation of teacher unions, school principals, and other education officials in a given technology are essential for it to work effectively. Many technocratically informed technology programmes have failed even to get started due to political opposition. Governments have to implement consultation and communication strategies that ensure that all participants – from administrators to teachers – see value in new technological interventions.

11.4.5 Strong Leadership

An ingredient even more crucial than technology to address the current education crisis – and that

requires far more attention – is leadership. It is important to note that leadership does not simply refer to those in positions of authority, but to all individuals, whose actions can support student learning at every level of the system. During the pandemic, student learning has continued with minimal interruptions in systems where stakeholders have exercised the leadership necessary to adapt rapidly to new constraints to learning, irrespective of the level of access to technology. The most successful education systems have seen principals and teachers rapidly transform themselves into innovative leaders, finding creative ways to maintain student engagement and enable learning even in the most difficult of circumstances.

Indeed, as Sri Lanka's experience with distance learning has demonstrated, schools that responded well to the crisis not only had access to better resources, but were guided by, and had the means of exercising, strong leadership at the school level. Even where access to resources is limited, efforts to identify innovative low-cost alternatives can be effective when guided by competent and committed leadership, as seen in the example of providing access to TV broadcast lessons for offline use in remote areas.

Another powerful illustration of the significant impact strong leadership can have on education systems is that of a small school of 350 students and 20 teachers located in a rural area of Sri Lanka's Western Province. Despite limited funding from the government – which at most covers around 35% of the annual school budget – it has been able to develop remarkably over a

⁴⁰ Barrera-Osorio, F., & Linden, L. (2009, February). *The Use and Misuse of Computers in Education: Evidence from a Randomised Experiment in Colombia*. World Bank Policy Research Working Paper 4836.

⁴¹ Piper, B., Simmons, Z., Kwayumba, D., & Strigel, C. (2016). Does Technology Improve Reading Outcomes? Comparing the Effectiveness and Cost-effectiveness of ICT Interventions for Early Grade Reading in Kenya. *International Journal of Development Economics*, 49, 204-214.

During the pandemic, student learning has continued with minimal interruptions in systems where stakeholders have exercised the leadership necessary to adapt rapidly to new constraints to learning, irrespective of the level of access to technology.

three-year period, by raising substantial funds for both extra-curricular activities and capital projects via the School Development Society,⁴² and donations from parents and well-wishers.⁴³

In the absence of well-developed community networks typically accessible to large and popular schools, fund-raising and development of this school have been possible owing to the exceptional leadership of its principal, combined with a strong commitment, communication skills, and ability to delegate and empower all education actors. The school is now equipped with a public address system, playground, CCTV camera system, smart classroom, and PEO TV system, while also boasting a large number of sports and school clubs.⁴⁴

11.5 Conclusion

Similar to country experiences worldwide, Sri Lanka's distance education delivery during COVID-19 school closures has shown many shortcomings in terms of access and quality; high-quality online education has been limited to a selected privileged few, while the more accessible TV broadcasts have suffered from several pedagogical and logistical issues. Further, given the absence of a well-formulated and coordinated response at the central level, the responsibility of monitoring learning and providing support to students and teachers has largely fallen on schools, thereby leaving behind poorly-endowed and poorly-led schools and reinforcing existing education inequities in the country.

⁴² School Development Societies consist of parents and teachers of each school, with the mandate of developing the school to provide education services needed for the particular region.

⁴³ Education Forum Sri Lanka. (2021, February 13). *Policy Dialogue #12: Inequities in Funding Schools*. Retrieved April 16, 2021, from Education Forum Sri Lanka: <https://www.educationforum.lk/2021/02/policy-dialogue-12-inequities-in-funding-schools/>

⁴⁴ *Ibid.*

The chapter offers several policy recommendations in building a more robust and equitable education system that can provide quality and uninterrupted learning in a new normal environment. These include: (1) formulating a comprehensive strategy to recover lost learning when schools reopen, including remedial learning programmes, adjustments to the school calendar and curriculum, and examinations; (2) developing a statistical framework to monitor school closure impacts that can guide data collection and

follow-up on COVID-19 impacts; (3) improving pedagogy for remote and hybrid teaching, equipping teachers with skills needed to facilitate and support learning instead of simply delivering content; (4) prudent investment in technology in line with desired education outcomes and resource capacities; and (5) strong and committed leadership from all education system actors that can successfully adapt to emerging constraints to learning, irrespective of the level of access to technology or finances.

12. Coping with Pandemics: Sri Lanka's Health Care System

12.1 Introduction

The COVID-19 pandemic has critically impacted global health systems and economies both in the developed and developing world. The rapid spread of the virus along with new variants have deepened the magnitude of the pandemic. As the health crisis intensifies, more pressure is exerted on health care systems. The resultant multiple challenges to health care systems worldwide include inadequate capacity to meet the health care needs of an ever-increasing number of patients, supply shortages of hospital facilities and medical supplies, an urgent requirement to adopt innovative technologies, amidst financial constraints as expenses escalate.

The main challenge is the inadequacy of the existing capacity to handle the surge in the number of patients brought about by the fast-spreading nature of the virus. In many health care systems, the need for intensive care unit (ICU) beds, respirators, oxygen as well as staff far exceed the maximum capacity. For example, in India, where COVID-19 cases are rising exponentially, the existing low take up of critical care principles and practice, as well as the

massive socio-economic impact of ineffective medical care are pressing concerns.¹

The pandemic has also forced the health care industry to face extraordinary challenges. The COVID-19 pandemic and measures adopted such as lockdowns, limitations in transport facilities and restricted mobility etc., barred many needy people from accessing health care services on time. This means that access to medicine and laboratory tests, meeting a doctor and obtaining services from respective clinics were delayed and disrupted. Restrictions of this nature severely disrupted the smooth functioning of prevention and treatment services for non-communicable diseases (NCDs) as well as other diseases. While people of all ages were confined to their homes, those with NCDs – identified to be in the high-risk category (with an increased level of health risk) – were more vulnerable to the virus. Due to increased time spent indoors, leading to increased exposure to behavioural risk factors such as physical inactivity, unhealthy diets, excessive consumption of alcohol, stress, inadequate access to essential medicines etc., the prevailing health crisis is further aggravated.

¹ Razvi, S. (2020). *The Delicate Question of Inappropriate Admissions in India's Critical Care Units*. Retrieved March 20, 2021, from Science the Wire: <https://science.thewire.in/health/india-critical-care-units-admission-end-of-life-care/>

Under these circumstances, the pandemic can dampen progress in achieving the Sustainable Development Goals (SDGs) related to health outcomes around the world.²

According to a World Health Organization (WHO) survey conducted in 155 countries, prevention and treatment services for NCDs are found to have been severely disrupted since the outbreak of the pandemic.³ As reported by many countries, cancellations of planned treatments, limited transport facilities and availability of a reduced number of frontline health care workers arising from reassignments to support COVID-19 services, were cited as likely reasons for the disruption of service delivery. In a majority (94%) of countries which participated in the survey, state health care providers attached to NCD services have been reassigned to support COVID-19 health care activities. This situation heightened the complexities of the health crisis, and the burden on health care systems. All these raise significant concerns, because as noted previously, people with NCDs are at a higher risk of contracting COVID-19 and in most cases, succumb to death. In sum, addressing NCDs is crucial for sustaining health indicators and broader efforts to restore and drive progress in achieving the 2030 agenda on SDGs.

The contagious and mutating nature of the virus raised the alarm for health care sector providers to think out-of-the-box. This means that the health care sector players, staff and authorities need to explore new ways, as they navigate to deliver health care services amidst intensifying challenges. These challenges and radical changes have marked the dawn of a new era for

the health care industry, including the transition to hybrid in-person and digital health practice models. With the use of telehealth services, triaging to determine the priority of patients' treatments by the severity of their condition has also been widely practiced by many countries. Thus, with the new challenges in a pandemic era, health care providers are embracing innovative training and mentoring models as an urgent priority. As many countries continue to move towards the transition of health care from pre to post COVID-19, certain novel modes of health services – telehealth technologies, artificial intelligence (AI)-based diagnostics, cloud-based storage of medical records, etc. – can ensure improved safety, efficiency, and effectiveness of health care delivery.

The contagious and mutating nature of the virus raised the alarm for health care sector providers to think out-of-the-box.

² SDG health targets include the reduction by one-third by 2030 in premature mortality from NCDs through prevention and treatment and promotion of mental health and well-being.

³ World Health Organization. (June 2020). *COVID-19 Significantly Impacts Health Services for Non-communicable Diseases*. Retrieved March 20, 2021, from World Health Organization: <https://www.who.int/news/item/01-06-2020-covid-19-significantly-impacts-health-services-for-noncommunicable-diseases>

Rising demands on health care facilities signal the need for resilience in the health care system. Therefore, the time is right to set the bar high where health care providers are geared to withstand similar shocks and disasters in future. In this milieu, it is vital to reorganise health care services to address people's needs with a holistic approach, and effectively leverage resources in response to the pandemic situation. Assessing prevailing gaps, mobilising resources, and strengthening health system financing are priorities. Against this backdrop, this chapter discusses key challenges, specific priorities and key areas to be addressed and rectified to ensure a better health care delivery in response to the pandemic. First, the chapter first briefly discusses international best practices and then examines the pandemic response in the Sri Lankan setting. Thereafter, it goes on to discuss key issues and challenges that emerged due to the pandemic, and finally, puts forward possible policy options to build back better health care delivery, both during COVID-19 and beyond the current pandemic.

12.2 Global Policy Responses to the COVID-19 Pandemic

Countries have responded to the common threat of the novel COVID-19 pandemic by adopting numerous measures to curb the spread of the virus. Resultantly, variations can be noted on the epidemiological curve and the societal and economic costs. For example, based on the COVID performance index,⁴ New Zealand and

Taiwan, are among the top three countries while Singapore, South Korea and Vietnam have also effectively curbed the pandemic.⁵ Their success stories have been associated with effective handling of immediate health challenges in managing the pandemic such as strategic testing, aggressive contact tracing and treatment; effective new normal practices; proper channels of communication, planning and research and development (R&D). These real-life examples help identify the best practices behind the successes, as other countries strive to emulate and adapt them to local contexts, in their efforts to fight the pandemic.

Global success stories in New Zealand, Taiwan, South Korea, and Vietnam reveal that the 3T strategy of testing, tracing and treatment is the most effective. For instance, New Zealand ramped up its diagnostic testing; South Korea relied on active, free and massive screening (including drive-through tests) for symptomatic individuals, case contacts and travellers. Many real-life examples showcase that testing has to be extensive since it is the most powerful tool to defeat the pandemic. Besides, contact tracing has to be rigorous. Vietnam conducted extensive contact tracing, based on their Ministry of Health records on infected, suspected and exposed cases of COVID-19. This was supported by the rapid mobilisation of health professionals, public security personnel, the military, and civil servants. Taiwan's key measures include case identification (using new data and technology), quarantine of suspicious cases, proactive case finding and allocation of resources.⁶

⁴ This is based on six indicators: confirmed cases, confirmed deaths, confirmed cases per million people, confirmed deaths per million people, confirmed cases as a proportion of tests and tests per thousand people.

⁵ Lowy Institute. (2021). *Covid Performance Index*. Retrieved May 20, 2021, from Lowy Institute: <https://interactives.lowyinstitute.org/features/covid-performance/>

⁶ HealthManagement.org. (2021). *Where Are the Most Effective Anti-COVID-19 Strategies?*. Retrieved May 20, 2021, from HealthManagement.org: <https://healthmanagement.org/c/hospital/news/where-are-the-most-effective-anti-covid-19-strategies>

Global success stories in New Zealand, Taiwan, South Korea, and Vietnam reveal that the 3T strategy of testing, tracing and treatment is the most effective.

On the other hand, effective data analytics, proper channels of communication, strategic oriented planning, coordination among decision making bodies and authorities, integrity and transparency help countries to keep the virus at bay. In other words, although the virus is yet to be eradicated, these novel methods and overall coordination controlled the spread. Much weight can be assigned to reporting of data, standardisation and real-time information so that meaningful insights can be drawn swiftly to help guide strategies. As a real-life example, South Korea practised the disclosure of real-time information on COVID-19 by the government via dedicated websites, mass media, phone messages and mobile apps. Singapore dovetailed its technological capabilities

with people's adherence to rules and discipline. Accordingly, Singapore developed a rapid COVID-19 response through a dedicated national WhatsApp channel and Gowhere website to educate and update citizens, on where to collect masks as well as about special subsidies, etc. Another advantage is the comprehensive management of information systems, especially in Singapore, where regular meetings are held between regional health system managers, hospital leaders, and the Ministry of Health and information disseminated via mainstream media, online messages and websites.

Many East Asian nations practiced a culture of discipline and adherence to health instructions such as mask-wearing, using sanitiser and avoiding public gatherings, which empowered governments to tackle the pandemic effectively. It is worth noting that the demeanour in many East Asian countries has largely been in contrast to Europe's anti-mask and anti-lockdown rallies. Singapore, with its low number of COVID-19 cases, is a prime example of a disciplined, mature and informed population respecting government advice.

The unprecedented investments and global collaboration in R&D to develop and deploy safe and effective tests, treatments and vaccines are likely to contribute to collective efforts to save lives and end the pandemic. With more strains of the COVID-19 virus spreading across the globe, there is a growing need to identify mutants and its intensity, and to track newly emerging variants and their nature of spreading. Polymerase chain reaction (PCR) is a very important and scalable tool used worldwide extensively for the diagnosis of COVID-19. However, PCRs cannot provide deep insights into the overall genome of the

virus, whereas advanced technology genomic sequencing is required. Most countries are committed to conducting broader sequencing efforts. For example, Germany has performed sequencing for 5% of all positive COVID-19 patients in the population to better track the virus spread and to detect new strains infecting its population at a rapid pace. To encourage

testing, the German government has established reimbursement mechanisms for the lab costs incurred when they do this kind of sequencing.⁷

Vaccines are a critical and new tool in the battle against COVID-19. Vaccines with a broad safety and effectiveness profile would constitute powerful tools in ending the pandemic. As of April 2021,

Box 12.1

The COVAX Facility

The COVAX Facility is a global coordinated pooled procurement mechanism for new COVID-19 vaccines. The COVAX is co-led by the Coalition for Epidemic Preparedness Innovations (CEPI), Global Alliance for Vaccine and Immunization (GAVI) and the WHO. The two main aims of COVAX is to support research, development and manufacturing of a wide range of COVID-19 vaccines, and manufacture them in the quantities needed to end the pandemic, while ensuring that ability to pay does not become a barrier to accessing them. The second key aim of COVAX is to ensure fair and equitable access to vaccines for each participating economy, using an allocation framework formulated by the WHO.

By pooling purchasing power from all countries that participate, member countries are to have rapid access to doses of safe and effective vaccines as soon as they receive regulatory approval. The COVAX Facility is expected to equitably distribute these doses to help protect the most at-risk groups in all participating countries, and especially low and middle income countries (LMICs). It aims to ensure that the LMICs countries that cannot fully afford to pay for COVID-19 vaccines themselves get equal access to COVID-19 vaccines as higher-income self-financing countries. As such, the COVAX Facility is to guarantee that each participating LMIC will receive vaccines to cover a maximum of 20% of the population at no cost.

Initial goals set by the COVAX to provide two billion doses of vaccines worldwide in 2021, and 1.8 billion doses to 92 poorer countries by early 2022 have been hampered substantially by supply disruptions. The prime reason for this is over-dependence on a limited number of vaccine manufacturers, whereas other than the Serum Institute of India (SII), only Pfizer is providing to the pool. Inequality of access to vaccination remains a key challenge. Nearly 75% of vaccine supplies have been purchased by just 10 countries, whereby rich countries are stockpiling vaccinations in excess of their needs. The WHO has appealed for such excess stocks to be donated either to the COVAX Facility or to individual LMIC countries.

Source: World Health Organization. (2020). *172 Countries and Multiple Candidate Vaccines Engaged in COVID-19 Vaccine Global Access Facility*. Retrieved April 07, 2021, from World Health Organization: <https://www.who.int/news/item/24-08-2020-172-countries-and-multiple-candidate-vaccines-engaged-in-covid-19-vaccine-global-access-facility>

⁷ Thermo Fisher Scientific. (2021). *Rapid Genetic Sequencing for COVID-19 Global Surveillance*. Retrieved April 30, 2021, from Thermo Fisher Scientific: <https://www.thermofisher.com/blog/behindthebench/rapid-genetic-sequencing-for-covid-19-global-surveillance/>

eight vaccines of varying characteristics have been approved by the WHO for emergency use, with the WHO urging for equitable access and fair allocation of COVID-19 vaccines. In collaboration with the vaccine partners, the WHO developed a fair allocation mechanism for COVID-19 vaccines through the COVAX facility. Accordingly, under the initial proportional allocation of vaccines, each country participating in the facility will receive vaccines to cover 20% of their population at no cost. The WHO expects this mechanism to cover most of the initially prioritised target groups to help prevent deaths, reduce the societal and economic consequences, and potentially change the course of the pandemic.

12.3 Background to Sri Lanka's Pandemic Response

Although Sri Lanka falls into the category of a middle-income country (MIC), it has coped reasonably well within the complexities triggered by the pandemic, in comparison to countries with much more advanced health care systems in the world. This is mainly due to its robust and resilient health system, universal health coverage and trained workforce. A dedicated team of health and defence personnel in battling COVID-19 saw early successes before a second and third wave in October 2020 and April 2021, respectively, were to unleash a much larger health crisis. As of mid-March 2021, Sri Lanka ranked at 11th position in a COVID-19 performance index developed by the Lowy Institute.⁸ Sri Lanka's pandemic control strategy mainly focussed on managing transmission, while minimising deaths through identifying, isolating and providing early care for

patients. To date, all COVID-19 care has been managed by the state health care system.

At the outset of the COVID-19 outbreak in March 2020, Sri Lanka's pandemic response primarily focussed on community quarantine through island wide lockdown for two months (March-May 2020) with severe movement restrictions in place. During this period, rigorous contact tracing and isolation of suspected patients were conducted by the community health teams with the support of the defence services. The government also intensified measures on travellers and contacts, quarantine and isolation of cases. A well coordinated and effective public health response based on contact tracing and quarantine rules contained the spread, with no reported cases within the community for nearly two months during May-June 2020.

While these aggressive measures directly contributed to keeping case fatalities and numbers low, local economic activities were stifled. Financing costs were also on the rise. State-funded quarantine facilities resulted in a sizeable increase in expenditure to maintain and facilitate suspected cases in such quarantine centres. A mandatory period of 14 days in quarantine with regular medical review and testing also added to the prevailing burden on Sri Lanka's health budget and resources. In light of the above, a gradual step-wise lifting of restrictions was put in place. It was expected that these type of containment efforts could keep the pandemic in check while helping to revive the economy. However, the absence of widespread community testing during this period acted as a hindrance in obtaining a reliable assessment of the health risks.

⁸ Lowy Institute. (2021). *Covid Performance Index*. Retrieved May 20, 2021, from Lowy Institute: <https://interactives.lowyinstitute.org/features/covid-performance/>

In this context, Sri Lanka struggled to manage another outbreak of the pandemic from October 2020. The impact of the second wave, less successfully controlled compared to the initial outbreak, dampened economic activities once again. To strike a balance, the mechanisms adopted to curb the virus relied on lockdowns of specific areas in the country, rather than executing a nationwide lockdown. Partial lockdowns too were imposed from time to time to curb the second wave. Thereafter, in line with the global practice to control the pandemic, the government embarked on a vaccination programme from February 2021. Owing to shortages in available vaccination stocks, the vaccine programme, however, was slow to take-off. In the circumstance, effective mitigation and management strategies also require increased testing and quarantine procedures to manage the pandemic.

Since the outbreak of COVID-19 in early 2020, Sri Lanka's rate of COVID-19 screening in terms of PCR testing has remained inadequate to appropriately contain the spread of the virus. For instance, in April 2021 average PCR tests declined from around 12,000 tests a day amid the third wave, to around 4,000 tests a day. Meanwhile, after eight months of border closure, Sri Lanka resumed international flights from December 2020 along with economic activities like tourist bubbles. This was despite concerns raised that the country is increasing its exposure to more severe emerging COVID-19 variants, stemming from outside of Sri Lanka. Considering the above, Sri Lanka appears to have increased the probability of being hit by an impending third wave of the pandemic. The need to revive economic activities, livelihoods and incomes was understandably a key priority. At the same time, the country was not as prepared with sound strategies and tactics to handle more contagious variants of COVID-19 emerging around the world.

Sri Lanka was not as prepared with sound strategies and tactics to handle more contagious variants of COVID-19 emerging around the world.

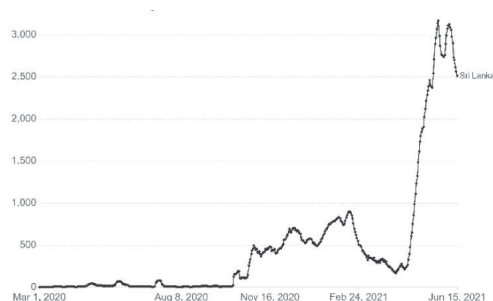
Amidst much concerns and warnings raised by health experts, the third wave of the pandemic took off in mid-April 2021, with the highly infectious UK SARS-Cov-2 variant. These new variants are found to spread much faster among the community (Figure 12.1a). Consequently, in contrast to numbers reported during the first and second waves, the daily number of positive cases of the third wave surged to high levels of over 3,000, with patients in the less risky age groups (less than 60) also being among those in need of mechanical breathing support. Due to the rapid increase in cases as well as the new mutants causing complexities, Sri Lanka began to face shortages of medical resources, including hospital beds as well as medical equipment. As of end-August 2021, Sri Lanka reported over 436,081 confirmed cases of COVID-19 and 8,991 deaths. Sri Lanka's COVID-19 deaths have risen

sharply during the third wave, with around 93% of deaths occurring during this period (Figure 12.1b). This is mainly due to the severity of new mutants. Sri Lanka's COVID-19 fatality rate is equal to 0.01%, while the global rate is around 0.05% (Table 12.1).

National Medicines Regulatory Authority (NMRA) approved the Indian manufactured AstraZeneca, Russia's Sputnik, Pfizer and Sinopharm vaccines for emergency use in Sri Lanka. The government aims to inoculate at least 65% of the population,

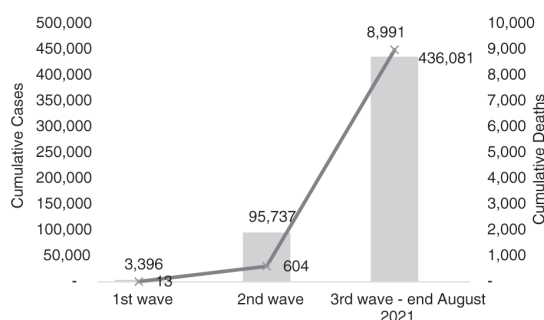
Figure 12.1:
New and Cumulative Confirmed COVID-19 Cases and Deaths

Figure 12.1a
New Confirmed COVID-19 Cases



Source: Johns Hopkins University. (2021). *Coronavirus Pandemic (COVID-19)*. Retrieved June 16, 2021, from OurWorldInData.org: <https://ourworldindata.org/coronavirus#coronavirus-country-profiles>

Figure 12.1b
Cumulative Confirmed COVID-19 Cases and Deaths, by Mid-July 2021



Source: Ministry of Health. (2021). *Coronavirus Disease 2019 (COVID-19) - Situation Report* Colombo: Ministry of Health.

Table 12.1
Cumulative COVID -19 Cases and Deaths

	Cumulative Cases per 1 Million Population	COVID-19 Deaths per 1 Million Population
Sri Lanka	10,363	103
India	20,876	251
Singapore	10,751	6
Australia	1,183	36
Southeast Asia	16,155	210
Global	22,810	494

Source: Ministry of Health. (2021). *Coronavirus Disease 2019 (COVID-19) - Situation Report – 15.06.2021*. Colombo: Ministry of Health.

12.3.1 COVID-19 Vaccination Programme

In line with global practices, in early 2021, Sri Lanka initiated action to rollout COVID-19 vaccines as a prevention mechanism. Accordingly, the

i.e. about 14 million people above 30 years old, out of the 22 million population. As part of the agreement between the Ministry of Health (MOH) and the COVAX Facility, vaccines are to be allocated for 20% of the population which will cover 4.2 million people.

The much-awaited COVID-19 vaccination drive commenced at end January 2021, with a donated a consignment of 500,000 doses of AstraZeneca (COVISHIELD) vaccines by India.⁹ Considering the high priority requirement to safeguard essential health care, and adhering to global COVID-19 vaccination prioritisation guidelines, health care staff and other support frontline workers (from defence, police, services at ports of entry) were given priority to be vaccinated. As of end-April 2021, Sri Lanka had received 1.26 million AstraZeneca doses (including 600,000 under the COVAX Facility), which had covered the first dose of 925,000 people, and the second dose of around 356,232,¹⁰ leaving a gap as stocks failed to be delivered on time. Thus, Sri Lanka's COVID-19 vaccination programme was temporarily halted from mid-April.

The irregular and inconsistent supply of vaccines is the greatest constraint faced by the COVID-19 vaccination programme in Sri Lanka. The Serum Institute of India (SII) suspended exports of the AstraZeneca vaccine amid the high caseload reported in India from April 2021. As Sri Lankan health authorities struggled to procure another 600,000 AstraZeneca doses to complete the full immunisation for those who had been given the first dose of the same vaccine, alternative options were considered. An agreement for 13 million doses of Russia's Sputnik-V vaccine, and 14 million doses of Sinopharm from China and five million doses of the Pfizer are to be sourced. Accordingly, the total cost of vaccines for full immunisation (two doses per person) of 16 million people is estimated to be around USD 400 million.¹¹

Other than the delayed supply of vaccines, the government also faced issues related to approval

for vaccine use, as well as the vaccination prioritisation process. For instance, China has donated around 600,000 Sinopharm vaccines to Sri Lanka in March 2021. However, as the local drug authority, NMRA approval was pending for the Sinopharm vaccine for Sri Lankans, until the WHO approved it in May 2021. Additionally, after completing the first dose of vaccinations for health care staff and other support frontline workers, those over 60 years of age, and those with comorbidities, the MOH began to vaccinate individuals of 30-59 years in a few selected communities. This was a clear deviation from the original scientifically agreed prioritisation, where older people over 60 years and people with NCDs were the next prioritised groups. Furthermore, many people were also seen to be queuing up at vaccination centres, aggravating health risks due

The irregular and inconsistent supply of vaccines is the greatest constraint faced by the COVID-19 vaccination programme.

⁹ The COVISHIELD vaccine is the product of Serum Institute of India (SII) which is the same AstraZeneca vaccine.

¹⁰ Ministry of Health. (2021). *Progress of COVID-19 Immunisation as of 15.06.2021*. Colombo: Ministry of Health.

¹¹ The cost per dose of Sinopharm and Sputnik-V are taken to be USD 15 and USD 9.95, respectively.

to lack of a properly planned system for vaccine deployment and the lack of a digitalised service. Thus, the vaccination programme has been beset with a host of problems early on.

To ensure an efficient vaccination rollout, it is important to address the shortfalls in the vaccination deployment process to reach the country's targets. According to the MOH, as of end-August 2021, more than 12.5 million Sri Lankans (57% of the population) had been vaccinated at least for the first dose.¹² This is relatively comparable compared to the levels of vaccination in other countries in the region (Figure 12.2a). More recently, the government has taken several measures to improve the vaccination rollout, including expediting the vaccine procurement process while improving the vaccination deployment process with the support

of the defence services. As a result, currently, Sri Lanka has maintained a relatively higher level of daily vaccine administration rates comparable to its peers (Figure 12.2b).

12.4 COVID-19 Pandemic: What it Reveals about Sri Lanka's Health Care

This section discusses the experiences and lessons learned related to Sri Lanka's health care services during the pandemic on the following three key aspects – managing vulnerable and high-risk groups in a pandemic situation, practical challenges to delivering routine care, and digital health transformation.

Figure 12.2:
Share of People Vaccinated against COVID-19

Figure 12.2a
Share of People Vaccinated Against COVID-19

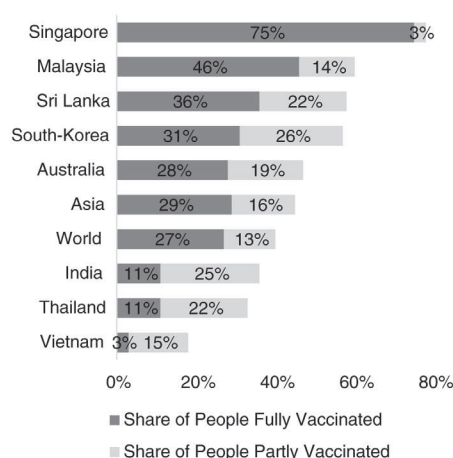
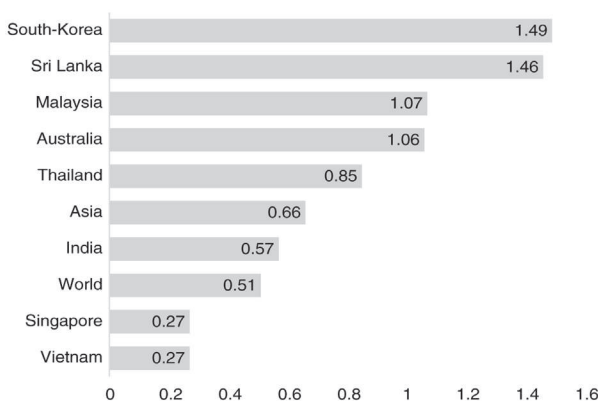


Figure 12.2b
Daily COVID-19 Vaccine Doses Administered per 100 People



Source: Our World in Data. (2021). *Coronavirus (COVID-19) Vaccinations*. Retrieved September 02, 2021, from OurWorldInData.org: <https://ourworldindata.org/covid-vaccinations>

¹² Ministry of Health. (2021). *Progress of COVID-19 Immunisation as of 31.08.2021*. Colombo: Ministry of Health.

12.4.1 COVID-19: Vulnerable and High-risk Groups

According to the overall reported cases of COVID-19, older people who are over 60 years or who have pre-existing medical conditions like cardiovascular issues, diabetes, cancer, lung or kidney disease are indeed at a higher risk of experiencing serious consequences of the coronavirus. For instance, data compiled by the MOH show that out of all the COVID-19 deaths, 74% were senior citizens.¹³ Thus, a rapidly ageing population is a significant risk factor encountered during a pandemic such as COVID-19. Sri Lanka as a MIC is at particular risk, given that in 2019, 12% of the total population was reported to be 60 years and older. As such, until the COVID-19 vaccination programme is completed, the country's elderly population faces a grave risk to their lives.

NCDs increase the susceptibility to COVID-19, as well as the likelihood of worsening its outcomes. For instance, around 75% of COVID-19 deaths reported in Sri Lanka are related to people

suffering from NCDs contracting the virus. Additionally, most sudden deaths, which appeared to be asymptomatic to COVID-19, were later confirmed to be victims of the virus infection, subsequent to PCR tests. Thus, the COVID-19 pandemic is a wake-up call for transformative action on NCDs in Sri Lanka.

12.4.2 Impact on Prevention and Control of NCDs

As in the case for many other countries, NCDs are posing an ever-increasing threat to Sri Lanka's health systems due to the prevailing pandemic. According to the WHO, among age 18 and above Sri Lankans adults, one quarter suffers from hypertension, while one in 12 live with diabetes.¹⁴ During the last decade, NCDs show an increasing trend, depicting a risky picture for the future. For instance, based on the registration records of state cancer treatment centres, the number of newly diagnosed cancer patients grew substantially during the last decade – a noticeable hike from 21,500 (2010) to 35,000 (2018) (Figure 12.3). Alarming, despite the

COVID-19 Deaths Reported in Sri Lanka



Source: MOH data

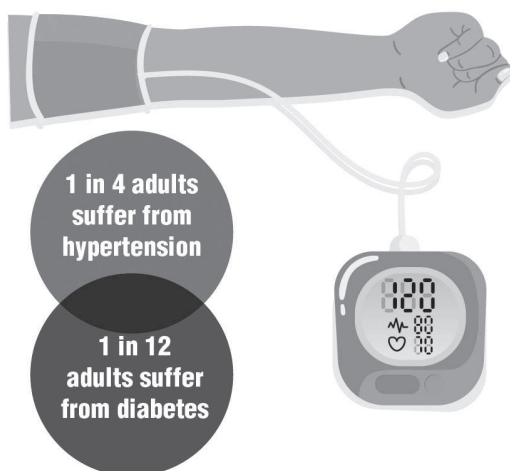


Around **75%** of deaths reported were of individuals **suffering from NCDs**

¹³ Source: Ministry of Health. (2021). *Coronavirus Disease 2019 (COVID-19) - Situation Report – 15.06.2021*. Colombo: Ministry of Health.

¹⁴ World Health Organization. (2018). *Noncommunicable Diseases (NCD) Country Profiles*. Geneva: World Health Organization.

Prevalence of Hypertension and Diabetes in Sri Lanka



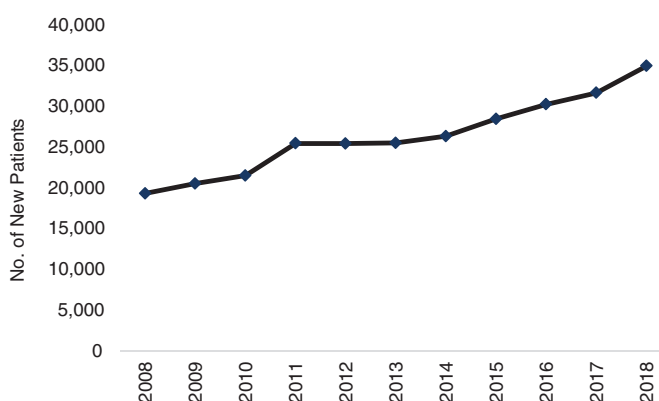
Source: World Health Organization (2018)
Noncommunicable Diseases (NCD) Country Profiles

availability of a universal health care system, currently, around 40% of people having common NCDs go undiagnosed in Sri Lanka.¹⁵

To reduce the burden from NCDs, the National Multisectoral Action Plan for the Prevention and Control of Non-Communicable Diseases (2016-2020) was developed. Recognising the importance of early detection and treatment of NCDs, successive governments initiated community-based health education and early detection programmes. These include, well-woman clinics (WWC) established through a primary health care approach to screen women aged 35-45 for hypertension, diabetes, cancers (breast, thyroid and cervical) and obesity, while healthy lifestyle centres (HLCs) established across the island screen those aged 40-65 years for NCDs and promote lifestyle modifications.

However, due to the pandemic, Sri Lanka faces several challenges in maintaining routine health care services and providing preventative care; the latter is advocated as part of the NCD control

Figure 12.3
Total Number of New Cancer Patient Registrations (2008-2018)



Source: Ministry of Health. (2018). *Annual Health Bulletin*. Colombo: Ministry of Health.

¹⁵ World Health Organization. (2020, September). *Sri Lanka: Using Technology to Train and Mentor Staff on the NCD Frontline*. Retrieved March 23, 2021, from World Health Organization: <https://www.who.int/news-room/feature-stories/detail/sri-lanka-using-technology-to-train-and-mentor-staff-on-the-ncd-frontline>

measures, including both clinical preventative services and screening tests. The pandemic has created major dilemmas for providers in all areas of health care delivery. For example, primary health care services such as health clinics and home visits, and community health care services and workplace NCD screening were temporarily discontinued. Indeed, the country's health system faces the harsh task of balancing its priorities for the COVID-19 response, while maintaining the delivery of essential health care services. However, early detection and timely treatment of NCDs is crucial to reduce the lifetime risk from the disease and also to reduce the need for more expensive treatment.

In the context of exacerbating the burden of NCDs during the pandemic, addressing the issue is crucial as an integral part of the COVID-19 response and in broader efforts of the SDG development agenda. Strategies are required to better manage NCDs during the pandemic which may include integration and convergence of existing communicable and NCD programmes, strengthening primary health care services, and multisectoral participation. Supporting those working on the frontline to prevent, treat and manage NCDs is crucial for better management of NCDs. With new challenges posed by the COVID-19 pandemic, innovative training and mentoring models are much needed.

Box 12.2

Digital Training and Mentoring NCD's Frontline Staff

Building capacity to deliver digital training and mentoring for medical professionals is a key area of need, with COVID-19 limiting opportunities for face-to-face training. Working with the MOH, the government of Denmark has provided funding to establish a learning management system as a basis to develop virtual capacity building in Sri Lanka. This system focusses on establishing a 'hub and spoke' model, where the MOH provides the central training function, and the staff of regional institutions in nine provinces receive training and mentorship from the ministry.

Given the pressing need to establish virtual training, the WHO has used the 'hub and spoke' model to deliver NCD service training. The WHO has worked closely with the officials of MOH - NCD division on identifying the training areas for those who need it the most, supplying video conferencing facilities and information technology (IT) infrastructure needed to deliver training, and adapting and creating new modules for virtual delivery.

Digital training creates new opportunities to reach health workers on the frontline, where traditionally, the MOH has adopted a face-to-face model to train its workforce and build capacity. For example, Sri Lanka's existing technical package to improve cardiovascular health (HEARTS) can now be delivered through an online, self-learning training programme, creating the potential to widen access and improve care outcomes. Learnings from the COVID-19 pandemic indicate that digital health will play an increasing role in how this support is delivered.

Source: World Health Organization. (2020, September). *Sri Lanka: Using Technology to Train and Mentor Staff on the NCD Frontline*. Retrieved March 23, 2021, from World Health Organization: <https://www.who.int/news-room/feature-stories/detail/sri-lanka-using-technology-to-train-and-mentor-staff-on-the-ncd-frontline>

12.4.3 Secure Access: New Normal Health Care Services

Given the contagious spread of COVID-19, there is a growing need for immediate and accessible health care. In more advanced economies, virtual health has become a game-changer in the reach and speed of service delivery. The validity of this is further enhanced as the world struggles to keep pace with each new fresh challenge from the pandemic. In Sri Lanka too, key private sector health care service providers have introduced digital solutions. For instance, they are carrying out audio/video consultations. A mobile app has been introduced to obtain patient's contact details and declaration on COVID-19 exposure, when visiting the hospital for doctor consultations.

Additionally, private sector providers have also introduced novel modes of health care service delivery, which minimise the risk of contagion for everyone – patients, medical professionals, and the general public. For instance, drive-through PCR testing is offered in most leading private sector hospitals. Apart from this, another leading private hospital offers a drive-through laboratory facility with a broad spectrum of blood and urine investigations. These lab facilities enable patients to securely access their diagnostic requirements within six minutes, from the safety and comfort of their vehicle. Besides, some private sector hospitals have offered to bring lab tests and health care service to the doorstep.

However, in contrast to the private sector, there was no discernible improvement in adopting digital services in public sector health services. Only a very few small-scale digital services are available in the public sector. For instance,

e-channelling, the prime health care portal in Sri Lanka, has facilitated safety and convenience to the public, by allowing patients to make appointments via the e-channeling website for the COVID-19 vaccination programme in Colombo city. A telehealth service model has been tested in the family medicine clinic at the Faculty of Medicine, University of Kelaniya, where a cloud-based personal electronic health record system is being implemented as of late 2019.¹⁶

When implementing digital health services at the national level, the lack of a central health database is a major constraint. For instance, most of the primary health care facilities do not have any form of personal medical records (either in paper or electronic form) that is maintained in health clinics. Because of this gap, it is difficult to ensure that patients' medical histories are taken

When implementing digital health services at the national level, the lack of a central health database is a major constraint.

¹⁶ Department of Family Medicine. (2021). *Ensuring Access to Routine and Essential Services during Covid-19 through Utilising Telehealth in Sri Lanka Health*. Retrieved March 30, 2021, from Data Science Unit, Faculty of Medicine, University of Kelaniya: <https://medicine.kln.ac.lk/depts/fmed/index.php/news-and-events/59-ensuring-access-to-routine-and-essential-services-during-covid-19-through-utilizing-telehealth-in-sri-lanka>

into account during telehealth consultations. Moreover, due to the lack of patient's medical records, continuity of care and coordination between facilities is also a challenge. As discussed in the 'Sri Lanka State of the Economy 2019' report, Sri Lanka's digital health is still in its infancy due to several setbacks, including limited funding for health care, the low scale of private sector investments, limited information and communication technology (ICT) infrastructure, etc.¹⁷

12.5 COVID-19 Pandemic: Assessing Sri Lanka's Preparedness

12.5.1 COVID-19 Exposes the Resource Gaps in Pandemic Control

COVID-19 has already aroused uncertainty, while the response to the pandemic will continue for an unknown period. In this context, Sri Lanka needs to ensure better preparedness and response interventions. The availability of ICU capacity plays a crucial role in critical cases, with a constant and uninterrupted availability of oxygen supplied beds to avert a disaster. A major challenge to the existing health care system will be inadequate ICU beds, ventilators, oxygen supplies and other necessities required to care for patients with severe respiratory failure. Currently, less than 200 ICU beds are in isolation units for the management allocated for severe

COVID-19 cases, whereas only about 700 ICU beds are available in the hospital system of the entire country.¹⁸

An enhanced surveillance capacity in the country is crucial for the rapid identification and detection of suspected COVID-19 cases. Specifically, it is vital that systematic surveillance at the community level for influenza should be an integral part of continuous monitoring. Also, it is important to conduct random PCR testing in densely populated areas which are prone to be contagious, thereby taking precautionary measures based on the impending community spread. Furthermore, a robust laboratory strategy, which includes laboratory networking, communicating real-time information on COVID-19, quality assurance and adequate workforce capacity is important for rapid detection and case management.

Expanding testing and ensuring health sector preparedness is necessary to face an unexpected increase in the number of cases. The Medical Research Institute (MRI) was the only laboratory equipped in Sri Lanka for testing COVID-19 at the onset of the outbreak. Currently, seven more hospitals and one university laboratory have been upgraded for conducting PCR testing for COVID-19 diagnosis, with the MOH having the capacity to do 20,000-25,000 PCR tests a day. Only the University of Sri Jayewardenepura is equipped with laboratory facilities to carry out genomic sequencing of the virus, to identify variants among patients who test positive for COVID-19. In keeping with the WHO's 'test, test and test' strategy, a long road lies ahead for Sri Lanka to combat the current virus and be better

¹⁷ Jayawardena, Priyanka. (2019). Health Care in the 4IR. In *Sri Lanka: State of the Economy 2019*. Colombo: Institute of Policy Studies of Sri Lanka.

¹⁸ Jayasinghe, C. (May 2021). *Sri Lanka to Expand Coronavirus ICU, HDU Beds, Non-Invasive Ventilation in Covid-19 Wave*. Retrieved May 5, 2021, from Economynext: <https://economynext.com/sri-lanka-to-expand-coronavirus-icu-hdu-beds-non-invasive-ventilation-in-covid-19-wave-81479/>

prepared in the future. The country is yet to improve and expand the scope of its testing policy as overall testing numbers remain low.

It is vital to have timely access to real-time data. However, due to capacity constraints and certain administrative issues, results are reported to be delayed; in some districts, the delays are said to be even more than one week. This is a grave concern as delays in generating PCR test results is a major obstacle in the COVID-19 control process. In other words, obtaining timely reports helps in observing accurately the direction in which the virus is spreading. On the other hand, the MOH adopts a command-and-control approach in the planning and management of financial and human resources. The current system largely runs on rules, norms and procedures, bureaucracy etc. Thus, it lacks the capacity to take the initiative, to

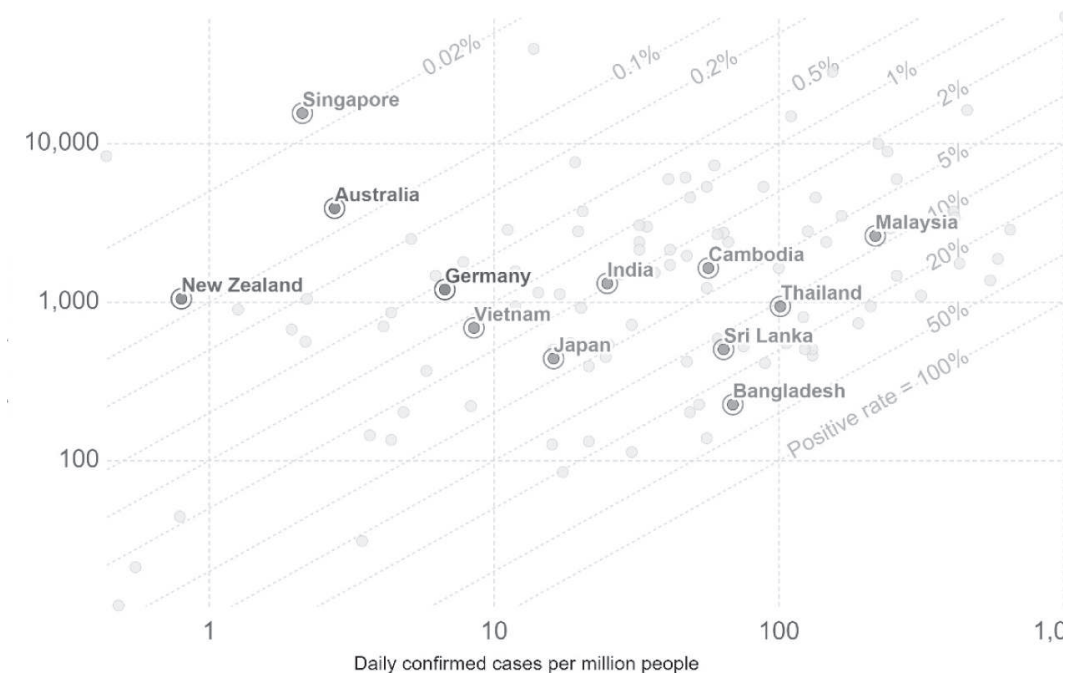
Cost of PCR Testing in Sri Lanka



**Rs.150 million
per day**

Source: MOH data

Figure 12.4
COVID-19: Daily Tests vs. Daily New Confirmed Cases per Million People



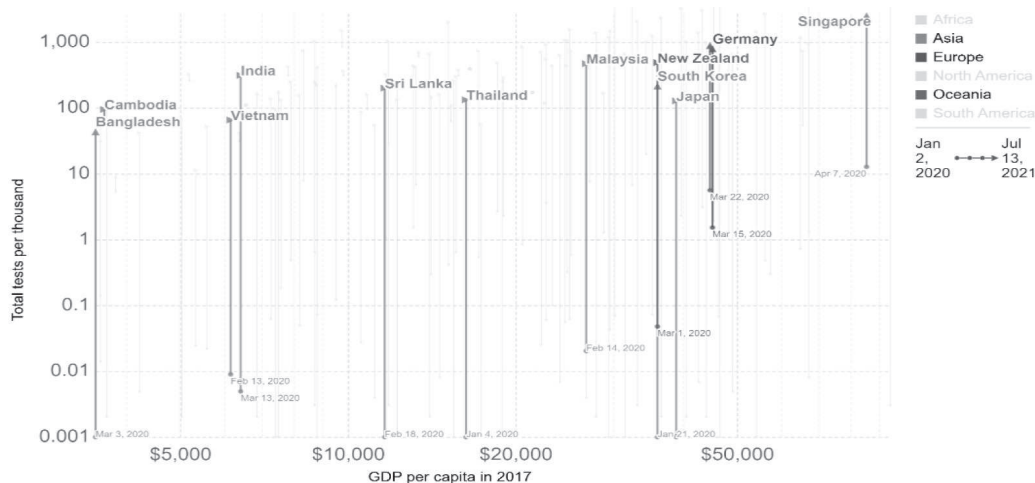
Source: Our World in Data. (2021). *Coronavirus (COVID-19) Vaccinations*. Retrieved July 13, 2021, from [OurWorldInData.org: https://ourworldindata.org/covid-vaccinations](https://ourworldindata.org/covid-vaccinations)

be adaptable, brainstorm, and implement major system changes. Such characteristics enable a swift response in the health care sector, in line with current needs and demands of the overall health care sector.

The extent of testing relative to the scale of the outbreak is a good indicator of how adequately countries are testing because it indicates the level of testing relative to the size of the outbreak (Figure 12.4).¹⁹ As noted previously, countries like Singapore, New Zealand and Australia properly monitor the pandemic. For example, these countries are conducting ten or hundred times more tests than other countries with a similar number of new confirmed cases. Sri Lanka’s extent of testing relative to the scale of

the outbreak (with a positive rate of around 10%), is comparable to countries such as Thailand or Malaysia but lower than its peers like India, Vietnam and Cambodia where the positive rate is below 5%. Further, the differences in the extent of testing between rich and poor countries are large (Figure 12.5).²⁰ While poorer countries such as Bangladesh and Cambodia have done a lesser number of tests per thousand people, richer countries like Singapore and Germany have done more tests than their population. In terms of GDP per capita, Sri Lanka has done comparably better than peers like Thailand but lower than India. Nonetheless, during the peak of the third wave, Sri Lanka has conducted around PCR 25,000 tests per day, which costs around LKR 150 million per day.

Figure 12.5
Total COVID-19 Tests per 1,000 vs GDP per Capita



Source: Our World in Data. (2021). *Coronavirus (COVID-19) Vaccinations*. Retrieved July 13, 2021, from OurWorldInData.org: <https://ourworldindata.org/covid-vaccinations>

¹⁹ The chart shows the daily number of tests (Y axis) against the daily number of new confirmed cases (X-axis), per million people. Where the number of confirmed cases is high relative to the extent of testing, this suggests that there may not be enough tests carried out to properly monitor the outbreak. In such countries, the actual number of infections may be far higher than the number of confirmed cases.

²⁰ This chart plots the total number of tests performed per 1,000 people against GDP per capita.

Moreover, owing to the unprecedentedly high demand, many countries face difficulties in accessing essential medical supplies such as personal protective equipment (PPE), mechanical ventilators and diagnostics for the COVID-19 virus. As a result, several countries have reinvigorated a nationalistic interest in building and expanding knowledge through research and innovation. This boom in research and innovation has paved the way to design and manufacture low-cost, local solutions to aid pandemic control such as ICU equipment and PPE. For example, with the global shortage of PPE, the apparel industry in Sri Lanka is manufacturing PPE locally – this is an innovative initiative and if produced to best standards, there is export potential as well.

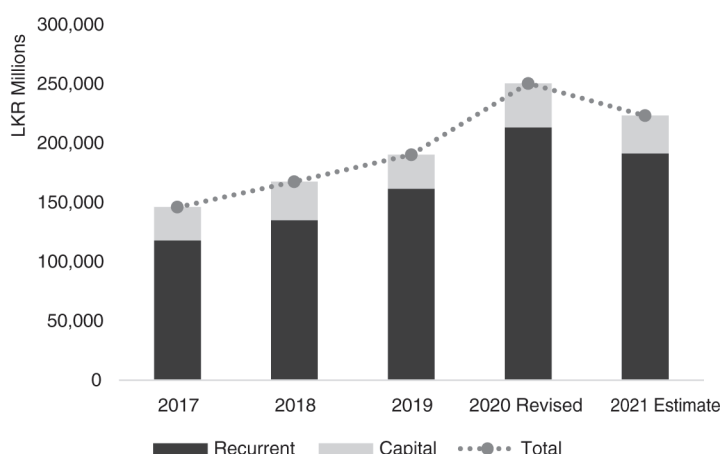
12.5.2 Health Financing in Response to Pandemics

The containment measures adopted in dealing with the COVID-19 crisis require many tools. Typically, Sri Lanka imports much of its tools used in the health care sector. Similarly, the tools

necessitated by the health sector demands related to the pandemic too were imported. This will have a significant impact on funding for the health sector in Sri Lanka. Overall too, the response to the outbreak demands higher government spending in the health sector, due to increased investments in the number of health workers and medical supplies – PPE, respirators and oxygen – as well as better infrastructure such as infectious diseases units, ICU facilities and equipment, and the COVID-19 vaccination programme. Already hampered by fiscal constraints, the government faces an added burden, in preparing its health facilities to face the third wave of the pandemic.

Prioritising health in the government budget is key to controlling COVID-19 and a sustained economic recovery. Government spending for the health sector is set to increase during 2020-2021 (Figure 12.6). As given in the approved Budget for 2021, direct allocations by the central government to the health sector accounts for 8.3% of the total government expenditure (LKR 223 billion).²¹ A considerable hike can be noted

Figure 12.6
Health Sector Budget Allocation – 2017-2021



Sources: Author's compilation based on Approved Budget Estimates, 2019-2021.

²¹ The Appropriation Bill for the financial year 2021 estimates government expenditure to be LKR 2,678,040 million.

in the health sector budget allocation, whereas health sector expenditure was around 5.5%-6.0% in the previous years (2017-2019).

In line with government policy, the Budget 2021 proposals have recognised the importance of improving health services to safeguard people from pandemic as well as from NCDs (those with NCDs currently have a high incidence of contracting the virus). Accordingly, the government has proposed several new programmes to improve health care services. For instance, in the context of the new reality, the proposals include additional allocations to maintain a people-centric health service related to the expansion of maternity and child clinics, dispensaries and adult service centres, laboratory services, hospitals and research institutes with the required human resources.

A considerable level of health spending in the past has paved the way for Sri Lanka to achieve favourable health outcomes. However, as noted previously, to meet present demands – particularly in the current pandemic situation – the allocation of funds is becoming increasingly insufficient. For instance, the approximately LKR 35 billion capital allocation for the health sector

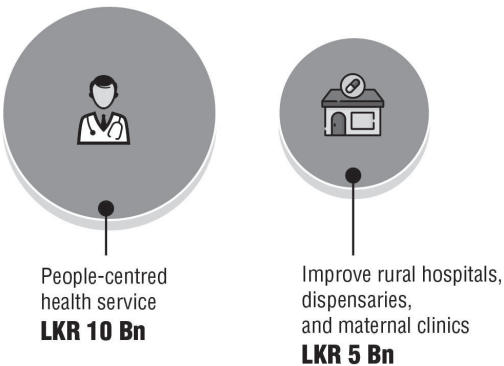
in the Budget 2021 accounts for only 14% of the health sector budget. The allocated amount of LKR 5,000 million is probably insufficient to improve a large number of rural hospitals in a variety of areas (e.g. dispensaries, maternal clinics, etc.).

12.6 Conclusion: How to Build Back Better

Sri Lanka has coped reasonably well with the pandemic, especially in managing the first wave, compared to even more advanced health care systems in the world. The government took early measures to prevent the spread of COVID-19 by imposing lockdowns, coupled with a well-coordinated and effective public health response based on contact tracing and quarantine procedures. Similar to success stories globally or regionally, Sri Lanka also mainly relied on the 3T strategy of testing, tracing and treatment to control the pandemic while moving on to a vaccination programme. It is reasonable to assume that the country would have been facing a different reality, if not for the early restrictive measures taken by the government and the dedicated service of health professionals and the defence services in battling the pandemic.

As in the case of many other countries, Sri Lanka has to face multi-fold challenges to overcome the battle against the pandemic. The COVID-19 crisis highlights the importance of ensuring equitable access to health care coverage for all, which can be accessed in vulnerable contexts such as during emergencies, ageing, sickness, or disability. As such, digital health care resources could have given significant advantages to effectively respond to the challenges posed by COVID-19, as well as for chronic and primary care patients with increased accessibility of care. However, the lack of an adequate central

Health Sector Budget Allocation for Healthcare Facility Development



Source: Budget Speech (2021)

health database and IT infrastructure have hampered the rolling out of digital health services. Furthermore, Sri Lanka's health care investments (capital expenditure) have been underfunded for years prior to the outbreak of the pandemic, and the country entered the crisis already financially stretched to the limits. Thus, Sri Lanka faced difficulties in preparing its health facilities on time to face the third, and highly contagious, wave of the pandemic.

Overall, this section discusses possible policy options to address immediate health challenges in managing pandemics such as COVID-19, maintaining the delivery of other routine health care services, particularly for at-risk and vulnerable groups, and options to bridge resource gaps.

Efficient Health Care Management to Control

COVID-19: Vaccination is the only remedy available at present to bring the pandemic under control as it reduces the severity of the illness and prevents deaths. In addition, vaccination contributes to minimising the virus spread by achieving herd immunity and lowers the possibilities of further mutations. According to medical experts, the vaccines currently in use adequately covers new mutants as well. They may even reduce the transmission of the infection. Thus, governments around the world have assigned high priority to expanding the COVID-19 vaccination programme. However, it is necessary to strengthen relevant health systems for a successful vaccination deployment and a smooth vaccination programme.

Parallel to an efficient vaccination programme, better-connected screening, contact tracing, and investments in technology to increase testing capacity and treatment through the linked

Parallel to an efficient vaccination programme, better-connected screening, contact tracing, and investments in technology to increase testing capacity and treatment through the linked preventive and curative care delivery systems are crucial.

preventive and curative care delivery systems are crucial. Digitalisation of health care and the effective use of technology for sharing real-time data, contact tracing and surveillance and coordinating the efficient use of clinical resources are vital for an efficient pandemic control programme. Improved functional integration and coordination in treatment centres, laboratory services, and an efficient supply-chain system bring in many benefits. Therefore, a laboratory information management system (LIMS) needs to be in place. The government should invest in introducing a district-level dashboard system to capture health care system data, such as the number of beds available in each hospital, the number of patients, areas impacted, availability of medical personnel and supplies, etc.

The pandemic has exposed gaps where prevalent ways of working/procedures have not served health authorities and the public to cope with emergencies. The pandemic has proven that health care decision making should not necessarily be rigid and indolent; rather, it should have the potential to respond swiftly, especially in adapting to change in disaster situations, rebuilding the strategy, structure, and processes, and revising policies towards creating value. Health care providers must assess the competitive advantage of both past practices and now, and identify the optimum way to proceed in the future.

Health First: Health Services during the Crisis: Sri Lanka must sustain strategic benefits accrued thus far in the health sector, and explore opportunities to move towards universal health coverage by 2030. The populations most in need of health services could be described as also those who are the most vulnerable to COVID-19, as severe cases include the elderly, persons with pre-existing medical conditions related to NCDs and pregnant women. To ensure continuity of

care, there is a need to review and adapt service delivery according to available facilities and situations. For example, the provision of post-natal care through home visits, strengthening primary care systems focused on disease prevention, social care, and community-enabled health care services could address the broader determinants of health care needs.

Strengthening primary health care (PHC) will increase access to health care services and other essential services, bringing the facilities closer to where people live. Investing in the health workforce, especially in the PHC setting, will enhance the scope of human resources and the quality of services that are delivered in these settings. Automation and digitisation of patient information systems are essential to facilitate tracking and targeting of essential services to all in need, and also to prevent the needy from getting left behind. It is necessary to promote epidemiology, hygiene, disease prevention methods and launching communications campaigns to bring patients back to treatment centres. There is also a need to recognise health needs that will arise in response to other seasonal illnesses such as dengue fever and other communicable diseases. Laboratories, and emergency treating units should remain open for emergent needs and in-office procedures while maintaining the appropriate spacing of in-person appointments.

Public health care service should institute enabling digital services similar to private sector providers to reduce the risk of infection. For instance, telemedicine services can be introduced for NCD care management, primary care, post-hospital discharge and post-operative follow-ups. Patients can also utilise online patient portals to make appointments, billing and lab reports. It is vital to use digital services to reduce patient's waiting time – for out-patient

consultations, patients should have the option to self-check-in via phone.

Given the emerging health care needs and unequal distribution of resources, an appropriate e-health strategy can enhance access quality and viable health care. Therefore, measures should be taken to solve identified problems of current e-health solutions such as required IT infrastructure, a central health database system to move from a proof-of-concept pilot solution to large-scale implementation in an appropriate setting. Such systems may function better if the process starts in a non-complicated environment that is user-friendly to the patients, doctors and other health care workers. Public-private partnerships (PPPs) should be explored to improve e-health and a national electronic medical records system.

Local Manufacturing of Pharmaceutical Products and Medical Equipment:

The pandemic has sparked a growing concern on the availability of medical supplies in emergency contexts. Sri Lanka is seeing this as an opportunity to be more self-sufficient and reduce its reliance on imports. The epidemic response has seen local innovation in the manufacturing of PPE and lab consumables and there is further scope to encourage local enterprise and innovation for this purpose. For instance, recently a team of Sri Lankan scientists have invented a new PCR test kit using NANO technology, which is said to drastically reduce the testing time from two hours to half an hour.²² There is an opportunity to encourage these efforts, where they contribute to efficiency gains, encourage local innovation and local production. In line with government policy, there is more investments in the local manufacture of pharmaceutical products, as

an attempt to reduce import dependency and be partially self-reliant in this essential product category. Locally manufactured equipment as substitutes for imported equipment will also help to save foreign exchange outflows in times of crises.

The government can work closely with the private sector to scale up local innovation in the health sector such as the production of multi-patient ventilators, or robotic health attendants to minimise physical contact with health personnel for non-essential health services. Encouraging the private sector and businesses to expand in niche areas – such as manufacturing face masks and PPE – may open up new markets. For a more efficient system to face challenges in the future, it may be useful to consider establishing a centralised procurement system to feature both demand and supply of health sector goods and services.

Developing a Comprehensive Plan for Sustainable Health Financing:

The COVID-19 crisis and the containment measures adopted in Sri Lanka to curb the virus spread is likely to have a significant impact on funding for health. Prioritisation of activities is important due to funding limitations under the current fiscal constraints. A systematic National Health Accounts (NHA) to integrate the funding process involving state and other agencies, including development partners, and budgeting for activities would facilitate this exercise. It is important to increase efficiency gains and ensure value for money in health spending by reducing the fragmentation of funding flows and parallel administrative arrangements. The necessity to increase health spending in Sri Lanka in the context of the current fiscal constraints will

²² Daily Mirror. (2021, May). *New Test Kit for Covid-19 Patients Invented by SL scientists*. Retrieved May 5, 2021, from Daily Mirror: http://www.dailymirror.lk/breaking_news/New-test-kit-for-Covid-19-patients-invented-by-SL-scientists/108-211203

require a new paradigm where health is seen as an investment and not simply as an expenditure item. Such an effort will benefit from strong PPPs. Tax policy too can indirectly serve as a measure to support health-related objectives. It is necessary to mobilise domestic revenue through non-regressive and pro-poor taxes. According to the WHO, taxation of tobacco and sugar-sweetened beverages (SSBs) is an effective means of preventing NCDs. Although the budget mentions

the need for controlling NCDs as a priority, cost-effective means of achieving this objective is not explored. One option is to consider expanding ‘pro-health taxes’ such as those on alcohol, tobacco and SSB, which can be expanded to products with salt and trans fats as well. Such taxes not only address funding needs, but also adds value to health policy efforts to tackle NCDs and other forms of unhealthy consumer behaviour.

13. The Role of Traditional Health Care in an Era of Pandemics

13.1 Introduction

Traditional medicine (TM) is culturally entrenched as a primary source for health care to large segments of people in many low and middle-income countries (LMICs). During pandemics such as COVID-19, it is inevitable that such population groups would seek treatment from TMs, spurred on by accessibility and affordability considerations as well. Indeed, countries such as China, Thailand, Vietnam, Indonesia, India, as well as several African countries have resorted to their TM to deal with COVID-19. China, in particular, has been at the forefront, with some estimates suggesting that over 85% of confirmed COVID-19 patients have been treated with TM care.¹

The World Health Organization (WHO) too has previously provided support for what it terms as traditional and complementary medicine,² including support to analyse the efficacy of TM to fight against COVID-19.³ As of 2019, 88% out of 170 member states had acknowledged

the use of TM.⁴ Many were also found to have formally developed policies, laws, and regulations governing TM. Whilst it is important, but an often-underestimated part of growing health care services, COVID-19 has exposed certain policy and regulatory gaps that require attention.

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medicine.**

¹ The State Council - The People's Republic of China. (2020). *Traditional Chinese Medicine Used to Treat 85% of COVID-19 Patients*. Retrieved March 15, 2021, from The State Council - The People's Republic of China: http://english.www.gov.cn/news/topnews/202002/21/content_WS5e4f3d38c6d0595e03c2127d.html

² TM is the sum of knowledge, skill, and practices based on the theories, beliefs, and experiences indigenous to different cultures used in the maintenance of health as well as in the prevention, diagnosis, improvement or treatment of physical and mental illness. CM or 'alternative medicine' refers to a broad set of health care practices that are not part of that country's tradition or conventional medicine and are not fully integrated into the dominant health care system. These are used interchangeably with traditional medicine in some countries. (World Health Organization. (n.d.). *Traditional, Complementary and Integrative Medicine*. Retrieved May 20, 2021, from World Health Organization <http://www.who.int/medicines/areas/traditional/definitions/en/>).

³ World Health Organization. (2020). *WHO Supports Scientifically-Proven Traditional Medicine*. Retrieved April 20, 2021, from WHO Regional Office for Africa: <https://www.afro.who.int/news/who-supports-scientifically-proven-traditional-medicine>

⁴ World Health Organization. (2019). *WHO Global Report on Traditional and Complementary Medicine 2019*. Geneva: World Health Organization.

In Sri Lanka too, its diverse health system is composed of modern allopathic (Western medicine) and traditional Ayurvedic systems. The country continues to maintain satisfactory health indicators with a general perception that these achievements are attributable to the use of Western medicine.⁵ However, TM systems practiced historically in Sri Lanka have played a major role in promoting and developing the health sector in the country,⁶ as well as other welfare programmes introduced by successive governments from time to time.

During the pandemic, several TMs were developed and introduced by various researchers, scientists, Ayurveda doctors, practitioners and indigenous physicians as a solution for COVID-19.⁷ Accordingly, many people appear to have sought relief from these newly developed TMs.⁸ But, such cures developed hurriedly during the pandemic also raise important questions about the basis for establishing safe and effective TM therapies and the need for strengthened oversight on health systems. Against this background, this chapter briefly outlines Sri Lanka's existing health system, followed by an assessment of the role played by TMs, their usage and the governance system. The chapter also examines the use of TM during COVID-19, informed by a perception survey on people's preferences. Some international best practices followed by a few selected countries are also examined in the context of policy options and strategies to

enhance and support the development of the TM system along with the Western medicine system to accommodate people's medical treatment preferences or choices.

13.2 Traditional Medicine Systems

Many countries have their own traditional or indigenous systems which are strongly embedded in their culture and history. TM is often interpreted to mean knowledge, skill and practices based on the theories, beliefs and experiences indigenous to different cultures, whether explicable or not, used in the maintenance of health as well as in the prevention, diagnosis, improvement or treatment of physical and mental illness.⁹

The WHO (2013) recognises TM as a comprehensive term that refers to various forms of indigenous medicine and TM systems such as traditional Chinese medicine, Indian Ayurveda, Arabic Unani medicine, etc. TM practices include medication-based practices and procedure-based practices. Medication-based practices involve the use of herbal medicines, animal parts and minerals. Procedure-based practices (non-medication) are those carried out primarily without the use of medication. Such non-medication-based practices involve various therapies, such as acupuncture and related techniques, chiropractic, osteopathy,

⁵ Abeyrathne, R.M. (2019). Current Trends in the Popular Sector Traditional Medicine in Sri Lanka, *Pakistan Academy of Science*, 56(3), 27–36.

⁶ Arseculeratne, S.N. (2002). Interactions between Traditional Medicine and 'Western' Medicine in Sri Lanka. *Social Scientist*, 30(5/6), 4-17.

⁷ Perera, M.M. (2020). *Coronavirus: Ayurvedic Prevention and Treatment, But Many Break the Curfew*, Retrieved April 20, 2021, from AsiaNews: <https://www.asianews.it/news-en/Coronavirus:-Ayurvedic-prevention-and-treatment,-but-many-break-the-curfew-49778.html>

⁸ Leighfield, J. (2020). *Thousands Queue in Sri Lanka to Get Covid-19 'Miracle Cure'*. Retrieved April 20, 2021, from EuroWeekly: <https://www.euroweeklynews.com/2020/12/09/thousands-queue-in-sri-lanka-to-get-covid-19-miracle-cure/>

⁹ World Health Organization. (2012). *Traditional Medicine in the Western Pacific*. Geneva: World Health Organization.

manual therapies, yoga, naturopathy, thermal therapy, and other physical, mental, spiritual and mind-body therapies.¹⁰ In countries where the dominant health care system is based on allopathic medicine, or where TM has not been incorporated into the national health care system, TM is often termed as ‘complementary’, ‘alternative’ or ‘non-conventional’ medicine.¹¹

Practices of TM such as Ayurveda, traditional Chinese medicine and Unani medicine are popular both nationally and internationally. According to WHO estimates, more than 100 million Europeans are TM users, but many more TM users are found in other parts of the world such as in Africa, Asia, Australia and North America.¹² Indeed, while most countries around the world use TM, some countries are found to depend mostly on TM. For instance, nearly, 40-60% of the population in the Western Pacific region countries is estimated to use TM; similarly, 40% of all health care delivered in China and in Hong Kong is said to be TM.¹³ Countries such as Singapore (76% of the population) and South Korea (86% of the population) show overwhelming dependence on TM despite highly developed and effective Western medical systems in place.¹⁴

The pattern of TM use in each country depends on several factors such as culture, historical significance, availability and/or accessibility of TM health services, as well as regulations and monitoring systems.

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¹⁰ World Health Organization. (2013). *WHO Traditional Medicine Strategy: 2014-2023*. Geneva: World Health Organization.

¹¹ *Ibid.*

¹² *Ibid.*

¹³ World Health Organization. (2000). *Traditional and Modern Medicine Harmonising the Two Approaches*. Retrieved May 5, 2021, from World Health Organization: https://apps.who.int/iris/bitstream/handle/10665/207162/19991126_CHN_eng.pdf?sequence=1&isAllowed=y

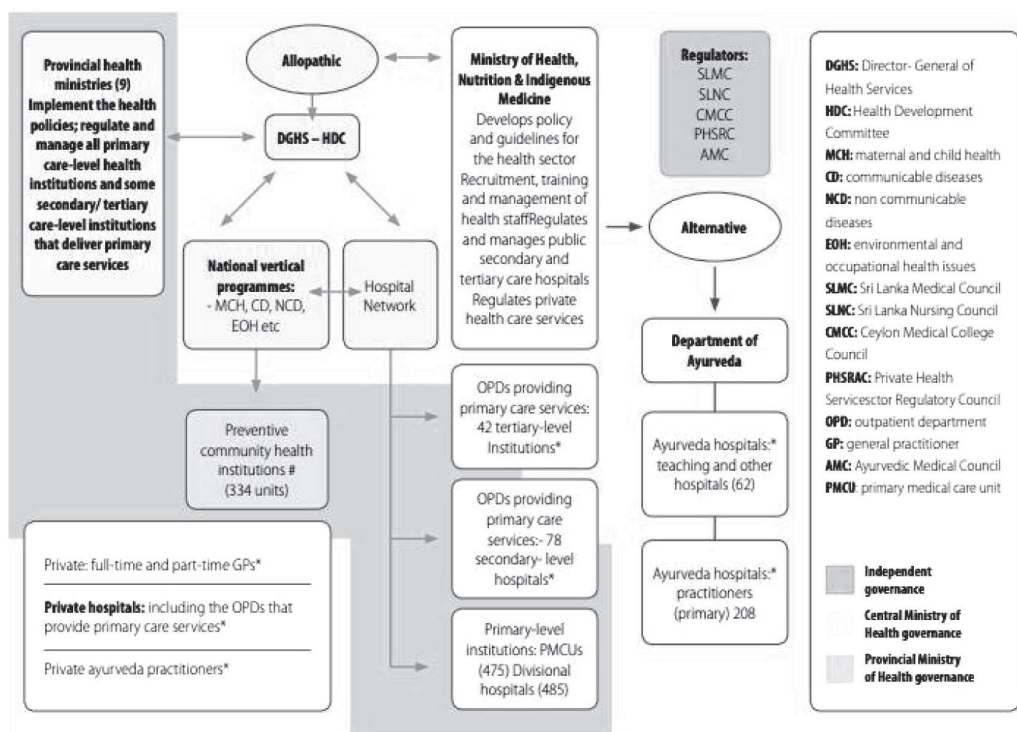
¹⁴ World Health Organization. (2013). *WHO Traditional Medicine Strategy: 2014-2023*. Geneva: World Health Organization.

13.3 Health Service Delivery in Sri Lanka

Sri Lanka's health system consists of both Western (allopathic) and TM (Ayurveda, Unanni, Siddha, and homeopathic medicine). TM has been practiced in Sri Lanka for centuries, and different strands of medicine have co-existed without any tensions even with the advent of Western medicine practices.¹⁵ From 1930, government health services covered preventive, curative, rehabilitative and promotional health

care services.¹⁶ Since independence, Sri Lanka has adopted a policy of providing free health care to all Sri Lankans, building an extensive network of institutions for public health care delivery. The delivery of care in the public sector is decentralised. Most of the primary care institutions and some specialised allopathic hospitals are managed by the provincial health authorities. The public sector continues to provide free health care on the basis that its facilities are operated on the principle of no user fees at the point of delivery.¹⁷

Figure 13.1
Health Care Delivery System in Sri Lanka



Source: World Health Organization. (2017). *Primary Health Care Systems (PRIMASYS): Case Study from Sri Lanka*, Abridged Version. Geneva: World Health Organization.

¹⁵ Arseculeratne, S.N. (2002). Interactions between Traditional Medicine and 'Western' Medicine in Sri Lanka. *Social Scientist*, 30(5/6), 4-17

¹⁶ Jayasekara, R., & T.I. Schultz. (2007). Health Status, Trends, and Issues in Sri Lanka. *Nursing and Health Sciences*, (9), 228-233.

¹⁷ Kumar, R. (2018). Public-private Partnerships for Universal Health Coverage? The Future of "free health" in Sri Lanka. *Globalisation and Health*, 15(Suppl 1):75.

As a result of the open economy reforms especially, following the late 1970s changes of economic policies, private health care services were also introduced to the market. Currently, private sector services are mostly established focussing on curative health care service delivery. A higher percentage of such services are concentrated in urban areas. The private sector consists of practitioners in all types of medicine, allowing people to seek the medical care of their choice at a cost. The government health service plays the role of ‘regulator’ for the private sector as well.

The Ministry of Health, Nutrition and Indigenous Medicine is the principal agent which provides stewardship to health service development and regulation in Sri Lanka. The ministry is also responsible for ensuring resources for health such as trained human resources, drug supply and major health infrastructure developments.

Within this structure, health care is delivered through two separate services – curative and preventive. Curative care services are based in hospitals with a wide range of service providers, from the National Hospital of Sri Lanka to primary medical care units. Preventive care services are mainly provided through health care units known as Medical Officers’ health units. Health services are delivered as allopathic and alternative systems, with TM belonging to the alternative field (Figure 13.1).

In summary, Sri Lanka’s health care service consists of five main sectors: the government funded allopathic medical sector, the government supported Ayurveda sector (TM), the privately run

**Health services
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allopathic medicine sector, the privately financed Ayurveda (TM sector), and privately run ‘other sector’.¹⁸ The other sector of medicine is referred to in several terms such as indigenous medicine, complementary medicine, native medicine, local medicine and TM, etc. Whilst TM has continued to provide a considerable service to the Sri Lankan population in the post-independent years, the allopathic system is by far the more dominant due to its advances in addressing health needs,¹⁹ and is considered as the mainstream health system catering to the needs of the majority of the population.²⁰

¹⁸ Ministry of Health. (2018). *Annual Health Bulletin*. Colombo: Ministry of Health.

¹⁹ Jayasekara, R., & T.I. Schultz. (2007). Health Status, Trends, and Issues in Sri Lanka, *Nursing and Health Sciences*, 9, 228–233.

²⁰ Ministry of Health. (2018). *Annual Health Bulletin*. Colombo: Ministry of Health.

13.3.1 The Role of Traditional Medicine in Sri Lanka

Ayurveda is a Sanskrit term meaning ‘Ayur’ (ayuh) the life and ‘Veda’ the science of knowledge. Thus, Ayurveda means ‘the science of life’. ‘Deshiya Chikitsa’ is also a unique Sri Lankan non- formalised TM system. The local community relies on this system for many treatments including treatment for eye diseases, fractures and dislocations, burns and scalds, boils and carbuncles and cancers.²¹ However, it should be noted that presently, the Sri Lankan government uses the term Ayurveda to refer to all types of TM practised in all parts of the country.

All TM systems or the Ayurveda systems in Sri Lanka are controlled by the Ayurveda Act, enacted in 1961. The Bandaranaike Memorial Ayurvedic Research Institute, established in 1961, serves as the national research institute for TM. Further, the Sri Lanka Ayurvedic Drugs Corporation was established in 1969 under the provisions of the State Industrial Corporation Act. No. 49 of 1957 to be the pioneer institute for manufacturing and distributing Ayurvedic drugs to government hospitals, Ayurvedic physicians

and the private sector. Remarkably, in the 1990s, Sri Lanka established a separate cabinet level ministry for the development of TM – the first time that a separate ministry was formed to enhance TM by any country.²² At present, the Ministry of Health, Nutrition and Indigenous Medicine serves as the national office for TM.

All TM systems or the Ayurveda systems in Sri Lanka are controlled by the Ayurveda Act, enacted in 1961.

Western and Ayurveda Medicine Facilities in Sri Lanka

	Western	Ayurveda
 Hospitals	609	118
 Beds	77,121	5,508
 Doctors	19,615	26,061

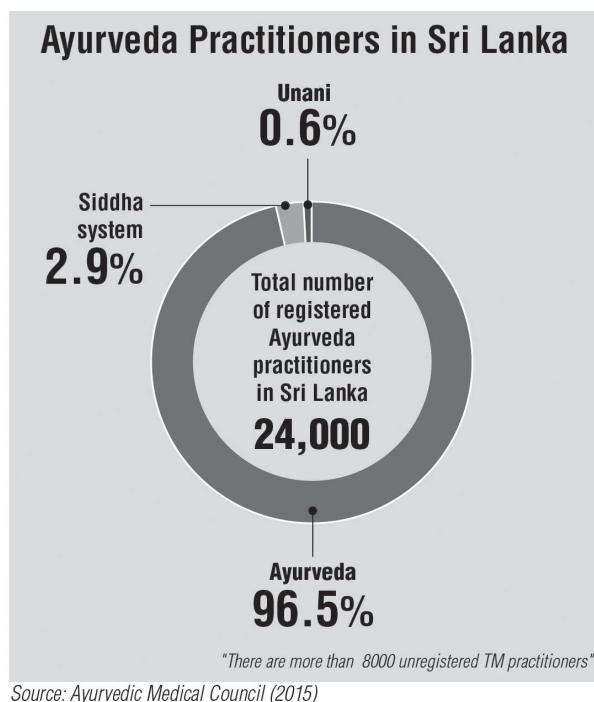
Source: Central Bank of Sri Lanka - Annual Report (2020)

²¹ Ministry of Health. (2018). *Annual Health Bulletin*. Colombo: Ministry of Health.
²² Abeyrathne, R.M. (2019). Current Trends in the Popular Sector Traditional Medicine in Sri Lanka, *Pakistan Academy of Science*, 56(3): 27–36.

As previously noted, both the public and private sectors provide Ayurveda services to people. The Sri Lankan population, as elsewhere, would choose traditional, Western or both medicinal treatment methods depending on the illnesses they are confronted with. Research suggests that usually, for minor illnesses their first preference is TM treatments.²³ Also, whenever Western medicine treatments have failed, TM treatment is considered to have proven useful.²⁴

However, data on usage is scarce, with the last available statistics of the Department of Ayurveda collated in 2007. According to these statistics, 40-59% of the population used indigenous TM. Acupuncture, homeopathy and Unani medicine practices were used by 1-19% of the population and Ayurvedic medicine by 40-59%.

The Ayurvedic Medical Council (AMC) data for 2015 indicate that there were about 24,000 registered Ayurveda practitioners in Sri Lanka, comprising of degree, diploma holders and traditional practitioners. Amongst special physicians, Ayurveda counts for 96.5% and the Siddha system for 2.9% and Unani for 0.6%. Apart from these registered physicians, it has been estimated that more than 8,000 TM practitioners practising medicines at the AMC who are descendants of reputed families with secret formulae to cure diseases are engaged in public health care.²⁵ It was only in 2016 that the Ministry of Health began to include many Ayurveda institutions into the national data collection process, showing a number of Ayurveda institutions provided services across the country (Table 13.1).



²³ Abeyrathne, R.M. (2019). Current Trends in the Popular Sector Traditional Medicine in Sri Lanka, *Pakistan Academy of Science*, 56(3): 27–36.

²⁴ Arseculeratne, S.N. (2002). Interactions between Traditional Medicine and 'Western' Medicine in Sri Lanka. *Social Scientist*, 30(5/6), 4-17.

²⁵ Perera, K. (2018). *Traditional Medicine Systems in Sri Lanka*. Retrieved April 25, 2021, from Ceylon Digest: <https://www.ceylondigest.com/traditional-medicine-systems-in-sri-lanka>

Table 13.1
Ayurveda Institutes

Types of Institution	No. of Institutions	Location
Ayurvedic teaching hospitals	05	Borella, Yakkala, Kaithady, Trincomalee, Manchanthuduwa
Ayurvedic research hospitals	03	Nawinna, Hambanthota, Ampara
Ayurvedic hospitals under Provincial Councils	95	Throughout the country
Ayurvedic central dispensaries under Provincial Councils	230	Throughout the country
Free Ayurvedic dispensaries	374	Throughout the country
Medicinal plants gardens	07	Girandurukotte, Pallekelle, Halthumulla, Pinnathuva, Pattipola, Kanneliya, Nawinna
Homoeopathic hospitals	01	Welisara
Homoeopathic clinics	07	Palamunai, Parakaduwa, Kurunagala, Tholangamuwa, Matala, Dehiwala, Moneragala

Source: Ministry of Health. (2018). *Annual Health Bulletin*. Colombo: Ministry of Health.

The number of hospitals, beds and doctors in delivering Western medicine services is seen to be increasing, while the utilisation of such services has also increased.²⁶ Alarming, the Ayurveda service utilisation was not captured in the national data collection system until 2018. This indicates a lack of interest in the traditional health service in the system. The number of ayurvedic registered physicians is available in the national data collection system and it shows a gradual increase from 20,004 in 2010 to 26,061 in 2020.²⁷

Nearly 600,000 patients have visited Ayurveda teaching and Ayurveda research hospitals in 2018.²⁸ Details of services provided in Ayurveda hospitals indicate that they account for only 8% of the total number of patients that utilised Western medical institutions in 2018.²⁹ However,

this could be an underestimate as some Ayurveda treatments are not captured in the data collection system.

Even though Sri Lanka had a very rich Ayurveda treatment system in history, the lack of data sources on availability, accessibility and utilisation of TM indicates that the Western medicine system has gradually become the more important part of health care delivery, with the TM system being marginalised over time. Moreover, it highlights the fact that integrating or harmonising TM with Western medicine in Sri Lanka is still a challenge. At the time of integration, issues such as hierarchy between the two systems, where modern practitioners continue a hegemonic position in the health care delivery system of the country,³⁰ lack of mutual understanding and lack

²⁶ Central Bank of Sri Lanka. (2020). *Annual Report 2020*. Colombo: Central Bank of Sri Lanka.

²⁷ Ministry of Health. (2018). *Annual Health Bulletin 2018*. Colombo: Ministry of Health.

²⁸ *Ibid*.

²⁹ Central Bank of Sri Lanka. (2020). *Annual Report 2020*. Colombo: Central Bank of Sri Lanka.

³⁰ Liyanage, C., & P. Ekanayake. (2018). Competency and Challenges of Traditional Medical Systems in Postcolonial Sri Lanka. *Social Sciences and Humanities Review*, 03(01), 16-35.

Table 13.2
Number of Patient Visits in Ayurveda Hospitals

Number of Patient Visits in Ayurveda Teaching Hospitals					
Service	Borella	Yakkala	Kaithadi	Manchanthoduwai	Trincomalee
OPD	219,961	47,462	36,564	18,013	16,449
Clinic	264,781	37,713	15,800	-	6,726
Inward	2,352	899	1,235	221	51
Panchakarma clinic	-	4,111	149	-	-
Total	487,094	90,185	53,748	18,234	23,226

Number of Patient Visits in Ayurveda Research Hospitals					
Service	Navinna	Hambantota	Ampara	Madawachchiya	Ninthavur
OPD	53,359	29,748	34,224	8,990	14,188
Clinic	34,803	-	1,681	409	1,176
Inward	541	538	341	126	885
Panchakarma clinic	2,530				
Total	91,233	30,286	36,246	9,525	16,249

Source: Ministry of Health. (2018). *Annual Health Bulletin*. Colombo: Ministry of Health.

of a referral system and misconceptions on TM systems,³¹ need attention.

Over time, available evidence suggests that the share of the population using Ayurveda treatment is on the decline. For instance, in the early 1990s, 70% of Sri Lanka's population is estimated to be using Ayurveda,³² whereas in recent times this demand is argued to have dropped notably.³³ This may partly be the result of unaddressed issues within the country's TM system. Problems of authenticity, as there are unregistered or illegal practitioners in the TM field, is one such key issue. The downside impacts of not having harmonised or integrated TM and Western treatment methods is partly responsible

for these continuing weaknesses. Indeed, during a pandemic such as COVID-19, with more people seeking medical remedies through TM, the importance of addressing these gaps to provide quality and reliable treatment was pronounced.

13.4 Traditional Medicine Usage during COVID-19

TM has accumulated centuries of experience in the treatment of pandemic and endemic diseases.³⁴ More recently too, during previous pandemics such as the Severe Acute Respiratory Syndrome (SARS) and the Middle East

³¹ Weerasinghe, M.C., & D.N. Fernando. (2011). Paradox in Treatment Seeking: An Experience from Rural Sri Lanka, *Qualitative Health Research*, 21(3) 365–372.

³² *Ibid.*

³³ *Ibid.*

³⁴ Chen, X., Islam, M.S., Li, Y., Wand., J. & Y. Yang. (2020). Traditional Chinese Medicine in the Treatment of Patients Infected with 2019-New Coronavirus (SARS-CoV-2): A Review and Perspective. *International Journal on Biological Science* 16, 10, 1708-1717.

Box 13.1

Using Traditional Medicine for COVID-19

Thailand: The Department of Thai Traditional Medicine and Government Pharmaceutical Organization are developing COVID-19 cures using medicinal herbs including *Andrographis paniculata*. Moreover, a drink named 'kariyat' is being advocated as an effective treatment against coronavirus symptoms. Thailand's Ministry of Public Health provided 600,000 traditional herbal medicine capsules to hospitals to help treat COVID-19 patients who have mild symptoms. This medicine is to be used along with modern medicines. The Department of Thai Traditional and Alternative Medicine under the ministry is overseeing the administration of TM in Thailand.

China: Three traditional Chinese medicinal products have been approved to treat patients with COVID-19 by the National Medical Products Administration of China. These are Jinghua Qinggan granules, Lianhua Qingwen granules and capsules, and Xue Bi Jing injection.

Indonesia: Indonesians are using a drink called 'jamu' which is made with turmeric and ginger. This drink was even endorsed by the Indonesian president.

Malaysia: In Malaysia, a drink with dried ginseng, scallops and sea cucumber is being used to boost immunity during COVID-19.

Philippines: The Council on Health Research and Development of the Department of Science and Technology is reported to be researching coconut oil as a potential agent against the virus. Moreover, In the Philippines, research studies are being conducted on the use of tawa-tawa (*Euphorbia hirta*) and lagundi (*Vitex negundo*) as a treatment for COVID-19 patients with mild to moderate symptoms.

Source: Carter, A. (2020). *Thailand's Ministry of Public Health to Give Traditional Herbal Medicine for Mild Covid Symptoms*. Retrieved May 5, 2021, from Thaiger: <https://thaiger.com/coronavirus/thailands-ministry-of-public-health-to-give-traditional-herbal-medicine-for-mild-covid-symptoms>;

Xion,Y., Gao, M., Duiin, B.van., Choi, H., Horssen, F.van., & M.Wang. (2021). Review International Policies and Challenges on the Legalisation of Traditional Medicine/Herbal Medicines in the Fight Against COVID-19. *Pharmacological Research*, 166, 105472;

Wei, L.S. (2020). *Integrating Modern, Traditional Medicine to Treat Covid 19*. Retrieved May 7, 2021, from Bernama: <https://malaysiahealthcare.org/integrating-modern-and-traditional-medicines-to-treat-covid/>; Tolentino, S.F. (2021). *Manila Bulletin Traditional Medicine in the Philippines*. Retrieved May 7, 2021, from Manila Bulletin: <https://mb.com.ph/2021/01/07/traditional-medicine-in-the-philippines/>

These sentiments are borne out even through a brief perception survey conducted amongst 55 respondents as an initial exploration to identify preferences in taking medicines. A combination of both TM and Western medicine (56% of respondents) seems to be the preponderant practice as expected. Of those choosing only one or the other, the majority preference is for Western medicine (39%) and a much smaller number (5%) relying solely on TM. Nonetheless, 87% claim

to have used TM methods at some point, with Ayurveda (9%) being the most preferred.

As a preventive measure against COVID-19, 44% have taken TM before experiencing symptoms. The traditional remedies used were steam inhalation, drinking hot water, and other home remedies. Notably, 70% of the respondents indicate that a combination of TM and Western treatment can alleviate COVID-19 symptoms,

Box 13.2

TM Introduced in Sri Lanka against COVID-19

Sri Lanka Ayurvedic Drug Corporation developed a drink to boost immunity during COVID-19 called 'Suwa Darani-immunising drink'. As the pioneer institute for manufacturing and marketing, the Ayurvedic Drugs Corporation also produced a 'kasaya' to enhance immunity, named 'Kawalagrahaya and COVID-19 steamer/inhaler'. These products were made available at the Corporation's sales outlets. According to the response of sales outlets, they are unable to meet the demand for some products.

Further, Ayurveda doctors such as Tharangani Wickramasooriya claimed to have developed a herbal medicine called 'EPIREPIES' which will help to fight COVID-19. This was approved by the government expert committee for COVID-19 and is available at the Corporation's sales outlets.

Another famous medicine suddenly introduced was 'Dammika Paniya', a tonic developed by an Ayurveda practitioner. However, after clinical trials, it was found to be ineffective, whereby the Director General of Health Services made a statement advising large numbers of people in search of it, that the medicine is not effective against COVID -19. Another Ayurveda practitioner too came up with alternative medicine with a claim that it belongs to an ancient Ayurvedic group (the Ravana group, descended from King Ravana). This second 'Ritigala Peniya' however was not approved by the government expert committee for COVID-19. According to media reports, many thousands of people were seeking relief from behind these tonics, paying out large sums of money to purchase them through eBay and Amazon. A black market for these products also emerged as a result.

People are also using Deshiya Chikista or home remedies such as fumigation and steam inhalation to minimise COVID-19 effects. Also, following many centuries of Ayurveda practice, indigenous physicians in the country have been prescribing coriander, ginger, honey bee, weniwel (*coscinium fenestratum*) for treatment of certain symptoms. It is claimed that there are a large number of time-tested medicines used for fumigation and steam inhalation that have proven to be effective against diseases such as COVID-19.

Source: Based on the telephone interviews conducted with sales outlets; Leighfield, J. (2020). *Thousands Queue in Sri Lanka to Get Covid-19 'Miracle Cure'*, Retrieved April 20, 2021, from EuroWeekly; <https://www.euroweeklynnews.com/2020/12/09/thousands-queue-in-sri-lanka-to-get-covid-19-miracle-cure/>; Jayasuriya, R. (2021). *Victims, Culprits of 'Dammika Paniya' and False National Pride*. Retrieved April 30, 2021, from <https://www.dailymirror.lk/opinion/Victims-culprits-of-Dammika-Paniya-and-false-national-pride/172-204484>

with 85% willing to use a TM for COVID-19 if it has government certification and is provided by the government health system.

The latter point to a critical area of concern in the wake of the experiences with TM cures offered during the pandemic. Unregistered practitioners, marketing products without clinical trials to an

anxious population amid a crisis highlighted some of the key data and regulatory gaps governing the TM sector in Sri Lanka. Bridging such gaps to ensure that TM is used more effectively to complement health care prevention and medical care services in the management of future pandemics is important.

Indeed, international best practices suggest that TM systems that are integrated into one mainstream health care sector, with proper regulatory and monitoring systems, can provide better services. Countries such as China, the Philippines, India, Thailand, etc., provide evidence that harmonisation or the integration of the TM system with Western medicine systems provide better services to people, and are positioned to better accommodate people's preferences or choices.

13.5 Policies and Standards in the Regulation and Legalisation of TM

Globally, the landscape for TM has been improving consistently in line with the WHO's Traditional Medicine Strategy (2002-2005) and its follow up, Traditional Medicine Strategy (2014-2023). Based on these strategies, some countries have taken several steps to promote the safety, quality and effectiveness of TM. Box 13.3 explains how selected countries have integrated TM into the mainstream of health care, with proper regulatory and monitoring systems.

The harmonisation or integration of the two methods – TM and Western medicine – is one of the best options to get the maximum benefit from TM. Integrating the two systems enables better collaborative efforts, administered by the respective specialists in the two different medicinal branches without imposing any one system over the other. Such an integration benefits patients who wish to avail themselves of services under both systems.

Country experiences too support this. For instance, in China and many other countries,

China, the Philippines, India, Thailand, etc., provide evidence that harmonisation or the integration of the TM system with Western medicine systems provide better services to people.

Box 13.3

Integrating TM into Mainstream Health Care and Improving Regulatory Systems

Philippines

The Traditional and Alternative Medicine Act (TAMA law), which was enacted in December 1997, was created to improve the quality and delivery of health care services to the Filipino people through the development of traditional and alternative health care and its integration into the national health delivery system. The Philippine Institute of Traditional and Alternative Health Care (PITAHC) was established in 2000 to implement the TAMA law. The PITAHC and the Philippine Food and Drug Administration (PFDA) together with serve as the national office on TM. A Strategic Map 2017-2021 on TM was developed by the PITAHC in 2017. It is important to note that research on TM was undertaken by three national institutes: National Institute for Health, the National Integrated Research Programme on Medicinal Plants and the Philippine Council for Health Research and Development. The PFDA is the state agency that has regulatory power over the production, distribution and use of products such as food, drugs, cosmetics, devices, biologics, vaccines, in vitro diagnostic reagents, and household hazardous substances, including combinations and derivatives of any product or substance. Thus, in the Philippines, TM is successfully integrated into the mainstream health services to cater to consumer choices.

India

In India, the national policy on TM is the National Policy on Indian Systems of Medicine and Homeopathy, issued in 2002. National legislation on TM includes the Indian Medicines Central Council Act 1970, the Homeopathy Central Council Act 1973 and the Drugs and Cosmetics Act of 1940 (amended in 2009). The Department of Ayurveda, Yoga, Unani, Siddha and Homeopathy (AYUSH), serves as the national office for TM.

There are national and state-level regulations that apply to providers of Ayurvedic medicine, homoeopathic medicine and Unani medicine. TM providers practice in both public and private sector clinics and hospitals. To maintain high standards of TM health services, the government issues a TM license required to practice. Licenses and certificates are both issued after graduation and subsequent completion of a compulsory rotating internship. Bachelor's, Master's, PhDs and clinical Doctorate degrees in TM are available at the university level. It is important to note that in India, all six traditional systems of medicine with official recognition (Ayurveda, yoga, naturopathy, Unani medicine, siddha and homoeopathy) have institutionalised education systems.

Thailand

The policy on TM is integrated into the National Health Act of 2007 in Thailand. National-level legislation to regulate indigenous TM providers comprises the Practice of the Art of Healing Act (1999), the Code of Ethics for Thai Traditional Medicine Providers (2002) and the Code of Ethics for Applied Thai Traditional Medicine Providers (2002). Also, national-level legislation applies to TM providers such as chiropractic providers (2006 Code of Ethics) and traditional Chinese medicine providers (2000 Code of Ethics, revised in 2009). The registration of TM or herbal medicines is carried out under the Drug Act. The Thai government issues a TM license or certificate required to practice, within the established Code of Ethics.

China

TM practitioners are regulated by the Licensed Doctors of the People's Republic of China, which regulates all physicians enrolled since 1998. The Law on Traditional Chinese Medicine came into force in 2017. Sixteen national traditional Chinese medicine clinical research bases have been built as part of the clinical research system for preventing and treating infectious diseases and chronic non-infectious diseases with traditional Chinese medicine.

An urban traditional Chinese medicine medical care network has been formed. This network mainly comprises hospitals for traditional Chinese medicine (including ethnic minority medicine and integrated Chinese and Western medicine), traditional Chinese medicine clinics and general hospitals' traditional Chinese medicine clinical departments, and community health centres. The Chinese government encourages exchanges between traditional Chinese medicine and Western medicine and creates opportunities for Western medical practitioners to learn from their traditional Chinese medicine counterparts. Modern medicine courses are offered at traditional Chinese medicine colleges and universities to enlighten the doctors who have a good knowledge of both traditional Chinese medicine and Western medicine. Traditional Chinese medicine hospitals have been encouraged to open specialised departments for specific diseases, which are in addition to general departments. General hospitals and community level medical care organisations have been encouraged to set up traditional Chinese medicine departments, and traditional Chinese medicine has been made available to patients in the basic medical care system, and efforts have been made to make it play a more important role in the provision of basic medical care.

Source: World Health Organization. (2013). *WHO Traditional Medicine Strategy: 2014-2023*. Geneva: World Health Organization; World Health Organization. (2019). *WHO Global Report on Traditional and Complementary Medicine 2019*. Geneva: World Health Organization.

harmonisation or integration of the two systems have proven to provide more effective remedies and better medical choices for people. In China, traditional Chinese medicine and conventional medicine are practised alongside each other at every level of the health care service, with public and private insurance covering both traditional Chinese medicine and conventional medicine. In South Korea and Vietnam too, traditional medicinal doctors are permitted to provide services in both public and private hospitals and clinics. In Western countries too, TM is being partially integrated into their respective national

health systems. Switzerland was the first country in Europe to integrate TM into its health system.

In light of the facts mentioned above, it is evident that Sri Lanka too needs to re-examine its regulatory landscape for TM. During the COVID-19 pandemic, the use of TM garnered significant attention. With the population preference appearing to be to use both TM and Western medicines, it is important to identify the strategies that could enhance and improve the TM system in health delivery, especially during pandemic situations.

13.6 Way Forward: Addressing Regulatory Gaps

As stated above, even during the current COVID-19 pandemic, a large number of people in Sri Lanka sought protection from TM. However, accurate information or statistics are meagre to substantiate its popularity or the effectiveness of TM as there is no formal process to maintain patient records unlike in Western medicine. Details are recorded only of patients who seek Ayurvedic medicine from formal Ayurvedic hospitals. Therefore, a lack of available data on TM practitioners and patients is a key information gap at the outset itself.

The pandemic also highlighted other significant gaps – in regulations, supervision, prevailing systems or institutions – to ensure quality assurance, safety, authenticity and effectiveness of TM. As a result, many TM cures put forward for COVID-19 proved to be ineffective and undermined patient confidence. This is in contrast to countries that have put in place a strict set of guidelines such as India and China. For example, the Ministry of Ayush in India issued guidelines for Ayurveda and Unani practitioners for COVID-19 patients in home isolation, and Ayurveda and Unani preventive measures for self-care during COVID-19. China too promoted the registration of new TM drugs for COVID-19 after clinical trials and systematic standardisation processes.

These practices highlight the importance of integrating or harmonising both Western medicine and TM systems for better health delivery. To make this integration more effective, Sri Lanka needs to make several policy decisions to bridge existing gaps between the two systems. Firstly, as in the Western medicine system, it is important

to establish an effective data collection and management system about the Ayurveda sector which will cover the number of institutions, types of health services, human resource involvement, number of treatments, including in-patient and out-patient records, etc. Maintaining such records of availability, accessibility and utilisation of various TMs will help in taking the necessary steps to integrate TM with the Western medicine system.

Secondly, with better access to information, the steps needed to facilitate appropriate clinical trials, improve the rigour of clinical trials, and means of collaboration between Western medicine, TM practitioners and researchers have to be identified for regulatory gaps to be tightened.

Sri Lanka needs to strengthen the existing registration system of TM practitioners with the AMC. Registration of all TM practitioners with the AMC – citing their qualifications, educational background, location, the products they use in practice, etc., – should be made mandatory. Further, all such service providers could also be registered with local governments' health departments. This would lower the likelihood of hawkers and peddlers practising in the system, and undoubtedly improve the professionalism, knowledge and skills of TM practitioners through better education and training.

Currently, only very limited research is being conducted, with minimum interaction between scientists and TM practitioners. This is due to several reasons such as lack of funds, personnel facilities in the TM system, etc. The limited research that is being conducted is also carried out in an uncoordinated manner with very little recognition received. Thus, it is vital that the Ayurveda Research Institute implements and enforces guidelines to strengthen and encourage

research and training, including means of validating clinical trials. Such evidence-based output will help bridge a glaring gap at present of well-controlled clinical trials and systematic research reviews that are necessary to establish the trustworthiness of TM cures being offered.

Improving collaboration between TM and Western medicine systems is one means of strengthening the above weaknesses. At present, the Ayurveda Research Institute, the AMC, Ayurveda Education and Hospital Board, Ayurvedic Research

Committee and Ayurveda Formulary Committee are key agencies involved in the regulatory, monitoring and information systems in the TM sector. Noticeably, the integration of TM and Western medicine systems will not happen overnight. However, as a first step, identifying the existing gaps and improving access to information, facilitating appropriate clinical trials, improving their rigour through a stronger collaboration of practitioners and researchers will accelerate the process.

14. Building Resilient Agricultural Value Chains during COVID-19

14.1 Introduction

The agriculture sector makes a significant contribution to the economic and social development of Sri Lanka. Agriculture accounted for 7% of the country's gross domestic product (GDP) and generated 20.6% of national export earnings equivalent to USD 2.5 billion in 2019.¹ The sector employs a quarter of the country's labour force (2,072 million persons).² Its importance is even larger in rural areas where agriculture engages over half of the workforce. A major share (56.3%) is classified as part-time farmers who spend more time in non-agricultural activities.³ While most products are commercially oriented, one-third of farmers are producing for their consumption (subsistence-oriented). Agriculture contributes significantly to national and household food and nutrition security as well.

Like any other disaster, the COVID-19 pandemic has deepened existing vulnerabilities concerning agriculture, food and nutrition security in Sri Lanka. Movement restrictions, especially during the first wave, brought economic activities to a standstill, hitting household incomes. In addition, agricultural supply chains too were crippled in

the early days of the lockdown. The disruption of supplies created a backsliding effect, spreading towards the producers at the end of value chains which resulted in a shortage of agriculture inputs, income losses for farmers and low farm gate prices. The ability of consumers to buy food was severely affected by a collapse of food distribution due to restricted transport and storage facilities and the closure of major wholesale and retail markets. In addition, the containment measures eroded people's access to food – particularly in poor and marginalised households – and led to price spikes.⁴

The governments took several early initiatives to help food producers, distributors and consumers during the first wave of COVID-19 lockdown imposed in March 2020. Although these efforts, were welcomed, the same was insufficient as well because the country has been undergoing the second and third waves of COVID-19. These trends indicate that pandemic shocks may have medium to long-term impacts on food systems with far-reaching consequences. Hence, the challenge is to find policy solutions to mitigate

¹ Central Bank of Sri Lanka. (2020). *Annual Report 2020*. Colombo: Central Bank of Sri Lanka.

² Department of Census and Statistics of Sri Lanka. (2019). *Annual Bulletin-2019*. Colombo: Department of Census and Statistics of Sri Lanka.

³ Department of Census and Statistics of Sri Lanka. (2014). *Agriculture Census-2014*. Colombo: Department of Census and Statistics of Sri Lanka.

⁴ Institute of Policy Studies of Sri Lanka. (2020). *Sri Lanka State of the Economy 2020*. Colombo: Institute of Policy Studies of Sri Lanka.

the impact of COVID-19 in the short and medium-term and strengthen the resilience of the food systems in the future.

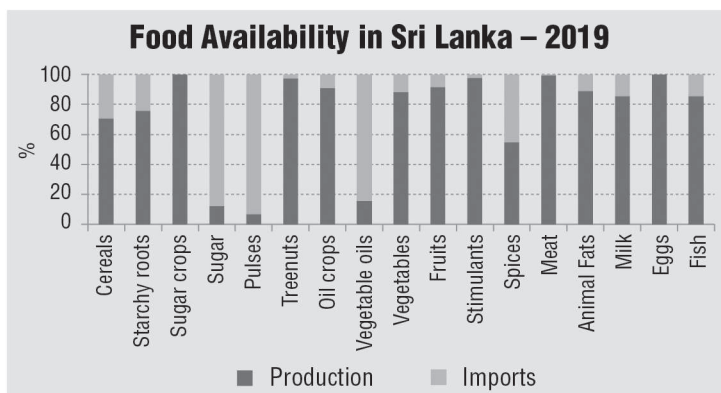
Within this background, this chapter seeks to explore the ways to promote food security and to build a more resilient and inclusive food system in Sri Lanka. It uses a mixed methodological approach, using both secondary and primary data to analyse the pandemic's impact on value chain participants.⁵ First, the chapter analyses the macro-level impact of COVID-19 on food availability in Sri Lanka. Then, it discusses the micro-level impacts of the pandemic on farmers and other stakeholders of the food system. Next, it analyses the agricultural value chains to identify the challenges that contribute to food system vulnerabilities. Finally, the chapter concludes by providing some policy recommendations that would support recovery from the COVID-19 shock, and build up the overall resilience of food systems to face future shocks.

14.2 Impact of COVID-19 on Food Availability

To analyse the impact of COVID-19 on national level food availability in Sri Lanka, this section first discusses the pre-COVID19 food availability and then evaluates changes in the food supply situation during the pandemic period.

14.2.1 Pre-COVID-19 Food Supply

Domestic food availability in Sri Lanka is largely determined by domestic production and imports of food crops, livestock products and fish, since the annual changes in stock is minimal. Domestic agriculture provided approximately 70% of the food requirement in 2019. Sri Lanka is nearly self-sufficient in rice, the staple diet item of Sri Lankans, and local production of the other main



Source: Based on *Food Balance Sheets 2019*, DCS.

⁵ Primary data for the study were obtained from telephone interviews with 143 different stakeholders in the value chain conducted in November-December to collect the information related to the 2020 Yala Season using a structured questionnaire.

plant-based food sources that include vegetables, root crops, fruits and oil crops exceeds 75% of total availability. While Sri Lanka also produces a variety of pulses that include mungbean, cowpea, black gram and soybean, but pulses show a low share of local supply (7%) due to heavy importation of dhal and chickpea. Fish and poultry meat are the major animal protein sources of the Sri Lankan diet. The domestic production share of animal protein products such as meat, milk, fish and eggs exceeds 85% despite the country importing a significant share of processed products such as dried fish, canned fish and powdered milk.

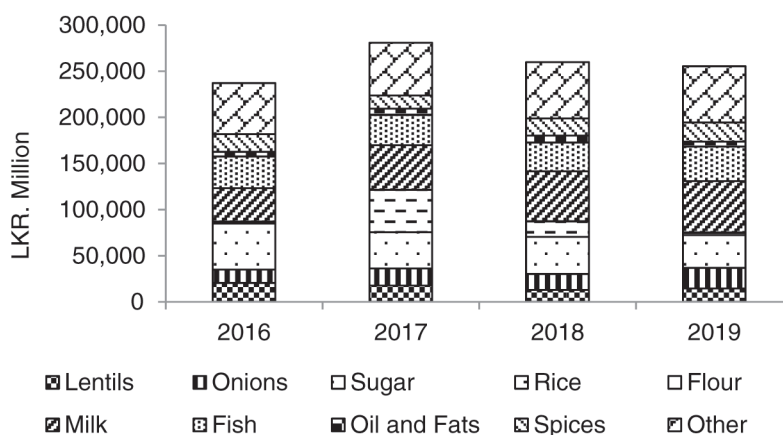
The food and beverages imports account for about 8% of total imports into the country and consist of mainly milk products, fish and fish products, sugar, onions and spices. Sri Lanka relies heavily on imported milk powder (LKR 55,647 million in 2019) to meet its growing consumer demand due to the insignificant amount of local production. The import value of fish and dried fish amounted to LKR 37,553 million and the annual value of sugar imports reached

LKR 35,714 million in 2019. A significant amount of foreign exchange is spent annually on import of onions as well. These four items, accounting for 60% of total food and beverages import costs of LKR 255,125 million (9.7% of total imports) in 2019, generate a significant burden on the local economy. Other than this, Sri Lanka spent LKR. 95,909 million (equivalent to 33% of the total food and beverages import cost) on various other food imports that include spices, potato, chilli, other pulses, etc. The cost of importing wheat and maize as intermediate goods amounted to LKR 61,887 million in 2019.

14.2.2 Changes in Food Supply during COVID-19

The impact of COVID-19 on food availability largely depends on domestic food production since over 70% of the food availability is sourced domestically. Figure 14.1 shows that the domestic crop production has seen only minimal disruptions. Harvesting of the 2020 Maha season crops had already been completed by the time of the first wave of the COVID-19 outbreak in

Figure 14.1
Food Imports in Sri Lanka, 2019



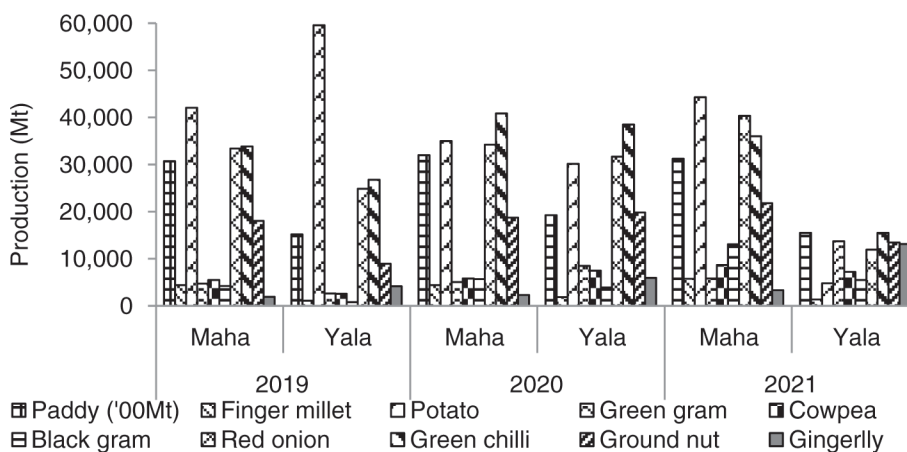
Source: Based on *Annual Report 2020*, CBSL.

March 2020. The crop production in 2020 Maha is relatively better than that of 2019 Maha (Figure 14.2). For example, in the case of paddy, 'Maha' production was 3.1 million tonnes, 23% above the previous five-year average due to above-average planting with remunerative prices, government support, and generally conducive weather conditions.⁶ Similarly, the production of the 2020 Yala was generally favourable; production of paddy was 1.9 million tonnes, 27% above the yield of the previous year. Additionally, since the prolonged lockdown during the first wave of the pandemic had been lifted (May 2020) by the time the 2020 Yala started, the COVID-19 pandemic did not affect the 2020 Yala crop production.

The bulk of the 2021 Maha crop was planted between October-December 2020 and harvesting operations took place during February-March

2021. Although the rain arrived late, overall favourable rainfall conditions during the season helped to enhance the crop cultivations, despite the second wave of the COVID-19 outbreak. For example, paddy production in 2021 Maha was 3.1 million tonnes which is almost equal to the previous year's production. Other domestic crops too showed a relatively better production than in the previous year. The increase in reservoir water due to the intense rain that fell after cyclone Burevi during December 2020-January 2021 was adequate to irrigate the ongoing 2021 Yala season crop in the major paddy rice-growing areas.⁷ However, lack of access to inputs due to the ongoing third wave of the COVID-19 and the recent government policy change on banning inorganic fertiliser and agrochemicals is expected to see a mixed performance in this season (Figure 14.2).

Figure 14.2
Food Crop production in Sri Lanka (2019 Maha-2021 Yala)



Source: Socio Economic and Planning Centre (SEPC), Department of Agriculture, Peradeniya.

⁶ Food and Agriculture Organization of the United Nations. (2020). *GIEWS Country Brief: Sri Lanka*. Rome: Food and Agriculture Organization of the United Nations.

⁷ Beillard, Mariano J., & Galappattige, Ayodya. (2021). *Grain and Feed Annual - 2021*. Retrieved July 21, 2021, from United States Department of Agriculture: https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Grain%20and%20Feed%20Annual_New%20Delhi_Sri%20Lanka_03-27-2021

Annual performance of food crop production too shows a mixed performance with certain crops indicating production and extent drops, and some others showing no change or an increase. Annual paddy production, as well as ground nut production, have dropped only by 9% in 2021 compared to 2020. Reductions in the range of 21-38% for the production of potato, soya, red onion and green chilli are expected in 2021. However, these reductions can mainly be attributed to the drop in the extent of cultivation which could be due to several reasons including COVID-19 related restrictions and access issues of inputs.

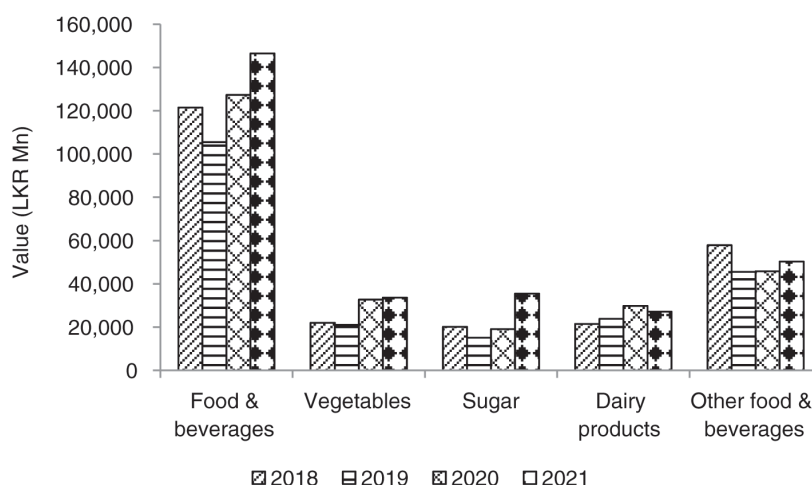
No significant change in food imports due to the COVID-19 has been observed. The share of food and beverages (F&B) in total imports has been 10% in 2020 which is a significant increase from 7% recorded in 2018 and 2019. During January-May 2021, the contribution of F&B to total imports

was 9% which is equivalent to the average share recorded in the last three years. As can be seen in Figure 14.3, there will not be a significant reduction in the level of food imports even with import price increases.

14.3 Impact of COVID-19 on Food Value Chain

The macro, or national level food availability aspects discussed above indicate only a slight impact from COVID-19 on domestic food supply. However, import restrictions that were implemented, including restrictions on the import of inputs to the food system resulted in shortages of goods like chemical fertilisers, and high quality seeds.⁹ This leaves room for further analysing the impact of COVID-19 on micro-level dynamics

Figure 14.3
Main Food Imports in Sri Lanka (January-May)



Source: Based on CBSL Monthly Economic Indicators.⁸

⁸ Central Bank of Sri Lanka. (2021). *Monthly Economic Indicators-June 2021*. Colombo: Central Bank of Sri Lanka.

⁹ SLYCAN TRUST. (2020). *Sri Lanka's Food Systems and Climate Risk: Building Resilience Across Supply and Value Chains*. Blog Post. Retrieved July 20, 2021, from SLYCAN TRUST: <https://www.slycantrust.org/post/sri-lankas-food-systems-and-climate-risk-building-resilience-across-supply-and-value-chains>

Annual Food Crop Extent & Production in Sri Lanka: 2019-2021

	Extent (Ha)			Production (Mt)		
	2019	2020	2021	2019	2020	2021
Paddy	1,116,933	1,208,000	1,161,904	4,592,056	5,121,000	4,673,178
Maize	63,450	78,249	123,323	245,647	313,520	468,625
Finger millet	4,142	4,570	5,630	5,474	6,247	7,074
Potato	5,432	3,565	2,949	101,642	65,085	49,068
Green gram	6,156	10,889	17,725	7,355	13,497	19,476
Soya	920	3,538	2,350	2,197	7,879	4,914
Cowpea	7,196	11,518	13,099	8,067	13,216	15,861
Black gram	5,302	8,812	18,614	4,908	9,562	18,564
Red onion	5,333	4,623	6,801	58,242	65,874	52,261
Green chilli	10,981	13,580	10,547	60,593	79,325	51,449
Ground nut	14,527	19,508	19,572	26,922	38,491	35,256
Gingerlily	6,035	11,654	18,241	6,085	8,223	16,464

Source: Socio Economic and Planning Centre (SEPC), Department of Agriculture, Peradeniya.

of food supply such as labour mobility, access to inputs, output quantity and price dynamics. This section evaluates the impact of COVID-19 on farmers based on a rapid farm survey conducted during November-December 2020 to capture the variation between the pre-pandemic situation (Yala 2019) and the pandemic situation (Yala 2020).

14.3.1 Labour Mobility Restrictions

Based on the field survey, relative to the pre-pandemic situation, about 63% of the farmers had spent about a similar number of days or more during the pandemic on their crop cultivation (Figure 14.4). Further, 48% of the farmers worked about the same number of days or more in others farms as hired labour and 54% of farmers used hired labour on their farms. This can be primarily attributed to the fact that the farmers were allowed to continue with their usual farming operations to prevent the agriculture sector from being hit by lockdown restrictions. However, some micro-level

Import restrictions that were implemented, including restrictions on the import of inputs to the food system resulted in shortages of goods like chemical fertilisers, and high quality seeds.

Figure 14.4
Labour Use during COVID-19 Relative to the Same Season Last Year



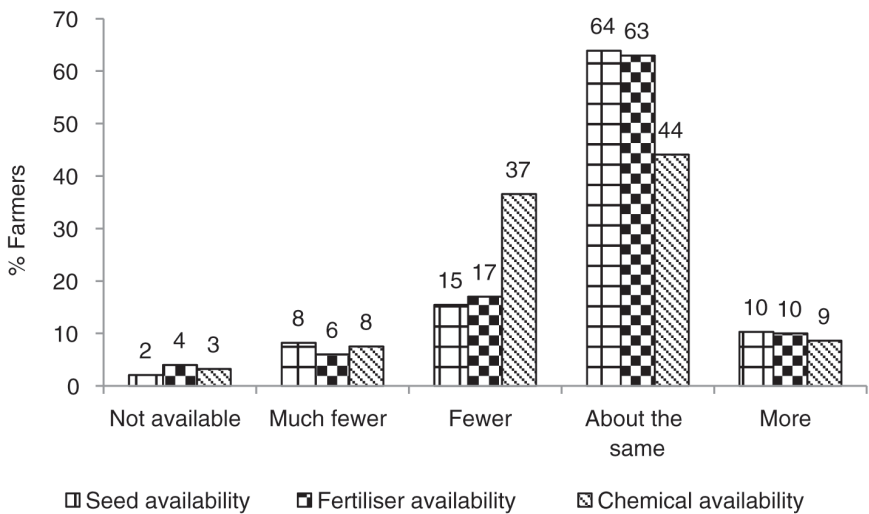
Source: Author's illustration based on the field survey.

labour mobility restrictions have been observed compared to the situation before the pandemic with 11% of farmers not having worked on their farm, some used hired labour on their farm (5%) or worked as hired labour on others farms (5%).

14.3.2 Restrictions on Input Use

As Figure 14.5 illustrates, about 74%, 73% and 53% of the farmers did not have any problem

Figure 14.5
Input Use during COVID-19 Relative to the Same Season Last Year



Source: Author's illustration based on the field survey.

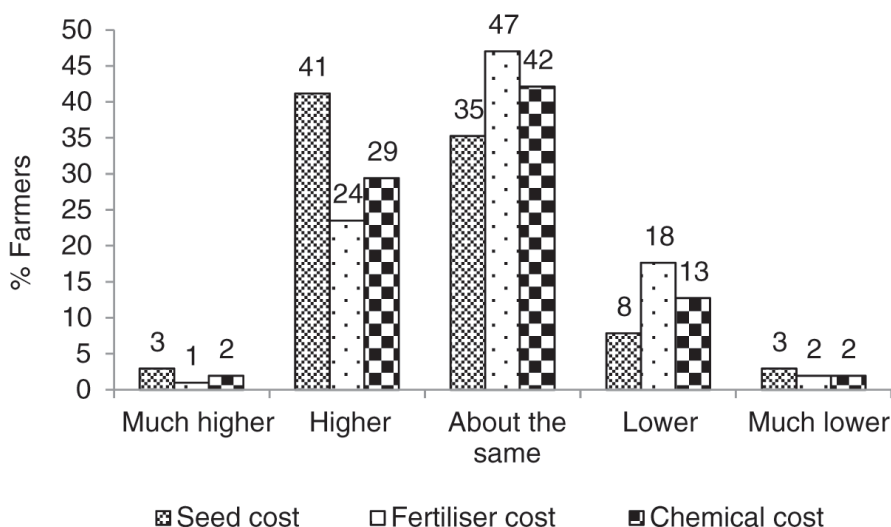
with their use of seed, fertiliser and chemicals, respectively, relative to the cultivation season before the pandemic. This can be mainly due to the actions driven by the COVID-19 Task Force appointed by the government to ensure the delivery of an uninterrupted supply of seed, fertiliser and other inputs for agriculture on a priority basis. Moreover, most farmers already had access to their own seed paddy from the last season's output so that they did not need to seek external sources for purchasing seed paddy. Despite these, approximately 24% of farmers planted less seed compared to the same season last year while only 2% did not have access to seed. Additionally, about 23% of the farmers used less fertiliser and only 4% did not have access to fertiliser. With regards to the use of chemicals,

about 44% of farmers used fewer chemicals and only 3% did not use chemicals.

14.3.3 Impacts on Input Prices

About 51%, 73% and 64% of farmers had experienced about the same or lower price respectively for seed, fertiliser and chemicals relative to the same season before the pandemic (Figure 14.6). However, a relatively significant percentage of farmers had problems related to the price of different inputs. About 49% of farmers had to pay a higher price for purchasing seed while 35% had to pay a higher price for chemicals. In terms of fertiliser, the percentage of farmers who had to pay higher prices was 27%. This can be

Figure 14.6
Output Amount during COVID-19 Relative to the Same Season Last Year



Source: Author's illustration based on the field survey.

related to the restrictions on importing certain inputs as well as logistical problems due to the COVID-19 pandemic.

14.3.4 Impacts on Output Quantity and Price

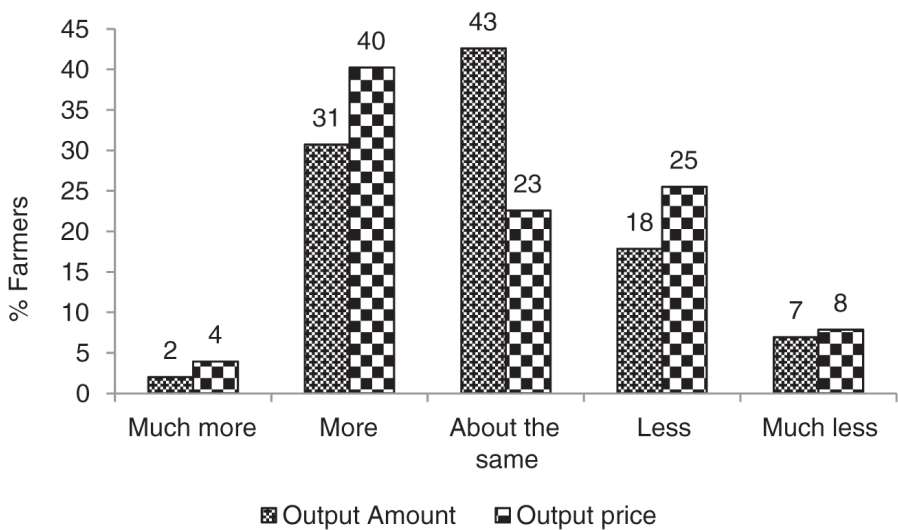
About 76% of the farmers had received about the same or more output relative to the same season before the pandemic while only 24% of farmers had received an output lesser than the previous year (Figure 14.7). However, as far as the output price received is concerned, a relatively higher percentage of farmers had problems related to the price received. About 67% of farmers had received about the same or more output price relative to the same season before the pandemic, while about 33% of farmers had received a relatively lower output price during the same period. This reveals the inherent problem of marketing in agriculture where farmers often fail to receive a fair price.

14.4 Impact of COVID-19 on Food Prices

14.4.1 Food Price Inflation

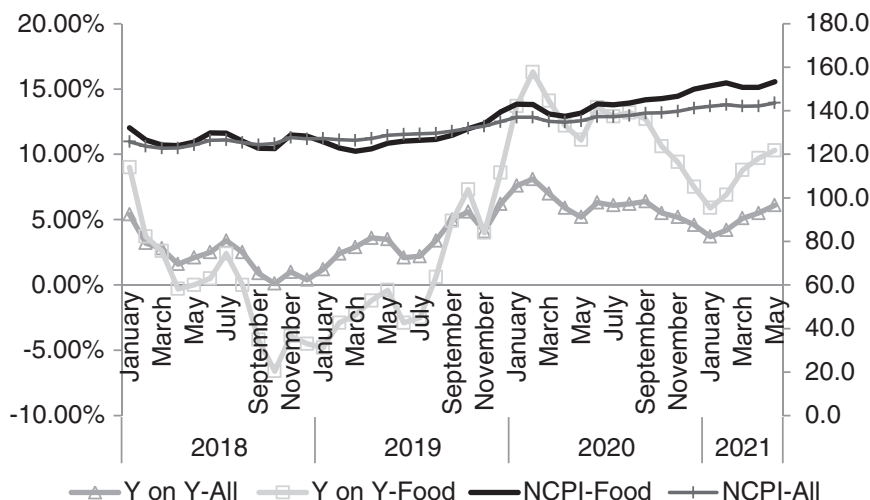
Despite measures to ensure food security, markets across Sri Lanka saw price spikes for food commodities due to the logistical challenges posed by the pandemic and the lockdown. The National Consumer Price Index (NCPI) for food increased by 11% from March 2020 to May 2021 as opposed to an overall price inflation of only 6% during the same period (Figure 14.8). Also, the gap between the NCPI-food and NCPI-overall shows an increasing trend since the first lockdown in March 2020. Year-on-year rise in food price increases was mostly on a declining trend until January 2021 with occasional increases. However, the trend started to reverse in the middle of the second wave. Most importantly, food

Figure 14.7
Output Amount and Price during COVID-19 Relative to the Same Season Last Year



Source: Author's illustration based on the field survey.

Figure 14.8
Year-on-year Inflation



Source: Based on Monthly NCPI, DCS.¹⁰

inflation averaged 10.6% during all three waves of the pandemic as opposed to 5.5% overall inflation during the same period.

14.4.2 Rice Price Fluctuations

As the demand for paddy is derived from the final demand for rice from consumers, the price of paddy is ultimately determined both by the supply and demand in the rice market. Therefore, the determination of paddy price takes place through a backward induction process of price signals that originate in urban rice markets and move back to rural paddy markets. However, rice has an inelastic demand being an essential commodity, therefore, no heavy fluctuations in demand can be observed except in festive seasons.

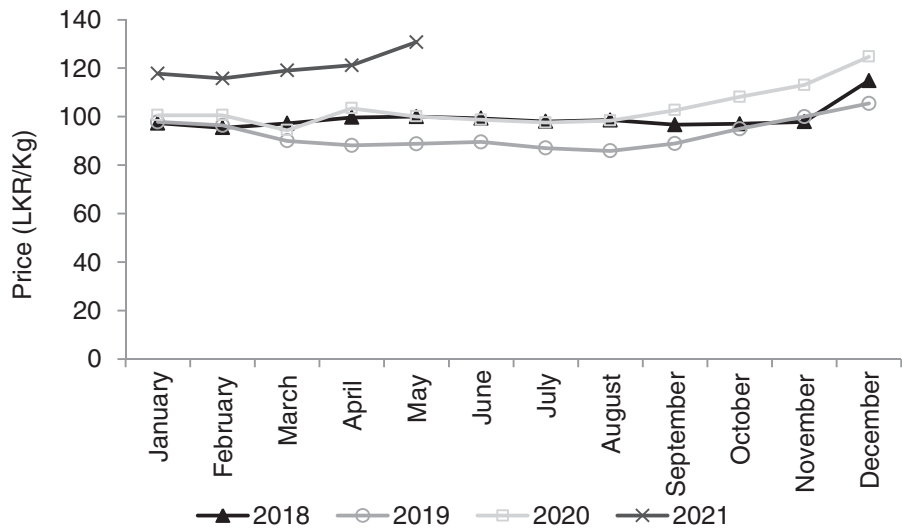
The price of rice shows a seasonal variation over the months of a year which is similar in all

years as shown in Figure 14.9. Seasonal variation of paddy price is closely associated with the availability of supply in the market in connection to seasonal harvests of Maha and Yala. It shows that from January onwards, the price of paddy declines gradually and reaches the lowest in March/April during the Maha harvest. The price of paddy increases slightly from April/May and undergoes a minor slump in August when Yala harvest reaches the market. Thereafter, it is usually on an increasing trend until December and begins to decline thereafter in January, continuing the cycle.

This seasonal price variation continued more or less throughout the COVID-19 pandemic as well, but with minor deviations. At the beginning of the first wave lockdown, an absolute curb on movements created panic-buying. From March to April 2020, the price of the varieties identified

¹⁰ Department of Census and Statistics of Sri Lanka. (2021). *Monthly NCPI*. Colombo: Department of Census and Statistics of Sri Lanka.

Figure 14.9
Seasonal Price Variation of Rice (2018-2021)



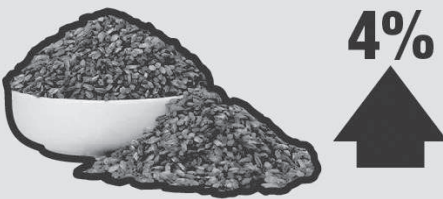
Source: Based on *Economic and Social Statistics of Sri Lanka*, CBSL (2021).

Rice Price Fluctuations

During March-June 2021



The price of Samba rose from
LKR 129/Kg to LKR 155/Kg



The price of Red Raw rose from
LKR 103/Kg to LKR 107/Kg

Source: Based on *Economic and Social Statistics of Sri Lanka*, CBSL (2021)

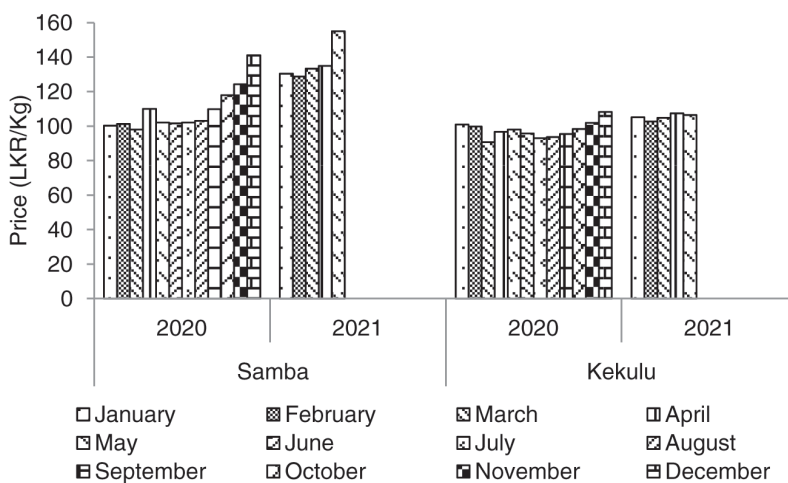
as Samba had risen by 12% from LKR 98/Kg to LKR 110/Kg while the Red Raw price had risen by 7% from LKR 91/Kg to LKR 97/Kg (Figure 14.10). However, within a few days, communication on the modality of movement of people and essential supplies was made more effective, relieving the buying spree.

At the onset of the second wave during October-December 2020, the price of both Samba and Red Raw had risen to the highest recorded in recent years. The price of Samba and Red Raw in December 2020 was LKR 141/Kg and LKR 108/Kg, respectively. Since then, both prices declined only up to February 2021 and started to shoot up with the third wave of the pandemics in March. During March-June 2021, the price of Samba had risen by 20% from LKR 129/Kg to LKR 155/Kg while the Red Raw price had risen by 4% from LKR 103/Kg to LKR 107/Kg.

14.4.3 Fluctuation of Price of Vegetable and Other Food Crops

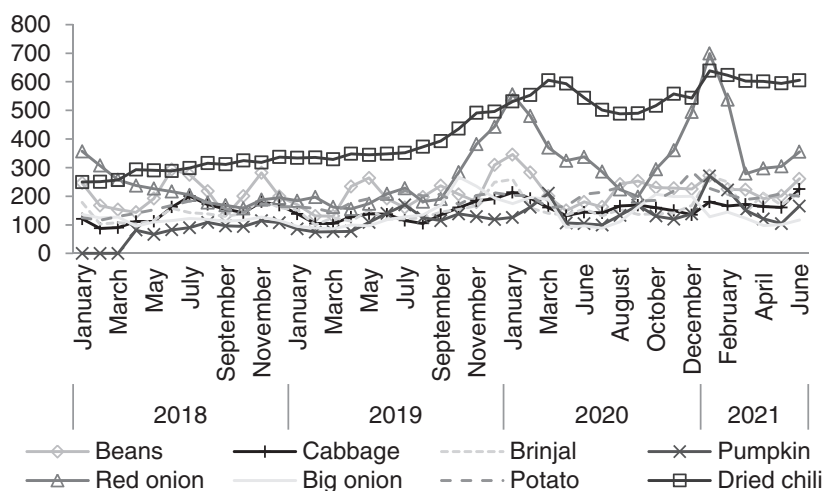
Seasonality, because of the bimodal rainfall pattern adds a high degree of price uncertainty to the production of vegetables and other food crops. Usually, production is higher during February-March and September-October, and the supply is low during June-July and December-January. Therefore, prices are generally higher during June-July and December-January periods (Figure 14.11). In addition, wide fluctuations were experienced in vegetable prices since early 2020 owing to unfavourable weather and supply chain disruptions caused by COVID-19 related lockdowns and mobility restrictions. Therefore, agricultural produce was transported to economic centres with delays, resulting in comparatively high post-harvest losses at

Figure 14.10
Rice Price Behaviour during the Pandemic



Source: Based on *Economic and Social Statistics of Sri Lanka*, CBSL (2021).

Figure 14.11
Price Variation of Vegetable and Other Food Crops (2018-2021)



Source: Based on *Economic and Social Statistics of Sri Lanka*, CBSL (2021).

the farm gate and economic centres, creating frequent price fluctuations in retail markets. Most of the vegetable prices have more than doubled (cabbages, beans, snake gourds, tomatoes and carrots) as of January 2021 compared to a year earlier.

14.5 The Missing Link in Agricultural Value Chains

The analysis above indicates that the macro-level food availability has not been a challenge throughout the pandemic so far. But, the COVID-19 situation has created several micro-level problems for the food system participants, and access to food has also become a challenge

from time to time due to price fluctuations as well as distribution issues. This section further analyses the challenges in value chains which contribute to these developments, using rice and vegetable value chains as examples.

The food system is organised as interconnected value chains. Food value chains are complex systems that link different economic actors such as producers (e.g. farmers), marketing middlemen (e.g. collectors, wholesalers, retailers) and other supporting players such as input suppliers, service providers and government agencies within the given enabling environment.¹¹ Value Chain Analysis (VCA) is a holistic approach to diagnose the opportunities, constraints and competitiveness of the industry and allows the formulation of more integrated solutions.¹²

¹¹ Von Braun, J., Afsana, K., Fresco, L., Hassan, M., & Torero, M. (2021). *Food Systems – Definition, Concept and Application for the UN Food Systems Summit. A paper from the Scientific Group of the UN Food Systems Summit*. New York: United Nations.

¹² Food and Agricultural Organization of the United Nations. (2016). *Impact of the Ebola Virus Disease Outbreak on Market Chains and Trade of Agricultural Products in West Africa*. Rome: Food and Agricultural Organization of the United Nations.

COVID-19 situation has created several micro-level problems for the food system participants, and access to food has also become a challenge from time to time due to price fluctuations as well as distribution issues.

14.5.1 Rice Value Chain

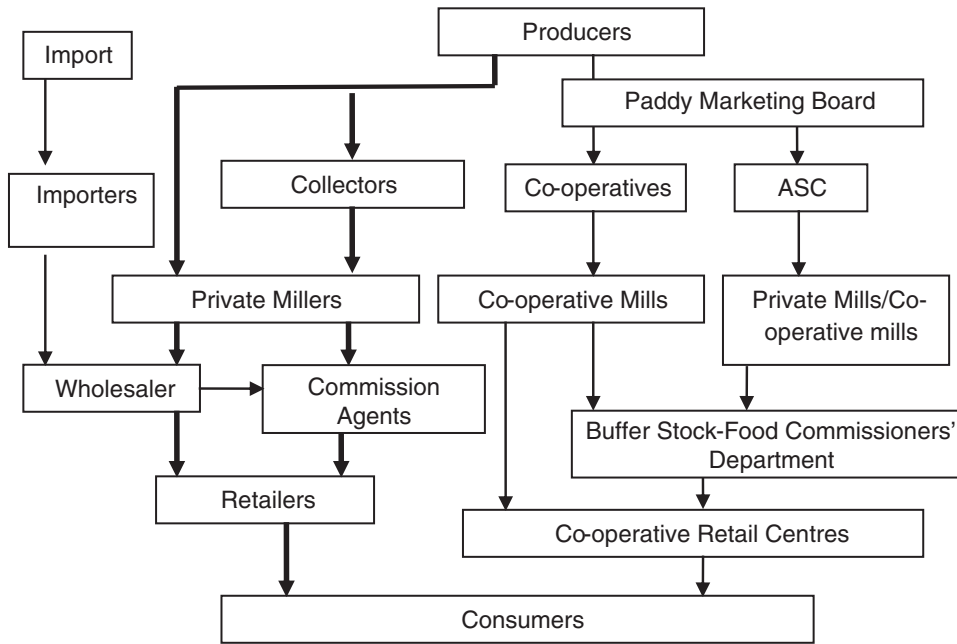
The rice value chain in Sri Lanka could be segregated into five main intermediary steps: (1) producers, (2) collectors, (3) processors/millers, (4) wholesalers, and (5) retailers (Figure 14.12). The majority of Sri Lankan paddy farmers are small-scale producers who own less than one hectare of land and are scattered countrywide. The collection of paddy from farmers is carried out by collectors. Village collectors sometimes act as money/input lenders and purchase paddy directly at the farm, unlike the town collectors who usually purchase paddy at the collection centre. Both the village collectors and town collectors deliver paddy to millers.

The well-established large millers in surplus areas depend less on paddy collectors, and have established links directly with farmers. These large millers usually offer a higher price to the farmers than the collectors, and sometimes provide interest free loans to farmers with the promise that they supply paddy at the prevailing market price to settle the loan. This system assures millers a continuous supply of paddy to the mill and a less costly way to store paddy at farmer's premises. Some of the large scale private millers have their own sales outlets, besides distribute rice through their vehicles to other wholesalers or retailers. Generally, the Paddy Marketing Board (PMB) processes paddy in its own mills,¹³ but, in case of excess, private millers are also contracted to process paddy. The milled rice is commonly sold to wholesalers, but in addition, sometimes sold directly to retailers. It is estimated that 75% of wholesalers purchase rice from millers and the rest from the other wholesalers.¹⁴

¹³ The Paddy Marketing Board (PMB) was established in 1970 as the government-authorised body to purchase, sell, supply, and distribute paddy and to prepare milled rice. The PMB which was abolished in the early 1990s and re-established in 2005, restarted purchasing paddy from farmers in 2008.

¹⁴ World Food Programme. (2017). *A Landscape Analysis of Rice Fortification in Sri Lanka: An Overview*. A report prepared by the Ministry of Health, Nutrition and Indigenous medicine in collaboration with the World Food Programme.

Figure 14.12
Marketing Channel for Rice in Sri Lanka



Source: Author's illustration based on the field survey.

Wholesalers who maintain direct contact with large, medium and small scale millers are based in central and municipal wholesale markets established in the main cities. Large-scale millers supply the bulk of the milled rice to wholesalers, either branded in packages of different weights or unbranded. Retailers (e.g. village shops, cooperatives, supermarkets, and retail chains like Cargills, Keells, etc.) source rice through direct mill purchases (62%) or wholesalers (38%).¹⁵ Typically, retail chains purchase branded rice (e.g. Nipuna, Araliya) directly from large-scale millers or purchase unbranded milled rice from small and medium millers and pack using their own brand names.

To sustain the business during non-harvesting lean periods, millers attempt to accumulate carry-over stocks during seasons. They purchase during the harvesting period to get the advantage of declining prices due to the high supply in the market. Therefore, at the time of harvesting, competition exists for selling paddy as well as for buying paddy. The large-scale millers with considerable storage capacity reap the benefit of low paddy prices during the harvesting period and the higher off-seasonal prices during the lean period. It is believed that there is market power accumulated by a few leading millers with large processing capacities, who have integrated their operations vertically from purchasing paddy to

¹⁵ Sandaratne, N. (2008). Future Role for Agriculture in Sri Lanka's Economic Development. In *Agriculture and Rural Development in Sri Lanka*. A Felicitation Volume in Honour Dr. S.M.P. Senanayake. Rev. W. Wimalaratana (Eds). Colombo: Development Resource Centre, Department of Economics University of Colombo.

the distribution of their branded rice products to retailers. However, there is no conclusive evidence to support that since over 7,000 rice mills are operating in Sri Lanka with small- and medium-scale mills, large mills and non-commercial mills processing 57%, 33.8% and 9.2% of rice, respectively.¹⁶

The informal sector that comprises rural money lenders, traders, mill owners, paddy collectors, friends and relatives, satisfies the major requirements for credit (in cash or in-kind) for rice farmers. Despite higher interest rates, informal lending systems prevail because of easy accessibility, flexible terms, quick and trust-based transactions.¹⁷ Due to the risks involved in providing credit to the paddy sector such as reduction in the value of stocks due to price reduction, crop damage due to natural factors (drought or floods), monitoring and control difficulties over the stocks and weak legal procedures, formal sector private lending is absent in the paddy sector. A few government sponsored credit programmes have been carried out to take small farmers out of a vicious cycle of poverty and related unfavourable development with paddy traders.¹⁸

The rice value chain is dominated by the private sector with over 95% of market share. The PMB, and the cooperatives who represent the public sector in the rice marketing channel handle the remaining (less than 5%) domestic production

each year. However, due to the recent decline in PMB purchases, only 61,925 MT which is equivalent to 1.2% of the total production of 5.1 million MT has been purchased in 2020.¹⁹ Though the PMB maintains a buffer stock of paddy, it is not a powerful force to reckon with in the rice value chain.

14.5.2 Vegetable Value Chain

As Figure 14.13 depicts, the vegetable supply chain in Sri Lanka too consists of several layers. As vegetables are mostly grown in small farms and areas, 'collectors' or 'commission agents' are required for primary purchase. Commission agents operate in wholesale centres (Dedicated Economic Centres (DECs)) and they charge a price-based commission. Vegetable farmers sell their produce to collecting agents (village or town traders) or commission agents who transport the produce either to regional markets (DECs) established in other parts of the country or to large markets in Colombo. Wholesalers who buy from collecting agents distribute the product to the entire country.²⁰ The public sector involvement is limited to a facilitative role such as dissemination of price information, maintenance of markets, provision of infrastructural facilities and research and development through various government organisations.

Rapid changes in market structures could be seen in Sri Lanka with the spread of supermarkets

¹⁶ World Food Programme. (2017). *A Landscape Analysis of Rice Fortification in Sri Lanka: An Overview*. A report prepared by the Ministry of Health, Nutrition and Indigenous medicine in collaboration with the World Food Programme.

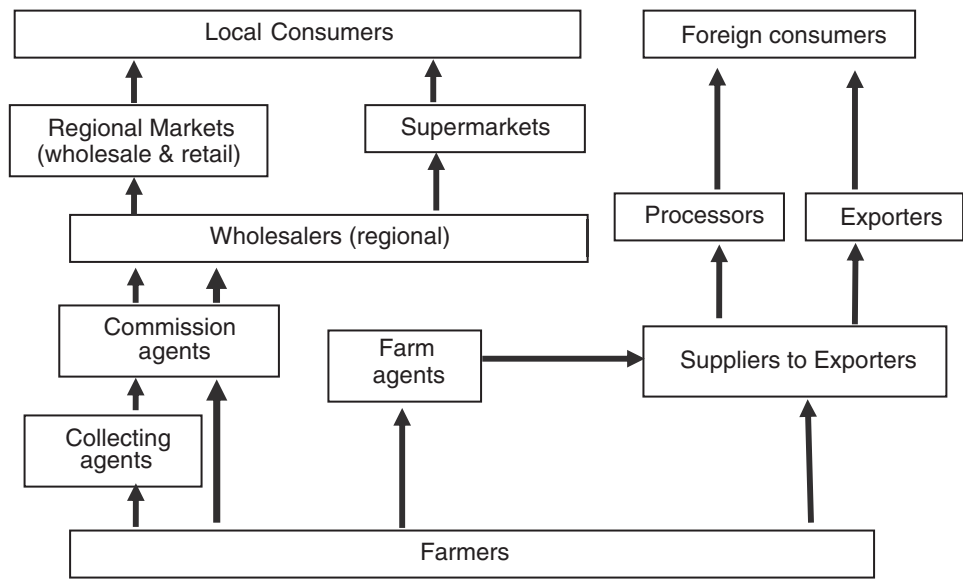
¹⁷ Sandaratne, N. (2008). Future Role for Agriculture in Sri Lanka's Economic Development. In *Agriculture and Rural Development in Sri Lanka*. A Felicitation Volume in Honour Dr. S.M.P. Senanayake. Rev. W. Wimalaratana (Eds). Colombo: Development Resource Centre, Department of Economics University of Colombo.

¹⁸ Karunagoda, K. (2010). *Sri Lanka - Value Chain of Rice, Coconut, Fruits and Vegetables and Milk*, background paper prepared for FAO project on articulating and trade mainstreaming trade policies, Colombo, Sri Lanka.

¹⁹ Ministry of Finance. (2021). *Annual Report 2020*. Colombo: Ministry of Finance.

²⁰ Perera, M., Kodithuwakku, S.S., & Weerahewa, J., (2004). Analysis of Vegetable Supply Chains of Supermarkets in Sri Lanka. *Sri Lankan Journal of Agricultural Economics*, 6(1), 67–81.

Figure 14.13
Marketing Channel of Vegetables in Sri Lanka



Source: Author's illustration based on the field survey.

linking producers with markets in a sustainable way. Supermarkets have acquired the necessary economies of scale to adopt a vegetable supply chain of their own, with a contract grower system (large supermarkets) and procure their vegetable requirement from vegetable collectors who bring vegetables to the central purchasing unit (CPU) of the supermarket (small and medium supermarkets). Such supply chains are efficient and effective compared to traditional vegetable supply chains in terms of paying a higher price, a higher degree of transparency in transactions, presence of quality consciousness and accountability throughout the supply chain, a lesser number of intermediaries involved in the supply chain and occurrence of comparatively low post-harvest losses. However, only a minority of

farmers have direct access to this supply chain and the volume of vegetables flowing through the supermarket supply chain is smaller than through the traditional value chain, which remains the most assured market for farmers despite its weaknesses.²¹

With regards to the main challenges in the value chain, producers are poorly connected with markets and intermediaries gain arbitrage opportunities. By contrast, rural producers receive lower prices due to lack of market information, poor infrastructure, small scale production, weaker bargaining positions and lengthy marketing channels. Inefficient resource management by farmers, inadequate availability of good quality seeds, inadequate use of

²¹ Kodithuwakku, Sarath., & Weerahewa, Jeevika. (2014). Supermarkets and their Effects on Smallholder Vegetable Farmers in Sri Lanka: An Exploratory Case Study. *Journal of Agriculture Economics and Rural Development*. 2. 62. 10.12966/jaerd.05.06.2014.

modern irrigation techniques, seasonality of production, a high percentage of post-harvest losses due to inappropriate handling, storage and transportation are other major constraints in this value chain.

Despite various forms of incentives by the government to promote value-added products, the share of value-added products of vegetables is very low. Non-availability of suitable commercial varieties for processing, an insufficient supply of vegetables continuously at affordable prices to meet production targets, higher spoilage due to improper post-harvest handling, lack of suitable machinery to meet quality standards demanded by modern trade and limited access to capital by small and medium processors are major constraints in promoting value addition.

14.6 Conclusion and Policy Recommendations

Despite the sufficient availability of food at the national level, COVID-19 has revealed the high vulnerability of food systems to pandemic shocks. Pandemics are in fact fast becoming a chronic source of shocks. Hence, the challenge is not only to get by the current shock, but to strengthen the overall food system to face future shocks based on evidence-based policy responses. Therefore, without addressing structural issues pertaining to the food system, the overall agricultural landscape, and agro-processing industry ecosystem, it is unlikely that short-term and medium-term interventions can help create a resilient food system. Based on the above discussion, the following interventions to help ensure food system resilience are put forward:

Ensuring a smooth supply of inputs: The importance of timely availability of inputs has been highlighted in all agricultural plans, policies, and strategies. However, the situation has not improved much in Sri Lanka. Currently, most of the required inorganic fertiliser is imported and despite the subsidy given to fertiliser for certain crops, timely distribution of fertiliser which multiplied during the pandemic has been an issue in the country. As such, proper distribution of fertiliser should be taken care of by the authorities with appropriate measures to prevent misuse of the subsidy and overuse of fertiliser. The government should also look to and adopt technologies that require less use of chemical fertiliser. Further, given that the demand for organic agriculture has been increasing around the world, gradual adoption of organic agriculture practices appears necessary. Regarding seeds, production of seeds needs to be expanded and public sector support in research and breeding programmes is critical for this.

Enabling efficient public and private procurement systems: Marketing is the biggest issue that Sri Lankan domestic producers face and there has been constant public pressure to create dedicated agencies for procuring agricultural produce at guaranteed prices. Thus, Sri Lanka needs to strengthen its storage capacity and maintain a buffer stock of essential food items as a National Food Bank with nodal points at the Provincial Council level which could also act as the nodal point for the SAARC Food Bank. Besides, permanent mechanisms of public food distribution should be established at the central level having clear linkages with provincial and local government institutions, for timely and economical delivery and distribution of food to food-deficit, remote, rural, and vulnerable areas,

Sri Lanka needs to strengthen its storage capacity and maintain a buffer stock of essential food items as a National Food Bank.

especially in crisis situations. As proposed during the lockdown, railway services should be increasingly utilised for the distribution of food economically with fewer food miles and minimum post-harvest losses.

Establishing farm-market linkages between farmers and buyers: This can be done for crops related to domestic and export markets. This will establish transparency in pricing and better value, especially for perishable products. It could also help to increase farmer incomes and enable downstream players to source more effectively by eliminating intermediaries.

Agri-extension services and information dissemination: To address coordination issues in the delivery of extension services, the focus should be on improving coordination and collaboration of programmes among central government ministries and agencies, and between the central and subnational governance structures at the same time expanding the space for people's participation in governance. Moreover, the agriculture sector in general could utilise digital technology to reach the beneficiaries. The current situation could be taken as an opportunity to familiarise farmers with digital agri-extension services and information systems through mobile applications and short-messaging services.

Increasing the capacity of e-commerce: The increased demand for digital marketing platforms during the COVID-19 pandemic should be capitalised to promote the capacity of e-commerce at both ends of the food supply chain. Such ICT platforms, despite capacity concerns, have already proven useful to increase the resilience of the food system including those of farmers, traders, and consumers during the pandemic. Further, a mechanism needs to be developed to help connect smallholders to the e-commerce platform to prevent elite capture of the digital marketplace. In this regard, linking farmer organisations with the e-commerce platform could be crucial.

Reviewing agriculture financing services: One of the major reasons why farmers agree to low farm gate prices is the advance/loan they take from collectors. Since farmers' access to formal credit is limited, they usually resort to existing networks to informally borrow money, which pushes them into less beneficial sales contracts. In Sri Lanka, inadequate resources, including affordable credit for commercialisation

The increased demand for digital marketing platforms during the COVID-19 pandemic should be capitalised to promote the capacity of e-commerce at both ends of the food supply chain.

and modernisation of agriculture has been a long-standing problem in agriculture which was aggravated during the pandemic. Thus, concessionary credit schemes and simple procedures in providing loan facilities for agricultural activities and agro-based industries, including post-harvest loss reduction, should be introduced through state and private banks, especially targeting youth and females.

Continuous monitoring of the food systems:

Domestic food production, imports, domestic and world market prices, input availability, transportation and logistics systems should be continuously monitored to ensure national food availability and household access to food could be maintained. A regular monitoring system can safeguard the local food supply from international trade restrictions and possible malpractices by local traders such as the issues in the rice milling industry in Sri Lanka. In this respect, establishing a holistic and coherent mechanism should be the priority to ensure availability of high-quality data and information, and easy accessibility across sectors for monitoring and analysis of the food systems and adequate utilization for policy formulation and implementation. Big data tools such as satellites, telecommunication networks, sensors, drones, and smartphones have the potential to address the food system challenges by improving how information is collected, combined, analysed, and shared.

Ensuring the quality of products:

Poor quality and safety assurance mechanisms and insufficient traceability along the entire value chain are fundamental issues in agricultural value chains in Sri Lanka. Strengthening market linkages for resilient value chains will require effective learning and training measures for producers on post-harvest technologies such as effective grading, weighing, sorting, and packing which foster quality and traceability along the entire value chain. Popularising the already developed 'Good Agricultural Practices' (GAP) with incentives for smallholders and making these mandatory with a target timeline could be done to ensure quality supply of products.

Addressing industry issues about processing:

Food processing is concentrated in a few enterprises, and private investment in food processing and value addition is insufficient

A regular monitoring system can safeguard the local food supply from international trade restrictions and possible malpractices by local traders.

mainly due to uncertainties of policy and access to finance, knowledge, and technology. These factors which have hampered linkages of smallholder farmers to markets need to be addressed as a priority. Popularising and probably introducing legal provisions for safe handling and transporting practices such as cleaning and sorting the products, the use of standard containers for collection and transport, careful handling and safe transportation are also matters to be considered.

Investing in cold storage and refrigerated trucks to store and transport perishable products with the partnership of private entrepreneurs should be done at all levels of the value chain. Cold chain players should be encouraged to invest in alternate energy technologies like solar-powered systems. Community level solar-powered small cold storage could be introduced for farmers.

Food-related social security programmes:

Consumption support was provided to those who were covered by the national poverty alleviation Samurdhi programme and some other categories in the form of a cash transfer which was granted a few times during lockdowns. However, many vulnerable people did not receive adequate support due to poor targetting and the lack of reliable information required to administer cash transfers. And even when vulnerable groups are targetted by policymakers, governments often lack reliable information required to administer cash transfers to the deserving people. For example, informal workers who lost employment, but are not covered by Samurdhi, have not received support.

15. Environment, Food Security and Health: Policy Challenges

Post-pandemic

15.1 Introduction

The COVID-19 pandemic has entered the second cataclysmic year of existence with new waves of outbreaks, invigorated by more virulent forms of the virus. Thus, the virus is complex and more prolonged, and as such, its scars too will last longer. Decision making in the new normal necessitated by the pandemic will inevitably require segregating the timeline of policy discourse into pre and post-COVID 19 eras. In this scenario, the agriculture system and natural environment too, are undergoing upheavals amidst the changes, redefining perspectives on planning and policymaking in the post-pandemic period.

Despite early hype on air quality improvements observed during lockdown phases, the relationship between COVID-19 and the environment is a much less explored area. Nevertheless, there is a marked rise in public interest over environmental and public health issues in Sri Lanka. Among the major issues are: importation of 250 containers of hazardous foreign waste; transfer of administration of a large extent of other state forests (OSFs) from the Forest Department to district and divisional secretariats to be

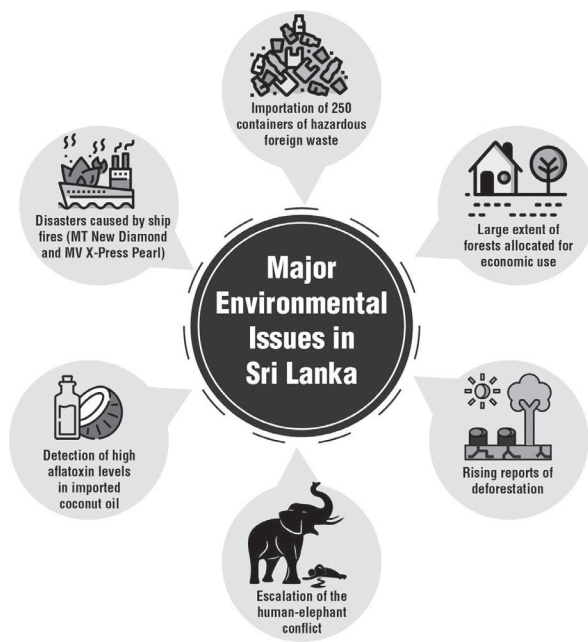
allocated for economic purposes;¹ rising number of incidents reported on deforestation, allegedly encouraged by local politicians from several areas in the country; escalation of the human-elephant conflict (HEC); detection of high levels of aflatoxin in a consignment of imported coconut oil; and devastating damages caused by two ships which caught fire in Sri Lankan waters (MT New Diamond and MV X-Press Pearl) creating havoc on the coastal and marine environments. In sum, these issues aroused strong public dissent and criticism over how these challenges are being managed.

While the above would certainly have significant implications on the environmental management of the country in the short, medium and long-term, none have sparked a stronger debate than the recent decision to impose a total ban on importing synthetic fertiliser and pesticides.² If pursued vigorously without substantial revisions, this policy has the potential to create far-reaching consequences not only on the environment and health but also on food security, income from agricultural livelihoods, poverty, and the national economy.

¹ Ministry of Wildlife and Forest Conservation. (2020). *Cabinet Circular No: MWFC/1/2020. Management of Other State Forests*. Battaramulla: Ministry of Wildlife and Forest Conservation.

² The word synthetic fertiliser is used here instead of inorganic fertiliser and pesticides since it captures the essence of policy more accurately.

If pursued vigorously without substantial revisions, the decision to ban synthetic fertiliser and pesticides has the potential to create far-reaching consequences not only on the environment and health but also on food security, income from agricultural livelihoods, poverty, and the national economy.



Long overdue in many perspectives, this ban although imposed 'too late', has ignited an unprecedented deliberation between proponents and opponents of the policy which can be considered quite enlightening. The decision itself highlights the policy importance of the issue and the nature of political sensitivity associated with it. The main feature of this ongoing debate is that it has defined the problem as a matter of technological choice between 'organic' versus 'conventional' agriculture.³ Despite the decisive influence that the said policy may have on farmers' choice of agricultural technology, the issue cannot be absorbed wholly as a matter relating to agricultural technology. It has strong economic policy dimensions with micro as well as macroeconomic implications.

³ It should be noted that neither of the two camps is homogenous in composition but broad alliances of like-minded groups that represent a range of views and practices. For instance, an organic camp is represented by a spectrum of practices that range from pure organic farming to eco-friendly agriculture to traditional farming enthusiasts. On the other hand, conventional farming is also represented by a range of practices from ultra-modern industrial and precision agriculture to more ecologically accommodating 'integrated' solutions groups (e.g. IPM, IPN).

Microeconomics of the problem is concerned with farmers as a group of economic suppliers catering to the demands from consumers of food and other agricultural products. The macroeconomic aspects deal with aggregate outcomes of producers' and consumers' behaviour on the national economy. From producers to consumers, markets are connected through several layers of value chain links that also face repercussions related to the said policy. Some of these links may even exist outside the boundaries of the agriculture sector.

This chapter examines Sri Lanka's recent policies in the areas of agriculture and environment with a special focus on changing realities of the post-COVID-19 era. The chapter examines the recent decision to introduce a total ban on the importation of synthetic fertiliser and pesticides.⁴ The discussion attempts to analyse this decision in all its complex economic policy implications that go beyond the issue of technological choice – organic versus conventional – as stressed by many supporters as well as opponents of the policy.

15.2 Context and Background

It appears that the decision to ban synthetic fertiliser and pesticides was inspired by mounting public opinion against perceived health and ecological threats posed by conventional agriculture, a sentiment nurtured by a number of interest groups over several years. Campaigning and lobbying by these interest groups have created a solid ground of public opinion on which

such a policy response can be rooted in. Prior to the emergence of this movement as a strong, politically connected lobbying group, a number of interested parties explored and promoted different approaches such as integrated pest management (IPM), integrated plant nutrition (IPN) and conservation farming etc.⁵ This movement has been in operation for several years from the 1980s and gained state patronage over time.⁶

Under a 'Nation Free of Toxins' programme launched in 2016, certain widely used crop protection chemicals such as glyphosate was banned. Moreover, it pilot tested eco-friendly agricultural models based on traditional varieties in several locations of the country. Even though there were no nationally adoptable success stories to be promoted, this programme further strengthened public sentiments against conventional agriculture, especially the use of synthetic fertilisers and pesticides, as a perilous venture that endangers both public health and the environment. The strength of these sentiments, stronger among the educated middle-class, can be judged by the fact that the issue of sustainable agriculture was featured prominently even in the manifesto of the then opposition (i.e. present government) in two subsequent elections, fought over more fervent issues such as national security and constitutional reforms.

Thus, the National Policy Framework (NPF), which is a close reflection of the President's Manifesto – Vistas of Prosperity and Splendour – has spelt out several statements relating to organic and 'environment friendly farming'. Table 15.1 summarises the interventions on sustainable agriculture proposed in the NPF.

⁴ The word pesticide is used here to identify all three major categories of so-called crop protection chemicals, namely; insecticides, weedicides and fungicides.

⁵ Senaratne, D.M.A.H. (2003). The Decades of Sustainable Agricultural Systems (SAS) in Sri Lanka: A Review of Institutional and Policy Issues. *Journal of Sustainable Agriculture*, 21(3), 63-85.

⁶ For instance, the previous government launched a countrywide programme called 'Wasa Visa Nethi Ratak' (A Nation Free of Toxins) in 2016 with strong backing from the former president.

Table 15.1
Interventions on Sustainable Agriculture in the National Policy Framework

Sub Sector – Agriculture		
Sectoral Policies and Policy Component	Strategies	Activities
Building up a healthy and productive nation guaranteeing the people's right for safe food.	Promote and popularising organic agriculture during the next ten years.	Increase land productivity
		- Introduction of an integrated soil fertility management system
		Modernise agriculture
		- Introduction of environmentally friendly farming.
		A revolution in the use of fertiliser
		- Replace the existing fertiliser subsidy scheme with an alternative system.
		- Provide inorganic and organic fertiliser both free of charge to farmers.
		- Convert traditional farming villages into users of only organic fertiliser.
		- Develop two million home gardens using organic fertiliser.
		- Initiate a programme to produce all essential fertilisers domestically.
		- Production of bio-fertiliser and organic fertiliser of high standard using the forests and wetlands.
		- Initiate a proper waste management system.
		Research for agricultural innovations
		- Provide assistance to develop innovative bio-pesticides and low-cost integrated pest management system.
		Export crops
		- Provide subsidised fertiliser to SMEs engaged in export crop production.
		Tea
		- Encourage and promote the cultivation of organic tea.
		Coconut
		- Develop biotechnical solutions to control various pests.

Source: Based on NPF and author's observations.

In the NPF, an elaborated set of actions are proposed in the section on 'a revolution in the use of fertiliser' for promoting the use of organic fertiliser. Hence, despite shock waves created by the sudden decision to ban imports of synthetic fertiliser and pesticides, the government has a rightful claim for legitimacy on actions taken to transform the country towards sustainable agriculture as indicated in Table 15.1. It was mentioned in the manifesto, which has been endorsed by a majority of voters in two elections.

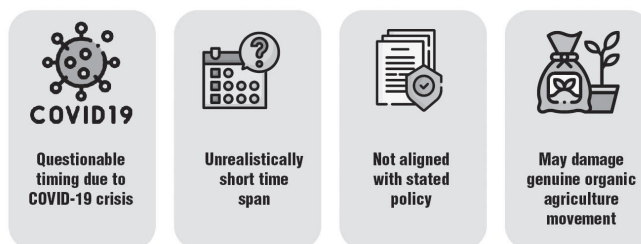
Nevertheless, the decision to ban synthetic fertiliser and pesticides with immediate effect has raised justifiable concerns even in the minds of supporters of the policy. Some of the key issues highlighted by critics as well as some supporters can be summarised as follows:

be quite unrealistic. The experience in countries like Bhutan and Cuba bears testimony in this regard. Sri Lanka lacks the preparedness to make such a swift transition, whereby the sudden shift could lead to chaotic circumstances at least in the short-run.

Quick and total removal of synthetic fertiliser is not implied by the policy:

The policy suggests providing inorganic and organic fertiliser both free of charge to farmers, and to provide subsidised fertiliser to small and medium enterprises (SMEs) engaged in export crop production. The government promised to provide fertiliser free in the election campaign, eliminating even the slightest burden on farmers that prevail in the existing subsidy scheme. Hence, the sudden decision to ban the import of fertiliser appears

Concerns Around Decision to Ban Synthetic Fertilizer



Timing of the decision: The decision was taken at a time when the country is facing a global crisis due to the COVID-19 pandemic. A further shock to the economy from potentially adverse consequences on food security and income from major agricultural commodities in the short-run is questionable at a time like this.

Time horizon of the agenda: The NPF calls for promoting and popularising organic agriculture over 10 years. In this backdrop, current plans to convert to 100% organic agriculture within one cultivation season (by 2021-22 Maha) appear to

to have created strong dissent and unrest among farmers engaged in food crops as well as plantation agriculture.

Hasty conversion to organic farming is unrealistic and even counterproductive:

Conversion to organic farming is a gradual and voluntary process that should take place over a lengthy period of preparation. The proposed ban imposes an involuntary conversion to organic agriculture within a short timeframe which is rather unrealistic, along with hurried implementation. This sudden transition to organic

fertiliser may even lead to damaging the genuine organic agriculture movement which is gradually gaining momentum in the country, offering several certified and labelled organic products with high export potential.

The seemingly irrational haste displayed in banning imports has invited criticism and speculations on the motive.⁷ It is too early to predict the trajectory of events that may emerge over time, but the possibility of revisions or reversals of the policy due to rising dissent from farmers cannot be ruled out completely. In this backdrop, this chapter attempts to analyse the issue of sustainable agriculture as an outstanding policy issue that Sri Lanka has to find solutions for. It recognises that transforming the present practices of conventional farming into a more sustainable system of agriculture is an imminent task the country has to be fulfilled in the long run. Additionally, it explores ways to move forward disregarding the possible turn of events from the sudden decision to ban synthetic fertiliser and pesticides.

15.3 Evolution of Conventional Agriculture and its Outcomes

An important step in understanding the issue of sustainable agriculture is to examine the evolution of the conventional agriculture model in Sri Lanka as it exists today. It is necessary to realise that the shift towards conventional agriculture has not occurred overnight because of a hasty decision but as a result of long-term policy determinedly pursued by successive governments despite their

ideological differences. The starting point of this long-standing policy on shifting to a conventional agriculture system can be traced back to the late colonial period, even before independence. This process of shifting to a conventional agriculture system is closely associated with worldwide changes that were taking place in agriculture from the 1950s onwards, which were commonly known as the 'green revolution'.

The green revolution was initially based on major cereal crops. In Sri Lanka, the staple cereal crop over generations for food security has been rice. Although within the current system of farming practices what is broadly identified as conventional agriculture applies across all major sub-sectors of agriculture – such as vegetables, other food crops (OFC), plantation crops (i.e. tea, rubber, coconut), export agriculture crops (e.g. spices), and fruit crops – the origin of this system in Sri Lanka can be traced to rice.

By the time of independence, the core problem in the agriculture sector in Sri Lanka was the heavy dependence on rice imports due to limited domestic production and low productivity per unit of land. Successive governments attempted to address this problem through both supply and demand-side interventions aimed at achieving self-sufficiency in rice. The long-term growth in rice production can be identified as a combined effect of an increase in land area under cultivation, supply of irrigation to agricultural lands, and increasing average yield per unit of land.

The expansion of area under cultivation has mainly been achieved through opening of new lands for agriculture in the dry zone with land settlement schemes, and increasing the supply of water for agriculture by rehabilitation of ancient

⁷ Some speculated that the main motivation behind the government's decision is to save the currency reserves that have become scarce.

tanks and construction of new irrigation schemes. Land settlement schemes were often associated with irrigation development aimed at a constant supply of water for paddy cultivation. As a result of these interventions, the area under cultivation of paddy more than doubled between 1960 and 2018, thus providing a major boost to the total supply of rice (Table 15.2).

In addition to expanding the area under paddy cultivation through land settlement schemes with irrigation, there were two major strategies used to increase the production from a unit of land. There were to increase the average yield by developing improved varieties with high yield potential, and to promote the use of external inputs (e.g. synthetic fertiliser and pesticides) through subsidy schemes.

Consequently, new-improved varieties of rice (NIVs) – nearly all of these have been developed through rice breeding research at the Department of Agriculture – spread to over 90% of paddy cultivation areas by 1990s. The NIVs required regular application of fertiliser to achieve high average yields. Fertiliser prices in international

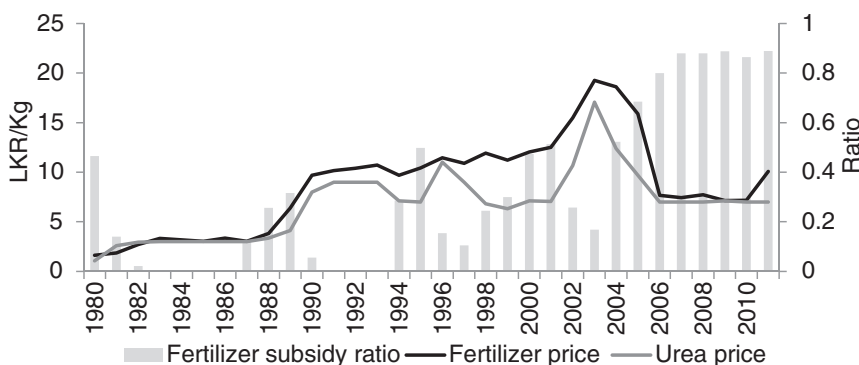
markets have been escalating over the years, and the government intervened to sustain productivity by offering fertiliser subsidies to farmers. Accordingly, fertiliser subsidies significantly assisted to lower the surge in prices faced by farmers (Figure 15.1).

These interventions have created significant outcomes on agriculture production in the country. These can broadly be identified as economic outcomes; and environmental and health outcomes.

15.4 Economic Outcomes: Total Production, Average Yield and Imports

The above-mentioned policies have helped to raise the domestic production of rice significantly while reducing rice imports to a minimum level. Table 15.2 shows domestic production and imports of rice since 1960 based on the earliest available data.⁸ Commencing from 0.9

Figure 15.1
Change in Fertiliser Prices and Subsidy Ratio (1980-2010)



Source: Based on author's illustrations created for NSF.

⁸ Domestic production figures indicate 'paddy' production whereas import and figures are 'rice' imports/exports.

million metric tonnes (MT) in 1960, production increased more than fourfold to 3.9 million MT in 2018. Increased domestic production contributed to reducing the import dependence on rice, the main policy challenge faced at the time of independence. Moreover, as a combined effect of high yielding NIVs, with increased use of synthetic fertilisers and supply of irrigation to agricultural lands, the average yield of paddy increased almost threefold from 1,594 Kg/Ha in 1980 to 4,493 Kg/Ha in 2018. Nevertheless, this varies across the country and higher average yields were reported from the dry zone – some areas reported over 6,000 Kg/Ha (e.g. Udawalawe, Mahaweli H area, Hambantota). In contrast, the average yield in all wet zone districts remained below 4,000 Kg/Ha.

The success of generating high average yields in paddy has made the application of synthetic fertiliser and pesticides increasingly popular, thereby replacing the traditional system of

paddy production based on organic manure and traditional methods of crop protection in a relatively short period. This process has continuously been facilitated by the fertiliser subsidy scheme introduced by successive governments. The application of synthetic fertilisers and pesticides has gradually become popular in the cultivation of other seasonal crops (e.g. OFC, vegetables) as well as permanent crops like tea and coconuts; it has become an indispensable part of the mainstream method of agriculture production in the country, which is now recognised as the model of conventional agriculture.

15.5 Environmental and Health Outcomes

Unlike in the case of economic outcomes in which data is consistently and officially reported, information on environmental and health

Table 15.2
The Evolution of Sri Lanka’s Rice Economy

Year	Land Area (000’ Ha)		Total Production (000’ MT)	Average Yield (Kg/Ha)	Imports (000’ MT)	Imports as Share of Total Supply (%)
	Sown Extent (000’ Ha)	Harvested Extent (000’ Ha)				
1960	595	564	899	1,594	528	37.0
1970	759	719	1,619	2,252	534	24.8
1980	844	815	2,134	2,930	189	8.1
1990	853	825	2,538	3,303	139	5.2
1995	915	889	2,810	3,380	25	0.9
2000	878	832	2,860	3,585	18	0.6
2005	937	915	3,246	3,579	50	1.5
2010	1,065	981	4,301	4,528	20	0.5
2015	1,253	1,211	4,819	4,428	31	0.6
2018	1,041	983	3,930	4,493	24	0.6

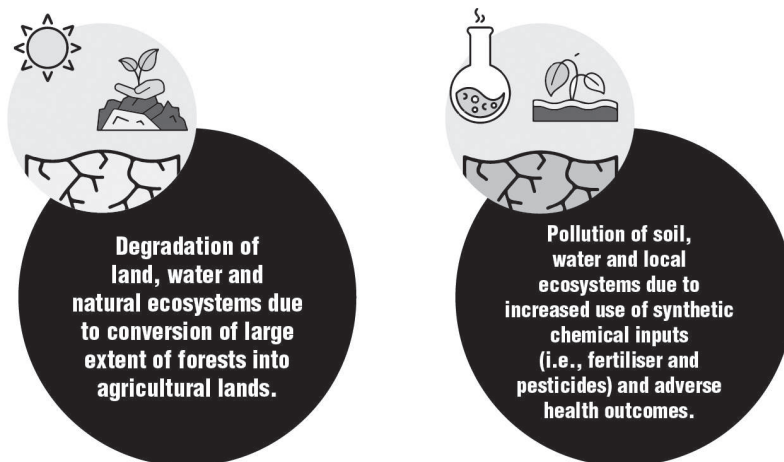
Source: Based on data collected from several tables in the website of the Department of Census and Statistics of Sri Lanka.

outcomes of agricultural practices is scattered. Therefore, it has to be examined through a careful evaluation of information obtained from multiple sources, where the credibility of some is controversial. Broadly, environmental and health outcomes associated with the spread of conventional agriculture can be segregated into two areas: degradation of land, water and natural ecosystems due to the conversion of a large extent of forests into agricultural lands; and pollution of soil, water and local ecosystems due to increased use of synthetic chemical inputs (i.e. fertiliser and pesticides) and their health outcomes. While the importance of the former cannot be underestimated from the overall perspective of sustainable development in the country, the current policy debate on the import ban of synthetic fertiliser is largely centred around the latter.⁹ Hence, in this chapter, attention is focussed mainly on this.

The current policy debate is largely contested over perceived health and environmental damages supposedly caused by synthetic fertilisers and pesticides. Since the introduction of conventional agriculture technologies to Sri Lanka in the 1960s, the use of synthetic fertilisers and pesticides has increased steadily. Annual imports of fertiliser have increased considerably from 112,300 MT in 1971 to 624,000 MT in 2012.¹⁰ Similarly, the share of agricultural lands that apply herbicides, insecticides and fungicides has increased substantially over the years. Fertilisers and pesticides applied to crops ultimately enter the surface or groundwater sources through soil, resulting in adverse and harmful impacts on human health and local ecosystems.

There are common observations about the careless and excessive use of agricultural chemicals by farmers from all over the country.

Negative Outcomes Associated with Conventional Agriculture



⁹ A detailed account on the conversion of natural forests into agricultural land can be found in: Fernando, S., Senaratna, A., Pallewatta, N., Lokupitiya, E. L., Manawadu L., Imbulana, U., De Silva, I., & S. Ranwala. (2015). *Assessment of Key Policies and Measures to Address the Drivers of Deforestation and Forest Degradation in Sri Lanka*. Colombo: Faculty of Science, University of Colombo.

¹⁰ Based on data from the Fertiliser Secretariat (2013) and the Department of Census Statistics (2020). Quantity wise fertiliser import data was not available for recent years. Central Bank of Sri Lanka trade statistics indicate that the total value of fertiliser imported to Sri Lanka was USD 258.9 million in 2020. The highest import values were reported in 2008 (USD 578 million) and 2011 (USD 407 million), respectively.

Despite environmental regulations to control hazardous pollutants in the country since the 1980s, in practice, no strong controls exist on selling these potentially dangerous chemicals over the counter. Lack of awareness among farmers makes the situation even worse. It can be partially due to their careless nature towards proper handling of pesticides, thus failing to grasp the gravity of its harmful consequences. Many farmers who handle agrochemicals do not use personal protective equipment such as masks, gloves, goggles, footwear, or even appropriate clothing, thereby exposing them to high concentrations of agrochemicals regularly absorbed via the skin or by inhalation. Moreover, careless disposal of used pesticide containers and bottles contaminate the soil and streams. Abusive application of chemicals immediately before and after harvesting has been observed exposing consumers of fresh products like fruits and vegetables to high doses of pesticide residues, thereby exposing them to health risks. Recently, there were allegations about imports of low-quality fertilisers with high levels of contaminants such as heavy metals and other toxic chemicals.

While this situation provides justifiable ground for concerns on the potential health hazards associated with synthetic fertilisers and pesticides, available scientific evidence appears to be haphazard. A high level of groundwater pollution due to nitrates has been reported from Kalpitiya area and the Jaffna district which are considered responsible for the incidence of blue baby syndrome.¹¹ Similarly, incidents such as skin diseases and mortalities due to deliberate ingestion and exposure to heavy concentrations of chemicals have been reported. The existence of

Despite Sri Lanka's environmental regulations to control hazardous pollutants since the 1980s, in practice, no strong controls exist on selling these potentially dangerous chemicals over the counter.

¹¹ Villholth, K.G., & L.D. Rajasooriyar. (2010). Groundwater Resources and Management Challenges in Sri Lanka: An Overview. *Water Resources Management* 24: 1489-1513.

pesticide residues in both domestically produced and imported foods have been reported, while a few cases of excessive pesticide residues were detected abroad in export consignments from Sri Lanka.

The limited availability of scientific evidence has created a fertile ground for a mix of perceptions that may be sensible as well as imaginary. For instance, supporters of the policy to ban synthetic fertilisers and pesticides build their main arguments emphasising the perceived 'severity' of health hazards attributed to 'toxic compounds' (used as synonymous to synthetic

fertilisers and pesticides). They attempt to justify their claims by presenting rising cases of non-communicable diseases (NCDs) such as chronic kidney diseases (CKD) and various types of cancers as supporting evidence. On the other hand, opponents of the ban tend to discount health hazards highlighted by the supporters of the policy as imaginary, arguing that such claims are not confirmed by credible evidence gathered through scientific studies. Instead, the opponents of the ban emphasise the possible threats to food security and adverse impacts on the national economy, due to the loss of market volumes in exports such as tea.

Box 15.1

Chronic Kidney Disease of Unknown Etiology (CKDu) in Sri Lanka

Chronic kidney disease of unknown etiology (CKDu) has widely been quoted by protagonists of synthetic fertiliser and pesticides ban as an example of health hazards caused by heavy use of agrochemicals. The debate over the causative factors of CKDu has been ongoing from the mid-1990s onwards without achieving consensus so far. Despite numerous research studies conducted and several hypotheses proposed by a number of researchers, the real causative factor(s) still remains elusive since none of these hypotheses has been confirmed beyond doubt or at least accepted by a majority. As a result, CKDu has become a centre of controversy in the current debate over the government's policy to ban imports of synthetic fertiliser and pesticides. Proponents have been citing CKDu as a major example of hazards of agrochemicals while opponents reject those claims as imaginary and as not confirmed by scientific evidence.

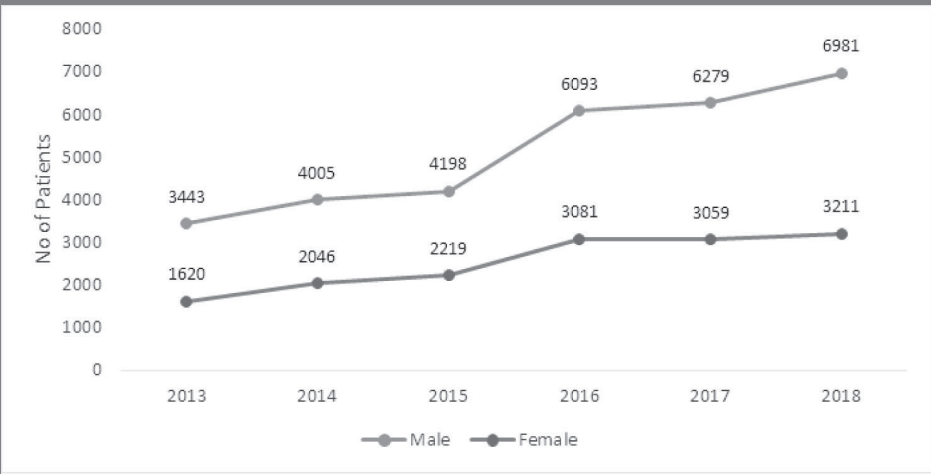
Prevalence and Geographical Distribution

The defining feature of CKDu is it occurs without a history or current treatment for diabetes mellitus or chronic/severe hypertension, snake bite, urological disease of known etiology or glomerulonephritis (WHO and MOH, 2009). It emerged in the early 1990s in dry zone agricultural regions in the North-Central Province in Sri Lanka. Later, it escalated into other neighbouring districts. At least one Divisional Secretariat of 11 districts (Anuradhapura, Polonnaruwa, Kurunegala, Ampara, Trincomalee, Badulla, Mullaitivu, Vavuniya, Matale, Monaragala, Hambanthota) has been identified as 'at risk' of the occurrence of CKDu (WHO and Ministry of Health, 2017). The affected areas cover approximately 17,000 km² with a population of about 2.5 million of which more than 95% live in rural areas. The worst affected areas are Medirigiriya, Medawachchiya, Kabithigollawa, and Padaviya in the North-Central Province, Nikawewa in the North-Western Province, Girandurukotte in the Uva Province, and Dehiattakandiya in the Eastern Province (Chandrajith et al., 2010).

The preponderance of the disease in males has been reported with the male prevalence (19.9%) being almost twice that of the females (10.5%) (WHO and Ministry of Health, 2017). The disease has mainly been reported among farmers from low-income households (Chandrajith et al., 2010). Many of those affected by this disease are young to middle-aged male farmers (30–60 age category) who work in paddy fields and cultivation of other agricultural crops (Wimalawansa, 2014).

CKDu Statistics in Sri Lanka

Despite CKDu becoming a severe health catastrophe in Sri Lanka, the actual number of CKDu patients has not been captured properly. The National Renal Registry – the national database on renal diseases – captures the patients who suffer from both CKD and CKDu. However, it does not specifically provide the exact number of CKDu affected people in the country. Thus, the number of mortalities that occur due to CKDu has not been reported separately. The annual Health Bulletin published by the Ministry of Health reports the morbidity and mortality of CKD and CKDu together as ‘renal failure’. Moreover, it does not include a separate section on CKDu morbidity and mortality. According to the National Renal Registry, the number of CKDu and CKD patients reported in Sri Lanka from 2013-2018 can be illustrated as below.



Source: *Annual Health Bulletin 2018*, Ministry of Health, National Renal Registry, Epidemiology Unit.

However, the statistics stated in the existing CKDu literature are not in line with each other or even with the statistics provided by the government. For an instance, one study has highlighted that in the last two decades, approximately 400,000 people may be suffering from CKDu in the North-Central province, and as many as 22,000 people have died as a result of this catastrophe (Perera, 2012; Bandara, 2013). At a symposium on CKDu organised by the National Academy of Science of Sri Lanka, the estimated numbers of CKDu patients in the endemic area was placed at 20,336 with this number likely to reach over 25,000 by the end of 2013 (Alwis, 2013; Elledge, 2014). Another study reveals that approximately 100,000 people are currently affected, with 5,000 deaths occurring each year attributed to CKDu (Wimalawansa, 2014). Accordingly, the lack of reliable CKDu data has led researchers to come up with different statistics. However, this can be attributed to misinterpretation of this timely issue.

Proposed Causes and Hypotheses

Despite the passage of nearly three decades since the emergence of this mysterious disease, the actual causative factor has not yet been confirmed. Experts from different fields have explored different risk factors as possible causes of CKDu. The more prominent causes postulated by researchers is given below.

Proposed Causes and Hypotheses for CKDu

Postulated Cause	Supportive Research Findings	Counter arguments
Heavy metals and toxic chemicals from agricultural sources.	Nephrotoxic agrochemicals and heavy metals Cadmium (Cd), Arsenic (As) through food chains possibly from agricultural sources (WHO & CKDu National Project Team, 2013) Exposure to high Cd contained in the dry zone environment in water, fish, lotus rhizome through food chains. The probable source is Cd contained phosphate fertiliser (Bandara et al., 2007).. Glyphosate and heavy metal complexes (especially As) are causative factors for CKDu among paddy farmers. Glyphosate alone does not cause CKDu. It seems to acquire the ability to destroy the renal tissues when it forms complexes with a localised geo-environmental factor (high hardness in ground drinking water) and nephrotoxic metals. Agrochemicals, especially phosphate fertilisers, are the major source of inorganic As in CKDu endemic areas. The disease is associated with drinking well water (Jayasumana et al., 2014, 2015 and 2019)..	- Agrochemicals are used all over the country. However, CKDu is found only in few selected areas. - The level of heavy metal contamination from agricultural sources is very low which gets diluted in the soil. - Agrochemicals are used in many countries in higher amounts per unit area than in Sri Lanka. The disease has not been reported from all those countries and places.

Fluoride and other elements of geological origin combination of fluoride and aluminium pots.	The high fluoride content in drinking water is a possible risk factor with some relationship with the disease. The variability in Na and Ca in groundwater and the Ca saturation factor in the presence of fluoride may be important parameters in the cause of the disease (Chandrajith et al., 2011). People affected by CKDu, consumed fluoride-rich water and used substandard aluminium pots for cooking and storing water. The Aluminofluoride complexes may play a significant role in causing chronic renal failure (Illeperuma et al., 2009).	- The same geological conditions had prevailed in these long before the emergence of CKDu. - The disease was not reported from all areas that have high fluoride content and hardness in water.
Cyanobacterial toxins.	CKDu high prevalent areas were clustered around reservoirs/tanks where communities consume water. Analysis of water from tanks revealed the presence of blooms of cyanobacteria capable of producing hepatotoxic carcinogenic effects (Dissanayake, 2011).	
Causes of social and behavioural origin.	- High level of alcoholism. - Low consumption of water while working under dehydrating conditions in the field under heavy sun. - Consumption indigenous medicine. - Excessive use of nonsteroidal anti-inflammatory drugs (Wimalawansa, 2014).	- Similar social conditions and behavioural patterns (i.e. high alcoholism) are found in many areas but they all do not have the disease.

Author's summary derived from cited sources.

It appears that arguments that attribute high health and environmental costs to synthetic fertilisers and pesticides as well as arguments that reject these are based on anecdotal evidence on which no strong scientific consensus exists. The situation is best exemplified by chronic kidney disease of unknown etiology (CKDu) in the North-

Central Province which carries much weight due to its vital importance in the current debate as an example for agriculture-related health hazards. Box 15.1 provides a detailed review of CKDu literature highlighting the nature of the current debate over the issue.

In response to alarms raised by concerned parties from time to time, the government has taken steps to ban certain chemicals from usage in the country. Among these are certain categories of persistent organic pollutants (POPs) listed under the Stockholm Convention. All in all, the decision to ban glyphosate, a widely used herbicide in the country, attracted criticism from farmers as well as agriculturists.

Overall, although there are legitimate grounds for concerns that synthetic fertiliser and pesticides are responsible for health and environmental damages, so far, widely perceived hazards attributed to these appear to be not proven beyond doubt. Lack of credible scientific investigations on the nature and causes of health hazards and accurate quantitative assessments on the level of damage are major limitations involved here. Hence, more concerted efforts on research are necessary to produce concrete evidence regarding the nature of health hazards, their causes and severity and possible remedies to overcome these issues. Otherwise, individual perceptions cannot be considered as credible information for evidence-based decisions; rather, it carries a high risk of misleading public opinion, giving rise to biased policy choices.

15.6 Challenges for 'New Organic Revolution'

The government's decision to ban imports of synthetic fertiliser and pesticides has been hailed by some as a path-breaking decision that enables Sri Lanka to become the first country in the world with 100% organic agriculture. However, this appears to be an unrealistic expectation due to demand- as well as supply-side challenges. The key demand-side challenge involved is the lack

Although there are legitimate grounds for concerns that synthetic fertiliser and pesticides are responsible for health and environmental damages, so far, widely perceived hazards attributed to these appear to be not proven beyond doubt.

of effective demand for organic products in the local market. Overall, the market entry barriers for organic products can be identified as the main supply-side challenge.

15.6.1 Demand-side Challenge: Lack of Effective Demand

The demand-side of a market is represented by the consumers, their preferences and behaviour. The mainstream agriculture market in any given country has a large base of consumer demand as a basic need for survival. It is supplied by a large number of farmers, who are usually engaged in conventional agriculture. The market for organic products can be described as a niche market that has limited association and access to mainstream markets for agriculture products. Organic products have secured a stable niche market, especially in developed countries, thus catering to a segment of consumers who are willing to pay a premium for their perceived health and ecological benefits.¹² Studies on demand for organic products have indicated that these products have above unitary (> 1) own price, indicating a situation of 'elastic demand', unlike agricultural products sold in mainstream markets which usually have 'inelastic demand' (below unitary (< 1) own price) – a characteristic of 'essential goods'.¹³

The demand-side segregation of consumers by price and income elasticity is the basic economic reason for the existence of a niche market for

organic products.¹⁴ This has strong implications from the point of view of current policy that organic agriculture may not be promoted by interventions such as restricting the supply of synthetic inputs. In the first place, the fundamental condition for the development of an organic product market stems from effective demand from a segment of consumers who are willing to pay a premium price for organic products. This requirement cannot be fulfilled by a government decision to control synthetic inputs for conventional agriculture. Even though statistical information is rare, it is not difficult to infer that effective demand for organic products in the local market is still small compared to the demand for conventional agriculture products. As a result, a majority of local organic producers aim to supply their products to international markets.

15.6.2 Supply-side Challenge: Entry Barriers for Organic Products Markets

The main supply-side challenge too is connected to the niche market existence of organic products. From the farmers' point of view, the main economic motivation for converting to organic is capturing the extra margin included in the premium price offered to an organic product. However, capturing this margin requires getting their products certified through accredited certifying bodies – an entry barrier that segregates organic markets from mainstream agriculture markets. Overcoming this entry barrier requires years of preparation as well as substantial costs for certification.

¹² Shafie, F.A., & D. Rennie. (2012). Consumer Perceptions Towards Organic Food. *Procedia - Social and Behavioral Sciences*, 49(2012), 360-367.

¹³ Information related to above unitary (> 1) own price based on: Lin, B.-H.; Yen, S.T, Huang, C.L., & Smith, T.A. (2009). U.S. Demand for Organic and Conventional Fresh Fruits. *Sustainability* 1: 464-478.

¹⁴ The conditions for market segregation are further invigorated by technical requirements for certification and labelling of organic products.

Box 15.2

Organic Vs Conventional: An Incomplete Balance Sheet

The organic agriculture movement (OAM) has a history of several decades with a worldwide following including that from Sri Lanka. It can be identified as a well-organised movement based on voluntary conversions from conventional to organic farming motivated by market and non-market factors. The key features of organic farming are: use of low external inputs; replacement of chemical fertiliser with organic fertiliser; improving soil fertility and maintenance; use of non-chemical methods of crop protection; and, diversification of crops in the field. According to the world statistics on organics from the Research Institute of Organic Agriculture (FiBL) and the International Federation of Organic Agriculture Movements (IFOAM), in 2019, an estimated 72.3 million Ha were under organic agriculture that amounted to 1.5% of the total agricultural land in the world. Of this, nearly half (35.7 million Ha) were located in Australia. The number of countries that reported organic production was 187. Of them, 14 countries have more than 10% of agricultural land under organic agriculture. The total number of organic producers reported in 2019 was 3.1 million. The total value of the global organic market was reported at Euro 106.4 billion in 2019. The US is the largest market for organic products with 42% of the market share. Europe comes next with Germany having the highest market share. It appears that the relative shares of the US and Europe are in a decline as high growth rates are reported from the Asia-Pacific region.

Statistics on organic agriculture in Sri Lanka is rare and figures available from different sources are not consistent. According to FiBL and the IFOAM statistics, Sri Lanka had 70,436 Ha of land under organics with 2,338 producers in 2019. However, a study conducted by the Technical Assistant to Modernization of Agricultural Programme in Sri Lanka (TAMAP) funded by the EU has reported that the land area under organic farming amounts to 165,553 ha in 2017 with 8,700 organic farmers, 224 organic processors, 311 organic exporters and 230 National Organic Programme (NOP) of US certified exporters. Sri Lanka is considered a pioneer in introducing organic tea and organic cinnamon to the world market. Both large-scale producers and smallholders are engaged in organic agriculture in Sri Lanka. Among the large-scale producers are organic tea and coconut producers. Organic vegetables and spices are mainly produced by smallholders whereas organic fruits are produced by large farms as well as by smallholders. Sri Lanka's organic output is mainly aimed at the export market. The local market for organic products appears to be small and information on the local market is hardly available. According to a TAMAP study, the volume of organic exports from Sri Lanka in 2018 amounted to 44,300 MT. In 2015, the value of organic exports from Sri Lanka reached Euro 259 million.

Organic products that are sold in the international market should comply with standards set out by importing countries. Meeting the international standards and regulations require certification by internationally accredited certification bodies accepted by importing countries. Sri Lanka is in the process of developing regulations and standards to improve the market prospects for Sri Lankan organic products. The National Organic Control Unit (NOCU) has been established in the Export Development Board (EDB). All certification bodies have to be accredited by the Sri Lanka Accreditation Board (SLAB) or any international accreditation body. Eight international certification bodies operate in Sri Lanka.

Sources: Based on *The World of Organic Agriculture: Statistics and Emerging Trends 2021* by the Research Institute of Organic Agriculture & International Federation of Organic Agriculture Movements, a project funded by the EU in Sri Lanka.; Based on Organic Farming and Sustainable Agriculture in Sri Lanka, by

Costs associated with application, certification and annual inspections can be considered as a type of transaction cost (TC) associated with organic markets.

Hence, organic products market is not an automatic option for the majority of conventional farmers. It needs to be achieved through a process of special preparation at a substantial TC. For a farmer to take up the economic decision for conversion, the profit margin from organic agriculture should be higher than that from conventional agriculture even after TC and probable income losses associated with the conversion process are considered. As a result, the decision to switch to organic agriculture always remains a voluntary decision motivated by market and non-market factors.

Hence, the ban is only a restrictive supply-side intervention that deprives the technological choice of farmers engaging in conventional agriculture, forcing a sudden non-voluntary conversion without fulfilling essential demand and supply-side conditions. Against the rhetorical claims by some supporters of the government policy, the forced elimination of synthetic fertiliser and pesticides from the market does not fulfil the essential demand and supply-side conditions – i.e. effective demand backed by the willingness to pay premium prices and removal of entry barriers – necessary for transformation to 100% organic agriculture. Hence, from the technical perspective of agricultural markets, the claim on converting to 100% organic agriculture can be considered a less meaningful statement.

The ban is only a restrictive supply-side intervention that deprives the technological choice of farmers engaging in conventional agriculture, forcing a sudden non-voluntary conversion without fulfilling essential demand and supply-side conditions.

15.7 Towards Sustainable Intensification of the Agriculture System: Core Elements and Essential Steps

The discussion so far has stressed the following points:

- The evolution of the currently dominant conventional agriculture model took place over seven decades, facilitated by a deliberate and persistent strategy of multi-faceted policy interventions pursued by successive governments.
- Even though the model has its origin in the paddy sub-sector, it has become popular among farmers engaged in all sub-sectors of the agriculture sector, including export-oriented plantation crops.
- The conventional agriculture model has generated significant positive economic outcomes across various sub-sectors while creating conditions that lead to adverse impacts on the environment and human health.
- The recent decision to ban the imports of synthetic fertilisers and pesticides is aimed at the rapid dismantling of the established model of conventional agriculture within a short period, by replacing it with a 100% organic agricultural production system.
- This policy decision can be considered as an important milestone in the state response towards the lobbying carried out by some interest groups that were campaigning against the conventional model of agriculture over a long period, highlighting perceived harmful impacts on the environment and health.
- While the claims made by supporters of the policy have a strong case that demands urgent policy attention, some of their claims have not been confirmed by credible scientific evidence.
- Regardless of the validity of certain arguments by supporters of the policy for a revolutionary shift in the conventional agriculture model, their expectation of converting the entire agriculture system into 100% organic production as well as the accelerated timeline set for achieving this ambitious target appears to be unrealistic.
- The prospects for converting agricultural production into a 100% organic system is constrained by major demand and supply-side challenges.

Overall, considering the prospects for converting Sri Lanka's agricultural system into a 100% organic agriculture system, its feasibility and continuation as a market-based economic concept worldwide appears to be slim. Hence, the country needs to focus on a model for 'sustainable intensification' of the conventional agriculture model with more realistic targets and a timeline. The remaining section of this chapter examines the conceptual outline of an alternative policy framework, together with core practical elements of such an approach.

15.7.1 Sustainable Intensification of Agriculture System: The Concept

Box 15.3 offers an overview of a conceptual outline of the sustainable intensification of agriculture (SIA), which has become the main approach guiding the sustainable agriculture

movement around the world. While the conceptual understanding of the approach is important, what matters most is transforming the conceptual framework into a practically implementable policy framework that can guide actions in short, medium and long-term horizons. Hence, this section focusses on organising and adapting the concept to address the issue of sustainability of agriculture in the current context of Sri Lanka.

Box 15.3 Sustainable Intensification of Agriculture

Sustainable intensification of agriculture (SIA) is defined as a process or system where yields are increased without adverse environmental impact as well as the cultivation of more land (Royal Society, 2009). Increased production should be achieved by raising productivity. Expansion of land area in agriculture is not encouraged since it could lead to the conversion of forests, wetlands, grasslands etc., endangering ecosystems and their services. Moreover, the use of synthetic chemical inputs that lead to pollution of the environment and adverse health impacts is to be minimised or fully replaced according to the needs of the agroecosystem in question.

This implies building productive agriculture systems using eco-friendly approaches that conserve natural resources by integrated management of land, water and living resources in an equitable way. The SIA requires designing agroecosystems that deal with difficult trade-offs reconciling sustainability along with production, economic, and environmental performance dimensions. It can be identified as a multipronged strategy to achieve food security sustainably. While increasing the level of production is an essential requirement, the SIA is not confined to supply-side strategies for enhancing productivity alone. It emphasises the necessity of demand-side interventions such as moderating demand for resource-intensive foods (e.g. meat and dairy products), reducing food waste, strengthening the governance of food systems to improve the efficiency and resilience of the food system, and making food accessible and affordable to all. The essence of the arguments is all responses must be environmentally sustainable.

The SIA demands a radical rethinking of food production to manage trade-offs in a sustainable manner. For instance, an overall increase in production does not mean yields should increase everywhere or at any cost. In some areas, increases in yield will be compatible with environmental improvements. In others, yield reductions or land reallocation will be needed to ensure sustainability and deliver benefits such as wildlife conservation, carbon storage, flood protection, and recreation. It does not restrict to one approach but encourages deploying diverse approaches – conventional, high-tech, agroecological, or organic – according to their merits after rigorous testing and assessing these, taking biophysical and social contexts into account.

Source: Royal Society. (2009). *Reaping the Benefits: Science and the Sustainable Intensification of Global Agriculture*. London: The Royal Society. ; and based on the author's observations on various sources.

The key insights for converting the conceptual outline of SIA into a practically implementable policy framework can be summarised as follows:



Sustainable Intensification of Agriculture (SIA)	
The Concept	The Challenges (Short-Term)
■ Technological plurality ■ Holistic approach ■ Integrated management ■ Best practices ■ Incentive-driven ■ Value chain focus	■ Fall in productivity, income and supply ■ Large-scale supply of organic material in a short period ■ Labour supply shortage ■ Technology and knowledge transfer

Technological plurality: The SIA concept advocates adopting a technologically plural approach without restricting farmers into one technical model like organic agriculture. Instead, it encourages the adoption of multi-technology approach that may include elements from a diverse range of models of agriculture such as organic agriculture, agroecological approach, high-tech precision agriculture as well as conventional agriculture. The elements of these models may be mixed to achieve the desired outcomes of productivity, sustainability, and food safety.

Holistic approach involving multiple elements of sustainability: The concept of sustainability is currently discussed within the narrow scope of 'toxin free' agriculture with a higher bias on traditional methods and practices of farming. However, sustainability and food safety have

become well-developed operational concepts and Sri Lanka, too has experimented with certain approaches such as IPN, IPM, conservation farming etc., which addressed different dimensions of agricultural sustainability.¹⁵ In fact, the concept of 'toxin free' agriculture as discussed today in Sri Lanka, is mainly focussed on food safety aspects within the primary production stage with only limited attention on other elements of food safety which are applied across the food value chain. Hence, a more holistic approach that combines agriculture sustainability and food safety across entire food value chains is essential to ensure if truly toxin-free agriculture products are to be delivered to consumers who are the final link of any value chain.

Integrated management: All farming activities to be organised as integrated systems combining multiple farming components (e.g. cropping, livestock, forestry), multiple operations (e.g. plant nutrition management, crop protection) as well as multiple technologies (e.g. organic, precision, conventional) to suit the needs of the local agroecosystems, at the farm level and the community level. For instance, integrated plant nutrition to achieve improved soil fertility and soil health by applying locally available organic fertiliser/manure, enhancing soil microorganisms, and introducing legume crops while being supplemented with a minimum level of synthetic fertilisers to maintain productivity, can be recommended. The use of synthetic fertilisers may be phased out gradually with the build-up of soil fertility. Similarly, integrated crop protection also may use a combination of agronomical, biological, and ecological techniques to maintain control over insect, weed, and microbial populations in the field with a favourable balance of beneficial organisms. In a situation of an outbreak of any

¹⁵ Senaratne, D.M.A.H. (2003). The Decades of Sustainable Agricultural Systems (SAS) in Sri Lanka: A Review of Institutional and Policy Issues. *Journal of Sustainable Agriculture*, 21(3), 63-85.

kind of pests, limited application of synthetic pesticides may also be warranted to bring the emergency under control if the organic counterparts (e.g. natural pesticides such as botanicals, biological enemies) fail to bring in the expected results, as speedily as projected.

Best practices to ensure optimal outcomes:

The triple-bottom-line of desired outcomes are productivity, sustainability, and food safety. These need to be ensured through the adoption of best practices that should be strictly observed through an integrated system of monitoring. The monitoring system requires the participation of individual farmers, community organisations, government officers, non-governmental actors as well as accredited certifying bodies. As in the case of certification and monitoring systems used in the organic products market that guarantee the quality for consumers and the opportunity to charge a premium for farmers, different structures for monitoring can be established to ensure food safety and sustainability of the production system with possible opportunities for market gains through price differentiation as well. The existing system of good agricultural practices (GAP) provides a good starting point, and it should be modified and strengthened to achieve the broader objectives of SIA.

Incentive-driven policy package based on voluntary compliance:

Farmers are recognised as suppliers operating in a market system who respond to market-based incentives and price signals that can be complemented by government regulations and social influences. Hence, a policy package that creates incentives for productivity-driven gains in the market within a regulatory framework for ensuring the needs of sustainability and food safety, re-enforced by developed attitudes of social responsibility through moral suasion should be used to encourage voluntary compliance rather than forced enforcement.

Value chain rather than farm gate focus:

Improvements are not restricted to the primary production activities taking place within the boundaries of the farm only. A production system is defined to cover value chain links extended from the farm gate to the final consumer. This implies that ensuring sustainability of the production system and safety of food products requires applying SIA principles along all stages of the value chain.

A broad-based change towards a policy on SIA requires more time and resources, together with capacity building support for all stakeholders in the food system. As in the case of developing the conventional agriculture system which has become the dominant model at present, the sustainable intensification of the current system also needs a constant effort on many fronts. These include technological innovations, transfer of technology through multiple channels, development of institutional capacity, raising public awareness, mobilisation of resources to support essential investments and a strong political will to pursue a policy on SIA in a determined manner. There are a few short-term challenges that can act as barriers in the process that need to be addressed with a farsighted approach, prudent planning and strategic decisions. A few of the most critical challenges include the following.

Short-term drops in productivity, income, and supply:

A sudden departure from conventional agriculture is likely to create triple shocks of productivity drops, income losses and scarcity of market supply of foods, at least in the short-run. These shocks need to be anticipated beforehand and addressed through appropriate measures. Otherwise, it could turn out as chaotic circumstances. This can be mainly due to disturbances to the basic needs of food security of people and negative impacts on the livelihoods

of millions of small farmers and agricultural workers, who live on the brink of poverty.

Challenge of supplying organic fertiliser and natural crop protection materials on a large scale in a short period:

Organic fertilisers are essential to be provided in relatively large quantities compared with synthetic fertilisers. The purpose of this is to build soil fertility and improve the physical, chemical, and biological properties of the soil in the long-run while matching the requirements of plant nutrients fulfilled by synthetic fertilisers in the short-run. Currently, the country lacks the capacity to meet this requirement and it is not realistic to expect farmers to have sourced the total supply only from local suppliers. Unlike synthetic fertiliser, importing organic fertilisers is not a viable option due to the heavy risk of harmful foreign substances, invasive species and pathogens that can enter the local agroecosystems through imported organic matter. Hence, the domestic capacity for production and distribution of quality organic fertilisers as well as crop protection materials such as botanical pesticides have to be built systematically. Such efforts need to take off through the partnership of state agencies, collaborations with the private sector, farmers and non-state actors such as NGOs. In this connection, ensuring the quality of organic inputs is of utmost importance.

Overcoming the shortage of labour supply:

A major challenge already faced by all sub-sectors of agriculture in Sri Lanka is the growing

shortage of labour. Abandoning of agriculture by youth has been a widely observed situation. In some areas, labour demand in peak periods is partly fulfilled by migrant workers. An exit from conventional agriculture is likely to widen the gap in labour supply further, since organic and eco-friendly production practices involve more labour-intensive activities compared with conventional farming practices. Hence, finding ways to minimise the labour shortage is an important need to be addressed by appropriate measures.

Transfer of technology and knowledge on eco-friendly agriculture:

Despite rhetorical claims by opponents of the conventional agriculture model, going back to traditional farming methods which existed before the advent of the conventional model of agriculture does not provide a viable option. On the other hand, sustainable agriculture has become a more complex science than conventional agriculture. At present, public agencies of agriculture in Sri Lanka are mainly geared to provide services relating to conventional agriculture. The knowledge and technological base on sustainable agriculture methods is weak and additionally, available limited human and physical resources appear to be scattered. On the other hand, raising farmers' awareness and skills on methods of sustainable agriculture is an essential precondition for successful SIA policy in the country. Hence, building the capacity for the transfer of technology on sustainable agriculture to farmers is the main challenge that demands an urgent solution.



POLICY BRIEFS

16. Greening Growth: Single-use Plastics and other Environmentally Problematic Materials

16.1 Introduction

The global pandemic is raising many new challenges for humankind as countries prepare to adjust to a 'new normal'. These include the escalation of numerous challenges that existed pre-COVID-19 such as single-use plastics and other environmentally problematic materials. Goods produced from plastic or polythene/synthetic-based material are widely available and used worldwide. Globally, people switched to plastic products as substitutes during the pandemic, essential or as novel products – to use and dispose of – due to hygiene measures necessitated by the virus. Thus, managing plastic waste, especially single-use plastic and other environmentally problematic material has gained greater urgency.

Due to certain inherent properties, plastics have a wide range of applications and undeniable benefits to consumers and producers. Plastics are hygienic, lightweight, flexible and do not rust, unlike metals. However, plastics have become a severe environmental issue due to its haphazard disposal. Single-use plastics include items like plastic bags, straws, cups, bottles etc., which are thrown away once used. The worldwide use of plastic bags has risen sharply, with almost

Due to certain inherent properties, plastics have a wide range of applications and undeniable benefits to consumers and producers.

160,000 plastic bags used per second globally,¹ but they are also one of the key pollutants.

Without even being a large consumer of plastics in the world, Sri Lanka too generates more than 5 million kilograms of plastic waste per day,² wherein the per capita daily contribution is nearly 0.5kg.³ Sri Lanka is already struggling to cope up with the amount of plastic waste generated each year. Unless concrete measures are taken to alter the current methods of manufacturing and usage patterns of plastics, the situation could result in irreversible damage to the environment. The global threat of the COVID-19 pandemic could make managing the problem of single-use plastics and other environmentally problematic materials (e.g. Styrofoam, Aluminium cans, Polystyrene etc.) even more challenging. This policy brief examines the options to manage single-use plastics and other environmentally problematic materials in Sri Lanka.

16.2 Resurgence of Single-use Plastics and Other Environmentally Problematic Materials

Figure 16.1 illustrates the demand for plastics by economic segments that existed pre-pandemic and the expected trends in demand with COVID-19.

Sri Lanka is already struggling to cope up with the amount of plastic waste generated each year.

The demand for plastic by medical and packaging sectors has sharply increased in contrast to the pre-pandemic conditions. For instance, the World Health Organization (WHO) reveals that an estimated 89 million medical masks, 76 million gloves and 1.6 million goggles are required monthly in the battle against COVID-19.⁴ Evidence suggests that the global demand for disposable facemasks has increased significantly during the pandemic with an expected 53.4% market growth over the period 2020-2027.⁵ This growth trend is likely to continue until the severity of the pandemic dampens and reaches a manageable level.

¹ Theworldcounts.com. (2021, March 20). *Number of Plastic Bags Produced Worldwide, This Year*. Retrieved March 20, 2021, from The World Counts: <https://www.theworldcounts.com/challenges/planet-earth/waste/plastic-bags-used-per-year/story>

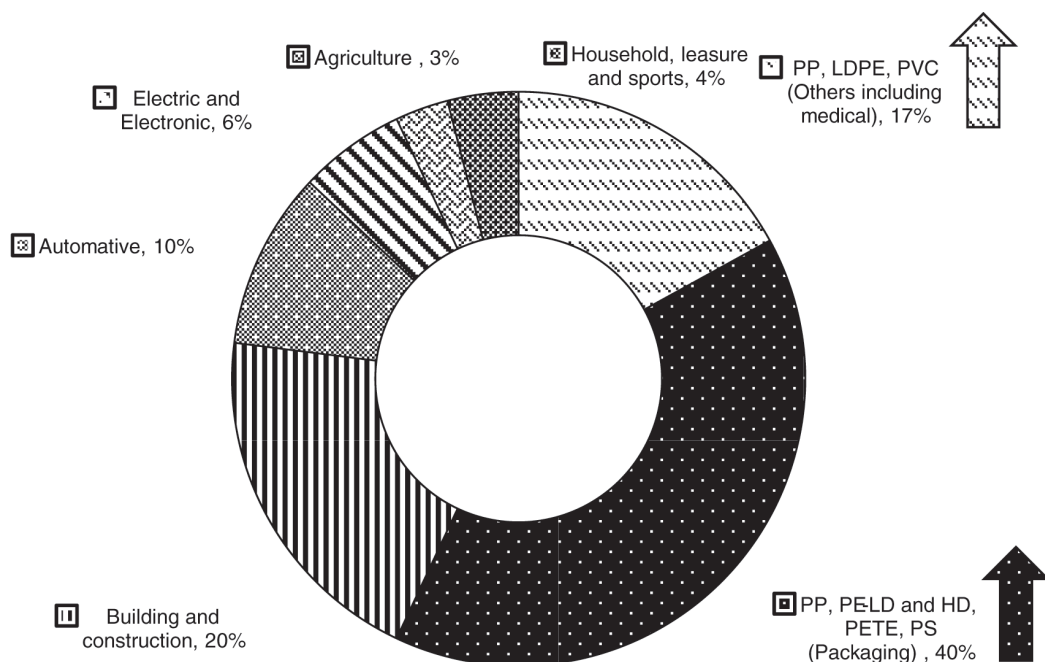
² *Ibid*.

³ Ministry of Health, Nutrition & Indigenous Medicine. (2017). *Weekly Epidemiological Report*. Colombo: Epidemiology Unit, Ministry of Health, Nutrition & Indigenous Medicine.

⁴ Chaib, F. (2020, March 3). *Shortage of Personal Protective Equipment Endangering Health Workers Worldwide*. Retrieved March 13, 2021, from World Health Organization: <https://www.who.int/news/item/03-03-2020-shortage-of-personal-protective-equipment-endangering-health-workers-worldwide>.

⁵ Precedence Research. (2021, January 29). *Disposable Face Mask Market to Garner Growth 53.4% by 2027*. Retrieved March 25, 2021, from Globe Newswire: <https://www.globenewswire.com/news-release/2021/01/29/2166667/0/en/Disposable-Face-Mask-Market-to-Garner-Growth-53-4-by-2027.html#:~:text=The%20global%20disposable%20face%20mask,forecast%20period%202020%20to%202027.>

Figure 16.1
Demand for Plastics and Expected Trends with COVID-19



Note: Arrows exhibit increasing trends.

Sources: Klemeš, J. J., Van Fan, Y., Tan, R. R., & Jiang, P. (2020, April 7). Minimising the Present and Future Plastic Waste, Energy and Environmental. Renewable and Sustainable Energy Reviews, 127(109883), 1-7.

PPE Requirement per Month in COVID-19 Response



Source: World Health Organization (2020)

The demand for plastic by medical and packaging sectors has sharply increased in contrast to the pre-pandemic conditions.

Disposable facemasks are produced using polymers such as Polypropylene (PP), Polyurethane, Polyacrylonitrile, Polystyrene, Polycarbonate, Polyethylene (LDPE), or Polyester, which are potential sources of microplastics. In addition, it is expected that the demand for disposable syringes and plastic containers that store vaccines will surge rapidly with global vaccination efforts. For instance, India's disposable syringe market is expected to grow by 13.3% from USD 888.4 million in 2020 to

USD 1,828.2 million by 2026.⁶ In total, the global market is forecast to experience a 7% compound annual growth rate and reach a value of 14.4 billion USD by 2030.⁷

Moreover, the demand for other personal protective equipment (PPE) like face shields made from PP, LDPE gowns, vinyl gloves made from Polyvinyl Chloride (PVC) is seeing sharp growth along with the demand for plastic packaging material. Thus, production and consumption of PP, LDPE and PVC material will exhibit an increasing trend.

Even though plastic provides no added advantage in terms of fighting the virus, behavioural changes associated with the pandemic alone could increase the use of disposable plastic products even for non-medical applications. For example, online shopping and home delivery can escalate the demand for plastic packaging, which is reflected in accumulated plastic waste, especially from food packaging. In Thailand, the amount of plastic waste rose by 15% during the pandemic, especially due to food packaging waste, as a result of tripled demand for food delivery.⁸ Many governments worldwide banned the use of reusable cups and food utensils due to safety reasons since reusable commodities could be contagious.

In addition, a drastic increase in medical waste that includes single-use plastic and other environmentally problematic material is expected. For instance, in Hubei province, China, the

⁶ TechSci Research. (2021, March 5). *India Disposable Syringes Market, By Type, Pre-filled Syringes, Safety Syringes, By Application, By End User, By Material, By Region, Forecast & Opportunities, FY2026*. Retrieved May 6, 2021, from Prnewswire: <https://www.prnewswire.com/news-releases/india-disposable-syringes-market-report-2021-2026-covid-19-are-creating-a-high-demand-for-disposable-syringes-301255829.html>

⁷ Transparency Market Research. (2020, June 19). *Disposable Syringe Market to Reach Valuation of 14.4 Billion USD by 2030*. Retrieved May 6, 2021, from Transparency Market Research: <https://www.transparencymarketresearch.com/disposable-syringes-market.html>

⁸ Ahmed, M. (2020). Sustainable Lifestyles for Plastics and Packaging Waste Management during a Pandemic. *UN Environment Programme's COVID-19 Response "Working with the Environment to Protect People"* (pp. 1-26). Nairobi: UN Environment Programme.

generation of medical waste increased sharply. A greater proportion of this waste comprised of single-use plastics.⁹ Medical waste in Wuhan exceeded the maximum incineration capacity of 46 tons/day due to a dramatic rise in waste accumulation up to 240 tons/day.¹⁰

Hence, worldwide, efforts are underway to mitigate the pandemic linked rise in single-use plastics and other environmentally problematic materials despite their detrimental environmental impacts.

16.3 The Economics of Single-use Plastics and Other Environmentally Problematic Material

At present, single-use plastics and other environmentally problematic materials are commonly used for various purposes in economies worldwide. The busy lifestyles of modern economies demand materials that support quick consumption patterns and convenience, reduce the space for long-term storage, are easy to handle in transportation with minimum damage, and minimise the need for maintenance in long-term usage. Hence, materials related to single-use plastics such as Asbestos and Styrofoam, were developed to meet the increasing demands of contemporary living. In most cases, commodities made from such materials derive their use-values by conveniently serving a single purpose. For instance, single-use

plastics have very little reusable value once used. A few examples are disposable plastic syringes, plastic containers used for medicines and beverages, etc. Hence, these commodities are considered as waste after serving their intended purpose. Being unable to be traded/marketed due to lack of secondary use value (trade value), such commodities are usually dumped after using, presenting a significant challenge for managing such waste. Hence, huge piles of plastic waste can be observed worldwide, creating negative externalities to humans, animals and the environment as a whole.

The majority of single-use plastics are made out of petroleum products, which may take approximately 450 years to fully degrade. While degrading, the materials are subjected to chemical alterations which release harmful substances to the soil that eventually generate environmental issues like pollution. In many incidences, single-use plastics in open dumps are washed away by the surface runoff immediately after rain and accumulated in water bodies like rivers and streams. These are carried away by rivers and streams to lakes and oceans. Sometimes, the plastics in oceans are taken away by ocean currents creating transboundary environmental issues. For instance, an estimated 1.8 trillion pieces of plastic debris covering 1.6 million square kilometres have given rise to the Great Pacific Garbage Patch (GPGP) in the Pacific Ocean, which is expanding rapidly.¹¹

Polyethylene terephthalate (PET) bottles or bottles made of polyethylene terephthalate are a principal plastic contaminant used for packaging

⁹ Klemeš, J. J., Van Fan, Y., Tan, R. R., & Jiang, P. (2020, 4 7). Minimising the Present and Future Plastic Waste, Energy and Environmental. *Renewable and Sustainable Energy Reviews*, 127(109883), 1-7.

¹⁰ *Ibid.*

¹¹ Lebreton, L., Slat, B., Ferrari, F., Sainte-Rose, B., Aitken, J., Marthouse, R., & Reisser, J. (2018, March 22). Evidence that the Great Pacific Garbage Patch is Rapidly Accumulating Plastic. *Scientific Reports*, 8(4666), 1-12.

An estimated 1.8 trillion pieces of plastic debris covering 1.6 million square kilometres have given rise to the Great Pacific Garbage Patch (GPPG) in the Pacific Ocean, which is expanding rapidly.

water for drinking purposes. Estimated figures show that a million PET bottles are being consumed worldwide per minute, with 583 billion PET drinking bottles to be sold by end 2021.¹² Only around 10% of the PET waste is recycled while the rest remain mismanaged.¹³

Despite their harmful properties to the environment, these environmentally problematic materials are being widely used and produced continuously around the world. Certain global events such as COVID-19 can increase consumption and production of single-use materials creating a negative impact on current efforts taken thus far to reduce the use of single-use plastics and other environmentally problematic materials. These developments highlight the importance of adopting a sustainable consumption and production approach by shifting towards a circular economy, using environmentally-friendly alternatives and changes in consumption patterns.

16.4 Impacts of Mismanaged Single-use Plastic Waste and Other Environmentally Problematic Materials

Around, 400 million metric tons (MT) of plastics are being produced each year and 40% of these are single-use plastics.¹⁴ These have negative

¹² Laville, S., & Taylor, M. (2017, 06 28). *A Million Bottles a Minute: World's Plastic Binge As Dangerous As Climate Change*. Retrieved May 6, 2021, from The Guardian: <https://www.theguardian.com/environment/2017/jun/28/a-million-a-minute-worlds-plastic-bottle-binge-as-dangerous-as-climate-change>

¹³ Organisation for Economic Co-operation and Development. (2018). *Improving Plastics Management: Trends, Policy Responses, and the Role of International Co-Operation and Trade*. Paris: Organisation for Economic Co-operation and Development.

¹⁴ United Nations Environment Programme. (2018). *Single-use Plastics: A Roadmap for Sustainability*. Nairobi: The International Environmental Technology Centre, United Nations Environment Programme.

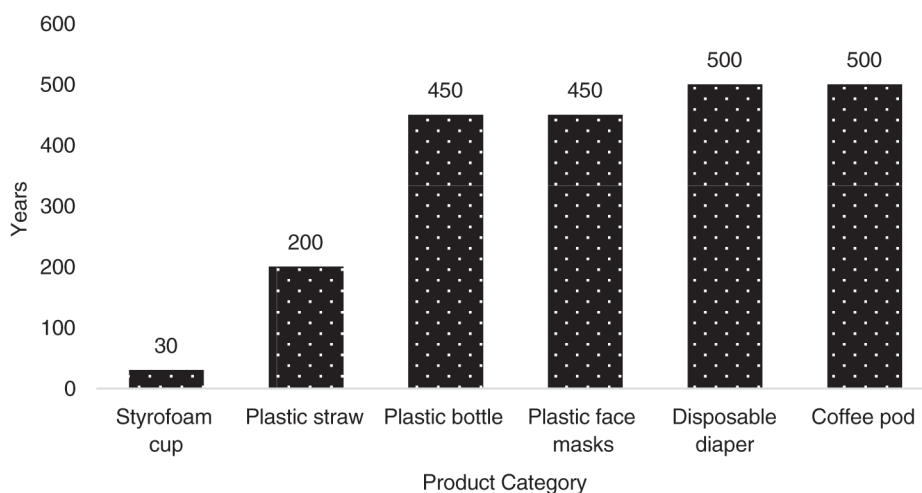
impacts on the environment, economy and the health of people around the world.

16.4.1 Impacts on the Environment

Most types of plastics are not biodegradable. Instead, these are subjected to photodegradation, which is a process that slowly breaks down plastic into smaller fragments which are known as microplastics. Photodegradation is common in environments like beaches due to high ultraviolet (UV) irradiation and abrasion by waves. However, the process is much slower in environments which are cooler (lower temperature) and less exposed to UV rays (oceans). Therefore, waste from single-use plastics and other environmentally problematic materials is accumulated over relatively long periods in the ocean and water bodies.

Around, 400 million metric tons (MT) of plastics are being produced each year and 40% of these are single-use plastics.

Figure 16.2
Time Taken to Fully Decompose Single-use Plastic Products



Sources: Waste Free Oceans. (2020, May 18). *Plastic Masks Take 450 Years to Decompose in Nature*. Retrieved March 24, 2021, from Waste Free Oceans: <https://www.wastefreeoceans.org/post/plastic-masks-take-450-years-to-decompose-in-nature>;

Trowsdale, A., Housden, T., & Meie, B. (2017, December 10). *Seven Charts that Explain the Plastic Pollution Problem*. Retrieved May 20, 2021, from BBC News: <https://www.bbc.com/news/science-environment-42264788>

These micro-plastic fragments contaminate water and soil. It takes thousands of years for certain plastic materials to decompose. Recycling of Styrofoam products is proven to be financially unviable because 95% of such products consist of air. Moreover, cleaning Styrofoam products contaminated with food or drinks is found to be energy-intensive which also raises the cost of recycling.

the atmosphere. Burning plastic releases dioxins, furans, mercury and polychlorinated biphenyls, which pose threats to human and animal health. Some of these gases like dioxins settle on water bodies and crops, which eventually enter into human and animal tissues. Dioxins are lethal carcinogenic organic pollutants, which also disrupt the thyroid and respiratory systems. In addition, incineration releases a complex mixture

Figure 16.3
Amount of Plastic in the Environment



Source: Trowsdale, A., Housden, T., & Meie, B. (2017, December 10). *Seven Charts that Explain the Plastic Pollution Problem*. Retrieved May 18, 2021, from BBC News: <https://www.bbc.com/news/science-environment-42264788>

Atmosphere: Atmospheric pollution occurs during the stage of production and at the end of the life cycle of plastics. Around 12% of plastic waste are incinerated.¹⁵ The incineration of single-use plastics and other environmentally problematic materials releases toxic gases into

of carbon known as 'black carbon' that contributes to climate change causing adverse effects.

Land and Biodiversity: Most single-use plastic waste and other environmentally problematic materials are either landfilled, dumped in

¹⁵ United Nations Environment Programme. (2018). *Single-use Plastics: A Roadmap for Sustainability*. Nairobi: The International Environmental Technology Centre, United Nations Environment Programme.

uncontrolled sites, or littered into the environment at the end of their life cycle, which is typically after 'one-time' use. Recent estimates suggest that around 79% of the plastic that has ever been produced are in landfills, and only 9% has been recycled.¹⁶ Plastic waste in open dumps is often eaten by animals, which lead to an agonising death. Wild animals such as elephants, deers and domestic animals like cattle and goats often get attracted to dumping sites. While the exact numbers of deaths of animals caused by plastic pollution are unavailable, it has been projected that based on the current rate of pollution, almost 99% of sea bird species will have consumed plastics by 2050.¹⁷

Water, Marine Life and Sanitation: In most cases, plastic waste is washed away and end up contaminating inland fresh water bodies or oceans, affecting aquatic environments and biodiversity. Recent figures illustrate that 1 million sea birds and 100,000 marine mammals,¹⁸ (whales, dolphins etc.) die annually due to plastic pollution.¹⁹ Around 15% of marine species affected by ingestion and entanglement from litter are categorised as endangered.²⁰ Accumulated plastic waste reduces the water quality and limits the penetration of sunlight into depths affecting

marine life forms. Contaminated water carries micro-fragments of plastics that end up in human and animal tissues through bioaccumulation. Micro-plastics have been found in common table salt and both tap and bottled water.²¹

Urban Environments and Human Settlements:

Urban environments and human settlements are highly affected due to mismanaged plastic waste. Open dumps often reduce the livability in urban areas. In 2015, out of an estimated 141 million tons of package waste, 86% was disposed and littered.²² Plastic bags and containers that clog drainage pipes and sewers in cities lead to urban flash floods. An estimated 60% of the plastic debris in the ocean are from urban centres while 80 million MT of municipal plastic waste were inadequately disposed of during 2015.²³ Researchers predict that the world produces around 230 MT of municipal plastic waste annually by 2025.²⁴

16.4.2 Impacts on the Global Economy

In addition to above-mentioned environmental issues, the economic damage caused by plastic waste is enormous. It has been estimated that

¹⁶ Geyer, R., Jambeck, J., & Law, K. (2017). *Production, Use, and Fate of All Plastics Ever Made*. 3(7), 1-5. Retrieved March 22, 2021, from Advances Science: <https://advances.sciencemag.org/content/3/7/e1700782>

¹⁷ Wilcox, C., Seville, E., & Hardesty, B. (2015, July 2). Threat of Plastic Pollution to Seabirds is Global, Pervasive, and Increasing. *Proceedings of the National Academy of Sciences*, 112(38), 11899-11904. Retrieved March 21, 2021, from Science Daily: <https://www.sciencedaily.com/releases/2015/08/150831163739.htm>

¹⁸ United Nations Educational, Scientific and Cultural Organization. (2017). *Facts and Figures on Marine Pollution*. Retrieved March 20, 2021, from United Nations Educational, Scientific and Cultural Organization: <http://www.unesco.org/new/en/natural-sciences/ioc-oceans/focus-areas/rio-20-ocean/blueprint-for-the-future-we-want/marine-pollution/facts-and-figures-on-marine-pollution/>

¹⁹ World Wildlife Fund for Nature. (2018, October 11). *Plastic in Our Oceans is Killing Marine Mammals*. Retrieved March 22, 2021, from World Wildlife Fund for Nature: <https://www.wwf.org.au/news/blogs/plastic-in-our-oceans-is-killing-marine-mammals#gs.ynki70>

²⁰ Jambeck, J., Geyer, R., Wilcox, C., Siegler, T., Perryman, M., Andrady, A., Law, K. (2015). Plastic Waste Inputs From Land into The Ocean. *Science*, 347(6223), 768-771.

²¹ United Nations Environment Programme. (2018). *Single-use Plastics: A Roadmap for Sustainability*. Nairobi: The International Environmental Technology Centre, United Nations Environment Programme.

²² *Ibid.*

²³ Lebreton, L., & Andrady, A. (2019). Future Scenarios of Global Plastic Waste Generation and Disposal. *Palgrave Communications*, 5(1), 1-10.

²⁴ *Ibid.*

plastic pollution in the world's oceans costs USD 2.5 trillion annually with a reduced environmental value of USD 33,000 per ton.²⁵ Especially, marine plastic waste affects blue economy and food security. For instance, tourism, fishing and shipping industries of the Asia-Pacific region alone incur an annual cost of USD 1.3 billion due to plastic litter that accumulate in the region.²⁶ Kenya is losing USD 90 billion annually in the ocean economy due to plastic pollution. In addition, indirect social costs and welfare losses occur with the visual disutility of littered spaces.

16.4.3 Impacts on Human Health

Moreover, at each stage of their lifecycle, plastics pose risks to human health. For instance, chemicals involved in plastic production are extremely toxic to humans while the air pollutants generated from incineration are proved to cause cancer, neurotoxicity, reproductive toxicity and damages to the endocrine system.²⁷ Studies have shown that toxic chemical compounds such as benzene and styrene in Styrofoam can transfer into food and drinks. This is often observed when the container is reheated while still having food inside.²⁸ Studies also find that plastic waste is often burnt in low-income households for generating heat where women and children

are exposed to toxic emissions. When openly dumped, plastic bags, cups and other containers hold water, and become breeding grounds that amplify the risk of transmission of vector-borne diseases like Dengue.

16.5 Plastic Waste in Sri Lanka

The plastics industry is thriving for both locally produced and imported plastic products in Sri Lanka. There are more than 400 companies engaged in plastic processing with a capacity to produce 140,000 MT per annum.²⁹ However, the majority of the plastic processed in Sri Lanka is for export purposes while local demand is mainly catered through imports. Sri Lanka's trade value of imported plastic in 2018 was USD 296 million whereas the export trade value was USD 79.6 million.³⁰

The level of plastic pollution can easily be observed by the amount of plastic waste accumulated in households, roadsides, water bodies, beaches and marine areas around Sri Lanka. According to estimates, the country generates 1.6 million MT annually of mismanaged plastics.³¹ Some studies have revealed that microplastic pollutants are one of the major reasons for declining fish stocks along the

²⁵ Beaumont, N., Aanesen, M., Austen, M., Börger, T., Clark, J., Cole, M., Wyles, K. (2019). Global Ecological, Social and Economic Impacts of Marine Plastic. *Marine Pollution Bulletin*, 142(1), 189-195. 2

²⁶ McIlgorm, A., Raubenheimer, K., & McIlgorm, D. (2020). *Update of 2009 APEC Report on Economic Costs of Marine Debris to APEC Economies*. Wollongong: Asia-Pacific Economic Cooperation Secretariat.

²⁷ Verma, R., Vinoda, K., Papireddy, M., & Gowda, A. (2016). Toxic Pollutants from Plastic Waste- A Review. *Procedia Environmental Sciences* (35), 701-708. Retrieved 3 26, 2021

²⁸ United Nations Environment Programme. (2018). *SINGLE-USE PLASTICS: A Roadmap for Sustainability*. The International Environmental Technology Centre. United Nations Environment Programme. Retrieved 3 21, 2021, from Nairobi, Kenya

²⁹ Sri Lanka Export Development Board. (2021, May 6). *Plastic Products*. Retrieved May 6, 2021, from Srilankabusiness.com: <https://www.srilankabusiness.com/plastic/overview.html>

³⁰ The author's calculations are based on the United Nations. (2021, May 6). *UNComtrade Analytics*. Retrieved May 6, 2021, from UNComtrade Analytics: <https://comtrade.un.org/labs/data-explorer/>

³¹ Cole, C. (2019, August 19). *Marine Plastic Pollution: Opportunities for Sri Lanka*. Retrieved May 24, 2021, from LKI's Blog on International Relations: <https://lki.lk/blog/marine-plastic-pollution-opportunities-for-sri-lanka/>

country's coast.³² Moreover, a recent study conducted on the southern coast found that over 60% of sand samples and 70% of surface water samples were contaminated with micro-plastics.³³ Most of the polluted environments are identified as economically important locations such as tourist hotspots or key areas of the fisheries

The level of plastic pollution can easily be observed by the amount of plastic waste accumulated in households, roadsides, water bodies, beaches and marine areas around Sri Lanka.

industry. The growth of PET water and beverage bottles could be a significant contributor to the surging micro-plastic pollutants in Sri Lanka. Approximately 10% of plastic imports to Sri Lanka are PET.³⁴ A study conducted by the Institute of Policy Studies of Sri Lanka (IPS) revealed that Sri Lanka imported 1,337 MT of PET-based raw materials in 2003,³⁵ which has surged up to 9,600 MT in 2017.³⁶ The figures emphasise the magnitude of environmental impacts that PET alone can cause.

16.6 Enabling Policies and Strategies

The Government of Sri Lanka (GOSL) has made several attempts to control the escalation of plastic pollution in the country. Nevertheless, those attempts were met with minimal or zero effect due to lack of alternatives, lobbying by parties and inadequate enforcement.

For instance, in 2006, by a gazette notification, bans were imposed on the manufacture, sale or use of polythene or any polythene product which is 20 microns or below in thickness.³⁷ However, the inability to introduce substitutes to polythene and creating adequate awareness among the public made it ineffective. Again in 2017, 6 gazette notifications banned the manufacturing, trading and use of plastic and polythene products including any polythene product which is 20

³² Koongolla, J. B., Andrady, A. L., Kumara, T. P., & Gangabadage, C. S. (2018, October 13). Evidence of Microplastics Pollution in Coastal Beaches and Waters. *Marine Pollution Bulletin*, 137(1), 277-284.

³³ *Ibid.*

³⁴ Gunawardena, E., & Rebert, J. (2020, June 23). In Sri Lanka, a Public-Private-Civil Society Partnership Turns Plastic Waste into Sportswear. Retrieved May 6, 2021, from The Asia Foundation: <https://asiafoundation.org/2020/06/23/in-sri-lanka-a-public-private-civil-society-partnership-turns-plastic-waste-into-sportswear/>

³⁵ Teele, P., & Gunawardana, A. (2004). *Study on Post-Consumer Plastics in Sri Lanka*. Colombo: Environmental and Natural Resource Economics Policy Unit, Institute of Policy Studies of Sri Lanka.

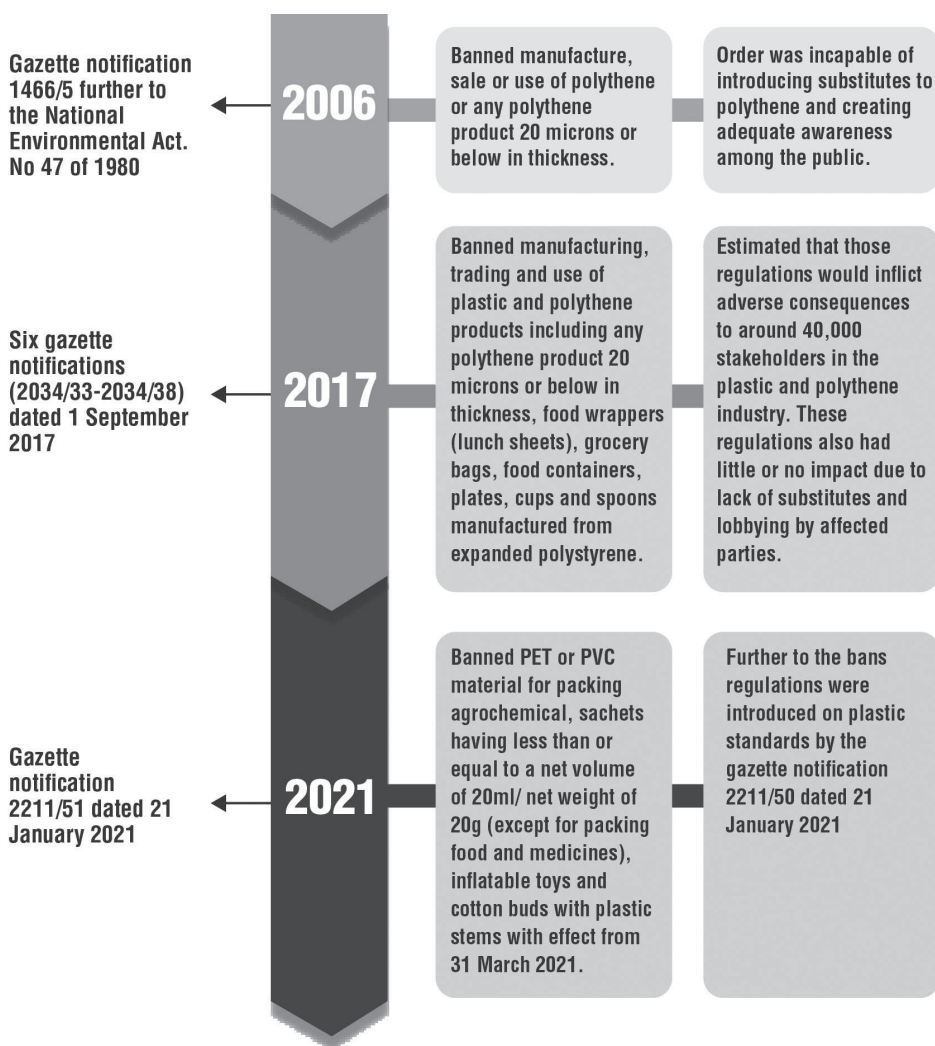
³⁶ Sirimane, S. (2017, May 2). *Recycling Plastic Waste the BPPL Way*. Retrieved May 6, 2021, from Daily News: <https://www.dailynews.lk/2017/05/02/business/114626/recycling-plastic-waste-bppl-way>

³⁷ Government of Sri Lanka. (2006, 10 10). The Gazette of the Democratic Socialist of Republic of Sri Lanka No. 1466/5 – TUESDAY, OCTOBER 10, 2006. Colombo, Western, Sri Lanka. Retrieved 5 6, 2021, from <http://www.cea.lk/web/images/pdf/wastemanagement/reg1466-5.pdf>

microns or below in thickness, food wrappers (lunch sheets), grocery bags, food containers, plates, cups and spoons manufactured from expanded polystyrene. It was estimated that those regulations would inflict adverse consequences to around 40,000 stakeholders in the plastic and polythene industry. These regulations also had little or no impact due to lack of substitutes and lobbying by affected parties. The latest attempt

was made in 2021 wherein by gazette notification, PET or PVC material for packing agrochemical, sachets having less than or equal to a net volume of 20ml/ net weight of 20g (except for packing food and medicines), inflatable toys and cotton buds with plastic stems were banned with effect from 31 March 2021. Further to the bans, regulations were introduced on plastic standards by a further gazette notification in January 2021.

Attempts to Control Plastic Pollution in Sri Lanka



16.7 A Sustainable Consumption and Production Approach to Plastics

Sri Lanka has drafted a National Policy on Sustainable Consumption and Production as an overarching policy that is yet to be approved by the Cabinet. The policy emphasises the need for improving the quality of life while minimising environmental degradation without compromising the resource needs of future generations. One of the five principles of this policy applies to life-cycle thinking, which considers reducing environmental impacts from all life-cycle stages of the production and consumption process. This principle stresses the transformation from a linear to a circular economy. While the linear economic principles are culprits for extensive manufacture, usage and irresponsible disposal of single-use plastics and other environmentally problematic material, the circular economic principles stress recycling, reuse and enhancing the resource use efficiency.

16.8 Way Forward

Addressing environmental, economic, health and socio-cultural issues related to single-use plastics and other environmentally problematic materials involve first identifying the most problematic single-use plastic and other materials. Thereafter, evaluating the scale of the issue, identifying major sources of pollution and potential impacts of mismanagement on the environment, human and animal health, and the economy are required. Various interventions to mitigate the harmful impacts can be classified into three broad categories, namely: voluntary reduction strategies, controlling through regulatory and market-based policy instruments, and awareness creation which are complementary to each other.

Voluntary Reduction Strategies: One of the most powerful instruments to address the challenge of single-use plastic is voluntary reduction strategies. These are based on adjustments to consumption patterns and consumer choices upon an increased understanding of the need for change for long-lasting impacts. Such alterations/changes in behaviour can be encouraged through the promotion of sustainable alternatives to single-use plastics and other environmentally problematic substances. For instance, promoting reusable bags which can be easily sanitised or washed can replace single-use plastic bags. Reusable bottles for personal use would also support such efforts. Altered consumption patterns can be expected to trigger response strategies among manufacturers by way of switching to production of eco-friendly alternatives from single-use plastics.

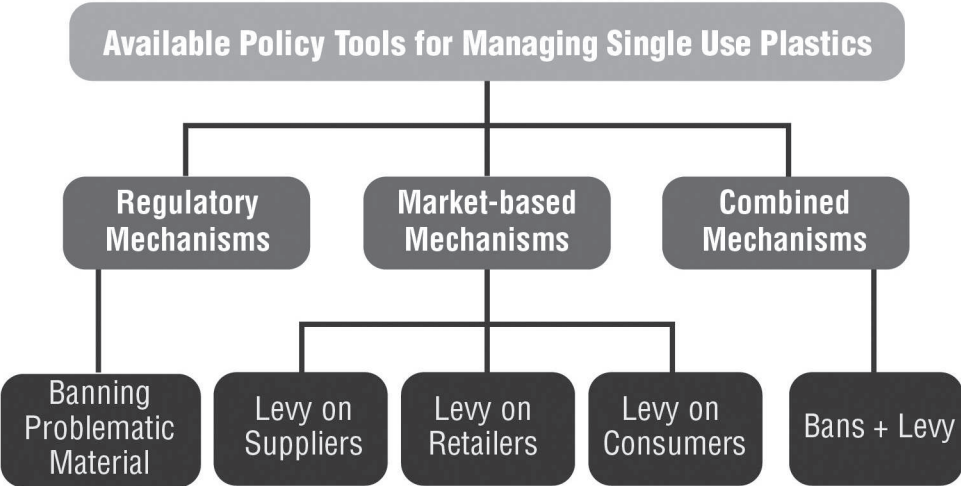
Public-private partnerships (PPP) can encourage voluntary adjustments. Voluntary agreements between the government and private parties such as retailers can set the goals allowing private parties to make decisions on the means of achieving results. Agreements with private producers on extended producer responsibility and refundable deposit systems are viable means for voluntary adjustments in terms of PPP. Therefore, instead of outright bans and restrictions, the promotion of valid alternatives can stimulate businesses to reduce single-use plastics and environmentally problematic/hazardous material.

Awareness Creation: This is the common denominator for the long-term success of all other initiatives. Voluntary adjustments are facilitated by awareness creation among stakeholder groups. Awareness creation is a gradual and transformational process that helps change consumer behaviour for positive outcomes. Consumer and producer behaviour can be

influenced through introducing environmental conservation principles to school curriculums; ingraining in the minds of the young can mentor them to be responsible adults. Additionally, social campaigns through public media as well as social media can be used as a tool for awareness creation among adults and teenagers alike.

Policy Instruments: Policy instruments can be classified as regulatory, economic (market-based) and a combination of regulatory and economic instruments.

Bans comprise restrictions on the usage and sale of certain single-use plastic items. Bans can be total or partial restrictions and are relatively simple to introduce on production and imports. Besides ban though, a more robust monitoring and reporting mechanism should be implemented as well. However, lobbying from local industry and pressure exerted from major exporting countries are found to be major challenges for implementing such bans in Sri Lanka in the recent past. On the other hand, inconveniences faced by consumers due to the lack of alternatives



Sources: United Nations Environment Programme. (2018). *SINGLE-USE PLASTICS: A Roadmap for Sustainability*. Nairobi: The International Environmental Technology Centre, United Nations Environment Programme.

Regulatory measures include bans through the enforcement of laws and acts. The principle legislation that governs plastic pollution in Sri Lanka is the National Environmental Act No 47 of 1980 wherein Section 32 comprises regulations on manufacture, sale and use of plastic and polythene. As previously mentioned, several amendments were made to the Act by way of gazette notifications to address the challenges in managing plastic waste.

to single-use plastics was a significant cause of failure in previous attempts. In other words, even if consumers were keen to avoid single-use plastics, they were prevented from doing so due to lack of alternatives.

Parties, which favour bans argue that downstream methods like recycling alone is inadequate to address the mismanaged plastic waste. Hence, upstream solutions like restrictions should

be imposed on production and consumption of plastic. Moreover, single-use plastics as discussed earlier, has the lowest recyclability and the highest disposable rates. Bans, therefore, are being viewed as a feasible solution that has the potential to boost the economy by reducing the cost of managing low-value waste. Furthermore, bans would seem to have many short-term and long-term as well as direct and indirect environmental impacts. Although a majority is in favour, critics argue that bans will not fully solve the problem of plastic. Curbing the visible form of plastic pollution could escalate other harmful environmental impacts from alternatives to plastic. For instance, disposable plastic bags require fewer resources to produce than those required to make paper, cotton or reusable bags. A single-use paper bag is estimated to contribute 3.3 times to climate change than a single-use lightweight plastic bag.³⁸ In addition, bans could lead to a scale back in plastic manufacturers or lead them to lay-off workers. Shoppers will also experience increased upfront costs, as they will then be required to purchase relatively expensive reusable bags. As such, the cost of packing is likely to increase.

Other than these, laws and acts should be strengthened in the direction of transferring responsibility to producers when single-use plastics and other environmentally problematic materials are being used in packaging. This

is widely known as the principle of extended producer responsibility (EPR) which is being practised in many countries globally, where it drives innovation and creativity in introducing new eco-friendly packaging. The EPR has delivered promising results in terms of reducing the amount of packaging litter in the environment. It also fosters business responsibility and stimulates the recycling sector.

Levies and taxes on certain problematic items are some of the economic policy tools. Levies imposed on suppliers, retailers and consumers lead to behavioural changes and generate short-term revenue for the government. Levies are the most commonly observed policy tool for restricting single-use plastic usage. For instance, in 2006, Honduras banned the use of plastic bags, and saw a significant drop in consumption with adequate awareness campaigns.³⁹ China imposed bans on plastic bags thinner than 25 microns and a levy on thicker ones in 2008, which led to a 70% fall in the distribution of plastic bags in supermarkets.⁴⁰ In 2017, the New York City government banned the use of Styrofoam containers (EPS foam) and allowed a six-month time window for customers and retailers to adapt.⁴¹ Therefore, a combined approach of levies, bans and EPR could enhance the positive impacts while eliminating the weaknesses in each type of policy tools individually.

³⁸ KPMG. (2019). *To Ban or Not to Ban: The Complex Challenge Posed by Plastic and its Alternatives*. London: KPMG LLP UK.

³⁹ United Nations Environment Programme. (2018). *SINGLE-USE PLASTICS: A Roadmap for Sustainability*. Nairobi: The International Environmental Technology Centre, United Nations Environment Programme.

⁴⁰ *Ibid.*

⁴¹ *Ibid.*

17. COVID-19 and Market Closures: Evidence from the Vegetable Sector in Sri Lanka

17.1 Introduction

Agriculture is the sector that employs and sustains the majority of the population and therefore is the cradle of poverty, food security, and related social issues. As such, agricultural markets play an important role in economic development especially in rural income generation and food security.¹ The proper functioning of agricultural markets is dependent on the supply and demand dynamics of commodities, which include weather, political environment, pest and diseases, and several other issues including the current COVID-19 pandemic.

In Sri Lanka too, dedicated economic centres (DECs) – located through out the country – play a major role in agricultural marketing. A DEC is the place where primary producers, collectors/commission agents, vendors, and consumers meet each other to carry out marketing transactions. As a result, they play an important role in the food and agriculture industry, as these serve as key distribution hubs for most of the agri-food supply chains. Therefore, during a pandemic, the proper functioning of DECs is key for enhancing farmer income, reducing food

prices, minimising post-harvest losses, and reducing health and nutrition risks.

Sri Lanka, like other countries, saw its economic activities disrupted by the pandemic. The contraction of the agricultural sector by -2.4% in 2020, however, was less than the more adverse impacts on manufacturing and services. The government facilitated the operation of local agriculture activities with minimum disturbances even during the pandemic to minimize supply side disruptions. Swift actions were also taken to purchase perishable products such as vegetables from vulnerable farming communities to meet the demand in food-deficit areas of the country.

Nevertheless, the closure of the main DECs and travel restrictions imposed on other sectors to prevent the spread of COVID-19 created several challenges for farmers in terms of marketability of their produce, i.e. selling their produce at a reasonable price on time. The resultant post-harvest losses and waste were recorded to be higher than usual, especially for highly perishable vegetables. All these circumstances have affected the agriculture and food systems

¹ Matson, J., & Thayer, J. (2013). The Role of Food Hubs in Food Supply Chains. *Journal of Agriculture, Food Systems, and Community Development*, 3(4), 43-47. Retrieved June 21, 2021, from Researchgate: https://www.researchgate.net/publication/311087287_The_Role_of_Food_Hubs_in_Food_Supply_Chains

Sri Lanka, like other countries, saw its economic activities disrupted by the pandemic. Agricultural sector by -2.4% in 2020, however, was less than the more adverse impacts on manufacturing and services.

negatively and therefore intensified pressure on the primary producers and other agribusinesses within the country.² Moreover, unexpected price transmissions through supply chains have resulted in a rising burden on consumers as the retail prices of vegetables went up suddenly from time to time. Against this backdrop, this policy brief explores the impact of the closure of DECAs on Sri Lanka's vegetable farmers to suggest some possible options that can help vulnerable primary producers in meeting marketing challenges, both in the short and medium terms.

17.2 Evolution of DECAs as a Trade Hub in the Vegetable Sector

17.2.1 Traditional Marketing

Agricultural produce passes through different channels and various types of market centres on its way from producers to consumers. Every system of marketing creates and sustains relations between the different actors involved such as the collector, transporter, commission agent, broker, wholesaler, retailer, etc. Marketing agricultural produce at a reasonable price is highly important for farmers, especially for those characterised by small-scale cultivations and scarce transport and storage facilities. Before the establishment of DECAs as the main distribution hubs, vegetables were distributed through traditional routes. These routes were not very well structured nor organised within the country, where middlemen played a significant influencing role in marketing.

² DailyFT. (2021). *Sri Lanka: Issues and Priority for the Agriculture Sector*. Retrieved June 15, 2021, from DailyFT: <https://www.ft.lk/columns/Sri-Lanka-Issues-and-priority-for-the-agriculture-sector/4-713634>

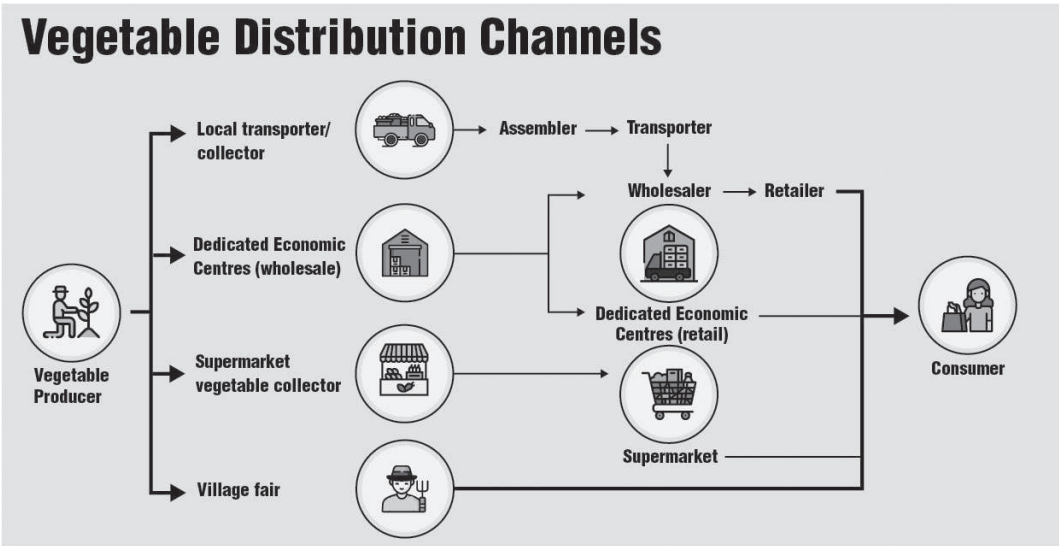
The transition of the Sri Lankan economy from ‘inward-looking’ to ‘outward-looking’ policy orientation triggered a shift in the agricultural marketing system as well. In an inward-looking policy setting, the main feature of the agricultural marketing system was local food marketing and government food distribution systems. In a more open economic policy setting, many activities were allowed to be determined by the market.

These activities grew with the expansion of industrial and service sectors as well as rapid urbanisation, an increase in income and changes in food consumption patterns over time. In turn, they also resulted in increasing the demand for vegetables in urban areas and emergence of lengthy marketing channels.³ Most importantly, since most of the price decisions were decided by the middlemen in this traditional marketing system, the price transmission between the consumer and the producer was not efficient. Moreover, the traditional network of the vegetable

sector was extremely localised and highly fragmented with a large number of intermediaries who eventually exploited farmers throughout the supply chain. These networks remain highly sensitive to external shocks such as pandemics.

17.3 DEC as Main Distribution Hubs

The introduction of DEC as trade hubs generated a positive transformation in vegetable distribution in Sri Lanka. The DEC can be identified as terminal markets that serve as assembly and distribution centres for farmers. In the vegetable supply chain, DEC are a mixture of wholesale and retail vegetable markets, which comprise a large number of individual wholesale or retail shops that are rented on a long-term basis from the Ministry of Co-operatives and Internal Trade. Producers bring their commodities in varying amounts to terminal markets where buyers/



Source: Author's illustration based on secondary information on the vegetable supply chain.

³ Priyankara, E. A. C. (2016). *Present Status of Vegetable Direct Marketing in Selected Districts in Sri Lanka*. Colombo: Hector Kobbekaduwa Agrarian Research and Training Institute.

vendors purchase and then redistribute these goods to regional markets. Hence, it is believed that the welfare of farmers is often maximised in these places.⁴

Out of the 13 DEC's in Sri Lanka, seven are wholesale DEC's located in the main vegetable producing areas in the country: Ampara, Dambulla, Embilipitiya, Keppetipola, Nawalapitiya, Nuwara-Eliya, and Thambuttegama. The rest is either retail or small markets performing both wholesale and retail functions located in Meegoda, Narahenpita, Piliyandala, Ratmalana, and Veyangoda. The DEC's are the leading wholesale economic centres of the country.

Before the establishment of the Dambulla DEC, the Colombo Manning market was the major assembling centre and the distribution point for vegetables and fruits in the country. With the establishment of the Dambulla DEC, the role of collectors, who previously dominated the trading system, has declined rapidly. The number of farmers who supply vegetables to the market themselves has increased, due to the possibility of dealing directly with a large number of vendors at the Dambulla DEC. Thus, farmers were able to bypass local shopkeepers and other middlemen who previously absorbed a bigger share of the market margin of the product.⁵ Furthermore, the visiting traders at the Dambulla DEC compete with resident collectors in supplying a variety of items. This type of competition has helped to keep vegetable prices lower for the consumer at large.

There are several essential roles of these DEC's. These markets provide an opportunity for small-

scale producers to minimise their transport costs, travel time, and wastage in transportation, and thereby ensure that agricultural producers obtain reasonable prices for their products. These markets also allow growers to deal directly with many potential buyers to facilitate the sale of large quantities fairly quickly. The business community, that includes traders and companies, is encouraged by having a competitive marketing environment to fulfil their produce and input requirements. Especially, the wholesalers and processors are provided with the opportunity to purchase fresh fruits and vegetables directly from producers. In turn, it creates a trade hub to distribute agricultural produce in all parts of the country. From the consumers' perspective, these markets allow them to buy food products at prices lower than the retail market prices.

Considering the importance of these DEC's as trade hubs, their uninterrupted operation is essential for farmers to get the maximum benefits from marketing their produce during pandemics such as COVID-19.

17.4 Behaviour of DEC's during COVID-19

Since the beginning of the pandemic in March 2020, the temporary closure of certain DEC's and regional wholesale markets, and imposition of occasional travel restrictions to prevent the spread of COVID-19 occurred frequently in Sri Lanka. With about 70% of the country's vegetable trading taking place at the Dambulla DEC, the

⁴ Ratnayake, R. M. K., Wanasinghe, Y. A. D. S., & Lindberg, C. (2001). *Dambulla Dedicated Economic Centre-A New Initiative in Food Marketing in Sri Lanka*. Retrieved June 04, 2021, from Researchgate: https://www.researchgate.net/publication/280086659_Dambulla_Dedicated_Economic_Centre-A_New_Initiatives_of_Food_Marketing_Systems_in_Rural_Sri_Lanka_in_Gerhard_Gustafsson_ed_Communication_and_Regional_Development_Karlstad_University_Studies_200245_Kar

⁵ State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries. (n.d.). *Dedicated Economic Centres*. Retrieved June 16, 2021, from Gov.lk: https://livestock.gov.lk/web/index.php?option=com_ecocenter&Itemid=127&lang=si

Considering the importance of these DEC's as trade hubs, their uninterrupted operation is essential for farmers to get the maximum benefits from marketing their produce during pandemics such as COVID-19.

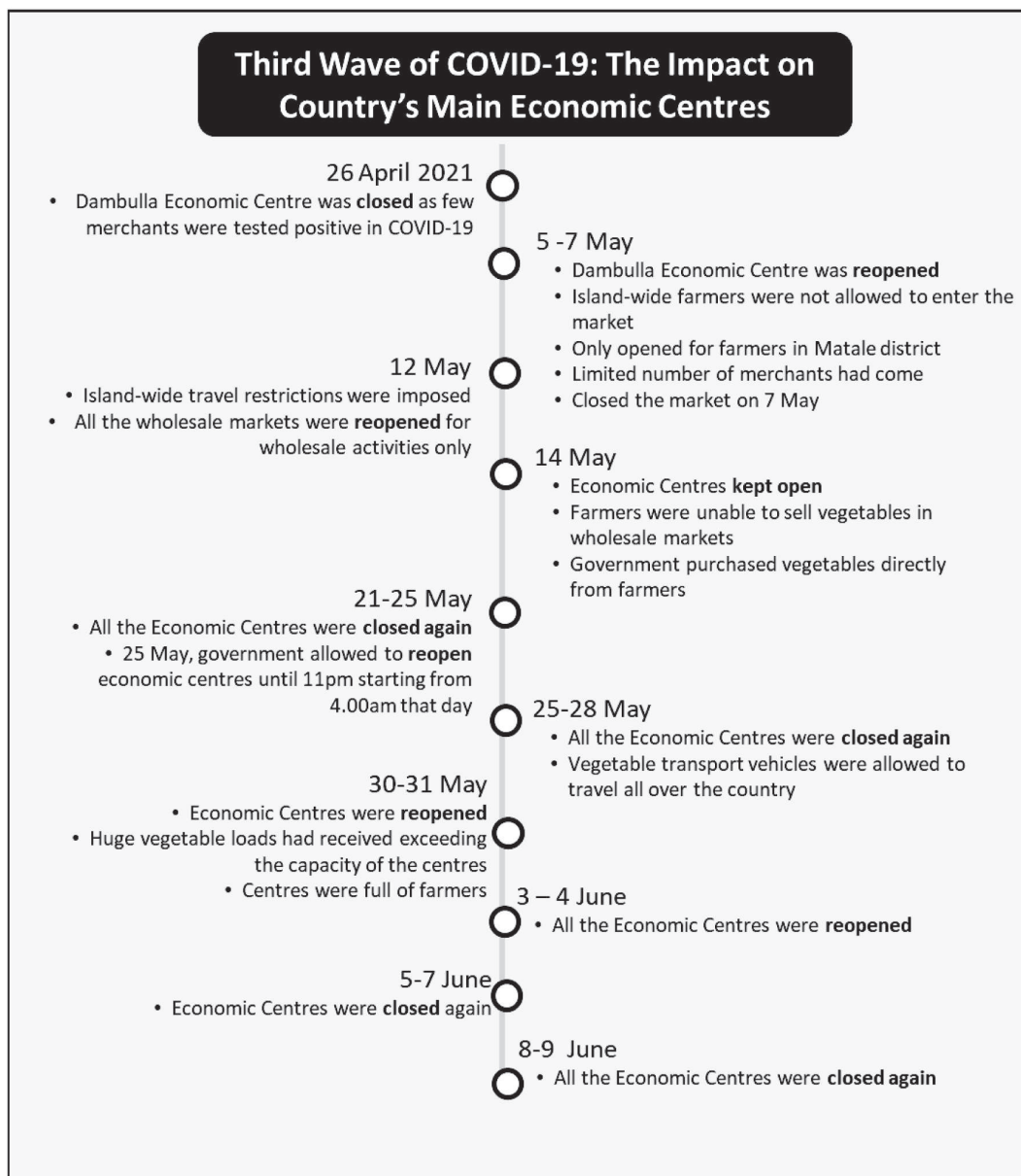
closure of the centre even for one day instantly disrupts the supply chain of vegetables.⁶ Figure 17.1 illustrates the decisions taken related to the main DEC's in the country, especially after the third wave of the pandemic. Market closure was declared as a containment measure at the beginning of the third wave of the pandemic in April 2021. This prevented thousands of farmers from transporting their produce to the DEC's. As a few merchants at the Dambulla DEC were found to be infected, the Dambulla DEC was closed for 12 days starting from 26 April 2021. However, to smoothen the shock on farmers and consumers, the Dambulla DEC was kept open from 5-7 May 2021 exclusively for the surrounding farmers in the Matale district. Afterwards, as shown in Figure 17.1, DEC's were closed from time to time due to travel restrictions as mentioned above.

According to the activities permitted based on alert level III by the Health Services Director General at the beginning of May 2021, open markets/fairs and economic centres were allowed to reopen only with a maximum of 25% of total customers that can be accommodated within the premises. Furthermore, most of the vegetable transporters were allowed to move as District Secretaries issued permits for lorries to transport vegetables between areas of the country. The movement of vegetable transporters while the DEC's and other regional centres were at the minimal level of operations made the situation more complex. A few chaotic incidents that occurred after reopening these DEC's saw farmers with lorries full of their vegetables arrive at the economic centre and turned back due to the heavy load of vegetables.⁷ Therefore, vegetable

⁶ Sunday Times. (2021). *Vegetable Prices Spike After Farmers Turned Away from Dambulla Economic Centre*. Retrieved May 18, 2021, from Sunday Times: <https://www.sundaytimes.lk/210509/news/vegetable-prices-spike-after-farmers-turned-away-from-dambulla-economic-centre-442953.html>

⁷ *Ibid.*

Figure 17.1
Recent Actions on Dedicated Economic Centres



Source: Author's illustration based on daily national news in Sri Lanka.

farmers and vendors started selling and buying vegetables outside the DEC premises, probably the only option available to them.⁸ These

conditions at DEC's during COVID-19 pandemic created several challenges to the main actors of the vegetable supply chain.

⁸ Vendors and vegetable farmers/ transporters were observed negotiating the vegetable prices outside of Thambuttegama DEC premises.

17.5 Impact of DEC's Closure during COVID-19

In May 2021, the wholesale prices of nearly half of the vegetable varieties have decreased by 1-39%, with brinjals recording the highest decrease and bitter gourd the lowest decrease. In contrast, the wholesale prices of the remaining half increased by 14-75%, with drumsticks recording the highest increase and cucumber and snake gourd the lowest increase.⁹ Such kind of mixed behaviour in wholesale prices was mainly attributed to the disruption of food distribution chains as most of DEC's and wholesale markets were reopened for only selected days during the month, in line with the travel restrictions imposed due to the COVID-19 pandemic.¹⁰

Also, an oversupply of vegetables had been observed more frequently in most of the DEC's due to a lesser number of vendors visiting the DEC's whenever they were reopened after an interval/closure of a few days.¹¹ Farmers also complained that their produce was purchased at extremely low prices by the vendors in the DEC's, and later sold at exorbitant prices in the retail market. This resulted in farmers receiving an income that is insufficient to recover at least the production cost of the cultivation.¹²

When the leading DEC's in the country were kept closed, farmers who used to sell their products mainly to wholesalers resorted to selling them

along the roadsides and at public playgrounds. Meanwhile, some farmers had hired lorries to sell fresh vegetables in nearby towns and villages. Inevitably, some frustrated farmers had to either discard large quantities of unsold perishables, or sell at a very cheaper price to mobile vendors. This increased the level of food loss and wastage.¹³

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⁹ Hector Kobbekaduwa Agrarian Research and Training Institute. (2021). Monthly Marketing Information. Colombo: Hector Kobbekaduwa Agrarian Research and Training Institute.

¹⁰ *Ibid.*

¹¹ DailyFT. (2020). *Resilient Food Supply: By Command or Through Markets?*. Retrieved June 28, 2021, from Daily FT: <https://www.ft.lk/columns/Resilient-food-supply-By-command-or-through-markets/4-700390>

¹² Based on telephone conversations with few farmers in the Kekirawa area on 23 May 2021.

¹³ Netherlandsandyou. (2020). *Impact of COVID19 on Food Supply Chains in Sri Lanka*. Retrieved June 18, 2021, from Netherlandsandyou: <https://www.netherlandsandyou.nl/latest-news/news/2020/06/02/impact-of-covid19-on-food-supply-chains-in-sri-lanka>

Middlemen mafia has become a common incident whenever there is a shock in the market in most developing countries. Especially, commission agents, traders, and wholesalers absorb a significant share of profit from farmers' produce. During the lockdown, most of the rural farmers had no option other than to depend on exploitative middlemen due to the perishable nature of most of their agricultural produce. It was evidenced in the field that many vegetable farmers tend to sell their harvest to anybody approaching them at their farm gate without having to bargain for the prices.¹⁴ Thus, given the low marketability in pandemic times, farmers were compelled to sell at very low prices.

Moreover, middlemen are involved in purchasing at the farm gate level. It was reported from the field that middlemen have offered the farmers LKR 20-30 for 1 Kg of cucumber, LKR 80-120 for pumpkin, tomato, green beans and brinjal; and LKR 100-140 for leeks and beetroot. However, the price they received at the DEC's were more than double the prices they paid the farmers, leading to substantial price hikes in retail markets.

The issue of closed DEC's had also resulted in a backward impact along the vegetable supply chain as evidenced from interviews with a few farmers in an agriculture-based area.¹⁵ According to them, the prevailing conditions had demotivated the other farmers who were about to harvest their yields in the field. Fearing that they would not be able to sell their produce at the market, some farmers delayed the harvesting process. For example, it was reported that more than 200,000 Kgs of leeks were left at the field without being harvested in Nuwara Eliya alone, due to the lower farm gate price offered and the

expected profits which would not be sufficient even to recover the cost of production.¹⁶ They could have harvested if they had enough storage facilities to keep their crop until the markets reopen. Since these centres were closed more frequently even during the third wave of the pandemic, the impact on primary producers seems to be higher than ever before.

The prevailing conditions had demotivated the other farmers who were about to harvest their yields in the field. Fearing that they would not be able to sell their produce at the market, some farmers delayed the harvesting process.

¹⁴ Based on a discussion with a tomato farmer in Lunuwewa area in the Thambuttegama District Secretariat division (DSD).

¹⁵ A discussion with few farmers in the Lunuwewa area located in Thambuttegama DSD on 22 May 2021.

¹⁶ Daily Mirror. (2020). Agriculture Minister Speaks of "Vegetable Mafia" – Editorial. Retrieved June 23, 2021, from Daily Mirror: <https://www.dailymirror.lk/opinion/Agriculture-Minister-speaks-of-Vegetable-Mafia-EDITORIAL/172-199625>

Consequently, the government has taken some corrective actions to protect the farmers from possible shocks of market closure. Considering the importance of undisruptive marketing of agricultural produce, a temporary programme was launched by the government to purchase vegetables from the farmers and sell these to the public through Sathosa outlets to reduce the skyrocketing vegetable prices. For example, the government purchased 904,010 kg of vegetables from three locations in a single day.¹⁷ While these were commendable, the same can be insufficient to mitigate the situation.

17.6 Way Forward

As a whole, the disruptions to supply chains due to the frequent closing of DEC's have a direct impact on the livelihood of the vegetable farmers. While short-term and medium-term steps have been taken to recover from the negative impacts of the pandemic, post-COVID-19 agricultural policies require coherent strategies focusing on minimising post-harvest losses, building efficient and effective vegetable distribution channels, eliminating unnecessary profiteering middlemen, and introducing digital technologies to agriculture to improve the resilience of the food distribution system of the country.

As a short-term measure, it is necessary to provide special clearance passes to farmers, vendors, and transporters to enable uninterrupted vegetable supply chains and maintaining a two-day gap in closing and opening the economic centres to prevent the harvest from being accumulated in various places of the supply chain. Also, using the railway for vegetable

transportation would be a quick and secure way of delivering vegetables from one region to another. This process will replace more than half of the number of vehicles which are needed to transport vegetables on a daily basis. Ultimately, this will also help to reduce the cost of transport and post-harvest losses.

Poor communication and information dissemination along the value chain has been one of the main prohibiting factors in the effective coordination of activities within a value chain. Without effective coordination, farmers remain unaware of up-to-date developments in the market, while buyers are unable to receive advance notification of harvest dates, volumes anticipated, varieties and delivery dates. ICT-based tools such as web-based apps for tracking perishables will enable robust farmer-input market linkages, farmer-market connectivity and traceability down the supply chain, and thereby allow the different actors along the supply chain to make better decisions.

Direct marketing has emerged globally as an alternative to the present extensive vegetable marketing system.¹⁸ This method helps retain a higher share for farmers as it bypasses the profiteering unnecessary middle person and reduces the extra cost on packaging, storing and transporting. It further secures the freshness and quality of vegetables for consumers. Hence, direct marketing has become a global trend demanding an alternative marketing system for vegetables. This mechanism will ensure better prices for farmers and reasonable prices for good quality agricultural products.¹⁹ Furthermore, taking measures to buy local vegetables from farmers

¹⁷ EconomyNext. (2020). *Govt Purchases Nearly 1 Million Kg of Vegetables in Sri Lanka Amid COVID-19 Curfew*. Retrieved June 3, 2021, from EconomyNext: <https://economynext.com/govt-purchases-nearly-1-million-kg-of-vegetables-in-sri-lanka-amid-covid-19-curfew-65578/>

¹⁸ Priyankara, E.A.C. (2016). *Present Status of Vegetable Direct Marketing in Selected Districts in Sri Lanka*. Colombo: Hector Kobbekaduwa Agrarian Research and Training Institute.

¹⁹ *Ibid.*

directly and to maintain short-term stocks would be another timely strategy.

In the medium term, contract farming which integrates smallholder farmers with well-established supply chains would be a viable solution for the inherent marketing problems in agriculture supply chains. A well established contract farming system could reduce the risk of shocks such as sudden pandemics and protect vulnerable farmers.²⁰ Developing a proper regulatory framework for contract farming would facilitate secured procurement of quality vegetables by mid-stream actors, reduce intermediaries, and reduce reliance on informal markets.

In the long term, there are many ways to support middlemen in cutting down their operational costs so that competition among them will increase and in turn, the prices they charge can be reduced. This includes facilitating the marketing activities of the middlemen by providing necessary infrastructure such as cold storage, technical know-how in reducing wastage of agricultural produce and financial incentives. A village cold storage complex for a group of farmers and lorries with cold storage facilities for vegetable transporters would be ideal to minimise post-

harvest losses and to store vegetables for at least a shorter period during a sudden market shock. Evidence from Sub-Saharan Africa shows that using innovative technologies in storing food have helped to reduce post-harvest losses at farm level and intermediary levels.²¹ For instance, innovations which enables small farmers to build their cold storage using an air conditioner, as opposed to purchasing a refrigeration system are options. In countries like Uganda, low-cost energy efficient solar commercial refrigeration technology solutions for perishable food items storage is available.²² These include solar-three phase hybrid cold storage warehouses and ice plants that help reduce risk and improper management.²³ Also, countries such as Haiti, Tanzania, Kenya, India, and China have in place low-cost and energy efficient post-harvest storage solutions for smallholder farmers at the farm level.²⁴

These measures are expected to support food production, by ensuring farmers obtain fair prices for their produce without facing marketing problems. In addition, these interventions help minimise food wastage throughout the marketing channel while strengthening rural livelihoods during COVID-19 and beyond.

²⁰ Adnan, K. M., Ying, L., Sarker, S. A., Hafeez, M., Razzaq, A., & Raza, M. H. (2019). Adoption of Contract Farming and Precautionary Savings to Manage the Catastrophic Risk of Maize Farming: Evidence from Bangladesh. *Sustainability*, 11(1), 29. Retrieved June 21, 2021, from Mdpi: <https://www.mdpi.com/2071-1050/11/1/29/html>

²¹ Innovation Policy Platform. (2017). *Reducing Post-Harvest Losses by Providing On- and Off-farm Affordable Storage*. Washington D.C.: World Bank.

²² Global Innovation Exchange. (n.d.). *Baridi Stores*. Retrieved June 28, 2021, from Global Innovation Exchange: <http://www.eu.globalinnovationexchange.org/organizations/baridi-stores>

²³ Innovation Policy Platform. (2017). *Reducing Post-Harvest Losses by Providing On- and Off-farm Affordable Storage*. Washington D.C.: World Bank.

²⁴ *Ibid.*

18. Pathway to Inclusive and Sustainable Post-COVID-19 Recovery in Sri Lanka

18.1 Introduction

The economic impact of COVID-19 is severe on developing countries like Sri Lanka. Significant adverse impacts on economic activities related to tourism, exporters, as well as micro, small and medium-scale enterprises (MSMEs) mean that people involved in these sectors are struggling for survival at present. The nature of many of these economic activities are physical and not under formal employment. Therefore, these sectors consist of daily wage earners and self-employed. As such, COVID-19 has been especially harsh on the poor and vulnerable, as they are affected disproportionately.

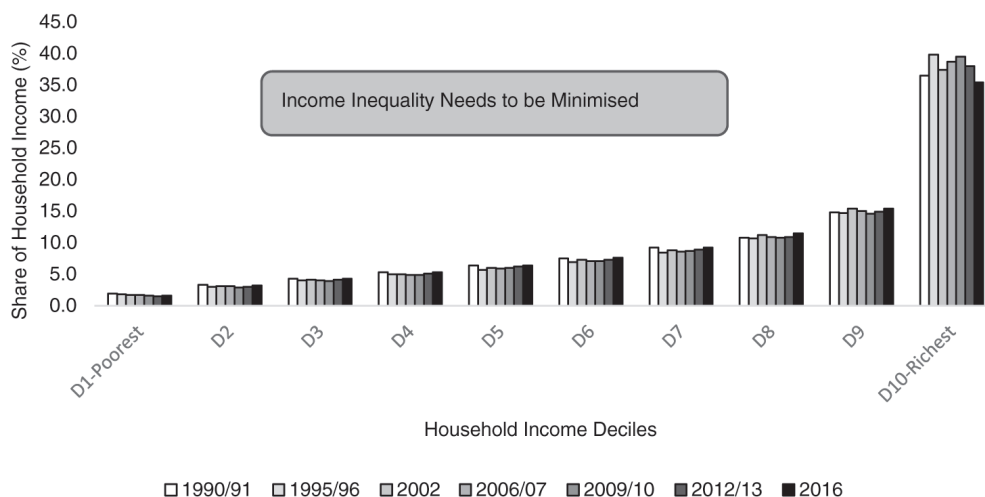
Although Sri Lanka has been making impressive progress in reducing poverty during the last three decades, it would now be a difficult task to maintain the downward trend achieved in poverty thus far, unless suitable strategies are developed to ensure more economic and employment opportunities for the poor and vulnerable groups. The closure of schools due to health concerns is widening the education divide due to the digital divide, as some children, especially the poor and those living in regions with inadequate facilities for online learning are affected. If these issues are not addressed timely and effectively, there is a high risk of increasing poverty and widening

existing socio-economic inequalities. Indeed, any further increase can aggravate income inequality, which is already high in Sri Lanka. As such, inclusive economic growth is an essential requirement for sustainable post-COVID-19 recovery in Sri Lanka.

This policy brief aims to highlight the population groups, who are most likely to get disproportionately affected due to the adverse effects of COVID-19. Data from the Household Income and Expenditure Survey 2016 (HIES-2016), conducted by the Department of Census and Statistics (DCS) of Sri Lanka was used to identify the poorest groups and regions in the country.

18.2 Breaking Persistent Income Inequality

Persistently high-income inequality impedes the sustainable growth and development of Sri Lanka (Figure 18.1). The adverse effects of COVID-19 are widening the gap between rich and poor even further, as the poor and vulnerable are disproportionately affected by the present crisis.

Figure 18.1**Share of Total Household Income, by Household Income Deciles – 1990/1991 to 2016**

Source: Prepared by the author based on HIES (1990/1991 to 2016), DCS.

The pandemic has disproportionately affected not only the poor but also the near poor and even some in the lower middle-income groups. As such, it is essential to consider not only income poverty (IP) and near-IP, but also multidimensional poverty (MDP) and near-MDP. In this analysis, people in IP, near-IP, MDP and near-MDP are considered together and is termed as 'poor/near-poor'. The people who are in near-IP in this analysis are those within 20% above the national poverty line (NPL).

MDP is an effective measure of poverty that captures many different deprivations faced by the poor people simultaneously, excluding income. Households (HHs) with a weighted deprivation score of 33.3% or more are considered to be in MDP. All persons living in such HHs are considered to be multidimensionally poor. Those in HHs with a deprivation score of 20% or higher, but less than 33.3% are considered to be in near-MDP. In addition to estimating the incidence of

MDP/near-MDP, the contributions of various deprivations to MDP could also be estimated. Such information is highly useful in developing effective strategies to minimise or eliminate such deprivations to pull the poor out of MDP.

18.3 Poverty Estimates Based on Different Measures of Poverty

Although a closer look at poverty estimates based on different poverty measures rely on HIES-2016, the data would still be reliable in identifying the poorest and vulnerable groups, the regions in which the majority of such people are living and types of deprivations they are facing, etc. This is because the patterns of poverty do not change significantly, although the magnitude could change with time.

Table 18.1
Poverty Estimates Based on Local and Global Measures

Local Poverty Measures			
Poverty Measure	Rate (%)	Number of Persons	Remarks
IP	4.1	844,000	Population below NPL.
Near-IP	4.6	957,000	Population within 20% above the NPL.
IP/near-IP	8.7	1,801,000	Population in IP or near-IP.
MDP	1.9	397,000	This could defer marginally, depending on the indicators used to measure MDP.
Near-MDP	9.6	1,988,000	Although the incidence of MDP is low, the population in near-MDP is almost 2 million.
MDP/near-MDP	11.5	2,385,000	Living conditions of many of them could deteriorate due to COVID-19.
(IP/near-IP) and/or (MDP/near-MDP)	17.1	3,527,000	Persons who are in (IP, near-IP) and/or (MDP, near-MDP) are referred to as 'poor/near-poor' in this analysis.
GPLs Used by International Agencies to Compare Poverty between Countries			
GPL-Extreme Poverty (USD 1.90 a day)	0.95	196,000	Extremely low according to international standards. Effects of COVID-19 may have increased the incidence of extreme poverty by now.
GPL-LMICs (USD 3.20 a day)	11.0	2,273,000	GPL USD 3.20 a day is the poverty line relevant for Sri Lanka now.
GPL-UMICs (USD 5.50 a day)	41.9	8,671,000	This GPL is not relevant now as Sri Lanka slipped back to LMIC status in mid-2020. However, if Sri Lanka manages to regain the upper-middle income country (UMIC) status, this GPL will have to be used, under which poverty is extremely high.

Notes : GPL = Global poverty line; LMIC = Low middle-income country; UMIC = Upper middle-income country.

Source : Author's estimates based on HIES-2016, DCS and Povcalnet, World Bank.

Although Sri Lanka managed to bring down its IP from 26.1% in 1990 to 4.1% in 2016, a significantly high concentration of persons being near-poor indicate those who could slip back into poverty due to the present health crisis. For example, 4.6% of the population was within 20% above the NPL.

With increasing IP, the living conditions of the poorer groups could also deteriorate. Although MDP in Sri Lanka was around 2% in 2016, nearly 2 million or around 10% of the population were in near-MDP. As some families in IP or near-IP may also face various deprivations, it is necessary to consider those under MDP and near-MDP as well, to identify all those who are in some form of poverty. As such, IP/near-IP and/or MDP/near-MDP are considered as poor or near-poor (Table 18.1). Altogether, 3,527,000 (or 17.1% of the population) are in some form of poverty or near-poverty.

Table 18.1, also provide revised poverty estimates based on global poverty lines (GPLs). If Sri Lanka intends to regain UMIC status, it should be noted that poverty according to UMIC standards was extremely high (41.9%) even before Sri Lanka was struck by COVID-19.

18.4 Contributions to MDP and Near-MDP and Poverty Profiles

In addition to estimating the incidence of MDP/near-MDP, the contributions of various deprivations to MDP could also be estimated. Such information is useful in developing effective strategies to minimise or eliminate such deprivations to pull the poor out of MDP.

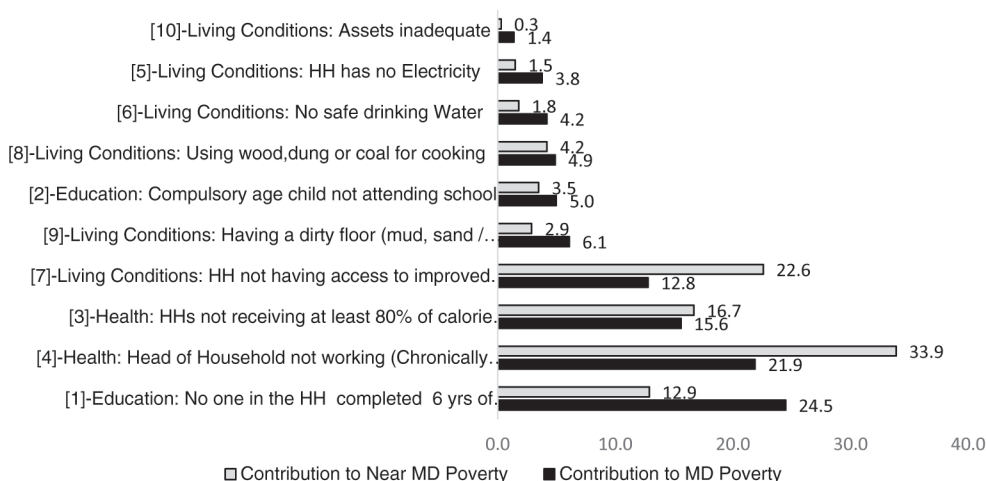
The main deprivations contributing to MDP are:
(i) no one in the HH has completed six years of education (24.5%); (ii) head of the HH is not

Although Sri Lanka managed to bring down its income poverty from 26.1% in 1990 to 4.1% in 2016, a significantly high concentration of persons being near-poor indicate those who could slip back into poverty due to the present health crisis.

working due to chronic illness, disability or too old to work (21.9%); (iii) HH not receiving even 80% of the calorie requirement although they spend more than 60% of their income on food (15.6%) and (iv) the HH do not have access to exclusive

safe sanitation (12.8%). These four deprivations account for over 75% of the deprivations faced by HHs in MDP (Figure 18.2). The same four deprivations account for over 86% of the overall deprivations faced by the HHs in near-MDP.

Figure 18.2
Contribution to MDP and Near-MDP, by Type of Deprivation



Source: Author's estimates based on HIES-2016

Figure 18.3
Persons in Some Form of Poverty or Near-poverty (IP/MDP), by Socio-economic Group



Source: Author's estimates based on HIES-2016.

Socio-economic Groups in Poverty/Near-poverty:

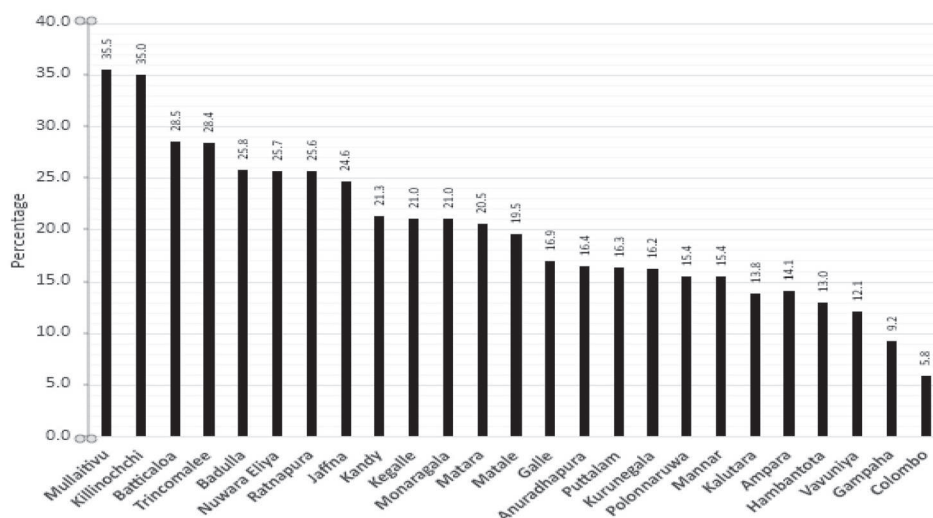
The HHs headed by those who are unable to work due to chronic illnesses, disabilities or too old to work are among the poorest and the most vulnerable in Sri Lanka. Almost 30% of the poor/near- poor in Sri Lanka are in this group (Figure 18.3). The other four groups with high shares are in HHs headed by non-agricultural labourers (14.6%), skilled agricultural, forestry and fishery workers (13.6%), craft and related trade worker (11.7%) and agriculture labourers (11.1%). Among the latter, over 30% are either poor or near-poor. The total share of the poor/ near poor in these five socio-economic groups is more than 80%.

Locations of the Poor/Near-poor: Although poverty rates are extremely high in certain districts, their shares of the poor/near-poor are extremely small. Mullaitivu and Killinochchi have the highest poverty rates, 35.5% and 35%, respectively, while the shares of poor/near-poor in these two districts are only 1.1% and 1.9% respectively. The highest shares of poor/near-poor are reported from the Kandy District (9.2%) and the Ratnapura District (8.4%). They are followed by Batticaloa, Kegalle, Kurunegala and Nuwara Eliya Districts, which account for around 6% each. Altogether, these seven districts account for almost 50% of the total number of poor/near-poor in the country. Colombo (5.8%) and Gampaha (9.2%) Districts have the lowest rate of poor/ near-poor, while Mannar (0.4) and Vavuniya (0.2) Districts record the lowest shares.

Age and Poverty: Nearly 32% of the poor/ near-poor are below the age of 20 years as poor families have a larger number of children. The share of the poor/near-poor who is 60 years is 23.3%. This shows that over 55% of the poor/ near-poor are children and elderly. The poverty/ near-poverty rates are extremely high especially beyond the age of 64 years, i.e. for the elderly.

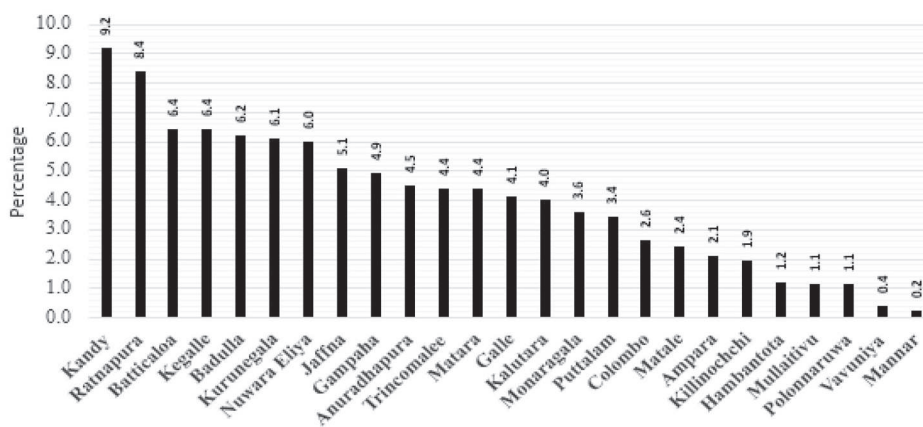
The households headed by those who are unable to work due to chronic illnesses, disabilities or too old to work are among the poorest and the most vulnerable in Sri Lanka. Almost 30% of the poor/ near- poor in Sri Lanka are in this group.

Figure 18.4
Within District Percentage of Persons in Some Form of Poverty or Near-poverty



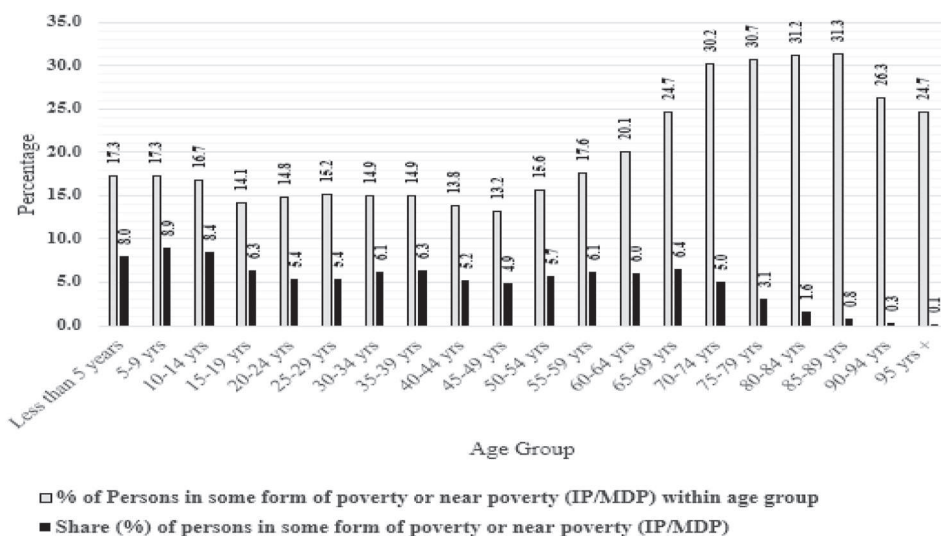
Source: Author's estimates based on HIES-2016.

Figure 18.5
Share of Persons in Some Form of Poverty or Near-poverty, by Districts



Source: Author's estimates based on HIES-2016.

Figure 18.6
Rate and Share of Poor/Near-poor, by Age Group



Source: Author's estimates based on HIES-2016.

18.5 Importance of Inclusive Economic Growth in Sri Lanka

Economic growth has to be inclusive to ensure the well-being of the entire population. If the benefits of economic growth are fairly and well distributed among all socio-economic groups there is a better chance of generating reasonable quality jobs and providing economic opportunities for all. As such, the development of any strategies for post-COVID-19 economic recovery needs to put poverty reduction strategies as a priority to address the specific challenges of the most vulnerable groups.

Social safety nets like Samurdhi need to be precisely targetted to cover the most deserving HHs. HHs in higher-income groups continue to receive Samurdhi benefits, while some of the

**Social safety
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most deserving are left behind.¹ An effective scheme to include even the HHs on the threshold of poverty who are vulnerable to be pushed into poverty due to the current health crisis or similar external shocks or disasters needs consideration. The scheme should also ensure that the HHs who become economically/financially independent are gradually excluded and replaced by more deserving HHs.

It is also essential to ensure that all children have equitable access to quality education, to face the rapidly changing future demands for high skills. Obstacles such as a shortage of competent and dedicated teachers in subjects like science, technology, mathematics, English (STEM subjects) in most rural/estate and non-national schools, as well as urban-rural and rich-poor digital divides create conditions for persistent inequities. Equitable quality education is thus one of the key interventions to break the vicious poverty trap. In this regard, retaining capable

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¹ Wanigasinghe, L. (2021, March 03). Towards Zero Poverty: Why Effective Targetting of Samurdi Transfers is Essential. *Talking Economics*. Colombo: Institute of Policy Studies of Sri Lanka.

teacher in remote areas with limited facilities may require targetted interventions such as the provision of special incentives to motivate them to work in areas with poorer facilities. Additionally, a number of recent proposals by the government to facilitate e-learning for students, especially for students in remote areas, need to be continuously developed so that poor children are less likely to drop out of school early.

Given the large concentration of poor/near-poor who are dependent on agriculture, it is noteworthy that the government is giving the highest priority to the development of the agriculture sector. Some of the objectives include encouraging domestic food production so as to reduce such food imports, and strengthening export-oriented agriculture and improve the living conditions of those engaged in this sector. These are important as agriculture is critical to sustainable development, food security and income diversification for poor and vulnerable communities. The realisation of these aims will depend on: (i) continuous and reliable

advisory support on increasing productivity, (ii) modernisation of the agricultural sector, (iii) introducing ethical marketing facilities to protect both producers and consumers by preventing any sort of exploitation by some middlemen, and (iv) early implementation of methods to minimise post-harvest losses.

The COVID-19 health crisis has been especially harsh on the poor and vulnerable, as they are affected disproportionately by the significant adverse impacts across many sectors of the Sri Lankan economy. It is crucial, therefore, to ensure that the benefits of economic growth post-pandemic are fairly and well distributed among all socio-economic groups. This means paying special attention to persistent income inequalities – the population groups who are most vulnerable, where the majority of such poor and near-poor are located, the main types of deprivations they face, etc. – so that policymakers and planners can develop more inclusive and sustainable strategies for a post-COVID-19 recovery.

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Sri Lanka: State of the Economy 2021

Pandemics and Policy: Protecting Health and Promoting Economic Recovery

As Sri Lanka struggles with repeated waves of COVID-19 for a second year, the economic recovery drags on, intensifying volatility and instability across the macroeconomic front. To address these, and convert Sri Lanka's anticipated return to positive growth in 2021 to a sustained high growth path, perceptions about the appropriate settings for economic policy are more important than ever before. To the extent that it sees increased state involvement in the economy, the quality of institutions and public governance will also be under greater scrutiny.

This report examines some of the critical socio-economic issues and policy choices facing Sri Lanka today as it transitions to a 'new normal', where rebalancing inequalities at home and addressing global challenges from health and climate change are reshaping policy strategies. These include tough trade-offs in building effective strategies to manage macroeconomic imbalances and maintain supportive policies to emerge from the pandemic better off than before. If Sri Lanka is successful in translating its policy goals into concrete projects and programmes, with visible benefits for all, the end of the COVID-19 crisis could mark the beginning of a resurgent phase of economic growth and development in the country.



INSTITUTE OF POLICY STUDIES OF SRI LANKA

100/20, Independence Avenue

Colombo 7

SRI LANKA

Tel: 94 11 2143100, Fax: 94 11 2665065

Email: ips@ips.lk, Website: www.ips.lk

Blog: 'Talking Economics' - <https://www.ips.lk/talkingeconomics/>

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ISBN 978-955-7397-25-2