

SRI LANKA COVID-19: NAVIGATING THE 'NEW NORMALS'

**RAPID ASSESSMENT OF THE
SOCIO-ECONOMIC IMPACTS, RESPONSE AND RECOVERY
AND THE OUTCOME OF THE DIALOGUE**



This is a rapid assessment of the Socio-Economic Impacts, Response and Recovery followed by the summary of outcome notes from the Mutil Stakeholder High Level Virtual Dialogue which took place on 23 April 2020.

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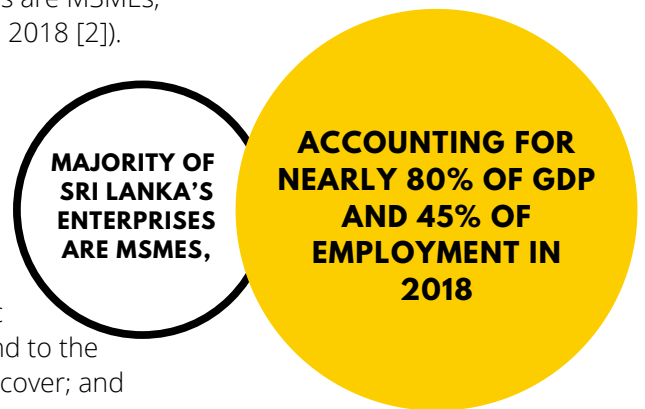
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The COVID-19 outbreak has spread to many countries and infected nearly 5 million people (confirmed cases), and resulted in over 323,000 deaths (as of 20 May 2020). Like most countries, Sri Lanka too was forced to confront the pandemic health crisis unexpectedly with limited preparedness. Since the diagnosis of its first case in late January, by mid-May 2020, Sri Lanka has reported a total of 1040 confirmed cases of COVID-19, 440 active cases, 604 recovered/discharged and 9 deaths. The country has taken early strong suppression measures to prevent the spread by instituting curfew periods ensuring essential services but with government and private sectors working remotely, incoming passenger flights suspended, schools closed, and public gatherings and events suspended.



Whilst the first priority has been to deal with the health emergency, cognizance must be simultaneously taken of the knock-on impacts globally, regionally and nationally which threaten a follow-on national social and economic crisis. The economic shock is likely to be transmitted through a number of channels – particularly trade, export industries (especially apparel), tourism, agriculture, employment, investment, remittances, and SMEs (vast majority of Sri Lanka's enterprises are MSMEs, accounting for nearly 80% of GDP and 45% of employment in 2018 [2]).

A protracted crisis will have an adverse impact on specific populations groups (women, older persons, persons with disabilities etc) who are already vulnerable due to existing socio-economic inequalities. With considerable clustering of Sri Lankan population around the poverty line, a protracted crisis will have an adverse impact on poverty and inequality. While the country deals with the health crisis, it is must take action to meet emerging socio-economic impacts. Challenges include lack of a formal budget to respond to the crisis; foreign exchange cash constraints with limited reserve cover; and significant debt service commitments due later this year.



The government announced various stimulus/relief measures such as targeted spending, enforcing price ceilings and other administrative measures while the Central Bank also announced supporting monetary measures including interest rate cuts and debt moratoriums on commercial bank loans. Cash transfers to beneficiaries of some of the existing social protection programmes have also been undertaken.

Building on these, crisis response and recovery will benefit from concurrent efforts to:

1. address the ongoing crisis while enhancing the country's risk preparedness and capacity to deal with prolonged COVID-19 or new epidemic type exigency in future;
2. comprehensively analyse the socio-economic impacts and recovery needs of the current crisis, and
3. design a 'whole of society' road map and scenario-based sector plans (based on 'new normals') for recovery—situated in strengthened national development planning institutions and processes, and leveraging youth entrepreneurs to formulate innovative solutions to help rebuild the economy

which puts the country back on development path way to SDG achievement.

CONTEXTUAL UNDERPINNINGS OF THE CRISIS



SRI LANKA'S STATE OF PREPAREDNESS FOR A HEALTH-RELATED EXIGENCY

DESPITE LOW GDP ALLOCATION ON HEALTH SYSTEMS,

SRI LANKA HAS ACHIEVED THE GLOBAL SDG TARGETS ON MATERNAL, UNDER-FIVE AND NEONATAL MORTALITY RATES

Sri Lanka provides public health services free of charge to the population at all levels with island-wide coverage. The country has achieved relatively strong health indicators at low health system costs [3]. It has already achieved the global SDG targets on maternal, under-five and neonatal mortality rates, despite a low GDP allocation, about 1.57% in 2017.

At the same time, like most other countries Sri Lanka's ability to deal with health security risks is challenged to effectively respond to and mitigate the spread of an epidemic (2019 Global Health Security Index [4] (GHSI)). In terms of zoonotic diseases, Sri Lanka has a number of strengths like qualified veterinarians, however "*mechanisms are not yet in place for a true One Health approach based on an effective collaboration between the human health and animal health workforces*" [5]. (WHO, 2017). In terms of Joint External Evaluation of the International Health Regulations (IHR), 2017 the country scored high in national legislation and policies for implementation of required responses, surveillance and workforce development. However, in terms of emergency

preparedness and response planning, biosafety and biosecurity, laboratory infrastructure and HR deployment during emergency, there was considerable scope for improvement

Sri Lanka has a national antimicrobial resistance (AMR) plan (the National Strategic Plan for Combating Antimicrobial Resistance in Sri Lanka 2017 – 2022) for the surveillance, detection, and reporting of priority AMR pathogens. Sri Lanka does not have a national law, plan, or equivalent strategy document on zoonotic disease--National Strategy on Zoonotic Disease Control is yet to be finalized.

Sri Lanka's newly developed National Action Plan for Health Security 2019-23 identifies epidemic as the top health security issue (e.g. recent dengue trends) and establishes the action to "develop a business contingency plan for selected key service sectors in the event of influenza pandemic preparedness". An interim COVID-19 Strategic Preparedness and Response Plan (SPRP) was developed and is now being updated to respond to the current situation of the country and being costed. There is no specific mechanism for engaging with the private sector to assist with health emergencies, however private sector actors have already contributed to the response. In terms of health system capacity, efforts are underway by GoSL to address a need for adequate facilities for the quarantine, isolation and treatment of COVID-19 patients. Broader issues such as the highly aging population high prevalence of heart diseases, diabetes and lung problems and increased incidence of malnutrition especially among children may present challenges going into the future in terms of population ability to withstand pandemic crisis.

NATIONAL ACTION PLAN FOR HEALTH SECURITY 2019-23 IDENTIFIES EPIDEMICS AS THE TOP HEALTH SECURITY ISSUE IN SRI LANKA

SOCIO-ECONOMIC FALL-OUTS OF COVID-19

The COVID-19 outbreak is the first instance in which Sri Lanka bears the impact of a major global health pandemic. Earlier outbreaks of SARS, H1N1 and MERS had limited impact on Sri Lanka as the outbreak was very much contained at the original epicenters and genetic structuring of the viruses did not have the rapid progression properties of COVID-19. The current crisis therefore points to a need for broader socio-economic impact assessment of the COVID-19 in Sri Lanka.

a) Economic SDG impacts:

Sri Lanka is facing considerable economic impacts from COVID-19. It is estimated that the country may be in a position to contain the crisis to a 1-standard deviation shock under the historical scenario, provided it quickly sets in place necessary measures within country capacity (UNDP estimates). The crisis is expected to have significant impact on the country's SDG pathways, with the crisis pushing the country into a lower trajectory, and impacting on recently announced national policies to 'accelerate' SDG progression in the Decade of Action towards 2030. Defining the relevant policy measures and interventions to avoid a higher-order shock leading to significant 'backsliding' in terms of SDGs is a key challenge.

Trade, investments and reduced business activity, tourism and remittances would be the key transmission channels underlining economic impact. On the trade front, logistical disruptions as a result of shutdown in China, as well as in other source markets, had significant impacts on sourcing raw materials and other intermediate inputs needed for domestic manufacturing processes. While the supply side bottlenecks limited production, there was a countervailing drop in export demand as a result of falling purchasing power in major buying countries. This is likely to have potentially large impacts on sectors such as apparels and garments (which are key export commodities largely catering to the US and Euro markets).

The damage of the crisis on the Sri Lankan labor force will be particularly strong resulting from pulsating economic activity across a broad spectrum of sectors – but particularly in sectors such as tourism. Moreover, impact on migrant labor force would also be quite dire considering COVID-19 impact on countries such as South Korea and Italy and the Middle East. The effect on labour and loss of income are having knock-on impacts on livelihoods and food security.

The crisis will have a profound impact on the country's external financing requirements for 2020 and possibly beyond. The contraction in exports, remittances and tourism will curb foreign exchange inflows, which may not be sufficient to support Sri Lanka's increased needs on account of imports (on essential medical items, food, etc.) as well as significant debt repayments (amounting to US\$ 4.8 billion for 2020 – with major payments due in the 4Q20). Compounding the issues have been the capital flight from Sri Lanka's debt and equity markets with the plunge witnessed in the Colombo Bourse (which has lost nearly 12% of value and over 3% of GDP in market capitalization since early February) with significant foreign selling. This together with falling exports, remittances and tourism receipts has had a telling effect on country's exchange rate, depreciating by nearly 11% from mid-February to end March to reach record lows of approximately LKR 200/USD. The credit market has also tightened for Sri Lanka sovereign bonds, with yield rates almost doubling over the past several weeks [6]. The country still has sizeable external reserves that may help manage the crisis, although not for a prolonged period of time. Sri Lanka's gross official reserves stood at \$7.5 billion by end January 2020 -- sufficient to cover 4.5 months of imports. However, with the deepening fallouts from the crisis, the external position is likely to become more fragile.

For greater effectiveness and usefulness in an evolving setting for COVID-19, an economic impact assessment needs to be more dynamic than static. This could be achieved by using an appropriate analytical framework using Dynamic Stochastic General Equilibrium (DSGE) model. Sri Lanka would also benefit from continued analytical work on the socio-economic impact of the virus in a rapidly evolving setting. This would facilitate the aversion of a 'higher order shock' that would significantly undermine the country's achievement of the SDGs.

b) Social SDG Impacts:

Amongst the biggest concerns is poverty, food security and negative coping strategies. Sri Lanka has considerable clustering around the poverty line which underlines a particular vulnerability in situations such as COVID19. World Bank simulations suggest that a 20 per cent reduction in household consumption due to the crisis would more than double the poverty rate at national poverty lines [7], while a 50 per cent reduction would lead to over a third of the population moving into poverty. The crisis will create additional pressures on specific population groups such as women, older persons, persons with disabilities, informal workers, and other groups who are already vulnerable due to existing socioeconomic inequalities.

Socio-Economic Impact of Ebola Virus Disease in West African Countries

The 2014 Ebola outbreak in West Africa was the longest, largest, deadliest, and the most complex Ebola epidemic ever witnessed, lasting over a year. In less than 6 months, what started as a public health crisis in West Africa had degenerated into development crises (i.e. economic, social, humanitarian and security threats).

The 2014 outbreak highlighted limitations of national containment responses, as several countries were affected simultaneously. Factors that aided the spread included free movement of goods and people across countries, close ties among border towns, low levels of education, and limited internal capacity to respond to the outbreak. Further, several factors complicated the containment of EVD. These include i) unprepared health systems, (ii) inequitable distribution of human & financial resources, (iii) intense migration flows, (iv) ignorance and a lack of knowledge, (v) fear, and (vi) risky cultural practices.

Socio-Economic Impacts and Costing

All age groups were affected by EVD, with the heaviest toll being on the active labour force. This had serious negative implications on the labour market and national productivity.

EVD took a higher toll on women and children, with around 20% of the infected cases being children and 51% being women. Access to health services including non-Ebola-related services was weakened. Ebola was both a threat to national security, and an impediment to sub-regional, regional and global security.

EVD pushed people into poverty, making them more food insecure and vulnerable to shocks. Stigmatization reduced international trade and foreign investments, causing job losses. In the medium term (2014-2017), the loss estimates range from an annual average of 4.9 percent (low Ebola scenario) to 9.6 percent (high Ebola scenario) for Guinea, 13.7 to 18.7 percent for Liberia, 6.0 to 8.0 percent for Sierra Leone. For the remaining EVD-free, West African countries, the loss in the GDP growth varied from 0.1 to 4 percentage points.



Significant impacts on household income, arising from loss of daily livelihoods and earnings for the agriculture and informal sector workers (as a result of nation-wide curfew and shop closures), as well as a fall in remittances and earnings from tourism and trade, are likely to constitute a major impact driving down consumption. Food security becomes a pertinent consideration as regular supply/logistic channels connecting farmers with the markets becomes restricted and reduced international trade also impacting on import of essential food. A prolongation of the crisis and recovery of the global economy may have far-reaching consequences, such as permanent job losses in the affected sectors (and in the informal sectors which already appear significantly affected) - possibly leading to other adverse and unexpected impacts (such as increased household indebtedness, law and order breakdown, domestic and gender-based violence, violence against children [8], increased crime and child labour, inter-communal tensions, substance abuse and other related social trends).

Moreover, analysis of social impacts of other outbreaks (e.g. Ebola) has revealed the propensity of health crisis to have adverse and disproportional impacts on women and children (see box on Ebola crisis), stigmatization of those affected by the disease as well as undermining the existing health capacity in the country and also threatening national security.

Women are less likely to have been employed, generally are earning less, have fewer savings and assets and holding insecure jobs. In 2017, out of the 8.5 million females who were 15 years and above, only 3.1 million females were in the labour force, while only 2.9 million were employed. Out of this, as many as 1.5 million women were working in the informal sector. The impact of the crisis on Sri Lanka's women, through the loss of livelihoods and employment, particularly in female-concentrated industries, such as the apparel and garments sectors, a spike in sexual and gender-based violence during the curfew, and increased caregiver and domestic responsibilities for women due to unequal divisions of labour within the household are all aspects that must be examined.

The crisis also threatens to impact social cohesion. Long periods of isolation can affect people's well-being and mental health. Additionally, the crisis can result in the stigmatization of people and groups, unduly or wrongly considered as responsible for spreading the virus or for behaving irresponsibly which in turn can erode inter-community relations. This is particularly true where identity-relationships are already strained or weak. The crisis can provide opportunities for social solidarity as well as for increased trust in governance and politics.

INTERVENTION AREAS



ADDRESSING SRI LANKA'S STATE OF PREPAREDNESS TO FACE HEALTH RELATED EXIGENCY

The most essential interventions to contain the COVID-19 virus itself are being taken in the public health sector. The authorities announced a host of immediate stringent suppression and mitigation measures to curtail the crisis. These include a partial shutdown of the government and private sector in Sri Lanka for a substantial period of time (including a period of island-wide curfew imposed from the third week of March), leading to end March/early April designated as 'working remotely' period for all working populations barring those who are needed in the front-end to carry out essential work; closure of schools and suspended passenger arrivals at international airports & ports; quarantining visitors (and returning locals); limited access to commercial food markets (limiting access only through delivery); limitation of religious activities, sporting events and other gatherings together with public appeal for exercising of physical distancing and other protocols.

Thus, overnight, the public sector has had to adapt to working remotely and ensure that they are able to continue to provide all necessary services to people whilst working remotely. The current system, which is largely paper-based and relies on multiple layers of verification and authorizations, is neither efficient nor best suited to deal with such rapid changes. The public sector has demonstrated significant resilience in finding ways to ensure that most essential services continue without interruption, while some services have been paused temporarily. To overcome practical challenges that many public officials face, Government can bolster investments for accessing necessary technology and tools that allow official to work remotely, and, in the case of some officials, providing technological know-how that increase their ability to work so.

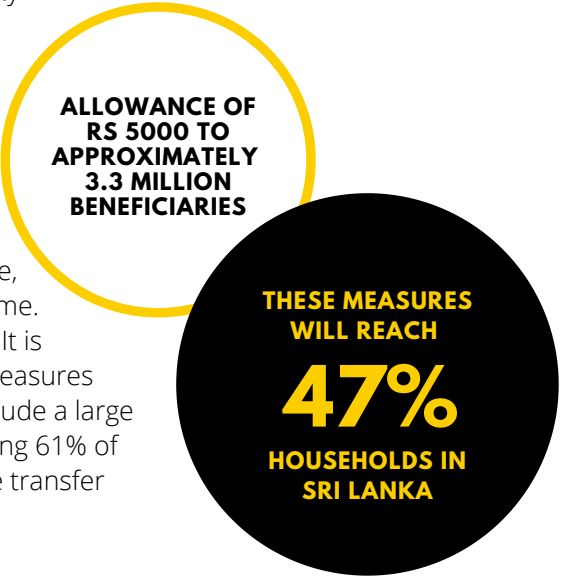
GoSL has increased preparedness, readiness, and response actions based on Sri Lanka's national risk assessment and the four WHO transmission scenarios: for countries with no cases (not anymore), first cases, first clusters, and community transmission and spread (4Cs). Currently Sri Lanka is in scenario 3. Immediate needs that are being addressed are hospital equipment, lab equipment, isolation units, drugs, testing capacity, and clinical waste management. However, the capacity of the health care workers to detect, refer and appropriately manage COVID-19 cases, especially in children and pregnant and breastfeeding women is being stretched. Continuation of other essential health services (nutrition, immunization, micronutrient supplementation, etc.) is crucial during this crisis. Government has already undertaken some measures to address these.

Addressing above mentioned challenges in the health system should be situated in broader national development planning, financing and risk management process. Future emphasis must be on capabilities required to address all hazards including fast-moving pandemic threats: including measurable biosecurity and biosafety benchmarks in national health security strategies, as well as testing health security capacities through simulation exercises. Further policy measures may include government incentives and encouragement for innovation and research targeted at preventing epidemics and pandemics from causing catastrophic damage, the government establishing effective and robust health procurement systems (particularly during crisis periods – where 'emergency' procurement may come at significantly elevated costs), having effective health waste management processes, and promoting timely and affordable access to diagnostics and treatment for epidemic diseases. Several countries which have shown relative success in containing the virus, had pre-emptively established control/command centers, to ensure institutional coordination within the government to address an epidemic threat. Further interventions may also be needed to address more structural long term issues such as aging population, high incidence of Non Communicable Diseases (NCD's) and high prevalence of malnutrition among children (that will propagate to an under-nourished population of the future) which will increase the susceptibility to pandemics.

Issues as identified by the GHSI as well as more mainstreamed health sector indicators such as those under International Health Regulations (IHR) can be looked at to address gaps and design longer term improvements in the health security system in Sri Lanka. The COVID-19 crisis presents an opportunity to address some of these shortcomings and make more likely that country health security apparatus would emerge stronger.

ADDRESSING BROADER SOCIO-ECONOMIC FALL-OUTS OF COVID-19

Sri Lanka stands to face considerable socio/economic impacts of the COVID-19 crisis. Responding to the crisis, the government announced a host of fiscal policy measures aimed at providing stimulus and stabilization to the economy. These included: a 'stimulus' package of LKR 500 Mn for COVID-19 response measures together with measures to improve the cashflow/liquidity of vital sectors, such as pharmaceutical importers, SME contractors and fertilizer importers, as well as providing some relief to vulnerable groups such as senior citizens. A relief package was announced that comprises of an allowance of Rs 5000 (approximately \$30) to around 3.3 million beneficiaries (plus those in the waiting lists) of some existing social protection programmes, namely the Samurdhi programme, the Senior Citizens' allowance, the Disability allowance, the chronic disease allowance, and the farmers' pension programme. These measures will reach 47 percent of households in Sri Lanka. It is positive that the GoSL has already announced social protection measures to support households during this crisis. More can be done to include a large part of the vulnerable populations currently excluded (e.g. including 61% of single-parent households with children) [9], and ensuring that the transfer value is adequate [10] to support the needs of families.



**ALLOWANCE OF
RS 5000 TO
APPROXIMATELY
3.3 MILLION
BENEFICIARIES**

**THESE MEASURES
WILL REACH
47%
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SRI LANKA**

Broader fiscal measures are constrained by government not having a budget for 2020 and thus operating on a 'vote on accounts' (VoA) basis. Sri Lanka's central bank (CBSL) reduced key policy rates by 75 basis points in March to spur economic activity, whilst also introducing extraordinary measures to preserve foreign exchange reserves including suspending imports of 'non-essential' goods and purchases of foreign currency bonds by Sri Lankan banks as well as time bound relaxation of exchange control regulations to attract foreign exchange to the country. In order to provide support at the household level, the CBSL also announced various loan moratoriums targeted at particular vulnerable groups (such as three-wheeler drivers and other daily wage earners, school van/free-lance taxi operators) who have taken out specific and/or small loans from the banking system. These measures are expected to assist cash flow and liquidity in these vulnerable segments coping with COVID-19 related difficulties. However, further special efforts for the informal economy can improve access by these groups to government support through existing channels (such as banks and regulated financial institutions).

The 2008/2009 global financial crisis demonstrated that countries with robust social protection systems suffered the least and recovered the most quickly from the impact of such shocks, given social protection's function as an automatic stabilizer (i.e. when employment rises and people's incomes decline, social protection kicks in to protect the most vulnerable) [11]. As the Sri Lankan government responds to the crisis, it can make social protection measures stronger and more robust in order to build resilience to crises, paving the way to ensure minimum income guaranteed over the life cycle. The COVID-19 crisis shows the importance of establishing an effective and universal social security system to ensure future responses are more effective and efficient. Truly shock-responsive social protection needs to be established on a universal basis; not that all people receive a benefit, but that all can receive if the need arises.

A more universal approach to social protection has been hampered in the past in part due to a fragile fiscal situation and inadequate prioritization of spending. With a debt burden of over 90 percent of GDP – and resulting significant debt service commitments [12] social spending had a relatively lower pecking order claim in government spending priorities. However, the current crisis should provide a respite to this – such as for example, prioritizing needed social protection measures by negotiating debt moratoriums on existing external debt obligations (see also section 3).

Such social protection measures need to ensure that they support people in a more inclusive manner, that reaches more of those who might be affected, that build social cohesion and trust in Government. Particular vulnerable segments must be covered, including but not limited to children, youth, women, daily wage earners, those in casual (non-permanent) employment and in inflexible working environments, persons with disabilities, low-income families, female headed households and families affected by past conflicts and natural disasters, those with less access to healthcare facilities, and elderly populations. The specific interventions could be based on existing programs, like Samurdhi and the senior citizens allowance, or a more ambitious emergency universal basic income or at least universal child benefit as has been pursued by some countries.

Further measures could also be looked at, such as: carrying out awareness programs in schools and community level to impart better level of preparedness to meet epidemics of the future; measures aimed at further relieving household cash flows; and liquidity through means such as time bound moratoriums of state provident fund contributions (applicable to the formal sector).

The COVID-19 crisis may also present opportunities for more innovative and progressively universal social protection measures that have greater reach and impact – which could result from broader stakeholder engagement comprising of central government, sub-national governments, civil society organization and the private sector. The private sector in particular could play a key role -- bringing in both innovation as well as financing for robust social protection mechanisms.

Outside of the health sphere, several measures would support containment measures or flattening of the curve in an epidemic setting. These include increased use of digital channels for communication and work particularly for the public sector – where the use of such channels currently is rather minimal. National electronic payments systems should also be strengthened to include more contactless payments, such as PayWave systems and QR payments (through the mobile phones). These will minimize the use of cash as well as contact electronic payments systems (such as chip and swipe enabled cards), which are potent sources of disease transmission at times of epidemic.

Due to the preventive measures taken and their timelines, there are emerging observable behavioural changes in society - for example, working from home, virtual meetings, distant teaching and learning, increased trends in online shopping, home delivery services, mobile grocery shops, and home gardening. These 'new normals' will affect how the government and private sector operate in the aftermath of the crisis, which in turn should be taken into consideration in preparing multi-sectoral plans to build resilient systems, as well as enable speedier recovery.

SDG REBOOT: PLANNING AND FINANCING OF RECOVERY AND SUSTAINABLE DEVELOPMENT



While attending to immediate health emergency needs and the provision of immediate relief and safety nets, enabling the transition back to a sustainable development pathway from a crisis response mode is paramount to prevent local and national capacities from weakening and laying the foundations for longer-term recovery—more crucial in light of the SDGs Decade of Action ahead. Early initiation of recovery planning & programming helps protect development gains and minimizes the gap between the priority relief measures and recovery. Systematic and coherent inter-sectoral planning and financing strategies for the medium term will help avoid SDG regression and put human development and economic development pathways back on track. Such efforts must be innovative, dynamic and risk sensitive—able to account for uncertainty and the challenge of identifying future scenarios, both on the health and economic front, both globally and nationally.

New analytical work and ongoing socio-economic impact assessments can inform the planning and facilitate a holistic approach which supports sustainable asset generation at the house-hold level and addresses impacts on vulnerable communities, the informal economy, tourism and agricultural sectors, and foreign employment/remittances.

The response to the unprecedented nature and impact of COVID-19 requires a collective and holistic approach. Collaboration, leveraging of insights & intelligence, and meaningful partnerships with all relevant stakeholders (public and private, international and national) will only improve the effectiveness of policy measures and planning. Stakeholder platforms are crucial for a *'whole of government'* approach, across national government and down to sub-national levels, and a *'whole of society'* approach including private sector and civil society. Not only can stakeholder capabilities assist immediate response, they can make national future policies and planning more robust.

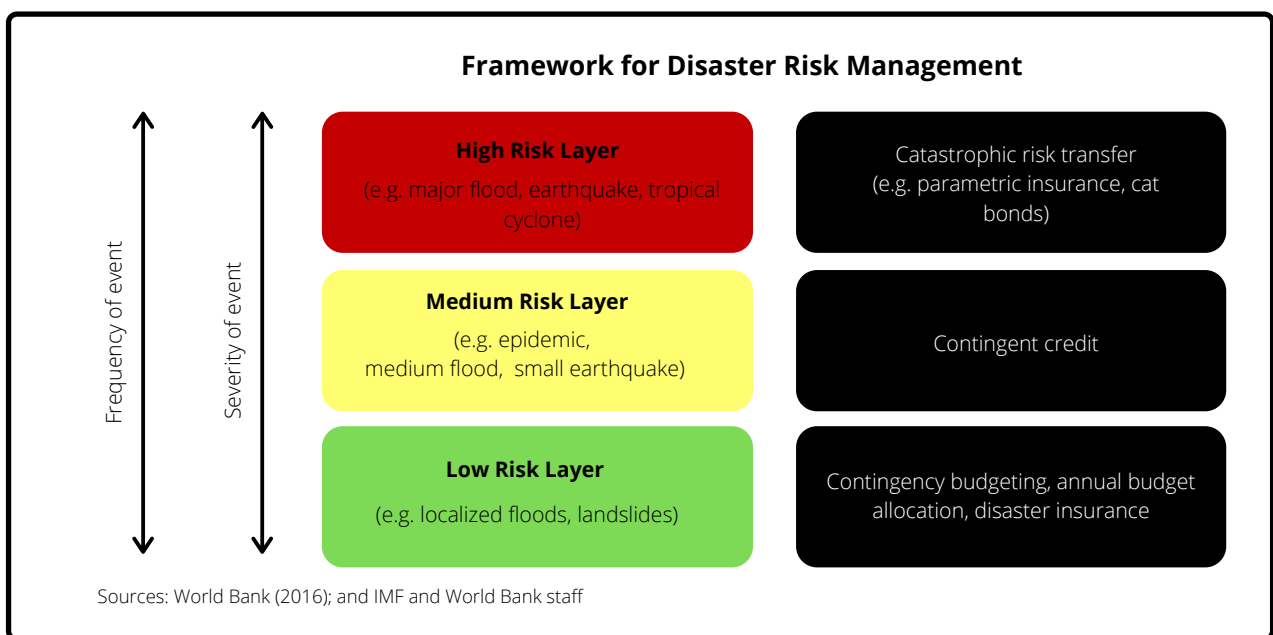
Given economic and financial uncertainties globally and nationally, the Government's national policy and planning framework and more specific COVID-19 recovery plan needs to be an appropriately costed and lead to a financing strategy. Sri Lanka has not had sufficient financial buffers to cope with the crisis (in the absence of a budget; with limited fiscal space). This is aggravating impact in the short-term, and could be circumvented with a financing strategy which systematically taps development finance to combat the crisis and promote the recovery—both international and domestic finances, both public and private resources— while reprioritising existing spending (with commensurate adjustments). The costing of policy interventions could proceed along established costing procedures using either a single methodology or a combination through *mosaic*.

Several IFIs have pledged support measures globally to combat the COVID-19 crisis: the IMF announced a Rapid Financing Facility (RFF) of USD 50 billion to support country external financing needs threatened by the COVID-19. Sri Lanka is eligible for funding under this facility while the country also has the IMF's Extended Fund Facility (EFF) arrangement (of USD 1.5 bn) until June 2020. The World Bank has also announced a similar measure of support amounting to USD 14 billion globally of which Sri Lanka is approved to access \$128.6m. ADB has announced a USD 6.5 billion support package for the Asia Pacific region--providing a US\$ 15 Mn assistance line for Sri Lanka in addition to its earlier announced allocation of \$600,000 (in grants) under its Health System Enhancement Project to help combat COVID-19 in Sri Lanka. Multi-lateral and bi-lateral partners are putting forward additional support measures to support countries with recovery.



Additional fiscal space may be garnered through other means – such as, negotiating debt moratoriums with major international creditors that would free up resources to enact necessary measures. Several countries, particularly those who are heavily debt-strapped would also be likely contemplating such options [13].

Whilst looking at immediate financing measures, one additional output under this component could be possible future disaster risk management/mitigation measures [14]. This may draw from the existing framework for the country and updating it to counter a COVID-19 type health exigency under a medium risk layer that would entail counter measures, such as contingent credit with possible considerations even to higher-order remedial measures, such as parametric insurance and CAT bonds. This needs to be discussed extensively with government and other stakeholders (e.g. Insurance Companies and DFI's). This approach would readily conform to an Integrated National Financing Framework (INFF), which articulates financing plans for risk management measures.



RECOMMENDATIONS AND WAY FORWARD



Sri Lanka has a daunting task ahead in responding to both the needs of the pandemic it is battling now together with the socio-economic fallouts it is already having to counter. The country's capacity to deal with both simultaneously will be challenging. As immediate measures, it is imperative that the country mobilizes its potential financial resources through multiple measures to bolster its health-care response, support people and firms. At the same time the crisis presents an opportunity for the Government of Sri Lanka to build its crisis-resilience and responsiveness through strengthened and more systemic health and social protection measures for all.

The Government's *National Policy Framework: Vistas of Prosperity and Splendor* [15] sets priority directions, and these provide a valuable basis for strengthening the country's health response and security, ensuring adequate social protection for all, ensuring coherent inter-sectoral recovery planning, and promoting greater collaboration and impact of all development partners, civil society actors, private sector and others.

The note converges key topics for consideration and discussion:



Even while concluding and then aggressively implementing the health-related Strategic Preparedness and Response Plan under finalization, begin the transition to **design of a broad socio-economic Recovery Plan**—anchored in a strengthened national development planning system going forward (see iii. below). This Recovery Plan would simultaneously address relief, recovery and development across multiple sectoral impacts. The Recovery Plan would be underlined by a comprehensive costing and financing framework that would bring together available resources and needed additional financing to bounce back stronger and avoid SDG regression. Such a Plan would also facilitate the systematic targeting of assistance from financial institutions and development partners for the recovery stage. Based on initial research on the Economic, Social, Environmental and Governance **'New Normals'** which Sri Lanka will face in the immediate aftermath of the crisis, new multi-sectoral recovery plans would be developed aligning with the NDP. Such **recovery-oriented sectoral plans and financing strategies** in health and nutrition, labour, food and agriculture, education, social protection and other key areas would also be developed to lay renewed foundations **for a post-Covid long-term SDG development trajectory**. A holistic approach to recovery planning will look at support to sustainable asset generation at the house-hold level, impacts on vulnerable communities, and the informal economy, tourism industry and foreign employment/remittances. Such a focus will strengthen government capacity to lead and manage national recovery efforts in the early, medium and long-term.



Undertake a comprehensive socio-economic assessment (SEA) of the COVID-19 crisis to determine the impacts and needs assessment (similar to post-disaster needs assessments of past crisis would underlie the above-described Recovery Plan. The **social and economic costs would be looked at both in the broad economy-wide context and in affected sectors**, while a comprehensive needs assessment would look at policy, institutional and governance mechanisms needed to address the impact. An **assessment should necessarily analyse by gender**, in order to examine any disproportionate socio-economic impacts on women, including the loss of livelihoods and employment during a potential economic downturn, the impact of social distancing and quarantine measures on high-female employment sectors, such as the apparel industry, increased care-giver responsibilities for women including for working mothers due to gender division of labour, sexual and gender-based violence against women, etc. The assessment should also examine the impact of the crisis on existing inequalities within the country, focusing on, for instance, impacts on vulnerable communities such as low-income and gig economy workers at higher risk of exposure, informal sector workers without social security safety nets, etc.

The **socio economic analysis would also look at a comprehensive macroeconomic recovery and stabilization framework that would tie in with economic resurgence and would specifically geared towards fiscal consolidation (perhaps leveraging on initiatives undertaken during the crisis), debt restructuring and better debt management that would generate additional fiscal space which could be used for investments in social and economic sectors.** Also of focus would be **measures for building greater economic resilience to face adverse shocks such as through further diversification of the productive sectors and export markets as well as leveraging investments from sustainable/impact investor segments through innovative instruments and mechanisms.**



The Government of Sri Lanka, having already laid foundations for national development via its *National Policy Framework*, may use the moment of crisis to 'build back better' by establishing a **comprehensive national development plan (NDP) with an enabling institutional structure and financing strategy** which remains 'live'. First, close attention would be paid to emerging '**new normals**' and their long-term impact on society and the state in designing national development plans—while examining **multiple possible scenarios** playing out and their associated consequences on the economy and society. This will require continued research and tracking of trends as they emerge, as well as the rapid prototyping and testing of interventions. Second, particular attention would also be paid to the **risk analysis and mitigation** underlining a NDP – which has been made important in light of the COVID-19 crisis. Looking forward, a national risk focus can would account for threats posed by not only by epidemics and other health related exigencies, but also natural disaster risks, climate change risks, and possible future economic risks which may impact tourism, employment, or agriculture. **Explicit costing of the national recovery and development plan and implementation measures, using tools like Development Finance Assessment, would underpin a realistic financing strategy** aimed at tapping resources—both public and private, domestic and international.



COVID-19 crisis has rapidly transformed into an economic and employment crisis as well. Across Asia, including in Sri Lanka, it has particularly hit apparel (including sub-contractors), tourism and hospitality (including informal suppliers), micro, small and medium enterprises (accounting for 90% of all businesses; 52% of GDP; and over 45% of workers), migrant remittances (Sri Lanka's largest foreign exchange source), and the informal economy (where over 60% of the labour force are employed). In addition to domestic difficulties of enterprises, threats to job security, loss of income of daily-waged labourers (industry including construction, services e.g. domestic work, agriculture), there is the imminent return of large numbers of low-skilled, low paid migrant workers (especially from the Middle East), adding to the number out of work and out of income. The effects of the pandemic have revealed the absence of social protection mechanisms to protect informal economy workers (including gig workers). Urgent, large-scale and coordinated actions are needed to address these and other issues, beginning with government, employers' and workers' representatives but extending to multilateral agencies, development partners and agencies. Immediate measures are necessary to protect enterprises, livelihoods and lives. Meanwhile, policy responses cannot afford to be short-term and must be designed around building back the economy, labour market, health and social protection systems, better.



The Government of Sri Lanka has taken positive initial **social protection measures** to mitigate the economic impacts of the COVID-19 crisis on households, demonstrating an understanding that this health pandemic is already having significant impact in people's economic security. The COVID-19

crisis is teaching us that we need to re-define our understanding of 'poor and vulnerable;' It shows us that everyone is vulnerable. Even if the majority of the population do not experience the most severe Covid-19 symptoms, most will be nonetheless affected economically, with many people – perhaps the majority – experiencing significant falls in their standards of living. Therefore, it will be **necessary to support people in a more inclusive manner, that reaches more of those who are affected, that is well-communicated, and that enhances social cohesion and strengthen trust in Government**, as has happened in other countries that have put in place large-scale programmes of support. This could be achieved through building, starting now, **an inclusive, lifecycle social security systems that offers universal child, disability, and old age benefits**. The announced measures still only cover 47 per cent of households, and many vulnerable populations have been left out: many of those in the poorest 30 per cent, but also young children and single-parent households with children (61% excluded). They also leave room for discontent as people don't understand or agree with who was chosen to receive a benefit and who was not. As people lose their jobs and livelihoods, measures can be taken to support families who experience catastrophic reductions in their standards of living and who are excluded from support. Given the significant risk of a major increase in food insecurity which will have a detrimental impacts on families, a lack of investment in the incomes of Sri Lankans can cause further economic downturn and decline in living standards as many have already experienced a significant drop in income and wages as a result of the crisis. The cost of not acting will be much higher.

vi

Establishment of a secure integrated administrative data system would enable the NDP to function effectively. Countries like South Korea that proactively acted upon the COVID-19 pandemic were able to rely on their integrated administrative data management system to help track and contain the spread of the disease. At present, local government institutions rely on their own administrative data records, and information is often collected in silos with little cross-collaboration. This not only makes contact tracing, for instance, difficult, but also results in difficulties in applying non-traditional data sources, such as big data and new methods that would provide more timely information that would lend itself to informed or evidence-based decision making. An **integrated system** would allow for: a) quick and efficient updating of government data, b) reduction in duplication of information and processes, and c) increased transparency. This, in turn, **will lend itself to the establishment of an effective support system and to the creation of a single digital identity for all citizens that could be used across a range of platforms and services**. In addition, such a system could pave the way for the inclusion of *non-traditional data* sources, such as big data into traditional statistical data domain, and the *adoption of new data collection methodologies* as an addition to the methodologies utilized at present. Further, COVID-19 has also seen a surge in the availability of online businesses, which has brought to light concerns of *data privacy and digital security*. An integrated data management system should take these concerns into account and ensure that strict guidelines are adhered to protect personal information.

vii

In order to enable the effective functioning of the NDP and the integrated administrative data system, it is required to **re-engineer existing service delivery lines and take more processes online and upskill the public sector with required tools, technologies and mindset**. There is a need to build the **resilience of current governance structures to future crises** due to the practical challenges faced by many public officials during the lockdown, in terms of a lack of access to the necessary technology and tools and limited technological know-how to facilitate effective 'remote working'. This will require upskilling and an introduction to new tools and technologies, in order to digitalise government processes to ensure the smooth functioning of the state apparatus even in times of crises.

viii

Youth will play a critical role in the country's recovery process if actively engaged. Many young entrepreneurs, while hard hit by the crisis, will play a vital role in building the economy by leveraging the benefits of shared and digital economies. **Four pathways:** 1) The existing youth and innovation programme and network- HackaDev, a national innovation platform - can be run to **crowdsource innovative interventions** created by citizens and youth on controlling, responding to, and recovering from COVID-19. 2) A large-scale **nation-wide business incubation programme complete with seed grant support** for startups and other small enterprises to apply and receive support on business recovery, where youth startups become a critical component of government stimulus. 3) **Reskilling and upskilling programmes** [16] can be scaled up (or developed) to enhance citizen and entrepreneur capacity to thrive in the digital and shared economy spaces, ensuring pathways to start/restart business, enhancing technical skills, and accelerating their business potential to ensure viability. 4) **Review business registration and debt finance acquisition regulations** for relaxation as necessary to facilitate ease of beginning or growing businesses of youth entrepreneurs in recovery mode.

ix

The response to the unprecedented nature and impact of Covid-19 on all segments of government and society requires a collective and holistic approach that supports the national efforts and leverages collective effort. A **broad stakeholder platform supported by the UN and others would embody the whole of society and whole of government approach to overcome country's COVID-19** challenges and enable recovery. The stakeholder platform would underline the broad ownership of country's recovery and building a sense of binding to the national effort dealing with the worst crisis it faced since independence. It would also lead to finances leveraging for relief, recovery and development from the private sector in addition to public sector. Such a focus will strengthen government capacity to lead and manage national recovery efforts in the early, medium and long-term taking swift measures to put human development and economic development pathways back on track for SDGs.

END NOTES

1. This discussion note was compiled by UN Sri Lanka offices (UNDP, UNICEF, UN Resident Coordinator's Office with FAO, ILO, IOM, UNODC, WFP, WHO). It is intended to promote dialogue amongst key stakeholders around various policy approaches and responses under the leadership of the Government of Sri Lanka.
2. "Youth Co:Lab Rapid Stocktake (9th April 2020): COVID-19 Policy Responses in Asia-Pacific Supporting MSMEs and Self-Employed Workers" provides a useful analysis in this regard.
3. World Bank, UNICEF (2020). Assessing Public Financing for Nutrition in Sri Lanka (2014–2018).
4. John Hopkins University and Economist Intelligence Unit (EIU)
5. WHO Joint external evaluation of IHR core capacities of the Democratic Socialist Republic of Sri Lanka: June 19-23, 2017
6. Yield rates for Sri Lanka bonds rose to a range of 17-17.5% in the international capital markets before subsiding a bit.
7. At 4.1% in 2016
8. Child abuse cases on rise during curfew: Child rights group. Available at: http://www.ft.lk/breaking_news/Child-abuse-cases-on-rise-during-curfew-Child-rights-group/10526-698027#.XntZueZh_jo.twitter
9. UNICEF Sri Lanka Policy Brief April 2020/01, "Sri Lanka's initial social protection response to Covid-19: An analysis of who benefits and who does not"
10. UNICEF Sri Lanka Policy Brief April 2020/01, "Sri Lanka's initial social protection response to Covid-19: An assessment of the value of the Covid-19 support to Sri Lankan households"
11. UNESCAP, 2020. The Impact and Policy Responses for COVID-19 in Asia and the Pacific.
12. Which comprises the single largest item in government spending even surpassing civil service salaries
13. There is already growing traction for developing country debt moratoriums to cope with the crisis.
14. i.e. to look at possible financing means to counter a similar contingency in the future.
15. Released in conjunction with H.E. President Gotabaya Rajapakse address to Parliament in January 2020
16. For example, building on the likes of the Technopreneurship for Social Change programme

**23 APRIL
2020**

REPORT ON POLICY DIALOGUE ON THE SOCIO-ECONOMIC IMPACTS, RESPONSE AND RECOVERY



CONTEXT

The COVID-19 outbreak has spread to many countries and infected over 5 million people (confirmed cases) and claimed over 350,000 deaths as of 21 May 2020. Like most countries, Sri Lanka too was forced to confront the pandemic health crisis unexpectedly with limited preparedness. Since the diagnosis of its first case in late January, Sri Lanka has reported a total of 750 confirmed cases and 9 deaths. The country has taken strong early suppression measures to prevent the spread by instituting curfew periods ensuring only essential services but with Government and private sectors working remotely.

The crisis threatens to overwhelm health care systems and National policies. The policy response will determine the human toll of the virus; the length and severity of the downturn; and economic, social and environmental progress towards (or regression away from) attaining the Sustainable Development Goals (SDGs), placing a large responsibility on policymakers.

A two-pronged response is needed. Whilst the first priority has been to deal with the health emergency, cognizance must be simultaneously taken of the knock-on impacts globally, regionally and nationally which threaten a follow-on national social and economic crisis. The economic shock is likely to be transmitted through a number of channels – particularly trade, export industries (especially apparel), tourism, agriculture, employment, investment, remittances, and SMEs (vast majority of Sri Lanka's enterprises are MSMEs, accounting for nearly 80% of GDP and 45% of employment in 2018). A protracted crisis will have an adverse impact on specific populations groups (women, older persons, persons with disabilities etc) who are already vulnerable due to existing socio-economic inequalities.

Given the expected size and incidence of the economic downturn, it is suggested that a large part of stimulus packages be directed towards the most vulnerable. With considerable clustering of Sri Lankan population around the poverty line, this will have an adverse impact on poverty and inequality. While the country deals with the health crisis, it must take action to meet emerging socio-economic impacts. The Government announced various stimulus/relief measures such as targeted spending, enforcing price ceilings and other administrative measures, while the Central Bank also announced supporting monetary measures including interest rate cuts and debt moratoriums on commercial bank loans. Cash transfers to beneficiaries of some of the existing social protection programmes have also been undertaken. However, more needs to be done to ensure the most vulnerable can have access to more long-term relief and social protection measures.

A rapid response is needed to avoid SDG regressions. Crisis response and recovery will benefit from concurrent efforts to (1) address the ongoing crisis while enhancing the country's risk preparedness and capacity to deal with prolonged COVID-19 or other exigencies in future; (2) comprehensively analyse the socio-economic impacts and recovery needs of the current crisis, and (3) design a 'whole of society' road map and scenario-based sector plans (based on 'new normals') for recovery—situated in strengthened national development planning institutions and processes, and leveraging youth entrepreneurs to formulate innovative solutions to help rebuild the economy—which puts the country back on a development path way to SDG achievement. The crisis is expected to have significant impact on the country's SDG pathways, with the crisis pushing the country into a lower trajectory, and impacting recently announced national policies to 'accelerate' SDG progression in the Decade of Action towards 2030. Defining the relevant policy measures and interventions to avoid a higher-order shock leading to significant 'backsliding' in terms of SDGs is a key challenge.

Post-pandemic, a new social contract will be needed, featuring reduced inequalities, strengthened resilience to shocks. The COVID-19 outbreak is the first instance in which Sri Lanka faces the impact of a major global health pandemic. Earlier outbreaks of SARS, H1N1 and MERS had limited impact on Sri Lanka as the outbreak was very much contained at the original epicenters and genetic structuring of the viruses did not have the rapid progression properties of COVID-19. The current crisis therefore points to a need for broader socio-economic impact assessment as Sri Lanka faces considerable economic impacts.

Trade, investments and reduced business activity, tourism and remittances would be the key transmission channels underlining economic impact. On the trade front, logistical disruptions as a result of shutdown in China, as well as in other source and export markets, had significant impacts on sourcing raw materials and other intermediate inputs needed for domestic manufacturing processes. While the supply side bottlenecks limited production, there was a countervailing drop in export demand as a result of falling purchasing power in major buying countries. This is likely to have potentially large impacts on sectors such as apparels and garments (which are key export commodities largely catering to the US and Euro markets).

The damage of the crisis on the Sri Lankan labor force will be particularly strong resulting from pulsating economic activity across a broad spectrum of sectors. Moreover, impact on migrant labor force would also be quite dire considering COVID-19 impact on countries such as South Korea and Italy and the Middle East. The effect on labour and loss of income are having knock-on impacts on livelihoods and food security.

Fiscal space needs to be created to respond to the crisis by revisiting existing policies. The crisis will have a profound impact on the country's external financing requirements for 2020 and possibly beyond. The contraction in exports, remittances and tourism will curb foreign exchange inflows, which may not be sufficient to support Sri Lanka's increased needs on account of imports (on essential medical items, food, etc.) as well as significant debt repayments (amounting to US\$ 4.8 billion for 2020 – with major payments due in the Q4 2020). Compounding the issues have been the capital flight from Sri Lanka's debt and equity markets with the plunge witnessed in the Colombo Bourse with significant foreign selling. This together with falling exports, remittances and tourism receipts has had a telling effect on the country's exchange rate, depreciating by nearly 11% from mid-February to end March to reach record lows of approximately LKR 200/USD. The credit market has also tightened for Sri Lanka sovereign bonds, with yield rates almost doubling over the past several weeks. The country still has sizeable external reserves that may help manage the crisis, although not for a prolonged period of time. For greater effectiveness and usefulness in an evolving setting for COVID-19, an economic impact assessment needs to be more dynamic than static.

The response will need to set the stage for additional elements of a strategy to “build back better”. Amongst the biggest concerns is poverty, food security and negative coping strategies. Sri Lanka has considerable clustering around the poverty line which underlines a particular vulnerability in situations such as COVID-19. World Bank simulations suggest that a 20 per cent reduction in household consumption due to the crisis would more than double the poverty rate at national poverty lines, while a 50 per cent reduction would lead to over a third of the population moving into poverty. The crisis will create additional pressures on specific population groups such as women, older persons, persons with disabilities, informal workers, and other groups who are already vulnerable due to existing socioeconomic inequalities.

Measures are needed to alleviate the crisis of care that has disproportionately fallen on women's shoulders and to make policy responses gender-sensitive. The pandemic has clearly led to gender-differentiated impacts in Sri Lanka and the rest of the Asia-Pacific region. It thus requires gender-specific responses. Women are less likely to have been employed, generally are earning less, have fewer

savings and assets and holding insecure jobs. In 2017, out of the 8.5 million females who were 15 years and above, only 3.1 million females were in the labour force, while only 2.9 million were employed. Out of this, as many as 1.5 million women were working in the informal sector. The impact of the crisis on Sri Lanka's women, through the loss of livelihoods and employment, particularly in female-concentrated industries, such as the apparel and garments sectors, a spike in sexual and gender-based violence during the curfew, and increased caregiver and domestic responsibilities for women due to unequal divisions of labour within the household are all aspects that must be examined.

A focused effort is needed to unite everyone against the common enemy: the novel coronavirus. The crisis also threatens to impact social cohesion. Long periods of isolation can affect people's well-being and mental health. Additionally, the crisis can result in the stigmatization of people and groups, unduly or wrongly considered as responsible for spreading the virus or for behaving irresponsibly which in turn can erode inter-community relations. This is particularly true where identity-relationships are already strained or weak. The crisis can provide opportunities for social solidarity as well as for increased trust in governance and politics.

The crisis brings to the fore the need for integrated policies and responses that coordinate between crisis response. As a first step, UNDP co-convened a high-level virtual dialogue on 23 April 2020 with the Resident Coordinator's Office of the United Nations and the United Nations Children's Fund (UNICEF) in Sri Lanka on **'Navigating the 'New Normals' for Socio-Economic Recovery from COVID-19'** – a two hour Dialogue moderated by **Mr. Robert Juhkam, Resident Representative of UNDP in Sri Lanka.**

COVID-19 RECOVERY AND RESPONSE

Starting the Dialogue, Mr. Juhkam highlighted the underlying four-fold themes of the discussion:

- i** One, even as health is rightly prioritised, the Sri Lankan economy and society are being impacted concurrently.
- ii** Two, while we look to the current dual shock crises of health and economies, we must bring into focus and center those initial or underlying conditions that got us here in the first place including climate change, environmental degradation, threats to food systems etc.
- iii** Three, we don't even know what we don't know yet. The change and impacts are coming so fast and so unpredictably with no simple recipes for response, absolutely everything we've come to believe is normal is now not even existing. Normal is being redefined.
- iv** Finally, we need to study the absolutely unprecedented nature of this crisis. In the development world, and also more specifically in Sri Lanka following the Tsunami, the phrase came into being, to build back better. The idea that you restore what was there before in a better condition. This is a truism that still resonates in some way. But, now it's not about building back better. It's about building forward with innovation and foresight and recognition of the risks. The challenge will be do fight the next current of unsustainable development. As such, now more we need to guard against a tide towards unsustainable development which may lead us to even more difficult situations, health, climate, or economy-wise, in the future.

Sri Lanka stands to face considerable socio/economic impacts of the COVID-19 crisis, hindering the country's pathway to achieve sustainable development. Responding immediately to the crisis, the Government has announced a host of fiscal policy measures aimed at stabilizing to the economy.

Speaking at the Policy Dialogue, **Prof.W.D.Lakshman, Governor, Central Bank of Sri Lanka** noted that the Government has been heavily resource constrained given the context of large public debt, low volumes

volumes of reserves etc. but they are using all available resources to attend to the requirements. In order to economically help Sri Lanka adapt to this 'new normal' measures have also been taken for the rapid formulation of National action plans, which will look at Sri Lanka in a post COVID-19 context. As the country moves ahead, the Central Bank of Sri Lanka welcomes any insights and input from all stakeholders, including the UN, to develop more holistic/inclusive solutions.

The UN in Sri Lanka has already begun working to support the Government on different fronts. **Ms. Hanaa Singer, the Resident Coordinator of the UN in Sri Lanka** noted the following measures taken by different agencies working in the country:

- UNICEF has supported on the procurement of Personal Protective Equipment (PPE) along with the World Bank. UNICEF has also been leading the public communications efforts together with WHO, ensuring that key measures reach the public.
- UNDP, UNICEF and ILO have been supporting the Government on social protection and providing assistance to vulnerable households. UNDP has also been focused on how COVID-19 economic assessments and has been leading on input to develop National Development Plans through the introduction of innovative financing instruments.
- UNICEF has also extended support on education, and is leading on rapid response for children together with the National Child Protection Authority.
- ILO has been working with the Chambers of Commerce on how COVID-19 is affecting the labour market and identifying employment sectors most vulnerable to shocks.
- IOM is working to ensure protection for recent returnees; UNFPA is responding to the crisis in GBV; WFP and FAO are working on food security by looking at supply chains and conducting rapid assessments.

As evident, there are several factors that underpin the effective recovery of Sri Lanka from the impacts of COVID-19. Recognizing these elements, the Policy Dialogue looked at 4 key areas of impact for deliberation.

1 COVID-19 and the impacts on the Domestic Labour Market – What can Sri Lanka do to better cope with the possibility of mass unemployment possibility?

COVID-19 crisis has rapidly transformed into an employment crisis as well. Across Asia, including in Sri Lanka, it has particularly hit apparel (including sub-contractors), tourism and hospitality (including informal suppliers), micro, small and medium enterprises (accounting for 90% of all businesses; 52% of GDP; and over 45% of workers), migrant remittances (Sri Lanka's largest foreign exchange source), and the informal economy (where over 60% of the labour force are employed). In addition to domestic difficulties of enterprises, threats to job security, loss of income of daily-waged labourers (industry including construction, services e.g. domestic work, agriculture), there is the imminent return of large numbers of low-skilled, low paid migrant workers (especially from the Middle East), adding to the number out of work and out of income. The effects of the pandemic have revealed the absence of social protection mechanisms to protect informal economy workers (including gig workers). Urgent, large-scale and coordinated actions are needed to address these and other issues, beginning with Government, employers' and workers' representatives but extending to multilateral agencies, development partners and agencies. Immediate measures are necessary to protect enterprises, livelihoods and lives. Meanwhile, policy responses cannot afford to be short-term and must be designed around building back the economy, labour market, health and social protection systems, better.

Speaking on the impact COVID-19 has had on the domestic labour market, **Ms. Simrin Singh, ILO Country Director for Sri Lanka & the Maldives** described the knock-on impacts on the economy and on workers.

The ILO has estimated that 81% of the workforce has been hit affecting 125 million workers in the Asia Pacific region. In Sri Lanka alone the ILO has identified 170 occupational categories that are extremely vulnerable to this COVID-19 context and these include daily wage earners and those earning less than 5000 LKR a month. These occupational categories cover almost 4.7 million workers concentrated mostly in the areas of Colombo, Gampaha and Kurunegala. In the Western Province alone, 73% of business have been facing closures forcing many into unemployment. This puts the spotlight on the need for a more robust social protection scheme which covers and everyone, irrespective of their employment status.

2

COVID-19 and Social Protection - What should Sri Lanka do to design better Social Protection mechanisms?

The Government of Sri Lanka has taken positive initial social protection measures to mitigate the economic impacts of the COVID-19 crisis on households, demonstrating an understanding that this health pandemic is already having significant impact in people's economic security. The imperative for safety nets for the sick, disabled, unemployed or underemployed has been particularly highlighted during this crisis.

With the current social security measures covering only 47% of households, **Mr. Tim Sutton Representative, United Nations Children's Fund and Ms. Louise Moreira Daniels, Chief of Social Policy at UNICEF Sri Lanka** discussed the social protection measures that can be taken to further support families who experience debilitating reductions in their standards of living and are excluded from support. They also called for the introduction of Universal Basic Income – an inclusive approach that focuses on families with kids, and persons with disabilities. These would reach 80% of the public, is an easy system to understand, and is one that build social trust and satisfaction.

In addition to Mr. Tim Sutton, **Dr Vinya Ariyaratne, General Secretary of Sarvodaya**, also highlighted the vulnerability of all citizens, as people lose jobs and livelihoods, experiencing catastrophic reduction in wages and other amenities. He emphasized the need to optimize existing programmes like Samurdhi.

3

COVID-19 and the SDG Reboot – Are the SDGs still reachable?

While attending to immediate health emergency needs and the provision of immediate relief and safety nets, enabling the transition back to a sustainable development pathway from a crisis response mode is paramount to prevent local and national capacities from weakening and laying the foundations for longer-term recovery—more crucial in light of the SDGs Decade of Action ahead. Early initiation of recovery planning & programming helps protect development gains and minimizes the gap between the priority relief measures and recovery. Systematic and coherent inter-sectoral planning and financing strategies for the medium term will help avoid SDG regression and put human development and economic development pathways back on track. Such efforts must be innovative, dynamic and risk sensitive—able to account for uncertainty and the challenge of identifying future scenarios, both on the health and economic front, both globally and nationally.

New analytical work and ongoing socio-economic impact assessments can inform the planning and facilitate a holistic approach which supports sustainable asset generation at the house-hold level and addresses impacts on vulnerable communities, the informal economy, tourism and agricultural sectors, and foreign employment/remittances.

Speaking on this, **Ms. Faiza Effendi, Deputy Resident Representative of UNDP in Sri Lanka** called for a comprehensive recovery plan that straddles both the health and economic crises. A plan that considers the human toll, the length and severity of the economic downturn, the environment, and vulnerable households.

Also looking at south-south learning, Ms. Effendi shared the socio-economic rapid assessment which Indonesia has carried out integrating COVID-19 data. This collection of data will help the country has access to data to make better informed decision by studying the disaggregated data and trends.

Mr. Kirthisri Rajatha Wijeweera, Senior Economist to UNDP in Sri Lanka and the Maldives also highlighted the importance of looking at impact investment which would help Sri Lanka's SDG trajectory. For this greater emphasis needs to be put on Impact Measurement and Management (IMM) platforms which is integrated into a financing strategy.

4

COVID-19 and the Case for a 'Whole of Society' Approach

The response to the unprecedented nature and impact of COVID-19 on all segments of Government and society requires a collective and holistic approach that supports the national efforts and leverages collective effort. Collaboration, leveraging of insights & intelligence, and meaningful partnerships with all relevant stakeholders will only improve the effectiveness of policy measures to achieve the above and to ensure that no individuals are left behind in the process.

The private sector has a pivotal role in integrated COVID-19 response with its critical know-how, reach and resources. However, it is also a sector that is bearing the full impact of the crisis. The collective intelligence of the private sector will need to be leveraged and included within the realms of the public sector decision making to shape the economic agenda of the country in the post COVID-19 context. To address economic knock-on effects such as frozen value chains, limitation in capital productivity, contraction of consumer spending, layoffs and limitation in labour hours, the Government should accelerate public-private partnerships, incorporate views of the private sector in the Government policy making and integrate the new information, technology, digital advancement, finances, resources and lessons learnt in a coherent manner.

The COVID-19 crisis however has also presented opportunities for more innovation. In the context of working from home, public and private sector alike have been forced to rethink and redesign their business operations and adapt to this new normal work modality through enhanced online and digitized processes. and progressively universal social protection measures that have greater reach and impact – which could result from broader stakeholder engagement comprising of central Government, sub-national authorities, civil society organization and the private sector. The private sector in particular could play a key role - bringing in both innovation as well as financing for robust social protection mechanisms.

Speaking about this, **Mr. Dilhan Fernando, Chairman, Global Compact Network Ceylon (UNGC)** stressed the critical importance of the private sector engaging for COVID-19 response and recovery to ensure a whole of society approach. He also highlighted that any approach will have to address the growing inequality, climate change impacts, peace building and food security.

Future proofing will be key, and this means using more innovation in collaboration between all partners.

He also emphasized the significance of youth who will play a critical role in the country's recovery process if properly engaged. Many young entrepreneurs, while hard hit by the crisis, will play a vital role in building the economy by leveraging the benefits of shared and digital economies. Against this backdrop, the

discussion focused on strengthening the existing youth and innovation programme network, national business incubation programme, importance of reskilling and upskilling of youth, review of business registration and debt finance acquisition regulations and analyzing the Sri Lankan policy measures in comparison to economies across the South-East Asian region to support MSMEs and self-employed workers, such as targeted cash transfers, tax relief measures and policies on structural improvements to businesses.

WAY FORWARD

Sri Lanka has a daunting task ahead in responding to both the needs of the pandemic it is battling now together with the socio-economic fallouts it is already having to counter. The country's capacity to deal with both simultaneously will be challenging. As immediate measures, it is imperative that the country mobilizes its potential financial resources through multiple measures to bolster its health-care response, support people and firms. At the same time the crisis presents an opportunity for the Government of Sri Lanka to build its crisis-resilience and responsiveness through strengthened and more systemic health and social protection measures.

The Government's National Policy Framework: Vistas of Prosperity and Splendor sets priority directions, and these provide a valuable basis for strengthening the country's health response and security, ensuring adequate social protection for all, ensuring coherent inter-sectoral recovery planning, and promoting greater collaboration and impact of all development partners, civil society actors, private sector and others.

While focusing on timely, effective, holistic and sustainable recovery from the current crisis, the way forward must also look at establishing frameworks and systems that would ensure rapid responses to crises in the future. Accordingly, there needs to be stock-take of the socio-economic impacts which will help better address the needs of vulnerable groups (including daily wage earners, casual (non-permanent) employment and in inflexible work environments, low-income families, women, children, youth, the elderly, PWDs, and those with less access to healthcare facilities). There is also a need for a simultaneous focus on establishing a National Development Plan, along with a financial strategy, to not only respond to the pandemic, but also to ensure that Sri Lanka's sustainable development trajectory remains focused on the achievement of the 2030 Agenda. This means, all stakeholders must come together in designing holistic solutions for the country.

Hence, the Policy Dialogue is a first step in convening multiple actors to one forum to deliberate on Sri Lanka's way forward in the context of the 'new normal' COVID-19 has brought about.

Bringing many parties to one table, the Dialogue saw the participation of several leading actors both in the public sector and the private sector including Dialog Axiata PLC, Dilmah, Global Compact, Hayleys, Hemas, Pickme, Unilever and Virtusa; fellow colleagues from ADB, IFC, ILO, IMF, UNICEF and World Bank; think tanks and academics from the Institute of Policy Studies (IPS), Munasinghe Institute of Development, University of Colombo and the Centre for Poverty Analysis (CEPA); civil society organizations such as Sarvodaya and representatives from other bodies from the Sri Lanka Retailers Association, Employers Federation and Ceylon Chamber of Commerce.

By converting the narratives of the Dialogue into this Report, the objective is to better inform all actors when developing Sri Lanka's roadmap to sustainable recovery.