

PESTEL

ANALYSIS





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01. DEFINITION OF A PESTEL ANALYSIS

A PESTEL analysis is a strategic framework or tool extensively utilized to analyze and monitor the macro environment. A PESTEL analysis assesses Political, Economic, Social, Technological, Environmental and Legal factors.

02. SCOPE OF THE ASSIGNMENT

The aim of this PESTEL analysis is to derive actionable insights and strategic recommendations that will guide the PRO-INFO program in Sri Lanka.

03. ABOUT PRO-INFO

The Promoting Positive Information (PRO-INFO) activity, funded by USAID-Sri Lanka through the Civil Society and Media Strengthening Together and Advancing in New Directions (CSM-STAND) mechanism, is implemented by IREX to support the transition of information and media environment in Sri Lanka to one that is more democratic and responsive to its citizens.

04. METHODOLOGY

The consultant has relied primarily on secondary data sources given the nature of the research. A mixed-methodology approach was employed to gather and analyze both quantitative and qualitative data, ensuring a comprehensive analysis.

05. The Political Environment

Local Council Elections were postponed indefinitely in 2023 based on lack of funds, which drew criticism from opposition parties.

The Presidential election is scheduled to be held in 2024. The National People's Power (NPP) candidate, Anura Kumara Dissanayake maintains a lead in presidential election voting preferences as per surveys.

There is a severe under-representation of women in politics.



Sri Lanka gained independence from the British Empire in 1948. The country's constitutional history dates back to the colonial period of British rule, with the Soulbury Constitution of 1946/47; a republican constitution replaced it in 1972. The present Constitution, which is formally known as the Constitution of the Democratic Socialist Republic of Sri Lanka, was introduced in 1978. In the 46 years since it was adopted, 21 amendments have been introduced to the Constitution, demonstrating a significant lack of consistency and predictability in Sri Lanka's political environment. By comparison, the United States has introduced 27 amendments to its Constitution since it was adopted 235 years ago.

Table 01: Recent Constitutional Amendments in Sri Lanka

Year	Amendment	Description
2001	17th Amendment	Establishment of the Constitutional Council of Sri Lanka and independent commissions
2010	18th Amendment	Removal of the clause limiting the re-election of the president to a maximum of two terms and the repeal of some progressive initiatives proposed under the 17th amendment
2015	19th Amendment	Annulment of the 18th Amendment and reinstatement of the 17th Amendment to establish independent commissions, limit executive presidential powers and limit the term of office of the president to five years.
2020	20th Amendment	Repeal of the 19th Amendment.
2022	21st Amendment	Annulment of the 20th Amendment and restoration of independent commissions.

Table 01 above highlights the instability of the political environment in Sri Lanka, where amendments to the Constitution have become common with a change of the ruling party.

Sri Lanka operates under a multi-party-political system. The President serves as head of both state and government. Executive power is exercised by the president. The Cabinet of Ministers is appointed by the president, consists of 225 members: 196 elected from 22 electoral districts and 29 from a national list allocated to parties based on their share of the national vote.

There are provincial councils for all nine provinces in Sri Lanka, created by the 13th amendment to the Constitution of Sri Lanka in 1987, as a major step in the devolution of power, to resolve ethnic conflict between majority Sinhalese and minorities. However, there is strong criticism that provincial councils have become white elephants, wasting public funds without serving any real purpose.

Local councils are the third and lowest level of government in Sri Lanka, after the central government and provincial councils. There are 341 local authorities (24 municipal councils, 41 urban councils, and 276 divisional councils).

Over the past few decades, the multi-party-political system has been dominated by the Freedom Party and the United National Party (UNP). However, the influence of the two parties has diminished significantly in the recent past. Sri Lanka Podujana Peramuna (SLPP), which was established after the defeat of the Rajapaksha regime in 2015, currently holds a majority of seats in the Parliament. The Samagi Jana Balawegaya, headed by the leader of the Opposition Sajith Premadasa, is a breakaway group of the UNP. The People's Liberation Front (Janatha Vimukthi Peramuna), which was involved in two armed uprisings, in 1971 and 1988/89, has representation in the Parliament since 1994. There are also a few political parties that represent ethnic minorities in the Parliament such as the Tamil National Alliance and Sri Lanka Muslim Congress.

The Governance Diagnostic Assessment (2023), conducted by the IMF last year at the request of the Government of Sri Lanka pointed out the rampant corruption in Sri Lanka and governance weaknesses. "The GDA revealed systematic and severe governance weaknesses and corruption vulnerabilities across state functions, with particular macroeconomic impact in budget credibility; expenditure control; public investment management and control of spending; public procurement; management and oversight of State-Owned Enterprises (SOEs); transparency of revenue policy and the integrity of revenue administration; the governance and legal frameworks of the Central Bank; the application of financial sector regulations; and clarity and security of land ownership" (IMF Governance Diagnostic Assessment on Sri Lanka, 2023).



**POWER TENDS TO CORRUPT,
AND ABSOLUTE POWER
CORRUPTS ABSOLUTELY**

Lord John Emerich Edward Dalberg-Acton

The aforesaid Governance Diagnostic Assessment report emphasized that corruption is one of the major issues in Sri Lanka that impede the development process. Corruption is often linked to weaknesses in the governance structures. Bribery and corruption have become a part of political culture. From the political economic perspective, “crony capitalism” is in practice on the island where individuals and businesses with political connections and influence are favored (e.g. tax breaks, an undue advantage in public procurement, etc.) suppressing open competition in a free market.

There is a notable lack of women’s representation in Sri Lanka. For example, the most recent parliamentary elections in 2020 resulted in women receiving just over 5% of parliamentary seats (12 of 225 are women, none of whom were Tamil or Muslim). The country ranks among the lowest in the world for the percentage of women in national legislatures. In a progressive move, an amendment to the Local Authorities Elections Ordinance in 2017 allocated a 25% quota for women in local authorities. However, for parliamentary and provincial council elections, there is no mandatory quota for women as of now.

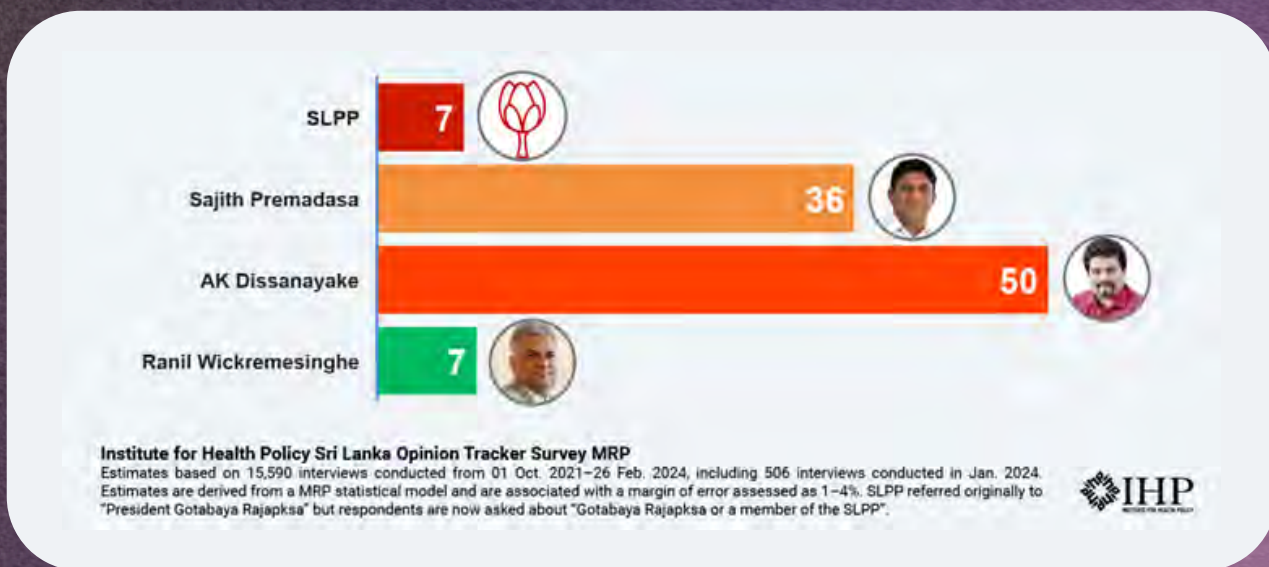
Along with the economic crisis, Sri Lanka recently experienced political turmoil. Gotabaya Rajapaksa, brother of former president Mahinda Rajapaksa, won the presidential election in 2019 representing the Sri Lanka Podujana Peramuna (SLPP). However, his tenure was marked by notable policy missteps, such as an abrupt ban on chemical fertilizer imports intended to promote organic agriculture, and significant tax cuts in 2019, which depleted government revenues and triggered an economic crisis. This led to widespread protests in 2022, culminating in Gotabaya Rajapaksa’s resignation. Parliament then selected Prime Minister Ranil Wickremesinghe as President with SLPP support. Political analysts argue that the current Parliament does not reflect public opinion, as support for the SLPP has significantly declined since the 2020 general election.



Local council elections have not been held in Sri Lanka since 2018. Elections were originally scheduled for 2022 but were postponed until 2023 due to the worsening economic crisis and instability in the country. However, the local council elections scheduled for 25th April 2023 were postponed indefinitely due to a lack of funds (The Hindu, 2023). Media reports indicate that it was the fear of a crushing defeat that motivated the present government to delay the local council elections (The Diplomat, 2023).

The presidential elections are slated for 2024, amid concerns that the government may attempt to postpone them as was done with the local council elections in 2023. However, Article 31 of the Constitution indicates that “the poll for the election of the President shall be taken not less than one month and not more than two months before the expiration of the term of office of the President in office”. This would mean that, according to the Constitution, the presidential poll must take place before October 15, 2024. Political analysts also speculate that the government might prioritize parliamentary elections over the presidential election. Currently, the National People's Power (NPP), led by the JVP, is gaining popularity.

Graph 01: Survey on Presidential Election Voting Intentions – February 2024



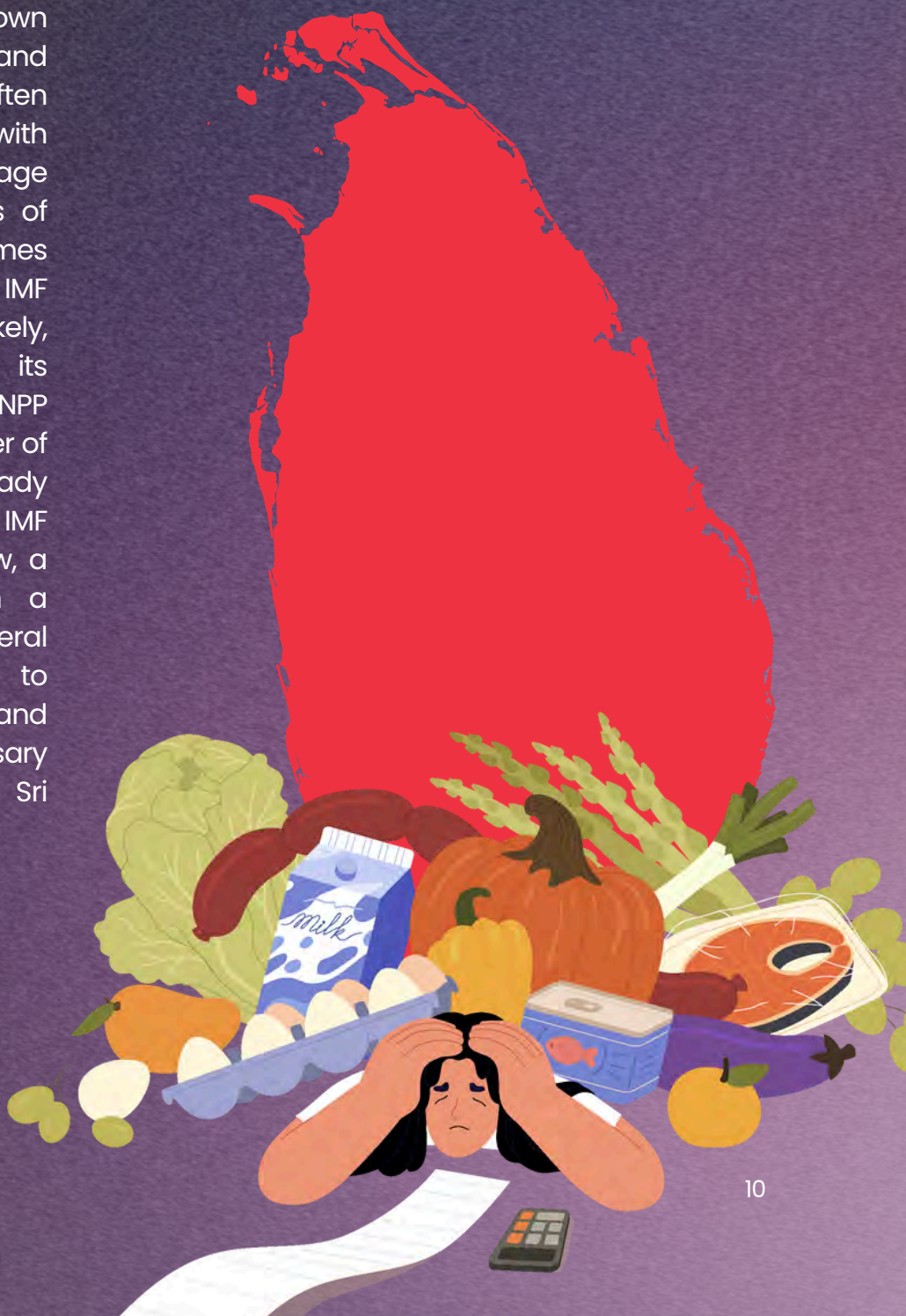
As illustrated in Graph 01, the NPP presidential candidate, Anura Kumara Dissanayake seems to be maintaining a lead in presidential election voting preferences.

Geo-political factors play a crucial role in the political environment of Sri Lanka. The Mahinda Rajapaksa regime (2005–15) enjoyed a close relationship with China, which is Sri Lanka’s largest bilateral creditor. India, as the regional superpower, has immense influence on the political environment of Sri Lanka. In a surprising move, India invited NPP leader Anura Kumara Dissanayake for a state visit in February 2024, showing that India is mindful of the growing popularity of the NPP in Sri Lanka.

This was the first time India had invited a political leader who was not even a Cabinet minister or opposition leader for a state visit. Both India and China have vested interests in Sri Lanka and in any upcoming election, their position could be a critical factor.

There are instances where misinformation has created an adverse impact on geopolitical relationships. For example, in 2019, the Millennium Challenge Corporation (MCC) decided to provide a USD 480 million grant for Sri Lanka. However, the MCC grant was embroiled in a debate, with the Government portraying it as something beneficial whilst the opposition raised security concerns which left the common Sri Lankan citizen utterly confused (Daily Mirror, 2019). Finally, in 2020, the Millennium Challenge Corporation (MCC) terminated the grant agreement.

Past decades have shown that policy manifestos and campaign promises often turn into mere rhetoric, with only a small percentage being fulfilled. Regardless of the party that assumes power, deviation from the IMF bailout program is unlikely, though negotiation of its terms may occur. The NPP leader as well as the leader of the opposition have already met with the IMF representatives. As of now, a political leadership with a mandate from the general public is essential to implement the political and economic reforms necessary to achieve prosperity for Sri Lanka.



05. Economic Environment

- Sri Lanka is experiencing the worst economic crisis in its history.
- The domestic debt restructuring has been completed and international debt restructuring negotiations are ongoing.
- The success of international debt restructuring is a key factor for the economic recovery.

Sri Lanka is experiencing its most severe economic crisis since gaining independence. The COVID-19 outbreak exacerbated the macroeconomic weakness of Sri Lanka's economy: the nation has grappled with twin deficits – trade and fiscal – for decades, leading to an accumulation of debt, including foreign debts. The current crisis is rooted in short-sighted policy

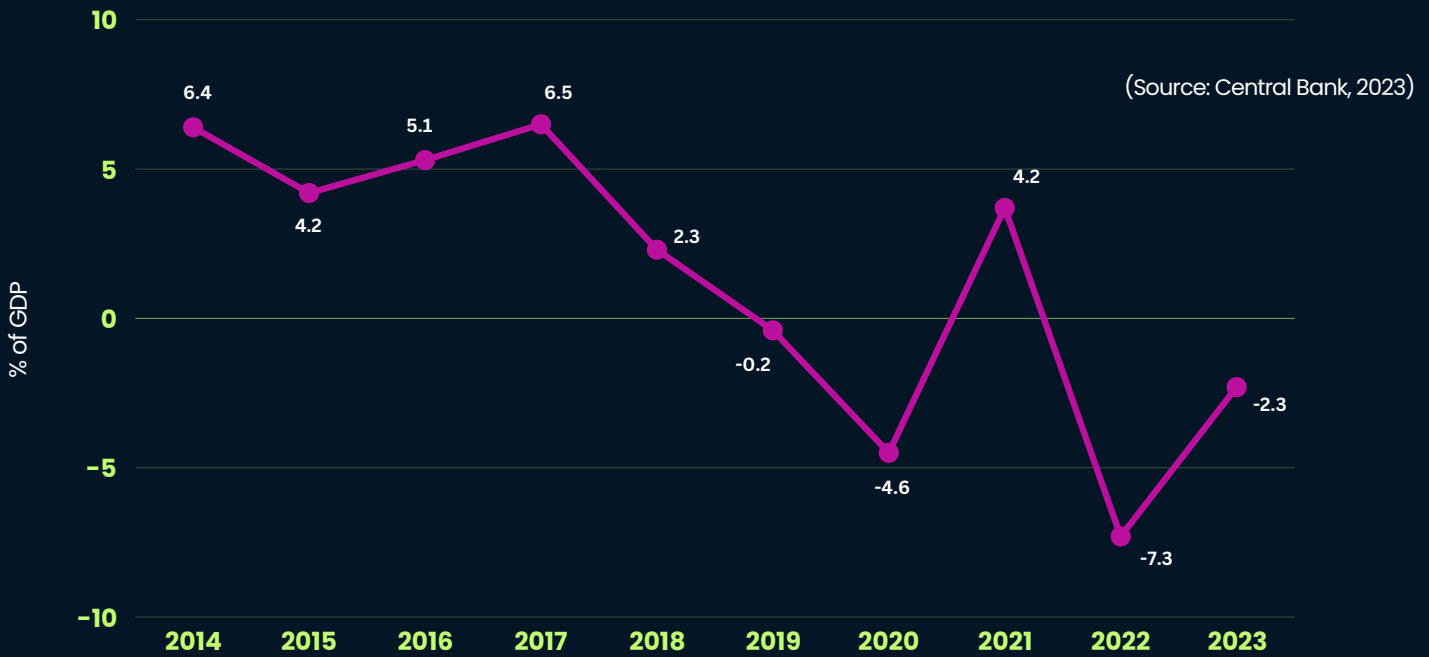
decisions such as tax cuts in 2019 that triggered a sovereign rating downgrade; an abrupt ban on chemical fertilizer; delays in seeking an IMF bailout and debt restructuring; the printing of large quantities of currency following the modern monetary theory;¹ and borrowings for unproductive projects (e.g.: Mattala Rajapaksa International Airport and Magam Ruhunupura International Convention Centre), particularly in infrastructure development.

In April 2022, Sri Lanka announced the suspension of foreign debt servicing amid dwindling foreign reserves. The country appointed France-based Lazard as its financial advisor and Clifford Chance LLP as its legal advisor to support debt restructuring efforts. The graph below illustrates Sri Lanka's GDP growth from 2014 to 2023.



1. Modern Monetary Theory (MMT) describes Government should not rely only on taxes or borrowings for spending since the Government can print as much money as it needs as the monopoly issuers of the currency.

Graph 02: GDP growth in Sri Lanka



According to the World Bank (2023), between 2021 and 2022 the poverty rate in Sri Lanka doubled, from 13.1% to 25.6% (USD 3.65 per capita, 2017 PPP),² increasing the number of poor people by 2.7 million.

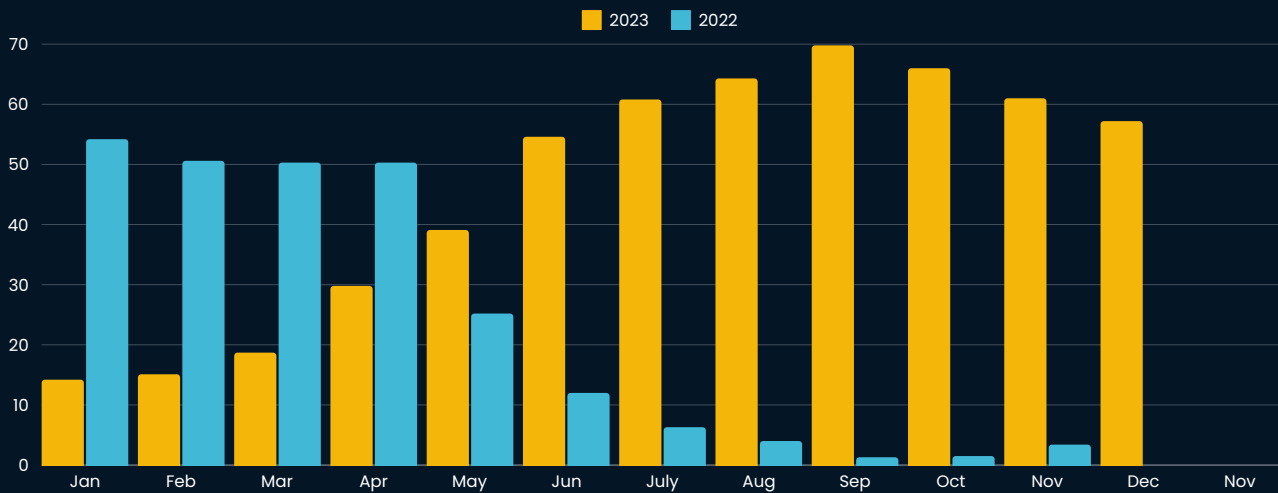
The COVID-19 pandemic had already increased the poverty rate from 11.3% in 2019 to 12.7% in 2020, a change that translated to over 300,000 new poor people that year. The country is now experiencing its highest poverty rate since 2009, and an erosion of the steady gains in welfare made between 2006 and 2019. While 80% of the poor still live in rural areas, the poverty rate in urban areas has tripled, from 5% to 15% between 2021 and 2022, and half the population in estate areas is now living below the poverty line. Across districts, Mullaitivu continues to be the poorest (57% poverty rate in 2022), followed by Kilinochchi and Nuwara Eliya. Despite the high level of literacy in Sri Lanka, financial literacy remained at only 35%, which poses a significant challenge to alleviating poverty.³

2. PPP stand for Purchasing Power Parity. PPP compares economic growth and standards of living in different countries with a common currency/basket of goods approach.

3. Financial literacy is defined as the combination of knowledge, attitude, and behavior necessary to make informed financial decisions and achieve financial well-being by the Central Bank of Sri Lanka.

Unprecedentedly high inflation, as illustrated in graph 03 below, has adversely affected the real incomes, food security and living standards of the entire country.

Graph 03: Inflation as measured by Colombo Consumer Price Index

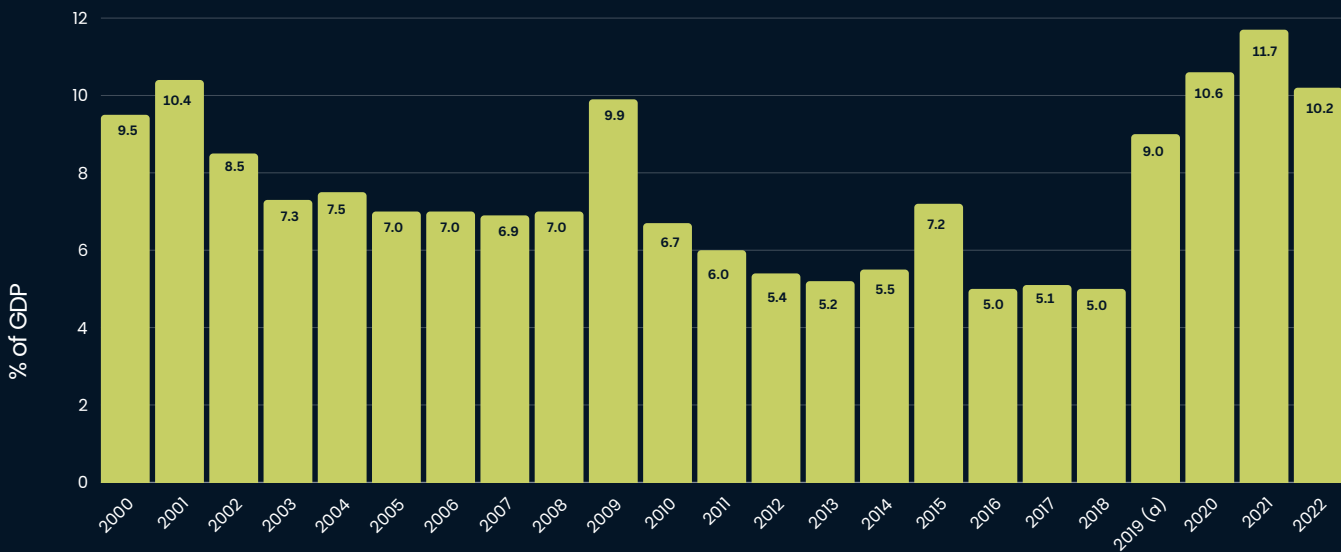


(Source: DCS, 2023a)



Graph 04 illustrates Sri Lanka's fiscal deficit. The global benchmark is that the fiscal deficit should be less than 5% of GDP. However, the graph clearly shows that successive Governments in Sri Lanka have not been able to keep fiscal deficit below 5% during the 2020 - 2022 period.

Graph 04: Fiscal Deficit in Sri Lanka



Source: Ministry of Finance, Economic Stabilization and National Policies, 2024a

(a) According to the Ministry of Finance, the fiscal sector statistics of 2019 have been restated as announced in the Budget Speech for 2020

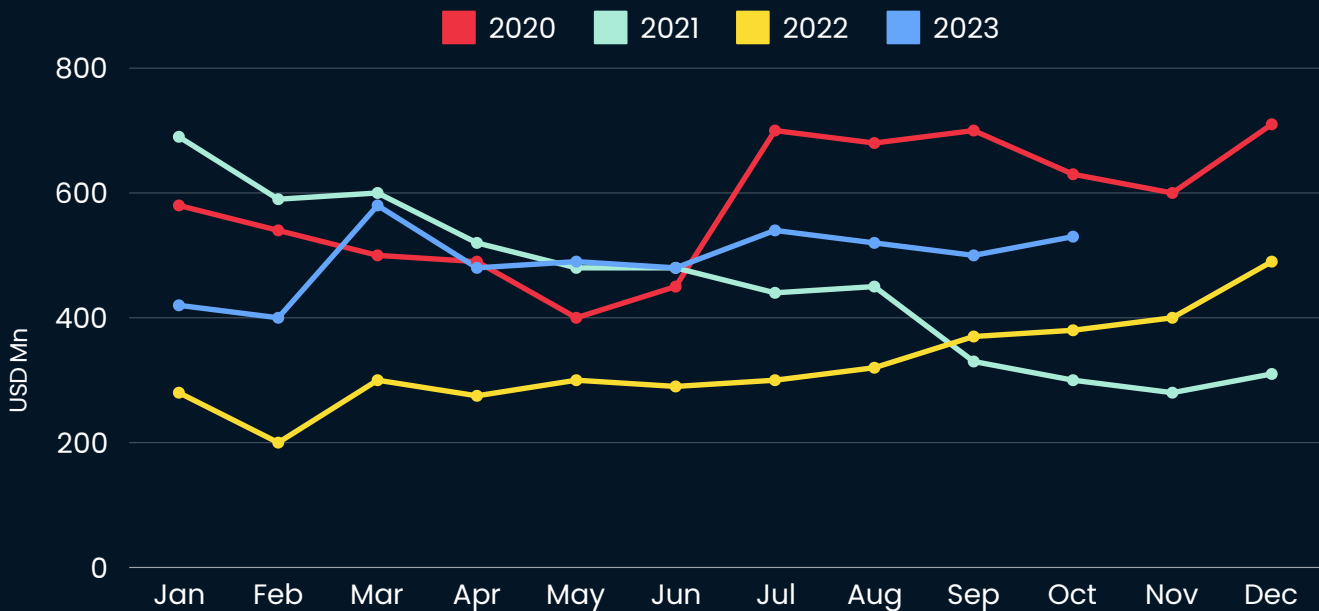
(b) Provisional

Considering the recent increase in taxes, it appears that the Government has focused solely on increasing its revenue without taking adequate measures to cut down expenditure. Recent tax reforms such as an increase of corporate income tax to 30%, applying the same rate to exporters, and a significant increase in personal income tax, have met with strong criticism. It is questionable whether the aforesaid increase in taxes is going to serve any purpose, if the Government is not taking initiatives to restructure loss-making State-Owned Enterprises (SOEs) such as the Railway Department, CTB, CEB etc.

As pointed out by the Advocata Institute (2019), State Owned Enterprises (SOEs) play a significant role in the country's economy and are present in key sectors including ports, energy, banking, insurance and water. Out of 527 SOEs, financial information was available for only 55 (Advocata Institute, 2019). The combined losses among the loss-making entities reached Rs.87 billion in 2017 compared to Rs.42 billion in 2016 (Advocata Institute, 2019).

On a positive note, the two main sources of foreign exchange for Sri Lanka, aside from exports -- workers' remittances and earnings from tourism -- are showing signs of recovery.

Graph 05: Workers' remittances

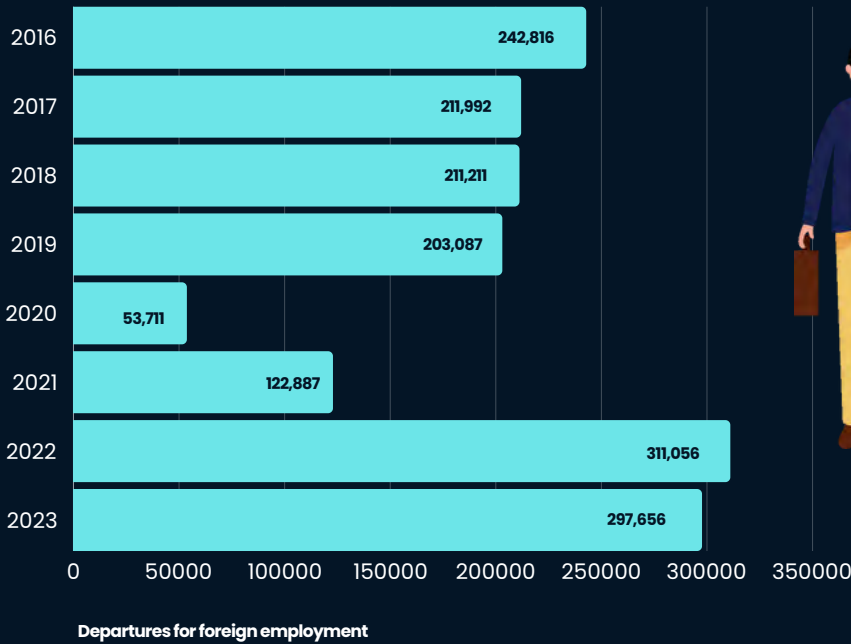


(Source: Central Bank, 2023b)

Migration for employment has increased in 2022 and 2023 with the removal of travel restrictions as illustrated in Table 2. Generally, the majority of migrant workers from Sri Lanka are employed in the Middle East, although South Korea, Romania, Maldives, etc. are also emerging as destinations for those seeking foreign employment. According to the Sri Lanka Bureau of Foreign Employment (2024), only around 10% of migrant workers are engaged in professional employment, while the majority are unskilled labor.



Table 2: Foreign employment placements – Sri Lanka



Source: Sri Lanka Bureau of Foreign Employment, 2024

Other than the traditional labor migration as explained above, there has been a mass exodus of permanent migrants from Sri Lanka with the outbreak of the economic crisis in 2022. Unlike labor migrants, permanent migrants are often professionals such as doctors, university lecturers, software engineers, etc. This “brain drain” poses a serious challenge to the economy, as it creates a shortage of much-needed skills. For example, Sri Lanka’s health sector is in crisis: in 2022 alone, over 700 doctors emigrated, including 125 specialists (Nikkei Asia, 2023). Nearly 875,000 passports have been issued in 2022, which is an all-time high (Daily FT, 2023).

Middle-class Sri Lankans are fleeing their country

The Economist

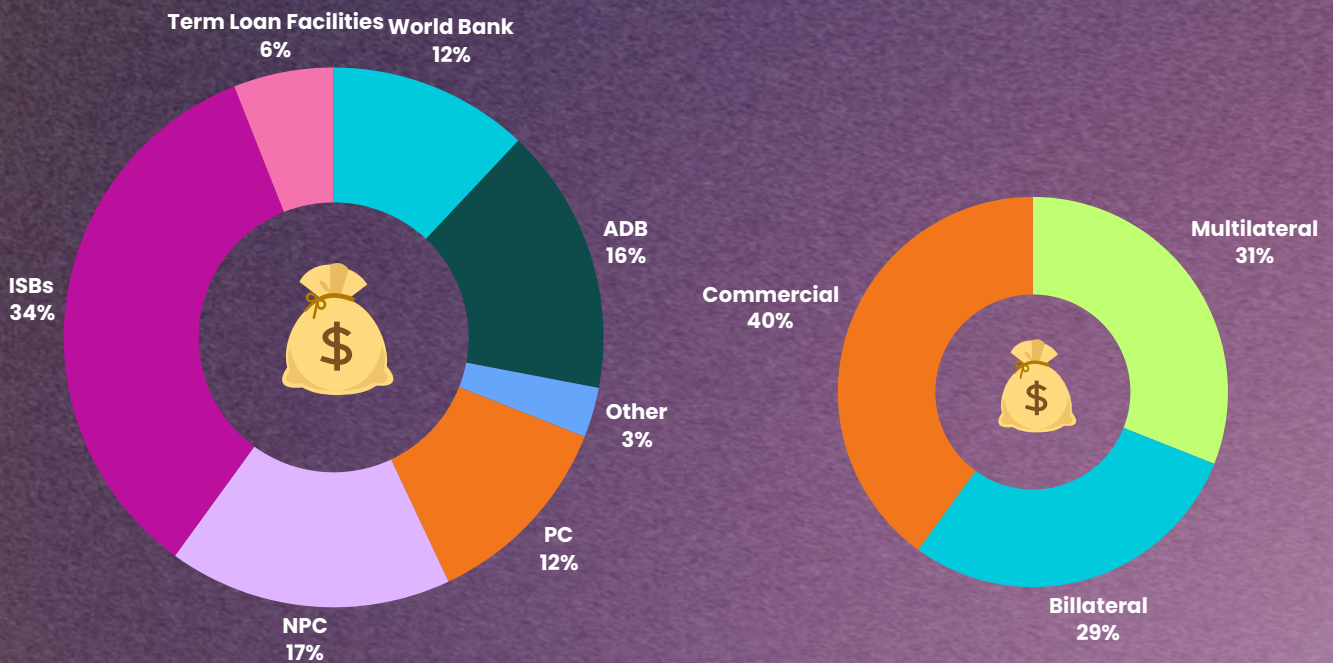
Table 3: Key statistics on the debt position of Sri Lanka as % of GDP

No	Description	2019	2020	2021	2022
1	Central Government Domestic Debt	42.9	57.8	63.1	62.2
2	Central Government Foreign Debt	39.0	38.7	37.0	51.6
3	Central Government debt total (1 +2)	81.9	96.5	100.1	113.8

Source: CBSL, 2023a

As illustrated in Table 03 above, Central Government Debt has increased up to 113.8% of the GDP at the end of 2022.

Graph 06: Composition of Central Government External Debt – December 2023



Source: Ministry of Finance, 2024b

The Paris Club (PC) – Japan, France, Korea, Germany, USA, Spain, Russia, Sweden, Australia, Canada, Austria, UK, Belgium, Denmark, Netherlands. Non-Paris Club (NPC) – China, India, Saudi Arabia, Kuwait, Hungary.

As previously mentioned, Sri Lanka appointed France-based Lazard as financial advisor and Clifford Chance LLP as legal advisor to support the country on debt restructuring. The Paris Club had agreed in principle to restructure Sri Lanka's debt. However, restructuring financial market borrowings (ISBs⁴ and term loans), which account for 40% of total external debt, poses significant challenges. The ISB holders have formed a group with White & Case and Rothschild as legal and financial advisors. The bondholders recently proposed a 20% "haircut" and the issuance of macro-linked bonds, which was rejected by the Government of Sri Lanka. Other than dealing with bondholders, negotiations with non-Paris club countries, including China, are also proving to be challenging.

Debt restructuring is inherently a zero-sum game, where one person's gain is the other's loss. The Paris Club's principle of comparability of treatment stipulates that a "debtor country that signs an agreement with its Paris Club creditors should not accept from its non-Paris Club commercial and bilateral creditors terms of treatment of its debt less favorable to the debtor than those agreed with the Paris Club".

4. ISB stands for International Sovereign Bonds. ISB is a debt security issued by a national Government to raise money for its operations, pay down old debt, pay interest on current debt, and for any other government spending needs. A term loan is a loan from a bank or any other financial institution for a specific amount that has a specified repayment schedule and a fixed or floating interest rate.



Accordingly, foreign debt restructuring is a very complex and time-consuming process. Despite these challenges, Sri Lanka successfully completed its domestic debt restructuring in the middle of 2023, excluding banks' holdings of rupee-denominated government securities to protect the banking sector's stability, already strained by an increase in Non-Performing Loans (NPLs). However, restructuring of Government securities held by Employee Provident Fund (EPF) was criticized by many parties including trade unions, because as part of domestic debt restructuring the government reduced the interest rates payable on government securities held by the EPF. Nevertheless, a positive factor is that domestic debt restructuring has been completed, allowing the Government to fully focus on foreign debt restructuring.

After a notable delay in reaching out to the IMF, the Government of Sri Lanka secured an IMF bailout package in mid-2022. Yet delays in implementing the recommended reforms in the IMF bailout program persist. The World Bank (2023) suggests that the reform process may provoke resistance and backlash from affected groups. Nevertheless, it is essential for the country to persist with the reforms, carefully navigating political and social pressures and minimizing the impact on the poorest and most vulnerable populations.

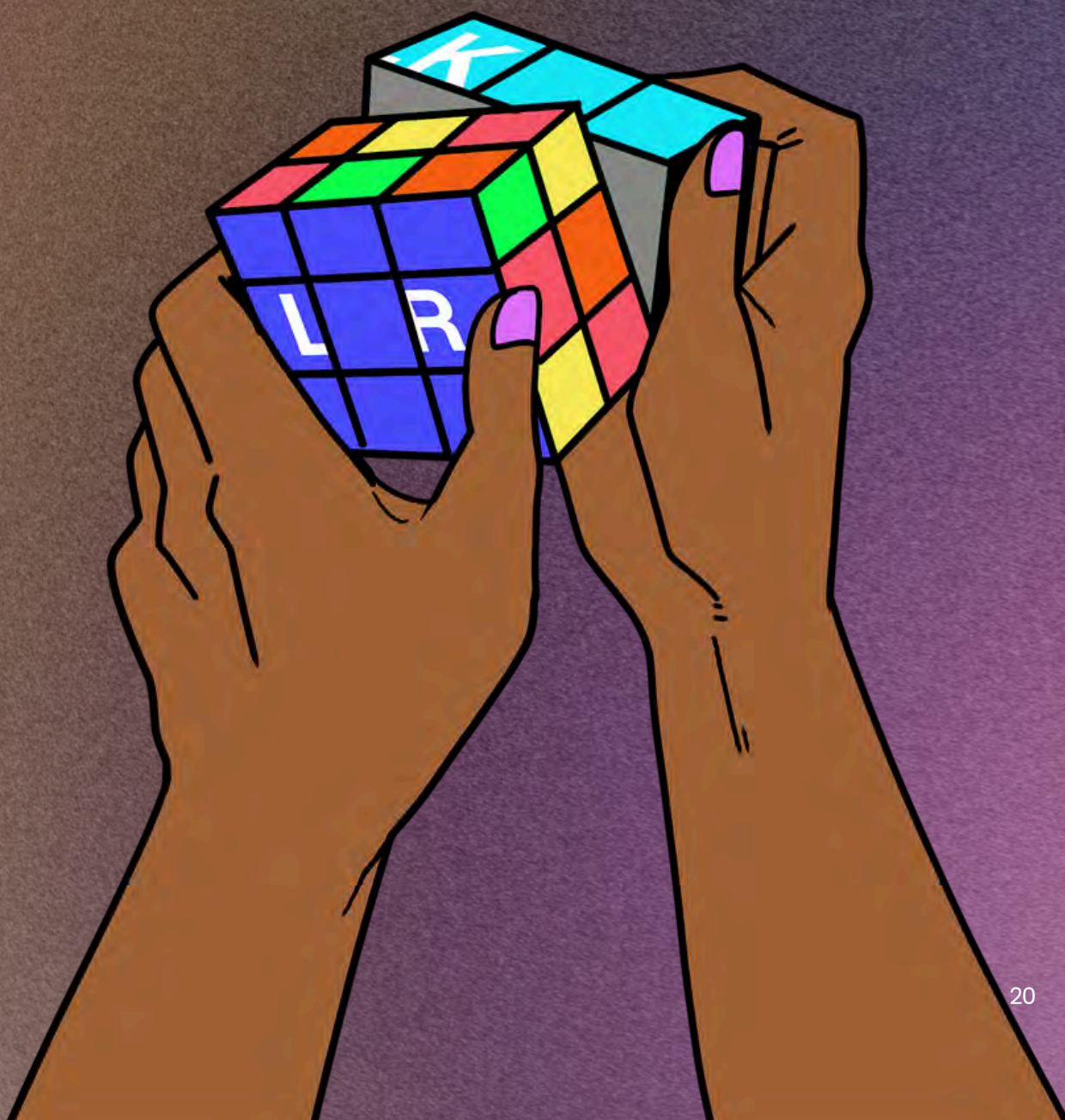
Since the beginning of 2023, the forex shortage has eased, and the Government has managed to provide uninterrupted power supply. A recent IMF mission statement noted tentative signs of stabilization in Sri Lanka's economy. However, despite signs of economic recovery, Sri Lanka's macroeconomic vulnerability remains high (World Bank, 2023).



⁵ The Average Weighted Prime Lending Rate (AWPLR) decreased to around 11% compared to 25% - 27% during the corresponding period of the previous year, which would encourage borrowing and the resumption of economic activities. Inflation also has gradually declined from its peak of 70% in September 2022. At the time of writing this report (April 2024), the rupee had appreciated significantly against the USD. Considering the volatility of the present economic

environment, it is quite difficult to predict behavior on the macro-economic variables in the medium and long term. With the revived USD inflow from tourism and workers' remittances and ban on vehicle imports that in turn save USD outflow, the rupee is likely to appreciate in 2024. However, delay in the international debt restructuring, which is due to be completed by June 2024, would lead to depreciation of the rupee due to speculations in the foreign exchange market. Relaxation of the ban on vehicle imports is also likely to cause a depreciation of the rupee.

Considering the anticipated fiscal deficit of 9.1% of GDP in 2024, it is likely that interest rates will also increase during the second half of the year. The success of foreign debt restructuring is a decisive factor for Sri Lanka's economic prosperity. Without significant relief on foreign debt, achieving debt sustainability and avoiding recurring restructuring episodes similar to Argentina's situation will be challenging. Therefore, the timely and successful completion of foreign debt restructuring, alongside structural economic adjustments, is vital for Sri Lanka's economic development.



06: Social Environment

- An aging population poses serious challenges to Sri Lanka's socio-economic development.
- Women's participation in the labor force remains low.
- Disparity of income distribution is a key factor in the widening gap between social groups.

According to the 2012 Census, the population of Sri Lanka is around 22 million, of which 74.9% are Sinhalese, 11.1% are Tamil, 4.1% are Indian Tamil and 9.3% are Muslim. Buddhists account for 70.2% of the population, Hindus 12.6%, Muslims 9.7% and Christians 7.6%. Sri Lanka ranks highest in the Human Development Index (HDI) among South Asian countries, scoring 0.782. Life expectancy in Sri Lanka is 77.1 years, and the country records one of the highest literacy rates (93.3%) in the region.

Table 4: Population by sector

Sector	%
Urban	18.2
Rural	77.4
East	4.4

Source: CBSL, 2023

Table 5: Population by Age groups

Age group	%
0 - 14	25.2
15 - 59	62.4
60 & above	12.4

Source: CBSL, 2023



According to Table 04 above, the majority of the population live in rural areas. As illustrated in Table 05, 12.4% of the population is over 60 years old. The World Bank (2021) notes that Sri Lanka has the highest proportion of older adults in South Asia. Various research suggests that the percentage of Sri Lankans above the age of 60 is likely to increase to 22% by the year 2037. Considering recent migration trends, population aging may be a more serious issue than previous estimates.

In Sri Lanka, there are several marginalized social groups. The estate community is a typical example, where many estate workers live in abject poverty. The LGBTQIA+ community can also be considered as marginalized. Although caste-based discrimination was common several decades back, caste-based discrimination is presently on the decline.

Disparity of income distribution is one of the main reasons for the widening gap between social groups. Slightly over 50% of the country's GDP is enjoyed by the richest 20%, while the bottom decile (poorest 20%) gets only 5%, with the share of household income being just 1.6% for the poorest 10% (Department of Census, 2019). Although there is no credible data as yet, the

outbreak of the COVID-19 pandemic and the subsequent economic crisis is estimated to have aggravated the disparity of income distribution, widening the social gap.

In Sri Lanka, economically active women as reflected by labor force participation remained as low as 32.1% (Department of Census and Statistics, 2023b).

Table 7: Labour force participation rate in Sri Lanka by gender

Year	Male	Female	Total
2013	74.9	35.4	53.7
2014	74.6	34.6	53.2
2015	74.7	35.9	53.8
2016	75.1	35.9	53.8
2017	74.5	36.6	54.1
2018	73.0	33.6	51.8
2019	73.0	34.5	52.3
2020	71.9	32.0	50.6
2021	71.0	31.8	49.9
2022	70.5	32.1	49.8



Source: Department of Census, 2023b

The media's portrayal of women has long been a subject of scholarly inquiry. A media survey conducted in 2023 found negative emphasis on women's employment in the media and information space, and an exaggeration of women's physical appearance in news reporting, leading to the objectification of women and a reduction of their value to superficial characteristics, disregarding their expertise, skills, and contributions. A study by IREX (2023), on the gendered dimensions of Sri Lankan media, showed that most media outlets lack comprehensive and accessible sexual harassment policies, as well as formal and confidential reporting mechanisms for incidents of harassment and misconduct in the workplace.

Many researchers are puzzled by the low levels of women's participation in the labor force, which is not consistent with their high levels of educational attainment. According to ILO (2016) the reasons for women's low labor force participation include a disproportionate burden of household work, lack of transport and harassment in public transport, lack of childcare facilities, lack of employment opportunities due to slow economic growth even before the economic crisis, reluctance of employers to hire women in certain cases as they are bound to provide maternity leave etc.

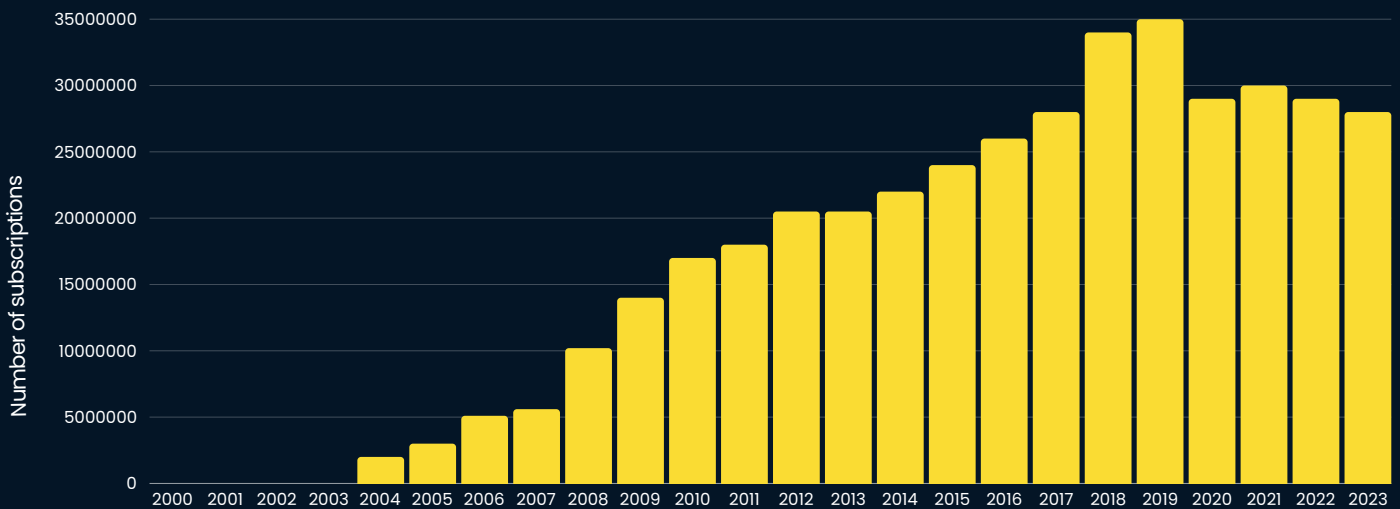


07: Technological Environment

- Despite the over 90% literacy rate, computer literacy remains low in Sri Lanka.
- Increase of VAT led to surge of prices of digital devices in Sri Lanka.
- The adaptation of blockchain and artificial intelligence in Sri Lanka is still at the preliminary level.

According to the UNCTAD (2021), Sri Lanka’s digital infrastructure facilities have been relatively well developed over the last two decades. Similar to many other countries, the number of mobile SIMs has surpassed the population, largely due to multiple SIM usage (UNCTAD, 2021). As illustrated in Graph 07, the number of mobile SIM usage is close to 27.5 million people, which exceeds the population of the island.

Graph 07: Mobile telephone subscriptions (2000 - 2023)



Source: TRCSL, 2024

Despite the increasing popularity of the internet, television remains the most commonly used medium in Sri Lanka (The Morning, 2021). However, the popularity of social media platforms and news websites is on the rise. One notable fact is that computer literacy in Sri Lanka is low, as illustrated in the Table 08 below.

Table 08: Computer literacy rate by Gender

Description	2021	2022	2023
Sri Lanka	35	35.7	39.5
Male	37	37.1	41.5
Female	33	34.3	37.8

There are 12.34 million internet users in Sri Lanka and 7.50 million social media users as of January 2024, equating to 34.2% of the total population (Datareportal, 2024). A survey by the Asia Pacific Institute of Digital Marketing in 2023 revealed that 90% of Sri Lankan internet users access news and information through Facebook, while 85% use YouTube. These percentages are higher than those for traditional news sources such as TV (74%), radio (34%), and newspapers (24%) [Source: OOSGA, 2023].



Facebook plays a crucial role in social engagement among citizens. There have been several instances where Facebook was blocked in Sri Lanka. In 2018, the Sri Lankan Government temporarily blocked Facebook, Instagram, WhatsApp, and Viber in an attempt to mitigate ethnic tensions within the country. In 2022, major social media platforms were blocked again when the government declared a state of emergency and imposed curfews to counter widespread protests over the economic crisis.

The VAT percentage in Sri Lanka was increased to 18% from January 1st, 2024. This has led to an increase in prices of digital devices including mobile phones. The ICT & Business Process Outsourcing (BPO) export sector is one of the main sources of foreign exchange in Sri Lanka, accounting for nearly USD 1.5 billion per annum. However, ICT & BPO sector companies have recently been subjected to a 30% corporate income tax, which poses a threat to growth of the industry.

The use of digital currencies is becoming popular around the world. As per the Central Bank directions No. 03 of 2021 under Foreign Exchange Act No. 12 of 2017, Electronic Fund Transfer Cards (EFTCs) such as debit cards and credit cards are not permitted for payments related to cryptocurrency transactions. However, recent media reports indicate that the Central Bank of Sri Lanka plans to introduce a Central Bank digital currency (CBDC) this year.

The adaptation of blockchain technology is also becoming popular across industries in Sri Lanka, though it is still at the preliminary phase. The Central Bank of Sri Lanka has commenced the process of developing a blockchain technology based “Know-Your-customer”. Another example is that Sri Lanka is in the process of implementing TradeLens, a blockchain-enabled digital platform that facilitates the tracking and planning of shipping containers and related documents in the global supply chain.

Use of artificial intelligence (AI) is also becoming increasingly popular in Sri Lanka. For example, ChatGPT is widely used by different parties, including students, researchers, the business community, and creative industry practitioners.



6. Know Your Customer (KYC) check is the mandatory process of identifying and verifying the client's identity when opening an account and periodically over time.

AI has been recognized as a catalyst of the fourth industrial revolution. Typical AI applications in some of main sectors in Sri Lanka can be listed as follows:



Health

disease identification, medication management etc.



Finance

fraud detection, analysis of customer spending patterns etc.



Agriculture

plant disease identification, agriculture with IoT devices etc.



Education

Assessments, learning management systems etc.



Logistics and Transportation

data analysis, supply chain management etc.



Retail and E-commerce

demand predictions, delivery monitoring etc

7. IoT devices are pieces of hardware, such as sensors, actuators, gadgets, appliances, or machines, that are programmed for certain applications and can transmit data over the internet or other networks.

Sri Lanka Association of Software and Services Companies (SLASSCOM) which is the leading industry body of the ICT sector, has played a pioneering role in promoting artificial intelligence (AI) in Sri Lanka by formulating a draft policy framework.

08. Environmental Factors (Natural Environment)

- Sri Lanka is one of the most climate-vulnerable countries in the world.
- Sri Lanka is experiencing multiple environmental challenges such as deforestation, air pollution, water pollution, waste management etc.
- The fire that erupted on the MV X-Press Pearl caused a major marine ecological disaster in Sri Lanka.

Environmental issues in Sri Lanka include deforestation, the degradation of mangroves and coral reefs, the deterioration of soil conditions etc. Air and water pollution are also causing negative health impacts. Inadequate waste management contributes to environmental pollution. An estimated 70% of the island was covered with forests at the beginning of the 19th century, which has since declined to 29.7% (1.95 million hectares) in 2017 and further reduced to 28.39% (1.86 million hectares) of the entire land area in 2020 (Institute of Policy Studies, 2021).

Sri Lanka faces challenges in waste collection and disposal. Waste generation has increased due to population growth, industrialization, urbanization, and increased consumption. The local authorities lack the capacity to manage large volumes of waste. A classic example of local authorities' inability to handle waste is the collapse of Bloemendal garbage dump site in 2017 killing 26 citizens.

The MV X-Press Pearl, a container ship carrying hazardous chemicals that caught fire off the coast of Sri Lanka in May 2021, has been identified as the country's major marine ecological disaster. The Marine Environment Protection Authority (MEPA) reported an oil slick of an approximate area of 0.51 km² with a length of 4.3 km around the wreck. The ship's cargo included plastic pellets which washed up on the shore, causing damage to the country's marine ecosystem.

Being an island country, Sri Lanka is also vulnerable to climate change impacts. Sri Lanka is one of the most climate-vulnerable countries in the world, ranking 4th, 2nd, and 6th places on the Global Climate Vulnerability Index in 2018, 2019 and 2020 respectively (Daily News, 2022). In addition to rising sea levels, Sri Lanka also experiences irregular rain patterns and high temperatures, which can also be viewed as extreme weather conditions. Industrialization and population growth are the main reasons for these environmental issues.

8. <https://time.com/4741892/colombo-garbage-dump-collapse-sri-lanka/>

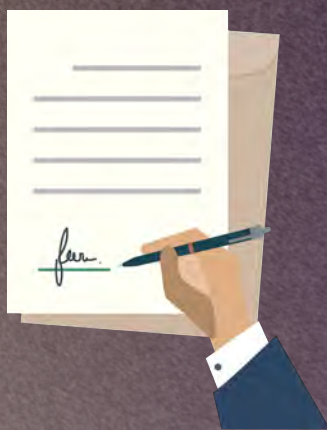
09. Legal Environment

- Barriers and uncertainty in the legal environment impede the socio-economic development of the country.
- Online Safety Act, No. 9 of 2024 was passed in the Parliament despite opposition from various parties.
- The Anti-Terrorism Bill and Broadcasting Bill are scheduled to be presented in the Parliament.

As pointed out in the section on the political environment, in a country where amendments to the Constitution have become commonplace with a change in Government, the legal environment can be highly uncertain.

The IMF Governance Diagnostic Report (2023) indicates “systematic and severe governance weaknesses and corruption vulnerabilities across state functions, with particular macroeconomic impact in: budget credibility; expenditure control; public investment management and control of spending); public procurement; management and oversight of State-Owned Enterprises (SOEs); transparency of revenue policy and the integrity of revenue administration; the governance and legal frameworks of the Central Bank; the application of financial sector regulations; and clarity and security of land ownership and the integrity of the judicial sector”. The report further indicates, “corruption vulnerabilities are exacerbated by weak accountability institutions, including the commission to Investigate Allegations of Bribery and Corruption (CIABOC) that have neither the authority nor competency to successfully fulfill their functions”.

Barriers in the legal environment impede the development of the country. For example, the Advocata Institute (2020) pointed out that 45% of micro enterprises and 10% of small enterprises remain unregistered. Overall, in Sri Lanka, 42% of businesses remain unregistered due to complexity in the registration procedure. Archaic laws also impede the prosperity of Sri Lanka. For example, the customs law in Sri Lanka -- the customs ordinance no. 17 of 1869 -- is more than a century old.



It is noteworthy that Sri Lanka has been experiencing low criminal conviction rates: around 4% to 6% (Kodikara, 2014; Priyantha, 2020). The extremely low conviction rate is a major concern that poses a challenge to the country as it gives rise to a culture of impunity. To establish the rule of law, offenders should not be allowed to escape from the legal system. Improvement of investigation methodologies, technology and infrastructure is necessary to increase criminal conviction rates and ensure the rule of law.

Despite strong protest by multiple stakeholders, the Online Safety Act, No. 9 of 2024 was passed in Parliament with a simple majority. The Supreme Court had determined that 31 clauses in the proposed bill should be amended for it to be passed with a simple majority; otherwise, a special two-thirds majority was required for passage. Amnesty International Sri Lanka labeled the passing of the Online Safety Act as “a major blow to human rights in Sri Lanka.” (Daily FT, 2024). Before the bill’s passage, the Asia Internet Coalition (AIC), which consists of leading internet and technology companies such as Meta, Google, Apple, and Amazon, issued a statement that “refuted comments made by Public Security Minister in Parliament during the debate of the controversial Online Safety Bill, stressing that the alliance has not been privy to amendments made to the Bill” (Daily Mirror, 2024). Adding voice to the concerns expressed by local and international stakeholders, the US Ambassador in Sri Lanka, Julie Chung said “The United States remains concerned about the potential impact of Sri Lanka’s Online Safety Bill, which passed yesterday without incorporating important input from key stakeholders, including civil society and tech companies who say that this legislation threatens freedom of expression, innovation, and privacy” (EconomyNext, 2024). The Ambassador further points out that overly restrictive legislation impedes the growth of the digital economy, obstructing the country’s economic development.



The proposed Broadcasting Regulatory Commission (BRC) bill has sparked intense debates and disagreements among various stakeholders. Although the aforesaid Broadcasting Regulatory Commission was drafted in 2023, it is not yet presented in the Parliament amidst the protest by stakeholders. One of the main criticisms is the annual license renewal requirement, which critics claim will result in Sri Lanka's privately owned broadcast media being subservient to the Government the way state-run media has been for years. Opposition parties have raised concerns over how the Government can ensure the independence of the proposed Broadcasting Regulatory Commission, indicating that the proposed law could be utilized against television and radio stations that refused to toe the government line (The Island, 2023).

In February 2024, the Supreme Court conveyed to the Parliament that certain clauses in the Anti-Terrorism Bill are inconsistent with the Constitution. As per the Supreme Court's determination, "certain clauses would need to be passed by a special parliamentary majority in their current form, while some others would need to be passed both by a special parliamentary majority and by the people at a referendum" (Sunday Times, 2024).



10. Recommendations



Welfare of Journalists

- **Conduct Regular Salary Surveys:**
 - Implement regular (e.g., annual) salary surveys for journalists and other employment categories within the media sector.
 - These surveys are essential for both employers and employees to benchmark salaries accurately.
- **Address Grievances of Freelance Journalists and Area Correspondents:**
 - Investigate the issues faced by freelance journalists and area correspondents, who frequently report being underpaid by media institutions.
 - Understanding their grievances will help in addressing and resolving these issues.



Research

- **Provide Research Grants:**
 - Offer small grants to support research related to the media industry, such as the adaptation of Artificial Intelligence and advertising ethics in print and electronic media.
- **Study Advertising Ethics and Regulations:**
 - Conduct a study on the ethics and regulations of advertising in selected countries.
 - Explore the feasibility of implementing similar standards in Sri Lanka.





Empowerment of Journalists

- **Facilitate Training on the Press Council Code of Ethics:** Organize training sessions for journalists on the press council code of ethics to ensure ethical journalism practices
- **Enhance English Language Proficiency:** Provide opportunities for journalists to improve their English language skills, enabling them to stay updated on global current affairs and adopt international best practices.
- **Improve Journalism Courses:** Offer technical assistance to enhance the quality of courses conducted by the Sri Lanka College of Journalism.

General

- **Consider Economic Factors:**
 - Account for inflation and potential rupee appreciation when planning to disburse grants.
 - Be aware of the possibility of rupee depreciation, particularly in the context of vehicle import ban relaxation or delays in debt restructuring, as highlighted in the economic environment section.
- **Promote Media Literacy:** Initiate dialogues on how citizens can identify misinformation and distinguish accurate, unbiased information from misleading content.



9. Code of ethics can be accessed from <https://accountablejournalism.org/ethics-codes/Sri-Lanka-Press>
10. The three main programs of the college are: (a) one-year full time Diploma in Journalism, (b) mid-career courses for journalists already working in the industry (c) regular regional courses for provincial correspondents.

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