BORROWING TO EAT

THE IMPACT OF SRI LANKA'S ECONOMIC CRISIS ON COLOMBO'S WORKING CLASS POOR

COLOMBO URBAN LAB

2023 | SEPTEMBER

POLICY BRIEF

Borrowing To Eat: The Impact of Sri Lanka's Economic Crisis on Colombo's Working Class Poor

INTRODUCTION

Colombo Urban Lab's third policy brief on the impact of Sri Lanka's economic crisis on Colombo's working class poor communities focusses on household debt and social security[1]. Our ongoing research with communities in Colombo show an increase in household debt as families struggle with competing expenses - food, utility bills, transport, education, health, livelihood. ***Poverty and vulnerability presents itself very differently in Colombo***, and while the streets of Colombo may look like it is back to normal, the crises faced by working class families tell a different story.

In April 2023 our policy brief detailed various coping strategies households were employing to make ends meet, such as cutting back on number of meals and nutrition, not sending children to school everyday, reducing electricity usage to a bare minimum, pawning jewellery and selling/mortgaging assets. This latest brief looks at borrowing money / taking multiple loans from informal credit markets in order to make ends meet - sometimes just to put food on the table. We also provide on update on the Aswesuma experience by highlighting the dangers of targeted support and asset based selection through case studies of households not selected for the new social security registry.

The Colombo Consumer Price Index (LKCCPI=ECI) (CCPI) reflected food inflation reaching a negative 4.8% in August, after hitting a negative 1.4% in July. Non-food inflation was 8.7%, the Census and Statistics Department said in a statement[2]. However, reports from rights groups across the country[3], as well as our own research in Colombo continues to indicate that availability of goods and shifts in inflation ***does not mean affordability or change in the quality of life for working class communities*** as they battle with severe debt and accumulated bills and payments. ***To put it simply, even if the prices of food were to come down to pre COVID-19 prices, families would still struggle to put three nutritious meals on the table.*** Women continue to shoulder the burden of household debt and care work, with increasing time poverty and sacrifices by

[1] The May 2022 policy brief focusses on recommendations for State support and interventions to support working class families in crisis and the April 2022 policy brief focusses on impact of increased utility tariffs on households and commentary on Aswesuma, the new social protection programme of the Government.
May 2022 - http://www.csf-asia.org/understanding-and-supporting-urban-poor-families-in-colombo-in-crisis/
April 2023 - http://www.csf-asia.org/breaking-point-impact-of-sri-lankas-economic-crisis-on-colombos-working-class-poor/

[2] https://www.reuters.com/markets/asia/sri-lankas-key-inflation-rate-eases-4-august-2023-08-31/

[3] Social Protection for Sri Lanka: A Progressive Gender Sensitive Response to the Crisis, Feminists Collective for Economic Justice https://www.srilankafeministcollective.org/_files/ugd/06bf48_e91e38e5a22d47c2a3e3e1684201812c.pdf

way of nutrition and health. Compounding effects of significant increases in electricity tariffs and prices of essential items such as kerosene and medicine, increase in Value Added Tax (VAT) and public transport rates during one of the most severe economic crisis in the country has devastated working class households and their savings/assets, to a point of no return for many.

BURDEN OF UTILITY PAYMENTS

Low-income households continue to face the burden of high electricity bills as a result of electricity tariff hikes in August 2022 and February 2023[4]. While a slight reduction in tariffs for low user households was implemented in July 2022[5], these changes merely seek to soften the blow of February's disproportionate increases. Tariffs are still higher than the initial increase in August 2022 and as such have a limited effect for low-income households. In addition, these changes have little bearing on urban low-income households whose electricity consumption is often higher than their rural counterparts.

Nayana and her husband run a grocery store in Wanathamulla which generates a monthly income that fluctuates between LKR 11,000 and 25,000. Their electricity bill varies from between LKR 7000 - 8000 a month, mostly because they keep a fridge stocked with cold drinks for their shop. "If we don't have these items people will go to another shop and we will lose more business." In addition, their water bill is LKR 1500.
Electrical appliances like fridges can run bills into higher tariff brackets but many households do not have a choice.
Farah is a senior citizen who lives by herself in Hulftsdorf. She uses only one light, one fan and a fridge but consumes about 124 units of electricity leading to a bill of LKR 7400 after taxes and surcharges (Data collected in July 2023). As she is a diabetic reliant on insulin which must be stored in the fridge, she has no choice but to continue running it.

Even without a fridge, washing machine and iron, a family of four may still run up a bill of LKR 5054 for 103 units of electricity a month. Moreover, households in UDA high-rises who consume just 50-65 units per month have seen their bills skyrocket from LKR 700 to 4000[6]. While the latest water tariff increase supposedly does not affect those living in UDA high-rises and tenement gardens, as well as those on Samurdhi[7], the impact of last year's water bill hikes continues to affect these households, with water bills now comprising LKR 1500-2000.

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[4] Meghal Perera, Power struggles: Electricity and Colombo's working class poor, 10 December 2022 https://www.themorning.lk/articles/z1LdddyJSoZNBXRgKNF2

[5] PUCSL, Decision on Electricity Tariffs 1 July 2023 https://www.pucsl.gov.lk/wp-content/uploads/2023/07/Decision-on-Electricity-Tariff-July-to-December-2023.pdf

[6] Data collected from ongoing research.

[7] NWSDB, New tariffs gazetted - https://www.waterboard.lk/wp-content/uploads/2023/08/Water-Tariff-2023-Revised-English.pdf

Coping with utility bills cannot be read as a means of balancing consumption with income, as households have varied needs related to health, livelihood and safety. Factors such as increased heat due to the drought also affect energy and water demands. For urban low-income households, the effects of heat may be compounded by poor-quality housing as well as urban heat island effects. As households prioritise utility bills in their monthly budgets, this often means reducing expenditure on food. Households frequently reported skipping or reducing the number of meals, and parents forgoing eggs and fish so that their children could consume these expensive items. Worryingly, even pregnant and lactating mothers in urban settlements adopt these strategies of reducing meals and cutting back on expensive nutrient-dense food[8], in order to pay utility bills and education expenses for other children. Furthermore, our work with families relocated to Urban Development Authority high-rise complexes in Colombo show that authorities continue to elicit payments for monthly rent and utility bills (both water and electricity) by threatening to disconnect water connections of individual flats that are in arrears for either rent, electricity or water bills.

HOUSEHOLD DEBT

Three years of disruption and crisis in the form of COVID-19 lockdowns, followed by economic crisis have decimated the savings and assets of low-income households. As such, households have limited resilience to cope with sudden shocks such as illness or unemployment, and are already rendered precarious by informal livelihoods. The latest report by the United Nations Development Programme on the multidimensional vulnerabilities of Sri Lankans stated that that 33.4% of the population are deprived by the debt status of their household, which includes getting into debt to pay for essential needs like food, medical care and education, as well as pawning jewellery or selling items[9].

The FAO/WFP Crop and Food Security Assessment Mission (CFSAM) to Sri Lanka in May 2023 found that 62% of households were adopting coping strategies such as withdrawing savings, borrowing money, purchasing food on credit to access food compared to 48 percent in May 2022[10]. In particular, 41% of households reported borrowing money to purchase food in May 2023, compared to 11% in May 2022.This indicates that households are taking loans to survive, rather than to navigate one-off shocks.

In Colombo, loans are often taken to pay off electricity arrears to avoid disconnection, or help relatives migrate in the hope of employment, which still represent an inability to

[8] Amnesty International, Impact of Sri Lanka's Economic Crisis on Maternal Nutrition, July 2023 https://www.amnesty.org/en/documents/asa37/6872/2023/en/

[9] UNDP, Understanding Multidimensional Vulnerabilities: Impact of the People of Sri Lanka, August 2023 https://www.undp.org/sites/g/files/zskgke326/files/2023-08/undp_multidimensional_vulnerability_report.pdf

[10] FAO. 2023. Special Report – FAO/WFP Crop and Food Security Assessment Mission (CFSAM) to the Democratic Socialist Republic of Sri Lanka. CFSAMs Special Reports, 25 May 2023. Rome. https://doi.org/10.4060/cc6202e

cope with day-to-day expenses. As low-income households do not have access to formal channels of finance, they are frequently reliant on informal credit markets who charge exorbitant interest rates. Opportunities for taking loans are also extremely visible and easily accessible, as loans are advertised on online apps or disseminated through SMS.

It is important to note that individuals taking loans advertised through SMS or on online mobile apps may be aware of the dangers posed by these unregulated schemes, but the urgent need for cash in hand may outweigh potential risks of unregulated loans. Some households also take loans to buy food for the week or at times for the day. Coping mechanisms such as pawning jewellery and borrowing from relatives have been exhausted, while looming payments continue to accumulate. Our research shows that households take multiple small, short terms loans as needs arise, including to pay off interest or total of another loan. Money lenders of today are still the "*Poli Mudalali*" type figures, except they also now come in the form of SMS loans and salespeople (doubling as debt collectors) that visit small businesses and households, or paste posters on lamp posts and public spaces advertising quick and easy loans. Usually a photo of a person's identity card along with their bank details being Whatsapped to such lenders are sufficient for money to be immediately released to the borrowers account. Debt collection is another matter of concern with households reporting of threats when unable to make the payments, interest being increased arbitrarily on non payment and in some instances messages sent to friends of the borrowers on Facebook informing that their friend or acquaintance is in default.

In such a context, advocating for "increased awareness and financial literacy" is not adequate if households continue to be inundated with promises of fast and easy cash, along with crushing pressures of the cost of living. ***While discourse around regulating Microfinance and informal credit markets must continue, it should also be accompanied by an understanding of the complex and intersecting needs that are driving households to take loans.*** If households are borrowing to meet basic needs such as food, health or education, regulating microfinance or moneylenders will still not solve the crisis at the household level.

While some households take loans to pay for household expenses or even to put food on the table, others take loans to aid income-generating activities. Those running a business from the house such as a shop will take a loan to buy inventory because they do not have the capital at hand. This is particularly after COVID-19, where lockdowns meant that many informal businesses could not operate.

While microfinance encourages entrepreneurship and seeks to support small businesses, it is worth noting that there is little advice or alternative support for small businesses. As a result individuals may begin a business that is not viable due to market saturation and be sucked into a cycle of increasing debts and diminishing returns as they struggle to keep their business afloat. Several households began to run shops from their houses after COVID-19 leading to increased competition in settlements. In addition, some individuals may be unsuited to entrepreneurship and may instead require livelihood support in the form of equipment or training. Furthermore, microfinance lending cannot reap the expected benefits in a context where the cost of living is exorbitant.

PITFALLS OF TARGETING

Case Study 1:
Kanchana is a 45 year old resident of Seevalipura. She lives with her 50 year old husband and their two sons, aged 18 and 13. Their main source of income is generated informally, through three wheeler hires. Despite earnings of LKR 2500-3000 per day, their monthly income varies between LKR 41,000 - 55,000 due to fluctuating hires, with approximately LKR 30,000 being spent on monthly fuel costs.

Although Kanchana formerly operated a small vegetable shop from her home, today the shelves that once used to be filled with vegetables remain empty. Their monthly expenses continue to pile on, with electricity and water bills as high as LKR 7000 and LKR 3000 respectively. Food and educational (tuition) expenses as well as a monthly repayment on a LKR 50,000 loan from the Samurdhi Bank, strain their budget even further, pushing them into deeper levels of precarity.

Despite the family’s financial situation, however, Kanchana says that the government has done very little to support them. Their exclusion from Samurdhi and Aswesuma in particular, despite an appeal, has only compounded their difficulties. She highlighted that there is a lack of broader contextual considerations in social security assessment that such a system often excludes the most vulnerable from social protection.

Case Study 2:
Fathima is a 68 year old woman living in Kompannyaveediya. Living with her daughter, sister and their families, she relies on her son-in-law's three wheeler income to make ends meet. His daily income is around LKR 1000, which barely covers their basic needs. Surviving on one meal a day is an all too familiar reality for poor households, similar to Fathima’s, whose family sometimes survives on one meal of breadfruit and coconut sambol.

Competing expenses add a considerable strain on the family budget, with an electricity bill of LKR 5000 every month. Education is crucial, yet tuition remains unaffordable especially for three of the school-going children in the family, who often only have a few biscuits and plain tea for breakfast. Fathima also suffers from gastritis and heart issues for which proper care and medication is hindered due to financial constraints.

Strict adherence to eligibility criteria often allow families like that of Fathima's to fall through the cracks of social protection. Despite their dire financial situation, they too remain excluded from Samurdhi and more recently Aswesuma. Although Fathima would like to start a small food business in her community to support her family, she is hindered in doing so by the lack of funds and dire financial hardship.

Case Study 3:
Suhaila is a 67 year old woman living in Hulftsdorf. The family relies on Suhaila's son's income to make ends meet, and he earns LKR 35,000 a month, which covers most of the household expenses. This income is supplemented by Suhaila's husband and sister who engage in sporadic odd jobs amounting to approximately LKR 500 in total, daily.

There is a significant allocation of income towards food, and utility bills of which the electricity bill amounts to LKR 7000 every month. Suhaila and her sister also have health related expenses for diabetes and heart ailments, which strain the limited household budget. Similar to the other case studies, though the pandemic had affected income, there were more donations and support during that period. Today, however, people are left to their own devices and receive minimal support from the government.

Despite their financial challenges, Suhaila and her family have not benefited from Samurdhi, nor have they qualified for Aswesuma.

ON ASWESUMA

Amidst Sri Lanka's worst economic crisis, catalysed by soaring inflation and diminished real income, the discourse surrounding social protection has emerged as key for improving the lives of 31% of the Sri Lankan population living in poverty (i.e., an additional 4 million people since 2019) in 2023[11]. The new social security scheme Aswesuma, funded by the World Bank was intended to create a poverty free, entrepreneurial Sri Lanka by 2048. The Welfare Benefits Board of Sri Lanka that also receives funding from the World Bank to carry out Aswesuma, began an enumeration exercise in 2023 whereby all those who applied to receive welfare benefits were scored across a 22 indicator list (many of them asset based) to determine their eligibility. According to the WBB 3.7 million applications were received to be included in this registry. It is noteworthy that ***the indicator list was developed in 2019*** and gazetted under the Welfare Benefits Act No. 24 of 2002 as the 'Methodology for identify low-income families for welfare benefits payments' when Mangala Samaraweera was Finance

[11] Lirneasia, Social Safety Nets and the State of Poverty in Sri Lanka, June 2023
https://lirneasia.net/wp-content/uploads/2023/06/LIRNEasia-Social-Safety-Nets-and-the-State-of-Poverty-in-Sri-Lanka-3.pdf

Minister[12]. During a time where Sri Lanka is still recovering COVID-19 impact and an ongoing economic crisis, ***that welfare eligibility criteria developed long before these crises was used to select beneficiaries in 2023 is of serious concern***.

With the first transfer of cash to the Aswesuma beneficiaries taking place in August 2023, the process of and criteria for determining which families are eligible for the cash transfer, has attracted widespread criticism, as many deserving households have been excluded from this new scheme. Excluding deserving households who applied to be a part of the new social welfare registry from welfare benefits payments compounds the difficulties already faced by households, for whom receiving a cash transfer could improve access to the very basic necessities like food, utility or medication. More importantly, the inclusion in a social welfare registry also means being eligible for future welfare benefits or specific support like the cash transfers during COVID-19 lockdowns or access to low interest loans. Our ongoing research in low income settlements across Colombo indicate that many vulnerable households don't receive any support from the government. Many households that previously received Samurdhi payments have been excluded from the new list under Aswesuma.

In response to the large number of people who did not get selected for Aswesuma, the government implemented an appeals and objections process to allow individuals to appeal their exclusion from the programme at their respective Divisional Secretariats (DS). At a very basic level we have seen an information gap in the appeals and objections process at the household level. Many were not aware of the deadline for filing an appeal, or where they should go to in order to file an appeal. In addition to the gap in information, there is also the time spent on the appeals process (travelling to the DS, time spent waiting in line etc.) for a payment that they may or may not be deemed eligible for, following evaluation, has made the entire process a tedious one, resulting in some households not appealing the existing list. It was reported that 1,024,059 appeals and 124,495 objections related to the programme have been received by the Welfare Benefits Board (WBB) in August 2023. In addition, 84,374 families who have been selected to receive benefits under the programme, have appealed to be placed under a higher benefit category[13].

A recent report published by Human Rights Watch takes a look at Jordan's Unified Cash Transfer Program (Formerly Takaful), financed by the World Bank[14]. A major criticism of the Program is that it uses an algorithm to rank families based on their economic

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[12] Extraordinary Gazette 2128/24, June 20 2019
http://documents.gov.lk/files/egz/2019/6/2128-24_E.pdf

[13] The Morning, Aswesuma welfare prog: Over 1.2 Mn appeals, 124,000 objections to be reviewed by Aug, 9 August 2023
https://www.themorning.lk/articles/G4oQmeSBZSK9CyZ1d0Zp

[14] Human Rights Watch, Automated Neglect: How The World Bank's Push to Allocate Cash Assistance Using Algorithms Threatens Rights, June 2023
https://www.hrw.org/report/2023/06/13/automated-neglect/how-world-banks-push-allocate-cash-assistance-using-algorithms

vulnerability, which helps identify families that require cash transfers. The use of poverty targeting as opposed to universal social protection, particularly in the context of rising levels of poverty in Jordan deprived many families of their right to social security. The Human Rights Watch Report criticises the Program on the basis that the formula (used to identify eligible families) flattens the economic complexity of people's lives into a crude ranking that pits one household against another, fuelling social tension and perceptions of unfairness. Furthermore, the report *'found that asset-based profiling can force some people into an unacceptable tradeoff between their right to social security and the assets they need to exercise other economic and social rights, such as their rights to a decent living, health, and food'.*

The use of a series of eligibility criteria including electricity usage, ownership of a vehicle or house, usage of gas cylinder for cooking etc. under Aswesuma too, fails to take into account the economic complexity of people's lives and deprives them of their right to social security. This type of targeting fails to consider the everyday struggle to make ends meet, and the social tension that exclusion from Aswesuma precipitates. Some of the households we interviewed mentioned that households that have been deemed eligible for Aswesuma are those that are favoured by politicians. This creates an unnecessary divide and an erosion of trust in communities. As we have previously recommended, ***Sri* Lanka must move away from targeted social welfare schemes to systems that offer universal social protection**, particularly in the context of crises. According to the UNDP report on multidimensional vulnerability of Sri Lankans, as many as 12.34 million people in Sri Lanka (55.7% of Sri Lankans) are multi-dimensionally vulnerable[15], and yet only 2 million households have been selected as beneficiaries under Aswesuma.

Particularly in the context of growing household debt that is taken on to meet basic expenses such as electricity bills, education expenses, food and medicine, cash transfers offer some degree of stability in the form of a regular monthly payment that can be relied on. This is particularly important for the urban poor, whose informal livelihoods result in fluctuating and uncertain incomes, and are without benefits such as sick leave or pensions. **However unless the monthly cash transfer amount is substantial, it would be meaningless.**

Those with Chronic Kidney Disease has been allocated LKR 5000 a month, when dialysis costs per session can range from LKR 20,000 - 25,000 - and many have been relying on private healthcare given the crippled status of the country's healthcare system. Furthermore, pregnant and lactating mothers have not been identified as a specific group in need of assistance under Aswesuma. Moreover, there is an attempt to limit maternal social protection interventions such as provision of Thriposha along with vouchers for nutritious food, which were previously universally available to all mothers registered under

[15] UNDP, Understanding Multidimensional Vulnerabilities: Impact of the People of Sri Lanka, August 2023 https://www.undp.org/sites/g/files/zskgke326/files/2023-08/undp_multidimensional_vulnerability_report.pdf

the Ministry of Health. Emergency Nutrition Plan 2022-2024 has proposed to target supply of Thriposha to the most needed, and in addition, proposes to limit the provision of food vouchers to pregnant women in families whose monthly income is less than LKR 50,000[16]. These targeted interventions will result in pregnant women falling through the cracks of various social protection schemes, which will have long lasting health effects on the country's next generation of students and workers.

The Government of Sri Lanka must **increase the fiscal allocation for social welfare**. At present the World Bank in Sri Lanka and the WBB maintain that the choice is between expanding the safety net and transferring people a smaller amount of money versus selecting the most vulnerable and transferring them a larger amount of money. However, this larger amount of money is rather paltry at LKR 2500, 5000 and 8500 across three categories, except for the 'Severely Poor' category that has been allocated LKR 15,000 a month for three years.

Furthermore, we have ***not seen any reduction in spending on Defense***, or on State events and functions, and the Government continues the practice of the creation of grandiose new development masterplans; therefore the reason of a lack of fiscal space for increasing beneficiaries for social welfare is unacceptable. In the 2023 budget, the Government allocated LKR 539 billion for defense and public security[17] while household cash transfers and food relief (which includes all the key social welfare programs such as Samurdhi, allowances for elders, disabled, kidney disease, school meal programs and nutrition programs for mothers and children) was allocated LKR 187 billion[18]. Sri Lanka continues to remain one of the countries in the region that spend the least of it's GDP on social welfare.

[16] Amnesty International, Impact of Sri Lanka's Economic Crisis on Maternal Nutrition, July 2023
https://www.amnesty.org/en/documents/asa37/6872/2023/en/

[17] Economy Next, Sri Lanka analysts frown upon Wickremesinghe's high defence budget, November 2022
https://economynext.com/sri-lanka-analysts-frown-upon-wickremesinghes-high-defence-budget-103035/

[18] https://www.treasury.gov.lk/api/file/cb8a6d19-5172-4f1b-9dba-2472a9747693

RECOMMENDATIONS

Universal social security must be a very important consideration for working class communities and the informal sector in Colombo. Discourse and policy surrounding social security must take into account the lived realities of the working class poor, and ensure that it actually offers tangible support that will better their quality of life. If not the impact of this crisis will be generational and people will have lost the decades of investment and hard work they have put in towards creating a better and comfortable life for themselves.

We reiterate that there needs to be a more **holistic approach to assessing and understanding the impact of the crisis**, particularly on working class poor and lower middle class families. The end goal of Sri Lanka's recovery process must not be to recover to a point where people can make ends meet, but one where the **recovery is just and equitable, and people experience a better quality of life within this lifetime.** While the current economic crisis is nowhere close to being over, other crisis such as implications of heat and unpredictable weather patterns due to climate change are already affecting how people in cities work and live.

Therefore the consideration of universal social security is an important one as ***people can be vulnerable through various periods in their life and in different ways*** - whether it is through personal health, livelihood or impact of a family member, or external like an economic crisis or pandemic. Furthermore, as we see in Colombo and have highlighted through this policy brief, poverty and vulnerability in the city presents differently and in diverse ways, and ***targeted welfare will not reach those who are technically not poor but are far from enjoying a decent quality of life***.

While we reiterate that all recommendations in our April 2023 policy brief remain valid to date, the following interventions would substantially ease some of the burden at a household level for working class poor families.

1. **Cancel or restructure defaults on utility bills.** Many urban working class poor communities are struggling to pay utility bills and other debt that have accumulated since the first COVID-19 lockdown in March 2020. These arrears are of such high rates for some families that they will never be able to pay off that debt to the utility companies and the Urban Development Authority. This places an extraordinary burden on households already struggling to make ends meet, not to mention the effect on people's mental health. We recommend analysing the various debt to the State across the various settlements in Colombo and moving towards cancelling the arrears or findings other ways of making those payments - for example a long term repayment plan for amounts accumulated so far.

2. **Addressing nutrition, not hunger.** Calculating food expenditure must show an appreciation for dietary diversity, cultural practices of cooking, as well the varied nutritional needs and demands of households. Households must be guaranteed a certain amount of rice, pulses, vegetables, fruit, milk, eggs every week for at least one year and this would enable them to meet nutrition requirements irrespective of inflation, as well as freeing up income that can be put towards other expenses. ***Nutrition levels in children can also be targeted through school meal programmes*** at every school. While this would ease the burden on the families who have to send food for their children everyday to school, it would also provide a daily access to nutritious the children may otherwise not receive. Furthermore, our research shows that students who receive a daily meal through their school are more likely to be regularly sent to school than those who do not receive a meal at school.

3. **Free public transport for school children**. With the increase in fuel prices and the effect it has on modes of transportation such as three-wheels and private school van costs, many families have switched to public transport over the past year. However with the increase in bus fares even this cost is not one that is borne easily and there are those who do not have enough bus fare on some days to send their children to school. We recommend free public transportation for school going children or dedicated school transportation that is free of charge in order to ensure children go to school regularly.

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