

SPECIAL REPORT



Sri Lanka's Economic Catastrophe

Sooraj Kashyap, *Risk Analyst*
Prashant Rastogi, *Risk Analyst*

CONTENT

Introduction	.....	3
Civil Unrest	.....	3
Map of all protests	.....	4
Notable protests (Apr to Jun)	.....	5
Damages	.....	6
Protests against Adani Power	.....	7
Political Developments	.....	8
PM Wickremesinghe's Special Statement	.....	9
Government measures on fuel distribution	.....	11
Assessment	.....	12
Conclusion	.....	14



INTRODUCTION

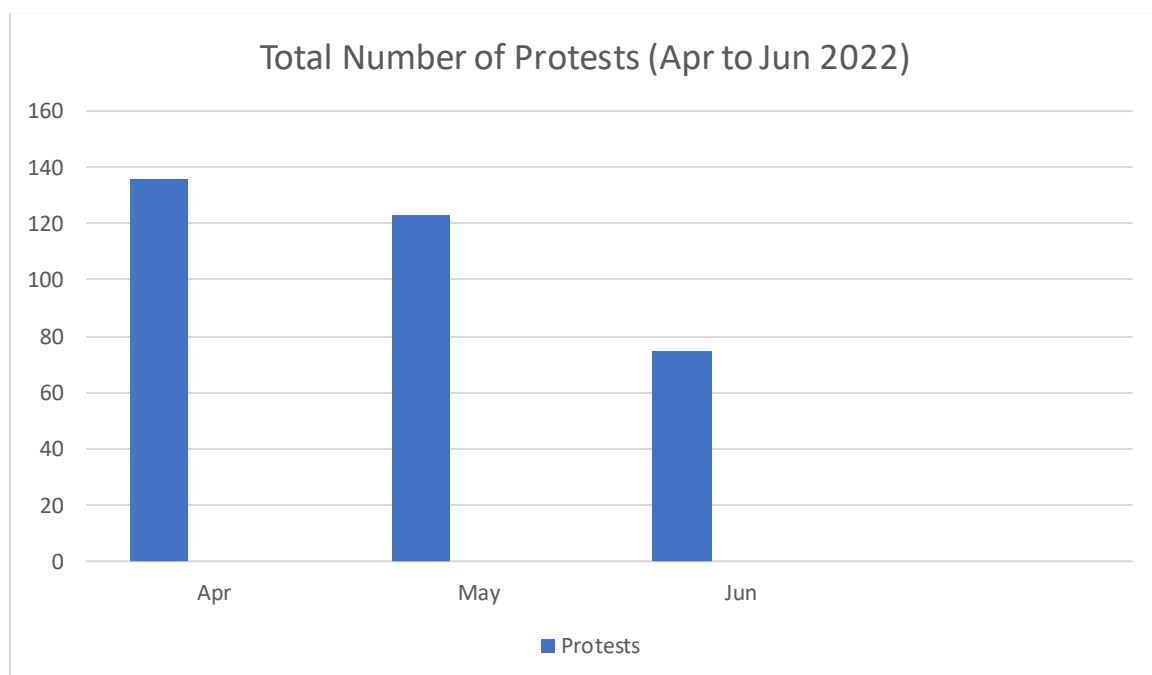
Sri Lanka's economic crisis has morphed into a political turmoil, leading to the change in Prime Minister, as Mahinda Rajapaksa, had to resign from his position, paving the way for Ranil Wickremesinghe. The new government under Wickremesinghe along with his cabinet have begun the restructuring of foreign debt, as well as structural changes to Sri Lanka's government. This insight report will talk about the political instability propelled by the lack of essentials in the Sri Lankan economy that has led to the kind of protests and civil unrest which have derailed the business continuity in the country, and hindered the government measures to weather the storm caused by the currency and fuel crises. The report will also give an assessment of the short-term and long-term implications to businesses, travel, and security situation in the country, based on the events and measures explored in the report.

CIVIL UNREST

Scope of protests

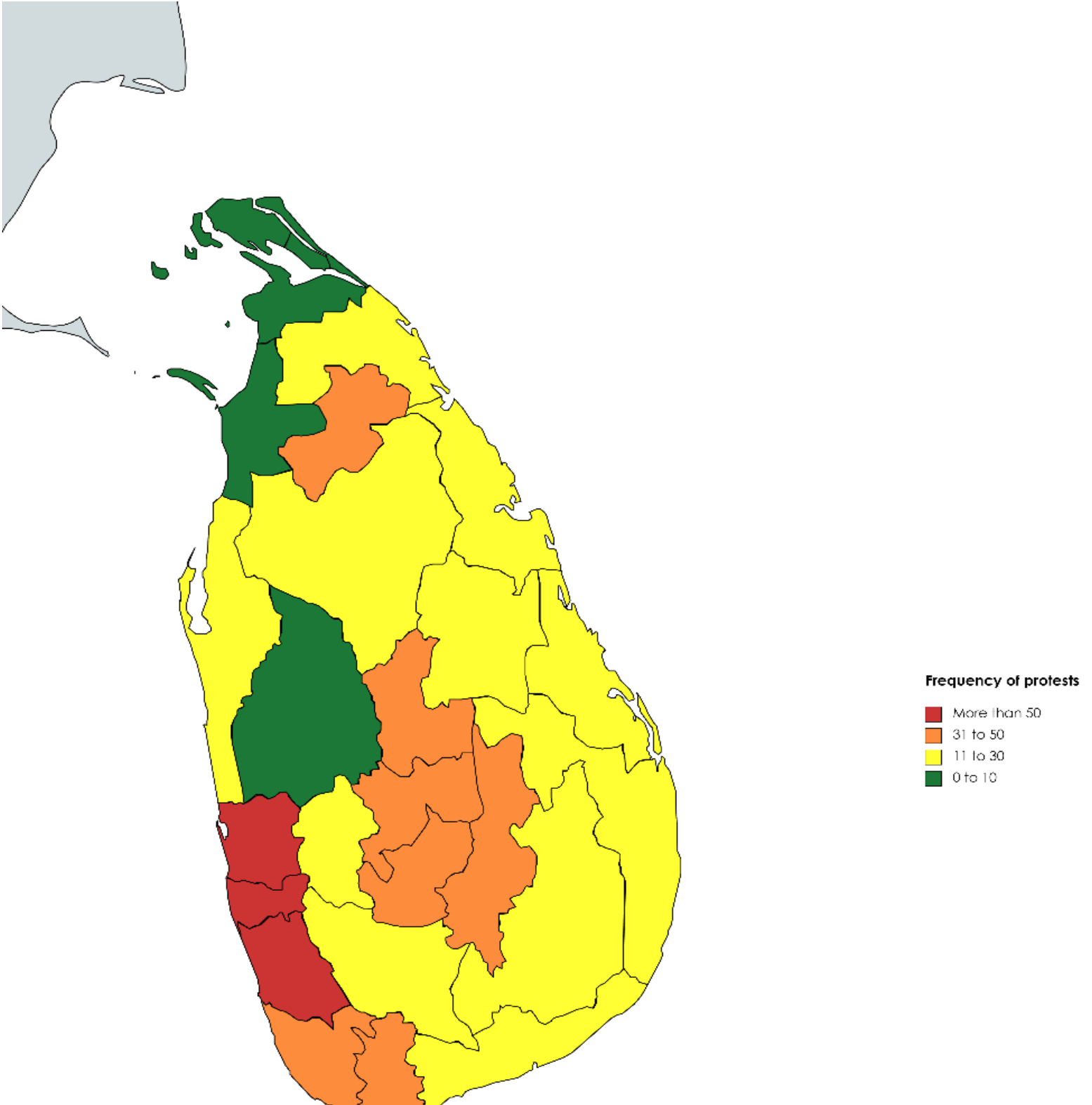
Sri Lanka's protests have been mostly unscheduled, limited, and leading to action by law enforcement agencies, especially by the Sri Lanka police. Most protests have been concentrated at fuel stations and gas distribution centres in Central and Western Provinces of Sri Lanka. The scheduled protests organised by various unions like the fuel bowsers organisation unions, public transport unions, fisheries unions, and railway workers' unions took between Apr and Jun 2022. These protests have been widespread, and in some cases have led to the arrests of the protestors, irrespective of the fact that the protests have been peaceful in nature.

Graph of all the protests taken place between Apr and Jun 2022





MAP OF ALL PROTESTS TAKEN PLACE IN SRI LANKA BETWEEN APR TO JUN 2022





NOTABLE PROTESTS AGAINST PRESIDENT GOTABAYA RAJAPAKSA BETWEEN APR & JUN 2022

01 May Labor Day Protests

Samagi Jana Balawageya (SJB) had organised a protest march carrying the slogan "The Struggle for Freedom" and it began on 26 April 2022 from Kandy and the destination was Colombo on 01 May 2022, which ended at Freedom Park.

- The United Socialist Party rally was held at Kosgas Junction, in Colombo, against the economic crisis.
- The Frontline Socialist Party had also conducted a protest at Viharamahadevi Park in Colombo.
- Several protest rallies by the Janata Vimukhti Party were held in Colombo, Matara, Anuradhapura, and Jaffna.

05 May HoruGoGama protests

On 05 May, university students protested outside the Sri Lankan Parliament in Colombo. They demanded the resignation of the entire parliament and insisted that the Rajapaksa family should be held accountable for corruption

- The police used tear gas to disperse the crowd and barricaded the area, the protestors hurled abuses at opposition MPs and accused them of making deals with the government.
- Immediately, the next day on 06 May, the President Gotabaya declared a state of emergency in the country for the second time.

09 May- Riots at Galle Face & Temple Trees

On 09 May 2022, the supporters of the Rajapaksa government targeted and assaulted protestors who were agitating peacefully outside the Sri Lankan Prime Minister Mahinda Rajapaksa's residence and President Gotabaya Rajapaksa's office in Colombo.

- These anti-government protests emerged amidst the heavy security deployment and second state of emergency measures undertaken by the government. Leader of Opposition Sajith Premadasa was also attacked by the pro-Rajapaksa sympathisers with more than 200 people injured and 10 dead.
- Ruling Party MP Amara Keethi Athukorala was also killed amidst the protests along with residence of former Minister Nimal Lanza in Negambo attacked.
- The protest turned riot was reported from the site at Temple Trees in Colombo. Soon after, the government sympathisers moved to the GotaGoGama protest site at Galle Face Green with the police behaving like mute spectators.

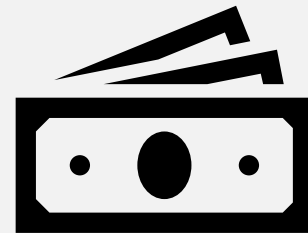


DAMAGES

Damages due to protests: According to the credit ratings agency, Fitch Ratings, Sri Lanka is liable to pay LKR 1 billion (USD 2.78 million) to insurance companies due to damages caused by the riots on 09 May.

Damages due to fuel crises :

- In total, 12 deaths have occurred due to the fuel crisis in Sri Lanka and several injuries have been reported amidst the protests across the country.
- The Lanka Private Bus Owners' Association stated that due to the fuel crisis in Sri Lanka, 500 private buses have been removed from service.
- The association has said that the bus services will continue to function but at the reduced capacity.
- The All-Ceylon Filling Station Owners Association, have said that 90% of the fuel stations in Sri Lanka have become inactive due to the fuel shortage.
- The Ceylon Petroleum Corporation has given 80 orders to transport fuel to essential services.
- The Lanka Indian Oil Corporation has issued an order to transport fuel to 150 to 200 fuel stations across the country.
- Everyday power outages are also taking place across Sri Lanka for more than 2 hours to 3 hours.
- The power and energy minister reported that Sri Lanka is unable to make USD 725 million in overdue payments to suppliers and is struggling to open letters of credit for future shipments.
- The baking industry in Sri Lanka has completely collapsed while several other industries are on the verge of collapse, including the food and beverages industry as well as the hospitality industry.
- Widespread unplanned protests may also erupt across the country due to the hike in fuel prices and a halt in the sale of fuel for non-essential services.





PROTEST AGAINST ADANI POWER PROJECTS

On 08 Jun, the Ceylon Electricity Board Engineers' Union (CEBEU) had announced country-wide strikes against the Sri Lankan government's Memorandum of Understanding (MoU) with Indian conglomerate, Adani Power Limited.

The agreement is about the construction of two renewable projects, one in Mannar, in the Northwestern region, and another in Pooneryn, in south Jaffna.

The two projects will cost USD 500 million with a combined power production capacity of 500 MW.

The strike and subsequent protest march had been called against the government's mishandling of the bidding process, which was not based on the principle of competitive bidding, under Electricity Act No. 20 of 2009.

The government had proposed an amendment to the Sri Lanka. The controversy began after MMC Ferdinando, chairman of the Ceylon Electricity Board (CEB) who later quit, revealed the same to the parliamentary committee. Posters calling for "Stop Adani" gathered in front of Majestic city at 1400 hrs (local time) on 16 Jun.



POLITICAL DEVELOPMENTS IN SRI LANKA SINCE APR 2022

18 Apr: Formation of a new cabinet: On 18 Apr, President Rajapaksa appointed a new 17-member cabinet amidst the country-wide protests demanding the resignation of the government. In the new cabinet portfolio, female participation was completely excluded.

09 May- PM Rajapaksa resigns: On 09 May, Prime Minister Mahinda Rajapaksa resigned amidst the economic crisis and pressure put up by protestors in Sri Lanka. The move specifically came after Sri Lanka was placed under curfew after violent clashes between Rajapaksa sympathisers and anti-government protestors were reported in Colombo.

12 May- Appointment of Ranil Wickremesinghe as PM: On 12 May, Ranil Wickremesinghe from the opposition United National Party (UNP) was appointed as the Prime Minister by President Gotabaya Rajapaksa. In his interview with an Indian news channel, PM Wickremesinghe stated that nobody else from the political opposition was willing to become the PM amidst the economic crisis and protests.



SRI LANKAN PM RANIL WICKREMESINGHE ISSUES A SPECIAL STATEMENT ON 29 MAY

On 29 May, Sri Lankan PM Ranil Wickremesinghe in a special statement to the country said that the 21st Amendment to the constitution will be passed and the parliament will be strengthened. In his speech, he highlighted several ideas on ways to address the current political and economic crisis in Sri Lanka.

STATEMENTS FROM PM WICKEREMESINGHE'S SPEECH

On the political issues in the country:

- There are also two major issues in the political sphere. The re-introduction of the 19th Amendment is one of these issues. We, as party leaders, are now preparing the 21st Amendment in this regard.
- The second issue is to work towards the abolition of the Executive Presidency. The timing and methodology must be decided by the Party Leaders. Proposed changes to the system of governance
- Now we need to change the structure of Parliament and create a new system by combining the existing system of Parliament or the Westminster system and the system of State Councils. In those cases Parliament can participate in governing the country.
- We are working to establish two new Committees on Monetary Affairs. We will appoint a Legal and Methodological Committee to look into the matter.
- We propose to appoint ten oversight committees. They also report to Parliament on policies. Parliament should act on that.
- The chairpersons of these five Finance Committees and the Ten Supervisory Committees are appointed by backbenchers. They are not appointed by Ministers.





<ul style="list-style-type: none"> ○ I propose to appoint four youth representatives to each of these 15 committees. One of them will be appointed by the Youth Parliament. The other three will be from the protesting groups and other activist groups. The methodology used to choose these individuals can be decided by the youth organizations themselves. ○ We also propose a National Council. A committee consisting of the Speaker, the Prime Minister, the Leader of the Opposition and the leaders of the major parties is called the National Council. ○ The National Council can talk about the policies of the country. It can also talk about the decisions of the Cabinet. It can also talk about the reorganization of the Parliament of this country. If so, it can be called a political body. ○ According to the new system we have proposed, the President will be held accountable to the Parliament. The Cabinet of Ministers is also accountable to Parliament. The National Council is also accountable to Parliament. Fifteen Committees and Oversight Committees are accountable to Parliament. 	
---	--

28 Jun- Approval of 22nd Amendment

On 28 Jun, the Sri Lankan cabinet approved the draft bill on 22nd Amendment, thereby endorsing the formation of a constitutional council under Chapter VII of the Sri Lankan constitution. The chairperson of the constitutional council will be the Speaker of the House.

The constitutional council includes:

Prime Minister
Speaker (Chairman of the Constitution council)
Leader of the Opposition in Parliament
One Member of Parliament appointed by the President
Five persons appointed by the President, upon being nominated including 1 Member of Parliament nominated by agreement of the majority of the Members of Parliament representing the Government; 1 Member of Parliament nominated by agreement of the majority of the Members of Parliament of the political party or



independent group to which the Leader of the Opposition belongs; and 3 persons nominated by the Speaker in consultation with the Prime Minister and the Leader of the Opposition by agreement of the majority of Members of Parliament.

1 Member of Parliament nominated by agreement of the Members of Parliament other than those representing the Government and those belonging to the political party or independent group to which the Leader of the Opposition belongs, and appointed by the President

Please refer to the official Gazette http://documents.gov.lk/files/bill/2022/6/217-2022_E.pdf for more information.

SRI LANKAN GOVERNMENT MEASURES ON FUEL DISTRIBUTION

On 16 Jun, Sri Lanka's power and energy minister had said that the country had fuel stocks that would last till 21 Jun.

As the stocks deplete, Sri Lankan government decided to stop all fuel sales till 10 Jul 2022. The Ceylon Petroleum Corporation is ordered to only distribute fuel and petrol for essential services effective from 0001 hrs (local time) 28 Jun onwards. These essential services include ports, airports, health, food distribution, and agriculture.

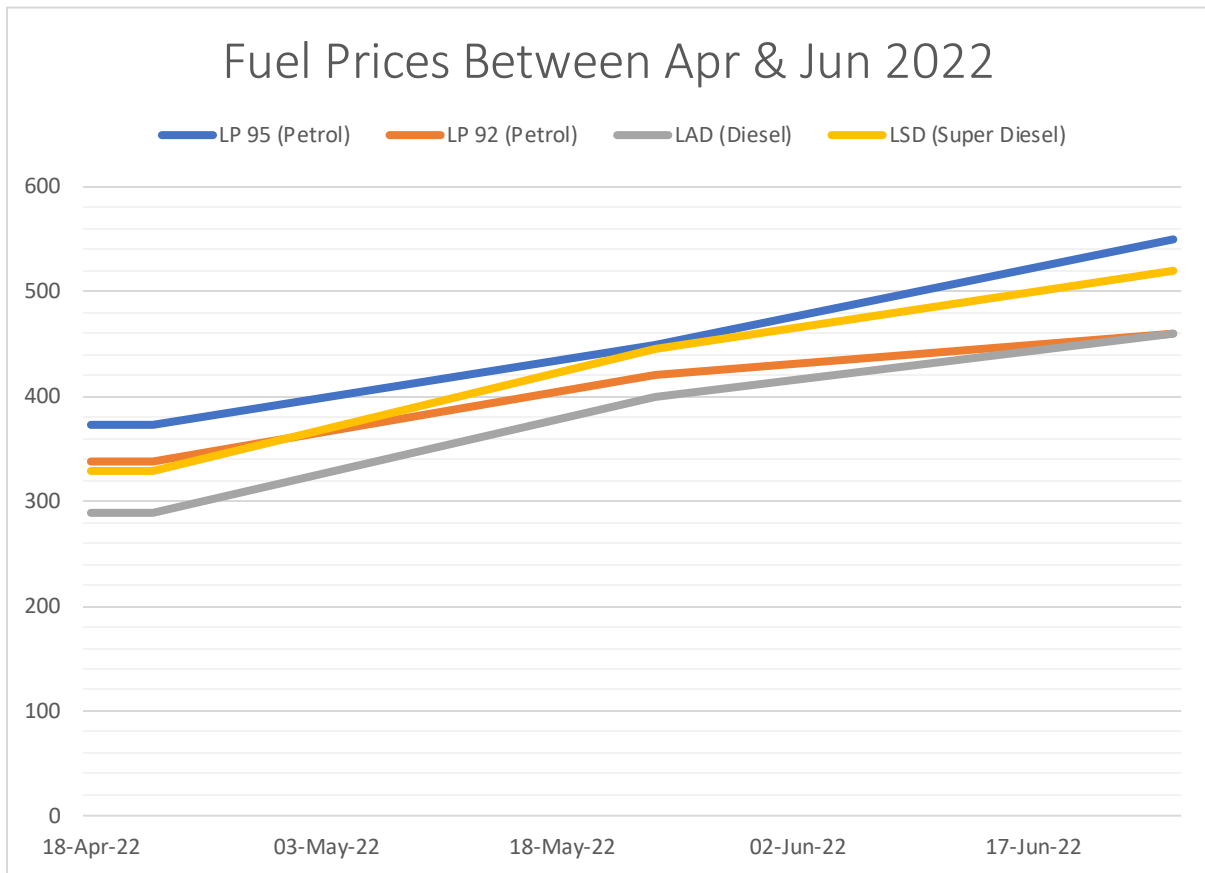
Energy Minister Kanchana Wijesekera said on 25 Jun that players may be given 200 to 300 filling stations out of the 1,190 fuel stations operated by state-run Ceylon Petroleum Corporation.

Through the Sri Lanka Transport Board (SLTB) depot, fuel will be provided for private vehicles, ambulances, and tour buses.

Authorities of Litro Gas have announced that they will distribute gas cylinders to essential services in Sri Lanka. Domestic gas cylinders will not be available on the market until 07 Jul.



Fuel prices hike between Apr to Jun 2022






(All figures in LKR) [1 LKR= USD 0.028]

ASSESSMENT

BUSINESS CONTINUITY	Risk factor: HIGH
<ul style="list-style-type: none"> • There is a high possibility that the government of Sri Lanka might explore the idea of a token system for companies who require weekly fuel shipments. The government may give importance to companies who pay for fuel shipments in US dollars. • There is a high possibility of the government introducing labour protection laws for the workforce in order to reduce expenses on subsidies and unemployment benefits. • A high possibility remains that due to prolonged disruption in fuel distribution to the fisheries sector, it may lead to widespread protests by the fishing community who will block the major ports in Colombo, Hambantota, and Galle. • There is a high possibility of longer power outages across the country to persist which would affect the business operations of major industries. 	



<ul style="list-style-type: none"> The government will extend the work from home circular to the private sector as well due to the fuel shortages at gas stations. 	
<p>POLITICAL INSTABILITY</p>	<p>Risk factor: HIGH</p>
<ul style="list-style-type: none"> A high possibility remains that opposition parties like the Samagi Jana Balawegaya (SJB) may try to forge alliances with other political parties and lure the dissidents of President Gotabaya, from the Sri Lanka Podujana Peramuna (SLPP) in order to bring a motion of impeachment against the President. There is a high possibility that protestors at the Galle Face and the other parts of the country will continue asking for the resignation of the Parliament due to the mishandling of the economy of the country. Violence in and around Colombo is likely, as a means to apply political pressure on the legislature. 	
<p>CITIZEN SAFETY</p>	<p>Risk factor: HIGH</p>
<ul style="list-style-type: none"> There is a high possibility of water-borne diseases like Dengue and Cholera to spread across the country leading to high numbers of hospitalizations and casualties due to the collapse of the health infrastructure caused by the economic crises. There is a high possibility that flood mitigation protocols will be difficult to follow as the fuel crises in the country has severely impaired the country's ability to operate various departments including the Meteorological Department and the Water Department. The security situation in the country will deteriorate as criminal activities including shooting incidents, will increase as the people are not getting access to essential services and commodities. There is a medium-possibility of ethnic divisions to become mainstream, as the Tamil population in the northern side of Sri Lanka have been calling for better representation at the political structures, the current crisis will only exasperate these divisions leading to violence. 	
<p>GEPOLITICAL IMPLICATIONS</p>	<p>Risk factor: MEDIUM</p>
<ul style="list-style-type: none"> There is a high possibility that Sri Lanka and Russia will agree on crude oil and agricultural imports, either through a rouble-based payment system, or credit lines in the medium-term. Sri Lanka may allow Russian participation in the economy as the country is in dire need of foreign investments to stabilize the Sri 	



<p>Lankan Rupee (SLR), making Russia an outside geopolitical force in the island-nation, along with India and China.</p> <ul style="list-style-type: none">• There is a high possibility of India and China reducing their assistance towards Sri Lanka, as the global inflation is going to spark momentary conservative economic policies among them.	
---	--

CONCLUSION

The Sri Lankan economic crisis has the potential to completely restructure the social, political, and geopolitical landscape of the country, all these aspects invariably will change the country's business ecosystem. The country's current situation is a reminder that business organisations and their resiliency teams must re-approach how they look at risk management of the operations. Sri Lanka is not the only country, as based on current prospects, sooner or later many other emerging market economies will be facing crises of similar if not worse, and organisations must prepare for plans to secure their supply chains and assets. The outlook for Sri Lanka is uncertain as the crisis will require at least 18 months to 24 months of policy restructuring to stabilise.

ABOUT THE AUTHOR

Sooraj Kashyap is a Risk Analyst responsible for the region of South Asia focusing on risk and threat assessments. He looks into Regional and Geopolitical analysis. He works extensively to provide tactical and strategic analysis of the geopolitical happenings to the clients in the field of Oil & Energy Sector, Professional Services, Insurance, E-Commerce, Aviation, and Banking. He holds a Masters' degree in International Studies from Symbiosis International University, Pune, and a degree in Political Science from the University of Calcutta.

Prashant Rastogi is a Risk Analyst responsible for the region of Middle-east and North Africa (MENA). He has worked extensively on the analysis on Geopolitics, Business Development, and Communication Strategies. He is also a Doctoral Candidate at OP Jindal Global University. His research areas are Afghanistan -Pakistan studies, Rebel Governance, Threats from Terrorism and Foreign Policy.



www.worisgo.com



risk.services@worisgo.com



1800-572-8600

Prepared at the Risk Assessment and Analysis Centre, Bangalore

©COPYRIGHT-WoRisGo

Terms of Use - The business continuity, compliance and security risk advisory contained above is based on analysis of information in public domain and our expertise in the domains. For certain verifications, we have also depended on due diligence with officials wherever necessary or feasible. The analysis and information are provided on as-is basis with no liability. Various organizations may arrive at different outcomes, business continuity plans and other decisions based off on these inputs. Our analysis is just one of the several data points towards enabling such decisions. This analysis should be consumed in the context of your organization's risk appetite, business practices, governance policies and bearing other situational and relevant factors in mind.



**Your GRC Partner:
our assurance during
uncertainties**