Resilience in Government Budgeting

Sri Lanka’s Blue Green Budget Initiative

Shiranthi Rathnayaka
Additional Director General
Department of National Planning
Ministry of National Policies and Economic Affairs
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Past climate change threats/risks

Sri Lanka has experienced a number of climatic threats including Floods, Drought, Landslides, Lightning Strikes, High winds/cyclones, Tsunami and Human Elephant Conflict (HEC)

<table>
<thead>
<tr>
<th>Overview - Natural Disasters from 2010 - Sep 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of events</td>
</tr>
<tr>
<td>No of deaths</td>
</tr>
<tr>
<td>Average deaths per year</td>
</tr>
<tr>
<td>No of people affected</td>
</tr>
<tr>
<td>Average affected per year</td>
</tr>
<tr>
<td>Economic Damage (US$ Mn)</td>
</tr>
<tr>
<td>Economic Damage per year (US$ Mn)</td>
</tr>
</tbody>
</table>

No. of People affected by Natural Disasters 2010-2016

- Flood
- Drought
- Landslides
Past climate change threats/risks contd..

- Annual estimated losses from natural disasters is around US$ 345 Mn and over 13 million people affected during 2005-2015
- Cost incurred for relief is US$ 40 Mn during 2005-2015
- Annual expected losses from natural disasters is equivalent to 0.4% of GDP and 3% of total government expenditure
- Frequency of occurrence of natural disasters has been increased during last two decades due to human intervention, environmental degradation, climate change and rapid development activities
- Impact to the economy: Fiscal Risk/Trade deficit (importation bill of fuel & foods)

### Annual aggregated losses for Sri Lanka due to natural disasters

<table>
<thead>
<tr>
<th>Loss measurement</th>
<th>Flood</th>
<th>Landslide</th>
<th>Drought</th>
<th>Cyclone</th>
<th>All perils</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of GDP</td>
<td>0.32</td>
<td>0.02</td>
<td>0.05</td>
<td>0.11</td>
<td>0.50</td>
</tr>
<tr>
<td>Percentage of total govt. expenditure</td>
<td>1.90</td>
<td>0.11</td>
<td>0.31</td>
<td>0.65</td>
<td>3.00</td>
</tr>
<tr>
<td>SL Rs, billions$^b$</td>
<td>31.7</td>
<td>1.8</td>
<td>5.2</td>
<td>10.9</td>
<td>50.0</td>
</tr>
<tr>
<td>US$, billions$^b$</td>
<td>0.24</td>
<td>0.01</td>
<td>0.04</td>
<td>0.08</td>
<td>0.38</td>
</tr>
</tbody>
</table>

*Source: Sri Lanka’s way towards climate resilience*
Disaster prone Areas
Initiatives for disaster management

• Formulated Disaster Management Act in 2005

• Three institutions were established for DM
  ✓ National Council for Disaster Management (NCDM) chaired by H.E the President
  ✓ Ministry for Disaster Management
  ✓ Disaster Management Centre (DMC)

• Implemented Sri Lanka Comprehensive Disaster Management Programme (SLCDMP) 2014-2018 to ensure safety of Sri Lanka

• Prepared a Disaster management policy
  ✓ Protection of life of the community, property and environment from disasters
  ✓ Effective use of resources for preparedness
  ✓ Enhancement of public awareness
  ✓ Capacity building
  ✓ Pre-disaster planning
Medium Term Targets

* Per capita income of USD 5,000,
* One million new jobs
* FDI inflows of USD 5 billion
* Doubling exports to USD 20 billion.
* GDP growth of around 5.5%
* Budget deficit of 3.5% of GDP

Vision 2030
Vision 2025
Sri Lanka to become an upper-middle income country

Development Framework
**Medium Term Targets**

- Per capita income of USD 5,000,
- One million new jobs
- FDI inflows of USD 5 billion
- Doubling exports to USD 20 billion
- GDP growth of around 5.5%
- Budget deficit of 3.5% of GDP

**Public Investment Programme (PIP)**

**Medium-Term Development Plan**

**Vision 2030**

**Vision 2025**

**Sri Lanka to become an upper-middle income country**

**Blue Green Budget**
<table>
<thead>
<tr>
<th>An Element of a Long Term Strategy</th>
<th>Blue - Green Economy</th>
<th>Enterprise Sri Lanka</th>
</tr>
</thead>
<tbody>
<tr>
<td>Driving the economy towards achieving 5.5% GDP growth, per capita GDP of USD 5,000, one Million new jobs, USD 5 Billion FDI inflows and USD 20 Billion exports.</td>
<td>Focusing at generating and environmentally sustainable economic growth by utilizing much underutilized Ocean resources and thereby facilitating the diversification of the economy with the adoption of new and sustainable technologies specially in agriculture, manufacturing and fisheries in order to reduce environment risk and ecological imbalances.</td>
<td>The goal of the Government is to rebuild the ‘paradise of entrepreneurs’ capitalizing on the inherited skills of the Sri Lankans. Towards this goal it is imperative that all Sri Lankans, not only the private sector, become stakeholders of this initiative.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exports, Tourism and FDI</th>
<th>Social Infrastructure</th>
<th>Social Security and Welfare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exporters would be incentivized by introducing an export market support program and also by upgrading the Standards Institution to international level. There would be incentives for the agriculture sector. Tourism is another sector that has been given prominence in the budget.</td>
<td>The government is keen to improve education, health and vocational education in order to improve quality which is considered a more sustainable strategy to reap better dividends.</td>
<td>There have been quite a number of proposals concerning social security aspects. Ex. insurance scheme Price reduction in selected pharmaceutical items</td>
</tr>
</tbody>
</table>
## Blue Green Budget

### Blue – Green Development Strategy

- facilitate the diversification of our economy, adopting new and sustainable technologies especially in agriculture, fisheries and manufacturing sectors
- reduce environmental risks and ecological imbalances

<table>
<thead>
<tr>
<th>Incentive</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import taxes on an electric car</td>
<td>The import taxes on an electric car will be reduced by at least Rs. 1 million.</td>
</tr>
<tr>
<td>Import tax on the high end fossil fueled cars</td>
<td>The import tax on the high end fossil fueled cars will be increased by almost Rs. 2.5 million.</td>
</tr>
<tr>
<td>Import taxes on a diesel three wheeler</td>
<td>The import taxes on a diesel three wheeler will be increased by around Rs. 50,000.</td>
</tr>
<tr>
<td>Loan to value ratio</td>
<td>The loan to value ratio for the electric buses and three wheelers will be revised to 90/10.</td>
</tr>
<tr>
<td>Electric buses</td>
<td>50 electric buses will be introduced into the SLTB bus fleet.</td>
</tr>
<tr>
<td>Incentives for off-grid solar power</td>
<td>Incentives to encourage the use of off-grid solar power</td>
</tr>
<tr>
<td>Waste disposal management initiatives</td>
<td>Waste disposal management initiatives will be continued and supported</td>
</tr>
<tr>
<td>Ground water monitoring</td>
<td>Ground water monitoring will continue to ensure the purity and safety of water resources.</td>
</tr>
<tr>
<td>Private bus operators</td>
<td>Private bus operators will also be incentivized to go electric.</td>
</tr>
</tbody>
</table>

Waste disposal management initiatives will be continued and supported.

Ground water monitoring will continue to ensure the purity and safety of water resources.
Blue Green Budget Cont’d……

Blue Economy

Focus on building the institutional framework, harnessing the existing activities while diversifying to others without compromising its ecological balance.

• An Integrated Coastal Zone Management (ICZM) mechanism will be developed with the participation of all stakeholders
  - Initiate a project on Beach Replenishment from Mount Lavinia to Ratmalana
  - Protect the coastal belt from Negombo to Marawila
  - Government will invest in 10 lagoons towards cleaning the lagoons, increasing the carrying capacity, supporting the existing livelihoods of fisherman and Research and Development.
  - Hotels and other industries that dispose of their waste into the lagoons will be assisted to invest in technology to ensure zero discharge of waste into the lagoons.

• A virtual Blue - Green - Institute will be set up as the Coordinating Secretariat for Science, Technology and Innovation (COSTI)

• Manufacturers of polythene and plastic products
  - Excise duty on non-bio degradable
  - Concessionary loan scheme for producers that use biodegradable material
Budget Proposals relevant to improving climate resilience

### Sri Lanka: Government Spending on Natural Disasters, 2017-18

<table>
<thead>
<tr>
<th></th>
<th>2017 Actual</th>
<th>2018 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs bn</td>
<td>% GDP</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>53.5</td>
<td>0.41</td>
</tr>
<tr>
<td>1. Mitigation</td>
<td>0.4</td>
<td>0.00</td>
</tr>
<tr>
<td>2. Rehabilitation</td>
<td>34.4</td>
<td>0.26</td>
</tr>
<tr>
<td>3. Cash support</td>
<td>5.2</td>
<td>0.04</td>
</tr>
<tr>
<td>4. Insurance</td>
<td>5.5</td>
<td>0.04</td>
</tr>
<tr>
<td>5. Other</td>
<td>8.0</td>
<td>0.06</td>
</tr>
</tbody>
</table>

Note: Around Rs. 55 billion investment for the development of water resources annually
Financial and Physical Resilience on Disaster Management

Financial resilience

- Relief fund for DM
- National Natural Disaster Insurance Policy (excluding drought) in April 2016
- Categories covered:
  - Natural disaster coverage
  - Accidental death coverage of fishermen
  - Emergency relief measures for victims
- Development Policy Loan - Catastrophic Deferred Drawdown option (CAT-DDO) (US$ 102 Mn)
- Green climate fund (US$ 38 Mn)
- Crop insurance (1% on the profit of the banks and financial institutions)
- Reforms on social safety nets to improve targeting and coverage

Physical resilience

- Disaster risk reduction (DRR) is already incorporated in the national development planning process
- Assess vulnerability of infrastructure and fixing vulnerable infrastructure such as irrigation, flood control infrastructure, road and bridges
- Implemented Climate Resilience Improvement Project (CRIP)
- Creation of river-basin level risk mitigation plan
Allocation Process

Natural Disaster

Ministry of Finance convenes technical committee and triggers use of fund

Local governments and ministries start to submit funding applications through IT system

Technical committee starts to review applications and decides on allocation of funds

Funds are transferred to sub-accounts for the reconstruction program

Local governments and ministries reprioritize projects based on allocated funds

Recovery and reconstruction begins
Challenges

• Sustainability of the Insurance fund in the NITF – operation and maintenance

• Sovereignty – burden on the government

• Structure of the model – fund Inflow/outflow

• Limitations in the assessment of loss and damage
Way Forward
Enhancing resilience to Natural Disasters/Risk Management Framework

<table>
<thead>
<tr>
<th>Frequency of Event</th>
<th>Severity of Impact</th>
<th>Disaster Risks</th>
<th>Disaster Risk Financing Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Minor</td>
<td>High Risk Layer (e.g., major earthquake, major tropical cyclone)</td>
<td>Disaster Risk Insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Medium Risk Layer (e.g., floods, small earthquake)</td>
<td>Contingent credit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Low Risk Layer (e.g., localized floods, landslides)</td>
<td>Contingency budget, national reserves, annual budget allocation</td>
</tr>
</tbody>
</table>
Long run economic strategy

- Develop comprehensive disaster-risk financing strategy:
  1. Insurance
     - Index based agri insurance scheme
  2. Reserve Fund
     - Co-financed by third party insurance and development financing

- Develop a proper data collection and assessment mechanism
Thank You......