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Colombo Development Dialogues 1

**INTEGRATED DEVELOPMENT IMPACT
THROUGH PARTNERSHIPS AND
INNOVATION**

4 APRIL 2018



IN PARTNERSHIP WITH



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Executive Summary

The inaugural Colombo Development Dialogues event focused on 'Integrated Development Impact through Partnerships and Innovation'. The panel brought together a range of individuals from the government, private sector, development agencies, and academia, to provide expert interventions on topics pertaining to diverse aspects of development. The panel was complemented by five pre-identified Discussants, who provided additional perspectives and evaluations of the panellists' comments to facilitate further questions and discussions. As such, perspectives on the need for an integrated framework for development, macro-economic policy, civil society engagement, the role of the private sector in development, innovative reforms targeting the labour force and the education system, and the need for constructive media engagement were discussed and debated during the course of the event.

Panellists and Discussants

The panel was moderated by Dr Mukulika Banerjee, Director, South Asia Centre, London School of Economics and Political Science.

PANELLISTS

Dr Rajesh Venugopal, Lecturer in International Development, London School of Economics and Political Science

Dr Maneesha Wanasinghe, Senior Lecturer, University of Colombo

Ms Dulani Sirisena, Programme Manager (Economic Development), Australian High Commission in Sri Lanka

Mr Carl Cruz, Chairman, Unilever Sri Lanka

Ms Sonali Dayaratne, Policy and Design Specialist, UNDP Sri Lanka

H.E. Tung-Lai Margue, European Union Ambassador to Sri Lanka and the Maldives

Dr Indrajit Coomaraswamy, Governor, Central Bank of Sri Lanka

DISCUSSANTS

Dr Dushni Weerakoon, Executive Director, Institute of Policy Studies, Sri Lanka

Professor Ajith de Alwis, Project Director, Coordinating Secretariat for Science, Technology and Innovation (COSTI)

Ms Smriti Daniel, Journalist

Dr Nilanjan Sarkar, Deputy Director, South Asia Centre, London School of Economics and Political Science

Mr Ruchit Kandage, Senior Transaction Advisor, National Agency for Public Private Partnerships (NAPPP)

Opening Remarks: Dr R. Venugopal

Dr Venugopal began by citing Joan Robinson: 'Ceylon has tasted the fruit before she planted the tree.' Sri Lanka has benefited from a great positive inheritance, with historically high levels of health and education, low levels of infant and maternal mortality and malnutrition, and impressive social programmes which was unusual for a small, poor country in the 1950s.

Nevertheless, some issues confronting the island today include the following:

Issues that may not be in Sri Lanka's control, which need to be managed:

- **Climate change:** Sri Lanka has not contributed greatly to the global problem, but faces its consequences disproportionately. Mitigation and adaptation will be required, as the world heads on to potentially irreversible tipping points.
- **Demography:** Sri Lanka once had high rates of fertility and population growth, but this trend has reversed, with fertility below the replacement level. This is starting to have serious consequences – for instance, the dependency ratio, which declined for 30 years until 2005, is now gradually increasing.
- **International relations:** Sri Lanka is a small, trade-dependent island, which stands on a grand geopolitical faultline. There are great opportunities tied to this location, but also great risks.

Issues within Sri Lanka's control:

- **Governance and institutions:** Sri Lanka faces four main issues on this front: overpoliticisation; a lack of inclusion; ineffectiveness in delivery; and a lack of accountability. Nevertheless, there are reasons for optimism – for instance, the recent Right to Information Act, which will be an important tool going forward, to ensure collaborative processes in development.
- **Community relations:** With the recent violence faced in Digana and Ampara, it is important to note that ethnic violence did not start or end with the civil war. Physical insecurity often leads to disproportionate effects; while violence is cheap, its impact is extremely expensive. It would be wiser for the government to invest in preventing conflicts than dealing with its after-effects. Moreover, intrinsically and instrumentally, high levels of health and education may be a 'blessing' for the country, with cross-country evidence indicating that human capital is good for development. However, it is not possible to ignore that if not managed well, there could be unforeseen negative consequences – for example, high proportions of educated, but unemployed workers could lead to further conflict. Interventions need to be looked at through political economy perspectives.
- **Inequality:** Recent data shows that although Sri Lanka has made progress in poverty reduction, particularly in the decade from 2002-2012, it is the only country in the region that has experienced an increase in inequality since 2009. This warrants more policy attention and research than this issue has received thus far. Inequality is associated with several factors, which can have long-running effects, manifesting not only in consumption, but also evident in health and education, and the private provision of these services, which could culminate in lifelong generational consequences. Sri Lanka faces an under-funding of the public sector in health and education, which should be reversed.

The State of the Economy

Dr Indrajit Coomaraswamy said that if one were to calibrate the Sri Lankan economy since its liberalisation in 1977, it would be characterised by unsustainable budget and current account deficits and inflation – the diametric opposite of South-East Asia. In recent years, growth has been muted; though there has been some success in stabilising the economy, there has been limited impetus for growth, and structural reforms have not moved quickly enough. The country is now moving to strengthen its growth framework through measures to improve the investment climate and trade facilitation.

On the reforms side, he argued that development in Sri Lanka needs to be underpinned by a strengthening of macroeconomic fundamentals, through fiscal consolidation and the reinforcement of fiscal rules, which the country has begun to embark upon – for example, the government is currently considering the strengthening of the Fiscal Management Responsibility Act. Historically, Sri Lanka's monetary policy has often adjusted to accommodate fiscal policy; however, the country is now moving into a flexible inflation targeting regime, with legal and accountability frameworks building greater independence to the Central Bank. Dr. Coomaraswamy noted that if he were to tackle any one issue, he would address inflation – in his view, the ultimate regressive tax on the population.

Foreign Policy to Promote Integrated Development

H. E. Tung-Lai Margue said that the Sustainable Development Goals, and the challenges associated with their implementation, triggered a new consensus on development. For the EU, it created the need to work with member states to implement the Goals, in addition to foreign policy objectives, thus combining foreign affairs policy matters with development priorities. He raised that policy dialogues between Sri Lanka and the EU have been positive – for example, looking at the implementation of GSP+ measures, and measures taken to implement 27 international conventions on human rights, labour rights and the environment in Sri Lanka accordingly.

In response to Dr Nilanjan Sarkar's question to the Panel on what 'out of the box' policy change they would like to initiate, Dr Coomaraswamy briefly touched on the evolving dynamics and geopolitics of the Indian Ocean region, with major powers developing a renewed interest in Sri Lanka. He stressed on the importance of developing a foreign policy with sufficient 'strategic promiscuity' to benefit from such interests.

Private Sector and Development Financing

Ms Dulani Sirisena noted that the financing landscape in the Development sector in Sri Lanka has changed greatly over the past decade. Official Development Assistance (ODA) is no longer the primary source of funding for development, or a big part of the economies of developing countries. We instead see an increase in financial flows and remittances, particularly relevant to middle-income countries, such as Sri Lanka.

The private sector provides around 60% of GDP, 80% of capital flows, and 90% of jobs in the developing world, thus providing a huge resource base for mobilisation towards development efforts. In terms of its approach in tackling development challenges, the private sector has shifted away from Corporate Social Responsibility (CSR) over the past 4-5 years, towards a concept of shared values. There is now a case for businesses to deliver sustainable social impacts, which could generate growth and a sustainable market base, which in turn would lead to greater commercial returns.

Mr Carl Cruz agreed that one cannot decouple profitability from sustainability in the current context. Companies need to be mindful of challenges in the communities and markets they operate in, and view them as opportunities to grow businesses. Over the past decade, consumers have become more attuned to buying sustainably-sourced products – if companies do not shift towards sustainability, they'll become irrelevant. Unilever no longer engages in CSR, but abides by a shared value of “doing good by doing well”. In the previous year, for instance, Unilever and UNDP facilitated a Public-Private Partnerships dialogue, trying to mobilise collective action towards the Sustainable Development Goals.

Civil Society Engagement

Ms Sonali Dayaratne underlined the point that in Sri Lanka, there is often ad-hoc and elite-/Colombo-centric engagement of civil society in law-making. There is a strong need for collaboration between civil society and the government to be institutionalised, with meaningful civil society engagement in government processes systematised. For instance, the constitutionally-recognised Right to Information is a valuable tool for citizens to ensure that the impacts of development processes reach them. Their involvement in law-making, planning, budgeting, and monitoring the government will ensure that processes meet context-specific needs and will reach effectively people on the ground, ‘leaving no one behind’.

Dr Maneesha Wanasinghe stated that while Sri Lanka is globally recognised as a biodiversity hotspot, the environment is often side-lined in development considerations. An integrated, multi-track approach is essential, given the country's dependence on our limited land and water. She highlighted the Heritance Kandalama Hotel as a success story for civil society, with civil society organisations, academics, and youth pressuring the government to move construction away from a crucial catchment area, which led to the hotel promising to ensure that the hotel would be ecologically-friendly.

Education – Sri Lanka's way forward?

Ms Dayaratne also said that civil consciousness of the citizenry at large is a concern. Education plays a large role in inculcating this, and, as demonstrated in the NHDR 2014, education is often perceived by society as a means of social mobility, and less as a vehicle to learn social values and civic mindedness. There needs to be a shift to include value systems in curricula. She also highlighted that the National Youth Survey 2013, carried out with over 3,000 young people, indicated that youth wish to engage in social issues, but an older, adult-led society creates obstacles to engaging civically, with pressure on achieving certain goals related to employment and mobility. Dr Wanasinghe added that creating a culture of questioning and critical thinking in education is necessary.

Dr Coomaraswamy added that the government's mandatory ‘13 years of Education’ policy will soon allow three streams of learning to be followed – academic, technological and trade.

Comments

Integrated Framework for Development

Dr Dushni Weerakoon highlighted that there is no integrated framework to address economic, environmental, or social challenges, compounded by weak institutional structures. Going forward, Sri Lanka will be subject to widening inequalities, given the shift away from agriculture towards services, which the education system has not equipped the workforce for. She stressed on the need for more collaborative and inclusive approaches to development.

Ms Dayaratne stated that more meaningful decentralisation would be required for citizens' involvement to be more effective, and to reach marginalised groups. There are at least 10 districts with huge disparities between national averages and district levels, and huge disparities in both public and private provision of health, education, and social protection services.

A question raised by Ms Amayaa Wijesinghe, a student from the University of Colombo, was on the need for further institutional integration in the public sector, as well as coordination of the policies and plans of the private and public sectors. Sri Lanka is party to international conventions and has nationally determined contributions to report on – for instance, Sri Lanka must submit documents in 2020 under the Paris Climate Agreement. How aware and engaged is the public sector in this process? The government has the mandate to engender development in the country. Policy documents, such as Vision 2025, should incorporate and facilitate integration across sectors to enable this.

Innovation and the Labour Force

Professor Ajith de Alwis felt that a shift in mindset to think differently and creatively is essential to promote integrated development. He argued that Sri Lanka's innovation system is akin to that of a low development country. For instance, much attention is paid to the World Bank's 'Ease of Doing Business' index, but more attention could be paid to the 80 parameters of the broader 'Global Innovation Index'. He noted that our education system often serves other economies with better systems of engagement, leading to high levels of brain drain. New and improved ways of retaining talent will be key to Sri Lanka's progress. He used Singapore's 400% tax rebates on research and development as an example, and highlighted that our own tax rebates are poorly defined and insignificant. Solution mindsets often do not factor in issues like these, but they must.

H. E. Tung-Lai Margue suggested that the onus of retaining talent in the country be placed not only on the government, but also the private sector; even in the absence of internationally competitive salaries, interesting work will encourage people to stay. Carl Cruz argued that simple innovations to adjust work environments could also work – for instance, Unilever reduced the number of working days, which dramatically improved productivity and employee satisfaction.

Dr Coomaswamy mentioned that innovation is often driven by Foreign Direct Investment (FDI), which Sri Lanka has been unsuccessful in attracting for the large part due to inadequate technology. He commented on the importance of looking towards successful countries in East and South-East Asia, where clear goals, such as the adoption of technology, were identified, and frameworks were established to support that. He argued that Sri Lanka should work towards new methods of transmitting the benefits of growth, such as an increased focus on the technological progress and investment needed to generate higher-value livelihoods, and aligning education and skills development with new sectors and emerging opportunities.

Media and Integrated Development

Ms Smriti Daniel touched on how poverty is underreported all over the world, and noted that research suggests that people stay away from the news when perceived to be overwhelmingly negative. She pointed out that the current style of reporting on development issues could be engendering apathy in citizens due to ineffective communication. Many international players in media, such as the BBC, the Guardian and the Economist have shifted towards more

constructive and solution-focused reporting. A survey by the BBC World Service identified that 64 percent of under-35s want news that is solution-driven. She also argued in favour of presenting people as active participants, as opposed to passive victims of their circumstances. Smriti raised that journalists need to collaborate more with people they hadn't before, to generate new partnerships. Collaborating with journalists may be difficult, but it is a crucial and valuable step in reporting on development issues – for instance, to facilitate the critical examination and evaluation of development projects, by identifying and recording impacts on people. These collaborations often give way to new solutions.

Financing Development

Mr Ruchit Kandage noted that the government has adopted several current global practices on public-private partnerships, and are finalising policies aimed at increasing transparency and creating a predictive process for implementing such partnerships. However, partnerships often require substantial funding, given that there is a premium cost that is paid for efficiencies and management capabilities. However, when implementing socially-motivated projects, willingness to invest is often limited, due to potentially lower financial returns. More innovative methods of mobilising financing for development are required. The Public-Private Partnerships Agency has identified a solution called “viability gap funding”, to facilitate an increase in funding for SDG-motivated projects.

Dr Coomaraswamy also said that the development of capital markets is an essential step in furthering development, to create an environment for angel investors, private equity, and venture capital to support start-ups. Nevertheless, he acknowledged that the Information Technology start-up community in Sri Lanka boasts a successful model, which needs to be replicated for other industries.

Mr Nirmal de Silva, a respondent from the audience, highlighted the importance of creating and establishing a social enterprise culture in Sri Lanka. Given success stories from the start-up ecosystem, he raised the possibility of establishing a national-level social impact fund for the country. Dr Coomaraswamy agreed that this would be an interesting way forward, if an ecosystem with the following aspects to create a culture of start-ups geared towards social impact investment was in place: training, access to inputs and technology, greater access to financing, and marketing capacity.

Political Environment for Change

Dr Coomaraswamy noted that from independence onwards, progress in the country has been constrained by populist politics and a deeply entrenched culture of entitlement, which is a damaging nexus. Dr Mukulika Banerjee questioned why populism has the traction it does and why authoritarianism is often allowed to flourish in many countries in the region.

Ms Dayaratne further discussed the need for political party reforms, to move away from a patronage-based society towards a meritocracy. The March 12 Movement, spearheaded by a CSO called PAFFREL, which created 8-point criteria for the selection of candidates, did not receive sufficient support to ensure monitoring. She also discussed the role of the private sector in holding politicians accountable for corruption within their parties.

Dr Venugopal flagged that it is important to talk about politics and be informed by developments within the political sphere, given that development often tends to be de-politicised and theoretical, or technical. Nevertheless, he cautioned against an overemphasis on political narratives – they are important, but are not the end-all to development.

Recommendations

- An integrated framework, involving a multi-track approach focusing on economic, social, and environmental aspects, as well as coordination between the policies and plans of both the public and private sector (as well as non-traditional partners working development issues), is currently missing or relies on weak institutional structures, and needs to be established and/or strengthened.
- There needs to be more policy interest and research aimed at understanding inequality, including disparities in both public and private provision of public goods and social services, such as health, education and social protection, across locations and across marginalised and vulnerable groups.
- Greater attention needs to be paid to mitigating and adapting to climate change trends and environmental challenges that may be out of Sri Lanka's control. Similarly, Sri Lanka needs to deal with and adapt to demographic changes, such as an ageing population and an increasing dependency ratio.
- In order for development efforts to be realised, there needs to be a commitment to strengthen macroeconomic fundamentals and the growth framework simultaneously. Measures to be taken would include stricter adherence to fiscal rules, and ceding greater independence to some decision-making authorities, coupled with strengthening implementation of legal strictures, and frameworks of accountability. Improving the investment climate and trade relations, as well as increasing investments in higher-value livelihoods would facilitate growth.
- Recognition of the socio-economic and political factors and undercurrents that often underpin ethnic violence, and a commitment to investing in preventing conflicts and strengthening community relations, rather than having to deal with the repercussions of violence, is vital.
- There is a strong need for the institutionalisation of meaningful collaboration between civil society and the government, to facilitate involvement in law-making, planning, budget and monitoring, to ensure that processes meet context-specific needs and reach marginalised groups. Meaningful decentralisation would need to be facilitated to ensure effective citizens' involvement. (#3)
- Given issues related to the civic consciousness of the population and education are often viewed primarily as a vehicle for social mobility, Sri Lanka's education system and curricula needs to shift towards including a focus on value systems, civic consciousness, and critical thinking.
- The onus of retaining talent within the country should be shared by both the public and private sectors, through innovative work environments and cultures, incentives for research and development, an alignment of education and skills development with emerging sectors, and the adoption of technology to support new opportunities.
- Businesses need to make the shift away from CSR to a concept of shared values and delivering sustainable social impacts, to remain relevant in the market amid increased consumer consciousness. Investing in communities would create a virtuous cycle of growth and greater commercial returns, incentivising businesses to increase their involvement in development efforts.
- In terms of developing Sri Lanka's social enterprise ecosystem, based on the success of the IT start-up community, the development of capital markets and the establishment of a national Social Impact Fund to mobilise funding towards social impact investments were recommended, in conjunction with support on training, marketing and access to technology for the enterprises.
- Sri Lankan media outlets need to shift towards constructive and solutions-focused reporting, to avoid the underreporting of poverty and other development issues. This could, in turn, enable greater collaboration and partnerships between journalists and other development stakeholders, which would be useful for the critical evaluation of the impacts of development projects.

This Working Paper was compiled from a live recording of the event, and notes taken by rapporteurs. The views expressed here are a summary of the opinions of the Speakers. Views, opinions and ideas expressed here do not reflect those of either UNDP Sri Lanka or LSE South Asia Centre.

The key objective of the 'Colombo Development Dialogues' is the generation of practical and relevant actions for all related sectors discussed in this Working Paper. The organisers and partners for the event will utilise all available channels to disseminate the findings of this Working Paper, which will be available to download free of charge from the websites of UNDP Sri Lanka and LSE South Asia Centre.

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