

Financial Realities and Navigating Shocks

—Insights into Household Vulnerabilities

Mercyline Manoj
Researcher-in-Residence
Gojo & Company, Inc.

 Gojo & Company, Inc.



Narammala Diarist Farmland, Sri Lanka

Sri Lanka Financial Diaries



Mathugama, Sri Lanka; Photograph by Mercyline Manoj

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1. Introduction

Traditionally, discussions on poverty have centered on ‘alleviation’, aiming to lift vulnerable households out of poverty. Upon reviewing Gojo’s Sri Lanka Financial Diaries data and field observations, we find that ‘prevention’ deserves equal priority. Our research reveals that low-income families, still recovering from the 2022 economic crisis, face precarious conditions in which unexpected shocks threaten both their financial stability and emotional well-being.

Consequently, the challenge is not merely to enable households to escape destitution, but to build the resilience necessary to prevent them from falling back into it. As articulated in the World Bank’s report¹ on Adaptive Social Protection, this requires:

“The ability for a household to prepare for, cope with, and adapt to shocks in a manner that protects their well-being: ensuring that they do not fall into poverty or become trapped in poverty as a result of the impacts.”

Serving as a sequel to our first publication, Resilience and Resourcefulness: Household Realities from the Sri Lanka Financial Diaries, this report integrates detailed qualitative interviews with quantitative financial data to address fundamental questions: What triggers a household to slide into poverty? What coping measures do families take during a crisis? How does compounding economic pressure reshape decision-making, and what can be done to enable a transition from short-term survival to long-term stability?

By contextualizing the lived experiences of vulnerable families within the economic realities of post-crisis Sri Lanka, this report aims to guide stakeholders and policymakers toward targeted interventions that foster genuine resilience.

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¹ [World Bank Document](#)

2. Household Cashflow Realities



Areas	9 regions (Quantitative) 3 regions (Qualitative)
Total households	95
Data Collection	Nov 2021–Feb 2024 July–August 2025
Research Agency	Sparkwinn Research

2.1 Household Income

An analysis of income streams across the 95 households in the Financial Diaries shows that cash flows depend heavily on informal, irregular labour, with only a minority of households receiving a monthly salary or pension.

2.1.1 Wage-Labour Dependency

Daily and weekly wages constitute the backbone of household cash flow, accounting for LKR 69.64 million (84% of total recorded income). This heavy dependence on casual labour, particularly in tea estates, construction, cultivation, and food services, dictates the rhythm of household spending. The inflows are frequent but variable, exposing families to high income volatility; a missed day of work often translates into an immediate liquidity crunch.

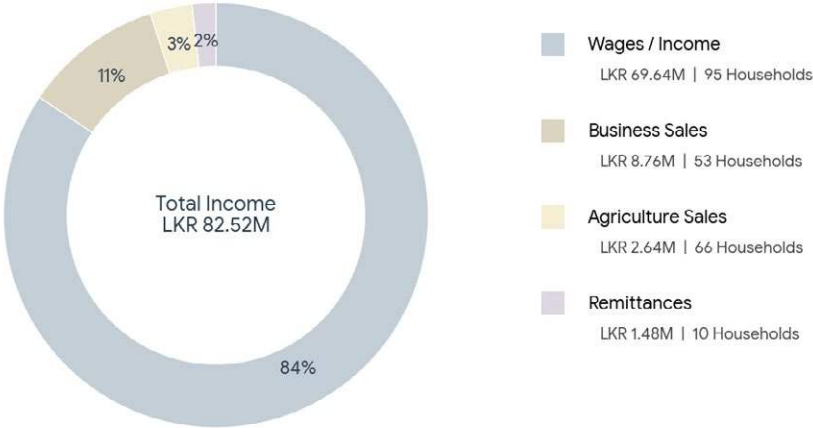


Figure 1 Household Participation and Income

2.1.2 Secondary Streams

Small business activities provide a vital secondary tier of support to mitigate income volatility. Fifty-three (53) households earned a combined LKR 8.76 million (11% of total income) through retail vending, tailoring, fisheries, and small-scale trading. While these businesses offer some liquidity, they often lack the scale to replace wage labour entirely.

Farming remains a widespread safety net, with 66 households engaged in agricultural activities. However, the financial return is quite low compared to the high level of participation. Total sales amounted to only LKR 2.64 million (3% of total income), suggesting that for most families, farming is not a large-scale income-generating livelihood, but rather a way to grow their own food and reduce daily grocery costs.

Remittances, on the other hand, contributed LKR 1.48 million (2% of total income) to 10 households, serving as a stabilizer during periods of high inflation and economic shock.

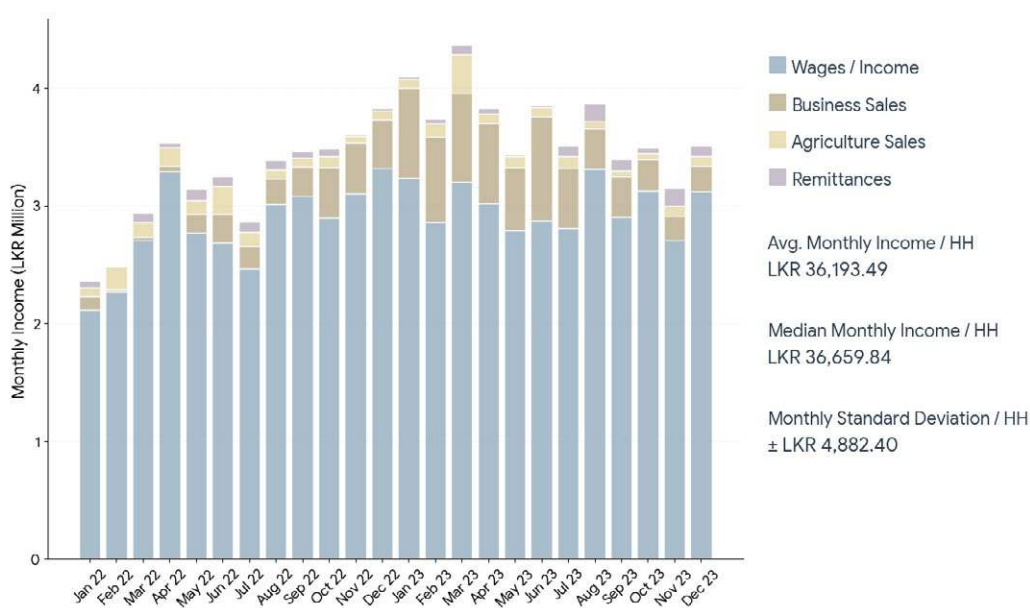


Figure 2 Monthly Income Distribution (2022–2023)

2.1.3 Gifts and Aid

Beyond earned income, cultural and religious events significantly influence the household cash flow. Families received cash support through informal networks and formal state welfare programs. These external transfers served as a critical resource when primary income failed to cover unexpected expenses.

Informal cash transfers occurred across all 95 households in the study, typically during major life-cycle events such as weddings, harvest festivals, health crises,

and bereavement. The largest informal inflows occurred at funerals, where customs and traditions call for elaborate rituals and communal feasts. While these obligations impose a heavy financial burden, they also prompt a surge in cash gifts from the community.

On the formal side, government welfare programs provided a modest but consistent supplement for vulnerable families. Specifically, 27 households received Samurdhi benefits, while nine were enrolled in the newer Aswesuma scheme. When combined with disability allowances, these state-led transfers, though small in scale, helped to support day-to-day consumption needs.

Figure 3 presents a few examples of gifts received by individual households during specific events, illustrating cultural and social support.

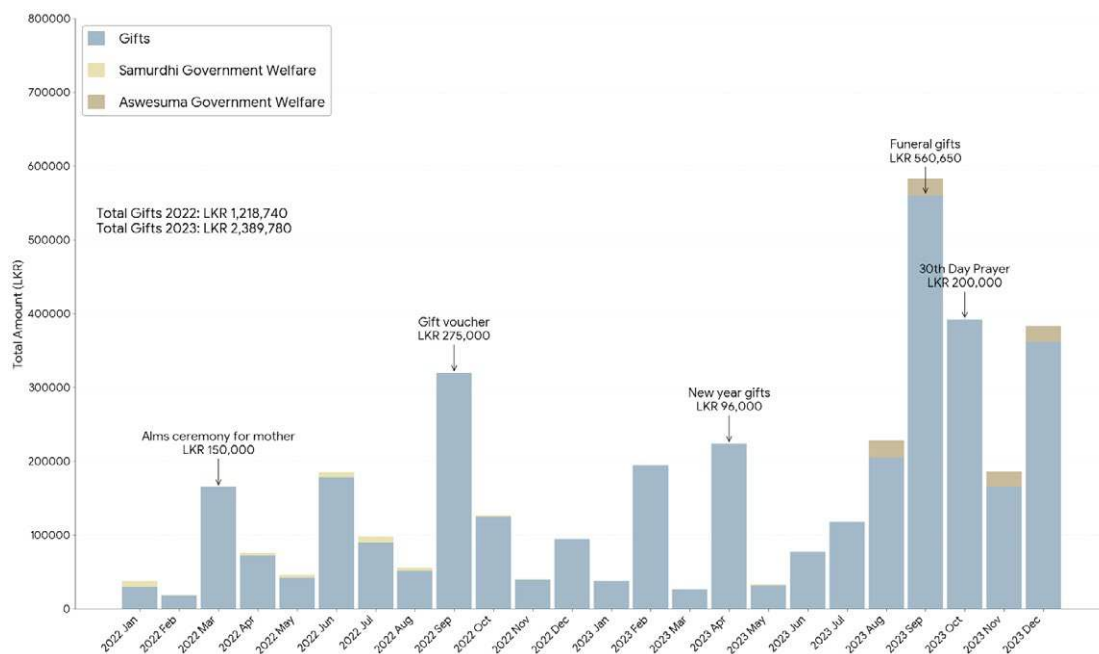


Figure 3 Overall Gifts and Aid Received By Households

Overall, the cash inflow analysis reveals that households relied overwhelmingly on labour income (84%). In comparison, small-business earnings (11%) and agricultural activities (3%) served primarily to smooth daily cash flow rather than to build wealth. With a month-on-month volatility of $\pm 10\%$, families operated on thin margins, leaving them with little buffer for unexpected expenses. Informal transfers and government aid, though accessible to most households, provided only minimal liquidity during crises rather than meaningful financial protection.

Households relied predominantly on labour income, while small business and agricultural earnings helped smooth daily cash flow rather than build wealth.

2.2 Household Expenditure

To assess the economic welfare of the 95 households in the Financial Diaries, monthly per-capita household expenditures were analyzed over the research period. These figures were benchmarked against the National Official Poverty Line (OPL) of LKR 13,777, as established by the Department of Census and Statistics (DCS), for our research period.

Amid the economic crisis from late 2021 to 2023, characterized by high inflation and currency depreciation, the OPL provided a consistent baseline. This measure remained essential for tracking real purchasing power even as exchange rates steadied and signs of economic recovery emerged in late 2023 and early 2024.

A 4-tier classification, widely used in research by UNDP, the World Bank, and other academic researchers to move beyond the binary poor-and-non-poor categories, was adopted to identify varying degrees of poverty and economic vulnerability within the sample.

Table 1 Household classification based on the Sri Lanka Official Poverty Line (OPL)

Poverty Classification	Expenditure Relative to OPL	Number of Households (n=95)	Percentage of Total
Extreme Poverty	<50% of OPL	28	29%
Moderate Poverty	50–100% of OPL	52	55%
Vulnerable	100–150% of OPL	11	12%
Non-Poor	>150% of OPL	4	4%

Based on overall household expenditure, 29% of households lived in extreme poverty, while 55% fell into moderate poverty. Only 16% were above the poverty line. The results indicate that the majority experience severe financial hardship and limited consumption, underscoring the depth of poverty among the participant households.

Note: The selection of low-income households was an explicit research criterion intended to facilitate a better understanding of livelihoods and financial resilience during the research period. Given the rising costs of essential commodities during the study period, these figures were treated as indicative estimates of the households' real purchasing power.

Purchasing Power Parity (PPP)

To enable a global comparison, household daily expenditures were converted to international Dollars using Purchasing Power Parity (PPP) rates. These figures were then benchmarked against the World Bank’s international poverty lines², as shown in Figure 4.

Note: The PPP conversion factor for Sri Lanka fluctuated significantly throughout the study, rising from LKR 80.81 per USD in 2022 to LKR 90.46 per USD in 2023, before stabilizing at LKR 87.49 per USD in 2024. Daily expenditures were calculated using the annual PPP rate corresponding to the data collection period. A weighted average was then calculated from these figures to derive a representative daily expenditure for the duration of the study.

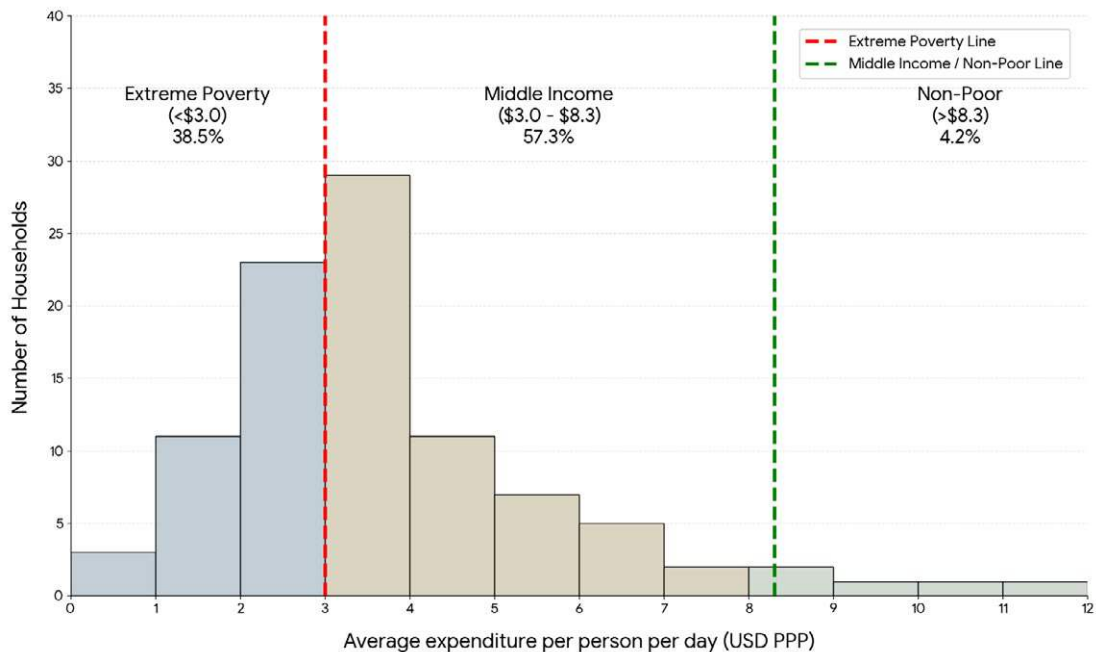


Figure 4 Daily Expenditure Per Person Per Day (USD PPP) Benchmarked with World Bank’s International Poverty Line.

When viewed through global benchmarks, the data reinforces the findings of the national analysis regarding the depth of vulnerability:

The “Extreme Poor”

More than one-third of households (38.5%) survive on less than \$3.00 PPP per day. This segment aligns directly with patterns of irregular, low-skilled labour and faces the highest exposure to food insecurity and inflation. Their expenditure is strictly limited to immediate survival needs, leaving them unable to absorb shocks.

² [June 2025 Update to Global Poverty Lines](#)

The “Struggling Middle”

The middle-income segment accounts for 57.3% of households, with per-person daily expenditure ranging between \$3.00 and \$8.30 PPP. Despite engaging in income diversification and asset building, these households simultaneously resort to debt accumulation and asset liquidation to manage cash flow. While above the poverty line, they remain vulnerable to downward mobility, with persistent liquidity constraints that leave them fragile during periods of uncertainty.

The “Non-Poor”

A marginal 4.2% of the households maintained daily expenditure levels above the \$8.30 PPP threshold. The economic resilience of this segment is primarily attributed to higher, stable wages, diversified income through agriculture, and self-employment.

The middle-income segment accounts for 57.3% of households, with per-person daily expenditure ranging between \$3.00 and \$8.30 PPP. Despite engaging in income diversification and asset building, these households simultaneously resort to debt accumulation and asset liquidation to manage cash flow.



Diarist 116Na recovering from a health shock, supplementing lost wages through paddy sales.

3. Shocks and Household Vulnerability

To capture the true financial realities of low-income households, our research had to look beyond income and expenditure metrics. It required mapping the unexpected crises these families faced and assessing their underlying capacity to survive them. The field interviews and quantitative analysis revealed that the fragile stability of these households was frequently undermined by sudden, disruptive events (referred to as 'shocks') occurring before and during the research period.

The shocks were rarely just temporary setbacks. Instead, they imposed a double burden on families, simultaneously slashing their income while triggering unpredictable spikes in expenditure, leaving them more vulnerable than before.

While a shock acted as the trigger, it was a household's vulnerability, an often invisible state of financial fragility, that ultimately dictated the severity of the impact. Vulnerability measured the likelihood that a family would experience downward economic mobility in response to a crisis.

The following table outlines the primary shocks experienced by diarists during the study and details the specific drivers of their economic and social vulnerability.

Table 2 Types of Shocks

Shock Category	Factors that Exacerbated Vulnerability
Small Business Loss	Economic aftershocks of COVID-19, hyperinflation, and supply chain disruptions.
Death of Primary Earner	Loss of income source, exorbitant funeral expenses, and young adults entering daily labour.
Health Shocks	High surgery and medical costs, foregone wages due to caregiving responsibilities, and a lack of insurance.
Migration Scams	Heavy debt from visa and travel costs led by fraudulent migration agents, and human exploitation risks.
Climate Shocks	Landslides, water scarcity, and weather-driven income volatility.

3.1. Small Business Loss

Economic disruptions, especially during the COVID-19 pandemic and the 2022 economic crisis, severely impacted small businesses and microenterprises. Rising inflation, supply shortages, and collapsing demand depleted cash reserves and forced many households to shift from skilled occupations to irregular daily-wage labour.

According to the World Bank³, real incomes in Sri Lanka contracted sharply during this period as thousands transitioned into lower-paying informal work. We see this reflected in the lives of our diarists, where income instability made it difficult to manage daily expenses, repay loans, or build savings, increasing their vulnerability to future shocks.

Diarist 16Ke: Shaken Yet Resilient

Diarist 16Ke lives with her husband and their 6-year-old daughter. Their livelihood previously centered on a home-based business manufacturing vehicle cushions on a contract basis. However, the COVID-19 pandemic halted operations after the business lost its contract, and it has remained inactive ever since.

To sustain the household, her husband now works for a weekly wage at a similar microenterprise. While this provides a steady income, it is considerably lower than their previous earnings, pushing the family to adopt strict cost-cutting measures. An unused sewing machine symbolizes the

3 [Global_POVEQ_LKA.pdf](#)—Worldbank datafiles on poverty in Sri Lanka

loss of their home venture; the LKR 20,000 required to repair it also remains a financial barrier to reconsidering the business.



Despite the loss of their independent business, the household demonstrates notable resilience. They have successfully repaid a 75,000 LKR business loan and are currently debt-free. The diarist manages to deposit small amounts into her savings account and relies on her parents for financial assistance during emergencies. Her goal is to transition from survival to stability; she aspires to revive the cushion-making business once she has accumulated sufficient savings to purchase raw materials, repair the machine, and secure new contracts.

3.2 Death of a Primary Earner

The death of a spouse, often the primary income earner, was one of the most devastating shocks observed in the diaries and often marked the start of a rapid descent into financial instability. Beyond the emotional impact, the abrupt cessation of income created a liquidity crisis, particularly when the deceased had been the sole or dominant earner.

Social and cultural obligations to incur large funeral and burial expenses further strained families, often requiring them to borrow money or liquidate their savings. Widows suddenly found themselves responsible for earning income while caring for their children. Many found it challenging to secure consistent employment, particularly in rural areas, which further hindered their ability to recover from the loss.

Diarist 03Ma: Compounded Tragedy



Diarist 03Ma is a widow raising two daughters aged 13 and 6. She lives in a house that belonged to her in-laws, a home she now occupies but does not legally own.

Within the span of six months, her household underwent two compounding losses. The first was the death of her father-in-law, which required LKR 100,000 in borrowed funds to cover the funeral expenses. Before that debt could be repaid, her husband died suddenly of cardiac arrest, adding a further LKR 30,000 in emergency borrowing. She had no savings, no insurance, and no time to prepare. Overnight, she became the sole earner for her family.

She found work as a tailor at a garment factory, where she earns around LKR 40,000 per month. That income covers debt repayments and basic household needs, but leaves almost nothing in reserve. To meet her shift, she leaves home before 4:30 AM. Her younger daughter, aged six, is largely dependent on her thirteen-year-old sister during the day.

The house they live in is aging and needs repair. The diarist would like to renovate it out of concern for her daughters' safety and stability. However, the property was neither formally registered in her husband's name nor in hers. Without a legal title, she cannot use the property as collateral. This closes off access to formal credit, the possible route to financing repairs.

This diarist's circumstances combine the loss of the primary earner, accumulated debt from back-to-back emergencies, constrained income with no margin for saving, and a gap in legal documentation that blocks access to institutional support.

3.3 Health Shocks

Although Sri Lanka benefits from a free universal healthcare system, health emergencies remain a primary driver of economic risk for low-income families. Specialized treatments, surgeries, and diagnostic services were often subject to long wait times in the public sector, prompting families to seek private care, which in turn resulted in high out-of-pocket expenditures.

The financial toll extended well beyond medical bills. Families lost income when a patient or caregiver was unable to work, while ancillary costs, including travel, medications, and lodging, further drained their resources. Households commonly liquidated assets like land, jewelry, or vehicles, or turned to high-interest informal loans to save a loved one, especially for surgical procedures. Even after the patient recovered, the family's financial recovery often took years, leaving them with fewer resources to manage future emergencies.

Diarist 18Ke: The Cost of Recovery



Diarist 18ke is a mother of three whose household experienced a sudden, severe health shock when her husband, the primary earner and a three-wheeler driver, required unexpected heart bypass surgery costing approximately LKR 1.55 million. Lacking the necessary financial buffers or insurance to absorb the high costs, they liquidated their most valuable assets, selling both their house and the husband's income-generating three-wheeler to cover the medical costs.

During his recovery period, the household depleted their remaining savings, moved into shared housing with a relative, and relied on their parents for daily sustenance.

Although her husband has recovered and returned to work, his earning capacity remains compromised. He earns LKR 4,000 a day, but must pay LKR 700 to rent his vehicle. On top of this, he must spend LKR 8,000 every month on his post-surgery medication, leaving very little money for the five of them to live on.

Moreover, they are unable to obtain loans from formal institutions due to a lack of required documents. Hence, they turn to expensive private moneylenders during emergencies.

Ultimately, this case study illustrates how a health emergency and the subsequent reliance on asset liquidation for survival strip a family of its primary livelihood and diminish its long-term economic resilience.

3.4 Migration Scams

In rural Sri Lanka, many see overseas migration as a promising pathway to escape poverty. Families hope that sending a member abroad will allow them to earn higher wages, settle debts, build homes, and avoid the instability of the local job market. This trend grew rapidly during the 2022 economic crisis, leading to record migration⁴ and a surge in passport applications.

However, this widespread desperation to emigrate made many vulnerable households prime targets for fraudulent migration agents. Driven by the anticipation of future remittances, families liquidated their life savings and took on massive debt, both formal and informal, to cover exorbitant visa and travel costs.

Unregistered and fraudulent agents exploited this urgency, cultivating trust only to abscond with the funds they had accumulated. For the victims, the economic consequences were devastating; these households faced total financial collapse, insurmountable debt, and deep psychological trauma, ultimately leaving them in a significantly more precarious economic position than before they attempted to migrate.

⁴ Detailed migration data is available through the Sri Lanka Bureau of Foreign Employment website — [SLBFE | Years 2022](#)

Diarist 107Na: The Debt Trap



Diarist 107Na lives with her husband, a construction labourer, and their four children. In 2022, seeking to secure long-term financial stability, the family made a significant investment to send their second son, a tailor who had previously worked in Russia, overseas. To finance this, they exhausted their existing savings and secured a formal loan of LKR 400,000 from a local financial institution, trusting a local agency with the travel and visa arrangements.

However, upon arriving in Russia, the son discovered that the agency was fraudulent and that his visa was invalid, leaving him stranded. For his return to Sri Lanka, the desperate family borrowed an additional LKR 300,000 from a private moneylender at exorbitant interest rates.

Now, back home and working locally as a tailor, the son's entire income goes toward repaying the loan. This financial paralysis is evident in their physical environment: their home remains an unfinished shell, lacking a complete roof and a functional kitchen, and construction has been halted for over 2 years as most of their income goes toward debt repayment.

3.5 Climate Shocks

The diaries revealed that climate-related shocks were a recurring and devastating reality for tea estate workers and smallholder tea farmers. Tea production is highly susceptible to weather changes, and deviations in seasonal patterns frequently disrupt yields and tea leaf quality. Excessive rainfall and intense heat not only degraded the leaves but also reduced the harvest weight. Since their livelihoods depended on meeting daily plucking targets, these environmental shifts directly translated into income losses.

Beyond the immediate loss of earnings, these households faced extreme physical vulnerability due to their precarious living conditions on landslide-prone slopes. Diarists recorded instances in which monsoons destroyed homes, forcing families to rely on informal loans or workplace support to rebuild. These recurrent shocks acted as a constant threat to their stability, progressively compounding household vulnerability.

Diarist 114Ma: Weather-Dependent Wages



Diarist 114Ma is a smallholder farmer in Mathugama, living with his wife and two children. His livelihood centers on tea cultivation, yielding a daily harvest of 25 to 40 kilograms. By selling these tea leaves to a local factory at approximately LKR 50 per kilogram, he generates a fluctuating monthly income between LKR 40,000 and LKR 60,000, which he supplements by cultivating fruits for his own household's consumption and occasional local sales.

Despite this minor diversification of crops, his overall earning capacity remains dictated by weather variability. During periods of heavy monsoon rainfall, his harvest volume drops significantly. Lacking financial buffers or crop insurance to absorb these seasonal fluctuations, he relies heavily on informal financial support from relatives to meet basic household expenses during these lean periods.

Ultimately, reliance on a single, climate-sensitive income source underscores the profound vulnerability of agricultural households. Weather conditions directly translate into income losses, leaving smallholder farmers persistently exposed to climate-related economic risks and livelihood volatility.

The shocks were rarely just temporary setbacks. Instead, they imposed a double burden on families, simultaneously slashing their income while triggering unpredictable spikes in expenditure, leaving them more vulnerable than before.



Diarist 116Na's self-made shop, set up after a health shock to sell groceries and refreshments.

4. Household Coping Measures

Amid the overlapping pressures from the economic crisis, families adopted a range of coping measures, driven by extreme necessity rather than choice. These responses combined immediate survival methods and long-term adaptive measures; some coping mechanisms helped weather the storm, whereas others entailed significant personal and financial sacrifices.

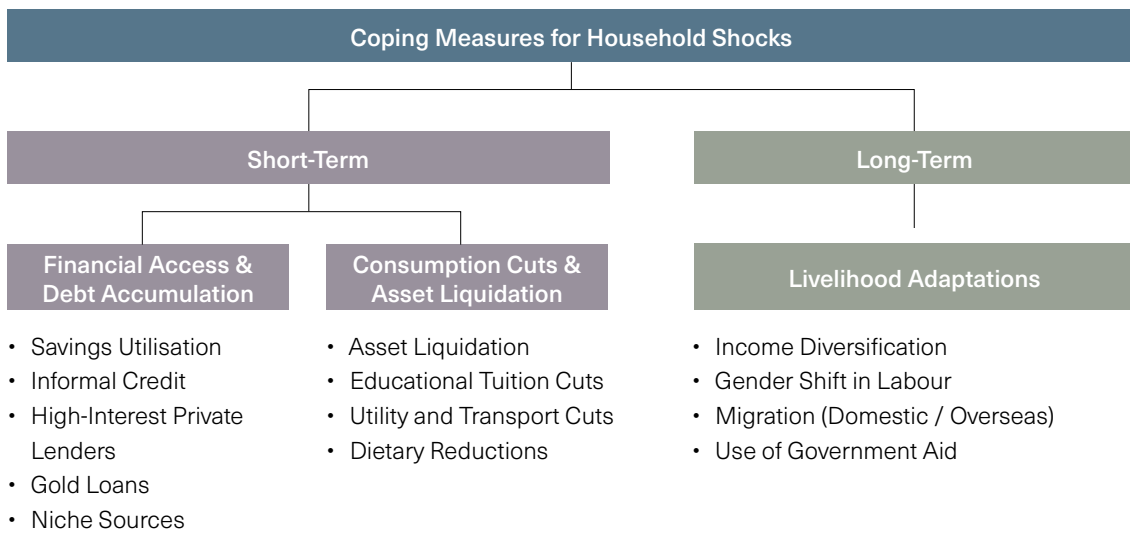


Figure 5 Household Coping Measures

4.1 Short-Term Measures: Immediate Survival and Trade-offs

Short-term measures were immediate responses to shocks, primarily aimed at managing liquidity crises and stabilising cash flow. While these actions provided immediate relief, they entailed trade-offs, including increased debt, asset losses, and sacrifices that eroded households' future well-being.

4.1.1. Financial Access and Debt Accumulation

- **Savings Utilization:** Approximately 53% of households withdrew savings to cover emergencies and unexpected events. While this initially avoided debt, these reserves were often thin; once exhausted, families had to turn to higher-risk options.
- **Informal Credit:** About 40% of households relied on interest-free loans from relatives and neighbors. These arrangements were governed by social capital, typically with flexible repayment terms, highlighting reliance on community ties to mitigate shocks.
- **High-Interest Private Lenders:** Approximately 39% of households used private moneylenders as a secondary source when informal support from social networks was exhausted. Despite exorbitant interest rates, families sacrificed their financial health to secure quick access to funds for immediate expenses.
- **Gold Loans:** Popular in the Sri Lankan cultural context, gold loans were an important financial instrument for 23% of households. Families pawned small pieces of gold jewelry to obtain immediate, low-interest cash disbursements to address health emergencies, business losses, or climate-related shocks. While this provided a vital source of liquidity, it placed family assets at risk of forfeiture if households could not meet repayment schedules.
- **Niche Sources:** About 14% of households used ROSCAs (Rotating Savings and Credit Associations), and 12% used workplace loans during periods of uncertainty, particularly for bereavement and sudden health challenges.

4.1.2. Consumption Cuts and Asset Liquidation

- **Asset Liquidation:** Families sold productive assets, including livestock, land, and vehicles, which signaled profound financial distress. The liquidation of land or vehicles was particularly detrimental, as it sacrificed the long-term income-generating potential of the asset for short-term liquidity.
- **Educational Tuition Cuts:** While primary schooling was generally maintained, households reduced spending on private tuition and extra classes. In certain

households, parents expected teenagers to abandon higher education in favour of daily labour to supplement household income. It was not uncommon to see teenagers in struggling households leave school after turning 16, the maximum age of compulsory education.

- **Utility and Transport Cuts:** To manage rising costs, households significantly curtailed their electricity and water usage and deferred utility bill payments. Many families also reduced their transportation expenses; notably, three-wheeler owners and drivers of three-wheelers had to limit their travel due to fuel rationing during the economic crisis, which reduced the number of available hires and led to a sharp decline in their daily earnings.
- **Dietary Reductions:** Households reduced their dietary intake by substituting cheaper staples for protein sources. In severe cases, adults skipped one or two meals per day to ensure children had enough to eat, thereby exposing them to significant long-term health risks.

4.2 Long-Term Measures: Livelihood Adaptations

As shocks persisted, some households transitioned from immediate survival to structural livelihood adaptations to generate sustained income and mitigate ongoing volatility.

- **Income Diversification:** Household members increasingly engaged in multiple seasonal or temporary jobs, such as masonry, tea estate labour, or farming. A few families established micro-businesses, including grocery shops, tailoring, or street food vending, which, despite their modest scale, served as essential buffers.
- **Gender Shift in Labour:** Labour dynamics shifted as women increasingly entered the workforce in tea estates, garment factories, and domestic service. This transition often occurred when health challenges, job loss, or death incapacitated the primary male earner. While these roles were vital for survival, they required women to sacrifice personal well-being to balance paid labour with unpaid caregiving responsibilities, typically without access to childcare or social protection.
- **Migration Strategies:** Migration remained a central, albeit high-risk, strategy. Families sent members to urban areas like Colombo or secured substantial loans to finance overseas employment in the Middle East or East Asia. While successful migration stabilized households through remittances, failures or recruitment scams often plunged families into unmanageable debt.

- **Government Safety Nets:** Accessing state assistance, primarily through the Samurdhi and Aswesuma welfare schemes, provided critical cash transfers and groceries. Although classifying state aid as a formal coping measure is debatable, these poverty alleviation programs provided food stamps, access to cooperative shops, and credit facilities to eligible members. These resources were instrumental in preventing the most vulnerable households from falling further into deprivation at the height of the crisis.

The research revealed that households employed a combination of short-term survival methods and long-term adaptive measures, resulting in markedly different outcomes for their future stability.

Short-term measures, while providing immediate liquidity, significantly increased vulnerability by eroding future earning capacity and diminishing the ability to recover from subsequent shocks. These measures often involved liquidating productive assets and relying on high-interest debt. Furthermore, households made sacrifices such as reducing dietary intake, curtailing utility and transport expenses, and withdrawing children from extra tuition, which offered a temporary financial reprieve but ultimately hindered long-term human capital development.

In contrast, long-term adaptive measures, including income diversification, successful migration, and women's entry into the workforce, facilitated more sustained cash flows and established a viable pathway to upward mobility. The presence of informal social support and government aid proved to be crucial buffers, providing the resilience needed to manage crises without resorting to detrimental coping mechanisms.

Short-term measures, while providing immediate liquidity, significantly increased vulnerability by eroding future earning capacity and diminishing the ability to recover from subsequent shocks.



Diarist 02Ma's 100-year-old inherited ancestral home and smallholder tea farm, both not registered in his name.

5. Structural Factors Influencing Vulnerability

Beyond income volatility and the immediate impact of shocks, deep-seated structural issues also dictated households' choice of coping measures. These systemic barriers often limit a family's ability to recover or achieve upward mobility, regardless of individual effort. An analysis of these issues provides critical insight into why many households remain vulnerable, even when daily consumption appears relatively stable.

Table 3 Structural Barriers to Household Stability

Vulnerability Indicators	Impact On Household
Lack of Legal Documentation	Absence of identity documents, land deeds, or marriage certificates leaves households unable to access formal credit and drives reliance on high-interest private lenders during crises.
Youth in Daily Labour	Upon completing secondary school, 16-17-year-olds opt for daily-wage work to supplement household income. This sacrifices long-term earning potential for short-term survival, perpetuating intergenerational poverty.
Utility Arrears	Following three tariff revisions (in 2022 and 2023), substantial cost increases have led to accumulated bills. Households skip payments, make partial payments, or borrow to avoid disconnection, highlighting their inability to absorb cost-of-living shocks.
Incomplete Housing	Unfinished construction (roofs, kitchens, or sanitation facilities) indicates stalled investments, exposing households to poor living standards and health risks. These conditions reinforce a persistent state of vulnerability and trap families in debt.

5.1. Lack of Documentation

An outwardly invisible but crucial factor is the absence of proper legal documentation, utility accounts in the resident's name, and updated personal identification.

Many rural households reside on land that is informally inherited and not legally registered in their names. During the qualitative interviews, we found that some households have relied on relatives' or neighbours' utility services for many years, such as water and electricity, and therefore lack verifiable utility documents in the head of household's name. Without proof of identity and income, as these diarists live on daily wages, they are unable to access formal credit. Financial exclusion is very real. In emergencies, they rely on private lenders at exorbitant interest rates when the social networks fail. Furthermore, the lack of documentation exposes households to legal risks and inheritance disputes, which prevent asset building and formal integration.

5.2. Youth in Daily Labour

The most concerning long-term factor is early educational discontinuation. Despite Sri Lanka's free education system, the research revealed that teenagers in the studied households were leaving school at ages 16 or 17 to enter daily labour and supplement household income. When economic shocks occur, parents also prioritize immediate low-wage earnings over the potential long-term benefits of higher education. Costs such as transportation and tuition fees for extra classes render schooling a financial burden for already struggling families. This early exit from education entrenches intergenerational poverty, ensuring that the next generation remains trapped in the same cycle of low-skilled, low-wage labour.

Diarist 20ke: Business Loss and Weight on Young Shoulders

Diarist 20Ke is a shoemaker who lives with his wife and three sons in Kesbewa. The family resides in an unfinished house, reflecting their ongoing financial struggles. Before the COVID-19 pandemic, the diarist worked as a contractor making handcrafted leather shoes; however, the pandemic and the subsequent economic crisis led to the loss of his contract and pushed him to become a street vendor repairing shoes. In this work, his earnings fluctuate around LKR 1,500 per day, which is almost insufficient to support a household of five with severe reductions in consumption.



Consequently, the burden of household survival shifted to the children. Upon completing secondary education, the two eldest sons started working as daily labourers. The eldest son works in a vehicle spare parts shop, while the second works at a car wash. Together, they contribute approximately LKR 60,000 per month to the household. This combined income enables the family to meet essential expenses, maintain utility and healthcare payments. Supported by his sons, the diarist aspires to restart his shoemaking business and resume the construction of their home.

Diarist 20Ke's case highlights a critical household coping mechanism: the early entry of young adults into daily labour as a primary buffer against poverty. While the sons' employment provides the cash needed to stabilize the household, this strategy creates a costly trade-off. The family sacrifices long-term educational and career prospects to manage immediate income volatility.

5.3. Utility Arrears

During the 2022 economic crisis, utility tariffs surged due to fuel shortages, rising fuel import costs, and the sharp depreciation of the Sri Lankan Rupee (LKR). The IMF-mandated cost-reflective pricing for the national economic recovery program further increased prices. Major electricity tariff hikes occurred in August 2022 (+75%)⁵, February 2023 (+66%)⁶, and October/November 2023 (+18%), approved by the Public Utilities Commission of Sri Lanka (PUCSL)⁷.

5 [Electricity Tariff Revision 2022 | PUCSL](#)

6 [Commission-Paper_CEB-Tariff-Proposal.pdf](#)

7 [Decisions and Orders | PUCSL](#)

Our diaries data reflected these policy shifts, showing a substantial increase in utility payments between 2022 and 2023. For households reliant on volatile daily wages, these tariff hikes disproportionately consumed household budgets, increasing their financial vulnerability. To prevent disconnection, a few families opted for partial payments, resorted to informal borrowing, while others incurred penalties for delayed payments. Figure 6 illustrates this comparative increase in household electricity expenditure over the two years among the research households.

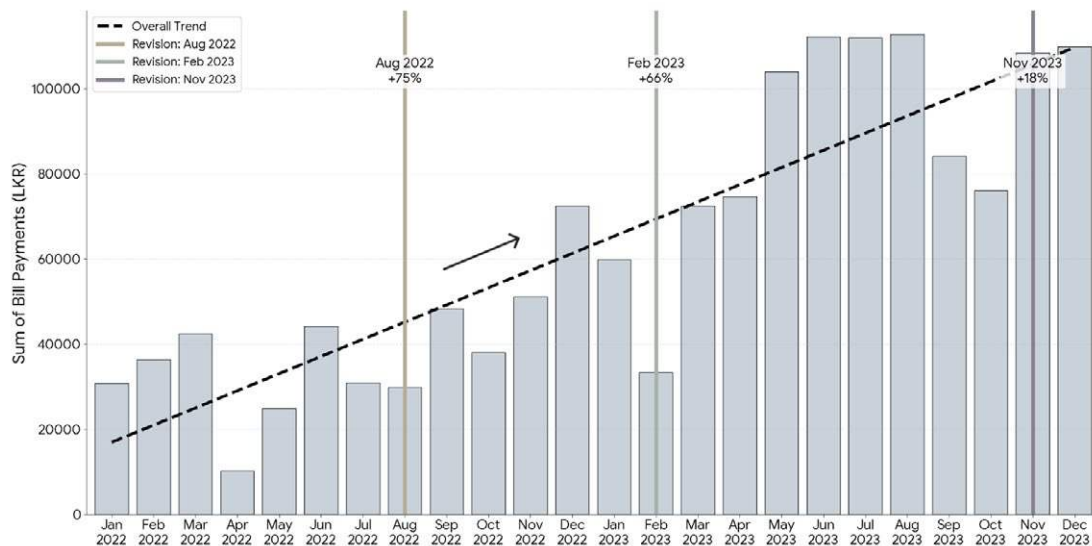


Figure 6 Total Household Electricity Bill Payments

Total household electricity payments nearly doubled from LKR 459,383 in 2022 to LKR 1,059,788 in 2023, representing a 130.7% increase. Higher payments immediately followed the three tariff increases in subsequent months. The February 2023 tariff hike (+66%) was followed by a sharp jump, with payments surging from LKR 33,320 in February to LKR 72,485 in March, and continued to climb through mid-year, peaking at around LKR 112,000 during May-August 2023. The steep upward trend suggests that households devoted substantially more resources to electricity costs in 2023 than in the previous year.

Diarist 32Na: Electricity Bill Payments in 2022–2023.

Diarist 32Na lives with her husband, parents, and two children aged 4 and 2. Her husband works as a carpenter, earning an average of LKR 6,000 per week. The following data presents their electricity bill payments relative to household income.

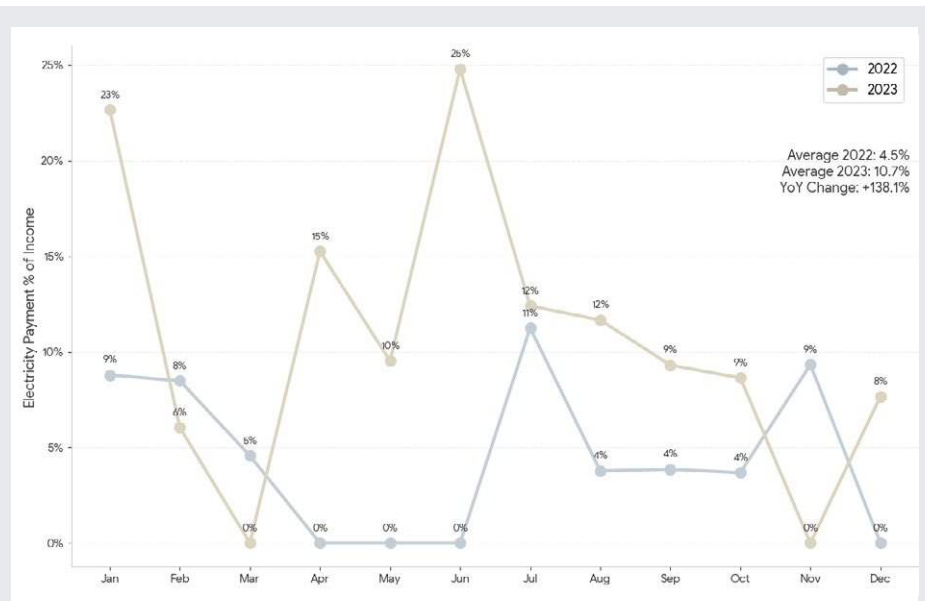


Figure 7 Narammala Diarist - Electricity Bill Payment Impact

Based on the bill payment analysis, the average percentage of household income allocated to electricity payments increased 2.4 times, rising from 4.5% in 2022 to 10.7% in 2023, a concerning 138% year-over-year increase. The data show severe spikes in 2023, with June peaking at 25%. There were months when household could not make payments, including April, May, June, and December 2022, and Mar and Nov 2023. The resulting accumulation of arrears and subsequent lump-sum payments highlight financial vulnerability, as essential utility costs continue to displace a significant portion of income.

5.4 Incomplete Housing

Inadequate housing and a lack of basic amenities were also drivers of vulnerability among the diarists. Families typically constructed their homes incrementally over several years; during our visits, we observed incomplete kitchens, a lack of sanitation facilities, and substandard flooring and roofing.

The absence of formal documentation or eligibility papers led to the house being constructed primarily through informal sources, such as ROSCAs (Revolving Savings and Credit Associations) and credit from family and friends, as well as through state-run welfare programmes like Samurdhi housing loans. Families often had to repay one loan in full before becoming eligible for another, leaving homes unfinished for extended periods. These households are exposed to poor living standards, health risks, and weather shocks, reinforcing a persistent state of vulnerability. A prevailing mindset that basic amenities were either unaffordable or not an immediate priority delayed home improvements.

Diarist 09Ma: Stalled House Construction.



Diarist 09Ma's house has been under phased construction for over two years due to insufficient funds and a lack of access to formal credit, stemming from gaps in documentation. Her husband earns a daily wage of LKR 2,000 as a skilled construction worker, while she supplements their income through tailoring to support their two children, aged 9 and 7. The family resides on ancestral land that is not officially registered in the husband's name. Furthermore, the household does not bear the cost of water or electricity, as they own a well and rely on her father-in-law to cover utility bills. All these document gaps act as legal barriers that exclude them from formal financial institutions.

To finance their new house, they secured a loan through Samurdhi, a government poverty alleviation initiative; however, they are now locked into a five-year repayment cycle that prevents them from accessing further installments until the debt is cleared. They also relied on a ROSCA (Rotating Savings and Credit Association) and family assistance, which lacked the scale needed to complete the project, leaving the structure stalled. The current house they live in also lacks private sanitation or toilet facilities, an inadequacy the family has normalized by using a relative's facilities next door and viewing such basic amenities as unaffordable luxuries.

The lack of legal documentation, inadequate housing, poor living standards, and debt payments all reveal that their vulnerability is rooted in systemic issues rather than just a lack of income.

Understanding these structural warning signs is essential for institutions and government organizations that wish to serve these communities and move beyond emergency relief support. Without addressing the underlying hurdles to stability, such as lack of legal documentation, the entry of teenagers into the labour force, and persistent utility arrears, households with relatively stable consumption will remain highly vulnerable to any external shocks.

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Gojo team conducting a qualitative interview with a Narammala diarist.

6. Assessing Household Vulnerability and Framework

Based on the preceding analysis of shocks, coping mechanisms, and structural issues, vulnerability does not arise from a single factor. Instead, it emerges at the intersection of income and consumption patterns, resource availability, access to institutional support, and the specific choices households make when confronted with shocks. Consequently, households experiencing identical shocks, such as a medical emergency, have recovery paths that diverge sharply. While one household stabilizes within months by leveraging available buffers, income diversification, and social support, another falls into a compounding cycle of high-interest borrowing and asset depletion, with recovery often spanning years and posing a risk of long-term destitution, especially if further shocks occur during this time.

The figure below depicts the various factors that determine household vulnerability and the recovery pathways that lead to building resilience or vulnerability traps.

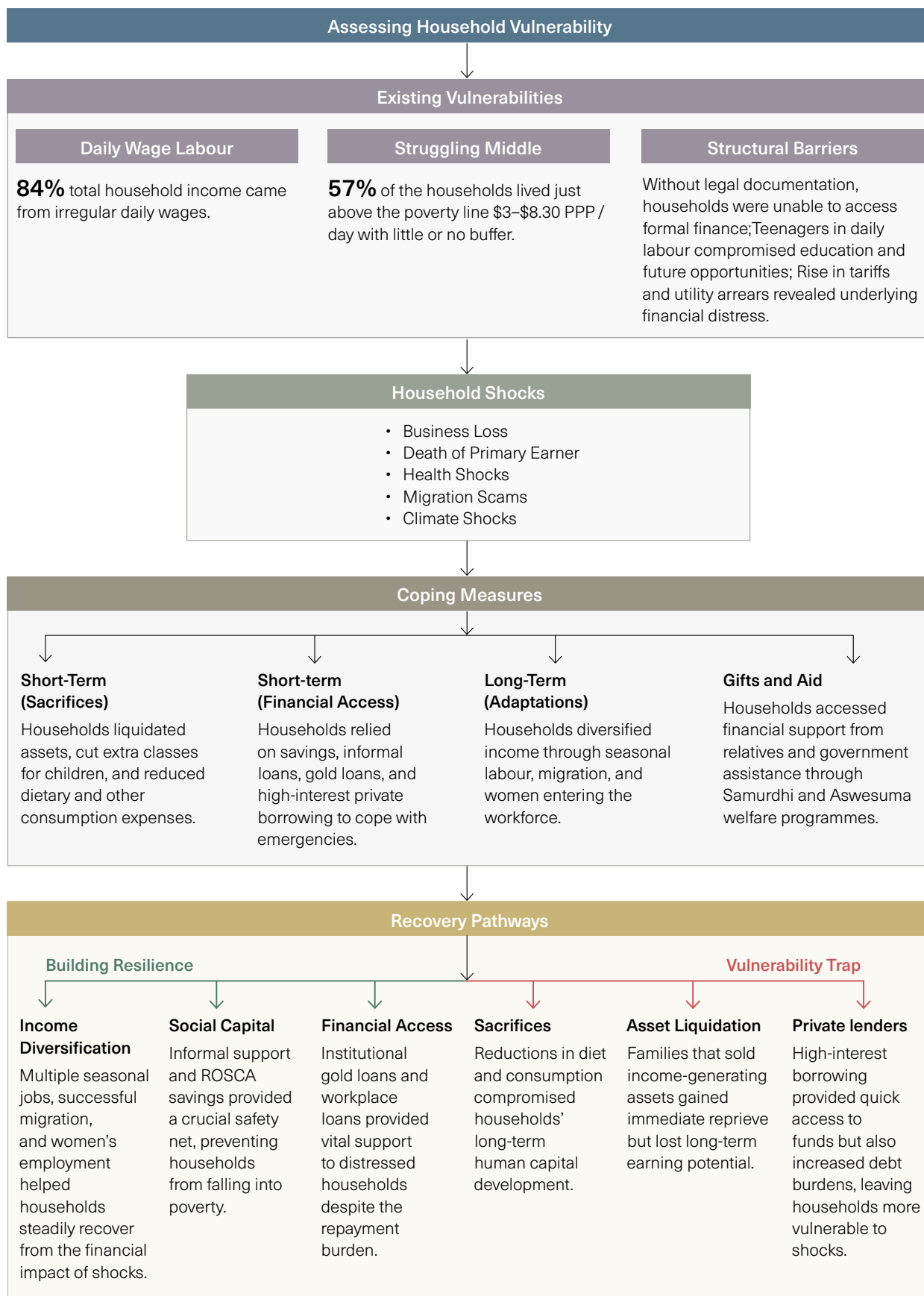


Figure 8 Assessing Household Vulnerability

By examining these patterns, the following framework was developed, which attempts to provide an understanding of a household's financial and non-financial well-being and to explain why certain families remain persistently vulnerable even when facing challenges comparable to those of other households. Furthermore, this framework will be helpful to institutions and investors operating in inclusion and development finance to account for portfolio risk in low-income lending segments and to identify mitigation initiatives.

Table 4 Vulnerability Framework

Categories	Low Vulnerability	Moderate Vulnerability	High Vulnerability
Income	Relatively stable and predictable	Seasonal, irregular cash flow	Heavily fluctuating cash flow
Cost-of-living	Manageable	Strained with consumption cuts	Critical with dietary and consumption cuts
Social Support (Family, ROSCA)	High availability	Low availability	Almost Nil
Loan Dependency (Private Lenders, Gold Loans)	Low	High	Overindebted
Access to Formal Credit	Yes	Yes/No	No
Savings	Regular	Irregular	No or exhausted
Health Issues	Day-to-day health	Ongoing ailments	Chronic illness, high-cost surgeries, and medication
Utility Arrears	Nil	Part payments	Unpaid or borrowing to settle bills
Housing Condition	Finished Structures	Unfinished Structures	Lacks even basic amenities
Asset Liquidation	Preserved	Occasional sale	Sale of income-generating assets
Occupations of older teenagers (age 16/17, after secondary school)	In education	At work or seeking work	At work or seeking work



Gojo team during a qualitative household interview with Diarist 31Na and his family.

7. Key Findings and Pathways to Resilience

Based on analyses of financial diaries data and qualitative interviews, this report presents findings on the state of vulnerability among the diarists in post-crisis Sri Lanka.

7.1 Key Findings

- **Labour Dependency:** Household income among the diarists depended primarily on informal labour, with daily and weekly wages constituting 84% of total earnings. This heavy dependence exposed families to severe income volatility. However, households that diversified their income streams through small businesses, agriculture, or foreign remittances showed greater financial resilience during periods of uncertainty.
- **The “Struggling Middle”:** According to the World Bank’s 2021 Purchasing Power Parity (PPP) benchmarks, 57% of participant households fall within the “Middle Income” segment, with daily expenditures between \$3.00 and \$8.30 PPP. Although these households were above the poverty line and actively engaged in income diversification and livelihood improvements, such as housing construction and small-scale savings, they remain economically vulnerable. This group faced cycles of liquidity constraints and debt accumulation, lacking sufficient financial buffers to withstand economic shocks.
- **The Double Burden of Shocks:** Unexpected events like health emergencies, the death of a primary earner, or migration scams, created a devastating dual burden of sudden income loss and immediate expense spikes such as surgical fees, funeral rites, or visa debts. Lacking adequate social protection

and savings, these families often fell into long-term debt traps from which recovery took years.

- **Short-Term and Long-Term Coping Measures:** Households employed a range of coping strategies to navigate crises, often prioritizing immediate survival over long-term stability. Short-term methods such as severe cuts in essential consumption, liquidating productive assets (e.g., land, houses, or three-wheelers), and withdrawing children from extra tuition classes provided quick liquidity. Still, they harmed the household's future earning potential. Conversely, long-term adaptations, such as taking on multiple jobs, increasing female workforce participation, and successful domestic or overseas migration, built resilience.
- **Reliance on Informal Support and Credit Access:** To smooth consumption and manage expenditure spikes during periods of uncertainty, 40% of households relied on informal loans from relatives, supplemented by cash gifts and government welfare. When these were insufficient, 37% turned to private moneylenders for high-interest external credit, prioritizing accessibility over affordability. In contrast, 23% used gold loans, drawn by their relatively lower interest rates, minimal documentation, and rapid, collateral-based disbursement.
- **The Nature of Vulnerability:** Household vulnerability was dynamic and cannot be measured solely by income or expenditure metrics. Instead, the intersection of a shock's severity, existing household resources, financial access, and the choice of coping measures determined a family's ability to recover. As a result, even when households faced identical economic pressures, their recovery outcomes diverged significantly depending on these nuanced factors.
- **Structural Deficits:** The absence of legal documentation, such as land deeds or formal identification, was one of the primary systemic barriers that excluded households from the institutional loans designed to assist them. This lack of access was further exacerbated by structural issues, including daily teenage labour (after secondary school, by age 16 or 17) and accumulated utility arrears due to tariff increases. Together, these factors entrenched household vulnerability and created a cycle of intergenerational poverty.

7.2 Pathways for Resilience

A central finding of this study is that household vulnerability is highly dynamic. The compounding effects of the COVID-19 pandemic, the 2022 macroeconomic crisis, and structural barriers show that even households above the poverty line remain financially fragile, while those below the poverty line have been pushed further into destitution by overlapping shocks. To protect these families, intervention pathways must shift from relief support to proactively building resilience, addressing volatility before, during, and after a crisis.

7.2.1 Product and Policy Reforms

To ensure that financial products and process reforms reach the most vulnerable, this section outlines suggested ways for government regulatory bodies and institutions to address the structural issues that impede household resilience.

- **Documentation Drives for Financial Inclusion**

Establishing state-run, village-level units to verify and issue essential identity documents, land titles, and marriage certificates is a critical first step in bringing rural vulnerable households into the formal economy. By securing these foundational records, families gain access to formal banking, insurance, and social protection programs, helping to protect them from the risks associated with high-interest private lenders.

- **Shock Preparedness through Savings**

To transition rural daily wage earners from day-to-day survival to long-term crisis preparedness, institutions must expand access to tailored savings products. Regulations that facilitate accounts requiring minimal documentation to open and specialised products for widows and children, featuring minimal balances, no maintenance fees, and instant emergency withdrawals, will ensure that the smallest savings are protected. Offering non-financial rewards for consistent savings and raising awareness of emergency preparedness helps vulnerable households build a financial buffer.

- **Alternate Credit Score and Lending**

To include those with good repayment capacity but lacking documentation, institutions should adopt alternative credit assessments that leverage existing community records, such as the government-run Samurdhi poverty welfare scheme and local cooperatives. For working widows and single mothers in inherited homes, community-verified documents such as village residence certificates or a spouse's death certificate should be accepted as collateral for microloans (e.g., for house repairs). By offering suitable repayment schedules and optional grace periods aligned with household cash flows, lenders can provide a dignified path toward stability and long-term economic resilience.

- **Young Adult and Women's Empowerment**

To break cycles of vulnerability, policy reforms should provide targeted, holistic support for both at-risk youth and female-headed households. By establishing more specialized vocational training and counseling for 16- to 18-year-olds, the state can create pathways that prevent early entry into daily-wage labour and lead to skilled trades and sustainable incomes.

Simultaneously, for widows and single mothers, extending support beyond simple credit to include digital and financial literacy, legal aid for inheritance, and mental health services enables a family in its most vulnerable moments. Co-designed by the state, NGOs, and private partners, these comprehensive programs can equip families with the stability and practical tools necessary to manage their households and build long-term economic resilience.

- **Consumer Protection on Migration**

To prevent migration scams, the state must establish a strong regulatory framework to protect vulnerable rural workers from fraudulent visa and overseas-employment agents. They should be subject to licensing, and the government should maintain a public registry of authorized agents. Moreover, by creating awareness through government offices and media, citizens will know whom to trust. Additionally, by using digital verification and fast-track legal recourse to prevent and prosecute fraud, the state can transform labour migration into a secure and regulated process.



Diarist 35Na grows long-term agarwood plants, to supplement husband's income from driving.

8. Conclusion

Research from Sri Lanka's Financial Diaries, conducted among low-income households, shows that our diarists rely heavily on wage labour. Although some households demonstrate remarkable adaptive capacity through income diversification, they lack sufficient buffers against shocks. Families often balance seasonal labour, small-scale farming, and micro-businesses, yet these multiple income streams are insufficient to withstand emergencies. When crises such as severe illness, the death of a primary earner, or a migration scam occur, the absence of institutional protections forces households into regressive coping measures. To manage immediate cash flow, families sell productive assets, accumulate multiple informal debts, defer essential utility or consumption costs, or young adults engage in daily labour. These survival choices do more than address a short-term crisis; they strip the household of its future earning potential, often transforming temporary setbacks into intergenerational downward mobility.

To break the cycle of vulnerability, policy interventions must move beyond credit provision to address underlying structural barriers and shock preparedness. This report recommends closing documentation gaps, promoting savings buffers, and emphasizing the value of higher education for youth. Furthermore, extending vocational training to widows and implementing regulatory safeguards for overseas migration are critical steps toward long-term stability.

In addition to these structural changes, investing in digital literacy and mental wellness support is essential for holistic resilience. Financial institutions and state programs should partner to design products and reforms tailored to the volatile economic realities of rural, low-income households while effectively mitigating lending risks. Ultimately, the policy imperative is to treat downward mobility with the same urgency as poverty alleviation to prevent the entrenchment of intergenerational vulnerability.

Date: / /

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A page from Financial Diaries daily note of Diarist 35Na, maintained by her 15 year old son.

Contact

Cheriel Neo

Head of Impact

cheriel.neo@gojo.co

Mercyline Manoj

Researcher-in-Residence

mercyline.manoj@gojo.co

Please contact us if you have any feedback on this report or would like to collaborate with us on Financial Diaries Research or Impact Measurement.

Gojo & Company, Inc. is headquartered in Japan, at 3-14-5 Sendagaya, Shibuya, Tokyo 151-0051
<https://gojo.co/>

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