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How Power Contract Secrecy Fueled Sri Lanka's 2022 Economic Crisis

BLUF: Sri Lanka's canceled wind deals with Adani Green Energy expose the cost of secrecy in the power sector, fueling debt, eroding public distrust, and contributing to its 2022 economic crisis. The country passed the 2024 Electricity Reform Act to fix these challenges by unbundling the utility, mandating competitive procurement, and creating a new national system operator. But political backsliding in 2025 overturned key transparency measures. Without firm enforcement of transparency and regulatory oversight, Sri Lanka risks repeating past mistakes.

The Adani Deal That Blew Up

In May 2024, Sri Lanka signed a 20-year, US$442 million power purchase agreement (PPA) with Adani Green Energy for wind power in northern Sri Lanka. PPAs are long-term, legally binding contracts between state utilities and private power producers to buy electricity. The approved tariff rate for the contract was higher than that offered by local developers, and the bidding process was not competitive, indicating potential backdoor involvement by the Indian government in the project.

In November 2024, after US prosecutors indicted CEO Gautam Adani and top executives for alleged bribery under the Foreign Corrupt Practices Act, Sri Lanka's government revoked the PPA amid pressure to reassess the contract's terms. Adani later formally withdrew from the project, citing difficult ongoing renegotiation on tariff rates and financial non-viability, and is now demanding compensation for the deal.

This controversy highlights structural failures in Sri Lanka's power sector, and the systemic weaknesses that contributed to the country's economic collapse.

Relevant Background on Sri Lanka's Power Sector

Pre-Economic Crisis

For decades, the Ceylon Electricity Board (CEB) operated as a de facto monopoly, controlling all transmission and distribution while serving as the sole buyer of electricity, though about 23% of generation comes from independent producers via PPAs with CEB. By 2021, CEB was US$1.4 billion in debt (equivalent to 3% of GDP) with additional off-balance-sheet liabilities from public guarantees to private producers. Political pressure kept tariffs below cost, and currency depreciation compounded financial strain. From 2013-22, CEB failed to recover costs in 8 out of 10 years. Sri Lanka briefly introduced competitive bidding (2015-19) for wind and solar projects, but CEB blocked many new bids to shield its existing energy projects, and others stalled due to land allocation problems. By 2022, the government abandoned competitive bidding altogether. Importantly, power contracts in Sri Lanka have never been published, creating an environment ripe for inefficiency and corruption.

2022 Economic Crisis

In 2022, Sri Lanka's chronic power sector weaknesses came to a head. Years of overspending drained foreign reserves, crippling the country's ability to import fuel and medicine. The CEB, dependent on imported fuels and a depreciating currency, defaulted on payments to power producers, leading to blackouts and mounting debt. Inflation surged past 50%, and the government defaulted on its debt in May 2022. Amid the crisis, the Adani deal was approved at US$0.0826/kWh, nearly double the US$0.048/kWh offered by local developers. By the end of 2023, CEB's losses hit ~US$1.7 billion, equivalent to 3.1% of total public debt.

Post Economic Crisis: Electricity Reform Act of 2024

Debt restructuring deals, IMF bailouts, Indian financial assistance, and other fiscal policy reforms have helped Sri Lanka back on its feet. The parliament, under then-president Ranil Wickremsinghe, passed the IMF-supported Electricity Reform Act 2024 in June 2024 to correct the failings of the power sector. Notable efforts to incorporate transparency included competitive procurement for projects above 10 MW, PPA standardization for renewable projects below 10 MW, and, most importantly, unbundling of CEB into separate generation, transmission, and distribution companies. A new National System Operator was to be responsible for power system planning, conducting transparent competitive procurements, and assuming all previous PPAs held by CEB.

However, Wickremsinghe lost the 2024 general elections to Anura Kumara Dissanayake, whose government introduced an amendment bill in May 2025 to roll back key reforms from the 2024 Act and recentralize control. Development partners like the Asian Development Bank, World Bank, and Japan strongly opposed the amendments, warning that they undermine regulatory independence, reduce transparency, and reintroduce many of the same fiscal risks that contributed to the 2022 crisis.

Sri Lanka's Supreme Court initially flagged several provisions of the bill as unconstitutional. However, after revisions, it cleared the amended version, which passed in August 2025. Notably, the amended law requires the Public Utilities Commission to consult the Finance Ministry on tariffs and replaces the independent advisory council with a minister-appointed committee. Critics argue the changes erode regulatory independence and undermine the gains made under the 2024 reforms.

Why Does Transparency Matter?

Contracts including PPAs define pricing, duration, performance obligations, and risk allocation, and are essential for financing power generation. They directly impact the cost of electricity, reliability, and access. In mature, well-governed markets, these terms are public.

Yet in most emerging markets, most power sector contracts remain undisclosed despite involving public guarantees and impacting vital public services. This lack of transparency fuels inefficiencies, can increase costs, and slows clean energy rollouts, as seen in Ghana, South

Africa, and Pakistan. Transparency is especially valuable in a post-crisis scenario such as Sri Lanka where the power market must rebuild trust with both the public and investors. The recent rollback of such reforms could prove costly.

Sri Lanka is not a regional outlier

The symptoms differ, but the root causes are remarkably similar across South Asia. Opaque power contracts, weak regulatory oversight, and political interference have contributed to create a pattern of unsustainable debt and poorly-structured power deals that negatively impact consumers.

Pakistan signed several 30-year coal PPAs in 2015 with minimal public oversight, effectively locking it into higher electricity costs for decades despite cheaper renewable energy alternatives. In 2021, Pakistan paid about US$500 million to partially clear PPA arrears, but still owed US$1.7 billion. Recent reports claim that energy debt is equal to 4% of Pakistan's GDP.

India has emerged as one of the world's top renewable energy producers, conducting auctions for over 70 GW of clean energy in 2024. Despite this progress, distribution companies continue to face financial strain, with losses reaching US$86 billion in FY 2023-24. Contract disclosure remains uneven due to state-level control, and many legacy PPAs signed before the early-2000s reforms weren't procured competitively. Still, India's ongoing reforms and mixed ownership models offer valuable lessons for countries seeking to modernize their power sectors.

Despite clearing most overdue payments in 2024, Bangladesh's power sector remains exposed due to opaque, non-competitive contracts. The 2017 Adani deal, awarded without open bidding locked in high tariffs and undisclosed terms, including tax pass-throughs. Without stronger transparency and competitive procurement, long-term financial and operational pressures will persist.

What Sri Lanka Can Do Next

To strengthen the power sector, the government could consider the following:

- **Legislate disclosure.** While the 2024 Act mandated the regulator to maintain a register of licenses, the Act and the 2025 amendment both fall short of mandating full contract disclosure. The law should explicitly require the disclosure of PPA terms, guarantees, and related fiscal obligations either by the National System Operator or the regulator, or at minimum key terms to reduce fiscal risks and strengthen accountability.

  Countries like Brazil, Ghana, and some states in India (e.g., Uttar Pradesh) provide models for disclosure. Publishing contracts, ideally within a year of financial close, would create strong incentives for fair, responsible negotiations.

- **Enforce competitive procurement and standardize templates.** The regulator could mandate competitive bidding and the adoption of standardized contract templates. This approach would ensure fair selection, streamline negotiations, and reduce risks of a repeat of the Adani deal.

- **Establish fiscal safeguards.** The Ministry of Finance could implement debt ceilings for state utilities and require parliamentary approval for government guarantees exceeding certain thresholds. Regular public reporting on utility finances is also necessary.
- **Tie disclosure to donor support.** The IMF, ADB, and World Bank already recognize undisclosed state owned enterprise (SOE) contracts as debt risks. They should require contract publication, especially those with contingent liabilities and sovereign guarantees as a core condition for future financing.

Conclusion

Sri Lanka's Adani deal collapse illustrates the dangers of opaque contracting in the power sector. While the Electricity Reform Act of 2024 introduced important transparency measures, recent attempts to reverse these reforms highlight ongoing political resistance to change. Implementing power contract disclosure policies could help prevent future economic crises.