

Sri Lanka: The complexities of managing the debt crisis

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Experts note tough choice ahead between paying our dues and ensuring welfare

Although Sri Lanka's debt sustainability is often seen as an issue that was worsened by the economic crisis, the country's debt was also an important factor that led to the economic crisis. Not debt alone, but the conditions, policies, and recommendations set by some of Sri Lanka's major lenders, and successive governments that accepted them, have also played their part over the past few decades in leading to the economic crisis.

Noting this, several activists who are vocal about the impacts of Sri Lanka's debt crisis on people's day-to-day lives further said that addressing those impacts is also a crucial part of saving the country from the economic crisis. These were pointed out during an online discussion organised by the Asian People's Movement on Debt and Development (APMDD) and Centre for Environmental Justice (CEJ), which was joined by several experts including APMDD Co-ordinator Lidy Nacpil, CEJ Senior Advisor Hemantha Withanage, and Law and Society Trust's (LST) Head of Programmes Sandun Thudugala.

Creators of the problem

During the discussion, Thudugala underscored that as far as Sri Lanka's debts and domestic economy are concerned, there are many day-to-day issues that need to be dealt with as part of Sri Lanka's attempts at resolving the debt crisis. He added that although the popular opinion is that Sri Lanka is in this situation due to what is called the "Chinese debt trap", Chinese debt is not the only issue, and that loans from other lenders have also played a certain role in what has befallen Sri Lanka. He stressed that Sri Lanka's debt crisis is much bigger than a matter of Chinese debt.

Adding that the International Monetary Fund's (IMF) support is seen as the only way out of the debt crisis Sri Lanka is in, Thudugala added: "I think there is a certain truth to that (claim). We are in a situation where we can no longer reject the IMF or any other entity that is willing to give us money. The civil movement has also been critical about IMF conditions over the years. However, we have been pushed to a situation where we have to say that there is maybe no other option left. But, the idea that the IMF is the only solution and everything will be alright if the IMF package was adopted, is questionable."

He explained that when looking at the history of Sri Lanka's relationship with the IMF, it can be seen that the country has obtained IMF support on around 16 occasions since 1965.

"We are in a crisis because of a certain economic model we have been using, and the IMF has been a part of that economic model throughout. Therefore, we are looking at something as a solution but it has been part of the problem. Successive governments managed the economy in a way the IMF has asked them to follow."

He claimed that the same situation is applicable in the case of World Bank (WB), and stressed that all

of Sri Lanka's macroeconomic policies, especially after 1977, have been shaped by the IMF and WB's recommendations, conditions, and regulations.

With regard to the WB's role in Sri Lanka's food security situation, Thudugala cited a WB recommendation (for Sri Lanka) contained in the Non-Plantation Crop Sector Policy Alternative report of 1996, which read "moving away from government interventions in protecting paddy farming and other forms of subsistent agriculture indicated that new macroeconomic policy priorities were in place for Sri Lanka", and added that Sri Lanka was further encouraged to go for the production of industrial and export-oriented commodities. What is more, he said that successive governments have adopted policies that drove towards this policy direction.

Explaining that Sri Lanka took many loans that were utilised mainly for projects that were not necessarily required by Sri Lankans but by foreign parties, he added: "As a result, we now have a huge debt crisis which we can no longer pay, and we have big infrastructure projects such as certain airports and harbors that are not very useful for the local community. But, we are forced to pay the loans that were taken."

With regard to discussions with the IMF, he added that there is no information available for the public about what the IMF conditions are. Adding that the IMF had recommended slashing of fund allocations for education, health, and social security on previous occasions, Thudugala expressed concerns about the possibility of further reductions of fund allocations for the said sectors, which he said are already inadequate.

He further stressed that such sectors are extremely crucial for the people during a crisis.

Economic crisis: A result of many issues

Speaking of the prevailing debt crisis, economic crisis, and the social crisis, Thudugala highlighted the importance of looking at the connection between these issues.

He pointed out that Sri Lanka's total debt amounts to about \$ 51.7 billion, and that the country is expected to pay \$ 7 billion this year. He noted that even though the country was elevated to the "upper middle income" level in 2019, it was downgraded again in 2020. The main reasons behind this downgrade, Withanage said, are corruption, economic mismanagement including excessive printing of money by the Central Bank of Sri Lanka (CBSL), a decline in tourist arrivals, and issues pertaining to immigrant workers earning and sending foreign currency.

"Other than these issues, we see that there are a lot of illegitimate debts in Sri Lanka," he said, citing the Rs. 4 billion Gin Ganga and Nilawala Ganga river diversion project as an example, regarding which he further said that the money in question is reported to have been misused.

He went on to explain how unbearable debts contributed to the prevailing economic crisis, and how it, in turn, morphed into the ongoing people-led anti-Government movement.

With regard to the humanitarian and debt crises and proposed solutions, Withanage went on to note that it has been estimated that 5.7 million people are in need of humanitarian assistance, of whom 1.7 million need assistance urgently. What is more, he pointed out that a number of families have committed suicide in the face of the economic crisis, while several people have died during protests, in fuel queues and due to cooking gas explosions.

With regard to debts, he highlighted that the Government has paid attention to speeding up the IMF's debt restructuring process, while discussions on debt-for-nature swaps (funds granted under a commitment to certain environmental policies and conservation targets) have been proposed. He,

however, noted that there are also concerns as to how the IMF's solutions are likely to affect people's day-to-day lives and the country's economy. Regarding the debt-for-nature swaps, he said that the people have to be vigilant about the outcomes of these efforts.

Debt as a global issue

During the discussion, Nacpil noted that while the prevailing crises in Sri Lanka have made international headlines, it is not the only country that is experiencing the adverse impacts of unmanageable debts. The debt crisis, she said, is a huge issue for many countries in the South, which needs to be dealt with urgently.

Adding that the Covid-19 pandemic and the economic decline that followed, as well as the prevailing climate crisis, have become a challenge for many countries, she noted that the pandemic-led economic fallout has put additional burdens on the Global South, which has been experiencing severe conditions of deepening inequality and widespread poverty.

Nacpil explained: "Calls for debt justice are hugely important, especially in the face of multiple crises. But the debt problem itself symbolises one expression for the many fundamental flaws of our economic and financial systems, not only globally but in our countries. It should be addressed as one of the urgent issues as we seek to not just to recover from the current system but also to reorient and rebuild our economies along fundamentally different lines where people and communities are held paramount and the health of the planet is held paramount, instead of the rule of the pursuit of profit.

"In a context where debts are a problem for many countries in the South, you will find that in some of those policy discourses, some argue that debts are the fault of Southern countries pointing out the addiction of our governments to rely on borrowings. But, this is only a small part of the story. Huge debts are not just a result of the so-called Southern addiction to borrowings; it is actually primarily because of the situation we call supply-driven predatory lending.

"It simply means that Northern creditors, both public and private, have been lending not because of the needs of the South, but because they are driven by their own interests to promote their products, in order to shape the conditions of the Southern economy, so that we are more open to their products and foreign investments. They also earn from lending through interest – interest rates that have been very notorious for being grossly unfair. Even what they call concessional lending is not devoid of their own interests, and is primarily driven by their interests."

However, she noted that while lenders have a huge responsibility and an important role, it is not possible to discount the fault on the part of successive governments for lacking the political will to move away from reliance on borrowings and instead strengthen domestic economies. She said that there have been instances where debt relief schemes led by lenders have failed to address problems, and that lenders must admit that the aims of the debt relief schemes are not to save countries from huge debts.

"During the past few years, debt relief schemes had been primarily driven by interests of rehabilitating our public books and so-called macroeconomic health, so that we can borrow again at higher interest rates and under stricter terms," she claimed.

Emphasising the seriousness of making decisions regarding accepting, rejecting, and paying debts, she added that Sri Lanka's case is a cautionary tale. She said that Sri Lanka's Government and its creditors should not have allowed the country to reach this state, and that the world is now looking at the very devastating impacts of this economic crisis on the people of Sri Lanka.

Sumudu Chamara

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