Submission to the Independent Expert on foreign debt and human rights By Civil society organizations in Sri Lanka

August 2018

This submission to the Independent Expert on Foreign Debt and Human Rights comes at an important juncture in the trajectory of Sri Lanka's socio-political and economic development.. In 2015 the country took a definitive turn after the presidential election, which had led to the election of a new president and to the election of a new parliament later that year through general elections. In the absence of a single party gaining an overall parliamentary majority, a government was formed through a fragile coalition between the two major political parties.

Despite the divergent social and economic development ideologies of the constituent parties, the government was elected on the manifesto of reinstating democracy, rule of law, good governance, and building peace and reconciliation. The government inherited a seriously damaged economy, marred by excessive, and feckless spending, mismanagement and corruption.

The attention of the world had been on Sri Lanka, as the war reached its conclusion with the annihilation of the rebel group the Liberation Tamil Tigers of Ealam in May 2009. The attention of the international community remained focused on Sri Lanka not only due to the gross human rights violations that accompanied the bloody climax of the war but also, due to its evolving geopolitical relationships. The country was increasingly shifting, redesigning and redefining its strategic partnerships to align with its socio-political development agenda.

The crumbling economy made the government depend on increased foreign borrowings, take austerity measures, as well as curtail its social welfare programs. This has far reaching implications on the rights and liberties of its citizens – especially relating to the progressive realisation of their social, economic and cultural rights.

With the end of the war, Sri Lanka's foreign borrowings had increased by many folds. Foreign debt increased significantly between 2000-2009 and doubled from US$9 billion in 2000 to US$ 18.6 billion in 2009. Foreign debt has continued to grow. At the end of 2015 foreign debt reached 55.7% of GDP and provisional estimates for 2017 shows a rise of external debt to 59.5% of GDP.

Sri Lanka faces a critical, medium-term challenge of consolidated external debt service payments during the period of 2019-2022, which includes repayment of ISBs and syndicated loans totaling $5.7 billion. High levels of debt servicing has taken place at the expense of social investment, including investment in services that contribute to the realisation of human rights of access to health and education. Capital expenses for social welfare and the provision of public services such as health care and education have been curtailed

The current economic outlook is such that there will be no easing off on foreign borrowings over the next three years to fund recurrent expenditure and balance of payments. In addition to increased borrowing through ISBs and non-concessional loans, Sri Lanka received substantial 'bail outs' from International Financial Institutions, and in 2009 obtained $2.6 billion from the IMF to boost its reserves. A further $1.5 billion loan was obtained in 2016 from the IMF and $1.3 billion from the World Bank in 2017 to enhance its financial stability and restore normalcy to the country's external accounts.

Foreign debt has an impact on social development and the enjoyment of human rights as they are linked to the conditionalities set forth by lending institutions. Attached to the stimulus packages offered are conditionalities. The IMF, World Bank and other IFIs insist on several structural changes being effected in the years to come including the consolidation of the fiscal deficit to 3.5% of GDP by 2020, increasing taxes, restricting public expenditure, reforming state-owned enterprises through privatization and liberalising trade.

The World Bank and the IMF who favour austerity and push for privatisation and sweeping reforms in critical areas, such as social security, land and labour. are guided by this approach raises many serious concerns. Even as a regressive tax system and spiraling cost of living squeezes the poor and 'near poor', the Government is prioritising 'reforms' of the Samurdhi programme and this will see reduced net transfers and more debt oriented schemes.

Conditions imposed by the IMF are aimed at narrowing balance deficits and other macro-level indicators, while the costs and risk of those adjustments are invariably transferred to the people. For instance, proposals increase tax revenue have not adequately addressed the disparity between direct and indirect taxes. It has increased indirect taxes affecting ordinary people. While balancing the budget and external accounts may restore stability in the global economy, benefiting global capital, the people bare the burden of weak or failed economic policies and mismanagement.

Civil Society Organisations in Sri Lanka have previously raised concerns about the current Government's moves to slash public expenditure, especially in the health and education sector. These concerns were presented in a submission to the United Nations Committee on Economic, Social and Cultural Rights in April 2017. In addition to the submission to ESCR we wish to stress on a few key areas, which impede the realisation of economic, social and cultural rights of our people.

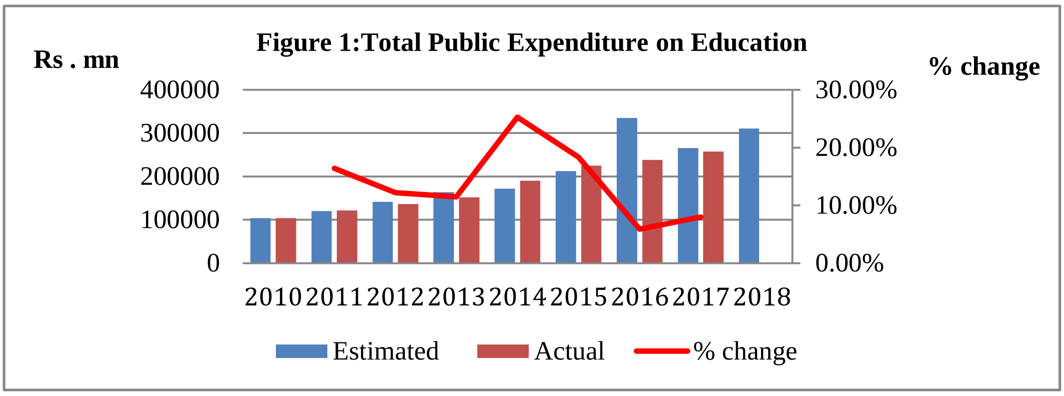
Due to the stringent austerity measures imposed on the country by the International Monetary Fund (IMF), World Bank (WB) and the Asian Development Bank (ADB) when extending loan facilities, a significant, negative impact is observed in public expenditure in sectors such as Education, Health and Welfare for the period of 2010-2018.

Tightening government expenditure has always been a mainstay of the development strategy of the international financial agencies. In their consultations with developing countries, it is packaged through concepts of fiscal consolidation and targeted public expenditure. However, the motives of the said austerity measures are to cut down government expenditure on education, health and welfare despite the fact that investment in them is essential to provide accessible and high quality social infrastructure that benefits all the citizens of the country.

<u>Deterioration of the government expenditure on education</u>

1. Budget cuts on education in 2017

Figure 1 depicts the trends in total government expenditure on education for the past decade. Despite the fact that the estimated government expenditure had been increasing gradually since 2010, a sizeable decline of 20.7% was observed in the budgeted expenditure for the education sector in 2017.



2. Decline in capital expenditure on education

The observed cuts in the 2017 budget was fueled by the approximately 2% reduction in the recurrent expenditure and the 40% drop down in the capital expenditure. This is of concern as capital expenditure is a vital segment in investments for the improvement of the education sector, while recurrent expenditure focuses on the maintenance of the existing infrastructure.

3. The actual spending tends to increase at a declining rate

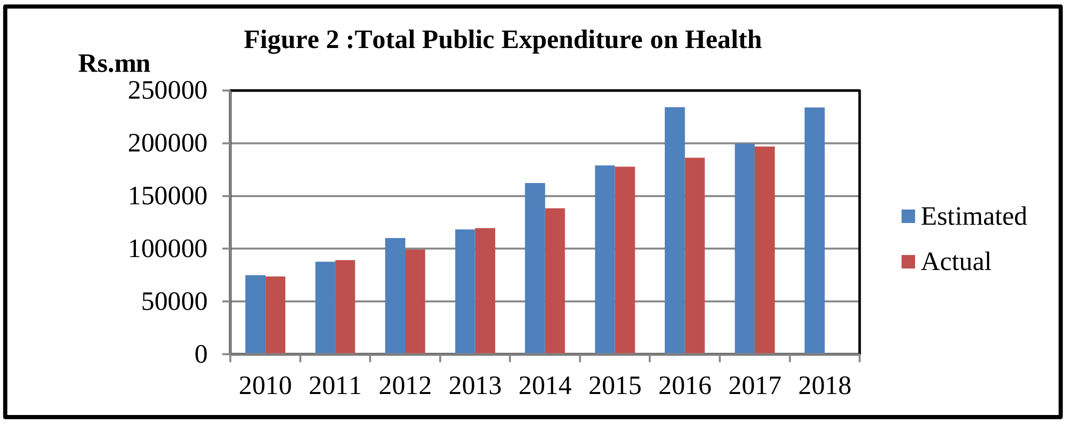
The percentage increase in actual public expenditure on education, which was around 25% and 18% in 2014 and 2015 respectively, has declined to a single digit increase of approximately 5% in 2016 and 8% in 2017.

4. Spending less than approved estimates in both 2016 and 2017

Further, the government has in fact spent less than the budgeted amount in both the years of 2016 and 2017. For example, in 2016 the government spent only 71% of what it had budgeted for the education sector.

Worsening the status of public expenditure on health in 2017

The government expenditure on health is illustrated in figure 2, which is quite similar to the situation of public expenditure on education.



1. Drop down of approved estimates of health expenditure

Apart from the gradual increase of the budgeted amount and the actual amounts of total public expenditure on the health sector since 2010, a tremendous decline could be observed in approved estimates on health expenditure in 2017 which accounted for a 14.7% drop in the budgeted amount.

2. Spending less than budgeted amount in 2016 and 2017

Similar to the case of education, under-utilisation of funds could be observed in the health sector in 2016 and 2017. In 2016, only around 79% of the budgeted funds had been spent for health services.

3. Decline in budgeted capital expenditure

The capital expenditure, which signifies the real investment of the health sector improvement, has declined by nearly 41% in 2017. While less importance is given to capital expenditure, 81% of total spending on health in 2017 goes to recurrent expenditure.

Austerity measures for social security

1. Grants for major welfare programs have been reduced

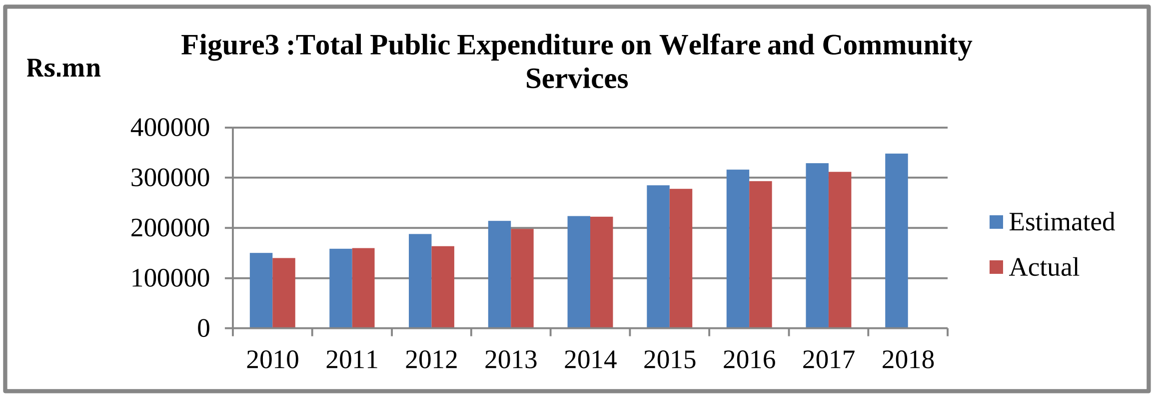
Depicted in Table 1 is the spending on major social security programs which has also seen to decline in 2017 despite the slight increase in total expenditure on welfare and community services. In 2017, grants for Divineguma / Samurdhi Subsidy Program have been reduced by 2.5 % whilst grants for Nutrition Allowance program and Dry ration program have been deducted by 5.9 % and 24 % respectively in 2017.

Table 1 –Major Welfare Programs- Value of Grants

Rs .mn	2013	2014	2015	2016	2017
Divineguma/Samurdhi Subsidy Program	15,256	15,042	39,994	40,740	39,707
% change		-1.4%	165.9%	1.9%	-2.5%
Nutrition Allowance Program	204	279	2,422	5,746	5,408
% change		36.8%	768.1%	137.2%	-5.9%
Dry Ration Program	33	28	118	111	84
% change		-15.2%	321.4%	-5.9%	-24.3%

2. Actual spending is less than the budgeted amount

Figure 3 illustrates the total expenditure on welfare and community services, which shows a continuous incline since 2010. However, it could be observed that the actual spending on welfare and community services is less than what had been allocated by the budget in most of the years. Government has actually spent only 92 % in 2016 and 94 % in 2017 of what they had allocated from the budget.



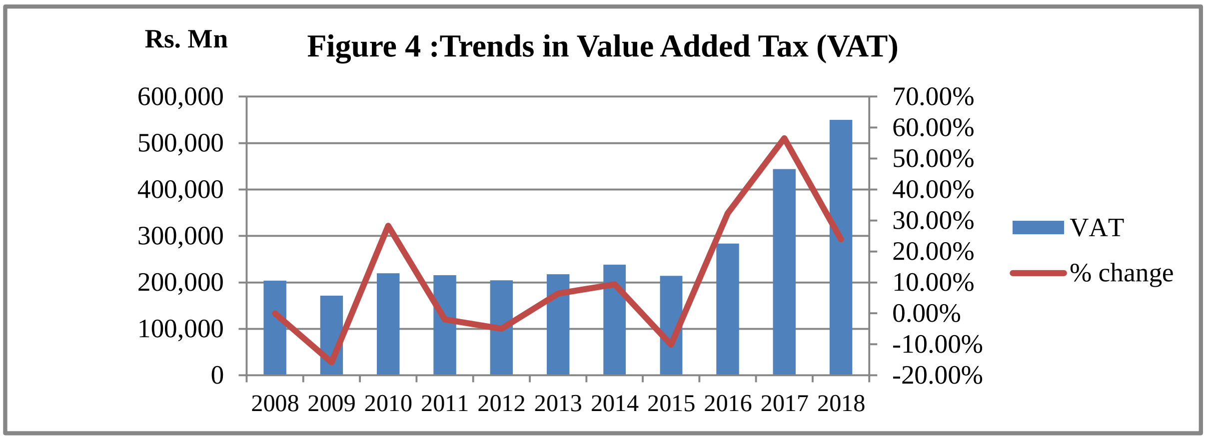
1. In ranking the state universities, the WB has proposed criteria to assess effectiveness, of which one criterion refers to the amount of money that the university raises itself in the given year. As a result, universities will be forced to change their emphasis to provide fee-levying courses over courses offered free of charge.

2. The Suraksha insurance scheme for school children. On the surface of things it would seem to be geared merely to be of assistance to lower income families. However, the long-term objective of the scheme is to direct school children towards private health institutions.

3. Fisheries communities have been seriously affected due to the rise in the import of substandard fuel and the cut in fuel subsidies. Additionally, subsidies to farmers have been reduced despite the fact that the country is experiencing a long drought. The drought was exceptionally severe during the years of 2016 and 2017. The vulnerability of farmers has resulted in a surge of unregulated financial firms offering microcredit loans and this has increasing the debt burden of these vulnerable populations to unprecedented levels.

Increasing indirect tax on poor

A tremendous increase of Value Added Tax (VAT) as a main indirect tax could be observed during 2017 and in approved estimates for 2018 as depicted in Figure 4. In 2017, VAT revenue has accelerated by 56.5 percent due to increment of tax rate as well as tax base. The applicable VAT rate increased to 15 percent from 11 percent in November 2016 and several goods and services were made liable for VAT. Inclusion of Supply of health care as a service that is liable for VAT which led to increase in prices of it again seems to be unfavorable on right to health.



Recommendations:

The critical analysis of public policies that ostensibly focus on macro-economic stability demonstrates that they may have an indirect, and adverse impact on the basic rights of the people, especially of the low-income earners of society.

The international financial institutions should keep the impact of their policy prescriptions on the population in sight, especially the impact on vulnerable communities, and not only focus on the budgets and balance sheets. Social stability is as important and where that is undermined it leads to political instability too.

A slower paced, nuanced, and people centered approach to reforms is proposed and people should be the center of economic planning and implementation.

Alliance for the Economic Democracy (AED)
Law and Society Trust (LST)
National Fisheries Solidarity Movement (NAFSO)
Movement for Land and Agriculture Reforms (MONLAR)
United Federation of Labor (UFL)
People's Alliance for Right to Land (PARL)
Movement for Plantation Peoples' Land Rights
Lanka Farmers' Forum

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