Sri Lanka

Debt summary

Sri Lanka is one of the most indebted countries in the global south and its' debt stock doubled between 2000 and 2012 to US$22.66 billion. The debt was first created in the late 1970s and has grown rapidly. Now an estimated 25% of government revenue is spent on debt repayments and the IMF estimates that under financial stress, payments could reach 35% of national income in 2013. The government of Sri Lanka spends nearly the same amount on debt repayments as it does on healthcare, recently borrowing a further US$600 million just to cover the repayments and escalating interest. The deeply indebted country has not been considered for any debt relief as international institutions deem its debt to be 'sustainable'.

The role of International Financial Intitutions

Some of the starkest impacts are observed when looking at the conditionalities and macroeconomic reforms imposed on the country alongside its loans. Sri Lanka's currency, the rupee, has been devalued by over 16% since November 2011, causing economic hardship for Sri Lankan people. Austerity measures and trade liberalisation have been a conditionality of IMF loans. Resulting price hikes, particularly in energy costs, have hit the poorest Sri Lankan's hardest, exacerbating inequality within the country.

Following the highly destructive tsunami in 2005, the **Paris Club** froze Sri Lanka's debt repayments for one year but despite the UK government suggesting partial debt cancellation, payments resumed in full.

Human rights abuses and impunity

25 years of violent conflict between the Sinhalese and Tamil ethnic groups ended in 2009. The final months of the civil war led to the death of tens of thousands of civilians whilst countries around the world ignored the violent nature of the end of the conflict. The government state that they held a 'zero civilian casualty' operation but many, including the UN, have suggested that the government are guilty of serious violations of international humanitarian and human rights law, amounting to war crimes and crimes against humanity. This includes the killing of civilians, attacks on hospitals and denial of humanitarian assistance. Loans were extended to the government throughout this period and the Sri Lankan people are now paying back loans which were taken by a repressive past government.

Dodgy deals

UK Export Finance supported £80 million of loans in 2008 for the country to pay Mabey & Johnson, a British company, to build bridges in Sri Lanka. It had been alleged at the time that Mabey and Johnson were involved in corruption and in 2009 they were found guilty of bribing officials in Angola, Bangladesh, Ghana, Madagascar, Mozambique and Jamaica. In spite of these serious allegations, UK Export Finance went ahead with the plans illustrating the lack of ethical consideration behind their deals.

Current situation

The consideration of Sri Lanka having a sustainable debt burden stands within a narrow understanding of what such sustainability is. Due to Sri Lanka's place as a middle income country it is considered capable of repaying debts. However, this does not give the full picture for life for Sri Lankan's and problems including malnutrition persist. Inequality is entrenched in Sri Lankan society and the high human cost of the tsunami and civil conflict continues to take its toll.

Factfile

Population
21.48 million

For every
£1
the poorest 10% earn,
the richest 10% get
£22

Life expectancy
76 years

17 out of 1000
children die before the age of 5

Human Development Index rated
97
out of 187 countries

4.2%
unemployment

Find out about Islamic Relief's work in Sri Lanka at; www.islamic-relief.org.uk