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Lesson from Sri Lanka: Don't wait for a crisis to act



The costs of bringing about change will be much more if you wait too late to demand change

 By Annapurna Express
published on 2022-07-15 03:07:00

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Sri Lanka's unprecedented economic crisis has spiraled into a full-scale political upheaval. President Gotabaya Rajapaksa's house was stormed and the president chased away while Prime Minister Ranil Wickremesinghe's residence was also set on fire. As Sri Lanka stares at an uncertain future, anxiety has also shifted to other South Asian countries like Nepal. **Kamal Dev Bhattarai** of ApEx speaks to Nisha Arunatilake, senior economist and director of research at the Institute of Policy Studies of Sri Lanka.

What in your view is the root cause of Sri Lanka's economic crisis?

It's difficult to put a finger on the root cause. This crisis manifested through many irregularities in the system. Most importantly, extreme politicization of institutions resulted in improper appointments in leadership positions, improper overall recruitment of people, mismanagement, corruption, lack of transparency and accountability.

All of these resulted in unsustainable budget deficits and weak institutions, unplanned development projects with low returns, and insufficient investments in sustainable development projects. Constant changes to the organization of the institutions and reorganization of ministries, and changing the number of ministries to suit individuals reduced the efficiency of government processes. Such a weak system could not withstand the shock of the Covid-19 pandemic.

It is said populist and hasty decisions of political leadership led to the crisis. Is it true?

Yes, very true. Take Sri Lanka's public service. Successive governments have recruited people to the public sector without adhering to proper procedures. In the estimated budget for 2022, the government needed more than 40 percent of government revenues just to pay the wages and salaries of public workers. This was unsustainable, especially as the government also had to foot about 50 percent of the revenue for interest payments. This left very little funds for social spending and development.

Another example was development planning. This was not done according to the needs of the country, but based on individual needs of political leaders. Many such projects have resulted in increasing government debt without contributing much to development or job-creation. One such example is the Hambantota port, which costs a lot to operate but has very little return.

What are the takeaways from this economic crisis? Are Chinese loans responsible?

The constitution of Sri Lanka has undergone many changes in recent times. Not all those changes were done in the country's best interest. These need to be rectified.

The main lesson from the crisis is the importance of strengthening public institutions and ensuring that qualified and experienced individuals are chosen to run them. Also, it is important to implement procedures to ensure the transparency and accountability of institutions.

I wouldn't say Chinese loans are directly responsible for this crisis. The main problem is that those loans were invested in projects that were unsustainable. There should have been systems in place to make sure that the returns from the investments made using the loans were higher than the costs of the loans. This was not the case for many of the loans.

How long will it take for Sri Lanka to recover from this crisis?

This is not an easy question to answer. My guess is it will take several years. The country needs to first bring in macro-stability. For that, we need to improve tax collections and widen the tax-base. Given the current economic conditions, this cannot be done in a hurry.

We also need to reduce public spending. We have too large a public service and it is not possible to reduce its size overnight and without triggering social unrest. This needs to be done gradually. Also, changing the system requires improving the capacity of public servants. Many are used to operating in a different system and in a different culture. It will take time to bring in changes.

Additionally, Sri Lanka must increase and diversify the sources of foreign exchange earnings. We will need to attract foreign direct investment (FDI). This is also not easy given the current uncertain political and economic environment.

What are the lessons for other South Asian countries here?

The main lesson is not to wait until you are in a crisis to fight for change. The costs of bringing about change will be much more if you wait too late to demand change. Any course correction needs to happen early, to minimize the economic and social costs of change.

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Editor-In-Chief: Biswas Baral

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