

Post-Economic Crisis Reforms in Sri Lanka: Comparative Insights from India

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Summary

This insight examines some of the key reforms since the 2022 debt default in Sri Lanka and their impact on democracy in the lead-up to presidential elections in 2024 and parliamentary elections in 2025. Comparative insights are derived from similar reform processes ongoing in India, including challenges in their implementation and their broader impact on society and democracy.

Introduction

In 2022, Sri Lanka declared bankruptcy and was unable to honour its foreign debt or import essential goods. The harsh impact of the crisis conditions on the people led to mass street protests (*Aragalaya*), culminating in the resignation of President Gotabaya Rajapaksa and Prime Minister Mahinda Rajapaksa, along with the cabinet at the time. In July 2022, Ranil Wickremesinghe was elected as president through a majority of parliamentary votes. The new president committed to a reform programme which aimed to address some of the deep-seated, structural conditions that had led to the present crisis.

These reforms are highly political as there are numerous stakeholders with different and often competing interests. These range from private international sovereign bond creditors and international institutions (such as the International Monetary Fund [IMF]) to domestic groups (businesses and trade unions) and the public who will determine which political groups and candidates come to power in the next elections. With the presidential elections likely to be held later this year, and parliamentary elections next year, an assessment of the reform process and its reception by these various groups is important.

India too is in the midst of its parliamentary elections, which began on 19 April 2024 and will end in June 2024. While opinion polls suggest that the incumbent government of Narendra Modi is likely to come back to power, much of the debate from the opposition, academics, journalists and critics has been on the state of democracy in India.¹ Contextualising the ongoing reforms in Sri Lanka against the state of democracy in India provides a useful vantage point, and enables one to draw inferences about the future of democracy in the broader South Asian region.

¹ “India ‘one of the worst autocratisers’: V-Dem report on democracy”, *The Hindu*, 11 March 2024, <https://www.thehindu.com/news/national/india-one-of-the-worst-autocratisers-v-dem-report-on-democracy/article67939573.ece#:~:text=India%2C%20which%20was%20downgraded%20to,that%20tracks%20democratic%20freedoms%20worldwide.>

Stabilisation Narratives versus System Change

A key demand of Sri Lanka's mass anti-government protests in 2022 was for 'system change'. This alluded, in part, to the need for cleaner governance and better management of public finance. This included more transparency and accountability with regard to the management of public finance, and stopping corruption which benefitted a small group of elites at the expense of general public welfare. Beyond the call for the government at the time to resign, for basic goods and services to be available (such as electricity, fuel and food items) and for more checks and balances, there was no real consensus among the various groups within *Aragalaya* on what this system change would look like. *Aragalaya* was seen by some as a space which contained possibilities and expressions which transcended ethnic and religious divisions and gender discrimination. However, these structural conditions have arguably remained in the absence of large-scale system change.

Among the dominant narratives accompanying Wickremesinghe's current reform agenda is that the crisis provides a window for politically difficult reforms to be implemented.² The government's economic stabilisation narrative is that the macroeconomic indicators of Sri Lanka have improved. This is backed by the IMF predicting growth for Sri Lanka's economy in 2024, with accelerated expansion expected the following year and other signs of macroeconomic stabilisation.

Against this backdrop, the government has been implementing a series of reforms to be eligible for IMF funding, gain confidence and legitimacy from various domestic and international counterparts and ensure that it remains in power. These competing interests from various sources make it a challenging balancing act for the government, and some of the politics surrounding these reforms and their impact on democracy and inclusion are examined next.

Reforms and Political Consolidation

One such reform is the Anti-Corruption Act. In April 2023, the Anti-Corruption Bill was gazetted in a bid to increase transparency, accountability and integrity of governance.³ This reform is aimed at enhancing the Commission to Investigate Allegations of Bribery and Corruption (CIABOC). It incorporates several progressive aspects, such as the digitisation of asset declaration, broadening the spectrum of professionals required to declare assets and empowering the CIABOC to enhance collaboration with both domestic and international law enforcement entities for conducting investigations.⁴ However, it also grants the three-member commission overseeing the CIABOC increased authority over pivotal officials within the bribery commission by eliminating internal oversight mechanisms, such as the authority over hiring and firing of officials, which were previously overseen by another independent

² "World Bank Vice President: Sri Lanka Crisis is an Opportunity for Fundamental Reforms", The World Bank, 7 December 2022, <https://www.worldbank.org/en/news/press-release/2022/12/06/sri-lanka-crisis-is-an-opportunity-for-fundamental-reforms>.

³ Himel Kotelawala, "Sri Lanka gazettes anti-corruption bill after IMF deal", *Economy Next*, 6 April 2023, <https://economynext.com/sri-lanka-gazettes-new-anti-corruption-bill-after-imf-deal-117638/>.

⁴ Ibid.

commission.⁵ This opens up further space for political interference in the whole process than checks it.

In India, since 2014, the Prevention of Money Laundering Act has been used by the Enforcement Directorate which is the domestic law enforcement and economic intelligence agency. Under the previous Congress government (2004 to 2014), 112 such raids were conducted, while since 2014, 3,010 raids have been conducted to the present date.⁶ In 2019, the Modi government passed an amendment to the law “which made the mere possession of illicit money arising from a crime punishable”.⁷

There are concerns that such laws, which carry the mandate of checking corruption and misuse of public finance, are vulnerable to misuse for political interests due to the powers vested in them. Several opposition parties and leaders were raided and are being prosecuted by the Enforcement Directorate. The most notable politicians include the incumbent Jharkhand’s Chief Minister Heman Soren and Delhi’s Chief Minister Arvind Kejriwal. Soren was arrested in January 2024 by the Enforcement Directorate in connection to a land scam case,⁸ and he subsequently resigned from the position of chief minister, while Kejriwal was arrested in March 2024 by the Enforcement Directorate in connection with a liquor scam case.⁹ Both Kejriwal and Soren are key opposition leaders who have staunchly opposed Modi’s politics. Notably, Kejriwal’s Aam Aadmi Party – the common man’s party – has been growing in stature nationally ever since his party won the legislative elections in Punjab in 2022; hence, Kejriwal is considered to be a key opponent to Modi.¹⁰

Meanwhile, the Sri Lankan government’s announcement of domestic debt restructuring (DDR) in June 2023 was a prerequisite for the IMF bailout package and adherence to conditions set by major international hedge funds holding Sri Lanka’s bonds. The DDR received parliamentary approval with a majority vote and included approximately 40 per cent of the total domestic debt.¹¹ However, it is noteworthy that both short-term and long-term debt held by commercial banks were excluded from the restructuring, resulting in partial coverage of the domestic debt. Consequently, there was strong opposition from trade unions, opposition political parties and sections of the public against the resulting uneven burden distribution on pension fund contributors, who are among the more vulnerable classes.

⁵ Harindra B Dassanayake and Rajni Gamage, “Reforms in Sri Lanka: Emerging Trends in Elite Politics”, *Economic & Political Weekly*, Vol. LVIII, No. 49, 9 December 2023, pp. 29-32.

⁶ Abhik Deb, “How Opposition is devising new strategies to counter the Enforcement Directorate”, *Scroll*, 28 January, 2024, <https://scroll.in/article/1062775/how-the-opposition-is-devising-new-strategies-to-counter-enforcement-directorate-investigations>.

⁷ Ibid.

⁸ “Former Jharkhand CM Hemant Soren”, *Mint*, 31 January 2024, <https://www.livemint.com/politics/news/former-jharkhand-cm-hemant-soren-arrested-by-ed-in-land-scam-case-11706718560139.html>.

⁹ Akriti Anand, “Arvind Kejriwal key conspirator in excise policy scam, demanded ₹100 crore from ‘South group’: ED tells Delhi court”, *Mint*, 22 March 2024, <https://www.livemint.com/news/india/arvind-kejriwal-arrested-key-conspirator-in-excise-policy-case-ed-seeks-delhi-cm-ten-day-remand-11711098688239.html>.

¹⁰ Ashutosh Varshney, “How much time does Indian democracy have?”, *The Indian Express*, 28 March 2024, <https://indianexpress.com/article/opinion/columns/ashutosh-varshney-kejriwal-arrest-time-indian-democracy-have-9236614/>.

Statements from the president, as well as international financial organisations such as the IMF and World Bank, have acknowledged the importance of better-targeted safety nets and protections for such groups.¹² In response, the government initiated *Aswesuma*, the latest welfare benefit payments scheme, in collaboration with the World Bank, with the objective of extending cash transfers to approximately 35 per cent of the population. *Aswesuma* replaced *Samurdhi* which was the prevailing national poverty alleviation programme. However, there remain some criticisms of the new programme, such as a lack of awareness among the target population of the transition to the new programme and how to apply for welfare benefits, flawed data collection and exclusion of truly vulnerable communities.¹³

Nevertheless, the implementation of higher taxes and electricity tariffs as part of the reforms agenda has resulted in push-back from a public already weary with inflation and high cost of living.¹⁴ The government has taken a relatively hardliner approach to dissent, with crackdown on protests, led mainly by student unions and trade unions, through deploying the police and armed forces.¹⁵ The main rationale for this is that there needs to be social stability (and this can include suspending some democratic rights) to ensure the success of economic reforms and regain foreign and domestic investor confidence.

Among the key challenges of the reform process therefore is managing its impact on the economically vulnerable sections of society.¹⁶ In 2023, the number of people in Sri Lanka living below the poverty line continued to rise for the fourth year in a row at an estimated 25.9 per cent.¹⁷ In the absence of mass street protests, due to a mix of factors (such as struggling to make a livelihood, people aspiring to migrate overseas and government crackdown on protests), elections are likely to be the next outlet for many people's frustrations against the government and its current reforms programme.

The following section examines some of the more recent reforms proposed or passed and their impact on democratic rights and freedoms.

¹² "World Bank Vice President: Sri Lanka Crisis is an Opportunity for Fundamental Reforms", The World Bank, 7 December 2022, <https://www.worldbank.org/en/news/press-release/2022/12/06/sri-lanka-crisis-is-an-opportunity-for-fundamental-reforms>.

¹³ Neelan Tiruchelvam Trust, "Aswesuma: What's really going on?", *The Morning*, 22 October 2023, <https://www.themorning.lk/articles/yI9VOzaJ5tyCD0jwOgsV>.

¹⁴ Uditha Jayasinghe, "Crisis-hit Sri Lanka's public workers protest power tariff, tax hikes", *Reuters*, 1 March 2023, <https://www.reuters.com/world/asia-pacific/crisis-hit-sri-lankas-public-workers-protest-power-tariff-tax-hikes-2023-03-01/>.

¹⁵ Emma Kenny, "Sri Lanka's Long Road to Democratic Reform: A Conversation with Bhavani Fonseka", *International Idea*, 12 February 2023, <https://www.idea.int/blog/sri-lankas-long-road-democratic-reform-conversation-bhavani-fonseka>.

¹⁶ Colombo Urban Lab, "Breaking Point: Impact of Sri Lanka's Economic Crisis on Colombo's Working Class Poor", Centre For A Smart Future, 7 April 2023, <https://www.csf-asia.org/breaking-point-impact-of-sri-lankas-economic-crisis-on-colombos-working-class-poor/>.

¹⁷ "Sri Lanka's Economy Shows Signs of Stabilization, but Poverty to Remain Elevated", World Bank, 2 April 2024, <https://www.worldbank.org/en/news/press-release/2024/04/01/sri-lanka-s-economy-shows-signs-of-stabilization-but-poverty-to-remain-elevated#:~:text=However%2C%20poverty%20rates%20continued%20to,the%20poverty%20line%20in%202023>.

Democracy-related Reforms

Among such legislation is the new Anti-Terrorism Bill which was gazetted by the government in March 2023, and which if adopted, will replace the Prevention of Terrorism Act of 1979. There has been strong opposition to the bill from several sections of the civil society for the level of impunity it provides the government and security forces in clamping down on the freedom of expression and dissent in the name of “national security”. The presentation of the bill in parliament was subsequently postponed and the bill went under revision and was gazetted again on 15 September 2023. However, the provisions remain unchanged and concerning. For example, the International Commission of Jurists noted that “the revised bill, in Clause 3 continues to define acts of terrorism in a vague and overbroad matter and undercuts the inherent authority of the judiciary, as people may be detained for two months solely on the order of the secretary of the Defence Ministry.”¹⁸

India’s Unlawful Activities (Prevention) Act (UAPA) is a useful comparison to Sri Lanka’s Anti-Terrorism Bill. The misuse of the UAPA to suppress dissent, intimidate the opposition and further solidify power has been widely documented.¹⁹ The Indian government has arrested various journalists “on spurious terrorism and other criminal charges, and have routinely targeted critics and independent news organisations with allegations of financial irregularities.”²⁰ Similarly, the use of counterterrorism law, national security laws, foreign funding laws and income tax regulations to target and prosecute human rights defenders and peaceful protesters have been observed in the Indian context as well.²¹

Meanwhile, the Online Safety Bill was introduced in September 2023 on the government’s regulation of digital spaces in Sri Lanka.²² It was passed in parliament in January 2024 with a vote count of 108-62. The law primarily prohibits the dissemination of false statements that may jeopardise national security, public health or public order, incite hostility between societal groups, or disrupt religious worship. This act confers broad powers to an Online Safety Commission, granting it authority to determine what constitutes a “prohibited statement” and to recommend the removal of such content by internet service providers, as well as the suspension of access for offenders.²³ However, the act has faced significant criticism from the civil society and activists. The United Nations Office of the High Commissioner on Human Rights also released a statement expressing concern that the act

¹⁸ “Sri Lanka: Revised version of anti-terror bill threatens human rights”, International Commission of Jurists, 25 September, 2023, <https://www.icj.org/sri-lanka-revised-version-of-anti-terror-bill-threatens-human-rights/>.

¹⁹ “‘Misused, abused’: India’s harsh terror law under rare scrutiny”, *Al Jazeera*, 16 August 2021, <https://www.aljazeera.com/news/2021/8/16/india-uapa-terror-law-scrutiny>.

²⁰ “UAPA, financial regulations being misused to target scribes, activists, say international rights groups”, *The Hindu*, 13 October 2023, <https://www.thehindu.com/news/national/international-rights-groups-condemn/article67416942.ece>.

²¹ Ibid.

²² “Sri Lanka: Online Safety Act major blow to freedom of expression”, *Amnesty International*, 24 January 2024, <https://www.amnesty.org/en/latest/news/2024/01/sri-lanka-online-safety-act-major-blow-to-freedom-of-expression/>.

²³ “Sri Lanka: Online Safety Act major blow to freedom of expression”, *Amnesty International*, 24 January 2024, <https://www.amnesty.org/en/latest/news/2024/01/sri-lanka-online-safety-act-major-blow-to-freedom-of-expression/>.

could severely curtail online communication, granting authorities unchecked discretion to label and restrict expressions they deem as “false statements”.²⁴

In India, the Modi government introduced the Information Technology (Guidelines for Intermediaries and Digital Media Ethics Code) Rules in 2021. According to these rules, social media giants are to “take down unlawful activities within a specific time-frame of being served either a court order or notice by an appropriate government agency.”²⁵ Furthermore, the rules has made it mandatory for social media companies that provide services primarily related to messaging, such as WhatsApp and Telegram, among others, to “enable the identification of the ‘first originator’ of the information”.²⁶ These rules compromise the end-to-end encryption on social media platforms which may restrict freedom of speech online. If the social media companies fail to comply, they risk “losing their safe harbour protections and may be held liable in a court proceeding for any third-party information hosted on their platform.”²⁷

Social Cohesion Amidst Elections and Populist Rhetoric

Meanwhile, on the national question (the issue of power-sharing), the President has pledged to fully enact the 13th Amendment to the constitution, address caste-related issues in the North,²⁸ and establish a Truth, Unity, and Reconciliation Commission.²⁹ Another notable reconciliation-related legislation recently passed in January 2024 was the Office for National Unity and Reconciliation Bill. However, mounting discrepancies with the above rhetoric and reforms and the government’s crackdown on democratic rights and freedoms of expression and association have led to serious concerns regarding the political commitment to ensuring human rights of minority communities and dissent, and whether these initiatives are driven by short-term political opportunism.

These developments come alongside the call for downsizing the military, as a part of the reforms agenda, in order to cut down state expenditures and meet IMF targets on revenue and expenditure.³⁰ The growing role of the military in development and governance in the post-war context in Sri Lanka is also viewed by critics as detrimental to transitional justice

²⁴ Ravina Shamdasani, “Press Briefing Notes”, Human rights concerns over two draft laws in Sri Lanka”, United Nations Human Rights Office of the High Commissioner, 13 October 2023, <https://www.ohchr.org/en/press-briefing-notes/2023/10/human-rights-concerns-over-two-draft-laws-sri-lanka>.

²⁵ “Modi Govt Announces New Rules to Tighten Oversight Over Social Media, Digital Media Platforms, Streaming Services”, *The Wire*, 25 February 2021, <https://thewire.in/government/modi-govt-announces-new-rules-to-tighten-oversight-over-social-media-digital-media-platforms-streaming-services>.

²⁶ Ibid.

²⁷ Jayshree Bajoria, “India’s Digital Governance ‘Model’ Fails on Rights”, *Human Rights Watch*, 6 September 2023, <https://www.hrw.org/news/2023/09/06/indias-digital-governance-model-fails-rights>.

²⁸ Meera Srinivasan, “As talks with Tamil parties drag, Ranil pledges full implementation of 13th Amendment”, *The Hindu*, 16 January 2023, <https://www.thehindu.com/news/international/as-talks-with-tamil-parties-drag-ranil-pledges-full-implementation-of-13th-amendment/article66383091.ece>.

²⁹ The Gazette of the Democratic Socialist Republic of Sri Lanka, “Commission for Truth, Unity, and Reconciliation in Sri Lanka”, 29 December 2023, http://documents.gov.lk/files/bill/2024/1/432-2024_E.pdf.

³⁰ “Sri Lanka to slash military by a third to cut costs”, *Al Jazeera*, 13 January 2023, <https://www.aljazeera.com/news/2023/1/13/bankrupt-sri-lanka-to-slash-military-by-third-to-cut-costs>.

and reconciliation.³¹ However, downsizing the military will be politically challenging due to the substantial military economy that exists, especially among the majority rural, Sinhala Buddhist electorate. How the president navigates these reforms will, therefore, impinge significantly on his performance in the upcoming elections.

Meanwhile, India's incumbent government has been widely criticised regarding its majoritarian political ideology, *Hindutva* (Hindu nationalism), and how that threatens the minorities. For example, the passage of the Citizenship Amendment Act (CAA) in 2019 provided a fast track to citizenship for Hindus, Parsis, Sikhs, Buddhists, Jains and Christians from neighbouring countries, but explicitly excluded Muslims.³² The government crackdown on the CAA protests further indicates how the space for civil dissent and minority rights is increasingly restricted.³³ This kind of politics is being mobilised in the ongoing elections, as seen in Modi's recent speech, where he was accused by critics of hate speech after equating Muslims to "infiltrators".³⁴

Conclusion

The analysis of key reforms in Sri Lanka post-2022 debt default, juxtaposed with ongoing reforms in India amidst the electoral landscape, offers critical insights into the dynamics of governance, democracy and societal impact in South Asia. The pursuit of economic stabilisation and anti-corruption measures in Sri Lanka, while crucial, faces the challenges of political interference and uneven burden distribution, particularly affecting vulnerable communities. Similarly, in India, legislation ostensibly targeting terrorism and regulating digital spaces raises concerns about democratic rights and freedoms, with instances of misuse for political ends. Meanwhile, efforts to address longstanding issues such as ethnic reconciliation in Sri Lanka are marred by discrepancies between rhetoric and actions, raising questions about genuine commitment versus short-term political interests. Similarly, in India, the space for civic freedoms and minority rights appears to be increasingly narrow. These comparative insights underscore the complex interplay between reform agendas, political manoeuvring and the safeguarding of democracy and human rights in the region.

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³¹ Rajesh Venugopal, 'The politics of market reform at a time of civil war: Military fiscalism in Sri Lanka', *Economic and Political Weekly*, 2011, pp. 67-75.

³² "Why is India's Citizenship Amendment Act so controversial?", *Al Jazeera*, 12 March 2024, <https://www.aljazeera.com/news/2024/3/12/why-is-indias-citizenship-amendment-act-so-controversial>.

³³ Akash Bisht, "Indian police accused of targeting Muslims over anti-CAA protests", *Al Jazeera*, 22 April 2020, <https://www.aljazeera.com/news/2020/4/22/indian-police-accused-of-targeting-muslims-over-anti-caa-protests>.

³⁴ Yashraj Sharma, 'Infiltrators': Modi accused of anti-Muslim hate speech amid India election", *Al Jazeera*, 22 April 2024, <https://www.aljazeera.com/news/2024/4/22/infiltrators-modi-accused-of-anti-muslim-hate-speech-amid-india-election>.