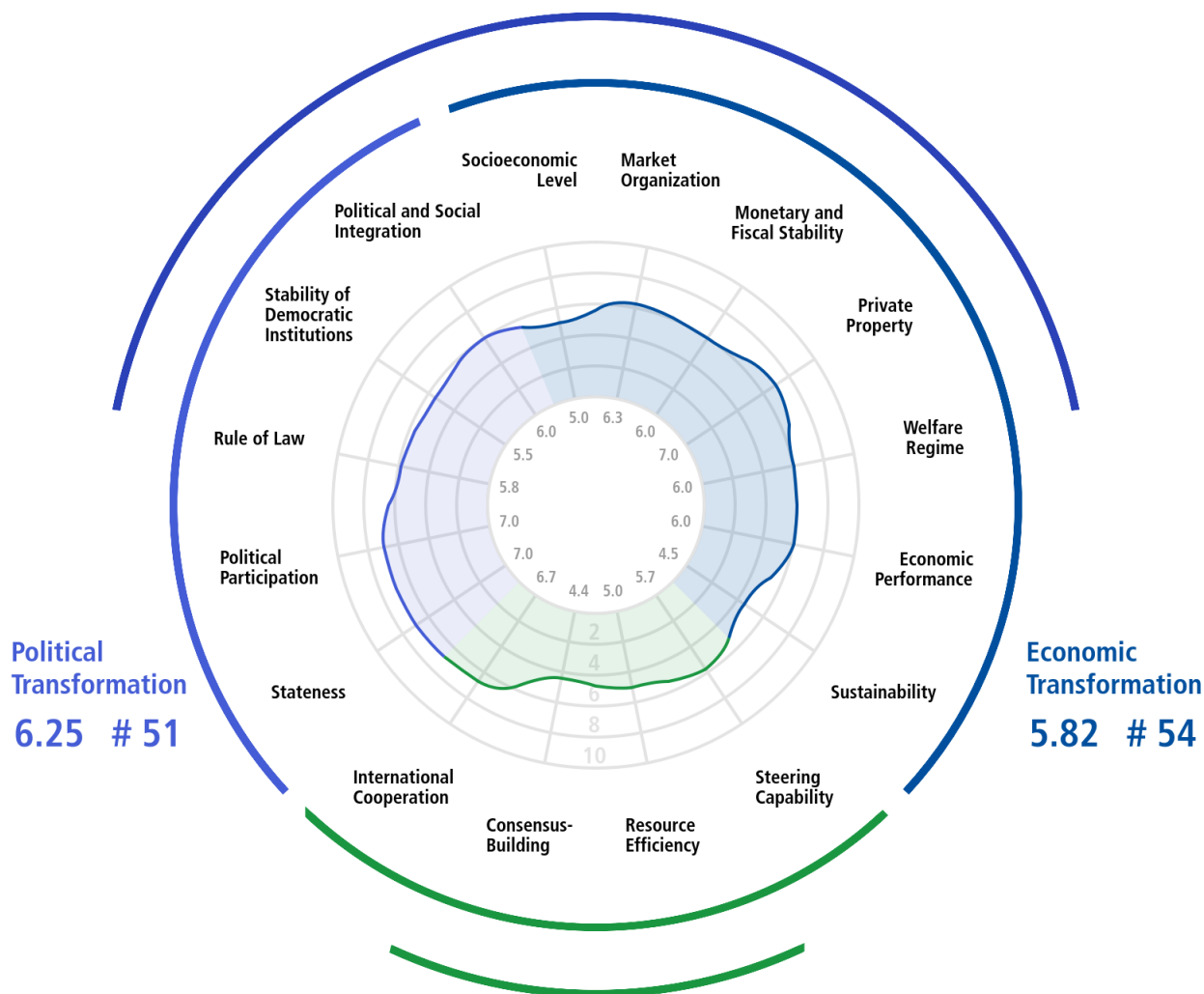


# Sri Lanka

## Status Index

**6.04 # 49**

on 1-10 scale out of 137



**Political Transformation**  
**6.25 # 51**

**Economic Transformation**  
**5.82 # 54**

## Governance Index

**4.80 # 72**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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## Contact

Bertelsmann Stiftung  
Carl-Bertelsmann-Strasse 256  
33111 Gütersloh  
Germany

### Sabine Donner

Phone +49 5241 81 81501  
[sabine.donner@bertelsmann-stiftung.de](mailto:sabine.donner@bertelsmann-stiftung.de)

### Hauke Hartmann

Phone +49 5241 81 81389  
[hauke.hartmann@bertelsmann-stiftung.de](mailto:hauke.hartmann@bertelsmann-stiftung.de)

### Claudia Härterich

Phone +49 5241 81 81263  
[claudia.haerterich@bertelsmann-stiftung.de](mailto:claudia.haerterich@bertelsmann-stiftung.de)

### Sabine Steinkamp

Phone +49 5241 81 81507  
[sabine.steinkamp@bertelsmann-stiftung.de](mailto:sabine.steinkamp@bertelsmann-stiftung.de)

**Key Indicators**

Population	M	<b>21.9</b>	HDI	<b>0.782</b>	GDP p.c., PPP \$	<b>13225</b>
Pop. growth <sup>1</sup>	% p.a.	<b>0.5</b>	HDI rank of 189	<b>72</b>	Gini Index	<b>39.3</b>
Life expectancy	years	<b>77.0</b>	UN Education Index	<b>0.746</b>	Poverty <sup>3</sup>	% <b>11.0</b>
Urban population	%	<b>18.7</b>	Gender inequality <sup>2</sup>	<b>0.401</b>	Aid per capita \$	<b>9.1</b>

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

The period under review saw significant incidents which will have lasting negative impacts on Sri Lanka's future trajectory, both in terms of challenges to democratic institutions and economic stability.

The Islamist Easter Sunday 2019 attacks targeting churches and tourist hotels catalyzed several trends that had been gathering strength. The attacks shattered the negative peace that had taken hold since the end of the civil war in 2009 and put national security at the center of popular discourse. They also augmented the growing opinion, especially within the Sinhala community, that Sri Lanka required a strong leader. The attacks legitimized anti-Muslim rhetoric that had been prevalent since 2012. The Muslim community was left in an even more vulnerable position in the aftermath of the attacks due to anti-Muslim violence and mass arrests carried out by security forces.

The efforts at constitutional reform launched by the government elected in 2015 had come to a halt by the latter part of 2018. Many of the political actors who supported that reform effort were defeated at the presidential election held in November 2019 and the parliamentary election in August 2020. Gotabaya Rajapaksa was elected president and thereafter his brother, Mahinda Rajapaksa, leader of the Sri Lanka Podujana Party (SLPP), won a decisive victory at the parliamentary elections. Together with its allies, the SLPP now has over 150 seats in the 225 seat legislature, enough to enact most constitutional amendments.

The SLPP used its new majority to enact the 20th amendment to the constitution, which undid many of the democratic reforms achieved between 2015 and 2019. The amendment substantially increases the president's power over parliament and enables the president to unilaterally make appointments to the higher judiciary and a host of other important offices. The incumbent government also embarked on a process of drafting a new constitution which is expected to entrench the unitary status of the state, protect the position of Buddhism, change the electoral

system to “allow for greater stability in the parliament,” and potentially amend the application of language rights. The new constitution is expected to be finalized by the end of 2021.

Sri Lanka responded exceedingly well to the first wave of the COVID-19 pandemic by curtailing its spread. However, the second wave of the pandemic after October 2020 led to a dramatic increase in the caseload and number of deaths. Sri Lanka opened its borders for international travel in January 2021, despite experiencing an average of 647 new cases of COVID-19 per day.

Despite its success, there have been worrying trends in the government’s response to COVID-19 that directly impact governance and the rule of law. The first is a centralization of power in the executive arm of government. The second trend is the failure to follow established legal procedures when implementing restrictions related to COVID-19. The third is the proliferation of committees and task forces to deal with different aspects of the COVID-19 response. And finally, an increased militarization occurred as a result of the country’s response to the pandemic.

The pandemic severely impacted the economy, which was recovering from the shock of the Easter Sunday attacks. Even before the attacks, Sri Lanka’s economy was stagnating, with low growth rates and low investor confidence. Despite the World Bank classifying Sri Lanka as an upper middle-income country in July 2019, investors remained circumspect owing to substantial debt repayment due between 2019 and 2024, which will put pressure on public finances and foreign reserves. The government was forced to implement strict import controls to compensate for the drop in foreign remittances and tourist income due to the COVID-19 pandemic. The government also embarked on an import substitution drive, especially in the agricultural sector, and launched financing schemes for entrepreneurs. The central bank also directly intervened in the banking system to mandate lending rates for particular types of loans.

## History and Characteristics of Transformation

Sri Lanka is an island nation in close proximity to India. From the 16th century onwards, it was under the colonial rule of the Portuguese, the Dutch and the British, the latter of which it gained independence from in 1948. The Sinhalese are the majority ethnic community (74.9%). The largest minority community are the Sri Lankan Tamils (11.15%) who live predominantly in the island’s Northern and Eastern Provinces. A significant portion of the Muslim community live in the Eastern Province but are in general more evenly distributed across all nine provinces (9.3%). The Upcountry Tamil community predominantly lives in the central highlands of Sri Lanka (4.12%).

The United National Party (UNP) was the first political party to form a government in independent Sri Lanka. In the 1950s, S.W.R.D. Bandaranaike broke away from the UNP and formed the Sri Lanka Freedom Party (SLFP). UNP- and SLFP-led coalitions in turn formed governments from 1948 until 2015. Having removed the two-term limit through the 18th amendment, President Mahinda Rajapaksa (under whose leadership the civil war ended in 2009) called for an early presidential election in January 2015 in the hope of being elected for a third term. However,

Maithripala Sirisena, a senior member of Rajapaksa's own political party (the SLFP), defected to the opposition and successfully contested the presidential election. After his election in January 2015, Sirisena helped form a national government between the UNP and SLFP.

Sri Lanka's post-independence history is marred by turbulent political contestations on the nature of the state, several racial pogroms, two youth-led Marxist insurrections and a 26-year civil war that ended in May 2009. The basis for the civil war was the secessionist claim first articulated by Sri Lankan Tamil politicians in 1976 and was later co-opted by armed insurgents. These secessionist claims were the upshot of several discriminatory policies implemented by Sinhalese politicians that alienated many Sri Lankan Tamils. These policies inter alia included rendering a majority of the Upcountry Tamils stateless by the citizenship Act in 1948 and making Sinhala the only official language in 1956. Furthermore, the 1972 constitution, Sri Lanka's first autochthonous constitution, disregarded representations made by Tamil elected representatives, entrenched the unitary character of the state and gave special constitutional recognition to Buddhism.

The second Republican constitution was enacted in 1978, establishing a semi-presidential system of government with a powerful executive president, limited separation of powers and a weak parliament. Both constitutions were drafted by the governing party with limited input from opposition politicians and no participation of Tamil politicians. A pogrom against Tamil civilians in 1983 escalated the low-level violence into a full-blown civil war. An offer of a quasi-federal system following the Indo-Sri Lanka Accord and Indian armed intervention in 1987 failed to resolve the issue. The Liberation Tigers of Tamil Eelam (LTTE), which emerged as the dominant Tamil rebel group, controlled parts of the north and east of Sri Lanka and fought a civil war that lasted for 26 years until the LTTE was militarily defeated in May 2009.

Sri Lankan politicians maintained the well-developed health care system that they inherited upon independence, and they vastly expanded secondary education by having provided free public education since 1943. On the other hand, in 1948 Sri Lanka was a state dependent on the plantation sector for much of its revenue. A development model of import substitution and of economic development through public sector companies was attempted until 1977. From then on, market-oriented reforms were gradually adopted. Successive governments have pursued privatization, public sector reforms and the liberalization of trade and capital movements to different degrees. Additionally, the state remains actively involved in economic activities through state enterprises and by providing services such as education and health care.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The state's monopoly on the use of physical force is largely unchallenged. This is despite the Islamist terrorist attacks that took place in April 2019 (Easter Sunday attacks) and the anti-Muslim violence that ensued in the aftermath of these attacks.

The attacks represented a serious breakdown in the security apparatus. Despite the warnings issued by the local Muslim population and foreign governments, the military and political leadership failed to take preventive action. This inertia symbolized the dysfunctional nature of the former government, particularly with regard to the tensions between the former president and the then-prime minister. The attacks were preventable if not for the gross negligence of the previous president and his senior national security staff. The attacks also gave impetus to the national security platform put forward by the SLPP, which won both the presidential election in November 2019 and the parliamentary election in August 2020 with convincing majorities. The SLPP has in turn embarked on a process of not only further strengthening the national security apparatus but of also militarizing the civilian administration and further increasing surveillance on citizens.

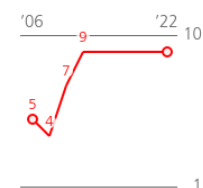
Violent attacks against Muslims in Sri Lanka have taken place sporadically since 2013 and intensified in the immediate aftermath of the Easter Sunday attacks. However, no such physical attacks have taken place since the election of the incumbent president. Since 2013, the police and other security forces have demonstrated an inability or reluctance to intervene immediately in civil riots that were perpetrated on Muslims. This mirrors the conduct of the police during attacks against Tamils in the 1970s and 1980s. As such, it is not necessarily an indication of the lack of the state's monopoly on the use of force. It is rather a symptom of a much larger problem regarding how the state deploys force.

There have been several news reports since May 2009, the end of the civil war, of the LTTE potentially regrouping. Based on publicly available information, none of these reports led to any credible threat. However, there have been sporadic news reports of former LTTE commanders with munitions being arrested and the discovery of weapons stashed away by the LTTE in the Northern and Eastern provinces.

Question  
Score

Monopoly on the  
use of force

9



1

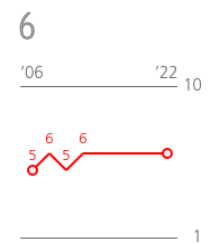
The right of citizenship is not denied on the basis of race, ethnicity, religion, gender or for political reasons. Since independence, citizenship through naturalization remains heavily regulated and difficult to obtain. Post-independence citizenship legislation rendered a significant section of the Upcountry Tamil community stateless. However, the legal issues relating to citizenship of this community have been resolved through legislation enacted between 1986 and 2009.

Sri Lanka continues to be a deeply divided society, marred by ethno-religious and linguistic tensions. Many of the ethno-religious-linguistic fault lines which led to the 30-year civil war continue to be vectors of conflict, even after the end of the armed conflict. A broad cross-section of the Sinhalese community equates the Sri Lankan “nation” with the Sinhalese identity. This sense of ownership of the identity of the nation-state was accentuated during the period under review. In the aftermath of the Easter Sunday attacks, the state failed to protect the Muslim community. It failed to safeguard due process rights and prevent arbitrary arrests of Muslims, and it failed to prevent mob violence against Muslims. This period saw increased militarization of the Northern Province and Eastern Province, and militarization in the state’s response to the COVID-19 pandemic. All these factors reinforced the idea that the Sri Lankan state is synonymous with the Sinhala identity.

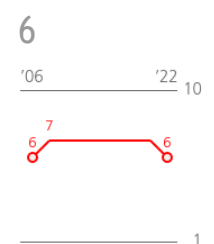
This in turn reinforced criticisms by Tamil political leaders that non-Sinhala ethnic groups are both de facto and de jure excluded from the identity of the Sri Lankan state. In fact, Tamil leaders often cite as an example that Tamil representatives were not involved as genuine stakeholders in drafting either of Sri Lanka’s post-independence constitutions and thus have not been made part of the social contract that underpins the Sri Lankan state. The review period saw the definitive end of constitutional reform efforts initiated in 2015, which sought to address these issues. These efforts were intended to strike a balance between the demand for devolution of power from the Tamil minority and trying to assuage fears of the Sinhala majority that further devolution would result in the establishment of a separate state by the Tamils. The new government, in contrast, has specifically identified itself as being elected through the votes of the Sinhala people, and has promised a new constitution which will further protect the unitary status of the country and secure the prominence given to Buddhism.

The constitution guarantees that Buddhism shall be granted “the foremost place” in the republic, although it also safeguards the freedom to have or adopt a religion of one’s choice and the freedom to teach and practice one’s religion in public or private. State funds support Sri Lanka’s four major religions (Buddhism, Hinduism, Islam and Christianity). Nonetheless, the Sinhalese majority tends to equate Buddhism with the national identity. Buddhist monks (known as the Sangha) have historically enjoyed significant state patronage, including being consulted in major political decisions by elected representatives. This has resulted in Buddhist monks possessing an unmatched power to mobilize political and civil society.

#### State identity



#### No interference of religious dogmas



The political influence of the Sangha has been greatly enhanced after the election of the new government in 2019/20. The new government enjoys unparalleled support among the influential sections of the Sangha. In April 2020, the president appointed the Buddhist Advisory Council, which includes Buddhist monks. This marks the first time an institutional structure has been created to directly link the Sangha with the governance process. The Buddhist Advisory Council has made proposals on a wide range of topics including the protection of what it considers “historical places with archaeological value,” the development of the National Education Policy, early childhood development, national security, dealing with narcotics and drugs, and environmental protection. Several of these proposals have been adopted by the government. The government has welcomed the input of the Sangha in education policy and as a result has, for example, withdrawn the use of a textbook on sexual education which had been approved by experts.

The Catholic Church in Sri Lanka has successfully lobbied the government to prevent law reforms relating to abortion rights and reproductive health care. Similarly, Muslim leaders have continuously resisted proposed reforms to the Muslim personal law (which applies to marriage and intestate succession) on the grounds of religious beliefs, even when aspects of the law are contrary to the basic human rights guaranteed by the constitution.

Sri Lanka’s existing administrative system was developed during the British colonial period and covers the entire country. The administration is mainly controlled by the central government, with limited functions devolved to provincial councils (established in 1987) and to local authorities.

Sri Lanka has an effective administrative structure that provides basic health and educational facilities in all regions. Primary and secondary education is provided free or at a concessionary rate by the state. Free health care facilities are also provided by the state. However, investments in health and education have not increased sufficiently over time, and there remain significant gaps in these services. Additionally, there is an imbalance in the provision of these facilities in various areas, with some regions of the country lagging behind others.

National and district level agencies provide power, water, housing and other basic facilities, and implement central government policy. According to World Bank 2018 data, 99.5% of the population have access to electricity, and according to official government data, more than 90% of households have access to safe drinking water, including 51.8% who have access to pipe borne water.

The COVID-19 pandemic has caused significant disruptions in government services because most of them require physical travel to access and because recipients lack resources. Particularly hard hit were the education services, with most students struggling to follow lessons on virtual platforms. To its credit, the government has mitigated some of these impacts by implementing stopgap measures. For example, the government mobilized state-owned television to deliver lessons to students.

Basic  
administration

7

'06 \_\_\_\_\_ '22 10



1



## 2 | Political Participation

Elections are regularly conducted on the basis of universal suffrage through multiparty contests and election outcomes are respected. Serious incidents of violence are not common during elections and the electoral process has evolved to become more peaceful over the last decade. Electoral registers are updated annually, with village/city level government offices facilitating this process. Sri Lanka regularly sees high voter turnout at elections. Turnout for the 2019 presidential election was 83.72%, and almost 76% at the 2020 parliamentary election, which was conducted during the pandemic.

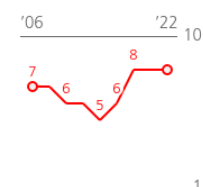
Since the last election, however, the structure of the Elections Commission has been significantly altered due to the 20th amendment to the constitution. This granted the president complete control when appointing members of the Elections Commission. Prior to this, since 2015, the president's appointments were subject to a consultative process with a multiparty deliberative body called the Constitutional Council. The 20th amendment also reduced some powers of the Elections Commission that take effect once an election has been declared. As such, the integrity of the election management body has been significantly compromised.

Historically, state-owned print, radio and television institutions have been exploited by the political party in government at the time of elections for its own benefit. The Election Commission has used its power to limit the abuse of state-owned media but has not been able to create a level playing field in this regard.

Sri Lanka recorded its first case of COVID-19 in March 2020, following the dissolution of parliament by the president to hold an early election. The parliamentary election was subsequently postponed due to the pandemic. Despite existing constitutional provisions which allowed, if not required, the president to summon parliament to immediately deal with the public health emergency, the president continued to insist that he would not do so, without giving any specific justification. As such, between March and August 2020, Sri Lanka functioned without a legislature, with the executive usurping public finance powers. This led to concerns regarding the legitimacy of the government's actions, including its ability to raise public debt beyond the debt ceiling and spend money without appropriations being made.

Free and fair elections

8



Democratically elected officials are able to implement their policies. The president, who is directly elected by the people, exercises extensive powers within the executive and legislative spheres of government. There are no extra-constitutional veto powers, but the military and the Buddhist establishment have influential voices.

Buddhist monks, particularly through the Buddhist Advisory Council, enjoy significant sway over the government on important national issues including the economy and international cooperation. The degree and the vectors of control vary between the different political parties. Since 2001, political parties composed of Buddhist monks have played an important role in the parliament. However, such parties performed poorly in the 2015 and the 2020 parliamentary elections. In the 2020 election, only one representative from such a party was elected to the parliament.

The constitution recognizes the right to freedom of association and assembly. These rights can be restricted based on constitutional criteria. Such restrictions, however, can be imposed only by an act of parliament and by regulations made under the law relating to public security. However, in practice the ability to exercise these rights varies across different parts of the country. In the Northern and Eastern provinces, the former theater of the civil war, these freedoms are significantly restricted due to extensive surveillance and military presence. Individuals claiming to be military intelligence routinely interview civil society activists. Protests and gatherings, when they are allowed, are also subject to surveillance.

Protests and demonstrations are routinely prevented by the police, by obtaining orders from the magistrate's court on the grounds of public nuisance. Magistrates rarely refuse to grant such orders. Regulations issued to prevent the spread of COVID-19, including those relating to mandatory social distancing and restrictions on the movement of persons, have also been utilized for this purpose. This has been problematic because of the disparity in use, particularly in the Northern and Eastern provinces. Protests by families of the disappeared, memorial events for those who died during the civil war, and political protests, have all been prevented by such orders on the grounds of containing the pandemic. However, similar or even larger gatherings were allowed to take place in other parts of the country, with even larger caseloads of COVID-19 patients.

There has been confusion over the existing restrictions related to the COVID-19 pandemic. Although guidelines have been issued from time to time, they have come from different authorities. The police periodically make pronouncements on restrictions of movement despite not having the statutory authority to frame guidelines in terms of the relevant law. Some restrictions on movement which are included in the guidelines of the Ministry of Health are rarely enforced, while periodic announcements made by the police are more vigorously enforced.

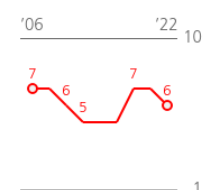
Effective power to govern

7



Association / assembly rights

6



Freedom of association is guaranteed to trade unions, both in the constitution and through acts of parliament. Restrictions on NGOs are however more complicated. There is no legal basis to directly regulate NGOs outside the general requirements prescribed by law for incorporated bodies and associations. However, an ad hoc structure named the NGO's Secretariat was set up in 1999. NGOs are routinely asked to register with the Secretariat and submit to its broad and vague powers. This is performed through local level government officials and even private sector banks. From November 2019, the Secretariat was brought under the Ministry of Defense. The new government after the presidential election in November 2019 has promised to enact a new law to regulate NGOs.

The constitution guarantees freedom of expression and opinion. The previous government had made considerable progress in this regard. However, with the change of government after the presidential election in 2019, fears were raised that threats and reprisals against journalists might return. These fears were further exacerbated by the arrests and investigations into several internet-based media outlets during the review period.

The police have used the prohibition of incitement to war in the International Covenant on Civil and Political Rights (ICCPR) Act, and the provisions of the Prevention of Terrorism Act (PTA), to arrest and detain persons expressing legitimate political opinions. Those arrested include Muslim and Tamil civil society activists, poets and some Sinhala writers who have criticized Buddhist monks. These laws have rarely been used against extremist organizations such as the Bodu Bala Sena (Buddhist Power Force), who have openly incited violence against minorities. These laws provide for long detention periods completely at the discretion of the police and the executive arm of government, with little judicial oversight.

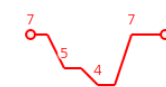
Individuals have been arrested for allegedly spreading fake news in relation to COVID-19 on social media, particularly news critical of the government. However, it is unclear under which legal provision these arrests have been made as Sri Lanka does not have a law criminalizing the act of spreading fake news. The government has expressed its desire to enact such a law, based on the legislation enacted in Singapore.

A robust Right to Information (RTI) law was enacted in 2016, and the right to information is recognized and protected by the constitution. However, there are more than 100 laws which prohibit government officials from publishing a broad range of information. The efficacy of the RTI thus depends on the RTI commission to set operating standards that encourage transparency. The new government has expressed its support of RTI law. However, with the changes made by the 20th amendment to the constitution, the members of the RTI commission will henceforth be appointed at the sole discretion of the president.

Freedom of expression

7

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1

### 3 | Rule of Law

The separation of powers was significantly eroded by the enactment of the 20th amendment to the constitution. The amendment increased the power of the president over parliament by transferring powers of the prime minister to the president. The president's power to summon and prorogue parliament at his discretion has also been enhanced.

The president can appoint judges to the Supreme Court and the Court of Appeal at his own discretion. Prior to the amendment, the president's nominees had to be approved by a multiparty consultative body called the Constitutional Council. The amendment increased the maximum number of judges that can be appointed to the two highest courts from 23 to 37, allowing the president to appoint, as a one-time act, 14 new judges using the new appointment procedure.

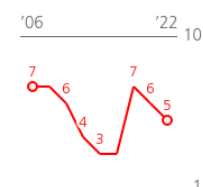
The main challenge to the separation of powers during the COVID-19 pandemic between March and September 2020 was the government's undermining of the rule of law. No state of emergency was declared as parliament was dissolved. A declaration of emergency would automatically resuspend parliament. The president instead governed through presidential task forces. The authority of these task forces was never challenged in courts. Many of the restrictions in place during this time were implemented in an extra-legal manner, violating several acts of parliament. These laws were not used primarily because they would have required the president to resuspend parliament, which he refused to do until after elections. The government attempted to operationalize some restrictions under the Quarantine and Prevention of Diseases Ordinance, which, however, did not have provisions for such restrictions. The parliamentary election was held in August 2020 and the government won an unprecedented majority. It was thus able to retrospectively ratify the extra-legal methods it had been employing.

Judicial oversight on COVID-19 restrictions was limited, both because it became impossible for courts to function for several months during the pandemic and also because there was no public desire to challenge the efforts of the government to deal with the pandemic.

The independence of the judiciary was seriously undermined by the 20th amendment to the constitution, which changed the appointment procedure for the higher judiciary. Courts had previously asserted themselves against executive overreach during 2015 and 2019, including through several historic judgments which enriched Sri Lankan constitutional jurisprudence. However, it is difficult to assess whether courts will continue that trend. The Judicial Service Commission, which exercises disciplinary control over judicial officers in the courts of first instance, is drawn from among the judges of the Supreme Court. Changes in the appointment process for the higher judiciary could thus also impact the autonomy of courts of first instance.

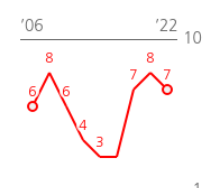
Separation of powers

5



Independent judiciary

7



The report of a commission appointed by the president to investigate allegations of political victimization by the previous government recommended that prosecutions against several politicians within the government should be discontinued by the Attorney General and that several other cases should be dismissed by courts. The president appointed another commission in January 2021 to implement the findings of the previous commission, including to consider whether several opposition politicians should be stripped of their civic rights and barred from parliament. The appointment of these commissions undermines the integrity of the judiciary and public confidence in the judicial process. Any allegations of victimization by the previous government should have been dealt with through the existing legal system without the need for such ad hoc commissions.

Sri Lanka has not seen the successful prosecution and conviction of a high level political figure on corruption charges over the past several decades. There is, however, a widespread belief that senior politicians in successive governments have been corrupt. The independence of prosecutorial agencies, the anti-corruption commission and the police were seriously undermined by the 20th amendment to the constitution.

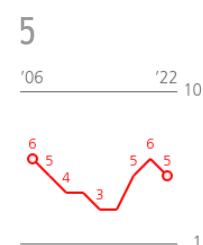
During the period under review, high-ranking members of the present government were accused of corruption, murder and other crimes and have been the subject of legal proceedings. The criminal cases against the incumbent president were suspended upon his election to office due to the immunity granted to the holder of the office by the constitution. Several other criminal cases were discontinued by the attorney general or were dismissed by the courts.

Upon his election, the president appointed a commission of inquiry with broad powers to investigate allegations of political victimization by the previous government. The powers granted to this commission were unprecedented and potentially unconstitutional and illegal. The commission's report concludes that the attorney general should continue to halt efforts to prosecute several politicians within the government and that the courts should continue to dismiss other cases.

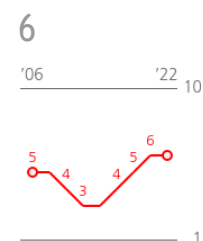
The Sri Lankan constitution recognizes several civil and political rights and provides an enforcement mechanism against the violation of such rights by executive and administrative functionaries of the state. The constitution does not explicitly recognize the right to life and the right to privacy. Furthermore, the constitution does not recognize the right to non-discrimination based on sexual orientation. Existing criminal law prohibits consensual same-sex relations between adults.

The long delays in the court system limit its effectiveness in addressing grievances. Prolonged closures and limitations in its capacity due to the COVID-19 pandemic further aggravated these delays and exposed the urgent need to modernize the court system. During the review period, the newly elected government promised an ambitious plan to modernize the court system. However, such promises have been

Prosecution of  
office abuse



Civil rights



made by previous governments with little to no follow-up action. Furthermore, the 20th amendment gave the president complete control when appointing the Attorney General, the Inspector General of police, members of the Human Rights Commission of Sri Lanka, and other important institutions, thereby further undermining the independence and efficacy of these institutions.

The International Covenant on Civil and Political Rights Act and the Prevention of Terrorism Act have been disproportionately used against ethnic and religious minorities for prosecution and detention. In the aftermath of the Easter Sunday attacks, hundreds of Muslims were arrested and many still remain in custody without charge. Custodial torture remains a serious concern, with the systemic use of torture by the police well-documented, including within judgments of the Supreme Court. However, very few successful prosecutions have taken place of individuals accused of perpetrating torture.

There are serious concerns regarding the legality of several restrictions imposed due to COVID-19, specifically in relation to restrictions placed on movement and assembly. Furthermore, policies such as mandatory cremation of suspected COVID-19 deaths are disproportionate and discriminatory: the government has continuously refused to allow the burial of bodies, despite the available scientific evidence suggesting there is little to no risk associated with burial. This policy particularly impacts citizens of Islamic faith.

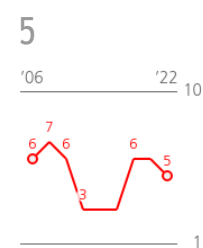
#### 4 | Stability of Democratic Institutions

Sri Lanka has a highly centralized system of government. Even within the central government, especially after the passage of the 20th constitutional amendment, the president wields disproportionate power over the other arms of government. As such the efficacy of parliament, the public administration and independent oversight agencies have been greatly diminished.

The incumbent president contested the election on a platform of increasing efficiency within the government and has specifically identified checks and balances as a hindrance to that. Efficiency is also used as an excuse to further centralize power within the executive. While efficiency in decision-making by the executive has improved when compared to the previous government, this increase has been at the expense of the other arms of the government.

The judicial system continues to be plagued by delays and a backlog of cases. The Ministry of Justice recognized that on average it takes 1,318 days to enforce a contract in the Sri Lankan legal system. According to the sectoral oversight committee on legal affairs, the average total time to conclude a criminal case in relation to a serious crime is approximately 17 years. Significant investments have been made since 2017 to improve the efficacy of the judicial system by increasing human capital and the use of technology, and by simplifying procedures. The budget for 2021 allocated LKR 20 billion for justice sector reform.

Performance of democratic institutions



Sri Lankans have repeatedly expressed their confidence in democracy, voting out governments at periodic elections. However, there has been a significant increase in support for a “strong leader” the past two to four years. According to a survey conducted in 2018, a majority of the Sinhalese community preferred the rule of an elected leader who can also be categorized as a strong leader as well as an expert. This rise in support of a strong technocrat is mirrored by the declining confidence in parliament and political parties among the public. Meanwhile, among the Sinhalese community the military has remained the most trusted entity since 2011.

Economic stagnation and dysfunctions of the previous government, which is widely seen as being responsible for failing to prevent the Easter Sunday bombings, are both among the contributing factors for these trends. The new government, which was elected to office during the review period, capitalized on these trends to ensure strong mandates and to also push through reform which significantly undermined democratic institutions.

The president has also repeatedly sidelined his own cabinet. Sri Lanka’s response to COVID-19, which included appointing several committees and task forces, relies on retired and serving military officers as opposed to elected representatives and civilian administration. Furthermore, the president sidelined parliament and exercised his power in an unconstitutional manner between March and August 2020 with little or no push-back. The president’s election manifesto, which was also the basis of his political party’s election platform at the August 2020 parliamentary election, emphasized the need for a new constitution to restore “smooth functioning of the government.” This raises the possibility of further attempts to undermine democratic institutions in the name of “efficiency.”

## 5 | Political and Social Integration

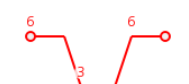
Overall, party organization is undemocratic and is dependent on personalities and patronage. Parties are organized in such a way that change in leadership is very difficult to achieve. The review period saw a significant development in that breakaway groups from the two main political parties were able to dominate both national level elections. The Samagi Jana Balawegaya (SJB) broke away from the UNP to contest the parliamentary elections in August 2020, and the SLPP broke away from the SLFP-led coalition to contest elections in 2018.

Sri Lanka’s proportional representation system encourages political coalitions at elections. Thus, despite having 14 political parties represented in parliament, most of these form part of larger political groupings. The fragmentation of political parties in the Northern Province is a unique situation. The Tamil National Alliance (TNA) has been the dominant force in Tamil politics for the past 15 years. Being a collection of several political parties, its membership has eroded over several election cycles. Its failure to deliver on a promised new constitution between 2015 and 2018 also contributed to its poor electoral returns.

Commitment to democratic institutions

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Party system

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Buddhist monks are the most influential group representing social interests within the political system. The Buddhist monk, Maduluwawe Sobitha Thero, initially launched and sustained a campaign to abolish the executive presidential system several months before the presidential elections in January 2015. He was the catalyst for a social movement which was able to coalesce opposition political parties around the idea of “good governance.” Similarly, in 2019, Buddhist monks played an important role in ensuring the victory of the incumbent president, this time around the idea of the need for a strong patriotic leader to protect the unitary character of the Sri Lankan state and the Sinhala Buddhist identity.

Trade unions also play an important role in political discourse. Most political parties have their own affiliated unions, which form an important part of their political strategy. Trade unions are also extremely influential over government economic policy.

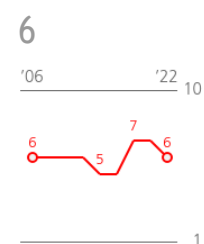
Sri Lanka has seen active participation by NGOs both at the national and the local level. These NGOs come in different shapes and sizes and political affiliations. They are a forum for organizing at local levels and lobbying local government. Before he became a member of a political party, the incumbent president used to be the leader of two NGOs, who promoted him as a potential presidential candidate.

An overwhelming majority of Sri Lankans (74%) indicate that democracy is preferable to any other kind of government, according to a survey in 2018 by Social Indicator, which is the survey arm of the Center for Policy Alternatives (SI-CPA). However, over the period of several years public opinion polls have suggested increasing public discontent with democracy and democratic institutions among Sri Lankan citizens. An opinion survey conducted in 2018 by SI-CPA, found that 52.1% of the Sinhalese community preferred “rule of a strong leader,” while another 52.7% preferred “rule of an expert.” 80.9% preferred the “rule of an elected leader.” The survey also captured a reduction in public confidence in parliament, police and the court system.

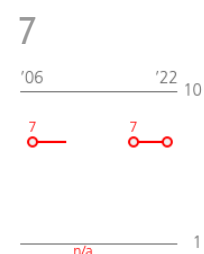
The survey results are reflective of the complexities within Sri Lankan polity. Sri Lanka has experienced peaceful transfers of power for more than 73 years since independence, with relatively high voter turnout at regular elections, but the polity is also frustrated by the inefficiency and corruption among elected representatives. These results are also skewed by the perception of the Sinhalese majority and their attitudes toward governance.

The lack of credible opinion poll conducted during the review period make it difficult to assess the impact of the Easter Sunday bombings and the COVID-19 pandemic on citizens’ perceptions on these issues.

#### Interest groups



#### Approval of democracy





There are active local and national self-help organizations among all groups, based on religious and social affiliations. These organizations fulfill functions otherwise provided by the government, including providing emergency relief during natural disasters, and mobilizing resources to augment government expenditure, particularly in relation to health care, education and small-scale rural infrastructure projects. Mutual support and solidarity among citizens are greatly enhanced during times of national crisis and disasters, and outside issues which are seen as politically sensitive. As such, self-help initiatives do provide a platform to foster interethnic and inter-religious solidarity.

Levels of trust are difficult to gauge due to the absence of reliable opinion polls. However, cultural and professional affinities appear to positively affect trust more than common bonds of citizenship. For example, common cultural festivals such as the Sinhala and Tamil new year in April foster solidarity and trust. In contrast, independence day celebrations or the anniversary of the end of the war drive discontent and polarization between citizens.

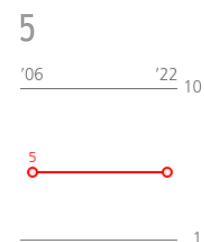
A lack of credible opinion polls conducted during the review period make it difficult to assess the impact of the COVID-19 pandemic on citizen's perceptions of these issues. However, collectives and self-help organizations performed an important role in supporting economically disadvantaged segments during prolonged lockdowns. This helped alleviate some difficulties faced by those who lost income and livelihood support.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

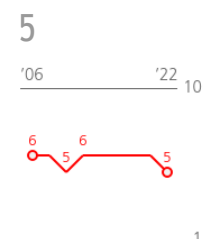
Sri Lanka continues to lead South Asia in its score on the UN Human Development Index (HDI) with 0.782 in 2019. This represents a slight increase on previous years. Sri Lanka is also the only South Asian country in the high human development group. Sri Lanka has made substantial strides in reducing extreme poverty over the last three decades. However, there is a significant concentration of the “near poor” who are particularly vulnerable to economic shocks. Furthermore, 40.4% of the population is in poverty, based on the Global Poverty Line for Upper Middle-Income Countries (\$5.5 a day). Nine districts, namely Kandy, Ratnapura, Batticaloa, Kegalle, Badulla, Kurunegala, Nuwara Eliya, Jaffna and Gampaha, account for 61.1% of the poor, as defined under the National Poverty Line. The districts with the largest concentration of poor people disproportionately include more Tamil and Upcountry Tamil majority districts. This, however, does not by itself support the proposition that ethnicity is a marker for exclusion of people from economic opportunity. Income inequality

#### Social capital



#### Question Score

#### Socioeconomic barriers



remains high. The Gini Index stood at 39.8 in 2016, up from 39.2 in 2012. HDI adjusted for income inequality drops to 0.673. The Gender Inequality Index (GII) increased from 0.396 in 2018 to 0.401 in 2019, reflecting a marginal increase in inequality between women and men in relation to reproductive health, empowerment, and the labor market.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	87421.8	87954.3	83975.6	<b>80706.6</b>
GDP growth	%	3.6	3.3	2.3	<b>-3.6</b>
Inflation (CPI)	%	7.7	2.1	3.5	<b>6.2</b>
Unemployment	%	4.1	4.3	4.3	<b>4.8</b>
Foreign direct investment	% of GDP	1.6	1.8	0.9	-
Export growth	%	7.6	0.5	7.2	<b>-9.6</b>
Import growth	%	7.1	1.8	-5.8	<b>-11.4</b>
Current account balance	\$ M	-2309.0	-2799.1	-1808.1	-
Public debt	% of GDP	77.9	84.2	86.8	<b>101.2</b>
External debt	\$ M	50765.5	52919.7	56117.9	<b>56342.0</b>
Total debt service	\$ M	4211.2	7395.5	6240.5	<b>5223.3</b>
Net lending/borrowing	% of GDP	-5.5	-5.4	-6.8	-
Tax revenue	% of GDP	12.5	12.0	11.6	-
Government consumption	% of GDP	8.5	9.2	9.4	<b>10.4</b>
Public education spending	% of GDP	2.8	2.1	-	-
Public health spending	% of GDP	1.6	1.5	-	-
R&D expenditure	% of GDP	0.1	-	-	-
Military expenditure	% of GDP	2.1	1.8	2.0	<b>1.9</b>

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Regulations relating to foreign investment have not changed since the previous review period. The state allows 100% foreign investment in any commercial, trading or industrial activity, other than a few regulated sectors such as air transportation, coastal shipping and military hardware, which are subject to approval by government agencies. Foreign ownership in excess of 40% must be approved on a case-by-case basis in certain areas such as the production for export of goods that are subject to international quotas, growing and primary processing of tea, rubber and coconut, timber-based industries using local timber, mass communications and deep sea fishing. Foreign investment is not permitted in non-bank money lending, pawn-broking, retail trade with capital investments of less than \$1 million, and coastal fishing.

The cost of starting a business as a percentage of gross national income per capita has marginally improved in 2019 (8.7%), compared with 2018 (9.4%). The number of days to register a business reduced from nine in 2018 to eight in 2019. The number of procedures needed to start a business (seven) has remained unchanged since 2016.

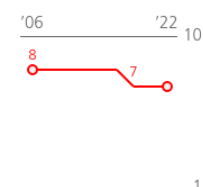
Sri Lanka's Revival of Underperforming Enterprises of Underutilised Assets Act had enabled the government to assume ownership of one company and the property owned by 36 other companies, which had previously been state-owned enterprises (SOEs) and were subsequently privatized. This act was repealed during the review period. The previous government had argued that the act was detrimental to investor confidence.

According to World Bank estimates, informal workers constitute approximately 70% of the workforce. Price setting is mainly determined by market forces. However, the government regularly imposes price controls on essential food items. Prior to the COVID-19 pandemic, Sri Lanka allowed low skilled foreign labor to work in the local construction sector to alleviate domestic labor shortages. There are significant immigration barriers in other sectors. The government has imposed import restrictions and the central bank of Sri Lanka (CBSL) has limited foreign currency outflows, imposing capital market restrictions in light of the pressure on the exchange rate created by the pandemic.

The inadequacies in the legal framework relating to anti-competition and antitrust laws continue. The Consumer Affairs Authority (CAA) consists entirely of persons appointed by the minister in charge. The CAA was intended to provide better protection for consumers through the regulation of trade and the prices of goods and services, protect traders and manufacturers from unfair and restrictive trade practices, promote competitive pricing wherever possible, and ensure healthy competition among traders and manufacturers of goods and services. However, this regulatory framework is wholly inadequate.

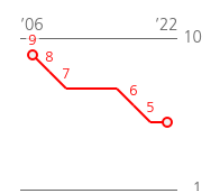
### Market organization

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### Competition policy

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In December 2020, the government announced that it would be abolishing the Public Utilities Commission of Sri Lanka. The commission is the economic, technical and safety regulator of the electricity industry and is the designated regulator for the petroleum and water services industries. SOEs monopolize many of these sectors and abolishing the regulatory body would be detrimental to the interests of consumers.

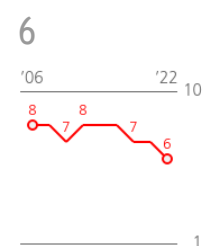
The simple average of the Most Favored Nation applied total tariffs in 2019 continued to be 9.3%. However, imports into Sri Lanka were subject to a number of additional charges. These para-tariffs make Sri Lanka a protectionist country. Additionally, Sri Lanka employs a host of other non-tariff measures which protect local industries from external competition. These include the imposition of import quotas and standardization requirements. In the context of the COVID-19 pandemic, and considering the pressures on the foreign currency exchange rate, the government imposed prohibitions on importing certain categories of products, and imposed more onerous conditions on other imports. The government also signaled that it will be moving toward an import substitution strategy as a means to safeguard foreign reserves and domestic industries. As such, it is likely that barriers on trade will continue for the foreseeable future.

The banking sector in Sri Lanka comprises licensed commercial banks and licensed specialized banks. According to the CBSL, the banking sector dominates the financial system and accounts for the highest share of the total assets in the financial system. The bank capital to assets ratio increased to 9.1% in 2019. The non-performing loans to total gross loans ratio increased to 4.7% in 2019. The banking sector maintained capital adequacy ratios well above the minimum regulatory requirements throughout 2020. The central bank has a format for the publication of audited accounts and for the quarterly and annual publication of financial statements.

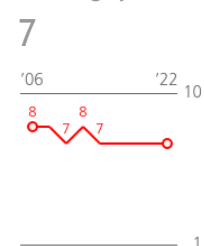
Banks appeared aware of the potential increase in defaults in loan repayments the longer the COVID-19 pandemic affected the economy. In response, banks did not expand lending, despite monetary easing by the CBSL early in 2020. This forced the CBSL to intervene more aggressively in the banking sector by imposing interest rate caps on selected lending products offered by licensed banks. However, banks are still hesitant to increase lending and have deployed a variety of procedural hurdles to delay lending at CBSL rates.

According to the Securities and Exchange Commission of Sri Lanka, as of November 30, 2020, the Colombo Stock Exchange (CSE) comprises 285 companies representing 20 Global Industry Classification Standard industry groups. The market capitalization of the CSE was LKR 2,728.11 billion in January 2021, and the CSE was the second highest performing stock market in the world, with an unprecedented rise in the price index.

#### Liberalization of foreign trade



#### Banking system



## 8 | Monetary and fiscal stability

The CBSL began easing monetary policy in the aftermath of the Easter Sunday bombings. This was done in order to assist businesses recovering from the economic fallout of the bombings and in the context of low economic growth rates and stable inflation rates. The CBSL further utilized monetary policy tools to respond to the economic impact of the COVID-19 pandemic. Over the past year, CBSL has aggressively intervened through sharp cuts to policy interest rates and to the statutory reserve requirements of commercial banks. However, private sector credit growth remained sluggish throughout the first half of 2020. This forced the CBSL to directly intervene and issue directives to commercial banks fixing interest rates for certain types of mortgage-backed securities. The CBSL also introduced a debt moratorium and schemes to restructure loans in order to assist the segments of the economy hardest hit by the pandemic.

Inflation, based on the national consumer price index, has remained in single digits over the past five years, falling from 7.7% in 2017 to 3.5% in 2019. However, inflation rates increased slightly during the first quarter of 2020.

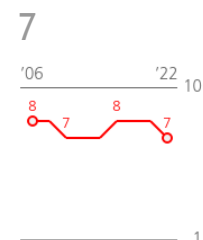
Volatility in the foreign exchange rate continued, with the Sri Lankan rupee depreciating against the dollar, from LKR 180 per dollar in March 2019 to LKR 193.17 per dollar in January 2021. With the devaluation of the Sri Lankan rupee, the CBSL intervened to defend the currency. Restrictions were placed on foreign currency outflow by prohibiting certain imports and capital outflow.

The CBSL has a separate Monetary Policy Committee, which consists primarily of career staff, and is expected to evaluate and forecast emerging monetary and macroeconomic developments and make recommendations for consideration by the Monetary Board. In implementing its monetary policy, the CBSL enjoys functional independence from the government. However, in practice the CBSL is subject to political pressure. The president publicly berated senior officers of the CBSL in June 2020 for “not extending support to the government’s efforts to prevent an economic crisis.” The CBSL issued a circular the very next day with several direct interventions (described above).

The overall budget deficit, which was 6.8% of GDP in 2019, is predicted to increase to 8.5% in 2020. This is due to several factors, including increased government spending to provide livelihood support for individuals, and increased spending to support businesses. The government provided a tax cut in November 2019 and, in addition, introduced tax deferral to assist individuals and businesses in 2020.

The pressures on public finance due to the COVID-19 pandemic compounded an already precarious public finance position, with a high public debt-to-GDP ratio (87% at the end of 2019) and high exposure to commercial foreign debt. Additionally, Sri

### Monetary stability



### Fiscal stability



Lanka entered a higher debt settlement cycle, with payments between \$3.5 and \$4 billion falling due on average each year up to 2024. With foreign loan sources becoming increasingly difficult to come by, the government was forced to increase domestic borrowings through the excess liquidity created by the CBSL's monetary policy.

The government has resisted calls from the opposition to start negotiations with the IMF for financial assistance, relying instead on currency swaps obtained by the CBSL from India and China.

## 9 | Private Property

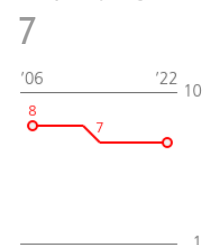
There is no constitutional right to property. The civil law regulates private property ownership through statute law, Roman Dutch common law, and personal laws, when applicable. The plethora of sources of civil law can generate confusion and uncertainty. Private land ownership is limited to 50 acres per person according to a land reform law. The Land (Restrictions on Alienation) Act places restrictions on the transfer of freehold title lands to foreigners, foreign companies, and certain institutions with foreign shareholding in Sri Lanka.

Court proceedings in litigation to vindicate property rights are notoriously slow. Rights, title and interest in land can only be transacted through a deed, which is a specialized legal instrument with specific formalities required to be completed in order to confer validity.

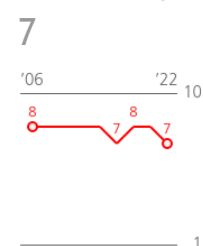
Local Authority Regulations, the Urban Development Authority Law and the Town and Country Planning Law all regulate the use of private property located in different parts of the country. The Land Acquisition Act provides broad powers for acquisition of private land by the government for a "public purpose." The Requisitioning of Land Act gives the president the power to authorize a designated "competent authority" to take possession of any land for a time designated by him. This time period, at least theoretically, can be extended indefinitely. Both land acquisition and requisition processes are subject to the safeguards guaranteed in the constitution, especially the guarantee of non-discrimination and protection from arbitrary conduct.

The private sector plays an important role in the economy and the government allows 100% foreign investment in any commercial, trading, and industrial activity other than in a few regulated sectors. The government provides tax concessions and tax holidays for investments in particular sectors. The government has not taken equity stakes in companies in financial difficulties due to the COVID-19 pandemic but has instead instituted a repayment moratorium on bank loans for the tourism, garment, plantation, and IT sectors to help cushion the impact.

Property rights



Private enterprise



The procedure for incorporating, operating and winding up of private companies is governed by the Companies Act of 2007. In 2018, the Registrar of Companies (RoC) set up an online company registration portal, which simplified the registration process dramatically and cut down the time required to register a company. The online portal allows foreigners to register private companies in Sri Lanka without having to physically be present in the country. According to the RoC, between 2018 and January 2021, more than 18,000 new private companies were established using this online portal.

Sri Lanka has a large number of SOEs. As of 2019, the number stood at 527. The present government has a policy of not privatizing state enterprises. Most SOEs have been incorporated in terms of an act of parliament or as a company. In the latter case, the privatization process, if there were to be one, would be relatively simple. However, in the former case, the procedure would require parliamentary action. There are currently no applicable guidelines or procedures to ensure that privatization proceeds in a transparent manner and consistent with market principles.

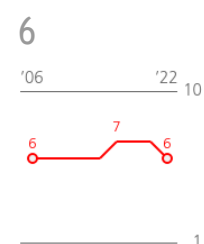
## 10 | Welfare Regime

Sri Lanka does not provide unemployment insurance or a social safety net for temporary loss of income. The state does operate a number of poverty alleviation and welfare programs targeting low-income households and the rural sector. The “Samurdhi” (“Prosperity”) program includes a subsidy and social security fund for low-income families across the country. The total subsidy payments for this program increased from LKR 39.2 billion in 2018 to LKR 44.7 billion in 2019. The number of Samurdhi recipient families increased from 1.4 million in 2018 to 1.8 million in 2019. These increases were primarily driven by increase in coverage and an expansion of benefits.

Other programs include a nutrition allowance program and social security and pension program for senior citizens and self-employed individuals in the agriculture sector. Only Sri Lankan citizens are eligible for benefits from government programs. In addition to providing free public education and health care, the government introduced a student insurance scheme in 2018 to provide for health care requirements which are not freely available at public hospitals.

In relation to the COVID-19 pandemic, the government provided direct cash transfers of LKR 5,000 to all low-income families living in areas where a curfew was implemented. While initially these transfers were only intended to target those who received Samurdhi benefits, the pool of beneficiaries expanded to families where the primary income earner had lost their livelihood due to the pandemic. However, in practice the list of beneficiaries was much wider due to politicization of the process. These transfers occurred on at least two occasions during the review period. The government also provided dry ration packs to families under home quarantine, although the distribution of these rations was limited.

Social safety nets



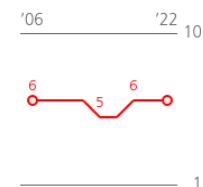
The Sri Lankan constitution guarantees the right to non-discrimination on the basis of race, religion, language, sex and political opinion. However, there are no protections against discrimination based on sexual orientation. According to CBSL statistics, the male literacy ratio in 2018 was 93.4%. Female literacy was 91.6%. According to UNESCO, the gross enrollment ratio for primary education in 2018 was 99.62% for female students and 100.7% for male students. When considering secondary education, the gross enrollment ratio in 2018 was 102.63% for female students and 98% for male students. The gross enrollment ratio for tertiary education in 2019 was 26% for female students and 16.2% for male students.

Female literacy rates and life expectancy rates continue to be higher than males, and a gender gap exists in favor of girls in Sri Lanka's education sector. However, according to statistics from the University Grants Commission, female participation in Science, Technology, Engineering and Mathematics (STEM) is very low compared to their male counterparts. Furthermore, women's participation in the labor force remains lower than men's. The gender gap in the Labor Force Participation Ratio (LFPR) decreased to 38.5% in 2019, from 39.4% in the previous year. Nevertheless, Sri Lanka is still among the 20 countries with the largest gender gaps in LFPR in the world.

With some notable exceptions, disparities in access to education, public health and public services are more pronounced regionally than across ethnic or religious divisions. Geographic disparities are primarily due to unequal economic growth, and disparities in allocation of public funds due to political considerations. The Western province has better access to education and health facilities when compared to other parts of the country. Districts directly impacted by the civil war such as Mullaitivu, and those which have been historically underserved such as Monaragala, have significantly lower access to health and education facilities. Conflict-affected areas suffer from acute economic hardships. Specifically, disparities created due to prolonged displacement and landlessness creates barriers to access public services. Segments of the Upcountry Tamil population continue to face the impacts of being rendered stateless for over 40 years. The community still faces barriers in access to health care, education and public services, due to a lack of infrastructure facilities and economic opportunities. The Upcountry Tamil community also faces language barriers, as they live predominantly in Sinhala speaking administrative areas, which lack public officials who can communicate in Tamil.

#### Equal opportunity

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## 11 | Economic Performance

In July 2019, the World Bank for the first time classified Sri Lanka as an upper middle-income country. Per capita GDP at current market price was \$4,079 in 2018, but provisional figures for 2019 calculate it at only \$3,852. The economy continued to stagnate, and the GDP growth rate continued its downward trajectory in 2019 to 2.3%, down from 3.3% in 2018. The growth rate slowed across all major sectors of the economy. According to Asian Development Bank (ADB) estimates, the Sri Lankan economy contracted by -3.6% in 2020. This contraction was the first in 19 years. Inflation reduced from 6.6% in 2017 to 4.3% in 2019 and 4.6% in 2020 (ADB). The unemployment rate increased from 4.2% in 2017 to 4.8% in 2019.

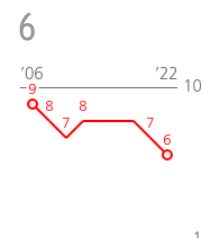
The negative trade balance improved by \$2.3 billion, primarily due to a reduction of import expenditure. Public debt stands at 87% of GDP, with foreign debt at 42.6% of GDP. Heavy foreign debt settlements are due each year through 2024, and foreign currency inflows are expected to dwindle amid a contraction of the global economy in 2020. Attempts by the government to stimulate the economy through a substantial reduction of taxes in 2019 were upended by pandemic-related disruptions. The tax cuts will result in a reduction of approximately 20% to 25% of government tax revenue. Coupled with an increase in government spending due to the pandemic, this is likely to put further pressure on an already precarious public finance position.

## 12 | Sustainability

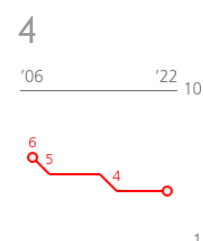
The incumbent president campaigned on a strong environmental protection platform, pledging to eliminate the use of plastic and polyethylene from his campaign events, and plant trees to offset the carbon footprint of his campaign. However, encroachment on natural reserves and continued deforestation have so far continued at pace during his tenure. The provision of free water for agriculture has contributed to high levels of usage and the provision of heavily subsidized fertilizer has resulted in contamination of water sources. Air and water pollution have worsened in urban areas and development pressures have also led to the reclamation of land. Recycling and sustainable measures to dispose of garbage in urban areas remains inadequate, with landfills being the only option.

A further cause for concern during this period are threats and intimidation faced by environmental protection officers and environmental activists from government ministers and members of parliament. There have been instances of physical attacks on journalists and environmental activists collecting information on encroachment on natural reserves and deforestation. The government amended regulations, which made forest buffer zones susceptible to development activities and placed them at risk of deforestation, and briefly removed restrictions on sand mining in riverbeds.

Output strength



Environmental policy



Sri Lanka provides free primary and secondary education in public schools. Access to primary and secondary education is comprehensive, with net enrollment at 91.8% for primary schools and 95.2% at the secondary level (2018). Female enrollment at secondary and tertiary levels is higher than male enrollment. The adult literacy rate (16 and over) is 91.71% (2018). Sri Lanka's UN education index score is comparatively high (0.746 in 2019) and has been on an upward trend since 2016, indicating that education levels are high in the country. The government also provides free university education. Resources are limited, however. The gross tertiary enrollment rate in Sri Lanka was only 19.6% (2018), and in absolute terms only about 31,000 students are enrolled annually (2018). As a result, the majority of young people do not have an opportunity to pursue higher education.

Government expenditure on education was still only 1.9% of GDP in 2019. There is an opportunity for greater private sector participation in education. However, regulatory and monitoring mechanisms related to private sector institutions remain weak. Furthermore, there is considerable resistance against increased private sector participation, due to fears of the government further reducing its expenditure on education.

The emphasis on research and development in tertiary education institutions is very low. Public and private tertiary education institutions primarily focus on teaching, as opposed to research-based methods for education. Research and development expenditure, both public and private, remains low (0.1% of GDP in 2015). Sri Lanka was accordingly ranked 101 (of 131 countries) in the Global Innovation Index in 2020. The number of patent applications by residents of Sri Lanka in 2018 was only 15 applications per one million people. In comparison, as per CBSL data, China, Singapore, and Malaysia recorded 1,000, 276, and 35 patent applications per one million population, respectively.

Education policy /  
R&D

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## Governance

### I. Level of Difficulty

Sri Lanka enjoys an advantageous geographical location in close proximity to international shipping lines and India. The labor force is highly literate and benefits from publicly provided free health care and primary and secondary education. However, there are labor shortages in several important sectors, for a variety of reasons. The basic (and inadequate) system of transport in the country has been improved in recent years through considerable investment in ports, airports, roads and railways.

Sri Lanka has made considerable gains in reducing extreme poverty over the past three decades. However, there is a significant number of the population classified as “near poor,” meaning they are particularly vulnerable to economic shocks. 40.4% of the population is classified as being in poverty, based on the Global Poverty Line for Upper Middle-Income Countries (\$5.5 a day).

Sri Lanka is highly vulnerable to the impacts of climate change. Extreme heat and increased incidence of flooding threaten human health and adversely impact agricultural yields. The adverse impacts of climate change are expected to disproportionately impact the poorest and most marginalized communities, exacerbating poverty and inequality.

The total number of confirmed COVID-19 cases in Sri Lanka was 63,293 as of January 30, 2021. While case numbers saw a significant increase after October 2020, the total per population infection rate remained low when compared with regional and global averages. Furthermore, as of January 30, 2021, the death rate remains less than 0.5% (as a proportion of total cases). The full economic impact of the pandemic is still unknown. However, according to World Bank estimates, the economy contracted by 1.6% in the first quarter of 2020. According to estimates provided by the Department of Census and Statistics, real GDP contracted by 16.3% during the second quarter. As such, the pandemic has caused serious disruptions to Sri Lanka’s economic output.

Structural  
constraints

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Sri Lanka enjoys a long civil society tradition, including during the British colonial rule. Many of the early organizations that advocated for independence from British rule were also advocates for other social and cultural issues. Some of these organizations later organized themselves into political parties. In more recent years, particularly during and after the civil war, a culture of organized NGOs has emerged that have taken an active role in advocating for human rights. Decades of armed conflict and polarization have prevented the emergence of strong civil society associations that effectively cut across ethnoreligious cleavages and would thus enhance social capital. Sri Lankan civic society is also characterized by a keen interest in politics, and high levels of participation during elections, including championing issues and supporting political parties and groups in election campaigns.

Electoral politics in Sri Lanka remain a divisive force. The deep divisions across ethnoreligious and linguistic fault lines continue to be exploited for electoral gain. Despite the conclusion of armed hostilities more than 10 years ago, the political conflicts that fueled the armed conflict remain unresolved. Additionally, new conflicts have emerged after the end of the civil war, particularly in relation to the Muslim minority.

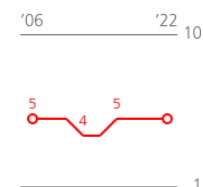
The Easter Sunday attacks created significant tensions between Muslims and Christians. These attacks, and revelations about several other radicalized Muslim youth living in Sri Lanka, generated distrust toward all Muslims. Several incidents of violence against Muslim citizens ensued after the attacks, and the hate speech that followed made the Muslim community uneasy about their safety. Furthermore, the suicide bombers who participated in the attack were easily radicalized, at least in part, due to the sporadic attacks on the Muslim community since 2013 and the failure of the state to prevent the attacks or hold perpetrators accountable. While physical violence against Muslims increased in the aftermath of the Easter Sunday attacks, such incidents have not recurred at least since August 2019.

The government's response to the COVID-19 pandemic has also caused an increase in tensions among communities. The government's continued refusal to change its policy of mandatory cremation of those suspected of dying of COVID-19 in the face of growing scientific evidence was troubling. This deliberate act of discrimination can only be explained by the unwillingness on the part of the government to be seen as caving into the demands of Muslims.

Tensions continue to grow across the Northern and Eastern provinces in the face of allegations of militarization, attempts by the government to intentionally change the demographics of these areas, and the failure to ensure accountability for alleged crimes committed during the war and to allow memorialization efforts. More than 10 years after the end of armed hostilities, no meaningful process of reconciliation has been initiated. Frustrated with the lack of acknowledgement of their demands, Tamils in the Northern and Eastern provinces pursue acts of civil disobedience and protest.

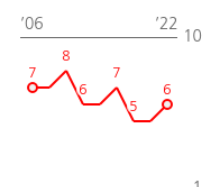
#### Civil society traditions

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#### Conflict intensity

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The images of these acts are in turn used to whip up Sinhala nationalist sentiments in other parts of the country. The government does not seem to have a strategy to deal with these issues outside of dealing with them as law-and-order issues or as national security issues. Furthermore, government policy continues to contribute to a further entrenchment of ethnic polarization.

## II. Governance Performance

### 14 | Steering Capability

The period under review saw two different governments in power. The previous government was a coalition government of the two main political parties (the SLFP and the UNP) which had divergent ideologies and policies. There were constant disagreements within the government over strategic priorities, in relation to economic policy and political reform. The new government campaigned on a policy of protecting domestic industries in trade, enhancing foreign direct investments, and protecting strategic economic assets from privatization. The new government also campaigned on strengthening national security and delivering predictable, strong, and efficient governance to enable the domestic private sector to thrive. The new government is much more ideologically coherent than its predecessors, despite the differences in political opinions between the different factions. Its main challenge in setting and maintaining long-term priorities lies in balancing its ethno-nationalist and populist rhetoric with the difficult economic decisions it will be forced to make due to Sri Lanka's precarious economic situation.

The public service is extremely politicized, with key government positions being staffed by political appointees. Technical competence in the public service has been compromised by decades of political appointees, who entrench themselves within government and recruit and provide jobs for constituents as political favors. Cabinet portfolios are not rationally apportioned and are created primarily based on political expediency rather than the goals of the government. As a consequence, the portfolios of ministers are often unnecessarily divided among several ministries. The incumbent government has been able to apportion responsibilities in a more rational manner than its predecessor, but there remain significant anomalies in the allocation of responsibilities.

The COVID-19 pandemic has upended the main policy platforms of the government. The government effected a significant cut in direct taxes with the hope that it would stimulate an economy that was already stagnating. The tax cut was expected to reduce the government's tax income by between 20% and 25%. However, no corresponding cuts were made to government spending in order to keep the budget deficit at

Question  
Score

Prioritization

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manageable levels. Several months after the tax cuts came into effect, the first wave of the COVID-19 pandemic resulted in a prolonged lockdown and upended economic activities. The state also has high debt servicing obligations over the next few years, with foreign debt settlements averaging \$3.5 to \$4 billion per annum.

The government's COVID-19 mitigation strategy has had mixed results. The government effectively managed the first wave of the pandemic (between March and September 2020) and was able to record several weeks of zero domestic cases. However, testing capacity remained low and the second wave has had a more serious impact on existing public health infrastructure. During January 2021, the daily infection rate averaged between 750 and 850 new cases. The government has, however, continued to ease isolation orders, opened borders and encouraged tourism, even from countries with significantly worse outbreaks of COVID-19.

The incumbent government has been successful in pushing its political goals based on an ethno-nationalist rhetoric. Within a short period of time, it was able to deliver a significant income tax cut for businesses and individuals and recommence several rural infrastructure development projects as promised during elections. It was also able to pass the 20th amendment to the constitution, which centralized executive power within the office of the president and removed the powers previously granted to independent oversight institutions.

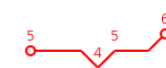
Efforts are also underway to draft a new constitution, an initiative driven by the more nationalist elements within the government. All indicators point to this being concluded within a short time span. The new constitution will likely reflect the government's stated objective of entrenching the unitary state structure, protecting the foremost place given to Buddhism, and reducing checks and balances in favor of what it perceives to be a more efficient government structure. The president is the dominant force in decision-making in all areas of importance, including the economy, foreign policy, and governance. Close confidants of the president are in important positions within ministries and are often seen as the drivers of policy. Ministers have comparatively less clout and decision-making power, with the president further undermining his cabinet by appointing task forces to run parallel administrations within the government.

The government's commitment to a market economy is unclear, with different sections of the government holding different views about the importance of Foreign Direct Investments and the role of SOEs. Sri Lanka's past human rights record, existing geopolitical realities and the state of the economy have all complicated the government's ability to manage domestic economic expectations based on its populist rhetoric. The new government was elected on a promise of technocratic and efficient governance by co-opting private sector professionals to key government positions. However, to date the clientelism prevalent in local politics resulted in difficulties fulfilling this promise.

#### Implementation

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The government faces significant challenges in attracting foreign investment. The government publicly stated that it wanted to move away from foreign loans (obtained at commercial rates), and instead attract more foreign investment. However, this has proven difficult, due to the government's own decisions to cancel several infrastructure projects commissioned by the previous government (such as the Colombo Light Rail project and the Eastern Container Terminal of the Colombo port), and to cancel existing agreements and offer the projects to new investors. Furthermore, the present status of the global economy is not conducive to attracting foreign investments at the required levels.

The COVID-19 pandemic has not delayed any major policy priorities of the government. The pandemic has offered an opportunity for the government to entrench its own structures, such as commissions and task forces, circumventing existing checks and balances. The incumbent president, who is a former secretary to the Ministry of Defense and prior to that a military officer, has shown himself to be more comfortable working with military officers. The pandemic has offered him an opportunity to further enhance the role of the military within the civilian administration.

The government has touted innovation as a key policy platform, both in terms of simplifying governmental processes and as a method of driving economic growth. However, the government seems unwilling and unable to learn from past experiences and to adapt accordingly. This is particularly acute in its treatment of minorities and its unwillingness to learn from its own mistakes and those of other governments. The present government has not only been uninterested in pursuing postwar reconciliation efforts, its misguided policies (such as increased militarization, forced cremation of those suspected of dying from COVID-19, and undermining democratic institutions) have exacerbated existing divisions.

Another example of the government's inability to learn from past mistakes is its confrontational attitude toward the UNHCR. Rather than engaging diplomatically to address the concerns raised, which would ultimately benefit its own citizens, the government continues its diplomatic posturing. Criticism of the UNHCR as a political body, ad hominem attacks on member states and senior officials within the Office of the High Commissioner for Human Rights (OHCHR) as terrorist sympathizers, and attempts to deflect criticism of Sri Lanka's human rights record through appointing multiple commissions of inquiry have all been tried in the past with little success. While this makes for an excellent spectacle for the consumption of the government's political base in Sri Lanka, it does little to help the country's international standing. Despite repeated failures since 2012, the government insists on pursuing this strategy.

In relation to the COVID-19 pandemic, the government responded swiftly to control the first wave. However, little has been done since then to increase public health infrastructure to deal with the pandemic. Testing levels remain low. The government's strategy to deal with the second wave is unclear, as no clear policy

Policy learning

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position has been stated. However, it appears that the government is attempting to manage the spread of COVID-19 by vaccinating a significant percentage of the population during 2021.

## 15 | Resource Efficiency

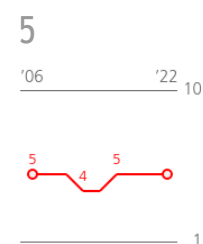
The public sector is overstaffed and the appointment of new public officials is politicized. The costs of salaries and wages for the public sector continue to increase and were estimated to be 4.8% of GDP in 2020. During the review period, expenditure on salaries and wages made up almost a third of the government's recurrent expenditure. Pay increases in the public sector are a common election promise from all political parties and are not dependent on performance or linked to output.

During his campaign, the president promised to create an economy that produces jobs instead of making citizens dependent on government benefits. However, he soon succumbed to the clientelism within Sri Lanka's political structures and initiated a recruitment drive for government jobs prior to the parliamentary elections of 2020.

Military spending per capita is disproportionately high and continues to rise, a decade after the civil war. Government spending on health and education remain at comparatively low levels. The military engages in a variety of commercial activities, often competing with local businesses and the agricultural sector, especially in the Northern province. Demobilization is fraught with practical difficulties as the private sector does not generate enough jobs to absorb the excess supply of labor. Furthermore, demobilization could be politically costly as it would be perceived by the electorate as undermining national security. However, continued recruitment to the military remains a concern and a drain on public finances. The annual budget presented for 2021 has not meaningfully increased spending in the health and education sectors to deal with the fallout of the COVID-19 pandemic. However, the role of the military continues to expand.

There are significant areas of overlap between the central government and provincial councils, which are the result of an unwillingness to effectively devolve power. This leads to inefficient allocation and utilization of resources. Rather than rationalize devolution structures and evolve procedures to reduce duplication, these inefficiencies are used as justifications to undermine devolution and to increase centralization.

Efficient use of assets



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Meaningful and transparent consultation remains a challenge for the government as it has been for several decades. Prioritizing quick decision-making has made this even more challenging, as trade-offs between policy goals and their impact continue to be underappreciated. This is most visible in the manner in which the government is trying to balance environmental protection with rural economic development and resources allocation. Rapid decisions frequently lead to zero sum analysis. Inadequate effort is made to prioritize sustainability and understand long-term impacts.

The allocation of functions to different ministries is driven by political bargaining and expediency, rather than by rational allocation of responsibilities and functions. This impedes coordination and policy implementation. Furthermore, coordination between the many central ministries and provincial authorities is difficult.

Coordination during the pandemic has proven to be challenging because of the proliferation of task forces and commissions with their own spheres of influence. There has been little accountability for those responsible for lapses in decision-making. Implementation is more personality-driven than based on institutional structures.

The 20th amendment to the constitution abolished the National Audit Commission and the National Procurement Commission (NPC). The former had important responsibilities to implement the National Audit Act, which included the ability to impose fines on public officials for losses caused through fraud and negligence. Following the amendment, the Auditor-General will now be appointed at the discretion of the president, without need for approval by the Constitutional Council, which is a body consisting of representatives of both the government and the opposition. The NPC was intended to introduce transparency into the procurement processes but was never fully operationalized by the previous government. Procurement processes remain opaque and are vectors for corruption.

There are no limits placed on financing political parties, no requirements to disclose donations, and no effective mechanisms to ensure political parties accurately report expenditures. Senior government officials and politicians are required to submit assets declarations; however these are not made public unless specifically requested by an individual. The Assets and Liability Declaration Act makes it an offense for a citizen who obtains an asset declaration to make it public or to even share it with another person.

The Commission to Investigate Bribery or Corruption (CIABOC) remains ineffective in dealing with corruption at the highest level of government. Like most other commissions, its members are appointed at the discretion of the president. Additionally, CIABOC remains understaffed and primarily concerned with corruption among low-level government officials. The legal system lacks the capacity to trace and recover proceeds of crimes.

#### Policy coordination

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#### Anti-corruption policy

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## 16 | Consensus-Building

On the issue of devolution of power, there exist intractable differences between the Tamil political parties that represent the Northern and Eastern parts of the country and the national-level Sinhala political parties. The Tamil political parties have advocated for a federal form of government (after having renounced claims for secession) and have campaigned against retaining the unitary structure of the state. The major Sinhala political parties (the SLFP, UNP, SLPP and SJB) have rejected the proposal for a federal form of government.

Among the national-level Sinhala political parties, the SLPP, which has a two-thirds majority in parliament, are the most dogmatic in their rejection of any changes to the unitary status of the constitution and have promised to dilute if not abolish the existing system of limited devolution. The UNP and the SJB are opposed to any formal changes to the unitary status of the state but have shown a willingness to negotiate over how more power can be devolved. However, this position was rejected by a majority of Sinhala voters at the presidential election in 2019 and the parliamentary election in 2020. The debate over the labeling of the state (i.e., whether Sri Lanka is formally referred to as a unitary state) is largely driven by political expediency and misinformation and remains an intractable source of division between the Sinhala and Tamil communities. The SLPP has also taken a hard-line stance on language rights and has advocated the need for a less proportional electoral system in order to ensure that a single political party can establish a government “without being held hostage” by minority political parties. On issues of democratization, the SLPP has made clear that it favors concentrating power with elected representatives to govern, with fewer checks and balances. This position is opposed by the UNP, the SJB and the main Tamil political parties. The Muslim political parties are split on the issue.

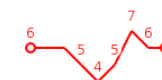
There is considerable convergence on economic policy, at least among the main political parties, albeit with important differences. The major Sinhala political parties (the SLFP, UNP, SLPP and SJB) agree on the need for a market-based economy with state welfare and subsidies. It is not easy to delineate these parties based on ideological differences, because party affiliation is not dictated by ideological differences. In fact, there are a significant number of senior politicians who have had membership in more than one political party during the course of their political career.

The UNP is more vocal in its support of the market economy and privatizing state enterprises. The SLFP and SLPP favor retaining SOEs and the protection of local manufacturers. The SJB have moved noticeably toward the position of the SLPP in terms of their economic ideology, and away from the UNPs’ support for less regulation.

Consensus on goals

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However, important differences exist among the main actors within the SLPP on economic policies. The president himself is more open to private enterprise and lower taxes with less regulation, as opposed to the prime minister, who has built his political legacy on retaining SOEs and welfare policies.

The SLPP, which is the dominant political force at present, conceptualizes democracy on the basis of majoritarianism and populism underpinned by regular elections. However, party leaders have little patience for checks and balances, and have often sought to concentrate more power in political institutions while at the same time undermining nonpolitical oversight mechanisms. Hence, even when they push to undermine independent institutions and abolish democratic safeguards, they consider themselves acting in the best interest of democracy. The most prominent example of this during the review period was the passage of the 20th constitutional amendment, which sought to centralize executive power in the president and undermine the role of parliament and the judiciary. The SLPP justified this on the basis that the president is directly elected by the people and as such should be allowed a free hand to deliver on his mandate. The SLPP dismiss criticisms of their actions as alarmist and unpatriotic and attribute ulterior motives to their critics. At present, the SLPP has won a considerable mandate from the electorate to deliver on its promise of a more prosperous Sri Lanka. The SLPP control the presidency and have a close to two-thirds majority in parliament, which enables them to make the majority of constitutional amendments with little required support from opposition political parties. It remains to be seen how the electorate will react to the SLPP's conduct, and whether there will be popular backing again for their conception of democracy.

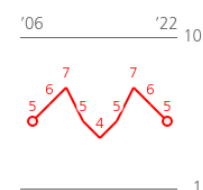
Opposition parties are weak, disorganized and ineffective. This is especially the case for the main opposition party, the SJB. The SJB's members are susceptible to crossing over from the opposition to join the ruling SLPP, as has happened on one occasion during the review period. Smaller parties, namely the Janatha Vimukthi Peramuna (JVP) and the TNA, have consistently taken principled positions on the importance of democracy over the last decade. However, they lack broad popular support.

The political leadership within the government operates on the belief that the end of the armed conflict represented the end of all political conflict in relation to the nature of the state and that any outstanding grievances of minorities can be resolved through economic development.

The government is not only uninterested in pursuing postwar reconciliation efforts, but through its policies and rhetoric is in fact exacerbating and widening existing divisions. The government's only discernible mitigation strategy is to increase militarization and surveillance among minority communities in order to prevent any possibility of future violence. Thus, the government tends to frame issues raised by minorities as national security issues or the objectives of extremists, while at the same time paying lip service to the need to ensure equal protection for all citizens.

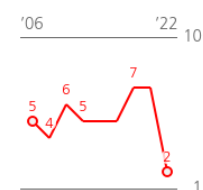
Anti-democratic actors

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Cleavage / conflict management

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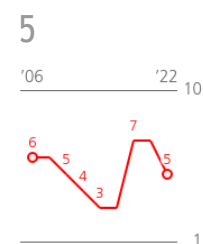
Increased militarization and surveillance further marginalizes minority communities and further undermines their trust in the state. Even positive policy changes undertaken by the government in relation to issues raised by minorities have occurred primarily due to external pressures, rather than domestic forces. The most recent example of this was the government's reversal of its decision to cremate the bodies of those who had died from COVID-19. This in turn reinforces divisions within the country, as segments of the majority community view this as unwanted foreign interference, while reinforcing fears within minority communities that the state is not responsive to their needs.

If it chooses to do so, the leadership of the present government has sufficient political capital and clout within the majority Sinhala community to genuinely deal with grievances raised by minorities, to open dialogue, and to at least begin to forge a consensus across ethnic identities. However, this is unlikely to happen due to the nature of the personalities concerned.

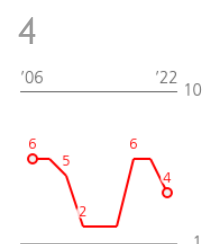
Successive governments have co-opted civil society actors into government for various purposes. Once co-opted, those individuals tend to become part of the government. The incumbent government, which came to power promising technocratic and efficient governance, did indeed recruit professionals from the private sector into key positions in state enterprises. The government also consults trade unions and professional associations affiliated to the government during policy formulation and decision-making. The present government demonstrates a considerable reticence to include civic and professional associations who are not associated with the government or who have a record of disagreements with the government in such processes. Moreover, the government displays a combative and dismissive attitude toward civil society actors during policy formulation, routinely labeling them anti-national elements intent on harming the state. There are credible reports of increased surveillance by the police and intelligence services of civil society actors, especially in the Northern and Eastern provinces. This not only indicates that the government does not want to work with a broad cross-section of civil society, but further contributes to a culture of fear within civil society when raising issues with the government. Meaningful public consultations designed to capture diverse views and concerns have proven difficult to implement for successive governments; there is no formal process to monitor performance.

The incumbent government is uninterested in pursuing postwar reconciliation efforts and it continues to widen existing divisions. The government withdrew Sri Lanka's support from a UNHRC resolution it had co-sponsored since October 2015. The resolution contained specific commitments made by Sri Lanka to promote reconciliation, accountability, and human rights. The previous government did make some progress in relation to implementing the obligations in the UNHRC resolution, however there was no progress made in relation to the accountability and truth-seeking mechanisms. Efforts to reform the Prevention of Terrorism Act stalled

Civil society participation



Reconciliation



completely after the Easter Sunday terror attacks. Thus, despite the rhetorical support of the previous government, tangible progress made with regard to reconciliation was limited. The incumbent government rejected the report presented in January 2021 by the OHCHR pursuant to the UNHRC resolution. It appointed yet another commission of inquiry to deflect and delay accountability.

Fundamentally, the incumbent government does not believe in a need for reconciliation or of any kind of truth and justice process. The government's attitude is that these events in the past must be forgotten, and that it is counterproductive to national unity to try to address them. It has spurned even purely symbolic overtures by the previous government (e.g., singing the national anthem in the Tamil language at state functions) and has undermined the only truth-seeking mechanism created by the previous government (the Office on Missing Persons appointed to investigate the disappearances of thousands of Sri Lankans). Suspected Tamil militants have remained in pre-trial detention for almost a decade since the end of the war. Some have not been charged for any crime. Others face inordinate delays in trials. Meanwhile, the president pardoned a former army soldier who was convicted of murdering several civilians, including children. The pardon came after the Supreme Court unanimously affirmed the finding of the Trial Court. Other investigations into alleged disappearances have been stalled by the commission appointed by the president to investigate allegations of political victimization. The Attorney General has discontinued proceedings in other cases, including the murder of a Tamil member of parliament inside a church, in this case due to a lack of evidence.

## 17 | International Cooperation

The incumbent government has repeatedly stated that it wishes to encourage more Foreign Direct Investments (FDI) and that it aims to reduce reliance on foreign loans. However, the FDI anticipated by the government is yet to materialize and the government has been forced to rely on foreign loans, particularly from China, during the last year. The government has increasingly relied on short term currency swaps from the central bank of China and the Reserve Bank of India to meet the country's short term foreign currency needs.

The government has maintained that it intends to follow a non-aligned foreign policy. In reality its foreign policy is considerably more complicated and is driven by domestic political considerations. When in opposition, the SLPP campaigned against several initiatives of the previous government on the basis that these initiatives threatened Sri Lanka's sovereignty. Now in government, the SLPP has encountered significant difficulties reconciling its political rhetoric with the realities of government. As such it has reneged on several commitments made to foreign governments concerning FDI.

Effective use of support

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The most striking examples of this are the loss of the \$480 million grant from the Millennium Challenge Corporation (MCC) and the loss of JPY 30,040 million through the cancellation of financial and technical assistance offered by the Japan International Cooperation Agency (JICA) for the construction of the Colombo Light Rail Transport project. In both instances, the government expressed concerns about the viability of the projects. Instead of attempting to renegotiate the proposals, the government allowed the MCC grant to be revoked and canceled the JICA facility.

The incumbent government continues to pursue a close relationship with the People's Republic of China, both in terms of economic cooperation and exchange of technical expertise. Its relationship with other bilateral partners, including the United States, India, Japan and the EU, are significantly more complicated. In a departure from its predecessor, the incumbent government has rejected assistance provided by the IMF and insists that it will not require financial assistance from the organization to deal with debt repayment and balance of payment issues.

The government has engaged a broad set of actors to obtain vaccinations for COVID-19, including through assistance from India, China, Russia and the WHO. The government has provided funding from the EU to assist several sectors impacted by the COVID-19 pandemic. Thus far, the government has engaged with foreign assistance in a much more positive manner in relation to COVID-19 pandemic relief. However, such cooperation could be adversely impacted by the government's decision to cancel bilateral agreements with India and Japan in relation to the development of the Eastern Container Terminal of the Colombo port.

The Sri Lankan state's image as a credible partner within the international community has been diminished due to the conduct of the government in relation to the UNHRC process. The incumbent government had a history of confrontation with the UNHRC and of noncooperation with certain UN special procedures. These stem primarily from the government's refusal to conduct credible investigations into allegations of violations of International Human Rights Law (IHRL) and International Humanitarian Law during the last stages of the civil war in 2009. The incumbent government has also reneged on commitments made by the previous government to the UNHRC, claiming that such commitments are not in the best interest of the country. In January 2021, OHCHR issued a report which detailed Sri Lanka's failures to comply with its IHRL obligations and its commitments made to the UNHRC. It highlighted that a credible domestic accountability mechanism was unlikely to materialize and encouraged member states of the UNHRC to explore possibilities such as universal jurisdiction and targeted sanctions on individuals. The government of Sri Lanka has rejected the report. The state has poor compliance with core IHRL conventions. Most are not incorporated into the domestic legal system.

However, Sri Lanka's compliance with ILO conventions remains high. Furthermore, the government has engaged and co-operated with the WHO in relation to its response to the COVID-19 pandemic. The government has canceled at least two infrastructure

#### Credibility



projects which formed part of bilateral agreements with India and Japan. This could cause foreign investors to be circumspect about investing in Sri Lanka.

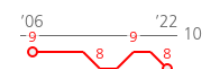
Sri Lanka has good relations with its neighbors in South Asia and enjoys close economic and cultural ties with all countries in the region. However, its relationship with India has been complicated due to the close ties of the Sri Lankan government with China, the cancellation of several infrastructure projects with India, and the efforts of some prominent members of the government to abolish the provincial council system, which was part of an agreement between Sri Lanka and India in 1987. Sri Lanka's relationship with India has deteriorated in comparison to the cordial relationship leaders of the previous government enjoyed with their Indian counterparts. Considering historic relations between the countries and the need to counterbalance the influence of China in Sri Lanka, India is unlikely to escalate any dispute with Sri Lanka. Furthermore, alienating relations with India is not in the strategic interest of the Sri Lankan state. As such it is likely these outstanding issues will be resolved through dialogue.

Both Pakistan and the Maldives actively lobbied the Sri Lankan government to reverse its policy of mandatory cremations in relation to people who had died of COVID-19. This policy is widely seen as discriminatory against Sri Lankan Muslims. While there was initial resistance from the government, the policy was reversed in March 2021. This reversal happened during UNHRC sessions and followed a visit by the prime minister of Pakistan, who is widely expected to lobby member states of the Organization of Islamic Cooperation to vote against a resolution on Sri Lanka at the UNHRC.

Sri Lanka was an active member in the South Asian Association for Regional Cooperation (SAARC) and continues to engage in the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC).

Regional  
cooperation

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## Strategic Outlook

The period under review saw a clear regression in Sri Lanka's democratic trajectory and further economic instability due to the impacts of the COVID-19 pandemic. However, despite setbacks, the spread of COVID-19 remains comparatively low, both in terms of the number of detected cases and number of reported deaths. Sri Lanka also has not seen exponential growth in the caseload. This has prevented the public health infrastructure from being overwhelmed. In February 2021, the government announced an ambitious plan to vaccinate all adult citizens over the age of 30 by May 2021. Sri Lanka's national immunization program has an exceptional track record, yet due to uncertainty in vaccine supplies and political interference, it is unlikely this target will be achieved. The government has rolled back COVID-19 related restrictions by significantly relaxing international and domestic travel restrictions. The emphasis on reducing rural poverty and encouraging entrepreneurs and innovation is commendable. These processes need to be sustained in order to ensure economic stability in the long run and to reduce demand for public sector employment.

However, there are three key areas in which policy changes are needed to reverse the negative trajectory identified. First, on reconciliation and preventing violence from re-emerging: It should be a central priority of the government to ensure violent conflict does not recur. The incumbent government possesses credibility and sufficient political capital with the Sinhala majority to ensure a lasting solution to ethnic tensions by building an inclusive pluralistic national identity that is acceptable to all communities. In order to do this, the government needs to open its constitutional reform effort to all ethnic and religious groups and identify their concerns. There is a need for substantially devolving and sharing power at the provincial and central levels, respectively. The government should assuage fears of the Sinhala majority by ensuring the strong prohibition of secession and by emphasizing the indivisibility of the state. In order for this to happen, the government must recognize the existence of an ethnic conflict in Sri Lanka. Convincing the government of this fact and the need to act will be a difficult prospect for bilateral and multilateral partners who would rather ensure friendly relations given Sri Lanka's geo-political importance.

Second, on democracy and the rule of law: The government needs to adopt a more holistic view of democracy that involves more than a majority rules principle. The government also needs to appreciate the importance of democratic institutions if it is to sustain and drive both growth and stability. Opposition political parties are critically important in this regard. Opposition parties cannot achieve electoral success by trying to emulate the government's ethno-nationalist rhetoric and policies. Instead, opposition political parties need to provide a credible alternative to the government's narrative on democracy and must invest in grassroots organizations to function as an effective opposition. Bilateral and multilateral partners need to sustain funding for the justice sector reform and must insist that funding is not used to undermine democratic institutions. It is also critical that human rights impact assessments are conducted when funding state institutions.



Third, on climate change and sustainable development: The government's rhetoric on climate change needs to be matched with action. In this regard, the government needs to ensure that remaining forest and sensitive ecosystems are protected when engaging in development and agricultural activities. Greater emphasis is needed to transition farmers away from chemical fertilizers, which are heavily subsidized by the government and which have been linked to chronic kidney disease among rural communities. The impacts of climate change have already been felt in Sri Lanka. The government thus needs to take an active role to mitigate these impacts. Special emphasis is needed in preparing for more frequent natural disasters and communicable diseases.