

November 6, 2023

The Honorable Janet Yellen
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

RE: Urgent Action Required to Ensure Inclusion of Anti-Corruption Governance Reforms in IMF Loan to Sri Lanka

Dear Secretary Yellen:

We write to express our deep concerns about the ongoing economic crisis in Sri Lanka and the opportunity for progress with the approved International Monetary Fund (IMF) loan package of \$2.9 billion. As representatives of civil society organizations in the United States committed to good government, poverty reduction, environmental sustainability, labor rights, and human rights, **we urge you to prioritize the establishment of rigorous anti-corruption requirements as a precondition for further disbursement of funds to Sri Lanka.**

Our call echoes the explicit demands of the Sri Lankan public, as seen during the widespread protests in 2022 in response to the country's economic crisis, where citizens fervently called for an end to government corruption. Indeed, high-level government corruption, including issues of elite capture, conflicts of interests, cronyism, and various other forms of malfeasance, significantly contributed to the genesis of this crisis.¹

As of 2022, Sri Lanka ranks in the bottom half -- 101 out of 180 countries and territories -- and received a score of just 36 out of 100 in Transparency International's (TI) "Corruption Perceptions Index" (CPI).² TI's Global Corruption Barometer found that 79% of Sri Lankans see government corruption as a serious problem.³ Indeed, bribery, conflicts of interest, cronyism, and the misuse of public funds have cost the country dearly, robbing the treasury of much-needed revenue and chasing away direct foreign investment.

The United States Strategy on Countering Corruption recognizes the importance of utilizing all tools available to combat corruption, including foreign aid, and affirms this as a national security priority. Two of the five mutually reinforcing pillars emphasize the need to 1) strengthen the multilateral anti-corruption architecture and 2) leverage foreign assistance resources to advance policy goals.⁴

The inclusion of stringent anti-corruption requirements in Sri Lankan assistance can also serve as a model for future IMF negotiations with other nations, promoting transparency, good governance, and accountability worldwide.

¹ <https://www.usip.org/publications/2023/07/year-after-mass-protests-sri-lankas-governance-crisis-continues>

² <https://www.transparency.org/en/countries/sri-lanka>

³ <https://www.transparency.org/en/countries/sri-lanka>

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<https://www.whitehouse.gov/wp-content/uploads/2021/12/United-States-Strategy-on-Countering-Corruption.pdf>

We urge you to uphold this Administration's stated commitment to good governance, economic and environmental justice, labor rights, and human rights by utilizing our substantial diplomatic influence in the IMF to support calls from the people of Sri Lanka for meaningful and enforceable anti-corruption governance reforms.

Poverty Reduction and Environmental Sustainability

The importance of anti-corruption measures to promote economic and environmental justice cannot be overstated. Gross mismanagement of public resources and corruption in Sri Lanka have led to economic collapse and contributed to environmental degradation. For example, the 2021 X-Press Pearl disaster in which a ship carrying toxic chemicals and plastic pellets sank off the Sri Lankan coast, leaking chemicals into the water, poisoning marine life, and harming the livelihood of local fishermen.⁵ Local experts have alleged that there has been little accountability and that the government's relief efforts have been plagued by conflicts of interest.⁶

A corrupt and broken tax system cut revenues to the treasury to a trickle and increased reliance on foreign aid and borrowing. The economic crisis itself has forced nine million people into poverty, about 40% of the country's population. Without robust anti-corruption safeguards, there is a significant risk that funds intended for recovery and development will be misappropriated, further exacerbating environmental challenges and hindering efforts towards poverty reduction.

Labor Rights

The people of Sri Lanka have endured immense hardships, including job losses, due to the economic crisis.⁷ Recovery efforts must ensure the strengthening of and enforcement of labor laws, protect worker rights, and stop corrupt officials from retaliating against whistleblowers - including trade unionists. In the past, certain conditionalities have not recognized the importance of, or even undermined, worker rights. Going forward, loan agreements need to recognize international labor standards as critical to rebuilding the economy. It is imperative that Sri Lankan government officials demonstrate a commitment to an accountable use of funds, which, in turn, becomes the foundation of decent work.

Human Rights, Militarization, and the Rule of Law

Sri Lanka's history has been marred by human rights abuses, from violent crackdowns on dissent and a lack of accountability for the perpetrators following the recent protests, to a legacy of impunity enjoyed by government officials accused of war crimes during the country's civil war.⁸ Sri Lankan authorities have long criminalized dissent, weaponizing anti-terrorism laws to label those who speak truth to power as 'terrorists.' Many government officials who stand accused of war crimes continue to enjoy positions of power and influence today and domestic efforts to address war crimes accusations have categorically failed to provide justice and accountability to the victims and survivors. In 2022 the UN Human Rights Council expressed concern over Sri Lanka's "deepening militarization and lack of transparency and accountability in governance, which have embedded impunity for serious human rights violations and

⁵ <https://www.bbc.com/news/world-asia-57395693>

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<https://www.tisirilanka.org/tisl-takes-bribery-and-corruption-allegations-surrounding-the-x-press-pearl-disaster-to-supreme-court/>

⁷ <https://www.aljazeera.com/news/2022/6/29/as-sri-lanka-economic-crisis-worsens-daily-wage-workers-struggle>

⁸ <https://foreignpolicy.com/2022/04/28/sri-lanka-rajapaksa-protests-economy-corruption/>

created an environment for corruption and the abuse of power.”⁹ The breakdown of the rule of law and militarization not only devastated the lives of victims and violated core U.S. values, but this volatility also props up corrupt actors and scares off foreign investment to the detriment of the IMF’s goal of building resilient economies.

Conclusion

Indeed, the IMF’s own assessment recognizes the dire threat of corruption to Sri Lanka’s economic recovery. The IMF recently released a governance diagnostic which painted a stark picture of the country’s corruption landscape and offered a series of recommendations to address it.¹⁰ While the IMF’s recommendations demonstrate progress on anti-corruption issues, sweeping reforms, like those recommended by anti-corruption activists in Sri Lanka, are necessary to meet the call of the Sri Lankan people for accountable government.¹¹ Attaching anti-corruption requirements to the IMF loan for Sri Lanka is essential for promoting economic and environmental justice, safeguarding labor rights, and upholding human rights and the rule of law. As such, we urge you to use U.S. diplomatic influence to hold the Sri Lankan government accountable for meeting specific and measurable anti-corruption benchmarks before the further disbursement of funds.

We appreciate your attention to this matter. Please do not hesitate to contact Gary Kalman, Executive Director of Transparency International U.S. at gkalman@us.transparency.org if you have any questions.

Sincerely,

Accountability Lab

Financial Accountability and Corporate Transparency (FACT) Coalition

Global Financial Integrity

Government Accountability Project

Integrity Initiatives International

International Corporate Accountability Roundtable (ICAR)

Kleptocracy Initiative

Jubilee USA Network

Missionary Oblates

Never Again Coalition

Open Contracting Partnership

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<https://www.ohchr.org/en/documents/reports/ahrc515-situation-human-rights-sri-lanka-comprehensive-report-united-nations-high>

¹⁰ <https://slguardian.org/imfs-call-for-reform-in-16-points-sri-lankas-governance-challenge/>

¹¹ <https://www.tisrilanka.org/civil-society-governance-diagnostic-report-on-sri-lanka-2023/>

Partnership for Transparency (PTF)

People for Equality and Relief in Lanka (PEARL)

Transparency International U.S.