

SFHS MUN 2022

Strawberry Fields High School, Chandigarh

STUDY GUIDE:

UNITED NATIONS GENERAL ASSEMBLY (ECOFIN)



AGENDA:

Addressing the ongoing economic crisis in Sri Lanka

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LETTER FROM THE EXECUTIVE BOARD

(Compulsory to read)

Greetings!!

We take pleasure in welcoming all of you to the United Nations General Assembly (ECOFIN) being simulated at Strawberry Fields High School Model UN 2022. This letter from the Executive Board will help you get a clear direction about the committee, the agenda that is supposed to be discussed and the method of research that has to be followed. It is, however, important that you read the entire background guide very carefully and after reading it, focus on the topics that have been suggested for research and the links to the articles that have been attached herewith. The way of approaching things and concepts in this background guide will be slightly different and it is preferred that you respect the way that has been suggested and then research in the manner so told to gain maximum knowledge and also to get a clear direction of how United Nations General Assembly (ECOFIN) at this MUN will function this year.

This background guide like other background guides in MUNs and other conferences will not run into several pages but will be a mere 10-page document consisting less of matter to learn about things but research links, sorted topic-wise for you, which you are supposed to read, which most people generally do not do in MUN Conferences and/or simulations of the same sort. By reading these articles/news reports/documents attached with the research links you will be able to gain around 80% of the knowledge about the committee and the agenda and the only thing you would be required to do after reading the matter provided in this background guide is to work on the remaining 20% matter for your research from as many sources as you can find on the internet.

Here are certain Rules for Researching that you must follow:

Rule Number 1:

Read from as many sources as possible to get a wider angle of researching things. Read a topic from at least 2-3 articles or sources and then prepare points on the same and not speeches.

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Rule Number 2:

Read from more and more authentic document sources for getting a genuine perspective about things. For example: Since this committee is the UNHRC, sources like the official website of the United Nations and that of its agencies, or articles published on the official sources like news agencies including Reuters and the like shall be preferred over sources like Wikipedia and Quora. However, these sources like Wikipedia can be used to read about things but cannot be relied upon as definitive proof or source for your research. Expand the horizons of your research by reading from at least 2-3 sources about a particular topic and then make notes.

Kindly feel free to write to me or contact me for queries or clarifications, if any at the contact details provided below.

All the best!

Warm Regards,

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INTRODUCTION TO THE AGENDA

Inflation is running at more than 50%. Sri Lanka is facing a balance of payment crisis and a severe foreign exchange shortage compounded by Covid-19 lockdowns, pre-pandemic tax cuts and loss of access to international capital markets. As it stands, foreign exchange reserves are critically low, making the import of essential medicines, food items, cooking gas and fuel, immensely difficult. This is affecting all major sectors including education, health and livelihoods. The country doesn't have enough fuel for essential services like buses, trains and medical vehicles, and officials say it doesn't have enough foreign currency to import more. This lack of fuel has caused petrol and diesel prices to rise dramatically.

- **What happens when a country runs out of money?**

Sri Lanka is unable to buy the goods it needs from abroad. And in May it failed to make an interest payment on its foreign debt for the first time in its history. Failure to pay debt interest can damage a country's reputation with investors, making it harder for it to borrow the money it needs on international markets. This can further harm confidence in its currency and economy.

- **What's the plan to tackle the crisis and International Support?**

President Rajapaksa resigned after fleeing to Singapore. Before stepping down he made Prime Minister Ranil Wickremesinghe acting president. Mr Wickremesinghe declared a state of emergency across the country and imposed a curfew in the western province while he tries to stabilize the situation. It needs a functioning government to tackle the financial crisis. The country owes more than \$51bn (£39bn) to foreign lenders, including \$6.5bn to China, which has begun discussions about restructuring its loans.

The G7 group of countries - Canada, France, Germany, Italy, Japan, the UK and the US - had said it supports Sri Lanka's attempts to reduce its debt repayments. **The World Bank** has agreed to lend Sri Lanka \$600m, and India has offered at least \$1.9bn.

The **International Monetary Fund (IMF)** is discussing a possible \$3bn (£2.5bn) loan. But it would require a stable government that could raise interest rates and taxes to help fund the deal, so any bailout may be delayed until a new administration is in place.

WHAT LED TO THE CURRENT ECONOMIC CRISIS

- <https://www.bbc.com/news/world-61028138>
- <https://theconversation.com/amp/how-did-sri-lanka-run-out-of-money-5-graphs-that-explain-its-economic-crisis-187352>

The government blamed the Covid pandemic, which badly affected Sri Lanka's tourist trade - one of its biggest foreign currency earners. It also says tourists were frightened off by a series of deadly bomb attacks in 2019. However, many experts blame President Rajapaksa's poor economic mismanagement. At the end of its civil war in 2009, Sri Lanka chose to focus on providing goods to its domestic market, instead of trying to boost foreign trade. This meant its income from exports to other countries remained low, while the bill for imports kept growing. Sri Lanka now imports \$3bn (£2.3bn) more than it exports every year, and that is why it has run out of foreign currency. At the end of 2019, Sri Lanka had \$7.6bn (£5.8bn) in foreign currency reserves, which have dropped to around \$250m (£210m). Mr Rajapaksa was also criticised for the big tax cuts he introduced in 2019, which lost the government income of more than \$1.4bn (£1.13bn) a year.

- Running out of foreign currency

Since the beginning of 2020 Sri Lanka's demand for foreign currency has increased while its ability to earn foreign currency – through exports, loans and other capital inflows – has declined. This is reflected in the steady decline in official foreign reserves held by the Central Bank of Sri Lanka, falling from about US\$8 billion to less than \$2 billion. (The Sri Lankan currency is “closed”, meaning it isn't traded outside the country, so foreign exchange transactions have to go through the central bank). In May 2022, the gross reserves were approximately \$1.9B. However, gross reserves aren't the same as money in a bank account that can be used for payments. They include, for example, currency already committed to payments, and loans with conditions that limit imports from certain countries. The actual amount of “usable” foreign currency is less. By early May it was barely US\$50 million – a minuscule level for an economy that by the end of 2021 needed about US\$75 million a day to pay for imports. This led to Sri Lanka's government defaulting on a US\$78 million interest payment in late May.

- Declining currency inflows

Sri Lanka's declining foreign currency inflows and increasing outflows are due to imports outpacing exports, Sri Lankans overseas sending less money home, the devastation of the tourism sector and higher debt repayments.

In two years Sri Lanka's annual trade deficit has climbed from about US\$6 billion to US\$8 billion. Two other key sources of foreign currency, money sent home by Sri Lankans living abroad and international tourism, were also hit hard. At their peak, they more than offset the trade deficit for goods. But since 2019 the value of remittances has fallen more than 20%. Income from tourism, devastated by the 2019 Easter bombings in which 269 were killed, has dropped almost 90% from its 2018 peak.

- Propping up the exchange rate

Ordinarily, a nation can avoid running out of foreign currency in two ways. One way is to borrow money. Sri Lanka, however, was already heavily in debt before this crisis. Successive governments borrowed to finance infrastructure projects and prop up loss-making public utilities. With estimated annual debt service costs of US\$10 billion, Sri Lanka is now a bad bet for lenders.

The second, and better, the way is a floating exchange rate along the lines of those in Australia, Britain, Japan and the United States. A floating rate helps to balance trade value because the currency's value changes according to demand. Technically Sri Lanka has a floating currency, but it is a "managed float" – with the government, primarily through the Central Bank of Sri Lanka, pegging and pegging the rupee's value to the US dollar.

A government can do several things to maintain the value of its currencies, but the main way is to buy the currency itself, using foreign reserves. This is what Sri Lanka's central bank did. As foreign reserves ran down, the government adopted other riskier policies. Particularly disastrous was the April 2021 decision to ban fertiliser imports. This was marketed as a policy to promote organic farming, but it was about cutting the demand for foreign currency. The subsequent drop in agricultural production has only compounded the economic crisis.

- Rising prices

Just as short-term solutions can create longer-term problems, so too can long-term solutions mean short-term pain. Allowing the (pegged) rupee to depreciate more than 40% against the US dollar has pushed up inflation to 54%.

The help the Sri Lankan government is seeking from the International Monetary Fund is likely to hit people hard, at least initially. Based on experience, the IMF will want major commitments on government expenditure and other economic indicators before bailing out Sri Lanka. But without action, life in Sri Lanka looks even grimmer. With shortages of imported raw materials, industrial output will shrink, creating a downward spiral of low output, low investment, and resultant low economic growth.

HISTORY OF ECONOMY THROUGHOUT THE LAST DECADE

- https://unctad.org/system/files/official-document/BRI-Project_RP13_en.pdf
- <https://www.bbc.com/news/world-south-asia-12004081>

The important lesson Sri Lanka can learn from China is that the latter pursued a consistent and predictable outward-oriented economic development strategy, despite its large domestic market. As a result, China has built up a massive buffer in terms of external reserves enabling China to maintain a stable exchange rate regime. Another major lesson Sri Lanka can learn from the Chinese experience is to become more proactive in using macroeconomic tools to prevent potential distress in the growth and stability of the economy instead of being compelled to use such tools reactively.

The major source of Sri Lanka's macroeconomic imbalances has been successive governments running persistently high fiscal deficits causing external current account deficits and leading to repeated cycles of balance of payments distress. While the movement toward an inflation-targeting regime has prevented expansionary fiscal policies from generating high inflation such a regime cannot prevent expansionary fiscal policies from generating distress in the balance of payments. Sri Lanka will not be able to prevent boom-bust cycles of economic growth and recurring distress in its balance of payments without addressing the root cause of macroeconomic instability which is persistently high fiscal deficits.

Mishandling of economic crisis triggers alarm over rights violations

- <https://news.un.org/en/story/2022/04/1115552>
- <https://www.ohchr.org/en/press-releases/2022/08/sri-lanka-un-human-rights-experts-condemn-repeated-use-emergency-measures>

The UN human rights office (OHCHR) on Tuesday urged authorities in Sri Lanka to defuse tensions peacefully after a state of emergency was declared in response to protests over the country's deepening economic crisis.

OHCHR said that the situation has worsened and that there have been shortages of food and fuel, along with power cuts, prompting new protests by desperate Sri Lankans.

Following the state of emergency and other restrictions, Liz Throssell, Spokesperson for OHCHR said her office was "concerned that such measures are aimed at preventing or discouraging people from legitimately expressing their grievances through peaceful protests, and that they frustrate the exchange of views on matters of public interest".

- Deteriorating situation

Public frustration has been rising in recent months with largely peaceful demonstrations taking place across the country. However, amid sudden shortages in fuel, cooking gas and essential food items; worsening inflation, currency devaluation and rolling power cuts over the past two weeks, the situation has worsened. "This led to further protests by Sri Lankans left desperate by the rising cost of living and difficulties to obtain basic items," Ms Throssell added, speaking to journalists in Geneva. The Sri Lankan Parliament has since ratified an ordinance on 27 July 2022 extending the current state of emergency for another month, imposing a curfew, and granting broad and discretionary powers to security forces and the military. Such powers allow them to detain protesters and search private properties without judicial supervision.

- 'Unwarranted' violence

After a demonstration outside the president's residence on 31 March, the Government declared a state of emergency on 1 April, announced a 36-hour curfew from 6 pm on 2 April and shut down social media networks for 15 hours the following day. There have also been reports of excessive and unwarranted police violence against protesters. OHCHR reminded the Sri Lankan authorities that measures related to states of emergency

“must comply with international human rights law”, should be limited to the extent strictly required by the situation and be proportionate to it, and “should not be used to stifle dissent or hinder peaceful protest”. “The UN human rights office will continue to closely watch developments,” said the agency’s spokesperson. Given the long-standing abuse of emergency powers in Sri Lanka, UN experts have raised particular concern about the impact of such powers on the exercise of a range of human rights, and reports of the targeting of vulnerable and minority groups under this state of emergency. They also highlighted that the procedural requirements to exercise the use of emergency powers under international law were not met.

- Drift towards militarization

As UN rights chief Michelle Bachelet noted in her recent report to the Human Rights Council in February, the drift towards militarization and the weakening of institutional checks and balances in Sri Lanka have affected the State’s ability to effectively tackle the economic crisis and ensure the realization of the economic, social and cultural rights of all citizens. The High Commissioner had also previously voiced her concern over how the Government responds to criticism and dissent in ways that undermine civic space. “We reiterate these concerns today,” said the UN official. “We urge

- Call for restraint

Meanwhile, in New York, Farhan Haq, Deputy Spokesperson for the Secretary-General, [told journalists at a regular media briefing](#) that the UN’s team in Sri Lanka is “closely following the situation.” He said the UN Resident Coordinator in the country, Hanaa Singer-Hamdy, had reminded the Government that the rights to peaceful assembly, association and expression are universal fundamental rights which help foster dialogue between citizens and the State. On Friday, the top UN official in the country also called for restraint from all sides, and for the de-escalation of tensions, away from a violent confrontation. “Our UN team encourages all citizens to engage in dialogue for peaceful solutions,” said Mr Haq.

MOVING FORWARD - ENSURING AN INCLUSIVE & SUSTAINABLE FUTURE

- <https://news.un.org/en/story/2022/05/1118442>

Despite what is currently happening, the country is a model in Southeast Asia, so we need to protect whatever gains have been there: this crisis is not only affecting the traditionally vulnerable groups, but also the middle class and lower middle class, which are sliding into the vulnerable category as well. We all know the history of Sri Lanka, so we have to maintain a vision of how to ensure social cohesion and resilience at a community level, and we are supporting dedicated policy and research within the Ministry of Finance, focussing on medium-term policy measures. Finally, we also recognize that there are some broader political and systematic root causes that have perpetrated discrimination, and undermined human rights and these need to be addressed continuously.



COURSES OF ACTION

- <https://www.hrw.org/news/2022/08/05/sri-lankas-economic-crisis-and-imf>
- <https://www.ohchr.org/en/press-releases/2022/07/sri-lanka-un-experts-sound-alarm-economic-crisis>

Government of Sri Lanka

Concrete measures the government can take include passing three anti-corruption bills that are currently before Parliament and reversing recent constitutional amendments that have undermined the independence of the judiciary, the human rights commission, and the bribery commission. It should also allow credible and independent investigations into corruption and support foreign governments to investigate, and if appropriate, return stolen assets hidden abroad.

UN experts urged the Sri Lankan government to guarantee the fundamental rights of peaceful assembly and expression during peaceful protests as thousands of people gathered in front of the President's office in Colombo, demanding his resignation over corruption and mishandling economic crisis.

IMF

The IMF should use its leverage to ensure funding provides broad relief to Sri Lankans in a way that is transparent and accountable. A universal social protection program, recommended by the United Nations Development Programme and UNICEF, would avoid the staggering error rates and systemic corruption that has undermined the efficacy of Sri Lanka's main safety net program, Samurdhi. To finance an expansion in social protection, the IMF and government should look to introduce progressive taxation. It should also heed protesters' calls, backed by the US Senate Foreign Relations Committee, to root out systemic corruption and strengthen the rule of law.

