Did ESG really topple the government of Sri Lanka?

The recent and dramatic events in Sri Lanka have led some to allege that the country fell under the spell of “ESG”, “Green Terrorists”, and other interesting phrases, leading to the collapse of the national government and the flight from the country of its President. While there is every reason to point to the ban on chemical fertilizers as a contributing factor to the drama in the streets, ESG principles (Environmental, Social, and Governance) most assuredly did not collapse a national government.

The Sri Lankan government brought its collapse upon itself, following decades of fiscal and economic mismanagement accelerated by a rise in authoritarian control of the State. Although he won office in a democratic election, President Gotabaya Rajapaksa promptly consolidated power in the family by appointing his brother – coincidentally, the former President – as Prime Minister. (In the US we call this nepotism, not democracy.) The President then introduced a proposal to change certain Constitutional provisions which would have had the effect of consolidating power in the Presidency while diminishing the inherent checks-and-balances of a strong legislative and legal structure. This led an already restive and angry population, tired of repression, to become ripe for mobilization.

Reports by the World Bank and Cornell University identify three issues which played a decisive role in Sri Lanka’s collapse: a foreign exchange crisis (the national coffers were almost depleted); a high external debt burden complicating the exchange rate crisis, and the shock value of the too-rapid introduction of a ban on chemical fertilizers.

Dealing quickly with the first two – the foreign exchange crisis in turn stems from the ongoing issues of terrorism in Sri Lanka (a 2019 attack had virtually overnight collapsed tourism, a key source of foreign exchange). The COVID pandemic continued to devastate tourism, while at the same time the government turned to its foreign exchange reserves to service its foreign debt obligations, thereby draining the coffers.

Turning now to the nub of the issue, the impact of the government's so-called embrace of ESG principles. Let me be clear – there was no wholesale embrace of ESG principles. Had there been, regulations also would have been promulgated regarding salaries and working conditions for rural laborers, government institutions charged with enforcing such regulations and protecting workers' rights would have been empowered, and the general working conditions on Sri Lankan farms would have been noticeably improved. None of that happened.

Rather, in what appears to be an attempt to augment agricultural exports (a source of foreign exchange) and perhaps position Sri Lanka to renegotiate some of its IMF and World Bank financial obligations in exchange for its excellent emissions rating, the President decreed that chemical fertilizers were banned and only organically farmed produce would be acceptable.

History clearly shows that any policy, when introduced abruptly, without proper preparation and support, will have a shock value. History also clearly shows that a shock of this sort to a major element of an already fragile economy with underlying systemic issues will almost certainly have an extremely negative effect. And indeed, this was the case in Sri Lanka.

However – inflation, fuel shortages, excessive foreign borrowing and the depletion of foreign exchange reserves – the real culprits in the Sri Lankan problem – had absolutely nothing whatsoever to do with ESG principles.

So therefore, the answer to the question is “No, ESG did not collapse Sri Lanka’s government.”