



**Sustainable Development
Council Of Sri Lanka**



INTEGRATED SDG INSIGHTS REPORT SRI LANKA

This report provides analysis and insights in preparation for the SDG Summit and the foundation for effective policy implementation in the second half of the 2030 Agenda.

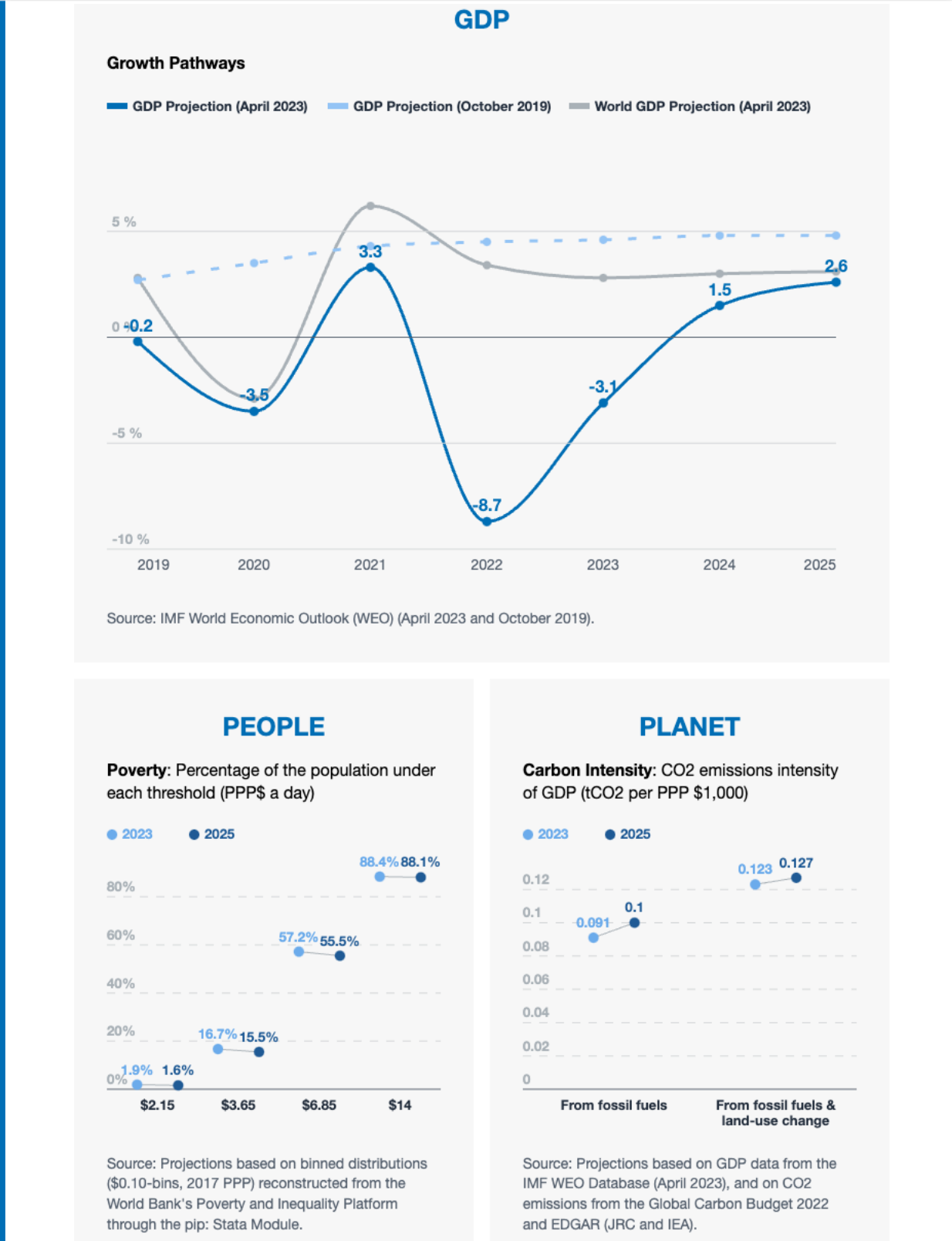
SDG MOMENT: SRI LANKA

Sri Lanka’s economy has suffered continuous setbacks in recent years leading to the poly crisis it faces now. According to the World Bank, in 2022, the poverty rate increased from 13.1% to 25% from 2021 to 2022 and is expected to increase in coming years due to the multiple risks to households’ livelihoods. Moreover, Sri Lanka’s pursuit of green growth through the promotion of green fertilizers encountered a development challenge with the attempt to replace chemical fertilizers overnight with organic and eco-friendly alternatives. This initiative faced implementation challenges, including disruptions to agricultural productivity and concerns about food security.

A buildup of public financing and debt sustainability issues led to the economic downturn and the country did not have the space to recover post-pandemic as rapidly as many other countries. Sri Lanka dealt with debt distress, fiscal constraints and declining private sector growth and is expected to face an economic contraction in 2023, but to slowly recover from 2024 onwards. Therefore, Sri Lanka considers the current situation as an opportunity to rebuild the economy while achieving the SDGs.

The government has already started acting on immediate measures, such as macroeconomic reforms to stabilize the economy and on social protection reform as a cushion for the most vulnerable, while also engaging in long term-measures, such as cost-reflective energy, taxation and other institutional reforms. Additionally, Sri Lanka has actively pursued economic growth and human development with a focus on reducing carbon emissions. The country has implemented measures to enhance resilience to climate change and to mitigate its effects. These efforts including the development of nationally determined contributions to the United Nations Framework Convention on Climate Change that align with the global mission to combat the impacts of climate change.

The commitment to achieving the SDGs is focused on reversing the adverse impacts of the crisis in order to reduce poverty, elevate human development and ultimately achieve sustainable economic growth, while addressing the needs of the most vulnerable.



SDG TRENDS

Understanding how Sri Lanka performs against the SDG targets provides a baseline landscape against which to build SDG policy pathways. SDG progress tracking follows [UN Stats](#) standards and [methodology](#), and is aligned with country profiles.



Trends in detail:
<https://data.undp.org/sdg-push-diagnostic/LKA/sdg-trends>

SDG PRIORITIES

Sri Lanka’s national priorities are generated using machine learning to reveal the most prominent SDGs referenced in national policy documents. This analysis uses a custom-built model for SDG classifications. It considers 100k+ terms, including phrases and expressions.



Key documents for analysis*:

1. Voluntary National Review 2022
2. National Agriculture Policy (updated version)
3. National Health Policy (2021-2030)
4. National Gender Action Plan
5. National Education Policy Framework (2022)
6. Long-Term Generation Expansion Plan (2023 -2041)
7. National Environment Policy
8. National Drinking Water Policy
9. National Policy on Sustainable Consumption and Production
10. SDG 16 Action Plan - Ministry of Justice

Priorities in detail:

<https://data.undp.org/sdg-push-diagnostic/LKA/current-priorities>

*Some policy documents referred here pre-date the current crisis and may not reflect more recent policy shifts that are still in progress.

SDG INTERLINKAGES

SDG interlinkages reveal how actions directed towards one SDG can impact others. Uncovering and understanding these interactions can help Sri Lanka to achieve the 2030 Agenda for Sustainable Development and to navigate trade-offs.

Based on a global framework for interlinkages, Sri Lanka’s SDG progress is color-coded at the target level.

Building from national priorities, the following pathways reflect policy investments with the most potential to accelerate the SDGs for Sri Lanka:

- **Target 1.4:** Equal rights to ownership, basic services, technology and economic resources
- **Target 2.4:** Sustainable food production and resilient agricultural practices
- **Target 7.2:** Increase percentage of renewable energy
- **Target 8.5:** Full employment and decent work with equal pay
- **Target 16.6:** Develop effective, accountable and transparent institutions
- **Target 17.3:** Mobilize financial resources for developing countries



ACCELERATION PATHWAYS



SDG INTERLINKAGES

1.4: By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance

- Against the backdrop of Sri Lanka’s economic crisis, the country has witnessed a surge in both poverty and vulnerability. The poverty rate doubled between 2021 and 2022 from 13.1% to 25%, according to the World Bank, with an additional 2.5 million people living below the poverty line in 2022 alone.
- In response to the escalating crisis and growing levels of poverty and vulnerability, Sri Lanka introduced a new consolidated social welfare system “Aswesuma”. This programme now combines the country's four main social welfare programmes supporting households below the poverty line, the elderly, persons with disabilities and individuals with chronic kidney disease.
- Social protection is a main pillar under Sri Lanka’s ‘National Transformation Roadmap’ articulated by the President and is also in line with IMF Extended Fund Facility (EFF) recommendations. The government has articulated its commitment to pro-poor economic policies, and it also plays a major role in safeguarding vulnerable populations while promoting inclusive growth.
- SDG target 1.4, contributes to SDG 2 (Zero hunger) by ensuring access to productive resources for vulnerable groups, SDG 5 (Gender equality) by addressing women's economic empowerment, and SDG 12 (Responsible consumption and production). It is worth noting that, while synergies exist with some targets linked to goals such as clean water and sanitation (SDG 6) and life on land (SDG 15), there are also trade-offs within these same SDGs.

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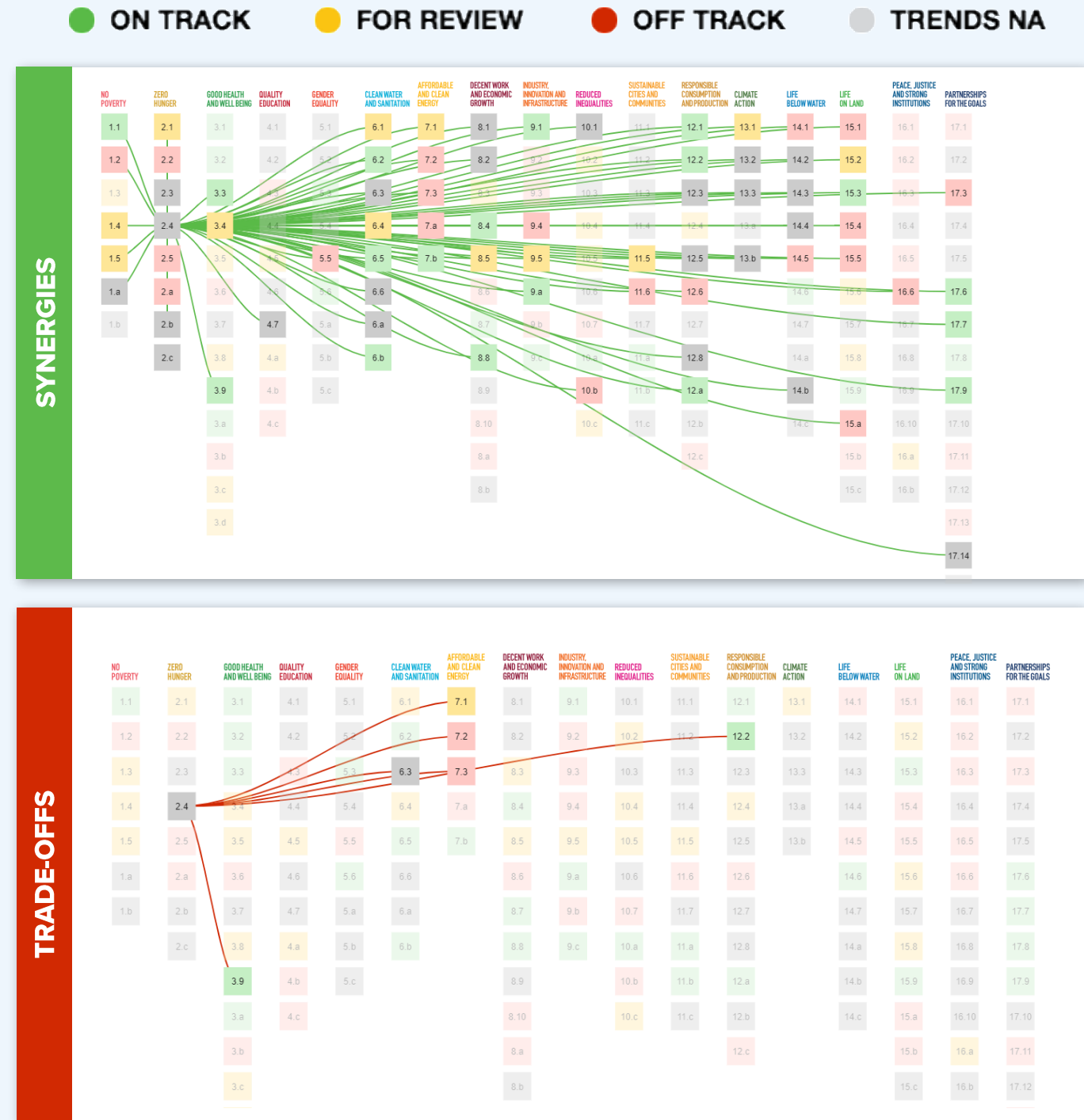
Explore the interlinkages at:

<https://data.undp.org/sdg-push-diagnostic/LKA/synergies-and-tradeoffs>

SDG INTERLINKAGES

2.4: By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality

- World Food Programme reports shows that over 6 million Sri Lankans are food-insecure (approximately 30% of the population and 86% of families) and access to food was limited to many due to unaffordability in a period of hyperinflation in 2022. Furthermore, the cost of living is still increasing due to high input costs and disturbances in agricultural practices because of unusual weather patterns.
- Increased investment in achieving SDG target 2.4 will help reduce food-waste (the SDG Investor Map has identified that the post-harvest loss amounts to roughly 30-40% of production) while enabling agri-oriented research and innovation to identify agricultural best practices, such as improved agricultural value chains focusing on the quality of products.
 - These practices have a high potential for return (e.g. solar-powered cold chain storage for vegetables has an indicative return of 8-11% while for fruits it is over 56%).
 - Additionally, investment in target 2.4 will also aid in mitigating the impact of climate change on agriculture so that the sector's contribution to GDP of 7.5% in 2022 can increase. Tangentially, accelerating SDG 2.4 also improves the physical and mental well-being of the people (SDG 3.4) and helps to narrow poverty (SDG 1.2).
- As signified by the trade-offs, increased productivity and production should not be at the cost of increased pollution (SDG 6.3) and an even higher dependence on fossil fuels (SDG 7.2). An approach that will enable sustainable management of natural resources is vital (SDG 12.2).



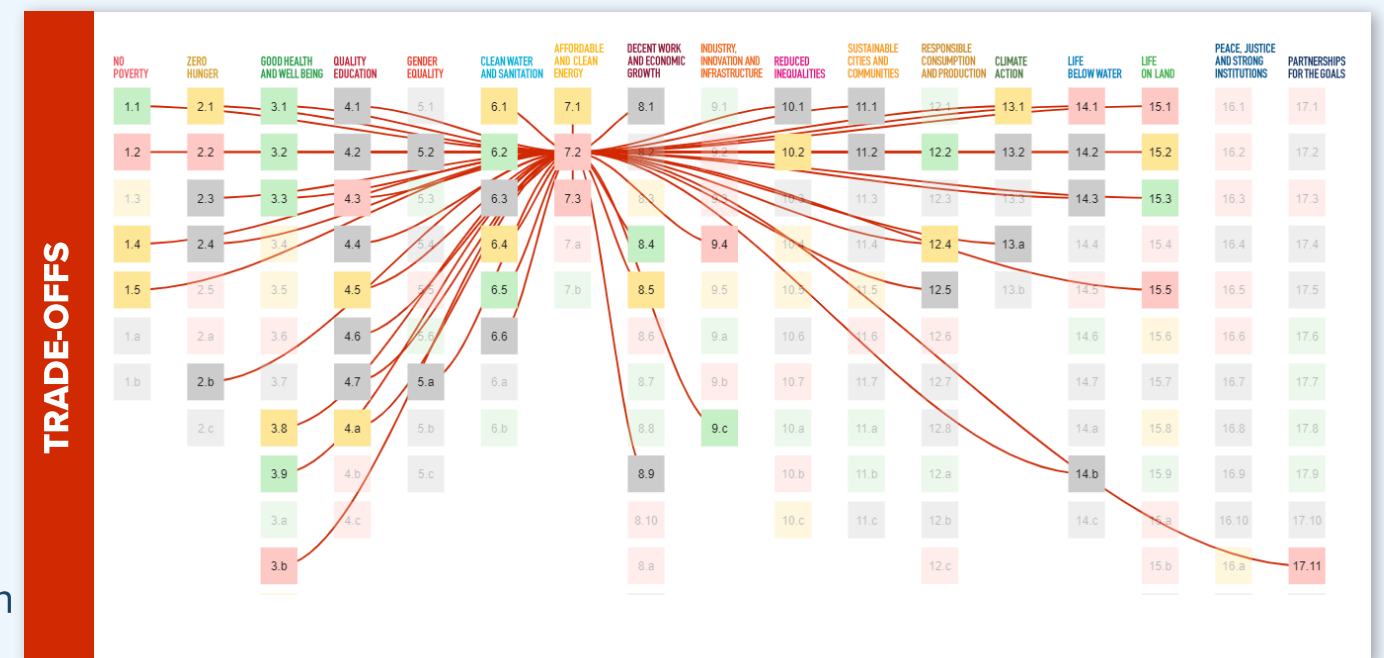
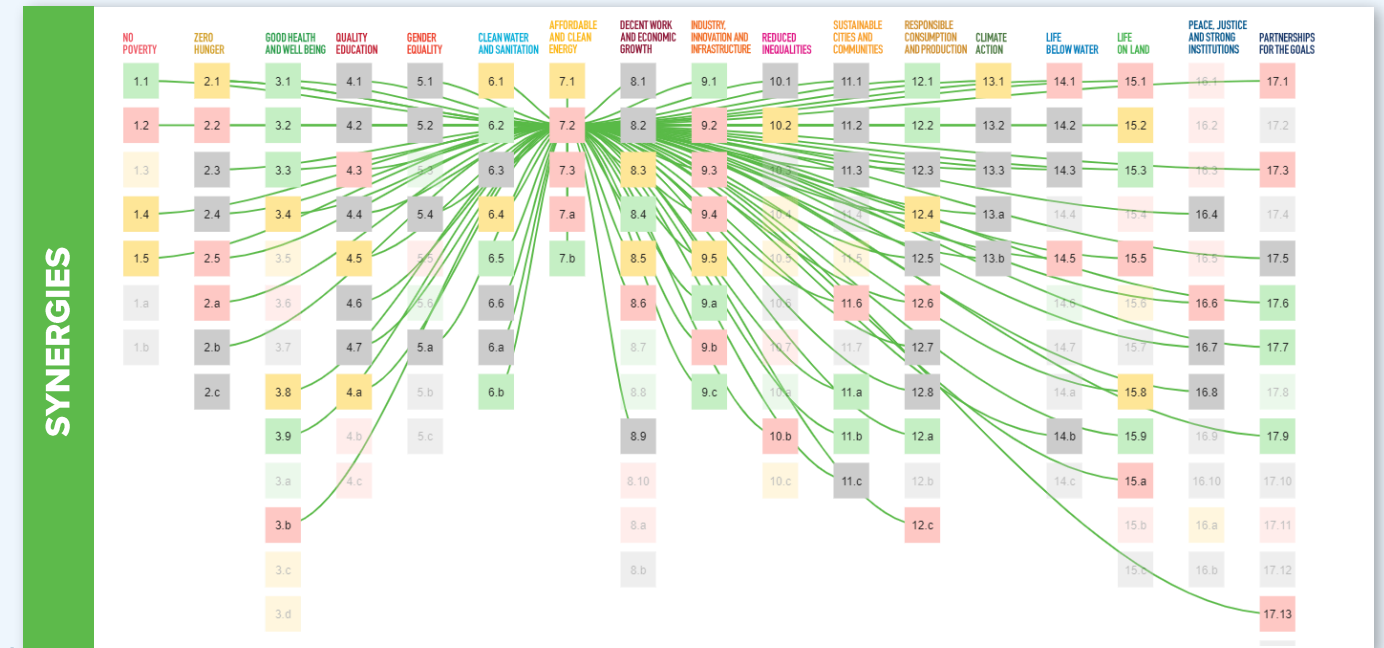
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SDG INTERLINKAGES

7.2: By 2030, increase substantially the share of renewable energy in the global energy mix

- Secured renewable energy generation is vital for the sustainable development of Sri Lanka. The continued dependence on fossil fuel-generated electricity in the country is detrimental to the environment and the country's economy. For example, Sri Lanka spends 30% of all export earnings on importing fuel. Additionally, in 2020, the contribution from new renewable energy for electricity generation was only 9.7%. Therefore, a long-term vision to transition to at least 70% of energy generation to renewable energy by 2030 was introduced by the government.
- Adhering to this target set by the government and encouraging potential investment in biomass, solar PV, wind and other renewable energy sources will generate an estimated total capacity addition of 2,060MW and 7,239MW by 2025 and 2030 respectively. Therefore, propelling SDG 7.2 forward can foster economic growth by achieving higher levels of economic productivity (SDG 8.2) and sustainable industrialization (SDG 9.2), while also encouraging responsible consumption and production practices (SDG 12.4)
- The renewable energy sector is expected to grow, with grid-connected wind power generation and grid-connected solar power generation having a compound annual growth rate of over 25% for a time-frame of 5-10 years. Therefore, by utilizing this growing market, other industries will be able to reduce their environmental footprint.
- Potential investment in this area should, however, ensure that the transition to renewable energy is accessible to all in the society, and therefore an inclusive approach is needed that will be able to circumvent any trade-offs, such as the exploitation of natural resources, e.g. water (SDG 6.3).

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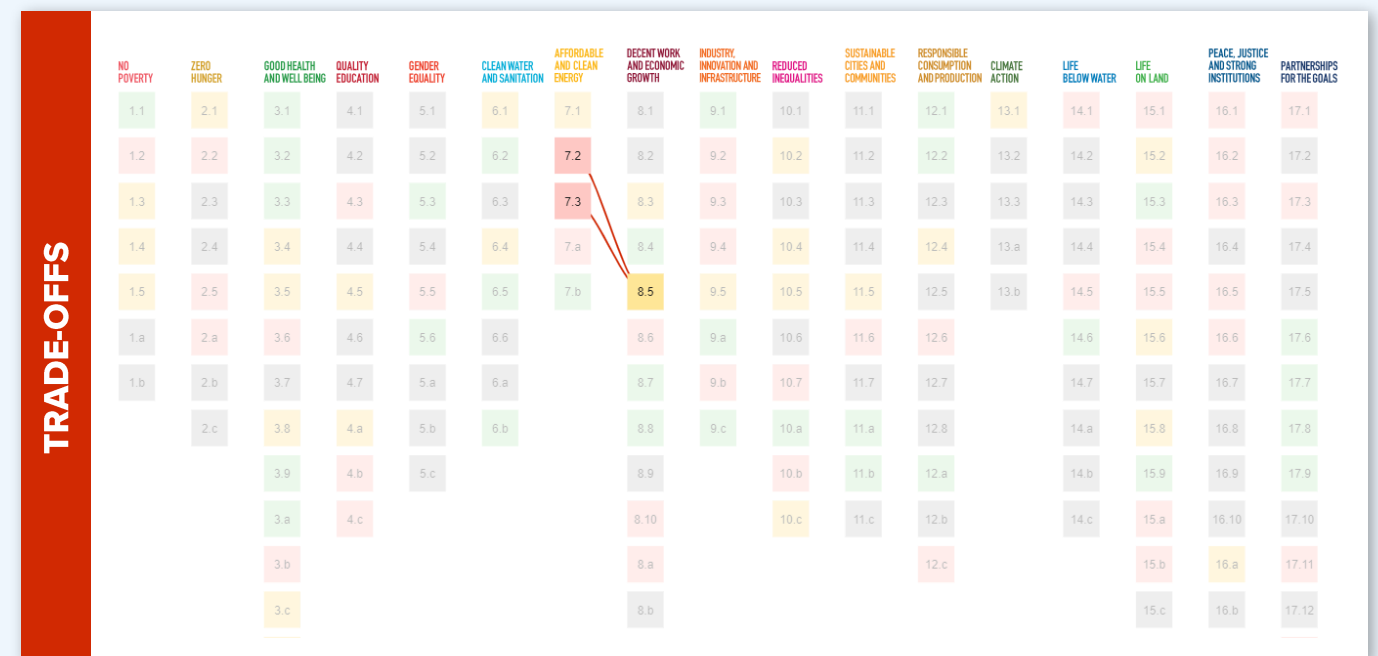
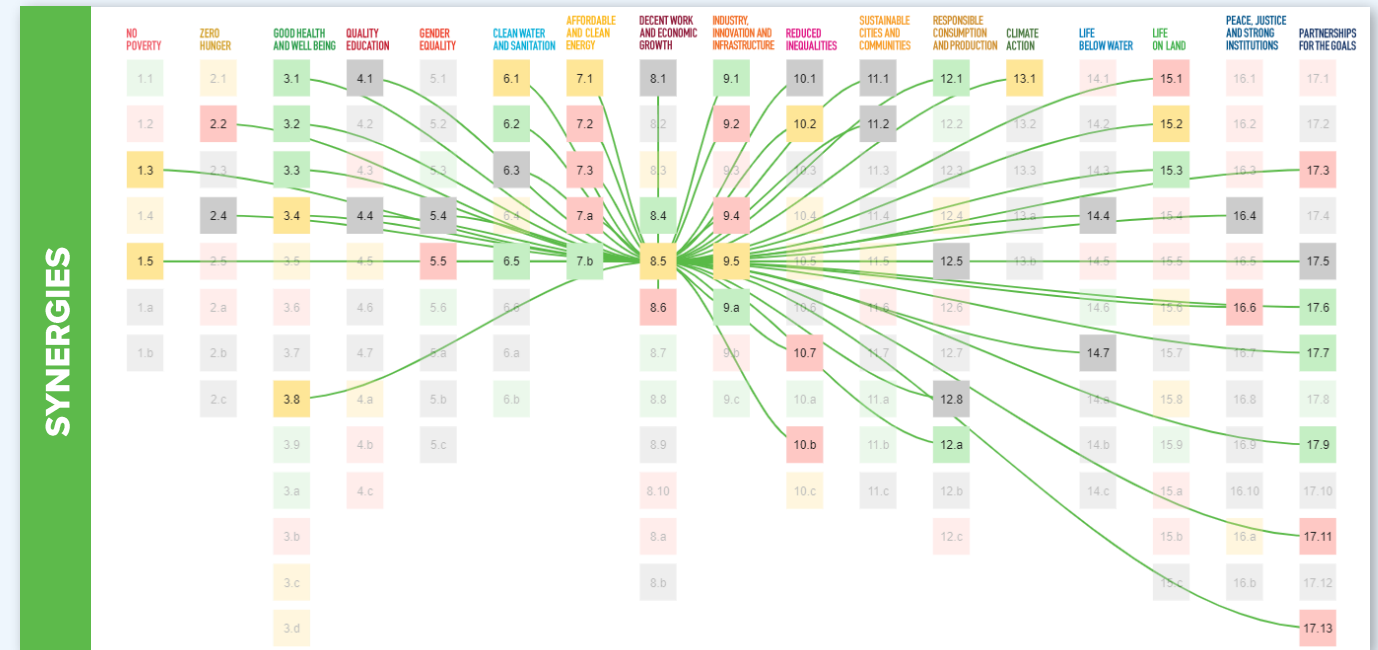
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SDG INTERLINKAGES

8.5: Achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value

- By 2021, Sri Lanka's labor force participation was 71% for males and only 31.8% for females showing there is space for progress. Furthermore, Sri Lanka has a very high level of informal sector employment (58.4% as per the most recent data). The unprecedented economic crisis of 2022 increased economic hardships for many who were already reeling from the COVID-19 pandemic. It resulted in growing youth unemployment and in a brain drain. Additionally, informal sector participants are also not adequately covered by social protection systems.
- Increasing investments to accelerate SDG target 8.5 will aid Sri Lanka in achieving decent work and productivity, which will have a multiplier effect on the development of other SDG targets, such as target 4.1 (Improving education), target 4.4 (Vocational training for decent work), and 9.5 (Upgrading technological capabilities).
- This will reduce poverty and ensure women's full and effective participation is recorded and rewarded with equal pay (latest data shows female participation in the informal sector is 49.7%).
- However, achieving full employment should not compromise on increasing renewable energy (SDG 7.2) and energy efficiency (SDG 7.3) which are potential trade-offs that need to be managed.

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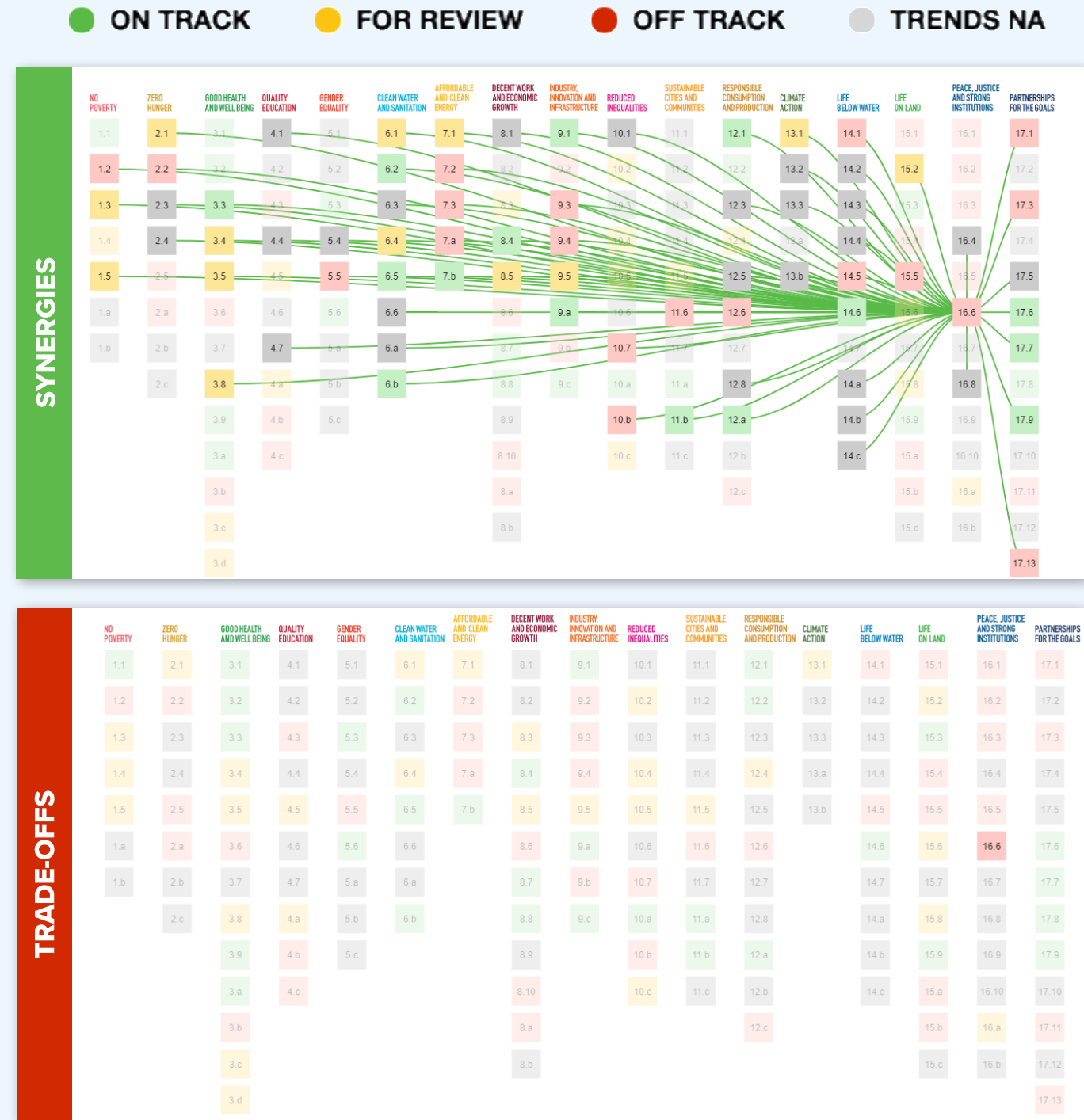
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SDG INTERLINKAGES

16.6: Develop effective, accountable and transparent institutions at all levels

- The Government of Sri Lanka views corruption as a macroeconomic concern. Therefore, Sri Lanka aims to combat corruption and improve governance by implementing measures to strengthen the anti-corruption framework, enhance state-owned enterprise governance and to leverage e-government platforms for revenue collection and expenditure management.
- In line with the IMF recommendations, the following legislation is in place:
 - As the country recognizes the need for a durable institutional framework, supporting flexible inflation targeting and greater exchange rate flexibility. To achieve this, by strengthening the autonomy of the Central Bank, a new Central Bank Act has been passed by the parliament and will soon be implemented.
 - To enhance fiscal transparency and governance, strengthen anti-corruption measures and conduct thorough governance assessments, an Anti- Corruption Bill was passed in Parliament.
 - In addition, the Public Financial Management (PFM) department collaborates with other government institutions to improve the management of public resources, fostering growth, development and poverty reduction. To address existing gaps and loopholes, a new PFM law will be introduced, ensuring legal clarity in the budget formulation process and establishing requirements for information and accountability.

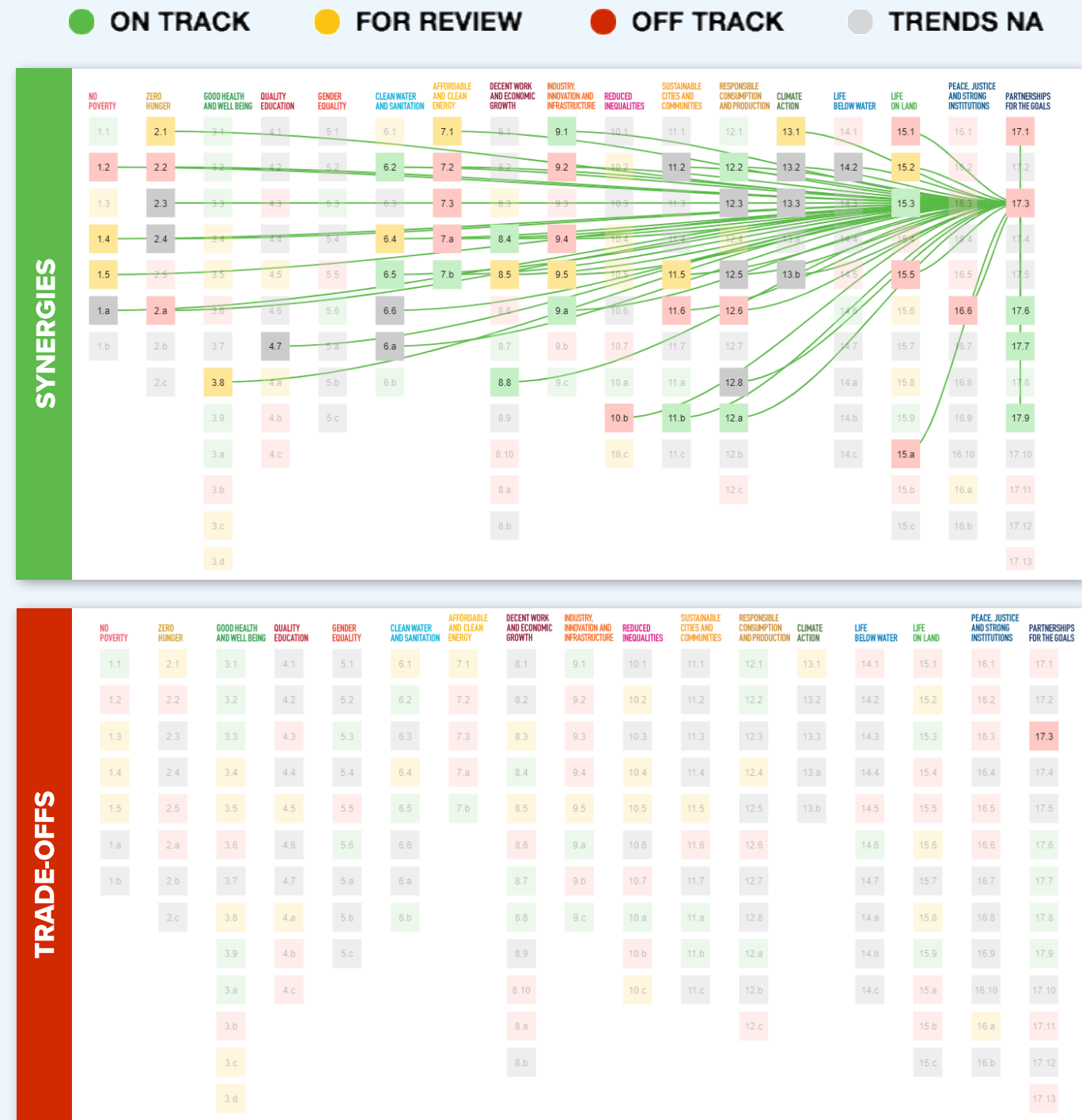


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SDG INTERLINKAGES

17.3: Mobilize additional financial resources for developing countries from multiple sources.

- In terms of foreign direct investment (FDI), Sri Lanka has implemented investor-friendly policies to attract external capital. The Board of Investment (BOI) is key in promoting FDI in manufacturing, tourism and infrastructure. Special economic zones and incentives are also in place to attract multinational corporations. BOI aims for US\$1.5 billion FDIs in 2023, with \$211 million achieved in the first quarter and \$3 billion FDI inflows by 2026.
- Sri Lanka's remittances from migrant workers have bounced back after a slump in 2021-2022, providing crucial support to its vulnerable external sector. In June, the country received \$475.7 million, a slight dip from April's \$479.7 million, but substantially higher than the \$274.3 million received a year ago during a period of acute foreign exchange challenges. These inflows play a key role in stabilizing Sri Lanka's external finances.
- The government has also made several efforts to establish a conducive ecosystem for innovative/ sustainable financing to meet Sri Lanka's SDG targets while achieving debt sustainability. Noteworthy measures comprise a sustainable financing road map, green taxonomy, green bond framework and new instruments, such as Debt-for-Nature swaps. Furthermore, the 2023 National Budget introduces a 'Marine Spatial plan' to attract sustainable investments and uphold nature conservation targets aligned with SDG commitments.
- Sri Lanka actively nurtures South-South cooperation, engaging with both bilateral counterparts like China, India and Thailand and with multilateral alliances, including the Association of Southeast Asian Nations, the BRICS, the Regional Comprehensive Economic Partnership and the South Asian Association for Regional Cooperation.
- However, Sri Lanka has not made a specific calculation of the SDG financing requirements. An estimate made in 2019 indicated that achieving the SDGs by 2030 would necessitate an annual investment equivalent to 9% of GDP. Considering this estimate was from 2019, it is likely that the funding gap has widened due to the challenges faced.
- Sri Lanka's active engagement in international cooperation, as outlined in SDG target 17.3, has far-reaching synergies across most of the SDGs. Notably, this contributes to the promotion of affordable and clean energy (SDG 7) and climate action (SDG 13) the most, among other goals. It reflects a holistic approach to sustainable development.



Explore the interlinkages at:

<https://data.undp.org/sdg-push-diagnostic/LKA/synergies-and-tradeoffs>

FISCAL AND FINANCIAL CONSTRAINTS

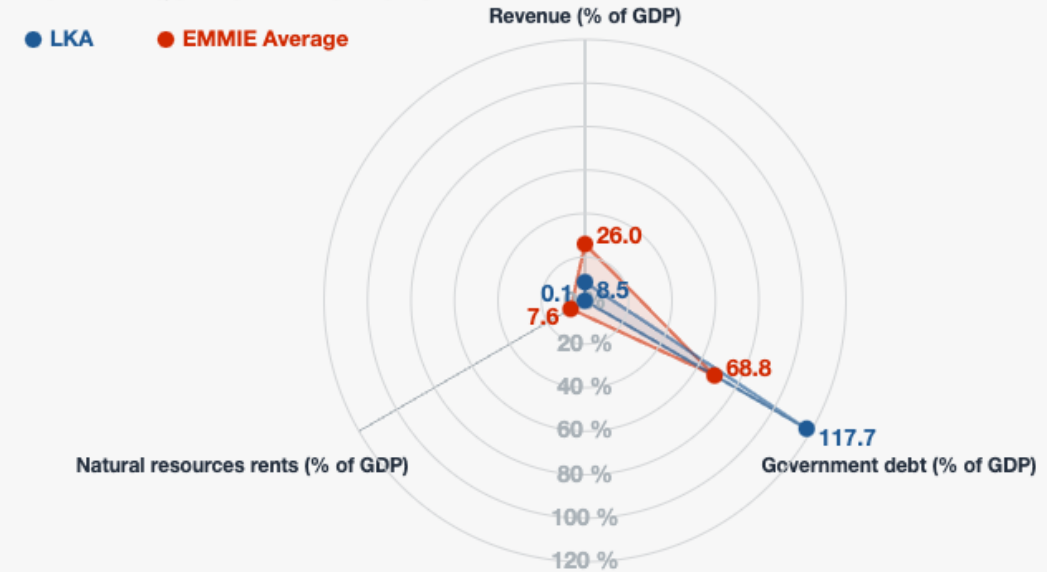
The radar diagram shows low frequency data points linked to government revenue, debt and natural resources rents as a proportion of GDP. The financial indicator graphs show external debt servicing relative to revenue and the country's sovereign credit rating and 10-year bond yield.

Sri Lanka's gross government debt, projected at 117.7% of GDP in 2023, is more than 1.8 times the emerging market and middle-income economies (EMMIE) average of 68.8%. The country has been managing an acute economic downturn since 2019, which also sparked a political crisis in 2022. In April 2022, Sri Lanka suspended repayments on its debt, and subsequently approached the IMF for support via the EFF. The 17th IMF programme includes an ambitious set of fiscal reforms which the government is currently implementing. However, revenue targets to collect 8.5% of GDP in revenue this year are yet to be reached.

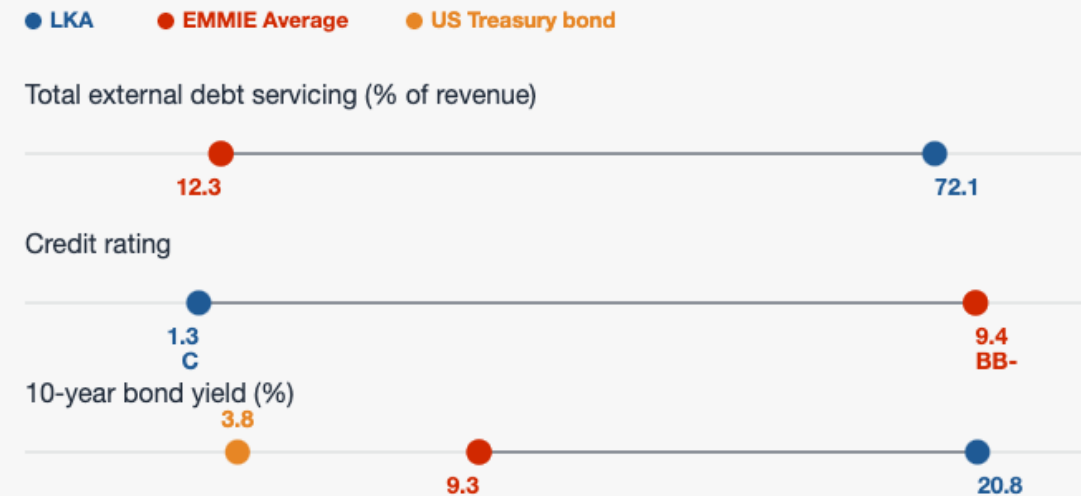
Sri Lanka's external debt servicing this year is expected to be as high as 72.1% of revenue, which is nearly six times the EMMIE group's 12.3%. The country's credit rating is in the 'selective default' category and hence significantly below the EMMIE average of 'non-investment grade speculative'. The country's 10-year bond yield is trading at 20.8% – 11.5 percentage points (pp) above the EMMIE average of 9.3%, thus suggesting lower investor confidence than in comparable economies – and 17 pp above a 10-Year US Treasury bond.

Due to the combined impact of low government revenue, high debt servicing costs and constraints to access commercial capital, investments in the SDGs are likely to remain a challenge.

LOW-FREQUENCY INDICATORS



FINANCIAL INDICATORS



Notes: External debt covers public and publicly guaranteed debt. The EMMIE average of 10-year bond yield (%) only includes 30 countries which reported data for that indicator. The credit rating shows the numerical average of S&P's, Moody's, and FITCH's ratings, expressed in S&P's scale in brackets.

Sources: WDI (natural resources rents, data from 2021), IMF WEO April 2023 (debt and revenue, data from 2022), debtjustice.org (external debt, data from 2023), worldgovernmentbonds.com and Haver Analytics (yields as of 8 June 2023), S&P, Moody's and FITCH (credit ratings, data from 2023).

SDG STIMULUS

Countries are facing a reduced fiscal space and high debt levels, rising interest rates and increasing exposure to climate-related shocks. The acceleration pathways here identified need the appropriate means of implementation to move from aspiration to reality. The [SG's SDG Stimulus plan](#) lays out a blueprint to provide the means to implement them through four key actions:

- Provide liquidity to support recovery in the near term
- Enhance debt relief for vulnerable countries
- Better leverage lending
- Align financial flows with the SDGs and the Paris Agreement, according to country-level priorities and needs, for example through the roll-out of the UN Integrated National Financing Framework

The Government of Sri Lanka has implemented measures to adopt alternative financing mechanisms, including strong institutional and legal frameworks, governance systems, monitoring and evaluation mechanisms and technical expertise to ensure transparency, accountability, effectiveness and efficiency. In addition, revenue-based fiscal consolidation is a key component of the IMF EFF reform programme, which also offers additional recommendations to create a conducive environment for potential financing options. Consequently, Sri Lanka has identified the following possible financing options highlighted in the SDG Stimulus Plan for investments derived from the identified interlinkages to bring together national priorities on financing for development and SDGs:

- Tax and revenue reform
- Debt for SDGs through instruments such as debt swaps and thematic bonds
- Climate finance
- Blended and public-private finance
- SDG-aligned business environment and investment
- Accessing financial markets and insurance

