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Impacts of COVID-19 and the Economic Crisis in Sri Lanka

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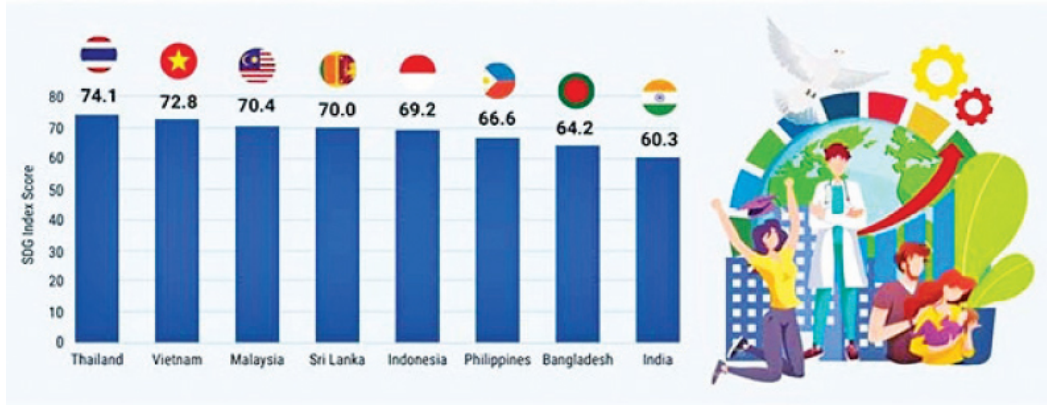
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Sustainable Development Goals Index for Selected Countries, 2022



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Since adopting the 2030 Agenda for Sustainable Development in 2015, successive Sri Lankan governments have taken measures to achieve the 17 Sustainable Development Goals (SDGs) and 169 targets.

Before COVID-19 struck, Sri Lanka recorded progress across several SDG targets, most notably: ending poverty and hunger (SDGs 1 and 2); improving access to health and education (SDGs 3 and 4); promoting gender equality and decent work, and reducing inequalities (SDGs 5, 8 and 10). The pandemic, however, reversed these advances, particularly on the SDGs related to poverty, inequality, and decent work. Similarly, the economic crisis is likely to adversely affect the SDG progress and pose several new challenges to their achievement by 2030.

Against this backdrop, this Policy Insight discusses the impacts of the pandemic and the implications of the current financial crisis on SDGs in Sri Lanka, paying special attention to the SDGs related to poverty and inequality.

Impacts of COVID-19 and the Economic Crisis

The COVID-19 pandemic has impacted many of the 17 SDGs, with some goals including SDG 1 on poverty backsliding the progress made over the past decade. As with other countries, Sri Lanka also reported notable adverse effects of the pandemic on the lives and livelihoods of its population, especially the poor and the vulnerable. While the pandemic has impacted many SDGs, and all three dimensions of sustainable development – economic, social, and environmental – the adverse effects on some SDGs, especially those related to poverty, food security, health, education and employment are more prominent.

Despite the setbacks during the pandemic (2020-2021), Sri Lanka has improved its overall SDG performance since 2016, as indicated by the SDG Index. As per the Sustainable Development Report 2022, Sri Lanka, with an SDG Index of 70, is ranked 76 among 163 countries. This is close to the overall SDG performance of Malaysia (SDG Index of 70.4) and ahead of countries like the Philippines, India, Bangladesh and Indonesia.

Moreover, the SDG Index for Sri Lanka is only slightly lower than the average for upper-middle countries (71.5%) and considerably higher than the average for lower-middle-income countries (61.8%), as well as the East and South Asian average (65.9%).

However, the progress of individual SDGs indicates major challenges to achieving several SDGs, including SDG 2 (zero hunger), SDG 3 (health), SDG 6 (water and sanitation), SDG 7 (energy) and SDG 9 (industry, innovation, and infrastructure), despite their moderate performance.

Furthermore, SDG 8 on decent work and SDG 5 on gender equity and SDGs 15-17 have been stagnant in their progress, indicating significant challenges to achieve them by 2030. Only a few SDGs, such as those on education (SDG 4) and climate change (SDG 13), are shown to be still on track to achieve the goals on time. Nevertheless, Sri Lanka's economic crisis will adversely affect the SDG progress and pose several new challenges to their achievement by 2030.

A combination of many factors caused the economic crisis, including the lack of foreign reserves, disruptions to the tourism industry starting from the Easter Sunday attacks in 2019 and the pandemic in 2020, tax cuts that resulted in a significant decline in government revenue and rising crude oil prices partly related to the Russia-Ukraine War and associated sanctions.

While the economic crisis has affected the country's entire population in some way or another, the poor and the 'near poor' are the most hit by the crisis. With high inflation, shortage of food and other essentials, and loss of livelihoods, the economic crisis is likely to reverse progress on the SDGs.

A World Bank study estimates that 500,000 people have fallen into poverty due to the pandemic. This has led to an increase in the USD 3.20 poverty rate from 9.2% in 2019 to 11.7% in 2020, implying a reversal in progress made towards poverty reduction in Sri Lanka since 2016. The study further finds that the extreme poverty level nearly doubled in 2020 from its 2019 levels (from 0.7% to 1.2%), and the poverty gap too has increased, indicating that the poor have become even poorer due to the pandemic. The study stresses the impact on employment such as job losses and a fall in earnings as the main contributory factors to the increased poverty rates.

Further, the World Bank's Macro Poverty Outlook for Sri Lanka (2022) estimates poverty levels to have fallen slightly in 2021 from their 2020 level, but the forecast remains above the 2019 level for the next few years. However, the current economic crisis, especially soaring prices of food, fuel and other essential goods, along with adverse impacts on the livelihoods of many workers – particularly, the informal sector workers – means the risks of higher poverty are high. The poverty level can be expected to rise further in 2022, reversing the much-achieved progress in poverty reduction seen over the years.

Financing SDGs is Key Challenge

Financing SDGs has become the biggest challenge for Sri Lanka. On the domestic front, government expenses increased with the pandemic while revenues plummeted, primarily due to tax cuts introduced in 2019. On the external front, foreign income earnings from remittances and tourism dropped. Economic shocks such as the Russia-Ukraine crisis continue to disrupt the global economy, worsening the global macroeconomic climate.

Other inflows, such as FDI into the country, have also reduced post-COVID-19 as the economic uncertainties have mounted. Financing has become even tighter following Sri Lanka's inability to access international bond markets after the selective default of foreign debt payments in April 2022. All these issues have widened the financing gap to achieve SDGs.

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