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IPS Policy Insights

## Sri Lanka and SDGs: Impact of Covid-19 and the economic crisis

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Source: Sustainable Development Report 2022: From crisis to sustainable development - the SDG as Roadmap to 2030 and beyond, (2022)

- \* Covid-19 reversed Sri Lanka's progress across several SDGs, particularly on 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.
- \* Financing SDGs has become the biggest challenge for Sri Lanka, becoming even tighter following Sri Lanka's inability to access international bond markets after the sovereign default in April 2022.
- \* Given the enormous challenges to achieving the SDGs, those related to poverty and inequality; food security; economic growth and decent work; health and education; and energy must be prioritised.
- \* Resource mobilisation to secure traditional and non-traditional SDG financing, including attracting private investments to SDGs, is vital.

Since adopting the 2030 Agenda for Sustainable Development in 2015, successive 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.

### Adverse effects

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 such as the Philippines, India, Bangladesh and Indonesia (see Figure 1). 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%), and 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.

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 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.

### **Poverty and inequality**

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.

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, reversing the much-achieved progress in poverty reduction seen over the years.

### **Financing SDGs**

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.

### **Policy implications**

Given the complexity of SDGs and the enormous challenges to achieving them, it is desirable to prioritise the targets that are deemed most important. Prioritisation must be based on the country's development needs and trade-offs between the targets. Given the enormous financial constraints and adverse implications of the economic crisis, it would be essential to prioritise SDGs related to poverty and inequality (SDG 1 and 10), food security (SDG 2), economic growth and decent work (SDG 8), health (SDG 3) education (SDG 3) and energy (SDG7). While various goal-specific measures are required to accelerate the progress of SDGs, some key steps are:

### **Securing finance**

Sri Lanka needs to prioritise resource mobilisation for traditional and non-traditional SDG financing.

Traditional SDG Financing: Domestic resource mobilisation is essential if Sri Lanka is to progress on SDGs. Generally, traditional SDG financing includes government financing and ODA from foreign governments. In Sri Lanka's case, ODA has also been on a declining trend as it moved up the income ladder, while foreign aid now rightly focuses on covering the essential needs of the people first (e.g. food security, social protection, healthcare, power/fuel). In the medium term, however, there needs to be more emphasis on financing other SDGs, especially those related to education,

employment, industry, innovation, and infrastructure. Attracting private investment to SDGs, too, will be vital.

**Non-traditional SDG Financing:** The Roadmap for Sustainable Finance in Sri Lanka, developed by the Central Bank of Sri Lanka (CBSL), highlights some non-traditional instruments in SDG financing. These include green bonds specific to development projects based on environmental protection and climate change. Capital markets have recently become a driving force towards a sustainable future. Sri Lankan companies can explore the Environmental, Social and Governance (ESG) bonds market. However, green bonds and ESG financing focus on the environment. Sri Lanka needs to expand spending on critical areas such as poverty alleviation (SDG 1), food security (SDG 2) and healthcare (SDG 3). Strengthening multilateral and bilateral partnerships would be crucial, particularly given the lack of fiscal space.

### Strengthening partnerships

Multi-stakeholder engagement – including government agencies, the private sector, and civil society organisations – is key to achieving SDGs and ensuring an inclusive process. Moreover, enhancing regional and global partnerships to mobilise and share knowledge, expertise, technology, and financial resources is crucial to supporting the achievement of SDGs.

South-South cooperation is also an avenue that needs to be further explored by Sri Lanka. Regional cooperation can help accelerate the progress of several SDGs, in particular, SDGs related to food security (SDG 2), health (SDG 3), energy (SDG 7), decent work (SDG 8) and climate action (SDG 13).

### Addressing data deficits

While Sri Lanka has made much progress in terms of liaising with the relevant agencies to compile the required data, the lack of more up-to-date data at regular intervals (e.g. annual basis) and lack of disaggregated data (by gender, location and age) for many SDGs is a significant drawback for monitoring. Given these data gaps, improving the availability of high-quality, timely, reliable, and appropriately disaggregated data for SDGs is important.

This needs enhancing the capacity of relevant agencies as well as strengthening partnerships among various stakeholders. There is also some scope for enhancing regional cooperation to improve statistical capacity in Sri Lanka and share knowledge and experience among these countries.

This Policy Insight is based on the comprehensive chapter “Crises and Recovery: Meeting the 2030 Agenda on SDGs” in the ‘Sri Lanka: State of the Economy 2022’ report – the annual flagship publication of the Institute of Policy Studies of Sri Lanka (IPS).

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