

Public Investment for Closing the SDG Financing Gap: Sri Lankan Perspective

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Sri Lanka, like many nations, grapples with the challenge of bridging the gap between aspirations and resources to achieve the United Nations' 2030 Agenda for Sustainable Development. A new study conducted by the Institute of Policy Studies of Sri Lanka (IPS) delves into this issue, highlighting the pivotal role of public investment in driving progress toward Sustainable Development Goals (SDGs) while emphasising the urgent need for financial strategies.

The study titled '**Public Investment for Closing the SDG Financing Gap: Sri Lankan Perspective**' by IPS Research Fellow Dr Lakmini Fernando sheds light on the significant role of public investment in not only supporting the development process but also encouraging private investment. Given the dearth of systemic research on this nexus, the study highlights the importance of assessing the investment gap in SDG financing to enhance governments' financial readiness. The study emphasises that a comprehensive fiscal needs assessment for SDGs is crucial for effective planning and budgeting at the country level. This report aims to contribute significantly to the existing literature on SDG-related research. The key findings of the study are highlighted below.

Key Findings:

- The Investment Gap:** To achieve key SDGs, emerging market economies (EMEs) need to allocate an additional 4% of their gross domestic product (GDP), while low-income countries (LICs) require a significant 15%. In Sri Lanka, the estimated additional investment requirement for SDGs by 2030 is approximately USD 1.4 trillion (Tn) or 12.5% of GDP, emphasising the critical need for securing additional funds. On average, Sri Lanka's public investment is around 5-7% of GDP over the last decade, hence, the allocation of additional funds for SDGs is challenging.
- Imbalanced Investment:** Sri Lanka's public investment allocation has been skewed toward infrastructure development, leading to disparities in sectors like education and technology/information communication technology (ICT). These imbalances pose challenges to meeting the development goals set by the 2030 Agenda.
- The Role of the Public Sector:** Bridging the investment gap cannot rely solely on the public sector; private sector participation is essential. Policymakers play a crucial role in creating a conducive investment climate, emphasising the need for macroeconomic stability, transparency, accountability and enhanced institutional quality.
- Innovative Financing:** The study highlights the significance of both traditional and non-traditional financing methods for SDG progress. Tax reforms, blended finance for SDG infrastructure, international tax reforms, and other strategies are discussed as potential means to mobilise financial resources for the SDGs.

Recommendations:


The study suggests several key recommendations to ensure the successful achievement of the 2030 Agenda in Sri Lanka:


- Foresight Planning:** Utilise the SDG framework as a tool to review and adjust sectoral investments, fostering a balanced approach.
- Long-Term Targets:** Extend short- and medium-term targets to long-term goals, aligning national objectives with the SDGs.
- Domestic Resource Mobilisation:** Strengthen domestic revenue collection to enhance financial readiness for SDG implementation.
- Innovative Financing:** Explore various innovative financing options and promote international cooperation in funding SDG initiatives.
- Public-Private Partnership:** Foster an enabling business environment through macroeconomic management, governance improvements, and the selection of productive projects.


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