LOCALISING THE TRANSFORMATION IN THE NEW NORMAL

A Domestic Resource Mobilisation Framework for Sustainable Development Goals in Sri Lanka

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Abbreviations

2030 Agenda	2030 Agenda for Sustainable Development
ADB	Asian Development Bank
AFD	Addis Ababa Action Agenda on Financing for Development
APTA	Asia Pacific Trade Agreement
ARFs	Agency Results Frameworks
ASEAN	Association of Southeast Asian Nations
BAU	Business as usual
BFP	Biodiversity Finance Plan
BG	Block Grant
BIT	Bilateral Investment Promotion and protection treaties
BMICH	Bandaranaike Memorial International Conference Hall
Bn	Billion
BOI	Board of Investment
BOP	Balance of Payments
BPO	Business Process Outsourcing
BTT	Business Turn over Tax
CBA	Cost-Benefit Analysis
CBG	Criteria Based Grant
CBO	Community Based Organizations
CBSL	Central Bank of Sri Lanka
CCC	Ceylon Chambers of Commerce
CCS	Climate Change Secretariat
CEA	Central Environmental Authority
CEB	Ceylon Electricity Board
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CIM	Chartered Institute of Marketing
CITES	The Convention on International Trade in Endangered Species of Wild Fauna and Flora
CKD	Chronic Kidney Disease
COVID-19	Coronavirus Disease 2019
CPCU	Central Projects Coordination Unit
CPI	Corruption Perceptions Index
CRC	Convention on the Rights of the Child
CRIP	Climate Resilience Improvement Project
CRIWMP	Climate Resilient Integrated Water Management Project
CSE	Colombo Stock Exchange
CSO	Civil Society Organizations
CSR	Corporate Social Responsibility
DANIDA	Danish International Development Agency
DCB	Decentralized Capital Budget Programme
DCC	District Coordinating Committee
DVCC	Divisional Coordinating Committee
DCS	Department of Census and Statistics
DFC	Department of Forest Conservation
DFI	Development Finance Institutions
DLI	Disbursement-linked Indicators
DMC	Disaster Management Centre

DOM	Department of Meteorology
DRMF	Domestic Resource Mobilization Framework
DRR	Disaster Risk Reduction
DWC	Department of Wildlife Conservation
E & S	Environmental and Social
ECBA	Extended Cost-Benefit Analysis
ECI	Economic Complexity Index
Eco-DRR	Ecosystem-Based Disaster Risk Reduction
EE	Environmental Economics
EEA	Environmental Economic Accounting
EIA	Environmental Impact Assessment
EPAs	Environmental Protection Areas
EPSP	Economic Performance and Social Progress
ESG	Environmental, Social and Governance
ETCA	Economic and Technology Co-operation Agreement
FAO	Food and Agriculture Organization
FC	Finance Commission
FDI	Foreign Direct Investment
FHB	Family Health Bureau
FM	Financial Management
FPI	Foreign Portfolio Investment
GBV	Gender Based Violence
GDI	Gender Development Index
GDP	Gross Domestic Product
GEF	Global Environment Facility
GEMs	Global Environmental Markets
GGP	Global Gender Gap
GHG	Green House Gases
GNH	Gross National Happiness
GNI	Gross National Income
GNP	Gross National Product
GoSL	Government of Sri Lanka
GPF	Government policy framework
GSP	Generalized System of preferences
HDI	Human Development Index
HDR	Human Development Report
HIES	Household Income and Expenditure Survey
HLPF	United Nations High Level Political Forum
IBSL	Insurance Board of Sri Lanka
ICC	International Chamber of Commerce
IDA	International Development Agencies
IFC	International Finance Corporation
IMER	Independent Monitoring, Evaluation and Review Mechanism
IMF	International Monetary Fund
INGO	International Non-Governmental Organisations
ISB	International Sovereign Bonds
ISFTA	Indo – Sri Lanka Free Trade Agreement
IUCN	International Union for Conservation of Nature
JICA	Japan International Cooperation Agency
LCLTGEP	Least Cost Long-Term Generation Expansion Plan
LFS	Labour Force Survey

LG	Local Government
LGA	Local Government Associations
LVPP	Lakvijaya Power Plant
MC	Municipal Council
MDB	Multilateral Development Banks
MDGs	Millennium Development Goals
MEA	Millennium Ecosystem Assessment
MEFR	Monitoring, Evaluation, Follow-up and Review
MENR	Ministry of Environmental Protection and Natural Resource
MEPA	Marine Environment Protection Authority
MFAD	Ministry of Foreign Affairs of Denmark
MFI	Microfinance Institutions
MLBs	Multilateral Banks
MMDA	Muslim Marriage and Divorce Act
Mn	Million
MNE	Multinational Enterprises
MOI	Means of Implementation
MPPA	Marine Pollution Prevention Act
MSME	Micro, Small and Medium Enterprises
MTEF	Medium-Term Expenditure Frameworks
NAP	National Agricultural Policy
NAP	National Adaptation Plans
NARA	National Aquatic Resources Research & Development Agency
NBFI	Non-Bank Financial Institutions
NBSAP	National Biodiversity Strategic Action Plan
NBT	Nation Building Tax
NCA	Natural Capital Accounting
NCD	Non-Communicable Disease
NCM	National Calculation Methodology
NDC	Nationally Determined Contributions
NEA	National Environmental Act
NGO	Non-Governmental Organizations
NNP	National Nutrition Policy of Sri Lanka
NPM	New Public Management
NPSCP	National Policy on Sustainable Consumption & Production
NSSWM	National Strategy for Solid Waste Management
NWS & DB	National Water Supply and Drainage Board
NYP	National Youth Policy
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OSF	Other State Forests
Pas	Protected Areas
PCs	Provincial Councils
PCSD	Policy Coherence for Sustainable Development
PDNA	Post Disaster Needs Assessment
PDVA	The Prevention of Domestic Violence Act
PHCR	Poverty headcount Ratio
GHI	Global Hunger Index
PPP	Public Private Partnerships
PR	Policy Regulations/ Policy Regulatory/ Policy Reform
PS	Pradeshiya Saba

PSC	Project Steering Committee
PSDG	Province Specific Development Grant
PSFTA	Pakistan – Sri Lanka Free Trade Agreement
PSOD	Private Sector Operations Department
PTA	Preferential Trading Area
R&D	Research and Development
RBM	Results-based Management
RDA	Road Development Authority
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SCP	Sustainable Consumption and Production
SD	Sustainable Development
SDA	Sustainable Development Act
SDC	Sustainable Development Council
SDGs	Sustainable Development Goals
SDSN	Sustainable Development Solutions Network
SEC	Securities and Exchange Commission of Sri Lanka
SLPI	Sri Lanka Prosperity Index
SLSFTA	Sri Lanka - Singapore Free Trade Agreement
SME	Small and Medium- sized enterprises
SNA	System of National Accounts
SOE	State Owned Enterprises
TPAs	Terrestrial Protected Areas
UC	Urban Council
UHC	Universal Health Coverage
UN	United Nations
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNFCCC	United Nations Framework Convention on Climate Change
UNHABITAT	United Nations Human Settlement Programme
UNHRC	United Nations Human Rights Council
UNMD	United Nations Millennium Declaration
UNRISD	United Nations Research Institute for Social Development
UNSNA	United Nations System of National Accounts
UNSSE	United Nations Sustainable Stock Exchanges
US$	United States Dollar
VAT	Value Added Taxes
VNR	Voluntary National Review
VPR	Voluntary Peoples Review
VPS	Vistas of Prosperity and Splendour
VSL	Value of Statistical Life
VSSO	Voluntary Social Service Organizations
WB	World Bank
WHO	World Health Organization
WTP	Willingness-To-Pay

CHAPTER 01:

THE POLICY CONTEXT

An Analysis of the Performance and Progress of Implementing the SDGs in Sri Lanka

1.1. Introduction

The formulation of a Domestic Resource Mobilization Framework (DRMF) demanded an analysis of the performance and progress of implementing the Sustainable Development Goals (SDGs) in Sri Lanka. The analysis, however, had to be conducted in the absence of a robust national monitoring, evaluation, follow-up and review (MEFR) mechanism as well as sufficient official data and statistics. Therefore, an independent research, using multiples sources of information was conducted for a systematic and in-depth analysis of the context in which the SDGs were being implemented in the country.

All member states including Sri Lanka, as part of the official commitment to the 2030 Agenda for Sustainable Development (2030 Agenda), have agreed to fully engage in conducting regular and inclusive reviews of progress at the national level. This would mean that the government has to collect, monitor, analyse and review disaggregated data based on the indicators for all SDGs on a regular basis. This ideally should be through a whole of government and multi-stakeholder engagement process. As an international reporting requirement to the United Nations High Level Political Forum (HLPF), the Government of Sri Lanka (GoSL) presented a Voluntary National Review (VNR) in 2018. In the absence of a fair space for engagement, a Voluntary Peoples Review (VPR) in 2018 was also prepared by an independent stakeholder platform that felt that the Sri Lanka VNR 2018 has fallen short of being a fair or inclusive evaluation of the performance and progress of implementing the SDGs. The official VNR had not adequately addressed the gaps in transformational action including integration, mainstreaming, policy coherence, localising, financing, monitoring and evaluation. While authorities continue to claim a lack of data, international assessments have managed to evaluate the country's performance using a wide range of data, statistics and information; the Sustainable Development Report 2019 has ranked Sri Lanka 93 out of 192 countries on its performance on the achievement of SDG targets towards a 2030 transformation.

This analysis is drawn from an independent monitoring, evaluation and review initiative that adopted a methodology to assess the performance and progress on the 169 SDG targets and its interlinkages. The analysis draws data and information from a wide range of options and included: (a) published official data and information (b) published independent stakeholder data and information (c) published news articles and reports (d) published international data and information (e) an online survey (f) consultations with experts drawn from stakeholders including central government institutions, provincial and local government institutions, civil society organisations, business sector organisations and chambers, banking and financial sector professionals, academics, researchers, and other domestic and international agencies. A group of researchers were engaged for a period of twelve months, spanning from September 2019 to August 2020; the team collected, streamlined, and analysed data and information towards drawing an integrated systems assessment of macro and micro dimensions of implementing the SDGs in Sri Lanka. The findings of this analysis then were also verified by selected thematic and sector experts to ensure best possible accuracy of the information and impartiality of the analysis.

The information and the analysis would advance the understanding of the context of implementing the SDGs. It could also help policy makers, administrators, development practitioners and all stakeholder across all national and subnational governance levels in Sri Lanka in their future action. Stakeholders must ensure that the commitment to the 2030 Agenda is upheld by the government. While the country may lack an integrated statistical system, all possible information and data needs to be pooled-in towards conducting independent monitoring, evaluation and review of the progress achieved so far. The appropriate approach would be for representatives from civil society, business, academia, media, as well as subnational and national government to congregate periodically to assess our status on sustainability and devise a collective strategy for prosperity.

1.2. Political Economy of Sri Lanka in the Context of the 2030 Agenda

The year 2015 saw Sri Lanka joining the rest of the world in committing to four global agreements that attempts to transform the world and advance sustainable development; Sendai Framework for Disaster Risk Reduction (March 2015), Addis Ababa Action Agenda on Financing for Development (July 2015), Transforming our world: the 2030 Agenda for Sustainable Development (September 2015), and Paris Agreement on Climate Change (December 2015). The seventh elected executive President who was sworn in November 2019 and the new Government elected in August 2020 have renewed Sri Lanka's commitment to achieve the 2030 Agenda for the Sustainable Development Goals.

The new global collective agreement, 'Transforming Our World: The 2030 Agenda for Sustainable Development', is a call for a recalibration of the development mindset towards implementing a set of universal and transformative goals and targets while leaving no one behind. The terms transformation, transformational and transformative are used across the 2030 Agenda but may require a clear definition and comprehensive understanding. Transformation requires addressing the root causes that generate and produce economic, social and environmental problems and inequities, not merely their symptoms. In the end, progress toward sustainable development should not be the summary of isolated and siloed interventions, but the outcome of systemic changes and holistic approaches based on a new normative framework of transformation. The report 'Policy Innovations for Transformative Change' by United Nations Research Institute for Social Development (UNRISD) says, it is necessary to identify pathways to transformative change that are desirable, in the sense that they are; (i) progressive, in a normative sense of social justice (ii) systemic, addressing various factors simultaneously and in an interrelated way, and (iii) long term, so it cannot be easily reversed in the short term. Transformation is about the processes of change needed in society and the economy to achieve greater equality, empowerment and sustainability.

The Government of Sri Lanka, in 2015, responded proactively to the 2030 Agenda as the first country in the Asia-Pacific Region to establish a cabinet Ministry for Sustainable Development. In 2016, the Ministry successfully negotiated with the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) to be elected as Chair of the Asia-Pacific Forum on Sustainable Development (APFSD) and Sri Lanka was in a unique leadership position to champion the transformation to sustainable development. This ministry established national and provincial 'Sustainable Development Engagement Platforms' and through a process of stakeholder consultations formulated key elements of a national SDG roadmap under the theme of 'Planning for an Inclusive Transformation'. It conducted an institutional coherence mapping to ascertain roles and responsibilities of all the line-ministries and 425 government institutions against the 169 targets to draw an integrated whole-of-government institutional architecture for implementing the SDGs. Further, a Parliamentary Select Committee on the United Nations 2030 Agenda for Sustainable Development was established in October 2016, thereafter a Presidential Expert Committee in 2017 formulated a draft Report titled 'Sustainable Sri Lanka 2030 Vision and Strategic Path', and finally a 'Blue Green' Budget 2018 was presented in 2017. However, all of the above appear to have been discontinued without any substantial replacement.

A separate Sustainable Development Act (SDA), initiated in 2015 was only passed in parliament in October 2017 delaying progress of action on many policy and institutional processes. The Act mandated the establishment of a Sustainable Development Council (SDC) to formulate and monitor progress of a Sustainable Development Policy and Strategy (SDPS) in line with the 2030 Agenda. The SDC was finally established in 2018; but two years later, as of 2020, the SDPS is still pending and keeping all other critical processes lagging behind. Despite the initial political commitment to the 2030 Agenda, the lack of vision, leadership, coordination, responsibility and accountability has derailed the initial momentum and drastically slowed the progress of the implementing SDGs. Although different state entities are attempting to implement the SDGs, these efforts are not guided by an integrated plan and remain institutionally fragmented. This is further exacerbated by the existent data gap, low technical capacity, and a lack of proper process of implementation that links the national and local level.

Sri Lanka has so far not been effective in the integration of the three dimensions of sustainable development, environment-social-economic, and in mainstreaming the SDGs across national policy frameworks. In the absence of a cohesive national SDG policy, strategy, roadmap, action plan, financing strategy, monitoring mechanism and an integrated institutional mechanism, different ministries and agencies in Sri Lanka have been left to making sporadic and fragmented initiatives to engage in the SDGs. For example, the fragmentation between climate change and sustainable development planning is explained by the 'State of the Economy 2018' report of the Institute of Policy Studies that states; "mainstreaming climate adaptation is too broad a subject to be handled effectively by a single line ministry or agency. Not only the government, but non-state actors such as the private sector, civil society organisations and development partners have a role to play in their respective domains to achieve the final goal of a resilient economy. Climate change is a national development challenge with cross-cutting impacts on several economic sectors. It spreads over all levels of governance – national provincial and local. The way to overcome this challenge is to mainstream climate change adaptation to build up a climate resilient economy."

The delegation of responsibilities of the SDGs to a separate new agency the SDC, without proper institutional integration across the public service and an accountability mechanism has led to monopolistic action and further fragmentation of the planning and implementing the 2030 agenda. Five years since adopting the 2030 Agenda, the bureaucracy is still struggling to mainstream the SDGs into the national policy frameworks and ensure policy coherence. For this, the government needs to take leadership and responsibility in establishing an integrated institutional structure. It should also establish a proper monitoring and reporting mechanism, localise and decentralize the implementation, and develop a financing architecture to attract both foreign and domestic financing. The inability of the public service to demonstrate a significant value of the SDGs towards the nation's prosperity has adversely impacted on potential contributions of all other stakeholders. As a result, the political importance of the 2030 Agenda has dwindled and SDGs are being limited to policy greenwashing, talk shows and linear projects without substantive commitment to the agreed transformation.

A whole of government approach to implementing the SGDs is seriously weakened by the low awareness and capacity at the provincial and local government level. The principle of subsidiarity is sparsely upheld and decentralization of the implementation of the SDGs towards 'leaving no one behind' has not been facilitated by the centralised bureaucracy of the country. While sub-national level authorities are not included in the national SDG planning, they are also denied of any significant implementation roles with limited budgetary allocations. Meanwhile, the private sector continues to approach SDGs as an extension of their CSR activities and the financial sectors are still in search of a business case to finance the transformation of economic activities. The space for civil society organisations to engage in the planning and implementation of SDGs has been shrinking and the struggle for resources hinders taking the 2030 agenda to the community level. In this context, it could be said that Sri Lanka's initial promise for political commitment to the SDGs seem to have dwindled and the interest appears to swing from time to time, mostly related to external opportunities such as conferencing, funding or international public relations.

As the country has not conducted an assessment on the domestic financing commitment to SDGs and not had a proper budget for consecutive years, the actual political commitment to the 2030 transformation agenda is hard to gauge. UNESCAP suggest that Sri Lanka needs an annual additional investment of 4.4% of the 2018 GDP through 2030 to provide a social protection floor (1.7%), poverty gap transfers (0.2%), quality education (1.6%) and climate-resilient infrastructure (0.8%). UNESCAP feels that relatively low level of tax revenue constrains Sri Lanka's domestic resource mobilization. Furthermore, UNESCAP believes that regional cooperation is an area with great potential that has not yet fully entered the SDG discourse in Sri Lanka. Regional cooperation in South Asia and the broader Indian Ocean economy can help Sri Lanka accelerate its SDG progress in several areas, including climate change, renewable energy transition and food security.

Unfortunately, Sri Lanka is faced with multiple challenges that will create barriers towards achieving the SDGs. The Easter Terrorist Attacks in 2019, a Presidential Election in 2019, a General Election in 2020, and the continuing COVID-19 Global Pandemic presents the nation with unfavourable propositions towards advancing the 2030 agenda. In the economic front of the country, a year after Sri Lanka was categorised into an upper middle-income country, the World Bank's 2020-2021 country classification by income level, reverted the status back to a lower middle-income country in June 2020. According to the World Bank, Sri Lanka's economy grew at an average of 5.3% during 2010–2019 and growth had slowed down in the last few years. Sri Lanka is seen to be vulnerable to uncertain global financial conditions as the repayment profile requires the country to access financial markets frequently. A high deficit and rising debt levels could further deteriorate debt dynamics and negatively impact market sentiments. According to the Central Bank of Sri Lanka (CBSL), the economy is fragile and the country's economic growth had fallen to 2.3% in 2019 from 3.3% achieved in 2018, with a total foreign debt risen to 55.9 billion dollars at the end of 2019. Sri Lanka's current debt-to-GDP ratio stands at 86.8%.

The World Bank expects a slowdown in economic activities in Sri Lanka, especially tourism, trade, transport, construction, and other SME businesses which will affect jobs and wage growth in the near future. Tourism and related service sectors have provided employment and income for large numbers of the poor and low-skilled workers from rural areas in recent years, contributing to poverty reduction. The WB further states that low female labour force participation and the low quality of private sector jobs, including high rates of informal employment, will remain persistent issues. While overall unemployment was relatively low at 4.4% in 2018, youth unemployment (15-24 years) recorded 21.4%. The decrease in remittances, due to changes in the composition of migrant workers from Sri Lanka, is also expected to lead to lower contributions to household income. As a result, the pace of poverty reduction is expected to slow down. The low resilience of the economy may adversely impact the progressing of SDG implementation in Sri Lanka.

The political economy context towards implementing the SDGs does not paint a favourable picture. Internal conflicts and social disharmony, even over decade since ending the Civil War, has contributed towards the drop in economic performance in Sri Lanka. The inability to achieve comprehensive reconciliation between the communities and tensions between different faiths and ethnicities, means the nation suffers with continuing socio-economic challenges. While the questioning of human rights conduct continues to follow the nation, it is more critical to inquire if governments in power had made all possible efforts towards post war peace building. The United Nations Human Rights Council (HRC) High Commissioner's report on promoting reconciliation, accountability, and human rights in Sri Lanka, by calling upon the member states to exercise universal jurisdiction claims that there is an absence of willingness by the government to tackle impunity and gross violations of human rights. This report suggests that key preconditions for transitional justice remain unfulfilled in Sri Lanka while assaults, death threats, surveillance and harassment of human rights defenders and victims of violations have also continued. However, it must be noted that transitional justice has not generated universal agreement; while proponents recommend the implementation of transitional justice policies assert that natural and fundamental justice require individuals be held accountable for the worst violations of universal human rights, opponents argues that digging up the past and identifying perpetrators could sharpen societal divisions or provoke backlash leading to renewed conflict. The government may or not accept transitional justice as a way forward, but building lasting peace through reconciliation measures should continue to become a priority as a transformative action for sustainable development. The case of ensuring peace and reconciliation may not be merely left to the Government. The ultimate achievement of positive peace in the post-war peace building process will be in the hands of the public guided by all stakeholders together with the government. Such an inclusive process has been largely absent in Sri Lanka and has led to dividing the nation on opinion and action, as opposed to bringing society together.

The constitution of Sri Lanka commits the state to promote the interest of children and youth, ensuring their full development, in order to protect them from exploitation and discrimination, while ensuring universal access to education. The Ministries covering subjects of Justice, Health, Education, Child Development, Women's Affairs and Social Welfare are the main state institutions that translate the legal commitments to tangible action. However, coordination between these ministries, and the various government entities is weak, slowing down reform and policy implementation. Although Sri Lanka had ratified the Convention on the Rights of the Child (CRC) on 12 July 1991, to date, it has not been directly incorporated into national law. Sri Lanka has, however, expressed its view that many of the provisions of the Convention on the Rights of the Child (CRC) are in line with many of the current rights espoused by the 1978 Sri Lankan Constitution. The national child protection policy was cabinet approved in October 2019, and needs to be launched and operationalized.

Sri Lanka had also ratified the UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in 1981, but some of its provisions are yet to be incorporated into national legislation. The key concerns in the concluding observations of CEDAW state the need to strengthen the implementation mechanisms including human resources and skills, strengthen the laws, policies and action plans concerning women in a women participated manner and improving efficiency of judicial procedures to address gender based violence (GBV), combat discriminatory gender stereotypes in education and mainstream gender into national education policies including the Education Sector Development Framework and Programmes. Gender equality is a cross cutting issue identified in the SDG framework and correlates and corresponds with many of the SDG targets and indicators and the elimination of discrimination and violence against women is vital for eradication of inequality.

Youth are seen largely missing out from the national decision-making processes. In 2014, Sri Lanka launched the National Youth Policy (NYP) that recognized nine key strategic areas for policy interventions in education, skills development and vocational training, civics and citizenship, professionalization of the youth work sector, health and wellbeing, social exclusion and discrimination, peace and reconciliation, arts, recreation, sports and leisure. The NYP has identified young women as a 'priority target group' and issues faced by the young women such as gender-based violence and sexual harassment, teenage pregnancies, sexual abuse and the prevalence of cultural and social barriers for female employment. The policy makes recommendations for vocational skills and employment but is not explicit of the recommendations for young girls and boys. It makes provision for creating spaces for youth to participate meaningfully at family, community and national levels but lacks a national action plan to achieve them. The lack of streamlining of all youth related policies and frameworks, may result in ad-hoc approaches, strategies and national programmes, that are not relating to and corresponding to issues and areas previously identified for priority action.

However, as of 2019, Sri Lanka has gained five positions, on the Human Development Index (HDI) to rank 71st, breaking into the category of High Human Development. According to the United Nations Development Programme (UNDP), the

HDI provides an alternative single-number measure, capturing progress across three basic dimensions of human development: health, education and living standards. Sri Lanka had a HDI of 0.780, a slight rise from the 2018 figure of 0.770 and a ranking of 76. While the report looks at data from the previous year, Sri Lanka reported a life expectancy at birth of 76.8 years in 2018, a slight increase from the previous year's 75.5 years. There have also been increases in education-related statistics, with the 13.9 expected years of schooling and 10.9 mean years of schooling in the 2018 report rising to 14 expected years of schooling and 11.1 mean years of schooling the following year. The Gross National Income (GNI) per capita in the 2019 report was 11,611, showing a slight increase from the 11,326 GNI per capita documented in the 2018 Human Development Report (HDR). The HDR 2019 also points to Sri Lanka faring better than its South Asian neighbours in terms of gender equality. The report also measures a Gender Development Index (GDI), calculated for 166 countries, and looks at gender-based inequality in the achievement of three basic dimensions of human development - health, education and command over economic resources. Sri Lanka has achieved a GDI value of 0.938, placing it in Group 3, which according to the UNDP indicates medium equality.

On a disaggregated level, the Sri Lanka Prosperity Index (SLPI) 2016 of the CBSL shows deep inequality within the country; while the Western Province ranked first has a prosperity index rating of 1.272 the lowest ranked Eastern Province only has a rating of 0.135. Similarly, wellbeing in the Western Province is rated at 1.173 and a mere 0.036 in the Eastern Province shows the deep inequalities with the nation. Sri Lanka continues to suffer in the sphere of sustainable development due to a consistently incoherent and disintegrated approach to prosperity planning. The lack of an integrated development budgeting, financing and investment approach tends to negate even the positive performances as the negatives tend to create an imbalanced final outcome.

As for corruption, Sri Lanka ranks 93rd out of 180 countries on the Global Corruption Perceptions Index 2019 (CPI), with a low score of 38 out of 100. This indicates that the public's view of the state sector governance remains negative despite policy and political promises. According to the CPI, full democracies score an average of 75, flawed democracies score an average of 49, hybrid regimes which show elements of autocratic tendencies score 35. Autocratic regimes perform worst with an average score of just 30 on the CPI; Sri Lanka's CPI score suggests that it falls between a flawed democracy and a hybrid regime. Widespread public sector corruption weakens government institutions, leads to governmental instability, threatens the economy by undermining fair competition and discouraging trade and investment, and is a deterrent to prosperity.

Meanwhile, Sri Lanka was ranked 2nd in the Global Climate Risk Index 2019 amongst countries affected by impacts of weather-related loss events including storms, floods, heat waves etc. This shows that the country is seriously vulnerable to climate change and that resilience has been weakened during previous years. According to the earthday.org, Sri Lanka is placed as the 5th largest plastic polluter in the world ranking among countries such as China, Indonesia, the Philippines, and Vietnam. This demonstrates that the country has been led into a wasteful consumerist culture despite regulatory efforts attempt to control plastic usage since 1994. While performing well on poverty eradication, education and even health, Sri Lanka continues to poorly invest on gender equality, democratic institutional processes, peace and social integration.

The collective agreement for 'Transforming Our World' through the '2030 Agenda for Sustainable Development' is a call by governments to build a new deal of shared prosperity without leaving no one behind while protecting the earth ecosystem. Such a transformation essentially requires nations to believe in the need for change and commit to new pathways towards prosperity. Since formally committing to the 2030 Agenda in 2015, Sri Lanka has not been consistent in its belief in change, conviction in chartering new pathways or committing to act out of the prevalent system. While interested in engaging in the SDGs and showcasing its alignment with rest of the world, the fragmented and disintegrated approach towards implementing the 2030 Agenda, only facilitates gathering dust under a new carpet. This could potentially induce greater breakdowns as opposite to creating transformation. Recalibrating the mindset towards advancing the 2030 Agenda would necessitate visionary political leadership, subsidiarity of governance, integrated public service, coherent policy framework, engaged stakeholder mechanisms, a conscious society, investment in shared prosperity and commitment to transformation.

The challenge is how Sri Lanka could localise the 2030 agenda to exemplify the central principle of leaving no one behind. The manifesto of the 7th President of Sri Lanka, 'Vistas of Prosperity and Splendour', states that the government has a clear policy and a programme of action to achieve the targets of the Sustainable Development Goals (SDG) with the participation of the people. In line with the principle of 'leave no one behind', the primary purpose of the new government states the importance of creating a productive citizen, a happy family, a disciplined society and a prosperous nation, ensuring that the benefits of development reach every group of people. This would include designing for substance, process and outcomes based on a range of activities including planning, implementation, financing and monitoring of the SDGs. Planning for the integration of environmental-social-economic dimensions of sustainable development and mainstreaming the SDGs into national policy frameworks would demonstrate the vision for a transformation. The implementation needs to embrace a whole-of-government and multi-stakeholder implementation. This would require an integrated institutional approach and a decentralised governance system that demonstrates the belief in subsidiarity and democracy. The commitment to enforcing a transformation could be demonstrated in public-private financing of a programme of action across the system, sectors and stakeholders. Proper monitoring of progress will require both data disaggregation and data democracy to include all. The objective is to plan and implement an inclusive transformation.

Sri Lanka has faced a challenging political environment, weak fiscal buffers and high indebtedness that make the economy vulnerable to uncertain global financial conditions. The COVID-19 pandemic further weakened Sri Lanka's growth and compromises investments in the SDGs. Sri Lanka's planning must take into consideration the nations vulnerabilities to global conditions and adopt policies to advance the ecosystems and services they provide, alongside options to restore, conserve or enhance the sustainable use of ecosystems. Foresight into potential breakdown scenarios such as climate change, disasters, famines, pandemics, wars, economic downturns and redesigning policy to accommodate alternatives options is necessary. Beyond an increasingly failing GDP as a measurement, the inclusion of happiness, wellbeing and prosperity-based measurements will help the country enforce transformative regulatory measures to advance sustainable development. While international and multilateral agencies constantly place the SDGs high in their agendas, international financing for the implementation of the SDGs is yet to be provided to Sri Lanka in an effective way. Even though much of dialogue and promotion of the 2030 agenda has taken place during the past five years, SDGs continue to be approached as another international project within the exclusive policy circles that does not appear to reach the stakeholders and public; in fact political engagement in the policy process has been limited even at national level while provincial and local government levels are quite marginalised. In this context, commitment to domestic investment for the SDGs in Sri Lanka has become a difficult proposition. A new financial architecture towards a sustainable development driven economy needs to be put in place by the government if all stakeholders are to contribute to the SDG process. Therefore, formulating a domestic investment framework for the implementation of the 2030 agenda in Sri Lanka becomes critically important.

1.3. An Analysis of Transformative Action

Five years have passed since the adoption of the 2030 Agenda. According to the United Nations Sustainable Development Goals Report (2019), the natural environment is deteriorating at an alarming rate. In the face of rising sea levels, accelerating ocean acidification etc., the past four years have been the warmest on record. One million plant and animal species are at risk of extinction, and land degradation continues unchecked. The slow pace to end human suffering and create opportunity for all has jeopardised the goal to end extreme poverty by 2030 and enhanced the struggle to respond to entrenched deprivation, violent conflicts and vulnerabilities to natural disasters. Global hunger is on the rise and at least half of the world's population is lacking essential health services; more than half of the world's children do not meet standards in reading and mathematics, only 28% of persons with severe disabilities received cash benefits, and women in all parts of the world continue to face structural disadvantages and discrimination. The UN High-level Political Forum on Sustainable Development (HLPF), which is the main United Nations platform to conduct the follow-up and review of the 2030 Agenda and the SDGs at the global level, is already in its second cycle which covers the four years from 2020-2023. A review and analysis of domestic action during the first cycle between 2016-2019 will help the new government in Sri Lanka to take the necessary transformative action required for recalibrating the context of implementing the SDGs and advancing the country towards sustainable development.

1.3.1. Political Leadership

Sri Lanka's initial promise for political commitment to the 2030 Agenda has not been sustained. Since signing on to the 2030 Agenda for Sustainable Development in September 2015, the Government at the time responded by the introduction of a Cabinet Ministerial Portfolio on Sustainable Development, enacting the Sustainable Development Act through parliament, and establishing a Parliamentary Select Committee on the SDGs. Unfortunately, three years later, by the end of 2018, the same government had scrapped the sustainable development portfolio, while the parliamentary select committee was disbanded without any substitution. With the initial interest on the SDGs dwindling, the political hierarchy in the governments that followed have placed a lessor focus on the subject of sustainable development in both parliamentary and administrative processes.

The initial momentum towards a transformation created by the political leadership of the then government was stalled by bureaucratic monopolizing of the SDGs planning process within a highly fragmented public administrative system. Lack of political leadership has left the SDGs in the hands of a fragmented public service system, operated under linear bureaucratic procedures resulting in a lost momentum and drive for transformational action. The main reason for the failure of Agenda 21, and the previous global sustainable development agenda was the lack of political will. Sri Lanka needs to assume political leadership in the 2030 Agenda and demonstrate its will and commitment towards implementing the SDGs; not to pass on the responsibilities down the chain and expect transformation. This will mean a more inclusive political culture with devolved responsibilities at a subnational level, an integrated service delivery that is responsive to public needs, a coherent policy process across environmental-social-economic dimensions, and investment in transformational action driven by political ideologies favourable to sustainable development. This is expected from the new President and Government that has pledged its commitment to the implementation of the SDGs.

1.3.2. Institutional Arrangements

The establishment of a Cabinet Ministerial Portfolio in charge of Sustainable Development in 2015 was expected to facilitate an integrated whole of government process and help mainstream the SDGs into the national policy framework. It also was the national focal point for Sri Lanka, providing a mechanism for coordinating, facilitating, and reporting the implementation of the national commitments to the 2030 Agenda and the SDGs. In 2016, the Subject Ministry had presented the key elements of a roadmap towards implementing the SDGs, mapped the roles and responsibilities of all ministries and the 425 central government entities, and had presented an integrated institutional mechanism towards implementing the SDGs through a whole of government and multi-stakeholder mechanism. The plans formulated by the Subject Ministry, clearly stated that line agencies will take the lead in their respective subject areas in planning to implementation and reporting, while provincial sustainability plans would help devise and manage decentralised strategies and actions.

These plans had recommended three time bound stages for the realisation of the 2030 Agenda in Sri Lanka; Legislative, Institutional & Policy Framework established (2016-2020), investment for sustainable infrastructure and systems in place (2021-2025), and coherent and convergent transformation in motion (2026-2030). During the first stage the following actions were also proposed: **Capacity Building, Means of Implementation and Partnerships for Sustainable Development,** oriented towards facilitating and coordinating the national sustainable development programme, including building national capacity for implementing the SDGs and strengthening the national transformation process; **a National and Provincial Sustainable Development Platform** as a common forum for stakeholder awareness, knowledge building and engagement in coherent and collective sustainable development visioning, pathways building, planning, innovation and movement; a **National Sustainable Development Roadmap** leading to the national SD strategy and action plan, and to evolve a policy-regulatory-institutional framework that enables the transformation; a **National Sustainable Development Policy-Regulatory-Institutional Framework, Strategy & Action Plan** will be evolved through the guidance of the National SD Roadmap and in coherence with the mandate of the proposed act to provide for the establishment of a Sustainable Development Council for the development and implementation of a sustainable development strategy in Sri Lanka; a **National SDG Facilitation Mechanism** for inter-agency coordination, building sectoral/ thematic expertise towards achieving the SDGs, and monitoring, evaluation & reporting; a **National Sustainable Development Data and Information Portal** as a central location for all public, private and civil society published information at local, national, regional and international levels to enhance a strong national statistical analysis system; a **Sustainable Development Response Mechanism** towards the identification of national sustainable development intervention requirements and provide responsible ministries, agencies and organizations guidelines and recommendations on managing development initiatives or projects where appropriate collaboration and/or cooperation in implementation of the recommendations occurs; a **Sustainable Development Standards Framework** through an expert verification process to provide project planning and approving agencies, the necessary monitoring and evaluation guidelines, tools and standards; a **Sustainable Development Demonstrations** to validate SD as a realistic development pathway mainly at local, community and district levels engaging all relevant stakeholders and public sector institutions in partnership.

None of these plans was set in motion by the respective authorities and there is no trace of these processes since 2018. Unfortunately, no substantive replacement of the above has been presented. If those plans had been implemented, then the country would have been in an advanced stage of implementing the SDGs and would also be properly guided by a domestic resource mobilization framework.

With the discontinuation of the Ministry of Sustainable Development, the lead role of planning and implementation of the SDGs was assumed by a newly established Secretariat of the Sustainable Development Council (SDC). Ironically, appointed members of the Sustainable Development Council have not met since November 2019 to conduct their mandated roles and responsibilities while officials of the secretariat continue without guidance and supervision of the actual council. The mandate of SDC, derived from the Sustainable Development Act of 2018, is the formulation and review of a National Policy and Strategy working alongside the nine Provincial Councils, the Cabinet of Ministers as well as other relevant parties; an outcome pending since 2018. The act specifically states that Sri Lanka would set its own national targets guided by the global level of ambition, while taking into account national interest and circumstances and also incorporate all seventeen Sustainable Development Goals into national planning processes, policies and strategies in the relevant ongoing processes, within the economic, social and environmental fields. Again, this has not been delivered and offers limited hope within a highly fragmented institutional structure giving away to bureaucratic monopolisation in the absence of political leadership.

The Act has provided limited perspective on the policy for sustainable development while focussing more or less entirely on the establishment and management of a Council. The SDC, due to insufficient political and planning foresight in the design of the Sustainable Development Act, narrows and limits the potential of the government in responding to the 2030 Agenda's call for transformation. Firstly, the Council lacks the political leadership needed to enforce cabinet level decision making. Secondly, it lacks the critical requirement for a whole of government approach as in inter-agency representation for integrated delivery. Thirdly, is lacks multi-stakeholder representation to ensure the voice of people and their issues. The lack of a multi-sectoral, inter-agency, multi-stakeholder coordination mechanism without high political, administrative as well as intellectual leadership has led the SDG agenda to be isolated from mainstream national planning and budgeting. The SDC Secretariat has resorted to externally financed and supported sporadic programmatic activities, while financing for the official implementation of the SDGs has also been dwindling. The lack of expected vision and leadership from the actual Council Members and a Secretariat unresponsive to inclusive transformative action has kept away significant international and domestic partnerships.

The planning and implementation of the SDGs requires the highest level of decision-making power available to a nation; to have substituted these responsibilities to a few public officials and political nominees, without any options for stakeholder representation, has compromised the requisite institutional transformation, as well as the principles of partnerships and leaving no one behind. The SDC, operated through an unguided bureaucratic secretariat, is a conveniently linear institutional arrangement within the fragmented public service structure. The new government would be well advised the revisit the Sustainable Development Act; while the council membership needs political and stakeholder representation, the secretariat must be an integrated institutional mechanism, with representatives from all key public entities required to facilitate a whole of government approach. Valuable years have passed without critical action and has weakened Sri Lanka's potential for both international and domestic resourcing of the SDGs.

The new government must demonstrate its foresight in transformational action including reforming legislation and restructuring institutional structures in order to gain partnerships that were lost during the past few years. An integrated institutional mechanism to facilitate the implementation of the SDGs is of vital importance for transformation. Firstly, the responsibility of leading the national sustainable development agenda must be assumed by the country's political leadership, starting from the President and the Cabinet of Ministers. Secondly, subnational level representation must be strong and not limited to a few Provincial Councils. Thirdly, key stakeholder representation must be established within the decision-making structure. Sustainable development experts with proven experience from the private sector, civil society, academia, etc. must be provided equal space within an institutional structure to ensure the knowledge, content and objectives of the SDGs are protected and national interests are safeguarded. Fourthly, key public sector institutions must be incorporated to deliver an integrated service delivery assuring a whole of government approach. Key government institutions covering planning, finance, external resources, statistics, monitoring, etc. should be represented in a coordinating secretariat to link all ministries and institutions covering environmental, social, economic dimensions and governance aspects. Finally, a public accountability and a public engagement mechanism needs to be included in the operational procedures of the institutional mechanism for SDGs.

1.3.3. Policy Coherence, Integration & Mainstreaming

Sri Lanka continues to operate its development programmes and projects creating contradictions, confusions, compromises and confrontations between environmental, social and economic policies, as well as regulations. Development projects with linear economic objectives of destroying ecosystems and disturbing community lifestyles are being constantly reported across media, providing evidence that the policy integration for sustainable development is yet to be established. The lack of clarity on an overarching national policy framework, continues keep sustainable development in the corridors of national determinations rather than at the centre. A lack of policy coherence planning has prevented proper integration of the three dimensions of sustainable development – environmental, social and economic - while mainstreaming the SGD's into existing national policy frameworks has been through the siloed approaches of subject ministries. In a highly fragmented institutional structure, policy coordination across sectors is weak in Sri Lanka. Also, a culture of individual ministry and institution lead programmatic approaches provides for limited inter-sectoral convergence. This is amply demonstrated in national budgets that makes allocations to subject ministries without much consideration of sectoral integration.

Evolved into a highly fragmented public institutional structure, planning and budgeting through siloed programmes by different ministries does not fit into a holistic impact model for sustainable development. In fact, according to the analysis on the performance of the 17 SDGs, the approach to policy and institutional incoherence in Sri Lanka does not demonstrate the capacity or readiness to measure the true impact towards a transformation. Poverty eradication policies do not reinforce equality between and within districts as growth is concentrated within a few urban pockets. The richest 20% of the population receives nearly 51% of the total household income and the poorest 20% a mere 5%, while the middle 60% was receiving 44%. While the health sector and the education sector has shown high statistical achievements, the wide gaps of service delivery and quality of services for the rural and poor remains unsatisfactory. The education service has been providing equal opportunities for the female child, but gender equality is not addressed in the labour market. Meanwhile, promising 100% renewable energy by 2050, the long-term generation plan for 2020 to 2039 presents contradictions by recognising the need for coal in electricity generation. The new National Policy for Sustainable Consumption and Production does not place any significant emphasis on consumer protection and consumer rights, leaving it to the Consumer Affairs Authority Act (No. 9 of 2003). On the environmental front, while promising to increase the forest cover to 32%, the government is also proposing to takeover other state forests for the facilitation of district development. While, many climate change and disaster management policies and strategies have been introduced, Germanwatch has listed Sri Lanka under the top 10 most affected countries from 2018 to 2020. In planning for an inclusive transformation, and pursuing the SDG pathways, the government will have to revisit the large amounts of inherited policies and address the issue of coherence.

As Sri Lanka is yet to resolve the sectoral versus thematic planning and budgeting of development, SDGs have been turned into siloed sectoral interventions. The seventeen SDGs have been devised as thematic clusters that constitute specific actionable and measurable targets. While the performance of targets is measurable by specific indicators, the assessment of the performance of the thematic goals are expected to be through the impacts between targets within and across the goals. The 169 targets create a web of interactions to act as an indivisible system and the impact on the outcomes need to be measured as whole. However, in Sri Lanka, public sector planning and budgeting is predominantly sector focused and this approach is similarly followed by the private sector.

During 2015 to 2019, Sri Lanka did not have a clear national policy framework or a guiding strategy that could demonstrate an actual integration of economic, environmental, and social considerations. If Sri Lanka is serious about achieving the transformational objectives of the 2030 Agenda, then ensuring policy coherence for sustainable development (PCSD) is centrally important. The objectives of PCSD includes; foster synergies and minimise trade-offs across sectors, reconcile domestic policy objectives with internationally agreed objectives, and address the transboundary and long-term effects of policies. Towards implementing the 2030 Agenda, Sri Lanka like most countries needs to address challenges including ensuring integration, fostering alignment across local, national and international actions, and overcoming fragmented or siloed policy actions. An overarching sustainable development policy framework guided by national priorities for prosperity is critically important for Sri Lanka. Under the overarching framework, a national SDG implementation strategy that includes the domestic goals and targets, plan of implementation with time horizons, sectoral and thematic financing strategies, and a monitoring, evaluation, follow-up and review mechanism must be clearly defined.

1.3.4. Monitoring, Statistics and Data

While Sri Lanka presented its Voluntary National Review (VNR) to the High-Level Political Forum (HLPF) on Sustainable Development in July 2018, as a nation Sri Lanka is yet to establish a clear national SDG monitoring, evaluation, follow-up and review (MEFR) mechanism. The authorities need to realise that reporting on data is suboptimal and presenting an incorrect picture of the status, to internal and external audiences, would only lead to increased vulnerabilities and stall the country’s progress towards sustainable development. For the last five years and to date, the authorities have not been able to localise the targets, formulate a national indicator framework, and establish an integrated MEFR mechanism. The inefficiency of the authorities in establishing baseline indicators and streamlining the supporting data towards enabling a systematic assessment of the progress in transforming the nation towards sustainable development by the year 2030, has left a wide gap in stock taking and honest reporting even for internal evaluations and foresight planning.

The report ‘Status of Sustainable Development Goals Indicators in Sri Lanka: 2017’, published by the Department of Census and Statistic (DCS) included 12 chapters; Out of 244 indicators, data for 46 indicators was compiled through ongoing censuses and surveys of the DCS and administrative records with an indication of the possibility for another 25. The formulation of the report, solely conducted by the DCS appears not to have included other government entities, thus is limited to its own censuses and surveys and does not provide a whole of government status on the availability of national data. For example, most of the data for environmental indicators, particularly in goals 12, 13, 14 and 15, are missing while this information is situated within institutions that manage the relevant thematic sectors and issues. The report also does not make any effort to acknowledge and analyse non-public sector information such as from civil society, academia and private sector. Therefore, this report does not provide an accurate status on the data availability on the SDG indicators.

The claim that Sri Lanka lacks data to conduct proper monitoring and evaluation of the SDGs is not an accurate claim. In fact, many public, private, civil society, research as well as international organisations conduct and publish data, statistics and information related to Sri Lanka. For example, the Sustainable Development Report 2020 prepared by the Sustainable Development Solutions Network (SDSN) and the Bertelsmann Stiftung has used data from a wide range of international sources to assess Sri Lanka and rate the performance on SDGs, proving that information could be sourced and analysed even within the current national statistical system limitations. Firstly, there is no systemic process to coordinate the data from all other public intuitions for an integrated statistical analysis; the lack of adequate data to evaluate the progress, thus relates to the continued failure to establish a whole of government approach to data collection and facilitation. Secondly, bureaucratic processes continue to ignore independent data while not having the capacity themselves to conduct such research on diverse and significantly sensitive areas of sustainability. Thus, the national statistical system is restricted, providing only a limited amount of data to cover the SDG global indicators. However, the DCS had requested all public sector agencies to follow-up and provide the necessary data and provided the reporting format. There is no evidence that any significant follow-up in sectoral data was either provided to the DCS by the relevant government agencies or that the process was effectively coordinated by the SDC for inter-agency data coordination.

In early 2016, the Ministry of Sustainable Development had formally proposed the necessity to establish a 'National Sustainable Development Data and Information Portal' as a central location for all national SD information with local, national as well as relevant regional and international links to enhance the data-revolution at a country level and support viable statistical analysis system to assist national planning. If the authorities had acted upon this recommendation, today in 2020, the country would be in strong position to evaluate the strengths and weaknesses of national development initiatives towards devising strategies for transformative action and forging sustainable development. However, a fragmented institutional structure for the SDGs, a monopolised bureaucratic approach to planning and delegation of responsibilities, along with the inefficiency and lack of accountability of the relevant officials have all prevented the establishment of a data and statistics lead monitoring, evaluation, follow-up and review mechanism (MEFR) in the country. The new government must act swiftly to put in place a coherent mechanism to ensure that the MEFR mechanism for SDGs are in place and support the DCS to deliver regular and advanced statistical analysis to track the nations progress on the transformation towards sustainable development.

1.3.5. Localising SDGs and Subnational Initiatives

Sri Lanka has not demonstrated much faith in the principle of subsidiarity and Provincial

Councils and Local Governments, which have not been empowered adequately to plan and implement SDGs at subnational levels. Insufficient financing, lack of technical support, and keeping them away from the national planning systems has marginalized provincial and local level governance from the SDG process so far.

Provincial and Local Sustainability Plans have been proposed and discussed since early 2016 without follow-up from the relevant central government institutions. There has been attempts financed by the UNDP in Sri Lanka to mainstream the SDGs into District Development Plans and also through a few Provincial Level Development Plans. Unfortunately, these have not been able to adopt a transformative approach and remained as siloed mainstreaming efforts. The elected members of Provincial Councils lack critical understanding and capacity concerning the SDGs, creating a wide gap in political commitment. This is delivered down the chain and resulting in low motivation and commitment by officials with limited knowledge and capacity. While the Finance Commission has provided guidance for integrating the SDGs in provincial plans, a lack of financial and technical support has kept the Provincial Councils away from delivering integrated plans and strategies. At the Local Government level, both elected members and the officials, have extremely low awareness, knowledge and capacity to implement the SDGs. The limited information on the SDGs in local languages has marginalized grassroots level politicians and officials. Furthermore, the responsible central government entities have not valued the potential of local government in localising SDGs, which has resulted in the low and slow transmission of the SDG related information flows, knowledge development and capacity building at the village and community levels. If not for some awareness creation activities by some CSOs and local government associations, local governments may not have had any engagement in the SDGs after 05 years.

Substantial efforts have to be made towards localizing the development planning based on the SDGs and provincial, district and local development plans need to adopt a transformative format approach and address the recommendations of the 2030 agenda. While it is globally recognized that local governments have a unique role to play in planning, executing and monitoring of the SDGs, in Sri Lanka, they are handicapped by a lack of clearly devolved and decentralized authority, diffused institutional and legal frameworks, limited human and financial resources, and weaknesses in data systems hindering effective target setting and monitoring. To rectify these anomalies, subnational governments should be capacitated with authority, resources and finances, as well as the institutional framework to define, deliver and monitor SDG targets and indicators, keeping in mind that subsidiarity and good governance at all levels are essential to implementing the 2030 Agenda. The proposed constitutional reforms process provides good opportunities to define a national context of subsidiarity, determine levels, concerning of devolution of power and decentralisation of responsibilities, and explore options for localizing the SDGs.

1.3.6. Financing Strategy

Sri Lanka, as a developing country with an extremely low economic growth; heavy external debt and multiple socio-economic challenges, is more challenged by survival at present than investing in long term sustainability. This does not provide a strong position for domestic financing of the SDGs. Another major setback in implementing the SDGs is the low international financial support received by Sri Lanka. A key reason for this is because Sri Lankan authorities have not been able to formulate and present to the international community a clear roadmap on mainstreaming and implementing the SDGs at national and subnational levels.

The country still does not have a sustainable development financing architecture which prevents the government from seeking foreign and domestic support for the implementation of the SDGs. According to the United Nations, governments must address areas such as enhancing sustainable financing strategies and investments at national and subnational levels, while seizing the potential for financial innovations, new technologies and digitalization to provide equitable access to finance. It is reported that there is evidence that investing in the SDGs makes economic sense. With estimates highlighting that achieving the SDGs could open up US$ 12 trillion worth of market opportunities and create 380 million new jobs, and that action on climate change would result in savings of about US$ 26 trillion by 2030. Sri Lanka needs to realise this opportunity and plan strategies to draw from the global financing potentials. In this respect, a domestic resource mobilization framework for the 2030 Agenda becomes critically important.

UNESCAP suggests that financing the SDGs is expected to remain a challenge with a relatively low level of tax revenue that constrains Sri Lanka's domestic resource mobilization. It further notes that the country's access to concessionary finance has declined given its elevation to middle-income status in 2019, and export earnings and FDI inflows have remained below potential. Various measures have been taken to attract FDI and boost export earnings, including the implementation of a new National Export Strategy, and easing the business environment by digitalizing company registration and land registry. In addition to these measures, improving investment efficiency is seen as critical.

The CBSL in 2019 launched a 'Roadmap for Sustainable Finance' to guide the local banking and finance industry, strengthen the capacity of the banking sector to implement such practices, facilitate knowledge sharing with members and promote green investment in the country. The main thrust of this Roadmap is to ensure that sustainability is embedded in the decisions of stakeholders in the financial system. It provides a broad direction to financial regulators and financial institutions to effectively manage the environmental, social and governance (ESG) risks associated with projects they finance, promoting assistance to businesses that are greener, climate-friendly and socially inclusive. The Roadmap also attempts to scale up the contribution of the financial sector and help build a more resilient, sustainable green economy. However, the responsible authorities of the country are yet to mainstream it into the relevant national economic policies and financial systems and align with the national plans for the 2030 Agenda.

Sri Lanka could be inspired by the European Union's (EU) approach, which postulates that sustainability and the transition to a low-carbon, more resource-efficient and circular economy are keys in ensuring long-term competitiveness of the economy. The EU Commission appointed a High-Level Expert Group offering a comprehensive vision on how to build a sustainable finance strategy argues that sustainable finance is about two urgent imperatives: improving the contribution of finance to sustainable and inclusive growth by funding society's long-term needs; strengthening financial stability by incorporating environmental, social and governance (ESG) factors into investment decision-making. This Action Plan on sustainable finance is part of broader efforts to connect finance with the specific needs of the European and global economy for the benefit of the planet and our society. Specifically, this Action Plan aims to: reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth; manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues; and foster both transparency and long-termism in financial and economic activity.

1.3.7. Leave No One Behind

The central pledge of the 2030 Agenda for Sustainable Development, to 'leave no one behind', is a call for an inclusive transformation; a transformation that does not exclude many from planning through implementation to benefit sharing. The Committee for Development Policy of the United Nations recommends that the member states embed the concept of leaving no one behind in their strategic frameworks and translate that concept into action, not only by targeting specific groups that are excluded from decision-making power and the benefits of development, but also by safeguarding the interests of those groups by not pushing them further behind through measures that deprive them of their rights and livelihoods. The OECD sees 'Leave No One Behind' as both an anti-poverty and anti-discrimination agenda. It is, furthermore, one that recognises the naivety of expecting progress to trickle down the socio-economic scale; instead, it necessitates explicit and proactive attempts to ensure that the populations whom progress has left out are now not only included, but placed at the forefront. Leaving no one behind underpins the success of the entire 2030 Agenda and also serve as a proxy for progress towards the SDGs by each country. If the worst off have not seen their lives improved dramatically, then the job will not have been done.

In early 2016, under the then Ministry of Sustainable Development and Wildlife, Sri Lanka kicked-off the national SDG campaign under an overarching theme of 'Planning for an Inclusive Transformation". The process facilitated stakeholder consultations through national and provincial sustainable development engagement platforms and drew voluntary contributions from subject experts across thematic sectors and stakeholders towards planning the roadmap, strategy and action plan. Since the discontinuation of the Ministerial Portfolio for Sustainable Development, the dynamic space for stakeholder engagement in SDG related national planning and strategising has been shrinking. Despite a limited group being invited to workshops and events, the actual space to engage in policy, strategy, programme planning and design has been extremely limited during the past few of years. While the government lead National Sustainable Development Engagement Platform was abandoned, the Sri Lanka SDG Stakeholder Platform initiated in 2018 as a response has also not formally operated since formulating the Voluntary Peoples Review (VPR). With limited funding for SDG based activities, stakeholder fragmentation too is a major concern hindering the progress of the SDGs. UNESCAP states that, developing multi-stakeholder partnerships provides much room for improvement in Sri Lanka to fully engage the general public and the private sector. An effective mechanism is needed for collaborative engagement in SDG implementation, from policy formulation to monitoring.

The implementation of transformative action and achieving the SDGs will depend on the awareness, knowledge and capacity amongst all stakeholders and the public. There is extremely low level of awareness on the SDGs amongst members of the general public, especially those speaking local languages. With the public being distanced from policy domains, SDGs are not appearing in political processes and dialogues, and combined with the lack of media sensitivity to cover deeper systemic issues, the general public have had limited opportunities to learn and understand SDGs. Parliamentarians, provincial councillors and local government representatives have had limited exposure to the SDGs that has so far remained within selected public sector officials and some stakeholders. With the coordination of the SDGs being delegated to a single entity of the government, the SDC, and interactions been confined to limited public agencies, the initial competency building drive across the public sector also had decreased. With limited opportunities to engage in the central planning of SDG action, knowledge and capacity amongst public officials across ministries and institutions, district and divisional secretariats, and provincial and local governments has weakened over the years rather than being strengthened.

Civil Society Organisations (CSOs) have for a long time carried the responsibility of keeping the government in check and accountable for environmental conservation and social equity. CSOs are non-state and not-for-profit entities formed by people in the social sphere that are separate from the State and the market. The World Economic Forum recognizes that civil society today includes an ever wider and more vibrant range of organized and unorganized groups, as new civil society actors blur the boundaries between sectors and experiment with new organizational forms, both online and off. Covering a broad cross section of sectors and thematic areas, CSOs have also played a vital role in keeping the sustainable development agenda alive for decades in Sri Lanka. However, the complexity of SDGs has become a barrier for transformative and critical action by most CSOs. As the donor conditionalities grow towards integrating SDGs in their funding criteria, greater interest of related activities is seen to grow amongst CSOs. However, CSO action appears to be project oriented and not long-term and transformative. Most of the project financing is viewed as distributed amongst international development agencies and International Non-Governmental Organisations (INGO); even those funds do not appear to advance a localised agenda for sustainable development and concentrates around a few selected thematic sectors of the SDGs, driving further fragmentation. CBOs are far from being engaged in the SDGs as the related dialogues still continue to be in urban areas and in the English language rather than local languages. As bringing the SDGs to ground level has not been facilitated by authorities and international agencies or even the larger local CSOs, the grassroot level SDG awareness and engagement remains extremely low to date.

The private sector, predominantly the larger corporate business and industry, continue to engage in SDGs as an extension to Corporate Social Responsibility (CSR). Most in the business sector continue to be unaware, disregarding the integration of the three dimensions of sustainable development into their business practices. While, regular corporate sustainability and CSR awards are being carried out by sector associations, there is no systematic assessment of transformative action to show true shifts in business processes for production and services that advances the nation towards Sustainable Development. While environmental and social compliance has increased, unsustainable consumption and production patterns continue to grow in Sri Lanka. At the same time, the policy environment for business to transform into sustainable practices within a competitive market has not been facilitated by the authorities. A lack of effective engagement in national policy and sectoral strategy processes keeps the business sector stakeholders away from playing their critical role as partners in the transformation.

While the big businesses are yet to find more meaningful engagement in the transformative agenda, the SMEs, micro enterprises and cottage industries need to find their way into the SDGs. Seen as a critical agent of the national prosperity drive, the smaller and local entrepreneurs need to be supported properly in domestic resource mobilisation. With a smaller ecological footprint and greater potential for a circular economy, smaller local entrepreneurs need to be centrally engaged in the SDGs for transformation towards sustainable development in the country. The business case of SDGs has not been addressed well in Sri Lanka. Strategies to incentivise businesses through policy mainstreaming should be present across all development sectors and programmes of the government. In the meantime, businesses are expected to proactively engage sustainability systems and processes to advance prosperity through circular economic strategies.

As the progress of SDG mainstreaming in the education, higher education and vocational education sectors has been slow, the opportunity for both professional level learning and skill building is limited in Sri Lanka. Some curriculums at university level have been incorporating the SDGs, but the low expertise within the academic community on SDGs continues to delay the progress. Some training of the trainers' programmes have been conducted without critical follow-up on public and private sector investment and job prospect enhancement for the sustainable development fields. At primary and secondary schooling levels there is extremely low understanding amongst teachers, leaving a wide gap in preparing the next generation for sustainable living. With very low attempt to integrate SDGs into school curriculum and showcase future career pathways in sustainable development, it's hard to expect the next generation to be prepared for the transformation. However, SDGs have become a trending topic for the English-speaking urban youth who have organized several events including conferences, debates and other interactive events to create awareness amongst youth and children. Yet, these activities have vastly remained amongst limited urban geographical spaces. The same reality transcends to rural communities as well as the urban poor who remain non-participants in a transformative agenda, while their futures are been designed and decided by a small group of privileged urban authorities and actors. As the rural or even the poor urban youth are yet to be aware about SDGs, it is hard to expect a true transformation taking place by 2030 and beyond in Sri Lanka.

1.4. An Analysis of Advancing the SDGs

The analysis of progress made on the 17 SDGs in Sri Lanka is a follow-up on the Voluntary Peoples Review in 2018 and to strengthen the process of an independent monitoring, evaluation and review mechanism (IMER). As a national monitoring, evaluation, follow-up and review mechanism (MEFR) has still not been established in the country and regular methodological assessments concerning the progress of the SDGs are not conducted and reported by responsible authorities, this analysis is expected to assist the new government in taking the appropriate decisions and associated actions. As the analysis was conducted as a multi-stakeholder and multi-dimensional process, all stakeholders of sectors across national and subnational levels will benefit in planning their own action.

In the absence of clear data and statistics, a qualitative analysis is provided using all different kinds of data, statistics, and information. In conducting the analysis, first preference was given to published official statistics provided by the Department of Census and Statics (DCS) and other government entities. However, in the absence of integrated and updated data within official sources, it was inevitable to turn to credible international sources as well as national and local sources. A team of researchers used the Global Indicator Framework to assess the 169 targets and analyse the 17 SDGs. The analysis is subjective to the information and may differ from any other research using different data and a different methodology. The analysis has been mindful of presenting a fair and honest narrative guided by the information sourced during a period spanning twelve months. The following is only a summary based on the findings, focusing on the performance, interlinkages, and policy coherence within and between the sustainable development goals and targets.

SDG 01: End poverty in all its forms everywhere

Sri Lanka has achieved significant progress in reducing poverty. Yet regional disparities and disparities between the richest and poorest quintiles remains a concern. In 2016, approximately 843,913 individuals were in poverty but in 2012/13, it was around 1.3 million, depicting a 0.5 million decline. Poor households represents 3.1% of the total households; approximately 169,392 households in 2016. According to government statistics, the national poverty headcount rate has declined steadily from 22.7% in 2002 to 6.7% in 2012/13, to 4.1% in 2016. This number however marks the reality of those just above the poverty line. The population below the international lower middle income and upper middle-income poverty line thresholds of US dollars 3.20 per day and US dollars 5.50 per day respectively, stood at 10.1% and 40.4% in 2016. It indicates that even though there is a significant progress in alleviating poverty, the impoverished population is still highly vulnerable and could easily fall back into the poverty line due to shocks such as loss of livelihood, sickness of a family member or a natural or man-made disaster. The lack of savings, being in debt, and reliance on daily wages also increases their vulnerability to shock. Social policies are concentrated on the provision of free health and education services and food subsidies to alleviate the poverty in Sri Lanka and improve the social protection of the nation. However, the implementation of these policies contradicts with the objectives of those policies itself. Even though Sri Lanka has reported a 4.1 PHCR (poverty headcount ratio) in 2016, poverty pockets exist across the country and this will directly impact on SDG 2 since the lack of financial ability affects the access to healthy/balanced diets. In addition, it will lead to poor performance in school (SDG 4), working place productivity (SDG 8), leading them towards a cycle of poverty. The economically inactive population is 7.8 million in Sri Lanka, and of that figure, women represented 73.7% as of 2019. Due to this situation, even though the average household income was calculated as Rs. 43,511 in 2016, the monthly average household income of the poorest 20% was Rs. 14,843, in stark contrast to the monthly average household income of the richest 20%, which stood at Rs. 158,072 (SDG 10). Poverty has forced mothers to forsake their children, in order for them to be able to travel overseas in the pursuit of employment opportunities. The Middle Eastern region constitutes approximately 85% of the total destinations travelled to in the pursuit of foreign employment opportunities, with 97% of the aforementioned figure serving as housemaids. This affects both the household and also the Sri Lankan economy (SDG 8). This draws attention to the need of planning based on disaggregated data, and policy coherence between poverty eradication and economic growth objectives.

SDG 02: End hunger, achieve food security and improved nutrition and promote sustainable agriculture

According to the 2019 Global Hunger Index (GHI), the island was ranked 66th out of the 117 qualifying countries. Sri Lanka's score of 17.1, rated as 'moderate' is an improvement from the 2015 ranking which was rated as 'serious'. Sri Lanka however has an unexplained phenomenon of under 5-year Child Wasting (15.1%) and under 5 Child Stunting (17.3%). Child mortality rate of Sri Lanka has fallen over the years to reach a low; 7.1 deaths per 1,000 live births in 2018. Sri Lankan children are also at increased risk of micronutrient deficiency. However, Sri Lanka has been awarded the first-ever 'Green' nation status by the World Breastfeeding Trends Initiative (WBTI) in 2020, for supporting breastfeeding women, leading to improved breastfeeding practices drastically in the country. Sri Lanka is on course to meet the global target for infant exclusive breast feeding (82% of infants under 6 months). As for food security, Sri Lanka is nearly self-sufficient in rice. The per-capita consumption of rice in 2006/7 was 107.9 kg which is an increase in rice consumption over the years. Cultivation however is characterised by small holder 'subsistence farming'. Estimated agricultural households in Sri Lanka is 2.1 million (2017) with a total count of over 8.1 million people, which is over 1/3 of the total population. Yet, Sri Lanka grapples with lower agricultural productivity. Sri Lanka's food security policy is covered under the Sri Lanka National Agricultural Policy 2007 (NAPSL), with further linkages covered by way of the National Nutrition Policy of Sri Lanka, 2010 (NNP). Sluggish growth, regulatory constraints, fragmented land use, insufficient availability of water, credit, seed, technical know-how, marketing facilities, storage, transportation, and poor farming practices have been identified as main reasons for lower agricultural growth. NAP-SL states that more than 70% of the population living in rural areas depend on agriculture for their livelihoods and contributes to 18% of national GDP and 30% of employment. Currently, Sri Lanka spends 0.49% of total government expenditure on nutrition-specific interventions, and according to the World Bank, increasing national budget investments in financing for nutrition interventions is necessary. SDG 2 connects to targets associated with many others; Food security and eradicating poverty (SDG 1.1. and SDG 1.2) go hand-in-hand. Sri Lanka's National Poverty Level stands at 4.1 (2018) and has steadily declined over the years. However, this is merely income poverty. SDG1.4 connects agri-food governance to the right of owning and controlling land, which is an important component for practicing agriculture. However, it must be noted that among those poor and near-poor that are employed, a large proportion is engaged in agriculture. Furthermore, in Sri Lanka as nearly 66% of cropland is rain-fed, it is most sensitive to the effects of climate change (SDG 13), subsequently highlighting a major concern in estimating and planning for current and future crop production. This shows a lack of policy coherence between poverty (SDG 1), nutrition (SDG 2), health (SDG 3), education (SDG 4) and climate change (SDG 13). With regard to linkages with health, Sri Lanka shows a rising incidence of diabetes, and is connected to SDG 3's monitoring of non-communicable diseases. Good nutrition undoubtedly helps in better educational outcomes, and in this respect appropriate schemes such as the school mid-day meals, are commendable. However, even though the country has a 'canteen policy' for schools, the nutritional guidelines are often not followed. Maternal health, preventing death of new-borns (SDG 3.1 and SDG 3.2), and reducing communicable diseases (SDG3.3) are all more likely to be achieved through better nutrition.

SDG 03: Ensure healthy lives and promote well-being for all at all ages

Sri Lanka has already met the SDG targets in terms of maternal mortality, neonatal mortality, and under 5 mortality. Maternal mortality ratio for Sri Lanka was 32 deaths per 100,000 live births in 2018 according to the latest Family Health Bureau (FHB) data. The proportion of births attended by skilled health personnel is 98.6%. Child mortality rate has fallen from 73.1 deaths per 1,000 live births in 1969 to 9.5 deaths per 1,000 live births in 2018 (FHB). The Neonatal mortality rate also shows a declining trend, 6.5 deaths per 1,000 live births, according to the FHB. As for life expectancy, the increase from the year 2000 (71.5 years) to (74.9 years) 2019 is an increase by 3.4 years. With a health system that covers nearly all Sri Lankans, the country has made impressive progress on its health indicators. Physicians (per 1,000 people) have increased from 0.3 per 1,000 people in 1997 to 1 per 1,000 in 2018. Sri Lanka is one of the first two countries in the South-East Asia Region to achieve measles and rubella elimination ahead of the 2023 target (WHO). However, the national context of alcohol per capita consumption (aged 15 years and older) within a calendar year in terms of litres of pure alcohol is alarming; the per capita consumption of liquor in Sri Lanka is 4.1 litres. Sri Lanka is known for its effective health service delivery at reasonable cost when compared with countries displaying comparable health outcomes where their investment on health in terms of percentage GDP is relatively higher. However, the enviable public health service is stretched in both quality and quantity, and out of pocket payments for health care are increasing. Sri Lanka has made major advances in reducing its suicide rate to an incidence of 16 per 100,000 in 2018. According to the latest WHO data published in 2018, road traffic accidents deaths in Sri Lanka reached 3,590 or 2.82% of total deaths. The age adjusted death rate is 16.37 per 100,000 of population ranks Sri Lanka at #96 in the world. Current health expenditure as a share of GDP is 1.6%. The policy repository related to the Health Sector shows 28 policies related, a portion of which remain in draft format. The policy on Healthcare Delivery for Universal Health Coverage (UHC) is foremost. The goal of which is to ensure UHC to all citizens through a well-integrated, comprehensive and efficient health service. However, not all services are readily available. There is significant rationing, whether in the form of waiting lists or limited availability of the required specialized human resources, equipment, and drugs to provide certain services. This will affect many who cannot afford private health care and could further aggravate Sri Lanka's burden of Non-Communicable Disease (NCD). The changing health burden from communicable disease to non-communicable disease now requires a different type of health service delivery model, to give more attention to chronicity of the high prevalent conditions such as diabetes, hypertension, ischaemic heart disease, stroke, chronic kidney disease, cancer and mental health problems. The risk factors include the exposure to agricultural and industrial chemicals, sedentary lifestyles and unhealthy food habits (no enforcement of advertising code). To combat the aforementioned situation, the country has already taken measures by implementing a NCD National Policy, and National Multi Sectoral Action Plan for the Prevention and Control of NCDs 2016-2020. The Country's policy on agrochemical use, has to be revisited. Additionally, initiatives on advancing healthy Sri Lankan food clashes with the propagation of processed food. However, in the year 2019, four regulations came into effect. These include the Food (Preservatives) Regulation, Food (Additives - General) Regulations, Food (Registration of Premises) Regulations - Extraordinary Gazette No. 2128/4, and the Food (Colour Coding for Sugar, Salt and Fat) Regulations 2019 - Extraordinary Gazette No. 2131/2. Better implementation of the Canteen Policy in schools would be beneficial as well. SDG 3 can be properly linked to many other goals. Sri Lanka's policy on UHC establishes and/or strengthens national arrangements for social protection so that it includes coverage of the poor and the vulnerable (Target 1.3). Target 2.2 focuses on the nutritional needs of children and adolescents, pregnant and lactating women, as well as older persons. The multi sectoral action plan on nutrition in Sri Lanka, addresses most of these issues. SDG 3 is also interlinked with three targets of SDG 5, which refers to ending all forms of violence (SDG 5.2) and harmful practices (SDG 5.3) against women and girls, subsequently ensuring universal access to sexual and reproductive health and reproductive rights (5.6). In Sri Lanka, there is no gender-based discrimination for health access. Also, one of the first responders to gender based violence is the medical sector, thus connecting to 16.1. Not achieving this target will affect the close relationship between increased health and wellbeing of individuals and their contribution to economic growth (SDG 8.1).

SDG 4 - Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Though the sector has received a lot of Official Development Assistance for educational reform, consecutive governments have not given adequate priority to ensure that learners acquire the knowledge and skills needed, in order to 'promote' sustainable development. Pertaining to a series of examples, gender, human rights, inclusion, culture of peace, nonviolence, peer to peer learning and equality are in policy documents but not practiced due lack of comprehension. Quality of education in Sri Lanka is highly criticised due to its heavy focus on an exam-based curriculum. Outcomes are not creating value based holistic citizens and not providing adequate supply to the ever changing market needs at the same time. Private tuition plays a critical factor in education and examination outcomes and creates unequal opportunities between the rich and poor. While rural schools have a shortage of skilled teachers, students also have limited opportunities for private tuition as well. Access to early childhood education is still low in Sri Lanka compared to most middle and high-income countries. There are existing disparities by income and location and the majority of early education centres (primary education, secondary education etc), lacks adequate resources for teaching and learning, especially for children with special needs. For example, some schools have only one building for all grades. The education system has not been able to effectively address the changing financial and market trends. Shortages of technically skilled personnel for the marketplace is a key issue due to lack of equitable treatment and investment in the TVET sector. Unequal attention and recognition are given to vocational education and is treated with lower quality of education standards in social ranking. SDG 4 has not been effectively and adequately addressed by the concerned authorities. Except SDG Target 4.7 on education for sustainable development, Sri Lanka is showing moderate progress across other indicators. The Sustainable Development Report 2019 highlights a positive performance on SDG 4. As of 2018, 10,175 Schools exists in the country; national schools 353, provincial schools 9822, with the number of students amounting to 4,214,772 (male 2,082,696 and 2,132,076 female). Further 139,581 (72,472 male, 67,109 female) students are enrolled in 80 private schools, 2451 special needs children (1455 male, 996 female) were studying in 26 schools island wide, and 763 Temple schools functioned for 60,875 recruitments (32,160 male and 28,715 female). In 2018, 31,451 students were enrolled for tertiary education in Sri Lanka, of which 19,798 were females amounting to 62.3%.

SDG 5: Achieve gender equality and empower all women and girls

Sri Lanka is progressing on gender equality with positive achievements in education and health indicators, but shows negative developments in areas such as gender equality in employment and political participation. The country also grapples with issues of gender-based violence. While Sri Lanka was ranked 71 out of 189 countries in the Human Development Index (HDI) 2019, falling under the category of countries with 'High Human Development' the country continues to lag behind key gender equality indices. Sri Lanka ranks 102 out of 153 countries in the Global Gender Gap (GGP). The health gap ranks 1, education 88, political participation 73 and economic opportunity at 126 (2020). In Sri Lanka, 82.6% of adult women have reached at least a secondary level of education compared to 83.1% of their male counterparts, and girls outnumber boys in secondary and tertiary education enrolment. Yet, these achievements have not helped in increasing the share of women in wage employment and women's political representation. According to the Sri Lanka Labour Force Survey (LFS), the estimated economically active population is about 8.6 million of which 64.7% are males and 35.3% are females. Of the economically inactive population of about 7.8 million, 26% are males and 74% are females. What is equally significant is the fact that the female unemployment rate is much higher than that of males (male 3.3% and female 7.4% in 2019). There is a sharp increase in complaints and incidents of violence against girls and women. The Government has identified ending domestic violence and sexual abuse in all forms as a key national priority under the banner of ending 'violence against women'. As for gender-based violence, recent data from Sri Lanka shows that 30.28% of women experienced violence due to an intimate partner (2016). According to the DHS 2016, only 28% of the women suffering from domestic violence asked for help, and the majority (75%) did so from ''parents, brothers/sisters/relatives". Another 27% went to "friends or neighbours", followed by the "Police" with only 18%. Also, a study by UNFPA conducted in 2017 on female public transport commuters revealed that almost 90%, had experienced some form of sexual harassment while commuting. Specifically, on marriage and reproductive rights it is seen that the share of women (aged 20-24 years) who were married by age 15, (2018) is low at 0.9%. While some indicators of gender equality are progressing, such as a decline in the prevalence of early marriage, there appears to be child marriage prevalent in some pockets. Whilst a large number of women work in the informal sector, no formal provisions have been introduced to provide social protection to these women. In leadership positions, women are underrepresented in most decision-making processes, especially in the corporate sector and the most public enterprises where women cadre is recorded high. According to the ILO, women represent 44% of the government labour force. Female land rights or ownership is addressed in SDG Indicator 5.a.1 and according to a FAO gender Assessment, only 16% of all owned land in Sri Lanka belong to women, and this limits their access to different agricultural assets and benefits such as subsidies, credit or irrigation water. Even though, there are a number of Government Ministries and Entities that have been established relating to gender there seems a lack of coordination and appears to be disjointed, hampering the effort to deliver quality and inclusive and gender responsive services especially for women and children, and in particular, girls and children with disabilities. Lack of direction at the national level, and the absence of a single agency for coordination is also seen as major problems. A reform of the Muslim Marriage and Divorce Act (MMDA) is requested by progressive Muslim civil society organisations - a main issue is that the MMDA does not specify a minimum age for marriage of Muslim women. The Prevention of Domestic Violence Act (PDVA), No. 34 of 2005, which was introduced in 2005 is deemed to be outdated according to problems observed during the implementation of the Act during the last 12 years. One of the flaws of the PDVA is that the Act is mainly concerned with protecting the victim rather than punishing the offender. Furthermore, the Domestic Violence Act fails to provide proper protection for abused women through the judicial system. In leaving no on behind, Sri Lanka needs to pay more attention to SDG 5 and ensure coherence across social and economic policies to ensure gender equality.

SDG 6: Ensure availability and sustainable management of water and sanitation for all

Sri Lanka is on track towards achieving access to basic drinking water, reaching 89% of the population in 2017. The rural population in Sri Lanka is still heavily dependent on dug wells for fulfilling water requirements. With only 51.5% of the total population having access to piped drinking water in 2019, Sri Lanka has to continue to improve access to piped clean drinking water. In terms of sanitation, the percentage of people with access to sanitation facilities increased to around 99% in 2017. Sri Lanka is considered to have achieved one of the best coverages of sanitation facilities in Asia, where by in 2013, the island achieved 90% of the sanitation sub sector coverage (basically on-site facilities such as septic tanks and closed pit latrines, as well as also proportionate piped sewerage systems). However, rural school sanitation and disabled access to sanitation should be improved. There is a new draft National Policy on Strategies and Institutional Framework for Water Resources Development, Conservation and Management published by the Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation and Fisheries and Aquatic Resources Development in 2019. This new policy recognises the need for sustainable management of water resources due to the current deteriorating status of natural water reservoirs. Sanitation is also a high priority in the new policy draft and the National Water Supply & Drainage Board, Department of National Community Water Supply, Water Resources Board and Provincial Councils/Municipal Councils/ Urban Councils/Divisional Councils will all be responsible for domestic water supply and sanitation. Ground water contamination resulting from on-site sanitation in congested townships is a serious problem which is also addressed in the new policy through sustainable management and development of groundwater. The new policy also highlights the importance of groundwater and the heavy reliance it has on the population and recommends to develop plans, conduct regular monitoring and promote sustainable management and development of groundwater. Other key policies include the National Drinking Water Policy and the National Policy on Private Sector Participation. Water Supply and Sanitation are also crucial elements, needed to achieve SDG 6 but these policies will only be effective, if enforced and updated effectively and timely. Ensuring the progress and achievement of SDG 15 is crucial for SDG 6 as all the major rivers originate from Protected Areas (PAs) and any destruction to these pristine and fragile ecosystems would directly affect the quality, availability and associated ecosystem services of the island's overall fresh water supply. Quality of water directly affects SDG 3, for instance, Chronic Kidney Disease (CKD) is a common issue in some provinces, the reasons of which are still undetermined. It has been aptly named Chronic Kidney Disease of unknown etiology (CKDu), but is said to be due to the presence of heavy metals in water. Waste water management and fresh water pollution management are key policy coherence gaps that should be addressed in order to achieve SDG 11 and SDG 14 in Sri Lanka.

SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all

Sri Lanka has achieved the first target under SDG 7 by reaching 100% electricity accessibility. However, power outages are a common occurrence throughout the country due to various reasons, mainly as a result of infrastructure failure and also extreme weather events. The energy mix comprise of both non-renewable and renewable sources of energy, where 43% of the total energy share is from imported Petroleum and 46% is from renewable energy. Pioneering in hydropower generation from the 1960's onwards, Sri Lanka has now moved towards mini hydro and micro grid solar deployment. The latest discussion on renewable energy in Sri Lanka revolves around achieving 100% of the electricity requirement from renewable sources by 2050. This target was set at the 22nd Conference of Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC) held in Marrakesh, Morocco. According to the Renewable Energy Development Plan Phase I (2019-2025), a comprehensive list of prospective power plants is to be established from 2019 to 2025 under solar energy, wind energy, biomass power and mini hydro power. In addition, the National Energy Policies and Strategies of Sri Lanka published on 09th of August 2019 is based on 10 pillars which encompasses social, environmental and economic progress in terms of energy for Sri Lanka. The plan and the new policy have similar objectives, ensuring a positive outcome in terms of clean energy, if both are properly implemented. However, the Ceylon Electricity Board (CEB) has published the draft long-term generation plan from 2020 to 2039, which proposes to incorporate renewable energy alternatives, while simultaneously recognising the need for coal based electricity generation in the long term in Sri Lanka, directly contradicting the plans to be 100% renewable by 2050. The 100% renewable energy by 2050 scenario has the potential to save US$18-US$19 billion on imported coal in comparison with the base scenario which predicts a continued heavy use of coal. Sri Lanka will need to mobilise capital investments of around US$ 5.0 billion to meet the projected demand for power. "The estimated cumulative investment of about US$ 7.0 billion in the power sector for the period up to 2026 will have to come from both the government, commercial banks, and the private sector, and tap both domestic and foreign sources of capital". Clean energy is not equally accessible to all in Sri Lanka, which negatively impacts on SDG 10 i.e. in Sri Lanka over 78% (2018) of households still use firewood for stoves which is said to have a significantly greater health implications than smoking cigarettes. As for SDG 11, cities that are powered by renewable energy will have reduced air pollution leading to positively impact SDG 3 as well. Certain renewable energy sources have detrimental environmental effects, especially major hydro power plants built on larger rivers, which alter both landscapes and water ways, thereby affecting wildlife populations (SDG 15) and rural communities , the latter of which depend on these rivers for a significant portion of their survival. The Waste To Energy concept and discussion is growing in Sri Lanka, where it is practised at smaller scales around the country. This concept which aligns with the sustainable consumption ideas under SDG 12.

SDG 08: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

The World Bank has downgraded Sri Lanka from an upper middle-income country (2019) to lower middle-income country (2020) due to the changes in World Bank country classification by income level. Even though Sri Lanka graduated to an upper middle-income country in 2019, the Sri Lankan economy achieved a subdued growth of 2.3% in 2019, compared to 3.3% in 2018. The GDP has decreased continuously from 2015 to 2019 from 5% to 2.3%. All major sectors have positive statistics but display modest growth rates. Due to an increase in extreme weather conditions, the agriculture sector recorded a growth of only 0.6% in 2019 compared to the growth of 6.5% in 2018. Meanwhile, the industry sector registered a growth of 2.7% in 2019, compared to the growth of 1.2% in the previous year. With the impact of the Easter Sunday attacks on tourism related activities, the growth of the services sector decelerated significantly to 2.3% in 2019, compared to the growth of 4.6% shown in 2018. Sri Lanka had 8.59 million economically active labour force, and 7.8 million economically inactive population in 2019, in which 73.7% of the 'inactive' sector were females. The percentage distribution of the employed population by enrolment status as an employee, employer and own account worker, with regards to male distribution is high. At the same time, a high level of females can be witnessed as contributing family workers amounting to 78.9%. The proportion of youth unemployment as a percentage of the total unemployment figure was 53% in 2018. Youth unemployment is the percentage of the unemployed population in the age group 15–24 years and that rate is the highest for both sexes, compared to other age groups (21.5%, male 17.6% and female 28.7%). Even though national value of the Gini Coefficient of household income decreased to 0.45 in 2016 from 0.48 (reflected in the 'Household Income and Expenditure Survey 2016 (HIES), there is a huge difference between the average monthly household income of the poorest 20% and the richest 20% (Rs.14,843 and Rs.158,072 respectively). Equitable growth policies focus on nationalising foreign owned productive assets, land development, smallholder irrigation schemes and employment creation. As per the National Policy for Decent Work in Sri Lanka, the goal of decent work is to promote opportunities for women and men to obtain productive work in conditions of freedom, equity, security and human dignity. The focus is not just the creation of jobs, but also the creation of jobs of acceptable quality. However, this policy contradicts with the education policies in terms of job creation in acceptable quality. In terms of labour related laws, Sri Lanka possesses multiple examples of legislation, which have been formulated, in order to protect the labour force, through ensuring a decent work culture (minimum wages, maternity leave, and child labour law etc). In analysing the aforementioned legislation, it must be noted that there are huge gaps concerning proper implementation, which has been further exacerbated by the prevailing COVID-19 situation. In addition, a large number of migrant workers are returning to Sri Lanka, resulting in an urgent need for the relevant policies and procedures to be enforced, which can create a decent work culture/ environment for such inbound communities. Pandemics and other such disasters can have a highly significant impact on a country's economy and climate change projections warn of a future with increased hazards, which could potentially have negative impacts on SDG 8 in the subsequent decades. Even though there is an improvement in the agriculture sector, it has already been affected by abnormal, agriculturally hazardous weather conditions, directly impacting the national economy (SDG 13). Due to a lack of job security in the tourism industry, many impoverished people depending on it will experience an increase in their vulnerability when faced with external shocks, resulting in increased poverty (SDG 1). The GDP which decreased from 5% to 2.3% from 2015 to 2019 will affect the availability of state funds which are to be allocated towards SDG 4 and SDG 3. The performance of this goal will directly affect SDG 10 because even though country records the Gini Coefficient of household income 0.45 in 2016 there are huge disparities between the highest mean household income recorded in Western Province (Rs. 84,231) and the lowest mean household income recorded in Eastern Province (Rs. 43,168) while the country average household income per month is Rs. 62,237 (2016). Also, this SDG goal will interlink with SDG 16 peace and justice due to an apparent increase in youth unemployment in the north and east, a by-product of the Sri Lankan Civil War (1983 - 2009). The new government approach pertains to a greater focus on self-production and manufacturing approach and with regard to this we can link this SDG with SDGs 9, 11 and 12.

SDG 09: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

Industry, as a sector in Sri Lanka is rated as the 2nd highest contributor to the Sri Lankan economy, accounting for 27.6% of the total employment in 2019. However, the success of SDG 9 will depend on inclusive, innovative and sustainable industrial development, in conjunction with investment that ensures greater resilience of environmental, social and economic systems. The Government recognises SMEs as the backbone of the economy as it accounts for more than 75% of the total number of enterprises, providing 45% of the employment, contributing in turn to 52% of the Gross Domestic Production (GDP). However, Sri Lanka has lagged. behind in the fields of science and technology and has not capitalised on the significant global demand for technologically advanced high-quality software products. The government believes that the economy needs a shift towards innovative, knowledge-based business ventures. In order to advance towards a diversified, high value, tradable sector growth process, a country must attract the right type of Foreign Direct Investment (FDI) that brings in modern technology and managerial know-how while motivating domestic private investments. According to the Science, Technology &

Innovation Statistical Handbook of 2015, the lowest investment for Research and Development (R&D) from the island's GDP was 0.1% in 2014 and it was the lowest investment towards R&D within the time period from 1966 to 2015, with 2013 and 2015 specifically recording a mere 0.11%. As per the Global Competitive Index 2018, Sri Lanka ranks 110 out of 119 countries based on the percentage of R&D expenditure against GDP. The financial resources for R&D come from different sources, including 60% (which is derived from the Government), 34% from business enterprises, 2% from foreign finances and 4% from other sources. When compared to government funds, foreign funds are much less. Internet connections in Sri Lanka grew by 26.9%, and accordingly, internet penetration stood at 61.5% by the end of 2019. Sri Lanka's IT/Business Process Outsourcing (BPO) industry has set its vision to achieve US$ 5 billion in exports by 2022 while generating 200,000 jobs. The continuous progress in telecommunication can be seen in Sri Lanka, with the mobile telephone penetration standing at 150.8% by end 2019. The government continued its activities related to the construction of new roads i.e. the rehabilitation of existing roads during 2019 by the Road Development Authority (RDA), which also spent Rs. 55.5 billion on expressway development, Rs. 71.8 billion on highway development and Rs. 9.4 billion on the construction of bridges and flyovers during 2019. The promotion of agro-based industry and the manufacture of finished agricultural products needs greater priority in the Sri Lankan industrial policy. The government should foster environmentally friendly and sustainable industrial growth through the establishment of macroeconomic stability which would lead to lower inflation and interest rates. Even though the policy has provided directions for sustainable industrial development, the major projects implemented under industrial sectors have clashed with environment protection policies. Even though internet penetration is recorded as 61.5% and mobile phone penetration as 150.8%, the majority of the population does not utilise internet for productive uses; many in rural areas lack the knowledge on accessing internet through their smartphones to utilise it for their benefit. Such inequalities are still present and the vision of generating 200,000 jobs by 2022 is again focused predominately on the urban population, preventing such opportunities from flowing into rural areas (SDG 10). With the required IT literacy not reaching rural populations, the IT/BPO Sector continues to be dominated by the urban population and it doesn't have a positive impact in terms of alleviating unemployment and poverty in rural areas, thus directly impacting on SDG 1 and SDG 8. Educational Policies are moving towards IT related innovations and (as an example), subjects such as "Technology", have been introduced as an A/L subject. This would be a future investment to match the industry sector, with the educational sector catering to the requirements posed by the industry sector (SDG 4). The SME sector being the backbone of the Sri Lankan economy, contributes to 52% of the total GDP and yet, it lacks critical support for innovation, research and development. With regards to innovations in Sri Lanka the trend in patents registered across different disciplines in Sri Lanka showed an increasing trend from 222 patents in 2014 to 263 by 2015. However, in comparison Sri Lanka falls far behind other countries such as Malaysia and Philippines that registered 6,455 and 3,359 patents respectively in 2015, significantly impacting the economic growth of the country (SDG 8). The Government proceeded with the construction of new roads and road rehabilitation, in order to facilitate an efficient transportation system. Unfortunately, this drive towards improving transportation has had direct negative environmental impacts especially due to the failure to include viable Wildlife Corridors under the newly built Expressway Network. The government should prioritise the environment and overall sustainability when planning massive infrastructure developments. The multiple and cumulative impacts associated with large scale development projects that are located within/in the immediate vicinity ecologically sensitive areas which are also inhabited by socially marginalized groups has not been addressed in Sri Lanka. The industries in Sri Lanka should be accountable for external impacts incurred by industry activities. Sri Lanka must upgrade infrastructure and retrofit industries to make them sustainable with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, to be coherent with the climate action specified in SDG 13.

SDG 10 - Reduce inequality within and among countries

Even though Sri Lanka has achieved 0.45 Gini Coefficient in 2016 in comparison to 0.48 in 2012/2013, the richest 20% of the population receives nearly 51% of the island's total household income, while the poorest 20% receive a mere 5%, while the middle 60% was receiving 44%, according to the Household Income and Expenditure Survey 2016. Based on the survey conducted by the Department of Census and Statistics (DCS), the average household income per month was Rs. 62,237 and the median household income per month in Sri Lanka reported as Rs. 43,511 in 2016. However, when it comes to the poorest 20%, the monthly average household income was Rs. 14,843 and it is far below the average household income per month calculated for Sri Lanka; with regard to the monthly average household income of richest 20%, it amounts to Rs. 158,072 which is higher than the average Rs. 62,237. Furthermore, the changes in the average monthly household income per socio-economic group show that poorest income will change by roughly 0.7% monthly, middle income by 0.3% monthly and richest monthly income can vary by 2.5%. This makes alleviating inequality among these socio-economic groups difficult. There are a number of social protection programs initiated by the government to reduce the inequality within the country and 33% of Sri Lankan households are receiving the Samurdhi benefits. Furthermore, government expenditure has increased from Rs. 39.2 billion in 2018 to Rs. 44.7 Billion in 2019 for this poverty alleviation program, increasing the beneficiaries' number from 1.4 million in 2018 to 1.8 million in 2019. Even though the government is spending large sums of money to alleviate poverty and reduce inequality in Sri Lanka, the number of beneficiaries for the above-mentioned programs are increasing year by year. Unfortunately, it is reported that some deserving families have never received these benefits. The Government has implemented social policies to offer free education and health, while simultaneously introducing different types of social protection programs to reduce inequalities across the island. Despite such measures, inequality continues to exist throughout the country, due to the contradictions and incoherence within policies as well as lack of proper implementation. The Sri Lankan Government has taken a number of actions to alleviate poverty among the population, yet huge income disparities are observed between the richest and poorest; impacting negatively on SDG 1. The high inequality drives the increase in poverty, poverty pockets depict high inequality among the population. With this situation the country is not in a position to achieve the zero-hunger goal (SDG 2) as well, because the targets within these goals are interlinked with each other. In a country where the richest 20% consume 51% of the total household income, equal access to health (SDG 3), education (SDG 4) as well as water (SDG 6), energy (SDG7) and all resources, public utilities and opportunities across all the SDGs become impossible for a majority of the population.

SDG 11- Make cities and human settlements inclusive, safe, resilient and sustainable

Sri Lanka has a reported population of 21.6 million people and the urbanisation in Sri Lanka was reported as 18.2% in 2019 by the DCS. According to World Bank data, only 3.9 million out of 21.2 million are officially living in urban areas and the estimated annual average rate of urbanisation is 0.85%. Also, Sri Lanka was ranked as the 5th least urbanised out of 233 countries, according to the UN's World Urbanisation Prospects for 2018, with an 18.5% urban spread. The given figure is far below the global average of around 50% and it is the joint lowest urbanised country in South Asia. However, a report by the Faculty of Architecture, University of Moratuwa in 2015 states that current urbanisation rate could exceed 30% in Sri Lanka if the official administrative criteria and definitions are changed. According to the present criteria only those living in Municipal Council (MC) or Urban Council (UC) areas are considered urban. This may be misleading as some Pradeshiya Sabha or Local Council areas and many peripheral areas in Sri Lanka which are considered rural according to the classification used for administration purposes which have many urban characteristics. Sri Lanka faces challenges in urban planning and design including environmental management, strategic city management, land and housing developments, as well as the management and maintenance of infrastructure. Furthermore, limitations in capacity, resources and functions of the Local Authorities delay the formulation and implementation of urban planning. Urban planning in the country faces difficulties with lack of data that has led policymakers to allocate resources to urgent, short-term issues rather than towards the long term and progressive changes; while there is considerable information on Colombo and the Western province, other cities lack detailed and composite information. Sri Lanka experienced a huge man-made disaster in April 2017 when a huge garbage dump slid causing heavy loss of lives and property. This incident triggered a situation of concern among the government authorities as well as the public. Sri Lanka generates 7000 Mt of solid waste per day out of which the Western province generates 60%; According to the Waste Management Authority and the Central Environmental Authority, only half of this waste is collected. The National Strategy for Solid Waste Management (NSSWM) has formulated guidelines for effective management of solid waste. Wetlands, rivers and other streams have become dumping sites of waste material. According to the municipal and local government authorities the non-separation of solid waste at the places of origin, especially the household, is the core of the problem. Therefore, the community participation in the disposal of solid waste is an important factor. No attention has been made to the needs of the communities in vulnerable situations; no facilities have been provided to the disabled and elderly persons to gain access to the railway carriages and buses. In 2015, the transport sector contributed to around 10% of GDP and generated about 6% of employment. However, the sector is responsible for more than half of the greenhouse gas emissions in Sri Lanka and contributes to more than 16% of the import bill (vehicle and fuel) of the country. Meanwhile, a National Policy on Transport is still in a draft format and has been submitted to the Cabinet for approval recently (2020). The draft policy points out that the present transport system in Sri Lanka needs significant improvements. Lack of effective integration of existing transport systems, inefficiencies in public transit, para transit and private vehicle operations and management, inadequate transport demand management interventions, capacity limitations in transport related infrastructure, lack of stakeholder capacity, un-coordinated land use development and lack of policy directives to encourage efficiency improvements are the main reasons for the present state; another case of lack of policy coherence and integration in Sri Lanka.

SDG 12: Ensure sustainable consumption and production patterns

Sri Lanka is yet to show adequate progress towards achieving SDG 12. The domestic material consumption was 107.4 million metric tons as of 2017, which is a significant increase from the 89 million metric tons recorded in 2015. This increase in consumption leads to daily solid waste generation of around 8,000MT to 15,000MT where 56.6% of it is organic material which is biodegradable in the short term, 5.94% of it is biodegradable organic matter in the long term, and the rest of the 37.46% belongs to polythene and plastic, glass, paper, wooden, metal and more. Around 86% of Sri Lanka's waste ends up in landfill, of which only 6% is composted and 4% is recycled. Even though the percentage recycled is very low, there has been an increase in recycling centres being developed around the country for plastic, paper, glass and even to manage e-waste. Hazardous waste management is still not properly implemented. Even though Sri Lanka is a signatory to the Basel Convention, it has not been incorporated into national legislation. Hence the major controversial issue of the UK sending clinical hazardous waste containers to Sri Lanka in 2019, sparked a wide outrage among environmental activists and academics as well. Similarly, the National Waste Management Policy (since 2019) which is still at the draft stage proposes to ensure that Local Government Authorities (i.e. Provincial Councils) will ensure proper solid waste management in Sri Lanka, with the Central Environmental Authority (CEA) and Marine Environment Protection Authority (MEPA) being responsible for the overall enforcement of existing legislation on waste management, across multiple eco - climatic zones and associated habitats. The National Policy on Sustainable Consumption & Production (NPSCP) for Sri Lanka has been effective since the 29 October 2019. This policy was expected to ensure that a circular economy be promoted within the country with the private sector and local government. Policies related to sustainable consumption and production (SCP) should essentially ensure cleaner production, consumer awareness raising, product design for sustainability, sustainable labels, sustainable supply and chain management, sustainable procurement; but this is not the case in Sri Lanka. The NPSCP, while not placing any significant emphasis on consumer protection and consumer rights, simply focuses on consumer awareness while recognising consumers as key stakeholders in decision-making processes. Therefore, the Government must ensure that the NPSCP and the Consumer Affairs Authority Act (No. 9 of 2003), should be integrated to achieve SCP in Sri Lanka. Consumer protection, fair trade and control of prices were managed by separate Acts until 9th Jan, 2003 when the consumer affairs authority act was passed by the parliament which established the Consumer Affairs Authority under the Ministry of Industry and

Commerce. This Act protects the interest of consumers, by safeguarding both consumer rights and traders from being subjected to any injustice. Sri Lanka has not yet effectively integrated SCP and sustainable development into the education system (SDG 4) and needs to be prioritised in order to influence a change in public behavioural patterns towards consumerism. Moreover, unsustainable agricultural practices could lead to lack of food security (SDG 2) and land degradation (SDG 15). Water quality (SDG 6) can be improved by reducing pollution, eliminating dumping and minimising hazardous chemicals and materials, halving the proportion of untreated wastewater and increasing recycling and reuse. Lack of proper waste management policies and procedures affect SDG 6 and SDG 14 since all improperly managed waste ends up in the Indian Ocean. While ensuring policy coherence between consumer protection and producer responsibility polices is essential, the investment in research and development (R&D), science and technology (S&T) and innovation is a critical factor, but the prevailing gap between both Sri Lanka's policy and business approaches, might keep the SCP a distant goal, subsequently creating impacts across all other SDGs as well.

SDG 13 - Take urgent action to combat climate change and its impacts

Sri Lanka is slowly progressing towards climate action in terms of policy development but is lagging behind on actual mitigation. The Climate Change Secretariat (CCS) was established following the signing and ratifying of the Paris Agreement. Since then, Sri Lanka has published the NDC's, NAP and the National Communications. Prior to the CCS, the National Climate Change Policy was published in 2012 focusing on mitigation, adaptation, vulnerability, sustainable consumption and production and knowledge management. The policy also highlights the need for sustainable financial mechanisms to ensure effective implementation of the policy in Sri Lanka. The need to act on climate change in Sri Lanka is highlighted through the Global Climate Risk Index developed by Germanwatch, an international organisation, which has listed Sri Lanka under the top 10 most affected countries from 2018 to 2020 consecutively. Even though the ranking has moved between the top 10 ranks, it is apparent that Sri Lanka is facing the impacts of climate change both directly and significantly. An increasing number of deaths, combined with the displacement of people is being recorded island wide due to extreme weather events such as droughts and floods. For instance, in 2019, 634,000 people were recorded to have been affected by droughts, with the Northern and Eastern provinces reportedly being the most affected. In the same year, 71,000 people were recorded as having been affected by heavy rains, flooding and landslides throughout the island, resulting in a death toll that stood in excess of 360 people (confirmed as having drowned as a result of the inclement weather). On average the healthcare costs associated with disasters in Sri Lanka were estimated to be in the vicinity of 52.8 million US$ annually, with 70% of the aforementioned figure being attributed to costs borne as a result of drought conditions. Furthermore, studies conducted in Sri Lanka on climatic factors that affect the spread of vector borne diseases have found positive correlation between the spread of dengue and climate change, with the year 2019 alone recording 90 dengue fatalities, with such fatalities being part of a much greater figure that stood at 96,903 reported dengue cases island wide. The Sri Lanka Post Disaster Needs Assessment (PDNA) 2017 report highlights that Sri Lanka still has inadequate early warning systems in place and highlights the inadequacies of community preparedness. There is a strong correlation between climate change and disasters, therefore when addressing climate change, disaster risk reduction has to be prioritised. The Roadmap for Disaster Risk Reduction states that by 2020, local DRR strategies should be established in line with the National Disaster Management Plan (Draft) 2018 to 2022. Education plays a key role in understating impacts of climate change and the new syllabus incorporates climate change into secondary education under the new syllabus from Grade 7 and above under different subjects, such as Geography, Health & Physical Education, Science and Technical Education. Poor land-use planning and utilisation have been highlighted in the most recent disasters from 2016 to 2018; unstable river banks resulting from sand mining, loss of natural buffer zones, blocking downstream waterways and construction in retention areas have all contributed to the increased risks of flooding and landslides. By 2050, it expected that the GDP in Sri Lanka will experience a decline of 7.7%, corresponding to a loss of US$50 billion, and that 19 million people are currently inhabiting hotspots which will suffer severe impacts of the temperature change of 1°-1.5° degrees. By 2050, Colombo is projected to experience a 7.5% decline in living standards. Climate change has the potential of multiplying all other challenges and negatively impacting the drive towards prosperity, and Sri Lanka would be well advised to ensure that all policies, strategies and programmes are coherently integrating environmental, social and economic dimensions to ensure greater resilience.

SDG 14 - Conserve and sustainably use the oceans, seas and marine resources for sustainable development

In 2016, South Asia including Sri Lanka generated 26 million tonnes of plastic waste into the ocean. This situation has led to the creation of a dead zone in the Bay of Bengal where oxygen levels have gone down resulting in an enormous reduction in marine life within of Bay of Bengal. Even with adequate policies and regulations, according to Wall Street Journal and the University of Georgia, Sri Lanka is ranked the 5th largest plastic polluter in ocean spheres. Sri Lanka's annual plastic waste disposal in the Indian Ocean is 1.6 million metric tons. However according to the Ocean Health Index 2019, Sri Lanka has maintained 58% clean marine waters. Progress on the SDG 14.5 remains low, according to the World Bank, with the total extent of the Marine Protected Areas (MPAs) remaining at 0.1%. This is far below the recommended average of 10% for Marine Protected Area (MPA) coverage. Furthermore, establishing community managed coral nurseries and other marine nurseries could result in the expansion of Marine Protected Areas (MPAs) in the country. Lesser progress is also shown for SDG 14.4, as 80% of fish stocks are reduced due to micro plastic contamination, unsustainable fishery practices and overfishing; further surveys are required to get an understanding of the current fish stock for the next 5 years. Data collection and monitoring process taking place from institutes such as Marine Environment Protection Authority (MEPA) and National Aquatic Resources Research & Development Agency (NARA) are only on some selected indicators, but does not specifically focus on the SDG 14 monitoring mechanism. This leaves a wide gap in the review and follow-up of SDG 14 as well its impacts on the national economy, the marine ecology, as well as coastal community livelihood. The key legal framework structures for conservation and sustainable use of ocean and marine resources includes the Fauna and Flora Protection Ordinance (FFPO) of 1937 and the Fisheries and Aquatic Resources Act (FARA) of 1996. Sri Lanka also introduced a number of legal frameworks to address marine pollution and the unregulated utilisation of coastal zones, namely the Marine Pollution Prevention Act (MPPA) No. 35 of 2008 and Coast Conservation and Coastal Resource Management (Amendment) Act (CCCRMA), No. 57 of 2008. With specific reference to interlinkages with other SDGs, the combined loss of fish stocks due to overfishing and the impacts of IUU affects SDG 12. Due to increase of ocean acidification and marine pollution fish stocks were reduced showing low progress dropping the nutritional levels of fish foods affecting SDG 2. Not achieving (SDG 15.8.1) target will result in poor performance on 14.4, 14.5 and 14.1 reducing fish stocks. SDG 15.c.1 is directly linked to SDG 14.4 as the number of marine species not protected under the relevant legislation (refer FFPO Schedules II, IV, VI and VIII). Improving R&D relating to ocean sciences and sustainable fisheries (14.b), will have direct performance on SDG 9.5 for improvement of research.

SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

A total tree cover of 3,446,232 ha (2018) amounts to 52% of Sri Lanka's total land area of 6,628,110 ha. The forest cover definition in Sri Lanka under the current iteration of the Forest Conservation Ordinance (No. 65 of 2009) states that 'forest' is not defined as tree cover but rather all the land that is under disposal of the state, including land that has been degraded and deforested; this definition varies significantly with global definitions. The primary forest cover, which refers to highly biodiverse and carbon-dense form of forest has now declined to around 17% as of 2018, which is a mere 586,518 ha, as reported by an international website on verified forest data, titled Mongabay. According to the Nationally Determined Contributions (NDCs) Sri Lanka has a forest cover of 29% and aims to increase it to 32% by 2030. But the problem associated with this national goal is that 29.6% is a statistic from 1996 which was obtained during the last official forest cover assessment conducted in Sri Lanka using LANDSAT TM imageries. However, as of 02 July 2020, the amendment/removal of the Government Circular No. 05 of 2001 was approved by the acting cabinet, and this would mean that approximately 700,000 ha of forest land under the purview of the Department of Forest Conservation (DFC) would be available for other land uses. Environmentalists have warned that this could result in the loss of small Other State Forest (OSF) patches including much needed Wildlife Corridors. Terrestrial Protected Areas (TPAs) hold the majority of the biodiversity of Sri Lanka's fauna and flora and 30% of the land area in the island has been classified as a Protected Area (PA) under the Department of Wildlife Conservation (DWC) and Department of Forest Conservation (DFC). The CEA under the National environment Act (No. 47 of 1980) has declared 10 Environmental Protection Areas (EPAs) as well. The majority of the endemic species in Sri Lanka reside in the lowland rainforests but only 9% of it is under Protected Areas (PAs). Forests within Protected Areas (PAs) have been subjected to severe degradation and deforestation and as of 2019, 23,000ha of forests have been lost or degraded according to the 6NR on Biodiversity profile of Sri Lanka. Multiple examples of Human Wildlife Conflict (HWC) are rampant all over the country especially in places with high biodiversity, therefore without proper interventions by the responsible government entities, biodiversity loss cannot be halted. As of 14th February 2020, the new wildlife trade management system was released in Sri Lanka, developed by the UNCTAD and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and it will assist Sri Lanka in maintaining its wildlife trade by using an electronic permit system, the first in the world. There is a draft National Policy on Conservation and Management of Wild Elephants in Sri Lanka as of February, 2019, it aims to protect the Wild Elephants in Protected Areas (PAs) and outside. Snares have been the leading cause of death for the Sri Lankan Leopard and over the last 10 years there have been 42 recorded deaths of Leopards that died due to snares, which is illegal as stated by the Flora and Fauna Protection Ordinance (No. 22 of 2009). Achieving SDG 15 will ensure that the physical impacts from climate change (SDG 13) will be minimal as preserving forests will ensure the average temperature within the country will not rise dramatically and act as a natural carbon sequester. Healthy forests ensure soil conservation which can limit the damage from disasters such as floods, thereby achieving resilience to projected climate change impacts. Sustainable forest management, as called for in SDG 9, is currently not been practised in Sri Lanka as a significant percentage of the population depend on forest-based products in many rural industries; for example, the validity of Protected Areas such as “Village Forests”. Sustainable forest management can also supply biomass as a renewable energy source (SDG 7), since rural Sri Lankans heavily depend onbiomass energy. To ensure the long-term survival of wilderness areas in Sri Lanka, the education system at all levels need to highlight the importance of both forest and wildlife conservation, something that’s still lacking at the country level,interlinking SDG 15 policies with SDG 4.

SDG 16 - Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Weak governance and a fragmented institutional structure compromises Sri Lanka’s aspiration for peace, justice and inclusive prosperity. In short, gaps in the rule of law, corruption, and the lack of democratic freedom, amongst others issues have continued to negatively impact the country’s standing in global indices on governance standards. Such weaknesses are often reflected in policy unpredictability, weak public service delivery and bureaucratic red tape that deters investments and undermines public confidence. Sri Lanka’s ranks 93rd out of 180 countries on the Global Corruption Perceptions Index (CPI) 2019 with a score of 38 out of 100 and falls between a flawed democracy and a hybrid regime. The most common forms of corruption include facilitation payments paid to avoid bureaucratic red tape, bribe solicitation by government officials, nepotism and cronyism. Meanwhile, domestic violence is prevalent in Sri Lanka where 17% of ever married women (ages 15-49) reported the highest percentage of domestic violence (20%). District wise, the Kilinochchi and Batticaloa districts have the highest level of domestic violence (50%) reported (DCS, 2016). The number of incidents on child related violence has also increased, with independent reports stating that by the end of 2017, there were over 17,000 cases of child abuse stalled at the Attorney General’s

(AG's) Department, dating back as long as ten years and that this figure is believed to have risen over 20,000 by end of 2018. This is taking place despite many policies, laws and regulations prevailing in the country e.g. the National Child Protection Act, No. 50 of 1998, the Prevention of Domestic Violence Act, No. 34 of 2005, the Children and Young Persons Ordinance, the National Child Protection Policy, and the National Policy for Child Day Care Centres (Draft). Meanwhile, issues pertaining to national reconciliation remain to be settled with more convincing action that showcases the commitment to post war peace building. The United Nations Human Rights Council (UNHRC) continues to call for the promotion of reconciliation, accountability, and human rights in Sri Lanka, a notion also backed by some local human rights organisations as well. As a country now seeking for inclusive prosperity, Sri Lanka would reach a favourable position, by ensuring that measures are taken to advance reconciliation amongst all ethnic and religious communities and draw all of society to contribute and enjoy the complete benefits of prosperity with equal opportunity. Sri Lanka cannot be satisfied with its efforts on the implementation of SDG 16 and needs to rethink its governance processes to be more inclusive, a properly integrated public institutional structure, a justice system that is fair and true to all, all in the name of ensuring that no one is left behind in their resolve for national prosperity i.e. the failure of adequate attention to SDG 16 will create gaps in fulfilling all other goals.

SDG 17: Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development

SDG target 17.1 calls to strengthen domestic resource mobilisation, especially through international support to developing countries to improve domestic capacity for tax and other revenue collection. This is an area which Sri Lankan authorities have failed to pay adequate attention. The country after five years into the 2030 Agenda continues to be without a strategic plan for domestic resource mobilisation for the SDGs. Sri Lanka's Government revenue as a percentage of GDP shows a decreasing trend 12.2% in 2019, 13.37% in 2018 and 14.1% in 2016. The share of domestic budget funded by domestic taxes has also been steadily declining, having shown an increase in 2015 of 12.38%, it has levelled off after 2016 at 12.29%. Sri Lanka has been a recipient of Official Development Assistance (ODA), provided bilaterally or through multilateral development agencies for decades. Sri Lanka received nearly US$ 1400 Million in disbursements in ODA in 2018, with Japan, China, ADB and the World Bank being the four main contributors. According to the World Bank, Sri Lanka's central government debt level is high at an estimated 86.8% of its GDP. As the country approached upper middle-income status, (since then downgraded in 2020), it has been borrowing on less concessional rates with increased cost and risk. Accordingly, the total Debt Service as percentage of GDP from the years 2016-2018 was 11.3%, 11.9%, and 14.5% respectively. Assessing an appropriate level of tax burden (revenue in the form of taxes) is a critical element of fiscal policy with implications for economic growth. Sri Lanka fares badly in this indicator. The share of domestic budget funded by domestic taxes has been steadily declining and has levelled off after 2016, reaching only 13.37% in 2018. Remittances seem to have plateaued at about $ 7 billion and their growth has continued to exhibit a secular downward trend since 2011. The Central Bank of Sri Lanka, has forecasted a 15% decline in worker remittances for 2020. The Government must review its policy framework for foreign employment and implement measures to address the decline in remittances. Sri Lanka will need to attract substantially more FDI in order to fuel growth. Sri Lanka has granted preferential tariff benefits to a wide range of products imported under the following trade agreements/arrangements: The Generalised System of Preferences (GSP), the Indo–Sri Lanka Free Trade Agreement (ISFTA), the Pakistan – Sri Lanka Free Trade Agreement (PSFTA), the SAARC Preferential Trading Arrangement (SAPTA), the South Asian Free Trade Area (SAFTA) and the Asia Pacific Trade Agreement (APTA). As a founding member of the GATT, Sri Lanka remains fully committed to the WTO by pursuing an outward-oriented multilateral trade system. As mentioned in media reports many associations of professionals in Sri Lanka, had the sentiment that the Economic and Technology Co-operation Agreement (ETCA) was unsafe. The country reiterated the need for a comprehensive trade policy before signing any such agreement. Similarly, the Sri Lanka - Singapore Free Trade Agreement (SLSFTA), was challenged in Supreme Court. As of February 2020, the Attorney General's Department informed the Supreme Court that the government has decided to review the SLSFTA signed during the previous administration. The Sri Lanka-India Free Trade Agreement (SLIFTA) also displays many issues, including the initial positive factors to Sri Lanka which no longer exist. In May 2017 the EU granted Sri Lanka better access to the EU for its exports. It did so under the EU's Generalised Scheme of Preferences Plus (GSP+). As much as 50% of our total exports to the EU utilised the GSP+ facility in 2018 and overall utilisation of GSP+ preferences has increased marginally from 54.8% in 2017 to 58.1% in 2018. The apparel sector accounts for over 60% of exports to the EU.As for trade, the experience of countries that have successfully used trade to achieve and sustain high rates of economic growth over a long period illustrates the high potential pay-offs to the pursuit of a trade-oriented development strategy, which is not exactly Sri Lanka's strength. In order to address systemic issues, the Government needs to pay serious attention to SDG17.14 and enhance Policy Coherence for Sustainable Development (PCSD). The information so far shows that Sri Lanka has not taken such an approach and has not progressed in policy coherence, therefore compromising the successful achievement of the SDGs by 2030.

CHAPTER 02:

THE LOCALISING CONTEXT

An Analysis of Governance Systems and Public Financing for Implementing the SDGs in Sri Lanka

2.1. Introduction

'Leaving no one behind' is the central principle in the 2030 Agenda for Sustainable Development, geared towards achieving the Sustainable Development Goals (SDGs) and transforming the world. So far, the promise of "leaving no one behind" has not been practiced effectively in Sri Lanka, and Stakeholders including local governments have not been engaged adequately at all levels for an inclusive transformation. Localising the SDGs entails taking into account the subnational context in the achievement of the 2030 Agenda, from the setting of goals and targets to determining the means of implementation and using indicators to measure and monitor progress. Localising the SDGs is a process which attempts to empower all local stakeholders, aimed at making sustainable development more responsive, and therefore, relevant to local needs and aspirations. The SDGs can be reached only if local actors fully participate, not only in the implementation, but also in the agenda-setting, financing, implementation, monitoring and review.

Subnational governments are critical in turning Agenda 2030 from a global vision into a local reality. Local communities and stakeholders, who know individual and collective needs and capacities best, are critical partners in implementing and realizing the SDGs. Going beyond the direct application of the global goals and targets to the local level, localisation is about adopting the SDGs to find solutions to local challenges and aspirations through innovation and co-creation with requisite capacity building. The overall challenge of transformation by 2030 to address systemic issues would entail ensuring means of implementation (MoI) including financing, trade, and technology at local levels effectively; this becomes a greater challenge when subsidiarity is not facilitated by the centre. The relevance of local governance and the success of localising SDGs will depend on the defining of the global targets in terms of local indicators. In other words, the global goals will needs to be translated into local goals, and local indicators needs to be developed. Therefore, local sustainability plans and strategies will be most important if localising the SDGs is to be relevant, meaningful and successful.

In the context of mobilizing domestic resources for the SDGs, first and foremost, the priority must be to establish a national context on the application of the principle of subsidiarity and an agreement on the decentralization of governance, public service delivery, public finance, and stakeholder engagement. The call for a whole of government approach in implementing the SDGs would mean that an integrated public delivery system is facilitated across the three tiers of government; national, provincial and local. The policy and programme context for localising the SDGs in Sri Lanka needs to be defined by a unitary though multilevel system of government in Sri Lanka. An analysis of multi-level governance systems and public financing in Sri Lanka would provide critical insight into the context of localising the SDGs and towards the mobilisation of domestic resources.

2.2. The Multilevel Governance System and Localising SDGs

The context for localising the SDGs in Sri Lanka is provided by the multilevel system of government and the ensuing system of intergovernmental relations between the three levels of government; national, provincial and local, as established by the 13th Amendment to the Constitution. However, the constitutional assignment of powers and functions of the three levels has not led to any reordering of the service delivery responsibilities of the national vis a vis, the provincial and the local in terms of subsidiarity. The reality of constitutional reform was in effect to superimpose a middle tier of government in the form of Provincial Councils within the existing (Post Independent) system of the centre working through a network of de-concentrated territorial administration and a system of locally elected councils. The fundamental issue of localization is fragmentation in systems, structures and processes of planning and budgeting across sectors of service delivery and levels of government. It violates the fundamental principle of sustainability, that of the indivisibility of the economic, social and environmental, intrinsic to the state of human wellbeing, especially of those left behind.

2.2.1. The Multilevel System of Government and Governance

The system of inter-governmental relations, is constitutionally defined by the 13th Amendment, establishing the Provincial level of Government while recognizing the powers and functions of the extant Local Government, has been centre-driven. The centre defines public policy and develops programs reaching out to the provincial and local levels of government. On the one hand, constitutional reform for establishing Provincial Councils did not change the primacy of the Central Government in relation to public finance, leaving the provincial and local governments financially dependent on the centre. On the other hand, the constitutional assignment of subjects and functions reserved "national policy" on all subjects and functions as a responsibility of the centre. Thus, the service delivery roles of the provincial and local levels are defined centrally through national policy, constraining the program space available to the provincial and local levels of government for localising service delivery to address local needs is constrained. The net effect of the constitutional changes and the ensuing administrative systems has been to create a fragmented policy and program context for localising the SDGs, driven by an output rather than an outcome orientation in service delivery.

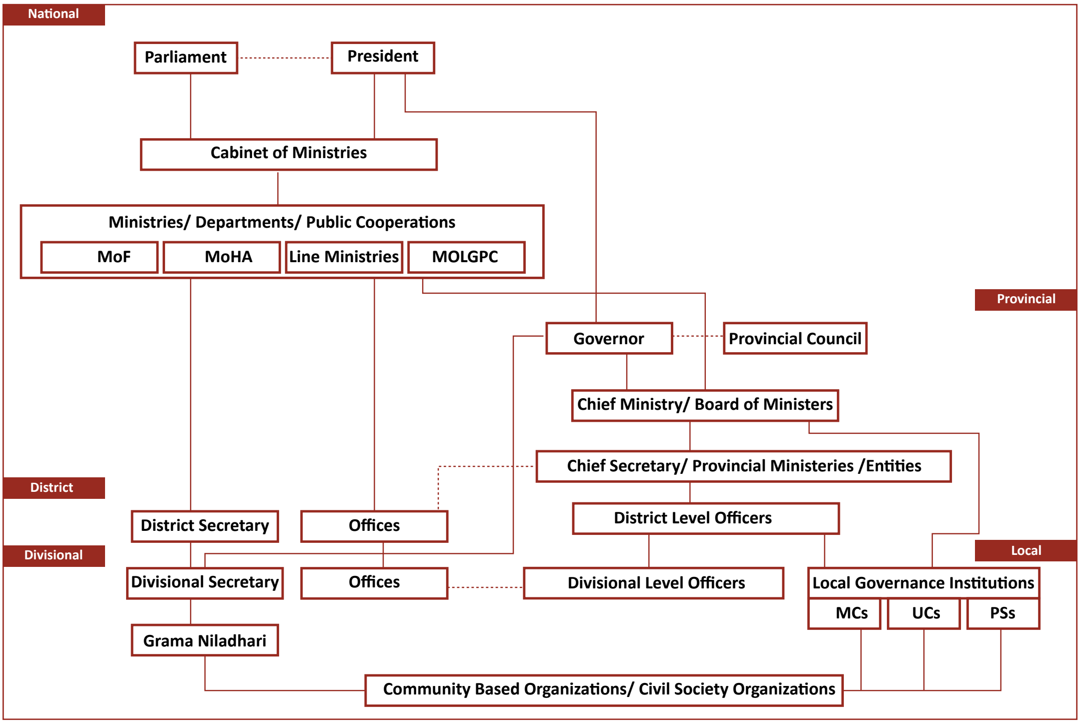
Some of the pertinent questions to be asked include; despite limited financial resources and little autonomy, how can local governments make decentralisation work for inclusive local development? How can local governments engage with national governments, civil society and the private sector in order to localise the SDGs? And, finally how to overcome challenges such as inefficiencies in public expenditures, lack of clear fiscal regulatory policies, and the transfer of functions from national to subnational level.

2.2.2. The Subnational Intergovernmental System

The system of subnational governance is fragmented between the set of national level de-concentrated structures at the district and divisional levels, and the set of devolved structures at the provincial and local levels.

The de-concentrated delivery system is defined by three operational levels, the District, the Division and the Village (Grama), where officials of Central Government entities engage in carrying out program tasks, taking specified services to people. Each such service provider fields a hierarchy of officials at the district and divisional levels, exercising delegated responsibility, but performing within a set of local relationships. A system of inter-agency relationships has evolved over time at the District and Divisional levels. These

Figure 01: Structure of Government Administration in Sri Lanka



sets of relationships are defined by five sets of roles and functions. They include agency delegation, inter-agency functional relations, planning and monitoring of development activities, linkages between national policy and local implementation, and linkages with the devolved structures of provincial councils and local authorities. The District is at the apex of the de-concentrated spatial scales, linking central and provincial policy and programmes with Divisional level implementation. The Division functions as the primary unit of administrative operations for all central and most provincial service deliveries. The Division brings together the political, administrative and non-government actors in local level decision making, thereby making it the critical player in the local service delivery system.

The Provincial Council constitutes the apex of the subnational spatial scale. It holds legislative; executive, fiscal and administrative responsibilities in respect of subjects assigned to the Provincial Council, under the Provincial List. The Provincial Councils Act No 42 of 1987 provides every PC with a Provincial Public Service. Powers of appointment, transfer, dismissal and disciplinary control are vested with the Governor of the Province. It also vests budgetary competencies around a Provincial Fund established in respect of each PC. These constitutional and legal powers establish PCs as competent service providers within the respective province.

This system of Local Government administration is comprised of elected Municipal Councils, Urban Councils and Pradeshiya Sabhas, which derive their powers from the respective Ordinances and Acts. All local authorities are, “charged with the regulation, control and administration of all matters relating to health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people and all amenities".

2.2.3. The System Context for Localizing SDGs

The subnational system of governance brings together two sets of service providers that are distinct in terms of their powers and functions, creating an uneasy co-existence of the de-concentrated (Secretariats at the District and Divisional level which are agents of the Central Government) and the devolved structures and systems of governance (Provincial councils and LAs). It undermines subsidiarity in so far as the de-concentrated delivery system is accountable to the centre while the devolved delivery systems are accountable to their electoral constituencies. Further, the systems, structures and processes for planning and budgeting are fragmented vertically between national, provincial and local levels of service delivery, and overlap sectorally. Both tiers being involved in services and planning, confuses the public and increase opportunities for wasteful duplication in service delivery.

This vertical fragmentation results in the parallel presence of agency-based service delivery programmes that are independently planned and budgeted though interdependent in terms of delivering development outcomes and human well-being. It undermines the indivisibility of economic, social and environmental dimensions of sustainable development. While the SDGs provides an outcome framework for integrated planning and budgeting, it should be grounded on an enabling governance framework for coherence and cohesion between de-concentrated and devolved service deliveries, vertically and horizontally.

It is noted, that so far, the national level has not demonstrated any movement towards policy and programme integration that would allow prioritizing the financing of service delivery for development outcomes. The national level policy and programme disconnects in planning and budgeting, translating into fragmentation at the subnational level, in systems, structures and processes for planning and financing the targeting of service delivery to meet the SDG outcomes of "leaving no one behind".

2.2.4. The Status of Decentralised Implementation of SDGs:

Localising the SDGs involves translating the SDG targets into local development priorities in a manner that makes them relevant to local development needs, for implementation through the subnational service delivery system. The subnational system of governance does not provide a policy of program space for translating the SDG targets into subnational development priorities.

i. A fundamental issue is the fragmentation, both vertically and horizontally, of the policy and program space between the different multilevel sets of service providers. Such fragmentation has limited the integration of service deliveries in targeting outcomes.
ii. Vertical fragmentation following the establishment of a third tier of government at the provincial level, arising from the failure to reorder intergovernmental service delivery roles and responsibilities, which undermines subsidiarity in the allocation of subjects and functions between the national, provincial and local levels.
iii. The fragmentation of service provision between agency-based service

deliveries restricts the focus on results to specific sectoral and often sub-sectoral outputs. The approach to dealing with sectoral/sub-sectoral fragmentation has been coordination, a carry-over of pre-multilevel, district-based agency coordination to post-multilevel negotiation of intergovernmental relations between both the deconcentrated and devolved systems of governance.

iv. The ensuing policy/program lacuna in the working of the multilevel subnational governance system confining service delivery of all levels to an output rather than an outcome orientation. It prevents the subnational service delivery system from engaging with complex development needs that include multiple problems.

v. This situation has resulted in a focus on "projects" to the neglect of the "service" for which such spending must contribute. In fact, planning is annual and implemented with a short-term focus that cannot take into account producing outcomes.

vi. Subnational governance system is defined by a primacy of the public sector. There is a significant absence of partnerships with the private and non-government sectors as well as engagement with civil society in the working of the subnational governance system, de-concentrated or devolved.

2.3. The Public Financing System and Localising the SDGs

Sri Lanka is yet to move from budgetary frameworks (whether at national, provincial or local levels) for funding expenditures to financing frameworks, for investing on development infrastructure. On the one hand, initiatives to align planning with budgeting have introduced Medium-Term Expenditure Frameworks (MTEF) into the national budget format. The notion of MTEFs is yet to be attempted in provincial and local level budgeting. On the other hand, Sri Lanka's funding of expenditures distinguishes between recurrent and capital expenditure, thereby making for a short-term output orientation, whether of services (recurrent) or infrastructure (capital). In fact, what is needed is an integrated focus, a combination of funding and financing in tandem to address service delivery and infrastructure development in order to close the gaps in development outcomes. A strong underlying funding framework is foundational in order to generate the monies required to provide immediate services while also generating a surplus which can be used to leverage upfront investment financing for needed capital development infrastructure.

Current public sector expenditure frameworks do not provide for such integrated funding-financing of development outcomes. It is within such a funding format that the financing of the SDGs is to be addressed. Furthermore, from an SDG implementation perspective, public sector expenditure frameworks grounded on intergovernmental fiscal frameworks should be an integrated process; internally, expenditures being focussed on outcomes and externally involving a whole of government approach. The design of multilevel expenditure frameworks for implementation of the SDGs would then require addressing the issues of aligning the implementation imperatives of the 2030 agenda with the policy and practice on budgeting.

The 13th Amendment to the Constitution sets the multilevel fiscal framework of powers and responsibilities in respect of public finance and budgeting, exercised by Parliament at the national level, Provincial Councils at the provincial level and Local Authorities at the local level. Three lists under the Ninth Schedule to the Constitution demarcates the assignment of subjects and functions between the Centre (Reserved) and the Provincial (Provincial) and a shared area (Concurrent) defining expenditure responsibilities of the Centre and the Provinces. The 13th Amendment guaranteed the extant powers and function of the local sphere, Municipal Councils, Urban Councils and Pradeshiya Sabhas, thus retaining their expenditure role and responsibilities.

The sections will review the budget processes and expenditure frameworks at national, provincial and local levels and issues and implications for financing SDGs.

2.3.1. National Level Financing

According to the United Nations Secretary Generals 'Roadmap for Financing the 2030 Agenda for Sustainable Development', it is vital to increase domestic resource mobilization and enhance the composition, effectiveness and efficiency of public spending. Therefore, the context of national public financing will determine the effective localising of the SDGs.

A. Public Finance Context and Budgeting Framework:

The public expenditure system of the country, functions under the purview of "parliamentary control" in terms of Article 148 of the Constitution, in which it is stated that "Parliament shall have full control over public finance". Operationalization of public finance is organized around a "Consolidated Fund", into which all funds not allocated by law for a specific purpose are paid into. Such funds include the acquisition of all taxes, imposts, rates and duties and all other revenues and receipts not allocated to a specific purpose. On approval by Parliament through the Appropriation Act of the specified purposes for which funds are required, withdrawal can take place under the authority of a warrant issued by the Minister of Finance. Such parliamentary approval of funds is operationalized through an annual "national budget" process. The national budgeting process is put into operation through a "budget call" , setting out guidelines and directions for the preparation of "Annual Budget Estimates". The annual budget is set within the framework of a "Medium Term Budgetary Framework", a forecast of financial provisions for the subsequent two years.

The Annual Budget provides for funds to be transferred to Provinces in terms of Article 154R of the Constitution; in which it is stated that "the Government shall, on the recommendation of, and in consultation with, the Finance Commission, allocate from the Annual Budget, such funds are adequate for the purpose of meeting the needs of the Provinces". It is also mandated to recommend the principles on the basis of which such funds should be allocated proportionately between the provinces. The assessment of provincial needs, both recurrent and capital takes place as an assessment that is distinct from that which takes place for the national level. While such sums of monies may be transferred to provinces (as would be provided for in the Annual Budget), there is no coordination between the two processes even though there would be national and provincial, and perhaps local spending in the same sector.

B. Budget Call:

The National Budget Circular No. 04/2018 defines the spending parameters for the

2019 Budget around the following broad areas of guidance.

a. **The macro-economic framework** that will guide fiscal projections in budget preparation. It sets the parameters within which the recurrent expenditure is rationalised and capital expenditure is prioritised. The parameters are:

   i. Government revenue at 17% of GDP
   ii. Government recurrent expenditure at 15% of GDP
   iii. Government public investment at 5.5% of GDP
   iv. Budget deficit at 3.5% of GDP
   v. Outstanding government debt to be maintained at around 70% GDP.

b. **Performance-based Budgeting and Key Performance Indicators** that seek to ensure the overall efficiency of the performance of funds provided for different spending purposes. The 2019 budget adopts a Performance-based Budgeting approach which allocates on the basis of "achieving specifically defined measurable outcomes". The Budget Call requires that resource allocations linked to Key Performance Indicators allowing the measurement of not only efficiency but also effectiveness of estimated spending estimates.

c. **Capital expenditure utilization** concerns efficiency of performance on capital expenditure projects which is estimated to approximately 30% less than budgeted on an average.

d. **Policies of resource allocation** provides for key development thrusts for which funding should be provided. These include, Health, Education and Economic Infrastructure. Additionally, two local level investment programs are identified, Gamperaliya and Grama Shakthi for making adequate financial provisions.

e. **Achieving the sustainable development goals** notes the importance of aligning of the SDGs into development programs of the Spending Agencies and directs the Spending Agencies to mainstream the SDG Goals within current and future development activities while simultaneously ensuring that sufficient allocations have been made to achieve the set targets.

f. **Equal distribution for all Districts** seeks to ensure "equal distribution" of resources for all 25 Districts and to provide District-wise distribution of financial estimates.

C. Preparation of Estimates:

The Budget Call sets out the procedure for the preparation of estimates of expenditure by the Spending Agencies. The following guidelines are noteworthy.

a. Preparation of budget estimates within the ceilings.
b. Estimates should include both ongoing as well as government priority projects.
c. Phase out the total cost of projects over the implementation period where they extend over a one-year duration.

Notably, the Budget Call 2019 does not provide any guidelines on the actual estimation of both quantity and quality of outputs, as well as the ensuing costs of service delivery by Spending Agencies. In this regard three items from the guidelines stated in the previous section are noteworthy. These are,

a. Performance-based budgeting and Key Performance Indicators,
b. Achieving the sustainable development goals, and

c. Equal distribution for all Districts.

Taken together, these budgeting parameters have fundamental implications for defining service deliveries in terms of outcomes, as required by performance-based budgeting, as required for aligning outputs with the SDG targets and as required for allocating inter-district distribution of respective service deliveries. While such budgeting parameters set out in 2019 Budget Call require an outcome focus in the preparation of estimates of expenditure by the Spending Agencies, the reality of the budgeting exercise is brought to the fore by the following call to attention of the Spending Agencies in their preparation of estimates, to the release of funds – a purely accounting concern. Thus, the Budget Call guidelines on "Budgetary Allocations for 2019", state, "General Treasury cash releases will be linked to the reported commitments and liabilities. Hence all Secretaries and Heads of Departments will have to update their commitments and liabilities to the General Treasury on a regular basis", which would minimize delays in cash releases. The above parameters for the preparation of estimates suggests an accounting rather than a programme framework, where the focus is more on expenditure control than policy outcomes. The linkage between the outcome framework and the expenditure classification that is drawn out in the guidelines is tenuous, if at all. As will be seen, this is carried into the presentation of estimates.

There are several gaps in the practice of "Guidelines for the Preparation of the Annual Budget Estimates", set out in the Budget Call for 2019.

a. The expectation of "achieving specifically defined measurable outcomes" for the allocation of resources within a performance-based budgeting system is not demonstrated by the information set out in the statement of "Major Projects, KPIs and Major Targets of the relevant SDGs" as a preamble to the estimates of each Subject Ministry. The information presented therein remains at the level of outputs with respect to the capital expenditure projects of the Ministries.

b. Mainstreaming the SDGs within current and future development activities, towards ensuring that sufficient allocations are made to achieve the set targets, is only in respect of major capital expenditure projects. This is despite the format provided for the purpose in the Budget Call, which sought information on alignment in both recurrent and capital expenditure. It leaves out the substantive area of funded service delivery. Further, allocating funds to achieve the SDG targets goes beyond sectoral agency-based budgets, both in terms of fragmentation across agencies as well as between levels of government.

There is no evidence of district-based identification of spending to provide for the equal distribution of funding between districts. It is noted that the notion of equal distribution of funds does not cohere with the principles laid out in Article 154R(5) of the Constitution, which guides the Finance Commission in the apportionment between provinces of funds allocated to meet the needs of the Provinces.

2.3.2. Provincial Level Financing

The constitutional mandate for the provincial provision of public services establishes a provincial fiscal and financial framework for financing such services. It is comprised of expenditure and revenue assignments as specified in the Provincial List of the Ninth Schedule to the Constitution. The subjects and functions assigned to Provinces constitute the expenditure assignment arising from the service delivery responsibilities of such subjects and functions. The revenue assignment of provincial councils comprises items of revenue that provincial councils are competent to levy. In addition, the fiscal and financial framework provides for the allocation of funds from Government's Annual Budget, on the recommendation of and in consultation with the Finance Commission.

A. Expenditure and Revenue Assignment:

On paper, the subjects and functions assigned to the Provinces constitute a wide array of service provision responsibilities. However, in practice this is severely limited by the very constitutional provisions that allow the Centre to engage in areas of provincial competence. Thus, national policy being made a reserved subject, the modalities for determining how concurrent powers are exercised in practice (and the early judicial interpretations of the powers of the Provinces in the reading of the three lists) have all made for a large central presence in areas of provincial service provision competence.

The Provinces are assigned a large number of items of revenue as per item 36 of the Provincial List. However, despite the large number of revenue sources, the provincial tax base is miniscule. It is noteworthy that the sources with any significant potential such as turnover taxes on wholesale and retail sales, motor vehicle license fees, and taxes on mineral rights are within such limits and exemptions as may be prescribed by Parliamentary Law. Further taxes on land and buildings including the property of the State and any other taxes within a province in order to raise revenue for provincial purposes are only to an extent permitted by Parliament. Thus, Provinces cannot act on the revenue powers assigned by the Constitution without the approval of Parliament. At the same time provinces cannot introduce any new revenue measures.

The operational basis of the revenue assignment was radically changed in 2011, when the levy of the Business Turnover Tax by Provincial Councils was suppressed through Government budget proposals. The ensuing loss in revenue on the part of provincial councils was made good by the introduction of "special revenue sharing system" through transfer of specified shares of three national level taxes.

B. Allocation of Funds from the Annual Budget:

The revenue-expenditure assignment results in a large gap between revenue and expenditure. The gap is addressed through the allocation of funds annually from the government's annual budget. Such allocations are provided under three grant items.

a. **Block Grant:** An un-conditional block transfer to meet the assessed recurrent expenditure needs of the Provinces. The need is estimated on the basis of the gap between the assessed recurrent expenditure for the Financial Year and the revenue collection target set for the year.

b. **Criteria-based Grant:** An unconditional block grant for development expenditures of the Provinces. The provincial index is calculated on the basis of a set of indicators reflecting per capita income and socio-economic disparities in tandem with the population of each Province.

c. **Province-Specific Development Grant:** A conditional grant to finance an infrastructure development programme within specified areas of provincial services.

The scheme for the allocation of Funds from the Annual Budget follows a procedure.

a. Assessing the needs of the Provinces through the Finance Commission. This is captured in the 'Guideline for Annual Provincial Capital Expenditure Needs 2021, released by the Finance Commission'.

b. The recommendation and consultation of the Finance Commission with the Government for the determination and allocation of funds from the Annual Budget.

c. Apportionment of such funds between the Provinces by the Finance Commission. In this regard, the Finance Commission is required by the following principles for apportionment set out in Article 154R(5) of the Constitution.

i. the population of each province;
ii. the per capita income of each province;
iii. the need, progressively, to reduce social and economic disparities; and
iv. the need progressively to reduce the differences between the per capita income of each Province and the highest per capita income among the Provinces.

a. Overall shares of revenue and grants is 31.4%:68.6%. The Provinces are thus dependent on allocations from the Annual Budget. The dependence ranges from the lowest in Western Province at 73.4%:26.6% to the Northern Province with a revenue to grant ratio of 14.4%:85.6%.

b. In five of the provinces grants account for more than 80% of all provincial finance.

It is significant to note that the grants are within the allocation funds from the Annual

Table 01: Financing of Provinces: Inter - Provincial Shares 2017

Province	Revenue				Total revenue	%	Grants						Total Grants	%	Total Finance	%
	Devolved	%	Transfers	%			Block Grants	%	PSDG	%	CBG	%				
Western	7,909	17.8	36,588	82.2	44,497	73.4	15,091	93.8	900	5.6	100	0.6	16,091	26.6	60,588	100
Central	1,757	23.8	5,625	76.2	7,382	22.5	23,320	91.7	1,900	7.5	200	0.8	25,420	77.5	32,802	100
Southern	1,865	22.8	6,307	77.2	8,172	25.4	21,033	87.7	2,544	10.6	400	1.7	23,977	74.6	32,149	100
Northern	1,306	36.4	2,278	63.6	3,584	14.4	17,078	80.2	3,637	17.1	589	2.8	21,304	85.6	24,888	100
North Western	1,859	23.0	6,233	77.0	8,092	24.7	21,866	88.8	2,365	9.6	400	1.6	24,631	75.3	32,723	100
North Central	1,144	29.9	2,677	70.1	3,821	18.6	13,828	82.9	2,560	15.3	300	1.8	16,688	81.4	20,509	100
Uva	890	25.5	2,598	74.5	3,488	15.6	16,115	85.5	2,410	12.8	315	1.7	18,840	84.4	22,328	100
Sabaragamuwa	1,251	29.5	2,990	70.5	4,241	16.3	19,350	89.0	1,965	9.0	431	2.0	21,746	83.7	25,987	100
Eastern	868	23.5	2,831	76.5	3,699	14.7	18,668	87.2	2,352	10.5	500	2.3	21,420	85.3	25,119	100
Total	**18,849**	**21.7**	**68,127**	**78.3**	**86,976**	**31.4**	**166,349**	**87.5**	**20,533**	**10.8**	**3,235**	**1.7**	**190,117**	**68.6**	**277,093**	**100**

Source: *Compiled from data from Provincial Councils*

Budget where both national and provincial spending needs would be competing for available resources.

D. Budgetary Competence of Provincial Councils:

The Provincial Councils are competent spending authorities and hence have taxing and spending powers. The powers vested with the Provincial Councils under the Constitution are given procedural effect through the Provincial Councils Act No. 42 of 1987. It established, for every Province, a Provincial Fund, into which are paid;

a. the proceeds of all taxes imposed by the Provincial council;
b. the proceeds of all grants made to such Provincial Councils in respect of the Province, by the Government of Sri Lanka;
c. the proceeds of all loans advanced to the Provincial Councils from the Consolidated Fund of Sri Lanka; and
d. all other receipts of the Provincial Council.

The Provincial Fund provides for the spending autonomy of the Provinces. The withdrawal of monies from the Provincial Fund is through a warrant signed by the Chief Minister of the Province. Such a withdrawal is on the basis of such sums having been granted for specified services by a Financial Statute passed by the Provincial Council. An "Annual Financial Statement", must be prepared and laid before the Provincial Council by the Governor of the Province, laying out the estimates of expenditure so as to be approved by the Provincial Council for the ensuing financial year.

E. Provincial Budgeting Process:

The provincial budgeting process is triggered by the "Guidelines for the Assessment of Recurrent Expenditure Needs of Provinces" issued by the Finance Commission. The Guidelines issued by the Finance Commission set out detailed instructions for the preparation of estimates of the recurrent expenditure needs of Provinces. The Finance Commission calls for capital expenditure needs separately. The Provinces estimate capital expenditure needs in respect to funds provided under the Province Specific Development Grant, for investment in infrastructure development in respect of twenty-two Sectors. The identification of investments needs is required to take place within a provincial Multi Sectoral Results Framework. The infrastructure needs are positioned within a planning framework constituting a hierarchy of results at four levels of disaggregation, moving from Components, through Sub-components and Broad Activity Areas, to Specific Activities. This exercise is undertaken in respect of the upcoming fiscal year.

F. Provincial Recurrent Expenditure:

The subject categories of provincial recurrent expenditure demonstrate the scope and pattern of provincial spending priorities in the provision of devolved public services.

Table 02 sets out the changes in the pattern of recurrent expenditure between 2004 and 2017. Social infrastructure (primarily health and education) dominates provincial spending. The share of economic services comprising of economic infrastructure, agriculture and industry has been marginal. The share of community services includes grants to local governments for supporting recurrent expenditures concerning staff salaries and wages.

G. Provincial Capital Expenditure:

The main source of funds for capital expenditure is the Province Specific Development Grant.

Table 02: Provincial Recurrent Expenditure by Subject Categories – 2004/2017

Rs. Millions

Subject	2004	%	2009	%	2017	%
Provincial Establishment	1,234	2.78	6890	6.18	20,492	8.5
Provincial Administration	491	1.11	-	-	-	-
Economic Infrastructure	915	2.06	1827	1.64	4,371	1.8
Social Infrastructure (primarily health and education)	36,910	83.05	87116	78.25	186,027	77.1
Community Services	3,782	8.51	12826	11.53	24,105	10.0
Agriculture	747	1.68	2004	1.8	5,021	2.1
Industry	363	0.82	672	0.6	1,322	0.5
Total	**44,442**	**100**	**111,335**	**100**	**241,338**	**100**

Source: *Finance Commission and Ministry of Provincial Councils*

Table 03: Provincial Recurrent Expenditure by Object Categories – 2004/2017

Rs. Millions

Object Category	2004	%	2009	%	2017	%
Personal Emoluments						
Salaries and Wages	27,202	61.2	64,552	58.0	109,344	45.3
Overtime and Holiday Pay	869	2.0	3,786	3.4	11,235	4.7
Other Allowances	7,936	17.9	18,208	16.4	66,787	27.7
Total Personal Emoluments	36,007	81.0	86,546	77.7	187,366	77.6
Other Recurrent Expenditures						
Travelling	557	1.3	922	0.8	1,530	0.6
Supplies	1,509	3.4	2,722	2.4	4,621	1.9
Maintenance	1,041	2.3	3,021	2.7	4,835	2.0
Contractual Services	1,147	2.6	2,259	2.0	5,281	2.2
Transfers	2,307	5.2	15,104	13.6	36,252	15.0
Grants	1,344	3.0		-		-
Subsidies	91	0.2	244	0.2		-
Interests	22	0.1		-	1,456	0.6
Other	414	0.9	516	0.5		-
Total Other Recurrent	8,432	19.0	24,788	22.3	53,975	22.4
Total	**44,439**	**100**	**111,334**	**100**	**241,341**	**100**

Source: *Finance Commission and Ministry of Provincial Councils*

Table 04: PSDG Expenditures by Subject Categories –2009/2017

Rs. Millions

Subject	2009	%	2017	%
Provincial Establishment	-			
Provincial Administration	-			
Economic Infrastructure	3,198	27.0	3,960	30.2
Social Infrastructure	5,267	44.5	5,263	40.1
Community Services	1,180	10.0	1,087	8.3
Agriculture	835	7.1	1,414	10.8
Industry	213	1.8	251	1.9
Other	600	5.1	1,030	7.9
Regional Development Initiatives	551	4.7	108	0.8
Total	**11,844**	**100**	**13,113**	**100**

Source: *Finance Commission*

The pattern of expenditure incurred from the Province Specific Development Grant is noteworthy. Roads, Health and Education are the main spenders of funds under this grant.

Overall, the following features are noteworthy in relation to provincial expenditure.

a. As much as 75% of provincial expenditure is about personal emoluments of staff. Transfers and grants to households and institutions compromise the next largest and accounts for approximately 15.0%, an estimated half of which are transfers to local government institutions for the payment of salaries of staff.

b. Operational expenditures (travel, supplies, maintenance and contractual services) standing at approximately 10.0% have remained relatively constant, suggesting a largely stagnant service delivery network. The provinces have contained operational expenditures to accommodate either personnel costs or transfer payments reflecting a situation where the scope of provincial service provision activities is determined by the size of the Block Grant.

c. Viewed in the context of the stagnant share of provincial expenditure in total government expenditure, it suggests that the flow of resources to the Provinces through the Block grant is restricting operational expenditures and hence the expansion of the service delivery activities through better deployment of human resources and expanding service provision in low spending economic services.

d. In regard to expenditure on capital items Education, Health and Roads are the major spenders for all provinces and account for as much as three-quarters of the total capital expenditure. Agriculture (including animal husbandry) and industry account for approximately 9.00%. The subject shares have remained largely constant and in the context of the pattern of recurrent spending, the picture that emerges is one of stagnant service delivery.

e. Apart from roads, provincial capital spending has remained mostly concerned with social infrastructure and services, with only a marginal presence in other sectors where substantial devolution has been provided for. The fiscal space for provincial prioritization in responding to local needs constitutes a moot point.

The pattern of provincial capital spending raises fundamental questions about the relevance of fiscal devolution in equalizing capacity for the provision of the devolved package of services, equitably across the Provinces.

H. Provincial Revenue:

While there are twenty items of revenue assigned to provinces, three sources account for as much 90% of total revenue. These are the Business Turnover Tax on wholesale and retail sales, Motor Traffic Fees, Stamp Duty and Court Fines that are collected and transferred to local authorities. Of these, Business Turnover Taxes was suppressed as a provincial source of revenue in 2011 and a revenue sharing arrangement around the Nation Building Tax, Stamp Duties and Vehicle Registration fees was introduced. The Revenue Shares compensate the loss in revenue on account of the loss of Business Turnover Tax. On the basis of current revenue collection, approximately 60% is transferred to Local Authorities, the balance making up only 06.82% of total provincial finance. The tax assignments thus work negatively, as they relate to very narrow tax bases and do not create adequate incentives for a higher level of tax effort by the Provincial Councils on account of the design of the Block Grant. The dependence of Provincial Councils on Central Government transfers undermines the scope for independent decision making. The inter-provincial variation of revenue collection is noteworthy, with the Western Province collecting as much as 54.97% of the total provincial collection, followed by the North Western, Southern and Central Provinces in that order, with others having shares of 3.0% to 4.0%. Thus, for all Provinces other than the Western

Table 05: Provincial Revenue by Source – 2004/2017

Rs. Millions

Source	2004	%	2008	%	2017	%
Business Turnover Tax	5,912	44.4	16,641	53.0	29	0.1
Motor Traffic Fees	1,668	12.5	2,812	9.0	9,849	22.4
Excise duty	259	2.0	467	1.5	1,720	3.9
Stamp Duty	3,761	28.2	6,023	19.2	23,711	54.0
Court Fines	579	4.4	1,054	3.4	2,778	6.3
Other	1,140	8.6	4,373	13.9	5,827	13.3
Total	**13,319**	**100**	**31,370**	**100**	**43,914**	**100**

Source: *Finance Commission, Ministry of Provincial Councils*

Table 06: Provincial Revenue Collection by Source - 2017

Rs. Millions

Province	Revenue Collected from Devolved Sources							
	BTT*	Motor Vehicle Revenue License Fees	Excise Duty	Others **	Stamp Duty	Court Fines	Total	%
Western	16	3,988	659	2,452	16,030	993	24,138	54.97
Central	3	901	367	490	1,695	96	3,552	8.09
Southern	1	1,176	142	563	1,759	448	4,089	9.31
Northern	0	324	47	292	648	172	1,483	3.38
North Western	4	1,295	141	419	1,869	447	4,175	9.51
North Central	1	570	64	501	176	209	1,521	3.46
Uva	3	420	102	365	363	115	1,368	3.12
Sabaragamuwa	1	712	96	442	695	154	2,100	4.78
Eastern	0	464	101	303	477	143	1,488	3.39
Total	**29**	**9,850**	**1,719**	**5,827**	**23,712**	**2,777**	**43,914**	**100**

Source*: Monthly Revenue Reports of Provincial Councils-2016*
**Collection of due BTT up to 2010*
*** Others include rents, interests, examination fees, sale of capital assets, betting tax etc.*

Province, revenue collection fills a gap in recurrent expenditure rather than providing fiscal space for decision-making in service delivery.

I. Contextualizing Provincial Finance:

In the current governance and development context, financial flows to the Provinces can be considered to be through both transfers and allocations. Financial transfers to provinces take place within the mechanism as provided for by the 13th Amendment. Financial spending arising from the implementation of national programs of the Central Government's Ministries and Departments as well as donor-funded projects constitute financial allocations for spending in the Provinces, taking place through the de-concentrated system of government administration.

While financial transfers should provide for discretionary spending, the main grant items of the Block Grant and Province Specific Development Grant allow for very limited provincial discretion in their spending, arising from central controls over policy, planning and staffing.

a. The block grant accounting for as much as 85% of the total transfers is designed as gap-filling transfers to meet the difference between recurrent expenditure and revenue target primarily meets the provincial salary bill. The gap-filling design of the Block Grant creates an inverse relationship between the horizontal apportionment of the grant and the per capita collection of own-source revenue, setting off negative incentives for efficiency in the use of the grant funding as well as for the collection of revenue. The adoption of an "actual" as against a "normative" basis for its assessment severely limits its potential to equalize service delivery capacity across the Provinces.

b. The Province Specific Development Grant constitutes the main capital grant accounting for almost 80.0% of capital expenditure. The aggregate amount for all Provinces is determined by the funding imperatives of the Government's annual budget, though the Finance Commission makes a recommendation in this regard. The apportionment of these funds between the Provinces follows a "factor analysis" which does not take into account provincial needs for reducing inter-provincial disparities. Provincial spending of the funds received is on the basis of provincial project proposals, based on guidelines issued by and approved by the Finance Commission.

c. The Criteria-Based Grant is on the other hand formula-driven and its horizontal distribution is based upon an objective structure. However, it is relatively unimportant due to the small amount (less than a sixth of the total expenditure) allocated for this grant and in recent times the tendency on the part of the Government is to default in its release.

Thus, the intergovernmental transfer system is restrictive of provincial discretion in meeting "the needs of the provinces". While addressing in some measure the vertical imbalance between revenue and expenditures, what is significant is that provincial expenditures do not reflect expenditure needs. There is no overarching service delivery policy framework that sets standards for the delivery of services across provinces. The dependence of the Provinces on the centre has taken away decision making responsibilities from the Province as to the quantity and quality of services they should provide to meet the needs of their citizens. Hence it is not possible to assess the level of resources needed to properly deliver a standard bundle of services at the subnational level. The design of the intergovernmental transfer system therefore does not assure adequacy, creates dependency and undermines provincial responsibility and accountability.

The situation is exacerbated by the flows of allocations from central Ministries, Departments with Donor Projects being spent outside of the provincial (council) expenditures. There is no overall financing framework to "meet the needs of the provinces", despite the constitutional imperative of funding allocation from the annual budget to the provinces. Financial transfers and financial allocations work in splendid isolation on account of the national vis a vis between the provinces and local government. Such a gap between transfers and allocations is inefficient in terms of the application of total financial resources accruing to a province, the common spatial scale for both the national and provincial levels.

2.3.3. Local Government Level Financing

The 13th Amendment to the Constitution (1987) in established Provincial Councils with legislative, executive and fiscal powers, radically changing the status of local governance, both in law and in practice. Local government became the third tier of government without any additional powers being conferred, but with a constitutional guarantee of existing powers and provision for the enhancement of powers by the provincial council through a provincial statute.

Thus item 04 of the Provincial List on Local Government specifies the scope of the assignment as follows:

i. Local authorities for the purpose of local government and village administration, such as Municipal Councils, Urban Councils and Pradeshiya Sabhas as per the constitution, shall have their form and structure in relation to local authorities determined by law;
ii. Supervision of the administration of local authorities established by law, including the power of dissolution (subject to such quasi-judicial inquiries into the grounds for dissolution, and legal remedies in respect thereof, as may be provided by law, and subject to provisions relating to audit as may be provided by law);
iii. Local authorities will have powers vested in them under existing law, and it will be open to a Provincial Council to confer additional powers on local authorities but not take away their powers;

A. The Local Government Framework:

Local Governance through Local Authorities is thus established as the primary tier in the multi-level system of government. They have responsibility for ensuring a constitutionally and legally defined sphere of the public domain in terms of the respective laws, the Municipal Councils Ordinance No. 29 of 1947, the Urban Councils Ordinance No. 61 of 1939, and the Pradeshiya Sabha Act No.15 of 1987, defining their functional role and responsibility. Local authorities are charged with "the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people and all amenities". Local government as the third tier of the multi-level government system constitutes the unit of devolution for democratic governance and hence the state-citizen interface

B. The Internal Operational Frame work:

The internal operational context is defined by the organizational structure and processes for the exercise of the respective powers and functions. In terms of the constituting laws, powers and functions all Municipal Councils, Urban Councils and Pradeshiya Sabhas have similar mandates. They differ in terms of the scope and extent of urban development of their respective jurisdictions, requiring differentiated packages of services. Thus, all local authorities follow a "programme framework" which prescribes a standard classification of functions from which service delivery activities are undertaken according to the service delivery need and the availability of resources.

The standard programme framework is as follows.

i. **Programme 1 - General Administration and Staff Services:** The standard functions under this programme includes, General Administration, Finance, Assessment and Collection of Revenue, and Staff Training
ii. **Programme 2 - Health Services:** Functions under this programme includes Preventive Services, Curative Services, Food Sanitation, Solid Waste Management, Maternity and Child Health Clinics. Urban Councils and Pradeshiya Sabhas usually partners with the preventive health staff, especially the Medical Officer of Health in providing maternity and child health care.
iii. **Programme 3 - Physical Planning, Thoroughfares, Land and Buildings**: Functions performed include Physical Planning, Roads, Drains and Culverts, Lands and Buildings
iv. **Programme 4 - Water Services:** Only a

few Municipal Councils provide piped water to households. Some Urban Councils and Pradeshiya Sabhas provide water services through street stand taps.

v. **Programme 5 - Public Utility Services:** Services provided include establishing and maintaining public markets, fairs, street lighting, crematoria and public bathing places.

vi. **Programme 6 - Welfare Services and Amenities:** Services provided usually includes, libraries, community centres, sports and recreation, public assistance, and pre-schools.

C. The External Task Context:

The external task context of Local Authorities is defined by the working of the intergovernmental relations in regard to service delivery. Within the framework of a multilevel system of government the local level service delivery situation brings together national, provincial and local providers. The intergovernmental service delivery arrangements work to the advantage of national level providers and marginalize local authorities. The marginal role of local authorities in the provision of development services also undermines its role and relevance in promoting citizen participation and inclusive development. From the perspective of citizens local authorities provide mainly regulatory services, the scope for the provision of comfort, with convenience and welfare being crowded out by national providers.

Local governments are vested with regulatory as well as provider roles and functions. As regulator local authorities are responsible for "controlling" the spatial location of development activities to ensure an appropriate living environment. As provider, a local authority must raise revenue and spend to provide the required infrastructures and civic amenities. Both roles and functions involve planning for the local authority area. However, a local authority functions under a complex legal and institutional framework where several other national level agencies perform roles and functions of regulation, planning and provision of development either directly or through them limiting the competence of the role and functions of local authorities.

D. Fiscal and Financial Powers:

Local Authorities are, subject to the overall supervision of the (provincial) Minister, competent spending authorities with financial and fiscal powers, appropriating expenditures and authorizing revenue instruments through the Annual Budget. Local Authorities derive their financial powers from the establishment under the respective laws of a "fund" for managing general financial purposes. Thus, the Municipal Councils Ordinance establishes a "Municipal Fund" (Section 185), the Urban Councils Ordinance establishes a "Local Fund" (Section 158). Similarly, the Pradeshiya Sabha Act establishes a "Pradeshiya Sabha Fund" (Section 129).

The following monies are paid into the respective funds.

a. Fines and penalties imposed under the respective laws.
b. Stamp duties
c. Allocations appropriated to the Council/ Sabha by the Minister.
d. Rates, taxes, duties and fees and other charges levied under the Ordinance/ Act.
e. Sums realized from sales, leases or other transactions.
f. Revenue derived from any property vested in the Council/Sabha.

g. Sums and sources of revenue made over to the Council/Sabha by Parliament.

In addition, local authorities are vested with powers to borrow money. The purposes for which the monies paid into the fund may be applied by local authorities (i.e., local authority expenditures) is specified. Section 188(1) of the Municipal Councils Ordinance, Section 159.1 of the Urban Councils Ordinance and Section 132 of the Pradeshiya Sabha Act). Amongst others the law provides for spending out of the fund for all “expenses incurred in the course of the exercise of its powers”. The fund operations in terms of income and expenditure constitute the basis for the local authority budget, prepared and presented to the Council/Sabha annually for the “subsequent year” containing an estimate of available revenue and proposed expenditures. The practice has emerged for local authorities to prepare a “balanced” budget.

Local government finances comprise of assigned revenue (own revenues), inter-governmental financial transfers, user fees and borrowings. The main sources of assigned revenue are rates and taxes, stamp duties, court fines and penalties and rents. Stamp duties and court fines have been assigned to Provincial Councils under the 13th Amendment and hence are collected by Provincial Councils and transferred to the respective local authorities. Local Authorities are provided revenue grants by the Central Government for the re-imbursement of staff salaries and wages channelled, through Provincial Councils to be transferred to local authorities.

E. The Local Authority Budget and Budgeting:

The budget is the plan of a local authority, the local authorities having historically focussed on the statutory requirement of submitting a budget containing an estimate of available income and details of the proposed expenditure for the ensuing financial year. In preparing such estimates of income and expenditure, local authorities are driven by imperatives of physical planning, not being contextualized as services, bringing about a disconnect between the estimates of income and expenditure and service delivery responsibilities. In the absence of a planning process the budget must fulfil both planning and resource allocation tasks.

Budget preparation follows a prescribed procedure and process. The procedure makes an estimate of revenue before proceeding to identify expenditure needs. Past years’ revenue-expenditure experience guides the process of determine the overall limits of expenditure. Inputs are also provided by a Finance Committee of the local authority. It is noteworthy that the budgeting process is rarely informed by plans. Area plans (prepared by the Urban Development Authority), where available, are rarely mainstreamed in local authority budgets. The focus of capital expenditure is on small scale local infrastructure within their fiscal capacity. There is a general reluctance on the part of local authorities to borrow for capital expenditure. All local authorities have adopted the program format and object categories of income and expenditure in the presentation of the budget for recurrent and capital categories.

F. Local Authority Finance:

Local authority finances consist of self-revenue (assigned sources), revenue grants from the Central Government, other income streams and borrowings.

Thus, the importance of the above sources of revenue varies according to the urbanization situation of the local authority, for most Local Authorities Central Government

Table 07: Financing of Local Authorities - 2017

Rs. Millions

Source/ LGIs	Municipal Councils	%	Urban Councils	%	Pradeshiya	%	Total	%
Revenue	9,460,336	40.5	1,928,181	30.8	8,420,994	29.4	19,809,511	34.0
Other Income	4,661,401	20.0	1,255,084	20.1	3,716,861	13.0	9,633,346	16.5
Revenue Grants	8,233,336	35.3	2,515,110	40.2	10,049,106	35.1	20,797,552	35.7
Borrowings	305,717	1.3	-		115,941	0.4	421,658	0.7
Capital Revenue	694,204	3.0	560,688	9.0	6,338,426	22.1	7,593,318	13.0
Total Income	**23,354,994**	**100**	**6,259,063**	**100**	**28,641,328**	**100**	**58,255,385**	**100**

Source: *Statistical Abstracts 2018, Department of Census and Statistics*

transfers (referred to as revenue grants) reimbursing the costs of salaries and wages of staff average at around 35% of the total income. For small local authorities with limited revenue capacity the share of central transfers can increase up to half of all income. Stamp duty and court fines levied and collected by the Provincial Council accounts for as much as 17% in the case of Pradeshiya Sabha incomes. There are other external sources of income such as allocations from Decentralized Budget (DCB), significant especially for Pradeshiya Sabhas and average around 10% for all local authorities. External sources of revenue thus become a significant factor in the financing of local authorities. Amounts vary from around 45% for Municipal Councils, 60% for Urban Councils and as much as 77% for Pradeshiya Sabhas. Borrowings do not figure prominently in the finances of local authorities. Local authorities with aweak fiscal base are becoming increasingly dependent upon Central Government transfers for meeting the salaries and wages of staff.

G. Local Authority Expenditures:

The expenditure pattern of local authorities also varies as between Municipal Councils, Urban Councils and Pradeshiya Sabhas. Thus, recurrent expenditure is lowest for the Pradeshiya Sabhas which also have external sources of financing, which are more important in the overall financing of the respective local authorities. However, in the case of Municipal Councils where external sources of income account for a significantly lower share of financing, recurrent expenditures account for a higher share of the total expenditure. Thus, the pattern of expenditure is largely determined by the pattern of financing and does not create new fiscal space for local authorities to provide improved services whether in terms of quantity or quality.

H. Constraints and Challenges of Local Authority Financing:

The financing of the functions assigned to local authorities has turned out to be more complex than a mere taxing and spending

Table 08: Expenditures of Local Government Institutions-2017

Rs. Millions

Expenditure /LGIs	Municipal Councils	%	Urban Councils	%	Pradeshiya Sabhas	%	Total	%
Recurrent								
i Personnel	17,551,682	77.9	2,639,789	62.0	9,357,625	68.4	29,549,096	73.0
ii Other	4,974,133	22.1	1,619,511	38.0	4,329,179	31.6	10,922,823	27.0
Total	22,525,815	81.9	4,259,300	82.3	13,686,804	64.3	40,471,919	75.0
Capital								
i Capital	4,749,920	95.5	873,758	95.3	7,370,645	96.8	12,994,323	96.2
ii Loan Payments	224,213	4.5	42,652	4.7	241,523	3.2	508,388	3.8
Total	4,974,133	18.1	916,410	17.7	7,612,168	35.7	13,502,711	25.0
Total Expenditure	**27,499,948**	**100**	**5,175,710**	**100**	**21,298,972**	**100**	**53,974,630**	**100**

Source: *Statistical Abstracts, Department of Census and Statistics*

affair. Local authorities are faced with demands for new and enhanced services in meeting the "comfort, convenience and welfare of the people". The provision of services to meet the "comfort, convenience and welfare of the people" must also take place within a more complex public sector service delivery context. Despite the devolution of power to the provinces, intergovernmental fiscal relations are being established within a centralized fiscal management regime. Additionally, local authorities are functioning in an increasingly competitive political environment which is seriously affecting decisions regarding fiscal operations.

There are several implications arising out of this situation for the financing of local government services by local authorities. Local authority financial operations take place within the framework of central controls, especially the central determination and approval of staffing. Dependence on central transfers financing local authority expenditures, by meeting costs of salaries and wages are creating perverse incentives that restrict choices for the delivery of services and in turn affect the efficiency of service delivery operations. While on the one hand local authorities have become dependent upon the salary reimbursement transfers, there seem to be no compelling reasons for local authorities to enhance the collection of revenue. Reviewing property rates periodically has become politically difficult, restricting potential revenue space arising from enhanced property values.

An increasing demand for services calls for accessing finances from new and innovative sources. Local authorities seem reluctant to move on to such sources in financing local services. The share of borrowings reflects the extent to which such options are used by local authorities. Imbalances in fiscal capacities require central fiscal support to ensure the maintenance of minimum standards of services. In a situation of limited fiscal space for improving the quality and quantity of services, the operation and maintenance of existing assets and services remain their major service provision role and function.

I. Issues of Local Financing - Context and Capacity:

The creation of local governments is based in part on the assumption that benefits of particular types of public services are largely confined to local jurisdictions, and that the appropriate mix of services can be designed and delivered to suit local needs and preferences. The ability to respond to local needs and preferences is determined by two factors.

First is the clarity in the responsibilities assigned to local authorities within the multi-level system of government. A clear allocation of functions among the different tiers of government – central, provincial, and local is necessary. However, the shift to multi-level governance following the 13th Amendment took place within the framework of existing structures for centralized governance, resulting in a dualistic presence of devolved and de-concentrated entities with responsibility for local-level development.

Second is the financial capacity of local authorities. To the extent that local authorities are dependent upon external sources there is lack of predictability in income entailing financial relations usually beyond its control. In fact, the channelling of financial transfers to local authorities through Provincial Councils introduces uncertainties in terms of delays in the release of funds. Further transfers of stamp duty and court fines that are collected by Provincial Councils and transferred to local authorities encounter long delays in being released. Provinces have little incentives to enhance collection of stamp duty where undervaluation of properties prevents the realisation of the revenue potential arising from spiralling land values especially in urban areas. The delays introduced by the mediation of the Provincial Councils in the transfer of funds to local authorities is the result of a cascading effect on the part of the Central Government in releases to Provincial Councils. The local authorities are thus penalized being the primary tier in a fiscal regime where the lower tiers have large budget gaps.

Third is the question of incentives to collect revenue. As already noted, the scheme of the Revenue Grant for reimbursement of salaries works negatively and has created disincentives for enhancing own revenues. On an international comparison, India collects property tax on an average at 0.16% of GDP (2012) compared with Sri Lanka collection of 0.07% of GDP (on the basis of collection figures for 2014). Property tax constitutes the main item of own source revenue and according to the comparative situation Sri Lanka could double the collection of property tax. Property tax currently accounts for approximately a third of local authority income.

Fourth is the absence of a mechanism for equalization of fiscal capacity across local authorities towards creating the basis for a more equitable distribution of resources. In the current scheme of financing local authorities, such equalization is provided by central control over cadres. This proxy for equalization works negatively and functions as a disincentive to becoming more efficient in financial performance.

The financial status of a local authority determines the capacity to respond to service delivery needs of the citizens in a predictable and responsive manner. Local authorities have tremendous potential for improving the efficiency and accountability of the growth and development process. Within a proper intergovernmental public sector framework, local authorities will be able to plan, budget, implement and monitor their assigned governance and development functions. To effectively contribute, local authorities must be given both clarity in their assigned roles and responsibilities, as well as legitimacy, authority, capacity and the required resources to implement those responsibilities in an efficient and accountable manner. Local authorities have tremendous potential for improving the efficiency and accountability of the growth and development process. Within a proper intergovernmental public sector framework, local authorities will be able to plan, budget, implement and monitor their assigned governance and development functions. To effectively contribute, local authorities must be given both clarity in their assigned roles and responsibilities, as well as legitimacy, authority, capacity and resources to implement those responsibilities in an efficient and accountable manner.

2.4. Challenges and Strategies for Financing the SDGs at Subnational Levels

While the subnational level is considered the territorial scale for addressing sustainable development, and therefore in the Sri Lankan context, the provincial and local levels of government with taxing and spending powers to offer the institutional space for localizing financing of the SDGs, significant deficits in the respective intergovernmental spaces deny the realization of that potential. The intergovernmental space available to the provincial and local levels do not allow spatial integration across economic, social and environmental actions towards sustainable development. To be efficient in financing sustainable development, it is necessary to provide for the interplay between economic, social and environmental so as to deal with externalities and work out synergies arising from the SDGs. Thus, as demonstrated by the spending patterns of provincial and local governments, there are multiple discontinuities in the financing framework. On the one hand are the discontinuities in the financing of sectoral outputs as against sustainable development outcomes negating balance across economic, social and environmental. On the other, are discontinuities between the sectoral financing of national, provincial and local service deliveries. These discontinuities undermine vertical coherence between the sectoral and spatial as well as horizontal coherence of the sectoral for spatial sustainable development outcomes.

Subnational financing of SDGs, provincial and local, does not perform in isolation of the national financing of sectoral outcomes. Indeed, the national sectoral financing frameworks provide the national policy framework for provincial and local level financing of services. Discontinuities in the financing framework at the national extend to the provincial and local levels. While the spatial scales at national, provincial and local levels should have distinct SDG orientations in terms of contribution to outcomes and therefore the financing imperative at the provincial and local level, that finance should follow such roles and responsibilities, even though the reality is a static financing framework that drives subnational SDG actions and activities.

2.4.1. Challenges for Financing the SDGs

Sustainable development action at the subnational level is set within the framework of multilevel governance. Thus, the subnational levels do not and cannot work in isolation. The fragmentation across the various sectors of services, levels of government, and agencies create centres of power leading to a contestation for resources resulting in an unequal distribution of wellbeing. The challenge of sustainable development action at the subnational level points to on the one hand, bringing to bear at the local level a whole of government approach in addressing complex and interdependent problems of development. On the other hand, is the institutional imperative of moving away from the extant primacy of the public sector to one that is a whole of society effort, with partnerships across government, the private sector and civil society.

A. Lack of a Focus in Provincial and Local Government Finances on SDGs:

An analysis of ensuing expenditure responsibilities with SDGs point to ambiguities in who is responsible for what.

- 52 targets do not have a related intergovernmental expenditure responsibility
- 68 targets are provincial and another 28 are local
- 56 targets are reserved for the centre and 57 are concurrent (in practice central)
- 48 targets (within Goals 1-16) overlap between the centre and provinces or local

This expenditure assignment raises questions about, coherence in implementational responsibility, the comprehensiveness for an outcome focus, as well as the allocative efficiency of expenditures for the implementation of SDGs. Becoming inclusive and "leaving no one behind" requires a localised and integrated allocation of resources, to be able to address spatial inequalities in SDG attainments.

Despite the constitutional responsibility of Provincial and Local levels in respect of the SDG targets, the reality of the status of the devolved provision of services is shown by intergovernmental shares and/or expenditure and revenue.

B. Lack of Coherence in Service Delivery Roles and Responsibilities Between National, Provincial and Local Levels:

The shift to multilevel government involved the introduction of a provincial level of government and administration by transferring to Provincial Councils district level service delivery operations in respect of subjects and functions assigned to the Provinces. The reservation of national policy as a subject at the centre allowed pre-devolution central sectoral departments to extend their respective policy/programme operations in parallel with devolved provincial service deliveries. The expansion of centralized service deliveries preceded the 13th Amendment as the local level was concerned with resulting in contraction rather than expansion of the domain of local service delivery, especially in the area of public utilities. The 13th Amendment did not lead to a re-ordering of the assignment of service delivery responsibilities across national, provincial and local on the basis of subsidiarity. The result has been a poly-centric service delivery system at the local level lacking in accountability for development outcomes. The absence of a clear accountability framework for development outcomes across the subnational system remains a challenge for achievement of sustainable development outcomes.

C. Absence of a Thematic Outcome-Based National Development Framework:

The lacuna in multilevel policy and program coherence arising from the failure to follow through with the governance imperatives of a multilevel system of government, has been exacerbated by the inability to have an institutionalized, integrative national planning process in creating positive-sum multilevel partnerships, both sectoral and inter-sectoral. Indeed, in the post-devolution situation, national planning has taken an increasingly project-oriented approach, making for short-term expediency in managing public expenditure against a longer-term outcome focus.

D. Short-Term Focus of Development Results on Outputs:

Such a short-term focus on outputs was a large measure that was the result of the New Public Management (NPM) focus on agency-based results as against more complex development outcomes. Thus, the applications of Results Based Management (RBM) through Agency Results Frameworks (ARFs) in managing agency performance made for a narrow focus on funding outputs to the neglect of financing outcomes. A performance framework based on projects, project outputs and project indicators (as is demonstrated by the general information on Ministerial operations presented in the Government Estimates preceding each Ministry) is inadequate for designing programs, program outcomes and program indicators that would be necessary for managing sustainable development interventions.

E. Ineffectiveness in the Practice of National Budgeting for an Overarching Policy Framework on Public Expenditure:

The parameters set in the Budget Call for guiding and managing the process of setting annual expenditure frameworks by Spending Agencies suggests an accounting rather than allocative framework, where the focus is more on control of expenditures than outcomes of policy. The linkage between the intended performance-based budgeting framework for allocating resources on the basis of indicator based "specifically defined measurable outcomes" is not borne out by the practice of estimation or estimates of expenditure. Estimation as well as estimates of Spending Agency expenditures remain output-based and project-focussed and do not move on to outcomes. It is to be noted that outcomes are not within the control of a single Spending Agency, and hence budgets must remain at output or project level. Thus, despite the national policy status of the national budget, it remains an instrument of financial control of agency spending rather than a mechanism for defining agency outputs towards policy outcomes. Imperatives of public accountability require a focus on what is done with the money that is spent, going beyond how expenditures are controlled. To meet the challenge of sustainable development, Sri Lanka should move to outcome-based budgeting.

F. The Imperative of a UnifiedExpenditure Classification System and the Practice of Focusing onIntegrated Funding and Financing of Development Outcomes:

A focus on outcomes requires a budget framework that is internally consistent, especially where current and capital expenditures are consolidated within a single unified classificatory framework, facilitating rational expenditure allocations, clarity in terms of outputs to be delivered, as well as subsequent monitoring and control of budget implementation. Thus, an expenditure classification system provides a normative analytical framework for policy decision making, budget administration and accounting, plus accountability. Budgeting at national, provincial and local levels separate recurrent from capital expenditures, i.e., operational from investment, and service delivery from improvements in the quantity and quality of service delivery. The targeting of services where there are gaps in delivery requires a holistic approach combining the consideration in tandem of recurrent and capital expenditures.

G. Restrictive Intergovernmental Fiscal Framework:

The fiscal relativities between the national, provincial and local demonstrates the marginal role of the provincial and local in the localization of service delivery.

Thus, the Central Government dominates the public expenditure scene accounting for as much as 88% of the total government expenditure. The provincial and local shares of the total government revenue reflect this situation.

As per the Tables 09 and 10, Provincial Councils and Local Authorities are required to perform in an increasingly centralized public sectorservice delivery context with intergovernmental fiscal relations being established within a centralized fiscal management regime. Within this service delivery system, Provincial Councils and Local Authorities are marginal players.

H. Institutional Space for Managing Integration at the Local level:

Further, it is noted, that so far, the national level has not demonstrated any movement towards policy and programme integration

Table 09: Central, Provincial and Local Expenditure:2008/2017

Rs. Millions

	2008	%	2017	%
Central	945,247	88.3	2,573,056	88.7
Provincial	101,173	9.5	275,079	9.5
Local	23,894	2.2	53,474	1.8
Total	1,070,314	100	2,901,609	100

Source: *Government Estimates, Ministry of Provincial Councils and Finance Commission*

Table 10: Central, Provincial and Local Revenue:2008/2017

Rs. Millions

	2008	%	2017	%
Central	699,388	93.4	1,831,531	92.7
Provincial	23,915	3.2	86,976	4.4
Local	25,804	3.4	57,280	2.9
Total	749,107	100	1,975,787	100

Source: *Government Estimates, Ministry of Provincial Councils and Finance Commission* that would allow prioritising the financing of service delivery for development outcomes. Thus, the national level policy and programme disconnects in planning and budgeting which translates into fragmentation at the subnational level, in systems, structures and processes for planning and financing the targeting of service delivery to meet development outcomes for leaving no one behind. Localising the SDGs involves translating the SDGs into development priorities in a manner that makes them relevant to economic, social and environmental development needs of the local territorial system in an integrated manner. The local level offers the spatial scale for working out both, the effects of externalities of development activities and the potential for synergies in addressing human wellbeing around a whole of government and a whole of society approach.

I. Managing a poly-centric service delivery system for localized engagement with SDG implementation:

One is faced with a complex legal and institutional framework at the local level where several other national level agencies perform the roles and functions of regulation, planning and the provisions of development either directly or through them. Here lies the fundamental problem of the roles and functions of local authorities. Thus, there are multiple channels of funding that are spent on local development activities without any reference to local authorities. There is a need for a strategy that will delineate the elements of the design of organization for local development. There is a need to link the physical and financial aspects of the provision and delivery of development. Ideally implementation should then be managed as a single system so as to ensure the achievement of the intentions of local development. Important in this context will be integrative roles that can ensure coherence in the activities undertaken by the many actors that will take part in the local development process.

J. Financial Capacity of the Local Level:

Local level service delivery is essentially of an urban nature, whether municipal, urban or pradeshiya. However, the local level account is less than 2% of the total annual Government expenditure. When examined in the context of the spending relativities between national, provincial and local tiers of government, the share of local expenditure is inadequate for a substantive local engagement in the provision of local (urban) services. In terms of budgetary operations, local authorities focus almost exclusively on maintenance operations rather than on capital development. The balanced budget practice of local authorities imparts a focus on budgeting for income and expenditure rather than on the financing of development plans. The overall financing of Local Authorities suggests an increasing dependence on transfers, and an unwillingness to look for alternative solutions to finance capital expenditures. Local Authorities also demonstrate a reluctance to look for external sources of financing whether in terms of partnerships with the private sector or borrowings. Low financial capacities reflect a complex performance problem in local authorities, importantly the focus on short-term expediency of a four-year term of the Councils.

K. Incentives for Localisation:

The allocation of functions across tiers of government guarantees Local Authorities retaining their powers and functions under the existing laws. However, in practice, the exercise of functions across the tiers of government constitutes a complex reality of adjustment between imperatives of centralization and de-centralization. The scope of services provided by local authorities de facto depends upon the respective financial situation. Central Government entities have over time taken over some of the public utility functions that had been assigned to Local Authorities by law, such as the provision of water supply, and brought them under central control. Local authorities generally retain responsibilities for provision of basic amenities, drainage and solid waste management. The resulting ambiguity in the public sector' roles and responsibilities, combined with the involvement of multiple agents in the provisioning of public services, has created a sub-optimal environment for the management of local services and has undermined the scope of the functions assigned to local authorities. While the constitutional amendment provided for enhancement of powers of local authorities through Provincial Councils, so far, the demonstrated concern of the provincial authorities has been to take over the powers of central control relating to supervision of local authorities. In this context, local authorities have tended to work within the "system".

L. Governance Beyond Centralised Government:

The foregoing analysis of challenges for sustainable development at the local level demonstrates institutional incoherence at the subnational level, in terms of both, vertical and horizontal integration. When taken at the provincial level, the subnational incorporates the concurrent presence of the centre, the province and the local multilevel system. The reality of the intergovernmental relativities marginalizes the provincial and local levels to sub-optimal operation threatening the very rationale of devolution, i.e., the efficiency in meeting local needs, problems and gaps in development. Governance at the subnational level should be able to take into account the context of local conditions and circumstances in targeting and re-prioritisation of service deliveries, whether national, provincial or local. The fundamental purpose of a subnational governance system should be to ensure relevance and it will require decision making spaces to plan joint interventions. The design of central, provincial and local service delivery programmes should provide for subnational re-ordering of priorities in order to better address local conditions and circumstance on an outcome basis.

2.4.2. Public Investment Strategies for SDGs

The public investment framework at the subnational levels is defined within the national public finance framework as set annually by the budget call. In a planning-budgeting situation where finance drives plans, the national public finance framework becomes restrictive of the subnational allocative spaces kept for planned outcomes and hence the jurisdictional discretion to address localised SDG priorities. At the same time, the annual budgeting cycle does not provide the necessary temporal space, as may be required to address longer term SDG outcomes. While the budget call provides for a medium-term financing perspective, the extant accounting practices restricts the temporal financing focus to the "financial year".

Thus, the systems and procedures for public investment at subnational levels do not allow localized SDG outcomes to drive local public investments. The efforts on the part of the Finance Commission to introduce a Medium-Term Sectoral Framework is noteworthy.

However, while providing for a medium-term investment framework, the initiative traps provincial potential investment within the sectoral framework. The multiple sources and channels of subnational public investment undermines the medium-term investment focus introduced by the Finance Commission on account of the absence of institutional mechanisms for integrated public financing at the subnational levels. The following review of public investment at the subnational level brings out the fundamental incoherence in financing subnational investment.

A. Context of Public Investments:

Strategic public investment for sustainable development so far has been tokenistic. Working within the public expenditure framework, the strategic approach (as set out in the Budget Call 2019) envisages the achievement of the SDGs as "merely depending on the allocation of adequate resources for precise projects". Thus, the Budget Call directs Spending Agencies to "mainstream the SDG goals within the current and future development activities, in order to ensure that sufficient allocations have been made to achieve the set targets".

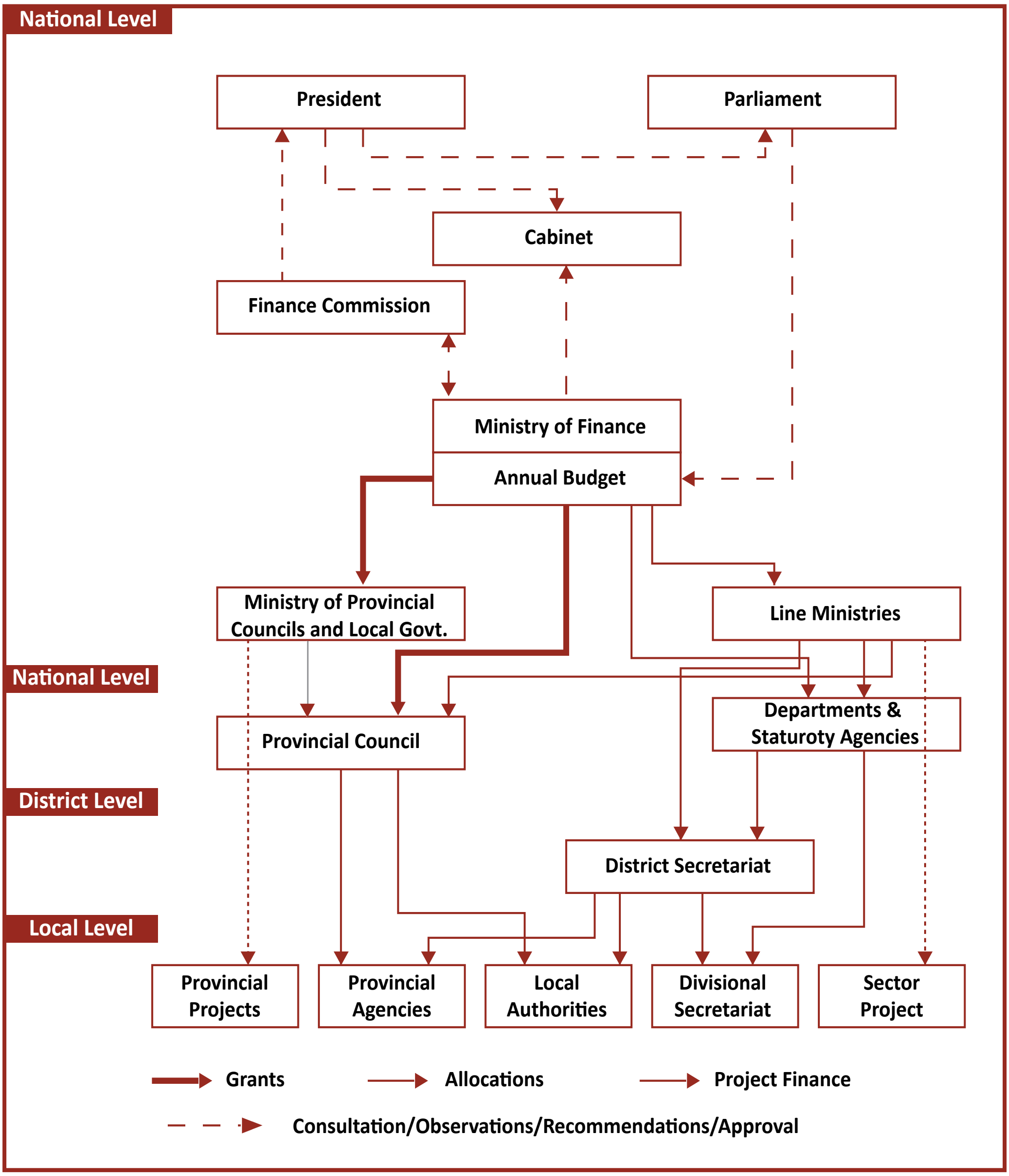
However, as discussed above, the reality of the practice of budgeting by Spending Agencies is one of financial control of budgetary appropriations, rather than following up on results of service delivery. Indeed, the performance challenge is one of aligning accountability (financial control) for financial appropriations with results to be achieved through such appropriations. The imperatives of controlling on the input-side have continued to dominate the budget architecture through the shift to the performance-based budgeting. In the absence of clarity in regard to what public services are being delivered by which budgetary appropriations, relating the programme framework for classification of expenditures with the SDG framework of outcomes is incoherent.

In the context that the Budget Call is addressed to Chief Secretaries as well, compliance is required in the provincial public investment process. Thus, the Finance Commission, in its guideline for"Annual Provincial Capital Needs 2021" lists as one of the criteria for identifying projects, the "achievement of the Sustainable Development Goals declared by the United Nations and adopted by the Government".

Thus, provincial public investment for sustainable development is set within the capital expenditure needs assessment process, which is extended to identifying the SDG targets that the items of capital expenditures relate to. However, the guideline is not extended to the Local Authorities as the Finance Commission's mandate is about the needs of the Provinces. While, the 13th Amendment vests the supervision of the administration of Local Authorities with the Provinces, the provincial authorities, i.e., the Minister in charge in the Province and the Provincial Commissioner of Local Government, is yet to engage with Local Authorities on the implementation of the SDG agenda. As noted earlier, Local Authorities have a significant service delivery role in the achievement of SDGs. Accordingly, Local Authorities do not strategize investments to achieve SDGs.

There is a significant area of investments that take place within the provincial and local jurisdictions by other public sector agencies, notably national level agencies and donor funded projects, independently of the provincial and local governments. Such financing by central players constitutes another aspect of the working of the intergovernmental fiscal relations.

Figure 02: Subnational Financing



Financing by central players would be complementary or supplementary to provincial and local finance, and hence to provincial and local sustainable development outcomes. While some of such financing may be disbursed through the provincial and local government, the moot point is as to whether such investments come into the planning-budgeting systems at provincial and local levels.

B. The Working of Public Investment Strategies at the Provincial and Local Levels:

The public investment at provincial and local levels take place within the framework of intergovernmental fiscal relations and ensuing relativities. It confines the provincial and local levels to a set of sectoral service deliveries, marginalizing the provincial and local levels from engaging with the multi-dimensionality of sustainable development. The localized service delivery mandate is undermined by the working of the intergovernmental fiscal relations in multiple ways. It undermines the accountability of provincial and local levels for sustainable development results, arising from the lack of clarity as to the responsibility between national, provincial and local for sustainable development outcomes. The reservation of national policy at the centre gives primacy to national level interventions undermining the very rationale for the provincial and local levels to be providers of public services. The accountability gap in the working of the intergovernmental fiscal relations leads to the undermining of the autonomy of the provincial levels of government - the fundamental imperative for a localized service delivery system. The de jure competence of provincial and local levels of government is compromised by de facto central controls restricting such competence. In turn, these restrictions lead to problems in the adequacy of service delivery, engagement of the provincial and local governments. On the one hand, there is a problem of the quantity of resources available to provincial and local governments while on the other, the resource inflows into the respective jurisdictions do not get worked into the respective planning and budgeting systems and processes. The working of the systems, structures and processes of provincial and local governance prevent coherence in the application of public investments to achieve sustainable development outcomes.

C. The Expenditure Framework at Provincial and Local Levels for Public Investments:

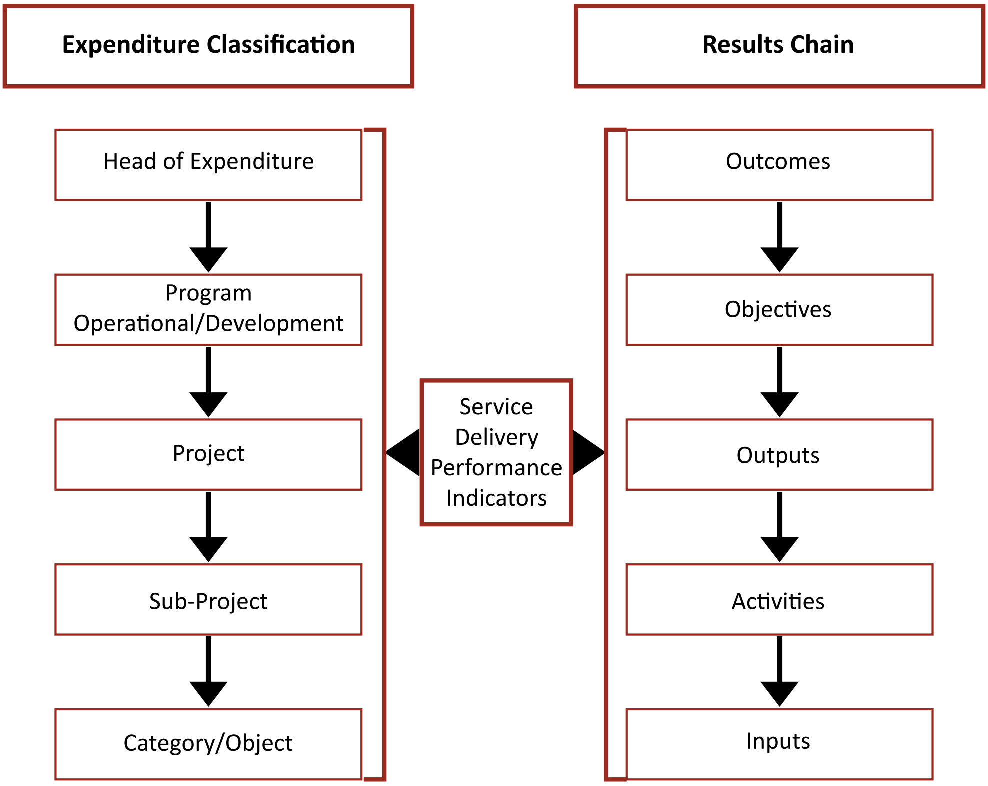
Mainstreaming public investment for sustainable development outcomes, requires taking into account two considerations. The first is the thematic programme framework coherently identifying and clearly linking service delivery outputs to thematic program outcomes. The second is abou**t** the accountability framework, where the programme framework and the ensuing scheme for the classification of expenditure can be related to agency structures. It will require clarity as to thematic development outcomes and service delivery objectives at the level of the Heads of Expenditure (individual Ministries or Department) as well as the Systems of Heads of Expenditure (clusters of Ministries and Departments), one that is unified in terms of recurrent and capital expenditures within a logic model of results.

Both, provincial and local levels lack such expenditure frameworks structured at a macro -thematic program level as well as micro – sectoral agency planning and budgeting levels. Public investments strategies must provide for responsibility in respect of thematic outcomes as well as accountability for agency outputs.

a. Micro Planning-Budgeting Alignment:

Structuring planning - budgeting alignment is essentially about establishing Spending Agency planning-budgeting information systems around the service delivery system. This would involve linking agency service deliveries to the results chain in terms of activities, outputs and outcomes and identifying key performance indicators at each level. Managing for the SDG results

Figure 03: Spending Agency Planning - Budgeting Alignment



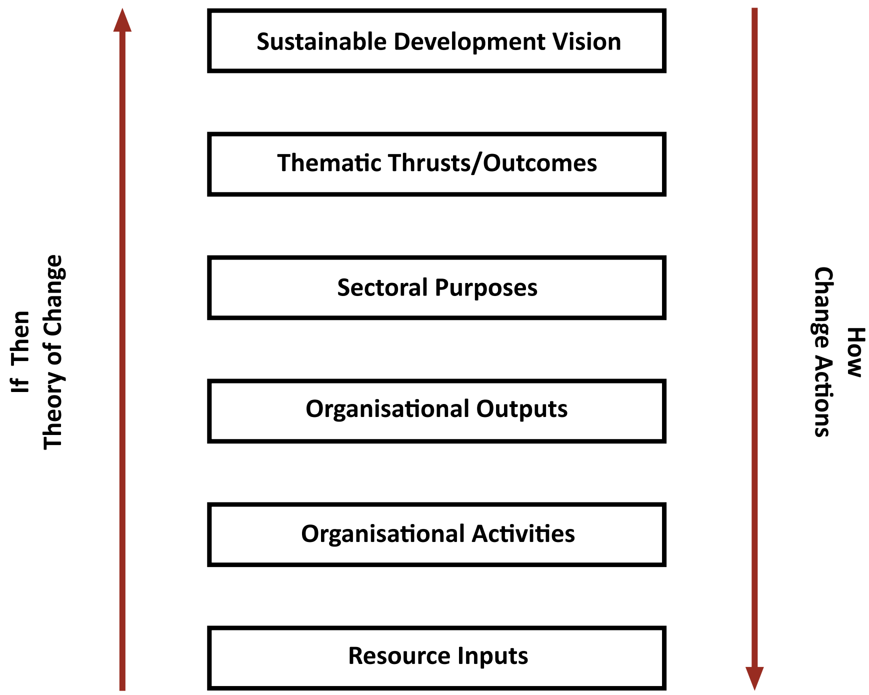
would eventually need to go beyond a simple input-output contribution to a focus on attribution of results when dealing with Outcomes and Goals as portfolios of results. However, initially moving towards integrated budgeting should focus on operational and organization performance of Spending Agencies in delivering on SDG Targets. From an SDG implementation perspective, information linkages between expenditure classification, results chain and SDG targets should be established to make the expenditure classification outcome oriented. The reality is that neither the plan nor the budget has a focus on service delivery which prevents communication between the provincial/local plan and the budget. What is available are capital expenditure budgets.

b. Macro-level:

At the macro level, strategic public investment is about providing an overarching results framework within which Agency planning-budgeting can be positioned to inform such investment in regard to results to be achieved from said investments. As noted in the preceding sections, neither the province nor the local have comprehensive area plans.

The macro level alignment of agency planning-budgeting with the vision of

Figure 04: Logical Framework Model for Macro Level Integration



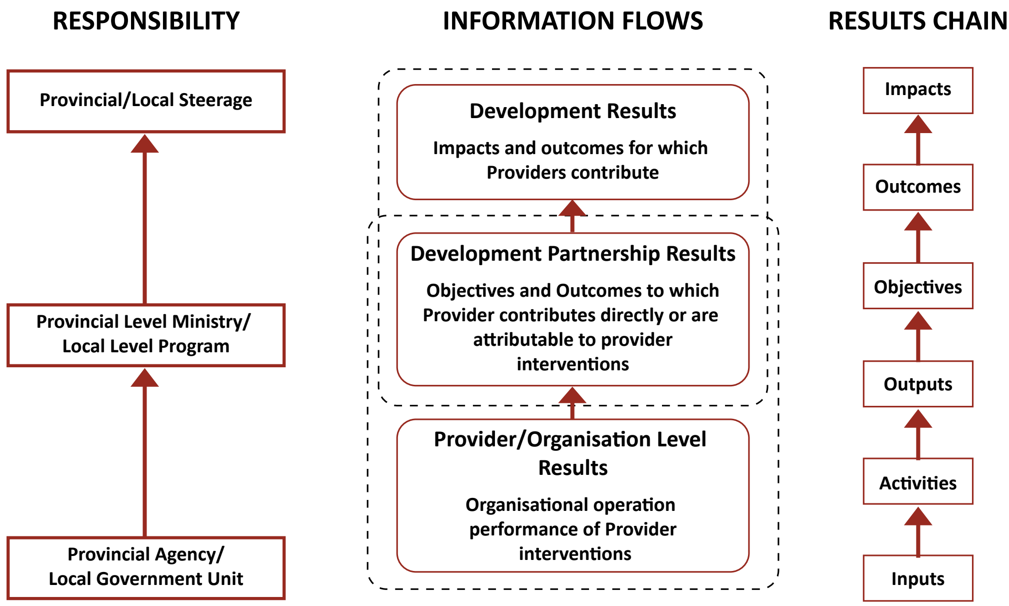
sustainable development is both, a theory of change, mapping the pathway from organizational outputs through sectoral purposes and thematic thrusts to the sustainable development vision, as well as, a framework for integrating internal and external accountability in the strategic change process. The theory of change is about the transformation involved in achieving the vision of sustainable development, wherein the different change actions must be positioned. A pathway to a sustainable development vision will be inherently complex being a composite of several independent elements through interacting actions.

D. Achieving Coherence in Micro-Macro Alignment

The function of macro level alignment between thematic development priorities ("thrust areas") is to align Agency level planning-budgeting with the macro level thematic development priorities. Information is central to establishing the link and alignment between the micro level Agency planning-budgeting system and the Macro level thematic development priorities. Such information is necessary for provider accountability, inter-provider as well as inter-level communication, and the direction of operations through the results chain. It is important to note that there are information flows in and out of the macro results chain, from and to other systems and actors. The cause and effect logic does not make the macro-results chain a closed system.

The internal organization for service delivery differs in the extent of independence of the operational role and responsibility in planning-budgeting available to different

Figure 05: Framework for Micro-Macro Alignment



(Adapted from, OECD, 2017., Strengthening the Results Chain: A Discussion Paper)

lines of service delivery as between provincial and local governments. While independent spending agencies with responsibility for planning-budgeting of service deliveries do not exist as such in local government (except perhaps Municipal Councils), service lines function as "projects" within the program budget framework of local government. Therefore, while the extent to which the tiers of engagement in producing results may be differentiated in local government, and hence generation of service delivery results, information may not be differentiated, definition of such levels of results engagement and information generation are fundamental to the alignment of planning-budgeting with the achievement of outcomes and impacts.

While different levels of planning-budgeting engagement with the results chain can be defined in terms of provision, partnership in provision, and development as distinct levels of operations in the provincial and local governments, it is important to recognize that they are components in a larger system. However, neither the provincial nor the local are closed systems. From a sustainable development perspective what happens in one will influence the sustainable development outcomes being delivered by the other.

2.4.3. Way Forward in Localizing the Financing of SDGs

A framework for localizing the financing of SDGs should provide for coherence across multiple dimensions. First is coherence of localized financing with local sustainable development outcomes. This requires coherence between localized financing and national sectoral financing strategies so as to bring about complementarity between national sectoral financing strategies and localized financing imperatives of the SDGs. The second is about coherence between different financing policies in terms of addressing trade-offs and synergies, especially in terms of integrated financing of local SDG outcomes. The third area of coherence is institutional, facilitating integration, coordination and cooperation between different financing roles and responsibilities. Institutional coherence also involves structures and processes for social accountability of localised financing. It is imperative that such coherence is not worked out in a manner that is compliance oriented. Rather, coherence should create financing space to implement localized SDG outcomes for leaving no one behind in the spatial scale. Thus, coherence should be dynamic in creating financing space for the required SDG actions and hence transformational in scope and content.

Coherence and cohesion in service delivery, economic, social and environmental, is the necessary basis to ensure that outcomes are in focus, realistic and affordable. It requires a framework of systems, structures and processes for not only integrating disconnects in financing across the triple bottom basis of sustainable development. Such localizing of a financing framework for SDGs should get institutionalized around the following elements of governance actions.

A. Localising SDGs around integrated planning into a set of provincial development priorities.

This action will involve aligning the sectoral planning framework around provincial development issues for localising the SDGs into a set of development priorities at provincial spatial scales. These priorities will constitute an overarching framework of provincial development outcomes guiding service deliveries of both de-concentrated and devolved structures and agencies.

It will, for a coherent and cohesive subnational (both devolved and de-concentrated) service deliveries;

i. inform the prioritization of sectoral agency outputs and outcomes;
ii. provide the basis for informing respective planning and budgeting roles and responsibilities;
iii. identify the set of indicators for targeting and monitoring the subnational development priorities;

B. Localizing the provincial development priorities to a local spatial scale service delivery system.

The framework of provincial development outcomes will be localized to guide local level service delivery of the divisional administrations and local government institutions. It will allow aligning agency outputs with localized subnational development outcomes and development priorities. Such a local level development framework will provide the basis for aligning private sector service delivery activities with the subnational development priorities.

C. Designing a localized targeting and monitoring system for tracking excluded households.

The fundamental purpose of localizing the provincial development priorities to the local level is to enable the targeting of service deliveries so as to deliver on the SDG promise of "leaving no one behind". This action will involve:

i. establishing the local baseline of integrated provincial/local development outcomes for targeting service delivery;
ii. the identification of gaps in attainments of development priorities and the assessment of local development needs;
iii. formulating annual service delivery

plans for integrating agency service delivery outputs;

iv. aligning private sector and non-government service deliveries; and

v. designing a local level monitoring system.

D. Institutionalizing a stakeholder partnership for financing and implementing localized development outcomes.

A localized framework of development outcomes in turn defines the development space for establishing partnerships in financing and implementing the local service delivery plan. The action involves formulating medium-term service delivery plans around a set of local service deliveries around roles of the divisional administration and local government institutions for identifying private sector and non-government financing and implementation roles and responsibilities. The service delivery plans will be aligned with the localized development outcomes. This will allow for the clustering of government, private sector and non-government partnerships around subnational development outcomes.

CHAPTER 03:

THE FINANCING CONTEXT

An Analysis of Domestic and International Financing for implementing the SDGs in Sri Lanka

3.1 Introduction

As a signatory to the 2030 Agenda, Sri Lanka is expected to align its financing polices and strategies in preparation for a transformation towards sustainable development. The United Nations Secretary General's Roadmap for Financing the 2030 Agenda for Sustainable Development 2019 – 2021 designed to transform the financial system from global to local levels, focuses on three objectives. These include aligning global economic policies and financial systems with the 2030 Agenda, enhancing sustainable financing strategies and investments at regional and country levels, and, seizing the potential of financial innovations, new technologies and digitalization. This strategy was developed to address the barriers that constrain channelling finance towards sustainable development and leveraging opportunities to increase investments in the SDGs. Early assessments by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) suggest that Sri Lanka will need an annual additional investment of 4.4% of the 2018 GDP through 2030 to provide a social protection (1.7%), poverty gap transfers (0.2%), quality education (1.6%) and climate-resilient infrastructure (0.8%).

However, Sri Lanka is yet to formulate a national financing architecture towards aligning its economic policies and financial systems with the 2030 Agenda. The government has not conducted a proper assessment to identify the required financial commitment towards implementing the SDGs. Therefore, it has not been able to assess the potential benefits that can be drawn from such a transformative investment. A proper assessment or planning process will require an inquiry of the current state of the economy and contributions by all stakeholders including international and domestic partners. Considering the limitations of international development financing for the SDGs, Sri Lanka needs to pursue all domestic financing avenues. As public finance alone would not be able to entirely drive a transformation, enhancing the potential of private sector and other non-state sector actors from national to subnational levels would be vital.

A poorly managed economy, with a constant budget deficit and increasing social and economic inequalities, raises critical questions as to its capacity to adopt transformative action, as required by the 2030 Agenda for Sustainable Development. The analysis of the financing context provides a review of the prevailing economic environment including the resilience, readiness and support for domestic resource mobilisation for the SDGs. Besides restructuring public financing, an analysis into international support, private sector investment, non-profit sector action, and the readiness of the banking sector will provide insight into evolving a domestic resource mobilization framework for SDGs in Sri Lanka.

3.2. National Economic Environment for Implementing the SDGs

The World Bank, which classified Sri Lanka in the upper-middle income category in 2019, downgraded it in June 2020 to lower-middle income status. Despite many interventions, export earnings and FDI inflows have remained below potential. The low improvement in investment efficiency, including infrastructure, public finance and management systems, has not helped with achieving the desired results. Relatively low level of tax revenue and incoherent tax policies are seen as constraining factors; as of 2019, tax revenues have fallen due to weak collection of VAT, excise, and import taxes. Meanwhile, the country's access to concessionary finance had declined when it was elevated to middle-income status. When considering the growing demand for public investment in addition to the continued rise of public debt, Sri Lanka needs to find a more resilient and sustainable model for domestic development finance.

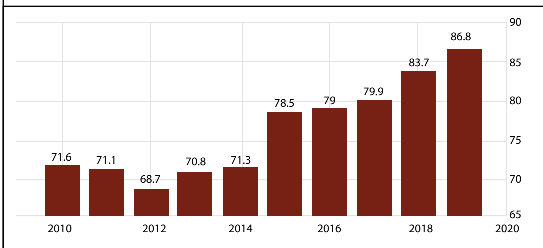
3.2.1. A Statistical Analysis of the State of the Economy

While South Asia has emerged as the fastest growing sub-region in the world, with an annual average growth rate slightly over 7%, Sri Lanka's growth has been only 3.5%. The Gross Domestic Product (GDP) in Sri Lanka was worth 84.01 billion US dollars in 2019 and the GDP value of the country represents 0.07% of the world economy. The country recorded a government budget deficit equal to 6.8% of the country's Gross Domestic Product in 2019, a trend of the last decade that forecasts to continue into the foreseeable future. Sri Lanka's government debt accounted for 86.8 % of the country's Nominal GDP in 2019, and external debt stood at US$ 50.45 billion in the first quarter of 2020. Sri Lanka's debt is one of the highest debt-to-GDP ratios in the SAARC and ASEAN regions.

Sri Lanka's economy grew at an average of 5.6% during 2010–2019; however, the growth has slowed down in the last few years while key macroeconomic challenges such as inflation, unemployment and balance of payment issues persist. According to the World Bank low fiscal revenues combined with largely non-discretionary expenditure such as salary bill, transfers, and interest payments, could affect critical development spending on health, education and social protection. The post 2009 period took a significant turn in the national economy, and the country experienced high growth rates recorded at 8% (in 2010) and 9% (in 2011), with the Northern and Eastern Provinces joining the national economy. However, it is highly questionable if the country reaped the peace dividends fully and how that translated into economic benefits at large.

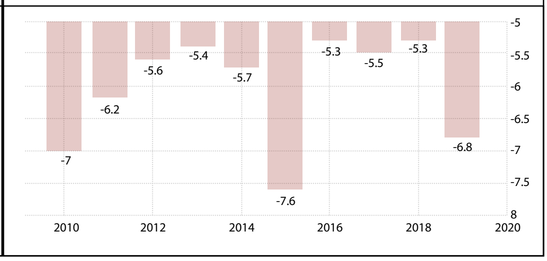
There were two main negative shocks that caused Sri Lanka's Gross National Income (GNI) to be stagnant in foreign currency terms in 2019. One was the uncertainty created within the economic system in the first half of 2019, emanating from the constitutional crisis of October-December 2018 and the lack of a proper budget approved by Parliament for 2019. The second was the series of Easter bombing attacks on major hotels and Christian churches in April 2019 and the ensuing security situation across the country. This shock reduced the growth

Figure 06: Sri Lanka Government Debt to GDP 2010-2020 (past and forecast)



Source: *Trading Economics*

Figure 07: Sri Lanka Government Budget Deficit 2010-2020 (past and forecast)



Source: *Trading Economics*

momentum of the country in the second half of 2019. Additionally, with the onset of the COVID -19 pandemic in 2020, a slowdown in economic activities especially in the tourism, trade, transport and construction sectors, combined with the harsh impacts on the small and medium sized enterprises (SME) is expected.

Sri Lanka's official Poverty Headcount Index Based on the Official Poverty Line (2016) is 4.1% showing a steady decline over the years, yet 11.9% are reported as vulnerable in relation to poverty status in Sri Lanka which amounts to 2.5 million underprivileged people. There are significant disparities across sectors, provinces and districts. For instance, 11.3% of the population residing in the estate sector are multidimensionally poor. While the overall unemployment was relatively low at 4.4% in 2018, youth unemployment recorded 21.4%. Due to changes in the composition of migrant workers from Sri Lanka a decrease in remittances is expected; this may lead to a lower contribution to household income resulting in a drop in the pace of poverty reduction.

One of the main concerns is the wide disparity in income distribution across citizens, and the disparity in the incomes earned at a provincial level. In the case of the income disparity among citizens, the top 20% of the population receives a little over 50% of the total income of the country. In contrast, the lowest 20% receive only 5% of the total income. With regard to the income disparity among the provinces, the major share of 37% was earned in the Western Province whereas the rest of the country had earned the balance 63%. Accordingly, eight out of the nine provinces were below the minimum income threshold for an upper middle-income country. As such, from the welfare point of people, a large segment of Sri Lanka's population has not been able to enjoy living standards attributable to an upper middle-income country.

As for inflation, according to the Central Bank of Sri Lanka, the country's headline inflation, as measured by the year-on-year change in the National Consumer Price Index, increased to 6.2% in December 2019 from 4.1% in November 2018. According to the CBSL, it has taken a number of monetary and regulatory policy measures to induce a reduction in market lending rates, enabling them to reduce the cost of mobilising funds from the general public. However, the demand for private credit has shown limited responsiveness because of low economic activity.

Public debt levels are high in Sri Lanka with a total debt to GDP ratio recorded at 86.8 % in 2019. Gross official reserves are expected to remain relatively low as the country faces large debt repayments. Sri Lanka, has faced challenges in its efforts to strengthen revenues and while Sri Lanka has raised enough foreign currency funds to manage immediate debt repayments, continued large refinancing requirements make the economy vulnerable to global financial conditions. The latest Asian Development Outlook, notes that lower imports reflecting the reduction in global oil prices and energy demand, subdued domestic demand, and restrictions imposed on imports by the Central Bank of Sri Lanka will help to keep the current account deficit in check, which is expected to widen to 2.8% of GDP in 2020 before falling to 2.6% in 2021.

Both the International Monetary Fund (IMF) and World Bank (WB) have called for continued fiscal consolidation, i.e. concrete policies aimed at reducing government deficits and debt accumulation, through broadening the tax base and aligning spending with priorities. In Sri Lanka, tax revenue has consistently stagnated due

Table 11: Comparative Summary - Country's Debt Position

Year	GDP (USD billions)	Total Debt to GDP	% of Total Debt		% of Total Foreign debt		% of Total Foreign debt
			Domestic	Foreign	Concessional	Non Concessional	International Sovereign bond issuance
2015	80.6	76.0%	58%	42%	49%	51%	27%
2019	84.0	86.8%	51%	49%	43%	57%	43%

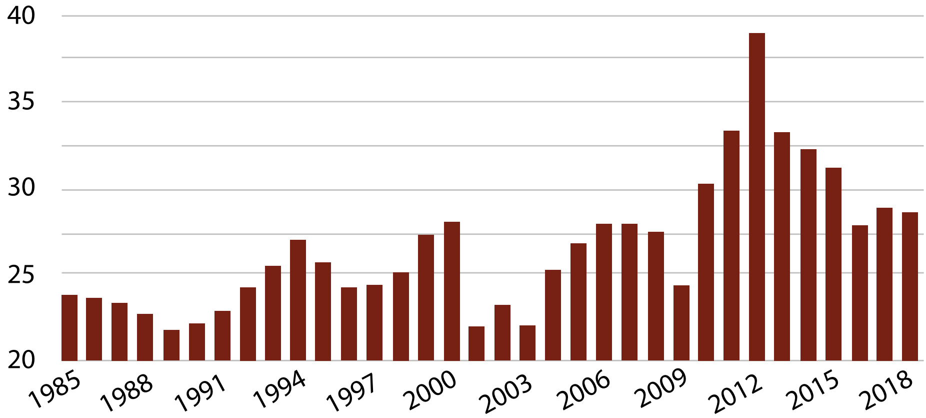
Source : *Based on CBSL annual reporting*

to the limited tax base. In addition, ad hoc taxes introduced to fill the revenue gap have served to complicate the tax system. The Government has taken steps to improve revenue collection. One such initiative is the enactment and implementation of the new Inland Revenue Act, No. 24 of 2017, with the objective of improving direct tax income through rationalising and simplifying the existing income tax structure, broadening the income tax base, and strengthening tax administration. In addition, the government introduced amendments such as lowering the registration threshold and removing exemptions to the VAT and Nation Building Tax (NBT) Acts in 2016, to improve revenue collection related to VAT and NBT. However, the persistent revenue shortfall over the year, indicated by the fiscal deficit, shows the need to further strengthen domestic resource mobilisation. Currently, the government depends heavily on borrowing to finance the budget deficit. As mentioned earlier this figure which is over 80% of GDP is deemed very high. Across the past decade, the total revenue of the Government has ranged from 11% to 15% of GDP. The current government revenue as a share of GDP is 13.8% and tax revenue has stagnated around 12% of GDP from 2015 onwards. This is a cause for concern considering that, over the years, tax revenue has contributed around 86% of total government revenue. In fact, according to 2017 estimates, the total tax revenue accounted for 91% of total revenue, with Value Added Tax (VAT) and income taxes accounting for 24% and 15% of overall revenue, respectively.

Moreover, if countries are able to reform their tax systems correctly, then this would be one of the important sources of development financing available. Not only will this help to generate the revenue needed to pay for the SDGs and fund normal government operations, it will also help to build and/or reinforce the social compact between governments and their citizens. According to the World Bank, Sri Lanka's capital investments as a percentage of GDP from 2015 -2018 has amounted to 31.18%, 27.85%, 28.83%, and 28.58% respectively. This is a healthy capital investment ratio for a healthy economic growth for a country with a budget deficit. When comparing the trade deficit and capital investment trends of Sri Lanka, it is obvious that international investments/funding play a significant role in promoting capital investments oriented towards sustainable development.

The World Bank in its Sri Lanka country profile further mentions that the following are priority areas: (a) shifting to a private investment-tradable sector-led growth

Figure 08: Sri Lanka's Capital Investments 1985-2018 as a Percentage of GDP



Source: *World Bank*

model by improving trade, investment, innovation and the business environment; (b) improving governance and State Owned Enterprise (SOE) performance; (c) addressing the impact of an aging workforce by increasing labour force participation, encouraging longer working lives and investing in skills to improve productivity; and (d) mitigating the impact of reforms on the poor and vulnerable with well-targeted social protection spending.

The main concern for Sri Lanka's economy is that it is not growing fast enough to produce domestic resources while also suffering from poor efficiency; the services sector in 2018 accounted for about 56% of the economy while employing only 46.6% of the workforce. In context the agricultural sector accounted for about 7.9%, while employing over 25% of the labour force. Sri Lanka has a poor labour force participation rate, which is another sign of inefficiency. In 2018, the labour participation rate was a mere 51.8%; female labour force participation was even lower at 33.6% according to government data, well below its peers in the same income category. Sri Lanka's economic complexity has also worsened; the economic complexity of a country is calculated based on the diversity of exports a country produces and their ubiquity. In 2018, Sri Lanka's Economic Complexity Index (ECI) was -0.65 and was ranked 97 out of 137 countries. Sri Lanka was the number 64 economy in the world in terms of GDP (current US$), number 84 in total exports, number 80 in total imports, and number 97 means a 'most complex' economy according to the Economic Complexity Index (ECI).

Together, these inefficiencies have led to a serious weakness in the trade-position of the economy. This is highlighted by the ongoing COVID-19 pandemic, which has forced the country to restrict imports in an effort to preserve its foreign exchange reserves. The lack of complexity contributes to a significant trade-deficit, more than half of which is financed through the remittances of migrant workers (especially low-skilled workers). In 2018, these remittances amounted to more than $7 billion, one of the most important foreign private inflows and a major contributor to the economy of Sri Lanka. The 7$ billion the country received in remittances were mostly flows directly to the families for workers employed abroad. These workers range from low-skilled workers employed as maids to high-skilled workers who may be employed in the knowledge sectors of foreign economies. Worker remittances constitute an important component in the Balance of Payments (BoP) accounts in Sri Lanka as well. For example, in 2017, foreign exchange earnings from worker remittances stood at $ 7.2 billion, well ahead of other major foreign exchange earners, such as apparel ($5 billion) and tourism ($3.9 billion). As a share of GDP, worker remittances accounted for 8.6 %, and more interestingly, worker remittances alone covered 96% of the trade deficit in 2017.

The United Nations claims that remittances can contribute to reaching the SDGs in a variety of ways: at household level, by recognizing the positive socioeconomic impact of remittances on families' wellbeing; at community level, by supporting policies and specific actions to promote synergies between remittances and financial inclusion, encouraging market competition and regulatory reform, and mitigating any negative impact resulting from climate change; and at international level it can ensure revitalised Global Partnerships for Sustainable Development. Thus, a pandemic or a similar shock, which forces these migrants back to Sri Lanka, who cannot be efficiently employed, has the potential to leave the Sri Lankan economy dangerously vulnerable. Without remittances, the country also cannot fund its trade-deficit, and it must cut-down imports and restrict investment. These cuts will invariably affect its export sector because many of those same imports are used as inputs for export products; the cycle is one that reduces economic growth.

The slow growth rate of the economy, serious inefficiencies, low labour participation and low complexity, raises concerns for domestic resource moblisation for the implementation of the SDGs. The country appears to struggle to generate adequate resources to pull people out of poverty, produce the public goods to keep them out of poverty, and transit towards a more socially inclusive and environmentally sustainable economy.

3.2.2. External Flows towards Strengthening Domestic Financing

Being a country with a continued negative budget balance, international finance flows play a crucial role. To a degree, it could compensate for a weak national economy that cannot generate enough resources to invest in the SDGs. In this context, the international system consists of the full sum of bi-lateral funding, multilateral funding and international markets that could be used to leverage such finance. While government investment is directed towards achieving national security, food security, energy security, creating new industrial initiatives, public health, education, skills development and a knowledge-based economy, the private sector investment is geared towards expanding the value-chains in the exports sector while enhancing local production. It is important that the international finances are used in such a manner that it unlocks domestic investments and contributes to sustainable development transformation.

A. Government Borrowings:

From an initial US$500 million in international sovereign bond (ISB) issue in 2007, Sri Lanka went on to amass US$15.3 billion in debt from subsequent ISB issues and foreign currency term financing facilities, from 2007 to 2018. Most are borrowed from international capital markets in the form of sovereign bonds, term financing facilities and foreign holdings of gilt-edged securities. Sri Lanka being unable to implement policies to attract non-debt creating capital flows, enhance productivity, and achieve sustained growth, means successive Sri Lankan governments have used cheap debt markets to finance persistent fiscal and current account deficits. Thus, today the country appears to be caught up in what is termed a 'debt trap'. The country is in a classic vicious cycle of ever-increasing borrowings to pay past debts and finance ongoing deficits.

These high interest borrowings now exceed a third of Sri Lanka's total debt. As a result, Sri Lanka faces a record foreign debt repayment which amounted to nearly US$6 billion in 2019. With low reserves and tightening market conditions, finding ways to meet these repayment obligations is an effort. The search for funds has pushed the country to borrow even more from non-concessional sources, including commercial bank borrowings from China, while searching for cheaper funds. In January 2019, the Central Bank announced that Sri Lanka was seeking to raise nearly US$5 billion through sovereign bonds, a bilateral loan from China and a currency swap with the Reserve Bank of India.

When combined, international public and private finance represent over US$10 billion in finance assets. This is equivalent to about 10% of the economy and flows directly to private enterprises and households. Given the weakness in the economy, the international system could supply a source of targeted finance for SDG related activities. How these resources are leveraged will depend on the various stakeholders of the national economy, including banks, private enterprises, and civil society organizations (CSOs).

B. Official Development Assistance:

Over four decades, Sri Lanka has been accessing foreign financial assistance in the form of concessional loans, export credits, technical assistance and outright grants under Official Development Assistance (ODA) from bilateral and multilateral development partners, and also in the form of market borrowings. Sri Lanka benefits significantly from bilateral and multilateral funding, but these sources are still a fraction of the national GDP. In 2018, the top 4 development partners were China, Japan, the ADB and the World Bank. In that same year, Official Development Assistance (ODA) disbursed to Sri Lanka amounted to $1.39 billion; most of which was concessional loans, while technical assistance and grants totalled $ 21.6 million. In comparison to the national economy, which was about $90 billion at the time, international public finance amounts to little over 1% of the total GDP. Moreover, many of these sources, with exceptions such as the ADB and World Bank, do not explicitly refer to the SDGs in their financial assistance schemes; nevertheless, their activities are mostly concentrated in projects that contribute to the advancement of particular SDGs.

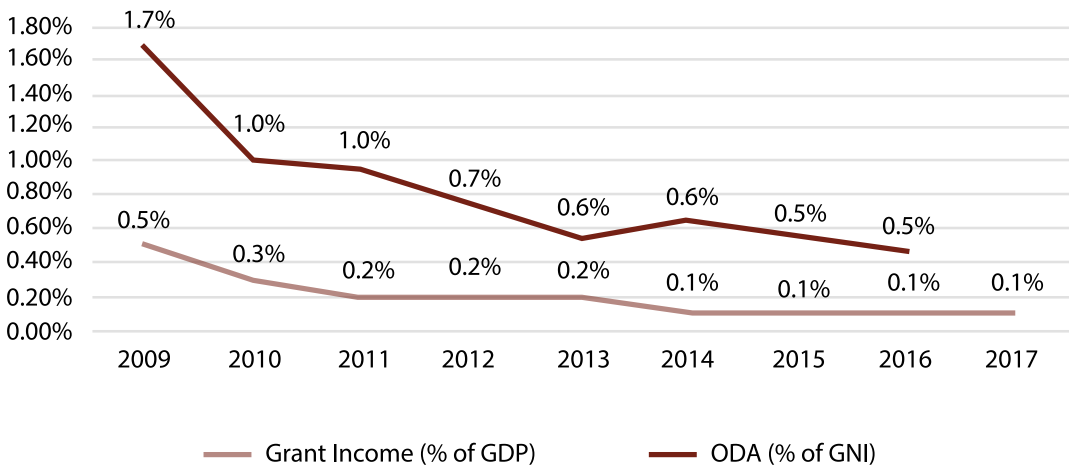
Borrowing can lead to significant debt, and in 2019 alone, Sri Lanka faced a record foreign debt repayment of nearly US$6 billion. However, foreign public financial assistance is important, especially when trying to attract funds for the provision of public goods, which rarely attract international private finance. The present borrowing strategy of the Government includes borrowing at the lowest possible cost and low risks such as refining, exchange rate and interest rate risks, and ensuring adequate provision to service the existing debt on time. In line with these principles, numerous strategies are being adopted by the Government to mobilize external financing for development projects in the country and include: exploring the possibilities of obtaining concessionary and non - concessionary funds at a minimum cost and lower risks for financing development projects; pay more attention to the sectors which generate cash flow when raising funds for the fields which are directly related to improving economic infrastructure facilities and productivity in the economy; obtain loans with a longer repayment period, maximum grace period and favourable grant element; assist the state-owned enterprises to improve their assets by encouraging them to obtain loans directly from external sources under government guarantees; and use the Capital Market through alternative methods such as the issuing of Sovereign Bonds.

Sri Lanka's graduation to lower-middle income status in 2010 was accompanied by a reduction in access to concessionary finance. As illustrated below, the total grant amount received by the government has decreased over the years, accounting for 0.1% in 2017. Official Development Assistance has declined from 1.7% of GNI in 2009 to 0.5% of GNI in 2016. The proportion of non-concessionary external debt has grown from 7% of total debt in 2006 to 55% by 2017.

The majority of foreign funding to Sri Lanka is through bilateral and multilateral lending agencies, including the Asian Development Bank (ADB), the World Bank (WB) and development partner countries such as China and Japan. These funds are not specifically earmarked for the SDGs. However, Multilateral Banks (MLBs) such as ADB claim to track the links between their projects and the SDGs since 2016. This includes improving monitoring how the projects and programs it finances will support SDG targets. Similarly, WB Group has produced several tools to help countries prioritize and sequence the SDGs. On the data side, the World Bank Data Group has revamped the interactive Atlas of Sustainable Development Goals.

The Central Government is responsible for deciding where the funds will be distributed to both geographically and sector wise. An important point on concessional loans is that there has to be a counterpart contribution, where the government has

Figure 09: Grant Income and Official Development Assistance received, 2009 to 2017

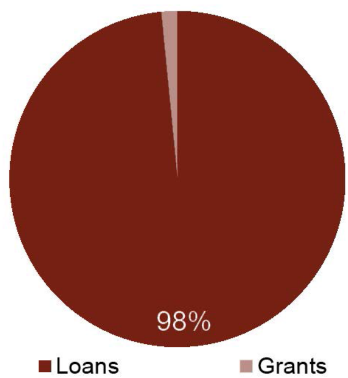


Source: *Central Bank of Sri Lanka annual report various issues / World Bank development indicator database* to invest a small portion of their money. Sri Lanka also has multiple bilateral agreements with many countries. Data for 2018 shows that China is the second biggest lender to Sri Lanka, behind the ADB. China has become the largest partner to Sri Lanka in terms of foreign investment, contracting construction, tourist volume and foreign aid. Chinese loans are 10% of Sri Lanka's total foreign debt and of this, 60% was lent on concessional terms. In 2018, the ADB committed US dollars 1432.5 million in total towards Sri Lanka, where loans, grants and others sum up to US dollars 520 million, technical assistance amounting to US$ 5 million and co-financing reaching US$ 907.5 million. In addition, the World Bank has invested US$ 125 million for a climate smart irrigated agricultural project in Sri Lanka in 2019.

Sri Lanka has multiple bilateral agreements with 28 countries according to the BOI guide (2019). Bilateral donor agreements generally have political reasons and often align with the foreign policy of the donor country. As it is necessary to cater towards the sustainable development principles, Sri Lanka is developing its new model Bilateral Investment promotion and protection treaties (BIT) accordingly, to attract foreign investments. Bilateral donors are also providing sizable capital investments to Sri Lanka in different sectors. As for capital investments through bilateral agreements, an example is the Rajagiriya flyover project (which costs Rs. 4.7 billion), funded by a concessionary loan from the Government of Spain.

However, bilateral donor negotiations towards SDGs are yet to take place. On the other hand, Bilateral financing countries such as Japan, China and India support coal power plants in Sri Lanka; seen as going against the Paris Agreement and the 2030 Agenda commitments. There are some positive signs however, with EU moving towards greener and sustainable investment. Being a middle-income country, the interest from donors to provide grants to Sri Lanka has gradually diminished; 98% of funding is provided as loans and only 2% as grants in the year 2018.

Figure 10: Foreign Financing Disbursements in 2018



Foreign financing is channelled through public, private, and other sectors, yet the public channel is more predominant. Often the private international investments flow as "business investments" to profit generating investments in the form of loans, equities and guarantees. The foreign investments into the sectors or projects will not generate profits in the short run, but will create a conducive environment to unlock development that are often channelled through the public sector. A small portion Foreign financing is channelled through public, private, and other sectors, yet the public channel is more predominant. Often the private international investments flow as "business investments" to profit generating investments in the form of loans, equities and guarantees. The foreign investments into the sectors or projects will not generate profits in the short run, but will

Table 12: Foreign Financing Disbursements in 2018

Development Partner	Amount Disbursed (USD Mn)		
	Loan	Grant	Total
Bilateral	475.99	57.00	532.99
Australia		25.10	25.10
France	50.88		50.88
Japan	95.78	2.30	98.08
Korea	14.00	7.50	21.50
Saudi Fund	15.83		15.83
Netherlands	59.07		59.07
Austria	30.38		30.38
India	45.27		45.27
USA		22.10	22.10
China	164.78		164.78
Multilateral	632.68	75.92	708.60
Bilateral	475.99	57.00	532.99
Australia		25.10	25.10
France	50.88		50.88
Japan	95.78	2.30	98.08
Korea	14.00	7.50	21.50
Saudi Fund	15.83		15.83

Source: *Department of External Resources, Ministry of Finance*

create a conducive environment to unlock development that are often channelled through the public sector. A small portion of investments comes from foreign donors and charities through other stakeholders including non-governmental organizations (NGO's) and other civil society organizations (CSOs) of which the cumulative data is not publicly available. While these amounts may be small, the impact on social, environmental as well as micro-enterprises are significant and needs to be fully accounted towards assessing resource mobilization for the SDGs.

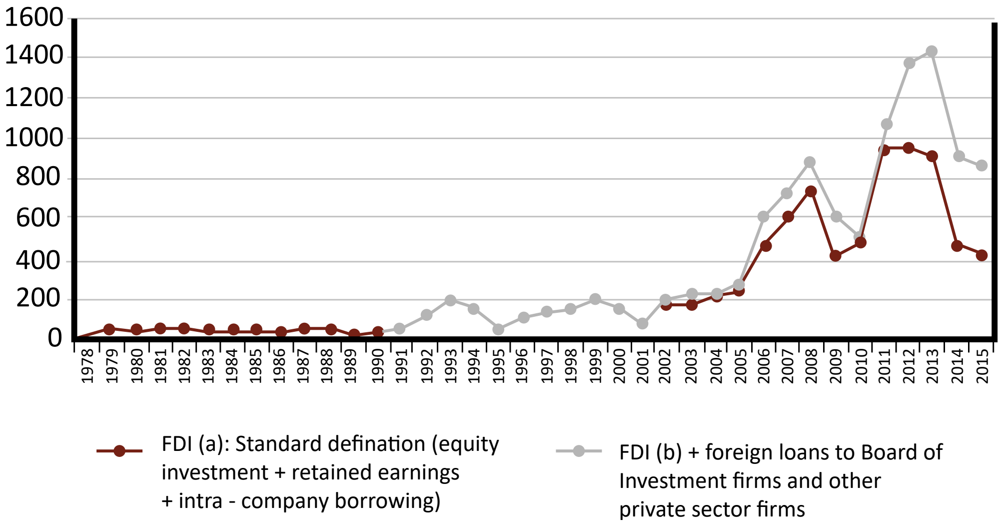
C. Foreign Direct Investment

Sri Lanka, like most countries cannot meet their total capital requirements from internal resources alone, they turn to foreign investors. Foreign private investment including foreign direct investment (FDI) and foreign portfolio investment (FPI) are the main approaches to domestic investment. In Sri Lanka, the FDIs are facilitated and regulated by the Board of Investment (BOI) of Sri Lanka. The BOI has identified key target sectors where international investors should focus upon, and include manufacturing of high value added/high tech and apparels; it-enabled services, tourism, food processing, logistics, education and large-scale infrastructure.

Sri Lanka experienced a growth in FDI inflows in 2018 which amounted to US dollars 1.6 billion in comparison to US dollars 1.3 billion in 2017. According to the BOI of Sri Lanka, international investments are categorised under four sectors; agriculture, manufacturing, services and Infrastructure. The Agriculture Sector observed a decrement in the FDI to $ 0.5 million in 2018 in comparison to $1.4 million in 2017. In terms of Industrial sector, manufacturing experienced a contraction in 2018 to $291.5 million in comparison to $317.8 million in 2017, whereas infrastructure increased to $1773.7 million in 2018 when compared to $1043.5 million in 2017. In 2018, FDI inflows were channelled largely to projects related to ports, telecommunications, housing and property development and hotels, while FDI inflows to the manufacturing sector remained moderate.

The Asian Development Bank too notes, that FDI increased noticeably during the five years following the end of the civil conflict in 2009. The inflows have been heavily concentrated in tourist hotels and no tradable sectors; mostly real estate. In fact, FDI in export-oriented manufacturing accounted for less than 30% of total approved investment during 2010–2015. Stable economies with high growth prospects often attract higher levels of FDIs. According to a World Bank blog, the larger share of FDI inflows to Sri Lanka have been focused on infrastructure, which helps with jobs and growth temporarily during the construction period but not over the long term. Moreover, high infrastructure FDI relies on a few, large infrastructure deals that are unlikely to be replicated over time. Manufacturing and services hold a better promise for the long run, but a large share of FDI is linked to traditional sectors and local market-oriented activities with low

Figure 11: Foreign Direct Investment in Sri Lanka



Source: *CBSL 2015 Special Statistical Appendix* value-addition and smaller productivity gains. Only a relatively small proportion in export-oriented manufacturing and service activities, reaching sectors of the economy that are associated with global production networks.

D. Development Financing

SDG target 17.1 calls to strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection. International financing is imperative for Sri Lanka to achieve the SDGs. However, the Government of Sri Lanka is responsible for defining the volume, instrument and investment priorities. Without assessing the investment priorities in implementing the SDGs, it will be difficult to channel international investments effectively. An assessment of financing for the SDGs in Sri Lanka should include targeting development finance not available to support developing countries.

Development finance can be broadly defined as the use of public sector resources to facilitate private sector investment in low- and middle-income countries, where the commercial or political risks are too high to attract purely private capital. Development finance institutions (DFIs) use direct loans, loan guarantees, equity investments, and a variety of other products to support and enable these investments—and to mitigate political and commercial risk. In recent years, development finance has emerged as an increasingly important tool to fight global poverty and reduce income inequality. In many cases, it has become an important complement to ODA and integral to achieving the SDGs. Ramping up the engagement of DFI's and Multilateral Development Banks (MDB's), to facilitate additional private capital investment in developing countries could result in dramatic progress towards inclusive economic growth and opportunity. Most of the international finances are now trying to strike a balance in economic, social, and environmental aspects in development rather than only looking at the economic benefits. Most of the MDBs have adopted strong social and environmental policies and have incorporated into the compliance frameworks of their funding process. Therefore, governments are compelled to follow these policies in accessing the finances provided by them.

Blending with domestic finance, international finance has the potential of creating an enabling environment through which to unlock domestic financing. It is important to look at the policies of international donors, especially countries with strong policies towards sustainable development, as it can path Sri Lanka towards sustainable development. As such, international donors will impose a higher level of compliance responsibilities on the recipients. Sri Lanka will need to present stronger social and environment standards that will bring about the appropriate blend with economic aspects.

3.3. Private Sector Investment in Achieving the SDGs

Stakeholders of a national economy, both public and private, are vital for mobilizing domestic resources towards implementing the SDGs. The private sector, defined as the segment of a national economy that is owned, controlled, and managed by private individuals or enterprises with a motivation of profit making, includes small and medium-sized enterprises (SMEs), micro or household businesses, corporate firms, multinational corporations (MNCs), institutional investors, individuals enterprises; basically, all who are not owned or controlled by the government. The Registrar of Companies' website notes the registration of 103,832 local private companies and 1,603 foreign companies; most of which fall under the above definition. Their activities, whether explicitly or implicitly associated with the SDGs, will determine the success of the 2030 Agenda for Sri Lanka. A middle-income country like Sri Lanka will need all the support available in achieving the SDGs and the private sector has an irrefutable role to play. However, domestic private investment is yet to become a significant finance source driving Sri Lanka's effort towards achieving the SDGs. At the same time, the government's task lies in encouraging and compelling the actions of the private sector within a domestic resource mobilisation framework for the SDGs, including through Public Private Partnerships (PPP).

3.3.1. Policy & Regulatory Environment for Private Sector Investment

Agenda 2030 recognizes that the private sector is not only a source of capital, but also a source of jobs, innovation, technology, knowledge and practical experience. According to the World Bank, Sri Lanka's economy is transitioning towards a more urbanized economy, oriented in favour of manufacturing and services. To achieve the SDGs as outlined in Agenda 2030, UNDP believes that will require actors across the public and private sectors to work together at scale. The question is whether the private sector in Sri Lanka is aligned with the objectives of the 2030 Agenda and ready to implement the SDGs? Called the engine of growth of the national economy for decades, the private sector still needs to demonstrate a greater interest and commitment as partner of the government, towards advancing the transformation.

To attain the objective of becoming an upper-middle-income economy, the government from 2015-2019 had recognized the need to foster the private-sector and increase exports. Therefore, the government planned to leverage the country's many advantages such as its natural resource base, strategic geographical position, highly literate workforce etc. for sectors such as tourism, logistics, information technology-enabled services, and high-value-added food processing and apparels. In 2017, Foreign Direct Investment (FDI) into Sri Lanka grew to over $1,710 billion. This included foreign loans received by companies registered with the BOI more than doubling from the $801 million achieved the previous year. The National Budget of 2018 also claimed to continue to facilitate the private sector through the implementation of reform measures in identified sectors, promote exports through foreign capital infusion, and revive local entrepreneurs. The budget was introduced under the theme 'Blue Green Budget', with the expectation of supporting the achievement of medium-term targets such as Per Capita Income of $ 5,000, one million new jobs, FDI inflows of $ 5 billion and the doubling of exports to $ 20 billion.

The World Bank had proposed strategies towards attracting more FDI. These included reworking the trade policy, improving logistics and trade facilitation, promoting investments and enabling regulations while avoiding policy uncertainty, boosting innovation by way of competitive product and financial markets, addressing labour-related issues and getting women to work, and providing enabling logistics and the right infrastructure environment. Sri Lanka's Investment Guide for 2019 too, states that the country's investment policy is geared towards the realization of national SDGs and is grounded in the country's overall development strategy.

3.3.2. Expectations for Private Sector Investment

Private investment rose immediately after the end (in 2009) of the Civil War, but stagnated thereafter from 2012 onwards; private savings declined sharply in 2011 but have recovered since then. According to the ADB, Sri Lanka's Private Sector investment has remained constrained because the business environment has not been conducive and also due to the dominant role played by the state sector. Sri Lanka's investment to GDP ratio for past five years hovers around 30%, which is made up of 24% Private Sector Investment, 5% Public Investment, and 2% Foreign Direct Investment. The Private Sector borrows from local and international banks and also from multilateral lending agencies on certain criteria.

The 'Sri Lanka Economic Acceleration Framework 2020-2025 of the Ceylon Chambers of Commerce (CCC), presents a private sector action plan, to guide Sri Lanka's economy from US$ 89 billion to US$ 134 billion within a five-year period. For this vision to become a reality, CCC's expectation is for the GDP to steadily rise from the current 3% levels to 5%-6% in the next few years. With such a stronger base, it is anticipated that growth will take off to 7-8% by 2025. The growth is expected to be driven via sectors such as exports (merchandise goods and services), tourism, transportation and logistics amongst others. This is to be done by consolidating and pivoting on fundamental economic strengths; including fiscal discipline, macro stability, per capita GDP, the global competitiveness index, global market access, Sri Lanka's strategic location, international relations, quality of life, the human development index, global flagships, societal freedoms, and the country's resilience. This would require a focus on balanced sectoral growth, establishing growth enablers and accelerators, covering digitisation, education, SME acceleration, energy, and more.

The private sector is also expected to facilitate the transfer and spread of new business technology, in order to encourage small and medium scale enterprises, which is identified as the largest contributor of the sector. Although most of the major players in the private sector utilise the latest technology, a significant portion of the small and medium entrepreneurs are lagging behind in this vital aspect. Therefore, it is imperative for the Government to initiate action plans to educate lower scale business entities in the use of modern technology to increase productivity. The private sector has the strength and is best equipped to use

Table 13: Employment by Sector

Major Industry Group	Sri Lanka	Gender	
		Male	Female
Sri Lanka	100.0	100.0	100.0
Agriculture	25.3	23.9	28.0
Industry	28.7	29.4	27.4
Services	46.0	46.8	44.6

Source: *Department of Census and Statistics 2018*

Table 14: Employment Status in Sri Lanka

Employment Status	Sri Lanka
	No
Sri Lanka	8,040,740
Employee	4,547,822
Public	1,063,775
Private	3,484,047
Employer	225,203
Own Account Worker	2,633,377
Contributing Family Worker	632.302

Source: *Department of Census and Statistics 2018*

technology to enhance productivity much more than the public sector. Technological developments in areas such as health, education, and infrastructure can contribute towards economic growth and prosperity in the long run.

In this context, the private sector in Sri Lanka as a key stakeholder in national economic development, is a primary job creator in the country, providing over 85% of the total employment. As per Government statistics in 2018, the total number of private sector employees was 8.3 million, contributing to tax revenues and the flow of capital. In comparison, public sector employment is approximately over 1.1 million in Sri Lanka. Further, there are over a million micro, small and medium scale entrepreneurs in Sri Lanka with over a three million strong workforce in the private sector. However, the private sector faces a consistent lack of labour, particularly in skilled labour and minor employment categories. Approximately, over 5,000 employment vacancies are collectively being advertised weekly but it is not easy to recruit candidates that are ideally suited to the available vacancies.

The Government of Sri Lanka recognizes SMEs to be the backbone of the economy, as it accounts for more than 80% of the total number of enterprises, providing 45% of the total employment and contributing to 52% of the Gross Domestic Production (GDP). SMEs promote broad based equitable development and provide more opportunities for women and youth participation within the economic development framework of the country. However, among the many challenges faced by SMEs, is that development literature identifies access to finance as one of the main constraints. While contributing immensely to the national economy and serving the “bottom of the pyramid” sections of society, unfortunately, there is no statistics or documented public information about how the SMEs are engaged with the SDGs. In the drive for prosperity, Sri Lanka needs to assess the critical contribution SMEs could make towards advancing the SDG’s and provide all the necessary incentives and support.

3.3.3. Private Sector Investment Opportunities in the SDGs

Sri Lanka’s private sector, especially the larger corporates, appears to approach the SDGs with a more fragmented and project-based approach that they are more comfortable with and used to. As such, Corporate Social Responsibility (CSR) and philanthropy has continued to be the preferred strategic approach towards engaging with the SDGs. This approach to engage in a few philanthropic and charitable activities, environmental conservation projects, public awareness, and corporate sponsorships provides a comfort zone to ignore the integrated and indivisible nature of the SDGs. By doing so, these companies tend to draw significant benefits in comparison to the investment: It boosts the morale of employees, which helps produce a more productive work force; It enhances the image of the company, which in turn enhances the image of its products; It helps to maintain good relationships with all sectors of the community; It helps create new relationships with the government, aid agencies and other private sector companies; It can compensate for the negative aspects of a company's activities; and it opens up avenues for receiving tax exemptions and other concessions. Some reports claim that Sri Lanka spends over four billion rupees annually on CSR initiatives, but that these funds are spent on ad hoc projects undertaken by disparate companies at their own discretion.

While the private sector needs to go beyond CSR investments, there is much scope for the government to wield CSR expenditure as a complementary tool in reaching pockets of poverty, by providing direction and guidance in identifying development needs and marginalised communities. The government's task lies in encouraging and compelling the actions of the private sector, within a framework that leads to achieving the relevant targets, for example through tax concessions. Public Private Partnerships are also a source of domestic finance, the potential of which is yet to be fully explored in Sri Lanka. Public Private Partnerships (PPPs) are considered as an alternative financing scheme. International investments flow through PPPs when a foreign partner joins through an agreement. Some schools of thought classify it as a form of FDI, but engagement of government makes it a different channel. On the other hand, it unlocks domestic finances with international partner contributions. For this purpose, a PPP Unit has been established at the Ministry of Finance in 2017. The PPP unit is tasked with managing project selection, implementation and providing project transaction advice. It will also provide oversight in execution, transparency, good governance and the formulation of polices.

While most of the medium to large Sri Lankan companies tend to state sustainability as a core objective in their literature, some have aligned their corporate communications towards 'Sustainability Reporting' within their annual reporting practices. This is seen in the so many CSR and sustainability awards schemes in Sri Lanka, offered by different private sector chambers and associations; for example, Sri Lanka CSR Leadership Awards 2018, ACCA Sri Lanka Sustainability Reporting Awards, and the Best Corporate Citizen Sustainability Award. While, these corporate activities and associated recognition has provided greater awareness and sensitising, there is little evidence to showcase actual leveraging of CSR and voluntary sustainability standards which would otherwise result in the implementation of the SDGs or advancing sustainable development.

In order for the country to achieve sustainable development, the private sector must take a sustainable approach to profit maximisation, and be mindful of promoting environmental and social interests as well. The private sector needs to understand the greater opportunities presented by engaging and investing in the SDGs strategically, and developing strategic partnerships as well. For example, the UNDP plans to deliver on its ambition of putting the SDGs at the heart of financial systems, by providing services across seven strategic areas of engagement and taking an approach to strengthening effective governance across their engagements: SDG Financing Strategies and Integrated National Financing Frameworks; Budgeting for the SDGs: Integrating SDGs into domestic public finance through budget reform; Promoting SDG aligned fiscal instruments; Unlocking private finance for the SDGs; Leveraging international public finance; Align business strategies and operations for the SDGs; and Impact measurement and reporting for financing the SDGs.

A voluntary private sector assessment, the Standard Chartered Bank's SDG Investment Map, identifies a US$ 9.668 trillion opportunity for private-sector investors across all emerging markets. A combined potential private-sector investment opportunity in Sri Lanka across the indicators measured as part of SDGs 6, 7 and 9 stands at an estimated is US$ 16.2 billion. Although Sri Lanka has made significant progress towards SDGs 6, 7 and 9, substantial funds are still needed to meet these. According to the report titled 'Opportunity2030', the greatest opportunity in Sri Lanka is found in achieving and maintaining universal access to electricity; a key SDG 7 indicator, electricity presents a US$7.3 billion private-sector investment opportunity. This takes into account the percentage of the Sri Lankan population currently without access to electricity (2%), projected population growth, and the growing demand for power as the economy develops. To achieve universal power access, private-sector investment of approximately US$ 7.3 billion is required between now and 2030, while digital and transport infrastructure development provides a potential private-sector investment opportunity of US$8.7 billion. Substantial investment is also needed to achieve universal electricity access in Sri Lanka. Although only 2% of the population currently lack access to power, it will take an estimated US$16.3 billion to bridge this gap and meet the growing electricity demand between now and 2030, with a private-sector contribution of approximately US$7.3 billion. Water and sanitation access, meanwhile, is currently at 93%, and it will take around US$2.1 billion between now and 2030 to achieve universal access, with an estimated US$ 0.2 billion private-sector investment opportunity. For SDG 9, which encourages improvement in industry, innovation and infrastructure, Opportunity2030 highlights private sector investment opportunities in transport and improving digital access. In Sri Lanka, the areas needing the greatest investment by 2030 are the two SDG 9 indicators. An investment of US$13.1 billion is needed to significantly improve the country's Logistics Performance Index (LPI) infrastructure score, with the private-sector opportunity standing at an estimated US$4.6 billion. Currently, Sri Lanka's LPI infrastructure score is 2.49 (out of 5), placing the economy 85th in the world. With a current digital access rate of 47%, more investment is required to secure universal access to mobile telephones and the internet. Achieving a digital access rate of 100% requires an investment of US$6.8 billion, with the private-sector investment opportunity standing at US$4.1 billion, as seen in the Sri Lanka SDG investment grid.

Table 15: Investment Opportunity in Achieving the SDGs in Sri Lanka, by Sector Indicator

	SDG 6: Clean Water and Sanitation	SDG 7: Affordable and Clean Energy	MG 9; Industry, Innovation and Infrastructure	
Sector	Water and sanitation	Power	Transport	Digital access
Current performance	93% access to clean water and sanitation	98% access to electricity	LPI infrastruc-ture score of 2_4	47% digital access
Target by 2030	100% access to clean water and sanitation	100% access. to electricity	LGI infrastruc-ture score of 2_82	100% digital access
Total investment required to 2030	USD2.1bn	USD16.3bn	USD13.11bn	USD 6.8bn
Potential private- sector investment opportunity	USD0.2bn	USD7.3bn	USD4.5bn	USD 6.1bn

Source: *Standard Chartered Bank of Sri Lanka*

3.4. Banking Sector Readiness for Financing the SDGs

Financing the Sustainable Development Goals (SDGs) will require all nations, role towards creating guidelines and criteria to encourage investment in SDG related activities; such initiatives have already started taking form in Sri Lanka.

3.4.1. The Challenge of Financial Innovation for the SDGs

According to the Organisation for Economic Co-operation and Development (OECD), ODA was $142.6 billion in 2016, while private sector direct foreign investment was US$ 523.3 billion and personal remittances stood at US$ 383.2 billion in 2015. These amounts, however, do not add up to the US$ 5 to US$ 7 trillion needed to address the SDGs. Therefore, private investment might be needed to complement public assistance. According to the Business and Sustainable Development Commission, reaching the Sustainable Development Goals (SDGs) will unlock at least $12 trillion a year in economic development by 2030 and generate 380 million jobs, much of this in developing countries. To unlock this opportunity, the finance sector is required to lead the charge to adapt and promote new economic and business models. Banks must help businesses transition away from practices that undermine SDG goals; commercial banks are essential to finance the substantial investment needed, which is estimated to cost between US$ 5 trillion to US$ 7 trillion per year according to World Bank estimates. Blended finance is emerging as the strategic approach of development finance, for the mobilisation of additional finance in developing countries, particularly to increase private sector investment in sustainable development.

There are many innovative financial tools and strategies that have been adopted internationally, but there is little evidence that banks and financial sector organisations in Sri Lanka are fully utilising these in an effective mix. For example: Impact investing - Investments that try to create a positive environmental or social impact; Green bonds - Public or company bonds for environmental investments, such as sustainable infrastructure, clean energy, water or ecosystem services; Social impact bonds - Bonds that try to involve private investments in solving social problems; Sustainable credit risk assessment - Applying social and environmental risk indicators in credit risk assessment - Green credit: Loans for commercial borrowers with businesses addressing environmental issues; Socially Responsible Investment - Using positive and negative environmental, social and governance criteria, in addition to financial criteria to identify investments and risks; Development banks - Lending and investing in projects and other activities addressing sustainable development; Project finance - Applying the Equator Principles (both social and environmental criteria as well as standardized processes and reporting) to mitigate the sustainability risks of projects; Microfinance - Financing for the poor to start a business in order to make their living and providing access to finance. The global opportunities and potential from these financial tools and strategies amounts to around $29.1 trillion. Furthermore, the banking industry may consider recommendations that have been provided by international experts including: enhancing current financial sector codes of conduct by integrating the SDGs; aligning existing sustainable finance strategies with the SDGs; standardise SDG accounting and reporting to identify the strengths and weaknesses of, as well as risks and opportunities for, the banking industry in addressing the SDGs; and develop innovative financial products that address the SDGs. Recommendations for governments and financial regulators include; align financial regulation with sustainable development and the SDGs; offer financial mechanisms to mitigate financial risks in addressing the SDGs; and align development banks with the SDGs. The financial sector in Sri Lanka, including public and private banks and the regulators, will need to consider all the options and opportunities available towards planning the financial strategies for investing in the SDGs.

3.4.2 Banking Sector Plans for Aligning with the SDGs

Various public and private banking entities have come together to establish standards related to sustainable finance. In 2019, the CBSL unveiled a Sustainable Finance Roadmap for the financial sector in Sri Lanka. The CBSL roadmap sets out plans to develop sustainable finance in Sri Lanka, aiming to provide guidance and support to financial institutions in order to effectively manage environmental, social and governance (ESG) risks associated with the projects they finance, and increase support to businesses that are greener, climate-friendly and socially inclusive. While focusing on banks and non-banking financial institutions (NBFIs) regulated by the CBSL, the Roadmap reflects commitments and aspirations of the entire financial market toward sustainability, including banking, capital market and insurance industry. The specific objectives of the Roadmap are to (i) bring policy cohesiveness across Ministries, the Central Bank, other financial regulators, and financial sector participants while also addressing specific ESG issues (ii) enhance the resilience of financial institutions and enable them to grow and develop in a sustainable manner through effective ESG risk management, and (ii) facilitate green/ climate finance products and services innovation to mobilize predominantly private capital for sustainable investment, making available the financial resources required for Sri Lanka to achieve the SDGs. The Roadmap proposes a series of strategic activities to implement sustainable finance in Sri Lanka and revolves around six focus areas; financing VISION 2030, ESG integration into the financial market, financial inclusion, capacity building, international cooperation, and measurement and reporting.

Prior to the CBSL initiative, in 2015, the Sri Lanka Banks' Association (SLBA) launched the Sri Lanka Sustainable Banking Initiative (SL-SBI). This was an industry led voluntary initiative. Eighteen banks have signed up with the aim to jointly agree upon minimal standards or principles for integrating environmental and social considerations into operations, as well as to implement these standards among the signatory banks. It provides a platform to advance understanding and action on responsible banking practices that can facilitate sustainable economic growth in Sri Lanka. It joins a growing number of similar initiatives across the financial sector globally, as the sector comes to terms with the role it has to play in achieving the ambitions set out in both international and national policies tackling climate change, greener and more inclusive economic growth. The SL-SBI has drawn up 11 commonly agreed upon Sri Lankan Sustainable Banking Principles (SBP) and includes (i) Environmental and Social Risk Management (ii) Environmental and Social Footprint (iii) Rights of the respective stakeholders (iv) Financial Inclusion E&S Governance (vi) Promote ethical finance (vii) Promote "green economy" growth (viii) Capacity Building (ix) Collaborative Partnerships (x) Promote transparency and accountability, and (xi) No "race to the bottom" to undermine competitors on environmental and social (E&S) requirements towards the credit taker.

Other financial entities have also taken steps to address sustainability. The Colombo Stock Exchange (CSE) joined the UN Sustainable Stock Exchanges (SSE) Initiative in 2015. In 2018, the CSE provided guidance to its market on sustainability reporting by launching a publication titled 'Communicating Sustainability'. Meanwhile, the Sustainable Sri Lanka Vision and Strategies 2030 report, prepared by a Presidential Expert Committee in 2018, identified the investment needs in eight sectors: agriculture and food, education, energy, health, marine resources, transport, urban development and physical planning, and water. More recently, at the end of 2019, a National Consultation on Innovative Climate Finance Mechanisms for Financial Institutions in Sri Lanka was held. This national consultation was a platform to gather feedback on the project and was driven by the International Chamber of Commerce (ICC) Sri Lanka together with UNESCAP, in order to establish the next modalities in fostering climate finance for a sustainable future. However, there is little evidence that such efforts have resulted in clear instruments for sustainable development finance. Nevertheless, banks are already important sources of finance for

SDG related activities, even if they are not explicitly part of the SDG agenda.

Banks are regularly faced with the question of how should the E&S risk management system be designed to ensure that critical findings are flagged early on and the appropriate scope of risk assessment determined? For example, mini-hydro schemes have attracted controversy over their environmental and social impact, with banks have cooperated in financing private sector projects that are less than 10MW, while the larger hydropower projects are managed by the government. In order for such projects to be successful, E&S risk assessment and management systems will need to be embedded in the business process for financing.

There are many examples Sri Lankan banks financing business practices associated with environmental and social risks, that result in credit risks. However, the domestic private financing sector has not shown much innovation and initiative towards financing the SDGs and investing towards transforming sustainable businesses and industry. There is very little evidence to show that Sri Lankan financial institutions have ventured adequately into impact investment, green bonds, social bonds etc. that are key to a transformation. Also, Sri Lanka has so far not demonstrated significant initiative towards engaging in blended financing directed at the strategic usage of development finance and philanthropic funds, in order to mobilize private capital flows to emerging and frontier markets. Sri Lanka needs to strategically align its economic policies and financial systems with the 2030 Agenda, seize the potential of financial innovations, new technologies and digitalization, to provide equitable access to finance, and enhance sustainable financing strategies and investments at both regional and country levels. The nation needs to move fast towards gaining global market opportunities in the new era of sustainable financing and develop integrated national financing frameworks, identify and formulate a pipeline of bankable sustainable development projects, improve progress, strengthen partnerships with development and private finance providers, so as to invest in digital finance solutions for the SDGs.

3.4.3 Financial Sector Modernization Efforts

The Financial Sector Modernization Project for Sri Lanka (2017-2022) funded by the World Bank contributes to increasing financial market efficiency and the utilisation of financial services among micro, small and medium enterprises (MSMEs) and individuals. The project comprises of three components. The first component, supporting selected mid-level reforms through results-based financing implementation of selected mid-level reforms, through disbursement-linked indicators (DLIs), thus enabling the successful implementation of component 2 and thus, reinforcing the overall positive impact of the project. The second component, strengthening the regulators' institutional capacity, upgrading the legal and regulatory framework and modernizing the financial market infrastructure aims to strengthen the institutional capacity of the financial sector regulators. It consists of following three sub-components: (i) strengthening the capacity of the Central Bank of Sri Lanka for supervision and regulation, and modernizing the relevant financial infrastructure, (ii) strengthening the capacity of the Securities and Exchange Commission of Sri Lanka (SEC) for supervision and regulation, and modernizing the relevant financial infrastructure, (iii) strengthening the capacity of the Insurance Board of Sri Lanka (IBSL) for supervision and regulation, and modernizing the relevant financial infrastructure. The third component, project implementation and monitoring, aims to provide support to the Project Steering Committee (PSC) and Central Project Coordination Unit (CPCU), in order to guide and coordinate project operations, financial management (FM), procurement, social and environmental issues, and M&E under the project.

3.4.4. Providing Credit and Loans to the Private Sector

Local banks provide significant amounts of capital for domestic spending priorities. For example, in 2018, Rs 52.3 billion was raised by People's Bank, National Savings Bank, Sampath Bank and Bank of Ceylon to be utilized for Land Acquisition, Civil Construction and Consultancy for Construction Supervision in relation to the Central Expressway Project. Local banks have also supplied continuous large-scale finance projects. For example, since the year 2014 the National Water Supply and Drainage Board (NWS&DB) has entered into loan agreements with local banks amounting to almost Rs.71.5 billion for 18 Water Supply Projects. In addition to these Priority Water Supply Projects, NWS&DB has also accessed local bank financing to meet part of the cost of three Indian Exim Bank funded projects.

Using instruments such as loans, equities and guarantees, large corporates and Small and Medium Enterprises are accessing finance from private sector windows/institutions under Multilateral Development Banks (MDBs.) For example, the International Finance Corporation (IFC) of the World Bank Group provides direct loans for corporates under Central Bank regulations. Under Strategy 2030, the ADB has also pledged to expand its private sector operations department (PSOD) so as to reach one-third of its total operations in number by 2024. The Non- sovereign operations include any loan, guarantee, equity guarantee, equity investment, other investment or other financing arrangement, which is without a government guarantee.

The banking sector of Sri Lanka often acts as an intermediary to obtain international concessional finance and as a channel to private sector or individuals through financial products. The recent ADB project to support rooftop solar PVs and a SME credit scheme from IFC are examples of international private financing. There are regulatory mechanisms to control private sector borrowings from international sources, where the licensed banks are given preference due to the direct regulatory powers present over the banks by the central bank.

Regulating investments are important and Sri Lanka has to review its current process on investments. Private investments could be less effective if they are not aligned with the SDGs. Exploring this concept further, one sees that currently, many banks report under two sections, business as usual and sustainable development. However, the concept of sustainable development tends to focus more on environmental matters with minimal attention given to social sectors. Some banks have attempted to align their investments with the SDGs but it is clear that guidance and understanding on the SDGs is required. There is a global movement of Small Medium Enterprises. Having a separate SDG framework is not going to be successful. A process should be established where the subnational government should be able to convince the central government to create a SDG plan that benefits the country as a whole.

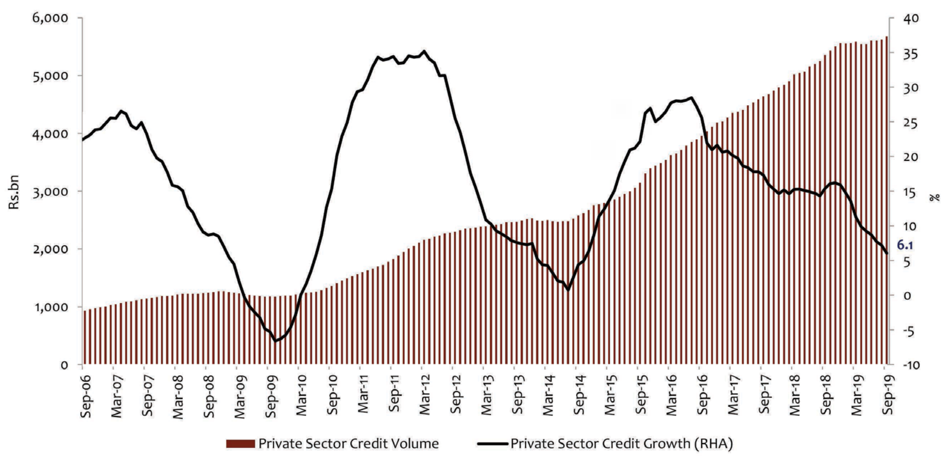
"Domestic credit to the private sector" refers to the financial resources provided to the private sector, such as through loans, purchases of non-equity securities, and trade credits and other receivable accounts, that establish a claim for repayment. As for Sri Lanka, we must realize that our 'domestic private sector' is characterized by a large proportion of SMEs. Relative access to finance, based on business size is a minus point, with larger companies finding easier access routes to bank financing, and small, medium, and micro enterprises being more likely to turn to alternative sources including money lenders and family members.

In Sri Lanka, the banks 'asset base expanded during 2017 at an annual growth rate of 12.3% – mainly attributable to an increase in lending to manufacturing (21.9%), trading 19.8%), and construction (19.5%), the total of which accounts for 43% of the total credit exposure of the banking sector. As seen below, there has been an increase in the volume of private sector credit from September 2006 to September 2019. Contrasting bank shares of domestic credit to the private sector, relative to gross domestic product, can reveal the importance of the role of banks in the economy. An issue, however, is whether this increase in domestic credit and availability of financial services is being translated into investment in the domestic private sector.

3.4.5. The Role of Microfinancing for the SDGs

Microfinance is defined by the Consultative Group to Assist the Poor (CGAP) as the provision of financial services to low income people; it brings credit, savings and other essential financial services to people who are too poor to be served by regular banks, mainly because they are unable to offer sufficient collateral. Microfinance is expected to expand and improve the income generation activities and capacities of low-income persons, and is also expected to improve their living conditions. According to the World Bank, microfinance is a key poverty reduction strategy especially for the developing world. However, in the case of Sri Lanka, the microfinance sector expansion is affected by multiple factors. Lack of literacy, the moral hazard of the clients, the lack of information technology usage were the

Figure 12: Credit to Private Sector



Source: *Central Bank of Sri Lanka* most significant challenges and issues faced by both the institutional level and customer level when popularizing the microfinance concept among the lower income populace.

Sri Lanka has a long history of microfinance, operating since at least the early 20th century. For example, 'Cheetu' is still practiced within Sri Lankan society as an informal but effective way of managing savings and capital accumulation. Currently, there is quite a diversity of microfinance providers in Sri Lanka including licensed banks, licensed finance companies, co-operative rural banks, thrift and credit co-operatives societies, community-based organizations, microfinance companies, and non-governmental organizations. While, licensed banks and licensed finance companies are regulated by the CBSL, others are regulated under different authorities. Research on the microfinance sector shows that the Non-Bank Financial Institutions (NBFIs) registered with the Central Bank are following the financial systems approach in delivering microfinance services, whilst other providers of microfinance services appear to have a mixed approach. Furthermore, microfinance clients are being serviced by over 11,000 other institutions and individual lenders at present. According to the Central Bank, there are more than 40 NBIFs registered with the Central Bank of Sri Lanka, and of this amount, about 10 NBFIs have a major share of their portfolios in microfinance.

There is evidence that when targeted, access to finance and savings leads to positive economic outcomes for women, including increasing productivity and profits and greater investment in their businesses, family wellbeing and children. Having savings also makes women less likely to sell assets when addressing health emergencies, stabilising their incomes in times of economic shocks, and providing greater control over their funds. In theory, microfinance can be a tool to address many of the inequalities and disparities that the SDGs are trying to achieve, for example SDG Gender Equality; in Sri Lanka as much as 73.7% of women are not in the labour market and with very little access to financing and decision-making processes. There is also independent research claiming that an estimated number of over 2.8 million active borrowers, 85% of whom are women, with a total loan portfolio of Rs. 94 billion rupees were involved in microfinance between 2017 and 2018.

Microfinance was meant to be a pro-poor mechanism to support those who are not served by traditional banking and support systems, and to start income generation projects that allows such individuals to initiate savings habits and micro investments. However, this has also lured the poorest and most vulnerable women through higher interest rates. In fact, microfinance lending under the guise of creating livelihoods have mushroomed without proper regulation resulting in an increase from indebtedness of vulnerable rural communities. Particularly in the aftermath of the Civil War in the Northern and Eastern provinces, women seeking avenues of credit were preyed upon by ruthless microfinance companies. Recognising the large profits to be made, numerous companies entered the microfinance business. Using public institutions, religious places and women's homes as centres for debt collection, loans were provided in return for weekly and even daily instalment repayments. According to the report of the UN Expert on Debt and Human Rights, in excess of 2.4 million women in Sri Lanka, have taken loans from microfinancing institutions which charge high interest rates (30%-220%). The proliferation of these loans created a debt trap, where new loans were taken or money was borrowed from informal sources to pay back previous loans. Caught in a debt trap, the lingering war-time trauma was intensified by the fear and abuse of debt collectors, with a worrying increase in suicides.

As a majority of the microfinance providers are operating free without being regulated, by the CBSL, the Government of Sri Lanka passed a bill in the parliament in 2016. It is not clear whether the authorities in Sri Lanka can achieve their desired objectives by implementing such legislation. Rather than promoting the growth of the microfinance sector and increasing access to financial services for micro and small enterprises and for low income households as intended, the results of the analysis indicate that the passing of the microfinance regulations is more likely to have the opposite effect. The impact of a legislative framework on the sustainability of development-oriented microfinance institutions (MFI's) and poverty alleviation requires careful thought. The supervisory authority must study the possible areas for inefficiency of such regulatory instruments and regulatory-substitutions, as well as the adverse effects of the regulation on microfinance institutions and their clients.

If facilitated well, microfinance has a critical role in advancing the SDGs and is exemplified in the 2030 Agenda strongly featuring across eight of the seventeen goals. These include SDG 1, on eradicating poverty; SDG 2 on ending hunger, achieving food security and promoting sustainable agriculture; SDG 3 on improving health and well-being; SDG 5 on achieving gender equality and economic empowerment of women; SDG 8 on promoting economic growth and jobs; SDG 9 on supporting industry, innovation, and infrastructure; and SDG 10 on reducing inequality. Additionally; SDG 17 on strengthening the means of implementation implies a role for greater financial inclusion through greater savings mobilization for investment and consumption that can spur growth.

3.5. Civil Society Action for Achieving the SDGs

Civil society is often on the frontlines, protecting the most vulnerable in our communities, as well as our natural resources. While civil society organisations often play an important role as watchdogs by holding governments accountable, they are also often some of the primary implementing partners working with governments to achieve most of the SDGs, from health to equality to climate change. Yet, repression of civil society by some governments and the failure to recognise such contributions to sustainable development continues at the national level. While the quantity of finances provided by Civil Society Organisations (CSOs) may be low and limited, the impact of these investments at national, subnational and community levels is high and significant. In keeping with the central principle of the 2030 Agenda, "leave no one behind", the critical role of Civil Society Organisations (CSO) in domestic resource mobilisation, geared towards advancing the SDGs in Sri Lanka provides a complex but necessary political analysis.

3.5.1. The Complex Case of Civil Society Organizations as Development Partners

As a result of the deep involvement of NGOs which constitute a large part of civil society activism, in political and social affairs, such as the youth unrest in the South, escalating conflict in the North and East, during the late 90s, civil society activism became a subject of controversy in Sri Lanka. At present Sri Lanka's civil society remains uncoordinated, and under politically motivated government scrutiny. However, it is important to note that the inclusion of CSOs in the implementation of the SDGs will enrich the debate and build the awareness, knowledge and expertise needed around the 2030 Agenda. The CSOs primarily ensures the principle of "leaving no one behind" by amplifying and aggregating the voices of the poorest and most marginalised, channelling them into conversations taking place at the local, national, regional and global levels. Hence a considerable flow of financial and technical resources as part of the domestic resource mobilization efforts which have been undermined and undervalued in the face of the ongoing challenges the sector has been enduring both administratively and politically.

For civil society actors to effectively play their role in the implementation of the SDGs, an enabling environment needs to be in place. Such an environment should acknowledge and seek to nurture civil society's role in service delivery, humanitarian assistance, research, public participation in policy development, accountability and be a watchdog, monitoring and amplifying the voices of the vulnerable, among other roles. The legitimacy of the role of civil society, founded in law and practice, provides a solid basis for the active participation of groups in development processes on an equal footing with other sectors. This will require a strong political will and leadership.

Finance coming into Sri Lanka through internationally and domestically financed projects for Civil Society Organizations (CSO) is not recorded or even properly accounted for in the national development processes. Underestimated, undermined, undervalued and sometimes suspiciously looked at, CSOs are being pejoratively viewed and labelled as "non-governmental organizations" (NGOs) particularly by nationalist media elements and subsequently by the public. CSOs in Sri Lanka also suffer from limited institutional capacity, loosely placed governance structures, weaknesses in strategic planning, depend heavily on donor funding streams, do not utilize cost recovery strategies, and lack domestic funding sources. Only a small portion of the CSO sector utilizes strategic planning. In this backdrop, an entire component contributing to domestic financing of social wellbeing, environmental conservation, and advancing the transformation towards sustainable development has not been integrated into the national economic prosperity drive.

Almost all CSO activities can be linked to the 17 SDGs and found widely across the 169 targets. As CSO programmes and projects are funded by internationally or locally operated donors, these tend to have a positive impact on the SDGs as well. However, question remains as to if some of these actions are in coherence with national policies or government development plans. Human rights advocacy, public interest litigation or even environmental campaigns have generally irritated politicians and public officials who tend to be averse to dissenting opinion. However, activities related to social wellbeing and community development, including extension services to education, health, agriculture, water and sanitation, etc. have become key strategic components of local level development that eases the burden of the public service delivery. Micro-credit, skills development, technical capacity enhancement or professional service extension for various development sectors have all contributed to socio-economic progress, that appears to be lightly reported and accounted to a limited extent in the national statistical sphere. CSOs are yet to be fully integrated as partners of implementing the SDGs. While public-private partnerships are talked more as a way of generating impact investments, the role of CSOs need to be provided with greater space in the drive towards an inclusive transformation.

3.5.2. The Role of Civil Society Organizations in Implementing the SDGs

The commonly used definition created by CIVICUS, which conceives civil society as the arena outside the family, the state, and the market, which is created by individual and collective actions, organizations, and institutions to advance shared interests. According to the World Bank, Civil society refers to a wide array of organizations: community groups, non-governmental organizations [NGOs], labour unions, indigenous groups, charitable organizations, faith-based organizations, professional associations, and foundations. Non-State, not for profit, voluntary entities formed by people in the social sphere that are separate from the State and the market. CSOs represent a wide range of interests and ties. They can include community-based organizations as well as non-governmental organizations (NGOs). In the context of the UN Guiding Principles Reporting Framework, CSOs do not include businesses or for-profit associations. According to the ADB, the main categories of CSOs operating in Sri Lanka include INGOs involved in humanitarian and post-conflict activities, INGOs and domestic CSOs involved in advocacy, NGOs concerned with poverty alleviation, in conjunction with government programs, Local NGOs and CBOs involved in grassroots level development. The landscape and diversity of CSOs in Sri Lanka provides a greater understanding of their contributions to development;

A. Civil Society Organisations: In Sri Lanka, CSOs, including community-based organisations (CBOs), can register through one of many legal paths; the Societies Ordinance of 1891; the Companies Act of 2007; the Co-operative Societies Act of 1992; the Voluntary Social Service Organizations (VSSO) Act; and an Act of Parliament sponsored by a Member of Parliament through a Private Member's Bill. While, an accurate estimate of the numbers of CSOs in Sri Lanka is not available, guesstimates vary from 20,000 to 50,000. The ADB states that a rapid increase of NGOs was seen following the 2004 Tsunami in the country and after the conclusion of the Civil War in 2009 which was succeeded by an unprecedented inflow of funds. According to the National Secretariat for Non-Governmental Organizations (NGO Secretariat), there are currently 1,439 NGOs registered with the Secretariat under the Voluntary Social Service Organizations (VSSO) Act of 1980. The VSSO also covers a range of organizations besides NGOs, but official statistics on such other registered organizations is not available. Sri Lanka also identifies a category of Quasi Organizations which are usually further identified as CBOs; these include Gramasanwardana Societies, Women's Societies, Suwashakthi Societies, Elders Societies, Children and Probation Societies, Early Childhood Societies, Cultural Societies, Library Association Readers Clubs, Death Societies, etc. The number of quasi organizations are available at the District Secretariat level along with their annual reports. All of these CSOs engage with communities and their issues at varied levels while also investing resources to drive diverse environmental, social and economic impacts.

B. International and Local NGOs: International NGOs (foreign and off-shore companies and associations, plus their local subsidiaries) and most National NGOs (private, public, public quoted, guarantee, unlimited companies and associations) are required to be incorporated in terms of the Companies Act and must register themselves with the Registrar of Companies. Alternatively, they may be registered as Trusts under the Trust Ordinance No. 17 of 1917, as Charities under the Inland Revenue Act No. 38 of 2000, as Approved Charities under the Inland Revenue Act No. 4 of 1963 or the Inland Revenue Act No. 28 of 1979 or under the Mutual Provident Societies Act No. 55 of 1949. Furthermore, according to the VSSO Act, a voluntary social service organization is recognised as an organization formed by a group of persons on a voluntary basis that is either (a) of non-governmental nature, (b) dependent on public contributions or donations (local or foreign), or (c) set up with the objective of providing relief services to the mentally and physically disabled, the poor, the sick, orphans, and post-disaster relief. Therefore, regardless of the chosen mechanism for registration, all organizations that fall into one of the categories above must also register under the VSSO. These NGO's and INGOs draw significant resources in their activities with significant impacts.

C. Cooperative Societies: All co-operative societies fall under the purview of the Department of Cooperatives and Internal Trade, and are regulated by the Co-operatives Societies Act of 1972, which was amended in 1992. The co-operative sector consists of two major types of co-operatives: primary societies and secondary societies. In 2016, there were 10,418 primary co-operatives in Sri Lanka, the majority of which were credit co-operative societies. Other popular forms of co-operatives are based in the fisheries and agriculture sectors, while school co-operatives are also extremely successful due to the support of the education authorities. The number of cooperatives has declined drastically during this decade with 3,858 co-operatives being de-registered between 2013 and 2016. These cooperative societies in Sri Lanka engage in social and economic activities in both urban and rural settings, and they particularly focus on the poor.

D. Social Enterprises: Social entrepreneurs pursue a mix of social goals and market success through the creation of a social enterprise. These social enterprises create jobs and generate income like other businesses, but instead of owners dividing the profits they are expected to be reinvested to advance the social mission and improving people's lives. In a report by UNESCAP in 2018, 368 CSOs were identified as social enterprises in Sri Lanka. According to this report, 42% of social enterprises invest profits in their organization mission, 27% support profits in job creation and 14% share the profits with the employees. A relatively large number of enterprises predominantly operate at a subnational level, mainly at the Divisional Secretariat level (28%). Around 11% work at the national level, 8% at the provincial level, 5% at the village level, and 6% at the Grama Niladhari (Village Officer) level. Sector wise, these social enterprises engage mainly in manufacturing, which accounts for 36%, agriculture 22%, and creative industries 13%.

3.5.3. Development Interventions andInvestments by Civil Society Organizations

CSOs work in a wide range of sectors and which include (but are not limited to): Health, Nutrition and Population; Education; Water, Sanitation and Hygiene; Skills Development; Disaster, Environment and Climate Change; Rural Development; Urban Development; Agriculture and Food Security; Migration; Gender Justice and Women Empowerment; and Poverty eradication as well as in micro-finance services. Engaging in such sectors, these organisations provide a diverse spectrum of services and action including capacity building, technical skills, microfinance, advocacy, legal protection, and various humanitarian responses. These interventions contribute directly and indirectly towards resource mobilisation in the country and could be channelled effectively towards implementing the SDGs.

As for financial reporting, some CSOs produce Annual Financial Reports; especially International NGO's and established larger local NGOs are compelled to provide annual financial reports. All NGOs do not receive external or even local funding assistance. Some operate on membership contributions with rules and regulations formulated by themselves. There are thrift and credit societies such as "Sanasa" and Women's Banks that have national scale links and which collect funds on a bigger scale. Investments at village level range widely and include: peace building & reconciliation; human rights; gender equality; housing & providing shelter; empowerment of women, youth & children; preschool, primary, secondary, vocational education; environmental conservation including climate action, wildlife protection, reforestation; water & sanitation including infrastructure for tube wells, distribution of water tanks, clean water resources for communities, providing drinking water, building toilets; disaster relief and building resilience; agriculture and food security; health services such as dengue prevention; and also shramadana and recreational activities.

The financial sources of these activities include international donors, the Government, and to a lesser extent the private sector. Private sector donors tend to prioritize livelihood development and service provision over rights-based projects. There is no mechanism in the country to verify the financial investments done by CSOs as a majority of CSOs have not published them. Furthermore, the available information is not up to date. A proper mapping of CSOs and their activities is required to ascertain their contribution to domestic resource mobilisation for the SDGs in Sri Lanka. As an example, according to the report on state structure in Sri Lanka by the Chartered Institute of Marketing (CIM) and the Eastern Provincial Council in 2007, NGOs and INGOs are important and dominant development agents at the local level. Particularly in the aftermath of the tsunami the number of these organisations has gone up significantly, raising the question of how they contribute to the needs and requirements of the people and how they could be linked to local level administration. Several issues arise in this respect, the most important being the lack of coordination and consistent planning to guide development agencies. There seems to be no proper mechanism at national, provincial, district or local level to coordinate the activities of NGOs. On the one hand, NGOs find it difficult to find their way through the bureaucratic processes of approval and permits for their proposed activities, complaining about delays and non-transparent decision-making. The result is that they attempt to circumvent authorities whenever possible and to minimise contacts. Nonetheless, it appears most of the collaboration takes place with the Divisional Secretariats while Local Governments are largely neglected. Very few CSOs or CBOs appear to want to take on this challenge and consider changing the situation.

On the other hand, where local level administration is concerned, both local authorities and divisional administration, is incapable of tackling the challenge of coordinating and monitoring activities of NGOs efficiently. A pivotal problem is the fact that the present planning process is not inclusive. Real participation and decision-making processes do not take place in a manner that guarantees a product that really reflects strategic needs. The reality is that the local level administration does not have the capacity to present solid development programmes to the CSOs and guide their intervention. In addition, the fact that the NGOs are mostly left out of the decision-making processes means that they do not feel part of it and would therefore not be co-owners of development.

3.6. Challenges and Opportunities for Financing the SDGs

While the annual estimated global need for financing the SDGs is around US$ 5-7 trillion, the annual investment gap in major SDG sectors in developing countries is estimated at around US$2.5 trillion per year. Even so, it is believed that financing for sustainable development is available, given the size, scale and level of sophistication of the global financial system — with gross world product and global gross financial assets estimated at over US$ 80 trillion and US$ 200 trillion respectively. By not preparing a clear financial estimate and strategy for investment, Sri Lanka has not made a significant case to attract any of the available financing for the SDGs.

While, SDGs are at the forefront of more or less every programme of the United Nations and other international and multilateral development agencies operating in Sri Lanka, the government has so far not received significant funding through international financing for the 2030 agenda. Also, Sri Lanka has not made any significant effort towards attracting domestic financing for the SDGs. While the government has not created adequate space and channels for private financing sectors to contribute to the SDGs, there has not been significant proactiveness within the business and industry sectors to integrate the SDGs into their business processes. Being referred to as the engine of growth for the country, there is no evidence to show that the private sector in Sri Lanka is driving the economy towards sustainable development. The SDGs continue to be treated as an extension to CSR programmes and even lack the key ingredients for ensuring the sustainability of their own business processes. The main growth industries are yet to showcase their allegiance to the 2030 Agenda and evolve transformative business processes.

At the same time, the domestic banking sector is not showing much flexibility in venturing into innovative financing for sustainable development. Innovative financing is understood as anything different from standard investing or financing practices, which has the potential to deliver significant socio-economic or environmental impacts, which is not evident within domestic financial sectors. The local banks and financial sector are still looking for a financial climate of greater reassurance for their investment portfolios. The policy makers and the regulators need to work with the financing sector to encourage and ensure that sustainable development investment will result in profitability and not simply in compliance.

Meanwhile, in a shrinking space, the usually proactive civil society sector is also struggling to advance the 2030 Agenda and engage the public and communities in the SDGs. As the SDG dialogues and programmes lay mostly with the international NGOs and larger CSOs, the smaller CBO's are finding it hard to engage themselves in the process. Additionally, the effectiveness of the limited sectoral and fragmented programmes is questionable, given the low comprehension and adaptation demonstrated towards integration between the targets. However, as the CSO sector continues to engage more in the sustainable development interventions, there is an expected growth in the funding for SDGs that could benefit the localising of the 2030 agenda. In this regard partnerships between local government and CSOs would provide a greater leveraging potential for financing the SDGs at the community level.

The domestic financing requirements for the SDGs is vast, but Sri Lanka is yet to come up with an assessment of its financial commitments. Hence, promoting more coordination and collaboration between stakeholders in order to create an impact ecosystem, focusing on financing is required. UNESCAP analyses the potential for Sri Lanka to mobilise financial resources for the SDGs by: Strengthening tax revenues – Sri Lanka's ratio of tax to GDP was 12.3% in 2016, lower than either the regional average of 15.2% or the average of 25.1% in the advanced economies of the Organisation for Economic Co-operation and Development; Enhancing prudent sovereign borrowing – Between 1995 and 2016, the annual domestic public bond issuance equalled, on average, 10% of GDP, international bond issuance 1.3% while public debt in Sri Lanka is currently over 80% of GDP; and Leveraging private finance – Sri Lanka's focus should be on reforming the regulatory and institutional environment, enhancing macroeconomic stability, and deepening financial markets. A domestic financing strategy for the SDGs should become a national development priority. Improved coordination of public, private and international agencies for the implementation of fiscal policy and medium-term fiscal strategy as well as adopting conducive tax policies should cut across all policy discourses. If the country is to mobilize private capital, from both domestic and international sources, the SDG financing strategy needs to be guided by the current governments Policy Framework 'Vistas of Prosperity and Splendour'.

CHAPTER 04:

THE TRANSFORMATION CONTEXT

An Analysis of Scenarios for Planning Domestic Resource Mobilisation Strategies for the SDGs in Sri Lanka

4.1. Introduction

The agreement to implement the 2030 Agenda establishes a political commitment for transformation towards Sustainable Development in Sri Lanka. Such a transformation requires addressing the root causes of the systemic issues that result in economic, social and environmental complications along with formulating integrated responses to result in sustainable outcomes. As Sri Lanka seeks prosperity while implementing the Sustainable Development Goals (SDGs), it must ensure 'leaving no one behind' while protecting the island's ecosystems. Building such a context will entail a recalibration of the development mindset currently entrenched in both state and non-state actors, resulting in changes across governance, policy, institutions, finance, trade, production and consumption systems as well.

Planning for transformation requires serious consideration of scenarios that could lead to breakdowns, alternatives that could lead to sustainable futures, as well as policy and regulatory measures needed to facilitate the transition. Breakdown scenarios such as global crises or a prevailing system collapse, mean that the existing state of order could be aggravated by the lack of resilience currently prevailing in ecological and human systems. These breakdowns are indicated by the warning signals including; threats to environmental systems such as climate change, multiple disasters of unprecedented sizes; threats to social systems such as exclusion and marginalisation, armed conflicts, genocide; as well as threats to economic systems from famines, financial downfalls, global pandemics, etc. Such breakdowns propagate serious damage with elevated recovery periods; this is illustrated through a critical slowing down and flickering as the system approaches a prolonged threshold recovery due to a lack of resilience. Alternative scenarios therefore attempt to justify that by exploring pathways to sustainability, such breakdowns can be avoided or minimized. The incorporation of environmental externalities in economic planning neglected by growth-based economics, designing sustainable production and consumption systems for circular economies and creating resilient systems against environmental-social-economic vulnerabilities, and planning prosperity within biophysical limitations provide such alternative scenarios.

On the other hand, policy-regulatory scenarios could provide laws, regulations, standards, taxes, subsidies, and other market instruments, thus establishing accountability and compliance to facilitate the systematic transition towards sustainable development. Sadly, policy discourses that highlight transformational goals often ignore the deep-seated changes that are required in policy and regulation. Policy-regulatory scenarios should provide a method for bringing about accountability, especially amongst the political, policy, and economic agents who drive the policy discourses. As the current system exists and functions in their interdependencies, how we facilitate the integration is critical to enabling sustainable development. Therefore, in a transitional approach, policy-regulatory scenarios through policy reform and market reengineering could help facilitate the process towards a transformative state favourable to sustainability.

4.2. An Analysis of Current Approaches to Sustainable Development Challenges in Sri Lanka

It is important to analyse the existing gaps in Sri Lanka's planning for potential breakdowns, gaps in approaches to embracing alternatives, and elaborate upon the limitations of the current policy-regulatory systems. Three concurrent action prongs, pursued synergistically rather than as independent strategies, and expanding on the current focus of gradual policy change will need to include; remediation for emergency management, redesign for system transformation and reform for incremental policies. While addressing key issues and taking progressive action with foresight, the transitioning from business as usual (BAU) would be demonstrated by early responses through political reforms for inclusive and democratic governance; also, financial reforms for equal opportunities and shared prosperity, reforms for policy coherence, and reforms for integrated institutional structures related to collective service delivery are necessary. The departure from BAU can be facilitated by the implementation of the 169 targets within the 17 SDGs in conjunction with a localised indicator framework for monitoring, evaluation, follow-up and reporting. The backdrop of a domestic resource mobilisation framework for Sri Lanka therefore is set on the foundations of the responses to potential breakdown scenarios, the approach to adopting alternative scenarios and facilitating transitional measures in policy-regulatory scenarios.

4.2.1. New Realities of COVID-19 and Pandemics

The COVID-19 Pandemic has alerted societies across the world to potential breakdown scenarios such as anthropogenic climate change; despite compelling scientific evidence, it has previously not been able to convince collective transformational action for the past few decades. While the concept of a "New Normal" has gone viral, the actual switch to more ecologically sound lifestyles and livelihoods away from "business as usual" is yet to be seen. The reality is that humans are creating the optimal conditions for the spread of diseases by reducing the natural barriers between host animals and themselves. Wildlife populations planet wide are enduring greater stresses and major landscape changes are causing animals to lose their natural habitats. This results in species overcrowding and greater contact and mix between different animals and humans, creating complex forms and conditions. While the standard emphasis on communicable diseases is placed on poorer countries, the spread of COVID-19 has not followed such generalisations. Mortality has been associated with the presence of non-communicable diseases and the Pandemic has paved the way for greater assumptions that the new normal could be within the biophysical limits.

According to the World Bank (WB), the COVID-19 Pandemic has weakened Sri Lanka's economic outlook as it has exacerbated an already challenging macroeconomic situation, consisting of low growth rates and significant fiscal pressures. Growth will be negatively affected as the outbreak dampens export earnings, private consumption and investment. The slowdown in economic activity could trigger job losses as well as a significant loss in earnings. Informal workers comprise about 70% of the workforce and are particularly vulnerable as they lack employment protection mechanisms and/or paid leave. Social-distancing measures will directly impact services sector activities and extended travel restrictions will hurt tourism. The apparel industry which accounts for about half a million jobs has announced significant job cuts due to a currently low global demand and shortage of raw materials. Meanwhile, agricultural production is expected to be largely undisrupted, amid government efforts to ramp up domestic production and import substitution.

The Government has been significantly responsive, and according to the World Health Organization (WHO), Sri Lanka has made significant progress towards protecting its citizens against the COVID-19 Pandemic. While faced with ongoing economic challenges and the political dynamics of a General Election, the government has had to act well beyond its comfort zone and standard operational nodes; taking strong measures to manage and mitigate the Pandemic in an attempt to prevent the country from spiralling towards a possible breakdown was necessary. Some early measures by the government included; aggressive "social distancing" measures implemented throughout the country, the issuance of travel bans to similarly affected countries via the closing of ports and airports, country-wide lockdown style curfews, Public-Private Partnerships (PPPs) to assist households with emergency supplies, emergency health and economic measures, and several economic relief measures for the poorest segments of society and the most vulnerable sectors of business. This combined with an increase in government spending on healthcare and public safety measures, as well as the establishment of a Task Force to Combat COVID-19, are among the measures which were effectively used co-ordinate health and containment, quarantine and contact tracing efforts. The measures to provide relief for the public also included allowances to low income and vulnerable families/individuals, the suspension of lease and debt payments, extensions on pending utility payments, etc.

However, the Pandemic also exposed serious deficiencies within the public service delivery system and exposed the lack of political and administrative trust in decentralisation. As the nation was once again enduring a period of political transition, with the parliament dissolved and General Elections pending, the subnational governance tiers of subsidiarity were overlooked. Centralized control of public services through the District and Divisional Secretariats were enforced. In this situation, the usual public and private service delivery systems and associated structures were frozen to enable a 'command and control' approach to enforce a health focused strategic lockdown. The food and essential services distribution networks, public-private health services (including medical services), industrial and economic activities, all were at a virtual standstill till the centre could take control and reorganise the country's fragmented and inefficient public service delivery mechanism. While, the inevitable focus on managing direct health effects had led to low human fatalities, social wellbeing and economic progress were inevitably affected, with forecasts painting a dismal economic picture; the growth of the economy that took a major hit from the 2019 Easter Bombings, was forecasted to slow further and possibly edging into negative territory. While appreciating the actions taken by the government during this unprecedented crisis, it is important to draw critical lessons from the COVID-19 Pandemic and orient such lessons towards assisting the recalibration of policy and strategy planning mindsets, in order to foster foresight driven strategies.

Even though the Provincial Councils were established towards upholding the principle of subsidiarity, Sri Lanka continued to demonstrate a lack of faith in devolving power and responsibility during the COVID-19 curfew. Local governments were also not involved, even when community level outreach was required. This raises the question as to if the subnational governance model in Sri Lanka is truly integrated and empowered towards public service delivery, and if it has received adequate central political authority and support? If not, one must inquire as to what alternatives or novel approaches would enhance comfort in subsidiarity, devolve governance to facilitate inclusion, and decentralise the public service to ensure no one is left behind.

A second reality was an almost complete operational shutdown of Cabinet Ministries and Government Institutions under the public service, with both health services and essentials services being managed under two separate Presidential Task Forces. The decentralized operations were subsequently managed by the District and Divisional Secretariats with Grama Sevaka, Samurdhi Niyamaka and ground level officials of the Central Government coordinating the public outreach work. Two critical examples were the reorganisation of the essential services delivery and provisioning of a livelihood allowance to poorest within society. The necessity to deconstruct the existing institutional and public administrative structures during a crisis does raise the question as to whether the existing public service delivery mechanism in Sri Lanka is too fragmented and inefficient.

The Curfew exposed the inadequacies of depending on the monopolistic market system, which was a third reality. During the early days of the Curfew, consumers who had been dependent on the larger supermarkets and supply chains, especially in cities and suburbs, were stranded and panic purchasing ensued. The community markets and groceries that had traditionally served consumers were weakened during the past decades. Therefore, food supply trucks had to be organised in order to ensure the general public had some access to their daily needs. The proceeding weeks saw a self-organization of local grocery and distribution services plus a mushrooming of online based grocery services as well. Such drastic shifts raise the need for the revitalisation of local producer-consumer systems and the value of embracing circular economic models.

While public utilities including electricity, water and telecommunications were provided by the government without interruption, the vastly manual billing and payment systems prevented the government from collecting vital public revenue. As a fourth reality, it raised questions as to the efficacy of previous decades worth of investment in e-governance. While, COVID-19 brought about some positive outcomes towards strengthening e-governance facilities, it remains to see if an integrated online public service delivery can be facilitated to ease the inefficiencies of the fragmented public service delivery system in the country.

A fifth reality during the Pandemic concerned self-reliance and self-sufficiency. The challenges of ensuring a continuous food supply brought about a social media induced, nationwide interest in home gardening and urban agriculture. From a national perspective, the restrictions on imports also made the government, the private sector and even members of the general public place a greater focus on locally produced food and products. Biophysical realities and constraints that were fully integrated and observed in traditional agricultural societies have been neglected under the current market-growth oriented-consumerist societies.

The pandemic suddenly established a situation in which everybody was compelled to appreciate and accept obvious realities including; (i) the importance of having local food production and distribution systems (ii) the importance of traditional healing methods and their role in the prevention of diseases and increasing immunity (iii) the importance of traditional socio-cultural tools such as self-isolation mechanisms, which were in effect for a whole range of viral diseases (iv) the importance of traditional greeting methods of zero contact, being the most appropriate method in a humid tropical context where the diseases spread rapidly, and (v) the importance of values of life, the fundamental meaning of life, ideas of sharing, caring and helping when placed in a death row. Such recalled realities have obligated society to question those market induced necessities, opening previously closed gates for true transformation. With traditional value systems being suppressed in the current dominant value paradigms, a new wave of appreciation for these traditional value systems has resurfaced in the context of a new normal.

As living with the COVID-19 Pandemic is expected to continue, Sri Lanka will need to refocus its approach from a narrow foreign direct investment driven economic growth mindset towards localized sufficiency models of economics. Implementing the SDGs and evolving towards a sustainable development approach can become a COVID-19 learning experience. In this context, planning for a domestic resource mobilisation framework now makes more sense economically, especially towards easing dependency and combating a potential economic downturn.

4.2.2. The Threat of Climate Change and Disasters

Climate change is the defining crisis of our time and no country is immune from its devastating consequences. While sea levels are rising, the Polar ice caps are melting, the coral reefs are dying, and oceans are going through a process of acidification. At the same time, forests are burning and rising temperatures are fuelling further environmental degradation. The world has been experiencing frequent natural disasters, extremes instances of weather, food and water insecurities, economic disruption, military conflicts, and instances of terrorism. As the accelerated cost of climate change reaches irreversible highs, “business as usual” is no longer an option across the planet. Climate change is expected to multiply already existing challenges and will heighten competition for resources such as land, food, and water, fuelling socio-economic tensions across the world.

During the past decade, Sri Lanka experienced frequent climatological, meteorological, geological, hydrological disasters and extreme weather events. The country is currently showing signs of lack of resilience in the environmental, social, and economic sectors. The current patterns of intensive resource use, rising material expenditures and excessive energy costs, coupled with climate change induced disasters and the decreasing capacity of ecosystems (to provide critical ecosystem services), are leading to environmental, economic and social vulnerabilities and uncertainties. Therefore, economic strategies that rely on an unlimited supply of free or cheap resources and utilising the environment as an unlimited waste dump will no longer be possible.

Droughts, floods, cyclones, tsunamis, heavy rains, and landslides have occurred with significantly greater frequency in Sri Lanka in recent years, resulting in unprecedented and excessive economic costs. With greater vulnerabilities being exposed, the government has had to incur large amounts, solely for disaster relief activities. Disasters and shocks can undermine poverty eradication efforts; this in turn could lead to abrupt, systemic, intergenerational and long-lasting increases in poverty, with heavily extended recovery periods. Landslide hazards for example are prevalent among 13 out of 25 districts of the country.

Notwithstanding high rates of poverty in remote districts, the majority of the poor as well as the bottom 40% live in highly populated urban conglomerations. The impact of an urban centric natural disaster such as the 2016 Sri Lankan Floods was more heavily felt in the Greater Colombo and Gampaha Metropolitan Areas; both of these districts play host to the highest urban population densities, inclusive of the highest percentages of poverty stricken and vulnerable citizens.

As climate threats can translate into substantial impacts on the nation's economy, a resilient economic system should be characterised by adequate green GDP and non-declining and inclusive wealth. Many of the key economic, social and environmental issues currently faced by the country are integrally linked to pathways taken in the name of achieving rapid economic growth. The transformation towards ensuring sustainable and climate resilient societies in Sri Lanka will depend on the integration of the three dimensions of sustainable development into policy frameworks and strategic plans of the country.

A. Climate Change Impacts and Increased Vulnerability to Disasters:

Sri Lanka was ranked second with an annual climate risk index of 9.0 on the Global Risk Index 2019; the index evaluates the impacts of cyclones, floods, heat waves and other extreme climatic conditions, and analysing impact on countries across the planet. The dominant climate hazards that are most likely to affect Sri Lanka are extreme rainfall, floods, droughts and sea-level rise. The World Bank (WB) has highlighted that the population of Sri Lanka living in moderate or severe hotspots by 2050 would be approximately 19 million people. As per available statistics, this figure amounts to almost 90% of the current population of Sri Lanka.

The effects of flooding can also worsen due to man-made structures such as power generating hydroelectric plants. Currently 41% of the island's electricity needs are produced by hydroelectric power plants. These plants are designed to discharge increasing volumes of water, in order to unburden the physical structures of the reservoirs they utilise, often acting as a causal factor to severe flooding conditions. Similarly, during a drought, the hydroelectric plants underperform as the rainfall models used to construct the reservoir dams could have been significantly altered due to climate change.

Sea level rise might not be as apparent as some of the other climatic hazards affecting Sri Lanka, but it is nonetheless a consideration when addressing projections concerning future climate anomalies. The DMC estimates that inundation as a result of sea level rise is varied, dependent on the districts of Sri Lanka. For instance, by 2100, the Colombo District could face inundation measuring 1,534 ha whereas the Puttalam District could face inundation estimates of up to 14,809 ha. A study conducted by UNHABITAT has predicted that by the year 2050, seven out of fourteen coastal towns in Sri Lanka (including Colombo, Negombo, Mannar, Galle and Trincomalee) will experience inundation of low-lying areas due to sea level increases, combined with salt water intrusion.

The health impacts of climate change have not been addressed as effectively as other hazards affecting the populace. However, it is important to highlight that extreme weather conditions in the future can result in heat stress, and an increase in vector borne and waterborne diseases as well. Climate change could also increase the frequency and intensity of cyclones in Sri Lanka.

B. Impact of Climate Change on Economic Sectors:

It has been projected that Sri Lanka could experience economic losses in the range of 6% of GDP under 'business as usual' scenario for the period of 2010-2050, unless proper measures of adaptation are initiated to overcome the associated negative impacts. In 2017, US$ 1,623 million was estimated as the annual loss from climate induced disasters in Sri Lanka. The impact on social sectors from climate induced disasters amount to 57%. The Sri Lanka Post Disaster Needs Assessment (PDNA) highlights the losses and damages of floods and landslides in 2017 per sector; the social sector comprises of housing, education and health; the productive sector comprises of agriculture and industry and commerce; the infrastructure sector comprises of irrigation, water, sanitation, transport and power; cross cutting issues include disaster risk reduction and environment. The social sector suffered the highest damages and losses in 2017. Out of that, the highest damages and losses were recorded from the housing sector and was LKR 31,039.54. The World Bank (WB) has calculated the annual aggregate losses for Sri Lanka for housing, roads and relief. Losses due to flooding amounts to Rs 31.70 billion, landslides amount to Rs 1.80 billion, droughts amount to Rs. 5.20 billion, and cyclones amount to Rs 10.9 billion, with a total loss of 50 billion rupees. It is unfortunate that environmental losses are not calculated in Sri Lanka and many of the ecosystem services provided by the natural environment are yet to be assigned an appropriate value.

Agriculture provides direct employment for around 30% of the population in Sri Lanka, indirectly contributing to the livelihoods of up to 70% of the population; it is also a sector which is highly vulnerable to climate change. According to a study which used the Ricardian Approach, it was estimated that a temperature increase of just 1°C in Sri Lanka can decrease the net revenue of agricultural lands by Rs. 12,720 per ha. Whereas 1 millimetre decrease in rainfall could reduce the net revenue by Rs 250 per ha. Overall losses due to climate change in terms of agriculture lands could vary from Rs. 17,612 to Rs. 27,528 depending on the predicted future scenarios of climate change. The State of the Economy 2018 Report states that the monthly income of farmer households could reduce by Rs. 6,027; this decrease in household incomes could increase the poverty line in Sri Lanka by 7.9% according to existing statistics. For instance, in 2017, PDNA estimated damages and losses worth of Rs. 12,694.05 million just for the agricultural sector.

The yield of many crops that are currently being exported from Sri Lanka will be impacted by climate change as agriculture is highly sensitive towards weather changes. For instance, a decrease in 100 millimetres of rainfall can reduce the productivity of tea by 30-80 kg per hectares per month. Similarly, a decrease in rainfall can also reduce the yield of coconuts by 32-73 million kilos annually, and an increase in rainfall can result in a higher yield of 42-87 million kilos annually. In the case of rubber, high rainfall could reduce the number of tapping days. These being export crops, extreme weather events and slow onset disasters can have a profound effect on productivity and in turn affect the export industry. Sri Lanka already has a trade deficit in terms of exports and imports which means that imports are higher than the exports. Even though we have been increasing our exports annually for the past few years, imports have also increased. Sri Lanka needs to focus on improving exports to boost the economy, but climate change needs to be considered when transforming the export industry.

Also, exporting primary commodities might reduce our sustainability since many of these crops are produced with a huge cost to the environment. For example, annual cost of soil erosion in Sri Lanka is estimated at about 1% of the GDP.

C. Policies and Plans to Address Climate Change:

A climate resilient economy should be able to cope with adverse impacts, incurring minimum losses and damages recovering quickly after facing such shocks; in essence, a climate resilient economy refers to an economy with a reduced risk of climate change. In order to achieve a climate resilient economy, it is important to understand the existing policies of a country, as these policies in theory guide the activities. Sri Lanka, as a ratified member of the Paris Agreement under the United Nations Framework Convention on Climate Change (UNFCCC) since 2015, has been introducing new policies required for addressing climate change. Since Sri Lanka is not a major contributor of greenhouse gas emissions at a global scale, the policy makers have opted to focus on adaptation while also implementing some mitigation processes. The key policies and plans developed by Sri Lanka to address climate change are the National Climate Change Policy (NCCP) of Sri Lanka 2015, the National Adaptation Plan (NAP) for Sri Lanka 2015, and the Nationally Determined Contributions (NDC) 2016. Sri Lanka has also established a Climate Change Secretariat (CCS) under the Ministry of Environment. The CCS is mandated to represent Sri Lanka at the UNFCCC, and is responsible for governing and managing all activities and projects and developing policies to limit the impact of climate change on Sri Lanka.

Apart from the above-mentioned policies and plans, there is the National Biodiversity Strategic Action Plan (NBSAP) 2016-2020 as well. It highlights the necessary actions towards preserving the existing biodiversity in Sri Lanka, while also mentioning the possible threats to biodiversity from climate change. Unfortunately, the NBSAP has not considered climate change as a serious threat overlooking potentially significant threats that could arise from climate change, especially towards marine life. Since climate change results in extreme weather events at varied scales, the policies around disaster management should also be highlighted. The Disaster Management Act (DMA) of 2005 and the National Policy on Disaster Management (NPDM) in 2010 are such examples. The National Council for Disaster Management (NCDM) at the Disaster Management Centre (DMC) was created as a result of the DMA. The Department of Meteorology (DOM) is responsible for providing the country with weather data and has also established a Centre for Climate Change Studies (CCCS). However, the CCCS, DOM and DMC have overlapping mandates and require coordination between the three entities in order to effectively combat climate change.

The NDCs of Sri Lanka address the commitments towards both mitigation and adaptation. Mitigation in Sri Lanka focuses on energy, transportation, industry, waste and forestry sectors, while adaptation focuses on improving the resilience of vulnerable communities, sectors and regions. Adaptation broadly focuses on the health, food security, water and irrigation, coastal and marine, biodiversity, urban infrastructure and human settlements, tourism and recreation. Similarly, the NAP identifies these same sectors of the NDCs as highly vulnerable areas. These policies and plans are promising, but achieving them would be difficult if these are not coherent with rest of the national policies driving development. For instance, environmental degradation continues to be a major setback for achieving commitments to the Paris Agreement; if the ecological threshold in Sri Lanka is reached, adapting to climate change would be extremely difficult.

D. Reducing Vulnerabilities and Increasing Resilience:

Improving resilience would entail understanding the limits of the extraction of resources, emanation of waste, and avoiding non linearities and catastrophic events both locally and globally. In order to avoid increasing strain on natural resources, it is important to use resources more efficiently. This will require an understanding of the flow of materials, energy, and water from the time when they are extracted, processed, manufactured, and used, to when they are finally discarded. It will also require information about the environmental, economic, and social impacts of these flows. These considerations are becoming increasingly important to achieving green growth and resilience. In fact, there is a millennium-long history of adaptation, spatially and seasonality: for instance, climate variability across the island through a choice of climatically and environmentally appropriate varieties, tailoring of planting seasons by region, the development of appropriate irrigation infrastructure, and social and trade arrangements to suit communal agricultural practices.

A major challenge facing the country is how to overcome resource constraints, including energy, minerals, water, and land, to achieve reasonable or sufficient living standards for everyone in the country. Meanwhile, renewable resources, such as forests and groundwater sources, are also under threat. The ecosystems of the country are experiencing growing external pressures from drivers such as climate change, land use change, pollution, and invasive species, which will impact on the functioning of ecosystems and on the provision of ecosystem services. Losses in biodiversity may lower the resilience to recovery from disturbances and species richness. More diverse patterns of species interactions can promote ecosystem stability and thus sustain the output of ecosystem services. Even with the agricultural sector, resilience can be increased by promoting education and awareness through projects which highlight climate smart agriculture. For example, projects such as the Climate Resilient Integrated Water Management Project (CRIWMP) and the Climate Resilience Improvement Project (CRIP) are projects reaching the most vulnerable communities and building resilience by providing access to drinking water, irrigation and promoting climate smart agricultural practices. Agriculture is a source of large percentage of indirect employment in Sri Lanka, and the COVID-19 pandemic has shown that agricultural jobs are important towards ensuring food security within the country.

Resilience towards projected climate change ensures the continuity of social wellbeing and economic prosperity. Since disasters could increase vulnerability and reduce resilience, it is important to address disaster risk reduction within the climate scenarios. By looking at the budget estimates for 2018 provided by the Ministry of Disaster Management, it indicates that the majority 56% of the budget allocation was provided for disaster relief, while the least towards disaster management 19% and 25% on disaster mitigation. If a higher budget was allocated towards disaster mitigation and management, the damage and losses incurred by extreme weather events could have been reduced. Ecosystem-based disaster risk reduction (Eco-DRR) in the face of climate change and associated vulnerabilities is a necessary policy imperative for sustainable development in Sri Lanka.

4.2.3. Prosperity within Biophysical Constrains and Limits to Growth

Sri Lanka's vulnerability to multiple and frequent disasters can be related to an acquired political and policy approach, connected to a mindless growth-based development model. This has taken the nation away from its historical considerations on the realities of limits to growth within ecological boundaries. The biophysical realities, mainly entropy constraints, indicate that our activities should not go beyond the nature's capacity in receiving waste and extracting biological resources. The life-sustaining systems have an influence on the composition of the atmosphere, the water cycle, the nutrient cycle, plant pollination and soil fertility. Climate change is one of the many challenges that have arisen as a result of an economy's metabolic organism becoming too large. Many of the challenges are linked. As attempts to restrict fossil fuel use lead to the increased use of biomass for energy purposes, it results in the overexploitation of agricultural land and water resources and places pressure on biodiversity. Nature's principles act as ultimate guidance for any resource use; while economists have looked at nature from an instrumental perspective, reducing nature into natural resources and regeneration limits, with the carrying capacity of ecosystems being taken for granted as free inputs into the production system. Modern resource management principles including those of resource and environmental economics tend not to adhere to natures principles, but tend to 'economise the ecology'. This mismanagement has led to resource inequities and resource degradation rights entrusted to the rich, and rich nations.

The current development approach has weakened Sri Lanka's opportunities to harness prosperity through its vastly potent ecosystem services. Sri Lanka's rich biodiversity provides a wide range of ecosystem services which include providing fresh water, ameliorating the climate, containing soil erosion, regulating surface runoff and providing bio-resources for subsistence use as well as for domestic and export-oriented markets. These resources include food, fuel, fibre, wood products, medicines and biomedical materials, ornamental species of commercial value, raw materials for industry, and areas for recreation and aesthetic enjoyment. The Climate Change Secretariat (CCC) of the Government has warned that the impacts of climate change can create profound and long-term changes in the island's biodiversity, which is already under pressure from a host of anthropogenic impacts. CO_2 emissions per capita of Sri Lanka, have increased from 0.53 metric tons in 1999 to 1.14 metric tons in 2018 growing at an average annual rate of 4.50%; an overall increase by 53% during the past two decades. The resultant changes in Sri Lanka's biodiversity and ecosystem services can jeopardize sustainable economic development and national initiatives for future food security.

As a nation, Sri Lanka has several options at hand that will define its fate in prosperity. Firstly, to attempt to continue business as usual (BAU), pursuing the conventional economic growth paradigm that has dominated global economic policy since the end of World War 2. Secondly, to pursue an environmentally sensitive version of that model and attempt to achieve Green Growth. Thirdly, and alternatively to pursue a more radical approach of sustainability that can create high quality of life for all while staying within the safe environmental space. Countries taking the 2030 Agenda on Sustainable Development seriously and adopting transformative action are taking the third option. Finland for example, with a good reputation as a pioneer of sustainable development on a global scale, is approaching the SDGs by engaging the whole of society for systemic change. Bhutan, on the other hand, has gone beyond the SDGs to become a carbon negative country by balancing economic growth carefully with social development, environmental sustainability, cultural preservation, and within the framework of good governance.

Sri Lanka has its own experience in the sustainability-based prosperity model; it would be well served by revisiting traditional practices that respected biophysical limitations while harnessing ecosystem services. The following examples are drawn as learnings from the past towards redesigning for sustainable futures;

A. Land Use Planning within Biophysical Constraints:

Traditional Sri Lankan societies had adhered to basic principles that were deemed not to be violated with regard to resource extraction and waste generation. The first principle was to use renewable resources in such a way that the harvest rate (the rate of use) was not greater than the natural regeneration rate, and the second was to keep waste flows to the environment at or below the assimilative capacity of the environment. By observing these principles, the ancient planners knew that the stock of renewable resources and the stock of assimilative capacity will not fall, and therefore would be available in any future period. The idea was that the resource stock should be held constant over time.

The ancient village model had three systems of land use - paddy field, home garden and chena. The traditional home gardens have adopted agroforestry systems which has its basis on the 'eco-development' concept. It was a self-sufficient system with a stable base for long-term use. The village model had integrated land and water resource management system. The knowledge of this is shown in land use zonation within the micro-catchment.

The land use associated with tank cascades demonstrated a profound knowledge of resource management in a challenging environment essentially transformed from natural ecosystems into agro-ecosystems. The tanks and the paddy fields occupied the valleys, where Low Humic Gley soils with poor drainage had limited use other than for paddy cultivation. Ridge summits, with rock outcrops and inselbergs, were converted into works of art and places of worship and spiritual retreat. The influence of Buddhism led to the establishment of sanctuaries early in history and the enduring protection of wildlife.

Traditional wisdom in agriculture and the living is a long time-tested concept, which created an environmentally adapted, disaster tolerant and sustainable living system. They cultivated chena and paddy lands according to the seasonality of rains thus; at least they could get successful harvest from one cultivation. 'Kekulama (dry sowing), Bethma (shared cultivation), Thaulu govithena (tank bed cultivation) etc. are the best examples showing how they could avert the drought effects on their farming. Traditional communities made every attempt to conserve soil, water, and natural habitat. Food security was one of the in-built aspects of their culture. Use of groundwater for agriculture was never practiced which assured water security. An adequate dead storage was found in tanks to be utilized during dry period for all purposes and had been the only source of water for cattle and wild animals. Sharing resources equally and the equity of ownership were the most striking features of their culture, which led to build up a peaceful and sustainable rural society. Environmental pollution was not a topic for discussion.

Indigenous agriculture is based on the observation and studying natural phenomena operating around them. The forest, its anatomy, association of different species for coexistence, regeneration after fire, spatial variations etc. provided much valuable information for agriculture. The farming system, which includes chena, paddy and home garden cultivation has been evolved with interaction of man with the environment and developed in harmony with natural ecosystems. Observations on rainfall pattern, wind, temperature, humidity and soil behaviours influenced their cultivation activities. Unexpected losses in farming were eased with religious and spiritual practices. They have always given due respect to the resources that are used for farming.

These advanced land use planning processes could be contrasted with the modern land use planning as outlined by the National Physical Planning Policy and planning approaches adopted by majority of the large-scale development projects. The Accelerated Mahaweli Development Programme for example has destroyed thousands of small tanks that have sustained the village economy and converted the sustainable multiple cropping systems into 'high yielding low nutrition' rice monocultures resulting in a country that boasts of self-sufficiency of rice but also burdened with high incidence of non-communicable diseases such as diabetes and heart diseases.

Modern city designers have recognised the importance of green spaces in the urban environment and have incorporated green spaces as 'add on's to the system. Industries have introduced cleaner technologies to reduce pollution. However, these have been largely inadequate to compensate the huge quantities of pollutants generated from urban areas as emissions, effluents and solid waste. The waste that is not assimilated by the nature is added continuously to the surrounding local environment as well as global environment leading to many irreparable damages including climate change and ecosystem degradation impacting both current and future generations. SDG 12, on sustainable consumption and production, has not been able to move away from this reality and focus on narrowly defined add on approaches to control pollution from mass scale production systems. The Western province, recognised as the most prosperous among the Provinces in the country is parasitic on the rest of the country for its resources, and emits waste that should be accommodated by the rest of the country or the global environment.

The incorporation of biophysical constraints into the current land use planning implies understanding the minimum requirements of the communities for their 'sufficiency economy' and rearranging the resource and waste flows in harmony with natures principles. This may involve radical transformations into the current systems and finding innovative mechanisms to comprehend and achieve it. The practicalities for such transformations among the available mechanisms may be worth exploring. Both large and the small will be beautiful if the principles are properly adhered to as illustrated in the next section. The transformation of the mental formation will be an essentiality in this context. The role of art and culture in leaving oneself happier with less material possessions is not properly explored, while the role of eastern religions have been in the forefront of this discussion. The current pandemic has enforced many of us to rethink and question many of the so-called necessities that are labelled as "ultimate needs" by the current consumerist society against the most critical needs of human society.

B. Large Scale Development Planning within Biophysical Constraints:

Construction of long canals with extremely low gradient, for example, Jaya Ganga from Kala Wewa to Anuradhapura which is 87km long is an illustrative example of use of refined technology with environmental/ biophysical constraints in mind; working towards achieving social, economic and environmental goals. Yoda Ela had a gradient of less than 10cm per km within its first 27 km. The establishment of forests, and construction of tank cascade systems, reservoirs and irrigation systems was done systematically. Special mechanisms of the intake tower (Biso Kotuwa) along with all other components of a tank system also illustrates the careful planning that has not left any impact unaccounted and essentially made to last for centuries.

Irrigation water needed efficient control over distribution and allocation throughout the system. This type of irrigation system is dependent on the micro catchments. Therefore, it requires careful watershed management to reduce siltation and ensure catchment water yields. The conveyance of irrigation water over long distances requires efficient control over both distribution and allocation between the top and tail-ends of the system. The land and water use system that was developed over centuries to satisfy these requirements has been described as a 'cascading system'.

This system elaborates a major learning against the current calamity of large-scale development. Many ancient large-scale works have been undertaken with careful, well planned, systematic project components and their close monitoring. For example, evidence shows that large dams during their construction have been pressed by foots of small animals first and then by medium sized and finally by large animals ensuring the long-lasting strength of the structures. Accelerated developments of the present age and the resultant disasters as shown through the Samanalawewa Project and the Kantale Reservoir require learning from such prior undertakings.

C. Crop Diversity for Food Security, Health Care, Climate Resilience and Environmental Conservation:

All vegetables, cereals and pulse crops and fruits known to us today are the results of traditional breeding techniques. It is evident that more than 2,000 rice varieties were grown in Sri Lanka during the known period of our history. These varieties varied through location, purpose, tolerance to soil, water and climatic stresses, their unique tastes and aromas, nutritional qualities, suitability for different agro ecological regions etc. For example, heenati rice was grown for lactating mothers. Kanni murunga, another variety, was grown for men going out to work in the fields. Suvandel was cultivated for its extraordinary fragrance. Monks who do not eat after noon were given a special variety grown over six to eight months called mawee, which possesses high-protein content. There were varieties for different meals in the day, preparations, patients, elders, infants etc. Also, there were varieties, which could withstand salinity (e.g. pokkali wee), flood and drought. There is a need to investigate, classify and use them for breeding purposes depending up on the purpose and for different environmental conditions. It was revealed that there existed more than 60 varieties of bananas in the country. Many agricultural practices found among rural communities in the past had aimed at minimizing the losses and failures of crop due to climate, wildlife and other natural disasters.

The modern so called 'rich consumption' has to be contrasted with the aforesaid variety and diversity of food of the traditional cultures. The two main varieties of rice (long grain and samba) available in the current rice market and the commonly found 2-3 varieties of bananas and much lesser variety of other crops prescribed and encouraged by the agricultural authorities shows the agrobiodiversity poverty we are left with. The breeding technologies adopted and the refined knowledge on nutritional and other important properties of developed varieties illustrates extremely well-developed knowledge system on their surroundings and the continuously sought out and created diversity. This has to be contrasted with the current agro-biological poverty that we are left with which not only incapable of creating healthy new varieties but also incapable of protecting the remaining little agrobiodiversity around us.

D. Pest Management as an Ethical Undertaking:

There are three categories of traditional practices to protect crops from wild animal damage. The first group is based on astrology, the second on the powers of the spirits and deities, and the third involves the chanting of verses and the use of specific symbols. Often these different practices are combined. Modern pest eradication, through the utilisation of heavy amounts of chemicals, is in direct contrast with the concept of 'feeding the pests'. Farmers made use of the diversity of nature to protect their crops. There was propagation of useful organisms – Dimiya Ants in home gardens were used to destroy pests and harmful insects. Their system was not based on the principle of killing all unwanted organisms – rather they allowed these creatures to control each other.

i. They erected posts in the paddy field which have been used by birds to rest and catch pests, that otherwise damage crops.
ii. Placing 'Kema' in ripening paddy fields - usually this is an upturned branch of a coconut palm. This protected the growing and ripening plants from pest attacks and the branch acted as a platform for predators.
iii. 'Kurulu paluwa' is a plot of land set aside for birds at the edge of the wilderness areas, when people cultivate paddy fields. This land is cultivated commonly by all but the crop is not harvested and birds can enjoy it and in return, birds help the farmer to control pests.

E. Conservation Ensuring the Survival of all Biodiversity:

The traditional biodiversity conservation programmes were only voluntary. The ultimate aim of such activities was to ensure survival of species (even harmful and useless). There was a traditional belief that killing of certain species of animals is a great sin, with such examples including the Crow, the Monitor Lizard, the Star Tortoise and the Indian Cobra. Although these species are not of direct use to man, such beliefs tend to ensure their survival. The appearance of certain species is believed to be symbols of prosperity; Black ants with eggs, bee hives in the roof. Dangerous animals were usually avoided and not killed. The charismatic nature of the animals was not the focus contrary to the modern conservation focus. Variety of socio-cultural aspects were used as conservation instruments which ensured maximum survival of all biodiversity disregard of instrumental values to humans.

F. Traditional Medical Systems for Holistic Health:

Traditional systems of medicine are characteristic of their synergistic activity, the use of many chemicals rather than one active ingredient, and systematic effects (treating the whole, not parts). Treatment is not considered a commodity. However, the effects of western and traditional medicines cannot be compared by analysing the known ingredients only, as traditional medicine has many unknown constituents, specific methods of application and post application practices. The traditional medical practitioners were supported by extended communities by providing the food and other requirements. Every villager had a considerable understanding on the plants around them and their medicinal values and the home garden was essentially a herbal garden as well. The balanced diet which guarantee healthy life has been based on a time-tested simple framework of six types of tastes. This can be contrasted with the modern carbohydrate, protein nutrition framework which does not essentially guarantee health.

G. Traditional Technology Within a Circular Economy:

The metal processing industry in Sri Lanka commenced around 3000 BC. The ancient chronicles such as the Mahavansaya, Thupavansa and Pujavaliya mentions Sri Lanka's history of metal industry. Archaeometallurgical surveys of Sri Lanka have revealed a non-conventional, wind-driven iron smelting furnace for the first time in the world. IIt is reported in an influential 'Nature' article the discovery and excavation at Samanalawewa, Sri Lanka, of a previously unknown furnace type. The furnaces are all situated on the western margins of hills and ridges, where they are receiving strong monsoon winds. Field trials using replica furnaces confirm that this furnace type uses a wind-based air-supply principle that is distinct from either forced or natural draughts. It also shows the capability of producing high-carbon steel. This technology sustained a major industry in this area during the first millennium AD, and may have contributed to South Asia's early pre-eminence in steel production. In South Asia, high carbon crucible steel is well documented and forms of such steel known as 'wootz', were the raw materials needed to construct mediaeval Indo - Islamic 'Damascus' Swords. Evidence from Samanalawewa shows that comparable steels were produced directly with significant quantities using sophisticated 'frontal' smelting furnaces driven by wind pressure. This technology needs to be compared with modern iron smelters which uses large quantities of supplied energy and many other non-renewable outputs. Though it is not very clear as to what the main intention of producing such large quantities of steel was, there are evidence to assume export possibilities.

H. Architecture and Construction Technology Fashioned by Principles of Sustainability:

Sri Lanka's traditional architecture has been fashioned by principles of sustainability which utilized naturally available materials and incorporated the cyclical possibilities of their regeneration. The site selection, use and re-use of sites and materials, have all been fashioned by the culture of simplicity and thrift, reverence to nature, and the understanding that the planet must be treated with care and gentility because it is both fragile and exhaustible. Three distinct materials have dominated the building practices of indigenous Sri Lanka; stone, timber, and earth, which have been separately and collectively used to facilitate the development of technologies. In fact, in the history of architecture on the island, there are different regions in which specific materials have been extensively used because of their availability and the progress of artisans' skills.

The Rock Builders of Sri Lanka mastered the art of stone building with specific knowledge of the types of rocks, and their materialistic compositions. The processing technology involving retrieval from the planet, and cutting and shaping them, in order to assemble such harvested rocks into structurally stable forms. This achievement is in evidence in a seven-story building known as the Lowamahapaya.

Each and every one of the above mentioned examples illustrates a 'multiple value scenario'. For example, village tank system does not intend to just provide water but provides a mechanism of waste treatment, water catchment protection, wildlife conservation and crop production (among other areas). Likewise, traditional rice varieties provide multiple dimensions of nutrition. Not just a carbohydrate sourced and eco based disaster risk reduction mechanism against droughts, floods, salinity, but also a food choice that boosts immunity against many diseases. Traditional health systems were meant for not just physical health but mental/psychological and spiritual health as well which are in compliance with modern WHO definitions. Traditional building technology reflects the same principles that the planet must be treated with care and gentility because it is both fragile and exhaustible. For example, traditional steel technology demonstrates the use of renewable resources in high tech metal industry, a technology unique to Sri Lanka with zero pollutants left to the environment in full compliance with the principles specified under circular economies.

I. Lessons of Prosperity and Sustainability

Implementing the bio physical scenario requires understanding the following failures of the current system; recognition failure, acceptance failure and integration failure. Under recognition failure, several types can be recognised. Firstly, we have failed to recognise that humans are currently passing a stage of negative growth. A full cost green accounting exercise would have shown that we are on a declining growth pathway. Secondly, we have equally failed to recognise that humanity had its highest growth during the pre-industrial agricultural society. However, this has been proven with the circular economy model that incorporates thermodynamic constraints. Thirdly, we have failed to recognise that the current system cannot run for extended periods of time, given the breakdown signals that appear from time to time and finally, we have been failed to recognise that the current system will face complete collapse in its individual systems and such collapses will be more frequent in the time to come.

Under acceptance failure, firstly, we have failed to accept that the current systems have consistently and categorically ignored local/rural requirements, local cultures and their value systems. Secondly, we have failed to accept that better and more permanent solutions exist but old growth models are the most sought solutions for most ills around us. Thirdly, we have also failed to accept that the biophysical constrained village based, sustainable systems (fundamental working units in an ecosystem service driven prosperity model) are currently prevalent, functioning and in the working mode, not a hypothetical paradigm. We have failed to see that the current planning that emphasise megacities, globalised commodity markets are misnomers.

The Integration failure implies that we have failed to integrate bio physical constraints in to the current systems of decision making. A solution towards this would be to learn that more advanced countries have adopted circular economies as the base core of their environmental policy. The increasing demand for nature based and organic products demonstrates the increasing knowledge of the current consumers on the multiple benefits of products, derived from a bio physically constrained system.

The National Policy on Agriculture (NPA) should emphasize the use of indigenous knowledge in agriculture, which ensures preserving and utilizing traditional crops and varieties, resources conservation practices, medicinal plants, cottage industries and securing agricultural heritage of the country. In developing a strategic mechanism to promote an alternative to present agriculture, cognizance must be taken from deep rooted customs and traditions and the time-tested agricultural practices to assure the sustainability in the agricultural sector. The current dependency mentality of farmers, evolved due to modern agriculture and government policies concerning agriculture, should gradually be removed by developing self-confidence, self-motivation and empowerment.

Reorientation of the agricultural research agenda from being crop based to resource based is essential. The promotion of endemic fruits, vegetables and medicinal products for both local consumption and foreign markets can be initiated through research. Knowledge on the conservation of natural resources at present is dispersed and available at various institutions. Gaps need to be identified where further studies are needed and organized through networking them so that all have the access for utilization.

Climate change is the result of the emission of greenhouse gases to the atmosphere beyond its assimilative capacity. The invention of the internal combustion engine and the burning of fossil fuels for various energy requiring activities have pushed atmospheric CO_2 levels to the irreversible 400ppm+ level. Fossil fuels are the products of the past photosynthetic regimes for which the current ecosystem does not hold any assimilative capacity. The global ecosystem's sink functions have limited capacity to support the economic subsystem. We have not kept the size of the global economy to within the capacity of the ecosystem to sustain it. According to the circular economy principles, the emissions of waste (GHGs from fossil fuels) beyond the assimilative capacity (which is zero) is a non-viable activity unless there is a mechanism to capture, store and send back the CO_2 to where it was (underground) to complete the circle.

4.2.4. Sustainability Pathways of Ecosystem Services and Environmental Economics

Staying within biophysical limitations while optimising the benefits of ecosystem services would be a critical pathway that Sri Lanka could seek its prosperity. The Millennium Ecosystem Assessment (MA), which analysed the impact of human actions on ecosystems and human well-being, identified four major categories of ecosystem services: provisioning, regulating, cultural and supporting services. A regulating service is the tangible benefit provided by ecosystem processes that moderate natural phenomena; plants clean air and filter water, bacteria decompose wastes, bees pollinate flowers, and tree roots hold the soil in place to prevent erosion. All these processes work together to make ecosystems clean, sustainable, functional, and resilient to change while regulating services including pollination, decomposition, water purification, erosion, flood control, carbon storage and climate regulation. Market and governmental failures are the two most common institutional failures that contribute to ecosystem service degradation. Market failures occur when the market is unable to lead the economic process towards a social optimum and government failure on the other hand comes either through a lack of intervention and/or through inappropriate intervention.

- **Firstly, correcting the market failure and integration of biophysical constraints into the regulatory framework is crucial towards ensuring sustainable development.** Environmental degradation including climate change, is the result of an underlying disparity between the private and social costs and benefits of use and conservation of environmental resources. Private costs and benefits are usually obtained by the immediate user of the environment; an industrialist who discharge effluents to the nearby rivers or a consumer who emits greenhouse gasses (GHGs) when driving a personal vehicle. Social costs and benefits accrue to society as a whole including future generations. Social and private interests often do not coincide. Private benefits will lead to environmental externalities impacting the rest of society. The market failure and externality costs are usually being ignored by the person who creates the cost, when the failure arises from the free functioning of the marketplace. This provides a justification for estimation of such external costs and benefits and internalises them through regulatory tools such as taxes and charges associated with subsidies. The correct estimation is therefore immensely important so that no externalities remain unaccounted.

  The integration of biophysical constraints along with the regulatory tools requires two things: first, an assessment of the regenerative capacity of existing natural resources which are extracted from nature and keeping the extraction levels within the regenerative capacity. Extractions beyond nature's capacity have to be taxed and that money has to be utilized to recover damage costs. Secondly it requires making assessments on the assimilative capacities of the different environmental media (air, water and land) and making regulatory measures that will ensure that those capacities are observed by the users. Any type of emissions must be tackled with proper regulatory tools and damaged systems have to be repaired/ recovered. Resource and environmental economics play a key role in here in the assessment of the correct damage cost. Any drawbacks/miscalculations in the estimations will result in a lack of sustenance for the bio physical system. Ethical and equity issues need to be properly integrated into the analysis to make sure no one is left behind.

- **Secondly, correcting government failures would lead to reformatory action.** Governments usually intervene in markets in order to correct for externalities caused by the market or to serve some social purpose. However, many of these interventions end up having negative impacts on the environment. Examples include financial or regulatory incentives for deforestation and fertilizer subsidy schemes, etc.; recent Sri Lankan examples include attempting to relax existing protection mechanisms governing Other State Forests and degazetting Mangrove Wildernesses to enhance shrimp farming. This is a clear example of policy failure. It is also possible that government failures coexist with market failures. Addressing government failures requires an environmental economic approach first. The externalities towards the other sectors need to be first identified looking at the inter-sectoral linkages. The damage caused need to be valued and then has to be reversed from resources, perhaps transferred from other sectors.

- **Thirdly, correcting the global appropriation failure as externalities beyond the national boundaries poses a special problem.** There are global benefits and costs that are not accounted currently in many decision-making contexts. Many conservation activities yield global benefits. The ecosystem services of tropical ecosystems yield benefits to people in other countries, either because they simply want it to be there, or because it helps sustain basic biogeochemical cycles on which human survival depends. However, if the tropical country in question receives no financial or other resources to pay for these global external benefits, it will have no incentive to look after such ecosystems. There is another form of market failure which is called global appropriation failure. This arises due to the fact that markets are missing. Global missing markets can coexist with local market failure and with intervention failure. Correcting global appropriation failures requires further valuation of the ecosystems concerned and development of an appropriation mechanism. The experiences of developed countries show that conservation easements, compensated set-side and tradable development rights as potential mechanisms could bring appropriable mutual gains to participating landowners and sponsoring public or private organizations.

It is important to discuss this issue in terms of the proposed ecosystem services driven prosperity model. As incomes rise and pristine environments suffer greater degradation, the global demand for conservation to facilitate ecotourism, recreation and other non-use benefits is likely to increase. Since many of the highly valuable ecosystems are present in developing countries where the opportunity cost of conservation is high, a compensation mechanism is required to match the demand with supply. There is emergence of such global environmental markets (GEMs) at least on a modest scale. Public ventures of this nature include disbursements under the Global Environment Facility (GEF), officially sanctioned debt-swaps and debt rescheduling.

In the above context, the transformation towards sustainable development would entail the incorporation of all environmental and social externalities into the decision-making processes. Environmental Economics (EE) was considered as an opportunity to accommodate the environmental implications of the growth economy and society within a modified set of economic models. Micro level applications of EE include estimating demands for various environmental goods and services, plus damage estimations (through various environmental valuation methods), the designing of economic instruments, project level cost benefit analyses combined with aiding renewable and non-renewable resource harvesting decisions. Macro level applications include green accounting (integrating environmental additions and depletions into existing systems of national accounts), the development of macro level indicators etc. Such applications seem to cover a wide variety of real-world issues ranging from biodiversity, energy, agricultural and local pollution issues to global issues such as climate change, ozone depletion and ultimately the long-term survival of humanity. Most natural resource policy decisions in many countries have made sure that environmental economic values are being incorporated. Identification, valuation and incorporation of all environmental and social externalities (both negative and positive) in monetary terms, with the incorporation of these values into the decision-making context using appropriate institutions, economic instruments and other measures as the basic premise of the resource/environmental economics scenario.

Currently in the Sri Lankan context, incorporation of all environmental and social externalities into the decision-making context is not functioning except for few isolated cases. Environmental values are largely neglected in the current decision-making context leading to resource degradation. A limited number of Government Entities including the Central Environmental Authority (CEA), the Marine Environment Protection Authority (MEPA), the Public Utilities Commission of Sri Lanka (PUCSL), the Ceylon Electricity Board (CEB) and the Department of Census and Statistics (DCS), amongst others, have identified the need for the incorporation of all environmental and social externalities. Four main legislations that have identified environmental valuations include, the National Environmental (Amendment) Act (No. 53 of 2000), the Sri Lanka Electricity (Amendment) Act (No. 31 of 2013), the Public Utilities Commission of Sri Lanka Act (No.35 of 2002), the Environmental Conservation Levy Act (No. 26 of 2008), and the Marine Pollution Prevention Act (No. 35 of 2008). However, some of the shortcomings of these legislation prevents an actual transformation.

Following is an analysis of potential and shortcomings of selected policy and regulatory mechanisms for advancing environmental economic applications in Sri Lanka;

A. National Environmental Act and Cost Benefit Analysis:

The legal framework for the Environmental Impact Assessment (EIA) process in Sri Lanka has been laid down in the National Environmental Act (NEA) in 1988. It is one of the main regulations towards the incorporation of environmental costs and benefits into the Cost Benefit Analysis (CBA). The Central Environmental Authority (CEA) established in 1980 under the NEA serves as the focal point of environmental protection. It has made EIA mandatory for projects with a significant environmental impact. EIAs incorporate environmental values into the decision process making through an Extended Cost Benefit Analysis (ECBA).

The main rationale for conducting a CBA is to provide project choice to a consistent set of general objectives of national policy (UNIDO, 1972). The CBA can be utilised as a method for identifying a decision rule for choosing a preferred alternative. The enactment of National Environmental Act in 1980 made the EIA procedure compulsory for the development projects, and the CBA has become an important component of the EIA report. The basic methodology of the CBA involves the identification and measurement of environmental effects, subsequently translating them into monetary terms for inclusion in the relevant formal project analysis. When the CBA is used for social choices, benefits and costs should be evaluated in a social context and take into account any externalities arising from adoption of the particular action.

The Gaps of Cost Benefit Analysis methodology are as follows;

a. **CBA Fails to Address Intergenerational Equity:** The decisions from a CBA are inherently biased towards the present generation, which has led to burgeoning environmental costs left to subsequent generations. The CBA needs to express all costs and benefits in a single term and express them in present value terms. A discount rate is used to calculate the present value. The higher the discount rate used, the lower the level of present value benefits will be. Therefore, the decision on the discount rate could have a significant impact on the level of realized benefits and costs. The present rate used in Sri Lanka is 10% and the rates proposed by environmentalists are nearly half of that.

b. **CBA Fails to Address Intragenerational Equity:** Intragenerational inequity of the CBA is a causal factor stemming from two aspects. The first is that the decisions from the CBA are inherently biased towards the wealthy. Economic values which form the basis of the CBA are usually based on a comparison of the “Willingness-To-Pay” (WTP) rather than of actual welfare gains or losses of different people. Willingness-To-Pay depends on expectations concerning what it is appropriate to purchase and for what price. For example, the amount of money one would be willing to pay to avoid any unwanted change, also depends on wealth. Since preferences in cost-benefit analysis are weighted with money, and the poor have less of it, their preferences count for less. The second is that the CBA worsens the existing income distribution of the country.

The CBA supports policies and projects that make some people worse off. A project which yields high net benefits may result in benefits borne by one group of society and costs borne by another. The compensation proposed in the CBA need not be an actual transfer of money from gainers to losers, but a hypothetical one. This is based on the assumption that society is the sum of the individuals composing it. If each policy or project implemented in a country had different winners and losers, in the long run everyone would be both winners and losers and the unfairness of individual projects may be cancelled out. However, the widening income disparities in the world suggests otherwise. The CBA may approve a change which seriously worsens the distribution of income. For example, land is often acquired for National Parks without adequate compensation for traditional users who are poor. Costs of energy projects are also unequally born by the marginalised, low income groups or unknown future generations and wealthier groups usually suffer little loss. For example, the Accelerated Mahaweli Development Programme of Sri Lanka required the inundation of considerable stretches of agricultural land (5400 ha) and the displacement of 14,000 rural families. Low income groups are affected in several ways, including the loss of traditional lands within affected areas and loss of opportunity to develop off grid power since limited funds being devoted to the large grid connected projects in preference to off grid projects.

Under the present EIA of Sri Lanka, if there are significant disproportionate environmental impacts on low-income groups they need to be identified and evaluated. However, identifying disproportionate impacts to low-income groups does not necessarily preclude a Public Entity from going ahead with the development of the project. Hence, concerns of distributional issues are rarely incorporated into projects. Therefore, it is urgently required to incorporate this aspect within EIA framework.

c. **CBA fails to Address Interspecies Equity:** Development projects often involve aspects which have implications on non-human species including the destruction of ecosystems, the loss of species, and the creation of pollutants which damage ecosystems functions or cause genetic mutations. The CBA is an anthropocentric notion which considers concerns of non-human species from a human perspective. Economic values for such CBAs are dominated by preferences of the wealthy human classes. Non-human species have no role to play in the decision-making process.

The current approach to economic development has led to injustices which are reflected in the widening income gaps among present and the burgeoning environmental costs left to the future. There is widespread negligence of equity issues in the CBA and only a very scant attention has been paid to the tools available to correct such intra and intergenerational inequities of the CBA. Distributional weights are important in achieving intra-generational equity which can easily be attached to the income changes (benefits or costs) of the groups affected by the project. It has been suggested to address intergenerational inequity by retaining the conventional discount rate but increasing the value of the environmental good with time, by adding a growth rate for the price of the environmental good (relative to the general price level) and by reducing the value of development benefits with a negative growth rate (double discounting). The rationale for this is that as natural resources become scarcer in time, they become increasingly more expensive.

d. **Sri Lankan context of CBA:** Sri Lanka has not been able to look for any of the alternative approaches with regard to CBA applications. It has stagnated with the status quo. To make matters worse, the CEA has now relaxed the requirement that the CBA process is mandatory. The legislation says, 'include if one has been prepared'. Currently many development projects are being subjected to the EIA procedure without proper assessment of their environmental externalities. For some external funding agencies, it was noted that environmental costs and benefits in a cash flow have been a requirement. The current compensation approaches of the development projects seem to be largely inappropriate. For example, the construction of the Central Expressway (E04) has led to destruction of a large number of home gardens in rural landscapes. What has been paid as compensation is the standing values of the gardens, but not the lost future value streams that could have been obtained by the affected rural people. This is a clear injustice given that many of these people will never be able to use the expressways during their lifetime. The largest series development project carried out in the country under the

Accelerated Mahaweli Development Project take significant blame for the onset of the current Human - Elephant Conflict (HEC) leading to the deaths of both humans and Wild Elephants. Nearly 22,000 people have died from CKD, over the past 2 decades in the North Central Province (NCP) and 17,503 kidney disease cases have been reported from hospitals while 787 people have undergone kidney transplants. Though the causes of such diseases remain unknown, it is most likely that unsustainable agricultural practices, including heavy use of chemicals have largely contributed to disaster.

B. Environmental Conservation Levy Act No. 26 of 2008 and Environmental Taxation:

The Environmental Conservation Levy Act (No. 26 of 2008) enables the implementation of environmental taxes providing provisions for valuation of environmental damages. In managing natural resources, the Sri Lankan Government complements regulatory approaches with market-based instruments. The first example of environmental taxes in Sri Lanka was introduced through the Environmental Conservation Levy Act, which empowers the Subject Minister of Environment, as well as the Subject Minister of Finance and Planning to impose taxes on specific commodities and services provided within Sri Lanka, which are likely to have harmful impacts on the environment. The revenue generated under the Act is remitted to the Environmental Conservation Levy Account of the Consolidated Fund, to be invested on environmental management and conservation in Sri Lanka.

According to the provisions of the aforementioned Levy Act, environmental conservation levies were imposed on mobile phones due to the hazardous nature of the e-waste generated. Order No. 03 of 2008 imposes a levy of 2% calculated on the value of the services supplied and to be supplied by the licensed cellular operators (Extraordinary Gazette No. 1559/10, dated as the 22nd of June 2008). It is expected that the revenue generated from this tax will be invested on e-waste management in the country.

Environmental taxation is a potential area of application concerning the incorporation of environmental values into the decision-making process, although current legislation has not utilized that potential fully. The major innovation in the above act is the establishment of a separate fund to recover the cost of environmental damages. Sri Lanka has collected a large sum of money through a phone tax with the aim of using that for an investment that aims at recycling mobile phones. However, due to various administrative drawbacks, this has not yet been materialized. The following sections elaborate on the potential immediate areas of application of environmental taxation in Sri Lanka.

a. **Taxes on pesticides:** The present import tariff on pesticides in Sri Lanka is not based on any environmental consideration. MENR (2008) recommends classifying pesticides according to environmental hazard class as defined by the World Health Organisation and proposes to have a cess accordingly. For example, extremely hazardous (WHO Class IA) could carry a cess rate (as a percentage of CIF value) of 100%; slightly hazardous (WHO Class III) could have a cess rate of 50%. Such a differentiated tax has been able to reduce the consumption of pesticides and to shift pesticide consumption towards less harmful pesticides in Norway (NCM, 2006). Funds of such a scheme could be earmarked for integrated pest management activities which reduce the need for chemicals and for promotion of organic farming and eco-labelling programmes. Such programmes would not incur additional costs for the government.

The potential revenue from agro-chemicals (weedicides, fungicides and insecticides) imported to Sri Lanka in 2007 based on the above cess rates would amount to a total value of Rs billion 4.03 and weedicides are the largest contributor. This figure is an indication of the damage caused by the agrochemicals to humans and nature. Ideally the money collected from the above cess should have been used to address environmental health hazards resulting from agrochemicals including water pollution, soil contamination and biodiversity depletion. However, Sri Lanka has not yet been able to implement this environmental cess and continues to operate with annual damage amounting to several billions over the years.

b. **Taxes on tourism:** There are various types of taxes and levies applicable to tourism sector of Sri Lanka. Tourism development levy is applicable to all private- and public-sector businesses, hotels, service providers, etc. The major part of the revenue of this tax is earmarked for expenditure on state-sponsored activities for tourism development. However, there are no clear guidelines on the utilisation of the funds. However, a significant part of the revenues collected from the tourism sector goes to the treasury and collections made by the Tourism Board are utilised by the Board and it seems that they are not invested for conservation/protection of the natural resources concerned. In addition, from the present embarkation levy of US$ 60, Tourism Development fund receives 30% and the rest is received by airport and aviation services and treasury. The total public sector revenue from tourism for the year 2019 amounts to Rs 9,586.8 Mn which includes tourism development levy of Rs 924.2 Mn, embarkation tax on foreign tourist's worth of Rs 2,089.2 and other sources of revenue such as income of tourism development authority, culture triangle, botanical gardens, zoological gardens, wildlife parks, conservation forests, museums and BMICH.

C. Sri Lanka Electricity (Amendment) Act No. 31 of 2013 and Public Utilities Commission of Sri Lanka Act No.35 of 2002:

Sri Lanka Electricity (amendment) Act requires Long term Generation Plan of the Ceylon Electricity Board to incorporate economic cost of power generation in selecting the power generation options. Section 43 of the Sri Lanka Electricity Act No. 20 of 2009 as amended by section 13 of Sri Lanka Electricity (amendment) Act No. 31 of 2013, requires the Transmission Licensee to prepare and submit the Least Cost Long Term Generation Expansion Plan (LCLTGEP) for approval of the Public Utilities Commission of Sri Lanka.

The provisions of the Sri Lanka Electricity Act require minimization of Economic Costs in the planning process. In this context CEB has taken an effort to include border prices in to the planning process (i.e. excluding tax and other levies that distort prices). However, CEB has not considered few critical components of economic costs (most of which are outside the planning boundaries under the Planning Code); such as a) environmental externalities, b) local employment and other economic benefits of some technologies, c) lower currency risks attached to indigenous technologies d) pertinent cost reduction trends on certain Other Renewable Energy technologies e) variances in transmission costs due to locational advantages of certain technologies and f) indigenous sources that improve energy security. Most of these factors are difficult to be quantified and thus highly debatable. However, when certain key options are very close and competing in terms of specific costs, these factors have to be considered at least on qualitative basis.

CEB has not included any externality cost in their scenarios of the draft LCLTGEP 2018-2037, thus as stressed by many stakeholders, does not reflect the true economic costs of power generation. Ideally, externalities depend heavily on the site-specific environmental conditions, plant technology and fuel used. Thus, site specific studies are required to reliably determine the figures on externality cost for a particular technology. The Lak Vijaya power plant (LVPP) at Norochcholai is currently being operated violating environmental standards. The neighbourhood is severely affected by the impacts of the power plant. A calculation carried out by a CEB personnel indicates that the power plant could result in death of 37 people in the area in a single year. The question comes then how this could be valued. The number assigned for the life, (value of statistical life – VSL) is highly debatable figure where not many estimates are available in the Sri Lankan context. Study report on estimation of external cost of thermal power generation for Public Utilities Commission of Sri Lanka final draft (2020) indicates that among the thermal plants in Sri Lanka, LVPP has the highest external cost which is LKR 10.23 per kWhr. If this cost to be incorporated to the Least Cost Long Term Generation Expansion Plan, definitely, the renewable energy options would be highlighted as the most feasible options. This highlights the key role that could be played by environmental economic applications in the country, in particular, to drive the country towards renewable energy.

D. New and Potential Action:

There are emerging areas that show the potential to incorporate environmental values into decision making. Adjustments made for the System of National Account (SNA) through green accounting is another area that was initiated by the Ministry of Environment. The following sections elaborate on each item.

a. **Incorporating values into System of national account (SNA) through green accounting:** The Department of Census and Statistics (DCS) is entrusted as a government statutory institution for the compilation of National Economic Account (NEA) estimates and United Nations System of National Accounts 1993 (UN-SNA93), to measure the economic performance of the country. Use of economic values towards green GDP or Natural resource accounting has been accepted as an essential pre-requisite for sustainable economic development. Changes in resource stocks provide an indication of the status of resource which provides guidelines for appropriate inter-temporal resource allocation for sustainable development. The System of National Accounts (SNA) is the widely practiced national accounting system but it provides only inadequate treatment in resource accounting especially additions and depletion. Green accounts have been proposed as a solution for this. However, the main problem related to the estimation of green GDP is the inadequacy of the environmental values estimates available. The following section elaborates an attempt of incorporation of environmental values into the forestry sector.

b. **Application of green accounting in forest sector:** Forests of the country provide a wide variety of values to the national economy. For example, the agriculture sector, the largest source of employment in the economy, relies on land, forestry, water and marine resources to a great extent. Accordingly, the livelihoods of the rural masses are linked to these activities directly or indirectly. The poverty alleviation and food security are targeted factors for enhancement of the livelihoods of the rural masses which are also linked with forest resources and biodiversity. Sri Lanka is identified as one out of eighteen global hotspots of biological diversity reflecting the importance of conserving biological assets. Today, the island nation has faced a complex set of environmental issues that include land degradation in various forms, deforestation and loss of bio-diversity, and over-exploitation of biological resources. Therefore, Sri Lanka is presently confronted with the challenge of finding a sustainable path by protecting its forestry resources and biodiversity for achieving the development targets. Existing SNA only includes only few direct use values under forestry sector which amounts to Rupees Million 33,720 (0.6% GDP). This is mainly timber and a limited amount of forest products that directly enter to the market and consumed by households which comply with UN-SNA93. The main reason for under valuation of forested areas in the economic value system is due to the externalities which are not accounted in the market mechanism. Thus, it is essential that all values recognized under the concept of total economic value are identified, valued and incorporated into the System of Environmental Economic Accounting 2003 (UN-SEEA-2003) or Green Accounting System. This is in order to reflect the true contribution of forests and enable the correct level of investment for the sector which is required to monitor to reach a sustainable economic development.

4.2.5. Subsidiarity and Devolution of Financing the SDGs

The policy of the Government of Sri Lanka, as stated by the Ministry in charge of Provincial and Local Government, is to reduce the inter-regional disparities and improving provincial contribution to GDP while ensuring self-sustained Provinces. It also recognizes the integration of disaster risk reduction and adaptation measures into regional level development activities while ensuring sustainable usage of natural resources in each Province. This is in accordance with subsidiarity which is the principle that decisions should be made at the lowest possible level where competencies exist. Subsidiarity and devolution are key elements of good governance as they enable more flexible and adaptive processes for decision-making and management of natural resources. The focus on devolution further reinforces a rights-based orientation towards vesting authority in empowered local actors, particularly where common property systems are in place. Subsidiarity provides that decisions should be made closest to, and in line with the values of, those most affected by the relevant community of interest. Natural resource management decisions can be made by a variety of institutions at a variety of levels of governance. An example is how "environmental subsidiarity" is the key principle that can link payment for ecosystem services (PES) with environmental public policies and applies this principle with all its political consequences to reducing emissions from deforestation and forest degradation, and enhancing forest carbon stocks in developing countries (REDD+) architecture. In this context, it is important that the responsibility of the bigger institution (central government) to enable the smaller one (provincial and local governments) to perform its tasks and to provide it with any necessary support.

The financing of public expenditures at national, provincial and local levels demonstrates a centrally regulated public investment scenario in Sri Lanka. Investment for sustainable development at subnational levels is defined by public budgeting processes at the national level. Accordingly, approaches to expenditure management at subnational levels is constituted by a hybrid system of centralized budgetary controls and decentralized expenditure responses. Public management reforms have further centralized expenditure management through performance controls purportedly designed to bring about a results orientation in the public sector at national, provincial and local levels. Thus, public spending at the subnational level lacks congruence in terms of development outcomes. The situation is exacerbated by the fragmentation of subnational governance across sets of provider agencies, national, provincial and local.

A. Financing status of investment for sustainable development at the subnational level:

Financing of investment for sustainable development at the subnational level occurs through multiple sources and multiple channels.

a. Budgetary allocations for national level service provision.
b. Fiscal transfers for Provincial Councils service provision.
c. Fiscal transfers for Local Authority service provision.
d. Provincial Council/Local Authority revenue financing of service provision
e. Foreign/Local project financing of service delivery at the subnational level.
f. Private sector financing of service delivery at the subnational level.
g. Civil Society Organization financing of service delivery at the subnational level.

Each service provider is driven by their respective goals and objectives such that investments on service delivery constitute discrete financing operations. The absence of a framework of overarching subnational development outcomes makes such service deliveries discontinuous both on the supply and demand sides. On the one hand, such financing operations do not mainstream integration of economic, social and environmental imperatives of sustainable development. On the other hand, people are called upon to integrate sets of provider outputs in working out their wellbeing. The absence of mechanisms for integrating economic, social and environmental dimensions of government, private sector and non-government actions activities not only place limits on human wellbeing, but also expose peoples' livelihoods to hazards and shocks, both natural and man-made.

B. Institutional status of subnational level financing of sustainable development:

Above financing of subnational level investments take place through a complex web of flows through multiple intergovernmental institutional channels. The subnational institutional architecture dichotomously positions the national, provincial and local governments in vertical and horizontal relationships. Thus, the national level providers working through the district, division and village administrative entities deliver services directly or through the provincial and local level governments. At the same time Provincial and Local Governments deliver services directly or through the divisional and village level de-concentrated administrative entities. Thus, economic, social and environmental outputs and outcomes are financed discretely, through agency budgets organized at the different spatial scales, national, provincial and local. There is no mechanism for integration at these subnational spatial scales, of development issues arising from economic, social and environmental imperatives of sustainability, despite the principle of subsidiarity arguing for localized location of service delivery. It prevents cross-boundary exchanges in working out sustainability and wellbeing. In fact, the constitutional assignment of subjects and functions between the Centre and the Provinces leave out critical areas of environmental outcomes from the provincial council and local authority service delivery purview, undermining the principle of subsidiarity and thereby the integrity of localized approaches to transformation.

The institutional structures for subnational coordination (the District Coordinating Committee and the Divisional Coordinating Committee) concurrently works out vertical intergovernmental (policy) relations (between the national and the provincial and local governments) as well as horizontal service delivery (program) relations between the national and the provincial and local government providers. These are not mechanisms for integrated planning and financing, with such finances not being available for allocation according to specific sustainable development imperatives at these spatial scales, reaching down to the village. Nor are methods and tools available for integrating and internalizing economic, social and environmental costs and benefits or for cross-boundary financing sustainable development outcomes for localized sustainability and wellbeing.

The subnational system continues to work in silos, vertically and horizontally organized as national, provincial and local government concurrently at the local level. Exacerbating such fragmentation is the absence of the engagement of the private sector and civil society organizations complementing and supplementing the public sector in the provision of service delivery. While, on the one hand cross-cutting local level arrangements are better placed than discrete agency-based service deliveries to provide for community-based interventions. At the same time cross-boundary engagement enhances the relevance and responsiveness of service deliveries in addressing multi-faceted problems and needs of 'leaving no one behind'. Such fragmentation in planning, financing and delivery of services undermines interdependence and integration necessary for achieving sustainable development.

When taken in the totality of sustainable development there is the question of the functionality, effectiveness and appropriateness with which investment policy works in addressing complexities of the vulnerabilities of those left behind. The institutional status of financing sustainable development outcomes raises issues on, both, the supply and demand sides. On the supply side, is the extent to which the fragmented financing of service deliveries add-up to a comprehensive investment strategy for sustainable development. On the demand side is how multiple sectoral actions and interventions work together to ensure equitable access to and use of a total package of services by those left behind. The first is about the strategic action framework for sustainable development outcomes. The second is about the structures and functions translating the subnational investments into a set of coherent service deliveries addressing needs and expectations of the vulnerable.

Importantly, these subnational coordination mechanisms have since the establishment of Provincial Councils taken on the role of intergovernmental political coordination, providing representation to national, provincial and local political representatives. In this highly politicised scenario, national, provincial and local actors, both political and administrative, appear to be driven by zero-sum motives of 'turf protection' rather than positive-sum incentives for partnership and engagement. Such norms of political and administrative behaviour reinforce fragmentation of the subnational institutional architecture making for expediency in short term gain if not rent-seeking to the neglect of remediation or transformation for achieving outcomes of sustainable development. Thus, centrally-driven coordination has resulted in a messy system of financing subnational development.

C. Policy scenarios for the governance of investment strategies at the subnational levels:

All public expenditures are brought under central purview in terms of parliamentary control of public finance. The national budget is the policy instrument for defining public expenditures at all levels, thus extending to Provincial Councils and by implication to Local Authorities. The Finance Commission prescribes the framework for capital expenditure of Provincial Councils through guidelines for the use of funds provided under the Province Specific Development Grant. In the context of sustainable development, such policy practices should provide for establishment of a strategic framework for investments at subnational level, encompassing national, provincial and local government expenditures.

The national budget provides for a three-pronged framework for achieving the performance objectives of public expenditures.

i. Rules of financial control and discipline.
ii. Performance-based budgeting.
iii. Aligning SDGs into development programs of the Spending Agencies.

As pointed out earlier, the national budgetary framework is tokenistic as a policy mechanism for the formulation of an investment strategy for sustainable development at the subnational level. On the one hand, is the reality of the practice of budgeting, whether at national, provincial or local levels, which is one of financial control of budgetary appropriations rather than following up on results of service delivery. The accounting model of public expenditure management in fact has established a command and control type regulation of subnational public expenditure and investment. On the other hand, the accounting model does not provide for flexible and adaptive expenditure and investment as would be necessary to meet the complexity of sustainable development. The regulation of expenditures and investment through performance-based budgeting, i.e., the definition of spending agency performance standards and results fragments investment and service delivery around discrete agency outputs rather than program outcomes as is necessary to address complex multi-faceted challenges of sustainable development.

The Finance Commission's prescription of the purposes of public investment extends only to capital expenditure of Provincial

Councils. As noted earlier, the Finance Commission has a mandate for equalizing fiscal capacities of Provinces through constitutional provisions setting out criteria for the apportionment of funds allocated under the Central Government's Annual Budget. However, the scheme for the apportionment of such funds differentiates between recurrent and capital expenditure and the application of constitutional criteria extends to the Province Specific Development Grant, accounting for approximately 10.8% of total grants to Provinces. Thus, Finance Commission's guidelines on capital expenditure too does not provide for a subnational investment framework.

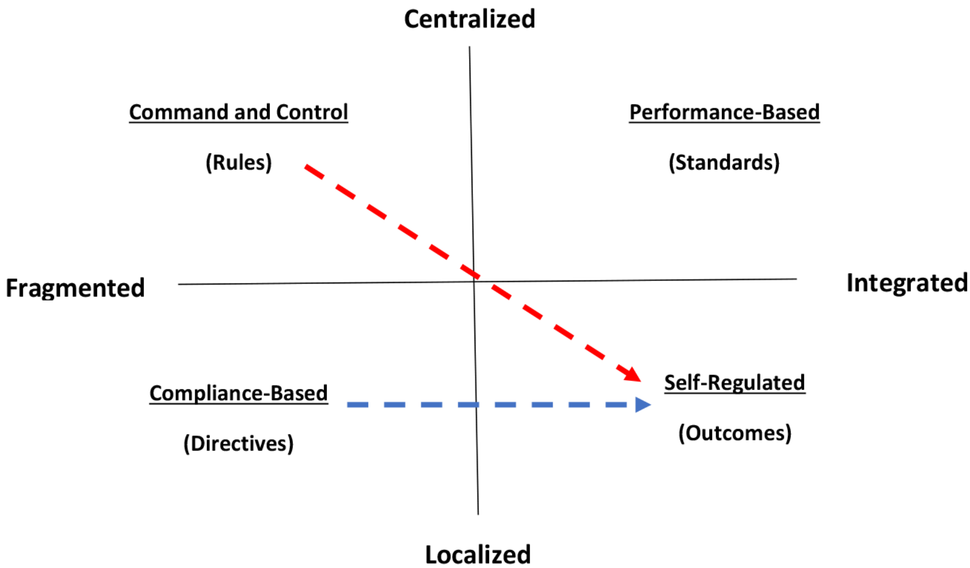
The primary objective of planning investments at the subnational level should be to bring about better alignment of such spending with sustainable development outcomes specific to the context of the subnational entity rather than a 'one-size-fits-all' regulatory policy. Then, a framework for planning investment strategies at the subnational level should have as its objective the sustainable development outcomes of economic, social and environmental development on the one hand and the interests of the subnational community on the other. It should, as an integral part of effective public governance, contribute to shaping relationships of trust and partnership between the state, citizens and development actors. Therefore, an effective policy framework supports the governance of sustainable development by providing for making decisions about what to regulate, whom to regulate, and how to regulate.

Thus, the policy framework in place for planning investments for sustainable development at the subnational level is incoherent. Therefore, there is a need for transitioning to a policy framework that is more relevant to planning investment for sustainable development in a subnational context. Such a policy framework should facilitate the governance of sustainable development at the subnational level. It is then necessary, at the same time to transition the current historically evolved subnational governance structure to a subnational governance system with capacity to address the complex challenges of sustainable development in creating new pathways and opportunities for human wellbeing in the future. Such transition would move beyond path dependent systems towards creating capacity for transformative changes associated with sustainable development. In the context of the Sri Lankan subnational governance architecture and system transformation for sustainable development, there are two key system transition imperatives, system integration and localization of governance. As noted above, the subnational system architecture is fragmented, silo-based and the governance actors practice a culture of patch protection. Subnational governance is centrally driven, where rule compliance and predictability of system operations constitute key outputs of the command and control intergovernmental framework.

Thus, policy frameworks should position governance arrangements in order to shape relationships of trust and partnership between the state, citizens and development actors, thereby ensuring congruence with the complex challenges of sustainable development at the subnational level. On the basis of the subnational system transition imperatives a fourfold typology of governance architecture is identified constituting policy scenarios for planning investment strategies for sustainable development at the subnational level.

While the current subnational governance architecture corresponds to a Fragmented-Localized system, strong rule-based

Figure 13: Policy Scenarios for Planning Investment Strategies



command and control complements sectoral directives in defining decision-making in the subnational system. The required transition in the governance system to guide sustainable development is a movement from Rule/Directive based governance to outcome-based governance positioned within an Integrated-Localized institutional architecture, where governance would be contextual guiding localized sustainable development outcomes.

D. Transition pathway towards an outcome-based regulation of subnational investment strategies for sustainable development:

A shift from a rule/directive-based to an outcome-based governance of subnational investment for sustainable development constitutes a fundamental change in the subnational system. It involves system-wide innovation in the working of subnational governance. Approaches to system-wide change is positioned within a multilevel perspective (Geels; 2002, 2004). System-wide change is defined as the outcome of interactions between three levels.

a. Landscape Developments (comprised of changes in macro intergovernmental policy).
b. Socio-Technical Regime (comprised of the collection of actors at the subnational system).
c. Technological Niches (comprised of niche innovations in the subnational system)

While the change path and outcome would depend upon the interaction dynamics between the three levels, an implementation strategy for system innovation for sustainable development at the subnational level will be challenging.

4.3. Foresight into Scenarios Based Planning in the New Normal

The COVID-19 pandemic has exposed the fragmented governance, public service delivery and financing structures and systems in Sri Lanka. It has also shown that high dependency on global food and consumer product supply is no longer a positive factor for achieving prosperity. At the same time, Sri Lanka with a comparatively high natural resource stock and rich biodiversity continues to demand attention of the need to plan an ecosystem services-based development pathway. Also, climate change induced high disaster frequency has exposed the nation's social and economic vulnerabilities and draws attention to high recovery and rebuilding costs. Gaps in policy and regulatory approaches towards integrating environmental and social externalities and lack of foresight into optimising ecosystem services based economic prosperity keeps the country away from sustainable development. The recent downgrading by the World Bank to a lower-middle income status has exposed the inability of the country to progress steadily and consistently in managing the growth of the economy, especially through high international borrowings. The future of the nation calls for change; change towards responding to potential breakdown scenarios, change towards in the approach towards adopting alternative scenarios, and change in forging transitional measures in policy and regulatory scenarios. The call for a new normal, the renewed commitment to the 2030 agenda, and the opportunity of a new government leads us to hope that a transformation towards sustainable development is still a possibility. Foresight into scenarios-based planning in the new normal will define whether Sri Lanka embarks on the transformation, or continues to be guided by business as usual.

4.3.1. Response to Potential Breakdown Scenarios

The COVID-19 pandemic brought more or less the entire world into a lockdown situation, thus demonstrating how vulnerable humanity is against a breakdown of the prevailing socio-economic systems. With social distancing becoming the main strategy to manage the spread of the virus, all other activities around consumption and production systems were seriously impacted for the first time in modern history. While the financial breakdown in 2009 had sent shockwaves across international economies and bankrupting several large financial institutions to nations, the COVID-19 pandemic has presented a larger threat to lifestyles and livelihood in an unprecedented scale. The current multiple uncertainties provide a world of fragmented political and economic interests; a perfect recipe for a systems breakdown, especially in smaller and poorer countries like Sri Lanka.

In this global pandemic scenario, people world-over have started to discuss a 'New Normal', implying that adapting to new conditions would demand changes to usual behaviour patterns. For so many decades, scientists have warned of anthropogenic climate change that could destroy earth systems to a point of no-return. According to the World Economic Forum's 2016 Global Risks Report, the failure to mitigate and adapt to climate change will be "the most impactful risk" facing communities worldwide in the coming decade. Warnings about limits to growth and the carrying capacity of earth, have been ignored by political, policy and economic processes for long, resulting in significant damage. During the recent decades, natural disasters have been more frequent than ever on earth creating havoc on lives, destroying infrastructure, and inducing economic downturns. Climate change has the potential of multiplying the existing global challenges, weaken the resilience of socio-economic systems, and induce critical vulnerabilities to create extreme harsh conditions for humanity. Therefore, a New Normal would not mean survival till the pandemic threat lasts, and then increasing consumption to over compensate on lost economic growth opportunities. Nations including Sri Lanka must have foresight into a local to global ecosystem services driven prosperity model, and plan to implement the SDGs as pathways for transformation.

Sri Lanka has gone through decades of civil war, affected by constant natural disasters, faced economic depressions, and now the COVID-19 pandemic. However, questions remain if the nation has been able act on the lessons learned. The current state of the country presents a dim picture in the context of the 2030 Agenda. An ailing economy looming with a debt crisis, corruption and lawlessness, lack of accountability in the public service delivery system and mistrust on the fragmented public institutions, exploitation of natural resources for short-term gain leading weakened ecosystem services, increased vulnerability to frequent natural disasters, increased equality leading to marginalisation and social disintegration, low social protection and weakened social wellbeing, increased focus on centralised governance leading to weakened subsidiary and decentralisation of decision making, etc. increases Sri Lanka's vulnerability to internal and external crises. Such crises combine and spin out of control, leading to unbridled conflict, institutional disintegration and economic collapse leading to a significant system breakdown.

The multiplicity of negative conditions and the frequency of shocks will weaken the nation's resilience further and act as a barrier for the transformation. The commitment to the 2030 Agenda must not merely be an international response but essentially a process leading to prosperity, wellbeing and happiness of all Sri Lankans. Planning for economic growth based on extra borrowings has led to increased debt of current and future generations. The physical planning continues to be environmentally destructive and has led to many induced disasters while weakening the nation's resilience. Centralised, disintegrated and incoherent governance, policy and institutional structures have negated any benefits of subsidiarity intended in establishing the Provincial Councils and Local Authorities and has led to increased social inequity, disintegration and insecurity. Therefore, Sri Lanka will be better served by demonstrating responsiveness to potential breakdown scenarios and approach planning with greater foresight.

4.3.2 Approach to Adopting Alternative Scenarios

Sri Lanka has abandoned its traditional approach to lifestyles and livelihoods based on closer relationships between nature, culture and community. The country has been driven mostly by Western concepts embracing a market economy towards chasing a dream of development. The nation is governed by the Westminster model of democracy, the legal system is based on the Roman Dutch Law, the public administration is modelled around the British Civil Service, the exam oriented education system is an extension again through American and European styles, value systems largely driven by anthropocentric concerns, and financing for development is based on guidelines provided by multilateral agencies leading to eternally increasing of the per capita debt of its citizens. While continuing to seek dependence on international financing for its development programmes and processes, the country continues to drive an economic growth-based development model measured by a failed Gross National Product (GDP) methodology. This as a result has kept Sri Lanka low in prosperity for all these years and decades while impacting negatively on the wellbeing and happiness of the citizens.

The modern history of Sri Lanka narrates a story of a nation that heavily depends on foreign development concepts, management methods, education systems, consumption habits, social interactions, and finances to achieve prosperity. The case of Sri Lanka is almost of a failed nation underscored by political corruption, public service inefficiency, short-sighted planning, self-centred professionalism, greed driven entrepreneurship, and a powerless citizenry. The lack of foresight, linear mindsets and regressive approach constantly places the nation in manufacturing crises than producing solutions. Sri Lanka's response to potential breakdown scenarios has not been consistent.. All of the above has happened while Sri Lanka sits on a gold mine of ecosystem services waiting to be harnessed with vision and care.

The monetary value of goods and services provided by ecosystems is estimated around US$ 33 trillion per year, which is nearly twice the global production resulting from human activities. The IUCN believes that protecting global commons – the ecosystems, biomes and natural processes that regulate the Earth – and integrating the value of these ecosystem services into our public and private sector accounting systems will be vital. Designated as one of the world's biodiversity hotspots and having greater biodiversity per unit area than any other country in Asia, Sri Lanka is yet to optimise the benefits of ecosystem services. The Biodiversity Finance Plan (BFP) has assessed that nationally set biodiversity targets within the period of 2018-2024 to be achieved, needs approximately 31 Billion LKR (190 million US$). However, the BFP acknowledges the lack of capacity to translate policies, plans and strategies into implementable actions, and the lack of financing.

The interlinkages between environment and other sectors of the economy have largely been ignored and direct market values have been highlighted against the unvalued non market benefits of nature. In the recent years there has been a revival on the knowledge that the traditional agricultural model of 'tank-dagaba-village' is based on the principles of circular economy as understood by the modern thermodynamic principles. There is a great potential therefore to combine these two systems of knowledge on modern ecology-based ecosystem services and our own circular thinking powered by the eastern philosophies. This would help Sri Lanka to survive in future breakdown scenarios.

Sri Lanka needs a 'New Transformation Dialogue'; this requires leadership across all sectors and strata of the society, leaving no one behind. The 2030 agenda provides an alternative approach towards departing from business as usual scenarios. However, national transformation must be driven by the adoption of localised alternative scenarios that can respond effectively to potential breakdowns.

4.3.3. Transitional Measures in Policy and Regulatory Scenarios

A complete transformation by the year 2030 may not be possible for countries like Sri Lanka, as five years have already passed without much transformative action put in place. The balance 10 years to change political cultures, trade interests, consumption behaviour, etc. appears to be extremely challenging. What requires to be done is to at least enforce transitional measures to regulate action and behaviour to facilitate transformational action by 2030. Through policy and regulatory reforms, governments would be able to forge comprehensive action to align the economy with environmental and social goals for incremental change as transitionary measures.

A domestic resource mobilisation framework will be integral to operate in tandem within a scenario of policy and regulatory reform that supports this transformative agenda. Financing of public expenditures at national, provincial and local levels demonstrates a centrally regulated public investment scenario. Investment for sustainable development at subnational levels is defined by public budgeting processes at the national level. Accordingly, approaches to expenditure management at subnational levels is constituted by a hybrid system of centralized budgetary controls and decentralized expenditure responses. Public management reforms have further centralized expenditure management through performance controls intended to bring about a results orientation at the output level in the public sector at national, provincial and local levels. However, such results orientation in public spending at the subnational level lacks congruence in terms of development outcomes.

In the context of the Sri Lankan subnational governance architecture and system transformation for sustainable development, localization of governance and system integration are two key system transition imperatives. Firstly, decentralised governance mechanisms that enhances subsidiarity needs to be enforced. Subsidiarity is the principle that a central authority should have a subsidiary function, performing only those tasks which cannot be performed at a more local level. The general aim of the principle of subsidiarity is to guarantee a degree of independence for a lower authority in relation to a higher body or for a local authority in relation to central government. Secondly, an integrated service delivery mechanism that facilitates national, through provincial to local connectedness, both vertically and horizontally is critically important. The subnational system architecture is fragmented, silo-based and the governance actors practice a culture of patch protection. Subnational governance is centrally driven, where rule compliance and predictability of system operations constitute key outputs of the command and control intergovernmental regulatory framework.

The design of the subnational system is central to localizing sustainable development. As will be argued in the sections to follow, the resource intensive models of development to which Sri Lanka had migrated, are ecologically, and hence economically and socially unsustainable. Sustainability extends to creation of a just world, as much as ecological protection, and requires innovation at all levels. Integrating the integrity of biophysical systems with better and improved services for the people must get locally contextualized so as to ensure that no one is left behind.

The current domain-centric fragmentation of subnational governance does not provide for accountability in the use of biophysical resources or the application of such resources for human wellbeing. Such fragmentation does not provide for either the integration of social, economic and ecological dimensions of development or the interdependence of stakeholders, government, private and civil society in delivering on human wellbeing, leaving no one behind. Policy and regulation must be accompanied by context-specific application. Transitions in policy and regulatory scenarios must provide for localized contextualization and open-ended processes.

4.3.4. Transitioning Through a New Normal Scenario

On a positive note, the pandemic has generated a pause on 'business-as-usual' activities. The new normal presents nations with new opportunities as much as it presents new challenges. Those who dare to change will prosper and those who continue business as usual (BAU) will be faced with greater crises. Simply it's a call for radical change, and transformation is the obvious pathway. Sri Lanka does not have the luxury of waiting for destiny to take its own course and continue BAU. High vulnerability to climate change and economic instability has tremendous potential of multiplying other environmental, social and economic breakdown scenarios. Therefore, Sri Lanka would want to join countries that are taking the transformation towards sustainable development and greater prosperity.

Bhutan has shown that destiny of their nation will be defined by themselves and not by following globalised prototypes for development. Extraordinary political vision and will-power of a small and poor country has inspired global policy makers to search for new prosperity approaches and measures. Gross National Happiness (GNH), of Bhutan, is no longer a hypothesis but an evolved strategy for sustainable development. On the other-hand, if Sri Lanka still wishes to seek guidance from the Western development model, Finland provides evidence that even a small country can leapfrog to the top in overall ranking amongst international country comparisons through transformational policy and regulatory action; Finland is rated as the most stable country in the world by the Fragile States Index 2018; the freest country in the world according to the Freedom in the World 2018; has the best governance in the world according to the Legatum Prosperity Index 2018; is the best country in the world in a comparison of human wellbeing as for Sustainable Society Index 2016; is the happiest country in the world as to the World Happiness Report 2018; the air in Finland is the cleanest in the world according to WHO air quality statistics; and also the risk to be exposed to natural disasters is lowest in the world in Finland according to INFORM Global Risk Index Results 2018. Finland's sustainable development policy has a tradition spanning over decades. Since 1993, the Finnish National Commission on Sustainable Development has acted as a coordinating body at the national level. The political weight of the commission has been increased by the fact that it has been chaired by the Prime Minister or a minister. Its members have represented broadly various sectors of society from political decision-making to ministries, research institutes, interest groups and NGOs. Now SDGs have become a major high-level policy orientation in Finland and the approach is through Society's Commitment to Sustainable Development. The purpose of a societal commitment is to motivate and engage the public administration with other agents to promote sustainable development in their entire sphere of work. Both Finland and Bhutan maintain over 70% of their land covered by forests and plan their sustainable development on ecosystem services.

The New Normal strategy should not be simply to survive and come out of the COVID-19 pandemic. Such a linear approach itself would compromise the potential prosperity model for Sri Lanka. An inclusive prosperity model for Sri Lanka could be drawn from historical understanding of sufficiency and self-reliance through enhanced benefits of ecosystem services. For this, investing in a human capital with new knowledge and skills for sustainable development becomes critically important rather than chasing failed globalised economic growth centred development models. An inclusive prosperity model would also require defining leaving No One Behind. For that, Sri Lanka will need to address its overly dependent centralised governance approach and also define a subsidiarity governance model that works in coherence with the centre. For this, Sri Lanka will need to redesign its highly fragmented public institutional system and facilitate a dynamic policy coherence process. Therefore, the new normal would depend on a journey through an inclusive transformation. The Domestic Resource Mobilization Framework is formulated to help guide that inclusive transformation in Sri Lanka and as a model for rest of the world.

CHAPTER 05:

THE FRAMEWORK

The Domestic Resource Mobilization Framework for SDGs in Sri Lanka

5.1. Introduction of the Framework

Domestic resource mobilisation is the responsibility of all countries committed towards implementing the Sustainable Development Goals (SDGs). The United Nations (UN) has estimated that US$5 trillion to US$7 trillion per year is needed between 2015 and 2030 to achieve the SDGs globally, and $3.3 trillion to $4.5 trillion per year in developing countries. Estimates also show that achieving the SDGs could open up US$ 12 trillion of market opportunities and create 380 million new jobs, and that action on climate change would result in savings of about US$ 26 trillion by 2030. Five years into the 2030 Agenda for Sustainable Development (2030 Agenda), Sri Lanka is yet to estimate its financial commitment towards implementing the SDGs and has not assessed its potential gains from such an investment. Further, the country is yet to align its national economic policies, financial systems and investment strategies with the 2030 Agenda. In this context, Sri Lanka has not been able to mobilise additional external or internal resources required for transformative action towards achieving the SDGs.

The 'Addis Ababa Action Agenda for financing sustainable development and developing sustainable finance' recognises that significant additional domestic public and private resources, supplemented by international assistance as appropriate will be critical in achieving the SDGs. It notes that such an achievement will require an equally ambitious, comprehensive, holistic and transformative approach with respect to the means of implementation. This would also require combining different means of implementation and integrating the economic, social and environmental dimensions of sustainable development.

The newly elected Government of Sri Lanka plans to implement its policy framework, Vistas of Prosperity and Splendour, through ten key policies aimed at achieving the fourfold outcome of a productive citizenry, a contented family, a disciplined and just society and a prosperous nation. As stated in this policy document of the government, the ultimate aim is to achieve a series of desirable objectives such as the reduction of poverty, a healthy population, education for all, and a clean environment, etc. which are also represented in the 17 SDGs. The SDGs essentially need to be localised to the national conditions, challenges, aspirations and mainstreamed into national policy frameworks. It is expected that the Government will adopt transformative and innovative strategies to enhance domestic resource mobilisation at national and subnational levels as well from the international financing available for SDGs. The Domestic Resource Mobilization Framework for SDGs, hereafter referred to as Framework, is prepared and presented as an independent contribution to the national effort.

5.2. An Overview of the Framework

The proposed Domestic Resource Mobilization Framework is intended to support the efforts of the Government and its stakeholders towards implementing the SDGs in Sri Lanka. The Framework provides a platform to design policy instruments and strategic interventions towards advancing sustainable development. Aiming to provide greater strategic foresight, the Framework does not attempt to present a prescriptive proposal on national planning and budgeting. The Framework is to inspire resource mobilisation for transformative action across national, subnational and community levels as a whole of society.

5.2.1. Vision

The Vision of the Framework is to propagate transformative action towards advancing the SDGs in Sri Lanka.

5.2.2. Mission

The mission of the Framework is to help recalibrate the policy, localising, financing and transformation contexts towards implementing transformative action towards achieving the SDGs in Sri Lanka.

5.2.3. Strategy

The strategy of the Framework is to provide a platform to design policy instruments and strategic interventions, with elements supported by tools to recalibrate the current context for implementing the SDGs, towards advancing sustainable development at national, provincial, local and community levels.

5.2.4. Goal

The goal of the Framework is to achieve sustainable development through transformative action across national, subnational, community, household and individual levels.

5.2.5. Objective

The objective of the Framework is to engage public, private, civil society and all stakeholders at national, subnational and community levels in reimagining domestic resource mobilisation, reorganising the resource flows, and reinvesting in transformational pathways towards the recalibration of the context of implementing the SDGs.

i. Reimagining domestic resource mobilisation is about recalibrating the approach to strategic foresight and transformative action towards advancing sustainable development.
ii. Reorganising the resource flows is about recalibrating the approach to resource governance and redesigning of the policy frameworks and institutional structures towards facilitating a circular economy.
iii. Reinvesting in transformational pathways is about recalibrating the approach to ecosystem services and innovative financing towards facilitating a new state of inclusive prosperity.

5.2.6. Scope

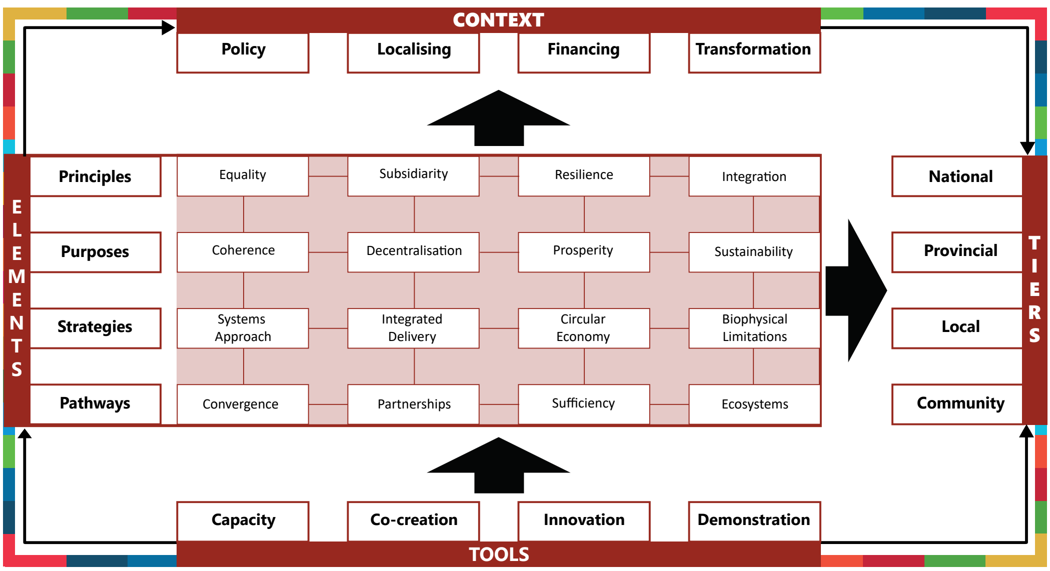
The scope of the Framework is defined by resource governance, resource relationships and resource regeneration.

i. **Resource Governance** is how resource flows are regulated and managed within the tiers of governance, national-provincial-local, as well as the self-governance of resources by non-state actors including international, private, civil society, community and individuals. Such resource governance would include global to national flows, national to provincial flows, national to local flows, provincial to local flows, local to community flows, and people to national-provincial-local-community flows, etc. The mobilisation of resources is not confined to finance and essentially would include natural, social, human, financial and manufactured capitals. The Framework takes a deeper view into mobilising all physical and non-physical resources required to establish a system of sustainability: natural resources, ecosystem services, indigenous knowledge, community practices, ethics, cultural norms, technology, etc. are all considered in a domestic resource mobilisation framework for the SDGs.

ii. **Resource Relationships** are how the flow of resources through investment and financing transpire between different stakeholders and actors; public institutions and communities, public institutions and private enterprises, private enterprises and communities, donors and civil society organisations, civil society organisations and communities, and communities and individuals. Such relationships create multiple contexts favourable and unfavourable to sustainable development. Also, resource relationships transpire within the commons; the commons are resources accessible to all members of a society and managed by the state or market but by a community of users that self-governs the resource through institutions that it creates. The framework intends to harness positive resource relationships towards sustainable development.

iii. **Resource Regeneration** is how resources are invested within the ecosystem for intra-generational equity and harvested for inter-generational equity. Historical management of ecosystem services, contemporary environmental economic models, mindful sufficiency economic models, etc. would help resource regeneration. The recalibration of patterns of production and consumption towards ensuring sustainable use of biodiversity, ecosystems, natural resources and the promotion of inclusive, equitable and circular economies would help advance resource regeneration and achieve sustainability. The framework is of the view that resource regeneration will be the key to sustained prosperity of the nation.

Figure 14: Domestic Resource Mobilisation Framework for Implementing the SDGs in Sri Lanka



5.2.7. Framework

The Domestic Resource Mobilization Framework is presented as a linkages model of Elements that helps recalibrate the Contexts that SDGs are implemented in Sri Lanka across the governance Tiers and supported by the Tools.

The framework draws attention to;

i. The four Contexts are: Policy, Localising, Finance, and Transformation.
ii. The four categories of Elements are: Principles, Purposes, Strategies, and Pathways.
iii. The four Principles (under elements) are: Equality, Subsidiarity, Resilience, and Integration.
iv. The four Purposes (under elements) are: Coherence, Decentralisation, Prosperity and Sustainability
v. The four Strategies (under elements) are: Systems Approach, Integrated Delivery, Circular Economy, and Biophysical Limitations.
vi. The four Pathways (under elements) are: Convergence, Partnerships, Sufficiency and Ecosystems.
vii. The four categories of Tools are: Capacity, Co-Creation, Innovation, and Demonstration.
viii. The four governance Tiers are: National, Provincial, Local, and Community.

The above Framework provides multiple interactions between the Contexts and Elements while impacting on the different Tiers of governance with the assistance of strategic Tools. While the sixteen proposed Elements would individually have certain specific impacts on the four Contexts, collectively as an integrated system it would create a holistic and transformative impact towards sustainable development. The four categories of Tools that are offered to facilitate the application of the Framework will need to be customised according to the needs and situations of the four Tiers of Governance.

5.3. Context of the Framework

The context of a nation will depend on the successful implementation of the SDGs and achieving transformation towards sustainable development. According to the analysis of approaches and action during the last five years, the context of implementing the SDGs in Sri Lanka does not demonstrate readiness for the transformation expected by the 2030 Agenda. With renewed commitment by the new government to implementing the SDGs, the context is expected to be recalibrated towards enabling sustainable development. In providing strategic foresight, the 'Framework' is designed towards addressing four critical contexts of the nation towards implementing the SDGs; the policy context, the localising context, the financing context, and the transformation context.

5.3.1. The Policy Context

Five years since adopting the 2030 Agenda, Sri Lanka has so far not succeeded in the integration of the three dimensions of sustainable development, environment-social-economic, and mainstreaming the SDGs across national policy frameworks. The absence of a cohesive national SDG policy, strategy, roadmap, action plan, monitoring mechanism, financing architecture and an integrated institutional structure has left public institutions across the national and subnational governance tiers to implement sporadic and fragmented initiatives in the name of SDGs without any coherence, convergence, integration or accountability. Also, Sri Lanka's approach to sectoral planning, budgeting and programme implementation has not been able to find convergence and coherence with the thematic approach presented by the SDGs. While statistically demonstrating progress in several development sectors, the lack of an integrated approach to policy planning and implementation has kept the country away from actual transformation towards sustainable development. The Framework is expected to provide foresight into a multi-dimensional, integrated, holistic and systems approach to the complex policymaking process dealing with environmental social, economic dimensions as well as political, administrative, technological and cultural factors. A conducive and responsive national policy context that can draw transformative outcomes from the relationships and processes between and amongst national, subnational and non-state actors will be vital for implementing the SDGs and achieving sustainable development.

5.3.2. The Localising Context

Localising SDGs entails taking into account the subnational context in the achievement of the 2030 Agenda, from the setting of goals and targets to determining the means of implementation and using indicators to measure and monitor progress. Localising SDGs is an inclusive process to empower all local stakeholders, aimed at making sustainable development more responsive, and therefore, relevant to local needs and aspirations. The SDGs can be reached only if local actors fully participate, not only in the implementation, but also in the agenda-setting, financing, implementation, monitoring and review. The context for localising SDGs in Sri Lanka is provided by the multilevel system of government and the ensuing system of intergovernmental relations between the three levels of government; the national, the provincial and the local. However, the constitutional assignment of powers and functions of the three levels has not led to any reordering of the service delivery responsibilities of the national vis a vis the provincial and local in terms of subsidiarity. In the context of mobilizing domestic resources for the SDGs, first and foremost, the priority must be to establish a national context on the principle of subsidiarity and an agreement on decentralisation of governance, public service delivery, public finance, and stakeholder engagement. The call for a 'whole of government approach in implementing the SDGs would mean that an integrated public delivery system is facilitated across the three levels of government and reaching out to the community level of families and individuals. The Framework expects to help recalibrate the localising context for the SDGs to be implemented within a unitary though multilevel system of government in Sri Lanka.

5.3.3. The Financing Context

The absence of a domestic financing strategy for SDGs has weakened Sri Lanka's potential to mobilise resources for effectively implementing the 2030 Agenda and attract new global and domestic financing availed for sustainable development. In formulating a national financing architecture for the SDGs, the government needs to define a clear strategy on aligning its policy frameworks with the 2030 Agenda. It needs to identify key factors that weakens the national economy, devise innovative strategies for a more resilient and vibrant financial system, and place the nation in a pathway to generate prosperity through full stakeholder engagement for an inclusive transformation. With a low economic growth rate alongside high debt and low resilience, the current financing context does not demonstrate the readiness of a nation to advance into transformational action required for sustainable development. Therefore, the Framework could assist in reimagining innovative financing approaches and strategies towards recalibrating the financing context for implementing the SDGs and achieving prosperity.

5.3.4. The Transformation Context

The new Government policy framework, Vistas of Prosperity and Splendour, by confirming its commitment to implementing the SDGs is also committing Sri Lanka to a transformation towards sustainable development. Transformation requires addressing the root causes that generate and reproduce economic, social and environmental problems and inequities, not merely their symptoms. Transformation is also about the processes of change needed in society and the economy to achieve greater equality, empowerment and sustainability. Planning for a transformation requires consideration of multiple scenarios that impacts on sustainable development; scenarios that might lead to breakdowns creating chaos or instability, scenarios that will help prepare for alternative futures and greater sustainability, as well as scenarios that can help establish favourable conditions for prosperity through policy and regulatory measures. Sri Lanka has gone through decades of civil war, stricken by constant natural disasters, faced economic depressions, and now the COVID-19 pandemic obstructing the drive to prosperity. Therefore, the nation will be better served by demonstrating greater responsiveness to potential breakdown scenarios. The national transformation must be driven by localised alternatives that can respond smartly to potential breakdown scenarios and define new frontiers. During the transition, Sri Lanka has to espouse policy and regulatory scenarios that integrate environmental, social and economic dimensions enabling a context favourable to inclusive prosperity. The Framework envisages facilitating such a context that will entail a recalibration of the development mindset of all state and non-state actors; this would result in transformation across all national to local systems including governance, policy, institutions, finance, trade, production and consumption.

5.4. Elements of the Frame work

The Elements of the Domestic Resource Mobilization Framework are provided towards assisting the recalibration of the four identified Contexts that the SDGs are being implemented in the country. Altogether sixteen Elements are presented in four clusters; Principles, Purposes, Strategies and Pathways. While each Element could impact a Context in a specific manner, the sixteen Elements as a networked system are expected to provide a holistic effect towards recalibrating the national context for successfully implementing the SDGs and transforming the nation towards sustainable development.

5.4.1. Principles

The 2030 Agenda for Sustainable Development is founded on a series of principles evolved through international agreements during the past several decades. In developing a Domestic Resource Mobilization Framework for SDGs, all of these principles can be considered as relevant. While all sixteen elements presented in this framework reinforces principles of sustainable development, the following four are designated for its abilities to establish the foundations of the recalibration of the four domestic contexts for SDGs.

i. **Equality:** The policy context is obligated by the Constitution of Sri Lanka that guarantees the right to equality before the law, equal protection of the law, and prohibits discrimination on the ground of race, religion, language, caste, sex, political opinion, place of birth, etc. By committing to the 2030 Agenda, the Government further endorses the 'Principle of Equality' by ensuring that all its citizens will be facilitated to fulfil their potential in dignity and equality. Therefore, the government is expected to protect human rights, providing access to equal opportunities for all, create conditions for inclusive and sustained economic growth, facilitate shared prosperity and decent work; this also must be done while ensuring a healthy environment. The success of the Framework relies on mobilising the nation's human resources and providing equal opportunities to flourish and contribute towards sustainable development. The stated right to equality of the people need to be translated into actual delivery through all policies and actions.

ii. **Subsidiarity**: The localising context is based on Sri Lanka's governance structures that are constitutionally spread across three tiers; national, provincial and local. However, in practice, the system of inter-governmental relations has been centre-driven and the centre defines public policy and develops programs reaching out to the provincial and local levels of government. Even though establishing the provincial level of government while recognizing the powers and functions of the extant Local Government is constitutionally defined by the 13th Amendment, Sri Lankan governments have not shown much confidence in devolution of power to these lower tiers of governance; particularly the provincial councils. This contradicts the principle of subsidiarity which is critically important towards adhering to the central principle of the 2030 Agenda of 'leaving no one behind'. Subsidiarity is the principle that decisions should be made at the lowest possible level where competencies exist. Subsidiarity also means that decisions should be made closest to, and in line with the values of, those most affected by the relevant community of interest. The constitution confirms its commitment to the principle of subsidiarity in its claim that the state shall strengthen and broaden the democratic structure of government and the democratic rights of the people by decentralizing the administration and by affording all possible opportunities to the people to participate at every level in national life and in government. Towards localising the SDGs, Sri Lanka needs to define its own take on subsidiarity and facilitate the recalibration of devolution to a collective national aspiration. This must result in an integrated system of governance in which the different tiers and units complement each other rather than contradict and contravene to compromise the transformation.

iii. **Resilience:** The financing context needs to be based on the principle of resilience, yet is currently weakened by multiple factors including climate change, social incongruity, terrorism, pandemics, over borrowings, and corruption. Resilience cannot be built with a lack of consideration to biophysical limitations, dynamics of ecosystem services, social equality, sufficiency, etc. As a nation that has unceasingly depleted its rich natural and physical assets, Sri Lanka is weakened in its commitment towards investing in the SDGs. Sri Lanka's debt has risen to high proportions and without proper investment strategies into long-term sustainability, the resilience of the economy is significantly declining. Also, by the adaptation of destructive development approaches that compromise ecological assets, the nation's resilience has been seriously reduced as demonstrated by the vulnerability to disasters and breakdowns. In the recalibration of its resilience systems, Sri Lanka can find examples from historical evidence of cultural practices of prosperity that innovated within the biophysical limitations. The Framework proposes that strengthening financial resilience cannot be considered in isolation, but necessarily need to be part-and-parcel of a holistic system-wide design for resilience.

iv. **Integration:** The transformation context is based on the integration of the three dimensions of sustainable development; environmental, social and economic. The 17 SDGs and the 169 associated targets provide countries and intergrated system required for the transformation. Sri Lanka has not demonstrated an integrated approach to development during past many decades, which is a significant departure from its historical self-sufficiency approach. Fragmented policies, strategies, institutions and governance approaches have resulted in driving the nation towards high debt, weakened resilience, social disharmony, a disaster-prone environment, and financial volatility leading to system-wide instability. Addressing the interlinkages between the targets and integrated nature of the goals is of crucial importance in the realisation of the 2030 Agenda. The Framework recognises the value of integrated financing and resourcing to be embedded within national and subnational policies, strategies and plans of the country.

5.4.2. Purposes

Transformational action requires purposes; whether it is driven by conviction, intention, resolve, commitment, objective, or determination, the country needs purposes for transformation. The 2030 Agenda for Sustainable Development itself is guided by the purposes and principles of the Charter of the United Nations, including full respect for international law and grounded in all the international treaties, declarations and agreements. Similarly, implementing the SDGs and achieving sustainable development in Sri Lanka needs to be driven by domestic purposes guided by full respect for its constitution and aspirations of the people. Purposes are to be established to ensure that the principles are followed for recalibration of the contexts towards sustainable development. The Framework proposes four purposes to assist the recalibration of the contexts of which the SDGs are implemented.

i. **Coherence:** The low policy coherence planning in Sri Lanka has prevented proper integration of the three dimensions of sustainable development and mainstreaming the SDGs into existing national policy frameworks. In fact, the low of policy coherence demonstrates the low capacity and readiness to advance sustainable development. The purpose of policy coherence would help to integrate the economic, social, environmental and governance dimensions of sustainable development at all stages of policy making as well as programme design. The Framework proposes that policy coherence helps national and subnational policy reinforcement rather than undermining each other over time and enables long-term sustainable development for future generations. The application of policy coherence may be possible by adopting the eight building blocks proposed by the Organisation for Economic Co-operation and Development (OECD); political commitment and leadership, policy integration, long-term planning horizons, analysis and assessments of potential policy effects, policy and institutional co-ordination, subnational and local involvement, stakeholder engagement, and monitoring and reporting.

ii. **Decentralisation:** The purpose of decentralisation will underscore the commitment to the principle of subsidiarity and therefore the commitment to improving the localisation context of the SDGs. Currently, limited financial resources and little autonomy undermines the constitutional objectives of the establishment of the subnational level governance tiers. The subnational governments are challenged by inefficiencies in public expenditures, lack of clear fiscal regulatory policies, and the transfer of functions from national to subnational level. Therefore, provincial and local governments are not able to make decentralisation work for inclusive prosperity and sustainable development. In the context of mobilising domestic resources for SDGs, a national agreement on the principle of subsidiarity and a clear arrangement on decentralization of governance is necessary. Just having the three tiers of governance on paper, the constitution, is meaningless if the purpose is absent. The current maintenance of the lower tiers, particularly the provincial councils have proved to be both inefficient and resource intensive without much positive outcome as per sustainable development. The objective of decentralisation within the Framework is to drive localisation to avail opportunities and harness the potential of all communities, leaving no one behind, and achieve sustainable development.

iii. **Prosperity:** Commitment to the 2030 Agenda is a determination to ensure that all citizens of Sri Lanka can enjoy prosperous and fulfilling lives while economic, social and technological progress occurs in harmony with nature. Similarly, the central determination or purpose of the new governments policy framework, Vistas of Prosperity and Splendour, is achieving prosperity. Recognising the shortfalls in pathways taken in the past, the new national policy framework acknowledges that a majority of the population has failed to stabilise their family economies and incomes, have failed to grow relative to required family expenditures, and excessive income inequality has persisted. The government thus recognises that it is imperative to change these conditions and bring about prosperity for all; it proposes an inclusive development indicator approach for achieving the vision for a productive citizen, a happy family, a disciplined society and a prosperous nation. Economists traditionally, and even currently in Sri Lanka, use Gross Domestic Product (GDP) to define prosperity while proven to be an inadequate metric to gauge well-being over time particularly in its economic, environmental, and social dimensions. The Report by the Stiglitz Commission on the Measurement of Economic Performance and Social Progress suggests that choices between promoting GDP and protecting the environment may be false choices, once environmental degradation is appropriately included in our measurement of economic performance; it proposes to shift the emphasis from measuring economic production to measuring people's wellbeing. Different countries approach measuring prosperity to reflect national aspirations and apply them according to different contexts. The Framework would propose that Sri Lanka recalibrates its approaches of measuring inclusive prosperity to reflect its commitment to sustainable development. In this regard, the current approach to the Sri Lanka Prosperity Index (SLPI) may require a recalibration in reflecting the new government's resolve for prosperity through an inclusive transformation towards sustainable development; the sub-indices including economy and business climate, well-being of the people and socio-economic Infrastructure' may not sufficiently represent the criteria for an inclusive development indicator. In doing so, the dynamics that create a negative context around policy, localising, financing and transformation needs to be addressed deeply and effectively and take into considerations all relevant principles and elements.

iv. **Sustainability:** The world facing multiple crises including the climate crisis, the financial crisis, the health crisis, the humanitarian crisis, the security crisis, the food crisis, etc., draws attention to human behaviour on earth that challenges the transformation towards sustainable development. While sustainable development is defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs", sustainability is often thought of as a long-term aspiration unifying all nations. Sustainability is how natural systems function, remain diverse and produce everything it needs for the earth systems to remain in balance while nurturing human lifestyles and livelihoods. Sustainability, in this respect, is a paradigm for thinking about the future in which environmental, social and economic considerations are balanced in the pursuit of an improved quality of life. The Bruntland Commission Report, 1987, reminds us that no single blueprint of sustainability will be found, as economic and social systems and ecological conditions differ widely among countries and each nation will have to work out its own concrete policy implications; yet irrespective of these differences, sustainable development should be seen as a unifying objective. For Sri Lanka to achieve the transformation towards sustainable development, sustainability needs to be accepted as an overarching purpose.

5.4.3. Strategies

The 2030 Agenda emphasises that cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks will be at the heart of efforts. Each country has a primary responsibility for its own economic and social development and will design their own national policies and development strategies. Each government will also decide how these aspirational and global goals of the 2030 Agenda should be incorporated into national planning processes, policies and strategies. In this respect, nations are expected to integrate, amongst other strategies: climate change measures into national policies, strategies and planning; integrate ecosystem and biodiversity values into national and local planning, development processes, poverty reduction strategies and accounts; encourage and promote effective public, public-private and civil society partnerships building on the experience and resourcing strategies of partnerships; create sound policy frameworks based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions. The 'Framework' recognises the lack of an integrated and long-term approach towards advancing sustainable development in Sri Lanka and proposes four strategies to advance the SDGs; systems approach to planning, integrated delivery, circular economy, and biophysical limitations.

i. **Systems Approach:** Fragmented planning and implementation of policies, strategies and programmes are identified as one of the greatest obstacles to achieving the SDGs in Sri Lanka. SDGs are nested within an interlinked system and cannot be implemented in isolation; on the other hand, a systems-based approach would focus on how to achieve the SDGs as a coherent unit. A systems approach recognizes that progress on one goal, in one place, could either undermine or enhance progress on other goals, in expanded temporal and spatial scales. Also, a focus on individual goals in isolation are likely to miss opportunities for increasing the impact of limited resources. In fact, a narrow focus that fails to see cross-goal negative feedbacks can entirely undermine the impact on sustainable development. SDG interactions can be affected by multiple factors including timespan, geography, governance, cultural practices and implementation calls for a deep understanding of the different contexts to be applied. Effectively capturing synergies across SDG goals can also lead to increased overall impact including cost savings. The Framework proposes that a systems approach, including systems thinking, planning and management, is essential for Sri Lanka to draw benefits from implementing the SDGs. By adopting a systems approach to SDGs, Sri Lanka would be applying interconnections between the elements for recalibrating the contexts while taking into consideration breakdown, alternative, and policy and regulatory scenarios.

ii. **Integrated Delivery:** The fragmented approach to planning, coordination and implementation of policies and programmes across hundreds of institutions under dozens of ministries of the central government and across the subnational government tiers has resulted in an inefficient and ineffective public service delivery system in the country. Thus, policy coordination across sectors is weak and the culture of individual ministry and agency led programmatic approach provides for limited inter-sectoral convergence. Budget allocations to subject ministries done without much consideration of sectoral integration amply demonstrates the lack of integrated planning for public service delivery. Meanwhile, Sri Lanka is yet to resolve the sectoral versus thematic planning and budgeting of development and SDGs have been turned into siloed sub-sector interventions. As the public sector planning and budgeting is predominantly sector focused, this same approach is followed by the private sector. Evolved into a highly fragmented public institutional structure, planning and budgeting through siloed programmes by different ministries does not fit into a holistic impact model for sustainable development. The Framework proposes that, for effective and efficient domestic resource mobilisation, an integrated delivery system would require an integrated institutional architecture across the public sector that also can dynamically engage subnational governments, private sector, civil society and all other stakeholders.

iii. **Circular Economy:** Shifted away from a traditional circular economic approach and being driven by growth motivated development has resulted in increased debt, sustained poverty, reduced ecological assets, low resilience to disasters, and continued social distress. Moving back into a circular economy will require greater deliberation as it requires strategic foresight, astute leadership, coherent policy reforms, and transformational action across all sectors and stakeholders. Achieving economic sustainability for a country like Sri Lanka still would entail growth in the transition until it finds prosperity across economic and social indicators. In such a transition to sustainable development, Sri Lanka will require strategies like shifting back into a circular economy that can provide a balance to the three dimensions of sustainable development. A circular economy offers solutions for sustainability challenges through the transition from the linear take-make-use-dispose economy to a better organisation of resources and is proposed as a solution to minimise raw material input and waste generation. In an industrial system, a circular economy is restorative or regenerative by intention and design; it replaces the end-of-life concept with restoration, shifts towards the use of renewable energy, eliminates the use of toxic chemicals which impair reuse and return to the biosphere, and aims for the elimination of waste through the superior design of materials, products, systems and business models. Circular economy is an alternative economic model for exchange and production that seeks to decouple economic growth from material dependency; increasing resource efficiency, reducing environmental impact at all stages of the product life cycle, and reducing waste while allowing to meet needs within biophysical limitations and developing the wellbeing of individuals will advance a more sustainable economic system.

iv. **Biophysical Limitations:** Transformation towards sustainable development entails that societies accept realities of biophysical limitations, and that our development interventions should not go beyond the natures capacity in receiving waste and extracting biological resources. The life-sustaining systems have an influence on the composition of the atmosphere, the water cycle, the nutrient cycle, the pollination of plants and soil fertility. Climate change is one of the many challenges that have arisen as a result of the fact that the economy's metabolic organism has become too large. Sri Lanka's vulnerability to multiple and frequent disasters can be related to an acquired political and policy approach to mindless growth-based development that has taken the nation away from its historical considerations on the realities of limits to growth within ecological boundaries. The Framework recognises the importance of protecting, conserving and growing its biocapacity towards enhancing resilience of ecological, economic and social systems.

5.4.4. Pathways

The world, from time to time has agreed on numerous pathways towards advancing sustainable development. Agenda 21 and the Rio Principles in 1992, United Nations Millennium Declaration and the MDGs in 2000, and the 2030 Agenda and the SDGs in 2015, all have provided such pathways to guide humanity towards the global goal of sustainable development. At the same time, different countries take different pathways to sustainable development; for example, Circular Economy in Germany, Natural Capital Accounting in Botswana, Payment for Ecosystem Services in Costa Rica, Sufficiency Economy in Thailand, and Gross National Happiness in Bhutan. In mobilising domestic resources towards implementing the SDGs, Sri Lanka too needs to define its pathways towards sustainable development. These pathways need to be in coherence with national policy frameworks, and be able to guide the nation towards its own goals and achieve the collective aspirations of the people. The Framework proposes four pathways through convergence, partnerships, sufficiency and ecosystems that will enable the recalibration of the contexts of implementing SDGs across the different tiers of governance in Sri Lanka.

i. **Convergence:** The 2030 Agenda is a historical landmark in achieving a coherent international framework for sustainable development with a set of universal goals towards convergence between key inter-related international processes. The successful negotiation of four global agreements that attempts to transform the world and advance sustainable development have major implications for national policy and practice: Sendai Framework for Disaster Risk Reduction (March 2015), Addis Ababa Action Agenda on Financing for Development (July 2015), Transforming our world: the 2030 Agenda for Sustainable Development (September 2015), and Paris Agreement on Climate Change (December 2015). Therefore, implementation at nation level require leadership at the highest levels of government to convene the different policy interests, achieve consensus and reconcile potentially competing objectives, and ensure coordination. Further, the SDGs are devised as an indivisible set of goals and targets by the convergence of collective international agreements spanning across decades of environmental, social, economic and governance issues that has kept the world away from achieving sustainable development. The 2030 Agenda also seeks convergence between people, planet, prosperity, peace, and partnership in the delivery of the 17 Goals. Sri Lanka has to soon find clarity as to how its national policy frameworks and development plans find convergence with the 2030 Agenda towards implementing the SDGs. The Framework proposes that Sri Lanka also needs to find pathways of convergence between its governance, economic, social and environmental processes and programmes that currently shows high levels of fragmentation.

ii. **Partnerships**: The 2030 Agenda calls to enhance the global partnership complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the SDGs. For this, governments are expected to encourage and promote effective public, private and civil society partnerships, building on the experience and resourcing strategies of partnerships. While the country is yet to estimate the means of implementation (MoI) for the SDGs, the global estimates will show that domestic resource mobilisation is a process that cannot be done by governments alone. The context analysis across policy, localising, financing and transformation proves that the Government of Sri Lanka will need to seek international, national and local partnerships towards domestic resource mobilisation for the implementation of the SDGs. The Framework entails multi-stakeholder and multi-dimensional partnerships across sectors, themes, processes and programmes to recalibrate the policy, localising, financing and transformation contexts to effectively face the challenges of implementing the SDGs and achieving sustainable development. A whole of government approach across the national and subnational tiers with the full engagement of all its stakeholders will be critical in making an inclusive transformation.

iii. **Sufficiency**: Pathways through sufficiency, underscored by the concepts of adequacy or contentment and self-reliance or self-sufficiency, are expected to strengthen resilience of consumption and production systems as well as economic and financial systems of the country. This however should not be interpreted as a means to compromise the ability to ensure security and safety in the nation's existence within a globalised market context; for example, food security and safety may depend on other factors beyond self-reliance in the present context of global trade and lowered ecological regeneration capacity. Sri Lanka, however, like many other countries, was reminded of the importance of sufficiency during the COVID-19 pandemic. Even in a globalised market place, resilience of economic and financial systems too depends on the strength of local resources, production and consumption systems, and delivery channels. In fact, the importance of circular economies for the promotion of sustainable consumption and production systems was underscored during the pandemic. Further, a sufficiency-based recalibration of approaches to public and private financing, international development finance and borrowings, plus other sectoral and thematic resource interventions are essential realities in the emerging New Normal. Sufficiency pathways would assist the government in its drive towards prosperity by easing the burden on dependency and help strengthen resilience of the domestic financing context of the SDGs.

iv. **Ecosystems**: Currently in Sri Lanka, the incorporation of all environmental and social externalities into the decision-making is not functioning except for few isolated cases. Environmental values are largely neglected in the current decision-making approach leading to resource degradation. Staying within biophysical limitations while optimising the benefits of ecosystem services would provide Sri Lanka a critical pathway to prosperity. Four major categories of ecosystem services are internationally identified: provisioning, such as the production of food and water; regulating, such as the control of climate and disease; supporting, such as nutrient cycles and oxygen production; and cultural, such as spiritual and recreational benefits. The value of ecosystems to human welfare is still underestimated and not fully recognized in planning and decision-making while the benefits of their services are not fully captured in conventional market economics. Furthermore, the costs of externalities of economic development are usually not accounted for, while inappropriate tax and subsidy systems encourage the over-exploitation and unsustainable use of natural resources and other ecosystem services at the expense of the poor and future generations. Market and governmental failures are two most common institutional failures that contribute to ecosystem service degradation. Market failures occur when the market is unable to lead the economic process towards a social optimum, and government failure on the other hand comes either through a lack of intervention and/or through inappropriate intervention. Firstly, correcting the market failure and integration of biophysical constraints into the regulatory frameworks is crucial towards ensuring sustainable development. Secondly, it would be important as correcting the government failure would lead to reformatory action. Thirdly, correcting the global appropriation failure to address externalities beyond the national boundaries pose a special problem. In adopting an ecosystem services based development approach, the Framework recognisers that the integration of biophysical constraints along with the regulatory tools requires two aspects; first, assessment of regenerative capacity of natural resources which are extracted from nature and keeping the extraction levels within the regenerative capacity; secondly, it requires making assessments on the assimilative capacities of the different environmental media (air, water and land) and making regulatory measures that will ensure that those capacities are observed by the users.

5.5. The Tools of the Frame work

The tools for a Domestic Resource Mobilisation Framework are defined by the requirements of public, private, civil society, individual and all different actors engaged in the recalibration of the contexts of implementing the SDGs. The categories of tools would range from enhancing capacity, co-creation, innovation and demonstration of the elements of the Framework. A non-descriptive and non-prescriptive introduction of the four categories of tools are presented with an understanding of the need to be customised during the application of the Framework. There could be multiple tools that would fit into the four categories and could be utilised with the correct adaptation to the need or situation and sector or context.

5.5.1. Capacity

The SDGs are still known to a limited population and knowledge of the application amongst the decision makers is quite low as well. Five years after signing on to the 2030 Agenda a lack of capacity to mainstream SDGs and integrate environmental, social and economic dimensions of sustainable development is clearly seen at the national level. At subnational government level, the knowledge on SDGs is rather low and the lack of transfer of capacity from the centre has kept them weak and most of the time non-partners of the national SDG process. Critical stakeholders including the private sector are still limited to extension of CSR while CSOs are struggling to find necessary resources to broad base the SDGs across sectors and communities. Capacity development is looked from the need to recalibrate the policy, localising, financing and transformation contexts and key focus areas would include knowledge building and systems redesign for the SDGs.

i. **Knowledge Building:** The requisite knowledge building on the SDGs has been slow and low in Sri Lanka. At the same time, linear and silo interpretations of the SDGs have led to straying away from integrated transformative action. As the knowledge institutions of the nation currently do not possess the requisite capacity to deliver knowledge and training to policy makers, public officials and stakeholders, capacity enhancement across potential knowledge delivery channels needs to be conducted; amongst other, these would essentially include universities, technical colleges, professional training institutions, and schools. However, given the urgency of transformative action, the immediate knowledge building needs of policy and public service delivery across national and subnational tiers can be addressed by provisioning specialised knowledge and information through the mid-term or sectors planning and programme development activities. The recalibration of the policy mindset and approaches is vital if Sri Lanka is to forge ahead in its search for inclusive prosperity as a prerequisite for sustainable development. The recalibration of the political, policy, public, entrepreneur and community mindsets is critical for the transformation towards sustainable development. So many existing knowledge building tools can be utilised with embedding of the key elements and with appropriate recalibration. For example, foresight planning for prosperity within biophysical limitations would require a host of educational, training and skill development reforms including curriculum design to enhance systems-based approaches.

ii. **Systems redesign:** The lack of system-based thinking, planning and implementation across policy and development sectors prevents the country from producing and delivering convergent outcomes in coherence with the SDGs. The capacity to integrate the three dimensions of sustainable development and mainstream the SDGs into national policy frameworks, establish procedures for policy coherence, devise an integrated institutional architecture, and formulate domestic financing strategies, will all require specific capacity building amongst both political leadership and public administration. Capacity needs for localising SDGs ranges from planning, budgeting, implementation, coordination, monitoring and reporting. The need for provincial and local sustainability plans has been looming since 2016, but the requisite support and capacity has not been delivered by the centre. The capacity to formulate local indicators and assess based on disaggregated data is critical for the monitoring, evaluation and follow-up at both subnational and national level outcomes. Even after decades of advocacy and reasoning, the institutions in the private and financing sectors in Sri Lanka are novice to sustainable development concepts and needs critical capacity to devise truly transformative strategic interventions. The private sector particularly needs to recalibrate its business systems and processes progress towards ensuring sustainable enterprise solutions, and progress from CSR approaches to transformative SDGs. However, they are also aggrieved by a non-conducive or non-inducive policy and regulatory environment to be competitive while taking transformative action. The government will need a proactive and dynamic private and financial sector as partners in forging prosperity for all through an inclusive transformation.

5.5.2. Co-creation

The scale and intensity of the transformation necessary to achieve the SDGs by 2030, requires all stakeholders to join the government in collaboration to co-create favourable contexts across all tiers and sectors. Such collaborations for co-creation for sustainable development will require multi-stakeholder and multi-dimensional partnerships that will lead to common ownership and collective responsibility. While government is expected to facilitate leaving no one behind, it is also the responsibility of other stakeholders to proactively engage in co-creating sustainable futures.

i. **Multi-Stakeholder and Multi-Dimensional Partnerships:** Mobilising partnerships, a critical co-creation tool, will be an important approach for resourcing the implementation of SDGs. Public-private partnerships must be strengthened to enable resource flows into financing the sustainable development programmes and projects of the country. The 2030 Agenda recognises multi-stakeholder partnerships in order to identify and examine technology needs and gaps, including on scientific cooperation, innovation and capacity-building, and also in order to help to facilitate development, policy reforms, and transfer and dissemination of relevant technologies for the Sustainable Development Goals. These partnerships and collaborations must extend to local communities who will be affected by or benefited by the development interventions.

ii. **Common Ownership & Collective Responsibility:** In an approach of inclusive and shared prosperity, sustainable outcomes will tend to have greater appeal for common ownership. Common ownership to public goods and services could help create greater balance within a system of prosperity while private property and private enterprise continues to flourish. Not only ecological and cultural assets, but intellectual and technological assets have grown through co-creation as common goods and services with shared ownership. These systems have served Sri Lanka through its history and needs to be further propagated to advance an inclusive transformation towards sustainable development. A main benefit of co-creation is the emergence of common responsibility. If policy making is conducted through multi-stakeholder engagement processes, the outcomes will most likely generate a sense of common responsibility. Therefore, instead of resistance and rejection to outcomes through arbitrary and authoritative policy and programme design, co-created processes will generate acceptance and greater participation. The 2030 Agenda itself is a co-creation with the collective international responsibility of all nations; the global agenda's goals and targets deal with the means required to realize the collective ambitions and embark on a collective journey leaving no one behind. The objective of the Framework is to mobilise such support for a collective journey towards sustainable development in Sri Lanka.

5.5.3. Innovation

A transformation of the magnitude of the 2030 Agenda cannot be achieved solely through current and conventional approaches and methods, and innovation for sustainable development is necessary for the recalibration of the policy, localising, financing and transformation contexts. In fact, SDG 9 is aimed particularly towards building resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation. The Domestic Resource Mobilisation Framework focuses on innovation that can harnessing sustainable consumption and production systems to help create a circular economy. The Framework highlights policy innovation and financial innovation as two critical sub-categories towards recalibrating the context of implementing the SDGs.

i. **Policy Innovation:** Transformative approaches to policy coherence, institutional integration, big data based monitoring and evaluation, domestic resource mobilisation, all need foresight and innovation. The exercise initiated in 2016, under the Ministry of Sustainable Development and Wildlife, to map the roles and responsibilities of 425 public sector organisations under 52 ministries towards implementing the 169 SDG targets showcased the deep fragmentation within the public delivery system that requires to be streamlined. This process, using a software for systems linkage mapping, also demonstrated the potential of policy coherence and institutional integration can be planned using innovative policy approaches. An integrated approach to the SDGs is envisaged within a unique combination of centralised to decentralised computations between the tiers of governance, contexts, elements, and supported by tools. In the area of governance, Sri Lanka needs to resolve its context of subsidiarity and innovate on a homegrown model of devolution and decentralisation system. While many examples and case studies have been presented from across the world, to date Sri Lanka has not shown a collective agreement on such a system of sharing power and responsibilities. In this context, localising the SDGs hangs loosely without much possibility of progress, and innovation using all considerations could lead to a more inclusive and efficient governance system in the country. While constitutional reforms continue, the planning, implementation, monitoring and review of the SDGs through a devolved and decentralised system itself could be designed and tested within the existing governance systems and structures. The Framework emphasises that policy innovation needs to be steered through strategic partnerships for co-creation to draw, knowledge and skills from cross sectoral expertise and experience.

ii. **Financial Innovation:** A critical challenge of achieving the SDGs in Sri Lanka is and will continue to be finding the means of implementation, and particularly financing. While, the current financing channels are exhausted for a development model with limited alignment with sustainability, the first priority should be to realign the national policy frameworks and strategies to propagate inclusive prosperity as a prerequisite for sustainable development. As noted by the 2030 Agenda, financing requirements for transitioning from the current development pathways would require additional financing. Sri Lanka must not further delay the assessment of its financial and domestic resourcing needs for implementing the SDGs and must calculate the long-medium-short term benefits of such an investment. In designing a domestic financing architecture for the SDGs, Sri Lanka needs to capitalise on the new trends and opportunities of blended financing directed at supporting the implementation of SDGs in developing countries. Blended finance is the strategic use of development finance for the mobilisation of additional finance in developing countries, particularly to increase private sector investment in sustainable development. The private sector needs to progress from modest CSR based projects and more towards impact investment. Impact investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return. The Sri Lankan private sector must be supported by the financial sector to innovate and reap benefits of the growing impact investment market that provides capital to address pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible to basic services including housing, healthcare, and education. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on strategic goals of investors. Also, the financial sector must innovate to gain advantage of Green Bonds, Social Bonds, Sustainability Bonds and similar financial tools that can help advance implementation of the SDGs. Green and Social Bonds are any type of bond instrument where the proceeds will be exclusively applied to eligible environmental and/or social projects, while Sustainability-Linked Bonds are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ESG objectives. The Framework would request the government to facilitate 'Convergence Funds' and bring together international, national and subnational stakeholders towards blending for impact investment as a strategy for domestic resource mobilisation. In the process, Sri Lanka could also include multiple tools related to green growth, green economy, circular economy, sufficiency economy, ecosystems services, etc. and establish multiple 'Convergence Funds' towards building a resilient and sustainable economy across the sectors and governance tiers.

5.5.4. Demonstration

Proof of implementing the transformative action for SDGs, cannot simply be left to Voluntary National Reporting (VNR) to the UN. The proof will be in the integration of the three dimensions across national policy frameworks and demonstrating the actual progress on sustainable development. The global indicator framework for SDGs mainly provide governments a quantitative approach to measuring progress. The Framework proposes that both quantitative and qualitative assessments would help measure actual transformation. It is envisaged that the demonstration of the transformation needs to be reflected through urban and rural sustainability as well as through the sustainability of consumption and production systems of the nation.

i. **Urban and Rural Sustainability:** In a world where 55% of the population resides in urban areas and is expected to rise to 68% by 2050, Sri Lanka has officially recorded only 18.59% in 2019. However, The World Bank suggests that a large hidden urbanization and around one-third of Sri Lanka's entire population could be living in settlements that may exhibit urban characteristics but are governed as rural areas. The urban and rural as well as an intermediary 'rurban' population exists without much clarity and convincing; convenient administrative classifications ignoring responsibilities of subsidiarity will not demonstrate a transformation as lifestyles and livelihood of the people demand inclusive prosperity. Given the demands for greater growth for prosperity, the urban-rural ratio might change over the years and Sri Lanka's comparatively high spatial equity between rural and urban areas in the provision of basic public services and living standards would be a positive trend to take forward. In other words, the share of prosperity across the different subnational regions and localities as well as within communities needs to be demonstrated. Development interventions in search of prosperity would be inevitable in the next years to come, but the ensuring of environmental and social safeguards in achieving growth for prosperity would be a critical factor along with equitable sharing across the urban and rural spaces.

ii. **Sustainable Consumption and Production Systems:** Prosperity leading to sustainable development needs to be demonstrated by sustainable livelihoods and lifestyles, or in other words how sustainable are the consumption and production systems in the country. Consumption and production, directly related to economic and social progress, has been accompanied on the use of the natural environment and resources in a way that continues to have destructive impacts and endangering the very systems on which future development depends. Sustainable consumption and production (SCP) calls for decoupling economic growth from environmental degradation, increasing resource efficiency and promoting sustainable lifestyles. SDG12 particularly calls for sustainable management and efficient use of natural resources and reduce waste generation through prevention, reduction, recycling and reuse. Driving prosperity, the government must encourage sustainable enterprise practices through greater policy support and incentives to meet science-based emission reduction targets, natural resource constraints, provisioning for consumer needs including food, water, sanitation, and access to energy. Business needs to be encouraged to innovate and design appropriate solutions that can both enable and inspire consumers with choices to lead more sustainable lifestyles, reducing impacts and improving wellbeing. Strategies for green growth, green economy, circular economy also could help the implementation of the SDGs and lead Sri Lanka towards finding its own formula for prosperity through sustainable lifestyles and livelihoods. The proposed Framework believes that ecosystem services enabled sufficiency-based enterprise systems would help flourish local products and services, thus demonstrating inclusive prosperity and the transformation towards sustainable development.

5.6. Application of the Framework

The Domestic Resource Mobilisation Framework needs to be customised during the application across the different tiers of governance; national, provincial, local, and community. The multilevel system of government was established with constitutional assignment of powers and functions but has not led to reordering of the service delivery responsibilities of the national vis a vis the provincial and local in terms of subsidiarity. Nor have mechanisms, whether institutional or technological, been developed and introduced to bring about policy-programme coherence between the national and subnational levels. Thus, national to subnational levels, the public service is institutionally and functionally fragmented creating multiple barriers for localising the SDGs. Localising SDGs will therefore require recalibration of the public service delivery to ensure that domestic resource mobilisation and investment are efficient, inclusive and transformative. The proposed Framework also has included community, mostly as a self-organised level, that also is subjected to being regulated, facilitated and impacted by the multilevel government system. At the community level, micro enterprises and community based organisations (CBOs) operate formal and informal relationships and transactions affecting the outcomes of SDGs. The intensity of transformation intended in the 2030 Agenda requires domestic resource mobilisation to be considered across all levels of government, sectors and communities. Likewise, the application of the Framework should include all levels of government, sectors and communities. In doing so the Framework needs to be scaled appropriately and applied as relevant to each tier of governance.

The Framework offers multiples interactions for multiple outcomes amongst the different items representing contexts, elements, tools and tiers, and is relevant and applicable at all levels of governance. The first step of application of the framework might be selecting between one of the four governance tiers, national-provincial-local-community. This will help to decide the appropriate scale and intensity of the application of the Framework. Once the tier of application is selected and scale is determined, the next step would be to decide on the context to be recalibrated for SDGs. Ideally the recalibration of all four contexts would ensure a holistic outcome. However, the intensity of recalibration of some contexts may not be as high during the application at lower tiers of governance. For example, recalibrating the policy context is of very high importance at the National Government level and also to a significant degree at Provincial Council level. Yet, as policy making responsibilities are limited at the Local Government level, the intensity of application may be limited. At the community level, policies are provided and with extremely limited opportunity to influence, and thus engagement will be more on localisation. This itself is a reason for applying the Framework and impressing upon the principle of leaving no one behind; for example, engaging communities in local development interventions through dialogue and active participation or even demonstration could help recalibrate the policy context with an upward ripple effect.

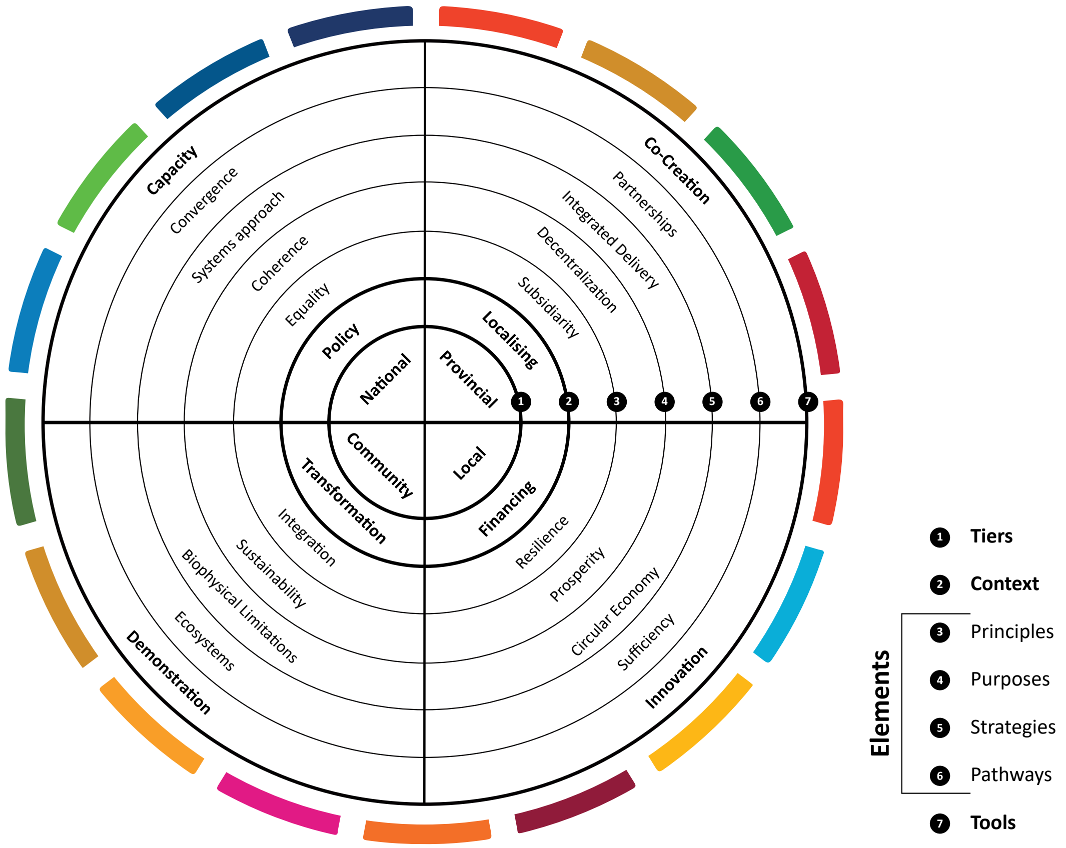
The complex interdependencies between the elements could arise in the application of the Framework. Mindful choices will need to be made in contextualizing the Framework, especially at the subnational levels, 'if not selecting' from the 16 elements. While the 16 elements are envisaged to impact as a networked system, the nature and scope of such interdependencies will depend upon the imperatives of integration at each tier. For example, subsidiarity and decentralisation at community level would depend on the relationships and transactions between informal to formal organisations in the specific locality. Meanwhile, even though a majority of policy decisions are made for subnational governments at the national level, the formal relationships and transactions between provincial and local government levels would still require the application of subsidiary and decentralisation. The application of each element therefore requires a mindful and strategic inquiry into the utilisation for the recalibration of contexts. The tools also need to be provided based on the scales, intensities and levels of requirement across the different governance tiers to ensure optimum outcomes. The choice of tools will be determined case-by-case and through the engagement of different experts, decision makers and stakeholders.

The Framework provides a platform to design policy instruments and strategic interventions towards advancing sustainable development; it helps to recalibrate the contexts of implementing the SDGs in Sri Lanka and positively reposition the nation for mobilising domestic resources aimed at the requisite transformation. The four contexts had led to the identification of appropriate elements, and the categories of tools are provided as a guide to facilitation. The Framework is best functional as a systems application, using all elements to recalibrate the contexts. Yet, according to the limitation of sectors or scales, selected elements across horizontal and vertical combinations could be applied using critical judgment. In doing so, the elements could even be further revised to expand or reduce the complexity.

The Framework can be viewed as a linear or dynamic model and applied accordingly. Depending on the need and limitations of objectives, some vertical to horizontal applications may be applied to drive specific outcomes. To be able to visualise the different possible calibrations, and to scale appropriately and apply as relevant to each tier, the following 'Circular Model' of the Framework is also presented. The Circular Model of the Framework helps visualise options to recalibrate the different items within contexts, elements, tools and tiers and to draw different outcomes through different combinations.

Transformation is a complex exercise towards achieving sustainable development, and has been a complex process to comprehend and define over the past few decades. Domestic resource mobilisation for a global framework such as the Sustainable Development Goals, requires a complex systems application to ensure holistic outcomes. Therefore, the 'Domestic Resource Mobilisation Framework' is a transformative application to assist Sri Lanka navigate through a world of complexities. It is intended to guide the nation towards achieving sustainable development, while leaving no one behind in the attainment of prosperity. The Framework is presented as a linkages model of elements facilitating the recalibration of the contexts that SDGs are implemented across the governance tiers in Sri Lanka. It could also provide greater foresight into planning domestic resource mobilisation for the SDGs in other countries as well.

Figure 15: Domestic Resource Mobilisation Framework for Implementing the SDGs in Sri Lanka (The Circular Model)



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Localising the Transformation in the New Normal should not be simply to survive the COVID-19 Pandemic. Transformation is a complex exercise towards achieving sustainable development. The Domestic Resource Mobilization Framework for Sustainable Development Goals in Sri Lanka, provides a platform to design policy instruments and strategic interventions towards advancing the transformation. The Framework is a linkages model of elements, facilitating the recalibration of the contexts that SDGs are implemented across the governance tiers and supported by tools. It is formulated to guide an inclusive prosperity in Sri Lanka, and as a transformative model for the rest of the world.

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