V. Streamlined 2025 Systematic Country Diagnostic for Sri Lanka

1. **The 2022 Systematic Country Diagnostic (SCD) Update identified seven priority reform areas for eliminating poverty and boosting shared prosperity.** These were: (i) addressing the fiscal challenge to ensure macroeconomic stability, (ii) fostering competitiveness to accelerate growth and job creation, (iii) strengthening human capital to improve productivity and social inclusion and closing the gap in access to basic services, (iv) supporting vulnerable groups and lagging regions, (v) promoting productivity-enhancing investments in agriculture and sustainable rural businesses, (vi) managing natural capital and building resilience to climate change, and (vii) strengthening governance and public financial management.

2. **This streamlined SCD assesses Sri Lanka's current economic and development context, reviews progress on the seven reform areas and proposes an updated reform reprioritization.** While many of Sri Lanka's underlying development challenges remain the same, much has changed since 2022. This includes a deep economic crisis that has caused a significant increase in poverty and deterioration in shared prosperity; a major political transition in late 2024 following a period of instability; and, more recently, a severe natural disaster in November 2025 (Cyclone *Ditwah)* that has caused significant damage.

3. **Boosting growth and creating jobs is the key challenge for the country.** At current growth rates, Sri Lanka is on track to create only 300,000 new jobs over the next decade, far less than the nearly 1 million young people that will enter the workforce over the same period. Higher growth will need to be underpinned by increased exports, private sector-led investment, and substantial increase in productivity. This SCD proposes a set of cross-cutting reforms to meet this growth and jobs challenge. While these reforms do not focus on specific economic sectors, this does not preclude targeted operational interventions in targeted growth-critical sectors.

1. Country Context and Recent Developments

4. **Sri Lanka is still emerging from its worst economic crisis since independence, which led to a sharp rise in poverty and vulnerability.** Long-standing structural weaknesses, fiscal and monetary policy missteps, and exogenous shocks led to the crisis. Consequently, the government defaulted on its international sovereign debt in April 2022. The economy shrank by a cumulative 9.5 percent during 2022-23, foreign exchange reserves dropped to less than 2 weeks of imports by end-2022, inflation rose to nearly 70 percent, and real wages fell sharply. As a result, poverty rose sharply, from 11.5 percent in 2019 to 27.5 percent in 2023 at the US$4.20 (2021 PPP) line. Spatial disparities widened, and historically poor districts and estate sectors suffered severe setbacks, while new poverty emerged in urban areas.

5. **The immediate policy response to the crisis focused on restoring economic stability through a sharp fiscal adjustment, debt restructuring, and some foundational policy reforms.** Sri Lanka's fiscal adjustment was significant—equal to nearly 8 percent of GDP from 2022-24—underpinned by revenue improvements. Debt restructuring began in 2022 and was largely concluded by end-2024. Critical policy and legal changes were introduced, such as the new Public Finance Management Act, Public Debt Management Act, Central Bank Act, and cost-reflective energy pricing.

6. **In response, the economy stabilized in mid-2023 and started recovering in 2024, but macroeconomic vulnerabilities remain high.** The economy expanded by 5 percent in 2024, headline inflation eased to single digits in mid-2023 and was negative between September 2024 and July 2025, and usable reserves grew to US$4.7 billion by end-2024 (compared to US$500 million by end-2022), covering three months of imports. Nevertheless, macroeconomic vulnerabilities remain high: interest spending accounted for 65.7 percent of revenue in 2024, limiting the space for other productive spending, and debt will remain above 90 percent of GDP, even post-restructuring.

7. **Economic stabilization has not yet translated into a recovery in welfare.** Real output remains below 2018 levels. Following initial signs of recovery, poverty started decreasing in 2024. However, the poverty rate is estimated at 22.3 percent in 2025 and projected to hover around 20 percent in the medium-term. In the longer term, the crisis is likely to have significant scarring impacts, including longer-term impacts of malnutrition, poverty, job losses, schooling disruptions, firm closures, and high levels of emigration.

8. **Continued economic recovery is now further complicated by Cyclone *Ditwah*, which has caused extensive damage with its full impact still being determined.** Over 600 lives have been lost, tens of thousands of families have been displaced, and there has been significant infrastructure damage. Preliminary GRADE estimates point to damages of over 4 percent of GDP.[3] Combined with income and price-related disruptions, this could significantly increase poverty and vulnerability in the coming year.

9. **Boosting economic growth, supported by private-sector-led investment, exports, and productivity gains, is critical to ensure an inclusive, sustainable recovery.** Accelerating growth is crucial to maintaining macro-stability (particularly in reducing the high debt burden), improving welfare outcomes, and creating jobs. This is recognized by the government which recently set a growth target of 7 percent per annum through to 2030. However, with tight fiscal space and a legislated cap on primary spending, the scope for public investment is limited. Instead, growth needs to be driven by private investment, exports, and productivity gains. Increasing private investment is critical for the new growth strategy, including foreign direct investment (FDI) from its current low levels of around 1 percent of GDP (as compared to 3-4 percent of GDP for peers) to enable knowledge transfer and integration of domestic firms into global value chains and domestic investments, including from MSMEs. Further development of the domestic capital market is also essential to mobilize long term domestic saving, broaden financing options and support private investment, particularly for MSMEs and infrastructure.

10. **Boosting growth is key to addressing the underlying jobs challenge facing the country.** Over one in four youth are unemployed today. The female labor force participation rate is only 32 percent, half that of men. The quality of jobs is also a concern: about 70 percent of jobs are informal and Sri Lanka creates fewer skilled jobs than other countries at a similar level of per-capita income. Apart from weak growth, the jobs challenge also reflects labor-market-specific issues such as outdated labor laws, skills mismatches, disruptions in schooling, and the emigration of skilled professionals. Moreover, Sri Lanka's ongoing demographic transition—with an old-age dependency ratio doubling to 38 percent by 2050—will exacerbate skilled shortages, raise tax and pension burdens, and strain the socio-economic contract, highlighting the imperative of placing many more Sri Lankans into gainful skilled employment.

11. **Unlocking growth will require structural reforms and may also need carefully targeted sectoral interventions.** Key structural reforms include facilitating trade openness, reducing the economic footprint of the public sector, fostering greater competition, and addressing policy distortions and rigidities in labor, land, and capital markets. Targeted policy interventions in sectors with high export potential, such as agribusiness, tourism, and specialized manufacturing are also important to ensure broad-based policy reforms maintain a line-of-sight with expected outcomes in important sectors.

12. **Addressing long-standing infrastructure gaps, through smarter public spending and increased private investment, remains critical to support growth and to create jobs.** The public capital stock as a share of GDP is low and infrastructure quality remains a challenge. Sri Lanka ranked 143rd out of 166 countries in 2019 in terms of public capital stock.[4] Overall, access to and quality of infrastructure – both physical and digital - lags peers. For example, the Port of Colombo has seen declining competitiveness,

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[3] Preliminary findings based on the World Bank's global rapid post-disaster damage estimation (GRADE) methodology.

[4] World Bank. 2025. Sri Lanka Public Finance Review: Towards a Balanced Fiscal Adjustment.

falling from 1st place in South Asia in 2020 to 8th place in 2024[5]; electricity tariffs are among the highest in South Asia; only 50 percent of Sri Lankans use the internet; and less than 9 percent subscribe to fixed broadband—well below countries at a similar economic development level—and service is expensive.[6] These gaps also reflect weak public investment management and infrastructure management practices. Infrastructure challenges are further exacerbated by Cyclone Ditwah as World Bank GRADE estimates suggest that infrastructure worth about 1.7 percent of GDP has been destroyed by the disaster.

13. **Public service delivery shows uneven performance with strong health and education outcomes but weaknesses in social protection and overall public services.** Sri Lanka has historically stood out in South Asian in health and education, with its free preventive and curative care, strong maternal and child health indicators, and near-universal enrollment in primary and secondary education. However, the health sector must contend with gaps in nutrition (especially childhood stunting) and key new challenges such as non-communicable diseases (NCDs), an ageing population underserved by current health services, and skilled emigration. While in education, limited tertiary enrollment, low labor market relevance, and low participation in Science, Technology, Engineering and Mathematics (STEM) fields limit job market outcomes. A long history of underinvestment in both sectors also risks jeopardizing past successes. Given limited fiscal space, greater avenues for private capital participation need to be explored. Social protection performance is uneven with several fragmented programs and gaps in coverage especially for the informal sector. More generally across public services, efficiency, accessibility and integrity are constrained by limited progress in digitization, leaving many processes paper-based and systems poorly integrated. For instance, land records, court documents, police files, tax records, customs clearances, human resources, and more still are largely paper-based which opens up avenues of corruption, makes Sri Lanka lag peers, and weakens the government-citizen contract.

14. **As demonstrated by Cyclone *Ditwah*, Sri Lanka remains highly vulnerable to climate and disaster risks and the frequency and severity of disasters is rising.** Between 1975 and 2022, disasters cost Sri Lanka approximately 0.4 percent of GDP annually. Flooding has been particularly devastating, affecting more than 10 million people in the past three decades, followed by cyclones and high winds.[7] The country is also vulnerable to storm surges and salinity intrusion. Losses from extreme weather events are expected to be further exacerbated by ongoing climate change, which is estimated to intensify the frequency and severity of flooding, heighten heat stress, lower labor productivity and raise the variability of crop yields. Climate change and flooding may have the largest impacts on vulnerable populations, which further underscores the importance of mitigation and adaptation efforts. However, disaster risk reduction and climate resilience activities have remained largely tilted towards post-shock response rather than prevention and preparedness.

2. Progress on Priorities since the 2022 SCD Update

15. **This streamlined SCD's updated reform prioritization is informed by developments since 2022 in the former priority areas.** This section provides an overview of each of those seven reform areas and discusses emerging factors that have a bearing on future prioritization.

Addressing the fiscal challenge to ensure macroeconomic stability

[5] World Bank. 2025. *The Container Port Performance Index 2020 to 2024: Trends and Lessons Learned.*

[6] World Development Indicators database; World Bank. 2025. *Digital Transformation for Sri Lanka and Maldives. Concept Note.*

[7] These numbers do not include estimated impacts of Cyclone Ditwah in 2025.

16. **There has been major progress in addressing fiscal challenges and ensuring macroeconomic stability.** The government has raised tax rates and expanded the base, started streamlining tax incentives, introduced a new PFM framework that looks to strengthen public investment management and integrate planning with budgeting, eliminated monetary financing of the budget, and implemented cost-recovery in energy price setting. Debt management functions are now consolidated under a unified public debt management office within the Ministry of Finance. The financial sector stabilized amid reforms that strengthened the financial sector safety net and established a crisis management framework. As a result, the tax-to-GDP ratio increased from 8.4 percent in 2022 to 13.7 percent by 2024, the primary budget balance improved from a deficit of 3.7 percent in 2022 to a surplus of 2.2 percent by 2024, and the reserve cover increased from 0.1 months in 2022 to an average of 3 months by 2025. These achievements have been anchored by several new laws, including the Public Financial Management Act of 2024, the Public Debt Management Act of 2024, the Central Bank of Sri Lanka Act of 2023, and the Electricity Act of 2024. However, the social cost of some of these reforms has been significant, and the continued reliance on indirect taxation places a disproportionate burden on lower-income households.

Fostering competitiveness to accelerate growth and job creation

17. **The business environment has improved marginally since the crisis but remains significantly constrained.** On trade, the government adopted the National Tariff Policy in 2024, accelerated implementation of the World Trade Organization's Trade Facilitation Agreement, and initiated steps towards a trade national single window. Preparation is also underway to introduce new laws or operationalize existing laws aimed at structural reform, including investment promotion, facilitation, and zones management; investor protection; insolvency; public-private partnerships; SOE governance; and labor regulation. However, significant challenges remain. These include excessive and complex regulations that make it difficult to invest, start a business, employ staff, access land, and export. Business informality is pervasive. While private credit growth has improved significantly since the crisis, a systematic bias towards government and large corporates persists. Large domestic firms and SOEs continue to dominate many sectors, undermining dynamism.[8] Policy predictability remains a challenge as indicated by several short-notice, within-year tax changes since the crisis and reversal of decisions to privatize.

Strengthening human capital to improve productivity and social inclusion and closing the gap in access to basic services

18. **Sri Lanka has made progress in delivering more and better early childhood education, more soft skills training and digitally enabled materials in schools, and better teachers.** The government has significantly expanded access to, and oversight of, early childhood education (ECE) via the establishment of over 7900 early childhood development centers meeting national quality standards, most of which have conducted annual child development assessments. A new ECE curriculum framework was approved and 21,492 teachers were trained to deliver it. The school curriculum has been updated and is being rolled out, commencing from grades 1 and 6. Teacher effectiveness has improved through a school-based training program implemented in 85 percent of education zones, benefiting about 190,000 teachers. The promotion of soft skills has been mainstreamed through an Enhanced Program for School Improvement, which has been implemented in 85 percent of education zones, benefiting about 3,700,000 students. Digitally enabled learning material, especially for English language and mathematics learning, has been produced and made available in all 9 provinces, benefiting 10,096 schools.

Supporting vulnerable groups and lagging regions

[8] Sri Lanka has 178 state-owned businesses, which account for a larger share of GDP and employment when compared to the median for South Asia and globally.

19. **Progress in addressing persistent gender gaps and supporting vulnerable groups and lagging regions has been limited despite some policy and legislative advances.** Sri Lanka adopted a National Action Plan on Women, Peace, and Security (2023-2027), a National Policy on Child Daycare Facilities (2024), a revised National Policy for Elders (2024), and a National Social Protection Policy (2024), and enacted the Women's Empowerment Act (2024). However, women still face numerous, intersecting barriers to productive opportunities, including legislative restrictions, skills mismatches, occupational segregation, employer bias, mobility and safety challenges, and social norms enforcing caregiving roles. Gender-based violence is a persistent challenge with over 20 percent of women having experienced physical or sexual violence by an intimate partner in their lifetime. Despite wage increases in 2024, plantation estate workers' access to services like housing, health, and education remains limited. Progress on closing the gap between lagging regions and other parts of the country in terms of poverty rates, skills deficits, and infrastructure, has been limited. In the Northern province, there has been some progress on returning state-held lands to former civilian owners. Despite several government announcements related to the electricity grid or transport connectivity between India and north Sri Lanka, little has materialized so far. The Aswesuma social safety net, which commenced payments in 2023, represents a positive step towards better-targeted social assistance, but benefit levels are inadequate and coverage gaps need to be addressed.

Promoting productivity-enhancing investments in agriculture and sustainable rural businesses

20. **Despite ongoing efforts to modernize and diversify Sri Lanka's agricultural sector, overall productivity has remained largely stagnant.** The sector has gradually recovered from the adverse effects of the 2021 chemical fertilizer ban, which led to notable reductions in output for critical crops such as paddy, tea, and other field crops. Nevertheless, productivity across all agricultural subsectors continues to show minimal improvement and is limited by poor planning and policymaking, low export-orientation, low technology use, and vulnerabilities to climate change. A review of public expenditure in agriculture reveals that the long-term strategy of achieving self-sufficiency in rice continues to dominate the country's agricultural policy. Most resources are directed toward input subsidies and infrastructure, primarily benefiting rice producers. Although certain project-based initiatives have demonstrated positive outcomes in terms of modernization, crop diversification, and enhanced market access, these successes have not yet translated into broad-based productivity gains. Scaling up such initiatives remains a challenge, constrained by a lack of policy direction and a continued focus on growing paddy in areas that are more suitable for cultivating other more lucrative crops at lower cost.

Managing natural capital and building resilience to climate change

21. **Natural capital management and climate resilience have been advanced through updated policies, stronger early warning, risk financing, resilient infrastructure, and adaptive social protection.** The 2023 National Climate Change Policy and the National Environmental Policy and Action Plan 2022–2030 anchor participatory planning, institutional capacity, and ecosystem management. Impact-based alerts via a telecom-enabled system were launched in 2023, reaching high-risk coastal districts for tsunami and multi-hazard warnings. Forecasting and landslide warnings have also been upgraded, although policies and regulations related to disaster risk management may need to be updated to allow for more seamless sharing of information to enable faster more effective decision making. Risk financing progressed, including the adoption of the National Climate Finance Strategy 2025-2030 and investments under the government's Climate Resilience Improvement Project. Introduction of digitized targeted cash transfers and a new social register have also made the social safety net more shock responsive. However, data management challenges and weak coordination between the national statistical system and the social protection agency continue to hinder systematic monitoring and timely post-shock responsiveness.

Strengthening governance and public financial management to enhance service delivery, accountability, and transparency

22. **Sri Lanka has made limited progress on governance and public financial management since 2022.** Key legislative changes include the Anti-Corruption Act of 2023, which strengthens the asset declaration system and expands the investigative powers of the Commission to Investigate Allegations of Bribery or Corruption (CIABOC); and the Companies (Amendment) Act of 2025, which requires companies to disclose their beneficial owners.[9] New legislation to improve the governance of state-owned enterprises is also close to finalization. Government e-procurement has been rolled out for small purchases, but progress has recently stalled. There has been impressive progress on digital payments for public services—a means of reducing opportunities for graft—with over 200 public organizations allowing payments via the GovPay app. While these reforms represent progress, implementation remains uneven. Further, reforms within the Inland Revenue and Customs Department have stalled despite significant citizen and private sector demand for improved performance of these critical institutions. Sustained implementation efforts will be essential to translate legal progress into improved service delivery and real accountability.

3. Areas for Action in the 2025 Streamlined SCD

23. **This SCD proposes a framework of 4 pillars (including a cross-cutting pillar) and 9 priority reforms to boost poverty reduction and shared prosperity in Sri Lanka.** Reforms under each pillar have been prioritized based on four filters: (i) contribution to boosting economic growth and jobs; (ii) contribution to enabling private capital; (iii) contribution to economic, social, and environmental sustainability; and (iv) feasibility of delivery within the 5-year country engagement horizon. The chosen prioritization also recognizes and accounts for major potential risks that Sri Lanka faces, such as climate and natural disaster shocks and broader geopolitical risks. The reforms do not focus on specific economic sectors but this does not preclude operational interventions that tackle highlighted priorities in growth-critical sectors, or for specific groups (e.g., women and youth).[10]

24. **The framework is informed by country team stakeholder consultations over the past 12 months.** These have spanned government counterparts, the private sector, universities, think tanks, and civil society organizations. This includes engagements across the country for the Completion and Learning Review, a new Sri Lanka Country Partnership Framework (CPF), regional consultations in the Central and Northern Provinces focused on growth and jobs, and discussions on reform areas that have informed priorities for development policy lending.

25. **The four pillars of the 2025 Streamlined SCD are:**

- Pillar I—*creating a supportive business environment for growth and jobs*: safeguard macro stability, re-energize the private sector (including support for MSMEs and reforms enabling FDI), and reintegrate Sri Lanka into global markets and value chains.
- Pillar II—*improving infrastructure to underpin growth*: bring in domestic and foreign private investment for infrastructure development and tackle constraints in network infrastructure like digital, transport, and energy.
- Pillar III—*enhancing human capital to support growth and jobs*: address challenges in healthcare and skills development.

[9] As noted earlier, the new Public Debt Management Act, Central Bank of Sri Lanka Act, and Electricity Act have all also contributed to better public financial management.
[10] Sri Lanka is a fast-track country under the World Bank Group's Gender Strategy. Given the existing disparities in access to jobs, assets, and services, expanding economic opportunities for women will require support across all four proposed SCD pillars.

- Cross-cutting Pillar—*strengthening governance and resilience*: strengthen governance and anti-corruption and enhance resilience to climate and disaster shocks.

This framework is illustrated below in Figure 1. The reform priorities under each pillar and key reform areas under each priority are outlined in Table 1.

26. **The 2022 SCD Update priorities are mostly still reflected in this new framework but with some critical updates.** This reflects the reality that the critical development challenges facing the country are persistent and difficult to resolve over a short time frame. *Nonetheless, the significant events of the last four years and some progress in key areas warrants changes in framing and emphasis*. The framework now elevates jobs as a key goal, alongside higher growth, and increases the emphasis on a few reform areas including: (i) strengthening macroeconomic stability and staying the course on implementing post-crisis reforms; (ii) boosting private-sector investments and supporting private-sector led growth given tighter fiscal space; and (iii) improving infrastructure, particularly logistics, energy and digital infrastructure, to underpin growth.

Figure 1: SCD Framework

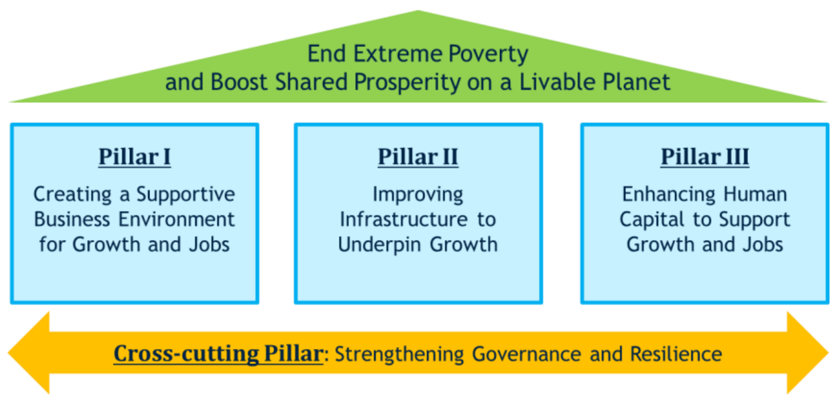

Table 1: SCD Priorities and Key Reform Actions

Pillar 1: Creating a Supportive Business Environment for Growth and Jobs	
Priority Reforms	**Key Reform Actions**
Priority 1: Further strengthen macroeconomic stability and debt sustainability	• **Strengthen macro-fiscal management:** Sustain prudent fiscal, monetary, and exchange rate policy, anchored in the new Public Financial Management (PFM) Act, Public Debt Management Act, and Central Bank Act. Make public spending more efficient and effective through improved public investment management and asset management (including at the subnational level), more transparent wage bill management, and better targeting of transfers. Strengthen debt management capacity within the new Public Debt Management Office to manage cost-risk associated with public and publicly guaranteed debt. Monitor and manage risks from state-owned enterprises. • **Improve revenue collection and governance of revenue and customs administration**: Broaden and deepen the tax base while digitizing and modernizing tax and customs administrations. Ensure all taxpayers receive VAT refunds in time and key performance metrics are at par with structural peers. Modernize customs administration, pass a new Customs Act, improve time-release metrics to match global good practice, reform the rewards scheme, fully digitize the long rooms as well as all customer-customs official interfaces.

Priority 2: Increase exports and improve the investment environment	• **Implement an export focused trade policy**: Liberalize the trade regime by phasing out para-tariffs, reducing import duties, deepening FTAs with key partners, and implementing a trade national single window, including to promote export-led agriculture and tourism. Support development of local economic clusters and value chains linked to larger players (including GVCs). Consider targeted policies and interventions to support high export-potential sectors (such as tourism). • **Modernize the investment regime and regulatory framework**: Modernize and operationalize the legal framework for private domestic and foreign direct investments, review foreign ownership and exchange restrictions, strengthen investment promotion and protection, and streamline FDI entry procedures. Modernize and operationalize the legal framework for PPPs and consider strategic approaches to improve bankability such as regional based bundling of projects to achieve scale and diversify demand. Enhance municipal infrastructure and service delivery as prerequisites for crowding in private capital, especially in secondary cities and lagging areas. Pass a new insolvency law. Expand access to finance and markets for MSMEs and entrepreneurs, especially women. • **Improve governance of State-Owned Enterprises**: Continue cost-reflective pricing in utilities, improve SOE governance and competitiveness, and adopt a more strategic approach to state participation in the economy. • **Modernize the legal framework governing labor and improve state land management:** Activate the latent potential of labor and state land by modernizing labor legislation, promoting a flexible and competitive labor market and addressing institutional and legal fragmentation, sparse asset information, and cumbersome permitting and leasing processes with respect to state land.
Pillar 2: Improving Infrastructure to Underpin Growth	
Priority 3: Strengthen digital infrastructure and digital governance	• **Improve the digital rails**: Roll out digital public infrastructure, including secure digital ID and authentication. Implement open data initiatives and strengthen data governance and develop robust cybersecurity architecture in collaboration with global partners and the private sector. Enhance spectrum assignment and infrastructure sharing frameworks, emphasizing better competition, quality of service, and equitable access. • **Digitize government-to-all services**: Leverage digital technologies and e-government platforms, build public sector digital skills, digitize business registration, and offer efficient and transparent digital public services.
Priority 4: Modernize transport and logistics infrastructure	• **Improve trade logistics**: Develop and implement a national logistics master plan. Enhance the Port of Colombo's competitiveness via supportive investments, including private sector participation and potentially supported by guarantees. Invest in connecting lagging regions and secondary cities to markets, services, and port • **Improve urban mobility:** Enhance e-mobility, through investments in public transport, traffic management, and private players. • **Upgrade agribusiness value chains** through investment in processing facilities (along with additional private capital mobilization), cold storage chains, and quality certification.
Priority 5: Accelerate the transition to affordable, clean, and reliable energy	• **Modernize the energy sector**: Implement new Electricity Act, unbundle CEB functions, and enhance sector governance. Continue cost-reflective electricity pricing combined with meaningful improvements in efficiency, transparency, cost controls and improved governance within the utility. Scale up cost-effective and rapidly deployable investments in renewables generation, transmission, and storage infrastructure, including via PPPs and guarantee instruments, achieving 70 percent clean energy by 2030, while maintaining hydropower assets. Promote research and innovation in clean energy.

	• **Strengthen energy efficiency standards for buildings, appliances, and industry**.
Pillar 3: Enhancing Human Capital to Support Growth and Job Creation	
Priority 6: Strengthen market-relevant skills and equitable access to economic opportunities	• **Remove barriers to female labor force participation:** Remove legal restrictions and biases, and poorly tailored skills development, while strengthening access to quality care and advancing modern parental leave benefits. • **Improve education and skills**: Promote industry-academia collaboration to identify and tackle skills gaps in emerging sectors and expand availability of internship and apprenticeship as well as upskilling and reskilling programs for experienced workers. Modernize education and training curricula (including integration of digital skills) and align with labor market needs. • **Strengthen social protection**: Integrate Aswesuma benefits for poor households with other assistance programs, such as those providing skills, job matching, and care services. Expand coverage and adequacy of Aswesuma (incl. with shock-triggered top-ups) to create an adaptive, flexible safety net enabling government response to natural disasters and other emergencies, and broader structural change. Scale-up community-level multi-sectoral nutrition programs, especially for children and vulnerable households.
Priority 7: Strengthen primary healthcare and nutrition services	**Improve the public healthcare system**: Ensure availability and affordability of essential medicines and critical medical technologies. Expand cost-effective primary healthcare interventions, managing rising NCDs. Promote integrated community-based elderly care with specialized elderly care referrals. • **Invest in health system resilience, workforce capacity, and pandemic preparedness**.
Cross-cutting Pillar: Strengthening Governance and Resilience	
Priority 8: Implement governance and anti-corruption reforms	• **Make procurement more open and improve cost effectiveness**: Implement procurement-related regulatory, operational, and oversight reforms, including revised procurement guidelines, standardized bidding documents, post-procurement review, enhanced conflict-of-interest disclosures, reduced reliance on direct procurements, and an e-monitoring system for red-flagging. Roll out e-government procurement systems that cover higher-value goods and works across spending agencies. • **Improve transparency**: Strengthen oversight by the National Audit Office, Committee on Public Accounts, and Committee on Public Enterprises by tracking, monitoring, and reporting on the implementation of audit findings and parliamentary recommendations. Implement legislation on beneficial ownership by developing necessary regulations and creating awareness.
Priority 9: Enhance resilience to climate, natural disaster, and economic shocks	• **Strengthen institutions and planning for DRM**: This includes risk mapping, early warning systems, community-based techniques, and climate risk screening of new public investments. Address delivery constraints by clarifying mandates and improving inter-agency coordination and sub-national capacity. • **Promote integrated landscape management**, climate-resilient farming practices, and ecosystem-based approaches combining environmental and livelihood benefits. • **Invest in upstream risk-reduction and urban resilient infrastructure**: This includes upgrading irrigation, building on traditional water management systems, to avoid repeated reconstruction cycles.

4. Knowledge gaps and further work required

The SCD has identified a set of key knowledge and data gaps that preclude a clearer understanding of poverty and shared prosperity challenges. The data gaps reflect the weakness of the national statistical system, which is characterized by outdated and fragmented datasets and poor monitoring systems. Strengthening the national statistical system, and investing in strong, inter-linked data systems and strengthened research capabilities is thus a cross-cutting priority.

Table 2: Key knowledge and data gaps

Topic	Description
Business environment	There is a paucity of nationally representative firm-based data on the business environment. The latest available World Bank enterprise survey was completed in 2011. A new survey is underway, with results expected in H1 2026. This will improve understanding of challenges faced by formal firms and help benchmark Sri Lanka against peers.
Informal sector	A better understanding of the informal sector is required, given its prominence across the economy and role in supporting livelihoods. Relevant information gaps include activities, employment, access to services, financing constraints, technology adoption, barriers to formalization, and the impact of recent shocks. A new informal sector enterprise survey has been commissioned for 2026.
Jobs and skills	A jobs-focused growth strategy requires policies underpinned by a sound understanding of labor markets. Sri Lanka has little available data on labor demand, skills mismatches, and barriers to the employment of women and youth. Given major digital transformations underway in businesses, in the job market, and across broader society, there is also a need to better understand Sri Lanka's digital jobs ecosystem and the impact of AI on jobs. The planned economic census and agricultural census would help with this. The World Bank has also recently begun investigating job market implications of the digital economy.
Poverty and welfare analytics	There is limited understanding of the current status of poverty and household welfare, as the latest available Household Income and Expenditure Survey (HIES) is from 2019, preceding both the COVID-19 pandemic and economic crisis. While a 2023/24 HIES has been undertaken, data is not expected to be available until 2026.
Land	The productive utilization of land is a critical driver of economic growth. Although it is estimated that around 80 percent of land is owned by the state, ownership (and the data on it) is spread across numerous public institutions and typically not digitized. To better understand what land is held by the state and what opportunities exist for increasing access to it, a consolidated digital state land database is required.
Lagging regions	Sri Lanka exhibits spatially unbalanced economic development, with over 40 percent of GDP concentrated in the Western Province. The north and east have especially been disadvantaged by the legacy of military conflict. Challenges in these provinces are therefore unique. A comprehensive growth and development diagnostic is needed to inform a strategy for reducing poverty, boosting shared prosperity, and promoting livable conditions in these areas. Further, subnational spending and service delivery outcomes need to be better understood.
Political economy	In recent years, economic crisis, social unrest, public disenchantment with traditional politics, and the rise of the JVP-led NPP have shaped a political landscape that differs markedly from the past. Insights are needed into how these new political dynamics, governance norms, and incentives will shape the feasibility and sequencing of reforms.

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