Document of
The World Bank Group

FOR OFFICIAL USE ONLY

Report No. 182326-LK

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK
FOR
THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

FOR THE PERIOD FY2024 – FY2027

June 28, 2023

Sri Lanka Country Management Unit
South Asia Region

The International Finance Corporation
South Asia Region

The Multilateral Investment Guarantee Agency

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of May 26, 2023)
US$ 1 = LKR 297.86

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
AHEAD	Accelerating Higher Education Expansion Project
ASA	Advisory Services and Analytics
ASMP	Agriculture Sector Modernization Project
CBC	Commercial Bank of Ceylon
CBSL	Central Bank of Sri Lanka
CCDR	Country Climate and Development Report
CCPI	Colombo Consumer Price Index
CEA	Country Environmental Analysis
CEB	Ceylon Electricity Board
CERC	Contingent Emergency Response Component
CLR	Completion and Learning Review
CPC	Ceylon Petroleum Corporation
CPF	Country Partnership Framework
CRMPA	Climate Resilience Multi-Phase Programmatic Approach
CSIAP	Climate Smart Irrigated Agriculture Project
DPO	Development Policy Operation
DPR	Diversified Payment Rights
ECDP	Early Childhood Development Project
EFF	Extended Fund Facility
ERP	COVID-19 Emergency Response Project
ESCAMP	Ecosystem Conservation and Management Project
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
F4D	Finance for Development
GCRF	Global Crisis Response Framework
GDP	Gross Domestic Product
GEM	General Modernization Project
GEMS	Geo-Enabling Initiative for Monitoring and Supervision
GFN	Gross Financing Needs
GPE	Global Partnership for Education
GRID	Green, Resilient, and Inclusive Development
HCI	Human Capital Index
HEIS	Household Income and Expenditure Survey
HLO	High-Level Outcome
IBRD	International Bank for Reconstruction and Development
ICDP	Inclusive Connectivity and Development Project
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IPF	Investment Project Financing
JICA	Japan International Cooperation Agency
JSDF	Japan Social Development Fund
LDSP	Local Development Support Project
LFP	Labor Force Participation
LKR	Sri Lankan Rupee
LNG	Liquefied Natural Gas
MDTF	Multi-Donor Trust Fund
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small, and Medium Enterprises
NDC	Nationally Determined Contributions
NEET	Not in Education, Employment, or Training
NPL	Non-Performing Loan
NSW	National Single Window
PBC	Performance-Based Contract
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PforR	Program-for-Results
PHCSSP	Primary Health Care System Strengthening Project
PIM	Public Investment Management
PPA	Performance and Policy Actions
PPP	Public-Private Partnership
PPG	Public and Publicly Guaranteed Debt
RRA	Risk and Resilience Assessment
SCD	Systematic Country Diagnostic
SDFP	Sustainable Development Finance Policy
SDG	Sustainable Development Goal
SLA	Staff-Level Agreement
SLDU	Sri Lanka Development Update
SME	Small and Medium-Sized Enterprise
SOB	State-Owned Bank
SOE	State-Owned Enterprise
StAR	Stolen Asset Recovery Initiative
STEM	Science, technology, engineering, and mathematics
S&P	Standard and Poor's
TA	Technical Assistance
TF	Trust Funds
UNICEF	United Nations Children's Fund
TFGS	Trade Financing Guarantee Scheme
USAID	United States Agency for International Development
WBG	World Bank Group
WiW	Women in Work
WFP	World Food Program
WSSIP	Water Supply and Sanitation Improvement Project
WFP	World Food Program

	World Bank	IFC	MIGA
Vice President	Martin Raiser	Riccardo Puliti	Ethiopis Tafara
Director	Faris H. Hadad-Zervos	Hector Gomez Ang	Hiroyuki Hatashima (Acting)
Task Team Leaders	Husam Abudagga	Tehmina Nawab	Persephone Economou

FY2024-27 COUNTRY PARTNERSHIP FRAMEWORK
FOR
THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

TABLE OF CONTENTS

FY2024-27 COUNTRY PARTNERSHIP FRAMEWORK
FOR
THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

I. INTRODUCTION

1. **The Country Partnership Framework (CPF) outlines the World Bank Group's (WBG) engagement in Sri Lanka over the next four years (FY24-27)**. The CPF is being presented at a time of deep economic crisis, with severe impacts on people's livelihoods and – despite of government efforts at stabilization and reform – significant downside risks. In this environment, the CPF lays out a two-phased approach: a focus on stabilization, urgent macro-fiscal, structural and governance reforms and support to the most vulnerable population in the first 18-24 months, and – subject to successful implementation of the reform program and adequate external support – a gradual shift towards investments in longer term development needs. The existing portfolio is being realigned to support this strategy – focusing resources in the short-run on key public services like health and education and support for rural livelihoods. The CPF will leverage the close cooperation across the World Bank, IFC, and MIGA and with development partners. WBG will re-evaluate the country context and priorities at the Performance and Learning Review (PLR) stage mid-cycle.

2. **The unprecedented crisis in Sri Lanka has created an entirely new context, requiring new approaches to immediately support the country while promoting deep reforms.** The current crisis is a legacy of longstanding structural and governance gaps that made the country susceptible to a series of exogenous shocks. This has exacted a heavy toll on the poor and vulnerable and on human capital outcomes. The poverty rate is estimated to have doubled from 13.1 to 25 percent between 2021 and 2022 and is projected to increase by another 2.4 percentage points in 2023.[1] The impact has been compounded by severe shortages of essential household items due to import contractions and forex liquidity constraints. Around 75 percent of households are estimated to have experienced reduced incomes and 37 percent of households were facing acute food insecurity in November 2022.[2] Both the COVID-19 pandemic and the macro-fiscal crisis have strained public healthcare systems and repeatedly disrupted learning; child stunting and malnutrition indicators worsened in 2022.[3]

3. **Breaking with a business-as-usual approach, the WBG moved quickly to adapt its existing portfolio to the new realities and challenges**. The World Bank immediately began a comprehensive restructuring of its entire portfolio of 17 projects and repurposed $325 million through CERCs to sustain essential goods and services, to protect the most vulnerable, sustain livelihoods, and address food insecurity during the economic crisis. In addition, the existing portfolio was modified to meet emerging needs. The Bank also restructured $44 million within existing projects for essential medicines, school meals for pre-school children, and tuition waivers. IFC provided an emergency cross-currency swap facility to banks to facilitate the import of essential items (food, medicine etc.). After Sri Lanka lost market access and IBRD creditworthiness, the WBG initiated a process of "reverse graduation" for Sri Lanka's to access IDA funds, which was finalized on December 5, 2022.

4. **The CPF recognizes the substantial risks that reforms could go offtrack or that external financial support is insufficient to achieve lasting stabilization, requiring a continuum of political**

[1] Poverty rates estimated based on microsimulations on the 2019 Household Income and Expenditure Survey, $3.65 per person per day (2017 PPP) and updated using October 2022 Macro Poverty Outlook projections.
[2] WFP, November 2022, Remote Household Food Security Survey Brief. https://docs.wfp.org/api/documents/WFP-0000145643/download/
[3] Data from the Family Health Bureau show worsening child stunting and malnutrition indicators between 2021 and 2022.

economy analysis and dialogue across all segments of Sri Lankan society. The Government has begun implementing an ambitious stabilization and reform program, including new revenue measures, reforming state-owned enterprises (SOEs), cost-reflective utility pricing and improved fiscal oversight, debt management, and more comprehensive social protection. However, the program's success relies to a significant extent on external creditor support under debt restructuring agreements currently under discussion. Moreover, public support for painful economic adjustment is limited and reforms could run out of steam or reverse in the face of popular resistance and entrenched vested interests. A Risk and Resilience Assessment (RRA) conducted in 2022 recommends more focus on resilience building and expanded use of analytical tools such as political economy analyses and governance assessments. The WBG will also maintain a continuum of substantive dialogue across the political spectrum and bring in civil society, the private sector and development partners. This is expected to foster a deeper understanding of the reform agenda and the WBG program, as well as create an 'early warning system' of potential risks and obstacles.

5. **The two-phased approach proposed here is appropriate to maintain flexibility in the light of extraordinarily high risks**. During the first 18-24 months the WBG will focus the current portfolio and new IDA lending on economic stabilization, structural reforms and mitigating the impact of the crisis on people. Targeted ASAs will be used during this phase to provide technical assistance in support of critical reform efforts, carry out political economy analysis to help mitigate risks, and lay the technical and policy foundation for future engagements. A Performance and Learning Review (PLR) will usher in a second phase after 18-24 months of implementation. Should the macro-fiscal situation improve, assistance could shift towards supporting a green, inclusive and resilient recovery in the second phase. A Country Climate Development Report (CCDR) is under preparation to inform programming during this later stage.

6. **The CPF has undergone significant physical and virtual consultations across a wide range of stakeholders.** These include the president and key cabinet members, government officials, parliamentarians, civil society representatives, the media, development partners, the private sector, and academia. In-person consultations were held in Colombo and regional sessions were held in Kilinochchi and Jaffna (Northern Province). During these consultations, the approach, priorities of the CPF received broad support, with a stated need for continuous monitoring of outcomes. Online public consultations were carried out from March 8 to 29, 2023 through World Bank virtual platforms including Sri Lanka website and Facebook page and widely shared through regional social media. Around 220 responses were received from a wide range of stakeholders from all nine provinces of Sri Lanka, and representative of Sri Lanka's demographic profile. All consultations were carried out in Sinhala, Tamil and English.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

2.1 | SOCIAL AND POLITICAL CONTEXT

7. **Sri Lanka's current socio-political context is volatile.** A broad, multi-class, multi-ethnic coalition of protestors compelled the resignation of the previous President in July 2022. Then-prime minister, Ranil Wickremesinghe, was elected President via a parliamentary ballot on July 20, 2022. Some level of stability has since been restored, although a degree of political uncertainty is likely to persist during the CPF period. Already, local government elections were postponed in February 2023, which added to the political uncertainty.

8. **The current leadership has shown strong reform commitment, but this could weaken ahead of national elections in 2024**. The current political leadership has implemented difficult and necessary reforms, including implementation of cost-reflective utility pricing and revenue measures, and announced several others, including improving fiscal oversight and debt management, enhancing competitiveness through integration into global value chains and implementing long-delayed SOE reforms, all while strengthening protections for the poor and vulnerable. Using the momentum created by the deep sense of

crisis, preparation of the IMF EFF was concluded and approved relatively quickly, and the EFF was also approved by Parliament on April 28, 2023. The government has constructively engaged with creditors on debt restructuring. Nonetheless, there is vocal opposition to the reform program, which could gain strength ahead of national elections in 2024, particularly if the economic situation does not improve, including due to a delay in a debt deal with Sri Lanka and its creditors making external financing uncertain.

9. **Conducted in late 2022, the Risk and Resilience Assessment (RRA) identifies five structural drivers of Sri Lanka's vulnerability to crises**. These include (a) centralization of power and erosion of institutional checks and balances; (b) lack of transparency and accountability in economic decision-making; (c) legacies of the previous armed conflict and impacts on social cohesion; (d) evolving geopolitical dynamics; and (e) compounding effects of climate change and other exogenous shocks. The RRA underlined the need to transition from short-term emergency response to addressing these underlying issues, with expanded political economy analysis and a greater focus on inclusion and resilience *(see Annex 9).*

2.2 | RECENT ECONOMIC DEVELOPMENTS

10. **Sri Lanka's longstanding structural weaknesses, exacerbated by a series of exogenous shocks, plunged the country into a severe economic crisis.** Poor governance, a restrictive trade regime,[4] a weak investment climate, and episodes of loose monetary policy and an administered exchange rate, contributed to macroeconomic imbalances in the last two decades. Fiscal indiscipline, linked to low revenue collections, led to high fiscal deficits and large gross financing needs. These weaknesses were masked by rapid growth, particularly after the end of the civil war in 2009, spurred along by risky commercial borrowing and an increasingly inward-oriented economic model. The tax cuts in 2019 further eroded weak fiscal buffers and led to a rapid growth in debt to unsustainable levels (PPG debt - 118.7 percent of GDP, 2022). Several exogenous shocks also contributed to economic instability, including a political crisis in 2018, the Easter bombings in 2019, the COVID-19 pandemic in 2020, and Russia's invasion of Ukraine in 2022. Sri Lanka lost access to international financial markets in 2020 following credit rating downgrades.

11. **Amid depleted reserves, Sri Lanka announced a debt moratorium in April 2022, sought support from the International Monetary Fund (IMF), and initiated several critical reforms**. Following its staff-level agreement in September 2022, the IMF Board approved a US$3 billion-48-month Extended Fund Facility (EFF) program in March 2023 after securing financing assurances from official creditors to provide debt relief consistent with the IMF's debt sustainability framework. The authorities aim to complete the debt restructuring negotiations with creditors before the first review of the EFF.[5]

12. **Real GDP contracted by 7.8 percent in 2022, as the macroeconomic crisis deepened from the COVID-19 pandemic.** After growing by 3.5 percent (y-o-y) in 2021, all key sectors contracted in 2022, particularly in Q3 (11.5 percent, y-o-y) and Q4 (12.4 percent, y-o-y) amid supply disruptions and lack of inputs (fertilizer, fuel, and industrial inputs). While fuel shortages have subsided thanks to a QR code based digital rationing system implemented in August 2022, shortages of food, medicine and inputs for the agriculture and industry sectors persisted in the second half of the year. High frequency indicators such as cement consumption, electricity sales to industries, and purchasing managers' indices continue to show significant stress on economic activity.

13. **Following the unprecedented high levels of inflation in 2022, there has been some easing off in early 2023.** After peaking at 69.8 percent (y-o-y) in September, inflation, measured by the Colombo Consumer Price Index (CCPI), decelerated to 35.3 percent in April 2023. Partial monetization of the fiscal deficit and currency depreciation contributed to the soaring inflation in 2022. The increase in global oil prices, accompanied by implementation of a fuel pricing formula (since May 2022) that adjusts for changes

[4] Over the 2000-2022 period, the share of trade to GDP more than halved from 88 to 43 percent and that of exports to GDP fell from 39 to 18 percent.
[5] The first review of the EFF is scheduled for September 2023.

in oil prices, also raised prices across all sectors. The spillover effects of the ban on chemical fertilizers in 2021 added inflationary pressures on domestic food prices. Annual average inflation was 46.4 percent in 2022.

14. **Monetary policy has been tightened significantly, although interest rates remain negative in real terms.** Rising inflation prompted the Central Bank of Sri Lanka (CBSL) to raise policy rates by 950 basis points in 2022. Another increase of 100 basis points in March 2023 raised the policy rate corridor to 15.5 percent (Standing Deposit Facility) and 16.5 percent (Standing Lending Facility). Market interest rates have increased even faster and remained significantly above the policy rate corridor, particularly since the second half of 2022, reflecting market concerns about the possibility of domestic debt restructuring and continued high inflation. Despite a reduction in recent months (from about 30 percent between August to December 2022), Treasury bills were auctioned between 22 and 26 percent in April 2023.

15. **Without market access, official reserves were depleted, and the exchange rate was allowed to float.** Official reserves declined from US$7.6 billion in 2019 to less than US$400 million (excluding a currency swap equivalent to US$1.5 billion with China)[6] in April 2022, as the country continued to service debt and finance the trade deficit using reserves. The severe foreign exchange liquidity constraint was felt across the economy, with shortages of fuel, medicine, cooking gas, and other inputs needed for economic activity. To address the liquidity shortage, the exchange rate, which had been kept fixed at an unsustainable level from August 2021 to March 2022, was floated on March 7, 2022. However, as the Sri Lankan Rupee (LKR) depreciated by approximately 78 percent against the US Dollar during the two-month period[7], the CBSL returned to a managed float on May 12, 2022.

16. **The current account deficit narrowed in 2022 due to sharp import compression, despite a sharp fall in remittances and relatively low tourism receipts**. The merchandise trade deficit declined to US$5.2 billion in 2022 from US$8.1 billion in 2021 with a reduction in imports and an increase in exports. Imports grew in the first half of the year due to the financial assistance from India, but they declined sharply in the second half amidst severe foreign exchange shortages and rapid exchange rate depreciation, and subdued import demand. In response, the government implemented a foreign exchange management strategy, including matching cash outflows with inflows, prioritization of imports, and rationing of foreign exchange. Overall, the import bill declined by 11.4 percent (y-o-y) to US$18.3 billion in 2022. On the other hand, merchandise exports increased by 4.9 percent to US$13.1 billion, as the garment sector rebounded. Although tourism receipts increased from a very low base, they were well below the pre-COVID levels in 2022, while remittances through official channels declined by 31.0 percent (y-o-y) or by US$1.7 billion. Reduction in the merchandise trade deficit (by about US$3 billion) narrowed the current account deficit to 1.9 percent of GDP in 2022 from 3.7 percent in 2021.

17. **The external sector appears to have temporarily stabilized, albeit at a low-level equilibrium.** In the absence of large debt service payments and with the implementation of the foreign exchange management strategy, the balance of payment recorded surpluses in Q3 and Q4 of 2022, leading to an accumulation of official reserves (US$1.3 billion in March 2023, excluding the currency swap with China). Net foreign assets in the banking system also improved from US$-6.4 billion in April 2022 to US$-4 billion in February 2023. Weaker import demand from real sectors and stronger remittance flows in Q1 of 2023,[8] growing expectations on the approval of an IMF program, relaxation of the mandatory foreign exchange sales requirement by banks to the central bank, and the unwinding of speculative US Dollar holdings contributed to improving foreign exchange liquidity. As a result, the LKR appreciated against the US Dollar

[6] To use this currency swap, Sri Lanka needs total reserves equal to three months of import cover.

[7] The LKR depreciated by 81 percent from LKR200.4 in December 2021 to LKR363.1 in December 2022.

[8] With increasing remittance flows, the central bank relaxed the mandatory foreign exchange sales requirement by bank to the central bank on February 24, 2023.

(11.3 percent) between February 27 and April 28, 2023. Amid the currency appreciation, the central bank announced[9] that it will transition back to a flexible exchange rate.

18. **The overall fiscal deficit declined in 2022 owing to tightly controlled primary expenditures despite a ballooning interest bill.** Total revenue and grants remained unchanged at 8.3 percent of GDP in 2022 due to disruptions to economic activity amid the crisis.[10] The primary expenditures declined by 2 percentage points of GDP due to tightly controlled public investment and the reduction of wages and pensions and transfer payments as a share of GDP amid high inflation. As a result, the primary deficit contracted to 3.7 percent of GDP in 2022 from 5.7 percent of GDP in 2021. However, the reduction of the overall deficit was limited to 1.5 percentage points to 10.2 percent of GDP in 2022, as interest payments rose to 6.5 percent of GDP in 2022[11,12]. With limited access to external financing and tight domestic liquidity conditions, approximately two thirds of the deficit was financed by CBSL.[13]

19. **Challenging economic conditions have translated into increasing risks for the financial sector.** While some vulnerabilities are masked due to numerous regulatory forbearances, solvency, liquidity, and profitability risks persist, particularly for state-owned banks (SOBs). Solvency is under pressure due to the banking sectors sizable exposure to the distressed sovereign and financially weak SOEs (gross domestic and foreign currency exposure at approximately 40 percent of total assets). With the sharp economic contraction, banks' asset quality has also deteriorated, with non-performing loans (NPLs) rising from 8.4 percent in Q1 2022 to 10.9 percent in Q3 2022. Due to increasing impairment charges, the profitability of the banking sector also declined, with the Return on Assets (ROA) dropping to 8.5 percent in Q3 2022 from 20.4 percent in Q1 2022. While forex liquidity pressures have eased in recent months, local currency conditions have worsened, reflected by very high and rising deposit rates, further reducing banks' profits and, ultimately, their capital. As a result, although liquidity ratios remain within regulatory limits, banks, particularly SOBs, have relied heavily on the CBSL liquidity facilities to fulfill their funding needs. Non-Bank Financial Institutions (NBFIs) also experienced rapid deterioration of asset quality, with NPLs jumping by 6.5 percentage points in 2022 to 17.5 percent by end-2022. Capitalization, however, improved from 17 percent in 2021 to 22 percent in 2022, mainly due to the infusion of new capital to meet NBFI regulatory requirements.

20. **Following the authorities' request for an IMF program, IMF staff carried out a debt sustainability analysis, using market-access thresholds.** This analysis suggested that Sri Lanka's external debt was not sustainable without restructuring and established targets for the government's gross financing requirement and external debt service to calibrate the required debt restructuring. The Bank's DSA takes these targets as given, even though they imply a relatively high level of debt post restructuring. According to our illustrative scenario[14] – one among possible scenarios to achieve the IMF's debt sustainability targets[15] – post-restructuring, the PPG debt to GDP ratio is projected to decline from 118.7 percent in 2022 to 102.8 percent in 2023, and gradually decline towards 95 percent in the outer years, broadly meeting the

[9] Direction issued by the central bank on (March 03, 2023), which came into effect on March 7, 2023.
[10] These measures included a new surcharge tax, a new social security contribution levy, and an increase in VAT rate from 8 to 15 percent. The full-year impact of the social security contribution levy and the VAT rate change will come in 2023.
[11] From 6 percent of GDP in 202.1
[12] Interest payments continued to absorb a very high share –at 77.8 percent of total revenue in 2022- despite the suspension of external debt services reflecting a significant increase in interest rates for government securities and the impact of currency depreciation.
[13] Measured by the change in net credit to government from the central bank as a share of the overall deficit.
[14] Our illustrative scenario assumes: (i) a principal reduction of external private debt, along with a significant grace period (leading to an approximately 35 percent NPV reduction at a 5 percent discount rate); (ii) a maturity extension for official bilateral debt, with a similar debt relief to external private debt in NPV terms; (iii) T-bills held by the Central Bank are exchanged into longer term debt instruments; and (iv) a reprofiling of select categories of remaining domestic debt (while limiting the impact on the financial sector).
[15] Key debt targets of the EFF are: (i) the level of debt should decline below 95 percent of GDP by 2032; (ii) average GFN should remain below 13 percent of GDP in 2027–2032 and remain on a downward trajectory thereafter; and (iii) FX debt service should not exceed 4.5 percent of GDP in any year.

aggregate debt target set by the IMF. Although GFN will remain high in the short-run (on average, approximately 19.7 percent between 2023 and 2027), with reductions in the outer years, average GFN is projected to remain below the IMF target – an average of 13 percent of GDP in 2027–32. Due to restructuring of private debt, the FX share of debt service is projected to remain well below the IMF target of 4.5 percent of GDP.

21. **Given the likely parameters of external debt restructuring and available financing from the IFIs, Sri Lanka's path to recovery remains narrow and downside risks are very high**. The planned fiscal and external adjustment, debt relief, and adequate financial support from international partners are projected to put the economy on a sustainable macroeconomic trajectory and the external financing gap is projected to be closed for 2023-26. However, the projected adjustment path has limited buffers, allowing no deviation from agreed policies, and requiring timely conclusion of debt talks and provision of IFI support. The outlook is consequently subject to significant downside risks, including: (i) protracted external debt restructuring, (ii) lower-than-expected external financing or larger financing requirements, (iii) delay in or weaker than expected fiscal adjustment; (iv) escalation of political instability and social unrest; and (v) a further deterioration of financial sector stability. On the upside, faster recovery of tourism and larger remittance flows could raise the growth path and build additional external buffers. Moreover, the recent tax policy changes that go beyond restoring the pre-2019 tax regime,[16] and improved tax administration could support a stronger revenue adjustment.

2.3 | POVERTY PROFILE

22. **The economic crisis doubled the poverty rate in Sri Lanka between 2021 and 2022.** Gains in welfare made between 2006 and 2019 are eroding. COVID-19 had already increased poverty from 11.3 percent in 2019 to 13.1 percent in 2021. The continued crisis is estimated to have increased the poverty rate further to 25 percent in 2022 ($3.65 per capita, 2017 PPP) – the highest since 2009. This is an addition of 2.5 million poor people. Poverty is projected to increase by an additional 2.4 percentage points in 2023 following a projected 4.3 percent contraction in GDP per capita. A worse growth scenario and the adverse impacts of ongoing efforts to increase revenues through higher taxes, energy tariffs, and fuel prices may result in even higher poverty levels.

23. **Vulnerability to income shocks has also increased with many non-poor households living close to the poverty line.** Around 5.8 percent live less than 10 percent above the poverty line and another 5.5 percent live 10 to 20 percent above it. These households are highly vulnerable to falling into poverty in the event of a negative income shock, including climate-related shocks.[17] Further, many preexisting poor people have fallen further below the poverty line and a significant share of the poor are not receiving any social assistance.

24. **Sri Lanka's poor remain concentrated in rural areas, although urban poverty has tripled**. Whereas 80 percent of the poor live in rural areas, the poverty rate in urban areas grew from 5 to 15 percent between 2021 and 2022. While agriculture in rural areas provides some safety net, many rural households have turned to overuse of natural capital – including the use of fuelwood for cooking, encroaching on forest land for food security, and dynamite fishing – resulting in natural capital loss. Areas of deep poverty continue to exist, particularly in the Northern provinces.

25. **Reforms to stabilize the economy may have negative impacts and need to be complemented with targeted support.** Macroeconomic and fiscal reforms, price adjustments, reductions in expenditure and subsidies, and other measures to reduce economic distortions are likely to amplify poverty and

[16] In 2019, the government implemented several tax policy changes, including a VAT rate reduction from 15 percent to 8 percent, that eroded tax revenue.

[17] An average of over 900,000 people have been affected annually over the past 40 years. A study found that the expected destruction from nationwide 50-year flooding could move nearly 34,000 individuals into transient income poverty or subsistence.

vulnerability in the near term. These measures will need to be paired with well-targeted compensatory measures for those most affected. A poverty impact assessment of the tax and transfer system has been initiated by the World Bank to inform reforms. A focus on jobs and building rural livelihoods is essential and the social protection system should help recipients to graduate and generate sustainable livelihoods.

26. **Women, already impacted during the Covid-19 pandemic, have become particularly vulnerable in terms of employment, personal safety, maternal health and nutrition.** The status of women-headed households (WHH)- representing 25.82 percent of households- was already precarious. Their effective exclusion from the public sphere including community and social institutions[18] makes them much more likely to be impoverished than male-headed households. The last gender assessment conducted by the World Bank in 2017 explored issues around women's labor force participation[19]. Since COVID19 and through the crisis, reduced access to food and fuel and imposition of curfews increased the burden of unpaid care and domestic work among women and girls. This further limited women's income generation, education and skill development outside of the home. These issues, now coupled with the rising costs of living, have forced women and girls to turn to alternative, risky income sources to survive. Also, increased risks of gender-based violence (GBV) and intimate partner violence (IPV) are becoming acute due to increased levels of depression and substance abuse by men to cope with the crisis.[20] [21] This requires strong interventions to support women's return to work in both formal and informal sectors, programs to address nutritional concerns of women and children, strengthened GBV prevention and response systems, and increased youth employment opportunities.

2.4 | WBG 2022 CRISIS RESPONSE

27. **At the outset of the crisis, WBG worked with the Government and development partners to outline a crisis response platform.** Examples of successful cooperation include the sequencing of emergency support for cash transfers by the World Bank and Asian Development Bank (ADB). This early World Bank coordination mechanism evolved into a wider *MDB+ coordination platform* with ADB, Asian Infrastructure Investment Bank (AIIB), IMF, Japan International Cooperation Agency (JICA), and the United States Agency for International Development (USAID), as participants. The MDB+ Platform complements and coordinates with the larger development forum in Sri Lanka but focuses on select issues of mutual interest. Anchored by a World Bank Secretariat, the platform helps coordinate country strategies, sequence financial and analytical support and resolve operational and other bottlenecks. The MDB+ platform now involves a rotating chairmanship.

28. **The World Bank repurposed significant undisbursed funds from its existing portfolio to sustain institutions for the provision of essential goods and services, protect the vulnerable, support livelihoods, and address food insecurity.** At the Government's request, in May 2022, the World Bank repurposed US$325 million from the Inclusive Connectivity and Development Project (ICDP) for emergency support through its Contingent Emergency Response Component (CERC). These funds

[18] United Nations Sri Lanka, Mapping of Socio-Economic Support Services to Female Headed Households in the Northern Province of Sri Lanka.

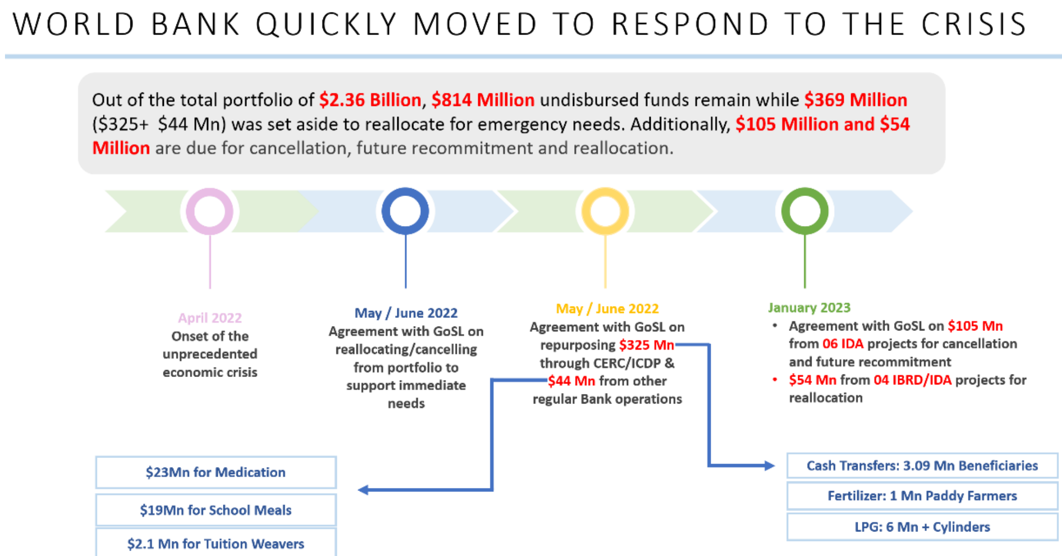
[19] Solotaroff, Jennifer L.; Joseph, George; Kuriakose, Anne; Sethi, Jayati. 2020. Getting to Work : Unlocking Women's Potential in Sri Lanka's Labor Force. Directions in Development—Countries and Regions;. Washington, DC: World Bank.

[20] Sri Lanka Rapid Food Assessment. Centre for Poverty Analysis, ACYED, World Vision. 2022. https://www.cepa.lk/wp-content/uploads/2022/10/Rapid-Food-Security-Survey-Report-July-2022_0.pdf (Accessed 19th December 2022)

[21] Jewkes, R., Fulu, E., Tabassam Naved, R., Chirwa, E., Dunkle, K., Haardörfer, R., & Garcia-Moreno, C. (2017). UN Multi-country Study on Men and Violence Study Team. Women's and men's reports of past-year prevalence of intimate partner violence and rape and women's risk factors for intimate partner violence: A multicountry cross-sectional study in Asia and the Pacific. PLoS Med, 14(9), e1002381.

financed (i) cash transfers for poor and vulnerable households, (ii) liquefied petroleum gas for households and small businesses, and (iii) fertilizer (urea) for smallholder paddy farmers. Funds from other operations were also utilized for (iv) essential medicine and medical supplies, (v) school meals, and (vi) tuition waivers (figure 1). Through the emergency response process, the World Bank has also helped strengthen institutions' transparency, procurement, and reporting. For instance, the Geo-Enabling initiative for Monitoring and Supervision (GEMS) – introduced to monitor the distribution of fertilizer – can be scaled up to strengthen accountability and transparency in project implementation process *(see Annex 7)*.

Figure 1: World Bank's Emergency Response Finances Essential Goods and Services



29. **The World Bank also began adapting its existing portfolio of 17 projects amounting to $2.36 billion to the changing needs and a new implementation environment.** In coordination with Government, the teams are in a continuous process of restructuring the portfolio to enhance implementation and to identify cancelations for future use. Adjustments have been made to projects where relevant, and cabinet approval was obtained in January 2023 to cancel IDA US$105 million from six projects and to reallocate US$54 million within four IBRD/IDA projects million. This is in addition to $23 million of relocated funds which had been utilized for imports of essential medicine and school feeding programs.

30. **IFC's counter-cyclical approach continued to support the private sector and trade**. Investments included US$150 million for the expansion of Sri Lanka's largest telecom operator and US$50 million in a key garment exporter. In February 2023, IFC provided a cross currency swap (CCS) facility of up to a notional amount of **US$ 100 million for 3-months** with the ability to roll over for up to one year to three licensed commercial banks (LCB) in Sri Lanka. Through this facility, IFC will provide a total notional amount of **US$400 million in US dollar (USD)** liquidity and support the import of essential items (food, medicine etc.) over a one-year period.

2.5 | MAIN DEVELOPMENT CHALLENGES

31. **The 2021 Systematic Country Diagnostics (SCD) Update identified long-standing development challenges for Sri Lanka. The current crisis has forced an urgent prioritization among these.** Challenges identified in the SCD include: (i) fiscal and debt sustainability; (ii) fostering competitiveness for private sector-led growth and job creation; (iii) enhancing social inclusion; (iv) environmental sustainability and climate change; and (v) cross-cutting governance challenges. Among

these challenges, macro-fiscal stabilization, enhanced social protection and improved governance deserve the most immediate attention. However, without private sector job creation and greater attention to climate risks, social inclusion and environmental sustainability a lasting recovery can be achieved, and the WBG needs to keep them in focus to lay the foundation for post stabilization engagement.

A. Reaching fiscal and debt sustainability is the most critical challenge amid the crisis

32. **Years of fiscal indiscipline, risky commercial borrowing, low revenue collection, and poor macroeconomic governance were key drivers of the current crisis**. Some of these weaknesses were masked by rapid growth, but the 2019 fiscal stimulus package – including drastic tax cuts – was a tipping point. This package included a reduction in the VAT rate from 15 to 8 percent, an increase in the VAT registration threshold from LKR 12 million to 300 million per annum, and other concessionary rates and exemptions on Personal Income Tax and Corporate Income Tax. As a result, and in combination with structural weaknesses and the emerging COVID-19 pandemic, Sri Lanka's public debt rose to unsustainable levels.

33. **Sri Lanka's debt is unsustainable and needs debt restructuring and fiscal adjustment**. In 2021, PPG debt rose to 109.7 percent of GDP and the Government's debt servicing (excluding Treasury bill rollover) reached 163 percent of revenue. The projected GFN for 2022 was around 30 percent of GDP, among the highest in emerging markets. Sri Lanka requires substantial debt restructuring, including NPV reduction in the outstanding debt burden, as well as a fiscal adjustment that (i) strengthens domestic revenue mobilization (revenue-led fiscal consolidation is a priority as Sri Lanka's revenue to GDP ratio – estimated at 8.7 percent of GDP in 2022 – is among the lowest in the world[22]); (ii) rationalizes expenditure[23] and improves budgetary oversight; and (iii) addresses fiscal risks associated with SOEs. An improved legal and institutional framework and debt management strategy are also needed to strengthen debt management.

B. Challenges to enhancing human capital and social inclusion

34. **Sri Lanka's strong human capital outcomes are in danger of being eroded at a fast pace as a result of the crisis.** Before the crisis, Sri Lanka had some of the best human capital outcomes in South Asia.[24] These impressive gains were achieved despite having the lowest levels of spending as a percentage of GDP on health, education, and social assistance in South Asia. However, the COVID-19 pandemic and the economic crisis have put a severe strain on health, education, and social protection systems, hindering access to quality social services, particularly among the poorest and most vulnerable. The rate of child malnutrition has spiked after the crisis. As noted earlier, female labor force participation is low, and women have limited access to financial capital. Gender-based violence is also prevalent in Sri Lanka, with older women and those in the Northern and Eastern provinces experiencing higher rates *(see Annex 10).*

35. **Social inclusion is hindered by slow progress in expanding access to economic opportunities to vulnerable groups**, **who are disproportionately affected by the pandemic and the economic crisis**. Despite years of steady growth, disparities persist, and human capital outcomes vary across the country: the subnational Human Capital Index (HCI) ranges from 50.7 in the Eastern Province to 63.3 in the Southern Province. Approximately, 42.2 percent of the population is at risk of exclusion, including estate workers, religious and ethnic minorities, poor living with disabilities and chronic illnesses, and women affected by intimate partner violence. These exclusions have been exacerbated by the crisis.

36. **Social protection remains inadequate to address poverty, inequality, and exclusion which has been amplified by the crisis.** Based on HIES 2019 microsimulations, less than fifty percent of the poor

---

[22] Although Sri Lanka's tax buoyancy is less than 1 (the change in tax revenue in response to an increase in GDP), under an earlier IMF program, the revenue to GDP ratio increased to 13.2 percent of GDP in 2016 given several revenue-enhancing reforms.

[23] At less than 20 percent of GDP, Sri Lanka's expenditures are not high by international standards. However, efficiency gains can be achieved.

[24] According to the 2020 HCI, a Sri Lankan child born in 2020 was expected to be 60% as productive as she or he would otherwise be with full health and education. This is the highest in South Asia and is higher than the global (57%) and South Asia average (46%).

receive social assistance.[25] The targeting performance of Sri Lanka's largest poverty alleviation safety net program, *Samurdhi,* remains weak and has worsened over time, with a lesser proportion of eligible households benefiting each year.[26] This limits the program's impact on equity and economic inclusion. In addition, the real value of the benefit has been eroded by inflation, making the already low benefit even more inadequate. The benefit amounts have been fixed in nominal terms and are adjusted occasionally (usually in the run-up to elections). Yet, despite low transfer amounts, cash transfers appear to have tangible consumption impacts based on the 2019 Household Income and Expenditure Survey data.

C. Challenges to fostering competitiveness for private sector-led growth and job creation

37. **The private sector has limited access to growth and job-creating regional and global value chains.** This is a result of Sri Lanka's strong inward orientation, poor infrastructure, and weak business environment with excessive and inefficient regulation, a regulatory and business environment favoring SOEs, an outdated insolvency framework, rigid labor regulations, weak contract enforcement, and limited access to bank finance. Distortions are particularly apparent in trade policy, which protects many inefficient sectors and domestic firms. Increasing import duty protection over the past decades, for example, has created an anti-export bias by increasing the profits of selling in the domestic rather than in export markets. This has contributed to the reduction in the exports-to-GDP ratio from 39 percent in 2000 to 17 percent in 2022.[27] In addition, a complex system of import duty exemptions incentivizes rent-seeking and weakened the state's capacity to collect revenues. Pro-competition reforms are essential to fully address the core weaknesses that contributed to the crisis. However, despite the economic crisis, exports grew in the post-crisis period, with certain firms and sectors (such as ICT, high-end agribusiness, and specialized manufacturing) exhibiting the potential to increase export earnings and attract more foreign direct investment (FDI). Liberalizing FDI norms is critical to attracting more foreign investment and boosting productivity.

38. **Sri Lanka's inadequate infrastructure in power, transport, logistics, telecommunications, water supply and sanitation are a significant drag on economic performance**. The presence of SOEs in these sectors has suppressed investment and private sector participation. Over the first phase of the CPF, the priority will be to reform these SOEs along with the leading state-owned banks (SOBs) that have sustained their poor performance through government support. This reform will need to target policies that reduce losses, improve corporate governance and competitiveness, and eliminate distortionary and regressive subsidies. Supporting this agenda, the WBG will continue coordinating with key development partners under the MDB+ platform, including the IMF and ADB, and bilaterals. These reforms would pave the way for an eventual pipeline of bankable PPPs for future capital financing once an effective Public-Private Partnership (PPP) framework is in place. Current PPP guidelines provide considerable discretion in their implementation and are not a sound foundation for attracting private investment. Strengthening PPPs, including through demonstration projects supported by IFIs, will be critical over the medium to longer term to address infrastructure shortages and diversify financing options beyond public investment.

39. **Improved use of digital technologies is critical for governance, inclusion, and competitiveness.** Basic internet services are widely available, including over mobile networks that have near-universal coverage. Yet only 55 percent of the population subscribes to mobile internet services and only 9 percent of households subscribe to fiber broadband. Only a third of households are within reach of a fiber optic network, especially lagging in rural areas. Improving digital access is essential to promote an inclusive future, including for health and education services. The adoption of digital technologies by businesses, especially MSMEs, and advanced digital skills among individuals will enhance competitiveness.

[25] *Sri Lanka Development Update (October 2022).*

[26] Over 50% of households in the poorest two income deciles were Samurdhi beneficiaries in 2006. This declined to less than 38% in 2019.

[27] The World Bank's analysis estimates Sri Lanka's untapped export potential at US$10 billion for merchandise alone.

40. **Improvements in the investment climate and a more inclusive business environment are critical for Sri Lanka's recovery to become more inclusive.** The 2022 crisis is estimated to have led to the loss of over half a million jobs, particularly affecting women and youth. The past growth model has created jobs mostly in the construction sector and in protected SOEs. However, 71 percent of the labor force remained in tenuous self-employment or informal employment. High youth unemployment, and a female labor force participation rate of 39.9 percent, half that for men, are further symptoms of the inability of the previous model to create inclusive growth. In addition to promoting more private investment, improvements in skills is critically needed, as the education system is not attuned to the requirements of the labor market and the employment support system is weak. Within country labor mobility is limited, leading to labor shortages alongside high unemployment *(see Annex 8).*

D. Significant and increasing climate and other environmental risks

41. **Climate risks and frequent climate-related disasters amplify and complicate Sri Lanka's crisis and recovery**. Its economy is dependent on climate-sensitive sectors such as agriculture, fisheries, tourism, manufacturing, forestry, and energy, while its cities are highly vulnerable. The World Bank's *Climate Change Action Plan 2021-2025: South Asia Roadmap* notes that heat waves, water scarcity, flooding, drought, landslides, and cyclones disproportionately affect the poor and could cause a potential 7.7 percent GDP decline in Sri Lanka by 2050. By 2050, 90 percent of the population may face medium to high climate risks. Drought affects all parts of the country with varying intensity. Sri Lanka's food security is adversely affected by extreme rainfall variability and heat stress. Rapid urbanization has led to a loss of wetlands, environmental degradation, and increased vulnerability to climate change.[28] While these challenges are now better understood, public action remains limited. A robust strategy for climate adaptation is needed with prioritization rooted in empirical evidence. The CCDR and follow-on Country Environmental Analysis (CEA) will inform future actions.

42. **While the consolidated costs and benefits of various investments for increasing resilience and sustainability are not available, analyses show that the degradation of natural capital[29] and other productive and protective assets puts at risk tourism, agriculture, hydropower generation, and fisheries.** This cycle is being driven by poorly planned infrastructure development, forest encroachment, mangrove loss, weak land tenure, lack of integrated natural resource management, institutional fragmentation, and weak implementation. Rising pollution and waste, including plastic,[30] are also concerns. Anecdotal evidence suggests that the economic crisis is driving further environmental degradation and increasing climate vulnerabilities. Interventions that protect, rebuild, and manage the natural productive capital to generate livelihoods, reduce rural vulnerability, and safeguard the sustainability of agriculture and food systems will be critical for the country to infuse resilience as it rebuilds its economy. The upcoming CCDR and CEA will inform a sound, evidence-based prioritization framework for this.

43. **Local development priorities are linked to environmental change, including global warming**. Sri Lanka's greenhouse gas emissions are very low (less than 0.1 percent of global emissions and per capita emissions of 0.6 $tCO2_e$), and it has a 2050 net zero target. This presents opportunities to attract private capital and generate economic growth and jobs. For example, the country has prioritized renewable energy expansion which reduces costly dependence on fossil fuels while improving health outcomes from cleaner air. Sri Lanka's Nationally Determined Contributions (NDC) aim for a 70 percent share of renewable energy by 2030, improved energy efficiency and cleaner transport. Similarly, multiple local development and global benefits arise from well-managed natural capital such as land, forests, and mangroves. These store carbon while also reducing climate and disaster risks and providing adaptable, resilient livelihoods.[31]

---

[28] World Bank Climate Change Action Plan- 2021-2025- South Asia Road Map.
[29] Natural capital including land, water, biodiversity, and ecosystems.
[30] Sri Lanka generates about 775 tons of plastic and polythene waste per day but lacks the capacity to process and recycle it. *SCD Update 2021.*
[31] World Bank Climate Change Action Plan- 2021-2025- South Asia Road Map.

E. Cross-cutting governance challenges are at the heart of the crisis

44. **Governance and institutional challenges are at the heart of the ongoing crisis.** Governance weaknesses contribute to corruption and the capture of key functions has led to an erosion of accountability. Many aspects of both economic governance and public administration are beset by the problems of patronage. Vested and linked interests can lead to favoritism for certain firms to the detriment of open competition. Efforts to de-politicize the civil service in previous decades have not been effective enough. Additionally, Sri Lanka needs to strengthen its capability to effectively address corruption. Plans are underway for significant upgrades to accountability institutions and mechanisms but making them effective with institutional independence will require investments in systems and human capabilities. Weak public investment planning, budgeting, procurement, implementation, monitoring and evaluation, and external audit capacity hinder the effectiveness and transparency of public financial management. Service delivery would also benefit from empowering local government agencies through capacity, institutional, and financial means.

45. **Regulatory burdens adversely impact factor markets and the operating environment.** Weaknesses in land administration remain deep-rooted and the country does poorly on labor redundancy costs, property rights, and the insolvency framework. Moreover, the country underperforms on fiscal regulatory burden indicators such as trade tariffs, complexity of tariffs, and distortive effects of taxes and subsidies. Frequent changes, for example, in taxation, negatively affect the predictability of the policy regime, discouraging private investment.

46. **SOE reforms are critical to reducing fiscal risks and enhancing competitiveness**. SOEs operate across 33 economic sectors and employ 6 percent of workers. Many SOEs have market dominating or monopoly positions which discourage private capital mobilization. SOEs have also become a major source of fiscal risks due to pricing issues, operational inefficiencies, and weak financial management. In 2021, Ceylon Petroleum Corporation (CPC), Ceylon Electricity Board (CEB), and Sri Lankan Airlines incurred a combined operational loss equal to 1.6 percent of GDP.

III. WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK

3.1 | GOVERNMENT PROGRAM AND MEDIUM-TERM STRATEGY

47. **The Government's stated goal is to trigger economic stabilization and revival through structural reforms and debt restructuring, with a longer-term focus on green growth**. Its reform program comprises the following pillars: (i) an ambitious and primarily revenue-based fiscal consolidation, accompanied by institutional reforms and cost-recovery-based energy pricing, aimed at restoring fiscal sustainability and strengthening fiscal discipline; (ii) a stronger social safety net to protect the most vulnerable; (iii) a sovereign debt restructuring process aimed at restoring public debt sustainability; (iv) a multi-pronged strategy to restore price stability and rebuild international reserves under greater exchange rate flexibility; (v) policies to safeguard financial stability; (vi) focused reforms to address governance and corruption issues; and (vii) broader structural reforms to unlock Sri Lanka's growth potential. Several of these reforms have already been announced or initiated through the *2022 Interim Budget*, *2023 Budget Speech*, and *EFF MEFP* (Memorandum of Economic and Financial Policies), including new revenue measures, the reform of SOEs, cost-reflective pricing of utilities, better debt management, and some important legal frameworks such as a new central bank law and a public financial management law, all of which aim to improve economic governance and enhance competitiveness.

3.2 | PROPOSED WBG COUNTRY PARTNERSHIP FRAMEWORK

Past WBG Program and Lessons Learned

48. **The previous CPF (FY17-21) identified relevant structural challenges for Sri Lanka but failed to address key associated vulnerabilities sufficiently**. The previous CPF had three pillars: (i) improving macro-fiscal stability and competitiveness; (ii) promoting inclusion and opportunities for all; and (iii) seizing growth opportunities, improving environmental management, and enhancing adaptation and mitigation potential. Successive crises and a lack of commitment to reform meant that in all three areas conditions today are worse than at the start of the past CPF, although there were some notable achievements in service delivery that need to be preserved. The current CPF uses the deep crisis and resulting shift in government priorities to focus the short-term engagement squarely on the root causes of Sri Lanka's macro-fiscal vulnerabilities, while leaving space to engage on the medium-term challenges of green, inclusive and resilient growth in a potential second phase.

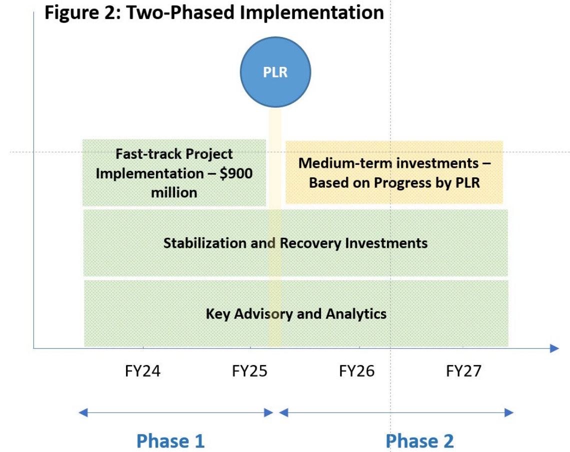
49. **The Completion and Learning Review (CLR) rates the development outcome for the FY17-21 period as 'moderately satisfactory'**. Outcomes were rated 'satisfactory' for higher education, general education, early childhood education, improved delivery of services at the regional level, and health systems. 'Moderately satisfactory' progress was made on the rehabilitation and maintenance of local infrastructure and services and improving urban livability and resilience to climate and disaster risks. The least progress was made on strengthening debt management and public financial management. This lack of progress contributed to leave Sri Lanka highly vulnerable to the series of external shocks that hit during the second half of the CPF implementation.

50. **Lessons from the CLR and the recent RRA inform the design of this CPF**. These include: (i) the need for a deeper understanding of Sri Lanka's political economy to assess risks to CPF outcomes and to facilitate more rapid adjustment as needed; (ii) the need for significant capacity building and focused TA to sustain development outcomes and build institutions, and to mitigate the risks of a very broad and fragmented engagement; and (iii) the importance of prioritizing social inclusion in all areas of engagement, both as a political risk mitigation tool, and as key to building greater resilience to shocks *(see Annex 9)*. These have been incorporated in the CPF including by: allocating resources to regular political economy analysis of reforms; greater outreach and communication with a broad spectrum of civil society; emphasis on coordinated TA and a focused reform agenda through the MDB+ platform; and the strong prioritization in the crisis response on preserving human capital and protecting the poor and vulnerable.

Overall Approach and Selectivity Going Forward

51. **Due to the prevailing uncertainty and limited resource environment[32], this CPF adopts a selective and adaptive two-phase approach in both financial assistance and in analytical work**. CPF implementation will be in two phases (Figure 2). The first phase over the first 18-24 months will focus on: (i) optimizing the existing portfolio through restructuring and cancelations to adapt to the new needs and absorptive capacity in the country; (ii) new investments that support the needed stabilization and adjustment, and that help mitigate the risks to the poor and vulnerable; and; (iii) use the current policy dialogue in key sectors (e.g., energy, digital development, pandemic preparedness) and upcoming selective analytic and advisory work including further poverty analysis, a CCDR, PER and CEM to identify more specific actions to support turnaround and growth. This

Figure 2: Two-Phased Implementation



[32] Sri Lanka lost IBRD creditworthiness and cannot access additional IBRD financing. Upon the Government's request, a reverse graduation to IDA-Gap status was approved. Until IBRD creditworthiness is re-established, Sri Lanka will only have access to IDA resources.

work will inform the second phase, which will depend on the macro-fiscal and political economy environment and its suitability to moving towards support for recovery and growth. These will be reflected in the mid-cycle PLR.

52. **Sri Lanka has a large untapped potential to crowd in private capital. Unlocking this potential will be especially important to fund the recovery**. Both traditional Cascade/Private Sector Mobilization (PCM) solutions (for example, WBG guarantees (including from the Multilateral Investment Guarantee Agency), trade finance, risk-sharing and short-term liquidity facilities) and countercyclical approaches (for example, the Distressed Assets Recovery Program) can continue to play important roles in mobilizing private capital in light of the ongoing macro and fiscal crisis (Box 1). WBG has the potential to help create a more attractive environment for private capital by supporting public policy changes in the SOE and PPP

space, together with the development of a pipeline of bankable PPP projects and increasing collaboration with other MDBs and DFIs on PCM efforts.

Box 1: Key Areas for Strengthening One WBG Approach/Cascade in Sri Lanka

Building on joint analytics and advisory work such as the CPSD and InfraSAP, the World Bank, IFC and MIGA will strengthen joint programs in Sri Lanka in the following areas under the CPF.

Financial sector stability and Investment Climate strengthening. The Bank and IFC collaborate in providing technical assistance and advisory inputs to the authorities for developing policy frameworks for risk management, NPL recognition and resolution. The Bank's DPFs and IFC Advisory support adoption of relevant laws (e.g., Unified Insolvency Act). In addition, Bank and IFC are helping improve the investment climate and support critical SOE-related legislative and institutional reforms. This legislative framework would enable IFC investments in private sector banks and mobilization of private capital, including foreign investment, which can be supported by MIGA's guarantees.

Policy reforms and infrastructure development for private sector competitiveness. WBG collaboration is underway to support policies and action plans to create markets for possible investments in transport, and the digital economy. The World Bank seeks to modernize regulations around infrastructure sharing and the spectrum to liberalize the digital infrastructure space which can potentially lead to additional private investment in towers and more competition in the mobile and broadband space. Furthermore, the Bank and IFC, together with other development partners, will collaborate closely through the Cascade approach to support the Government to establish an effective PPP framework comprising a modern PPP law (also addressing the management of PPP-related fiscal commitment and contingent risks), an empowered PPP unit with the technical and institutional capacity to identify suitable projects that can act as "pathfinder" PCM projects to support PCM/Cascade in key sectors. This will include capacity building support at the ministry/agency level to identify, develop and implement PPP projects. Going forward, IFC seeks to have a renewed engagement on reforms in the renewable energy sector and leverage upstream and advisory services (including infra-PPPs) to promote reforms together with the World Bank. As de-risking instruments, MIGA guarantees can support foreign investor participation in PPPs, complementing World Bank and IFC engagements.

Energy transition. The Bank uses DPFs and IPFs to introduce sector reforms, including SOE reforms, to improve financial and operational efficiency of the sector and support the energy transition in the country. WBG is uniquely placed to provide the government and private sector with the required resources to develop economically vital renewable energy sector. A joint WBG InfraSAP, completed in 2018, also highlighted that mobilizing private investment in the power sector is critical and requires resolving the complex institutional framework, political economy, and competing priorities. . IFC has been involved for several years through a transaction advisory to support the Government. In that capacity, IFC also completed detailed due diligence for both wind and solar projects (technical, legal, financial, and commercial assessments) and presented a Transaction Structure Report (TSR) to the Government. Going forward, World Bank could provide guarantees to PPP/IPP projects, provide limited financing for critical transmission and distribution grid strengthening, and mobilize further climate finance. The Bank could also support development of a pipeline of PPP projects, e.g., by building on ongoing ASA/TA on floating solar PV and offshore wind pre-feasibility assessments; further TA could be provided by the Bank, e.g., assessment of battery storage options, grid strengthening needs for RE scale up (that could inform development of a "Grid Stability Plan"). MIGA guarantees can support RE projects by mitigating political risks.

53. **New IDA funding will in the short-term address key macro-fiscal reforms, financial stability and social protection.** A series of two Development Policy Operations (DPO) will focus on improving economic governance, trade and competitiveness, financial sector stability, and social protection. This will be complemented by investment operations to strengthen the financial sector safety net and to improve social protection delivery systems. Selective additional financing to existing projects with high immediate impact, including in the health sector, will address some of the basic needs in the short term.

54. **The existing portfolio of 17 projects remains a critical tool for to support Sri Lanka during the crisis.** In parallel with the new pipeline, the World Bank will continue to optimize its current portfolio

with a total commitment of US$2.36 billion.[33] There are active trust funds for a total of $62 million, of which US$50.5 million is recipient-executed and co-financing two ongoing projects. In addition to identifying $105 million in IDA cancellations and future recommitment and a further reallocation of US$54 million in four IBRD/IDA projects, the World Bank and counterparts have identified bottlenecks to effective project implementation. These include: (i) inadequate counterpart funding; (ii) procurement delays (due to price escalations, operational difficulties of contractors, etc.); (iii) recent reduction in project management staffing. World Bank teams will continue partnering with counterparts to identify innovative strategies, including Bank Facilitated Procurement (BFP), Hands-on Extended Implementation Support (HEIS), UN procurement, direct contracting, and direct payments to the suppliers to surmount procurement challenges. To help improve procurement system efficiency and accountability, the upcoming TF-financed PFM project includes establishment of an e-Procurement system in Sri Lanka *(see Annex 7)*.

55. **WBG will increase efforts to attract both co-financing as well as parallel grant financing and private sector investments**. Maximizing impact through both selectivity and stronger partnerships is fundamental for leveraging scarce resources. WBG will leverage opportunities to align strategic goals and programs with development partners, particularly the MDBs using the MDB+ platform.

56. **IFC will selectively support projects that are more insulated from the macro-fiscal crisis, prioritizing opportunities that are long-term, trade-related, and export-oriented**. IFC will also focus on supporting financial institutions to continue providing credit to the private sector and supporting the Government in increasing private sector participation in the economy through SOE reform and PPPs. This support will be accompanied by the integration of climate adaptation measures in key sectors such as agriculture and energy.

Proposed WBG High-Level Outcomes and Objectives

57. **Whereas the immediate term will focus on stabilization, structural reforms and protecting the poor, the overarching goal of this CPF is to help restore economic stability and build a stronger foundation for green, resilient, and inclusive development.** To tighten the focus of the program, the CPF has been sharpened to two aspirational high-level outcomes (HLOs) and five objectives that will guide WBG's engagement *(Table 1)*. The proposed HLOs are (i) Economic Stabilization and Private Sector Job Creation; and (ii) Protected and Enhanced Human and Natural Capital. Enhancing Resilience is a cross-cutting theme.

58. **The HLOs, objectives, and cross-cutting theme are closely interlinked and mutually reinforcing, and balance critical short-term priorities with the longer-term development agenda**. For instance, HLO-1 and HLO-2 both play an important role in addressing constraints to job creation. While HLO-1 focuses on demand side issues, including supporting reforms that lay the foundation for stronger private sector-led growth, HLO-1 focuses on the supply side and addresses human capital issues such as access to education and skills that are relevant to the job market.

Table 1 | Sri Lanka CPF HLOs and Objectives FY24-FY27

High-Level Outcome 1 **Economic Stabilization and Private Sector Job Creation**	**High-Level Outcome 2** **Protected and Enhanced Human and Natural Capital**
Objective 1 | **Improve Fiscal and Debt Sustainability**	Objective 4 | **Sustain and Strengthen Health, Education and Social Protection Systems**

[33] The active World Bank portfolio is composed of IBRD financing worth US$1.08 billion and IDA financing worth US$1.27 billion). Of this, US$898 million remains undisbursed as of March 2023 (IBRD: US$406 million; IDA: US$492 million). The portfolio is composed of 16 IPF projects (US$2.26 billion) and one PforR project (US$100 million). Of the 17 ongoing projects, three will close by the end of FY23.

Objective 2 | **Improve Economic Inclusion**	Objective 5 | **Maintain and Strengthen Natural and Human Capital for Resilience and Livelihoods**
Objective 3 | **Strengthen the Investment Climate and Increase the Resilience and Efficiency of the Financial Sector**	
Crosscutting theme: Enhancing resilience	

59. **The HLOs are aligned with the WBG Global Crisis Response Framework's (GCRF) four pillars**. HLO-1 and the cross-cutting theme address strengthening resilience (pillar 3) and strengthening policies, institutions, and investments for rebuilding better (pillar 4). Additionally, HLO-2 focuses on responding to food and climate insecurity (pillar 1) and both HLOs together contribute to the pillar on protecting people and preserving jobs (pillar 2).

60. **The HLOs, particularly HLO-1, are also aligned with the Sri Lanka Country Private Sector Diagnostic (CPSD)** which outlines investment opportunities, constraints, and policy recommendations to boost medium-term growth. These recommendations include support for financial institutions, liquidity to promote private sector-led growth, climate finance to support adaption and resilience efforts, energizing the Government's privatization efforts (including SOEs), and crowding in local currency to protect businesses without forex incomes from exposure to currency volatility.

3.3 | PROPOSED CPF PROGRAM

HLO-1: Economic Stabilization and Private Sector Job Creation

61. **The first CPF HLO is improved economic resilience and access to jobs**. The main development challenges that will be addressed under HLO-1 include: (i) fiscal and debt sustainability; (ii) increasing the resilience of the financial sector; (iii) fostering competitiveness for private sector-led growth and job creation; and (iv) enhancing economic inclusion. Progress on HLO-1 will be tracked by monitoring the PPG debt to GDP ratio and the share of both formal sector employment and private sector wage workers to total employment (gender disaggregated) *(see Annex 1)*.

Objective 1: Improve Fiscal and Debt Sustainability

62. **Weak fiscal buffers and unsustainable debt levels are key challenges to macroeconomic stability and sustainable economic growth**. Fiscal indiscipline, along with risky commercial borrowing, led to unsustainable debt and increasing debt servicing to more than two-thirds of total revenues. Low government revenues (relying on a narrow base and distortionary taxes) have also been a major source of weak fiscal buffers. This has been exacerbated by very weak tax administration and a fragmented debt management approach.

63. **The Resilience, Stability and Economic Turnaround (RESET) Development Policy Series will be a pivotal instrument to support reforms to improve fiscal and debt sustainability.** These DPOs will support measures to reduce fiscal deficits through improved domestic revenue mobilization (focusing on both tax policy reforms and strengthening tax administration systems), expenditure rationalization, debt management, and enhanced fiscal governance. Scaled-up World Bank technical support will underpin the DPO series. For example, in coordination with the IMF, the World Bank will work to strengthen the efficiency, transparency, and accountability of tax administration to widen the tax net and limit tax evasion.

64. **The World Bank will support improved public financial management (PFM).** Pending the availability of TF resources, a new TA project, the *Sri Lanka PFM Strengthening Project* will support core PFM priorities for fiscal governance, including the roll-out of the e-procurement system and strengthening the capacity of the National Audit Office. Further analytical tasks will inform continued reform in PFM and governance, including a *Public Expenditure and Financial Accountability* (PEFA, FY24/25), an *assessment*

of Sri Lanka's GovTech to enhance the efficiency and accountability of public services, and an update of the *Supreme Audit Institution Performance Management Framework Assessment* (FY26).

65. **Broader analytical support will help inform Sri Lanka's reform and post-crisis growth strategy.** A *Public Expenditure Review* (FY24/25) will explore pathways to further improve efficiency and effectiveness in expenditures, particularly in public investment management and optimization of the public sector cadre. The World Bank will also deliver a series of *policy notes on priority structural reforms* to help Sri Lanka reset its growth narrative to build back better towards a more resilient and broad-based growth path, which will also inform a planned *Country Economic Memorandum* (FY26).

Objective 2: Improve Economic Inclusion

66. **The failures of the past economic model to create sufficient economic opportunities for Sri Lankans rendered them highly vulnerable to the crisis, requiring an urgent focus on preserving existing and creating new employment opportunities.** The crisis has particularly impacted vulnerable groups and individuals, and this impact will likely persist during the recovery and reform process.[34] At the firm level, small and medium enterprises (SMEs) – a major source of employment and income that already contends with deep-rooted disadvantages – are obstructed by shortages, import restrictions, etc. By promoting reform and addressing structural constraints, WBG seeks to support a long-term job creation agenda and a more inclusive economic recovery. In the immediate term, the focus will be on preventing further erosion of past development gains.

67. **Economic stabilization and reforms to level the playing field are aimed at easing the conditions for SMEs and protect the poor from the negative effects of high inflation.** The *DPO* will support reforms to establish macroeconomic and financial sector stability and resilience, increase the transparency of the tax and regulatory system and level the playing field for SMEs (e.g. in access to imports). While tax and utility fee increases may negatively affect household incomes, the impact of continued macro instability would be far worse, and the Bank's program includes targeted cash transfers to the poorest (see Objective 4). Ongoing projects also continue to create new jobs in competitive export sectors. One example is the *Agriculture Sector Modernization Project* (ASMP) which has already created more than 6,000 new long-term salary-based jobs from agribusiness investments (*see Annex 8*).

68. **While focusing on mitigating the effects of the crisis, the Bank's program in the first phase also aims to lay the foundation for a more inclusive recovery.** The *Social Protection IPF* will thus seek to promote sustainable livelihoods among a selected number of cash transfer beneficiaries through employment opportunities in priority geographic locations and sectors, including in the green and blue economy. The project will finance the development and implementation of an *economic inclusion pilot* to provide cash transfer beneficiaries with an integrated package of services (asset transfer, skills training, coaching, access to finance, etc.). The pilot will be subject to a rigorous impact evaluation, which can inform its future scale-up. The economic inclusion interventions will explicitly target women and other vulnerable groups. In addition to this, the World Bank will explore a possible new operation to support green, resilient, inclusive rural livelihoods.

69. **To promote economic inclusion and create jobs, IFC's Financial Institutions Group (FIG) advisory is launching the *SME Skill Building Project*.** The objective of this program is to build and improve the capacity of local trainers to support IFC's FIG clients in delivering high-quality skill-building services to SMEs. The program aims to train 10,000 SMEs and women-owned SMEs. To this end, IFC is currently working with five financial institutions in the country. IFC is also working with a key client financial institution, the Commercial Bank of Ceylon (CBC), and a fintech provider, GlobalLinker, on the *CBC Ecosystem Project*. This aims to build a business enablement platform for SMEs to enhance their productivity and promote inclusion at the firm level by facilitating the digitization of their business

[34] The 2022 economic crisis caused contractions in the industry and services sector which is expected to have caused the loss of over half a million jobs, disproportionately affecting women and youth, who are commonly employed in these sectors.

operations. IFC will also invest in selected private sector banks to provide gender and sustainable energy products to MSMEs, thus promoting sustainable business growth and job creation.

70. **WBG also aims to support gender equality and women's empowerment through reforms and other measures to address barriers to women's economic inclusion**. Among socio-economically disadvantaged groups, young women face some of the greatest risks arising from the compounding effects of exclusion.[35] To create a level playing field and an enabling policy framework for women, the *DPO* will support the development of legislation and policies to remove barriers to female labor force participation and work with the Government to approve and implement a new gender policy. The World Bank is also exploring ways to lift restrictions in labor legislation and to support the passage of three bills that will create the National Commission for Women and promote Gender Equality and Women's Empowerment. MIGA will explore opportunities to implement its Gender Strategy Implementation Plan in projects it supports.

71. **IFC will continue its efforts to close gender gaps in the private sector while improving business performance**.[36] Key focus areas in gender space are to increase women's participation in the private sector, increasing women's access to financial and non-financial service, and increasing women's participation as business owners and employees in the supply chains of large firms.

Objective 3: Strengthen the Investment Climate and the Resilience and Efficiency of the Financial Sector

72. **To build back better and reset its economic model, Sri Lanka needs to strengthen its investment climate and related infrastructure, but immediate steps are needed to leverage the current reform momentum and reverse the policies and practices of the past.** Many businesses are hampered by an overly burdensome regulatory environment.[37] Sri Lanka scores poorly compared to many of its peers on enforcing contracts, paying taxes, trading across the border, getting credit, and registering property. Improving integrated and inclusive transport connectivity, digital, water and energy infrastructure will be essential to build a resilient economy.

73. **During the first two years of the CPF WBG will help identify and begin removing the policy, legal and institutional obstacles to investment, including by addressing SOEs.** The DPO series will provide support for institutional and legal reforms to address the distortionary impact of poorly performing SOEs and ensure a level playing field. The World Bank will also engage on land access and rights (a major constraint for businesses) through existing TA and a possible future IPF operation. IFC will continue to work closely with the World Bank through its advisory services to help improve the investment climate, focusing on trade finance, FDI, gender equality, PPPs, and agricultural competitiveness. MIGA will also explore opportunities to support foreign investment and in trade finance in collaboration with IFC. On SOE reform, the World Bank will initially focus on legal and institutional development, in line with the SOE Reform Roadmap agreed upon with the Government. Subject to government approval, IFC can provide advisory services for "first mover" SOE transactions, with the World Bank providing support once the legal and institutional platform is in place.

74. **Ensuring the stability and gradual restructuring of the financial sector is critical for private sector led growth.** The first-order priority is to reduce risks and enhance Sri Lanka's capacity to respond

[35] Groups facing the greatest risk of exclusion, include young women in the age group of 15-24 years, Indian Tamil women in the estate sector, and female-headed households in the Northern and Eastern provinces. *(Sri Lanka Risk and Resilience Assessment 2022)*.

[36] Under IFC's WiW, over 30,000 women have received financial training, two new women-focused insurance products were launched, and 100 women directors were appointed at listed companies to date. In addition, a partnership with 15 Sri Lankan firms employing over 170,000 people led to 12,000 more women being employed.

[37] The difficult regulatory environment is not experienced equally by all. For many successful exporters and large SOEs, procedures have been streamlined through special regimes. The challenge will be to extend streamlined procedures to a wider range of enterprises.

to an outbreak of systemic instability. The DPO supports enhancements to the financial sector safety net, including through the adoption of an emergency liquidity assistance (ELA) framework that sets out the policies and procedures for the CBSL's lender of last resort function and the establishment of a high-level financial sector crisis management committee (to ensure proper Ministry of Finance-CBSL coordination on crisis management). Another critical priority is to modernize the bank resolution law to manage bank failures in a manner that promotes continuity of financial services whilst protecting taxpayers against financial sector losses.

75. **Following the initial stabilization phase, the DPO series and new Financial Sector IPF are envisaged to address the causes that contributed to the current stress in the financial sector**. This includes strengthening CBSL's regulation on single borrowing limits. Weaknesses have enabled state-owned Banks (SOBs) to continue lending to financially weak SOEs. WBG will also support time-bound financial and operational restructuring plans for large SOBs. To complement the DPO, there is an ongoing *Financial Sector Modernization Project* which is being refocused to strengthen trade finance. IFC will explore possibilities of assisting the Government with SOE restructuring, public asset monetization, and the capitalization of private sector client banks. Together with the World Bank, IFC is also assessing the regulatory and policy framework related to NPL management and insolvency.

76. **WBG will also deepen its analytic work to help strengthen the resilience of the financial sector**. Planned ASA includes *Financial Sector Crisis Monitoring* and a *Programmatic Financial Sector ASA.* The latter can be supported by an F4D Trust Fund and provide technical assistance for: (i) strengthening institutional capacity for bank resolution and deposit insurance; (ii) NPL resolution; (iii) SOB restructuring; and (iv) crisis management. Towards the end of the CPF period and provided the financial crisis has eased, *a Financial Sector Assessment Program* (FSAP) would be considered to provide a comprehensive, in-depth analysis of the financial sector and recommend further improvements (the last FSAP was done in 2014).

77. **Better infrastructure is critical for an improved investment climate and needs continued dialogue across sectors even in the crisis period. WBG will identify priority sectors within its current engagements in infrastructure to maintain dialogue and momentum, and to inform possible engagements in the second phase of the CPF**. The World Bank has two ongoing investments in urban and rural infrastructure – the *Local Development Support Project* (LSDP) and the *Water Supply and Sanitation Improvement Project* (WSSIP). LDSP is helping improve governance to develop and implement community-driven subprojects benefiting over two million people. The WSSIP is helping to strengthen water utilities and urban and rural water infrastructure benefiting over one million people. The World Bank also has three ongoing investment operations in transport – the *Transport Connectivity and Asset Management Project*, the *Kandy Multi-Model Transport Terminal Development Project* and the *Inclusive Connectivity and Development Project*. These projects are on track to deliver to improve public transport services in Kandy and climate resilient and inclusive accessibility for the rural community to reach employment opportunities and public amenities. IFC's ongoing engagements in the telecom and agriculture sectors will focus on creating the conditions that enable private capital to close gaps in the access to and the use of digital technology. In the medium term, IFC will support the development of sustainable infrastructure, in particular the expansion of renewable energy (solar and wind). IFC is also looking at potential e-mobility and energy efficiency related investments. Additionally, IFC's *Financial Asset Monetization Program* via its PPP Advisory will work toward establishing conditions to attract private sector participation and the provision of better quality and more efficient public services. In that capacity, at the request of the Cabinet, IFC will lead the transaction advisory to bring private sector capital into three SOEs (Sri Lanka Telecom, Sri Lankan Airlines and Lanka Hospitals) during the recovery phase.

HLO-2: Protected and Enhanced Human and Natural Capital

78. **The CPF's second HLO is protected and enhanced human and natural capital**. The main development challenges that will be addressed include (i) strengthening protection and resilience of poor

and vulnerable populations; (ii) ensuring access to quality health and education services; and (iii) maintaining and strengthening natural and human capital to promote resilient livelihoods as the country builds back better. Progress will be tracked by monitoring Sri Lanka's HCI and social protection coverage for the poorest 20 percent for human capital. For natural capital, the 'ecosystem vitality' component of the Yale Environmental Performance Index will be used to measure how well the country is preserving, protecting, and enhancing ecosystems and services (*see Annex 1*).

Objective 4: Sustain and Strengthen Health, Education and Social Protection Systems

79. **Successive crises have put enormous pressure on health, education, and social protection systems.** Sri Lanka's past gains in human capital outcomes are eroding. There is now an urgent need to sustain service delivery to prevent further human capital loses. A continued focus on strengthened access, quality, efficiency, and resilience of human development systems will also be essential to ensure a successful recovery and promote better human capital outcomes, as well as to equip individuals to cope with future shocks.

80. **The World Bank will continue its focus on strengthening access, quality, and efficiency of the primary healthcare system, while maintaining its current support to help protect quality healthcare delivery during the crisis.** The World Bank has two ongoing health operations in FY23: *Primary Health Care System Strengthening Project* (PSSP) and the *COVID-19 Emergency Response Project (ERP).* The PSSP is on track to support over 550 primary healthcare centers to have adequate medical and diagnostic capabilities. The COVID-19 ERP has helped strengthen health systems, with almost full vaccine coverage for those over 30 years old as well as the distribution of 1 million rapid tests and 1 million sets of PPEs. To minimize further erosion in human capital, it will be critical to maintain basic health service delivery and build on the achievements under PSSP in strengthening the primary care system. The World Bank is planning to seek grants from: (i) the newly established Pandemic Fund (PF) to support the further strengthening of Sri Lanka's public health system and staff capacity, and (ii) the Japan Social Development Fund (JSDF) to improve access to maternal and early childhood nutrition services. The World Bank will also provide additional financing to the Health Care System Strengthening Project to help maintain critical basic services.

81. **The World Bank will continue to strengthen systems and address learning losses in primary, secondary, and higher education.** The World Bank has three ongoing education operations: the *Early Childhood Development Project* (ECDP), the *Accelerating Higher Education Expansion Project* (AHEAD), and the *General Modernization Project* (GEM). ECDP (scheduled to close by end FY23) has put in place over 4,000 early childhood development centers, benefiting over 1 million children. The project has exceeded its targets for enrollments in STEM college programs. GEM seeks to help modernize the primary and secondary education system, with a focus on improving learning outcomes. The World Bank is exploring complementary funding from the Global Partnership for Education (GPE).

82. **The World Bank will underpin its interventions in both health and education with further analytical work.** A *Rapid Crisis Impact Assessment on human capital*, including health and education services as well as brain drain in critical sectors for the economy, is planned (to be delivered in FY24). This proposed ASA may include an analysis of the impact of price adjustments on poverty and human capital. Further, a *Human Capital Review*, which is an extended-core ASA, is planned for FY25. This will seek to identify challenges and opportunities for human capital recovery and acceleration. This may include analyses of human capital geographic disparities and human capital utilization. Finally, technical, and analytical work on skills for green jobs as well as on health and aging is planned.

83. **Sri Lanka needs more transparent, efficient, responsive, and well-targeted social protection**. As a result of the COVID-19 pandemic and the economic crisis, poverty rates and vulnerability have increased significantly. Planned reforms and adjustments to address the crisis are also likely to amplify poverty and vulnerability over the coming years, creating a need to provide increased and enhanced targeted income support.

84. **The World Bank will support improving Sri Lanka's social protection system to provide targeted assistance to the poor and enhance resilience to shocks.** The ongoing *Social Safety Net Project* has supported the design of an integrated Social Registry. Social protection is one of the three pillars of the *DPO*, supporting reforms to roll-out and update the social registry and ensure adequate financing and effective targeting of cash transfers and other poverty-targeted programs. To support the operationalization of these reforms, a new *Social Protection Project* is being prepared to provide enhanced and better targeted support to poor and vulnerable households, and further improve delivery systems. The project will also explore ways to strengthen the resilience of cash transfer beneficiaries through increased access to economic opportunities. The World Bank will coordinate closely with ADB, which has an ongoing social protection project.

Objective 5: Maintain and Strengthen Natural and Human Capital for Resilience and Livelihoods

85. **As noted in Section 2.5D, climate risks and frequent climate-related disasters amplify Sri Lanka's economic crisis and complicates its recovery.** While the consolidated costs and benefits of various investments for increasing resilience and sustainability are not available, analyses show that the degradation of natural capital and other productive and protective assets puts at risk tourism, agriculture, hydropower generation, and fisheries. The increasing impacts of climate change also underscore the importance of investing in human development systems and programs that build resilience and help people to adapt to changing livelihoods and the increasing risk of natural disasters.

86. **Successive crises have put enormous pressure on the country's abundant natural capital, including land, water, forests, wetlands, coastal areas, ecosystems, and biodiversity health, education, thus straining the resilience and sustainability of livelihoods and natural resource-based sectors.** Building resilience is particularly important for those who have the least ability to absorb a shock and for those most likely to experience shocks or large losses. Agriculture (including forests and fishing) remains central to the economy and is a major buffer for the rural poor against economic, environmental and climate shocks such as drought, floods, erosion, landslides and cyclones. Approximately 82 per cent of the total population resides in rural areas, and almost half of poor rural people are small-scale farmers, and highly vulnerable to such shocks. The rural poor also face difficulties in securing access to WASH during drought periods. Entrenched patterns of social exclusion amplify these challenges and complicate potential solutions. Coping strategies in the face of recent economic shocks may worsen vulnerabilities by depleting natural capital on which poor people depend for their survival.

87. **The World Bank will support Sri Lanka to manage climate and other environmental risks.** In the first phase of the CPF, as mentioned under objective 4, the Bank will support the Government of Sri Lanka to further strengthen health, education, and social protection systems for increased future resilience to shocks, including those related to climate-change. For example, the *Social Protection Project* will support the Government to improve the responsiveness of the social protection system, including to future climate-related shocks. The Project will also finance an economic inclusion pilot, which can support resilience by helping people to diversify their livelihoods. Planned World-Bank-supported health and education operational engagements will also contribute to strengthen resilience of systems and people. The Bank will also use the existing portfolio to protect local nature-based livelihoods. The *Ecosystem Conservation and Management Project (closing in May 2023)* has provided a model for supporting conservation-friendly local livelihoods and measures for addressing human-elephant conflict that can be scaled up in new engagements. The on-going *Integrated Watershed and Water Resources Management Project* addresses water-based climate risks by improving irrigation or drainage for 164,000 hectares. The ongoing *Climate Resilience Multi-Phase Programmatic Approach* focuses on building resilience by reducing flood risks and improving weather forecasting and early warning systems. The on-going *Water Supply and Sanitation Improvement Project* has provided access to improved water sources for over 120,000 households and aims to invest next to the drought-vulnerable north.

88. **The existing portfolio also contributes to the development of agriculture and rural resilience and sustainability**. The ongoing *Agriculture Sector Modernization Project* (ASMP) aims to increase exports by an estimated US$141 million, while improving farm productivity and food safety, benefiting 128,000 people. The ongoing *Climate Smart Irrigated Agriculture Project* (CSIAP) aims to benefit 100,000 farm households, raise yields by an estimated 30 percent, and improve water use efficiency.

89. **Analytical work during the first phase will determine potential entry points for additional support in the outer years of the CPF.** To deepen the WBG engagement, initial consultations have been held with the Government for the planned CCDR, building on the 2021 South Asia Region Climate Change Roadmap, and followed by a CEA. A new *Agriculture Sector Review* will help identify resilient agri-food modernization pathways and priority investments that can create jobs and secure livelihoods, while the on-going GRID Programmatic ASA will specifically look at fisheries and issues with land administration. This analytical work program will inform potential future operations addressing green, resilient, inclusive rural livelihoods. Finally, the planned *Rapid Crisis Impact Assessment on Human Capital* as well as the *Human Capital Review* will identify additional support to ensure increased future resilience and improved livelihoods among the poor and most vulnerable.

90. **IFC will also help strengthen resilient agriculture financing and production**. IFC's ongoing upstream advisory project seeks to enable financial institutions to support climate-resilient agriculture. IFC's *Sri Lanka Coconut Sector Development Program* will provide potential clients with advisory and investment services to increase coconut yields and the value of associated exports by expanding into high-value products and markets. Supply-side interventions will focus on proper management, irrigation, fertilization, and technological advancements while the demand side will focus on assisting clients in increasing exports. IFC is also considering agri-investments that will support food security and provide value addition for agri-exports. IFC's *climate-smart agriculture investment program* provides local currency agri-loans to financial sector clients such as NDB and Alliance to help promote climate-smart agriculture financing solutions.

91. **IFC's advisory program further includes the first digitization of Sri Lanka's agriculture sector to improve agri-insurance for state agri-insurers**, enabling innovative insurance for climate risk mitigation. Other key programs include working with key stakeholders to increase cinnamon exports to higher-value markets by improving quality standards and digitization. This will also lead to potential IFC investments in agriculture export-oriented companies to boost productivity.

Cross-cutting Theme: Enhancing Resilience

92. **Sri Lanka's vulnerability to external shocks has been blatantly exposed by recent developments, justifying a focus on building resilience as a cross-cutting theme.** These efforts cut across multiple dimensions – macroeconomic, social, environmental and climate related, and are consistent with the findings of the RRA and CLR. A stronger and stable macroeconomic framework is a necessary condition for a resilient economy, people, and livelihoods. This will provide the necessary buffers to mitigate impacts on the poor and vulnerable should a crisis emerge in the future. Objective 1 specifically targets improvements in the macroeconomy as a way of reducing the likelihood and impact of future crises. Other objectives contribute to this goal as well.

93. **Early and sustained steps to improve governance are critical for building resilience.** Poor governance and institutions at all levels are fundamental causes of the current crisis and are at the center of Sri Lanka's development challenges. To address some of the root causes of the crisis and avoid a repeat, a pillar of the proposed DPO addresses *improving economic governance* through better fiscal oversight and debt management, improving tax administration, addressing financial sector risks, reducing discretionary policies, and creating the ecosystem for greater competitiveness and trade. Other initiatives through planned IPFs in the financial sector (Objective 3) and social protection (Objective 4), and the current and future

potential interventions in health and education systems (Objective 4) and natural capital-based livelihoods (Objective 5) will also address specific governance challenges.

94. **In addition, immediate steps to ensure financial stability while supporting early reforms to strengthen the financial sector will contribute to resilience in Sri Lanka**. The financial sector safety net will help protect people from adverse impacts of potential failures of financial institutions (particularly smaller ones) in the short-term through a strengthen deposit insurance scheme. In the medium run, improved public confidence and financial stability will help stimulate higher domestic savings through the banking system to underpin productive investments, economic recovery and job creation as outlined in Objective 2.

95. **Social protection systems are at the heart of efforts to address the impact of the crisis and to build resilience for the poor and vulnerable over the long term**. The impacts of the current crisis, and likely further impacts of austerity measures on the poor and vulnerable are vast. Sri Lanka is currently finalizing the operationalization of an integrated social registry to enhance governance, improve inclusion of possible beneficiaries of social programs and improve targeting. Successive crises have weakened service delivery in health and education; prerequisites of a resilient economy as outlined in Objective 4. Under the new Social Protection Project, cash transfers to poor and vulnerable beneficiaries can mitigate the impact of this and future crisis on food security, vulnerability, human capital investments, and poverty.

96. **Early and sustained steps to manage climate risks, natural assets, and environment and climate-smart agriculture are also essential elements of resilience in Sri Lanka.** Environmental sustainability and efficiency can help drive and protect economic growth and welfare, making the economy more durable in the face of compounding crises. Without a convincing shift to a more resilient, inclusive, sustainable, and efficient growth model, the impact of climate change will amplify socioeconomic vulnerability. The agriculture, fisheries, and forest sectors will be supported by a future engagement on Green, Resilient, Inclusive Rural Livelihoods once there is further clarity on the second phase of the CPF. At the CBSL's request, IFC developed the *first national green finance taxonomy* using the International Platform on Sustainable Finance (IPSF). IFC is further working on a climate conference which may lead to future investment/advisory opportunities. The WBG will also continue its analytical support to improve resilience and response to shocks, including analysis of weather infrastructure, drought risk assessment and preparedness, nature-based solutions for coastal resilience, etc. On the public health front, a Pandemic Preparedness ASA is scheduled for FY23.

3.4 | IMPLEMENTING THE FY24-FY27 CPF

97. **For the next 18-24 months, WBG will adopt a focused and highly selective approach, in close collaboration with development partners.** The initial phase of the CPF will be delivered through ongoing operations and selected new operations as follows: (a) a new Sri Lanka Resilience, Stability, and Economic Transformation (RESET) DPO series; (b) two new focused IPFs with PBCs on Social Protection and Financial Safety Nets as an immediate priority; and (c) critical analytical work to analyze post-crisis challenges and opportunities across sectors, with the CCDR as a priority. The program will retain flexibility and identify new entry points to be reflected in a mid-cycle PLR. This will allow for the incorporation of findings from the CCDR and other analysis to inform the WBG's direction moving forward.

98. **The WBG will prioritize its ASA program in view of the current priorities, the limited absorptive capacity of the client, and the uncertainties over the medium term.** In the first phase, analytical work will focus on the most pressing governance challenges, including a Public Expenditure and Financial Accountability (PEFA) Assessment, Public Expenditure Review (PER), and GovTech analysis for better service delivery. A CCDR, and Agricultural Sector Review, a CEA and GRID PASA will also be produced during this phase to inform programming in support of a GRID strategy during the second phase if stabilization is successful. In addition to the above, significant technical assistance and advisory support is being given across sectors, including for example: SOE reforms, energy transition and tariff policy, debt management, trade and investment climate reforms, etc. As there is a clearer horizon for future WBG engagement, further ASAs will be identified in partnership with the client and development partners.

99. **In the short-term IFC will support private investment by selectively identifying projects and assisting with reforms.** During this initial phase IFC strategic priorities include: (i) stabilization of the financial sector by working with private banks to strengthen their capital and liquidity positions, supporting trade finance and NPL management; (ii) supporting Government's effort in reducing fiscal burden by identifying ways to better monetize public assets, including through SOE restructuring and PPPs; and (iii) Supporting key real sector players in agribusiness and manufacturing to enhance food security, increase exports and support employment retention. Over the medium term, IFC will support projects that are long-term in nature and/or export oriented. IFC will also help support the development of sustainable infrastructure, in particular the expansion of renewable energy as well as mobilize private capital in the Information and Communications Technology sector in Sri Lanka. Bridging the digital gap will help reduce the gender gap, increase financial inclusion, and support digital innovation.

100. **MIGA will continue to explore opportunities to support cross-border investment and lending**. MIGA does not currently have any projects in Sri Lanka but will continue to work together with the World Bank and IFC to promote FDI. Sri Lanka is included in the list of target countries where MIGA can implement its Trade Finance Guarantees Program (in collaboration with IFC). MIGA will look for opportunities to apply its Gender Strategy Implementation Plan in the projects it supports.

101. **Sri Lanka will be subject to the *Sustainable Development Finance Policy (SDFP),* which links IDA country allocations to the satisfactory implementation of Performance and Policy Actions** (PPAs). Since Sri Lanka joined IDA after the annual screening exercise cut-off point in May 2022, as per the SDFP guidelines, the country is not eligible to prepare FY23 PPA. Eligibility to prepare PPAs for FY24 will be determined at the time of the next annual screening which will be conducted in May 2023.

102. **FCV analytics including the RRA, crisis risk monitoring briefs, and other work like the Geo-Enabling Initiatives for Monitoring and Supervision (GEMS) have informed the CPF and will contribute to its implementation**. As part of the RRA recommendations, WBG will carry out regular crisis risk monitoring for a more risk-informed approach to both reforms and will conduct High Frequency & Perception Surveys in order to continuously monitor and assess its engagement.

Partnerships

103. **The WBG program is part of a larger collective approach of development partners and will prioritize its engagement based on the work of others where feasible, and to mitigate excessive impacts on the client**. In addition to the existing broader donor coordination groups, the relatively new MDB+ platform[38], initiated by the WB, will facilitate a targeted and sequenced approach to analytical and advisory support (e.g., fiscal policy, banking sector reforms) and future investments. This early platform, now with rotating chairmanship by the members, has helped mitigate the demands on a stretched client (see figure 3). The RESET DPO series played a role in bringing other partners including the IMF and ADB on to the MDB+ platform, which is instrumental for supporting reforms to improve fiscal and debt sustainability. On the macroeconomic side, the WBG will work closely with the IMF and ADB to address the structural causes of the current economic crisis, which is necessary to regain a sustainable growth path and help the poor cope with the current and future challenges. In coordination with the IMF, the World Bank will work to strengthen the efficiency, transparency, and accountability of tax administration to ensure adequate support for the social protection system. The WBG will also continue to participate in local development coordination groups and engage in bilateral cooperation around key themes, including PFM, SOE reforms, social sectors, etc. Examples of these bilateral engagements include the EU, AFD and Government of India.

[38] As a part of its immediate response to the crisis, the World Bank leveraged its convening power to set up a common crisis response platform with ADB and AIIB which later expanded to include IMF, JICA, and USAID. *See section 2.4 on WBG 2022 Crisis Response for additional details.*

Figure 3: Illustration of MDB+ Platform Mapping of Macro Critical Reform and Support

	ADB	AIIB	IMF	JICA	USAID	WB
Revenue			o			o
Expenditure	o		o	o	o	o
Debt Management			o		o	o
Trade and Investment	o			o	o	o
SOE Reforms	o		o		o	o
Financial Sector	o		o	o		o
Energy	o	o	o	o	o	o
Social Safety nets	o		o			o
Governance	o		o		o	o

Financial envelope

104. **Given Sri Lanka's default on debt service obligations and loss of IBRD creditworthiness, the Government requested a 'reverse graduation' to be eligible for concessional IDA financing.**[39] With the suspension of external debt servicing and credit rating downgrades, Sri Lanka cannot access market financing. In response to the Government's request, after assessing the country's performance against key criteria[40], a reverse graduation was approved and Sri Lanka became an IDA-Gap country on December 5, 2022. Until Sri Lanka re-establishes IBRD creditworthiness, the country will only have access to IDA resources.

105. **CPF period straddles two IDA replenishment cycles, IDA20 and IDA21.** Under IDA20 (FY23-FY25), regular IDA resources or performance-based allocation (PBA) available to Sri Lanka is expected to be approximately SDR 592 million, equivalent to $786 million and roughly a third of that amount for FY26 under IDA21.[41] In addition to regular PBA, Sri Lanka is eligible and can tap into additional resources available under some IDA Windows (e.g., the Regional Window, Crisis Response Window, and Scale-Up Window). For FY23, $457 million in addition to the country PBA has been mobilized from the Scale-up Window-Short Maturity Loan and through regional reallocations.

106. **To complement IDA resources, WBG will actively mobilize trust funds**. Since the crisis began in April 2022, $2.65 million of trust funds have been mobilized to support various analytical and advisory activities in trade and competitiveness, social protection, debt management, agriculture, and energy efficiency. Areas where more funding is being explored include pandemic resilience, basic education, digital development, building community resilience and supporting livelihood opportunities for vulnerable groups. Additionally, the World Bank may tap into the Local Development Support Project Trust Fund to strengthen the capabilities of local government. The feasibility of expanding the PFM MDTF could be explored to mobilize additional resources to support selected capacity-building activities. There are also plans to tap into the JSDF to build community resilience and support livelihood opportunities.[42]

---

[39] Sri Lanka currently has a total exposure to IBRD of about US$0.7 billion in outstanding loans with an undisbursed balance of US$0.6 billion.
[40] The 4 criteria considered for assessment were macroeconomic prospects, access to external financing and debt vulnerabilities, vulnerability to shocks, and public sector management and institutions.
[41] PBA is determined annually and will depend on total IDA resources available; the number of IDA-eligible countries; the country's performance rating, per-capita gross national income, and population; implementation of IDA's SDFP; and the performance and other allocation parameters.
[42] A JSDF grant of US$3 million has already been secured to finance community-level interventions to improve access to early childhood and maternal nutrition.

IV. MANAGING RISKS TO THE CPF PROGRAM

107. **The overall risk to the CPF program is 'high'**. The CPF has been developed within a highly uncertain environment, including an ongoing macro-fiscal crisis and a fluid political environment. This risk is compounded by a depletion of human capital, constrained fiscal space, and weak institutional capacity. The proposed program is predicated on Sri Lanka remaining within an IMF program, maintaining support from international creditors and partners, and making progress on stabilization and recovery. If these conditions are not maintained and the economic and political situation deteriorates, WBG will reassess its approach, focusing primarily on protecting human and social capital. To mitigate this risk to the extent possible, the WBG will maintain a continuum of dialogue policymakers across the political spectrum, development partners and civil society.

108. **Citizens have consistently called for greater transparency and accountability**. Regardless of the country's future trajectories, strengthening inclusive platforms for consensus building and national dialogue will be essential to contribute to the formulation of a vision for Sri Lanka's renewal. The WBG's support could focus on selective reform measures aimed at bolstering institutional capacity and resilience, especially on accountability, inclusive and transparent evidence-based decision-making. The WBG will undertake regular, inclusive stakeholder engagement and clearly messaging the importance of inclusion, participation, and transparency in implementing reform measures in a citizen-centered and accountable manner. Furthermore, prioritizing politically less contentious, people-centered 'no-regrets' programs can reduce risks. Nevertheless, despite considerable attention to risk mitigation efforts, substantial residual risk remains across categories, especially political and macroeconomic (Table 2).

109. **The biggest risks to the program arise from the highly fluid macro-fiscal and political situation.** On the macro-fiscal side, Sri Lanka has limited fiscal and external buffers and the financial sector is under significant strain related to banks' solvency and liquidity. The fragile economic situation can trigger political unrest and derail the program if economic conditions don't improve. At the same time, if reforms are pursued without mitigating their social impact, this too can generate discontent and derail the program. WBG's program has therefore been designed to balance urgent economic reform with targeted social protection and inclusion. This will require careful sequencing of interventions, and wide and continuous dialogue with the Government, development partners, and civil society. The CPF will also maintain a high degree of flexibility to adjust its program in light of evolving circumstances.

Table 2 | Systematic Operations Risk Rating

Risk Categories	Rating
1. Political and governance	High
2. Macroeconomic	High
3. Sector strategies and policies	Substantial
4. Technical design of project or program	Substantial
5. Institutional capacity for implementation and sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and social	Substantial
Overall	**High**

110. **Risks related to sector strategies and policies are substantial.** Before mitigation, sector strategy and policy risk are rated high due to poor information in many areas, as well as a history of corruption and a general lack of political will to take on entrenched interests. To mitigate these risks, WBG will invest heavily in sector analytic work, including institutional and governance analyses, and use its convening power to build momentum and ownership for change. WBG will also carefully balance the impact of sector reforms and protecting human capital. For example, helping increase revenue while safeguarding living standards and helping to strengthen productivity while improving working conditions. With these efforts,

sector risks can be brought down to substantial.

111. **Risks related to technical design associated with program activities are substantial.** The technical design of projects and programs may face heightened complexity given the overall challenging operating environment in Sri Lanka. While the WBG sharpens the focus on stability in the early years of the CPF, there is a chance that political turbulence impedes the process of designing projects and programs that can be implemented in a timely manner. To mitigate this risk, WBG will streamline project and program design to the extent possible. Moreover, heavy reliance on the DPO series creates risks for achieving the CPF objectives in the current crisis context. WBG program will address this by remaining flexible and adapting the program as needed. Working with well-defined counterparts and ensuring dialogue across the political spectrum will remain a priority. Despite mitigation efforts, the risk remains substantial.

112. **Risks related to capacity and fiduciary are substantial**. Weak government capacity and inter-ministerial coordination, as well as poor public financial management, continue to negatively impact WBGs operations. The CPF program seeks to build capacity through its operations, including at the local level through the LDSP project, and improve the public financial management system including with a PEFA, a PER, and TA on audits and GovTech. It will also emphasize the use of public-private partnerships in SOEs to improve performance and augment capacity. However, since these are longstanding issues and deep-rooted, the risk can only be reduced to substantial.

113. **The last substantial risk involves environmental and social concerns.** Sri Lanka is highly vulnerable to climate change and natural disasters, which remains a substantial risk to the economy, people, and WBG operations, as well as the fiscal position of the country. The socio-economic situation is also fragile. To help mitigate environmental risks, the program provides support in climate smart agriculture, rural sustainability and resilient infrastructure in water storage, drainage, roads, and energy. The planned CCDR and CEA will allow WBG to further identify and address environmental risks. To address social risks, the program aims to strengthen social protection, increase access to job opportunities, strengthen health systems, and expand education. However, the underlying threat to operations from climate change and social exclusion remains substantial even after mitigation.

V. ANNEXES

Annex 1: CPF Results Framework FY24-27

High-Level Outcome 1: Economic Stabilization and Private Sector Job Creation

Continuation from Previous CPF: This HLO continues from the "Macro-fiscal stability and competitiveness" pillar in the previous CPF. It aimed to enhance sustainability of the country's growth and promote more and better-paying private-sector jobs for the bottom 40 percent.

Rationale: Sri Lanka continues to face a challenging economic and social crisis. In the last five years, Sri Lanka faced several exogenous shocks including the 2019 Easter Sunday bombings and the COVID-19 pandemic which severely impacted output, labor market, and poverty. This compounded with several years of poor macroeconomic governance and rising food and fuel prices have elevated Sri Lanka's longstanding structural weaknesses and plunged the country into its current crisis. From 2010 to 2017 the economy grew on average of 6.4 percent primarily from a debt-driven and inward-looking growth model. From 2017- 2021, debt as a percent of GDP become unsustainable to 109.7 percent, which resulted in Sri Lanka losing financial market access in April 2020 due to credit rating downgrades. Sri Lanka continued using official reserves and the banking sector's foreign assets for external debt servicing and paying for imports—causing critically low official reserves in early 2022. With an unsustainable debt and low reserves, the Government had to suspend external debt service on April 12, 2022.

Although Sri Lanka's crisis has macroeconomic origins, the crisis weighs heavily on the financial sector which is now at risk of becoming a source of instability. Current financial stability concerns stem from solvency issues related to the exposure of banks and other financial institutions to the distressed sovereign and, more recently, domestic currency liquidity pressures in the backdrop of an inactive interbank market, weakening cash flows, and sharply rising deposit rates. As such, while increased focus is required to improve the fiscal and debt sustainability to improve Sri Lanka's grave macroeconomic challenges, it is equality critical to focus on developing a resilient financial sector and creating an investment environment that promotes competition and is conducive to fostering economic growth that is inclusive and resilient to future shocks. The latest SCD Update (2021) identified five key development challenges which included fiscal and debt sustainability and fostering competitiveness for private sector-led growth and job creation, that continue to remain relevant in the current crisis context.

Contribution of the WBG to HLO-1: On the macro-economic side, the WBG will continue to work closely with the Government and IMF to address the structural causes of the current economic crisis that are necessary to regain a sustainable growth path and help the poor cope with the current and future crises. The World Bank will provide operational support through a DPO series—Resilience, Stability and Economic Transformation (RESET). First of the series operations is expected to be approved in 2023. The DPO series will support foundational reforms that strengthen macroeconomic stability and sustainability, mitigate the impact of current and future shocks on the poor and vulnerable, and drive an inclusive and private-sector-led recovery and growth path. Similarly, the forthcoming Public Financial Management Strengthening Project will help to improve transparency in procurement and strengthen the institutional capacity of the National Audit Office. The WBG will provide technical assistance to strengthen and prioritize fiscal and debt management, including through the PER, Growth Policy Notes, Country Economic Memorandum, Fiduciary Assessment, among others. On the financial sector, the WBG will continue working with the Government and IMF to implement several reforms to address persistent issues as well as to recover the financial sector from the crisis to ensure it is efficient, inclusive, and resilient to future shocks. IFC will explore possibilities of assisting the Government with SOE restructuring, public asset monetization, and the capitalization of private sector client banks. Together with the World Bank, IFC is also assessing the regulatory and policy framework related to NPL management and insolvency. The World Bank's Sri Lanka Financial Sector Modernization Project aimed to modernize financial market infrastructure, upgrade the legal and regulatory framework for the financial system, and strengthen the institutional capacity of financial sector regulators. Repurposing funds from this project towards similar objectives will speed up implementation, including through increased financial efficiency and competition and greater reach and financial connectivity of MSMEs and individuals. On Infrastructure and the Investment Climate, the WBG will continue to help Sri Lanka strengthen necessary infrastructure and improve market competition and investment environment for sustainable growth, particularly considering the current crisis. The WBG will support these efforts through the ongoing Water Supply and Sanitation Improvement Project and Integrated Watershed and Water Resources Management Project, DPO Series, Green, Resilient, and Inclusive Development (GRID) Advisory Program for Maldives, Nepal and Sri Lanka, Financial Sector Assessment Program, and Infrastructure Sector Assessment, among others. IFC will support the development of sustainable infrastructure, in particular, the expansion of renewable energy (solar and wind). Additionally, IFC's Financial Asset Monetization Program via its PPP Advisory will work toward establishing conditions to attract private sector participation and the provision of better quality and more efficient public services. To support economic inclusion, the DPO, planned Social Protection IPF, and ongoing Accelerating Higher Education Expansion and Development Operation (AHEAD), and Agriculture Sector Modernization Project will collectively the jobs agenda and economic inclusion through their interventions. Further, the IFC's Banking on Women Portfolio and SME Skills Development Project support economic inclusion at the individual and firm levels.

HLO Indicators:

1. **Public and Publicly Guaranteed Debt to GDP ratio**
   Baseline: 127 percent (2022e)
   Source: Ministry of Finance

2. **Share of formal sector employment to total employment, gender disaggregated (%)**
   Baseline:
   a. Total (2021) 41.6
   b. Male (2021) 37.3
   c. Female (2021) 50.3

   Source: *Department of Census and Statistics, Annual report – Labor Force Survey 2021 (Table 7.2)*

3. **Share of private sector wage workers to total employment, gender disaggregated (%)**
   Baseline:
   a. Total (2021) 42
   b. Male (2021) 44.4
   c. Female (2021) 37.2

   Source: *Department of Census and Statistics, Annual report – Labor Force Survey 2021 (Table 4.4)*

Related SDGs: HLO1 relates to SDG 8: *Decent Work and Economic Growth*, SDG 6: *Ensure availability and sustainable management of water and sanitation for all,* and SDG 9: *Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation*

Objective 1: Improve Fiscal and Debt Sustainability

Intervention Logic: Weak fiscal buffers and unsustainable debt levels have been key challenges to macroeconomic stability and sustainable economic growth, leading to the severe economic crisis. Low government revenue (Sri Lanka has one of the lowest levels of tax to GDP in the world) has been a major source of weak fiscal buffers, with revenue collection relying on a narrow base and distortionary taxes. While expenditures have not been high, interest payments absorb more than two-thirds of total revenues. Years of fiscal indiscipline along with risky commercial borrowing have led to an unsustainable debt. Moreover, fragmented debt management constrains Sri Lanka from effectively managing its public debt based on consistent cost-and-risk assessments, contributing to the current debt crisis. Improving fiscal and debt sustainability needs to be the cornerstone of any economic stabilization efforts and policy and institutional reform that are undertaken by the government and development partners.

Lessons Learned and Knowledge Gaps: Reform implementation on fiscal, debt, and governance issues is vulnerable to political change and institutional constraints. Laws, cabinet decisions and regulations are subject to revisions and reversals. Some fiscal reforms, such as the new Inland Revenue Law, hardwired through legislative changes in the 2016-2019 IMF program, were reversed by executive action in 2019. The establishment of a Debt Management Office (DMO), previously

approved by the Cabinet as part of the 2016 World Bank DPO, is yet to be implemented due to the challenging political economy conditions. While there are limited defenses against non-adherence to legal requirements, supporting proposed reforms should, ideally, focus on implementing regulations following the enactment of relevant laws. Moreover, additional efforts are needed to navigate a fragmented bureaucracy, which is faced with capacity constraints as well. The fragmentation of the government debt management responsibilities contributes to a highly complex institutional setting, leading to significant coordination challenges. This makes setting and implementing a new policy course or resolving existing issues quite time-consuming. It is important to identify and prioritize measures to rationalize and enhance effectiveness of public expenditures, including public investment, that could bolster fiscal sustainability. **Key Risks and Mitigation**: Key downside risks to fiscal and debt sustainability include slow debt restructuring, inadequate debt relief and a prolonged recovery from the scarring effects of the current crisis. The risks are further compounded by heightened political risk and the possibility of reform reversal due to social and political pressures. Some of the exogenous risks are difficult mitigate, such as uncertainty over the prospect of debt restructuring. Proactive and good faith engagement by the government with creditors, MDBs and investors could help achieve the required level of debt relief and facilitate subsequent financial support from international partners. The programmatic design of the DPOs, along with the four-year IMF program, will also help sustain the reform momentum over the medium term. Early engagement with all stakeholders, regular communication, and awareness building, and strengthened safety nets to protect the poor and vulnerable can also help mitigate reform implementation risks. Focus on institutional reforms of the DPO series to strengthen economic governance and fiscal oversight, including the establishment of the Parliamentary Budget Office and a unified Debt Management Office, could further mitigate the risks of policy reversals on reforms critical to sustain fiscal and debt sustainability. TA in macro-critical reform areas through both Bank-executed and Recipient-executed TA programs will therefore remain critical to ensure that the strengthened fiscal oversight institutions have sufficient capacity to maintain fiscal discipline and prudent debt management. Additional TA could be considered to further address capacity constraints, including bringing in government officials from other countries to share experiences in practice.

CPF Objective Indicators	**Supplementary Progress Indicators (SPI)**	**WBG Program**
Indicator 1: Reduce the share of T-Bills owned by The Central Bank of Sri Lanka Baseline: 61.2% (2021) Results Target: 20% (2025) Source: RESET DPO **Indicator 2: Public and Publicly Guaranteed Debt to GDP ratio** Baseline: 127 percent (2022e) Results target: 103 percent (2026) Source: Ministry of Finance **Indicator 3: Primary Balance to GDP ratio** Baseline: -2.7 percent (2022e) Results target: 2 percent (2026) Source: Ministry of Finance	**Establishment of unified Debt Management Office** Baseline: Not established (2022) Results target: Established (2026) Source: Ministry of Finance **Revenue to GDP ratio** Baseline: 8.7 percent (2022) Results target: 13.5 percent (2026) Source: Ministry of Finance	Ongoing Projects Sri Lanka Financial Sector Modernization Project Pipeline Projects First RESET Development Policy Operation (FY23) Second RESET Development Policy Operation (FY24) Third RESET Policy Operation (FY25/26) TFs Sri Lanka Public Financial Management Strengthening Project Analytic Work Sri Lanka Macroeconomic monitoring (ongoing) Debt Management and Revenue Mobilization (ongoing) Public Expenditure Review (FY24/25) Systematic Country Diagnostic (FY25/FY26) Country Economic Memorandum (FY26) Management Framework (SAI- PMF) Assessment (FY26) Assessment of GovTech (FY24-25) Sri Lanka Debt Management Performance Assessment TA (FY23)

Objective 2: Improve Economic Inclusion		
Intervention Logic: Providing increased access to employment opportunities for the poor and vulnerable is key to both improved welfare and overall increased levels of productivity and inclusive economic growth. The crises' (COVID-19 and economic) main poverty and vulnerability transmission channel has been employment income loses, with significant impacts on Sri Lanka's labor market, which was already characterized by high levels of exclusion and inequalities. For example, because of the crises, the industry and services sectors have contracted the most, affecting particularly women (and youth), who are traditionally employed in these sectors. In addition, before the crises, over 71% of Sri Lankan workers were already either in self-employment or in informal wage employment, with no social protection and thus unable to cope with shocks. Beyond job loses, the crises are expected to lead to increased levels of informality. Informal employment has a causal impact on household poverty, mainly through low wages. Women, who already faced dire employment outcomes, constitute most workers in poor quality jobs and, as such, will be particularly affected. **Lessons Learned and Knowledge Gaps**: International evidence indicates that promoting employment among the poor through the provision of a comprehensive package of services is effective at addressing multidimensional poverty, thus contributing to reduced poverty and vulnerability levels. For example, the Consultative Group to Assist the Poor (CGAP)/Ford Foundation "graduation model," whose design is being considered for the preparation of the "economic inclusion" pilot to be financed by the pipeline Social Protection Project, has been implemented in over 40 countries with proven (through a robust impact evaluation) success in terms of sustainable employment, especially among vulnerable groups, particularly women. Having said this, this (and other) "graduation models" have mostly focused on rural areas, an important knowledge gaps the "economic inclusion" pilot is likely to address, depending on final design, through the implementation of activities in urban areas. **Key Risks and Mitigation**: Employment promotion, whether self or wage employment, depends on broader macro-economic indicators and associated demand. The "economic inclusion" pilot will finance a beneficiary profiling to better understand their market constraints as well as a market analysis to identify employment opportunities in each target area and in specific economic sectors that have the potential to absorb pilot beneficiaries.		
CPF Objective Indicators	**Supplementary Progress Indicators (SPI)**	**WBG Program**
Indicator 4: Beneficiaries of economic inclusion pilot with increased total income or revenue as a result of the interventions Baseline: N/A Results Target: 50% (2026) Source: SP IPF, through impact evaluation **Indicator 5: Number of women accessing new financial services** Baseline: 0 Results Target: 7,000 Source: IFC Banking on Women projects **Indicator 6: Number of SMEs and WSMEs receiving high quality skill building services** Baseline: 0 Results Target: 10,000 Source: IFC SME Skills Development project	**Number of people benefiting from the interventions** Baseline: 0 Results Target: 5,000 (2025) Source: SP IPF **Percentage of females benefiting from the interventions** Baseline: N/A Results Target: 75% (2025) Source: SP IPF	Ongoing Projects– Accelerating Higher Education Expansion and Development Operation Agriculture Sector Modernization Project Pipeline Projects Social Protection Project IFC Banking on Women Portfolio SME Skills Development Project CBC Global Linker

Indicator 7: Number of new-to-bank WSMEs Baseline: 0 Results Target: 250 Source: IFC SME Skills Development project, IFC CBC ecosystem project		
Objective 3: Strengthen the Investment Climate and Increase the Resilience and Efficiency of the Financial Sector		
Intervention Logic: Financial sector is the backbone of Sri Lanka's economy. Hence, during the initial recovery phase it is important to ensure that there is an efficient financial sector which is resilient to future shocks. The sovereign default and the potential growth in NPL stock due to economic slowdown may lead to capital adequacy challenges across most financial institutions. Swift intervention is required in this space, specifically around insolvency, capacity building for NPL workout units, regulations, and private investor access for NPL trading and servicing, as well as clear guidance on reorganization bankruptcy. This will be vital to limit the contagion from financial institutions to trickle into other parts of the economy. In addition, strengthening the financial and non-financial infrastructure is the key to sustainable development of the country's economy over the medium-term following the recovery phase. Consistent and reliable access to water supply and sanitation infrastructure and services is crucial for improving competitiveness in key sectors such as textile and tourism. Financial infrastructure is marred due to usage of old technology and difficulties in interconnectivity. The policies and procedures are also not conducive enough for a healthy investment climate. There also remains much room to pursue green and inclusive sustainable growth through strengthening connectivity through improvements in public transport, energy and telecommunications sector reforms to transition towards a greater renewable energy mix and building a strong foundation for an inclusive and resilient digital economy. **Lessons Learned and Knowledge Gaps:** Capital Markets are shallow leading to large firms and SOEs relaying heavily on the banking system. This puts the entire banking system under pressure as SMEs and MSMEs are cut out from financing from banks (which is their main source of finance) due to limited available finance. The Public Financial Management is also very weak. One of the lessons learnt from the past CPF was that the country programs should focus more on resilience building rather than just developing the financial sector. The focus of Bank should be to coordinate with IFC and create conditions that are conducive enough to mobilize private capital thus close gaps in access to finance. Strengthening of the public financial management system will require technical support from World Bank, IMF and other development partners to focus on reforms that are critical for fiscal sustainability. Area for reforms should be public investment management, tax and budget policy administration and public expenditure efficiency and transparency. In addition, Due to lack of investment and low private sector participation, the country's infrastructure remains underdeveloped. There are inefficiencies in the public transport system due to age old fleet, poor infrastructure, inadequate facilities, and very low level of use of technology to improve efficiencies. The urban-rural divide in digital connectivity remains a challenge, and Internet services remain unaffordable for the poor due to competitive constraints in the broadband market. The difficult regulatory environment is not experienced by all. For some exporters the process is faster leading to their ability to avoid cumbersome procedures. Even the SOEs and large private sector entities were not facing these challenges. **Key Risks and Mitigation:** The high stress on the financial sector with increasing strains on banks' solvency and liquidity is one of the main risks which, if not managed properly, could have unprecedented outcomes. Russia's invasion of Ukraine and rising global commodity prices have added additional pressure on the import bill. Deterioration of local currency conditions may lead to further reducing banks' profits and capital. Climate and disaster shocks also lead to instability in the financial sector as liquidity is diverted towards building out of those shocks. While these climate and disaster related risks need to be tackled by building resilient and smart infrastructure and good governance, the fiscal risks emanating from banking sector can be mitigated by fiscal reforms like SOE reforms which allow for fair market competition with other private players thus leading to a robust and resilient financial sector. However, fiscal reforms, price adjustments, reductions in expenditure and subsidies, and other measures to balance the fiscal budget and reduce distortions in the economy will amplify poverty and vulnerability. These measures will need to be paired with well-targeted compensatory measures to those most affected and most in need. A comprehensive poverty impact assessment of the progressivity of the tax and transfer system has been initiated by the World Bank and should be used to inform future reforms. Also, the burdensome regulatory environment which bogs down investment climate, market competition and infrastructure is the key risk that the CPF is facing. WBG along with other development		

partners is working with the Sri Lanka government to ensure that reforms are put in place to ease the burden to enable an inclusive investment climate that fosters competition and creates an infrastructure that is efficient and resilient to future shocks. Change in the political context of the country leading to change in government priorities is another key risk which the CPF aims to mitigate through a flexible WBG program allowing for changes in the program priorities through an early PLR. There will also be continued assessment of the political economy to calibrate the program through crisis risk monitoring and sustained dialogue with stakeholders and experts.

CPF Objective Indicators	Supplementary Progress Indicators (SPI)	WBG Program
Indicator 8: Outstanding MSME loans from commercial banks Baseline: NA Results Target: 5% increase Source: Sri Lanka Financial Sector Modernization Project, IFC FIG IS clients **Indicator 9: Funding ratio of deposit insurance scheme (DIS reserves to insured deposits)** Baseline: 1.2 % (June 2022) Results Target: 3% (in the absence of payouts) Source: CBSL **Indicator 10: Number of SOEs divested (via majority private sector share/strategic investor/liquidation)** Baseline (2022): 0 Results Target (2025): 7 Source: SOE Holding Company **Indicator 11: Unweighted average of import duty levels reduced.** Baseline (2022): 27.9% for consumer goods; 13.3% for intermediate goods Results Target (2025): 20.9% for consumer goods; 9.9% for intermediate goods Source: Customs Agency **Indicator 12: Number of key Private sector development reforms enacted** Baseline: 0 Results Target: 3 Source: IFC CMA and World Bank projects	**Transaction Advisors appointed for 15 SOEs** (A given advisor can be appointed for more than one SOE, depending on complexity) **Tariff policy issued that targets a reduction in tariffs by 10% by 2025** **Number of contracts signed for infrastructure sharing** **Baseline 0: Target: 15** Note: Regulatory reforms supported under DPO	Ongoing Projects– Sri Lanka Financial Sector Modernization Project Pipeline Projects- First RESET Development Policy Operation (FY23) Second RESET Development Policy Operation (FY24) Third RESET Development Policy Operation (FY25/26) Financial Sector Safety Net Project Analytic Work Programmatic Financial Sector Financial Sector Assessment Program (FY26) IFC Financial Institution Group Investment Portfolio and possible pipelines Ongoing Projects Water Supply and Sanitation Improvement Project Integrated watershed and Water Resources Management Project Inclusive Connectivity and Development Project Kandy Multimodal Transport Terminal Development Project Transport Connectivity and Asset Management Project Pipeline Projects TIS (Trade, Investment and SOEs) Competitiveness IPF TF EU co-financing for SL Ag Sector Modernization Project Analytic Work

Indicator 13: Unique mobile internet subscribers (percent of population) Baseline: 55% Target: 75 Source: GSMA Intelligence **Indicator 14: Number of mobile internet subscribers on the client company's (Dialog Axiata) network** Baseline: 7.98 million, Target: 10.8 million Source: Dialog Axiata	**A new digital economy strategy is adopted by the Government. Yes/No** Note: The World Bank team is providing advisory services to the Ministry of Technology under P177824	Sri Lanka Maldives Post Covid-19 Competitiveness Recovery (Programmatic ASA) Sustainable Renewable Energy Support (ongoing) Green, Resilient, and Inclusive Development Advisory Program for Maldives, Nepal and Sri Lanka Programmatic ASA IFC Investment Climate Advisory Portfolio and Pipeline Country Private Sector Diagnostics ASA Digital for GRID (P177824); ongoing Digital development ASA (FY24+) IFC Dialog Axiata (Investment and Advisory) – Ongoing

High-Level Outcome 2: Protected and Enhanced Human and Natural Capital

Continuation from Previous CPF: This HLO combines two pillars of the previous CPF – "Promoting Inclusion and Opportunities for All" and "Seizing Green Growth Opportunities, Improving Environmental Management, and Enhancing Adaptation and Mitigation Potential".

Rationale: Prior to the economic crisis, Sri Lanka had transitioned to a middle-income country status with stronger human capital outcomes in the post-conflict era. However, the gap between the poor and non-poor remained significant, with 90 percent of the non-poor having at least primary education compared to 70 percent of the poor. Similarly, the quality of education continues to remain an issue resulting in a lack of qualified workers with technical skills. Similarly, due to the prevailing crisis where Sri Lankans are faced with falling income, many households are resorted to coping mechanism that are likely to deteriorate human capital outcomes. Disruptions due to shortages of imported goods (especially fuel) and the protests and related security measures have made it difficult for households to access basic public services such as education and health. COVID-19 has further exacerbated existing challenges in health and education with potential adverse longer-term impacts on human capital and gender parity due to COVID-19 related disruptions in education and non-emergency healthcare. Similarly, as learned from this crisis, resilient, equitable, and flexible social safety nets is required in Sri Lanka to better prepare for any future crisis.

Sri Lanka remains vulnerable to climate changes with increasing occurrence of natural disasters like floods and Tsunami, etc. in the last few years natural capital most be better managed for governed to better prepare for any future shocks, protect livelihoods, and ensure a sustainable economic growth. Of the five key development challenges identified by the latest SCD Update (2021), environmental sustainability and climate change was one of them and continues to remain relevant in the current crisis context. Increased focus on strengthening and maintaining natural capital can in turn help to achieve resilient, inclusive, and robust economic growth (HLO-1).

Contribution of the WBG to HLO-2: To improve social safety net system, the World Bank will continue its ongoing support in improving equity, efficiency and transparency of social safety net programs to benefit the poor and the most vulnerable. Additionally, the World Bank will approve a new project (Social Protection Project) to provide emergency income support and to improve social protection delivery systems to respond to man-made and natural disasters. In health, the World Bank will continue to support strengthening health systems through the COVID-19 response program and the Primary Health Care System Strengthening Project, to increase resilience to future shocks. This will be supplemented by a new grant-financed project to increase access to early childhood and maternal nutrition services by the vulnerable population in 20 lagging regions of Sri Lanka. In education, in addition to its ongoing support, the World Bank is exploring the financing of a new grant-financed operation that will seek to address learning losses in the country. The WBG will provide technical assistance to strengthen health, education, and social protection systems, including through the Accelerating Human Capital Development in the Maldives, Nepal and Sri Lanka PASA, a Human Capital Review, education and health analyses and reviews, etc. For natural capital, the World Bank will continue to support increasing access to water and sanitation services through ongoing engagements and will support improving early warnings of natural disasters to protect lives and livelihood, especially of the poor and the most vulnerable. This will be done through ongoing projects such as Climate Resilience Multi-Phase Programmatic Approach that aims to forecast and provide people with early warnings regarding natural disasters like floods and landslides and planned engagements such as the planned Integrated Rural Livelihood Transformation Project and initiatives such as IFC's support for first digitization of Sri Lanka's agriculture sector to improve agri-insurance for state agri-insurers, enabling innovative insurance for climate risk mitigation.

HLO Indicators:

1. **Human Capital Index**
   Baseline: 0.6 (2020)*
   Source: Human Capital Project
   ** The HCI baseline is likely to be lower now as a result of the adverse impacts of the COVID-19 pandemic and the ongoing economic crisis on human capital outcomes.*
2. **Social protection coverage of the poorest 20%**
   Baseline: 43% (2019)
   Source: HEIS 2019
3. **Ecosystem vitality metric of the Yale Environmental Performance Index (score)**
   Baseline: 40.10 (2022)
   Results Target: No deterioration in score
   Source: Yale Environmental Performance Index 2022, 2024, 2026

Related SDGs: HLO2 relates to SDG 10: *Reduce inequality within and among countries,* SDG 4: *Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all,* SDG 3: *Good Health and Well-being,* SDG 6: *Ensure availability and sustainable management of water and sanitation for all,* and SDG 13*: Climate Action.*

Objective 4: Sustain and Strengthen Health, Education, and Social Protection Systems

Intervention Logic: Strong health and education systems are pre-requisites to a resilient economy. But several successive crises have weakened service delivery across sectors, more so in health and education. Sri Lanka's high human capital indicators and skills base are at risk of deteriorating due to the crisis, poor quality of education and poor healthcare services. There is an imminent need to sustain service delivery and strengthen the efficiency of and access to primary healthcare and education systems, which form the building block of Sri Lanka's economy. Education has been disrupted several times due to the multiple crises leading to substantial learning losses in the primary and secondary education. It is also important to shift focus from tertiary health care to primary health care, from hospitals to more towards preventive care. The health sector also facing a shortage of medicines. Beyond health and education, a strong social system is the key to building back better. The COVID-19 pandemic and the economic crisis in the country has left a very weak social system and increased the vulnerability. The fragmented and poorly targeted and governed social protection system and the scalability and adaptability challenges add to the vulnerability. It is important to ensure that the poorest and the most vulnerable receive adequate support during these challenging times. The country has the lowest spending on social safety nets in South Asia. Low spending also applies to spending to health and education. Strengthening the social system will have a rippling effect on other drivers of the economic development leading to a smart and efficient resurgence from the crisis.

Lessons Learned and Knowledge Gaps: Weak or generally absent sector strategies. Institutional reforms are limited; inter-ministerial coordination is weak Important reforms could prove to be unpopular leading to lack of public support, hindering implementation. It will also be important for the educational system to promote the development of learning outcomes and socio-emotional skills among school children. It is important that the service delivery of healthcare and education is sustained. Important reforms in healthcare and education sectors will help but it is also important to do analytical and technical work on skills required in these sectors. The quality of education remains a concern; the curriculum is too prescriptive and exam-oriented and is being reformed. There is a lack of qualified workers with technical skills and university-level qualifications. Enrollment in higher education is low compared to international standards, and vocational and technical skills training need to be demand-driven and reoriented toward the job market, including digital skills to support digital economy development. Universities also need to do more research and innovation to support a more-competitive economy. Child malnutrition is increasing due to rising costs and falling incomes. The health system needs to be strengthened to ensure continued access to quality health services, especially at the local level. Despite various reforms the social assistance remains low, specifically amongst the poor. The targeting of the existing social systems is not as envisioned, the benefits (in terms of amounts) are inadequate, and the faith of the people in the system is dwindling. Pillars of the society, the community institutions, need to be strengthened for inclusive growth.

Key Risks and Mitigation: The fiscal envelop is limited and the finances required are high. The vulnerable and poor are disproportionately affected by the future crisis. The World Bank will support the strengthening of Sri Lanka's social protection system, to improve overall targeting, coverage, and benefit adequacy, as well as resilience to future shocks. Having a social registry in place will also allow for the rapid adjustment of programs during crises, providing relief to the most shock-affected populations and thus ensuring future preparedness and overall resilience. The World Bank is also exploring opportunities to address food insecurity through the Social Protection Project along with possible collaboration with UNICEF and WFP on this front.

CPF Objective Indicators	Supplementary Progress Indicators (SPI)	WBG Program
Indicator 15: Benefits reaching the poorest 20% of the population Baseline: 43% (2019) Results Target: 60% (2026) Source: Social Protection Project **Indicator 16: Enhanced Program for School Improvement (EPSI) results achieved** Baseline: 40% (FY23) Results Target: 75% (FY24) Source: General Education Modernization Project **Indicator 17:** Number of primary medical care institutions that have the required capabilities for providing comprehensive and quality care Baseline: 360 (2022) Results Target: 550 (2024) Source: Primary Health Care System Strengthening Project		Pipeline Projects Social Protection Project Analytic Work Sri Lanka Social Protection & Jobs Public Expenditure Review (ongoing) Human Capital Development in the Maldives, Nepal and Sri Lanka PASA (ongoing) Maldives and Sri Lanka Poverty & Equity Programmatic ASA (ongoing) Designing systems to address GBV in Nepal, Sri Lanka and the Maldives PASA (ongoing) Gender, Citizen Engagement and Social Inclusion Platform PASA - Maldives, Nepal and Sri Lanka (ongoing) Ongoing Projects– General Education Modernization Project Primary Health Care System Strengthening Project Accelerating Higher Education Expansion and Development Operation The Sri Lanka COVID-19 Emergency Response and Health Systems Preparedness Project Early Childhood Development Project

		Pipeline Projects Global Partnership for Education Trust funded grants for Education JSDF grant to improve Sri Lanka's maternal and early childhood nutrition Analytic Work Accelerating Human Capital Development in the Maldives, Nepal and Sri Lanka PASA Human Capital Review Gender, Citizen Engagement and Social Inclusion Platform - Maldives, Nepal and Sri Lanka

Objective 5: Maintain and Strengthen Natural and Human Capital for Resilience and Livelihoods

Intervention Logic: The vulnerability of people, assets, and infrastructure to climate and other environmental risks and natural disasters is high. This vulnerability has increased due to multiple crises which has also led to erosion of natural capital. Important economic sectors like tourism, agriculture, fisheries, hydropower generation, and the jobs and livelihoods dependent on them, are at risk due to these factors. The recovery of sustainable livelihoods and reducing the risks to infrastructure, rural production systems, and urban systems is critical for building back better.

Lessons Learned and Knowledge Gaps: Institutional fragmentation, lack of integrated natural resource management and weak implementation of programs to safeguard natural capital amplify climate risks and complicate resilience development outcomes. Rising waste and pollution are also concerns. Interventions that protect, rebuild, and manage natural capital can reduce rural vulnerability, safeguard agro-ecological food systems, and generate livelihoods. Policies and reforms in sectors like land and water need to be implemented at the grass root levels and monitored very closely for them to have the desired effect. A priority should be placed on green growth to ensure livelihoods, food, water, environmental, and climate security.

Key Risks and Mitigation: The risks mentioned above combined with limited fiscal space are key risks faced by the country. Institutional fragmentation prevails. As the rural poor rely on access to land, water, and natural resources for livelihoods and as a buffer to climate, environmental and economic shocks, it is important to provide support to protect their major assets – land, water, soil, forest, fisheries and accompanying local infrastructure – is key to build back better and provide a basis for higher value production. Leveraging market opportunities for rural producers and enterprises is also key. As the urban poor and urban services also face multiple shocks, it is important to maintain basic services and urban climate resilience. In both rural and urban systems, inclusive community approaches are needed for sustainability and to leverage human capital and the safety net being built under objective 4. It is important to develop policies and reforms that address structural weaknesses and build long-term capacity and resilience.

Related SDGs: This pillar relates to SDG 1: No Poverty, SDG 2: Zero Hunger, SDG 3: Good Health and Well-being, SDG 5: Gender Equality, SDG 6: Clean Water and Sanitation, SDG 8: Decent Work and Economic Growth, SDG 10: Reduced Inequality, SDG 11: Sustainable Cities and Communities, SDG 13: Climate Action, SDG 14: Life Below Water, and SDG 15: Life on Land.

CPF Objective Indicators	Supplementary Progress Indicators (SPI)	WBG Program

Indicator 18: People gaining access to improved water and sanitation services (number). Baseline: 0 Target: 1,144,549 (this is the total direct beneficiaries of WASSIP +AF) **Indicator 19:** Area provided with improved irrigation services Baseline: 0 Target: 164,707 ha Source: IWWRMP and Climate Smart Irrigated Agriculture Project **Indicator 20: Incremental area under improved climate-smart agriculture practices** Baseline: 0 ha Results Target: 20,000 ha Source: Climate Smart Irrigated Agriculture Project **Indicator 21: Local Government Authorities (LGAs) with improved access to resilient infrastructure services and economic opportunities (number)** Baseline: 0 Results Target: 134 Source: LDSP **Indicator 22: Increase in cinnamon exports** Baseline: 19% Results Target: 25% by FY 2027 Source: Agri Cinnamon Exports Advisory Project		Ongoing Projects Climate Resilience MPA Agriculture Modernization Project Climate Smart Irrigated Agriculture Project Integrated Watersheds and Water Resources Management Project Water Supply and Sanitation Improvement Project Ecosystem Conservation and Management Project TF EU co-financing for SL Ag Sector Modernization Project Pipeline Projects RESET DPO series Green, Resilient, Inclusive Rural Livelihoods Project (FY25) Analytic Work Agriculture Sector Review (ongoing) Designing systems to address GBV in Nepal, Sri Lanka and the Maldives PASA (ongoing) Gender, Citizen Engagement and Social Inclusion Platform PASA - Maldives, Nepal and Sri Lanka (ongoing) GRID PASA- Maldives, Nepal and Sri Lanka (ongoing) (P176456) including fisheries review and green growth platform TA *Proposed* CCDR (FY24) Country Environmental Analysis (FY24) IFC IFC Advisory Agri competitiveness projects in coconut and cinnamon
Cross-cutting: Enhance Resilience		
Contribution of the WBG to Cross Cutting Theme: The World Bank will continue to support the Government in enhancing resilience by focusing on strengthening social protection systems and sustainable rural livelihoods in the real sectors of the economy through ongoing and new projects, and technical assistance. The proposed RESET DPO series will support a reform program that will help transform economic governance through better fiscal oversight and debt management and improving tax administration, which will boost overall economic resilience.		

The World Bank support will continue supporting the Government in building resilience and climate adaptation by strengthening climate and disaster information systems and improving productivity of smallholder agriculture, among others. The Climate Resilience MPA aims to forecast and provide people with early warnings regarding natural disasters like floods and to protect lives, livelihoods, and property, especially of those of the poor and the most vulnerable, from the impact of meteorological and hydrological events. Similarly, the Climate Smart Irrigated Agriculture Project is helping to improve the productivity and climate resilience of smallholder agriculture in selected hotspot areas.

An upstream IFC advisory project with an overall objective to enable financial institutions to support the growth of climatic resilient agricultural sector in Sri Lanka is ongoing. This two-phase project entails a holistic approach to develop the sector by enabling financial institutions to provide climate-smart agriculture financing solutions. IFC is further working on a climate conference which may lead to future investment/advisory opportunities. Also, at the request of CBSL, IFC has developed the first national green finance taxonomy using the International Platform on Sustainable Finance (IPSF) and remains committed to assist the Government explore viable options.

WBG will provide technical assistance to strengthen inclusion in development policy and pivoting towards green growth, including through the Country Climate and Development Report (CCDR) which will highlight several pathways to a sustainable and inclusive growth model for Sri Lanka that will build resilience of people, systems and assets. Similarly, the ongoing GRID Advisory Program for Maldives, Nepal and Sri Lanka will continue to provide technical assistance on green growth and land administration – elements needed to plan for long term green, resilient and inclusive economic recovery, and growth.

Related SDGs: This cross-cutting theme relates to many SDGs to enhance resilience of the economy, people and their livelihoods: SDG 1: No Poverty, SDG 2: Zero Hunger, SDG 3: Good Health and Well-being, SDG 5: Gender Equality, SDG 6: Clean Water and Sanitation, SDG 8: Decent Work and Economic Growth, SDG 10: Reduced Inequality, SDG 11: Sustainable Cities and Communities, SDG 13: Climate Action, SDG 14: Life Below Water, and SDG 15: Life on Land.

CPF Objective Indicators	Supplementary Progress Indicators (SPI)	WBG Program
Two of the key indicators for measuring enhanced resilience in this CPF are found above under the pillars: **Social protection coverage of the poorest 20%** Baseline: 43% (2019) Source: HEIS 2019 **Ecosystem vitality metric of the Yale Environmental Performance Index (score)** Baseline: 40.10 (2022) Results Target: No deterioration in score Source: Yale Environmental Performance Index 2022, 2024, 2026 **People who can take action to protect their lives, livelihood and property based on early warnings of natural disasters (number)** Baseline: 15,000 Results Target: 3,500,000		CCDR (FY24) Country Environmental Analysis (FY24) Agriculture Sector Review

Source: Climate Resilience MPA Project		

Document of
The World Bank Group

FOR OFFICIAL USE ONLY

Report No. 170055-LK

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COMPLETION AND LEARNING REVIEW OF THE COUNTRY PARTNERSHIP FRAMEWORK

FOR THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

FOR THE PERIOD FY17-21

Maldives, Nepal, and Sri Lanka Country Management Unit
The International Finance Corporation
The Multilateral Investment Guarantee Agency
South Asia Region

FISCAL YEAR
January 1–December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective December 31, 2021)
Currency Unit = Sri Lankan Rupee (LKR)
US$1 = LKRs 202.99

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AF	Additional Financing
AHEAD	Accelerating Higher Education Expansion and Development Operation
ASA	Advisory Services and Analytics
ASMP	Agriculture Sector Modernization Project
CAT-DDO	Catastrophe Deferred Drawdown Option
CBO	Community-based Organization
CBSL	Central Bank of Sri Lanka
CDLG	Capacity Development of Local Government
CERC	Contingency Emergency Response Component
CLR	Completion and Learning Review
CMR	Colombo Metropolitan Region
CMU	Country Management Unit
COVID	Coronavirus Disease
CP	Consumer Protection
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
Cres MPA	Climate Resilience Multi-Phase Programmatic Approach
CRIP	Climate Resilience Improvement Project
CY	Calendar Year
DLI	Disbursement-Linked Indicator
DMF	Debt Management Facility
DMO	Debt Management Office
ECD	Early Childhood Development
EOP	End Of Project
ESF	Environmental and Social Framework
EU	European Union
DPF	Development Policy Financing
DP	Development Partner
ESCAMP	Ecosystems Conservation and Management Project
FDI	Foreign Direct Investment
FSMP	Financial System Modernization Project
FY	Fiscal Year
GDP	Gross Domestic Product
GoSL	Government of Sri Lanka
GRID	Green, Resilient and Inclusive Development
IBRD	International Bank for Reconstruction and Development
IEG	Independent Evaluation Group
ICR	Implementation Completion and Results Report

ICTA	Information and Communication Agency
ICT	Information and Communications Technology
IDA	International Development Association
IFC	International Finance Corporation
IHR	International Health Regulations
IMF	International Monetary Fund
InfraSAP	Infrastructure Sector Assessment Program
IPF	Investment Project Financing
IWWRMP	Integrated Watershed and Water Resources Management Project
KMTT	Kandy Multi-modal Transport Terminal Development Project
LDSP	Local Development Support Project
LGA	Local Government Authority
MAS	Manufacturing, Agribusiness and Services
MCUDP	Metro Colombo Urban Development Project
MIGA	Multilateral Investment Guarantee Agency
MLA	Monetary Law Act
MSMEs	Micro, Small, and Medium Enterprises
MSMI	Medical Supplies Management Information System
MTDS	Medium-Term Debt Management Strategy
M&E	Monitoring & Evaluation
NCD	Noncommunicable Disease
NGO	Non-Governmental Organization
NTFC	National Trade Facilitation Committee
PFM	Public Financial Management
PforR	Program-for-Results
PIU	Project Implementation Unit
PLR	Performance and Learning Review
PMCI	Primary Medical Care Institution
PMU	Project Management Unit
PPP	Public-Private Partnership
RE	Renewable Energy
RFP	Request for Proposal
RFQ	Request For Quotation
SCD	Systematic Country Diagnostic
SCDP	Strategic Cities Development Project
SDP	Strategic Development Project
SEA	Strategic Environmental Assessments
SME	Small and Medium-sized Enterprise
SOE	State Owned Enterprises
SSA	Strategic Social Assessments
STEM	Science, Technology, Engineering, and Mathematics
SWIFT	Single Window for Investment Facility Taskforce
TA	Technical Assistance
TCAMP	Transport Connectivity and Asset Management Project
TSEP	Transforming the School Education Systems as the Foundation of a Knowledge Hub
TVET	Technical and Vocational Education Training
UMIC	Upper Middle-Income Country
UNDP	United Nations Development Program
WASSIP	Water Supply and Sanitation Improvement Project
WB	World Bank

WBG	World Bank Group
WTO TFA	World Trade Organization Trade Facilitation Agreement
WUA	Water User Association

	IBRD	IFC	MIGA
Vice President:	Hartwig Schafer	Alfonso Gracia Mora	Ethiopis Tafara
Director:	Faris Hadad-Zervos	Hector Gomez Ang	Merli Baroudi
Task Team Leader:	Shadiya Adam	Tehmina Nawab	Persephone Economou

THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

COMPLETION AND LEARNING REVIEW OF THE COUNTRY PARTNERSHIP FRAMEWORK FY17–21

TABLE OF CONTENTS

I. INTRODUCTION

1. **This Completion and Learning Review (CLR) assesses the implementation of the World Bank Group (WBG) Country Partnership Framework (CPF) for the Democratic Socialist Republic of Sri Lanka for the FY2017–21 period.** The assessment is based on the results framework included in the CPF and updated in the Performance and Learning Review (PLR) of March 7, 2019. The PLR extended the CPF period through FY21[43] to accommodate parliamentary and presidential elections in 2019 and to allow the new Government of Sri Lanka (GoSL) to establish its policy agenda and deliberate on priority areas of engagement for the next CPF.

2. **During the CPF period, the country experienced several exogenous shocks and major political transitions.** After five years of increases, the average real gross domestic product (GDP) growth rate declined to 3.7 percent between 2015 and 2019. The decline occurred as growth momentum from a peace dividend and a policy thrust toward reconstruction, faded away. The structural weaknesses identified in the 2015 Systemic Country Diagnostic (SCD) also adversely affected growth, as did frequent shocks, including inclement weather in 2016 and 2017, a political crisis in late 2018, and the Easter Sunday attacks in 2019, followed by a change in administration in 2019, and the dire impact of COVID pandemic, 2020 onwards. The economic slowdown was broad-based, driven by lower production in industry and service sectors and weaker growth in private consumption and investment.

3. **The FY17–21 CPF remains relevant to the country's socioeconomic context, although the COVID-19 crisis has required the World Bank to broaden its focus to include not only Sri Lanka's pursuit of long-term economic recovery, but also its efforts to address immediate health needs and carry out a short- and medium-term pandemic response.** The CPF was organized around three pillars or focus areas: (i) improving macro-fiscal stability and competitiveness, (ii) promoting inclusion and opportunities for all, and (iii) seizing growth opportunities, improving environmental management, and enhancing adaptation and mitigation potential. The CPF's cross-cutting themes—gender, governance, and evolution of partnerships—were well aligned with Sri Lanka's development strategy and suitably integrated across operations in the three focus areas and remain relevant.

4. **The CPF benefitted from the mid-term adjustment in the PLR to increase focus on the Maximizing Finance for Development agenda to leverage more private financing.** In addition, a Human Capital Project was integrated to support sturdier investments in people, for greater equity and economic growth. As a result, adjustments were made in the results framework, at the PLR, to accommodate government's overall strategy, and to diversify WBG's longer-term engagement.

5. **The overall CPF development outcome is rated moderately satisfactory.** This rating is based on an aggregate assessment of nine objectives and 24 associated indicators grouped into three pillars in the revised PLR results framework. The first pillar, Macro- Fiscal Stability and

[43] As set out in the World Bank *Approach Paper* the adjustments that countries need to make to their medium-term policy, budget, and financing priorities as a result of the COVID-19 crisis will necessitate corresponding adjustments to country programs, and hence may require departures from the existing CPFs and CENs. Given the fluid situation, CPFs that have recently ended or are coming to an end in FY21will be extended to defer the development of new CPFs until the return of more steady conditions.

Competitiveness made substantial progress in enabling and improving the environment for private investment and trade and enhancing financial inclusion and financial sector regulation. The second pillar Inclusion and Opportunities for all, had notable achievements in strengthening education and training systems. There was also substantial progress under this pillar in increasing inclusive regional development through improved service delivery, while contributing to enhance the health system's response to the challenge of rising NCDs. The third pillar Green Growth and Resilience also showed considerable progress, especially in the areas of improving urban livability and strengthening climate resilience, natural resources, and disaster risk management. Annex 1 summarizes the main ratings by pillar and objective.

6. **The overall WBG performance is rated good.** The WBG's programs were well aligned with Sri Lanka's development strategy, articulated in GoSL's Vision 2025 (launched in 2017). The WBG sought to create an enabling environment for increased foreign and domestic investment and for enhanced state efficiency, and it added a new strategic area aimed at increasing resilience to natural disasters and climate change. The CPF also included new engagement in competitiveness, fiscal policy, and public finance management – areas that the World Bank and GoSL had not deeply engaged with previously. The inclusion of policy dialogue in these areas draws on lessons learned in implementing the last CPF. The lending program addressed the priorities of GoSL both in terms of Investment and Advisory Support. Although some implementation bottlenecks for Investment Project Financing (IPF) persisted due to insufficient government capacity and issues with procurement readiness, coordination among agencies, and stakeholder ownership, the WBG showed flexibility in responding to changes in country conditions, macro fiscal developments, government priorities and the unforeseen but devastating impact of the COVID pandemic.

I. PROGRESS TOWARD CPF DEVELOPMENT OUTCOMES

7. **The overall rating of *moderately satisfactory* reflects strong performance in most sectors, with seven of nine objectives rated "achieved or mostly achieved."** A detailed discussion of progress achieved toward the objectives is presented in this section.

8. **Pillar 1: Macro-fiscal Stability and Competitiveness.** This pillar is rated *mostly achieved*. WBG support contributed to improving Ease of Doing Business ratings and more generally to enhancing the investment climate. The WBG also helped the GoSL ramp up efforts to diversify its investor base and reduce refinancing risks to streamline cost of borrowing based on market conditions, while improving market access, and enhancing value addition of smallholder farmers and agribusinesses in selected areas. Targets to increase financial inclusion and financial sector regulations were fully achieved. However, the program was unsuccessful in implementing holistic public financial management reforms and a sound legal framework for Public Financial Management (PFM).

9. **The outcome of contributing to improved public finance management was not achieved.** Financial Regulations of Sri Lanka, which dates to 1975, have continued to impact administrative decision making, undermining the efficiency and effectiveness of public spending, impacting budget outcomes and public service delivery. In 2017, a PFM Act to provide a sound legal framework for PFM was announced by the government and a draft PFM Bill subsequently was approved by the cabinet in 2018. Bank provided Technical Assistance (TA) to support the

preparation of the initial drafts and had provided comments on the various updates including the latest draft PFM Bill of the government in 2019. However, it is unclear whether the current government wishes or can continue these reforms of financial regulations. Additionally, Bank's Development Policy Financing (DPF) operation, sought to contribute to this objective through actions to reverse the erosion of the tax base, by curtailing the granting of new tax holidays to protect Sri Lanka's already low revenue. The government took a decision to repeal the Strategic Development Project (SDP) Act of 2008, which was used to offer generous tax holidays to projects identified as strategic, including tax holidays up to 25-40 years. But the relevant amendment was not submitted to the Parliament. The DPF also assisted in establishing a unified debt management office (DMO), as the legal and institutional framework for debt management, and supported the preparation of a Medium-term Debt Management Strategy (MTDS). Despite these initial critical steps, there was no significant improvement in effectiveness and transparency of public financial management, which remained largely hindered by weak public procurement and external audit capacity.

Table 1: **Summary of CLR Ratings Based on the Updated CPF Results Framework**

Pillar 1: Macro-fiscal stability and competitiveness		MA
1.1 Contributing to improved public finance management		NA
	1.1.1 Excise tax revenue to GDP ratio	NA
1.2 Improving the enabling environment for private investment and trade		MA
	1.2.1 Number of days taken to process FDI applications reduced	A
	1.2.2 Private investment mobilized by agriculture SMEs (US$m)	MA
	1.2.3 Reformulated trade policy adopted	A
1.3 Contributing to enhancing financial inclusion and financial sector regulation		A
	1.3.1: CBSL will be the lead consolidated risk- based supervisor and prepare at least 2 reports on identified financial groups	A
	1.3.2 National Financial Inclusion Strategy adopted with a focus on gender	A
	1.3.3 Provide financial literacy training to at least 2,000 women	A
Pillar 2—Inclusion and opportunities for all		MA
2.1 Strengthening education and training systems		A
	2.1.1 Total number of trainees enrolled in public and private (technical and vocational) training institutions, along with number of females	A
	2.1.2 Percentage of the Program for School Improvement cycle (for primary and secondary) implemented and completed in all zones	A
	2.1.3 ECD centers upgraded and meeting the national quality standards	A
	2.1.4 Total number of students enrolled in science, technology, engineering, and mathematics (STEM) study programs in higher education, along with number of females	A
2.2 Improving primary health care systems		A
	2.2.1 Percentage of people (over 40 years of age) screened for selected NCDs (diabetes and hypertension) at healthy lifestyle centers	A
	2.2.2 Percentage of screened adults with high risk for NCDs who are registered and actively followed-up at primary medical care institutions	PA
2.3 Enhancing inclusive regional development through improved service delivery		MA
	2.3.1 Number of people provided with access to improved water sources (in rural areas and estates), including percentage of females	A
	2.3.2 Number of people provided with access to improved sanitation (in rural areas and estates), including percentage of females	A

	2.3.3 Number of children enrolled in ECD centers, along with number of females (including estate sector)	MA
	2.3.4 Number of new jobs generated through investments in agriculture SMEs	A
Pillar 3 Green growth and resilience		MA
3.1 Improving urban livability		A
	Indicator 3.1.1 Reduction in square kilometers (km2) under risk of flooding (50-year return period) in the Metro Colombo area	A
	Indicator 3.1.2 Square meters (m2) of new or rehabilitated urban public spaces in secondary city regions (Kandy, Galle, and Jaffna)	A
3.2 Strengthening climate resilience, natural resources, and disaster risk management		MA
	Indicator 3.2.1 Number of hectares (ha) benefitted with reduced annual crop losses from weather related events	A
	Indicator 3.2.2 Reduction in number of people at risk to weather-related transport interruptions	A
	Indicator 3.2.3 Number of school children protected from reduced landslide risks in selected schools	MA
	Indicator 3.2.4 Areas brought under enhanced biodiversity protection	A
3.3— Enhancing mitigation potential through renewable energy development		PA
	Indicator 3.3.1 Number of Renewable Energy PPP project structures finalized, and Request for Proposals (RFP) issued by the GoSL	PA

Note: A = achieved; MA = mostly achieved; PA = partially achieved; NA = not achieved.

10. **The outcome on improving the enabling environment for private investment and trade was mostly achieved.** The IDA-financed Sri Lanka Agriculture Sector Modernization Project (ASMP) aimed at increasing agricultural productivity, improving market access, and enhancing value addition of smallholder farmers and agribusinesses in the project areas. ASMP's contribution to the Maximizing Finance for Development agenda is evident in the inclusion of over US$98 million in mobilized private capital in the approved projects. In addition, the DPF operation, contributed directly to reducing the time for approval of FDI by supporting the Board of Investment reforms needed to establish the Single Window for Investment Facility Taskforce (SWIFT). Preliminary estimates of SWIFT's impact indicate reduced processing time by at least 20.6 percent (the equivalent of a reduction from 63 to 50 days). By removing obstacles to FDI entry, SWIFT has facilitated the entry of new investments and paved the way for more substantive reforms to the laws and regulations governing FDI. The DPF also helped move Sri Lanka toward a rules-based system of performance-based tax incentives. The reforms supported by the DPF address well-identified obstacles to the country's competitiveness, transparency, and fiscal sustainability. A National Trade Policy, through technical assistance from the Bank, approved by Cabinet in August 2017, helped to revitalize export competitiveness, and integrate more closely with the rest of the world. As part of the new trade policy, GoSL made a concerted effort to push for greater trade liberalization. The adoption of a national action plan for implementation of the World Trade Organization Trade Facilitation Agreement (WTO TFA) and formal establishment of the National Trade Facilitation Committee (NTFC) and its Secretariat, which the Cabinet approved, were important first steps toward the larger goal of streamlining administrative processes, rationalize documentation for exports and imports, and introduce a National Single Window integrating some around 30 government agencies involved in trade facilitation.

11. **The outcome of contributing to enhancing financial inclusion and financial sector regulation was achieved.** Sri Lanka's first National Financial Inclusion Strategy to Boost Financial Inclusion for All was launched in March 2021**.** The strategy was developed through a 2018 national survey conducted by the Central Bank of Sri Lanka (CBSL) and supported by the

IFC. Taking a gender-sensitive approach to financial inclusion, the survey found that both men and women have limited financial awareness, particularly regarding digital financial services. IFC under the SheWorks Sri Lanka program, which was launched in 2018, provided financial literacy and entrepreneurship training among 4000 female entrepreneurs by partnering with the Sanasa Development Bank. Additionally, the CBSL as the lead consolidated risk-based supervisor, prepared two consolidated risk-based supervision reports on identified financial groups in 2021. Technical assistance by WB, under the Strengthening Financial System Legal and Regulatory Framework, provided CBSL with specific recommendations on the legal reforms required to address the gaps in key laws and regulations in a prioritized manner. Out of the three key laws, draft Banking Act was delivered, while Monetary Law Act (MLA) amendments were taken over by the IMF. Finally Draft Consumer Protection (CP) Regulation for banks as well as a draft consumer protection strategy to develop a comprehensive CP framework in Sri Lanka, were also completed.

12. **Pillar 2: Inclusion and Opportunities for All.** This pillar is rated *mostly achieved.* While outcomes were achieved in education sector, good progress was made in health sectors and service delivery.

13. **The outcome on strengthening education and training systems was achieved.** Two IDA, three IBRD/IDA blend operations, and one ASA financed this objective:

- **To address the skills challenges and create an effective skills development system,** the GoSL adopted the Skills Sector Development Program, a sector-wide, medium-term program to be implemented between 2014 and 2020, supported by the Bank through the Skills Development Project. Although, the end of project (EOP) target, for number of trainees enrolled in public and private institutions surpassed in 2018 with enrollment numbers achieved for all students male and female standing at 940, 848 (EOP target: 827,241), 538,781 (EOP target: 452,609), and 402,067 (EOP target: 374,632) respectively, a lesson drawn was on the importance of integrating gender preference and economic earning potential for females of TVET courses to ensure better employment outcomes. Targeted courses for girls and women especially in ICT related services, to promote home-based work and providing a quota for women, in non-traditional TVET areas such as electricals, plumbing, automotive etc. could help achieve gender balance and promote job creation in future projects.
- **The Transforming the School Education Systems as the Foundation of a Knowledge Hub (TSEP)** project aimed at helping Sri Lanka develop a foundation for economic development by enhancing access to and quality of primary and secondary education and strengthening governance and delivery of education services. It also sought to strengthen the capacity of the education management system at the national, and subnational, and individual-school level. The project increased the survival rate of students up to grade 11 (from a baseline of 82 percent to 88 percent), improved science and math learning outcomes, and ensured that national assessments of learning outcomes were regularly conducted for key subjects and used by national and provincial authorities in the design of education development plans.
- **The Sri Lanka Early Childhood Development Project,** enabled to improve the quality of, early childhood development (ECD) services, which are provided primarily by non-state centers. The project also includes support to plantation sector ECD centers. As of

December 2021, approximately 87 percent of the target of number of children (631,690) were enrolled in ECD centers, while the centers meeting national quality standards represent 102 percent of the December 2021 target (5,500). Most of the quality interventions—such as long- and short-term teacher training, administrative staff training, parental awareness programs, and tuition waivers for children—have already exceeded the end-of-project targets.

- **Sri Lanka increased enrollments in degree programs of strategic economic importance—i.e., science, technology, engineering, and mathematics (STEM) programs—**through the Accelerating Higher Education Expansion and Development Operation (AHEAD) Project for Sri Lanka. Enrollments through AHEAD exceeded the PDO targets. The project was underpinned by an ASA operation that supported the first comprehensive and systematic review of Sri Lanka's education sector, from early childhood education through higher education.
- **Sri Lanka has made impressive progress in expanding access to education**. Recognizing the importance of developing the general education sector for Sri Lanka's transition to a UMIC, the World Bank developed the General Education Modernization project to improve the general education system and ensure that all children can gain the foundational skills needed to participate in Sri Lanka's economic growth. The project has performed well and has achieved all indicator targets for 2020.

14. The outcome on improving primary health care systems was achieved. The WBG has been integral in supporting improved delivery of health services, particularly in public health, nutrition, and NCDs, in Sri Lanka, through two projects: The Second Health Sector Development Project and the Primary Health Care System Strengthening Project. The former, approved in 2013, helped upgrade public health system standards and improved the system's response to malnutrition and NCDs and supported improvements in electronic record keeping and quality assurance. The project also contributed to the health system's response to rising NCDs by screening the population above 40 years for hypertension and diabetes. The latter, Primary Health Care System Strengthening Project, contributed to the capacity of primary medical care institutions (PMCIs) to provide comprehensive and high-quality care across the country. Project results reflect its contribution to PMCI's use of personal health records, their use of the Medical Supplies Management Information System (MSMIS), and their registration and screening of adults over 35 years at high risk for NCDs. Additionally, IDA financed Social Safety Nets Project will build capacity for the GoSL to review and refine programs to better address emerging fiscal challenges, such as the burden of an aging population. The project was restructured in April 2020 to provide US$45 million in emergency cash support to low-income households during the April–May 2020 COVID-19-related curfew.

15. The outcome on enhancing inclusive regional development through improved service delivery was mostly achieved. WBG support has been instrumental in helping to improve the quality of Sri Lanka's water supply and sanitation systems**.** The safely managed water supply, sanitation, and hygiene services financed by Water Supply and Sanitation Improvement Project (WASSIP) project in seven districts have played an essential part in protecting human health during the COVID-19 pandemic. The project established community-based organizations (CBOs) which have more than 50% women trained as trainers who helped coordinate water supply access during curfews. The project has also promoted menstrual *hygiene* management in all targeted coed and girls-only schools, and it has contributed substantially to providing 24-hour treated piped water supply services in rural, peri-urban, and estate areas in seven of the country's poorest districts. The Sri Lanka Early Childhood Development Project has delivered 87 percent of the December 2021 target of 631,690 number of children enrolled in ECD centers, while the number of centers meeting national quality standards is 5,566 (4,916 in the non-Plantations sector and 650 in the Plantations sector). This is 102 percent of the December 2021 target of 5,500. In addition, the number of ECD centers conducting annual child development assessments is 3,852 (non-plantation: 3,487; plantation: 365). Furthermore, Matching Grants under ASMP have been effective in creating jobs, which are mostly taken up by women, including skilled jobs such as chili pollination and agro-processing.

16. Pillar 3: Green Growth and Resilience. This pillar is rated *mostly achieved*. The WBG program made notable achievements on improving urban livability and climate resilience and disaster risk management. However, targets on mitigating renewable energy were partially achieved.

17. The outcome on improving urban livability was achieved through two major urban projects during the CPF implementation period.

- IBRD/IDA financed Metro Colombo Urban Development Project (MCUDP) was developed to support the GoSL's long-term urban development program for metropolitan Colombo by (i) reducing flooding in the catchment of the Colombo basin, and (ii) strengthening the capacity of local CMR authorities to rehabilitate, improve, and maintain local infrastructure and services through selected demonstration investments. The project delivered a set of hard-engineering solutions to protect the city against flood events and pioneered the use of urban wetlands as a nature-based solution for flood risk mitigation, building resilience to climate change, and improving urban livability. The population exposed to flood risk will be reduced by 27 percent for the project area and 12 percent for the whole Colombo. At project closure (December 2021), the project achieved its target of 3.1 km2 (above target of 3 km2) on reduction in the area under risk of flooding (50-years return period.
- The Strategic Cities Development Project (SCDP) was conceptualized in 2014 as a first intervention to improve urban basic services service and improving urban public spaces in the three major urban agglomeration cities in Kandy and Galle city regions. In 2016, the project added Jaffna city regions as part of its Additional Financing. Although, the project experienced several challenges with the frequent changes in implementing agency, and limited capacity of the project management staff; major actions taken in the last 2 years of implementation; which involved two major restructurings, partial cancelation for the separation of the Kandy Multimodal Transport Terminal (KMTT) and partial cancellations for Jaffna, enabled sustainability and improved implementation. At project closure in December 2021, the project managed to achieve all its target indicators, following adjustments to the indicators during restructurings. This was measured by the achievement of objective level indicators on total beneficiaries of 575,924 in three cities (101% of revised target) and 131,198 m2 (131% of revised target) of urban spaces rehabilitated.

18. Although the CPF Results Framework did not include outcomes or indicators on transport and connectivity reforms, the program contributed to development of these sectors, through Transport Connectivity and Asset Management Project (TCAMP) and KMTT. The KMTT is one of the transformational projects proposed under the comprehensive transport plan developed for Kandy City and has the potential to be a model for other multimodal centers planned in the country. TCAMP is expected to bring a significant impact on road asset management and maintenance of the national road network and has the potential to be expanded to the entire network. An ASA in 2020, one of the first that identified the challenges and gaps in a holistic way of the logistics and supply chain sector in Sri Lanka, underpinned this support further. The ASA focused on building a comprehensive framework beyond one-off reforms and investment, across infrastructure, services, and transport modes, to improve supply chain efficiency and resilience, transport connectivity for merchandising trade that is critical for post pandemic economic recovery.

19. **The outcome on strengthening climate resilience, natural resources, and disaster risk management was mostly achieved.** The recently closed Climate Resilience Improvement Project (CRIP) helped reduce the vulnerability of people and assets to climate risk and helped strengthen GoSL's disaster response capacity. Approximately 11.5 million people in 22 of Sri Lanka's 25 districts benefited from the CRIP investments, which included rehabilitation and improvement of 38 bridges, 640 culverts and small bridges, 2,448 km of highways, and 154.95 km of provincial roads, and which restored the transport connectivity of nearly 1.8 million people. The project also protected 29,000 schoolchildren via reduced landslide risks in selected schools. Additionally, 172,491.00 hectares (ha) benefitted with reduced annual crop losses from weather related events through the project. The Ecosystems Conservation and Management Project (ESCAMP) responds to Sri Lanka's development priorities by improving natural resources management and protecting and improving the natural resource base on which rural communities depend. The country's first integrated landscape management plan—Hurulu-Kawdulla-Kantale landscape management plan in a dry eco-zone—was completed in December 2019 under the project. About 90 percent of the second integrated landscape management plan—the Sinharaja Forest Range landscape management plan in a wet eco-zone— was completed as of November 2021. The ESCAMP also implemented community action plans and improved access to income-generating activities for 11,000 rural people (51 percent of them women). In areas where human-elephant conflict is intense, it introduced innovative community-based village-erected fencing along with early warning systems and damage insurance and placed 34 elephant collars to help determine elephant distribution and range patterns.

20. **The outcome on enhancing mitigation potential through renewable energy development was partially achieved.** Over the CPF period, the IFC engaged with government counterparts to facilitate the adoption of a programmatic approach for renewable energy via PPPs and helped the GoSL finalize the tender process (in anticipation of Cabinet approval). It sought to complete the transaction advisory to enable operationalization of Pooneryn Renewable Energy Park (which will comprise 350 MW of wind and solar power in a phased approach) to address challenges in Sri Lanka's energy sector. These include inadequate and low-quality infrastructure, increased use of costly and unsustainable fossil fuel–based power generation, an unstable, low-voltage power supply, and limited private sector participation. The Pooneryn Renewable Energy Park is to serve as an important demonstration project to open the renewable generation space and enable large, competitively priced projects, develop evacuation infrastructure (transmission), and demonstrate efficacy of PPP solutions for generation by bidding and awarding. Although significant project risk exists, IFC is continuing its efforts to complete the project given potential demonstration effects and the increased provision of lower-cost clean energy.

II. WORLD BANK GROUP PERFORMANCE

21. **The overall WBG performance during FY17–21 is rated good.** The CPF remained relevant and well aligned with Sri Lanka's development strategy, and the program was demand driven and based on good knowledge of the country's economic and political constraints. Regarding implementation, the World Bank carried out a wide-ranging program of analytical work and TA that followed the agenda laid out in the CPF, with emphasis on activities supporting renewed engagement in the fiscal, growth, and competitiveness areas under Pillar 1, and on cross-cutting gender and governance issues. Drawing lessons from the previous Country Partnership Strategy (CPS), performance-based or results-based instruments were introduced into the CPF, which enabled enhanced strategic engagements between line ministries and the Treasury, as well as between the government and the Bank.

A. Design

22. **The design of the CPF reflected the priorities of the government elected in 2015 and was based on the Systematic Country Diagnostic analysis**. The design allowed WBG, the flexibility to strengthen parts of the CPF in response to the new government's policies and programs, based on inputs from ASA operations, thus laying the groundwork for new investments and providing specialized technical support to GoSL objectives and programs. The use of disbursement-linked indicators (DLIs) helped align operational support with inclusion and access objectives. The use of IPFs helped address institutional weaknesses, especially in subnational entities, and improved targeting of low-income and vulnerable groups. PforR financing supported systems strengthening through strategic interventions within the government while enhancing WB and GoSL partnership across government's own systems. Additional financing helped scale up and build on existing institutional arrangements of well-performing operations, such as the WASSIP and ASMP. Although the CPF expected the stand-alone Competitiveness DPF to be a precursor to a series of policy-based operations; due to political sensitivity of potential reforms, the WB and the GoSL agreed to set aside the anticipated series of development policy financing operations in favor of instruments that are more suited to the country's short-term needs. It was agreed that a Policy-Based Guarantee would be appropriate to move forward with the policy dialogue as the government indicated that it is faced with large refinancing requirements and limited options to raise funds after a political crisis in 2018 and Easter attacks in 2019. Despite the uncertainties in the environment, the government was able to raise US$ 4.4 billion in Eurobonds between May to August 2019. Thereafter, the government showed limited interest to engage in important macro-fiscal reforms amid political uncertainties - as the presidential election was expected in late 2019.

23. **The WBG was effective in using the 2019 PLR for mid-course corrections.** The proposed extension to the CPF took into consideration both Parliamentary and Presidential elections in August 2019, allowing the new government time to settle in and consider priority areas of engagement for the next CPF, in addition to sufficient time for analysis and learning from the implementation of the current CPF. The PLR proposed changes in the formulation of four objectives, turned the pillars into focus areas, and updated WBG interventions and indicators, including streamlining. Greater emphasis was placed on IPF and technical assistance to achieve

Pillar 1 objectives, with a stronger focus on institution building and implementation; Pillar 2 reflected a shift in emphasis from lagging regions to more inclusive regional development, and from extending coverage to improving quality. Revision to Pillar 3 broadened the greening urban development objective and placed greater emphasis on climate resilience. Furthermore, adjustments were made to the results framework to address design shortcomings and to align the program with implementation capacity by streamlining WBG interventions and indicators; while diversifying its instruments to allow for longer-term engagement, using more DLI-based investments and piloting Program-for-Results operations and multi-phased approaches, while increasing its responsiveness through just-in-time analytical work.

24. The CPF design recognized that IFC investments would be an important part of WBG support, especially for private investment, with new International Bank for Reconstruction and Development (IBRD) financing available at the client's discretion. The CPF had discussed the potential use of MIGA guarantees to support foreign investment projects, where possible, across different sectors; however, despite active business development efforts, MIGA had no engagement in Sri Lanka during the CPF period, reflecting in part the challenging environment for foreign investors. MIGA will continue its efforts to support FDI in Sri Lanka and will explore implementation of the newly launched IFC MIGA Trade Finance Guarantee Initiative in the country.

25. A further aspect of the CPF's design was its emphasis on partnering with international organizations and engaging with new partners to leverage additional financing. The Competitiveness DPF was completed with co-financing from the Japan International Cooperation Agency. The Australian Department of Foreign Affairs and Trade financed WBG technical assistance to support the GoSL on policy and institutional reforms to improve competitiveness. During the CPF period the World Bank sought further partnerships to exploit synergies in developing programs and activities. The European Union has confirmed co-financing of the LDSP and the ASMP.

26. The CPF design acknowledged implementation risks, incorporated approaches to address them, and updated risk rankings based on the PLR. As designed, the CPF acknowledged substantial four risks in the implementation environment: (i) political and governance; (ii) macroeconomics; (iii) sector strategies and policies; and (iv) institutional capacity for implementation and sustainability. Economic risks affected the efficacy of the macro-fiscal stability and competitiveness pillar (Pillar 1), while political and governance changes markedly affected the priorities of the CPF program. The CPF design accounted for expected project implementation issues, such as inadequate capacity and experience for leading transformative policy and institutional reforms. The WBG used supporting measures such as analytics and technical assistance aimed at enhancing revenue mobilization and debt analysis; and it undertook regular macroeconomic monitoring jointly with the IMF. The PLR updated risk rankings across the eight categories covered in the CPF and rated as moderate the risk from natural disasters such as those that affected Sri Lanka during the CPF period, while noting a significant element of uncertainty in this rating. The PLR likewise noted that some elements in the moderate risk category affected implementation, but it did not raise the overall rating for that category; land acquisition, for example, proved to be a problem in the application of environmental and social safeguards, and procurement capacity continued to be a fiduciary weakness. Experience during the CPF implementation showed the risk associated with project technical designs to be higher than originally assessed, and the PLR raised the rating from low to moderate; but the PLR could not clearly identify how to address the weak institutional oversight of technical quality as the portfolio expanded into new areas.

B. Program Implementation

27. **The WBG faced significant implementation challenges.** Throughout the CPF period, several projects remained in problem status or were at risk of becoming potential problem projects. The joint portfolio reviews held with government during the CPF period identified issues with project preparation, implementation readiness and insufficient capacity and coordination across multiple agencies and between levels of government. Portfolio performance was also affected by weak activity planning and budgeting processes within the government, low alignment with WBG requirements on procurement and safeguards, and at times poor commitment at design and implementation stages, which weakened stakeholder ownership of project activities or impeded timely decision-making. Over the CPF period, the Bank had continual dialogue with the client to manage these problems at all levels; from a portfolio-wide perspective, on a case-by-case basis, and up front in the preparation of new projects. These portfolio discussion meetings with the government counterparts have proved to be useful in terms of sharing information and observations, as well as agreeing on corrective measures for project-level challenges. Additionally, the World Bank and GoSL agreed to propose a readiness filter to help ensure that projects went forward with adequate preparation.

28. **Although lending operations were affected by a difficult macroeconomic environment, institutional weaknesses, and changed country context, World Bank maintained a robust lending program.** At the beginning of the CPF period, lending commitments were $1,696 million consisting of 13 operations. Sri Lanka graduated from IDA at the end of IDA17 and currently receives transitional financing from IDA18 (FY18-20) amounting to US$417 million, of which US$100 million has been committed. Consistent with Sri Lanka's graduation, IBRD lending accounts for an increasing share of commitments—27 percent in December 2018, up from 12 percent in June 2016. In the first two and a half years of CPF implementation, a total of US$550 million in new lending was approved through 5 new operations, of which about half US$267 million was from IBRD. Current portfolio of Sri Lanka as of December 2021, has a commitment of US$2.3 billion with 18 operations, of which US$919million is IBRD.

29. **CPF implementation included strong and relevant ASA programming.** The World Bank delivered 38 ASA products (Annex 4) during the CPF period that supported the CPF/PLR agenda, informed the development of the country program going forward, and formed an important instrument in the dialogue with government on policy as well as in the implementation of the priority reform agenda. These products included analytical work on investment policy and the business environment and technical support for public financial management, tourism strategy formulation, PPP readiness, and follow-up to the Financial Sector Assessment Program. The Public Expenditure Review undertaken jointly with the government initiated a long-absent dialogue on improving the quality of expenditures. Governance-related activities included support for the implementation of the Right to Information Act and preparation for the introduction of e-

procurement. Several activities helped lay the groundwork for more effective project interventions, notably in health, water, PPPs, and tourism.

30. **The International Finance Corporation (IFC)'s** committed investment portfolio increased from US$244 million with 17 clients at the start of the CPF to US$476 million with 31 (16 active and 15 in supervision) clients at the end of the CPF period. The Financial Institutions Group accounted for 52.5 percent of the total portfolio followed by MAS at 44.7 percent. The increase in the portfolio reflected a strategic shift to address the country's biggest development gaps, especially in inclusion, infrastructure, productivity, and sustainability. In implementing the CPF, IFC helped to create markets by engaging in diverse set of sectors, including financial inclusion, climate-smart agriculture, renewable energy, venture capital and MSME financing with a focus on gender.

31. **The Multilateral Investment Guarantee Agency (MIGA) has no outstanding exposure in Sri Lanka, despite active business development efforts**. However, MIGA continues to work to support cross-border investments in Sri Lanka through its political risk insurance and trade finance instruments.

III. ALIGNMENT WITH CORPORATE GOALS

A. Poverty Reduction and Shared Prosperity

32. **The CPF was well aligned with key areas that impact poverty reduction**. Prior to the COVID-19 pandemic, Sri Lanka's economy was projected to grow at 3.3 percent in 2020. But the pandemic containment measures, especially in the second and fourth quarters of 2020, and the curtailment of tourism activity impacted the economy significantly. Real GDP is estimated to have contracted by 3.6 percent in 2020, the worst performance on record, leading to widespread jobs and earnings losses. The CPF reflected—and effectively met—the urgent need to address poverty in the lagging regions (the Northern and Eastern Provinces, Uva Province, and the estate sector) and tackle issues of war-affected rural communities. The WBG undertook a social assessment of the north and east to shed light on the social and economic conditions of resettled communities, including gender dimensions and needs in a post-conflict environment as well as poverty, economic vulnerability, livelihood issues, levels of social capital, and reconciliation and development needs and aspirations. The PLR further recognized the need to shift emphasis from lagging regions to more inclusive regional development, and from extending coverage to improving coverage quality. These changes were incorporated in ongoing and new operations in the education, health, agriculture, road, water, sanitation, and local development sectors.

33. **The CPF highlighted the importance of sustained economic growth, enhanced competitiveness, and more and better jobs for the bottom 40 percent of the income distribution for boosting shared prosperity.** To foster competitive, diversified, and well-regulated financial markets that provide investment finance for businesses and provide economic opportunities for underserved populations, the CPF focused on activities that made appropriate financial products more available and accessible, particularly for MSMEs, microfinance clients, farmers, and agribusinesses. To sustainably promote inclusion, economic opportunities, and increased living standards, the CPF targeted activities that strengthened education and training

systems, improved health, and pension systems to address the demographic transition; made social safety nets more effective and efficient, and improved living standards in the lagging regions. Investments to strengthen green growth and resilience targeted people in the bottom 40 percent who live in urban agglomeration areas and would benefit from inclusive and sustainable urbanization that makes cities livable, resilient centers of growth and employment.

B. New or Emerging Country Development Issues

34. **The COVID-19 crisis caused a significant economic contraction and welfare losses**. In 2020, Sri Lanka's economy contracted by 3.6 percent, the worst performance on record, due to declining export earnings (tourism, textiles, tea) and subdued private consumption and investment. Mobility restrictions, weak demand, and input shortages together severely affected activities in most sectors. The World Bank reallocated $56 million from ongoing projects to protect the most vulnerable in the agriculture sector, improve COVID-19 protection measures on public transport, facilitate tele-education for school children, and provide digital solutions to improve delivery of public services. The Bank also financed a $128.6 million Sri Lanka COVID-19 Emergency Response and Health System Preparedness Project and another $69.53 million credit agreement was signed to improve dams and irrigation schemes covering 165,000 hectares of agricultural land and improve the management of watersheds and water resources, benefitting 356,000 farming families.

35. **The COVID-19 pandemic revealed the need to accelerate digital development.** Sri Lanka's households and businesses felt the effects of disparities in digital skills and access to digital technology. Many were ill-equipped to deal with mobility restrictions and social distancing. Widespread disruptions to education and public services are expected to worsen existing inequalities and have long-term consequences for social and economic inclusion. An ongoing ASA is assisting Sri Lanka's ICT Agency to implement a "Home-based Work Platform" under the pooled CERC (total $56 million) that was activated across four projects to mitigate the impacts of the COVID-19 pandemic in Sri Lanka; activities will strengthen GoSL capacity to use digital technologies to operate and deliver services during crises, such as to build a digital ID system to innovate service delivery and reduce leakages in public and social programs. The Bank is also engaging with the GoSL as it considers developing strategies to create a technology-based society, to support the diffusion and adoption of digital technologies across the economy and society would help Sri Lanka improve public service delivery, expand access to affordable broadband, promote a more-diversified and internationally competitive economy, and enable new firms and jobs.

IV. LESSONS LEARNED

36. **The CLR confirms the main lessons that emerged from the PLR.** The implementation experience of the CPF provides important lessons which could inform the next CPF. The lessons include:

37. **To develop a more resilient program, the WBG must combine a deeper understanding of Sri Lanka's political economy with operational flexibility**. To achieve this, the WBG should continue to broaden its stakeholder engagement to include not only government counterparts,

NGOs, and Development Partners but also members of the wider political and social spectrum. Such an engagement would serve two purposes. First, it will increase the awareness of the WBG and its ability to provide politically neutral, development-oriented support; second, it will allow the WBG to use its convening and facilitation role to help identify consensus around some of the key development challenges and solutions for Sri Lanka. Leveraging political economy analytical tools and frameworks can sustain such an engagement and help teams anticipate changes to operational contexts. With more flexible instruments at their disposal, task teams can adapt to changing circumstances more rapidly. While WBG displayed flexibility on several occasions, including a DPF with a catastrophe drawdown option (CAT DDO) that channeled funds to the GoSL within four days during the 2017 floods; this flexibility should not compromise the longer-term commitment to WBG-supported programs. Operational flexibility by itself is insufficient to implement programs effectively. There have been instances where operations were canceled or delayed due to a changing political context. Broader engagement and a common understanding of development issues and solutions along with operational flexibility can make the WBG program more effective.

38. Opportunistic engagement approaches could prove more effective in a challenging political landscape. When the political environment is not conducive to the first best engagement approach, the strategy needs to adapt to political realities and seek incremental progress. This could be achieved through regular policy dialogue while opportunistically engaging in areas that provide entry points for more long-term reforms. This may lead to sub-optimal solutions in the near term but could pave the way for politically sensitive reforms and build trust with the client while identifying pathways for necessary technical-level engagement. In seeking out opportunities for such engagements, the WBG must however, retain the focus on the selectivity and quality of its interventions. Otherwise, there is a risk that an opportunistic engagement could lead to ad hoc or non-strategic interventions, that could neither benefit WBG nor GoSL. Current macro-fiscal dialogue with government could be one area of such an engagement approach, that maintains technical discussions in select fiscal policy reform areas in the immediate term, while leveraging high level policy dialogue, to gain traction towards more comprehensive structural policy adjustment. On the portfolio engagement, the focus should be identifying select areas of no regret investment that are expected to generate significant growth enhancing and transformative effects that could trigger deeper structure reform in the longer term.

39. Greater awareness of Sri Lanka's complex institutional framework as well as continuous efforts to reform it can improve the implementation of the WBG program. Sri Lanka's fragmented government structure (43 ministries until October 2018 and more than 31 currently; over 400 state-owned enterprises and other structures) contributes to a complex institutional setting. The large number of agencies involved in program and project implementation, along with the need for operations to work across different government levels, creates coordination issues that can be time-consuming to resolve, whilst leading to less government ownership of the WBG-supported program. Building ownership at all levels of the institutions remains key for smooth implementation of complex projects, and in particular those tackling institutional reforms. Improving Sri Lanka's institutional framework is a key medium-term priority which WBG should strongly advocate for.

40. With sustained policy dialogue, a "One World Bank Group" approach can generate stronger synergies and substantial outcomes in critical sectors of the economy. In situations where IBRD promotes upstream policy support, the IFC and MIGA can crowd in private sector investment to build on these efforts. IBRD investments can also trigger support from IFC to attract investments and support the government on building business plans for completed infrastructure investments under IBRD. However, this can only happen through a strong and sustained policy dialogue with the government and other key stakeholders. During the CPF period, for example, IFC helped to create markets by engaging in diverse set of sectors, including financial inclusion, climate-smart agriculture, renewable energy, venture capital and MSME financing with a focus on gender. Through a more proactive and targeted business development model, IFC has also been able to identify and cultivate upstream opportunities in new sectors such as disruptive technology in transport, organized retail, tourism, agri-finance, and waste-to-energy solutions that have developed into greenfield projects with new clients. Additionally, the IFC transaction advisory for a possible PPP in renewables helped to intensify the discussion and enabled the WBG to pursue policy changes to increase international investment in RE and energy efficiency outcomes. Likewise, the collaboration in the digitization space has set a foundation on which WBG can help the government achieve some of its key goals in the sector. Similar efforts are underway in digitization and can be undertaken in the next period in SOE reforms, PPPs, agriculture, logistics and in the e-mobility space. IBRD can help pave the way for such investments through policy support or investments. Although MIGA does not currently have any projects in Sri Lanka, a unified approach and strong collaboration with WB and IFC can maximize its business development efforts, particularly in sectors aligned with the GRID framework, such as renewable energy.

41. Greater cooperation with other Development Partners (DPs) can help improve the sustainability of WBG investments. The reverse is also true and other DPs can benefit from cooperating with the WBG. Such cooperation provides a broader, more informed context for implementation of projects. For example, the World Bank helped mitigate the impact of landslides on a road project funded by the ADB. Only by cooperating with each other can DPs be effective partners of Sri Lanka. In this context, it is pertinent to note that the WBG and ADB represent two of the biggest development finance providers in Sri Lanka. Coordination with the EU and UNDP for example has been successful in building local government capacity in four lagging provinces benefiting under the WB financed Local Development Support Project (LDSP) ensuring development outcomes are not only met but sustained after a project closes. Such efforts should be expanded and sustained.

42. Fast-tracking project preparation could create implementation challenges and ultimately prolong the project management life cycle. Preparing large, complex projects requires careful analysis and planning. However, during the CPF period, a trend of embarking on very rapid project preparation trajectories has emerged. While rapid project preparation could be viewed as responsiveness to client needs, it comes with downsides. Specifically, teams report that government counterparts may have unrealistic expectations of the speed at which WBG projects can be prepared and implemented. This focus on speed distracts from the very important upstream technical work related to ESF, safeguards, institutional arrangements such as project management setup, etc. Such an example is SCDP, which took two major restructurings and two extensions and a life cycle of seven years to complete delivery. The CLR recommends that WBG country management and project teams set more realistic expectations of project timelines, the critical need for adequate project preparation, including sound analytical underpinnings, and institutional assessments.

43. **Complex land acquisition, resettlement, and significant procurement challenges may adversely impact project implementation**. WBG teams should not underestimate the complexity of land acquisition and resettlement issues in Sri Lanka. For instance, even nine years into the implementation of the MCUDP, the issue of resettling 12 households in a building owned by the Colombo Municipal Council remains unresolved. Similarly, the time and effort required for procurement must be well thought through at the preparatory stages. A multiplicity of agencies and inadequacy of staff capacity can lead to significant procurement delays in Sri Lanka. For smoother implementation, teams should factor in land acquisition and resettlement practices, especially if these involve agencies outside the main implementation agency. As far as procurement is concerned, implementation readiness should be a key factor in recommending a project for Board approval. A commitment from clients to dedicate procurement specialists for WBG-supported projects should be considered as a key check for implementation readiness.

44. **Inadequate client staffing, and limited staff capacity remain a critical issue for WBG-supported operations**. Civil servants appointed to project management functions have additional day-to-day functions to fulfill. While it is appropriate for the government to desire that civil servants staff PMUs, this should be done as part of a strategic process. Civil servants responsible for implementing WBG-supported operations should have adequate time as well as capacity for effective implementation. Putting a proper project team is critical – not having one creates a series of difficulties as implementation goes on. WBG operations require a dedicated full time Project Director and several specialists given the complexity of the projects. These include procurement specialists, safeguards specialists, financial management, Monitoring and Evaluation (M&E) specialist, and contract management specialists. It is recommended, that WBG teams should develop a clear understanding with clients on the availability of appropriate staff for project teams. In addition, teams must ensure that clients set aside adequate budget for project management staffing and project implementation. Beyond individual task teams paying attention to these issues, CMU-level discussions with Ministry of Finance, to work out a phased transition to use government officials for implementing projects, are recommended. During the transition, the government could provide an approved pool of consultants to manage staffing gaps that may emerge. There could also be a benefit to collaborating with Development Partners such as the Asian Development Bank (ADB), which has experience of working on projects staffed by civil servants.

45. **Using information and communication technologies (ICT) for project supervision has proven to be effective in Sri Lanka and should be sustained going forward**. During the COVID-19 pandemic, the World Bank turned to virtual monitoring, remote support, and supervision of projects. Digital supervision can complement to traditional supervision methods and may gain greater prominence in the future. Video conferencing facilities and digital connectivity were established for 134 rural and urban Local Authorities under the LDSP with support from the EU funded UNDP Capacity Development of Local government (CDLG) program. While having this capability was timely during the COVID–19 Pandemic in allowing both the Bank and the GoSL to remotely supervise project implementation in remote locations across four provinces, rural and small-town digitalization and building local capacity to use digital platforms

efficiently have become the norm rather than an exception post COVID-19. The new CPF should expand digitalization efforts countrywide by coordinating and leveraging both the government's own Information and Communication Agency (ICTA) efforts on this front and utilizing donor support, including exploring EU grants, for this purpose.

ANNEX 1: STATUS OF THE REPUBLIC OF SRI LANKA FY17-21 CPF RESULTS MATRIX

Summary Table

Description	Status at CLR	Overall Rating
Pillar 1—Macro-fiscal stability and competitiveness Mostly achieved		
Objective 1.1- Contributing to improved public finance management	**Not achieved**	
Indicator 1.1.1 Excise tax revenue to GDP ratio	**Not achieved**	
Objective 1.2— Improving the enabling environment for private investment and trade	**Mostly achieved**	
Indicator 1.2.1 Number of days taken to process FDI applications reduced	**Achieved**	
Indicator 1.2.2 Private investment mobilized by agriculture SMEs (US$m)	**Mostly achieved**	
Indicator 1.2.3 Reformulated trade policy adopted	**Achieved**	
Objective 1.3— Contributing to enhancing financial inclusion and financial sector regulation	**Achieved**	
Indicator 1.3.1: CBSL will be the lead consolidated risk- based supervisor and prepare at least 2 reports on identified financial groups	**Achieved**	
Indicator 1.3.2 National Financial Inclusion Strategy adopted with a focus on gender	**Achieved**	
Indicator 1.3.3 Provide financial literacy training to at least 2,000 women	**Achieved**	
Pillar 2—Inclusion and opportunities for all	**Mostly achieved**	
Objective 2.1—Strengthening education and training systems	**Achieved**	
Indicator 2.1.1 Total number of trainees enrolled in public and private (technical and vocational) training institutions, along with number of females	**Achieved**	
Indicator 2.1.2 Percentage of the Program for School Improvement cycle (for primary and secondary) implemented and completed in all zones	**Achieved**	
Indicator 2.1.3 ECD centers upgraded and meeting the national quality standards	**Achieved**	
Indicator 2.1.4 Total number of students enrolled in science, technology, engineering, and mathematics (STEM) study programs in higher education, along with number of females	**Achieved**	
Objective 2.2—Improving primary health care systems	**Achieved**	
Indicator 2.2.1 Percentage of people (over 40 years of age) screened for selected NCDs (diabetes and hypertension) at healthy lifestyle centers	**Achieved**	

Indicator 2.2.2 Percentage of screened adults with high risk for NCDs who are registered and actively followed-up at primary medical care institutions	**Partially Achieved**	
Objective 2.3 – Enhancing inclusive regional development through improved service delivery	**Mostly achieved**	
Indicator 2.3.1 Number of people provided with access to improved water sources (in rural areas and estates), including percentage of females	**Achieved**	
Indicator 2.3.2 Number of people provided with access to improved sanitation (in rural areas and estates), including percentage of females	**Achieved**	
Indicator 2.3.3 Number of children enrolled in ECD centers, along with number of females (including estate sector)	**Mostly Achieved**	
Indicator 2.3.4 Number of new jobs generated through investments in agriculture SMEs	**Achieved**	
Pillar 3—Green growth and resilience Mostly achieved		
Objective 3.1—Improving urban livability	**Achieved**	
Indicator 3.1.1 Reduction in square kilometers (km2) under risk of flooding (50-year return period) in the Metro Colombo area	**Achieved**	
Indicator 3.1.2 Square meters (m2) of new or rehabilitated urban public spaces in secondary city regions (Kandy, Galle, and Jaffna)	**Achieved**	
Objective 3.2— Strengthening climate resilience, natural resources, and disaster risk management	**Mostly Achieved**	
Indicator 3.2.1 Number of hectares (ha) benefitted with reduced annual crop losses from weather related events	**Achieved**	
Indicator 3.2.2 Reduction in number of people at risk to weather-related transport interruptions	**Achieved**	
Indicator 3.2.3 Number of school children protected from reduced landslide risks in selected schools	**Mostly Achieved**	
Indicator 3.2.4 Areas brought under enhanced biodiversity protection	**Achieved**	
Objective 3.3— Enhancing mitigation potential through renewable energy development	**Partially achieved**	
Indicator 3.3.1 Number of Renewable Energy PPP project structures finalized, and Request for Proposals (RFP) issued by the GoSL	**Partially achieved**	

ANNEX 2: THE REPUBLIC OF SRI LANKA FY17-21 CPF RESULT MATRIX EVALUATION

Objectives	Overall Rating	Indicator	Baseline/target	Status at CLR	Lessons Learned and Suggestions for new CPF	WBG Instruments
Objective 1.1- Contributing to improved public finance management		Indicator 1.1.1 Excise tax revenue to GDP ratio	Baseline: 1.5 % GDP (2017) Target: 1.8 % GDP (2020)	Not achieved	Sri Lanka's (i) revenue collection is very low; (ii) expenditure is not high; and (iii) fiscal deficits and debt levels are high relative to its aspirational peers. Between 2015-2019, the annual average fiscal deficit remained high at 6.3 percent of GDP despite important reforms.	World Bank, 2019. Public Expenditure Review
		Additional evidence: Sri Lanka's revenue collection as a share of GDP averaged 12.6 percent between 2015-2019. This stood at 21.6, 20.3 and 19.4 percent, for Thailand, Malaysia, and Vietnam, respectively. Sri Lanka's expenditures as a share of GDP averaged 18.9 percent between 2015-2019. This stood at 21.7, 23.2 and 22.3 percent, for Thailand, Malaysia, and Vietnam, respectively. Sri Lanka's government debt as a share of GDP was 86.8 percent in 2019. This stood at 41.1, 57.2 and 43.4.3 percent, for Thailand, Malaysia, and Vietnam, respectively.				
Objective 1.2— Improving the enabling environment for private investment and trade		Indicator 1.2.1 Number of days taken to process FDI applications reduced	Baseline: 72-116 (2016) depending on sector Target: 58-93 (2020)	Achieved	The government took initial bold steps to frame a new trade policy framework aimed at revitalizing its export competitiveness and integrating it more closely with the rest of the world. However, World Bank's analytical work and complementary TA made a huge contribution to help build capacities that are necessary for implementation of reforms.	Development Policy Financing Technical Assistance Investment Policy Financing
		Indicator 1.2.2 Private investment mobilized by agriculture SMEs (US$m)	Baseline: 0 (2017) Target: 100 (2021)	Mostly Achieved		
		Indicator 1.2.3 Reformulated trade policy adopted	Baseline: No (2016) Target: Yes (2019)	Achieved		

					Matching Grants have proven to be an effective mechanism at mobilizing private investment. However, a Partial Credit Guarantee under ASMP had no demand and has been dropped due to lack of interest, Further analysis is ongoing to explore mechanisms to provide private finance in agriculture value chains.	
		Additional evidence: Indicator 1.2.1: A virtual One-Stop-Shop for processing new investment proposals known as "Single Window Investment Facilitation Taskforce" became operational in May 2018 and preliminary estimates of early impact indicated reduced processing time by at least 20.6 percent (equivalent of a reduction from 63 to 50 days). Indicator 1.2.3: A National Trade Policy was articulated and approved by Cabinet in August 2017 The Sri Lanka Growth Program (TF083646) window under the South Asia Regional Trust Fund, DFAT-WB Partnership for South Asia (PFSA) supported GoSL vision to transform the country into an upper middle-income economy by identifying and supporting a funding a wide range of priority reforms to create a more agile trade regime, enhance the international competitiveness of Sri Lanka's private sector and enhance transparency and public-sector management. Since 2021, the trust fund has pivoted to support the GoSL to identify, develop and implement its medium-term recovery policy priorities and initiatives to foster competitiveness, business growth and job creation including through investment climate/FDI, financial sector, trade, and customs policy and governance/SOE issues.				
Objective 1.3—Contributing to enhancing financial inclusion and financial sector regulation		Indicator 1.3.1 CBSL will be the lead consolidated risk- based supervisor and prepare at least 2 reports on identified financial groups	Baseline: No (2016) Target: Yes (2021)	Achieved	IFC's investments and advisory services complemented the World Bank's role on Banking Regulations, Access to Finance and financial inclusion	Investment Policy Financing Technical Assistance
		Indicator 1.3.2 National Financial Inclusion Strategy adopted with a focus on gender	Baseline: No (2016) Target: Yes (2021)	Achieved		

		Indicator 1.3.3 Provide financial literacy training to at least 2,000 women	Baseline: 0 (2017) Target: 2,000 women (2021)	Achieved		
		Additional evidence:				
Objective 2.1—Strengthening education and training systems		Indicator 2.1.1 Total number of trainees enrolled in public and private (technical and vocational) training institutions, along with number of females	Baseline: 178,326 (74,595 female) (2015) Target: 185,363 (83,945 female) (2018)	Achieved 120% T: 223,999 F: 100,912	Focusing on numerical outcome targets are useful for both policy makers and technocrats	Investment Policy Financing with disbursement linked indicators (DLIs)
		Indicator 2.1.2 Percentage of the Program for School Improvement cycle (for primary and secondary) implemented and completed in all zones	Baseline: Implemented in 70% of zones (2015) Target: Completed in 100% of zones (2017 onward)	Achieved 100% (2017 and onward)	Empowering school communities and promoting devolved management can be both popular and effective in improving school level outcomes. General education is a key area for future intervention in the CPF	Investment Policy Financing with disbursement linked indicators (DLIs)
		Indicator 2.1.3 ECD centers upgraded and meeting the national quality standards	Baseline: 4,400 (2018) Target 7,000 (2021)	Achieved 4,845 (May 2021 Source: RP	Development can be challenging when countries face considerable volatility.	Investment Policy Financing
		Indicator 2.1.4 Total number of students enrolled in science, technology, engineering, and	Baseline: 33,000 (17,000 female) (2015)	Achieved	Increase in higher education enrollment is of central importance for economic development in the modern knowledge-	Program for Results (PforR)

		mathematics (STEM) study programs in higher education, along with number of females	Target: 59,000 (29,500 female) (2021)	Total: 57,000 (28,500 female) (2020)	based economy. Higher education is a key area for interventions under the new CPF	
		Additional evidence: School-based teacher development was established in 100 percent of zones, starting from a baseline of zero, in the general education sector. Research and innovation outcomes in higher education have reached 85 percent in 2021, exceeding the target of 50 percent for the current time frame.				
Objective 2.2—Improving primary health care systems		Indicator 2.2.1 Percentage of people (over 40 years of age) screened for selected NCDs (diabetes and hypertension) at healthy lifestyle centers	Baseline: 3% (2012/2013) Target: 12% (2017)	Achieved 25%	Project development through a strong consultative process involving all stakeholders and regular supervisions and reviews through steering committees chaired by senior management of MOH	Investment Policy Financing with disbursement linked indicators (DLIs)
		Indicator 2.2.2 Percentage of screened adults with high risk for NCDs who are registered and actively followed-up at primary medical care institutions	Baseline: 0 (2018) Target: 20% (2021)	Partially Achieved Near completion 15% as at September 2021		Investment Policy Financing with disbursement linked indicators (DLIs)
		Additional evidence:				

CPF objective 2.3 – Enhancing inclusive regional development through improved service delivery		Indicator 2.3.1 Number of people provided with access to improved water sources (in rural areas and estates), including percentage of females	Baseline: 0 (0% female) (2015) Target: 343,900 (50% female) (2021)	Mostly Achieved 281,357 (45%) as of July 30, 2021	CBOs /WUAs require an increased focus on cost recovery and sustainability. Legalization of CBOs leads to financial sustainability of rural water supply schemes. Clustering subprojects geographically would attract higher grade contractors resulting in better quality, and more effective project management and execution; however, it may not guarantee the lowest prices and timely completion. The female participation in CBOs can be enhanced by providing necessary trainings and skill development programs	Investment Policy Financing

		Indicator 2.3.2 Number of people provided with access to improved sanitation (in rural areas and estates), including percentage of females	Baseline: 0 (0% female) (2015) Target: 129,000 (50% female) (2021)	Achieved 50,356 (rural-within water supply area) as of June 30, 2021 83,191 (rural-outside water supply area) as of June 30, 2021 7,225 as of June 30, 2021 (estates)	Continues support is needed to the for construction of latrines in communities. Hygiene awareness programs plays a significant role in developing ownership, ensuring usage and maintenance. There is high demand from female students for gender segregated latrines with menstrual hygiene facilities in schools; however, proper maintenance remains a challenge.	Investment Policy Financing
		Indicator 2.3.3 Number of children enrolled in ECD centers, along with number of females (including estate sector)	Baseline: 512,620 (253,900 female) (2015) Target: 661,150 (327,400 female) (2021)	lostly Achieved 78,160 irls: 289,080 (50%) (May 2021)	Ambitious workplans, especially when civil works are included High turnover of staff at PMUs and capacity remains a challenge	Investment Policy Financing
		Indicator 2.3.4 Number of new jobs generated through investments in agriculture SMEs	Baseline: 0 (2016) Target: 4,000 (2020)	Achieved	Matching Grants under ASMP have been effective in creating jobs, including skilled jobs (for example operating	Investment Policy Financing

				6027 (of which 3128 female)	processing equipment, laboratory services and quality control). Many of these jobs created have been taken by women, including skilled jobs such a chili pollination and agor-processing.	
		Additional evidence: A total of 64% of the targeted beneficiaries have been reached and over 132,000 beneficiaries have been added				
Objective 3.1— Improving urban livability		Indicator 3.1.1 Reduction in square kilometers (km2) under risk of flooding (50-year return period) in the Metro Colombo area	Baseline: 5.5 km_2 (2015) Target: 3 km_2 (2020)	Achieved 3.1 km2 as of 30 Dec 2021, at project closure	The Project was requested by the government as an urgent response to the major flood in 2010. To achieve its outcome target, the project started its implementation by conducting hydrological model, preparing for the Design and Build for large contracts, which took significant amount of time for procurement, as well as for resettlement. The Project achieved its second objective on strengthening the capacity of local authorities to deliver certain investments on public services and public spaces, within 4 years of implementation. The major achievements include rehabilitation of 47km roads, and rehabilitation of the Townhall area as well as Viharamadevi park.	Investment Policy Financing
		Indicator 3.1.2 Square meters (m2)	Baseline: 0 m2 (2016)	Achieved	Ambitious design by combining urban upgrading	Investment Policy Financing

		of new or rehabilitated urban public spaces in secondary city regions (Kandy, Galle, and Jaffna)	Target: 100,000 m2 (2021 – revised after the last restructuring in 2020)	131,198 m2 As of December 31, 2021, at project closure	and large infrastructure works in three cities Kandy, Galle, and Jaffna, where capacities varied across the participating cities. The Colombo based Project Management Unit and city-based Project Implementation Units had to supervise and managed more than 100 contracts under this Project. At closure, the Project managed to achieve its indicator targets after 2 significant restructuring to spin off the largest activity in Kandy, the Kandy Multi Modal Terminal Transport (US$ 65 million partial cancelation) and significant reduction in outcome targets, followed by another and partial cancelation for Jaffna city (US$ 27 million).	
		Additional evidence: 3.1.1. achieved its outcome target at project closure, following completion of flood reduction system – 3 pumping stations, 2 tunnels, and major canal diversions. Both SCDP and MCUDP have been closed by December 31, 2021.				
Objective 3.2—Strengthening climate resilience, natural resources and disaster risk management		Indicator 3.2.1 Number of hectares (ha) benefitted with reduced annual crop losses from weather related events	Baseline: 0 ha (2016) Target: 100,000 ha (2020)	Achieved 172,491.00 as of 30 April 2021	Effective communication tools should be an integral part in projects that deliver highly technical outputs that consist of complex models	Investment Policy Financing
		Indicator 3.2.2 Reduction in	Baseline: 420,000 (2017)	Achieved		

		number of people at risk to weather-related transport interruptions	Target: 1,500,000 (2020)	1,799,000.00 as of 30 April 2021	Careful attention needs to be paid to building the capacity of institutions mandated with post-project management of investments to ensure the sustainability of outcomes Management of the high value complex technical contract for DBIPs was challenging. The technical complexity required in the preparation of ToRs, bidding documents and evaluation of proposals for such contracts requires experienced procurement specialists, PMU staff and Technical Evaluation Committee members	
		Indicator 3.2.3 Number of school children protected from reduced landslide risks in selected schools	Baseline: 0 (2016) Target: 25,000 (2020)	Mostly Achieved 28,801.00 as of 30 April 2021 (target was revised to 29,000)		
		Indicator 3.2.4 Areas brought under enhanced biodiversity protection	Baseline: 0 ha (2016) Target: 100,000 ha (2021) National Target: 32% land area	Achieved 350,000 ha	Investing into biodiversity and habitat and forest landscapes restoration protection generate multiple socio-economic benefits: green jobs, revenue streams for local communities, flood protection and mitigation of climate change	Investment Policy Financing
		Additional evidence: The Project has completed 4 Strategic Environmental Assessments (SEA) and 4 Strategic Social Assessments (SSA) for the proposed investment plans for four river basins (Kelani, Mahaweli, Attanagalu and Mundeni Aru river basins under BIP component)				

		3.2.4 1. ESCAMP's ISR, see p. 10-11, indicator on areas brought under BD protection: http://operationsdashboard.worldbank.org/project/secure/sap/forms/isr?stage=IMP&projId=P156021 FSMP concept note, attached. ESCAMP is currently supporting the FSMP preparation completion of which is expected early in CY2022. Support to development of a new sectoral policy, the Forestry Sector Masterplan 2021–2030, and related investment activities. Summary of discussion with MoF on new potential pipeline, including environment.				
Objective 3.3—Enhancing mitigation potential through renewable energy development		Indicator 3.3.1 Number of Renewable Energy PPP project structures finalized, and Request for Proposals (RFP) issued by the GoSL	Baseline: 0 (2017) Target: 2 (2021)	Partially achieved	Project ID: 601378 Name: Pooneryn: Currently finalizing the tender process through discussions with the government Project ID: 601629 Name: Welivita: Bidding process complete, currently in the negotiation stage with winning bidder.	
		Additional evidence: Two PPP projects: Ongoing PPP RE project: IFC was working with government counterparts to finalize the tender process that would include assistance to prepare the RFQ and RFP packages (in anticipation of the Cabinet approval). Due to the varied extent of progress made over the CPF period, the indicator can be marked as 'Partially Achieved'				

ANNEX 3: THE REPUBLIC OF SRI LANKA IDA/IBRD LENDING PROGRAM FY17–21, PLANNED VS. ACTUAL

FY	CPF Planned	Amount (US$m IBRD/IDA)	Comments	Actual	Total Amount (US$ m)	Comments
FY17	Social Safety Nets Project	IDA $75m	Original Loan		75	Ongoing
	Sri Lanka Financial Sector Modernization Project	IDA $75m	Original Loan		75	Ongoing
	Accelerating Higher Education Expansion and Development Operation	IBRD $67m IDA $33m	Original Loan	Accelerating Higher Education Expansion and Development Operation	100	Ongoing
	Sri Lanka Agriculture Sector Modernization	IBRD $125m			125	Ongoing
FY18	General Education Modernization Project	IDA $100m	Original Loan		100	Ongoing
	Sri Lanka: Primary Health Care System Strengthening Project	IBRD $200m	Original Loan		200	Ongoing
FY19	Climate Smart Irrigated Agriculture Project	IDA $110m Cancelled $15m	Original Loan		95	Ongoing
	Climate Resilience Multi-Phase Programmatic Approach	IBRD $92m	Original Loan - Restructured	Original amount was $310m - a restructuring	92	Pipeline Project

				was done and scaled down to 92 million		
	Local Development Support Project	IDA $70m	Original Loan		70	Ongoing
FY 20	Sri Lanka COVID-19 Emergency Response and Health Systems Preparedness	IBRD $89m IDA $207.36m			296.36	Ongoing
	Sri Lanka Integrated Watershed and Water Resources Management Project	IDA $69.53m	Original Loan		69.53	Ongoing
	Kandy Multimodal Transport Terminal Development Project	IDA $69.33m	Original Loan		69.33	Ongoing
	Sri Lanka COVID-19 Emergency Response and Health Systems Preparedness Project AF	IDA $87.24m	Additional Financing		87.24	Ongoing
FY 21	Second Additional Financing for Sri Lanka COVID-19 Emergency Response and Health Systems Preparedness Project	IBRD $54m IDA $26.51m	Additional Financing		80.51	Ongoing
	Water Supply and Sanitation Improvement Project AF	IBRD $40m	Additional Financing		40	Pipeline Project
	Sri Lanka Agriculture Sector Modernization	EU Trust Fund	Additional Financing		26.12	Ongoing

ANNEX 4: THE REPUBLIC OF SRI LANKA NON-LENDING PORTFOLIO, FY17–21

	Task ID	Task Name	Prod. Line	ACS - FY	ACS - Actual Date
1	P150633	Non-communicable disease burden in the Western Province, Sri Lanka	EW	2018	1-Nov-2017
2	P156819	Sri Lanka: Strengthening Public Financial Management and Corporate Financial Reporting	TA	2018	15-Sep-2017
3	P156870	Supporting Right to Information in Sri Lanka	AA	2018	22-Dec-2017
4	P157651	SRI LANKA: FINANCIAL SECTOR DEVELOPMENT	AA	2018	28-Dec-2017
5	P158797	Sri Lanka: Strengthening Social Protection Systems TA	AA	2018	20-Jun-2018
6	P160085	Sri Lanka Investment Policy Reform	AA	2018	27-Jun-2018
7	P160086	Sri Lanka Tourism Competitiveness	TA	2018	7-Jul-2017
8	P160119	Sri Lanka Business Environment Reform	AA	2018	26-Jun-2018
9	P160353	Strategic Social Assessment of Conflict Affected North & East Region	AA	2018	12-May-2018
10	P160772	Plantation Sector Engagement	AA	2018	7-Jun-2018
11	P161523	Support to the Implementation of Sri Lanka's Nationally Determined Contributions	AA	2018	29-Jun-2018
12	P167100	eProcurement Development Support to the Government of Sri Lanka	AA	2018	16-Jun-2018
13	P167231	Perspectives on Sri Lanka's Labor Market	AA	2018	28-Jun-2018
14	P153384	Sri Lanka Macro-Fiscal Monitoring, Analysis and Support Program	AA	2019	30-Aug-2018
15	P159789	Power Sector Optimization & Enhancement	AA	2019	9-Aug-2018
16	P160508	Sri Lanka #D015 Strengthening Financial System Legal and Regulatory Framework	AA	2019	29-Jun-2019
17	P163883	Nutrition Positive Deviance Analysis	AA	2019	9-Dec-2018
18	P164849	Infrastructure Sector Assessment Program (InfraSAP) for Urban Transport in Sri Lanka	AA	2019	12-Nov-2018

19	P164874	Gender, CE, and Poverty Platform SL/MV	AA	2019	20-May-2019
20	P165133	Energy Infrastructure Sector Assessment Program	AA	2019	20-Jun-2019
21	P166228	Nature-based Landslide Risk Management in Sri Lanka	AA	2019	30-Jun-2019
22	P169490	Sri Lanka DMF Government Bond Market Development	AA	2019	28-Jun-2019
23	P162466	Sri Lanka Governance & SOE programmatic support	AA	2020	30-Jan-2020
24	P163812	Sri Lanka #P22 Creating an Enabling Environment for Broader Capital Market Development	AA	2020	30-Jan-2020
25	P163827	Sri Lanka: Addressing the anti-Export Bias and Reducing Trade Costs	AA	2020	9-Mar-2020
26	P163965	Sri Lanka Public Expenditure Review	AA	2020	22-Oct-2019
27	P166770	Adaptive Social Protection Systems	AA	2020	20-Jan-2020
28	P168041	Sri Lanka Human Capital Development: Realizing the Promise and Potential of Human Capital	AA	2020	29-Oct-2019
29	P168570	PER for Nutrition in Sri Lanka	AA	2020	29-Feb-2020
30	P168904	Support for dialogue around Sri Lanka's key labor market challenges	AA	2020	4-Jun-2020
31	P170292	Water Infrastructure Sector Assessment Program	AA	2020	11-Jun-2020
32	P171035	Sri Lanka Logistics - Opportunities for Improved Resilience and Efficiency	AA	2020	22-Jun-2020
33	P171709	Sri Lanka: Empowering Communities for Inclusive Development in the COVID-19 era	AA	2020	19-Jun-2020
34	P162796	Enhancing Sri Lanka's Competitiveness, Trade & Governance	AA	2021	12-Feb-2021
35	P168751	Sri Lanka Country Economic Memorandum	AA	2021	29-Jun-2021
36	P171747	Priorities for Sustainably Managing Sri Lanka's Coastal Fisheries and the Ecosystems That Support Them	AA	2021	30-Jun-2021
37	P172430	Metro Colombo Transformation Platform	AA	2021	22-Dec-2020

38	P175007	Sri Lanka Macroeconomic Monitoring	AA	2021	20-Jun-2021

ANNEX 5: THE REPUBLIC OF SRI LANKA PORTFOLIO TRENDS, FY17-21

Data as of	FY17	FY18	FY19	FY20	FY21
PORTFOLIO AND DISBURSEMENTS					
Active Projects #	17	15	18	19	18
Net Commitments Amt $m	2,046.83	1,928.50	2,258.50	2,361.71	2,303.22
Total Disbursements $m	748.43	564.36	533.02	735.48	974.66
Total Undisbursed Balance $m	1,226.63	1,338.19	1,690.18	1,598.54	1,334.61
Disbursements in FY $m	269.09	182.00	130.61	253.23	356.59
Disbursement Ratio for IPF only %	14.8	14.9	10.1	15.6	22.7
IBRD/IDA Disb Ratio	14.8	14.9	10.1	15.6	22.7
Slow Disbursements %	0.0	0.0	0.0	0.0	0.0
PORTFOLIO RISKINESS					
Actual Problem Project #	3	4	9	6	5
Problem Project %	17.6	26.7	50.0	31.6	27.8
Potential Problem Project #	0	1	0	0	0
Projects At Risk #	3	5	9	6	5
Projects At Risk %	17.6	33.3	50.0	31.6	27.8
Commitments At Risk $m	580.00	716.50	1,011.50	675.00	454.33
Commitments at Risk %	28.3	37.2	44.8	28.6	19.7
Proactivity %		100.0	50.0	100.0	66.7
IEG RATINGS (FY11 - FY20)					
# of Exits	1	4	1	1	
No. of Projects Evaluated by IEG	1	4	1	1	
IEG MS+ Outcome Sat %	100.0	100.0	100.0	0.0	
ICR Quality Sat %	100.0	100.0	0.0	100.0	
Net Disconnect %	0.0	0.0	0.0	0.0	0.0
Bank Perf. MS+ @ Entry (%)	100.0	100.0	100.0	0.0	
Bank Perf. MS+ @ SPN (%)	100.0	100.0	100.0	0.0	

ANNEX 6: THE REPUBLIC OF SRI LANKA IFC COMMITTED and OUTSTANDING PORTFOLIO FY17-FY21

IFC International Finance Corporation WORLD BANK GROUP

Statement of IFC's Committed and Outstanding Portfolio

(Amounts in USD Millions)

Run Date : Dec 3, 2021
Run Time: 12:50:05 PM
Page : 1 of 2

Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	LN Repayment - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2008/2020	John Keells Hold	125.00	75.00	0	0	0	0	125.00	0	125.00	0	0	0	0	125.00	0
2009/2011/2014/2007/2010/2012/2021/2015/2017/2019/2016/2022/2013/2018/2020	NDB Sri Lanka	11.72	12.67	0	0	10.00	0.16	21.87	0	11.72	0	0	10.00	0.16	21.87	0
2009/2011/2014/2010/2008/2012/2019/2021/2017/2016/2013/2018	NTB SriLanka	46.78	44.22	0	0	0	0	46.78	0	46.78	0	0	0	0	46.78	0
2011	Senok WindEnergy	0	0	1.61	0	0	0	1.61	0	0	1.61	0	0	0	1.61	0
2011/2009/2014/2007/2010/2003/2004/2008/2012/2015/2017/2021/2019/2016/2022/2018/2013/2020	CBC	105.00	110.00	26.10	0	29.98	1.48	162.55	0	105.00	26.10	0	29.98	0.40	161.48	0
2012/2017/2018	SANASA Development Bank PLC	3.83	8.33	4.12	0	0	0	7.95	0	3.83	4.12	0	0	0	7.95	0
2013	NDB	3.00	21.00	0	0	0	0	3.00	0	3.00	0	0	0	0	3.00	0
2014/2018	Senkadagala Fina	4.33	14.78	0	0	0	0	4.33	0	4.33	0	0	0	0	4.33	0
2014/2021	MAS Capital	30.00	13.07	0	0	0	0	30.00	0	15.00	0	0	0	0	15.00	0
2015	Emerald SriLanka	0	0	6.10	0	0	0	6.10	0	0	4.28	0	0	0	4.28	0
2016	RP Distributors	3.41	4.09	0	0	0	0	3.41	0	3.41	0	0	0	0	3.41	0
2017/2021/2019/2016/2022/2020/2018	Sampath Bank	0	0	0	0	2.32	0	2.32	0	0	0	0	2.32	0	2.32	0
2018	Alliance Finance	1.17	1.27	0	0	0	0.06	1.23	0	1.17	0	0	0	0.06	1.23	0
2018/2020	PickMe	0	0	4.79	0	0	0	4.79	0	0	4.79	0	0	0	4.79	0

IFC International Finance Corporation WORLD BANK GROUP

Statement of IFC's Committed and Outstanding Portfolio

(Amounts in USD Millions)

Run Date : Dec 3, 2021
Run Time: 12:50:05 PM
Page : 2 of 2

Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	LN Repayment - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2021	Sunshine Holdings	4.98	0	0	0	0	0	4.98	0	4.93	0	0	0	0	4.93	0
	Brandix Apparel	50.00	0	0	0	0	0	50.00	0	15.70	0	0	0	0	15.70	0
Grand Total:		**389.22**	**304.43**	**42.71**	**0**	**42.30**	**1.69**	**475.92**	**0**	**339.87**	**40.89**	**0**	**42.30**	**0.62**	**423.68**	**0**

Annex 3: Sri Lanka - Selected Indicators of World Bank Portfolio Performance

As of Date 03/27/2023

CAS Annex B2 - Sri Lanka
Selected Indicators* of Bank Portfolio Performance and Management
As of Date 03/27/2023

Indicator	FY20	FY21	FY22	FY23
Portfolio Assessment				
Number of Projects Under Implementation [a]	19.0	18.0	17.0	17.0
Average Implementation Period (years) [b]	3.2	4.1	4.3	5.1
Percent of Problem Projects by Number [a, c]	31.6	27.8	29.4	23.5
Percent of Problem Projects by Amount [a, c]	28.6	19.7	17.6	14.7
Percent of Projects at Risk by Number [a, d]	31.6	27.8	29.4	29.4
Percent of Projects at Risk by Amount [a, d]	28.6	19.7	17.6	17.6
Disbursement Ratio (%) [e]	14.6	23.2	41.4	22.5
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by IEG by Number	108	4
Proj Eval by IEG by Amt (US$ millions)	4,561.4	458.8
% of IEG Projects Rated U or HU by Number	29.5	50.0
% of IEG Projects Rated U or HU by Amt	23.6	29.6

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 4: Sri Lanka - World Bank Operations Portfolio

As of Date 02/28/2023

CAS Annex B8 - Sri Lanka
Operations Portfolio (IBRD/IDA and Grants)

As of 02/28/2023

Closed Projects	135

IBRD/IDA*

Total Disbursed (Active)	1,499.68
of which has been repaid(1)	39.72
Total Disbursed (Closed)	4,896.48
of which has been repaid	2,117.01
Total Disbursed (Active + Closed)	6,396.16
of which has been repaid	2,156.72
Total Undisbursed (Active)	856.27
Total Undisbursed (Closed)	
Total Undisbursed (Active + Closed)	856.2718114

Active Projects

Project ID	Project Name	Last PSR Supervision Rating: Development	Last PSR Supervision Rating: Implementation Progress	Fiscal Year	Original Amount in US$ Millions: IBRD	IDA	Grants	Cancel.	Undisb.	Difference Between Expected and Actual Disbursements[a]: Orig.	Frm Rev'd
P159995	Accelerate Higher Education Development	S	S	2017	67.0	33.0		0.0	11.5	0.0	3.5
P156019	Agriculture Sector Modernization	MS	MS	2016	0.0	125.0		0.0	47.4	49.9	68.0
P163742	Climate Smart Irrigated Agriculture	MS	MU	2019	0.0	125.0		15.0	66.4	68.9	50.2
P160005	CRes MPA	MU	MU	2019	310.0	0.0		218.0	91.2	142.3	22.4
P151916	Early Childhood Development Project	MS	MS	2015	0.0	50.0		0.0	9.5	10.2	6.3
P156021	Ecosystem Conservation and Managemen	MS	MS	2016	0.0	45.0		10.0	2.6	12.5	2.6
P163714	General Education Modernization Project	S	MS	2018	0.0	100.0		0.0	43.0	21.9	0.0
P176164	ICDP	MS	MS	2022	500.0	0.0		0.0	165.9	-184.1	-27.3
P172342	KMTT	MS	MS	2020	0.0	69.3		0.0	72.5	25.8	21.5
P156056	LK-Social Safety Nets Project	MS	MS	2017	0.0	75.0		0.0	10.5	12.0	4.8
P147827	LK Water and Sanitation Improvement Pro	MS	S	2015	40.0	165.0		0.0	45.1	6.1	29.1
P163305	Local Development Support Project	MS	MU	2019	0.0	70.0		0.0	38.1	38.0	31.6
P166865	SL-IWWRMP	MS	MS	2020	0.0	69.5		0.0	59.7	7.9	0.0
P173867	Sri Lanka COVID-19 ERHSP	S	S	2020	189.0	207.4		0.0	23.8	-247.9	-0.7
P159303	Sri Lanka Financial Sector Modernization	MU	MU	2017	0.0	75.0		0.0	62.4	44.6	43.3
P163721	Sri Lanka: PSSP	S	S	2018	200.0	0.0		0.0	68.4	50.9	48.6
P132833	Transport Sector Project	MS	MS	2016	0.0	125.0		35.0	38.2	44.1	12.9
Overall Result					**1,306.0**	**1,334.2**		**278.0**	**856.3**	**103.3**	**316.9**

* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Annex 5: Sri Lanka - Statement of IFC's Committed and Outstanding Portfolio

As of Date 02/28/2023

Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	LN Repayment - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2004/2022	Dialog LKA	150.00	3.75	0	0	0	0	150.00	0	136.50	0	0	0	0	136.50	0
2008/2020	John Keels Hold	125.00	75.00	0	0	0	0	125.00	0	125.00	0	0	0	0	125.00	0
2009/2011/2014/2007/2010/2012/2021/2015/2017/2019/2016/2022/2013/2018/2020	NDB Sri Lanka	1.85	18.87	0	0	0	0.16	2.00	0	1.85	0	0	0	0.16	2.00	0
2009/2011/2014/2010/2008/2012/2019/2021/2017/2016/2013/2018	NTB SriLanka	5.33	85.67	0	0	0	2.80	8.13	0	5.33	0	0	0	0.23	5.56	0
2011	Senok WindEnergy	0	0	1.61	0	0	0	1.61	0	0	1.61	0	0	0	1.61	0
2011/2009/2014/2007/2010/2003/2004/2008/2012/2015/2017/2021/2019/2016/2022/2023/2018/2013/2020	CBC	10.00	195.00	26.10	0	0	8.08	44.17	0	10.00	26.10	0	0	0	36.10	0
2014/2021	MAS Capital	30.00	13.07	0	0	0	0	30.00	0	30.00	0	0	0	0	30.00	0
2015	Emerald SriLanka	0	0	5.41	0	0	0	5.41	0	0	3.74	0	0	0	3.74	0
2016	RP Distributors	0.68	6.82	0	0	0	0	0.68	0	0.68	0	0	0	0	0.68	0
2017/2021/2019/2016/2022/2023/2018/2020	Sampath Bank	0	0	0	0	0.04	4.20	4.24	0	0	0	0	0.04	0.42	0.47	0
2018	Alliance Finance	0.18	1.88	0	0	0	0.06	0.24	0	0.18	0	0	0	0.06	0.24	0
2018/2020	PickMe	0	0	4.79	0	0	0	4.79	0	0	4.79	0	0	0	4.79	0
2021	Sunshine Holdings	5.00	0	0	0	0	0	5.00	0	3.11	0	0	0	0	3.11	0
	Brandix Apparel	50.00	0	0	0	0	0	50.00	0	50.00	0	0	0	0	50.00	0
Grand Total:		**378.05**	**400.05**	**37.91**	**0**	**0.04**	**15.29**	**431.29**	**0**	**362.66**	**36.23**	**0**	**0.04**	**0.87**	**399.80**	**0**

CAS Annex B3
Sri Lanka: IFC Investment Operations Program
As of Date 03/27/2023

	FY20	FY21	FY22	FY23
Original Commitments (US$m)				
IFC and Participants	239.87	228.03	287.95	14.00
IFC's Own Accounts Only	239.87	228.03	287.95	14.00
Original Commitments by Sector (%) - IFC Accounts only				
ACCOMMODATION & TOUR	52.11	0.00	0.00	0.00
AGRICULTURE AND FORE	0.00	2.19	0.00	0.00
FINANCE & INSURANCE	46.91	84.65	30.54	100.00
INFORMATION	0.00	0.00	52.09	0.00
TEXTILES, APPAREL &	0.00	13.16	17.36	0.00
TRANSPORTATION AND W	0.97	0.00	0.00	0.00
Total	**99.99**	**100**	**99.99**	**100**
Original Commitments by Investment Instrument (%) - IFC Accounts only				
EQUITY	7.23	0.00	0.00	0.00
GUARANTEE	19.82	73.69	30.54	0.00
LOAN	72.96	26.31	69.46	0.00
RISK PRODUCT	0.00	0.00	0.00	100.00
Total	**100.01**	**100**	**100**	**100**

* Data as of MARCH 27, 2023

Annex 6: Key Economic Indicators

	2019	2020	2021	2022	2023p	2024p	2025p	2026p
Annual percentage change								
GDP (expenditure side, constant prices)	(0.2)	(4.6)	3.5	(7.8)	(4.3)	1.2	2.0	3.0
Private consumption	3.8	(5.8)	2.6	(9.0)	(4.4)	1.3	2.1	3.4
Government consumption	6.6	0.0	(2.8)	1.4	(3.7)	(2.2)	0.3	0.8
Gross fixed capital formation	(11.9)	(0.6)	4.5	(24.9)	(3.8)	1.3	2.1	3.5
Exports	1.7	(29.6)	10.1	10.2	(4.2)	4.6	3.0	3.8
Imports	(3.5)	(20.1)	4.1	(19.9)	(3.1)	3.1	2.3	3.2
GDP (production, constant prices)								
Agriculture	0.5	(0.9)	0.9	(4.6)	2.4	1.5	1.5	1.5
Industry	(4.1)	(5.3)	5.7	(16.0)	(5.8)	1.0	2.2	2.8
Services	2.9	(1.9)	3.5	(2.0)	(4.5)	1.2	2.0	3.3
Share of GDP, unless otherwise stated								
External sector								
Exports of goods and services	21.8	15.5	16.9	21.0	20.9	23.3	23.4	23.9
Imports of goods and services	27.6	21.6	24.3	25.0	24.8	27.1	26.9	27.6
Remittances	7.5	8.4	6.2	4.9	6.3	6.7	6.5	6.6
Current account balance	(2.1)	(1.4)	(3.7)	(1.9)	(0.8)	(0.8)	(0.8)	(0.9)
Net foreign direct investment	0.7	0.5	0.7	1.2	1.2	1.2	1.3	1.3
Official reserves (US$ million)*	7,642	5,665	1,565	465	2,655	3,897	5,885	7,650
Official reserves (months of imports)	3.7	3.7	0.9	0.3	1.9	2.5	3.6	4.4
Inflation								
GDP deflator (percent)	3.9	3.3	8.5	48.8	20.5	8.0	5.8	5.0
CPI (annual average, percent)	4.3	4.6	6.0	46.4	20.5	8.0	5.8	5.0
Money and credit								
Broad money (year-on-year, percent)	7.0	23.4	13.2	15.4				
Share of GDP								
Public Sector Finances								
Total revenue	11.9	8.8	8.3	8.3	10.6	11.9	13.3	13.5
Total expenditures	21.0	19.4	20.0	18.5	19.7	18.6	18.3	17.8
Overall fiscal balance	(9.0)	(10.6)	(11.7)	(10.2)	(9.1)	(6.8)	(5.0)	(4.3)
Primary balance	(3.4)	(4.4)	(5.7)	(3.7)	(1.2)	0.2	1.9	2.2
Public and publicly guaranteed debt	89.0	104.8	110.4	118.7	102.8	103.2	102.5	101.0
Memorandum items								
Nominal GDP (LKR billion)	15,911	15,672	17,600	24,148	27,844	30,422	32,835	35,513
GDP (US$ billion)	89.0	84.5	88.5	77.1	76.3	75.1	80.4	83.6

* Excluding the Chinese currency swap

Sources: Ministry of Finance, Central Bank of Sri Lanka (historical data) and World Bank staff calculations (projections).

Annex 7: WBG Country Program FY21-23

1. **There is a gap between this CPF which will begin in FY24 and the previous CPF and CLR which covered the FY2017-2021 period**. An SCD Update was completed in April 2022 and the CLR in 2022. However, the CPF was delayed first due to the major impact of the COVID-19 pandemic and then to provide space to assess the impact of the macro-fiscal crisis and socio-political context and the Russia's invasion of Ukraine in 2022, which threatened to have a significant impact.

2. **Nevertheless, the World Bank stayed engaged with Sri Lanka during FY21-23 in both addressing near-term challenges and developing longer-term activities**. To address near-term challenges, in late FY20 and early FY21, WBG extended quick and timely support to the Government to address the COVID-19 pandemic. This included the immediate crisis response via the US$128.6 million C*OVID-19 Emergency Response* and *Health Systems Preparedness Projec*t that were approved in April 2020. This was topped up with US$88.96 million in additional financing to provide scaled-up social protection measures for vulnerable communities. Two further rounds of additional financing of US$80.5 million and US$100 million were approved in April and September 2021, respectively, to support vaccine procurement and deployment, making the total project commitment US$398.06 million. Moreover, in September 2020, the World Bank reallocated US$56 million from ongoing projects in Sri Lanka to protect the most vulnerable in the agriculture sector, improve COVID-19 protection measures including support for public transport, facilitate tele-education for school children, and provide digital solutions to improve the delivery of public services. These funds were activated through the pooled Contingency Emergency Response Components (CERCs).

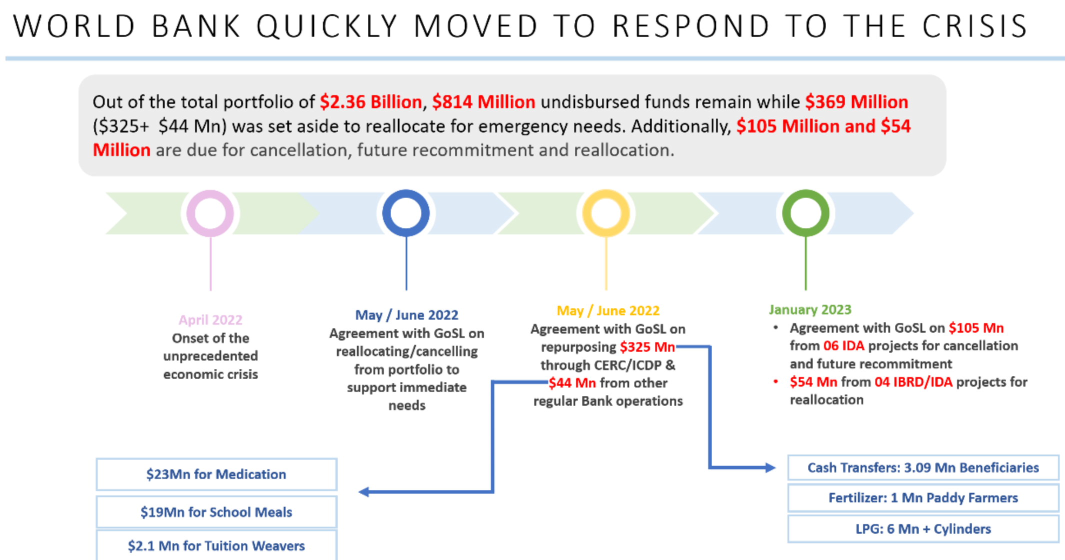
3. **The World Bank also deepened its support through additional financing in the agriculture and water sectors**. In FY21, the *Agriculture Sector Modernization Project Additional Financing* was approved to scale-up the project's investment activities geographically under Component 2 – Productivity Enhancement and Diversification Demonstrations – for greater transformational impact and for reaching a larger number of project beneficiaries in five districts. These include Kandy (Central Province), Badulla (Uva Province), Ampara (Eastern Province), and Killinochchi and Vavuniya (Northern Province). The *Water Supply and Sanitation Improvement Project Additional Financing* was approved to increase access to piped water services and improved sanitation in selected districts and strengthen the capacity of associated institutions.

4. **On longer-term efforts, the World Bank supported new and transformative initiatives**. In FY22, the Inclusive Connectivity and Development Project for US$500 million was approved to provide safe, efficient, and climate-resilient connectivity to strengthen agricultural supply chains by improving access to basic services and economic opportunities in rural areas, and by reducing regional disparities in economic development.

5. **In 2022, the WBG moved decisively to support Sri Lanka's crisis response.** The World Bank repurposed funds from its existing portfolio to sustain essential goods and services, and to protect the most vulnerable, support livelihoods, and address food insecurity during the economic crisis. The World Bank moved quickly to help protect the people of Sri Lanka particularly the poor and vulnerable from the worst impacts of the economic crisis by repurposing funds through the activation of the Contingent Emergency Response Component (CERC) of the Inclusive Connectivity Development Project (ICDP) of $325 million for cash transfers, liquid petroleum gas (cooking gas), and fertilizer (Figure 1). In addition, the Bank repurposed US$44 million for essential medicines, school meals, and tuition waivers. Furthermore, in January 2023, an agreement with the GoSL led to the Cabinet approval of cancellation of US$105 million from 6 IDA projects for future recommitment. Also, US$54 million were reallocated from 4 IBRD/IDA projects. IFC's emergency response included options for support for trade financing. After Sri Lanka lost market access and IBRD creditworthiness, the WBG initiated a process of "reverse graduation" to enable Sri Lanka's access to IDA funds, which was finalized on December 5, 2022. The WBG's crisis response and portfolio restructuring was anything but business-as-usual. For countries struck by major crises, the Sri

Lanka examples offers a case study in an effective response framework, balancing the need to protect people with a hugely problematic political and macro economy.

World Bank's Emergency Response Finances Essential Goods and Services



6. **Through the emergency response process, WBG has helped strengthen institutions' transparency, procurement, and reporting.** For instance, in the process of providing emergency cash funding for the poor under the ICDP CERC, the World Bank has helped strengthen the social protection system by updating the registry to improve targeting and reduce inclusion and exclusion errors. The Geo-Enabling initiative for Monitoring and Supervision (GEMS) was introduced in the Ministry of Agriculture to monitor the distribution of fertilizer and will be scaled up in the future to build long-term capacity.

7. **The World Bank also initiated several major analytic pieces during FY21-23 that have helped set the stage for the new CPF**. Core ASA include the *Sri Lanka Country Economic Memorandum* which was delivered in FY21 and the *Sri Lanka Poverty Assessment* which was completed in FY22. In FY21, the World Bank completed the *Enhancing Sri Lanka's Competitiveness, Trade, and Governance* ASA to enhance the competitiveness of Sri Lanka by creating a more favorable investment climate, a supporting trade policy, and a trade facilitation framework. Two other analytic pieces were delivered in FY21: *Priorities for Sustainably Managing Sri Lanka's Coastal Fisheries* and the *Ecosystems and Metro Colombo Transformation Platform*. Macroeconomic Monitoring has regularly been done, including three Sri Lanka Development Updates between FY21 and FY23. During FY23, several analytical pieces have been carried out, including *Pandemic Preparedness Assessment*, *Debt Management Performance Assessment* and *Social Protection and Jobs Public Expenditures Review*. In addition to formal ASAs, the World Bank team has provided policy advice and technical assistance (including over 20 technical missions since April 2022) in a number of critical reform areas, such as tax revenues and administration, financial sector, trade and investment, SOE reforms, debt management, social protection reforms, power sector reform, and digital development. These analytic pieces will help set the stage for several new activities in the new CPF.

8. **Progress on ongoing projects during the period FY20-FY23 has reduced due to the pandemic and economic crisis**. The total number of projects was reduced by two in FY22. Disbursements were extremely high in FY22, as the World Bank disbursed considerable funds to help the Emergency response.

	FY20	FY21	FY22	FY23 (as of May)
Number of Projects (#)	19	18	17	17
Problem Projects (#)	6	5	5	4
Disbursement Ratio (%)	15.40	22.20	40.83	27.20

9. **IFC's engagement in Sri Lanka has covered a diverse set of sectors, including financial inclusion, renewable energy, telecommunications, manufacturing, agribusiness, tourism, venture capital, and gender**. Sri Lanka's portfolio stood at $430 million as of December 31, 2022, accounting for 5% of SA committed Portfolio of $7.9 billion. From the industry perspective, Manufacturing and Services (MAS) accounts for 49% ($212 million) of Sri Lanka committed portfolio, followed by Infrastructure with 35% ($152 million), Financial Institutions group (FIG) with 13% ($56 million) and Disruptive tech, VC and Funds (CDF) with 2% ($10 million). The Upstream and Advisory portfolio for Sri Lanka stood at $11 million as of January 31, 2023, 31% of the existing portfolio is Upstream flagged. Since the beginning of the COVID-19 pandemic IFC invested more than US$ 545 million Long-Term Finance (LTF) and US$ 256 million Short-term finance (STF) between March 2020 and July 2022. Notable projects included $150 million for expansion of Sri Lanka's largest telecom operator, Dialog Axiata, $50 million in a key garment exporter Brandix, liquidity support to commercial and retail banks for SME on-lending and a US$ 175 million long-term investment and advisory package to John Keells Holdings (JKH) supporting the recovery and long-term sustainability of the tourism and retail sectors.

Annex 8: The Jobs Challenge in Sri Lanka

I. THE JOBS CHALLENGE

1. **Creating more and better jobs is both a demand and a supply side challenge in Sri Lanka**. On the demand side, the employment intensity of growth has declined and there is a lack of quality jobs, especially outside Colombo. On the supply side, key binding constraints to female labor force participation, limited access to quality and relevant education and skills development programs, and weak employment support system to facilitate the mobility of workers, including for a just transition, remain a challenge. While the unemployment rate is low, the share of low-quality jobs in the informal sector is large, and these are the most vulnerable to exogenous shocks such as the COVID-19 pandemic.

2. **Four primary factors lay at the core of a more inclusive demand for better quality jobs**. First, as a small open economy, Sri Lanka's ability to create more and better jobs is linked to its ability to better integrate into global markets and attract the technology and investment that will allow the country to move up value chains where global demand offers sustainable job opportunities. Second, to create a more inclusive demand, sectors such as tourism and Information Technology (IT) need to be a focus of policy action. Jobs in the tourism sector have multiple advantages. Sri Lanka's tourism assets are diverse and geographically widely spread and, as with agriculture, offer a wide range of job opportunities beyond Colombo, subject to the right policy environment and investment flow. Tourism also generates linkages to jobs in many other services sectors and has wide scope to attract female participation. The IT sector provides for home-based work – another advantage, including for increasing female force participation. Third, attention needs to be paid to reduce the distortions that incentivize investment in non-tradeable and real estate sectors, and the public sector, including the SOEs. Fourth, sustained investments in human capital will be essential to prepare workers to take up jobs, including those related to the green economy.

3. **These are the fundamentals of a long-term job creation agenda for Sri Lanka that would serve to reduce the continuing preference of qualified, young people to find jobs in the government sector, or emigrate**.

II. THE CURRENT LABOR MARKET CONTEXT IN SRI LANKA

4. **Sri Lanka's labor market is characterized by high levels of exclusion and inequalities, which exacerbate vulnerabilities and hinder overall productivity and economic growth**. Sri Lanka's relative high level of labor force participation (59 percent vs. 51 percent SAR average) is masked by the over 40 percent labor force participation differential between men (80.20 percent) and women (39.9 percent). In addition, over 24 percent of Sri Lankan youth aged 15-24 are Not in Education, Employment or Training (NEET), with young women (31 percent) facing almost double the rate of young men (17 percent). Moreover, of those in the labor market, Sri Lanka has the second highest unemployment rates among youth aged 15-24 in SAR, at over 20 percent. The unemployment rate among youth with post-secondary education (31 percent) is significantly higher than that of youth with no education (7 percent) or primary (3 percent) and secondary (16 percent) education. Those "lucky" enough to have jobs are locked in informal jobs. Over 71 percent of Sri Lankan workers are either in self-employment or in informal wage employment, with no social protection and thus unable to cope with shocks. As a result, international migration for employment has been a critical component of Sri Lankan development path, in terms of both number of jobs and remittance flows. As of 2017, the total stock of Sri Lanka migrants abroad was 1.7 million, contributing to Sri Lankan's remittance-to-GDP ratio of almost 9 percent.

5. **COVID-19 and the ongoing economic crisis have led to the further deterioration of labor market outcomes, particularly among already vulnerable groups**. For example, as a result of the ongoing economic crisis, the industry and services sectors were expected to contract by 11 percent and 8 percent, respectively, in 2022. This was expected to lead to the overall destruction of over half a million jobs, affecting particularly women and youth, who are traditionally employed in these sectors. COVID-19 had a similar impact on labor markets, with private sector and own-account workers seeing the most job

losses. On the other hand, the real value of salaries of public sector workers, who represent 15 percent of total employment, was expected to decline by over 20 percent in 2022. Finally, remittances from workers abroad declined in real terms by close to 30 percent in the first half of 2022, compared to the first half of 2021.

III. PRESERVING AND CREATING JOBS IN THE NEAR FUTURE

6. **Over the first few years of the CPF, as the Sri Lankan economy strives to consolidate its macro-economic and financial sector balance sheets and regain the confidence of the international markets, there will be a premium on preserving jobs and providing emergency income and livelihood support for the poorest and most vulnerable**. But this is also a time to build the foundations for job-creating growth trajectory by addressing those four challenges of moving towards an open economy where an improved level playing field prevails across factor and product markets and investments are channeled to the productive and competitive tradeable sectors, reinforced with a robust active labor market program.

7. **Preserving jobs and preparing the ground for a take-off of new job opportunities constitutes the CPF "first order" objectives**. In this context, the World Bank's current pipeline of operations, plays a critical role:

- The Resilience, Stability, and Economic Transformation (RESET) DPO would support reforms that: (i) lay the foundation of macroeconomic and financial sector stability and resilience including reforms to address tax administration efficiency and broaden the tax base and improve the stability of and confidence in the banking sector; (ii) put in place the enablers for a strong private sector demand response – through root and branch reforms that address the current gaps and distortions of the country's investment framework and the export and productivity diminishing consequences of the current tariff structure, the dominant and negative impact of SOEs in many markets and the prevailing constraints to the enabling environment for digital development; (iii) introduce a revamped social protection system that better protects the welfare of the most vulnerable members of the population.
- The broad-based reform agenda supported by the RESET DPO is further enhanced by pipeline investment operations that will give immediate financial injections accompanied by institutional development to the new social safety net and the deposit insurance schemes. In effect these two operations provide confidence-building economic support to both the most vulnerable and the middle-class populations, the former through a better-targeted social safety net, the latter via a strengthened deposit insurance scheme. These measures will serve to maintain an active labor market participation by mitigating economic consequences that would otherwise put many households into spiraling financial and mental turmoil.

- In addition to the pipeline projects, ongoing World Bank investments continue to preserve and create jobs. The Agriculture Sector Modernization Project (ASMP) is winning support for new market-driven approaches that are creating new jobs and new export earnings. Box 1 summarizes the main features of a project whose achievements to date include support to over 129,000 smallholder farmers and SME beneficiaries, of which 52,000 are women and more than 6,000 new long-term salary-based jobs created from agribusiness investments.

Box 1: The Agriculture Sector Modernization Project (ASMP)

The project has piloted development approaches that can be upscaled and rolled out further such as: (i) development of modern agricultural value chains using an integrated cluster approach; (ii) a shift in government interventions towards private sector engagement and business development; (iii) use of innovative public support instruments combining international and local expertise; and (iv) use of matching grants to leverage financial resources and boost efficiency of public spending.

Under the project's value chain development component, ASMP has so far provided 1,054 grants. This matching grant program has so far reached an estimated 118,000 direct beneficiaries including factory workers and smallholder farmers who supply raw material for value addition. From a selection of 250 individual grants worth US$15.7 million, ASMP matching grants have so far generated US$107.4 million new export revenue and US$6.7 million in forex savings. In effect, for every dollar invested in these projects, ASMP grants have generated US$7.26 new forex revenue.

The on-farm productivity enhancement and diversification component focuses on commercial market development, collaboration with the private sector, and diversification of smallholders into high value export crops. This includes a focus on nine priority crops (banana, mango, pomegranate, pineapple, guava, avocado, potatoes, big onion, and chilies) that target export buyers and domestic food markets. Modern technologies for high-density planting, drip-line fertigation, pest and disease control, and post-harvest handling are leading to dramatic yield increases (+200 percent in some cases), improved product quality, and increased market access.

Extending the job opportunities: In November 2022, the first container of sour (ambul) bananas was exported to the Middle East by an ASMP farm cluster. Managed by recent business graduates, plans are in place to export at least one 40-foot container weekly generating US$20,000 in foreign income each. Other ASMP fruit clusters will soon produce similar volumes of new exports. Another early success for the project is the enduring tripartite agreement entered into between an ASMP farmer company in Batticaloa, Hayleys, and McDonald's for the supply of cucumbers for processing into pickles. Through ASMP, Ministry of Agriculture is not only gaining exposure to new in-field and post-harvest technologies, but also learning to support farmer producer companies to enter into long-term purchase agreements with off-takers who can guarantee market access and assist with product branding, transportation, and packaging. This approach to sector development attracted interest of the European Union which recently contributed US$28 million of additional finance to allow the expansion ASMP's farmer cluster work in five new districts. The World Bank will be tracking the future job-creating impact as these innovations are reproduced across farmers across the country.

IV. THE WAY FORWARD TOWARDS MORE AND BETTER JOBS – WHAT CAN BE DONE IN THE MEDIUM TERM

8. **Recent World Bank analysis estimates Sri Lanka's untapped export potential at US$10 billion per year**, almost as high as the current level of merchandise exports. Tapping into this potential is estimated to lead to an additional 142,500 jobs in the export sector. Of these, 19,000 jobs could be created in the agriculture export sector, and 123,500 jobs could be created in the manufacturing export sector.[44] While some of these jobs could be newly created, others may imply the reallocation of labor from relatively lower productivity, domestic oriented firms, to higher productivity, export-oriented firms. This demand-side opportunity will need to be supported also by a systematic approach to address the supply-side constraints

9. **Putting in place the essential resilient, open economy, level playing field policy framework that can support private sector job-creation and a sustainable social**

[44] This estimate draws on the elasticity of jobs creation to exports derived from the "Jobs Content of Exports" (JOCEX) dataset. The JOCEX dataset (see "Cali, M.; J. Francois; C. Hollweg; M. Manchin; D. Oberdabernig; H. Rojas-Romagosa; S. Rubinova and P. Tomberger, Patrick (2016). The Labor Content of Exports Database. Policy Research Working Paper; No. 7615. World Bank, Washington, DC), uses global input-output tables and aggregate data from the Global Trade Analysis Project (GTAP), to calculate the number of jobs embedded in exports for 65 countries and 11 sectors. At the sector level, agriculture is the third highest sector in terms of job content per value exported (38 jobs), while manufacturing (generally more capital intensive and with more intermediate consumption than agriculture) is the third lowest (13 jobs). In the case of Sri Lanka, to estimate 'missing' jobs associated with 'missing exports' the median jobs-to-exports elasticity is assumed (38 additional jobs per $1 million of agricultural exports and 13 additional jobs per $1 million of manufacturing exports) across comparable countries.

protection safety net are necessary, but not sufficient undertakings to achieve an accelerated movement by firms into new investments, new products and new market initiatives that can generate the more and better employment outcomes.

10. **Investments will need to be made at the firm and skills training levels to prepare both to effectively capture the opportunities that the policy openings make possible**. The World Bank Group, working closely with the private sector and development partners will look to see what market-based support can be provided to firms and the labor force to address this additional sufficiency requirement. This will, inter alia, need to entail support to firms to develop new products, processes, and access new GVC markets. In parallel, the labor force that will need re-skilling. This involves: (i) promoting expanded enrollment in employment-related higher education programs and increasing research, innovation and commercialization in universities, (ii) strengthening technical and vocational education and training for skilling, re-skilling and upskilling youth and adult including for self-employment through active labor market programs, with special attention to eliminate the legal and other constraints distorting women's participation in the labor market.

11. **Specific interventions will be identified in the initial two years of the CPF leading to more concrete job outcomes for consideration during the balance of the CPF period**.

Annex 9: Findings and Recommendations from the Risk and Resilience Assessment (RRA) 2022

1. **The RRA identifies several structural drivers of Sri Lanka's vulnerability to crises, centering around governance, accountability and vulnerability to climate change impacts**. Compounded by the ongoing economic crisis, these drivers have resulted in a significant decline in public trust in state institutions and political processes in recent years. Several sources of resilience have helped Sri Lanka navigate these highly uncertain times. However, these resilience factors, including strong human capital, functioning public services, and commitment to the state-led provision of public welfare, have been negatively impacted by a series of crises.

2. **The RRA calls for the WBG program to allow greater flexibility and adaptability to move from a short-term emergency response to a mid-term resilience building**. At the programmatic level, the RRA stresses the importance of WBG's continued emphasis on protecting people and communities, especially the most vulnerable, from the crisis's short- and medium-term impacts. It also highlights the urgency of governance reforms and inclusive stakeholder engagement. The RRA further emphasizes the importance of addressing climate change adaptation and crisis preparedness by enhancing the shock-responsive social protection mechanism. Global experiences highlight that MDTFs have proven to be effective mechanisms for financing and a common platform for partnerships in some middle-income countries recovering from crises.

3. **WBG could consider expanding the use of existing analytical tools** such as political economy analysis, high-frequency perception surveys, and governance assessment to further strengthen a risk-informed approach at the portfolio and project level.

4. **To preserve critical gains made on resilience factors through existing projects, WBG could also develop and apply an inclusion and resilience lens in project selection and design**. Building on ICDP CERC's lessons learned from digital data collection of the fertilizer distribution process (GEMS) can be further leveraged to strengthen the accountability and transparency of the project implementation process.

Annex 10: Gender and Social Inclusion

1. **The COVID-19 pandemic in Sri Lanka increased vulnerabilities of women in areas of employment, personal safety, maternal health and nutrition**. The situation of many women headed households (WHH) which make up 25.82 percent of households is particularly precarious as they are excluded from the public sphere including community and social institutions making them much more likely to be impoverished than male-headed households. In the context of the current economic and social crisis, additional challenges are being experienced by marginalized and vulnerable groups such as people living with disabilities, the elderly, people in the Estate sector, and LGBTI. Prior to the crisis systematic and historical discriminatory laws and practices disenfranchised Indian Tamils in the estate sector and reduced their access to basic services such as WASH, education and nutrition. Discriminatory laws against LGBTI and poor social support for people with disabilities had already increased vulnerabilities of these group. As a result of increased poverty levels and soaring cost of living prices vulnerabilities of women headed households, Indian Tamil women, women with disabilities, indigenous women, sexual and gender minorities have deepened with the ongoing economic crisis.

2. **The ongoing social protection scheme in Sri Lanka fails to target the most vulnerable groups and lacks credibility and trust of people**. The program which is crucial at this juncture as poverty levels have doubled in Sri Lanka, fails to include eligible groups and includes ineligible groups.

3. **The last gender assessment conducted by the World Bank in 2017 explored issues around women's labor force participation**. Challenges in reduced access to food, fuel, curfews and reduced incomes continues to increase the burden of unpaid care and domestic work among women and girls, limit women's income generation, education, skill development opportunities outside of the home. These issues coupled with the rising costs of living have forced women, girls to turn to alternative, risky income sources to survive. This increases women's and girls' risk of GBV as women are turning to commercial sex work for livelihoods along with increased rates of domestic violence due to increased levels of depression and substance abuse by men to cope with the impacts of the crisis, which are risk factors for intimate partner violence (IPV).

4. **In Sri Lanka, one of the lowest rates of labor force participation (35.8 percent) is reported for the young people in the age group 15-24, among a youth population which constitutes 23 percent of the total country population**. Limited job opportunities aligned to youth aspirations together with declining returns to education and a challenging school-to-work transition are some of the key documented factors that exclude Sri Lankan youth's productive participation in the country's labor market. Prior to the crisis, young women had the highest rates of unemployment in Sri Lanka with females aged 15-24 showing highest levels of unemployment at 30 per cent. Youth are not a homogenous group, and some are particularly vulnerable to exclusion due to the intersection of their identities. In certain regions such as the Eastern province, labor force participation of those aged 15-34 is 44 percent, which is lower than the national average of 50.29 percent. Tamil or Muslim youth seeking employment in Southern Sri Lanka face additional disadvantages, such as language barriers, lack of networks or connections. Helping youth transition from more traditional employment sectors (agriculture and fisheries) to newly emerging sectors (IT and tourism), as well as getting them ready to face an increasingly competitive private sector and making sure they have the right guidance on career development are critical steps for youth integration in the economy.

5. **The history of youth unrest on the island illustrate the multidimensional nature of challenges that go beyond employment**. With weak links to the labor market and social institutions the youth became increasingly disenfranchised. Deeply entrenched structural dynamics derived from ethnicity, religion and cast, as well as lack of opportunities to express their voice, make an informed choice, and shape decisions that affect their future are key crosscutting constrains. On a positive note, Youth in Sri Lanka from all socio-economic groups, who have mostly not been present in national level dialogue, played an important role in

demanding accountability and democratic change within the country. They promoted diversity, reconciliation and encouraged youth for the most part to reject violence, using social media and art to create safe spaces for marginalized and vulnerable groups to express their issues and concerns which have been left unheard or ignored over the past decades.

Annex 11: Opportunities to Green Sri Lanka's Growth

Current inefficiencies create opportunities to green growth without hindering it. Mutual opportunities across sectors can be tapped, and trade-offs will have to be managed.

- Mangrove restoration for instance can restore fisheries, boost coastal resilience to the island's regular typhoons, and tourism opportunities. Climate-smart agriculture, which is currently being supported by the World Bank, can boost yields and water use efficiency. Forests and ecosystems contribute to local livelihoods. These assets – land, soil, water, forest, and fisheries -- are what the poorest depend on, where their buffers to shocks are found, and are where some of the greatest investment and policy gaps lay. Managing these assets within a landscape approach can help optimize benefits among sectors and stakeholders.
- Meanwhile, urban areas are largely coastal and prone to regular climate shocks such as storms and floods. Nearly 33 percent of the island's population lives within one kilometer of the 1,340-kilometer coastline, which is extremely vulnerable to tsunamis, storm surges, and sea level rise.[45] As cities are profound generators of economic growth and inclusive job opportunities in Sri Lanka. it is important to ensure that these economic growth engines are managed to deploy nature-based solutions to boost resilience and quality of life and reduce pollution that saps the potential of human capital.

  Energy and transport infrastructure also can increase ROI and resilience by incorporating sustainability. Clean energy is now often lower cost energy, a trend that will continue to reduce costly fossil fuel imports and enhance energy security. Electrification enabled by the expansion of clean energy can unlock new jobs. Similarly, Sri Lanka's persistent problem with erosion and landslides reduce the resilience of the road system and raise costs of economic activity and road maintenance. Here again, nature-based solutions and good land use and landscape management approaches combined with road development – an area on which the World Bank has been working – can boost resilience and enhance economic opportunities for rural communities.

[45] World Bank Climate Change Action Plan- 2021-2025- South Asia Road Map