Sri Lanka
World Bank Group
Country Program
Snapshot
September 2013
World Bank Group in Sri Lanka: Country Program Snapshot
September 2013

Four years after the end of the three-decade armed conflict in the North East, Sri Lanka is now focusing on long-term strategic and structural development challenges as it strives to transition to an upper middle income country.\(^1\) Key challenges include ensuring that growth is inclusive, realigning public spending and policy with the needs of a middle income country, ensuring appropriate resource allocations for the various tiers of government, and enhancing the role of the private sector, including provision of appropriate incentives for increasing productivity and exports.

RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Growth Performance and Prospects

While Sri Lanka’s real growth rate ranked well above most of its regional peers in 2012,\(^2\) growth is moderating. Prudent macroeconomic policies aimed at managing credit growth, as well as a global economic slowdown have dampened GDP growth which, while healthy, moderated from the 8.2 percent averaged over 2010-11 to 6.4 percent in 2012. In late 2011 and early 2012, balance of payment and fiscal concerns required and received urgent attention. High levels of expenditure on subsidized, imported fuel had been straining the fiscal situation and pushing up the trade deficit, resulting in increased pressure on the rupee. Reserves that were used to defend the currency were falling rapidly. In response, fuel and electricity prices were increased, credit growth was slowed, import tariffs were raised, and the rupee was devalued and given increased flexibility. The policies had the anticipated impacts: demand for fuel and electricity decelerated, credit growth slowed, import demand fell, and reserves have recovered. Higher overall inflation due to increased administrative prices for fuel and electricity and the depreciation of the currency (by 10.4 percent) together with reduced growth were undesirable but accepted tradeoffs for improved balance of payment and fiscal stability.

Notwithstanding the expected recovery in growth and a moderation in headline inflation in 2013, the economy continues to face some structural challenges. The tax-to-GDP ratio is declining, reaching an historic low of 11.1 percent in 2013. The export-to-GDP ratio (excluding services) has also been declining, recording a new low of 16.5 percent. This continues to adversely affect both the fiscal and trade balance.

Table 1: Sri Lanka Economic Performance: Aggregate Demand

<table>
<thead>
<tr>
<th>Real Growth (percent)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>7.7</td>
<td>6.8</td>
<td>6.0</td>
<td>3.5</td>
<td>8.0</td>
<td>8.2</td>
<td>6.4</td>
</tr>
<tr>
<td>Consumption</td>
<td>7.1</td>
<td>4.5</td>
<td>7.9</td>
<td>3.6</td>
<td>7.6</td>
<td>12.9</td>
<td>5.5</td>
</tr>
<tr>
<td>---Private</td>
<td>8.5</td>
<td>3.9</td>
<td>7.8</td>
<td>0.9</td>
<td>9.3</td>
<td>13.9</td>
<td>5.6</td>
</tr>
<tr>
<td>---Government</td>
<td>9.6</td>
<td>7.4</td>
<td>9.8</td>
<td>16.0</td>
<td>8.9</td>
<td>8.7</td>
<td>5.0</td>
</tr>
<tr>
<td>Gross Domestic Fixed Capital Formation</td>
<td>12.9</td>
<td>9.1</td>
<td>5.3</td>
<td>1.1</td>
<td>9.2</td>
<td>14.6</td>
<td>10.7</td>
</tr>
<tr>
<td>---Private</td>
<td>15.4</td>
<td>5.4</td>
<td>3.9</td>
<td>2.3</td>
<td>11.1</td>
<td>15.9</td>
<td>10.4</td>
</tr>
<tr>
<td>---Government</td>
<td>2.0</td>
<td>27.6</td>
<td>11.1</td>
<td>15.4</td>
<td>2.9</td>
<td>10.0</td>
<td>11.5</td>
</tr>
</tbody>
</table>

Trade

| ---Export of Goods and Services | 3.8  | 3.7  | 0.4  | 12.3 | 8.8  | 11.0 | 0.2  |
| ---Import of Goods and Services| 6.9  | 3.7  | 4.0  | 9.6  | 12.6 | 20.0 | 0.5  |

Contribution to Real GDP growth\(^1\)

| Private consumption and Investments | 7.6  | 3.8  | 5.8  | 0.1  | 8.3  | 12.4 | 6.2  |
| Public consumption and Investment  | 1.4  | 2.2  | 2.0  | 3.2  | 0.3  | 1.9  | 1.4  |
| Export                             | 1.3  | 2.5  | 0.1  | 3.9  | 2.4  | 3.0  | 0.0  |
| Import                             | (3.0)| (1.6)| (1.7)| 3.9  | (4.5)| (7.5)| (0.2)|
| Change in stocks                   | 0.3  | (0.1)| (0.2)| 0.2  | 1.6  | (1.6)| (1.0)|

\(^1\) Due to rounding numbers might not add up to total real GDP growth

Sources: Central Bank of Sri Lanka, Department of Census and Statistics of Sri Lanka and World Bank staff estimates.

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\(^1\) In 2012, GNI per capita in purchasing power parity (PPP) terms was US$2,920; and agriculture, industry and services, as a share of GDP, were 11.1 percent, 30.4 percent, and 58.5 percent, respectively.

\(^2\) Sri Lanka registered the highest growth rate (6.4 percent) among countries in the South Asia region in 2012, excluding Bhutan (8.3 percent) and Afghanistan (11.8 percent).
Sri Lanka needs to find a fresh thrust to maintain the 8 percent-plus annual growth needed to achieve the government’s medium-term development goal of doubling per-capita income to US$4,000 by 2016. Sri Lanka’s domestic economy is reaching limits of capacity, with employment at or near saturation, while increasing wage pressures indicate a tightening labor market. This will impinge upon the country’s growth potential. Sri Lanka will need to rely on further accumulation of capital and technology to maintain growth momentum—both of which are related to the country’s ability to raise investment rates, advance technologically, and improve labor skills. Annual investment of 35-40 percent of GDP will be needed through increased domestic and foreign investment. Investment rates have, however, been below desired levels (2012 saw investment at 30.6 percent of GDP).

**Foreign direct investment (FDI) is particularly important in the Sri Lankan context.** Although FDI increased to nearly 2 percent of GDP, reaching US$1.3 billion in 2012, it is still significantly lower than the government’s target of US$2 billion for that year. FDI facilitates technology transfer which supports productivity and innovation and is central to maintaining growth momentum. For FDI to continue to increase, investors will remain heavily reliant on the predictability of the policy environment. In this connection, notwithstanding Sri Lanka’s significant improvements on many counts in the 2013 World Bank Group Doing Business Indicators (Table 2), areas for further progress remain. The authorities will need to adopt and maintain sound investment policies and communicate these unambiguously to encourage private-sector investors to participate in the growth of the country (Figure 2).

Table 2: Sri Lanka Doing Business Rankings

<table>
<thead>
<tr>
<th>Topic Rankings</th>
<th>DB 2012</th>
<th>DB 2013</th>
<th>Change in Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a Business</td>
<td>71</td>
<td>33</td>
<td>38</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>116</td>
<td>112</td>
<td>4</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td>104</td>
<td>103</td>
<td>1</td>
</tr>
<tr>
<td>Registering Property</td>
<td>164</td>
<td>143</td>
<td>21</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>80</td>
<td>70</td>
<td>10</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>46</td>
<td>49</td>
<td>-3</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>175</td>
<td>169</td>
<td>6</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>54</td>
<td>56</td>
<td>-2</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>134</td>
<td>133</td>
<td>1</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>49</td>
<td>51</td>
<td>-2</td>
</tr>
<tr>
<td><strong>Overall Ranking</strong></td>
<td><strong>96</strong></td>
<td><strong>81</strong></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>


Figure 2: Most problematic factors for doing business

Sri Lanka’s growth and competitiveness are constrained by a skills gap that has emerged with the changing labor market conditions. Sri Lanka’s economy is no longer dominated by the agriculture sector but rather by services, followed by industry and manufacturing. Employment patterns have followed, shifting significantly from agriculture to industry and services. Labor productivity levels need to rise, however. While unemployment is low at 4 percent, there is high youth unemployment (at 17.3 percent) and low female participation (30 percent). There is a mismatch between graduates and private sector needs particularly with regard to “soft skills”. 3 Improving the quality of human capital through effective education and skills development is central to Sri Lanka’s economic growth and competitiveness and to the Government’s aspiration of becoming a knowledge-based economy.

The World Bank is helping to identify and address the particular challenges to skills development in Sri Lanka. Beyond assisting the country’s education systems (see Education section below), World Bank-supported analytical work has helped Sri Lanka’s education authorities in identifying critical policy issues related to the demand and supply of skills in a changing labor market environment, with a view to making the workforce development system more responsive to the labor market. The work has informed a Skills Development Project currently under preparation for the 2014 fiscal year, which aims to enhance the relevance of training programs for the needs of the labor market.

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3 Soft skills are defined as communication skills, presentational skills and the ability to work in teams.
Sri Lanka’s overall balance of payments improved in 2012, underpinned largely by a fall in imports and continued strong inflows to income, services and financial accounts. The trade balance improved from a deficit of 16.4 percent of GDP to 15.8 percent, while the current account deficit improved from 7.8 percent of GDP to around 6.6 percent. As a result of worker remittances that increased by 16 percent to total close to US$6 billion, or 10 percent of GDP, and earnings from tourism that rose by 25 percent, the overall balance of payments recorded a surplus in 2012.

The improvement in the trade balance was largely a reflection of a significant fall in imports. The import bill declined by 5.4 percent in 2012 to US$19.2 billion, due largely to policy measures introduced in early 2012, lower global commodity prices, and a weaker rupee. Imports of consumer goods dipped 18 percent due to lower food and motor vehicle imports while imports of intermediate goods declined by 5.7 percent despite a 5 percent increase in fuel imports. However, reflecting the sustained growth impetus, particularly in construction, imports of investment goods—mainly machinery, equipment and transport goods—increased by nearly 7.1 percent. This augurs well for sustained growth momentum.

Despite improvement, the external position remains vulnerable. Sri Lanka has become less competitive over the past decade, with merchandise exports declining from 33 percent of GDP in 2000 to 17 percent of GDP in 2012. Export earnings in 2012 declined by 7.4 percent to US$9.8 billion, with the moderation coming mostly from agricultural and industrial exports that faced lower unit prices and weaker demand. The decline in Sri Lankan exports highlights the need for improved export competitiveness. This could include re-focusing from the slow-growing markets of Western Europe and the United States to faster growing regions.

Inflows to both the capital and financial accounts increased substantially in 2012. Net inflows to the country’s stock exchange increased by US$305 million (compared to a net outflow of US$171 million in 2011), as the Colombo Stock Exchange provided attractive investment opportunities prompting foreign investors to flock to fundamentally strong stocks, mainly in blue chips, during 2012. Strong financial flows were also witnessed into commercial banks as they raised foreign capital to strengthen Tier II capital. Net inflows to government securities increased by US$843 million in 2012, due mainly to an increase in the threshold for foreign investments in treasury bills and treasury bonds. The country raised US$1 billion through the July 2012 issuance of its fifth Eurobond issue. The year also saw the successful completion of the US$2.6 billion Stand-By Arrangement with the International Monetary Fund (IMF), which disbursed its final two tranches totaling US$853 million. The overall balance of payments reached a surplus of US$152 million in 2012 compared to a deficit of US$1.06 billion in 2011. Accordingly, gross official reserves increased to US$6.9 billion (sufficient for 4.3 months of imports) by end-2012 from US$6.0 billion (sufficient for 3.5 months of imports) at end-2011.

Fiscal Sector

While Sri Lanka has made significant progress in bringing down its fiscal deficit and public debt ratio in recent years, fiscal space remains constrained. While the overall fiscal deficit narrowed somewhat to 6.4 percent of GDP in 2012, from 6.9 percent in 2011, several structural weaknesses in the fiscal structure came into sharp focus in 2012—notably weak revenues, which reached their lowest levels ever. Emphasis will need to be placed on addressing the weakening revenue position and on the sustained losses incurred yearly by state-owned enterprises (SOEs). This will require a combination of hard budget constraints and broad-based reforms to stop the current hemorrhaging.4

Staying the course of fiscal consolidation will be imperative. Further consolidation of the fiscal position would help raise domestic savings rates. The authorities are committed to reducing the budget deficit further to 5.8 percent in 2013. The government’s medium-term revenue growth target appears ambitious, however, particularly in light of the poor revenue fundamentals in the country. Sri Lanka has one of the highest gaps in South Asia between actual and potential revenue, with these gaps likely to worsen. Sri Lanka also records one of the lowest revenue buoyancies in South Asia—a ratio close to 0.61,

4 SOEs in Sri Lanka are responsible for managing virtually all electricity, railways and water supply and drainage services. SOEs account for over 80 percent of petroleum products importation and distribution, 30 percent of bus transport services and nearly 50 percent of banking services.
substantially below unity.\textsuperscript{5} Sri Lanka’s low buoyancy seems to stem from poor performance of all tax instruments.

**The World Bank is helping the government assess the composition of its public expenditures as it looks to align its spending with the needs of a middle-income country and improve the efficiency by which it uses public resources for service delivery, particularly in the education and health sectors.** The Public Expenditure Review will offer an analytical basis for the government to use public resources more effectively and in ways that promote economic growth and reduce poverty. World Bank analytic and advisory activities have also been outlining alternative financing arrangements for public infrastructure and services (including public-private partnerships) and the pros and cons of the various options. The experiences of other middle income countries are informing this exercise.

**The World Bank has also been responding to a government request for support to enhance the country’s public financial management systems.** A knowledge exchange was arranged in 2012 providing senior Sri Lankan policymakers the opportunity to exchange views and learn from the experiences of South Africa, Mauritius, Cambodia, South Korea and New Zealand. Further to this, the World Bank carried out a review of the country’s public financial management systems using the Public Expenditure and Financial Accountability methodology, helping to identify strategic areas for improvement. Among the areas identified for strengthening were: monitoring and reduction of payment arrears; oversight of aggregate fiscal risk; public access to key fiscal information; taxpayer registration and tax collections; internal auditing; procurement procedures and predictability in the availability of funds. The government is undertaking a number of reform initiatives, including in the areas of revenue administration and treasury management.

**Financial Sector**

**Sri Lanka’s financial sector is small relative to emerging market peers.** Limited in both scope and depth, the country’s financial sector is neither a major source of funding nor a significant vehicle for long-term investment and savings. Sri Lankan companies have been funding their operations and expansion primarily from retained earnings. There has been little change in the structural composition of the financial system since 2007. Banks dominate the financial sector, accounting for around two-thirds of financial sector assets, and have enhanced its resilience to shocks. Non-bank financial institutions such as provident funds hold around 20.9 percent of financial sector assets, with insurance companies, finance companies, and leasing companies each accounting for around 3 percent of financial sector assets. Sri Lanka’s equity market has remained at Rs. 2.2 trillion (US$17 billion) over the last two years, accounting for about 17 percent of GDP and with potential for growth. While the government bond market has grown, the corporate bond market remains undeveloped.

**The Securities Exchange Commission of Sri Lanka (SEC) has taken proactive steps to strengthen the legal and regulatory framework for the capital market and align it with international standards and best practices.** To ensure that the regulatory framework supports capital market growth, the SEC Act was recently amended to empower the SEC to regulate derivatives even though a comprehensive legal framework for the derivatives market has yet to be developed. The amendment to the SEC Act has also paved the way for the SEC to issue directives to all public listed companies to strengthen corporate governance. Addressing gaps in the legal and regulatory framework particularly for the capital markets will require building the capacity of supervisors and regulators. As Sri Lanka looks to deepen and diversify its financial sector it will be important to maintain a balance between financial development and financial stability.

**Access to finance is a major constraint in both urban and rural areas for corporate as well as small- and medium-sized enterprises (SMEs).** SMEs in Sri Lanka were severely affected by the credit crunch arising from the global financial crisis and the country’s protracted civil conflict. Despite declining interest rates and improved liquidity in the financial sector since 2010, access to finance for SMEs continues to remain significantly constrained. Non-performing assets in the SME sector are above the industry average. There is a need to ensure that SMEs have sufficient capacity to effectively utilize bank

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\textsuperscript{5} No individual tax category has buoyancy above 1.0, and buoyancy is particularly low for VAT, the single largest source of tax revenue.
loans for the growth of their businesses. Areas that are particularly constraining SMEs’ access to banking include record keeping and accounts, financial management, human resources, marketing and product quality.

**Microfinance institutions have played a major role in broadening access to development financing to the poor and landless while contributing to rural savings and group formation, particularly amongst poor rural women.** The number of microfinance clients is estimated to be 10 million. Although semiformal institutions have made an important social and economic contribution by meeting the critical needs of poor households, the microfinance sector in Sri Lanka suffers from several problems. Key constraints include the narrow range of products, weak financial performance, dependence on subsidized funds, and the lack of a proper regulatory framework. Government policies for addressing uneven access have in the past focused on state ownership of financial institutions, subsidizing or controlling interest rates, and, at times, debt forgiveness programs. These policies, however, have not built the conditions for the market to expand services to under-served groups, especially the urban poor. The government has been moving away from subsidies and working to encourage more market-based practices such as forward sales contracts, warehouse receipts and linking farmers to the corporate sector.

**The World Bank has been actively supporting efforts to increase access to finance for the country’s SMEs and for the poor.** The World Bank is currently supporting a warehouse receipts financing pilot project to help catalyze collateralized lending by commercial banks to farmers. The development of warehouse receipts as collateral is designed to reduce bank risk and farmer financing costs, increasing farmers’ access to finance and liquidity to invest in productivity enhancing inputs and equipment. The World Bank has provided long term funding for SMEs as well as technical assistance to support capacity building efforts in the banking sector to improve the SME lending culture in the country.

**Poverty and shared prosperity**

**Sri Lanka’s headcount poverty rate has declined dramatically, falling from 23 percent in 2002 to 9 percent in 2009.** The most striking decline has been experienced among those living on estates, whose poverty rate fell from 35 percent to 10 percent. The estate population is, however, relatively small, with only 6 percent of poor Sri Lankans living in estates. This is only slightly greater than the corresponding poverty rates in the rural and urban sectors, which in 2009 were 9 percent and 6 percent, respectively. Growth has been pro-poor, as average real per capita consumption per month of the bottom 40 percent of the population increased by 3.6 percent while that of the top 20 percent increased by 1 percent between 2002 and 2009. As a result, inequality in per capita consumption expenditure fell rapidly, with the Gini coefficient declining from 0.40 to 0.37 between 2002 and 2009.

**Sri Lanka compares favorably with other countries in its income band in terms of gender equality.** In 2012 Sri Lanka ranked 75th out of 186 countries on the UN Gender Inequality Index. On the OECD’s Social Institutions and Gender Index, Sri Lanka scores highest among all South Asian countries. The main gender challenges relate to women’s access to employment opportunities, gender-based violence and women’s and children’s nutritional status. Sri Lanka hosts the 20th largest gender gap in labor force participation globally, which presents significant challenges to its growth and equity goals. In 2010 the labor force participation rate among women over age 15 in Sri Lanka was 41 percent, compared to 82 percent for men of the same age. In contrast, women’s 2010 labor force participation rates in Thailand and Malaysia were 80 percent and 57 percent, respectively.

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6 These numbers are based on the national poverty line. Poverty rates are calculated separately for urban, rural and estate (plantation) sectors.
7 Sri Lanka is divided into three geographic areas – urban, rural, and ‘estates’. The estates were originally plantations set up during the colonial period as enclaves with most of the labor as well as capital imported. Since independence, the rigid distinction between the estates and the rest of the country has reduced, though they continue to be disadvantaged relative to the rest of the country.
8 The Gender Inequality Index is a composite measure of reproductive health (maternal mortality ratio and adolescent fertility rate); women’s empowerment (share of parliamentary seats held by women; and female secondary and tertiary educational attainment rates); and labor participation (share of women in the labor force). UN Development Programme, 2013.
9 The OECD index looks at family law, civil liberties, physical integrity (including violence against women), son preference and ownership rights.
Sri Lanka is on track to meet most of the Millennium Development Goals. The UN Development Programme (UNDP) has identified Sri Lanka as an early achiever on 10 of the 21 indicators, including those related to universal primary education and gender equality. Sri Lanka is also expected to meet the goals of maternal health and HIV/AIDS. The country is, however, making slower progress on the goals related to malnutrition and child mortality. Indicators are mixed on the environment: while Sri Lanka is an early achiever on indicators of protected area, ozone depleting substance consumption, safe drinking water and basic sanitation, it has stagnated or is slipping backwards on forest cover and CO₂ emissions.¹⁰

The World Bank is supporting government efforts to improve living standards and increase social inclusion and equitable access to public services. Activities focused on conflict-affected areas have included the Community Livelihoods in Conflict Affected Areas project, the Emergency Northern Recovery project, and the North and East Pilot Water, Sanitation and Hygiene project for post conflict resettlements. These issues are being addressed at the national level as well, including through: the Second Community Development project, a Poverty and Inequality Assessment, technical assistance on the government’s social protection strategy and Samurdhi program; a trust fund on economic integration of vulnerable groups; vocational training for the disabled; pilot approaches to sustainable, affordable sanitation services to under-served low-income groups; work with youth organizations to support their involvement in development issues; and technical assistance to the Ministry of Labor on its gender strategy. Recent analytical work on women’s labor force participation in Sri Lanka has also helped to shed light on why women, although well-educated compared to men, are less often in paid employment.

Changing demographics

Contrary to most South Asia economies, Sri Lanka does not have a demographic dividend: by 2036, more than 22 percent of the population will be over 60 and there will be 61 dependents per 100 adults. The aging and urbanization of the population are having dramatic impacts on education and health as well as the economy. Unless labor force and employment rates increase (notably through greater inclusion of women) a very small number of employed persons will need to provide for a very large number of non-working persons – straining the budgets of families and government. With 96 percent literacy rates, the education system will need to place increasing emphasis on job specific skills that match private sector demand and tertiary education. The types of public services required will change as the population becomes older and has a higher income. The health system, for example, must build capacity to address non-communicable diseases associated with a wealthier, more urban lifestyle (e.g. chronic conditions like diabetes and traffic accidents) and with an older population (namely, geriatric care).¹¹ Social protection for the elderly will need to be enhanced and the social security system made sustainable. Population densities associated with increasing urbanization will require investments in mass transit and expanded water and sewage networks.

Education

Sri Lanka’s general education system has made important gains in the recent past, particularly in basic education. The net primary education enrollment rate is 98 percent, and the completion rate for primary education exceeds 95 percent. Gender parity is high in the education system, with an equal proportion of girls and boys enrolled in primary education and a slightly higher number of girls than boys in secondary education. Learning outcomes in primary education in first language (Sinhala and Tamil), mathematics and English increased significantly between 2003-2010.

Despite this past progress, the general education system faces a number of future challenges. The skills and competencies required for modern knowledge-based economic activities have become considerably more complex than in the past. To serve as a knowledge hub, as Sri Lanka aspires to, English language, information and communications technologies (ICT), science and mathematics are among the skills that will need to expand considerably. Wide regional disparities exist in the current

¹⁰ Paths to 2015: MDG Priorities in Asia and the Pacific (2010/2011) by UNDP, Economic and Social Commission for Asia and the Pacific and ADB.
¹¹ Sri Lanka has the oldest population age composition outside of the Eastern European transition economies. In two decades Sri Lanka’s age profile will be similar to that of Europe and Japan today, but with much lower income to support the large number of elderly dependents.
education system, requiring urgent attention in the interest of equity. Public expenditures on education are modest when compared to middle-income countries and other comparable nations.

The World Bank’s most recent support for the education sector is being extended through the Transforming the School Education System project. The project is promoting equitable access to secondary education, working to improve the quality of education and strengthen governance and delivery of education services. Several innovative reforms are being supported, including the establishment of a system for conducting national assessments of learning outcomes, school-based management, and school-based teacher development. The Higher Education for the Twenty-First Century project is also active, working to enhance the capacity of Sri Lanka’s higher education system, institutions, and human resources to deliver quality higher education services. It is expected that the World Bank will provide assistance in areas such as skills development to help orient the training sector to the emerging needs of a MIC, and early childhood education, which has long-lasting impacts on both cognitive and non-cognitive skills of children.

Health

Sri Lanka has better health indicators than most developing countries and many lower-middle-income countries. Sri Lanka’s achievement stands out even more when its low expenditures on health are considered. It spends a total (public and private combined) of approximately 4.2 percent of GDP or US$57 per capita on health.¹² Yet, many of its health indicators are comparable to those found in Thailand, Malaysia and Korea – countries with income levels 2 to 6 times higher adjusting for purchasing power parity, and that spend 1.5 to 10 times more on health per capita. The remarkable success in reducing maternal and infant mortality to very low levels (36 per 100,000 and 12.2 per 1,000 live births, respectively)¹³, is partially the result of effective and integrated maternal and child health services for the last half century. Communicable diseases like malaria and vaccine preventable diseases (such as polio, measles, diphtheria, and tetanus) are close to elimination, with services for the prevention and control of communicable diseases and maternal and child health care, such as for childhood immunizations, antenatal care and institutional deliveries, at nearly 100 percent coverage. Barring under-nutrition and some persisting communicable diseases, such as tuberculosis, dengue, rabies, and leptospirosis, Sri Lanka has successfully dealt with most of the typical health problems of low-income countries.

Malnutrition among mothers and children is an exception among otherwise exemplary maternal and child health status indicators. About 22 percent of Sri Lankan children under 5 are underweight,¹⁴ as against the 14 percent expected for Sri Lanka’s income level. That malnutrition has persisted even as the GDP per capita has increased reflects the complexity of the problem. Tackling malnutrition will require a combination of multi-sector actions involving healthcare, food security, provision and use of clean water and appropriate sanitation facilities as well as communication to promote good health and nutrition-related attitudes and behaviors.

Sri Lanka is in the advanced stages of a demographic and epidemiological transition owing largely to the marked increase in life expectancy and decrease in fertility rates. The country faces the challenges of an aging population and a shift in the disease profile, with non-communicable diseases (NCDs)¹⁵ now accounting for 85 percent of the total burden of disease. Beyond the rapidly changing age distribution, economic development, urbanization, increased motorization and lifestyle changes (including low levels of physical activity, less healthy eating, and tobacco, alcohol, and substance abuse) are contributing to the growing incidence of NCDs.

Contrary to the experience of most other countries in South Asia, empirical evidence indicates that the public sector in Sri Lanka has delivered care at low cost with high levels of productivity and

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¹³ According to government’s Registrar General’s Department 2006 and latest data.
¹⁴ Low weight-for-age and an indicator used for the second target of the first MDG.
¹⁵ The term Non-Communicable Diseases (NCDs) is used in this document to include both chronic and acute NCDs, e.g., cardiovascular diseases, all cancers, endocrine disorders such as diabetes mellitus, degenerative diseases, mental illnesses, asthma, renal disease of unknown etiology and injuries from all causes. Chronic NCDs is used when referring to diabetes, hypertension, asthma, cancers, renal diseases, cerebrovascular and circulatory diseases.
efficiency. One reason for such efficiency might be the strong focus on the inherently more cost-effective preventive and public health services, along with a reasonable level of access to curative services. While the model of extensive public provision has served Sri Lanka well, the country now finds itself at a crossroads. Servicing the needs of the elderly, as well as treating and managing NCDs, requires longer-term and more expensive services relative to maternal and child health and infectious diseases interventions.

The World Bank has been supporting Sri Lanka’s health sector through analytical work and credits from the International Development Association (IDA) since the late 1980s. The Health Sector Development Project (2004-2010) contributed to improving service delivery and building system capacity at the central, provincial and district levels. A review of the private health sector in FY13 analyzed private financing and provision of health services in Sri Lanka, identifying options for the government to further tap into the private sector's potential in the health sector. The World Bank is now helping the government analyze public expenditures in the sector, to assess the efficiency and equity of health spending in the country. A national health sector program is currently being supported under a US$200-million Second Health Sector Development Project (approved in FY13), designed to improve the standards of performance of the public health system and enable it to better respond to the challenges of malnutrition and NCDs. The project will also support innovation, results monitoring, and capacity building in the health sector. Funds under the project will be disbursed as budget support linked to agreed results achieved over the project period.

Rural-Urban Transition

Sri Lanka has been one of South Asia’s most dynamically urbanizing countries. Population density in urban areas has almost doubled over the past decade to 3,213 persons per square kilometer, and, as of 2011, 35.3 percent of the country’s 21 million people live in urban areas. It is projected that by 2020 Sri Lanka’s population will reach 23 million with 60 percent (13.8 million people) residing in urban areas. Sri Lanka is shifting from a predominantly rural-based economy to an urban one oriented around manufacturing and services (with industry and services contributing to 88.9 percent of GDP in 2012). To date, Sri Lanka’s economic growth has been primarily driven by the Colombo Metropolitan Region, which currently generates 45 percent of the country’s GDP and which is home to 28 percent of its population. Consistent with this, the Colombo Metropolitan Region is the country’s most prosperous region with a per capita income level of US$3,808 that is 1.6 times that of national per capita income. Recognizing the importance of this region to economic growth, the government initiated a program to transform the Colombo Metropolitan Region into a competitive and environmentally friendly world-class capital.

Central to the government’s development agenda is also the creation of a strong network of well-connected and environmentally sustainable cities throughout the country, fostering economic growth in major urban centers outside of Colombo to produce a more spatially balanced distribution of economic opportunities and bolster overall national economic growth. While Sri Lanka is taking important steps to implement its urban vision, including connectivity improvements, urban renewal and green city initiatives in the Colombo Metropolitan Region and secondary cities, a number of challenges remain. Urban local authorities are currently constrained by limited institutional mandates for urban planning and service delivery as well as inadequate financial and human resources resulting in delayed implementation of urban plans and inefficient service provision. Regulatory and institutional constraints in land markets and inadequate incentives to stimulate efficient and sustainable land use and property development have resulted in urban sprawl. Housing finance products have also been limited.

Efficient and environmentally sustainable land use when supported by high density urban transportation could deliver sizeable economic benefits by reducing vulnerabilities to natural

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16 As measured using the agglomeration index which defines as urban all Divisional Secretariats (DS-divisions) with an average population density of 150 persons per km² and which lie within a 60 minute drive of a city with population greater than 100,000. If we instead define as urban all DS-divisions with a population density of 150 persons per km² and which lie within 60 minutes of a city with a population greater than 50,000, the estimated urban share increases to 64.6 percent. Source: Urbanization in South Asia: An Application of the Agglomeration Index, Background Paper to the SAR Urbanization Flagship, Washington, D.C.: The World Bank.
disasters, lowering infrastructure costs, limiting the impact on environmental assets, stimulating private investment in land and housing and expanding municipal own-source generation. The sustainability of urban water supply systems is at risk, and water quality needs to improve, especially in the North and East. The largest cities, in particular the tourist destinations, need an integrated approach to environmental management including sewerage, wastewater treatment, drainage, and solid waste management. This is important as a response to increasing population densities but also to make the tourist areas attractive to foreign and national visitors. Urban transport is a key contributor to city competitiveness, but much remains to be done to improve public transportation in the main cities, and to enable efficient utilization of urban roads. With the challenges of global climate change, Sri Lanka’s cities are becoming increasingly more vulnerable to natural disasters, and adaptation strategies need to be mainstreamed into urban plans to manage the risk.

For generations, Sri Lanka’s population has been more internally mobile than most countries, on account of the extensive network of roads, buses and railways and relatively compact geographic territory. During the war, much of this infrastructure was damaged and attention was not given to modernizing or even maintaining the infrastructure. Today, road travel within the country is very slow with average speed of only 26 kilometers an hour. A massive effort is currently underway to bridge the infrastructure gap, using domestic resources as well as support from the multilateral and bilateral communities. The country’s first expressway opened in 2011, halving travel time from Colombo to Galle. Nevertheless, challenges remain. More needs to be done to understand and enhance the economic connections across the country to take advantage of forward and backward linkages in supply chains and of distinct comparative advantages of different parts of the country.

The World Bank is supporting government efforts to enhance Sri Lanka’s urban areas and support internal integration. The Metro Colombo Urban Development project, approved in FY12 and funded by the International Bank for Reconstruction and Development (IBRD), is currently helping the Colombo Metropolitan Region to address obstacles preventing it from realizing its full economic potential, including inadequate infrastructure and services and significant vulnerability to flooding. A number of complementary studies and South-South exchanges have been launched in connection with the project, including on solid-waste landfill, wetland management, private participation in waterfront development, and strategic city development. Further support is to be extended to the Colombo Metropolitan Region through the Colombo Green Growth technical assistance program, currently under preparation, which would provide a holistic framework and incentive mechanism for participating municipalities and ministries to propose, plan, and implement environmentally and socially sustainable and resilient urban development projects and policies. The World Bank has been requested to help to prepare a Government Strategy Paper on Colombo Green Growth. The World Bank is also supporting government efforts to improve the urban services and livability in its strategic secondary cities. Analytical work is deepening the understanding of economic drivers in rapidly growing secondary cities and their connectivity with the national economy which, in turn, is informing the design of a Strategic Cities Development project.

In the transport sector, two World Bank projects are currently helping to address deferred maintenance and contribute to better quality and safer roads: the Road Sector Assistance Project and the Provincial Roads Project. The latter has been helping the government improve access to socioeconomic centers in the Eastern, Northern and Uva Provinces, through the sustainable management of improved road infrastructure. The Road Sector Assistance Project, approved in 2005, has been instrumental in increasing the level of funding channeled to rehabilitation and maintenance of national roads, as institutionalized in a Road Maintenance Trust Fund. World Bank support for Sri Lanka’s transport sector is expected to continue, not only for rehabilitation and maintenance but potentially for the development of the country’s expressway network for which public private partnership options are also being considered.

Environment, Climate Change and Disaster Risk Management

Sri Lanka has a wealth of environmental assets, boasting the highest biodiversity per square kilometer in Asia. During the conflict, the slow pace of economic development meant that degradation

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17 As of 2010, there were 1.7 km of road per km² and 97 percent of villages are reached by the road network. As of 2000, 86 percent of the roads were paved.
was slower than it otherwise might have been. Among the government’s goals for 2016, as outlined in its *Mahinda Chintana* vision for development, is raising forest coverage from 23 percent to 35 percent of the land area. Sri Lanka risks losing many of its assets and biodiversity: 33 percent of fauna and 61 percent of flora have been found to be under threat. The country’s rate of deforestation – loss of more than 35 percent of its old-growth forest cover since 1990 – is among the highest in the region. Total forest cover has diminished by almost 18 percent with predictable consequences for watersheds, soil loss and the panoply of environmental and economic damages. Sri Lanka has tremendous potential for being a leader in wildlife tourism, which is largely considered one of the country’s key untapped and underdeveloped markets. Through careful development of this potential niche industry, Sri Lanka can reap high benefits and, in turn, benefit biodiversity conservation in the country.

As a middle-income country Sri Lanka is dealing with many of the environmental challenges that come with prosperity, including air pollution and solid waste management. Though data is sparse, the evidence broadly suggests that air pollution and the impacts on health are worsening or have stagnated at undesirable levels in the major urban centers. Waste generation is characterized by distinct geographic patterns in Sri Lanka – with higher volumes being generated in more prosperous urban areas and provinces. Collection rates are generally low across the country and average 31 percent. This compares unfavorably with other middle-income countries that average collection rates of 68 percent. The bulk of waste is organic, suggesting there is scope for reducing the pollution load of wastes requiring ultimate disposal, and for employment generation through complementary composting activities.

Environmental sustainability is part of this government’s vision for the country, but has yet to receive adequate policy attention or resources. While the country has been effective in identifying environmental problems and developing policies and strategies to address these, actual steps taken to resolve environmental and natural resource issues have been weak. Rapid and unplanned development has contributed to habitat fragmentation and the loss of key ecosystem services, particularly in the northern and southern regions of the country. The only MDG Sri Lanka is unlikely to achieve is MDG 7 on ensuring environmental sustainability by 2015.

The fiscal and physical impacts of natural disasters in Sri Lanka have been sizable over the past decade, particularly flooding and drought. Floods have cumulatively affected more than 8.5 million people, while droughts have affected more than 5 million over the past 10 years. Landslides and high winds are frequent phenomena that destroy or damage thousands of houses every year. The fiscal and economic impacts of disaster are understood to be relatively high in Sri Lanka. The annual fiscal loss is significant, estimated by the Ministry of Disaster Management to exceed US$50 million, while, in some years, the fiscal loss is much greater. The floods of December 2010 to February 2011, for instance, resulted in estimated direct damages of more than US$600 million. Climate scenarios project less and less frequent precipitation in the already dry areas, potentially increasing the frequency and duration of droughts. Higher and more variable rainfall is expected to increase the frequency and intensity of floods, especially affecting monsoon-dependent areas. Climate change is expected to significantly impact agriculture, water resources, energy, environment and fisheries in Sri Lanka.

The World Bank stands ready to support Sri Lanka’s efforts to promote environmental sustainability and climate resilience. The government has recently begun expressing interest in proactively addressing risks associated with climate change. In response, the World Bank engagement is increasing in the areas of climate change and disaster risk management. A program to improve fiscal and physical resilience to climate and disaster risk is currently under preparation, with expected delivery in FY14. An Improving Climate Resilience project will improve the capacity to manage physical risk, while a Development Policy Loan with a Catastrophe Deferred Draw Down Option and associated activities will strengthen fiscal resilience to events. This latter instrument would provide a contingent line of credit that could be triggered at the onset of a disaster to help finance recovery and reconstruction activities after the event. In addition, the World Bank, as part of its analytical and advisory activities, has been helping Sri Lanka to mainstream disaster risk management with a view to strengthening its early warning system and the capacity of the government to assess risks, integrate disaster risk reduction into the planning process and prepare post-disaster assessments. As noted above, vulnerability to flooding is being addressed under the Metro Colombo Urban Development project. A Dam Safety and Water Resources
Planning project is supporting the government in strengthening high-risk dams and improving water resources planning to increase the capacity of the upstream water reservoir.

**Energy Sector**

*The Government of Sri Lanka has established a series of targets for the energy sector, most notably for household electrification and the diversification of the generation mix.* The government hopes to achieve universal electrification by 2016. Until the mid-1990s, most of the new electricity demand in Sri Lanka was met by hydropower. All of the large-scale sites that are economically viable have largely been exploited. Consequently, the bulk of new energy has come from oil-based generation, which has driven up consumer tariffs due to the high international price of petroleum products. Diversifying the fuel mix will be crucial going forward. To meet the growing demand the country’s power expansion plan consists of a four-fuel mix comprised of existing large hydropower and oil-fired power together with new investments in coal plants and non-conventional renewable resources. Given Sri Lanka’s high dependence on oil, most of the expansion is scheduled to come from coal-fired power and non-conventional renewable resources.

**World Bank support for Sri Lanka’s renewable energy sector has had demonstrable impacts.** The recently closed Renewable Energy for Rural Economic Development Project supported the development of 185.3 megawatts (MW) of renewable energy capacity, or about 65 percent of total renewable electricity generating capacity in Sri Lanka, as of March 2012. It also provided off-grid electricity to over 116,000 remote rural households, benefitting around a half a million people. The project also helped to address one of the most important barriers to renewable energy development, namely the availability and access to sufficient long-term credit. Commercial banks were encouraged to lend to renewable energy projects to demonstrate that the risks are manageable and that lending would also be profitable. Commercial banks seem willing to continue lending in the sector. Since the project closed at the end of 2011, Standardized Power Purchase Agreements have been signed for 95 renewable energy projects with a total capacity of 281 MW. Some banks have even taken their financing abroad on other renewable energy projects outside of Sri Lanka. Funds have also been mobilized through initial public offerings by several local firms, foreign funds, and the IFC’s risk sharing facility, the Portfolio Approach to Distributed Generation Opportunities.

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**WORLD BANK GROUP: SUPPORTING SRI LANKA’S TRANSITION TO MIC STATUS**

The World Bank Group Country Partnership Strategy (CPS) for Sri Lanka for FY13-16 aims to help the country address the long-term strategic and structural challenges outlined above, as it transitions to MIC status. The CPS focuses on: (i) facilitating sustained private and public investment; (ii) supporting the structural shifts in the economy; and (iii) improving living standards and social inclusion. An existing portfolio of projects contains a number of projects set out in the previous Country Assistance Strategy (FY09-12) to support the restoration of livelihoods and community development in the conflict-affected North and East. As the focus has shifted from post-conflict reconstruction to an emphasis on equitable access and social inclusion across the entire country, the majority of new projects under the current CPS are nationwide in design. They are, nonetheless, expected to benefit citizens in lagging regions.

The CPS provides for the strategic use of analytical and advisory work to inform planned lending activities and support dialogue in key policy areas. It is designed to be flexible, focusing on a small number of large projects, and using country systems to the extent possible. A CPS Progress Report is due to be prepared this fiscal year which will provide an opportunity to review the country program and strategy together with the government, taking stock of both progress to date and the government’s evolving development needs and agenda.

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18 The current share of electrified households is 94 percent, according to the Ministry of Power and Energy.
19 Small hydro (less than 10 megawatts), wind, biomass, and other energy sources such as agricultural waste, landfill gas and municipal solid waste.
The World Bank has been supporting Sri Lanka’s development for close to six decades, having accompanied the country as it has grown to join the ranks of middle-income countries. International Development Association (IDA) commitments to date exceed US$4 billion, and close to US$500 million in IBRD lending has been provided. Sri Lanka re-emerged as a blend IDA-IBRD country in FY12, regaining access to IBRD resources after a 26-year hiatus, and it will likely become an IBRD-only country at the end of the IDA17 cycle which concludes in FY17.

With Sri Lanka’s graduation to middle-income country status, the government has broadened its options for foreign financing of public investment. While historically Sri Lanka’s largest lenders have been the Asian Development Bank, the World Bank, and Japan, China has emerged as the largest lender, with involvement primarily in the road sector. Concessional assistance from western bilateral partners in general has diminished whilst financing in the form of export credits has increased.

The current active World Bank portfolio in Sri Lanka comprises 16 projects (14 IDA operations, one IBRD operation and one recipient-executed trust fund of over US$5 million) with a total net commitment value of US$1.49 billion. The portfolio comprises six recipient-executed trust funds of a total net commitment value of US$22.6 million. Urban and transport infrastructure account for 41.6 percent of the overall portfolio, followed by rural development and community livelihoods (25.3 percent), human development (23 percent) and finance and private sector (10 percent). This fiscal year, the lending program is expected to include four projects supporting skills development, the development of secondary cities and improving climate resilience which would include a project to build the capacity to manage physical risk as well as a Development Policy Loan with a Catastrophe Deferred Draw Down Option to help strengthen fiscal resilience to catastrophic events. Additional financing to the Dam Safety project is anticipated to cover a financing gap resulting from increased costs of construction during implementation, as well as rehabilitation of additional dams in the East that had not been included in the original project due to the conflict in the area during that time.

With an average project age of 3.9 years, the Sri Lanka project portfolio has a mature profile. Sri Lanka has a highly-rated project portfolio, with only one problem project as of end August, 2013. The disbursement ratio fared consistently well during the past three years, and the disbursement rate at the end of FY13 was 28.9 percent.

Project implementation is generally satisfactory and sector outcomes in some areas, such as health and education, have been particularly impressive. There is however scope for further improvements in several areas including procurement, safeguards, and monitoring and evaluation. The overall financial management performance is satisfactory and the fiduciary risk after mitigation is rated as moderate for the majority of projects. Overall risk in some projects has been rated as high or substantial based on the nature and complexity of implementation arrangements, weak implementation capacities or safeguards risks. With the intention of the Government of Sri Lanka to promote the use of country systems, continued efforts are required to strengthen these systems.

International Finance Corporation (IFC)

Sri Lanka became an IFC member country in 1956. Since then, IFC has invested US$782 million in Sri Lanka, including US$102 million mobilized from other institutions. IFC opened its office in Colombo in 1998.

In the fiscal year ending in June 30, 2013, IFC’s US$137 million in investments included: its first mobilized equity funding in South Asia (by IFC’s Asset Management Company) for the Commercial Bank of Ceylon; an equity investment in Cargills Agriculture and Commercial Bank; financing for Softlogic to boost its tourism and retail operations; and a 10-year loan to the National Development Bank to provide long-term funding to small businesses while supporting all business segments. IFC’s portfolio of US$204 million as of June 2013 supports the financial sector (53 percent), followed by manufacturing, agribusiness and services (43 percent), and infrastructure (4 percent).

IFC’s activities in Sri Lanka are supporting the World Bank Group CPS goals, aligned with the government’s Mahinda Chintana vision. IFC is particularly focused on projects that enhance: (i) inclusive growth, including supporting the base of the pyramid, rural areas, infrastructure building and improving access to finance for micro, small and medium enterprises (MSMEs); and (ii) global
integration through improved financial infrastructure, investment climate reforms, trade financing, logistics, and South–South investments.

**Working closely with the World Bank, the Government of Sri Lanka and other partners, IFC is helping to promote private sector growth, using a combination of investment and advisory services** to: create growth opportunities for MSMEs; make strategic investments to increase access to financial services, build infrastructure, improve healthcare and develop key sectors such as agribusiness and tourism; and improve the investment climate to promote private sector participation in infrastructure, and make it easier for businesses to start and operate. Priority areas include access to finance, infrastructure, tourism, and agribusiness, with a focus on lagging regions and communities especially in the North and East post-conflict regions.

**Increasing access to finance for small and medium businesses in Sri Lanka constitutes one of the World Bank Group collaboration projects in South Asia.** IFC’s advisory support for SMEs accounts for 73 percent of its advisory portfolio in Sri Lanka and is coupled with capacity-building advisory support through an SME Toolkit and Business Edge training program. The IFC also recently received €4 million from the EU to promote SMEs as part of a broader €60-million program in the country’s North and East post-conflict regions,20 supporting districts’ transition from recovery to development and helping to bridge the gap between more developed areas of the country. The World Bank and IFC are also jointly working on public-private partnership opportunities in transport infrastructure. The Norwegian, Irish, Dutch and Japanese governments are among key partners that fund IFC’s advisory program in Sri Lanka.

**Multilateral Investment Guarantee Agency (MIGA)**

Sri Lanka is an important country for MIGA, given MIGA's global focus on supporting high development impact investments into IDA countries and conflict-affected countries. MIGA supports the World Bank Group Strategy for Sri Lanka, and is currently actively considering one project in the infrastructure sector. Sri Lanka presents a strong environment in which MIGA could deploy its most recently developed products: Non Honoring of a Sovereign Financial Obligation, and Non Honoring of a State Owned Enterprise Financial Obligation. Both these products would help the Government of Sri Lanka access commercial financing on better terms and longer tenor than otherwise, making them particularly suitable for infrastructure projects.

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20 The Support for District Development Planning program is implemented jointly by IFC, UNDP, the Food and Agriculture Organization, the International Labor Organization, the United Nations Office for Project Services, and the United Nations Children Fund.
**SRI LANKA: E-LANKA DEVELOPMENT PROJECT**

**Key Dates:**
- Approved: 21-Sep-2004
- Effective: 27-Jan-2005
- Closing: 31-Dec-2013

**Financing in million US Dollars***:

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*As of September 16, 2013

**Background and Objectives:**
The original project and the Japanese Social Development Fund grant are closed and the US$11-million Additional Financing for the E-Sri Lanka Development Project, approved in January 2012, is currently active. The Project has been complemented by support from the Export-Import Bank of Korea for the Lanka Government Network, which provides connectivity of government agencies to provide e-services and for the establishment of a software system providing inter-operability.

This project’s development objective is to enhance growth and equity through: (i) improved access to and use of means of information and communication, including access to and use of public services on-line by businesses and citizens; and (ii) enhanced competitiveness of the private sector and in particular of small- and medium-sized enterprises (SMEs) and the knowledge industry. More specifically, the Project aims to: create a legal framework to implement information and communications technology (ICT) policy and develop a network of change agents in government agencies; re-engineer government agencies to use technology for service delivery and improve institutional efficiency; expand the telecommunications network to the regions (especially the Northern and Eastern Provinces); establish telecentres to improve ICT literacy and create a conduit for better service delivery to rural areas, and ; provide grants to promote private sector e-service initiatives and build capacity.

**Key Results Achieved*** and Expected:
The project has helped to improve ICT literacy, especially in the rural areas, and provide access to online e-services. An average of 50,811 people per month are using telecentres. Online service usage increased by 7.2 million people. Over 70,000 private sector employees in the knowledge industry and SMEs have been trained and certified. Some 641 chief information officers in government ministries and departments have been appointed and trained as champions for technology development in their respective agencies. Over 700 telecentres have been established, of which 56 percent are financially sustainable. A further 40 new telecentres are due to be established in the North and East by end 2013.

**Key Partners:**
Information and Communication Technology Agency of Sri Lanka; Korean Ex-IM Bank; Japan (via the Japan Social Development Fund trust fund).
**SRI LANKA: SUSTAINABLE TOURISM DEVELOPMENT PROJECT**

**Key Dates:**
Approved: 13-May-2010
Effective: 04-Jan-2011
Closing: 31-Dec-2014

**Financing in million US Dollars***:

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*As of September 16, 2013

**Background and Objectives:**
The project aims to strengthen the institutional framework for Sri Lanka’s tourism sector to facilitate environmentally and socially sound investments, particularly in the East of the country. While the project became effective in January of 2011, it has only disbursed 13 percent since then, reflecting the uncertainty in the security and investment climates in Sri Lanka at the time of project conception.

The institutional context of the tourism sector changed, however, resulting in a period of inactivity in project implementation. During this period, the government and the Sri Lanka Tourism Development Authority invested in major tourist infrastructure facilities, particularly in the Eastern Province. Against this background, the government requested that, going forward, the project focus on the following: the establishment and enforcement of product and service standards in the tourism industry, access to finance for small- and medium-sized enterprises (SMEs) to upgrade facilities, and scaling up the number of skilled personnel. The project was restructured accordingly on October 25, 2012, providing for capacity building and matching grants to support tourism-related SMEs. Disbursements have picked up since the restructuring, reaching 13 percent (US$ 2.3 million) as at August 2013. As at the end of July 2013, the grant scheme was oversubscribed and 1,000 applications for matching grants had been received for a combined total of US$44.0 million. The applications are currently being appraised.

**Key Results Achieved and Expected:**
The Regional and Eastern Province Strategy supported by the project has been completed. The licensing procedure has been streamlined, and tourism receipt targets (US$1 billion) and occupancy targets of 80 percent have been achieved. The project’s matching grant component is expected to fund 275 projects (e.g. ecofriendly home stays, refurbishment of tourist hotels under three stars, purchase of energy efficiency equipment in hotels, capacity building of hotel staff, purchase of whale watching boats, and souvenir manufacturing), provide training for about 2,500 staff, and support informal SMEs to be formalized and upgraded.

*As of August 31, 2013

**Key Development Partners:**
Ministry of Economic Development.
**SRI LANKA: SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROJECT**

**Key Dates:**
Approved: 07-Sep-2010  
Effective: 05-Jan-2011  
Closing: 30-Sep-2015

**Financing in million US Dollars***:

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*As of September 16, 2013

**Background and Objectives:**
The project is designed to improve access to finance including long-term finance for small- and medium-sized enterprises (SMEs) in Sri Lanka affected by the global financial crisis. The core components are a Financing and Risk Sharing Facility (US$41.0 million), and policy and capacity enhancement for SME banking (US$16.4 million). The Project underwent a level-two restructuring in June 2013, to address the following: (i) reallocating funds among the project’s components; (ii) revising the Results Framework accordingly; and (ii) extending the closing date by 18 months from March 31, 2014, to September 30, 2015. The project objectives remained unchanged.

This project also has fostered policy dialogue with the government in enhancing financial sector development and has supported the Collateral Registry and Credit Information Bureau, an initiative backed by the International Finance Corporation (IFC).

**Key Results Achieved and Expected:**
The following have been achieved as of August 31, 2013:

(i) A total of 360 active loans (against a target of 560);  
(ii) Cumulative disbursements of sub loans amounting to US$18.0 million;  
(iii) More than 4,000 SMEs and 4,000 commercial bank staff have been trained;  
(iv) An estimated 2,300 potential new employment opportunities created.

The project is expected to achieve a target of 1,000 loans by end of 2015. There will be 9,000 SMEs

**Key Partners:**
Ministry of Finance and Planning
**Key Dates:**
Approved: 17-Jul-2012
Effective: 17-Jul-2012
Closing: 31-May-2015

**Financing in million US Dollars***:

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*As of September 16, 2013

**Background and Objectives:**
The project is a response to the recurrent issues of food insecurity and price fluctuations in Sri Lanka. The project aims to contribute to increased food security and agricultural incomes. By building quality warehouse storage it would help to reduce the estimated 10-15 percent wastage of rice crops. The electronic warehouse receipts mechanism aims to catalyze collateralized lending by commercial banks to farmers. Overall, the project should help to smooth out food availability and allow farmers to sell at higher prices into commodity markets after the post-harvest glut. The development of warehouse receipts as collateral would reduce bank risk and farmer financing costs, thereby increasing farmers’ access to finance and liquidity to invest in productivity enhancing inputs and equipment.

The project is piloting a warehouse receipts system which has been implemented in other countries. It aims to provide access to farmers in selected areas of Sri Lanka to quality storage facilities for agricultural products and to facilitate the use of such products as collateral to access financial services by developing an electronic and negotiable warehouse receipt financing program. Warehouse receipts financing facilitates the dual purpose of providing a value chain service to producers through warehousing and simultaneous access to credit against stored produce.

**Key Results Achieved and Expected***:
The project has just started implementation.

The project is expected to benefit around 40,000 farmers by the end of the pilot (2015). The establishment of a warehouse receipts system in the country is expected to result in a 20 percent reduction in price fluctuations of stored grains and a 15 percent increase in farmers’ incomes.

* As at August 31 2013

**Key Development Partners:**
Ministry of Finance and Planning
SRI LANKA: HIGHER EDUCATION FOR THE TWENTY FIRST CENTURY PROJECT

Key Dates:
Approved: May 13, 2010
Effective: November 1, 2010
Closing: June 30, 2016

Financing in million US Dollars*:

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*As of September 16, 2013

Background and Objectives:
The Higher Education for the Twenty First Century (HETC) project supports the development of the higher education sector in Sri Lanka, including university education and short-cycle vocational higher education. The project aims to enhance the capacity of the higher education system, institutions, and human resources to deliver quality higher education services in line with equitable social and economic development needs.

There project is comprised of four components:

1. Institutionalizing norms for the higher education sector, developing the institutional foundation of the country’s higher education sector through the establishment of a qualification framework covering the higher education and training sectors, and the development of a quality assurance system to cover the entire higher education sector.

2. Promoting relevance and quality of teaching and learning, providing university development grants to improve the social and economic relevance of university education and quality and innovation grants to improve the performance of strategically selected study programs.

3. Strengthening alternative higher education, to modernize the Sri Lanka Institute for Advanced Technological Education and its network of Advanced Technological Institutes through curriculum and management reforms; and to expand the coverage of the ATI to under-served areas to provide more equitable access to alternative higher education.

4. Human resource development, monitoring, evaluation, studies, coordination and communication, to strengthen the human resource and organizational capacity of the higher education sector, including the qualifications of academic staff of higher education institutions; and to support monitoring and evaluation, policy analyses and dissemination.

Key Results Achieved and Expected*:

- A Sri Lanka Qualification Framework covering all stages of education and training has been developed.
- A Quality Assurance Framework covering public and private higher education institutions has been prepared, and implementation is in progress.
- University Development Grants to improve the employability of students are under implementation in all 17 universities.
- Quality and Innovation Grants have been awarded to 58 study programs, exceeding the project target of 51 study programs.
- There are 12,500 students enrolled in the Advanced Technological Institutions, surpassing the project target of 10,000 students. Nearly 200 university and Sri Lanka Institute for Advanced Technological Education academics have commenced Master’s or PhD degree programs, exceeding the project target of 100 Masters/PhD degrees.
- Three hundred and seventy-five university management staff (75 percent of target) and 634 academic staff (83 percent of target) have completed short-term human resource development programs.

* As at August 31 2013.

Key Development Partners:
Ministry of Higher Education. The World Bank is the main development partner in the higher education sector. Other external support for higher education is mainly for scholarships and research grants for universities and academics.
Sri Lanka: Transforming the School Education System as the Foundation of a Knowledge Hub Project

Key Dates:
Approved: November 29, 2011
Effective: June 21, 2012
Closing: June 30, 2017

Financing in Million US Dollars:

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*As of September 16, 2013

Background and Objectives:
The Transforming the School Education System as the Foundation of a Knowledge Hub Project TSEP aims to enhance equitable access and quality of primary and secondary education to provide a foundation for the knowledge-based economic and social development of the country. The project is organized under three components: a) promoting access to primary and secondary education; b) improving the quality of education; and c) strengthening governance and delivery of education services. These are aligned with the themes of the Government of Sri Lanka’s Education Sector Development Framework and Program for 2012-2016.

This US$100-million project is helping the government to strengthen the country’s education system at multiple levels, including national and provincial educational agencies, but especially schools. Several innovative reforms are being supported, including the establishment of a system for conducting national assessments of learning outcomes, school-based management, and school-based teacher development.

Key Results Achieved and Expected*:
The overall progress of the TSEP after one year of implementation is satisfactory. All outcome and disbursement linked indicators have been achieved to date. Of specific note:

- The survival rate of students through grade 11 was 83 percent (86 percent for girls and 80 percent for boys) at the end of 2012.
- A national assessment of learning outcomes of children at grade 8 was completed in 2012.
- School-based management has been introduced in 40 percent of education zones during 2012-2013. About 2,400,000 students (55 percent of all students) are enrolled in schools in these zones.
- School-based teacher development programs have been conducted in 40 percent of education zones during 2012-2013. About 140,000 teachers (63 percent of all teachers) have benefited from these programs.

* As at 31 August, 2013.

Key Development Partners:
- The Bank is a coordinating agency and ensures that the activities done by development partners are harmonized with the government program. A joint review mission is undertaken annually by the Bank team with interested development partners.
- AusAID supports the Education Sector Development Framework and Program through a trust fund agreement with the Bank.
**SRI LANKA: SECOND HEALTH SECTOR DEVELOPMENT PROJECT**

**Key Dates:**
Approved: March 27, 2013
Effective: Not effective
Closing: September 30, 2018

**Financing in million US Dollars**:  

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*As of September 16, 2013

**Background and Objectives:**

As a lower middle-income country, Sri Lanka has achieved remarkable progress in maternal and child health and communicable disease outcomes as indicated by its maternal mortality rate of 36 per 100,000 live births, infant mortality rate of 12.2 per 1,000 live births, and life expectancy at birth of 75 years. Today, Sri Lanka is seeing the effects of demographic and epidemiological transitions—an aging population, increasing prevalence of non-communicable diseases, both chronic (diabetes, cancers, cardio-vascular diseases, mental health issues etc.) and acute (mainly injuries). The country continues to face emerging and re-emerging communicable diseases like tuberculosis, leptospirosis, dengue, and influenza. Furthermore, malnutrition among mothers and children has not improved adequately, with 17.9 percent of babies delivered each year born at a low birth-weight and 13 percent of children under-five stunted. Fifty percent of outpatient, 95 percent of in-patient and 99 percent of preventive care needs of the country are provided by the public health system. The private health sector mainly provides outpatient care services with expanding roles in in-patient, investigative, and laboratory services, largely in urban and semi-urban areas. The Ministry of Health finalized the National Health Development Plan under the guidance of the government’s national development strategy, the Mahinda Chintana, to improve the health sector to meet middle-income country standards.

The Second Health Sector Development Project will support the implementation of the government’s National Health Development Plan. It aims to upgrade the standards of performance of the public health system and enable it to better respond to the challenges of malnutrition and non-communicable disease. More specifically, the project will support the implementation of interventions prioritized under the National Health Development Plan for (i) addressing malnutrition, (ii) improving prevention and control of non-communicable diseases, and (iii) improving health systems. Funds will be disbursed as budget support linked to agreed results achieved over the given period. The project will also support innovation, results monitoring, and capacity building in the health sector with a core team to be involved with monitoring and support, training, workshops, testing of innovative ideas, operational research, demographic and health surveys, base-line and end-line surveys and Disbursement Linked Indicators’ results reporting.

**Key Results Achieved and Expected**:  
This recently approved project expects to support the implementation of 20 results (a subset of the National Health Development Plan results).

*As at August 31 2013

**Key Development Partners:**
**Key Dates:**
Approved: 05 June 2008  
Effective: 15 October 2008  
Closing: 31 December 2013

**Financing in million US Dollars**:  
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* As of September 16, 2013  
** Of which 7.2 million cancelled pertaining to DCS component

**Background and Objectives:**  
The project was originally conceived to enhance the effectiveness, efficiency, and productivity of two key public sector Agencies: the Department of Census and Statistics and the Auditor General’s Department (AGD), although the project goal was revised in August 2012 to focus solely on the AGD. The project focuses on organizational strengthening, capacity building, information management, communication improvements, physical and information technology infrastructure, and information and communication technology support. By the original December 31, 2011 closing date of the project, the results indicators for the AGD component of the project had all been met or exceeded, with significant undisbursed funds and unspent balances in the Designated Account. The closing date of the project was extended twice at the government’s request (each for a 12 month period) to enable the AGD to utilize project savings to construct a regional training center in Ratnapura, host a major international seminar of Asian Organization of Supreme Audit Institutions member countries, and to further institutionalize enhancements to its effectiveness, efficiency and productivity.

**Key Results Achieved and Expected***:

- **Audit Methodology.** As of May 2013, additional training in financial, performance, and investigative audit procedures had been provided entirely by the AGD’s new audit training department. Close to 600 officers received training in financial auditing, and the new procedures were applied in the financial audits of all 229 public enterprises. In 2014, the financial audit procedures will be rolled out to the audits of externally-aided projects, shifting the focus from compliance-based tests of transactions to risk-based audits of financial statements. Also as of May 2013, 28 performance audits and 20 investigative audits had been or were being conducted by the new performance audit and investigative audit units established under the project. Five performance audit reports have already been tabled in Parliament and printed. These are available in the public domain.

- **Human Resources.** As of August 2012, a permanent Training Division had been established in the AGD, over 70 officers were pursuing post graduate degrees in local universities, and extensive training both foreign and local had been provided, including training in international financial reporting standards. By May 2013, 10 officers had attended a customized training on public works audits, over 300 officers had completed an advanced English program, and over 200 officers had taken one-week courses on leadership skills, procurement and project management, quality management and team building.

- **Communication and external relations.** The Auditor General’s Department hosted an international conference (Supreme Audit Institutions: Meeting Higher Expectations) in Colombo in July, 2013 as part of the project’s communication strategy. The conference was well attended by representatives of supreme audit institutions of 18 countries.

- **Physical infrastructure.** The new AGD building has been constructed. While the timeline for construction of a regional training center in Ratnapura is tight, it is to be closely monitored by the AGD.

* As at August 31 2013

**Key Development Partners:** Auditor General Department, the Government of Sri Lanka.
**SRI LANKA: DAM SAFETY AND WATER RESOURCES PLANNING PROJECT**

**Key Dates:**
- Approved: March 27, 2008
- Effective: June 26, 2008
- Closing: June 30, 2015

**Financing in million US Dollars***:

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*As of September 16, 2013 (about US$2 million was lost due to SDR–US$ exchange rate fluctuations)*

**Background and Objectives:**

Dams are part of the essential hydraulic infrastructure to store water for Sri Lanka’s irrigation, hydropower, and domestic and industrial water supply needs as well as to provide flood control. At present, about 85 percent of the developed water resources are used for irrigation in the dry zone, which covers nearly two-thirds of the country. The dam network in Sri Lanka comprises over 270 medium and 80 large dams. Due to lack of maintenance over time there is an escalating public safety threat posed by the dams. Many large dams are ageing and have various structural deficiencies and shortcomings in operation and monitoring facilities, requiring urgent attention. In addition, the country is in need of a ‘Dam Safety Secretariat’ that would routinely monitor the performance and status of each dam.

This project aims to: (i) establish long-term sustainable arrangements for the operation and maintenance of large dams; and (ii) improve water resources planning. More specifically, the project will enhance public safety of 32 high-risk large dams through rehabilitation and modernization; improve the basic facilities (roads, lighting, etc.) of 80 dams (including the 32 high-risk dams), and establish sustainable institutional arrangements for dam safety management and operation and maintenance. The project provides for the implementation of Livelihood Assistance Plans to assist communities around four dams where the reservoir has to be emptied in order to carry out the works. The project also sets out to enhance the institutional capacity and physical and analytical infrastructure for monitoring hydro-meteorological data, detecting and forecasting water hazards, and water resources planning and management. Around 120 hydrometric stations will be established and upgraded, along with the establishment of a database at the Irrigation Department and establishment of a groundwater monitoring system. The project will help to strengthen the institutional capacity for integrated and multi-sector water resources planning and assist in the selection and prioritization of water resources development investments.

**Key Results Achieved and Expected***:

After a slow start the project has been performing well during the past two years. Except for one dam, all contracts have been awarded and so far works at eight dams have been completed. All works for basic facilities are either completed or in an advanced stage of completion. The contract for the development of 122 hydro-meteorological stations is also ongoing. Institutional development and reform of agencies to be better able to monitor and operate and maintain dams are ongoing. A National Water Use Plan and an updated Mahaweli Water Resources Development Plan are ready in final draft.

*As at August 31, 2013*

**Key Partners:**

Implementing Agencies include the Ministry of Irrigation and Water Resources Management, the Irrigation Department, Mahaweli Authority of Sri Lanka, and the Water Resources Board.
**SRI LANKA: COMMUNITY LIVELIHOODS IN CONFLICT AFFECTED AREAS PROJECT (RE-AWAKENING PROJECT)**

**Key Dates:**
Approved: June 22, 2004  
Effective: October 12, 2004  
Closing: June 30, 2014

**Financing in million US Dollars**:  

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*As of September 16, 2013

**Background and Objectives:**
The World Bank has been supporting the Government of Sri Lanka’s rehabilitation efforts in conflict-affected areas (North, East, and bordering districts) since 1998. The North-East Irrigated Agriculture Project, (US$27 million) approved in 1999 during the conflict, focused on helping conflict-affected communities to reestablish at least a subsistence level of production and basic community services. The Second Northeast Irrigated Agriculture Project (US$64.7 million) approved in 2004, added a focus on community development, which became increasingly important over the life of the project. This project was subsequently restructured in 2007 and renamed the Community Livelihoods in Conflict- Affected Areas Project, known locally as the Re-awakening Project. The escalation of violence had made it difficult to implement large-scale infrastructure through public-sector agencies in conflict-affected areas. Community demand for immediate livelihood support had also increased, requiring more flexible staffing arrangements with a greater emphasis on skills development and accountability at the community level for project management and facilitation.

The Re-awakening Project aims to help the conflict-affected communities and villages in Northern and Eastern provinces and adjoining areas by restoring their livelihoods, enhancing agricultural production and incomes, and building their capacity for sustainable social and economic reintegration. It includes four components, namely: (i) village rehabilitation and development, supporting the restoration of village assets and mobilization of community institutions in focal villages in twelve districts; (ii) essential rehabilitation of selected major irrigation schemes to ensure safety and improve water management capacity; (iii) farmer organization and support for agricultural services to develop capacity and improve marketing and competitiveness of agriculture; and (iv) capacity building and project implementation support for monitoring, oversight and project management.

Successive additional financing has been provided. The first emergency additional financing (US$12 million provided in 2009 and designed in tandem with the Emergency Northern Recovery Project) set out to help conflict-affected communities in the Northern Province to restore village assets and mobilize community institutions in some 135 Grama Niladhari Divisions. The second and third additional financing (processed together in 2011 for a combined US$38 million) was designed to help communities and villages in North, East and the adjoining areas affected by the devastating floods of 2010/2011 by restoring their livelihoods, enhancing agricultural production and incomes, and building their capacity for sustainable social and economic reintegration. They are focused on the rehabilitation of villages, irrigation schemes and rural infrastructure.

**Results**:  
- Since inception, the project has reached 1,039 war-affected villages, assisting 263,613 beneficiaries through 24,288 small groups, 1520 village development organizations, as well as 781 Women Rural Development Societies;  
- 101,845 families have either started new income generation activities or scaled up existing activities through low interest loans provided under the project’s village revolving fund;  
- 3,203 community infrastructure and social services subprojects have been completed and maintained by the communities to improve their quality of life. Another 1,093 subprojects are nearing completion. 2,003 km of rural
roads have been rehabilitated. Increased water supply through rehabilitated irrigation has increased farm areas by 31,150 ha, benefiting 40,646 households;

- 2,143 youth employed following skills development training provided through the community skill development fund. The project has assisted 31,449 ex-combatants to start their own livelihood activities.
- The project’s livelihood activities have assisted 68 percent of the village development organization members to obtain financing to improve their livelihoods;
- The project has initiated 108 cluster level commercial subprojects, of which 18 are in operation, bringing together village development organizations in an inter-enterprise linkage enabling them to address constraints along the value chain and increase their incomes. Ten private-public-community partnerships have been formed in the project area. Linkages to commercial banks have been established and are helping communities in more than 60 villages. 30 high quality products are now being sold at domestic and international markets.

* As at 31 September, 2013

**Key Partners:**

Ministry of Economic Development, Provincial Councils, various civil society organizations, and conflict/flood-affected communities.
**SRI LANKA: SECOND COMMUNITY DEVELOPMENT AND LIVELIHOOD IMPROVEMENT PROJECT**

**Key Dates:**
Approved: 10 Sept-2009  
Effective: 11 Dec, 2009  
Closing: 31 March, 2014

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*As of September 16, 2013

**Background and Objectives:**

This project supports government efforts to enhance incomes and the quality of life of poor households in the poorest parts of the country. The project also aims to build the capacity of government agencies, local governments, and community organizations for service delivery and overall project implementation. Phase I was completed successfully in March of 2009 March and phase II commenced in 2010. The project was restructured in June 2013 to enhance the achievement of the project’s development objectives.

The project focuses on the following areas: strengthening the institutional capacity of pro-poor institutions (village organizations), village fund development and livelihood related investments at the village level; promoting inter-village development to consolidate and sustain livelihood and infrastructure activities and investments generated at the village level. This involves strengthening the capacity of local governments (Pradeshiya Sabhas) to plan, deliver and maintain services in a cost-effective, participatory, and transparent way; and developing partnerships between rural communities and private and public sector agencies to increase access to new technology and marketing opportunities; and enhance skills for employment generation on farm and off-farm activities especially among unemployed youth.

The project also provides support for the overall coordination, planning, implementation, and monitoring of the project at the district, national, and provincial levels. Additionally, the project provides for building the capacity of local officials and public agencies to deliver government programs using the community-driven development approach and to develop policies and procedures for funding communities and local governments directly.

**Results***:

The project has promoted a total of 1,010 village organizations since 2010. These organizations have established 1,990 community microfinance institutions (called village savings and credit organizations or VSCOs), which have mobilized 230,882 members constituting 75 percent of the total membership of village organizations. The VSCOs are comprised of 38,707 small groups, managing combined savings of US$4.1 million and a Livelihood Support Fund of US$14.1 million. The VSCOs have disbursed project loans worth US$45.4 million to 326,138 members and the current VSCO account balance is US$48.4 million. Technical assistance is being provided for interconnectivity programs and producer groups while the village organizations are linked with technical departments of government agencies and the private sector. Progress on monitoring and evaluation and a management information system are evident through improved capture and reporting of project data. Of the 4,486 targeted infrastructure sub projects, a total of 2,435 are completed. The project has also completed 22 out of the scheduled 37 sub-projects of the extended pilot interconnectivity program in six Pradeshiya Sabhas. It has mobilized a total of 27,869 small and marginal producers into 407 producer groups, with about 272 of these groups having been financed to the tune of US$2.1 million for improved productivity. Successful partnerships have also been established with line ministries and the private sector providing technical support to the village organizations. Training is being provided for community development officers formerly employed under the government’s “Divineguma” poverty reduction program.

* As at August 31, 2013

**Key Partners:** Government of Sri Lanka, Ministry of Economic Development
**SRI LANKA: NORTH EAST LOCAL SERVICES IMPROVEMENT PROJECT**

**Key Dates:**
Approved: May 13, 2010
Effective: December 15, 2010
Closing: December 31, 2015

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</table>
*As of September 16, 2013
**As of June 30, 2013

**Background and Objectives:**
IDA has moved swiftly to support Sri Lanka’s government as it implements the three main pillars of its short- to medium-term development plans for the Eastern and Northern Provinces. The recovery and community livelihoods projects cover infrastructure essential to recovery as well as the restoration of livelihoods in selected areas. There are, however, significant needs with respect to improving local capacity to effectively maintain and create local public goods and services for all conflict-affected citizens. As a complementary piece of the overall package, the North East Local Services Improvement Project (NELSIP) addresses those needs, further helping to lay the foundation for long-term socioeconomic development of the two provinces. The project is designed to improve the delivery of local infrastructure services (such as rural roads, drinking water supply, drainage and waste disposal) by local authorities in the Northern and Eastern Provinces in an accountable and responsive manner.

More specifically, the project aims to: (i) improve the quantity and quality of public goods delivered and maintained by local authorities; (ii) ensure that local authorities undertake public expenditures and deliver local services in a transparent and accountable manner; (iii) strengthen service delivery systems and build the capacity of local authorities to deliver their mandated services, as well as strengthen the monitoring capacities of the provincial and national level institutions; (iv) establish a comprehensive monitoring system, evaluate technical and social audits and prepare citizen score cards and other needed analysis; and (v) support the key agencies at the central, provincial and local levels that are involved in the day to day management of the project to procure necessary consultant, equipment and operational support for the smooth implementation of the project.

**Results**:  
- 303 km rural and village roads and 16 km flood drainage canal systems completed and maintained;  
- Two rural water supply schemes completed and used;  
- 21 playgrounds, markets and nurseries completed and used;  
- 16 rural electrification schemes completed;  
- 70 percent capital grants released against allocations;  
- 87 percent increased satisfaction of local people regarding Local Authorities;  
- 75 percent of local authorities preparing annual financial statements within 3 months of closure;  
- 75 percent acceptable financial audits of accounts;  
- 45 percent of local authorities with budgets prepared in a participatory manner, and;  
- 79 percent of local authorities whose revenues, expenditures and procurement decisions are publically disclosed.

*As at September 16 2013

**Key Partners:**
Ministry of Economic Development, Ministry of Local Government and Provincial Councils, provincial councils, civil society organizations, private sector, and citizens. Australia’s AusAID has offered US$20.8 million in co-financing to roll out the project to adjoining areas and the Grant Agreement is expected to be finalized by September 30, 2013.
**SRI LANKA: EMERGENCY NORTHERN RECOVERY PROJECT**

**Key Dates:**
- Approved: December 17, 2009
- Effective: February 22, 2010
- Closing: December 31, 2013

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<tr>
<td>Total Project Cost</td>
<td>75.54</td>
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<td>*As of September 16, 2013</td>
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<td>**As of June 30, 2013</td>
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**Background and Objectives:**
The Emergency Northern Recovery Project was designed as an emergency operation in late 2009 to respond quickly to assist the government’s program for rapid resettlement of those displaced by the civil conflict in the North, which had intensified between 2008 and May 2009. The selection of project components and their sub-activities as well as allocation of project costs among the components were guided by the government’s own rapid needs assessment, resettlement action plan, demining action plan, as well as by the assistance planned and provided by other development partners.

The project aims to assist the government’s efforts to rapidly resettle internally displaced persons to their place of origin in the Northern Province of Sri Lanka and to restore their social and economic life. The project has four components, namely: (i) emergency assistance to the displaced people; (ii) cash for work; (iii) rehabilitation and reconstruction of essential public and economic infrastructure; and (iv) project management support. The project was restructured in January 2011, revising project component costs and extending its closing date by one year to December 31, 2013, as the cash for work component was subsequently fully co-financed by USAID.

**Results***:
- A total of 476,013 internally displaced people have returned to their places of origin in the Northern Province, far exceeding the project’s target of 100,000. This includes 140,000 people who lived in the government’s welfare camps in Vavuniya District at the time of project approval in December 2009.
- 6,965 ha farm lands have been cleared and 369 km defense bunds removed for people’s use.
- 9,603 households received seeds for first cultivation following their return. 72,010 coconut seedlings were distributed from a nursery rehabilitated under the project.
- 2,150,098 person days of labor were created benefitting 44,612 displaced families who received cash grants of LKR1.18 billion (approximately US$10 million).
- 95 irrigation schemes rehabilitated, irrigating 16,131 hectares and cultivation having commenced. Another 23 schemes that could irrigate 2,200 hectares are under rehabilitation.
- 1,313 km rural roads are completed and maintained. Work in another 162 km is ongoing.
- Four drinking water supply schemes have been commissioned benefitting 27,000 people and five schemes are nearing completion. Once all nine schemes are commissioned, about 51,000 people would benefit.
- 453 public buildings have been rehabilitated and are being used. This includes cooperative outlets, fertilizer/paddy stores, schools, hospital/clinics, agrarian services centers, and government office buildings.

* As at August 31 2013

**Key Partners:**
Australia’s AusAID, the United Nations High Commissioner for Refugees, the Ministry of Economic Development, the Northern Provincial Council, various civil society organizations, and internally displaced people who have returned home.
**Key Dates:**
Approved: December 15, 2005
Effective: March 16, 2006
Closing: September 30, 2014

**Financing in million US Dollars***:

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<th>Financier</th>
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<tr>
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<tr>
<td>Total Project Cost</td>
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*As of September 16, 2013

**Background and Objectives:**

The Government of Sri Lanka expects the economy to grow at an annual rate of 6-8 percent over the next 5 years, and infrastructure development will be paramount in supporting this growth target. In this context, a broad agenda has been set for the road sector, including connecting poor regions and production centers to domestic and international markets, building a national highway system and an integrated road network, enhancing road safety, and promoting private sector participation in the sector.

The Road Sector Assistance Project (an initial project of US$100 million, with additional financing of US$98 million and US$100 million approved in 2008 and 2011, respectively) aims to lower transportation costs through the sustainable delivery of an efficient national road system that serves the need of road users and the Sri Lankan public at large. The project was designed to assist the country in its endeavor to improve its road network whose maintenance had been neglected during years of civil conflict. The project was prepared to address the rehabilitation of priority national and rural roads and was instrumental in increasing the level of funding channeled to rehabilitation and maintenance of national roads, as institutionalized in a Road Maintenance Trust Fund. The project has also piloted a rural road strategy for the entire country with road inventories, prioritization criteria as well as a database created for approximately 95,000 km across 326 Pradeshiya Sabahs where awareness has been created at all levels of government and staff empowered through on-the-job training. The project was recently restructured to accommodate the replacement of a road section requested by government.

**Key Results Achieved and Expected***:
The project has been transformational in many respects, particularly in developing both private contracting capacity and in-house design and supervision capacity of the Road Development Authority as well as its culture in terms of environmental and social safeguards and road safety. At the network level, roads in poor and bad condition have reduced from 52 percent to 40 percent. The International Roughness Index has improved from 9.5 to 6.2. Likewise vehicle operating costs have improved, decreasing from Rs23/km to Rs14.21/km. A sustainable arrangement for road maintenance has been established and is being implemented. All legal covenants are being met. End of project targets are on track to be met.

*As at August 31 2013

**Key Development Partners:**
The Road Development Authority (implementing agency), the Asian Development Bank, and Japan International Cooperation Agency
SRI LANKA: PROVINCIAL ROADS PROJECT

**Key Dates:**
Approved: December 17, 2009
Effective: April 02, 2010
Closing: March 31, 2015

**Financing in million US Dollars*:**

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<td>105</td>
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*As of September 16, 2013

**Background and Objectives:**
A critical thrust of the Government of Sri Lanka’s development agenda, as outlined in its *Mahinda Chintana* development plan, is to accelerate growth through increased investment in infrastructure. It also strives to achieve more equitable development through accelerated rural development. In support of this framework, a joint road sector program has been formulated by the government with the aim of rehabilitating the national, provincial and rural roads for the entire country. With regards to the provincial roads sector, development partners have been invited to work with the government in selected provinces based on the preparatory work undertaken by the Asian Development Bank (ADB) Project Preparation Facility. In this context, the Bank is currently working in Uva Province, and the Northern and Eastern Provinces.

The project aims to improve access to socioeconomic centers in the Eastern, Northern, and Uva Provinces, through the sustainable management of improved road infrastructure. The project consists of three components which will support:
1. The improvement of about 240 km of provincial roads and other road infrastructure in the Uva Province, Ampara District of the Eastern Province, and Jaffna District of the Northern Province;
2. The development of a provincial road maintenance program and support to provinces’ maintenance programs consisting of routine, preventive, and emergency maintenance works; and
3. Improved performance of the Provincial Road Development Departments and the private sector in service delivery.

Key issues and challenges include: insufficient annual budget provision; lack of adequate design and preparation of Bills of Quantities for bidding, impacting on implementation in terms of costs and time delays; and lack of planning and budgeting for road maintenance. Project restructuring is currently underway to take account of new physical targets.

**Key Results Achieved and Expected**: 
While aggregated results will be gathered across the provinces at the end of the project, progress is evident for contracted work which has been completed, in terms of: reduced average passenger travel time on project roads; an increased share of roads in good condition; and an increase in the level of satisfaction from communities and road users along the project corridors. A Road User Satisfaction Survey carried out for Uva noted the following:
- (i) Farmers are receiving more for their produce with efficiency gains in getting them to market;
- (ii) A reduction in perishable goods;
- (iii) School children are no longer having to walk long distances to schools;
- (iv) Residents of Uva Province are welcoming improvements (reconstruction and widening for safety) to a road that had either not been accessible by vehicles or was dangerous given its rolling terrain and steep slopes;
- (v) Overall satisfaction levels of road users have increased in terms of the impact on day-to-day living.

Progress continues on both the road maintenance component and the training program.

* As at August 31, 2013

**Key Development Partners:**
Ministry of Local Government and Provincial Councils.
The project is only in its first year of implementation, but the following results are anticipated: (i) reduction in the area under risk of flooding (50-year return period) in the project area, and (ii) the percentage of total urban roads maintained by the project local authorities that are in good and fair condition to increase by 20 percent (indicating improved capacity of local authorities in operation and maintenance of critical municipal infrastructure). A number of intangible results have been achieved, however, over the course of implementation to date, including improved coordination between central agencies and local authorities and among local authorities within the Metropolitan area, and institutionalization of metropolitan level coordination agencies, such as the Metropolitan Wetland Management Unit and the Colombo Metropolitan Unit of the Urban Development Authority.

* As at August 31, 2013

Key Partners: Ministry of Defence and Urban Development; Sri Lanka Land Reclamation and Development Corporation; Urban Development Authority; Colombo Municipal Council; Dehiwela Mount Lavinia Municipal Council; Kotte Sri Jayawardenapura Municipal Council; and the Kolonnawa Urban Council.