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**INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY**

**COUNTRY PARTNERSHIP FRAMEWORK FY2026 - FY2030
FOR
THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA**

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March 2, 2026

**Sri Lanka Country Management Unit
South Asia Region**

**The International Finance Corporation
South Asia Region**

The Multilateral Investment Guarantee Agency

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The date of the [last Country Partnership Framework](#) was June 28, 2023.

FISCAL YEAR

April 1 – March 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of February 19, 2026)

Currency Unit = Sri Lankan Rupee (LKR)

US\$ 1 = LKR 309.52

ABBREVIATIONS AND ACRONYMS

| | | | |
|------|---|------|--|
| CCDR | Country Climate and Development Report | IT | Information Technology |
| CPF | Country Partnership Framework | MIGA | Multilateral Investment Guarantee Agency |
| DPO | Development Policy Operation | MSME | Micro, Small, and Medium Enterprises |
| FY | Fiscal Year | PCM | Private Capital Mobilization |
| GDP | Gross Domestic Product | PPP | Purchasing Power Parity |
| GW | Gigawatt | SDFP | Sustainable Development Finance Policy |
| IBRD | International Bank for Reconstruction and Development | SME | Small and Medium Enterprises |
| IDA | International Development Association | SOE | State-owned Enterprise |
| IFC | International Finance Corporation | US\$ | United States Dollar |
| | | WBG | World Bank Group |

| | World Bank | IFC | MIGA |
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FY2026-30 COUNTRY PARTNERSHIP FRAMEWORK FOR THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

- 1. This World Bank Group (WBG) Country Partnership Framework (CPF) supports Sri Lanka’s continued economic recovery and job creation through private sector-led growth.** It outlines support for the government’s development agenda, as articulated in national budgets, including an ambitious 7 percent growth target driven by sustained reform momentum, a commitment to pro-poor policies and developing lagging regions, and recovery and reconstruction from the recent cyclone. Leveraging a One WBG approach and centered on private capital mobilization (PCM), the CPF prioritizes engagements to advance critical structural reforms, strengthen ports and energy infrastructure, and accelerate agribusiness and tourism – sectors with strong potential for job creation.
- 2. Three years after an economic and political crisis culminated in a sovereign debt default, Sri Lanka has restored stability, supported by key policy reforms and public debt restructuring, yet macro vulnerabilities remain.** Medium- to long-term growth prospects have improved, supported by macro-economic reforms, adherence to the International Monetary Fund’s Extended Fund Facility program, and an improved sovereign rating that is expanding space for private investment. Nonetheless, continued efforts to rebuild fiscal and external buffers remain essential. Poverty is expected to fall to 22.3 percent in 2025 (US\$4.20 PPP), after more than doubling from 11.5 percent in 2019 to 27.5 percent in 2023, and is projected to remain near 20 percent over the medium term. Food insecurity remains high (33 percent nationally) and the labor market has yet to fully recover, with many jobs lost during the crisis not restored.
- 3. The crisis exposed deep-seated structural constraints that continue to weigh on Sri Lanka’s recovery and jobs agenda.** High tariff barriers, weak trade facilitation, and regulatory unpredictability have dampened export diversification and competitiveness. A weak business environment favoring state-owned enterprises (SOEs), outdated insolvency rules, rigid labor regulations, and limited access to bank finance have constrained private investment and productivity. Weaknesses in fiscal management and revenue generation have kept the debt landscape challenging. Infrastructure gaps in energy, transport, and logistics, compounded by governance weaknesses, raise costs for firms and households. The crisis also revealed, and in many cases deepened, patterns of exclusion, reflected in the high prevalence of informal or self-employment, low female labor force participation, and slow progress in expanding economic opportunities for vulnerable groups and lagging regions.
- 4. Cyclone Ditwah, which struck in November 2025, highlighted Sri Lanka’s longstanding vulnerability to natural disasters and the urgency of strengthening resilience.** Causing widespread landslides and flooding, the cyclone was one of the worst disasters in two decades. Around 2.2 million people have been affected, with extensive damage to homes, infrastructure, and livelihoods. The WBG’s Global Rapid Post-Disaster Damage Estimation assessed direct physical damages at US\$4.1 billion or around 4 percent of the country’s 2024 gross domestic product (GDP). With incomes disrupted and costs rising, poverty and vulnerability are likely to worsen, underscoring the need for stronger crisis preparedness. While key economic sectors have shown resilience, limiting the immediate impact on growth, longer-term effects could be more significant.
- 5. As Sri Lanka continues its economic recovery and addresses the impacts of the recent cyclone, it must prioritize private sector-led growth that creates quality jobs.** Close to a million people will enter the workforce over the next decade, yet only 300,000 new formal jobs will be created at current growth rates. Accelerating growth beyond the projected 4.5 to 5 percent in 2025 is crucial to maintaining macroeconomic stability (including lowering debt below 95 percent of GDP by 2032), navigating global uncertainties, and creating sufficient jobs. This requires fiscal discipline, a boost in private investment given the government’s limited fiscal space, and structural reforms to raise productivity. Sectors such as tourism, agribusiness, niche manufacturing, and information and communication technology particularly offer potential to boost exports and attract foreign direct investment. Given Sri Lanka’s exposure to natural disasters and other shocks, building resilience is essential to protect its narrow recovery path.

A Program to Support Economic Recovery and Job-creation through Private Sector-led Growth

6. **The CPF’s overarching goal is to support job creation through private sector-led growth underpinned by private capital-enabling interventions and PCM.** It therefore focuses on four mutually reinforcing outcomes: (i) *enhanced business environment for investments and exports*, (ii) *improved foundational infrastructure*, (iii) *strengthened value chains in tourism and agribusiness, with emphasis on lagging regions*, and (iv) *enhanced resilience to shocks* (*see figure 2*). Fragility, inclusion, and governance considerations are also integrated across WBG engagements.

7. **With selectivity at its core, the CPF identifies priority areas aligned with government objectives and Sri Lanka’s development challenges.** Demand for WBG support was confirmed through dialogue with the President and the government, stakeholder consultations, the national budgets, and the Public Investment Plan 2025-30. Standard CPF filters, the WBG corporate jobs framework, One WBG opportunities, and partnerships further guide selectivity. Accordingly, the CPF prioritizes structural reforms alongside targeted support for ports and logistics, energy, high-value tourism, and agribusiness – sectors with strong potential to attract private investment and generate jobs at scale.¹ New engagements in education, health, and road transport, and stand-alone interventions in irrigation, urban development, and environment are not planned during the CPF period. Governance efforts will focus on digital government, SOE reform, and sector-specific support in priority areas such as energy, ports and customs, complementing partner-led reform efforts.

Outcome 1. Enhanced business environment for investments and exports

8. **Reigniting growth and boosting investment and exports requires significant policy reform to address longstanding structural constraints.** Even before the crisis, an inward-oriented economy increasingly hampered growth and productivity. Exports fell from 39 percent of GDP in 2000 to 20 percent in 2024, and foreign direct investment averaged 1 percent of GDP over the last decade. To reverse these trends, the government set an ambitious target to double its annual export revenue to US\$36 billion by 2030. Priority reforms will target improvements in the investment climate, trade openness to boost exports (including via diversifying products and destinations and deeper free trade agreements), reducing the state’s economic footprint, and addressing distortions and rigidities in labor, land, and capital markets. Maintaining macro-financial stability and mobilizing revenue remain prerequisites for sustainable growth and building buffers needed to withstand future shocks.

9. **The WBG will continue supporting the design and implementation of these critical reforms.** Engagement will be scaled up to (i) address constraints to domestic and foreign PCM, including measures to deepen capital markets, (ii) strengthen the investment climate through business environment improvements, simplified tax and investment policies, and SOE reform, and (iii) improve trade facilitation and integration by reducing tariff and non-tariff barriers and reforming customs. Subject to government interest, medium-term support may extend to structural reforms to improve access to critical inputs, notably land and labor. This will build on the past Development Policy Operation (DPO) series and diagnostics such as the Country Growth and Jobs Report. Analytics and technical assistance will focus on drivers of private sector productivity, innovation, and growth. Efforts to support financial sector stability and fiscal management will continue, including as part of the Sustainable Development Finance Policy (SDFP).² Budget support operations and accompanying technical assistance will also help advance private capital-enabling reforms in the CPF’s four priority sectors.

10. **The WBG will focus on cross-cutting digital public infrastructure and transparency to improve governance, enable private sector innovation, and support digitalization across sectors.** The government has identified digital government transformation as a top priority under its Digital Economy Strategy 5.0. The focus is on delivering visible improvements for citizens and businesses, consolidating fragmented digitalization initiatives,

¹ Trade and logistics (16 percent), agribusiness (13 percent), and tourism (7.5 percent) accounted for a significant share of total employment in 2023, with direct tourism sector employment growing by nearly 25 percent from 2013 to 2023.

² SDFP Performance and Policy Actions will focus on fiscal sustainability (tax admin and base broadening), debt management, and debt transparency gaps.

and catalyzing private innovation by reducing transaction costs and compliance burdens. WBG efforts will concentrate on secure data management, strengthening core digital platforms and e-government, and fostering digital skills (*see Outcome 2*). These systems and standards will enable digital solutions across agriculture, tourism, and other sectors. The WBG will also seek to engage the private sector to support large-scale government cloud adoption. Ongoing support for e-procurement and audit will continue, and future support will help improve public access to information.

Outcome 2. Improved foundational infrastructure

11. **Foundational infrastructure, both physical and human, is essential for job creation and private sector growth, and Sri Lanka’s transport and energy sectors offer significant opportunities.** Sri Lanka’s strategic location as a regional maritime hub and its abundant renewable energy resources are major assets. However, the Port of Colombo’s competitiveness is declining, reflected in its drop in the Container Port Performance Index. The country’s electricity tariffs are among South Asia’s highest, with households paying 2.5 to 3 times more than the regional average. Unlocking the economy’s full potential requires modernizing ports, logistics, and energy infrastructure, alongside reforms to improve governance and enable PCM. These investments must also build resilience to extreme weather events.

12. **The WBG will support modernization in ports, logistics, and energy.** A new port and logistics program will increase private sector participation in expanding the Port of Colombo’s capacity, improving its efficiency, developing value-added logistics facilities, and building skills for modern port management, in collaboration with the Asian Development Bank and other partners. In energy, a WBG phased program aims to help Sri Lanka reach 70 percent renewable generation by 2030 through the addition of 1 GW of private sector-led capacity. The first phase will establish a WBG de-risking platform to attract private investment, provide debt and equity financing, expand grid capacity, and strengthen the Ceylon Electricity Board.

13. **Realizing the job creation potential of these infrastructure investments and strengthened value chains (*see Outcome 3*) requires complementary investments in skills.** Sri Lanka faces challenges in aligning skills with job market needs, exacerbated by low tertiary education enrollment and the migration of skilled professionals during the economic crisis. The information technology (IT) sector alone faces an annual shortfall of 10,000 workers, with especially wide digital literacy gaps among women and rural populations. With female labor force participation at just 32 percent (half that of men), achieving Sri Lanka’s growth ambitions will require addressing the disproportionate barriers women and youth face to skills development, finance, and employment.

14. **The WBG is developing a programmatic engagement to strengthen skills development and expand employment and entrepreneurship opportunities for women and youth.** This will complement ongoing support to improve learning quality in primary and secondary education, while shifting emphasis toward job-relevant training and pathways into employment through micro, small, and medium enterprises (MSMEs). Drawing on assessments of skills needs in priority growth sectors, the WBG will address key constraints in tertiary education and technical and vocational education and training systems and strengthen training and business development services, aligned with private sector needs. Targeted support to women and youth-led MSMEs will help expand access to finance, markets, and enabling services such as childcare, alongside reforms to remove barriers to women’s workforce participation. Operations in tourism, agriculture, lagging regions, and digital will integrate skills and entrepreneurship components, complemented by direct financial support to MSMEs (*see Outcome 3*).

Outcome 3. Strengthened value chains in tourism and agribusiness, with emphasis on lagging regions

15. **Labor-intensive sectors such as tourism, agribusiness, and niche manufacturing are key to boosting export-led growth.** Despite its resilience, the tourism sector faces challenges, including an overemphasis on tourist volume rather than building higher-value offerings. These are exacerbated by weak public-private coordination, outdated data systems, insufficient evidence-based policymaking, poorly targeted marketing, skills gaps, and limited innovation. Agribusiness and export-oriented manufacturing can enhance rural employment but require reforms (e.g., land), investments in processing, logistics, and cold chains, and market-oriented product

diversification. The care and IT sectors also offer significant potential, with opportunities to formalize elderly and childcare services and expand quality employment, especially for women.

16. **Programmatic WBG engagements will help strengthen tourism and agribusiness.**³ In tourism, a new phased program will support the government's forthcoming Tourism Strategic Plan 2026-30, which aims to create jobs, enhance value, and preserve cultural and natural heritage. The program will focus on higher-value products and skills in arts, culture, heritage, and nature-based tourism, with emphasis on women and youth. Public-private partnerships will be encouraged to increase private investment, and the country's four tourism institutions will be modernized to be data-driven and market-oriented. In agribusiness, engagement will support farmers and firms in accessing new technologies, markets, and private capital. This will be supported in part through an improved National Quality Infrastructure and the Productive Partnerships approach. Complemented by advisory and policy work, this anchors Sri Lanka's role as a first mover in the WBG AgriConnect Initiative. Both tourism and agribusiness engagements will include WBG investments, technical assistance for hospitality and agribusiness firms, and potential guarantees, alongside capacity building for Small and Medium Enterprises (SMEs) to strengthen their export-orientation.

17. **The Northern and Eastern Provinces hold significant untapped potential for job creation in farming, aquaculture, tourism, and processing industries.** Yet they contribute only 4 and 5 percent of national GDP, respectively, and face higher poverty rates. The legacy of civil war has left infrastructure and skills gaps and institutional challenges that deter private investment. Key issues include low agricultural productivity, poor connectivity, inadequate water and sanitation, limited facilities for tourism and agro-processing, complex land tenure and use restrictions, and weak local government capacity. The government has identified addressing longstanding challenges in the North and East as a development priority.

18. **The WBG will support a long-term, government-led territorial development program to address historic imbalances and promote inclusive growth.** A phased approach will lay the foundations for private investment, stronger value chains, and job creation by targeting high-potential economic clusters with climate-resilient infrastructure and entrepreneurship support, alongside strengthening local institutions. WBG technical assistance will focus on strengthening regional connectivity, especially air links. A second phase will aim to expand private sector growth in priority value chains – agro-processing, fisheries and aquaculture, and tourism – through targeted investments and advisory support, notably to connect smallholder farmers to markets. Private capital will be enabled and mobilized through funding and advisory support for SMEs and risk mitigation via guarantees. All engagements will be conflict-sensitive and tailored to local contexts to address fragility and build resilience.

Outcome 4. Enhanced resilience to shocks

19. **Building resilience to future shocks is central to Sri Lanka's continued recovery and growth ambitions.** Consecutive shocks have doubled poverty in recent years, increasing vulnerability, especially for women and marginalized groups. Structural exclusion and the lingering impacts of the civil war compound this vulnerability. Moreover, the severe impact of Cyclone Ditwah underscores Sri Lanka's rising exposure to climate-induced hazards, which is reducing productivity, livelihoods, and food security.⁴ Strengthening long-term resilience will require a shift from reactive disaster response toward risk reduction and stronger emergency preparedness, supported by adaptive social protection and robust health systems.

20. **The WBG will support the government's *Rebuilding Sri Lanka* initiative and a shift from post-shock disaster response to proactive risk reduction and strengthened preparedness.** It will prioritize (i) targeted resilient infrastructure reconstruction, (ii) strengthening institutional capacity for preparedness and early action, and (iii) enhanced disaster risk financing to support the implementation of Sri Lanka's National Climate Finance

³ At this stage, WBG lending does not prioritize the care and IT sectors. However, initial support under the digital project and analytical and advisory work on the care economy will provide a base for policy dialogue and possible future engagement.

⁴ By 2050, climate impacts are expected to reduce GDP by 3.3 to 3.5 percent, with rural communities disproportionately affected (CCDR, 2025).

Strategy and expand capital market instruments for sustainable finance. In the short term, support will likely include advice on agriculture risk-transfer solutions (e.g., parametric insurance) and on-budget risk retention through a Catastrophe Deferred Drawdown Option. Climate and disaster risk analysis and standards will also be integrated across infrastructure and productive sector investments (see *Outcomes 2 and 3*).

21. **The WBG will continue to strengthen social protection and primary health services to enhance household resilience.** This includes helping strengthen Aswesuma, Sri Lanka’s cash transfer program, to rapidly scale shock-responsive assistance, improve targeting, and ensure delivery through digital, accountable systems. Support will also expand economic inclusion pathways for the poorest households (through skills training, financial literacy, and livelihood diversification) to reduce vulnerability. Ongoing engagement in primary healthcare will help deliver cost-effective interventions such as health promotion, management of non-communicable diseases, and elderly care. Upon completion, operational support to primary healthcare will be phased out, and the WBG will explore future interventions in the care economy, especially job creation in elderly care⁵ (see *Outcome 3*).

Delivering Results: A Joint WBG Strategy (see *CPF supporting documents for details*)

22. **Activities in the CPF will be financed through a combination of IDA and IBRD enclave resources⁶, IFC financing, and WBG guarantees, with efforts to mobilize private investment across all future programs.** This includes an indicative IDA21 country allocation of about US\$800 million for FY26-28. IFC expects to invest over US\$1 billion in long-term finance over the CPF period, contingent upon reforms that create markets and expand private sector participation. The WBG also aims to access the IDA Global and Regional Opportunities Window, Crisis Response Window, Scale Up Window, and Private Sector Window, as well as blended finance facilities like the Green Climate Fund. The port and logistics sector offers an opportunity for IBRD enclave financing.

23. **A stronger One WBG approach through harmonized interventions and sustained partnerships will help deliver the CPF’s agenda, amplifying impact.** Since adopting a Joint Country Representation, One WBG collaboration has deepened by integrating expertise, finance, and guarantees, and new CPF engagements will build on this. All priority areas will be supported by joint or complementary interventions by WBG institutions (see *figure 1*). World Bank and IFC teams will coordinate advisory services and analytics to enable private capital mobilization. Partnerships with development partners and others will remain central to maximizing impact through co-financing and harmonized or joint reform dialogue and technical assistance.

| Figure 1. Forms of One WBG Collaboration in Programmatic Engagements | | |
|--|--|---|
| <p>Upstream policy reform/advisory support to facilitate private investment</p> <hr/> <p>World Bank support for upstream policy reform to open markets and/or strengthen viability of private investment, with IFC downstream financing.</p> <ul style="list-style-type: none"> • Financial Sector Stability Project • DPO series on Growth and Jobs (<i>new</i>) | <p>Joint financing under a single project/program</p> <hr/> <p>WBG Guarantee Platform instruments to de-risk private investment, with IFC transaction advisory support and WB and IFC financing to facilitate PCM.</p> <ul style="list-style-type: none"> • Energy Transition Program • Port and Logistics Program (<i>new</i>) | <p>Complementary interventions with shared objectives</p> <hr/> <p>Shared objective and strategy, with joint teams and complementary interventions.</p> <ul style="list-style-type: none"> • Integrated Rural Development and Climate Resilience Project • North and East development (<i>new</i>) • Tourism development Program (<i>new</i>) |

24. **To maximize development impact, the CPF reinforces a shift toward programmatic engagements.** These will: (i) address interconnected challenges through multisectoral interventions, (ii) operate at the scale and depth needed for sustainable impact (e.g., through series of projects), (iii) strengthen implementation capacity while transforming institutions, and (iv) deploy coordinated WBG instruments. This approach moves beyond stand-alone project interventions to support broader development priorities, as reflected in recently approved and forthcoming operations.

⁵ This is particularly relevant given Sri Lanka’s status as the fastest-aging country in South Asia with 17.5 percent of its population above 60.
⁶ Actual IBRD enclave lending will depend on the financial structure of the relevant projects in relation to the criteria for enclave IBRD lending, alongside country and program performance, demand from other borrowers, and factors that affect IBRD’s financial capacity, including global economic developments.

Figure 2. CPF Intervention Logic

