Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Jun-2025 | Report No: PIDDC01349

BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Sri Lanka	P508317	Sri Lanka Digital Transformation	
Region SOUTH ASIA	Estimated Appraisal Date 06-Oct-2025	Estimated Approval Date 18-Dec-2025	Practice Area (Lead) Digital Development
Financing Instrument Investment Project Financing (IPF)	Borrower(s) Democratic Socialist Republic of Sri Lanka	Implementing Agency Ministry of Digital Economy	

Proposed Development Objective(s)

To strengthen the foundations for a robust digital economy and promote efficient and inclusive digital service delivery to people and businesses.

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Operation Cost	**50.00**
Total Financing	**50.00**
of which IBRD/IDA	**50.00**
Financing Gap	**0.00**

DETAILS

World Bank Group Financing

International Development Association (IDA)	50.00
IDA Credit	50.00

Environmental and Social Risk Classification	Concept Review Decision
Low	The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Driven by significant structural and policy reforms, Sri Lanka has restored macroeconomic stability and embarked on a positive growth trajectory following the severe and unprecedented economic crisis in 2022–23.** These reforms include cost-reflective utility pricing, new revenue measures, a return to prudent monetary policy, and domestic debt restructuring. Progress continues in other key reforms related to the financial sector, trade, investment, state-owned enterprises (SOEs), governance, and efforts to combat corruption. The economy grew by 5 percent in 2024, driven by a construction-led rebound in industry and strong performance in tourism-related services. However, private consumption remained weak due to continued fiscal consolidation, which strained household budgets. Fiscal balances strengthened as revenues increased, primary expenditures remained low, and the interest bill declined. Inflation remained in low single digits for most of 2024, and has been negative since September 2024, reaching -2 percent, year-on-year, in April 2025.

2. **Although the growth outlook for 2025 has improved, the crisis and structural impediments to growth are likely to have lingering scarring effects on the country's economy and its 22 million-strong population.** The current account is expected to revert to a modest deficit in 2025, as imports are expected to further outpace exports. Despite ongoing fiscal consolidation, financing pressures will persist. Sri Lanka's strong human capital outcomes remain at risk of being eroded as the COVID-19 pandemic and the economic crisis have put a severe strain on health, education, and social protection systems. Poverty (measured using a poverty line of US$3.65 per person per day, based on 2017 purchasing power parity) is expected to decline gradually in 2024–25, but remain above 20 percent until 2026. Inequality is anticipated to stay high, and additional regressive indirect taxes could worsen the poverty outlook. Sri Lanka also faces significant risks from natural disasters and climate change, which directly affect its poorest and most vulnerable populations. These dynamics underscore the continued need for structural transformation - including the expansion of digital public infrastructure and services - as a vehicle for inclusive and resilient growth and job creation.

Sectoral and Institutional Context

3. **The Government of Sri Lanka (GoSL) is looking to digitalization as a key enabler of growth and jobs, and for enhanced efficiency and transparency in government**. As Sri Lanka emerges from the economic crisis, investments in digital skills and innovation ecosystems can create new pathways to generate jobs and enhance revenues, while the digitalization of public services and the deployment of shared, government-wide digital platforms can make service delivery more efficient and more user-centric across sectors. To achieve this, the GoSL will need to make

concerted efforts to strengthen institutions, enhance policy and regulatory frameworks, put in place new digital systems, and build digital literacy and skills across stakeholders, including among the general public, the private sector, and government officials.

4. **Although Internet coverage is close to universal, digital adoption lags behind.** Sri Lanka is well covered by mobile broadband, with network coverage for 3G and 4G at 95 percent and 96 percent respectively. While gaps in Internet quality - particularly in terms of speed and reliability - remain, the country's wide mobile coverage provides a good foundation for scaling up digitalization efforts and boosting the digital economy. Nevertheless, only 51 percent of individuals actively use the internet, and only 55 percent of individuals have made or received a digital payment. Digital literacy remains a barrier to uptake, with women, the elderly, and persons with disabilities facing compounded challenges in access and usage, including due to limited content being offered in local languages, and limited access to and ability to use connected devices. As of 2023, about 64 percent of the population was categorized as digitally literate, and only 40 percent as computer literate.[1] Women are both less likely to use the Internet or to be digitally literate than men, with a 7-percentage point gender gap in Internet use and a 5-percentage point gender gap in digital literacy. Boosting digital literacy and digital adoption will thus be critical to fostering an inclusive future, particularly in enabling equitable access to public services. At the firm level, lack of digital adoption is also evident – only 18.6 percent of firms in Sri Lanka report having a website, the lowest in the region.

5. **Digitalization of the public sector remains in early stages and is highly fragmented.** While digital databases exist across certain sectors such as taxation, social protection, transportation, and education, substantial challenges persist in system integration, functionality, and cross-platform interoperability. Manual and analog workflows remain prevalent in many citizen-facing transactions and most government systems operate in siloes, with limited ability to exchange data and lack of common standards for data exchange. Core digital public infrastructure (DPI) platforms – such as digital identification, data sharing, and digital payments – are yet to be fully operationalized. For instance, of approximately 17 million records in the ID database, only 7 million are available in digital format, and digital identity verification services are limited. Cross-governmental data-sharing infrastructure and policies are weak, which has affected the utility, accuracy, and quality of data within and across government systems. These gaps have led to inefficiency, delays, and inconsistency in service delivery and also hamper effective decision-making and policy implementation. Although e-services exist in certain sectors, including for tax registration and filing, vehicle registration, and business registration, they are dispersed across different websites and can be difficult to navigate for users, resulting in limited use. For instance, although the online e-Revenue License for vehicle owners to obtain and renew vehicle licenses has been operational since 2009, in February 2023, only 3 percent availed themselves of the online service.[2]

6. **Sri Lanka's IT services industry has served as a robust pillar for the economy, however sustained growth and job creation will require additional investment, skill development, and enhanced access to markets globally.** Sri Lanka's domestic IT services industry is showing signs of steady growth, with 17 percent of annual growth reported in the sector, driven by its reputation for software development and outsourcing. The sector comprises more than 500 companies, contributes approximately USD 1.3 billion in annual revenue, and employs more than 140,000 people. Recognizing the IT sector's potential, the Government of Sri Lanka aims to grow IT services exports to $5 billion and increase the digital workforce to 200,000 by 2030. The shortage of skilled professionals is a key constraint to achieving this growth, as the traditional education sector struggles to keep up with the rapidly evolving knowledge base and

[1] Digitally literate: a person who can use a computer, laptop, tablet or smartphone on his/her own; computer literate: a person who can use a computer on his/her own. Source: https://www.statistics.gov.lk/ComputerLiteracy/StaticalInformation/Bulletins/2023-FirstSixMonths
[2] ICTA. (2023a). Evaluation results of Digital Government Services. Monitoring and Evaluation Team, ICTA. Unpublished information.

skillset demanded by the tech industry and the potential disruption and opportunities created by Artificial Intelligence (AI). The industry now faces a projected annual shortage of 10,000 skilled workers; and women account for only 34% of the ICT workforce. There is also an emerging tech startup ecosystem, with 950 startups registered between 2016 and 2024, but few manage to raise external funds or access international markets. In addition, women's share among Sri Lankan "technopreneurs" – entrepreneurs who use technology to change traditional ways – is very low, estimated at only 2 percent.

7. **The Ministry of Digital Economy (MoDE) is the current lead government institution on digitalization, however, significant institutional reforms are planned in the near future.** MoDE currently oversees the development and implementation of digital policies, strategies, and programs across government but has struggled to ensure adoption and compliance across Ministries and departments. Core regulatory and specialized digital agencies, such as the Data Protection Authority (DPA), the Sri Lanka Computer Emergency Readiness Team (CERT,) the Information and Communication Technology Agency (ICTA) and the Telecom Regulatory Commission of Sri Lanka, operate under the purview of MoDE. The GoSL is looking to create two new digital institutions, the Digital Economy Authority (DEA) and the GovTech Agency. The DEA will be expected to drive nationwide digital transformation policies and ensure coordination and compliance across Ministries and departments. The GovTech Agency is expected to be established as a fully government-owned company, under the purview of the Ministry of Digital Economy, with a mandate for procuring, deploying, and managing shared digital platforms and systems and for advising sectoral Ministries and departments on their digitalization efforts. In parallel, ICTA will be dissolved. These institutional reforms will be critical to reduce fragmentation in digitalization initiatives and the proliferation of non-interoperable, vendor locked-in digital systems, and to achieve greater efficiency through the use of shared, horizontal digital platforms.

8. **The GoSL, led by MoDE, has made digital transformation in government and growing the digital economy one of its top policy priorities.** The strategic focus areas for the Government's Digital Economy Strategy 5.0 include: i) developing digital industry, by enhancing opportunities for both established IT firms and new digital startups; ii) enabling transparent and efficient government, through the digitalization of government services and the establishment of new digital institutions; iii) expanding the digital economy through promoting universal digital payment adoption, coupled with digital literacy and skilling programs; and iv) boosting the development of strategic industries through digitalization. The program aims to grow the digital economy to USD 15 billion annually, while ensuring that digital growth is inclusive and sustainable. The implementation of the strategy can build on robust legal and regulatory foundations in areas such as data protection, where Sri Lanka has made good progress in recent years**.** In 2022, it became the first South Asian country to enact independent legislation for personal data protection with the Personal Data Protection Act, drawing on international best practices from Asia, Europe, and the United States.

Relationship to CPF

9. **The proposed project aligns closely with the World Bank Group's Country Partnership Framework (CPF) for Sri Lanka for FY24–27** (Report No. 182326-LK) **and its overarching goal of building a stronger foundation for green, resilient, and inclusive development.** By investing in foundational digital public infrastructure - such as an online citizen service portal, a national data exchange, and improved digital identification and credential issuance solutions - the project will contribute to improvements in the access, quality, efficiency, and resilience of service delivery across the health, education, and social protection (Objective 4). In addition, project financing for upskilling and reskilling programs and to support the development of the ICT industry and a robust digital entrepreneurship ecosystem will contribute to "High-Level Outcome 1 Economic Stabilization and Private Sector Job Creation" and to improving economic opportunities and inclusion (Objective 2).

10. **The proposed project is aligned with Sri Lanka's climate strategies, including the Nationally Determined Contributions (NDCs), National Adaptation Plan (NAP), and Long-Term Strategy (LTS).** Sri Lanka's NDC sets out a 14.5 percent reduction in greenhouse gas emissions for the period 2021-2030 and a goal to achieve carbon neutrality by 2050, supported through key adaptation and mitigation actions across priority sectors, including agriculture, energy, transport, and tourism. Project investments in core digital public infrastructure will enable the digitalization of service delivery and improve data sharing within and across Ministries, which will contribute to improved access to climate-relevant data, data-driven decision making for climate adaptation and mitigation, and more climate-resilient service provision. With the new digital platforms in place, the government will be better placed to respond to natural disasters and climate events by being able to continue to provide services remotely and by being able to more easily identify, notify, and provide electronic payments to affected communities, even as physical access to government offices may be affected. In addition, the digital upskilling and IT sector development activities supported by the project will contribute to sustainable economic transformation and the creation of climate-resilient and green jobs, in line with the goals outlined in the LTS.

C. Proposed Development Objective(s)

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Key Results (From PCN)

- People using digitally enabled government services (Number)
    - Of which women
- Government Ministries/departments using the shared digital platforms (Number)
- Beneficiaries of job-focused interventions (Number)
    - Of which women
    - Of which youth (<age 25)
- New government institutions to drive digital transformation established and operational (Yes/No)

D. Concept Description

11. **Enhanced digitalization across the economy and the public sector is critical for governance, inclusion, and job creation**. To enable whole-of-nation digital transformation, the project will support the digitalization of public service delivery, enable accelerated IT industry development, and strengthen the institutional and policy frameworks for a robust digital economy and digital government. The project is designed around three components.

12. **Component 1: Digital Government and Services.** The objective of this component is to digitalize public service delivery, making it more accessible and efficient. It will support the development of an online government service delivery portal that brings together services from across sectors, setting up a national data exchange for seamless data sharing among government entities, and expanding cloud-based government data hosting. These investments will be complemented by targeted capacity building programs to boost digital adoption among people and government officials. Support for citizens will focus on enhancing basic digital literacy among underserved groups,

including women, youth, and the elderly, including via creation of local language content, and hands-on support to facilitate access to digital services.

13. **Component 2: Digital Industry and Skilled Workforce Development**. The objective of this component is to create a robust enabling environment for digital entrepreneurship and for the continued growth of Sri Lanka's IT sector. It will support analytics and advisory to diagnose skills, regulatory, and investment gaps and help strengthen relevant of policy and regulatory frameworks to promote growth and job creation in the digital sector. Expected investments areas will also include upskilling-, reskilling- and job-readiness programs, with a focus on youth and women, and acceleration support for digital entrepreneurs, designed and implemented in close coordination with the industry and the International Finance Corporation (IFC).

14. C**omponent 3: Legal and Institutional Enablers for Digital Transformation.** The objective of this component is to establish a strong foundation for digital governance through legal, regulatory, and institutional reforms. This includes support for the establishment of new institutions, such as the Digital Economy Authority and GovTech Agency, to coordinate and oversee digital initiatives, and the development of policy, legal, and regulatory frameworks to underpin their effective functioning. The component will also support an integrated change management and capacity building program for government officials to strengthen digital capabilities and create digital champions across government agencies. This will help ensure the effective deployment of the new digital platforms financed through Component 1.

Legal Operational Policies

Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

15. **The Environmental and Social Risk Rating of the project is rated as "low".** The project will not finance any new civil works and/or technical assistance that could conceivably result in any adverse environmental and social impacts. Data privacy is an inherent risk that the project will address by complying with government data privacy & protection laws and adopting international best practices. Additionally, there is a risk of potentially excluding individuals who lack knowledge of and access to digital services, particularly the elderly, people with disabilities, as well as women and youth living in rural areas, from equitably benefiting from the training, job opportunities, and support for business startups in the IT industry. Therefore, the project will implement targeted interventions to increase basic digital literacy and access among underserved groups. The project will procure IT equipment as part of components 1 and 3 and the E-waste generated at the end of their life or if damaged beyond repair will be managed in line with the Central Environment Authority (CEA) regulations on e-waste management and through registered e-waste collectors. The Ministry of Digital Economy (MoDE), as the implementing agency of this project, does not have any

experience in implementing projects under World Bank's ESF, therefore their capacity on ESF will be developed throughout the project implementation. The project has utilized the Sexual Exploitation and Abuse/Sexual Harassment (SEA/SH) Risk Assessment Tool for Social Protection and determined the SEA/SH risk level to be 'low.' Nevertheless, relevant SEA/SH prevention measures, including the signing of a Code of Conduct by project workers and adhering to behavioral standards, will be followed by all project actors and beneficiaries. An Environmental and Social Commitment Plan (ESCP) indicating measures and actions of each ESS, timeframe, responsible entity will be prepared and disclosed on the MODE and Bank site by the project appraisal. Stakeholder engagement requirements and labor management commitments will be including as commitments in the ESCP.

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