

II. Financing and Implementation Arrangements

A. Financial Envelope and Knowledge

- CPF activities will be financed through a combination of IDA and IBRD enclave resources, IFC financing, WBG guarantees and efforts to mobilize private investment.** For the World Bank, this includes an indicative IDA21 country allocation of about US\$800 million for the first three years (FY26, FY27, and FY28). Beyond this, the World Bank will aim to access complementary resources through the IDA Global and Regional Opportunities Window, Scale Up Window, Private Sector Window, and blended finance facilities, like the Green Climate Fund, to support investments in cold chain logistics, energy efficiency and nature-based tourism. The Crisis Response Window could support Cyclone Ditwah recovery and reconstruction as well as longer-term preparedness efforts. The port and logistics sector offers an entry point for IBRD enclave financing. Actual IBRD enclave lending will depend on the financial structure of the relevant projects in relation to the criteria for enclave IBRD lending, as well as country and program performance, demand from other World Bank borrowers, and factors that affect IBRD's financial capacity, including global economic developments. All future programmatic engagements will also aim to mobilize private capital, leveraging One WBG solutions (*see below*).
- IFC expects to invest over US\$1 billion in long-term finance over the CPF period, contingent upon private capital mobilization (PCM)-enabling reforms that create markets and enable greater private sector participation.** The investment pipeline is expected to grow in key areas including high-value tourism, export-oriented value-added agribusiness, niche market manufacturing, and services. Investments will use instruments including short- and long-term debt and equity, alongside de-risking platforms such as the WBG Guarantee Platform in the energy sector and risk-sharing facilities to support SMEs especially in agriculture and tourism. The CPF also contributes to IFC's 2030 strategy through advisory and upstream engagements and innovative financing to expand private sector activity and create jobs. This is supported by advisory services and knowledge to strengthen sustainable finance frameworks, agribusiness, SMEs, gender, and potential interventions in capital markets.
- MIGA, which had no portfolio at the start of the previous CPF period, has since renewed its business development efforts in the country and launched the WBG Guarantee Platform.** Through this platform, MIGA will seek to deliver de-risking solutions for PPP projects and support private investments by domestic and foreign investors, seeking to mobilize commercial financing for projects consistent with the CPF. It will do so by engaging in WBG discussions, joint missions, and promoting integrated One WBG solutions. The presence of MIGA's Asia Head in Sri Lanka will further facilitate this collaboration.
- The One WBG approach already at work in Sri Lanka will be further strengthened through jointly financed or closely harmonized interventions.** Since transitioning to a Joint Country Representation, the WBG has deepened collaboration by integrating complementary expertise, finance, and guarantees. New engagements under the CPF will reflect different forms of WBG collaboration (*see figure 1 in CPF*).
- Knowledge work will support CPF implementation across all outcomes, anchored in a One WBG approach.** The WBG will generate, share, and apply local, regional, and global knowledge to address gaps and guide WBG and government actions in areas with strong client demand. Core advisory services and analytics (ASA), including the Country Growth and Jobs Report and the Poverty and Equity Assessment, and targeted advisory support (e.g. on private sector development) will support the economic reform agenda and strengthen the business-enabling environment. An internal WBG growth and jobs platform will coordinate relevant ASA in support of the government's 7 percent growth target. Additional analytical work will address other CPF priorities, for example, on gender, to support jobs and entrepreneurship for women and youth in priority sectors; on skills, to inform policies and investments for workforce development; on tourism, to enable data-driven policymaking

and higher-value development; and on energy to strengthen network reliability and the framework for private financing. WBG teams will coordinate their analytical and advisory work to support PCM and private capital enabling (PCE) across all outcomes.

B. CPF Outcomes and IDA21 Policy Commitments

6. **The CPF is well-aligned with IDA21 Policy Commitments (PCs).** Its overarching goal of supporting job creation through private sector-led growth directly advances the PCs on "more and better jobs" and "One WBG". The CPF also places particular emphasis on youth and women, responding to Sri Lanka's urgent need to accelerate job creation beyond current growth trends. It is fully anchored in a One WBG approach, with a strong focus on mobilizing private capital — a commitment deepened through the Joint Country Representation and reflected in recent and planned engagements (see section above).

7. Outcome 1, enhanced business environment for investments and exports, aligns with the PC on "business environment". Work under this outcome prioritizes regulatory and institutional reforms to remove barriers to private investment. Its focus on digital public infrastructure to improve governance and enable digitalization across sectors also contributes to a broader "digital transformation" agenda.

8. Outcome 2, improved foundational infrastructure, contributes to the PCs on "infrastructure", "more and better jobs", and "gender equality". The outcome focuses on the foundational physical and human infrastructure needed for job creation, including ports, logistics, energy infrastructure, and skills development. Planned engagements will also focus on youth and women through entrepreneurship and by reducing barriers to labor force participation, thereby advancing the PC on gender equality.

9. Outcome 3, strengthened value chains in tourism and agribusiness, with emphasis on lagging regions, contributes to the PCs on "more and better jobs" and "fragility". Support focuses on modernizing labor-intensive tourism and agribusiness sectors, strengthening value chains, and attracting private investment. Dedicated engagement in the Northern and Eastern provinces — Sri Lanka's historically lagging regions where the civil war's legacy persists in infrastructure gaps and institutional weaknesses — aims to address barriers to growth and employment through support to foundational infrastructure, local entrepreneurship, and improved connectivity. Gender equality is also advanced through support for women-led SMEs.

10. Outcome 4, enhanced resilience to shocks, aligns with the PCs on "crisis preparedness" and "continuity of service". Resilience will be integrated across outcomes and through dedicated WBG support, including efforts to help Sri Lanka shift from reactive disaster response to proactive risk reduction and preparedness, alongside ongoing engagement to strengthen social protection and health systems. More broadly, the CPF will seek to enhance client "implementation capacity", and business planning (*see section below*) will be used to identify opportunities to improve "implementation effectiveness".

C. Relevant Implementation Issues

11. **The WBG will sustain and deepen its hands-on implementation support to ensure effective CPF delivery.** Drawing on lessons from the previous CPF period captured in the Completion and Learning Review (CLR)², the program will continue proactive, field focused support, including frequent monitoring and targeted capacity-building, potentially scaling up the use of Hands-on Expanded Implementation Support to address client capacity

² The CLR included the following set of lessons that informed the CPF: (i) flexible CPF design and a phased approach is critical to steer and sustain the relevance of WBG engagement during periods of grave uncertainty, (ii) continued technical assistance and targeted analytics are critical to sustain Sri Lanka's reform momentum and support its growth trajectory, (iii) Weak client capacity and complex institutional arrangements constrain program delivery, underscoring the need for simpler implementation structures and systematic investments in institutional capacity, (iv) adapting to changing market needs during a crisis and remaining engaged with clients even before investment opportunities arise is essential to provide crucial countercyclical support to the private sector, and (v) the Joint Country Representation in Sri Lanka demonstrated that unified country leadership and structured cross-institutional teams materially improve program design and delivery.

gaps. This will be particularly important as the program shifts toward more programmatic, multisectoral engagements and sustains support for Sri Lanka's reform agenda through the new DPO series. The WBG will also monitor and better understand the political economy, especially given the shift in Sri Lanka's political landscape following the current government's election, to inform the feasibility and sequencing of critical structural reforms. Operations will use simpler implementation arrangements with clearer delineation of responsibilities across agencies. The use of artificial intelligence tools and just-in-time approaches will also be explored to improve real-time problem-solving.

12. **Fragility and governance considerations are integrated into the CPF's selection and design of WBG engagement.** While Sri Lanka's 26-year civil war ended in 2009, challenges related to fragility, conflict, and violence (FCV) persist. Exclusion, the absence of a political solution to the civil war, and an incomplete justice and reconciliation process have exacerbated divisions, undermining social cohesion and trust in institutions. Structural imbalances in territorial development also remain. The new government has taken initial steps to address these underlying drivers, opening an opportunity to tackle deep-seated issues. Accordingly, all planned engagements, especially in the North and East, will consider inclusion and be designed in a conflict-sensitive manner. Recognizing that governance, transparency, and public accountability are essential for economic and political stability and strengthening the social contract, WBG engagements systematically incorporate measures to strengthen governance and institutional capacity across priority sectors. Digital public infrastructure will be a key vehicle for this, with investments in core digital platforms and online service delivery reducing opportunities for discretionary decision-making and improving transparency in public transactions. At the sector level, governance will be embedded across key reform areas, including corporate governance and regulatory oversight in energy and ports, and revenue administration and anti-corruption measures through customs modernization. SOE governance will be addressed both at the sector level and through cross-cutting reforms. Future investments will be informed by political economy analysis and supported by policy dialogue to improve sectoral policies and institutions.

D. Business Planning Process

13. **Annual business planning with the government will inform the program pipeline, analytical needs, and advisory services.** The One WBG country team will track CPF results and refine priorities, using the Results Matrix as a management tool linked to annual portfolio reviews. Where possible, results indicators will be disaggregated spatially, given the emphasis on territorial development. These exercises will align with the government's programs and plans, reviewing progress, reassessing risks, and adjusting the program to respond to emerging opportunities or challenges. Key development partners will be involved to identify opportunities for collaboration. A mechanism for regular engagement with civil society organizations is currently being established.

Partners' Contributions to CPF Outcomes and Indicators

This CPF builds on the WBG's proven collaboration with development partners in Sri Lanka during the crisis and subsequent stabilization phase. The WBG will maintain close ties with the International Monetary Fund (IMF), Asian Development Bank (ADB), Japan International Cooperation Agency (JICA), and others to ensure a unified dialogue with authorities on essential macro-financial and business reforms, while coordinating technical assistance. Co-financing opportunities will be explored with partners such as the ADB, Agence Française de Développement (AFD), Asian Infrastructure Investment Bank (AIIB), European Union (EU), European Investment Bank (EIB), Korean Exim Bank, and OPEC Fund. Following a successful decade-long partnership with Australia's DFAT, new collaborations will aim to help unlock private sector financing through joint advisory and analytical efforts. The United Nations (UN) remains a vital partner in agriculture, education, health, and social protection, with plans to deepen collaboration to address challenges in lagging regions and complex legacy fragility drivers such as land and reconciliation. Regular deep dive discussions will be held with partners.

Table 1. Partner Contributions to CPF Outcomes and Indicators

	CPF Indicators	ADB	AIIB	EU	IMF	JICA	UN	Others
Enhanced business environment for investments and exports	Export of goods and services as a share of GDP	✓		✓	✓	✓	✓	OPEC
	People and businesses using digitally enabled services	✓					✓	Gates Foundation
Improved foundational infrastructure	People that benefit from improved access to sustainable transport infrastructure and services	✓				✓		
	GW of renewable energy capacity enabled	✓	✓	✓		✓		OPEC
Strengthened value chains in tourism and agribusiness with emphasis on lagging regions	Number of tourist arrivals	✓		✓			✓	DFAT
	Number of farmers benefitting from activities that improve production, value-addition, and market linkages	✓		✓		✓	✓	IFAD, Gates Foundation
	People and businesses using financial services, of which percent are women	✓				✓		
Enhanced resilience to shocks	Beneficiaries with enhanced resilience to climate risks	✓		✓		✓	✓	IWMI
	Beneficiaries of social safety net programs	✓			✓		✓	

Risks to CPF Implementation and Planned Mitigation Measures

Risk Categories	Rating	Description (if High or Substantial)
Political and governance	Substantial	Sri Lanka’s political situation is currently stable, although some risks remain from policy uncertainty, evolving internal dynamics, and the pace of reforms. If timelines for major structural reforms shift, the window for implementation may narrow; while a measured approach can help sustain near-term public support, prolonged delays or deviations from agreed reforms risk eroding confidence and weighing on political stability. The WBG will sustain policy dialogue and knowledge work to help align reforms with recovery and growth objectives, support evidence-based sequencing, and build consensus on key measures. Reform communication, especially on the DPO series, will be strengthened to highlight early, visible benefits and progress.
Macroeconomic	Substantial	While recent macroeconomic performance has been better than expected, downside risks remain high, given limited fiscal and external buffers. High interest payments as a share of revenue, the short maturity of a large share of domestic debt, a larger-than-expected impact of the cyclone on capital stock, rigid spending patterns (with interest payments and salaries absorbing over 100 percent of revenues), and high reliance on indirect taxes, have contributed to continued fiscal and external vulnerability. Limited job opportunities and increased migration, slower global growth, global monetary policy uncertainty, and global trade policy uncertainty remain key risks. WBG is working closely with the government to strengthen debt and public investment management, while addressing challenges to improve the sustainability of the revenue adjustment.
Sector strategies and policies	Substantial	Misaligned sector policies, weak reform momentum, fragmented coordination, limited institutional capacity, high exposure to climate shocks, and information gaps pose risks. To mitigate these, WBG will invest in sector analytic work, including institutional and governance analyses, and leverage its convening power to drive dialogue and coordination. Building on the DPO and core diagnostics, the WBG will continue supporting the identification and implementation of critical reforms.
Technical design	Moderate	
Institutional capacity for implementation and sustainability	Substantial	While progress has been made in building institutional capacity, the effectiveness of government agencies remains inconsistent across sectors. Many Project Management Units face a shortage of qualified staff and poor coordination across departments. Implementation involving multiple agencies and activities spread across different locations, adds to the complexity. Through the regular business planning process, the WBG, with the government, will monitor and review the portfolio to identify measures to improve implementation. To address delays, the WBG will identify clear counterparts will and streamline projects and program design. The Grant Fund Preparation Facility will help with project readiness.
Fiduciary	Substantial	Risks are driven by government weakness in procurement and financial management (FM) and its decision to reduce reliance on project-specific ‘program implementing units’ and contractual fiduciary staff, and delays in the appointment of an Auditor General. New operations in sectors like tourism, energy, digital, multi-sectoral projects require better coordination and decentralized implementation and FM arrangements. Mitigation measures include: (i) enhancing fiduciary capacity; (ii) supporting the development and roll out of an e-Procurement system and strengthening the capacity of the National Audit Office of Sri Lanka under an ongoing EU-funded public financial management project.
Environment and social	Substantial	Increased lending to lagging regions (including the North and East), combined with Sri Lanka’s vulnerability to natural disasters, heightens environmental and social (E&S) risks. The WBG will: (i) mainstream E&S sustainability across operations; (ii) strengthen client capacity on the Environmental and Social Framework; (iii) conduct regional and strategic E&S assessments that embed climate risk management to inform program design; (iv) enhance country legal frameworks and institutional capacity for E&S risk management; and (v) introduce tools to improve compliance monitoring and risk management.
Stakeholders	Moderate	
Overall: Substantial		