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# SRI LANKA
# Country Snapshot

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# COUNTRY SNAPSHOT

**Sri Lanka is in many respects a development success story.** With economic growth averaging over 6 percent in the past decade, Sri Lanka has made notable strides towards the goals of ending extreme poverty and promoting shared prosperity. Important challenges lie ahead, however, as Sri Lanka aspires to become a higher middle-income country (MIC). Growth in the last five years is in substantial part due to a "peace dividend" that included significant reconstruction efforts. Going forward, economic growth will likely require continued structural changes in the economy towards greater diversification and productivity increases and a reduction in the role of agricultural employment from its present share of a third of the population. Although Sri Lanka has excelled in overcoming human development challenges typical to a low-income country, its service delivery systems in education, health, and other areas must now adjust to face new and changing demands typical of a MIC. Imperatives to improve social safety nets will increase owing to an aging population that has passed its demographic peak. Finally, increasing affluence and information will lead to higher expectations for the state to perform in order to facilitate growth, provide a higher level of services, and demonstrate increasing responsiveness to a more demanding citizenry.

# ECONOMIC OVERVIEW

| SRI LANKA | 2014 |
|---|---|
| Population, million | 20.5(1) |
| GDP, current US$ billion | 74.4(2) |
| GDP per capita, current US$ | 3,811(2)(3) |
| GDP per capita (USD PPP) | 9,834(2)(3)(4) |

Sources: Central Bank of Sri Lanka, DCS
(1) 2013, (2) 2014, (3) Staff estimates, (4) Based on national accounts data before recent revision.

*The newly elected government has shown commitment to carry out needed political and economic reforms. Sustained growth since 2010 has contributed to a significant reduction in poverty; yet many pockets of poverty remain. Public debt has started to rise, fiscal revenue is low, and the external current account is in deficit. Much needs to be done in order to attract foreign direct investment (FDI), improve external sector competitiveness and arrest declining fiscal revenues to adopt an export-led growth path and create the space to pursue counter-cyclical policy. Promoting inclusive growth by targeting disadvantaged areas and boosting social protection programs can hasten further declines in moderate poverty.*

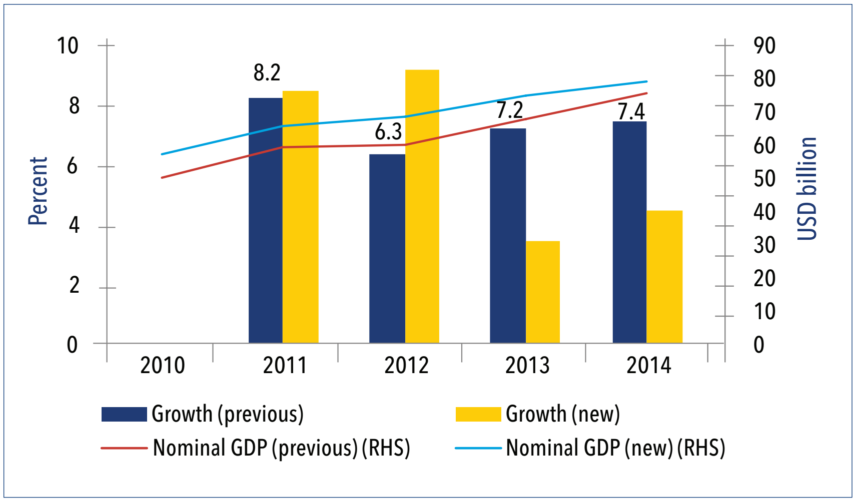
## Recent Developments

Sri Lanka is in a major political transition with a national unity government formed for the first time in the history. Although the detailed policies of the new government are yet to be clearly seen, it has shown commitment to promoting a globally competitive, export-led economy with an emphasis on inclusion.

Growth in 2013 and 2014 was revised downward to 3.4 and 4.5 percent, respectively, from 7.2 and 7.4 percent, due to a national accounts rebasing. The average growth for the period 2010-2014 stood at 6.7 percent. The gross domestic product (GDP) per capita was $3,811 as of end 2014. The economy grew by 5.6 percent in the first half of 2015 driven mainly by service sectors.

Thanks to the reduction of administered energy prices and the managed exchange rate despite pressures, annual average inflation decelerated to 1.0 percent in August 2015.

The fiscal deficit for 2014 was 5.7 percent of GDP, up from 5.4 percent for 2013. This marked a slight reversal of the consolidation in the post-conflict period. The widening primary deficit and slowdown in growth led to a slight increase in public debt to 71.8 percent of GDP, while contingent liabilities




were estimated at 5.4 percent of GDP by end 2014. The low tax revenue, placed at 10.2 percent of GDP in 2014, remains a key macro-economic concern.

The external current account deficit narrowed to 2.6 percent of GDP in 2014 thanks to strong tourism and remittance flows, financed mainly by FDI and other private sector loan flows along with inflows to the government. For the first half of 2015, the trade deficit widened by 15.6 percent on a year-on-year basis due to rising imports of vehicles and consumer goods, reversing the favorable impact of a reduced petroleum bill. Rapid growth in private credit in a historically low interest environment was a key driver of the surge in imports. Gross official reserves declined to $6.5 billion by end August 2015 from $7.5 billion at end 2014 due to capital outflows, debt repayments, the widening trade deficit and central bank intervention in the forex market. The central bank allowed more flexibility in the exchange rate in early September, leading to strong depreciation. The year-to-date depreciation of the LKR against the US dollar stood at 6.6 percent as of September 15, 2015.

## Outlook

Growth is expected to reach 5.3 percent year-on-year in 2015 with significant contributions from the service sectors and accelerated private consumption, thanks to increased public sector wages partially compensated by reduced public investment. Currency depreciation will exert upward pressure on prices in the second half of 2015, but relatively low international commodity prices and lowered taxes on key commodities are expected to keep annual average inflation around 1 percent in 2015. Despite savings in the oil bill, private-credit-driven import expenditure is expected to widen the current account deficit to 3.2 percent of GDP in 2015, financed mainly by borrowing. Increased wages, social welfare and interest payments will expand the fiscal deficit to 5.8 percent of GDP, while public debt-to-GDP is expected to rise in the next two years. Unless permanent revenue measures are implemented, fiscal consolidation will be challenging in 2016 and beyond.

The pace of growth and poverty reduction depends on the success of reforms that increase fiscal revenue, promote export-led growth, rebalance the role of the public sector, enhance economic inclusion by targeting poor areas and disadvantaged groups, and promote sustainable sources of growth.

Key risks are a growth slowdown, which would lead to a fast rising public debt burden. While the direct impact of a slowdown in China is limited, continued economic woes in the Middle East, the European Union and Russia could adversely affect exports and remittance inflows. Tightening global financial conditions could increase capital outflows and currency pressure, and make borrowing more expensive.

## Challenges

Immediate challenges include managing currency pressure and raising revenue to reduce the 2015 fiscal deficit. Structural challenges include increasing fiscal revenue and narrowing a persistent current account deficit linked to structural competitiveness issues in the export sector. With the country approaching upper-middle-income status, borrowing terms are becoming more commercial, which could affect affordability. Finally, with limited national savings compared to national investment, Sri Lanka needs to attract FDI. Going forward, to sustain its high growth path, it needs to increase growth in the manufacturing and export sectors.

| | 2012 | 2013 | 2014 | 2015 | 2016 f | 2017 f |
|---|---|---|---|---|---|---|
| **Real GDP growth, at constant market prices** | 9.1 | 3.4 | 4.5 | 5.3 | 5.6 | 6.0 |
| Private Consumption | 9.3 | 0.6 | 4.5 | 5.3 | 5.6 | 6.0 |
| Government Consumption | 1.8 | -1.5 | 9.8 | 13.0 | -1.9 | 4.7 |
| Gross Fixed Capital Investment | 10.7 | 6.4 | 5.6 | 5.8 | 5.2 | 5.7 |
| Exports, Goods and Services | 2.6 | 2.8 | 2.7 | 3.7 | 4.7 | 3.4 |
| Imports, Goods and Services | 2.9 | -3.2 | 7.2 | 8.7 | 0.5 | 3.2 |
| **Real GDP growth, at constant factor prices** | 9.1 | 3.4 | 4.5 | 5.3 | 5.6 | 6.0 |
| Agriculture | 3.9 | 3.2 | -2.2 | 1.7 | 1.7 | 2.0 |
| Industry | 9.0 | 4.1 | 1.2 | 3.6 | 5.0 | 5.8 |
| Services | 11.2 | 3.8 | 6.5 | 6.0 | 6.4 | 6.6 |
| **Prices** | | | | | | |
| Inflation (GDP price deflator) | 10.8 | 6.2 | 2.7 | 2.2 | 3.2 | 3.1 |
| Inflation (Consumer Price Index) | 7.5 | 6.9 | 3.3 | 0.9 | 3.0 | 2.9 |
| **Current Account Balance (% of GDP)** | -5.8 | -3.4 | -2.6 | -3.2 | -2.2 | -1.9 |
| **Fiscal Balance (% of GDP)** | -5.6 | -5.4 | -5.7 | -5.8 | -6.2 | -6.0 |

Sources: CBSL, DCS, World Bank staff forecasts
Notes: e = estimate, f = forecast; 1/ In annual percentage change percent, unless otherwise noted

**The World Bank has been 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.** A Public Expenditure Review completed in June 2014 has provided 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 also have 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 have informed this exercise.

**The World Bank has also been supporting government efforts to enhance the country's public financial management systems.** Initiatives the World Bank has supported include: (i) strengthening the Auditors General's Office by introducing modern audit practices in financial, performance and investigative audit as well as institutional changes to sustain these initiatives; (ii) introducing public-sector accounting standards aligned with international standards to public-sector institutions; and (iii) preliminary work to professionalize public-sector accountants. 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; and procurement procedures and predictability in the availability of funds. An Institutional Development Fund grant to strengthen the Institute of Chartered Accountants provided an important opportunity to build capacity in the private sector with a view to improving private-sector transparency and accountability. Additional World Bank assistance, to be provided on a "just-in-time" basis, will support government efforts to further strengthen public financial management and corporate financial reporting in the country.

# RECENT SECTOR DEVELOPMENTS

## 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 16 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. 3.1 trillion ($23.9 billion equivalent) in December 2014, accounting for about 32 percent of gross domestic product with further 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.**[1] The current SEC law is inadequate for Sri Lanka to build a vibrant capital market as there are no legal provisions to facilitate the demutualization of the stock exchange or its modernization in terms of governance, positioning, and market infrastructure. Addressing gaps in the legal and regulatory framework, particularly for the capital markets, also will require building the capacity of supervisors and regulators, as well as market participants. 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. The World Bank has provided technical inputs to assist policymakers in developing a capital market development strategy, including improvements to the legal framework, financial infrastructure, and product diversification.

**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 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, lack of innovation, and product quality. The Central Bank initiated a consolidation process of the banking and non-bank financial institution sectors, aiming to strengthen their regulatory environment, improve the stability of the financial system, and increase access to finance. The consolidation process is ongoing on a voluntary basis, with some mergers approved by the Central Bank.

**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 among 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 and subsidizing or controlling interest rates. These policies, however, have not built the conditions for the market to expand services to under-served groups, especially the urban poor. The government

1 Technical assistance has been provided through the World Bank's Financial Sector Reform and Strengthening (FIRST) initiative.

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 supported a warehouse receipts financing pilot project to help catalyze collateralized lending by commercial banks to farmers. The development of warehouse receipts as collateral sought 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. Analytical work undertaken by the World Bank revealed that even though the underserved urban poor have access to banking, more innovative products need to be made available to improve their livelihoods. Most recently, the World Bank carried out a development Financial Sector Assessment Program at the request of the government, offering recommendations to address identified constraints.

## Poverty and Shared Prosperity

**Sri Lanka's headcount poverty rate has declined dramatically, falling from 23 percent in 2002 to 7 percent in 2012/13.**[2] This impressive performance has largely been driven by an increase in labor income, which was supported by four beneficial trends: a gradual structural transformation out of agricultural employment; increased urbanization and agglomeration associated with the growth of key urban centers; a rise in international prices for food and tea during this time; and strong domestic aggregate demand. Growth has generally been pro-poor. Real per capita consumption of the bottom 40 percent grew between 2006 and 2012/13 by an average of 2.2 percent annually, while growing 1.7 percent overall.[3] Growth became markedly less pro-poor between 2009/10 and 2012/13, however, as inequality, measured by the Gini coefficient for per capita expenditure rose from 0.36 to 0.39. Among rural, urban, and estate sectors, poverty reduction has been particularly dramatic in the estate sector, although poverty in that sector remains at 11 percent.[4]

**Despite the very positive story of poverty reduction and shared prosperity, important development challenges remain in Sri Lanka.** Pockets of severe poverty continue to exist, specifically in the districts of Mullaitivu, Mannar (both in the Northern Province), and Moneragala (in Uva Province), where headcount poverty rates exceed 20 percent. Spending on social assistance has declined in recent years (from 4 percent of GDP in 2004 to 2.5 percent in 2012) and suffers from inefficient targeting. In the estate sector, alternative welfare indicators, such as asset ownership, educational attainment, and the share of food consumption devoted to protein, continue to lag, and many residents remain near-poor. The decline in the country's main safety net program, Samurdhi, is estimated to have slowed poverty reduction by one and a half percentage points between 2002 and 2012/13. In 2012/13, an estimated 6.5 percent of the population were not classified as poor, but live within 20 percent of the poverty line and were therefore vulnerable to shocks that could cause them to fall back into poverty. It is also important to consider other related challenges, such as high rates of malnutrition, which have persisted even as the population has become wealthier.

**Gender inclusion remains central to shared prosperity.** Closing gender gaps is not only important in terms of social inclusion, but is critical in terms of the broader challenge of raising competitiveness and ensuring shared prosperity, particularly given that an aging population will increase the dependency rate. Women made up 53 percent of the working-age population in 2012, but only 34 percent of the employed population, a figure that

2 These numbers are based on the national poverty line.

3 More recent data on shared prosperity will become available soon.

4 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.

has remained static for decades. Women are less likely to participate in the labor market, but when they decide to look for work, they are more likely to be unemployed. Social norms related to women's role in the household and especially as related to childcare responsibilities restrict women's opportunity to participate in the labor market. However, beyond social norms, gender wage gaps and occupational segregation dissuade and constrain women from participating in the labor force. At the same time, the formal legal framework for labor prevents women from taking up night work or part-time work in the growing service sector and the laws governing maternity benefits make employers bear the entire cost, potentially deterring employers from hiring women. Gender-based violence and women's and children's nutritional status are additional gender challenges of note.

**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 have continued to be 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. 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. World Bank support for a Social Safety Nets project is currently under preparation. Building on analytical work, the operation aims to assist the government both in reducing household vulnerability and increasing equity and opportunities for vulnerable populations through more efficient, better-targeted social assistance spending.

## Changing Demographics

**Contrary to most South Asian economies, Sri Lanka does not have a demographic dividend.** By 2050, it is projected that more than 25 percent of the population will be over 60, up from 13.4 percent in 2015. The aging and urbanization of the population are having dramatic impacts on education and health as well as the economy. Population aging will likely impact the country's fiscal accounts through three channels: tax revenue, fiscal expenditure, and GDP growth. Unless labor force and employment rates increase (notably through greater inclusion of women), a very small number of employed people will need to provide for a very large number of non-working people – 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).[5] 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 achievements in education have been impressive, including universal access and participation in primary education, high enrollment in secondary education, and gender parity in general education.** The primary education net enrollment rate is 99 percent, the primary education completion rate is over 95 percent, and gender parity in the education system is high com-

5 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.

pared with many other South Asian countries with an equal proportion of girls and boys enrolled in primary education and a slightly higher number of girls than boys in secondary education.

**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 become a high middle-income country, as Sri Lanka aspires to, the technical and vocational skills of the labor force need to be upgraded. Public expenditures on education are modest when compared to middle-income countries and other comparable nations.

**Improving the quality of human capital through effective education and skills development is central to Sri Lanka's economic growth and competitiveness.** 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. There is also a mismatch between graduates and private-sector needs, particularly with regard to "soft skills".[6]

**The World Bank is helping to identify and address the particular challenges to skills development in Sri Lanka.** 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 informed a Skills Development Project, approved in May 2014, which aims to expand the supply of skilled and employable workers by increasing access to quality and labor market–relevant training programs. Several innovative reforms are being supported under the project, including: establishment of Industry Sector Skills Councils; introduction of performance-based funding for public training; introduction of employment-linked training programs to increase employer involvement in design and delivery of training programs; a strengthening of the monitoring and evaluation system of the skills sector; and improvements to labor market information systems. The project is using an Investment Project Financing instrument based on a results-based financing modality. The International Development Association (IDA) credit of $101.4 million for the project is complemented by a $100 million loan from the Asian Development Bank (ADB) (through parallel financing), which is financing the implementation of the government's Skills Sector Development Program for 2014-2020. Both operations rely on common institutional and implementation arrangements, including a set of similar disbursement-linked indicators and monitoring and evaluation arrangements, to ensure close harmonization.

**Beyond helping to orient the training sector to the emerging needs of a middle-income country, World Bank support for the education sector is also being extended through the Transforming the School Education System project.** This 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 and promoting school-based management as well as school-based teacher development. A 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. The project is assisting the expansion of job-oriented higher education programs. In addition, the project is promoting better teaching and learning, research and innovation, and university-industry linkages through competitive quality and innovation grants. The project is also supporting the establishment of a National Qualification Framework and a Quality Assurance System for Higher Education. The World Bank is currently also supporting government efforts to mainstream early childhood education reforms. An Early Childhood Development project is just commencing. Investment in early childhood development consistently brings very high cumulative returns in human capital, is one of the most

6 Soft skills are defined as communication skills, presentational skills and the ability to work in teams.

cost-effective ways to create social equity, gives children a fair chance of success in life, and could help disadvantaged households and communities to break the vicious cycle of poverty often transmitted across generations. The project is expected to enhance equitable access to and improve the quality of early childhood development services.

## 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 $70 per capita on health.[7] Yet, many of its health indicators are comparable to those found in Thailand and Malaysia -- richer countries that spend significantly 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)[8] 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 five are underweight,[9] 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)[10] 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.

**While Sri Lanka has achieved excellent health outcomes and an equitable health system at relatively low cost, significant challenges lie ahead.** Although 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. Tackling child malnutrition through a multi-sector approach and treating and managing the NCDs for the elderly will require longer term and more expensive services relative to previous interventions.

**The World Bank has been supporting Sri Lanka's health sector through analytical work and credits from the IDA since the late 1980s.** The Health

7 Sri Lanka Health Accounts, National Health Expenditure, Institute for Health Policy, Colombo, Sri Lanka, July 2011.

8 According to government's Registrar General's Department 2006 and latest data.

9 Low weight-for-age and an indicator used for the second target of the first MDG.

10 The term Non-Communicable Diseases (NCDs) is used in this document to include both chronic and acute NCDs, e.g., cardio-vascular 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.

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 FY2013 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. More recently, the World Bank has helped the government analyze public expenditures in the sector, to assess the efficiency and equity of health spending in the country. A Japan Social Development Fund (JSDF)-supported Local Level Nutrition Interventions project has helped to address the nutritional problems of the resettled population in the Northern Province. Surveys already indicate improvements in nutrition outcomes, through supplementary feeding of targeted pregnant and lactating mothers, infants, and young children and through community-based nutrition activities to reinforce the health and nutrition behavioral change. A national health sector program is also currently being supported under a $200-million Second Health Sector Development Project (approved in FY2013), 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 are 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.** Sri Lanka is in the midst of a gradual but continuous structural transformation away from agriculture, which now accounts only for 10 percent of GDP and 30 percent of total employment, towards the growing industry and services sectors. Those account for 32.5 percent and 57.5 percent of GDP, respectively, with associated productivity increases and increased agglomeration around the main urban areas. Population density in urban areas has almost doubled over the past decade to 3,213 people per square kilometer, and, as of 2011, 35.3 percent of the country's 21 million people live in urban areas.[11] 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. From a spatial perspective, Sri Lanka's economic growth has been primarily driven by the Colombo Metropolitan Region (CMR), which currently generates 45 percent of the country's GDP and 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 $3,808. Recognizing the importance of this region to economic growth, the government initiated a program to transform the CMR into a competitive and environmentally friendly world-class capital.

**Central to the government's development agenda is the creation of a network of well-connected, efficient, and environmentally sustainable cities throughout the country.** Sustainable growth and long-term prosperity are expected to result from a spatially more balanced distribution of economic opportunity that in addition to Colombo also include other major urban centers, such as Kandy, Galle, and Jaffna. The linking of rural areas to urban centers is also important. While Sri Lanka is taking important steps to implement its urban vision, including connectivity improvements, urban renewal, and investments in ports, airports, and special economic zones, significant challenges to future urban development and urban-rural integration are emerging. Urban authorities often have inadequate technical and institutional capacity for strategic urban development planning, face overlapping and complex institutional mandates for urban management and service delivery, and are constrained by inadequate financial resources, including underdeveloped municipal revenue generation. Such constraints often result in delayed implementation of urban plans as well as sub-optimal and inefficient service provision. In addition, regulatory and institutional constraints in land markets prevent more

11 As measured using the agglomeration index which defines as urban all Divisional Secretariats (DS-divisions) with an average population density of 150 persons per km$^2$ 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.

efficient and sustainable land use, including public infrastructure and property development. Commercial and low-income housing development is lagging behind demand while at the same, the institutional and regulatory frameworks for urban management are not equipped to address and limit urban sprawl.

**More efficient and environmentally sustainable urban land use supported by high-density urban transportation is important.** It could deliver sizeable economic benefits through efficiency gains, help reduce vulnerabilities to natural disasters, provide a wide range of economic opportunities, stimulate private investment in land and housing, and expand municipal revenue generation. Urban transport is a key contributor to a city's livability, economic efficiency, and competitiveness, but much remains to be done to improve public transportation services and efficiency of urban roads in the main cities. Urban water supply, sewerage and sanitation systems are not keeping up with growing needs while water quality needs to improve. Solid waste management requires priority attention as well. With global climate change, Sri Lanka's cities are becoming increasingly more vulnerable to natural disasters, as has been visible in recurrent urban flooding events. Adaptation strategies need to be mainstreamed into urban plans to manage such risk and increase the resilience of cities.

**The World Bank is supporting Sri Lanka in the implementation of its urbanization and rural-urban integration agenda.** The Metro Colombo Urban Development Project, approved in 2013, is assisting the Colombo Metropolitan Region to upgrade basic urban infrastructure and to implement an innovative integrated urban flood control and urban wetland management approach. The Strategic Cities Development Project, approved in 2014, is expanding the approach to urban infrastructure upgrading to Kandy and Galle, two strategic city regions in the center and south of the country, and supporting investments in urban water supply, sewage and drainage systems, cultural heritage rehabilitation, urban transport and traffic management and others areas. Technical assistance support will help improve the cities' capacity to better design, plan and manage urbanization. The International Finance Corporation (IFC) is supporting public-private partnerships (PPPs) in municipal waste management solutions for the Western Province. The World Bank Group's investment engagement in urban renewal and upgrading is supported by various complementing analytical and technical assistance activities, including the Colombo Green Growth technical assistance program.

**In the transport sector, the World Bank has supported the government's efforts in improving nationwide connectivity through a Road Sector Assistance Project and a Provincial Roads Project, addressing road rehabilitation, maintenance, and safety issues.** These recently closed projects: provided funding to increase frequency and quality of road rehabilitation and maintenance; supported institutional capacity building and enhanced the capacity of the private sector to carry out public road maintenance works; catalyzed behavioral reforms in maintenance practices and environmental safeguards; and helped institutionalize the Road Maintenance Trust Fund to oversee and continuously fund road maintenance. The World Bank is now programming an innovative performance-contract management approach to road rehabilitation and maintenance to be rolled out in a new Transport Connectivity Project, currently under preparation. Performance-based road rehabilitation and management is expected to improve cost efficiency and reliability of such works through better risk sharing between the public and private sectors. In addition, the Bank is providing technical assistance on the modernization and development of the country's secondary level airports and on the railway system. The World Bank and IFC, together with other donors, are active partners in the dialogue with government on the development of a public-private partnership approach to expressway financing.

**On the productive side, agriculture remains critically important for rural livelihoods, economic growth and diversification, and sustaining poverty reduction.** About 31 percent of the population remains engaged in agriculture. Agriculture has been an important driver of poverty reduction, accounting for about one-third of the overall decline in poverty over the past decade. Sri Lanka has attained self-sufficiency in rice production. Achieving self-sufficiency has, however, meant that the agriculture production structure has remained concentrated in the relatively lower-valued crops. In 2010, about 44 percent of the cultivated area was under rice cultivation (up from 37 percent in 1980) but the share of rice in the overall value of crop production was only 21 percent. Policy has largely neglected the domestic fruits and vegetable sectors. Despite growing domestic demand and significant potential for export growth, higher-valued crops have not expanded and demand has been met by increased imports. The World Bank and IFC are currently preparing a new Agriculture Sector Modernization Project that seeks to assist the government in: strengthening the country's national agriculture research and development and extension system and policy; improving productivity and climate resilience in irrigated agriculture; and piloting value chain models to promote diversification and increase competitiveness and rural income.

**The World Bank is also supporting improvements in water supply and sanitation and local service delivery through a new Water Supply and Sanitation Project, approved in 2015.** The government places great importance on the development of the water and sanitation sector in the country. Nationally, piped borne water supply coverage stands at 43.5 percent (75 percent in urban and only 15 percent in rural areas). Access to safe drinking water, which includes protected wells, is estimated at 83.5 percent of the total population nationally. Sanitation coverage is estimated at 85.7 percent of the population, with 83.2 percent having onsite sanitation and 2.5 percent a piped system. An additional IDA financing operation to the ongoing North East Local Services Improvement project has recently been approved to support consolidating achievements in local service delivery in the project areas.

## 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 was slower than it otherwise might have been. Among the government's goals is raising forest coverage from 23 percent to 35 percent of the land area by 2020. 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. The World Health Organization has estimated the number of deaths attributable to indoor air pollution and outdoor air pollution in Sri Lanka to be 4,200 and 1,000 deaths, respectively. Indoor air pollution due to exposure to emissions from biomass combustion continue to have a significant impact on health outcomes of the country. While strategies to reduce indoor exposure -- including shifting from biomass to other fuels such as gas, dissemination of improved cooking stoves, and improved kitchen design -- are in place, these factors themselves are being influenced by economic, cultural, and social factors. 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 and has only recently started 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 in the past. Rapid and unplanned development has contributed to habitat fragmentation and the loss of key ecosystem services across the country. The country has the potential to ensure environmental sustainability. Recent policy moves in this direction are encouraging, including the declaration of full protection of mangroves, the proposed ban on imports and local manufacturing of asbestos, as well as strict control on polythene.

**Climate-related hazards pose a significant threat to economic and social development in Sri Lanka.** Extreme variability of rainfall is the defining feature of the country's future climate. With climate projections indicating a rising rainfall trend in the wet zone and decreasing rainfall trend in the dry zone, the risks associated with water-related hazards are expected to intensify. Less and less frequent precipitation in the already dry areas could increase the frequency and duration of droughts while higher and more variable rainfall is expected to increase the frequency and intensity of floods, affecting the country's wet zone in particular. Climate change is expected to significantly impact agriculture, water resources, energy, environment, and fisheries in Sri Lanka.

**The fiscal and physical impacts of natural disasters in Sri Lanka have been sizeable over the past decade, particularly flooding and drought.** Floods have cumulatively affected more than 10 million people since 2000 (over 375,000 people annually on average), while droughts have affected more than five million.[12] River systems are highly flood-prone, with excessive flows often causing extensive damage. Lack of well-developed flood management infrastructure, moreover, means that flooding events will be recurring. Compounding this is a lack of coordination across upstream management of dams and downstream flood risk management. Landslides and high winds also frequently destroy or damage thousands of houses every year. A Fiscal Disaster Risk Assessment study, recently completed by the World Bank, estimates the annual average disaster loss at $380 million, an amount far surpassed in some years. Floods in January 2011, for instance, affected more than a million people in the Northern, North Central and Eastern provinces and caused more than $600 million in direct damages. The floods of December 2012 and 2014 affected more than half a million and one million people, respectively, and caused further significant damage. These recent flood events had significant impact on the agriculture sector in particular, destroying crops, livestock and agricultural infrastructure. Transport infrastructure also sustained heavy damage. Total damage from the 2004 tsunami was estimated to be around $1 billion and the estimated financial needs, including immediate relief, were estimated to be twice as much.

**Disasters triggered by natural events have a disproportionate impact on the poor.** Disasters exacerbate the preexisting social, political, and economic factors that contributed to the vulnerability of the poor and marginalized before the disaster. The poor have limited labor skills, fewer assets, and little or no savings. They have little opportunity for risk diversification and restricted access to credit. Because of this, they are less able to cope with the impacts on consumption or disruptions to income. Exogenous shocks can also increase poverty indirectly through the effects of lower economic growth, higher inflation (to which the poor are more vulnerable), and through consequential lower government spending for social services.

**The poor are also most at risk from natural hazards and man-made related disasters in terms of health and productivity.** Disruption of public utilities such as potable water or sewage systems during a disaster event, for instance, increases the probability of the poor and other vulnerable groups of suffering from increased gastrointestinal and other illnesses. Damage to transport infrastructure hinders the poor's access to health facilities and affects the delivery of humanitarian aid by government agencies and non-governmental organizations, potentially increasing the levels of malnutrition among small children and the elderly. In Sri Lanka, preliminary research on the vulnerability of poor communities to disasters has found a correlation between populations living below the poverty line and those affected by houses damaged due to floods and landslides. Workers in the tea estates demonstrate particular vulnerability to shocks on the tea industry caused by natural hazards, particularly in light of the precarious livelihood of this sector. Low-income farmers in Sri Lanka whose livelihoods depend on agriculture are also disproportionately impacted by flood and drought.

12 Sri Lanka Disaster Information System.

**While Sri Lanka has invested significantly in emergency preparedness and response capacity since the devastating tsunami in 2004, a more comprehensive approach to disaster risk management is needed.** In recognition of the social and economic effects of climate-related hazards, the government has recently made it a priority to strengthen the country's resilience to natural disasters and climate change. Responding to the government's expression of interest for assistance in this connection, a comprehensive program of support involving adaptation-enhancing investments and a Catastrophe Deferred Draw-Down Option (CAT-DDO) was prepared and approved in FY2014. To increase resilience, physical investments will be financed to address short-term infrastructure weaknesses, coupled with a contingent credit line to safeguard against immediate fiscal impacts of a disaster. The program is comprised of: (i) the Climate Resilience Improvement Project (CRIP) aimed at the immediate reduction of physical risk and improving understanding of disaster risks to direct future investment; (ii) a Development Policy Loan (DPL) with CAT-DDO to provide the government with liquidity in the immediate aftermath of a disaster; (iii) support for the development of a long-term Disaster Risk Financing strategy to strengthen fiscal resilience to events; and (iv) a Comprehensive Disaster Risk Mitigation Project (planned for FY2017) that would, among other things, implement the recommendations from the analytical work of the CRIP. 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 in Colombo city region is being addressed under the Metro Colombo Urban Development Project. The Dam Safety and Water Resources Planning Project is supporting the government in strengthening high-risk dams and improving water resources planning process. Additional financing for this project is supporting the rehabilitation of a number of additional dams especially in the Northern and Eastern provinces that could not be included in the original project due to conflict in these areas at that time. A number of IFC's ongoing investment and advisory projects are helping to build climate resilience, including the weather-index agri-insurance project, the sustainable energy finance advisory project, and investment projects fostering renewable energy.

## 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.[13] 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, whose share has increased from 6 percent in 1995 to 54 percent in 2011. A shift towards more coal-based generation is evident since 2012. With 50 percent of Sri Lanka's total export income (approximately $5 billion per year) currently spent on the import of fossil fuels[14], 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.[15] Given Sri Lanka's high dependence on imported fossil fuels, the government has set a target of achieving 20 percent non-conventional renewable energy (NCRE) in the country's electricity generation mix by 2020. To achieve this target, Sri Lanka will need approximately 1,000 megawatts (MW) capacity of NCRE in the coming years.

**World Bank support for Sri Lanka's renewable energy sector in the recent past had demonstrable impacts.** The Renewable Energy for Rural Economic Development Project, which closed in December 2011, supported the development of 185.3 MW of renewable energy capacity, or about 65 percent of total renewable electricity generat-

13 The current share of electrified households is 94 percent, according to the Ministry of Power and Energy.

14 Sri Lanka Energy Sector Development Plan for a Knowledge-based Economy, 2015-2025, Ministry of Power and Energy

15 Small hydro (less than 10 megawatts), wind, biomass, and other energy sources such as agricultural waste, landfill gas and municipal solid waste.

ing 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. Since the project's closure, Standardized Power Purchase Agreements have been signed for at least 95 renewable energy projects with a total capacity of 281 MW. Some banks have even taken their financing abroad to other renewable energy projects outside of Sri Lanka. Sri Lanka is now taking steps, with World Bank support, to access international climate finance to help catalyze greater investment in renewable energy generation. IFC investments in renewable energy projects in Sri Lanka are also helping increase the generation of clean energy, minimize the negative impact of waste dumping, and reduce greenhouse gas emissions in the country.

## WORLD BANK GROUP PROGRAM IN SRI LANKA

**The overarching aim of the World Bank Group's current Country Partnership Strategy (CPS) for Sri Lanka, covering FY2013-2016, is to support Sri Lanka's transition to a middle-income country.** Key elements of this transition include boosting investment, including in human capital, realigning public spending and policy with the needs of a middle-income country, enhancing the role of the private sector, including the provision of an appropriate environment for increasing productivity and exports, and ensuring inclusive growth. At the time the CPS was presented to the Board of Executive Directors in May 2012, it set out to contribute to achieving these goals through three areas of engagement: (i) facilitating sustained private and public investment; (ii) supporting structural shifts in the economy; and (iii) improving living standards and social inclusion.

**A CPS Progress Report prepared in FY2014 provided an opportunity to review the country program and strategy together with the government, taking stock both of progress to date and the government's evolving development needs and agenda.** While the strategic objectives of the CPS remain relevant through FY2016, the progress report proposed a refocusing of some activities as well as the addition of a fourth strategic area of engagement, namely increasing resilience to disasters and climate change, deemed central to Sri Lanka's current development agenda and poverty reduction efforts as discussed above. As the country shifts from reconstruction to addressing the challenges of development on a middle-income trajectory, greater emphasis has been placed on facilitating and creating the enabling environment for increased foreign and domestic investment. At the same time, continued pockets of poverty highlight the need for renewed efforts to target development to the poor.

**A new Country Partnership Framework is to take effect from FY2017 and will be informed by the recently completed Systematic Country Diagnostic, which has identified central challenges as well as opportunities currently facing Sri Lanka.** Sri Lanka has had impressive development gains but there are strong indications that drivers of past progress are not sustainable. Solid economic growth, strong poverty reduction, overcoming internal conflict, effecting a remarkable democratic transition in recent months, and overall strong human development outcomes are a track record that would make any country proud. However, the country's inward-looking growth model based on non-tradable sectors and domestic demand amplified by public investment cannot be expected to lead to sustained inclusive growth going forward. The systematic diagnostic points to fiscal, competitiveness, and inclusion challenges as well as cross-cutting governance and sustainability challenges as priority areas of focus for sustaining progress in ending poverty and promoting shared prosperity.

**The current active World Bank portfolio in Sri Lanka comprises 13 projects (11 IDA operations and two International Bank for Reconstruction and Development operations) with a total net commitment value of $1.5 billion.** Human development accounts for 33 percent of the overall portfolio followed by livelihoods and rural development (25 percent), urban development (24 percent), resilience to climate and disaster risk (14 percent), and finance and private sector (4 percent). Trust funds have continued to play an important role in implementing the World Bank Group's CPS in Sri Lanka, supporting both analytical work and technical assistance, as well as providing stand-alone or co-financing for projects. The portfolio currently comprises nine recipient-executed trust funds of a total net commitment value of $63.8 million. This fiscal year, the lending program is expected to include four new projects, supporting transport, social safety nets, agriculture sector modernization, and eco-systems conservation. Additional financing to the ongoing North East Local Services Improvement project was also approved earlier in the fiscal year. The World Bank Group's program of support to Sri Lanka continues to benefit from close coordination and collaboration with development partners.

## INTERNATIONAL FINANCE CORPORATION (IFC)

**Sri Lanka became an IFC member country in 1956.** As of April 2015, IFC has invested over $1.2 billion in Sri Lanka, including $273 million mobilized from other institutions.

**IFC's activities in Sri Lanka are supporting the World Bank Group's CPS goals.** IFC's strategy in Sri Lanka focuses on: (i) inclusive growth via support for farmers, micro, small and medium enterprises (MSMEs), and labor-intensive industries; and (ii) competitiveness by enhancing growth and competitiveness of priority sectors, including infrastructure, tourism, and agribusiness, with a focus on growth and financial inclusion.

By working closely with the private sector, the government, and the World Bank, IFC uses a combination of investment and advisory services to: create growth opportunities for MSMEs; make strategic investments to increase access to financial services and build infrastructure; 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.

**As of August 2015, IFC's total committed investment portfolio stood at over $419 million,** including $140 million mobilized from partner institutions. By January 2015, IFC had quadrupled its total committed portfolio in Sri Lanka to $517 million from $137 million in June 2011.

IFC's advisory projects are helping to boost access to finance and insurance, build business skills for entrepreneurs, develop supply chains, and promote the growth of tourism. IFC's advisory program currently operates six portfolio projects with a combined portfolio value of $5.19 million.

Examples of IFC's work in Sri Lanka include:

**Boosting Financial Inclusion**

- IFC and Sanasa Development Bank are expanding access to finance for micro and small entrepreneurs who operate in Sri Lanka's lagging regions. Through IFC's interventions, Sanasa expects to reach over 400,000 micro and small businesses.
- IFC's multiple investments in Sri Lanka's Commercial Bank of Ceylon and the National Development Bank (NDB) are bringing innovative financing models and new investors to the country, with the aim of expanding access to finance for small and medium entrepreneurs in Sri Lanka. Through these investments, IFC is helping these two banks reach over 180,000 micro and small businesses.

**Supporting Small Business Growth**

- As of November 2014, IFC's partnership with Dialog Axiata had helped over 12,000 small- and medium-sized entrepreneurs to improve their management skills and improve their businesses through the Small and Medium Enterprise Toolkit. The toolkit is an IFC online resource that provides training and management tools for micro, small and medium sized entrepreneurs, and is available in Sinhala and Tamil.
- IFC's investment in Senkadagala Finance will enable the company to extend over 50,000 new loans to MSMEs over a five-year period. The loan will also help Senkadagala Finance increase its presence in Sri Lanka, focusing on the Northern and Eastern regions.
- IFC and Sanasa Insurance Company are expanding access to weather-index insurance for small farmers. This flexible, affordable product helps farmers by offering protection against losses incurred on their crops due to unfavorable weather and natural disasters. To date,

this project has reached over 45,000 small farmers.

**Strengthening the Tourism Sector**

- IFC is working in the North and East of Sri Lanka to develop these regions into sustainable tourist destinations. It is expected that these interventions will create up to 2,000 jobs in the region.
- In the East, IFC has partnered with National Geographic to create a destination map for the region, highlighting unique and authentic characteristics of the region while helping build the capacity of small businesses working in the tourism sector.

**Boosting Retail**

- IFC's investment in Cargills Foods Company will help the company expand operations, reach more farmers, and improve efficiency of its supply chains. It is expected to create over 2,000 new jobs over the next five years, generate opportunities for skills development for rural youth, and boost inclusive growth by expanding access to markets for farmers as the company grows its retail network across 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 fragile and conflict-affected situations.** MIGA stands ready to participate in productive projects across sectors in the country, and is partnering very closely with the World Bank and IFC with all potential transactions, to ensure full collaboration.

## **SRI LANKA:** SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROJECT

### KEY DATES:

Approved: September 7,2010
Effective: January, 5, 2011
Closing: September 30, 2015

### FINANCING IN MILLION US DOLLARS*:

| Financier | Financing | Disbursed | Undisbursed |
|---|---|---|---|
| IBRD | | | |
| IDA | 57.4 | 53.12 | 4.05 |
| Govt. of Sri Lanka | | | |
| Other | | | |
| Total Project Cost | 57.4 | | |
| **As of August 31, 2015* | | | |

### BACKGROUND AND OBJECTIVES:

The project is designed to improve access to finance, including long-term finance, for SMEs in Sri Lanka affected by the global financial crisis. The core components are a Financing and Risk Sharing Facility ($41 million), and policy and capacity enhancement for SME banking ($16.4 million). The project underwent a 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 IFC.

### KEY RESULTS ACHIEVED AND EXPECTED:

As of March 25, 2015, approximately $36.07 million has been disbursed by the eight partner financial institutions (PFIs) to 743 SMEs, yielding an average loan size of $60,000. The majority of the loans disbursed to SMEs (80 percent) are longer-term (greater than 36 months) maturity loans. Banks have provided training to 7,483 staff and 12,355 SMEs, bringing the total of direct beneficiaries of the training program under the project to over 20,000. Training for SMEs has focused on business development services and accounting, and more recently on entrepreneurship skills and financial literacy. Technical assistance to PFIs has allowed them to incorporate environmental and social safeguards policies in the credit appraisal process, and strengthen SME banking risk management.

### 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*:

| Financier | Financing | Disbursed | Undisbursed |
|---|---|---|---|
| IBRD | | | |
| IDA | 40 | 34.82 | 3.33 |
| Govt. of Sri Lanka | | | |
| Other | | | |
| Total Project Cost | 40 | | |

**As of August 31, 2015*

### BACKGROUND AND OBJECTIVES:

The Higher Education for the Twenty First Century 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. The project comprises four components:

- Institutionalizing norms for higher education: 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, plus development of a quality assurance system to cover the entire higher education sector.
- Promoting relevance and quality of teaching and learning: Providing university development grants to improve the social and economic relevance of university education, as well as quality and innovation grants to improve the performance of strategically selected study programs.
- Strengthening alternative higher education: Modernizing the Sri Lanka Institute for Advanced Technological Education and its network of Advanced Technological Institutes (ATI) through curriculum and management reforms, and expanding the coverage of the ATI to under-served areas to provide more equitable access to alternative higher education.
- Human resource development, monitoring, evaluation, studies, coordination and communication: Strengthening the human resource and organizational capacity of the higher education sector, including the qualifications of academic staff of higher education institutions, while also supporting 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 and adopted. The higher education institutions are implementing the stages of the Qualification Framework ranging from bachelor's degrees to Ph.Ds.
- A Quality Assurance Framework covering public and private higher education institutions has been prepared. Implementation has been competed in 80 percent of universities to date.
- University Development Grants to improve the English, information technology and soft skills of students have been implemented in all universities.
- Quality and Innovation Grants are under implementation in 55 study programs, exceeding the project target of 51.
- There are over 15,000 students enrolled in the ATIs, surpassing the project target of 11,000 students at the present stage. Modernized curricula have been introduced in all 12 ATIs.
- Over 200 university and Sri Lanka Institute for Advanced Technological Education academics are pursuing Master's or Ph.D degree programs, exceeding the project target of 100.
- Short-term professional development activities have benefited about 4,500 university administrators and managers, academics, and technical and support staff.
- Employment and employer studies conducted under the project show improvement in the employability of graduates, and that employers provide positive feedback about many types of graduates.

### KEY DEVELOPMENT PARTNERS:

Ministry of Finance and Planning

## **SRI LANKA:** TRANSFORMING THE SCHOOL AND 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*:

| Financier | Financing | Disbursed | Undisbursed |
|---|---|---|---|
| IBRD | | | |
| IDA | 100 | 53.70 | 38.92 |
| Govt. of Sri Lanka | | | |
| Other | | | |
| Total Project Cost | 100 | | |

**As of August 31, 2015*

### BACKGROUND AND OBJECTIVES:

The Transforming the School Education System as the Foundation of a Knowledge Hub Project 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: (i) promoting access to primary and secondary education; (ii) improving the quality of education; and (iii) 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 $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 survival rate of students through grade 11 is 85 percent (88 percent for girls and 82 percent for boys).
- National assessment of learning outcomes of children at grade 8 were completed in 2012 and 2014, and at grade 4 in 2013.
- Schools in 44 percent of zones (4,509 schools) had completed the school-based management (PSI) program by December 2014. Schools in another 35 percent of zones (3,559 schools) are implementing the PSI cycle in 2015.
- School-based teacher development programs (SBTD) had been conducted in 44 percent of education zones by the end of 2014. About 140,000 teachers (63 percent of all teachers) had benefited from these programs. A further 35 percent of zones are (3,559 schools) are implementing SBTD in 2015.
- Approximately 79 zones (81 percent of zones) and their divisions have been strengthened through human resource development of staff, the construction and/or renovation of office space, and the provision of equipment and technology.
- The number of direct project beneficiaries is about 3 million students at present. The share of female beneficiaries is around 52 percent.
- A quality assurance system reflecting modern trends in developed countries has been introduce for all nine provinces.

### KEY DEVELOPMENT PARTNERS:

The World Bank, the United Nations Educational Scientific and Cultural Organization, Germany's GIZ, the ADB, Japan International Cooperation Agency, Australian government, the Korean International Cooperation Agency, and the United National Children's Fund are active development partners in the education sector in Sri Lanka, and are working in support of the government's overall Education Sector Development Framework and Program for 2012-2016.

The Bank is a coordinating agency and ensures that the activities done by development partners are harmonized with the government program. A joint education meeting is undertaken annually with interested development partners. Australia's Department of Foreign Affairs and Trade (DFAT)(former 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: September 12,2013
Closing: September 30, 2018

### FINANCING IN MILLION US DOLLARS*:

| Financier | Financing | Disbursed | Undisbursed |
|---|---|---|---|
| IBRD | | | |
| IDA | 200 | 59.58 | 124.72 |
| Govt. of Sri Lanka (for 2013-18) | 4,970 | | |
| Other | | | |
| Total Project Cost | 5,170 | | |

**As of August 31, 2015*

### 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 32.5 per 100,000 live births, infant mortality rate of 9.7 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 18 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 to improve the health sector to meet middle-income country standards.

The Second Health Sector Development Project supports 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 supports 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 are disbursed as budget support linked to agreed results achieved over the given period. The project also supports innovation, results monitoring, and capacity building in the health sector. A core team will 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 project supports the implementation of 20 results (a subset of the National Health Development Plan results). So far, in the second year of implementation, the six project development objective indicators met or surpassed their targets for 2014 and progress against intermediate results indicators is also positive. Of particular note:

- Forty two percent (1,627) of the 3,883 Maternal and Child Health (MCH) clinics across the country were supported to reach full capacity to provide MCH services, meeting the target set for the year,; 216 Medical Officer of Health areas out of 330 have at least three health and nutrition community support groups, surpassing the target.
- Forty nine percent (164) of the 330 Medical Officer of Health areas reported having at least two functioning Healthy Lifestyle Centers, surpassing the year-end target.
- National guidelines for rehabilitation services for disabled persons are developed.
- Forty three percent (371) of the 855 primary health care facilities have one-month buffer stock of 16 essential NCD drugs, surpassing the target.;.
- The percentage of hospitals linked to the quality assurance program for laboratory tests conducted by the Medical Research Institute surpassed the target, reaching 94 percent in 2014.
- The tuberculosis case detection rate is 66 percent for 2014.
- Guidelines for quality management units have been prepared and training for administration of the guidelines has been completed, with Quality Management Units functional in more than 30 percent of secondary care hospitals.
- Nearly 30 percent of hospitals are reporting indoor morbidity and mortality data electronically in 2014, surpassing the target.
- Implementation of the Environmental Management Framework has commenced well, with 10 hospitals progressing with the procedure of obtaining Environmental Protection Licenses and Scheduled Waste Licenses. Obtaining these two licenses ensures availability of a safe sewerage disposal system, clinical waste management, and environment cleanliness.

### KEY DEVELOPMENT PARTNERS:

The Ministry of Health, the Ministry of Local Government and Provincial Councils, and 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: May 15, 2018

### FINANCING IN MILLION US DOLLARS*:

| Financier | Financing | Disbursed | Undisbursed |
|---|---|---|---|
| IBRD | | | |
| IDA** | 148.33 | 76.87 | 61.97 |
| Govt. of Sri Lanka | 4.00 | | |
| Other | | | |
| Total Project Cost | 69.33 | | |

**As of August 31, 2015; **includes Additional Financing in the amount of $83 million equivalent approved May 5, 2014.*

### 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, the dams pose an escalating public safety threat. Many large dams are ageing and suffer from 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, comprising an original credit and additional financing 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 62 high-risk large dams through rehabilitation and modernization; improve the basic facilities (roads, lighting, etc.) of 80 dams (including 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 at seven dams where the reservoir has to be emptied in order to carry out the work. The project also sets out to enhance the institutional capacity, as well as the physical and analytical infrastructure, for monitoring hydro-meteorological data, detecting and forecasting water hazards, and water resources planning and management. Around 140 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 also 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. The additional financing will support the rehabilitation of a number of dams in the Northern and Eastern Provinces that could not be included in the original project due to conflict in the area at that time.

### KEY RESULTS ACHIEVED AND EXPECTED:

The original credit of the project was fully disbursed and closed at the end of June 2015. Work at 28 high-risk dams has been completed. The rehabilitation and modernization of seven dams is ongoing, while the preparation for the remaining 27 dams is at different stages, with some ready for procurement while others are at design stage. Remaining Livelihood Support Assistance is expected for up to 7,400 families at three dams. The information, education, and communication campaigns have been completed at two dams and baseline surveys have started. Although the proposed secretariat for dam safety, named "National Center for Dam Safety" is still under consideration by government, its operation is expected to start by giving part-time additional charge to a few experienced staff in the Ministry of Mahaweli Development and Environment. A total of 72 of about 140 hydro-meteorological stations have been completed and are transmitting data. Equipment for 50 stations is already in the country, as is the stock of spare parts. The National Water Use Plan, the updated Mahaweli Water Resources Development Plan, and the river basin plan for the Mundeni Aru River have been completed. The Secretary Ministry of Mahaweli Development and Environment is expected to submit a cabinet memorandum to obtain approval of these three water resources plans.

### KEY DEVELOPMENT PARTNERS:

Implementing agencies include the Ministry of Irrigation and Agriculture, the Ministry of Mahaweli Development and Environment, the Ceylon Electricity Board, and the Water Resources Board.

## **SRI LANKA:** NORTH EAST LOCAL SERVICES IMPROVEMENT PROJECT

### KEY DATES:

Approved: May 13, 2010
Effective: December 15, 2010
Closing: December 31, 2016

### FINANCING IN MILLION US DOLLARS*:

| Financier | Financing | Disbursed | Undisbursed |
|---|---|---|---|
| IBRD | | | |
| IDA*** | 70.00 | 50.00 | 20.98 |
| Govt. of Sri Lanka | 14.00 | 13.00 | 1.00 |
| Australia- Department of Foreign Affairs and Trade** | 20.30 | 17.19 | 3.11 |
| Other – Beneficiaries | 3.00 | 2.00 | 1.00 |
| Total Project Cost (original) | 86.00 | | |

**As of August 31, 2015; ** Additional Financing provided by DFAT ***Includes the original IDA Credit of $50m and an additional financing Credit of $20m*

### BACKGROUND AND OBJECTIVES:

The 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 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 scorecards 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.

Additional IDA financing to the project that would cover a financing gap was approved in August 2015. Together with a DFAT grant, it will help to consolidate achievements in local service delivery in the country.

### KEY RESULTS ACHIEVED AND EXPECTED:

- Six hundred eleven km of inter-connective rural roads, 23 km of flood storm drainages, four rural water supply schemes, 400 common assets (such as markets, parks, playgrounds and cemeteries), and nine rural electrification schemes have been completed.
- Seventy percent of capital grants released against allocations.
- Eighty seven percent increased satisfaction of local people regarding local authorities.
- Seventy five percent of local authorities preparing annual financial statements within three months of closure.
- Seventy five percent acceptable financial audits of accounts.
- Forty five percent of local authorities with budgets prepared in a participatory manner.
- Seventy nine percent of local authorities whose revenues, expenditures and procurement decisions are publically disclosed.

### KEY DEVELOPMENT PARTNERS:

Ministry of Provincial Councils and Regional Development, Ministry of Public Administration and Local Government, Provincial Councils, civil society organizations, private sector and citizens, DFAT (formerly AusAID).

## **SRI LANKA:** METRO COLOMBO URBAN DEVELOPMENT PROJECT

### KEY DATES:

Approved: March 15, 2012
Effective: July 10, 2012
Closing: December 31, 2017

### FINANCING IN MILLION US DOLLARS*:

| Financier | Financing | Disbursed | Undisbursed |
|---|---|---|---|
| IBRD | 213 | 71.55 | 141.45 |
| IDA | | | |
| Govt. of Sri Lanka | 108 | | |
| Other | | | |
| Total Project Cost | 321 | | |

**As of August 31, 2015*

### BACKGROUND AND OBJECTIVES:

Sri Lanka needs competitive and dynamic cities to reach its aspiration of becoming an upper-middle-income economy. In particular, Sri Lanka needs to tap the competitive advantages of the Colombo Metropolitan Region to accelerate growth. The CMR will continue to generate much of the capital, human resources, technology and services needed for growth in the rest of the country. While the CMR covers only about 6 percent of the country's total land area and is home to 28 percent of its population, it accounts for about 45 percent of national GDP and 80 percent of industrial value added. It is the country's major urban agglomeration and is growing faster than any other in Sri Lanka. A number of obstacles are preventing the CMR from realizing its full economic potential. These include: inadequate infrastructure and services; significant vulnerability to flooding, the impacts of which are being exacerbated by climate change and sea-level rise; and poorly designed and maintained drainage. In addition, limited financial and human resources available to local authorities, combined with their lack of coordination, hinder effective delivery, and operation and maintenance of local infrastructure services. integrated planning, management and coordination at the metropolitan level are virtually nonexistent. The project aims to support the government in reducing flooding in the catchment of the Colombo Water Basin, and strengthen the capacity of local authorities in the Colombo Metropolitan Area to rehabilitate, improve and maintain local infrastructure and services through selected demonstration investments. The project includes a component on flood and drainage management and one focused on strengthening strategic planning processes at the metropolitan level. This is in addition to supporting local authorities to rehabilitate and manage streets and drainage infrastructure, and improve local public facilities and other urban services.

### KEY RESULTS ACHIEVED AND EXPECTED:

- Early intermediary results achieved include 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 Department and the Colombo Metropolitan Unit of the Urban Development Authority. The project answered a presidential request to identify solutions to a Solid Waste Management emergency for the Colombo Metropolitan Area, and supported a feasibility study for a new engineered landfill for the metropolitan region.
- Good progress has been achieved in strengthening on-the-job capacities of local authorities in CMR, particularly in the areas of procurement, contract management for municipal roads, coordination with utilities, use of high quality design, and quality and safety standards of municipal roads.
- The large and most complex flood-reduction works (both from the engineering and safeguard points of view) are under preparation by the Sri Lanka Land Reclamation and Development Corporation. The major technical assistance and feasibility studies necessary for the implementation of the flood and drainage management component are in place, although implementation has been delayed by the need for adjustments as a result of hydraulic modeling.
- The following results are anticipated from the project: (i) reduction in the area under risk of flooding (25-28-year return period) in the project area; and (ii) a 20 percent increase in the total urban roads maintained by the project local authorities that are in good and fair condition (indicating improved capacity of local authorities in operation and maintenance of critical municipal infrastructure).

### KEY DEVELOPMENT PARTNERS:

Ministry of Defense 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.

## SRI LANKA: SKILLS DEVELOPMENT PROJECT

### KEY DATES:

Approved: June 20, 2014
Effective: October 23, 2014
Closing: December 31, 2019

### FINANCING IN MILLION US DOLLARS*:

| Financier | Financing | Disbursed | Undisbursed |
|---|---|---|---|
| IBRD | | | |
| IDA | 101.5 | 6.58 | 86.70 |
| Govt. of Sri Lanka | 405.5 | | |
| Asian Development Bank | 100.0 | | |
| Government of Korea | 26.0 | | |
| Germany (GIZ) | 17.0 | | |
| Total Project Cost | 650.00 | | |
| **As of August 31, 2015* | | | |

### BACKGROUND AND OBJECTIVES:

The project aims to expand the supply of skilled and employable workers by increasing access to quality and labor market–relevant training programs. It supports implementation of the government's Skills Sector Development Program (SSDP) for 2014-2020. The project is comprised of two components:

- Under Component 1, the result–based funding component, the project supports three closely related types of interventions: (i) strengthening governance and management; (ii) enhancing the quality and relevance of training; and (iii) increasing access to training opportunities. Several innovative reforms are being supported under the project, including establishment of Industry Sector Skills Councils, introduction of performance-based funding for public training provides, introduction of employment-linked training programs to increase employer involvement in design and delivery of training programs, strengthening the monitoring and evaluation system of the skills sector, and improving labor-market information systems.
- Under Component 2, an innovation, results monitoring, and capacity development component, the project will help to strengthen implementation, coordination, and the monitoring and evaluation (M&E) capacity of the Ministry of Youth Affairs and Skills Development, an implementing ministry.

The IDA credit will be complemented by a $100 million loan from the ADB (through parallel financing). The ADB operation uses a Performance for Results lending instrument to finance the implementation of the government's program. Both operations will rely on common institutional and implementation arrangements, including a set of similar disbursement-linked indicators and M&E arrangements, to ensure close harmonization.

### KEY RESULTS ACHIEVED AND EXPECTED:

The project, which became effective in October 2014, is expected to achieve the following key results:

- Increase the number of trainees enrolled in public and private training institutions;
- Improve the completion rate of trainees enrolled in public training institutions;
- Improve the average earnings of graduates in skills development programs relative to earnings of GCE-O level graduates;
- Increase employer satisfaction with graduates from training institutions.

### KEY DEVELOPMENT PARTNERS:

Ministry of Skills Development and Vocational Training, Ministry of Finance, ADB (through parallel financing)

## **SRI LANKA:** STRATEGIC CITIES DEVELOPMENT PROJECT

### KEY DATES:

Approved: May 5, 2014
Effective: October 16 2014)
Closing: December 31, 2019

### FINANCING IN MILLION US DOLLARS*:

| Financier | Financing | Disbursed | Undisbursed |
|---|---|---|---|
| IBRD | | | |
| IDA | 147 | 9.80 | 123.83 |
| Govt. of Sri Lanka | 43.58 | | |
| Other | | | |
| Total Project Cost | 190.58 | | |

**As of August 31, 2015*

### BACKGROUND AND OBJECTIVES:

A well-functioning and productive system of urban centers is essential for catalyzing and supporting the transformation of the Sri Lankan economy and efforts to translate economic growth into poverty reduction. A holistic, integrated and multi-sector approach is needed to improve the overall functions, competitiveness and livability of these cities as well as strengthening the urban-rural linkages. This project will apply this approach and focus on the two key rapidly growing city regions in the country, Kandy and Galle. The project's overarching aim is to improve select urban services and public urban spaces in Kandy and Galle.

The project is comprised of three components: Component 1, encompassing interventions in Kandy City Region; Component 2, which focuses on interventions in Galle City Region; and Component 3, which provides implementation support. In each city region, the project will target two broad categories of strategic investments: (i) integrated urban services improvement -- with system-wide basic services improvement to enhance the functional aspects of the city; and (ii) public urban spaces enhancement – with catalytic urban upgrading efforts to enhance the attractiveness and livability of the city. Specifically, the project in Kandy will focus on improving deteriorated municipal infrastructure and services, such as traffic and public transport, water supply system, and major public urban spaces that will benefit local residents as well as the commuting population coming to Kandy as a regional hub. Galle will see a reduction of flood inundation within the designated project area and provision of public spaces for citizens.

The World Bank is leading the programmatic dialogue with the government of Sri Lanka regarding overall support to the national-level system of cities strengthening. Going beyond Kandy and Galle, the Bank has recently been engaged with a preliminary diagnostic for urban development and rural-urban linkage in the Jaffna Peninsula, consisting of the Jaffna Municipal Council as the capital of Northern Province and other semi-urban and agriculture areas. The outputs of this diagnostic will serve as key inputs to the national level program, and will be crucial for identifying and tackling key development challenges in the Northern part of the country.

### KEY RESULTS ACHIEVED AND EXPECTED:

The following are among the key results expected to be achieved:

- Improved urban services in Kandy, with 320,000 people expected to benefit from improved basic services by the end of the project.
- Improved urban services in Galle, and a reduction in area at risk of flood inundation within the designated project area in Galle (10-year return period flood for major canals and 5-year return period for local drainage).
- Access to enhanced public urban spaces in Kandy and Galle, through new or rehabilitated urban public spaces and pedestrian sidewalks and pathways.

### KEY DEVELOPMENT PARTNERS:

In order to realize the vision of a system of cities, the government of Sri Lanka has initiated a national-level program – the Strategic Cities Program – to manage the development of strategic cities and to ensure a consistent and coherent approach in developing key cities. The Bank and government have embarked on the first phase of development to support this program – the Strategic Cities Development Project, focused on Kandy and Galle, while other key development partners are focusing on other secondary cities. The ADB is preparing for integrated urban development for Trincomalee, and the French development agency (AFD) is considering support for Anuradhapura.

## **SRI LANKA:** CLIMATE RESILIENCE IMPROVEMENT PROJECT (CRIP)

### KEY DATES:

Approved: April 22, 2014
Effective: August 7, 2014
Closing: May 30, 2019

### FINANCING IN MILLION US DOLLARS*:

| Financier | Financing | Disbursed | Undisbursed |
|---|---|---|---|
| IBRD | | | |
| IDA | 110 | 15.0 | 86.68 |
| Govt. of Sri Lanka | | | |
| Other | | | |
| Total Project Cost | 110 | | |
| **As of August 31, 2015* | | | |

### BACKGROUND AND OBJECTIVES:

The project aims to reduce the vulnerability of exposed people and assets to climate risk and to improve the government's capacity to respond effectively to disasters. These objectives will be achieved through evidence-based investment planning and urgent risk mitigation measures. The project has two main components. The first component ($13 million) will provide for analytical work and long-term basin development planning. The second component ($90 million) will involve urgent rehabilitation investment to increase the country's resilience to climate risks. The project also has two additional components: $5 million to support project implementation and $2 million to provide flexible funding to help the country to recover from a flood event that occurs over the course of project implementation.

Given the current lack of understanding of the multi-sector impacts of climate change, flood/drought modeling and scenario analysis work is required. This will be achieved through detailed flood and drought modeling and design of long-term sustainable mitigation interventions. Once completed, a larger climate resilience investment program would be identified and financed through multiple funding sources. Key line ministries would be brought together in the assessment of risks or impacts on particular sectors and an investment road map would be developed. This roadmap would be financed through follow-on investments from the World Bank and other development partners, as well as the government of Sri Lanka.

While there is a lack of understanding of comprehensive climate and disaster risk, there are urgent climate risk mitigation investments required to ensure the short-term integrity of flood control and irrigation infrastructure, the transport network and critical education facilities at risk. Given the impacts of floods and landslides in the North Central, North Western, Central, and Eastern provinces in recent years, urgent investment is required to implement the immediate risk-mitigation activities.

The overarching goal of this project is to provide an entry point for longer term, larger-scale investment and policy dialogue on climate and disaster resilience. The CRIP was approved, alongside a $102 million Development Policy Loan (DPL) with Catastrophe Deferred Drawdown Option (CAT DDO) designed to increase fiscal resilience in the short term through a line of credit to be used in case of a disaster, and with associated technical assistance.

### KEY RESULTS ACHIEVED AND EXPECTED:

A total of approximately 11.5 million people living and working in districts where these projects will be implemented are considered to be the indirect beneficiaries of this investment. The total direct beneficiaries from all the components of the project are estimated to be 450,000 spread out among 15 districts. Approximately 48 percent of the beneficiaries will be women. The key results are expected to include:

- Development of nine basin investment plans that are based on an integrated understanding of climate risk.
- Decrease in expected annual flood loss across 123,000 hectares (10 percent of the arable land).
- Some 720,000 fewer people at high risk to climate-related transport interruptions.
- Reduced landslide risk at 18 schools, serving 25,000 students.

### KEY DEVELOPMENT PARTNERS:

This is a multi-sector project, being implemented by three line ministries and four departments. The project is being implemented through the Ministry of Irrigation and Water Resources Management, with support from the Ministry of Ports and Highways and the Ministry of Disaster Management. Participating implementation agencies include the Irrigation Department, the Mahaweli Authority, the National Building Research Organization, and the Road Development Authority.

Japan is a key development partner under this program. The technical assistance that supports this program is financed by the government of Japan through the Tokyo Hub of the Global Facility for Disaster Reduction and Recovery.

## **SRI LANKA:** DEVELOPMENT POLICY LOAN WITH CATASTROPHE DEFERRED DRAWDOWN OPTION (CAT-DDO)

### KEY DATES:

Approved: April 22, 2014
Effective: August 17, 2014
Closing: May 30, 2019

### FINANCING IN MILLION US DOLLARS*:

| Financier | Financing | Disbursed | Undisbursed |
|---|---|---|---|
| IBRD | 102 | 0.51 | 101.49 |
| IDA | | | |
| Govt. of Sri Lanka | | | |
| Other | | | |
| Total Project Cost | 102 | | |
| **As of August 31, 2015* | | | |

### BACKGROUND AND OBJECTIVES:

The CAT DDO aims to strengthen the government's fiscal resilience to natural disasters. This will be achieved by providing immediate liquidity to the government in the event of a disaster within a policy framework designed to improve the government's overall capacity to implement its disaster risk management program. The government will be able to access funds from the facility upon declaring a state of emergency following an adverse natural event. The funds may be drawn down over a three-year period, which may be renewed up to four times for a total of 15 years. The signing of the CAT DDO was contingent upon Sri Lanka developing a comprehensive disaster management program.

The development policy loan with a CAT DDO instrument is designed to be a quick and flexible source of financing. The instrument is particularly well placed to provide bridge financing while other sources of funding (for example, bilateral aid and reconstruction loans) are being mobilized following a state of emergency. The financial features are similar to those available for the Deferred Drawdown Option for Development Policy Loans (DDO DPLs), with one exception: the DPL with a CAT DDO will have a revolving feature; that is, amounts repaid prior to the closing date will be available for subsequent drawdown.

The overarching goal of this project is to provide an entry point for longer-term, larger-scale investment and policy dialogue on climate and disaster resilience. While the CAT DDO will help to manage contingent fiscal risk in the short-term, technical assistance will be provided to the government to develop a series of financial instruments to manage the long term liabilities associated with disaster risk. Parallel to the risk-financing instruments, physical investments will be financed under CRIP to address both short-term system weaknesses and to increase the long-term resilience.

### KEY RESULTS ACHIEVED AND EXPECTED:

This DPL with a CAT DDO will facilitate three key prior actions needed to operationalize the Sri Lanka Disaster Management Policy and National Disaster Management Plan (NDMP), and will, in addition, foster improved data sharing within and outside government as a key tool for better disaster risk management. The prior actions are:

- **Improved Institutional Capacity for Disaster Risk Management and Disaster Risk Financing and Insurance (DRFI)**. This is being achieved by the first prior action: the adoption of a national policy and program on the management of disasters. This will be measured through the: (i) completion of fiscal disaster risk assessment; (ii) development of a national DRFI strategy; and (iii) issuance of a government circular on use of policies and guidelines on physical planning, resettlements, and local governance for disaster risk management.
- **Increased capacity to ensure climate resilient development**. This will be achieved by the second prior action: the approval of the National Disaster Management Plan. This will be measured through: (i) nine basin-wide risk mitigation investment plans; (ii) guidelines issued on slope angles in new road construction; and (iii) approval of a national monitoring framework to measure implementation of the Comprehensive Disaster Management Plan.
- **Improved application of disaster information in policy making and development planning**. This will be achieved by the third prior action: approval of the proposal to establish a steering committee to monitor the national program for the common use and sharing of spatial data and information. This will be measured through: (i) a geospatial-data-sharing platform established to share disaster risk information among relevant stakeholders; (ii) disaster risk profiles available at a national level and shared; and (iii) line ministries and agencies accessing the data-sharing platform

### KEY DEVELOPMENT PARTNERS:

This is a multi-sector project, being implemented by three line ministries and four departments. The project is being implemented through the Ministry of Finance and Planning, and the Ministry of Disaster Management. Japan is a key development partner under this program. The Data Risk Financing and Insurance program that supports this program is financed by the government of Japan through the GFDRR Tokyo Hub.

## **SRI LANKA:** EARLY CHILDHOOD DEVELOPMENT PROJECT

### KEY DATES:

Approved: June 24, 2015
Effective: September 25, 2015 (expected)
Closing: June 30, 2021

### FINANCING IN MILLION US DOLLARS*:

| Financier | Financing | Disbursed | Undisbursed |
|---|---|---|---|
| IBRD | | | |
| IDA | 50 | 0 | 50 |
| Govt. of Sri Lanka | | | |
| Other | | | |
| Total Project Cost | 50 | | |
| **As of August 31, 2015* | | | |

### BACKGROUND AND OBJECTIVES:

Sri Lanka has around 17,000 early childhood development (ECD) centers serving approximately 513,000 children in the 3-5 year age group. Evidence from a national survey of ECD centers indicates that less than half of them meet basic requirements for ECD instructional quality. The coverage of ECD services is also low, with only 65 percent of the children in the 3-5 age group enrolled in ECD centers. ECD provision in Sri Lanka is largely dependent on the non-state sector, and public expenditure on ECD is significantly lower than that the expenditures in other middle-income countries. Recognizing the importance of the role of ECD in achieving the country's long-term development goals, the government of has decided to increase its support to the sector through the Early Childhood Development Project, with the objective of enhancing equitable access to and improving the quality of ECD services across the country.

The project is organized under two components: (i) expanding and strengthening the delivery of ECD services, and (ii) project management, and monitoring and evaluation. Recognizing that ECD services are provided primarily by non-state ECD centers, the project provides support to both state- and non-state managed ECD centers. The key activities in the project focus on improving the quality of ECD provision, expanding equitable access to ECD services, and improving the quality of ECD services in the plantation sector. In order to enhance the quality of ECD provision, the project supports quality management, facility improvement of ECD centers, training of ECD teachers and teacher assistants, and the training of trainers and government staff working in the ECD sector. It supports both supply- and demand-side interventions to enhance access to ECD services Such interventions include awareness programs, fee waivers to ECD center students from poor households, and establishment or extension of facilities in un-served and underserved areas. The design of the components and activities under the project draws upon the findings and recommendations from an ECD study conducted by the World Bank in FY2013/14.

### KEY RESULTS ACHIEVED AND EXPECTED:

It is expected that, by the end of the project period, the following key results will have been achieved:

- 661,150 children enrolled in ECD centers (Girls: 327,400).
- 3,500 ECD centers in total and 550 ECD centers in plantations will have met national quality standards.
- 5,000 ECD centers will have started conducting annual child development assessments.
- 6,000 ECD centers will have received facility improvement grants, and teaching-learning material packages.
- 500 ECD trainers will have completed training of trainers.
- 6,000 ECD teachers and teacher assistants will have completed standardized short-term training.
- 350 government staff will have completed standardized short-term training.
- 25,000 poor children will have received tuition fee support to attend ECD centers.
- 185 centers will have been established in unserved/underserved areas.

### KEY DEVELOPMENT PARTNERS:

State Ministry of Child Affairs, Provincial Councils, Plantation Human Development Trust .

## **SRI LANKA:** WATER SUPPLY AND SANITATION IMPROVEMENT PROJECT

### KEY DATES:

Approved: June 24, 2015
Effective: Expected September/October 2015
Closing: December 31, 2020

### FINANCING IN MILLION US DOLLARS*:

| Financier | Financing | Disbursed | Undisbursed |
|---|---|---|---|
| IBRD | | | |
| IDA | 165.00 | 0.00 | 165.00 |
| Govt. of Sri Lanka | 5.00 | 0.00 | |
| Other: Communities | 13.90 | 0.00 | |
| Total Project Cost | 183.90 | 0.00 | |
| **As of August 31, 2015* | | | |

### BACKGROUND AND OBJECTIVES:

The government of Sri Lanka aims to provide access to safe drinking water for all its citizens, and is focused in particular on increasing the quality of service. Its medium-term target is to increase piped water coverage from the current 45 percent to 60 percent by 2020. Improving water supply, sanitation and hygiene behavior are central to progressing on the Millennium Development Goal for malnutrition and child mortality.

The Government set up a new department in September 2014, the Department of National Community Water Supply (DNCWS), with responsibility for ensuring the long term sustainability of community water supply systems. The DNCWS is still in its infancy and needs support and capacity building to fully define and deliver its envisaged role. The country is also increasingly focused on sustainable service delivery in the estate plantation sector, where access to water and sanitation services is lower and poverty is higher than the national average.

This project aims to increase access to piped water services and improved sanitation in selected districts. It also seeks to help strengthen the capacity of associated institutions. The project focuses on addressing the long term sustainability of water supply schemes managed by Community-Based Organizations (CBOs), strengthening institutions involved in service delivery in the rural and estate sectors. The project will also support the systematic use of monitoring and evaluation data to assess and enhance the performance of all CBOs and operations of the water supply schemes in rural and estate sub-sectors. Focused in particular on supporting the country's lagging regions, the project covers the following seven districts: Mullaithivu and Kilinochchi districts in Northern Province; Nuwara Eliya district in Central Province; Badulla and Monoregala districts in Uva Province; and Kegalle and Ratnapura districts in Sabaragamuwa Province. The selection of the seven high priority districts was based on three criteria: (i) percentage of people with access to unimproved/unsafe water; (ii) percentage of households with access to non-piped water sources; and (iii) districts located in dry zones.

### KEY RESULTS ACHIEVED AND EXPECTED:

Around 450,000 people are expected to benefit under the project from improved access to safe piped water, contributing to the Government's national target of increasing piped water coverage from the current 45 percent to 60 percent by 2020. The results of this project will be measured by monitoring the following indicators:

a) Direct project beneficiaries, including percentage of female beneficiaries;
b) People provided with access to "Improved Water Sources" (Urban), including female percentage;
c) People provided with access to "Improved Water Sources" (Rural + Estates), including female percentage;
d) People provided with access to "Improved Sanitation" (Rural + Estates), including female percentage;
e) A populated and functioning rural water supply and sanitation monitoring and evaluation system; and

The increase in the proportion of fully functioning CBOs

### KEY DEVELOPMENT PARTNERS:

Implementing agencies include the Ministry of Urban Development, Water Supply and Drainage; National Water Supply and Drainage Board; Department of National Community Water Supply; Plantation Human Development Trust; Regional Plantation Companies; and targeted Communities.

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