

Eliminating Barriers to the Inclusive and Sustainable Growth Sri Lanka

Report to DFAT- 2018

Table of Contents

Summary	2
1. Introduction and description of the program.....	2
2. Relevance of the Program (is it still the right thing to do?).....	3
3. Effectiveness and Efficiency.....	5
4. Gender Equality and Poverty	8
5. Monitoring and Evaluation	9
5.1 Pillar 1. Trade Policy and Facilitation	9
5.2 Pillar 2. Investment Climate and Investment Policy	14
5.3 Pillar 3. Innovation and Entrepreneurship and Tourism.....	22
5.4 Pillar 4. State-Owned Enterprises (SOEs).....	25
6. Sustainability and Risks	28

Summary

Program title	Eliminating Barriers to the Inclusive and Sustainable Growth in Sri Lanka
Timeframe	EFO activities: 2016-18. Trust Fund activities: 2017-20
Program Description	The <i>Eliminating Barriers to Sustainable and Inclusive Growth in Sri Lanka</i> Program supports the attainment of the GoSL's Vision 2025 through the provision of analytical and advisory services to identify and implement a wide range of priority reforms necessary to unleash the trade and competitiveness potential for inclusive and sustainable growth in Sri Lanka.
Budget (USD)	USD6.46 million (USD2million for EFOs; USD4.46 million for TF)
Country	Sri Lanka

1. Introduction and description of the program

While growth in Sri Lanka has been high over the past few years, it has stemmed from non-tradable sectors (mainly construction and real estate) and is thus both unsustainable in the long-term and inequitable. Trade as a proportion of GDP decreased from 88 percent in 2000 to 48 percent in 2016, while the composition of exports continued to be characterized by a high concentration on garments and raw materials. While the Government has strived to attract FDI to bolster competitiveness, Sri Lanka attracts much lower FDI (as a proportion of GDP) than peer economies, and only a small proportion of investment attracted is efficiency-seeking. At the same time, the competitiveness of the private sector in Sri Lanka remains low due to various factors, including a high degree of informality and outdated production processes.

The Government of Sri Lanka (GoSL) has set out an ambitious vision for the country, which focuses on enhancing competitiveness of the private sector to support economic diversification, enhance the volume and value addition of exports, and ultimately create more and better private sector jobs and become an upper-middle income economy.

At the Government of Sri Lanka's request, the World Bank and the Australian Department of Foreign Affairs and Trade (DFAT) have mobilized resources to support the Government of Sri Lanka's vision through a three-year program of technical assistance¹ to identify and implement a wide range of priority reforms to create a more agile trade regime and enhance the international competitiveness of Sri Lanka's private sector.

The program assists the GoSL's economic transformation priorities through four pillars:

1. **Eliminating barriers to Trade.**

¹ The funding modalities for this program are Externally-Funded Outputs and Trust Funds

Under this pillar, the main outcomes include:

- 1.1. The development and adoption of a new national trade policy for Sri Lanka (trade policy activity);
- 1.2. The establishment of a more-agile trade facilitation system (trade facilitation activity).

2. Improving the Investment Climate and Policy.

Under this pillar, the main outcomes include:

- 2.1. Streamlined and simplified business regulation through institutional, legal and regulatory reforms to reduce the time and transaction costs to enterprises (Doing Business Reforms);
- 2.2. A strengthened investment promotion and advocacy capacity at the Board of Investment (BOI) (investment promotion activity);
- 2.3. Increased investment facilitation through the establishment of a One Stop Shop (OSS) for approval of investor applications at the BOI (OSS activity);
- 2.4. A more effective investment incentive regime (Investment Incentives activity);
- 2.5. A strengthened legal framework for investment.

3. Fostering Firm Growth and Competitiveness

Under its third pillar, the main outcomes include:

- 3.1. Strengthened private sector's competitiveness through the production of a four-year strategic plan that will guide the reforms of the relevant institutions and of the sector.
- 3.2. Enhanced sustainability, economic inclusion and competitiveness of the tourism sector through support for implementation of the Tourism Strategic Plan.

4. Enhancing the efficiency of SOEs

Under this fourth pillar, the main outcomes include:

- 4.1. Strengthened legal and institutional framework for the State's SOEs ownership and oversight functions.
- 4.2. Improved evidence based performance monitoring and evaluation of key SOEs.
- 4.3. Improved SOE corporate governance and leadership capacity through intensive training for policy makers, SOE boards and senior managers

2. Relevance of the Program *(is it still the right thing to do?)*

At the Government of Sri Lanka's request, the World Bank is supporting the structural transformation of the economy that will be required to materialize Vision 2025, the GoSL's medium-term planning document. The activities funded under this umbrella program include strengthening the major relevant policies impacting the private sector, namely business enabling regulations for promoting investment and growth (Chapter 6 of Vision 2025, Strengthening the Growth Framework); trade policy and trade facilitation (Chapter 6), firm growth and financing (Chapter 7 on factor markets), and state-owned enterprise (SOE) governance (Chapter 12 on Governance and Accountability).

The Government of Sri Lanka has sustained a high-level of ownership in the focused and ambitious reform efforts supported by the DFAT-funded WB program. The government's commitment to leveraging and enabling the private sector and improving the efficiency of state-owned enterprises is evidenced by a

series of reforms it has adopted over the past couple of years. However, despite institutional capacity constraints and coordination challenges continuing to hamper the implementation of the reforms, the DFAT-funded program has led directly to the accomplishment of the following key reforms:

- A new Trade Policy approved by Cabinet in August 2017 and the start of para-tariff reforms announced in the 2017 Budget: 970 Tariff Lines for PAL, 275 Tariff Lines for the Import Cess and Trade Adjustment Package.
- The National Trade Facilitation Committee was approved by Cabinet and started implementing trade reforms in May 2017. The WTO Trade Facilitation Agreement was endorsed in November 2017;
- The Tourism Strategic Plan was approved by Cabinet (March 2017) and its implementation has started.
- The legal framework to strengthen the oversight and accountability of State-Owned Enterprises has been developed
- Cabinet approved the establishment of eight Doing Business Reform Task Forces in May 2017, which have commenced the design and implementation of regulatory simplification reforms; in May 2016, the Cabinet approved Terms of Reference for the OSS for investors to expedite the foreign investment approval process. A new Corporate Plan to strengthen the Board of Investment (BOI) and a new investment promotion strategy were adopted by the BOI opening the way for more effective investment promotion in top tier sectors and better aftercare services for investors; 42 BOI staff completed a World Bank investment promotion certification program in February 2018.
- A new expenditure-based investment incentive regime was adopted as part of the New Inland Revenue Act which becomes effective in April 2018, replacing the less effective tax holiday incentives.
- A National Quality Infrastructure Strategy and an Innovation and Entrepreneurship Strategy have been drafted and are being finalized for submission to Cabinet

The DFAT-funded activities under this proposal leverage other WB work, including a) a budget support operation that provided financing to the GoSL upon completion of reform milestones; b) a technical assistance program to accompany and support the GoSL throughout its ambitious reform agenda; c) programmatic lending support for tourism development and financial deepening including Public Private Partnerships to crowd in private investment to meet the country's needs for critical infrastructure; and d) financial sector modernization. The activities also leverage other development partner funding including the Japan International Cooperation Agency (JICA), the European Union (EU), the United States Agency for International Development (USAID), the Asian Development Bank (ADB), the International Finance Corporation (IFC), the International Trade Center (ITC) and planned development partner participation in tourism including AIIB, AFD, and others

The umbrella structure of the DFAT trust fund continues to be appropriate to support the GOSL and deliver the intended results, with a few enhancements proposed in the going forward section of this report. Specifically, the enhancements propose a gender, youth, disabled and poverty cross-cutting pillar, as well as a more streamlined approach, a contingency fund to react to opening reform options, an explicit business development line, and some more analytical work.

3. Effectiveness and Efficiency

The funding provided for the EFO activities (One Stop Shop (OSS); Investment Promotion; Investment Law; Investment Climate and Tourism) for a total amount of USD2million for FY2016-18 has been fully disbursed (see table below). Resources have been allocated strategically to target key activities such as critical diagnostics and policy recommendations supported by visits from the World Bank team for policy dialogue and when support for implementation and training to key stakeholders are needed. Several World Bank staff delivering this technical assistance are based in the Colombo office, thus enabling the Bank to sustain a continuous engagement with the government. As activities progressed, resources were also rapidly mobilized for just in time policy advice in respond to the GOSL's emerging needs. An important aspect of the work is that, by design, the activity components are highly complementary and leverage the mutual efforts to maximize impacts, synergy and ensure greater efficiency. The current South Asia DFAT TF Window, for which this Proposal envisions an extension, was initially funded in the amount of USD4.5m. Under that, the activities proposed and agreed at the time were complimentary to the EFO activities and mutually reinforcing – in addition to the investment activities and Doing Business / Investment climate, a new activity added was trade policy and trade facilitation, and Innovation & Entrepreneurship and SOEs.

Table 1: DFAT Externally Funded Output (2016-2017) - Spending rate per component

	FY 16-17-18 allocated	Commitments and actual (TF)	Expenditure/disbursement (in percent)
Tourism	360,000	353,559	Fully spent
Investment Policy	1,000,000	887, 996	Fully spent
Investment Climate	640,000	599, 335	Fully spent
Total	2,000,000	1,840,890	1,840,890+8% TF charge=2,000,890

All activities have consistently shown good absorption capacity together with implementation progress and results. The EFOs have been fully spent as they were set up earlier and work has since been completed (see Table 1 above). It is noteworthy that GOSL is continuing with reforms in all three areas despite the EFOs having reached completion dates - supporting activities in tourism, investment policy, and investment climate have been extended beyond the original EFO end dates, and incurred unallocated expenses in the bank budget for tourism and in the SAR Trust Fund vehicle currently in operation for the latter two (USD317,402 and USD50,912 respectively). This was a lapse in SAR TF umbrella vehicle original allocations, which is now being corrected in the top-up proposal, as these reforms have picked up.

The SAR TF has ongoing activities with an overall spending rate of 73 percent but already most components have fully absorbed their funding, particularly active reform areas such as trade facilitation, trade policy, and investment policy and investment climate. In fact, without counting the SOEs pillar, the total funding for the remaining components has dwindled to \$253,980 as of March 2018 (out of \$2.65m net available, or a spend rate of over 90 percent). This is already constraining the technical assistance

being rendered to GOSL in these activities pending the replenishment in May-June 2018. The trade policy and innovation & entrepreneurship activities have managed to attract additional global funding from within the WBG, which has alleviated somewhat the collective overspend by all remaining components. The rate of spending in the SOE component has been slowed down by the size and sensitivity of reforms in this area, and the need for preparatory work and mindset/behavioral change among some of our counterparts. Going forward, the pillar has been augmented (per proposal) to include public investment aspects thus the spending rate is expected to increase. In addition, more resource-intensive activities will be carried-out (training, workshops, follow-up to implement reforms, support to ICT solutions).

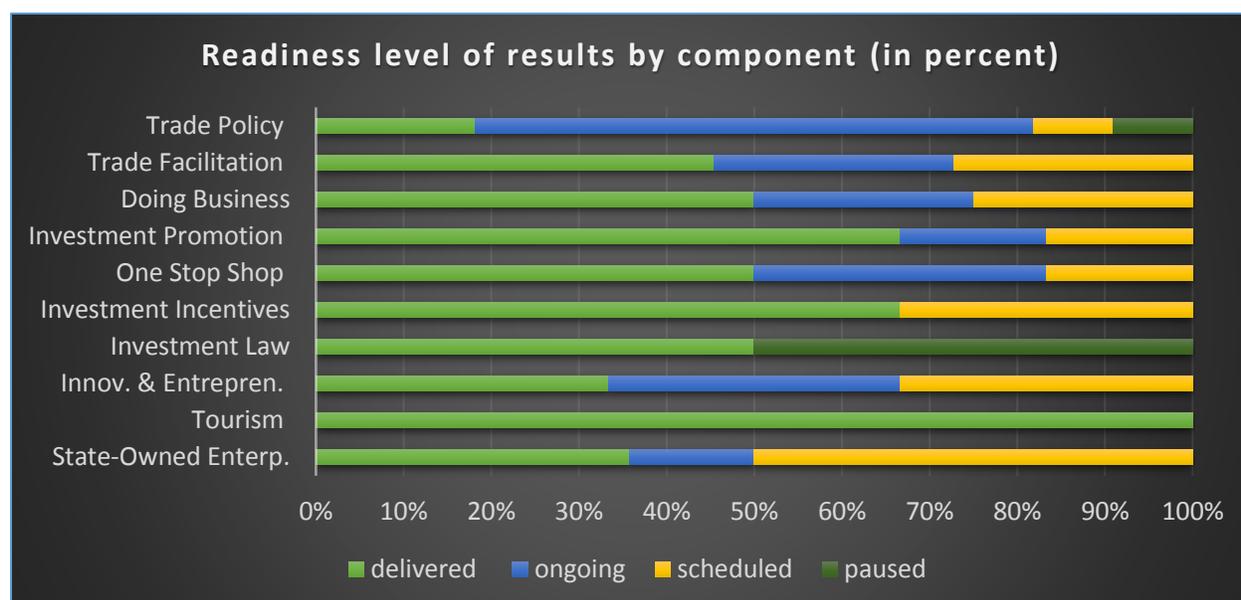
Table 2: South Asia Region DFAT - Spending Rate per component

	FY 16-17-18 allocated	Commitments and actual (TF)	Expenditure/disbursement (in percent)
Trade Policy*	550,000	207,633	298,367 remaining*
Trade Facilitation	1,385,000	1,328,668	Over- spent by 54,468
Investment Policy	0	317,402	Overspent the EFO allocation
Investment Climate	0	50,912	Overspent the EFO allocation
Innovation & Entrepreneurship*	700,000	181,719	462,281 remaining *
SOEs	1,585,424	325,571	1,133,019 remaining
Admin costs	241,080	305,679	overspent by 83,886
Overall	6,461,504	4,717,584	73% spent

* Global TFs (including DFST) were used to complement spending and conserve funds in expectation for lumpy contracts. This is now materializing with trade policy, and expected to start later with I&E as well.

In terms of results, we see a similar picture. The original EFO components have fully disbursed – investment law, tourism at 100 percent each and investment promotion at 83 percent. One result – FDI implementation plans by sector – has not been achieved due to lack of political will (though now we have seen a request along these lines). The remaining components – OSS and investment climate, are at 50 percent due to slower capacity of reform absorption by the GoSL. Specifically, OSS work started in earnest in September 2017, a full year after the planned start date, due to the ongoing change management and reorganization process at BOI. In the case of Doing Business reform, coordination among the various working groups has been complex, and high to midlevel government ownership has been slow to establish. Below, the specifics are listed by component.

Figure 1: Readiness level of results by component



On the trade policy and facilitation components, over 80 percent and 70 percent of outputs, respectively, have been completed. Most of the activities for trade policy and trade facilitation were initiated in mid-2017 and have been progressing as per schedule. Outputs have been produced in time and resources mobilized in a strategic and efficient manner. The reform leveraged a small budget outlay to generate a momentous reform in trade policy (the largest in South Asia and one of the largest single-shot para tariff reduction program in the world – gazette on Nov 11, 2017 with immediate effect). The trade facilitation reform is of potentially significant magnitude as well, but results were not yet locked-in at the time of writing.

One key activity on trade is the study analyzing the impact of trade reforms on poverty and gender, to be started in March 2018 and completed in October 2018 in time for 2019 budget discussions. The studies on export taxes and non-tariff barriers have also been postponed due to the lack of reform opportunity in those specific areas.

Overall, the progress of activities under the investment pillar has been satisfactory and on schedule. In the case of investment law and other investment incentives, technical outputs were produced as planned but progress was delayed because of lack of a political champion in the case of the former (although Company Law is now in the early stages of comprehensive reform), and challenged through an alternative approach in the case of the latter (the IMF Inland Revenue Act reform).

Under the Doing Business component, activities have progressed well. Eight Task Forces have been successfully established and approved by the Cabinet (appointed during a ceremony chaired by the Prime Minister (PM)), and their respective actions plans were also approved by the Cabinet. These have laid the foundations for implementation of reforms in a focused and prioritized manner for the first time. Despite some progress on substantive reforms across the Doing Business areas, most of the required actions will require further technical assistance and continued championship from Government, to be fully implemented.

The OSS component has demonstrated good value for money with relatively low project expenditures and significant financial commitment by the Government. The project has funded staff and consultants' time and travel to prepare a comprehensive report on investment approval processes and provided on-demand support to the BOI. The initial delays on the OSS were successfully overcome in early 2018, when the Government appointed and funded a project team to work closely with line agencies to prepare memoranda of understanding and standard operating procedures to streamline investment approvals. The BOI has committed funds to deploying an ICT solution including an information portal and application tracking function.

Under the tourism and investment promotion components all activities have progressed as per schedule and have been completed or are nearing completion. Strong leadership from counterparts and rapid mobilization of resources for the activities have contributed to the good pace of progress. These components will be rolled out and next steps have been identified.

Activities under the Innovation and Entrepreneurship (I&E) component have progressed well and key outputs have been delivered as per schedule.

The SOE component is new and most activities foreseen in the first year were initiated in August 2017. The initial activities focused more on analytical work and on policy advice/notes to inform the reform agenda. Accordingly, key outputs delivered in 2017 include the submission of a Comparative Note on SOE ownership structures across the world, including holding companies; a policy note and advice on the design of the institutional framework for SOE ownership in Sri Lanka; and technical assistance and advice on the legal framework on SOE ownership and oversight (both on the Public Enterprise Act and then for the Public Financial Management Act). In addition, under the capacity building component, initial activities focused on developing a comprehensive training curriculum for senior management, the Board of Directors of SOEs and policy makers. The initial round of workshops was conducted in Q3 and Q4. Going forward, more resource-intensive activities will be carried out, as activities under this component will focus more on policy implementation support such as the implementation of a performance management policy, the strengthening of the state ownership functions, the institutionalization and roll out of the capacity building program as well as the design and implementation of evidence-based communication and change management strategies.

4. Gender Equality and Poverty

The TF-funded activities have contained a gender focus throughout implementation. Specific results are described below.

Under the trade facilitation component, consultations were held with 43 representatives from the private sector to ensure their views are incorporated and their concerns are addressed to the extent possible while developing the trade information portal. Out of the 43 respondents fair representation of women traders were included. The representation included both local and international Business Chambers. The feedback from women traders was very informative and highlighted the acute need to access information on electronic platforms due to the higher level of intimidation faced by women when dealing personally with government officers to obtain this information.

The trade policy analysis will also shed light on how potential tariff reforms will affect the poor as well as female workers.

Under Pillar 2 (Investment Climate): The choice of the 5 top tier sectors for FDI promotion is based on a sector scan, which screened *inter alia* job-creation potential including jobs for women. All the 5 selected sectors rank 4 or 5 (out of a ranking of 1 through 5) on the former, and all but one rank similarly high on jobs for women. Job creation, especially in high value, productive services and labor-intensive manufacturing sectors, has in the past been critical in meaningful poverty reduction, and it is expected that they will continue to be important in providing productive economic opportunities going forward for women. In addition, 50 percent of the graduates for the Investment Promotion certification program were women (20 women out of a total of 42 participants). The 8 task forces designing and implementing Doing Business reforms have 29 percent women membership.

Under Pillar 3 (Innovation and Entrepreneurship): The Export Development Board (EDB) adopted the World Bank-designed pilot program and replicated a Marketplace event which focused on women entrepreneur and was launched on International Women’s Day. In total 20 female led SMEs/entrepreneurs took part in the platform to purchase services and showcase their business/export strategy to a panel of judges. The selected three female winners were then given an opportunity to further partake in the EDBs flagship program “2000 Exporters”.

5. Monitoring and Evaluation

5.1 Pillar 1. Trade Policy and Facilitation

Objectives of the pillar: Under this pillar, several complementary components are intended to attain sub-objectives, contributing altogether to the overall goal of reducing regulatory barriers to trade to enhance the trade potential in Sri Lanka.

1. Trade policy component: Articulate and establish a more open trade policy regime in Sri Lanka.
2. Trade Facilitation component: Develop an agile trade facilitation system and reduce regulatory barriers to trade.

Overall progress versus objective: The components have reported satisfactory progress against their objectives. The outputs below constitute evidence of good progress made so far in the trade-related components.

Main outputs for the trade policy component:

A new Strategic National Trade Policy

Original description and rationale: Sri Lanka stands at a crossroads where it needs to frame a new trade policy framework aimed at revitalizing its export competitiveness and integrating it more closely with the rest of the world. The Ministry of Development Strategies and International Trade (MoDSIT) had been tasked with creating the New Trade Policy Framework (NTPF) by November 2016, and had requested the World Bank Group (WBG) to support it in drafting the document. The support intended to include helping MoDSIT form a task team, convening the team periodically to assess progress, and drafting of the final document. Beyond that, the WBG aimed to help MoDSIT organize stakeholder workshops for dissemination of the draft and final versions of the NTPF – an activity that was also requested by MoDSIT.

Status: A NTPF has been articulated and was adopted by Cabinet in August 2017.

Intermediate outcomes: the NTPF ensures alignment of trade policy and sectoral policies toward achieving the common goal of revitalizing Sri Lanka's export competitiveness and integrating the country more closely with the rest of the world.

A Para-tariff reduction schedule

Original description and rationale: Sri Lanka's trade policy, with high and variable tariffs and para-tariffs, is characterized by a strong anti-export bias, and has been a key contributor to the decline in trade performance. It is now recognized by the GoSL that it needs to draft a new trade policy. The objectives of the new trade policy should primarily seek to reduce its anti-export bias and focus on a more neutral regime across sectors/products. In being mindful of the impact of tariff reform on revenue and balance of payments, the GoSL needs to incorporate a gradual but firm liberalization schedule, allowing time for adjustment, with a fixed phase-out schedule (sunset). It is also clear that para-tariffs need to be consolidated, reduced in magnitude, and eventually eliminated, as they are non-transparent in nature and their ad-hoc imposition as an easy "go-to" for revenue generation takes away predictability, which is critical for production and investment decisions. The MoDSIT has requested the WBG to conduct a rapid stock-taking of its tariffs and para-tariffs, and that study is currently underway and should be ready by August 2018. In addition, sectoral and revenue impact analyses will be conducted to serve as an input to a tariff and para-tariff reduction schedule.

The MoDSIT has indicated that it will need WBG support in preparing the tariff reduction schedule. The activity would include regular consultations with various stakeholders, other ministries, the Ministry of Finance, and in coordination with the IMF program.

Status: A revenue impact analysis of para-tariff phase-out has been produced and the implementation of the para-tariff phase-out reform started in the 2017 budget with the elimination of 970 Tariff Lines for PAL and 275 Tariff Lines for the Import Cess.

Intermediate outcomes: the implementation of the para-tariff reforms contribute to a simplified, transparent, and predictable tariff regime (with many para-tariffs eliminated). This effort will continue in the context of the implementation of the New Trade Policy and the negotiations of the Free Trade Agreements.

Next steps for the Trade Policy component:

- Principles and timeline for tariff rationalization, including customs duties with Free Trade Agreement (FTA) partners, and phasing out of para-tariffs are developed and incorporated into the 2018 budget.
- Technical assistance is delivered to the Government on reform implementation support, through workshops, preparation of policy briefs, and engagements with the private sector.
- Complete study on the Trade Adjustment Package and include relevant recommendations in the 2018 budget.
- Study on trade reforms, international experiences, managing reforms; impact of trade reforms on poverty, output and revenue; how past and future reforms affect local patterns of development, including jobs, gender, migration patterns, and poverty; to also bring together the scattered work on this subject.

Main outputs for the Trade Facilitation component:

Strengthening the National Trade Facilitation Committee and its Secretariat

Original description and rationale: the GOSL recognized the importance of establishing a formal mechanism to coordinate all trade facilitation related activities in Sri Lanka by appointing the National Trade Facilitation Committee (NTFC). This is also a requirement of the World Trade Organization Trade Facilitation Agreement (WTO-TFA). However, international experience strongly suggests that the sustainability of such committees depends heavily on the availability of high quality Secretariat support. The need for adequate, full time, staffing resources to be made available by the Lead Agencies was fully acknowledged by the members of the NTFC. Support under this component involved technical advice to NTFC members to prioritize TFA reforms and assist with their implementation; refining the Terms of Reference of the Committee; facilitating dialogue between Customs, Commerce and other agencies working on TFA-related activities; and facilitate Public-Private Dialogue.

Status: The Cabinet approved the National Trade Facilitation Committee, the terms of reference (TORs) of its Secretariat ToRs and reporting lines in November 2017. The NTFC chair and co-chair approved the Trade Facilitation Implementation Action Plan developed by the NTFC Secretariat in September 2017.

Intermediate outcomes: Sri Lanka now has a well-functioning inter-agency, public-private body for trade facilitation, in line with WTO requirements and international best practice. The National Trade Facilitation Committee (NTFC) and the Secretariat are fully operational and started implementation of their action plan for reforms, with the MoDSIT in the process of identifying long-term budget resources to fully institutionalize the NTFC Secretariat within the government. In addition, the Prime Minister has given the NTFC the second mandate of leading the DB reform taskforce on the “Trading Across Borders” indicator. The private sector and public sector have provided very positive feedback on the NTFC, compared with the previous lack of dialogue across government and with the private sector on trade facilitation reforms. However, there is now a recognition that it will now be important to demonstrate reform “wins” like the Trade Information Portal.

Support for implementation of key TFA measures.

Original description and rationale: In response to a request by the Sri Lankan Government, the World Bank’ Trade and Competitiveness Global Practice undertook a mission in April 2015 to assess Sri Lanka’s compliance with TFA commitments under the (WTO-TFA). The assessment identified gaps in implementation and validated Sri Lanka’s own assessment of compliance. Based on this analysis, the World Bank identified high priority areas with significant potential to transform the Sri Lankan trade facilitation regime. The World Bank support in the current project has focused on:

- 1) Establishing a well-functioning institutional framework to set priorities for trade facilitation, through the public-private National Trade Facilitation Committee and its Secretariat;
- 2) Targeted advice and support for the implementation of selected reforms (reform of the Customs Ordinance, risk management);
- 3) Implementation of larger initiatives to improve transparency (Trade Information Portal) and pave the way for major reforms to streamline border clearance (National Single Window Blueprint).

Status: Legal Review – The Minister of Finance and Customs Director General have prioritized the updating of the Customs Ordinance to ensure it sets the appropriate legal framework for contemporary trade facilitation practices, as the current draft dates largely to the 19th century.

Intermediate outcomes: The Customs Legal Department produced a comprehensive re-draft of the Customs Ordinance, drawing on the World Bank’s TFA Gap Analysis from 2016 that identified priority sections to be updated. At the request of Customs, the World Bank provided further legal advice on the draft prepared by Customs to ensure it meets the standards set by the WTO-TFA. The re-draft was shared with the Legal Drafting office of the Attorney General’s Department and is now ready for Parliamentary submission. The proposed amendments along with the revised Customs Ordinance draft have been submitted to the Ministry of Finance for submission to Parliament, pending a policy decision by the Minister on the scope of reforms to be introduced.

Risk Management – Technical assistance and capacity building support to improve the risk management function in Sri Lanka Customs.

Intermediate Outcomes – four class room style training programs were conducted on Risk Management and Intelligence. Feedback from Customs was positive stating that this helped clarify how risk management staff should give effect to previous international training from the World Customs Organization and other development partners. However, significant improvements in risk management will only come if there is more comprehensive institutional reform of risk management. To this end, the World Bank provided a comprehensive report highlighting key gaps in current risk assessment practices, recommendations and international best practices in risk management methodology. This was shared with the DG of Customs in February 2018. The recommendations include institutional reforms (e.g., the establishment of a formal risk management function in Customs) as well as longer-term recommendations (e.g., reforming the Rewards Scheme in Customs). The report also outlines practical guidelines such as a new policy and procedures manual on risk management that Customs could use; and provides draft job descriptions for a Risk Management Directorate that the Customs DG is interested in establishing, in line with international best practice.

Blueprint for a National Single Window for Trade

Original description and rationale: In line with international standards and WTO TFA requirements, the GoSL committed to developing and implementing a National Single Window (NSW) system that would allow traders to submit all import, export and transit information required by all key regulatory agencies via a single electronic gateway, instead of submitting the same information numerous times to different government entities, many of which still rely heavily on paper-based systems. Before developing the IT systems required, the World Bank was asked to support the development of a NSW Blueprint that provides detailed information on legal and regulatory requirements, governance and operational model, revenue and fee structure, technical and functional architecture, service level agreements for participating agencies, business process reengineering, change management and communication strategy required for automation. Undertaking this important preparatory work for the National Single Window is expected to shorten the implementation timetable for the system by approximately 18 months as all key decisions on the governance and operational model as well as the technical specification and revenue sharing arrangements will be made prior to system procurement. Implementation of the system is expected to have a major impact on trade transaction costs and clearance times. Experience elsewhere

suggests that once fully implemented the NSW could reduce document preparation and import/export processing time by more than 50 percent.

Status: The GoSL committed to implement the national Single Window in its “Vision 2025” and the “National Budget 2018” allocated LKR.325 MN for the preparatory work on the National Single Window.

Intermediate outcomes: The World Bank, supported by a consultant team based in Colombo, is working on the various elements of the NSW Blueprint and holding workshops and meetings with stakeholders in Sri Lanka. The inception workshop held in December 2017 raised awareness of the NSW project; a second workshop held in January 2018 discussed potential governance and operating models for the NSW; and a workshop on ICT systems will be held in March 2018. The completion of the Blueprint is expected in July 2018.

Trade Information Portal

Original description and rationale: The provision of up to date information on all trade related legislation, procedures, forms, fees, and permit/license requirements is a key element of all modern informed compliance regimes. Current efforts to upload information on government regulations affecting trade has been sporadic, and spread across many agency websites, leading to an opaque system and frequent source of complains by traders. The Chamber of Commerce is particularly concerned about the need to support the informational needs of small and medium-sized enterprises (SMEs). Likewise, in discussions with representatives of the Women in Logistics and Transport Forum² the representatives pointed to the fact that a lack of access to up to date information on trade regulations and procedures disproportionately affects small scale women traders that lack the scale of operations necessary to employ specialist staff to manage import/export activities. Given the complexity involved, with up to 35 government agencies participating in the import and export process, increasing transparency by providing information electronically through a trade information portal will enhance accountability and improve information flow among stakeholders, leading to better trade facilitation performance. The NTFC identified the establishment of a Trade Information Portal as a priority, and the World Bank is supporting the Department of Commerce to gather all trade-related laws, regulations and procedures, to upload to the TIP website.

Status: Trade Information Portal development started in December 2017 (expected completion in June 2018).

Intermediate Outcomes: The Trade Information Portal (TIP) prelaunch page is complete and ready to go live once concurrence is received from the Department of Commerce. As of March 2018, 586 regulations, laws and procedures have been gathered for publication on the TIP. The NTFC and the Department of Commerce have issued questionnaires and established focal points in all agencies issuing regulations, which will be an essential basis for keeping the portal updated in future. A TIP Unit has been established in the Department of Commerce, and collaboration with the International Trade Centre has resulted in the provision of office equipment for the Unit.

² An advocacy group and special interest forum operating under the Chartered Institute of Logistics and Transport umbrella.

Next steps for the trade facilitation component:

The following milestones are expected for the period 2018-2020

Output	Milestone
National Single Window Blueprint is delivered (through existing TA project)	July 2018
Capacity building to prepare for implementation of the NSW (e.g. business process streamlining, data harmonization)	June 2019
Finalize revised Customs Ordinance; targeted support for trade facilitation amendments/harmonization with other laws	March 2018 for Customs Ordinance, 2018-2019 for other agencies
Capacity-building delivered to GoSL for development and implementation of a collaborative border management strategy	Ongoing until June 2020
Task Groups are established at the NTFC, including on NSW, Trade Information Portal, and Non-Tariff Measures	June 2019

5.2 Pillar 2. Investment Climate and Investment Policy

Objective of the pillar:

This pillar seeks contribute to the overall goal of mobilizing increasing domestic and foreign direct investment in Sri Lanka through regulatory simplification and a strengthened framework for investment and investment promotion. More specifically, it pursues the following sub-objectives:

- 1) “Improving the Ease of Doing Business in Sri Lanka”: Improve the investment climate through regulatory, institutional and legal reforms under the Doing Business areas.
- 2) “Enhancing Investment Promotion capacity”: Enhance the effectiveness of the BOI’s investment promotion efforts, focusing on its ability to identify, attract, and retain efficiency-seeking FDI.
- 3) “One Stop Shop for FDI”: Assist the GoSL in the design and implementation of a One-Stop Shop (OSS) with the mandate of reducing the time and transaction costs incurred by foreign investors seeking to establish their operations in Sri Lanka.
- 4) “Strengthening the effectiveness of Investment Incentives”: Enhance the effectiveness of investment incentives as a mechanism to attract private investment and pursue other policy objectives to minimize the fiscal costs to the country.
- 5) “Strengthening the investment entry and protection legal regime”: Enhance the transparency and effectiveness of the legal regime governing investment

Overall progress versus objective:

On aggregate, progress across the components and activities has been satisfactory, but in a few cases the recommendations of the output were not implemented. Cabinet approved the establishment of eight Doing Business Reform Task Forces in May 2017, which have started the design and implementation of

regulatory simplification reforms. In May 2016, the Cabinet approved Terms of Reference for the OSS to streamline and expedite the foreign investment approval process. A new Corporate Plan to strengthen the BOI and a new investment promotion strategy were adopted by the BOI opening the way for more effective investment promotion in top tier sectors and better aftercare services for investors. 42 BOI staff (20 of whom were women) completed a World Bank investment promotion certification program in February 2018. A new expenditure-based investment incentive regime was adopted as part of the New Inland Revenue Act which becomes effective in April 2018, replacing the less effective tax holiday incentives. A National Quality Infrastructure Strategy and an Innovation and Entrepreneurship Strategy have been drafted and are being finalized for submission to Cabinet. In the case of investment law and other investment incentive reforms, technical outputs were produced as planned but progress in implementing the recommendations was delayed for lack of a champion in the case of investment law (although Companies Law is now in the early stages of a comprehensive reform), and challenged through an alternative approach in the case of investment incentives (the IMF Inland Revenue Act reform).

Main outputs for the Improving the Ease of Doing Business in Sri Lanka component:

- Doing Business (DB) Reform Memorandum covering 9 areas of the business regulatory environment (completed, October 2015) serving as a basis for ongoing DB engagement in 2016-2017 and on.
- Eight detailed Action Plans (original target: 2) on areas covered by the Doing Business Report (completed, March 2017).
- Investment Climate Roadmap (completed, April 2017)
- Cabinet approval for the Investment Climate Roadmap (completed, April 2017)
- Investment Climate Roadmap produced, approved by Cabinet and officially-launched by the Prime Minister (July, 2017). Roadmap is under implementation.

Original description and rationale: Sri Lanka initiated an ambitious reform program to improve its business environment. To identify the most important investment climate obstacles, the WB conducted various diagnostics aimed at providing details on specific regulatory and institutional reforms needed. These diagnostics included a *Doing Business reform memorandum* (completed in 2015) to improve the regulatory environment for business. The country, however, lacked the necessary organizational set-up to implement these reforms given their inherent complexity and the multitude of agencies involved. On that basis, the GoSL requested technical assistance to strengthen the institutional set-up and to guide reforms.

Status: The Doing Business reform program in Sri Lanka was launched officially by the Prime Minister in July 2017. Eight task forces (approved by the Cabinet) are mandated to implement action plans targeting eight areas of business regulatory simplification, namely (i) Starting a Business; (ii) Dealing with Construction Permits; (iii) Registering Property; (iv) Getting Credit; (v) Trading Across Borders; (vi) Protecting Minority Investors; (vii) Enforcing Contracts; and (viii) Resolving Insolvency.

As the experience of other countries show, the DB reform program will be a medium-term process involving complex coordination among multiple agencies. The program has spurred positive momentum for reforms which the GoSL has been attempting to implement over a long time, by putting in place clearly defined action plans with concrete milestones.

During 2017 some progress was achieved but the momentum was not enough, which led the government to establish a stronger accountability mechanism at the ministerial level. The new mechanism has generated greater ownership and is expediting change.

Intermediate Outcomes: The task forces are currently implementing the reform action plans to simplify the regulatory environment for investors in Sri Lanka.

Next steps for the Ease of Doing Business:

The following milestones are expected to be achieved in 2018-2019:

Outputs	Milestone expected in
Starting a Business: reduction of time & procedures to start a business	2018/ 2019
Dealing with Construction permits: reduction of time & procedures to obtain a building permit	2018/ 2019
Registering a Property: reduction of time & procedures to register property	2018/ 2019
Protecting Minority Investors: improving legal provisions for minority investor protection (via company law amendments & listing regulations)	2019
Getting Credit: strengthening the depth of credit information and legal rights of borrowers and lenders (via the inclusion of non-financial information in the credit information bureau system and the passing of new Secured Transaction Registry bill)	2019
Resolving insolvency: improving the environment for business insolvency proceedings (includes legal and procedural reform)	2020
Trading across borders (undertaken under the trade facilitation component)	2020/21
Enforcing Contracts (undertaken by USAID)	n/a

During 2018-2019, the project will continue to provide technical assistance to the reform process and the implementing task forces on (a) legal and regulatory reforms (if requested by the GoSL assistance to update the Companies Act and prepare a stand-alone insolvency framework), (b) increasing the efficiency of procedures, (c) improving IT solutions, and (d) upgrading the operational capacity of business services to companies.

In parallel, the project will continue building the capacity of the GoSL to oversee and evaluate the progress of the reform program across multiple agencies. Particular attention will be provided to identify, in a timely manner, key obstacles to the reform process and put in place early correction measures.

Main outputs for the Investment Promotion component:

Description and rationale: The objective of this subcomponent is to assist the GoSL in strengthening its investment promotion framework to help attract, facilitate and retain domestic and foreign investment. Through the institutional strengthening of the Board of Investment (BOI), the project will contribute to advancing the country's integration into global value chains by attracting more FDI that can generate better and more productive jobs. Overall progress has been very satisfactory as detailed below.

A sector scan with recommendations to prioritize sectors with FDI potential for investment promotion activities. (Satisfactorily delivered in previous reporting cycle)

Description and rationale: A sector scan was needed to help the BOI identify the sectors of the Sri Lankan economy that have the strongest potential for attracting efficiency-seeking FDI. It is an essential tool to enable the strengthening of BOI's investment promotion capacity, supporting its transition from a blanket (and mostly ineffective) approach to investment promotion to a highly-targeted sector-specific one as used by the world's leading Investment Promotion Agencies (IPAs).

Status: The Sector Scan was developed in close collaboration with the BOI and finalized in December 2016. MODSIT approved the sector scan recommendations. The sectors identified included (i) tourism, (ii) logistics, (iii) high value-added apparel, IT enabled services and high value food Processing.

Intermediate outcomes: The Sector Scan has informed the formulation of the BOI's Corporate Plan (which outlines the realignment of BOI's functions) and has been used as input to other strategic planning exercises, including the National Export Plan (prepared by the Export Development Board with EU support).

A corporate plan to guide BOI's investment promotion efforts in the next planning cycle. (Approved by BOI's board in September 2017)

Description and rationale: Analytical work undertaken in the previous cycle has led to implementation of key investment promotion initiatives such as the adoption of the sector targeted 2017-2020 BOI Corporate Plan. The plan was approved by the Board of the BOI in September 2017.

Status: The Plan is pending submission to Cabinet.

Intermediate Outcomes: The Plan will guide BOI's activities over the next 3 years, focusing on clients/investors, targeting specific sectors in a proactive manner and setting ambitious Key Performance Indicators and targets.

Recommendations to improve institutional performance. Delivered.

Description and rationale: An institutional assessment of the BOI's investment promotion and facilitation, investor aftercare, market research and advocacy capacity was undertaken and detailed recommendations submitted for the strengthening of these critical promotion functions.

Status: The institutional report was submitted in draft in March 2017, discussed with Minister Malik and Secretary Chandanie of MODIST and BOI's Chairman, Director General and senior management, comments received and a final report submitted in May 2017.

Intermediate outcomes: BOI has accepted the recommendations and is currently trying to identify the best ways to strengthen the investment promotion functions. The recommendations are intended to enhance organizational structures, staff and budget resources, investment promotion methodology and approaches, investor aftercare, and on enhancing the use of market intelligence and policy advocacy.

A tailored capacity building in the form of an Investment Promotion Certification Program (IPCP) centered around investment promotion related areas (best practice tools and techniques for targeted promotion) and focused on the selected sectors for the corporate plan.

Description and Rationale: With the objective of strengthening BOI's promotion functions, the project team conducted a comprehensive and selective capacity building program (the Investment Promotion Certificate Program or IPCP) between September 2017 and February 2018.

The IPCP is a unique MBA-style Investment Promotion Certification Program (IPCP) for BOI staff. The objective is to create a cadre of specialist investment promotion staff within the BOI as it ramps up its efforts to attract significantly more foreign investment to Sri Lanka in line with its ambitious Strategic Plan 2017-2020. A strong group of some 42 BOI staff from across the organization was selected in September 2017 by competitive tender to participate in this first certification program.

The IPCP covered 12 investment promotion modules taught across four monthly workshops of two and a half-day each. It provided participants with examples of good practices and international experiences in design and implementation of investment promotion activities.

Status: The workshops were delivered between October 2017 and February 2018. The 42 participants obtained the certification and 70 percent of them were awarded a certificate with honors (those scoring 75 percent or higher). BOI's Director-General Duminda Ariyasinghe chaired the award ceremony and congratulated participants of the program in his address at the event on February 1st, 2018.

Intermediate outcomes: As IPCP participants were evaluated and ranked based on their performance through a series of tests, practical exercises and assignments, the team could identify BOI staff with the potential to play a key role in strengthening BOI's promotion functions. The team provided BOI HR department and DG a detailed list with individual scores and suggestions to use selected trained participants to strengthened promotion and aftercare BOI functions.

An aftercare program focused on reinvestment and policy advocacy activities. (under development)

Description and rationale: BOI currently lacks an investment aftercare program and is only starting to think about the importance of re-investments. Undertaking activities from post-establishment facilitation services to developmental support to retain investment and encourage re-investments needs to be a priority for the BOI to build sustainable industry clusters and achieve greater local economic impact.

Status: The team engaged in discussions with BOI's Investor Services Director to support the design of an investment aftercare program.

Intermediate outcomes: The program focuses on established investors in strategic sectors (2017-2020 Corporate Plan Sectors) and will set up guidelines to prioritize services to relevant investors. It will provide BOI with a framework of relevant activities that will help BOI in addressing investors' and provide the necessary services to investors interested in expanding operations in Sri Lanka. The project team is now engaged in an iterative consultation process to deliver a first draft of the program by April 2018.

Next steps for the Investment Promotion component. The team will:

- support the BOI so that the recently built cohort of investment professionals can strengthen key departments with investment promotion and aftercare functions.
- follow up and support BOI on the implementation of institutional reforms.
- finalize the aftercare program plan by March 2018 and will support BOI to start with its implementation.

- start supporting BOI in the design of:
 - o new sector marketing materials;
 - o a pipeline of potential investors; and
 - o investor outreach activities.

Main outputs for the One Stop Shop component:

Recommendations to establish a One-Stop Shop and streamline processes to reduce the time for investment approvals by 20 percent.

Description and rationale: The current arrangements for approving new investment proposals involve 24 different government agencies each considering the application and providing their decision uncoordinated with the rest of the agencies involved. This raises the amount of time and cost of establishing a new business in Sri Lanka and increases the uncertainty or risk that a potentially good investment proposal could be lost to the country because of inordinate delays (more than 100 days) in processing the proposals.

Status: There has been significant progress in the development of the one-stop shop (OSS) at the Board of Investment (BOI) to reduce the time taken for investment approvals by 20 percent and establish a robust and sustainable institutional mechanism to manage the approval system and identify reform opportunities. Starting from September 2017, the BOI leadership has demonstrated renewed commitment to implementing a OSS.

Intermediate Outcome: As phase 1 of this initiative six main line agencies (Colombo Municipal Council; Registrar of Companies; Inland Revenue Department; Central Environment Authority; Urban Development Authority and Department of Sri Lanka Customs) have developed MoU and standard operating procedures soon to be signed with BoI to streamline and reduce the time taken for the investment approvals. In addition to this, a tracking system mechanism will be included as part of the One Stop Shop services to enable investors to receive updates and communications on the status of their applications.

Strengthening the BOI institutional mandate to operate the OSS.

Description and rationale: The BOI currently struggles to discharge its investment promotion and aftercare functions in part because of weaknesses in its internal capabilities but also because of the lack of a clear institutional mandate that allows to play a coordinating role across all relevant government agencies.

Status: GoSL has sought to develop a One Stop Shop (OSS) within the Board of Investment (BOI) for investment services as a mechanism to address regulatory deficiencies and interagency coordination issues that are currently creating significant obstacles and increasing transaction costs to investors interested in establishing operations in Sri Lanka. The WBG team conducted an assessment and helped to produce a plan for a well-functioning OSS including: a) Terms of reference for the OSS; b) Staffing recommendations; c) Key performance indicators based on process maps for investment approvals within six main line agencies; d) Performance reporting arrangements; and e) Mechanisms to enhance the responsiveness of contributing regulatory Agencies.

Status: The development of the OSS initially moved slowly partly due to coordination issues. However, in September 2017, the Board of Investment appointed a new team of officials dedicated to the

establishment and management of the OSS and demonstrated renewed commitment to implement the OSS. The BOI has also designated budget for the design and establishment of the OSS.

Intermediary outcomes: A new terms of reference which defines BOI's role and responsibilities has been prepared and is awaiting approval by Cabinet. Such Cabinet approval would strengthen BOI's hand in performing its whole-of-government coordination functions with respect to expediting approvals of new investment proposals and implementing an effective investor aftercare program.

Next steps for the OSS component:

Next steps include adoption and implementation of these reforms to meet the 20 percent reduction target in the six participating line agencies, to be followed by the inclusion of an additional 18 line agencies in the OSS system.

There is significant value for money for the OSS component. Expenses are only related to staff time and costs to provide technical assistance to BOI. The BOI has committed budget for all other key expenses such as its own staff time, an ICT consulting firm and provision of web-based solutions. This activity has been coordinated with USAID in their support to integrating government services in different sectors.

Main outputs for the Investment Incentives component:

Incentives report: Sri Lanka: Moving Toward a New Investment Incentives Framework

Description and rationale: Investment incentives have been widely used by the Government in the past as an instrument to generate FDI, and in parallel, create jobs and promote social welfare. However, in recent years, the role of incentives in promoting these objectives has increasingly come into question. Despite operating a relatively generous incentive regime, Sri Lanka has underperformed in FDI among comparable countries. At the same time, the Government of Sri Lanka (GoSL) is facing heightened pressure to adopt reforms considering a long-term decline in fiscal revenue. It has drafted with IMF technical assistance a new Inland Revenue Act with a new performance-based incentive regime. At the MoDSIT's request, the WBG team conducted an analysis submitted in October 2016, providing evidence-based recommendations to (1) evaluate the performance of the existing incentive regime; (2) suggest broad directions and priorities for an expenditure-based incentives framework targeting firms and sectors that generate investment, jobs and exports, while ensuring that the Government will meet its corporate income tax revenue targets under the new IR Act; and (3) provide suggestions on how to implement the new framework and evaluate its effectiveness³.

Status: the report was shared with GOSL in October 2016. A Strategic Brief summarizing the findings of the analytical work undertaken was also shared with GOSL, and the team participated in discussions with the Government and the IMF on incentive regime.⁴ In September 2017, the new Inland Revenue Act was passed by Parliament and will be effective from April 2018.

³ The seed funding for this component came from the Support Program on Investment Policy and Related Areas (SPIRA).

⁴ Two additional notes: "High Level Note on Sector targeting of Incentives: Basic Principles and a Preliminary Application to Sri Lanka" and "World Bank comments on proposed investment incentive provisions under the new Sri Lanka Inland Revenue Act" expressed the World Bank's views on these discussions.

Intermediary outcomes: The Inland Revenue Act's incentive regime is in some parts in line with the World Bank's recommendations. The new regime has performance-based incentives in place of tax holidays, and while it favors large investments, it does not have a minimum investment threshold for capital allowances, which would have discriminated against Small and Medium-sized Enterprises (SMEs). However, the recommendation to target incentives to selected priority sectors was not adopted, which means that incentives are available to a wider range of sectors likely leading to more revenue foregone than necessary in the team's view.

Next steps for the Investment Incentives component:

No additional tasks are confirmed for this component now. GOSL's commitment to the remaining areas of assistance around the implementation of the new incentives regime, its administration, Monitoring and Evaluation and reporting would need to be assessed.

Main outputs for the Investment Law component:

Stocktaking of the Legal Framework Governing Investment in Sri Lanka and Agenda for Reform

Description and rationale: Sri Lanka currently does not have a clear legal framework for investment. The WBG undertook a comprehensive analysis of the legal framework governing foreign investment compared to Sri Lanka's international obligations and international good practice. The WBG team produced policy recommendations for reforms to improve the legal framework governing investment, level the playing field and enhance protection either in the form of a consolidated investment law or in the form of amendments to different relevant acts. The outputs were shared with GOSL (Mr. Paskaralingam and MODSIT) in March and April 2017.

Status: Pending response from the Government for approval and implementation.

Intermediary outcome: a comprehensive analysis of the legal framework governing foreign investment. A consolidated legal framework would reduce the perception of risk amongst investors and contribute to increased investment flows. Moreover, as Sri Lanka negotiates many free trade agreements, a consolidated investment legal framework that reflects coherent investment policy would help SL strengthen its negotiating position and its ability to leverage market access, attract and generate investment.

Workshops to members of the Negotiation Committee

Description and rationale: At the Government's request, the WBG delivered a workshop to train the negotiation committee on the key aspects of International Investment Agreement negotiations.

Status: further training is contingent on the GOSL's demand

Intermediary outcome: results on advice to the negotiation committee cannot be determined at this stage. It will depend on the agreements resulting from the negotiations.

Just-in-time advice on draft bills with impact on the investment legal regime

Description and rationale: During the project and at the government's request, the team provided comments on draft bills with impact on the investment legal regime e.g. the Investment Facilitation Bill.

Status: Similar advice will continue to be provided as need arises and contingent on government request.

Intermediary Outcomes: None of the proposed bills for which advice has been provided was adopted into law. It is therefore difficult to assess the direct impact of this advice.

Next steps for the Investment Law component:

Contingent to the GoSL's request, the WBG team will continue to provide just-in-time advice on bills that may affect investors, explore opportunities for introducing a notice and comment process for laws affecting investment.

5.3 Pillar 3. Innovation and Entrepreneurship and Tourism

Objectives of the component

To contribute to a more resilient innovative economy and entrepreneurial society to enhance the export competitiveness and create more and better jobs in strategic sectors. This will be done through a four-year strategic plan that will guide the reforms of the relevant institutions.

Main outputs for the Innovation and Entrepreneurship component

Sri Lanka Innovation and Entrepreneurship Diagnostic

Description and rationale: The main thrust of the rapid Diagnostic was to assess policies, institutional framework and programs surrounding technology adoption by enterprises, technology transfer and commercialization of public research, access to finance for early stage entrepreneurship and innovation, national quality infrastructure, and the institutional infrastructure, all with the view to support export competitiveness in both traditional and emerging sectors.

Status: Completed in June 2016.

Intermediate outcomes: The diagnostic identified the gaps for innovation and entrepreneurship landscape in Sri Lanka and were used to feed the Innovation and Entrepreneurship Strategy Framework.

National Quality Infrastructure Gap Analysis

Description and rationale: The Sri Lanka National Quality Infrastructure system (NQI) Gap Assessment (the Assessment) was produced to evaluate the market gaps between the supply and demand of the quality assurance services in Sri Lanka.

Status: Completed in May 2017.

Intermediate outcomes: The NQI Gap Assessment set the platform for the NQI Strategy. It helped to identify the gaps between the existing system and the requirements of international recognition (as set by WTO TBT and SPS agreements as well as trade regions such as European Union), prioritize specific legal and institutional reforms, identify needs for upgrading its quality assurance facilities, and determine financial needs to implement such reforms beyond sectors and identified by the EU project and other likely export geographies (e.g. India and China), with a particular emphasis on technology driven exports.

Inputs delivered to the National Quality Infrastructure (NQI) Strategy (drafted by UNIDO & ITC)

Description and rationale: This Strategy builds upon the findings of the NQI gap assessment and the recommendations it proposed.

Status: Completed and pending submission to Cabinet (expected submission in March 2018).

Intermediary outcomes: the intended intermediary outcomes of the National Quality Infrastructure (NQI) Strategy are to guide reforms to enhance quality-related functions on a course to provide high-performance services that allow small and medium-sized enterprises (SMEs), larger companies and exporters to comply with market requirements. It equally aims to build capacities, support the enforcement of Sri Lankan regulations, assist environmental sustainability and ensure consumers are protected through access to quality and safe goods.

A Roadmap and a National Innovation and Entrepreneurship Strategy for Sri Lanka

Description and rationale: Upon a set of high level consultations with key stakeholders from the public and private sector the WB team drafted the Innovation and Entrepreneurship Road Map. The Innovation and Entrepreneurship Strategy has been drafted upon ongoing consultations with stakeholders and technical input from the WB team.

Status: the roadmap for the Strategy was adopted by Cabinet in May 2017. The I&E Strategy has been drafted upon consultations with relevant public and private sector stakeholders and is now ready for submission to Cabinet.

Intermediate outcomes: the roadmap was produced upon public and private consultations which set the platform to frame the I&E Strategy. The Strategy guides reforms to (i) articulate the linkages between and potential contributions of modern national research and innovation policy for private sector led economic development and export competitiveness, (ii) create a fast track environment for support of high growth startups and, and (iii) modernize the public research sector and realign financing accordingly.

Exporter Marketplace Pilot Program

Description and rationale: The World Bank, Exports Development Board (EDB), and MJF Charitable Foundation partnered to design a pilot program to convene a mock marketplace where SMEs and SME service providers could exchange services via mock vouchers followed by an export strategy pitch to a panel of international and local judges. This pilot initiative engaged exporters, buyers and investors in the food and beverage and spices sector, as these have been identified among the priority sectors in the forthcoming National Export Strategy being implemented by the EDB. The pilot also focused on integrating climate smart practices by exporter firms to strengthen their resilience as well as value proposition to more sophisticated buyer markets.

Status: Completed in December 2017.

Intermediary outcomes: The Export Marketplace pilot informed the design and implementation of the 2000 Exporter Program, a flagship initiative of the Government of Sri Lanka. It tested the relevance of the traditional instruments versus a more comprehensive marketplace mechanism to strengthen the market access capabilities of new and existing exporters. The marketplace program design was successfully adopted by the EDB and upscaled. On international women's day 2018 the EDB hosted a successful second

marketplace where 20 female led entrepreneurs and SMEs participated and pitched to a panel of international buyers.

Next steps for the Innovation and Entrepreneurship component:

- Cabinet approval of the I&E and NQI Strategies.
- Technical assistance in implementing the I&E Strategy: The Ministry of Development Strategies and International Trade and the Exports Development Board has requested the WBG to support the implementation of the 2018 Sri Lanka Budget allocated flagship programs:
 1. Exporter Market Access Program with the EDB
 2. Collaborative Research Program with EDB and MoSTR and R&D Institutions
 3. Enterprise Innovation Program with the EDB
- On top of the technical assistance given to implement the above programs, the WBG will assist in implementing capacity building programs for NQI institutions and the design of a modernization plan for the National Intellectual Property Office.
The WBG team will also be engaged with the GoSL to conduct a two-part public-sector expenditure review and analysis.

Main outputs for the Tourism component

National Tourism Strategic Plan for 2017-2020

Description and rationale: the WBG supported the development of the tourism sector's competitiveness by preparing a Tourism Vision 2025 strategy which served as a key consultative document that was used by government to obtain the views of public and private sector stakeholders and the production of a four-year strategic action plan to implement reforms of the relevant tourism institutions and of the sector. The Tourism Strategic Action Plan 2017 -2020 consists of (a) an institutional audit with recommendations on the sector's best practices, (b) structures, based on the overall objectives of the Tourism Vision 2025, (c) recommendations for the sector's legal and regulatory aspects, (d) a human resources audit and (e) strategic action for marketing, communication and destination development.

Status: National Tourism Strategic Plan was prepared and delivered to government counterparts in December 2016.

Intermediate outcomes: The Tourism Strategic Plan (TSP) 2017-2020 was presented to key stakeholders (including the Prime Minister) by the Prime Minister's Advisory Unit on Tourism, in December 2016, and was well received. The TSP identifies short, mid-term and long-term actions to be implemented and it was expected that a phased approach would be adopted during implementation of the action plan. Subsequently, the Tourism Vision 2025 and the TSP was approved by the Cabinet Committee for Economic Management (CCEM) and formally adopted as the strategic plan for the tourism sector. The Tourism Vision 2025 and the TSP were subsequently publicly endorsed by the Prime Minister and Tourism Minister at a workshop in March 2017, which included the participation of nearly 120 public and private sector participants. Implementation of short term actions key actions listed in the action plan has commenced.

Next steps for the Tourism component

Implementation of TSP with further Bank and donor support. The GoSL has requested the WBG to finance a project to support the implementation of the Sri Lanka Tourism Strategic Plan 2017-2020.

Accordingly, the proposed Sustainable Tourism Development Project is envisioned as an investment platform along the principles of maximizing finance for development (MFD) that will crowd in public and private funds to advance the objectives of the TSP. The project proposed project design envisaged is as follows:

- a. Institutional and regulatory strengthening.
- b. Destination development.
- c. Strengthening skills and market linkages
- d. Identification of fast tract sub projects
- e. Project implementation arrangements

5.4 Pillar 4. State-Owned Enterprises (SOEs)

Activities under the pillar aim to support the GoSL in designing and implementing reforms to strengthen the corporate governance and performance of public enterprises. The activities respond to GoSL's objective to reduce the fiscal costs and risks and to gradually enhance the performance and competitiveness of public enterprises by strengthening their corporate governance and capacity, the performance management and the State's ownership and oversight function. GoSL requested WBG assistance to provide technical advice in strengthening the legal and institutional framework for SOE ownership and oversight, strengthen performance monitoring mechanisms and to provide intensive training for policy makers, SOE boards and senior managers to implement these reforms.

Overall progress versus objective

Activities under this pillar have progressed well. The first component supporting the legal and institutional reform has progressed focusing on the initial analytical and diagnostic work (ongoing) and on policy advice/ notes on the public enterprise act and then on the PFM act. While initially aiming to pursue two legal reforms, the government then decided to focus rather on one and to include the provisions on SOE ownership, oversight and accountability in the Public Finance Act as the Minister of Finance is the main shareholder. The second component focusing on performance management is scheduled to start in year two, upon adoption of the performance management policy and tools. The third component on capacity building has progressed well and focused on the design of a SOE corporate governance and management training syllabus which will be institutionalized in the second year.

Main outputs

Policy advice on Institutional Framework for State Ownership of Public Enterprises.

Description and rationale: The current institutional framework for public enterprises oversight in Sri Lanka is fragmented, with the state's ownership/oversight function being divided among several institutions. Various aspects of the state's shareholding or "ownership" functions are currently shared among the Ministry of Finance, the Ministry of Public Enterprise Development and Line Ministries. The current legal framework for Public Enterprises is also fragmented among several legal texts. At the GoSL's request, the WB produced a comparative note on centralized oversight and ownership functions for public enterprises. The Bank further provided policy advice/ notes on the strengthening of the legal framework on SOE oversight and accountability, first for the draft Public Enterprise Act and thereafter to the Public Finance Act, upon the government decisions to consolidate the two acts. The World Bank further initiated

a comprehensive assessment of the fiscal and economic impact of SOEs, as well as an opinion poll and stakeholder analysis to inform communication and change management strategy for this sensitive reform.

Status: The initial policy notes have been delivered and the policy advice is ongoing as the PFM act is being finalized. The analytical work is ongoing and expected to be finalized at the end of the year, along with the communications and change management strategy. MoF has also request support for its SOE monitoring and oversight function.

Intermediate outcomes: the WB recommendations given in the comparative note were used to feed the draft Public Enterprise Act, establishing the Public Enterprise Authority. Due to changing political context, the PE Act is now pending and the decision was taken to rather include the legal provisions on SOE ownership, oversight and accountability in the Public Finance Management Act as the Ministry of Finance is the principal shareholder and has the greatest influence over SOEs. The revised WB advice and recommendations have been incorporated into the PFM act and specify the classification of SOEs, the MoF's shareholder functions, its fiduciary oversight functions, the SOE's reporting and accountability obligations, performance monitoring, disclosure and transparency obligations. It also foresees an enabling clause for the future set up of a dedicated ownership entity.

Policy Note on Performance Agreement to improve financial and non-financial performance management of SOEs

Description and rationale: There is a significant need for strengthening performance management and fiscal risk monitoring mechanisms for public enterprises in Sri Lanka. While regular basic monitoring and reporting of SOEs is carried out by the Ministry of Finance through an ex-post annual report, there are currently no formal performance agreements or established performance indicators in place between the Government and public enterprises. GoSL approached the Bank with a request for assistance in establishing a policy on performance management which builds up on Statement of Corporate Intent. Accordingly, this component foreseen for year two, will focus on the gradual introduction of performance agreements with selected strategic public enterprises and designing monitoring mechanisms focusing on key financial and non-financial (service delivery) performance targets, where possible disaggregated by gender.

Status: The policy note on Performance Agreements has been drafted and is being finalized. The WB is organizing international knowledge exchanges on SOE performance monitoring and management, including in Seoul end of March, to inform the SL policy.

Intermediate outcomes: This component is just starting as it requires policy decisions on the breadth and depth of the performance monitoring and management. It may further require the strengthening of the MoF's information system considering the important delays in the SoEs' submission of their financial statements and resulting data gaps, undermining the MoF's oversight and performance management function.

Intensive training program for SOEs' ownership staff and Board members

Description and rationale: As public enterprise reforms move forward, enhancing the capacity of the state ownership function and public enterprises boards and management will be fundamental. The Government has therefore expressed interest in intensive training of staff members of the state

ownership institution and public enterprise Board of Directors in the principles and practical knowledge of corporate governance. The main objective of this activity is to support the Government in effectively implementing the reform of its ownership function through intense capacity building in corporate governance. The activity aims to develop and implement a curriculum and a dedicated training program that will benefit staff, senior managers, SoE Board members and policy makers by enhancing their capacity through introducing Corporate Governance Practices.

Status: A training curriculum was developed jointly by the WB, Chartered Institute of Management Accountants (CIMA) and Chartered Accountants of Sri Lanka under the leadership of Ministry of Public Enterprise Development in September 2017. Initial set of workshops were delivered for senior managements of selected SOEs in September 2017. A second series of workshops were conducted in December 2017 for the SOEs' Board of Directors. WB has developed a concept note underlying the next steps required to develop a sustainable training program in the long run. Initial discussions with International Financial Corporation (IFC) were held to maximize synergies with ongoing efforts.

Intermediate Outcome: The impact of these training programs was clearly seen during the third round of performance reviews conducted by the Ministry of Public Enterprise Development. Many SOEs submitted presentations and review reports of improved standards and qualities.

By establishing a sustainable Corporate Governance Training Program focused on the public sector, it is envisaged that SoEs will have improved strategic decision-making capability, improved performance, better management and will contribute for wealth creation in general.

Opinion survey and stakeholder analysis to develop a communication and change management strategy

Description and rationale: As the case with many policy reforms, the benefits of reforms are incremental, spread over long to medium term and are dispersed over many stakeholders. In contrast, the negative impacts of reforms are immediate and visible. The objective is for GoSL to comprehensively understand how the proposed components of the projects are perceived by various stakeholder groups. The assignment will include a 3500-respondent opinion survey and a stakeholder analysis both horizontal and vertical; horizontal stakeholder analysis will focus on key stakeholders across the reforms agenda and a vertical sectoral stakeholder analysis will concentrate on key stakeholders in identified priority sectors.

Status: An online opinion survey has been conducted in February 2018. To complement the online survey, an offline survey is currently being conducted by a contractor (Sri Lanka Unites) and expected to be completed by April 2018. In addition, a stakeholder analysis is ongoing.

Intermediate outcomes: The online survey has captured the opinions of 3000 respondents country-wide. The preliminary results have already been shared with the MOF. Once completed, the offline survey will complement these results by capturing the opinion of a broader audience. The stakeholder analysis and related recommendations will complement the survey findings and are intended to help GOSL to establish a change management strategy and mitigate risks on SOE reforms.

Next Steps for the SOE component:

- TA to finalize the legal framework
- TA to strengthen the MoF's ownership and oversight function and systems

- Finalizing and publishing the first comprehensive SOE diagnostic and development of an evidenced based reform communication and change management plan
- TA to the development and implementation of performance management contracts
- International knowledge exchange and benchmarking on the reform
- Develop and roll out the Public Enterprise Leadership and Capacity Building Program, possibly in partnership with IFC and the Sri Lanka Institute of Directors (SLID)
- Support some priority SOEs/ sector to strengthen their performance

6. Sustainability and Risks

a. Sustainability:

The design and delivery of technical assistance under this program has built in capacity enhancement features and ensures that the government owns and drives the reforms being implemented. For example, the Doing Business reforms are being designed and implemented by task forces that have been appointed by Cabinet and whose membership is wholly Sri Lankan. World Bank experts provide input to this process on demand and share examples of international best practices. The consultant who is providing day-to-day hand holding support for the task forces in Sri Lanka. Based on experience in other countries, this approach and arrangements contribute to GOSL's ownership of the reforms and to strengthen local technical capacity and to the development of local institutions beyond the end of the donor-funded project. Highly seasoned local consultants have also been recruited to support the Trade Policy and Trade Facilitation work and to monitor progress, contributing to local ownership of the reforms. The Government has allocated resources in its 2017 national budget to fund some of the Innovation and Entrepreneurship pilots demonstrating strong ownership and evidence of the sustainability of the program, beyond DFAT or World Bank funding. Other aspects of the projects are also being funded by the Government, including the web solutions for the One Stop Shop for investors and the Trade Information Portal and National Single Window for trade.

b. Risks:

Change of government: Historical evidence suggests that most reforms of the type being supported under the DFAT-funded program will be subject to a loss of momentum during any period leading up to elections as the political directorate becomes preoccupied with reelection campaigns. The same evidence also suggests, however, that this type of reforms do survive political changes in government even if there is a temporary slowdown. In Sri Lanka one risk management mechanism in the event of a slowdown is to re-focus on implementing reforms that have already been agreed and on the analytical evidence underpinning the reforms. It also helps to ensure broad and deep understanding and ownership of the reforms among stakeholders so they (not the donor) can demand the reforms from any new government.

Weak technical and coordination capacity across government ministries and departments: The evidence in Sri Lanka is that the government has delivered on some complex reforms notwithstanding these challenges. Among the measures to mitigate these risks is allowing sufficient time for the reforms to be designed and understood by all key stakeholders and to have realistic expectations of how long successful implementation will take. It also helps, whenever possible, to avoid unnecessary complexity in the design of the reforms.