Sri Lanka: Country Snapshot

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COUNTRY SNAPSHOT

Sri Lanka is focusing on long-term strategic and structural development challenges as it strives to transition to an upper middle-income country. Key challenges 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 that growth is inclusive.

RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Growth Performance and Prospects

The Sri Lankan economy has seen robust annual growth at 6.5 percent over the course of 2004 to 2013, well above its regional peers. Following the end of the civil conflict in May 2009, growth rose initially to eight percent, largely reflecting a "peace dividend", and underpinned by strong private consumption and investment. While growth was mostly private sector driven, public investment contributed through large infrastructure investment, including post war reconstruction efforts in the North and Eastern provinces. Growth closed at 7.3 percent in 2013, driven by a rebound in the service sector which accounts for about 57 percent of GDP. Overall, unemployment at 4.4 is low, although youth unemployment (ages 15-24) at around 19.1 percent and low female labor force participation at 35.6 percent pose a challenge.

Sri Lanka seeks to achieve $4,000 in GDP per capita by 2016, from $3,280 in 2013, but faces three particular macroeconomic challenges. Sustaining an eight percent-plus annual growth to meet this goal will require: (i) fostering private sector development and greater private investment; (ii) increasing exports to generate jobs and managing the current account deficit; and (iii) further addressing fiscal imbalances and reversing the declining trend in revenue collection. Such growth would need to be driven by a high investment rate of above 40 percent of GDP, which seems ambitious given the country's level of investment of 29.6 percent of GDP in 2013.

Growth will largely depend on fostering private sector development and private investment, especially increased foreign direct investment (FDI). Increasing gross FDI above the 1.4 percent of GDP level achieved in 2013 will be crucial. Streamlining procedures and reducing administrative barriers to FDI will be important in this regard. Sri Lanka will also need to demonstrate sustained commitment to ensuring an attractive investment environment with clear rules of the game applied equally. Sri Lanka's economy depends on FDI to bring in innovation. The import of FDI is further underscored by the country's limited domestic savings rate, brought about largely by its demographic trends. Contrary to most economies in South Asia, Sri Lanka does not have a demographic dividend: by 2036, more than 22 percent of the population will be over 60, and there will be 61 dependents per 100 adults. Increases in the labor force, employment rates and productivity will be central to growth. Against the background of an aging society, efficient and well-targeted social assistance will also become more important.

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

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1 These years also saw periods of high government fiscal deficits, double digit inflation, overheating and a balance of payments crisis requiring assistance from the IMF and a significant adjustment to the exchange rate.
2 Manufacturing and agriculture account for 32 and 11 percent of the economy, respectively. Sri Lanka’s main exports are apparel, textiles and agricultural products, notably rubber and tea.
3 The country’s 2013 investment rate represents total investment, including public, private and foreign direct investment.
is also a mismatch between graduates and private sector needs particularly with regard to “soft skills”. Improving the quality of human capital through effective education and skills development is central to Sri Lanka’s economic growth and competitiveness and to the government’s aspiration of becoming a knowledge-based economy.

The World Bank is helping to identify and address the particular challenges to skills development in Sri Lanka. Beyond assisting the country’s education systems (see Education section below), World Bank-supported 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 provided, 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 IDA credit of $101.4 million for the project will be complemented by a $100 million loan from the Asian Development Bank (through parallel financing) which is financing the implementation of the government’s Skills Sector Development Program for 2014-2020. Both operations will rely on common institutional and implementation arrangements, including a set of similar disbursement-linked indicators and monitoring and evaluation arrangements, to ensure close harmonization.

External Developments

The current account deficit came out at 3.9 percent of GDP in 2013 compared to 6.7 percent of GDP in 2012 on account of a persistent trade deficit. With the gradual recovery of main export markets, the exports sector led by garments rebounded in 2013 with a year-on-year growth of 6.3 percent. Imports, however, have yet to recover from the deceleration that began in late 2012 in response to the Central Bank of Sri Lanka’s policy tightening in February 2012. As a result, imports declined by 6.2 percent year-on-year in 2013. Due to the faster decline of imports share compared to the exports share of GDP, the trade deficit contracted to 11.3 percent of GDP. Worker remittances and tourism receipts, amounting to 12.1 percent of GDP in 2013, were more than adequate to offset the trade deficit, but interest payments and other service payments led to a sizeable current account deficit of 3.9 percent of GDP in 2013.

The trade deficit was only partially offset by a relatively stable flow of remittances. Healthy inflows through workers’ remittances and tourism receipts continued to reduce the pressure on the current account and the overall balance of payments. Worker remittances for the first half of this year increased to $3.4 billion, reflecting a year-on-year growth of 10.6 percent. Meanwhile, earnings from tourism for the first half of the year reached $1.1 billion (up 33.8 percent year-on-year) riding on a 24.6 percent year-on-year growth in tourist arrivals.

The current account deficit is financed primarily by external borrowing, while import coverage rose to 6.1 months of imports. Sovereign bonds with a worth of $1.5 billion maturing in five years (approximately LKR 195 billion) were issued within the first half of the year at yields between 5.125 and 6.0 percent. The first quarter’s foreign direct investment doubled to $442 million compared to the corresponding period of 2013. Along with improved external performance this helped the Central Bank to strengthen its reserve position. The country’s gross official reserves, including the Asian Clearing Union balances, reached $9.2 billion while total foreign assets, which include banking sector as well, stood at $10.7 billion by end June 2014. Gross official reserves were equivalent to 6.1 months of imports by end June 2014. The nominal exchange rate of the Sri Lankan rupee has been stable vis-à-vis the U.S. dollar throughout the first half of 2014.

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4 Soft skills are defined as communication skills, presentational skills and the ability to work in teams.
Going forward, the country needs to address a number of challenges in the external sector: its declining share of exports, reduced availability of concessional sources of financing, and attracting foreign direct investment. Its persistent current account deficit is driven by a declining exports share in GDP, especially of garments, and its export sector needs to diversify into new products. As the country shifts towards middle-income status, it will start to borrow more and more on commercial terms, which might affect affordability. In order to continue to grow fast, the country needs to attract more external savings in the form of foreign direct investment. Sri Lanka attracts less foreign direct investment than expected despite its geographic, education and infrastructure advantages.

**Fiscal Sector**

A period of high growth outpacing revenue and expenditure growth resulted in an impressive reduction in public debt. Facing a decline in revenue as a share of GDP from 14.5 percent in 2009 to 13.1 percent of GDP in 2013, Sri Lanka reduced public spending to 19.2 percent in 2013 from 24.9 percent in 2009, reducing the budget deficit to 5.9 percent from 9.9 percent. Total spending at below 20 percent of GDP is low given the needs of a middle-income country. The government aims to sustain public investment at six percent of GDP or higher annually, which has meant that fiscal consolidation has occurred to a great extent at the expense of social sectors. The goal over the medium term is to lower the fiscal deficit further to 3.8 percent of GDP by 2016.

Maintaining fiscal discipline with declining revenue collection is impressive, but this has led to a lean and rigid budget. Interest payments and salaries combined represent half of public spending in Sri Lanka. This makes spending rigid and leaves little discretion for the government to be able to change its composition. With the emphasis on sustaining capital spending at 5-6 percent of GDP, the authorities have discretion over just 20 percent of the budget allocations to sectors after paying interest and salaries, or one-fifth of the total spending.

Sri Lanka has lower-than-expected revenues from taxes on income, profits, or capital (direct taxes) and higher collections from international trade and from goods and services (indirect taxes) than its peers, both as a share of total revenues and as a share of GDP. Indirect taxes contribute around 80 percent of total tax revenue and direct taxes account for 20 percent. While goods and services represent a larger share of revenues by international standards, it yields lower collections as percentage of GDP than other middle-income countries.

One challenge is the weak tax collection, which remains at the heart of the problem with tax revenue coming down from 14.5 percent in 2000 to 11.6 percent in 2013. Sri Lankan tax rates seem to be in line with, or lower than those of many middle-income countries, suggesting that low tax collection is less of a policy issue, but more of an administration issue. Sri Lanka is ranked 171st out of 189 countries in paying taxes due to high number of payments (58), time taken (210 hours per year) and tax rate (55.1 percent of profits), according to the Doing Business 2014 Report. Tax holidays and concessions given by the Board of Investment have promoted investments, but strained tax revenues. The government expects that a number of tax holidays granted for a fixed period will expire in the near future, broadening the tax base. It is also expected that on-going system infrastructure improvements at the Department of Inland Revenue and the Customs Department would improve tax administration.

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 provides 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 have also 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 responding to the government’s request for support to enhance the country’s public financial management systems. Initiatives the World Bank has supported include: (1) 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; (2) introducing public sector accounting standards aligned with international standards to public sector institutions; and (3) preliminary work to professionalize public sector accountants. A knowledge exchange was arranged in 2012 providing senior Sri Lankan policymakers the opportunity to exchange views and learn from the experiences of South Africa, Mauritius, Cambodia, South Korea and New Zealand. Further to this, 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; procurement procedures and predictability in the availability of funds. An ongoing Institutional Development Fund grant to strengthen the Institute of Chartered Accountants is providing an important opportunity to build capacity in the private sector with a view to improving private sector transparency and accountability. A Report on Standards and Codes on Accounting and Auditing is also underway, an update to one undertaken in 2004, to inform an action plan to be prepared by the government to further enhance the quality of corporate financial reporting. The government is undertaking a number of reform initiatives, including in the areas of revenue administration and treasury management.

The government has also been working to reform and develop its public procurement system. Public procurement expenditure in Sri Lanka is substantial, equivalent to $4 billion or over 21 percent of total government spending. Most public procurement is financed through domestic funds (68 percent), followed thereafter by multilateral funds (12 percent). A joint review of the country’s public procurement system by the government, World Bank and Asian Development Bank (ADB) has identified certain areas for improvements. The government has recently formed a committee that is interacting with the World Bank to further develop its public procurement system.

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 three percent of financial sector assets. Sri Lanka’s equity market has remained at Rs. 3 trillion ($23 billion equivalent) in September 2014, accounting for about 35 percent of GDP and 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. 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 will also 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 is currently

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5 Technical assistance has been provided through the World Bank’s Financial Sector Reform and Strengthening (FIRST) initiative.
providing 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 has 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, with some mergers approved by the Central Bank and well advanced.

**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 amongst 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 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 is currently supporting a warehouse receipts financing pilot project to help catalyze collateralized lending by commercial banks to farmers. The development of warehouse receipts as collateral is designed 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. A recent Bank study has identified that even though the underserved urban poor have access to banking, more innovative products need to be made available to improve their livelihoods.

**Poverty and Shared Prosperity**

**Sri Lanka’s headcount poverty rate has declined dramatically, falling from 23 percent in 2002 to seven percent in 2012.** This impressive performance has largely been driven by three factors: a rising return to farm employment resulting from the increase in food prices; productivity growth among wage workers, particularly in secondary cities outside of Colombo; and declines in the dependency ratio. Growth has been pro-poor. Real per capita consumption of the bottom 40 percent grew between 2006 and 2009 by an average of 3 percent annually, while shrinking 0.4 percent overall. As a result, inequality in per capita consumption expenditure fell during this period, as reflected by a decline in the Gini coefficient from 0.41 to 0.36. Shared prosperity has been associated with dramatic declines in poverty. Among rural, urban and estate

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6 These numbers are based on the national poverty line.
7 More recent data on shared prosperity will become available soon.
sectors, poverty reduction has been particularly dramatic in the estate sector, where it however remains highest at 11 percent.\(^8\)

**Despite the very positive story of poverty reduction and shared prosperity, important development challenges remain in Sri Lanka.** Pockets of 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 safety nets has declined in recent years (from 2.2 percent of GDP in 2004 to 0.3 percent in 2009) and suffers from inefficient targeting. The decline in the country’s main safety net program, *Samurdhi*, is estimated to have slowed poverty reduction by two percentage points between 2002 and 2009. In 2009, an estimated nine percent of Sri Lankans no longer classified as poor were living within 20 percent of the poverty line and were therefore vulnerable to shocks which 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.

**Sri Lanka compares favorably with other countries in its income band in terms of gender equality.** In 2012 Sri Lanka ranked 75\(^{th}\) out of 186 countries on the UN Gender Inequality Index.\(^9\) On the OECD’s Social Institutions and Gender Index, Sri Lanka scores highest among all South Asian countries.\(^10\) The main gender challenges relate to women’s access to employment opportunities, gender-based violence and women’s and children’s nutritional status. Sri Lanka hosts the 20\(^{th}\) largest gender gap in labor force participation globally, which presents significant challenges to its growth and equity goals. In 2012, the labor force participation rate among women over age 15 in Sri Lanka was 33 percent, compared to 75 percent for men. In contrast, women’s 2012 labor force participation rates in Thailand and Malaysia were 64 percent and 50 percent, respectively.\(^11\)

**Sri Lanka has met the Millennium Development Goal (MDG) target of halving extreme poverty and is on track to meet most of the other MDGs, outperforming other South Asian countries.** Whereas South Asia as a whole is on track or an early achiever for nine of the 22 MDG indicators, Sri Lanka manages this for 15 indicators. Among the targets achieved early are those related to universal primary education and gender equality. Sri Lanka is expected to meet the goals of maternal health and HIV/AIDS. Progress on reaching the goals related to malnutrition and child mortality is, however, slower. Indicators are mixed on the environment: while Sri Lanka is an early achiever on indicators of protected area, ozone depleting substance consumption, safe drinking water and basic sanitation, it has stagnated or is slipping backwards on forest cover and \(\text{CO}_2\) emissions.\(^12\)

**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

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\(^8\) 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.

\(^9\) The Gender Inequality Index is a composite measure of reproductive health (maternal mortality ratio and adolescent fertility rate); women’s empowerment (share of parliamentary seats held by women; and female secondary and tertiary educational attainment rates); and labor participation (share of women in the labor force). UN Development Program, 2013.

\(^10\) The OECD index looks at family law, civil liberties, physical integrity (including violence against women), son preference and ownership rights.

\(^11\) World Development Indicators.

\(^12\) *Accelerating Equitable Achievement of the MDGs: Closing Gaps in Health and Nutrition Outcomes*. Asia-Pacific Regional MDG Report 2011/12, UNDP, Economic and Social Commission for Asia and the Pacific and ADB.
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 Protection Modernization project is envisaged for FY16 which, building on analytical work, would assist the government both in reducing household vulnerability and increasing equity and opportunities for vulnerable populations through more efficient, better targeted social assistance spending. Additional support to boost rural livelihoods and agricultural productivity is also anticipated through an Agricultural Productivity and Competitiveness project. Support could focus on increasing productivity and access to markets, increasing access to and efficiency of irrigation, and extending crop protection from wildlife.

Changing Demographics

Contrary to most South Asia economies, Sri Lanka does not have a demographic dividend. By 2036, more than 22 percent of the population will be over 60 and there will be 61 dependents per 100 adults. The aging and urbanization of the population are having dramatic impacts on education and health as well as the economy. Unless labor force and employment rates increase (notably through greater inclusion of women) a very small number of employed persons will need to provide for a very large number of non-working persons – 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). 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 per cent, the primary education completion rate is over 95 per cent, and gender parity in the education system is high compared 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.

As noted further above, the World Bank is providing assistance in the area of skills development to help 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. The 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. The 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.

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13 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.
services. The project is also building research capacity at the universities through Ph.D. programs and competitive research grants. Moving forward, the World Bank will also be supporting government efforts to mainstream early childhood education reforms. An Early Childhood Development project is currently under preparation, likely to be delivered this fiscal year. Investment in early childhood development consistently brings very high cumulative returns in human capital, is one of the most 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.

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. 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) 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, 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) 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.

15 According to government’s Registrar General’s Department 2006 and latest data.
16 Low weight-for-age and an indicator used for the second target of the first MDG.
17 The term Non-Communicable Diseases (NCDs) is used in this document to include both chronic and acute NCDs, e.g., cardiovascular 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.
The World Bank has been supporting Sri Lanka’s health sector through analytical work and credits from the International Development Association since the late 1980s. The Health 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 FY13 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 JSDF trust-funded Local Level Nutrition Interventions project is helping 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 FY13), 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. Population density in urban areas has almost doubled over the past decade to 3,213 persons per square kilometer, and, as of 2011, 35.3 percent of the country’s 21 million people live in urban areas.18 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. Sri Lanka is shifting from a predominantly rural-based economy to an urban one oriented around manufacturing and services (with industry and services contributing to 88.9 percent of GDP in 2012). To date, Sri Lanka’s economic growth has been primarily driven by the Colombo Metropolitan Region, which currently generates 45 percent of the country’s GDP and which 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 Colombo Metropolitan Region into a competitive and environmentally friendly world-class capital.

Central to the government’s development agenda is also the creation of a strong network of well-connected and environmentally sustainable cities throughout the country, fostering economic growth in major urban centers outside of Colombo to produce a more spatially balanced distribution of economic opportunities and bolster overall national economic growth. While Sri Lanka is taking important steps to implement its urban vision, including connectivity improvements, urban renewal and green city initiatives in the Colombo Metropolitan Region and secondary cities, a number of challenges remain. Urban local authorities are currently constrained by limited institutional mandates for urban planning and service delivery, as well as inadequate financial and human resources, resulting in delayed implementation of urban plans and inefficient service provision. Regulatory and institutional constraints in land markets and inadequate incentives to stimulate efficient and sustainable land use and property development have resulted in urban sprawl. Housing finance products have also been limited.

Efficient and environmentally sustainable land use when supported by high density urban transportation could deliver sizeable economic benefits by reducing vulnerabilities to natural disasters, lowering infrastructure costs, limiting the impact on environmental assets, stimulating

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18 As measured using the agglomeration index which defines as urban all Divisional Secretariats (DS-divisions) with an average population density of 150 persons per km² 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.
private investment in land and housing and expanding municipal own-source generation. The sustainability of urban water supply systems is at risk, and water quality needs to improve, especially in the North and East. The largest cities, in particular the tourist destinations, need an integrated approach to environmental management including sewage, wastewater treatment, drainage, and solid waste management. This is important as a response to increasing population densities but also to make the tourist areas attractive to foreign and national visitors. Urban transport is a key contributor to city competitiveness, but much remains to be done to improve public transportation in the main cities, and to enable efficient utilization of urban roads. With the challenges of global climate change, Sri Lanka’s cities are becoming increasingly more vulnerable to natural disasters (as discussed further below), and adaptation strategies need to be mainstreamed into urban plans to manage the risk.

For generations, Sri Lanka’s population has been more internally mobile than most countries, on account of the extensive network of roads, buses and railways and relatively compact geographic territory. During the civil conflict, much of this infrastructure was damaged and attention was not given to modernizing or even maintaining the infrastructure. Today, road travel within the country is very slow with average speed of only 26 kilometers an hour. A massive effort is currently underway to bridge the infrastructure gap, using domestic resources as well as support from the multilateral and bilateral communities. The country’s first expressway opened in 2011, halving travel time from Colombo to Galle. Nevertheless, challenges remain. More needs to be done to understand and enhance the economic connections across the country to take advantage of forward and backward linkages in supply chains and of distinct comparative advantages of different parts of the country.

The World Bank is supporting government efforts to enhance Sri Lanka’s urban areas and support internal integration. The Metro Colombo Urban Development project, approved in FY12 and funded by the International Bank for Reconstruction and Development (IBRD), is helping the Colombo Metropolitan Region to address obstacles preventing it from realizing its full economic potential, including inadequate infrastructure and services and significant vulnerability to flooding. A number of complementary studies and South-South exchanges have been launched in connection with the project, including on solid-waste landfill, wetland management, private participation in waterfront development, and strategic city development. Further support is to be extended to the Colombo Metropolitan Region through the Colombo Green Growth technical assistance program, which provides a holistic framework and incentive mechanism for participating municipalities and ministries to propose, plan, and implement environmentally and socially sustainable and resilient urban development projects and policies. GFDRR trust-funded analytical work has built government capacity to analyze risk and develop risk mitigation strategies for disaster prone urban areas, and provided the technical foundation for the new engagement in disaster risk financing, discussed further below. Complementing the IBRD loan and related studies, IFC is financing an innovative municipal waste-to-energy project for the Western Province.

The World Bank is deepening its support for the development of a strong network of well-connected, sustainable cities throughout the country. Sri Lanka is taking important steps to implement its urban vision, including connectivity improvements, urban renewal and green city initiatives in the Colombo Metropolitan Region and secondary cities. Following analytical work to understand the economic drivers of rapidly growing secondary cities, the World Bank is supporting government efforts to improve urban services and livability through the Strategic Cities Development project, approved in May 2014. The project will focus on the two strategic city regions of Kandy and Galle, supporting improvements to such critical urban services as water supply, drainage infrastructure and select public transport facilities, as well as traffic management. Key public spaces in these urban centers will also be upgraded by the end of the project. Technical assistance under the project is expected to increase these municipalities’ capacity to design, plan and manage their growing cities. Fostering economic growth in major urban centers outside of Colombo should produce a more spatially balanced distribution of economic opportunities and bolster shared prosperity and overall national economic growth.

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19 As of 2010, there were 1.7 km of road per km² and 97 percent of villages are reached by the road network. As of 2000, 86 percent of the roads were paved.
Further support will also be provided in the areas water and sanitation and local service delivery with a view to increasing both the quality of services and accountability in local service and infrastructure delivery. 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. A water and sanitation study, made possible with support from DFAT, analyzed the main constraints and proposed an action plan to achieve the government’s vision and targets in the sector. A Water Supply and Sanitation Improvement project is currently being designed with the government for delivery this fiscal year. Additional IDA financing to the ongoing North East Local Services Improvement project is also planned which would cover a financing gap and extend the project to the adjoining provinces. Together with a DFAT grant, it will help to consolidate achievements in local service delivery in the country.

In the transport sector, connectivity has been increased through two World Bank projects that are currently helping to address deferred maintenance and contribute to better quality and safer roads: the Road Sector Assistance Project and the Provincial Roads Project. The latter has been helping the government improve access to socioeconomic centers in the Eastern, Northern and Uva Provinces, through the sustainable management of improved road infrastructure and substantial reductions in travel time. The Road Sector Assistance Project, approved in 2005, has been instrumental in increasing the level of funding channeled to rehabilitation and maintenance of national roads, as institutionalized in a Road Maintenance Trust Fund. The project has also boosted the capacity of the construction industry, catalyzing behavioral reforms in maintenance practices and environmental safeguards.

World Bank Group support for Sri Lanka’s transport sector will continue, with the objective of improving the quality and sustainability of roads. During the war, much of the transport infrastructure was damaged and insufficient attention was given to modernizing or maintaining this infrastructure. Today, road travel within the country is very slow with an average speed of only 26 kilometers an hour. While a massive effort is currently underway to bridge the infrastructure gap, more needs to be done to improve the economic connections across the country to take advantage of the forward and backward linkages in supply chains and the distinct comparative advantages of different parts of the country. To address these concerns, a Roads Rehabilitation and Maintenance project is proposed. Pending review of economic feasibility considerations, the World Bank could also potentially support the development of the country’s expressway network, for which PPP options are being considered in coordination with IFC.

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 for 2016, as outlined in its Mahinda Chintana vision for development, is raising forest coverage from 23 percent to 35 percent of the land area. 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. 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, but has yet 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. Rapid and unplanned development has contributed to habitat fragmentation and the loss of key ecosystem services, particularly in the northern and southern regions of the country. The only MDG Sri Lanka is unlikely to achieve is MDG 7 on ensuring environmental sustainability by 2015.

**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 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 climate variability 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 monsoon-dependent areas 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 sizable over the past decade, particularly flooding and drought.** Floods have cumulatively affected more than 8.5 million people since 2000 (over 375,000 people annually on average), while droughts have affected more than five million.\(^{20}\) 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 are reoccurring. Compounding this is a lack of coordination across upstream management of dams, and downstream management of irrigation and flood risk. Landslides and high winds also frequently destroy or damage thousands of houses every year. The annual fiscal loss is estimated by the Ministry of Disaster Management to exceed $50 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 affected nearly a half a million people and caused further significant damage. These recent flood events had significant impact on the agriculture sector in particular, destroying crops, livestock and agricultural infrastructure. 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 NGOs, potentially increasing the levels of malnutrition among small children and the elderly. In Sri Lanka,

\(^{20}\) Sri Lanka Disaster Information System.
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.

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 FY14. 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 Improving Climate Resilience project aimed at the immediate reduction of physical risk and improving understanding of disaster risks to direct future investment; ii) a Comprehensive Disaster Risk Mitigation project (planned for FY16) that would, amongst other things, uplift the recommendations provided in the Improving Climate Resilience project; and iii) a Development Policy Loan (DPL) with a CAT-DDO to strengthen fiscal resilience to events. 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 is being addressed under the Metro Colombo Urban Development project. A Dam Safety and Water Resources Planning project is supporting the government in strengthening high-risk dams and improving water resources planning to increase the capacity of the upstream water reservoir. Additional financing for this project, approved in FY14, will support the rehabilitation of additional dams in the Eastern province that could not be included in the original project due to conflict in the area 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 2016.21 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, which has driven up consumer tariffs due to the high international price of petroleum products. 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.22 Given Sri Lanka’s high dependence on oil, most of the expansion is scheduled to come from coal-fired power and non-conventional renewable resources.

While the World Bank is not presently providing support for Sri Lanka’s renewable energy sector, earlier assistance in this area had demonstrable impacts. The Renewable Energy for Rural Economic Development Project, which closed in December 2011, supported the development of 185.3 megawatts (MW) of renewable energy capacity, or about 65 percent of total renewable electricity generating 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.

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21 The current share of electrified households is 94 percent, according to the Ministry of Power and Energy.
22 Small hydro (less than 10 megawatts), wind, biomass, and other energy sources such as agricultural waste, landfill gas and municipal solid waste.
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.

**WORLD BANK GROUP: Supporting Sri Lanka’s Transition to MIC Status**

The overarching aim of the World Bank Group’s Country Partnership Strategy (CPS) for Sri Lanka for FY13-16 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 FY14 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 FY16, 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.

The World Bank has been supporting Sri Lanka’s development for close to six decades, having accompanied the country as it has grown to join the ranks of middle-income countries. International Development Association (IDA) commitments to date amount to $4.86 billion and $525.7 million in IBRD lending have been provided. Sri Lanka re-emerged as a blend IDA-IBRD country in FY12, regaining access to IBRD resources after a 26-year hiatus, and it will likely become an IBRD-only country at the end of the IDA17 cycle which concludes in FY17.

With Sri Lanka’s graduation to middle-income country status, the government has broadened its options for foreign financing of public investment. While historically Sri Lanka’s largest lenders have been the Asian Development Bank, the World Bank, and Japan, China has emerged as the largest lender, with involvement primarily in the road sector. Concessional assistance from western bilateral partners in general has diminished whilst financing in the form of export credits has increased.

The current active World Bank portfolio in Sri Lanka comprises 16 projects (13 IDA operations, two IBRD operations and one recipient-executed trust fund of over $5 million) with a total net commitment value of $1.9 billion. Trust funds have continued to play an important role in implementing the World Bank Group’s Country Partnership Strategy (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 $57.9 million. Urban and transport infrastructure account for 40 percent of the overall portfolio, followed by human development (24 percent), livelihoods and rural development (22 percent), resilience to climate and disaster risk (11 percent), and finance and private sector (three percent). This fiscal year, the lending program is expected to include three projects, as discussed further above, supporting transport, water supply and sanitation and early childhood development. Additional financing to the ongoing North East Local Services Improvement project also forms part of the FY15 lending program, which will cover a financing gap and extend the project to the adjoining provinces. Together with a DFAT grant, it will help to consolidate achievements in local service
delivery in the country. 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.* Through August 2014, IFC has invested $1 billion in Sri Lanka, including $259 million mobilized from other institutions.

**As of August 2014, IFC’s total committed investment portfolio stood at $542 million,** including $250 million mobilized from partner institutions. The committed portfolio has quadrupled in the last three years. The financial sector accounts for around half of IFC’s own portfolio while manufacturing and services represent over 40 percent. IFC expects continued strong expansion in its investments over the balance of the CPS period. IFC’s advisory program currently operates 11 portfolio projects with a combined fund value of $9 million and has two pipeline projects.

**IFC’s activities in Sri Lanka are supporting the World Bank Group CPS goals, aligned with the government’s Mahinda Chintana vision.** IFC is particularly focused on projects that enhance: (i) inclusive growth, including improving access to finance and access to markets for micro, small and medium enterprises (MSMEs) and supporting jobs through labor-intensive industries; and (ii) global integration through improved competitiveness including strengthening the financial infrastructure, south-south investments and infrastructure.

**Working closely with the World Bank, the government of Sri Lanka and other partners, IFC is helping to promote private sector growth, using a combination of investment and advisory services to: create growth opportunities for MSMEs; make strategic investments to increase access to financial services, build infrastructure, improve healthcare and 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. Priority areas include access to finance, infrastructure, tourism, and agribusiness, with a focus on regions to promote more balanced growth across the country.**

**Investment and advisory projects committed in FY2014 alone are expected to increase access to financial services for almost 280,000 MSMEs.** IFC’s advisory support for SMEs accounts for 86 percent of its advisory portfolio in Sri Lanka and is coupled with capacity-building advisory support through an SME Toolkit and Business Edge training program. Increasing access to finance for smaller enterprises has been complemented by IFC’s support for farmers and labor-intensive industries in promoting inclusive growth. In addition, IFC received 4 million euros from the EU to promote SMEs as part of a broader 60-million euro program in the country’s North and East post-conflict regions, supporting districts’ transition from recovery to development and helping to bridge the gap between more developed areas of the country. The World Bank and IFC are assessing a number of areas for collaboration, including skills, investment climate reforms and promoting PPPs in transport.

**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 supports the World Bank Group Strategy for Sri Lanka, and is currently actively considering projects in the infrastructure sector. MIGA is partnering very closely with the World Bank and IFC with all potential transactions, to ensure full collaboration.

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23 The *Support for District Development Planning* program is implemented jointly by IFC, UNDP, the Food and Agriculture Organization, the International Labor Organization, the United Nations Office for Project Services, and the United Nations Children Fund.
Sri Lanka: Small and Medium Enterprise Development Project

Key Dates:
Approved: 07-Sep-2010
Effective: 05-Jan-2011
Closing: 30-Sep-2015

Financing in million US Dollars*:
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*As of August 22, 2014

Background and Objectives:
The project is designed to improve access to finance, including long-term finance, for small- and medium-sized enterprises (SMEs) in Sri Lanka affected by the global financial crisis. The core components are a Financing and Risk Sharing Facility ($41.0 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 the International Finance Corporation (IFC).

Key Results Achieved and Expected:
The following have been achieved as of June 31, 2014:
(i) A total of 552 active loans (against a target of 560);
(ii) Cumulative disbursements of sub loans amounting to $24.3 million;
(iii) More than 8,680 SMEs and 6,834 commercial bank staff have been trained;
(iv) An estimated 4,546 potential new employment opportunities created.

The project is expected to achieve a target of 1,000 loans by end of 2015. There will have been 9,000 SME and 8,000 SME bank staff trained by the end of the project.

Key Development Partners:
Ministry of Finance and Planning
## Sri Lanka: Warehouse Receipts Financing Project

### Key Dates:
- Approved: 17-Jul-2012
- Effective: 17-Jul-2012
- Closing: 31-May-2015

### Financing in million US Dollars*:

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*As of August 22, 2014

### Background and Objectives:

The project is a response to the recurrent issues of food insecurity and price fluctuations in Sri Lanka. The project aims to contribute to increased food security and agricultural incomes. By building quality warehouse storage, it will help to reduce the estimated 10-15 percent wastage of rice crops. An electronic warehouse receipts mechanism aims to catalyze collateralized lending by commercial banks to farmers. Overall, the project should help to smooth out food availability and allow farmers to sell at higher prices into commodity markets after the post-harvest glut. The development of warehouse receipts as collateral would reduce bank risk and farmer financing costs, thereby increasing farmers’ access to finance and liquidity to invest in productivity-enhancing inputs and equipment.

The project is piloting a warehouse receipts system which has been implemented in other countries. It aims to provide access to farmers in selected areas of Sri Lanka to quality storage facilities for agricultural products and to facilitate the use of such products as collateral to access financial services by developing an electronic and negotiable warehouse receipt financing program. Warehouse receipts financing facilitates the dual purpose of providing a value chain service to producers through warehousing and simultaneous access to credit against stored produce.

### Key Results Achieved and Expected:

Construction of the first warehouse, in the village of Upuldeniya in Anuradhapura District is underway. The construction and installation of machinery will be completed by March 2015. The second warehouse in Ampara is expected to be completed by May 2015. The public awareness programs among the farmers have already been initiated at Upuldeniya.

### 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

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*As of August 22, 2014

Background and Objectives:
The Higher Education for the Twenty First Century (HETC) 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:

1. 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.

2. 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.

3. Strengthening alternative higher education: to modernize the Sri Lanka Institute for Advanced Technological Education and its network of Advanced Technological Institutes through curriculum and management reforms, and to expand the coverage of the ATI to under-served areas to provide more equitable access to alternative higher education.

4. Human resource development, monitoring, evaluation, studies, coordination and communication: to strengthen 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.

- A Quality Assurance Framework covering public and private higher education institutions has been prepared and implementation is in progress.
- University Development Grants to improve the employability of students are under implementation in all 17 universities.
- Quality and Innovation Grants have been awarded to 58 study programs, exceeding the project target of 51 study programs.
- There are over 15,000 students enrolled in the Advanced Technological Institutions, surpassing the project target of 11,000 students at the present stage. Modernized curricula have been introduced in all 12 Advanced Technological Institutions.
- Over 200 university and Sri Lanka Institute for Advanced Technological Education academics have commenced Master's or PhD degree programs, exceeding the project target of 100 Masters/PhD degrees.
- Short-term professional development activities have benefited about 3,560 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

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*As of August 22, 2014

**Background and Objectives:**

The Transforming the School Education System as the Foundation of a Knowledge Hub Project (TSEP) 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: a) promoting access to primary and secondary education; b) improving the quality of education; and c) 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 84 percent (87 percent for girls and 81 percent for boys)
- A national assessment of learning outcomes of children at grade 8 was completed in 2012.
- School-based management has been introduced in 44 percent of education zones during 2012-2013. About 2,400,000 students (55 percent of all students) are enrolled in schools in these zones.
- School-based teacher development programs have been conducted in 44 percent of education zones during 2012-2013. About 140,000 teachers (63 percent of all teachers) have benefited from these programs.

**Key Development Partners:**


The Bank is a coordinating agency and ensures that the activities done by development partners are harmonized with the government program. A joint review mission is undertaken annually by the Bank team with interested development partners. AusAID (now DFAT) 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*:

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*As of August 22, 2014

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 36 per 100,000 live births, infant mortality rate of 12.2 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 13 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, the Mahinda Chintana, to improve the health sector to meet middle-income country standards.

The Second Health Sector Development Project will support 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 will support 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 will be disbursed as budget support linked to agreed results achieved over the given period. The project will also support 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, baseline and end-line surveys and Disbursement Linked Indicators’ results reporting.

Key Results Achieved and Expected*:

This recently approved project expects to support the implementation of 20 results (a subset of the National Health Development Plan results). The first funds release was completed in December 2013 and the first implementation support visit took place in May 2014. So far, in the first year of implementation the six Project Development Objective Indicators all met or surpassed their targets for 2013 and progress against the Intermediate Results Indicators is also positive. Of particular note:

- Twenty percent (733) of the 3775 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, and 55 Medical Officer of Health areas have at least three health and nutrition community support groups surpassing the target of 10 areas;
- Twenty five percent (82) of the 324 Medical Officer of Health areas reported having at least two functioning Healthy Lifestyle Centers surpassing the year-end target of 10 percent;
- National guidelines for rehabilitation services for disabled persons are being developed (the target for the 2013);
- The percentage of hospitals linked to the quality assurance program for laboratory tests conducted by the Medical Research Institute surpassed the target of 20 percent, reaching 46 percent in 2013;
- The TB case detection rate surpassed its 2013 target of 72 percent by 2 percent;
- Guidelines for quality management units have been prepared and training for administration of the guidelines has been completed;
- Implementation of the Environmental Management Framework has commenced well, with 10 hospitals initiating the procedure of obtaining Environmental Protection Licenses and Scheduled Waste Licenses by submitting proposals to the Ministry of Health, which were approved and budgeted accordingly. Obtaining of 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*:

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*As of August 22, 2014; **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 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 32 high-risk large dams through rehabilitation and modernization; improve the basic facilities (roads, lighting, etc.) of 80 dams (including the 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 around four 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 120 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.

Additional Financing for this project was approved in May 2014 and will support the rehabilitation of additional dams in the Eastern province that could not be included in the original project due to conflict in the area at that time.

Key Results Achieved and Expected:

After a slow start the project has been performing well during the past years. Good progress has been made under most of the contracts for dam rehabilitation/remedial measures and there are generally no major implementation issues. The rehabilitation and improvement works at 18 dams (up from 12 dams in January 2014) were completed by the end of June 2014 and at four dams the completion rate of contracts is above 80 percent. The contracts for improving basic safety facilities at 80 dams have all been completed, except for some activities that are still ongoing at the 13 dams for which the remedial measures are still ongoing. The contract for the development of 122 hydro-meteorological stations is also ongoing and the first nine stations have now been fully installed and tested. The National Water Use Plan and river basin plan for the Mundeni Aru River have been prepared and approved by line agencies. The next target is their adoption by the Cabinet of Ministers.

Key Development Partners:
Implementing agencies include the Ministry of Irrigation and Water Resources Management, the Irrigation Department, Mahaweli Authority of Sri Lanka, the Ceylon Electricity Board, and the Water Resources Board.
**Sri Lanka: Community Livelihoods in Conflict-Affected Areas Project (Re-awakening Project)**

**Key Dates:**
- Approved: June 22, 2004
- Effective: October 12, 2004
- Closing: December 31, 2014

**Financing in million US Dollars:**

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*As of August 22, 2014.*

**Background and Objectives:**

The World Bank has been supporting the government of Sri Lanka’s rehabilitation efforts in conflict-affected areas (North, East, and bordering districts) since 1998. The North-East Irrigated Agriculture Project, ($27 million) approved in 1999 during the conflict, focused on helping conflict-affected communities to reestablish at least a subsistence level of production and basic community services. The Second Northeast Irrigated Agriculture Project ($64.7 million), approved in 2004, added a focus on community development which became increasingly important over the life of the project. This project was subsequently restructured in 2007 and renamed the Community Livelihoods in Conflict- Affected Areas Project, known locally as the Re-awakening Project. The escalation of violence had made it difficult to implement large-scale infrastructure through public-sector agencies in conflict-affected areas. Community demand for immediate livelihood support had also increased, requiring more flexible staffing arrangements with a greater emphasis on skills development and accountability at the community level for project management and facilitation.

The Re-awakening Project aims to help the conflict-affected communities and villages in Northern and Eastern provinces and adjoining areas by restoring their livelihoods, enhancing agricultural production and incomes, and building their capacity for sustainable social and economic reintegration. It includes four components: (i) village rehabilitation and development, supporting the restoration of village assets and mobilization of community institutions in focal villages in twelve districts; (ii) essential rehabilitation of selected major irrigation schemes to ensure safety and improve water management capacity; (iii) farmer organization and support for agricultural services to develop capacity and improve marketing and competitiveness of agriculture; and (iv) capacity building and project implementation support for monitoring, oversight and project management.

Successive additional financing has been provided. The first emergency additional financing ($12 million provided in 2009 and designed in tandem with the Emergency Northern Recovery Project) set out to help conflict-affected communities in the Northern Province to restore village assets and mobilize community institutions in some 135 Grama Niladhari Divisions. The second and third additional financing (processed together in 2011 for a combined $38 million) was designed to help communities and villages in North, East and the adjoining areas affected by the devastating floods of 2010/2011 by restoring their livelihoods, enhancing agricultural production and incomes, and building their capacity for sustainable social and economic reintegration. They are focused on the rehabilitation of villages, irrigation schemes and rural infrastructure.

**Key Results Achieved and Expected:**

- Since inception, the project has reached 1,039 war-affected villages, assisting 283,087 beneficiaries through 24,288 small groups, 1520 village development organizations, as well as 781 Women Rural Development Societies.
- 123,471 families have either started new income generation activities or scaled up existing activities through low interest loans provided under the project’s village revolving fund.
- 4,098 community infrastructure and social services subprojects have been completed to date and maintained by the communities to improve their quality of life. Another 325 subprojects are nearing completion.
- 2,382 km of rural roads have been rehabilitated. Increased water supply through rehabilitated irrigation has increased farm areas by 27,382 hectares, benefiting 118,904 households.
- 2,200 youth employed following skills development training provided through the community skill development fund.
- The project has assisted 31,449 ex-combatants, 145 of whom have started their own livelihood activities.
- The project has initiated 69 cluster level commercial sub-projects which are in operation, bringing together a number of Village Development Organizations in an inter-enterprise linkage that have addressed constraints along the value chain and also increased their income.

**Key Development Partners:**

Ministry of Economic Development, Provincial Councils, various civil society organizations, and conflict/flood-affected communities.
Sri Lanka: Second Community Development and Livelihood Improvement Project

**Key Dates:**

- Approved: 10 Sept 2009
- Effective: 11 Dec, 2009
- Closing: September 30, 2014

**Financing in million US Dollars:**

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*As of August 22, 2014; **(Community Contribution)

**Background and Objectives:**

This project supports government efforts to enhance incomes and the quality of life of poor households in the poorest parts of the country. The project also aims to build the capacity of government agencies, local governments, and community organizations for service delivery and overall project implementation. Phase I was completed successfully in March of 2009 March and phase II commenced in 2010. The project was restructured in June 2013 to enhance the achievement of the project’s development objectives. The government has requested a six-month extension of the project’s closing date (for 31 September, 2014 closure), with which the World Bank is in agreement, in order to complete unfinished infrastructure activities.

The project focuses on the following areas: strengthening the institutional capacity of pro-poor institutions (village organizations); village fund development and livelihood related investments at the village level; promoting inter-village development to consolidate and sustain livelihood; and infrastructure activities and investments generated at the village level. This involves strengthening the capacity of local governments (Pradeshiya Sabhas) to plan, deliver and maintain services in a cost-effective, participatory, and transparent way; and developing partnerships between rural communities and private and public sector agencies to increase access to new technology and marketing opportunities; and enhance skills for employment generation, especially among unemployed youth.

The project also provides support for the overall coordination, planning, implementation and monitoring of the project at the district, national, and provincial levels. Additionally, the project provides for building the capacity of local officials and public agencies to deliver government programs using a community-driven development approach, and to develop policies and procedures for funding communities and local governments directly.

**Key Results Achieved and Expected:**

- The project has supported the establishment of 2044 village organizations since 2010, covering a total of 416,965 households out of which 112,500 are Estate household beneficiaries.
- A total of 39,214 small groups consisting of 232,573 beneficiaries are members of village savings and credit organizations, or VSCOs. Women make up a significant share of the membership (76 percent). Since project inception, $24 million worth of funds have been transferred to communities and revolved to issue loans valued at $57 million and earning $7 million in interest. About 72 percent of the loans issued are for the agriculture sector.
- Of the 20,679 households identified for one time grants, 19,550 have received grants out of which 18,147 (93 percent) have initiated income generating activities.
- Of the 4,683 targeted community infrastructure sub-projects, a total of 2,619 have been completed, benefitting 83 percent of target households.
- There are 11 Pradeshiya Sabhas currently implementing inter-connectivity sub-projects with 36 infrastructure sub-projects, including under the pilot phase, having been completed out of a targeted 64. Eighty-two percent of Pradeshiya Sabhas have conducted participatory budgeting and planning involving communities where 40 percent of communities’ priorities have been taken up for implementation.
- Successful partnerships have also been established with line ministries and the private sector providing technical support to the village organizations.
- The project has funded 433 producer groups, mobilizing more than 8,330 small and marginal producers, with around $1.7 million in financing having being channeled through producer groups for improved productivity.

**Key Development Partners:**

Government of Sri Lanka, Ministry of Economic Development
Sri Lanka: North East Local Services Improvement Project

Key Dates:
Approved: May 13, 2010
Effective: December 15, 2010
Closing: December 31, 2015

Financing in million US Dollars*:

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*As of August 22, 2014; ** Additional Financing provided by DFAT, as of May 8, 2014

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 (NELSIP) 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 score cards 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 is planned for FY15 which would cover a financing gap and extend the project to the adjoining provinces. Together with a DFAT grant, it will help to consolidate achievements in local service delivery in the country.

Key Results Achieved and Expected:

- 385 km interconnectivity rural roads, 23 km flood storm drainages, four rural water supply schemes, 51 common assets (such as markets, parks, playgrounds and cemeteries), and nine rural electrification schemes have been completed.
- 70 percent capital grants released against allocations
- 87 percent increased satisfaction of local people regarding local authorities
- 75 percent of local authorities preparing annual financial statements within three months of closure
- 75 percent acceptable financial audits of accounts
- 45 percent of local authorities with budgets prepared in a participatory manner
- 79 percent of local authorities whose revenues, expenditures and procurement decisions are publically disclosed

Key Development Partners:
Ministry of Economic Development, Ministry of Local Government and Provincial Councils, provincial councils, civil society organizations, private sector and citizens, Australia’s Department of Foreign Affairs and Trade (formerly AusAID).
Sri Lanka: Road Sector Assistance Project

Key Dates:
Approved: December 15, 2005
Effective: March 16, 2006
Closing: March 31, 2015

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*As of August 22, 2014

Background and Objectives:
The government of Sri Lanka expects the economy to grow at an annual rate of six to eight percent over the next five years, and infrastructure development will be paramount in supporting this growth target. In this context, a broad agenda has been set for the road sector, including connecting poor regions and production centers to domestic and international markets, building a national highway system and an integrated road network, enhancing road safety, and promoting private sector participation in the sector. The Road Sector Assistance Project (an initial project of $100 million, with additional financing of $98 million and $100 million approved in 2008 and 2011, respectively) aims to lower transportation costs through the sustainable delivery of an efficient national road system that serves the need of road users and the Sri Lankan public at large. The project was designed to assist the country in its endeavor to improve its road network, whose maintenance had been neglected during years of civil conflict. The project was prepared to address the rehabilitation of priority national and rural roads and was instrumental in increasing the level of funding channeled to rehabilitation and maintenance of national roads, as institutionalized in a Road Maintenance Trust Fund. The project has also piloted a rural road strategy for the entire country with road inventories, prioritization criteria as well as a database created for approximately 66 percent of the Pradeshiya Sabahs, or local authorities, where awareness has been created at all levels of government and staff empowered through on-the-job training. The project was restructured to accommodate the replacement of a road section requested by government.

Key Results Achieved and Expected:
The project has been transformational in many respects, particularly in developing both private contracting capacity and the in-house design and supervision capacity of the Road Development Authority, as well as its culture in terms of environmental and social safeguards and road safety. At the network level, roads in poor and bad condition have been reduced from 52 percent to 35 percent. The International Roughness Index has improved from 9.5 to 6.1. Likewise, vehicle operating costs have improved, decreasing from Rs23/km to Rs14.13/km. A sustainable arrangement for road maintenance has been established and is being implemented. All legal covenants are being met.

Key Development Partners:
The Road Development Authority (implementing agency), the Asian Development Bank, and Japan International Cooperation Agency

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*As of August 22, 2014
**Sri Lanka: Metro Colombo Urban Development Project**

**Key Dates:**
- Approved: 15 March, 2012
- Effective: 10 July, 2012
- Closing: 31 December, 2017

**Financing in million US Dollars:**

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<td><strong>108</strong></td>
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*As of August 22, 2014

**Background and Objectives:**

As recognized by the government of Sri Lanka’s medium-term development plan (the Mahinda Chinthana), Sri Lanka needs competitive and dynamic cities to reach its aspiration of becoming an upper-middle-income economy and a global hub by 2016. In particular, Sri Lanka needs to tap the competitive advantages of the Colombo Metropolitan Region (CMR) 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 six 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; plus 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 launch a feasibility study for a new engineered landfill for the metropolitan region.
- 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 following results are anticipated from the project: (i) reduction in the area under risk of flooding (50-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:**

Sri Lanka: Provincial Roads Project

Key Dates:
Approved: December 17, 2009
Effective: April 02, 2010
Closing: March 31, 2015

Financing in million US Dollars*:

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*As of August 22, 2014

Background and Objectives:
A critical thrust of the government of Sri Lanka’s development agenda, as outlined in its Mahinda Chintona development plan, is to accelerate growth through increased investment in infrastructure. It also strives to achieve more equitable development through accelerated rural development. In support of this framework, a joint road sector program has been formulated by the government with the aim of rehabilitating the national, provincial and rural roads for the entire country. With regards to the provincial roads sector, development partners have been invited to work with the government in selected provinces, based on preparatory work undertaken by the Asian Development Bank (ADB) Project Preparation Facility. In this context, the Bank is currently working in Uva Province, and the Northern and Eastern Provinces.

The project aims to improve access to socioeconomic centers in the Eastern, Northern, and Uva Provinces, through the sustainable management of improved road infrastructure. The project consists of three components which will support: 

1. The improvement of about 230 km of provincial roads and other road infrastructure in the Uva Province, Ampara District of the Eastern Province, and Jaffna District of the Northern Province;
2. The development of a provincial road maintenance program and support to provinces’ maintenance programs consisting of routine, preventive, and emergency maintenance works; and
3. Improved performance of the Provincial Road Development Departments and the private sector in service delivery.

Key issues and challenges include: lack of adequate design and preparation of Bills of Quantities for bidding, impacting on implementation in terms of costs and time delays; and lack of planning and budgeting for road maintenance. Project restructuring is currently underway to take account of new physical targets.

Key Results Achieved and Expected:
While aggregated results will be gathered across the provinces at the end of the project, progress is evident for contracted work which has been completed, in terms of: reduced average passenger travel time on project roads; an increased share of roads in good condition; and an increase in the level of satisfaction from communities and road users along the project corridors. A Road User Satisfaction Survey carried out for Uva noted the following:

(i) Farmers are receiving more for their produce with efficiency gains in getting them to market;
(ii) A reduction in perishable goods;  
(iii) School children are no longer having to walk long distances to schools;
(iv) Residents of Uva Province welcomed improvements (reconstruction and widening for safety) to a road that had either not been accessible by vehicles or was dangerous given its rolling terrain and steep slopes; 
(v) Overall satisfaction levels of road users have increased in terms of the impact on day-to-day living.

Progress continues on both the road maintenance component and the training program.

Key Development Partners:
Ministry of Local Government and Provincial Councils.
Sri Lanka: Skills Development Project

Key Dates:
Approved: June 20, 2014
Effective: 
Closing: December 31, 2019

Financing in million US Dollars*:

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*As of August 31, 2014

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 Sri Lankan Government 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: (a) strengthening governance and management; (b) enhancing the quality and relevance of training; and (c) 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 providers, 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 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 is expected to become effective in October 2014.

The project 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 Youth Affairs and Skills Development
Ministry of Finance and Planning
Asian Development Bank (through parallel financing)
Sri Lanka: Strategic Cities Development Project

Key Dates:
Approved: May 5, 2014
Effective: Pending (expected September 25, 2014)
Closing: June 30, 2020

Financing in million US Dollars*:

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*As of August 31, 2014

Background and Objectives:
As laid out in the government’s vision plan Mahinda Chintana, Sri Lanka’s Urban Vision is to “develop a system of competitive, environmentally sustainable and well-linked cities”. 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-sectorial 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 which will benefit local residents as well as 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.

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, government of Sri Lanka has initiated a national-level program – the Strategic Cities Program (SCP) – 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 (SCDP), while other key development partners are focusing on other secondary cities, including ADB who are preparing for integrated urban development for Trincomalee, and AFD who are 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*:

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*As of August 31, 2014

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-sectoral 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 investment 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)
- 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 multisectoral 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 GFDRR Tokyo Hub.
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***:

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*As of August 31, 2014

**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 (DPL) 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 the Climate Resilience Improvement Project (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:

1. **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.

2. **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) 9 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

3. **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) Geospatial data sharing platform established to share disaster risk information amongst relevant stakeholders; ii) disaster risk profiles available at a national level and shared; and iii) line ministries and agencies access the data sharing platform

**Key Development Partners:**

This is a multisectoral 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 DRFI program that supports this program is financed by the government of Japan through the GFDRR Tokyo Hub.