

Sri Lanka**Country Partnership Framework****June 28, 2016****Chair Summary***

The Executive Directors discussed the joint IDA/IFC/MIGA Country Partnership Framework (CPF) (R2016-0105[IDA/R2016-0136, IFC/R2016-0164, MIGA/R2016-0035]) for Sri Lanka for the period FY17-20. Directors welcomed the CPF which they found to be closely aligned with the Sri Lankan Government's development objectives, the 2015 Systematic Country Diagnostic (SCD), and the twin goals.

Directors took note of the opportunities and challenges Sri Lanka faces at this critical juncture in its development. They welcomed the strong reform orientation of the senior leadership and the decision of the government to enlist support of the IMF for the implementation of its medium term fiscal consolidation program through the IMF Extended Fund Facility. Directors were however concerned that the political economy and capacity constraints could stymie implementation of policy reforms. Directors also highlighted the paradox of Sri Lanka's substantial need for financial resources for development and the strong likelihood of its graduation from IDA financing at the end of IDA17 period, and the likely need for IBRD support accordingly.

Directors welcomed the CPF's strong policy reform emphasis, particularly to improve macro-fiscal stability, private sector led growth, export competitiveness, and global integration. They acknowledged that these were important areas of re-engagement and underscored the need for seamless collaboration between the World Bank Group entities, the IMF, and other development partners in these areas to optimize results.

Directors emphasized that it was critical to address the issues of inclusion and shared prosperity. They supported the focus on improving the living standards in the regions lagging behind, including the conflict affected areas of Northern and Eastern regions. They also stressed the importance of enhancing the participation of women, the youth and the elderly in the labor force to help maintain strong economic growth. Directors strongly supported the CPF's approach to balancing development with environmental conservation and enhancing resilience to climate change across sectors.

Directors recognized that the strategy faces significant risks. In particular, they highlighted "substantial" risks for critical categories related to political and governance, macroeconomics, sector strategies and policies, and institutional capacity for implementation and sustainability. In this regard, Directors supported the CPF's flexibility in the outer years to seize opportunities as they emerge, given the ongoing refinement of the government's own development priorities as it engages in the preparation of its national development strategy. They stressed the importance of leverage to enhance development impact, given that the lending envelope is relatively small in comparison to the need for resources.

*This summary is not an approved record.