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COUNTRY PARTNERSHIP STRATEGY (CPS) PROGRESS REPORT

FOR

THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

FOR THE PERIOD FY 2013-2016

March 25, 2014

Sri Lanka Country Management Unit  
South Asia Region

International Finance Corporation  
South Asia Department

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## **CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of 10 January, 2014)

Currency Unit: Sri Lanka Rupee (LKR)  
US\$1 = LKR130.73

## **FISCAL YEAR**

The Democratic Socialist Republic of Sri Lanka's Fiscal Year: January 1-December 31

## **ACRONYMS AND ABBREVIATIONS**

AAA	Analytic and Advisory Activities
CAT-DDO	Catastrophe Deferred Draw-Down Option
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
DLI	Disbursement Linked Indicator
DPL	Development Policy Lending
ECE	Early Childhood Education
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GNI	Gross National Income
GPOBA	Global Partnership on Output Based Aid
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IDA	International Development Authority
IFC	International Finance Corporation
JSDF	Japan Social Development Fund
MDG	Millennium Development Goal
MIC	Middle Income Country
MSME	Micro Small and Medium Enterprises
NCDs	Non-communicable diseases
PADGO	Portfolio Approach to Distributed Generation Opportunity
PHRD	Japanese Policy and Human Resources Development Fund
PPP	Public Private Partnership
RETF	Recipient-executed Trust Fund
SMEs	Small and Medium-sized Enterprises

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Map (IBRD 33485)



## I. INTRODUCTION

1. **This report, jointly prepared by the World Bank and the International Finance Corporation (IFC), reviews the evolving context and progress in carrying out the World Bank Group’s FY13-16 Country Partnership Strategy (CPS) for Sri Lanka. It also updates the program of support over the remainder of the CPS period with an eye to the future.** Discussed by the Board of Executive Directors on 22 May, 2012, the joint World Bank/IFC CPS was approved with the overarching aim of supporting Sri Lanka’s transition to a middle income country. Key elements of this transition were and remain 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. The CPS was 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.

2. **While the strategic objectives of the CPS remain relevant through FY16, this Progress Report proposes a refocusing of some activities as well as the addition of a fourth strategic area of engagement: increasing resilience to disasters and climate change.** With the end of the conflict, the country is shifting from reconstruction to addressing the challenges of development on a middle income trajectory. This shift places an even greater emphasis on facilitating and creating the enabling environment for increased foreign and domestic investment. It highlights the need for an efficient public sector to ensure provision of better quality public goods and services. At the same time, continued pockets of poverty highlight the need for renewed efforts to target development to the poor. In recognition of the social and economic effects of climate-related hazards, the Government has recently made it a priority to strengthen Sri Lanka’s resilience to natural disasters and climate change. The World Bank Group is well placed to assist Sri Lanka in increasing its physical and fiscal resilience to climate and disaster risk, and a comprehensive program of support involving adaptation enhancing investments and a Catastrophe Deferred Draw-Down Option (CAT-DDO) is proposed.

3. **The final two years of CPS implementation will also include analytical work to underpin preparation of the next Country Partnership Framework (CPF).** Moving to middle income country (MIC) status has involved one set of changes, whereas sustaining progress to become a higher middle income country entails long-term, structural reforms. The World Bank Group will continue to provide analytical and advisory services and work with the Government to analyze the structural challenges to Sri Lanka’s long-term accelerated development. This will include work on increasing agricultural productivity and competitiveness, addressing long-term fiscal challenges and modernization of social protection schemes as well as more detailed poverty analysis. This would also underpin the new requirements for a Systematic Country Diagnostic to inform preparation of the next CPF.

## II. COUNTRY DEVELOPMENTS SINCE CPS PREPARATION

### Economic and Sector Developments

4. **The Sri Lankan economy has seen robust annual growth at 6.4 percent over the course of 2003 to 2012, well above its regional peers.**<sup>1</sup> Following the end of the civil conflict in May 2009, growth rose initially to 8 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 will likely be 7 percent in 2013, driven by a rebound in the service sector which accounts for approximately 60 percent of GDP.<sup>2</sup> With nearly 2 million Sri Lankans living abroad, overseas employment has contributed with foreign exchange and remittances in the order of 10 percent of GDP in 2013. Overall, unemployment at 4 percent is low, although youth unemployment (ages 15-24) at around 17.3 percent and low female labor force participation at 30 percent do pose a challenge.

5. **Economic prosperity has been broadly shared.** Real per capita consumption of the bottom 40 percent grew between 2002 and 2009 by an average of 4.3 percent annually, compared to 2.6 percent of the top 60 percent.<sup>3</sup> 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 sectors, poverty reduction has been particularly dramatic in the estate sector, where it however remains highest at 11 percent.

6. **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 CO<sub>2</sub> emissions.<sup>4</sup>

7. **Sri Lanka experienced a big decline in poverty between 2002 and 2009 – from 23 percent to 9 percent of the population.** 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 Batticaloa (in the Eastern Province), Jaffna (in the Northern Province), Moneragala (in Uva Province) and in the estate sector. Spending on safety nets has declined in recent years (from 2.2 percent of GDP in 2004 to 0.3 percent in 2009)

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<sup>1</sup> 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.

<sup>2</sup> Manufacturing and agriculture account for 30 and 11 percent of the economy, respectively. Sri Lanka’s main exports are apparel, textiles and agricultural products, notably rice, rubber and tea.

<sup>3</sup> More recent data is not yet available.

<sup>4</sup> *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.

and suffers from inefficient targeting. The decline in the country's main safety net program, *Samurdhi*, is estimated to have slowed poverty reduction by 2 percentage points between 2002 and 2009. An estimated 9 percent of Sri Lankans who are no longer classified as poor live within 20 percent of the poverty line and are, thus, 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. (See Annex 1 for more detailed description of recent poverty trends).

## Challenges

8. **Sri Lanka seeks to achieve US\$4,000 in GDP per capita by 2016, from an estimated US\$3,194 in 2013, but faces three particular macroeconomic challenges.** Sustaining an 8 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 31 percent level in 2013.<sup>5</sup>

9. **Growth will largely depend on fostering private sector development and private investment, especially increased foreign direct investment.** Increasing FDI above the 1.5 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 a conducive 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.

10. **While the country's trade deficit contracted to an estimated 12.8 percent of GDP in 2013, a number of structural challenges could impact on Sri Lanka's export potential.** Exports (excluding services) improved by 5.6 percent over the first eleven months of 2013, as imports declined by 2.5 percent. The current account deficit is expected to contract to 4 percent of GDP in 2013, benefitting from robust remittance growth and earnings from tourism. A number of structural challenges could adversely affect export potential, however, including rising unit labor costs, a mismatch of skills, labor market rigidities, infrastructure bottlenecks and limited regional integration.

11. **Revenue collection is insufficient to stabilize public finances, cover the country's ambitious plans and safeguard it against cyclical disturbances.** While the overall budget deficit has declined from a historic decade-high of 9.9 percent in 2009 to 6.4 percent in 2012 (with expectations of reaching 5.8 percent in 2013), the revenue balance remains in deficit.<sup>6</sup>

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<sup>5</sup> The country's 2013 investment rate represents total investment, including public, private and foreign direct investment.

<sup>6</sup> Revenue balance is defined as total revenue less current expenditure.

Total revenues (excluding grants) have fallen from 17 percent of GDP in 2002 to 13 percent of GDP in 2012. While the Government's determined efforts to implement fiscal consolidation through contained expenditures during the 2009-2012 period helped to lower the deficit, public spending at 19.7 percent of GDP remains insufficient for a MIC. Notwithstanding tax reforms in 2007 and 2011, revenue collection has not increased in line with growth. The tax-to-GDP ratio reached an historic low of 11.1 percent in 2012 and is an area where additional efforts are needed. The 2014 budget includes new measures to enhance revenues and strengthen debt management, and the fiscal balance and debt situation are expected to continue to improve. This would support the positive outlook for Sri Lanka's economy of 7.4 percent real growth for 2014.

**12. Notwithstanding considerable efforts by the Government, Sri Lanka will continue to face the long term challenges of ensuring inclusiveness and effectiveness of the State.** Since the end of the civil war, the Government has carried out substantial development in conflict-affected areas to build infrastructure, restore public services, and return displaced persons. Credible elections for Eastern and Northern Provincial Councils have been held in the past 18 months. At the same time, the drivers and effects of thirty years of conflict run deep, which in turn makes reconciliation a complex, long-term process. Promoting constructive state-society relationships will facilitate achieving the country's development objectives, particularly in the post-conflict Eastern and Northern Provinces.

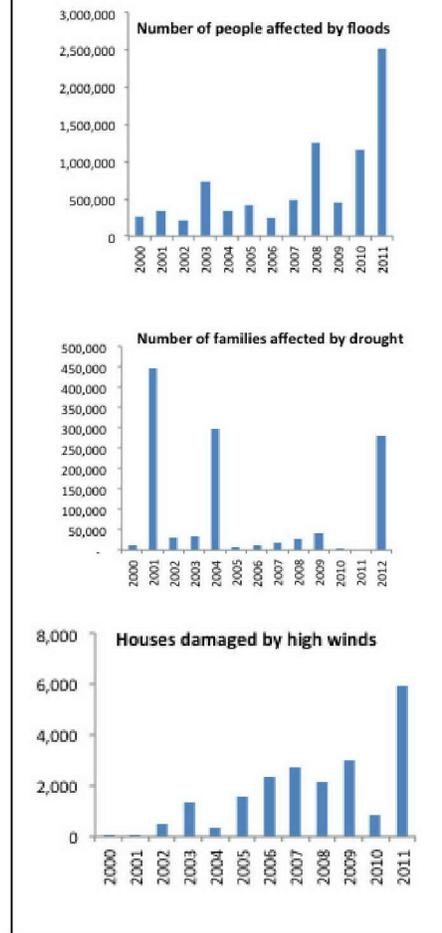
**13. Adoption of policies to sustain Sri Lanka's emergence as a middle income country will require continued strong political will.** Sri Lanka will need to build on its past strong performance in making structural changes to address the challenges of being a middle income country and achieve the goals set out in the *Mahinda Chintana*. These changes include achieving qualitatively different levels of human capital and transformation of the economy to increase productivity and provide employment. Bringing about such transformations will affect interests invested in the status quo. The Government is in a good position to seize the opportunity to take on difficult reforms.

### **Emerging Government Priorities**

**14. 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.

15. **Floods and droughts threaten many communities in Sri Lanka (Figure 1).** Flooding is endemic, affecting many parts of the country in most years. 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 5 million<sup>7</sup>. Floods of 2003, 2006, 2008, 2010, 2011 and 2012, and the droughts of 2001, 2004 and 2012 have all caused widespread impact, generally under-estimated in the absence of indirect losses or impacts on economic flows being considered. Droughts vary in their intensity, duration, and spatial coverage. River systems are also 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. Though less frequent, cyclones have significant impacts.

**Figure 1: Impacts of disasters in Sri Lanka since 2000**



16. **Recent disasters have caused major economic and social impacts, underscoring national interest to build resilience to climate-related risks.** The annual fiscal loss is estimated to exceed US\$50 million,<sup>8</sup> 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 US\$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 US\$1 billion and the estimated financial needs, including immediate relief, were estimated to be twice as much.

17. **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.

<sup>7</sup> Sri Lanka Disaster Information System.

<sup>8</sup> Ministry of Disaster Management.

18. **The poor are 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, 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.<sup>9</sup> 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.

19. **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.** The Government has made considerable efforts since the Tsunami to reduce vulnerability to adverse natural events, including: strengthening the country's disaster monitoring and early warning systems; emergency preparedness and planning; increasing awareness and capacity of sub-national officials and schools; and introducing and enforcing disaster risk management aspects into land-use and development planning. The Government now seeks to increase the country's fiscal and physical resilience to climate and disaster risk. Both are central to protecting Sri Lanka's development gains, promoting shared prosperity and to continued poverty reduction.

### III. PROGRESS IN CPS IMPLEMENTATION

#### Progress in Achieving CPS Objectives and Outcomes

20. **The CPS identified three areas for World Bank Group engagement to assist Sri Lanka in addressing its long-term strategic and structural development challenges and middle-income country agenda.** The CPS' areas of focus are linked to the three central goals of the Government's Mahinda Chintana vision, namely: (i) facilitating sustained private and public investment; (ii) supporting the structural shifts in the economy; and (iii) improving living standards and social inclusion. Progress in achieving the CPS' objectives and advancing these national development goals has generally been encouraging, as highlighted further below by area of engagement.

21. **Over the first half of the CPS period, lending in a number of areas changed or evolved in line with shifting circumstances and priorities, underscoring the impracticalities of long term ex-ante planning and the value of flexibility in programming.** In agreement with the Government, a number of initiatives were modified, which resulted in projects being closed early, deferred or postponed, as in the cases of tourism, justice and information and communication technology (ICT), or policy lending, respectively. In the case of the Tourism Development project, the Government sought to reallocate scarce IDA funds away from

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<sup>9</sup> *Sri Lanka National Report on Disaster Risk, Poverty and Human Development Relationship* (2009). DMC and UNDP.

supporting private tourism enterprises to much needed urgent rehabilitation of dam infrastructure in the North and East. In the ICT sector, the preference was to continue the dialogue through further knowledge work and technical assistance. The anticipated Development Policy Loan (DPL) aimed at supporting investment climate reform was not pursued when envisioned and postponed to the outer year of the CPS period. At the same time, the additional engagement in climate resilience responded to the new Government priority for disaster risk management. Recent natural disasters have caused major economic and social impacts, underscoring national interest to build resilience to climate-related risks. Going forward, it will be important to retain the flexibility to make meaningful adjustments to the current and prospective portfolio as practical realities would recommend.

**22. The AAA program has also seen significant changes, as it proved to be impractical to define AAA four years in advance.** The substantial number of planned AAA activities that have been dropped and added (Appendix IV), points to the difficulties of defining economic sector work or technical assistance too far in advance. It also underscores the disadvantages associated with an overly fragmented AAA portfolio. CPS implementation to date has demonstrated the value of being positioned to provide analytical and advisory support in response to emerging needs and dialogue. Both Appendix IV and the updated Results Matrix (Appendix I) reflect the evolution of the CPS program. In view of the experience to date, the programming of AAA moving forward will, as discussed further below, be more strategic, determined on a more flexible, just-in-time basis. The particular areas where AAA is currently underway or anticipated are outlined in Appendix II, along with the CPS pillars which they are intended to support.

**In the area of facilitating sustained private and public investment:**

**23. Improvements in the investment climate are evolving, as evidenced by Sri Lanka's absolute progress recorded in the Doing Business indicators.** Work is underway to enhance the quality of corporate financial reporting which is expected to help build investor confidence. Analytical work is also underway to deepen the understanding of the constraints to foreign direct investment. A DPL focused on improving the country's competitiveness is envisioned for FY16.

**24. Access to finance for small and medium enterprises (SMEs) and farmers has been expanded through World Bank Group support.** A credit line and risk-sharing facility for long term funding for SMEs has been provided by the World Bank, along with technical assistance to support capacity building efforts in the banking sector and improve the SME lending culture in the country. This has been complemented by IFC's support to strengthen the financial infrastructure, such as a secured transaction registry and e-payment systems, and through training client financial institutions to increase access for the underserved. IFC's investment in financial intermediaries, including subordinated debt from IFC's Asset Management Company for the Commercial Bank of Ceylon (US\$75 million), a long-term loan for the National Development Bank (US\$24 million), and equity and debt funding for institutions promoting financial inclusion, has primarily targeted support for SMEs. A trust-funded Warehouse Receipts Financing project is also helping to catalyze collateralized lending by commercial banks to farmers, complemented by IFC's agri-finance which includes the development of weather-index based insurance with Sanasa Insurance Company to protect crops from losses due to floods and droughts. In the first phase, Sanasa provided insurance to over 15,000 small farmers. Together, these initiatives are reducing banks' risks and, thereby, farmer financing costs, and facilitating

farmers' access to finance and liquidity. IFC has also started scoping work to prepare for modernizing business regulations, developing financial products, and training farmers and SMEs in a number of lagging districts. The initiative is designed to help narrow the gap in the business environment between these districts and more affluent regions. IFC's investment program has targeted those sectors and projects that promote inclusive growth and/or international integration, such as tourism, retail, agribusiness, and apparel.

**25. Accountability and transparency in the use of public funds have been enhanced.** Audit methodology introduced under the Public Sector Capacity Building Project has already been applied to all public enterprises and is due to be rolled out to audits of externally funded projects, shifting the focus from compliance-based transactions to risk-based audits of financial statements. Performance audits and investigative audits have also been conducted, with some already tabled in Parliament and made available to the public. Further to this, analytical work carried out to review the country's public financial management systems helped to identify strategic areas of improvement, such as monitoring and reduction of payment arrears, oversight of aggregate fiscal risk, taxpayer registration and tax collections, internal auditing, procurement procedures and predictability in the availability of funds. The Government is currently undertaking a number of reform initiatives in this direction, including in the areas of revenue administration and treasury management. Ongoing analytical work is helping the Government to 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. Complementing this, the ongoing IDF grant to strengthen the Institute of Chartered Accountants provides an important opportunity to similarly build capacity in the private sector and make progress towards the objective of improving private sector transparency and accountability. IFC continues to engage with the government, offering to facilitate internationally competitive Public Private Partnerships (PPPs) through private sector participation in building and operating certain assets, such as water supply and drainage, and transport.

**In the area of supporting the structural shifts in the economy:**

**26. Progress is being made to better align Sri Lanka's skills base and education system with the needs of its labor market, to increase computer literacy and to enhance the quality of higher education institutions.** With World Bank support, enrollment in Advanced Technological Institutes offering job-oriented programs has already increased. Sri Lanka has made great strides toward becoming an electronically enabled society. Interaction among government agencies and between government and citizens has been significantly transformed. Citizens throughout the country are more technologically literate. Sri Lanka has made notable achievements in using ICT for development with the footprint of activities spanning the nation, from urban centers to rural areas. The legal framework has been enhanced, and capacity building has strengthened the local ICT industry in terms of training, certification, and business linkages. Standards have been developed to promote interoperability while local language content and local language enablers have been put in place to promote universal usage. The longstanding E-Lanka Development project has contributed to these achievements supporting, amongst other things, the growth of ICT access in rural areas as well as ICT literacy. Over 700 telecenters have been established, used by around 51,000 people per month on average. Over 70,000 private sector employees in the knowledge industry and SMEs have been trained and certified under the project. High profile e-applications for key government services, such as pensions, birth

certificates, and revenue licenses, have been developed for citizens, and e-government applications being supported continue to grow. Online service usage has increased by 7.2 million people. Government-wide infrastructure, such as Lanka Gate, has also been established. Building on the increasing technological awareness, IFC has partnered with a leading telecommunications company and two commercial banks to distribute an online SME Toolkit, accessed by over 100,000 unique visitors to date.

**27. Support envisioned under the CPS for international integration and competitiveness (formerly set out in 2.2 of the Results Matrix) is not being pursued.** Activities in the tourism sector were to be the focus of support in this area and with the early closure of the Sustainable Tourism Project, as discussed above, this component of the CPS' second pillar is being dropped.

**28. Vulnerability to flooding in the Metro Colombo area is being reduced through the support of the first IBRD loan to Sri Lanka to regenerate urban areas.** The Metro Colombo Urban Development project is currently helping the Colombo Metropolitan Region to address obstacles to 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 PHRD grant support for a flood resilient urban environment. Studies have focused on solid-waste landfill, wetland management, private participation in waterfront development, and strategic city development. Further support is being 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. Complementing the IBRD loan and related studies, IFC is financing an innovative municipal waste-to-energy project for the Western Province.

**29. 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 to 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 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. Funding for maintenance has increased by approximately 345 percent, contributing to a drop in the percentage of national roads in poor and bad condition from 52 to 35 percent. The project has also boosted the capacity of the construction industry, catalyzing behavioral reforms in maintenance practices and environmental safeguards.

**In the area of improving living standards and social inclusion:**

**30. In the education sector, increased capacity to measure student learning outcomes is helping to increase quality of services.** Sri Lanka's achievements in education have been impressive over the past, 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. Accelerated progress and further reforms in education are now needed for the country to achieve its vision of becoming a knowledge society. Of central importance in this regard are enhancing the quality of education and improving learning outcomes, as well as the relevance and absorption capacity of higher education. The Transforming the School Education System project, complemented by an Australian Department of Foreign Affairs and Trade (DFAT)<sup>10</sup> trust fund, 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 have been supported by the project, including the establishment of a system for conducting national assessments of learning outcomes, school-based management, and school-based teacher development. The Higher Education for the Twenty-First Century Project is supporting Sri Lanka to initiate higher education reforms, strengthening the skills of academic staff for student-centered learning and increasing learning opportunities for students in courses relevant to the labor market, such as English and ICT skills. The project is also building research capacity at the universities through Ph.D. programs and competitive research grants. In addition, the project is focusing on higher quality education services, including through a Qualification Framework covering all stages of education and training and a Quality Assurance Framework covering public and private higher education institutions.

31. **Progress is being made to improve health service delivery.** Sri Lanka has better health indicators than most developing countries and many lower-middle-income countries, yet malnutrition and non-communicable diseases (NCDs) still need to be addressed. Malnutrition affects 22 percent of children under the age of five, and with an aging population and a shift in the disease profile, NCDs account for 85 percent of the total burden of the disease. Until now, the public sector in Sri Lanka has delivered health care at low cost with high levels of productivity and efficiency. While the model of extensive public provision has served Sri Lanka well, the country now finds itself at a crossroads. Tackling child malnutrition through a multi-sector approach and treating and managing the NCDs for the elderly will require longer term and more expensive services relative to previous interventions. The 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. The Second Health Sector Development project (approved in FY13) is designed to improve the performance standards of the public health system to better respond to the challenges of malnutrition and NCDs. Funds disbursed under the project are linked to the achievement of agreed results. Analytical and advisory work has been helping to advance the health agenda, with a review of the private health sector analyzing private financing and provision of health services and identifying options for the Government to further tap into the private sector's potential in the health sector. A public expenditure review is also helping the Government to assess the efficiency and equity of health spending in the country.

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<sup>10</sup> Formerly known as AusAID.

**32. Substantial progress has been achieved towards improving livelihoods among select disadvantaged groups.** An existing portfolio of four projects, set out in the previous Country Assistance Strategy (FY09-FY12) is supporting the restoration of livelihoods and community development in the conflict-affected North and East. As these projects approach completion and the country focus shifts from post-conflict reconstruction to an emphasis on equitable access and social inclusion across the entire country, new projects under the current CPS are nationwide in design. They are expected, nonetheless, to benefit citizens in the lagging regions. Activities focused on conflict-affected areas have included the Emergency Northern Recovery project, the Community Livelihoods in Conflict Affected Areas project, the DFAT trust-funded North East Water and Sanitation project and the North East Local Services Improvement project, which will also benefit from additional DFAT financing. These projects have supported over 2,000 villages, assisting beneficiaries through income generation activities, community infrastructure, rural roads, water supply, irrigation schemes, social services, access to finance, and skills development. The projects have also helped over 400,000 people displaced by the civil conflict in the North to return to their places of origin, far exceeding the target of 100,000. Over 270,000 households have seen their incomes increase by at least 30 percent, exceeding the target of 213,000. With World Bank support, local authorities in these areas are delivering services and local infrastructure to their citizenry in a more responsive and accountable manner. Budgets are increasingly being prepared in a participatory manner and expenditures and procurement decisions being publically disclosed. IFC has provided complementary assistance for rural development and inclusive growth, supporting farmers and micro small and medium enterprises (MSMEs) in particular. This includes an ongoing project to develop crop insurance in Sri Lanka, investments in the financial and retail sectors to provide farmers with agri-finance and linkage opportunities, and several projects with leading financial institutions to increase access to finance for smaller businesses.

**33. Results have also been achieved towards improving livelihoods among other vulnerable groups.** The trust-funded Supporting People with Disabilities project is making progress on advancing the economic integration of vulnerable groups, and a GPOBA-funded grant piloting approaches to sustainable affordable sanitation services to under-served low-income groups in the Colombo Metropolitan region has already provided connections to almost 300 households. Technical assistance has also been provided to the Ministry of Labor on its gender strategy, based on recent analytical work on women's labor force participation. This has helped to shed light on why women, although well-educated compared to men, participate less in and are often paid less for employment<sup>11</sup>. Work with youth organizations has also yielded results, through the establishment of an online platform for youth collaboration to support their voice and active involvement in development issues.

## **Portfolio Performance**

**34. Sri Lanka's World Bank portfolio is healthy, with only one project at risk constituting just 1.3 percent of commitments as of end December 2013.** The current total net commitments stand at US\$1.38 billion, distributed across 20 activities, including 11 IDA

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<sup>11</sup> On the OECD's Social Institutions and Gender Index, Sri Lanka scores highest among all South Asian countries. 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 20th largest gender gap in labor force participation globally, which presents significant challenges to its growth and equity goals. In 2010 the labor force participation rate among women over age 15 in Sri Lanka was 41 percent, compared to 82 percent for men of the same age.

operations, one IBRD operation and eight recipient executed trust funds (RETFs). Urban and transport infrastructure account for 45% of the overall portfolio, followed by human development (24%), livelihoods and rural development (21%) and finance and private sector (5%). The portfolio has a mature profile, with an average project age of 3.2 years.

**35. Project implementation is generally satisfactory, with historically high disbursement rates, 100 percent proactivity, and Project Management Units mostly integrated in line ministries.** As of end December 2013, the overall disbursement rate stood at 10.2 percent, with 52 percent of the current active portfolio disbursed. Procurement and financial management performance is good across the portfolio, and financial management systems rely increasingly on the country systems. Steps are being taken by the Government to enable increased reliance on country procurement systems, such as capacity building initiatives, strengthening and institutionalizing procurement monitoring and evaluation, professionalizing public procurement and introducing e-procurement. Performance in the area of environmental safeguards is also solid. An upcoming joint diagnostic review will be identifying gaps and defining the way forward to increase use of country systems in this regard. Efforts have also increased to build the capacity of key line ministry staff in the area of social safeguards. Effective service delivery, transparent benefit distribution, public participation in program implementation and monitoring will require continued attention. Engaging youth in the monitoring process will also continue to be pursued.

**36. During the first half of the CPS period, trust funds continued to play an important role in implementing the World Bank Group strategy in Sri Lanka, supporting both analytical work and technical assistance, as well as providing stand-alone or co-financing for projects in each of the three CPS areas of engagement.** Current active commitments for recipient executed trust funds stand at US\$32.3 million (see Appendix III), spread over eight operations addressing: private and public investment for increased growth (Warehouse Receipts Project, Strengthening the Institute of Chartered Accountants); structural shifts in the economy (the DFAT-funded North East Water and Sanitation program and the PHRD grant for Metro Colombo-Towards a Flood Resilient Urban Environment); and increased living standards and social inclusion (DFAT-funded Support for Primary Education, the JSDF Local Level Nutrition Interventions, Supporting People with Disabilities, and the GPOBA Access to Sanitation). In line with the World Bank's policy for operational simplification and strategic alignment of trust funds, and in order to reduce fragmentation and transaction costs, trust funds are fully coordinated and integrated into both the portfolio and the results framework and are included in the portfolio reviews.

**37. Ensuring complementarities with the activities of other development partners in Sri Lanka remains a tenet of the CPS.** A number of mechanisms are in place for the Government and its development partners to coordinate and harmonize foreign assistance. These include a Development Partners Forum whereby respective assistance strategies, programs and new initiatives are shared, and a Development Partners Committee supported by a Secretariat and sector-based working groups.<sup>12</sup> IFC is a member of the Development Partner Forum Private

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<sup>12</sup> The World Bank is one of the six foreign aid missions that form the Development Partners Committee, mandated by the larger Development Partners Forum to manage the interaction with the Government on behalf of the development partners. The Development Partner Committee is comprised of three multilateral (World Bank, UN Resident Coordinator, Asian Development Bank) and three bilateral missions selected on an annual basis by the Bilateral Donor Group. The Chair of the Development Partners Forum also chairs the Development Partners

Sector Development working group, chaired by USAID. The World Bank Group's program of support to Sri Lanka continues to benefit from close coordination and collaboration with development partners. Collaboration with DFAT, coordinated through recipient-executed trust funds, is, for instance, helping to scale up livelihoods support in the conflict-affected North and East, as well as support in the education sector. In the areas of transport, urban development, disaster risk management and nutrition, World Bank activities continue to be enhanced by close coordination with Japan's program of support. The World Bank has also been coordinating closely with the Asian Development Bank in the area of education, especially in connection with skills development.

38. **IFC's investment portfolio is also generally performing well.** As of November 2013, IFC's total committed portfolio stood at US\$288 million, including a US\$65 million investment mobilized from partner institutions. The committed portfolio has more than doubled since the start of FY12 (July 2011) with the financial sector accounting for 54 percent of IFC's own portfolio. IFC expects continued strong expansion in its investments over the balance of the CPS period. IFC operates 16 active advisory projects, including 8 pipelined projects, with a funds value of US\$11.9 million as at November 2013. Around 70 percent of the portfolio assists SMEs. In terms of access to finance, investment and advisory projects committed in FY13 alone are expected to increase access to financial services for over 60,000 MSMEs.

#### IV. THE CPS PROGRAM GOING FORWARD

39. **The CPS had anticipated flexibility in programming. Implementation to date has underscored its significance.** While remaining selective and increasingly guided by the goals of shared prosperity and reducing extreme poverty and by the objective of transformative impacts, the CPS Program going forward will remain flexible. This approach is also anticipated to serve the partnership well as joint consideration is given to development of the next Country Partnership Framework to be prepared for FY17. Flexibility will also extend to financing sources, with a view to ensuring a smooth financial transition to IBRD-only status, anticipated to come with Sri Lanka's graduation from IDA following the IDA17 cycle (FY15-FY17).

40. **In the area of analytical and advisory services,** a less fragmented, more strategic and just-in-time approach to AAA programming, with greater flexibility to planning, is being proposed. The World Bank Group is positioned to respond to requests for AAA support in areas relating to the CPS' pillars, such as fiscal policy, foreign direct investment and social protection. Appendix II highlights the areas where AAA is currently underway or anticipated. Embedding policy advice and analysis within projects is also anticipated to increase, along with just-in-time responses to Government demands.

41. **The current pillars of the CPS remain relevant and will be supplemented in the second half of the CPS period by an additional fourth area of focus, deemed central to Sri Lanka's current development agenda and poverty reduction efforts.** The Government of Sri Lanka has expressed a strategic interest in a comprehensive program to reduce the adverse impact of climate change and to adapt the stock of infrastructure to extreme climate shocks. To

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Committee. The three bilateral Development Partners currently on the Committee are DFAT, Japan International Cooperation Agency and USAID.

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 will be 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 that would, amongst other things, uplift the recommendations provided in the Improving Climate Resilience Project; and iii) a DPL with a CAT-DDO to strengthen fiscal resilience to events. Additional Financing for the Dam Safety project will serve this purpose as well, through 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 and will also contribute to this additional pillar of the CPS. They include the weather-index agri-insurance project, the sustainable energy finance advisory project, and investment projects fostering renewable energy.

**42. During the remainder of the CPS period, increased support is envisaged for the CPS' objective of improving livelihoods among disadvantaged groups.** Sri Lanka's spending on social assistance programs decreased as a percentage of GDP from 2.2 percent in 2004 to 0.3 percent in 2009 and has remained near that level. As it comes, the current overly fragmented and insufficiently targeted system distributes a small benefit to a large share of the population, and thus does not reduce household vulnerability to the degree possible even within the current budget. 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.

**43. Contributing further to this objective, additional support to boost rural livelihoods and agricultural productivity is anticipated.** With 85 percent of the population living in rural areas, agriculture employs 32 percent of the workforce and produces only 10 percent of GDP. Although it has good land and climatic conditions, Sri Lanka remains a net food importer. The increase in agriculture public expenditures over the last decade was not translated into a corresponding increase in agricultural productivity. Since the mid-1990s, agriculture has become less diversified and more concentrated in staple production, while the main agricultural exports – tea and rubber – have become less competitive over time. Despite rising domestic demand and significant potential for export growth, horticulture and higher value crops, such as spices and cashews, have not expanded. As it seeks to address these constraints, the Government has identified the goal of supporting rural livelihoods as a central one, and has expressed interest for 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.

**44. The World Bank will continue to support efforts to enhance the quality of higher education institutions and increase the alignment of skills with the job market** A key development goal of the Mahinda Chintana is to build a knowledge society, defined as one that applies global knowledge to all economic activities. To this end, further strategic investments in human capital will be critical for a transformation of the whole Sri Lankan education and training system – from early childhood education (ECE), to primary and secondary education, through to higher education and skills development. Investment in ECE consistently brings very high cumulative returns in human capital, is one of the most cost-effective ways to create social

equity and 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. Many developmental shortcomings, if incurred in early childhood, may not be reversed later on, or may be reversed only partially at high costs. The World Bank will support Government efforts to mainstream ECE reforms through an Early Childhood Education project. To support the transition to upper MIC status, the Government is also keen to further invest in the skills likely to enhance the country's global competitiveness. A Skills Development project will support these efforts, building on recent analytical work in this area. The project will expand the supply of skilled and employable workers by increasing access to quality and labor market-relevant training programs through: improved employer involvement in the design and delivery of skills development programs; an increase in the number of employable and skilled labor; and increased capacity to plan, manage, and monitor the delivery of skills development programs.

45. **The World Bank will deepen its support for the development of a strong network of well-connected and 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. The project will focus on the two strategic city regions of Kandy and Galle. The project will support 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.

46. **Support will be provided in the areas of solid waste management, 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 largest cities, and in particular the tourist destinations, need an integrated approach to environmental management including sewerage, wastewater treatment, drainage and solid waste management. To address some of these concerns, the Government requested World Bank assistance for a Solid Waste Management project, for the first engineered landfill in Sri Lanka. The Government also 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. The Government envisages that the proposed Water and Sanitation project will finance water infrastructure, covering rural, township and urban areas, as well as institutional support to improve accountability of service delivery at the provincial level. Additional IDA financing to the ongoing North East Local Services Improvement project has also been requested. This will cover a financing gap and extend the project to the adjoining provinces.

Together with the DFAT grant, it will help to consolidate achievements in local service delivery in the country.

47. **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.

48. **The World Bank and IFC will continue to collaborate over the remainder of the CPS period.** The main areas of collaboration are envisaged in access to finance for MSME development, public private partnerships, tourism, tertiary education (skills and higher education) and facilitating improvement of the business environment, with a focus on attracting more FDI. While collaboration in some of the areas is already strong, such as in access to finance, other areas will be subject to evolving priorities and continued dialogue with the Government. In access to finance, IFC is currently preparing assistance to the National Clearing House (LankaClear) to set up an inter-operable payments platform to enable mobile finance. Ongoing collaboration in the area PPPs could deepen in the transport sector. The tourism and skills development sectors hold further potential for meaningful collaboration. IFC has already engaged with private operators and other stakeholders in the tourism sector. IFC will further seek to strengthen its support for inclusive growth in particular by expanding its engagement with farmers and MSMEs. In addition to ongoing efforts to support these groups, pipeline projects include investment and advisory projects for clients with supply chains connecting farmers and smaller businesses with leading supermarkets, agribusiness companies and non-bank finance institutions.

49. **As noted above, the CPS program moving forward has been guided in its selectivity by the goals of shared prosperity and extreme poverty reduction and by the objective of transformative impacts.** These imperatives and the CPS’ overarching goal of supporting Sri Lanka in its transition to a middle income country motivated the CPS’ incorporation of a new area of engagement to increase resilience to natural disasters and climate change. This was also the context within which a deepening of existing efforts to boost livelihoods and social inclusion (through the addition of the Social Protection Modernization and Agricultural Productivity and Competitiveness projects) was proposed. The additional support being provided has, as outlined in Appendix II, been accommodated by the deferral of lending in the areas of justice and ICT, as well as by the shift to outer years of the anticipated DPL and transport project.

50. **The choice of lending instruments will continue to align with evolving country priorities.** Sri Lanka is increasingly demanding support through programmatic approaches from all development partners, which are asked to finance results in its sector strategic programs, especially in social sectors such as health, education and skills. While this is currently done

through disbursement linked indicator (DLI) based project financing, Program for Results financing could also be deployed as needed. The earlier deferred DPL is anticipated for FY16.

51. **Sri Lanka will retain access to IDA resources during IDA17 (FY15-FY17) which will accommodate the updated indicative lending portfolio proposed for the CPS through FY16.** Sri Lanka will remain a blend IDA-IBRD country through the IDA17 cycle. The updated indicative lending program is outlined in Appendix II.<sup>13</sup> As noted above, careful consideration will be given to ensuring a smooth financial transition to IBRD-only status.

## V. RISKS

52. **A number of risks could affect the implementation of the CPS program for its remaining period.** The most significant potential risks, as discussed below, include the risks of limited fiscal space, external shocks including from natural hazards, and capacity challenges related to the more results-oriented programming.

53. **Limited fiscal space risks affecting development objectives.** If growth decelerates over time, public finances could deteriorate further compromising public investment required for growth and fiscal consolidation. The situation could be compounded in the event of a domestic or external shock impacting negatively on the country's debt dynamics. External debt dynamics are subject to exchange rate risk, for instance. Current revenue collection in Sri Lanka at below 13 percent of GDP in 2012 is insufficient to stabilize public finances, cover the country's ambitious plans and safeguard against cyclical disturbances. With limited fiscal space, spending on priority development sectors, like education and health, could be crowded-out. A very lean budget would not allow Sri Lanka to address the rising needs of a growing middle income country. This could also have an adverse impact on World Bank projects that rely on timely sector allocations and counterpart contributions to reach their development objectives. The current World Bank-supported Public Expenditure Review is expected to help the Government improve the efficiency by which it uses public resources for service delivery, particularly in the education and health sectors. Additional 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.

54. **External shocks could impact Sri Lanka's macroeconomic framework and, in turn, implementation of the World Bank's project portfolio.** Rising global oil and food prices could put pressure on imported food prices, and would increase the costs of generating electricity. Generation is heavily dependent on imported oil and a higher import bill could widen the current account balance, impact the fiscal deficit through greater transfers to state-owned enterprises and pressure inflation. Rising food, oil and electricity prices could increase the implementation costs of World Bank projects, conceivably requiring additional financing or project restructuring. With half of Sri Lanka's tradable goods going to the EU and USA markets, a weaker external demand

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<sup>13</sup> Amounts shown in outer years are indicative only. Actual IDA allocations will depend on: (i) total IDA resources available, (ii) the country's performance rating, GNI per capita, and population; (iii) the terms of IDA assistance (grants/credits) and the allocation deductions associated with the Multilateral Debt relief Initiative annual debt service foregone; (iv) the performance, other allocation parameters, and IDA assistance terms for other IDA borrowers; and (v) the number of IDA-eligible countries.

for Sri Lankan exports could undermine the exporting sectors and widen the country's trade deficit. Finally, Sri Lanka is vulnerable to natural disasters and extreme weather events, including floods, droughts, and cyclones. In addition to the immediate material losses, extreme weather events can affect economic growth by diverting development funds for the emergency response and recovery efforts. The comprehensive climate resilience program proposed as an additional pillar of the CPS would address this risk by bolstering the Government of Sri Lanka's fiscal and physical resilience to disasters and climate change.

**55. The more results-based approaches called for in the latter years of the CPS will require a different level of capacity for planning, monitoring, and management systems than has characterized past programming.** The country program contains ongoing and planned operations which are DLI-based, reflecting support for use of country systems and preferences of the Government. While the framework is mostly in place and the country has demonstrated effectiveness in public administration, the transition to an output/outcome approach will be novel at many levels in Government. It also represents a different modality for cooperation with the World Bank Group. These risks will need to be managed through proactive operational support by World Bank teams during implementation. Capacity needs would also be taken into consideration in the design of projects.

## Appendix I: Updated CPS FY13-16 Results Matrix

Country Development Goals (as described in the Mahinda Chintana Vision for the Future)	Issues and Obstacles	CPS Outcomes & Results Indicators	Milestones	World Bank Group Program <sup>14</sup>
<b>AREA OF ENGAGEMENT 1. PRIVATE AND PUBLIC INVESTMENT</b>				
<p><b>1.1 Improving the investment climate.</b></p> <p>Government Goals and Indicators:</p> <ul style="list-style-type: none"> <li>• Increasing Foreign Direct Investment.</li> <li>• Improving the investment climate as measured in Doing Business</li> </ul>	<p>Access to finance (especially non-bank) is inadequate; contract enforcement is very slow, procedures for registering property and obtaining construction permits are cumbersome.</p> <p>Microfinance institutions have difficulty attracting deposits (to be used for lending to microenterprises) due to lack of clear regulation.</p>	<p>➤ <b>Improved investment environment:</b></p> <p>Time taken to register a property. Baseline: 83 days Target: 50 days</p> <p>Time taken to obtain a construction permit. Baseline: 217 days Target: 180 days</p> <p>➤ <b>Improved access to finance for SMEs and farmers:</b></p> <p>Volume of lending to SMEs through institutions supported by the World Bank Group. Baseline: 0 Target:\$28 million</p> <p>Number of farmers accessing credit from the Warehouse Receipts Financing system. Baseline: 0 Target: 20,000</p>	<p>Twinning arrangements established with relevant agencies in Malaysia and Thailand construction permits process. Baseline: 0 Target: 2</p> <p>Increased number of staff trained in SME lending in licensed commercial/specialized banks. Baseline: 0 Target: 400</p> <p>Warehouses offering receipts established and operational. Baseline: 0 Target:3</p>	<p><b>Completed or ongoing:</b></p> <ul style="list-style-type: none"> <li>• Warehouse Receipts Project (Recipient-executed TF)</li> <li>• Small and Medium Enterprise Development Facility project</li> <li>• South-South Knowledge Exchange: Middle income country experiences with investment climate reforms (initial focus on construction permits) (AAA)</li> <li>• Improving the non-bank financial sector (e.g. capital markets) (AAA)</li> <li>• FDI policy note (AAA)</li> <li>• ICT Regulatory Capacity Building (TF)</li> <li>• Strengthening the Institute of Chartered Accountants of Sri Lanka (IDF TF)</li> <li>• Justice Sector Review (AAA)</li> <li>• IFC investment and advisory services for partner financial institutions to support risk management and MSMEs.</li> <li>• IFC's investment and advisory services for agri-insurance</li> <li>• Secured Transaction Registry and Payment System (IFC)</li> <li>• IFC's GTFP support to banks and Trade Supplier Finance to apparel manufacturers</li> <li>• IFC's support for a south-south investment</li> </ul>

<sup>14</sup> Activities are not exhaustive.

Country Development Goals (as described in the Mahinda Chintana Vision for the Future)	Issues and Obstacles	CPS Outcomes & Results Indicators	Milestones	World Bank Group Program <sup>14</sup>
				<p><b>Under preparation or anticipated for FY14-16:</b></p> <ul style="list-style-type: none"> <li>• IFC's possible investments in the financial sector, services and infrastructure</li> <li>• Competitiveness DPL</li> </ul> <p><b>Delayed, dropped or closed:</b></p> <ul style="list-style-type: none"> <li>• Investment Policy Reform Operation</li> <li>• Legal and Judicial Reform</li> <li>• Making private investment attractive (AAA)</li> <li>• IFC investment in LR Global Private Equity Fund</li> </ul>
<p><b>1.2 Increasing fiscal space and increased efficiency of public spending.</b></p> <p>Government Goals and Indicators:</p> <ul style="list-style-type: none"> <li>• Reducing the fiscal deficit to 5% of GDP by 2013 and maintaining it at that level thereafter.</li> <li>• Reducing current expenditure as a share of GDP.</li> <li>• Increasing revenue as a share of GDP.</li> <li>• Improved flow of budget information including reliable and timely information on budgets and outcomes.</li> </ul>	<p>There is immense scope for efficiency gains in public expenditure management by reducing waste and improving performance.</p> <p>Public audit bill is outdated. Government has stated its intention to have a new audit bill passed through Parliament.</p> <p>Restricted fiscal space limits public investment and broad revenue efforts are needed to increase revenues.</p>	<p>➤ <b>Enhanced accountability and transparency in the use of public funds:</b></p> <p>Financial audits by Auditor General Department in compliance with International Standard Supreme Audit Institute framework Baseline: 0 (2012) Target: Auditor General Department states in the AGD's annual report that all audits (approx 1000 audits) are in compliance with the ISSAI.</p> <p>Performance audits reported to Parliament Baseline: 0 Target: At least 10 per year</p>	<p>Auditor General's Department strengthened:</p> <p>Technical staff trained and using recommended practices Baseline:40% Target:100%</p> <p>Timely legislative scrutiny of audit reports Baseline: Committee on Public Enterprises (COPE) made its first report to Parliament after 18 months; Committee on Public Accounts (COPA) did not report to Parliament in its first 20 months Target: COPE and COPA report to Parliament at least annually</p>	<p><b>Completed or ongoing:</b></p> <ul style="list-style-type: none"> <li>• Public Sector Capacity Building Project</li> <li>• Resource allocation and revenue generation for growth (PER/PEFA) (AAA)</li> <li>• Issues note on fiscal policy (AAA)</li> <li>• Revenue and incidence analysis policy note (AAA)</li> <li>• Strengthening the Parliamentary budget oversight committees (TF)</li> <li>• Financial Management reports on health and education sectors. (AAA)</li> <li>• Policy options for improving the trade balance (AAA)</li> </ul> <p><b>Delayed, dropped or closed:</b></p> <ul style="list-style-type: none"> <li>• Investment Policy Reform Operation</li> <li>• Issues note on SOEs (AAA)</li> <li>• Alternative financing for public goods (AAA)</li> </ul>

Country Development Goals (as described in the Mahinda Chintana Vision for the Future)	Issues and Obstacles	CPS Outcomes & Results Indicators	Milestones	World Bank Group Program <sup>14</sup>
<b>AREA OF ENGAGEMENT 2. STRUCTURAL SHIFTS IN THE ECONOMY</b>				
<p><b>2.1 Shifting the structure of the economy to be more knowledge-based.</b></p> <p>Government Goals and Indicators:</p> <ul style="list-style-type: none"> <li>• Knowledge based economy defined as one that applies global knowledge to all economic activities as opposed to select areas.</li> <li>• Current ICT work force expected to increase to 186,000 in 2016 from 50,000 in 2010.</li> <li>• Increased computer literacy</li> <li>• Introduction of new demand driven skills development programmes that enhance employability.</li> </ul>	<p>Skills and education system not well aligned with the needs of the labor market leading to a mismatch between the skills of the labor force and those required for a knowledge-based economy.</p> <p>Higher education and training programs need to be incorporated within a National Qualification Framework which enables horizontal and vertical mobility between the education and training systems and provides information to employers on learning and skills outcomes.</p> <p>Computer literacy low. Lack of local language content in the internet is a constraint for the majority of citizens.</p>	<p>➤ <b>Increased alignment of skills with job market:</b></p> <p>Enrollment in job-oriented Advanced Technological Institutes. Baseline: 8,500 Target: 12,500</p> <p>➤ <b>Computer literacy</b> Baseline: 35% of population Target: 70% of population</p> <p>➤ <b>Quality of higher education institutions enhanced:</b></p> <p>Number of universities and Advanced Technological Institutions that are classified and operate within a National Qualification Framework. Baseline: 0 Target: 15</p>	<p>Level indicators and award types defined for the higher education sector.</p> <p>Beneficiaries of public telecenters. Baseline: 35,000 Target: 40,000</p> <p>A National Qualification Framework is developed.</p>	<p><b>Completed or ongoing:</b></p> <ul style="list-style-type: none"> <li>• Higher Education for the Twenty First Century Project</li> <li>• E- Sri Lanka Project</li> <li>• Middle income country approaches to encouraging private sector innovation and technology adoption –renamed:- ICT and Innovation (AAA)</li> <li>• Skills development strategy for Sri Lanka – renamed: Building the Skills for Economic Growth and Competitiveness. (AAA)</li> <li>• IFC investment and linkages advisory for Dialog</li> <li>• IFC investment in Suntel</li> <li>• IFC’s capacity building for financial institutions to offer new products.</li> </ul> <p><b>Under preparation or anticipated for FY14-16:</b></p> <ul style="list-style-type: none"> <li>• Skills Development Project</li> </ul>
<p><b>2.2 Supporting internal integration and increasing urbanization.</b></p> <p>Government Goals and Indicators:</p> <ul style="list-style-type: none"> <li>• The share of rural employment to decline from about two-thirds to half.</li> <li>• The share of urban population to increase from a quarter to a</li> </ul>	<p>Economic linkages between rural and urban areas and among Provinces need to be built.</p> <p>As a result of the 26-year conflict, transport networks for people,</p>	<p>➤ <b>Increased connectivity:</b></p> <p>Travel time on UV1. Baseline: 100 minutes Target: 80 minutes</p> <p>➤ <b>Reduced vulnerability to flooding in Metro Colombo:</b></p>	<p>Rehabilitation of UV1 (27 km) completed on schedule.</p> <p>Delivery of an Integrated Flood Management System.</p>	<p><b>Completed or ongoing:</b></p> <ul style="list-style-type: none"> <li>• Provincial Roads Project</li> <li>• Metro Colombo Urban Development Project (<i>also connected with Area 4</i>)</li> <li>• Metro Colombo - Towards a Flood resilient urban environment (TF)</li> <li>• Options for internal transport</li> <li>• Colombo Green Growth Program (AAA)</li> </ul>

Country Development Goals (as described in the Mahinda Chintana Vision for the Future)	Issues and Obstacles	CPS Outcomes & Results Indicators	Milestones	World Bank Group Program <sup>14</sup>
<p>third.</p> <ul style="list-style-type: none"> <li>Sri Lanka is to have well-planned, economically productive, environmentally sustainable, culturally vibrant, safe, and well-linked network of cities and towns</li> </ul>	<p>goods and services have eroded.</p> <p>Networked services are needed for the urbanizing population. Flooding, traffic congestion and environmental degradation are resulting. The impact is reduction in the quality of life and environmental sustainability. Natural disasters and climate change exacerbate these impacts.</p>	<p>Reduction in the area under risk of flooding (50 year return period) in Metro Colombo Baseline: 5.5km<sup>2</sup> Target: 3km<sup>2</sup></p>	<p>Baseline: no system in place. Target: functioning system at Sri Lanka Land Reclamation and Development Corporation</p> <p>Staff of relevant government agencies trained to carry out disaster risk assessments and post-disaster needs assessments. Baseline: 0 Target: 35</p>	<ul style="list-style-type: none"> <li>Competitiveness and Development Models for Districts, Secondary and Emerging Cities – renamed Secondary Cities Development Study.(AAA)</li> </ul> <p><b>Under preparation or anticipated for FY14-16:</b></p> <ul style="list-style-type: none"> <li>Regional Growth pole/Economic Development Project –renamed Strategic Cities Development Project</li> <li>IFC advisory program for local economic development in a number of lagging districts</li> </ul>

### AREA OF ENGAGEMENT 3. LIVING STANDARDS AND SOCIAL INCLUSION.

<p><b>3.1 Increasing quality of services.</b></p> <p>Government Goals and Indicators:</p> <ul style="list-style-type: none"> <li>Introduced measures to increase quality and motivation of existing service providers.</li> <li>Ensure service providers are client oriented such as ensuring public health services are patient oriented and in line with changing economic and demographic needs.</li> </ul>	<p>As a middle income country, new and higher quality types of services need to be developed.</p> <p>The quality of water supply is declining due to the increasing and competing demands on water resources.</p> <p>Provincial and Local Authorities lack adequate capacity and resources to deliver services and local infrastructure.</p>	<p>➤ <b>Increased capacity to measure student learning outcomes:</b></p> <p>National assessments of learning outcomes for program development in primary and secondary education implemented Baseline: 0. Target: 4 (Two national assessments for primary education (grade 4); and two national assessments for secondary education (grade 8)</p> <p>Percentage of Education Zones in which program for community participation in school management is implemented.</p>	<p>Cognitive tests and determinants of outcomes for English, Sinhalese, and Tamil and mathematics for primary education (grade 4) developed. Cognitive tests and determinants of outcomes for English, mathematics and science for secondary education (grade 8) developed.</p> <p>Percentage of the 93 MOE zones in which school management teams and school development committees trained for</p>	<p><b>Completed or ongoing:</b></p> <ul style="list-style-type: none"> <li>Transforming the School Education System Project</li> <li>Road Sector Assistance Project</li> <li>North East Local Services Improvement Project</li> <li>Second Health Sector Development Project</li> <li>Education for the Sri Lanka Education Sector Development Framework Program (RETF)</li> <li>Private health sector review (AAA)</li> <li>Health results innovation trust fund TA for piloting Results-based financing (Recipient Executed TF)</li> <li>Early Childhood Care and Education (AAA)</li> <li>Assessment of Water Supply and Sanitation at provincial level (TF)</li> <li>IFC advisory services for weather-</li> </ul>
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Country Development Goals (as described in the Mahinda Chintana Vision for the Future)	Issues and Obstacles	CPS Outcomes & Results Indicators	Milestones	World Bank Group Program <sup>14</sup>
		<p>Baseline: 0 Target: 70 percent.</p> <p>➤ <b>Health service delivery improved:</b></p> <p>Percentage of health facilities with a functioning 24-hour Emergency Treatment Unit. Baseline: 22% Target: 40% of central Ministry of Health-managed hospitals and 50% of Province-managed health facilities</p> <p>➤ <b>Local authorities in selected provinces deliver services and local infrastructure in a more responsive and accountable manner:</b></p> <p>Percentage of local authorities with budgets prepared in a participatory manner Baseline: 0 Target: 80%</p> <p>Percentage of local authorities whose revenues, expenditures and procurement decisions are publically disclosed Baseline: 0 Target: 80%</p> <p>➤ <b>Improved quality and sustainability of roads :</b></p> <p>Road network in good and fair condition. Baseline: 35%</p>	<p>implementation of the Program for School Improvement. Baseline: 0 Target: 40 %</p> <p>Private health sector review prepared and disseminated. (Includes baseline survey on health care quality in the public and private sectors.)</p> <p>Local Authorities in the North and East provide information needed for accountability as measured by the number of Local Authorities submitting annual audits. Baseline: 30 Target: 60</p>	<p>index based crop insurance and microfinance</p> <ul style="list-style-type: none"> <li>• IFC investment in Asiri Hospital</li> </ul> <p><b>Under preparation or anticipated for FY14-16:</b></p> <ul style="list-style-type: none"> <li>• Infrastructure/Transport Project – renamed Transport Sector Project</li> <li>• Water Supply and Sanitation Project</li> <li>• Solid Waste Management Project</li> <li>• Early Childhood Education Project</li> <li>• North East Local Services Improvement Project Additional Financing</li> </ul> <p><b>Delayed, dropped or closed:</b></p> <ul style="list-style-type: none"> <li>• Options for Modern Health Care (AAA)</li> <li>• Adolescent Reproductive Health Assessment (AAA)</li> </ul>

Country Development Goals (as described in the Mahinda Chintana Vision for the Future)	Issues and Obstacles	CPS Outcomes & Results Indicators	Milestones	World Bank Group Program <sup>14</sup>
		Target: 40%  Routine and periodic road maintenance funding allocated annually Baseline: 5 LKR billion Target: 6.6 LKR billion		
<b>3.2 Reducing prevalence of malnutrition</b>  Government Goals and Indicators: <ul style="list-style-type: none"> <li>• Eradication of hunger and hard-core poverty</li> <li>• Reducing malnutrition rate of children from a third to 12-15 percent.</li> <li>• Increasing access to clean water in urban areas from 65 to 90 percent.</li> <li>• Strengthening nutritional surveillance of pregnant mothers , infants and preschool children (less than 5 years of age)</li> </ul>	Malnutrition found across all segments of the population and remains much higher in Sri Lanka than in other countries of similar income level.  Malnutrition has multiple causes including beliefs about proper diet, hygiene habits and access to clean water as well as affordability of food.	<b>➤ Reduced prevalence of malnutrition in selected areas:</b>  Under-five underweight rate among population in identified areas. Baseline: Area identified and baseline rate measured during project preparation as: North province and 29.4% Target: 25%.	Districts implementing multi-sector nutrition intervention. Baseline: 0 Target: 6  Multi-sector plan to address under-nutrition with focus the period conception to 24 months developed by MOH	<b>Completed or ongoing:</b> <ul style="list-style-type: none"> <li>• Local Level Nutrition Interventions for the Northern Province (TF)</li> </ul> <b>Delayed, dropped or closed:</b> <ul style="list-style-type: none"> <li>• Malnutrition: Causes and Policy Responses (AAA)</li> </ul>
<b>3.3 Increasing social inclusion and equity of access</b>  Government Goals and Indicators: <ul style="list-style-type: none"> <li>• Ensuring accessibility especially for vulnerable groups with equitable access for social services and safety nets in place.</li> </ul>	Communities affected by the war have lower human and physical capital than communities in other parts of the country.  Displaced communities need assistance resettling in their land.  Management of safety net has insufficient capacity and information to effectively target the poor and disabled.	<b>➤ Improved livelihoods among select disadvantaged groups:</b>  Households affected by conflict and flood whose incomes have increased by 30% Baseline: 148,000 Target: 213,000  Displaced families reintegrated into their communities Baseline: 0 Target: 140,000 families.	Households starting new income generating activities or scaling up existing activities through village revolving fund loans. Baseline: 0 Target: 114,000  Households receive seeds for first cultivation following their return. Baseline: 0 Target: 6,000	<b>Completed or ongoing:</b> <ul style="list-style-type: none"> <li>• Community Livelihoods in Conflict Affected Areas Project (Reawakening)</li> <li>• Emergency Northern Recovery Project</li> <li>• Second Community Development and Livelihood Improvement Project (Gemi Diriya)</li> <li>• Household access to domestic sanitation in Greater Colombo (GPOBA TF)</li> <li>• Improving monitoring and evaluation of Samurdhi safety net program (TF)</li> <li>• Vocational Training and Financial Support for Disabled Persons -</li> </ul>

Country Development Goals (as described in the Mahinda Chintana Vision for the Future)	Issues and Obstacles	CPS Outcomes & Results Indicators	Milestones	World Bank Group Program <sup>14</sup>
		Number of low-income households accessing improved sanitation services under the National Water Supply and Drainage Board implemented OBA pilot approach to promote access to improved urban sanitation. Baseline: 0 Target: 10,000	The National Water Supply and Drainage Board begins implementing the OBA approach to promote access of low-income households to affordable improved urban sanitation service.	Dirisawiya (TF) <ul style="list-style-type: none"> <li>• North and East Pilot WASH for Post Conflict Resettlements (TF)</li> <li>• Assessment of Water Supply and Sanitation at provincial level (ongoing TF)</li> <li>• Poverty Assessment (AAA)</li> <li>• IFC's investments and advisory services to support MSMEs and farmers, and develop access in less affluent areas (such as support for Senkadagala Finance)</li> <li>• IFC advisory program for local economic development (business regulations, skills training, community investments, A2F) in a number of lagging districts</li> </ul> <p><b>Delayed, dropped or closed:</b></p> <ul style="list-style-type: none"> <li>• Youth integration (TF)</li> <li>• Employment program for youth (TF)</li> <li>• Improving Gender Equity in the Sri Lankan Labor Markets (TF)</li> </ul> <p><b>Under preparation or anticipated for FY14-16:</b></p> <ul style="list-style-type: none"> <li>• Social Protection Modernization Project</li> <li>• Agricultural Productivity and Competitiveness Project</li> </ul>
<b>AREA OF ENGAGEMENT 4. IMPROVE RESILIENCE TO CLIMATE AND DISASTER RISKS</b>				
<b>4.1 Improved understanding of climate risks</b>  Government Goals and Indicators: <ul style="list-style-type: none"> <li>• Gain clarity on economic and fiscal impact of disasters</li> <li>• Develop capacity to assess physical risks posed by</li> </ul>	With the intensification and concentration of economic activity in vulnerable cities, the fiscal and economic impacts of disaster are likely to be high, and growing.	<p>➤ <b>Improved planning for disaster risk management:</b></p> River basins with basin-wide risk mitigation investment plans developed. Baseline: 0 Target: 7	Signing of the Improving Climate Resilience Project  National spatial data infrastructure platform operational	<p><b>Completed or ongoing:</b></p> <ul style="list-style-type: none"> <li>• Metro Colombo Urban Development Project (<i>also connected with 2.3</i>)</li> <li>• Dam Safety and Water Resources Planning</li> <li>• Fiscal Disaster Risk Assessment (TF)</li> <li>• Support to the implementation of a</li> </ul>

Country Development Goals (as described in the Mahinda Chintana Vision for the Future)	Issues and Obstacles	CPS Outcomes & Results Indicators	Milestones	World Bank Group Program <sup>14</sup>
<p>hydro-meteorological disasters</p>	<p>The Ministry of Finance remains unclear as to the full economic and fiscal impact of disasters.</p> <p>Government agencies lack the tools to assess the physical risks posed by hydro-meteorological disasters</p>		<p>Baseline: 0 Target: 1</p>	<p>comprehensive disaster risk financing and insurance program</p> <ul style="list-style-type: none"> <li>• Strengthening Capacity to Mainstream Disaster Risk Management (TF)</li> <li>• IFC's crop insurance initiative</li> </ul> <p><b>Under preparation or anticipated for FY14-16:</b></p> <ul style="list-style-type: none"> <li>• Improving Climate Resilience Project</li> <li>• DPL with Catastrophe Deferred Drawdown Option</li> <li>• Dam Safety Additional Financing</li> <li>• Comprehensive Disaster Risk Mitigation Project</li> </ul>
<p><b>4.2 Reduction in physical losses due to hydro-meteorological events</b></p> <p>Government Goals and Indicators:</p> <ul style="list-style-type: none"> <li>• Reduce the number of people impacted by adverse natural events, especially floods and droughts</li> </ul>		<p>➤ <b>Improved protection of productive land from hydro-meteorological events</b></p> <p>Number of hectares of productive land protected from 1 in 3 year flood Baseline: 0 Target: 37,000 ha</p> <p>➤ <b>Improved safety of dams</b></p> <p>Number of large dams with unacceptable risk index. Baseline: 52 Target: 23</p>	<p>Signing of Dam Safety Additional Financing</p> <p>Signing of Improving Climate Resilience Project</p> <p>New infrastructure planning in 7 targeted basins informed by risk maps that have been developed Baseline: limited consideration in planning Target: 20% of new infrastructure investment planning informed by risk maps</p> <p>O&amp;M Manuals for 32 dams in place</p>	

Country Development Goals (as described in the Mahinda Chintana Vision for the Future)	Issues and Obstacles	CPS Outcomes & Results Indicators	Milestones	World Bank Group Program <sup>14</sup>
<p><b>4.3 Increased fiscal resilience to climate related disasters</b></p> <p>Government Goals and Indicators:</p> <ul style="list-style-type: none"> <li>Reducing Government's contingent liability to natural disasters</li> </ul>		<p>➤ <b>Improved fiscal resilience to climate related disasters</b></p> <p>Contingent credit line for climate related disasters in place Baseline: 0 Target \$102 million</p> <p>Layered liability management strategy under implementation Baseline: 0 Target: Strategy under implementation</p>	<p>Signing of the CAT DDO</p> <p>Fiscal disaster risk assessment completed</p> <p>National disaster risk financing strategy developed</p>	



## Appendix II: Planned Lending and Non-Lending Program (FY14-16) with CPS Pillar Affiliations

Fiscal Year	Project and AAA	CPS Pillars*			
		1	2	3	4
FY13	Second Health Sector Development (IDA)			X	
<b>FY14</b>					
	<b>Project</b>				
	Strategic Cities Development (IDA)	X	X		
	Skills Development (IDA)		X	X	
	Improving Climate Resilience (IDA)				X
	CAT-DDO (IBRD)				X
	Dam Safety Additional Financing (IDA)				X
	<b>AAA</b>				
	Capacity Building for FDI Promotion- BOI	X			
	Access to Finance for Urban Poor	X			
	Sri Lankan Public Expenditure Review	X		X	
	The Economic Case for Sound Environmental Management		X	X	X
	e-Transformation and M-Government Strategy	X	X		
	Early Childhood Care and Education			X	
	Innovation and ICT Study		X		
	Safeguards Review of the Portfolio	X			
<b>FY15</b>					
	<b>Project</b>				
	Roads Rehabilitation and Maintenance	X	X		
	Water and Sanitation	X		X	
	Solid Waste Management	X		X	
	NELSIP Additional Financing			X	
	<b>AAA</b>				
	Social Protection Public Expenditure Review			X	
	Poverty Assessment			X	
	Resource Allocation and Revenue Generation for Growth	X			
	Development of Non-Bank Financial Sector	X			
	ROSC A&A Update	X			
	FDI Policy Note	X			
	Colombo Green Growth Program TA		X		X
	Increasing Agricultural Productivity			X	
<b>FY16</b>					
	<b>Project</b>				
	Early Childhood Education			X	
	Comprehensive Disaster Risk Mitigation				X
	Social Protection Modernization			X	
	Agricultural Productivity and Competitiveness		X	X	
	Competitiveness DPL	X			
	<b>AAA</b>				
	tbd				

- \* Pillar 1 – Facilitating sustained private and public investment
- Pillar 2 – Supporting structural shifts in the economy
- Pillar 3 – Improving living standards and social inclusion
- Pillar 4 – Improving resilience to climate and disaster risks

### Appendix III: Summary of Recipient-Executed Trust Funds

Trust Fund #	Trust Fund Name	Project #	Program Source	Amount	Donor Name	Status
TF010773	SRI LANKA - NORTH EAST WASH FOR CONFLICT AFFECTED REGIONS	P126697	PFSA	2,010,000	Australian Agency for International Development (DFAT)	Ongoing
TF051074	NORWAY 5TH DIMENSION - SRI LANKA		DS	3,239,078	Norway - Ministry of Foreign Affairs	Closed
TF051248	GEF2-SRILANKA:RENEWABLE ENERGY FOR RURAL ECONOMIC DEVELOPMENT	P077761	GEFIA	7,938,087	Multiple Donors	Closed
TF058303	EFFECTIVE, SAFE AND SUSTAINABLE HUMANITARIAN ASSISTANCE AND DEVELOPMENT COOPERATION OF AGENCIES IN SRI LANKA: MAINSTREAMING CONFLICT	P105082	DGF	247,626	Multiple Donors	Closed
TF094299	SRI LANKA - IDF GRANT FOR INFORMATION AND COMMUNICATIONS TECHNOLOGY REGULATORY CAPACITY BUILDING PROJECT	P116377	IDF	330,784	IBRD	Closed
TF094313	IMPROVING MONITORING AND EVALUATION OF SAMURDHI SAFETY NET PROGRAM	P115525	IDF	291,223	IBRD	Closed
TF096422	SRI LANKA - AUSTRALIA CO-TF FOR EMERGENCY NORTHERN RECOVERY PROJECT (CHILD FUND)	P118870	FS-CO	10,427,493	Australian Agency for International Development (DFAT)	Closed
TF097171	ROUND 1: SRI LANKA-LOCAL LEVEL NUTRITION INTERVENTIONS FOR THE NORTHERN PROVINCE	P121571	JSDF	2,731,700	Japan - Ministry of Finance	Ongoing
TF013267	LK: AUS AID SUPPORT FOR PRIMARY EDUCATION FOR THE SRI LANKA EDUCATION SECTOR DEVELOPMENT FRAMEWORK AND PROGRAM	P113488	TF	11,130,502	Australian Agency for International Development (DFAT)	New, ongoing
TF013135	DIRISAWIYA - ASSISTING PEOPLE WITH DISABILITIES THROUGH CASH TRANSFERS AND TRAINING PROJECT	P123632	GFCRP	2,590,000	Multiple Donors	New, ongoing
TF012186	WAREHOUSE RECEIPTS FINANCING PROJECT	P124091	GFCRP	6,500,000	Multiple Donors	New, ongoing
TF011508	STRENGTHENING THE INSTITUTE OF CHARTERED ACCOUNTANTS - SRI LANKA	P127189	IDF	500,000	IBRD	New, ongoing
TF011617	METRO COLOMBO - TOWARDS A FLOOD RESILIENT URBAN ENVIRONMENT	P130247	PHRD	900,000	Japan - Ministry of Finance	New, ongoing
TF012173	GPOBA - SRI LANKA ACCESS TO SANITATION	P111161	GPOBA	501,754	Multiple Donors	New, ongoing

## Appendix IV: Summary of Non-Lending Services for FY13-16: Planned vs. Actual

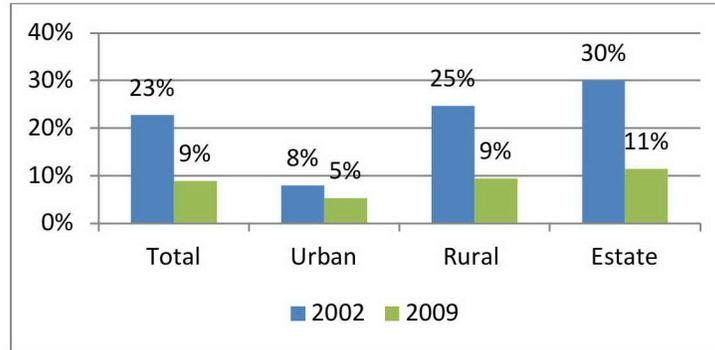
Product	Completion FY	Status	Impact			
		Actual/Dropped/In Progress	Informed Lending	Informed Policy	Promoted Dialogue	No Impact
<b>I - Completed in FY12/FY13</b>						
Environment Policy Note	FY12	Actual				X
Urban Policy Note	FY12	Actual	X			
Investment Climate Assessment Policy Note	FY12	Actual		X		
Fiscal Policy Note	FY12	Actual			X	
Use of Country Systems (Use of Country Financial Management Systems)	FY12	Actual			X	
Procurement Policy Note ( Public Procurement Review)	FY12	Actual			X	
Impact of current trade and price policies on agric. incentive framework	FY12	Actual				X
Infrastructure Assessment	FY12	Actual				X
Post FSAP, Crisis Management, Financial Safety Nets	FY12	Actual				X
Demographic Transition Study	FY12	Actual	X			
Financial Sector Policy Note	FY12	Actual				X
Disaster Reduction and Recovery in Sri Lanka	FY12	Actual	X			
2020 Raising the Game: Middle Income Age	FY13	Actual				X
Gender Analysis of Sri Lanka	FY13	Actual		X		
Sri Lanka Judicial Sector Assessment	FY13	Actual			X	
PFM Systems Performance Report / PEFA	FY13	Actual		X		
Private Sector in Health	FY13	Actual	X			
Competitive Skills for a MIC	FY13	Actual	X			
Policy Note on Transport	FY13	Actual				X
Water and Sanitation Study	FY13	Actual	X			
Strength Samurdhi Targeting Systems	FY13	Actual			X	
Social Protection TA Notes	FY13	Actual			X	
SL PPP framework development	FY13	Actual			X	
Competitiveness and Development Models for Secondary Cities	FY13	Actual	X			
Improving Gender Equity in Labor Markets	FY13	Actual		X		
<b>II - Planned in FY13/FY14/FY15</b>						
Options for Optimizing Internal Transport	FY13	Dropped				
Analysis of Policy Options for Improving the Trade Balance	FY13	Dropped				
Making Private Investment Attractive	FY13	Dropped				
Sharing MIC Experiences with Investment Climate Reforms	FY13	Dropped				
Options for Modern Health Care Management	FY13	Dropped				
Middle income country approaches to encouraging private sector ICT	FY13	Dropped				
Youth Integration	FY13	Dropped				
Improving the Feasibility of the Naval, Commercial and Aviation Hubs	FY14	Dropped				
Alternative Financing for Public Goods	FY14	Dropped				
Malnutrition: Causes and Policy Responses	FY14	Dropped				
Knowledge Generation in Education	FY14	Dropped				
e-Transformation & M-Government Strategy	FY14	In progress				
Capacity Building for FDI Promotion-BOI	FY14	In progress				
Access to Finance for Urban Poor	FY14	In progress				
Sri Lankan PER	FY14	In progress				
The Economic Case for Sound Environmental Management	FY14	In progress				
Early Childhood Care and Education	FY14	In progress				
Innovation and ICT Study	FY14	In progress				
Safeguards Review of the Portfolio	FY14	In progress				
Social Protection PER	FY15	In progress				
Poverty Assessment	FY15	In progress				
Resource Allocation and Revenue Generation for Growth	FY15	In progress				
Development of Non-Bank Financial Sector	FY15	In progress				

ROSC A&A Update	FY15	In progress				
FDI Policy Note	FY15	In progress				
Colombo Green Growth Program TA	FY15	In progress				
Increasing Agricultural Productivity	FY15	In progress				

## Annex 1: Recent Poverty Trends in Sri Lanka<sup>15</sup>

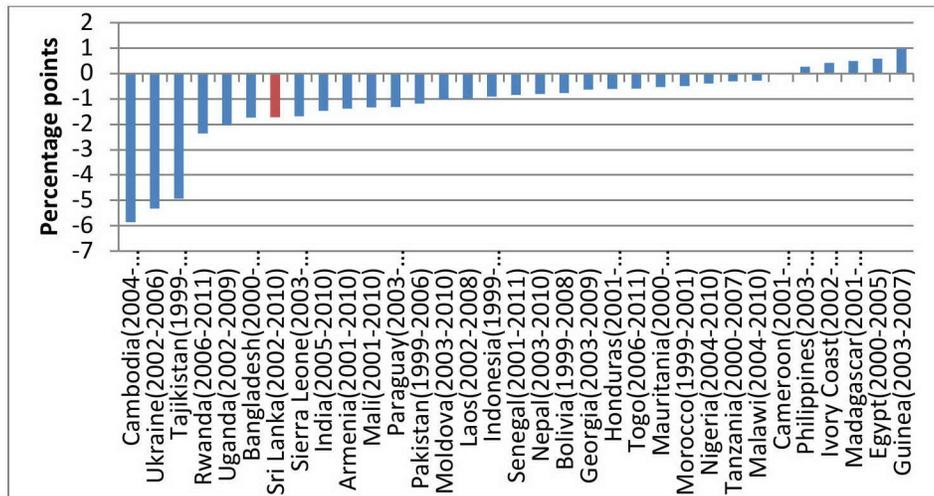
Sri Lanka experienced a dramatic decline in poverty between 2002 and 2009 – from 23 percent to 9 percent of the population (Figure 1). The decline was strong by international standards, similar to declines in Bangladesh and India (Figure 2)<sup>16</sup>.

**Figure 1: Poverty rates in Sri Lanka 2002 and 2009**  
Percent of the population below the poverty line  
National, Urban, Rural and Estate Sectors<sup>17</sup>



Source: Department of Census and Statistics, Government of Sri Lanka

**Figure 2: Annual percentage point decline in poverty: Sri Lanka compared to other countries.**



Source: World Development Indicators, World Bank

<sup>15</sup> Findings are emerging from the FY14 Poverty Assessment currently underway, entitled *Inequality and the Expectations of the Population in a Fast Growing Middle Income Country*.

<sup>16</sup> Data for 2012 is expected to become available in June 2014 and will provide an important indication of the extent to which poverty reduction continued into the post war period.

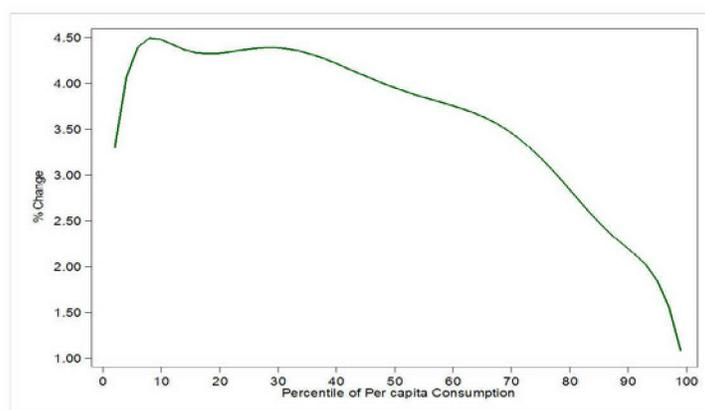
<sup>17</sup> In addition to the commonly used distinction between urban and rural areas, Sri Lankan statistics identify a separate estate sector. Historically, the estates were areas owned and managed by agricultural companies and were largely autonomous in that housing and other services were provided by the companies. The population of the estates was largely comprised of people from Southern India who immigrated to the Sri Lanka for the purpose of working on the estates. While the estates still have different characteristics from the rest of Sri Lanka, the distinction is no longer as sharp as it once was.

The rapid decline in poverty between 2002 and 2009 has been validated by the World Bank. In keeping with international good practice, the 2009 poverty line holds the standard of living fixed in real terms.<sup>18</sup> A series of tests, conducted by the World Bank as part of the ongoing Poverty Assessment, has found the trend robust to variations in the specific methodology used. The poverty line, of 1.70\$/day<sup>19</sup>, is however based on a very low calorie requirement. This kind of low poverty line is appropriate for a low income country but may not be appropriate for a middle income country.

A decomposition of poverty reduction has found several major factors lie behind the rapid decline. On one hand, half of the reduction in poverty is due to increased labor earnings per worker. In particular, there were due to increases in the education and experience of the labor force and increases in the returns to agricultural self-employment and non-agricultural wage employment. On the second hand, however, two key factors worked against poverty reduction. The ratio of employed persons to dependents decreased between 2002 and 2009 largely due to a decline in female labor force participation<sup>20</sup>, and transfers from the main poverty targeted safety net (Samurdhi) declined between 2002 and 2009. Holding other factors constant, the negative poverty impact due to the reduction in these transfers is 2 percentage points.

Increases in living standards are reflected in shared prosperity as well as poverty reduction. Figure 3 shows that consumption growth was broadly shared. The bottom 40 percent of the population experienced growth in consumption of 3.7 percent per year during the 2002 to 2009 period, as compared to an average of 2.3 percent in Sri Lanka overall. This level of shared prosperity is moderate according to international standards (Figure 4).

**Figure 3: Annual per capita consumption growth rate: 2002 to 2009**



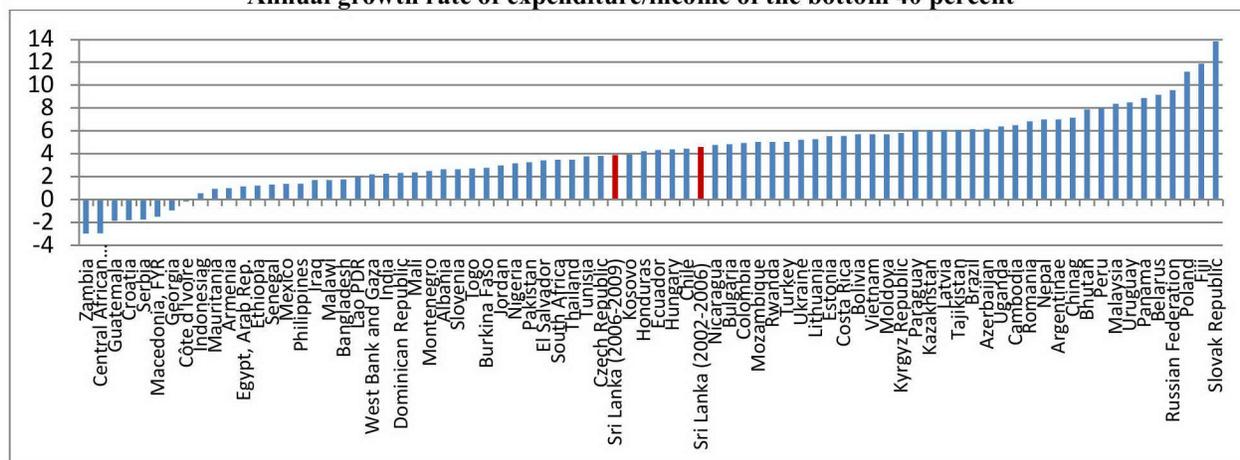
Source: World Bank calculations using HIES 2002 and 2009/10.

<sup>18</sup> The 2009 poverty line was constructed by taking the 2002 poverty line, adjusting for price changes between 2002 and 2009 using the Colombo Consumer Price Index, and adjusting for district-specific price levels using price information from the HIES 2009.

<sup>19</sup> Measured as PPP adjusted US\$ in 2010.

<sup>20</sup> Although adults as a share of household members increased (from 74% to 76%), the employment rate of adults fell (from 52% to 49%). The combined effect is that employed adults as a share of household members declined. While the employment rate of men was roughly constant (71% in 2002 vs. 70% in 2009), the employment rate of women fell sharply (from 35% in 2002 to 30% in 2009).

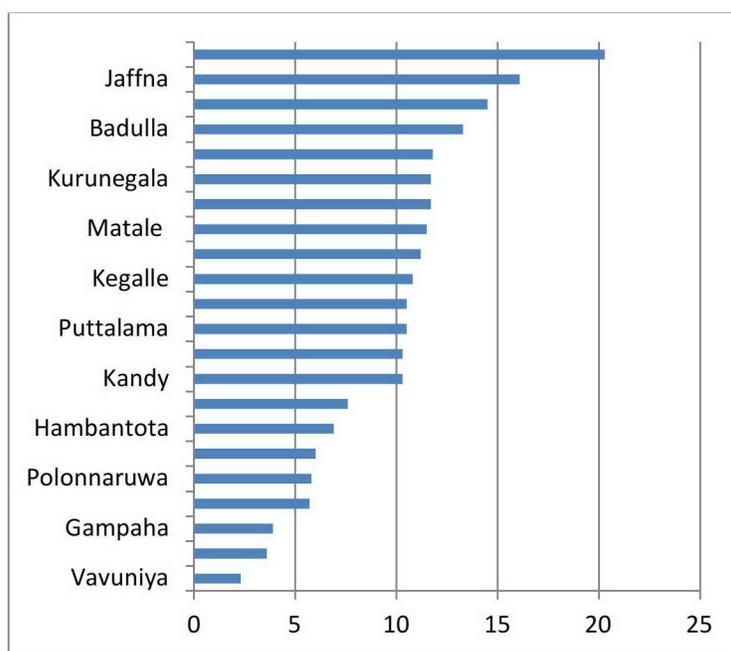
**Figure 4 Shared prosperity: Sri Lanka compared to other countries**  
Annual growth rate of expenditure/income of the bottom 40 percent



Source: World Development Indicators, the World Bank

Despite the very positive story of poverty reduction and shared prosperity, important challenges remain. Pockets of poverty continue to exist, specifically in Batticaloa (in the Eastern Province), Jaffna (in the Northern Province), Moneragala (in Uva Province) and in the estate sector. An estimated 8 percent of Sri Lankans who are no longer classified as poor, live just above the poverty line and are, therefore, vulnerable to shocks which could cause them to fall back into poverty – i.e., if their income decreases by 20%, additional 8% of the population would fall under the poverty line. It is also important to consider other dimensions of deprivation, such as high rates of malnutrition, which have persisted even as the population has become wealthier.

**Figure 5: Poverty rates by district 2009**  
Percentage of the population below the poverty line



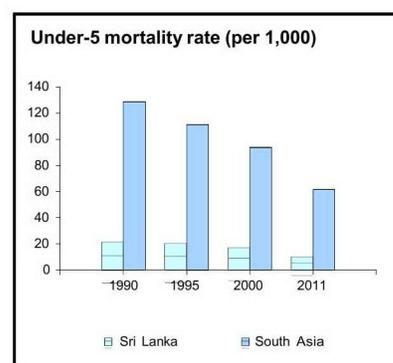
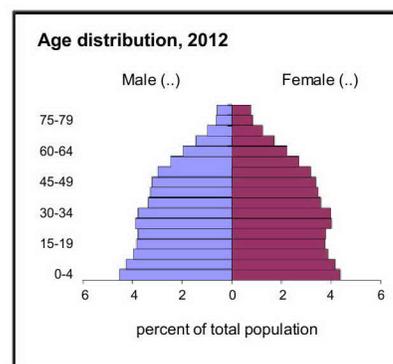
Source: Department of Census and Statistics

# Annex 2

## Sri Lanka at a glance

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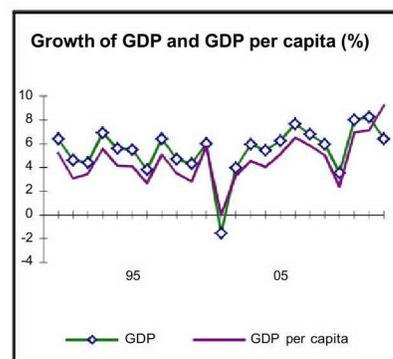
Key Development Indicators	Sri Lanka	South Asia	Lower middle income
<b>(2012)</b>			
Population, mid-year (millions)	20.3	1,649	2,507
Surface area (thousand sq. km)	66	5,131	20,742
Population growth (%)	-2.6	1.3	1.5
Urban population (% of total population)	15	31	39
GNI (Atlas method, US\$ billions)	59.3	2,345	4,710
GNI per capita (Atlas method, US\$)	2,920	1,422	1,879
GNI per capita (PPP, international \$)	6,120	3,534	3,913
GDP growth (%)	6.4	3.6	4.0
GDP per capita growth (%)	9.2	2.3	2.5
<b>(most recent estimate, 2005–2012)</b>			
Poverty headcount ratio at \$1.25 a day (PPP, %)	4	31	27.1
Poverty headcount ratio at \$2.00 a day (PPP, %)	24	67	56.3
Life expectancy at birth (years)	74	66	66
Infant mortality (per 1,000 live births)	8	47	46
Child malnutrition (% of children under 5)	22	32	24
Adult literacy, male (% of ages 15 and older)	93	73	80
Adult literacy, female (% of ages 15 and older)	90	50	62
Gross primary enrollment, male (% of age group)	100	111	107
Gross primary enrollment, female (% of age group)	98	109	104
Access to an improved water source (% of population)	93	90	87
Access to improved sanitation facilities (% of population)	91	39	47



Net Aid Flows	1980	1990	2000	2012 <sup>a</sup>
<i>(US\$ millions)</i>				
Net ODA and official aid	387	728	275	580
<i>Top 3 donors (in 2010):</i>				
Japan	45	176	164	155
Australia	4	4	7	61
European Union Institutions	7	16	6	48
Aid (% of GNI)	9.5	9.1	1.7	1.2
Aid per capita (US\$)	26	43	14	28

### Long-Term Economic Trends

Consumer prices (annual % change)	26.2	21.5	6.2	7.6
GDP implicit deflator (annual % change)	20.0	20.1	7.3	8.9
Exchange rate (annual average, local per US\$)	16.5	40.1	77.0	127.6
Terms of trade index (2000 = 100)	62	76	100	96



Population, mid-year (millions)	14.7	17.0	19.1	20.3
GDP (US\$ millions)	4,025	8,033	16,331	59,423
<i>(% of GDP)</i>				
Agriculture	25.8	23.8	17.8	11.1
Industry	27.7	23.5	24.4	31.5
Manufacturing	16.6	13.4	15.1	17.9
Services	40.1	43.1	47.3	57.5
Household final consumption expenditure	80.3	75.9	72.1	69.6
General gov't final consumption expenditure	8.5	9.8	10.5	13.5
Gross capital formation	33.8	22.2	28.0	30.3
Exports of goods and services	32.2	30.2	39.0	22.8
Imports of goods and services	54.8	38.1	49.6	36.5
Gross savings	..	..	..	..

### 1980–90 1990–2000 2000–12

*(average annual growth %)*

Population	1.4	1.2	0.5
GDP	4.0	5.3	5.5
Agriculture	2.1	1.9	2.8
Industry	4.6	6.9	5.5
Manufacturing	6.3	8.1	4.4
Services	4.4	6.0	6.2
Household final consumption expenditure	1.9	5.9	4.8
General gov't final consumption expenditure	1.7	7.6	6.5
Gross capital formation	0.9	6.6	8.1
Exports of goods and services	4.7	7.5	3.6
Imports of goods and services	3.4	8.6	4.9

Note: Figures in italics are for years other than those specified. .. indicates data are not available  
a. Aid data are for 2010.

**Balance of Payments and Trade***(US\$ millions)*

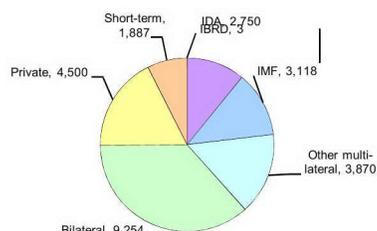
	2000	2012
Total merchandise exports (fob)	5,522	9,774
Total merchandise imports (cif)	7,320	19,183
Net trade in goods and services	-1,760	-8,159
Current account balance	-1,066	-3,915
as a % of GDP	-6.5	-6.6
Workers' remittances and compensation of employees (receipts)	1,166	5,153
Reserves, including gold	1,049	6,877

**Central Government Finance***(% of GDP)*

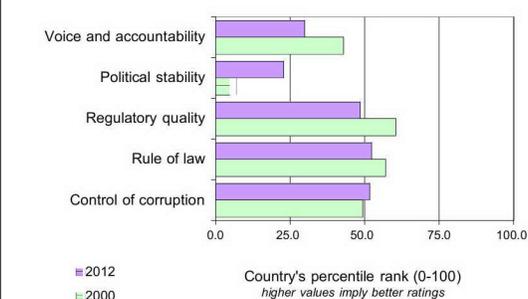
	2000	2012
Current revenue (including grants)	17.2	13.2
Tax revenue	14.5	11.1
Current expenditure	20.2	14.4
Overall surplus/deficit	-9.5	-6.4
Highest marginal tax rate (%)		
Individual	30	35
Corporate	35	35

**External Debt and Resource Flows***(US\$ millions)*

	2000	2012
Total debt outstanding and disbursed	9,173	25,382
Total debt service	791	1,830
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	56.2	42.7
Total debt service (% of exports)	10.2	9.2
Foreign direct investment (net inflows)	173	..
Portfolio equity (net inflows)	0	..

**Composition of total external debt, 2012****Private Sector Development**

	2000	2012
Time required to start a business (days)	-	7
Cost to start a business (% of GNI per capita)	-	19.1
Time required to register property (days)	-	60
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2012
n.a.	..	41.3
n.a.	..	34.0
Stock market capitalization (% of GDP)	6.6	28.7
Bank capital to asset ratio (%)	4.4	..

**Governance indicators, 2000 and 2012**Source: Worldwide Governance Indicators ([www.govindicators.org](http://www.govindicators.org))**Technology and Infrastructure**

	2000	2011
Paved roads (% of total)	85.8	..
Fixed line and mobile phone subscribers (per 100 people)	6	104
High technology exports (% of manufactured exports)	3.1	1.0

**Environment**

	2000	2011
Agricultural land (% of land area)	37	42
Forest area (% of land area)	33.2	29.4
Terrestrial protected areas (% of land area)	21.5	21.5
Freshwater resources per capita (cu. meters)	2,791	2,530
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	0.53	0.62
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	6.9	9.9
Energy use per capita (kg of oil equivalent)	436	499

**World Bank Group portfolio***(US\$ millions)*

	2000	2011
<b>IBRD</b>		
Total debt outstanding and disbursed	13	0
Disbursements	0	0
Principal repayments	5	1
Interest payments	1	0
<b>IDA</b>		
Total debt outstanding and disbursed	1,610	2,652
Disbursements	47	201
Total debt service	30	89
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio of which IFC own account	39	94
Disbursements for IFC own account	9	0
Portfolio sales, prepayments and repayments for IFC own account	0	12
<b>MIGA</b>		
Gross exposure	3	0
New guarantees	0	0

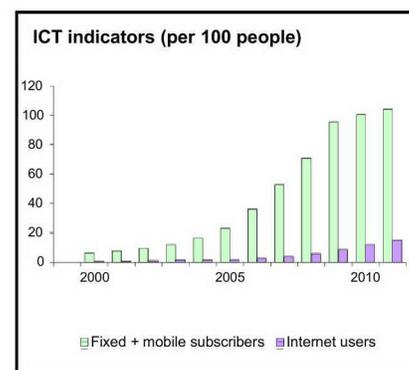
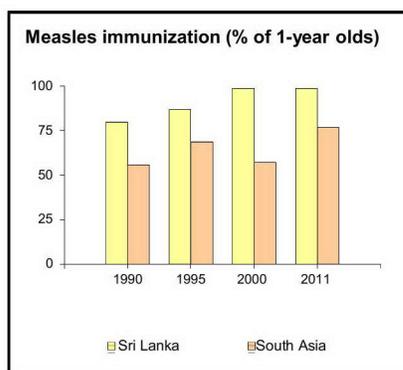
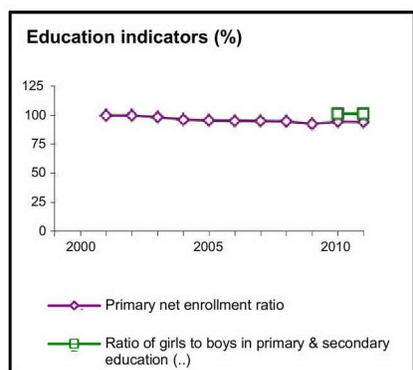
Note: Figures in italics are for years other than those specified.  
 .. indicates data are not available. - indicates observation is not applicable.

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Development Economics, Development Data Group (DECDG).

With selected targets to achieve between 1990 and 2015  
(estimate closest to date shown, +/- 2 years)

	Sri Lanka			
	1990	1995	2000	2011
<b>Goal 1: halve the rates for extreme poverty and malnutrition</b>				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	15.0	16.3	14.0	4.1
Poverty headcount ratio at national poverty line (% of population)	26.1	28.8	22.7	8.9
Share of income or consumption to the poorest quintile (%)	8.7	8.0	6.8	7.7
Prevalence of malnutrition (% of children under 5)	..	29.3	22.8	21.6
<b>Goal 2: ensure that children are able to complete primary schooling</b>				
Primary school enrollment (net, %)	..	..	100	94
Primary completion rate (% of relevant age group)	97	..	107	101
Secondary school enrollment (gross, %)	72	77	..	102
Youth literacy rate (% of people ages 15-24)	..	..	96	98
<b>Goal 3: eliminate gender disparity in education and empower women</b>				
Ratio of girls to boys in primary and secondary education (%)	102	103	..	101
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	30	30	31
Proportion of seats held by women in national parliament (%)	5	5	5	6
<b>Goal 4: reduce under-5 mortality by two-thirds</b>				
Under-5 mortality rate (per 1,000)	21	21	17	10
Infant mortality rate (per 1,000 live births)	18	18	15	9
Measles immunization (proportion of one-year olds immunized, %)	80	87	99	99
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	85	74	58	35
Births attended by skilled health staff (% of total)	..	94	96	99
Contraceptive prevalence (% of women ages 15-49)	..	66	70	68
<b>Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases</b>				
Prevalence of HIV (% of population ages 15-49)	0.1	0.1	0.1	0.1
Incidence of tuberculosis (per 100,000 people)	66	66	66	66
Tuberculosis case detection rate (% , all forms)	..	..	..	..
<b>Goal 7: halve the proportion of people without sustainable access to basic need</b>				
Access to an improved water source (% of population)	68	73	79	93
Access to improved sanitation facilities (% of population)	68	73	79	91
Forest area (% of land area)	37.5	35.3	33.2	29.4
Terrestrial protected areas (% of land area)	20.3	20.4	21.5	21.5
CO2 emissions (metric tons per capita)	0.2	0.3	0.5	0.6
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	6.3	7.5	6.9	9.9
<b>Goal 8: develop a global partnership for development</b>				
Telephone mainlines (per 100 people)	0.7	1.1	4.1	17.1
Mobile phone subscribers (per 100 people)	0.0	0.3	2.3	87.0
Internet users (per 100 people)	0.0	0.0	0.6	15.0
Households with a computer (%)	..	..	1.3	13.6



Note: Figures in italics are for years other than those specified. .. indicates data are not available

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**Annex 3**  
**Sri Lanka: Selected Indicators\* of Bank Portfolio Performance and Management**  
As Of Date 12/30/2013

Indicator	2011	2012	2013	2014
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	15	14	15	14
Average Implementation Period (years) <sup>b</sup>	3.6	3.4	4.1	4.6
Percent of Problem Projects by Number <sup>a, c</sup>	13.3	7.1	6.7	7.1
Percent of Problem Projects by Amount <sup>a, c</sup>	7.9	1.2	1.2	1.2
Percent of Projects at Risk by Number <sup>a, d</sup>	20.0	14.3	6.7	7.1
Percent of Projects at Risk by Amount <sup>a, d</sup>	16.5	24.5	1.2	1.2
Disbursement Ratio (%) <sup>e</sup>	33.5	28.7	29.1	10.1
<b>Portfolio Management</b>				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	87	7
Proj Eval by OED by Amt (US\$ millions)	2,681.7	439.4
% of OED Projects Rated U or HU by Number	31.0	14.3
% of OED Projects Rated U or HU by Amt	33.6	19.2

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- \* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

**Annex 4**  
**Sri Lanka: IFC Investment Operations Program**

	2011	2012	2013	2014*
<b>Original Commitments (US\$m)</b>				
IFC and Participants**	31.4	89.9	136.6	1.2
IFC's Own Accounts only	30.4	89.9	71.4	1.2
<b>Original Commitments by Sector (%)- IFC Accounts only</b>				
ACCOMMODATION & TOURISM SERVICES	-	-	16	-
COLLECTIVE INVESTMENT VEHICLES	34	-	-	-
ELECTRIC POWER	13	3	-	-
FINANCE & INSURANCE	54	97	59	100
WHOLESALE AND RETAIL TRADE	-	-	25	-
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Original Commitments by Investment Instrument (%)- IFC Accounts only</b>				
Equity	46	7	6	-
Guarantee	54	21	13	100
Loan	-	72	56	-
Quasi loan	-	-	25	-
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\* Data as of January 6, 2014

\*\* Including IFC's Asset Management Corporation

## Annex 5

### Sri Lanka: Committed and Disbursed Outstanding Investment Portfolio As of 11/30/2013 (In USD Millions)

FY Approval	Company	Committed					Disbursed Outstanding				
		Loan	Equity	**Quasi Equity	*GT/RM	Partici pant***	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant***
2010 2003/ 2004/ 2007/ 2008/ 2009/ 2010/ 2011/ 2012/ 2013/ 2014	Asiri Hospital	17.65	-	-	-	-	17.65	-	-	-	-
2009	CBC	65.00	9.17	-	1.46	-	65.00	9.17	-	1.46	-
2013	CBCSL	-	-	-	10.48	-	-	-	-	2.97	-
2013	Cargills Bank	-	3.80	-	-	-	-	3.80	-	-	-
2004	Dialog	-	2.71	-	-	-	-	2.71	-	-	-
2000	Fitch SriLanka	-	0.06	-	-	-	-	0.06	-	-	-
2011/ 2013/ 2014	GTFP Union Bank	-	-	-	0.14	-	-	-	-	0.14	-
2008 2007/ 2009/ 2010/ 2011/ 2012/ 2013/ 2014	John Keells Hold	35.00	-	-	-	-	35.00	-	-	-	-
2014	NDB SriLanka	-	-	-	11.97	-	-	-	-	4.44	-
2013 2008/ 2009/ 2010/ 2011/ 2012/ 2013/ 2014	NDB	24.00	-	-	-	-	24.00	-	-	-	-
2012	NTB SriLanka	-	-	-	0.00	-	-	-	-	-	-
2012	RenewGen Kotte	-	2.20	-	-	-	-	-	-	-	-
2012	Sanasa	-	0.46	15.00	-	-	-	0.46	-	-	-
2011	Senok WindEnergy	-	1.61	-	-	-	-	1.61	-	-	-
2011	Senok WindResour	-	1.57	-	-	-	-	-	-	-	-
2013	Softlogic	10.00	-	-	-	-	10.00	-	-	-	-
2013	UWL	-	-	-	-	-	-	-	-	-	-
<b>Total Portfolio:</b>		<b>151.65</b>	<b>21.58</b>	<b>15.00</b>	<b>24.05</b>	<b>-</b>	<b>151.65</b>	<b>17.80</b>	<b>-</b>	<b>9.01</b>	<b>-</b>

\* Denotes Guarantee and Risk Management Products.

\*\* Quasi Equity includes both loan and equity types.

\*\*\* Syndications only.

## Annex 6 Sri Lanka Social Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2005-11	South Asia	Lower-middle-income
<b>POPULATION</b>					
Total population, mid-year (millions)	15.8	18.1	20.9	1,656.5	2,532.7
Growth rate (% annual average for period)	1.4	1.3	1.0	1.5	1.5
Urban population (% of population)	18.0	16.4	15.1	30.9	38.7
Total fertility rate (births per woman)	2.9	2.2	2.3	2.7	2.9
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index	..	26.1	8.9		
Urban headcount index	..	16.3	5.3		
Rural headcount index	..	29.5	9.4		
<b>INCOME</b>					
GNI per capita (US\$)	380	700	2,580	1,313	1,772
Consumer price index (2005=100)	14	41	183	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index	32.5	32.5	40.3		
Lowest quintile (% of income or consumption)	8.3	8.7	6.9		
Highest quintile (% of income or consumption)	41.1	41.5	47.8		
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health (% of GDP)	..	1.6	1.5	1.2	1.7
Education (% of GDP)	2.6	3.0	2.0	2.9	4.4
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	..	94	88	87
Male	..	..	94	89	88
Female	..	..	94	87	86
<b>Access to an improved water source</b>					
<i>(% of population)</i>					
Total	..	73	91	90	87
Urban	..	93	99	96	93
Rural	..	69	90	88	84
<b>Immunization rate</b>					
<i>(% of children ages 12-23 months)</i>					
Measles	20	87	99	77	78
DPT	70	93	99	75	73
Child malnutrition (% under 5 years)	..	29	22	33	24
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	69	69	75	66	66
Male	66	66	72	64	64
Female	72	73	78	67	68
<b>Mortality</b>					
Infant (per 1,000 live births)	29	20	11	48	46
Under 5 (per 1,000)	36	24	12	62	62
Adult (15-59)					
Male (per 1,000 population)	200	182	182	237	240
Female (per 1,000 population)	152	122	78	163	170
Maternal (modeled, per 100,000 live births)	..	74	35	220	260
Births attended by skilled health staff (%)	..	94	99	48	57

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

World Development Indicators database, World Bank - 17 April 2013.

**Annex 7**  
**Sri Lanka - Key Economic Indicators**

Indicator	2007	Actual					Estimate	Projected	
		2008	2009	2010	2011	2012	2013	2014	2015
<b>National accounts (as % of GDP)</b>									
Gross domestic product <sup>a</sup>	100	100	100	100	100	100	100	100	100
Agriculture	12	13	13	13	12	11	12	13	13
Industry	30	29	30	29	30	31	29	28	27
Services	58	57	58	58	58	57	59	60	60
Total Consumption	82	86	82	81	85	83	82	82	82
Gross domestic fixed investment	25	25	24	26	27	29	28	29	30
Government investment	5	6	6	6	6	7	5	6	6
Private investment	20	19	17	20	21	22	23	23	24
Exports (GNFS) <sup>b</sup>	29	25	21	22	23	23	22	22	23
Imports (GNFS)	39	39	28	31	38	36	33	33	33
Gross domestic savings	18	14	18	19	15	17	18	18	18
Gross national savings <sup>c</sup>	23	18	24	25	22	24	26	27	28
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	32351	40715	42068	49568	59184	59423	65354	72632	79696
GNI per capita (US\$, Atlas method)	1560	1760	1990	2300	2580	2920	3210	3410	3720
Real annual growth rates (% , calculated from 82 prices)									
Gross domestic product at market prices	6.8	6.0	3.5	8.0	8.2	6.4	6.8	7.4	7.0
Gross Domestic Income	5.8	3.1	10.0	7.6	5.5	7.2	12.2	9.6	9.8
Real annual per capita growth rates (% , calculated from 82 prices)									
Gross domestic product at market prices	5.8	5.0	2.4	7.0	7.1	9.2	5.7	6.3	5.9
Total consumption	3.6	7.0	2.5	6.6	11.8	8.3	11.1	9.4	7.6
Private consumption	3.0	6.6	-0.2	8.1	13.5	10.9	12.8	9.3	6.9
<b>Balance of Payments (US\$ millions)</b>									
Exports (GNFS) <sup>b</sup>	9415	10115	8977	11100	13643	13562	14666	16222	18694
Merchandise FOB	7640	8111	7085	8626	10559	9774	10379	11266	12700
Imports (GNFS) <sup>b</sup>	12768	15694	11708	15219	22254	21721	21717	23836	26146
Merchandise FOB	11296	14091	10207	13451	20269	19183	18991	20890	22979
Resource balance	-3353	-5579	-2731	-4119	-8611	-8159	-7051	-7614	-7452
Net current transfers	2311	2666	3004	3660	4643	5392	6815	7356	8014
Current account balance	-1400	-3885	-214	-1076	-4615	-3915	-2549	-2905	-3188
Net private foreign direct investment	548	691	384	435	896	813	1100	1600	2200
Long-term loans (net)	703	326	919	1944	2412	2059	1707	1718	679
<i>Memorandum items</i>									
Resource balance (% of GDP)	-10.4	-13.7	-6.5	-8.3	-14.5	-13.7	-10.8	-10.5	-9.4

Indicator Indicator	Actual					Estimate		Projected	
	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Public finance (as % of GDP at market prices)<sup>c</sup></b>									
Current revenues	16.6	15.6	15.0	14.9	14.5	13.2	13.0	14.0	14.5
Current expenditures	17.4	16.9	18.2	16.7	15.4	14.4	13.0	12.8	12.8
Current account surplus (+) or deficit (-)	-0.8	-1.3	-3.2	-1.8	-0.9	-1.2	0.0	1.2	1.7
Capital expenditure	6.1	5.7	6.7	6.1	6.0	5.3	5.7	6.4	6.4
Foreign financing	3.7	0.6	5.3	4.7	3.6	4.0	2.3	1.8	0.3
<b>Monetary indicators</b>									
M2/GDP	49.0	43.5	47.2	47.0	47.9	48.6	43.5	50.0	50.0
Growth of M2 (%)	15.6	11.7	19.9	18	20.9	18.3	22	20	20
Real interest rates									
Consumer price index (% change)	15.8	22.6	3.5	6.2	6.7	7.6	7.7	6.3	5.6
GDP deflator (% change)	14.0	16.3	5.9	7.3	7.9	8.9	7.7	6.6	6.3

a. GDP at market prices

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

**Annex 8**  
**Sri Lanka - Key Exposure Indicators**

Indicator	Actual					Estimated		Projected	
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	14468	15710	17833	21125	24003	25382	27122	29271	31002
Net disbursements (US\$m) <sup>a</sup>	1158	356	1783	2967	2607	2898	1707	1718	679
Total debt service (TDS) (US\$m) <sup>a</sup>	840	1232	1418	1401	1322	1830	1902	1836	2091
Debt and debt service indicators (%)									
TDO/XGS <sup>b</sup>	117.0	120.8	143.5	135.9	124.7	127.8	125.0	122.9	115.3
TDO/GDP	44.7	38.6	42.4	42.6	40.6	42.7	41.5	40.3	38.9
TDS/XGS	6.8	9.5	11.4	9.0	6.9	9.2	8.8	7.7	7.8
Concessional/TDO	67.3	67.6	62.3	58.7	55.7	55.6	56.6	54.9	52.1
IBRD exposure indicators (%)									
IBRD DS/public DS	..	..	..	..	..	0.0	..	..	..
Preferred creditor DS/public DS (%) <sup>c</sup>	26.6	27.6	26.8	22.6	28.4	20.4	52.0	66.8	42.0
IBRD DS/XGS	..	..	..	..	..	0.0	..	..	..
IBRD TDO (US\$m) <sup>d</sup>	..	..	..	..	..	3	23	43	73
Of which present value of guarantees (US\$m)	..	..	..	..	..	0	0	0	0
Share of IBRD portfolio (%)	..	..	..	..	..	0	0	0	0
IDA TDO (US\$m) <sup>d</sup>	2357	2381	2487	2531	2652	2750	2870	2945	2965
IFC (US\$m)									
Loans									
Equity and quasi-equity /c									
MIGA									
MIGA guarantees (US\$m)									

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees.
- e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex 9  
Sri Lanka: Operations Portfolio (IBRD/IDA and Grants)  
As Of Date 12/30/2013

Closed Projects 105

IBRD/IDA <sup>a</sup>	
Total Disbursed (Active)	799 95
of which has been repaid	0 00
Total Disbursed (Closed)	987 57
of which has been repaid	608 44
Total Disbursed (Active + Closed)	1,787 52
of which has been repaid	608 44
Total Undisbursed (Active)	642 50
Total Undisbursed (Closed)	0 00
Total Undisbursed (Active + Closed)	642 50

Project ID	Project Name	Last PSR		Fiscal Year	Original Amount in US\$ Millions			Difference Between Expected and Actual Disbursements <sup>a</sup>			
		Supervision Rating			IBRD	IDA	GRANT	Cancel	Undisb	Orig	Frm Rev'd
		Development Objectives	Implementation Progress								
P086411	LK - Road Sector Assistanc	S	S	2006		298 1			63 12166	-134 065	-35 965
P113036	LK N&E Local Services Im	MS	MS	2010		50			8 879851	0 171207	
P087145	LK 2nd Comm Devt & Live	MS	MS	2010		75			17 00601	14 62889	
P086747	LK Community Livelihoods	S	S	2004		124 7			13 11155	-49 2915	-49 2915
P081771	LK E-Sri Lanka Developme	S	S	2005		64		10 29228679	0 005843	-3 29377	-13 5838
P118870	LK Emergency Northern ReS	S	S	2010		65			0 403871	2 846164	
P122735	LK Metro Colombo Urban	S	S	2012	213				178 3511	-13 1489	
P107847	LK Provincial Roads Projec	S	S	2010		105			27 67431	23 91449	
P118806	LK Second Health Sector	S	S	2013		200			188 7225	2 01	
P121328	LK SME Development Faci	MS	MS	2011		57 4			23 91262		
P113709	LK Sustainable Tourism D	MU	MU	2010		18			17 69502		15 7814
P113488	LK Transforming School Ed	S	S	2012		100			70 45393	2 111272	
P093132	LK Dam Safety & Water Re	S	S	2008		65 3277			14 19687	15 90619	-8 00781
P113402	LK Higher Educ for Twenty	S	S	2010		40			19 0644	0 901865	
Overall Result					213	1262 5277		10 29228679	642 5996	-172 658	-91 0668

<sup>a</sup> Intended disbursements to date minus actual disbursements to date as projected at appraisal

# SRI LANKA

- SELECTED CITIES AND TOWNS
- ⊙ PROVINCE CAPITALS
- ⊕ NATIONAL CAPITAL
- ~ RIVERS
- MAIN ROADS
- RAILROADS
- PROVINCE BOUNDARIES
- · - INTERNATIONAL BOUNDARIES



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