



# Interim Country Partnership Strategy

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June 2015

Sri Lanka  
2015–2016

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 1 June 2015)

Currency unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.00735
\$1.00	=	SLRs136.12

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CPS	–	country partnership strategy
GDP	–	gross domestic product
PPP	–	public–private partnership

## NOTE

In this report, “\$” refers to US dollars.

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## COUNTRY AT A GLANCE

<b>Economic</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015 Latest</b>
GDP (\$ billion, current)	59.2	59.4	67.2	74.9	n.a.
GDP per capita (\$, current)	2,836	2,922	3,280	3,625	n.a.
GDP growth (% , in constant prices)	8.2	6.3	7.3	7.4	n.a.
Agriculture	1.4	5.2	4.7	0.3	n.a.
Industry	10.3	10.3	9.9	11.4	n.a.
Services	8.6	4.6	6.4	6.5	n.a.
Gross domestic investment (% of GDP)	29.9	30.6	29.5	29.7	n.a.
Gross domestic saving (% of GDP)	15.4	16.9	20.0	21.1	n.a.
Consumer price index (annual % change)	6.7	7.6	6.9	3.3	2.1 (Apr)
Liquidity (M2b) (annual % change)	19.1	17.6	16.7	13.4	12.3 (Feb)
Overall fiscal surplus (deficit) (% of GDP)	(6.9)	(6.5)	(5.9)	(6.0)	n.a.
Merchandise trade balance (% of GDP)	(16.4)	(15.9)	(11.3)	(11.1)	n.a.
Current account balance (% of GDP)	(7.8)	(6.7)	(3.8)	(2.7)	n.a.
Overall debt service (% of exports of goods and services)	12.7	19.7	23.5	20.2	n.a.
External debt (% of GDP)	55.3	62.5	59.4	57.4	n.a.
<b>Poverty and Social</b>					
Population (million)	20.7	[2014]			
Population growth (annual % change)	0.9	[2014]			
Maternal mortality ratio (per 100,000 live births)	29.0	[2013]			
Infant mortality rate (below 1 year/per 1,000 live births)	8.0	[2013]			
Life expectancy at birth (years)	74.3	[2013]			
Adult literacy (%)	92.5	[2013]			
Primary school gross enrollment (%)	98.0	[2012]			
Child malnutrition (% below 5 years old)	14.7	[2012]			
Population below poverty line (%)	6.7	[2012]			
Population with access to safe water (%)	89.7	[2014]			
Population with access to sanitation (%)	83.0	[2012]			
<b>Environment</b>					
Carbon dioxide emissions (tons)	12.7	[2010]			
Carbon dioxide emissions per capita (tons)	0.6	[2010]			
Forest area (million hectares)	1.8	[2012]			
Urban population (% of total population)	18.0	[2013]			
<b>ADB Portfolio</b> (sovereign loans, as of 31 December 2014)					
		<b>OCR</b>	<b>ADF</b>	<b>Total</b>	
Total number of loans		18	23	41	
Net loan amount (\$ million, cumulative)		1,466.2	916.3	2,382.5	
Disbursements					
Total funds available for withdrawal (\$ million)		895.4	525.2	1,420.6	
Disbursed amount (\$ million, cumulative)		570.7	391.1	961.9	
Percentage disbursed (disbursed amount/total available)		0.6	0.7	0.7	

... = not available, ( ) = negative, [ ] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, M2b = broad money, OCR = ordinary capital resources.

Sources: Central Bank of Sri Lanka. 2015. *Central Bank Annual Report 2014*. Colombo: Central Bank of Sri Lanka.

[http://www.cbsl.gov.lk/pics\\_n\\_docs/10\\_pub/docs/efr/annual\\_report/AR2014/English/content.htm](http://www.cbsl.gov.lk/pics_n_docs/10_pub/docs/efr/annual_report/AR2014/English/content.htm); World Bank

Development Indicators. <http://data.worldbank.org/data-catalog/world-development-indicators>





## **I. SCOPE OF THE INTERIM COUNTRY PARTNERSHIP STRATEGY**

1. More than 5 years since the end of civil war in 2009, Sri Lanka's development is entering a new phase. There is emphasis on more inclusive economic growth, especially under the new government formed in January 2015. The interim country partnership strategy (CPS), 2015–2016 of the Asian Development Bank (ADB) for Sri Lanka is the first step to adjust ADB's operations strategy to align it with evolving needs. The interim CPS includes the agriculture, natural resources, and rural development (ANR) sector in ADB's priority sectors in Sri Lanka to strengthen the drive toward inclusive growth. The Mahaweli Water Security Investment Program is included in the 2015 lending pipeline to operationalize the mandate. Other strategic thrusts and priority sectors remain the same as in the CPS, 2012–2016<sup>1</sup>.

## **II. DEVELOPMENT TRENDS AND ISSUES**

### **A. Country Background**

2. The 26-year conflict between the Government of Sri Lanka and the Liberation Tamil Tigers of Eelam ended in May 2009. Post-war Sri Lanka has been marked by the government's focus on economic development, including reconstruction of the war-affected areas and resettlement of internally displaced persons. A provincial council election in the Northern Province was held in September 2013 for the first time in 25 years. The Tamil National Alliance contested the elections on an agenda of self-government within a united Sri Lanka and swept the polls, winning 79% of the votes, securing 30 out of 38 seats.

3. With the strong economic growth after the civil war, poverty has dropped significantly. The latest household income and expenditure survey 2012/13<sup>2</sup> shows that poverty dropped from 22.7% in 2002 to 6.7% in 2012/13. The rural and estate sectors have recorded remarkable reductions in poverty, with rural poverty falling from 24.7% in 2002 to 7.6% in 2012/13 and estate poverty falling from 30.0% in 2002 to 10.9% in 2012/13.<sup>3</sup> Urban poverty is estimated at 2.1%. Sri Lanka's human development record has been historically high because of universal free education and health services since 1948. The human development index stood at 0.750, ranking 73 out of 187 countries in 2013.<sup>4</sup> Sri Lanka is on track to meet most of the key targets of the Millennium Development Goals.

4. At the presidential election on 8 January 2015, common candidate Maithripala Sirisena defeated former President Mahinda Rajapaksa and oaths as President the next day. The transition of power went through smoothly and peacefully. A revised budget for 2015 was submitted to Parliament on 29 January 2015 to deliver the agenda in the President's election manifesto.

### **B. Economic Assessment and Outlook**

5. Economic growth has averaged 7.5% over the last 5 years since 2010, driven by industry and services. While the economy experienced a sign of overheating and external imbalances in 2011 when gross domestic product (GDP) growth peaked at 8.2%, policy actions were taken to address the issues. After the slowdown to 6.3% in 2012, with monetary tightening and weak

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<sup>1</sup> ADB. 2011. Country Partnership Strategy: Sri Lanka, 2012–2016. Manila.

<sup>2</sup> [http://www.statistics.gov.lk/HIES/HIES2012\\_13FinalReport.pdf](http://www.statistics.gov.lk/HIES/HIES2012_13FinalReport.pdf)

<sup>3</sup> Estate sectors include plantations covering more than 80,937 square meters (20 acres) and having more than 10 resident laborers.

<sup>4</sup> <http://hdr.undp.org/es/2013-report>

external demand, the economy rebounded to 7.3% in 2013 reflecting a pickup in exports and tourism.

6. Construction has buoyed the post-conflict economy, contributing 15% of growth during the period. Tourism is also flourishing, as tourist arrivals have tripled. The government's focus on infrastructure development and post-conflict reconstruction throughout the period has increased the GDP share of construction from 7.6% in 2009 to 10.3% in 2013. As a result, the share of industry in GDP expanded from 29.7% to 32.5%, while agriculture dropped its share from 12.7% to 10.8% during the same period. The share of services remained almost the same.

7. Nominal GDP growth in 2012 was recorded at 26% in the Northern Province and 25% in the Eastern Province, both higher than the national average of 16%, narrowing regional disparities. Having achieved per capita income of \$3,625 in 2014, Sri Lanka envisages reaching upper middle-income status in a few years' time.

8. High economic growth in the post-conflict period was achieved without compromising good macroeconomic management. Inflation is under control, remaining single-digit. It reached 7.6% in 2012 after the growth rate recorded 8.2%, but trended downward afterward—averaging 6.9% in 2013 and 3.3% in 2014. Falling international fuel and food prices will help keep inflation in check in 2015 assuming normal weather in Sri Lanka.

9. The fiscal deficit maintains a declining trend, and shrank to 5.8% of GDP in 2013 from a peak of 9.9% in 2009. The government has deployed both revenue measures and expenditure reduction to narrow the deficit. However, since the revenue ratio has not picked up as expected, deficit reduction has mainly been achieved by rationalizing current expenditure. Public investment has been kept at around 6% of GDP.

10. The external sector was affected by strong demand and high oil prices in 2011 when the current account deficit widened to 7.8% of GDP. To correct the external imbalance, the government allowed the exchange rate to float. This was followed by the sharp depreciation of the Sri Lanka rupee in the early months of 2012. At the same time, monetary policy was tightened to control domestic demand. The current account deficit narrowed to 3.9% of GDP in 2013. Gross international reserves have also recovered from the drop in 2011. Since then, the currency has been broadly stable against the US dollar. Foreign investors' exit from emerging markets in mid-2013 had only a modest and temporary effect on the exchange rate. The real effective exchange rate has, nevertheless, risen markedly since April 2012 moving back to the rate prevailing prior to the decision to let the currency float.

11. Exports turned into positive growth in the second half of 2013 and expanded by 7.1% in 2014. This reflects gradual recovery of demand in trade partner countries for garment and agricultural exports (mostly tea). Imports also increased by 7.9% in 2014, reflecting recovery of domestic demand. The tourism boom has continued since the end of civil war, and the number of visitors reached 1.5 million in 2014 compared with 0.4 million in 2009, and accordingly the tourism earnings recorded \$2.2 billion in 2014. Workers' remittances also expanded robustly, doubling to \$7.0 billion in 2014 from \$3.3 billion in 2009. These earnings partly offset the trade deficit, holding the current account deficit improved from the 6.7% of GDP seen in 2012 to 2.7% in 2014. The strong net inflow in financial accounts keeps the overall balance of payments surplus. Consequently, Sri Lanka's gross international reserves recovered from \$7.2 billion in 2013, equal to 5.0 months of imports, to \$8.2 billion or 5.1 months of imports at end-2014.

12. Although economic growth was strong and the economy has been managed well, productivity did not grow as expected in some of the groups. For example, labor productivity in the agriculture sector, which absorbs about 30% of the labor force, remains low at about a third of the all-sector average. Accordingly, income inequality did not improve much. Sri Lanka's Gini coefficient was estimated at 0.48 in 2012, dropping only marginally from 0.49 in 2007.

13. Infrastructure development has been driven mainly by public sector investment. After more than 5 years since the end of the war, private capital formation should play a larger role in economic development. Such private capital will be built on the basis of infrastructure which has been developed. Development of human capital should also continue to supply a high-quality labor force for production. Innovation based on higher education and research and development will also be encouraged to facilitate productivity.

### **C. Highlights of Previous ADB Country Strategy**

14. The CPS, 2012–2016, approved in October 2011, was the first strategy after the civil conflict ended in May 2009. It reflects the post-conflict priorities of the government and is closely aligned with the government's development strategy at that time, which prioritized (i) infrastructure development to improve connectivity and service delivery to lagging regions, including the former conflict-affected regions; (ii) accelerating the pace of private sector participation in the economy; and (iii) increasing equitable access to basic and secondary education, improving the quality of education, and strengthening service delivery. Based on these priorities, the CPS, 2012–2016 was developed on three pillars: (i) promoting inclusive and sustainable economic growth, (ii) catalyzing private investment and enhancing the effectiveness of public investment, and (iii) supporting human resource and knowledge development. Under these pillars, the CPS focuses on the transport, energy, water supply and sanitation, and urban sectors under pillar 1, and the education sector under pillar 3. To the extent feasible, all ADB interventions attempted to incorporate components of crosscutting themes including the environmental sustainability, gender equity, governance, and regional cooperation. Gender issues were integrated and addressed in the previous CPS, and the interim CPS will continue this focus.<sup>5</sup> To ensure critical mass and continuity, an investment program approach with multitranche financing facility and additional financing has been used. Reflecting the shift of focus from inputs to results, results-based lending has been used in two education sector programs.

#### **1. Pillar 1: Inclusive and Sustainable Economic Growth**

15. To ensure inclusive and sustainable economic growth, the CPS 2012–2016 supported infrastructure development that improves connectivity and service delivery to lagging regions. These interventions are expected to reduce regional disparities and expand employment opportunities. The CPS identified the transport, energy, water supply and sanitation, and urban sectors as focus sectors. ADB has been supporting Sri Lanka in these sectors, and has gained considerable experience in the design and implementation of projects.

16. **Transport.** ADB assistance under the CPS has focused on key arterial national road links, and improvement of provincial and rural roads, especially in the lagging areas. ADB has

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<sup>5</sup> When designing projects and programs, to the extent possible gender action plans will be prepared with sex-disaggregated data on the basis of gender analyses. The government's capacity to address gender issues will be strengthened through continued training activities for sector executing agencies and implementing agencies.

supported the Northern Road Connectivity Project (additional financing, 2012)<sup>6</sup>, which improves road connectivity in the most conflict-affected area of the country, and helps restore access to basic social services and markets. Additional national and provincial roads in the Northern Province and North Central Province are being rehabilitated. The Southern Road Connectivity Project (2013)<sup>7</sup> supports connectivity between the Southern Expressway and local transport networks. The Integrated Road Investment Program (2014)<sup>8</sup> aims to enhance the accessibility of the road network in rural areas of Sri Lanka, and thereby increase the involvement of the rural population in nationwide social and economic development.

17. **Energy.** ADB assistance has focused on renewable energy development (including wind and other clean energy sources), energy-efficiency improvement, the transmission and distribution system, and improving energy access for lagging regions. The Clean Energy and Network Efficiency Improvement Project (2012)<sup>9</sup> supports transmission infrastructure, network efficiency improvements, and pilot solar rooftop power generation investments. The Green Power Development and Energy Efficiency Improvement Investment Program (2014)<sup>10</sup> includes support for the construction of a 30-megawatt run-of-river hydropower plant, in addition to transmission infrastructure enhancement for the absorption of intermittent renewable energy and network efficiency improvements.

18. **Water supply and sanitation.** ADB interventions focused on improving access to drinking water and sanitation, reducing water pollution, building resilience to climate change impacts, and expanding the coverage of urban sewerage to reduce environmental pollution. The Greater Colombo Water and Wastewater Management Improvement Investment Program (2012)<sup>11</sup> helps the government improve cost recovery (reducing nonrevenue water) in Greater Colombo by rehabilitating and expanding water supply and wastewater management infrastructure. The Dry Zone Urban Water and Sanitation Project (additional financing, 2012)<sup>12</sup> filled the resource shortfall to provide improved water and sanitation services in four major towns in conflict-affected northern and northwestern Sri Lanka.

## 2. Pillar 2: Catalyzing Private Investment and Enhancing the Effectiveness of Public Investment

19. The government places the private sector at the center of the development thrust. To accelerate the pace of private sector participation, Sri Lanka's finance sector needs to be

<sup>6</sup> ADB. 2012. Report and Recommendation of the President to the Board of Directors: Proposed Loans for Additional Financing and Change in Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka for the Northern Road Connectivity Project. Manila.

<sup>7</sup> ADB. 2013. Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Socialist Republic of Sri Lanka for the Southern Road Connectivity Project. Manila.

<sup>8</sup> ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility to the Democratic Socialist Republic of Sri Lanka for the Integrated Road Investment Program. Manila.

<sup>9</sup> ADB. 2012. Report and Recommendation of the President to the Board of Directors: Proposed Loans, Technical Assistance Grant, and Administration of Grant to the Democratic Socialist Republic of Sri Lanka for the Clean Energy and Network Efficiency Improvement Project. Manila.

<sup>10</sup> ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility to the Democratic Socialist Republic of Sri Lanka for the Green Power Development and Energy Efficiency Improvement Investment Program. Manila.

<sup>11</sup> ADB. 2012. Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility to the Democratic Socialist Republic of Sri Lanka for the Greater Colombo Water and Wastewater Management Improvement Investment Program. Manila.

<sup>12</sup> ADB. 2012. Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Socialist Republic of Sri Lanka for the Dry Zone Urban Water and Sanitation Project. Manila.

developed to offer a wider range of financial products and services. Constraints in the finance sector limit the potential to secure domestic funding for private sector projects. ADB's Private Sector Operations Department provided a loan in 2012 for DFCC Vardhana Bank<sup>13</sup> to expand its housing finance program for low-income households in response to growing demand from former conflict-affected areas. In 2013, another loan was approved to support lending by Nations Trust Bank to small and medium-sized enterprises owned or controlled by women borrowers.<sup>14</sup> In 2014, a loan of \$75 million was approved to Hatton National Bank to support infrastructure development<sup>15</sup>.

20. To increase the effectiveness of public investment and catalyze private investments, ADB has been supporting the institutionalization of public–private partnerships (PPPs) through identifying pilot PPP projects, concept development, and prefeasibility assessment.

### **3. Pillar 3: Human Resource and Knowledge Development**

21. **Education.** Lack of human resources is a critical constraint, as demand grows for an educated and skilled labor force. The government aims to increase equitable access to basic and secondary education, and skills development opportunities; improve the quality of education, and technical and vocational education and training; and strengthen service delivery through its Education Sector Development Framework and Program, 2013–2017 and Skills Sector Development Program, 2014–2020.

22. ADB is supporting improvement of the quality of secondary education and the provision of equal access to education through the 1,000 school development program island-wide. Quality of education will be improved through teacher training, curriculum development, greater use of information and communication technology, and improvement of science and technology facilities. ADB also supports the skills development program, with a focus on improving equitable access, quality, and market relevance by expanding and improving Sri Lanka's technical and vocational education and training system. To meet the objectives, ADB has supported the Education Sector Development Program (2013) and Skills Sector Enhancement Program (2014), which both use the results-based lending modality.

## **III. THE COUNTRY STRATEGY**

### **A. Government National Strategy**

23. President Sirisena based his election campaign on good governance, upholding law and order, eliminating corruption, trimming the powers of the executive presidency, and granting more power to Parliament. These agenda would be implemented within 100 days from his election as the President as his first stage of actions (Hundred Days Programme).

24. The election manifesto extends to other areas such as (i) food security and sustainable agriculture, (ii) health care, (iii) education, (iv) international relations, (v) industry and services to eradicate unemployment, (vi) an advanced and responsible public sector, (vii) energy security, and (viii) media freedom. Economic policies have a strong emphasis on inclusive economic

<sup>13</sup> ADB. 2012. Report and Recommendation of the President to the Board of Directors: Proposed Senior Unsecured Loan for DFCC Vardhana Bank Housing Finance Project in Sri Lanka. Manila.

<sup>14</sup> ADB. 2013. Report and Recommendation of the President to the Board of Directors: Proposed Senior Unsecured Loan to Nations Trust Bank Small and Medium Sized Enterprises Finance Project in Sri Lanka. Manila.

<sup>15</sup> ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Loan for Hatton National Bank Supporting Infrastructure Development in Sri Lanka. Manila.

growth, as well as a focus on private sector development. These policies will be elaborated with a full 6-year program that will be established after the general election planned later in 2015, and will be implemented as his second stage of actions.

## **B. ADB Country Strategy**

25. The interim CPS 2015–2016 includes the ANR sector in the country strategy for Sri Lanka under pillar 1: inclusive and sustainable economic growth. This is a step toward adjusting ADB's strategy under the CPS 2012–2016 to address the emerging challenges of inclusive growth. The interim CPS retains the other priority sectors and strategic focuses as in the CPS 2012–2016. Further adjustments to ADB's strategy will be made in the CPS 2017–2021 to align it with the government's new 6-year development program, which will be prepared later in 2015.

26. Agriculture is the main livelihood activity for resettled persons in the post-conflict Northern and Eastern provinces as well as border villages in the North Central Province. The importance of the sector has been increasing for the government, which targets raising per capita income while ensuring inclusive growth. While Sri Lanka has had a high economic growth trajectory, averaging 7.5% annual expansion since the end of the civil war, the ANR sector has failed to impress—growing by an average 4.6% over the period. The sector has been greatly affected by severe water stress in the provinces, compounded by regular droughts and wet areas facing regular floods and landslides. Consequently, agricultural productivity lags behind wetter regions of Sri Lanka, with 25%–30% lower paddy yields and cropping intensities. The stress also impacts surface water availability for drinking and commercial users, where some users currently rely on unsafe groundwater supplies, possibly causing chronic kidney disease. This creates significant constraints for social and economic development, which may be exacerbated by anticipated population growth and climate change.

27. The public investment strategy of the previous government set the strategic direction of irrigation sector for 2014–2016—construction of new reservoirs to harvest as much runoff water as possible, while increasing irrigation productivity and water use efficiency through improved water management and water use efficiency to meet the rising demand for water. A total of 139 investment projects are planned at a cost of about \$6.7 billion, of which investments in agriculture and irrigation comprise about \$3.1 billion (45%). These investments focus on ensuring the availability of adequate water quantities for irrigation; improving the management, productivity, and usage efficiency of water to meet rising demands; and minimizing spatial variations in water availability by implementing trans-basin diversions to divert available water to dry zones.

28. The North Central Province Canal Program will transfer excess available water from the Mahaweli River Basin to the Central and Northern provinces for drinking and irrigation. The target area under the program is about 80,000 hectares, with about 255,000 beneficiary households, and an additional 16 million cubic meters of water will be supplied as drinking water to an estimated 80,000 beneficiaries.

29. ADB intervention in irrigation infrastructure (upstream) will partly finance the North Central Province Canal Program. It complements livelihood programs (downstream) in the agriculture sector by other development partners such as the International Fund for Agricultural Development. ADB is also exploring opportunities to support agribusiness companies. Such investment will foster agricultural GDP and export growth. It will also promote inclusive business,

since agribusiness companies tend to work with a large number of smallholder farmers under contract farming arrangements.

30. With the merger of the Asian Development Fund (ADF) and ordinary capital resources, and the availability of more ADF resources for better-performing countries (based on the annual country performance assessment), additional resources will be available to fund projects in the ANR sector. The inclusion of the proposed Mahaweli Water Security Investment Program in 2015 is an addition to the project pipeline and not a displacement of previously planned projects.

31. The introduction of an additional sector in the interim CPS 2015–2016 will help the government address major constraints to sustaining inclusive economic growth. This is consistent with ADB's strategic and sector goals as articulated in (i) Strategy 2020;<sup>16</sup> (ii) the water-for-all policy;<sup>17</sup> and (iii) the Water Operational Plan, 2011–2020<sup>18</sup>, which aims to reduce the water demand–supply gap in water scarce areas, fostering integrated water resources management, enhancing water governance and delivery of services, and improving resilience to climate change. The inclusion of the ANR sector is also consistent with ADB's Midterm Review of Strategy 2020, which prioritizes food security and agricultural productivity.<sup>19</sup> The sector is expected to improve ADB's operational focus on inclusive growth. It will also mitigate the possible disaster risk of drought and flooding, and extreme weather events.

#### IV. STRATEGY IMPLEMENTATION

##### A. Indicative Resource Parameters

32. Sri Lanka is a Group B country, eligible for both ordinary capital resources and ADF resources. Over the next 2 years (2015–2016), Sri Lanka's indicative resource envelope amounts to \$634.7 million, including \$219.7 million from the ADF. ADB will seek cofinancing opportunities from bilateral and other resources to fill the resource gap and expand the scope of proposed projects, especially in the water and other urban infrastructure and services and education sectors, and in climate change initiatives. ADB will also attempt to catalyze additional private resources to complement its projects through PPPs and credit-enhancement products. The cost-sharing ceilings and parameters in the interim CPS 2015–2016 will remain the same as under the CPS 2012–2016 (90% for loans and 85% for technical assistance). Cost-sharing ceilings for individual projects will be determined on a case-by-case basis.

##### B. Program Overview

33. The Mahaweli Water Security Investment Program is included in the 2015 pipeline as a project in the ANR sector. The rest of the resources are absorbed by the transport, energy, education, water and other urban infrastructure and services sectors, most of which are tranches under multitranches financing facilities.

<sup>16</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

<sup>17</sup> ADB. 2003. *Water for All – The Water Policy of the Asian Development Bank*. Manila.

<sup>18</sup> <http://www.adb.org/documents/water-operational-plan-2011-2020>

<sup>19</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

## V. RESULTS MANAGEMENT

### A. Monitoring

34. The CPS results framework is based on country targets and indicators, which are specified in the government strategy and monitored by the Foreign Aid and Budget Monitoring Division in the Ministry of Finance. These targets and indicators are included in sector assessments, and are reflected in project design and monitoring frameworks during processing. Progress toward attaining these targets will be monitored by ADB and the government through regular portfolio review meetings during the implementation stage.

### B. Risks

35. The government's priorities may be subject to change, with the election of the new President in January 2015 and the general election expected later in May 2015. According to the Hundred Days Programme released by the new government, immediate steps are taken to repair irrigation channels that have fallen into disuse. However, a comprehensive development strategy will not be formulated until after the general election. ADB's operational strategy will be adjusted to the government's new strategy in the next CPS covering 2017–2021.

36. ADB has had mixed results from operations in the ANR sector. Overall performance of the assistance program in the ANR sector in Sri Lanka during 1986–2006 was rated *partly successful bordering on unsuccessful*.<sup>20</sup> Inconsistent government policies, lack of overarching statutes for regulation, fragmented and under-resourced institutions, among others, were identified as factors. These remain sector challenges. Lessons from ADB operations in the sector are being considered in preparing projects in the sector.

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<sup>20</sup> Independent Evaluation Department. 2007. *Country Assistance Program Evaluation: Sri Lanka Inclusive Development and Conflict Resolution: Major Challenges in the Future*. Manila: ADB.



## COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

<b>Country Development Goals<sup>a</sup></b>			
1. Accelerate economic growth (maintain 8% real growth over the medium term) 2. Eradicate hardcore poverty and hunger by 2016 3. Protect the environment (increase forest cover from 23% in 2010 to 28% by 2016)			
<b>Sector Selected for ADB Support</b>			
<b>Government Sector Objectives</b>	<b>Sector Outcomes that ADB Contributes to and Indicators</b>	<b>ADB Areas of Intervention</b>	<b>ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities<sup>b</sup></b>
<b>1. Transport (Core area 1: Infrastructure)</b>			
Establish a modern transport system that will enable acceleration of economic growth, with reduced travel time and cost, and improved safety	Improved nationwide connectivity for the movement of people and goods: (i) proportion (in terms of length) of priority national highways with international roughness index above 5.5 reduced to 25% in 2016  2012 baseline: 27% 2016 target: 25%  (ii) average travel speed on priority national roads increased  2012 baseline: 33 km/hour 2016 target: 49 km/hour  (iii) improve rural road as a percentage of total rural road  2012 baseline: 23% 2016 target: 60%	National and provincial roads; road transport policies and reforms	\$215 million for 2015–2016, 26% of total CPS envelope, and no additional cofinancing, comprising:  ESG – 0% GEM – 93% PSD – 0% RCI – 0%
<b>2. Energy (Core area 1: Infrastructure)</b>			
Sustainable development of energy resources, conversion facilities, and delivery systems to enable access to and use of energy services by the entire population  Safe, reliable delivery of such energy services at a regionally competitive price through a commercially viable institution subject to independent regulation	Increased use of electricity: Proportion of the population that has access to electricity  2013 baseline: 96% 2016 target: 100%	Electrical power transmission; electrical power distribution; energy efficiency; wind, solar, and hydropower generation	\$150 million for 2015–2016, 18% of total CPS envelope, and an additional \$30 million in cofinancing, comprising:  ESG – 0% GEM – 100% PSD – 0% RCI – 100%
<b>3. Water and other urban infrastructure and services (Core area 1: Infrastructure)</b>			
Increased access to improved water supply facilities with sufficient supply, and improved service levels and quality to meet national standards  Improved water systems and reduced water revenue  Increased access to adequate and improved sanitation facilities, and service levels and quality of (discharge) water to achieve national standards	Total population has improved access to drinking water and sanitation:  (i) population with access to safe drinking water:  2012 baseline: 83% 2020 target: 100%  (ii) reduced wastage and leakage in the system in Colombo  2012 baseline: 49%	Drinking water and sanitation systems	\$308 million for 2015–2016, 38% of the total CPS envelope, and an additional \$110 million in cofinancing, comprising:  ESG – 100% GEM – 100% PSD – 0% RCI – 0%

Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities <sup>a</sup>
	2016 target: 18%  (iii) population with access to improved sanitation facilities (pipe-borne sewerage coverage)  2012 baseline: 2.4% 2020 target: 7.0%		
<b>4. Education (Core area 5: Education)</b>			
Develop an education system that will provide the competencies and technical skills required for rapid social and economic development  All children complete their primary and secondary education successfully	(i) Increased attainment in secondary education measured by lower secondary enrollment  2012 baseline: 92.1% 2020 target: 100%  (ii) general certificate of education ordinary level and advanced level pass rate increased  2009 baselines: 48% (ordinary) and 60% (advanced) 2012 baselines: 62%(ordinary) and 63% (advanced) 2020 targets: 65%(ordinary) and 70% (advanced)  (iii) proportion of technical and vocational education and training graduates holding employment within 6 months of graduation  2012 baseline: 50% 2020 target: 70%	School rehabilitation and building, curriculum development, teacher training, vocational training, formal skills development, informal skills and technical training, science development	\$0 million for 2015–2016
<b>5. Agriculture, natural resources, and rural development (Core area 1: Infrastructure)</b>			
Ensure the availability of adequate water for irrigation  Improve the management, productivity, and efficiency of water use to meet the rising demand  Minimize spatial variations of water availability	Increase the average crop intensity and cropping intensity under major schemes  2012 baselines: 147% and 170% 2020 targets: 160% and 180%  Increase paddy production under major schemes  Baseline: 5.5 metric tons /hectare 2016 target: 6.5 metric tons /hectare  Improve water use efficiency and productivity by reducing water usage for paddy cultivation  Baseline: 6,200–8,600 m <sup>3</sup> 2020 target: 3,700–4,900 m <sup>3</sup>	New, rehabilitated, and modernized irrigation schemes  New bulk water supply reservoirs  New conveyance infrastructure	\$150 million for 2015–2016, 18% of total CPS envelope, and 0 cofinancing, comprising:  ESG – 100% GEM – 0% PSD – 0% RCI – 0%

ADB = Asian Development Bank, CPS = country partnership strategy, ESG = environmentally sustainable growth, GEM = gender equity and mainstreaming, km = kilometer, m<sup>3</sup> = cubic meter, PSD = private sector development, RCI = regional integration.

<sup>a</sup> At the time of preparation of this interim CPS. The new President, elected in January 2015, will prepare his development strategy after the general election scheduled in June/July 2015.

<sup>b</sup> Covers strategic priorities monitored in the ADB corporate results framework: environmentally sustainable growth, gender equity and mainstreaming, private sector development, and regional integration. Additional strategic agendas and drivers of change may be addressed as appropriate.  
Source: Asian Development Bank estimates.

### **LIST OF LINKED DOCUMENTS**

<http://adb.org/Documents/CPS/?id=SRI-2014>

1. Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development
2. Risk Assessment and Risk Management Plan (Summary): Agriculture, Natural Resources, and Rural Development Sector
3. Country and Portfolio Indicators
4. Country Performance Assessment Ratings
5. Country Operations Business Plan 2015-2017