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**Democratic Socialist Republic of Sri Lanka**  
**Country strategic opportunities programme**  
**2026–2031**

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**Action:** The Executive Board is invited to review the country strategic opportunities programme 2026 to 2031 for the Democratic Socialist Republic of Sri Lanka.

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## Map of IFAD-funded operations in the country



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 30-04-2025

## Executive summary

### A. Introduction

1. The preparation of the country strategic opportunities programme (COSOP) for the Democratic Socialist Republic of Sri Lanka was initiated in July 2024. In view of the presidential and parliamentary elections in September and November 2024 respectively, the finalization of the draft COSOP was put on hold. Subsequently, IFAD undertook a validation mission in March 2025 to better integrate the new Government's policies and priorities in the COSOP. The COSOP, including its strategic objectives and approach, was supported by the concerned ministries and finally endorsed by the Department of External Resources of the Ministry of Finance, Planning and Economic Development on 18 September 2025.
2. This COSOP has been prepared to guide IFAD's operations in Sri Lanka from 2026 to 2031. The COSOP contributes to the country's vision of building a modernized, climate-resilient, inclusive and sustainable agriculture sector, supporting the nation's recovery and rebuilding from the 2022 economic crisis.
3. Despite its declining share of GDP, the agriculture sector, including the fisheries subsector, remains central to the country's overall economic growth, food security, employment generation and poverty alleviation.
4. Sri Lanka is among the most vulnerable countries globally to climate change, which impacts agriculture, fisheries and tourism.

### B. Overall goal and strategic objectives

5. The overarching goal of the COSOP is to contribute to inclusive and accelerated rural poverty reduction, enhance climate resilience and improve food security through pursuing sustainable agriculture modernization and commercialization. The COSOP goal is underpinned by two strategic objectives.
6. **Strategic objective 1: Increased income and food security of small-scale producers through a production system that is resilient to economic and climate shocks.** The aim is to enhance agricultural productivity, including the fisheries subsector and diversified production systems, in order to achieve enhanced incomes, food security and nutrition outcomes, and strengthened resilience to economic fallout and climate change effects.
7. **Strategic objective 2: Improved access to agricultural markets and services through inclusive and sustainable agricultural value chains development.** The aim is to develop agricultural value chains and provide farm, off-farm and rural non-farm employment and enterprise opportunities for landless people, including youth and women.

### C. Target group and targeting strategy

8. The geographic targeting approach focuses on provinces and districts with relatively high poverty and climate vulnerability, and potential for the development of diversified production systems and value chains. IFAD's primary target group will consist of rural smallholder farmers and fishers, and multidimensional poor, landless, marginalized and climate-vulnerable households.

### D. Financing instruments, investment volume and sources

9. Resources from three IFAD replenishment cycles of the performance-based allocation system – the Thirteenth Replenishment of IFAD's Resources (IFAD13), IFAD14, and IFAD15 – will be utilized to implement the country programme. During IFAD13, Sri Lanka received a total allocation of US\$33.63 million on blend terms, of which US\$1.011 million is earmarked for climate programming. The IFAD13 allocation has been committed to cofinance a project with the Asian Development Bank and the OPEC Fund for International Development.

# Democratic Socialist Republic of Sri Lanka

## Country strategic opportunities programme

### 2026–2031

## I. Country context

1. The Democratic Socialist Republic of Sri Lanka is a lower-middle-income country with an estimated GDP of US\$84.36 billion.<sup>1</sup> The economy is dominated by the service sector, which constitutes 60 per cent of the GDP, followed by industry at 25.6 per cent and the agriculture sector at 8.3 per cent.<sup>2</sup>
2. Sri Lanka has a population of 22.037 million, of which 81 per cent live in rural areas. The gross national income (GNI) per capita is US\$3,540.<sup>3</sup> The country has a Human Development Index value of 0.78 and is ranked 78<sup>th</sup> out of 193 countries.<sup>4</sup>

## A. Socioeconomic setting

Table 1

Country indicators

Indicator	Data	Year of reference
GNI per capita, current (US\$)	3,540	World Bank Data, 2023 (Atlas method)
GDP growth (%)	5.0	International Monetary Fund/Central Bank of Sri Lanka, 2025
Public debt (% of GDP)	104	Central Bank of Sri Lanka, 2023
Debt service ratio	10.9	Central Bank of Sri Lanka, 2023
Debt to GDP ratio	98	Medium Term Debt Management Strategy, 2025–2029
Inflation rate (%)	4.7	World Bank, Macro Poverty Outlook for Sri Lanka, April 2024 Forecast
Population size	22,037,000	Department of Census and Statistics, 2023
Population, female	11,428,453	Department of Census and Statistics, 2023
Youth population	4,749,074	Department of Census and Statistics, 2021
Unemployment rate (%)	6.0	World Bank Data, 2023
Fragility index	88.2	Fragile States Index, 2024
INFORM Risk Index	3.1 / low	INFORM Risk Assessment, 2024

3. Sri Lanka's strong economic growth, after cessation of 26 years of conflict, led to its upper-middle-income status in 2019. The 2022 economic downturn resulted in a 9.5 per cent contraction of the economy and a public debt ratio of 119.2 per cent of GDP, reverting the country to a lower-middle-income status. The 2021 ban on chemical fertilizers and pesticides aimed at promoting organic agriculture led to significant agricultural losses and food production decline.
4. The economic crisis reversed the gains against poverty, and poverty incidence increased from 11.3 per cent in 2019 to 25.9 per cent in 2022. A United Nations Development Programme (UNDP) study estimates approximately 55.7 per cent of

<sup>1</sup> World Bank Group Data, "GDP (current US\$) - Sri Lanka" (World Bank)

<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=LK>.

<sup>2</sup> World Bank Group Data, "Agriculture, forestry, and fishing, value added (% of GDP) - Sri Lanka", (World Bank)

<https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=LK>.

<sup>3</sup> World Bank Group Data, "GNI per capita, Atlas method (current US\$) - Sri Lanka", (World Bank)

<https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=LK>.

<sup>4</sup> United Nations Development Fund, *Human Development Report 2023/2024* (UNDP, 2024).

the population as multidimensionally vulnerable, of which a significant 82 per cent reside in rural areas.

5. Sri Lanka entered a US\$3.0 billion 48-month Extended Fund Facility programme with the International Monetary Fund in March 2023. Several critical reforms have been initiated, and the economy is showing signs of stabilization.

## **B. Transition scenario**

6. As a result of economic reforms, the economy is recovering, including contained inflation, reserve accumulation, improved fiscal performance and progress in restoring debt sustainability. Sri Lanka has progressed well on deals for restructuring of both government and private debt.
7. GDP growth of 5.0 per cent was achieved in 2024<sup>5</sup> and Sri Lanka's real GDP is estimated to have recovered 40 per cent of the loss incurred between 2018 and 2023.<sup>6</sup> From 2025 to 2030, the country is expected to maintain over 3 per cent GDP growth. Inflation declined to a single-digit level from 46.4 per cent in 2022. Poverty is expected to decline but is anticipated to remain above 20 per cent until 2026.<sup>7</sup>
8. Successful debt restructuring negotiations, improved revenue collection and support of donors are likely to get enough fiscal space for pursuing investments in agriculture and rural sectors. These developments provide an opportunity for IFAD's continuous engagement and investments to support recovery from economic crises through a modernized, commercialized and resilient agriculture sector.

## **C. Food system, agricultural and rural sector priorities**

### **Challenges and opportunities**

9. Sri Lanka's economic crisis severely impacted small-scale producers and rural poor people, leading to reduced agricultural production and lower incomes, and threatening food security and livelihoods.
10. The agriculture sector remains central to the overall growth of the economy, food security, employment generation and poverty alleviation. The sector employs 26 per cent of the national workforce. It includes a non-plantation subsector (rice, fruits, vegetables, field crops, spices) and a plantation subsector (tea, rubber, coconut, sugar, oil palm), as well as floriculture, livestock, fisheries and forestry. Most food needs are met locally, while pulses, milk powder, sugar, vegetable oil and wheat are imported. The fisheries subsector contributes around 2 per cent to GDP and provides direct and indirect employment to over 2 per cent of the workforce of the country.
11. The Sri Lankan food system is characterized by small-scale producers who cultivate about 80 per cent of the country's agricultural land for non-plantation food crops. About 1.65 million small-scale producers operate, on average, on less than 2 hectares and contribute to 80 per cent of the total annual food production.<sup>8</sup> The fisheries subsector is dominated by small producers, with half of the fishing fleet comprising small traditional fishing crafts.
12. The agriculture sector faces low productivity and profitability due to limited diversification, post-harvest losses, inadequate service delivery, climate change vulnerability, land degradation and low-value addition. Other issues include limited technical, managerial and marketing knowledge, limited financial access,

<sup>5</sup> International Monetary Fund and Central Bank of Sri Lanka (2025).

<sup>6</sup> International Monetary Fund, *Third Review Under the Extended Arrangement Under the Extended Fund Facility* (International Monetary Fund, March 2025).

<sup>7</sup> World Bank, *Sri Lanka Development Update: Opening up to the Future* (World Bank, October 2024).

<sup>8</sup> Ministry of Agriculture, Livestock, Land and Irrigation, "Agriculture Sector Modernization Project", <https://www.agrimin.gov.lk/web/index.php/project/12-project/841-agriculture-sector-modernization-project>.

inadequate modernization, poor irrigation management and limited adoption of digital solutions.

13. Sri Lanka's agroclimatic conditions offer opportunities for crop diversification and export competitiveness. With rice self-sufficiency secured, the country can strategically diversify into high-value agriculture and promote exports, while catering to the domestic market.
14. **Food security and nutrition.** The prevalences of undernourishment and food insecurity are 4.1 per cent and 11.4 per cent, respectively.<sup>9</sup> The prevalence of stunting in children under five worsened from the pre-economic crisis level of 7.4 per cent in 2021 to 10.3 per cent in 2023. The level of underweight children under five increased from 12.2 per cent in 2021 to 17.1 per cent in 2023.<sup>10</sup>
15. **Environmental and climate risks.** Sri Lanka is among the most vulnerable countries globally to climate change, which significantly impacts its agriculture sector. Sri Lanka's food security is adversely affected by high rainfall variability and extreme heat stress. By 2050, the climate change impact could lead to a 7.7 per cent GDP decline and reduce living standards by 7 to 7.5 per cent, especially in the Northern Province and the North Western Province.<sup>11</sup> Land degradation is also a major issue, with 34 per cent of the country's land experiencing declining productivity and half of it being degraded, which impacts agricultural output.<sup>12</sup>
16. **Opportunities to address the challenges.** Drawing on IFAD's experience, reducing rural poverty could be achieved by adopting productivity-enhancing technologies for crop cultivation, including climate-smart irrigation management practices; promoting sustainable fisheries resources management; expanding value addition; and improving access to financial services, markets and entrepreneurial skill development. IFAD's evidence-based lessons provide opportunities to improve small-scale producers' agriculture, foster climate-smart production technologies and crop diversification, revitalize productive infrastructure, improve post-harvest management, organize and integrate farmers' organizations into value chains, promote public-private-producer partnerships (4Ps) and incentivize private sector investments.

### **Government policy and institutional framework**

17. Elected in late 2024, the new Government prioritizes poverty eradication, digital transformation, and environmental sustainability under its vision for a clean Sri Lanka. The agriculture sector is recognized as the backbone of the economy and critical for economic growth, poverty reduction and sustainable livelihoods.
18. **Draft agriculture sector modernization roadmap (2025–2029).** A draft of the National Agriculture Policy is in the process of being finalized. The policy focuses on sustainable food security through productivity enhancement, market competitiveness (particularly in the export market), climate resilience, and mainstreaming gender and youth engagement in agriculture.
19. **Institutional framework.** The Ministry of Agriculture, Livestock, Lands and Irrigation (MoALLI) is the key ministry overseeing agricultural development, and water and land resources management for sustainable use. MoALLI leads implementation, facilitated by other important ministries such as the Ministry of Trade, Commerce and Food Security and Co-operative Development, the Ministry

<sup>9</sup> FAO, IFAD, UNICEF, WFP and WHO, *The State of Food Security and Nutrition in the World 2024 – Financing to end hunger, food insecurity and malnutrition in all its forms* (2024),

<https://openknowledge.fao.org/server/api/core/bitstreams/d5be2ffc-f191-411c-9fee-bb737411576d/content>.

<sup>10</sup> Family Health Bureau, Ministry of Health, Sri Lanka Dashboard, [Statistics - Family Health Bureau](#).

<sup>11</sup> United Nations Office for Disaster Reduction, "Status Report 2019 – Disaster Risk Reduction in Sri Lanka".

<sup>12</sup> Ministry of Environment, "Desertification and Drought Day 2024" (2024),

<https://env.gov.lk/web/index.php/en/announcements/campaigns/337-desertification-and-drought-day-2024>.



of Fisheries, Aquatic and Ocean Resources, and the Ministry of Environment and the Sri Lanka Export Development Board.

20. **Private sector.** The private sector plays an increasingly vital role in the agriculture sector as it includes buyers, suppliers, service providers and exporters. Additionally, the private sector contributes to the development of the agriculture sector through research and development interventions. Through strategic partnerships with farmers, private sector involvement has strengthened market linkages, enhanced farmer capacity, mitigated risks and improved economic outcomes for farming communities.

## **II. IFAD engagement: lessons learned**

### **A. Results achieved during the previous COSOPs<sup>13</sup>**

21. A country strategy and programme evaluation (CSPE) was conducted in 2019, and a country strategic opportunities programme (COSOP) completion review (CCR) was carried out in 2022.
22. The CSPE and CCR concluded that the COSOP was generally relevant to rural poor people, and the focus on commercialization and market linkages was relevant and consistent with evolving priorities.
23. The portfolio achieved 94 per cent of its targeted outreach (December 2021). Tangible results were achieved in agricultural production and productivity (214 per cent of the target farmers accessed production inputs and technologies) and also improved access to markets and income diversification (114 per cent of the target farmers engaged in 4Ps). Agricultural production and productivity were the most important pathway for increased incomes and assets. Other contributing factors were value chain development/4Ps and financial services.
24. IFAD swiftly responded to the fallout of the economic crises by ensuring continued availability of agricultural inputs by repurposing of resources; promoting cultivation of more economically resilient commodities; providing training on organic materials; and promoting products and value chains less dependent on imported inputs.

### **B. Lessons from the previous COSOP and other sources**

25. IFAD is one of the key financiers of the agriculture and rural development sector in Sri Lanka, and its investments remain aligned with the country's priorities, strategies and targets. IFAD's comparative advantage stems from its strong partnership with the Government and its pioneering agribusiness approaches, innovative 4Ps, promoting inclusion of women and youth in the rural economy and addressing nutrition and climate change concerns.
26. The introduction of technologies and practices has boosted agricultural productivity and integrated small-scale producers into value chains through the 4P approaches, which involves agribusinesses and financial institutions.
27. The following key lessons and recommendations were considered for the COSOP:
  - (i) **Inclusive value chain development and private sector engagement.** The strategic focus on productivity enhancement, commercialization and agribusiness partnerships/4Ps approach yielded positive results. Farmers' organizations have been instrumental in fostering value chain collaborations, enabling production aggregation and economies of scale. IFAD's introduction of the innovative farmer-managed irrigation resources, the 4P model and rural finance innovations have captured strong interest from the Government, development partners, the private sector and banks. The development of a

<sup>13</sup> The last country strategic opportunities programme (COSOP) for Sri Lanka covered the period from 2015 to 2022. Due to the country's economic and political conditions in 2022, an interim country strategy note was prepared for 2022 to 2023 (extended up to 2025) instead of a full COSOP. The results reported in this section are from the country strategy and programme evaluation, which covered the period 2004–2017, and the COSOP completion review for the 2015–2022 period.

win-win value chain requires a strategy to leverage private sector investment and active private sector partnerships that play a lead role complementary to the public sector, in all aspects of value chain development.

- (ii) **Targeting, gender and social inclusion.** Overall, the IFAD investments have focused on working with small-scale producers and poor rural communities and individuals. In view of the increased poverty due to the economic crises, poverty orientation needs to be strengthened through a clear target group definition and targeting strategy.
  - (iii) **Programmatic approach.** Building on complementarities among IFAD projects, there is a need to ensure coherence across the country programme, including in market linkages and access to finance, and to deepen and strengthen strategic engagement with the wider development efforts of the Government and development partners for stronger and more sustainable impact.
  - (iv) **Policy engagement.** Policy engagement was pursued through the Smallholder Agribusiness Partnerships Programme. However, this aspect, along with associated knowledge management, has lacked sufficient focus and resources within projects and the country programme.
28. **Focus on women and youth.** IFAD projects provided opportunities for women and youth as producers and agroentrepreneurs, which allowed for employment generation opportunities. The CSPE acknowledged that incorporation of specific measures to mainstream and support youth in agricultural and entrepreneurial activities enabled young people to diversify income opportunities through engagement in the agriculture sector.

### III. Strategy for transformational country programmes

#### A. COSOP theory of change

29. The theory of change (ToC) asserts to foster the resilience of small-scale producers and rural poor people through productivity enhancement, diversification, access to financial and technical services, and market integration. Bolstering these elements – along with building an enabling environment – will strengthen livelihoods, improve food security and reduce rural poverty. This will be done through more profitable production systems, market linkages, greater resilience to economic shocks and climate risks, and employment generation – particularly for women, youth, landless and vulnerable groups.
30. The ToC is based on the mutually reinforcing premises that: (i) if the capacity and resources of small-scale producers with limited access to technologies and financial and non-financial services are strengthened to align agricultural production systems with international and local market demand; (ii) if these are then connected with inclusive agricultural value chains in an environmentally, socially and economically sustainable manner; (iii) then livelihoods will be strengthened, food security improved and rural poverty reduced, due to the greater profitability of production systems and their greater resilience to deal with the impact of climate change and economic shocks.

#### B. Overall goal and strategic objectives

31. **Overall goal and strategic objectives.** The COSOP aims to contribute to inclusive and accelerated rural poverty reduction, enhanced climate resilience and improved food security by pursuing sustainable agriculture modernization and commercialization.
32. The goal contributes to the country's priorities for agriculture sector development, climate policy, Nationally Determined Contributions and the National Agriculture Policy.

33. The COSOP goal contributes to the main Sustainable Development Goals and to the United Nations Sustainable Development Cooperation Framework (UNSDCF) 2023–2027 for Sri Lanka.
34. The COSOP goal is underpinned by two strategic objectives:
35. **Strategic objective 1: Increased income and food security of small-scale producers through a production system that is resilient to economic and climate shocks.** The aim is to enhance agricultural productivity and diversify production systems of smallholder farmers through climate-smart irrigation. This strategic objective also aims to introduce production technologies to achieve enhanced incomes, food security and quality, through post-harvest technologies, and to achieve nutrition outcomes and strengthened resilience to possible economic fallout and climate change impacts. Introduction of technology, community engagement and capacity-building will support climate-smart agriculture, better water management and greater climate change awareness. Sustainable farming and natural resource management will enhance climate resilience and adaptation. Introduction of climate- and disaster-resilient insurance schemes could be explored.
36. **Strategic objective 2: Improved access to agricultural markets and services through inclusive and sustainable agricultural value chain development.** The second strategic objective builds on productivity gains from the first strategic objective, focusing on integrating small-scale producers into agricultural value chains and generating employment for landless people, youth, women and vulnerable rural populations. This will be achieved by improving competitiveness, innovation, business linkages and capacity-building in the agriculture sector for these groups.
37. The modernization of agriculture requires a shift from a generalist, supply-driven approach to a responsive, demand-driven one. Based on the experience of IFAD's value chain development projects, private agribusiness companies can engage as partners and investors in the value chain, while input suppliers and traders can play an important role in driving the transformation of agricultural systems.

Table 2  
COSOP strategic objectives

Key development priority (strategic objective)	Underlying institutions	Policy reform challenges	Proposed interventions (lending, non-lending)
Strategic objective 1	Ministry of Agriculture, Livestock, Lands and Irrigation	Demand-focused public and private service delivery system Climate-smart agriculture Land degradation	Policy support for enabling environments for the transformation of food systems
	Ministry of Trade, Commerce, Food Security and Co-operative Development		Differentiated strategies for different agroecological zones
	Ministry of Fisheries, Aquatic and Ocean Resources		Productivity enhancement through technological innovations, irrigation and sustainable land use
	Ministry of Rural Development, Social Security and Community Empowerment		International and local market demand-based production system consisting of high-value crop diversification
	Ministry of Environment		Promotion of other field crops (other than rice) considered to contribute to smallholder farmers' incomes, food security and nutrition status
	Community/smallholder farmers' organizations		Introduction of post-harvest technologies
	Private sector		Improved quality of fish catch and small fishers value chain development
Strategic objective 2	Ministry of Agriculture, Livestock, Lands and Irrigation.	A clear strategy for the agribusiness sector Policy for tailored products for smallholder farmers and value chain financing	Water resources development and efficient management
	Ministry of Trade, Commerce, Food Security and Co-operative Development		Community empowerment and awareness of climate change impact, promotion of productive technologies, practices and investments for adaptation and mitigation, land degradation and strengthened planning process
	Ministry of Fisheries, Aquatic and Ocean Resources		Explore insurance to mitigate disaster and weather-based risks
	Banking and non-banking microfinance institutions		Policy support for a framework for value chain financing
	Farmers' organizations		Establishing and strengthening of farmers' organizations/cooperatives
	Private sector		Continue promoting 4Ps
			Value chain financing for farmers' cooperatives
			Promoting an agribusiness approach that includes input supply, primary agricultural production, post-harvest activities, processing and trading/exports; approach also includes small and medium-sized enterprise sector strengthening, with focus on greater engagement of women and youth
			Introduce 4Ps for agriculture support services

38. IFAD's corporate mainstreaming priorities will be addressed as follows:

- (i) **Gender.** The COSOP prioritizes gender equality and women's empowerment by enhancing women's participation in agriculture through targeted training, access to technologies and entrepreneurship promotion. Projects implemented under the COSOP will strengthen the voice and decision-making power of women through participatory development approaches. New technologies and efficient practices will be adopted to reduce workloads. At least 50 per cent of the target group will comprise women, with an emphasis on women-headed households. Interventions under the COSOP will include context-specific gender and social inclusion strategies, action plans and interventions, informed by project site-specific gender and social assessments.
- (ii) **Youth.** The proportion of young people between the ages of 15 and 29<sup>14</sup> is estimated to be 23.6 per cent of the total population. The COSOP will prioritize young women and men by stimulating an innovative and technology-driven ecosystem and creating an enabling environment to generate economic opportunities for youth in the agriculture sector as producers, entrepreneurs and service providers, and in other rural non-farm sectors that are complementary to agriculture.

<sup>14</sup> National Youth Policy of Sri Lanka defines youth as those within the age group 15 to 29.

- (iii) **Nutrition.** Projects implemented under the COSOP will strengthen nutrition-enhancing agricultural systems, implement targeted activities to improve food security and access to safe and nutritious food, and increase awareness of nutritional needs and health practices.
- (iv) **Climate.** Strengthening resilience to climate change through climate-smart agriculture is central to the country's strategy, which includes both adaptation and mitigation. Building on national strategies, IFAD will invest in climate-smart agriculture and irrigation, and capitalize on localized practical knowledge on climate change adaptation. New projects will be designed with a view to enabling potential cofinancing through climate finance, following government priorities, including Nationally Determined Contributions to address climate change vulnerability and support irrigated agriculture.
- (v) **Sustainability.** The sustainability strategy of the country programme will be achieved by promoting: (i) enhanced capacity of small-scale producers and their organizations; (ii) sustainable management of natural resources; (iii) profitable production of long-lasting 4Ps between smallholder organizations and the private sector; (iv) improved capacity of the Government in policy formulation and implementation; (v) strengthened public sector institutions and technical capacities; and (vi) partnerships between private and public sector actors for demand-based agricultural service provision.
- (vi) **Scaling Up.** IFAD's experience – particularly relating to farmer-managed irrigation resources, the 4P model and rural finance innovations – has captured strong interest from the Government, development partners, the private sector and banks. Partnerships with the Government, development partners, private sector and producers' organizations will enable the scaling up needed for achieving agriculture sector transformation.

## C. Target group and targeting strategy

### Target group

- 39. The COSOP targeting strategy will focus on: (i) small-scale producers, including fishers; (ii) multidimensional vulnerable households; (iii) landless, unemployed and underemployed women and youth for opportunities to engage in service provision along the agricultural value chain; and (iv) vulnerable groups.

### Targeting strategy

- 40. Geographic targeting of IFAD project investments will be guided by UNDP's Multidimensional Vulnerability Index,<sup>15</sup> using both provincial and district rankings. The Eastern, Northern, North Central, Western, Central, and North Western Provinces stand out as having significant vulnerabilities, with over 58.5 per cent of their total populations categorized as vulnerable.
- 41. As recommended by the CSPE and CCR, the participation of priority target groups – smallholder farmers, women, youth, landless and vulnerable groups – in commercially-oriented project activities will be secured by developing eligibility criteria as part of the targeting strategy. To ensure a focus on poverty, specific interventions will be identified and designed for the priority target group and a quota will be specified with the aim of improving skills and access to resources for their social and economic empowerment.
- 42. Building on the existing targeting tools applied by IFAD projects, the selection criteria will include both self-targeting measures and direct targeting, through community-based targeting and household poverty profiling. Additionally, where relevant and available, the newly established social registry for identification and participation of the poorest and most vulnerable households will be applied.

<sup>15</sup> UNDP, *Understanding Multidimensional Vulnerabilities: Impact on People of Sri Lanka* (2023).

Furthermore, the targeting measures adopted will address the needs of the prioritized target groups by addressing their barriers to participation in value chains and adapting project activities to their smaller land size and, in the case of landless people, their asset base. IFAD projects will use locally effective solutions to avoid elite capture, and actions to foster inclusive participation, for example by setting clear criteria and conditions to ensure maximum benefit to the poorest and most vulnerable households.

## **IV. IFAD interventions**

### **A. Financing instruments**

43. **Loans and grants.** The COSOP will be financed through loan instruments under the performance-based allocation system (PBAS) allocations for the Thirteenth Replenishment of IFAD's Resources (IFAD13), IFAD14 and IFAD15. All future financing commitments under IFAD14 and IFAD15 (through PBAS or the Borrowed Resource Access Mechanism) remain subject to internal due diligence, availability of resources and formal approval by IFAD's Executive Board. IFAD13 resources, amounting to US\$33.63 million, will be used for a US\$536.50 million programme, cofinanced with the Asian Development Bank (ADB) and the OPEC Fund for International Development (OPEC Fund) (see para. 62 for further details).
44. IFAD will also aim to leverage grant and concessional financing. This may include financing from the Green Climate Fund, the Global Environment Facility and the Adaptation Fund, and IFAD's Private Sector Financing Programme for conducive policies, business development services, farmers' cooperatives, young and women entrepreneurs, technology digitalization and financial and non-financial services. Grant financing from other development partners will be explored to support the achievement of the COSOP's strategic objectives, country-level policy engagement, South-South and Triangular Cooperation (SSTC) and improved project implementation.

### **B. Country-level policy engagement**

45. The COSOP will support policy areas associated with its strategic objectives. These include: (i) fostering an enabling environment for private sector engagement for agriculture service delivery, participation in value chain and private sector investments; and (ii) fostering an enabling policy and regulatory framework for improved access of smallholder farmers, women, youth and landless people to capital and agricultural value chain financing by public and private sector institutions.
46. The policy engagement will be pursued through a systematic approach and will be informed by IFAD's evidence-based experiences of successful approaches and interventions. Strategic partnerships will be strengthened particularly with the ministries related to agriculture, fisheries, plantations, the Department of External Resources, the Department of National Planning, the Central Bank of Sri Lanka and the Ceylon Chamber of Commerce. These partnerships will inform national policies and policy engagement. IFAD will work closely with the ADB, the World Bank Group, United Nations agencies, the Food and Agriculture Organization of the United Nations, and the World Food Programme to promote alignment and integration for evidence-based policy engagement relevant to the COSOP's strategic objectives.

### **C. Institution building**

47. Strengthening institutional capacity is vital for the country programme. The COSOP will focus on building the skills of smallholder organizations to become business-oriented and gender-balanced actors. This includes enhancing their productive, entrepreneurial, financial, adaptive planning and organizational skills to establish sustainable businesses and form agreements with private actors. Additionally, support will be provided to improve the governance and capacity of

public sector institutions and foster public-private partnerships to deliver quality services to rural communities in order to enhance development impact.

## **D. Innovation**

48. Given IFAD's relatively small resource envelope, project design will continue to promote innovations with the potential for scaling up. IFAD, through project investments and grants, will pilot innovative models for broadening the scope of private sector involvement and investment. This will include the promotion of public-private partnerships for agriculture support services, and the engagement of women and youth in the agriculture sector as producers, entrepreneurs and service providers.

## **E. Knowledge management**

49. In view of its key role in policy engagement and scaling up, knowledge management will receive particular attention. The COSOP will emphasize analysing data, documenting results under IFAD-funded projects, capturing and scaling up lessons, applying evidence-based adaptive management and promoting knowledge-sharing among stakeholders.
50. A systematic process of capturing, organizing, storing and sharing knowledge will be adopted by leveraging information and communications technology (ICT) to facilitate the exchange of knowledge among stakeholders, which include development partners and forums at the government policy level.
51. **Communication and visibility.** A strategic communications approach will be adopted to further elevate IFAD's already strong position in rural poverty reduction and sustainable development. The approach will entail utilizing platforms and tools such as online portals, mobile applications, television talk shows and broadcasts, and social and mass media. The key expected outputs will be country thematic factsheets, project booklets, and communication products to publicize the country programme's policy engagement work and the strategies that it has developed. This strategy will support knowledge-sharing and dissemination of project achievements and learning, and will enhance IFAD's visibility.

## **F. Information and communications technologies for development**

52. Noting Sri Lanka's internet coverage of 100 per cent and internet penetration rate of 54 per cent, the country programme will focus on the use of ICT for development to leverage ICT and increase development impact. Sri Lanka is well positioned to scale up digital agricultural services, which could significantly enhance impact, outreach and service delivery. Through its projects, the COSOP will facilitate the deployment, utilization and application of ICT to improve information and communication processes. Of particular interest is the development and provision of ICT services in software development, financial services and other ICT services targeted at domestic and export markets.

## **G. Strategic partnerships and South-South and Triangular Cooperation**

### **Government**

53. The Government of Sri Lanka and relevant ministries have expressed a strong desire to strengthen their engagement with IFAD in order to steer the country out of the current economic uncertainties by providing support for agricultural modernization, and its associated policy and institutional reform. In particular, strategic partnerships for resources will be pursued with the Government for higher counterpart funding and scaling up.

### **Development partners**

54. Strategic partnerships for cofinancing and development coordination will be strengthened and pursued to leverage investments for poor rural people. These

partnerships will create synergies and complementarities for development effectiveness. Strategic partnerships for resources will be pursued in particular with the ADB, the OPEC Fund, the World Bank Group, climate and environment funds, and other development partners such as the Japan International Cooperation Agency (JICA) and the European Union for collaborative actions.

55. The COSOP will contribute to the advancement of the goals and strategic priorities of the UNSDCF. The UNSDCF supports Sri Lanka's progress in the economic, social and environmental dimensions of sustainable development and rapid recovery from the economic crisis. The collaboration of the United Nations Rome-based agencies in the country will be built around climate-smart agriculture, nutrition and resilience-building, which will directly impact nutrition and food security.

#### **Private sector**

56. To achieve strategic objective 2, business partnerships between small-scale producers and agribusinesses will be forged to attract private sector investment and 4Ps for improved agriculture service delivery to small-scale producers.

#### **South-South and Triangular Cooperation**

57. There is considerable scope for SSTC to promote knowledge exchange, technology transfer and technical cooperation for climate-smart adaptation, competitiveness and resilience under strategic objective 1, and public and private sector partnerships for joint ventures, investments, local and export market linkages and trade under strategic objective 2. Collaboration will be sought with partners such as the South Asian Association for Regional Cooperation, the Association of Southeast Asian Nations and the People's Republic of China.

## **V. COSOP implementation**

### **A. Investment volume and sources**

58. The ongoing IFAD projects are aligned with the COSOP approach and strategic objectives, and new projects will be fully in line with the evolving context in Sri Lanka.
59. For IFAD13, the Mahaweli Water Security Investment Program Stage 2, cofinanced with the ADB and OPEC Fund, has an estimated value of US\$462.87 million. The proposed programme aims to complete the North Central Province Canal and undertake commercial agriculture development. IFAD's cofinancing would be utilized for the programme's commercial agriculture development component. IFAD has a lead role in the design of this component, which will ensure targeting smallholder farmers, women, youth, landless and vulnerable groups.
60. The country team in consultation with the Government and development partners will identify two projects for IFAD14 and IFAD15.
61. **Counterpart funding.** Successful debt restructuring and improved revenue is expected to increase useable gross official reserves from US\$7.06 billion in 2025 to US\$15.17 billion in 2030. Given the Government's recognition of the agriculture sector as a powerful engine for growth, poverty reduction and improved fiscal space, availability of counterpart funding is highly likely and provides an opportunity for IFAD's continuous engagement and investments. Counterpart commitment for projects, and for annual workplans and budgets will be actively pursued and monitored.



Table 3  
**IFAD financing and cofinancing of ongoing and planned projects**  
(Millions of United States dollars)

<i>Projects</i>	<i>IFAD loan</i>	<i>IFAD grant</i>	<i>Domestic</i>	<i>International</i>	<i>Total</i>
<b>Ongoing</b>					
Smallholder Agribusiness and Resilience Project	41.75	1.00	39.30	-	82.05
Smallholder Agribusiness Partnerships Programme	54.40	-	50.60	-	105.00
<b>Planned</b>					
IFAD13					
Mahaweli Water Security Investment Program Stage 2 (cofinanced) <sup>16</sup>	42.00	-	160.87	260.00	462.87
IFAD14 and IFAD15					
Climate-Smart Agriculture/Fisheries Programme	TBD	TBD	TBD	TBD	TBD
<b>Total</b>	<b>138.15</b>	<b>1.00</b>	<b>250.77</b>	<b>260.00</b>	<b>649.92</b>

## **B. Resources for additional activities**

62. Additional grant opportunities will be explored from IFAD resources and from other development partners (the European Union, JICA and bilateral partnerships), and from climate and environment funds to support the achievement of the COSOP's strategic objectives, SSTC, and country-level policy engagement, and to improve project implementation.

## **C. Transparency**

63. Sri Lanka is ranked 121<sup>st</sup> out of 180 countries in the 2024 Corruption Perceptions Index.<sup>17</sup> In 2021, Sri Lanka's parliament passed a constitutional amendment that, inter alia, is aimed at strengthening anti-corruption safeguards. The new Government has demonstrated a strong commitment to comprehensive anti-corruption and governance reforms. IFAD will continue to apply zero tolerance on corruption. Projects will be encouraged to adopt frameworks for transparency and public notices.

## **D. Country programme management**

64. The country team, led by the country director, will continue to provide support for country programme development and management, and improve project implementation. The country director will lead policy engagement and provide strategic direction. Appointment of full-time qualified staff, including the project director, technical managers, monitoring and evaluation, financial management and procurement specialists for project management units will be ensured through agreements between IFAD and the Government.
65. With the country team based in India, enhanced in-country presence and efficient portfolio development and management will be ensured through a pool of seasoned national consultants. The country director, particularly during the current economic recovery and public reforms period, needs to remain closely engaged for proactive assessment of the evolving macroeconomic situation, and manage loans and cofinancing to cushion any potential adverse impacts on portfolio financing requirements.
66. The effective and efficient implementation of the country programme and projects will be the responsibility of the respective ministries and line agencies, and will be jointly supervised by IFAD and implementing line agencies.

## **E. Monitoring and evaluation**

<sup>16</sup> Cofinancing: ADB US\$200 million; the OPEC Fund for International Development US\$100 million; and the Government of Sri Lanka US\$195.20 million.

<sup>17</sup> Transparency International, "Corruption Perceptions Index" (2024), <https://www.transparency.org/en/cpi/2024/index/lka>.

67. Monitoring and evaluation of the COSOP will be based on the COSOP results management framework. The framework's key outcome and milestone indicators have been projected based on results expected from ongoing and new projects. Performance indicators of ongoing and new projects will be aligned with COSOP indicators. The COSOP performance will be continuously monitored through the projects' progress towards output and outcome indicators, disaggregated by sex, age and target group, including IFAD's core indicators. The COSOP's results framework will be assessed at the midterm and at the end of COSOP implementation.

## VI. Target group engagement

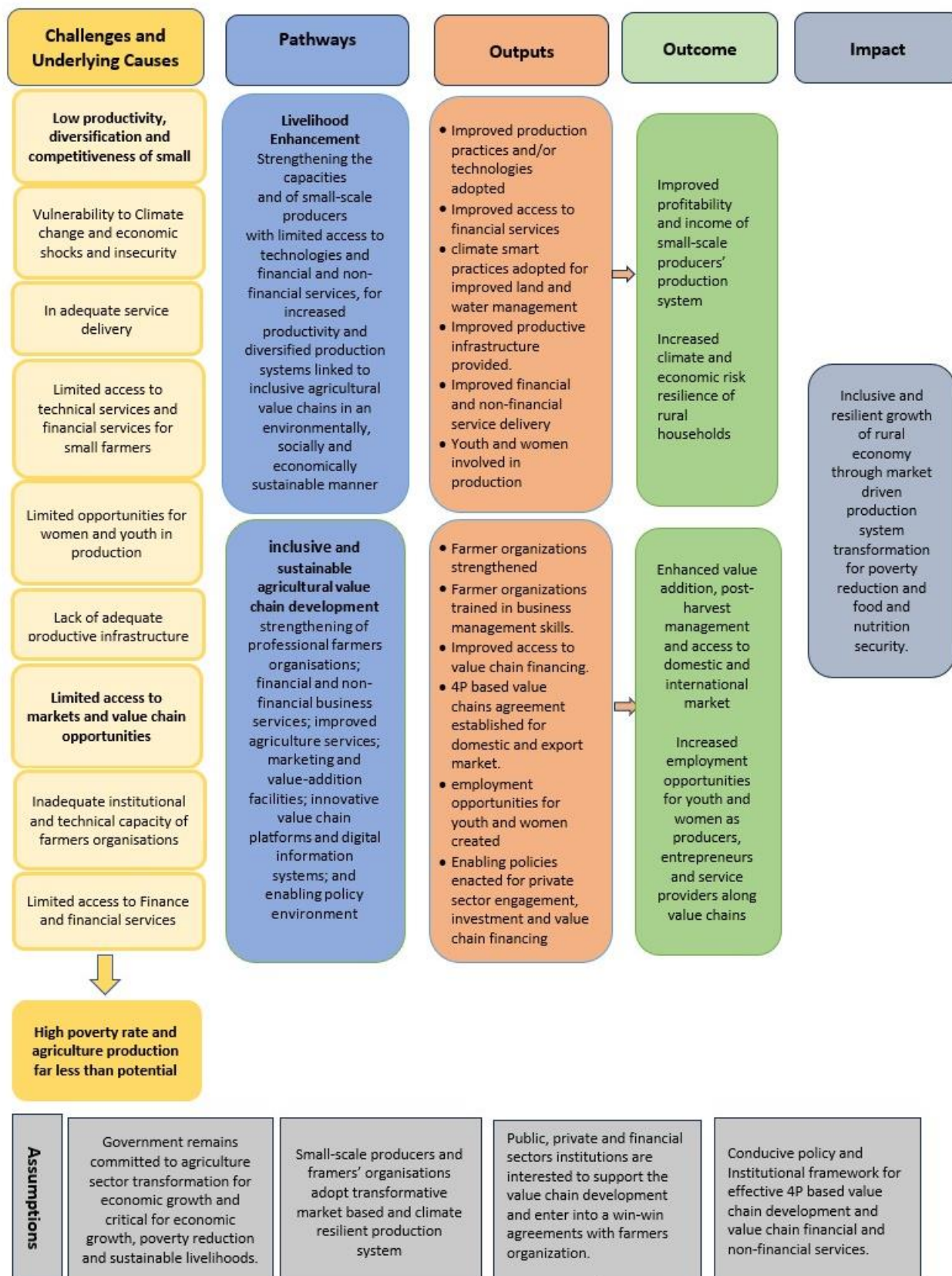
68. IFAD's portfolio in Sri Lanka has historically pursued community-driven development approaches. Engagement with community/farmers' organizations, including those of women and youth, will be ensured through participatory processes, targeting and programme development, including design, implementation, monitoring, impact assessment and project evaluation. The participatory monitoring mechanisms will be an integral part of project monitoring and evaluation systems and will seek feedback from project participants.

## VII. Risk management

69. Table 4 below describes the likely risks in achieving the objectives of the COSOP:

<i>Risks</i>	<i>Risk rating</i>	<i>Mitigation measures</i>
Political instability	Low	<ul style="list-style-type: none"> <li>The presidential and parliamentary elections in late 2024 restored political stability.</li> <li>Project steering committee oversight. Supervision and implementation support missions.</li> </ul>
Macroeconomic instability	Substantial	<ul style="list-style-type: none"> <li>Adequate counterpart budget allocation for projects and management of loan and cofinancing to cushion any potential adverse impacts.</li> </ul>
Support strategies and policies	Moderate	<ul style="list-style-type: none"> <li>Policy support for enabling environment for smallholder farmers' agribusiness development, financial services and public-private partnerships for agriculture support services.</li> </ul>
Institutional capacity	Moderate	<ul style="list-style-type: none"> <li>Resources for capacity-building under the projects and grants.</li> <li>Robust oversight, and implementation support for programme development and implementation.</li> </ul>
Fiduciary – financial management	Substantial	<ul style="list-style-type: none"> <li>Close project supervision and audit.</li> <li>Capacity-building for finance teams in the Government on IFAD financial management systems.</li> </ul>
Fiduciary – procurement	Moderate	<ul style="list-style-type: none"> <li>Procurement activities should strictly adhere to the procurement plan.</li> <li>Application of the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations.</li> </ul>
Environment and climate	Substantial	<ul style="list-style-type: none"> <li>Investments geared at climate change adaptation and building resilience.</li> <li>Promotion of climate-resilient infrastructure.</li> <li>Collaboration with climate and environment funds.</li> <li>Scaling up successful and low or no-cost climate-smart practices.</li> <li>Improving access to early warning and agrometeorological services.</li> <li>Improving land use planning and land quality.</li> </ul>
Social	Moderate	<ul style="list-style-type: none"> <li>Inclusion of women, youth and persons with disabilities in all projects.</li> <li>Focus on women and youth engagement in agriculture and creation of potential for employment.</li> </ul>
<b>Overall</b>	<b>Moderate</b>	

## Theory of Change



## Results management framework

Key COSOP results					
The goal aligns with and contributes to national agricultural priorities to recover from the economic crisis and achieve a modernised, resilient, inclusive and green agriculture sector.	<i>Results are linked to the SDGs, the IFAD Strategic Framework 2016- 2025 and United Nations Sustainable Development Cooperation Framework for Sri Lanka 2023-2027</i>	<b>Goal and Strategic objectives:</b> Contribute to inclusive and accelerated rural poverty reduction, enhance climate resilience, and improve food security through pursuing sustainable agriculture modernization and commercialisation. <b>Total outreach</b> 150,000 households – 50% women and 30% youth women and men. <b>Main target group:</b> small farmers; (ii) multidimensional vulnerable households; (iii) landless, unemployed and underemployed women and youth for better conditions in the labour market and to provide services along value chains; (iv) women as well as young women and men within the various target groups, to identify their differentiated needs and opportunities; and (iv) persons with disabilities to ensure they benefit from programme interventions. Additionally, support will be provided for institutional strengthening and capacity building of staff of the Ministry of Agriculture, Livestock, Lands and Irrigation			
Country Strategy Alignment	Related SDG and UNSDCF Outcome	Strategic Objectives	Lending and Non-Lending Activities	Outcome indicators	Milestone Indicators
<b>Agriculture Sector Modernization Road Map (2025- 2029)</b> <ul style="list-style-type: none"> <li>• Increase the productivity through adaption of advanced technologies.</li> <li>• Facilitate doubling the export earnings.</li> <li>• Minimize pre and post-harvest losses through value-addition and other instruments.</li> <li>• Mitigate the losses by wild animals.</li> <li>• Make necessary policy reforms.</li> <li>• Facilitate farmers to develop in the SME sector.</li> <li>• Improve and implement the proper technology transfer mechanism.</li> <li>• Encourage and strengthen Climate-Smart Agriculture (CSA)</li> </ul>	<b>Sustainable Development Goals:</b> SDG 1 (no poverty), SDG 2 (zero hunger), SDG 5 (gender equality), SDG 8 (decent work and economic growth, SDG 13 (climate action) and SDG 17 (partnership for the goals)  <b>United Nations Sustainable Development Cooperation Framework for Sri Lanka 2023-2027</b> Strategic Priority 01: Inclusive and Equitable Human Development and Well-Being and Decent Work Strategic Priority 02: Resilient and Green	<b>Strategic Objective 1: Increased income and food security of small-scale producers through a production system that is resilient to economic and climate shocks.</b>	Lending/investment activities <ul style="list-style-type: none"> <li>• Ongoing: SARP and SAPP.</li> <li>• Pipeline: Mahaweli Water Security Investment Program Stage 2 (MWSIP)</li> </ul> Non-lending/non-project activities <ul style="list-style-type: none"> <li>• Country Level Policy Engagement</li> <li>• Knowledge sharing and management</li> </ul> Partnerships <ul style="list-style-type: none"> <li>• ADB under MWSIP Stage 2,</li> <li>• JICA, EU</li> <li>• Private sector under Agribusiness/4Ps.</li> <li>• FAO and WFP etc. on Agriculture Sector Policy Support, nutrition</li> </ul> SSTC	<ul style="list-style-type: none"> <li>• 70% of supported households/rural enterprise (105,000 hh) reporting 30% increase in income.</li> <li>• CI 3.2.2. 60% of households (90,000 hh) reporting adaption of environmentally sustainable and climate-resilient agricultural technologies and practices</li> <li>• CI 1.2.4: 25% households (37,500 hh) reporting an increase in production</li> </ul>	<ul style="list-style-type: none"> <li>• 3.1.1 Groups supported to sustainably manage natural resources and climate-related risks</li> <li>• 1.1.2 12,300 ha Farmland under water-related infrastructure constructed/rehabilitated</li> <li>• 1.1.8 XX Households provided with targeted support to improve their nutrition</li> </ul>

<p><b>National Agriculture Policy (NAP) for Food and Feed Crops and Sustainable Food Security</b></p> <ul style="list-style-type: none"> <li>• Thematic Area 1: Crop Production &amp; Productivity Encompasses poverty eradication and gender empowerment.</li> <li>• Thematic Area 2: Advanced Technologies</li> <li>• Thematic Area 3: Agri-Entrepreneurship and Markets</li> <li>• Thematic Area 4: Climate resilience &amp; other risk management</li> <li>• Thematic Area 5: Knowledge Management and Agricultural Extension</li> <li>• Thematic Area 6: Governance and Operations Management</li> </ul> <p>National Climate Change Policy (2023), Updated Nationally Determined Contribution (NDC), NDC Implementation Plan (2021)</p> <ul style="list-style-type: none"> <li>• Agriculture – NDC 1 Reduce Post-harvest losses and value addition of fruits and vegetables.</li> <li>• Agriculture – NDC 2 Increase crop productivity</li> <li>• Adaptation – NDC 1 Climate Change considerations mainstreamed into agriculture in Sri Lanka</li> <li>• Adaptation – NDC 5 Enhance sustainable land and water management practices in areas where anticipated climate vulnerability is severe.</li> <li>• Adaptation – NDC 6 Enhanced early warning and risk</li> </ul>	<p>Recovery and Growth for Shared Prosperity and Environmental Sustainability Strategic Priority 04: Gender Equality</p>		<ul style="list-style-type: none"> <li>• Knowledge sharing, technology transfer and public and private sector partnerships collaboration joint venture, investment, and trade.</li> </ul> <p>Knowledge management</p> <ul style="list-style-type: none"> <li>• Analytical Studies and Policy Notes</li> <li>• Promoting knowledge sharing among stakeholders and media engagement</li> </ul>	<ul style="list-style-type: none"> <li>• 25% average increase in crop productivity of in the priority value chains.</li> <li>• CI 1.2.1. 30% Households reporting improved access to land, forests, water or water bodies for production purposes</li> <li>• 30% of households reporting availability of water and/or reduced water shortage vis-à-vis production needs.</li> <li>• 30% HH adopting crop diversification.</li> <li>• CI 1.2.8: 50 percent Women reporting Minimum Dietary Diversity (MDDW)</li> </ul>	
	<p><b>Sustainable Development Goals:</b> SDG 1 (no poverty), SDG 2 (zero hunger), SDG 5 (gender equality), SDG 10 (decent work), SDG 13 (climate action) and SDG 17 (partnership for the goals)</p> <p><b>United Nations Sustainable</b></p>	<p><b>Strategic Objective 2: Improve access to agricultural markets and services through inclusive and sustainable agricultural value chains.</b></p>	<p>Lending/investment activities</p> <ul style="list-style-type: none"> <li>• Ongoing: SARP and SAPP.</li> <li>• Pipeline: Mahaweli Water Security Investment Program Stage 2 (MWSIP)</li> </ul> <p>Non-lending/non-project activities</p> <ul style="list-style-type: none"> <li>• Country Level Policy Engagement</li> <li>• Knowledge sharing and management</li> </ul>	<ul style="list-style-type: none"> <li>• CI 2.2.4: 60 percent Supported rural producers' organizations reporting new or improved services provided by their organization</li> </ul>	<ul style="list-style-type: none"> <li>• CI 2.1.3: 150 (75,000) Rural producers' organizations supported</li> <li>• 2.1.2 105,000 Persons trained in income-generating activities or business management</li> </ul>

management mechanisms introduced to reduce climate change vulnerability.	<b>Development Cooperation Framework for Sri Lanka 2023-2027</b> Strategic Priority 01: Inclusive and Equitable Human Development and Well-Being and Decent Work Strategic Priority 02: Resilient and Green Recovery and Growth for Shared Prosperity and Environmental Sustainability Strategic Priority 04: Gender Equality		Partnerships <ul style="list-style-type: none"> <li>• ADB under MWSIP Stage 2,</li> <li>• JICA, EU</li> <li>• Private sector under Agribusiness/4Ps.</li> <li>• FAO for Agriculture Sector Policy Support</li> </ul> Knowledge management <ul style="list-style-type: none"> <li>• Analytical Studies and Policy Notes</li> <li>• Promoting knowledge sharing among stakeholders and media engagement</li> </ul>	<ul style="list-style-type: none"> <li>• CI 2.2.5: Rural producers' organizations reporting an increase in sales</li> <li>• CI 2.2.3: Percentage of rural producers' organizations engaged in formal (partnerships/ agreements or contracts with public or private entities</li> <li>• 1.2.5. 105,000 HHs reporting using rural financial services (at least 40% women and 30% youth) reporting using financial services</li> <li>• 2.2.1. Persons with new jobs/employment opportunities in farm, off farm and rural off farm sectors.</li> </ul>	<ul style="list-style-type: none"> <li>• No. of persons engaged in 4Ps</li> <li>• 2.1.6 Market, processing or storage facilities constructed or rehabilitated</li> <li>• 1.1.5 XXX Persons in rural areas accessing financial services</li> <li>• Policy 1 Policy-relevant knowledge products completed</li> <li>• 150 Farmer Groups/Cooperatives: 75,000 small farmers</li> </ul>
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### Key file 1: Rural poverty and agricultural/rural sector issues (mainly from COSOP text)

Priority Areas	Affected Group	Major Issues	Actions Needed
Rebuilding livelihoods of rural poor affected by economic crises	Small scale producers and vulnerable rural poor.	<ul style="list-style-type: none"> <li>The unprecedented financial and economic crisis, disrupted livelihoods and threatening the food security of the most rural households.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure the continuous supply of agricultural inputs at affordable prices and restore the income generation capacity of the farming community.</li> <li>Market driven productivity enhancement and crop diversification</li> <li>Train farmers on good agricultural practices.</li> <li>Connecting small farmers and fisherfolk to markets through agribusiness/value chain development.</li> <li>Build resilience against economic shocks and climate risk.</li> <li>Skills development of rural landless, women and youth for employment opportunities in the agricultural sector as producers, entrepreneurs and service providers, and in other rural nonfarm sectors complementary to agriculture</li> </ul>
Smallholder production systems enabling improved returns and improved food security	All small scale producers and land-less rural population, particularly households in the drought prone areas and disaster risks prone areas are most likely to be affected	<ul style="list-style-type: none"> <li>Inadequacy of land</li> <li>Production systems remain vulnerable to shocks (climate and price).</li> <li>Lack of skills and knowledge to improve production and reduce cost of production.</li> <li>Post harvest losses due to inadequate post-production techniques and poor handling practices.</li> <li>Inadequate water resources and poor water use efficiency.</li> <li>Access to finance</li> </ul>	<ul style="list-style-type: none"> <li>Foster production systems, through improved climate smart technologies.</li> <li>Develop the knowledge and skills of small producers.</li> <li>A food systems approach that includes primary agricultural production including fisheries subsector, post-harvest activities, processing and trading/export.</li> <li>Focus on post-harvest crop and post catch fish</li> <li>Water resources development and efficient water use</li> <li>Increase access to affordable financial services.</li> <li>Crop diversification</li> <li>In view of different agro-climatic zones, differentiated agriculture development strategies and climate responsiveness are needed for different parts of the country.</li> <li>Capacity development through training and awareness raising through orientation / exposure.</li> <li>Facilitate land regularization systems and traditional resource custodianships by organizing group-based or collective spirit among those who have experience.</li> <li>Income diversification to mitigate the risks caused by natural disasters.</li> </ul>

Small scale producers' agribusiness development	Rural population engaged on farm, off-farm and non-farm rural sector.  Agribusiness related private sector players.	<ul style="list-style-type: none"> <li>• Limited spread of private sector involvement and their investments in agriculture sector.</li> <li>• Weak market linkages.</li> <li>• Under performing SME sector</li> </ul>	<ul style="list-style-type: none"> <li>• Market-driven production system.</li> <li>• Strong relationship between producers, buyers and suppliers, as well as sustainable provision of support services.</li> <li>• Private sector investment for creating sustainable value chains through long-term investments in agricultural inputs, equipment, sourcing, processing, packaging and marketing across the value chains.</li> <li>• Strengthened agri-business SME with greater youth and women's engagement</li> <li>• Support creates an appropriate policy and regulatory environment.</li> </ul>
Improved agriculture services delivery	Small scale producers	<ul style="list-style-type: none"> <li>• Lack of a comprehensive national agricultural extension system.</li> <li>• Lack of appropriate service provision (licensing, permits and approvals etc.) for small producers/SMEs, smallholders and other VC actors.</li> <li>• Private sector outreach for agriculture support service is limited to the areas of their business operations.</li> </ul>	<ul style="list-style-type: none"> <li>• Establish Public-Private partnerships for agriculture support system including extension, input supplies and service delivery.</li> <li>• Strengthen farmer producer organizations and capacity building of smallholders to improve their productive, entrepreneurial and organisational skills.</li> </ul>
Create opportunities for youth, women and poor on farm, off-farm and nonfarm rural sector	Youth, entrepreneurs and farmers	<ul style="list-style-type: none"> <li>• Declining interest in agriculture sector.</li> <li>• Elevated risk of underemployment and/or unemployment.</li> <li>• Low profitability particularly among small farmer household.</li> <li>• Low level of technology adaptation and commercialisation.</li> <li>• Lack of access to land and affordable financial resources.</li> </ul>	<ul style="list-style-type: none"> <li>• Provision of technical and entrepreneurial capacity building.</li> <li>• Access to markets and capital through agribusiness development through value addition / processing,</li> <li>• Good agricultural practices and mechanization for agriculture production.</li> <li>• New agricultural and non-agricultural products to meet the needs of rural and urban markets.</li> </ul>



## Key file 2: Organizations matrix (strengths, weaknesses, opportunities and threats [SWOT] analysis)

ORGANISATION	STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
Ministry of Finance, Planning and Economic Development	<ul style="list-style-type: none"> <li>• Lead role in national economic planning, budgeting and investment.</li> <li>• Responsible for coordinating development assistance and foreign-funded projects.</li> <li>• Specialized departments / divisions / institutions for external resources, budgeting, national planning, project monitoring and management and development financing.</li> <li>• Availability of senior staff with high administrative &amp; planning competences.</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient inter-agency links to handle coordination and planning.</li> </ul>	<ul style="list-style-type: none"> <li>• IFAD is maintaining close working relationship with the Ministry, which is the focal point for the government.</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient monitoring and coordination particularly for national and donor funded programme for effective response to national challenges.</li> </ul>
Ministry of Agriculture, Livestock, Lands and Irrigation.	<ul style="list-style-type: none"> <li>• Country-wide mandate and coverage.</li> <li>• National Agriculture Policy Formulation.</li> <li>• Irrigation water sector development</li> <li>• Agriculture research and technology dissemination</li> <li>• Implementing of agriculture development programmes to increase local food production</li> <li>• Leading implementation agency for donor funded programmes/projects.</li> <li>• Decentralized provincial and district-level departments to support agricultural development.</li> </ul>	<ul style="list-style-type: none"> <li>• Weak institutional capacity and governance.</li> <li>• Weak technical and management capacity.</li> <li>• Supply driven extension approach rather than demand responsive.</li> <li>• Lack of coordination with other Ministries and private sector.</li> <li>• Lack of multi-sector orientation.</li> <li>• Limited market orientation.</li> </ul>	<ul style="list-style-type: none"> <li>• Agriculture modernization and commercialization is a high priority to steer the country out of the current economic crises.</li> <li>• Institutional restructuring and redefining Ministry role and effectiveness.</li> <li>• supportive policy and regulatory enabling environment, for agriculture sector modernisation and commercialisation priority of the government.</li> <li>• Public-private partnership for agriculture support system.</li> </ul>	<ul style="list-style-type: none"> <li>• Limited resources.</li> <li>• Shortage of qualified field level staff.</li> <li>• Staff lacks knowledge especially on high-tech agriculture and market demand.</li> <li>• Coordination with other ministries and private sector.</li> <li>• Poor coordination and integration between agricultural research and extension.</li> </ul>

MoE	<ul style="list-style-type: none"> <li>• Strong set of policies and strategies related to climate change and broader environmental issues.</li> <li>• Leadership and strong engagement at the international level, including with environment and climate financing institutions.</li> <li>• Comprehensive view on environmental topics including more traditional topics such as conservation areas</li> </ul>	<ul style="list-style-type: none"> <li>• Limited capacity for (decentralized) execution</li> <li>• Strategies, ambitions and execution closely linked to political dynamics.</li> <li>• Strategies, implementation plans and resource needs may not be always realistic</li> </ul>	<ul style="list-style-type: none"> <li>• Build on the existing strategies and investment opportunities identified.</li> <li>• Collaborate on advanced topics such as combined climate change mitigation and biodiversity preservation</li> </ul>	<ul style="list-style-type: none"> <li>• High ambitions may not have sufficient backing from other institutional stakeholders in the future.</li> <li>• Possible lack of focus if all strategies are to be pursued.</li> </ul>
Rural Financial Sector	<ul style="list-style-type: none"> <li>• Good national network of state and private banks for rural credit delivery.</li> <li>• High penetration of basic financial services.</li> <li>• Good accessibility to rural farmers through mini branches.</li> <li>• Good coordination with government institutions.</li> <li>• Range of products for agribusiness development, including new &amp; innovative products (HNB's savings account option for remittances, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• Credit access for value chain financing, small businesses and farm-based activities remains weak in service quality and numbers.</li> <li>• Supply-side constraints to lending to the agriculture sector are due to the risk perception.</li> <li>• Demand-side constraints related to the perceived high interest rates, complex credit procedures, immovable collateral-based lending, and the poor service culture.</li> <li>• Lack of awareness of financial services limiting access to finance, especially in remote areas.</li> <li>• limited range of financial products for the entire spectrum of agribusiness development.</li> </ul>	<ul style="list-style-type: none"> <li>• High unmet potential for a range of rural credit.</li> <li>• Potential for value chain financing through innovative products for farmers and private sector for agribusiness development.</li> <li>• Policy provisions for developing a range of financial instruments for value chain financing.</li> </ul>	<ul style="list-style-type: none"> <li>• liquidity shortages as a result of economic crises.</li> <li>• Information irregularity and ultimately the operational capacity of banks to lend to smallholder farmers.</li> </ul>
Private sector	<ul style="list-style-type: none"> <li>• Increasingly involved in agriculture sector as buyers, suppliers, processor and employers.</li> <li>• Developed partnerships with farmers to improve their supply base for domestic retail markets</li> </ul>	<ul style="list-style-type: none"> <li>• Spread of private sector involvement and their investments in agriculture sector is limited. A few agribusiness companies involved in domestic retail market and processing for export market.</li> </ul>	<ul style="list-style-type: none"> <li>• Support for the building of partnerships beyond contract farming and establishment and strengthening of Farmer Producer Organizations.</li> <li>• Assist in market demand based diversified production</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of supportive policies (land use and land lease, agricultural trade, input pricing, affordable finance) and conducive business environment.</li> <li>• Weak regulatory regime</li> </ul>

	<p>and export demonstrated for various products.</p> <ul style="list-style-type: none"> <li>• Made positive changes in the market linkage of farm produce.</li> <li>• Private sector extension services are also emerging.</li> <li>• Good institutional support &amp; technical backstopping.</li> <li>• Availability of inter-coordinating structure through agri-business chambers.</li> </ul>	<ul style="list-style-type: none"> <li>• Need for quality control of production, harvesting, post-harvest and processing.</li> </ul>	<p>systems with assured access to new technologies, markets and credit.</p> <ul style="list-style-type: none"> <li>• Assured market access for smallholders and value addition.</li> <li>• Reduced economic isolation of remote areas by forming closer commercial links with agribusinesses.</li> <li>• Workforce with high management and technical skills.</li> </ul>	<p>and quality controls, especially for agricultural exports.</p>
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### Key File 3 - Strategic partnerships framework

Partnering objectives	Partners/networks/ platforms	Partnership results and outcomes	Justification for partnership
<b>Engaging in policy and contributing to development priorities</b>	Ministry of Agriculture, Livestock, Lands, and Irrigation	Enabling environment for Private Sector Involvement and support for investment in Agriculture Sector	Key partners and the Government of Sri Lanka high level governing and decision-making bodies. .
	Ministry of Fisheries		To achieve agriculture transformation for post economic crises recovery and economic growth plan.
	Private Sector/Ceylon Chamber of Commerce	Policy framework for streamlined and strengthened public agriculture services delivery for agriculture sector modernisation and commercialisation.  Policy Framework for Public- Private Partnership for provision of agriculture support services.	Private sector perspective on engagement in small farmers agribusiness development.  Lead institution responsible for agriculture support system including extension services and coordination among the public sector institutions dealing with food and nutrition security and sustainable agriculture.  Also lead implementation agency for IFAD and other donors involved in agricultural development.  Introduce public Private Agriculture support/Extension services.
	MoE	Climate adaptation and mitigation, and environmentally sustainable agriculture practices	Lead agency. SO1 is about resilient production
	Ministry of Finance  Central Bank of Sri Lanka  Public and Private Financial Institutions	Policy and enabling regulatory framework for improved access of small holder farmer and farmers, youth and landless to capital from financial institutions and agriculture value chain financing by public and private sector institutions.	Lead institutions for policy and regulatory framework for agri financing.  Small famers and farmers' organizations face challenges in accessing capital from financial institutions that is adapted to their needs and in terms of the processing time.  Make provision for individual and group level agriculture value chain financing.
	Asian Development Bank  FAO  WFP	Strategic partnership to promote alignment and integration for evidence based policy engagement relevant to the COSOP strategic objectives.	Kay development partners engaged in agriculture, financial sector, climate change, food security and nutrition.
<b>Leveraging Co-financing</b>	External Resources Department of the Ministry of Finance, Planning and Economic Development	Leverage co-financing from government, other IFI and Development Partners for projects and scaling up.	Key partner and main interlocutor for IFAD in Sri Lanka

	Asian Development Bank (ADB)	Mahaweli Water Security Investment Program (MWSIP) Stage 2 Project. US\$ 462.87 million	Co-financing financing to complement water resources infrastructure development. IFAD will focus on commercial agriculture development (CAD) component through land development, agricultural and water productivity improvement for selected cash crops.
	JICA and EU	Grants support/co-financing for proposed projects under COSOP and SSTC.	Leverage IFAD comparative advantage and technical strengths through co- financing
<b>Enabling coordinated country-led processes</b>	MoALLI	Better coordination on agricultural and food security policies and programmes.	Key strategic institutions for agriculture sector reform priority of the government.
	UNCT	Achievement of UNSDCF 2023-2027 strategic priorities and the 2030 goals for Sustainable Development.	IFAD contribution to UNSDCF tracked and documented
	RBA	Collaborative initiatives on resilience agriculture, agribusiness development, nutrition and food security and policy/institutional reforms	RBAs have agreed to collaborate closely in a number of areas where synergies are identified
<b>Developing and brokering knowledge and innovation (including SSTC)</b>	UNDP	Strengthened resilience of small farmers in on-going and proposed projects.	UNDP under the Green Climate Fund project uses a variety of channels to better inform farmers of the in-season forecasts and the associated agricultural practices, which may be scaled up under IFAD-funded interventions.
	JICA, EU, Sri Lanka Export Development Board, Private Sector (Cylon Chamber of Commerce, John Keels Holding, Cargil Cylon) for SSTC	Effective knowledge generation and sharing platform for capitalising the know-how for transformation of agriculture sector, agribusiness development, private sector investment and improve agriculture trade relationships,	India and China have achieved successful private sector led transformation of agriculture sector and are potential market for Sri Lanka agriculture produce.
<b>Strengthening private sector engagement</b>	Cylon Chamber of Commerce.	Understanding of key policy issues impacting smallholder commercialization and advocates for change and improved agriculture value chain/agribusiness development,	Government gives high priority to the private sector engagement platform for agriculture transformation. The Chamber has representation of a good number of buyers, suppliers and trader of agriculture produce.
	John Keels Holding	Strengthened existing partnership and improved agribusiness outreach for on-going and proposed project	A leading supermarket operator and food processor. Keels is engaged in IFAD projects as for agribusiness development.

	Cargil Cylon	Strengthened existing partnership and improved agribusiness outreach for on-going and proposed project	Cargil is a major buyer of agriculture products for its retail supermarkets and invests in local agriculture production and sourcing. Cargil is engaged in IFAD projects as partner for agribusiness development.
<b>Enhancing visibility</b>	Ministry of Agriculture, Livestock, Lands, and Irrigation and other relevant ministries. Social media and digital platforms	Relevant and improved policy reforms for agriculture modernization	Ensures IFAD evidence-based lessons and work is shared, understood, and profiled.
	UNCT/RBA	Alliance for policy advocacy	Policy influencers through regular engagement and purpose-specific meetings, roundtables and experience sharing.

### Key file 4: Target group identification, priority issues and potential response

Typology	Poverty Level and Causes	Coping Actions	Priority Needs	COSOP Response
Small scale producers and landless rural poor	<p>Poverty incidence increased from 11.3% in 2019 to 25.0% due to the economic crises of 2022.</p> <p>55.7 per cent of the population is multidimensionally vulnerable.</p> <p>An estimated 80% of total population live in rural areas.</p> <p>Main causes:</p> <ul style="list-style-type: none"> <li>• COVID 19 and Macroeconomic instability</li> <li>• Low agricultural productivity and returns</li> <li>• Lack of technologies and adaptive measures to deal with seasonal droughts, crop failures and water scarcities particularly in the dry zones</li> <li>• Lack of crop diversification</li> <li>• Inadequate non-farm income generating opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Use limited savings in periods of hardship.</li> <li>• Sale of assets</li> <li>• Supplementary income from non-farm activities, including livelihood activities.</li> <li>• Casual labour work</li> </ul>	<ul style="list-style-type: none"> <li>• Restoring livelihoods of small farmers and vulnerable rural poor impacted by the economic crises.</li> <li>• Facilitate access to affordable financial services.</li> <li>• Improved Irrigation facilities,</li> <li>• Technology adaptation and commercialization of production and facilitate access to market through agribusiness partnerships with the private sector.</li> <li>• Increased income from agriculture.</li> <li>• Crop diversification and intensification.</li> </ul>	<ul style="list-style-type: none"> <li>• Support policy, institutional and regulatory framework for agriculture sector modernization and commercialization.</li> <li>• Focus on small scale producers and vulnerable households.</li> <li>• Support productivity improvement through adaptation of technology, improved water and land use efficiency and good agricultural practices.</li> <li>• Improved agriculture support services including establishment of public, private, producer partnerships.</li> <li>• Support commercial agriculture financing through access to tailored loan products and inputs programmes.</li> <li>• Promote diversification and commercialization of agriculture production.</li> <li>• Support capacity and skill development for farm, off farm and rural nonfarm employment opportunities for landless rural poor, women and youth.</li> <li>• Introduce and encourage economically viable, environmentally friendly and climate smart practices of agricultural production.</li> </ul>

Youth, women and poor on farm, off-farm and non-farm rural sector	<ul style="list-style-type: none"> <li>Youth (age15-29) unemployment rate is 25.8% against the total unemployment rate of 5.2%.</li> <li>Female unemployment rate is 7.4% against the total unemployment rate of 5.2%.</li> <li>Elevated risk of underemployment and/or unemployment for youth.</li> <li>Low profitability particularly among small farmer households.</li> <li>Low agriculture sector commercialisation.</li> <li>Lack of access to land and affordable financial resources.</li> </ul>	<ul style="list-style-type: none"> <li>Declining interest in agriculture sector.</li> <li>Seeking employment in the state sector.</li> </ul>	<ul style="list-style-type: none"> <li>Technical, managerial and entrepreneurial capacity building.</li> <li>Access to land.</li> <li>Access to technology.</li> <li>Access to affordable financial services / products.</li> <li>Commercialization of production and access to market through agribusiness partnerships.</li> <li>Increased income from agriculture.</li> <li>Crop diversification and intensification.</li> </ul>	<ul style="list-style-type: none"> <li>Coordinate and integrate technical and entrepreneurial capacity building.</li> <li>Scrutinize systems on access to land.</li> <li>Promote new technologies for production and productivity improvement.</li> <li>Facilitate reach markets and capital through agribusiness partnership development approach.</li> <li>Support MSME development through private sector partnerships.</li> </ul>
Women & women-headed households	<ul style="list-style-type: none"> <li>Labour force participation rate of women is 31.1% against the national rate of 48.6%.</li> <li>The majority of women practice subsistence agriculture.</li> <li>Gender inequality in wages.</li> <li>Gender disparities in access to and control over resources (e.g. land, water and inputs).</li> <li>Lack of access to markets.</li> <li>Lack of access to skills training.</li> </ul>	<ul style="list-style-type: none"> <li>Strong dependence on husband</li> <li>Work at the lower end of agricultural value chain as primary producers.</li> <li>Engage in small livestock rearing and home-gardening.</li> </ul>	<ul style="list-style-type: none"> <li>Technical, managerial and entrepreneurial capacity building.</li> <li>Access to land.</li> <li>Access to technology.</li> <li>Access to affordable financial services.</li> <li>Commercialization of production and access to market through agribusiness partnerships.</li> <li>Increased income from agriculture.</li> <li>Crop diversification and intensification.</li> </ul>	<ul style="list-style-type: none"> <li>Mainstream gender into agriculture and rural development policies.</li> <li>Targeted skill training programmes.</li> <li>Access to agricultural technologies, information, and resources.</li> <li>Promote entrepreneurship and forming cohesive producer groups.</li> <li>Link with the private sector marketers.</li> <li>Empower women to strengthen good governance.</li> </ul>



## Transition projections

### The stage of development transition

1. **Transition.** After years of appreciable growth in early 2000, Sri Lanka transitioned from the low-income to the upper middle-income (UMIC) category in 2019. However, Sri Lanka, with the unprejudicial economic recession from 2020 to 2022, reversed to the group of low middle-income (LMIC) countries, and its low middle-income country status resulted from stubbornly high levels of economic and social vulnerabilities. These include vulnerabilities compounded by deep-rooted and long-neglected macroeconomic imbalances such as the fiscal deficit, excessive borrowing, both domestic and international, rapid exchanger rate depreciation, enhanced poverty levels due to COVID-19 and the economic crisis, decreased domestic and exportable agricultural production, soaring food prices, and escalation of all other commodity prices.
2. **Positive direction.** The signs of initial economic stabilisation and a development transition, however, were emerging in the Sri Lankan economy towards the end of 2022. This is a response to the government's corrective measures through comprehensive reforms and policy interventions to control the aftermath of the worst economic crisis in its post-independence history, in addition to improving world scenarios, such as, commodity supply chain improvement, price stability, etc. As one of the key policy interventions in initiating the transition, the Government entered into the four-year Extended Fund Facility Programme (EFF) of the International Monetary Fund (IMF) in September 2022. Subsequently, on 20 March 2023, the Executive Board of the IMF approved the EFF as budget support to assist Sri Lanka's economic policies and reforms symbolising the commencement of the seventeenth IMF programme in Sri Lanka. Accordingly, the first and second tranches of the EFF totalling SDR 508 million (about US\$ 670 million) were disbursed in March and December 2023, respectively<sup>18</sup>. The objectives of the IMF-supported programme include restoring macroeconomic stability and debt sustainability, securing financial sector stability, strengthening governance, safeguarding social safety net programmes, and enhancing economic growth.
3. Sri Lanka followed a flexible exchange rate regime during most of 2023 as another transition strategy. The Central Bank allowed greater flexibility in the determination of exchange rate with effect from 07 March 2023 by discontinuing the daily guidance given to the market since May 2022, considering the improvement in the liquidity in the domestic foreign exchange market<sup>19</sup>.
4. **Transition and external creditors.** The debt burden in Sri Lanka is insurmountable and needs a diligent and long-drawn process to manage the burden and support the transition. In that direction, the Government has been engaging with external creditors to negotiate for relief on external debt with the intention of bringing down the debt trajectory towards a sustainable path as envisaged by the IMFEFF arrangement. There is significant progress in the external debt restructuring process<sup>20</sup>. In November 2023, an agreement in principle was reached between the authorities and the Official Creditors Committee (OCC). Further, a preliminary agreement was reached with the China EXIM Bank and Sri Lanka to restructure its claims on Sri Lanka. Currently, Sri Lanka is engaging closely with OCC and China EXIM Bank to reach debt agreements that are consistent with the IMF programme parameters. Sri Lanka is also engaging closely with external commercial creditors through continuous dialogues and information sharing, aiming to reach a consensus on the debt treatment at the earliest.

<sup>18</sup> Annual Economic Review, Central Bank of Sri Lanka, 2023

<sup>19</sup> Annual Economic Review, Central Bank of Sri Lanka, 2023

<sup>20</sup> IMF Country Report No. 24/161, June 2024

Additionally, the Government launched its Domestic Debt Optimisation (DDO) programme in July 2023 and its key aspects were concluded in September 2023<sup>21</sup>.

5. **Transition pathway.** The fiscal transitional path for 2023-2028 toward restoration of fiscal sustainability, as stated by the Ministry of Finance<sup>22</sup>, is stipulated as the following:
  - i. Achieving a primary surplus of 2.3% of GDP by 2025 and in subsequent years through strong revenue-enhancing efforts.
  - ii. Government's major medium-term fiscal objectives, among others, are to contain fiscal deficit to 4.0% of GDP and debt to GDP ratio to around 75.5% by 2025<sup>23</sup>.
  - iii. Increasing revenue to GDP ratio to at least 15% of GDP in 2025 and beyond through continuing existing revenue measures to underpin targeted revenue mobilisation.
  - iv. Revenue administration reforms to strengthen tax compliance.
  - v. Further broaden the tax base and to include non-taxpayers into the tax net.
  - vi. Managing government expenditure and maintaining recurrent expenditure at around 16% of GDP by monitoring, controlling, rationalising, and prioritising government expenditure.
  - vii. Improving the quality of expenditure to increase fiscal space for development activities and thereby gradually increasing and maintaining public investment over 4% of GDP from 2024 and beyond.
  - viii. Containing budget deficit gradually to be less than 5% of GDP from 2026 and beyond.
  - ix. Continuation of the structural reforms introduced to key SOEs to ensure sound financial position and to improve competitiveness along with enhanced governance.
  - x. Raising and channelling more funds to strengthen the Social Safety Net (SSN) programme to protect the most vulnerable segment of society in a targeted manner.
  - xi. Improving budget discipline through preparing annual budgets consistent with the medium-term framework whilst ensuring accurate estimation, transparency, and diligent monitoring of budget execution; and
  - xii. Following the conclusion of debt restructuring, ensuring public debt remains on a sustainable path through careful management of public debt.
6. The transition is summarised using selected key economic indicators for the next five years in Table 3 at the end of the Appendix.
7. **Trade relations.** Economic integration with international trading is also on board in the transition pathway. For restructuring and enhancing trade relationships, the recently signed Free Trade Agreement (FTA) with Thailand, in February 2024 is an important part of Sri Lanka's general push to further integrate economic ties with the Southeast Asian and East Asian states. The FTA with Thailand aims to expand market opportunities by addressing various aspects such as trade in goods, investment, customs procedure and intellectual property rights<sup>24</sup>. Further, Sri Lanka also aims for greater economic integration in the South Asian region. Currently, Sri Lanka has Free Trade Agreements with Pakistan and India and is set to enter the 12th round of negotiations on the proposed Economic and Technology Cooperation Agreement with

<sup>21</sup> IMF Country Report No. 24/161, June 2024

<sup>22</sup> Fiscal Strategy in the Medium Term, Ministry of Finance, Economic Stabilization and National Policies (2023)

<sup>23</sup> Fiscal Strategy in the Medium Term, Ministry of Finance, Economic Stabilization and National Policies (2023), <https://www.treasury.gov.lk/budget/fiscal-strategy#medium-term>

<sup>24</sup> "Sri Lanka signs free trade deal with Thailand to revive economy", Al Jazeera, 3 February 2024, <https://www.aljazeera.com/news/2024/2/3/sri-lanka-signs-free-trade-deal-with-thailand-to-revive-economy>

India. Furthermore, Sri Lanka has access to the South Asian markets through regional trade agreements such as the South Asian Free Trade Area and the South Asian Association for Regional Cooperation Preferential Trading Arrangement. The deepening of economic and political relations with India in the recent past is particularly significant<sup>25</sup>.

8. **Social Safety Nets reforms** (SSNs) will continue to protect the poor from the adverse effects of the crisis. The Sri Lankan authorities have stepped up efforts to improve the targeting, adequacy, and coverage of SSNs since 2023. In the process, the authorities resolved a large number of grievances under the new Welfare Benefit Payment Scheme (*Aswesuma*) by the end of February 2024 and started making the cash transfers due by the end of December 2023. The authorities plan to implement an Empowerment Program with support from the World Bank and Asian Development Bank (ADB) to reduce the need to join the *Aswesuma* program<sup>26</sup>.
9. **Initial improvements.** With the implementation of robust corrective measures, notable improvements in key elements of the macroeconomy have been observed. They are summarised below:
  - i. Following wide-ranging revenue enhancement and expenditure management measures, the Government achieved a primary budget surplus of Rs. 123.8 billion in the first nine months of 2023, a significant improvement from a primary deficit of 3.7% of GDP in 2022.
  - ii. Owing to decisive monetary policy measures taken to restrict inflation, which are highlighted below, and improvements in agricultural commodity production and supply side inflation declined from a peak of 70% in September 2022 to a single-digit level of 1.5% by the end of October 2023, as reflected by the Colombo Consumer Price Index (CCPI).
  - iii. As a result of the improvements in foreign exchange liquidity, the currency began to appreciate as the Sri Lankan Rupee reached around 296 per US\$ at end May 2023 before stabilizing around 327 per US\$ at end October 2023 although it is an elevated rate.
  - iv. Supported by a strong rebound in workers' remittances, partial recovery of earnings from exports, and a gradual increase of earnings from tourism, the accumulation of gross official reserves began to improve.
  - v. Gross Official Reserves improved from US\$ 1,898 million at the end of 2022 to US\$ 3,540 million at the end of September 2023.
  - vi. However, economic growth remained suppressed, recording a further contraction of 7.9% in the first half of 2023, followed by a contraction of 3.6% in the first half of 2022.<sup>27</sup>

### **Fiscal/debt management strategy in Medium-Term Macro Fiscal Framework and outcomes**

10. **The policy and initial outcomes.** The fiscal operations of government are framed by the Fiscal Management (Responsibility) Act, No. 3 of 2003. This provides a legal framework to phase out fiscal deficits and associated debt to support the broad-based development objectives in the Medium-Term Macro Fiscal Framework (MTMFF). The Central Bank of Sri Lanka Act No. 16 of 2023 (CBA) that came into effect in September 2023 reinforces.
11. The MTMFF is framed based also on the fiscal targets stipulated under the reform programme supported by the IMF. Towards this end, the Government is strongly committed to achieving revenue based fiscal consolidation targets with the necessary

<sup>25</sup> "Sri Lanka looks to create more trade agreements with Asia", *Economy next*, 26 October 2023, <https://economynext.com/sri-lanka-looks-to-create-more-trade-agreements-with-asia-136979/>

<sup>26</sup> IMF Country Report No. 24/161, June 2024

<sup>27</sup> Institute of Policy Studies of Sri Lanka (IPS) (2022), *Sri Lanka: State of the Economy 2022 – From Crisis to Recovery: Driving Policy Action Through SDGs*, Colombo

institutional reforms. These ambitious revenue consolidation efforts are accompanied by enhanced governance and measures to mitigate corruption vulnerabilities, strengthen social safety net programmes, restore price stability, safeguard financial stability, rebuild international reserves, and unlock Sri Lanka's growth potential through comprehensive structural reforms.

12. In line with the MTMFF, the government's priorities for 2021-2025 include achieving economic growth at 6.0% or higher; maintaining unemployment at less than 4%; retaining inflation not exceeding 5%; increasing revenue to GDP ratio over 14% in 2025; allowing the Budget on a sustainable foot by rationalising unproductive expenditure; containing budget deficit at less than 4% of GDP; achieving primary surplus by 2025 and beyond; reducing the Government debt to GDP ratio at 75.5% in 2025; ensure a single-digit rate of interest; and maintain the stable exchange value of the rupee.
13. Within the MTMFF, the government strategy of rationalizing recurrent expenditure continues into the medium term, from 14.2% of GDP in 2021 to at least 12.3% of GDP by 2025. Such strategy will include the continuation of the freezing of expenditure on purchasing of vehicles and buildings and other such assets, digitalization of key systems and processes including the rollout of e-procurement and the e-National Identity Card.
14. To achieve a revenue-to-GDP ratio of over 14% in 2025, several measures have already been taken to address the concerns in revenue collection. These include the combining of several tax instruments and simplification of the system of taxation. Further, capacity-enhancing measures in revenue administration have already commenced, including the establishment of the Large Taxpayers Unit (LTU) at the Inland Revenue Department (IRD), the introduction of risk-based audits, management, governance and human resource development and improvements to the Revenue Administration Management Information System (RAMIS) at IRD<sup>28</sup>.
15. The Sri Lanka Customs (SLC) has already introduced the "Single Window System" and is working on the National Single Window platform. The Integrated Treasury Management Information System (ITMIS) at the Treasury has commenced rollouts in 45 entities and it is expected to further expand to about 200 entities. Reforms in State Owned Enterprises (SOEs) are also a key aspect of the fiscal strategy. The government's policy to appoint qualified professionals to the Boards of Management of SOE's has yielded benefits. Productivity improvements, broad basing of the ownership of non-strategic commercial SOEs are expected to support the fiscal space in reducing expenditure whilst also supporting the non-tax revenue and the non-debt financing of the government expenditure<sup>29</sup>.
16. The debt sustainability targets agreed upon with the IMF are expected to be realised through continuing negotiations with official creditors and commercial creditors to restructure external debt. The key components of the Domestic Debt Optimisation (DDO) programme have already been concluded in a manner that is consistent with the IMF-stipulated debt reduction targets whilst protecting the stability of the financial system. As such, the government is committed to implementing the comprehensive economic reform package agreed upon under the IMF-EFF programme. The fiscal strategy of the government is outlined based on the fiscal targets of the programme parameters<sup>30</sup>.

<sup>28</sup> Inland Revenue Department, (2022), Annual Performance Report, 2022

<sup>29</sup> Budget, Economic and Fiscal Position Report, 2024, Ministry of Finance, Economic Stabilization and National Policies

<sup>30</sup> IMF Country Report No. 24/161, June 2024

17. **Overall outcomes.** With the implementation of major revenue enhancement measures since June 2022 as highlighted above, combined with the depreciation of the rupee and inflation effect, the initial outcomes achieved are listed in Table 1. Sri Lanka's external sector demonstrated positive signs of stabilisation during the first nine months of 2023 due to the significant contraction in the trade deficit, increase in inflows from workers' remittances and earnings from tourism. These developments, too, were supportive of achieving the outcomes.

**Table 1: Intermediate outcome of transitional policies<sup>31</sup>**

Indicator	1 <sup>st</sup> 9 months 2022	1 <sup>st</sup> 9 months 2023	% change
Government revenue including grants (Rs billion)	1,450.4	2,118.7	46.1%
Revenue from income taxes (Rs billion)	431.8	663.6	53.7%
Revenue from non-tax (Rs billion)	165.1	176.5	6.9%
Government expenditure (Rs billion) - largely due to the increase in debt interest cost	2,694.8	3,732.3	38.5%
Recurrent expenditure (Rs billion)	2,300.2	3,327.7	44.7%
Expenditure on goods and services (Rs billion)	118.1	208.7	76.8%
Import expenditure (USD million)		12,323.4	-12.5%
Earnings from exports (USD million) - because of low industrial exports	9,992.0	8,981.8	-10.1%
Trade deficit (USD million)	4,093.3	3,341.5	-22.5%
Agricultural exports (USD million)		1,945.4	0.3%
Import expenditure (USD million) - due to continuation of import restrictions for non-urgent imports	14,085.2	12,323.4	-12.5%
Import expenditure on consumer goods (USD million)	2,141.59	2,242.5	4.5%
Intermediate goods (USD million)	9,296.78	8,105.3	-14.7%
Investments goods (USD million)	2,341.86	1,963.0	-19.3%

18. **Mix of financing sources for development - Foreign Financing Commitments.**

To strengthen the support under IMF's EFF programme, ADB and WB have extended their assistance by disbursing US\$ 350.0 million under the Economic Stabilization Programme and US\$ 247.6 million under the Resilience, Stability, and Economic Turnaround (RESET) Development Policy Financing programme, respectively. In the bilateral line of financing, US\$ 158.0 million worth of external financing was received from India, Netherlands, Saudi Fund for Arab Economic Development, Germany, and France by the end of the third quarter of 2023. Also, the Emergency Credit Lines received from the Government of India helped substantially to ease the foreign currency need for the importation of essential goods in the first quarter of 2023. Further assistance includes US\$ 196.3 million for the Social Protection Project extended by the International Development Association (IDA), and a total of US\$ 73.4 million in Official Development Assistance (ODA) commitments by entering into nine grant agreements with the Government of Japan, Government of Korea, Government of the United States, and the IDA by the end of third quarter of 2023. Accordingly, the Government was able to secure a substantial amount of foreign financing from January 1 to September 30, 2023<sup>32</sup>.

19. **Foreign Financing Disbursements and Utilization.** With the view to indicating donor confidence, the foreign financing disbursement is summarised below. The total foreign financing disbursements during the period from 1 January to 30 September 2023, amounted to US\$ 1,516.3 million. Of which, US\$ 343.7 million was received as the first tranche of the IMF-EFF programme 2023-26, US\$ 1,006.1 million was received from other multilateral agencies, the rest of US\$ 155.9 million was disbursed from bilateral agencies, and US\$ 10.6 million was disbursed by way of grants. The majority of the disbursements recorded in 2023 were received from the ADB, which accounted for 35% of the total disbursements, followed by the World Bank (29%), the IMF (23%), and India (9%). Table 2 provides details.

<sup>31</sup> Annual Economic Review, Central Bank of Sri Lanka, 2023

<sup>32</sup> Budget, Economic and Fiscal Position Report, 2024, Ministry of Finance, Economic Stabilization and National Policies

20. Out of the total disbursement, US\$ 941 million was for budget support, US\$ 131 million for trade, 74 million for road and bridges, 76 million for ground transport, 60 million for water supply and sanitation, 38 million for health and social welfare, 42 million for agriculture, 27 million for housing and urban development, 20 million for power and energy, and 107 million for other<sup>33</sup>.

**Table 2: Disbursements of Foreign Loans and Grants from 1st January to 30th September 2023 (USD million)**

Development Partner	Disbursements: Loan	Disbursements: Grant	Disbursements: Total
Total Bilateral	155.9	2.1	158.0
India	142.5		142.5
Netherlands	7.4		7.4
Saudi Fund for Arab Economic Development	5.6		5.6
Germany		2.1	2.1
France	0.4		0.4
Total Multilateral	1,349.8	8.5	1,358.3
Asian Development Bank	529.7	0.1	529.8
International Monetary Fund (IMF)	343.7		343.7
Asian Infrastructure Investment Bank	22.9		22.9
OPEC Fund	11.0		11.0
International Fund for Agricultural Development	8.1		8.1
Total	1,505.7	10.6	1,516.3

**Source:** Budget, Economic and Fiscal Position Report, 2024, Ministry of Finance, Economic Stabilization and National Policies

21. **Committed Undisbursed Balance (CUB).** As of September 30, 2023, the total undisbursed balance of foreign financing available from already committed loans that are to be utilized in the next 3 - 5 years was US\$ 6.3 billion<sup>34</sup>. The major portion of the balance is to be disbursed from the projects committed with China, and others are from the World Bank, Japan, India, and the Asian Development Bank, and IFAD. Almost 21% of the CUB is to be utilized in the roads and bridges sector, whereas 15% is for water supply and sanitation and 11% is in the ground transport sector, and the balance is for various other sectors, including agriculture<sup>35</sup>.
22. **External Debts and External Debt Service Payments.** The total central Government external debt as of the end of September 2023 amounted to US\$ 36.4 billion. Total debt service payments (Debt Service is Principal Payments plus Interest Payments) from 1st January to 30th September 2023 amounted to US\$ 912.8 million, of which US\$ 631.9 million was in lieu of principal repayments and the balance of US\$ 280.9 million was for the payment of interest. In line with the interim policy adopted by the Government, the servicing of the external debt of affected loans obtained from bilateral and commercial creditors has been suspended for an interim period commencing from 12th April 2022. Accordingly, the principal amount of US\$ 4,229 million and interest of US\$ 1,819 million have been accumulated as unpaid debt service by the end of September 2023<sup>36</sup>.
23. As IMF emphasised, debt negotiations for servicing are based on the debt sustainability targets established under the Extended Fund Facility (EFF) program, which include<sup>37</sup>:
- reducing the ratio of public debt to GDP to below 95% by 2032.
  - reducing the central government's annual gross financing needs below 13% of GDP, on average, in 2027-32.

<sup>33</sup> Includes Education & Training, Defense, Science & Technology, Irrigation & Related activities, Environment, Rural Development, Humanitarian Assistance, Disaster Management, SME Development, Land Development, Plantation

<sup>34</sup> The Central Bank published data presents 2023 details.

<sup>35</sup> Budget, Economic and Fiscal Position Report, 2024, Ministry of Finance, Economic Stabilization and National Policies

<sup>36</sup> Budget, Economic and Fiscal Position Report, 2024, Ministry of Finance, Economic Stabilization and National Policies

<sup>37</sup> IMF Country Report No. 24/161, June 2024

- iii. reducing the central government's annual debt service in foreign currency below 4.5% of GDP in every year in 2027-32; and
  - iv. closing the balance of payments financing gaps of US\$17 billion over the EFF program period.
24. **Overall economic progress.** The overall Balance of Payments (BoP) recorded a surplus of US\$ 1,863 million during the first nine months of 2023, compared to the US\$ 2,927 million deficit in the same period of 2022. The gross inflows to the government securities market were recorded as US\$ 709 million in the first nine months of 2023. Gross Official Reserves (GOR) stood at US\$ 3.5 billion by the end of September 2023, including the US\$ 1.3 billion SWAP facility from the People's Bank of China. Further, the receipt of around US\$ 250 million from the World Bank and US\$ 350 million from the Asian Development Bank (ADB) contributed to an increase in the GOR level. Meanwhile, the Sri Lankan rupee appreciated by 10.9% against the US\$ as of October 31, 2023<sup>38</sup>.
25. **Resultant sectoral growth.** The economy registered a contraction of 7.9% in the first half of 2023. Industry and Services sectors contracted whereas the agriculture sector record a positive growth. The industry sector contracted by 18.3% in the first half of 2023, compared to the contraction of 6.6% in the first half of 2022 reflecting the notable shrinkage in construction, manufacturing and mining and quarrying activities. The Services sector also marginally contracted by 3.2% in the first half of 2023, compared to a marginal growth of 0.2% in the same period of 2022. This decline was mainly attributable to the decline in financial services, professional services and computer programming activities<sup>39</sup>.
26. However, the **agriculture sector** expanded by 2.2% in the first half of 2023 compared to the negative growth of 6.2% exhibited in the same period of 2022. This was mainly owing to the positive growths in sub-sectors such as growing of cereals (except rice), paddy, vegetables, tea, rubber and fruits. However, subsectors such as the growing of coconut, fruits and fishing declined. Growing of rice expanded by 19.8% in the first half of 2023. The paddy production in the 2022/ 23 *Maha* season was 2.63 million metric tonnes. Value added tea production marginally expanded by 0.1% in first half of 2023. The rubber sub-sector expanded by 2.4%. Further, Oleaginous fruits sub-sector contracted by 6.6% in the first half of 2023, compared to a growth of 13.8% in the same period of 2022. The tea production in the January to July period of 2023 was 155.5 million kg compared to the production of 153.2 million kg in the first half of 2022. This slight expansion can be attributed to the gradual recovery of the tea industry with the removal of the chemical fertiliser ban. Rubber production slightly increased to 43.3 million kg in the first half of 2023 compared to 41.9 million kg in the same period in 2022. However, coconut production contracted by 7.6% to 1,837 million nuts in the first six months of 2023, compared to the coconut production of 1,988.3 million nuts in the same period of 2022. The growth of cereals (except rice) increased significantly by 27.3% in the first half of 2023 compared to the same period in 2022, reflecting the availability of chemical fertiliser during the period. The growing of vegetables and fruits increased by 4.5% and 4.1% respectively, in value added terms, in the first half of 2023. Value added production of spices, aromatic, drug and pharmaceutical crops increased by 7.2% in the first half of 2023, compared to the growth of 3.9% in the same period of 2022<sup>40</sup>.
27. **Fisheries and livestock.** In value added terms, the marine fishing and aquaculture sub-sector contracted by 4.7% in the first half of 2023, compared to the contraction of 7.5% in 2022. The total fish production declined by 2.0% to 222.1 million kg in the

<sup>38</sup> Annual Economic Review, Central Bank of Sri Lanka, 2023

<sup>39</sup> Department of Census and Statistics, Statistical Bulletin, 2023

<sup>40</sup> Department of Census and Statistics, Statistical Bulletin, 2023

first six months of 2023, compared to 226.5 million kg in the same period of 2022. The value-added production of the animal sub-sector contracted by 5.9% in the first half of 2023 compared to the contraction of 4.9% exhibited in the first half of 2022<sup>41</sup>.

28. **Industry sector.** The industry sector which attributes to 26.5% of the GDP recorded a negative growth of 18.3% in the first half of 2023 compared to the negative growth of 6.6% recorded in the same period of 2022. This was largely attributable to the significant contractions in construction, manufacturing and, mining and quarrying activities which recorded negative growths of 31.6%, 5.1% and 37.4%, respectively<sup>42</sup>.
29. **Service sector.** The Services sector recorded a marginal contraction of 3.2% in the first half of 2023, with the decline in financial services, professional services and computer programming activities which contracted by 26.7%, 6.6% and 7.8% respectively. This is in comparison to the marginal growth of 0.2% recorded in the first half of 2022<sup>43</sup>.
30. **Development transition.** The IMF<sup>44</sup> has projected the levels of key economic indicators showing the transition of the economy for a short-run period which are listed in the table below. As the Ministry of Finance<sup>45</sup> stated, however, these estimated economic projections could be sensitive to the following key challenges:
  - i. the impacts of the economic crisis may continue to affect the Sri Lankan economy as certain vulnerabilities remain.
  - ii. sustenance of ongoing reform momentum which is the key to the achievement of fiscal objectives, while agreeing with debt treatment would be essential to assure debt sustainability and servicing.
  - iii. potential slowdown of global growth depending on the developments of geopolitical issues in the Middle Eastern region.
  - iv. high global commodity prices which could adversely affect the import cost, domestic consumer prices, production costs as well as budget costs, while also potentially affecting the external demand for Sri Lankan goods.
  - v. risks associated with natural disasters and unfavourable weather conditions which could adversely affect agriculture, hydropower generation and government budget.
  - vi. impediments and delays in administration and procurement that are managed by public institutions.
  - vii. high volatility of petroleum and commodity prices in the global market which can affect the macroeconomic stability and growth, while affecting government expenditure and revenue.
  - viii. increasing recurrent expenditure with the developments in domestic and global inflation; and
  - ix. underperformance of state-owned enterprises (SoEs) and delays in the progress of the restructuring process of SOEs.
31. Key assumptions for projections and emerging economic trends shown below as per the Ministry of Finance<sup>46</sup> are:
  - x. the economy would grow by 4.5% in 2024 including the growth in agriculture sector supported by the uninterrupted grant of fertilizer subsidy and other inputs.
  - xi. the average inflation would be maintained at a single-digit level in 2024.
  - xii. the unemployment rate is expected to be below 5.0% in 2024.
  - xiii. Exchange Rate is expected to be stable in 2024.
  - xiv. exports are expected to increase.

<sup>41</sup> Department of Census and Statistics, Statistical Bulletin, 2023

<sup>42</sup> Department of Census and Statistics, Statistical Bulletin, 2023

<sup>43</sup> Department of Census and Statistics, Statistical Bulletin, 2023

<sup>44</sup> IMF Country Report No. 25/56, March 2025

<sup>45</sup> <https://www.treasury.gov.lk/budget/fiscal-strategy#medium-term>

<sup>46</sup> <https://www.treasury.gov.lk/budget/fiscal-strategy#medium-term>



- xv. the imports are expected to improve thereby an increase in import-based taxes is expected.
- xvi. implementation of the re-structuring measures especially targeting loss-making State-Owned Enterprises (SOEs) will increase their efficiency and profitability; and
- xvii. the strengthen revenue administration would be implemented.

**Table 3: Selected economic indicators summarising the development pathway<sup>47</sup>**

	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Act.	Proj.			Projections			
<b>GDP and inflation</b> (in per cent)									
Real GDP	-7.3	-2.3	4.5	3.0	3.0	3.1	3.1	3.1	3.1
Inflation (average) 1/	45.2	17.4	1.2	3.8	5.4	5.2	5.0	5.0	5.0
Inflation (end-of-period) 1/	58.6	3.0	-1.5	7.8	5.4	5.2	5.0	5.0	5.0
GDP Deflator growth	47.5	17.5	3.5	4.9	5.5	5.3	5.2	5.1	5.0
Nominal GDP growth	36.6	14.8	8.2	8.1	8.7	8.5	8.5	8.4	8.3
<b>Savings and investment</b> (in per cent of GDP)									
National savings	27.6	33.8	34.0	31.7	31.9	32.1	31.9	31.7	31.7
Government	-6.4	-6.0	-3.2	-1.8	-0.7	0.0	0.1	0.3	0.5
Private	34.0	39.8	37.2	33.5	32.6	32.1	31.7	31.4	31.2
National investment	28.6	30.8	32.1	32.2	32.5	32.9	32.7	32.6	32.5
Government	5.5	3.7	3.6	4.4	4.6	4.7	4.6	4.6	4.6
Private	23.1	27.1	28.5	27.7	27.9	28.2	28.1	28.0	28.0
Savings-Investment balance	-1.0	3.1	1.8	-0.4	-0.6	-0.8	-0.9	-0.9	-0.8
Government	-11.9	-9.6	-6.8	-6.2	-5.3	-4.7	-4.5	-4.3	-4.1
Private	10.9	12.7	8.6	5.8	4.7	3.9	3.6	3.4	3.2
<b>Public finance</b> (in per cent of GDP)									
Revenue and grants	8.4	11.1	13.7	15.1	15.3	15.3	15.2	15.3	15.3
Expenditure	18.6	19.4	19.3	20.4	19.8	19.2	19.1	19.0	18.8
Primary balance	-3.7	0.6	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Central government balance	-10.2	-8.3	-5.6	-5.4	-4.6	-4.0	-3.8	-3.7	-3.5
Central government gross financing needs	34.1	27.6	22.1	22.8	19.7	15.7	13.2	11.8	11.6
Central government debt	115.9	109.5	99.5	105.7	106.4	103.5	100.2	97.0	93.9
Public debt 2/	126.3	115.8	104.6	110.7	110.9	107.4	103.7	100.1	96.8
<b>Money and credit</b> (per cent change, end of period)									
Reserve money	3.3	-1.5	10.3	9.7	8.7	8.5	8.5	8.4	8.3
Broad money	15.5	7.3	10.0	9.7	8.7	8.5	8.5	8.4	8.3
Domestic credit	18.8	-1.2	6.1	3.3	2.8	3.3	4.0	4.3	4.9
Credit to private sector	6.4	-0.8	7.9	7.5	9.5	9.5	9.4	9.4	9.4
Credit to private sector (adjusted for inflation)	-38.8	-18.2	6.6	3.7	4.1	4.3	4.3	4.3	4.3
Credit to central government and public corporations	31.1	-1.6	4.7	-0.1	-3.1	-2.9	-2.2	-2.2	-1.5
<b>Balance of Payments</b> (in millions of U.S. dollars)									
Exports	13,107	11,911	12,772	13,446	14,090	14,795	15,638	16,397	17,192
Imports	-18,291	-16,811	-18,841	-21,718	-22,668	-23,410	-24,105	-25,109	-26,026
Current account balance	-737	2,582	1,824	-409	-538	-751	-864	-952	-922
Current account balance (in per cent of GDP)	-1.0	3.1	1.8	-0.4	-0.6	-0.8	-0.9	-0.9	-0.8
Current account balance net of interest (in per cent of GDP)	0.1	4.2	3.8	1.7	1.6	1.5	1.5	1.3	1.3
Export value growth (per cent)	4.9	-9.1	7.2	5.3	4.8	5.0	5.7	4.9	4.9
Import value growth (per cent)	-11.4	-8.1	12.1	15.3	4.4	3.3	3.0	4.2	3.7
<b>Gross official reserves</b> (end of period)									
In millions of U.S. dollars	1,898	4,392	6,122	7,056	9,303	13,118	14,710	14,875	15,175
In months of prospective imports of goods & services	1.2	2.4	2.9	3.2	4.1	5.5	5.9	5.8	5.7
In per cent of ARA composite metric	16.6	37.5	50.3	58.3	75.4	100.1	108.8	108.5	108.7
<b>Usable Gross official reserves</b> (end of period) 3/									
In millions of U.S. dollars	462	2,956	4,686	7,056	9,303	13,118	14,710	14,875	15,175
In months of prospective imports of goods & services	0.3	1.6	2.2	3.2	4.1	5.5	5.9	5.8	5.7
In per cent of ARA composite metric	4.0	25.3	38.5	58.3	75.4	100.1	108.8	108.5	108.7
<b>External debt</b> (public and private)									
In billions of U.S. dollars	57.4	54.1	53.9	54.9	57.2	61.2	62.9	63.3	65.6
As a per cent of GDP	77.0	64.1	54.4	56.1	62.9	65.9	64.0	60.4	58.9
Nominal GDP (in billions of rupees)	24,064	27,630	29,893	32,309	35,123	38,113	41,343	44,819	48,551
Exchange Rate (period average)	322.6	327.5	302.0	...	...	...	...	...	...
Exchange Rate (end of period)	363.1	323.9	293.0	...	...	...	...	...	...

Sources: Data provided by the Sri Lankan authorities; and IMF staff estimates.

## Conclusions

<sup>47</sup> IMF, Country Report IMF Country Report No. 25/56, March 2025

32. The Appendix describes the current development position of Sri Lanka and its economic transformation trends that have been taking place during the last 2-3 years. The country started coming out of the severe economic crisis albeit slowly, and if the necessary conditions described in the Appendix hold during the intermedium term, a steady transition could be expected. Nominal GDP is expected at Rs 46,869 billion in 2029 with a nominal GDP growth rate of 8%. The external debt will remain at 65% of the GDP in 2029 as reported in 2021 responding to the debt management strategy of the country. Also, it is expected to have a positive current account balance of 1.5% of GDP in 2029. In consideration of the slow economic recovery and stepping towards easing the debt burden, Sri Lanka could be considered as a positive case for further overseas development assistance for the forthcoming medium term.
33. In support of the country's revival process and strategy, agriculture sector is recognised as one of the main driving forces. In addition to its contribution to food security and sustainable livelihood, poverty reduction and rural development requirements will also be addressed. IFAD COSOP, therefore, will assist the agriculture sector to become modernised, commercialised, resilient, green and inclusive. This approach has a special reference to the country's situation of LMIC as one of the focuses of the development transition is to assist the agriculture sector.

## SECAP background study

### Introduction

1. Social, environmental and climate sustainability is critical for achieving the objectives of IFAD and its partners. IFAD's Social, Environment and Climate Assessment Procedures (SECAP)<sup>48</sup> offer a framework and process for managing risks and impacts, and for mainstreaming priorities on Environment and Climate, Gender, Nutrition and Youth<sup>49</sup> into new IFAD-supported investments.
2. This SECAP Background Study provides context and orientation<sup>50</sup> to the Sri Lanka COSOP. It provides a synthesis of the current situation, analyses trend and distils main challenges. Furthermore, it provides strategic recommendations for consideration in the COSOP as well as concrete actions to be considered in projects to be funded in this period.

### Part 1 – Situational analysis and main challenges

#### 1.1 Socio-economic situation

3. **Poverty.** The 2022 economic crisis in Sri Lanka has had a profound impact on the prevalence and characteristics of poverty in the country. As the country's GDP contracted by 9.5% and currency depreciated by 81% between 2022 and 2023, poverty doubled when using the lower-middle income poverty rate (see Figure 1). Approximately 60% of people experienced a decline in income<sup>51</sup>.

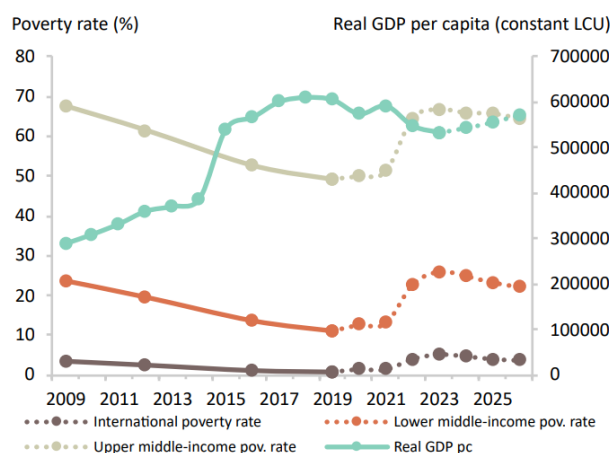


Figure 1 Evolution of poverty rates and GDP per capita. Data: World Bank (2024)

4. A pre-COVID and pre-economic crisis Multidimensional Poverty Index (MPI) indicated<sup>52</sup> that 16% of people in Sri Lanka are multi-dimensionally poor, i.e. across the spectrum of education, health and standard of living. 81% of those multi-dimensionally poor lived in rural areas, with the estate areas (predominantly tea estates) being specific pockets of high poverty. People were found to be most deprived in terms of access to health facilities, cooking fuel, drinking water and basic facilities.

<sup>48</sup> SECAP 2021 Edition, <https://www.ifad.org/en/secap>

<sup>49</sup> See IFAD's Framework for Implementing Transformational Approaches to Mainstreaming Themes: Environment and Climate, Gender, Nutrition and Youth, <https://webapps.ifad.org/members/eb/128/docs/EB-2019-128-R-6.pdf>

<sup>50</sup> The Background Study was informed by consultations with partners, background sectoral studies, IFAD project documents and evaluations, government policies and other literature.

<sup>51</sup> World Bank (2024). Macro Poverty Outlook for Sri Lanka: April 2024.

<https://documents1.worldbank.org/curated/en/099047004052428492/pdf/IDU16af012661daaa14e901a75e1c19b8b7fcf02.pdf>

<sup>52</sup> Department of Census and Statistics & UNICEF (2021), Multidimensional Poverty in Sri Lanka.

[https://ophi.org.uk/sites/default/files/2023-12/mpi\\_in\\_sri\\_lanka\\_briefing\\_2021.pdf](https://ophi.org.uk/sites/default/files/2023-12/mpi_in_sri_lanka_briefing_2021.pdf). Carried out in 2021 using data from the 2019 Household Income and Expenditure Study (HIES).

5. A Multidimensional Vulnerability Index prepared in 2022-2023<sup>53</sup> indicated that 56% of Sri Lankans are multi-dimensionally vulnerable, with again an approximate 80% living in the rural areas. Beyond the factors already study in the MPI, the MVI highlighted household debt and a lack of disaster preparedness as key drivers of vulnerability. The MVI report also highlights the differences between monetary poverty, multidimensional poverty and multidimensional vulnerability, thereby enabling development programmes to be better targeted.
6. **Food security.** Food security assessments initialised by WFP and FAO following the economic crisis<sup>54</sup> revealed that 24% of households were moderately food insecure, while this figure increased to 32% for the subset of female-headed households, and 51% for households in the estate sector. Households relying on agricultural labour wages and households dependent on social protection schemes had particularly poor food security. 42% of households (83% in estates) were found to turn to food-based coping strategies, including skipping meals, eating less preferred food or limiting portion sizes. In comparison, 27% borrowed money, 13% reduced non-food expenses and 5% sold household assets as a coping strategy.
7. **Post-harvest losses.** Post-harvest losses in agriculture and fisheries are estimated to be high, contributing to challenges such as food insecurity and malnutrition, but also affecting the economic value of agribusinesses. Fresh fruit and vegetables experience a high rate of wastage, related to challenges in the value chain including cold storage, as well as the capacity to deal with peak harvest volumes. Better control of production and post-harvest, investments into better temperature and humidity-controlled storage, packaging and transport can help to increase shelf life and quality of produce both for local consumption as well as for export<sup>55</sup>.
8. **Nutrition.** The triple burden of nutrition encompasses undernutrition, micronutrient deficiencies, and rising overweight/obesity rates. Undernutrition remains prevalent due to limited access to nutritious food and persistent poverty, affecting children's growth and development. A National Nutrition and Micronutrient Survey conducted in 2022 emphasised the high prevalence of wasting in children aged 6-59 months. Concurrently, micronutrient deficiencies, particularly iron, iodine, and vitamin A, lead to various health issues, including anaemia and impaired cognitive function. Adding to these concerns, an increasing intake of low-quality and undiversified diets (e.g.,

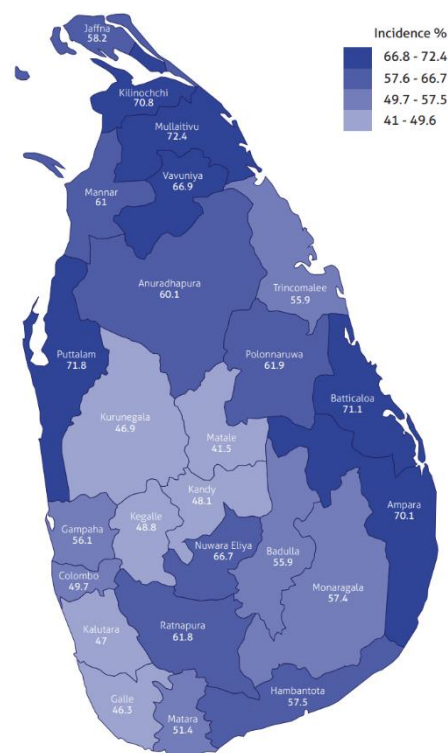


Figure 2 Incidence of Multidimensional Vulnerability by district. Source: UNDP (2023)

<sup>53</sup> UNDP (2023). Understanding Multidimensional Vulnerabilities: Impact on People of Sri Lanka.

[https://www.undp.org/sites/g/files/zskgke326/files/2023-10/undp\\_multidimensional\\_vulnerability\\_report\\_sri\\_lanka.pdf](https://www.undp.org/sites/g/files/zskgke326/files/2023-10/undp_multidimensional_vulnerability_report_sri_lanka.pdf)

<sup>54</sup> WFP-FAO Joint Crop and Food Security Assessment Mission (CFSAM), <https://docs.wfp.org/api/documents/WFP-0000158905/download/>

<sup>55</sup> <https://medcraveonline.com/MOJFPT/reducing-post-harvest-losses-in-fruits-and-vegetables-for-ensuring-food-security-ndash-case-of-sri-lanka.html>

high intake of carbohydrates and added sugar with low levels of fruits and vegetable consumption)<sup>56</sup> and sedentary lifestyles have contributed to a surge in overweight (28%) and obesity (10%) across all age groups<sup>57</sup>, which results in related non-communicable diseases and public health concerns. Higher prevalence is observed among women (+4% overweight and +6.2% obesity) compared to men.

9. **Youth.** The Sri Lankan definition of youth is people aged 15 to 29 years old<sup>58</sup>, comprising approximately 22% of the population. Over 24% (31% for women, 17% for men) of Sri Lankan people aged 15-24 are not in education, employment or training (NEET). Youth with post-secondary education are particularly prone to unemployment compared to those with lower levels of education. Sri Lanka's rural youth have difficulty in accessing land, and one study found only 1.73% of youth choosing agriculture as their livelihood. This number was higher where there is better access to land<sup>59</sup>. Youth in rural areas face additional barriers to employment, particularly in agriculture, including limited access to land, finance, agricultural extension services, and modern technologies<sup>60</sup>. Many young Sri Lankans leave the country in search for employment, with estimates of annual outflows at 200,000 people. At the same time, Sri Lanka is aging relatively fast and going through a demographic transition at a relatively low level of per capita income<sup>61</sup>. The share of the population in the working age (18-64) is already declining, while the absolute number of people in the working age is expected to decline from 2030 onwards. This poses significant challenges in terms of maintaining economic growth and supporting retired people, thereby further emphasizing the need for labour force participation amongst the youth. Correspondingly to the World Bank's "Sri Lanka Human Capital Development" report (2021), investments in education and skills development are critical to improve youth employability and productivity, especially given the mismatch between education outcomes and labour market need<sup>62</sup>. Moreover, the International Labour Organization (ILO) reports that youth unemployment remains a significant challenge in Sri Lanka, with structural barriers such as limited access to quality training and job opportunities exacerbating the situation (ILO, 2020). To address these challenges, the government emphasizes enabling youth participation through empowerment, skills development, and entrepreneurship support.<sup>63</sup>
10. **Gender.** Data points listed earlier on food security, nutrition and labour participation provide an indication of the high vulnerability of women in Sri Lanka. Women's participation in the agriculture sector is substantial (26.5% among employed women<sup>64</sup>) yet underappreciated, as their participation is mostly in low-paid and labour-intensive tasks. Challenges include limited access to land ownership, credit, training, and technology<sup>65</sup>. Older statistics (2002)<sup>66</sup> show that at the time, women owned only about 15% of privately held land, and it is estimated that they receive less than 10% of agricultural extension services. They are predominantly engaged

<sup>56</sup> Assessment of Nutritional Status and Dietary Pattern of a Rural Adult Population in Dry Zone, Sri Lanka (2019)

<sup>57</sup> Data Global Obesity. 2022. [https://data.worldobesity.org/country/sri-lanka-200/#data\\_prevalence](https://data.worldobesity.org/country/sri-lanka-200/#data_prevalence)

<sup>58</sup> **National Youth Policy (2014)**

<sup>59</sup> Samaraweera et al (2019) <https://sljer.sljol.info/articles/10.4038/sljer.v7i1.40>

<sup>60</sup> ILO, Youth Employment Policy Summary, Sri Lanka, [wcms\\_534105.pdf](https://www.wcms.534105.pdf)

<sup>61</sup> ADB (2019). Growing old before becoming rich: Challenges of an aging population in Sri Lanka. <https://www.adb.org/sites/default/files/publication/557446/aging-population-sri-lanka.pdf>

<sup>62</sup> Sri Lanka Human Capital Development. [World Bank Document](#)

<sup>63</sup> The challenge of Youth Employment in Sri Lanka. [Open Knowledge Repository](#)

<sup>64</sup> Sri Lanka Labour Force Statistics Quarterly Bulletin, First Quarter 2022

<sup>65</sup> FAO. 2018. Country Gender Assessment of Agriculture and the Rural Sector in Sri Lanka. Colombo

<sup>66</sup> International Centre for Ethnic Studies: Land Ownership and Women's Empowerment in Sri Lanka. <https://thegenderhub.com/wp-content/uploads/2023/03/ICES-Land-Quan-Study-14-Feb-2023.pdf>

in labour-intensive tasks such as planting, weeding, harvesting and post-harvest processing, but not in crop selection or financial planning.

11. The gender pay gap was 24%, significantly higher than the regional average of 14.6%, with the highest gaps occurring in sectors requiring low skills, including agriculture<sup>67</sup>. Limited access to labour coupled with general economic challenges has increased the burden of unpaid work and domestic work for women. At the same time, reports indicate an increasing risk of gender-based violence, partially caused by increased levels of depression and substance abuse by men in response to the crisis<sup>68</sup>. Women have limited control over productive assets, including land and capital. Although women may contribute significantly to farming, they rarely hold land titles or have decision-making power over crop selection, sales, or income use. Intra-household decision-making often remains largely male-dominated, especially in rural and estate sectors. Gender norms also influence the division of labour, with women primarily engaged in weeding, transplanting, and post-harvest activities, while men often operate machinery and handle market interactions<sup>69</sup>.
12. **Marginalized groups.** Several groups face marginalization in rural Sri Lanka, including people with disabilities and communities that have experienced internal displacement. People with disabilities comprise 8.7% of the population, as per the latest data on disability from the 2012 census. The most prevalent disabilities related to seeing (62%), walking (43%) and hearing (23%). A more detailed study carried out in 2015 found that visual impairments were particularly prevalent amongst women, among lower socio-economic strata and in rural districts<sup>70</sup>. Another study in 2018 found that harassment, discrimination and lack of accessible transportation and facilities have hindered the education and economic participation of people with disabilities<sup>71</sup>. Internally displaced communities have historically primarily resulted from the civil war, comprising some 300,000 people. Reintegration programs for communities to resettle in the northern area are still ongoing.<sup>72</sup> Natural disasters, including recurring floodings, are another cause of internal displacements, with an estimated 121,000 people displaced by these causes in 2021. These people face a temporary or structural limited access to land and services. The Sri Lanka Multidimensional Vulnerability Index<sup>73</sup> furthermore highlights how people with high debts have high vulnerability.
13. **Indigenous people.** The Vedda people are the earliest known inhabitants of Sri Lanka. Vedda people refer to themselves as Vanniyalato meaning “people of the forest”. The Vedda retained their hunter-gatherer lifestyle until the early 20<sup>th</sup> century, but much of the language and culture has been lost due to marginalization. The remaining population is estimated to be below 0.5% of the national population, and many of the Vedda people no longer speak the Vedda language. Current-day Vedda are found primarily in the southeastern part of the country and are

<sup>67</sup> ILO. The Gender Pay Gap in Sri Lanka. 2024.

<sup>68</sup> CEPA, ACTED and World Vision (2022). Rapid Food Security Survey Report. [https://www.cepa.lk/wp-content/uploads/2022/10/Rapid-Food-Security-Survey-Report-July-2022\\_0.pdf](https://www.cepa.lk/wp-content/uploads/2022/10/Rapid-Food-Security-Survey-Report-July-2022_0.pdf)

<sup>69</sup> FAO, *Country Gender Assessment of Sri Lanka* (2018)- [content](#). UN Women, *Gender Equality Snapshot – Sri Lanka* (2022), [Progress-on-the-sustainable-development-goals-the-gender-snapshot-2022-en\\_0.pdf](#).

Department of Census and Statistics, *Labour Force Survey Annual Report* (2019), [LFS Annual Report](#).

<sup>70</sup> Ministry of Health (2015). National survey on blindness, visual impairment, ocular mobility and disability in Sri Lanka. <https://www.iapb.org/wp-content/uploads/2015/05/National-Survey-of-Blindness-A-Report-2014-2015.pdf>

<sup>71</sup> UN Women (2018). Women with disabilities and their access to economic opportunities.

<https://asiapacific.unwomen.org/sites/default/files/Field%20Office%20ESEAAsia/Docs/Publications/2019/02/lk-UNW-Report-on-Women-with-Disabilities-compressed.pdf>

<sup>72</sup> <https://srilanka.un.org/en/282838-step-towards-sustainable-reintegration>

<sup>73</sup> UNDP & OPHI (2023) <https://ophi.org.uk/sri-lanka-2023-report>



increasingly engaged in indigenous cultural tourism<sup>74</sup>, while others have gathered on the eastern coast and are engaged in fisheries<sup>75</sup>.

## 1.2 Environment and climate context, trends, and main challenges

14. **Geography and agroecology.** The main island of Sri Lanka is dominated by the Central Highlands, a terrain running 65 km north-south that includes the country's highest peaks of up to 2524m (Pidurutalagala) as well as ridges, escarpments and intermontane basins. Most of the country however consists of plains that are between 30 and 200 meters above sea level. This geography, combined with its location in the tropical zone and the presence of monsoon winds, is the driving force behind the presence of a diverse set of agroecological zones across the country. This includes the wet zone in the southwestern part; an intermediate zone; and a dry zone covering most of the northern and eastern part of the region (see Figure 3).
15. **Land use.** Approximately 43% of the country's total land area is used for agricultural purposes. Major crops include paddy rice (around 980.000 ha), tea (220.000 ha), coconut (210.000 ha), and rubber (180,000 ha)<sup>76</sup>. Approximately 310,000 ha is used for what is locally termed 'other field crops', including vegetables and other seasonal crops important for local consumption. Some land is for mixed use, involving both crops and livestock. Land exclusively used for livestock rearing is minimal.

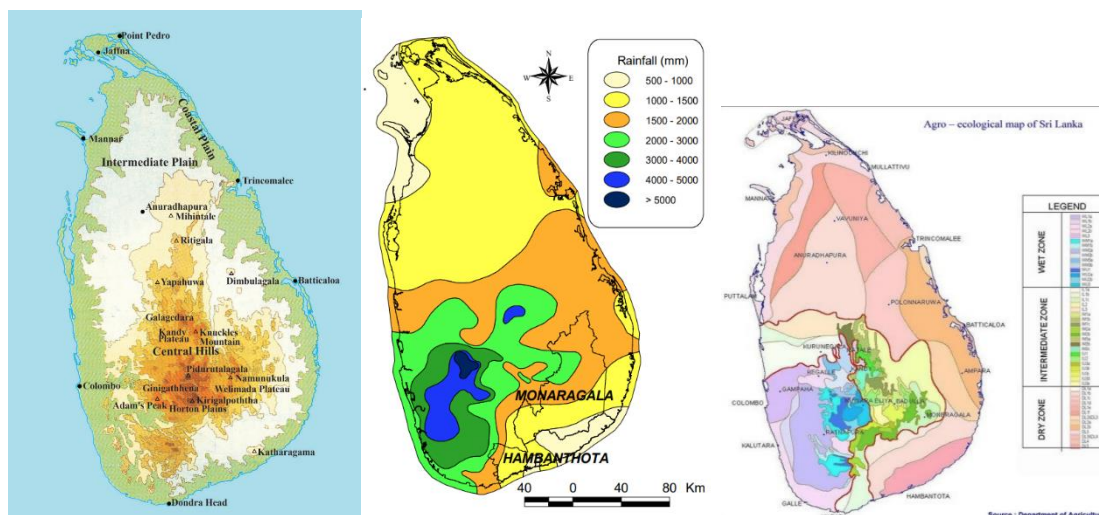


Figure 3 Sri Lanka contour map (left), precipitation map and agroecological zones (right). Source: Ministry of Environment, JICA (2021)

16. **Climate.** Sri Lanka has a tropical climate and is one of the warmest countries globally, with an average temperature around 27°C. Two main seasons are distinguished, the Maha season associated with the northeast monsoon (September-March), and the Yala season associated with the southwest monsoon (May-August); with an additional two short inter-monsoon seasons in March-April and in October-November. Annual rainfall varies from below 1500 mm across the dry zones in the north and southeast areas, mostly during the Maha season, while to up to 5000 mm in the highland and southwestern region spread across the two monsoon seasons.

<sup>74</sup> Ranasinghe & Cheng (2017). Tourism-induced mobilities and transformation of indigenous cultures: where is the Vedda community in Sri Lanka heading to? <https://doi.org/10.1080/14766825.2017.1393081>

<sup>75</sup> Galappaththi, Ford and Bennett (2020). Climate change and adaptation to social-ecological change: the case of indigenous people and culture-based fisheries in Sri Lanka. <https://doi.org/10.1007/s10584-020-02716-3>

<sup>76</sup> Sri Lanka Land Use Policy Planning Department (2018). <https://luppd.gov.lk/images/page4.pdf>

Owing to the country's topography, there can be stark differences in rainfall between areas relatively close to each other.

17. **Climate change trends and scenarios.** Historical changes in temperature are in line with global trends at (0.16°C/decade) and forecasts are slightly below global indicators, 2.9-3.5°C increase by 2090 compared to 1986-2005 baseline; under RCP8.5 scenario<sup>77</sup>. Sri Lanka is however relatively highly exposed when it comes to impact of global warming, as the starting position of 27-28°C results in a rapid increase in the number of days with extreme heat (>35°C) in the future. Temperature changes are expected to be seasonal, with the largest increase expected in the already hot months of April and May.
18. Precipitation has generally declined of the past decades, with an estimate reduction of 7% in total annual precipitation between the 1931-1960 period and the current average. The decline in total annual precipitation is associated with an increase in the number of consecutive dry days, and the decline is particularly pronounced in the central region.
19. Future precipitation changes are more diverse and more difficult to predict than temperature changes, as Sri Lanka's topography dictates a large geographic variety in rainfall patterns. The ensemble of various Global Circulation Models shows a large uncertainty (Figure 4, right). Overall, models are indicating that the reduction in total annual rainfall will be reversed, but potentially more concentrated in daily extreme rainfall events. Models show that southern regions will be exposed to higher risk of incidental precipitation and flooding, whereas other regions will experience more

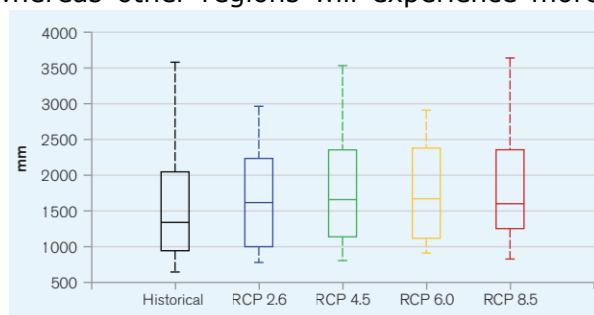
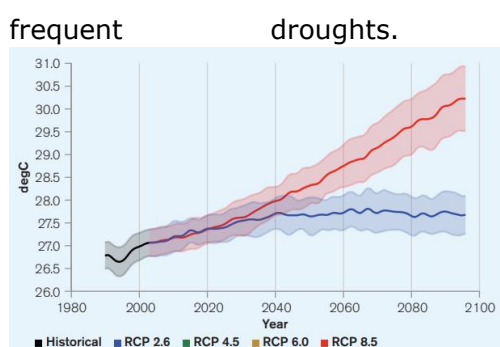


Figure 4 Historical and projected changes in mean annual temperature (left) and average annual precipitation (right) under various climate change scenarios. Source: World Bank and ADB (2021)

20. **Climate change impacts and climate-related natural hazards.** Heat stress will affect people's health and ability to work outdoor, especially in the drier areas<sup>78</sup>. A

<sup>77</sup> 0.8-1.2°C increase over the same period under the RCP2.6 scenario

<sup>78</sup> World Bank and ADB (2021). Climate Risk Country Profile: Sri Lanka.

[https://climateknowledgeportal.worldbank.org/sites/default/files/2021-05/15507-WB\\_Sri%20Lanka%20Country%20Profile-WEB.pdf](https://climateknowledgeportal.worldbank.org/sites/default/files/2021-05/15507-WB_Sri%20Lanka%20Country%20Profile-WEB.pdf)



study by IWMI<sup>79</sup> indicates that 23% of Sri Lankans were exposed to hazardous heatwaves in the period of 2001-2013, and this number is expected to increase substantially. Apart from heat waves, chronic heat stress is also set to increase. Further detailed studies on drought are limited and non- conclusive.

21. Changes in both temperature and rainfall will affect the cultivation of crops, but with the uncertainty in rainfall projections, there are no conclusions yet on the expected impact. Studies however suggest a decline of rice yield by 12-19% in the Maha season and 27-41% in the Yala season, if there is limited control over the storage and dissemination of water (irrigation infrastructure).
22. Asia-wide studies suggest that extreme river flows will become more frequent, which is also likely for Sri Lanka. Apart from more frequent flooding events, the number of people exposed to flooding will increase. The increased risk of flooding also carries an increased risk of transmission of diseases, both for humans as well as for animals.
23. Sea-level rise poses a relatively moderate threat to Sri Lanka, when it comes to slow onset sea level rise. The areas prone to permanent flooding are relatively limited, with an estimated 66,000 people exposed (without adaptation action). More important is the increased risk of coastal flooding, which has been evidenced by the impact of the 2004 tsunami in southern Sri Lanka. Another sea-level rise related impact is the salinization of coastal water resources, thereby making these areas unsuitable for many agricultural purposes.
24. Coastal fisheries are also expected to be impacted, with a significant secondary impact on nutrition as the fisheries are an important source of protein in the country. Sea temperature rise and acidification will have an impact on the abundance of fish, with one estimate projecting a 20% decline in fish catch by 2050.
25. **Water resources and quality.** Out of a total 100 rivers, twelve account for 75% of the mean annual discharge, and 50% of the annual discharge is within the country's wet zone. Rivers generally run radially from the Central Highlands, except for the country's largest river, the Mahaweli. Groundwater resources are important for household water use, particularly so in the coastal dry zones such as around Jaffna in the north. Water quality is a particular topic of attention in those dry zones, including as a result of the prevalence of chronic kidney disease, which has been linked to drinking water and agricultural water use but without definite cause<sup>80</sup>. High fluoride contents in groundwater are an area of concern, and increasing attention is paid to arsenic<sup>81</sup>.
26. **Water management** is a very important topic for Sri Lanka. Known as one of the historic 'hydraulic societies', the country has a rich history of human alteration of waterways, both in terms of indigenous approaches as well as modern irrigation works. Typical Sri Lankan water management set ups include the use of cascade systems, connecting multiple smaller reservoirs (locally called 'tanks') in series. The Mahaweli river is of major importance to the country, with several reservoirs and transfer canals developed for hydropower and irrigation purposes. With these large-scale infrastructures, the country has created a potential for expansion of total area under modern irrigation system. Estimates state that out of the total of 30,000

<sup>79</sup> Amarnath, G.; Alahacoon, N.; Smakhtin, V.; Aggarwal, P. (2017). Mapping multiple climate-related hazards in South Asia. Colombo, Sri Lanka: International Water Management Institute (IWMI).

[https://www.iwmi.cgiar.org/Publications/IWMI\\_Research\\_Reports/PDF/pub170/rr170.pdf](https://www.iwmi.cgiar.org/Publications/IWMI_Research_Reports/PDF/pub170/rr170.pdf)

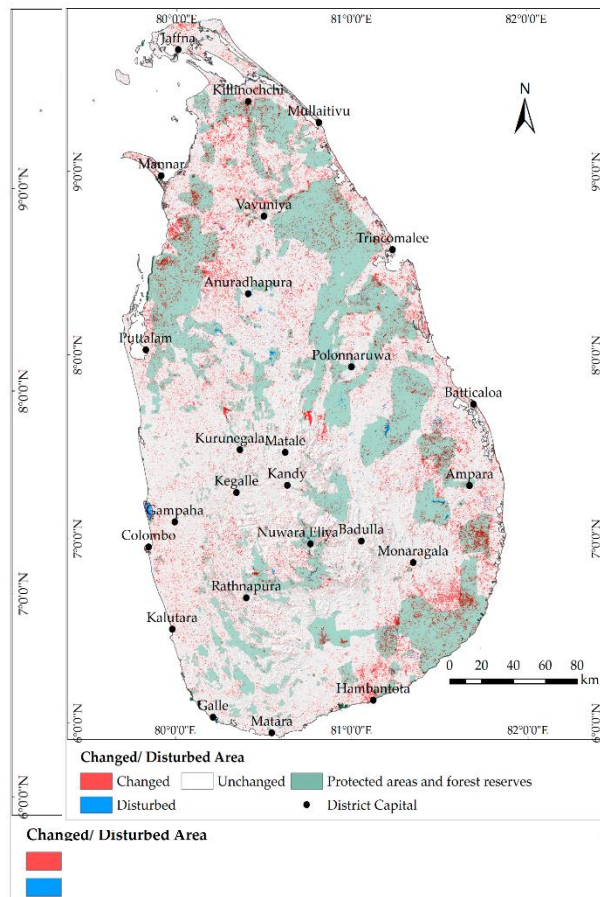
<sup>80</sup> Rajapakse, Shivanthan and Selvarajah (2016). Chronic kidney disease of unknown etiology in Sri Lanka.

<https://doi.org/10.1080/10773525.2016.1203097>

<sup>81</sup> Chandrajith, Diyabalanage and Dissanayake (2020). Geogenic fluoride and arsenic in groundwater of Sri Lanka and its implications to community health. <https://doi.org/10.1016/j.qsd.2020.100359>

existing village irrigation systems, only 1000 have been modernized. At the same time, studies have pointed out that indigenous approaches in some cases may perform better at increasing drought and climate resilience<sup>82</sup>. Overall, there is a need for a more holistic approach to the valorisation of water resources, including improved watershed protection, water governance combining modern theory with indigenous approaches, and promotion of higher value-add agriculture in combination with water-efficient irrigation.

27. **Forests.** Around 29% of the country (nearly 2 million ha) is currently covered by forests, of which the majority is dense forest with over 75% canopy cover. Large-scale tree plantations include rubber (246.000 ha) and coconut (395.000 ha). Deforestation is a serious issue in Sri Lanka, with a total of 10.900 ha of primary forest and 222.000 ha of tree cover lost between 2002-2023. Drivers of deforestation include conversion of forest land to agricultural land, including for tea and timber. Negative impacts include loss of biodiversity, increased erosion and landslides and reduced retention of water in the dry season. Furthermore, the country's exports of tea and rubber to the EU will be subject to the EU Deforestation Regulation, and lack of compliance may have a significant impact on the export value of these commodities.



28. **Protected areas.** Sri Lanka has 26 national parks which cover an area of 5734 km<sup>2</sup>. In total, there are 501 protected areas, covering 26.5% of the land area, under the Department of Forest Conservation and the Department of Wildlife Conservation. This percentage is relatively high in comparison to other countries. The MoE has furthermore designated Ecologically Sensitive Areas across the country, outside of protected areas<sup>83</sup>. These areas present a strong case for the promotion of agroecological principles, linking economic development and livelihood building to the conservation of biodiversity. In practice, this may include both on-farm promotion of biodiversity (e.g. agroforestry systems), as well as land sparing approaches that combine more intense, precision agriculture with the conservation of specific areas for biodiversity.
29. **Wildlife.** Sri Lanka has a great diversity in flora and fauna, with a high percentage of endemic species. The variety in ecosystems provides habitat for a similarly varied

*Figure 5 Areas that experienced disturbance and/or land use change between 1993-2018, with protected areas and forest reserves indicated. Source: Rathnayake, Jones and Soto-Berelov (2020)*

<sup>82</sup> Wickramasinghe, R., and Nakamura, S. (2024). Evaluation of the drought resilience of indigenous irrigation water systems: a case study of dry zone Sri Lanka. <https://iopscience.iop.org/article/10.1088/2515-7620/ad2a90/pdf>

<sup>83</sup> Ministry of Environment (2022). [https://env.gov.lk/web/images/downloads/policies/ESA\\_Policy\\_English\\_2022.pdf](https://env.gov.lk/web/images/downloads/policies/ESA_Policy_English_2022.pdf)

rich biology. Notable species that are threatened include the Sri Lankan elephant and leopard.

30. Human-wildlife conflict is a significant problem in Sri Lanka, particularly related to elephants. In 2023, 176 people died in elephant encounters, and 470 elephants were killed. These encounters are particularly linked to agricultural development and the fragmentation of protected areas<sup>84</sup>. The country has invested significantly into elephant corridors and fencing; however, the severity of the problem is still increasing.
31. **Invasive species.** Invasive Alien Species (IAS) are of significant concern in Sri Lanka. This includes pests and diseases, as well as invasive plants such as the water hyacinth which is progressively manifesting itself in the country's water reservoirs, and the *Prosopis juliflora* and *Lantana camara* invasive plants rapidly invading protected areas and reducing the availability of forage grasses.
32. **Land degradation:** Sri Lanka faces challenges with 34% of its land area experiencing declining productivity or stress. Approximately 50% of the land is degraded, with issues like soil fertility decline and erosion affecting agricultural output<sup>85</sup>. Droughts, primarily in southeastern, north central, and northwestern regions, severely impact livelihoods and necessitate relief efforts, posing challenges due to increasing unpredictability and frequency of rainfall. Sri Lanka, as a party to the UNCCD, recognizes the importance of combating desertification, land degradation, and droughts. The country has set Land Degradation Neutrality targets to halt the conversion of forest and wetlands into other land cover classes, to increase the rate of forest cover from 29% (in 2017) to 32% by 2030 and to reduce soil erosion and increase soil organic carbon on agricultural lands<sup>86</sup>. Agricultural development projects such as those financed by IFAD play a key role in achieving these targets.

## Part 2. Institutions and legal framework

### 2.1 Institutions

33. Sri Lanka's line ministries are the leading institutions and strategic partners for IFAD to deliver on its mainstreaming priorities. Apart from the Ministry of Agriculture, this includes the MoE, the Ministry of Women, Child Affairs and Social Empowerment and the Ministry of Health. There are several other public sector institutions that play an important role in mainstreaming, including the Central Environmental Authority and the Tea and Rubber Research Institutes. Other important organisations include the Institute of Policy Studies, the Nutrition Society of Sri Lanka, the Wildlife & Nature Protection Society and a further range of NGOs. Sri Lanka has a strong representation of global organisations in development, including UN development partners and the International Water Management Institute.

### 2.2 Policy and regulatory frameworks

34. **Gender.** The National Policy on Gender Equality and Women's Empowerment (2023) envisions a just society where equality of women and men and gender minorities is

<sup>84</sup> Rathnayake et al. (2022). Assessing protected area networks in the conservation of elephants (*Elephas Maximus*) in Sri Lanka. <https://doi.org/10.1016/j.envc.2022.100625>

<sup>85</sup> <https://env.gov.lk/web/index.php/en/announcements/campaigns/337-desertification-and-drought-day-2024>

<sup>86</sup> [https://www.unccd.int/sites/default/files/ldn\\_targets/Sri%20Lanka%20LDN%20Country%20Commitments.pdf](https://www.unccd.int/sites/default/files/ldn_targets/Sri%20Lanka%20LDN%20Country%20Commitments.pdf)

upheld. It aims to ensure that all genders are able to participate equally and equitably in and benefit from democracy and development. The National Action Plan on Women, Peace and Security 2023-2027<sup>87</sup> includes a broad range of actions to work towards this gender equality, including through legal, policy and institutional reforms, spearheaded by the Ministry of Women, Child Affairs and Social Empowerment. Moreover, the GoSL recently approved a multi-sectoral action plan for 2024-2028 to eliminate sexual and gender-based harassment.

35. **Youth.** The National Youth Policy<sup>88</sup> (spearheaded by the Ministry of Youth and Sports) aims to develop the full potential of young people to enable their active participation in national development for a just and equitable society. The National Policy and Action Plan for Employment 2023–2027 promotes entrepreneurship among potential migrant returnees and encourages youth and women to engage in business through capacity building. The NYP acknowledges the concentration of opportunities for youth in urban areas due to migration, but targeted interventions for rural youth are limited. Key priorities for rural youth include skill development, vocational training, diverse and innovative job opportunities, promotion of self-employment, financial support, and access to information and technology for small entrepreneurs.
36. **Nutrition.** The National Nutrition Policy 2021-2030<sup>89</sup>, led by the Ministry of Health, recognizes the need for a multi-sectoral approach to improving nutrition beyond the health sector alone, while taking advantage of new technologies. It furthermore recognizes the importance of addressing the affordability of nutritious diets, including through income generation, agricultural enhancement and safety nets.
37. **People with disabilities.** The GoSL has ratified the Convention on the Rights of Persons with Disabilities (CRPD) in 2016. The independent Human Rights Committee of Sri Lanka (HRCSL) notes that a comprehensive update is required to the existing Protection of Rights of Persons with Disabilities Act (1996) and advocated amongst others for a gender-sensitive approach to such a legal framework<sup>90</sup>.
38. **Indigenous peoples.** Sri Lanka voted in favour of the UN Declaration on the Rights of Indigenous Peoples (UNDRIP), but there is no specific national legislation regarding indigenous people, or Ministry specifically tasked with the topic. The MoE, in the context of the Convention on Biological Diversity (CBD), has developed a National Policy and Strategies on Traditional Knowledge and Practices related to Biodiversity<sup>91</sup>.
39. **Climate change.** The National Policy on Climate Change (2023)<sup>92</sup> provides a framework for climate change related topics and a comprehensive overview of strategies with associated responsibilities across the government. Other official government documents provide further details, including the Updated Nationally Determined Contribution (NDC) that states Sri Lanka's expectation to achieve 70% renewable energy in electricity generation by 2030, and to become carbon neutral by 2050 – with the majority of emission reduction classified as conditional on external support. The associated NDC Implementation Plan 2021-2030, Carbon Net Zero 2050 Roadmap and Strategic plan, and Climate Prosperity Plan go into greater detail in the activities and financing options to achieve the country's mitigation and

<sup>87</sup> <https://asiapacific.unwomen.org/sites/default/files/2023-07/lk-NAP-FINAL2023-eng.pdf>

<sup>88</sup> <https://www.ou.ac.lk/sites/nypsl/YPEnglish-Book.pdf>

<sup>89</sup> <https://nutrition.health.gov.lk/wp-content/uploads/2020/11/NNP-English.pdf>

<sup>90</sup> HRCSL (2024) Parallel Report to the Committee on the Rights of Persons with Disabilities. <https://www.hrcsl.lk/wp-content/uploads/2020/01/HRCSL-Parallel-Report-to-the-Committee-on-the-Rights-of-Persons-with-Disabilities.pdf>

<sup>91</sup> [https://env.gov.lk/web/images/downloads/policies/TK\\_Policy\\_English.pdf](https://env.gov.lk/web/images/downloads/policies/TK_Policy_English.pdf)

<sup>92</sup> [https://env.gov.lk/web/images/downloads/policies/2024/NCCP\\_2023\\_-\\_ENGLISH\\_-\\_WEB\\_VERSION.pdf](https://env.gov.lk/web/images/downloads/policies/2024/NCCP_2023_-_ENGLISH_-_WEB_VERSION.pdf)

adaptation goals. These plans build on, and to some extent actualize the country's National Adaptation Plan 2016-2025<sup>93</sup>.

40. **Environment.** The National Environment Policy (2003)<sup>94</sup> aims to promote the sound management of the environment, and to bring together the perspectives of all groups including the people, NGOs and government. The National Environmental Action Plan 2022-2030<sup>95</sup> provides a comprehensive overview of strategies and actions, as well as indicative costings and associated financing mechanisms. The National Policy on Invasive Alien Species (2016)<sup>96</sup> outlines measures including prevention, containment and control, and restoration of ecosystems already affected by IAS. The Land Degradation Neutrality Targets (2017) set the country's overall ambitions on topics including land conversion and soil degradation.

## 2.3 Programmes and partnerships

41. A broad range of development partners and associated programmes are relevant to the IFAD COSOP. This section highlights a selection of the most relevant programmes:
42. The **Mahaweli Development Programme**<sup>97</sup> is the largest multisectoral development programme in the country and has been active for multiple decades. Under the purview of the Mahaweli Authority, a series of projects has been undertaken to invest in water management infrastructure and associated economic development activities.
43. The project "**Strengthening the resilience of small-scale producers in the Dry Zone** to climate variability and extreme events through an integrated approach to water management"<sup>98</sup>, funded by the Green Climate Fund with UNDP as accredited entity, has successfully set up weather and climate related agromet services for farmers. The project uses a variety of channels to better inform farmers of the in-season forecasts and the associated agricultural practices, which may be scaled up under IFAD-funded interventions.
44. The **Ethical Tea Partnership**<sup>99</sup> has recently completed a project on strengthening local community gardens and kitchens established to provide nutrition, wellbeing and financial support for women in tea estate communities. The ILO project **Safety + Health for All Plantation Workers in South Asia**<sup>100</sup> similarly engaged with estate workers, with a focus on occupational health and safety. These projects thereby provide lessons learned for potentially engaging within the estate sector.

## Part 3. Strategic recommendations

### 3.1 Lessons learned.

45. **Projects need to include and be adaptive to emerging government priorities.** The 2018 Country Strategy and Programme Evaluation (CSPE) carried out by the Independent Office of Evaluation of IFAD noted the need for IFAD-funded projects to cater to emerging priorities, with climate adaptation being considered such an emerging priority at that time. Recent projects have had climate change adaptation

<sup>93</sup> [https://www.climatechange.lk/NAP/NAP%20For%20Sri%20Lanka\\_2016-2025.pdf](https://www.climatechange.lk/NAP/NAP%20For%20Sri%20Lanka_2016-2025.pdf)

<sup>94</sup> [https://env.gov.lk/web/images/downloads/policies/national\\_environmental\\_policy\\_2003.pdf](https://env.gov.lk/web/images/downloads/policies/national_environmental_policy_2003.pdf)

<sup>95</sup> [https://env.gov.lk/web/images/downloads/policies/NEAP\\_2022.pdf](https://env.gov.lk/web/images/downloads/policies/NEAP_2022.pdf)

<sup>96</sup> [https://env.gov.lk/web/images/downloads/policies/IAS\\_Policy\\_English-1.pdf](https://env.gov.lk/web/images/downloads/policies/IAS_Policy_English-1.pdf)

<sup>97</sup> <https://mahaweli.gov.lk/index.html>

<sup>98</sup> <https://www.greenclimate.fund/project/fp016>

<sup>99</sup> <https://etp-global.org/our-initiatives/holistic-nutrition-improvement-programme/>

<sup>100</sup> <https://www.ilo.org/projects-and-partnerships/projects/safety-health-all-plantation-workers-south-asia-sri-lanka-component>



as a more specific objective. Nevertheless, the GoSL priorities for climate action is rapidly evolving, and IFAD-funded projects could be very important vehicles for new government priorities such as identifying suitable activities for financing through green bonds; pursuing a combined climate change mitigation and biodiversity enhancement angle; or supporting the country in responding to new EU regulation on deforestation.

46. **There has been a focus on agriculture productivity and income, where more attention needs to be paid to other dimensions of development such as nutrition and gender empowerment.** Projects to date have generally focused on enhancing agricultural productivity through the dissemination of technologies and productivity-oriented investments. This has not always led to improvements in broader indicators of development, such as nutrition status or the empowerment of women. Projects need to consider more explicit pathways to achieve positive impact in these areas.
47. **Important co-benefits outside a project's core objective are not always captured, limiting the potential for scaling up.** The IFAD-funded STARR project provides an example of unexpected co-benefits occurring, as the development of rubber plantations on degraded lands provided an important contribution to improving the local micro-climate. Similarly, innovations in tea replanting technologies that incorporate soil and water conservation principles, provide a significant contribution to countering land degradation in the upstream catchments of important water reservoirs. As these contributions may not be recognized by the relevant stakeholders, an important pathway for scaling up results is not fully realized.

### 3.2 Strategic orientation

48. Alignment of the COSOP with government priorities related to IFAD's mainstreaming areas needs to be comprehensive yet also focused on the interventions where IFAD projects can have the most significant impact. The climate change-related strategies of GoSL, including the NDC and its Implementation Plan, provide strong guidance and opportunities for the programming of activities.
49. For gender equality and women's empowerment, the COSOP will focus on implementation of the actions in the National Action Plan on Women, Peace and Security, while also contributing to the multi-sectoral action plan on sexual and gender-based harassment.
50. Beyond implementing actions on the ground to deliver on the Strategic Objectives, the COSOP also identifies pathways for policy engagement that include contributing evidence to policy-making processes, on topics related to social inclusion.

### 3.3 Strategic actions and targeting

51. In line with the findings of this SECAP Background Study, the following strategic actions are proposed, in combination with associated targeting strategies and indicators for monitoring.
52. **Build out proven models of development, to gradually incorporate broader and more advanced development objectives such as strategic topics on environmental protection and land degradation.** IFAD-funded projects in Sri Lanka have successfully piloted and scaled up models such as the 4P model or the technical interventions in the tea and rubber sectors. To some extent, these models

already incorporate mainstreaming themes such as gender and climate. Next generation projects could however gradually expand and enhance these models even further, for example by incorporating soil erosion risk into geographical targeting strategies. By doing so, the projects can start deliberately valorising and scaling up co-benefits.

*Associated indicators: CI 3.2.2. Households reporting adoption of environmentally sustainable and climate resilient technologies and practices; CI 3.1.4. Land brought under climate resilient management; CI 3.1.1. Groups supported to sustainably manage natural resources and climate related risks; CI 3.1.2. Persons provided with climate information services; CI 3.2.1. GHG emissions avoided/sequestered.*

53. **Support the GoSL in its endeavour to mobilize climate and green finance, by aligning closely with the various climate-related plans and creating opportunities for co-financing.** IFAD-funded projects generally represent investments that are eligible for climate adaptation finance. Some projects, such as those targeting catchment protection and NRM, may also be eligible for financing through a government-raised green bond. Moreover, IFAD-funded projects often provide a very strong foundation for additional investments that may enhance certain aspects, such as climate mitigation or biodiversity preservation. The added value from the perspective of environmental protection, is the strong integration with an economic sector (such as the tea and rubber sector) which avoids stand-alone conservation projects that face challenges in ensuring sustainability.

*Associated indicators: CI 3.1.4. Land brought under climate resilient management; CI 3.2.1. GHG emissions avoided/sequestered.*

54. **Increase recognition of landscape-level development priorities and challenges in design of value chain projects.** The value-chain IFAD-funded projects in Sri Lanka have not always fully internalized the development priorities and challenges within certain landscapes and ecosystems. This includes for example addressing human-wildlife conflict or the prevention of indirect land use change and conversion of forest land. While retaining a primary value chain driven focus, projects could recognize and support landscape-level planning efforts through their geographical targeting approach. This could for instance include analysing migratory routes of wildlife at the landscape level rather than site level and adjusting project activities in an area based on this or collaborating with other agencies active in a certain area to jointly address landscape-level issues such as competition for water use.

*Associated indicators: CI 3.2.2. Households reporting adoption of environmentally sustainable and climate resilient technologies and practices.*

55. **Further enhance the design of activities in IFAD-supported programs, removing the barriers for marginalized groups to participate.** IFAD-supported interventions in Sri Lanka already have a very strong targeting focus on the most vulnerable areas. To further enhance the participation of marginalized groups such as estate workers, IFAD-supported projects could review in more detail the design of specific activities to improve social inclusion. To do so, engagement with marginalized groups and reviewing the barriers they may face to participate in an equitable manner would be needed. This may be related to addressing the social norms underlying such activities but also the practical considerations in terms of timing, location and time burden of participation.

*Associated indicators: CI 2.1.2. Persons trained in income-generating activities or business management; CI 1.1.3. Rural producers accessing production inputs and/or*

*technological packages; CI 1.1.5: Persons in rural areas accessing financial services; CI 1.1.8. Households provided with targeted support to improve their nutrition.*

56. **Promote youth employment as a dedicated investment, with focus on professional skill development and job placement, including within the agricultural services sector.** This Background Study has highlighted the importance of engaging youth in the economy. In line with the overall COSOP objective, targeting youth for employment in digitally-enabled agricultural service would provide a pathway to strengthen engagement of the young population.

*Associated indicators: CI2.2.1. New jobs created; CI 1.1.3. Rural producers accessing production inputs and/or technological packages.*

### 3.4 Stakeholder engagement

57. The preparation of this COSOP and the SECAP Background Study has been informed through broad stakeholder consultation. Further stakeholder engagement will happen both at the country programme level, as well as through project-level activities such as project design and supervision. At the country programme level, stakeholder engagement will be both proactive based on the IFAD COSOP priorities, as well as responsive to the country's ongoing developments in the agricultural and rural sector. Prime examples are the recently initiated stakeholder consultation with development agencies involved in agriculture development (World Bank, ADB and IFAD), state agencies involved in agriculture, research and university academia and the private sector by the Prime Minister's Office in order to align development agencies' strategies and programmes with the Government's agriculture reform plans. Project-level stakeholder engagement will specify the precise actors relevant to the sub-sectors addressed, such as the research institutions for specific crops. Subject to appropriate partnership arrangements and in compliance with IFAD procurement and operational guidelines, these project-level interactions will feed into a regular exchange between IFAD leadership, programme management units and GoSL on the COSOP and the strategic directions contained herein.

### 3.5 Monitoring

58. Strong monitoring systems and evaluations will be critical to validate the effectiveness of the mainstreaming approach. Key indicators for the programmes are listed in the previous section, associated with specific activities. IFAD -funded projects will follow the guidelines on monitoring impact, and the results will be shared with the stakeholders referenced in the previous sections.



## Agreement at completion point

### A. Introduction

1. The Independent Office of Evaluation (IOE) of IFAD undertook the country strategy and programme evaluation (CSPE) in Sri Lanka in 2018. The main objectives of the CSPE were to: (i) assess the results and performance of the IFAD country programme; and (ii) generate findings and recommendations to steer the future partnership between IFAD and the Government for enhanced development effectiveness and rural poverty eradication.
2. The CSPE covers the period 2004-2017. Three key dimensions of the country strategy and programme were assessed in the CSPE: (i) project portfolio performance; (ii) non- lending activities, namely, knowledge management, partnership building and country- level policy engagement; and (iii) performance of IFAD and the Government. Building on the analysis on these three dimensions, the CSPE assesses the relevance and effectiveness at the country strategy and programme level.
3. The agreement between GOSL and IFAD at completion point (ACP) contains recommendations based on the evaluation findings and conclusions presented in the CSPE report, as well as proposed follow-up actions as agreed by IFAD and the Government.

### B. Recommendations and proposed follow-up actions

4. **Recommendation 1:** Sharpen the strategic focus and coherence of the country programme for stronger and more sustainable impact. The next COSOP should provide more guidance on what the country programme intends to focus on terms of sectoral and thematic areas, geographical areas, targeting group and types of investments. Geographical focus may not need to be rigid and exclusive. But more reflection is needed to address the geographical disparities and "poverty pockets" as well as to improve the synergy and demonstrable impact of the country programme. In so doing, the country strategy and programme should better address and mainstream key priorities in the Sri Lankan context, i.e. climate resilience, nutrition and youth. In particular, to support climate smart agriculture, IFAD and the Government may consider investing in climate resilient infrastructure and improved/ innovative technologies.
5. Proposed Follow-up: IFAD and the Government agree to this recommendation and will make every effort to conduct comprehensive and in-depth research on geographical disparities, in line with IFAD's thematic areas.
  - i. The planned completion review of the COSOP (Country Strategy) in November 2019 is an excellent opportunity to examine the validity of the strategic objectives and the degree of achievement of these objectives.
  - ii. External groups (universities, research institutes, development partners, NGOs) will be involved and will work closely with Government agencies specially with the NPD in the identification and prioritization of geographic areas vulnerable to climate, gender, youth and nutrition-sensitive issues.
  - iii. The planned new investment using the IFAD allocation approved by the IFAD Executive Board in December 2018 and soon to be designed, is another opportunity to address climate and conflict resilience and the commercialization of small farms.

- iv. The Government and IFAD will strengthen partnerships with each other and build relations with development partners to mobilize harmonized resources for complementary investments.
  - v. IFAD will bring to Sri Lanka portfolio targeting expertise that will closely liaise with Government agencies for area specific knowledge, for the design of new investment to ensure that vulnerable groups within small scale producers will effectively reap the benefits of IFAD initiatives.
  - vi. The South Asian Association for Regional Cooperation (SAARC) regional grant on strengthening climate smart agriculture that includes Sri Lanka among other countries of Southeast Asia provides an excellent opportunity for the Government to better target and introduce climate smart climate practices and technological solutions (implementation will start by mid-2019).
6. Responsible partners: all projects/programmes, Ministry of Finance (MoF), Department of External Resources (ERD), Department of National Planning (NPD), other relevant line ministries/departments/agencies and IFAD
7. Timeline: 2019 onward. COSOP will be reviewed, updated and extended taking on board the CSPE recommendations, in the interim, in order to align the updated COSOP with the Government's strategies. Budget allocation and regional grant will be utilized to support the follow-up actions.
8. **Recommendation 2:** Strengthen the poverty orientation and develop a strategy for inclusive –but sufficiently discriminating –targeting. The COSOP and project designs should provide a clear target group definition and targeting strategy relative to the strategic and geographic focus of the country programme. Given the low and decreasing poverty rate in Sri Lanka, the target group should inevitably be inclusive of those rural households marginally above the national poverty line but vulnerable to natural disaster and other shocks. But to ensure outreach to the intended beneficiaries and to safeguard against elite capture, the strategy should be accompanied by plausible screening mechanism for selection that cap the support provided to individual households. The strategy should be based on adequate assessment of the poverty reality and the constraints that the rural poor and near poor face, and specific targeting measures to facilitate their participation. Targeting performance should be monitored during implementation.
9. Proposed Follow-up: IFAD and the Government are in agreement with this recommendation. Although poverty in Sri Lanka is decreasing, income inequality has been a significant issue for the last few decades. The richest 20 per cent enjoy more than half the total household income of the country, whereas the poorest 20 per cent get only 5 per cent. The situation of the poorest 10 per cent is worse, with the share of household income being 1.8 percent or less.
- i. Based on this, IFAD and Government agencies will enlist the assistance of social research experts to identify the distribution of poorest small-scale producers and those most vulnerable to climatic events and incorporate the findings in the updated COSOP and new project designs.
  - ii. The Government line agencies for ongoing programmes will enlist the assistance of other ministries/departments in identifying areas prone to natural disasters and the effects of climate change, gender issues, nutrition deficiencies and youth involvement in agriculture.
  - iii. IFAD recognises that identifying these target groups is essential to achieving its strategic objectives and will partner with national and local reputable organisations and individual experts to develop a strategy to prevent elite capture and monitor targeting performance.
10. Responsible partners: all projects/programmes, Ministry of Finance, Department of

External Resources (ERD), Department of National Planning (NPD), relevant line ministries/departments/agencies, and IFAD

11. Timeline: Begin research in 2019 to incorporate findings in the updated COSOP, new project, and re-evaluate ongoing programmes to specify target beneficiaries.
12. **Recommendation 3:** Focus on steering the country strategy and programme to play a more catalytic role for rural transformation with enhanced partnerships. Given the IFAD's relatively small resource envelope, the IFAD-supported operations should aim at better "value for money" based on a more focused programme and a clear scaling-up pathway. For this, IFAD should invest more in analytical work, knowledge management and policy engagement at the country programme level and beyond the project-level, which may be supported through the investment projects, by more effective use of grants and/or working with other like-minded partners.
13. Furthermore, IFAD should be more aggressive in pursuit of concessional or grant co- financing in order to offer competitively priced financing packages to the Government. Not only in financial terms but also for strategic and technical collaboration, IFAD should do more to reach out to other development partners, increase in-country visibility and presence and inputs in development partners' forum and its working groups.
14. Proposed Follow-up: IFAD and the Government acknowledge the importance of building programmes on sound analytical work that have a clear scaling up strategy. IFAD will ensure a clear and coherent pathway in the upcoming project design and the updated COSOP so to enable the development of effective partnerships and the progression from achieving just project/programme objectives to informing national policy.
  - i. Past and ongoing IFAD-supported projects offer enormous potential for scaling up IFAD's strategic work and future investments such as community mobilization, value chain development, the Private, Public, Producer Partnership (4P) model, the commercialization of agriculture and microcredits.
  - ii. IFAD will be dynamic yet stringent in selecting and developing trustworthy, effective partnerships, not only within the project scope but on a broader scale.
  - iii. Efforts will be undertaken by Government agencies to evaluate areas where policy may affect or hinder rural transformation and work with IFAD towards new policy formation.
  - iv. The SAPP and STaRR programmes will strive to develop knowledge management products to increase the visibility of IFAD cooperation with Sri Lanka.
  - v. The ERD and IFAD will reach out to other development partners with a history of operating in Sri Lanka for strategic and technical collaboration.
  - vi. The Government will identify areas for collaboration with other ongoing projects by development organisations, national entities and the private sector. Responsible Partners: all projects/programmes, Ministry of Finance, Department of External Resources (ERD), Department of National Planning (NPD), relevant line ministries/departments/agencies, and IFAD
15. Timeline: Begin in 2019, to inform new or extended COSOP development in November 2019 and new investments.
16. **Recommendation 4:** Strengthen the strategy and operational frameworks to enhance and ensure additionality of partnerships with the private sector. IFAD and

the Government should explore opportunities for public/project support for risk-sharing and cost-sharing to leverage private-sector investment and innovations which are less likely to occur without public investment. More rigorous and transparent mechanism to assess additionality –before and after the investment –is necessary.

17. Proposed Follow-up: IFAD and the Government agree with this recommendation. While significant steps have been taken in ongoing initiatives to leverage private sector investment and this has noticeably improved market linkages, further opportunities will be pursued to build on the 4P model to increase risk and cost sharing thereby reducing the burden on small scale producers.
  - i. Government agencies will make every effort to increase transparency, identify areas for private sector involvement, and readily share information to achieve national objectives of rural poverty alleviation.
  - ii. IFAD continuously assesses the additionality of SAPP partnerships and cooperates with the project to reinforce this aspect. During the mid-term review of the SAPP program (June 2020), IFAD will evaluate the methodology for evaluating additionality and work with experts to develop transparent and more structured evaluation mechanisms. New project concept and design will build on and fine-tune existing private-public partnerships where applicable to ensure successful achievement of objectives.
  - iii. IFAD will mobilise development partners and regional grants (such as SAARC grant) to implement innovative climate smart agriculture. Responsible partners: all projects/programmes, Ministry of Finance, Department of External Resources (ERD), Department of National Planning (NPD), relevant line ministries/departments/agencies, and IFAD
18. Timeline: Begin in 2019 with the new project design and COSOP update.
19. **Recommendation 5:** Revisit the approach to rural finance support, sharpen the focus and explore opportunities to innovate. IFAD should, in collaboration with the Government, Central Bank of Sri Lanka (CBSL) and other development partners, critically analyse and reflect on the bottlenecks for the target group in the rural finance sector and opportunities for its support and investment to leverage more systemic improvement.
20. This may include, for example, how best to facilitate the development of new financial products (not limited to credits) that meet the needs of the target group, how to address the issue of guarantors of defaulted loans, or how to strengthen financial literacy of the borrowers and enable them to manage their household finance better.
21. Proposed Follow-up: IFAD and the Government acknowledge the importance of improving the rural finance approach. IFAD recently conducted an implementation support mission (January 2019) for rural finance initiatives for the two PMUs (SAPP and STaRR). The mission included meetings with commercial banks, microfinance association, private business partners, cooperatives and other civil society organisations and concluded with several recommendations for the short and medium term for the PMUs and relevant Government agency support. The final Aide Memoire was agreed upon by all parties (IFAD, and GoSL) and the steps toward action have already begun. Specifically:
  - i. The capacity of ongoing projects at the central and district levels to facilitate the establishment of a rural finance component will be critically appraised during STaRR MTR and SAPP supervision mission planned 2019.
  - ii. The initial concept of securing funds via or outside the national banking sector

- should always be pursued; DFCC's Ran Dalu and Sanasa Development Bank are examples of specific microfinance products available to small-scale tea producers. National co-financing should then be guaranteed at interest rates that follow a formula that avoids a fixed and predetermined rate that may discourage potential participating banks.
- iii. The 4P tripartite agreement should be simplified. The CBSL guidelines covering the direct line of credit and those regulating access to the Revolving Fund will be reviewed in a working group to reflect the financing of a wide variety of different value chains and production systems together with youth involvement in the loan contract components such as grace periods, loan tenor, etc.
  - iv. For the Youths lending programme, in addition to the current process with PFIs, IFAD will consider a comprehensive request for proposals outside of the current PFIs and to a civil society organization or NGO with a financial subsidiary to carry out a "credit plus" package with training, start-up support and other accompanying measures to a selected group of youths with the capacity to start their own businesses; allocating portion of funds available under Revolving Funds and such subsidiary FIs will be considered as PFIs by CBSL subject to the necessary approvals obtained. The Youth loan is established at CBSL under IFAD direct credit line. Youth loan will be incorporated into the Revolving Fund at CBSL. Further upper age limit of youth will be changed from 35 to 40 years.
22. Responsible Partners: all projects/programmes, Ministry of Finance, Department of External Resources (ERD), Department of National Planning (NPD), relevant line ministries/departments/agencies
23. Timeline: Rural finance mission conducted in January 2019 and steps to improve activities are ongoing from the mission conclusion time onward

## COSOP preparation process

1. The Sri Lanka Country Strategic Opportunities Programme (COSOP) 2023-2030 consultation process was shaped by the following key contextual factors pertaining both to Government and IFAD:
  - i. The last Country Strategic Opportunities Programme (COSOP) for Sri Lanka covered the period from 2015 to 2022. As there was no PBAS allocation for Sri Lanka under IFAD12 and due to the country's economic and political conditions in 2022, an interim Country Strategy Note (CSN) were prepared covering 2023 and 2024 and later extended to cover 2025, instead of a full COSOP.
  - ii. In 2022, Sri Lanka faced a severe economic crisis due to the longstanding structural weaknesses, which were exacerbated by exogenous shocks and policy issues. The country entered into a US\$3 billion 48-month Extended Fund Facility (EFF) programme with IMF in March 2023. Several critical reforms including agriculture sector have been initiated since the IMF programme was approved. Most of the policies and strategies particularly for agriculture sector reforms are in the process of preparation.
  - iii. The design of the COSOP benefited from recommendations from the Country Strategy and Programme Evaluation (CSPE) conducted by the Independent Office of Evaluation in 2019, covering the period from 2004 to 2017.
  - iv. Insights are also drawn from the COSOP Completion Review (CCR), which covered the 2015 to 2022 period.
2. **Main steps in the preparation process:** The COSOP design team was led by the IFAD Country Director for the Maldives and Sri Lanka and consisted of national and international consultants. The design mission was carried out from 4 to 20 July 2024. Several bilateral in-depth consultation meetings took place with key government counterparts, development partners, and the private sector to discuss priorities and explore collaboration opportunities. The mission exchanged with ongoing IFAD-funded projects to identify lessons and discuss scaling up potential and sustainability. Field visits were conducted to Monaragala, Matara, Anuradhapura and Kurunegala districts for discussions with IFAD project's beneficiaries and non-project farmers. Following the September and November 2024 Presidential and Parliamentary Elections respectively, significant changes were affected in the structure of the government's ministries and agencies, including the formulation of new ministries. In order to capture the shift in national priorities and policies, update the draft COSOP and align it with the national policies and priorities of the current government and restructured ministries, a second round of consultations were carried out in March 2025.

### 3. **TABLE 1. Details of the bilateral consultation meetings conducted (July 2024):**

GOVERNMENT		
No.	Ministry/Agency	Participants
1.	<b>National Planning Dept. (NPD) of Ministry of Finance, Economic Stabilization and National Policies:</b> Kick off meeting	<ul style="list-style-type: none"> <li>• Director General, Mr. RHW Kumarasiri</li> <li>• Acting Director General (Agriculture and Trade), Ms. YP Sumanawathi</li> </ul>

	<ul style="list-style-type: none"> <li>• Director (Agriculture, Livestock, Irrigation and Land) of NPD, Mr. Rohana Wickramaratne</li> <li>• Additional Director General of External Resources Dept. (ERD), Ms. Vishaka Amarasekera</li> <li>• Director ERD, Ms. Hemantha Pubudusiri</li> <li>• Assistant Director, ERD, Ms. Gayani Hansika</li> </ul>
2. <b>MOALLI</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>• Secretary, Mr Janaka Dharmakeerthi.</li> <li>• Additional Secretary (Agriculture Development), Susanthi Chendreaa</li> <li>• Additional Secretary (Development), Ms. Lathisha P Liyanage</li> <li>• Director General (Planning, Plantation sector), Ms. Sujanthi Mayadunne</li> <li>• Additional Secretary (Development), Plantation sector, Ms. Sureka Attanayake</li> <li>• Additional Secretary (Agriculture Technology), Dr. Sanjika Perera</li> <li>• Director (Plantation Industries), Niroshan Gamage</li> <li>• Director (Development) /Project Director IFAD financed Smallholder Agribusiness Partnerships Programme, Renuka Rathnayaka</li> </ul>
3. <b>Ministry of Irrigation (MoI):</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>• Minister of Irrigation, Ms. Pavithra Wanniarachchi</li> <li>• Secretary, Mr. Saman Darshana Padikoral</li> <li>• Advisor to the Minister, MoI, Mr. Iwan de Silva</li> <li>• Director General of Mahaweli Authority, Mr. Abeyrathna</li> <li>• Program Director, MWSIP, Eng. K.D. Nihal Siriwardana</li> </ul>
4. <b>MoE:</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>• Acting Secretary, Mrs. WG Kumaragama</li> <li>• Additional. Secretary (Environment Policy &amp; Planning, Ms. RHMP Abeykoon</li> <li>• Director (IR), Ms. Kulani HW Karunarathna</li> <li>• Director (NRM), Mr. ND Wickramasinghe</li> <li>• Director (CCS), Mr. Leel Randani</li> <li>• Deputy. Director (International Relations Division), Mr. Sanjaya Kariyawasam</li> </ul>
5 <b>President Secretariat:</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>• Secretary to the President, Mr. EMSB Ekanayake</li> <li>• Senior Advisor to the President, Dr. Samarathunga</li> </ul>

	<ul style="list-style-type: none"> <li>Chairman of the Agriculture Modernization Taskforce at the President Secretariat, Prof. Gamini Senanayake</li> <li>Coordinator of the Agriculture Modernization Taskforce, Ms. Nilanthi Perera</li> <li>Member of Agriculture Modernization Taskforce, Ms. Chandra Herath</li> </ul>
6. <b>President Secretariat - President Taskforce for Agriculture Modernization:</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>Chairman of Taskforce, Prof. Gamini Senanayake</li> <li>Member of Taskforce, Ms. Chandra Herath</li> <li>Coordinator of Taskforce, Ms. Nilanthi Perera</li> </ul>
7. <b>President Secretariat - President's advisor on Climate Change:</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>President's Advisor on Climate Change, Dr. Anand Mallawathanthri</li> </ul>
8. <b>Central Bank of Sri Lanka (CBSL):</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>Director, Regional Development Department</li> </ul>
9. <b>External Resources Dept. of Ministry Finance, Economic Stabilization and National Policies (ERD):</b> Debriefing and Wrap-up meeting	<ul style="list-style-type: none"> <li>Director General, Mr. Ajith Abeysekera</li> <li>Additional Secretary (Development), MoAPI, Ms. Lathisha P Liyanage</li> <li>Additional DG, Ms. Vishaka Amarasekera</li> <li>Additional DG, Mr. Samantha Bandara</li> <li>Additional. DG of NPD, Ms. Y P Sumanawathi</li> <li>Director, Ms. Hemantha Pubudusiri</li> <li>Director, Mr. Rohitha Wickramarathna</li> </ul>

#### DEVELOPMENT PARTNERS/DONORS

10. <b>Embassy of Japan:</b> Bi-lateral consultations and discussions	<ul style="list-style-type: none"> <li>Ambassador of Japan, Mr. Mizukoshi Hideaki</li> <li>Second Secretary (Economic Section), Ms. Sachi Tanaka</li> </ul>
11. <b>Asian Development Bank Country Office in Sri Lanka:</b> Bilateral consultation sand discussions	<ul style="list-style-type: none"> <li>Principal Water Security Specialist, Mr. Yaozhou Zhou</li> <li>OPEC FUND Country Manager for Asia and Pacific Public sector Operations, Mr. Yousef Almulhem</li> <li>Principal Water Resources Specialist, Mr. Sanath Ranawana</li> <li>Rural Development Specialist, Ms. Krisanthi Manori Dabare,</li> </ul>



12. <b>USAID:</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>Project Management Specialist, Dr. Janaka Wijayasiri,</li> <li>Deputy Director/Economic Growth Office, Nihani Riza</li> <li>United States Department of Agriculture, Thilani Kaushalya Kankanamge</li> </ul>
13. <b>JICA:</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>Chief Representative, Mr. Yamada Tetsuya</li> <li>Representative, Mr. Mizuno Tsuyoshi</li> <li>Senior Representative, Mr. Noguchi Takuma</li> </ul>
14. <b>UN Resident Coordinator of United Nations in Sri Lanka:</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>Resident Coordinator, Mr. Marc-Andre Franche</li> <li>Development Coordination Officer, Partnerships &amp; Development Finance, Mr. Azam Bakeer Markar</li> </ul>
15. <b>UNDP:</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>Resident Representative, Ms. Azusa Kubota</li> <li>SDG Irrigation Specialist, Ms. Dulani Sirisena</li> <li>Climate &amp; Environment Team Leader, Dr. Buddika Hapuarachchi,</li> </ul>
16. <b>FAO:</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>Country Representative, Mr. Vimalendra Sharen</li> <li>Assistant Representative (Programme), Mr. Nalin Munasinghe</li> </ul>
17. <b>WFP:</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>Country Director, Mr. Abdur Rahim Siddiqui</li> <li>Deputy Country Director, Mr. Gerard Rebello</li> <li>Agriculture Specialist, Ms. Rohini Singarayer</li> <li>External Partnership Officer, Ms. Shreya Mukherjee</li> <li>Programme Policy Officer (Nutrition), Ms. Dilka Rasmini Peiris</li> <li>Head of Resilience, Emergency preparedness and response and Social Protection (virtually), Ms. Rushini Perera,</li> </ul>

## INGO

18. <b>International Union for Conservation of Nature (IUCN):</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>Country Representatives, Dr. Shamen P. Vidanage</li> </ul>
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## PRIVATE SECTOR

19. <b>John Keels Group:</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>President of Retail Sector (Keels Supermarkets), Mr. Charitha Subasinghe and team</li> </ul>
20. <b>Cargills Ceylon Ltd:</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>General Manager of Cargills Agri Solution, Mr. Ranjith Upali Operations Manager, Mr. Chandika Gunathilaka</li> </ul>
21. <b>Ceylon Chamber of Commerce:</b> Bilateral consultations and discussions	<ul style="list-style-type: none"> <li>Secretary General, Mr. Buwanekabahu Perera</li> <li>Asst Secretary General, Ms. Manori</li> <li>Vice President, Mr. Rizvi Zaheed</li> <li>Transgrow (Fruits &amp; Vegetables), Dr. Harsha Krunaradne</li> <li>Ellawala Horticulture (Pvt) Ltd, Mr. Suresh Ellawala</li> <li>Executive Director, Malwattha Valley Plantations PLC, Mr. Christopher Fernando</li> </ul>

**TABLE 2. Details of the bilateral consultation meetings conducted (March 2025):**

Date	Ministry/Org.	Name	Designation
Mar.4	Ministry of Plantation and Community Infrastructure	Mr. Prabath Chandrakeerthi	Secretary
		Ms. Sureka Attanayake	Add. Secretary (Plantation sector Modernization and Diversification)
	Ministry of Rural Development, Social Security and Community Empowerment	Ms. Malarmathy Gangadaran	Secretary
		Mr. M. Ramamurthi	Director General – Planning
Mar.5	Ministry of Agriculture, Livestock, Lands and Irrigation	Mr. D.P. Wickramasinghe	Secretary
		Ms. Lathisha	Add. Secretary (Agri-Development)
		Mr. Hemantha Amarasinghe	Director – Agriculture Technologies
	UN FAO	Mr. Vimlendra Sharan	Country Representative
		Mr. Nalin Munasinghe	Asst. Country Representative (Programme)
		Dr. W Weerakoon	Senior Agri Specialist
	UN WFP	Mr. Abdur Rahim Siddiqui	Country Director
		Ms. Rohini Singarayer	Agriculture Specialist
		Ms. Dilka Rashmi Peiris	Programme Policy Officer (Nutrition)
		Mr.	Monitoring & Evaluation Specialist

Mar.7	MoE	Mr. K.R. Uduwawala	Secretary
		Dr. (Ms) Gino Maowabi	Commonwealth National Climate Finance Advisor-Sri Lanka
		Mr. Leel Randeniya	Director – Climate Change Division
		Ms. Kulani H.W.	Director – IR
		Ms. Shashika de Zoysa	Development Officer
	Ministry of Fisheries, Aquatic and Ocean Resources	Mr. Sampath Manthreenayake	Secretary
		Ms. Kaumi Piyasiri	Scientist -NARA
Mar.10	External Resources Department of Ministry of Finance	Mr. Samantha Bandara	Director General
		Ms. Vishaka Amarasekere	Additional, Director General
		Ms. Hemantha Pubudusiri	Director
		Ms Gayani Hansika	Assistant Director
	National Planning Department / Project Monitoring and Management Department of the Ministry of Finance	Mr. S.S. Mudalige	Director General – DPMM and Acting DG of NPD
		Ms. Chandima Punchihewa	Director – DPMM
		Ms. Biyanka Tennakoon	Depty. Director - DPMM
		Mr. Rohitha Wickramawardane	Director - NPD
		Ms. Vijini Gunawardane	Depty. Director - NPD
		Ms. Himashini Namalika	Asst.Director -NPD
Mar.11	Ministry of Trade, Commerce, Food Security and Cooperative Development	Mr. K.A. Vimalenthirarajah	Secretary
		Mr. Upul Shantha Alwis	Add. Secretary Development
	Ministry of Youth and Sports	Mr. A.H.M.U. Aruna Bandara	Secretary
		Ms. Anuradha	Add. Secretary (Youth Division)
Mar.12	Ministry of Women and Child Affairs	Ms. K.D.R. Olga	Secretary

## South-South and Triangular Cooperation Strategy

### I. INTRODUCTION

1. SSTC has become more prominent as an approach to promote sustainable development. Its important role has been recognised in major multilateral agreements such as the Buenos Aires outcome document of the Second High-level United Nations Conference on South-South Cooperation (BAPA+40), and the 2017 Brasilia Declaration and Action on SSTC co-authored by IFAD and partner institutions.
2. SSTC is anchored in the IFAD Strategic Framework 2016-2025 as an integral part of its business model and country programmes and is guided by South-South and Triangular Cooperation Strategy 2022-2027. IFAD uses SSTC as an instrument of development cooperation at multiple levels: integrating SSTC in-country programmes and in project design and implementation; incorporating SSTC into both intraregional and interregional initiatives; promoting direct knowledge exchange; facilitating technology transfers and mobilising expertise; and strengthening partnership-building and resource mobilisation. IFAD's Strategic Framework 2016-2025 emphasises the need to expand SSTC in knowledge-based cooperation and investment promotion as an integral part of its business model and country programming process.
3. This SSTC strategy outlines potential areas for South-South and Triangular cooperation in the framework of the COSOP. It is aligned with the Strategic Objectives of the COSOP and complements the overall country strategy to identify SSTC interventions and partnerships that can enhance its effectiveness and impact. SSTC will be an instrument for exchanging knowledge, skills, resources and technical know-how on smallholder agriculture and rural development under SO1 and agribusiness and as a means for promoting investments and financial flows to promote development in Sri Lanka under SO2.

### II. SSTC engagement rationale

4. A severe macroeconomic crisis in Sri Lanka in 2022 led to decreased agriculture production, soaring input costs, and reduced income and food security of small farmers and rural poor. As part of the country's revival process from the economic crisis, the agriculture sector has been recognised as a major economic strength for growth and critical for poverty reduction and sustainable livelihood for the rural poor.
5. The agriculture sector vision focuses on implementing a comprehensive agricultural reform to achieve a modern, resilient, inclusive and green agriculture which encompasses various aspects of the agricultural support system, including technical expertise, private sector involvement and investment, market linkages, the adoption of climate-smart advanced technologies, crop diversification and promotion of agriculture exports. However, challenges remain regarding policies, knowledge and skills among farmers and agribusiness entrepreneurs, agricultural practices and limited adoption of digital technologies.
6. Sri Lanka, as a member of the South Asian Association for Regional Cooperation (SAARC), actively participates in regional agricultural cooperation, aiming to enhance food security, improve rural livelihoods, and promote sustainable agricultural practices within the South Asian region. Sri Lanka is also active in SSTC initiatives through WFP and FAO.

7. In the backdrop of economic crises and the importance of agriculture to national economic growth and poverty reduction, the Government of Sri Lanka acknowledges the need for regional and international cooperation in agriculture to enhance food security, improve agricultural productivity, and promote trade and investments. Building on this interest, IFAD can leverage SSTC to support the government's agricultural modernisation and commercialisation priorities.

### **III. Opportunities for rural development investment promotion and technical exchanges**

8. Leveraging the SSTC initiative within the country's programmes will provide complementary opportunities to support food security, rural poverty reduction and resilient food systems. During COSOP 2026-2031, SSTC will be pursued and strengthened with regional/SAARC countries, ASEAN and China for the promotion of policy environment; knowledge exchange including technology transfer for productivity enhancement and diversification; irrigation and technical cooperation for climate-smart adaptation and resilience under SO1; and collaborating to improve value chain standards to meet trade and export requirements; facilitate dialogues for enabling market policies; public and private sector partnerships for joint ventures, investments, and trade.
9. Some potential entry points for SSTC for Sri Lanka include:
  - i. Policy exchanges on agriculture and rural development will enable an environment for agriculture transformation, including private sector involvement and investment, public-private partnerships for agriculture support services, and replicating regulatory and institutional frameworks.
  - ii. **SO1:** knowledge exchange, technology transfer and technical cooperation for climate-smart adaptation and resilient.
  - iii. Building the capacities of farmers' cooperatives in agroecological practices.
  - iv. Promoting youth and women's inclusion.
  - v. Supporting the adoption of adapted irrigation technologies, particularly under the new project to be designed with ADB.
  - vi. **SO2:** Facilitating dialogues with regional entities to enhance market access.
  - vii. Collaborating with other countries in the region to improve value chain standards to meet trade and export requirements.
  - viii. Facilitate business-to-business linkage of farmers organisations and prospective investors and traders.
  - ix. Facilitate dialogues to enable market policies and public and private sector partnerships for joint ventures, investments, and trade.
  - x. ICT4D – for improved farm practices, market excess, knowledge sharing and collaborative learning and financial inclusion.

### **IV. Partnerships and initiatives**

10. The identification of concrete SSTC activities will continue during the entire COSOP period. However, the following knowledge exchange and collaboration initiative will guide Sri Lanka's engagement in SSTC:

- i. Policy exchanges on agriculture and rural development for enabling environment for agriculture transformation including knowledge private sector involvement and investment and public private partnership for agriculture support services; and replicating regulatory and institutional frameworks.

#### 11. Under S01

- i. **SAARC and China:** collaboration for technology transfer on climate-resilient agriculture, smart irrigation, and climate-smart farming practices. Ex: Chinese Academy of Agricultural Sciences (CAAS)
- ii. **China:** Facilitate production technology transfer and product quality.
- iii. **SAARC/India:** For technical cooperation on agroecological farming, organic agriculture, and youth engagement in agribusiness. (ICAR).
- iv. **Indonesia:** To support cooperative strengthening, especially for youth and women's inclusion through rural entrepreneurship models (YESS project).
- v. **SAARC/Bangladesh, China and Vietnam:** climate-adaptive irrigation and sustainable production systems; additional linkages through the CGIAR's International Water Management Institute (IWMI) based in Sri Lanka.

#### 12. Under S02

- i. **ASEAN Secretariat and Grow Asia (an ASEAN initiative with the World Economic Forum).** Facilitate regional policy dialogues to harmonise standards for agricultural exports (especially for fruit), facilitate business-to-business partnerships to integrate smallholders into export value chains.
- ii. **China and India:** to explore business-to-business and community-to-community linkages and set up joint ventures to improve export competitiveness.
- iii. **Cambodia, Vietnam, Thailand:** on meeting international food safety standards and export certification processes
- iv. **India:** To support trade facilitation training and market linkage opportunities for Sri Lankan farmer organisations.

### V. Conclusion

- 13. The COSOP 2026-2031 offers considerable opportunity to advance SSTC and is envisaged as a complementary development modality to the overall country programme. Opportunities exist for knowledge exchange on innovative development policies, the overall transformation of the agriculture sector, including production technology and product quality, transfer of technologies technology transfer on climate-resilient, agribusiness development and growing trade relationships.
- 14. To the extent possible, SSTC will be supported by IFAD's resources, such as the China-IFAD SSTC Facility. IFAD Country Team will explore opportunities to attract in-country funding from donors (EU, JICA), private sector (Cylon Chamber of Commerce/agriculture commodity exporter and Cargill and Jhon Keels who are major players in agribusiness and are value chain partners in IFAD financed projects) and public sector entities like the Sri Lanka Export Development Board. Additionally, attention will be paid during the next COSOP to allocate adequate resources within new project budgets for SSTC-related interventions.

## Financial management issues summary

COUNTRY	Sri Lanka	COSOP PERIOD	2026-2031
A. COUNTRY FM ANALYSIS			
Country Disbursement Ratio (rolling-year)	10.4 %		
Unjustified Obligations:			
<ul style="list-style-type: none"><li>Outstanding Ineligible Expenditure –</li><li>Outstanding Advances (Projects in Closed Status)</li></ul>	<div>Nil</div> <div>110,867 USD</div> <ul style="list-style-type: none"><li>The Smallholder Tea and Rubber Revitalisation Project (STaRR) Project Id. 1100001731 closed on 31 March 2024 with an outstanding advance of USD 110,867. The project delayed submission of the last IFR and final Withdrawal Application for justification. Upon submission of the final reports and reviews, it was noted that a reconciliation of the Designated Account was required. This however took considerable time to complete.</li><li>The reconciliation and final IFR and WA for justification was submitted on 10 September 2024 for final review and validation where upon the outstanding balance will be fully justified.</li></ul>		
PBAS Available allocation (current cycle/IFAD13) :	Allocated Amount: \$33.635m for IFAD13 (of which \$ 1.011m is a core climate top up)Available Balance: \$33.635m for IFAD13 (of which \$ 1.011m is a core climate top up)		
BRAM access	<div>No</div> <div>Due to the high risk of debt sustainability, Sri Lanka is not eligible for BRAM in IFAD13 unless the debt situation improves.</div>		
Country income category	<div>LMIC</div> <div>No change of income category</div>		
Country Situation			
<ul style="list-style-type: none"><li>TI index</li></ul> <p>The Corruption Perceptions Index (CPI) is the most widely used global corruption ranking index in the world. It measures for each country’s public sector, how corrupt it is perceived to be, according to experts and surveys of businesspeople not the general public. CPI is calculated using data from 13 different external sources including data produced by the World Bank (WB) and World Economic Forum (WEF) as well as by think tanks and private risk consulting.</p>			

Sri Lanka's country risk is assessed as **substantial**, based on Transparency International's Corruption Perceptions Index (CPI). In 2024<sup>101</sup>, the country's CPI score downgraded slightly to 32 out of 100, compared to 34 in 2023. Sri Lanka's global ranking declined to 121st out of 180 countries, indicating ongoing challenges in addressing perceived levels of public sector corruption.

- **Report on the observance of standards and codes (ROSC) : Accounting and auditing<sup>49</sup>**

The 2015 World Bank Group (WBG) report on the Observance of Standards and Codes (ROSC) for Sri Lanka provided a comprehensive evaluation of the country's accounting and auditing practices. Sri Lanka made considerable progress to align its accounting and auditing practices with international standards, with the aim of enhancing quality of corporate financial reporting. The report highlighted the need for improved regulation of registered auditors and introduction of mandatory quality assurance processes for institutions that provide accountancy education. It is crucial to improve financial reporting in order to make the country's financial system more transparent and attractive to foreign investors. Regardless of the progress, the report identified areas for further improvement, such as the enhancement of the capacities of regulatory bodies and ensuring consistent application of standards.

- **Country Partnership Framework, the COSOP equivalent of WB<sup>50</sup>.**

The Country Partnership Framework (CPF) for Sri Lanka outlines the World Bank Group's strategic engagement with the country. For the period 2023-2026, the upcoming CPF aims to assist Sri Lanka in restoring economic stability and building a stronger foundation for green, resilient, and inclusive development and recovery, while protecting poor and vulnerable populations. The CPF is aligned with the government's immediate and medium-term strategic priorities. To this end, the WBG will also support foundational reforms to strengthen macroeconomic stability and sustainability, mitigate the impact of current and future shocks on the poor and vulnerable, and foster an inclusive and private-sector-led recovery and growth path. The CPF will focus on two high-level objectives:

- Improved economic resilience and access to jobs
- Protecting and enhancing human and natural capital

In addition, enhancing resilience will be a cross-cutting theme that will guide all WBG activities in Sri Lanka.

It can be beneficial to align COSOP with CPF priorities, especially in strengthening rural financial systems, supporting inclusive private sector development and enhancing resilience through climate-smart investments.

- **Recent debt sustainability analysis of IMF<sup>51</sup>.**

Sri Lanka is in a deep crisis, as debt is unsustainable. Though deep fiscal reforms are necessary, they are not sufficient to address the situation in a durable manner. To restore debt sustainability, contributions from creditors are therefore needed, along with new concessional financing. Post-restructuring debt sustainability risks will remain high. The progress made in restructuring Sri Lanka's debt is consistent with restoring its medium-term external viability. There are firm commitments of financing for the next twelve months and good prospects for adequate financing during the program period. Program financing gaps in 2024-27 are expected to be filled through debt restructuring and new financing.

<sup>101</sup> [Corruption Perceptions Index 2024 - Transparency.org.](https://www.transparency.org/en/cpi/2024)



Economy: Following a better outturn in 2023, growth is projected to recover moderately at 2 and 2.7 percent in 2024-25 given constrained bank credit and fiscal consolidation, while facing uncertainties around the debt restructuring and the elections.

Alignment with macro-fiscal stabilization efforts is of importance and ensuring that project financing does not exacerbate debt vulnerabilities; grant blending and co-financing may be prioritized.

- **Relevant country PFM legislation (with special focus on accounting/reporting and audit standards)**

Sri Lanka established a comprehensive framework for Public Financial Management (PFM), focusing on accounting, reporting, and audit standards. The Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995<sup>52</sup>, empowered the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) to adopt the Sri Lanka Accounting Standards<sup>53</sup> (SLFRS) which are aligned with International Financial Reporting Standards (IFRS). They are mandatory for the preparation of financial statements for specified business enterprises. CA Sri Lanka also adopted the Sri Lanka Auditing Standards (SLAuS)<sup>54</sup> based on International Standards on Auditing (ISA). They provide guidelines for the form and content of the auditor's report and ensure the quality and reliability of audits. The same Act established the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)<sup>55</sup> which is responsible for monitoring compliance with accounting and auditing standards in the preparation and audit of financial statements of specified business enterprises.

The public sector in Sri Lanka follows standards that are generally aligned with international best practices. The frameworks ensure that financial reporting and auditing in Sri Lanka are conducted with high standards of transparency, reliability, and accountability.

The PFM legislation presents a strategic opportunity for IFAD to align with and support the implementation of the PFM framework, including capacity building and use of country systems (UCS).

- **Current Projects common recurring issues**

The common issue among the current projects is late submission of audit reports in contravention of the General Conditions. The audits are conducted by SAI. Projects can mitigate this by preparing the annual Financial Statements timely, working closely with the auditor and ensuring IFAD participates in the audit entry and exit meetings to clarify the reporting requirements and timelines.

- **Impact of the results of the analysis of the diagnostics on the forthcoming IFAD operations in the country under the new COSOP from a FM perspective**

High corruption perception and outdated diagnostics will necessitate enhanced FM oversight, including third-party audits and real-time expenditure tracking. The new PFM Act offers a pathway to gradual Use of Country System adoption, especially in budgeting, reporting, and audit and to that end, and in previous operations, national accounting and audit standards will be applied. SAI will continue auditing IFAD-funded projects. However, IFAD will request government to take necessary measures to submit audit reports on time. IFAD operations will also consider using internal audits of the relevant government institutions when feasible. Country Treasury system will be used to maintain project DAs. Due to limited capacity of the government institutions, IFAD-funded projects will employ externally recruited consultants to manage FM aspects of projects. Investment should be made in FM capacity development for public institutions. Partnership with other IFI e.g. strong alignment with the World Bank CPF will enhance

policy coherence and create synergies. Projects must be designed with debt sustainability in mind.

- **PFM reforms**

Sri Lanka recently undertook significant Public Financial Management (PFM) reforms, with the introduction of the Public Financial Management Bill 2024 as one of the key developments. Its aim is to enhance accountability, transparency, and efficiency in managing public finances including clear procedures for budgeting, revenue collection, expenditure management, and fiscal reporting<sup>56</sup>.

In addition, preparation guidelines for the 2025 Budget were issued, which will be framed in consistence with the new PFM Act and the 2025-2027 Medium-Term Fiscal Framework<sup>57</sup>. The reforms are part of a broader effort to stabilize the economy and ensure fiscal discipline following the economic crisis that peaked in 2022.

IFAD programs can benefit from the PFM reforms for enforcement of accountability, transparency, and efficiency. The IFAD projects can also benefit from the procedures prescribed by the bill in terms of budgeting and reporting.

- **Level of maturity of the accountancy and audit profession in the country**

Sri Lanka made significant efforts to align its accounting and auditing practices with international standards to establish a corporate financial reporting system with the enactment of the Sri Lanka Accounting and Auditing Standards Act and establishment of the Sri Lanka Accounting and Auditing Standards Monitoring Board<sup>58</sup>.

These arrangements are satisfactory although enforcement is another dimension in terms of staff capacities to prepare financial statements that complies with the relevant standards. Long term strategy to mitigate risk in this aspect is building the staff capacities, however with staff turnover, the measures might be unsustainable.

- **Lending terms applicable during the COSOP**

Sri Lanka GNI per capita is USD3,540<sup>59</sup>. Sri Lanka is a Lower Medium Income Country and has downgraded from Ordinary terms to Blend terms in 2024 due to high debt sustainability risk and economic crisis that occurred during 2022-2023. Although exceeding a GNI per capita above the IDA operational cut-off of USD1,335, Sri Lanka is not eligible for BRAM resources due to high risk of debt sustainability. When debt sustainability issues are resolved and debt sustainability ratings are upgraded, Sri Lanka may become eligible for BRAM later.

- **Risk classification of country-COSOP FM risk.**

Based on the CPI index analysis and debt sustainability analysis, the country can be classified as of a Substantial FM risk for COSOP purposes.

## B. PORTFOLIO – LESSONS {Strengths and Weaknesses}

### Existing Portfolio:

Project	Project Status	%Disbursement of all financing instruments	Project FM inherent risk rating	Performance Score: Quality of Financial Management	Performance Score: Quality & Timeliness of Audit	Performance Score: Disbursement Rate	Performance Score: Counterpart funds	Completion date
STaRR	Project Completed	99.82	Substantial	Satisfactory	Mod. unsatisfactory	Moderately Satisfactory	Moderately Satisfactory	30/09/2023

SAPP	Available for Disbursement	68.44	Substantial	Moderately Satisfactory	Mod. satisfactory	Moderately Unsatisfactory	Moderately Satisfactory	30/06/2026
SARP	Available for Disbursement	8.2	Substantial	Moderately Satisfactory	Mod. unsatisfactory	Highly Unsatisfactory	Satisfactory	30/06/2027

Performance score on the Disbursement rate is a weakness on current portfolio with the 2 active projects rated unsatisfactory. Though disbursements are driven by implementation of activities, it has been noted that the current active projects are at times delaying submission of Withdrawal Applications thereby impacting the disbursement rate. The delay is broadly attributed to (i) minimal number of approvers appointed by Ministry of Finance whereby if one official resigns, it takes time for replacement process letters to be submitted to IFAD (ii) PMU delaying preparation of financial reports.

MoF should ensure alternate approvers are appointed to avoid delays in WA authorisations. The borrower should ensure PMU is submitting financial reports as per stipulated reporting timelines.

Projects are adequately staffed thereby ensuring the required segregation of duties. The projects use accounting software that can generate required reports directly from the system. The accounting systems are capable of classifying accounts per component, category and by financier and allows budget comparison with actual expenditure. Future projects can consider similar software. The projects follow the Government financial regulations and circulars issued in respect of financial management as well as the PIM. There is therefore a dual framework which strengthen the control environment, a good practice for new projects.

Sri Lanka Projects are audited by SAI. Delays in submission of audit reports have been an issue although there was an improvement on submission timeliness by SAPP for 2023, which is anticipated to be maintained in next audit cycles. Mus should continue to work closely with the auditor for timely delivery of the audit reports.

The current active project portfolio, SAPP and SARP have no major variations in the ratings of the 6 pillars, however, on quality and timeliness of audit, SARP was rated moderately unsatisfactory mainly due to late submission of audit report. PMU should follow up with auditor on future audit progress with a view of complying with prescribed due date. SARP received a qualified opinion because of non-compliance with some accounting standards and the auditor was unable to verify some transactions. Mitigating measures to avoid such issues for projects to be designed under the COSOP includes capacity building for PMUs emphasizing the importance of complying with adopted accounting frameworks and improving record keeping.

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
<b>Pillar I - Legal, Regulatory and Policy Framework</b>					
<b>1</b>	<b>The public procurement legal framework achieves the agreed principles and complies with applicable obligations.</b>				
<b>1(a)</b>	Scope of application and coverage of the legal and regulatory framework	<p>The current legal and regulatory framework for public procurement comprises of the following:</p> <p>(1) National Procurement Commission (NPC) established in terms of Article 156B. (1) of Chapter XIX B of the Constitution is the apex regulatory body for public procurement in Sri Lanka. NPC has published;</p> <p>(a) Procurement Guidelines - 2024 on Goods, Works, and Non-Consulting Services, in force with effect from 01.01.2025, pursuant to Gazette Extraordinary No. 2412/01 dated 25.11.2024, and</p> <p>(b) Procurement Manual - 2024 on Goods, Works, and Non-Consulting Services on 14.03.2025, to provide assistance, advice, directives and procedures to be followed in carrying out procurement activities.</p> <p>(2) Anti-Corruption Act, No. 9 of 2023, which amalgamates the provisions of; (a) Commission to Investigate Allegations of Bribery or Corruption (CIABOC) Act, No. 19 of 1994, (b) the Bribery Act (Chapter 26) and, (c) the</p>	<b>Low</b>		<b>Low</b>

## Procurement risk matrix – part A country level

Sri Lanka Procurement Risk Matrix - Part A (Country Level)					
Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS					
Indicator # and Sub-Indicator #	Sub-Indicator Description	Findings Regarding Possible Non-compliance with IFAD PPF	Inherent Risk of Non-compliance with Project Objectives & IFAD PPF	Proposed Mitigation Measure/s	Net Risk
		<p>Declaration of Assets and Liabilities Law, No. 1 of 1975, contains provisions for combating corruption including in the public procurement sector. Procurement Guidelines also make references to this Act.</p> <p>(3) Public Contracts Act, No. 03 of 1987, provides for the registration of public contracts and persons who tender or enter into public contracts with any public body.</p>			
<b>1(b)</b>	Procurement methods	<p>Procurement Guidelines and Procurement Manual stipulate the following methods:</p> <p>(1) International Competitive Bidding (ICB)  (2) National Competitive Bidding (NCB)  (3) Limited International Competitive Bidding (LIB)  (4) Limited National Competitive Bidding (LNB)  (5) Shopping/Request for Quotation (International and National)  (6) Direct Contracting  (7) Force Account  (8) Emergency Procurement  (9) Community Participation in Works Contracts  (10) Procurement under Co-financing</p> <p>However, unsolicited proposals are not addressed in the Procurement Guidelines.</p>	<b>Moderate</b>	<p>Specific procurements under Direct Contracting and Emergency Procurement methods should be subject to an independent oversight and review.</p> <p>A transparent methodology of dealing with unsolicited proposals should be developed in a consultative process and integrated into the</p>	<b>Moderate</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
				Procurement Guidelines and Manual.	
<b>1(c)</b>	Advertising rules and time limits	Minimum bidding periods in calendar days are as follows:  (1) ICB/LIB - 42 (IFAD Req. > 45 days) (2) NCB/LNB (IFAD Req. > 30 days); * More than or equal LKR. 50 Mn. - 21 * Less than LKR. 50 Mn. - 14 (3) Shopping/Rfq – National - 7 (4) Shopping/Rfq – International - 14 (5) Emergency Procurement - reasonable and practical bidding period depending on the situation	<b>Moderate</b>	Minimum bidding period, especially for NCB, should be increased in line with international practice.	<b>Moderate</b>
<b>1(d)</b>	Rules on participation	A bidder is considered ineligible when;  (1) Is a debarred or blacklisted contractor/supplier/service provider, (2) Is a contractor/supplier/service provider who has been engaged to provide consulting services for the same contract, (3) Is from a country (of nationality/incorporation), for which UN sanctions have been imposed, and also (4) In case of Joint Ventures, the JV partners are not eligible to submit more than one	<b>Low</b>		<b>Low</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
		<p>Bid/Proposal, individually or collectively.</p> <p>Further, for Works contracts, domestic bidders are required to have valid registration with Construction Industry Development Authority (CIDA) as an eligibility criterion and bidders who are not registered for the respective grade, corresponding to the value of the Bid/Proposal are considered ineligible. This does not apply for Works implemented through Community Based Organizations (CBOs) under Direct Contracting.</p>			
<b>1(e)</b>	Procurement documentation and specifications	<p>Standard Procurement Documents (SPDs) for Works have been published by the Construction Industry Development Authority (CIDA). NPC is developing other necessary SPDs.</p> <p>In the absence of specific SPDs, Procuring Entities can use other relevant SPDs, with the concurrence of NPC.</p>	<b>Low</b>		<b>Low</b>
<b>1(f)</b>	Evaluation and award criteria	Evaluation and award criteria are included in the SPDs.	<b>Low</b>		<b>Low</b>
<b>1(g)</b>	Submission, receipt and opening of tenders	Detailed instructions on bid submission and opening procedures are included in both Procurement Manual and Standard Procurement Documents. Bids received are opened by Bid Opening	<b>Low</b>		<b>Low</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
		<p>Committee (BOC) immediately after the specified closing time, and in the presence of the bidders (or their authorized representative/s) who wish to attend. A confidential register of received bids/proposals is required to be maintained.</p> <p>The opened bids, together with signed Minutes of the BOC (including attendance and details of each bid according to a format prescribed in the Procurement Manual), are to be handed over to the Procuring Entity who will in turn hand them over to the respective bid evaluation committee.</p>			
<b>1(h)</b>	Right to challenge and appeal	The Procurement Guidelines provides for a Standstill Period of at least ten (10) working days, which is mandatory for procurements under ICB, NCB, LIB and LNB. During this period, unsuccessful bidders may appeal to relevant appeals bodies.	<b>Low</b>		<b>Low</b>



## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
<b>1(i)</b>	Contract management	<p>"Guide to Project Management and Contract Management for Infrastructure Development Projects (Works)" published by Ministry of Finance in February 2017 provides detailed guidance on the principles, concepts, procedures to be followed, and forms and formats to be used in contract management.</p> <p>However, in reality, there are significant deficiencies in efficiency and decision-making related to contract management. Contracts often get extended and large value contracts can get substantially prolonged. Major reasons are delays in approving additional works, variations and claims, obtaining approvals and permits from external agencies, and social and environmental issues.</p>	<b>Substantial</b>	<p>There should be a comprehensive review and acceptance process for project requirements identification and scope finalization, including stakeholder consultation, to minimize variations and claims.</p> <p>Contract management training and capacity building programs should be made widely available throughout the state sector.</p>	<b>Substantial</b>
<b>1(j)</b>	Electronic Procurement (e-Procurement)	<p>Electronic Government Procurement (e-GP) system is in place, although it is currently limited to procurements under Invitation for Quotations / Shopping method.</p> <p>For the implementation of Electronic Government Procurement (e-GP), separate</p>	<b>Moderate</b>	<p>Electronic Government Procurement (e-GP) Guidelines should be prepared and effected. Scope of e-GP system should be</p>	<b>Moderate</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
		Guidelines and/or a Manual are to be issued by the NPC.		enhanced to include procurements under all methods.	
<b>1(k)</b>	Norms for safekeeping of records, documents and electronic data	Right to Information Act, No. 12 of 2016 stipulates that all new records created by any public institution be maintained for a period of twelve (12) years from creation, and that all existing records be maintained for a period of ten (10) years from the Act coming into effect.	<b>Low</b>		<b>Low</b>
<b>1(l)</b>	Public procurement principles in specialized legislation	<p>A separate Guideline/Manual for Public Private Partnership arrangements are to be issued by the NPC. Until those are issued, the currently applicable legal framework for PPP projects comprises of the following:</p> <p>(1) Government Tender Procedure - Part II of 1998 on Private Sector Infrastructure Projects, amended by;</p> <p>(2) Public Finance Circular No. 02/2019 dated 26.03.2019</p> <p>National Agency for Public Private Partnership (NAPPP) has been set up under the Ministry of Finance, to act as the "promoting, formulating, facilitating, and coordinating agency for serving the line ministries/agencies in PPP project implementation".</p>	<b>Moderate</b>	PPP Guidelines should be prepared and effected. Roles of NPC and NAPPP need to be clearly defined.	<b>Moderate</b>
<b>2</b>	<b>Implementing regulations and tools support the legal framework.</b>				

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
<b>2(a)</b>	Implementing regulations to define processes and procedures conditions	<p>The regulations applicable to public procurement are stipulated in the Procurement Guidelines. Detailed guidance on applying the regulations are included in the Procurement Manual. Both have been published by National Procurement Commission (NPC) and are in effect as of March 2025.</p> <p>The regulations cover works, goods and non-consultancy services. NPC will issue separate Guidelines for Selection and Employment of Consultants. Until then, current guidelines issued in 2007 will apply.</p>	<b>Low</b>		<b>Low</b>
<b>2(b)</b>	Model procurement documents for goods, works and services	<p>Standard Procurement (SPDs) for Works have been published by Construction Industry Development Authority (CIDA). NPC is said to be developing other necessary SPDs.</p> <p>In the absence of specific SPDs, Procuring Entities can use other relevant SPDs, with the concurrence of NPC.</p>	<b>Low</b>		<b>Low</b>
<b>2(c)</b>	Standard contract	Standard contract forms are included in the SPDs.	<b>Low</b>		<b>Low</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
<b>2(d)</b>	User's guide or manual for procuring entities (insert link to manual if possible)	"Procurement Guidelines - 2024" published by NPC and came into effect on 01.01.2025, is supplemented by a detailed "Procurement Manual - 2024", which was published by NPC on 14.03.2025. It provides assistance, advice, directives and procedures to be followed in carrying out procurement activities.  The manual is accessible at <a href="https://nprocom.gov.lk/manuals/#1596/1/">https://nprocom.gov.lk/manuals/#1596/1/</a> .	<b>Low</b>		<b>Low</b>
<b>3</b>	<b>The legal and policy frameworks support the sustainable development of the country and the implementation of international obligations.</b>				
<b>3(a)</b>	Sustainable Public Procurement (SPP)	There is no current SPP regulations for the country. According to the latest Procurement Guidelines, NPC will introduce a separate Guidelines and/or Manual on SPP, in line with the government policy framework and in consultation with the relevant authorities, covering implementation and monitoring aspects. SPP considerations will only be adopted after the introduction of such guidelines.	<b>Substantial</b>	Separate SPP guidelines and/or manual need to be introduced.	<b>Substantial</b>
<b>3(b)</b>	Obligations deriving from international agreement	While there are no specific legal provisions such as recognition and enforcement of cross-debarment, the Procurement Guidelines allow for adoption of the regulations of Multilateral Development Banks (MDBs) over the local regulations. In the event of a	<b>Moderate</b>	Possibility of adopting international agreements related to public procurement such as WTO	<b>Moderate</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
		conflict, the regulations of the MDB will take precedence. It is noted that Sri Lanka is not a party to the WTO Agreement on Government Procurement (GPA), and is only an observer state.		GPA need to be studied.	
<b>Consolidated findings for Pillar I</b>		<b>The country has a strong legal and regulatory framework for public procurement. Areas for improvement include e-procurement, sustainable public procurement and public-private partnerships.</b>	<b>Low</b>		<b>Low</b>
<b>Pillar II - Institutional Framework and Management Capacity</b>					
<b>4</b>	<b>The public procurement system is mainstreamed and well-integrated with the public financial management system.</b>				
<b>4(a)</b>	Procurement planning and the budget cycle	All new project proposals are first subject to review by the Department of National Planning (NPD) for feasibility and economic benefits, and approval by the Cabinet. The screened projects are then reviewed by the Public Finance Department (PFD), against current overall economic environment, where it will be determined whether or not to proceed with the project during the year under consideration. Thereafter, each project is considered for inclusion in the respective year's annual budget, depending on the national priorities and resource availability, by the Department of National Budget.	<b>Low</b>		<b>Low</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
		As per the Procurement Guidelines, a Master Procurement Plan (MPP) is to be prepared, based on the agreed Action Plan for a period of three (03) years in line with the medium-term budgetary framework of the Government. MPPs prepared by Procuring Entities are to be compiled at the Ministry level, and are to be approved by CAO.			
<b>4(b)</b>	Financial procedures and the procurement cycle	<p>Fund availability is to be confirmed before implementing procurement actions for a particular project. As per the Procurement Guidelines, an Annual Proposed Procurement Plan (APPP) is to be prepared, in accordance with the MPP and approved Action Plan, depicting procurements to be carried out during each financial year. It is to be submitted at the budgeting stage to obtain financial resources to implement the annual planned procurements, and is to be approved by CAO.</p> <p>A Detailed Annual Procurement Plan (DAPP), which contains all approved procurement packages with guaranteed financial allocations, to be implemented during each year. It is to be approved by CAO and submitted to NPC for monitoring.</p>	<b>Low</b>		<b>Low</b>
<b>3</b>	<b>The country has an institution in charge of the normative/regulatory function.</b>				

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
<b>5(a)</b>	Status and legal basis of the normative/regulatory institution function	National Procurement Commission (NPC) established in terms of Article 156B. (1) of Chapter XIX B of the Constitution, is the regulatory institution with regard to public procurement.	<b>Low</b>		<b>Low</b>
<b>5(b)</b>	Responsibilities of the normative/regulatory function	As per the Constitution of Sri Lanka, NPC is tasked with "formulating fair, equitable, transparent, competitive and cost effective procedures and guidelines, for the procurement of goods and services, works, consultancy services and information systems by government institutions".	<b>Low</b>		<b>Low</b>
<b>5(c)</b>	Organization, funding, staffing, and level of independence and authority	As per the Constitution, five (5) members to NPC are to be appointed by the President on the recommendation of the "Constitutional Council". At least three (3) of the members should have had proven experience in procurement, accountancy, law or public administration.  Expenses of NPC are to be borne by the "Consolidated Fund" of the state.	<b>Low</b>		<b>Low</b>
<b>5(d)</b>	Avoiding conflict of interest	The regulatory institution is one of the independent commissions established by the Constitution, and is thus placed at a higher level (than other government entities) in the organizational hierarchy of the government.	<b>Low</b>		<b>Low</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
<b>6</b>	<b>Procuring entities and their mandates are clearly defined.</b>				
<b>6(a)</b>	Definition, responsibilities and formal powers of procuring entities	These are defined in the Procurement Guidelines under Chapter 2 - Governance of Procurement Actions.	<b>Low</b>		<b>Low</b>
<b>6(b)</b>	Centralized procurement body	There is no centralized procurement body. Various departments and State-owned Enterprises (SOEs) carry out procurement actions as per their requirements, but all of these entities are bound to act in accordance with the Procurement Guidelines.	<b>Moderate</b>	It is required to ensure all state sector institutions strictly follow the Procurement Guidelines, by strengthening continuous monitoring and auditing.	<b>Moderate</b>
<b>7</b>	<b>Public procurement is embedded in an effective information system.</b>				
<b>7(a)</b>	Publication of public procurement information supported by information technology	Access to information related to specific procurements (tender notices and contract award notices) is available through the centralized online portal accessible at <a href="https://promise.lk/">https://promise.lk/</a> . However, not all Procuring Entities have registered in this portal yet. The registered PEs publish their procurement information in the portal, which can be viewed by anyone through the above link.	<b>Moderate</b>	It should be made mandatory for all Procuring Entities to get themselves registered in the online portal before a defined deadline.	<b>Moderate</b>



## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
<b>7(b)</b>	Use of e-Procurement	<p>Electronic Government Procurement System (e-GP) Secretariat has been established under the Ministry of Finance. An online platform has been set up, which is accessible at <a href="https://promise.lk/">https://promise.lk/</a>.</p> <p>Both Procuring Entities (PEs) and Vendors can get themselves registered with the platform. PEs can then publish procurement notices, for which Vendors can respond via the platform.</p> <p>However, the platform is currently limited to procurements under Invitation for Quotations / Shopping method.</p>	<b>Moderate</b>	Electronic Government Procurement (e-GP) platform should be expanded to include procurements under all methods. It is mandatory to use IFAD OPEN to manage procurement actions under IFAD-financed projects.	<b>Moderate</b>
<b>7(c)</b>	Strategies to manage procurement data	The Electronic Government Procurement System (e-GP) has already been set up and is being currently used for procurements under Shopping procedures. It is being expanded to cover all types of procurements, from public tender notice up to contract award, and is expected to be completed by the end of December 2025. Statistics for procurement monitoring will be available once the system is completed.	<b>Moderate</b>	e-GP system needs to be completed to include the full procurement cycle.	<b>Moderate</b>
<b>8</b>	<b>The public procurement system has a strong capacity to develop and improve.</b>				

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
<b>8(a)</b>	Training, advice and assistance	<p>While there is no bachelor's level degree programs specific to procurement, MSc in Public Procurement and Supply Chain Management program is offered by Open University of Sri Lanka (OUSL), while MBA in Supply Chain Management program is offered by University of Moratuwa (UOM).</p> <p>In addition, Diploma in Public Procurement and Contract Management (DIPPCA) is offered by several state sector organizations such as Sri Lanka Institute of Development Administration (SLIDA), Miloda Academy of Financial Studies (AFS) of the Ministry of Finance, and Kotelawala Defence University (KDU).</p> <p>Institute of Supply and Materials Management Sri Lanka (ISSM) also offers Graduate Diploma in Purchasing and Supply Chain Management.</p>	<b>Moderate</b>	Initiatives should be taken to facilitate access to academic programs, qualifications and CPD programs particular to public procurement, to a wider audience. BUILDPROC procurement certification programme would be a valuable certification and knowledge resource.	<b>Moderate</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
<b>8(b)</b>	Recognition of procurement as a profession	<p>While there are designations such as Procurement Officer and Procurement Assistant in the private sector, there are no such designations in the permanent staff of ministries and departments. However, there are the positions of Procurement Specialist and Procurement Officer in foreign-funded projects, which are only for the project duration.</p> <p>Closest professional body is the Institute of Supply and Materials Management Sri Lanka (ISSM), incorporated by Act No. 3 of 1981. It is affiliated to the International Federation of Purchasing and Supply Management (IFPSM). Sectors such as procurement, warehousing, transport and logistics are currently included under their purview.</p>	<b>Substantial</b>	Government should take the initiative to recognize procurement as a profession and include relevant professionals in the permanent cadre of state sector organizations.	<b>Substantial</b>
<b>8(c)</b>	Monitoring performance to improve the system	<p>While compliance monitoring is done by Public Finance Department (PFD), performance and progress monitoring is mostly limited to taking reactive actions. Procurement actions are monitored indirectly through periodic progress review meetings and submission of progress reports. Procurement will also be monitored as part of the general internal and external audit.</p> <p>As per the new Procurement</p>	<b>Substantial</b>	A comprehensive proactive monitoring methodology should be implemented, in terms of both timely performance (against Action Plan) and regulatory compliance.	<b>Substantial</b>

## Procurement risk matrix – part A country level

Sri Lanka Procurement Risk Matrix - Part A (Country Level)					
Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS					
Indicator # and Sub-Indicator #	Sub-Indicator Description	Findings Regarding Possible Non-compliance with IFAD PPF	Inherent Risk of Non-compliance with Project Objectives & IFAD PPF	Proposed Mitigation Measure/s	Net Risk
		Guidelines and Manual, NPC is assigned the responsibility of monitoring public procurement.			
<b>Consolidated findings for Pillar II</b>		<b>While institutional and management capacity is at a reasonable level, further improvements are required especially in moving forward with effective information systems and procurement monitoring. Recognition of procurement as a profession and enhancing formal opportunities for capacity building of procurement professionals are vital.</b>	<b>Moderate</b>		<b>Moderate</b>
Pillar III - Procurement Operations and Market Practices					
<b>9</b>	<b>Public procurement practices achieve stated objectives.</b>				
<b>9(a)</b>	Procurement Planning	The Procurement Guidelines and Manual contain detailed provisions on procurement planning. However, in practice, there are considerable gaps in aligning procurement planning with the relevant action plan, leading to significant delays.	<b>Substantial</b>	Procurement planning should be strengthened, and procurement plan should be made more coherent with the action plan of the respective Procuring Entity.	<b>Substantial</b>
<b>9(b)</b>	Selection and contracting	While selection and contracting generally follow the provisions of the Procurement Guidelines and the Manual, there are considerable delays in procurement document preparation, and bid/proposal	<b>Moderate</b>	Procurement capacity of public sector organizations should be enhanced by establishing	<b>Moderate</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
		<p>evaluation and approval process. This is mainly due to the fact that members of Technical Evaluation Committees and Procurement Committees carry out those tasks in addition to their routine duties. There are no dedicated procurement staff in most organizations, and most of the time designated Procurement Specialists and Procurement Officers are limited to foreign-funded projects, only for the duration of the project.</p> <p>The current Procurement Guidelines has identified this gap and has provisions to establish a Procurement Management Division (PMD) for each organization.</p>		institutional arrangements, hiring procurement staff for permanent cadre, implementing internal arrangements for procurement planning and monitoring, and providing adequate and relevant training.	
<b>9(c)</b>	Contract management in practice	<p>Individual Procuring Entities manage respective contracts on their own, while Department of Project Management and Monitoring (DPMM) of the Treasury monitor overall implementation and management of contracts.</p> <p>However, in reality, there are significant deficiencies in efficiency and decision-making related to contract management. Contracts often get extended and large value contracts can get substantially prolonged. Major reasons are delays in approving additional</p>	<b>Substantial</b>	There should be a comprehensive review and acceptance process for project requirements identification and scope finalization, including stakeholder consultation, to minimize variations and claims.	<b>Substantial</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
		works, variations and claims, obtaining approvals and permits from external agencies, and social and environmental issues.		Contract management training and capacity building programs should be made widely available throughout the state sector.	
<b>10</b>	<b>The public procurement market is fully functional.</b>				
<b>10(a)</b>	Dialogue and partnerships between public and private sector	<p>Almost all procurement opportunities following competitive bidding procedures are published in national newspapers. However, there have been a considerable number of high-value contracts entered into on "single source" basis, either on government-to-government (G2G) basis or in the form of unsolicited proposals, e.g., in sectors such as ports, aviation, transport, power and energy, etc. Unsolicited proposals are not addressed in the latest Procurement Guidelines; rather they come under a much older set of regulations published in 1998.</p> <p>National Construction Association of Sri Lanka (NCASL), an organization representing the construction contractors of the country, and Chamber of Construction Industry of Sri Lanka (CCI), a</p>	<b>Moderate</b>	An updated set of regulations for dealing with unsolicited proposals should be developed in a consultative process and integrated into the Procurement Guidelines and Manual.	<b>Moderate</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
		representative body of all stakeholders of the local construction industry, play important roles in enhancing the dialogue between public and private sector in construction industry.			
<b>10(b)</b>	Private sector's organization and access to the public procurement market	Sri Lanka has a strong and competitive private sector with a large number of contractors, suppliers and service providers. The construction contractors are registered and graded by Construction Industry Development Authority (CIDA). There is no country-wide registration system for others such as material suppliers, but most public institutions have their own systems for annual registration of suppliers.	<b>Moderate</b>	Private sector participation in sectors such as goods and services should be formalized.	<b>Moderate</b>
<b>10(c)</b>	Key sectors and sector strategies	Key sectors for public investments are identified by the government in allocating financial resources, but there appears to be no sector-specific assessment of procurement risks or targeting of policies.	<b>Substantial</b>	Sector-specific public procurement strategies should be formulated, in line with identified priorities for public expenditure and resource allocation.	<b>Substantial</b>
<b>Consolidated findings for Pillar III</b>		<b>There is substantial room for improvement in practical aspects such as procurement planning and contract management.</b>	<b>Substantial</b>		<b>Substantial</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
		<b>Dialogue with the private sector should be enhanced.</b>			
<b>Pillar IV - Accountability, Integrity and Transparency</b>					
<b>11</b>	<b>Transparency and civil society engagement strengthen integrity in public procurement.</b>				
<b>11(a)</b>	Enabling environment for public consultation and monitoring	There is limited or no public consultation or civil society participation in formulating public procurement policies and regulations. In fact, a Fundamental Rights Petition has been filed in the Supreme Court challenging the new Procurement Guidelines and Manual by a leading civil society organization, citing lack of accountability and openness.	<b>High</b>	A public consultation process should be introduced into the public procurement policy formulation.	<b>High</b>
<b>11(b)</b>	Adequate and timely access to information by the public	Public has free access to guidelines, manuals, and relevant circulars related to public procurement, which are published online. Access to information related to specific procurements (tender notices and contract award notices) is available through the centralized online portal accessible at <a href="https://promise.lk/">https://promise.lk/</a> . However, not all Procuring Entities have registered in this portal yet. The registered PEs publish their procurement information in the portal, which can be viewed by anyone through the above link.	<b>Moderate</b>	It should be made mandatory for all Procuring Entities to get themselves registered in the online portal before a defined deadline.	<b>Moderate</b>



## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
		<p>The following information sources are also available to the public:</p> <ul style="list-style-type: none"> <li>* Tender notices published in newspapers and web sites of relevant Procuring Entities, and</li> <li>* Contract award notices published by certain Procuring Entities (e.g., foreign-funded projects) in their web sites</li> </ul> <p>In addition, any person could request information pertaining to a particular procurement, as provided for in the Right to Information Act, No. 12 of 2016.</p>			
<b>11(c)</b>	Direct engagement of civil society	<p>Participation by the civil society in specific procurement processes is mostly limited to the planning stage, where social concerns are taken into account as part of social/environmental screening and/or impact assessment. During contract implementation stage, the civil society can have limited participation by raising their grievances through respective mechanism, which however may mostly be limited to foreign-funded projects.</p> <p>There are no provisions for the participation of civil society in bid/proposal opening, evaluation or contract award as observers.</p>	<b>Substantial</b>	Opportunities for participation of civil society in all stages of public procurement should be substantially enhanced.	<b>Substantial</b>
<b>12</b>	<b>The country has effective control and audit systems.</b>				

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
<b>12(a)</b>	Legal framework, organization and procedures of the control system	<p>National Audit Act, No. 19 of 2018 forms the legal framework for audit in Sri Lanka. The Act established the National Audit Office (NAO) and Audit Service Commission (ASC).</p> <p>Review of procurement actions has been brought under the purview of the Auditor-General, i.e., "whether the resources of the auditee entity had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws", in terms of Clause 12 (h) of the Act.</p>	<b>Low</b>		<b>Low</b>
<b>12(b)</b>	Co-ordination of controls and audits of public procurement	Each public institution has a separate Internal Audit Unit. In addition, these institutions are subject to audit by the Audit Management Division of the line ministry and to external audit by NAO, annually.	<b>Moderate</b>	Capacity of auditing bodies should be expanded.	<b>Moderate</b>
<b>12(c)</b>	Enforcement and follow-up on findings and recommendations	<p>Auditor-General, if not satisfied with the responses received from relevant public institutions on audit findings, can forward the findings to the applicable financial committees in the Parliament, as the ultimate authority over public funds lie with the Parliament. The two committees are;</p> <p><u>Committee on Public Accounts (COPA)</u>: This is tasked with reviewing the managerial efficiency and financial</p>	<b>Substantial</b>	Implementation of follow-up actions should be significantly fast-tracked, with necessary resource allocation, institutional strengthening and progress monitoring.	<b>Substantial</b>

## Procurement risk matrix – part A country level

Sri Lanka Procurement Risk Matrix - Part A (Country Level)					
Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS					
Indicator # and Sub-Indicator #	Sub-Indicator Description	Findings Regarding Possible Non-compliance with IFAD PPF	Inherent Risk of Non-compliance with Project Objectives & IFAD PPF	Proposed Mitigation Measure/s	Net Risk
		<p>discipline of the government and examining the accounts of public institutions on the usage of public funds. COPA does so by examining the reports of the Auditor-General together with the sums voted by the Parliament in annual budget. COPA can summon secretaries to ministries, heads of departments and other responsible officers.</p> <p><u>Committee on Public Enterprises (COPE)</u>: This is tasked with reviewing the financial discipline and examining the accounts, budgets and estimates, financial procedures, performance and management of State-owned Enterprises (SOEs) such as public corporations and other business undertakings of the government.</p> <p>These two committees are empowered to summon and question any person, and have access to and review any document. They will report their findings and recommendations to the Parliament, and their recommendations are deemed to be directives from the Parliament to respective institutions for due compliance.</p> <p>However, despite the</p>			

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
		availability of legal provisions, there is a noticeable lack of enforcement of follow-up actions in practice.			
<b>12(d)</b>	Qualification and training to conduct procurement audits	There are no specific "procurement audits" and procurement actions are scrutinized under the general audit process.	<b>High</b>	Procurement audit procedures should be established and procurement auditors should be trained.	<b>High</b>
<b>13</b>	<b>Procurement appeals mechanisms are effective and efficient.</b>				
<b>13(a)</b>	Process for challenges and appeals	<p>Relevant appeals bodies are as follows:</p> <ul style="list-style-type: none"> <li>i. Procurement Appeal Board (PAB) for High level Procurements related to SHLPC (Standing High Level Procurement Committee) and HLPC (High Level Procurement Committee);</li> <li>ii. Ministry Procurement Appeal Committee (MPAC) for Ministry level Procurements;</li> <li>iii. Department Procurement Appeal Committee (DPAC) for Department level procurements;</li> <li>iv. Project Procurement Appeal</li> </ul>	<b>Low</b>		<b>Low</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
		<p>Committee (PPAC) for Project level procurements; and v. Regional Procurement Appeal Committee (RPAC) for Regional level Procurements.</p> <p>Composition of and appointment procedure for relevant appeals bodies is detailed in the Procurement Manual. Determination of each appeals body should be submitted within ten (10) working days, except for RPAC, for which the duration is five (5) working days.</p>			
<b>13(b)</b>	Independence and capacity of the appeals body	<p>All appeals bodies, except for PAB, are appointed by the same appointing authority as the relevant Procurement Committee (PC). PAB is appointed by the Cabinet, whereas the relevant PC is appointed by Secretary to the Treasury.</p> <p>Members of PAB and MPAC are required to have expertise and experience in fields such as public procurement, public finance, public administration, law, engineering, or any other relevant field. For other appeals bodies, the Chairman is required to have experience in public procurement.</p>	<b>Moderate</b>	Independence of appeals bodies should be improved, by changing the appointing authority.	<b>Moderate</b>
<b>13(c)</b>	Decisions of the appeals body	Decisions of appeals bodies are not binding, as they are tasked with determining whether the points raised by the appellant have any merit or not.	<b>Substantial</b>	There should be more recognition to the determination	<b>Substantial</b>

## Procurement risk matrix – part A country level

Sri Lanka Procurement Risk Matrix - Part A (Country Level)					
Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS					
Indicator # and Sub-Indicator #	Sub-Indicator Description	Findings Regarding Possible Non-compliance with IFAD PPF	Inherent Risk of Non-compliance with Project Objectives & IFAD PPF	Proposed Mitigation Measure/s	Net Risk
		<p>In the case of appeals to PAB on SHLPC and HLPC, they will submit their determination to the Cabinet of Ministers. In the case of appeals to relevant PAC on MPC, DPC, PPC and RPC, they will submit their recommendations to the approving authority of the next higher level as per the Procurement Manual.</p> <p>The next available relief for dissatisfied appellants would be to seek legal remedies from the relevant court.</p>		ns of appeals bodies. If the relevant Procurement Committee decides to set aside such determinations, there should be a transparent process, with the justifications properly documented.	
<b>14</b>	<b>The country has ethics and anti-corruption measures in place.</b>				
<b>14(a)</b>	Legal definition of prohibited practices, conflicts of interest, and associated responsibilities, accountability and penalties	<p><u>Prohibited practices</u> Acts of corruption, fraud, collusion, coercion, or obstruction are defined as prohibited practices in NPC Procurement Guidelines. Anti-Corruption Act also defines offences related to procurement and public contracts.</p> <p><u>Conflict of interest</u> Public officers and individuals involved in Public Procurement are required to declare any conflict of interest before commencement of relevant Procurement Process and to refrain from participating in such procurement. Section 107 of Anti-Corruption Act, which defines penalties, shall apply.</p>	<b>Moderate</b>	While legal framework is available, implementation should be considerably strengthened with providing resources, capacity building, and monitoring of backlog.	<b>Moderate</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
<b>14(b)</b>	Provisions on prohibited practices in procurement documents	Standard Procurement Documents (SPDs) contain provisions on prohibited practices, including giving the Employer right to terminate the contract, if the bidder's involvement in corrupt or fraudulent practices is found after award of the contract.	<b>Moderate</b>	Additional provisions on prohibited practices and legal repercussions should be included in the SPDs.	<b>Moderate</b>
<b>14(c)</b>	Effective sanctions and enforcement systems	<p>2024 Procurement Guidelines stipulate the procedure for sanction/debarment/blacklisting. Authority for action is defined based on procurement value.</p> <p>For contract values above LKR 200 million, blacklist to be maintained by Ministry of Finance. For lower value contracts, blacklist to be maintained by relevant Procuring Entity. In either case, blacklisting is to be notified to NPC.</p> <p>There is a procedure in place for reviewing and approving requests for blacklisting received from Procuring Entities, through a review committee.</p>	<b>Moderate</b>	There should be a single publicly accessible database of blacklisted bidders.	<b>Moderate</b>
<b>14(d)</b>	Anti-corruption framework and integrity training	Sri Lanka's situation with respect to anti-corruption has continuously deteriorated over the past decade, as the country's score on Corruption Perceptions Index (CPI) determined by Transparency International (TI) has steadily declined from 40 (2012) to 32	<b>High</b>	A structured anti-corruption training program should be established for public sector	<b>High</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
		<p>(2024). The country is now ranked as the 121st least corrupted (out of 180) in the rankings.</p> <p>Anti-Corruption Act, No. 9 of 2023, which amalgamates the provisions of; (a) Commission to Investigate Allegations of Bribery or Corruption (CIABOC) Act, No. 19 of 1994, (b) the Bribery Act (Chapter 26) and, (c) the Declaration of Assets and Liabilities Law, No. 1 of 1975, forms the anti-corruption framework of the country. It contains provisions for combating corruption including in the public procurement sector. Procurement Guidelines also make references to this Act.</p> <p>Main stakeholders in the anti-corruption framework are Commission to Investigate Allegations of Bribery or Corruption (CIABOC), Financial Crimes Investigation Division (FCID) of Sri Lanka Police, National Audit Office (NAO), and Attorney-General's Department (AGD).</p> <p>There is no structured anti-corruption training regime in place in the public sector.</p>		officials, to supplement the legal framework.	



## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
<b>14(e)</b>	Stakeholder support to strengthen integrity in procurement	There are several non-governmental organizations (NGOs) that work in the realm of governance, transparency and accountability in public finance management, including procurement. These organizations reach out to people using mainstream and social media as well as through public forums, and their publications can be accessed online. However, there is limited direct engagement with the government regarding public procurement.	<b>Substantial</b>	Opportunities should be broadened for all stakeholders to have direct engagement with the government on public procurement related matters.	<b>Substantial</b>
<b>14(f)</b>	Secure mechanisms for reporting prohibited practices or unethical behavior	<p>The public can report prohibited practices or unethical behavior to the Commission to Investigate Allegations of Bribery or Corruption (CIABOC) via several means; in person, in writing, over the phone, using toll-free hotline (1954), via fax, via e-mail, or by using the online form available at the web site: <a href="https://www.ciaboc.gov.lk/">https://www.ciaboc.gov.lk/</a>.</p> <p>While there is no specific Act for whistleblower protection, the Assistance to and Protection of Victims of Crime and Witnesses Act, No. 10 of 2023 provides some protection if a whistleblower becomes a witness in subsequent legal proceedings.</p>	<b>Moderate</b>	Effective legal provisions for whistleblower protection and preserving confidentiality should be introduced.	<b>Moderate</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
<b>14(g)</b>	Codes of conduct/codes of ethics and financial disclosure rule	<p>The Establishments Code issued by the Ministry of Public Administration serves as a comprehensive set of guidelines that all public servants are expected to adhere to. It contains principles of conduct, discipline, and expected behavior for public officials, and outlines rules, regulations, and disciplinary procedures.</p> <p>The Anti-Corruption Act, No. 9 of 2023, which replaced (inter alia) Declaration of Assets and Liabilities Law, No. 1 of 1975, requires all public officials to make annual declarations of their assets and liabilities within and outside Sri Lanka (including those of his immediate family members).</p>	<b>Low</b>		<b>Low</b>
<b>Consolidated findings for Pillar IV</b>		<b>While legal provisions are available to a satisfactory level with regard to transparency and accountability, implementation aspects should be enhanced significantly, particularly with respect to follow-up actions on audit findings. Civil society participation and engagement in participatory processes for policy formulation should be encouraged and facilitated.</b>	<b>Substantial</b>		<b>Substantial</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
<b>Consolidated findings at country level</b>		<p>Sri Lanka has a strong legal and regulatory framework for public procurement. The framework mainly comprises of the Procurement Guidelines (effective from January 2025) and Procurement Manual (effective from March 2025) published by the National Procurement Commission (NPC), an independent body set up under the provisions of the country's constitution. These regulations are supplemented by other Acts such as Anti-Corruption Act and National Audit Act, which contain important legal provisions that are directly related to public procurement.</p> <p>Areas for improvement of the overall public procurement framework are;</p> <p>(a) Introduction of separate guidelines and/or manuals for e-procurement, sustainable public procurement and public-private partnerships,</p> <p>(b) Procurement planning, monitoring and contract management, together with enhanced use of information systems,</p> <p>(c) Access to formal training and capacity</p>	<b>Moderate</b>	<p>(a) Introduction of separate guidelines and/or manuals for e-procurement, sustainable public procurement and public-private partnerships</p> <p>(b) Procurement planning, monitoring and contract management, together with enhanced use of information systems</p> <p>(c) Access to formal training and capacity building programs for state sector officials involved in</p>	<b>Moderate</b>

## Procurement risk matrix – part A country level

<b>Sri Lanka Procurement Risk Matrix - Part A (Country Level)</b>					
<b>Based on MAPS II – ASSESSMENT OF NATIONAL PROCUREMENT SYSTEMS</b>					
<b>Indicator # and Sub-Indicator #</b>	<b>Sub-Indicator Description</b>	<b>Findings Regarding Possible Non-compliance with IFAD PPF</b>	<b>Inherent Risk of Non-compliance with Project Objectives &amp; IFAD PPF</b>	<b>Proposed Mitigation Measure/s</b>	<b>Net Risk</b>
		building programs for state sector officials involved in procurement, (d) Dialogue with and active engagement of private sector and civil society in procurement policy formulations, and (e) Follow-up actions on audit findings and corruption investigations.		procurement (d) Dialogue with and active engagement of private sector and civil society in procurement policy formulations (e) Follow-up actions on audit findings and corruption investigations	

## Integrated country risk matrix

Integrated Country Risk Matrix			
Risk type	Inherent risk	Residual risk	Mitigation measures
<p>Country context</p> <p>In 2022 Sri Lanka faced the worst economic crises in its history. Sri Lanka's Economy has started signs of Stabilization after an agreement with IMF in 2023 and initiating several critical reforms. However, the path to restoring growth and prosperity will hinge on a successful debt restructuring, adequate support to the most poor and vulnerable, and continued reform .,</p>	Substantial	Moderate	<p>IFAD will support the post economic crises agriculture modernisation and commercialisation reform.</p> <p>The projects will be designed to support inclusive and accelerated rural poverty reduction and vulnerability and enhanced food security through pursuing agriculture modernisation and commercialisation.</p>
<p>Political commitment</p> <p>The economic stabilisation and recovery for Sri Lanka is underpinned by calming of the turbulent political situation. The current government is focused on stabilisation of economy and is committed to implementation of the IMF programme. Apparently, there seem to be a concursus on economic stabilisation and recovery and there has been no opposition to the reforms, at least publicly. With Presidential elections due in Sep. 2024 after a period of political and economic upheaval, changes or delays in implementation of the reforms will weigh heavily on the economic recovery, leading to unrest.</p>	Substantial	Moderate	<p>Continuous engagement and communications between IFAD and the Government keeping track of the emerging issues in the face of political constraints. The COSOP will focus on small framers, rural poor, vulnerable household, women, and youth,</p>
<p>Governance</p> <p>Sri Lanka is ranked 96<sup>th</sup> out of 180 countries in the 2021 Corruption Perceptions Index. Sri Lanka's parliament in Oct 2021 passed a constitutional amendment aimed at restoring parliaments powers, beefing up anti-corruption safeguards and helping to find a way out of the country's worst financial crisis since independence. However, the risk of fraud and corruption remain substantial which will require careful management. Financial constraints due to macroeconomic situation, may affect resources allocation for rural development.</p>	Substantial	Moderate	<p>COSOP activities will policy formulation support and will strengthening institutional and management mechanisms of public sector institutions for effective management and implantation of agriculture and rural development programmes.</p>

## Integrated country risk matrix

Integrated Country Risk Matrix			
Risk type	Inherent risk	Residual risk	Mitigation measures
<p><b>Macroeconomic</b> In 2022, Sri Lanka faced a severe economic crisis due to the longstanding structural weaknesses, which were exacerbated by exogenous shocks and policy issues. The country announced an external debt service suspension in April 2022, pending debt restructuring. The economy contracted by 9.5 percent in total during 2022 and 2023. The economy showed initial signs of stabilization in 2023, as external and fiscal balances improved and is expected to continue to stabilize in 2024 and beyond</p>	Substantial	Moderate	<p>The IFAD Country Office will proactively assess macroeconomic situation and manage loan and co-financing to cushion any potential adverse impacts on portfolio financing requirements.</p> <p>IFAD investments will support government road map poverty reduction, food security, nutrition and agriculture modernisation and commercialisation.</p> <p>The COSOP will particularly focus on initiatives to assist landless and vulnerable poor households and small farmers to mitigate impact of recent economic crises and build sustainable livelihoods.</p>
<p><b>Fragility and security</b> <i>The risk that the country is vulnerable to natural and man-made shocks including civil unrest, conflict, and/or weak governance structures and institutions.</i></p>	Low	Low	
<p><b>Sector strategies and policies.</b>  Recognising the agriculture sector as a significant economic driver and critical for poverty reduction and sustainable livelihood for rural poor, Sri Lanka's new policy direction focuses on implementing a comprehensive agricultural reform to achieve a modern, resilient, inclusive and green agriculture in line with the country's revival process from the economic crisis.</p> <p>The main risk in relation to sector strategies and policies is lack of resources for implementation.</p>	Substantial	Moderate	<p>The GoSL and relevant ministries have expressed a strong desire to strengthen their engagement with IFAD for steering the country out of the current economic uncertainties through its support for agricultural modernisation and commercialisation and associating policy and institutional reform.</p> <p>In backdrop of economic crises and subsequent reforms, the COSOP sets out IFAD's strategy, to support the Government's aim of agricultural reforms to achieve modernisation, resilient, inclusive and green agriculture sector in line with the Country's rebuilding process from the economic crisis.</p>

## Integrated country risk matrix

Integrated Country Risk Matrix			
Risk type	Inherent risk	Residual risk	Mitigation measures
<p>Policy alignment</p> <p>Sri Lanka is in process of developing agriculture sector reform policy based on Agriculture Sector Modernization Road Map (2025- 2029)</p>	Moderate	Low	<p>The COSOP is aligned with and contributes to post economic crises national comprehensive agricultural reforms to achieve a modern, resilient, inclusive and green agriculture sector.</p> <p>IFAD will maintain close and ongoing engagement with the Ministry of Agriculture and President's Secretariate and main development partners UNDP, RBA, ADB, WB etc for policy advocacy and to discuss emerging policy issues and project implications on policy areas.</p>
<p>Policy development and implementation</p> <p>Sri Lanka as part of the recovery process from the economic crises, is in process of formulating policies and strategies for agriculture reforms. Two major initiatives of Agricultura Sector Modernisation Roadmap 2025-2029 by the President's Agriculture Modernization Secretariat and National Agriculture Policy by the Ministry of Agriculture are in process. A major risk is lack of coordination and complementarities between the two initiatives. Additionally, in view of diverse agroecological conditions of the country, differentiated strategies are needed for different parts of the country.</p>	Substantial	Moderate	<p>The following potential areas for policy engagement, which are vital for agriculture modernisation and commercialisation: (i) Enabling Environment for Private Sector Involvement in Agriculture Sector; and (ii) Agribusiness/Value Chain Financing</p> <p>IFAD-funded projects will be supported by the country team to develop knowledge products as evidence-based contributions to the national forums - including identifying gaps in existing policies and formulating recommendations for reform.</p>
<p>Environmental, social and climate context</p> <p>Sri Lanka is among the most vulnerable countries globally to climate change, impacting agriculture, fisheries, and tourism. Sri Lanka's climate vulnerability manifests itself through heat stress, drought, extreme precipitation events and salinisation, causing a multitude of secondary effects on the rural economy. Sri Lanka's food security is adversely affected by extreme rainfall variability and heat stress.</p>	Substantial	Moderate	<p>The COSOP and projects investments are geared at climate change adaptation and building resilience.</p> <p>Social, environmental and climate sustainability is critical for achieving the objectives of IFAD and its partners. IFAD's SECAP offer a framework and process for managing risks and impacts, and for mainstreaming priorities on Environment into new IFAD-supported investments.</p>

## Integrated country risk matrix

Integrated Country Risk Matrix			
Risk type	Inherent risk	Residual risk	Mitigation measures
<p>Financial management</p> <p><i>IFAD Financing agreement defines the fiduciary obligations pertaining to the project funds. Several FM arrangements are made to ensure that resources are used for the intended purposes with due regard to efficiency, economy, and effectiveness. There is however a risk that the borrower will not comply with the Financing agreement and financial management requirements.</i></p>	Substantial	Substantial	<p>Though Sri Lanka has ongoing IFAD projects under implementation, regular training for project staff and government officials on IFAD regulations and effective financial management practices is required for new Projects.</p> <p>Operationalise Farming System Sustainability Fund under the SAPP financial agreement.</p>
<p>Organization and staffing</p> <p><i>Limited FM capacity in public institutions and rural financial intermediaries may hinder effective project implementation and oversight.</i></p>	Substantial	Substantial	<p>Invest in targeted FM capacity-building programs. Support institutional strengthening through consultants to augment government staff/PMUs. Promote knowledge transfer and peer learning with experienced partners.</p>
<p>Budgeting</p> <p><i>Delays in budget approvals and weak integration of IFAD projects into national budget systems may affect resource availability</i></p>	Substantial	Substantial	<p>If applied consistently, recent reforms in the budget processes through the Sri Lanka PFM Act might reduce inefficiencies and streamlining procedures in the budget approval process. Align project planning with national budget cycles. Support the implementation of the new PFM Act to improve budget credibility. Advocate for multi-year budgeting and improved budget execution tracking.</p>
<p>Funds flow/disbursement arrangements.</p> <p><i>. Debt sustainability concerns and complex disbursement procedures may delay fund flows and increase fiduciary risk.</i></p>	Substantial	Substantial	<p>Simplify disbursement procedures and establish dedicated project accounts. Monitor fund flows closely and ensure ring-fencing of project resources.</p>
<p>Country internal controls</p> <p><i>IFAD operations will consider using government internal auditors where feasible. However staffing capacities might affect planned audits and negatively impact on internal control oversight. High corruption perception and outdated diagnostics may weaken internal control systems.</i></p>	Substantial	Substantial	<p>Strengthen internal audit functions and risk-based audit planning. Introduce real-time expenditure tracking and digital controls. Conduct regular fiduciary reviews and third-party validations. Where private consultants are engaged, they should be registered with the relevant bodies.</p>



## Integrated country risk matrix

Integrated Country Risk Matrix			
Risk type	Inherent risk	Residual risk	Mitigation measures
Accounting and financial reporting <i>Inconsistent use of country systems and un-customised reporting tools may lead to reporting delays and errors. Adopted accounting standards and framework on Public Financial Management (PFM) compliance issues.</i>	Substantial	Substantial	Support gradual adoption of country systems in line with the new PFM Act. Provide technical support for integrating and customizing accounting software. Train staff on accounting standards reporting requirements and ensure timely, accurate financial reporting.
External audit <i>Limited independence and capacity of the Supreme Audit Institution (SAI) may compromise audit quality and timeliness leading to possible lack of proper oversight.</i>	Substantial	Substantial	Engage early with the SAI to plan timely audits. Provide capacity-building support for IFAD-specific audit requirements.
Procurement issues <i>Sri Lanka has a strong legal and regulatory framework for public procurement. The framework mainly comprises of the Procurement Guidelines (effective from January 2025) and Procurement Manual (effective from March 2025) published by the National Procurement Commission (NPC), an independent body set up under the provisions of the country's constitution. These regulations are supplemented by other Acts such as Anti-Corruption Act and National Audit Act, which contain important legal provisions that are directly related to public procurement.</i> <i>Areas for improvement of the overall public procurement framework are;</i> <i>(a) Introduction of separate guidelines and/or manuals for e-procurement, sustainable public procurement and public-private partnerships,</i> <i>(b) Procurement planning, monitoring and contract management, together with enhanced use of information systems,</i> <i>(c) Access to formal training and capacity building programs for state sector officials involved in procurement,</i> <i>(d) Dialogue with and active engagement of private sector and civil society in procurement policy formulations, and</i>	Moderate	Moderate	(a) Introduction of separate guidelines and/or manuals for e-procurement, sustainable public procurement and public-private partnerships (b) Procurement planning, monitoring and contract management, together with enhanced use of information systems (c) Access to formal training and capacity building programs for state sector officials involved in procurement (d) Dialogue with and active engagement of private sector and civil society in procurement policy formulations (e) Follow-up actions on audit findings and corruption investigations

## Integrated country risk matrix

Integrated Country Risk Matrix			
Risk type	Inherent risk	Residual risk	Mitigation measures
<i>(e) Follow-up actions on audit findings and corruption investigations.</i>			
<p>Pillar I. Legal, regulatory and policy framework</p> <p><i>This pillar assesses the existing legal, regulatory and policy framework for public procurement. It identifies the formal rules and procedures governing public procurement and evaluates how they compare to international standards. The practical implementation and operation of this framework is the subject of pillars II and III. The indicators within this pillar embrace recent developments and innovations that have been increasingly employed to make public procurement more efficient. Pillar I also considers international obligations and national policy objectives to ensure that public procurement lives up to its important strategic role and contributes to sustainability.</i></p>	Low	Low	
<p>Pillar II. Institutional framework and management capacity</p> <p><i>This pillar assesses how the procurement system defined by the legal and regulatory framework in a country is operating in practice, through the institutions and management systems that make up overall governance in its public sector. This pillar evaluates how effective the procurement system is in discharging the obligations prescribed in the law, without gaps or overlaps. It assesses: i) whether it is adequately linked to the country's public finance management system; ii) whether institutions are in place in charge of necessary functions; and iii) whether the managerial and technical capacities are adequate to undertake efficient and transparent public procurement processes.</i></p>	Moderate	Moderate	Information systems and procurement monitoring need to be improved. Procurement needs to be recognized as a profession and formal capacity building opportunities for procurement professionals need to be made adequately available.
<p>Pillar III. Public procurement operations and market practices</p> <p><i>This pillar looks at the operational efficiency, transparency and effectiveness of the procurement system at the level of the implementing entity responsible for managing individual procurements (procuring entity). In addition, it looks at the market as one means of judging the quality and effectiveness of the system in putting procurement procedures into practice. This pillar focuses on how the procurement system in a country operates and performs in practice.</i></p>	Substantial	Substantial	Procurement planning and contract management practices need to be subject to a thorough review and necessary capacity building needs to be done. Government needs to maintain healthy dialogue with the private sector in public procurement activities and policy formulation.

## Integrated country risk matrix

Integrated Country Risk Matrix			
Risk type	Inherent risk	Residual risk	Mitigation measures
<p>Pillar IV. Accountability, integrity and transparency of the public procurement system</p> <p><i>Pillar IV includes four indicators that are considered necessary for a system to operate with integrity, that has appropriate controls that support the implementation of the system in accordance to the legal and regulatory framework, and that has appropriate measures in place to address the potential risks for corruption in the system. It also covers important aspects of the procurement system, which include stakeholders, including civil society, as part of the control system. This pillar takes account of the procurement system and governance environment to ensure they are defined and structured to contribute to integrity and transparency.</i></p>	Substantial	Substantial	Implementation of legal provisions related to transparency and accountability need to be enhanced significantly, particularly with respect to follow-up actions on audit findings. Civil society needs to actively participate in and engage with the government in procurement policy formulation, which needs to be encouraged and facilitated by the government.

## Agricultural and rural sector issues

1. Background: The total land area of Sri Lanka is 65,610 square kilometres, of which 45.46 per cent (% of land area) is agricultural land. Sri Lanka's agricultural land is divided into three climatic zones: dry, intermediate, and wet. Two-thirds of the agricultural area is in the dry zone, which covers the country's northern, eastern and south-eastern parts. This is also where the bulk of the irrigation infrastructure is located. There are two cultivation seasons, namely, Maha and Yala, which are synonymous with monsoons. The Maha Season falls during the "Northeast monsoon" from September to March, while the Yala season is effective from April to the end of August.

2. The Agriculture Sector: The national economy is dominated by the services sector, which constitutes 60 per cent of the GDP, followed by industry (including construction) with 25.6 per cent. The agriculture sector contributes 8.3 per cent to GDP. Foreign remittances contribute nearly 6.4 per cent to the GDP. Sri Lanka's agriculture is characterised by a non-plantation (rice, fruits, vegetables, field crops and spices) sector and a plantation sector (tea, rubber, coconut, sugar, and oil palm), the floriculture and ornamental crops, livestock, fisheries and forestry. About 80 per cent of the country's agricultural land is used for non-plantation food crops, predominantly by smallholder farms. About 1.65 million small scale producers operate on average less than 2 hectares and contribute 80 per cent of the total annual food production.

3. The plantation crop segment is dominated by tea, rubber, coconut, cashew, oil palm, and sugarcane. Plantation crops are cultivated in large estates and small and medium land holdings. Tea, rubber, and coconut are the major agricultural commodities exported. Minor export crops include spices such as cinnamon, pepper, cloves, cardamom, and vanilla, as well as other perennial crops such as cocoa, coffee and cashew. Sri Lanka is the world's largest producer and exporter of cinnamon, ranks third for cloves and fifth for nutmeg. In 2023, the agriculture export share of total exports accounted for about 17 per cent.

4. Structural Transformation: Sri Lanka's economy underwent steady structural transformation over the last two decades. During this time, economic activities increasingly shifted toward industry and services. However, despite its declining share of the GDP, the agriculture sector remains central to the economy's overall growth, food security, employment generation and poverty alleviation. The sector employs 26 per cent of the national labour force, and a vast majority of Sri Lanka's 80% rural population derive their livelihood from the agriculture sector directly and/or indirectly. The structural transformation resulted in a shift from farm to nonfarm activities. However, the nature of nonfarm activities is quite heterogeneous; most rural nonfarm activities are linked to the broader agricultural value chain through input supply, processing, transportation, and marketing.

5. COVID-19 and Economic Crisis: Since 2022, Sri Lanka has been grappling with the worst economic crisis, resulting from persistent fiscal and current account deficits coupled with severe governance weaknesses. Multiple shocks since late 2018 and several policy missteps aggravated macroeconomic imbalances, forcing the country to announce an external debt service suspension in April 2022. The economy contracted by 7.3 per cent in 2022 and 2.3 per cent in 2023. Sri Lanka forecasts 1.9 per cent growth in 2024 and 2.5 per cent in 2025.

6. Agricultural activities exhibited a notable resurgence, with a 2.6 per cent increase in value added in 2023, marking a significant turnaround from the 4.2 per cent contraction witnessed in 2022, mainly driven by the improved supply conditions, especially fertiliser,

other agrochemical inputs and fuel. While growing rice, fruits, vegetables, and fishing activities were the main contributors, tea, rubber and coconut production contracted during the year, largely due to the adverse impact of weather anomalies.

7. Multiple compounding factors of the country's worst economic crises in 2022, included a policy to shift to organic or biological farming. With a deepening socio economic crisis, Sri Lanka initiated an ill-conceived national experiment in organic agriculture by imposing a ban on imports of chemical fertilisers and pesticides in May 2021. Domestic rice production fell 20 per cent in just the first six months. Sri Lanka, long self-sufficient in rice production, has been forced to import US\$450 million worth of rice even as domestic prices for this staple of the national diet surged by around 50 per cent. Tea production, the country's prime export, fell by 18 per cent.

8. With 15 months out of the 48-month Extended Fund Facility (EFF) agreement that Sri Lanka entered with the IMF in March 2022 has passed now, the reforms under the EFF are underway, and the economy started to recover from the crisis. According to the IMF assessment (June 2024), the economy is still vulnerable, and the path to debt sustainability remains crucial. The IMF has admitted the potential cost of the elections in terms of the considerable uncertainties that it has created. Given the current political and policy environment, there is a critical need to sustain the reform momentum.

9. Food Security: The 2022 economic crisis, which resulted in high inflation, soaring prices, unfavourable harvests and depleted foreign reserves, led to a substantial impact on food security. As a result, 28 per cent of the population were estimated to be food insecure. The highest level of acute food insecurity was observed in the estate sector (tea production) and among female-headed households. Food and livelihood-related coping strategies were widely adopted, including cutting the number of meals consumed daily, reducing meal sizes, spending savings, and purchasing food on credit.

10. In 2023, food insecurity improved in Sri Lanka. An estimated 3.9 million people, or 17 per cent of the population, were food insecure, nearly a 40 per cent decrease from 2022. Improving food security stems from better food consumption, which could be attributed to reduced food prices and improved incomes among farming communities during the harvesting period when the mission was carried out. Despite this positive trend, food insecurity remains high in certain districts. The highest level of acute food insecurity was found within the tea plantation communities in the estate sector and among daily wage labourers and households who rely on social assistance programmes as their primary source of income.

11. Climate Change: Sri Lanka is among the most vulnerable countries globally to climate change, impacting agriculture, fisheries, and tourism. Sri Lanka's climate vulnerability manifests itself through heat stress, drought, extreme precipitation events and salinisation, causing a multitude of secondary effects on the rural economy. Sri Lanka's food security is adversely affected by extreme rainfall variability and heat stress. Heat waves, water scarcity, flooding, drought, landslides, and cyclones disproportionately affect the poor and could cause a potential 7.7 per cent GDP decline in Sri Lanka by 2050 and living standards of people are expected to reduce by an average of 7 to 7.5 per cent, especially in the Northern and Northwestern provinces which are home to significant numbers of poor and displaced people. The agriculture sector is very vulnerable to climate change. In the recent past, prolonged droughts and floods, sometimes in rapid succession, have adversely affected national crop production with cascading effects on farmers' incomes at the household level. The low predictability of rainfall patterns in terms of both amount and spatial distribution and the frequent occurrence of extreme events affect water management and agricultural planning, from farmers' operations to national

agricultural policies. Furthermore, the combination of heavy rains, soil tillage and poor nutrient cycling results in soil erosion and soil fertility loss in the uplands. This reduces productivity in upland farmers' fields and causes the siltation of water reservoirs, with negative consequences for irrigation systems and water productivity in the lowlands. Climate modelling studies show that the frequency of extreme events and variability/unpredictability of rainfall patterns are expected to increase under a changing and variable climate.

12. Land Ownership: There are three modes of gaining access to land in Sri Lanka: i) inheritance of private land/or grants and permits to use state land; ii) purchase of private land; iii) and the acquisition of a grant or permit to use state land. The state owns about 80 per cent of the land in Sri Lanka. Obtaining permits and grants to use state lands is the prime means of accessing land in rural areas. Insecure land tenure limits farmers' ability to invest in and efficiently manage agriculture activities. The Land Development Ordinance of 1996 entitles the surviving spouse of a deceased person who holds a permit or grant to use state land to take possession of the land under the terms and conditions of the permit or grant without any gender discrimination. The GoSL recently launched a programme, namely "Urumaya", to grant 2 million freehold ownerships of lands allocated to farmers and low-income earners, creating an opportunity to strengthen family economies and preserve heritage.

13. Food Imports: Wheat and wheat flour, which are widely consumed, account for the largest share of national cereal imports. Other food imports include dairy products, sugar, pulses (green gram, black gram and lentils), chilli, potatoes and onions.

14. Exports: Agriculture accounted for about 21 per cent of the country's merchandise exports earning . Tea is the main agricultural export commodity, accounting for 48 per cent of the total agricultural exports, followed by coconut products, rubber, spices such as cinnamon and pepper, cocoa, coffee, vegetables, fruits and nuts.

15. Gender Assessment: Out of the total number of women employed in the country, 29.7 per cent work in agriculture. The participation rates of men and women in agriculture and industry are relatively close. However, the gap widens in more technical occupations of plant and machine operators and assemblers, where women constitute only 17 per cent of the workforce . There are significant gender disparities in access to and control over resources (e.g. land, water and inputs), access to markets and skills training, all of which are critical for agricultural production and livelihoods. Only 16 per cent of all privately owned land in the country belongs to women (Agriculture and Environment Statistics Division, 2002). This lack of land ownership limits women's ability to obtain agricultural assets, services and benefits (e.g. subsidies, credit and irrigation water). Irrigation organisations accept registration only from farmers who own land for growing paddy rice, the main irrigated crop in Sri Lanka.

16. Consequently, women with no title to the land have no formal access to water provided by the government. Women-targeted programmes have frequently supported women in activities connected with their basic means of livelihood. However, these programmes have not been designed to improve women's access to and control over resources. They have not promoted women as active participants in agricultural operations, enabling them to receive their fair share of agricultural assistance or participate equally in decision-making processes.

17. Youth: Youth women and men's involvement in agriculture and its development is decreasing. Rural youth are at a relatively elevated risk of underemployment and/or unemployment compared to urban and estate sectors. Low profitability, particularly among small farmer households, low agricultural sector commercialisation and lack of access to

land and financial resources are the driving forces behind the youth's decreasing interest in agriculture. Loss of employment opportunities in the construction sector in urban areas resulted in the recent di-migration of youth and, consequently, a surplus of labour in rural areas. IFAD-funded projects have demonstrated effective mechanisms for an agribusiness-oriented approach to integrating women and youth in the agriculture sector and impacting the rural economy.

18. The MoA&PI has earmarked LKR 1.6 billion to establish 160 model farms across the island, owned and operated by youth agri-entrepreneurs. The initiative's focus will be crop diversification (vegetables and fruits), plantation crops, fish and livestock products.

19. Agriculture Sector Growth Performance: The performance of the agriculture sector has fluctuated during the last decade. Agriculture, including the plantations subsector, remains critical to the economy, employing 25.6 per cent of the labour force, with small-scale farmers producing most of the country's agricultural output. Yet the livelihoods of poor farmers are still limited by sector challenges, including low and declining productivity due to the impacts of climate change and other external shocks, fragmented landholdings, inappropriate and/or inefficient use of agricultural technologies and inputs, inadequate water management, lack of market competitiveness, limited access to extension services and unavailability of pro-poor financial products. The agricultural productivity of small-scale farms has declined over the past decades due to climatic changes such as irregular rainfall, recurrent droughts, negligence in maintaining irrigation infrastructure and lack of crop diversification.

20. Rural Financing Landscape: Sri Lanka's financial sector system is diverse and consists of a wide range of service providers, including i) formal financial institutions; commercial banks; licensed specialised banks; and licensed finance companies; ii) semi-formal institutions (co-operatives, NGO- MFIs, CBOs, and state programmes such as Samurdhi); and iii) informal sources of finance such as money lenders and rotating savings and credit associations. The informal sector includes thrift and credit societies, moneylenders, credit cooperative societies, microfinance institutions (MFIs), donor-initiated village savings and loan associations and rotating savings associations (chit funds). Despite the comparatively high penetration of basic financial services, financial inclusion parameters such as credit and life insurance penetration, as well as credit access for small businesses and farm-based activities, remain weak in service quality and numbers. The supply-side constraints to lending to the agriculture sector are due to risk perception, high transaction costs, liquidity shortages, information irregularity and ultimately the operational capacity of banks to lend to small scale producers. The demand-side constraints are primarily related to the perceived high interest rates (currently averaging from 14 to 18 per cent), complex credit procedures resulting in delays in disbursement, immovable collateral-based lending, and the poor service culture.

21. Several loan products with subsidised interests (8 to 12 per cent per annum), some dedicated to women entrepreneurs, are available with state-owned commercial banks. Yet, the community awareness about such products looks bleak. Although there is a higher demand for the agriculture sector, accessibility of loan schemes seems challenging. This resulted in farmers switching from the formal to the informal sector for loaning at higher interest rates. Another source of financing for rural farmers is the pawning. Interest rates of pawning from government to private financial institutions vary but are relatively high.

22. Farming System Sustainability Fund: As a part of the project's exit strategy, the IFAD-funded Smallholder Agribusiness Partnership Project's loan scheme (line of credit) is to be transformed into a revolving fund, i.e., the Farming System Sustainability Fund

(FSSF), dedicated to short, medium and long-term loans for agriculture, by the end of the programme in June 2025.

23. Yield-based crop indexing and crop insurance: Sri Lanka lacks a yield-based crop indexing insurance scheme. Yield-based crop indexing involves quantifying yield variability and assessing risk profiles, allowing insurance companies to offer tailored insurance products that provide financial protection against yield losses due to adverse weather, pests, or other perils. This initiative promotes resilience, safeguards farmers' livelihoods, encourages investment and enhances the agricultural sector's overall competitiveness and sustainability.

24. Unclear rights and land ownership issues experienced since the colonial era, which are yet to be resolved fully, have affected the functioning of the land markets in agricultural areas. This has seriously limited the efforts to improve productivity and market responsiveness by preventing farmers from acquiring land and other resources to increase production. This highlights the need for amendments to the related regulations. Recently launched Government's Urumaya programme would grant freehold ownership to 2 million smallholders and low-income earners. Land fragmentation is also a significant problem as small farm sizes seriously constrain efforts for mechanisation and provide low farm incomes that are insufficient to undertake significant productivity-enhancing investments. Land productivity can be increased through, inter alia, the use of higher-yielding varieties and species, as well as improved pest and weed control.

25. In Sri Lanka, non-plantation agriculture is characterised by small farms mainly cultivating paddy. About 1.65 million small scale producers operate on average less than 2 ha contributing to 80 per cent of the total annual food production. Sri Lanka has achieved self-sufficiency in paddy rice as a result of several policy instruments that expanded agricultural production into uncultivated lands, increased the use of high-yielding varieties, improved irrigation capacities, and subsidised fertiliser use. Although rice production has increased, prices remain high.

26. Due to the country's diverse climatic regions, Sri Lanka's agriculture sector offers opportunities to boost agricultural output, rural incomes, and export competitiveness through climate-smart technologies, private sector-led value chain development, linkages between farmers and markets, and quality standards. With rice self-sufficiency secured, there is a need to diversify the production structure towards high-value agriculture. A broad recognition has emerged recently that the modernisation of agriculture is needed to realise its potential for more significant value generation and as a renewed source of rural growth for poverty reduction and job creation. Such modernisation will require a structural shift towards a more high-value-oriented agriculture production structure, agro-processing and value-addition activities, and increased competitiveness. It will also involve aligning trade policies to become more consistent and conducive for high-value export agriculture, realigning and allowing for more demand-driven and market-oriented production.

27. This will require differentiated strategies for different parts and production arrangements nationwide. In the northern and eastern parts of the country, comprised primarily of the dry zone, there is significant scope for agricultural productivity growth and potential for better linkages to domestic and export markets, including value-added production. In other parts of the country, more robust and scaled-up private commercial investment and innovation through agri-enterprises and agri-enterprise-farmer partnerships are needed for value addition and farmer integration into high-value chains through scaling up and diversification into more commercial crops.

28. Agriculture Support Services: The public sector agriculture services delivery, including research and extension systems, is described as ineffective because of the lack



of a comprehensive national agricultural extension policy and inadequate resource allocations; supply-driven approach, limited recognition of agricultural extension services at all levels; poor linkages among research, extension, and other agri-support services; and shortage of competent extension professionals. As a result, Sri Lanka has fallen behind in generating new knowledge and technology and distributing new technologies critical for modern farming. Private sector extension services are emerging following a market-oriented approach. However, their outreach is limited to the areas of their business operations. In the plantation sector, private-public partnership extension services are being introduced by organisations dealing with agricultural inputs, developmental agencies, farmer-based associations, cooperatives, and societies. There is considerable scope for replicating the public-private partnership to provide agriculture support services in the non-plantation sector. Capacity building through e-extension services is at a minimum level but is essential to modernising agriculture.

29. In Sri Lanka, the MoAPI implements the main support systems for agriculture through the Department of Agriculture (DOA) and the Department of Agrarian Development (DAD). Providing technical advice is the responsibility of 'agriculture instructors' who are part of the extension system and have offices in Agrarian Services Centres. These centres, located at subdistrict levels and serving an area that approximately matches the Divisional Secretariat's, also provide farmer subsidies, strengthen farmer organisations and manage the Farmers Bank. Agrarian Service Centres are managed centrally by the DAD, while the DOA management has been devolved through the provincial agriculture system. The fact that the two departments have a different management approach has led to suboptimal outcomes for agricultural development. Extension service coverage is insufficient, as the range instructors must cover has become too large. In the areas visited, half of the posts for agricultural instructors were not filled, which also undermines the delivery of services and is not conducive to mainstreaming gender.

30. There is inadequate coordination among the large number of institutions dealing with food and nutrition security and sustainable agriculture. There is an overall lack of mechanisms and capacities for inter-institutional communication and even less for joint implementation. This results in large areas of overlap and suboptimal performance. Significant gaps exist in terms of knowledge and capacities between the national, provincial and district levels, which creates a disconnect between the policy directions at the national level and the implementation of actions in the field.

31. Policies and Institutional Framework: Achieving self-sufficiency in rice production has been a major policy goal in Sri Lanka. The policy interventions in the non-plantation agriculture sector were basically aimed at self-sufficiency in food through productivity enhancement while safeguarding the livelihood of agricultural producers. The agriculture sectors and different subsectors are addressed through several ministries and policies within a highly fragmented institutional landscape that includes MoA&PI, Social Welfare and Primary Industries, Irrigation, Fisheries and Aquatic Resources, Development and Rural Economy, Lands and Parliamentary Reforms. Constant changes in the structure and personnel of the different ministries also make it difficult to complete tasks and allocate responsibilities to a particular ministry.

32. Recognising the agriculture sector as a significant economic driver and critical for poverty reduction and sustainable livelihood for rural poor, Sri Lanka's new policy direction focuses on implementing a comprehensive agricultural reform to achieve a modern, resilient, inclusive and green agriculture in line with the country's revival process from the economic crisis. The agriculture modernisation vision encompasses various aspects of the agricultural support system, including technical expertise, private sector involvement and

investment, market linkages, the adoption of advanced technologies, and collaboration between government institutions, the private sector, universities and research agencies.

33. The country's agricultural modernisation initiative specifically includes enhancing productivity and efficiency, promoting sustainability and resilience, fostering inclusive growth and rural development, ensuring food security and nutrition of the people, improving market access and trade, strengthening institutional capacity and governance, and fostering innovation and entrepreneurship. Moreover, the export-led food industry has been identified as an important sector for development. An integral aspect of the initiative is the incorporation of resources and expertise from the MoALLI, the Mahaweli Development Authority and the private sector.

34. Agriculture sector modernisation initiative: To move forward with the agricultural reform programme, the GoSL formed a high-level governing and decision-making body for agriculture transformation, namely the Agriculture Modernization Secretariat (AMS), which is represented by senior-level representatives from the key ministries, the private sector, research and university academia. As a pilot project, the AMS has established 26 agricultural modernisation hubs in 25 districts, allocating government funding for credible business proposals. The AMS is further tasked with the integration of the fragmented public sector players and the involvement of the private sector.

35. Stakeholder consultations to develop an agriculture policy paper: As part of the agriculture sector reform process, the GoSL in the recent initiated stakeholder consultation with development agencies involved in agriculture development (World Bank, ADB and IFAD), state agencies involved in agriculture, research and university academia and the private sector by the Prime Minister's Office. The objective of the consultations is to align development agencies' strategies and programmes with the Government's agriculture reform priorities. In consultation with relevant state agencies, MoA&PI has completed a draft document titled "Road map for agriculture modernisation" which has been shared with the National Planning Department of the Ministry of Finance, an outcome of which still to be seen.

36. National Agriculture Policy: The draft National Agriculture Policy (NAP), which is being submitted to the Cabinet of Ministers for review which, is aligned with the agriculture modernisation drive and is supported by the private sector.

37. The NAP mainly focuses on i) food and feed crops and ii) sustainable food security. The policy comprises eight thrust areas: i) crop production and productivity improvement, ii) self-sufficiency in main food and feed crops, iii) planned resource use, iv) market competitiveness, v) climate resilient agriculture, vi) minimised risks and uncertainties, vii) mainstreaming gender and youth engagement in agriculture, and viii) maintaining centre-periphery institutional relationships. Overall, NAP targets to increase the contribution of the agri-food system up to 15% of the national economy to double the economic profitability of farmers/agri-producers.

38. The NAP illustrates a paradigm shift from subsistence agriculture to demand-driven, entrepreneurial and export-oriented agriculture with import substitution while uplifting living and social standards of the farming community with a particular focus on youth and women in an eco-friendly agricultural environment. The NAP aims at achieving twelve policy goals through the engagement of stakeholders. This policy would be implemented in harmony with other national policies adopted by the government.

39. The NAP advocates that the country's food system should be resilient to climatic and other disasters and establish a system of transparent, accountable, responsible and participatory governance for decision-making in the agriculture sector.

40. Institutional framework: Sri Lanka is a unitary multi-party semi-presidential representative democratic republic, whereby the President of Sri Lanka is both head of state and head of government. The administrative system in Sri Lanka has five levels of governance structures - national, provincial, district, divisional, and village, and they function under a strong centralised system. Sri Lanka is divided into nine provinces, which comprise 25 districts, each managed by a District Secretariat. These districts are further divided into 331 divisional secretariats.

41. The MoA&PI is the key ministry overseeing the development of the agriculture sector. It is supported by the Department of Agriculture (DOA), Department of Agrarian Development (DAD), Department of Animal Production & Health (DOAP&H), Rubber Development Department (RDD) and Department of Export Agriculture. The main functions of the MOA&PI are agriculture research and technology dissemination, seed and planting material production and distribution (lead by DOA), distribution of agricultural inputs like fertiliser and seed materials (lead by DAD) and smallholder tea and rubber development.

42. Another relevant ministry for agriculture sector development is the MoI in its subsidiary Irrigation Department and MDA. The Ministry is mandated to develop and manage water and land resources for sustainable use. The MDA, established in 1979, is responsible for the implementation of a long-term multi-purpose Mahaweli Master Plan in the Dry Zone of Sri Lanka. The plan envisaged providing irrigation facilities through irrigation systems and land development for 366,000 hectares of land – improved irrigation for 100,000 hectares and development of irrigation system for 266,000 hectares of land.

43. Private Sector: The private sector is increasingly involved in the national agriculture sector as buyers, suppliers and employers. Companies have partnered with farmers to improve their supply base for domestic retail markets and exports. Such partnerships have made positive changes in the market linkage of farm produce, capacity building of farmers, reduction of risk and uncertainties, social mobilisation, and economic empowerment of farmers. The private sector extension services are also emerging, following a market-oriented approach and integrating their activities into commercial operations such as the sales of farm inputs, mainly social service marketing tools, as per their business model.

44. However, the spread of private sector involvement and their investments in the agriculture sector is limited to projects, and some traders are involved in the domestic retail export market. For institutionalisation, strengthening and scaling up the successful experiences and models of public, private, and producer partnerships at the national level requires policy, regulatory framework and institutional reforms. Agriculture export growth is inseparably connected with the level of investor confidence.

45. The present government has placed agriculture sector development and water resources management at the forefront of its development programme and has committed to involve the private sector in agriculture sector transformation. However, to achieve such transformation, differentiated strategies are needed for different parts of the country. In the north and east, there is significant scope for agriculture expansion and productivity growth – both through traditional and non-traditional agriculture – as productivity remains low, markets and value-addition activities remain undeveloped, and the potential for niche commodities remains significant for domestic and export markets. In other parts of the country, it is important to promote more robust investment and innovation in agribusinesses for value addition and farmer integration into high-value chains through scaling up and diversification into more commercial crops. This modernisation drive has to

be crucially underpinned by a supportive policy and regulatory enabling environment, with due consideration to the economic and evidence-based policy decision-making processes.