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| **SRI LANKA**



# COUNTRY DEVELOPMENT COOPERATION STRATEGY (CDCS)

December 2020 – December 2025

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Figure 1. Map of Sri Lanka



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## Acronyms

ADB Asian Development Bank

AMELP	Activity Monitoring, Activity, and Learning Plan
BDG	Bilateral Donor Group
CDCS	Country Development Cooperation Strategy
CEB	Ceylon Electricity Board
CLA	Collaboration, Adaptation, and Learning
CSO	Civil society Organization
CSOSI	Civil Society Organization Sustainability Index
DFAT	Australian Department of Foreign Affairs and Trade
DFC	U.S. Development Finance Corporation
DIS	Development Information System
DO	Development Objective
DOC	Department of Commerce
DP	Development Partners
DRM	Domestic Resource Management
EG	Economic Growth
EIA	Environmental Impact Assessment
EPI	Environmental Performance Index
FAO	Food and Agricultural Organization of the United Nations
GBV	Gender-based violence
GDP	Gross Domestic Product
GESI	Gender and Social Inclusion
GGGI	Global Green Growth Institute
GIS	Geographical Information System
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GSL	Government of Sri Lanka
J2SR	Journey to Self-Reliance
ICT	Information and communications technology
IFC	International Finance Corporation
IMF	International Monetary Fund
IPV	U.S. Vision for a Free and open Indo-Pacific
IR	Intermediate Result
LMIC	Lower-middle income country
LNG	Liquid Natural Gas
MCC	Millennium Challenge Corporation
MEL	Monitoring, Evaluation, and Learning
MSME	Micro, small, and medium enterprises
NGO	Non-Governmental Organization
NPI	New Partners Initiative
NRM	Natural Resource Management
OECD	Organization for Economic Co-operation and Development
PFM	Public Financial Management
PMP	Performance Management Plan
PPR	Performance Plan and Report
PPS	USAID/Sri Lanka Office of Program and Policy Support

PSE	Private-sector engagement
PRC	People's Republic of China
RDR	Redefining the Relationship
RISE	Regulatory Indicators for Sustainable Energy
SME	Small and Medium Enterprises
STI	Science, Technology, and Innovation
TA	Technical Assistance
TIP	Trafficking in persons
TPM	Third-Party Monitoring
TVET	Technical and Vocational Education and Training
UMIC	Upper-middle income country
UN	United Nations
UNDRR	United Nations Office for Disaster Risk Reduction
UNHCR	United Nations High Commissioner for Refugees
USAID	United States Agency for International Development
USG	United States Government

## I. EXECUTIVE SUMMARY

The goal of USAID/Sri Lanka's 2021-2025 CDCS is a democratic and more inclusive and self-reliant Indo-Pacific partner. This goal reflects the ideas underpinning USAID's Journey to Self-Reliance and the U.S. Government's Vision for a Free and Open Indo Pacific, as well as Sri Lankan priorities articulated in its Vision for Prosperity and Splendour. Leveraging relationships developed through USAID's long history in Sri Lanka and harnessing the strengths of the Island's independent oversight agencies, civil society, and private sector, this strategy seeks to assist Sri Lanka to preserve a free and open democracy that ensures that all Sri Lankans have a voice in governance; advance necessary fiscal and governance reforms to address deepening economic challenges, leverage private-sector solutions to increase the country's economic outlook; and bolster the resilience of the country's vast and breathtaking natural resources against shocks and stresses, including the negative effects of climate change. Throughout, USAID will seek to reduce ethnic, religious, cultural and gender disparities that threaten to exclude Sri Lankans from fully enjoying economic, social, and political opportunity and that undermine the establishment of a single Sri Lankan identity supporting unity, inclusion, and a shared sense of investment in the country's future. Above all, however, this strategy seeks to reaffirm USAID's commitment to Sri Lanka, offering a partnership that bolsters Sri Lankan self-reliance, respects Sri Lankan sovereignty, and advances Sri Lankan prosperity.

Sri Lanka's Journey to Self-Reliance (J2SR) Roadmap indicates capacity scores above or near lower-middle income country (LMIC) averages, while most of its commitment scores tend to be weaker. Recent improvements in commitment metrics, such as the Liberal Democracy Index and Electoral Democracy, reflect advancements of the last five years. Sri Lanka's Social Group Equality metric is low, reflecting the ethnic, religious, and class fault lines driving social cohesion challenges that have long vexed the island. These challenges, at the heart of the country's long civil war, remain a central concern, as improvements have been narrowed by limited post-civil war reconciliation and the amplification of tensions by the 2019 Easter bombings. Sri Lanka's withdrawal from its commitments to the UN Human Rights Council in February 2020 signals a waning commitment to reconciliation issues underlying the social group equality metric. The low levels of social group equality also drive trafficking in persons (TIP). In 2019, Sri Lanka was placed on the State Department's TIP Tier 2 Watch List, where it remained in 2020. With regard to Sri Lanka's weak Economic Gender Gap score, the World Economic Forum's Global Gender Gap sub-components show that high performance in female education rates and health gap mask poor levels of labor force participation and estimated income earned. This income gap also drives TIP.

Sri Lanka's strong biodiversity scores mask low scores in other areas of the environment, including management of water, forests, and agriculture. The Business and Investment Environment score, while above the LMIC average, is at odds with the country's poor Doing Business indicators. Secondary metrics show that accessing credit and resolving insolvency are problematic. Sri Lanka's Tax System Effectiveness, however, is the greatest area of weakness. While this metric is vital to financing self-reliance (FSR), it falls far behind the LMIC average, due to chronic fiscal deficits, which have been exacerbated by recent tax cuts. Secondary metrics show that the Government of Sri Lanka (GSL) does not maximize its potential in collecting public resources to meet development needs, which contributes to Sri Lanka's public debts.

The increase in Sri Lanka's Civil Society and Media Effectiveness score since 2015 reflects a

time lag in data capture. With the recent change in administrations, Sri Lanka's score may decline due to actions such as moving NGO registration to the Ministry of Defense. Sri Lanka has strong Citizen Capacity indicators due to the country's long-term investment in basic education and health care systems, but they do not translate to inclusive economic development or high levels of employment. Sri Lanka's Information & Communication Technology (ICT) Adoption score is another weakness. While internet access is more affordable in Sri Lanka than regionally, the number of internet users and fiber internet subscriptions are low for the income bracket, and content and services are weak. E-government services and content are also limited.

USAID's previous CDCS in Sri Lanka sought to advance Sri Lankan government (GSL) capacity, while strengthening social cohesion to improve the wellbeing of all Sri Lankans. Since the 2019 presidential and 2020 parliamentary elections, the context has changed. In the changed environment, this new CDCS seeks to advance governance and institutional gains, expand fiscal space, and advance underlying issues of social inclusiveness to address larger social cohesion concerns.

An active partnership with the GSL remains critical to advance shared priorities. This strategy also seeks to leverage USAID's relationships with and ability to convene and facilitate the work of Sri Lanka's strong and well-organized civil society, which includes the private sector, to achieve mutual objectives and help Sri Lanka become a more free, open, and prosperous state. To do so, USAID will implement the Agency's Private Sector Engagement (PSE) Policy<sup>1</sup> in Sri Lanka to channel abilities of both U.S. and Sri Lankan private sector to achieve outcomes, and its New Partnership Initiative (NPI)<sup>2</sup>, which prioritizes active engagement with locally led and new and underutilized organizations, including faith-based organizations.

USAID's previous CDCS sought to build social cohesion by supporting the peaceful coexistence of all Sri Lankans, who are religiously (majority Buddhist, with Hindus, Christians, Muslims, and others), ethnically (majority Sinhalese with Tamils, Moors, and others), and linguistically diverse. This meant fostering a Sri Lankan identity that supports unity and inclusion and creating a shared sense of investment in the country's future through equitable and inclusive prosperity. While social cohesion remains critical to advancing self-reliance, this strategy, to a greater degree than the last, will focus across the strategy on improving social inclusion, reducing the socioeconomic, ethnic, political, and gender disparities that undermine social cohesion.<sup>3</sup>

This CDCS also introduces new areas of work for the Mission. Natural resource management and energy, included for the first time, are important sectors. Prioritizing higher education and an innovation ecosystem, also a first under a Sri Lankan CDCS, are important to advance self-reliance and foundational for building human capital and economic growth, which anchor a free and open Indo-Pacific region in the long-run. Finally, in response to Sri Lanka's inclusion in the State Department's Tier II Watch List, this CDCS prioritizes work to combat TIP, an area previously not included.

While Sri Lanka is not listed as a country of concern (Tier 1 or 2) in the International Religious Freedom Report, the country's religious and ethnic diversity significantly influences politics,

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<sup>1</sup> USAID [Private Sector Engagement Policy](#), 2019

<sup>2</sup> USAID [NPI Action Plan](#), July 2020.

<sup>3</sup> The Mission defines social inclusion as all Sri Lankans, no matter of background, to have access to full economic, social, and political opportunities, and social cohesion as the ability and willingness of groups to work across and with other social groups in these areas.



society, and the economy. The cross-cutting focus on advancing inclusiveness necessarily means that the strategy factors in the protection of religious freedom and advancement of ethnic minorities.

USAID Sri Lanka CDCS Goal 2020-2025: <i>A Democratic and More Inclusive and Self-Reliant Indo-Pacific Partner</i>		
<b>DO 1 Effective Democratic Governance Strengthened</b>	<b>DO 2 Inclusive, Market-Driven Growth Increased</b>	<b>DO 3 Resilience of Resources to Shocks and Stresses Enhanced</b>
<b>IR 1.1 Responsiveness of government institutions improved</b>	<b>IR2.1 Economic Governance Improved</b>	<b>IR3.1 Environmental and Climate Resilience Enhanced</b>
1.1.1 Parliamentary and Judicial Effectiveness Increased  1.1.2 Public Sector Efficiency and Accountability Increased	2.1.1 Business Enabling Environment Improved  2.1.2 Capacity to Mobilize and Manage Domestic Public Resources Increased	3.1.1 Natural Resource Management Strengthened  3.1.2 Climate Change Adaptation Capacity Advanced
<b>IR 1.2 More informed and active public participation</b>	<b>IR 2.2 Private Sector-Led Growth Promoted</b>	<b>IR 3.2 Energy Security and Sustainability Accelerated</b>
1.2.1 Participation of Women and Youth in Democratic Processes Increased 1.2.2 Increased Sustainability of Independent Media	2.2.1 Private Enterprise Development Improved 2.2.2 Private Sector Access to Investment Resources Increased	3.2.1 Performance of Energy Utilities Improved  3.2.2 Energy Planning Improved 3.2.3 Energy Sector Legal and Regulatory Framework Strengthened
<b>IR1.3 Rights and Tolerances Elevated</b>	<b>IR 2.3 Human Capital Development Advanced</b>	
1.3.1 Increased Social Cohesion 1.3.2 Increased Efforts to Defend Human Rights	2.3.1 Science, Technology and Innovation Capacity Strengthened  2.3.2 Workforce Productivity Increased	
<b>Cross-cutting Sub-IR - Increased Civil Society Engagement and Sustainability</b>		
<b>Cross Cutting - Gender Equality and Social Inclusion Increased</b>		

## II. COUNTRY CONTEXT

Sri Lanka is situated between the Persian Gulf and Red Sea to the east, and Straits of Malacca and Sunda to the west. Two-thirds of the world's seaborne crude oil and half of the world's container ships transit Sri Lankan waters every year.<sup>4</sup> Its location at the geographic and political heart of the Indian Ocean, together with the USG's commitment to a free, open, democratic, and prosperous Sri Lanka, suggests that a strengthened Indo-Pacific partnership with Sri Lanka, strengthens U.S. national interests and security.

Sri Lanka has a population of more than 22 million people; approximately 74.9 percent are Sinhalese, 11.2 percent are Sri Lankan Tamil, 9.2 percent are Sri Lankan Moors, and 4.2 percent are Indian Tamils. Most Sinhalese are Buddhists; most Tamils are Hindus; most Moors are Muslim. Christians include both Sinhalese and Tamils. The population is 48.5 percent men and 51.5 percent women. Sri Lankans under the age of 24 account for 37.7 percent of the population.<sup>5</sup>

Ethnic Tamils, primarily in the north and east of the island, have a long history of economic disenfranchisement and discrimination. A long (1983-2009) civil war between the Tamil Tiger separatist group and the government caused significant hardships for the country and killed at least 100,000 people. Since the end of the war, global criticism has been leveled against the GSL for violating human rights.

Following the civil war, Sri Lanka made important development achievements. A post-war economy averaging yearly growth of 5.3 percent reflected considerable peace dividends. The national poverty headcount ratio declined from 15.3 percent in 2006/07 to 4.1 percent in 2016.<sup>6</sup> In July 2019, Sri Lanka briefly achieved upper middle-income country (UMIC) status, before slipping back to LMIC status in July 2020.

Sri Lanka also advanced democratic reforms. A reform-minded, unity government elected in 2015 and headed by President Maithripala Sirisena advanced significant governance and institutional reforms. Reforms included passage of the 19th amendment, which envisioned the dilution of a number of powers of Sri Lanka's executive presidency that had been in force since 1978, and the Right to Information Act, that advanced open government, citizens' active participation in governance, and accountability to the people of the country. Civil Society Organizations (CSOs) built constituencies and engaged with the government and public to advance rule of law reform and transitional justice. Sri Lanka's most recent Civil Society Organization Sustainability Index (CSOSI) score was a robust 4.517 out of 7,<sup>7</sup> and its strong civil society displays relatively high organizational and advocacy capacities. Sri Lanka also achieved generally high human development, ranking 71 out of 189 countries on the 2018 Human Development Index, classifying it in the high human development category,<sup>8</sup> though gaps remain.

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<sup>4</sup> U.S. Department of State, [Integrated Country Strategy for Sri Lanka](#), April 2019.

<sup>5</sup> CIA, [World Factbook: Sri Lanka](#), last updated November 9, 2020.

<sup>6</sup> World Bank, [Sri Lanka Country Overview](#).

<sup>7</sup> Verite Research, [The 2018 CSO Sustainability Index for Sri Lanka](#).

<sup>8</sup> UNDP, [Human Development Report](#), 2019.

In 2019, weary of political infighting and instability and shaken by the Easter bombings that magnified the country's ethnic, religious, and class divisions, Sri Lankan voters returned to power the Rajapaksa family.

The new government, which now, after Parliamentary elections in August 2020, is backed by a supermajority in parliament, is actively consolidating executive power. Most notably, the recent passage of the 20th amendment to the Constitution in October 2020 rolled-back reforms passed in the 19th amendment, expanding the powers of the President, while limiting the powers of the parliament and courts. The government has assigned new and sweeping powers to the military, which now oversees a wide-ranging portfolio including disaster management, local government administration, and the regulation of civil society organizations (CSOs). Additionally, the new government has taken positions counter to post-war reconciliation, including the February 2020 withdrawal from UN Human Rights Council Resolution 30/1, that promoted reconciliation, accountability, and human rights in the country, a resolution the previous government co-sponsored.

Sri Lanka's civil war (1983-2009) continues to cast a long shadow on social inclusion, social cohesion, reconciliation, and continued economic vulnerability. The civil war led to high levels of displacement and loss of assets, livelihoods, and incomes. Across the country, Sri Lankans were economically, socially, and psychologically victimized and traumatized by the 26-year conflict. While Sri Lanka has seen a sharp drop in poverty since the end of the war, these declines have been geographically uneven. Areas most affected by the war remain the poorest. Despite post-war reconciliation work, ethnic and religious tensions persist. During the war, women, whether as perpetrators, victims, or widows of the war, were a particularly vulnerable group. In areas more directly impacted by the civil war, particularly in the north and east, women are still more economically and socially vulnerable and endure gender-based violence (GBV) at higher levels than in other areas, a problem exacerbated by the coronavirus pandemic.<sup>9</sup>

### *Gender Equality*<sup>10</sup>

Sri Lanka has a relatively high-level of gender equality in comparison to other South Asian and developing countries. Sri Lanka has made major strides in achieving parity in female education and increasing women's access to health services by providing free and universal schooling and healthcare. This has led to relatively high rankings on development indices such as the Human Development Index. High levels of gender parity in education and health, however, are offset by low levels of female participation in the government and the labor force. These rankings are also based on national aggregates, obscuring large disparities between urban centers (including the Western Province, where the capital Colombo is located, more broadly) and rural areas.

Every year since 2006, the gender gap has widened in Sri Lanka. In 2006, Sri Lanka ranked 13th out of 115 countries<sup>11</sup>; now, Sri Lanka's gender gap index of 0.68 places it at 102nd out of 153 countries<sup>12</sup>. Inequality in political representation, barriers in the labor market, imbalances in skill development, and gendered social norms and practices have disadvantaged women and girls in Sri Lanka. Furthermore, sexual violence, the feminization of poverty, large numbers of female-headed households, and regional disparities have serious implications for Sri Lankan society and future generations.

<sup>9</sup> Interpress Service News Agency. [Report Shows Sri Lanka has Escalation of Violence During COVID-19 Lockdown](#). Dec 4, 2020

<sup>10</sup> The entirety of this section comes from USAID/Sri Lanka's Gender and Social Inclusion Analysis, 2020.

<sup>11</sup> World Economic Forum. [Global Gender Gap Report 2006](#). 2006

<sup>12</sup> World Economic Forum. [Global Gender Gap Report 2020](#). 2019

### *Indo-Pacific*

China imposes significant influence in Sri Lanka. Concerns of Chinese influence have amplified, as the Sri Lanka-China relationship is deepened, influenced by the former's dependency on the latter for infrastructure investment. As Sri Lanka struggles with unsustainable debt repayments, China has successfully used opaque lending processes to secure strategic assets. Its 99-year lease of Hambantota Port, secured upon Sri Lanka's inability to service its debt on the port, is a global example of Chinese debt-trap diplomacy and threatens to undermine Sri Lanka's sovereignty and its prospects for long-term economic prosperity. Beyond Hambantota Port, however, China continues to yield significant influence on Sri Lanka's resourcing of its development. Sri Lanka's public debt is expected to exceed its GDP by the end of 2020<sup>13</sup>, due to significant borrowing on dollar-denominated international markets amid U.S. quantitative easing due to COVID-19. Instead of seeking IMF assistance to avoid default on its \$15 billion in foreign debts, the new administration has turned to China as its preferred lender. It received \$500M in early 2020 as part of a \$1.2B loan from the China Development Bank and is negotiating the remaining tranche for the end of the year.<sup>14</sup> In July 2020, Sri Lanka was downgraded to lower middle-income status by the World Bank due to its looming economic crisis from low growth, declining exports, and debilitating debt.

### *GSL Priorities*

The Rajapaksa administration's "Vistas of Prosperity and Splendour" details Sri Lanka's National Policy Framework, which pledges to "build a prosperous Sri Lanka with the maximum participation of [its] people."<sup>15</sup> It details 10 key policies aimed at "achieving the fourfold outcome of a productive citizenry, a contented family, a disciplined and just society, and a prosperous nation." To support the people's participation, the manifesto's priorities include establishing religious harmony and integration with each religion, reconciliation among ethnic groups, and protecting the rule of law. To build a prosperous Sri Lanka, the framework targets ensuring the efficiency and effectiveness of government expenditure, creating an enabling working environment, and facilitating entrepreneurship development. The Policy Framework also outlines the country's environmental and resource management priorities, detailing the government's plan to advance sustainable environmental management and develop physical resources.

The GSL's stated priorities align with USAID's overarching development objectives of effective, democratic governance, inclusive market-driven growth, and resource resilience. USAID will leverage these while working to boost GSL commitment and partnership around reform issues. USAID will prioritize government transparency and accountability, particularly with regards to improvements in public financial management to reduce Sri Lanka's dependence on external actors and protect its sovereignty. Lastly, USAID will improve the resilience of natural resources vital to Sri Lanka's long-term economic growth. With the government only recently taking shape, the Mission will continually assess its partnership approach with the government with respect to advancing strategic priorities.

### *J2SR Roadmap Metrics*

Sri Lanka's Self-Reliance Roadmap, secondary metrics, and other recent assessments suggest

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<sup>13</sup> According to the World Bank, Sri Lanka's 2019 GDP was just over \$84 billion. Source: [World Bank Data](#), accessed November 18, 2020.

<sup>14</sup> Marwaan Macan-Markar, "[Sri Lanka turns to China rather than IMF to avoid default](#)", *NIKKEI Asia*, October 12, 2020.

<sup>15</sup> Gotabaya Rajapaksa, "[Vistas of Prosperity and Splendour](#)", 2019.

the need to protect civil society advocacy and increase government transparency, both key to democratic governance. V-Dem Institute's new Pandemic Backsliding Index, which captures the risk of democratic erosion during the pandemic, notes Sri Lanka has one of the highest probabilities of backsliding (0.469 out of 1).<sup>16</sup> Concrete examples driving these assessments include recent increases in presidential powers due to delays in legislature elections (as a result of COVID) and reports of discrimination against Muslim burial practices for COVID victims. USAID has a strong history of successfully building the capacity of civil society to advocate and engage on key reforms. Particularly given the importance of Sri Lanka's civil society as a bulwark against democratic erosion, strengthening civil society capacity and engagement are important components of this CDCS.

Elevating and protecting human rights as a component of advancing social inclusion is a priority. The State Department's 2019 Human Rights Report<sup>17</sup> details concerning human rights issues. Sri Lanka is also on the State Department's Tier II Watch List for human trafficking, not fully meeting the minimum standards for the elimination of trafficking, but making significant efforts to do so. Work targeting this important human rights issue will be important to help Sri Lanka more fully address trafficking in the country.

Sri Lanka's Roadmap also suggests the need to strengthen financial independence, economic governance, and private sector competitiveness (including technology). Sri Lanka's World Bank Doing Business Report: Paying Taxes score of 59.8, which is far below the regional average of 68.9, suggests that GSL policies and regulations do not maximize the tax potential from the private sector. Its 2016 CEPII efficiency of the tax administration score (placing it 21 of 24 regionally and 131 of 139 globally)<sup>18</sup> and its USAID Tax Effort score of .37<sup>19</sup> further support this. The country's 44.3 score on the WEF Global Competitive Index<sup>20</sup> suggests distortionary effects on competition of the country's fiscal measures, and its ease of doing business score of 61.8 places it 18th out of 27 regional countries, further suggesting room for improvement.<sup>21</sup>

The Roadmap's sub-dimensions, the Mission's Gender and Social Inclusion (GESI) Analysis (6/2020), and other sources provide more granularity on the needs to support gender equality and inclusive development. The gender gap has widened in Sri Lanka every year. Sri Lanka ranks 102nd out of 153 countries in the Global Gender Gap index for 2020. Inequality in political representation, barriers in the labor market, imbalances in skill development, and gendered social norms and practices have disadvantaged women and girls in Sri Lanka. The country has a comparatively high Human Development Index score due to greater parity for females in education and access to health scores. Its economic gender gap score of 0.5, however, well below the LMIC average, is due to low levels of women's participation in the labor force and government. Mission assessments and other metrics also point to the economic mismatch between workforce skills and business sector needs (*i.e.*, English, IT, critical thinking, and technical vocational skills). This affects females and youth most, limiting their potential to contribute meaningfully to Sri Lanka's economic development. USAID will therefore address inclusive economic development and narrow the gender gap by supporting workforce development and entrepreneurship.

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<sup>16</sup> V-Dem Institute, [An Update on Pandemic Backsliding: Democracy Four Months After the Beginning of the Covid-19 Pandemic](#), June 2020.

<sup>17</sup> Department of State, [2019 Country Reports on Human Rights Practices: Sri Lanka](#), 2019.

<sup>18</sup> CEPII, [Institutional Profiles Database](#), 2016.

<sup>19</sup> USAID, [Collecting Taxes Database](#), 2017.

<sup>20</sup> World Economic Forum, [Global Competitive Index](#), 2019.

<sup>21</sup> World Bank, [Doing Business Database](#), 2020.

Country transition planning will be a longer-term effort for Sri Lanka, given poor social group equality metrics, and challenges to capacity and uncertainty of commitment for economic reform. To advance Sri Lankan self-reliance, USAID will continue to encourage reform-minded, working level partners in the GSL on the importance of addressing weaknesses, and avoid Sri Lanka becoming a high capacity, low commitment country.

### COVID-19

Until recently, thanks in large part to its advanced health-care system, Sri Lanka had weathered the first-order health impacts of the coronavirus pandemic relatively well. It had one of the lowest incidence rates and one of the highest recovery rates in the world.<sup>22</sup> Despite no current or anticipated health programming, USAID COVID-19 assistance included grants to support the work of UNICEF and WHO in country, as well as 200 ventilators. A cluster of cases identified in a garment factory in October 2020, however, led to a steep rise in cases. As this CDCS strategy is being finalized, case counts - and deaths - continue to increase. The impact of this recent surge is yet to fully be seen.

In terms of second-order impacts, the pandemic severely impacted the economy. The pandemic has shuttered factories and industries, reduced remittances, and devastated the tourism sector. Import-restrictions and tax deferrals due to COVID-19 have further reduced Sri Lanka's fiscal space, increasing its potential reliance on external lending. USAID's internal rapid analysis of binding constraints to growth aligns with the World Bank's analysis of risks in reduced demand for transport and tourism<sup>23</sup>; reduced domestic capital; decreased trade flows; and slowed foreign financial trade. COVID-19 puts more fiscal strain on the overstretched treasury, requiring more consistent tax policy, reducing the cost of providing public services, and making resource mobilization more difficult. Further, it highlights the need to increase market diversification and competition to be economically resilient. The World Bank projects that Sri Lanka's economy may contract by 3.2 percent in 2020 and downgraded the country this year to LMIC status.

The GSL has undertaken some controversial actions in the name of combatting the pandemic. For example, a military commander-in-chief leads the COVID response, an example of increasing militarization of government roles previously under the purview of civilians. The government also required that the bodies of virus victims be cremated, a mandate at odds with the practices of the island's Muslim population, and the pandemic was accompanied by arrests of journalists for criticizing the government response and for reporting allegedly false information about the virus.

Many analysts note the link between environmental degradation – such as wildlife trafficking (and wet markets existing across South Asia), deforestation, loss of natural habitats and intact ecosystems – and the COVID-19 pandemic.<sup>24</sup> Stay-at-home orders, travel bans and curfews

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<sup>22</sup> Sri Lanka Health Promotion Bureau, [COVID-19: Live Situational Analysis Dashboard of Sri Lanka](#).

<sup>23</sup> USAID/Sri Lanka and Maldives, Sri Lanka's Binding Constraints to Economic Growth, discussion document, April 2020.

<sup>24</sup> <https://www.unenvironment.org/news-and-stories/story/coronavirus-outbreak-highlights-need-address-threats-ecosystems-and-wildlife>; <https://foreignpolicy.com/2020/02/25/virus-bats-pangolins-wild-animals-coronavirus-zoonotic-diseases/>; <https://www.newsecuritybeat.org/2020/03/destruction-habitat-loss-biodiversity-creating-perfect-conditions-diseases-covid-19-emerge/>; <https://www.theguardian.com/environment/2020/mar/18/tip-of-the-iceberg-is-our-destruction-of-nature-responsible-for-covid-19-aoe>; <https://theweek.com/articles/899439/coronavirus-environmental-wakeup-call>; <https://www.motherjones.com/food/2020/03/the-surprising-history-of-the-wildlife-trade->

associated with the pandemic have reduced demand and disrupted markets, in some cases easing the pressure on resource stocks. These same forces, however, increase the risk to effective governance of natural resources, aggravating challenges associated with monitoring and enforcement, informality, conditions to engage with and maintain certification, illegality, and tenure rights.<sup>25</sup>

### III. STRATEGIC APPROACH

#### *Redefining the Relationship*

An active partnership with the GSL is critical to advance shared priorities. To establish the partnership needed to implement this strategy, USAID will seek to reset and redefine its relationship with the host government. The Mission expects that USAID's long history of successfully advancing Sri Lankan priorities will facilitate GSL cooperation and partnership. Building upon over 60 years of partnership and results in Sri Lanka, USAID will leverage the alignment of priorities identified in Sri Lanka's Policy Framework with USG priorities to boost GSL commitment and incentivize partnership around issues the government cannot afford to ignore, given its precarious fiscal position and the expectations of Sri Lankan citizens.

Sri Lankans elected another Rajapaksa government in response to security concerns and perceived inequality in the government's support for justice and human development, grand corruption, and its weak fiscal position. The GSL faces the challenge of delivering on a wide range of promised results while under tremendous fiscal strain and without compromising the country's economic sovereignty to do so. The government is under enormous stress to deliver and needs to establish reliable partnerships to achieve its goals. Incentivizing partnership through offering targeted, flexible, and strategic assistance in areas that align with the GSL's stated priorities - assistance in public financial management and domestic resource mobilization, for example - is the basis upon which USAID will reset its relationship with the GSL. In particular, the Mission will engage with reform-minded, working-level, executive and non-executive branch stakeholders, like independent commissions, the judiciary, and parliament, that demonstrate a commitment to partnership through undertaking meaningful institutional capacity strengthening measures. Further, increasing innovative messaging to GSL and independent media to underscore the importance of Sri Lanka's sovereignty and economic independence will also help to advance the partnership.

#### *Financing Self-Reliance*

Leveraging additional host-country resources is currently not envisioned as part of a redefined relationship. Sri Lanka lacks the fiscal resources to address its development needs<sup>26</sup>, including resources to invest in the modern infrastructure that attracts additional investment. Instead, this strategy seeks to address critical gaps in the government's management of fiscal resources to advance its ability to finance self-reliance. It intends to boost tax system effectiveness through targeting public financial management and domestic resource mobilization and strengthening accountable governance systems - including the judiciary - necessary for strengthening an

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[that-may-have-sparked-the-coronavirus/](https://grist.org/climate/a-common-germ-pool-the-frightening-environmental-origins-of-covid-19/); <https://grist.org/climate/a-common-germ-pool-the-frightening-environmental-origins-of-covid-19/>;

<sup>25</sup> FAO. [Impacts of COVID-19 on wood value chains and forest sector response: Results from a global survey](#) 2020. Rome

<sup>26</sup> And concerns exist regarding its ability to finance upcoming debt payments. Source: Marc Jones, ["With debt crunch looming, Sri Lanka needs help from its friends."](#) *Reuters*, May 27, 2020.



enabling environment for private investment. Pending sufficient GSL commitment, work to advance Sri Lanka's capacity to finance self-reliance will enable more economic growth, boost employment, enhance prosperity, and bolster resilient societies, all with the hope to reassess cost sharing in a subsequent country strategy.

### *Civil Society*

USAID seeks to strengthen its relationship with civil society actors, given their critical role in advancing the country's democracy. USAID will leverage new tools and modalities arising from the Agency's procurement reform process and actively implement its New Partners Initiative Action Plan. The Mission will continue its work with civil society by co-designing programming, cultivating relationships with a range of new and underutilized local partners, and deepening existing relationships. USAID support will seek to preserve the space necessary for civil society's operation, while simultaneously strengthening the effectiveness and sustainability of Sri Lanka's civil society's ability to represent, inform, and serve citizens, work that is central to preserving and strengthening democratic governance. Moreover, this work will help Sri Lankan leaders, both inside and outside of government, to defend the democratic principles that the country has upheld since even before its independence; and help independent media counter misinformation. Under the strategy, civil society partnerships will be important to support reform across all development objectives, including economic development and natural resources management.

### *Private Sector*

USAID will also focus on broadening its relations with private-sector organizations to advance its objectives under the strategy. Sri Lanka's private sector is deeply interested in women's empowerment, worker health, corporate social responsibility, and consumer access to finance. These equities, shared by USAID, offer important opportunities across the portfolio to deepen existing relationships with private-sector entities and establish new ones. Recognizing that market-based approaches can lead to greater scale and sustainability of outcomes, USAID will implement its private sector engagement (PSE) Policy.<sup>27</sup>

Through a PSE scoping exercise planned for 2021, the Mission will engage with public and private sector partners, including host government business development, investment, and trade entities; U.S. and Sri Lanka chambers of commerce; local banks; multilateral and bilateral donors; and local think tanks. Building upon this exercise, USAID will seek to strengthen its relationship with Sri Lanka's private sector and leverage the strengths - including expertise, resources, and connections - of Sri Lankan firms and professional associations to advance shared priorities and reforms across all three development objectives.

### *Donor Landscape*

A number of donors left Sri Lanka after the civil war; more left after it achieved middle income country status. Currently, Sri Lanka has a small, but active community of development partners. While the government has formal responsibility for coordinating all overseas Development Assistance, partners have come together and established the Development Partners (DP) Forum to facilitate information- and experience-sharing within the foreign aid community. Coordinated by a Development Partners Secretariat, which is staffed by two full-time, consultants, the DP Forum, as a broad and inclusive mechanism, is open to any foreign mission providing assistance to Sri Lanka. The DP Forum provides an opportunity for DPs to discuss

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<sup>27</sup> USAID [Private Sector Engagement Policy](#), 2019

topics of common interest and areas that may require further dialogue with the GSL authorities and allows missions to brief each other on their strategies, programs, and initiatives. Thematically, the DP Forum covers a broad range of sectors, and has six active thematic working groups<sup>28</sup> that share information, conduct mapping on DP contributions to the sector, and identify opportunities for collaborative work.

Under the broader DP Forum umbrella, the Bilateral Donor Group (BDG) is a donor-organized group of bilateral foreign aid missions that promote and develop common bilateral approaches towards supporting Sri Lanka's development challenges. As a leader within the development community in Sri Lanka, USAID co-chairs the BDG with Australia

Major international donors include the World Bank (infrastructure, agriculture, higher education), the Asian Development Bank (higher education, MSME credit, agriculture), Japan (infrastructure, water, climate, social services), South Korea (infrastructure, higher education, peace building, building democratic institutions, European Union (rural development), Australia (tourism), and Germany (private sector development, education, and vocational training). The International Finance Corporation has been supporting small businesses, tourism, women (including women entrepreneurs), infrastructure, trade finance, and agribusiness.

### *USG Actors*

USAID collaborates and coordinates closely with all counterpart agencies at Embassy Colombo through its active Integrated Country Team. The work of other USG actors complements USAID programming in democracy, governance, and economic growth. State programs strengthen civil society capacity and media literacy, enhance youth leadership, and reduce TIP by improving services for victims and working with core agencies on regulatory reform. New State Department programs plan to increase access to justice for victims of domestic violence and provide technical support to female-owned micro-, small- and medium-sized enterprises (MSMEs).

The Department of Transportation (with State funding) provides technical assistance to the Port of Colombo staff by promoting transparent and competitive procurement methods to attract private investors for projects.

Department of Treasury Advisors, together with State counterparts, address issues related to Sri Lanka's debt, budget, financial crimes, and its non-bank financial sector. Embedded in the Central Bank of Sri Lanka before the current COVID-19 crisis, Treasury Advisors are addressing Sri Lanka's debt challenges by providing advanced technical support on monetary policy. They are helping define Sri Lanka's debt issuance strategy to reduce the GSL's dependence on external markets and mitigate risks associated with the government's significant dollar-denominated borrowing. They are also developing the expertise of Central Bank staff to enhance domestic market issuance and increase reliance on the domestic government securities market to more efficiently accomplish the task of deficit financing.

The Department of Commerce's (DOC) Commercial Law Development Program provides technical assistance on trade facilitation and trade policy, intellectual property rights, alternative dispute resolution, labor law, and public private partnerships. The DOC's Special American Business Internship Training Program promotes private-sector development by training Sri

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<sup>28</sup> Technical & Vocational Education & Training; Health & Nutrition; Agriculture; Private Sector; Gender; and Reconciliation

Lankan business delegations in key industry sectors, including tourism, waste management, and agribusiness.

## IV. RESULTS FRAMEWORK

USAID/Sri Lanka's goal is a democratic and more inclusive and self-reliant Indo-Pacific partner. J2SR roadmap indicators fairly accurately capture the current context, though several metrics, both governance and economic, are at risk of slipping. Self-reliance will be advanced through programs that seek to leverage strengths in Sri Lankan commitment, like its strong democratic tradition and largely independent judiciary, and its strong embrace of free-market principles, to bolster the country's commitment to open government, inclusive development, and the business and investment environment.

Similarly, on the capacity side, and particularly for governance work, strategic choices are informed by strengths in citizen and civil society capacity, which the strategy seeks to leverage to improve areas captured by relatively weak indicators within the realms of government capacity and capacity of the economy. As such, this strategy seeks to advance a stable democracy, address necessary fiscal and governance reforms, and leverage private-sector solutions to increase economic and environmental resilience, bolster social inclusion, and strengthen our Indo-Pacific partnership.

Throughout, USAID will focus on advancing gender equality and social inclusion. Programming will seek to increase the participation of and benefit for women and youth as it elevates human rights and bolsters tolerance among and between differing ethnic, religious, and cultural groups. Similarly, economic growth programming will seek to increase engagement with and benefit for youth, women, and marginalized populations. As natural disasters and the effects of climate change disproportionately affect women, USAID will address disparities in women's engagement and representation in decision making and consultation processes with regards to both the management of natural resources and in work focused on advancing energy sector sustainability.

### **Development Objective (DO) 1 - Effective Democratic Governance Strengthened**

*Development Hypothesis: If Sri Lanka improves the institutional responsiveness of oversight bodies by increasing Parliamentary and judicial effectiveness, boosting public-sector efficiency and accountability, and increasing civil society engagement and sustainability; bolsters active and informed public engagement by increasing participation of women and youth in democratic processes, strengthening the sustainability of independent media, and increasing civil society engagement and sustainability; and elevates rights and tolerances to advance a national Sri Lankan identity by increasing social cohesion, advancing efforts to defend human rights, and increasing civil society engagement and sustainability, then the national systems of democratic governance will be strengthened.*

DO 1 contributes to USAID's CDCS goal of a democratic and more inclusive and self-reliant Indo-Pacific Partner by facilitating government responsiveness to build trust and strengthen oversight; bolstering informed public participation; and increasing inclusion and respect among and between the island's diverse ethnic, cultural, and religious groups to advance inclusive participation and boost social cohesion. Successfully achieving all three preserves and

promotes participation and preserves freedom, openness, and transparency, hallmarks of effective democratic governance and critical components to advance the CDCS goal.

DO1 will advance a democratic and inclusive Sri Lanka by strengthening effective, democratic governance. It will do so through a three-pronged approach, each of which is bolstered by work to promote active and sustainable civil society engagement. First, to advance effectiveness of Sri Lankan governance, it will strengthen the responsiveness and efficiency of government institutions, in particular, executive and non-executive branch institutions with oversight capabilities, such as independent commissions and the judiciary and Parliament. Assistance to the judiciary will address issues such as Sri Lanka’s extremely slow administration of justice, where cases can take decades to resolve; lack of accountability to the average citizen; and perception of judiciary independence. Unchecked, these issues decrease trust and discourage citizens from pursuing justice, weakening public trust and participation, which undermines the important oversight role of the judiciary.<sup>29</sup> Similarly, USAID’s work with Parliament will focus on strengthening its oversight capacity by enabling responsive, people-centric public-policy making, and improving constituency service. In addition to strengthening the oversight ability and enhancing accountability to the public, work in this area, particularly work with budget and fiscal oversight committees, provides potential opportunities for synergies with DO2 to advance reforms in public financial management and domestic resource management, reforms that advance the country’s ability to finance self-reliance.

DO1 Effective, Democratic Governance Strengthened	
<b>IR 1.1 Responsiveness of Governance Institutions Improved</b>	
1.1.1	Parliamentary and Judicial Effectiveness Increased
1.1.2	Public Sector Efficiency and Accountability Increased
<b>IR 1.2 More Informed and Active Public Participation</b>	
1.2.1	Participation of Women and Youth in Democratic Processes
	Increased
1.2.2	Increased Sustainability of Independent Media
<b>IR 1.3 Rights and Tolerances Elevated</b>	
1.3.1	Increased Social Cohesion
1.3.2	Increased Efforts to Defend Human Rights
<b>Cross-Cutting Sub-IR</b>	
Increased Civil Society Engagement and Sustainability	

Second, USAID will strengthen the demand side of governance, facilitating civil society’s informed and active participation in Sri Lanka’s democracy. It will focus on boosting the participation of women and youth and increasing the sustainability and credibility of independent media. Addressing critical issues faced by civil society, including threats to independent media, and a largely male dominant culture that hinders women’s participation, USAID will facilitate the development of a more informed, active, and engaged citizenry that utilizes accurate, verified information to advance Sri Lankan democracy.

Finally, USAID will focus on elevating rights and tolerances to boost social cohesion and a national Sri Lankan identity and ensure that all Sri Lankans have the rights and abilities to fully

<sup>29</sup> OECD, [Trust and Public Policy: How Better Governance can Help Rebuild Public Trust](#), OECD Publishing, Paris, 2017.

participate in the country's democracy. The island's ethnic, cultural, and religious diversity, while undoubtedly accruing benefits in some areas, drives development and governance challenges directly attributed to an identity-driven society that divides the country along ethnic and religious lines, discouraging minority inclusion and undermining social cohesion. A focus on strengthening social cohesion bolsters tolerance for and legitimacy of the minority, protecting the ability for all to participate primarily as Sri Lankan, rather than as members of a particular ethnic, cultural, or religious group. Equally important for fostering social cohesion and a national identity is the protection of and respect for human rights of individual Sri Lankans, regardless of ethnic, religious, or cultural background. In particular, work will focus on combatting trafficking in persons, which protects a fundamental human right that is near universally acknowledged. Through a focus on TIP, USAID will implement interventions for protecting this fundamental human right and in this process, establish approaches that are effective for tackling a broader range of other human rights.

### *J2SR Roadmap Metrics and Other Evidence*

In general, key indicators for democracy, human rights, and governance in Sri Lanka<sup>30</sup> reflect the significant governance improvements made during the first few years of the former administration. Many of these metrics now show slight and, in some cases, steep declines. For example, Sri Lanka's Liberal Democracy Index score between 2014 and 2018 improved from 0.25 to 0.51, but declined slightly to 0.47 in 2019.<sup>31</sup> While Sri Lanka's score of 0.47 is above average for the region and income group, it is likely to decline further, given the recent expansion of executive powers.

Sri Lanka's Roadmap scores indicate relatively high levels of commitment and capacity with regards to open and accountable governance, government capacity, and civil society sub-dimensions. Current scores reflect Sri Lanka's rich democratic history and governance and institutional advances. Despite the current metrics, an immediate focus on strengthening institutional capacity to bolster accountability and oversight functions of independent commissions and non-executive branch institutions and striving to ensure that credible civil society voices remain is crucial to advancing good governance.

The Roadmap's social group equality metric indicates room for improvement. Indeed, the low score of 0.46 reflects the longstanding ethnic divides that fueled Sri Lanka's civil war. It reflects elements of ethno-religious-communal extremism that seeks to exclude the Other, but that can quickly become violent, as manifested in the 2019 Easter bombings. And, despite the country's high levels of education, the low social group equality metric indicates widespread inequality. As a whole, it reflects the challenge of establishing a shared and inclusive Sri Lankan identity with which the island has long struggled, but that will need to be addressed. Establishing a shared identity requires that all voices be heard; that all Sri Lankans are included as participants in the country's democratic processes. In the Sri Lankan context, continued low commitment to improving the underlying factors driving the social group equality metric threatens to undermine governance improvements and roll-back hard-won reconciliation gains.

While most of Sri Lanka's independent media and free flow of information indicator scores have improved since 2015, some have weakened in recent years. A notable and important example is Sri Lanka's media self-censorship score, which measures self-censorship among journalists when reporting on issues that the government considers politically sensitive. Sri Lanka's

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<sup>30</sup> Data in this section sourced from USAID, [IDEA Sri Lanka Dashboard: Democracy, Human Rights & Governance](#).

<sup>31</sup> Varieties of Democracy, V-Dem data, 2019.

performance in this area jumped from 0.31 in 2014 to 2.31 in 2018, but then declined sharply to 0.83 in 2019.<sup>32</sup>

With regards to human rights, Sri Lanka's score for power distributed by social groups was 0.28 in 2019. This represents a steep decline from 0.83 in 2018 and is much lower than other countries in the same income group (average 0.57).<sup>33</sup> In terms of the Social Group Equality Index, which measures the extent to which social groups, as distinguished by language, ethnicity, religion, etc., enjoy the same level of civil liberties, Sri Lanka's score of 1.87 lags behind the regional average (2.13) and the average for its income group (2.39), and indicates members of some social groups enjoy fewer civil liberties than the general population. Sri Lanka also saw a sharp decline in its freedom of religion score from 0.96 in 2018 to 0.02 in 2019.<sup>34</sup>

DO 1 consists of three IRs. IR 1.1 addresses the supply-side of government services, including oversight functions, so that government systems operate efficiently and effectively to meet the needs of the public. IR 1.2 improves the quality of public participation in democratic processes by increasing the ability of all Sri Lankans to take an informed, active part in public and political life. IR 1.3 advances democratic values and fundamental freedoms through the promotion of ethnic and religious tolerance and the protection of human rights, in particular, through work to counter trafficking in persons.

### *GSL Priorities*

The GSL's stated governance priorities align with DO 1. The government's aim to establish a people-centered public service and to protect the rule of law tie to IR 1.1, in terms of enhancing government responsiveness, ensuring public voices are included in policy making, and transforming the justice sector to be timely and effective. This alignment also provides an opening to re-define the relationship, if the government is interested in partnering to advance meaningful institutional capacity strengthening measures. The government's objective of introducing a transparent mass media policy aligns with IR 1.2 by contributing to a more informed public, and its objective of establishing religious harmony and integration with each religion, and reconciliation among the ethnic groups very closely aligns with IR 1.3's aim to elevate rights and tolerance.

### *Other Development Actors*

A number of other development partners are active in areas relevant to this DO. The European Union, programming largely through United Nations Agencies, funds programming in reconciliation, rule of law, and human rights. The British and Australian High Commissions fund governance programming; Australia is working to establish a sizable new governance program that will complement work envisioned under this strategy. GIZ has robust programming in reconciliation, and Japan has programming focused on gender inclusion and women, peace, and security. A number of United Nations' agencies, including IOM, ILO, UNICEF, UNDP, and UNHCR, all fund programs complementary to the approach envisioned by this development objective. Through the active DP forum, partners regularly gather to collaborate and coordinate programming.

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<sup>32</sup> Ibid.

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

### *IR 1.1: Responsiveness of Government Institutions Improved*

USAID will directly strengthen the government's efficiency and effectiveness in responding to public demands, particularly in agencies and bodies with oversight mandates. Within the judiciary, USAID will address issues such as law delays and lack of accountability and strengthen the independence of the judiciary. Assistance to Parliament will focus on strengthening its oversight capacity. This will increase government accountability, enable citizen-centric public policy making, and improve constituency service. Assistance will also strengthen Sri Lanka's public sector to meet citizens' demands and strengthen the independence of commissions. Overall, this IR will strengthen Sri Lanka's capacity to plan, finance, and implement solutions to local development challenges (Government Effectiveness) and ensure government commitment to see these solutions through effectively, inclusively, and with accountability (Liberal Democracy and Open Government).

### *IR 1.2: More Informed and Active Public Participation*

USAID will create an environment in which the general public and civil society actors can contribute to and participate in democracy, strengthening the demand side of governance. USAID will focus on the participation of women and youth in democratic processes, increasing the sustainability of independent media, and increasing civil society engagement and sustainability. Progress under this IR will strengthen Sri Lanka's commitment to Liberal Democracy, Social Group Equality, and capacity in Civil Society & Media Effectiveness. USAID will address critical issues faced by civil society including threats to independent media, and a largely male-dominant culture that hinders women's participation. Sri Lanka continues to have the lowest rate of women participating in legislative bodies in South Asia, and women are rarely represented in political party leadership and decision making. With regard to the media, intermittent attacks on journalists and media houses have left the industry vulnerable. This has resulted in the public consuming unverified information from social media and widespread mistrust of the media. Combating the spread of misinformation and strengthening the sustainability of alternative media narratives is key to creating an informed public. By mobilizing selected civil society clusters, USAID will create a more informed, active, and engaged citizenry that relies on accurate and verified information to participate in good governance in a more meaningful way.

### *IR 1.3: Rights and Tolerance Elevated*

USAID will continue to support major commitments set out under the UNHRC resolution 30/1, such as continuing to strengthen national reconciliation efforts; supporting human rights defenders, independent journalists, religious minorities, and civil society; and restoring normalcy and demilitarization of civilian affairs. USAID will continue to engage with traditional partners in strengthening local capacity to identify and implement local solutions to promote rights and social cohesion in Sri Lanka. Progress under this IR will strengthen Sri Lanka's commitment to Social Group Equality and capacity in Safety and Security.

### *Cross-cutting Sub-IR: Increased Civil Society Engagement and Sustainability*

Supporting civil society's role to represent, inform, and serve citizens is central to achieving DO 1 objectives and cuts across all DO 1 Intermediate Results. Under DO 1, USAID will seek to preserve space within which civil society operates and strengthen the effectiveness and sustainability of Sri Lanka's civil society. Through this work, USAID will help Sri Lankan leaders, both inside and outside of government, to defend the democratic principles that the country has upheld since before its independence.

## Development Objective 2 - Inclusive, Market-Driven Growth Increased

*Development Hypothesis: If Sri Lanka improves economic governance by strengthening its enabling environment for trade and investment and increasing its capacity to mobilize and manage domestic public resources; promotes private sector-led growth by improving private enterprise development and increasing access to investment resources for the private sector; and advances human capital development by increasing science, technology, and information capacity and increasing workforce productivity, then it will increase inclusive, market-driven growth.*

Through interventions under DO2, USAID will advance a more financially stable, prosperous, and inclusive Sri Lanka that is less vulnerable to external influence.

Sri Lanka currently has convoluted and unsustainable tax policies and faces mounting debt, decreasing revenue, and a declining sovereign credit rating. This combination of fiscal and monetary problems raises serious concerns about Sri Lanka's capacity to mobilize and utilize public resources for investments crucial to self-reliance. Sri Lanka lacks the fiscal space necessary to capably meet infrastructure and other public service needs due inadequate public financial management, uncoordinated tax policy and insufficient tax collection, insufficient public-private engagement, and weak trade and investment policies. Sri Lanka has one of the lowest tax-to-GDP ratios in the world at 11.9 percent, in large part due to a tax regime with many exemptions and insufficient human capital to enable comprehensive enforcement.<sup>35</sup> Economic governance challenges, combined with COVID-19-related challenges, engendered an unmanageable debt burden that hastens the need for broad-based economic growth. Strengthening the government's capacity to manage public resources and mobilize additional resources will help bolster inadequate procurement systems. The World Bank changed its classification for Sri Lanka from UMIC to LMIC when reporting the country had \$4,020 GNI/per capita in July 2020. The OECD's credit risk classification places Sri Lanka's credit risk at 6 out of 7, with 7 being the riskiest, on par with most of Sub-Saharan Africa, Myanmar/Burma, Nepal, and Papua New Guinea, among others. All sovereign credit rating agencies have downgraded Sri Lanka in the past few years.

DO2 Inclusive, Market-Driven Growth Increased	
<b>IR 2.1 Economic Governance Improved</b>	
2.1.1	Enabling Environment for Trade and Investment Strengthened
2.1.2	Capacity to Mobilize and Manage Domestic Public Resources Increased
<b>IR 2.2 Private Sector Led Growth Promoted</b>	
2.2.1	Private Enterprise Development Improved
2.2.2	Private Sector Access to Investment Resources Increased
<b>IR 2.3 Human Capital Development Advanced</b>	
2.3.1	Science, Technology, and Information Capacity Strengthened

<sup>35</sup> Umesh Moramudali, ["What Sri Lanka's 2019 Budget Tells Us About Its Economic Health."](#) *The Diplomat*, March 27, 2019.



USAID will increase Sri Lanka's capacity to attract much-needed private resources to finance self-reliance by advancing an enabling environment for private investment and MSME growth. Through improvements in private enterprise development and access to investment resources, USAID will help foster the private-enterprise-led, broad-based economic growth needed in Sri Lanka. Investments will target increasing MSME competitiveness and export sophistication, allowing private enterprises to access the financing necessary to launch or build businesses. In addition, according to an Asian Development Bank report, MSMEs lack access to finance due to the shortcomings within MSMEs, financial institutions, and within the market infrastructure system itself.<sup>36</sup> Therefore, USAID will address the lack of financing that currently prevents MSMEs from increasing competitiveness, expanding operations, and meeting international standards to access higher-value more diversified markets. According to a USAID assessment report, the constraints affecting MSME competitiveness disproportionately affect women.<sup>37</sup> USAID will address inclusion through interventions across its IRs under DO 2.

### *J2SR Roadmap Metrics and Other Evidence*

Sri Lanka's tax effort score of 0.37, far below the regional average of 0.47, shows that the country is not efficiently utilizing its tax base relative to its tax capacity. USAID will provide technical assistance to improve GSL capacity to increase its potential tax revenue. USAID will also address Sri Lanka's PFM score for fiscal policy (-6.0 vs -4.9 for region) and government debt, which lag behind the Asia region.<sup>38</sup> Sri Lanka's Global Prosperity Index score of 75/167 in 2019 also highlights the potential to improve the country's enterprise conditions and investment environment. USAID seeks to work with the government to improve the business enabling environment.

Sri Lanka's ICT indicator, while improved, remains low, impacting both public and private sectors. J2SR metrics do not show the economic mismatch between workforce skills and business sector needs (i.e., English, IT, critical thinking, and technical vocational skills), but a 2018 USAID market assessment<sup>39</sup> found that the gap between skills needed by employers and the labor force, particularly for youth, needlessly exacerbates unemployment and reduces the country's economic productivity. According to a 2018 USAID Youth Labor Market Assessment, the national unemployment rate for youth (aged 15-35) is 11 percent; however, youth unemployment in the 15-19 and 20-24 age groups is far above average. Despite high rates of education, Sri Lanka lags peers in innovation and competitiveness because universities tend to prioritize traditional teaching over innovative research, and non-university workforce development programs are not sufficiently utilized to prepare prospective workers for competitive service jobs.

While Sri Lanka has a long history of investing in human capacity, including state-led universities, that has not translated to a sufficiently productive labor force. Mismatches between the skills employers seek and the skills of the labor force have led to high youth unemployment, rather than youth productively contributing to transformational economic growth. A Mission assessment<sup>40</sup> reported that 26 percent of employers surveyed indicated the lack of applicants

<sup>36</sup> ADB, Small and Medium-sized Enterprise Line of Credit Project, [Additional Financing Report](#), December 2017.

<sup>37</sup> Examples of practices that disproportionately affect women's access to finance include discrimination by Sri Lankan formal banks and predatory microcredit lending. Source: USAID/Sri Lanka and Maldives, [Integrating Women's Economic Empowerment and Equality into Labor, Small and Medium Enterprise Development, and the Enabling Environment in Sri Lanka](#), February 2020, pg. 13.

<sup>38</sup> USAID, IDEA, [Sri Lanka Country Profile: Public Financial Management](#).

<sup>39</sup> USAID/Sri Lanka and Maldives, [YouLead Market Assessment](#), July 2018.

<sup>40</sup> USAID/Sri Lanka and Maldives, [YouLead Market Assessment](#), July.

with job-specific technical skills as the biggest obstacle to recruitment. Responding to a finding that 63 percent of youth polled consider a vocational training course or professional qualification to be the most helpful factor in securing employment, USAID engages with the private sector to improve workforce capacity.<sup>41</sup> Youth employment programming will continue, potentially in collaboration with additional donor partners, who have expressed interest in collaborating with USAID, both through funding and a broadened scope that may include a new target group, including returning and prospective migrants. USAID will pursue this collaboration and leverage the partnerships to deepen effectiveness and programming, utilizing the collective voices of engaged and invested partners. Additionally, and as already noted, women in Sri Lanka, despite high levels of education, account for only approximately one-third of the workforce. Programming will target women with a focus on inclusion, establishing partnerships with the private sector to improve technical and vocational education and training (TVET) institutions and workforce readiness to build workforce productivity of men and women.

USAID's efforts to increase inclusion, especially of women, in private sector development and workforce development, are informed by evidence, including survey results, a GESI assessment, and other relevant indicators related to gender. According to the 2020 Human Capital Index,<sup>42</sup> Sri Lanka's female labor force participation is 35 percent, higher than the regional average, but lower than the average for its income group (50 percent). As the COVID-19 pandemic continues, girls are dropping out of schools, especially in rural Asia. A survey by Room to Read of 28,000 girls in Bangladesh, Cambodia, India, Laos, Nepal, Sri Lanka, Tanzania, and Vietnam found that 42 percent saw a decline in their families' incomes during the pandemic and half of the girls were at risk of dropping out of school. In such a situation, some women and girls will forgo education for work to repay their families' debts, while others simply lack the funds to pay for schooling. To create new opportunities for women-led enterprises, USAID will prioritize work in sectors that demonstrate a strong potential to enable meaningful workforce participation for women, whose participation is limited by social norms and expectations, as well as domestic and childcare duties.<sup>43</sup>

DO 2 consists of three IRs. IR 2.1 addresses fiscal reform and improvements to the business enabling environment so that Sri Lanka can manage its increasing debt burden and put its economy back on track. IR 2.2 covers investments that advance firm-level competitiveness to drive enterprise-led, broad-based economic growth. This will also contribute to a more stable and prosperous economy that generates better jobs, provides higher incomes, and broadens the tax base. IR 2.3 develops human capital at post-secondary levels to foster innovation and prepare the workforce to meet the demands of high-growth sectors.

Consistent with the Mission's Private Sector Engagement Plan, USAID will engage, consult, and actively partner with the private sector to improve economic outcomes, as well as engage the GSL to improve the business enabling environment to identify workforce needs and to spur MSME competitiveness. USAID will assist Sri Lanka's ability to finance self-reliance by broadening the tax base to fund Sri Lanka's own development. The Mission will also strategically engage the private sector by partnering with larger firms, in support of the NPI, to strengthen enterprise competitiveness.

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<sup>41</sup> USAID/Sri Lanka and Maldives, [YouLead Market Assessment](#), July 2018, pg. 31.

<sup>42</sup> World Bank, [Human Capital Index](#), 2020.

<sup>43</sup> Solotaroff, Jennifer L., George Joseph, and Anne T. Kuriakose. 2017. "[Getting to Work: Unlocking Women's Potential in Sri Lanka's Labor Force](#)." Overview booklet. World Bank, Washington, DC. License: Creative Commons Attribution CC BY 3.0 IGO

### *GSL Policies*

The Rajapaksa administration's stated economic development policies align with DO2. Its objectives to ensure transparency in economic policy formulation and implementation, ensure the efficiency and effectiveness of government expenditure, and ensure law reforms and utilize new technology to eliminate corruption align with IR 2.1 in terms of improving GSL policies and regulations.<sup>44</sup> Sri Lanka's economic governance policies are inadequate to ensure fiscal solvency, leaving the country vulnerable to opportunistic influence. In addition, the current administration's objectives to create an enabling working environment and facilitate entrepreneurship development tie to IR 2.1 and 2.2; its objective to ensure a trained, energetic workforce ties to IR 2.3. The GSL does not currently do enough to facilitate private sector competitiveness or incentivize entrepreneurship. And, while the government centrally manages university-level curriculum development and manages the country's 20 public universities, it lacks the policies to prepare and match university students to the service jobs needed to transform Sri Lanka's economy or to build STEM capacity at the university level. USAID will need to gauge GSL's interest in working with USAID to support university-level STI capacity to achieve Sub-IR 2.3.1.

### *Other Development Actors*

USAID supports Sri Lankan autonomy, self-reliance, and open competition from multiple angles. The PRC is Sri Lanka's biggest single lender, owning 14 percent of GSL's external public debt. The PRC leveraged the GSL's unsustainable lending to gain control of key assets, including Hambantota Port. Sri Lanka is particularly vulnerable to China's continued debt trap diplomacy.

India is Sri Lanka's only and important neighbor across the Palk Strait. It is Sri Lanka's largest trading partner, and the countries share deep racial and cultural connections. India is not actively engaged in donor coordination efforts in Sri Lanka, but does have a "Neighborhood First" policy, which includes Sri Lanka.

### *IR 2.1 Economic Governance Improved*

Given its current trajectory, the GSL risks facing the consequence of insufficient public resources to meet development needs, increased indebtedness to the PRC, loss of economic sovereignty, and potential instability. USAID will assist the GSL to improve the enabling environment to make it more conducive to private investment and MSME growth. This will build Sri Lanka's ability to finance its own development. USAID will support labor reforms, especially those targeting barriers faced by women. This includes technical assistance to finalize a new labor law that will address prospective investors' concerns about Sri Lanka's enabling environment. These initiatives will result in a more efficient business environment that will attract the private sector investment needed for inclusive market-driven growth. USAID will also provide technical assistance to GSL counterparts on trade facilitation through assisting the coordination of the government and the private sector to improve logistics and digitize trade regulations and compliance procedures.

In addition, USAID will help the GSL mobilize and manage public resources to expand fiscal space and decrease Sri Lanka's reliance on external bail-out lending to meet its capital needs. This work, which includes improving domestic resource mobilization (DRM), public financial

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<sup>44</sup> The National Policy Framework consists of a set of campaign promises by the Rajapaksa government, the term of which matches the 2020-25 time period of this CDCS. Source: Gotabaya Rajapaksa, "[Vistas of Prosperity and Splendour](#)", 2019.

management (PFM) for transparent and uniform budget management practices, and fiscal transparency and accountability, is critical to FSR.<sup>45</sup> USAID is meeting with counterparts throughout the new government and designing interventions that respond specifically to the needs and priorities articulated by GSL counterparts.

### *IR 2.2 Private Sector-Led Growth Promoted*

USAID will support Sri Lanka micro, small, and medium enterprises (MSMEs) to become more competitive in higher-value products, diversify their markets and products, and pursue new market opportunities. USAID will prioritize sectors that demonstrate strong potential to enable meaningful workforce participation for women and create new opportunities for women-led enterprises. The Mission will help small businesses better adapt to new or changing economic conditions, particularly COVID-19, by adopting new business modalities and seizing new market opportunities. For example, Sri Lanka's private sector can position itself to assume new roles as multinational businesses accelerate their reshuffling of global supply chains in response to pandemic, climate change, and other risks, by geographically diversifying source and production. USAID will prioritize support for private SMEs and sectors with high growth potential, including ICT and tourism. In the struggling tourism sector, USAID will improve SMEs' business practices to increase their stability and diversify tourism businesses via horizontal integration. Such firm-level assistance will be particularly important in the early part of the CDCS to build private sector resilience.

USAID will help SMEs increase their access to the financing required to grow their operations and penetrate higher-value markets, as well as help them build financial management capacity, improve marketing, develop viable business plans, and strengthen internal accounting systems. USAID will help facilitate MSME collaboration with banks, blended financing investors, and other private sector actors. Furthermore, USAID will co-create solutions with local financial institutions, an NPI standard practice, to increase the availability of financing tools. The Mission is in discussions with the Development Finance Corporation (DFC) on a potential credit guarantee to encourage financial institutions to extend loans to SMEs and to diversify supply chains. Such a guarantee could include early-stage businesses, those owned by youth, and women-owned businesses. USAID will place particular focus on spurring gender-lens investments that facilitate women entrepreneurs to create jobs and opportunities that, when reinvested, spur community-level economic development. USAID will also engage with donors in the private sector development space to identify overlapping sectors, address gaps, and share best practices; coordinate closely with Australia's Market Development Facility and Business Partnership Platform, which support the tourism, fisheries, and agriculture sectors; work with the International Finance Corporation (IFC) to improve women's access to opportunities in entrepreneurship, employment, insurance, corporate leadership, and the digital economy; and align with a GIZ project that works to enhance the capacity of SMEs in various sectors in the north, northwest, and east of Sri Lanka.

### *IR 2.3 Human Capital Development Advanced*

Pending funding, USAID will expand opportunities for science, technology, and innovation to advance, broaden, and sustain growth. With only an estimated 106 researchers in research and development per million (2015)<sup>46</sup>, Sri Lanka has room to improve upon its regional ranking of 14

<sup>45</sup> USAID, [Fact Sheet: Financing Self-Reliance](#), October 2019.

<sup>46</sup> [World Bank, Researchers in Research and Development, 2015 World Bank, World Development Indicators \(WDI\)](#)

of 19 and income group ranking of 17 out of 35. Through partnerships with universities to build science, technology, and innovation (STI) capacity, support graduate-level research, and increase innovation, programming will support research and advance innovative ideas that are ready to market and commercialize. Work developing career centers with private industry input will help better prepare graduates for the workplace. Institutionalizing innovation is foundational to advance and finance self-reliance and necessary to spur transformative economic growth. In this new area of programming for the Mission, USAID will need to verify GSL's interest in partnering on advancing university-level STI capacity to achieve this IR. The Mission is optimistic, as other donors, including the World Bank, invest in this area, which also presents opportunities to leverage resources, program synergistically, and redefine our relationship with the GSL as a part of a wider donor cohort assisting in the sector. This is also an area ripe to advance the Mission's PSE strategy through establishing and growing innovative, research-based organizations.

As an additional means to advance human capital, USAID will continue to focus on strengthening the workforce, with a focus on youth. In coordination with a wide array of public- and private-sector stakeholders (including through co-design), programming will help youth gain skills that better match market needs. USAID partners with private sector businesses to increase sustainability and resource-leveraging, align skills development with the needs of employers, provide youth skills development opportunities, improve vocational training, promote entrepreneurship for self-employment in competitive sectors like ICT and tourism, and establish responsive public-private partnerships. USAID will support gender and inclusion under Sub-IR 2.3.2 by partnering with the private sector to improve technical and vocational education and training (TVET) institutions and workforce readiness to build workforce productivity.

### **Development Objective 3: Resilience of Resources to Shocks and Stresses Enhanced**

*Development Hypothesis: If Sri Lanka enhances environmental and climate resilience by strengthening natural resource management and advancing climate change adaptation capacity and accelerates energy security and sustainability by improving the performance of energy utilities, improving energy planning, and strengthening the energy sector's legal and regulatory framework, then it will enhance the resilience of its resources to shocks and stresses.*

As an island nation highly vulnerable to the effects of climate change and dependent on maintaining the richness of its natural resources and a sustainable energy system to drive economic growth and provide for the welfare of all of its people, improving the resilience of Sri Lanka's resource base to shocks and stresses is critical to advancing inclusive self-reliance.

Sri Lanka has made great strides over the past 20 years in reducing poverty and increasing incomes. Tourism, agriculture, fishing, and manufacturing drove the country's economic growth, sustaining the welfare of millions of Sri Lankans and generating foreign exchange. While Sri Lanka's impressive growth can, in large measure, be attributed to the island's vast and rich resource base, the very industries that depend upon its richness to drive growth are also, in large measure, responsible for the degradation of the country's natural resource base and are highly vulnerable to the effects of climate change.

DO3 Resilience of Resources to Shocks and Stresses Enhanced	
<p><b>IR 3.1 Environmental and Climate Resilience Enhanced</b></p> <p>3.1.1 Natural Resource Management Strengthened</p> <p>3.1.2 Climate Change Adaptation Capacity Advanced</p> <p><b>IR 3.2 Energy Security and Sustainability Accelerated</b></p> <p>3.2.1 Performance of Energy Utilities Improved</p> <p>3.2.2 Energy Planning Improved</p> <p>3.2.3 Energy Sector Legal and Regulatory Framework Strengthened</p>	

Despite the richness of its resource base and the critical role its natural resources play in advancing self-reliance, Sri Lanka's environmental resources have degraded over the past several decades, threatening the country's social welfare and economic trajectory.<sup>47</sup> While direct threats include increasing encroachment into protected areas and other natural ecosystems, unsustainable and illegal exploitation and pollution, including marine plastics,<sup>48</sup> other indirect challenges have hastened the rate of resource degradation. Indirect threats include inadequate implementation of existing laws and policies; poor coordination and institutional capacity; corruption; insufficient resilience; and despite its historical conservation ethos, waning commitment.

Climate change poses challenges to the sustainability of both Sri Lanka's energy systems and its rich natural resource base, and thus, threatens Sri Lankan self-reliance. Among the three most affected countries in 2017 in terms of weather-related loss events, Sri Lanka ranks second highest globally on the 2017 Germanwatch Climate Risk Index, which measures fatalities and economic losses occurring as a result of extreme weather.<sup>49</sup> The United Nations Office for Disaster Risk Reduction (UNDRR) estimates that recurring disasters, including from cyclones, monsoons (and subsequent flooding and landslides), and droughts - all of which are exacerbated by a changing climate - caused nearly \$7 billion in damages between 1990-2018.<sup>50</sup>

<sup>47</sup> World Bank, [Sri Lanka - Ending Poverty and Promoting Shared Prosperity: A Systematic Country Diagnostic](#), October 2015.

<sup>48</sup> USAID/Sri Lanka and Maldives, Sri Lanka Tropical Forest and Biodiversity Analysis (FAA 118/119), 2020, pg. 43.

<sup>49</sup> David Eckstein, Marie-Lena Hutfils and Maik Winges, "Global Climate Risk Index 2019: Who Suffers Most from Extreme Weather Events? Weather-related Loss Events in 2017 and 1998 to 2017," *GermanWatch*, 2019.

<sup>50</sup> UNDRR, ["Disaster Risk Reduction in Sri Lanka: Status Report 2019."](#) 2019.

The Indian Ocean tsunami of 2004 highlighted Sri Lanka's vulnerability to infrequent, high-impact events.<sup>51</sup>

Sri Lanka's energy sector powered its impressive, post-war growth. Achieving near 100 percent electrification of the island in 2016, in part due to the addition of non-conventional renewable energy,<sup>52</sup> Sri Lanka's energy sector met an increasing demand for power that (briefly) elevated the country into middle income ranks until the energy sector began showing signs of weakness this year.

Self-reliance rests on ensuring that Sri Lanka's energy system and natural resources are sufficiently resilient to shocks and stresses, including from the climate change challenges that the country will inevitably face moving forward. The energy sector's failure to implement integrated resource planning led to the country's failure to add new generation capacity over the past several years. At the same time, inadequate regulatory enforcement resulted in energy prices that do not reflect costs, leading to market inefficiencies and accumulating debts on the part of the national state-owned utility. With the utility missing payments to energy suppliers and failing to adequately manage distribution, the country in August 2020 announced indefinite nationwide rolling blackouts, signaling a serious decline in the country's ability to manage the sector.

Sustainable and affordable energy is a key business environment enabler that encourages foreign direct investment and allows expansion in the high-tech and traditional industries in which Sri Lanka will need to compete to regain the upper-middle-income status that it lost during the COVID-19 crisis. Moving forward, Sri Lanka needs an integrated energy strategy to rationalize the country's resource mix and avoid shortsighted investments, as well as to increase renewable energy utilization to meet the country's ambitious Paris Agreement commitments and the President's own promise of 80 percent reliance on renewable and hydro power by 2030.

### *J2SR Roadmap Metrics and Other Evidence*

USAID Roadmap indicators reflect the above-mentioned challenges and inform USAID's work to advance this development objective. Sri Lanka's below average Environmental Policy commitment score reflects the government's implementation and coordination challenges applying its numerous existing environmental laws, policies, and regulations. USAID's 118/119 analysis supports this, noting that inconsistent or, in some cases, inadequate or absent application of environmental laws, policies, strategies, regulations, and procedures drives a set of threats to Sri Lanka's resource base. Key players routinely violate environmental and social safeguards to boost profitability, and agencies responsible for implementing the legal framework face budgetary constraints, including opaque financial management systems and inadequate budget allocations.<sup>53</sup> The low Environmental Policy commitment score also reflects a general and recent (historically speaking) decline in the public conservation ethos: both in terms of attitude and influence of non-governmental stakeholders toward sustainable management of the island's resources. In the current context, societal demands for action are limited to a small, but skilled and motivated, conservation community.<sup>54</sup>

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<sup>51</sup> Ministry of Disaster Management, "Hazard Profile of Sri Lanka," 2019.

<sup>52</sup> World Bank, "[Sri Lanka Energy Sector InfraSAP](#)," April 30, 2019.

<sup>53</sup> USAID/Sri Lanka and Maldives, FAA 118/119, pg. 45.

<sup>54</sup> USAID/Sri Lanka and Maldives, FAA 118/119, pg. 44.

Cross-cutting secondary indicators provide further clarity and direction. Sri Lanka's 2018 global climate risk index score of 19 places it as the fifth country in the world most vulnerable to the effects of a changing climate, and the 2017 ND-GAIN Country Index score of 46.1 (out of 76.7) indicates an elevated vulnerability to climate disruptions. The situation, while concerning, also presents potential opportunities to support planning and policy work to attract private and public sector investment for adaptive actions. A 2020 EPI Global Climate Change score of 31 ranks Sri Lanka in the bottom half regionally, and bottom quarter globally, highlighting the urgency of assistance to Sri Lanka in its work to combat global climate change. Finally, the UN Office for Disaster Risk Reduction's 2015 Global Assessment Report on Disaster Risk Reduction rated Sri Lanka at a concerning 4 out of 5, meaning Sri Lanka ranks in the top three countries for disaster risk regionally, and top 20 globally.

Terrestrial, marine, and freshwater indicators also inform this strategy. Sri Lanka's below-average Environmental Performance Index (EPI) score of 34.1 for tree cover loss illustrates the challenges the country faces with encroachment into protected areas, causing forest degradation. The country's below-average EPI scores for marine protected areas (.7) and fisheries (11.3), and its ocean health index (60.5) point to the need for help improving marine conservation.

Sri Lanka's freshwater resources are also in trouble, raising reasons for concern over the health of the country's watersheds. With an FAO Aquastat score of 90.5, Sri Lanka ranks among the top four most water-stressed countries in the region and among the top 20 globally. This level of water stress impacts the sustainability of the country's other resources and may threaten the country's ability to continue to harness hydropower resources. Water stress elevates the risk of conflict and competition between users, compounding those risks. As a post-conflict country, signs of water resource stress are of particular concern in Sri Lanka.

Regarding energy, Sri Lanka's fairly high Regulatory Indicators for Sustainable Energy (RISE) score places it among the top 10 in the region, and among the top 60 countries worldwide. While indicating that most elements of a strong policy framework to support sustainable energy are in place, the same analysis also suggests a level of commitment to advance reliable, secure, and advanced energy systems. This apparent commitment points to an opportunity for the USG and like-minded governments to partner with the host government to advance shared energy priorities. Sri Lanka's extremely low amount of public-private partnership investment in the energy sector, only \$14 million in 2014, suggests that energy is an area ripe for USAID assistance.

In response to the challenges identified above, pending funding, USAID will provide the specialized technical assistance necessary to bolster the capacity of government, private sector, and civil society partners to enhance the resilience of Sri Lanka's resources to shocks and stresses. To do so, and guided by Roadmap indicators and other evidence, USAID will focus on strengthening Sri Lankan management of its natural resources and bolstering the country's climate change adaptation capacity (IR 3.1 Environmental and Climate Resilience Enhanced), as well as on improving Sri Lanka's energy sector management (IR 3.2, Energy Security and Sustainability Accelerated).

Environment, climate change, and energy are intrinsically linked to good governance and economic growth. Addressing priority environmental challenges is, in part, a governance issue, requiring successful execution of national-level policies at the sub-national level, as well as well-informed and capable civil society and private-sector partners. At the same time, resource and resilience considerations must be taken into account when advancing initiatives to increase inclusive market-driven growth, or the country risks gravely harming its tourism, agriculture, fishing, and manufacturing sectors, all of which drive growth and generate foreign exchange.



As such, USAID will explore establishing DO3 linkages among and between DO1 and DO2 by leveraging the Agency's historical strengths and relationships developed advancing good governance and economic growth in Sri Lanka. Under DO1, media and civil society programs can be supported to develop and deliver messages about pollution reduction, conservation of threatened marine and terrestrial ecosystems, government accountability in licensing and environmental permitting, and other themes that could simultaneously strengthen the public and political commitment to healthier environmental quality while bolstering the responsiveness of government. Linkages with both other DOs can also explore support for inclusive, market-driven economic growth to apply best practices more consistently in environmental and social safeguards, potentially also linking to work that improves the transparency and responsiveness of government institutions. DO2 can explore the potential to include stronger accounting for environmental services and budgeting for natural capital assets within support for public financial management, possibly linked to programs to improve disaster risk reduction and management. DO2 can identify opportunities for generating private sector investment to produce and distribute environmental technologies for pollution abatement, smart metering of utilities, traceability of agricultural or fisheries harvests, or other areas where U.S. companies can contribute to strengthening the competitiveness of Sri Lankan businesses to meet international market demands for sustainability. All three DOs can explore opportunities to mobilize public sector, civil society, and private sector support for Sri Lankan people, places, institutions, and economy to adapt to changing climate realities, including episodic disasters (cyclones, heat waves, droughts or deluges) and slow-onset disasters like shifting crop cycles, groundwater salinization, and other climate impacts.<sup>55</sup> Accordingly, and depending upon funding, activities will align with the Mission's private sector engagement strategy, particularly in areas such as energy investment - where ample room exists to introduce and leverage the strengths of the private sector. The Mission will follow its New Partners Initiative Action Plan to ensure that the broad spectrum of critical players, including some of the island's numerous faith-based organizations, are included and supported to advance this development objective.

### *GSL Priorities*

Sri Lanka's National Policy Framework, *Visions of Prosperity and Splendour*, identifies 10 priority policies for development. Two of these policies, sustainable environmental management and the development of physical resources, align closely with and inform this development objective. The Policy Framework clearly outlines the GSL's agenda to implement these policies, with priority actions including environment and biodiversity conservation and protection; sustainable land and water resource management; biodiversity for economic perspectives; a blue-green economy; and creating an environmentally sensitive community, aligning closely with Intermediate Result 3.1, Environmental and Climate Resilience Enhanced. With regard to energy, the framework aligns with and informs intermediate result 3.2, Energy Security and Sustainability Accelerated through its focus on improving the existing energy mix and transforming the country's energy mix towards renewable energy as necessary outcomes to achieve its energy priorities.

### *Other Development Actors*

A number of development partners work on issues of environment, climate change, and energy. The active DP Forum, however, has not established a coordination working group focused on any of the three. Instead, donors working in these areas coordinate among and between one another through monthly DP Forum gatherings and ad hoc, one-on-one, and small group coordination meetings. Donors working on issues related to the environment or climate change

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<sup>55</sup> USAID/Sri Lanka and Maldives, FAA 118/119, pg. 59.

include: The Asian Development Bank (ADB); Global Green Growth Institute (GGGI); International Finance Corporation (IFC); World Bank, UN Agencies, Australia, France, European Union (EU), Germany, Japan, and United Kingdom (UK). The ADB, IFC, GGGI, France, Germany, Japan, and Norway implement activities in the renewable energy sector.

In May of 2018, Sri Lanka agreed to a joint venture between China Machinery Engineering Corporation and Ceylon Electricity Board (CEB) to build a 400-megawatt liquid natural gas (LNG) power plant for \$500 million in Hambantota, leveraging the adjacent port infrastructure that China controls, via a 99-year lease, after Sri Lanka defaulted on over \$1 billion in debt. This LNG plant increases Sri Lankan reliance on imported fuels, adding to unsustainable Sri Lankan indebtedness to China.

The environmental impacts of Chinese investment projects in Sri Lanka garner mixed reactions. According to environmental advocates, earlier infrastructure projects, including the construction of Hambantota Port and Norochcholai Power Plant, were not up to international environmental standards, in relation to feasibility studies and domestic legislation processes. Some sources reported that the Colombo Port City construction resulted in a decrease in fish stocks, impacting local fishermen.

There have also been positive environmental outcomes of Chinese investment in Sri Lanka. For example, the Colombo International Container Terminal, a Chinese built and operated terminal of the Colombo port, has invested in green technology. This is the first terminal of Colombo port to convert regular cranes to zero-emission electric cranes, thereby minimizing environmental impact. Environmental issues around Chinese investment have also shown that Chinese investors respond to public concerns, potentially offering an opening to indirectly leverage PRC resources in a manner that advances this development objective.

### *IR 3.1: Environmental and Climate Resilience Enhanced*

Pending funding, this IR will be achieved through work focused on two sub-IRs: (1) Natural Resource Management Strengthened; and (2) Climate Change Adaptation Capacity Advanced. Informed by Roadmap indicators and pending funding, USAID, in partnership with government counterparts, civil society, and the private sector, will strengthen the application and implementation of existing environmental laws, policies, and regulations to improve resource management practices that advance sustainable economic growth, advance the wellbeing of communities, and protect valuable marine and terrestrial biodiversity and watersheds. In collaboration with regional programming, where appropriate, activities will seek to deter transnational crimes affecting the country's natural resources such as illegal logging; illegal, unreported, and unregulated (IUU) fishing; and wildlife trafficking. Activities will also seek to foster greater awareness and understanding of the long-term importance and value of the country's resources and the services provided by those resources.

Activities undertaken as a part of this IR will also help to develop and implement approaches to adapt to and manage the impact of climate change, through strengthening DRR planning and implementation, improving access to information on climate hazards and impacts to support adaptation planning, and designing and implementing innovative actions that improve natural resource management, mobilize private sector funding and financing for actions to improve resource management, and reduce the risks associated with climate change. All work advancing this IR will seek to ensure that women and marginalized groups are active decision-makers and beneficiaries of programming.

### *IR 3.2 Energy Security and Sustainability Accelerated*

This IR will be achieved through work focused on three sub-IRs: 1) Performance of Energy Utilities Improved; 2) Energy Planning Improved; and 3) Energy Sector Legal and Regulatory Framework Strengthened. Through this IR, USAID will support Sri Lanka efforts to develop a more effective regulatory environment to modernize the energy sector, attract investment, advance an integrated energy strategy to rationalize the country's resource mix, adopt competitive procurement practices, and increase renewable energy utilization to meet the country's ambitious Paris Agreement commitments and the President's own promise of 80 percent reliance on renewables and hydropower by 2030. Best practices in engendering utilities will be applied to programming in this IR.<sup>56</sup>

## **V. MONITORING EVALUATION AND LEARNING**

Overall management of the Sri Lanka CDCS through its Performance Management Plan (PMP) lies with the Program and Policy Support (PPS) Office. The Mission will develop a PMP as a holistic tool that is integral to program management, with annual reviews throughout the life of the CDCS.

Each AOR and COR is responsible for performance monitoring for every activity, as guided by individual Activity MEL Plans (AMELP). A/CORs review performance indicator data and provide monitoring data of key indicators to the PMP, as well as the annual Performance Plan and Report (PPR). The Mission will time the annual review of the PMP to correspond with analysis and reporting that is accomplished during production of the PPR.

The MEL specialist in the PPS Office coordinates with A/CORs to capture Mission-level monitoring data for PMP. This currently includes collecting data at quarterly intervals and locking the data into the Mission's Performance Indicator Tracking Table, a Google-based system. With the introduction of the Development Information Solutions (DIS), the Mission will transition this data and continue collecting data into DIS directly.

The Mission also plans to expand its Collaborating, Learning, and Adapting (CLA) efforts. The current CLA plan will be revised in the light of new CDCS. The Mission anticipates strengthening CLA efforts by identifying key mission learning needs and embedding those into regular MEL tasks, such as portfolio reviews and special studies for specific learning needs. The MEL Specialist will coordinate regular MEL data calls, and work with the MEL working group to review evaluation and learning reports.

Further, by slightly expanding the scope of the current MEL working group, the Mission will increase targeted engagement of more staff in planning for learning and adapting events. This will provide opportunities to strengthen coordination between USAID/Sri Lanka, GSL, IPs, and other key stakeholders. Technical offices will continue to be engaged with designing external and internal evaluations, and the new MEL mechanism will provide technical expertise linking evaluations to CDCS learning priorities.

Below are some illustrative learning questions, including self-reliance learning agenda (SLRA) questions. The questions can apply beyond DOs to help explore new opportunities to expand into new subsectors.

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<sup>56</sup> USAID. [Delivering Gender Equality: A Best Practices Framework for Utilities](#). 2019

*DO1: Illustrative Learning Questions*

1. How can we engage local and other relevant systems such that they become more self-reliant and sustain results? - SLRA
2. What additional support can USAID provide to sustain good governance outcomes within GSL institutions?

*DO2: Illustrative Learning Questions*

1. How can private sector engagement (PSE) provide support to countries in advancing on the Journey to Self-Reliance? - SLRA
2. What opportunities does the Mission have to improve human capital development in different sectors?

*DO3: Illustrative Learning Questions*

1. To what extent have USAID approaches been effective improving natural resource management?
2. To what extent has the energy sector in Sri Lanka been transformed to be more smart, profitable, and stable?

## **VIII. ANNEXES**

- A. [USAID/Sri Lanka Journey to Self-Reliance Country Roadmap](#)
- B. [USAID/Sri Lanka Climate Change Analysis](#)