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Report No: PAD1621

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR53.7 MILLION

(US\$75 MILLION EQUIVALENT)

TO THE

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

FOR A

SOCIAL SAFETY NETS PROJECT

NOVEMBER 9, 2016

Social Protection and Labor Global Practice
South Asia Region

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CURRENCY EQUIVALENTS
(Exchange Rate Effective June 30, 2016)

Currency Unit = Sri Lanka Rupee (LKR)
LKR145.99 = US\$1
US\$1.39884 = SDR 1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AG	Auditor General
AP	Affected Party
DCS	Department of Census and Statistics
DDD	Department of Divineguma Development
DPMM	Department of Project Management and Monitoring
DA	Designated Account
DLI	Disbursement-Linked Indicator
DLR	Disbursement-Linked Result
DS	Divisional Secretary
EEP	Eligible Expenditure Program
FM	Financial Management
GoSL	Government of Sri Lanka
GN	<i>Grama Niladari</i> (Village Officer)
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
GDP	Gross Domestic Product
HIES	Household Income and Expenditure Survey
HTM	Household Transfer Management
IA	Implementing Agency
IP	Indigenous Peoples
ICTA	Information and Communication Technology Agency
IT	Information Technology
IUFR	Interim Unaudited Financial Report
MIS	Management Information System
MoDM	Ministry of Disaster Management
MoF	Ministry of Finance
MoHA	Ministry of Home Affairs
MoNPEA	Ministry of National Policies and Economic Affairs
MoSEW	Ministry of Social Empowerment and Welfare
MTDI	Ministry of Telecommunication and Digital Infrastructure
M&E	Monitoring and Evaluation
NCB	National Competitive Bidding
NDT	National Digital Transaction
PDO	Project Development Objective
PMT	Proxy Means Test

PMU	Project Management Unit
PSC	Project Steering Committee
PTC	Project Technical Committee
SMF	Social Management Framework
SSS	Single-Source Selection
SRIS	Social Registry Information System
SRU	Social Registry Unit
SBD	Standard Bidding Document
TA	Technical Assistance
WB	World Bank
WBB	Welfare Benefits Board
WBS	Welfare Benefit Scheme

Regional Vice President:	Annette Dixon
Country Director:	Idah Pswarayi-Riddihough
Senior Global Practice Director:	Michal J. Rutkowski
Practice Manager:	Pablo Gottret
Task Team Leaders:	Thomas Walker
	Srinivas Varadan

SRI LANKA
Social Safety Nets Project

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PAD DATA SHEET
Sri Lanka
Social Safety Nets Project (P156056)
PROJECT APPRAISAL DOCUMENT
SOUTH ASIA
GSP06

Report No.: PAD1621

Basic Information			
Project ID P156056	EA Category C - Not Required	Team Leaders Thomas Walker, Srinivas Varadan	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 01-Jan-2017	Project Implementation End Date 31-Mar-2022		
Expected Effectiveness Date 01-Jan-2017	Expected Closing Date 30-Jun-2022		
Joint IFC No			
Practice Manager/Manager Pablo Gottret	Senior Global Practice Director Michal J. Rutkowski	Country Director Idah Z. Pswarayi-Riddihough	Regional Vice President Annette Dixon
Borrower: Democratic Socialist Republic of Sri Lanka			
Responsible Agency: Ministry of Finance			
Contact: R.H.S. Samaratunga		Title: Secretary	
Telephone No.: 94112484510		Email: sf@mo.treasury.gov.lk	
Project Financing Data(in US\$, millions)			
[] Loan	[] IDA Grant	[] Guarantee	
[X] Credit	[] Grant	[] Other	
Total Project Cost:	75.00	Total Bank Financing:	75.00
Financing Gap:	0.00		

Financing Source						Amount				
International Development Association (IDA)						75.00				
Total						75.00				
Expected Disbursements (in US\$, millions)										
Fiscal Year	2018	2019	2020	2021	2022	0000	0000	0000	0000	0000
Annual	9.50	10.50	17.00	19.00	19.00	0.00	0.00	0.00	0.00	0.00
Cumulative	9.50	20.00	37.00	56.00	75.00	0.00	0.00	0.00	0.00	0.00
Institutional Data										
Practice Area (Lead)										
Social Protection & Labor										
Contributing Practice Areas										
Proposed Development Objective(s)										
The development objective of the project is to contribute to the improved equity, efficiency and transparency of Sri Lanka's social safety net programs for the benefit of the poor and vulnerable.										
Components										
Component Name						Cost (US\$, millions)				
Building a Unified Social Registry						30.00				
Integrated Service Delivery Systems						35.00				
Support for Project Implementation, Monitoring and Planning						10.00				
Systematic Operations Risk- Rating Tool (SORT)										
Risk Category									Rating	
1. Political and Governance									High	
2. Macroeconomic									Moderate	
3. Sector Strategies and Policies									Substantial	
4. Technical Design of Project or Program									Moderate	
5. Institutional Capacity for Implementation and Sustainability									Substantial	
6. Fiduciary									High	
7. Environment and Social									Low	
8. Stakeholders									Substantial	
9. Other										
OVERALL									Substantial	

Compliance			
Policy			
Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]	
Does the project require any waivers of Bank policies?	Yes []	No [X]	
Have these been approved by Bank management?	Yes []	No [X]	
Is approval for any policy waiver sought from the Board?	Yes []	No [X]	
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []	
Safeguard Policies Triggered by the Project		Yes	No
Environmental Assessment OP/BP 4.01			X
Natural Habitats OP/BP 4.04			X
Forests OP/BP 4.36			X
Pest Management OP 4.09			X
Physical Cultural Resources OP/BP 4.11			X
Indigenous Peoples OP/BP 4.10			X
Involuntary Resettlement OP/BP 4.12			X
Safety of Dams OP/BP 4.37			X
Projects on International Waterways OP/BP 7.50			X
Projects in Disputed Areas OP/BP 7.60			X
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Project Steering Committee		28-Feb-2017	
Description of Covenant			
The Recipient shall establish, by no later than February 28, 2017, and thereafter maintain throughout the implementation of the Project, a Project Steering Committee with composition and terms of reference satisfactory to the Association. The Project Steering Committee shall be responsible for providing quality and implementation guidance for the Project, and shall be assisted by a technical subcommittee to review technical aspects including proposed program selection criteria, entry and exit protocols, grievance and appeals mechanisms, policy papers and strategies.			
Name	Recurrent	Due Date	Frequency
Project Management Unit		28-Feb-2017	
Description of Covenant			
The Recipient shall establish, by no later than the earlier of February 28, 2017, or the first date on which a Verification Report shall be required under the Project, and thereafter maintain throughout the implementation of the Project, a Project Management Unit.			
Name	Recurrent	Due Date	Frequency

Beneficiary Eligibility Criteria	X		CONTINUOUS
Description of Covenant			
The Recipient shall: (a) carry out the Project in accordance with the objective and verifiable beneficiary eligibility criteria approved by the Cabinet of Ministers for the Welfare Benefit Scheme; and (b) exchange views with the Association prior to amending, revising or waiving these approved objective and verifiable beneficiary eligibility criteria for the Welfare Benefit Scheme.			
Name	Recurrent	Due Date	Frequency
Project Operational Manual		28-Feb-2017	
Description of Covenant			
The Recipient shall: (a) adopt, by no later than the earlier of February 28, 2017, or the first date on which a Verification Report shall be required under the Project, a Project Operational Manual in form and substance satisfactory to the Association; (b) carry out the Project in accordance with the Project Operational Manual; and (c) not amend, revise or waive, nor allow to be amended, revised or waived, the provisions of the Project Operational Manual or any part thereof without the prior written agreement of the Association.			
Name	Recurrent	Due Date	Frequency
Annual Work Plan and Budget	X		Yearly
Description of Covenant			
The Recipient shall, throughout Project implementation, furnish to the Association for approval as soon as available, but in any case not later than December 31 of each year, an annual work plan and budget for the activities under Part 3 of the Project for each subsequent fiscal year, of such scope and detail as the Association shall have reasonably requested, except for the annual work plan and budget for the first fiscal year which shall be furnished prior to the commencement of any activities under Part 3 of the Project.			
Name	Recurrent	Due Date	Frequency
Verification Reports	X		Yearly
Description of Covenant			
The Recipient shall: (a) where required, engage a third party entity or entities for the purpose of verifying DLRs, with qualifications, experience, and terms of reference satisfactory to the Association, to undertake the verification process; (b) undertake, at least annually, a verification process, in a manner satisfactory to the Association, to ascertain whether the DLRs have been achieved for the period under review; and (c) furnish to the Association corresponding verification reports, in form and substance acceptable to the Association, by not later than June 30 of each year.			
Name	Recurrent	Due Date	Frequency
Social Management Framework		28-Feb-2017	
Description of Covenant			
The Recipient shall: (a) adopt by no later than February 28, 2017, a Social Management Framework in form and substance satisfactory to the Association; (b) ensure that the Project is carried out in accordance with the provisions of the Social Management Framework; (c) not assign, amend, abrogate, waive, or permit to be assigned, amended, abrogated, or waived, the provisions of the Social Management Framework or any part thereof without the prior written agreement of the Association.			
Name	Recurrent	Due Date	Frequency

Audits		X		Yearly
Description of Covenant				
The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.				
Conditions				
Source Of Fund	Name			Type
IDA	Verification Report			Disbursement
Description of Condition				
No withdrawal shall be made for Components 1 and 2 unless and until the Recipient has furnished to the Association, evidence, including the relevant Verification Report(s) in form and substance satisfactory to the Association that the respective Disbursement-Linked Result (DLR) has been fully achieved.				
Team Composition				
Bank Staff				
Name	Role	Title	Specialization	Unit
Thomas Walker	Team Leader (ADM Responsible)	Senior Economist		GSP06
Srinivas Varadan	Team Leader	Social Protection Specialist		GSP06
G. W. Anjali U. Perera Vitharanage	Procurement Specialist (ADM Responsible)	Procurement Specialist		GGO06
Bernadeen Enoka Wijegunawardene	Financial Management Specialist	Sr Financial Management Specialist		GGO24
Agha Alamdar Hussain	Team Member	Consultant		GSP06
Ana-Maria Arriagada	Team Member			GSP06
Andras Bodor	Team Member	Senior Social Protection Economist		GSP06
Andrea Vermehren	Team Member	Lead Social Protection Specialist		GSP01
Anita Lakshmi Fernando	Team Member	Team Assistant		SACSL
Aristeidis I. Panou	Counsel	Counsel		LEGOP
Ashiq Aziz	Team Member	Social Protection Specialist		GSP06
Cem Mete	Team Member	Lead Economist		GSP05

Darshani De Silva	Safeguards Specialist	Senior Environmental Specialist		GEN06	
David Locke Newhouse	Peer Reviewer	Senior Economist		GPV06	
Hasanthi Shalika Subasinghe	Team Member	Consultant		GED06	
Junko Funahashi	Counsel	Lead Counsel		LEGES	
Lansong Zhang	Team Member	Operations Analyst		GSP02	
Lorraine R. Blank	Team Member	Consultant		GSP01	
Manuel Rodriguez Pumarol	Team Member	Consultant		GSP07	
Mohamed Ghani Razaak	Safeguards Specialist	Senior Social Development Specialist, Safeguard Policy		GSU03	
Mohamed Ihsan Ajwad	Peer Reviewer	Senior Economist		GSP03	
Phoebe M. Folger	Team Member	Operations Officer		GHN06	
Qaiser M. Khan	Peer Reviewer	Program Leader		AFCE3	
Satish Kumar Shivakumar	Team Member	Finance Officer		WFALA	
Usman Javaid	Team Member	Consultant		GSP01	
Extended Team					
Name	Title	Office Phone	Location		
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Consultants (Will be disclosed in the Monthly Operational Summary)					
Consultants Required ? Consultants will be required					

I. STRATEGIC CONTEXT

A. Country Context

1. Sri Lanka is a middle-income country with a per capita income of US\$3,925 in 2015.¹ The country has achieved strong human development outcomes, reflected in literacy rates and life expectancy higher than any other country in the region. Over the past decade, Sri Lanka has made significant progress in reducing extreme poverty and promoting shared prosperity. Between 2002 and 2012, nationally defined headcount poverty fell from 22.7 percent to 6.7 percent. Over this period, per capita consumption of the bottom 40 percent grew at an annual rate of 3.3 percent, compared to 2.8 percent for the population as a whole. Recent analysis suggests that this was driven primarily by increased labor income, especially among agricultural workers. However, growth has not been even and pockets of poverty remain island-wide, with high poverty incidence in Mannar, Mullaitivu, Batticaloa, and Moneragala Districts. The inclusion of these remaining poor into the productive economy, and into good jobs, remains a challenge.

2. Despite the pro-poor growth of recent years, many households remain vulnerable to falling back into poverty. In 2012/13, around 30 percent of Sri Lanka's 20.8 million people consumed less than US\$2.50 per capita per day in purchasing power parity terms.² In addition, Sri Lanka is exposed to frequent natural disasters, especially floods and droughts. Sri Lanka also faces a substantial burden of child undernutrition, with 13 percent of all children under five years reported as stunted and 24 percent as underweight in 2012. Finally, Sri Lanka is a small island economy, which will depend increasingly on external factors to sustain growth in the coming years. The country's exports are dominated by primary products and simple manufactures, whose prices are set internationally and subject to significant fluctuations. Volatility in the prices of imports and inputs has also historically affected job creation, fiscal space, and the cost of living.

3. Sri Lanka also faces a looming demographic burden. Driven by a secular downtrend in the birth rate and increased life expectancy (at 74 years in 2012), the dependency ratio is gradually rising as the population ages. By 2021, one in six Sri Lankans will be over 60 years.³ The main social spending on income support for the elderly is the civil service pension, a defined benefit scheme that accounted for 1.3 percent of gross domestic product (GDP) in 2014. The civil service pension covers only a small share of workers, however, and few of the 60 percent of workers in the informal sector participate in contributory retirement savings schemes. Such individuals will require external assistance to fund their retirement.

4. A well-designed and adequately funded safety net system is essential to addressing these challenges of vulnerability, ageing, and social exclusion. Sri Lanka's safety net will need to evolve from its present state of fragmented entitlement programs and universal subsidies to an integrated system that provides income support and opportunities for economic inclusion for the poorest and

¹ Gross national income per capita using the Atlas method.

² World Bank. 2015. *Sri Lanka Poverty Assessment*. Washington, DC: World Bank.

³ World Bank. 2012. *Sri Lanka - Demographic Transition: Facing the Challenges of an Aging Population with Few Resources*. Washington, DC: World Bank.

most marginalized, insures the vulnerable against unanticipated shocks, and provides opportunities and incentives for individuals in the informal sector to save for their retirement.

5. The Government of Sri Lanka's (GoSL's) planned fiscal consolidation⁴ underscores the urgency of improving the effectiveness of the social safety net. Revenue has declined consistently as a share of GDP over the past 40 years, an increasing share of which is devoted to recurrent, nondiscretionary spending.⁵ The Government has accepted that increases in revenue generation through taxation will be necessary, with consequent welfare impacts for all citizens including the poor. With limited fiscal space to increase spending on welfare programs at present, these impacts will need to be mitigated through better targeting and more efficient program management. These refinements will improve the legitimacy of programs and provide more accurate diagnostics on their impact, enabling the GoSL to justify refinements to program design and spending commitments and thereby address the challenges of vulnerability, ageing, and social exclusion.

B. Sectoral and Institutional Context

6. Sri Lanka has an extensive but fragmented social protection system. There are several noncontributory cash transfer programs, most of which are run by the Ministry of Social Empowerment and Welfare (MoSEW).⁶ The largest of these is *Samurdhi*, an integrated welfare program, run by the Department of Divineguma Development (DDD) under the MoSEW, that provides cash transfers, microfinance, and various community and livelihood development activities. In 2015, the program covered 1.48 million families, approximately 30 percent of the population. The Provincial Councils run their own public assistance programs, while the Ministry of Disaster Management (MoDM) provides ad hoc assistance in the aftermath of disasters. In-kind programs are run by a range of ministries and comprise assistance such as cooked meals, textbooks, and transport subsidies for students. Annex 6 provides a summary of the main cash and in-kind transfer programs.

7. Implementation of social protection programs is conducted at the local level, with 332 divisional secretaries (DSs) reporting to the district secretaries under the Ministry of Home Affairs (MoHA). Within each Divisional Secretariat, *Grama Niladaris* (GNs), village officers also under the MoHA, are responsible for maintaining the voter registry, collecting statistics, conducting social welfare activities, and handling grievances for small clusters of villages. The 14,022 GNs interact with 500–1,000 households each and serve as the closest point of government contact with citizens. Specific social programs also have officers at the GN and Divisional Secretariat level, who report to the respective implementing line ministry. The social protection system is decentralized, and record keeping is still mainly paper based. This places limits on the scope of central control and planning, with implications for accountability and transparency. Program lists are maintained by GN-level program officers, cross-checked by the GN, and approved by the DS.

⁴ The Government is targeting a 3.5 percent of GDP fiscal deficit by 2020 from a 7.4 percent of GDP deficit in 2015, according to the Government's policy speech in November 2015.

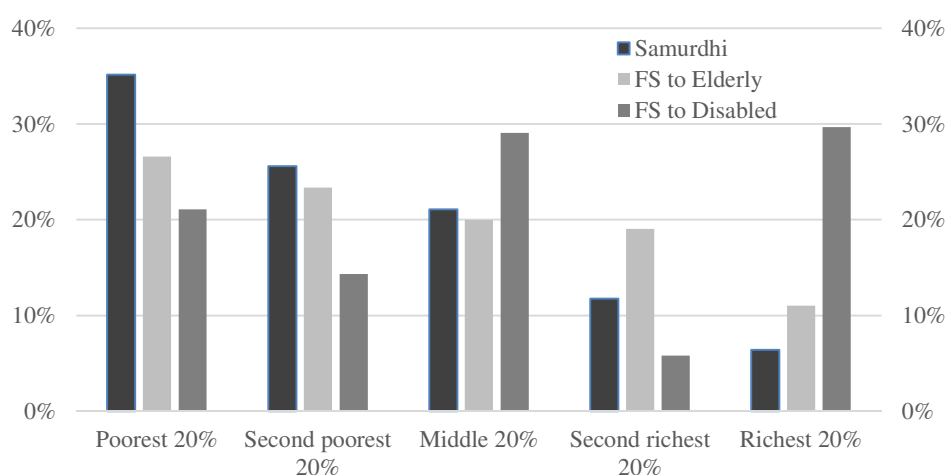
⁵ World Bank. 2015. *Sri Lanka: A Systematic Country Diagnostic*. Washington, DC: World Bank.

⁶ In this section, we do not consider government transfers to current or former civil servants or military, which can be interpreted as part of their compensation.

The DS is responsible for monitoring and reporting on local activities, and since records are still kept manually, the central government only has access to summary information on beneficiaries.

8. The targeting performance of Sri Lanka’s main safety net programs has been consistently poor (Figure 1), limiting the programs’ potential impact on equity and economic inclusion.⁷ Although income thresholds are used to determine eligibility for the main cash transfer programs, this information is self-reported. There is no consistent standard for the reporting of income, and no sharing of self-reported income data between programs. In the Samurdhi program, selection of beneficiaries is partly at the discretion of the DSs and GN-level program officers and is therefore not fully transparent. There is also a strong incumbency effect: because exit mechanisms are not sufficient to ensure turnover of the caseload, some beneficiaries have remained in programs even though they may no longer satisfy the income means test.⁸ Political interests block the removal of existing beneficiaries, precluding other eligible individuals from obtaining assistance.⁹ Beneficiaries wish to remain in the program not only for the cash benefit but also for the other entitlements obtained by virtue of program membership, such as social insurance, scholarships, and occasional incentives.¹⁰

Figure 1. Benefit Incidence of Key Safety Net Programs



Source: Staff calculations based on Household Income and Expenditure Survey (HIES) 2012/13.

Note: Groups are quintiles of real per capita household consumption using the Department of Census and Statistics (DCS) definition. Benefit incidence is the transfer amount received by the quintile as a percentage of total transfers.

FS = Financial Support.

⁷ See, for example, Glinskaya, E. 2003. *An Empirical Evaluation of Samurdhi Program*. Washington, DC: World Bank; Narayan, A. and Yoshida, N. 2005. *Proxy Means Test (PMT) for Targeting Welfare Benefits in Sri Lanka*. PREM Working Paper Series, Report No. SASPR-7, Washington, DC: World Bank; and World Bank. 2015. *Sri Lanka: A Systematic Country Diagnostic*. Washington, DC: World Bank.

⁸ For example, the Divineguma program has not conducted one recertification of its beneficiaries in its entire 20-year history.

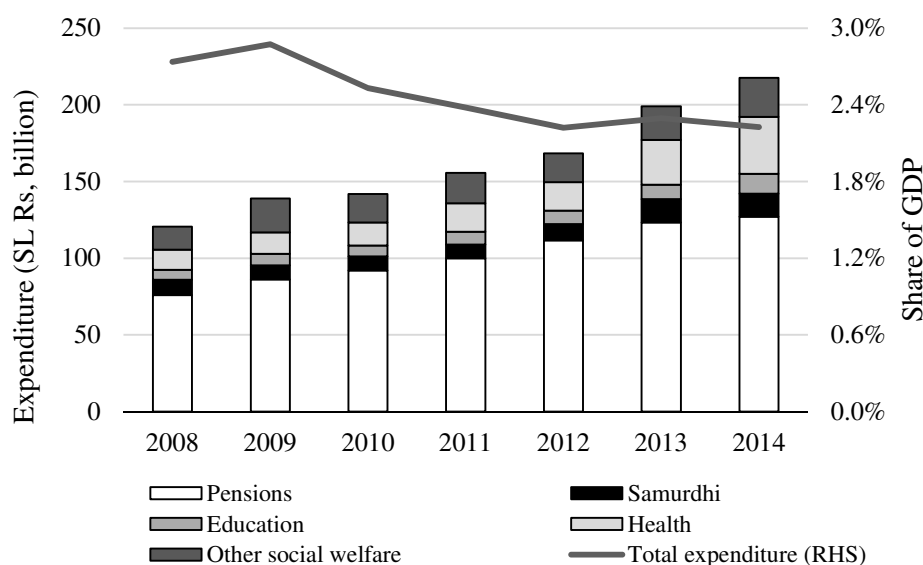
⁹ Damayanthi, M. K. N. 2014. ‘Good Governance and Poverty Alleviation Programmes in Sri Lanka: Special Reference on Samurdhi Programme.’ *African-Asian Journal of Rural Development* 47 (1): 43–64.

¹⁰ Ibid.

9. Concerns about the poor targeting are reflected among frontline staff and beneficiaries themselves. In a recent qualitative study of Samurdhi, program managers, district officers, and beneficiaries reported knowing people who in their view are relatively well-off and should not be in the program.¹¹ Many respondents mentioned political interference as a barrier to removing these unqualified beneficiaries. Respondents also gave examples of people who in their opinion should be receiving Samurdhi benefits but have not been admitted despite multiple appeals. These included widows and single parents with small children and no stable source of income, as well as ‘new families’ (for example, those married in recent years). This phenomenon can be explained by the restrictions on new enrolments and outdated targeting criteria.

10. Expenditure on safety nets in Sri Lanka has historically been relatively generous, comprising at various times food rations, subsidies, and cash transfers and amounting to over 10 percent of GDP in the early years of independence.¹² However, government expenditure on social welfare has declined steadily in recent years (Figure 2). Recent survey analysis indicates that poverty reduction over the past decade would have been 10 percent higher if benefit amounts had stayed constant in real terms.¹³ Benefit amounts were increased at the start of 2015, raising adequacy considerably. In turn, improved program performance will help safeguard ongoing adequate financing of safety nets.

Figure 2. Social Welfare Spending by Program



Source: Data from Ministry of Finance Annual Report 2014, Table 4.8.

Note: Total welfare payments excluding water, lighting, and transport subsidies.

11. There is very little coordination between social programs even though they all operate at the local level. Households can potentially receive benefits from several ministries. The degree of

¹¹ Tilakaratna, G., and Sooriyamudali, C. 2016. “Samurdhi/Divineguma Programme.” Working Paper, Sri Lanka: Institute of Policy Studies.

¹² Semasinghe, W. M. 2009. “Social Development of Sri Lanka: Achievements and Challenges.” *Journal of Social Sciences Sri Lanka*, Vol. 1, No. 3 (September).

¹³ World Bank. 2015. *Sri Lanka: A Systematic Country Diagnostic*. Washington, DC: World Bank.

duplication is not known, due to deficiencies in both systems and policies. Providing information on overlaps and clear policy guidance on how to treat them could achieve potential savings. Harmonizing program management in line with the Welfare Benefits Act (and especially payment of benefits) could also reduce the administrative burden on local officials and beneficiaries, who currently must apply separately for each program and follow different application procedures. There is significant potential to achieve administrative efficiencies given that all programs for a given Divisional Secretariat are delivered through the same office. An additional consideration for the GoSL, given budget constraints, is to ensure that welfare payments are made only to eligible households.

12. Recognizing the potential gains from improved identification and targeting of beneficiaries, and strengthened accountability and harmonization of program administration, the GoSL has initiated several interrelated projects:

- (a) In February 2016, the GoSL officially brought into operation the Welfare Benefits Act, which was passed in 2002. The Act establishes a Welfare Benefits Board (WBB), under the Ministry of Finance (MoF), that will assume control of beneficiary selection and payment for all of the country's social welfare programs (to be collectively referred to as the Welfare Benefit Scheme [WBS]) but leave other aspects of program administration and outreach to the respective line ministries.¹⁴
- (b) The Information and Communication Technology Agency (ICTA), under the Ministry of Telecommunication and Digital Infrastructure (MTDI), has initiated a Household Transfer Management (HTM) Project. The project will develop a social registry information system (SRIS) for fully integrated, efficient electronic payment of government transfers (including welfare benefits). As a basis for the system, the GoSL intends to issue a National Digital Identity to each citizen. A National Digital Transaction (NDT) platform will be developed, including a central registry for the issuance and verification of the National Digital Identity. During registration, biometric information will be collected from citizens, along with biographical details and digitized copies of identifying documents such as birth certificates and driver's licenses. This five-year project aims to enroll 14 million adults first, including all beneficiaries of national welfare programs.
- (c) Beneficiary lists of all existing welfare programs have been collated by the Department of Project Management and Monitoring (DPMM) and used to identify overlaps in coverage.
- (d) The DDD has collected detailed data on characteristics of all 1.48 million Samurdhi beneficiary families and a further 1 million applicants, and is exploring the possibility of using the data to target program benefits using a proxy means test (PMT) being developed in collaboration with the Department of Census and Statistics (DCS) and the World Bank.

¹⁴ The WBB was established in 2003 following the initial passage of the Act, but was disbanded following a change of government in 2006. The Welfare Benefits Act was officially reinstated by the Minister of Finance on February 15, 2016; see http://documents.gov.lk/Extgzt/2016/PDF/Feb/1952_22/1952_22%20E.pdf.

- (e) Further, a three-year ‘eSamurdhi’ project has been initiated by the ICTA to develop a single information technology (IT) solution for all of the MoSEW’s welfare programs, which will interconnect with the SRIS. eSamurdhi will include a beneficiary registry, citizen grievance redress system, and beneficiary targeting as core processes.

13. It is expected that the NDT platform can serve as the basis for a social registry that will facilitate improved targeting of welfare programs. By maintaining harmonized data on caseloads and program coverage, the GoSL will be able to monitor safety net programs and refine the safety net system over time. However, to connect to the new NDT platform, relevant authorities operating programs under the WBS will need to develop an integrated management information system (MIS) accessible by computer at the DS level. Moreover, work will need to be done to collect program-specific data on beneficiaries and applicants necessary to determine eligibility and to manage the change in program operating procedures (as well as related training and communication) to ensure smooth implementation.

14. This project will incentivize the GoSL to develop a harmonized safety net system under the direction of the MoF. The development of the SRIS and an integrated MIS is a long-term vision. As a starting point, the WBS and this project will cover the safety net programs managed by the MoSEW, which collectively account for over 50 percent of safety net spending and over 90 percent of cash transfer spending. The integrated system developed for the MoSEW programs can be gradually expanded to cover other safety net programs in the future.

15. The project will use results-based financing to incentivize the development of the SRIS and an integrated MIS for MoSEW programs, the population of the SRIS and MIS with current data on beneficiaries and applicants, and the recertification of beneficiaries based on objective and verifiable criteria. A technical assistance (TA) component will support these activities and build capacity at the WBB. It will finance the development of operational documents and protocols for the new system, collection of data, training of officers, communications, outreach, grievance redress, and so on. The TA will also finance studies on social protection that will culminate in the development and adoption of a national social protection strategy and a plan for the further expansion and strengthening of the new safety net delivery system.

C. Higher Level Objectives to which the Project Contributes

16. The project serves to address one of the key objectives of the Sri Lanka Country Partnership Framework for the period FY17–FY20 (Report No. 104606-LK), which notes that Sri Lanka has made good progress on growth and poverty reduction and must now improve the equity, efficiency, and transparency of social safety net programs to have the greatest impact on the remaining pockets of poverty with limited fiscal resources. By increasing the efficiency of safety net expenditures, the project will improve the sustainability of social spending and mitigate the potential poverty impact of the planned medium-term fiscal consolidation. Over time, it will also build capacity for the GoSL to review and refine programs to better address emerging fiscal challenges such as the burden of an ageing population.

17. Previous analytical work and TA provided by the World Bank over the past decade have laid the groundwork for the project. Under that TA, the GoSL developed an MIS for the Samurdhi program and the specifications for an MIS for the disability and elderly benefit programs. The

project will also build on analytical work conducted over the years to develop targeting and appeals processes for the programs, efforts which gained support from program staff at the technical level but were never formally adopted. The project will build on these investments to develop an integrated platform for objective targeting and harmonized delivery of all safety net programs.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

18. The development objective of the project is to contribute to the improved equity, efficiency and transparency of Sri Lanka's social safety net programs for the benefit of the poor and vulnerable.

- (a) **Equity** refers to the capacity of the programs to focus resources on the poorest, minimizing errors of inclusion and exclusion.
- (b) **Efficiency** refers to the administrative efficiencies that will be realized under the new safety net system.
- (c) **Transparency** refers to the adoption of clear application and selection processes across programs and geographic locations, and to the improved capacity for the central government to monitor and evaluate programs.

Project Beneficiaries

19. The project will benefit around 1.8 million households, the current combined caseload of programs to be included under the WBS. Some of the beneficiaries are households not currently receiving support under the programs, while all beneficiaries will benefit from improvements in program delivery and efficient payment.

PDO Level Results Indicators

20. The following results indicators will be used to measure progress toward the project development objective (PDO):

- (a) Percentage of WBS beneficiaries in the poorest 20 percent (*Equity*)
- (b) Coverage of the poorest 20 percent by the WBS (*Equity*)
- (c) Average application processing time for WBS programs (*Efficiency*)
- (d) WBS beneficiary lists published (*Transparency*)

III. PROJECT DESCRIPTION

A. Project Components

21. The project will support achievement of the PDO by incentivizing the development of a unified social registry, improved targeting, and an integrated MIS for the WBS. The project will also provide the resources and TA necessary to support the reform in a staged and sustainable manner, and to strengthen the capacity of the GoSL to monitor and evaluate its social safety net programs and plan for future development of the system. The project will be implemented by the MoF in partnership with the WBB, MoSEW, and ICTA.

22. The project has three components. The first two components will follow a results-based financing modality with disbursements made upon achievement of specific results measured by disbursement-linked indicators (DLIs). The eligible expenditure program (EEP) will be cash transfers paid to eligible beneficiaries of the Samurdhi program, the largest cash transfer program in Sri Lanka, which will be made more equitable, efficient and transparent through the achievement of the DLIs. The third component will finance TA to strengthen the GoSL's capacity to achieve the DLI targets, conduct monitoring and planning, and provide for incremental operating costs. This component will use a traditional Investment Project Financing disbursement modality based on a six-monthly forecast of expenditures for the agreed activities.

Component 1: Building a Unified Social Registry - US\$30 million

23. The core of the reformed welfare system will be a unified social registry containing data on all current and former program beneficiaries and new applicants. The registry will serve as a single source of verified information on each beneficiary and their household, and will facilitate improved targeting of programs based on the new, objective eligibility criteria. This component will finance the EEP against achievement of DLIs related to the establishment of the WBB and development of the unified social registry.

24. This component aims at achieving results under the following activities:

- (a) **Development of a Unified Social Registry.** A secure, flexible and unified social registry will be developed, tested, and made operational. An SRIS will be developed to facilitate entry and updating of beneficiary data and application of the new selection criteria to determine program eligibility.
- (b) **Roll-out of SRIS Interface to DS offices.** Access points for the SRIS will be established at the 332 DS offices. At the DS level, the SRIS will be accessible only by designated registry officers. The registry officers will enter data in the system from new applicants and update records for households whose circumstances have changed.

25. Disbursement of funds under this component will be subject to the achievement of the following DLIs:

- DLI 1: WBB established and fully functional
- DLI 2: SRIS active and operational

- DLI 3: Welfare program budget under the WBS

Component 2: Integrated Service Delivery Systems - US\$35 million

26. This DLI-based component will finance the EEP against achievement of DLIs related to the collection of data on current beneficiaries and new applicants of programs under the WBS, as well as to the development of an integrated MIS for the harmonized management of programs.

27. This component aims at achieving results under the following activities:

- (a) **Recertification and Enrollment of Beneficiaries.** Programs under the WBS will use eligibility criteria approved by the Cabinet of Ministers. The eligibility criteria are expected to depend on a PMT (to be determined in consultation with the DCS) and other household and beneficiary characteristics as appropriate to the Act. The social registry will initially be populated with data for each current or prospective beneficiary household in the country and updated over time to capture changes in beneficiary household situations and data on new applicants. Data collected will be subject to third-party spot checks. The selection criteria for each program will then be applied to data in the social registry to generate new beneficiary lists, which will be published and subjected to a clearly defined validation process. Exit protocols will be developed and published to ensure a clear process of removing unqualified beneficiaries, and a community-based grievance redress system will be established at the DS level to investigate complaints and hear appeals against selection decisions.
- (b) **Transition to an Integrated Program MIS.** An integrated program MIS will be developed and piloted for the programs under the WBS. The MIS will use the same hardware and network as the SRIS, but program staff will not have write access to the SRIS to ensure security of the social registry data. Existing MoSEW program officers (at both DS offices and headquarters) will be trained to use the MIS, and support will be provided to MoSEW staff to transition to the new system. As the system is rolled out across the country, former manual record keeping systems for the participating programs will be gradually phased out.

28. Disbursement of funds under the component will be subject to the achievement of the following DLIs:

- DLI 4: Social registry populated with current data on beneficiaries of programs under the WBS
- DLI 5: WBS beneficiaries qualifying under the eligibility criteria
- DLI 6: Divisional secretariats using the integrated MIS for program delivery

Component 3: Support for Project Implementation, Monitoring and Planning - US\$10 million¹⁵

¹⁵ Includes a capitalized front-end fee of US\$ 0.2 million equivalent.

29. This TA component will support the establishment of the WBB and project management unit (PMU), and use of the new system for monitoring and longer-term strategic planning. Periodic monitoring reports and supporting research will provide accountability for program results and feed into the development of a National Social Protection Strategy and action plan for expansion of the new system to other programs. The component will also provide TA to fund the implementation of Components 1 and 2.

30. This component will have three subcomponents:

- (a) **TA to Support the Implementation of the Welfare Benefits Act.** This subcomponent will provide the resources to staff a dedicated PMU at the MoF and fund its incremental operating expenses, costs of verification of compliance with DLIs, and to build capacity in the WBB. The subcomponent will also finance consultancies and incidental expenses (for example, training costs) incurred for implementation of Components 1 and 2.
- (b) **Safety Net Program Monitoring.** This subcomponent will support the establishment of a dedicated project monitoring team in the implementing agency (IA). TA will be provided to enable the unit to produce annual reviews of program implementation based on the SRIS and program MIS. The project monitoring team will develop an action plan to gradually expand the new system to other social safety net, social insurance and labor market programs.
- (c) **Developing a National Social Protection Strategy.** This subcomponent will fund strategic research on social protection by the Department of National Planning. Research may include assessments of social insurance and labor market programs in Sri Lanka, development of options for graduation and exit strategies in existing programs, and exploring the potential for consolidation of programs. The component will draw on these studies to develop a National Social Protection Strategy that will be reviewed and approved by a competent authority.

B. Project Financing

31. The total project cost is US\$75 million, to be fully funded by a credit from the IDA Scale-Up Facility to the GoSL. Components 1 and 2 will follow a results-based financing modality with disbursements for EEPs made upon achievement of specific results measured by DLIs. For reference, the estimated total EEP annually is approximately US\$300 million.

Project Components	Project cost (US\$ million)	IDA Financing (US\$ million)	% Financing
1. Building a Unified Social Registry	30.0	30.0	100
2. Integrated Service Delivery Systems	35.0	35.0	100
3. Support for Project Implementation, Monitoring and Planning	9.8	9.8	100
Total Costs	74.8	74.8	100
Total Project Costs	74.8	74.8	100
Front-End Fees	0.2	0.2	
Total Financing Required	75.0	75.0	100

Lessons Learned and Reflected in the Project Design

32. The following lessons from past institutional reform efforts, and World Bank support for these efforts, are reflected herein:

- (a) The success of efforts to strengthen accountability and transparency within programs depends on the availability of streamlined, secure MISs and supporting processes with appropriate internal controls. For example, a pilot in the ‘Diri Sawiya’ project (P123632) to introduce electronic payment of disability cash transfer beneficiaries was successful but bureaucratically cumbersome (and ultimately unsustainable) because of the lack of supporting back-office computing systems. For this reason, the project will start with development of a social registry and supporting information systems, followed by a phased rollout of an integrated MIS. In this way, the required information management structures will be present from the start to handle electronic processing of customer transactions.
- (b) The introduction of IT solutions into existing bureaucratic processes requires significant investment and institutional cultural change. For these systems to be adopted and sustained, it is necessary to (i) invest heavily in training staff to handle the new system and (ii) commit to the reform through the phasing out of manual record keeping and payment processes. Through its disbursement structure, the project will reimburse the GoSL for investments in the new system only after it is actively used for program delivery. Training of staff will be included as a TA-supported project activity and provided consistently ahead of the roll-out of each system element.
- (c) Previous international experience highlights the importance of developing a clear understanding of business processes and client needs before designing technological solutions for program management. Program delivery systems will be designed in close consultation with MoSEW staff and DS-level officials, starting with business process assessments to be financed through the project. Consultation with DS officials will also help create buy-in for the new system.
- (d) Past reforms to the social protection policy mix and changes in program financing and beneficiary levels have tended to be influenced by political considerations rather than a broader strategy. To provide a basis for more strategic long-term planning in the sector, the project will establish capacity within the MoF for regular reporting on and analysis of the social protection system.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

33. The legal foundation for the reform is the Welfare Benefits Act (2002), which was made effective on February 15, 2016. The Act creates a WBB under the MoF. The WBB will consist of a Commissioner of Welfare Benefits and four other members, appointed by the Minister of Finance in consultation with the Constitutional Council for a renewable term of three years.

34. The project will be implemented by the MoF in partnership with the WBB, ICTA, MoSEW, and any other ministries implementing social safety net programs under the WBS. A PMU to be established under the MoF will be responsible for managing procurement, accounting and reporting requirements, and for providing capacity building and staff training where appropriate. The PMU will develop a Project Operational Manual to implement the project. The PMU may establish partnership arrangements with various service providers such as telecommunication, IT infrastructure and payment providers to carry out project activities.

35. A Project Steering Committee (PSC) will be established and maintained throughout the project to ensure that project implementation follows both GoSL and Association rules and regulations. The PSC will be chaired by the Secretary of Finance with representatives from the Ministry of National Policies and Economic Affairs (MoNPEA), MoSEW, MoHA, MTDI, and other ministries implementing programs included in the WBS.

36. A Project Technical Committee (PTC) will also be established with representation from the MoNPEA, MoF, MoSEW, MoHA, MTDI, and any other stakeholders, the role of which will be to review and discuss technical work, including, but not limited to, proposed program selection criteria, entry and exit protocols, grievance and appeals mechanisms, policy papers and strategies, and to advise the PSC on these matters.

B. Results Monitoring and Evaluation

37. The project will strengthen the GoSL's capacity to monitor and evaluate social safety net program targeting and performance. Under Component 3, it will develop core monitoring systems from which the primary results indicators will be drawn. In addition, building on the targeting evaluation of the beneficiary selection method, planned operational and technical audits, the project will support the strengthening of the monitoring and evaluation (M&E) capacity of the MoF and the WBB. This will increase the ability of the GoSL to effectively monitor progress of safety net programs and reduce overlaps and inefficiencies.

38. The integrated MIS will include a simple monitoring system to enable the GoSL to track key information on social protection programs and their beneficiaries. Topics on which data will be available include selection of beneficiaries, payments, beneficiaries' compliance with eligibility criteria and benefit payment conditions (where applicable), and the nature and resolution of complaints. The MIS will include the socioeconomic data of safety net beneficiaries, providing simple diagnostics on program coverage and targeting. An annual report will be prepared by the MoF on safety net program performance, beneficiary characteristics, expenditure, and progress on system development.

39. The DPMM will be responsible for M&E of project activities. Reports on the safety net system will be produced by the PMU at least annually and presented to the WBB and PSC for their information. At the project level, the PMU will prepare an implementation progress report every six months. The report will assess the status of activities, identify issues and challenges and propose solutions. If there are issues and challenges that cannot be resolved at the PMU level, those issues and challenges will be communicated to the PSC for resolution.

40. Where specified in the DLI verification protocol table (and thereafter in the Project Operational Manual), the DPMM will verify the results reported by the MoF with third party verification by an independent consultant (firm or individual) where specified in the verification protocols, and will provide its recommendations related to the achievements of DLI targets by the end of June of each year. The verification report will be discussed with the World Bank team and final agreement on DLI performance will be reached by both parties by the end of September of each year. The total disbursement release for a given year will be confirmed and funds released by the end of October.

41. A Mid-Term Review will be carried out no later than June 30, 2019. The Mid-Term Review will assess in detail the progress toward meeting the PDO as measured by the key performance indicators, and assess progress in the institutional and policy development areas supported by the project. Results from the Mid-Term Review will inform the further implementation and supervision of the project.

C. Sustainability

42. Current impetus to reform the safety net is strong, from fiscal and policy design perspectives. However, history has shown that major reforms to welfare programs in Sri Lanka can be met with resistance and political opposition, and are occasionally reversed. Therefore, the sustainability of the project's contributions will depend on strong demonstrated performance and capacity of the new WBS. Thus, the project will invest heavily in the capacity of the WBB and the IA. In addition, pressure to unwind the reform will be diminished if strong results can be shown early in the transition. For this reason, regular program reports and third-party evaluations determined by the PMU will be supported under Component 3. The key PDO indicators will track the reform's impact on targeting performance, efficiency, and transparency.

43. Since the new scheme will facilitate recertification of the major social cash transfer programs (including Samurdhi, the elderly benefit, and disability benefit), the project will have a considerable impact on poverty. To be sustainable, however, recertification will need to be repeated periodically and paths to graduation further developed. The Welfare Benefits Act provides for periodic recertification, and in addition the project will establish a registry presence at each DS office to encourage frequent update of beneficiary details and receipt of new applications. To support turnover of beneficiaries in the interim, TA will be provided to strengthen exit mechanisms and graduation programs.

44. The proposed electronic management and payment systems are new for Sri Lanka's welfare programs but have precedents within the country. The design of the system is based on international best practice and is achievable and sustainable with a relatively small government budget. The shift to electronic record keeping and greater accountability is in keeping with the broader policy initiatives within Sri Lanka. The GoSL has established internet access at almost all DS offices (the Lanka Government Network), and has a large cloud server with capacity to integrate data across programs using secure communications (Lanka Gate). This capacity will smooth the implementation of the proposed system and ensure its sustainability as part of the broader e-government ecosystem.

V. KEY RISKS

Systematic Operations Risk-Rating Tool

Risk Category	Rating
1. Political and Governance	H
2. Macroeconomic	M
3. Sector Strategies and Policies	S
4. Technical Design of Project or Program	M
5. Institutional Capacity for Implementation and Sustainability	S
6. Fiduciary	H
7. Environment and Social	L
8. Stakeholders	S
9. Other	—
Overall	S

Note: H = High; S = Substantial; M = Moderate; and L = Low.

A. Overall Risk Rating and Explanation of Key Risks

45. The overall risk rating for the project is Substantial.

46. The High risk on ‘Political and Governance’ is largely due to a fragile political situation where political changes could reduce interest in safety net modernization and reform. While there is strong impetus from top government officials to implement this reform, political resistance is a risk that cannot be fully mitigated. The reforms will also change roles and responsibilities among program staff and may be resisted by officials in headquarters or local offices. To address this risk, the project will emphasize continuous dialogue with all levels of government and engage key stakeholders of the need for safety net modernization, greater accountability, and transparency. Finally, the makeup of the WBB—which will provide the locus for policy making, regulation, and oversight for all safety net programs of line ministries—is yet to be announced, and enabling regulations are yet to be passed relating to the role of the WBB and the IA. These activities are reflected in the DLIs. The World Bank will provide feedback and inputs to the GoSL on possible amendments to the Welfare Benefits Act and will also provide advice on supporting regulations and the operational documents for the WBS and individual programs.

47. The risk rating for ‘Sector Strategies and Policies’ is Substantial. The development of a new system for multiple programs is an ambitious endeavor and will require considerable political leadership, vision, and stakeholder buy-in to succeed, yet Sri Lanka does not have a formal social protection strategy to guide the reform. Furthermore, the fragmentation of safety net programs could create difficulties coordinating stakeholders and reaching agreement on harmonization of a targeting system and use of a single registry for cash transfer programs. To mitigate these risks, a supporting program will be adopted by the GoSL outlining its key objectives, operational approaches, and organizational arrangements for the main safety net programs in line with the project design. As part of the project, the GoSL will develop and adopt a coherent vision and policy framework for social protection, based on extensive stakeholder consultations and consensus-building activities.

48. The risk rating for ‘Institutional Capacity for Implementation and Sustainability’ is Substantial. The IA has limited knowledge and experience in World Bank-financed operations and limited capacity for IT development and maintenance. There is also limited capacity for program

implementation, coordination, and oversight in the stakeholder line ministries and the MoF. Finally, beneficiaries may resist the new system due to concerns about their exclusion or the use of technology. To mitigate these risks, the project will finance training on World Bank operations for members of the PMU and strengthen the institutional capacity of the MoF and MoSEW staff to manage the country's main safety net programs with IT-based systems and tools. On-the-job training will be provided to the MoSEW staff at all levels.

49. The High risk on 'Fiduciary' is primarily due to the MoF's limited implementation experience of World Bank-funded projects operating under a DLI approach and the capacity constraints prevailing in the MoSEW in managing the financial management (FM) arrangements required for claim of welfare payments as eligible expenditures under Components 1 and 2. To mitigate these risks, the project will establish a PMU that will have dedicated financial management (FM) and procurement specialists, preferably knowledgeable on World Bank-financed operations, who will oversee the required FM arrangements for the project including for the EEP. The MoSEW will also appoint a key focal point for FM for the project. Capacity building and training will also be provided to the relevant staff to meet fiduciary requirements. The Project Operational Manual will also reflect these arrangements in detail and will be adopted by no later than the earlier of February 28, 2017, or the first date on which a Verification Report shall be required under the Project.

50. The 'Stakeholders' risk rating is Substantial. The decision to exit ineligible beneficiaries may be reversed or not implemented due to changes in the Government or pushback from members of parliament to avoid upsetting their constituencies. There may also be resistance to changing the current beneficiary selection procedures by local-level officers who may be concerned with losing authority and influence. To mitigate the risk associated with ineligible beneficiaries, the project will include a comprehensive communications campaign and awareness-raising activities emphasizing the benefits of the new system. Another risk is that key partners and their staff at the local level do not provide the necessary support for the new system to operate effectively. To address this issue, all stakeholder ministries will be represented on the PSC and PTC. Additionally, the TA component will develop a stakeholder engagement strategy and outreach activities to create buy-in among local-level staff and seek their inputs at all stages of the design and implementation of the system.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

51. The primary development impact of the project will be achieved through more equitable and transparent targeting of safety net programs, which will directly improve the welfare of the poor and vulnerable groups in Sri Lanka. A secondary development impact will be improved accountability of the programs, stemming from: (a) the ability of central program management to monitor and evaluate program performance in more detail; (b) removal of discretion in selection and payment from the control of local officials; and (c) the increased transparency of program targeting and grievance redressal, which will raise the credibility of the programs in the public eye and help ensure their political and financial sustainability.

52. As described earlier, the main programs have unevenly applied eligibility criteria and lack clear exit strategies. For instance, analysis based on HIES 2012/13 data indicates that a significant proportion of beneficiaries in the Samurdhi program would not qualify under more accurate PMT targeting criteria, even if the number of beneficiaries was held constant. Moreover, the geographic allocation of safety net programs is not well connected to the distribution of poverty, after controlling for consumption. This has the potential to increase the poverty impact of the programs and thereby achieve improved efficiency of fiscal allocations to social protection.

53. By introducing a social registry based on objective inclusion criteria, the project will take beneficiary selection decisions out of the hands of local officials and reduce leakage of program budgets to non-poor households. The use of objective targeting criteria will eliminate the systematic biases in selection observed in the present program and increase coverage of the poor. Meanwhile, the project will finance an increase in the number of eligible individuals covered by programs such as the elderly and disability benefits, which presently have long waiting lists and only take enrolments on a first-come-first-served basis (after controlling for severity of need). Finally, having a reliable PMT database will provide flexibility for the programs to develop scalability mechanisms, through which benefits can be increased or extended to near-poor households in the event of catastrophic shocks such as natural disasters.

54. By improving information management and identification systems, the project is likely to achieve considerable cost efficiencies and improve transparency. The new system is expected to reduce transaction costs and wait times for beneficiaries and reduce duplication of paperwork across programs. It will also generate more usable information for policy makers, who currently have little more than aggregate statistics and periodic household sample surveys with which to evaluate program performance and impact. Without such information, it is difficult to refine the design of programs and identify gaps in the social safety net. This has consequences for strategic planning in the sector.

B. Technical

55. The technical basis for the project is strong. Policy makers have for many years been calling for a full review of eligibility in Sri Lanka's social safety net programs. The problems in targeting and implementation of the safety net have led previous governments to cut program budgets in real terms, further weakening their poverty impact. Introducing a modern safety net system has the potential to greatly improve the efficiency and impact of these programs, enhancing their prospects of survival. This is at heart a systems-building project, drawing on extensive experience from successful safety net systems-building projects in neighboring countries and worldwide. It also builds on previous work conducted by the GoSL to develop an integrated MIS and targeting system for the Samurdhi program. Moreover, the project will be driven by the urgency of implementing the recently enabled Welfare Benefits Act, the objectives of which are reflected in the design of the project.

C. Financial Management

56. An assessment of current FM arrangements was carried out for the MoF and MoSEW. The proposed FM procedures and practices for the project are satisfactory to meet government and IDA fiduciary requirements according to OP/BP 10.00.

57. Annex 3 contains details of proposed FM arrangements. The overall FM risk is rated High. The proposed PMU is not established as yet, and the project's FM focal points from the MoF and MoSEW are yet to be identified. The FM oversight arrangements for welfare payments under the MoSEW will also be further strengthened.

58. The overall FM responsibilities for project activities will rest with the PMU housed under the MoF. The PMU will have a full-fledged accounting unit with adequate FM capacity. These units will maintain accounts for Component 3 and collect information from relevant agencies for Component 1 and 2 expenditures for consolidation for the whole project. To strengthen FM systems, the project will institutionalize the maintenance and enhancement of the knowledge and skills of all FM staff at the PMU and participating agencies. These activities will be supported and monitored throughout the project.

59. IDA funds will be disbursed to the consolidated fund account in U.S. dollars for Components 1 and 2 on the basis of achievement of DLIs and submission of interim unaudited financial reports (IUFs). Disbursement of funds for Component 3 will be through a designated account (DA) against cash forecasts provided in the IUFs.

60. The project will be subjected to an internal audit. The Auditor General (AG) will perform the external audit. The AG will issue two audit reports: one for Components 1 and 2 and one for Component 3. The audit reports must be submitted to World Bank within six months of the end of the GoSL fiscal year.

D. Procurement

61. The MoF will be the IA for the project, and the MoSEW will be a partner agency. The MoSEW has had some recent operational engagement with the World Bank through the 'Diri Sawiya' (grant) project. The GoSL has identified the Budget Department at the MoF as the likely IA for the project, under the general oversight of the Secretary of Finance. The MoF has identified an officer from the Budget Department as the initial point of contact. To avoid any gaps in implementation capacity, a PMU will be established and staffed with adequately skilled procurement specialists by no later than the earlier of February 28, 2017, or the first date on which a Verification Report shall be required under the Project. These specialists will be provided with adequate training to effectively carry out the procurement activities under the project. The PMU will develop comprehensive procurement complaint handling mechanisms and an M&E system in compliance with the applicable rules and regulations to ensure an efficient procurement process, and reflect the same in the Project Operational Manual. Annex 3 contains a detailed outline of the expected procurement arrangements.

62. With these considerations, the overall procurement risk is rated as High. The proposed risk mitigation measures to be taken at the PMU level are as follows:

- (a) Recruitment of experienced procurement staff with necessary procurement and contract management skills
- (b) Development and implementation of adequate procurement systems with robust controls to avoid any fraud and corruption issues

- (c) Development and implementation of a sound procurement monitoring and reporting mechanism
- (d) Development of procurement complaint handling mechanism
- (e) Development of a project-specific website with an active link to lodge complaints including procurement-related complaints
- (f) Development and rollout of a procurement-specific capacity-building program
- (g) Reassessment of procurement risk during the project implementation and adjustment of the risk rating accordingly

63. A Procurement Plan for Component 3 for the first 18 months has been prepared by the IA and approved by the World Bank in accordance with the applicable guidelines.

64. Procurement of goods, works, and services under Component 3 of the project will be carried out in accordance with World Bank Guidelines (a) Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, of January 2011 and revised in July 2014 (Procurement Guidelines) and (b) Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, of January 2011 and revised in July 2014 (Consultant Guidelines), including the provisions as stipulated in the Financing Agreement.

E. Social (including Safeguards)

65. The project will support the government's reform efforts but will not directly engage in any physical construction work or distribution of welfare benefits. Investments will be made in the welfare system as a whole, not in programs targeted at particular communities. It plans to incentivize participating client agencies to build a unified social registry and improved service delivery mechanism through capacity building and TA. Therefore, from a social safeguards perspective, there does not arise a need to trigger OP 4.12 (Involuntary Resettlement) or OP 4.10 (Indigenous Peoples). A recent indigenous peoples (IP) assessment conducted by the World Bank highlighted the difficulties of determining the presence of IP communities and their distribution in the country for various sociocultural reasons. The surveys and assessments proposed to be conducted under the proposed project at the national level specifically covering the 'poverty pockets' will include all types of poor and vulnerable groups including IP communities, if any. Therefore the need for preparing any specific IP development plans/framework does not arise.

66. **Grievance Redress Mechanism.** The project aims at establishing a robust and decentralized Grievance Redress Mechanism (GRM) as determined by the WBB. At the Divisional Secretariats, staff will be equipped with a computerized system to receive, register, and document grievances related to selection, exclusion, and targeting of households by proposed unified registry for social benefit and welfare distribution. Grievances received will be reviewed and resolved by an appeals committee as specified in the Welfare Benefits Act (2002). Performance and effectiveness of this GRM will be measured by the percentage of grievances recorded and resolved in the integrated MIS.

67. **Citizen engagement** process includes two levels: (a) public participation in development of a unified social registry system at the local level, and (b) stakeholder consultations at the project management level. At the local level, a social communication and awareness campaign will be launched to inform the public about the objectives of the new targeting mechanism and to receive their suggestions for improvement. Citizens will also be able to submit feedback on the selection and decision-making processes to program officers at the DS level. At the project management level, all relevant ministries will participate in the PSC to review and resolve project-related issues and concerns. The project will also support the development of a stakeholder engagement strategy through TA to enhance outreach activities to create buy-in among local-level staff and seek their inputs at all stages of the design and implementation of the system. The citizen engagement indicator will be beneficiary satisfaction with appeals mechanism for selection decisions.

68. **Gender.** In developing the unified social registry system, client agencies will pay special attention to include specific strategies and criteria to ensure gender inclusiveness such as to include female-headed households, vulnerable elderly women, and widows into beneficiary categories and to address their specific needs. Also, the surveys and studies supported by the project will collect and maintain gender-disaggregated data to measure the incidence of poverty and vulnerability among different social categories and in geographical areas. Social impact assessment studies of the project will review these data to measure the impact and coverage of the unified social registry by gender and geographical location.

69. A Social Management Framework (SMF) will be prepared elaborating the process and procedures to be followed in grievance redressal, citizen engagement, and gender-mainstreaming activities under the project. The draft SMF is presented in Annex 7.

F. Environment (including Safeguards)

70. No environmental and social safeguard impacts are envisaged under this project, as there are no physical interventions and there is no need for further assessment. Therefore, the project is categorized as environmental Category C.

G. World Bank Grievance Redress

71. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level GRMs or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

SRI LANKA

Social Safety Nets Project (P156056)

Results Framework

Project Development Objectives						
PDO Statement						
The development objective of the project is to contribute to the improved equity, efficiency, and transparency of Sri Lanka's social safety net programs for the benefit of the poor and vulnerable.						
These results are at	Project Level					
Project Development Objective Indicators						
				Cumulative Target Values		
Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Percentage of WBS beneficiaries in the poorest 20 percent (%)	39	39	43	47	50	50
Coverage of the poorest 20 percent by the WBS (%)	37	37	46	55	60	60
Average application processing time for WBS programs (days)	30	30	25	20	15	10
WBS beneficiary lists published	No	—	Yes	Yes	Yes	Yes
Intermediate Results Indicators						
				Cumulative Target Values		
Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Component 1						
WBB established and fully functional (DLI 1)	n.a.	WBB fully functional and its secretariat established	A formal policy on entry and exit for WBS programs	—	—	—

			approved and published			
SRIS active and operational (DLI 2) (%)	None	SRIS active and SRU maintained with suitably qualified staff	At least 10% of divisional secretariats have access to the SRIS interface and at least one staff member is trained in its use	At least 40% of divisional secretariats have access to the SRIS interface and at least one staff member is trained in its use	At least 70% of divisional secretariats have access to the SRIS interface and at least one staff member is trained in its use	At least 90% of divisional secretariats have access to the SRIS interface and at least one staff member is trained in its use
Beneficiary satisfaction with appeals mechanism for selection decisions (%)	n.a.	—	60	70	80	80
Welfare program budget under the WBS (DLI 3) (share of total welfare budget, %)	0	—	—	20	30	40
Component 2						
Social registry populated with current data on beneficiaries of programs under the WBS (DLI 4)	n.a.	—	Data on 25% of beneficiaries accessible in the Social Registry	Data on 50% of beneficiaries accessible in the Social Registry	Data on 75% of beneficiaries accessible in the Social Registry	Data on 95% of beneficiaries accessible in the Social Registry
WBS beneficiaries qualifying under the eligibility criteria (DLI 5) (%)	n.a.	—	—	70	80	90
Divisional secretariats using the integrated MIS for program delivery (DLI 6) (%)	0	—	10	25	50	75
Grievances recorded in the integrated MIS that are resolved within 4 weeks (%)	n.a.	—	50	60	70	80
Component 3						
Annual assessment of SRIS functionality and security conducted	n.a.	Yes	Yes	Yes	Yes	Yes
Action plan developed and approved for expansion of the new safety net system	No	—	Action plan developed	Action plan approved	—	—
Social protection strategy developed and approved by competent authority	No	—	—	SP Strategy developed	SP Strategy approved	—
Annual reports published on the WBS	No	—	Yes	Yes	Yes	Yes

Description of Indicators

Project Development Objective Indicators				
Indicator Name	Description	Frequency	Data Source/Methodology	Responsibility for Data Collection
Percentage of WBS beneficiaries in the poorest 20 percent	Percentage of households enrolled in a WBS program who are in the bottom 20 percent of the distribution of real per capita household consumption, as a share of all households enrolled in the WBS.	Baseline and endline only	HIES (exp. 2017, 2021) Baseline may be updated based on HIES 2017 data	DCS
Coverage of poorest 20 percent by the WBS	Percentage of households in the bottom 20 percent of the distribution of real per capita household consumption that are beneficiaries of a WBS program.	Baseline and endline only	HIES (exp. 2017, 2021) Baseline may be updated based on HIES 2017 data	DCS
Average application processing time for WBS programs	The average time between application for programs under the WBS and the date of initial notification of outcome.	Annual	MoSEW and/or WBB records	MoF
WBS beneficiary lists published	By June 30 of each calendar year, lists of all beneficiaries of the WBS programs will be published according to the Welfare Benefits Act.	Annual	WBB records	MoF
Intermediate Results Indicators				
Indicator Name	Description	Frequency	Data Source/Methodology	Responsibility for Data Collection
Component 1				
WBB established and fully functional (DLI 1)	See DLI matrix.	Annual	Gazette or Circular	MoF
SRIS active and operational (DLI 2)	See DLI matrix.	Annual	MoF records	MoF
Beneficiary satisfaction with appeals mechanism for selection decisions	A random sample of beneficiaries lodging appeals will be contacted after their appeal is marked as resolved in the SRIS or after 6 months (whichever comes sooner). The measure will be the average of three questions: (a) Do you think the time taken to review your case was reasonable? (b) Was a clear process followed? and (c) Do you know and understand the outcome of your appeal?	Annual	Process evaluation conducted by a qualified survey firm	MoF

Welfare program budget under the WBS (DLI 3)	See DLI matrix.	Annual	MoF Annual Report	MoF
Component 2				
Social registry populated with current data on beneficiaries of programs under the WBS (DLI 4)	See DLI matrix.	Annual	SRIS beneficiary records/program records	MoF
WBS beneficiaries qualifying under the eligibility criteria (DLI 5)	See DLI matrix.	Annual	WBB Social Registry and program beneficiary lists	MoF
Divisional secretariats using the integrated MIS for program delivery (DLI 6)	See DLI matrix.	Annual	MoSEW records	MoF
Grievances recorded in the integrated MIS that are resolved within 4 weeks	The percentage of grievances nationwide entered in the MIS during the calendar year or preceding 6 months (whichever period is longer). Open cases will be counted as unresolved.	Annual	Program MIS. Grievances will be time-stamped when lodged and resolved, and the MIS will be capable of producing reports on these statistics.	MoF
Component 3				
Annual assessment of SRIS functionality and security conducted	The SRIS platform will be assessed by a competent third party firm for functionality, data security, connectivity, and business continuity.	Annual	Third-party assessment report	MoF
Action plan developed and approved for expansion of the new safety net system	An action plan for the expansion of the new safety net system will be drafted by the Department of National Planning and circulated for review and discussion by stakeholders. The PSC will review and approve the document.	Once	National Planning Department records; PSC minutes	MoF
Social protection strategy developed and approved by competent authority	A social protection strategy will be drafted by the Department of National Planning and circulated for review and discussion by stakeholders. A competent authority will review and approve the document.	Once	National Planning Department records	MoF
Annual reports published on the WBS	The MoF or WBB will publish a report on its website summarizing the outcomes during the year relating to program implementation, number of divisional secretariats in which each system component is operating, and vital statistics from the	Annual	MoF or WBB website	MoF

	system (including caseload, number of beneficiaries registered, gender of beneficiaries, amount paid, number of applications, approvals and rejections).			
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Disbursement-linked Indicators

DLI 1	Target Values					
	Baseline	YR1	YR2	YR3	YR4	YR5
DLI 1: WBB established and fully functional	No	WBB fully functional and its secretariat established	A formal policy on entry and exit for WBS programs approved and published	—	—	—
Disbursement amounts (Total: US\$5 million)	—	US\$2.5 million	US\$2.5 million	—	—	—
<p><i>YR 1: Definitions, evidence, and verification protocol:</i></p> <p>Definitions:</p> <ul style="list-style-type: none"> ‘Fully functional’ means that (a) all members of the WBB are appointed in accordance with the Welfare Benefits Act (2002) and (b) the WBB must have met at least once in the six months before the DLI verification and the meeting met quorum rules. ‘Established’ means the secretariat is adequately staffed to support the functions of the WBB. <p>Evidence:</p> <ul style="list-style-type: none"> WBB minutes. <p><i>YR 2: Definitions, evidence, and verification protocol:</i></p> <p>Definitions:</p> <ul style="list-style-type: none"> The policy for each program will be published in the Gazette or circular by the MoF or WBB. It shall describe the procedures for enrolling qualified beneficiaries and removing unqualified beneficiaries from programs under the WBS. The policy should include full details on: (a) selection criteria; (b) finite timeline for exit; (c) policy on compensation; (d) appeals process; and (e) communications and outreach to beneficiaries. <p>Evidence:</p> <ul style="list-style-type: none"> Publication in the Gazette of the Democratic Socialist Republic of Sri Lanka or Government Circular. 						
DLI 2	Target Values					
	Baseline	YR1	YR2	YR3	YR4	YR5
DLI 2: SRIS active and operational	None	SRIS active and SRU maintained with suitably qualified staff	At least 10% of divisional secretariats have access to the SRIS interface and at least one staff member is trained in its use	At least 40% of divisional secretariats have access to the SRIS interface and at least one staff member is trained in its use	At least 70% of divisional secretariats have access to the SRIS interface and at least one staff member is trained in its use	At least 90% of divisional secretariats have access to the SRIS interface and at least one staff member is trained in its use

Disbursement amounts (Total: US\$15 million)	—	US\$5 million	US\$1 million	US\$2 million	US\$3 million	US\$4 million
<i>Definitions, evidence, and verification protocol:</i>						
Definitions:						
<ul style="list-style-type: none"> ‘SRU maintained’ means that a social registry unit (SRU) has been established in the WBB with adequate staffing to fulfill its role and full access rights to enter and update records in the SRIS. SRIS will be considered as ‘active’ once it has been designed, tested and refined based on testing; installed on SRU systems; made operational for its prescribed purposes; and is satisfactory to the Association. ‘Suitably qualified staff’ means fully trained staff who are currently employed and attending to their contractual duties. Any vacancies filled within 2 months will count toward the target. ‘Access to the SRIS interface’ means that at least one computer in the divisional secretariat office is provided exclusively for entry and updating of beneficiary records in the SRIS. Each computer must have an internet connection and suitable uninterrupted power supply. At least one staff member at each divisional secretariat counted toward the DLR must be in attendance and be trained in use of the SRIS. 						
Evidence:						
<ul style="list-style-type: none"> MoF records. Third party assessment of SRIS. SRU staffing and attendance records. List of divisional secretariats having SRIS interface. Records will be verified by unannounced visits to a random sample of divisional secretariat offices. 						
DLI 3		Target Values				
	Baseline	YR1	YR2	YR3	YR4	YR5
DLI 3: Welfare program budget under the WBS	n.a.	n.a.	n.a.	Welfare program budget under the WBS equals or exceeds 20% of total government welfare spending	Welfare program budget under the WBS equals or exceeds 30% of total government welfare spending	Welfare program budget under the WBS equals or exceeds 40% of total government welfare spending
Disbursement amounts (Total: US\$10 million)	—	—	—	US\$3 million	US\$3 million	US\$4 million
<i>Definitions, evidence, and verification protocol:</i>						
Definitions:						
<ul style="list-style-type: none"> ‘Program budget under the WBS’ will be interpreted as the total actual budget allocation under object code 1501 for the respective calendar year of the DLR to programs under the WBS, according to the provisions of the Welfare Benefits Act (2002) and associated regulations. ‘Total government welfare spending’ is defined as the total actual budget allocation under object code 1501 in the GoSL budget for the respective calendar year of the DLR. 						
Evidence:						
<ul style="list-style-type: none"> Ministry of Finance Annual Report. 						
DLI 4		Target Values				
	Baseline	YR1	YR2	YR3	YR4	YR5

DLI 4: Social registry populated with current data on beneficiaries of programs under the WBS	n.a.	—	Data on 25% of beneficiaries accessible in the Social Registry	Data on 50% of beneficiaries accessible in the Social Registry	Data on 75% of beneficiaries accessible in the Social Registry	Data on 95% of beneficiaries accessible in the Social Registry
Disbursement amounts (Total: US\$10 million)	—	—	US\$2 million	US\$2 million	US\$3 million	US\$3 million
<i>Definitions, evidence, and verification protocol:</i>						
Definitions:						
<ul style="list-style-type: none"> • ‘Beneficiaries’ means the total number of beneficiaries of programs under the WBS. • For a given individual, ‘data’ will be understood to mean: full identifying information (name, national ID number, location, etc.); all variables needed to determine eligibility for the program(s) under the WBS; and information on family or household structure necessary to prevent double-dipping for benefits within a household. 						
Evidence:						
<ul style="list-style-type: none"> • SRIS beneficiary records/program records. • A query will be run on the SRIS for a random sample of beneficiaries in each program, and the recovered records inspected for completeness. 						
DLI 5		Target Values				
	Baseline	YR1	YR2	YR3	YR4	YR5
DLI 5: WBS beneficiaries qualifying under the eligibility criteria	n.a.	—	—	At least 70% of WBS beneficiaries meet the published eligibility criteria	At least 80% of WBS beneficiaries meet the published eligibility criteria	At least 90% of WBS beneficiaries meet the published eligibility criteria
Disbursement amounts (Total: US\$15 million)	—	—	—	US\$5 million	US\$5 million	US\$5 million
<i>Definitions, evidence, and verification protocol:</i>						
Definitions:						
<ul style="list-style-type: none"> • ‘Published eligibility criteria’ are the criteria approved by Cabinet for each program. • ‘Meeting’ the criteria means that the individual or family is deemed as an eligible beneficiary according to the social registry records. • For the purpose of this definition, beneficiary records updated within the previous six months will not be considered. 						
Evidence:						
<ul style="list-style-type: none"> • The eligibility criteria in the SRIS will be checked for accuracy against the published criteria. • A query will be run on the SRIS for a random sample of each program’s beneficiaries (drawn from program lists). The SRIS will report whether or not the beneficiaries are eligible. 						
DLI 6		Target Values				
	Baseline	YR1	YR2	YR3	YR4	YR5
DLI 6: Divisional secretariats using the integrated MIS for program delivery	None	n.a.	At least 10% of divisional secretariat offices have access to a computer with the	At least 25% of divisional secretariat offices have access to a computer with the	At least 50% of divisional secretariat offices have access to a computer with the	At least 75% of divisional secretariat offices have access to a computer with the

			MIS interface active and at least one staff member trained in its use	MIS interface active and at least one staff member trained in its use	MIS interface active and at least one staff member trained in its use	MIS interface active and at least one staff member trained in its use
Disbursement amounts (Total: US\$10 million)	—	—	US\$3 million	US\$3 million	US\$3 million	US\$1 million
<p><i>Definitions, evidence, and verification protocol:</i></p> <p>Definitions:</p> <ul style="list-style-type: none"> • ‘Access to a computer’ means that at least one computer in the divisional secretariat office is provided exclusively for administration of the integrated MIS. Each computer must have an active internet connection and suitable uninterrupted power supply. • The staff member must be in attendance at the respective divisional secretariat office and be trained in use of the integrated MIS. <p>Evidence:</p> <ul style="list-style-type: none"> • List of divisional secretariats with MIS interface, list of staff trained, list of programs updated by the divisional secretariat-level staff • Records will be verified by unannounced visits to a random sample of divisional secretariat offices. 						

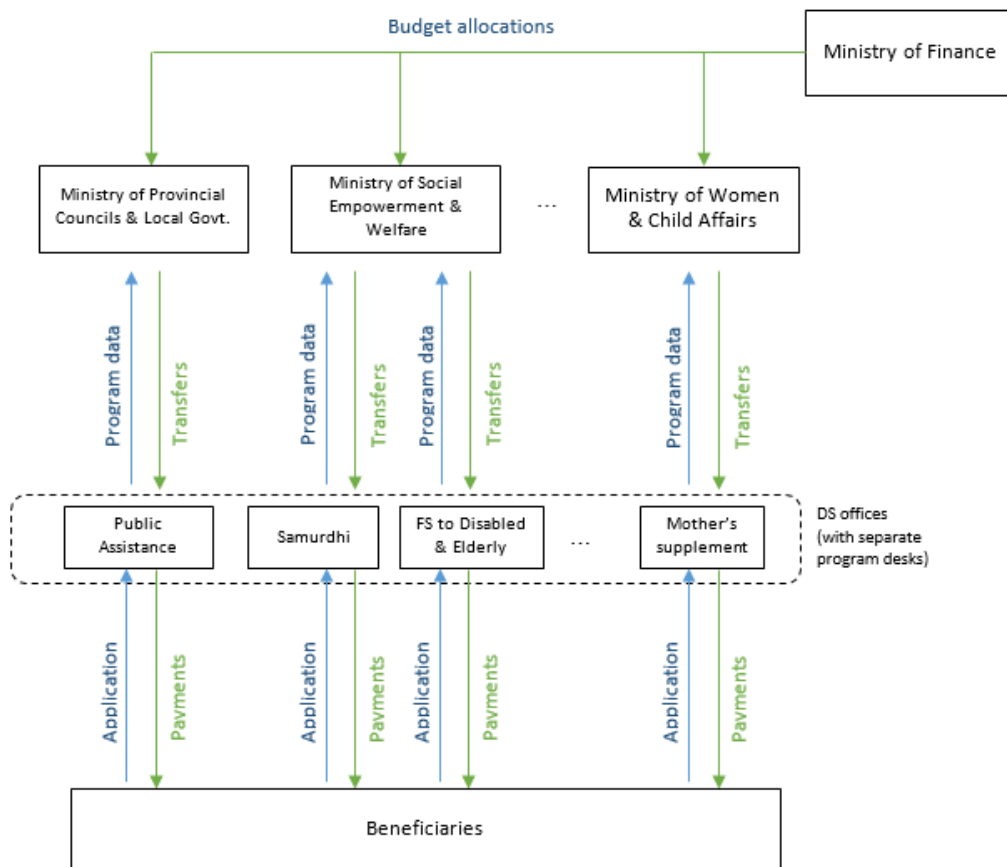
Annex 2: Detailed Project Description

SRI LANKA: Social Safety Nets Project

1. The project will provide technical support for the establishment of the WBB and incentivize the development of an integrated safety net system for Sri Lanka under its leadership. The project will support the GoSL's efforts to develop a social registry, collect data for improved targeting of welfare programs, and develop an integrated MIS for programs under the MoSEW. It will also finance TA to carry out the necessary adjustments to business processes, stakeholder engagement and communications related to safety net service delivery. The project will provide the financing and TA required to ensure the reform is implemented in a staged and sustainable manner, while also strengthening the capacity of the GoSL to monitor and evaluate its social safety net programs and plan for future development of the system.

2. The project is divided into two DLI components reflecting the two distinct parts of the system to be built: the first related to central administration and information management, and the second related to beneficiary service delivery. Figure 2.1 provides a simplified schematic of how existing program administration is carried out, and Figure 2.2 presents a simplified sketch of the proposed system.¹⁶

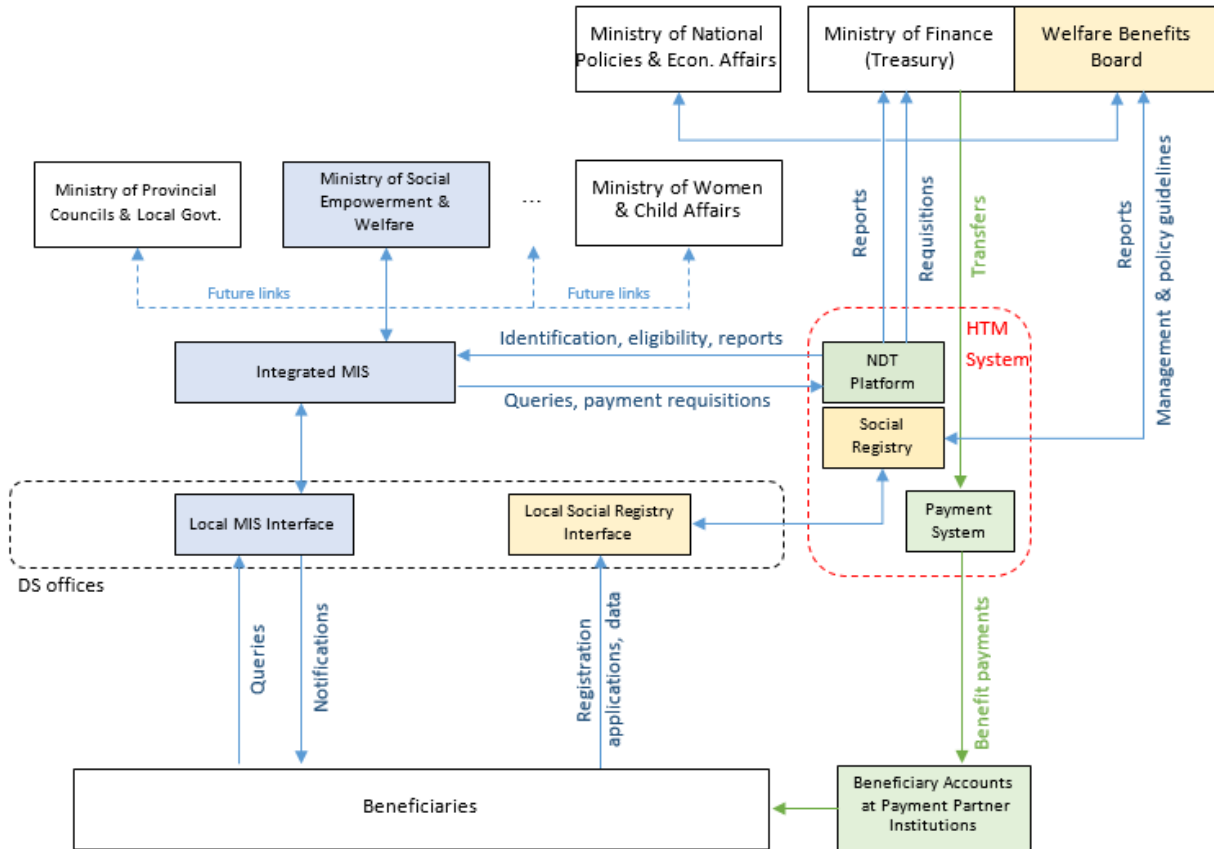
Figure 2.1. Simplified Diagram of Existing Safety Net Administration System



¹⁶ In between the DS and central ministry levels are provincial and district levels of administration (not shown here).

3. Figure 2.1 shows how the existing programs are currently delivered by line ministries (examples of which are shown here for illustrative purposes only) through program offices at the Divisional Secretariat level, and by subordinate officers at the GN level. The result is a siloed implementation framework in which information flows vertically and is aggregated at each level. Funds are disbursed in bulk by ministries to the district and division levels, and distributed to beneficiaries through program-specific systems. This system therefore precludes detailed M&E within implementing ministries and limits data sharing across ministries.

Figure 2.2. Vision of Future Safety Net Administration System*



Note: DS offices also provide other government services outside the project's purview, such as land registration (not shown).

* To be finalized on the direction of the WBB.

4. Figure 2.2 illustrates how the new system would work subject to approval of the WBB. The HTM/NDT platform will be housed in the server and managed by the ICTA. An SRIS containing data required to target welfare programs will be developed, and will be managed by the WBB according to arrangements to be specified in the Operational Manual. A separate integrated MIS and related business processes would also be developed to administer the programs under the WBS (initially those of the MoSEW). Program eligibility decisions would be automated in the MIS, drawing on data from the SRIS and evaluated based on selection criteria established by the WBB. The remainder of this section describes the activities to be undertaken in establishing the system.

Component 1: Building a Unified Social Registry

5. The core of the reformed welfare system will be a unified SRIS containing data on all current and former program beneficiaries and new applicants. The SRIS will be part of the HTM/NDT system being developed by the ICTA. The SRIS will serve as a single source of verified information on each citizen and their household, and facilitate improved targeting of welfare programs.

6. **Subcomponent 1a** will incentivize the development of the SRIS. Full details of the architecture and management of the SRIS are to be confirmed by the WBB once it is active, and specified in the Project Operational Manual. Currently, the expectation is that the SRIS will be developed and maintained by the ICTA at the MTDI. Collection and maintenance of the Social Registry data will be the responsibility of a unit established at the WBB. The MTDI has already received budgetary allocation for the software development and has published bidding documents for private procurement of the system. The SRIS will be housed in the GoSL server, and be designed to connect to the MIS and other government databases. It will enable additional data fields to be added at a later point as new programs are brought into the ecosystem. The SRIS will have appropriate protocols to protect against unauthorized access, and sufficient backups to ensure continuity of service. The WBB will have experts in computing systems and programming, data entry officers and grievance officers, and will operate a staffed hotline for resolution of technical problems or data-related queries.

7. **Subcomponent 1b** will incentivize the establishment of a system for registration of individuals and issuance of secure, biometric smart cards. The MTDI will establish and staff National Data Facilitating centers at district and divisional levels. Since the SRIS contains sensitive information, officers with access to data will be required to have appropriate security clearance. Mobile units will also be available to reach more isolated communities. The bidding documents for the project specify a target of 14 million individuals to be registered during the five year life of the project; this includes WBS beneficiaries as a subset.

Role of the WBB

8. The WBB will be the agency responsible for implementing the Welfare Benefits Act, with the role of making eligibility determinations and payments to beneficiaries under the new system. It will take responsibility for the collection of data needed to determine eligibility, its entry and updating in the SRIS, and application of selection criteria approved by Cabinet. It will also be responsible for managing the appeals process for program eligibility decisions. The establishment of the WBB, adoption of new objective targeting criteria, and sustained financing of programs under the WBB's domain will be supported under this component.

Technical Assistance

9. TA under Component 3 will support these activities by financing independent audits of the new SRIS; capacity building and training costs for the establishment of the WBB; development of new eligibility criteria; and communication and outreach campaigns to support the registration process.

Financing

10. The project will finance eligible expenditures subject to the achievement of the following DLIs measuring progress toward the activities under this Component:

- DLI 1: WBB established and fully functional
- DLI 2: SRIS active and operational
- DLI 3: Welfare program budget under the WBS

Component 2: Integrated Service Delivery Systems

11. This component will incentivize the development of beneficiary-level systems and processes to support the integrated delivery of safety net programs under the WBS. Recognizing that the development of these delivery systems is a gradual process, the system will be piloted in a small proportion of DS divisions and refined before being gradually scaled up. Staff trained in the pilot locations may be used as trainers of their colleagues in other locations. During the project period the integrated MIS will serve only selected programs under the WBB's mandate, but will be designed to be capable of incorporating other programs beyond the end of the project.

12. **Subcomponent 2a** will incentivize the recertification of existing beneficiaries under the WBS, and enrollment of newly qualifying beneficiaries. According to the Welfare Benefits Act (2002), Cabinet will establish new eligibility criteria, expected to be based on a PMT. Additional data will be required to substantiate eligibility for some programs. Data on 2.5 million households are currently being collected by the MoSEW and could be used for this purpose. If they are not suitable, the GoSL intends to collect data using computer-assisted personal interview devices. Private survey firms may be contracted for data collection and spot checks.

13. Selection and enrollment of beneficiaries will follow the provisions of the section 9(1) of the Welfare Benefits Act and associated regulations. New applicants will be invited to apply to the program by consulting their GN. This 'passive' data collection approach (where household members come to register) will be used in most locations. A census sweep or targeted outreach approach will be used in selected geographic areas of the country where poverty rates are higher or undercoverage of marginalized groups is suspected. In addition, an extensive public information and outreach campaign will inform citizens of the new registration process and encourage new applications, especially from underserved groups.

14. After data have been collected, an initial list of selected beneficiaries for each program will be produced by the SRIS and posted publicly at the DS level. There will be a clear timeline for review of selection decisions and appeals of these decisions to be lodged. Appeals will be subject to a community validation or committee review at the DS level and the appellant notified of the decision within an established time period.

15. Households deemed eligible will thereafter be enrolled in the respective programs for which they qualify. Current beneficiaries deemed ineligible would be exited according to a clear protocol, possibly providing gradual reductions in benefits or other incentives to leave the

program. Toward the end of the project, preparations for a new cycle of data collection would be initiated, so that beneficiaries in the SRIS would be fully recertified after approximately 5 years.

16. **Subcomponent 2b** will finance the EEP against development of an integrated program MIS software for programs under the MoSEW. The MIS will be able to draw data from the SRIS, but will not have write access to ensure security of the social registry data. The MIS will be accessible at the DS level dedicated computer terminals, operated by officers of programs coming under the Scheme. Program staff in the MoSEW will be trained to use the MIS, and support will be provided to incentivize them and encourage the transition to the new system. As the system is gradually rolled out across programs and the country, former manual record keeping systems will be phased out.

17. The new platform will strengthen the quality of service delivery for beneficiaries. Rather than having to visit separate desks or offices to apply for and manage their participation in different safety net programs under the WBS, beneficiaries will have one point of contact and program officers will be able to see all of their information for the different programs within one system. This integration will be supported by clear, unified branding and communications materials to build cohesion among program staff and convey the perception of a single system to beneficiaries. Beneficiary assessments and feedback mechanisms will be used to track satisfaction and refine the services, and a grievance mechanism with clear lines of command, escalation and resolution times will be established.

Technical Assistance

18. TA under Component 3 will support these activities by financing validation and spot checks of beneficiary data; development of business processes and operational documents; training and incentives for local staff to transition to the new system; establishment of appeals and grievance mechanisms and exit protocols; public information campaigns and branding; and required adaptation of the SRIS and relevant government financial systems.

Financing

19. Disbursement of funds under each subcomponent will be subject respectively to the achievement of the following DLIs, measuring progress toward the above objectives:

- DLI 4: Social registry populated with current data on beneficiaries of programs under the WBS
- DLI 5: WBS beneficiaries qualifying under the eligibility criteria
- DLI 6: Divisional secretariats using the integrated MIS for program delivery

Component 3. Support for Project Implementation, Monitoring, and Planning

20. The GoSL has expressed the broad contours of its aspirations for social protection in various manifestos and program documents; however, a lack of integrated data on program coverage and overlaps has made it difficult for the GoSL to develop a national social protection strategy to bring greater coherence to the social protection system. The introduction of a unified

social registry, common targeting approaches and electronic data management will enable a higher degree of program M&E, and facilitate more informed planning for the future of social protection. At the same time, however, implementation of the Welfare Benefits Act will involve considerable structural and cultural change, necessitating investment in training, information campaigns and stakeholder engagement. The objectives of this component are to build the capacity of the MoF to make use of the new data for monitoring, evaluation and planning, and to provide technical support for implementation of the program.

21. **Subcomponent 3a** will finance the capacity building required to ensure the new institutional structure and the systems themselves are effective and sustainable. This includes the incremental operating expenses of the PMU, costs of verification of compliance with DLIs, and training and knowledge sharing events for government staff to learn about international best practice. In addition, this subcomponent will finance the TA inputs required for Component 1 and 2 activities as described above.

22. **Subcomponent 3b** will finance the placement of a monitoring specialist in the IA with responsibility for designing and establishing a safety net M&E framework and designing and advising on the preparation of annual monitoring reports. With project support, the MoF would introduce systems and processes for regular monitoring of safety net programs with respect to beneficiaries, costs, gaps and overlaps. Annual monitoring reports would be prepared for discussion and publication by the WBB, timed to inform budget planning. The subcomponent will also finance TA and stakeholder consultations to develop an action plan for expansion of the system to other safety net programs and eventually to social insurance and labor market programs.

23. **Subcomponent 3c** will support the development of a research program on social protection at the Department of National Planning, with the ultimate objective of developing a National Social Protection Strategy. The research program may include studies into the social safety net system, social insurance, graduation and labor market programs. These studies would be disseminated through national stakeholder consultations, and a national social protection strategy would be drafted for review and approval by a competent authority. The subcomponent would finance the national and subnational stakeholder workshops and consultations required as inputs for the draft strategy.

Annex 3: Implementation Arrangements

SRI LANKA: Social Safety Nets Project

Project Institutional and Implementation Arrangements

1. The IA for the project will be the MoF. The IA will work in collaboration with the WBB, ICTA and with ministries implementing social safety net programs coming under the system (initially, the MoSEW).

2. To build capacity to carry out project activities, manage the new systems, and conduct M&E, a PMU will be established within the IA. The PMU's role will be to coordinate and monitor project activities in close collaboration with the IA, WBB, ICTA, MoHA and MoSEW. The PMU will be led by a Project Director, who will be assisted in day-to-day project management by two Deputy Project Directors. Ranks of these appointees will follow the guidelines of the Management Services Circular No. 01/2016. The Project Director and Deputy Project Directors will be supported by one FM Specialist, one or more Procurement Specialists, one M&E Specialist, one IT Specialist, one Training Specialist, one Communications Specialist, and other support staff as needed. Most of these Specialist positions will be filled with experts recruited according to the Management Services Circular for the duration of the project with provision of contract extension based on performance.

3. The PMU will develop a Project Operational Manual to implement the project. The PMU may establish partnership arrangements with various service providers such as telecommunication, IT infrastructure and payment providers to carry out project activities. The modernization of safety nets will involve activities and technology requiring the development of new skills and cultures among IA staff. Therefore, in addition to providing dedicated staff to implement activities in the PMU, the project will invest in revisions of program operational manuals and development of training and incentives to create buy-in for the reform across the Government. Training will be provided to relevant IA staff in the areas of project management, M&E, procurement, and FM to mitigate against implementation risks. Knowledge exchange programs may be conducted to disseminate technical knowledge on various aspects of safety net system design.

4. **Project-level leadership.** Coordination of project activities with other ministries and agencies will be guided and supervised by a PSC, to be chaired by the Secretary of the MoF. The PSC will also include senior officials from the MoF, MoNPEA, MoSEW, MoHA, MTDI, and other ministries implementing programs included (or to be included) over time in the WBS. The PSC will ensure that project implementation follows both GoSL and Association rules and regulations. The PSC will meet quarterly or at other times of necessity to discharge the following functions:

- (a) Providing policy advice and operational guidelines;
- (b) Approving the Project Operational Manual and any rules and regulations related to project implementation;
- (c) Reviewing the physical and financial progress of the project;

- (d) Providing guidance to solve any implementation problems and grievances;
- (e) Overseeing proper integration of results and findings of activities into program implementation; and
- (f) Providing any other necessary guidance and directions for the effective implementation of the project.

5. A PTC will be established with representation from the Ministries of National Policies and Economic Affairs, Finance, Social Empowerment and Welfare, Home Affairs, Telecommunication and Digital Infrastructure, and any other ministries whose programs are included over time in the WBS. The role of the PTC will be to review and discuss technical work related to the project, and to advise the PSC on these matters.

6. **DS-level leadership.** The project's activities will be led at the Divisional Secretariat level by the DSs, who will be responsible for: secondment and training of staff for registry and program MIS operations; installation of computer equipment procured for the safety net system; ensuring office systems (such as electricity and internet) are functional; heading the community appeals committees; and supporting information and outreach campaigns for staff and beneficiaries. The system will be developed in close consultation with these DSs, and the Project Operational Manual will capture their roles. The project will fund training and information materials to enable the DSs to perform these functions. The new system would be operated by existing civil servants at the DS level working for the MoHA, and DS-level staff from the MoSEW.

Arrangements for Monitoring

7. The DPMM will be responsible for M&E of project activities. Reports on the safety net system will be produced by the PMU at least annually and presented to the WBB and PSC for their information.

8. At the project level, the PMU will prepare an implementation progress report every six months. The report will assess the status of activities, identify issues and challenges and propose solutions. If there are issues and challenges that cannot be resolved at the PMU level, those issues and challenges will be communicated to the PSC for resolution.

Financial Management, Disbursements, and Procurement

Financial Management

9. The proposed FM procedures and practices for the project are satisfactory to meet government and IDA fiduciary requirements according to OP/BP 10.00.

10. The overall FM responsibilities for project activities will rest with the PMU housed under MoF, which is the IA for the project. The Secretary MoF will have responsibility for implementing the covenants of the Financing Agreement. This entails managing funds, fund requests, and allocations efficiently, effectively, and transparently; facilitating placement of funds from the World Bank through the MoF consolidated fund into the relevant agencies; furnishing consolidated financial reports and furnishing consolidated audit reports obtained from the AG to World Bank;

facilitating training and capacity building for FM/internal audit/external audit staff; and responding to any other World Bank requests.

11. As cash transfers under the MoSEW constitute the entire EEP for the project, the MoSEW is considered as an implementing partner and will be responsible for all project aspects related to the EEP including the related FM aspects. The MoSEW's role would entail furnishing relevant financial information to the MoF for preparation of consolidated financial reports, assisting in carrying out the internal audit and external audit of the EEP of the project and providing the required assistance to MoF for submission of consolidated audit reports; facilitating training and capacity building for FM/internal audit/external audit staff; and responding to any other World Bank requests. However no funds transfer is envisaged from the project directly to the MoSEW or any other partner agencies.

12. A FM focal point will be appointed by the MoSEW to manage the Ministry's aforementioned FM responsibilities. A FM assessment of the MoSEW focusing on the cash component of the Samurdhi program was carried out by the World Bank. Selection of beneficiaries is currently based on an income threshold, but the targeting and selection processes will be strengthened and made more pro-poor under the project. The funds for Samurdhi cash transfers are remitted by the MoSEW through Divineguma Banks and credited to Samurdhi beneficiary bank accounts. The program is fully financed by the GoSL and no other donors are cofinancing it at this time. The MoSEW and Divineguma Banks both have FM staff to manage this process. The MoSEW as well as Divineguma Banks are subjected to an audit by the internal audit department of the MoSEW. MoSEW is also subjected to the audit of the AG on an annual basis. Each of the Divineguma Banks generates various reports providing information related to the Samurdhi cash transfers, and these are shared with the MoSEW and other relevant stakeholders on a regular basis for monitoring. The assessment revealed that the FM oversight arrangements related to the welfare payments needs strengthening, particularly in the areas of internal audit and external audit. The FM focal point from the PMU and the FM focal point appointed from the MoSEW will work together to ensure that acceptable internal audit and external audit arrangements are established for the Samurdhi cash transfers. More details of the cash transfer process and the management of the same will be reflected in the Project Operational Manual.

13. The secretaries of the MoF and MoSEW will each assign a focal point person from their respective ministries to deal with FM-related activities. The PMU will have a full-fledged accounting unit with adequate FM capacity: one dedicated FM specialist (who would likely be the MoF's FM focal point) and relevant support staff. This unit will maintain accounts for Component 3 and collect information from the MoSEW for Component 1 and 2 EEP expenditures. The FM specialists hired or seconded to the PMU will facilitate coordination and monitoring of the overall FM tasks described. The FM specialist of the PMU also will work closely with the MoSEW FM focal point and report to the Secretary MoF.

14. One of the main functions of the PMU FM Unit will be to collect and consolidate the monthly/quarterly financial information of the MoSEW and submit/share the information with stakeholders. This unit and the MoSEW will be assisted to carry out the coordination needed for the project by hiring, transferring or seconding any staff needed. The FM specialist of PMU will work closely with the relevant agencies and report to the Secretary, MoF.

15. To strengthen FM systems, the project will institutionalize the maintenance and enhancement of the knowledge and skills of all FM staff at the PMU and relevant staff at the MoSEW. These activities will be supported and monitored throughout the project.

16. Internal audit of the project will be carried out by the internal auditors attached to the MoSEW in consultation with the PMU and the management audit department of MoF. As welfare payments of the MoSEW (or relevant successor agency) are to be used as the EEPs, the MoSEW as a whole is expected to adhere fully to the financial rules and regulations relating to these expenditures. The internal auditors of the MoSEW are expected to carry out regular audits on welfare payments. Internal audit arrangements will be specified in the Project Operational Manual. Given the staff constraints at the MoSEW, the capacity of internal auditors to carry out risk-based high-impact audits even in small numbers will be enhanced with the guidance of MoF. The secretaries of the MoF and MoSEW will introduce a monitoring mechanism as part of the project’s focus on enhancing institutional practices to ensure the adequacy of internal audit coverage and to ensure that the audit and management committees meet frequently.

17. The AG of Sri Lanka will perform the external audit for the project. The AG will use a tracking system to monitor the steps in the audit process to mitigate the risk of delayed audit reports. The AG has agreed to issue two audit reports, that is, one audit report for Components 1 and 2 and another for Component 3. The audit reports will be due within 6 months of the end of the government financial year; this will be a legal covenant in the Financing Agreement and tracked in the FM portfolio monitoring system. For Components 1 and 2, a consolidated audit report, including an audit opinion and management letter on the consolidated financial report, will be prepared. The consolidated financial report will contain project expenditures incurred by the MoSEW under the EEPs. As Bank funds are indistinguishable from government funds, the consolidated financial report submitted to the World Bank will include all expenditures recorded under the EEP from all sources pertaining to the MoSEW. Welfare payments made by the MoSEW would constitute part of the audit by the AG, and the MoSEW will be required to assist and facilitate the audit process. For Component 3, an audit report including an audit opinion and management letter on Project financial statements will be prepared.

Table 3.1. Audit Reports

Implementing Agency	Audit Report	Auditor	Date
PMU - MoF Components 1 and 2	Project Annual Financial Statements	Auditor General	June 30 each year
PMU - MoF Component 3	Project Annual Financial Statements	Auditor General	June 30 each year

18. Currently there are no overdue audit reports or ineligible expenditures under MoF.

19. The objective of the audit report for Components 1 and 2 is to obtain assurance that the consolidated financial report presents a true and fair view of expenditures identified under the EEPs and are free from material misstatements. The basis of the consolidated audit report will be the findings generated by auditing EEP expenditures in the MoSEW.

Disbursement/Reporting Arrangements

20. The budgeting and fund flow arrangements will be fully aligned with the current GoSL systems.
21. **Components 1 and 2.** IDA will disburse funds to the GoSL's consolidated fund, adding finances for the general government budget. The GoSL will specify the Treasury account to be used to disburse IDA funds along with GoSL funds; as a result, IDA funds will be comingled with GoSL funds and there will be no dedicated DA for this component. The project will be entirely funded from the consolidated fund with no requirement to separately track expenditures met from IDA finances. The secretaries of both the MoF and MoSEW following the regular government fund flow mechanism, will make requests to the MoF, Treasury to release funds to the MoF and MoSEW. IDA disbursements for Components 1 and 2 will adopt reimbursement method of disbursements. Release of IDA tranches will be based on the EEPs reported in IUFRR and fulfillment of the agreed DLIs. The PMU will prepare and sign the Withdrawal Application containing the request for IDA funds and reimbursement of expenditure and will submit it to the World Bank for disbursements along with the consolidated IUFRR. For the PMU to prepare the consolidated IUFRR, the MoSEW will need to report on a regular basis to the PMU the welfare payments which constitutes the EEP.
22. **Component 3.** The project will have one dedicated DA, administered by the PMU. Disbursements will be reported-based, made as advances. Replenishment of the DA will be based on the IUFRR prepared for Component 3. Actual expenditures incurred for Component 3 will be tracked and recorded in this IUFRR. The PMU will follow government guidelines for operating DAs. No funds from the DA will be withdrawn without instructions from the PMU and the proceeds of the withdrawals will go directly to a project-specific rupee bank account operated by PMU. Withdrawal applications containing request for IDA funds and documentation of expenditure will be prepared by PMU and submitted to the World Bank for disbursements along with the IUFRR related to this component.
23. IDA funds for Components 1 and 2 may be disbursed against the following EEP, which consists entirely of non-procurable items, as reflected in the MoSEW budget estimates:
- (a) Welfare Programmes, Cash Benefit Component (Budget head 331, object code 1501 under sub project 01) as such corresponding budget codes may be revised from time to time.
24. The EEP item above can be obtained from the budget of the DDD under the MoSEW. This consists of the cash benefit portion of the welfare payments made by the DDD to Samurdhi beneficiaries. The total annual estimated EEP incurred and reported for cash transfers is around US\$300 million, and is expected to remain much higher than the annual allocated project financing allocated for the five-year project period. Currently no other development partner is envisaged to be involved in the cash transfer program under the MoSEW. The MoSEW will need to report regularly to the PMU on the EEP expenditure items identified above.

25. Under Components 1 and 2, Bank funds are comingled with GoSL funds, which means that the financial report submitted to the World Bank will include the total EEP expenditure of the sector for a given reporting period.

26. World Bank reporting formats will be designed to be simple, with expenditure items aligned to match with the relevant agencies chart of accounts to the extent possible. Formats for the IUFs were discussed and agreed during project negotiations. Under Components 1 and 2, the proposed reporting arrangements is that expenditure reports are collected from the MoSEW and consolidated by the PMU once a month. At the end of every month, the cumulative consolidated expenditure can then be captured.

27. Two IUFs will be required to be submitted to the World Bank. One IUF will be prepared for Components 1 and 2. Another IUF will be prepared for Component 3. For Components 1 and 2, the consolidated IUF will be prepared for a 6-month period and will be due within 45 days of the end of the period; that is, IUFs for the periods ending June 30 and December 31 would be due by August 15 and February 15. For Component 3, the IUF will be prepared quarterly and will be due within 45 days of the end of each quarter.

Disbursements

28. Of the total IDA credit of US\$75 million equivalent, the Component 3 allocation is US\$10 million equivalent (less front-end fee) and the allocation for Components 1 and 2 is US\$65 million equivalent. Table 3.2 provides the credit allocations by expenditure category assuming all agreed targets are met.

Table 3.2. Allocation of Credit Proceeds (in SDR)

Category	Amount of the Credit allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Eligible Expenditure Programs (“EEPs”) under Components 1 and 2 of the Project	46,450,000	100% up to the respective DLR Values
(2) Goods, non-consulting services, consultants’ services, Training and Operating Costs under Component 3 of the Project	7,115,750	100%
(3) Front-end Fee	134,250	
TOTAL AMOUNT	53,700,000	

29. Each DLR is valued as shown in Table 3.3. IDA funds for Components 1 and 2 will be disbursed upon achievement of two conditions: (a) DLI targets at the particular time of disbursement have been met and (b) IUFs have been submitted with information on EEPs, where

cumulative total expenditure reflected under the EEP is greater than the amount of the cumulative IDA tranches released for the same period.

Table 3.3. Disbursement Schedule

	DLIs	DLRs for Year 1 (Effective - Dec 2017)	DLRs for Year 2 (Jan–Dec 2018)	DLRs for Year 3 (Jan–Dec 2019)	DLRs for Year 4 (Jan–Dec 2020)	DLRs for Year 5 (Jan–Dec 2021)
	DLI 1: WBB established and fully functional	DLR 1: WBB fully functional and its secretariat established	DLR 1: A formal policy on entry and exit for WBS programs approved and published	n.a	n.a	n.a
DLR Value (in SDR)		1,787,000	1,787,000	0	0	0
	DLI 2: SRIS active and operational	DLR 2: SRIS active and SRU maintained with suitably qualified staff	DLR 2: At least 10% of divisional secretariats have access to the SRIS interface and at least one staff member is trained in its use	DLR 2: At least 40% of divisional secretariats have access to the SRIS interface and at least one staff member is trained in its use	DLR 2: At least 70% of divisional secretariats have access to the SRIS interface and at least one staff member is trained in its use	DLR 2: At least 90% of divisional secretariats have access to the SRIS interface and at least one staff member is trained in its use
DLR Value (in SDR)		3,575,000	715,000	1,430,000	2,142,000	2,860,000
	DLI 3: Welfare program budget under the WBS	n.a	n.a.	DLR 3: Welfare program budget under the WBS equals or exceeds 20% of total government welfare spending	DLR 3: Welfare program budget under the WBS equals or exceeds 30% of total government welfare spending	DLR 3: Welfare program budget under the WBS equals or exceeds 40% of total government welfare spending
DLR Value (in SDR)		0	0	2,142,000	2,142,000	2,860,000
	DLI 4: Social registry populated with current data on beneficiaries of programs under the WBS	n.a	DLR 4: Data on 25% of beneficiaries accessible in the Social Registry	DLR 4: Data on 50% of beneficiaries accessible in the Social Registry	DLR 4: Data on 75% of beneficiaries accessible in the Social Registry	DLR 4: Data on 95% of beneficiaries accessible in the Social Registry
DLR Value (in SDR)		0	1,430,000	1,430,000	2,142,000	2,142,000

	DLIs	DLRs for Year 1 (Effective - Dec 2017)	DLRs for Year 2 (Jan–Dec 2018)	DLRs for Year 3 (Jan–Dec 2019)	DLRs for Year 4 (Jan–Dec 2020)	DLRs for Year 5 (Jan–Dec 2021)
	DLI 5: WBS beneficiaries qualifying under the eligibility criteria	n.a	n.a	DLR 5: At least 70% of WBS beneficiaries meet the published eligibility criteria	DLR 5: At least 80% of WBS beneficiaries meet the published eligibility criteria	DLR 5: At least 90% of WBS beneficiaries meet the published eligibility criteria
DLR Value (in SDR)		0	0	3,575,000	3,575,000	3,575,000
	DLI 6: Divisional secretariats using the integrated MIS for program delivery	N/A	DLR 6: At least 10% of divisional secretariat offices have access to a computer with the MIS interface active; and at least one staff member trained in its use	DLR 6: At least 25% of divisional secretariat offices have access to a computer with the MIS interface active and at least one staff member trained in its use	DLR 6: At least 50% of divisional secretariat offices have access to a computer with the MIS interface active and at least one staff member trained in its use	DLR 6: At least 75% of divisional secretariat offices have access to a computer with the MIS interface active and at least one staff member trained in its use
DLR Value (in SDR)		0	2,142,000	2,142,000	2,142,000	715,000

30. In the event that a DLI target is achieved ahead of its allotted year, the World Bank may, upon verification and at its discretion, disburse the respective DLI amount in advance. Conversely, delayed achievement of a DLI will delay disbursement of the corresponding funds until evidence of achievement is provided. However, there will be no provision for proportionate disbursement of DLI amounts against partial achievement of DLI targets.

31. Disbursements for each reporting period will be based on the lower of (a) the total allocated amount for each of the DLI targets which are met and verified in the reporting period and (b) the total expenditures incurred and paid on EEPs in the reporting period. If total expenditures on EEPs for the reporting period are less than the total DLI amount achieved for the reporting period, the undisbursed amount will be rolled over to the subsequent reporting period. Similarly any excess of the total DLI amount achieved against the total expenditures on EEPs for any period will be rolled over to the subsequent period for comparison with the total expenditure (including rolled over expenditure, if any) of the subsequent reporting period. The IUFRR format will be designed to track both separately to prevent excess claims.

32. **DLI Verification.** Where specified in the DLI verification protocol table in Annex 1 (and thereafter in the Project Operational Manual), the DPMM will verify the results reported by the MoF with third party verification by an independent consultant (firm or individual) where specified in the verification protocols, and will provide its recommendations related to the achievements of DLI targets by the end of June of each year. The verification report will be discussed with the

World Bank team and final agreement on DLI performance will be reached by both parties by the end of September of each year. The total disbursement release for a given year will be confirmed and funds released by the end of October.

33. IDA funds for Component 3 will be used following approval of proposed activities (for example, based on the agreed procurement and training plans) as reviewed by the World Bank every six months. Expenditures will be reported against eligible expenses—goods, consultancies, training, workshops, and incremental operating expenses. An amount up to a maximum of the 6-month cash forecast will be advanced to the PMU based on the procurement and training plans.

34. Fund flow arrangements for the project are depicted in Figures 3.1 and 3.2.

Figure 3.1. Flow of Funds for Components 1 and 2

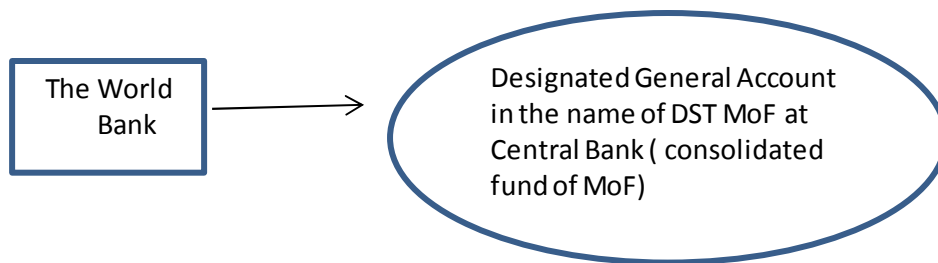
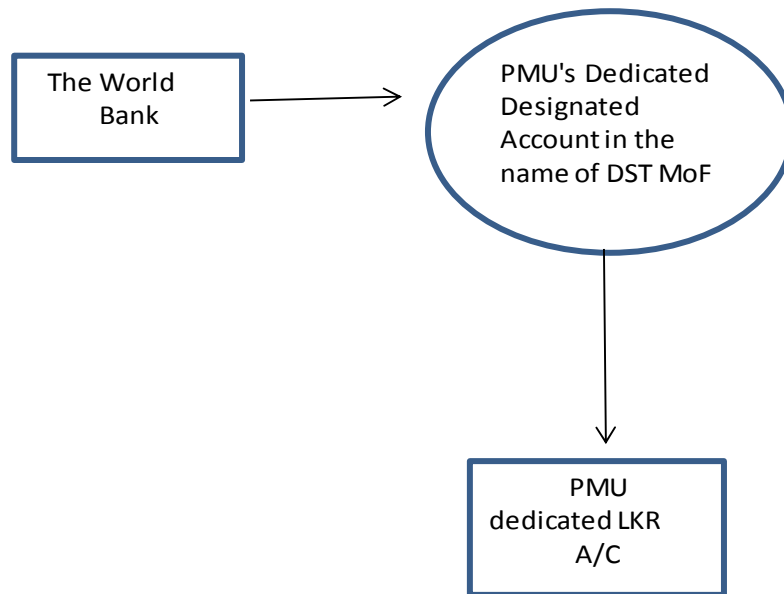


Figure 3.2. Flow of Funds for Component 3



Procurement for Component 3

Country Context

35. Procurement in Sri Lanka is governed by the National Procurement Guidelines, and country-specific Standard Bidding Documents (SBDs). With the establishment of the independent National Procurement Commission under the 19th Amendment to the Constitution, the oversight functions of the public procurements are now entrusted to the National Procurement Commission. Procurement functions are not institutionalized yet in the public sector and there is lack of procurement professionals in the country.

Procurement

36. Procurement of goods and non-consulting services under the project will be carried out in accordance with World Bank Guidelines on (a) Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, of January 2011 revised July 2014 (Procurement Guidelines); and (b) Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers of January 2011 revised July 2014 (Consultant Guidelines) including the provisions as stipulated in the Financing Agreement. Unless otherwise agreed with the World Bank, the World Bank's SBDs, Requests for Proposals, and Forms of Consultant Contract will be used.

37. In case of conflict between the World Bank's procurement procedures and any national rules and regulations, the World Bank's procurement procedures would take precedence. The general descriptions of various items under different expenditure categories are described below. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frames are agreed between the Borrower and the World Bank project team and included in the initial Procurement Plan.

Project Operational Manual

38. A Project Operational Manual will be adopted in form and substance satisfactory to the Association by February 28, 2017, or the first date on which a Verification Report shall be required under the Project (whichever is earlier). The Project Operational Manual will specify the appropriate procedures to be carried out by the PMU, including a chapter on Procurement describing the project-specific procurement risk mitigation measures to be taken.

Retroactive Financing

39. If requested by the Recipient, the World Bank may provide retroactive financing out of the proceeds of the Bank Credit. Retroactive financing may only be provided for eligible expenditures under Category 2 when: (a) the activities financed by retroactive financing are related to the project development objectives and are included in the project description; (b) the payments are made by the IA for items procured in accordance with the applicable Bank procurement procedures; (c) the total amount of retroactive financing is US\$1 million equivalent or less of the Bank Credit amount; and (d) the payments are made by the Borrower on or after June 1, 2016.

Procurement of Goods

40. Goods procured under this project shall be done using the World Bank's SBDs for all International Competitive Bidding (ICB) and National SBDs agreed with (or satisfactory to) the World Bank for all National Competitive Bidding (NCB) and Shopping. Small value procurements (up to US\$500 or equivalent) may be carried out following Direct Contracting.

41. The following methods will be applicable for procurement of Goods and Non-Consulting Services, consistent with the relevant sections of the World Bank's Procurement Guidelines:

- ICB
- NCB
- Shopping (Quotations)
- Direct Contracting
- Force Account
- Community Participation
- Framework contracting

Requirements under NCB

42. To ensure economy, efficiency, transparency and broad consistency with the provisions of the Procurement Guidelines, goods, works, and non-consulting services procured under the NCB method shall be subject to the following requirements:

- (a) Only the model bidding documents for NCB agreed with the World Bank shall be used for bidding;
- (b) Invitations for bids will be advertised in at least one widely circulated national daily newspaper, and bidding documents will be made available at least twenty-one (21) days before, and issued up to, the deadline for submission of bids;
- (c) Qualification criteria will be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated responsive bidder shall be given a reasonable time for registering, without let or hindrance;
- (d) Bids will be opened in public in one location, immediately after the deadline for the submission of bids, as stipulated in the bidding document (the bidding document will indicate the date, time and place of bid opening);
- (e) Except in cases of force majeure or exceptional situations beyond the control of the IA, the extension of bid validity will not be allowed;
- (f) Bids will not be rejected merely on the basis of a comparison with an official estimate;

- (g) Except with the prior concurrence of the World Bank, there will be no negotiation of price with bidders, even with the lowest evaluated bidder;
- (h) A bidder's bid security will apply only to the specific bid, and a contractor's performance security will apply only to the specific contract under which they are furnished; and
- (i) Bids will not be invited on the basis of percentage premium or discount over the estimated cost, unless agreed with the World Bank.

Selection of Consultants

43. Major consultancy services to be procured shall follow the World Bank guidelines for selection of consultants and standard documents of the World Bank shall be used. Short lists of consultants for services estimated to cost less than US\$300,000 or equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. The World Bank's Standard Request for Proposal (April 2015) will be used as a base for all procurement of consultancy services under the project. The following methods will be applicable for selection of consultants, consistent with the relevant sections of the World Bank's Consultant Guidelines:

- Quality- and Cost-Based Selection (QCBS)
- Quality-Based Selection (QBS)
- Least Cost Selection (LCS)
- Fixed Budget Selection (FBS)
- Selection based on Consultants' Qualifications (CQS): for services estimated to cost less than US\$300,000 equivalent per contract, in accordance with the provisions of paragraph 3.7 of the Consultant Guidelines.
- Single-Source Selection (SSS)
- Selection of Individual Consultants as set forth in paragraphs 5.2 and 5.3 of the 'Consultant Guidelines'
- Sole Source Procedures for the Selection of Individual Consultants

Thresholds for Procurement Methods and Prior Review

44. Review thresholds and requirements for different methods of procurement of goods, works, and non-consulting services, and selection of Consultants based on the current procurement risk rating are listed in Table 3.4. These thresholds and review requirements may be modified on the basis of reassessed risk ratings during project implementation in agreement with the World Bank.

Table 3.4. Review Thresholds and Requirements

Expenditure Category	Contract Value (Threshold)	Procurement Method	Contracts/Processes Subject to Prior Review
Goods and Non-Consulting Services	≥ US\$1,000, 000	ICB	All contracts
	< US\$1,000, 000	NCB	First contract and all contracts over US\$500,000 (All other contracts subject to post review.)
	≤ US\$50,000	Shopping	(All contracts subject to post review)
	—	DC	All contracts costing more than US\$50,000
Consultant Services (firms)	≥ US\$300,000	All competitive methods; advertise internationally	First contract under each method and all contracts over US\$200,000
	< US\$300,000	All competitive methods; advertise locally	First contract under each method and all contracts over US\$200,000 equivalent.
	< US\$300,000	CQS	All contracts costing more than US\$200,000 equivalent.
	—	SSS	All contracts costing more than US\$50,000 equivalent.
Individual Consultants	—	IC (Section V of Consultant Guidelines)	All contracts over US\$100,000
	—	IC- Sole source	All contracts costing more than US\$50,000 equivalent.

Post Review

45. Contracts below the prior review threshold for goods, non-consulting and consultancy services will be subject to post review, according to the procedure set forth in paragraph 4 of Appendix 1 of the World Bank’s Procurement and Consultant Guidelines. The Borrower shall retain complete documentation for each contract and make it available to the World Bank or its nominated consultant for carrying out the post review. In accordance with the applicable risk rating a percentage of sample of contracts that have not been prior reviewed would be post reviewed.

Procurement Performance Indicators

46. The following key indicators will be used for assessing procurement performance and procurement risk rating:

- (a) Percentage of procurement activities which have more than 15 percent delay in bid/proposal evaluation.
- (b) Percentage of contracts which have been extended and/or have more than 15 percent modifications by value.
- (c) Percentage of contracts with completion period extended by 10 percent of the original contract period.
- (d) Percentage of procurement activities which had complaints.

Disclosure

47. The following documents will be disclosed on the Borrower's website:
- (a) Procurement plan and updates;
 - (b) Invitation for bids for goods and non-consulting services for all ICB and NCB contracts;
 - (c) Request for expression of interest for selection/hiring of consulting services;
 - (d) Contract awards of goods and non-consulting services procured following ICB/NCB procedures;
 - (e) List of contracts/purchase orders placed following shopping procedure (on a quarterly basis);
 - (f) Shortlists of consultants;
 - (g) Contract awards for all consultancy services;
 - (h) List of contracts under DC or CQS or SSS (on a quarterly basis); and
 - (i) Action taken report on complaints received (on a quarterly basis).
48. The following details shall be published in the World Bank's external website and United Nations Development Business:
- (a) Invitation for bids for procurement of goods and non-consulting services using ICB procedures;
 - (b) Request for expression of interest for consulting services with estimated cost more than US\$300,000;
 - (c) Contract award details of all procurement of goods and non-consulting services using ICB procedure;
 - (d) Contract award details of all consultancy services with estimated cost more than US\$300,000; and
 - (e) List of contracts/purchase orders placed following SSS or CQS or DC procedures on a quarterly basis.

Complaint Handling

49. A complaint handling mechanism for the project will be developed and will be published on the Borrower's website. On receipt of complaints, immediate action will be initiated to acknowledge the complaint and redress in reasonable time frame. All complaints received will be

forwarded to the World Bank for information and the World Bank will be kept informed after the complaints are redressed.

Procurement Plan

50. A Procurement Plan for the first 18 months of project implementation has been prepared by the MoF and approved by the World Bank. It will be made available on the MoF website. The Procurement Plan will be updated annually or when required to reflect project implementation needs and improvements in institutional capacity.

51. The PMU will enter procurement-related information in the STEP web-based procurement monitoring tool with suitable training to be provided during the first six months of project implementation.

Frequency of Procurement Supervision

52. In addition to the prior review of high value contracts, supervision is to be carried out by the World Bank.

Capacity Building

53. Project staff will be given adequate procurement training through a comprehensive capacity-building program in country and overseas. Junior staff will be trained on-the-job. Bank procurement staff will assist in rolling out the capacity-building program. The key procurement staff of the PMU and the IAs would be trained on procurement procedures pertaining to Bank-financed projects in general and specific to the project in particular. Workshops would be conducted for procurement staff and other key staff of the PMU and all the IAs to align them with the World Bank's procurement procedures as well as to introduce methods for identifying and mitigating risks. The PMU would disseminate and conduct training on the Project Operational Manual. In addition, the World Bank would facilitate training sessions on government procurement policy and procedures as applicable to Bank financed projects as a measure to avoid potential confusion between the government procurement procedures in relation to Bank procurement procedures.

Environmental and Social (including safeguards)

54. The key focus of the project is social inclusion. The existing poverty relief and social welfare programs are distributed unevenly among people in the society and the geographic allocation of safety net programs is not well connected to the incidence of poverty in the different regions. Therefore the project aims at supporting the GoSL to plan, develop and execute a transparent and unified social registry for the major welfare programs. However, there are some social and political risks that need to be recognized and addressed. The social benefit distribution system in the country is largely determined by political leaders and the government administrators. Since the beginning, social welfare programs have been used by some politicians to deliver political patronage to their constituencies which in turn is anticipated to be reciprocated by the beneficiaries through the extension of their support and votes. Hence, the introduction of a rational and transparent mechanism for the delivery of social benefits might be seen as a threat to the existing power dynamics and the reciprocal relationships that are maintained between the political

authorities and their respective constituencies. Thus, the political authorities may oppose the new system as it could disturb their systems of political patronage. The proposed social registry system based on objective inclusion criteria will reduce the chances for abuse and corruption and leakages of program budgets to nonpoor households. In the circumstances, the current beneficiaries themselves may resist the new system due to their fears of exclusion from benefits. These risks are substantial given the highly politicized nature of past and current poverty reduction programs such as Samurdhi.

55. The project will support the government's reform efforts but will not directly engage in any physical construction work or distribution of welfare benefits. Investments will be made in the welfare system as a whole, not in programs targeted at particular communities. It plans to incentivize participating client agencies to build a unified social registry and improved service delivery mechanism through capacity building and TA. Therefore, from social safeguards perspective, there does not arise a need to trigger OP 4.12 (Involuntary Resettlement) or OP 4.10 (Indigenous Peoples). A recent IP assessment conducted by the World Bank highlighted the difficulties of determining the presence of IP communities and their distribution in the country for various socio-cultural reasons. The surveys and assessments proposed to be conducted under the proposed project at national level specifically covering the 'poverty pockets' will include all types of poor and vulnerable groups including IP communities, if any. Therefore, the need for preparing any specific IP development plans or framework does not arise.

56. **Grievance Redress Mechanism.** The project aims at establishing a robust and decentralized GRM in line with the directives of the WBB. At the Divisional Secretariats, staff will have access to a computerized system to receive, register, and document grievances related to selection, exclusion and targeting of households. Performance and effectiveness of this GRM will be measured by the percentage of grievances recorded and resolved in the integrated MIS.

57. **Citizen engagement** processes will span two levels: (a) public participation in development of a unified social registry system at local level; and (b) stakeholder consultations at the project management level. At the local level, a social communication and awareness campaign will be launched to inform the public about the objectives of the beneficiary selection mechanism and to receive their suggestions for improvement. Citizens can also submit their views as well as their satisfaction on the selection and decision-making processes to program officers at the DS level for entry into the integrated MIS. At the project management level, all relevant ministries will participate in the PSC to review and resolve project-related issues and concerns. The project will also support the GoSL to develop a stakeholder engagement strategy through a TA to enhance outreach activities to create buy-in among local-level staff and seek their inputs at all stages of the design and implementation of the system. The citizen engagement indicator will be the percentage of divisional secretariats using the integrated MIS for program delivery.

58. **Gender.** In developing the unified social registry system, client agencies will pay special attention to include specific strategies and criteria to ensure gender inclusiveness such as to include female-headed households, vulnerable elderly women and widows into beneficiary categories and to address their specific needs. Also the surveys and studies supported by the project will collect and maintain gender-disaggregated data to measure the incidence of poverty and vulnerability among different social categories and in geographical areas. Social impact assessment studies of

the project will review these data to measure the impact and outreach of unified social registry by gender and by geographical locations.

Monitoring and Evaluation

59. The project will strengthen the GoSL's capacity to monitor and evaluate social safety net program targeting and performance. Under Component 3, it will also develop core monitoring systems from which the primary results indicators will be drawn. In addition, building on the targeting evaluation of the beneficiary selection method, planned operational and technical audits, the project will support the strengthening of the M&E capacity of the IA and any other relevant agencies. This will increase the ability of the GoSL to effectively monitor progress of safety net programs and reduce overlaps and inefficiencies.

60. The integrated MIS will include a simple monitoring system to enable the IA to track key information on social protection programs and their beneficiaries. Topics on which data will be available include selection of beneficiaries, payments, beneficiaries' compliance with eligibility criteria and benefit payment conditions (where applicable), and the nature and resolution of complaints. The MIS will include the socio-economic data of safety net beneficiaries, providing simple diagnostics on program coverage and targeting. An annual report will be prepared by the MoF on safety net program performance, beneficiary characteristics, expenditure and progress on system development.

61. A Mid-Term Review will be carried out no later than June 30, 2019. The Mid-Term Review will assess in detail the progress toward meeting the PDO as measured by the key performance indicators, as well as assess progress in the institutional and policy development areas supported by the project. Results from the Mid-Term Review will inform the further implementation and supervision of the project.

Annex 4: Implementation Support Plan

SRI LANKA: Social Safety Nets Project

Strategy and Approach for Implementation Support

1. The implementation support strategy has been formulated based on the nature of the social safety net sector, the design of the project and its risk profile to support the IA to implement the project effectively. It aims to make implementation support to the client more flexible and efficient, and mitigate the risks identified in the Systematic Operations Risk-Rating Tool.

2. The supervision strategy consists of mechanisms that will enhance support to the GoSL and ensure timely and effective monitoring. The supervision thus comprises (a) review of the program by the PSC; (b) joint review missions; (c) regular technical meetings and field visits by the World Bank between formal review missions; (d) annual reporting based on the internal monitoring system; (e) independent third-party evaluation where relevant; and (f) internal and external audit and FM reporting.

3. **Review missions.** The World Bank, together with the PSC and stakeholder ministries, will formally review project progress semi-annually, with more frequent missions expected at least in the first year of the project. The first mission will assess implementation of the project and critical interventions and the assessment of the achievement of disbursement results indicators. These joint review missions will be complemented in the interim by visits from World Bank Country Office staff and technical consultants, and continuous communication, reports and follow-up between missions. The scope of supervision will also include monitoring compliance with stipulated FM, procurement, and social safeguards guidelines. Missions will review progress and any issues related to project implementation. One month before each joint implementation review mission, the PMU will share with the World Bank a comprehensive progress report on project activities and an updated plan and budget. At the conclusion of each mission, the World Bank will update the PSC on the status of the project.

4. In addition to the review missions, other support missions will be carried out to help accelerate implementation, especially during the first year. During those missions, field visits will assess project outcomes and take corrective actions. The World Bank team will also participate in consultations with project stakeholders. To ensure high-quality supervision, the World Bank team will comprise not only social protection specialists but also specialists in implementation, FM, procurement and social safeguards. The team composition for each mission will be determined based on supervision requirements at that time and be communicated ahead of time with counterparts.

- **Financial management:** Comprehensive review missions will be conducted at least twice a year. The following activities will be carried out by the FM staff in the World Bank Country Office: (a) training as needed for FM staff of PMU and the IAs; (b) FM system, starting with accounting, reporting, and internal controls; (c) spot checks on random sample of activities; and (d) review of all other FM arrangements including fund flow mechanisms and suggestion of recommendations for improvements. The World Bank team will also work with the PMU to help improve coordination between departments and agencies on FM and reporting.

- **Procurement:** Support for procurement management will focus on effective implementation of Component 3 in line with the World Bank’s procurement guidelines. The following activities will be carried out by procurement staff in the World Bank Country Office: (a) training as needed for staff of PMU and IAs; (b) review of procurement documents prepared by the MoF; and (c) monitoring progress against the Procurement Plan.
- **Environmental and social safeguards:** The mission will review aspects of project implementation related to social safeguards including citizen engagement, GRM, and gender.
- **Other issues:** Sector-level political and other risks will be addressed at the policy and program level through dialogue with the stakeholder ministries. However, as risks are closely related to government policy directions, financial constraints and sustainability, the team will monitor them closely throughout project implementation.

Implementation Support Plan

5. Most of the World Bank team members will be based in the Sri Lanka Country Office and other country offices in the region to ensure timely, efficient and effective support to the client. Formal supervision and field visits will be semi-annual, with more frequent technical support missions during the first year of the project. Detailed inputs from the World Bank team would comprise:

- **Technical inputs:** Technical inputs are required to review preparation of policies, procedures and implementation of the project. Technical supervision is required to ensure that proper implementation of by carrying out field visits throughout the life of the project. It is envisaged that frequent communication on technical aspects of the project will be carried out between the World Bank, PMU and MoF.
- **Fiduciary requirements and inputs:** Before the project becomes effective, training will be provided to PMU and MoF staff by the World Bank’s FM and procurement specialists based in the Country Office. The team will also help the MoF to identify capacity-building needs in FM and procurement management. Support missions, including procurement and FM reviews, will be semiannual. Procurement and FM support will also be provided to the client as required.
- **Safeguards:** An orientation program will be conducted for PMU and IA staff on social safeguard issues. A Social Development Specialist based in Colombo will provide technical support and guidance as needed.
- **Operations:** An Operations Officer will provide day-to-day supervision of all operational aspects, as well as coordination with the client and among Bank team members.

6. The main implementation support is summarized in Tables 4.1 and 4.2.

Table 4.1. Staff Level of Effort for Project Implementation Support

Time	Focus	Skills Needed	Resource Estimate
First 12 months	Team leadership	Task Team Leader	12
	Technical support	Safety Net Specialist	6
		Economist/M&E Specialist	4
		IT Specialist	4
		Targeting Specialist	4
		Payments Specialist	4
	FM training and supervision	FM Specialist	4
	Procurement training and supervision	Procurement Specialist	4
Safeguards	Social Development Specialist	2	
Implementation arrangements and project supervision coordination	Operations Officer	6	
12–60 months (annual)	Team leadership	Task Team Leader	10
	Technical support	Safety Net Specialist	4
		Economist/M&E Specialist	2
		IT Specialist	2
		Payments Specialist	1
	FM training and supervision	FM Specialist	2
	Procurement training and supervision	Procurement Specialist	2
	Safeguards	Social Development Specialist	1
Implementation arrangements and project supervision coordination	Operations Officer	4	

Table 4.2. Staff Skill Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Leader	12 SWs for the 1st year; 10 SWs annually the following years	Three in the first year; two thereafter	HQ based
Social Protection Specialist	6 SWs for the 1st year; 4 SWs annually the following years	Three in the first year; two thereafter	Field based
Economist / M&E Specialist	4 SWs for the 1st year; 2 SWs annually the following years	Three in the first year; two thereafter	Field based
IT Specialist	4 SWs for the 1st year; 2 SWs annually the following years	Two per year	Field based
Targeting Specialist	4 SWs for the 1st year; 2 SWs annually the following years	Two per year	Field based
Payments Specialist	4 SWs for the 1st year; 2 SWs annually following years	Two per year	Field based
Operations Officer	6 SWs for the 1st year; 4 SWs annually the following years	Two per year	HQ and field based
FM Specialist	4 SWs for the 1st year; 2 SWs annually the following years	Field trips as required.	Country office based
Procurement Specialist	4 SWs for the 1st year; 2 SWs annually the following years	Field trips as required.	Country office based
Social Development Specialist	2 SWs for the 1st year; 1 SWs annually the following years	Field trips as required	Country office based

Note: *SW = Staff Weeks.

Annex 5: Economic and Financial Analysis

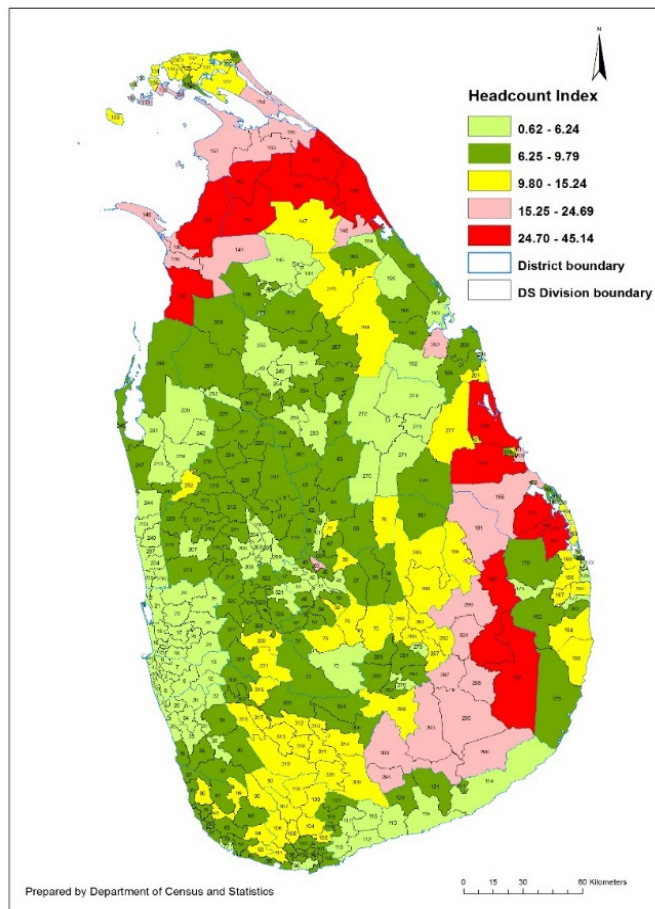
SRI LANKA: Social Safety Nets Project

Background

1. **Sri Lanka has made remarkable progress in reducing extreme poverty and promoting shared prosperity, but growth has not been even.** Between 2002 and 2012, the national poverty headcount rate fell from 22.7 percent to 6.7 percent. Over this period, per capita consumption of the bottom 40 percent grew at an annual rate of 3.3 percent, compared to 2.8 percent for the population as a whole. Recent analysis suggests that the pro-poor growth was driven primarily by increased labor income, especially among agricultural workers. Yet pockets of concentrated poverty still remain, especially in Uva province, the east and north of the country and in the Estate sector. The inclusion of these remaining poor into the productive economy, and into good jobs, remains a challenge (Figure 5.1). In addition, vulnerability remains high, with around 30 percent of households living on less than \$2.50 per capita per day in purchasing power parity terms, and therefore susceptible to poverty-inducing shocks.

2. **Existing social protection programs are inadequate to protect the elderly, who are becoming increasingly vulnerable as a result of demographic and social change.** The long-term trend toward lower birthrates and increased life expectancy is gradually lifting the dependency ratio (Figure 5.2), and by 2021 one in six Sri Lankans will be over the age of 60. Traditional family support structures are eroding as the share of working-age family members falls and the young migrate for work. Even though some of the elderly benefit from remittances sent by these family members, those who spent their working lives in the informal sector will in most cases have few savings and no pension to support them. These individuals will rely increasingly on social cash transfer programs for subsistence, yet these programs are among the least generous in the world (Figure 5.3). Meanwhile, the tax base is relatively small, and will be further constrained by slowing growth of the working-age population.

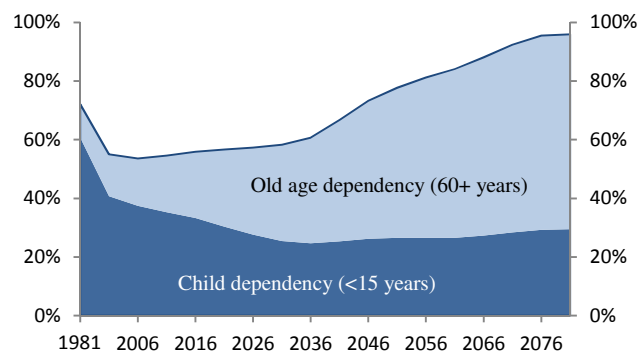
Figure 5.1. Poverty Headcount by DS Division (2012/13)



Source: Sri Lanka DCS.

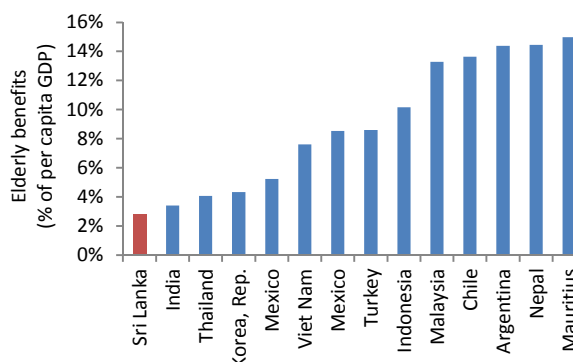
3. **While many households have managed to escape poverty, they remain vulnerable to reversals of fortune due to shocks.** Households are exposed to a range of shocks for which there is presently little or no government support or formal insurance. Coupled with this, Sri Lanka is exposed to many natural disasters for which regular public assistance is needed. As a middle income country, Sri Lanka has the capacity to help these individuals build their resilience and invest in productive assets, and to develop social protection systems to facilitate the rapid distribution of disaster assistance to those who need it.

Figure 5.2. Projected Dependency Ratios 1981–2081



Source: De Silva, I. 2012. *Sri Lanka's Demographic Transition: Facing the Challenges of an Aging Population with Few Resources*. World Bank, Human Development Unit, Report No. 73162-LK.

Figure 5.3. Generosity of Elderly Benefits Around the World



Source: www.pension-watch.net and staff calculations.

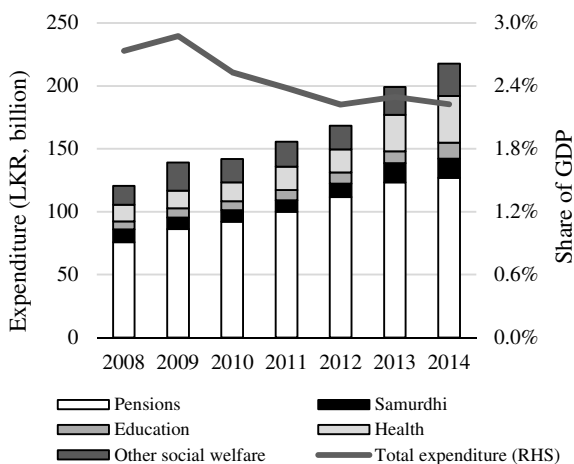
4. **Sri Lanka's total expenditure on social protection programs has declined steadily in recent years (Figure 5.4).** Two-thirds of spending goes to social transfers, while the remaining third is spent on health and education programs, various subsidies,¹⁷ and absorbed losses of state-owned enterprises (primarily the Railways, Postal Service and Transport Board) (Figure 5.5). However, the lion's share of social transfers are for public sector pensions and benefits to military families, both of which are skewed toward better-off households. As of 2014, 0.2 percent of GDP was spent on antipoverty and disaster relief programs. The largest of these is *Samurdhi*, an integrated welfare program providing cash transfers, housing assistance, subsidized kerosene and assistance to pregnant and lactating mothers. In recent years, new cash transfer programs for the elderly and the disabled have been introduced, but these amounted to only 0.03 percent of GDP in 2014.

5. **In past years, benefit amounts have been allowed to erode through inflation, undermining the poverty impact of the programs.** In 2012/13, the benefit adequacy of the *Samurdhi* program for the poorest quintile was less than 5 percent (Figure 5.5), very low for a middle income country. The Government more than doubled benefits for *Samurdhi* in 2015, and expanded other programs, lifting the sector expenditure to GDP ratio to an estimated 0.7 percent. This translates to an increase in the benefit as a share of the poorest quintile's consumption to

¹⁷ In 2013, welfare-related subsidies were provided for fertilizer (LKR 19.7 billion), agricultural loans (LKR 282 million), and paddy purchasing (LKR 1.7 billion).

around 12 percent. This will have made a significant difference to the poverty impact of the program, but efforts will be needed to keep expenditure at these levels in the face of fiscal pressures. Due to the high coverage of the Samurdhi program (around 30 percent of households), this is an ongoing challenge.

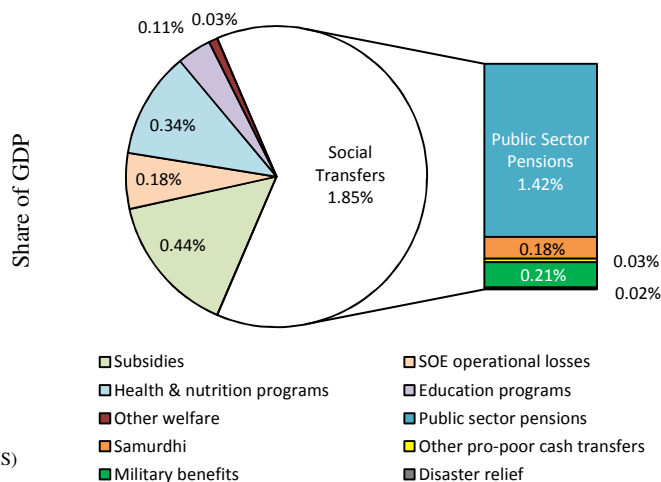
Figure 5.4. Social Welfare Expenditure



Source: Data from Ministry of Finance Annual Report 2014, Table 4.8.

Note: Total welfare payments excluding water, lighting, and transport subsidies.

Figure 5.5. Decomposition of Expenditure on Social Welfare Programs (% of GDP, 2013)



Source: Ministry of Finance and Treasury: Public Expenditure Review, 2013.

6. Planning of safety net programs has also been impeded by the fragmentation of the safety net and outdated management systems. Sri Lanka attempted to develop a social protection strategy in 2012, but the effort was never brought to completion. In part, this is due to a lack of information about the impact of existing programs. A recent government inventory of welfare-related programs and entitlements identified 39 different programs operated by 11 ministries. Each ministry (and in some cases each department under the ministry) operates its programs independently of all others using paper record keeping, necessitating a strong role for local officers in determining eligibility and resolving overlaps. The central government receives only summary reports on program performance, and there is no mechanism for different ministries to coordinate and share information. An integrated analysis of this information is needed to identify gaps in the safety net and strengthen existing interventions.

Benefits of the Project

7. To address these issues, the GoSL is embarking on an ambitious reform to build an integrated safety net system under the leadership of the WBB. Developing an integrated safety net system has the potential to improve coverage for the remaining pockets of poverty and strengthen program poverty impact and accountability within the current budget envelope. Through the adoption of better targeting, existing benefits can be redirected to more needy beneficiaries, and waiting lists for programs cleared. Electronic MISs will harmonize the process

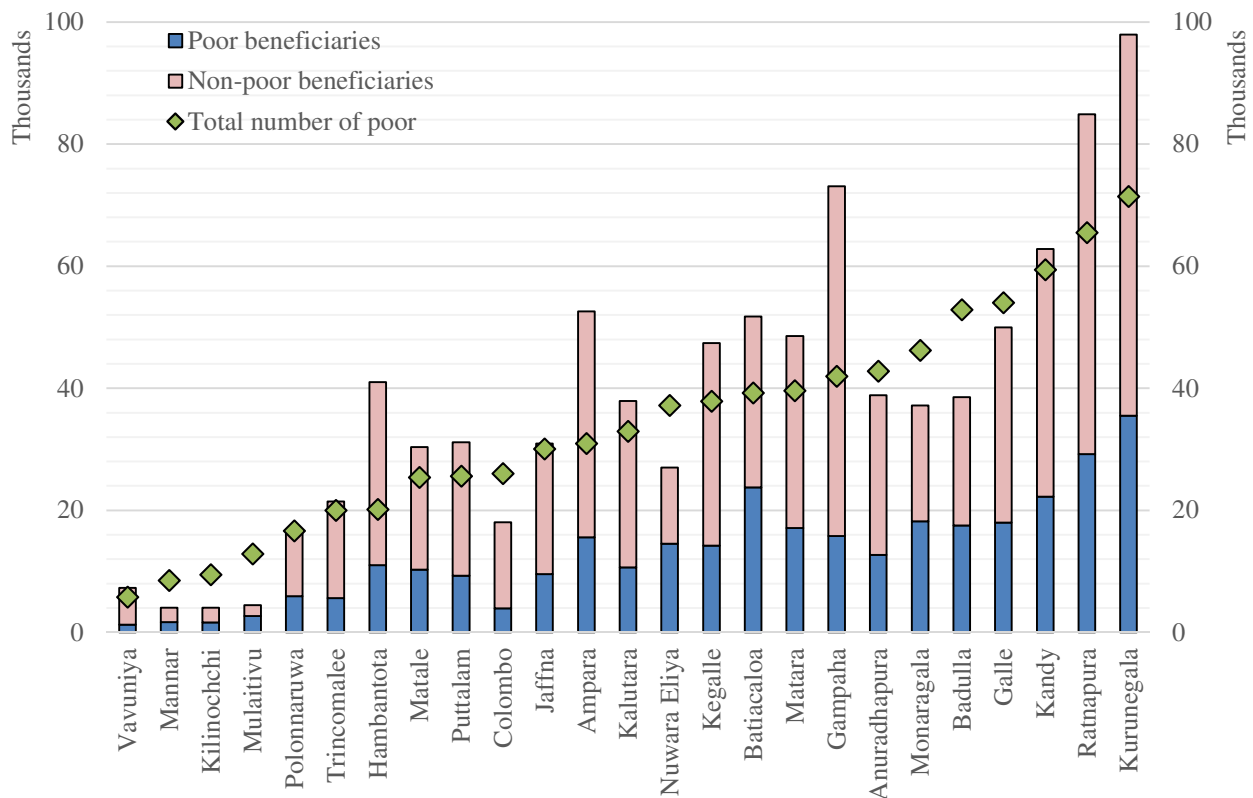
of beneficiary selection for different programs, improve service delivery, and facilitate ongoing M&E of the safety net as a whole. The reform will improve the image and performance of social safety net programs, thereby justifying their continued adequate financing. This is essential if their poverty impact is to be sustained in the long run.

8. **The project will support the reform and capacity building for the WBB and the IA, and achieve the PDO via three channels:** more equitable targeting of safety net programs; efficiency of administrative and service delivery systems; and improved accountability and transparency. The economic case for each is discussed in detail below.

Channel 1: More Equitable Targeting of Safety Net Programs

9. **The GoSL spends more than US\$300 million annually on cash transfers, most of which are intended for poor households.** Some in-kind programs are also means tested. At around 6 percent, the poverty impact of these programs is relatively small by international standards. This is due primarily to poor targeting and low benefit adequacy. The targeting performance of the main program, Samurdhi, is highlighted in Figure 5.6, which shows the number of poor and program coverage (of poor and nonpoor households) by district. While there is a general relationship between the coverage and poverty rate at the district level, there are considerable deviations in some districts and uniform undercoverage of the poor.

Figure 5.6. Samurdhi Program Coverage and Poverty Rates by District (2012/13)



Source: Staff calculations based on HIES 2012/13.

10. **In addition to the large inclusion errors, there are caps on some programs, leading eligible households to join waiting lists for benefits.** Existing eligibility criteria for cash transfer programs are mainly income-based, but due to the waiting list system local officials are given discretion to adjust these criteria slightly. This leads to further asymmetries in targeting geographically and raises the potential for leakage.

11. **Through the project, the GoSL will invest in beneficiary identification and targeting systems that will reduce inclusion errors.** Through TA, the World Bank has been working with the DDD and DCS to develop a PMT formula that can identify the poorest households with much lower error rates than the current income-based methods. The formula is based on objective and verifiable household characteristics such as household size, housing conditions and asset ownership.

12. **The theoretical targeting performance of a PMT would considerably improve the targeting of the Samurdhi program (Table 5.1).** Currently, less than 40 percent of benefits go to the poorest quintile, which is mediocre by international standards. Under a PMT, this could exceed 50 percent. Whereas two thirds of benefits currently go to the poorest 40 percent of households, under improved targeting this share could exceed 80 percent. The majority of this would come from the top 60 percent of households.

Table 5.1. Targeting Performance of PMT versus Existing Samurdhi Targeting

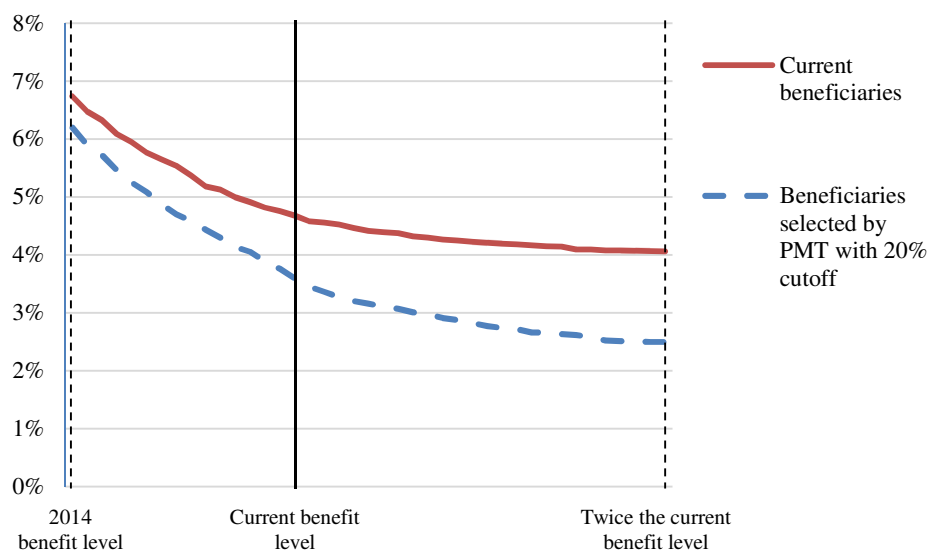
Decile of Per Capita Consumption	Existing Distribution of Samurdhi Beneficiaries		Distribution of Households Selected by PMT Formula (with Coverage of 30% of Population)	
	Per decile (%)	Cumulative (%)	Per decile (%)	Cumulative (%)
1	21.6	21.6	30.0	30.0
2	17.8	39.3	22.7	52.7
3	14.1	53.4	16.7	69.4
4	12.4	65.8	11.4	80.8
5	10.7	76.5	8.4	89.1
6	8.4	85.0	4.7	93.9
7	6.2	91.1	2.8	96.7
8	4.4	95.5	1.8	98.5
9	2.9	98.4	1.0	99.5
10	1.6	100.0	0.5	100.0

Source: Staff calculations based on HIES 2012/13 data.

13. **The poverty headcount could be reduced by around 20 percent by shifting to a PMT for selection of cash transfer beneficiaries.** The impact of this change for the Samurdhi program is illustrated in Figure 5. The graph is constructed using the national poverty line, which is quite low; if evaluated at a higher poverty line we would expect to see greater impacts in percentage point terms. The figure shows the relationship between budget outlay and poverty impact as a downward sloping line: the increase in the Samurdhi benefit in 2015 is likely to have reduced poverty by around 2 percentage points. However, shifting to a PMT would shift this entire line down as indicated in the graph, removing a further 1 percentage point (or 20 percent of the poor) from poverty. Additional benefits will derive from improved targeting of the other programs operated by the MoSEW.

14. **The return on investment from this element of the project is substantial.** Although it is difficult to value the potential poverty impact in dollar terms, the targeting gains would amount to the redirection of around US\$45 million of existing spending on cash transfers annually (16 percent of the total program budget) to the poorest quintile for Samurdhi alone. Achieving the same result by increasing the size of the program would cost more than twice this much given the leakage rate. The cost of the systems and consultancies required for the reform is estimated conservatively at US\$50 million, with incremental annual maintenance costs and salaries of less than US\$1 million.

Figure 5.7. Actual and Potential Poverty Headcount Rates Under Various Scenarios for Targeting and Generosity of the Samurdhi Program



Source: World Bank simulations using HIES 2012/13 data.

15. A caveat of this analysis is that theoretical performance of the PMT may not equate to actual performance for a number of reasons:

- First, implementation of the new selection procedure must be accurate and impartial. To ensure this, the GoSL will invest in establishment of a strong SRIS with trained operators at the local level and clear operating procedures for selection, review, verification and validation. Survey data will be spot-checked by a third party firm.
- Second, there is an implicit assumption that all eligible households will apply to the program. It is likely that many households that would be eligible under new criteria are not currently in Samurdhi, and would need to make a new application. Therefore it will be important for the GoSL to accept all applications for review before establishing cutoff points (to avoid having either waiting lists or budget overruns) and conducting active outreach campaigns and possibly selective census sweeps for populations that have historically been underrepresented in the program.
- Finally, the targeting performance of any criteria will deteriorate over time for a static beneficiary population due to changes in households' circumstances, the accuracy of

the PMT formula in predicting consumption, and so on. This means that it will be important for the GoSL to plan for regular updating of both the social registry data and the PMT formula, ideally every three to five years. Updates of information are foreshadowed in the legislation behind the WBB, and the project will provide TA to build capacity to sustain these updates and reevaluate the PMT formula over time.

Channel 2: Efficiency of Administrative and Service Delivery Systems

16. The introduction of modern management systems for safety net programs has the potential to reduce administrative costs in terms of leakage, processing time and program overlaps. In this section we will evaluate each of these benefits in turn.

- (a) Establishing a single social registry for multiple programs ensures that the same data are used for determination of eligibility in each program. It also ensures that households cannot double-dip (in terms of applying for mutually exclusive programs), and enables the Government to assess and rectify program overlaps.
- (b) Biometric data will be collected for each beneficiary in the social registry, enabling the Government to identify individuals reliably and thereby reducing the possibility of ghost beneficiaries. The biometric record can be used for other functionalities in the system as well, such as secure electronic payments which will again reduce leakages.
- (c) At the DS level, a secure and live registry link will enable beneficiaries to update their information more frequently, potentially enhancing targeting performance. Under the Welfare Benefits Act, beneficiaries will be required to notify the WBB of any change to their circumstances within two months, or risk fines and repayment of benefits. The system will be designed to facilitate and encourage these updates.
- (d) The integrated MIS will harmonize program management and service delivery at the DS level. While GNs and program officers at the DS and GN levels will still play a personal role (such as meeting with beneficiaries, stewarding them through case management processes, and so on), having a single system for the entry of information and tracking of payments has the potential to simplify processes for both staff and beneficiaries.
- (e) Over time, the systems should also reduce the burden of paperwork for administrative staff. This will have implications for staffing needs, and while the GoSL has not indicated any intention to reduce staff numbers at this stage, program staff could conceivably be reallocated to (and retrained for) other roles such as beneficiary outreach and customer service.
- (f) Finally, a less tangible benefit will be the enhanced capacity of the Government to monitor and evaluate programs and plan more effectively. Officials in the program line ministries (initially the MoSEW) and the MoF will be able to use the SRIS and integrated MIS for simple and complex reporting on program enrollment, coverage and beneficiary characteristics.

Channel 3: Improved Transparency

17. **While Sri Lanka’s safety net programs are extensive and unquestionably beneficial for many citizens, their reputation is compromised by a lack of transparency.** This has had consequences for the sustainability of the programs, with previous governments attempting to starve the programs of funds in lieu of substantive reform. While there are weaknesses in these programs as described above, they nevertheless provide significant assistance to many poor households and reduce poverty.

18. Specific constraints to transparency of the programs are as follows:

- (a) First, the present manual administration of programs limits the capacity of senior officials to monitor activity at the local level. Payments are made by check or deposit into accounts at unregulated banks with no modern information systems. This is a large fiduciary risk for the Government, especially since the Divineguma banks receive the majority of these funds and yet are not externally audited.
- (b) Second, some discretion is given to local-level officials in making selection decisions. While Sri Lanka’s local government structure is well-founded and important to retain, this opens the possibility for mismanagement and has led to a public perception that some programs are politically targeted.

19. **The project will help improve program accountability both internally, to senior management and the Government, and externally, to citizens.** The social registry will take selection decisions out of the hands of local officials and introduce an electronic system for tracking beneficiary case management, grievances and payments. Accountability will be inculcated through community validation of selection decisions, a streamlined management system with clear customer service guidelines, and an enhanced grievance redress system. With a clear targeting system, the Government will be able to guarantee program coverage to those households meeting the eligibility criteria, and remove those who no longer meet the criteria. This will strengthen the citizen-government relationship, and raise the credibility of social welfare programs to do what they are intended to do, justifying the money invested in these programs and safeguarding adequate funding in the future.

Sustainability

20. **As in other countries, the project’s investments are likely to be sustainable conditional on political support.** In the near term, this will depend on the GoSL’s ability to negotiate the contentious recertification of beneficiaries. In the longer term, the sustainability of the new arrangements will be secured by regular, impartial assessments of program performance and impact and by periodic recertification.

21. **The major impact of the project will come from recertification of beneficiaries of the major cash transfer programs, as illustrated above.** Once completed, the revision of beneficiary lists would be very difficult to unwind; however, it will be important to ensure that former beneficiaries are not retained in a dormant program but rather encouraged to move on to other ‘graduation-type’ programs. The Samurdhi program has a range of other interventions (such as subsidized microfinance) which may be retained for selected beneficiaries for a period or

indefinitely; however, the program's entry and exit criteria will ensure that reentry to cash transfer support is conditioned on meeting the selection criteria and waiting period.

22. **The sustainability of project's investments in systems is likely to be secure.** The GoSL is only just starting to transition to IT systems, but as elsewhere in the world the rollout of these systems across the Government is likely to continue. The GoSL has invested in a secure government server and network of internet access points within DS offices (the Lanka Government Network). The island is well served by mobile communications, ensuring connectivity for staff in the office and the field. However, government staff will need training in use of computers and time to adapt to the new system, thus training and a gradual rollout are built into the project. A maintenance plan will be developed to provide IT support for computer systems and software, and software development contracts will include ongoing service agreements for support and updating.

Annex 6: Main Social Safety Net Programs

SRI LANKA: Social Safety Nets Project

Program	Executing Agency	Target Group	Targeting Mechanism	Number (Year)	Expenditure (LKR, million, Year)	Benefit Provided
Cash Transfers						
Samurdhi	MoSEW	Low income families	Income tested	1.48 million (2016)	43,950.0 (2016)	LKR 420–3,500 per month
Financial Support to Elderly	MoSEW/ National Secretariat for Elders	Low income persons over 70 years of age	Categorical and income tested	386,080 (2016)	9,266.0 (2016)	LKR 2,000 per month
Financial Support to Disabled	MoSEW/National Secretariat for Persons with Disability	Low income households with disabled main income earner	Categorical and income tested	28,822 (2016)	1,038.0 (2016)*	LKR 3,000 per month
Assistance for Kidney Disease	MoSEW	Low income households with kidney patient	Categorical and income tested	19,645 (2016)	707.0 (2016)*	LKR 3,000 per month
Self-Employment Assistance for Persons with Disability	MoSEW/National Secretariat for Persons with Disability	Low income households with disabled person	Categorical and income tested	294 (2014)	6.2 (2014)	LKR 25,000 lifetime total
Housing Assistance for Persons with Disability	MoSEW/National Secretariat for Persons with Disability	Low income households with disabled person	Categorical and income tested	354 (2014)	43.8 (2014)	LKR 150,000 for repair LKR 250,000 for new
Medical Assistance for Persons with Disability	MoSEW/National Secretariat for Persons with Disability	Low income households with disabled person	Categorical and income tested	451 (2014)	6.2 (2014)	LKR 20,000 maximum
Education Assistance for Disabled Students	MoSEW/National Secretariat for Persons with Disability	Low income households with disabled student	Categorical and income tested	313 (2014)	1.6 (2014)	LKR 10,000 lifetime total

Program	Executing Agency	Target Group	Targeting Mechanism	Number (Year)	Expenditure (LKR, million, Year)	Benefit Provided
Self-Employment Assistance for Single Parent Families	MoSEW	Low income households with single parent	Categorical and income tested	588 (2014)	6.6 (2014)	–
Allowance for Disabled Vocational Trainees	MoSEW/National Secretariat for Persons with Disability	Low income households with disabled person	Categorical and income tested	Not available	Not available	–
Public Assistance	MoPCLG	Low income households with elderly, disabled, widows, orphans	Categorical and income tested	580,720 (2015) (7 out of 9 provinces)	969.5 (2015) (7 out of 9 provinces)	LKR 450–1,000 per month
Assistance for Special Diseases	MoPCLG	Low income patients with cancer, kidney and other diseases	Categorical and income tested	19,184 (2015) (6 out of 9 provinces)	158.7 (2015) (6 out of 9 provinces)	Not available
Flood and Drought Relief	MoDM	Victims of natural disasters	Varies	Not available	148.0 (2013)	Not available
In-Kind Transfers						
Assistive Devices	MoSEW/National Secretariat for Persons with Disability	Low income households with disabled person	Categorical and income tested	135,452 (2014)	30.2 (2014)	Spectacles, wheelchairs, other assistive devices
School Material Assistance for Disabled Children	MoSEW/National Secretariat for Persons with Disability	Low income households with disabled student	Categorical and income tested	Not available	Not available	Uniform and other school materials
Toolkits for Self-Employment for Disabled Persons	MoSEW/National Secretariat for Persons with Disability	Low income households with disabled student	Categorical and income tested	Not available	Not available	Toolkits
Flood and Drought Relief	MoDM	Victims of natural disaster	Geographic	Not available	148.0 (2013)	3 days: Cooked meals in centers; 7 days: dry rations

Program	Executing Agency	Target Group	Targeting Mechanism	Number (Year)	Expenditure (LKR, million, Year)	Benefit Provided
Thripasha	Ministry of Health, Nutrition and Indigenous Medicine	Pregnant/lactating women; mal-nourished children 6–59 months	Categorical and self-targeted (via usage of public health facilities)	873,509 (2010)	1,396.0 (2013)	Two take-home packs cereal per month
School Meal	MoE	Grade 1–5 and special education students in selected rural areas	Geographic and categorical	890,404 (2014)	3,077.0 (2013)	Mid-day meal
Poshana Manpatha	MoE	Pregnant and lactating mothers and children <5, in selected areas	Geographic and categorical	197,762 (2011)	203.0 (2013)	Corn Soya Blend ration per person per month
Food For Education	MoE	Grade 1–9 students in selected schools	Geographic and categorical	170,433 (2011)	457.0 (2011)	Cooked meal
Fresh Milk for Nursery Children	MoWCA	Children of 2–5 year old, in the low nutrition areas	Geographic and categorical	78,329 (2011)	230.0 (2013)	LKR 200 per child for 25 days a month, for selected nurseries
Fresh Milk Program	MoWCA	Children aged 2–5 years in the low-nutrition areas	Geographic and categorical	78,329 (2011)	230.0 (2013)	200 per child for 25 days per month
Food Coupon	MoWCA	Pregnant and lactating mothers	Categorical and self-targeted (via usage of Government stores)	Not available	Not available	LKR 20,000 (delivered in three tranches) via coupons redeemable at GoSL stores.
School Textbooks	MoE	Primary and secondary students in public and Dharma schools	Universal	3,410,280 (2011)	2,399.0 (2013)	Textbooks
School Uniforms	MoE	Primary and secondary students in public schools	Universal	3,994,813 (2011)	2,300.0 (2013)	Uniform material once per year
Bus Tickets for Students	Ministry of Transport/Sri Lanka Transport Board	Primary, secondary, tertiary students in public schools	Universal	2,373,120 (2011)	1,430.0 (2013)	Subsidized bus tickets at 10% of cost of ticket
Grade 5 Scholarship Program	MoE	Low income students	Merit based	45,019 (2011)	801.1 (2013)	LKR 500 per month through Grade 13

Program	Executing Agency	Target Group	Targeting Mechanism	Number (Year)	Expenditure (LKR, million, Year)	Benefit Provided
Sisu Diriya	MoE	Low incomes Grades 10 to 13 students	Merit based	29,212 (2010)	146.0 (2010)	LKR 5,000 per student at LKR 500 per month

Sources:

2010 and 2011: Tilakaratna, G. 2013. *Safety Nets in Sri Lanka: An Overview*. Washington, D.C: World Bank.

2013: Sri Lanka Treasury. 2013. Public Expenditure Review, Colombo.

2014: MoSEW. 2014. Performance Report, Colombo.

2015: As reported by MoPCLG and MoSEW officers.

2016: Sri Lanka Treasury. 2016. Budget Estimates, Colombo

Note: MoPCLG = Ministry of Provincial Councils and Local Government; MoE = Ministry of Education; MoWCA = Ministry of Women and Child Affairs.

Annex 7: Draft Social Management Framework

SRI LANKA: Social Safety Nets Project

1. This SMF defines the guiding principles and processes for assessing social risks, gender considerations and the citizen engagement process. It also aims at outlining a GRM and stakeholder consultation approach to be applied for the project. The SMF is consistent with the relevant World Bank policies and lays down the principles to carry out necessary due diligence as part of project implementation. The two main aspects covered under the SMF include:

- identifying the social risks and institutional arrangements for social management tasks pertaining to the project; and
- ensuring gender mainstreaming and citizen engagement, including a GRM to address community concerns in implementation of the project.

Social Impacts, Risks and Mitigation Measures

2. The project does not envisage any physical construction work. Nor will it make any direct investments to introduce any specific social benefit distribution systems targeted at particular communities. It does incentivize participating client agencies to build a unified social registry and improved service delivery mechanism through capacity building and TA. Therefore, from a social safeguards perspective, there will be no safeguards-related impacts. Since there is no physical constructions involved, OP 4.12 (Involuntary Resettlement) is not triggered. Although IP are considered as a vulnerable group, there is a no clear cut information available in national census or statistics to determine and to identify any particular community as IP. The history of Sri Lanka suggests that the main ethnic communities (Sinhalese, Tamils and Muslims) are migrants from the Indian subcontinent or elsewhere. A recent IP assessment conducted by the World Bank highlighted the difficulties in determining the presence of IP communities and their distribution in the country for various socio-cultural reasons. Hence, OP 4.10 (Indigenous Peoples) is also not triggered for the project. Nevertheless, any surveys and assessments conducted under the planned project intervention at national level that intend to specifically cover the ‘poverty pockets’ will include all types of poor and vulnerable groups including IP communities, if any. Therefore, the need for preparing any specific IP development plans/framework does not arise.

3. However, there are a few risks in planning and implementation of the project. The risks identified are not necessarily safeguards related. Rather, the risks are related to potential discontent from social benefit recipients, government officials and political stakeholders against changes to the targeting mechanisms used for existing welfare programs. Although the project aims to improve targeting to ensure the inclusion in welfare programs of all eligible households, some of the potential risks identified are:

- Resistance to the supported changes in the welfare benefit system from some sections of social benefit recipients to the new system due to concerns about their exclusion or the use of technology;

- Reluctance from DS level government staff to provide the necessary support for the new system to operate effectively; and
 - Resistance from political stakeholders because objective targeting of social benefit schemes could endanger their political authority and hold over the respective constituencies.
4. To mitigate these risks, the project will include following:
- A comprehensive communications campaign and awareness raising activities emphasizing the benefits of the new system through national media and project-specific information dissemination methods;
 - A robust GRM to receive, review and resolve grievances from the public and welfare benefit recipients, and provide timely feedback; and
 - A Stakeholder Consultation and Engagement Strategy to coordinate and implement the project and to create stakeholder ownership of the new program. It is expected that all stakeholder ministries will be represented on the PSC. The TA component will develop a stakeholder engagement strategy and outreach activities to create buy-in among local level staff and seek their inputs at key stages of the design and implementation of the system.

Grievance Redress Mechanism

5. GRMs are institutions, instruments, methods and processes by which a resolution to a grievance is sought and provided. Adequate care should be taken to prevent grievances through careful design and implementation of projects. However, grievances are inevitable when complex projects are implemented, and affected parties (APs) or groups should be provided with an institutionalized GRM for them to submit their grievances and obtain redress to achieve their aspirations and satisfaction of needs or to be satisfied that justice has been dealt with in an equitable manner. Timely redress through such a mechanism creates trust and confidence in the minds of the APs which is vital to the satisfactory implementation of the project. It is important that the GRM should be easily accessible to APs and transparent, cost effective, and efficient and provide quick response for resolution of grievances. A key value that underpins the formation of GRM relates to achieving most satisfactory solutions to grievances at no inconvenience to the APs concerned.

6. The GRMs will have a well-defined structure coupled with grievance redress procedures. Wide publicity will be given about the composition of members, the procedure adopted to receive complaints and grievances, holding inquiries and arriving at decisions to resolve grievances in a transparent manner.

7. The Grievance Redress Resolution Procedure will include provisions, among others, for:
- A prescribed form for APs to report grievances;

- Recording of the proceeding of the hearings, registering and sorting grievances; GRM will record the reasons that led to the acceptance or rejection of the particular cases and the decision agreed with the complainants;
- Guidelines for determining resolution process for consistent decision making;
- Implementing decisions; and
- Tracking, monitoring, documentation and evaluation.

8. The project aims at establishing a robust and decentralized grievance redress system at three levels:

- **Divisional Secretariat Level:** This is the first point of contact for the public to lodge their complaints and grievances, if any. At the Divisional Secretariats, staff will be equipped with a computerized system to receive, register and document grievances related to the selection, exclusion and targeting of households by proposed unified registry for social benefit and welfare distribution. Grievances received will be reviewed and resolved by a committee headed by the DS within a period of two weeks.
- **District Secretariat Level:** The grievances that are unresolved and require further scrutiny and review will be forwarded to a committee headed by the District Secretary. Divisional Secretaries who have received unresolved grievances will attend the District level GRM and submit each case of grievance to the committee seeking advice and further actions. All participating Ministry representatives at the district level will be members of the District GRM. The District Secretary as the Chief Executive Officer of the District Administration has the authority to take action or summon the AP for discussions/hearing. It is expected that there will only be a minimal number of cases at this level because the DS level GRM would function locally, effectively and efficiently.
- **National (Project) Level:** Grievances and complaints that require careful attention which have political and policy implications will be forwarded to the project level GRM. The Project Director will submit such cases to the PSC for its advice and action. This is very important in view of the substantial political risks associated with the proposed refinement, and the high probability of political stakeholders from different political parties seeking clarifications and answers in respect of the grievances lodged by their party members.

9. Performance and effectiveness of this GRM will be measured by the percentage of grievances recorded and resolved in the integrated MIS.

Citizen Engagement Process

10. The Citizen Engagement process will comprise stakeholder consultations at the project management level. At the local level, a social communication and awareness campaign will be launched to inform the public about the envisioned changes and to receive their suggestions for

improvement. The public can also submit their views regarding any aspect of the welfare system to program officers at the DS level. At this level, the citizen engagement indicator will be percentage of grievances/complaints received and resolved within four weeks. At project management level, all relevant ministries will participate in the PSC to review and resolve project-related issues and concerns. The project will also support the Government to develop a stakeholder engagement strategy through a TA to enhance outreach activities to create buy-in among local-level staff and seek their inputs at key stages of the design and implementation of the system. The citizen engagement indicator will be beneficiary satisfaction with appeals mechanism for selection decisions.

Gender Mainstreaming Strategy

11. Although the SSN systems are not specifically designed to address gender equality, it is an important aspect to consider. A well-defined SSN program can offer greater opportunities for women to respond their needs and improve the social status in the household and intra-familial decision making. One of the main goals of social safety net systems is to reduce current and future poverty and vulnerability by increasing household income and consumption improving children's health and education. It is evident from international experience that SSNs can also impact many other outcomes—increased employment, fostered human development of children and access to resources (for example, microfinance)—and that those impacts are typically gender specific.

12. In developing the unified social registry system, the project will follow gender mainstreaming activities:

- **Inclusion of poor and vulnerable women in targeting reforms:** The project will ensure proper outreach and inclusion of women in the registration and enrolment process. Typically, female headed households are privileged in targeting formulas that take into account the household composition which is the case in Sri Lanka.
- **Gender Disaggregated M&E system:** The surveys and studies supported by the project will collect and maintain gender disaggregated data to measure the incidence of poverty and vulnerability among different social categories and in geographical areas. Also the inclusiveness and impact of new social registry system will be assessed through gender disaggregated data. One of the probable indicators would be the percentage of women beneficiaries in the national social registry.
- **Gender Analysis:** The project also may request the client to carry out social impact assessment studies of the welfare reform which would include gender analysis through review of M&E database data to monitor the beneficiary composition of the unified social registry by gender and by geographical locations.

Institutional Arrangements and Reporting Requirements

13. A PMU under the MoF will be responsible for managing, monitoring and reporting requirements and providing capacity building and staff training where appropriate. The project will strengthen the Government's capacity to monitor and evaluate social safety net program targeting and performance. It will also develop core monitoring systems from which the primary

results indicators will be drawn. In addition, the project will support the strengthening of the M&E capacity of the MoF and the WBB. This will increase the ability of the GoSL to effectively monitor progress of safety net programs.

14. The integrated MIS will include a monitoring system to enable the MoF to track key information on social safety net programs and their beneficiaries. Topics on which data will be available include selection of beneficiaries, gender of beneficiaries, reports on payments, beneficiaries' compliance with eligibility criteria and benefit payment conditions (where applicable), and the nature and resolution of complaints. The MIS will include the socio-economic data of safety net beneficiaries, providing simple diagnostics on program coverage and targeting.

15. An annual report will be prepared by the WBB on safety net program performance, beneficiary characteristics (including on gender), expenditure and progress on system development. The progress report would include the number of safety net beneficiaries by gender, and geographical locations as well as a progress update on the performance of the GRMs adopted at various levels.