



Appraisal Environmental and Social Review Summary

Appraisal Stage

(ESRS Appraisal Stage)

Date Prepared/Updated: 03/23/2023 | Report No: ESRSA02676



BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Sri Lanka	SOUTH ASIA	P178432	
Project Name	Sri Lanka Public Financial Management Strengthening Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Governance	Investment Project Financing	3/31/2023	4/28/2023
Borrower(s)	Implementing Agency(ies)		
Democratic Socialist Republic of Sri Lanka	National Audit Office of Sri Lanka, Ministry of Finance, Economic Stabilization and National Policies - Public Finance Department		

Proposed Development Objective

To enhance the institutional capacity and transparency in procurement and external audit

Financing (in USD Million)	Amount
Total Project Cost	7.60

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

The project is aligned with and supports selected governance reforms as prioritized by the GoSL. The project will support: (i) the improvement of procurement outcomes through enhancement of the existing e-procurement system, including open contracting standards and the roll-out of new modules covering national and international bidding and functionalities in key service delivery ministries to enhance transparency and accountability; and (ii) enhance the institutional capacity of and transparency in the National Audit Office of Sri Lanka, by strengthening systems and processes for audit planning, risk assessment, and reporting writing and enhance capacity for specialized audits



(procurement and environment audit and audit of State Owned Enterprises. These are critical building blocks, which in the medium term, will contribute to the management of the public sector in a fiscally sound and accountable manner, to ensure macro-economic stability. The direct project beneficiaries are the key departments and agencies of GoSL, the Electronic Government Procurement Secretariat, and NAOSL. Sri Lankan citizens, the Parliament, and the private sector are expected to benefit from the envisaged outcomes of this project through enhanced transparency and accountability in public financial management.

D. Environmental and Social Overview

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

The proposed Project will be implemented at the national level by the National Audit Office of Sri Lanka (NAOSL) and Ministry of Finance (MOF). It will finance the deployment of technical support in the form of consulting and advisory services, capacity building and training activities. In addition, the project will finance the procurement of information technology (IT) goods and operation expenses to rollout of an e-procurement system. Project activities will be conducted in the main offices of the relevant implementing agencies which are in the capital city of Colombo.

D. 2. Borrower's Institutional Capacity

The main implementation agencies of the project will be the MOF and NAOSL. The project will finance the Project Coordinating Teams (PCTs) established at NAOSL and MoF will be responsible for implementation, monitoring budgets, fiduciary and ensuring compliance with ESF requirements, managing communications, stakeholder consultations, reporting on progress and M&E.

MoF has decade of experience in implementing WB financed projects and are aware of the World Banks Environmental and Social Framework (ESF) requirements but have limited experience implementing the ESF within the context of a project. The NAOSL was established in 1799 and plays an important role in providing independent assurance that governmental activities are carried out and accounted for, consistent with Parliament's intentions. The independence of the Auditor General is preserved to a great extent by provisions of Article 153 and 154 of the Constitution. To further strengthen accountability, the Parliament approved the National Audit Act which was passed in July 2018 and the 19th amendment to the Constitution created an independent NAOSL and expanded the scope of the audit. NAOSL has identified its capacity-building priorities to meet the enhanced mandate and anticipated demand from the Government. The NAOSL has carried out an assessment and has prioritized areas for reform/capacity building. However, the NAOSL required to enhance its institutional capacity, especially in areas of procurement, forensic, environmental, and other specialized audits to strengthen the overall accountability framework, which will be the objective of the proposed project. The NAOSL has experience implementing the Bank's old safeguards in two previous operations.

In terms of implementation support, experienced staff will be hired or seconded to the PCTs established at the NAOSL and MoF to implement the project including ESF. In addition, the Bank will provide support to the teams established at the NAOSL and MoF to comply with the commitments based on the relevant Environmental and Social Standards of the WB Environmental and Social Framework (ESF). Additional support will be provided in the context of the ESF to the NAOSL on developing its capacity to conduct environmental and participatory auditing which is a key due diligence measure used under ESS1 across Bank projects and programs.



II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)

Low

Environmental Risk Rating

Low

The grant operation is classified to have 'low risks' at the appraisal stage, after considering, in an integrated manner the project location, types of activities the project will support, which is mainly TA and capacity development focusing on improving the operational efficiency and transparency in public expenditures through e-procurement and enhancing the accountability and institutional capacity of NAOSL. Based on the project components identified at the concept stage, the overall risks of the project are expected to be low. No physical interventions or studies focused on the delivery of infrastructure, such as feasibility assessments, will be undertaken under project financing nor will it involve construction or other activities that involve physical interventions to the environment to be undertaken via the use of project financing. A limited amount of hardware based IT equipment, such as laptops will be purchased via project funds while a majority will be cloud based system. A key positive impact is that the project, via its interventions, will support the NAQSL develop their capacity on Environmental Auditing, very much in line with the guidance of ESF and ESSs and thus support to capacity building initiatives in line with the ESF on best practice on environmental auditing will be integrated to the ESF support to the grant operation as this will provide benefit in terms of client capacity building.

Social Risk Rating

Low

The social risks associated with the project is rated as 'low' as the project seeks to finance technical support and capacity building activities. Physical interventions such as construction works will not be financed by the project. Hence social risks and resettlement impacts are not expected. Sri Lankan citizens and the private sector are expected to benefit from the envisaged outcomes of this project through economic recovery facilitated by improved fiscal sustainability and enhanced transparency and accountability in public financial management. In addition, the project will enhance collaboration between citizens, civil society and NAOSL to engage in auditing processes involving public finance management. However, while project will create positive impacts, there could be possible risks associated with : exclusion of some government/private institutions that lack adequate digital infrastructure or staff with IT literacy required to access the e-procurement services, and b) inadequate representation of key citizens groups in the development of the participatory audit framework and pilot thereof including key officials in capacity building initiatives.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

The grant project is not expected to create any adverse environmental and social (E&S) risks and/or impacts since the project is expected to finance technical support and capacity building to enhance transparency and accountability in the strengthen public accountability and transparency in the PFM system of the country.

Public Disclosure



To mitigate risks associated with possible exclusion of government/private institutions and staff accessing e-procurement systems and engaging in participatory audits, the project will put in place inclusive policies & procedures when targeting trainings and provide adequate capacity building to key stakeholders to enable access to e-procurement services and ensure meaningful participation of citizens groups in audit processes

The procurement of information technology (IT) goods during the rollout of the e-procurement system include the purchase of laptops and a few more hardware components. Over the lifetime of use of these equipment and at the end of use they will create e-waste.

The two implementing agencies jointly have prepared an Environmental and Social Commitment Plan (ESCP). The ESCP incorporates necessary E&S risk management processes and procedures consistent with the relevant ESSs.

ESS10 Stakeholder Engagement and Information Disclosure

The MoF and NAOSL have prepared a Stakeholder Engagement Plan (SEP) which will be disclosed before Project Appraisal. The SEP identifies the key stakeholders including affected, interested and Vulnerable groups. The SEP also details out the strategy for communication/information disclosure and consultations during preparation to implementation covering both components of the project for all key stakeholder groups.

MoF or NAOSL has no experience in implementing participatory auditing and lacks experience in engaging with Civil Society groups and external stakeholders. Hence the project will provide required technical assistance and capacity building support to engage civil society groups and carryout pilot participatory auditing processes. At least two audits will be performed with the participation of citizens and the results are shared to enhanced collaboration between citizens, civil society and NAOSL.. The project will implement communications activities to disseminate project information, progress and lessons learned among key stakeholders including the public specifically on the implementation of the e-procurement system and participatory auditing.

The project will also take special measures to communicate and engage government and private sector institutions who may not have access to digital infrastructure or the staff with IT literacy – for e.g. Government Institutions in rural areas, Pradeshiya Sabhas, Divisional Secretariats and Small enterprises including Women Business Owners that lack IT infrastructure. Hence as part of the stakeholder engagement, these groups will receive training to access the e-procurement system.

A GRM will also be made operational to promptly respond to any queries, complaints and even take feedback from key stakeholders during the implementation of the e-procurement system and participatory auditing.

Consultations for project preparation took place during a mission that was held from November 2-9, 2022. The mission held discussions with the Ministry of Finance, Economic Stabilization and National Policies, departments of External Resources (ERD), National Planning (NPD), Public Finance (PFD), and the National Audit Office of Sri Lanka (NAOSL). During the consultations: (i) the project objectives, components, and the component cost allocation; (ii) the



allocation of the grant funds between the Recipient Executed and Bank Executed parts, the corporate cost recovery, and supervision costs; (iii) the proposed results framework/indicators, and (iv) the project’s implementation and oversight arrangements were discussed and agreed.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

ESS2 is considered relevant for the project. Activities under the proposed Project are not expected to have any negative impacts related to labor and working conditions, and the applicable national legal framework is aligned with the principles of ESS2. The project workforce will include: (i) direct workers, mainly the staff with Project Coordination Teams (PCTs) established at NAOSL and MoF responsible for implementation of all project activities and (ii) Contracted workers, workers hired by third party firms to provide services to develop the e-procurement system .

Community workers will not be involved since the project is not expected to have any community driven development type interventions but there are potential risk of workplace harassment. Government workers/ Civil servants with the NAOSL and MoF will be involved to support project implementation and supervision activities, whether full or part-time, will remain subject to the terms and conditions of their existing public sector employment or agreement, unless there has been an effective legal transfer of their employment or engagement in the project. For civil servants, only prevention for child and forced labor, policy on sexual harassment and OHS will apply.

IT equipment will be purchased from reputed/well established suppliers who already have a good track record of adhering to child/forced labor and worker safety issues in the manufacturing process, and with no known allegations of violations in the said areas. In the event any project primary suppliers were found not adhering to these principles related to child/forced labor and worker safety in the manufacturing process, the project will have mechanisms in place to terminate those supply contracts and explore alternatives.

GBV prevention Code of Conduct by project workers and for the grievance mechanism for project Workers. These commitments for ESS2 has been included in the Environmental and Social Commitment Plan (ESCP) of the project.

ESS3 Resource Efficiency and Pollution Prevention and Management

The project will finance the procurement of a limited number of laptops and IT hardware to support the operations of the PFM platform. Over the course of the lifetime of use of all IT equipment purchases by the project will be disposed at the end of their lifecycle of use or due to any breakage during use as per Hazardous Waste (Scheduled Waste) Management regulations under the National Environmental Act in 2008 under the Gazette Extraordinary 1534/18. As per this regulation and procedures of the Central Environmental Authority (CEA) all government agencies will dispose E- Waste via the mandated authorized collectors listed on the CEA website via the designated collection points. At the time any E-waste is being disposed the government agencies should take all measures to ensure that



the regulatory requirements stipulated by the CEA are duly followed. The same provisions have been made in ESCP in line with national regulations and guidelines on E-waste management which are fairly robust to secure full compliance with applicable regulations and specifications for energy efficient equipment and electronic waste management.

ESS4 Community Health and Safety

ESS4 is not relevant at least at the Appraisal Stage. The proposed Project will neither finance nor support any civil works. No rehabilitation or construction of new infrastructure or other actions that would imply environmental or social risk or having negative impact on the environment or community health and safety will be financed.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

ESS5 is not relevant. The proposed Project will not finance physical infrastructure and is not expected to cause any resettlements risks or impacts. Hence, the Project is not expected to generate any negative impact covered under ESS5.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

ESS6 is not relevant. The project does not envisage any activities which have either direct or indirect impacts on biodiversity or any living natural resource areas.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

ESS7 is not relevant. The proposed Project will focus on consulting and advisory services, capacity building, training activities and technological platform improvement.

ESS8 Cultural Heritage

ESS8 is not relevant. The proposed Project will finance technical activities aimed at improving Sri Lanka’s public financial management system and there will be no direct or indirect impacts to tangible or intangible cultural heritage.

ESS9 Financial Intermediaries

ESS9 is not relevant. No finances are expected to be channel through Financial Intermediaries.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways No

OP 7.60 Projects in Disputed Areas No

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B.3. Reliance on Borrower’s policy, legal and institutional framework, relevant to the Project risks and impacts

Is this project being prepared for use of Borrower Framework?

In Part

Areas where “Use of Borrower Framework” is being considered:

Given the characteristics of the activities that will be financed under the proposed Project, reliance on the Borrower's E&S Framework will be considered as typical for the provisions of ESS2 on Labor and Working Conditions. Sri Lanka’s legal framework is in line with the principles of ESS2. Since Project is implemented by NAOSL and MoF staff, they will be subjected to Sri Lanka’s labor regulations. . For management of E-waste the Hazardous Waste (Scheduled Waste) Management regulations under the National Environmental Act in 2008 under the Gazette Extraordinary 1534/18, etc will be followed for all IT equipment that will be purchased via the project, over the useful life cycle of use.

IV. CONTACT POINTS

World Bank

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Borrower/Client/Recipient

Borrower: Democratic Socialist Republic of Sri Lanka

Implementing Agency(ies)

Implementing Agency: National Audit Office of Sri Lanka

Implementing Agency: Ministry of Finance, Economic Stabilization and National Policies - Public Finance Department

V. FOR MORE INFORMATION CONTACT

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VI. APPROVAL

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Robin Mearns Cleared on 22-Mar-2023 at 07:18:8 EDT

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