



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

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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	3/20/2023	4/14/2023
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 transparency in procurement and strengthen the institutional capacity of the National Audit Office of Sri Lanka

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) improving operational efficiency and transparency in public expenditures through e-procurement. This will include support to the development, enhancement, roll out, and implementation of new modules and functionalities in the e-procurement system with open contracting standards to enhance transparency and accountability; and support to developing dedicated procurement procedures for procurement in situations of urgent need, including an



emergency procurement manual; and (ii) enhancing accountability and institutional capacity of the National Audit Office of Sri Lanka (NAOSL). This will support the implementation of NAOSL's development action plan, build institutional and human resource capacities, capacities for specialized auditing (procurement and environment) and audit of State Owned Enterprises, and pilot test a framework for participatory auditing, that involves citizens in the audit process. The direct project beneficiaries are the key departments and agencies of the Ministry of Finance (MoF), including Public Finance, the Electronic Government Procurement Secretariat, and NAOSL. Sri Lankan citizens and the private sector are expected to benefit from the envisaged outcomes of this project through sustenance of the economic recovery facilitated by 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 agency of the project will be the NAOSL. The project will finance the Project Teams (PTs) 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 Bank's 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 to the teams 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



NAQSL on developing its capacity to conduct environmental auditing which is a key due diligence measure used under ESS1 across Bank projects and programs.

II. SCREENING OF POTENTIAL 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 concept 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 NAQSL. 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 positive impact is that the project 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 : a) exclusion of key officials benefiting from capacity building initiatives and b) inadequate representation of key citizens groups and interested parties participating in audit processes piloted by the project due to lack of inclusive procedures and systems in selection of trainees and engaging of citizens groups and their organizations.

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. However, in terms of possible risks, there could be a) exclusion of key officials benefiting from capacity building initiatives and b)



inadequate representation of key citizens groups and interested parties participating in audit processes piloted by the project due to lack of inclusive procedures and systems in selection of trainees and engaging of citizens groups and their organizations. In addition, procurement of information technology (IT) goods during the rollout of the e-procurement system could create e-waste, however if grant funds are to be utilized for the purchase of any hardware will be confirmed during project preparation.

The NAOSL, as the implementing agency will be required to prepare an Environmental and Social Commitment Plan (ESCP). They will be required to incorporate all necessary E&S risk management processes and procedures consistent with the relevant ESSs in the ESCP, Prior Appraisal.

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.

ESS10 Stakeholder Engagement and Information Disclosure

The NAOSL will prepare a Stakeholder Engagement Plan (SEP) before Project Appraisal which will identify the key stakeholders for consultations during implementation and detail out a plan to engage with key stakeholders when developing the e-procurement system and civil society & other interested parties during the implementation of participatory auditing. The direct project beneficiaries are the key departments and agencies of the Ministry of Finance (MoF), including Fiscal Policy, Inland Revenue, Public Finance, National Planning Departments, the Electronic Government Procurement Secretariat, and NAOSL.

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. A citizen’s feedback indicator will be incorporated and built into the results framework of the project. The project will implement communications activities to disseminate project information, progress and lessons learned among key stakeholder including the public specifically on the implementation of the e-procurement system and participatory auditing. 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.

The SEP will also document the consultations held during the preparation phase of the project. In addition, consultations held with MoF and NAOSL during a recent PIM mission (August 2022) to understand the key areas of challenges in public investment management (PIM) and the core areas for Bank support have been documented in the PCN.

Public Disclosure



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 Teams (PTs) established at NAOSL and MoF responsible for implementation of all project activities, (ii) Government workers with the NAOSL and MoF that may be involved to support project implementation and supervision activities, (iii) Contracted workers, mainly consultants/experts hired to prepare necessary procedures/frameworks, carryout due diligence activities, provide technical advice and do capacity building, and (iv) primary supply workers providing IT equipment necessary to rollout 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

All direct, contracted, and primary supply workers will be subject to the requirements of ESS2. Civil servants, 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. The necessary due diligence measure to ensure that the project is complying with ESS2 will be documented in the OM of the project. In addition, project OM will include guidelines on SEA/SH risk mitigation measures such as signing of a GBV prevention Code of Conduct by project workers and for the grievance mechanism for project Workers. These commitments for ESS2 will also be included in the Environmental and Social Commitment Plan (ESCP) of the project.

ESS3 Resource Efficiency and Pollution Prevention and Management

ESS3 standard is likely not relevant at the Concept Stage. The proposed Project will neither finance nor support any civil works; however, the procurement of hardware and software programming might be expected but this has not been confirmed at Concept Stage. The relevance of ESS3 will be further assessed if the Government proposes and the WB agrees to include purchase and provision of IT hardware for the operations of the PFM platform. If this is the case, provisions will be made in the 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 over the useful lifecycle of any equipment purchased.

ESS4 Community Health and Safety

ESS4 is not relevant at least at the Concept 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

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered? No

Financing Partners

The Bank will administer the TF on behalf of the EU and AFD, for which an Administrative Agreement will be signed between the Bank and the two financing partners. The need for a communication and visibility plan (CVP) will be discussed with the EU and AFD. Regardless of the preparation of a CVP, the specific requirements and instructions on brand identity will be confirmed and adherence will be ensured during implementation.

Public Disclosure



B. Proposed Measures, Actions and Timing (Borrower’s commitments)

Actions to be completed prior to Bank Board Approval:

Prepare and Disclose an Environmental and Social Commitment Plan (ESCP)

Incorporate E&S risk management processes and procedures consistent with ESS1, ESS2 (and ESS3, if applicable) as part of the ESCP prior to project appraisal.

Preparation of a preliminary SEP before Appraisal and a detailed SEP prior to WB Board Approval. The SEP will establish the consultations to be conducted during implementation as well as specific measures for a continuous engagement and adequate communication strategies with different stakeholder groups.

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):

The ESCP will be part of the legal agreement and is expected to cover the arrangements needed to maintain continuous engagement and adequate communication strategies with the key Project stakeholders.

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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Public Disclosure



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