**COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED
SAFEGUARDS DATA SHEET (PID/ISDS)
CONCEPT STAGE**

Report No.: PIDISDSC14598

Date Prepared/Updated: 21-Jul-2015

I. BASIC INFORMATION

A. Basic Project Data

Country:	Sri Lanka	**Project ID:**	P156056
		Parent Project ID (if any):	
Project Name:	Social Safety Nets Project (P156056)		
Region:	SOUTH ASIA		
Estimated Appraisal Date:	01-Dec-2015	**Estimated Board Date:**	31-Mar-2016
Practice Area (Lead):	Social Protection & Labor	**Lending Instrument:**	Investment Project Financing
Sector(s):	Other social services (90%), Public administration- Other social services (10%)		
Theme(s):	Social Safety Nets/Social Assistance & Social Care Services (60%), Social Protection and Labor Policy & Systems (40%)		
Borrower(s):	Democratic Socialist Republic of Sri Lanka		
Implementing Agency:	Ministry of Social Services, Ministry of Housing and Samurdhi		
Financing (in USD Million)			

Financing Source			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			75.00
Total Project Cost			75.00

Environmental Category:	C - Not Required
Concept Review Decision:	Track II - The review did authorize the preparation to continue
Is this a Repeater project?	No
Other Decision (as needed):	

B. Introduction and Context

Country Context

Sri Lanka is a middle-income country with a per capita income of US$ 3,625 in 2014. The country has achieved strong human development outcomes, reflected in literacy rates and life expectancy higher than any other country in the region. Since emerging from a 30-year civil war in 2009, Sri Lanka has enjoyed a rebound in economic activity, with real GDP growth averaging 7.5 per cent, largely driven by public investment in infrastructure.

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% to 6.7%. Over this period, per capita consumption of the bottom 40 percent grew at an annual rate of 3.3%, compared to 2.8% 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, especially in 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.

Despite the pro-poor growth of recent years, many households remain vulnerable to falling back into poverty. In 2012/13, around 30% of Sri Lankans consumed less than $2.50 per capita per day in PPP terms. In some districts, 60% or more of households remain vulnerable to poverty, while in the north an estimated 44% of households are food insecure. In addition, Sri Lanka is exposed to frequent natural disasters, especially floods and droughts. Child malnutrition rates remain unusually high for a middle-income country, at around 30%. 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 have also historically affected job creation, fiscal space and the cost of living.

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. The majority of elderly individuals are not covered by formal sector pensions, and will be forced to rely on external assistance to support them in retirement. Meanwhile, the country's savings rate is relatively low by international standards, and will face further downward pressure as elderly individuals stop working and draw on savings to fund their retirement.

These challenges highlight the need for a well-designed and adequately funded safety net system. Reflecting its middle income status, Sri Lanka's safety net will need to evolve from one focused on intensive, community-based livelihood support and universal subsidies to a systems approach to social protection that provides income support and opportunities for economic inclusion for the poorest and most marginalized, insures the vulnerable against unanticipated shocks, and gives individuals in the informal sector opportunities to save for their retirement.

Sectoral and Institutional Context

Sri Lanka has an extensive, community-based system of social protection. The delivery of social services is managed at the local level, with 331 divisional secretaries (DS) appointed to manage administrative units called DS divisions. Within each DS division, Grama Niladaris (village officers, GN) are responsible for small clusters of villages, maintaining the voter registry,

collecting statistics and handling grievances. Interacting with 500-1,000 households each, the GNs serve as the closest point of government contact with citizens. Specific social programs also have officers at the GN division level, who report to the respective implementing line ministry. The social protection system is relatively decentralized, with program lists maintained by GN-level program officers, cross-checked by the GN and approved by the DS. The DS is responsible for monitoring and reporting on local activities, and in many cases the central government does not have access to detailed beneficiary information.

Sri Lanka's social protection spending is fragmented and inadequate to address the needs of the poor. Social protection spending in Sri Lanka has historically been relatively generous, comprising at various times food rations, subsidies and cash transfers. However, federal expenditure on social protection programs has declined steadily in recent years, to around 1.5% of GDP in 2013. Almost 90% of this spending goes to public sector pensions and benefits to military families (both of which are skewed towards wealthier households).

In 2013, only 0.21% of GDP was spent on social safety net programs. The largest of these is Divineguma, an integrated welfare program operated by the Ministry of Housing and Samurdhi (MHS) that provides cash transfers, microfinance and various community and livelihood development activities. Social pensions for the elderly and the disabled are provided by the Ministry of Social Services, Welfare and Livestock Development (MSSWLD), but these programs have low coverage and amounted to only 0.03% of GDP in 2013. Promises during the 2014 election to significantly increase the benefits of these programs is estimated to have lifted their total budget to around 0.7% of GDP.

Social safety net programs are failing to make a difference in the lives of many poor households. This is primarily due to their low generosity, as initially adequate benefits have been eroded by inflation over time. Recent survey analysis indicates that poverty reduction over the past decade would have been 10% higher if benefit amounts had stayed constant in real terms. Furthermore, because of ineffective targeting, more than half of the poorest quintile do not receive any assistance at all. Analysis of the Household Income and Expenditure Survey (HIES) 2012-13 shows that these programs therefore have a limited impact on the poverty headcount rate; in their absence, the official poverty rate would rise from 6.7 to 7.4 percent. This impact is only modest compared to other middle-income countries. Sri Lanka could also do more to help families with children; almost 9% of children under 15 remain in poverty even after accounting for public transfers.

The lack of modern information systems undermines program management and oversight. Record-keeping in both the MHS and the MSSWLD is still paper-based. Aside from the limitations this imposes on staff productivity, the lack of transparent record-keeping creates opportunities for mismanagement and precludes high-level monitoring and evaluation. Both programs are administered primarily at the DS division level, leaving senior management with only an aggregate picture of the program's impact and no means to assess overlaps or gaps in coverage. The use of electronic management information systems (MIS) would therefore considerably increase accountability and efficiency, and provide opportunities to measure and improve program impact.

There is also very little coordination between social programs even though they all operate at the DS level. Beneficiaries can potentially receive benefits from several ministries. The degree of this

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 (and especially payment of benefits) could also reduce the administrative burden on local officials and beneficiaries. T here is significant potential to achieve such harmonization given all programs are managed at the DS division level.

In recognition of these challenges, the GoSL plans to strengthen program generosity, targeting and information management, and review the design of graduation programs. Benefit amounts were increased at the start of 2015, raising adequacy considerably. Efforts are underway to review targeting in the Divineguma program, recertify households, and introduce criteria by which beneficiaries should graduate out of the program over time. The GoSL has started to address issues of information management, developing an MIS for the Divineguma program and the specifications for an MIS for the MSSWLD social pensions. World Bank technical assistance has helped in these activities, but further investment and policy changes are needed to complete the work and operationalize the systems.

This project will support the GoSL's efforts to modernize and refocus the country's main social safety net programs. In response to expressions of interest from both the MHS and the MSSWLD, this project will address the above issues by financing the development and population of management information systems, improving targeting methodology, and developing clear guidelines for beneficiary selection and recertification. Technical assistance will be provided to refine and evaluate graduation programs. The technical assistance will also support the completion of a national social protection strategy, which will provide a basis for harmonization of programs.

Relationship to CAS/CPS/CPF

The project is fully aligned with the 2013-16 CPS. The CPS notes that the current system is overly fragmented and poorly targeted, and distributes a small benefit to a large share of the population. Thus the system does not reduce poverty and vulnerability to thedegree possible even within the current budget. As proposed in the 2014 CPS review, and recently affirmed by the GoSL, this project will build on AAA provided over recent years, and on the work of previous projects, to reduce poverty and vulnerability through more efficient, better targeted and more accountable social assistance spending.

C. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project Development Objective is to enhance the poverty impact of Sri Lanka's main safety net programs (Divineguma, the elderly benefit, and the disability benefit), by improving their targeting, coverage and accountability.

Key Results (From PCN)

The PDO will be assessed based on the following results indicators:

      a.   Percentage of Divineguma beneficiary households in the poorest two consumption quintiles

      b.   Coverage of the poorest quintile under the Divineguma program

      c.   Coverage of eligible households in the poorest quintile under the elderly and disability benefit programs

      d.   Percentage of beneficiaries receiving their benefits according to the published schedule

e.   Percentage of grievances redressed within X weeks

D. Concept Description

The proposed project consists of three components: (i) strengthening the targeting and delivery systems of the Divineguma program; (ii) modernizing the delivery and payments systems of the MSSWLD cash transfer programs; and (iii) technical assistance for strategic planning and refinement of programs. The project will adopt a DLI-based financing approach, in which disbursements are made against results achieved through the activities described below. The DLIs will focus on improvement of targeting, coverage and accountability, and will be agreed with the GoSL during project preparation.

Component 1: Strengthening the targeting and delivery systems of the Divineguma program (Indicative allocation: US$ 45 million)

Pillar 1: Recertification of Divineguma beneficiaries (Indicative allocation: US$ 25 million). This pillar will support the collection of updated poverty scorecard data, development and adoption of revised targeting criteria, and revision of beneficiary lists to reflect these changes.

The poverty scorecard, based on an existing survey instrument designed by the MHS, will include information on household composition and correlates of poverty such as assets, education, employment and dwelling type. Data collection will be subject to random spot checks to ensure data integrity. Collection of data and spot checks will be supported by World Bank technical assistance under Component 3.

The scorecard data will be entered into the Divineguma MIS. A targeting formula will be developed to approximate poverty using the data. Households will be ranked using the formula, and cut-offs for program benefits determined based on the desired program size and fiscal space. Individuals in the database will be identified by National Identity Card (NIC) number, enabling connectivity with other government databases. Data sharing protocols will be developed to enable the database to be used by other social programs.

Existing beneficiaries who no longer qualify under the revised criteria will be exited from the program. Since these households have been receiving benefits from the program for up to 20 years, it is recognized that their sudden disqualification could have social and political consequences. For this reason, support will be gradually phased out by moving these households to a time-bound graduation program. The graduation package could potentially include incentives such as lump sum cash payments and residual safety net support such as a matching scheme for retirement savings contributions (which would be piloted with technical assistance under Component 3). The graduation package will be refined based on outcomes and will continue to serve as a path out of the program for beneficiaries identified through subsequent recertifications or voluntarily opting out.

Newly qualifying households will be enrolled in the program, with performance targets set to ensure this process occurs in a timely manner. The collection of new scorecard data will identify excluded households and address the currently very high rate of undercoverage in the program. Communications and outreach strategies to locate excluded households will be developed and implemented with technical assistance under Component 3.

A centrally-managed grievance redress mechanism will be developed to provide households with the opportunity to order an objective reassessment of eligibility. Beneficiary lists will be published online (subject to privacy considerations) to ensure transparency.

Pillar 2: Strengthening the delivery systems of the Divineguma program (Indicative allocation: US$ 20 million). This pillar will support the implementation of a management information system (MIS) solution for the Divineguma program that has been developed and piloted but is not yet being used for program management. The management of the Divineguma program are keen to operationalize the software, but require hardware, training of staff and development of appropriate rules and procedures in order to do so.

The MIS is a web-based application accessible with appropriate credentials from any internet-connected computer. Information is stored on the GoSL's cloud, which was developed with World Bank assistance under the e-Sri Lanka Initiative. The cloud service and software development assistance is provided by the Information and Communication Technology Agency (ICTA), a statutory agency that is the apex ICT institution in the GoSL. The MIS would enable Divineguma management to fully oversee and manage program activities, for which they presently rely on individual reports from their field officers. There is also a provision for beneficiaries and the public to access selected program data through an inform ation portal.

To operationalize the MIS, the first step advised by the ICTA is to conduct an audit of the MIS for security and interoperability. This will be supported under Component 3. Access to the MIS will then be provided to local level officers, with a phased period of transition from paper to electronic records. Training will be provided to officers in the use of the MIS with technical assistance under Component 3. Protocols will be developed to store and update the poverty scorecard data in the MIS. A mechanism already exists to enable a poverty score to be calculated based on these data. Further changes to the software may be required to address the graduation of formerly qualifying beneficiaries. Adoption and use of the system will be time-bound, with DLIs based on performance targets.

Component 2: Modernizing the delivery systems of the MSSWLD elderly and disability benefit programs (Indicative allocation: US$ 20 million)

Pillar 1: Design of the Management Information System (Indicative allocation: US$ 10 million). This pillar will support the design, population and use of a management information system (MIS) for the elderly and disability benefit programs. The blueprint for this MIS has already been prepared with World Bank technical assistance, and the MSSWLD has expressed interest in developing the software as soon as possible. The MIS will be designed by a consultant with the guidance of the ICTA, and rolled out at the GN and DS division levels. During preparation the team will explore the potential for MSSWLD field staff to share hardware with the Divineguma program, as circumstances permit.

Targeting of MSSWLD benefits is currently based on income, household and beneficiary characteristics (including age and severity of disability). Since the household characteristics used for targeting are a subset of those used for Divineguma, the MIS will be designed to draw these data from the Divineguma poverty scorecard database (based on sharing protocols mentioned above). The objectives of this data sharing are to achieve economies in data collection activities,

ensure consistency of data used for targeting, and prevent overlaps in benefit receipts. Both ministries and the NPD have agreed that such an arrangement would be desirable. The data sharing and harmonization will be managed through an inter-ministerial steering committee, to be established by the GoSL with World Bank technical assistance under Component 3.

Pillar 2: Nationwide rollout of bank payment of benefits (Indicative allocation: US$ 10 million). This pillar will support the payment of elderly and disability benefits directly to beneficiaries' bank accounts, using the new MIS to manage the transactions. This will replace the current check-based payment system, enhancing accountability, speed of payment, and financial inclusion of beneficiaries.

A bank payment mechanism was developed for disability beneficiaries in nine northern districts under the Diri Sawiya project. Beneficiaries provided a bank account number to MSSWLD administration, who then transferred benefit payments directly into their bank accounts. Although the process was well established and providing timely payments to verified beneficiaries by the project's end, MSSWLD staff were required to update paper lists of account numbers each month due to the lack of an electronic MIS. This cumbersome process added to their workload and presented a risk of errors. Accordingly, the MSSWLD decided to suspend bank payments as of June 2015.

With an electronic MIS in place, the MSSWLD would be able to store beneficiary bank account numbers and automatically issue payment instructions to current beneficiaries each month. This pillar will activate once the MIS is operational. Beneficiary bank account numbers will be collected by program field staff, and assistance will be provided where necessary to enable the beneficiaries to open bank accounts. Phased DLI targets will be established to shift payment from check to electronic transfer. Awareness campaigns will be carried out under the TA to ensure that beneficiaries understand the new process, and a process evaluation will assess and refine the program registration and benefit payment mechanisms.

Component 3: Support for strategic planning and implementation of systems modernization (Indicative allocation: US$ 10 million)

This component will support the development and adoption of a social protection strategy for Sri Lanka , and provide technical support for Components 1 and 2.

The primary objective will be to finalize and approve a social protection sector strategy. While the broad contours of Sri Lanka's aspirations for social protection have been expressed in various manifesto sand program documents, the country needs to refine its objectives regarding beneficiary selection, elements of life cycle support, graduation paths, scalability of social safety nets to respond to natural disasters, and gradual consolidation of programs. In addition, as programs implement electronic management systems there will be a need to ensure compatibility and harmonization of these systems. The TA will help the government to collect the required information and hold consultations to decide on these issues, and to approve and disseminate a formal strategy document. Support may also be needed for the subsequent implementation of recommendations. Finally, the component will assist the GoSL to establish and sustain an inter-ministerial working group to harmonize social protection systems.

To support the modernization of systems under Components 1 and 2, the TA will finance third

party monitoring and spot checks, and assist the MHS and MSSWLD to revise their targeting protocols. Exposure visits may be organized to introduce senior officials to the poverty registry and targeting systems used in other countries, such as Pakistan, Mexico and Brazil. To support the rollout of the MIS for each program, the TA will cover security audits of the systems, training of program staff, and the development of program operations manuals. To help manage the exit of beneficiaries from the Divineguma program, the TA will pilot and evaluate programs to promote the economic empowerment, employment and graduation of the poor. Finally, communications campaigns will be developed to inform beneficiaries of program changes regarding targeting and payment of benefits, and a process evaluation conducted to refine the registration and payment of MSSWLD beneficiaries.

II. SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Project will be carried out across the entire country, and has no physical characteristics relevant to the safeguard analysis.

B. Borrower's Institutional Capacity for Safeguard Policies

Not applicable.

C. Environmental and Social Safeguards Specialists on the Team

Darshani De Silva (GENDR)

Mohamed Ghani Razaak (GSURR)

D. POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	The project does not include components with physical activities that could generate adverse environmental impacts.
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	There are no official records / census data on the presence of IP communities in Sri Lanka. Therefore this policy is not triggered.
Involuntary Resettlement OP/BP 4.12	No	No constructions or physical interventions are planned under the project.
Safety of Dams OP/BP 4.37	No	

Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/ BP 7.60	No	

E. Safeguard Preparation Plan

1. Tentative target date for preparing the PAD Stage ISDS

11-Jan-2016

2. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the PAD-stage ISDS.

No studies are envisioned or planned at this time.

III. Contact point

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V. Approval

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Approved By	

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Practice Manager/ Manager:	Name: Pablo Gottret (PMGR)	Date: 04-Aug-2015
Country Director:	Name: Rolande Simone Pryce (CD)	Date: 06-Aug-2015

1 Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.