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Report No: 64670-LK

PROJECT APPRAISAL DOCUMENT

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IN THE AMOUNT OF  
SDR 64.1 MILLION  
(US\$ 100 MILLION EQUIVALENT)

TO THE

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

FOR A

TRANSFORMING THE SCHOOL EDUCATION SYSTEM AS THE FOUNDATION  
OF A KNOWLEDGE HUB PROJECT (TSEP)

November 2, 2011

Education Unit  
Human Development Department  
South Asia Region

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## **CURRENCY EQUIVALENTS**

(Exchange Rate Effective September 30, 2011)

Currency Unit = Sri Lankan Rupees (LKR)

US\$1 = LKR 110.15

US\$1 = SDR 0.64036

**GOVERNMENT FISCAL YEAR**

January 1 – December 31

## **ABBREVIATIONS AND ACRONYMS**

AGD	Auditor General's Department
AusAID	Australian Agency for International Development
CAS	Country Assistance Strategy
CEA	Central Environmental Authority
CFA	Child Friendly Approach
CFS	Child Friendly School
CLIL	Content and Language Integrated Learning
DLI	Disbursement-Linked Indicator
DP	Development Partner
EEP	Eligible Expenditure Program
EIA	Environmental Impact Assessment
EMIS	Education Management Information System
EMP	Environmental Management Plan
ESDFP	Education Sector Development Framework and Program
ESDP	Education Sector Development Project
ESMF	Environmental and Social Management Framework
ESSF	Environmental and Social Safeguards Framework
FC	Finance Commission
FM	Financial Management
FR	Financial Regulation
GCE A/L	General Certificate of Education Advanced Level
GCE O/L	General Certificate of Education Ordinary Level
GDP	Gross Domestic Product
GOSL	Government of Sri Lanka
GRM	Grievance Redressal Mechanism
HPS	Health Promoting School
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
ICT	Information and Communication Technology
ICTAD	Institute of Construction Training and Development
IDA	International Development Association
IFC	International Finance Corporation

IRR	Internal Rates of Return
ISA	In-service Advisor
IT	Information Technology
IUFR	Interim Unaudited Financial Report
MFP	Ministry of Finance and Planning
MIS	Management Information System
MLGPC	Ministry of Local Government and Provincial Councils
MOE	Ministry of Education
NCB	National Competitive Bidding
NCOE	National College of Education
NEA	National Environmental Act
NEC	National Education Commission
NEREC	National Education Research and Evaluation Center
NIE	National Institute of Education
NPV	Net Present Value
OP	Operational Policy
ORAF	Operational Risk Assessment Framework
PAD	Project Appraisal Document
PC	Provincial Council
PDO	Project Development Objective
PEA	Provincial Education Authority
PISA	Programme of International Student Assessment
PSI	Program for School Improvement
RBF	Results Based Financing
SBD	Standard Bidding Document
SBM	School-based Management
SBTD	School-based Teacher Development
SDC	School Development Committee
SIC	Specific Investment Credit
SMC	School Management Committees
SRFP	Standard Request for Proposal
TIMSS	Trends in International Mathematics and Science Study
TSEP	Transforming School Education System as the Foundation of a Knowledge Hub
TTL	Task Team Leader
WB	The World Bank

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**Sri Lanka**  
**Transforming the School Education System as the Foundation of a Knowledge Hub**

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SRI LANKA

SRI LANKA – TRANSFORMING THE SCHOOL EDUCATION SYSTEM  
AS THE FOUNDATION OF A KNOWLEDGE HUB

PROJECT APPRAISAL DOCUMENT

SOUTH ASIA

SASED

Date: November 2, 2011	Team Leader: Harsha Aturupane Co-Team Leader: Deepa Sankar
Country Director: Diarietou Gaye Sector Director: Michal Rutkowski Sector Manager: Amit Dar	Sectors: Secondary education (70%); Primary education (30%) Themes: Education for the knowledge economy (70%); Education for all (30%)
Project ID: P113488	Environmental category: Partial Assessment
Lending Instrument: Specific Investment Loan	Joint IFC: Joint Level:

Project Financing Data			
<input type="checkbox"/> Loan <input checked="" type="checkbox"/> Credit <input type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other: IDA and IBRD Blend			
For Loans/Credits/Others: Total Bank financing (US\$ million): 100.00 Proposed terms: Standard IDA terms for Sri Lanka.			
Financing Plan (US\$m)			
Source	Local	Foreign	Total
BORROWER/RECIPIENT	0.00	0.00	0.00
International Development Association (IDA)	90.00	10.00	100.00
Total:	90.00	10.00	100.00
<b>Borrower:</b> Democratic Socialist Republic of Sri Lanka Ministry of Finance and Planning The Secretariat Colombo 1 Sri Lanka Tel: + 94 1 2484510-1			

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**Estimated disbursements (Bank FY/US\$m)**

FY	2012	2013	2014	2015	2016	2017			
Annual	10.00	19.00	19.00	19.00	19.00	14.00			
Cumulative	10.00	29.00	48.00	67.00	86.00	100.00			

Project implementation period: Start January 1, 2012 End: June 30, 2017

Expected effectiveness date: January 1, 2012

Expected closing date: June 30, 2017

Does the project depart from the CAS in content or other significant respects?  Yes  No  
**Ref. PAD I.C.**

Does the project require any exceptions from Bank policies?  Yes  No  
**Ref. PAD IV.G.**

Have these been approved by Bank management?  Yes  No

Is approval for any policy exception sought from the Board?  Yes  No

Does the project include any critical risks rated “substantial” or “high”?  Yes  No  
**Ref. PAD III.E.**

Does the project meet the Regional criteria for readiness for implementation?  Yes  No  
**Ref. PAD IV.G.**

**Project development objective Ref. PAD II.C., Technical Annex 3**

The project development objective is to enhance access to, and quality of, primary and secondary education to provide a foundation for the knowledge-based economic and social development of the country.

**Project description [one-sentence summary of each component] Ref. PAD II.D., Technical Annex 4**

Theme One (Promoting Access to Primary and Secondary Education): This theme will support initiatives to increase opportunities for children in the age group 6-10 years to complete primary education, for children in the age group 11-16 years to complete secondary education up to grade 11, and for youth aged 17-18 years to participate in the senior secondary education grades 12-13.



Theme Two (Improving the Quality of Education): This theme will support several innovative initiatives to enhance learning outcomes and improve the orientation of the education system to the economic development and social needs of the country.

Theme Three (Strengthening Governance and Delivery of Education Services): This theme will assist the country to empower schools with greater managerial authority and responsibility, and to develop the planning, administration and monitoring capacity of the provincial, zonal and divisional levels of the education system.

<b>Safeguard Policies Triggered</b>		<b>Yes</b>	<b>No</b>
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
Significant, non-standard conditions, <b>if any</b> , for: <i>Ref. PAD III.F.</i> Board presentation: None  Loan/credit effectiveness: None			
<b>Legal Covenants:</b>			
<b>Financing Agreement Reference</b>	<b>Description of Condition/Covenant</b>	<b>Date Due</b>	
Schedule 2, Section I. B. 1.	To facilitate the carrying out of the Project and the Program at the provincial level, the Recipient shall make part of the proceeds of the Financing available to each PC under an agreement between the Recipient, through the MLGPC, and that PC.	Continuous	
Schedule 2, Section I. E. 1.	The Recipient shall, not later than October 31, in each year until completion of the Project, commencing October 31, 2012, prepare and furnish to the Association for its review and endorsement, an ESRP for the twelve (12) month period commencing on January 1 and ending on December 31 of the following year.	October 31, 2012, and October 31 of each of the following years of the project.	
Schedule 2, Section II. A. 1. (a).	The Recipient shall monitor and evaluate the progress of the Project, and prepare	Continuous	

	Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth in Attachment 2 to this Schedule. Each Project Report shall cover the period of six months, and shall be furnished to the Association not later than forty five days after the end of the period covered by such report.	
Schedule 2, Section II. A. 1. (b).	The Recipient shall no later than November 30 of each year, commencing November 30, 2012, carry out joint reviews of the Project and the Program with the Association to, inter alia, assess the progress of implementation and achievement of agreed results, and identify any obstacles or impediments.	November 30, 2012, and November 30 of each of the following years of the project.
Schedule 2, Section II. A. 1. (d).	The Recipient shall, no later than October 31, 2014, prepare, under terms of reference satisfactory to the Association, and furnish to the Association, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraphs (a) and (b) of this Section, on the progress achieved in the carrying out of the Project and in meeting the Disbursement Linked Indicators during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives of the Project and of the Program during the period following such date, including its proposals, if any, to substitute DLIs not complied with by their due date with other DLIs that are more conducive to the achievement of the Project's objectives.	October 31, 2014.
Schedule 2, Section II. B. 1. 2. and 3.	<ol style="list-style-type: none"> <li>1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.</li> <li>2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the</li> </ol>	Continuous

	<p>Association as part of the Project Report not later than 45 days after the end of each six month period, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Association.</p> <p>3. 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 fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than 10 months after the end of such period in the first two years and not later than 9, 7 and 6 months respectively in the ensuing years.</p>	
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## **I. STRATEGIC CONTEXT**

### **A. Country Context**

1. Sri Lanka is a lower-middle income country with a per capita income of approximately US\$ 2,400, and a population of around 20 million people. Basic human development levels are high, with a literacy rate of 91 percent, and life expectancy of 75 years. The country has approximately 4 million school children, about 215,000 teachers, and around 10,000 schools. Policy makers are seeking to accelerate economic growth and enable Sri Lanka to become a high-middle income country. The promotion of growth is organized around five key hubs: a knowledge hub which seeks to develop knowledge-based industries and services; a ports and shipping hub; an aviation hub; a commercial hub; and an energy hub. The knowledge hub is considered central to the transformation of the economy, as knowledge is the key ingredient of growth in the modern global economy, and provides the foundation for the success of all the other hubs. Policy makers are also keen that the benefits of growth are distributed equitably among the population.

### **B. Sector and Institutional Context**

2. The Sri Lankan general education system has made important gains over the recent past, especially in basic education. For instance, the net primary education enrollment rate is 99 percent, and the primary education completion rate is over 95 percent. Gender parity is high in the education system, with equal proportions of girls and boys enrolled in primary education and a slightly higher number of girls than boys in secondary education. Learning outcomes in primary education in First Language (Sinhala and Tamil), mathematics and English have increased significantly between 2003- 2008. The proportion of students scoring over 50 percent in First Language rose from 69 percent to 81 percent, in mathematics from 65 percent to 80 percent, and in English from 31 percent to 49 percent, during this period.

3. Despite this past progress, the general education system faces a number of future challenges [see *Transforming School Education in Sri Lanka: from Cut Stones to Polished Jewels*, the World Bank (2011)].

4. First, the skills and competencies required for modern knowledge-based economic activities have become considerably more complex in comparison to the past. For instance, while many jobs in the past could be performed with routine manual and cognitive skills today many jobs require expert thinking and non-routine analytic skills, such as the ability to identify and solve new problems, and complex communication and non-routine interactive skills, such as the ability to elicit, utilize and communicate critical information. The main focus of policy attention in the past was on basic education. However, there now needs to be greater policy focus on secondary education, which has to be transformed into a human capital production system that generates complex skills broadly and widely to enable the country to compete in the knowledge economy.

5. Second, there are continuing challenges in primary education which need to be addressed. The National Curriculum policy indicates that all children are expected to achieve 'mastery' at

the 80 percent level. With a cut-off of 80 percent, 52 percent of children are failing to achieve mastery of their first language, 47 percent fail to achieve mastery of mathematics and 81 percent fail to achieve mastery of English. Moreover there are marked disparities in performance by province, location, school type, gender and medium of instruction.

6. Third, key skills for a knowledge hub, such as English language, information and communications technology (ICT), science and mathematics need to expand considerably. The capacity of the general education system to produce these skills to adequate standards of quality is poor. English language fluency, which was discouraged in Sri Lanka from the mid-1950s onwards for nearly 50 years, is a particularly acute constraint on the entire education system and labor market. Science and mathematics skills are also limited. For instance, there are about 2,650 secondary schools offering GCE A/L courses (ages 16-18) in the country. Yet, only about 716 schools (27 percent of secondary schools) offer GCE A/L science and mathematics. Further, the majority of students who enter science-based university degree programs, such as medicine, engineering, IT and the sciences come from about 200 of these schools. This suggests that only 8 percent of secondary schools are currently of adequate standard in subjects such as science, IT and mathematics to support a knowledge-based economy.

7. Fourth, there are wide regional disparities in the current education system, which needs to be addressed urgently in the interests of both equity and improving performance overall. Differences in education opportunities and outcomes between the developed Western Province and some of the other less developed provinces are sharp. English language skills are particularly weak outside the Western Province and the large towns elsewhere. Access to good quality general education is also confined mainly to the Western Province and the large towns. The Northern and Eastern Provinces were affected by a conflict for nearly thirty years, and have just commenced the process of re-building their education systems, with considerable rehabilitation and reconstruction of even basic school facilities needed. The estate sector also lags behind in education indicators, and requires special attention.

8. Fifth, public expenditures on education in Sri Lanka are modest when compared to middle income countries and other comparable nations. Education expenditure as a percentage of GDP is 1.9 percent and as a proportion of the government budget was 7.3 percent in 2010. This is the smallest share of public investment in education among a cluster of countries that share common features with Sri Lanka. Public investment in education in Sri Lanka falls below the level of East Asian countries such as South Korea, Malaysia, Thailand and Singapore; Latin American countries such as Argentina, Brazil, Bolivia, Colombia and Costa Rica; and of other South Asian nations such as India, Bangladesh, Pakistan and Nepal. It is also well below the share of investment for middle income countries as a whole. In fact, advanced middle-income countries normally invest about 4.6 percent of national income in education, which is more than double the share of national income devoted to education by Sri Lanka.

9. Low investment in education has several negative consequences for the performance of the education system [see Transforming School Education in Sri Lanka: from Cut Stones to Polished Jewels, the World Bank Sri Lanka Education Sector Report 2011]. Under-investment in the capital education budget means that the ability of the country to develop a stock of modern education assets and spaces, such as classrooms adapted to the use of technology, IT

laboratories, libraries, science laboratories, language laboratories, activity rooms, multi-purpose rooms, IT equipment, science equipment, and teaching-learning material, is severely constrained. In addition, there are about 1,685 schools (around 17 percent of schools) without drinking water facilities, and approximately 4,730 schools (around 49 percent of schools) without adequate sanitation facilities. The ability of the country to supply these basic facilities is restricted by the shortage of funds. Low investment in the recurrent education budget means that the country's ability to spend on quality processes, such as the professional development of teachers and teacher educators, the management and leadership development of school principals and education administrators, the delivery of on-site academic and administrative support to schools, and to provide incentives for teachers to locate in disadvantaged areas, as well as to meet the operating and maintenance cost of capital education investment, is limited. Overall, the ability of the education system to deliver a high quality education experience for school children is tightly constrained by the relatively low level of public investment in education.

10. Sixth, the general education system needs to meet broad social goals. This includes promoting civic values and notions of good citizenship among students. It also includes developing the enlightened values, attitudes and behavior needed for a modern political democracy. Also, in the context of Sri Lanka, which is emerging from a three decade long ethnic based war, it is extremely important that the education system inculcates and fosters a favorable environment for a multi-ethnic, multi-religious and multi-cultural society.

11. Sri Lankan policy makers are aware of the importance of strengthening general education, especially as the country seeks to become a high performing middle-income country. The policy framework of the Government of Sri Lanka (GOSL) emphasizes regional equity and the importance of ensuring that all students in the country have access to good quality primary and secondary education. The national policy framework also discusses the importance of substantially improving the quality of secondary schools to support a knowledge-based economy, and the importance of strengthening primary education as the foundational stage of education.

12. The Ministry of Education (MOE), in consultation with the National Education Commission (NEC), Provincial Councils (PCs), the Ministry of Finance and Planning (MFP), the Finance Commission (FC), and other education stakeholders such as academics, researchers, employers, principals, teachers, parents and students, and development partners, has developed the national Education Sector Development Framework and Program (ESDFP) 2012-2016 to address the challenges facing the general education sector [MOE 2011]. The ESDFP 2012-2016 emphasizes the importance of promoting a high quality general education system that is relevant for the national and global economic and social needs of the country.

13. The overall ESDFP 2012-2016 is organized under three themes.

- Theme One: Promoting access to primary and secondary education.
- Theme Two: Improving the quality of education.
- Theme Three: Strengthening governance and delivery of education services.

14. The foundation on which these three themes rest is the five-year national education sector rolling plan. The national sector plan consists of the education sector plan of the central Ministry of Education and the education sector plans of the nine Provincial Councils. These plans are

prepared through a collaborative process of consultation and joint work between the Ministry of Education, the Provincial Councils, the Ministry of Finance and Planning, and the Finance Commission. The education sector plan seeks to improve the efficiency and equity of education expenditures. The education sector rolling plan will be updated every year jointly by the MOE and the Provinces. The estimated government contribution to the ESDFP 2012-2016 is about LKR 500 billion (about US\$4.5 billion).

### **C. Higher Level Objectives to Which the Project Contributes**

15. The Transforming School Education System as the Foundation of a Knowledge Hub Project (TSEP) has the potential to contribute strongly to Sri Lanka's objective of promoting human development, economic growth and poverty reduction. The nation is just emerging from a long period of conflict and is at the threshold of becoming a high performing middle income country. The TSEP, by enhancing access to, and quality of, primary and secondary education, and strengthening governance and delivery of education services, will help the country develop a strong foundation for economic development and human development. The TSEP also seeks to promote social cohesion through the education system, and to strengthen the capacity of the education management system at multiple levels, including national and sub-national educational agencies and individual schools. These initiatives will assist Sri Lanka to broad-base the benefits of growth and promote the social development of the country. The TSEP is also a part of the Bank's Country Assistance Strategy (CAS) for 2009-2012 approved by the Board on May 7, 2008. The CAS acknowledges the importance of strengthening service delivery as a strategic objective and improving the quality, relevance and governance of education services as CAS outcome 3.1. The important role of human capital development is expected to continue in the Bank's engagement in Sri Lanka in the future, especially given the country's emphasis on becoming a knowledge hub.

## **II. PROJECT DEVELOPMENT OBJECTIVE**

### **A. PDO**

16. The project development objective is to enhance access to, and quality of, primary and secondary education to provide a foundation for the knowledge-based economic and social development of the country.

#### **1. Project Beneficiaries**

17. The direct beneficiaries will be about 4 million school children, around 215,000 school teachers, 15,000 principals and 3,500 education managers and administrators. Among the 4 million students, there are approximately 1.6 million primary school students and 2.4 million secondary school students. There is a high degree of gender parity from the perspective of girls' education. At primary education level the number of girls and boys is approximately equal. At secondary education level there are slightly more girls than boys. Girls outperform boys in National Assessments of Learning Outcomes in key curriculum subjects.



18. The indirect project beneficiaries will be the school communities of around 10,000 schools; the households of the 4 million school children; the contractors of school infrastructure and suppliers of educational equipment; and the academics and researchers who will receive support for research and evaluation activities. In the long-term, as the quality of school completers rises, employers and the higher education and training sectors will also benefit.

## **2. PDO Level Results Indicators**

19. The central outcomes of the operation are aligned with the key performance indicators of the GOSL ESDFP 2012-2016.

### **Key Performance Indicators**

- The survival rate of students up to Grade 11 (age 16 years) in the education system.
- National assessments of learning outcomes conducted according to a regular and continuing cycle for English, science and mathematics in secondary grades and for English, mathematics and First Language (Sinhala and Tamil) in primary grades, and used for the development of the annual rolling education sector plan.
- The proportion of schools in which the Program for School Improvement (PSI) cycle of school development planning, implementation, reporting of results, and annual updating of the plan is completed.

20. These outcomes will be measured and reported by gender, sector and medium of instruction, to ensure that gender, regional and language-based variations are captured.

## **III. PROJECT DESCRIPTION**

21. The project components are aligned with the themes of the ESDFP 2012-2016.

### **A. Project Components**

#### **The Foundation: The Rolling Education Sector Plan**

22. The foundation of the ESDFP 2012-2016 is the rolling five-year education sector development plan. The TSEP will assist the education sector plan. The plan describes the key outcomes and results to be achieved under the program, and the strategies to achieve these outcomes and results. The plan also contains an annual implementation plan (including a procurement plan). The operational arrangements to support the plan are contained in an Operations Manual. The plan specifies national standards for educational spaces and assets. The plan sets targets, under the capital budget, for higher-order spaces and assets, such as language laboratories, ICT facilities, science laboratories, multi-purpose rooms, activity rooms, and library resource centres. The education sector plan also sets targets under the capital budget for essential facilities, such as classrooms, water supply and sanitation. In addition, the education sector plan has targets for higher-order processes, such as teacher development and the strengthening of the leadership and management skills of school principals, under the recurrent budget. Further, the education sector plan sets targets for repair, maintenance and replacements of physical facilities and equipment. The target values for allocation vary from province to province, based on the

specific needs of the provinces and their levels of economic and education development. The education sector plan also seeks to strengthen the efficiency of plan implementation by supporting activities such as timely procurement planning and monitoring, and sound land use planning in school construction. The education sector plan will be reviewed and updated every year based on past implementation experience and in the light of new information, and policy needs and priorities.

### **Theme One: Promoting Access to Primary and Secondary Education**

23. This theme will support initiatives to improve opportunities for children in the age group 6-10 years to complete primary education, and for children in the age group 11-16 years to complete secondary education up to grade 11. In addition, it will help improve the education opportunities of youth aged 17-18 years in grades 12-13. There are several demand and supply side strategies to achieve these objectives.

24. Demand side incentives consist of tuition free primary and secondary education in government schools; a set of free textbooks and school uniforms for children from grades 1-11; the appointment of school attendance committees in each local school community to promote school enrolment and attendance; and school health and nutrition programs, including meals for children from poor communities and sanitation facilities to promote attendance, especially among girls. The supply side measures include ensuring that a good quality primary school is available within easy reach of all primary school aged children, and that a good quality secondary school offering science, arts and management curriculum streams are available within reasonable travelling distance for all students. In this context, the ESDFP 2012-2016 plans to improve the learning environments of strategically selected primary and secondary schools in every province during 2012-2016. In addition, non-formal education programs and special education programs will be available for students who have never enrolled, those who have dropped out of primary and secondary education, and those with special learning needs. Measures will also be introduced to enable students who are unable to proceed beyond the GCE O/L stage to obtain training that will provide them with skills that are useful in the labor market.

### **Theme Two: Improving the Quality of Education**

25. A strategic initiative under this theme is the development of a system for the regular and continuing assessment of cognitive skills. These National Assessments of Learning Outcomes will feed back into policy and program development, especially in the context of the rolling education sector development plan of the central Ministry and the Provinces. The Faculty of Education of the University of Colombo has established a National Education Research and Evaluation Centre (NEREC) which will conduct national assessments of learning outcomes. The TSEP will assist the government to strengthen the quality of national assessments to international standards. The project will also help Sri Lanka to participate in international assessments such as TIMSS and PISA. The information and feedback from these national and international assessments will be used by policy makers and technocrats in key areas such as curriculum development, pre-service teacher education, continuing teacher development, and in the production of educational material including textbooks. The learning assessments will also provide feedback to the PCs on the performance of the education systems in the provinces.

Performance on the assessments can be compared across provinces and by other groupings, thereby enabling education policy makers to identify areas and groups that are lagging behind in terms of achievement, and to design strategies to address these disparities.

26. The TSEP will pay special attention to the promotion of learning in subjects that are of central importance for the labor market, such as English, IT, science, mathematics, and commerce and management. The subjects of the primary stage of education, which provide the necessary foundation for good quality secondary education, are also important. The MOE will use a child centered and child friendly learning and teaching approach for primary education. The TSEP will pay special attention at the primary stage to the promotion of first language, mathematics and English. In addition, the TSEP will support an important reform that has been introduced, the Bilingual Education program for secondary education, where a range of subjects are available in the English medium. These initiatives are designed to expand the pool of secondary school completers fluent in English, and skilled in IT, science and mathematics, that will provide the foundation for Sri Lanka to become a knowledge hub with knowledge-based services. The national assessments of learning outcomes will cover these key subjects including first language, mathematics and English at primary, and English, science, mathematics and first language at secondary. The assessments will include students following the Bilingual Education program as well as those following a single medium program. The assessments will provide feedback and further ideas for development, to policy makers and education technocrats.

27. Soft skills, such as habits of industry and discipline, the ability to work in teams, good communication, creative thinking, problem solving, and leadership, will also be promoted in both primary and secondary education, including through extra-curricular activities such as cultural events, the arts, games and sports, and co-curricular activities such as project work and activity based learning.

28. The ESDFP 2012-2016 recognizes the importance of teachers for the delivery of quality education services. The TSEP will specially support an innovative policy measure, School-based Teacher Development (SBTD). Under this concept teacher development takes place directly at the school level. SBTD involves the active participation and direct control by school teachers, school principals, and officials in the school support network, such as in-service advisors. The activities under SBTD typically include school-based mentoring, peer learning, peer coaching, individual consultation, and visits to other classroom. The international experience supports SBTD as a promising reform.

29. The TSEP will assist the government to improve the school curriculum to better reflect modern international trends in curriculum practice, effectively disseminate curriculum goals, values and aims to stakeholders, and orient the education system more strongly to the world of work. The project will also provide strong implementation support for curriculum upgrading to schools. The TSEP will help the National Institute of Education (NIE) to fine tune and upgrade the primary and secondary school curricula. At the primary stage of education the NIE will consider a child-friendly approach for curriculum review and revision (content, learning and teaching methods and assessment) and the provision of training for school teachers on the new primary education curriculum. In secondary grades, the TSEP will pay special attention to improving the mathematics and science curricula. The areas in which the mathematics and

science curricula need to be diversified and rationalized will be identified. New curricula and syllabi for mathematics and science in secondary grades will be developed, and teacher training and textbook production for the new curricula will be undertaken.

30. The ESDFP 2012-2016 also seeks to ensure that students are provided with good quality textbooks. The TSEP will support the government to resolve the problems and issues in the textbooks (especially languages, history, mathematics, and science) including factual errors, lack of clarity of subject matter, changes in the context of subject material after translation, variation and inconsistencies in materials across the three languages (Sinhala, Tamil and English), grammatical errors and typographical errors. The TSEP will support promoting discussion and collaboration among textbook evaluation committees in schools, writers, and resource persons, and conducting research to ascertain whether the textbooks are aligned with syllabus guidelines and compensate for areas in which the learning outcomes of students are weak. The TSEP will also assist GOSL to present a positive picture ethnic and religious diversity and of multi-cultural societies through the textbooks.

31. The ESDFP 2012-2016 also seeks to promote social cohesion through the education system, by increasing interactions between students from different ethnic and religious communities through educational, co-curricular and extra-curricular activities, and by using the school curriculum to present multi-ethnic, multi-cultural societies favourably to students. The TSEP will support this key initiative for the future social development of Sri Lanka.

32. Quality assurance processes can be important for the development of good quality schools. The quality assurance program within the ESDFP 2012-2016 will be strengthened and developed to reflect the policy emphasis on improving education outcomes, through school based activities, under the PSI. The new Quality Assurance program developed and aligned with the PSI will work closely with the in-service advisors, especially as they support activities connected with the Program for School Improvement.

### **Theme Three: Strengthening Governance and Delivery of Education Services**

33. The main ESDFP 2012-2016 development initiative under this theme is the establishment of a balanced control model of school-based management called the Program for School Improvement (PSI). The TSEP will support the PSI. Under the PSI school officials such as principals, teachers and administrators will be joined by stakeholders in the local school community, such as parents, past pupils and well-wishers, in the management and administration of schools. The government will provide a grant to schools to improve education outcomes, particularly to improve student learning and for initiatives to strengthen the “soft skills” of students, such as team work, an industrious and disciplined work ethic, good communication skills, leadership and enterprise, that are in demand by employers. In addition, the schools will be able to raise resources from their stakeholder communities, such as parents, past pupils associations, and local philanthropists, to supplement the funds received from the government to develop the schools.

34. This initiative will build on a successful pilot version of the PSI, which had a positive impact on the learning outcomes of primary school students [see World Bank-FTI (2011)]. The

model of school-based management supported under the project will be an expanded version of the PSI, which will also have strategic interventions for secondary schools. In particular, there will be greater autonomy at the school level to manage funds, with increased spending thresholds for schools. There will also be greater accountability. The TSEP identifies as pre-requisites for a successful rollout of the school-based management model and supports: (a) continuous Financial Management (FM) and procurement capacity building of the committees, principles, teachers and staff involved in FM and procurement related decision making and implementation; (b) clear and simplified FM and procurement guidelines; (c) development of institutional arrangements for fiduciary monitoring of school level activities and support to schools which are formalised by way of circular instructions. The accounts of school expenditures will be reported publicly. In addition, at the end of each year there will be a school performance feedback form that will describe the degree of attainment of the school's performance targets against the school development plan for that year. The school performance feedback form will be made available to the public, including parents and students. The information provided in this form is expected to help improve school level planning and implementation, and strengthen accountability to stakeholders. The best practices of school-based management initiatives, including those developed within a CFA for primary schools, will be brought under the PSI framework.

35. The TSEP will also support GOSL to strengthen the capacity of the education management system, particularly the provincial and sub-provincial systems at the zone and division levels. Special emphasis will be given to strengthening the capacity of divisions and zone to provide academic support to schools. In addition, the planning, budgeting, administration and monitoring skills of zones will be strengthened. Along with the formulation of robust sectoral policies and strategies, efficient public expenditure management and financial accountability at the sector level are key ingredients in ensuring the efficient and effective use of budgetary resources and service delivery. The TESP will support the institutionalization of FM related training for education sector staff at the central, provincial and sub-provincial levels to achieve: (a) better linkages between the planning and financial aspects of the budget process resulting in more accurately costed plans; (b) accurate cash flow planning and expenditure forecasting; (c) high quality accounting and financial reporting resulting in credible information for policymakers to monitor public expenditures and program efficiencies; and (d) greater compliance with Government's Financial rules and regulations. The TESP seeks to enhance accountability and oversight arrangements in the education sector by strengthening internal audit to carry out risk based high impact audits, relying on Governments external audit arrangements and introducing an intermediate outcome indicator to monitor the timelines of the external audits in the sector and assigning the well trained staff of the Performance Audit at the Auditor General's Department (AGD) to carry out a value-for-money audit of the sector at mid-term.

## **B. Project Financing**

### **1. Lending Instrument**

36. The TSEP will be financed by a US\$ 100 million Specific Investment Credit (SIC), using a Results Based Financing (RBF) modality to support project implementation.

37. This lending approach has two key characteristics. First, disbursements will be made against selected Eligible Expenditure Programs (EEPs) of the MOE, the Provinces, the Ministry of Local Government and Provincial Councils (MLGPC) and if necessary the FC, up to capped absolute amounts. Second, credit disbursements will be based on the achievement of pre-specified results, as measured by Disbursement-Linked Indicators (DLIs). Using this approach will deepen the focus on the achievement of results through efficient implementation.

38. The DLIs under this Project have the following characteristics. First, the selected DLIs reflect priority elements in the Government’s ESDFP 2012-2016. Second, they include intermediate results and implementation performance targets that build incrementally over the life-cycle of the TSEP. Third, the results represented in the DLIs are important to achieve the core outcomes and over-arching goals of the ESDFP 2012-2016. Fourth, they are independent of each other from a disbursement point of view; i.e., non-compliance with a DLI in a period means that the disbursement of the funds associated with that DLI will be withheld, but disbursement associated with other DLIs will not be affected. Fifth, the DLIs are weighted as follows: the first DLI will have a weight of 40 percent, and the other four DLIs will have a weight of 15 percent each (see Annex 1). The total disbursement amount will be divided across the DLIs in proportion to their weights in a given year, conditional on the achievement of the agreed DLIs each year. Disbursements against the finalized list of EEPs will be based on: (a) expenditure reports; and (b) performance reports to track the achievement of the DLIs.

39. The DLI approach is expected to improve the development impact of resources due to: (a) greater focus on results through the link between the flow of funds and the achievement of results; (b) open policy dialogue for the entire program and a strong partnership between GOSL and IDA; (c) scaling-up benefits and sustainability by focusing on the entire program; and (d) strengthening the country’s capacity, systems and institutions at a feasible pace and phasing. The funds under the TSEP will be integrated into the budgets of the MOE and the education budgets of the Provincial Councils, and use the public sector format for reporting expenditures. Credit proceeds upon disbursement will be indistinguishable from public sector funds and, as such, will not be tracked separately as an expenditure category. The focus, instead, will be on monitoring the results and outcomes, and financial performance.

## 2. Project Costs and Financing

40. Total project financing from IDA will be an estimated US\$ 100 million. The proceeds of the credit will be disbursed based on the achievement of DLIs. The IDA contribution will be for the capital education budget and the quality dimensions of the recurrent education budget.

**Table 1. Project Cost and Financing**

<b>Themes</b>	<b>IDA Financing (US\$ M)</b>	<b>% of Financing</b>
Theme 1: Promoting access to primary and secondary education	30	30
Theme 2: Improving the quality of education	50	50
Theme 3: Strengthening governance and delivery of education services	20	20
<b>Total</b>	<b>100</b>	<b>100</b>

### **C. Lessons Learned and Reflected in the Project Design**

41. The design of the operation builds on the lessons learned from the Bank's Education Sector Development Project (ESDP), as well as previous Bank education operations in Sri Lanka and other countries. Key lessons learned are that:

- (a) Implementation is most effective when the principle of subsidiarity, where power is devolved as far as possible to the unit of administration closest to the final beneficiaries, is followed. The TSEP will follow this principle by focusing, to the maximum extent possible, on the school level. Educational activities in schools will be supported through a range of initiatives, including managerial empowerment of schools, school-based learning improvement grants, and school-based teacher development activities.
- (b) Strengthening the managerial tiers closest to the schools, the education divisions and zones, to provide academic and operational support to schools, is very important. The division, which is the administrative unit most proximate to schools, can be the locus of academic support activities for schools. The education zones, which are larger units containing an average of 3-4 divisions, can be the locus of operational support, including financial management and procurement, assistance to schools. The In-Service Advisors (Master Teachers), in particular, should operate as far as possible from the divisional and zonal offices.
- (c) Directly supporting a flexible, rolling education sector development plan developed by each province increases ownership and performance by the provinces. The TSEP will channel project funds directly to each province, in support of the rolling provincial education sector plans that are agreed with the MOE and the World Bank.
- (d) Close cooperation between the national MOE, the MLGPC and the FC is extremely important for the efficient functioning of the provincial education programs. The MOE can provide expertise and guidance to the Provincial Departments of Education. The MLGPC and FC interacts with the Chief Secretary and Deputy Chief Secretaries of Planning, Engineering Services, and Administration and Finance, in the provinces. Close collaboration between the MOE, the MLGPC and the FC helps ensure that the work of the various agencies at the provincial level work are aligned to support and achieve the objectives of the ESDFP 2012-2016 in each province.
- (e) A sound monitoring and evaluation system is of central importance to ensure efficient implementation, with a focus on the key results and outcomes of the program. Information derived from this system can also be used to further develop the program and for future policy formulation. The TSEP will assist the MOE and the provinces to strengthen the monitoring and evaluation system.
- (f) A good communications strategy, where the objectives and performance of the program is widely disseminated to policy makers, technocrats, beneficiaries and stakeholders, is extremely useful. It helps to strengthen the commitment and understanding of the program among the general public. It also helps to improve the performance of the key implementing agencies.

## IV. IMPLEMENTATION

### A. Institutional and Implementation Arrangements

42. National level. The MOE will be responsible for the following functions: establishing national policies, norms and standards; system development; formulating the school curriculum and the pre-service teacher education curriculum; establishing service conditions for the four education services: the teachers service, the principals service, the education administrators service, and the teacher educators service; human resource management of education administrators, school principals and school teachers at the national level; publishing and distributing textbooks, and accrediting any textbooks produced by the private sector; providing national level incentives, such as school uniforms and transport subsidies, to increase school attendance; administering professional development programs and courses for principals, section heads and teachers; public examinations; administering national schools; national level planning, monitoring, evaluation and research; and overall quality assurance.

43. Provincial level. Provincial Councils will be responsible for the following functions: developing and implementing the provincial education sector development plans; managing the provincial school system; human resource management and development of education administrators, school principals and school teachers at the provincial level; implementing continuing teacher development programs; implementing special and non-formal education programs; and provincial level monitoring and evaluation.

44. The MLGPC is the coordinating Ministry for the provinces. The MLGPC will facilitate TSEP implementation by the PCs. The FC recommends the budgets of the Provincial Councils to the President of the country, particularly to promote balanced regional development. The FC also monitors budget execution by the PCs. The FC will assist the PCs to increase their focus on equity, results, and procedural efficiency, in the formulation and execution of their education budgets.

45. Coordination of development partners' support. Although the funding modalities may be different, all development partners (DPs) will integrate their support under the GOSL program. IDA and the DPs will work in support of the overall ESDFP 2012-2016 and will make every effort to harmonize their work with each other. The DPs will also support participatory approaches, transparency, predictability and comprehensive documentation. Periodic national level monitoring meetings for the ESDFP 2012-2016 will be held under the chairmanship of the Secretary of the MOE. A joint annual review mission will be undertaken by the Bank team and interested DPs in which all the ESDFP 2012-2016 activities and plans will be reviewed in relation to the expected targets and results. The DPs will also meet regularly under the leadership of the World Bank to ensure that their activities are harmonized with the GOSL program and to discuss issues of mutual interest. AusAID (Australian Agency for International Development) is considering supporting the ESDFP 2012-2016 through a Trust Fund arrangement with the World Bank. The AusAID Trust Fund would focus on the primary education program, including implementation of a child centered and child friendly learning and teaching approach in primary schools and primary sections, inclusive education, the promotion of social cohesion through



education, and services associated with monitoring, evaluation, technical assistance, and research and studies.

## **B. Results Monitoring and Evaluation**

46. The ESDFP 2012-2016 will have a strong focus on the monitoring and evaluation of results and outcomes. The monitoring and evaluation activities will focus on program inputs, processes, outputs, results and outcomes. A detailed framework for monitoring and evaluation has been worked out. The monitoring activities will be undertaken mainly by public sector agencies, such as the MOE, MLGPC, Finance Commission (FC), Provincial Councils and the National Institute of Education (NIE). Evaluation activities will generally be contracted out to independent research agencies, such as the National Education Research and Evaluation Center (NEREC) and private firms. Policy research will be undertaken by the MOE, the FC, National Education Commission (NEC) and the Provinces, mainly with the assistance of specialized research agencies, such as universities, research institutes, NEREC and NIE.

47. The final outcome and intermediate outcome indicators for the TSEP are derived from the ESDFP results framework. These indicators have annual targets set in the ESDFP framework. Performance indicators will be used to follow the progress of the education system in terms of the core outcomes and intermediate outcomes, including DLIs.

48. The monitoring system will follow a cascade model. The MOE, MLGPC and FC will monitor the implementation of the ESDFP in the Provinces according to their respective institutional mandates. The Provinces will monitor the implementation of the ESDFP in the zones. The zones will monitor the implementation of the ESDFP in the divisions and the schools. The divisions will assist the zones to monitor the implementation of the ESDFP in the schools.

## **C. Sustainability**

49. Several elements of the TSEP support the sustainability of the project.

(a) Alignment of the TSEP with the national education program of the country. The TSEP supports the overall ESDFP 2012-2016 of the MOE and the Provincial Education Authorities (PEAs). The development initiatives supported by the project enjoy high priority within the general education sector in Sri Lanka. Hence, country ownership and commitment for the activities of the TSEP are strong.

(b) Flexible program design with built-in incentives for performance. The TSEP supports the ESDFP 2012-2016 which has a flexible program design based on a five year rolling plan. The ESDFP 2012-2016 takes an incremental approach to the promotion of complex reforms in the initial years, and provides scope for fine-tuning and on-course updating of policies in the light of fresh information and new circumstances. The rolling plan of the ESDFP 2012-2016 also provides flexibility for provinces and to individual education institutions to update and improve development plans and actions periodically to respond to new circumstances.

(c) Strong technical viability and national consensus on policy measures to improve primary and secondary education. The technical contents of the ESDFP 2012-2016 and TSEP are

supported by international evidence of good practices, and rigorous analytical work on Sri Lanka’s education system. In addition, the ESDFP 2012-2016 has been prepared through an extensive process of nation-wide consultation, covering policy makers, technocrats, officials and staff from all provinces, zonal and divisional education staff, in-service advisors, principals, teachers, students, parents, academics, employers, civil society representatives, and local community members.

## V. KEY RISKS AND MITIGATION MEASURES

50. The key risks to the TSEP and their proposed mitigation measures have been identified in the Operational Risk Assessment Framework (ORAF) in Annex 4. The most important risks and mitigation measures during implementation include the following [Table 2]:

**Table 2. Key Risks and Mitigation Measures**

Key Risk	Mitigation Measure
<p><u>Policy level.</u> Policy support from the center to the provincial education systems need to be strong. The project proposes to work within the government’s education framework where the national MOE and the Provincial MOE both have responsibility for service delivery. The commitment of the centre to the provinces is important, otherwise it would adversely affect the delivery of services.</p>	<p>Appropriate high level dialogue and advocacy efforts as necessary. According to the government’s education framework the national MOE, other national agencies such as the Ministry of Finance and Planning and the FC, and the Provincial MOE, have established roles and responsibilities for the flow of government funds and the delivery of education services. The project will use the same government framework for the flow of funds and the delivery of education services.</p>
<p><u>Capacity.</u> Planning, budgeting, administration and monitoring capacity play a central role in the successful implementation of the program. There is a moderate risk that a shortfall in such capacity, especially in the weaker provinces, could negatively affect the success of the project.</p>	<p>The proposed project will continue to invest significant resources on organizational strengthening, particularly in the weaker provinces, and schools, and cover the areas listed: planning, budgeting, administration and monitoring, as well as procurement, and financial management. Continuous human resource development, particularly at provincial and sub-provincial level, is also an integral feature of the TSEP.</p>
<p><u>Complex organizational structure in governance.</u> The center-province division of roles and responsibilities could cause difficulties in implementation. With a decentralized system of service delivery, and separate channels of financing and implementation for the central and provincial levels, there is a certain amount of complexity built into any education sector project which seeks to support the overall government program.</p>	<p>The organizational structure of the project is based on the recently completed ESDP project, which was implemented satisfactorily. Lessons learned from this experience were taken into account to further strengthen the design of the proposed operation. The MOE, MLGPC and the FC which oversees the budgets of the Provinces, will work together to assist the provinces to develop and implement their provincial sector plans in accordance with the overall education sector plan and budget framework.</p>

<p><u>Commitment from teachers and teacher associations.</u> The government program seeks to improve teacher employment by recruiting teachers only for subjects where there is a shortage of teachers. The program also seeks to improve teacher deployment through incentives for teachers to locate in disadvantaged areas. These measures need support from teachers and teacher unions to succeed.</p>	<p>The importance of targeting teacher recruitment to subjects where there is a shortage of teachers and of improving the deployment of teachers to schools in disadvantaged areas is known among policy makers and has been discussed, during consultations, with representatives of teachers and teacher associations. There is general support for the idea of matching teacher recruitment with the needs of the system, and for the use of incentives to improve teacher deployment. However, individual teachers may not cooperate with the latter measure.</p>
<p><u>Delivery quality.</u> The use of assessments of learning outcomes, both national and international, for policy formulation and education development requires a level of sophistication that may be too high for some education policy makers, especially in the provinces.</p>	<p>Many technocrats in the education system understand the importance of evidence-based policy formulation and the use of assessments of learning outcomes in this context. During project preparation the uses of national assessments were explained and discussed with the provincial education authorities. The TSEP will provide support to make national assessments an integral part of the education planning process during the ESDFP 2012-2016.</p>
<p><u>Procurement.</u> (a) Inadequate capacity of the implementing agencies particularly at school level in procurement; and (b) An inadequate monitoring mechanism to capture the compliance and performance of procurement.</p>	<p>Continuous human resource development and organizational strengthening, particularly at provincial and school level, are integral features of the TSEP. This will include procurement strengthening. A reporting system will be introduced under the project.</p>
<p><u>Financial Management.</u> Limited capacity of the various education sector institutions including schools and inadequate coordinating and monitoring capacity particularly in MLGPC to ensure compliance and performance in financial management with respect to provincial component.</p>	<p>Design a framework to strengthen FM capacity of various education sector institutions including schools. The coordinating and monitoring agencies will also be strengthened . MLGPC will have core staff which includes a financial management specialist and any other FM staff assessed as necessary, satisfactory to IDA before disbursements could be made for the provincial component. This is reflected in the Financing Agreement as a disbursement condition.</p>

## **VI. Appraisal Summary**

### **A. Economic and Financial Analysis**

51. The TSEP has the potential to make a powerful contribution to economic and human development of the country. About 4 million children including both boys and girls and children from all ethnic groups and religious communities, and around 215,000 school teachers, 15,000 principals and 3,500 education managers and administrators will directly benefit from the investments under the TSEP. The TSEP has a strong focus on external efficiency and equity.

Increasing the survival rate in the education system up to age 16, and enhancing learning outcomes in subjects such as first language, English, mathematics and science, are important to improve Sri Lanka's performance and competitiveness in the global knowledge economy. Initiatives to empower schools with managerial functions, enable stakeholders such as parents, past pupils and local well-wishers to participate in and assist the development of schools, expand special education and non-formal education for children who need such types of educational opportunities, and promoting social cohesion among the different ethnic and religious communities in the country, are all important for human development in Sri Lanka.

52. The TSEP supports initiatives to develop the primary and secondary education system in Sri Lanka. As Table 3 shows, basic and secondary education yield high rates of return to education investment. The pattern of high returns to education hold for both men and women. These findings indicate that the TSEP is investing resources in the education grade cycles that yield the high economic benefits to the country.

**Table 3. Private Rates of Return to Education, Male and Female Workers**

<b>Education Level</b>	<b>Male Workers (%)</b>	<b>Female Workers (%)</b>
Primary education	2	1
Basic education	7	10
GCE O/L Qualified	13	21
GCE AL Qualified	15	18
Graduate	21	21
Postgraduate	9	17

Source: World Bank Sri Lanka Education Sector Report 2011.

53. A cost benefit analysis shows that the ESDFP with the incremental contribution of the TSEP yields substantial economic benefits. Under the different scenarios given in Table 4, the net present value of the TSEP varies between US\$ 359 million and US\$ 500 million. Similarly, the internal rate of return ranges between 29 percent and 38 percent. Under the middle case scenario, the TSEP yields a net present value of 429 million and an internal rate of return of 33 percent. These results clearly suggest that the funds invested under the TSEP will produce high benefits. In fact these are conservative lower bound estimates, given that they do not account for other potential benefits, including those arising from the externality benefits of education.

**Table 4. Quantified Economic Benefits of the ESDFP inclusive of the TSEP under Alternative Scenarios, Net Present Values in US\$ Million**

	<b>Low Case Scenario</b>	<b>Middle Case Scenario</b>	<b>High Case Scenario</b>
<b>Net Present Values, US\$ Million</b>	359	429	500
<b>Internal Rates of Return (%)</b>	29	33	38

Notes: The net present value has been calculated assuming a discount rate of 12 percent. All other assumptions underlying the calculations in Table above are reported in Annex 7.

## Fiscal Sustainability

54. The TSEP is expected to add about LKR 11 billion (US\$100 million) over the five and a half year period (2012-2017) of the project with around LKR 2,090 million (US\$ 19 million) per year from 2012-2016, and about LKR 550 million (US\$ 5 million) for 2017. Table 5 presents the stream of expenditures for the general education budget for the period 2012-2017, and the contribution of the TSEP. According to Table 5 the allocation from the TSEP will account for approximately 2 percent of the total sector expenditure during 2012-2016. This shows that the allocations of the TSEP will have a limited fiscal impact on the overall education sector budget, and it will not be a burden for the government to maintain expenditures when the operation closes. However, the TSEP's allocations represent about 20-28 percent of the total capital budget for the period 2012-2016. The TSEP's funds have a significant impact on the total capital expenditures. Hence, the TSEP makes a genuine and significant contribution to investment in education during the period of the project's life cycle.

**Table 5. Annual TSEP Allocations and Projected Education Budget, 2012-2017 (LKR million)**

<b>Central and Provincial Budget</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Recurrent	81,369	93,719	95,593	97,505	99,455	101,444
Capital	8,572	5,482	6,030	6,633	7,297	8,026
Total (Recurrent + Capital)	89,941	99,201	101,624	104,138	106,752	109,471
TSEP Allocations	2,090	2,090	2,090	2,090	2,090	550
Share of TSEP in the total capital education budget (%)	20	28	26	24	22	6
Share of TSEP in the total education budget (%)	2.3	2.1	2.0	2.0	1.9	0.5

Source: World Bank estimates.

## B. Technical

55. The foundation of the TSEP is the comprehensive analysis of the Sri Lankan education sector contained in the World Bank Education Sector Report, 2011. The design of the TSEP is based on lessons learned from IDA sector-wide education credits in other countries, such as India, Pakistan, Bangladesh, and Nepal, and on the experience of the successful Education Sector Development Project in Sri Lanka. The various themes of the ESDFP 2012-2016 are based on and reflect modern thinking in international education policy circles. The first theme adopts a combination of demand and supply side measures to attract and retain children within the education system for 11 years. This is consistent with the compulsory education legislation of many middle-income and developed countries in East Asia, Europe and South America. The second theme draws on the lessons of a wide variety education programs around the world, and seeks to regularly feed objective evidence drawn from national assessments of learning outcomes into the education development initiatives of the ESDFP 2012-2016. The use of national assessments in policy making draws on lessons from upper middle-income countries such as Argentina and Chile, and developed countries such as Japan, South Korea and Singapore. The third theme builds on successful pilot initiatives in education decentralization and school based management in Sri Lanka. It also draws on good practices from other countries, including Brazil,

India, El Salvador, Kenya, Mexico and Pakistan, on the strengthening of service delivery in the education sector. These themes are under-pinned by a strong foundation to enhance the efficiency and equity of resource allocation through a long-term rolling education sector plan. Sri Lanka has had good experience of an education sector program under the ESDFP 2006-2010, and the current program builds on the success of the previous program. The themes and foundation are inter-linked and mutually supportive, so that the overall impact of the ESDFP 2012-2016 will be greater than the sum of its component parts.

### **C. Financial Management**

56. The Financial Management (FM) team of the Bank together with the procurement team conducted a joint fiduciary review of the education sector with the primary objective of identifying opportunities for greater use of the country's Financial Management and Procurement systems in the proposed project. The proposed overall FM procedures and practices for the project are satisfactory to meet GOSL's and IDA's fiduciary requirements as per OP/BP 10.02. The project has a "Substantial" FM risk rating. The overall responsibilities for FM for the activities under the central education agencies will rest with the MOE. The FM work for the activities under the provincial education agencies will be monitored primarily by the MLGPC, and FC, including the compliance with the financial covenants of the legal agreement. The MOE, MLGPC, FC and other relevant education sector institutions including schools, will be strengthened to carry out the program related FM arrangements. The MLGPC will have core staff including a financial management specialist and any other FM staff assessed as necessary, satisfactory to IDA, before disbursements could be made for the provincial component. This is reflected in the Financing Agreement as a disbursement condition.

57. The internal audit of the project would be carried out by the Government internal auditors attached to the MOE and the provincial councils. The project's external audit will be performed by the Auditor General of Sri Lanka. There are no overdue audit reports or ineligible expenditures for the ESDP that closed on June 30, 2011 or any other project that is being implemented by the MOE.

58. The project will have two sub ledger accounts, one for the activities managed by the MOE and the other for the activities managed by the Provincial Councils. The Central sub ledger account will be administered by the MOE and the Provincial sub ledger account by the MLGPC. Disbursements would be report based. Replenishment of the sub ledger accounts would be based on the Interim Unaudited Financial Reports (IUFs) and fulfillment of agreed Disbursement Linked Indicators (DLIs). Two sets of IUFs will be prepared (a) for the Centre by the MOE; (b) for the Provinces by the MLGPC. The IUFs would be due within 45 days of the end of the reporting period.

### **D. Procurement**

59. *Country Procurement System:* The few drawbacks identified in the country system are: (a) lack of capacity of some of the staff to handle procurement; (b) delays in procurement process including preparation of designs and specifications; and (c) lack of knowledge on packaging contracts. Hence, the system for procurement performance and compliance

monitoring needs strengthening. The TSEP will support the development of a good system for procurement performance and compliance monitoring, with a special focus on the provinces.

60. *Procurement Arrangements:* Details of procurement arrangements are given in Annex 3. About 70-80 percent of the funds are expected to be allocated for the nine provinces. The balance 20-30 percent is expected to be divided among the central education agencies. Detailed procedures and documents to be used for procurement are provided in the Operational Manual. The MOE, MLGPC and the FC will jointly prepare a manual for procurement for use in the central ministry and the provinces. Details of procurement arrangements at school level will be spelled out in the PSI circular. Provincial Ministries of Education, Provincial Directors of Education, Zonal offices and schools are the responsible executing agencies at the provincial level. In addition, Engineering Departments of the Provinces are responsible for civil works contracts. The procurement cell of the MOE will be responsible for procurement in the MOE.

61. *Procurement Monitoring:* Dedicated staff members/consultants will be responsible for procurement monitoring and reporting, training and guidance, in the MLGPC. The MLGPC will be strengthened with technical expertise in procurement to strengthen the provinces, and develop a good procurement performance and compliance monitoring system. The bi-annual procurement progress reports to be provided to the Bank would include status updates, procurement monitoring reports and analysis of agreed intermediate outcomes. The MOE and the MLGPC will develop an effective monitoring mechanism during the first six months of the project.

62. *Procurement Risks and Mitigation Measures:* The overall procurement risk is rated “high” based on an assessment of procurement capacities during the fiduciary review carried out for the education sector. Especially capacity at school level (particularly provincial schools) for procurement needs strengthening, and a comprehensive structured capacity building program, supported by a much simplified procurement manual, will be required. The procurement expertise in the MOE and the MLGPC will support this work for the Provincial Councils.

63. *Procurement Plan:* A procurement plan will be required for contracts to be executed under the project except for the contracts executed at school level. School level procurement activities will be included in their annual development plans.

## **E. Social**

64. The project is designed not to have any negative social impacts, and will not trigger Bank policies on involuntary resettlement and indigenous people. All school construction activities will take place on spaces in existing schools. Land acquisition will not be financed under the project. Any new construction, renovation or refurbishment of physical facilities will only take place on existing school lands. However, in a few unanticipated cases extra land may be needed, and in this case construction is expected to take place only on public land. All sub-projects will be screened for land status documentation and the presence of encroachers, competing claims or other encumbrances. No involuntary resettlement exceeding more than 200 people for any sub-project will be funded. In case of minor involuntary resettlement from any sub-project site, an Abbreviated Resettlement Plan will be prepared, with compensation for assets, livelihood restoration and resettlement, compliant with national and IDA social safeguards requirements.

## F. Environment

65. While irreversible or cumulative environmental impacts are not envisaged due to project activities, environmental impacts may occur during construction and renovation of school buildings and associated facilities. Construction and renovation activities may take place both on existing school land, as well as new land particularly in the Northern and Eastern Provinces. In addition, due diligence should be made to ensure proper water supply and sanitation systems are in place in schools, some of which are currently unsatisfactory and contribute to health risks, especially for young students. Exact locations of new school buildings are unknown at this stage. The MOE and Provincial councils (PCs) are expected to submit the list of schools requiring infrastructure development using IDA funds each year prior to approval. Based on this review, the project will trigger the Operational Policy (OP) 4.01-Environmental Assessment and the project has been categorized as a category B project.

66. An Environmental and Social Management Framework (ESMF) has been developed for the project, which will guide site selection, relevant sub-project design and mitigation measures during program implementation. The ESMF is consistent with relevant World Bank Safeguard Policies, as well as the National Environmental Act (NEA) and associated regulations and requirements. The compliance with environmental safeguards related to the project will be with the MOE for national schools and other central education agencies and with the MOE, the MLGPC and the FC for provincial schools and other provincial education agencies. It was disclosed to the public by the MOE and the FC on September 26, 2011 and disclosed in the Infoshop on September 29, 2011.

## G. Safeguard Policies

67. The status of safeguard policies is given in Table 6 below.

**Table 6. Safeguard Policies That Might Apply**

<b>Safeguard Policies Triggered</b>	<b>Yes</b>	<b>No</b>
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
Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects (OP/BP 4.00)		X

## H. Policy Exceptions and Readiness

68. No policy exceptions are sought. This project complies with all applicable IDA policies.



## Annex 1: Results Framework and Monitoring

### Sri Lanka Transforming School Education System as the Foundation of a Knowledge Hub

The project development objective is to enhance access to, and quality of, primary and secondary education to provide a foundation for the knowledge-based economic and social development of the country.

PDO Level Results Indicators	Core	Unit of Measure	Baseline	2012	2013	2014	2015	2016	Data Source/ Methodology and Frequency	Responsibility for Data Collection
The survival rate of students up to Grade 11 (age 16 years) in the education system.	<input type="checkbox"/>	Percentage	Boys: 79 Girls: 85 Total: 82	Boys: 80 Girls: 86 Total: 83	Boys: 81 Girls: 87 Total: 84	Boys: 82 Girls: 88 Total: 85	Boys: 84 Girls: 89 Total: 86	Boys: 86 Girls: 90 Total: 88	MOE, MLGPC, FC and PEA reports Annual	MOE, MLGPC, FC and PEAs
National assessments of learning outcomes conducted according to a regular cycle for key subjects and used for education sector program development.	<input checked="" type="checkbox"/>	Text	Cycle of national assessments agreed between MOE and NEREC.	National assessment conducted in Grade 8 (English, Maths and Science).	National assessment conducted in Grade 4 (Sinhala / Tamil, English, and Maths)  Results of National assessment in grade 8 in 2012 used for program development (English, Maths and Science).	National assessment conducted in Grade 8 (English, Maths and Science)  National assessment in grade 4 in 2013 used for program development (Sinhala / Tamil, English, and Maths).	National assessment conducted in Grade 4 (Sinhala / Tamil, English and Maths)  Results of National assessment in grade 8 in 2014 used for program development (English, Maths and Science).	National assessment conducted in Grade 8 (English, Maths and Science)  National assessment in grade 4 in 2015 used for program development (Sinhala / Tamil, English, and Maths).	National Assessment Reports  Annual	MOE, NEREC, MLGPC and FC

<b>PDO Level Results Indicators</b>	<b>Core</b>	<b>Unit of Measure</b>	<b>Baseline</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Data Source/ Methodology and Frequency</b>	<b>Responsibility for Data Collection</b>
The proportion of primary and secondary schools in which the Program for School Improvement (PSI) cycle of school development planning, implementation, self assessment, reporting of results and annual updating of the plan is completed.	<input type="checkbox"/>	Text	PSI defined and circular developed.	Schools in at least 20 percent of zones commence the PSI cycle.	Schools in 20 percent of zones complete the PSI cycle. Schools in at least another 20 percent of zones commence the PSI cycle.	Schools in 40 percent of zones complete the PSI cycle. Schools in at least another 30 percent of zones commence the PSI cycle.	Schools in 70 percent of zones complete the PSI cycle. Schools in all the remaining zones commence the PSI cycle.	Schools in 100 percent of zones complete the PSI cycle.	MOE, MLGPC, FC and PEA reports  Semi-annual  Independent third-party evaluation	MOE, MLGPC, FC and PEAs  IDA

Note: The survival rate of students up to Grade 11 will be measured in each stage of education. All outcomes will be measured by gender, sector and medium of instruction, where relevant. Where zones are specified as the unit of measurement for indicators, all schools in the relevant zones will be covered. Also, where zones are to be phased in to the program over time, in the interests of equity the program will first cover the most disadvantaged zones, and move progressively to the less disadvantaged zones. This will enable the more disadvantaged zones to benefit over a longer period of time from the interventions under the program.

### Disbursement Linked Indicators (DLIs)

Disbursement Linked Indicators (DLIs)	Core	Unit of Measure	Baseline	2012	2013	2014	2015	2016	Data Source/ Methodology and Frequency	Responsibility for Data Collection
<b>Total Program (Theme 1, 2 and 3)</b>										
<u>Education sector plan.</u>	<input type="checkbox"/>	Text	Initial Education Sector Rolling Plan prepared for FY12.	Education Sector Rolling Plan for FY13 updated by the MOE and Provinces.	Education Sector Rolling Plan for FY14 updated by the MOE and Provinces.	Education Sector Rolling Plan for FY15 updated by the MOE and Provinces.	Education Sector Rolling Plan for FY16 updated by the MOE and Provinces.	Education Sector Rolling Plan for FY17 updated by the MOE and Provinces.	MOE, MLGPC, FC and PEAs  Annual	MOE, MLGPC, FC, MFP, PEAs
<b>Theme 2: Improving the Quality of Education</b>										
<u>Teacher development.</u>  School-based teacher development (SBTD) programs established.	<input type="checkbox"/>	Text	SBTD does not exist on a systemic basis.	Schools in at least 20 percent of zones commence SBTD programs.	Schools in at least 20 percent of zones complete SBTD programs.	Schools in at least 40 percent of zones complete SBTD programs.	Schools in 70 percent of zones complete SBTD programs.	Schools in 100 percent of zones complete SBTD programs.	MOE, MLGPC, FC and PEAs  Semi-annual  Independent third party evaluation	MOE, MLGPC, FC and PEAs  IDA

Disbursement Linked Indicators (DLIs)	Core	Unit of Measure	Baseline	2012	2013	2014	2015	2016	Data Source/ Methodology and Frequency	Responsibility for Data Collection
<u>Bilingual education.</u> Content and Language Integrated Learning (CLIL) Framework to be developed and established.	<input type="checkbox"/>	Text	A CLIL does not exist.	The CLIL framework outlined and consultations commenced.	Bilingual education ISAs and teachers trained in all nine provinces for the introduction of the CLIL.	The CLIL framework introduced for Bilingual education for grades 6, 10 and 12.	The CLIL framework introduced for Bilingual education for grades 7, 11 and 13.	The CLIL framework used for Bilingual education for grade 8.	MOE, MLGPC, FC and PEAs  Semi-annual	MOE, MLGPC, FC and PEAs
<b>Theme 3: Strengthening Governance and Delivery of Education Services</b>										
<u>Program for School Improvement (PSI).</u> School Development Councils (SDCs), School Development Committees (SDCs) and School Management Committees (SMCs) organized and trained for the PSI.	<input type="checkbox"/>	Text	Capacity building program for SDCs, SDCs and SMCs developed.	SDCs and SMCs organized for the PSI in at least 20 percent of zones.	SDCs and SMCs organized and trained for the PSI in at least 40 percent of zones.	SDCs and SMCs organized and trained for the PSI in at least 60 percent of zones.	SDCs and SMCs organized and trained for the PSI in at least 80 percent of zones.	SDCs and SMCs organized and trained for the PSI in 100 percent of zones.	MOE, PEAs,  Semi-annual  Independent third party evaluation	MOE, MLGPC, FC and PEAs       IDA



### Intermediate Outcome Indicators

Intermediate Outcome Indicators	Core	Unit of Measure	Baseline	2012	2013	2014	2015	2016	Data Source/ Methodology and Frequency	Responsibility for Data Collection
<b>Theme One: Promoting access to primary and secondary education</b>										
<u>Flagship secondary and primary school learning environment improvement program.</u>	<input type="checkbox"/>	Text	Components of the secondary and primary school learning environment program identified.	At least 10 percent of the target for the secondary and primary school learning environment improvement program commenced.	At least 25 percent of the target for the secondary and primary school learning environment improvement program achieved.	At least 40 percent of the target for the secondary and primary school learning environment improvement program achieved.	At least 60 percent of the target for the secondary and primary school learning environment improvement program achieved.	At least 80 percent of the target for the secondary and primary school learning environment improvement program achieved.	MOE, MLGPC, FC, and PEA records  Semi-annual	MOE, MLGPC, FC and PEAs
<u>Demand-side measures to promote participation and retention in primary and secondary education.</u>	<input type="checkbox"/>	Text	Demand side measures: free education, textbooks and uniforms; school meals for poor children; and transport subsidies; in place.	School management committees (SMCs) initiate action to promote participation and retention in at least 20 percent of zones.	SMCs initiate action to promote participation and retention in at least 40 percent of zones.	SMCs initiate action to promote participation and retention in at least 60 percent of zones.	SMCs initiate action to promote participation and retention in at least 80 percent of zones.	SMCs initiate action to promote participation and retention in 100 percent of zones.	MOE, MLGPC, FC and PEA records  Semi-annual	MOE, MLGPC, FC and PEAs

Intermediate Outcome Indicators	Core	Unit of Measure	Baseline	2012	2013	2014	2015	2016	Data Source/ Methodology and Frequency	Responsibility for Data Collection
<u>Special and non-formal education programs.</u>	<input type="checkbox"/>	Text	Special education and non-formal education programs in place.	Special education and non-formal education programs reviewed for relevance for effectiveness.	Special education and non-formal education programs revised and upgraded in the light of the review.	Upgraded special education and non-formal education programs introduced in all provinces.	Experience and outcomes of the upgraded special education and non-formal education programs reviewed.	Upgraded special education and non-formal education programs continued with any required fine tuning.	MOE, MLGPC, FC and PEA records  Annual	MOE, MLGPC, FC and PEAs
<u>School health and nutrition programs.</u>	<input type="checkbox"/>	Text	Zones do not monitor the Health Promoting Status of their schools.	Schools in at least 20 percent of zones will monitor and take action on the Health Promoting status of their schools.	Schools in at least 40 percent of zones will monitor and take action on the Health Promoting status of their schools.	Schools in at least 60 percent of zones will monitor and take action on the Health Promoting status of their schools.	Schools in at least 80 percent of zones will monitor and take action on the Health Promoting status of their schools.	Schools in 100 percent of zones will monitor and take action on the Health Promoting status of their schools.	MOE, MLGPC, FC and PEA records  Semi-annual	MOE, MLGPC, FC and PEAs

Intermediate Outcome Indicators	Core	Unit of Measure	Baseline	2012	2013	2014	2015	2016	Data Source/ Methodology and Frequency	Responsibility for Data Collection
<u>Career guidance and counseling.</u>	<input type="checkbox"/>	Text	Career guidance and counseling activities exist on an <i>ad hoc</i> basis in a few urban schools.	A systematic program for career guidance and counseling in schools developed.	Career guidance and counseling programs pilot tested in selected zones.	The career guidance and counseling pilot evaluated.	The career guidance and counseling program revised and upgraded based on the evaluation conducted.	The upgraded career guidance and counseling program introduced in all provinces.	MOE, MLGPC, FC and PEAs  Semi-annual	MOE, MLGPC, FC and PEAs
<b>Theme Two: Improving the quality of education</b>										
<u>Primary education curriculum.</u> The primary education curriculum is revised and improved.	<input type="checkbox"/>	Text	The need to improve the primary curriculum identified.	The primary education curriculum is reviewed and improved.	Grade 1 new curricula, Teacher Instruction Manuals (TIM) and learning materials are developed.	Grade 1 new curricula, TIMs and learning materials are piloted and revised.  Grade 2 new curricula, Teacher Instruction Manuals (TIM) and learning materials are developed.	The upgraded primary education curriculum is introduced in Grade 1  Grade 2 new curricula, TIMs and learning materials are piloted and revised.	The upgraded primary education curriculum is extended to Grade 2.  Grade 3 new curricula, TIMs and learning materials are developed.	MOE, NIE and EPD records  Semi-Annual	MOE, NIE, EPD,



Intermediate Outcome Indicators	Core	Unit of Measure	Baseline	2012	2013	2014	2015	2016	Data Source/ Methodology and Frequency	Responsibility for Data Collection
<u>Secondary education curriculum.</u> Diversification and rationalization of the mathematics and science curricula for secondary education.	<input type="checkbox"/>	Text	The areas in which the mathematics and science curricula need to be diversified and rationalized have been identified.	New curricula and syllabi for mathematics and science in secondary grades developed and teacher training and textbook production commenced.	Teachers trained and textbooks completed for the new mathematics and science curricula.	New mathematics and science curricula piloted in grades 6 and 10.	New mathematics and science curricula introduced in grades 6 and 10.	New mathematics and science curricula introduced in grades 7 and 11.	MOE, NIE and EPD records  Semi-Annual	MOE, NIE, EPD,
<u>Improving textbook quality.</u> Textbooks reviewed and agreed for the quality of contents and promotion of social cohesion	<input type="checkbox"/>	Text	Adequate review panels for quality and social cohesion do not exist.	Review panels appointed and commence the review of relevant textbooks (languages, history, mathematics, science).	Review panels review and pass at least 25 percent of relevant textbooks (languages, history, mathematics, science).	Reviews panels review and pass at 50 percent of relevant textbooks (languages, history, mathematics, science).	Reviews panels review and pass at 75 percent of relevant textbooks (languages, history, mathematics, science).	Reviews panels review and pass at 100 percent of relevant textbooks (languages, history, mathematics, science).	MOE and EPD records  Semi-annual	MOE, EPD

Intermediate Outcome Indicators	Core	Unit of Measure	Baseline	2012	2013	2014	2015	2016	Data Source/ Methodology and Frequency	Responsibility for Data Collection
<u>Social cohesion.</u> Number of students and teachers from different ethnic backgrounds engaged in joint educational, co-curricular and extra-curricular activities.	<input type="checkbox"/>	Text	A policy framework to promote social cohesion through education exists. Activities promoting multi-ethnic interactions are key in this framework.	Multi-ethnic student and teacher interactions take place in the educational activities of at least 20 percent of zones.	Multi-ethnic student and teacher interactions take place in the educational activities of at least 40 percent of zones.	Multi-ethnic student and teacher interactions take place in the educational activities of at least 60 percent of zones.	Multi-ethnic student and teacher interactions take place in the educational activities of at least 80 percent of zones.	Multi-ethnic student and teacher interactions take place in the educational activities in 100 percent of zones.	MOE, MLGPC, FC and PEAs  Semi-annual	MOE, MLGPC, FC and PEAs
<u>Examination information for education development.</u> Department of Examinations publishes an item response analysis for the GCE O/L and GCE A/L in key subjects such as mathematics, science, English and first language (Sinhala and Tamil).	<input type="checkbox"/>	Text	Department of Examinations does not conduct an item response analysis.	Item response analysis published for mathematics and science in the GCE O/L examinations.	Item response analysis published for mathematics, science and English in the GCE O/L examination and Chemistry and in the GCE A/L examinations.	Item response analysis published for mathematics, science, English and First Language (Sinhala and Tamil) in the GCE O/L examination, and Chemistry, Physics, mathematics and Biology	Item response analysis published for mathematics, science, English and First Language (Sinhala and Tamil) in the GCE O/L examination, and Chemistry, Physics, mathematics and Biology	Item response analysis published for mathematics, science, English and First Language (Sinhala and Tamil) in the GCE O/L examination, and Chemistry, Physics, mathematics and Biology	MOE, DOE  Annual	MOE, DOE

Intermediate Outcome Indicators	Core	Unit of Measure	Baseline	2012	2013	2014	2015	2016	Data Source/ Methodology and Frequency	Responsibility for Data Collection
						in the GCE A/L examinations.	and selected Arts and Commerce subjects in the GCE A/L examinations.	and selected Arts and Commerce subjects in the GCE A/L examinations.		
<u>Modernizing and expanding Quality Assurance.</u>	<input type="checkbox"/>	Text	A Quality Assurance program defined, but pre-dates the ESDFP.	The Quality Assurance program revised to reflect the ESDFP 2012-2016 emphasis on school level learning improvement activities under the PSI.	The new Quality Assurance program linked to the PSI pilot tested in selected zones.	The Quality Assurance pilot program linked to the PSI evaluated and upgraded in the light of the evaluation.	The new Quality Assurance program linked to the PSI introduced in at least 5 provinces.	The upgraded Quality Assurance program linked to the PSI introduced in all 9 provinces.	MOE, MLGPC, FC and PEAs  Semi-annual	MOE, MLGPC, FC and PEAs

Intermediate Outcome Indicators	Core	Unit of Measure	Baseline	2012	2013	2014	2015	2016	Data Source/ Methodology and Frequency	Responsibility for Data Collection
<b>Theme Three: Strengthening governance and delivery of education services</b>										
<u>Principals leadership and management.</u>	<input type="checkbox"/>	Text	Principals leadership and management development occurs in an <i>ad hoc</i> way.	Systematic program for principals leadership and management development program commenced in at least 20 percent of zones.	Systematic program for principals leadership and management development completed in at least 20 percent of zones and commenced in at least another 20 percent of zones.	Systematic program for principals leadership and management development completed in at least 40 percent of zones and commenced in at least another 30 percent of zones.	Systematic program for principals leadership and management development completed in at least 70 percent of zones and commenced in all remaining zones.	Systematic program for principals leadership and management development completed in 100 percent of zones.	MOE, MLGPC, FC and PEAs,  Semi-annual	MOE, MLGPC, FC and PEAs
<u>Timely completion of education sector level audits by the Auditor Generals Department for both the centre and provinces.</u>	<input type="checkbox"/>	Text	The government requirement is to issue audit reports within 10 months from the end of each financial year. This is generally followed except in a few provinces.	Completion of education sector level audits by the Auditor Generals Department for both the Centre and provinces within 9 months from the end of the financial year.	Completion of education sector level audits by the Auditor Generals Department for both the Centre and provinces within 9 months from the end of the financial year.	Completion of education sector level audits by the Auditor Generals Department for both the Centre and provinces within 8 months from the end of the financial year.	Completion of education sector level audits by the Auditor Generals Department for both the Centre and provinces within 6 months from the end of the financial year.	Completion of education sector level audits by the Auditor Generals Department for both the Centre and provinces within 5 months from the end of the financial year.	MOE, MLGPC, FC and PEAs,  Annual	MOE, MLGPC, FC and PEAs

<b>Intermediate Outcome Indicators</b>	<b>Core</b>	<b>Unit of Measure</b>	<b>Baseline</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Data Source/ Methodology and Frequency</b>	<b>Responsibility for Data Collection</b>
<u>Timely execution of procurement activities.</u>	<input type="checkbox"/>	Text	15 percent of procurement activities experience delays of more than 25 percent during bid evaluation.	Less than 14 percent of procurement activities experience delays of more than 25 percent during bid evaluation.	Less than 12 percent of procurement activities experience delays of more than 25 percent during bid evaluation.	Less than 11 percent of procurement activities experience delays of more than 25 percent during bid evaluation.	Less than 10 percent of procurement activities experience delays of more than 25 percent during bid evaluation.	10 percent of procurement activities experience delays of more than 25 percent during bid evaluation.	MOE, MLGPC, FC and PEAs,  Annual	MOE, MLGPC, FC and PEAs

Note: All outcomes will be measured by gender, province and medium of instruction, where relevant. Where zones are specified as the unit of measurement for indicators, all schools in the relevant zones will be covered. Also, where zones are to be phased in to the program over time, in the interests of equity the program will first cover the most disadvantaged zones, and move progressively to the less disadvantaged zones. This will enable the more disadvantaged zones to benefit over a longer period of time from the interventions under the program.

The government program has several further monitoring indicators. The TSEP will assist the government to monitor these indicators.

#### Additional Monitoring Indicators Contained in the GOSL ESDFP

- Primary education (grades 1-5) enrolment and survival rates.
- Transition rate from grade 9 to 10.
- Enrollment rate in Grades 12-13, by subject streams.
- Student attendance rates at primary and secondary.
- The distributions of cognitive achievement scores in the National Assessments of Learning Outcomes, for each subject covered in that year, by province, sector, gender and language of instruction.
- Proportion of students passing the GCE O/L (by subject streams).
- Proportion of students passing the GCE A/L (by subject streams).
- Number of children with special needs identified and enrolled in school.
- Number of school teachers trained in the principles of inclusion and, for primary school teachers, child centered and child friendly learning, including for children with special needs.
- Facilities provided in schools for children and adults with disabilities.
- NFE programs designed for specific groups of non enrolled children with clear entry points to the mainstream school.
- Essential Learning Competencies measured and reported at the end of Grade 5.
- Number and proportion of schools with the specified student-teacher ratios as per the ready reckoner.
- Teacher attendance rates.
- Textbook quality, and sensitivity from the perspective of social cohesion.
- Resource allocation and expenditure targets for higher-order processes under the recurrent education budget met.
- Resource allocation and expenditure targets for higher-order spaces and assets under the capital education budget met.
- Resource allocation and expenditure targets for replacement and maintenance under the capital education budget met.

The monitoring formats will be divided into the primary and secondary stages of education, and by division, zone, province and MOE, wherever relevant and applicable.

## **Annex 2: Detailed Project Description**

### **Sri Lanka Transforming the School Education System as the Foundation of a Knowledge Hub**

#### **Introduction**

1. Sri Lanka's Education Sector Development Framework and Program (ESDFP) 2012-2016 is organized under three themes: (a) promoting access to primary and secondary education; (b) improving the quality of education; and (c) strengthening governance and delivery of education services. These three themes are underpinned by the five-year national education sector rolling plan, which seeks to improve the efficiency and equity of education expenditures. The national sector plan consists of the education sector plan of the central Ministry of Education (NOE) and the education sector plans of the nine Provincial Councils (PCs). These plans are prepared through a collaborative process of consultation and joint work between the MOE, the PCs, the Ministry of Finance and Planning, the MLGPC and the Finance Commission (FC). The time frame is 2012-2016.

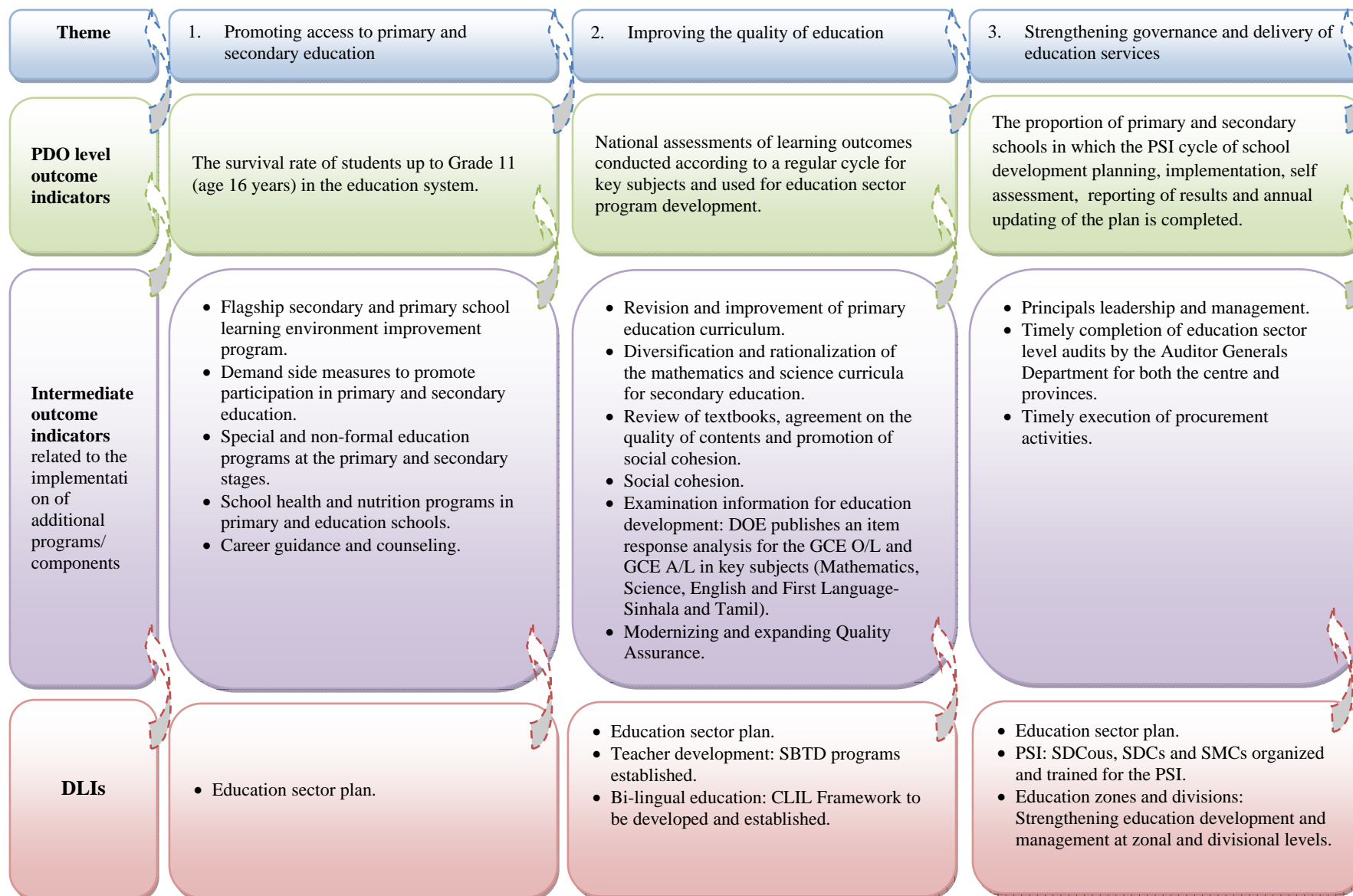
2. The Transforming School Education as the Foundation of a Knowledge Hub Project (TSEP) will support the key development initiatives under all three themes of the government ESDFP 2012-2016. The TSEP is aligned with the over-arching policies, development strategies and results framework of the ESDFP 2012-2016. The project seeks to help the government strengthen the education system at multiple levels, including national and sub-national educational agencies, and especially schools. The TSEP will help the country to develop a strong foundation for economic growth and human development, and promote the social advancement of the country.

#### **Project Development Objectives**

3. The project development objective is to enhance access to, and quality of, primary and secondary education to provide a foundation for the knowledge-based economic and social development of the country. The key development policies and initiatives of the ESDFP 2012-2016 are outlined in this Annex.

4. Five Disbursement-Linked Indicators (DLIs) are shown in Annex 1 and reflect priority elements in the ESDFP 2012-2016. DLI1 (Education Sector Plan) supports the entire ESDFP 2012-2016, and is the foundation of the overall development framework and program. DLI2 (Teacher Development) and DLI3 (Bilingual Education) support Theme 2. DLI4 (Program for School Improvement) and DLI5 (Strengthening Education Zones and Divisions) support Theme 3. These DLIs will be reviewed at the TSEP mid-term review, and revisions will be made if needed. The ESDFP 2012-2016 also has a number of education initiatives which will contribute to the outcomes and final development objective of the project. These are presented in Annex 1 as intermediate outcome indicators. Figure 2.1 presents a detailed results chain which shows the link between the DLIs, the intermediate outcome indicators, the final outcomes, and the overall themes of the ESDFP 2012-2016.

**Figure 2.1. Results Chain: Linkages between Themes, PDO and Other Indicators, Components and DLIs**





## **Project Description**

### **The Foundation: The Rolling Education Sector Development Plan (DLI 1)**

5. The foundation of the ESDFP 2012-2016 is the rolling five-year education sector development plan. The plan will cover both primary and secondary education. The TSEP will assist the MOE, MFP, MLGPC, FC and Provinces to develop and implement the education sector plan. The plan describes the key outcomes and results to be achieved under the program, and the strategies and allocation of resources to achieve these outcomes and results. The plan also contains an annual implementation plan (including a procurement plan). The operational arrangements to support the plan are contained in an Operations Manual. The plan sets targets, under the capital budget, for higher-order spaces and assets, such as language laboratories, ICT facilities, science laboratories, multi-purpose rooms, activity rooms, and library resource centres, under the capital budget. The education sector plan also set targets under the capital budget for essential facilities, such as classrooms, water supply and sanitation. In addition, the education sector plan will have targets for higher-order processes, such as teacher development and the strengthening of the leadership and management skills of school principals, under the recurrent budget. Further, the education sector plan sets targets for repair, maintenance and replacements of physical facilities and equipment. The target values for allocation vary from province to province, based on the specific needs of the provinces and their levels of economic and education development. The education sector plan also seeks to strengthen the efficiency of plan implementation by supporting activities such as timely procurement planning and monitoring, and sound land use planning in school construction. The education sector plan will be reviewed and updated every year based on past implementation experience and in the light of new information, and policy needs and priorities.

6. The ESDFP is clearly a highly ambitious, broad and wide-ranging education development program. GOSL is aware that such an ambitious program can be implemented effectively only if the various activities are carefully time sequenced, and appropriate capacity building and technical support is provided to the implementation agencies, especially at provincial level. The national MOE will provide policy leadership and guidance to the provinces. The FC, which has the constitutional mandate for oversight of the provincial budgets and to promote balanced regional development of the provinces, will provide support to the provinces to formulate the education budgets and to monitoring the implementation of these budgets to help produce the results and outcomes of the ESDFP 2012-2016. The MLGPC will help coordinate the implementation of the plans of the Provincial Councils.

### **Theme One: Promoting Access to Primary and Secondary Education**

7. This theme will support initiatives to increase opportunities for children in the age group 6-10 years to complete primary education, and for children in the age group 11-16 years to complete secondary education up to grade 11. In addition, it will help improve the education opportunities of youth aged 17-18 years in grades 12-13. The expansion of education opportunities will mainly be in the formal school system, but also through non-formal and special education programs, or through vocational training programs from age 14 onwards, as appropriate for each child. The ESDFP 2012-2016 has several demand and supply side strategies to achieve this objective.

A. The flagship primary and secondary school learning environment improvement program.

8. Sri Lanka has a comprehensive, country-wide network of primary and secondary schools to provide universal access to general education. Primary schools are available within two kilometers of the homes of all primary school-aged children. There is a primary school in every village. Secondary schools are available within five kilometers of the homes of all children in the secondary schooling age range. All children aged 6-18 years, therefore, are able to attend a school within reasonable traveling distance of their homes. The ESDFP 2006-2010 achieved satisfactory outcomes in many areas including increasing the high survival rate of students through the compulsory basic education cycle (grades 1-9) from 78 percent in 2005 to over 90 percent in 2010. However, there are constraints and regional inequalities in access to good quality primary and secondary education. Only about 200 secondary schools (8 percent of secondary schools) are able to send students to university to follow subjects such as engineering and medicine. The students, who attend these schools, as well as the primary schools associated with them, are clearly at a major advantage compared to other students.

9. The ESDFP 2012-2016 plans to develop the physical learning environment of about 1,000 secondary schools to offer education in the GCE A/L science, arts and management curriculum streams, which will expand the opportunities for good quality secondary education. A set of about 5,000 primary schools and primary sections of combined primary and secondary schools from which children will be able to access these secondary schools will also be developed. This network of primary and secondary schools has been identified through a strategic school mapping exercise in all provinces. The improvements to the learning environment of the secondary schools will include the provision of higher-order assets and spaces such as libraries, science laboratories, IT centers, language laboratories, activity rooms, and multi-purpose rooms, for these schools. The improvements to the learning environment of the primary schools will include providing adequate facilities for child-centered learning. Both primary and secondary schools will also receive the necessary basic facilities, such as water supply and sanitation.

B. Demand-side measures to promote participation and retention in the primary and secondary stages of education.

10. The country has established a wide array of demand-side policies to attract and retain children in school. Demand side incentives consist of the provision of free education in all government schools from grades 1-13, free school textbooks for all children from grades 1-11, free school uniforms from grades 1-11, transport subsidies, and free school meals for school children in poor and disadvantaged areas. There are also scholarship schemes to support school going children from poor households. In addition to the existing set of incentives, under the ESDFP 2012-2016 school management committees consisting of the principal and senior teachers will take responsibility to promote school attendance and reduce drop-out by following up on children who have stopped attending school or at risk of dropping out. The school management committees will identify the problems of children below age 16 who have dropped out of the education system, and explore options to bring these children back to school, or (if they are over 14 years of age) direct them to relevant vocational training programs, depending on the aptitudes and preferences of the children.

C. Improving special and non-formal education programs.

11. The country addresses the needs of one of the most vulnerable social groups, children with special learning requirements. The ESDFP 2012-2016 will continuously prioritize special education and non-formal education programs for children with special learning needs. This includes support for children with cognitive learning disabilities, physical handicaps, behavioral problems, visual impairments, and hearing difficulties. The government has a small number of schools set aside for children with severe learning disabilities. Other children, wherever possible, are accommodated in standard schools. Special education teachers will be trained to work with these children. Non-formal education programs will be available for children who either never attended school or dropped out of school at a young age, and now require skills to enter the labor market. Non-formal education is offered through functional activity learning centers for children who lack basic literacy skills, and through a network of community learning centers for children over 16 years of age. Measures will also be introduced to enable students who are unable to proceed beyond the GCE O/L stage to obtain training that will provide them with skills that are useful in the labor market. The experience and outcomes of the upgraded special and non-formal education programs for relevance and effectiveness will be reviewed.

D. Strengthening school health and nutrition programs.

12. School health and nutrition programs are increasingly recognized as important policy initiatives to improve education outcomes. This recognition has driven the formation of health and education partnerships to utilize the resources, technical capacity and infrastructure of both sectors so that their interaction can contribute to improved access and maximized education outcomes. School health and nutrition programs include provision of meals for children from poor communities and sanitation facilities to promote attendance, especially among girls. The ESDFP 2012-2016 will seek to make all schools Health Promoting Schools (HPS). The HPS initiative was launched internationally to promote a comprehensive approach to school health and nutrition. The underlying concept of the “health promoting school” is that successful school health and nutrition requires a comprehensive approach; whereby, the school and community support each other to create a setting that promotes the health and physical well being of all members of the school community. This health promoting school setting is achieved through four inter-related areas: a) school health policies; b) teaching and learning curriculum; c) physical and social school environment; and d) community partnerships and health services. The organizing principles of the HPS initiative are in line with the broader international consensus on school health.

E. Developing systematic career guidance and counseling programs in schools.

13. The ESDFP 2012-2016 seeks to develop systematic career guidance and counseling in schools. The career guidance and counseling programs will advise secondary school students on the choice of curriculum streams available to students of different aptitudes and abilities, the training opportunities available prior to the GCE O/L examination for students with more vocational aptitudes and abilities, and the educational, training and labor market options available for students upon completion of the GCE O/L and the GCE A/L examinations. This will help their decisions on career choices and development. Children today can expect to make

multiple career changes throughout their lives, and will need to continually upgrade their skills, when they become adults and enter an increasingly globalized labor market. Systematic career guidance and counseling are of importance as career guidance can provide assistance in addressing problems related to occupational and life choices, and offering full opportunities for personal development. Counseling can help individuals achieve greater self-awareness, develop a life/work direction, increase understanding of learning and work opportunities, and become more rational in managing learning, work and transitions. These programs will also assist students at a personal level, especially in issues faced by adolescents and young children.

## **Theme 2: Improving the Quality of Education**

14. The ESDFP 2012-2016 contains several new and innovative policy initiatives to improve the quality of education.

### F. National Assessments of Learning Outcomes for Program Development.

15. Under the ESDFP 2012-2016, national assessments of learning outcomes will be designed, conducted according to a regular cycle for key subjects (first language- Sinhala and Tamil, English and mathematics for primary grades and English, mathematics and science for secondary grades) and used for education program development. The national assessments are useful to determine (a) how well students are learning in the education system; (b) whether there is evidence of particular strengths and weaknesses in students' knowledge and skills; (c) whether particular subgroups in the population perform poorly; (d) which factors are associated with student achievement; (e) whether the government standards are being met in the provision of resources; and (f) whether the achievements of students change over time. The TSEP will place special emphasis on quality improvement of national assessments, improving technical capacity to carry out assessments, and enhancing the use of assessment findings for policy and management decisions. The national assessments will feed back into policy and program development, especially in the context of the rolling education sector development plans of the central Ministry and the Provinces. Sampling will take into account urban-rural-estate comparisons, as well as provincial variations in outcomes. The information from these assessments will be used by policy makers and technocrats in key areas such as curriculum development, teacher education and teacher development, the production of educational material including textbooks, and the allocation of resources. The learning assessments will provide feedback for Provincial Councils on the performance of the education systems in their provinces. The country will also consider participating in international assessments such as TIMSS and PISA.

16. *Strategic interventions (DLIs)*. The ESDFP 2012-2016 has strategic development initiatives which also act as DLIs for the TSEP.

### G. Establishing School-based Teacher Development (SBTD) programs (DLI).

17. The ESDFP 2012-2016 recognizes the central importance of teachers for the delivery of quality education services. Sri Lanka already has a system for pre-service teacher education through a network of National Colleges of Education (NCOEs) and for continuing teacher

education through a network of Teacher Centers and in-service advisors (ISAs). With assistance from the TSEP the government proposes to implement an innovative policy measure, School-Based Teacher Development (SBTD). Under this concept teacher development takes place directly at the primary and secondary school level and will be used for on-site professional support and strengthening of teacher skills and performance. SBTD involves the active participation and direct control by school teachers, school principals, and officials in the school support network, such as in-service advisors. The activities under SBTD typically include school-based mentoring, peer learning, peer coaching, individual consultation, and visits to the classrooms of other teachers. The international experience supports SBTD as a promising reform to improve the quality of education. Professional development in the SBTD will also help implement the inclusive education framework, the CFA, and multi-level teaching, as appropriate, relevant and feasible.

18. The government also needs to rationalize the recruitment and deployment of teachers, as there are some subjects, such as primary education and secondary school English, mathematics and science, where there is a shortage of teachers, while there are other subjects with an excess of teachers. In addition, popular urban areas have an excess of teachers and remote rural areas have a shortage of teachers. The TSEP will assist the government to examine various incentive measures to improve teacher employment and deployment.

#### H. Developing a Content and Language Integrated Learning (CLIL) Framework for Bilingual Education (DLI).

19. The TSEP will support an important reform that will be developed under the ESDFP 2012-2016, the Bilingual Education program, where a range of subjects in the secondary grade cycles are taught in the English medium. These initiatives are designed to expand the pool of secondary school completers fluent in English, who are able to access economic opportunities in the national and international labor markets, and who are important for the country to become a knowledge hub providing knowledge-based services. The TSEP will help develop a suitable Content and Language Integrated Learning (CLIL) Framework to develop the Bilingual Education program according to international norms and standards. The Bilingual education program will fit into a clear, logical and internally consistent education framework. This would facilitate the development of the Bilingual Education program as an integrated education development strategy. The TSEP will also support the training of Bilingual education teachers and in-service advisors in all nine provinces for the implementation of the CLIL.

20. The DLIs above are part of a broader development framework which contains a number of additional program areas. These are described below.

#### I. Orienting education to the labor market.

21. The TSEP will pay special attention to the promotion of learning in secondary school subjects that are of central importance for the labor market, such as English, IT, science, mathematics, and commerce and management. The subjects of the primary stage of education, which provide the necessary foundation for good quality secondary education, are also important. These will be promoted within a child-friendly approach where relevant and

appropriate. TSEP will pay special attention at the primary stage to the promotion of first language, mathematics and English. In addition, the TSEP will support an important reform that has been introduced, the Bilingual Education program, where a range of subjects in the secondary grade cycles are available in the English medium. These initiatives are designed to expand the pool of secondary school completers fluent in English, and skilled in IT, science and mathematics, that will provide the foundation for Sri Lanka to become a knowledge hub with knowledge-based services. The national assessments of learning outcomes will cover these key subjects-first language, mathematics and English at the primary stage and English, science, mathematics and first language at the secondary stage. They will include students following the Bilingual Education program. The main purpose of the assessments is to provide feedback and further ideas for development, to policy makers and education technocrats.

22. Soft skills, such as habits of industry and discipline, the ability to work in teams, good communication, creative thinking, problem solving, and leadership, will also be promoted at both the primary and secondary stages of education, including through extra-curricular activities such as cultural events, the arts, games and sports, and co-curricular activities such as project work and activity based learning.

#### J. Curriculum diversification and upgrading.

23. The objective of this policy initiative is to improve the school curriculum to better reflect modern international trends in curriculum practice, effectively disseminate curriculum goals, values and aims to stakeholders, orient the education system more strongly to the world of work, and provide strong implementation support for curriculum upgrading to schools. The TSEP seeks to help the National Institute of Education (NIE) to fine tune and upgrade the primary and secondary school curricula. In primary education the framework for curriculum review and revision and the provision of training for school teachers on the new primary education curriculum will include the CFA where appropriate and relevant. In secondary education, the TSEP will pay special attention to improving the mathematics and science curricula. The areas in which the mathematics and science curricula need to be diversified and rationalized will be identified. New curricula and syllabi for mathematics and science in secondary grades will be developed, and teacher training and textbook production for the new curricula will be undertaken.

24. The curriculum will also help promote the concept of environmentally sustainable schools, where schools themselves become hubs as models of sustainable practices, e.g. minimizing waste generation, recycling, re-use, life-cycle planning for treatment and handling of waste generated by the operation of the schools, use of locally appropriate sanitation systems (e.g. septic tanks for sewerage treatments). Children would be educated in environmentally sound treatment, handling and disposal of waste, options for waste minimization, and recycling and re-use of materials. Teachers will also be trained to impart instruction in these areas of the curriculum.

25. Support to schools to implement upgraded curricula will include guiding teachers to engage in multi-level teaching, adopt constructivist and cooperative learning practices in class rooms, plan instruction with awareness of horizontal and vertical subject links, facilitate

computer assisted learning, and developing the instructional leadership role of the school principal. In addition, new curriculum material will be disseminated through print and electronic media, and in-service advisors at provincial and zonal levels will be trained to assist school teachers and principals to introduce and establish the new curriculum initiatives in the school system. The TSEP will also support staff development at the NIE in the area of curriculum development for primary and secondary education.

K. Improving textbook quality.

26. The ESDFP 2012-2016 will seek to ensure that students are provided with quality textbooks. The TSEP will support the government to resolve the problems and issues in the textbooks (especially languages, history, mathematics, and science) including factual errors, lack of clarity of subject matter, changes in the context of subject material after translation, variation and inconsistencies in materials across the three languages (Sinhala, Tamil and English), grammatical errors and typographical errors. The TSEP will support promoting discussion and collaboration among textbook evaluation committees in schools, writers, and resource persons, and conducting research to ascertain whether the textbooks are aligned with syllabus guidelines and compensate for areas in which the learning outcomes of students are weak. The TSEP will also assist GOSL to present a positive picture of ethnic and religious diversity and of multi-cultural societies through the textbooks. It is vital that textbooks show a positive view of diverse ethnic cultures and endorse a climate of peace and tolerance. This policy initiative will include the appointment of review panels representing all ethnic and religious groups.

L. Promoting social cohesion.

27. In Sri Lanka education can play a prominent role in building mutual understanding and trust amongst the country's diverse ethnic, cultural and religious groups. The school system inspires and shapes a country's values, ethics, and social institutions. This includes the attitudes of citizens towards social and cultural diversity, and ethnic and religious pluralism. In addition, the school system has a vital influence on the values, ethics, codes of conduct and patterns of behavior that are needed for democratic institutions to flourish. Policy makers are aware of the need to re-structure the education system so that it helps to inculcate values of peace and social integration in the future generations. The national policy identifies seven strategic areas through which social cohesion can be developed. These are: (a) curriculum; (b) teacher education; (c) second national language (2NL); (d) whole school culture; (e) integrated schools; (e) co-curricular activities; and (g) research. Under the ESDFP 2012-2016 social cohesion will be promoted through the education system by increasing interactions between students from different ethnic and religious communities through educational, co-curricular and extra-curricular activities, and by using the school curriculum to present a favorable picture of multi-ethnic, multi-cultural societies to students. The TSEP will support this key initiative for the future social development of the country. The Bilingual program will provide long term potential for the creation of integrated schools with children from different ethnic backgrounds studying in the same school.

M. Utilizing information from public examinations to improve education quality.

28. The TSEP will support reforms in public examination systems. The TSEP will support better analysis and utilization of the results of the public examinations to strengthen education quality. The project will help the Department of Examinations (DOE) prepare and analyze the responses to various test items in the General Certificate of Examinations Ordinary level (GCE O/L) taken at grade 11 and the General Certificate of Examinations Advanced Level (GCE A/L) taken at grade 13, and publish and disseminate this item response analysis, including error analysis. These analyses will promote awareness and understanding among curriculum developers, textbook writers, in-service advisors, principals, teachers and students, of the expected standards and the learning issues faced by pupils, and facilitate the academic work of these stakeholders and beneficiaries of the education system. The item response analysis will especially help the work of curriculum developers, textbook writers, and school teachers.

29. The TSEP can also support the public examination system to move away from an excessively marks-based system which places great pressure on students and parents to a grading system where standardized measurements of varying levels of comprehension within a subject area are assigned in letters (for example, A, B, C, D, or F), or as a range (for example 4.0–1.0), or as descriptors (excellent, great, satisfactory, needs improvement). There are several advantages to moving away from a marks-oriented examination system. This will minimize the misclassification of students on the basis of marks even to the minutest level and will classify students broadly on the basis of their levels. This will also help to eliminate the unhealthy competition among students and will reduce social pressure, and will facilitate more flexible and stress free learning environment for students.

N. Modernizing and expanding the quality assurance program.

30. The Quality Assurance Unit of the MOE leads the work on quality assurance. The quality assurance program within the ESDFP 2012-2016 will be strengthened and developed to reflect the policy emphasis on improving education outcomes, through school based activities, under the PSI. The new Quality Assurance program developed and aligned with the PSI will work closely with the in-service advisors, especially as they support activities connected with the PSI.

**Theme 3: Strengthening Governance and Delivery of Education Services**

31. The objective of this theme is to strengthen the management of the education system at multiple levels, including national, provincial and sub-provincial educational agencies and schools. The ESDFP 2012-2016, under this theme, will implement several development initiatives.

O. Establishing a balanced control model of school based management called the Program for School Improvement (PSI).

32. The Program for School Improvement (PSI) is designed to bring about change in the culture of schools through the establishment of management structures and the provision of training and support services in which: (a) the quality of student learning becomes a major focus;



(b) the participation and managerial assistance from stakeholders such as parents, past pupils and well-wishers from the neighborhood of the school is increased; and (c) schools are provided a learning improvement grant that will empower and enable them to make decisions and implement activities to improve teaching and learning. A pilot version of the PSI was launched under the ESDFP 2006-2010. The pilot version of the PSI was successful in improve learning outcomes of primary school students in two important subjects: English and mathematics [World Bank-EFA FTI (2011)].

33. Under the ESDFP 2012-2016, the model of school-based management will be an expanded version of the pilot version of the PSI, with strategic interventions for secondary schools as well as primary schools. School officials such as principals, teachers and administrators will be joined by stakeholders in the local school community, such as parents, past pupils and well-wishers, on School Development Committees (SDCs), which will prepare, assist and monitor the results of school development plans. These plans will be implemented under the leadership of School Management Committees (SMCs) consisting of principals and teachers. The learning improvement grant will support the school development plans, particularly to improve student learning and for initiatives to strengthen the "soft skills" of students, such as team work, an industrious and disciplined work ethic, good communication skills, leadership and enterprise, that are in demand by employers. In addition, the schools will be able to raise resources from their stakeholder communities, such as parents, past pupils associations, and local philanthropists, to supplement the funds received from the government to develop the schools.

34. The TSEP will help schools to complete the PSI cycle of school planning, implementation, reporting of results, and annual updating of the plan in all zones. Under this scheme, there will be greater autonomy at the school level to manage funds, with increased spending thresholds for schools. There will also be greater accountability. The accounts of school expenditures will be reported publicly. The TSEP identifies as pre-requisites for a successful rollout of the school-based management model and supports: (1) continuous FM and procurement capacity building of the committees, principles, teachers and staff involved in FM and procurement related decision making and implementation; (2) clear and simplified FM and procurement guidelines; (3) development of institutional arrangements for fiduciary monitoring of school level activities and support to schools which are formalized by way of circular instructions. In addition, during the course of each year there will be a school performance feedback form that will describe the degree of attainment of the school's performance targets against the school development plan for that year. The school performance feedback form will be made available to the public, including parents and students. The information provided in this form is expected to help improve school level planning and implementation, and strengthen accountability to stakeholders. The best practices of school-based management initiatives, including those developed within the CFA for primary schools, will be brought under the PSI framework.

35. *Strategic interventions (DLIs).* The ESDFP 2012-2016 has strategic development initiatives which also act as DLIs for the TSEP.

P. Capacity building of school principals, school development councils, school development committees and school management committees (DLI).

36. The TSEP will also focus on improving implementation capacity of PSI at the school level. The project will pay special emphasis on helping build the leadership and management capacities of school principals and section heads. This is particularly important given the additional roles that school principals will have to play, as the PSI is expanded and greater responsibility and power is devolved to schools. The TSEP will also support capacity building of key stakeholders at the school level such as school development committees and school management committees, by providing training, monitoring and technical support. Particular emphasis will be given to building the capacity of schools in economically and educationally disadvantaged areas. Special attention will also be given to the different environments of primary and secondary schools, and of primary sections in schools that cover both primary and secondary grades, both in the leadership development of school principals and sections heads, and in the capacity building of school development committees and school management committees.

Q. Strengthening the education management system, particularly the provincial and sub-provincial systems at the zone and division levels (DLI).

37. The TSEP will also support GOSL to strengthen the capacity of the education management system, particularly the provincial and sub-provincial systems at the zone and division levels. The roles and functions of education zones as managerial organizations, and divisions as academic support organizations for schools, will be defined and clarified under the ESDFP 2012-2016. The role of in-service advisors, who provide direct academic support to schools, will be given special attention. Based on the organizational models that are developed for the zones and divisions, the TSEP will support human resource development of zonal and divisional staff, and the provision of equipment, technology and services to execute their functions. The TSEP will devote special attention to the strengthening of planning, budgeting, administration and monitoring skills of zones, and the educational technical expertise and skills of in-service advisors. The TSEP will also support the MOE and provinces to perceive primary and secondary education as two stages of education, and organize their management and technical support accordingly. The project will also place particular emphasis on strengthening the capacity of the less developed provinces, such as the Eastern, Northern, North-Central and Uva provinces, to deliver education services. Also, within all provinces the project will devote special attention to strengthening the capacity of the more disadvantaged zones and divisions.

38. These DLIs above are part of a broader development framework which contains additional program areas. These are described below.

R. Strengthening monitoring.

39. The TSEP will also strengthening the capacity of national, provincial and sub-provincial level education officials to manage and analyze information from the Education Management Information System (EMIS) as well as from other data sources, such as household surveys, expenditure data, and national assessments of learning outcomes, for evidence-based planning and monitoring. This will cover the collection, collation and utilization of education related

information from these various sources. The capacity building will help the education officials to: (a) organize and analyze these different sets of data to generate information, especially by integrating and triangulating the information from various sources on a range of education related aspects; (b) interpret and evaluate these results to reach conclusions and to generate knowledge; and (c) use the evidence and knowledge for planning appropriate policy interventions, correcting implementation strategies and regular monitoring. The capacity building will help education professionals to use an improved EMIS system in a meaningful way to analyze and evaluate the progress of the education system in the country, and to identify innovative solutions.

S. Strengthening public expenditure management and financial accountability.

40. Along with the formulation of robust sectoral policies and strategies, efficient public expenditure management and financial accountability at the sector level are key ingredients in ensuring the efficient and effective use of budgetary resources and service delivery. The TESP will support to institutionalize FM related training for education sector staff at the central, provincial and sub-provincial levels to achieve: (i) better linkages between the planning and financial aspects of the budget process resulting in more accurately costed plans; (ii) accurate cash flow planning and expenditure forecasting; (iii) high quality accounting and financial reporting resulting in credible information for policymakers to monitor public expenditures and program efficiencies; and (iv) greater compliance with Government's Financial rules and regulations. The TESP seeks to enhance accountability and oversight arrangements in the education sector by strengthening internal audit to carry out risk based high impact audits, relying on Governments external audit arrangements and introducing an intermediate outcome indicator to monitor the timelines of the external audits in the sector and assigning the well trained staff of the Performance Audit at the AGD to carry out a value for money audit of the sector at midterm. The TSEP will also play a vital role in enhancing the overall asset management of the sector by supporting the roll out of the pilot tested fixed asset management information system (MIS) designed by the FC.

## **Annex 3: Implementation Arrangements**

### **Sri Lanka Transforming the School Education System as the Foundation of a Knowledge Hub**

1. The implementation arrangements contain three mutually reinforcing structures at the central and provincial levels: (a) policy direction, establishment of norms and standards, and monitoring and oversight; (b) management and implementation; and (c) technical support.

#### **Policy Direction and Oversight**

2. The National Education Commission (NEC) has the responsibility to advise the President on national education policy. Within the over-arching policy framework recommended by the NEC and agreed by the President, the formulation of operational policy and the establishment of national norms and standards is the responsibility of the central MOE. Provincial Councils (PCs) have the authority, at the regional level, to develop and adopt education policies, standards and norms to suit their provincial needs, subject to the condition that these are within and consistent with national policies, norms and standards.

3. To establish consistency and coherence between national and provincial policy, the policy direction and oversight functions of the ESDFP 2012-2016 will be performed at two levels, through a steering committee and a consultative group. These two committees incorporate officials from the center and PCs, as well as education academics, researchers, stakeholders such as parents, principals and teachers, and development partners.

4. Steering Committee. The steering committee of the ESDFP is chaired by the Secretary, the MOE. The other members of the steering committee are the Chairman, NEC; Chairman, Finance Commission (FC); the Secretary, Ministry of Local Government and Provincial Councils (MLGPC); the Chief Secretaries, Provincial Secretaries of Education and Provincial Directors of Education; the Additional Secretary Planning and Performance Review Division of the MOE; Additional Secretary Education Development of the MOE; Commissioner-General Examinations; Commissioner-General Education Publications; representative from the Ministry of Finance and Planning; Chief Accountant, MOE and the Director Planning of the MOE. IDA has been invited by the government to represent the development partners on the steering committee. The Additional Secretary Planning and Performance Review Division of the MOE will be the Secretary of the Steering Committee. The steering committee will discuss and decide on important policy aspects, as well as review the overall performance of the program, paying special attention to the anticipated outcomes and results framework. The Steering Committee will also decide which high level policy issues need to be brought to the notice of the President and the MOE for a decision.

5. Consultative Group. The consultative group will be chaired by the Additional Secretary, Planning and Performance Review Division, MOE. The other members of the consultative group would include Additional Secretary Education Development and Additional Secretary Education Services Establishment Division (including Human Resource Development) of the MOE; Vice-Chairman and Secretary, NEC; Secretary, FC; the Additional Secretary, Development, MLGPC;

Director General, Department of Census and Statistics; Director, National Education Research and Evaluation Center (NEREC); all Provincial Directors of Education, Accountant, Finance of the MOE, education academics, researchers, representatives of schools, representatives of civil society, a representative from the Auditor General's Department, development partners, including the World Bank and other development partners supporting the ESDFP 2012-2016. Representatives of the Planning and Performance Review Division, Education Quality Division and Education Services Establishment Division will also be members of the consultative group. The Director, Planning of the MOE will be the Secretary of the Consultative Group. The consultative group will periodically discuss the implementation of the program to identify areas for support, observe important emerging issues and assist the central and provincial education agencies to resolve problems and strengthen program performance.

## **Management and Implementation**

6. The ESDFP 2012-2016 will be managed and implemented at the national level by the MOE (including, DOE, EPD, NIE) and at the regional level by the Provincial Councils. The Ministry of Finance and Planning, MLGPC and the FC will also be involved in the management and / or monitoring of the TSEP as they play a role in allocating public funds to the education sector and coordinating. The Ministry of Finance and Planning allocates public resources at the national level to the MOE and the PCs. The FC authorizes and monitors the budgets of the PCs. The MOE, MLGPC and FC will assist the provinces to develop their sector plans in accordance with the overall budget framework set by the MFP and FC and monitor implementation according to this framework.

7. National Level. The MOE will be responsible for the following functions: establishing national policies, norms and standards; system development; formulating the school curriculum and the pre-service teacher education curriculum; establishing service conditions for the four education services: the teachers service, the principals service, the education administrators service, and the teacher educators service; human resource management of education administrators, school principals and school teachers at the national level; publishing and distributing textbooks, and accrediting any textbooks produced by the private sector; providing national level incentives, such as school uniforms and transport subsidies, to increase school attendance; administering professional development programs and courses for principals, section heads and teachers; public examinations; administering national schools; national sectoral planning; monitoring, evaluation and research; and overall quality assurance.

8. Provincial Level. Provincial Councils will be responsible for the following functions: developing and implementing the provincial education sector development plans; managing the provincial school system; human resource management and development of education administrators, school principals and school teachers at the provincial level; implementing continuing teacher development programs; implementing special and non-formal education programs; and provincial level monitoring and evaluation.

9. Technical Team. There will also be a technical committee comprised of the heads of the Planning Branches of the MOE and Provincial Departments of Education, NIE, DOE and the EPD. The Education Sector Rolling Plan will be formulated by the technical committee under

the guidelines provided by the Steering Committee and in consultation with the consultative committee, other relevant national and provincial officials and the FC.

10. The MLGPC is the coordinating Ministry for the Provincial Councils. The MLGPC will coordinate and facilitate TSEP implementation by the Provincial Councils. The FC recommends the budgets of the Provincial Councils to the President of the country, particularly to promote balanced regional development. The FC also monitors budget execution by the Provincial Councils. The FC will assist the Provincial Councils to increase their focus on equity, results, and procedural efficiency, in the formulation and execution of the education budgets of the Provinces.

11. Approach for Support and Cooperation by the Development Partners. IDA and the Development Partners (DPs) will work in support of the overall ESDFP 2012-2016. The World Bank and DPs will make every effort to harmonize their work with each other, although it is recognized that funding arrangements could differ among development partners depending on the size and content of their operations and their respective institutional mandates. The DPs will also support participatory approaches, transparency, predictability and comprehensive documentation. Periodic ESDFP 2012-2016 monitoring meetings will be held under the chairmanship of the Secretary of the MOE. A joint annual review mission will also be undertaken by the Bank team and interested DPs in which all the ESDFP 2012-2016 activities and plans will be reviewed in relation to the expected targets and results. The DPs will also meet regularly under the leadership of the World Bank to ensure that their activities are harmonized with the GOSL program and to discuss issues of mutual interest.

12. AusAID is considering supporting the ESDFP 2012-2016 through a Trust Fund arrangement with the World Bank. The AusAID Trust Fund would focus on the primary education program, including implementation of a child centered and child friendly learning and teaching approach in primary schools and primary sections, inclusive education, the promotion of social cohesion through education, and services associated with monitoring, evaluation, technical assistance, and research and studies. The AusAID funds, if approved, would follow the same procurement, financial management, environmental and social safeguards procedures as the World Bank TSEP.

### **The Technical Support System**

13. Program management, implementation, monitoring, evaluation and research will be assisted through a technical support system at the central, provincial and zonal levels.

14. Central Level. The MOE will be supported by national level education institutions such as the National Education Commission (NEC), National Institute of Education (NIE), the National Education Research and Evaluation Center (NEREC), and universities, to undertake policy development, strengthen conceptual knowledge, technical skills and capabilities of education administrators and officials, and undertake monitoring, evaluation and research activities, including national assessments of learning outcomes. In addition, the MOE has access to a variety of national research organizations and firms that can evaluate and provide independent feedback on the implementation and results of the ESDFP 2012-2016. Resources for

regular monitoring, evaluation, research and studies have been built into the budget, and will be supported by the TSEP. Also, a technical assistance fund will be available to obtain national and international expertise to guide and assist the MOE, the MLGPC and FC, and the Provincial Education Authorities (PEAs), during program implementation, as and when needed.

15. Province Level. Central agencies such as the MOE, the MLGPC and the FC will provide support to the PEAs to design, implement and monitor provincial education development plans. Assessing and building the organizational capacity of provincial education institutions, especially at zonal and divisional level, is an important part of the ESDFP 2012-2016. In addition, national level education institutions and the MLGPC and the FC will provide technical support to the provinces in areas such as education planning and management, results based budgeting, and human resource management and development of education administrators, principals and teachers. Provinces will also be able to draw on public universities and private institutions for skills building and for monitoring and evaluation activities.

16. Zonal and Divisional Level. The PCs will provide support to the zonal and divisional education authorities to implement and monitor education plans. This will include training and guiding zonal and divisional education staff, making provision to strengthen and build capacity in zonal and divisional offices, and providing management and technical support to improve service delivery at the zonal and divisional levels. The zonal and divisional offices will especially provide academic support to schools, including through on-site school based teacher development, and for the implementation of the Program for School Improvement (PSI). In-service advisors based in zones and divisions will provide guidance and support to schools, especially teachers, on areas such as, instructional methods, lesson preparation, classroom practice, curriculum competencies, school based assessment of student performance.

17. These institutional arrangements are the government's own institutional framework for the delivery of education services. The use of these arrangements was agreed through an extensive process of consultation between the MOE, the PCs, the Ministry of Finance and Planning, and the FC, and the Bank. Institutions at all levels of the education system will be able to draw on expertise, both national and international, and from either the government sector, the private sector or civil society, to strengthen the quality and efficiency of the ESDFP 2012-2016. Institutions at all levels of the education system can also draw on expertise, both national and international, and from either the government sector, the private sector or civil society, to strengthen the quality and efficiency of the ESDFP 2012-2016.

18. The Bank will support the implementation of the project through careful supervision of the project, and through analytical and advisory activities (AAA). The AAA support will include impact evaluations, policy research and studies, and technical assistance. The project will cover a range of activities, including works, goods, consultant services, technical assistance, training, workshops, conferences, seminars, monitoring, evaluation, research and studies. The Bank will provide implementation support and supervision, including fiduciary oversight. All overseas training, capacity building, study visits, and academic studies will require prior review and no objection by the Bank. The fiduciary and safeguards aspects of the project are described below.

## **Financial Management Assessment of the Education Sector**

19. The Financial Management (FM) team of the World Bank together with the procurement team conducted a joint fiduciary review of the education sector with the primary objective of identifying opportunities for greater use of the country's FM and Procurement systems in the proposed project.

20. In the FM assessment the following were identified: (1) Gaps in the design and practice of the country's/sectors FM systems; (2) The aspects of the country systems that can be used as part of the proposed projects FM arrangements and the areas that need further improvement before they can be adopted; (3) Actions that can be taken at the sector level to improve the systems.

### *Overall conclusions of the assessment*

- **Budgeting:** A well structured participatory budget preparation process is in place at the sector level. The budget calendar of the country ensures that that the budget is passed before the start of the fiscal year. There is a notable shift in focus both at the Centre and Provinces to a more performance based culture by establishing clear linkages between the action plans and budgets in the budget preparation process and moving towards results based budgeting. This would require close monitoring and capacity building where needed.
- **Internal Control Framework:** Some features of a sound internal control framework exist in the education sector such as comprehensive financial regulations and robust accounting systems. To ensure compliance with the existing rules and regulations a few key prerequisites were identified: (1) adequate oversight by internal and external auditors; (2) active audit and management committees at the sector level to follow up on the implementation of audit recommendations; (3) institutionalize the knowledge and skill maintenance and development for all staff involved in FM related aspects in the sector both at the centre and provinces.
- **Program for School Improvement (PSI):** In order to ensure that this concept is implemented effectively in schools efforts are being made by GOSL to simplify the financial management arrangements at the school level. This should be supplemented by adequate staffing at school level, training, monitoring and hand holding support. Staff of the MOE and PCs, with the assistance of MLGPC, will play an active role in institutionalizing this training, monitoring and support role for schools.

## **FM Arrangements of the Proposed Program**

21. Based on the assessment the broad design of the fiduciary arrangements is as follows.

### **Financial Management Responsibilities:**

22. *Central:* The overall responsibilities for FM for the Central Component will rest with the MOE. The responsibilities will include ensuring compliance with all financial covenants in the legal agreement relevant to the Central component. This entails managing funds in an efficient,



effective and transparent manner, obtaining funds from the Bank and releasing to other implementing agencies, furnishing financial reports to the Bank, forwarding all audit reports relevant to the Central component to the Bank, monitoring and reporting on FM related results indicators and any other requests relating to FM made by the Bank team.

23. The MOE will coordinate with the Department of Publications and Examinations as needed when exercising these functions.

24. The MOE has a fully-fledged accounting unit and the assessment concludes that there is adequate FM capacity in the FM unit. The Chief Accountant will allocate responsibility accordingly among the FM staff for a smooth operation and assign a focal person to liaise with the Bank on FM related activities.

25. Provincial: The financial management activities of the provincial component will be overseen primarily by the MLGPC, including monitoring program related FM arrangements and compliance with the financial covenants of the financing agreement.

26. Training of FM staff in the education sector at all levels will be supported through this program and currently the Government is in the process of designing the same. The proposed program in an effort to strength the FM systems in the sector will institutionalize the knowledge and skill maintenance and development for all staff involved in FM related aspects in the sector both at the centre province levels. A broad framework for the training of FM staff have been jointly designed by the MOE and the FC and the elements of this framework include: (1) The Human Resource Development plans capturing the training needs of sector FM staff; (2) Training a pool of trainers; (3) working with relevant training institutions to include sector specific FM training in the training calendars; and (4) Designating a staff member as a training coordinator with a clear list of duties at centre and working closely with the existing training coordinators in each of the provinces. These activities will be supported throughout this program and the progress will be monitored. The MOE and MLGPC would be required to take a lead role in coordinating and monitoring this training program on a continuous basis.

### **Budgeting and Flow of Funds:**

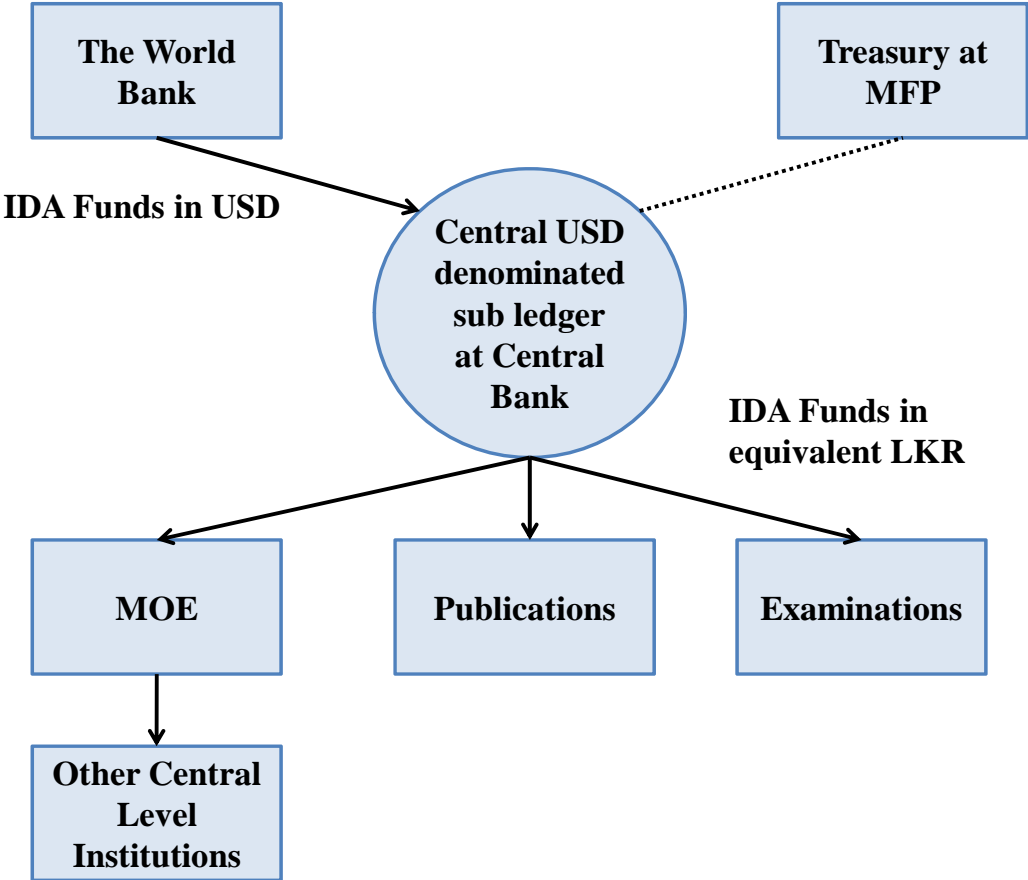
27. The budget information at the central level general education sector is classified by three main headings, (1) Ministry of Education; (2) Department of Examination; and (3) Department of Education Publications. At provincial level the education budget is split between the Provincial Ministry of Education and the Department of Education. The segregation of activities between the Provincial Ministry of Education and Department of Education as well as the delegation of budget implementation responsibilities of the Education sector vary from province to province.

28. The project will provide supplementary funds to the overall education budget of GOSL both at the provincial and central level. The project will form part of the government's budget. The annual action plans of the sector will be shared and agreed with the Bank prior to including same in the Government budget.

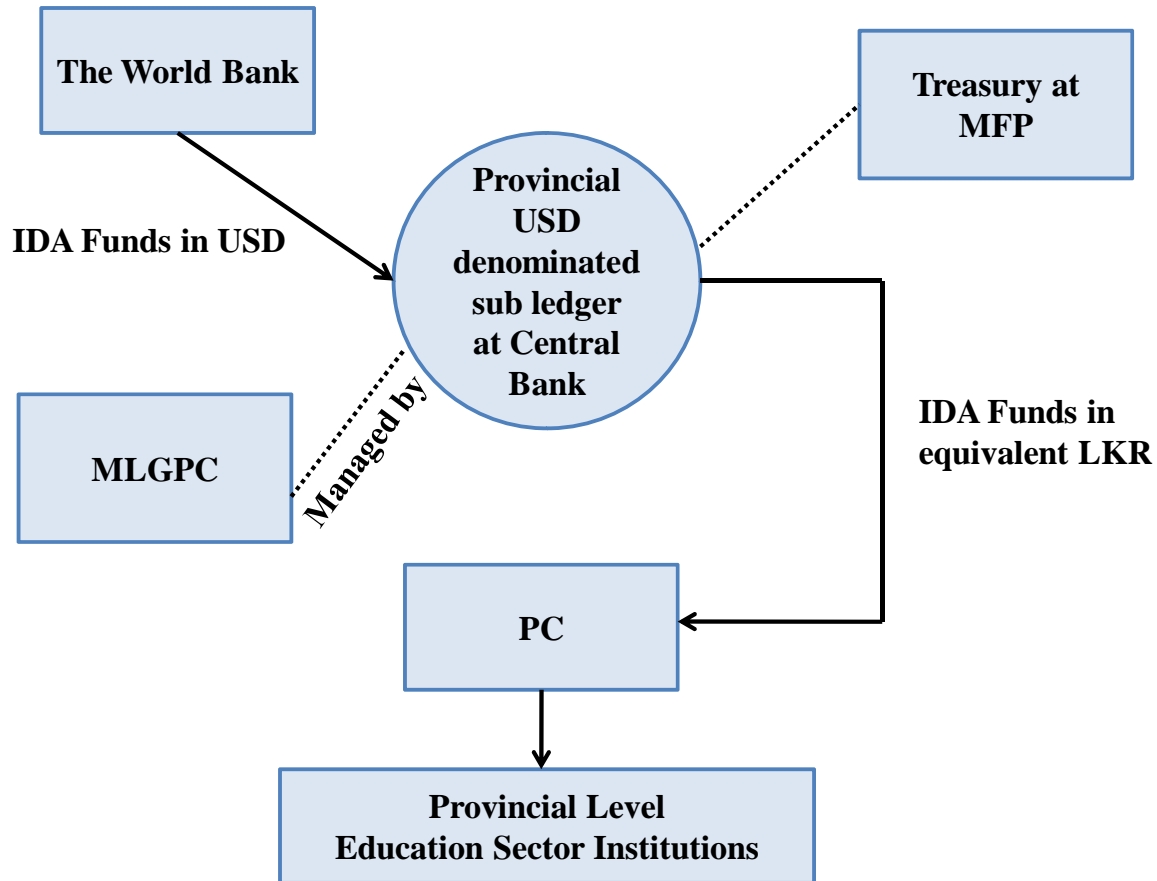
29. Currently detailed action plans and procurement plans are prepared by the provinces on capital budget items for FC approval. This approval process takes place during the 1st quarter of the year leading to a lag in budget implementation during the 1st quarter. This process also creates a bottleneck in the subsequent period of the year as the work is not evenly spread out. To avoid these issues, it has been agreed that this approval process along with World Bank approvals will be concluded before the start of the fiscal year. The MLGPC will be responsible for coordinating this process in a timely manner.

30. Given the programmatic approach in the project, the budgeting and fund flow arrangements will be fully aligned with the existing systems of the government. Figures 3.1 and 3.2 show the fund flow arrangements applicable to the proposed program.

**Figure 3.1. Funds Flow Diagram (IDA Funds), Central Level**



**Figure 3.2. Funds Flow Diagram (IDA Funds), Provincial Level**



31. Arrangements will be made to ensure adequate funds are available in advance to the sector to enhance the predictability in the availability of funds for commitment of expenditures. The disbursement of funds would primarily be conditional on meeting agreed disbursement linked indicators for a disbursement cycle in a fiscal year. Should these be met, disbursements under the project will follow the principles of report based disbursements.

32. The project will have two US\$ denominated sub ledger accounts, one for the activities managed by the center and the other for the activities managed by the provincial councils. The central sub ledger account will be administered by the MOE and the provincial sub ledger account will be overseen by the MLGPC. The Governments guidelines for operating these accounts will be followed by the MOE and the MLGPC. No funds from the two accounts will be withdrawn without instructions from the MOE or the MLGPC, and the proceeds of the withdrawals will go directly to Bank accounts specified below. This will be closely monitored and information regarding the release of funds will form part of the reporting to the Bank.

33. The Central sub ledger account: The proceeds in the account can be obtained by the MOE directly as advance. The MOE is responsible for the subsequent transfer of funds in a timely

manner to other Central level entities such as Department of Publications and Examinations and National Schools.

34. The Provincial sub ledger account: The funds in the account will be directly advanced to the provincial treasuries of all the provinces. All transfers will take place under the oversight of the MLGPC.

### **Disbursement Arrangements**

35. The TSEP is a US\$ 100 million IDA credit over the period 2012 to June, 2017. Approximately 70-80 percent of these funds are allocated for the Provincial Education Authorities, and the balance 20-30 percent for the central MOE. In the first half of 2012 the World Bank will provide of SDR 6.5 million. From the second half of 2012 onwards the funds provided by IDA will be linked to the performance of the TSEP as indicated by the achievement of DLIs. Performance will be assessed according to the achievement of key intermediate outcomes over the period. During the early years of the TSEP the emphasis on performance will concentrate on implementation progress, especially in relation to inputs and processes, while during the later years of the program the assessment of performance will focus on outputs and results. The allocation of TSEP funds based on performance will be carried out jointly by GOSL and the World Bank.

### **The TESP Fund Flow Arrangements and Relationship to the ESDFP 2012-2016 Performance**

36. The eligible expenditures programs (EEPs) for the TSEP will be the capital budgets of the MOE and the PEAs excluding land acquisition and the counterpart funds of other development partners, and the recurrent budgets of the MOE and PEAs excluding personal emoluments and school uniforms. The eligible expenditures will include construction, renovation and refurbishment of civil works, the production and purchase of equipment, tools, machinery, goods, books, journals, newsletters, monographs, publications, consultant services, technical assistance, human resource development activities, professional development of teachers and principals, training, workshops, conferences, seminars, symposia, monitoring, evaluation, third party validations, studies, research, policy analysis, and dissemination activities. An initial sum of SDR 6.5 million will be made available at the commencement of the project, expected in January 2012. Subsequent releases of funds will require the MOE and the PEAs through the MLGPC to show that during the previous six months the expenditures on the EEPs have exceeded the amount released at the previous disbursement.

37. In addition, the disbursements from the second disbursement onwards will require the MOE and the PEAs through the MOE and the MLGPC to show that they have achieved certain key performance indicators. The DLIs are weighted as follows: the first DLI will have a weight of 40 percent, and the other four DLIs will have a weight of 15 percent each (see Annex 1). The total disbursement amount will be divided across the DLIs in proportion to their weights in a given year, conditional on the achievement of the agreed DLIs each year. If a DLI is not met in a particular disbursement period, but is met in the following period, the value of this DLI will be added to the disbursements for that period. If all five DLIs are met each year, it is expected that a

sum of about SDR 12 million will be disbursed ever year from 2012-2016, and a sum of about SDR 4 million will be disbursed between January-June 2017.

38. The indicative schedule of disbursements is illustrated in the Table 3.1 below.

**Table 3.1. Illustrative Disbursement Schedule**

<b>Time Period</b>	<b>Disbursements based on achievement of DLIs</b>
February, 2012	Initial advance of SDR 6.5 million.
August, 2012	Due amount under the project if: (a) EEPs exceed the amount released in the previous tranche, and (b) the number of DLI's met. If condition (a) is satisfied and all DLIs are met this would be SDR 6 million.
February, 2013	Due amount under the project if: (a) EEPs exceed the amount released in the previous tranche, and (b) the number of DLI's met. If condition (a) is satisfied and all DLIs are met this would be SDR 6 million.
August, 2013	Due amount under the project if: (a) EEPs exceed the amount released in the previous tranche, and (b) the number of DLI's met. If condition (a) is satisfied and all DLIs are met this would be SDR 6 million.
February, 2014	Due amount under the project if: (a) EEPs exceed the amount released in the previous tranche, and (b) the number of DLI's met. If condition (a) is satisfied and all DLIs are met this would be SDR 6 million.
August, 2014	Due amount under the project if: (a) EEPs exceed the amount released in the previous tranche, and (b) the number of DLI's met. If condition (a) is satisfied and all DLIs are met this would be SDR 6 million.
February, 2015	Due amount under the project if: (a) EEPs exceed the amount released in the previous tranche, and (b) the number of DLI's met. If condition (a) is satisfied and all DLIs are met this would be SDR 6 million.
August, 2015	Due amount under the project if: (a) EEPs exceed the amount released in the previous tranche, and (b) the number of DLI's met. If condition (a) is satisfied and all DLIs are met this would be SDR 6 million.
February, 2016	Due amount under the project if: (a) EEPs exceed the amount released in the previous tranche, and (b) the number of DLI's met. If condition (a) is satisfied and all DLIs are met this would be SDR 6 million.
August, 2016	Due amount under the project if: (a) EEPs exceed the amount released in the previous tranche, and (b) the number of DLI's met. If condition (a) is satisfied and all DLIs are met this would be SDR 6 million.
February, 2017	Due amount under the project if: (a) EEPs exceed the amount released in the previous tranche, and (b) the number of DLI's met. If condition (a) is satisfied and all DLIs are met this would be SDR 3.6 million.

39. Depending on the performance of the program, disbursements can be speeded up in relation to the schedule shown above.

40. The achievement of DLIs will be verified through third-party validations. The implementation of third-party validations will be discussed and agreed between the MOE, Provinces, the MLGPC, the FC and the Bank. The recruitment of the expertise needed for the relevant third-party validations will be the responsibility of the MOE.

## **Financial Reporting Arrangements:**

41. In a programmatic approach, the Bank funds are considered fungible. As the Bank funds are indistinguishable from government funds the financial reports submitted to the Bank will include all sector expenditures from all sources of funds.
42. All expenditure items in the Education sector budget will be eligible for financing under the proposed program except for land acquisition, salaries, uniforms and expenditures incurred from non-pooling DP funds. The financial reports will clearly segregate these expenditure items.
43. The fund flow arrangements at both the Centre and Provinces are complex, as a result the reporting arrangements are also complex. However a key strength in the reporting environment of the Government is that the expenditure reports are collected from all spending units and consolidated by budget head at a central point once a month both at the Centre and for the Provinces. At the end of every month, the cumulative consolidated expenditure is also captured. It is strongly encouraged that the MOE and the MLGPC use these consolidated reports prepared for June and December to prepare the interim financial reports for the Bank. The Bank reporting formats will be fully aligned with the Government reports. Two sets of IUFs will be prepared: (1) for the Centre by the MOE; and (2) for the Provinces by the MLGPC. Formats of the IUFs have been agreed with the GOSL.
44. As the aforesaid reports only capture the expenditure, a separate statement on the release of Bank funds to the relevant implementing agencies will be prepared by the MOE and the MLGPC and submitted to the Bank. This statement will form part of the interim financial reports that will be submitted semiannually to the Bank within 45 days from June 30 and December 31.

## **Internal Controls:**

45. The framework of financial control procedures followed by all central level spending units of the sector, in expending and reporting on public funds are laid out in the Financial Regulations (dated 1992). The Provincial Level Institutions follow the provincial rules issued by the Governor of the Province. The provincial rules are aligned with the Central Financial Regulations.
46. These Financial rules and regulations provide a good guidance on how to maintain a sound financial management system. It covers important areas such as delegation of financial authority, receipts and payment procedures, incurring commitments (Liabilities) and Inventory Control.
47. It is important to keep the FM staff abreast of the developments in public sector accounting. Currently there are no institutional arrangements in place that mandates continued structured skill maintenance training programs for Government Accountants.
48. The proposed project will look at ways of mainstreaming continuous development of staff involved in FM at all levels including central, provincial, zonal and school.

49. Financial rules and regulations are broad as applicable to the country or province as a whole. For better management of the sector, it is recommended that within the broad umbrella of the rules and regulations, a sector specific detailed procedural manual with work flow arrangement, service standards, etc are prepared covering key elements of implementation such as Financial Management, procurement, contract management.

50. In the sector assessment internal control risks were noted, and measures through fiduciary training and institutional strengthening are being taken to address these risks.

51. The MLGPC will, as part of their monitoring role, ensure that the GOSL regulations on asset management will be complied with in the provinces for the education sector.

52. With the strengthening of the internal audit more focus will be given to payroll audits and other high risk areas.

### **Internal Audit:**

53. There is an internal audit unit attached to the MOE covering all entities in the central level including the national schools and each Provincial Council has an internal audit unit covering all the sectors at the provincial level.

54. The Chief internal auditor at the Centre has a direct reporting line to the Secretary MOE and the Chief Internal Auditor in a province reports to the Chief Secretary. This arrangement ensures the functional independence of internal auditors.

55. The internal audit units in the centre and across provinces are characterized by staff shortages. This adversely affects the coverage of internal audit. Meaningful and in-depth audits on systems and performance are not carried out. As a result no recommendations for improvements are usually given. The internal audit is confined to a compliance audit of a small sample.

56. The Bank is unable to rely on internal audit as an effective management tool in the present context.

57. The capacity of internal auditors should be enhanced to carry out risk based high impact audits even in small numbers given the staff constraints. The MOE and the FC have jointly designed a framework for training the internal auditors involved in the Education sector, under the proposed project. The training will be based on the Government internal audit guidelines which are in line with international internal audit guidelines and standards. It will be the responsibility of MOE and MLGPC to strengthen the framework for the training of internal auditors and to lead and oversee that this program is implemented on a continuous basis.

58. In parallel, the centre and provincial leadership should continue their dialogue with the Management Services Department to fill the existing cadre vacancies.

## **External Audit:**

59. The Auditor General's Department (AGD) of Sri Lanka which is the supreme audit institution of the country carries out an annual external audit at the centre as well as at all provinces (with schools being covered on a sample basis).

60. The Government prepares an appropriation account for each budget head which provides: (1) expenditure details by budget line; (2) comparison against budget allocations; (3) explanations for variances; (4) a listing of liabilities at the end of the year. All annual appropriation accounts are subjected to the audit. At present 21 such appropriation accounts are prepared for the Education sector, 3 for the centre and 18 for the provinces. The present audit practice is to certify these appropriation accounts without providing an audit opinion on the appropriation accounts. The key audit findings of the central level education institutions are incorporated in the annual audit report issued for the center and the provincial level audit findings in the provincial audit reports.

61. There is a new development at the AGD where an initiative is taking place to issue an audit opinion on appropriation accounts for future audit reports starting from audit reports of FY 2012.

62. For the proposed program the AGD will issue two consolidated audit reports including an audit opinion and management letters on the two consolidated financial reports prepared for the program, one reflecting education sector expenditure incurred by central level institutions and the other reflecting the provincial level expenditures. The reports will reflect the entire education sector expenditures for all sources of funds.

63. The objective of the two consolidated audit reports is for the Bank to obtain assurances that the consolidated financial reports present a true and fair view of the education sector expenditures and free from material misstatements.

64. The basis of the two consolidated audit reports and management letters will be the audit findings and audit opinions on the individual appropriation accounts (21 Numbers) of the Education sector.

65. The constitutional requirement is to issue audit reports within 10 months from the end of each financial year. While the audit reports are generally timely a few exceptions were noted in the provinces. To factor in any possible delays in these individual audits the consolidated audit reports are required to be submitted to the Bank within 10 months of the end of the financial year in the first two years and a gradually reduction in the due to 9, 7 and 6 months from the end of the financial year in the ensuing years.

66. The MOE and the MLGPC will be responsible for collecting and submitting these consolidated audit reports to the Bank.

67. The external audit arrangements have been agreed with the Auditor General.



68. The following audit reports for the education budget heads submitted by MOE and the MLGPC will be tracked in ARCS along with the respective submission dates (see Table 3.2).

**Table 3.2. Submission Dates of the Audit Reports**

Audit report	Coverage	Audit report submitted to IDA by	Audit Report Due Date			
			Yr 1-2 Audit Report	Yr 3 Audit Report	Yr 4 Audit Report	Yr 5 Audit Report
1. The consolidated audit report of central component	MOE, Examinations and Publications	MOE	Within 10 months from the end of the FY	Within 9 months from the end of the FY	Within 7 months from the end of the FY	Within 6 months from the end of the FY
2. The consolidated audit report of provincial component	9 provinces	MLGPC	Within 10 months from the end of the FY	Within 9 months from the end of the FY	Within 7 months from the end of the FY	Within 6 months from the end of the FY

69. Currently there are no overdue audit reports or ineligible expenditure for the education project that closed on June 30, 2011 or any other project that is being implemented by the MOE.

70. An intermediate outcome indicator would be developed that relates to the timely submission of individual audit reports of the education sector.

During the first year of the project	within 9 months of financial year end
During the second year of the project	within 9 months of financial year end
During the third year of the project	within 8 months of financial year end
During the fourth year of the project	within 6 months of financial year end
Fifth year onwards of the project	within 5 months of financial year end

71. According to Bank's access to Information Policy, the audit reports received by the Bank for the project will be displayed at Bank's external web site for public display.

#### **The World Bank and Development Partners:**

72. Any development partners who channel their funds through the World Bank will be covered by the common FM arrangements for this project that meet the Bank and Government requirements, including reporting and auditing arrangements. The report prepared by the Government for the Bank will include the funds of any such development partner whose resources are provided through the Bank.

## **Program for School Improvement (PSI):**

73. This approach advocates School-based Management (SBM) via the formation of school development committees and supports the devolution of fund management to schools. The program aims to formalize the mechanisms of raising additional resources to schools, enhance the levels of financial delegation to schools to handle a larger volume of funds, increase the flexibility for schools to direct (redirect) the use of resources to meet its needs and simplify the financial management activities. Simultaneously, the program will increase the accountability and transparency of school level activities with greater participation of local communities in school management.

74. This began as a pilot initiative in a few schools in 2006 and was gradually extended to other schools under the World Bank funded Education Sector Development Project (ESDP). This will be further expanded to cover all schools during the next phase. This will be an eligible expenditure program under the proposed program.

75. The government is in the process of preparing a new circular and a new handbook for the PSI activities. This will amalgamate all existing circulars for schools and introduce one bank account and a uniform set of FM guidelines for all sources of funds. This will significantly simplify the financial management processes at school level.

76. For an effective roll out of the PSI, the following are considered prerequisites:

- (1) *FM capacity at school level:* A program for continuous capacity building should be designed and implemented for all staff engaged in FM at school level at the Centre and Provinces.
- (2) *FM staffing:* Adequate level of trained FM staffing at school level should be in place before funds are transferred to schools. This can be a combination of clerical staff and teachers.
- (3) *Clear and simplified FM guidelines:* Simplified guidelines to schools are essential by way of a handbook and circular instructions. The handbook should include simple instructions with clear illustrations where needed. The circular instructions should be an all encompassing document of school level FM rules and procedures with the schools not having to refer to the Government FRs and ARs and/or the provincial Council Rules. These can be too complex and cumbersome by staff at this level. The Government is in the process of preparing such a document.
- (4) *Monitoring and hand holding support:* The institutional mechanisms for monitoring and supporting school level FM activities should be clearly defined in the PSI guidelines. In line with this, the adequacy of monitoring staff should be assessed before transferring funds to schools. It is envisaged that the Zonal Accountants will play a vital role in the monitoring framework. As a result it is important to address the key FM staff vacancies in the zonal offices.

## Financial Covenants:

77. (1) Interim financial reports will be submitted semiannually to the Bank within 45 days from June 30 and December 31. (2) Audited Financial Statements will be submitted to the Bank not later than 10 months after the end of the financial year in the first two years, and not later than 9, 7, and 6 months respectively in the ensuing years (see Table 3.2).

**Table 3.3. Table of Actions**

<b>Activity Number</b>	<b>Action</b>	<b>Party Responsible</b>	<b>Due Date</b>
1.	Finalize the new PSI circular	MOE	Dec 31, 2011
2.	Strengthen the MLGPC with FM staff to carry out FM related responsibilities.	MLGPC	January 31, 2012.
3.	Carrying out an assessment of staff needed to implement the school level FM functions vital for the PSI	MOE, MLGPC and PCs	During project implementation

## Procurement Arrangements

### Country Procurement Environment

78. Public procurement in Sri Lanka is governed by the Procurement Guidelines of 2006 (with amendments), supplemented by a procurement manual and standard bidding documents (SBDs). Procurement of consultancy services is regulated by the Guidelines on the Selection and Employment of Consultants dated August 2007. The Guidelines, manuals and SBDs constitute the public procurement regulatory framework and are comprehensive. These include a menu of procurement methods, provide for the contents of bidding documents, evaluation criteria, and adequately respond to procurement needs of different procuring entities. These Guidelines apply to all procuring entities at national and provincial levels using national budget funds. Procurement is decentralized to procuring entities both at the central and provincial levels.

### General

79. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011, and the provisions stipulated in the Financing Agreement. Nevertheless, contracts under National Competitive Bidding (NCB) and Shopping procedure will be procured in accordance with the National Guidelines: Procurement Guidelines 2006 Goods and Works with additional provisions to meet the Bank requirements as indicated in the Financing Agreement. The various items under the different expenditure categories, prior review thresholds, methods of procurement etc. are described in general below.

80. *Procurement of Works:* Works to be procured under this project include new and rehabilitated infrastructure mainly for schools but includes other institutions such as Zonal and Divisional offices and training centers managed by the education sector. Most of these contracts will be of small and very small in magnitude. Works procurement will be carried out using the Bank's Standard Bidding Documents (SBD) for all International Competitive Bidding (ICB), if any, and sample/standard SBD agreed with the Bank for procurement of works under NCB procedures. Minor contracts costing less than LKR 2 million (Approximately US\$ 20,000) may be assigned to school development societies of the same school. Shopping procedure may be followed adhering to the national guidelines under the limits of authorities spelled out in the National Guidelines but limited to works contracts costing less than US\$50,000. Works estimated to cost more than US\$ 5 million equivalent per contract shall be procured following ICB procedures. All other contracts shall be procured following NCB procedures acceptable to the Bank.

81. *Procurement of Goods:* Goods to be procured under this project include: (i) school furniture; (ii) office and IT equipment; (iii) laboratory equipment; (iv) library material and teaching aids; and (v) computers and accessories etc. Majority of these contracts will be small and very small in magnitude. Goods procurement will be carried out using the Bank's SBD for all ICB, and national SBDs as agreed with the Bank for procurement of goods under NCB procedures. Shopping procedure may be followed adhering to the provisions of the national guidelines under the limits of authorities spelled out in the National Guidelines. Goods estimated to cost less than US\$ 600,000 equivalent per contract may be procured following NCB procedures; and goods estimated to cost US\$ 600,000 equivalent or more per contract shall be procured following ICB procedures.

82. *Procurement of Non-consulting Services:* Non-consulting services required under the project will be procured under NCB or Shopping procedures, following the same thresholds as for goods.

83. The following methods will be applicable for Goods and Works, consistent with the relevant sections of the Bank's Procurement Guidelines:

- (a) International Competitive Bidding (ICB)
- (b) National Competitive Bidding (NCB)
- (c) Shopping (S)
- (d) Community Participation (CP)

84. *Requirements under National Competitive Bidding (NCB):* In order to ensure economy, efficiency, transparency and broad consistency with the provisions of the Procurement Guidelines, goods, works, and non consultant services procured under the National Competitive Bidding (NCB) method shall be subject to the following requirements:

- i. Only the model bidding documents for NCB agreed with the Bank shall be used for bidding;
- ii. Invitations for bids will be advertised in at least one widely circulated national daily newspaper, and bidding documents will be made available at least 21 days before, and issued up to, the deadline for submission of bids;

- iii. 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;
- iv. 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);
- v. Except in cases of *force majeure* or exceptional situations beyond the control of the implementing agency, the extension of bid validity will not be allowed;
- vi. Bids will not be rejected merely on the basis of a comparison with an official estimate;
- vii. Except with the prior concurrence of the Bank, there will be no negotiation of price with bidders, even with the lowest evaluated bidder;
- viii. 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
- ix. Bids will not be invited on the basis of percentage premium or discount over the estimated cost, unless agreed with the Bank.

85. *Selection of Consultants:* Consultant services required under the project would include: expertise in monitoring and evaluation, financial management, procurement, and specialized fields in education, economics and social sciences. Short lists of consultants for services estimated to cost less than US\$ 300,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

86. The following methods will be applicable for selection of consultants, consistent with the relevant sections of the Bank's Consultant Guidelines:

- (a) Quality- and Cost- Based Selection (QCBS)
- (b) Quality-Based Selection (QBS)
- (c) Least Cost Selection (LCS)
- (d) Fixed Budget Selection (FBS)
- (e) Selection based on Consultants' Qualifications (CQS): for services estimated to cost less than US\$ 200,000 equivalent per contract, in accordance with the provisions of paragraph 3.7 of the Consultant Guidelines
- (f) Single-Source Selection (SSS)
- (g) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
- (h) Sole Source Procedures for the Selection of Individual Consultants

87. The Bank's standard request for proposal (SRFP) document will be used for all consultant services. The SRFP may be customized, as appropriate, for small value assignments (less than US\$300,000).

## **Assessment of the Agencies' Capacities to Implement Procurement**

88. Provincial Ministry of Education, Provincial Director of Education, Zonal offices and schools are the responsible executing agencies at the provincial level. In addition, the Engineering Department of each Province is responsible for civil works contracts in the province. Procurement unit of the MOE will be responsible for procurement at the MOE. Detailed procedures and documents to be used for procurement are provided in the Operational Manual. The MOE and MLGPC will jointly prepare a manual for procurement for use in the central ministry and the provinces. Details of procurement arrangements at school level will be spelled out in the PSI circular.

89. Fiduciary team of the Bank has carried out a comprehensive review of the education sector including three selected provinces out of nine. Major component of this project is to improve the education sector in the provinces.

90. The review revealed that the contracts carried out at the provincial level are of smaller in magnitude and hence the capacity of handling large value contracts may be a constraint. It was revealed in some cases that the procurement process and the evaluations were done deviating to the guidelines and principles of procurement mainly due to the lack of exposure and the knowledge of the staff who handle procurement.

91. The key issues and risks concerning procurement for implementation of the project have been identified and include:

- Limited experience and the lack of knowledge of the staff who handle procurement,
- Limited experience in the selection of consultants.
- Absence of systematic procurement performance and compliance monitoring.
- Limited experience in dealing with complaints, and fraud and corruption issues.

92. The corrective measures which have been agreed are:

- Implement an effective capacity building program within the project coupling with capacity building of other areas such as FM, Environment and social.
- Update the procurement section of the operations manual by the MOE and the MLGPC for the centre and province in a manner acceptable to IDA within the first six months of the project.
- Produce simplified document/manual for smaller value contracts which can be understood by the implementing agencies such as schools located remotely before disbursing funds to schools.
- Assign dedicated procurement staff at the MLGPC and the MOE.
- Preparation of a realistic procurement plan and monitoring the progress at various levels.
- The following key indicators will be used for assessing procurement performance and risk rating:
  - Percentage of procurement activities which have more than 25 percent delay in bid/proposal evaluation.
  - Percentage of contracts which have been extended and/or have more than 15 percent modifications by value.

- Percentage of post reviewed contracts with notable irregularities.
- Percentage of procurement activities which had complaints.
- The Bank will carry out its own procurement post reviews annually, discuss the findings, and agree with MOE and project implementing staff on corrective actions to address deficiencies.

93. The overall project procurement risk is rated high, and will be upgraded to substantial once the remedial measures, as listed above, are in place.

### Procurement Plan

94. The Recipient has developed the initial procurement plan for project implementation and has agreed with IDA on the basis for the procurement methods. This plan has been agreed between the Recipient and the Bank and the respective plans are available at the MOE and the FC. More detailed plans will be developed once the funds are allocated to provinces in the budget. The Procurement Plan will be updated at least annually, or as required, to reflect the actual needs vis-à-vis project implementation and institutional capacity. School level procurement activities will be included in their annual development plans.

### Frequency of Procurement Supervision

95. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the implementing agencies has recommended semi-annual supervision missions to visit the field to carry out reviews of procurement actions on a sample basis.

96. Dedicated staff member(s)/consultant(s) will be assigned for procurement monitoring and reporting, training and guidance for both the central and the provincial components. Bi-annual procurement progress reports to be provided to the World Bank would include status updates, procurement monitoring reports and analysis of agreed intermediate outcome indicators. The MOE and the Provinces will develop an effective monitoring mechanism during the first six months of the Project.

### Details of the Procurement Arrangements

97. Goods, Works, and Non Consulting Services: Method and Prior review thresholds for prior review contracts are shown in the Table 3.4.

**Table 3.4. Thresholds for Procurement Methods and Prior Review**

Procurement Category	Procurement Method	Method Threshold	Prior Review Threshold
Works	International Competitive Bidding (ICB) in accordance with the Bank's Procurement Guidelines: <i>Bank's standard bidding documents for works version May 2006 revised in March and April 2007 shall be</i>	Works estimated to cost exceeding US\$ 5 million equivalent per contract.	➤ All contracts

	<i>used.</i>		
	National Competitive Bidding (NCB) in accordance with the Bank's Procurement Guidelines, and subject to the provisions set forth below.	Works estimated to cost not to exceed US\$ 5 million equivalent per contract.	<ul style="list-style-type: none"> <li>➤ First contract (regardless of the value) to be awarded under central ministry; and</li> <li>➤ First three contracts (regardless of the value) to be awarded by any of the nine provinces.</li> </ul>
	National Shopping in accordance with the Bank's Procurement Guidelines, and subject to: <ul style="list-style-type: none"> <li>• receiving not less than three sealed quotations from ICTAD registered contractors;</li> <li>• submission of quotations by a pre disclosed deadline and public opening; and</li> <li>• a written invitation for quotation shall be provided, including a detailed description of the works, and evaluation criteria.</li> </ul>	Works estimated to cost not to exceed US\$ 50,000 equivalent per contract.	<ul style="list-style-type: none"> <li>➤ All contracts subject to post review on sample basis.</li> </ul>
	Direct Contracting to School Development Society of the particular school	Works estimated to cost not to exceed US\$ 20,000 equivalent.	<ul style="list-style-type: none"> <li>➤ All contracts subject to post review on sample basis.</li> </ul>
Goods, Equipment and Non-consultant services (NCS)	ICB in accordance with the Bank's Procurement Guidelines: <i>Bank's standard bidding documents for goods May 2004 Revised May 2005, September 2006, and May 2007 shall be used.</i>	Packages of goods, equipment and NCS estimated to cost exceeding US\$ 600,000 equivalent per contract.	<ul style="list-style-type: none"> <li>➤ All contracts.</li> </ul>
	NCB in accordance with the Bank's Procurement Guidelines, and subject to the provisions set forth below.	Packages of goods, equipment and NCS estimated to cost not to exceed US\$ 600,000 equivalent per contract.	<ul style="list-style-type: none"> <li>➤ First contract (regardless of the value) to be awarded under central ministry; and</li> <li>➤ First three contracts (regardless of</li> </ul>



			the value) to be awarded by any of the nine provinces.
	<p>National Shopping in accordance with the Bank's Procurement Guidelines, subject to:</p> <ul style="list-style-type: none"> <li>receiving not less than three sealed quotations;</li> <li>submission of quotations by a pre disclosed deadline and public opening; and</li> <li>a written invitation for quotation shall be provided, including quantity requirements, specifications, delivery schedule, terms of payment, and evaluation criteria.</li> </ul>	Works estimated to cost not to exceed US\$ 50,000 equivalent per contract.	➤ All contracts subject to post review on sample basis.
Consultant Services-Firms	<p>Quality and cost based (QCBS)</p> <p><i>Bank's standard request for proposal version December 2008 shall be used.</i></p>	<p>Irrespective of the value in accordance with Section II of the Bank's Guidelines for selection of consultants.</p> <p><i>Services costing less than US\$300,000 equivalent per contract may comprise all nationals.</i></p>	<p>➤ All contracts estimated to cost exceeding US\$ 300,000 equivalent; and</p> <p>➤ All Terms of Reference.</p>
	<ul style="list-style-type: none"> <li>Quality based (QBS)</li> <li>Least cost (LCS)</li> <li>Fixed Budget (FBS)</li> </ul> <p><i>Bank's standard request for proposal version December 2008 shall be used.</i></p>	<p>Irrespective of the value in accordance with paragraphs 3.2 to 3.6 of the Bank's Guidelines for selection of consultants.</p> <p><i>Services costing less than US\$ 300,000 equivalent per contract may comprise all nationals.</i></p>	<p>➤ All contracts estimated to cost exceeding US\$ 300,000 equivalent; and</p> <p>➤ All Terms of Reference.</p>
	<p>Selection based on Consultant's Qualifications (CQS), in accordance</p>	<p>Services costing less than US\$ 100,000</p>	<p>➤ First contract to be awarded</p>

	with paragraph 3.7 of the Bank's Consultant Guidelines. <i>Bank's standard request for proposal version December 2008 shall be used.</i>	equivalent per contract.	by central ministry and each province subject to prior review. ➤ All Terms of Reference
	Single Source Selection (SSS) <i>Bank's standard request for proposal version December 2008 shall be used.</i>	Irrespective of the value in accordance with paragraphs 3.9 to 3.10 of the Bank's Guidelines for selection of consultants.	➤ All contracts; and ➤ All Terms of Reference.
Individual Consultants (IC)	Competitive selection procedures <i>Bank's standard contracts version December 2008 shall be used.</i>	Irrespective of the value under the provisions in Section V of the Bank's Consultant Guidelines.	➤ All contracts estimated to cost exceeding US\$ 100,000 equivalent; and ➤ All Terms of Reference.
	Sole-Source selection procedures <i>Bank's standard contracts version December 2008 shall be used.</i>	Irrespective of the value under the provisions in paragraph 5.4 of the Bank's Consultant Guidelines.	➤ All contracts estimated to cost exceeding US\$ 10,000 equivalent; and ➤ All contracts estimated to cost not to exceed US\$ 10,000 equivalent are subject to prior agreement - Justification shall be provided in the procurement plan. ➤ All Terms of Reference.
Procurement at School level Works	National Shopping, and subject to: <ul style="list-style-type: none"> <li>receiving not less than three sealed quotations from ICTAD registered contractors;</li> </ul>	As spelled out in the PSI circular.	➤ All contracts subject to post review on sample basis.

	<ul style="list-style-type: none"> <li>• submission of quotations by a pre disclosed deadline and public opening; and</li> <li>• a written invitation for quotation shall be provided, including a detailed description of the works, and evaluation criteria.</li> </ul>		
Procurement at School level Goods	National Shopping subject to: <ul style="list-style-type: none"> <li>• receiving not less than three sealed quotations;</li> <li>• submission of quotations by a pre disclosed deadline and public opening; and</li> <li>• a written invitation for quotation shall be provided, including quantity requirements, specifications, delivery schedule, terms of payment, and evaluation criteria.</li> </ul>	As spelled out in the PSI circular.	➤ All contracts subject to post review on sample basis.
	Direct contracting.	Goods estimated to cost not to exceed US\$100 equivalent per contract.	➤ All contracts subject to post review on sample basis.

98. *Composition of procurement committees.* The appointment of procurement committees would follow the normal GOSL processes for foreign funded projects. However, staff working in project units of non-pooling development partners should not belong to major procurement committees, minor procurement committees or technical evaluation committees for procurement activities financed under the TSEP.

99. *Expenditure thresholds of procurement committees.* The expenditure thresholds for major and minor procurement committees would follow the thresholds given under the Government of Sri Lankan guidelines for foreign funded projects.

### **Environmental Safeguards**

100. Considering the scope of the TSEP, there will not be significant and/or irreversible environmental impacts as a result of project interventions. It is possible that some environmental impacts may result from the project activities, particularly the construction of new school buildings, renovations of existing school buildings, extensions to existing school buildings, or construction of associated facilities such as water, sanitation and school laboratories. The Northern and Eastern provinces may require construction of new school buildings where the damage is too severe to existing buildings. Where construction activities take place debris clearing will be required and will need to follow strict environmental guidelines in terms of clearance, removal and disposal. No new construction will be allowed in environmentally sensitive areas such as wetlands, marshes or forests.

101. An Environmental and Social Management Framework (ESMF) has been developed for the recently concluded Education Sector Development Framework and Program (ESDFP) 2006-2010 and this has been updated to cover the new program, the ESDFP 2012-2016. The ESMF has ensured the IDA safeguards operational policy requirements and GOSL National Environmental Act (NEA) requirements are taken into consideration. This ESMF includes streamlining the requirements to complete the Environmental Assessment Checklists and development of Environmental Management Plans (EMPs) based on lessons learned from the Education Sector Development Grant Project. The ESMF will guide site selection, relevant sub-project design and mitigation measures during program implementation.

102. Seven types of construction/renovation activities and the level of compliance requirement with the implementation responsibilities has been identified in the ESMF. In an event that a site is located in an environmentally sensitive area identified by the Environmental Assessment checklists, the implementing agencies will be required to undertake a full Environmental Impact Assessment (EIA) and obtain clearance from the Central Environmental Authority (CEA) of Sri Lanka and IDA prior to commencing any activities in these locations. If any land filling is required for site preparation such as filling of low lying lands, a full EIA (not only an Environmental Management Plan) will be a condition for Bank financing. The Bank will conduct a prior review of a minimum of five checklists and Environmental Management Plans (EMPs) for selected school sites, with a post review of selected sample of sites to ensure that ESMF conditions are met. Exact locations of new school buildings are unknown at this stage. Each construction will be required to complete the Environmental Assessment checklist, and where required prepare an EMP, according to the ESMF. For all new schools to be constructed on new sites, the MOE and the FC will obtain approval from IDA to all Environmental Checklists including site clearance from the CEA or responsible agency and EIA report prior to commencement of the bidding process. For such project the TOR for the EIA should be prior approved by IDA before commencing the assessment.

103. The first contractual documents related to all categories of construction work detailed in the ESMF will be submitted to IDA for review and clearance. The project will be using the Institute of Construction Training and Development (ICTAD) guidelines for environmental technical specifications and will include the EMP in all contractual documents. The funds required to implement the EMP will be identified as an item in the Bill of Quantities. In reference to all construction activities, in order to avoid illegal extraction of natural resources, all construction contracts under the project will include clauses in the contracts to ensure that sand, clay, gravel and timber are obtained from authorized locations and sources that are licensed by relevant government authorities. Contracts will specify that building construction and renovation will adhere to existing building and other applicable codes of practices in Sri Lanka. If any land filling is required for site preparation, particularly filling of low lying lands, a full EIA will be condition for IDA financing.

104. ***Institutional Arrangements:*** The MOE will be responsible for the implementation and monitoring of the ESMF in national schools and other central education agencies. The PCs will be responsible for the implementation and monitoring of the ESMF in provincial schools and other provincial education agencies, under the supervision of the MLGPC. The overall ESDFP

2012-2016 activities will be monitored by the CEA, which has staff located in Divisional Secretariats in the country as per the requirements of NEA. The MOE and Provincial Education Ministries will identify qualified staff to ensure environmental safeguards compliance as per the ESMF including facilitating and guiding the preparation of checklists, EMPs and EIAs, ensure bid documents and contractual agreements have relevant clauses and sections on environmental requirements, ensure constructions designs are in compliance with the ESMF, monitor the implementation of EMPs, maintaining documentation and reporting to the MOE and the MLGPC on a regular basis.

105. An Environmental Management Supervision Compliance Table that systematically records the monitoring of EMP implementation during the construction period will be maintained by the MOE and Ministries of Provincial Education. Consolidated environmental compliance reports will be submitted to IDA on a bi-annual basis together with the Environmental Management Supervision Compliance Tables by the MOE and the MLGPC.

106. **Public disclosure:** The ESMF was disclosed to the public by MOE and the FC on September 26, 2011 and in the Infoshop on September 29, 2011. It will be translated to Sinhala and Tamil by the MOE and MLGPC on behalf of the project and will be distributed to participating institutions by the MOE and MLGPC, as well as disclosed to the public. Relevant subproject specific safeguards documents such as EMPs and EIAs prepared subsequently will also be disclosed to the public.

### **Social Safeguards**

107. The project is designed not to have any negative social impacts, and will not trigger Bank policies on involuntary resettlement and indigenous people. School construction activities will take place only in existing schools. The conflict and reconciliation assessment, assessed risk in this contest as low. Indeed, the TSEP has the potential to generate substantial positive social benefits.

108. In order to ensure adequate level of social due diligence is in place, the following mitigation measures have been identified as minimum requirements to be in place as part of the social safeguards requirements.

### *Grievance Redressal*

109. The project will adopt a grievance redressal mechanism (GRM) that will be transparent, objective and unbiased and will take both grievances environmental and social into consideration. The GRM will operate at two levels. The procedure at the first level will seek to resolve an issue quickly, amicably, and transparently out of courts in order to facilitate activities to move forward. The School Development Committees (SDCs) will act as the first tier of responding to grievances that may arise due to school level development activities. The SDCs have representatives from the schools, and from the local communities. The local community representatives will be impartial third parties in the grievance procedure. The next tier of the GRM will be more official, and involve the relevant legal agencies. Environment related grievances could be made to the Central Environment Authority, which has officials at district

level. Complaints related to social issues could be brought to the notice of the legal authorities. Grievances will all be entered in a dedicated database, regularly updated with date of receipt of grievance, type of grievance, date of resolution, and information of rejection or acceptance of grievance. The GRM will be regularly monitored, as it provides important feedback on the functioning of the project. The GRM will be available for review by the MOE and the MLGPC, and IDA implementation review missions and other interested persons and entities.

#### *Resettlement Action Framework*

110. Although the OP 4.12 has not been triggered, in case of less than 200 Project Affected People (PAPs), an abbreviated Resettlement Framework has been included in the ESMF, which the TSEP will follow in order to restore housing and issue economic compensation for loss of land and livelihood through a consultative and mutually agreeable process where applicable. Resettlement Action Plans (RAPs) will be prepared where impacts on assets and livelihoods are likely to take place due to project activities and with the possibility of resettlement of people.

#### *Social Safeguards Impact Assessment*

111. As part of project monitoring and evaluation a third party. A Social Safeguards Audit will be carried out for the annual review of the project each year. This audit would review the implementation of the ESMF requirements and highlight constraints or shortcomings in terms of compliance. As part of the Social Safeguards audit, the TOR will also comprise broader social impacts to highlight issues relating to social inclusion and equity (regional, ethnic, religious, gender) in coverage, beneficiaries and employment and recommend mitigatory strategies in case of shortcomings.

### **Social Benefits of the Project**

#### *The Promotion of Social Cohesion among Different Ethnic Groups*

112. The project will support a number of activities that will promote mutual understanding and respect for diversity among education communities from different ethnic and religious backgrounds.

- a) The textbooks will be reviewed by panels of scholars and researchers from all the different ethnic and religious groups in the country. Material that is offensive to the various ethnic groups will be eliminated. The textbooks will be used to promote a favorable picture of a multi-ethnic, multi-religious and multi-cultural country. This will be especially important in the future, as globalization proceeds and population flows into and out of Sri Lanka increases, expanding the ethnic and cultural heterogeneity of the population.
- b) Teacher education and training programs will strengthen the capacity of teachers to deliver concepts conducive to social cohesion. Since teachers play a central role in delivering concepts of social tolerance and respect for diversity in the classroom, their education and training in this regard is of paramount importance. It is vital that teachers promote a favorable environment for a multi-ethnic and multi-religious society in the future generations.

- c) Co-curricular and extra-curricular activities among students from different ethnic and religious groups play a major role in promoting interaction between students of the various communities in the country. This is especially useful for students from relatively homogenous regions; as such activities will provide opportunities for these students to interact with other students from a variety of ethnic and religious backgrounds. Co-curricular and extra-curricular activities also promote “soft skills”, such as team work, habits of industry and hard work, the ability to work to deadlines, leadership, good communication and discipline. Living harmoniously in a multi-ethnic and multi-religious society is also a key soft skill in modern times. Co-curricular and extra-curricular activities promote this soft skill, too.
- d) The role of English as a link language will be developed. The demand for good English language skills is very strong, from both students and parents. This is mainly driven by the economic and educational opportunities that open when a student is fluent in English. But it is also partly driven by an understanding that fluency in English is important for social interaction in culturally and linguistically diverse societies. Improved English language skills in the population will facilitate the interactions between the different ethnic and linguistic groups in the country.
- e) Ethnically integrated schools will be supported, as in these schools children can learn to mix and relate naturally to other children of different cultures and backgrounds. Promoting integrated schools can continue to be one of the key strategies to promote social cohesion in schools. As the economy grows an increasing proportion of population will move into urban centers. This will increase the quantity of students from different ethnic and religious backgrounds in one location, making it feasible to expand the number of ethnically integrated schools. The presence of children from a diversity of cultural, ethnic and religious backgrounds will provide a richer education experience than a culturally and ethnically homogenous classroom. Mutual understanding and mutual exchanges facilitative of social cohesion will be strengthened when children from different ethnic and religious backgrounds learn together in the classroom.

### *Gender Equity*

113. The gender dimension of education is extremely important from an equity perspective. Sri Lanka has been successful in achieving gender parity in primary education, while in secondary education there are slightly more female students than male students. Overall, there are about 1,985,000 girls and around 1,947,000 boys enrolled in general education. The project’s impact, therefore, will be distributed equitably between girls and boys, with if anything slightly more girls benefiting than boys.

114. Sri Lanka is strongly committed gender equality and it has a long tradition of promoting the rights of women and girls. The Constitution not only guarantees equal rights for girls and women without discrimination on the basis of sex but also provides for affirmative action to remove gender discrimination. Policies for increasing access to education have been universally implemented for over six decades and education has been a major agent for reducing gender and socio-economic disparities within the education system as well as in society at large. Free primary, secondary and tertiary education has been a major factor that has contributed to the achievement of gender equity in terms of access to education at all levels. Sri Lanka is the only

country in South Asia to have already achieved the Millennium Development Goal (MDG) target of equality at all levels of the education system. However women's adult literacy rates are still lower than men's and, despite their impressive academic achievements, female unemployment rates have continued to be double those of men for three decades. In recent years the indication is that during the schooling years it is the boys who are falling behind, both in terms of survival and achievement. While gender is not highlighted as a major focus of the ESDFP 2012-2016, gender equality remains a priority for MOE, and it recognized that further analysis is needed to identify the greatest needs for intervention, e.g. to raise the survival and achievement rates of boys and to help girls' employment prospects upon their completion of formal education.

### *Regional Equity*

115. There are several measures favorable to regional equity in the education sector, as well as under the project's interventions. As seen in Annex 7 (Economic and Financial Analysis), there is a high degree of regional equity in access to primary and secondary education. The project will increase regional equity by providing additional support to the provinces with weaker education outcomes. The TSEP targets, if achieved successfully, will reduce regional disparities in key outcomes such as the survival rate of students through Grade 11, and access to good quality primary and secondary education.

116. Overall, the TSEP is likely to generate strong social benefits to the country.

### **Results Framework and Monitoring**

117. The TSEP will have a strong focus on monitoring and evaluation. The monitoring and evaluation activities focus on program inputs, processes, outputs, results and outcomes. The monitoring activities will be undertaken mainly by government education agencies, such as the MOE, MLGPC, the FC, PCs and the National Institute of Education (NIE). Evaluation activities will generally be contracted out to independent research agencies, such as universities, the National Education Research and Evaluation Center (NEREC), and private consulting firms. Policy research will be undertaken mainly with the assistance of specialized research agencies, such as universities, research centers (including NEREC) and research institutes (including the NIE).

118. The Education Management Information System (EMIS) of the MOE and Provincial Education Authorities provide a wealth of information that can be used to monitor and evaluate outputs, results and outcomes at national and provincial levels. The TSEP will also support series of National Assessments of Learning outcomes that will, *inter alia*, help benchmark the Sri Lankan education system with other middle-income countries. Activities that are to be pilot tested in selected zones and scaled up incrementally, such as the Program for School Improvement (PSI) and School-Based Teacher Development (SBTD), can be evaluated by third parties and through the use of scientific techniques such as randomized trials. Participatory methods, such as citizen report cards and community score cards, can be used to assess measures designed to evaluate initiatives intended to improve the quality of service delivery such as organizational strengthening of zonal and divisional education offices.

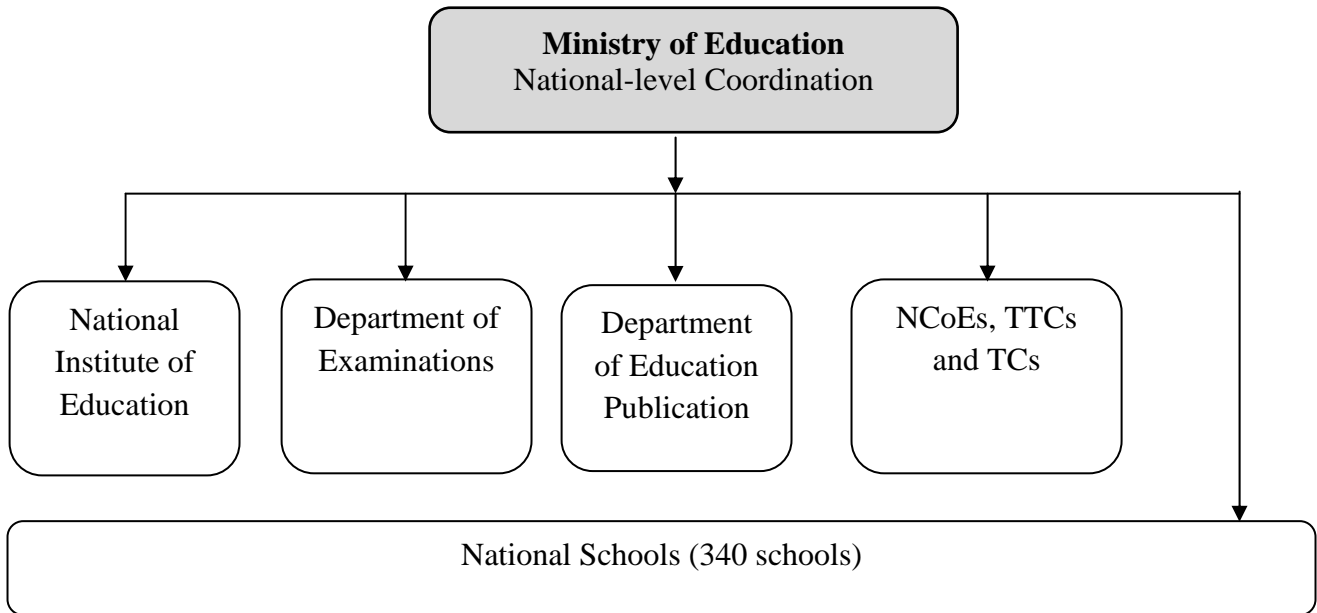


119. The final outcome and intermediate outcome indicators for the TSEP are derived from the ESDFP results framework. These indicators have annual targets set in the ESDFP results framework. Performance indicators will be used to follow the progress of the education system in terms of the core outcomes and intermediate outcomes, including DLIs.

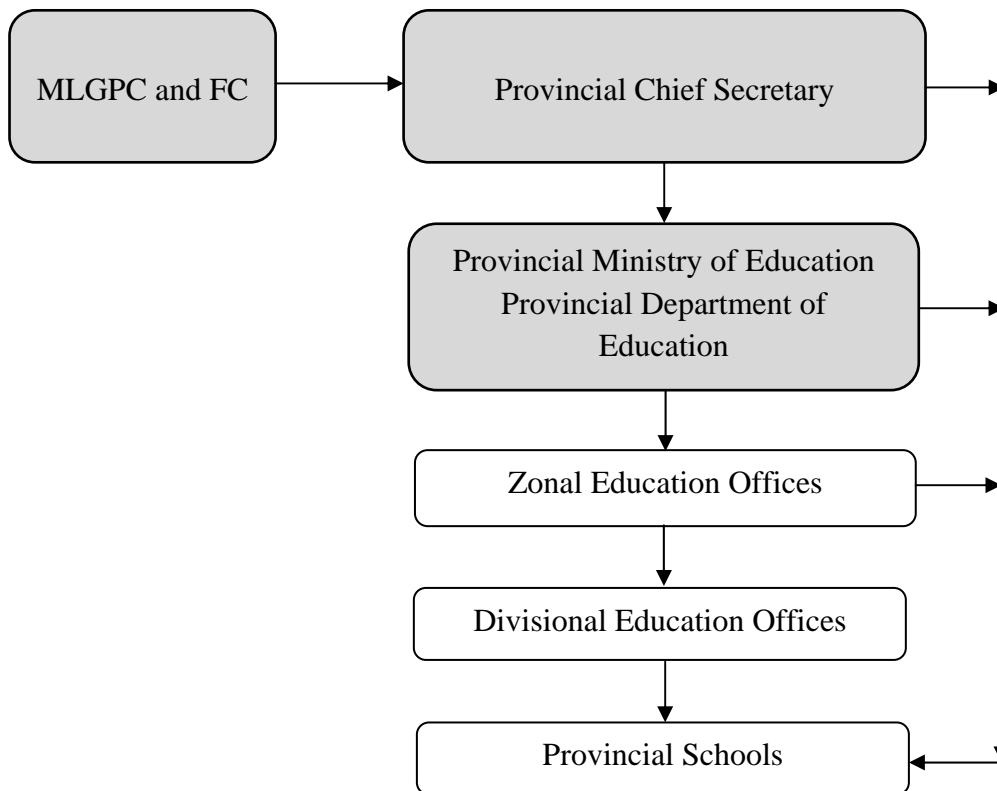
120. The results framework used by the MOE, Provinces, the MLGPC and the FC would enable aggregation across provinces and the center, so that results at the national level can be measured and monitored. The MOE, the MLGPC, the FC, Provinces and the Bank will jointly agree the monitoring and results measurement format to be used. This format will be updated from time to time in the light of new program requirements. Each province will forward copies of their monitoring reports simultaneously to the MOE, MLGPC and the FC. The MOE, the MLGPC and the FC will also share this information with the Bank.

121. The monitoring system will follow a cascade model. The MOE, the MLGPC and the FC will monitor the implementation of the ESDFP in the Provinces according to their respective institutional mandates. The Provinces will monitor the implementation of the ESDFP in the zones. The zones will monitor the implementation of the ESDFP in the divisions and the schools. The divisions will assist the zones to monitor the implementation of the ESDFP in the schools.

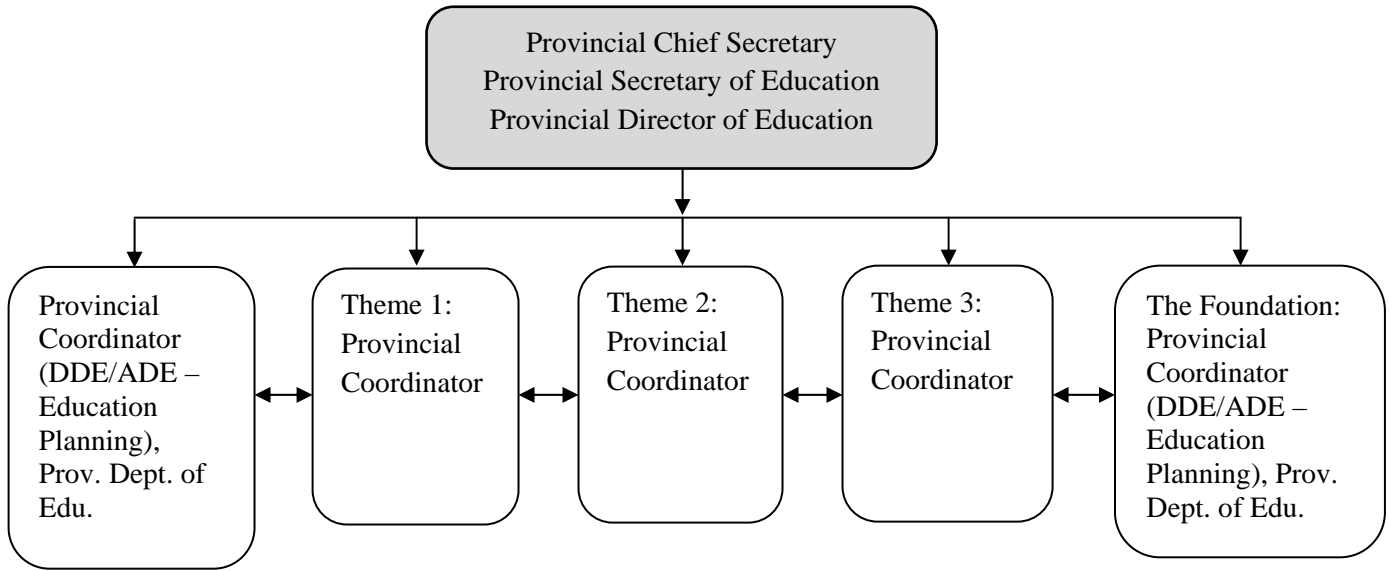
**Figure 3.3. National-level Education Agencies of the Programme**



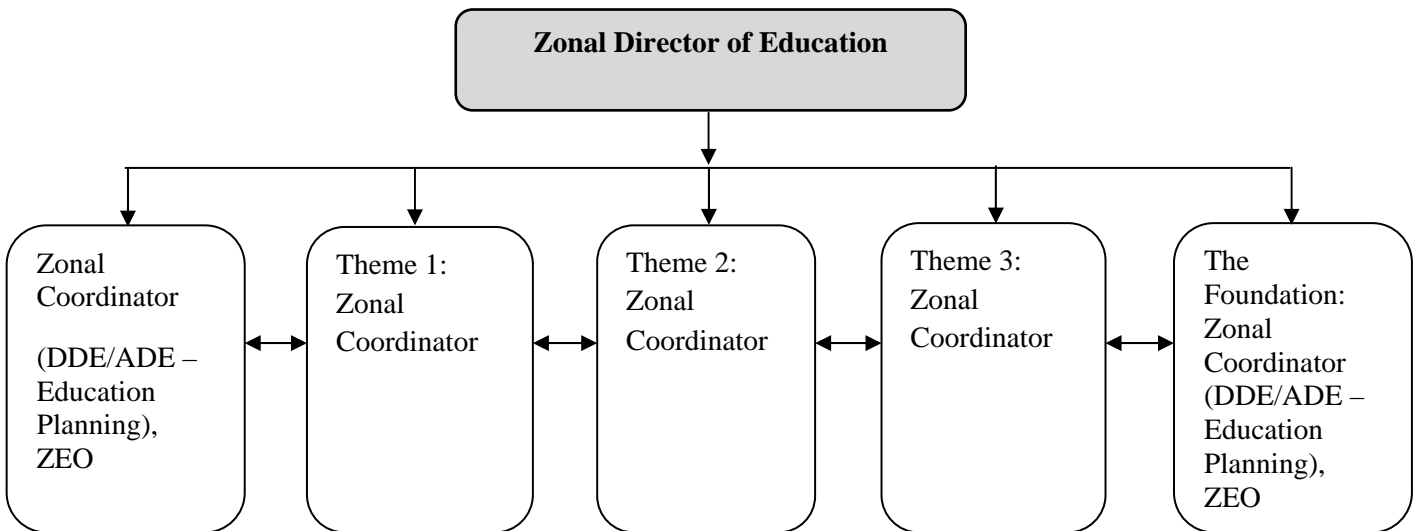
**Figure 3.4. Provincial-level Education Agencies of the Programme**



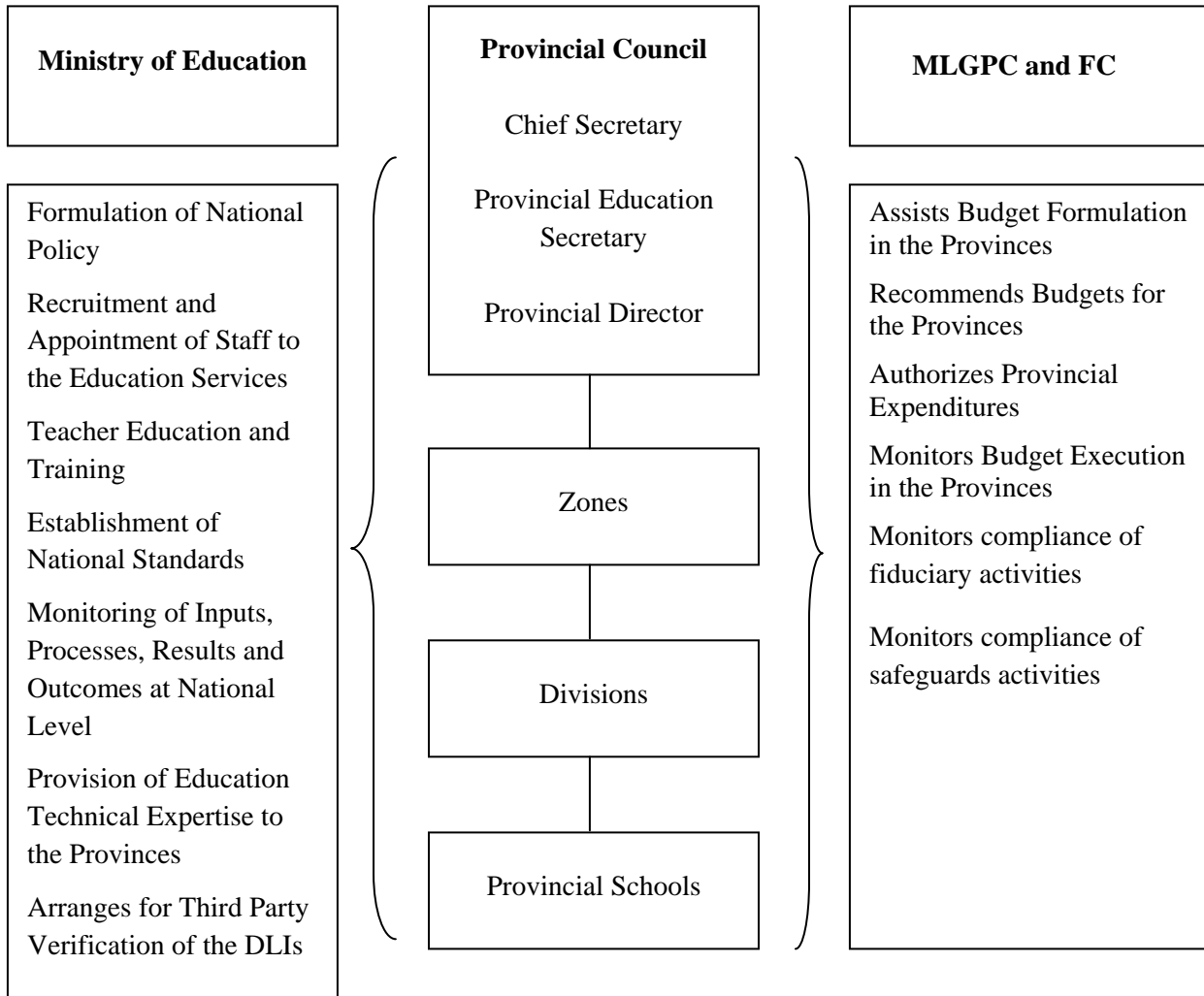
**Figure 3.5. Organizational Structure: Provincial Level**



**Figure 3.6. Organizational Structure: Zonal Level**



**Figure 3.7. Implementation Arrangements for the TSEP (Provincial Level)**



## Annex 4: Operational Risk Assessment Framework (ORAF)

### Sri Lanka: Transforming the School Education System as the Foundation of a Knowledge Hub

<b>Project Stakeholder Risks</b>		<b>Rating</b>	<b>Moderate</b>
<p><b>Description :</b> Policy support from the center to the provincial education systems need to be strong. The project proposes to work within the government’s education framework where the national MOE and the Provincial MOE both have responsibility for service delivery. The commitment of the centre to the provinces is important, otherwise it would adversely affect the delivery of services.</p>	<p><b>Risk Management :</b> Appropriate high level dialogue and advocacy efforts as necessary. According to the government’s education framework the national MOE, other national agencies such as the MFP, MLGPC and the FC, and the Provincial MOE, have established roles and responsibilities for the flow of government funds and the delivery of education services. The project will use the same government framework for the flow of funds and the delivery of education services.</p> <p style="text-align: center;">- <b>Resp: Client   Stage: Implementation   Due Date : N/A  Status: Ongoing</b></p>		
<b>Implementing Agency Risks (including fiduciary)</b>			
<b>Capacity</b>		<b>Rating:</b>	<b>Substantial</b>
<p><b>Description:</b> Planning, budgeting, administration and monitoring capacity play a central role in the successful implementation of the program. There is a moderate risk that a shortfall in such capacity, especially in the weaker provinces, could negatively affect the success of the project.</p> <p><b>Procurement</b> Even though the capacity building efforts have taken place under the previous ESDP project further improvements are required. There is some turnover of staff which erodes capacity and creates continual need for further training. The national and provincial staff require continuing capacity building in areas such as writing technical specifications, bid evaluations and record keeping. Schools will also need capacity building for procurement activities.</p> <p><b>Financial Management</b> The FM arrangement under the previous ESDP worked satisfactorily. However, in the current project, limited capacity of the various education sector institutions including schools and inadequate co-ordinating and monitoring capacity particularly in MLGPC to ensure compliance and performance in financial management with respect to provincial component is evident.</p>	<p><b>Risk Management :</b> The proposed project will continue to invest significant resources on organizational strengthening, particularly in the weaker provinces, and schools, and cover the areas listed: planning, budgeting, administration and monitoring, as well as procurement, and financial management. Continuous human resource development, particularly at provincial and sub-provincial level, is also an integral feature of the TSEP. MLGPC will have core staff including a team leader, monitoring specialist, procurement specialist, financial management specialist and any other staff assessed as necessary, satisfactory to IDA before disbursements could be made for the provincial component. This is reflected in the FA as a disbursement condition.</p>		

Hence, the FM risk for the project would be substantial. The existing internal audit systems in the education sector also needs further strengthening.	- <b>Resp: client   Stage: Implementation  Due Date : N/A  Status: Ongoing</b>		
<b>Governance</b>		<b>Rating:</b>	<b>Substantial</b>
<b>Description:</b> Complex organizational structure. The center-province division of roles and responsibilities could cause difficulties in implementation. With a decentralized system of service delivery, and separate channels of financing and implementation for the central and provincial levels, there is a certain amount of complexity built into any education sector project which seeks to support the overall government program.	<b>Risk Management :</b> The organizational structure of the project is based on the recently completed ESDP project, which was implemented satisfactorily. Lessons learned from this experience were taken into account to further strengthen the design of the proposed operation. The MOE, the MLGPC and the FC which oversees the budgets of the Provinces, will work together to assist the provinces to develop and implement their provincial sector plans in accordance with the overall education sector plan and budget framework.		
	- <b>Resp: client   Stage: Implementation   Due Date : N/A  Status: Ongoing</b>		
<b>Project Risks</b>			
<b>Design</b>		<b>Rating:</b>	<b>Moderate</b>
<b>Description :</b> <u>Commitment from teachers and teacher associations.</u> The government program seeks to improve teacher employment by recruiting teachers only for subjects where there is a shortage of teachers. The program also seeks to improve teacher deployment through incentives for teachers to locate in disadvantaged areas. These measures need support from teachers and teacher unions to succeed.	The importance of targeting teacher recruitment to subjects where there is a shortage of teachers and of improving the deployment of teachers to schools in disadvantaged areas is known among policy makers and has been discussed, during consultations, with representatives of teachers and teacher associations. There is general support for the idea of matching teacher recruitment with the needs of the system, and for the use of incentives to improve teacher deployment. However, individual teachers may not cooperate with the latter measure.		
	<b>Resp: client   Stage: Implementation   Due Date : N/A  Status: Ongoing</b>		
<b>Social &amp; Environmental</b>		<b>Rating:</b>	<b>Substantial</b>
<b>Description:</b> <u>Social risk:</u> The main risk is that the overall agenda of promoting social cohesion will not be favored by some social groups. In particular, the important initiatives to promote social cohesion through increased interactions between students and staff from different ethnic and religious groups will be opposed or at least discouraged.	<b>Risk Management :</b> The education system has a set of enlightened policy makers and officials, both at the central and provincial levels, who understand the importance of presenting a positive picture of a multi-ethnic and multi-religious society through the school system. The project has a component to promote social cohesion that will work with and empower these champions. Within the education sector there are a number of curricular, co-curricular and extra-curricular activities that naturally promote interactions among students and teachers from different schools and regions. The project will use these activities to facilitate the interaction of students and teachers from the different ethnic and religious backgrounds.		
<u>Environmental risk:</u> The construction and maintenance of education facilities, especially water supply and sanitation systems in schools, may be unsatisfactory and contribute to health risks, especially for young students.	- <b>Resp: client   Stage: Implementation   Due Date : N/A  Status: Ongoing</b>		
	<b>Risk Management :</b> The project will build on the satisfactory implementation of the ESSAF under the ongoing project. An updated ESSAF was prepared before appraisal, to take into account any new needs that may get identified during appraisal of the project.		
	- <b>Resp: client   Stage: Implementation  Due Date : N/A  Status: Completed</b>		

<b>Program &amp; Development Partners</b>		<b>Rating:</b>	<b>Low</b>
<b>Description:</b> The communities of education development partners are working together, under the leadership of the World Bank, to align their support within the government's own program, the ESDFP 2012-2016.	<b>Risk Management :</b> The World Bank will work closely with the Planning Branch of the MOE to coordinate the assistance of the education development partners. The TSEP will support an Annual Review of the ESDFP 2012-2016 by the education development partners. The World Bank will also support the ESDFP 2012-2016 with analytical work, including impact evaluations. These will be shared with the development partner community, to establish a common understanding of the education system, and its challenges and performance.  - <b>Resp: partners   Stage: Implementation   Due Date : N/A  Status: Ongoing</b>		
<b>Delivery Monitoring &amp; Sustainability</b>		<b>Rating:</b>	<b>Moderate</b>
<b>Description:</b> The use of assessments of learning outcomes, both national and international, for policy formulation and education development requires a level of sophistication that may be too high for some education policy makers, especially in the provinces.	<b>Risk Management:</b> Many technocrats in the education system understand the importance of evidence-based policy formulation and the use of assessments of learning outcomes in this context. During project preparation the uses of national assessments were explained and discussed with the national and provincial education authorities. The TSEP will provide support to make national assessments an integral part of the education planning process during the ESDFP 2012-2016.  - <b>Resp: partners   Stage: Implementation   Due Date : N/A  Status: Completed</b>		
<b>Overall Risk Following Review</b>			
<b>Implementation Risk Rating: Moderate</b>			
<b>Comments:</b> The risk rating remains Moderate. The team recognized the risks above during the preparation of the project. The GOSL counterparts and the team, along with DPs confirmed that the likelihood of these risks materializing and damaging the project, after the mitigation measures in place, is low to moderate. Hence the rating of moderate during preparation and moderate at implementation stage.			

## **Annex 5: Implementation Support Plan**

### **Sri Lanka Transforming the School Education System as the Foundation of a Knowledge Hub**

#### **Strategy, Approach and Plan for Implementation Support**

1. The implementation support strategy has been developed based on the structure and contents of the TSEP and the risk profile. IDA will provide continuous support to the MOE, the MLGPC, the FC and PEAs to implement the program effectively and flexibly. The implementation support will focus on the education and economic content of the ESDFP 2012-2016, the fiduciary and safeguards requirements, and the mitigation of risks identified in the ORAF, especially policy level, governance, design and delivery quality risks.
2. The performance of the ESDFP 2012-2016 will be reviewed regularly, including through implementation support and supervision visits to the provinces.
3. Technical support. IDA will maintain continuous dialogue and provide technical advice and implementation support to the ESDFP 2012-2016. Special attention will be paid to the quality of national assessments of learning outcomes and their use in national and provincial sector plans, and on the Program for School Improvement and associated activities such as school-based teacher development and the capacity building of zones and divisions. The team's Task Team Leader (TTL), education economist and education specialist will provide regular inputs into these activities.
4. Overall project management. The TTL, based in the country office, will coordinate the Bank team to ensure that the TSEP is implemented according to the Bank's requirements as specified in the Financing Agreement. He will engage in regular dialogue with the senior officials in government to monitor implementation and help resolve issues and relax constraints as and when they arise. He will be assisted by team members, including the operations officer/analyst on the team.
5. Fiduciary requirements and inputs. The financial management and procurement arrangements build on and utilize the capacity developed under a successful previous project, the Education Sector Development Project (ESDP) at both central and provincial level. The Bank financial management and procurement specialists are based in the country office will support project implementation through regular and timely training and capacity building of officials. Supervision of fiduciary processes and procedures will be conducted semi-annually. The operations officer/analyst on the team will work with the financial management and procurement specialists.
6. Safeguards. The Environmental and Social Safeguards Framework (ESMF) also builds on and utilizes the capacity developed under the ESDP at both central and provincial level. The environmental specialist on the team will provide training, as needed, to the GOSL officials to strengthen implementation of the ESMF. The social specialist will focus on the implementation of the social safeguards of the ESMF.



7. Analytical support. IDA will assist the country by regularly undertaking education research and impact evaluations on themes and topics that are considered high priorities for future policy formulation and strategy development in the education sector. These studies and evaluations will be undertaken collaboratively with the government. The studies can include linkages between the general education sector and (a) the higher education sector, (b) vocational education and training, and (c) early childhood education. The TSEP has provision to support research and policy analysis by key public sector agencies such as the MOE, NEC, NIE, the MLGPC, the FC and universities, as well as through the contracting of private research and consulting agencies.

8. Approach for Support and Cooperation by the Development Partners. IDA and the Development Partners (DPs) will work in support of the overall ESDFP 2012-2016. The World Bank and DPs will make every effort to harmonize their work with each other, although it is recognized that funding arrangements could differ among development partners depending on the size and content of their operations and their respective institutional mandates. The DPs will also support participatory approaches, transparency, predictability and comprehensive documentation. A joint annual review mission will also be undertaken by the Bank team and DPs in which all the ESDFP 2012-2016 activities and plans will be reviewed in relation to the expected targets and results. The DPs will also meet regularly under the leadership of the World Bank to ensure that their activities are harmonized with the GOSL program and to discuss issues of mutual interest.

9. All terms of reference for studies and consultancies / technical assistance will need to be sent to the Bank for prior review and concurrence by the task team.

10. All activities for which individuals are expected to travel abroad would need to be sent to the Bank for prior review and concurrence by the task team.

11. The staff skills mix required for implementation support is summarized below.

<b>Skills Needed</b>	<b>Number of Staff Weeks</b>	<b>Number of Trips</b>	<b>Comments</b>
Task Team Leader	16 SWs annually	Field trips as required	Country office based
Education economist and co-TTL	8 SWs annually	Two each year and field trips as required	Based in the region
Education specialist	16 SWs annually	Two each year and field trips as required	Washington based
Operations officer / analyst	8 SWs annually	Two each year and field trips as required	Washington based
Financial management specialist	4 SWs annually	Field trips as required	Country office based
Procurement specialist	4 SWs annually	Field trips as required	Country office based
Environment specialist	2 SWs annually	Field trips as required	Country office based
Social Development Specialist	2 SWs annually	Field trips as required	Country office based

## Annex 6: Team Composition

### Sri Lanka Transforming the School Education System as the Foundation of a Knowledge Hub

Name	UPI	Title	Unit
Harsha Aturupane	83526	Lead Education Specialist	SASED
Deepa Sankar	249744	Senior Economist	SASED
Hiroshi Saeki	274792	Operations Analyst	SASED
Mari Shojo	359163	Education Specialist	SASED
Asif Ali	264532	Senior Procurement Specialist	SARPS
Sunethra Samarakoon	333182	Procurement Specialist	SARPS
Anjali Vitharana	321900	Procurement Analyst	SARPS
Jiwanka Wickramasinghe	266166	Senior Financial Management Specialist	SARFM
Enoka Wijegunewardena	349269	Financial Management Specialist	SARFM
Asta Olesen	239085	Senior Social Development Specialist	SASDS
Darshani de Silva	333145	Environmental Specialist	SASDI
Minneh M. Kane	18728	Lead Counsel	LEGES
Nicholay Chistyakov	86221	Senior Finance Officer	CTRLN
Benoit Millot	17229	Consultant	SASED
Thomas Kellaghan	71539	Consultant	SASHD
Shashi K. Shrivastava	76469	Consultant	SASED
Venita Kaul	187546	Consultant	SASHD
Upul Sonnadara	202767	Consultant	SASHD
Damaris Wikramanayake	377317	Consultant	SASHD
Visaka Dissanayake	376366	Consultant	SASHD
Razaak Mohamed Ghani	266308	Consultant	SASDI
Alejandro Welch	183745	Information Assistant	SASHD
Anita Fernando	325471	Team Assistant	SASHD

## **Annex 7: Economic and Financial Analysis**

### **Sri Lanka Transforming the School Education System as the Foundation of a Knowledge Hub**

#### **Introduction**

1. Sri Lanka is strongly committed to promoting human development, economic growth and poverty reduction. The country is just emerging from a long period of conflict and is at the threshold of becoming a high performing middle-income nation. The general education sector, which covers primary and secondary education, is at the heart of this transformation. The school system makes a unique and foundational contribution to the economic and social development of a country. As such, the general education sector can and should play a prominent role in the economic and social transformation of the country.

#### **Rationale for Investing in Primary and Secondary Education**

2. A wealth of research shows that human capital has become the most important determinant of economic performance and social well-being in the modern world. The key distinguishing characteristic between advanced economies, middle-income economies and low-income economies, is the knowledge content of their production activities and outputs. Economic processes and products have become increasingly knowledge and skill intensive in recent times. Further, the importance of knowledge and skills is growing at an accelerating pace. Among advanced economies, for instance, the single most important determinant of economic performance is the education attainment of their populations [Hanushek and Welch (2006)]. Among middle-income and low-income economies, too, countries that perform well in education enjoy considerable welfare gains [Patrinos and Psacharopoulos (2011)]. Investment in education also yields a variety of social benefits. The achievement of social goals through investment in education constitutes an important element of the overall national education policy framework [MOE (2007), (2008)]. In the case of Sri Lanka, there are several reasons in favor of investing in education [World Bank (2005), (2011)]. The justification for investing in primary and secondary education include the economic benefits of increased earnings, faster economic growth and the swifter reduction of poverty, and social benefits such as the promotion of social cohesion through the education system and the better health and nutrition outcomes of more educated households.

#### **Education and Earnings**

3. Investment in human capital has a positive and significant impact on earnings, at all levels of education from primary schooling upwards, for both men and women. All the education coefficients in the econometric analysis presented in Table 7.1 are positively signed and statistically significant, from primary education to postgraduate education. As the education levels of individuals rise their earnings increase. The earnings functions for both men and women display this monotonically rising pattern in relation to education. The impact of education on earnings is stronger among female workers than among male workers. This is likely to be due to self-selection effects, as there is a greater probability of the more able women entering the labor market, while among men nearly all working aged individuals would participate in the labor market. These

findings support the notion that investment in human capital is an important determinant of the labor market performance of individuals. The experience variables display the familiar pattern of earnings functions, rising up to a maximum in late middle-age and then declining thereafter.

**Table 7.1. Education and Earnings by Gender, 2008, Least Squares Estimates of Augmented Mincerian Earnings Functions**

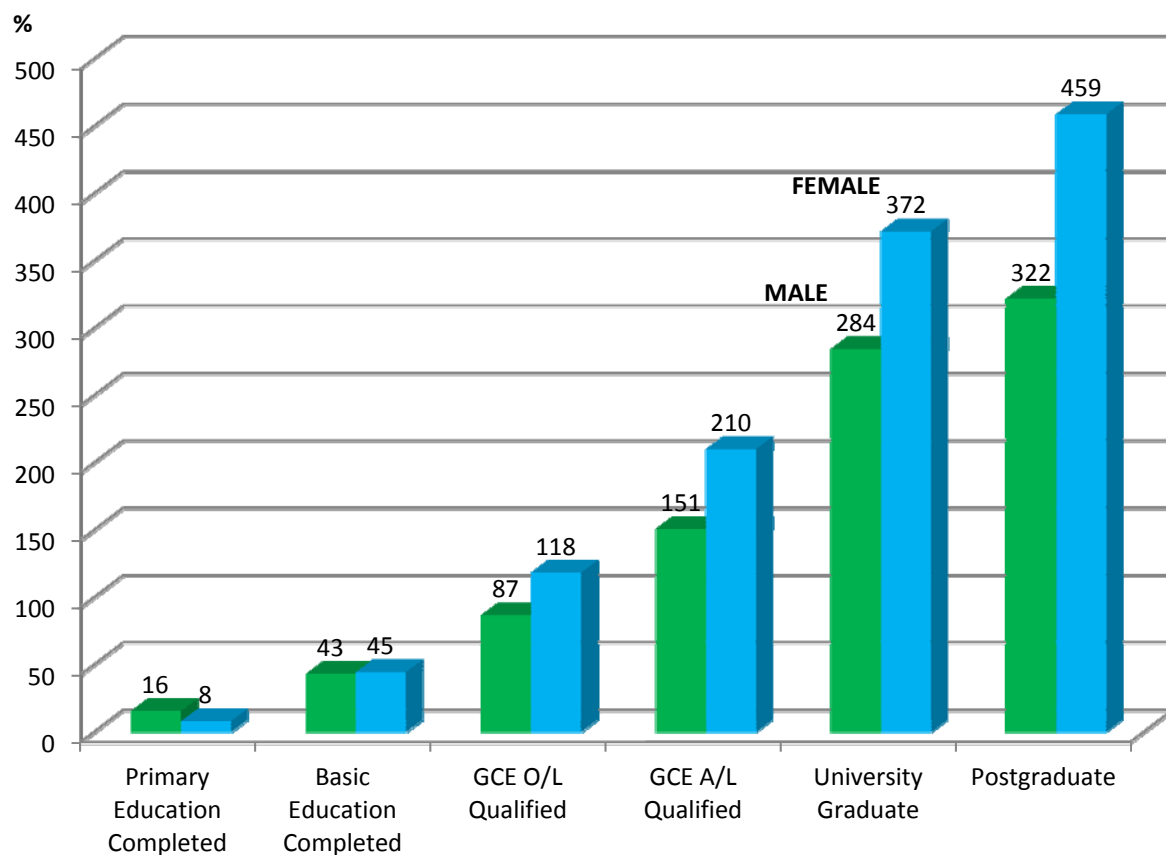
Variable	Male		Female	
	Coefficient	T Statistic	Coefficient	T Statistic
Constant	8.443	225.640	8.050	173.240
Primary incomplete	0.013	0.370	0.021	0.520
Primary education	0.146	4.340	0.077	1.930
Basic education	0.359	10.490	0.370	8.670
GCE_OL	0.624	17.600	0.781	17.450
GCE_AL	0.920	25.160	1.132	26.070
Graduate	1.347	29.050	1.551	29.990
Postgraduate	1.439	21.230	1.720	23.790
Experience	0.034	24.020	0.029	14.530
Experience squared	-0.001	-22.380	-0.001	-13.760
Urban sector	0.127	8.090	0.199	8.350
Estate sector	-0.310	-15.500	0.036	1.400
Adjusted R squared	0.319		0.453	
Sample size	10,940		5,339	

Source: Sri Lanka Education Sector Report, World Bank 2011.

Notes: The base category for education levels is no education. The base category for sectors is the rural sector.

4. Education attainment and earnings are positively related in Sri Lanka. Earnings rise continually as the education levels of individuals increase [Figure 7.1]. A male worker with primary education earns 16 percent more per month than a man with no schooling, and a female worker with primary education earns 8 percent per month more than a woman with no schooling. Among men and women who have completed basic education, a male worker earns 43 percent more than a man with no education, and a female worker earns 45 percent more than a woman who is not educated. Among men and women who have completed the GCE O/L, male workers earn 87 percent more than uneducated men, and female workers earn 118 percent more than uneducated women. The earnings of both men and women rise further at each stage of education. Among men and women who have completed the GCE A/L, male workers earn 151 percent more than uneducated men, and female workers earn 210 percent more than uneducated women. Overall, these findings clearly support the notion that men and women benefit from their investments in education.

**Figure 7.1. Impact of Education on Earnings, Male and Female Workers, 2008**



Source: Sri Lanka Education Sector Report, World Bank 2011.

### **Rates of Return to Education**

5. Investment in education yields substantial rates of return to education. Among primary educated workers the returns to education are positive at 2 percent for men and 1 percent for women, respectively [Table 7.2]. Workers who have completed basic education receive slightly better returns: 7 percent for men and 10 percent for women. Moreover, among workers who are secondary educated or higher, returns to education are considerably greater. GCE O/L qualified men earn returns of 13 percent, while GCE O/L qualified women enjoy even higher returns at 21 percent. Amidst GCE A/L qualified workers, men receive a return of 15 percent, while women enjoy a return of 18 percent. The pattern of high returns to education, especially at secondary level, holds for both men and women. These findings show that the TSEP is investing resources in the education grade cycles that yield high economic benefits.

**Table 7.2. Private Rates of Return to Education, Male and Female Workers, 2008**

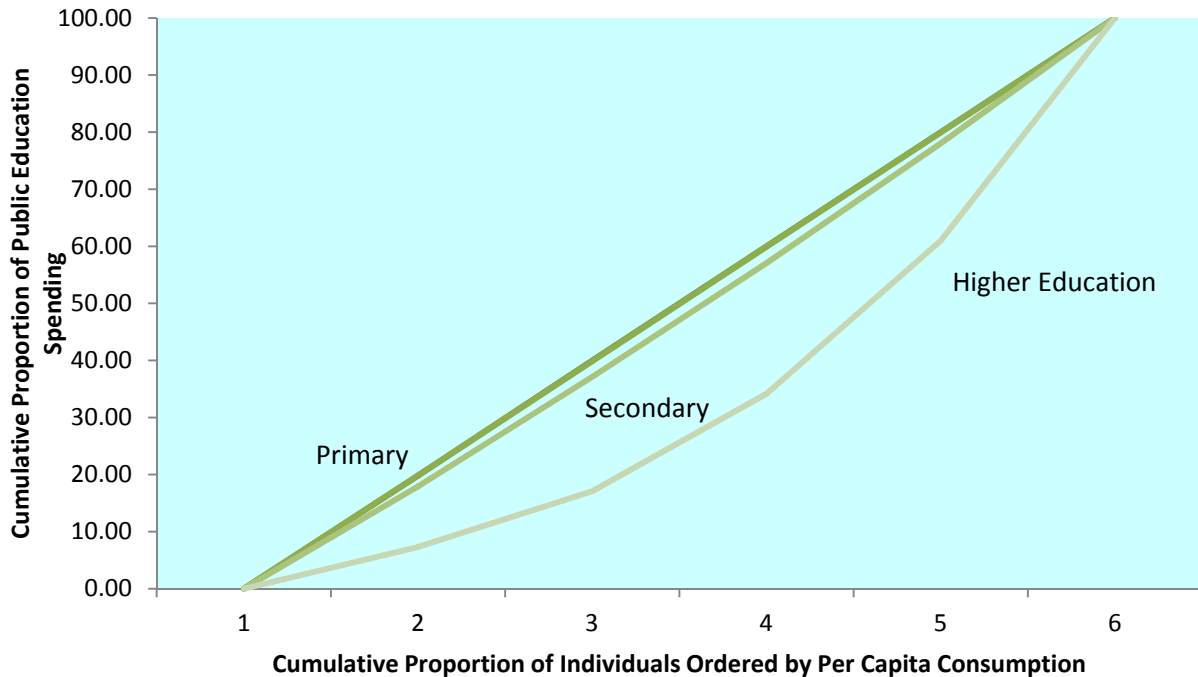
Education Level	Male Workers (%)	Female Workers (%)
Primary education	2	1
Basic education	7	10
GCE O/L Qualified	13	21
GCE AL Qualified	15	18
Graduate	21	21
Postgraduate	9	17

Source: Sri Lanka Education Sector Report, World Bank 2011.

## Equity

6. Investment in primary and secondary education demonstrates a higher degree of equity than investment in higher education. As shown in Figure 7.2 and Table 7.3, public investment is the most equitable at the primary education level when measured in terms of participation rates across economics groups, with the Lorenz curve falling almost completely onto the 45 degree line of perfect equality, and the Gini coefficient just 0.2 percent. This high level of equality at the primary school level reflects the fact that enrollments across economic groups are highest and most equal at this level of education. Public spending on secondary education is also highly equitable. The Lorenz curve for secondary education is close to the 45 degree line, and the Gini coefficient is low, just under 5 percent. These results clearly supports that children from households belonging to any economic quintile groups significant equally receive the benefits from investment in primary and secondary education.

**Figure 7.2. Lorenz Curves of the Benefits of Public Education Expenditure by Consumption Quintiles 2007**



Source: Sri Lanka Education Sector Report, World Bank 2011.

Note: Primary education is from grades 1-5. Secondary education is from grades 6-13.

**Table 7.3. Gini Coefficients of Public Education Expenditure by Level of Education**

Level of Education	Gini Coefficient (percent)
Primary Education	0.2
Secondary Education	4.92
Higher Education	40.24

Source: Sri Lanka Education Sector Report, World Bank 2011.

7. Equity in the context of general education is a multi-dimensional concept covering geographical regions, gender, and economic well-being. A variety of disparities persist in the education system. More developed provinces, such as the Western Province, perform better than less developed areas such as the Northern, Eastern and Uva Provinces. Within provinces, there are disparities in performance between zones and divisions. Urban schools perform better than rural and estate schools. Children in Type 2 schools perform worse than other types of schools. It is important that the ESDFP 2012-2016 addresses these issues and ensures that the targeting of resources helps the poor/lagging regions and schools to improve their performance at a faster pace and reduce the gap with the better off regions and schools. The TSEP will assist the MOE, the MLGPC, the FC and Provinces to map these dimensions of inequality and disparity, and seek to address these through targeted policy action and interventions.

8. Resources are allocated by the FC to the Provinces based on a formula. At present the formula considers: (a) the number of students in a province; (b) the survival rate to Grade 9 in a province; (c) provincial GDP per capita; (d) performance of a province in national education assessments; (e) student-teacher ratio of the province; (f) gap in education facilities; and (g) the poverty rate in the province. There is a strong equity focus, with higher allocations for the provinces with greater need for education facilities, lower GDP per capita, and larger poverty rates. The TSEP will support the FC to develop the formula further and increase the focus on equity, especially at the geographical level and by type of school, in the allocation of resources. The TSEP will also assist the FC to provide incentives and rewards to accelerate performance, especially in the less developed regions and schools.

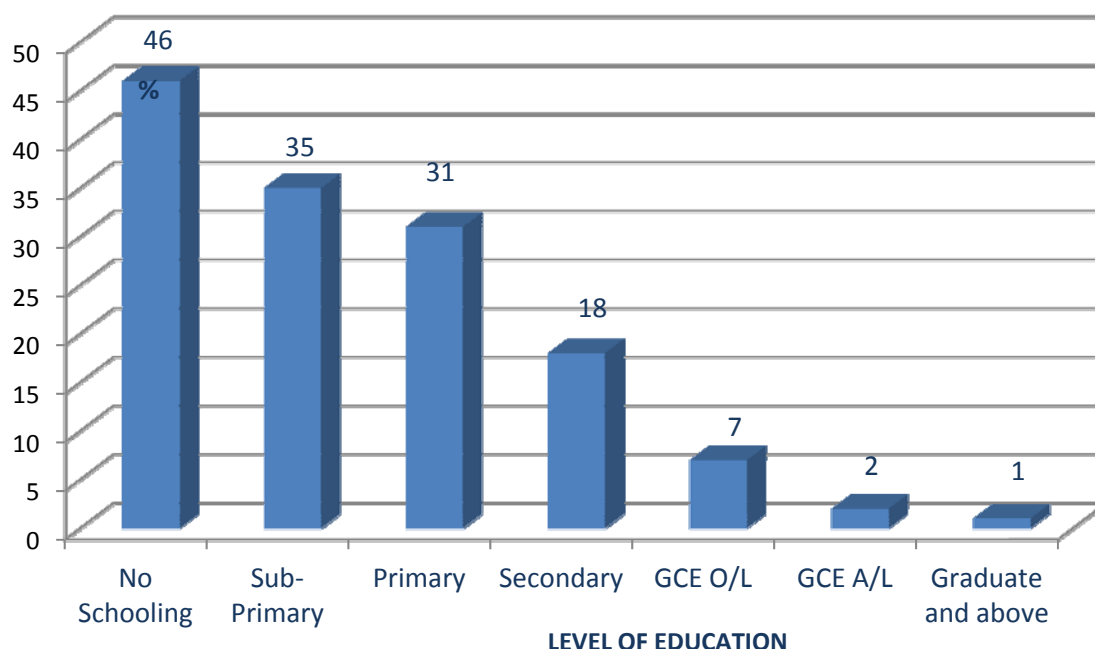
9. In Sri Lanka, the gender issues are not related to girls' participation in education and achievement as is common in developing countries. Instead, boys lag behind girls in education participation rates and in learning outcomes. The relatively poor performance of boys compared to girls needs further analysis to underpin policy action. The TSEP, in the early stages of the program, will support the government to undertake the research and policy analysis required for the development of policies to address this issue.

### **Poverty Reduction**

10. Education has also been closely related to poverty reduction. The poverty levels of households show a continuous decline as the education level of the household head increases [Figure 7.3]. The prevalence of poverty among households with uneducated heads is 46 percent. In households where the head had completed primary education, the incidence of poverty declines to 31 percent. Among households with heads who have a moderate level of secondary education, the incidence of poverty is 18 percent. In households with heads who have completed the GCE O/L, the poverty rate falls to 7 percent. Among households with heads who have GCE A/L education, the

prevalence of poverty is a mere 2 percent. In households where the head has either a university degree or higher qualification, the incidence of poverty is only 1 percent. This positive association between the education level of household heads and the level of poverty operates through a number of channels. Households with more educated heads generally have more regular employment and higher earnings. They also typically have lower fertility and family sizes, which contribute to lower poverty levels.

**Figure 7.3. Poverty Incidence by Education Level of Household Head**



Source: Sri Lanka Education Sector Report, World Bank 2011.

### **Social Benefits of Education: Improved Social Cohesion**

11. Public investment in education, especially primary and secondary education, has the potential to generate strong social benefits. Among these social benefits of education, promoting social cohesion in countries has become extremely important in the modern world, as global mobility of culturally diverse populations has posed challenges to the shared values, ethics and identities of societies. The instantaneous transfer of diverse and varied information through modern communications technologies has further increased the importance of social cohesion. Cohesive societies are more effective in achieving collective economic and social goals, since such societies are better at including and uniting diverse groups and forging synergy.

12. The TSEP will help support a variety of activities to promote social cohesion, especially to increase interaction between students and teachers from different ethnic and religious backgrounds, present a favorable picture of a multi-ethnic and multi-religious society through the school curriculum and textbooks, promote English as a link language between Sinhala and Tamil speaking groups, and support wherever feasible schools in which students from the different ethnic and



religious communities can study together. These initiatives, if successful, have the potential to generate very substantial social benefits to the country.

### Health and Nutrition Outcomes of Family Members

13. A major source of the externality benefits of education are the positive impact of education on maternal and child health and nutrition outcomes, and child, infant and maternal mortality outcomes. The evidence shows that the health and nutrition outcomes for family members are strongly associated with female education attainment. In Sri Lanka, child nutrition levels rise, in a statistically significant way, as the education level of the mother increases [Table 7.4]. The impact of education on maternal health outcomes has also been positive in Sri Lanka [World Bank (2005)]. Hence, the investments in education under the TSEP, by raising education attainment, can further help to improve health and nutrition outcomes in the country.

**Table 7.4. The Impact of Maternal Education on Child Nutrition, 2000 (Regression Coefficients from Probit Models, Maximum-Likelihood Estimates)**

Education level of mother	Marginal impact of being severely or moderately underweight	Marginal impact of being severely or moderately stunted
Primary educated mother (grade 5 completed)	-0.082 (-0.49)	-0.470 (-2.55)
Middle secondary educated mother (grades 6-10)	-0.311 (-1.93)	-0.757 (-3.92)
GCE O/L completed	-0.397 (-2.29)	-0.920 (-4.36)
GCE A/L completed or higher	-0.920 (-4.69)	-1.101 (-4.58)

Source: World Bank (2005).

### Cost-Benefit Analysis of the TSEP

14. The objective of the TSEP is to enhance access to, and quality of, primary and secondary education to provide a foundation for the knowledge-based economic and social development of the country. This section presents a cost-benefit analysis of the TSEP, focusing on the economic benefits. These benefits would consist of higher earnings in the labor market due to the greater quantity and better quality of human capital.

15. The cost-benefit analysis is carried out under a variety of scenarios. Two criteria are used for this: (a) different levels of improvement in employment rates; and (b) different levels of earnings increase due to quality improvement. The cost-benefit analysis is conducted for the ESDFP and the incremental contribution of the TSEP. As shown in Table 7.5 and Table 7.6, the sensitivity analysis using various scenarios shows that the net present value (NPV) of the benefits, at a 12 percent discount rate, varies between US\$ 359 million and US\$ 500 million. Similarly the internal rates of return (IRR) range from 29 percent in the low case scenario to 38 percent in the high case scenario.

16. Even under the low case scenario, the ESDFP with the contribution of the TSEP yields considerable economic benefits, with an NPV of US\$ 359 million and an IRR of 29 percent. Under the middle case scenario, the ESDFP with the contribution of the TSEP yields a net present value of 429 million and an internal rate of return of 33 percent. This shows that, even under the fairly modest assumptions of the middle case scenario, the ESDFP with the contribution of the TSEP generates substantial economic benefits. Under the high case scenario, the NPV of the ESDFP with the contribution of the TSEP is US\$ 500 million and the IRR is 38 percent. These represent high economic benefits. Overall, under all scenarios, the ESDFP with the contribution of the TSEP yields significant economic returns.

17. It should also be borne in mind that these are conservative lower bound estimates, given that they do not account for other potential benefits, including the social benefits of education. The total economic and social impact of the project is likely to substantially exceed the economic benefits, which are nonetheless very considerable.

**Table 7.5. Net Present Values of the ESDFP inclusive of the TSEP under Various Scenarios (US\$ Million)**

Scenarios	Earnings increase by 7.5 % due to quality and relevance improvement	Earnings increase by 8.5 % due to quality and relevance improvement	Earnings increase by 9.5 % due to quality and relevance improvement
Employment improvement (90 %) High Case	401	450	500
Employment improvement (80 %) Middle Case	380	429	479
Employment improvement (70 %) Low Case	359	408	458

Source: World Bank estimates.

**Table 7.6. Internal Rates of Return (IRR) of the ESDFP inclusive of the TSEP under Various Scenarios (%)**

Scenarios	Earnings increase by 7.5 % due to quality and relevance improvement	Earnings increase by 8.5 % due to quality and relevance improvement	Earnings increase by 9.5 % due to quality and relevance improvement
Employment High Case (90 %)	32	35	38
Employment Base Case (80 %)	31	33	36
Employment Low Case (70 %)	29	32	35

Source: World Bank estimates.

## **Fiscal Analysis**

18. The government spent approximately LKR 93 billion (US\$ 806 million) on general education in 2009. Recurrent expenditure was about LKR 86 billion (US\$ 744 million) and capital expenditure was around LKR 7 billion (US\$ 62 million). The share of recurrent expenditures, at 92 percent, is high; while the share of capital expenditures, 8 percent, is low. This pattern of a large share of the public education budget, over 90 percent, being devoted to recurrent education expenditure was also seen in 2007 and 2008. One important reason for this pattern is the low student teacher ratio, and the consequent heavy expenditure on maintaining a large teaching force. The government intends, over time, to raise the share of the capital budget for education, and the non-salary recurrent expenditures which are needed for quality processes. This would be done by partly raising the allocation for education and targeting this increase for the capital education budget and quality processes. It would also be accomplished partly by controlling teacher recruitment for key subjects (e.g. mathematics and science) which experience teacher shortages, and allowing natural attrition to reduce the number of excess teachers in subjects where such excesses exist.

## **Fiscal Impact and Sustainability of the TSEP**

19. The TSEP is expected to add about LKR 11 billion (US\$100 million) over the five and a half year period (2012-2017) of the project with around LKR 2,090 million (US\$ 19 million) per year from 2012-2016, and about LKR 550 million (US\$ 5 million) for 2017. Table 7.7 presents the stream of expenditures for the general education budget for the period 2012-2017, and the contribution of the TSEP. This shows that the allocations of the TSEP will have a limited fiscal impact on the overall education sector budget, and it will not be a burden for the government to maintain expenditures when the operation closes. However, the TSEP's allocations represent about 20-28 percent of the total capital budget for the period 2012-2016. The TSEP's funds have a significant impact on the total capital expenditures. Hence, the TSEP makes a genuine and significant contribution to investment in education during the period of the project's life cycle. At the same time, it is important that the government is able to sustain the capital costs of the program beyond the life of TSEP. This is partly addressed by the declining share of the TSEP in the overall capital education budget in the later years, which means GOSL will take up an increasing share of the budget. It will also be partly addressed by the fact that the major school construction / renovation / refurbishment activities under the ESDFP 2012-2016 would have been completed by 2016. The Bank team will also regularly analyze public expenditures on education as part of its AAA support and engage in dialogue with the relevant government authorities on the education budget.

**Table 7.7. Annual TSEP Allocations and Projected Education Budget, 2012-2017  
(LKR million)**

<b>Central and Provincial Budget</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Recurrent	81,369	93,719	95,593	97,505	99,455	101,444
Capital	8,572	5,482	6,030	6,633	7,297	8,026
Total (Recurrent + Capital)	89,941	99,201	101,624	104,138	106,752	109,471
TSEP Allocations	2,090	2,090	2,090	2,090	2,090	550
Share of TSEP in the total capital education budget (%)	20	28	26	24	22	6
Share of TSEP in the total education budget (%)	2.3	2.1	2.0	2.0	1.9	0.5

Source: World Bank estimates.