BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sri Lanka</td>
<td>P163305</td>
<td>Local Development Support Project</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated Appraisal Date</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOUTH ASIA</td>
<td>13-Aug-2018</td>
<td>18-Dec-2018</td>
<td>Social, Urban, Rural and Resilience Global Practice</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financing Instrument</th>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Project Financing</td>
<td>Democratic Socialist Republic of Sri Lanka</td>
<td>Ministry of Provincial Councils, Local Government and Sports</td>
</tr>
</tbody>
</table>

Proposed Development Objective(s)

To strengthen local authorities' capabilities to deliver services to communities in a responsive and accountable manner, and to support economic infrastructure development in participating provinces.

Components

- Strengthening Local Government Planning Systems
- Improving Local Services and Economic Infrastructure
- Institutional Development
- Project Management
- Contingent Emergency Response Component

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

<table>
<thead>
<tr>
<th>Total Project Cost</th>
<th>100.65</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Financing</td>
<td>77.00</td>
</tr>
<tr>
<td>of which IBRD/IDA</td>
<td>70.00</td>
</tr>
<tr>
<td>Financing Gap</td>
<td>23.65</td>
</tr>
</tbody>
</table>

DETAILS

World Bank Group Financing
B. Introduction and Context

Country Context

1. Sri Lanka is a lower middle-income country with a GDP per capita of USD 4,073 (2017) and a total population of 21.4 million people. Following 30 years of civil war that ended in 2009, Sri Lanka’s economy grew at an average 5.8 percent during the period of 2010-2017, reflecting a peace dividend and a determined policy thrust towards reconstruction and growth; although there were some signs of a slowdown in the last few years. The economy is transitioning from a predominantly rural-based economy towards a more urbanized economy oriented around manufacturing and services. Economic growth has contributed to the decline in the national poverty headcount ratio from 15.3 percent in 2006/07 to 4.1 percent in 2016. Extreme poverty is rare and concentrated in some geographical pockets.

2. The Government that came to power in 2015 envisions promoting a globally competitive, export-led economy with an emphasis on inclusion. It has indicated keenness to undertake reforms in the areas of public finance, competitiveness, governance, and education sectors. In 2017, the Government presented Vision 2025, a policy document that both identified economic limitations due to the constrained fiscal space and presented structural reforms (including the promotion of private sector participation) to address key economic challenges and strengthen economic growth.

3. Despite a strong track record in poverty reduction, pockets of poverty and inequality prevail in certain geographical areas. This proposed project targets four provinces, namely Northern, Eastern, Uva and
North Central Provinces, because together they account for one-third of the nation's poor\(^1\). Compared to the national poverty rate of 4.1% in 2016, poverty is highly concentrated in specific districts in the Northern and Eastern Provinces, and well above average in Uva Province (6.5%). The poorest districts in the country are in the Northern and Eastern Provinces: Mullaitivu (12.7%), Killinochchi (18.2%), Batticaloa (11.3%), Trincomalee (10%) and Jaffna (7.7%). Two districts in Uva province have a poverty rate of 6.5%. In particular, Moneragala district is characterized by high poverty, low population density and an overwhelmingly rural population. Additionally, the North Central province experienced spillover impacts of the conflict that have contributed to increased poverty.

4. **Local development in the Northern, Eastern and North Central Provinces was hampered in varying degrees by Sri Lanka's civil war, with spill-over effects in the North Central Province.** A recent Socio-Economic Diagnostic of the Northern and Eastern Provinces, conducted by the World Bank, showed that local development continues to be challenged by a set of social and economic issues, namely: (i) weak community institutions and social support mechanisms; (ii) significant gender vulnerabilities, particularly among female headed households; and (iii) continuing prevalence of trauma symptoms and increased high-risk behaviors among youth and affected populations. Uva, a plantation and agriculture-dependent economy, is hindered by its remote location and weak links with the growth and commercial centers of Sri Lanka. The Province has a sizable population of Indian-origin Tamils (IOT) working in plantations, who did not have Sri Lankan citizenship for many decades, precluding them from government provided social benefits. Finally, the North Central Province is the largest province in the country, covering 16% of the Sri Lanka’s land area. It has suffered the spillover effects of the conflict, since it shares borders with Northern and Eastern Provinces.

5. **Sri Lanka is also affected by climactic hazards and extreme events, which are projected to worsen and, in turn, affect livelihoods.** Between 2010-2015, Sri Lanka suffered from a cycle of hydro-meteorological disasters. Droughts and flood incidents, within a few months of each other, alternated within the same districts, affecting the same vulnerable communities and eroding their capacity to cope. Many of these districts were in the Northern and Eastern Provinces, that were also the affected by the conflict. In 2014, drought affected over 1.8 million people in the Northern and Eastern Provinces. The same districts were subsequently impacted by heavy floods during November-January of the same year, affecting 1.1 million people. The North Central Province is also extremely vulnerable to climatic shocks.

B. Sectoral and Institutional Context

6. **Sri Lanka has an institutionally bifurcated local administration and service delivery system.** The devolved local government system comprises of 335 elected Local Authorities (LAs) including 271 Pradeshiya Sabhas (PS), 41 Urban Councils (UC) and 23 Municipal Councils (MC). These fall institutionally and legally under the Provincial government. The decentralized system of public administration comprises a three-tier structure of vertically integrated, deconcentrated national government administrations at District, Division and Grama Niladhari (GN) levels. This system falls under the Ministry of Public Administration and is headed by officers appointed by the central government.

7. **The dual system of government poses challenges to effective and equitable local service delivery in Sri Lanka.** Though the 13th Constitutional Amendment has demarcated the role of the Province, unclear and

\(^1\) Source: DCS, and WB staff calculations using HIES 2016
overlapping service delivery functions and structures between the decentralized administrative units and the devolved governance units, de facto controls and reporting lines and skewed resource allocations, continue to restrict the activities of local governments in Sri Lanka. The decentralized system of service delivery has weak incentives to respond to local needs. Divisional Secretariats (DS), that function as expenditure units for central government schemes under the District Secretariats, have significantly larger fiscal resources than LAs to undertake investments in infrastructure and service delivery. They are financed by annual development plans, allocated by the central ministries.

8. **LAs, although closer to the communities they serve, have less capacity and limited funding to respond to the needs of their constituents.** They are characterized by low levels of development expenditures, including low levels of intergovernmental fiscal transfers and own source revenues. They are also constrained by weak technical capacities as well as administrative and management systems. These constraints limit the ability of LAs to provide the services and socioeconomic opportunities sought by their constituents. Nonetheless, LAs have comparably more discretion in expenditures than do DSs. This means that, potentially, LAs can be more responsive to community needs, compared to the line ministries and their District and Divisional arms. Programs delivered by the DS are based on sectoral planning that is done at the central level. This often results in lack of synergies and/or overlaps with investments identified by LAs, and ultimately limits the effective use of government resources.

9. **While citizens have historically had limited influence on service delivery or infrastructure provision, there is potential for greater accountability through elected LAs.** Accountability of the LAs to local constituents has been reinforced after the local elections in February 2018, which reintroduced direct representation in local governments as well as legally expanded women’s representation in local councils significantly. LAs now have a greater incentive to prioritize their expenditures based on community needs. Although LAs have a broad mandate under the 13th Amendment, they provide only select services due to de facto functional mandates and limited resources. With greater resources and capacities, it would be possible for LAs to expand the scope of their activities and deepen their social contract with citizens.

10. **The World Bank has been supporting the Government of Sri Lanka (GoSL) in poverty reduction and local development in the Northern, North Central, Eastern and Uva Provinces.** Specifically, the World Bank supported restoration of critical infrastructure and service delivery through the North-East Housing Reconstruction Program (Cr. 40140 and Cr. 44280) and the North East Local Service Improvement Project (NELSIP — Cr. 47280, Cr. 56880 and TF13787). NELSIP supported LAs in the Northern, Eastern, North Central and Uva Provinces in improving the delivery of local services in an accountable, transparent and responsive manner. The project also successfully introduced participatory planning and budgeting, as well as strengthened project management, financial reporting and monitoring. Under NELSIP, investments in key services included roads and markets as well as the restoration of basic services to the conflict-affected populations. Going forward, LAs can ensure that their infrastructure and community investments have even greater impacts by, firstly, ensuring that they are responding to community identified needs, and, secondly, through selected sub-projects that can boost social and economic activities in their localities, especially for vulnerable groups.
C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To strengthen local authorities capabilities to deliver services to communities in a responsive and accountable manner, and to support economic infrastructure development in participating provinces.

*Economic Infrastructure* is defined as infrastructure investments that support or advance local economic activity in select economic clusters of participating provinces.

Key Results

11. Progress towards the PDO will be measured by the following key indicators that reflect the overall results areas of the project:

i. Number of Basic Transfers disbursed on a timely basis\(^2\) to eligible LAs (measured by province)

ii. Number of LAs that qualify for Performance Transfers

iii. Percentage of LAs implementing participatory planning processes at the ward and LA levels

iv. Percentage of planned LA spending aligned with community needs and priorities as indicated in the Local Authority Participatory Development Plans (LAPDPs)

v. Number of economic infrastructure sub-projects benefiting multiple LAs which meet selection criteria

vi. Number of beneficiaries benefiting from project investments (core indicator)
   - Number of female beneficiaries benefiting from project investments in participating provinces

D. Project Description

12. The project builds on the foundations of NELSIP and focuses on further strengthening local government systems and service delivery outcomes, as well as deepening citizen engagement and feedback mechanisms. By establishing robust participatory, local-level planning processes, it is expected that LA and PCs will be able to deliver improved local services and infrastructure that are responsive to the needs of communities. The project will also support provinces to undertake larger infrastructure investments that can unlock economic activity, attract private sector and support income generating opportunities across multiple LAs.

The project has the following components (for more detail refer to Annex 1):

13. **Component 1: Strengthening Local Government Planning Systems (US$1.5 million).** This component will finance preparation and updating of LAPDPs by LAs with the active engagement of communities. Consultations will be undertaken at the village and ward Levels to identify the needs and priorities of communities. Community plans will be aggregated at the LA-level and synergized with sector plans of

\(^2\) This indicator measures the number of BT tranches (out of a total of 8 expected tranches during the project duration) disbursed semi-annually in March and September of every year.
ministries to inform the formulation of the LAPDPs. Final updated LAPDPs will be approved by the LA Councils. They will include infrastructure as well as social and economic services prioritized by the community. LAPDPs will also provide the basis for selecting sub-projects to be implemented by LAs under Component 2.1 of the project. Formulation of LAPDPs are expected to enhance the accountability of LAs to their constituents and strengthen the public expenditure planning process.

14. **Component 2: Improving Local Services and Economic Infrastructure (USD$86.65 million).** This Component will finance delivery of local services and economic infrastructure by LAs and provinces in an accountable, equitable and effective manner. This will be achieved through two sub-components.

**Sub-Component 2.1 Improving Local Service Delivery (US$78.15 million).** This subcomponent will finance fiscal transfers to qualifying LAs. These transfers will complement and expand prevailing GoSL transfers to LAs. It will include Basic and Performance Transfers.

*Basic Transfers (BT, US$39.50 million):* These Transfers are based on the principle of equalization and aimed at ensuring equitable distribution of intergovernmental fiscal resources across provinces and LAs. A two-step process of determining the amounts, based on agreed formulas, will be employed for distribution of BTs, first at the provincial level and then at the LA level. BTs will be channeled as grants through the Provincial Treasury to LAs in two tranches, in March and September of each year. Allocations per LA will be based on i) a floor allocation to ensure that all LAs get a minimum amount; and ii) a fiscal formula that considers the needs, costs and potential across LAs. To qualify for BTs, LAs will have to meet a set of criteria, including timely reporting on expenditures, clearing pending annual audits, and ensuring participation of citizens.

*Performance Transfers (PTs, US$38.65 million):* PTs will be provided to qualifying LAs to incentivize them to improve their institutional performance and service delivery outcomes. PTs will be channeled through the Provincial Treasury and distributed in September of each year based on the performance assessments undertaken for the previous year. PTs will start from year two, while year one of the project will be used to benchmark LA capacity and performance standards and put in place a performance monitoring and assessment system. LAs have been categorized into three capacity tiers based on institutional assessments. LA performance will be assessed annually based on achievement of indicators relevant to each tier. The project will build LA capacity under Component 1 and 2 giving LAs an opportunity to graduate to the next capacity level upon good performance. Co-financing grant from the European Union in the amount of approximately US$ 23.65 million equivalent is anticipated to finance the PTs.

**Sub-Component 2.2 Economic Cluster Support (US$8.5 million).** This sub-component will finance identification and provision of infrastructure that supports local economic development. MPCLGS will allocate funds to participating provinces to implement this component. The provinces will work with LAs, businesses and other stakeholders to analyze potential economic clusters or value chains that can benefit from infrastructure investments that cut across administrative boundaries of several LAs. Based on the economic cluster and feasibility analysis, financial resources will be allocated for prioritized economic infrastructure. Investments will be selected based on three basic criteria: i) support or advance economic
activity in a selected cluster/value chain; ii) boost or catalyze economic activities of local residents; and iii) activities that result in greater climate resilience, e.g. reduced flooding, improved accessibility, reliable water supply, ensuring continued economic and livelihood activities, preserving perishable food item etc., to help project beneficiaries adapt to climate change impacts.

15. **Component 3: Institutional Development (US$3.69 million)** This component will finance: (i) information and awareness campaigns; (ii) institutional development and capacity building of LAs; (iii) training of trainer’s (TOT) program for SLILG, MDTU and newly elected ward councillors in participatory approaches, resource and asset mapping, local and area based planning, public expenditure and financial management; (iv) development of an M&E/MIS system\(^3\) using smart mobile technology; v) technical assistance, training and capacity development of the MPCLGS and the Finance Commission; vi) improve and strengthen the capacity and facilities of SLILG; and vii) computerization of accounting software, training, capacity building and rollout of the new accounting system in LAs.

16. **Component 4: Project Management (US$ 8.4 million)**: This component will finance two sub-components: (i) Project Management and (ii) Audits.

**Sub-Component 4.1: Project Management.** This sub-component will finance project management and implementation activities of the Project Coordination Unit (PCU) established in MPCLGS and Project Implementation Units (PIU) established in the office of the Commissioner of Local Governments (CLGs) in participating PCs.

**Sub-Component 4.2: Audits.** This subcomponent will finance independent performance assessment and any other capacity building interventions that are required to strengthen project external audit, LA statutory audit and internal audit that will monitor LA fiduciary compliance and performance.

17. **Component 5: Contingent Emergency Response Component (CERC; US$0.0 million):** This component will allow for rapid reallocation of Project proceeds in the event of a natural or man-made disaster or crisis that has caused or is likely to imminently cause a major adverse economic and/or social impact. To trigger this component, the GoSL would need to declare an emergency, a state of a disaster or provide a statement of fact justifying the request for the activation of the use of emergency funding. The detailed criteria and process for triggering and utilizing the CERC will be outlined in the Project Operations Manual (POM).

**E. Implementation**

**Institutional and Implementation Arrangements**

18. The project will be implemented at national level through the PCU in MPCLGS, at the provincial level through the PIUs in the PCs and LAs that are recipients of BTs and PTs.

\(^3\) The introduction of a web-based monitoring system would replace the existing manual system of book keeping and accounting, asset mapping and management, data accumulation and preparation of analytical reports required at various levels of Provincial and Local Authority administration.
i. **Component 1 - Strengthen Local Government Planning Systems.** LAs will have responsibility for implementing Component 1 and will ensure that communities are consulted to prepare or update LAPDPs.

ii. **Component 2 – Improving Local Services and Economic Infrastructure.** BTs and PTs will be allocated to eligible LAs by the PCs through their PIUs, based on criteria and procedures set out in the POM which includes a manual on how to utilize the transfers. LAs will be responsible for carrying out activities/sub-projects under sub-component 2.1. The PCU through PIUs will be responsible for implementing economic infrastructure under sub-component 2.2.

iii. **Component 3 – Institutional Development** will be coordinated and managed by the PCU in coordination with the PIU and LAs

iv. **Component 4 - Project Management** will be implemented by the PCU. This is to provide oversight of all project activities and ensure timely implementation by the relevant agencies to meet the Project Development Objectives.

19. **Central level:** The project implementing entity will be MPCLGS. At the apex level, a National Project Steering Committee (NPSC) with representation from major line ministries and participating provinces will be established to provide policy guidance, review institutional performance, and oversee project progress. A PCU established within the MPCLGS, headed by a National Project Director and Deputy Director, will be responsible for coordination across institutions and activities, overseeing and managing implementation, and reporting to the World Bank and GoSL.

20. **Provincial level:** PIUs will be established in the four participating PCs under the authority of the CLGs, who will be designated as Provincial Project Directors. Each Commissioner Local Government (CLG) will be supported by an Assistant Commissioner Local Government (ACLG) in each district, who will report to the CLG, coordinate with the LAs and oversee project implementation in their Districts. The project will hire Community Development Officers (CDO) in each province to support participatory planning processes.

21. **LA level:** Participating LAs that are eligible will receive BT and PT transfers and will be responsible for implementing sub-projects and activities that meet both BT and PT criteria and performance requirements. They will report on their project performance, including fiduciary performance to their respective provincial PIUs on a half yearly basis using prescribed norms and formats for reporting.

22. **Ward level:** The Ward Level Planning Committee shall, with the assistance of the CDOs, ensure community participation and coordinate the preparation of Ward Development Plans.

**F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)**

The project will focus on LAs in the Northern, Eastern, North Central Provinces, as well as on the border districts of Uva Province. The Northern Province has an area of 8,884 square kilometers. The province is surrounded by the Gulf of Mannar and Palk Bay to the west, Palk Strait to the north, the Bay of Bengal to
the east and the Eastern, North Central and North Western provinces to the south. The Northern province has a dry climatic condition and the terrain is flat with a number of outer islands and coastal terrain, lagoons and low lying areas. The province is divided into two distinct geographic areas: Jaffna peninsula and the Vanni. The Eastern province has an area of 9,996 square kilometers which is predominantly flat terrain that expands on to the eastern coastline of the Island. The province is surrounded by the Northern Province to the north, the Bay of Bengal to the east, the Southern Province to the south, and the Uva, Central and North Central provinces to the west. The province’s coast is dominated by lagoons. The Uva Province is made up of two districts, the mountainous Badulla district to the east and the Moneragala district to the west, which shares a similar dry zone climate and flat terrain of the Eastern Province, and stretches across 8,500 square kilometers. The main economic activities in the project area are paddy cultivation, horticulture and fishery. Majority of the people earn their livelihood as farmers, fisherers, and professionals in the civil and business sector.

G. Environmental and Social Safeguards Specialists on the Team

Andrew Zakharenka, Environmental Safeguards Specialist
Bandita Sijapati, Social Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

<table>
<thead>
<tr>
<th>Safeguard Policies</th>
<th>Triggered?</th>
<th>Explanation (Optional)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>Yes</td>
<td>The project is expected to finance physical interventions associated with improvements to existing LA owned infrastructure, new infrastructure that will support LA service delivery, and support for prioritized economic infrastructure that will be selected on the basis of: i) support or advance economic activity in the selected cluster/value chain; ii) support to economic activities of local residents; and iii) presence of activities that result in greater climate resilience. Thus, construction activities supported under the Project may have potential site specific environmental impacts during the construction phase which can be managed with inbuilt due diligence. However, such impacts are not likely to have large scale significant irreversible environmental impacts. Therefore, the project is classified as Environmental Category B.</td>
</tr>
</tbody>
</table>
To mitigate potential environmental and social impacts that may be caused due to project interventions and ensure all negative impacts associated with project investments are avoided and/or mitigated, an Environmental and Social Management Framework (ESMF) and a Resettlement Policy Framework (RPF) have been prepared. These instruments provide detailed guidance on the specific due diligence requirements as well as on the specific environmental and social safeguards instruments required for sub-projects, including screening, preparation of environmental and social management plans, resettlement action plans etc., to mitigate any potential negative project impacts.

Sub projects and sites will be required to have a site specific Environmental Management Plans (EMPs) based on the Environmental Assessment (EAs) conducted by project proponent and approved by Project Approving Agency, with agreed mitigations measures.

<table>
<thead>
<tr>
<th>Performance Standards for Private Sector Activities</th>
<th>OP/BP 4.03</th>
<th>No</th>
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<tbody>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>OP/BP 4.04 is triggered on a precautionary basis and measures are in place to ensure that any possible impacts to natural habitats or sensitive environments, are avoided/mitigated. The screening procedures and checklists for the sub-projects' locations and expected impacts are detailed in the ESMF.</td>
<td></td>
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</tr>
<tr>
<td>Forests OP/BP 4.36</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>No activities in forests or in close proximity to forest areas are expected. The negative list in the ESMF defines potential sub-projects that would be ineligible for project financing, including those significantly impacting or degrading wildlife and forest reserves, national parks, conservation forests, and sanctuaries.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Not applicable as no project interventions are made where significant use of pesticides and other such substances are utilized.</td>
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<td></td>
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<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td>Yes</td>
<td></td>
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<tr>
<td>The policy is triggered on a precautionary basis. While project interventions are not envisioned to be conducted in areas close to sites of cultural</td>
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</table>
importance, renovation, rehabilitation and improvements may be made to historic LA buildings that are socially or culturally important. Site-specific mitigation measures will be a requisite for such activities. The ESMF proposes the screening procedures on PCR and measures to mitigate the potential impacts, as well as a chance find procedures.

<table>
<thead>
<tr>
<th>Indigenous Peoples OP/BP 4.10</th>
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</thead>
<tbody>
<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td>There are no conclusive evidence/information available that establishes the presence of indigenous people in the project area. However, the project will adopt an inclusive and participatory approach to benefit disadvantaged groups like women, youth, conflict-affected families, among others.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Involuntary Resettlement OP/BP 4.12</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td>The project will involve civil works and other activities associated with improvements to existing LA owned infrastructure, new infrastructure to support LA service delivery, and economic infrastructure to benefit local communities. While most of these activities are expected to be carried out in the existing land belonging to the LAs, there may be requirements for additional land in some cases. It is expected that the requirements for additional land will be met by using public lands, or land availed through voluntary donation. However, for some investments, especially under Sub-Component 2.2 on Economic Cluster Support, additional land may have to be acquired through private acquisition.</td>
</tr>
</tbody>
</table>

The Resettlement Policy Framework (RPF), prepared alongside the ESMF for the project, includes specific guidance on the use of state-owned land, voluntary donation, and acquisition of private land. The RPF also includes guidelines on social screening, social impact assessments, and if required, preparation of site-specific Social Impact Mitigation Plan (SIMP), or an Abbreviated Resettlement Action Plan (ARAP) or a full Resettlement Action Plan (RAP), depending on the nature and scope of impacts. Additionally, the ESMF and the RPF include framework for monitoring, consultation and information disclosure, grievance redress mechanism, and implementation arrangements for safeguards management.
Safety of Dams OP/BP 4.37 | No | There will be no project interventions focused on dams or rehabilitation of existing dams.

Projects on International Waterways OP/BP 7.50 | No | The proposed project activities do not have any impacts on international waterways and therefore this policy is not triggered.

Projects in Disputed Areas OP/BP 7.60 | No | There are no disputed areas in Sri Lanka and therefore this policy is not triggered.

### KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

#### A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

   The Project activities will focus on three priority areas: strengthening local government planning systems, improving local services and economic infrastructure, and institutional development, which are expected to generate significant benefits in the participating provinces. Component 2 involves basic and performance transfers to LAs, as well as pilot identification and provision of infrastructure to promote local economic development across the geographical boundaries of several LAs. Project activities will involve civil and other types of work to improve existing and build new infrastructure to support services delivery which may have environmental and social impacts. While the exact locations and specific activities are not available at present, these activities are not likely to have large-scale significant or other irreversible impacts. For instance, types of works potentially financed under the project will include reconstruction of damaged rural roads, construction of rural drinking water supply and sanitation schemes, reconstruction of public building, such as multipurpose community centers, markets, preschools, bus stands, dispensaries, etc., construction or reconstruction of flood water drainage lines, construction of solid waste management schemes, rehabilitation of micro water ponds, promotion of group economic and income generating activities, such as brickmaking, bakery, milk collection centers, etc., provision of street lighting, and similar activities. Thus, adverse impacts from project activities, if any, will be site-specific and are not expected to cause strong cumulative and/or irreversible impacts.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

   The expected impacts and risks on human population and/or the environment will be site-specific, can be easily mitigated in a predictable manner, and not likely to cause strong cumulative impacts. This is because the activities generally carried out by LAs and community organizations, are not complex nor large in scale, and do not involve activities that have a high potential for harming people and the environment. Further, project activities will be located away from environmentally or socially sensitive areas, as specified in the negative list prepared under the Project.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

   All infrastructure sub-projects supported under the Project, will be screened and assessed for environmental and social safeguards. The ESMF and the RPF prepared for the Project defines the principles and process for sub-projects selection and implementation, including use of alternative approaches to avoiding or minimizing adverse impacts.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
Despite the moderate risk of the project's expected environmental and social impacts, the PCU has prepared an Environment and Social Management Framework (ESMF) and a standalone Resettlement Policy Framework (RPF) that include: (i) principles and procedures for screening and identifying social and environmental impacts; (ii) the criterion and due diligence processes based on risks and impacts; (ii) guidelines for preparing time-bound safeguards action plans to assure compliance; (iii) institutional arrangements for implementing safeguards management plans; (iv) guidance for public consultation process and disclosure of safeguard documents; (v) mechanisms for grievance redress, monitoring and evaluation of processes and outcomes; and (vi) responsibilities of the GoSL and WB in relation to the preparation, implementation and progress review of safeguards implementation for the various activities supported under the Project. In terms of capacity, the MPCLGS successfully completed similar project (North East Local Services Improvement Project) recently and understands the safeguards policies and procedures required by the Bank. Further, the PCU is hiring a full-time safeguards specialist (social and environment) to monitor and report on implementation of the safeguards policies. During project implementation, additional personnel will be mobilized at the Provincial and LA-levels for safeguards implementation and monitoring. Similarly, capacity building activities on safeguards management will be carried out at the MPCLGS, CLGs, DSs, LAs, etc. to ensure effective management, compliance and monitoring of safeguards implementation.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

The key stakeholders include MPCLGS, CLGs, DSs, LAs, the private sector, and community members. During the preparation of the safeguards instruments, the ESMF and the RPF, several rounds of consultations were held with a variety of stakeholders, including public officers, civil society members, and community members in the Northern, Eastern and Uva Provinces in March 2018. These documents were disclosed in-country and in World Bank’s website on March 2018, and again in September 2018. The ESMF and the RPF further describes the procedures for community and stakeholder consultations, as well as for managing stakeholder expectations, issues and concerns, and specific guidance on disclosure requirements. Additionally, the Grievance Redress Mechanism and Good Governance Resource Centres already established and will be further strengthened to ensure transparency, accountability, and cost effectiveness.

B. Disclosure Requirements

<table>
<thead>
<tr>
<th>Environmental Assessment/Audit/Management Plan/Other</th>
<th>Date of receipt by the Bank</th>
<th>Date of submission for disclosure</th>
<th>For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors</th>
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<td>10-Sep-2018</td>
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"In country" Disclosure
Sri Lanka
13-Sep-2018

Comments
ESMF and RPF were re-disclosed by Ministry of Provincial Councils and Local Governments and Sports (MPCLGS) at: http://www.lgpc.gov.lk/eng/?page_id=600
Resettlement Action Plan/Framework/Policy Process

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C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?
No

OP/BP 4.04 - Natural Habitats

Would the project result in any significant conversion or degradation of critical natural habitats?
No
If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?
NA

OP/BP 4.11 - Physical Cultural Resources

Does the EA include adequate measures related to cultural property?
Yes
Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?
Yes

OP/BP 4.12 - Involuntary Resettlement

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?
Yes
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?
The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

CONTACT POINT

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Borrower/Client/Recipient

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Implementing Agencies

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APPROVAL

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Approved By

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Practice Manager/Manager: Catalina Marulanda 21-Sep-2018

Country Director: Andrew D. Goodland 21-Sep-2018