



**Project Document
of the Asian Infrastructure Investment Bank**

**The Democratic Socialist Republic of Sri Lanka
Support to Colombo Urban Regeneration Project**

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Currency Equivalents

(As of Jan. 21, 2019)

Currency Unit	-	Sri Lankan Rupee (LKR)
USD1	=	LKR181.6

Abbreviations

AIIB	Asian Infrastructure Investment Bank
CBSL	Central Bank of Sri Lanka
CMC	Colombo Municipal Council
EFF	Extended Fund Facility
ESMP	Environmental and Social Management Plan
ESMPF	Environmental and Social Management Planning Framework
ESP	Environmental and Social Policy
ESSs	Environmental and Social Standards
FM	Financial Management
GDP	Gross Domestic Product
GoSL	Government of Sri Lanka
IMF	International Monetary Fund
MoF	Ministry of Finance
MMWD	Ministry of Megapolis and Western Development
PMU	Project Management Unit
PP	private partner
RAP	Resettlement Action Plan
RPF	Resettlement Policy Framework
UDA	Urban Development Authority
URP	Urban Regeneration Program
USD	United States Dollar

Contents

1. Summary Sheet	1
2. Strategic Context	3
A. Country Context	3
B. Sectoral and Institutional Context	4
3. The Project	6
A. Rationale	6
B. Objective	7
C. Project Description and Components	7
D. Cost and Financing	10
E. Implementation Arrangement	10
4. Project Assessment	13
A. Technical	13
B. Economic and Financial	16
C. Fiduciary and Governance	17
D. Environmental and Social	19
E. Risks and Mitigation Measures	23
5. Next Steps	26
 ANNEXES	
Annex 1: Project Results Framework	27
Annex 2: Project Description	29
Annex 3: Economic and Financial Analysis	35
Annex 4: Sovereign Credit Fact Sheet	39
Annex 5: Project Delivery Strategy	41
Annex 6: Project Implementation Support and Supervision Plan	51

1. Project Summary Sheet

Sri Lanka Support to Colombo Urban Regeneration Project

Project No.	000081
Client: Borrower(s) Executing Agency Implementing Agency	The Democratic Socialist Republic of Sri Lanka Ministry of Megapolis and Western Development (MMWD) Urban Development Authority (UDA)
Sector(s) Subsector(s)	Urban Urban Regeneration, Housing
Project Objectives Brief Project Description	The objective of the project is to improve housing conditions of low-income communities and increase land use efficiency in Colombo through investments in the construction of affordable housing and redevelopment of land, with associated policy and system enhancements. The project includes: construction of about 5,500 affordable housing units; maximizing the revenue from the land that will become available after the households in underserved communities move into the new housing units; and technical support and policies enhancement.
Project Implementation Period (Start Date and End Date)	Indicative Start Date: July 2019 Indicative End Date: June 2025
Expected Loan Closing Date	December 2025
Project Cost and Financing Plan	The estimated cost of the project is about USD287 million. Financing plan: AIB Loan: USD200 million Government of Sri Lanka: USD82 million Private Partner: USD5 million
AIB Loan (Size and Terms)	USD200 million A Sovereign-backed Loan with loan term of 30 years, including a grace period of 8 years.
Environmental and Social Category	A
Project Risk (Low/Medium/High)	High
Conditions for Effectiveness	<ol style="list-style-type: none"> 1. The Project Management Unit (PMU) should be officially established; and 2. A detailed Project Implementation Manual (PIM), including the project implementation steps, procurement manual and financial management manual, should be completed and agreed by the Bank and adopted by the Borrower.

Key Covenants	<ol style="list-style-type: none"> 1. By no later than six (6) months after the Effective Date, the UDA shall hire the consultant to develop the rules and procedures of land redevelopment and sale/lease involving site improvement by UDA or engaging a private partner (PP). 2. By no later than six (6) months after the Effective Date, the UDA shall hire qualified consultants to: (a) review and revise the housing exchange contract to clarify the rights and obligations of the residents who are provided with the new housing units, and to design a methodology that will allow for the conditional transfer of the deeds to the apartments and the establishment of a Condominium Association or other similar arrangements that will permit the residents to exercise their rights and obligations; and (b) develop programs to assist the beneficiaries in relocation and adjustment to the new housing complexes, and in establishing and operating the Condominium Association or other community organization. 3. By no later than twelve (12) months after the Effective Date, the UDA shall hire qualified consulting firm to assess national public policy and programs for urban housing, and recommend options to improve their efficiency, equity, and fiscal sustainability.
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that the Bank is in compliance with the policies applicable to the Project.

President	Jin Liqun
Vice President	D.J. Pandian
Director General, Operations	Supee Teravaninthorn
Manager, Operations	Gregory Liu
Project Team Leader	Anzheng Wei, Investment Officer
Project Team Members	Bin Wang, Senior Policy & Strategy Officer; Chongwu Sun, Senior Environmental Consultant; David Martianus Ginting, Young Professional; Jessana Ao Yanuario, Finance Officer; Jonathan Renshaw, Senior Social Development Consultant; Julius Thaler, Senior Counsel; Michaela S. Bergman, Principal Social Development Specialist; Songsu Choi, Senior Housing Consultant; Wu Ning, Financial Management Consultant; Xiaowei Guo, Senior Procurement Consultant; Xuemei Yang, Project Assistant

2. Strategic Context

A. Country Context

1. Sri Lanka is an island nation in the Indian Ocean, located southeast of India and northeast of Maldives, covering a total area of 65,610 square kilometers, with a coastline of 1,340 kilometers. It is a lower-middle-income country with a total population of 21.4 million and gross domestic product (GDP) per capita of USD4,065 in 2017.¹ The Sri Lankan economy grew at an annual average of 6.4 percent between 2010-2015, reflecting a peace dividend and a determined policy thrust towards reconstruction and growth. However, economic growth moderated to 3.1 percent in 2017, the lowest in 16 years, from 4.5 percent in 2016, due to a contraction in agriculture from large-scale floods and lingering effects of a drought. Services represent the largest sector of the economy, generating about 62 percent of GDP and 45 percent of employment in 2017. Manufacturing is the fastest growing sector, now accounting for about 31 percent of GDP and 26 percent of employment, taking shares away from agriculture and fisheries. The current account deficit widened to 2.6 percent of GDP in 2017 from 2.2 percent in 2016, despite a strong tourism sector and remittances.

2. **Fiscal position and economic outlook.** The short-term economic outlook is challenging, as the high level of public debt and low level of foreign exchange reserves continue to underscore Sri Lanka's vulnerability to external shocks. Its public debt reached 84.6 percent of GDP in 2017 and external debt stood at 59.3 percent of GDP.² The Sri Lankan rupee has depreciated 48 percent against the US dollar in the past seven years, from 113.9 in 2011 to 168.6 in the end of the third quarter of 2018.

3. The International Monetary Fund (IMF) is providing Sri Lanka with a USD1.45 billion Extended Fund Facility (EFF) to support the country's economic reform agenda. This 3-year program, initiated in 2016, aims to increase government revenue, reduce the fiscal deficit, reverse the decline in foreign exchange reserves, lower Sri Lanka's debt distress, and enhance public financial management. Sri Lanka's fiscal position has improved under the EFF Program, resulting in Standard & Poor's "B+" and "B" long-term and short-term sovereign credit ratings, respectively, in March 2017. The IMF projects that Sri Lanka's economic growth will increase from 4.0 percent to 4.7 percent in the period 2018–2020 and reach 5.0 percent in 2023. Inflation is projected to remain around 5.0 percent during the period 2018–2020. The fiscal deficit is expected to decrease from 5.4 percent of GDP in 2016 to meet the Government's target of 3.5 percent in 2020. The public debt-to-GDP ratio is projected to drop gradually, from 84.6 percent in 2017 to 79.5 percent in 2020.

4. **The city of Colombo** has been the commercial and industrial center of Sri Lanka since the 17th century, largely owing to its strategic location along an international shipping route. Based on the 2012 census, the population of the Colombo Municipal Council (CMC) area was

¹ World Bank country data as of July 25, 2018.

² International Monetary Fund (IMF), 2018. Country Report No. 18/175—2018 Article IV Consultation and Fourth Review Under the Extended Arrangement Under the Extended Fund Facility—Press Release; Staff Report; and Statement by the Executive Director for Sri Lanka, June 2018.

561,314.³ The extent of the urban area is much greater, however. The most expansive definition of the Colombo metropolitan area encompasses the entire Western Province, called Megapolis, which occupies about six percent of Sri Lanka's land area but 28 percent of the population and about 45 percent of GDP.

5. The Government of Sri Lanka (GoSL) plans to transform Colombo into a city on par with its regional middle-income competitors and has established a dedicated ministry, MMWD, in charge of developing the Western Province. While this area may later become an integrated metropolitan region, for the purposes of the proposed project, a more limited definition of the core Colombo urban area will be used, which includes the CMC and two adjoining municipalities – Sri Jayawardenapura Kotte, which has been the administrative capital of Sri Lanka since 1978, and Dehiwala-Mount Lavinia. This combined area covers about 75 square kilometers and had 853,707 residents as of 2012.

B. Sectoral and Institutional Context

6. **Housing, Services and Land Use in Colombo.** Due to their impact on both economic and social development, housing and its associated urban infrastructure have long been among the most important items on the GoSL's agenda. Since the late 1960s, the GoSL has undertaken a series of major housing development programs. These programs provided housing for public sector workers but also small housing plots and financial supports for other low- and middle-income families. The housing units and serviced plots provided under these programs are estimated to account for over half of the housing stock in the Colombo urban area. During the period of the civil conflict, however, the government could not sustain the investments necessary to continue expanding the housing supply or to provide full infrastructure and services for residential areas already developed. As a result, many new settlements emerged without adequate infrastructure or even authorization and many of the residential areas already developed lacked basic urban infrastructure and services. Based on the survey carried out by the UDA in 2011, the GoSL estimated that about 68,000 households were living in over 1,500 "underserved settlements," accounting for roughly 50 percent of Colombo City's population.

7. In addition to the infrastructure and service issues, another serious burden left by the earlier housing programs has been the occupation of the city's land largely by one- and two-story houses on small plots, which have been hard to redevelop, and which limit the economic density of the city. As a result, land plots in the city available for development or redevelopment have been scarce and extraordinarily expensive, allowing little but the highest value commercial development to take place. This in turn pushed most urban development activities to areas outside the three core Municipal Council areas, leading to a rapid physical expansion of the urban footprint onto farms and forests, with the attendant growth of environmental and transportation costs.

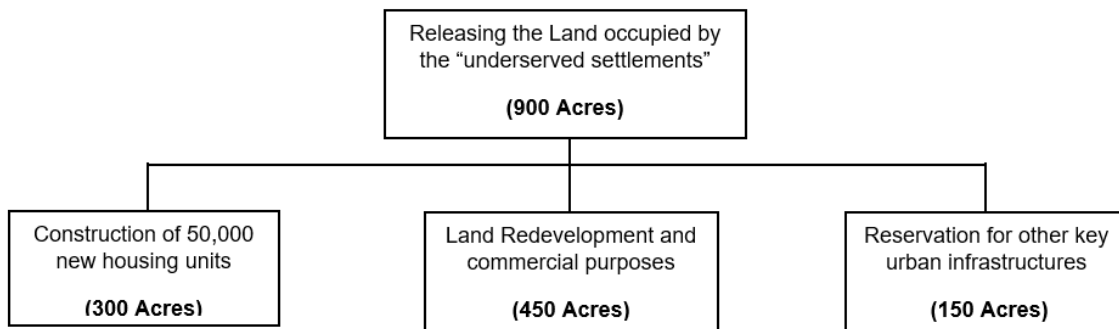
8. **Government Policy and Programs to Regenerate Colombo.** The GoSL's development policy framework states that "Colombo City and other key cities will be improved

³ Government of Sri Lanka. 2016. *Housing and Sustainable Development in Sri Lanka. National Report for the Third United Nations Conference on Human Settlements - Habitat III.* Ministry of Housing and Construction, Sri Jayawardenapura Kotte, Battaramulla, Sri Lanka.

to be on par with environment friendly modern cities in middle income countries while also establishing such cities as commercial hubs in South Asia.” In recent years, major urban development programs have been undertaken to allow for the development and operation of vigorous economic activities in Colombo as the urban core of the country. These include: relocation of most of the administrative offices from the city of Colombo to the new administrative capital of Sri Jayawardenapura Kotte; relocation of major warehouses and industries to the new industrial towns of Peliyagoda, Homagama and Horana; relocation of the army headquarters from the heart of the city to Battaramulla; redevelopment of the Colombo Fort area by replacing low-rise buildings with high-rise commercial buildings and offices; renovation of colonial buildings in the Fort area, and expansion of the Colombo Harbor.

9. **Colombo Urban Regeneration Program (URP).** In addition to the above activities, which facilitated a development spurt in the banking and hotel sectors, the GoSL has established the Colombo URP to address the issues of poor housing and services as well as inefficient land use. The URP aims to resettle about 50,000 low-income and lower-middle-income households currently living in “underserved settlements” which were provided earlier by the Government or occupied by squatting and are characterized by deficient infrastructure, service and housing, into new high-rise apartment buildings. The land thus saved and released is intended to be used for public purposes such as urban infrastructure or parks as well as for higher-value redevelopment. The underserved settlements are estimated to occupy around 900 acres, of which 300 acres would, once released, be utilized for the construction of 50,000 new housing units in total; 450 acres would be allocated for commercial purposes; the remaining 150 acres would be maintained for public open spaces and other key urban infrastructure. The URP planning is shown in Figure 1 below.

Figure 1: URP Planning



10. Construction under the URP previous phases (Phase-I and II), which started implementation in 2011, as of end 2018, has provided over 8,000 new housing units to eligible households, around 7,000 units are nearing completion, and about 2,200 other units had completed their procurement procedures and had contracts awarded. The land released totals about 37 hectares (76 acres), or about 10 percent of the URP total. of which 9.7 hectares (24 acres) are being used for affordable housing, 4.8 hectares (12 acres) for recreation or reserved for public infrastructure, and around 14.5 hectares (36 acres) for commercial development purposes.

11. While the URP previous phases have been successful in terms of its efficient execution and improving the quality of housing to the satisfaction of the beneficiaries, there remain a substantial room for improvement. One issue is the lack of clarity of the residents' property rights and obligations, which remain poorly specified and ambiguous as in all housing settlements provided by the government under earlier public housing programs. The implicit, de facto arrangement appears to be that of rental without specified rents, rights, or lease period. The lack of clear title or ownership is likely to be a cause of the deterioration of the public housing in the current underserved settlements. While the beneficiaries of the URP are required to pay a small portion of the construction cost of new housing units, it is not clear what this payment represents, leaving the ambiguity of rights and obligations unresolved. This has forced UDA to take the responsibility for maintenance of the new housing complexes, an arrangement which appears not sustainable.

12. The main financing source envisaged for the URP is the sale of land freed up by relocation of the residents to higher density residential blocks. Various technical and planning issues, however, have delayed and limited the realization of this source of revenues. Utilizing the freed-up land to maximize their value is a major task for UDA. Another issue is the mismatch between the investment required for the new housing construction and the mode of financing utilized – short-term debentures or treasury budget allocations. Long-term issues related to these series of issues are the fiscal sustainability as well as equity of the continuation of the program. The proposed project would support the URP Phase-III, planned to begin implementation in 2019, addressing these and other issues to improve the efficiency, equity and sustainability of the program.

3. The Project

A. Rationale

13. **Government Priority.** The URP is consistent with the GoSL's housing policy aim of ensuring affordable access to adequate housing for everyone, and with the Megapolis Master Plan, which envisages the relocation of households currently living in slums into new housing schemes with adequate standards and optimization of land use of prime locations for high utility and economic returns, as an important step towards transforming Colombo into a city with a clean and pleasing environment and a model for national development.

14. Accordingly, approvals to implement the URP have been provided through Cabinet Papers No. 10/1830/403/039, dated August 5, 2010 and No. 14/259/503/029, dated February 20, 2014. Cabinet Paper No. 16/1832/724/076, dated October 4, 2016, refers to the vesting of all lands identified under the URP and allocates financing necessary for URP implementation through Treasury Budget on an annual basis. Till 2018, the government has already invested about LKR 60 billion for the URP Phase I and II. In addition to budget allocation, a public debenture in the amount of LKR10 billion was issued in the local capital market in 2010 to finance the initial phase of the URP. A contractor financing scheme has also been broadly applied in the construction contracts. However, these high-cost, short-term financing instruments are not well suited to meet needs for long-term financing that the housing and infrastructure investments required.

15. **Strategic Fit.** The proposed project is in line with the Bank's thematic priority of supporting sustainable urban infrastructure. It is expected to generate significant social and economic benefits in the city of Colombo by supporting the URP, contributing to a more planned approach to urban development, upgrading housing conditions of low-income households, and improving the efficiency of land use and overall efficiency of urban development in Colombo area. Given the dominant role Colombo plays in Sri Lanka's economic growth and transformation, these benefits would generate positive economic spillovers for Sri Lanka as a whole.

16. **Value Addition.** The Bank's involvement will secure the financial resources needed to continue the URP and ensure that global technical knowledge and international good practice from similar programs elsewhere can be applied in Sri Lanka. The project will help improve the equity and efficiency of the housing relocation process, the property rights of the beneficiaries, and the housing maintenance system. The Bank's technical recommendations for the design and specifications of the building construction will improve the safety, energy efficiency and durability of the new buildings. The project will accelerate the land redevelopment program to enhance the financial sustainability of the URP. It will also support the client in exploring an innovative pilot approach in land redevelopment to mobilize private sector participation and maximize land revenue. In addition, the project will provide technical support to the associated design, policy and community development aspects, to improve the sustainability of the overall URP. Given that this will be the first urban regeneration project supported by the Bank, it is anticipated that valuable experience will be gained during project preparation and implementation, which will help to strengthen the Bank's engagement in the sector. In addition, it will be the Bank's first project in Sri Lanka, which is also a standalone project, and it will enhance the Bank's position in the country and contribute to the diversification of the Bank's portfolio.

B. Objective

17. The objective of the proposed project is to improve the housing conditions of low-income communities and increase land use efficiency in Colombo through investments in the construction of affordable housing and redevelopment of land, along with the associated enhancement of systems and policies. The proposed results indicators for these objectives include: (i) number of low-income and lower-middle income households that move from underserved settlements to newly constructed housing units with improved utilities and facilities, and under improved resettlement practice; and (ii) the increase in the land value of the areas made available for redevelopment.

C. Project Description and Components

18. The proposed project will support the continued implementation of URP Phase-III but with significant improvements – such as the improvements in technical design, resettlement and post-resettlement policy, housing maintenance arrangements, innovation in redevelopment approach, and review of longer-term sustainability of public intervention in housing – as described below. Project components⁴ are outlined below and described in further detail in Annex 2.

⁴ A "Component" in Project Document corresponds to a "Part" as per the terminology of Loan Agreement.

19. **Component 1: Housing Construction.** The component will support construction of about 5,500 housing units in multi-story apartment buildings in eight or nine residential complexes (sub-projects)⁵ with provision of full infrastructure⁶. The housing units will be provided to current residents of selected underserved communities in exchange for their existing housing. Most of the old housing units to be exchanged are those provided about four decades ago by the GoSL for low-income households, which have remained little improved, with poor roads and drainage, limited additional infrastructure, and dilapidated construction. The new housing will be provided also to residents now living in squatter settlements in areas not allowed for development as they are designated for public use or vulnerability to natural hazards. The selection of the communities to be resettled in the new apartments will be based on, among others, condition of existing infrastructure and housing, residents' willingness to resettle, and the potential value of the land to be exchanged for public purposes or alternative development. The eligibility criteria, benefits, procedures and standards for the component are set out in the Resettlement Policy Framework (RPF) that has been prepared for the project, in accordance with the Bank's Environmental and Social Framework, especially Environmental and Social Standard 2 (ESS2), on Involuntary Resettlement.

20. Most of the housing units that will be provided are apartment of around 550 square feet (sq. ft) each, which is larger than the housing of most of the beneficiaries, the median size of which is about 450 sq. ft. Each beneficiary household will be responsible for a payment of LKR1.2 million Rupees, to be made in monthly installments over a period of over 33 years (400 months), without interest. This represents around 20 percent of the estimated construction cost of the apartments.

21. **Component 2: Land Redevelopment.** This component will maximize the revenue from the land that has or will become available after the households in the underserved settlements move into the new apartment units constructed under the URP. Currently, about 92 acres have been identified and are expected to become available for redevelopment, of which 55 acres will be vacated as a result of the resettlement carried out under the six sub-projects that have already been identified under Component 1. The other 37 acres are in process of being vacated under the completed and ongoing resettlement housing programs carried out under URP Phase II. Six acres will be dedicated to public use, such as parks, and the remaining 86 acres will be used for commercial redevelopment. Additionally, about 40 acres are expected to be released from settlements to be selected for which replacement housing would be built under the to-be-identified sub-projects under Component 1. The best and highest use of each block of land will be determined based on thorough market assessment, but the current expectation is that the largest part will be used for middle and upper middle-income group housing, the large demand for which is unmet due mainly to the scarcity of land bid up by higher-priced property developments. The revenue from higher income group housing could therefore be used to subsidize the provision of the affordable housing program. Component 2 will include provisions for planning, basic infrastructure, and

⁵ There are six sub-projects (providing 4074 units) that have been identified and almost ready for bidding. A further two-three sub-projects that will provide around 1500 units will be identified within the first year of project implementation.

⁶ Full infrastructure includes: water supply and sewage, electricity, solid waste management and access to the transports.

marketing (in the case of commercial redevelopment) to facilitate efficient redevelopment and reuse of the land.

22. Three different approaches will be adopted for the commercial redevelopment, depending upon circumstances. The first is the traditional approach used by UDA, which will be used for the relatively small blocks of the land made available. In this case, once the land has been cleared, UDA will auction the land to the highest bidder. Under the second approach, which applies to larger blocks of land, UDA will plan and subdivide the block, provide necessary infrastructure and other improvements based on the feasibility study and designs, and then auction or lease the subdivisions to developers. In this approach, UDA is responsible for planning, design and implementation of the subdivision and site improvements (through civil work contractors), through to the sale or lease of the land, with the assistance of consultants and marketing agents.

23. The third approach is an innovative pilot, which will be applied to selected large blocks of land under the project. In this case, UDA will select a private partner (PP) who will be responsible for planning, designing, and implementing the subdivision and site improvements, and then selling the subdivisions or plots, under a profit-sharing arrangement. UDA, for its part, will establish the minimum necessary guidelines, such as prohibited usage, minimum infrastructure required, minimum land value; and timeframe of the PP's contract; it will also provide advice as requested. The PP will be required to bear planning, design and marketing expenses as well as a certain amount of the site improvements and infrastructure costs. The sales proceeds will be first submitted to UDA for its share of the site improvement expenditures as well as a minimum amount of land value, and then to PP's share of the site improvement expenditures. The rest will be shared between UDA and PP. Either the minimum amount to be taken by UDA or the share will be the main criterion for selection of the PP.

24. UDA will engage an international consultant with experience in public private partnership models for land redevelopment, to finalize the details of the rules and procedures for this pilot third approach. It will be applied to two of the first four blocks that become available and modified for later blocks, or discontinued, based on its performance. The approach supports diversification in UDA's business model for land redevelopment, with a goal of maximizing the government's land revenue through proper planning, infrastructure investments and marketing strategy.

25. **Component 3: Technical Support and Project Management.** This component will support project management and other quality enhancement measures to improve the implementation of URP. It will finance (i) project management support, including the social assessment of project beneficiaries and development of the resettlement plans; (ii) capacity building for UDA and updating of the Metro Colombo City Guidance Plan; (iii) post-resettlement assistance for housing project beneficiaries, including help to adjust to new residential environment and the support for establishment and operation of community associations; (iv) review and improvement of URP's policies and procedures relating to housing allocation, transfer and management; (v) review and improvement of the policies and programs for urban housing, with a focus on increasing the effectiveness and fiscal sustainability as well as equity; and (vi) the PMU's overhead costs for project management and supervision.

D. Cost and Financing

26. The total project cost is estimated at USD287 million. The GoSL has requested that the Bank finance the Project through a Sovereign-backed Loan. The government will finance taxes and duties for Component 1 through exemption. The project cost and financing plan are shown in the table below.

Table 1. Project Cost and Financing Plan (USD million)

Items	Cost Amount	Financing Sources					
		AIB		GoSL		Private Partner	
Component 1: Housing Construction	180.0	153.0	85%	27.0	15%		
Component 2: Land Redevelopment	45.0	35.0	78%	5.0	11%	5.0	11%
Component 3: Technical Support and Project Management	16.0	6.0	38%	10.0	62%		
Net Project Cost (Excluding Taxes and Duties)	241.0	194.0	80%	42.0	18%	5.0	2%
Taxes and Duties	40.0			40.0	100%		
Capitalized Front-end Fee, Commitment Fees and IDC ⁷	6.0	6.0	100%				
Total:	287.0	200.0	70%	82.0	29%	5.0	1%

E. Implementation Arrangement

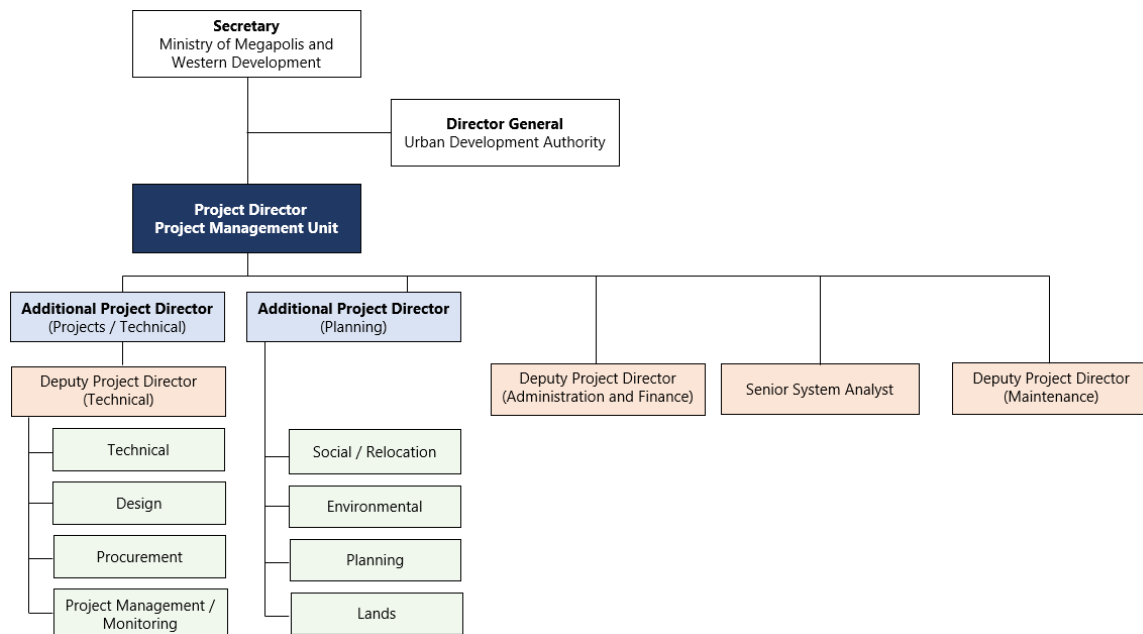
27. **Implementation Period.** It is envisaged that the project will be implemented from July 2019 to June 2025.

28. **Project Implementing Agency.** MMWD will be the Executing Agency and UDA will be the Implementing Agency for the proposed project. The UDA is under MMWD's administration. UDA was established by the UDA Act No. 41 of 1978 and is authorized to prepare and implement urban development plans and the development projects therein, and to acquire land for the purpose. The URP Division under UDA was established and has been managing the URP since the program started in 2011. By the end of 2018, it had successfully delivered over 8,000 housing units and leased out two land blocks (2 acres) for redevelopment. In order to manage the project in an efficient and effective manner, the Project Management Unit (PMU) has been established by MMWD and UDA and is directly responsible for project implementation and management. As shown in the Figure 2, according to country's system, the PMU will report to the Secretary of MMWD, through the Director General of UDA. To meet the Bank's requirements for the proposed project, the PMU will include technical, planning, procurement, financial management, information technology and environmental and social safeguards specialists. The PMU will also be responsible for monitoring and reporting on progress to the GoSL and the Bank. The Bank will make regular field visits to ensure that

⁷ Interests during construction.

implementation is in line with agreed parameters. The PMU structure is shown in Figure 2 below.

Figure 2: PMU Structure



29. GOSL will establish a steering committee to guide the urban housing study (sub-component 3 (v) above), review its findings and recommendations and formulate official recommendations to the GoSL. The committee will consist of representatives of relevant government's authorities including National Planning Department, External Resources Department, other relevant departments of Ministry of Finance (MoF), Ministry of the Housing Construction and Cultural Affairs, UDA and CMC.

30. A Project Implementation Manual, including procurement and financial management manuals, is under preparation by UDA. It will be approved by the Bank and adopted by the GoSL before Loan Effectiveness. The Project Implementation Manual will be used during implementation as a tool for project management regulation and risk control.

31. **Maintenance.** The new residential complexes completed under URP Phase I and II have been maintained by UDA once they were handed over by the contractors after the one-year defect liability period. The management burden on UDA has been unavoidable as although the rights and responsibilities for housing provided by government have never been clearly specified either for the earlier or current public programs, and implicitly, the residents have been treated as if they were tenants. The implicit obligation of the government as the property owner to operate and maintain the common facilities is much greater in the case the multi-story apartment complexes than with the older settlements of single-family houses and is becoming an unsustainable burden. In view of this and with the aim of conferring a greater sense of ownership and commitment to maintenance, the government is considering the option of transferring ownership of the apartments to residents upon payment of the stipulated portion of the construction cost. Under the project, UDA will undertake a study to clarify the

ownership rights and will look for mechanism that will allow the Condominium Association or a similar organization to take over responsibility for the management and maintenance of each residential complex. The project also includes a provision to help establish, equip, and operate the Condominium Associations.

32. **Monitoring and Evaluation.** A Results Framework has been developed, including baseline data, for the project (see Annex 1). The Results Framework provides the basis for monitoring and evaluation (M&E) of project results. UDA will be responsible for collecting data and reporting on implementation progress for each indicator in the Results Framework. The achievements of the indicators will be evaluated by comparing the actual results against planned targeted values. The Results Framework, with appropriate data and associated evaluations, will be incorporated into the project's annual progress reports.

33. **Procurement.** Procurement will be conducted in accordance with the provisions of the Bank's Procurement Policy, January 2016, and Interim Operational Directive: Procurement Instructions for Recipients, June 2016. The Project Delivery Strategy (PDS, in Annex 5) that was prepared by the client and agreed by the Bank identified the following major activities under the project: (i) works procurement for housing construction as well as basic infrastructure, such as landfilling, roads and drainage, etc., to facilitate efficient redevelopment or reuse of the land made available by moving the residents to the newly constructed housing units; (ii) goods and non-consulting services needed by the project would be office/computer equipment and commercialized software to support PMU's management capacity; Training organizers and the service for the purpose of public awareness on the national policies and programs for low- and middle-income housing; and (iii) consulting services to improve the engineering design and advise on construction supervision and housing maintenance, as well as to support project implementation, etc. A Procurement Plan for the initial 12 months of project implementation has been agreed by the Bank. For Goods and Works procurement – International Open Competitive Tenders, National Competitive Tendering, Request for Quotation and Direct Consulting will be used. For procurement of consultant services- Quality- and Cost-Based Selection, Quality-Based Selection, Consultant Qualifications-Based Selection, Direct Selection and Individual Consultant for Consultant Selection will be used, as applicable. Procurement methods for each contract are specified in procurement plan, depending on the nature, value, possibility of market competition and ability of each contract to meet the requirements of Value for Money and Fit for Purpose. Use of the international market approach and two-envelope system (no prequalification) or Quality- and Cost-Based Selection to procure large contracts (>USD10 million for Works; >USD1 million for Goods; and >USD0.5 million for Consultants) would be more conducive to the project success and better respond to the project's procurement requirements. The Procurement Plan will be updated at least annually by the PMU to (a) reflect project implementation; (b) add new packages as needed for the project.

34. The Bank has reviewed the Tender Documents for civil works proposed by the PMU and has agreed that, following incorporation of the Bank's comments, the Standard Procurement Documents issued by the World Bank for works with FIDIC Conditions of Contract for Design Build Construction will be used for the project works procurement. The Bank will provide standard procurement documents used for goods and non-consulting services procurement and consultant selection under this project. The first contract to follow international open or national competitive tender for works or goods, and quality- and cost-

based selection for consultants will be subject to Bank prior review; the Bank will reserve the right to conduct post review for all other contracts. All procurement documents shall be kept in order by PMU. The procurement supervision will be conducted once a year during the project implementation.

35. **Financial Management.** To ensure effective and efficient project financial management, UDA has developed a financial management system for the project that incorporates UDA's financial management arrangements and satisfies its business profile, into the Bank's financial management requirements. This project financial management system, which is reflected in the project financial management manual (FMM), includes staffing, budgeting, internal control, accounting, reporting, and auditing.

36. At least three financial staff will be assigned to the PMU, including head of finance, accountant, and assistant accountant, for project financial management including project budget preparation and implementation, accounting and reporting, and disbursement. Of the three, the senior position will be filled from UDA. The project budget will be formulated based on project workplan and the procurement plan in September each year in parallel with UDA's planning and budgeting system. The annual budget of the project will be sent to the Bank for review and comments before being submitted to the line ministry for approval. The implementation of annual budget will be reviewed quarterly and the revised budget, if any, will be sent to the Bank. UDA's accounting system, rules and procedures and internal control measures will be applied to the project accounting and reporting. The interim financial statements of the project will be submitted to the Bank quarterly. The internal audit unit of UDA has included the project in their annual plan and the internal audit report of the project will be submitted to the Bank for review as an input to the monitoring report. The Government auditor will audit the project accounts following Sri Lanka's Standards of Auditing. The auditor's report of the project will contain opinions on the project financial statements, the designated account, and the statement of expenditures, and a management letter on internal controls as well. The auditor's report will be submitted to the Bank within six months after the end of each fiscal year.

4. Project Assessment

A. Technical

37. The project will relocate families currently living in underserved settlements and reuse the land of the settlements not only for the building of new low-income housing, but also for commercial and public uses. To do so, the newly constructed housing units will have to be in multi-story developments with a high residential density and with great potential for improving access and basic urban services. Accordingly, the project has given higher priority to underserved settlements considering not only the deficiencies in infrastructure, but also the potential value of the land for these new uses. As far as possible, the relocation sites will be located close to the affected households' previous places of residence, so as to enable people to continue their current employment and/or business activities, maintain the social fabric, and improve their standards of living.

38. The planned housing complexes are high-rise buildings ranging from 10 to 15 floors, depending on design, and require pile driving. Each complex must comply with UDA requirements by implementing Sri Lankan and British standards throughout the project lifecycle, including survey, design, procurement, construction, testing and commissioning and close-out stage. The buildings will be equipped with lifts, disabled access and ground floor parking zones. Communication utilities – telephone and internet – have been reserved for future setting in each housing block. Each housing unit will consist of a living room, two bedrooms of different sizes, a kitchen and dining area, a toilet with separate bath space, and a balcony. All fixtures and fittings satisfy basic requirements but do not include luxury selections.

39. **Municipal Utilities.** Various institutions are responsible for the specific elements of urban infrastructure. Prior to the commencement of any development activity at the site, UDA has to coordinate with all concerned institutions to obtain a Preliminary Planning Clearance for planning feasibility along with the building regulations for each sub-project. The Clearance determines the number of the floors, plot coverage, and floor area ratio, as well as adequacy of access to municipal infrastructure and services, including transportation, electricity, water supply, sewage collection and treatment, solid waste management, flood discharge, etc. For example, the National Water Supply and Drainage Board will review the feasibility and availability of water supply based on the conceptual design of the new buildings, and will issue its clearance to confirm available capacity and service arrangements for them. Similarly, the Ceylon Electricity Board will define the parameters for electricity supply and issue its clearance; the local authorities will issue the clearance for solid waste management; and the drainage division of the local authorities will issue the clearance for sewage treatment capacity.

40. If there is a gap identified in the municipal utilities' capacity, the clearance will require UDA to include construction of the additional needed facilities in the housing construction project. For example, a gap was identified by the local authority in regard to sewage treatment capacity for the Obesekarapura Land sub-project under Component 1. This means the sub-project will have to include the construction of a small sewage treatment plant for 300 families. With regard to transportation, according to the Preliminary Planning Clearance, a statutorily approved Traffic Impact Assessment will review traffic capacity in relation to project development. As this housing is for low-income and lower-middle-income families, public transportation is proposed, as well as open parking space.

41. The sites under the proposed project are located within the administrative areas of CMC and Sri Jayawardenapura Kotte Municipal Council. The sites have access to the necessary urban infrastructure, including electricity, drinking water, drainage, sewerage and access roads. The only exception is the sewage treatment capacity for the Obesekarapura sub-project mentioned above, where the sewage treatment will be incorporated into the construction contract of the buildings. The cost of the connection from these newly constructed complexes to the services will be integrated into the proposed project to ensure that all basic services are available to the relocated households from the day they move into the new buildings. Since asset management will be vital for the continued maintenance of the housing complexes to prevent them becoming "vertical slums," a series of post-resettlement programs has been developed to ensure residents' participation and engagement in the management and maintenance of the complexes, and will be further strengthened and supported under

Component 3. The project will also help UDA to design and establish a system of Condominium Association or similar, which will eventually take over responsibility for the management and maintenance of the buildings.

42. The Bank has reviewed the technical specifications for one of the sub-projects under Component 1 and found it complies with Sri Lankan standards/specifications and British standards. The Bank's technical consultant made recommendations to enhance design and operations, most of which have been positively considered and adopted by UDA. These are expected to significantly improve the safety, energy efficiency and durability of the new buildings, and include:

- **Material.** It was recommended to use more energy-saving, safer, more convenient and more environmentally friendly material, such as safety glass instead of white glass, stainless steel for drinking water tanks instead of concrete finishes and washable paint, etc. Specifying the detailed description about the anti-corrosive and fireproof measure for metal components and steel structure for avoiding the structure risks.
- **Facilities.** It was recommended to increase the budgets for communications and air-conditioning; to reserve a reasonable margin for the required electricity use, beyond local specifications, with the expectation that demand will increase annually; to increase landscape requirements, including leisure areas and street lighting, to improve quality of life and convenience.
- **Operation and maintenance.** To mitigate the operational risks during the handover stage, it was recommended to improve and clarify the contractor's responsibility and scope of work in the tendering document, including the requirements for standby; submission of the "as installed" drawings, operation and maintenance manual, and maintenance agreements for engineer approval prior to client approval; to reserve facade cleaning costs; and to provide user training after completion of construction.

43. The completed housing units will be provided to eligible households in exchange for the housing they currently occupy. In addition, each household will be required to make a payment of LKR1.2 million (equivalent to nearly USD7,200) for a new housing unit. The installments will be paid over a period of up to 400 months (33 years and four months) without interest. The monthly installment of LKR3,000 is currently equivalent to just under USD18⁸. Under the existing system, once the householders have paid off the cost, they will be given title to the apartment. However, the project includes a review of the procedures for transfer of the title deeds that would allow beneficiaries to receive conditional deeds, subject to some kind of mortgage contract that could eventually even be taken over by the formal banking system. The responsibility and arrangements for the maintenance of common areas also have to be more clearly defined and are currently handled by UDA on a temporary basis. Under Component 3, these systems will be reviewed and defined, taking into account precedents, related laws, and interests of stakeholders.

⁸ The monthly installment is equivalent to around USD18 paid over a period of 30 years. The Sri Lanka: Household Income and Expenditure Survey 2012/13 shows that the average monthly household median income was LKR30,400 in 2012 (around USD250 per month at the exchange rate of 2012).

B. Economic and Financial

44. One of the major differences between the URP and previous public housing programs is the planned redevelopment of the land vacated by residents. The land thus made available will be used for commercial redevelopment as well as public purposes such as parks. This will improve land use efficiency in Colombo and defray much of the cost of providing improved housing for the residents of the underserved settlements. Once the housing complexes have been completed and residents relocated, some relatively large areas of land will be made available for redevelopment.

45. For cost-benefit evaluation, the key benefits are sale or lease of the land freed up for commercial purposes and values of the new housing built by the project. The costs are the old substandard housing to be replaced by the new housing and the investment of the project in new housing construction and land redevelopment. Another important cost element is the value of the vacant land that will be vacated as a result of the current URP Phase II resettlement program (including Land-1, Land-3, and Land-4) and transfer of land in the vicinity of the municipal slaughter house (Land-2). Given the lack of transaction data, the value of new housing built and the old substandard housing to be replaced are estimated in reference to similar housing units and valued at USD 60,000 and USD 23,000 respectively on average. The average value of the land freed up for commercial purposes is appraised at USD 4 million per acre on average. Comparison of these benefits and costs yield an EIRR of 35.9%, which shows that the proposed investments are economically viable. Sensitivity analysis has been carried out using different valuations of benefits and costs, which shows the minimum EIRR of 15.0% and indicates the physical and financial validity of the project. Additional benefits not included in the quantitative benefit-cost analysis described above include the value of the parks and playgrounds created in the new housing complexes, and the benefits of institutional and policy improvements to result from Component 3.

46. For cash-flow analysis, the beneficiaries' payment of LKR 1.2 million per new housing unit over 400 months without interest represents a small portion of the regular income. The sale or lease of the land freed up for commercial purposes is expected to yield about USD 377 million within 10 years, providing sufficient recovery of the project cost. After taking the time value into consideration, the IRR of the project financial cash flow is 10.3 percent, which confirms the financial viability of the project.

47. **Fiscal Sustainability.** Considering the high level of the country's public debt, the project design is focused on its cost recover capacity. Component 2 has been well designed and aims to maximize revenue through the sale or lease of the land made available after relocation of the underserved settlements, which will be the major resource to subsidize the construction cost of the new housings. Based on the cash-flow analysis above, it is proved that the fiscal cost of the project can be recovered by the revenue to be generated by the project itself. Implementation of the project will therefore not increase the government's fiscal burden in the term of entire project lifecycle.

C. Fiduciary and Governance

48. **Procurement.** The URP Division in UDA has qualified staff with the procurement, technical and managerial expertise required for the project. They have engineering and architectural knowledge and received training from the Bank during project preparation. The procurement capacity of UDA has been reviewed and is acceptable to the Bank. PMU has been well designed and the responsibilities of staff and the reporting and approval lines in the PMU will be clearly defined. The key procurement staff will be assigned from URP Division of UDA. The internal audit for procurement is scheduled to take place annually. The potential procurement risks with mitigation measures are addressed in the Project Delivery Strategy (as Annex 5 of PD). A procurement manual has been developed by the UDA and will be followed by staff to further strengthen procurement governance and sustainability. The Bank's Prohibited Practices Policy and Debarment requirements will be applied to the project procurement. The procurement risk is rated Medium.

49. Retroactive financing, up to a maximum of 20 percent of the loan amount (US\$40 million), may be used for procurement carried out after October 1, 2018 and 12-months before loan signing date, with the condition that the contracts would only be reimbursed if they followed Bank's procurement policies and the loan was actually approved.

50. **Financial Management (FM).** Since UDA under the MMWD will be the Implementing Agency for the proposed project, the project financial management assessment was carried out on UDA.

51. UDA has a sound financial management system, which includes planning and budgeting, accounting policies and procedures, internal controls, financial reporting and monitoring, and internal and external audits. Most of its financial staff is certified accountants but have no experience in implementing multilateral development bank (MDBs) projects. The annual workplan and financial budget are prepared by UDA, and then reviewed and approved by the line ministry. UDA follows international accounting standards and uses computerized accounting software for bookkeeping entries, analyzing transactions, and producing financial reports; internal controls are in place for the preparation and approval of transactions. The reports include information on the physical and financial progress of the activities, comparison of the budgeted and actual values, discussion of issues, and action plans. The internal audit unit is in place, functioning, and reports directly to the chairman of UDA. The government auditor will conduct the annual audit of financial statement of UDA in accordance with Sri Lanka Auditing Standards, which is consistent with the International Standards of Auditing.

52. UDA's financial management system will be used for the project. Some financial staff will be assigned to PMU and will be responsible for the project financial management. The annual project workplan and budget particularly the budget for the Bank loan will be prepared and approved by the line ministry. The computerized accounting system will be customized to have the capacity to record the receipts and payments of project funds and generate project financial statements; the internal audit unit will include the project in their annual plan, and the government auditor will audit the project account and provide opinions and a management letter. To clarify how the UDA's financial management system will be used for the project, a project financial management manual has been prepared and accepted by the Bank.

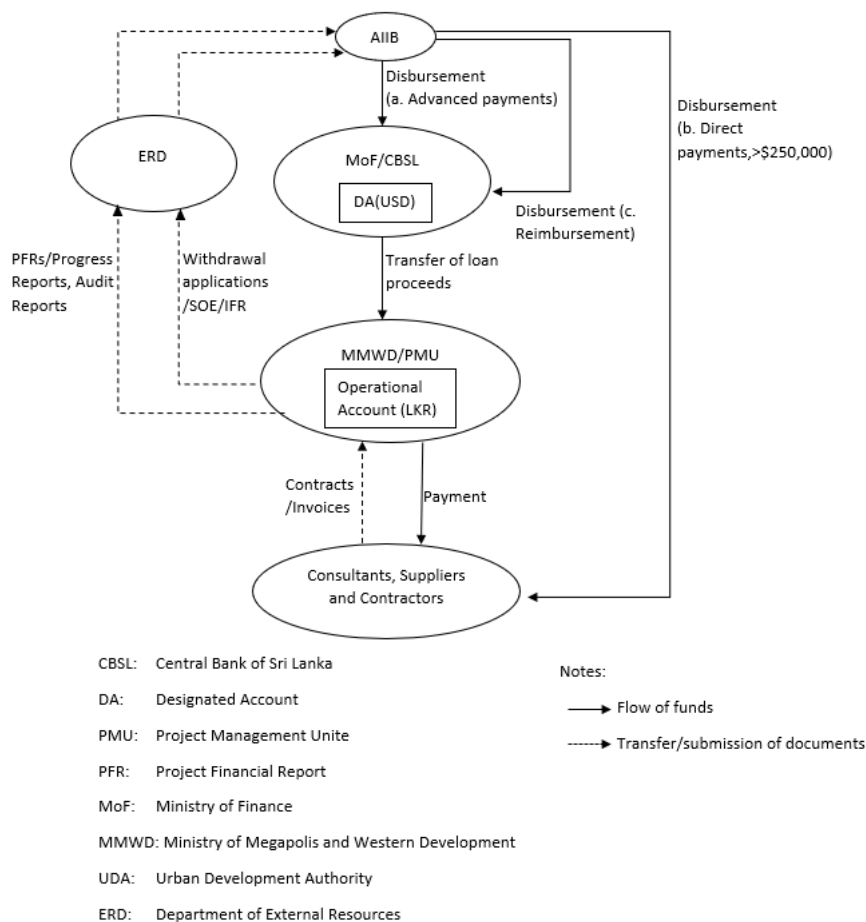
53. **Funds Flow and Disbursement.** The proceeds from the AIIB loan will be disbursed in accordance with the arrangements and instructions contained in the Disbursement Letter.

54. Disbursements under the loan will be made primarily using the Direct Payment method. Withdrawal applications under this method will be supported by adequate evidence of the eligible expenditures and will be disbursed directly from the loan account to the specified contractor or supplier. The payment will be made in either USD or the local currency. The Advance method will be used on satisfactory completion of the action plan agreed with borrower to improve its capacity and internal control. The action plan will be included in the Disbursement Letter. Under the Advance method, a US Dollar designated account will be maintained by the MoF with the Central Bank of Sri Lanka (CBSL) to receive advances from the loan account. The advances will be further transferred to an LKR operating account (sub-account) maintained by the PMU under the supervision of the MMWD with a commercial bank acceptable to the Bank for payments to contractors, suppliers and consultants. Required supporting documents for the use of Advance method will be included in the disbursement letter.

55. The Reimbursement method may be used under the project for other small eligible expenditures, which will be supported by a statement of expenditures subject to a ceiling specified in the disbursement letter. Supporting documents and records for these expenditures should be maintained and made readily available for review by the Bank.

56. MMWD and UDA through the PMU will be responsible for preparing the disbursement plan/schedule, requesting budgetary allocations for counterpart funds, collecting supporting documents, and submitting withdrawal applications. After review by MMWD of withdrawal applications, ERD will be responsible for approving and signing the withdrawal applications for submission to the Bank. The fund flow and disbursement are shown in Figure 3 below. There will be no funds transfer to UDA. UDA is mandated to implement the project. The MoF with the CBSL will manage the Designated Account (in USD), and the PMU under the supervision of the MMWD will manage the Operating account (in LKR) respectively. This is in accordance with the country systems and also acceptable to the Bank. The Bank will require submission by UDA of the following audited documents: (i) Auditor's opinion on the project financial statements; (ii) Project financial statements including a reconciliation of the statement of expenditures to the project financial statements; and (iii) Management letter.

Figure 3: Funds Flow and Disbursement



D. Environmental and Social

57. The Bank's Environmental and Social Policy (ESP), including the Environmental and Social Standards (ESSs), apply to the proposed project. As per the Bank's ESP, the project has been classified as Category A, due to the scale and complexity of the involuntary resettlement involved (5,500 households to be directly resettled by the project under Component 1). The environmental impacts and risks are typical of urban construction projects of this kind (large-scale housing schemes) as are the health and safety issues; however, the specific locations of the proposed sub-projects, the nature of the project activities and local environmental and social setting will need to be considered, including significant environmental impact associated with large-scale informal housing as well as the provision of sewerage, storm drainage and solid waste management in the areas to be vacated.

58. This is technically a programmatic project since some of the sub-projects in Components 1 and 2 have yet to be identified. In accordance with the Bank's ESP and national policy requirements, the Borrower and the Executing Agency have prepared a Resettlement Policy Framework (RPF) and an Environmental and Social Management Planning Framework (ESMPF) that set out the general principles for managing the social and environmental impacts, especially the resettlement and post-resettlement measures needed to ensure that the standards of living and livelihoods of the households that are relocated can be enhanced or, at the very least, restored. The RPF and ESMPF were disclosed in English, Sinhala and Tamil versions on the UDA and MMWD websites on October 2, 2018.

59. The RPF analyzes the legal and institutional context for involuntary resettlement and sets out the key criteria along with the entitlement matrix, which defines the options available for the different groups and categories of people affected by the project (e.g. people whose homes are affected, tenants, lessees, businesses that are affected, etc.). It also sets out the program of consultation and stakeholder engagement, resettlement procedures, grievance resolution mechanisms and the program for monitoring and evaluation of the resettlement program.

60. The Bank's team has conducted due diligence on the Government's ongoing program to understand the environmental and social implications for local residents and has incorporated additional measures into the RPF and ESMPF to improve the design and implementation of the proposed project. This will be further supported through the design and execution of improved measures for pre- and post-resettlement and environmental management under Component 3 of the project.

61. A Resettlement Action Plan (RAP) and Environmental and Social Management Plan (ESMP) will be prepared for each of the six sub-projects already identified for Component 1, and for the additional housing construction sub-projects to be financed under Component 1 that will be identified during project implementation. Moreover, two site-specific RAPs have been prepared for the families living at the Madampitya Road and Obesekrapura sites, which will have to be vacated before the construction of the housing schemes can be started at these sites. The RAPs for these two sites have been finalized and were disclosed on February 22, 2019. The RAPs and ESMPs for Components 1 will be prepared and will have to be reviewed and approved by the Bank and disclosed by the Bank and UDA during project implementation. The ESMPs must be approved by the Bank and disclosed before the construction contracts are signed.

62. The RAPs for the six sub-projects identified for Component 1 will cover six of the ten urban redevelopment blocks that have been identified under Component 2, since the families that are living at these sites will be resettled at the sites to be developed under Component 1. The other four urban redevelopment blocks should be vacant by the time the project starts. One of these sites (Land-2) is vacant and was never occupied. The other three sites (Land-1, Land-3 and Land-4) have been partially vacated and are awaiting completion of nearby housing schemes that have been developed under Phase II of the Urban Regeneration Program.

63. The UDA has documented the resettlement that was carried out to vacate the areas required for the five⁹ Component 1 sites where people were living, as well as the three Component 2 sites from which people are being or already have moved. This information has been completed and reviewed by the Bank during the appraisal.

64. The RAPs will focus on the site-specific issues related to each resettlement project, including any claims to land ownership (the six sites identified for Component 1 and then ten sites identified for Component 2 are on government-owned land), the demographic, social and

⁹ So far, no one has been moved from this Obesekrapura site under Component 1. This will be covered by one of the RAPs to be completed by the middle of November 2018.

economic profiles of the affected households and the “host” communities in the neighborhoods where they will be located, the results of the consultations with the affected households and host communities, along with the specific measures needed to facilitate the relocation and ensure the long-term sustainability of the housing schemes. It should be noted that most of the resettlement sites are located close to (less than a kilometer) and in some cases, are immediately adjacent to the areas they originally occupied.

65. The site-specific ESMPs will analyze the potential environmental and social risks and impacts related to the project activities (during and after construction), and will identify the measures needed to avoid, minimize, mitigate, or compensate for such impacts and to improve the environmental and social performance of the project. Based on the information available and experience, the environmental impacts of the sub-projects are mainly related to the planning and design stage, e.g., selection of appropriate and adequate project locations, and in the construction stage, e.g., dust and noise generated from construction activities and equipment, traffic interruptions for local roads and nearby residents and businesses, etc. These construction stage impacts are expected to be temporary, manageable through adequate mitigation measures, and not irreversible.

66. During preparation of the site-specific ESMPs, public consultations have been or will be carried out with identified stakeholders, in particular the project affected people, to seek their views, concerns and feedback, in order to improve the project design and provide the mitigation measures to minimize, and to reduce the risks and impacts in project implementation. In the ESMP for the Apple Watta site, for example, which was the first ESMP prepared under the guidance of the ESMPF, the public consultation was conducted according to national and Bank policy and requirements. The ESMP documented the comments and suggestions from the participants and they will be reflected in project implementation.

67. In the ESMPF, labor management, including worker influx management, working condition, health and safety requirement and standards, construction camp management, and management of worker and community relations were discussed and included, in line with the World Bank Group’s Environmental, Health and Safety Guidelines (EHSG). The ESMPF strictly prohibits child labor and forced labor, discrimination against gender and age. The Environmental and Social Exclusion List in AIIB’s ESP has been considered in ESMPF preparation.

68. The draft ESMPF and RPF in English and in national languages (Sinhala and Tamil) were disclosed in-country on October 2, 2018 on the UDA and MMWD websites: <http://www.uda.gov.lk/housing-projects.html> and https://www.megapolismin.gov.lk/web/index.php?option=com_content&view=article&id=404&Itemid=337&lang=en. These were also disclosed on the Bank’s website on October 12, 2018: <https://www.aiib.org/en/projects/proposed/2018/colombo-regeneration.html> .

69. The social risks and impacts associated with the proposed project are complex. They include the determination of land ownership in the areas to be acquired for the remaining sub-projects under Components 1 and 2. Although most of the areas that have been acquired by UDA were government-owned land, some people have title deeds to their houses and businesses, although these have not always been properly registered. In some areas, the housing was originally developed under National Housing Development Authority (NHDA)

schemes. This has been taken into account in the RPF, with the option of compensation for people whose houses and/or land is of a higher value than the LKR 7 million estimated construction cost of the new apartments.

70. Another key area is the need to ensure that people's livelihoods are not affected by the move to the new site. Although most people will be relocated close to the areas where they were previously living, the move could have a negative impact, on people whose income is derived from small businesses or whose livelihoods depend on informal networkers (street traders, etc.). The third, and perhaps most challenging issue is to help people adapt to life in high-rise apartment blocks and to ensure the long-term viability of the housing complexes and services. These issues will be addressed through the post-resettlement programs, which is currently being implemented by UDA. That will be further enhanced and supported under Component 3 of the project.

71. Another critical, transversal issue is the need to identify and engage with the affected households and other stakeholders, including people living in the vicinity of the new housing schemes, from the beginning of the project. This requires measures to establish relationships between the project and the project beneficiaries that are based on mutual understanding, respect and trust. This will be essential to facilitate the move, the vacation of the areas needed for urban redevelopment, and the development of management systems that can ensure the continued provision of public services and the long-term maintenance and affordability of the housing complexes. This process must ensure the participation of women, young people and people of different ethnic and socio-economic groups. In addition, a project-level Grievance Redress Mechanism (GRM) has been developed that will allow project-affected people to raise their concerns and resolve outstanding issues.

72. **Gender.** The project will take a proactive approach to gender, with the information and analysis of the social surveys for the RAPs being disaggregated by gender. One of the gender concerns raised by the project is the housing contract between the household and UDA, and the eventual provision of the deeds or titles to the apartments. The current practice is to have the head of household (usually the husband) sign the contract. In principle, this means that after paying off the installments, the deeds would be issued in the name of the head of household. The right to the apartment in cases of inheritance on the death of the head of household, separation or divorce, is presently determined by the decision of the courts. This is one of the issues that will be reviewed under Component 3 of the project (Sub-component 3.4: Review and Improvement of URP's policy on Housing Allocation, Transfer and Management).

73. The other major issue is to ensure the maintenance, affordability and security of the housing schemes. There is a risk that inadequate maintenance, poor service provision (especially solid waste management) and non-payment of installments and services charges could lead to a decline in living conditions, which would have a particularly negative impact on the lives of the women and children living in the apartment blocks. The UDA has a number of social programs focused on women and children, including education, cultural events and support for women's income-generating activities. This program will be strengthened under Component 3 (Sub-component 3.3: Assistance for Housing Project Beneficiaries).

74. Given the potential social and environmental risks associated with the project, it will be essential for the Bank to ensure that the project is subject to regular, close supervision by the Bank’s social and environmental safeguards specialists, particularly during the most critical phases of implementation. The most critical phases for social and environmental include the preparation and implementation of the first RAPs, needed to vacate two of the sites required for construction of the Component 1 housing schemes, and the preparation, implementation and post-resettlement programs for the housing schemes included in Component 1.

75. **Grievance Redress Mechanism (GRM).** A project-level Grievance Redress Mechanism (GRM) has been developed that will allow project-affected people to raise their concerns and resolve outstanding issues. The project includes a three-tier process for conflict resolution and management of grievances. The first tier will be at field level, where complaints can be lodged with the land or social officers appointed by the project. If a grievance is not resolved at this level it can be passed to a Grievance Redress Committee in the Ministry of Megapolis and Western Development. Complaints that cannot be resolved by the MMWD can be presented to an Independent Grievance Panel, chaired by the Additional Secretary (Urban Development) of the MMWD, and comprising representatives from the Ministry of Land and Land Development, the Ministry of Women’s Affairs, the Department of Valuation, an independent lawyer, a retired senior government officer and a representative from a recognized Civil Society Organization. From current experience, the most contentious issues are likely to relate to entitlements to additional apartments for multi-family households and/or entitlements to shop units in the housing schemes.

76. The Project-affected People’s Mechanism (PPM) has been established by AIB to provide an opportunity for an independent and impartial review of submissions from Project-affected people who believe they have been or are likely to be adversely affected by AIB’s failure to implement its Environmental and Social Policy in situations when their concerns cannot be addressed satisfactorily through Project-level Grievance Redress Mechanisms or AIB Management’s processes. For information on how to make submissions to the PPM, please visit <https://www.aib.org/en/policies-strategies/operational-policies/policy-on-the-project-affected-mechanism.html>

E. Risks and Mitigation Measures

77. The project has an overall “High” risk rating before mitigation. The risks and mitigation measures are listed in the table below.

Table 2: Risk Assessment and Mitigation Measures

1. Reputation Risks	Current Assessment: High
<p>Description: Lack of transparency of the criteria relating to the URP in Colombo and land purchasing more generally in Sri Lanka may result in a reputational risk to the Bank, if these issues are not well addressed and managed during project implementation.</p>	<p>Mitigation Measure: The Bank will work closely with the government to review systems and policies, identifying the issues and developing action plans if needed to improve them. The Bank team will monitor project implementation closely to ensure implementation of any action</p>

	plan as well as transparency of implementation of the proposed project.
2. Social and Environmental Risks	Current Assessment: High
<p>Description:</p> <p>2.1 The land acquisition procedures for government-owned land related to this project may not be consistent with the ESP which could lead to long delays or cost overrun.</p> <p>2.2 Relocation and involuntary resettlement of a significant number of people, especially if some are unwilling to move, is complex and may result in social dislocation and conflict, as well as delays in vacating the first sites that have been selected for the urban redevelopment program.</p> <p>2.3 The environmental risk was mainly anticipated in the construction inside of the city, e.g., dust and noise generated from construction activities and equipment, traffic interruptions for local roads and nearby residents and businesses, and labor management, etc. In addition, coordination among all relevant works/facilities, for instance, water supply, drainage, electricity supply and road network, is a challenge.</p>	<p>Mitigation Measure:</p> <p>2.1 The Bank's due diligence has not identified any major issues related to ownership of the sites selected for this project (6 sites for Component 1 and 10 sites for Component 2). This will be cross-checked during preparation of the site-specific RAPs and ESMPs. The as yet unidentified sites will be reviewed, and the RAPs and ESMPs will have to be approved by the Bank before any physical interventions can take place at these sites.</p> <p>2.2 (i) An RPF has been prepared. RAPs are under preparation for the first six sites where the resettlement housing will be constructed before any physical intervention can take place. The RPF has been reviewed by the Bank and discussed in detail during the appraisal mission. The Bank is working closely with the Government and encourage it to learn from good practices in similar programs elsewhere.</p> <p>2.2 (ii) The site-specific concerns identified during preparation are mainly related to claims to entitlements (large or extended families claiming additional apartments and/or shops). The current UDA policy is not very flexible in this respect and these issues are exacerbated by lack of capacity and poor communication between UDA and the affected households. This can best be addressed by strengthening the capacity of UDA and reviewing the methodology and procedures for pre- and post-resettlement. This will be addressed under Component 3.</p> <p>2.3 In ESMPF, general project design requirements and mitigation measures,</p>

	<p>including ES management requirements have been discussed. Under ESMPF guidance, preparation of site specific EMP will clearly indicate different phases of a subproject's physical activities. For each phase, it includes proposed mitigation measures against adverse environmental risks and impacts, institutional arrangement to deliver and manage them, implementation schedule, cost estimates, monitoring and reporting requirements. UDA will hire their own in-house environment specialist to manage and coordinate environmental matters with relevant stakeholders and facility/service providers.</p>
<p>3. Policy Risk</p>	<p>Current Assessment: Medium</p>
<p>Description:</p> <p>3.1 Undetermined rights and obligations of housing residents and undefined transfer procedures could result in the inadequate assets management and risk the physical sustainability of the housing scheme.</p> <p>3.2 Inadequate asset maintenance could result in poor housing and infrastructure service conditions.</p>	<p>Mitigation Measure:</p> <p>Component 3 of the project is designed to improve URP implementation, including selection of beneficiaries, eligibility criteria (especially in relation to multi-family households), pricing of housing, payment structure, definition of tenancy rights and obligations arrangements, maintenance, transfer of ownership, and condominium or other means of joint ownership and management. The RPF has incorporated a series of recommendations for post-resettlement programs, designed to ensure the long-term sustainability of the housing schemes.</p>
<p>4. Fiscal Risk</p>	<p>Current Assessment: Medium</p>
<p>Description:</p> <p>4.1 The GoSL has been progressing quickly with new housing construction, while land redevelopment has not kept the same pace. This creates a timing gap between income and outflows of the URP, resulting in the need for heavy subsidies from the Treasury.</p> <p>4.2 Downturn in the real estate market in Colombo could affect the financial return of the project.</p>	<p>Mitigating measures:</p> <p>4.1 Component 2 of the project is designed to accelerate land redevelopment progress by supporting the provision of planning, marketing and infrastructure to facilitate efficient redevelopment or reuse of the land made available by moving the residents to the newly constructed housing units.</p> <p>4.2 Sensitivity analysis has been carried out and proved the economic viability of</p>

	the project even in the extreme downside of real estate prices.
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5. Next Steps

78. The major milestone is projected as follows:

April 2019

Board Consideration

Annex 1: Project Results Framework

Project Objective: The project objective is to improve housing conditions of low-income communities and increase land use efficiency in Colombo through investments in the construction of affordable housing and redevelopment of land, with associated policy and system enhancements.

Indicator Name	Base-line	Cumulative Target Values						End Target	Frequency	Respon-sibility
		YR1	YR2	YR3	YR4	YR5	YR6			
Project Objective Indicators:										
1. Aggregated number of beneficiaries (households) that move from underserved settlements to newly constructed housing with improved utilities and facilities and under improved resettlement practice	0	0	0	0	2000	4000	5000	>5000	Yearly	UDA/PMU
2. New URP policies (with improvement on the housing allocation, transfer and management and acceptable to the Bank) adopted (Yes/No)	No	No	No	Yes	Yes	Yes	Yes	Yes	Yearly	UDA/PMU
3. % of value increase of the land made available for redevelopment under the project compared with the government's baseline price	N/A	N/A	N/A	>30%	>30%	>30%	>30%	>30%	Yearly	UDA/PMU
4. Updating the City Guidance Plan of Colombo (P=in Preperation, A=Adopted)	N/A	P	P	P	A	A	A	A	Yearly	UDA/PMU
Intermediate Results Indicators – measured during implementation support										

Indicator Name	Base-line	Cumulative Target Values						End Target	Frequency	Responsibility
		YR1	YR2	YR3	YR4	YR5	YR6			
1. Aggregated number of housing units constructed using the improved technical design and standards	0	0	0	2000	3500	4500	5500	5500	Yearly	UDA/PMU
2. Area of redeveloped land used for public and high-value uses (Acres)	0	10	20	35	55	75	92	>92	Yearly	UDA/PMU
3. Percentage of SWM grievances addressed.	0			50			80	80	Midterm & Completion	UDA/PMU

Annex 2: Project Description

1. Component 1: Housing Construction. The component will support the construction of about 5,500 housing units in multi-story apartment buildings in between seven and nine residential complexes (sub-projects) with provision of full infrastructure. The housing units will be provided mostly to current residents of selected “underserved settlements” in exchange for their existing housing. The settlements are those provided by GoSL between three and four decades ago for low-income households. They are characterized by poor roads and drainage, and dilapidated housing structures. A limited number of the new housing units will also be provided to residents now living in informal settlements in areas that have been designated for public use and/or are vulnerable to natural hazards. The selection of the communities to be resettled in the new apartments and the housing exchange will be carried out in accordance with the RPF.

2. There are six sub-projects that have been identified and almost ready for bidding under this component, which will provide 4,074 new housing units. The detailed information of the six already identified sub-projects are listed in the table below.

Table A2.1: Identified Sub-Projects

No	Name of Land	No of Housing Units	Area (Acres)	Land Ownership	Families Requiring Relocation
1	Apple Watta Land	700	4.0	State Land, but action has been taken to vest to UDA	None
2	Colombage MW,	624	2.0	UDA	None
3	Ferguson Rd Land	750	3.0	UDA	None
4	Stadiumgama Land	1000	4.0	UDA	None
5	Obesekarapura (Arunodaya Mw Land) land	300	1.4	State Land, but action has been taken to vest to UDA	38 families
6	Madmapitiya Rd Land	700	3.0	UDA	50 families
	Total:	4,074			88 families

3. Approximately 1,200-1,400 additional units under URP are to be supported by Component 1 and will be identified within the first year of the project implementation. The selection will be based on, among others, condition of existing infrastructure and housing, residents’ willingness to resettle, and the potential value of the land to be exchanged and used for public purposes and redevelopment. Additional sub-projects will be reviewed by the Bank and will require the Bank’s prior approval.

4. Component 2: Land Redevelopment. This component will support the redevelopment of the land which will become available after the households in underserved communities move into new apartment units constructed under the URP.

Component 2 will include provision for planning, basic infrastructure, and marketing (in the case of commercial redevelopment) to facilitate efficient redevelopment or reuse of the land.

5. Currently, 10 blocks of total area of about 92 acres have been identified and are expected to become available for redevelopment, of which 55 acres from Component 1 and the remaining 37 acres from the already completed or ongoing housing construction under URP previous phases. Six acres will be dedicated to public use, such as parks, and 86 acres to commercial redevelopment. Detailed information of the 10 blocks for redevelopment is presented in table below. When additional settlements for Component 1 are identified, there will be additional land released for land redevelopment, the area of which is expected to be 30-40 acres in total, to be added for Component 2 upon prior approval from the Bank.

Table A2.2: Ten Redevelopment Blocks

No	Block Name ¹⁰	Location	Area (Acres)	Release Date	Land Ownership
1	Land-1	Blomendhal	4	2018-11	State
2	Land-2	Dematgoda	5.5	2019-02	State
3	Land-3	Mahawatta	22	2019-06	State /State Agency
4	Land-4	Maligawatta	6	2018-12	UDA
5	Land-5	Kirrilapone	7	2022-10	UDA
6	Land-6	Mahawatta	7	2022-04	State
7	Land-7	Blomendhal	12	2022-4	State
8	Land-8	Blomendhal	7	2022-05	State
9	Land-9	Mattakkuliya	15	2022-05	State /State Agency
10	Land-10	Maligawatta	7	2021-11	State
	Total		92		

7. Procedures for Sale or Redevelopment of Land: UDA will adopt one of the following three approaches to disposing of the released land:

¹⁰ These ten blocks have been tentatively identified and will be subject to further adjustment during the implementation. Given the component 2 aims to commercial development purpose and majority of them will be commenced in the third year of project implementation, the GoSL deemed that the current preliminary plan is immature for disclosure. Therefore, the code name for each block under component 2 are used.

- A. Auction the land block on an as-is basis to the highest bidder, after specifying basic land use parameters such as restricted uses, height restrictions, minimum internal infrastructure standards;
- B. Prepare a plan, subdivide the land block, improve or add off-site and on-site trunk infrastructure as needed, and auction off the subdivided plots; and
- C. Let a private partner improve, subdivide, and sell the land on a profit-sharing arrangement (as pilot approach).

8. Approach A will apply to land blocks smaller than two acres. The second and third approaches will each be applied in two of the first four cases. Their performance will be evaluated in terms of net revenues relative to the land values in the neighboring areas, and the result will be used in modifying and selecting the procedures to be applied to land made available later.

9. Proposed Procedure for Approach B:

- i. Feasibility study, with assistance from real estate and planning expert consultants, to identify land use options, subdivision, infrastructure and other improvements required for each of the options, select the best options, determine which improvements to be undertaken by UDA, establish development parameters and a marketing plan;
- ii. Design the improvement works;
- iii. Implement the improvement works; and
- iv. Market the subdivisions and plots.

10. Proposed Procedures for Approach C:

- i. UDA will establish a few minimum necessary guidelines such as prohibited usage for the block, minimum required infrastructure or other public facilities;
- ii. UDA will select a private partner (PP) who will plan, design, and implement the subdivision and site improvements, and sell the plots. UDA will finance 80 percent of the improvement works and the PP will pay the remainder of the cost as well as the full costs of design and marketing;
- iii. The revenues from the land sales will be allocated first to the site clearance and improvement works expenditures incurred by UDA, and a certain minimum amount pledged to UDA at the time of bidding. Revenues beyond these will be applied to the share of the site improvement costs borne by the PP. The remainder will be shared between UDA and PP according to shares determined at the time of bidding;
- iv. Either the minimum amount to be received by UDA or the share for UDA will be specified at the time of bid invitation and the other will become the selection criterion.
- v. In order to allow revenue and cost matching in case the plot sales take considerable time, the improvement costs will be apportioned to each plot;
- vi. The contract will be of limited duration – approximately 3-4 years. If plots remain unsold at the end of the stipulated time, the PP will be paid its share of the improvement expenditures and the plots will revert to UDA;

- vii. Detailed specification of this method and necessary model contract will be prepared with the help of consultants. This method may be modified or discontinued for later blocks, based on its performance.

11. Component 3: Technical Support and Project Management. This component will support the following sub-components and their activities:

- Sub-component 3.1: Project Management Support:
 - a) Land, social and economic surveys
 - b) Consultancy service to support PMU in the preparation, implementation and monitoring of environmental and social (including preparation of Resettlement Action Plans), legal, procurement, FM and others necessary aspects
 - c) IT services support
 - d) Project monitoring and evaluation.

- Sub-component 3.2: Capacity Building for UDA:
 - a) Updating of the City Guide Plan for Metro Colombo
 - b) Consultancy for advice to UDA on, and overall enhancement of, metropolitan management and planning, urban redevelopment, social and environmental safeguards, and monitoring of urban and regional development
 - c) Training of younger staff in urban planning, social and environmental safeguards, project planning and management, through on-site and oversea trainings.

- Sub-component 3.3: Assistance for Housing Project Beneficiaries:
 - a) Resettlement assistance along with environmental, social and security awareness training; beneficiary capacity development, such as skill enhancement training programs; and training and assistance in formation and operation of condominium associations.

- Sub-component 3.4: Review and Improvement of URP's Policy on Housing Allocation, Transfer and Management:
 - a) Review and revision of current URP housing allocation system regarding the selection of beneficiaries, pricing of housing, payment structure, definition of property rights and obligations, arrangements for transfer of titles
 - b) Formulation of condominium or other means of joint ownership and management
 - c) Revision of housing transfer contracts.

- Sub-component 3.5: Review and Improvement of Policies and Programs for Urban Housing:
 - a) Assess and projected demand for urban housing and market supply, especially in Colombo urban area
 - b) Assess past and current public programs for housing in terms of their efficiency, equity and financial sustainability

- c) Identify options for the improvement of public policies and programs to enhance the efficiency, equity, and sustainability of housing markets and programs, including financing and regulation of the housing market, targeting of government programs, and institutional arrangements. These reviews and recommendations would also base on international experience and broad consultation of relevant public and private stakeholders. This component will be guided by an inter-departmental steering committee, including representatives of National Planning Department, Ministry of Finance, National Housing Development Authority, UDA, and CMC.
- Sub-component 3.6: PMU Overhead Cost for Project Supervision and Management.
 - a) Salaries of the PMU
 - b) Space, equipment and software for the PMU office and operating costs
 - c) Supervision consultancy, operating costs and other relating costs according to government's regulation and procedures
 - d) Subsidies for operation and maintenance activities.

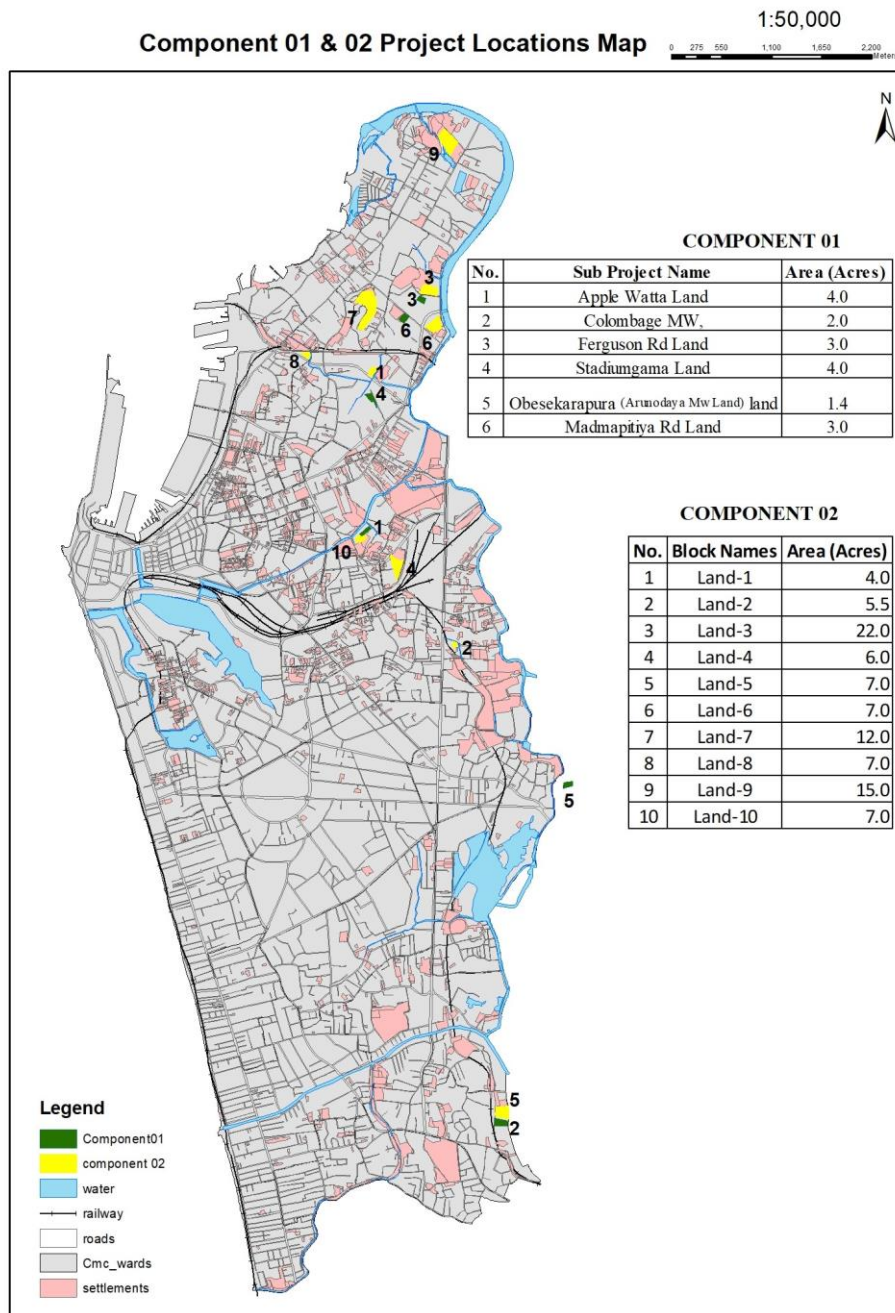
13. The project cost estimation and financing plan are summarized in the table below.

Table A2.3: Cost Estimate and Financing Plan

Component	Project Cost	AIB	GOSL	PP
Component 1: Housing Construction				
1.1. Design and Construction of new Housing Units with full infrastructure in selected residential complexes (sub-projects)	180.00	153.00	27.00	0.00
Component 1 Subtotal	180.00	153.00	27.00	0.00
Component 2: Land Redevelopment				
2.1. Provision for planning, design, supervision, and marketing to facilitate efficient redevelopment or reuse of the selected land blocks. It also includes the consultancy service to develop the pilot model for land redevelopment.	5.00	5.00	0.00	0.00
2.2. Infrastructure construction	35.00	30.00	5.00	0.00
2.3. Infrastructure construction and other expenditures provided by PP	5.00	0.00	0.00	5.00
Component 2 Subtotal	45.00	35.00	5.00	5.00
Component 3: Technical Support and Project Management				
3.1. Project management support	2.00	2.00	0.00	
3.2. Capacity building for UDA	1.50	1.50	0.00	
3.3 Assistance for Housing Project Beneficiaries	1.60	1.60	0.00	
3.4 Review and revision of URP's policy in housing allocation and tenure system	0.30	0.30	0.00	
3.5 Review and Improvement of the national policies and programs for low- and middle-income housing	0.60	0.60	0.00	
<i>Sub-total for 3.1, 3.2, 3.3, 3.4 and 3.5</i>	<i>6.00</i>	<i>6.00</i>	<i>0.00</i>	
3.6 PMU Overhead cost for Project Supervision and Management, including the supervision consultancy, subsidies for O&M, and other related costs according to government's regulation and procedures.	10.00	0.00	10.00	
Component 3 Subtotal	16.00	6.00	10.00	0.00
NET PROJECT COST (Excluding taxes and duties)	241.00	194.00	42.00	5.00

Taxes and duties	40.00		40.00	
Capitalized Front-end Fees (indictive)	0.50	0.50		
Capitalized Commitment Fees (indictive)	0.50	0.50		
Capitalized Interests during the implementation period (indictive)	5.00	5.00		
TOTAL PROJECT COST / FINANCING REQUIRED	287.00	200.00	82.00	5.00

14. Project Map.

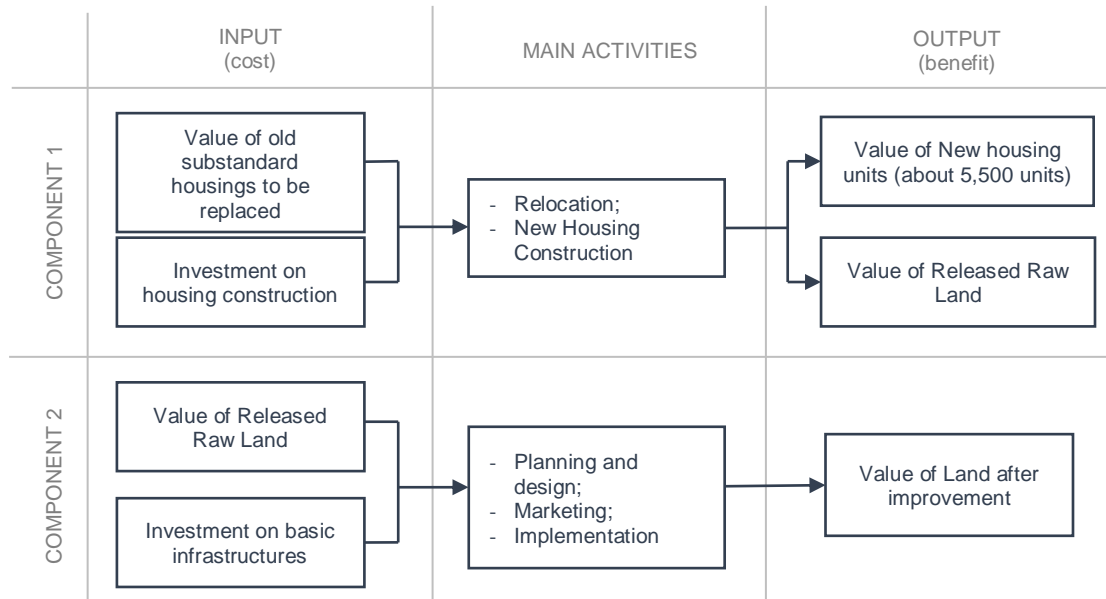


Annex 3: Economic and Financial Analysis

1. Successful implementation of the proposed project is expected to provide housing and better infrastructure and living conditions to the inhabitants of the underserved settlements. The project will also improve the land use efficiency in the city through the commercial development of the released land and mobilization of private developers and funds. Colombo's residents will get a cleaner city with better infrastructure and more commercial and recreational space. Land values will rise with the city's improved environment, infrastructure and land planning. The government will capture the value of city development through lease/sale of the released the stated-owned prime land. The revenue will help to subsidize the cost of the new housing construction and enhance the sustainable of the URP.

2. **Method and Assumptions.** A cost-benefit analysis has been carried out. The project team identified and quantified the benefits and costs to the extent possible. The analysis focused on evaluation of the cost-benefit of the activities under Components 1 and 2. The investment under these two components amounts to USD266 million (including Tax), accounting for more than 93 percent of the total project cost. The inputs and outputs for Component 1 and 2 are shown in Figure A3.1 below.

Figure A3.1: Flow of Economic Activities



The analysis focused on the valuation of the key assets, such as:

- Value of old substandard housing to be replaced
- Value of the new housing units to be constructed
- Value of the released Raw Land after relocation of people to the new buildings
- Value of the Land after redevelopment and ready for selling/leasing

3. Given the lack of transaction data, the housing values are estimated in reference to similar housing units in the vicinity communities. The land valuation¹¹ are estimated based on the record of previous transactions and taking into account the potential value increase based on the preliminary subdivision plan and infrastructure improvement. The value estimates and assumptions for the six sub-projects Component 1 is as below.

Table A3.1: Component 1 – Sub-Project and Released Lands – Areas and Values

No.	Sub-project Lands	Substandard housing		New Housing		Raw Land Released	
		Numbers	Unit Value (\$)	Numbers	Unit Value (\$)	Areas	Unit Value (\$ million)
1	Apple Watta Land	552	23,730	700	57,759	7	3.50
2	Colombage MW,	0	-	624	52,665	7	1.14
3	Ferguson Rd Land	255	19,848	750	61,413	19	1.23
4	Stadiumgama Land	340	29,022	1000	61,298	7	1.50
5	Obesekarapura (Arunodaya Mw Land)	33	18,633	300	65,386	0	-
6	Madmapitiya Rd Land	243	12,290	700	61,478	15	1.50
	Sub-total:			4074		55	

4. Component 2 will convert the “Raw Land” to the “Land ready for selling”, after proper planning, design and provision of the basic infrastructure. The analysis estimated both the value of the land before and after the improvement/investments. The valuation of these lands is as below.

Table A3.2: Redevelopment Blocks – Areas and Values

No.	Name	Area (acre)	Unit Value of Raw Land (\$ million)	Unit Value of Land after redevelopment (\$ million)
1	Land-1	4	5.99	7.58
2	Land-2	5.5	3.98	4.21
3	Land-3	22	2.37	2.85
4	Land-4	7	3.50	4.30
5	Land-5	6	5.87	7.17
6	Land-6	7	1.14	2.85
7	Land-7	7	1.50	2.85
8	Land-8	12	1.07	2.85
9	Land-9	7	1.50	2.85
10	Land-10	15	1.50	2.85

5. *Other Assumption.* The benefits and costs are monetized at base year price levels, and all values estimated are net of inflation duties, and taxes. The analysis assumes that the market prices of goods and wages do not vary much from their economic value. Therefore, there is no adjustment or conversion in market prices for shadow prices. Other key assumptions include:

- Construction cost for new housing unit: USD 40,000 per unit
- Period of Asset Value analysis: Six years
- Discount rate: 10 percent

¹¹ The valuation was carried out by UDA Land Valuation Department and is in line with the results of the project team’s consultations with local private developers during the due diligence.

- Taxes and Duties: 18 percent
- USD to LKR Exchange Rate: 168.6

6. **Benefits and Costs Identified.** The benefits and costs for Components 1 and 2 were analyzed separately. Component 1 will construct about 5,500 housing units in multi-story apartment buildings with provision of full infrastructure. The housing units will be provided to current residents of selected underserved communities in exchange for their existing housing. After relocation of these underserved communities, the land they are currently living on will be released. **The benefits of Component 1 include:** (i) value of new housing constructed; and (ii) value of the released raw land. **The costs of this component include:** (a) value of the old substandard houses to be replaced; and (b) construction costs and associated service costs for the new buildings.

7. Component 2 will support the preliminary development of the lands which will become available after the households in underserved communities move into new apartment units constructed under the URP. The **benefit of Component 2** is the value of the land after improvement, which will be the market value to be realized through land selling/leasing out. The **costs of this component include:** (i) investment to the preliminary infrastructure; and (ii) value of the raw land of these identified blocks, which serve as inputs of this component.

8. **Cost-Benefit Analysis Result.** Based on the valuation of these identified assets (lands and buildings), the analysis model has been established in Excel and the result of the cost-benefit analysis is shown in Table A3.3 below.

Table A3.3: Asset Value Analysis

Units: USD million

Year #	Year End	Inputs-Comp 1	Inputs-Comp 2	Total Inputs Value	Outputs-Comp 1	Outputs-Comp 2	Total Outputs Value	Net Asset Value
1	31-Dec-19	71.9	138.8	210.7	0.0	0.0	0.0	(210.7)
2	31-Dec-20	71.5	10.6	82.1	0.0	0.0	0.0	(82.1)
3	31-Dec-21	70.1	7.1	77.2	261.2	96.4	357.6	280.4
4	31-Dec-22	34.2	62.9	97.1	180.6	62.5	243.1	146.0
5	31-Dec-23	9.3	43.3	52.6	108.8	0.0	108.8	56.1
6	31-Dec-24	0.0	9.3	9.3	0.0	218.3	218.3	209.0
Total		257	272	529	551	377	928	399

EIRR	35.9%
Discount rate	10.0%
ENPV	224

9. **Sensitivity Analysis.** The two most sensitive influence factors are the new housing construction cost and the expected land value after preliminary development. This analysis tested two extreme scenarios: (i) 30 percent increase in new housing construction costs, and (ii) 30 percent decrease in land value after preliminary development. In these scenarios, the investment would still provide the minimum EIRR of 15 percent, which is higher than the expected return of 10 percent.

10. **Cash-flow Analysis.** In terms of the cash-flow analysis, the project team focused on the cost recovery of the project. The analysis selected the costs and benefits from above analysis that will cause real project expenditure or generate real project revenue. The cost-benefit analysis has been carried out over a 10 years horizon. The cash expenditures include: (i) construction costs and associated service costs under Component 1; and (ii) investment to the preliminary infrastructure under Component 2. The cash revenues include: (a) revenue from selling/leasing the land after preliminary development completed under Component 2, and (b) The beneficiaries' payment for LKR1.2 million each, divided in monthly installments over 400 months without interest. The rough revenue envisaged from selling/leasing the already identified redevelopment blocks under Component 2 is around USD317 million without considering the time value, which is sufficient to cover the cost of the entire project financially. After calculation, the result of the cash-flow analysis is shown in Table A3.4 below. The IRR of is around 10.3 percent, which shows that considering the time value factors, the fiscal cost of the project can be recovered by the revenue to be generated by the project itself.

Table A3.4: Cash-flow Analysis

Units: USD million

Year #	Year end	Cash Expenditures	Cash Revenues	Net Cash Flow
1	31-Dec-19	47.3	0.0	(47.3)
2	31-Dec-20	71.3	0.0	(71.3)
3	31-Dec-21	77.2	19.9	(57.3)
4	31-Dec-22	41.2	32.9	(8.2)
5	31-Dec-23	19.6	32.9	13.3
6	31-Dec-24	9.3	76.6	67.3
7	31-Dec-25	0.0	76.6	76.6
8	31-Dec-26	0.0	57.3	57.3
9	31-Dec-27	0.0	44.8	44.8
10	31-Dec-28	0.0	55.4	55.4
	Total	266	397	131

IRR (FCF)	10.3%
Discount rate	10.0%
NPV	2

11. **Conclusions.** Based on the assumptions and estimations above and economic modelling formulated, the EIRR is around 35.9 percent, which shows that the proposed investments are viable. Sensitivity analysis has been carried out and proves that the investments are robust. The cash-flow analysis proves that the project cost can be recovered by through the revenue to be generated.

Annex 4: Sovereign Credit Fact Sheet

A. Recent Economic Developments

Sri Lanka is a lower middle-income country. The Sri Lankan economy grew at an annual average of 6.4 percent over 2010-2015, reflecting a peace dividend and a determined policy thrust towards reconstruction and growth. However, economic growth moderated to 3.1 percent in 2017, the lowest in 16 years, from 4.5 percent in 2016, due to a contraction in agriculture from large-scale floods and lingering effects of a drought. Inflation increased to 6.6 percent in 2017 from 4 percent in 2016, driven by spikes in food inflation caused by domestic supply shortages following the floods and drought. The current account deficit widened to 2.6 percent of GDP in 2017 from 2.2 percent in 2016, driven by weather-related imports of food and fuel.

The IMF approved a 3-year Extended Fund Facility (EFF) program agreement in June 2016 to support Sri Lanka's economic reform. The EFF has six aspects, including fiscal consolidation, revenue mobilization, public financial management reform, state enterprise reform, transition to flexible inflation targeting under a flexible exchange rate regime, and reforms in the trade and investment regime.

B. Economic Indicators

Table A4.1: Selected Macroeconomic Economic Indicators (2015-2020)

Economic Indicators	2015	2016	2017	2018*	2019*	2020*
National income and prices (change %)						
Real GDP	5.0	4.5	3.1	4.0	4.5	4.7
Inflation (average)	2.2	4.0	6.6	4.8	4.8	4.9
Central government operations (% of GDP)						
Central government balance	-7.0	-5.4	-5.5	-4.6	-3.6	-3.5
External debt (% of GDP)	56.4	57.4	59.3	58.9	58.5	56.7
Gross external financing need (% of GDP)	15.3	15.5	14.7	12.7	13.6	12.8
Nominal gross public debt (% of GDP)	82.2	84.7	84.6	83.7	81.8	79.5
Public gross financing needs (% of GDP)	21.1	17.5	18.1	18.6	15.9	15.2
Money and credit						
Broad money (% change, end of year)	17.8	18.4	16.7	14.0	13.7	13.3
Gross reserves (months of imports)	3.7	2.8	3.6	3.9	3.9	3.9
Current account balance (% of GDP)	-2.4	-2.2	-2.6	-2.5	-2.5	-2.4
Exchange rate (LKR/USD, end period)	131.1	144.1	153.4	--	--	--

Note: *denotes projected figures.

Source: IMF Country Report No. 18/175, June 2018.

C. Economic Outlook and Risks

Looking ahead, the Sri Lanka economy is expected to recover in the near term as the agricultural sector recovers from weather-related shocks. Growth is projected to increase to 4.0 percent in 2018 and 5 percent over the medium term, driven by robust service growth and recovery in agriculture. Inflation is projected to decline to below 5 percent as agricultural production increases and food prices stabilize. Nevertheless, the Sri Lankan economy remains highly vulnerable given its high level of public debt, large financing needs and weak external position. Its public debt reached 84.6 percent

of GDP in 2017 and external debt stood at 59.3 percent of GDP. A reversal of the sizeable portfolio inflows could raise domestic borrowing costs and slow the buildup of foreign reserves. The external downside risks are tighter global financial liquidity conditions and a further slowdown in China. Internal risks include new weather-related disruptions and uncertainty in the run-up to the presidential and parliamentary elections scheduled for late 2019 and 2020.

On the debt look, the IMF indicates a high risk to debt sustainability in Sri Lanka. Under the EFF program, the envisaged fiscal consolidation is projected to reduce the ratio of public debt to GDP to 72.5 percent in 2023, which still exceeds the benchmark of 70 percent of GDP. IMF's stress tests show a high risk arising from a delay in fiscal consolidation and materialization of contingent liabilities. The external debt is projected to decrease to around 53 percent of GDP in 2023 but remains vulnerable to exchange rate depreciation. Nevertheless, risks to external debt sustainability are mitigated by long maturities and Sri Lanka's access to international financial markets.¹²

¹² International Monetary Fund (IMF), 2018. Country Report No. 18/175– 2018 Article IV Consultation and Fourth Review Under the Extended Arrangement Under the Extended Fund Facility—Press Release; Staff Report; and Statement by the Executive Director for Sri Lanka, June 2018.

Annex 5: Project Delivery Strategy

A. Strategic Assessment

1. The proposed project will support the implementation continuation of URP Phase-III; while conducting significant improvements, including: improvement of technical design, resettlement policy, housing maintenance arrangements, innovation in redevelopment modus, and review of longer-term sustainability of public intervention in housing. The Project Delivery Strategy will set the procurement approach that aims to better fit the main procurement principles of Value for Money (VfM) and Fit for Purposes (FfP), it covers:

- **Component 1:** Design build contracts for construction of building complexes consisting of 5,500 housing units. The civil works procurement process has been developed to comply with AIIB's policy and Instructions.
- **Component 2:** Procurement will contribute for physical infrastructure (works, goods, services and consultant) to efficiently support the redevelopment of the land vacated land; including provisional planning, construction of basic infrastructures and capacity building for marketing and commercializing to reuse of the land. The planning and design for these lands will be administered by GOSL and UDA, as AIIB loan would finance the basic infrastructure constructions. The detailed procurement plan for this component will be worked out for AIIB review after planning and design process.
- **Component 3:** Technical support and project management will include consultancy and training to (i) improve policy frameworks in housing sector; and (ii) build capacity in UDA. The consulting services and small goods and non-consulting services procurement would be carried out in line with AIIB's procurement regulation. Training activities will be organized by PMU or its consultants.

2. The key objective of the proposed Project is to improve housing conditions of low-income communities and increase the land use efficiency in Colombo through investments in the construction of affordable housing and redevelopment of land, along with the associated enhancement of systems and policies. The estimated value of procurement activities under the project is around USD 280 of which be jointly-financed by AIIB (about USD 200 million) and GOSL (about USD 80 million).

3. The proposed outcomes of project components are:

- **Component 1:** constructions of about 5,500 housing units in multi-story apartment buildings in several residential complexes (sub-projects) with provision of full infrastructure including water supply and sewage, electricity, solid waste management and access to the transports, and other improvements deemed necessary to improve the low-income residents' living condition in Colombo.
- **Component 2:** provisions for planning, basic infrastructure, and marketing (in the case of commercial redevelopment) to facilitate efficient redevelopment and reuse of the land. Procurement activities under this component will support (i) design and constructions for public use such as parks, roads and other basic infrastructures; and (ii) the commercialized innovation in redevelopment

approach in land/area. The component is aiming to support diversification in UDA's business model for land redevelopment.

- **Component 3:** Policy and capacity development. Procurement will support project management and other quality enhancement measures to improve URP implementation. It will mainly finance (i) project management support; (ii) capacity building for UDA; (iii) post-resettlement assistance for housing project beneficiaries, including training and specific programs for women and young people (iv) review and improvement of URP's housing policies; (v) review and improvement of the national policies, etc.
4. Details of the current procurement arrangements: Procurement will be conducted in accordance with the requirements of the AIIB's policies for both 'Procurement and Prohibited Practices', and 'Directive: Procurement Instructions for Recipients'. The major procurement activities under the project are including:
- a. Works procurement would be housing constructions and basic infrastructures such as roads and buildings to facilitate efficient redevelopment or reuse of the land made available by moving the residents to the newly constructed housing units;
 - b. Goods and non-consulting services needed by project would be: office and computer equipment and commercialized software to support PMU's operational and managerial capacity; training organizers and the service for the purpose of public awareness on the national policies and programs for low- and middle-income housing. AIIB's procurement regulation for Goods and Non-consulting services will be applicable; and
 - c. Consulting services to improve the engineering design and advisories of the construction supervision and housing maintenance, as well as to support project implementation, etc.
5. **Project Management Unit (PMU).** Urban Development Authority is assigned by the Ministry of Mega Polis and Western Development (MMWD) to be responsible for the project implementation. PMU established by MMWD and UDA is in place to manage the implementation of project from its inception to its conclusion. The PMU will carry out the project implementation including procurement, and will be responsible for communication between the AIIB, implementation team, beneficiaries and other relevant parties.
6. **Procurement Thresholds and Methods.** The project will procure works, goods and consultants in accordance with the AIIB's procurement requirements. IOCT; NOCT; Request for Quotations (RFQ) will be applied for works and goods procurement; QCBS, QBS, FBS and CQS will be followed to procure consulting firms; Individual consultants needed by the project will be selected among at least 3 candidates' CVs. The thresholds for procurement methods are (i) IOCT: >US\$ 10 million for works; >US\$1 million for goods; and >US\$0.5 million for Consultants. More detailed procurement requirements are given in the procurement manual which will complete by negotiation. The detailed information for each individual contract will be indicated in the procurement plan.
7. **Standard Procurement Documents (SPD).** Format of SPD issued for World Bank projects and FIDIC conditions of contract (design build contract) will be used for the project procurement where applicable with modifications and some improvements

for meeting the AIIB's requirements. All requirements of Environmental and Social safeguards will be well addressed in tender document. The AIIB's procurement requirements such as Conflict of interest, standstill period, notification of intention of award contract, and prohibited practices policy and debarment list will be reflected in the tender document.

8. **Contract Management.** Contract management will be strengthened through closed monitoring and supervision after contract signing. The PMU administrates and monitors contracts and their implementation with due diligence; and report to the AIIB on the performance of contractors. PMU will perform contract management as per the conditions stipulated in the contract document. PMU will strengthen its manpower by outsourcing the supervision and design review of structural and services (M&E works).

9. **Primary line communication.** The Ministry of Mega Polis and Western Development/UDA is the primary contracting agency: the principle decision line will be the Ministry of Finance and Commerce. Arrangement for fund disbursements will be undertaken by the External Resource department.

10. The capacity of the PMU to implement the procurement has been assessed. The PMU has adequately resourced with professional staffs that have suitable experience of procurement under government financed projects/programs and have been well-trained by the AIIB team during the project preparation. Its capacity will be further strengthened to better meet AIIB's requirements for the proposed project through hiring of qualified and appropriate procurement consultants.

B. Timelines

11. Procurement process timelines as scheduled in Table 1 (Procurement Plan).

C. Assessment of Operational Factors Affecting Procurement

12. Operational factors affecting procurement are as follows:

a) Governance aspects:

- To strengthen governance, a Procurement Manual is being prepared, and will be finalized before loan effectiveness. In the manual, responsibilities and management roles at each levels of the PMU are clearly identified and procurement procedures are properly indicated. The Bank's Prohibited Practices policy will be strictly followed by the project.
- Issues relating to the confidentiality of the tender evaluation, allegations of fraud and corruption and delays in the procurement process may occur. The PMU will apply mitigation measures based on the lessons learnt from projects financed by government.
- Social safeguards issues may cause procurement/construction delay if the PMU can't resolve the issues timely. The environmental and social frameworks and action plan will strictly followed to help to resolve the problem.

b) Sustainability requirements: Sustainability principles shall be considered in any procurement, e.g. design should be better fit for the low-income people's

requirement, establishing of a good building maintenance system, attention on energy efficiency and environmentally friendly housing, etc.

- c) Technological aspects: PMU has experiences in assuming similar capacity when implementing government-funded projects. However, due to the anticipated expertise-gap, PMU will need additional experienced qualified individual consultants to enhance the knowledge towards the international standards. Most of infrastructure facilities and related technologies, required to conduct the proposed developments, are already available within the local agencies. However, it would be expected that the domestic construction industry will improve its capacity and adopt new technologies to compete at the international standards.

D. Supply Market Analysis

13. Based on previous experiences, the competition for similar constructions among local contractors was satisfactory as they are available with the capability to undertake the required type of design, supply and installation contract. By introducing IOCT, qualified international contractors are welcomed to join and heighten the competition level; from which the implementation and the low-income beneficiaries will benefit more from this practice. In addition, local contractors will be able to compete with international contractors and encourage them further enhance their skills and knowledge. Due to the project needs, NCT will also be also available in the project implementation and will be also open to the international contractors. NCT procedures and requirements are stipulated in the Procurement Guidelines 2006, Goods & Works by National Procurement Agency (www.npa.gov.lk) which are consistent with the MDBs procurement principle and transparency standards.

14. According to the PMU's experience, construction materials and work force needed by contractor are mostly available within the country. The level of competition among suppliers is therefore high. PMU has a good understanding of the supply market and the unit price in the market.

E. Key Stakeholders

15. The key stakeholders and their main roles are as follows
- UDA/PMU – Implementing agency to carry out all procurement
 - Ministry of Megapolis & Western Development – responsible for overseeing project implementation.
 - ERD, Ministry of finance and commerce – the responsible authority for arranging loan facility including authorizing disbursements under the loan.
 - AIIB: Responsible for loan disbursement and carrying out the fiduciary oversight of procurement activities under the project. Primary line of communication will be with UDA.
 - Contractors/Suppliers: Responsible for contractual delivery.

F. Recommended Procurement Approach

16. Recommended procurement approaches are:
- All Large contracts (>US\$ 10 million) to be procured under the project will be tendered in accordance with the IOCT required by AIIB. QCBS will be followed

for consultant procurement for large contract (>US\$500,000). Direct contracting will be applied for very specific and justified circumstances.

- NCT and RfQ will also be used for works and goods procurement; QBS, FBS and CQS as well Individual consultant will be followed for small contracts procurement. Direct Selection is applicable specific and justified circumstances.
- Procurement Plan (refer to section H). The initial procurement plan has been prepared in line with the project practical needs and will be updated annually to (a) reflect project implementation; (b) accommodate changes that should be made; and (c) add new packages as needed for the project. Applicable procurement methods for each specific contract are specified in the procurement plan depending on the nature, value and risk of each contract. Procurement plan and its updating or modification will be subject to the AIIB's prior review and no-objection. Details for the procurement arrangements are provided in the Procurement Manual.
- PMU will conduct procurement progress review and construction quality check. The summarized reports which cover all findings and issues will be sent to AIIB for review. PMU will recommend the rectification measures to resolve the issues and improve the quality of procurement and constructions.
- PMU will manage the contract payments based on the condition of contracts in order to avoid payment delay.
- The proposed tendering and contracting strategy is considered to fulfill the value for money objective for the project. The proposed procurement approach is therefore considered to be fit for the purpose.

G. Risk and Mitigation Measures

17. Key risks that may lead to delays in project implementation and/or non-compliance, if not properly mitigated, include: (i) gaps in knowledge and experience of PMU new staff with IOCT process; (ii) lengthy internal procurement reviewing and approval processes under PMU and the relevant ministries; (iii) limited capability in contract management; and (iv) potential delays in implementation of the RAP.

18. To mitigate these risks and strengthen the procurement capacity of PMU, the following measures will be undertaken:

- PMU will strengthen its capacity to operate the procurement procedures in fair, transparent and efficient manner that will enable successful delivery of the project and its social objectives;
- The tender evaluation will be conducted in a suitable separate location from the office of the PMU to ensure minimal interruption and leakage of information;
- The tender evaluation will be conducted by a qualified team in which procurement specialist will closely work with technical expert;
- The first IOCT or NCT housing construction contract and the first goods contract as well as QCBS for consulting services contract will be subject for the Bank prior review. The tender documents and the tender evaluation reports under above mentioned contracts will be subject for AIIB's prior review. And the tender documents for following housing construction contracts will follow the first tender documents without major change;
- If needed, qualified procurement and technical consultants will be hired to assist the PMU;
- Periodical progress monitoring, site inspection and supervision, monthly progress meeting, and record keeping are the tools UDA/PMU is currently

engaging. This will be further strengthen introducing a database for procurement management.

- AIB's Prohibited Practices Policy will be strictly followed to minimize the risk of corrupt and fraud practices; with the provision and application of appropriate and transparent mechanisms within procurement procedures. The AIB's debarment list will be observed to ensure better governance.
- The implementation of the RAP will be closely monitored; and
- International market approach and two-envelope system (no prequalification) will be applied to meet Value for Money.

H. Procurement Plan

19. Procurement plan indicating the contract description; procurement method, cost estimate, review procedure, tender invitation targeted dates is given in **table 1**.

Table 1. Procurement Plan for the initial 12 months of project implementation

Date : 2018-10-03

Revision No : 1

S.No.	Contract No.	Contract Name	Unit	Quantity	Estimated Value (US \$ Mn)	Fund Source	Method	Review by Bank	Tender Invitation (MM/YY)	Contract Awarding (MM/YY)	Contract Period (Days)
	-	Component - 1 (Housing Construction)									
		Works									
1	SCURP/2019/C1-W/001	Design & Construction of Housing Units at Applewatta	Nos	700	28.00	AIBB / GOSL	IOCT	Prior	Oct-18	Apr-19	1086
2	SCURP/2019/C1-W/002	Design & Construction of Housing Units at Colombage Mawatha	Nos	624	24.96	AIBB / GOSL	IOCT	Post	Nov-18	May-19	1080
3	SCURP/2019/C1-W/003	Design & Construction of Housing Units at Ferguson Road	Nos	750	30.00	AIBB / GOSL	IOCT	Post	Dec-18	Jun-19	1080
4	SCURP/2019/C1-W/004	Design & Construction of Housing Units at Stadiumgama	Nos	1000	40.00	AIBB / GOSL	IOCT	Post	Dec-18	Jun-19	1260

5	SCURP/2019/ C1-W/005	Design & Construction of Housing Units at Obesekarapura	Nos	300	12.00	AIBB / GOSL	IOCT	Post	Dec-18	May-19	900
6	SCURP/2019/ C1-W/006	Design & Construction of Housing Units at Madampitiya	Nos	700	28.00	AIBB / GOSL	IOCT	Post	Nov-18	May-19	1080
	Sub-total			4074	162.96						
		Component - 2 (Land Developments)									
		Works									
1	SCURP/2019/ C2-W/001	Land and infrastructure development works for Land-1 (PPP model)	acres	4	1.69	AIBB / GOSL	NCT	Prior	Jul-19	Dec-19	730
2	SCURP/2019/ C2-W/002	Land and infrastructure development works in Land-2	acres	5.5	1.05	AIBB / GOSL	NCT	Post	Jul-19	Dec-19	240
		Services									
3	SCURP/2019/ C2-S/001	Consultancy Service for Land Development of Land-1	acres	4	0.05	AIBB / GOSL	CQS	Prior	Jul-19	Dec-19	365

4	SCURP/2019/ C2-S/002	Consultancy Service for Land Development of Land-2	acres	5.5	0.04	AIIB / GOSL	CQS	Post	Jul-19	Dec-19	240
5	SCURP/2019/ C2-S/003	Consultancy service for the development of rules and procedures for joint land redevelopment by UDA and a private partner	Item	1	0.05	AIIB / GOSL	CQS/IC	Post	Mar-19	Sep-19	180
	Sub-total				2.88						
		Component - 3 (Technical Support and Project Management)									
		Services									
1	SCURP/2019/ C3-S/001	Project Management Support									
		Carrying out Survey (Non- consulting Services)									
	SCURP/2019 /C3- S/001(i)+(ii)	i. Socio Economic surveys (for component 2): such as census surveys, inventory of loses etc.	Item	1	0.12	AIIB / GOSL	RfQ	Post	Mar-19	Jun-19	900
		ii. Land survey - micro level as well as macro level									

		Consultancy services.									
	SCURP/2019 /C3-S/001(iii)	iii. PMU support	Item	1	0.15	AIIB / GOSL	CQS/IC	Post	Jan-19	Mar-19	1730
	SCURP/2019 /C3-S/001(iv)	iv. Consultancy for E & S	Item	1	0.10	AIIB / GOSL	CQS	Post	Jan-19	Mar-19	1730
	SCURP/2019 /C3-S/001(v)	v. Consultancy for improvement of national policy	Item	1	1.00	AIIB / GOSL	QCBS	Prior	Jan-19	Mar-19	650
	SCURP/2019 /C3-S/001(vi)	vi. Review and improvement of URP's policy (first phase)	Item	1	0.40	AIIB / GOSL	CQS	Post	Jan-19	Mar-19	200
	SCURP/2019 /C3-S/001(vii)	vii. Training Organizer	Item	1	0.20	AIIB / GOSL	CQS	Post	Jan-19	Mar-19	1730
	SCURP/2019 /C3-S/001(viii)	viii. Consultancy Service for Design Review & Construction Supervision of Housing Units for all Projects in Component - 1	Item	1	0.86	GOSL	QCBS	Prior	Nov-18	Feb-19	1080
	Sub-total				2.83						
	TOTAL				165.84						

Annex 6: Project Implementation Support and Supervision Plan

1. This Project Implementation Support and Supervision Plan has been developed in view of the complex nature of the Project. The supervision plan aims to enhance project supervision quality, while mitigating the identified risks and effectively responding to issues and challenges. As a Category A stand-alone project financed by the Bank with complex environmental and social aspects, a well-developed supervision plan is critical. Adequate resources should be allocated to support the project implementation and ensure compliance with AIB policies and effective use of guidelines. A two-tier supervision system is envisaged as below.

Implementation Support:

2. The Bank will carry out implementation support missions which will include review of procurement activities under the Project; the client's implementation planning, including preparation of designs and bid documents, preparation and updating of procurement plans, ensuring adequate budgetary provisions for project activities, monitoring of the necessary Government approvals for project activities and environmental and social clearances, and monitoring.

3. Implementation Support will include review of the technical design of the Project. At the technical level, the Bank will assemble the appropriate technical skills mix and experience to support implementation, including engaging local and international consultants as necessary for specific issues. Special attention will be given to proactively supporting implementation of the environmental and social management and monitoring plans for the Project.

4. The subcomponent 3.1 (Project Monitoring and Evaluation) will support overall project implementation including environmental and social compliance monitoring. This subcomponent is to support (i) hiring an environmental and social consultant to assist in implementation of the environmental and social management and monitoring plans, especially the initial 2-3 years of implementation; and (ii) engaging a consulting firm to conduct **technical review/audit** on at least biennial basis, which will encompass: technical review, procurement and financial review, environmental and social review, verification and comparison of physical and financial progress and other specific assignments required by the Bank. This is to be funded by the loan and is over and above the scheduled supervision missions by the Bank.

Bank Supervision:

5. Regular Bank's supervision during the implementation period will be conducted through the project implementation support and supervision missions, as well as the regular reporting and communications with client. The regular Supervision Mission will be carried out on a biannual basis throughout the project implementation period starting from six months after loan effectiveness. These missions will be prepared, conducted and concluded with active participation from the UDA as the project implementing agency and other concerned institutions, such as ERD, MMWD and other stakeholders as needed.

6. Initial Project Supervision. An initial supervision mission will be carried out at the beginning of the project with all project stakeholders including the relevant Government entities to ensure that there is a common understanding of the project, its implementation and the roles and responsibilities of each party in its implementation. This initial mission will seek to discuss with stakeholders, issues such as the project scope and its components, applicable fiduciary issues including procurement and

financial management requirements; environmental and social management and monitoring plans; and the project level grievance redress mechanism.

7. Comprehensive Project Review. At some point during its implementation, the Bank will conduct a comprehensive review to assess whether the project is likely to meet its objectives. This mission will go beyond the usual supervision and may involve adjustments to its implementation modalities or scope if necessary to ensure that project activities are still relevant to meet project objectives. At least one comprehensive review will be conducted in the mid-term of the project implementation, the others will be carried out based on the real needs of the supervision.

8. Regular Supervision Missions. The main objectives of the missions will include: (i) reviewing the overall progress of the project implementation, including procurement, physical and financial/disbursement progresses; (ii) reviewing project accomplishment/result indicators and discussing upcoming work plan; (iii) reviewing the compliance of Bank’s policy and frameworks, particularly in environmental and social management and procurement aspects; and (iv) if any, identifying and resolving specific issues and provide support to the project implementation. For this, a team will be assembled and comprises of key experts required to meet the abovementioned goals. The regular Supervision Mission will be headed by the Project Team Leader (PTL) and composed with necessary specialists. A proposed team composition and supervision mission timeline is presented in Table 6.1 below.

Table 6.1 Team composition Supervision Missions

Year/Mission	2019		2020		2021		2022		2023		2024		2025
	1	2	1	2	1	2	1	2	1	2	1	2	1
Project Team Leader	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Housing Specialist	✓				✓								✓
Architecture Specialist	✓		✓										✓
Social Development Specialist	✓	✓	✓	✓	✓	✓	✓		✓		✓		✓
Environmental Specialist	✓	✓	✓	✓	✓		✓		✓		✓		✓
Procurement Specialist	✓		✓		✓		✓		✓		✓		✓
Financial Management Specialist	✓		✓		✓		✓		✓		✓		✓

9. Environmental and Social Review Missions. Given the complexity of the project and the phased nature of the implementation process, especially in environmental and social aspects, in the first three years, at least one additional mission per year for environmental and social review and monitoring will be carried out. Environmental and social specialist/s will join the mission and PTL and other specialist will support them through audio/video conferences and/or other forms of communication. The Project Team will consider hiring a local social development consultant to support this monitoring work.

10. Implementation Completion Mission. An Implementation Completion Mission will be carried out around the loan closing date, currently planned on the first semester of 2025. This mission will include all experts involved during the project delivery, to ensure a holistic evaluation of the project. UDA will prepare the Project Completion Report prior to the mission and finalize it not later than six months after loan closing date. Based on this report and the key findings of the completion mission, the project team will prepare AIIB Completion Report. The report will provide a comprehensive and systematic account of the performance and results of each components; and

capture key lessons-learned to be disseminated for further enhancement of Bank's and client's operations.