

Executive Summary

The restructuring of the Support to Colombo Urban Regeneration Project (SCURP) is necessitated by the devastating Cyclone Ditwah of late November 2025, which caused extensive damage to housing and infrastructure across Sri Lanka. The restructuring of SCURP is intended to be the first step of AIB's support for the post-cyclone reconstruction, to be followed by other measures such as a new reconstruction project.

The following changes to SCURP were approved on May 20, 2026: (i) update of the Project Objective (PO) to reflect the addition of emergency housing reconstruction support; (ii) creation of a new emergency housing component to support urgent post-cyclone housing reconstruction; (iii) the reallocation of undisbursed loan proceeds to finance the emergency housing component; and (iv) revision of the Results Framework to include intermediate results indicators specific to the emergency housing component.

The emergency housing component will support housing reconstruction and provide relevant technical assistance, with an allocation of USD10.1 million, focusing on housing reconstruction in the two majorly affected districts through the owner-driven housing reconstruction (ODHR) approach. A total of USD10.1 million will be allocated to the new emergency housing reconstruction component, including USD5.0 million from the savings of the health component (Component 4) and USD5.1 million from the undisbursed funds of the original Component 1.

Project No. and Name	P000081 Support to Colombo Urban Regeneration Project		
AIIB Member	Sri Lanka		
Borrower	Democratic Socialist Republic of Sri Lanka		
Guarantor	Not Applicable		
Project Implementation Entity	Urban Development Authority (UDA), Sri Lanka Ministry of Health (MoH), Sri Lanka Ministry of Defense (MoD), Sri Lanka		
AIIB financing (USDm)	USD200.00	Instrument type/subtype	Loan/Direct Sovereign
		Currency of financing requested	US Dollar
Sector (Subsector)	Urban (Housing)	E&S Category and Comments (if any)	A
Project Objective	The new Project Objective (PO) is to improve the housing conditions of low-income communities and to increase land use efficiency in Colombo through investments in affordable housing, with associated policy and system enhancements and to enhance the capacity of Sri Lanka to respond to urgent medical and housing reconstruction needs.		
Project Description	<p>The original Project, approved on April 4, 2019, was to support the implementation of the government's Urban Regeneration Program Phase-III, but with significant improvements in technical design, resettlement and post-resettlement policy, housing maintenance arrangements, and review of longer-term sustainability of public intervention in housing. The Loan Agreement was signed on April 25, 2019.</p> <p>Following the economic crisis, the first material change to the Project was approved by the Board on June 29, 2022, introducing an emergency health component to help mitigate the impacts. This component has financed urgent health sector needs, including the procurement of critical medicines and other essential medical supplies.</p> <p>In late November 2025, Cyclone Ditwah caused widespread damage across several districts in Sri Lanka, resulting in extensive destruction of housing and infrastructure. In response, the Government of Sri Lanka (GoSL) requested AIIB to allow the use of undisbursed funds under the Project to provide emergency support. The current Project changes, approved on May 20, 2026, involve: (i) update of the PO to reflect the addition of emergency housing reconstruction support; (ii) creation of a new emergency housing component to support urgent post-cyclone housing reconstruction in severely affected districts through an owner-driven housing reconstruction (ODHR) approach, where cash grants are provided to affected households in tranches based on physical progress; (iii) the reallocation of USD10.1 million from undisbursed loan proceeds to finance the emergency housing reconstruction component; and (iv) revision of the Results Framework to include intermediate results indicators specific to the emergency</p>		

	housing reconstruction component.
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Implementation Period	Start Date: July 22, 2019 End Date: December 31, 2027	Expected Loan Closing Date	December 31, 2027
Co-financing type	Standalone	Following other Financier's E&S Policy?	No
Lead financier	N/A	Following other Financier's Procurement Policy?	No
Financing Plan	AIB: USD200 million; Government of Sri Lanka: USD17.27 million		
Policy Assurance	The Project has passed a policy compliance review. No derogation or exception to the Bank's operational policies is required.		

Risk	
Key Risks	Mitigation Measures
Technical and FM-related risks	Mitigation measures include: (i) Preparation and dissemination of Project Operations Manual (POM); (ii) adequate technical supervision; and (iii) third-party audits. Particularly, POM sets out the core technical support arrangements, grant administration procedures, fiduciary controls, roles and responsibilities of various players, and overall implementation arrangements.
ECap	44.80USDm 22.40%

Strategic Alignment	
Alignment with AIB's thematic priorities	Green infrastructure
Alignment with AIB's strategies	Sustainable Cities Strategy

Key Outcomes			
New Indicators	Unit of measure	Baseline (Year)	Target (Year)
The number of houses completed under the owner-driven reconstruction and certified	Number	N/A	500 (2027)
The number of beneficiary households that received cash grants under the project	Number	N/A	500 (2027)

The number of officials trained on post-disaster housing reconstruction procedures, and guidelines (disaggregated by gender)	Number	N/A	100 (2027)
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Other Key Financing Requirements	
Conditions of Effectiveness	N/A
Key Conditions for 1st Disbursement	N/A
Key Covenants for the Project Change	N/A

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Project Team Leader	Toshiaki Keicho
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**ASIAN INFRASTRUCTURE
INVESTMENT BANK**

June 3, 2026

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

P000081 The Democratic Socialist Republic of Sri Lanka

Support to Colombo Urban Regeneration Project

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1. Introduction

1. This Project Change Document (PCD) seeks approval of the proposed restructuring to the Support to Colombo Urban Regeneration Project (SCURP, or “the Project”)¹ in Sri Lanka. The proposed restructuring is necessitated by the devastating Cyclone Ditwah, which hit many areas of Sri Lanka in late November 2025, causing extensive damages to housing and infrastructure. The restructuring of SCURP is intended to be the first step of AIIB’s support for the post-cyclone reconstruction, to be followed by other measures such as a new reconstruction project. The following changes to SCURP are proposed: (i) update to the Project Objective (PO); (ii) creation of a new emergency housing component to finance urgent expenditure needs of the housing sector; (iii) reallocation of certain undisbursed amounts to the emergency housing component; and (iv) update to the results framework.

2. Background

2. Cyclone Ditwah passed over the east of Sri Lanka between Nov. 27 and 29, 2025 before moving into the Bay of Bengal. Sustained winds of 65 km/h were recorded, and rainfall was intense, causing devastating flooding. According to the World Bank’s Global Rapid Post-Disaster Damage Estimation (GRADE), total damage was estimated at USD4.1 billion, equivalent to approximately 4% of Sri Lanka’s 2024 gross domestic product (GDP), with residential damage amounting to USD985 million (24% of the total estimated damage).² Central mountainous areas such as Kandy and Nuwara Eliya, as well as northwestern areas including Puttalam and Kurunegala, were among the most severely-impacted districts.

3. 6,000 houses were fully destroyed, and 110,000 houses were partially damaged. As of January 2026, The Government of Sri Lanka (GoSL) estimated around 20,000 houses will need to be rebuilt, of which 10,000 will require in-situ reconstruction while the remaining 10,000 will need to be built in new locations as the original building sites are vulnerable to future climate risks. The precise extent of housing reconstruction will be updated as the investigation to assess damage is still underway. Other ongoing analyses such as a Post-Disaster Needs Assessment will shed light on more comprehensive reconstruction demands in coming months.

4. GoSL undertook several relief measures to cope with the impact of the disaster, including the provision of a cash grant for households that lost homes. GoSL is providing cash grants for each household which is willing to reconstruct its house through an Owner-Driven Housing Reconstruction (ODHR) approach. Sri Lanka has a history of successful post-disaster housing reconstruction through the ODHR approach (see Annex 3), which includes the World Bank-supported Tsunami Emergency Housing Reconstruction Project³ and the North East Housing Reconstruction Program in 2005-2010.⁴

5. Sri Lanka is currently emerging from a deep socioeconomic crisis. Adverse shocks during 2017-2022 significantly worsened the macroeconomic situation, raising public debt above 100% of GDP and depleting foreign exchange (FX) reserves. These events resulted in

¹<https://www.aiib.org/en/projects/details/2019/approved/Sri-Lanka-Support-to-Colombo-Urban-Regeneration-Project.html>

² World Bank; Global Facility for Disaster Reduction and Recovery (GFDRR). 2025. Global Rapid Post-Disaster Damage Estimation (GRADE) Report: Cyclone Ditwah 2025 – Sri Lanka. World Bank, Washington, DC.

³ <https://documents1.worldbank.org/curated/en/447811468101986174/pdf/ICR11050P09420101Official0Use0Only1.pdf>

⁴ <https://documents1.worldbank.org/curated/en/672131468763807868/pdf/304360LK.pdf>

the GoSL suspending the servicing of external debt on Apr. 12, 2022, for the first time since independence in 1948. Notwithstanding the suspension, the preferred creditor status of multi-lateral banks has been honored. AIIB has an exposure of USD460 million, of which USD 219.2 million has been disbursed.⁵ Further, these loans have been classified as Stage 2 for the Expected Credit Loss (ECL) on life-cycle basis following the rating downgrade of Sri Lanka in 2021.⁶

6. In December 2025, GoSL requested AIIB to repurpose its existing loan for SCURP, to permit undrawn amounts to be used for emergency reconstruction of housing units. Since the project is related to housing construction with sub-projects involving resettlement, it is expected that the existing Environmental and Social (E&S) frameworks can be effectively utilized for urgent housing reconstruction needs with some minor modifications.

3. Support to the Colombo Urban Regeneration Project - Project History

7. **The original project design of SCURP.** On Apr. 4, 2019, the AIIB Board approved a loan of USD200 million for SCURP. AIIB and Sri Lanka signed the Loan Agreement on Apr. 25, 2019. Consequently, the Loan Agreement became effective on Jul. 22, 2019. The Project Objective originally was *“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 loan closing date was Dec. 31, 2025. The E&S category of the Project is Category A. The three components originally were:

- Component 1: Housing Construction. Supports the construction of about 5,500 affordable housing units for underserved communities in multi-story apartment buildings.
- Component 2: Land Redevelopment. Maximizes the revenue from the land that will become available after the households from the underserved communities move into the new apartment units constructed under the project or other government’s program.
- Component 3: Technical Support and Project Management. Supports project management and other measures to improve implementation of the government’s Urban Regeneration Program (URP).

8. **Past restructuring and amendments.** Subsequently, four changes were processed to address multiple external shocks including:

- On Jun. 29, 2022, the Board approved the restructuring of the Project to amend the Project Objective to enhance Sri Lanka’s capacity to respond to urgent medical needs, reallocate USD70 million for purchasing essential medicines and other medical supplies during the economic crisis, reduce the scope of the original activities and add an emergency health component.

⁵ AIIB’s exposure comprises multiple sovereign-backed operations, including the SCRUP, Reduction of Landslide Vulnerability by Mitigation Measures (RLVMM) Project, and COVID-19 Emergency and Crisis Response Facility.

⁶ Stage 2 under the ECL framework indicates a significant increase in credit risk since origination, requiring lifetime provisioning, while the exposure remains performing and the borrower continues to service its obligations.

- On Dec. 30, 2022, May 4, and Jun. 19, 2023, to address the difficulties in allocating domestic funding during the economic situation, GoSL requested AIB to provide 100% financing for Project activities, except those expenses financed domestically such as: i) Project Management Unit's (PMU) operational cost; ii) construction supervision by the State Engineering Corporation (SEC); and iii) taxes.⁷
- On May 1, 2024, AIB approved a further restructuring of the Project, with a two-step approach. The first step was to reallocate USD28 million from the emergency health component back to the original Project scope and change of financing percentage, and the second step is rescoping of activities and an extension of the closing date.
- On Sept. 17, 2025, AIB approved further changes to the Project including: (i) rescoping of Project activities and reallocation of funds between categories to finance critical infrastructure to sustain the benefits of apartment housing; (ii) extending the closing date to Dec. 31, 2027; and (iii) updating the result monitoring framework.

9. **The current design of SCURP.** As a result of the changes described above, the current 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, and to enhance the capacity of Sri Lanka to respond to the urgent medical needs. The current closing date is Dec. 31, 2027, and the E&S category remains A. The Project currently has the following four components:

- Component 1: Housing Construction. Supports the construction of about 4,074 affordable housing units for underserved communities in multi-story apartment buildings. Provision of infrastructure development including sewer connection, pump station and other facilities to sustain the newly built apartments.
- Component 2: Land Redevelopment. Maximizes the revenue from the land that will become available after the households from the underserved communities move into the new apartment units constructed under the project or other government's program.
- Component 3: Technical Support and Project Management. Supports project management and other measures to improve implementation of URP.
- Component 4: Emergency Health. Supports the urgent expenditure needs of the health sector, including critical medicines, other medical supplies and equipment.

10. **Project implementation status.** Since approval, the Project has faced various challenges including 2019 Sri Lanka Easter bombings, 2019 presidential election, termination of the initially appointed Project Director, 2020 parliamentary election, and 2022 economic crisis and COVID-19 pandemic. The challenges have negatively affected implementation. As of April 2026, the cumulative disbursement under the original components was USD141.8 million, representing 70.9% of the USD200 million. Detailed implementation status of each component is as follows:

⁷ Originally, civil works under the Project were to be financed jointly by AIB (85%) and GoSL (15%).

11. Component 1: During the first project launch mission (Jul. 1-5, 2019), it was agreed that Component 1 would be implemented over a few overlapping phases to allow lessons learned in the first phase to be incorporated in later phases. All contracts for the four sites of the first phase were awarded in 2020 with a total contract value of USD79.36 million. The second phase sites contracts were awarded in 2021 with a total contract value of USD42.47 million. In total, out of the allocated USD180 million under Component 1, USD122.83 million (of which AIIB was originally to finance 85%) for 4,074 housing units have been committed. With two out of six housing complexes completed, construction is currently underway at different paces.

12. In view that some funding has been reallocated from the emergency health component back to the original Project scope, the Project is now positioned to provide a set of critical infrastructure to sustain apartment housing and strategically enhance the livability of neighborhoods. This additional infrastructure, including access roads, public spaces, landscapes, canal embankments, flood retention pond and community centers, have been added to the Project as part of the recently completed restructuring, and funds have been allocated accordingly.

13. Component 2: The original scope of this component included consultancy service for facilitating land redevelopment in Colombo, and land and infrastructure development works. This component was significantly scaled down due to the economic crisis of 2022 as reallocation to the emergency health component was needed. Accordingly, the consultancy service for facilitating land redevelopment in Colombo was dropped from the Project considering Urban Development Authority's (UDA) intention to conduct this study through its internal resources. The Bank has agreed that the Project will finance the basic land and infrastructure development works which will mainly include basic improvements for liberated vacant land such as cleaning debris, defining the boundary and constructing fences to mitigate disturbances and potential hazardous impacts to the surrounding neighborhoods. All other planned civil works in this component have been dropped.

14. Component 3: This component supports various technical assistance and project management activities. The consultants for the socio-economic survey, Resettlement Action Plan (RAP), community mobilization, capacity improvement and livelihood development have been mobilized to support critical resettlement activities. Socio-economic surveys for communities to be resettled to new apartment buildings are being conducted, as well as the RAPs for them. The consultancy for reviewing and improvement of urban regeneration program's policies on housing allocation, transfer and management was awarded to a consulting firm in November 2021. The consultancy is completed with reports finalized. One of the deliverables for this consultancy, the revised URP policies, is being reviewed by the Ministry of Transport, Highway & Urban Development (MoTHUD). Some amendments are needed to ensure the URP policies are in line with the updated housing allocation arrangement. Once available, finalized amendments will be documented and shared in a timely manner for AIIB's information.

15. **Component 4:** Component 4 was added in June 2022 to finance urgent expenditure needs of the health sector, including life-saving medicines, critical medical supplies and equipment. The purchased medical equipment at health service facilities is managed according to established health, safety, and environmental procedures to address and mitigate any potential adverse impacts associated with their use. Regular inspection and certification are conducted as part of these protocols to ensure compliance and maintain safety standards within the facilities. Out of the current allocation, most of the funds were disbursed or committed by the end of 2025. One pending item is procurement of two linear accelerators for two hospitals. During the November 2025 mission, the PMU informed the Bank that other sources of funds could finance the medical equipment. It was decided the equipment should be cancelled from the Project since delivery could not be achieved before the agreed component closing date of Jun. 30, 2026. The cancellation of this procurement has resulted in estimated US\$5.0 million in savings.

4. Economic Outlook and Impact of Cyclone Ditwah

16. **Background.** Sri Lanka is a lower-middle income economy with a per capita GDP of around USD4,800 and a population of around 22 million. The economy grew at a healthy rate of 6.5% per year on average between 2010 and 2017, which was accompanied by a transition from a rural-based economy to a more urbanized one driven by manufacturing and services. However, between 2017 and 2022, Sri Lanka was battered by several external and domestic shocks, including drought, a political crisis, a major terrorist attack, the COVID-19 pandemic, high global interest rates, and high oil and food prices. As a result, fiscal deficits exceeded 10%, debt reached 126% of GDP and FX reserves fell below critical thresholds. Sri Lanka defaulted on its external debt and fell into a socioeconomic crisis marked by shortages of essential goods, surging inflation and widespread civil unrest. During 2022-23, the economy contracted by 10%, while poverty increased to 27%, erasing almost 15 years of progress.

17. **Recent Developments.** Since 2023, Sri Lanka has been under a four-year USD3 billion IMF program, focused on improving FX availability, controlling inflation, and restoring fiscal and debt sustainability. Program performance has been good. Economic recovery has been strong and broad-based, with growth of 4-5% per year in 2024 and 2025, supported by positive business sentiment, removal of import restrictions, improved FX availability, booming tourism, record remittances, lower commodity prices and easier financing conditions. All macroeconomic variables have improved decisively, with higher FX reserves, better current account balance, lower fiscal deficits, higher tax revenues, lower inflation, stable exchange rate, lower bond spreads and booming stock market debt restructuring, virtually complete as of end-2025, has restored debt sustainability, offered relief from debt service and enabled sovereign credit upgrades to CCC+/Caa1.

18. **Cyclone Ditwah.** The cyclone was another weather-related shock to hit Sri Lanka in recent years, occurring while it was economically fragile and still emerging from a deep crisis. Economic losses, including damage to infrastructure and crops, are estimated at between 2.5% and 5% of GDP, with some economically important areas remaining affected. The disaster is said to have disproportionately affected already vulnerable population groups. According to the IMF, because of the cyclone, growth in 2026 will slow to 2.9% and inflation will increase to over 5%. Near-term additional external financing needs are estimated at USD700 million (or 0.7% of GDP). The IMF program has been paused, pending recalibration.

19. **Outlook and risks.** The immediate need is for recovery and restructuring after the cyclone to restore economic potential, while covering additional financial needs without jeopardizing the overall economic program. Otherwise, the economic outlook is broadly positive, with improved confidence and policies. Key risks include the remaining high debt and the re-financing needs, despite restructuring, as well as disruptive weather events.

20. A more detailed assessment of Sri Lanka's macroeconomic situation is presented in Annex 1.

5. Proposed Changes

21. The following are the proposed changes: (i) update to the Project Objective; (ii) creation of a new emergency housing component to finance urgent expenditure needs of the housing sector; (iii) reallocation of certain undisbursed amounts to the emergency housing component; and (iv) update to the results framework. Details of these project changes are shown in Tables 1-3 below. The proposed changes are requested to be retroactively effective as of Dec.1, 2025.

22. **GoSL's request for project change.** GoSL requested to reallocate undisbursed funds from the Project, on an emergency basis, to mitigate the impact of cyclone and landslides, with a particular focus on housing and infrastructure reconstruction. A mission to Sri Lanka was conducted in January and March 2026, to understand the urgent reconstruction needs from the Ministry of Finance (MoF), Ministry of Defense (MoD), Ministry of Housing, Construction and Water Supply (MoHCWS), and MoTHUD and to also assess the capacity of the potential implementing agencies. AIIB is also closely coordinating with the key development partners such as the International Monetary Fund (IMF), the World Bank (WB), and the Asian Development Bank (ADB) regarding emergency support measures, to ensure such support is adequate and complementary.

23. **Rationale for changes.** The proposed change, reallocating USD10.1million for an emergency purpose, will demonstrate AIIB's commitment and responsiveness to the pressing demands of its Members. This change will allow a quick mobilization of AIIB-committed funds to support the urgent needs of Sri Lanka, without further increasing the debt burden, by using the existing legal agreement and safeguard frameworks that can be adapted with minor modifications to respond to the emergency context. The emergency component is expected to be implemented quickly, which will help improve the performance of the Project. The proposed changes would not change the project's E&S category to a higher level.

24. While SCURP was originally designed to support urban regeneration in Colombo, its development logic extends beyond a single geography focus. From an operation standpoint, restructuring SCURP allows AIIB and GoSL to respond to an emergency within the existing operation, thereby avoiding delays associated with establishing a new financing instrument. This approach is consistent with earlier restructuring (re: emergency reallocation to the health sector during 2022 economic crisis), serving as a flexible financing platform capable of accommodating urgent and unforeseen national priorities. The proposed emergency housing component does not seek to align cyclone reconstruction substantively with SCURP original PO but rather reflects a targeted emergency repurposing in response to a natural disaster.

25. Details of Project Changes

- 1) **Changes in Project Objective (PO).** To respond to adding a new emergency component, the PO is proposed to be changed as below:

The objective is to improve the housing conditions of low-income communities and to increase land use efficiency in Colombo through investments in affordable housing, with associated policy and system enhancements, and to enhance the capacity of Sri Lanka to respond to urgent medical and housing reconstruction needs.

- 2) **Adding a new component – emergency housing component in the project.** The emergency housing component will support housing reconstruction and provide relevant technical assistance. The emergency component will be allocated USD10.1 million (Table 1 below). The new component will focus on housing reconstruction in the two majorly affected districts (Kurunegala and Puttalam) through the ODHR approach. According to GRADE, Kurunegala and Puttalam districts recorded over 2,000 and 627 fully damaged houses, respectively, as well as 14,111 and 20,813 partially damaged houses. The ODHR schemes will identify three categories of beneficiaries eligible for cash grants: (i) households undertaking in-situ reconstruction of damaged houses; (ii) households constructing new houses on public land allocated by the Government; and (iii) households constructing new houses on land purchased by themselves. This component could also finance consultancy services and technical assistance to support implementation, monitoring and evaluation, project management, preparation work for a new reconstruction project and various audits such as technical and social.
- 3) **Reallocation.** A total of USD10.1 million will be allocated to the new emergency housing reconstruction component. This will finance the initial needs of pos-cyclone housing reconstruction and help bridge a gap till a long-term reconstruction project is prepared. Out of USD10.1 million, USD5.0 will be reallocated from the savings of the health component. In addition, USD5.1 million will be reallocated from the undisbursed funds of the original Component 1. This reallocation is not expected to affect the target under the original component. Table 1 to Table 3 below illustrate the changes of project cost and disbursement table between the original and the revised project.

Table 1: Proposed Changes to Project Cost

	Total	AIBB	GoSL	Private Partner
ORIGINAL				
Component 1: Housing Construction	180	153	27	
Component 2: Land Redevelopment	45	35	5	5
Component 3: Technical Support and Project Management	16	6	10	
Front-end Fee	0.5	0.5		
Interest and Commitment Fee	5.5	5.5		
Total	247	200	42	5
CURRENT				
Component 1: Housing Construction	154.19	145.17	9.02	
Component 2: Land Redevelopment	3.75	3.75	-	
Component 3: Technical Support and Project Management	3.08	3.08	-	
PMU/SEC Cost under Component 3	8.25		8.25	
Component 4: Emergency Health	42	42	-	
Front-end Fee	0.5	0.5		
Interest and Commitment Fee	5.5	5.5		
Total	217.27	200	17.27	
REVISED				
Component 1: Housing Construction	149.09	140.07	9.02	
Component 2: Land Redevelopment	3.75	3.75	-	-
Component 3: Technical Support and Project Management	3.08	3.08	-	
PMU/SEC Cost under Component 3	8.25		8.25	
Component 4: Emergency Health	37	37	-	
Component 5: Emergency Housing	10.1	10.1	-	
Front-end Fee	0.5	0.5		
Interest and Commitment Fee	5.5	5.5		
Total	217.27	200	17.27	-

Table 2: Reallocation of Loan Proceeds

Category	Original Allocation (USD million)	Current Allocation (USD million)	Proposed Allocation (USD million)	Percentage of Expenditures allocated to be financed (exclusive of Taxes)
(1) Goods, works, non-consulting services, and consultants' services under Component 1 (Part A)	153	145.17	140.07	100%
(2) Goods, non-consulting services, and consultants' services under Component 2 (Part B)	5	0	0	100%
(3) Works under Part B	30	3.75	3.75	100%
(4) Goods, works, non-consulting services, and consultants' services under Component 3 (Part C)	6	3.08	3.08	100%
(5) Front-end Fee	0.5	0.5	0.5	
(6) Interest and Commitment Fee	5.5	5.5	5.5	
(7) Goods, works, non-consulting services, and consultant's services under Component 4 (Part D)		42	37	100% (inclusive of taxes)
(8) Housing reconstruction cash grant, goods, works, non-consulting services, and consultant's services under Component 5 (Part E)			10.1	100% (inclusive of taxes)
Total amount	200	200	200	

- 4) **Changes in the scope of the original activities.** Table 3 illustrates the changes of result indicators, which indicate the scope of new activities. Three new intermediate result indicators are proposed to be added to reflect the new component.

Table 3: Proposed Revision of the Results Framework

NO	INDICATORS	Unit	Original Target	Current Target	Revised Target
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	households	>4000	>4000	>4000
2	Improved URP policies (including resettlement, transfer and maintenance) adopted	Yes/No	Yr.4/Yes	Yr.6/Yes	Yr.6/Yes
3	% of value increase of the land made available for redevelopment under the project compared with the government's baseline price	%	Yr.5/30%	Removed	Removed
3*	The number of liberated vacant land received basic improvements including cleaning debris, defining the boundary and constructing fences to mitigate disturbances and potential hazardous impacts to the surrounding neighborhoods.	Number	N/A	3	3
4	Updating the City Guidance Plan of Colombo (P=in Preparation, A=Adopted)	P/A	Yr.4/ A	Removed	Removed
Intermediate Results Indicators					
1	Aggregated number of housing units constructed using the improved technical design and standards	units	5500	4100	4100
2	Percentage of solid waste management (SWM) grievances addressed.	%	Yr.3/50	Yr.4/50	Yr.4/50
3	The number of health institutions/hospitals benefitting from the emergency component	Number	N/A	420	420
4*	The number of houses completed under the owner-driven reconstruction and certified	Number	N/A	N/A	500
5*	The number of beneficiary households that received cash grants under the project	Number	N/A	N/A	500
6*	The number of officials trained on post-disaster housing reconstruction procedures, and guidelines (disaggregated by gender)	Number	N/A	N/A	100

Note: * additional indicator during this restructuring

6. Initial Assessment of the Emergency Housing Component

26. **Implementation Arrangements.** The Ministry of Defense (MoD) will be responsible for the new emergency housing component and will establish a dedicated PMU under its Disaster Management Division (DMD). PMU will mainly consist of deputed staff from several key agencies under DMD. There are five agencies under DMD, which will contribute to the implementation: (i) Disaster Management Center (DMC), functioning as an overall coordinator; (ii) National Disaster Relief Service Center (NDRSC), mainly responsible for channeling fundings for disaster affected households; (iii) National Building Research Institute (NBRI), responsible for housing damage categorization and land suitability assessment; (iv) Meteorology Department; and (v) National Council for Disaster Management. PMU will manage the ODHR schemes in the cyclone-affected districts, including coordination within the government and with stakeholders, reporting, and monitoring and evaluation. Coordination across the agencies will occur through the National Project Steering Committee. The steering committee, expected to be chaired by the MoF and comprising relevant ministries, key stakeholders and District

Secretaries, will provide strategic guidance and policy oversight to ensure alignment of decisions, timelines and implementation responsibilities.

27. To support homeowners in rebuilding, GoSL is offering a grant of LKR5 million per eligible household with fully-damaged houses and up to LKR2.5 million for those with partially-damaged houses, delivered through the ODHR approach. The NDRSC channels these funds to eligible households via bank transfer to each households' local commercial bank account. The standard design for reconstructed housing units includes two bedrooms, one living room, one kitchen, and one toilet, with a total floor area ranging from 650 to 700 square feet.

28. To ensure a strong implementation readiness, the emergency housing component will be implemented in accordance with a Project Operations Manual (POM), which will set out the core technical support arrangements, grant administration procedures, fiduciary controls, roles and responsibilities of various players, and overall implementation arrangements.

29. **Environmental and Social.** AIB's Environmental and Social Framework (ESF) 2024 version will apply to the new component, while activities approved under the original project remain governed by the earlier applicable ESF version. The housing reconstruction will be undertaken by the homeowner by hiring locally available architects and masonry; implemented exclusively through ODHR and will not engage contractors. In general, the scale, nature and type of work involved under the proposed owner driven housing has a low magnitude of potential E&S impacts and risks. Following the streamlined approach, the updating of the E&S instruments of the original project will take place during implementation. In the interim, E&S aspects will be incorporated into the POM in compliance with AIB Environmental and Social Policy (ESP) requirements. The POM is expected to put in place fit-for-purpose arrangements for applying and enforcing the E&S requirements to address the findings of the technical and eligibility audit. Training programs may be proposed to enhance E&S awareness, as relevant, such as Occupational Health and Safety (OHS)-related matters. In addition, the Terms of Reference (ToR) for technical and eligibility auditing will be updated to comply with AIB requirements. The geotechnical and environmental risks, and landslide risk assessment have been undertaken by NBRI and have been included in the Technical Guidelines of the GoSL. The PMU of this new component will be under the DMD of MoD and they (through NBRI as one of its sub-divisions) have experience working with an ongoing AIB-financed project (Reduction of Landslide Vulnerability through Mitigation Measures Project).

30. **Procurement.** Except for the activities to support homeowners in reconstruction, which is delivered through a homeowner-driven approach and there is no procurement transaction involved, the procurement of works, goods, and consulting services for other activities under the emergency housing component will follow the Bank's Procurement Policy (revision Jun. 26, 2024) and Directive on Procurement Instructions for Recipients (Jul. 26, 2024). The procurement will include (i) the procurement of goods and equipment as necessary to respond to the emergency operations; and (ii) the provisions for hiring consulting services and technical assistance. At the request of the GoSL and in view of the fit-for-purpose and value for money procurement principles (as set forth in the Procurement Policy), the Project may adopt streamlined procurement approaches due to emergency operations, consistent with the Procurement Policy and Directive on Procurement Instructions for Recipients. The revised Procurement Delivery Strategy (PDS) will include the areas, as required, which require such streamlined procurement approaches due to emergency operations, and this will also be identified in the

procurement arrangement and strategies in the Procurement Plan as approved by the Bank. The streamlined procurement approaches include, but are not limited to, simplified procurement methods such as direct contracting, request for quotations, direct selection, consultant's qualification-based selection, limited tendering and shorter tendering periods. To expedite the procurement process, prior review of tenders and contract awards will be conducted where practicable and will be agreed in the Procurement Plan, otherwise all contracts will be subject to post review.

31. **Financial Management (FM).** The PMU is responsible for managing loan proceeds and administering cash grants. Given the emergency nature of the operation, the FM assessment will be fast-tracked to confirm minimum requirements for staffing, funds flow and disbursement arrangements. As the PMU has limited experience with MDB-financed projects, FM officers/consultants will be deployed to support implementation, particularly cash grant fund flow and monitoring.

32. For funds flow of the cash grants for ODHR, the detailed grant distribution mechanism will be further discussed with the GoSL. To mitigate fiduciary risks related to cash grants, the grants are proposed to be disbursed via bank transfer in multiple tranches. The first tranche will be conditional upon the issuance of the POM, which will set out Bank-approved procedures and requirements, and the issuance of GoSL's stipulation identifying eligible households. Subsequent tranches will be released only after verification of financial utilization and physical progress of the previous tranche, supported by relevant documentation. The detailed funds flow arrangements will be documented in the POM to be approved by the Bank prior to disbursement. Expenditures other than the grants will follow the existing arrangements under the original project, and financial reporting and audit arrangements will also follow the original project with reporting modalities to AIIB managed by the PMU.

33. **Disbursements.** Disbursement methods for the emergency housing component will follow those of the original project and will include advance, direct payment, reimbursement, and special commitment. Under the advance method, a segregated USD-designated account (DA) will be established to receive loan proceeds specific to the emergency housing reconstruction, ensuring clear traceability from the original component. Direct payment will be used for high-value expenditures, while the reimbursement method will apply to eligible expenditures already incurred by the GoSL in support of emergency housing reconstruction activities.

34. Retroactive reimbursement may be allowed for eligible expenditures incurred from December 2025 onward. At this stage, retroactive reimbursement is proposed to apply only to cash grants already provided by GoSL to the eligible cyclone-affected households for housing reconstruction purposes, subject to verification of compliance with agreed processes stipulated in the POM and AIIB's validation. No civil works contracts before amendments to the legal amendment are envisaged.

7. Approval Sought

35. AIIB management requests the Board of Directors to approve the changes to the Project as outlined above as the proposed changes are material with respect to section 3.5.3 of the Bank's Operational Policy on Financing.

Annex 1: Sri Lanka—Sovereign Credit Fact Sheet

Background. Sri Lanka is strategically located along major shipping routes. Key export items are ready-made garments, tea, rubber and transshipment services. Major trade partners include China and India (for imports) and the United States (for exports). In addition, Sri Lanka is a prominent tourist destination (earning 3.2% of GDP in direct revenues) and receives substantial amounts of FX through remittances (8% of GDP). After emerging from over 25 years of civil war in 2009, the economy expanded at an average rate of 6.5% during 2010-17, reflecting the peace dividend and pro-growth policies. Poverty halved from 25% to around 12% during that period. Economic management improved under IMF-supported programs.

A combination of domestic and external factors contributed to a significant economic downturn and sovereign default in 2022. Policy adjustments were limited during this period, with measures including tax reductions, fiscal easing, and a tightly managed exchange rate framework, alongside foreign exchange rationing and import controls. By 2022, fiscal and external buffers had collapsed, with large deficits, unsustainable debt, and critically low reserves. Sri Lanka defaulted on its external debt and fell into a socioeconomic crisis marked by shortages of essential goods, surging inflation (to over 70%) and widespread civil unrest. During 2022-23, the economy contracted by 10%, while poverty increased to 27%, erasing almost 15 years of progress.

Recent Developments. The newly IMF-supported four-year program improved confidence and enabled other creditors to provide more financing. The program focuses on restoring and safeguarding macroeconomic stability through i/ a market-determined exchange rate needed to restart the functioning of the FX market, end FX shortages, bring FX inflows back into official channels, improve the current account and increase FX buffers; ii/ fiscal consolidation through higher revenues (a 15% of GDP target for tax revenues), better public financial management, utility tariff reforms, etc.; iii/ debt restructuring to bring public debt to sustainability (target of 95% of GDP); iv/ structural and governance reforms. Program implementation has been strong with the most recent review completed in July 2025.

Selected Indicators	2022	2023	2024	2025*	2026*	2027*	2028*	2029*
Growth 1/	-7.3	-2.3	5.0	4.2	2.9	3.1	3.1	3.1
Inflation (end-of-period) 1/	58.6	3.0	-1.5	2.1	5.7	5.0	5.0	5.0
Fiscal balance	-10.2	-8.3	-5.4	-4.3	-4.8	-3.7	-3.7	-3.6
Public debt 2/	126.3	115.8	100.8	99.8	100.6	97.9	96.3	93.7
Public financing needs (gross) 3/	34.1	27.8	21.9	21.6	19.8	14.8	13.9	11.7
Current account balance	-1.0	2.9	1.8	0.6	-0.4	0.1	-0.2	-0.2
External debt	77.0	64.0	57.7	50.6	52.3	54.8	53.6	51.1
External financing needs (gross)	7.1	1.7	4.0	5.9	5.0	3.8	3.5	3.3
FX reserves (USD billions) 4/	1.9	4.4	4.7	6.8
Exchange rate (LKR/USD) 4/	363.1	323.9	292.6	310.0	310.9

Source: IMF country reports 25/339, national statistics; in percent of GDP unless otherwise stated; * = projections/estimations
Notes: 1/ percent change, year-on-year; 2/ central government, guarantees and central bank external liabilities; assuming debt restructuring completed as of end 2023; 3/ central government; 4/ end-of-period, data from central bank, as of Mar 6, 2026.

Since 2024, recovery has been strong and broad-based, outperforming expectations. The economy grew by 5% in 2024 and an estimated 4-5% in 2025, supported by better confidence and business sentiment, removal of import restrictions, improved FX availability, booming tourism (arrivals have already exceeded 2018 levels), record remittances (redirected back to official channels) and the generally improved external environment, with lower commodity prices and easier financing conditions. The current account has been in surplus, FX reserves more

than tripled, to USD 6.8 billion, supported by central bank purchases and official inflows, and the exchange rate appreciated by around 15% and has stabilized. Spreads on newly issued bonds declined to 500-600bps. Since late 2024 stock market indices have doubled.

Inflation declined rapidly, dipping into deflation in 2024, before settling at around 2% as of end-2025. Reduced shortages of essential goods (such as fertilizer), lower electricity tariffs, lower food and fuel prices, currency appreciation, and the halt to money printing have all contributed. In response, the central bank was able to cut interest rates, from 14% to 7.75%.

The fiscal deficit declined from over 10% of GDP in 2022 to an estimated 4.3% in 2025, supported by fiscal reforms, tax increases, strengthened tax collection, removal of certain tax exemptions, expenditure rationalization, and subdued capital spending. Performance in 2025 has been particularly strong, supported by booming customs revenues on imported cars.

Following debt exchanges and agreements with official and commercial creditors, debt restructuring is nearly complete. The terms include significant haircut, reduced interest rates, extended maturities and deferral of principal repayment to 2028-29. The authorities are now finalizing bilateral agreements with each creditor.

In November 2025, Cyclone Ditwah hit Sri Lanka, causing more than 600 fatalities, displacing over 100,000 people, and affecting over a million more. Economic losses, including damage to infrastructure and crops, are estimated at around 2.5 to 5% of GDP. Meanwhile, the government is focusing on disaster recovery the fifth review of the IMF program has been deferred. In lieu, the IMF has approved USD200 million emergency financing.

Outlook and risks. Due to the impact of the cyclone, IMF expects growth in 2026 to slow to 2.9% and inflation to increase to over 5%. Beyond that, the outlook is broadly positive. Growth should converge to a trend, of around 3%, supported by the resumption of public investment, expanding garment and textile sectors, tourism and stronger private investment on the back on reduced uncertainty and better confidence. Inflation should stay around the central bank's 5% target. With better exports, tourism and remittances, and with a more flexible exchange rate, current accounts should be manageable and reserve accumulation should continue. The authorities are committed to maintaining the fiscal stance in line with the IMF program, including continuing generating primary budget surpluses.

According to the IMF, debt restructuring has delivered significant relief and restored debt sustainability. However, the risk of debt and sovereign stress remains high. Debt metrics—including debt level at around 100% of GDP, gross financing needs at over 20% of GDP and interest payments at almost 60% of revenues—are all elevated. Sri Lanka will need to adhere to fiscal and monetary prudence for much longer to reduce risks.

Over the past year, Sri Lanka's sovereign credit was upgraded CCC+/Caa1 with stable outlook, on account of the successful debt restructuring, steady recovery, improved policies and reforms.

Annex 2: Economic Analysis of Housing Reconstruction

Sri Lanka's experience with emergency housing reconstruction— particularly through the World Bank-supported housing reconstruction projects, namely, the North East Housing Reconstruction Program (NEHRP) and the Tsunami Emergency Housing Reconstruction Project (TEHRP)—demonstrates that housing reconstruction serves a dual function as both a social protection measure and a powerful economic recovery instrument. These projects, implemented in response to the conflict in Northern and Eastern Provinces and the 2004 Indian Ocean tsunami, addressed large-scale housing deficits while stimulating local economies and restoring livelihoods. Completion evidence, according to the World Bank's Implementation Completion Reports (ICR) of these projects, confirms that the economic impacts of these interventions were substantial, although uneven across regions depending on institutional capacity and market conditions.

Employment Impacts. A defining feature of these projects has been their strong contribution to short-term employment generation. Under NEHRP, reconstruction activities generated significant labor demand, particularly benefiting unskilled workers in conflict-affected regions. Similarly, TEHRP created extensive employment opportunities during the post-tsunami reconstruction phase. However, completion assessments indicate that these employment effects were largely temporary and concentrated during construction, with limited long-term absorption into the labor market.

Asset Creation. At the household level, housing reconstruction has produced durable economic benefits by transforming housing into a productive asset. Evidence from NEHRP shows that beneficiaries increasingly used reconstructed homes for income-generating activities, including home-based enterprises. In the case of TEHRP, households demonstrated incremental investments in housing improvements and extensions over time, reflecting asset accumulation and enhanced financial capacity. These findings confirm that housing reconstruction generates long-term economic returns that extend beyond immediate shelter provision.

Livelihood Impacts. Housing has also played a critical role in supporting livelihood recovery and economic reintegration. In NEHRP, access to housing enabled displaced populations to return to their communities and resume economic activities. Similarly, TEHRP facilitated the revival of coastal livelihoods, particularly in fisheries, although recovery was sometimes slower than housing delivery.

These housing reconstruction projects in Sri Lanka provide strong empirical evidence that well-designed reconstruction interventions can deliver substantial economic benefits. Housing reconstruction has functioned not only as a response to crisis but also as a catalyst for economic recovery and long-term resilience.

Annex 3: A Brief Note on Owner-Driven Housing Reconstruction Approach

One of the successful strategies for implementing a post-disaster housing reconstruction program is the Owner-Driven Housing Reconstruction (ODHR) approach, structured based on the "relative vulnerabilities" of families with "unified financial assistance," which is sometimes supplemented through "co-financing" for enhanced housing supports. The core strategy of ODHR is inclusive and based on principles such as equity, stakeholder ownership, community participation, and sustainability. The operating interventions include debris removal, interim/transitional shelters, temporary housing, and rehabilitation and reconstruction of damaged houses through cash grants, technical support, and capacity building.

Key Benefits of OHDR Approach

Homeowner-driven housing reconstruction centers on empowering disaster-affected homeowners as primary decision-makers, supported by financial aid and technical guidance to rebuild resilient homes. Cash grants and technical assistance form the core of owner-driven housing reconstruction models, empowering affected families to lead their recovery. Cash grants provide flexible financial support for materials and labor, while technical assistance ensures quality and safety standards. This approach, in the true sense, enables families to build their homes based on their aspirations and needs. Together, they accelerate rebuilding and enhance owner satisfaction by promoting faster reconstruction through owner motivation and local knowledge, ensuring cost-effectiveness, and fostering enhanced resilience through tailored, expandable designs and incremental home improvements.

Key steps to implement ODHR approach

Based on the lessons learnt from the Sri Lanka's North East Housing Reconstruction Program (NEHRP), and the Sri Lanka Tsunami Emergency Housing Reconstruction Project (TEHRP), some of the key actions involved for implementing the ODHR program are:

- Conduct rapid, participatory damage assessments to identify eligible homeowners and prioritize fully or partially destroyed homes, ensuring transparent beneficiary selection via community verification.
- Establish flexible cash grants disbursed in tranches based on physical progress, indexed to local material use, and enabling modular design for incremental housing improvements.
- Develop technical standards and adaptable designs with disaster resilience, disseminated through mason training, and material supply chains. Mandate quality monitoring through third-party technical and beneficiary audits to enforce compliance without stifling owner choices.
- Form multi-stakeholder coordination bodies involving government, NGOs, and community organizations to resolve grievances and implementation bottlenecks. Secure land use permissions early and integrate infrastructure like water/electricity in parallel.
- Establish policies and legal provisions related to land tenure security, property rights related to gender fragility, violence and conflict vulnerabilities.
- Assess environmental vulnerabilities and development risks of the areas impacted by the disaster and formulate spatial development guidelines to address environmental risks related to landslides, land use noncomputability, and protection of coastal buffer zones, etc.

- Enable community involvement for participatory damage assessments, design selection, priority-setting, fostering cultural appropriateness, including transparency in beneficiary targeting and adaptation of local needs.
- Conduct concurrent quality and impact assessments and audits, community oversight and social audits for sustainable long-term resilience.

Annex 4: Lessons Learned from Housing Reconstruction Projects

Key lessons learned from a review of the three World Bank-funded projects^[1] in Sri Lanka demonstrate that owner-driven housing reconstruction (ODHR), particularly the in-situ ODHR strategy, when supported by a people-centric, predictable and physical progress-linked financial assistance package, field-based technical support, and decentralized institutional implementation arrangements, provides an effective, inclusive, and scalable approach to post-disaster/conflict recovery.

While the ODHR approach helps disaster-affected people feel more in control and uphold dignity, the success of housing recovery is not lasting if housing plans do not include coordinated housing and infrastructure development, transparent grievance redressal mechanisms, and strong community involvement. Unclear land ownership and titling issues, lack of parallel administrative and community-based land resolution mechanisms, opaque grievance redressal mechanisms, inadequate attention to livelihoods, exclusion of vulnerable families, and overlooking fragility, conflict, and violence issues reduce the impacts of the ODHR strategies significantly, particularly in ex-situ situations.

It is also learned that a contractor-driven housing recovery approach results in poor quality, mismatching of the house designs with cultural preferences and aspirations of people, forced relocations, and poor coordination between contractors, government agencies, and local communities, resulting in variations in standards and quality of housing.

Some of the key policy lessons learned are (1) housing reconstruction should be, as far as possible, owner-driven and in-situ as compared to ex-situ; (2) reconstruction interventions should be flexible and contextually designed for addressing local vulnerabilities; (3) land ownership and property titling issues should be addressed through transparent and decentralized administrative mechanisms; (4) housing provisions should be linked to livelihoods; and (5) strong community participation and communication are critical for policy acceptance and sustainable recovery outcomes.

Guidelines for Designing Housing Reconstruction Projects

While designing future recovery projects, the following action points would be useful:

What Worked: (a) The in-situ ODHR approach is very effective to ensure that people reconstruct houses according to their needs and aspirations with supplementary resource mobilization for home improvements; (b) progress-linked and phased disbursement of cash grants with field-based technical assistance work efficiently to match house designs with beneficiary aspirations; (c) use of commercial bank accounts (joint accounts by husband and wife) opened by beneficiaries to ensure transparency, financial inclusion, and gender equality; (d) third-party technical and beneficiary audits strengthen house completion, concurrent social audits strengthen community ownership in the recovery efforts; and (e) effective participation of community-based organizations and village rehabilitation councils helps manage community grievance, resolve land ownership issues, support vulnerable families to build houses, and enhance the interface between beneficiaries and local government institutions.

^[1] The projects include the North East Housing Reconstruction Project, the Tsunami Housing Emergency Reconstruction Project, and the Puttalam Housing Project.

What Did Not Work: (a) Contractor-based reconstruction processes often experience issues such as limited involvement of people in house design, compromised construction quality, and delays in procurement and occupation; (b) poor selection of relocation sites challenges sustainable livelihoods, poor employment opportunities, increased transportation costs, and inadequate provision of basic services, particularly weak operation and maintenance of basic services and ancillary infrastructure in the relocation sites; and (c) alienation of local communities in the reconstruction processes risks disaster recovery principles such as inclusiveness, equity, and sustainability.

Critical Design Principles for Recovery Programming

- Prioritize in-situ reconstruction sites.
- Apply spatial planning and area-based recovery strategies for implementing resettlement interventions wherein in-situ reconstruction is not possible, both environmentally and socially.
- Implement livelihood-sensitive relocation planning strategies.
- Integrate land administration with mechanisms for implementing the housing reconstruction program to resolve land issues.
- Promote area-based provision of housing and basic services with ancillary infrastructure for improving quality of life.