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Prepared by: Cynthia Nunez-Ollero
Reviewed by: Vibecke Dixon
ICR Review Coordinator: Kavita Mathur
Group: IEGSD (Unit 4)

2. Project Objectives and Components

a. Objectives

According to the Financing Agreement (FA, p. 5) and the Project Appraisal Document (PAD, paragraph 12), the Project Development Objective (PDO) of this Strategic Cities Development Project was "to improve selected urban services and public urban spaces in participating city regions."

This review will assess the performance of this project against this singular objective.
b. Were the project objectives/key associated outcome targets revised during implementation?
   No

c. Will a split evaluation be undertaken?
   Yes

d. Components

1. **Kandy City-Region Urban Interventions**: (US$94 million at appraisal, increased to US$118.5 at restructuring, reduced to US$53.5 million, US$59.8 million actual as confirmed by the Bank team). This component was to finance improvements in urban services, such as augmenting and rehabilitating the Kandy municipal water supply system and rehabilitating major drains. Also to be financed were improvements in transport services, such as rehabilitating by-pass roads, and adopting traffic management measures. This component was also to finance enhancements to the public urban space, such as improving streetscapes, and restoring and reusing historic landmarks. Furthermore, the development of an integrated urban master plan and capacity building activities for Project Partner Agencies (PPAs), first to plan, design, and maintain urban infrastructure, and second, to provide municipal services were also included. In 2018, US$24.5 million was added to this component, from Galle (US$16.5 million), and Jaffna (US$8 million), to finance the construction of the Kandy Multimodal Transport Terminal (KMTT). In 2020, this component was reduced by US$65 million (from US$118.5 million) to drop the KMTT sub-component. The original KMTT cost estimate had increased by 40 percent and could not be completed within the project period. This sub-component was then to be separately financed as a standalone project (P172342).

2. **Galle City-Region Urban Interventions**: (US$43 million at appraisal, reduced to US$26.5 million at restructuring, US$26.1 million actual as confirmed by the Bank team). This component was to finance urban services improvements, by adopting flood and coastal erosion reduction measures, such as the rehabilitation of canals and constructing surface drainage infrastructure. Included was also the enhancement of public urban space with streetscapes, and the restoration and reuse of historic landmarks. In addition, strategic plans and studies of public transport and traffic management, drainage, and spatial development, as well as capacity building activities for PPAs, first to plan, design, and maintain urban infrastructure, and second, to provide municipal services was financed under this component. In 2018, this component was reduced by US$16.5 million to support the Kandy KMTT project (P172342).

3. **Implementation Support**: (US$10 million at appraisal, US$8.6 million actual, as confirmed by the Bank team). This component was to finance activities to strengthen project management. These included support for monitoring and evaluation (M&E), procurement, financial management, and compliance with environmental and social safeguards. In addition, this component was to finance public awareness campaigns and communications; construction supervision; other preparatory studies and planning for other cities and other management tools.

4. **Jaffna City Region Urban Interventions**: (Additional Financing (AF) provided US$55 million, reduced to US$47 at restructuring; cancelled US$27 million, US$16.1 million actual as clarified by the Bank team). The 2016 AF added this component to finance activities in Jaffna similar to those in Kandy and Galle. In 2018, US$8 million from this component was reallocated to finance the KMTT (P172342). In 2021, this component was further reduced by cancelling US$27 million from the AF to be allocated to a new component, Contingent Emergency Response Component (CERC, see below).
5: Contingent Emergency Response Component (CERC): (US$0 million, increased to US$27 million at restructuring, US$0 million actual). In 2020, this component was added with a zero allocation to allow rapid reallocation of uncommitted project funds from other components to support immediate response and recovery needs, in the event of a natural or man-made disaster or crisis. In 2021, this component was allocated US$27 million sourced from the AF to Jaffna. The allocation was then cancelled to finance AF for the government's separate Bank-financed response to COVID-19. The canceled amount was used to finance the AF to the Sri Lanka COVID-19 Emergency Response and Health System Preparedness Project Additional Financing (P174291).

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The original total project cost was US$247 million. The revised total project cost was US$101 million. The credit disbursed US$88 million. The remaining credit balance of US$13 million was cancelled.

Financing: The International Development Association (IDA) financed this project with an original US$147 million. AF provided US$55 million for a total credit of US$202 million. The credit had two partial cancellations for a total of US$92 million. The first was for US$65 million (to finance KMTT). The second was for US$27 million (to finance the AF for CERC). The actual amount disbursed was US$87.9 million.

Borrower Contribution: The government committed US$45 million and disbursed US$23 million. The balance was undisbursed. The reduced project scope led to a reduced need for further government contribution to finance resettlement, or land acquisition.

Dates: The project was approved on May 5, 2014 and made effective on October 16, 2014. The Mid Term Review (MTR) was conducted on May 7, 2018. The original closing date was on December 31, 2019 but was extended for an additional 24 months to close on December 31, 2021. There was one AF and five level 2 restructurings:

- On May 3, 2016, to add US$55 million in AF and include the city region of Jaffna to the project. This added component 4 and revised the results framework to include indicators for activities in Jaffna. The implementing agency was changed. The credit closing date was extended by 24 months.
- On June 19, 2018, to reallocate funds from Galle (US$16.47 million) and Jaffna (US$8 million) to Kandy for the KMTT; introduce changes to the indicators and targets in the results framework and revise the cost allocations.
- On June 7, 2019, to make Force Account as an eligible procurement method to be used for the emergency reconstruction of the Galle Morogoda Ela Canal (see Section 10 Other Issues, Procurement below).
- On April 5, 2020 to cancel US$65 million to drop KMTT as a sub-component and finance KMTT as a new, standalone Bank-financed project. Major delay in KMTT design, and a 4-5-year implementation period justified this cancellation. The cancellation led to reduced target values of the outcome and output indicators for the Kandy component. Other changes included the change in implementation agency from the Ministry of Megapolis and Western Development to the Ministry of Urban Development, Water Supply, and Housing Facilities. The cost benefit analysis was updated to exclude KMTT and the addition of a Contingent Emergency Response Component (CERC) in response to the COVID19 pandemic. CERC did not change the PDO, intermediate indicators, fiduciary, and safeguards requirements.
On March 1, 2021 to partially cancel US$27 million from the AF to finance the AF (P174291) of the separate Sri Lanka COVID-19 Emergency Response and Health System Preparedness Project (P173867). This restructuring reduced the original scope for activities in Jaffna and adjusted the target values of the associated indicators to what has been achieved.

**Split Rating:** A split rating of the outcome will be undertaken (see Section 6 Outcome). The PDO remained unchanged but the scope changed during implementation (ICR, paragraph 9). The PDO ambition initially increased because of the AF to add activities in Jaffa. Subsequent cancellation of the credit due to increased costs, and implementation delays reduced this ambition. In addition, unutilized funds for Jaffna that could not be used within the project period were instead used by the government to address the COVID-19 pandemic response (ICR, paragraph 19).

### 3. Relevance of Objectives

**Rationale**

**Country Context:** Sri Lanka became a lower middle-income country in 2013 with GDP per capita reaching US$3,194. The Colombo Metropolitan Region (CMR), Kandy, and Galle formed a functional urban agglomeration. The Jaffna agglomeration with Trincomalee and Batticaloa-Akkaraipattu was smaller, and not well connected to the rest of the country. In Kandy, the project was to support improvements in urban services. In Galle, the project was to support flood reduction measures. Both cities were to enhance streetscapes and public spaces, restore and reuse historic landmarks, and prepare masterplans. In Jaffna, the project was to rehabilitate two major roads (AB 21 and AB 31), improve community parks and ponds, and develop transport and drainage master plan to improve connectivity, public services, and public spaces.

**Country Plans:** The country embarked on a ten-year national development framework (2010-20) with an aim to achieve at least an 8 per cent annual, private-sector-led economic growth, universal secondary education, and an increase access in clean water in urban areas. The government also adopted a nationwide Strategic Cities Program (SCP). This was to provide a coherent approach to develop the economic potential of cities. The PDO was relevant to the development goals in the SCP. This project was to initiate the strategy by addressing two obstacles. The first was inadequate basic urban infrastructure and services to match growing demand. The second was deteriorating assets due to a lack of maintenance. Lack of appropriate planning resulted in ad hoc development patterns and fragmented provision and delivery of urban services.

**World Bank Partnership Strategy:** The PDO remained relevant to the World Bank's Country Partnership Framework (CPF) FY17-FY20 for Sri Lanka. The validity of this CPF was extended to FY21 because of the impact of the COVID19 pandemic. The Bank team clarified that the next CPF was under preparation. The PDO contributed to the CPF's Objective 3.1. Greening Urban Development, to develop urban areas in a more environmentally friendly manner. For example, this project supported the government in improving urban public spaces by promoting greening development such as 131,198 m2 of new or rehabilitated urban public spaces in the participating target city regions of Kandy, Galle, and Jaffna. In its October 2022 Country Update, the Bank reported a three-fold increase in Sri Lanka's urban poverty. In its System Country Diagnostics (SCD) report, the Bank also reported that the highest numbers of people living in poverty and the bottom 40 percent were in multicity agglomeration areas. The PDO remained relevant to the Bank's and
the government's efforts to streamline urban management structures, improve capacity to delivery urban services, and conduct strategic planning (land use and transport planning). These plans would allow local authorities to respond to present and future needs. Improved connectivity would raise the economic potential outside the Kandy-Colombo-Galle agglomeration and improve growth drivers within those districts (SCD, paragraph 20).

**World Bank Experience in the Country and in the Sector:** The Bank has recently completed the Metro Colombo Urban Development Project (MCUDP) that aimed to reduce flooding in the metro area, and strengthen the Colombo Metropolitan Area (CMA) capacity to rehabilitate, improve and maintain selected local infrastructure and services. Prior Bank-financed activities included the three-phased Climate Resilience Multi-Phased Programmatic Approach (CRIP) program designed to improve weather and climate forecasting and early warning capacity, and reduce flood risks in the lower Kelani basin (between Hanwella and Kaduwela). This program benefited 11.5 million people in 22 out of the 25 districts in Sri Lanka. The Water Supply and Sanitation Improvement project provided over US$200 million to increase access to piped water services and improved sanitation to underserved households in urban, rural, and plantation areas. The Integrated Watershed and Water Resources Management project provided over US$65 million to improve the safety of dams and irrigation function and improve Sri Lanka’s water management institutions. The Bank is also providing US$69 million to finance the Kandy Multimodal Transport Terminal (KMTT) project to enhance accessibility, efficiency, and public safety (P172342). The KMTT was originally part of this project but later became a standalone project.

The PDO was relevant to the country's urbanization development strategy but was not pitched at an outcome level. The urbanization development problem was not a substantial component of the Bank's strategy for the country. However, in the October 2022 country update and diagnostic, designed to inform the next country partnership framework currently under preparation, the PDO appeared to be substantially relevant.

**Rating**
Substantial

### 4. Achievement of Objectives (Efficacy)

**OBJECTIVE 1**

**Objective**
To improve selected urban services and public urban spaces in participating city regions.

**Rationale**

**Theory of Change (TOC):** A TOC was not prepared at appraisal, but one was prepared for the ICR. **Original outputs** were specific for each city of Kandy and Galle (see below). Both cities formed part of the Colombo Metropolitan Region (CMR).
in Kandy, the original outputs were to be the rehabilitated roads, improved transport and public transport facilities, rehabilitated water supply systems, major drains, and an integrated master plan. In addition, urban upgrading was to be made through the installation of silt traps and rehabilitation of parks. Additionally, an integrated master plan that included an asset management system with a maintenance program for the infrastructure assets was to be developed.

In Galle, the original outputs were to be an integrated master plan, and restored historic buildings, improved canals and drains, rehabilitated bridges and streets, constructed ocean pathways, restored historic landmarks, and an integrated plan that included an asset management system with a maintenance program for the infrastructure assets that were developed.

The original outcomes were to be the improved urban basic services in both cities, improved transport connectivity and improved drainage. These outcomes could be reasonably attributed to the project outputs. The longer-term outcomes would result in livable and sustainable cities. However, the outcome indicators only measured the number of beneficiaries, the share of female beneficiaries, and the number of new or rehabilitated urban public spaces. While number of beneficiaries (and the share of female beneficiaries) are required outcome indicators in the World Bank's corporate scorecard, it is not sufficient to measure only the number of beneficiaries and the share of female beneficiaries to determine the project's achievements. The number of new and rehabilitated urban public spaces is an output indicator. Hence, the project results framework lacked adequate and sufficient indicators to properly measure the project's achievements at outcome level.

The TOC offered the following critical assumptions to increase the likelihood of achieving these outcomes: (i) consultations with respective municipal councils revealed needs and informed the activities (inputs); (ii) contractors and supervision consultants had sufficient capacity and resources; (iii) both the project management and project implementation units had adequate contract management capacity and resources; (iv) the capacity of the Project Partner Agencies (PPAs) and the municipal councils have been mainstreamed and retained; and (v) stakeholders responsible for operations and maintenance (O&M) were involved throughout the project cycle and had sufficient resources. The first assumption did occur, but the rest did not and influenced the subsequent project restructurings. The TOC did not include assumptions that would establish a stronger causality between the inputs and outputs to achieve outcomes such as the sufficiency in available resources, using multiple implementing entities across multiple sectors simultaneously, and design timelines. These were borne out at implementation and resulted in delays, numerous restructurings, and substantial funds cancelled (see Section 8 Assessment of Bank Performance below).

OUTPUTS:

In Kandy:

- The following outputs achieved its targets:
  - 3 bus terminals were constructed or rehabilitated - the Bogambara station, the Clock Tower station, and the Bandaranayake Mawatha. The original target was three bus terminals.
  - An integrated asset management plan was prepared. An asset management system was developed and adopted as targeted.

- The following outputs did not achieve its targets:
  - 5 silt traps were installed around Kandy Lake. The original target was six.
  - 13.7 km of water transmission and distribution pipes were replaced. The original target was 30 km. Another 17 km was implemented outside the project.
o 9 km of roads along Dharmashoka Mawatha and Katugastota-Madiwela were rehabilitated. The original target was 20 km. The remaining 11 km were implemented either by other projects or directly by the Road Development Authority outside of the project.

o 4.4 km of underground storm water drainage was rehabilitated. The original target was seven km. This included the Bandaranayake Mawatha utility diversion around the KMTT area, and the Kandy Municipal Council main water drain.

In Galle:

- The following outputs exceeded or achieved its targets:
  - Eight bridges were rehabilitated. The original target was seven.
  - An asset management system with a maintenance program for municipal infrastructure was developed and adopted as targeted.
- The following outputs almost achieved its targets:
  - 13.7 km of major canals and local drains rehabilitated along Morogoda Ela and Meda Ela. The original target was 16 km.
  - 2 km of new or rehabilitated streets with sidewalks. The original target was 2.5 km.
- 1.5 km of new or rehabilitated ocean pathways were constructed. The original target of 2.5 km was not achieved.

OUTCOMES:

- 575,924 people benefited from the improved urban services. The original target of 320,000 persons was exceeded.
- 223,326 square meter of new or rehabilitated urban public space. The original target of 75,000 sq. meter was exceeded.
- 301,153 female beneficiaries benefited from the improved urban services. The original target of 301,500 was substantially achieved.
- The ICR claimed that 30,000 m² of land in Kandy adjacent to the rehabilitated roads increased in value but this was not measured. There was no evidence to support this claim.
- The original outcome indicator was “reduced area at risk of flood inundation in Galle.” The original target of a 10-year return period for major canals and a 5-year return period for local canals and cross drains proved difficult to measure, hence there was no evidence to show that this was achieved. The indicator was later dropped.
- The ICR claimed that the rehabilitated and improved bridges along Morogoda Ela reduced congestion around the Kahaduwatta area, that it led to better access, fewer accidents, and reduced costs for routine maintenance. However, no data supported these claims as none of these were measured. The Bank team clarified that in the beneficiary survey of residents near the bridge, respondents noted that at least three vehicles used to wait for around 30 seconds for oncoming vehicles before crossing. The improvement resulted in no crossing delays at the bridge in both directions but without supporting data. The Bank team also added that the widening of the Morogoda canal removed bottlenecks and reduced traffic delays, but the road authority did not keep records. Neither were records kept for reduced incidence of accidents. Anecdotally, the bridge improvement eliminated accidents.
- The ICR also reported that the project benefitted commuters in Galle by improving access to the Karapitiya Hospital by reducing travel time during peak hours by 56 percent and during off-peak hours by 67 percent. The ICR also noted that bridges reduced congestion around the Kahaduwatta area that
it led to better access, fewer accidents, and reduced costs for routine maintenance (ICR, paragraph 22). However, no data supported these claims as none of these were measured.

Overall, the efficacy of the project to achieve this objective is rated **Modest** due to both low achievement and lack of evidence. The outcome target indicators mostly covered number of beneficiaries, which discussed above under TOC is not a good indicator to measure the achievement of the PDO. The more important outcome indicators that would have reflected the development outcome resulting from the improved basic urban services, connectivity, and drainage were not reported or if reported, they were not supported by data.

**OBJECTIVE 1 REVISION 1**

Revised Objective
To improve selected urban services and public urban spaces in participating city regions.

Revised Rationale
There was no change in the objective. The 2016 AF expanded the scope and ambition of the project by adding Jaffna (the capital of the Northern Province) as a target city. This revised the original TOC.

Revised TOC: The government envisioned a balanced regional development by promoting urban agglomeration in Jaffna and the Northern Province. The revised TOC was to lead to new outputs and increase the ambition of the outcomes by increasing the target values of the PDO outcome indicators. Jaffna had faced challenges related to poor connectivity, poor public services, and insufficient public spaces, so the project focused its investments on the rehabilitation of two major roads (AB 21 and AB 31), improvement of community parks and ponds, and development of transport and drainage masterplan (ICR, paragraph 2).

The **revised inputs** focused on investments in Jaffna and included the construction of roads, rehabilitation of drainage, urban upgrading and cultural heritage, and capacity building and implementation support to the Jaffna PIU.

The **revised outputs** included rehabilitated roads, reinstated storm water drains, public conveniences (toilets) and rehabilitated public parks (Kacheri building and surroundings), cycle lanes, and rehabilitated community ponds. Ponds, about 47 throughout Jaffna, were a unique community feature that absorbed rainwater while offering community recreation space (ICR, footnote 8). In addition, community consultation ponds were to be created and strategic plans and studies in public transport, drainage, and spatial development were to be completed.

The **revised outcomes** included an increase in the target values of the number of beneficiaries because of the added investments in Jaffna. The target share of female beneficiaries was added. One outcome indicator was dropped because it was found difficult to measure. This was the reduced area (in square km) at risk of flood inundation in Galle (using a 10-year return period for major canals and 5-year return period for local canals and cross drains). The revised outcomes did not measure the development problem addressed by the activities in enhancing the public urban space, the parks, and preservation of historic places nor did the
revised outcome indicators measure the development problem addressed by the improvements in roads and drainage.

REVISED OUTPUTS:

In **Kandy**, and in **Galle**, there were no changes in the target values or achieved output indicators.

In **Jaffna** - the added funds resulted in achieving the following outputs against original targets:

- The following outputs **achieved** or **almost achieved** its targets:
  - 23.56 km of non-rural roads were rehabilitated. The **original** target was 25 km.
  - 223,326 square meter of new or rehabilitated urban public space. The **revised** target was 250,000 sq. meter to include Jaffna

- The following outputs were **not achieved**:
  - 3 strategic plans or studies in public transport and traffic management, drainage, and spatial development were completed. The original target was five.
  - 6 public conveniences (toilets) were constructed or rehabilitated. The original target was 10
  - 1.6 km of storm water drainage was reinstated. The original target was 30 km.
  - 3 community pilot ponds were installed to improve city functions. The original target was five.
  - 2 community consultative committees for pond related activities with at least 1/3 of women represented were established. The original target was five.
  - 100,498 square meters of new or rehabilitated urban public space. The revised target was 250,000 square meters to include Jaffna.

REVISED OUTCOMES:

- 574,878 people benefited from the improved urban services. The **revised** target of 650,000 persons was **not achieved**.
- 301,153 female beneficiaries benefited from the improved urban services. The **revised** target of 51 percent (or 290,700 female beneficiaries) was **achieved**.
- The ICR claimed that in Jaffna, the improved AB 31 road contributed to a 71 percent reduction in travel time and the AB 21 road reduced travel time by 56 percent based on a survey that was not noted in the ICR but clarified by the Bank team. They confirmed that there was no data on cost of maintenance prior to improvement, but the Road Development Authority estimated reduced annual routine maintenance cost around LKR1.56 million.
- 5,000 people benefited from the public conveniences constructed, and another 9,250 persons benefited from the improvement in storm water micro drainage improvements (ICR, paragraph 23, no description of how this outcome was measured).

Overall, the efficacy of the project to achieve this PDO is rated **Modest** due to both low achievement and lack of evidence. While number of beneficiaries is a required outcome indicator, it is not sufficient in itself to demonstrate project achievement. The rating is set due to a combination of low achievement of output targets and lack of relevant outcome indicators to demonstrate achievement at outcome level.
OBJECTIVE 1 REVISION 2
Revised Objective
To improve selected urban services and public urban spaces in participating city regions.

Revised Rationale
There was no change in the objective, but target values of outcome indicators were revised.

Revised TOC: The reallocation of funds did not change the TOC.

REVISED OUTPUTS:

In Kandy: The following outputs achieved its targets:

- 5 silt traps were installed around Kandy Lake. The revised target was five.
- 13.7 km of water transmission and distribution pipes were replaced. The revised target was 13 km.
- 9 km of roads along Dharmashoka Mawatha and Katugastota-Madiwela were rehabilitated. The revised target was nine km.
- 4.4 km of underground storm water drainage was rehabilitated. The revised target was four km.
- In Kandy four parks were improved as targeted, including the walkability around Kandy Lake, the rehabilitation of the car park rooftop, the George De Silva Park, viewing decks at Tomlin Park, and Arthur Seat.
- In Kandy, the improved parks benefited around 5,000 visitors to the Tooth Relic temple, including 1,500 visitors a day, and 21 vendors selling food and souvenirs to visitors (ICR, paragraph 24). The ICR did not report any data to support the claim of increase in small business income.

In Galle: The following outputs achieved or almost achieved its targets:

- 2 km of new or rehabilitated streets with sidewalks. The revised target was two km.
- 13.7 km of major canals and local drains rehabilitated along Morogoda Ela and Meda Ela. The revised target was 14 km.
- 1.5 km of new or rehabilitated ocean pathways were constructed. The revised target was 1.2 km.
- In Galle, the Galle Fort area was restored and conserved, attracting 1,200 visitors on weekends since March 2022. The Bank team clarified that no targets were set for the number of visitors.

In Jaffna, the following outputs achieved its targets:

- An integrated asset management plan was prepared, with an asset management system developed and adopted as targeted.
- 1.63 km of storm water drainage was reinstated. The revised target was 1.6 km.
- 6 public conveniences were constructed or rehabilitated. The revised target was six.
In Jaffna, most of the effort to enhance the old Kachcheri building, the Old Park attached to it, and the community ponds, which absorbed rainwater and provided recreational space to the community were cancelled. Overall, outcome in Jaffna to enhance urban public space was negligible (ICR, paragraph 26).

**REVISED OUTCOME:** The following outcomes were partially or not achieved:

- 575,924 people benefited from the improved urban services. The revised target was 650,000 persons.
- The objective of enhancing the public urban spaces was partially achieved. According to the Bank team, there were no targets established for the urban spaces.

Overall, the efficacy of the project to achieve this objective is rated **Modest**.

**Revised Rating**

**Modest**

**OBJECTIVE 1 REVISION 3**

**Revised Objective**

To improve selected urban services and public urban spaces in participating city regions.

**Revised Rationale**

**Revised TOC:** The PDO was unchanged. The TOC was revised because the partial cancelation of funds that were originally transferred for the KMTT was now to be a new standalone Bank project. The delay in KMTT design and insufficient time for construction of KMTT within the project period led to this restructuring and revised TOC.

**Revised inputs:** The KMTT input was cancelled. Other changes included a change in implementation agency from the Ministry of Megapolis and Western Development to the Ministry of Urban Development, Water Supply, and Housing Facilities. The economic analysis was adjusted to reflect the exclusion of KMTT from the list of sub-projects in Kandy. Another revised input was the addition of Contingent Emergency Response Component (CERC).

**Revised Outputs:** The revised output excluded KMTT. Other changes include revisions to end target of outcome indicators in Kandy. CERC did not include any added outputs.

In **Kandy** and in **Galle**, there were no changes to the target output indicators or to the outputs achieved.

In **Jaffna**, the following achieved its revised targets:

- 6 public conveniences (toilets) were constructed or rehabilitated. The revised target was six.
- The following targets were not achieved, and the corresponding indicators were dropped:
  - 10,000.00 square meters of urban walkability enhancements was not achieved.
  - Designated cycle lanes with a target of 16 km was also not achieved.
CERC was not triggered, had no allocation, no target outputs, and no achievements.

**Revised Outcomes:** The revised outcome indicators achieved its targets:

- 575,924 people benefited from the improved urban services. The revised target was 570,000 persons.
- 51 percent of the beneficiaries were female as targeted.
- 100,498 square meters of new or rehabilitated urban public spaces in Kandy, Galle, and Jaffna were completed. The revised target was 100,000 square meters.
- The outcome indicator associated with reduced area at risk of flooding in Galle was dropped because of the difficulties in measuring this indicator.

Overall, the efficacy of the project to achieve this objective is rated **Substantial**. Funds were cancelled and target values were reduced to match what has already been achieved. These outcomes were reasonable to indicate that achievement in improving selected urban services and enhancing public urban spaces in Kandy, Galle, and Jaffna.

**Revised Rating**
Substantial

### OBJECTIVE 1 REVISION 4

**Revised Objective**
To improve selected urban services and public urban spaces in participating city regions.

**Revised Rationale**

**Revised TOC:** The TOC reflected cancelled activities in Jaffna that were still at the design and/or procurement stage and hence could not be completed by the closing date. The uncommitted balance in Jaffna financed the AF to finance the government's other ongoing COVID-19 pandemic response. No revised outputs or outcomes were added in the results framework. CERC was not added to the TOC because the COVID-19 response was a separate standalone project, like the KMTT. In Jaffna, the target of 16 km of designated cycle lanes was dropped.

**Revised OUTPUTS:**

In **Kandy** and in **Galle**, no further changes in the target values of target indicators or in the outputs as previously achieved.

In **Jaffna** the following outputs achieved its revised targets:

- 1.6 km of storm water drains in Yamnua Road and Grusoult Veethy to Matthews road drainage was completed. The revised target was 1.6 km.
- 2 pilot community ponds to improve city functions was constructed. The revised target was two.
- 3 strategic plans and studies were completed. The revised target was three.
2 Community consultation for ponds were organized with at least 1/3 women participants. The revised target was two.

Revised Outcomes: The outcomes from the prior revisions remained unchanged. The outputs achieved its revised targets and only revised the number of beneficiaries to 574,878 to achieve the target under the above restructuring.

Overall, the efficacy of the project to achieve this objective is unchanged from above and is rated Substantial for this revision. The outputs achieved all its revised targets, and the one outcome indicator met its revised target. The activities led to outputs that improved selected urban services and public urban spaces in participating city regions.

Revised Rating
Substantial

OVERALL EFFICACY
Rationale
Overall, the efficacy of the project to achieve the singular original objective is rated Modest. The level of achievement of outcome is rated Modest due to both low achievement and insufficient evidence. A split rating of the outcome is undertaken (see Section 6 below).

Overall Efficacy Rating
Modest

Primary Reason
Insufficient evidence

5. Efficiency

Economic Efficiency: At appraisal, a cost benefit analysis was undertaken for the first-year investments, that have been identified in Kandy and Galle. The analysis used a 10 percent discount rate. The economic internal rate of return (EIRR) for the Kandy investments including KMTT, was 12.37 percent with a Net Present Value (NPV) of US$41.4 million. The estimated EIRR without KMTT was 14.46 percent, with NPV at US$31.4 million. The EIRR to upgrade three by-pass roads was 22.7 percent. The EIRR for the Galle investments to rehabilitate the Morogoda Ela (canal) used the avoided losses method and was estimated at 14.2 percent. Following the framework design, investments to be undertaken at implementation were to meet a minimum EIRR of 11 percent. Smaller investments would meet minimum service standards under a cost effectiveness analysis (PAD, paragraph 30).

At closing, the cost benefit analysis used the same 10 percent discount rate (ICR, Annex 4, paragraph 4). The EIRRs ranged from 23 to 42 percent when using the "with" and "without" scenarios. The EIRRs ranged from 18 to 34 percent when sensitivity analysis was applied (a 20 percent increase in costs and 20 percent reduction in benefits). The investment costs applied to the roads in Kandy, Galle, and Jaffna. Benefits were the savings in
vehicle operating costs and in travel time. The National Planning Department publication, "Assessing Public Investments in the Transport Sector" supplied the data. The Road Development Authority (RDA) collected provincial data in 2016. Econometric analysis forecasted growth over time. Values were updated for inflation using the Consumer Price Index. Traffic data at completion was not representative because of COVID mobility restrictions and fuel shortages in 2022. Benefits from rehabilitating the canal in Galle could not be quantified. The PMU collected data on land values in the areas adjacent to the canal to quantify the benefits. The investments for Morogoda Canal included two bridges with quantifiable traffic benefits. The team ensured that costs were not duplicated in analyzing land values. The cost benefit analysis at entry was not comparable at closing because of the framework approach to design, which identified investments during implementation.

Administrative and Operational Efficiency: The project had an original commitment of US$147 million. An additional US$55 million expanded the project ambition and scope by adding Jaffna to balance regional urban agglomeration (ICR, paragraph 8). However, implementation delays led to the cancellation of US$65 million previously allocated for KMTT to finance a standalone KMTT project. Another US$27 million was cancelled and financed an AF to the ongoing COVID-19 project (P173867 and P174291). These implementation delays cancelled uncommitted activities in Jaffna and raised questions on the readiness to implement the AF (see Section 8 Assessment of Bank Performance at Entry below). A total of US$92 million or 46 percent of all credit was cancelled. Implementation revealed the difficulties of preparing and simultaneously executing over 100 civil works and capacity building contracts, in three different locations. Weak project and contract management and works supervision led to significant delays in procurement and implementation, incomplete works, and cancelled sub-projects. Contractors faced labor shortages and a lack of available equipment because of the COVID-19 lockdowns.

Overall, the reasonable economic efficiency of the project was overshadowed by the administrative and operational inefficiencies of the project. Efficiency is rated Modest.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

<table>
<thead>
<tr>
<th>Rate Available?</th>
<th>Point value (%)</th>
<th>*Coverage/Scope (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>□ Not Applicable</td>
</tr>
<tr>
<td>ICR Estimate</td>
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<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>□ Not Applicable</td>
</tr>
</tbody>
</table>

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The relevance of objective is rated Substantial with moderate shortcomings because of the limited relevance to the Bank's strategy. However, with the SCD and updated country report in October 2022 designed to inform the
forthcoming CPF, the PDOs appeared to be substantially relevant to both the country and the Bank’s plans in urbanization. The efficacy of the project to achieve its objective is rated overall Modest. Revisions to the results indicators that supported the TOC showed that the rating of the efficacy of the project to achieve its unchanged objective reached a Substantial rating after funds to support the KMTT and the additional funds for activities in Jaffna could not be completed in time and were cancelled.

The scope/target value of indicators changed, as reflected in the following restructurings: the first (R1) when AF was added; the second (R2) target values of outcome indicators were revised; the third (R3) cancelled the KMTT input and revised the end targets of outcome indicators, the fourth (R4) was to cancel funds and reduce targets for Jaffna. Efficiency is rated Modest. A split rating was applied to the overall outcome presented in the table below and reached an overall rating of Moderately Unsatisfactory.

<table>
<thead>
<tr>
<th>Factors \ Restructurings</th>
<th>Original 2014</th>
<th>AF R1 2016</th>
<th>R2 2018</th>
<th>R3 2020</th>
<th>R4 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevance of Objective</td>
<td>Substantial</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Efficacy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Objective 1 - improve urban services/urban space</td>
<td>Modest</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revised scope to add Jaffna</td>
<td>Modest</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revised scope to move $ to KMTT</td>
<td>Modest</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revised scope to cancel $</td>
<td>Substantial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revised scope to reuse Jaffna $ for COVID-19</td>
<td>Substantial</td>
<td></td>
<td></td>
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<tr>
<td>Overall Rating of Efficacy</td>
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<td>Modest</td>
<td>Modest</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td>Efficiency</td>
<td>Modest</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall Outcome</td>
<td>MU</td>
<td>MU</td>
<td>MU</td>
<td>MS</td>
<td>MS</td>
</tr>
<tr>
<td>Disbursements (US$ millions, cumulative)</td>
<td>9.8</td>
<td>46.25</td>
<td>62.55</td>
<td>79.1</td>
<td></td>
</tr>
<tr>
<td>Net Disbursements (US$ millions)</td>
<td>9.8</td>
<td>36.45</td>
<td>16.3</td>
<td>16.55</td>
<td>8.8</td>
</tr>
<tr>
<td>Share of Disbursements as a percentage of total disbursements (US$87.9 million)</td>
<td>11.15</td>
<td>41.47</td>
<td>18.54</td>
<td>18.83</td>
<td>10.01</td>
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<tr>
<td>Numerical Value of Outcome</td>
<td>0.33</td>
<td>1.24</td>
<td>0.56</td>
<td>0.75</td>
<td>0.40</td>
</tr>
<tr>
<td>Numerical Value of Outcome and Overall Outcome</td>
<td>0.33+1.24+0.56+0.75+0.40 = 3.29 = MU</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Outcome Rating
   Moderately Unsatisfactory

7. Risk to Development Outcome

The following pose risks to the development outcomes of the project:
**Economic risk:** This is a substantial risk. The macroeconomic condition of the country is affected by the resource requirements to meet its substantial debt. The current macro-economic crisis in Sri Lanka will likely affect the availability of the required level of funding to sustain project outcomes in the near term.

**Political risk.** This is a substantial risk. Change in government leadership in response to the economic crisis may signal reduced commitment to the changes introduced by the project.

**Institutional risk.** This is a substantial risk. In this project, high vacancies and staff turnover marked project management. These staffing gaps pose a substantial risk because staff trained may not remain with the implementation agency or with other entities tasked with O&M functions. The political risk noted above exacerbates this risk. In addition, the institutional mechanisms were not reported to ensure that collaboration among the various agencies was in place to address staffing needs.

**Operations and Maintenance (O&M) risk.** This is a substantial risk. In this project, completed infrastructure and services depend on available resources for its O&M. For example, the Galle Heritage Foundation, the Archaeology Department, and the Galle Municipal Council were to collaborate for adequate O&M financing of the completed Galle Fort Rampart. In improved delivery of basic services, the municipal council would also need to collaborate with agencies such as the Road Development Authority and the Provincial irrigation department to sustain the services delivered. The report did not indicate how the various collaborations would be reflected in each agency's financial commitments.

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**8. Assessment of Bank Performance**

**a. Quality-at-Entry**

The Bank team identified, prepared, and appraised the project consistent with the Bank's fiduciary role. The Bank team identified and prepared this project as the initial step to implement the country's Strategic Cities Development Program and was relevant to the Bank's complementary strategy for the country (see Section 3 Relevance of Objective above). The following lessons informed design based on the experience with the country's Metro Colombo Urban Development Project (MUCDP) and other similar Bank-financed projects worldwide. These were: (i) avoiding a piece-meal approach to investing in city priorities; (ii) adopting a long-term vision in urban regeneration by integrating all sectors (e.g., Singapore, Seoul, and Cape Town); and (iii) including the preservation of the historic landscape in urban design. This last lesson was evident in the design of sub-projects in historic Kandy and Galle. Details such as urban furnishing, signage, provision of sidewalks, location and design of bus stops, safety features (e.g., bollards, raised pedestrian pavements) (PAD, paragraph 11).

The Bank team conducted the technical, financial and safeguards appraisal of this multi-sector project using a framework approach where Year 1 investments were identified, and detailed designs prepared. Subsequent sub-project investments were to be finalized during implementation. EIRR thresholds were established. Risks were adequately assessed but the mitigation measures proved incomplete.

The implementation arrangements were too complex, and its requirements underestimated. The implementing agency was to be the same agency MUCDP used, the Ministry of Defense and Urban Development. This agency was to collaborate with the municipal councils in Kandy and Galle, and other
agencies managing specific sectors, such as the Road Development Authority (RDA), the Provincial Irrigation Department (PID) in Galle, the Urban Development Authority, the Archaeology Department, and the Sri Lanka Land and Development Corporation (SLLDC). Implementation risks at the city level were correctly assessed as substantial but the mitigating measures proved inadequate, as the implementing agency did not have the capacity or resources to manage several simultaneous projects.

The Bank team underestimated the time required to improve the capacity of the PMU and the PIUs. In addition, most of the Year 1 investments were not ready for implementation and the readiness to implement the AF was inadequately assessed as well (see below). The M&E system did not include indicators in the results framework that were specific, measurable, achievable, relevant, and time bound (SMART) (see Section 9 M&E Design and Implementation below) and several relevant indicators at outcome level were missing. This weakness affected the project reporting and remained unaddressed at supervision (see below). The Bank team clarified that substantial counterpart funding was available for land acquisition, resettlement, taxes, and salaries.

Overall, the Bank team performance at entry is rated **Moderately Unsatisfactory**. There were significant shortcomings in assessing the implementation risks. The mitigating measures in appraising the AF proved insufficient to overcome the lack of readiness to implement.

**Quality-at-Entry Rating**
Moderately Unsatisfactory

b. Quality of supervision

The Bank team conducted 17 supervision missions, including virtual ones, during the seven-year implementation period. Three Task Team Leaders (TTLs), all based in Colombo, supported the project. Experts in urban development, municipal engineering, urban upgrading, environmental and social safeguards, procurement, and financial management provided technical support, as needed. The Bank safeguards and fiduciary specialists ensured compliance with Bank policies.

The design of the investments using the framework approach proved problematic. Four years into implementation and by the time of the 2018 MTR in Kandy and Galle, only a few of the investments identified at Year 1 and Year 2 sub-projects in Kandy and Galle were under implementation. Others were under design or procurement stage. The Bank team worked with the government to address implementation delays. AF was secured to rehabilitate two Jaffna roads that the Road Development Authority cost US$15 million and extend the closing date by 24 months.

The unexpected COVID-19 pandemic further delayed implementation. The costs of the KMTT sub-component in Kandy substantially increased. The Bank team restructured the project to transfer funds from Galle and Jaffna to finance KMTT and added CERC. Another restructuring cancelled funds to finance KMTT because KMTT could not be completed in time. The Bank team worked with Jaffna to address the implementation delays. This resulted in another restructuring to cancel funds and finance the AF of an ongoing COVID-19 related project. In all these restructurings, additional financing, and partial cancellations, the Bank team did not address weaknesses of the results indicators.
Overall, the Bank team performance at supervision is rated **Moderately Unsatisfactory**. There were significant shortcomings in the proactively taking advantage of the opportunities to resolve the weaknesses of the results indicators.

With the Bank performance at entry and at supervision both rated Moderately Unsatisfactory, the overall Bank performance is rated **Moderately Unsatisfactory**.

### Quality of Supervision Rating
Moderately Unsatisfactory

### Overall Bank Performance Rating
Moderately Unsatisfactory

### 9. M&E Design, Implementation, & Utilization

**a. M&E Design**

The M&E design was developed based on the “framework” approach. This meant that sub-project activities were to be identified and designed at implementation following a general framework of interventions. The outcome indicators lacked focus on impact on beneficiaries. Project indicators did not capture the benefits for the population (ICR, paragraph 53). The outcome indicators were more at an output or intermediate level at best, and there were few other outcome indicators in addition to the number of beneficiaries. The PDO outcome indicator for reduced flood risk did not use a hydraulic model. This indicator was dropped as part of the AF, as it was deemed difficult to measure. No measure for the flood reduction system was developed in Galle. Indicators were not specific, monitorable, achievable, relevant, or time bound. The M&E design was to be embedded in the Project Implementing Unit of the implementing agency and those of the participating cities. The M&E design for data collection, analysis, and reporting was complex and proved inadequate.

**b. M&E Implementation**

M&E was implemented by the PMU, supported by the city level PIUs, and the Project Partner Agencies (PPAs). A dedicated full time senior M&E officer was hired only after the 2018 MTR. The PIUs lacked the expertise needed to supervise multi-sectoral activities and lacked understanding of data sources or methods for progress reporting. The project baseline was only done after the MTR and the project database only maintained after the MTR. At AF, the project added seven intermediate results indicators to capture the outcome achievements in Jaffna. Indicators were revised to accompany the reduced level of project ambition as funds were cancelled at restructurings. Weaknesses in M&E design, including the lack of relevant indicators, were not corrected during implementation. Travel restrictions due to COVID-19 lockdowns affected data collection (ICR, paragraph 56) towards the end of the project period. Evidence of project outcomes were collected after the restrictions were eased. Beneficiaries were not reported to have been involved in defining target indicators or assessing their achievement. There was no indication that M&E functions and processes were likely to be sustained after project closing.
c. M&E Utilization

The M&E data informed discussions during missions, the MTR, and restructurings. The M&E data informed all stakeholders of status but with no evidence provided. Data at MTR justified the partial reallocation of AF to KMTT because of implementation delays in Jaffna. These delays also pointed to the weak capacity of the Jaffna PIU and poor performance of consultancy firms that both the PMU and the Bank addressed. The M&E system had inadequate indicators and negatively affected project reporting.

The overall quality of M&E is rated Modest. A strengthened M&E system and staffing in the Kandy and Galle PIUs was undertaken after the MTR. As a result, a functional M&E system was in place after the MTR.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

Environmental Safeguards. The project was assigned an Environmental Category "A." The following safeguards policies were triggered: Environmental Assessment (OP/BP 4.01); Natural Habitats (OP/BP 4.04); Physical Cultural Resources (OP/BP 4.11); Involuntary Resettlement (OP/BP 4.12), and Forests (OP/BP 4.36). The government disclosed the Environmental Assessment and Management Framework (EAMF) in country and through the Bank InfoShop on November 15, 2013. Sub-project site-specific safeguard instruments were prepared during implementation following the framework approach of the project.

Several subprojects faced compliance challenges. The contractor did not use the approved dump sites for dredged sediment. Some were dumped at construction sites along the canal banks with potential runoff to waterways and flooding. Incomplete construction in a number of sections posed safety issues to the public using the roads and residing along the banks. On the gabion construction, coffer dams on the canal were not removed at completion, culverts and cross drains were partially completed in several locations and left with inadequate safety measures. Technical assistance and corrective measures addressed negligence and inadequate site supervision by the contractor and the supervision consultant of construction sites, waste disposal, occupational and public health, and safety. Compliance improved over time.

A fatal accident occurred in Jaffna on November 2020. The Project Management Unit (PMU) prepared a fatality report, root cause analysis, implemented corrective measures to avoid recurrence, and gave the victim's family the required compensation. The PMU conducted training programs on Environmental Health and Safety (EHS) implementation, compliance monitoring, and public awareness on waste management, hygienic aspects. The PMU assessed and documented the environmental risks related to the reduced
The project complied with environmental and social safeguards (ICR, paragraph 58).

Social Safeguards: Social assessment at appraisal found that some historical and cultural sites in the two cities may be affected and triggered Physical Cultural Resources (OP/BP 4.11) and Involuntary Resettlement (OP/BP 4.12). Both Kandy and Galle were UNESCO World heritage sites with Physical Cultural Resources (PCRs) that have been inventoried and mapped by the Department of Archaeology (DOA) and the Central Environmental Authority (CEA). According to the EAMF, prior permits were to be secured and Archaeological Impact Assessments (AIAs) were to be conducted, as needed. The PMU prepared a Social Management Framework (SMF) that included a Resettlement Policy Framework (RPF) and completed social surveys and Resettlement Action Plans (RAPs). An audit of the RAP was carried out on November 30, 2019. The original RAP identified 841 Affected Peoples (APs). 769 of the 841 APs equaling 91 percent participated in the meetings of the Entitlement Assessment Committee (EAC). 735 of the 769 APs equaling 95 percent received the agreed compensation. 492 APs were eligible for livelihood support, 417 of these 492 APs equaling 85 percent prepared business plans, and 184 of these 492 APs equaling 37 percent started their businesses. The government spent US$2.8 million of its co-financing (out of a total US$7.8 million) to implement the RAP.

Acquisition of private land, the recovery of state land required for the project, and compensation to affected parties were completed prior to civil works following the national legal and regulatory framework, and in compliance with the World Bank safeguard instruments. The project completed compensation payments to 2,141 landowners for 2,889 plots of land acquired in the participating cities. The project avoided or minimized involuntary resettlements. When this was not feasible, the project assisted displaced persons to improve or restore their livelihoods and standards of living in real terms relative to the pre-displacement levels.

The project contributed to the conservation of cultural heritage properties in UNESCO World Heritage sites in Kandy and Galle. However, the Jaffna Old Kachcheri restoration could not be implemented due to the poor performance of the design firm. The design was eventually completed and turned over to the Urban Development Authority (UDA). This was the first urban project in Sri Lanka to implement a Physical Cultural Resources (PCR) screening and management tool, PCR and culture-specific screenings, and Heritage Impact Assessments (HIAs) per the EAMF for all sub-projects within or in the immediate vicinity of these heritage assets. The Galle Fort Ramparts restoration demonstrated good practices under the PCR policy. The PMU developed a communication piece on the PCR planning and management processes and highlighted the treatment of chance finds. The Ministry of Tourism reports that the Galle Fort Rampart was one of the most visited places in Sri Lanka.

A four-tier Grievances Redress Mechanism (GRM) was implemented at the site, sub-project, project, and national levels led respectively by a dedicated social development officer, a Grievance Redress Committee (GRC); the Project Director; and an Independent Grievance Panel (IGP) Under the 2013 Land Acquisition Regulations, the project established a Land Acquisition and Resettlement Committee (LARC) to serve as an appeal mechanism for project affected persons if they were dissatisfied with the statutory compensation offered. All GRM cases received by the PMU were addressed.

b. Fiduciary Compliance
Financial Management: The project complied with the Bank financial management policies. Accurate Interim Unaudited Financial Reports and audit reports were submitted on time. Several annual audit reports indicated "qualified audit opinions", but without major financial management shortcomings or accountability issues. According to the Bank team, the "qualified opinion" referred to the presentation or classification in the annual financial statements. The Bank team reviewed the reasons for the qualified opinion and determined that these had no impact on the eligibility of incurred expenditures documented by the project. These were not deemed as financial management or accountability issues. Initial accounting, bookkeeping, and weak internal audit deficiencies were noted but improved over time, evident in the Satisfactory rating of Financial Management in all supervision mission reports.

Procurement: The PMU started with both a Deputy Project Director for Procurement and a Procurement Officer. An engineer was added. More than 100 activities were initially planned. Procurement staffing was initially inadequate. Initial procurement delays occurred. Procurement Post Reviews found no significant deviations in Bank procurement requirements. Procurement performance was rated Satisfactory during the first two years of implementation. Ineffective contract administration marked the latter stages of the project.

A Deputy Project Director managed contract administration separately from procurement, but inadequate contract management capacity resulted in delays and contractual issues. Several contracts were terminated due to poor contractor performance, poor construction quality, and non-compliance with safeguards requirements. Restructuring allowed the use of Force Account to complete the Morogoda Ela (Canal) contract in Galle. The Force Account was to be implemented by the government-owned Sri Lanka Land Reclamation and Development Corporation (SLLRDC), known in the field of canal dredging, river embankment works, and with Bank-financed Force Account experience. The use of Force Account allowed the completion of the urgently needed works, avoided further adverse environmental and social impacts, such as flooding, displacement of people, public safety, and financial losses to affected people.

c. Unintended impacts (Positive or Negative)

d. Other

---

11. Ratings

<table>
<thead>
<tr>
<th>Ratings</th>
<th>ICR</th>
<th>IEG</th>
<th>Reason for Disagreements/Comment</th>
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<tbody>
<tr>
<td>Outcome</td>
<td>Moderately Unsatisfactory</td>
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</tr>
<tr>
<td>Bank Performance</td>
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<td>Moderately Unsatisfactory</td>
<td></td>
</tr>
<tr>
<td>Quality of M&amp;E</td>
<td>Modest</td>
<td>Modest</td>
<td></td>
</tr>
</tbody>
</table>
12. Lessons

Three lessons were derived from the operations, with one added from the result of the experience in procurement. These are presented below with slight modification (ICR, paragraphs 76-78):

- **When implementation capacity is not carefully assessed, it may affect the effective use of Additional Financing (AF).** In this project, AF was to be used for activities in Jaffna to achieve regional balance. The proposed activities in Jaffna were appraised using a framework approach. A framework approach in design calls for a general agreement of the major sectors to be financed under the project with specific studies, detailed designs, and implementation planning to be carried out after the Board approval (ICR, paragraph 44). This meant that Jaffna's implementation capacity was not adequately assessed beforehand. As a result, almost 50 percent of the US$55 million AF credit to finance additional activities in Jaffna was cancelled because it lacked implementation capacity. Design was delayed and the activities would not be completed during the project period. The AF is a useful instrument for activities that can be realistically implemented within the AF credit/loan timeline.

- **A complex implementation design involving multi-city and multi-sectoral projects may jeopardize the project's achievements.** In this project, design called for urban upgrading, preserving cultural heritage, reducing the risk from floods, and city-wide transport reform across three different cities. This design proved difficult to implement. The limited resources in multi-disciplinary sector expertise in Galle, Kandy and Jaffna, limited its project management and implementation capacity. Multiple agencies at central and local levels were needed to collaborate closely. This newly introduced arrangement led to further implementation delays. A simpler design, such as multi-city but focusing on a specific sector, or a pilot multi-sector project in a single city with sufficient capacity may have been a more useful sequence to address city-wide challenges. AF would then be used as an instrument to expand the project based on the evidence.

- **Ensuring flexibility in construction contracts may facilitate accommodation of external shocks.** In this project, external shocks included the Easter Sunday bombing, the COVID-19 pandemic, and the country’s deteriorating economic condition. These shocks led to lack of materials that caused delays and price escalation of materials and works. Future projects may design construction contracts to include a cost escalation methodology to account for rapid escalation of commodity and building materials prices, exchange rates fluctuations, or war elsewhere in the world that may affect supply chains.

- **A joint procurement and contract administration unit within the PMU may benefit implementation.** In this project, the procurement unit was separate from contract administration. Contract administration operated independently under the supervision of a Deputy Project Director but without adequate capacity for contract management. This resulted in delays in contract management and environmental compliance issues. The project could have benefitted from a single unit for contract administration and management, with adequate qualified staff (ICR, paragraph 65).
13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR was consistent with the guidelines and provided an overview of the operation with some shortcomings. The quality of evidence became reliable after the MTR when the M&E system was strengthened. A baseline was established. The indicators as defined were reported and monitored. However, the report claimed achievement of some outcomes that were not supported by data. Annex 7 provided additional evidence, such as photos, to further support the project outcome. The same annex provided useful analysis of the split rating of the outcome although the lack of relevant indicators remained unaddressed. Annex 4 provided useful information on project efficiency. The report candidly pointed out that the M&E design lacked SMART indicators that would have strengthened the quality of evidence to support project outcomes. There were some inconsistencies with figures, including the cancelled funds, the restructuring associated with CERC, and its allocation used as AF to another ongoing COVID-19 related project in Sri Lanka.

The restructuring papers from the Bank's Operations Portal clarified the data although the ICR briefly mentioned it (ICR, paragraph 15). The report could have made more explicit references with the transfers made and its impact on the Theory of Change and the results framework indicators to help clarify the sources and uses of funds among the different components. Annex 3 for example, did not show the original and revised allocations. Actual disbursements at closing of the project components were missing with no reference to cancelled funds. The Bank team added clarifications. Lessons were based on project experience, particularly in simplifying design to come up with evidence to help justify AF to expand project ambition.

a. Quality of ICR Rating

Modest