

## Sri Lanka : Support to Colombo Urban Regeneration Project

### 1. Project Information

|                                |  |                       |                                |
|--------------------------------|--|-----------------------|--------------------------------|
| Project ID:                    | P000081  | Instrument ID:        | L0081A                         |
| Member:                        | Sri Lanka  | Region:               | Southern Asia                  |
| Sector:                        | Urban  | Sub-sector:           | Affordable housing             |
| Instrument type:               | <input checked="" type="checkbox"/> Loan:200.00 US Dollar million<br><input type="checkbox"/> Guarantee  | Lead Co-financier(s): |                                |
| ES category:                   | A  | Borrowing Entity:     | Ministry of Finance, Sri Lanka |
| Implementing Entity:           | Urban Development Authority (UDA), Sri Lanka   |                       |                                |
| Project Team Leader:           | Toshiaki Keicho  |                       |                                |
| Responsible DG:                | Rajat Misra  |                       |                                |
| Responsible Department:        | INF1   |                       |                                |
| Project Team Members:          | <p>Xiang Xu, Team Member;<br/>         Susrutha Goonasekera, OSD - Social Development Specialist;<br/>         Chongwu Sun, OSD - Environment Specialist;<br/>         Christopher Damandl, Project Counsel;<br/>         Ting Wang, Alternate Counsel;<br/>         Rizal Rivai, OSD - Procurement Specialist;<br/>         Nurul Mutmainnah, OSD - Financial Management Specialist;<br/>         Xiang Xu, Back-up PTL;<br/>         Jinghui Li, Project admin</p>   |                       |                                |
| Completed Site Visits by AIIB: | <p>Jul, 2019<br/>         Project launch mission: July 1 to 5, 2019<br/>         Oct, 2019<br/>         Supervision mission: October 14-21, 2019<br/>         Dec, 2019<br/>         Visit to brief the new Secretary of Project status: December 16-17, 2019<br/>         Jan, 2020<br/>         Technical mission focusing on social issues: January 20-23, 2020<br/>         Mar, 2020<br/>         Several visits during the COVID-19 lockdown to the PMU and sites by Colombo-based Bank staff and the local consultant.<br/>         Jul, 2020<br/>         Virtual Mission on July 3, 9 and 10, 2020<br/>         Oct, 2020<br/>         Several visits during the COVID-19 lockdown to the PMU and sites by Colombo-based Bank staff and the local consultant.<br/>         Feb, 2021<br/>         Several visits during the COVID-19 lockdown to the PMU and sites by Colombo-based Bank staff and the local consultant.<br/>         Jul, 2021<br/>         Virtual Mission on July 5, 6, 2021 ( wrap up mission on July 12, 2021)<br/>         Sep, 2021<br/>         High level virtual meeting on September 3rd<br/>         Nov, 2021<br/>         several virtual meetings to follow up on the agreed action at the high level meeting in September<br/>         Feb, 2022<br/>         Virtual meeting specifically for on-going implementation under Component 1. Virtual</p> |                       |                                |

|                                   |   |
|-----------------------------------|---|
|                                   | <p>meeting specifically for E&amp;S training under Component 3.<br/>May, 2022<br/>May 30- June 3rd Mission for the Project Change on Emergency health component<br/>Jun, 2022<br/>Field mission undertaken by Senior Social Development Specialist<br/>Sep, 2022<br/>Virtual meetings with PMU to discuss Project changes and component 1 updates.<br/>Oct, 2022<br/>Several virtual meetings for updates.<br/>Nov, 2022<br/>Several virtual meetings for updates<br/>Dec, 2022<br/>Several virtual meetings for updates.<br/>Jun, 2023<br/>Mid-Term Review Mission</p> |
| Planned Site Visits by AIIB:      | <p>Dec, 2023<br/>Field visits including a follow-up on Project change</p>   |
| Current Red Flags Assigned:       | 1   |
| Current Monitoring Regime:        | Regular Monitoring  |
| Previous Red Flags Assigned:      | 1   |
| Previous Red Flags Assigned Date: | 2022/12   |

## 2. Project Summary and Objectives

The Project aimed at improving housing conditions and services as well as reducing inefficient land use in the city of Colombo by resettling low-income and lower-middle-income households from low-rise neighborhoods into high-rise apartment complexes. The Project also intended to free up centrally located land for public purposes such as urban infrastructure and parks as well as commercial redevelopment. The Project supports the implementation of the government's Urban Regeneration Program (URP), but with significant improvements, such as improvements in technical design, resettlement and post-resettlement policy, housing maintenance arrangements, innovation in redevelopment approach, and review of longer-term sustainability of public intervention in housing.

In early 2022, due to the economic crisis, GoSL requested AIIB to restructure the Project to reallocate USD70 million from the Project to purchase essential medicines and other medical supplies. On June 29, 2022, the Project restructuring was approved by the board.

After the Project restructuring, the Project comprises four components: Component 1: Housing Construction. Supports the construction of about 4,100 affordable housing units for under-served communities in multi-story apartment buildings; Component 2: Facilitation of Land Redevelopment. Maximizes the revenue from the land that will become available after the households from the under-served communities move into the new apartment units constructed under the URP; Component 3: Technical Support and Project Management. Supports project management and other measures to improve implementation of the URP; and Component 4: Emergency Health. Supports purchasing critical medicines and other medical supplies. Newly added Component 4 will be implemented by the Ministry of Health.

The Project objective has been updated 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.

Furthermore, to address the difficulties in allocating domestic funding during the current economic situation, GoSL requested AIIB on December 30, 2022, May 4, and June 19, 2023 to provide 100% financing for the project activities except those expenses financed domestically such as: 1) PMU's operational cost; 2) construction supervision by the State Engineering Corporation (SEC); and 3) taxes. Originally, civil works under the Project were to be financed jointly by AIIB (85%) and GoSL (15%).

### 3. Key Dates

|                |               |                        |               |
|----------------|---------------|------------------------|---------------|
| Approval:      | Apr. 04, 2019 | Signing:               | Apr. 25, 2019 |
| Effective:     | Jul. 22, 2019 | Restructured (if any): | Jun. 29, 2022 |
| Orig. Closing: | Dec. 31, 2025 | Rev. Closing (if any): |               |

### 4. Disbursement Summary (USD million)

|                   |        |   |                    |
|-------------------|--------|---|--------------------|
| Contract Awarded: |        | Cancellation (if any):                  | 0.00               |
| Disbursed:        | 73.18  | Most recent disbursement (amount/date): | 6.53/Jul. 12, 2023 |
| Undisbursed:      | 126.82 | Disbursement Ratio (%) <sup>1</sup> :   | 36.59              |

### 5. Project Implementation Update

On early 2022, due to the on-going economic crisis, GoSL requested AIIB to (i) create a new emergency component in project to finance urgent expenditure needs of the health sector; (ii) reallocate USD70 million from the Project to purchase essential medicines and other medical supplies and (iii) update results framework. On June 29, 2022, the restructuring was approved by the board. After the reallocation, the scope of original activities has been scaled down and most Project funds have been committed.

An AIIB Mission visited Sri Lanka from June 28 to July 11, 2023 to carry out a Mid-Term Review (MTR) to: 1) conduct a detailed assessment of the implementation progress towards the Project objective and agreed outcomes; 2) review the Project's status regarding environmental and social (E&S) safeguards as well as procurement and financial management (FM) compliance; and 3) conduct re-appraisal of each Project component and recommend the necessary project changes.

#### Component 1:

Component 1 was agreed in the first Project launch mission (July 1-5th, 2019) to be implemented over three overlapping phases to allow lessons learned from the first phase to be incorporated into the later phases and the third phase was dropped due to the restructuring. After the reallocation, the target number of 5,500 units (9 sites) has been adjusted to 4,100 units (6 sites). Five of six sites' construction has started but has been experiencing delays due to unexpected events including the economic and political crisis, which triggered some civil unrest and led to shortage of supplies such as fuel or construction material from the second half of 2021 to the present. All of the ongoing contracts are experiencing significant cost overrun due to the high inflation and cost escalation of fuels and construction materials. The MTR Mission agreed with GoSL on the measures to address the delays and cost escalation (see the section 12 below).

#### Component 2:

The Project was to facilitate redevelopment of identified sites by the private sector or PPP through planning and

<sup>1</sup> Disbursement Ratio is defined as the volume (e.g. the dollar amount) of total disbursed amount as a percentage of the net committed volume.

designing, marketing and, in some cases, providing site improvements and infrastructure. Initially, ten sites were proposed for land redevelopment. After the restructuring, possible coverage of sites under the Component 2 has been reduced. A consultant for preparing rules and procedures for land redevelopment has yet to be appointed. This is a dated covenant and was due January 22, 2020. The consultancy service for facilitating land redevelopment in Colombo is currently under procurement. The MTR Mission agreed that any planned civil works in this component will be dropped.

#### Component 3:

The procurement process is underway for assistance for community mobilization and livelihood development and socio-economic survey for project-affected households.

The consultancy for 'Review 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 close to completion, with report being finalized. The MTR Mission has agreed to drop any other consultancy activities in this component.

#### Component 4:

Following the restructuring approved in June 2022 (to repurpose USD70 M to support the procurement of essential medicines and medical supplies), USD14 M were disbursed in October 2022, mainly for retroactive financing (the Bank approved USD16.38 M eligible for retroactive financing). The PMU of the Health System Enhancement Project (HSEP), funded by the Asian Development Bank (ADB), was strengthened by hiring additional staff (during preparation, it was agreed that the HSEP's PMU will implement the AIIB's Emergency Health Operation). The Project Delivery Strategy (PDS) and Procurement Plan (PP) for the new packages were finalized in December 2022.

The implementation progress of component 4 for emergency operation has been extremely slow. Only USD14.4 million has been utilized mainly for retroactive financing. In order to expedite the procurement process, the capacity of PMU and the Technical Evaluation Committee needs to be seriously strengthened.

| Components  | Physical Progress  | Environmental & Social Compliance  | Procurement  |
|---|--|--|--|
| Component 1: Construction of 4,100 housing units across 6 multi-storey apartment complexes. (AIIB USD 108m, GOSL USD 19m) | Construction contracts in five sites are underway with various degrees of progress. There are physical delays due to various factors including the pandemic and material shortages. All of the ongoing contracts are experiencing significant cost overrun due to the high inflation and cost escalation of fuels and construction materials.<br><br>The MTR Mission has decided to drop Site Obeysekarapura which faced serious delays and was previously | AIIB advised the contractor as well as the PMU's environmental officer to ensure E&S compliance, avoid night-time work as much as possible and to undertake a consultation process to inform the neighborhood of any unavoidable night-time work in advance.<br><br>The E&S Monitoring Report for the second quarter of 2023 has been shared by the PMU to provide the compliance status during the reporting period.<br><br>The post-resettlement livelihood development consultancy has been further delayed and has given rise to many issues for the already resettled. The PMU has come forward to implement some | The contract for Obesekarapura site has been terminated due to contractor's poor performance, and it is agreed that the remaining parts of the work will be dropped. |

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|  | terminated on March 29, 2022. New apartment buildings will need financial assistance to connect with Colombo's existing sewerage systems.   | livelihood activities but is constrained by budget.<br><br>AIIB will review the proposal for sewerage systems.                                       |  |
| Component 2: Provisions for planning, basic infrastructure, and marketing (in the case of commercial redevelopment) to facilitate redevelopment of newly vacated land. (AIIB USD 10m; GOSL USD 1m) | Terms of reference for consultancy is agreed and finalized. The consultancy service for facilitating land redevelopment in Colombo is currently under procurement. The MTR Mission has agreed that any planned civil works in this component will be dropped. | N/A  | The Request for Expression of Interest (REOI) and the Terms of Reference (TOR) have been finalized for Consultancy Service for Facilitating Land Redevelopment in Colombo, and the selection process has commenced. It is expected that consultants will be on board by end of November 2023.  |
| Component 3: Technical Support and Project Management (AIIB USD6m; GOSL USD 10m)   | An interim report and a revised draft policy report for Improvement of Urban Regeneration Policies were submitted.  | Trainings for PMU on Environmental & Social were taken place.  | The Request for Expression of Interest (REOI) and the Terms of Reference (TOR) have been finalized for Consulting Services for Socio Economic Survey, Resettlement Action Plan (RAP) Development, Community Mobilization, Capacity Improvement and Livelihood Development, and the selection process has commenced. It is expected that consultants will be on board by end of November 2023.<br><br>The Project is supported by a dedicated PMU team with considerable knowledge on procurement, and the Procurement Plan is updated. |
| Component 4<br>Emergency health  | This component was added through the Project change in June 2022. Only USD14.4 M has been utilized for retroactive financing.   | The activities under these components are likely to have minimal or no adverse E&S impacts as they only support the procurement of medical supplies. | Procurement delays have been hampering the Project implementation. Actions agreed are as follows:<br>1. Add more Procurement Consultants, to be recruited by end of August 2023<br>2. Publish an updated General Procurement Notice to update the market, by end of August 2023  |

|  |  |  |  |
|--|--|--|--|
|  |  |  | <p>3. Hold market sounding by end of September 2023</p> <p>4. Review procurement strategy and submit updated Procurement Plan by end of August 2023</p> <p>5. Enhance the technical specification and transparency on the evaluation criteria in the tender documents.</p> |
|--|--|--|--|

**Financial Management:**

The IFR Q1 and Q2 2023 have been submitted on time to the Bank. The final review on IFR Q2 2023 is currently still underway following confirmation on several items from project. The current total disbursement is USD 59.2 million with the most recent withdrawal application was processed in July 2023 totaling USD 6.53 million. The project closing date extension by two years was discussed during the MTR mission. The project needs to calculate and update disbursement plan until the proposed closing date. The FY2022 audit report was submitted on time before the due date on June 30, 2023. The audit opinion is qualified due to accrued account payable (from construction progress) and advance payment of materials that are not properly presented in the financial statement for government reporting purpose. As the disbursement and expenditures figures are aligned with the Bank records, the audit report is deemed acceptable to the Bank. The auditors highlighted few internal control deficiencies in the management letter that need to be addressed by the Project and shared the updates with the Bank in timely manner.

**6. Status of the Grievance Redress Mechanism (GRM)**

A functioning, three-tier GRM is under operation. A total of 168 complaints had been received at three project implementation sites with 61 requests for additional housing, 3 requests for commercial units and a further 7 requests for reduced rental amounts. 34 of the 61 requests for additional housing units had been granted via the Special Appeals Committee with all other complaints being resolved in close consultation with the complainant.

Potential complaints related to Component 4 will be handled by the existing GRM under MOH.

**7. Results Monitoring (please refer to the full RMF, which can be found on the last page of this PIMR)**

The project incurred further delays due to the on-going Economic Crisis. Based on the restructuring, the results monitoring framework and its targets have been updated.

**Remarks:**

Intermediate Result Indicators #2 is related to Component 2 and is on hold for further discussion. Intermediate Result Indicators #4 is newly added from this quarter to monitor component 4: emergency health.

| Project Objective Indicators  | Indicator level | Unit of Measure               | Cumulative Target Values |       |        |        |        |        |        |        |        |        |        |        |        |        |        |        |            |        | Frequency | Responsibility | Comments          |        |
|---|-----------------|-------------------------------|--------------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------------|--------|-----------|----------------|-------------------|--------|
|   |                 |                               | Baseline                 |       | 2019   |        | 2020   |        | 2021   |        | 2022   |        | 2023   |        | 2024   |        | 2025   |        | End Target |        |           |                |                   |        |
|   |                 |                               | Year                     | Value | Target | Actual | Target | Actual | Target | Actual | Target | Actual | Target | Actual | Target | Actual | Target | Actual | Year       | Target |           |                |                   | Actual |
| Aggregated number of beneficiaries (households) that move from underserved settlements to newly constructed housing with improved utilities and facilities and under improved resettlement practice | Project         | Number                        | 2019                     | 0     | 0      | N/A    | 0      | N/A    | 0      | N/A    | 0      | N/A    | 0      | 0      | 2000   |        | >4000  |        | >4000      |        | Yearly    | UDA/PMU        |                   |        |
| New URP policies (with improvement on the housing allocation, transfer and management and acceptable to the Bank) adopted   | Project         | Yes/No                        | 2019                     | No    | No     | No     | No     | No     | No     | No     | No     | No     | Yes    | No     | Yes    |        | Yes    |        | Yes        |        | Yearly    | UDA/PMU        | Work in progress. |        |
| % of value increase of the land made available for redevelopment under the project compared with the government's baseline price  | Project         | %                             | 2019                     | N/A   | N/A    | N/A    | N/A    | N/A    | N/A    | N/A    | N/A    | N/A    | N/A    | N/A    | >30%   |        | >30%   |        | >30%       |        | Yearly    | UDA/PMU        |                   |        |
| Updating the City Guidance Plan of Colombo  | Project         | (P=In Preparation, A=Adopted) | 2019                     | N/A   | N/A    | N/A    | P      | P      | P      | P      | P      | P      | A      | P      | A      |        | A      |        | A          |        | Yearly    | UDA/PMU        |                   |        |

| Project Intermediate Indicators | Indicator level | Unit of Measure | Cumulative Target Values |       |        |        |        |        |        |        |        |        |        |        |        |        |        |        |            |        | Frequency | Responsibility | Comments |        |
|---------------------------------|-----------------|-----------------|--------------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------------|--------|-----------|----------------|----------|--------|
|                                 |                 |                 | Baseline                 |       | 2019   |        | 2020   |        | 2021   |        | 2022   |        | 2023   |        | 2024   |        | 2025   |        | End Target |        |           |                |          |        |
|                                 |                 |                 | Year                     | Value | Target | Actual | Target | Actual | Target | Actual | Target | Actual | Target | Actual | Target | Actual | Target | Actual | Year       | Target |           |                |          | Actual |

|  |         |        |      |     |   |     |     |     |     |     |     |     |     |      |     |      |      |     |      |                      |                    |                    |
|--|---------|--------|------|-----|---|-----|-----|-----|-----|-----|-----|-----|-----|------|-----|------|------|-----|------|----------------------|--------------------|--------------------|
| Aggregated number of housing units constructed using the improved technical design and standards | Project | Number | 2019 | 0   | 0 | N/A | 0   | 0   | 0   | 0   | 0   | 0   | 0   | 2000 | 0   | 3500 | 4100 |     | 4100 | Yearly               | UDA/PMU            | Under construction |
| Area of redeveloped land used for public and high-value uses                                     | Project | Acres  | 2019 | 0   | 0 | N/A | 0   | 0   | 0   | 0   | 0   | 0   | 0   | 0    | 0   | 0    | >10  |     | >10  | Yearly               | UDA/PMU            |                    |
| Percentage of SWM grievances addressed   | Project | %      | 2020 | N/A |   |     | N/A | N/A | N/A | N/A | N/A | N/A | 50  | N/A  | 50  |      | 50   |     | 50   | Midterm & Completion | UDA/PMU            |                    |
| The number of health institutions/hospitals benefiting from the emergency component              | Project | Number | 2022 | N/A |   |     |     |     |     |     |     | N/A | N/A | N/A  | N/A | 490  |      | N/A | 490  |                      | Ministry of Health |                    |