

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 <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; Shonell Robinson, OSD - Financial Management Specialist; Susrutha Goonasekera, OSD - Social Development Specialist; Chongwu Sun, OSD - Environment Specialist; Hari Bhaskar, Team Member; Christopher Damandl, Project Counsel; Ting Wang, Alternate Counsel; Yangzom Yangzom, OSD - Procurement Specialist; Yuka Terada, Back-up PTL; Xiang Xu, Project admin</p>		
Completed Site Visits by AIIB:	<p>Jul, 2019 Project launch mission: July 1 to 5, 2019 Oct, 2019 Supervision mission: October 14-21, 2019 Dec, 2019 Visit to brief the new Secretary of Project status: December 16-17, 2019 Jan, 2020 Technical mission focusing on social issues: January 20-23, 2020 Mar, 2020 Several visits during the COVID-19 lockdown to the PMU and sites by Colombo-based Bank staff and the local consultant. Jul, 2020 Virtual Mission on July 3, 9 and 10, 2020 Oct, 2020 Several visits during the COVID-19 lockdown to the PMU and sites by Colombo-based Bank staff and the local consultant. Feb, 2021 Several visits during the COVID-19 lockdown to the PMU and sites by Colombo-based Bank staff and the local consultant. Jul, 2021 Virtual Mission on July 5, 6, 2021 (wrap up mission on July 12, 2021) Sep, 2021 High level virtual meeting on September 3rd Nov, 2021 Several virtual meetings to follow up on the agreed action at the high level meeting in September Feb, 2022</p>		

	<p>Virtual meeting specifically for on-going implementation under Component 1. Virtual meeting specifically for E&S training under Component 3. May, 2022</p> <p>May 30- June 3rd Mission for the Project Change on Emergency health component Jun, 2022</p> <p>Field mission undertaken by Senior Social Development Specialist Sep, 2022</p> <p>Virtual meetings with PMU to discuss Project changes and component 1 updates. Oct, 2022</p> <p>Several virtual meetings for updates. Nov, 2022</p> <p>Several virtual meetings for updates Dec, 2022</p> <p>Several virtual meetings for updates.</p>
Planned Site Visits by AIIB:	<p>Apr, 2023</p> <p>Mid-term Review 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:	2022/06

2. Project Summary and Objectives

The Project supports the Government of Sri Lanka's (GoSL) Urban Regeneration Program (URP) launched in 2011. Based on the survey carried out by the UDA in 2011, the GoSL estimated that about 68,000 households were living in over 1,500 "underserved settlements," accounting for roughly 50 percent of Colombo City's population. Thus, 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 URP-III, 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: 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.

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:	54.54	Most recent disbursement (amount/date):	14.00/Oct. 18, 2022
Undisbursed:	145.46	Disbursement Ratio (%) ¹ :	27.27

5. Project Implementation Update

Apart from close consultation with the PMU to follow up on the delays, there was a high-level discussion in September 2021 to discuss on the way forward where both parties agreed to defer USD50 million till June 2022 to ensure to get the Project back on track. 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. On July 1, 2022, AIIB sent a letter to GoSL to restore the deferred USD50 million to support the smooth implementation of the remaining components under the Project. After the reallocation, the scope of original activities has been scaled down and most Project funds have been committed.

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. According to the Project Document, the initially intended number of units to be financed is up to 5,500. After the reallocation, the target number of 5,500 units (9 sites) has been adjusted to 4,100 units (6 sites). All 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. To mitigate the further delays, PMU has facilitated support to obtaining fuel, to-date obtaining fuel for construction is difficult and is affecting the implementation progress.

Component 2:

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

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

Component 3:

Various activities are still under finalization of the procurement. The procurement process for a consultancy service to review the urban regeneration program policies has been completed. The procurement processes for the following activities are underway: (i) training of government officials in urban planning; (ii) assistance for community mobilization and livelihood development; (iii) improvement of national housing policies; (iv) consultancy service for updating the Colombo's City Guide Plan; and (v) a socio-economic survey for project-affected households.

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 first procurements are expected to be initiated in February 2023.

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)	All six sites have started construction. There are physical progress delays due to various factors including the pandemic and material shortages.	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. 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 livelihood activities but is constrained by budget.	The contract for Obesekarapura site has been terminated due to contractor's poor performance, and the PMU is exploring options to award the remaining parts of the work.
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	Terms of reference for consultancy is agreed and finalized.	N/A	Procurement documents are being reviewed and under discussion for hiring of consultants.

1m)			
Component 3: Technical Support and Project Management (AIIB USD6m; GOSL USD 10m)	Interim report for Improvement of Urban Regeneration Policies was submitted.	Trainings for PMU on Environmental & Social were taken place.	Contract awarded and signed for Review and Improvement of Urban Regeneration Policies. For remaining Policy consultants, Terms of reference, scope of assignment and the procurement strategies are being revised. AIIB conducted a training for PMU and other relevant ministry on Procurement and its relevant policy.
Component 4 Emergency health	This component was added through the Project change in June 2022	N/A	A post-procurement review was conducted by AIIB to identify contracts eligible for retroactive financing. The first procurements are expected to be launched in February 2023 and most of them should be finalized over 2023.

Financial Management:

The Interim Financial Report (IFR) Q3 2022 that is due on September 30, 2022, was submitted to the Bank with a slight delay and required revision due to errors. The final revised version was submitted and deemed satisfactory by the Bank on November 11, 2022. The Project submitted a withdrawal application totaling USD 10 million in December 2022 with the total claimed expenditures of USD 5.97 million which is currently under process. The FY2021 audit report (audit to financial statement and management letter) due on June 30, 2022, was fully submitted to the Bank on October 27, 2022, or four-month after the due date. The report is deemed to be acceptable as the auditors expressed that the financial statements present fairly in all material aspects, including the financial position of the Project. 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. As for the FY2022 audit report, the management letter should be submitted as one package document with audit report, no later than June 30, 2023.

6. Status of the Grievance Redress Mechanism (GRM)

A functioning, three-tier GRM is under operation. The first and the second tiers, at the field and PMU level, have received complaints and resolved in a timely manner (154 grievances to date). The Government established Special Appeals Committee – for the appeal of additional housing – had received 70 appeals at the end of October 2022 with 35 appeals approved and 35 appeals rejected.

A complaint received by the PMU from one of the contractors that relates to its inability to take trucks in and out of

the Project site (due to an encroachment of the road leading to site) had been successfully resolved with the help of a re-survey of the road.

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	N/A	0	N/A	0	N/A	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	No	Yes		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	A	P	A	A		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	2000		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		>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		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		490			N/A			490	Ministry of Health	