

Project Implementation Monitoring Report (#12)

Reporting Period From 2023/07 To 2024/03

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:	Xiang Xu, Team Member; Susrutha Goonasekera, OSD - Social Development Specialist; Chongwu Sun, OSD - Environment Specialist; Christopher Damandl, Project Counsel; Ting Wang, Alternate Counsel; Rizal Rivai, OSD - Procurement Specialist; Nurul Mutmainnah, OSD - Financial Management Specialist; Xiang Xu, Back-up PTL; Jinghui Li, Project admin		
Completed Site Visits by AIIB:	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 Virtual meeting specifically for on-going implementation under Component 1. Virtual		

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	<p>meeting specifically for E&S training under Component 3. May, 2022 May 30- June 3rd Mission for the Project Change on Emergency health component Jun, 2022 Field mission undertaken by Senior Social Development Specialist Sep, 2022 Virtual meetings with PMU to discuss Project changes and component 1 updates. Oct, 2022 Several virtual meetings for updates. Nov, 2022 Several virtual meetings for updates Dec, 2022 Several virtual meetings for updates. Jun, 2023 Mid-Term Review Mission Jan, 2024 Implementation Review Mission</p>
Planned Site Visits by AIB:	<p>Jun, 2024 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:	2023/06

2. Project Summary and Objectives

The original Project aimed at improving housing conditions and services for Colombo's low-income households by constructing high-rise apartment complexes and by resettling these households into the 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, and review of longer-term sustainability of public intervention in housing.

In early 2022, due to the economic crisis, GoSL requested AIB 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 multi-story apartment buildings to provide about 4,100 affordable housing units for under-served communities; 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. The newly-added Component 4 is being implemented by the Ministry of Health

The Project objective has been updated to reflect the project restructuring, and the new objective is to improve

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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%).

To respond to funding shortage and additional needs for infrastructure development, the Midterm Review (MTR) mission in June/July 2023 agreed with GoSL to formulate another project restructuring proposal, which entails: (i) rescoping of all components; (ii) reallocation of funds between categories and change of financing percentage (the above-mentioned 100% financing by AIIB); (iii) extension of the loan closing date; and (iv) updating of the results framework. The GoSL's approval process of the project restructuring is underway and needs to be expedited.

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:	85.81	Latest disbursement (amount/date):	12.00/Feb. 05, 2024
Undisbursed:	114.19	Disbursement Ratio (%) ¹ :	42.91

5. Project Implementation Update

In 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 Implementation Review Mission visited Sri Lanka from January 17 to 26, 2024 to: 1) conduct a detailed assessment of the implementation progress towards the agreed project outcomes; 2) review the project's status regarding environmental and social safeguards as well as procurement and financial management compliance; 3) review the status of preparation for project changes agreed during the Mid-term Review (MTR) in June/July 2023; and 4) discuss the way forward regarding the emergency health operation which was repurposed from the Project in 2022.

Component 1:

Component 1 was agreed in the first Project launch mission (July 1-5th, 2019) to be implemented over three

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.

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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 some unexpected events including the economic and political crisis, which triggered some civil unrest and led to shortage of supplies such as fuel or construction materials 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 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 in 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. This consultancy is completed, with a policy report finalized. Besides (i) Consulting service for Socio Economic Survey, RAP Development, Community Mobilization, Capacity Improvement, and Livelihood Development, (ii) Consultancy Services to Establish the Information System to Update Database System for Resettlement, (iii) Consultancy Services on Independent Project Monitoring and Evaluation of RAP, (iv) consultancy for 'Review and Improvement of Urban Regeneration Program's Policies on Housing Allocation, Transfer and Management' and (v) trainings, 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 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 of component 4 for emergency operation has been extremely slow. 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 of apartment complexes in five sites is underway with various degrees of progress. There are physical delays due to various factors including the pandemic and material shortages. All	The E&S related actions under previous progress reviews have been satisfactorily undertaken. Observations made during field visits to the construction sites noted that each contractor had its site-specific ESMP and had assigned an E&S/Health and Safety officer to coordinate E&S management. Local	All contracts have been signed. There will be contract variations currently being processed for the following: 1. Construction of sewer line at Stadiumgama Housing units to

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	<p>of the ongoing contracts are experiencing significant cost overrun due to the high inflation and cost escalation of fuels and construction materials.</p> <p>The MTR Mission has decided to drop Site Obeysekarapura which faced serious delays. This contract and was previously terminated on March 29, 2022 due to contractor's poor performance. Some of the new apartment buildings will need financial assistance to connect with Colombo's existing sewerage systems and other basic infrastructures that sustain apartment buildings.</p>	<p>laborers are not recruited for security reasons but women workers accounted for 10-20%.</p> <p>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.</p> <p>The E&S Monitoring Report for the third quarter of 2023 has been shared by the PMU to provide the compliance status during the reporting period.</p> <p>The post-resettlement livelihood development consultancy has been further delayed. The PMU has come forward to implement some livelihood activities but is constrained by budget.</p> <p>AIIB has reviewed the proposal for sewerage systems which will need further environmental due diligence.</p>	<p>Madampitiya Main Line;</p> <p>2. Construction of temporary sewer connection for Colombage Mawatha;</p> <p>3. Construction of sewer line at 750 housing units Ferguson Road to Madampitiya main line.</p>
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)	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 due to the fund shortage.	N/A	The selection of Consultancy Service for Facilitating Land Redevelopment in Colombo is on hold and awaiting for the revision of the Terms of Reference (TOR). Once the TOR is completed, the Request for Expression of Interest (REOI) will be revised.
Component 3: Technical Support and Project Management (AIIB USD6m; GOSL USD 10m)	A policy report for Improvement of Urban Regeneration Policies was finalized.	N/A.	The selection of consultant under Component 3 is still progressing for the following 3 packages: (i) Consulting service for Socio Economic Survey, RAP Development, Community Mobilization, Capacity Improvement, and Livelihood Development, (ii) Consultancy Services to

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			Establish the Information System to Update Database System for Resettlement, and (iii) Consultancy Services on Independent Project Monitoring and Evaluation of RAP. It is expected that the consultants will be on board before Q3/2024.
Component 4 Emergency health	This component was added through the Project change in June 2022.	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 continue. Based on the Procurement Plan, there are 910 packages to be delivered in CY 2023 for an estimated amount of equivalent to USD 51 million. The progress to date is that 38 packages have been contracted for a total amount of equivalent to USD10.5 million.

Financial Management:

The project maintains a timely submission of unaudited interim financial report. The last IFR Q4 2023 was submitted to the Bank on time, and the issues related to minor discrepancies of interest and commitment fee figures from the last review have been resolved. As of March 2024, the total project disbursement is USD 85.81 million (including interest and commitment fee), or equivalent to 42.91% of the total allocation of USD 200 million. The latest disbursement was made in early February 2024 totaling USD12 million. The project plans to submit another withdrawal request totaling USD13 million in the second half of 2024. This disbursement plan aligns with the approved budget of USD25 million by the parliament for 2024. The project needs to prepare detailed work plan and disbursement estimates until project closing date once the project change (including the proposed closing date extension to December 31, 2027) is finalized. As for FY2023 audit report, the project submitted the final account and report to the National Audit Office on February 28, 2024. The FY2023 audit report (including management letter) will be due for submission to the Bank on June 30, 2024.

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. While the number of complaints received is evidence of the awareness among affected households, the Mid-Term Review mission in July 2023 found that there was a need to increase awareness of the Bank's Project-affected People's Mechanism (PPM) among the PAPs and the worker's complaints box was positioned inappropriately.

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

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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	0	>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	No	Yes			Yes		Yearly	UDA/PMU	Policy report finalized.
% 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%	N/A	>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	P	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	