

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 USD million <input type="checkbox"/> Guarantee	Co-financier(s):	
ES category:	A	Borrower:	Democratic Socialist Republic of Sri Lanka
Implementing Entity:	Urban Development Authority (UDA), Sri Lanka		
Project Team Leader:	Toshiaki Keicho		
Project Team Members:	Aditi Khosla,Project Counsel;Shonell Robinson,OSD - Financial Management Specialist;Susrutha Goonasekera,OSD - Social Development Specialist;Chongwu Sun,OSD - Environment Specialist;Yangzom Yangzom,OSD - Procurement Specialist;		
Completed Site Visits by AIIB:	<p>Dec, 2019 Visit to brief the new Secretary of project status: December 16-17, 2019</p> <p>Jul, 2019 Project launch mission: July 1 to 5, 2019</p> <p>Oct, 2019 Supervision mission: October 14-21, 2019</p> <p>Jan, 2020 Technical mission focusing on social issues: January 20-23, 2020</p> <p>Jul, 2020 Virtual Mission on July 3, 9 and 10, 2020</p> <p>Mar, 2020 Several visits during the COVID-19 lockdown to the PMU and sites by Colombo-based Bank staff and the local consultant.</p> <p>Oct, 2020 Several visits during the COVID-19 lockdown to the PMU and sites by Colombo-based Bank staff and the local consultant.</p> <p>Feb, 2021 Several visits during the COVID-19 lockdown to the PMU and sites by Colombo-based Bank staff and the local consultant.</p> <p>Jul, 2021 Virtual Mission on July 5, 6, 2021 (wrap up mission on July 12, 2021)</p> <p>Nov, 2021 several virtual meetings to follow up on the agreed action at the high level meeting in September</p> <p>Sep, 2021 High level virtual meeting on September 3rd</p>		
Planned Site Visits by AIIB:	Subject to lifting of travel restriction		
Current Red Flags Assigned:	2		
Current Monitoring Regime:	Enhanced Monitoring- Level I		
Previous Red Flags Assigned:	2		
Previous Red Flags Assigned Date:	2021 Q3		

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 proposed 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. The Project comprises three components: Component 1: Housing Construction. Supports the construction of about 5,500 affordable housing units for underserved communities in multi-story apartment buildings; Component 2: Land Redevelopment. Maximizes the revenue from the land that will become available after the households from the underserved communities move into the new apartment units constructed under the URP; and Component 3: Technical Support and Project Management. Supports project management and other measures to improve implementation of the URP. The Project objective is to Improve housing conditions of low-income communities and increase land use efficiency in Colombo through investments in the construction of affordable housing and redevelopment of land, with associated policy and system enhancements.

3. Key Dates

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

4. Disbursement Summary (USD million)

Contract Awarded:	121.82	Cancellation (if any):	0.00
Disbursed:	26.23	Most recent disbursement (amount/date):	5.00/Dec. 07, 2021
Undisbursed:	173.77	Disbursement Ratio (%) ¹ :	13.11

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 to discuss on the way forward where both parties agreed to restructure components 1 and 2, as well as the deferment of USD50 million till June 2022 to ensure to get the Project back on track. Details of the proposed restructuring are now being discussed and agreed for Component 1. Revised proposal was received on December 22nd 2021 and is currently under review.

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.

The PMU awarded all four sites, Applewatta Phase II, Colombage Mawatha, Obeysekerapura, and Stadiumgama, of

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.

the first phase in 2020 with a total contract value of USD79.36 million. The second phase sites are Furgusion, and Madampitiya and contracts were awarded in 2021 with a total contract value of USD42.47 million. In total, out of allocated USD180 million under Component 1, USD122.83 million for 4074 housing units has been committed. Two out of six sites, Obesekarapura and Madampitiya, faced social issues as the site required resettlement of families requiring the site-specific Resettlement Action Plan (RAP) to be implemented. Both RAPs were finalised and published in 2019. Madampitiya faced further social issues, and the project boundary had to be revised. The RAP of Madampitiya was revised and finalised. According to the Project Document, the initially intended number of units to be financed is up to 5,500. During the follow-up meetings after the high-level meeting in September, it has been agreed to prioritise financing identified infrastructure gaps under the first and second phase sites over the remaining 1,400 units construction under the third phase.

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. Through follow-up meetings, it has been agreed to hire one consulting firm to clarify overall approaches in selecting and prioritising the site instead of hiring several consulting firms for each initially identified site. Revised TOR has yet to be received to date. 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.

Component 3:

Various activities are still under finalisation of the procurement due to tighten COVID restriction in this quarter, very slow progress were made. One of the most critical activities which is to appoint consultancies for a Review of Urban Regeneration Program (URP) policies has been finalised.

*Progress report: Since September 2021, progress report has been submitted monthly by PMU. Bank has requested PMU to submit compiled semi-annual report for July-Dec 2021.

Components	Physical Progress	Environmental & Social Compliance	Procurement	Financial Management
Component 1: Construction of 5,500 housing units across 8 or 9 multi-storey apartment complexes. (AIIB USD 153m, GOSL USD 27m)	Six site's contractors mobilized (first and second phase)and 4 sites have started construction.	Resettlement of Project Affected Households (PAHs) at Obeyesekerapura site completed and livelihood support interventions are ongoing. Madampitiya RAP revised on two occasions: first to include additionally identified PAHs and second to shift the project boundary. Madampitiya RAP second revision finalized and project boundary has been shifted to exclude 11	Four contracts under first phase and two contracts under second phase have been signed and the remaining contracts under third phase are on hold.	The final audit report comprising of the audited financial statements and management letter (ML) was provided on September 24, 2021, approximately three months after the due date. The auditor expressed a qualified opinion on the financial statements, indicating that the financial statements present a true and fair view of the project financial position, except for presentation of

		families who did not agree to resettlement but option for relocation to remain open.		loan interest, commitment fee, loan proceeds balance, and exchange loss. However, the audit report is deemed acceptable to the Bank considering that the actual project expenditures (excluding the interest, commitment and front-end fee) per the ML reconcile to the Bank's record. The Bank also provided a few recommendations on the enhancements of the presentation of future financial statements. In addition, the auditor highlighted that there is a delay in the process of contractors' awarding, consultant recruitment, internal auditor appointment, and financial management system development, that may adversely impact implementation progress and overall project schedule. The PMU has been making efforts to address these audit matters raised.
Component 2: Provisions for planning, basic	On-hold for further discussion	One of the proposed pilot site	the land redevelopment	

<p>infrastructure, and marketing (in the case of commercial redevelopment) to facilitate redevelopment of newly vacated land. (AIIB USD 35m; GOSL USD 5m)</p>		<p>for implementation of the land redevelopment “Model C” (Project Document, Annex 2, paragraph 10), had E&S issues. Some of the requested clarification has been answered such as study and data collection of the site by the National Building Research Organization. The required assessment report based on corrected data has not yet submitted.</p>	<p>consultants are proposed to be hired under the same component. Further discussion needed on how many consultants to be hired.</p>	
<p>Component 3: Technical Support and Project Management (AIIB USD6m; GOSL USD 10m)</p>	<p>Inception report for Improvement of Urban Regeneration Policies was submitted.</p>	<p>Disclosure of revised RAP for Madampitiya in the UDA website has been done.</p>	<p>Contract awarded and signed for Review and Improvement of Urban Regeneration Policies, contract for Socio Economic Baseline Survey and preparation of RAPs is currently at negotiation stage, contract for Community Mobilization is at Combined Technical and Financial Evaluation Stage. ToR for other consulting services have been cleared by the Bank.</p>	

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. The Government established Special Appeals Committee – for the appeal of additional housing – had received 55 appeals, and all resolved. An E&S training, including a session on

GRMs, was held for PMU staff with resource persons comprising of Bank staff and consultants.

7. Results Monitoring

The project incurred further delays due to COVID-19 lockdown and containment measures.

The result framework does not show much progress but all the first and second phase work contracts under Component 1 have been awarded with some delays because of COVID-19 lockdown and full compliance with AIIB E&S policies, especially for resettlement.

Adaptation of New URP policies and the City Guidance Plan of Colombo are due towards the final year of the project implementation and are reported as work in progress.

Project Objective Indicators #1

1. Aggregated number of beneficiaries (households) that move from underserved settlements to newly constructed housing with improved utilities and facilities and under improved resettlement practice

Year	Target	Actual	Comments, if any
Apr. 01, 2019	Baseline : 0	N/A	
Apr. 01, 2020	0	N/A	
Apr. 01, 2021	0	N/A	
Apr. 01, 2022	0	N/A	
Apr. 01, 2023	2,000	N/A	
Apr. 01, 2024	4,000	N/A	
Apr. 01, 2025	>5,000	N/A	

Project Objective Indicators #2

2. New URP policies (with improvement on the housing allocation, transfer and management and acceptable to the Bank) adopted (Yes/No)

Year	Target	Actual	Comments, if any
Apr. 01, 2019	Baseline: No	N/A	Work in progress
Apr. 01, 2020	No	N/A	Work in progress
Apr. 01, 2021	No	N/A	Work in progress
Apr. 01, 2022	Yes	N/A	Done
Apr. 01, 2023	Yes	N/A	Done
Apr. 01, 2024	Yes	N/A	Done
Apr. 01, 2025	Yes	N/A	Done

Project Objective Indicators #3

3. % of value increase of the land made available for redevelopment under the project compared with the government's baseline price

Year	Target	Actual	Comments, if any
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Apr. 01, 2019	Baseline: N/A	N/A	
Apr. 01, 2020	N/A	N/A	
Apr. 01, 2021	N/A	N/A	
Apr. 01, 2022	> 30%	N/A	
Apr. 01, 2023	> 30%	N/A	
Apr. 01, 2024	> 30%	N/A	
Apr. 01, 2025	> 30%	N/A	

Project Objective Indicators #4

4. Updating the City Guidance Plan of Colombo (P=in Preparation, A=Adopted)

Year	Target	Actual	Comments, if any
Apr. 01, 2019	Baseline: N/A	N/A	
Apr. 01, 2020	P	No	
Apr. 01, 2021	P	Yes	
Apr. 01, 2022	P	N/A	
Apr. 01, 2023	A	N/A	
Apr. 01, 2024	A	N/A	
Apr. 01, 2025	A	N/A	

Intermediate Result Indicators #1

1. Aggregated number of housing units constructed using the improved technical design and standards

Year	Target	Actual	Comments, if any
Apr. 01, 2019	Baseline: 0	N/A	
Apr. 01, 2020	0	0	
Apr. 01, 2021	0	0	under construction
Apr. 01, 2022	2000	N/A	
Apr. 01, 2023	3500	N/A	
Apr. 01, 2024	4,500	N/A	
Apr. 01, 2025	5,500	N/A	

Intermediate Result Indicators #2

2. Area of redeveloped land used for public and high-value uses (Acres)

Year	Target	Actual	Comments, if any
Apr. 01, 2019	Baseline: 0	N/A	
Apr. 01, 2020	10	0	
Apr. 01, 2021	20	0	
Apr. 01, 2022	35	N/A	
Apr. 01, 2023	55	N/A	
Apr. 01, 2024	75	N/A	

Apr. 01, 2025	>92	N/A	
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Intermediate Result Indicators #3

3. Percentage of SWM grievances addressed.

Year	Target	Actual	Comments, if any
Apr. 01, 2020	N/A	N/A	
Apr. 01, 2021	N/A	N/A	
Apr. 01, 2022	50	N/A	
Apr. 01, 2023	N/A	N/A	
Apr. 01, 2024	N/A	N/A	
Apr. 01, 2025	80	N/A	

Remarks:

Four Contractors awarded in 2020 have started the construction and still on-going even during the lock-down situation of COVID-19. The one of the two contractors awarded in 2021 is awaiting for the resolution of pending resettlement issues. We expect progress further for the next reporting period. Intermediate Result Indicators #2 is related to Component 2 and is on hold for further discussion to restructure the Component to reflect identified gap (lack of basic infrastructure finances for Component 1, etc) . Policy review is expected to progress for the next reporting period.