I. Project Context

Country Context

Sri Lanka needs competitive and dynamic cities to reach its aspiration of becoming an upper-middle-income economy and a global hub by 2016. A country of little more than 20 million people, Sri Lanka has a nominal gross domestic product (GDP) of $2,400 per capita, increasing this to above $4,000 by 2016, as envisioned in the Government of Sri Lanka’s (GoSL’s) medium-term development plan (the Mahinda Chinthana, or MC), requires that economic growth exceed 8 percent per year over the next 5 years, and that total infrastructure investments be 35 percent of GDP—up 10 percentage points from the current level of 25 percent. As per the MC, such investments are needed to transform Sri Lanka into a regional naval, aviation, commercial, and energy hub—and a knowledge link between the East and West. The MC envisions such a profound economic transformation being achieved by 2016 through (i) strengthening cities and improving urban job opportunities, (ii) reducing the share of rural employment from two-thirds to half by 2016, and (iii) increasing the share of the urban population from 25 percent to 35 percent. With the end of civil unrest, Sri Lanka is on a path of rapid urbanization and cities must become more productive and their job markets more competitive.

Sri Lanka needs to tap the competitive advantages of the Colombo Metropolitan Region (CMR) to accelerate growth. Colombo City is the commercial and financial center of the country. The CMR is the international gateway to Sri Lanka and houses most of the country’s manufacturing facilities and services. The three cities of Colombo, Gampaha, and Kalutara—all located within the CMR—are by far the most competitive cities in Sri Lanka. Hence, the CMR will continue to drive the country’s economic development for decades to come. Most of Sri Lanka’s foreign trade passes through the Colombo Port, and the CMR will continue to generate much of the capital, human resources, technology, and services needed for growth in the rest of the country.

II. Sectoral and Institutional Context

- Urban Context

Economic density is concentrated in the CMR, which accounts for almost half of national GDP. A contiguous urban belt encircles Colombo, on the west coast, and spreads both north and south. This is the major urban agglomeration in the country, and is growing faster than any other in Sri Lanka (National Physical Planning Department, 2006). While the CMR covers only about 6 percent of the country’s total land area and is home to 28 percent of its population, it accounts for almost 50 percent of national GDP and 80 percent of industrial value added.

A number of obstacles are preventing the CMR from realizing its full economic potential.

- Infrastructure and services are inadequate, with key bottlenecks in drainage, sewerage, solid waste, and urban transport infrastructure.
- The CMR is highly vulnerable to the effects of flooding, the impacts of which are being exacerbated by climate change and sea level rise. In fact, current rainfall trends hint at larger and more frequent rainfall amounts in future, particularly in the Second Inter-monsoonal period, while sea level rise will further impede gravity drainage (Annex 8 provides more details on the subject). May and November 2010 saw the area impacted by the worst floods in four decades. After witnessing the unprecedentedly high economic losses that resulted, stakeholders reached a consensus that the CMR’s vulnerability to natural disasters requires immediate attention.
- The poor design and maintenance of micro- and macro-drainage systems by the local authorities and the Sri Lanka Land Reclamation and Development Corporation (SLLRDC), illegal encroachments on flood retention areas and along canal banks, and industrial pollution—combined with rapidly changing climate patterns characterized by more frequent and intense precipitation—has further aggravated flooding in the metropolitan area.
- Service and infrastructure provision within the CMR is highly unequal, particularly between the Colombo Municipal Council (CMC) and the peripheral local authorities. Outside the CMC area, solid waste collection is often inefficient, and inadequate sewerage services result in uncontrolled discharge of sewerage into waterways and marshes.
- The limited financial and human resources available to local authorities, combined with their lack of coordination, hinder effective delivery and operation and maintenance (O&M) of local infrastructure services, while management and coordination at the metropolitan level are virtually nonexistent.
The GoSL has launched an ambitious program of economic and physical regeneration for metropolitan Colombo in a bid to transform it into a modern, world-class capital. This program aims to improve the overall urban environment and attract private capital. It encompasses: (i) improvements to the overall quality of life of low-middle and low-income families living in underserved settlements (mostly through resettlement/relocation to subsidized housing); (ii) investments in metropolitan services and infrastructure such as drainage and flood control systems, urban transport, and solid waste management (SWM); and (iii) area-specific investments aimed at leveraging private sector capital (for example, the improvement of historic areas with high tourist potential). The donors’ community and the Bank in particular have been called upon to provide timely support to such programs and sector-investment plans. The Bank’s responsiveness to this request for support by the GoSL will be reflected in the upcoming Country Partnership Strategy (CPS) and its renewed emphasis on urban development.

- Institutional context

The management of metropolitan Colombo involves many institutions. What is generally identified as the Colombo Metropolitan Area (CMA), which accommodates about 2.23 million inhabitants, coincides with the area covered by the Colombo Metropolitan City Corporation (CMCC), the creation of which was approved by the cabinet in March 2011 and which comprises the CMC and four peripheral local authorities within the CMR. The institutional mapping of line agencies currently involved in the planning and delivery of infrastructure and services in the CMA shows that at least 17 are active, each following its own sectoral plans and priorities. The overall lack of interagency coordination results in overlaps and inefficiencies.

Urban planning and flood management in the CMA. In the specific case of flood management, the Urban Development Authority (UDA) is the leading central planning agency, with responsibilities for urban physical planning, regulation, and land development. UDA structural plans that aim to protect wetland areas and canal reservations are not keeping pace with the speed of development on the ground. Meanwhile, the SLLRDC is the main agency responsible for the development of low-lying areas, flood control and drainage investments, and the management and maintenance of the primary canal system. The SLLRDC, however, shares its responsibility with the Ports Authority and Irrigation Department and has limited capacity to proactively manage its system of canals and protect critical retention areas, often having to deal with inherited situations of land filling and the development of retention and reservation areas systematically approved by the UDA and local authorities outside the control of the SLLRDC. The local authorities in the CMA are responsible for the secondary canals and micro-drainage system, which are affected by a chronic lack of maintenance and ad hoc expansion without proper planning. The GoSL moved the UDA and SLLRDC under the Ministry of Defence and Urban Development (MoDUD) in an attempt to use the convening power of this ministry (headed by the president) to ensure interagency coordination around priority issues.

III. Project Development Objectives

The project development objective (PDO) is to support the Borrower to (i) reduce flooding in the catchment of the Colombo Water Basin, and (ii) strengthen the capacity of local authorities in the Colombo Metropolitan Area (CMA) to rehabilitate, improve and maintain local infrastructure and services through selected demonstration investments.

IV. Project Description

Component Name

Component 1: Flood and drainage management.
Component 2: Urban development, infrastructure rehabilitation, and capacity building for Metro Colombo local and central authorities.
Component 3: Implementation Support.

V. Financing (in USD Million)

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<th>For Loans/Credits/Others</th>
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<td>Borrower</td>
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<td>International Bank for Reconstruction and Development</td>
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<td>Financing Gap</td>
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<tr>
<td>Total</td>
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VI. Implementation

A self-standing and ring-fenced PMU has been established under the MoDUD to implement the Metro Colombo Urban Development Project (MCUDP). The PMU will operate under the oversight of a steering committee, chaired by the MoDUD’s secretary and composed of the SLLRDC, UDA, Ministry of Provincial Councils and Local Authorities, National Water Supply and Drainage Board (NWSDB), Ministry of Irrigation, and PLAs. Other ministries and agencies will be identified as stand-by members (for example, the Central Environmental Authority), to be called when relevant issues need to be addressed. The PMU will remain responsible for all fiduciary, M&E, and reporting aspects of the project, while implementation responsibilities will be assigned to the project implementing agencies (PIAs, such as the SLLRDC and UDA) and the Project Local Authorities, assisted by consultants for detail designs and construction supervision to be mobilized as necessary for selected subprojects.

VII. Safeguard Policies (including public consultation)

<table>
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<td>Pest Management OP 4.09</td>
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VIII. Contact point

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