

Sri Lanka: Sri Lanka COVID-19 Emergency and Crisis Response Facility

1. Project Information

Project ID:	P000408	Instrument ID:	L0408A;L0408B
Member:	Sri Lanka	Region:	Southern Asia
Sector:	CRF-Finance/Liquidity	Sub-sector:	
Instrument type:	<input checked="" type="checkbox"/> Loan:180.00 US Dollar million <input type="checkbox"/> Guarantee	Co-financier(s):	
ES category:	FI	Borrowing Entity:	Bank of Ceylon; People`s Bank
Implementing Entity:	Bank of Ceylon; People`s Bank		
Project Team Leader:	Suyez Pinto		
Responsible DG:	Ke Fang		
Responsible Department:	IMD		
Project Team Members:	Jing Ni, Team Member; Liu Yang, Project Counsel; Bernardita Saez, Alternate Counsel; Yogesh Malla, OSD - Financial Management Specialist; Yang Shuai, OSD - Environment & Social Development Specialist; Chitambala Sikazwe, OSD - Procurement Specialist; Can Cheng, Project admin		
Completed Site Visits by AIIB:	None		
Planned Site Visits by AIIB:	None		
Current Red Flags Assigned:	2		
Current Monitoring Regime:	Enhanced Monitoring- Level I		
Previous Red Flags Assigned:	0		
Previous Red Flags Assigned Date:	2021/12		

2. Project Summary and Objectives

Objective: To support and increase the supply of liquidity to corporate and small-medium sized private enterprises in Sri Lanka affected by the economic upheaval due to the coronavirus disease pandemic.

Summary: The project is supported by two sovereign-backed loans, one to each of two state-owned banks, Bank of Ceylon (BOC) and People's Bank (PB). The project will address the urgent need for liquidity by providing credit to corporates and small and medium-sized private enterprises (SMEs). These companies are facing short-term funding challenges due to the outbreak of the coronavirus disease (COVID-19) pandemic and the continued provision of credit is necessary to support the productive capacity of the country. BOC and PB are on-lending the proceeds to corporates and SMEs in the form of short-term working capital loans. Govt of Sri Lanka is the guarantor of the loans. This project has been processed under the AIIB's COVID-19 Recovery Facility (CRF); a framework designed to assist members in responding to the COVID-19 pandemic.

Financial Plan: AIIB loans totaling USD180 million; USD90 million each to BOC and PB. The loans have a final maturity of 7 years, including a grace period of 2 years and 6 months, and is made on standard Fixed Spread Loan terms for sovereign-backed loans with the corresponding average maturity.

3. Key Dates

Approval:	Feb. 25, 2021	Signing:	Mar. 15, 2021
Effective:	Apr. 19, 2021	Restructured (if any):	
Orig. Closing:	Jun. 30, 2022	Rev. Closing (if any):	

4. Disbursement Summary (USD million)

Contract Awarded:		Cancellation (if any):	0.00
Disbursed:	180.00	Most recent disbursement (amount/date):	44.78/Sep. 29, 2021
Undisbursed:	0.00	Disbursement Ratio (%) ¹ :	100.00

5. Project Implementation Update

Both loans to People's Bank (L0408A) and Bank of Ceylon (L0408B) became effective on April 19, 2021. First disbursements of USD 45.225 million to each bank were made on April 22 (BOC) and April 23 (PB), including payment of capitalized upfront fees. BOC disbursed over 80% as sub-loans and applied for a second withdrawal in the amount of USD 44.775 million, which was disbursed on June 28, 2021. PB also disbursed over 80% as sub-loans and applied for a second withdrawal of the amount of USD 44.775 million, which was disbursed on September 29, 2021. Thus, to date both PB and BOC have fully drawn their respective facilities.

Both PB and BOC have paid the second interest payment to AIIB on their respective facilities on time in June 2022 despite the ongoing financial crisis in Sri Lanka and sovereign default on all foreign currency denominated debt (except trade facilities and borrowings from Multilateral Development Banks) announced in April 2022.

Two red flags are being added to the project in this review due to

a)

Financial crisis in Sri Lanka and precarious situation of foreign exchange reserves in the country. Project Team will closely monitor negotiations with IMF and other bilateral/multilateral creditors.

b)

Persistent non-compliance of information undertakings by Bank of Ceylon and People's Bank

Components	Physical Progress	Environmental & Social Compliance	Procurement
Loans to Bank of Ceylon and	N/A - this is loan is to be on-lent for working	The first two sub-loans from each Bank of Ceylon and People's Bank	N/A - The Borrowers are financing working capital

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.

People's Bank	capital purposes so there is no financing of capex	have been prior-reviewed and endorsed by AIIB ES specialists. Additional review were also carried out for corporate and SME loans during the first quarter of implementation.	loans through the facility. Short-term working capital facilities are not expected to be used to finance any capex expenditure projects. The sub-loans are not expected to finance contracts for goods or services. However, if they do, they are likely to be small contracts, in which case the provisions of paragraph 14.4 Financial Intermediaries under the Interim Operational Directive - Procurement Instructions for Recipients would apply, and the beneficiary will procure the items in accordance with the normal procurement practices of Private Entities provided they are acceptable to the Bank.
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Financial Management:

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Both banks have not submitted semester Interim Unaudited Financial Report (IUFR) for period ended December 31, 2021. They were due on February 15, 2022.

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Both banks have not submitted project audit reports for financial year ended December 31, 2021. They were due on June 30, 2022. BOC has informed that M/s Ernest & Young Chartered Accountants is currently carrying out the independent audit of the project for the year ended 31st December 2021.

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BoC has submitted the project internal audit report recently. PB's internal audit report for period ended December 31, 2021 has not been submitted.

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Project team has been consistently following-up with the borrowers for the pending compliances.

6. Status of the Grievance Redress Mechanism (GRM)

An existing GRM in both People's Bank and Bank of Ceylon have been in operation. So far no complaints have been received regarding the project. The information on the AIIB's Project Affected People Mechanism have been incorporated in the Project Operation Manual for both People's Bank and Bank of Ceylon.

7. Results Monitoring

Results monitoring data (quarterly) has been furnished by PB (as of May 31, 2022) and BOC (as of March 31, 2022)

Project Objective Indicators #1

Cumulative value of working capital loans provided to eligible sub-borrowers

Year	Target	Actual	Comments, if any
Apr. 23, 2022	180	188.6	Data as on March 31, 2022 for BOC and May 31, 2022 for PB. USD values presented here are computed using average USD/LKR exchange rate at time of disbursement (approx. LKR 195-198 per USD) (and not the exchange rate as of the reporting dates - LKR 299 per USD as of March 31, 2022 and LKR 360 per USD as of May 31, 2022) to maintain consistency.

Project Objective Indicators #2

Cumulative value of working capital loans provided to SMEs

Year	Target	Actual	Comments, if any
Apr. 23, 2022	108	120.1	Data as on March 31, 2022 for BOC and May 31, 2022 for PB. USD values presented here are computed using average USD/LKR exchange rate at time of disbursement (approx. LKR 195-198 per USD) (and not the exchange rate as of the reporting dates - LKR 299 per USD as of March 31, 2022 and LKR 360 per USD as of May 31, 2022) to maintain consistency.

Project Objective Indicators #3

Cumulative value of working capital loans provided to women led sub-borrowers

Year	Target	Actual	Comments, if any
Apr. 23, 2022	18	12.5	Data as on March 31, 2022 for BOC and May 31, 2022 for PB. USD values presented here are computed using average USD/LKR exchange rate at time of disbursement (approx. LKR 195-198 per USD) (and not the exchange rate as of the reporting dates - LKR 299 per USD as of March 31, 2022 and LKR 360 per USD as of May 31, 2022) to maintain consistency.

Project Objective Indicators #4

Number of eligible sub-borrowers receiving financing

Year	Target	Actual	Comments, if any
Apr. 23, 2022	360	2213	Data as on March 31, 2022, for BOC and May 31, 2022 for PB.

Project Objective Indicators #5

Number of SMEs receiving financing

Year	Target	Actual	Comments, if any
Apr. 23, 2022	320	2153	Data as on March 31, 2022, for BOC and May 31, 2022 for PB.

Intermediate Result Indicators #1

N/A

Year	Target	Actual	Comments, if any
Apr. 23, 2022	N/A	N/A	

Remarks:
