

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:	1		
Current Monitoring Regime:	Regular Monitoring		
Previous Red Flags Assigned:	2		
Previous Red Flags Assigned Date:	2022/06		

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) 2021, 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 interest payment to AIIB on their respective facilities on time both in June 2022 and December 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. Project Team proposes to decrease the number of red flags to one (from two earlier) due to the following:

1. Despite the current financial crisis and shortage of foreign exchange reserves in the country, both BOC and PB have serviced their interest payments on time, validating the preferred creditor status of AIIB.
2. Significant improvement in compliance with information undertakings by Bank of Ceylon and People's Bank.

Components	Physical Progress	Environmental & Social Compliance	Procurement
Loans to Bank of Ceylon and People's Bank	N/A - this is loan is to be on-lent for working capital purposes so there is no financing of capex	The first two sub-loans from each Bank of Ceylon and People's Bank 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. The ES risks of activities financed under the project are expected to mostly be Category	N/A - The Borrowers are financing working capital 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

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.

		C and readily addressed through standard mitigation measures and compliance with the national laws. BOC and PB have not submitted the E&S performance report for 2022 yet and are expected to do so by Feb 2023.	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:

- Both banks have submitted semester Interim Unaudited Financial Report (IUFR) for period ended December 31, 2021 with some delays. The first semester IUFRs (H1 2022) for both banks are overdue.
- Both banks have submitted project audit reports for financial year ended December 31, 2021 with substantial delays. The auditors have provided unqualified audit opinion. Both banks also shared their entity audited financial statements.
- Both banks have submitted the project internal audit report for 2021 with some delays.
- 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 as of September 30, 2022

Project Objective Indicators #1

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

Year	Target	Actual	Comments, if any
Apr. 24, 2022	USD 180 million	USD 188.6 million	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.
Apr. 24, 2023	USD 220 million	Not due	USD 199.6 mio as on September 30, 2022. USD values presented here are computed using average USD/LKR exchange rate at time of disbursement (approx. LKR 195-198 per USD).

Project Objective Indicators #2

Cumulative value of working capital loans provided to SMEs

Year	Target	Actual	Comments, if any
Apr. 24, 2022	USD 108 million	USD 120.1 million	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.
Apr. 24, 2023	USD 132 million	Not due	USD 129.3 million as on September 30, 2022. USD values presented here are computed using average USD/LKR exchange rate at time of disbursement (approx. LKR 195-198 per USD).

Project Objective Indicators #3

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

Year	Target	Actual	Comments, if any
Apr. 24, 2022	USD 18 million	USD 12.5 million	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
Apr. 24, 2023	USD 22 million	Not due	USD 15.6 mio as on September 30, 2022. USD values presented here are computed using average USD/LKR exchange rate at time of disbursement (approx. LKR 195-198 per USD).

Project Objective Indicators #4

Number of eligible sub-borrowers receiving financing

Year	Target	Actual	Comments, if any
Apr. 24, 2022	360	2213	Data as on March 31, 2022, for BOC and May 31, 2022 for PB.
Apr. 24, 2022	450	Not due	2421 as on September 30, 2022.

Project Objective Indicators #5

Number of SMEs receiving financing

Year	Target	Actual	Comments, if any
Apr. 24, 2022	320	2153	Data as on March 31, 2022, for BOC and May 31, 2022 for PB.
Apr. 24, 2023	400	Not due	2356 as on September 30, 2022.

Intermediate Result Indicators #1

N/A

Year	Target	Actual	Comments, if any
Apr. 24, 2022	N/A	N/A	

Remarks: