ASIAN INFRASTRUCTURE INVESTMENT BANK

September 2025

Sovereign-backed Financings

Approval Project Document
P000921- Democratic Socialist Republic of Sri Lanka: Sampur - Kappalthurai Transmission Infrastructure Development Project

Indicative approval route: President
Exceptions to delegation triggered: None

Currency Equivalents

As of April 30, 2025

Currency Unit – Sri Lankan Rupee (LKR)
USD 1.00 = LKR 295.39

Fiscal Year

April 1 – March 31

Abbreviations

ADB	Asian Development Bank
AFD	Agence Française de Développement
AFM	Additional Finance Manager
AIIB	Asian Infrastructure Investment Bank
AOA	Area of Analysis
CEB	Ceylon Electricity Board
CO2	Carbon Dioxide
DSCR	Debt Service Coverage ratio
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EIRR	Economic Internal Rate of Return
ENPV	Economic Net Present Value
ES	Environmental and Social
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESP	Environmental and Social Policy
ESS	Environmental and Social Standards
FIRR	Financial Internal Rate of Return
FM	Financial Management
FNPV	Financial Net Present Value
GBV	Gender Based Violence
GDP	Gross Domestic Product
GHG	Greenhouse-Gas
GRM	Grievance Redress Mechanism
GSS	Grid Substation
GW	Gigawatt
IC	Investment Committee
IDR	Inter Departmental Review
IEE	Initial Environmental Examination
IMF	International Monitory Fund
IPP	Independent Power Producer
ISB	International Sovereign Bond
JICA	Japan International Cooperation Agency
LECO	Lanka Electricity Company
LKR	Sri Lankan Rupee
LNG	Liquefied Natural Gas

LTGEP	Long-Term Generation Expansion Plan
LTTDP	Long-Term Transmission Development Plan
MDB	Multilateral Development Bank
MOF	Ministry of Finance
MOE	Ministry of Energy
MVA	Megavolt-Ampere
MW	Megawatt
NCRE	Non-conventional Renewable Energy
NDC	Nationally Determined Contributions
OCC	Official Creditor Committee
OHS	Occupational Health and Safety
OPF	Operational Policy on Financing
PAA	Paris Agreement Alignment
PD	Project Director
PIE	Project Implementing Entity
PMU	Project Management Unit
PO	Project Objective
PPA	Power Purchase Agreement
PPM	Project-affected People's Mechanism
PT	Project Team
PUCSL	Public Utilities Commission of Sri Lanka
PV	Photovoltaic
RE	Renewable Energy
RMF	Results Monitoring Framework
SBF	Sovereign-backed Financing
SCF	Standard Conversion Factor
SLSEA	Sri Lanka Sustainable Energy Authority
SOE	State-owned Enterprise
USD	United States Dollar
WACC	Weighted Average Cost of Capital

Table of Contents

1. Executive Summary

1.1 A sovereign-backed financing of USD 22 million is proposed under Sampur - Kappalthurai Transmission Infrastructure Development Project to support the Democratic Socialist Republic of Sri Lanka (the Borrower) in constructing transmission infrastructure from Sampur to Kappalthurai. The proposed loan will have a final maturity of 27 years, including a 7-year grace period, and will be extended on standard terms for sovereign-backed, variable spread loans. The Borrower will benefit from a 100-basis-point interest rate buy-down under the Special Fund Window for Less Developed Members (SFW-LDM).

1.2 The objective of the project is to enhance power evacuation capacity by constructing a transmission network from Sampur to Kappalthurai, enabling integration of potential renewable energy sources from northeastern Sri Lanka into the national grid. Ceylon Electricity Board (CEB) serves as the Project Implementing Entity. The project is aligned with AIIB's thematic priority of Green Infrastructure and Connectivity and Regional Cooperation, and the guiding principles of the Bank's Energy Sector Strategy.

1.3 The project involves building a new Grid Substation (GSS) in Sampur, a 38-kilometer, 220-kilovolt double-circuit transmission line from Sampur GSS to Kappalthurai GSS and extending two 220kV line bays at Kappalthurai GSS. CEB has undertaken this project to develop the required transmission infrastructure, in a timely manner, to evacuate power from the proposed Sampur Solar PV plant and other future potential plants in that area. The total cost of the project is estimated at USD 33.52 million, with AIIB financing USD 22 million and CEB contributing USD 11.52 million.

1.4 The project is classified as Category B following the Environmental and Social Framework (ESF). AIIB's Environmental and Social Standards: ESS1 (Environmental and Social Assessment and Management) and ESS2 (Land Acquisition and Involuntary Resettlement) apply, while ESS3 (Indigenous Peoples) is not applicable. For the project an Environmental and Social Impact Assessment (ESIA) has been prepared, together with an Environmental and Social Management Plan (ESMP), in accordance with AIIB requirements, to ensure that risks are identified and mitigated in a systematic manner.

1.5 The project will help strengthen AIIB's partnership with the Government of Sri Lanka and CEB. The Bank's support in this project will also contribute to achieving Sri Lanka's NDC targets under the Paris Agreement.

Project No. and Name	P000921 Sampur - Kappalthurai Transmission Infrastructure Development Project
AIIB Member	Sri Lanka
Borrower	Democratic Socialist Republic of Sri Lanka
Guarantor	Not Applicable
Project Implementing Entity	Ceylon Electricity Board (CEB)

<table>
<tr><td>Proposed Amount of AIIB Financing (USDm)</td><td colspan="2">USD22.00</td><td>Instrument type (Instrument subtype)</td><td>Loan (Direct Sovereign)</td></tr>
<tr><td></td><td colspan="2"></td><td>Currency of financing requested</td><td>US Dollar</td></tr>
<tr><td>Sector (Subsector)</td><td colspan="2">Energy (Electricity transmission and distribution)</td><td>E&S Category and Comments (if any)</td><td>B</td></tr>
<tr><td>Project Objective</td><td colspan="4">To enhance power evacuation capacity by constructing a transmission network from Sampur to Kappalthurai, enabling integration of potential renewable energy sources from northeastern Sri Lanka into the national grid.</td></tr>
<tr><td>Project Description</td><td colspan="4">The project involves building a new Grid Substation (GSS) in Sampur, a 38-kilometer (km), 220-kilovolt (kV) double-circuit transmission line from Sampur GSS to Kappalthurai GSS and extending two 220kV line bays at Kappalthurai GSS. CEB aims to create the necessary infrastructure to transmit power from the potential future renewable energy plants, including planned Sampur Solar PV plant. The Government of Sri Lanka (GoSL) targets generating 70 percent of its electricity from renewable sources by 2030. The Renewable Energy Resource Development Plan 2021-2026 indicates that Sampur, Trincomalee region has the potential for around 300 MW of solar power generation. To capitalize on this potential, the CEB, with financial backing from AIIB, plans to expand the transmission network in the region.

The following activities are planned in the project scope:
(i) Construction of 220(132)/33 kV GSS at Sampur and 2x220 kV transmission line bays at Kappalthurai GSS (initially charged at 132 kV); and
(ii) Construction of around 38-km 220kV double circuit transmission line (initially charged at 132kV) from Kappalthurai to Sampur.</td></tr>
<tr><td>Implementation Period</td><td>Start Date:
November 01, 2025
End Date:
December 31, 2029</td><td>Expected Loan Closing Date</td><td colspan="2">December 31, 2029</td></tr>
<tr><td>Lead financier</td><td>Standalone</td><td>Following other Financier’s E&S Policy?</td><td colspan="2">No</td></tr>
<tr><td>Co-financing type</td><td></td><td>Following other Financier’s Procurement Policy?</td><td colspan="2">No</td></tr>
<tr><td>Financing Plan</td><td colspan="4">Total project cost: USD 33.52 million. Out of which AIIB financing will be USD 22.00 million, and CEB contribution will be USD 11.52 million.</td></tr>
</table>

Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that the proposed Bank Financing complies with the applicable Bank operational policies

Risks	
Key Risks	**Mitigation Measures**
Technical Risk	There is a potential risk of technical challenges during implementation. However, this risk is minimized as the project uses proven technologies that CEB has been using in other projects.
Macroeconomic Risk	External vulnerabilities and debt sustainability present macroeconomic risks. These have been substantially minimized by Sri Lanka's progress in debt restructuring and fiscal reforms under a 48-month International Monetary Fund program, which has driven stronger growth, revenue mobilization, and reserve accumulation. Recent credit rating upgrades from Fitch and Moody's further reflect improved economic stability.
Implementation Risk	Timely execution poses a risk due to the complexity of transmission projects. This risk is mitigated by CEB's strong track record in similar projects and the early appointment of a Project Director to oversee preparation and procurement activities.

Strategic Alignment				
Alignment with AIIB's thematic priorities		Green Infrastructure, Connectivity and Regional Cooperation		
Alignment with AIIB's strategies		Sustainable Energy for Tomorrow Strategy		
Key Outcomes	**Indicator**	**Unit of Measure**	**Baseline (Year)**	**Target (Year)**
Electricity transmission and distribution	Additional Power evacuation capacity through the line	GWh	0 (2025)	5256 (2029)
Electricity transmission and distribution	Greenhouse Gas (GHG) emission reduction (tCO2eq/year)	tCO_2e/year	0 (2025)	48450 (2029)
Electricity transmission and distribution	Enabling integration of potential renewable energy sources	MW	0 (2025)	50 (2029)

Other Key Financing Requirements	
Conditions of Effectiveness	A subsidiary agreement to be signed between the Borrower, through the MOF, and CEB, in form and substance satisfactory to the Bank.
Key Conditions for 1st Disbursement	Conditions of Effectiveness need to be achieved.

Key Covenants	The Borrower and Project Implementing Entity shall ensure that the implementation of all project activities comply with AIIB's Environmental and Social Policy and Standards, Policy on Prohibited Practices, and Procurement Policy, and its associated Interim Operational Directive on Procurement Instructions for Recipients.

President	Liqun Jin
Chief Investment Officer	Kim-See Lim
Director General	Rajat Misra
Project Team Leader	Raqib Ahmed Chowdhury, Investment Officer
Team Members	Angel Frances Salcedo, SFD - Environment Specialist David Hartcher, CTL Jingrong He, SFD - Procurement Specialist Kezia Paladina, Project Counsel Luiz Eduardo Rodrigues, Alternate Counsel Nurul Mutmainnah, SFD - Financial Management Specialist Rashmi Ramanath, Team Member Sandip Ghosh, Team Member Susrutha Goonasekera, SFD - Social Development Specialist Swithun Rumble, SFD - Team Member Yijun Jiang, Climate Specialist Zhixin Yuan, Team Assistant

2. Context

2.1 **Country and Macroeconomic Overview:** Sri Lanka is a lower-middle-income country with a total population of around 22 million in 2023. After emerging from more than a quarter century civil war in 2009, the country maintained a healthy annual growth rate of 6.7 percent between 2010 and 2015. However, an array of shocks including a drought in 2017, a political crisis in 2018, terror attacks in 2019, and COVID-19 pandemic in 2020 resulted in growth rate averaging less than 1.0 percent during this period. With continued large fiscal and external deficits, significant financing needs, and inconsistent macroeconomic policies, public debt became unsustainable, reaching 115 percent of GDP by the end of 2021, with foreign reserves depleted to USD 1.6 billion (less than one month of imports). The situation further worsened in 2022 due to the slump in the tourism sector and increased import bills. After losing access to the international capital market, the Government of Sri Lanka (GoSL) suspended external debt service in April 2022 and formally defaulted on international sovereign bonds in May 2022. The country plunged into a socioeconomic crisis, with a shortage of essential commodities. In March 2023, the IMF approved a new 48-month program under an Extended Fund Facility of about USD 3 billion to support Sri Lanka in coming out of the economic crisis.

2.2 **Recent Economic Performance:** According to the most recent IMF review and staff-level agreement, the IMF program performance was assessed to be strong. The debt restructuring is nearly complete while the economy is on a rebound growing by 5.0 percent in 2024. Inflation, which averaged 45 percent in 2022, has dropped significantly to an average of 1.3 percent in 2024, the lowest in the region. Recent months have witnessed a deflationary trend. There is significant progress on revenue mobilization, reserve accumulation and structural reforms. The new government's commitment to reforms is expected to enhance confidence and ensure policy continuity. The IMF has emphasized the need to restore cost-recovery electricity pricing and ensure proper functioning of the automatic electricity price adjustment mechanism. Coupling with these initiatives, reducing dependence on fuel imports by enhancing renewable energy (RE) generation will help Sri Lanka to be on a path to long-term sustainability, both economically and environmentally.

2.3 **Economic Outlook:** The short-term growth outlook has improved, but structural reform is needed to raise the medium-term growth potential. Faster than expected macroeconomic stabilization resulted in improved economic performance in 2024. Growth is expected to stabilize around 3.0 percent in 2025 and 2026. Continued implementation of structural reforms will be key to raising the long-term growth potential. Inflation will trend higher from its current low levels due to new fiscal measures and base effect. However, weak aggregate demand, improving supply conditions, and lower global commodity prices will contain the rise in inflation. The current account balance is likely to exhibit a small deficit in 2025, as stronger remittances and tourist arrivals are offset by rising imports. Downside risks have subsided but continue to be elevated. The new government's robust mandate and commitment to the policy reform bodes well for macroeconomic stability. Continued support for reforms is essential to make growth more robust and inclusive. External risks relate to the worsening of geopolitical tensions, global slowdown, and a rise in commodity prices. A slowdown in the pace of debt restructuring could worsen the balance of payments and widen financing gaps.

2.4 **Debt Sustainability Analysis and Debt Restructuring:** The Sri Lankan government has nearly completed the debt restructuring process, which along with fiscal reforms, new concessional financing, and contributions from creditors will help restore debt sustainability. The restructuring of the domestic debt was concluded in 2023 through maturity extension, exchange of FX-denominated bank loans into local currency bonds and exchange of T-bills held by the Central Bank to long term bonds. The government has nearly completed external debt restructuring as well. Sri Lanka signed agreements with the Official Creditor Committee[1] (OCC) and the Export-Import Bank of China (China Exim bank) to restructure around USD 5.8 billion and USD 4.2 billion, respectively. Sri Lanka also successfully completed restructuring of its international sovereign bond (ISB) in December 2024. In September 2024, Sri Lanka and the Ad-hoc Group of Bondholders agreed on a proposal to restructure USD 12.5 billion worth of International Sovereign Bonds. The proposal included the use of a macro-linked bond with debt service being contingent on macroeconomic performance. These agreements were found to be both consistent with debt sustainability parameters by the IMF and compatible with the Comparability of Treatment principle by the OCC. In November 2024, the Sri Lankan government launched the bond exchange program, and 98 percent of the ISBs were exchanged in December 2024. Sri Lanka also completed the debt treatment with China Development Bank (CDB) and repayments have started. With these significant advances, recently Fitch has upgraded Sri Lanka's foreign currency rating to CCC+ from Restrictive Default. Similarly, Moody's has upgraded Sri Lanka's rating from Ca to Ca1 with a stable outlook, reflecting an improved credit profile and reduced external vulnerability.

2.5 **Sector Overview**. The GoSL published the National Energy Policy and Strategies in 2019, which ascertained that a strengthened transmission infrastructure would improve the absorption of new electricity generation and the adequacy and reliability of the power supply to meet any future contingencies.

2.6 As of February 2025, Sri Lanka had a total installed power generation capacity of 4,479 MW (excluding rooftop solar)[2], with hydropower capacity representing 44 percent, followed by oil-fired capacity at 28 percent, non-hydro renewable capacity at 10 percent (excluding rooftop solar), and coal-fired plants contributing 18 percent to the capacity mix. The Ceylon Electricity Board (CEB), Sri Lanka's single electricity off-taker, dominates the generation fleet and accounts for about 73 percent of installed capacity. The peak load has increased significantly since 2015, reaching 2,509 MW in February 2025[3]. The country's economic woes have hindered electricity consumption growth since 2019, driven by daily power cuts owing to difficulties procuring imported hydrocarbon fuels for power generation.

2.7 Given the high share of large hydro, which has limited storage capacity and varies seasonally and intermittent renewables, the country requires relatively higher reserve margins and spinning reserves. Sri Lanka is making significant strides in prioritizing the development of renewables and storage capacity to meet its electricity needs. In its Updated Nationally Determined Contributions (NDCs) under the United Nations Framework Convention on

[1] The Official Creditor Committee (OCC) for Sri Lanka was formally established by 17 countries on May 9, 2022. It was created to simplify Sri Lanka's debt negotiations following the country's default on its external debt amid an unprecedented financial crisis in 2022. In addition to India and Hungary, the committee includes the 15 members of the Paris Club: Australia, Austria, Belgium, Canada, Denmark, France, Germany, Japan, Korea, the Netherlands, Russia, Spain, Sweden, the United Kingdom, and the United States.
[2] PUCSL Generation and Reservoirs Statistics, February 28, 2025 Generation-Report-28th-Feb-2025.pdf
[3] PUCSL Generation and Reservoirs Statistics, February 28, 2025 Generation-Report-28th-Feb-2025.pdf

Climate Change (UNFCCC) framework, Sri Lanka has pledged to achieve 70 percent of electricity generation in the country using RE sources by 2030 and achieve carbon neutrality in power generation by 2050, demonstrating a clear path towards a sustainable energy future. To achieve this target, the country's existing transmission network needs to be upgraded.

2.8 As of 2023, the country's transmission network consisted of 90 grid substations with a capacity of about 12,000 MVA and about 3,403-circuit-km high-voltage transmission lines (220 kV and 132 kV)[4]. Transmission and distribution losses stood at about 8.8 percent. In certain sections of the network system, only single-circuit transmission lines exist, which threatens grid reliability, as a fault in a single circuit may have an adverse impact on the whole grid. Therefore, a strong and modern transmission and distribution network system is essential for ensuring grid reliability and optimum utilization of planned generation capacity. CEB in its latest Long Term Transmission Development Plan (LTTDP) 2018-2027, mentions significant additions and upgrades of transmission lines and substations.

2.9 **Addressing Key Development Challenges: Project Contributions.** Strengthening the transmission infrastructure in the Eastern Province (i.e., Trincomalee and the Sampur area) is critical to unlocking the region's solar power potential and achieving country's 70 percent RE target. In particular, the Sampur area alone has a potential for around 300 MW of solar power development, as per estimated from Sri Lanka Sustainable Energy Authority (SLSEA). These projects depend heavily on a reliable transmission network to deliver power to the country's main load centers in the Western Province, where the capital city is located. Currently, only one transmission path connects Trincomalee to the Western load centers, while the Sampur area lacks any evacuation facility.

2.10 To address this gap, the construction of a new GSS in Sampur, together with the Sampur–Kappalthurai transmission line, is essential for integrating RE into the national grid and enabling efficient power evacuation. The 120 MW Sampur Solar IPP[5], with Phase I's 50 MW capacity supported by a signed Power Purchase Agreement (PPA) and an established timeline, will rely on this infrastructure. Timely implementation of this transmission network will support the timely operation of the Sampur Solar IPP and significantly contribute to Sri Lanka's clean energy transition.

[4] CEB Statistical Digest 2023 CEB | Publications & and Media

[5] AIIB is considering financing the Sampur Solar IPP through both sovereign (SBF) and non-sovereign (NSBF) windows. The SBF (P000799) will finance the equity contribution of CEB's part, while the NSBF (P000800) will be given to the special-purpose vehicle (SPV) as a 'project finance' structure to partially cover the debt portion required for the project.

3. Rationale

3.1 **Project Objective.** The objective of the project is to enhance power evacuation capacity by constructing a transmission network from Sampur to Kappalthurai, enabling integration of potential renewable energy sources from northeastern Sri Lanka into the national grid.

3.2 **Expected Beneficiaries.** The project is expected to benefit the local population, urban services, and business enterprises in Sri Lanka's eastern and western province. It will strengthen the national grid, enable the integration of additional RE sources and ensure more reliable energy distribution across the country. CEB and other stakeholders will benefit from enhanced operational efficiency and improved energy security through the support of RE evacuation. The project aligns with Sri Lanka's climate commitments and supports the country's transition to sustainable and renewable energy practices.

3.3 **Expected Results.** The project is expected to deliver the following results that will be measured and monitored as indicated in the Results Monitoring Framework (Annex 1):

a. Additional Power evacuation capacity through the line (in Gigawatt hours (GWh))
b. Greenhouse Gas (GHG) emission reduction (tCO2eq/year)
c. Enabling integration of potential renewable energy sources (MW)
d. Length of Transmission Line constructed (in kilometers (km))
e. Number of Transmission Line Towers completed
f. Number of GSS constructed
g. Number of Transmission Line Bay constructed

3.4 **Strategic Fit for AIIB.** The project is fully aligned with the 'Energy Sector Strategy: Sustainable Energy for Tomorrow', adopted by the Bank in November 2022. It adheres to the Strategy's guiding principles, particularly its focus on supporting the transition to a clean energy system. This will be achieved by facilitating Sri Lanka's shift to clean energy through investments in enabling infrastructure and improving system flexibility for low-carbon electricity. As outlined in the latest strategy, AIIB aims to support new Transmission and Distribution (T&D) projects to (i) enhance the resilience of power systems to natural disasters, and (ii) improve the reliability and quality of electricity supply to meet the needs of both productive sectors and modern society. This project fits seamlessly with these two key priorities. In addition, the project aligns with AIIB's broader mandate to promote connectivity and contribute to the achievement of Sustainable Development Goal 7 (SDG7), which seeks to ensure access to modern energy for all. The development of power grid infrastructure is a vital part of this effort.

3.5 The project supports the Bank's thematic priorities in two key areas: (i) Green Infrastructure, by improving the reliability of Sri Lanka's transmission network and enabling the integration of renewable energy; and (ii) Connectivity and Regional Cooperation, by strengthening domestic energy connectivity through the evacuation of electricity from the north-eastern regions to major load centers.

3.6 **Paris Agreement Alignment (PAA) and Climate Finance.** As per the universally aligned list of the Joint Multilateral Development Bank (MDB) Assessment Framework for the PAA, electricity transmission network projects are considered PA-aligned for mitigation goal.

For adaptation, climate risk assessment has been carried out and flooding and sea level rising are identified as climate hazards. Relevant resilience measures have been incorporated into the design of the project to reduce the exposure. In line with the joint MDB methodology for climate finance tracking, it is estimated that USD 20.9 million of AIIB's financing can be considered as climate mitigation finance, and USD 1.1 million can be considered as dual benefit which contributes to both climate mitigation and adaptation.

3.7 **Value Addition by AIIB.** AIIB's participation will significantly strengthen the project by adding substantial value to Sri Lanka's energy sector development through the expansion of transmission network capacity and the integration of more renewable energy into the grid. This support is expected to reduce the country's reliance on imported fossil fuels, thereby lowering the national fuel import bill and promoting more efficient use of domestic economic resources in the power sector. Beyond financing, AIIB's value addition includes strengthening CEB's institutional capacity to develop and implement Environmental and Social (E&S) documentation in line with MDB policies, as well as supporting the preparation of procurement and tender documents. As part of its upstream engagement, AIIB is also providing complementary and holistic support to both CEB and the Government of Sri Lanka across the broader project value chain, including transmission line development and the associated solar power plant. Moreover, this assistance will contribute to achieving Sri Lanka's latest NDC targets.

3.8 **Value Addition to AIIB.** This project would be the Bank's second standalone energy sector project in Sri Lanka[6]. The project preparation process has helped in deepening the Bank's institutional knowledge of the energy sector in the country, specifically the electricity transmission and distribution space sub-sector, strengthening relationships for future collaboration with GoSL and CEB, which have been predominantly supported by financings from the Asian Development Bank (ADB), Japan International Cooperation Agency (JICA) and Agence Française de Développement (AFD). The knowledge and experience so far gained from this project will help AIIB prepare more public sector and joint public-private renewable energy generation projects in the country. Also, Sri Lanka plans to upgrade its transmission grid by adding 400 kV lines to the existing 220 kV and 132 kV networks, which will remain the backbone of its energy system. AIIB's ongoing experience will be key to supporting those upcoming initiatives.

3.9 **Lessons Learned.** The project's design is built on experiences from other sovereign projects of similar nature in the energy sector.[7] Relevant lessons incorporated into project preparation include: (i) accelerating project readiness through early engagement with the Project Implementing Entity (PIE), (ii) preparing tender documents during upstream project preparation and conducting advance procurement actions, and (iii) ensuring E&S management plans are in place to comply with implementation stage E&S monitoring. These measures are expected to result in timely and successful implementation of the project.

[6] The first standalone energy sector project in Sri Lanka is Kerawalapitiya - Port L Second Transmission Line Project (P000455). The financing is expected to be approved in Q3 2025.
[7] Relevant energy sector projects include: L0088A: Power System Upgrade and Expansion Project, L0272A: Dhaka and Western Zone Transmission Grid Expansion Project

4. Project Description

4.1 **Overview.** The project comprises a new Grid Sub Station (GSS) at Sampur, construction of a 38-kilometer (km) 220-kilovolt (kV) double-circuit transmission line from Sampur GSS to Kappalthurai GSS and two 220kV line bays extension at Kappalthurai GSS. CEB has undertaken this project to develop the required transmission infrastructure, in a timely manner, to evacuate power from the proposed Sampur Solar PV plant and other future potential plants in that area.

4.2 **Components.** The project has two components:

(i) Construction of 220(132)/33 kV GSS at Sampur and 2x220 kV transmission line bays at Kappalthurai GSS (initially charged at 132 kV); and
(ii) Construction of around 38-km 220kV double circuit transmission line (initially charged at 132kV) from Kappalthurai to Sampur.

4.3 **Cost and Financing Plan.** The project cost is estimated to be USD 33.52 million. The Table 1 below shows the breakdown of the cost estimation and financing plan.

Table 1: Project Cost and Financing Plan

Particulars	Project Cost (USD million)	Financing (USD million and %)	
		AIIB	CEB
Construction & Installation Costs (for both components)	22.275	21.945	0.33
Administrative expenses	1.52	-	1.52
ESMP implementation	0.30	-	0.30
Government Levies (including tax and other duties)[8]	3.90	-	3.90
Contingencies	4.31	-	4.31
Interest During Construction (Partial)	1.10	-	1.10
Front-end Fee	0.055	0.055	-
Commitment Fee	0.06	-	0.06
Grand Total	**33.52** (100.00%)	**22.00** (65.63%)	**11.52** (34.37%)

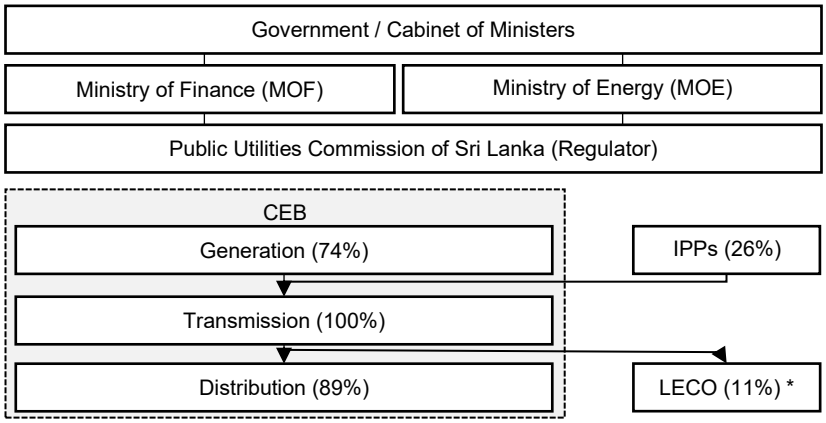
4.4 **Implementation Arrangements and Readiness**

4.4.1 **Implementation arrangements.** CEB is the PIE, and the Ministry of Energy (MOE) is the relevant line ministry to oversee the project implementation and resolution of implementation issues. The electricity transmission system in Sri Lanka is solely owned and operated by CEB. It is a state-owned entity within MOE, established by the Parliament and Sri

[8] Government Levies include customs duty, value added tax, excise duty, and other levies (i.e., special commodity levy, ports and airport development levy, social security contribution levy). Levies are subject to government declarations, which may change during implementation. However, CEB will bear it at actuals.

Lanka Electricity Act (Electricity Act). The Electricity Act is undergoing amendments which are expected to be finalized in coming years. An anticipated outcome of such amendments would be the restructuring of CEB into five successor companies, with the National Transmission Network Service Provider as the likely successor of CEB for the project[9].

Figure 1. Sri Lanka Electricity Sector Structure

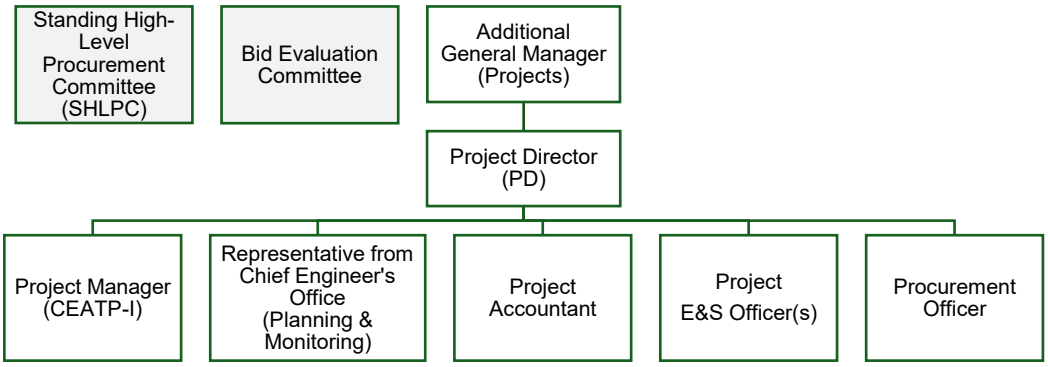


*LECO (Lanka Electricity Company Ltd.): A state-owned electricity distribution company

4.4.2 This project is expected to be the second project financed by AIIB in Sri Lanka's energy sector. CEB has implemented several other MDB-financed projects in the energy sector and is familiar with MDB's procedures and requirements.

4.4.3 **Implementation Management**. To ensure effective implementation, CEB has established a Project Management Unit (PMU) to prepare and manage the day-to-day implementation throughout the whole project period. The PMU is headed by a Project Director (PD), who has been appointed already and reports directly to the Additional General Manager (Projects) of CEB. The PD is assisted by competent personnel who have experience working with other multilateral development banks (MDBs). An organogram of the PMU is given below in Figure 2.

Figure 2. Structure of PMU



[9] According to CEB, project's implementation is not expected to have any impact, as upon the restructuring process, the entire transmission operation of CEB will be transferred to a single entity, and the GoSL's role as the Borrower will remain unchanged.

4.4.4 The PMU is responsible for: (i) overall project management and monitoring; (ii) procurement of goods, works and services (consulting services and non-consulting services); (iii) annual budget preparation and monitoring of utilization of loan proceeds; (iv) progress reporting, including reports on cost management and project outputs; (v) compliance with loan covenants; and (vi) grievance response to the people affected by the project.

4.4.5 After the project's completion, the transmission line will be handed over to the existing transmission operation and maintenance branch in CEB. To ensure the smooth transition, a dedicated engineer from Operations and Maintenance (O&M) team will also participate in the project during implementation stage.

4.4.6 **Procurement arrangements.** Procurement will be carried out in accordance with: (i) Procurement Policy (June 26, 2024); (ii) Directive on Procurement Instructions to Recipients (July 26, 2024); and (iii) the provisions stipulated in the Loan Agreement (LA).

4.4.7 **Institutional Arrangements.** Procurement will be carried out by PMU established in CEB. The PMU's main responsibilities are to plan and initiate procurement activities under the project, get required internal and external approvals and implement procurement activities accordingly. It will be guided and supervised by two committees: (i) the Standing High-Level Procurement Committee (SHLPC) for overall management and supervisions; and (ii) Bid Evaluation Committee (BEC) for technical supervision and support.

4.4.8 **Project Delivery Strategy (PDS).** A project-level strategy document, PDS, addressing how procurement activities will support the project objectives and deliver the best VfM (value for money) under a risk-based approach, was developed and found acceptable by the Bank. A Procurement Plan (PP) providing contract procurement details has been prepared. The PP includes two contracts for the design, supply, and installation of a transmission line and grid substation through International Open Competitive Tendering (IOCT) procedures.

4.4.9 **Advance Procurement and Retroactive Financing.** Retroactive financing of up to 20 percent loan amount would be available for eligible expenditures incurred twelve (12) months prior to the date of the Loan agreement. The PP sets forth the contracts that are expected to be signed in advance of loan signing, together with the relevant Bank review procedures.

4.4.10 **Financial Management (FM) Arrangements.** The CEB's PMU will be responsible for the overall project FM and disbursement management. The Additional Finance Manager (AFM) will be the key FM person of the project. The AFM will be supported by a Deputy Finance Manager, one project accountant, and one clerical staff. CEB will also hire an additional accounting assistant to support all AIIB-funded projects, including the Sampur -Kappalthurai project. The project accountant will be deployed from previously existing projects (e.g., ADB-funded projects) and has both the educational background and work experience that align with the project's needs. For the budgeting and expenditure payment process, the PMU finance team closely coordinates with the Planning Department of MOE, as well as the Ministry of Finance (MOF).

4.4.11 **Environment and Social (E&S) Arrangements.** The Environmental Unit, set within the Transmission Design and Environment Branch (TD&EB), is the focal point for the E&S safeguards related activities of CEB. The Environment Unit is headed by a senior engineer

who provides guidance on E&S matters to the PMU and the contractor while implementing the project. In the PMU, there is a position for 2 E&S officers (one for Social, one for Environment), who will be recruited on a contractual basis. These officers will jointly work with PD and report to the Environmental Unit of TD&EB.

4.4.12 **Implementation period.** The project's implementation period will be from November 2025 to December 2029.

4.4.13 **Implementation readiness.**

(i) Status of feasibility studies, procurement, and land acquisition: CEB completed the techno-economic study for this project a few years back, and their technical team has also recently updated the study to reflect up-to-date project cost. Regarding procurement, CEB has prepared the Tender Document for the Transmission Line package for the project in consultation with the Bank, as part of procurement prior review. The other package (substation) is under preparation by the client and will be shared with the Bank soon.

(ii) Required clearances/approvals for project implementation: Based on the updated study and project preparation readiness, MOE and MOF have decided to approach the Bank for financing. After the completion of loan negotiations, CEB, through MOE, will seek final approval from the Cabinet of the GoSL for the signing of the loan agreement with the Bank.

4.5 **Monitoring and Evaluation.** The PMU will be fully responsible for monitoring the project's implementation and is expected to prepare progress reports semi-annually highlighting progress on various fronts, including procurement, construction, and the implementation of E&S plans. These reports, which will be shared with AIIB, will highlight the status of achieving agreed targets for monitoring indicators and detail project implementation progress.

4.6 **AIIB's Implementation Support.** During implementation of the project, the Bank will conduct regular supervision missions to monitor progress. The frequency of the missions will depend on implementation progress and complexity. The Bank will also have virtual and in-person interactions with CEB and may engage the Bank's local consultants to conduct more frequent supervision, as required.

5. Project Assessment

A. Technical

5.1 **Project Design**. As per the policy decision by the GoSL to source 70 percent[10] of Sri Lanka's electricity requirement from renewable sources by 2030, the country is required to use more RE-based power generation in lieu of electricity generated by thermal power plants. RE power plants are typically located away from load centers, contingent on land and resource availability. A substantial solar power resource has been identified in the Eastern Province of Sri Lanka. According to the Long-Term Generation Expansion Plan 2025–2044 (LTGEP) of CEB, large-scale solar parks are planned to be developed in Trincomalee (Eastern Province), in parallel with the planned RE development in the Northern, Northeastern, Northcentral, Northwestern, and Southern regions.

5.2 The SLSEA estimates that Trincomalee District, the key administrative district in the Eastern Province, has a potential RE generation capacity of 850 MW, out of which Sampur (a coastal area just south of Trincomalee) alone has a potential for 300 MW of solar power development. Therefore, strengthening the transmission network to channel electricity generated by solar PV power plants in the Eastern Province to other parts of the country has become an essential step in reaching RE targets in Sri Lanka. These future RE developments will rely on the ability of the transmission network to transfer power to the rest of the country, particularly to the load centers in the Western Province, which is the economic hub of the country. Currently, only one transmission path is available to transfer RE from the Trincomalee District to the load centers around the Western Province, while in Sampur no evacuation facility exists. Therefore, the construction of a new grid substation in Sampur, along with a dedicated transmission line, is essential for the development of solar power capacity in that area.

5.3 **Sampur Solar IPP.** A 120-MW solar PV power plant (Sampur Solar IPP) is the first grid-connected solar plant planned to be developed in the Sampur area. It is a joint venture between CEB and the National Thermal Power Corporation of India (NTPC). The IPP will be developed in two phases: Phase I with a capacity of 50 MW, and Phase II with a capacity of 70 MW. Currently, Phase I of the IPP is at the initial stages of development. The remaining 70 MW capacity of the IPP will be developed at a later stage, along with other solar PV power plants planned in the area. Notably, the Power Purchase Agreement (PPA) for Phase I between the CEB and the project company was signed in April 2025. As per the PPA, the scheduled commercial operation date starts twenty-four months (i) from the date of the construction notice of the power plant and (ii) from the effective date of the transmission line construction agreements. Tentatively, the IPP is considering end of fourth quarter of this year as the construction start date. As such, the timely implementation of the transmission network is crucial, since it will be the only evacuation facility for the Sampur Solar IPP.

5.4 **Sampur–Kappalthurai Transmission Network.** To interconnect the planned Phase I of the IPP and subsequently Phase II and other solar PV power plants, CEB has decided to construct a 220(132)/33 kV, 63 MVA collector grid substation (extendable to 378 MVA) in Sampur and a 38 km-long 220 kV double circuit transmission line between Sampur and the

[10] Sri Lanka has set policy targets to produce 70 percent of its electricity from renewable sources by 2030 (which is a nationally determined contribution of Sri Lanka under the Paris Agreement) and attain carbon neutrality by 2050.

existing grid substation in Kappalthurai. Since the immediate plan for solar PV development in the area is limited to 50 MW, initially, the transmission line will be energized at 132 kV. When further solar PV capacity is developed in the area, the transmission line will transition to operate at 220 kV. To evacuate the generated power from the 50 MW plant, the transmission line route will be as follows to connect to the national grid: Sampur GSS → Kappalthurai GSS → Trincomalee GSS → New Anuradhapura.

5.5 Since Phase I of the IPP is already in the development stage, immediately upon completion of this transmission line project and Phase I of the IPP, evacuation of electricity generated from the solar plant will become possible - displacing part of the electricity generation expected from the existing fossil fuel-based thermal power plants. Through power system dispatch studies conducted by CEB, it has been identified that the electricity generated by the solar PV power plant(s) in Sampur would displace electricity generated from thermal power plants. Thus, the project will make it possible to reduce a portion of fossil fuel-based electricity generation in Sri Lanka in future.

5.6 **Operational Sustainability.** Once the project construction is completed and commissioned, the O&M of the transmission line will be handed over to the Transmission Wired Operation (WO) Division of CEB. A separate budget for O&M will be allocated each year from CEB's internal budget. As per recent financial performance, CEB's operating profit margin is improving, and it is expected to further improve soon in coming years. However, defects and liabilities, if any (usually one year after commissioning), will be attended to by the Contractor under the supervision of the PMU.

B. Economic and Financial Analysis

5.7 **Economic Analysis of the project.** A project-level cost-benefit analysis is carried out to assess the project's economic viability comparing with- and without-project basis. The Economic Internal Rate of Return (EIRR) and Economic Net Present Value (ENPV) were calculated using a discounted cashflow analysis, assessing project's economic and societal benefits against its costs over a 29-year period. The project's economic costs comprise capital investments in equipment, installation facilities, and transmission infrastructure, alongside O&M costs. On the other hand, economic benefits include non-incremental benefits as it allows to shift a part of electricity generation from the existing fossil-fuel thermal power plants towards solar power and corresponding carbon emission reductions. The analysis calculated an EIRR of 12.40 percent and an ENPV of USD 6.46 million at a 9 percent discount rate. Furthermore, the sensitivity analyses demonstrate the project's resilience to potential adverse changes, with the EIRR consistently above the 9 percent hurdle rate.

5.8 **Financial Analysis of the project.** The project's financial analysis is being carried out from the perspective of CEB, based on the forecasted project cashflows. The project cost includes investment and O&M costs of the transmission system, taxes, duties, and physical & price contingencies. All investment costs are expressed in constant prices. The project benefit is measured in terms of revenue from incremental wheeling charges. The analysis determined a Weighted Average Cost of Capital (WACC) of 3.25 percent, incorporating AIIB's loan and CEB's equity contributions, adjusting for inflation differentials on financing sources. The calculated Financial Internal Rate of Return (FIRR) was 5.52 percent, comfortably exceeding

the WACC, and generating a positive Financial Net Present Value (FNPV) of USD 6.52 million, confirming the project's financial viability for CEB. A detailed sensitivity analysis tested the robustness of the FIRR against adverse variations, including capital cost overruns, increased O&M costs and construction delays. The FIRR consistently remained above the WACC under all tested scenarios, with the lowest combined adverse scenario still achieving a positive NPV.

C. Fiduciary and Governance

5.9 **Procurement.** The procurement capacity assessment found the PMU has adequate capacity for carrying out procurement activities under the project. Most staff assigned to PMU have extensive experience working on CEB-implemented ADB and AFD projects and limited experience of one proposed AIIB project (P000455) through its advanced procurement. The primary procurement risks were identified as regulatory and compliance risk of meeting AIIB procurement requirements, and market risks relating to substantial material and labor cost fluctuation. The overall procurement risk rating was Medium. Risk mitigation measures are provided in Table 2.

5.10 **Financial Management.** The full financial management (FM) assessment was concluded during the appraisal stage. Based on the provided documents and a series of discussions with the project team, the risk is currently rated as Medium. In recent years, CEB has gained experience with foreign-funded projects, such as those from ADB and AFD. However, no project with AIIB has entered the implementation stage yet. Therefore, some hands-on support is needed from the Bank to familiarize the PMU and the overall institution of CEB with AIIB's FM operations and requirements.

5.11 For the annual budget, each unit will prepare and submit their proposals to the Finance Manager of each functional division before forwarding them to the Corporate Finance Manager. The estimation submission from the Department starts around June, and the approval from the Board will be around November-December before the implementation year. After the internal process within CEB is complete, the budget will be sent to the Planning Department of the MOE and then to the MOF to be consolidated in the National Budget. The annual budget is prepared for every cost center, and the head of the PMU, as one of the cost centers, plays a critical role in determining their annual budget requirements according to the approved action plan and monitoring the subsequent performances from time to time. Budget revisions may be carried out around mid-year.

5.12 The payment to contractors and vendors is centralized under the AFM (Additional Financial Manager) office. CEB has introduced an internal control mechanism for its existing payment processes through procedures (called its internal Circulars), which have been reviewed in the previous project assessed by the Bank and found suitable for project purposes. Every cost center can trigger invoicing to claim for expenditures under the unit. The claim for payment under the project will be initially reviewed by the engineer before being sent for further review by the Finance team under the AFM office. The approval for payment needs to be signed by the Additional General Manager (Project), in parallel with PD and AFM. The PMU will use CEB's existing in-house accounting software (called MITFIN) for payment processing, accounting, and reporting, while the contract and invoice monitoring for projects are currently being done manually using Excel spreadsheets. To further enhance internal control of the

project, CEB's internal audit department will be engaged to carry out review on the project at least twice during the project implementation period.

5.13 CEB prepares and presents its financial statements as per the Sri Lanka Accounting Standards (SLAS). CEB, as an entity, currently uses the accrual basis for preparing the report for payment on a monthly basis. For the project, the PMU will have to prepare unaudited interim financial reports (IUFR) on a quarterly basis, to be submitted to the Bank 60 days after the end of each quarter. The project Financial Report (IFR) will use data extracted from MITFIN, which will then be adjusted and formatted according to the IUFR requirements. The report format and presentation provided by the Bank should be mutually agreed upon with CEB before the loan signing date.

5.14 The PMU under CEB needs to prepare and submit the project's annual financial statements covering AIIB's loan and counterpart financing to the National Audit Office (NAO), following the general practice of MDB-funded projects in Sri Lanka. The audit methodology practiced by NAO complies with the Sri Lanka Auditing Standards, which is in line with International Standards of Auditing (ISA). The PMU should ensure that the project's audited financial statements are submitted to the Bank within six months after the end of the fiscal year. The audited project financial statements should follow the presentation format provided by the Bank. The audit report, including its management letter, needs to be presented in English.

5.15 **Disbursements.** AIIB will handle project disbursements according to its disbursement procedures. Disbursements will follow the transaction-based method, including the following procedures: Advance method (through advances to the designated account), Direct Payment method, Special Commitment method, and Reimbursement method with complete documentation, including reimbursements under the Retroactive Financing procedure. Withdrawal applications will be submitted in hard copy to AIIB or through the AIIB client portal (subject to the roll-out of the AIIB client portal to the respective countries). Further disbursement arrangements will be described in the Disbursement Letter.

5.16 **Governance and Anti-corruption.** AIIB's Policy on Prohibited Practices applies to the project. AIIB is committed to preventing fraud and corruption in the projects it finances. It places the highest priority on ensuring that projects AIIB finances are implemented in strict compliance with AIIB's Policy on Prohibited Practices (2016). The Bank reserves the right to investigate, directly or indirectly through its agents, any alleged corrupt, fraudulent, collusive, coercive, or obstructive practices, and misuse of resources and theft relating to the project and to take necessary measures to prevent and address any issues in a timely manner, as appropriate.

5.17 **Cybersecurity.** The infrastructure proposed to be financed is not considered as Critical Infrastructure.

D. Environmental and Social

5.18 **Environmental and Social Policy and Categorization.** AIIB's Environmental and Social Policy (ESP), including the Environmental and Social Standards (ESSs) and the

Environmental and Social Exclusion List (ESEL), applies to this project. ESS1 (Environmental and Social Assessment and Management) and ESS2 (Land Acquisition and Involuntary Resettlement) apply, while ESS3 (Indigenous Peoples) is not applicable. The project is classified as Category B following the Environmental and Social Framework (ESF), as there are a limited number of potentially adverse impacts, where impacts are not unprecedented or irreversible and can be managed through operational best practice.

5.19 **Environmental and Social Instruments.** The client has prepared a national-compliant Initial Environmental Examination (IEE) which had been conducted in 2023. In addition, an Environmental and Social Impact Assessment (ESIA) report has been prepared based on requirements provided by the Bank, including an Environmental and Social Management Plan (ESMP). These instruments include measures that ensure management of the environmental and social risks and impacts of the project, consistent with the AIIB's ESP and ESSs.

5.20 **Environment Aspects.** The ESIA has assessed and identified the possible implications of the project. During construction stage, the potential environmental risk and impacts that are anticipated are temporary and includes: i) surface and groundwater pollution, ii) air emission, including accumulation of fugitive dusts and exhaust fumes, iii) noise and vibration, iv) accumulation of waste, e.g., dredged soil, v) topsoil erosion, vi) loss of flora species, and vii) disturbance to mammals and avian species. Impacts during operation include possible collision to avifauna species (i.e., for birds and bats) and disturbance to mammals e.g., Asian Elephants, among others. The ESIA provided an ESMP that addresses the risks and impacts relating to the above through a physical, ecological and critical habitat assessment (CHA).

5.21 CHA was carried out as part of the ESIA and concluded that CH is triggered for one mangrove grass species[11] and three fauna species, Asian Elephant, Sri Lanka Worm Snake, and Malcolm's Worm Snake, within the project's Area of Analysis (AOA)[12]. This AOA has been considered to have important concentration of nationally/ regionally listed Endangered or Critical species (IFC CH Criterion 1c). Although the project AOA has been identified as critical habitat due to above mentioned species, CEB is committed to ensure that measures are strictly implemented through effective E&S management. Only one pure migratory bird species, Whiskered Tern, was observed during the survey (non-migratory season), including the nine Breeding Residents and migratory bird species observed. The project proposed conducting an avifaunal survey during the migratory season (within November- January), where the necessity of additional measures will be identified based on the result. Moreover, this project will linearly pass through habitats such as tropical dry mixed evergreen forests, tropical thorn forests (scrublands), riverine and gallery forests, rivers, streams, floodplain wetlands, and mangrove areas, which are found disturbed by human activities. The project will therefore be implemented with strict compliance with the proposed measures in the ESMP to ensure mitigation of risks and impacts.

5.22 CEB has formally initiated the process to renew the overall no-objection approval from the Forest Department Headquarters to reaffirm institutional support for the entire

[11] *Myriostachya wightiana*, no common name, but sometimes called in India as Mangrove grass
[12] The Area of Analysis (AOA) considered for ecological assessment is approximately 1km corridor along the proposed transmission line route, considering 500 m on each side corridor.

transmission project[13] Similar clearance for no-objection was also requested from the Department of Wildlife Conservation & Department of Agrarian.

5.23 **Social Aspects.** The total length of the proposed transmission line from Kappalthurai GSS to Sampur GSS is approx. 38 Km. The standard width of the right-of-way (RoW) of the transmission line is 35 meters i.e. 17.5 m to either side from the center of the transmission conductor. The total land area under the RoW will be 325.2 acres (131.6 hectares). CEB requires the rights to the easement (RoW) of the transmission line but will not acquire this land for the RoW. CEB will allow the landowners to use the land for the same purpose for which they have been using the land, subject to certain conditions. For example, planting of trees that grow over 5 m in height will not be allowed, and the construction of any structures within the RoW requires prior approval from CEB. CEB has already obtained the wayleave clearance from the landowners, and hence no acquisition is required. Standing trees to be removed to clear the RoW for the installation of transmission towers and the conductors, and the land area required for the installation of transmission towers will be compensated by CEB to their respective owners. Damage to any crops during construction work of the project will also be compensated by CEB to their respective farmers. CEB, as part of its corporate social responsibility (CSR), will also support a replanting program as part of restoration and rehabilitation assistance.

5.24 Around 68.6 percent of the total length of the transmission line will traverse paddy lands followed by another 28.4 percent over scrub lands, marsh areas, sparse forests, abandoned paddy lands, and home gardens. The rest of the line will traverse streams and access roads. However, no transmission towers will be installed in the middle of the river or the streams. Altogether, there will be 66 towers installed on private lands. The installation of the towers, which requires a total land area of 5.3 acres/2.1 hectares, will be a permanent loss of land to their respective landowners despite cultivation of paddy and seasonal crops being allowed under the towers. Therefore, cash compensation will be provided by CEB for the permanent loss of land for the tower bases irrespective of the type of land. Except for two residential structures of which one is a makeshift house abandoned by its occupiers, and the second, a semi-permanent dwelling, there are no other residential, commercial, or community structures and properties, or places of religious, cultural and archaeological significance located within the RoW. Similarly, the land required for the construction of the GSS in Sampur, and the augmentation work at the GSS in Kappalthurai, are government-owned land vested in CEB, and free of encumbrances. Therefore, acquisition of private land for the GSSs is not required.

5.25 The construction of the transmission line and its towers may cause temporary crop damages during installation of towers, stringing conductors, line maintenance work, and movement of vehicles and machinery. Paddy cultivated in an area of approximately 220 acres/89 hectares, and other crops grown on 2 acres/0.8 hectares of home gardens can be either partially or fully affected. Temporary disruptions to livelihood activities are also anticipated. CEB will provide compensation at replacement cost for any crop damages and income losses to the respective cultivators irrespective of the title they hold to such land. CEB, through its contractors will also offer temporary employment for the affected persons in the project's construction work and will provide additional cash assistance to vulnerable

[13] An internal communication has already been sent to the Divisional Forest Office (DFO) in Trincomalee on June 11, 2025, hence awaiting formal response.

households. CEB, however, will endeavor to minimize such crop damages and income losses by avoiding peak cultivation seasons or scheduling the construction work during off-seasons.

5.26 **Associated Facility.** The proposed Sampur Solar IPP is identified as the primary associated facility to the transmission line. The power plant, proposed to be financed and implemented under a separate project under AIIB financing, is entirely dependent on the 220 kV transmission line for evacuating the generated electricity to the national grid. Only a due diligence analysis was conducted for the solar park as an associated facility, and no in-depth E&S assessment was conducted under the present ESIA/ESMP. Potential E&S risks associated with the solar park- such as vegetation clearance, land use change, dust and noise during construction, potential impacts on local biodiversity, and minor livelihood disturbances – will be considered as part of a standalone ESIA being planned for the Sampur Solar Park, which can also include an assessment of the cumulative impacts of other planned solar farms. While the solar park does not involve physical displacement, proper attention must be paid to temporary access restrictions and impacts on ecosystem services. The integration of this associated facility within a ESIA framework will ensure that both the generation and evacuation components of both these projects are planned, assessed, and managed holistically, thereby promoting environmental sustainability, social accountability, and operational efficiency throughout the project lifecycles.

5.27 **Occupational Health and Safety, Labor and Employment Conditions.** The key occupational health and safety (OHS) risks of the project include working with electricity/ contact with the transmission lines, lightning risk, manual handling injuries, working at heights and working in proximity to road traffic/ vehicular accidents. Workers are therefore required to have OHS training and adequate Personal Protective Equipment (PPE) to manage and prevent risks. The ESMP, along with the Hazardous Identification and Risk Assessment (HIRA) attached to the ESIA, identifies the key risks and measures, where CEB commits to ensure strict guidance in following the measures proposed. Based on this, the Project proposed to establish OHS plan in line with Sri Lanka's Factory Ordinance and the World Bank Group Environmental, Health, and Safety Guidelines, following Good International Industry Practice. Overall, the ESMP has elaborated further providing measures to avoid and mitigate risks, including OHS, traffic, child abuse and gender-based violence (GBV)/ sexual exploitation (SE)/ sexual harassment (SH), and labor and working conditions.

5.28 **Stakeholder Engagement, Consultation, and Information Disclosure.** During the ESIA conducted for the project, information related to tentative directions of the transmission line route of the project, sites earmarked for the GSSs, land requirements, potential impacts of the project, both positive and negative, and direct and indirect, entitlement policies and frameworks for compensation for the affected parties and grievance redress procedures were shared with affected persons during consultations. CEB has prepared a Stakeholder Consultation and Information Disclosure Plan and will continue their communications with the affected persons and other stakeholders and disclose information such as the valuation procedures, project related impacts, specific entitlements of the affected persons, compensation procedures, grievance redress procedures and dates of the commencement of

civil works. Moreover, the ESIA report has been disclosed in the official websites of the CEB[14] and AIIB[15] with summaries translated into Sinhala and Tamil languages.

5.29 **Project Grievance Redress Mechanism (GRM).** The project will establish a project-based GRM which is easily accessible to the aggrieved parties, transparent and accountable in grievance handling and responding while winning the confidence of the complainants. The GRM will consist of two-tiers. The first tier will be at the project's site level while the second tier will be at the PMU-level. The PMU of CEB will establish a clear set of procedures with specific time frames for grievance resolution at each level which will include procedures for receiving and recording grievances, screening and referrals, assessment of grievances, grievance resolution, reporting and monitoring. Further, PMU with the guidance of environmental and social safeguards officers assigned to the project will conduct awareness raising programs to inform the affected persons and the general public on the role and functions of the GRM, grievance reporting procedures, time frames for grievance resolution at each level, the operational locations of the GRM and the details of contact persons, addresses and telephone numbers at each level of the GRM. Brochures and leaflets printed in Sinhala and Tamil languages covering the above information will also be distributed. In parallel to the project based GRM established by CEB, aggrieved parties can also submit their grievances to the Divisional Secretary of the respective subproject area. The project-based grievance redress mechanism will also not impede the opportunities that affected persons have to resort to the country's legal system at any stage of the process.

5.30 Apart from the above described two levels of GRM, contractors will also establish a GRM at site level (Workers' GRM) which will exclusively address the issues and grievances of the labor teams. However, whenever necessary, the aggrieved laborers also have the choice of approaching the project based GRM.

5.31 **Bank's Project-Affected People's Mechanism.** AIIB's Project-affected People's Mechanism (PPM) will be used for the project. The PPM has been established by AIIB to provide an opportunity for an independent and impartial review of submissions from project-affected people who believe they have been or are likely to be adversely affected by AIIB's failure to implement its ESP in situations when their concerns cannot be addressed satisfactorily through the project-level GRM or the processes of AIIB's management. For information on AIIB's PPM, please visit https://www.aiib.org/en/about-aiib/who-we-are/project-affected-peoples-mechanism/how-we-assist-you/index.html.

5.32 **Proposed Follow-up / Monitoring and Supervision arrangements.** During the planning, construction, and operation phase of the project, implementation of the ESMP will be managed by a competent officer of the PMU. During the operational phase, ES monitoring will be undertaken by the CEB's Environmental Unit. The monitoring and supervision arrangements including the reporting will be reviewed and agreed by CEB and the Bank to ensure anticipated risks are proportionate to the nature and risks associated with the project. To ensure that these arrangements and the overall E&S performance of the project is being complied with, the Bank further proposes to carry out ES due diligence through field visits at certain intervals.

[14] https://www.ceb.lk/project-detail/39/en
[15] https://www.aiib.org/en/projects/details/2025/proposed/sri-lanka-sampur-kappalthurai-transmission-infrastructure-development-project.html

E. Climate Change

5.33 A climate risk screening was carried out and key climate risks in the project area were identified as increased precipitation, flooding and sea level rise. Assessment on climate vulnerability and climate risk mitigation measures has been carried out in ESIA and verified by the project team. Adaptation and resilience measures such as elevated platforms and enhanced drainage systems are considered in the project design to reduce the climate physical exposure for the hazards.

F. Gender Aspects

5.34 The workforce requirements during the construction stage of the project can bring economic benefits to the local communities such as job opportunities for men and women in labor work, and opportunities to provide meals and accommodation for labor teams coming from outside. However, the extent to which the women in the region would seize these economic opportunities needs to be assessed given their relatively rigid social structures, and the religious and cultural norms and beliefs that restrict the mobility of women. On the negative side, the risks of GBV, SEA and SH as well as the abuse of alcohol and drugs may increase with the migration of labor teams in significant numbers for construction work. Awareness programs for both workers and members of the nearby communities, especially targeting women and children, strict code of conduct issued to workers, and seeking the assistance of law enforcement agencies can help prevent and control such negative impacts. Additional mitigation measures are included in the ESMP.

G. Risks and Mitigants

5.35 Based on a project assessment, an overall 'Medium' risk rating has been assigned to the project. The possible risks and the mitigation measures are presented in Table 2 below.

Table 2. Summary of Risks and Mitigating Measures

Risk Description	Assessment (H/M/L)	Mitigation Measures
Technical Risk		
▪ Usage of technology in the project.	L	▪ The project scope will follow proven technologies that CEB has been using in other projects. Therefore, no major risk is anticipated from a technical perspective.
Implementation Risk		
▪ CEB's institutional capacity to implement the project	L	▪ CEB has a proven track record in implementing large and difficult transmission projects, including those financed by other development partners. In this project, CEB appointed a PD at an early stage to ensure preparation and advance procurement activities could be taken.
▪ Land Acquisition		▪ Substation land is already under the control of CEB so there will be no new land

Risk Description	Assessment (H/M/L)	Mitigation Measures
		acquisition risk in this project.
Financial Management Risk		
▪ PMU needs to become more familiar with AIIB FM and Disbursement requirements. ▪ The reliance on manual monitoring for contract and invoice progress under the project may increase the likelihood of errors due to weaker internal controls.	M	▪ After the loan is approved, one training session on AIIB FM and disbursement requirements will be conducted for PMU finance staff. ▪ Conduct periodic reconciliation and review of contract and expenditure payment progress under the project. In addition, engage the organization's internal audit department to review the project, including its operations and systems.
Procurement Risk		
▪ Regulatory and Compliance Risks with AIIB Procurement Requirements. ▪ Market risks with substantial material price and labor cost fluctuations. ▪ Non-mobilization after advance payment. ▪ Timely completion by the contractor, with quality. ▪ Objections from Authorities. ▪ Delays caused by work stoppages while disputes are being resolved during the implementation ▪ Not attending defects after completion.	M	▪ AIIB will provide continuous procurement training throughout the project cycle. ▪ Carry out market engagement survey before tendering to better understand the market price level in advance and prepare reasonable cost estimate. Provide price adjustment formula in contract with high risk of price and cost fluctuations. ▪ A payment guarantee will be required in the contract for advance payment requests to make it binding for two sides. ▪ Specification/design approvals will be required before commencing each work. Continuous project monitoring and progress reviews. ▪ Taking prior approval from relevant authorities. ▪ A dispute resolution system will be in place to resolve disputes without hindrance for smooth work progress. ▪ Performance security, together with retention money, will be required.
E&S Risk		
▪ Implementation of E&S management plans	M	▪ PMU will have E&S officers (2) to oversee and monitor the implementation of the E&S management plans of the project.

Annex 1: Results Monitoring Framework

Project Objective:	To enhance power evacuation capacity by constructing a transmission network from Sampur to Kappalthurai, enabling integration of potential renewable energy sources from northeastern Sri Lanka into the national grid.								
Indicator Name	**Unit of measure**	**Baseline Data (Yr 0)**	**Cumulative Target Values**				**End Target (Yr 4)**	**Data source / Methodology**	**Responsibility**
			Yr 1	**Yr 2**	**Yr 3**	**Yr 4**			
Project Objective Indicators:									
a. Additional Power evacuation capacity through the line	GWh	0	0	0	0	5,256	5,256	Annually	CEB
b. Greenhouse Gas (GHG) emission reduction	tCO2eq/ year	0	0	0	0	48,450	48,450	Annually	CEB
c. Enabling integration of potential renewable energy sources	MW	0	0	0	0	50	50	Annually	CEB
Intermediate Results Indicators:									
d. Length of Transmission Line constructed	km	0	0	0	10	38	38	Semi-Annually	CEB
e. Number of Transmission Line Towers completed	No.	0	0	30	70	95	95	Semi-Annually	CEB
f. Number of GSS constructed	No.	0	0	0	0	1	1	Semi-Annually	CEB
g. Number of Transmission Line Bay constructed	No.	0	0	0	0	2	2	Semi-Annually	CEB

Annex 2: Country Credit Fact Sheet

A. Recent Economic Development

1. Sri Lanka is a lower-middle income country with a per capita GDP of around USD 3,828 and population of around 22.0 million in 2023. After emerging from more than a quarter century civil war in 2009, Sri Lanka grew at a healthy rate of 6.7 percent between 2010 and 2015, reflecting peace dividend and a policy thrust towards growth. To support macroeconomic stability, the authorities undertook an IMF-supported adjustment program in 2016. While there was some progress in the initial years, several shocks including a drought in 2017, a political crisis in 2018 and terror attacks in 2019 buffeted the country. The vulnerabilities were further exacerbated in 2019 by a series of large tax cuts and other fiscal easing measures, which undermined the fiscal space. Growth slowed sharply in 2018 and 2019, while public debt surged to 90 percent of GDP.

2. The economy contracted by 4.6 percent in 2020 as pandemic induced lockdowns impinged on tourism revenues and domestic activity. With continued large fiscal and external deficits, considerable financing needs, and inconsistent macroeconomic policies, public debt became unsustainable, reaching 115 percent of GDP by end of 2021 with FX reserves depleted to USD 1.6 billion (less than 1 month of imports). The situation further worsened because of geopolitical tensions in Europe which dented tourism and led to a rise in import bills. With access to international capital market lost, the government suspended external debt service in April 2022 and formally defaulted on international sovereign bonds on May 2022. The country plunged into a socioeconomic crisis, with a shortage of basic commodities and social unrest. The exchange rate depreciated by 40 percent between February and May 2022; the economy contracted by 7.3 percent while inflation soared to over 70 percent.

3. Following the authorities' request the IMF approved a 48-month program under Extended Fund Facility of about USD 3 billion in March 2023. The Program performance has been strong and since mid-2023, the economic situation has been improving. The economy grew by 3.0 percent in the second half of 2023. Growth further increased to over 5.0 percent 2024. The recovery was broad-based but particularly led by healthy performance of the manufacturing, construction, hospitality, and financial sector. The recovery was also helped by a revival in tourism. The exchange rate has been appreciated, and FX reserves increased to nearly USD 6.5 billion in March 2025.

4. Inflation declined rapidly to average 1.2 percent in 2024 on account of increased availability of fertilizers, fewer shortages of essential goods, cuts in electricity tariffs, currency appreciation and phasing out of monetary financing of the budget. Recent months have witnessed a deflationary trend with the Colombo Consumer Price Index indicating an average monthly deflation rate of 2.7 percent between January and May 2025. In response, the central bank reduced its policy rate by 725 basis points between March 2023 and July 2024, to 9.25 percent. From November 2024, the Central Bank introduced the Overnight Policy Rate (OPR) as the primary policy tool to enhance monetary policy transmission. The OPR stood at 7.75 percent in June 2025.

5. The central government fiscal deficit improved from 10.2 percent of GDP in 2022 to 8.3 percent of GDP in 2023, aided by fiscal reforms, such as tax hikes, and improvements in tax collection. Increased tax revenue, driven by higher VAT collection and revision of excise duty rates, higher corporate tax rates, elimination of personal income tax exemptions and strengthened tax administration along with rationalization of expenditure, helped by lower interest rates and limiting capital expenditure, resulted in the fiscal deficit declining to 5.6 percent of GDP. Capital spending was muted because of a reduction in externally financed projects. Consequently, gross public debt reduced from 110.4 percent of GDP in 2023 to 99.4 percent of GDP in 2024.

6. The debt restructuring is nearly complete. The government has finished domestic debt operation. It has completed debt restructuring with China EXIM Bank and finalizing individual agreements with OCC creditors. These account for USD 10 billion. Sri Lanka reached an agreement with holders of international sovereign bonds to restructure in September 2024, which was approved by the IMF and OCC for being consistent with debt sustainability parameters and compatible with Comparability of Treatment. Pursuant to the agreement, in November 2024, Sri Lanka launched an initiative for holders of its ISBs to exchange their bonds against new instruments. At the end of the offer period, close to 98 percent of the total outstanding amount of ISBs will be exchanged. Discussions to restructure debt of China Development Bank have also concluded and repayments have started. Completion of these measures, along with fiscal reforms and concessional financing will help Sri Lanka to restore debt sustainability.

7. Sri Lanka's good exports picked up in 2024 aided by strong performance of apparel and textiles, tea, rubber and coconut-based products. Merchandise exports continued to grow at a healthy rate of 5.3 percent in the first quarter of 2025. Services exports were also buoyed by strong by information technology services and tourism. Imports also picked up in 2024 as the economy grew at a healthy pace and import restrictions were eased. The robust growth in imports continued in the first quarter of 2025, resulting in the merchandise trade balance increasing four-folds, compared to the previous year. Remittances, which grew by 10.1 percent in 2024, continued their strong growth, increasing by 18.3 percent between January and April 2025. Overall, the current account deficit reduced to 1.7 percent of GDP in 2024. The financial account showed lower net inflows in 2024 due to lower project financing, banks investing their foreign exchange assets in accounts abroad and redemptions of external liabilities as the existing rating did not allow banks and businesses to renew the letter of credits. Strong remittances, along with inflows from development partners, net purchase of reserves to prevent appreciation and debt service suspension, led to gross official reserves increasing to nearly USD 6.1 billion in December 2024 and further to USD 6.5 billion in March 2025.[16]

8. Sri Lanka's credit fundamentals have improved following the increase in foreign exchange buffers, ongoing fiscal reforms and improving policy credibility. In December 2024, Fitch Ratings upgraded Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating (IDR) to CCC+ from Restricted Default. In the same month, Moody's also upgraded Sri Lanka's rating to Caa1 with a stable outlook citing restructuring of international bonds, combined with policy adjustments and ongoing implementation of reforms. In December 2024, S&P affirmed

[16] This includes proceeds from the PBOC swap arrangement, which is subject to conditionalities on usability

its Selective Default foreign currency rating but assigned CCC+ foreign currency issue rating to some of the newly issued series of Sri Lanka's sovereign bonds.

B. Economic Indicators

Table: Economic Indicators of Sri Lanka

Economic Indicators	2021	2022	2023	2024*	2025*	2026*
Real GDP growth	3.5	-7.3	-2.3	4.5	3.0	3.0
CPI Inflation (average, % change)	6.0	45.2	17.4	1.3	3.8	5.4
Current account balance (% of GDP)	-3.7	-1.0	3.1	1.8	-0.4	-0.6
Central government overall balance (% of GDP)	-11.7	-10.2	-8.3	-5.4	-4.6	-4.0
Public debt (% of GDP)	115	126	116	111	111	107
External debt (% of GDP)	66	77	65	68	70	72
Gross international reserves (USD billions) 1/	3.1	1.9	4.4	6.4	6.5	-
Exchange rate (LKR/USD, EOP) 1/	200	363	324	291	295	-

Source: IMF Country Report 25/56; '*' – refers to forecast; 1/ Most recent data from central bank, as of March 2025

C. Economic Outlook

9. Economic recovery is expected to continue but at a more moderate pace as exceptionally strong growth recovery fade. Growth is expected to be spurred by resumption of infrastructure investment, growth in garment and textile manufacturing and acceleration in hospitality, transport and tourism services. Growth in private investment will be fueled by lower interest rates as uncertainty dissipates following elections and debt restructuring.

10. After experiencing deflation in 2024, inflation will pick up gradually from Q2 2025 driven by higher tax rates, base effect and a pickup in consumer demand. Improved credit conditions, an expected hike of electricity tariffs and relaxation of import restrictions is expected to spur inflation. Inflation is expected to average 3.0 percent in 2025. The new Central Bank Act is expected to strengthen CBSL's independence and modernize its policy framework.

11. Higher tax rates, removal of exemptions and efforts to widen the tax base will increase the ratio of tax revenue to GDP. However, interest on debt has been on a rise. High interest payments, revision of public sector salaries and recapitalization of banks will leave little room for capital expenditure, as the government tries to reduce the fiscal deficit. Financing needs will remain high in the short-term and will only decrease gradually. Successful resolution of the debt restructuring will help reduce Sri Lanka's debt to GDP ratio and gain access to international capital market.

12. The relaxation of import restrictions will push imports higher though the limited purchasing power will curtail the demand for luxury goods. The removal of vehicle imports controls and continuing economic recovery will cause imports to surge. Exports are likely to remain flat due to subdued global demand. The service' balance is expected to improve with a rebound in tourism. Remittance inflows will remain strong and help offset part of the trade deficit. Overall, the current account is expected to be in deficit in 2025. Reserve accumulation is expected to continue, supported by sustained inflows from tourism, remittances and development partners.

13. IMF program performance has been strong till the third review and staff-level agreement for fourth review with strong economic growth, revenue mobilization and reserve accumulation. The newly elected government has shown commitment to continue the reform process. The successful completion of the debt restructuring process and financial assurances from creditors about sufficient debt relief and continued financing, including with concessional resources will help debt to be deemed “sustainable” again. However, even with that, debt will remain high with high risk of debt stress. Given limited fiscal and external buffers, downside risks remain high. Global trade policy uncertainty also poses significant downside risks.