

## Project Implementation Monitoring Report (#6)

Reporting Period From 2023/08 To 2024/04

## 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	Lead 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; Yu Pan, Project admin		
Completed Site Visits by AIIB:	Oct, 2023 Meetings held with BOC and PB		
Planned Site Visits by AIIB:	None		
Current Red Flags Assigned:	1		
Current Monitoring Regime:	Regular Monitoring		
Previous Red Flags Assigned:	1		
Previous Red Flags Assigned Date:	2023/07		

## 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 aims to address the urgent need for liquidity by providing credit to corporates and small and medium-sized private enterprises (SMEs). These companies faced 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.

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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	Latest disbursement (amount/date):	44.78/Sep. 29, 2021
Undisbursed:	0.00	Disbursement Ratio (%) <sup>1</sup> :	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 of 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 both PB and BOC have fully drawn their respective facilities. Both PB and BOC have met the debts servicing requirements on their respective facilities on time in December 2023. The repayment of principal in both facilities have started from December 2023. Project Team proposes to retain the number of red flags at one in this PIMR due to ongoing macroeconomic challenges in Sri Lanka and delays in submission of reports related to project monitoring. Project Team notes that there has been significant improvement in the macroeconomic situation in Sri Lanka with inflation coming down to 5.9% in February 2024 and GDP growing 4.5% in Q4 2023. The second review of the IMF facility was concluded in March 2024 and disbursement of the next tranche of IMF facility of USD 337 million is expected post approval by IMF board. However, as per latest media reports, restructuring negotiations between the Government of Sri Lanka and private bondholders are facing some challenges. Project team also notes that there has been progress in submission of long pending monitoring reports, with both BoC and PB submitting the project audited financial report (by external auditor) for the year 2022.

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 had been prior-reviewed and endorsed by AIIB. Additional review were also carried out for corporate	N/A - The Borrowers are financing working capital loans through the facility. Short-term working capital facilities are not expected to

<sup>1</sup> Disbursement Ratio is defined as the volume (e.g. the dollar amount) of total disbursed amount as a percentage of the net committed volume.

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		<p>and SME loans during the first quarter of implementation. The ES risks of activities financed under the project are mostly Category C and readily addressed through standard mitigation measures and compliance with the national laws. Periodic ES Performance Reports for 2023 have been submitted to AIB by both BOC and PB; no non-compliance has been observed.</p>	<p>be used to finance any capex expenditure projects. The sub-loans are not expected to finance contracts for goods or services. However, if they do, they are likely to be small contracts, in which case the provisions of paragraph 14.4 Financial Intermediaries under the Interim Operational Directive - Procurement Instructions for Recipients would apply, and the beneficiary will procure the items in accordance with the normal procurement practices of Private Entities provided they are acceptable to the Bank.</p>
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**Financial Management:**

- PB and BOC have both submitted project audit report by external auditor for financial year ended December 31, 2022.
- BOC has submitted the project internal audit report for FY 2023. The H2 2023 internal audit report is pending from PB.
- Project team has been consistently following-up with the borrowers for the pending compliances.

**6. Status of the Grievance Redress Mechanism (GRM)**

The existing GRM for People's Bank (<https://www.peoplesbank.lk/contact-us/>) and the project specific GRM for Bank of Ceylon (<https://www.boc.lk/business-banking/corporate/project-financing/project-implementation>) are both under operation. So far, no complaints have been received regarding the Project.

**7. Results Monitoring (please refer to the full RMF, which can be found on the last page of this PIMR)**

USD values presented here are computed using average USD/LKR exchange rate at time of disbursement (approx. LKR 195-198 per USD). People's Bank has not reported details of funds recycled from repayment flows from sub-borrowers into subsequent lending to new eligible sub-borrowers. Hence the results reported below does not include details of such re-lending by People's Bank.

**Remarks:**

Project Objective Indicators	Indicator level	Unit of Measure	Cumulative Target Values															Frequency	Responsibility	Comments		
			Baseline		2021		2022		2023		2024		2025		2026		End Target					
			Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Year				Target	Actual
Cumulative value of working capital loans provided to eligible sub-borrowers	Project	USD million	2021	0	0	0	180	188.6	220	207.63	290	229.98 (as on December 2023)	340		340		2026	340		Annual	Borrowers	USD values presented here are computed using average USD/LKR exchange rate at time of disbursement (approx. LKR 195-198 per USD).
Cumulative value of working capital loans provided to SMEs	Project	USD million	2021	0	0	0	108	120.1	132	136.9	174	158.5 (as on December 2023)	204		204		2026	204		Annual	Borrowers	USD values presented here are computed using average USD/LKR exchange rate at time of disbursement (approx. LKR 195-198 per USD).
Cumulative value of working capital loans provided to women led sub-borrowers	Project	USD million	2021	0	0	0	18	12.5	22	18.4	29	21.0 (as on December 2023)	34		34		2026	34		Annual	Borrowers	USD values presented here are computed using average USD/LKR exchange rate at time of disbursement (approx. LKR 195-198 per USD).
Number of eligible sub-borrowers receiving financing	Project	Number	2021	0	0	0	360	2,213	450	2,575	580	3,363 (as on December 2023)	710		710		2026	710		Annual	Borrowers	
Number of SMEs receiving financing	Project	Number	2021	0	0	0	320	2,153	400	2,508	520	3,294 (as on December 2023)	630		630		2026	630		Annual	Borrowers	

Project Intermediate Indicators	Indicator level	Unit of Measure	Cumulative Target Values														Frequency	Responsibility	Comments	
			Baseline		2020		2021		2022		2023		2024		End Target					
			Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Year	Target				Actual