



Sri Lanka Financial Sector Modernization Project (P159303)

SOUTH ASIA | Sri Lanka | Finance, Competitiveness and Innovation Global Practice |
IBRD/IDA | Investment Project Financing | FY 2017 | Seq No: 5 | ARCHIVED on 28-May-2019 | ISR36492 |

Implementing Agencies: Democratic Socialist Republic of Sri Lanka, Insurance Board of Sri Lanka, Securities and Exchange Commission of Sri Lanka, Central Bank of Sri Lanka

Key Dates

Key Project Dates

Bank Approval Date: 05-Apr-2017

Effectiveness Date: 22-Feb-2018

Planned Mid Term Review Date: 15-Nov-2019

Actual Mid-Term Review Date: --

Original Closing Date: 31-Dec-2022

Revised Closing Date: 31-Dec-2022

Project Development Objectives

Project Development Objective (from Project Appraisal Document)

The Project Development Objective (PDO) is "to contribute to increasing financial market efficiency and use of financial services among micro, small and medium enterprises (MSMEs) and individuals". The project will achieve the PDO through modernizing financial market infrastructure, upgrading the legal and regulatory framework for the financial system, and strengthening the institutional capacity of financial sector regulators (Central Bank of Sri Lanka, [CBSL]; Securities and Exchange Commission of Sri Lanka, [SEC]; and Insurance Board of Sri Lanka, [IBSL]). On account of its comprehensive approach to creating an enabling environment for robust financial development, the project is also expected to advance financial inclusion through (a) increased financial efficiency and competition and (b) the greater reach and financial connectivity of MSMEs and individuals that the new and more inclusive financial market infrastructure shall enable.

Has the Project Development Objective been changed since Board Approval of the Project Objective?

No

Components

Name

Supporting Selected Mid-Level Reforms through Results-Based Financing:(Cost \$15.00 M)
Strengthening Regulators' Institutional Capacity, Upgrading the Legal and Regulatory Framework and
Modernizing Financial Market Infrastructure:(Cost \$59.00 M)
Project Implementation and Monitoring:(Cost \$0.81 M)
Front-end Fee:(Cost \$0.19 M)

Overall Ratings

Name	Previous Rating	Current Rating
Progress towards achievement of PDO	● Satisfactory	● Satisfactory
Overall Implementation Progress (IP)	● Moderately Unsatisfactory	● Moderately Unsatisfactory
Overall Risk Rating	● Substantial	● Substantial

Implementation Status and Key Decisions



The project has made positive progress since the last implementation support mission. Two Disbursement Linked Results (DLRs) have been achieved (DLR 1.1 [Financial Sector Oversight Committee (FSOC) agrees through the MoU that CBSL will be the lead consolidated supervisor] and DLR 5.1 [National Insurance Trust Fund (NITF) Board issues decision to restructure NITF by separating the underwriting and reinsurance business]) and disbursements totaling USD 2 million have been made against these DLRs. The Central Project Coordination Unit (CPCU) is closely monitoring the progress of achievement of the DLRs.

There has been procurement delays but the pace has picked up. The CPCU is closely monitoring the procurement challenges and where possible supporting the Implementing Agencies in resolving such challenges. It is envisaged that this pace will continue, and disbursements will begin shortly.

Risks

Systematic Operations Risk-rating Tool

Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	● Substantial	● Substantial	● Substantial
Macroeconomic	● Substantial	● Substantial	● Substantial
Sector Strategies and Policies	● Substantial	● Substantial	● Substantial
Technical Design of Project or Program	● Moderate	● Moderate	● Moderate
Institutional Capacity for Implementation and Sustainability	● Substantial	● Substantial	● Substantial
Fiduciary	● Substantial	● Substantial	● Substantial
Environment and Social	● Low	● Low	● Low
Stakeholders	● Moderate	● Moderate	● Moderate
Other	--	--	--
Overall	● Substantial	● Substantial	● Substantial

Results

PDO Indicators by Objectives / Outcomes

Project Development Objectives				
▶(1) Increased transactions of retail electronic payments on the modernized infrastructure (measured by the cards issued under NCS to total debit cards in the system— target 15%) (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	1.00	1.00	1.00	15.00
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
▶Increased participation (trading) in the secondary market Central Government bonds (measured by the growth in secondary market trades of Central Government Debt in value terms—target 5%) (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target



Value	LKR 6591 Billion	--	LKR 5952 Billion	5% increase from base line
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
▶(3) Increased share of private insurance companies (newly issued) insurance policies (measured by the growth of insurance premiums to GDP—target 3%) (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	1.05	1.21	1.21	3.00
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
▶Increased financial soundness of MFIs (measured by establishing and complying with the regulatory minimum capital requirement (MCR) by MFIs—target all MFIs complying with (MCR) Regulation) (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	MCR not established	--	Minimum core capital regulation No 1 of 2016. (1 MFI registered and in compliance)	All MFIs are complying with MCR
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	31-Dec-2021

Intermediate Results Indicators by Components

Strengthening Regulators' Institutional Capacity, Upgrading the Legal and Regulatory Framework and Modernizing Financial Market Infrastructure				
▶CBSL has undertaken consolidated risk-based supervision of banks on both solo and group wide basis, and performs risk assessment on a stand-alone and consolidated basis (Basel Core Principles for effective (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Non compliant	--	non compliant	Compliant. CBSL produces 2 consolidated risk based supervision reports for identified financial groups.
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
Comments:	CBSL has signed an MOU with SEC and IRCSL to be the lead consolidated risk based supervisor. It is expected that they will be able to prepare consolidated supervision reports for identified financial groups in years two and three.			
▶RTGS new system with multi-currency settlement and convertibility features and the Scripless Securities Settlement System (SSSS) with Central Depository System operational (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	New system Not operational	--	New system not operational	New RTGS and SSSS with CDS operational.
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
▶SEC's regulatory framework and supervisory practices have a significantly high level of observance of the International Organization of Securities Commission's (IOSCO) Objectives and Principles of Sound (Text, Custom)				



	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	3 of 38 principles fully implemented, 13 of 38 Broadly implemented, 17 of 38 partially implemented; 6 of 38 not implemented; 1 of 38 not applicable	--	3 of 38 principles fully implemented, 13 of 38 Broadly implemented, 17 of 38 partially implemented; 6 of 38 not implemented; 1 of 38 not applicable.	At least 28/38 principles observed.
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
►IBSL's regulatory framework and supervisory practices have a significantly high level of observance of the International Association of Insurance Supervisors- Insurance Core Principles (IAIS-ICPs) (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Largely observed (6 of 26 principles; partially observed 3 of 26 principles; assessed yet not finalized 10 of 26 principles; not assessed 7 of 26 principles)	--	Insurance law drafted in line with ICPs - under review	At least 12/26 principles observed and 6/26 principles partially observed.
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
►CBSL & LankaClear Assessment of Observance of the CPSS_IOSCO Principles for Financial Market Infrastructures completed (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Not assessed	--	not assessed	All applicable PFMI's Observed or Broadly Observed by each FMI type (i.e., 18/18 observed or broadly observed or not applicable for RTGS; 21/21 observed or not applicable for CSD/SSS).
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
►Central Counter Party system established for the securities market (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Non operational	--	non operational	Pilot runs started.
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
►Regulatory and supervisory framework for financial consumer protection established and in use (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Non-existent	--	non-existent	Regulations issued and FIs abide by FCP law. Framework in use.



Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
► Outstanding MSME Loans from commercial banks (Note: Value of total loans granted by commercial /development banks) (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Published disaggregated data not N/A. (total estimated around LKR 685 Billion)	--	Published disaggregated data not N/A. (total estimated around LKR 685 Billion)	Publishing of SME data Total loans granted by banks increased by 30%
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
▲ Outstanding MSME Loans from commercial banks by females (% of total commercial bank loans) (Text, Custom Breakdown)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Not available/ gender disaggregation not done	--	Not available/gender disaggregation not done	Data available and published
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
► Outstanding Microfinance lending from licensed microfinance institutions (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	None (not licensed yet)	--	None (not licensed yet)	Data available and published
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
▲ Outstanding Microfinance lending from licensed institutions to women (% of MFI loans) (Text, Custom Breakdown)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	None (not licensed yet)	--	None (not licensed yet)	Data available and published
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
► Outstanding Corporate Debt (% of GDP) (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	1.00	0.22	2.00	15.00
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
Supporting Selected Mid-Level Reforms through Results-Based Financing				
► Year-end stock market capitalization (% of GDP) (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target



Value	27.00	24.50	25.00	50.00
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
►Change in investment portfolio composition of EPF (% in government securities) (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	90-95% in government securities	--	91.3% in government securities	less than 89% in government securities
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
►Regulatory and supervisory framework with proportionate risk-based supervision for microfinance established and operational (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Non-operational	--	law passed Dept. established but Non-operational	Operational
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022
►Citizen engagement indicator of percentage of project beneficiaries that feel project activities/services/results reflected their needs. (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.00	0.00	75.00
Date	01-Sep-2016	28-Nov-2018	05-Apr-2019	30-Dec-2022

Project Implementation and Monitoring				
►Plans and reports are generated and discussed in a timely manner (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Procurement Plans approved	--	Procurement Plans implemented; Operations Manual agreed with IAs	Completed
Date	01-Sep-2016	14-Dec-2018	05-Apr-2019	30-Dec-2022
►Audit reports completed and submitted within six months of closing of the financial year. (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	None	--	IUFRs submitted	Submitted
Date	01-Sep-2016	14-Dec-2018	05-Apr-2019	30-Dec-2022

Disbursement Linked Indicators

►DLI 1 Adoption of consolidated, risk-based approach to supervision of financial institutions (Yes/No, Process, 4.00, 0.00%)



	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	No	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
▲DLI 1.1 FSOC agrees through the MOU that CBSL will be lead consolidated supervisor (Text, Process, 2.00, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	Yes (MOU to be signed)	Yes (MOU signed)	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
▲DLI 1.2 Implementation of the MOU evidenced by a minimum of four (4) meetings (from four quarterly sessions in one (1) year) of the FSOC, confirmed by the chairman of FSOC (Yes/No, Process, 1.00, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	No	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
▲DLI 1.3 Based on MoU, CBSL produces 2 consolidated risk-based supervision financial groups for FSOC meeting confirmed by the chairman of FSOC (Yes/No, Process, 2.00, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	No	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
▶DLI 2 Establishment of the Financial Consumer Protection Authority across all financial services under independent authority or an authority under CBSL (Yes/No, Process, 3.00, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	No	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
▲DLI 2.1 MoF's submission of request for establishment of authority under CBSL to conduct FCP (Yes/No, Process, 2.00, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	No	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
▲DLI 2.2 If the decision of the cabinet is to establish FCPA under CBSL, CBSL Monetary Board issues decision to establish FCP department within CBSL*. (Yes/No, Process, 1.00, 0.00%)				



	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	No	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
►DLI 3 Establish an information system for holistic management of EPF's assets (investment) and liabilities (collections), and adopt a diversified investment strategy. (Yes/No, Process, 3.00, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	No	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
▲DLI 3.1 Submission of cabinet memorandum, requesting approval to bring the mgt of EPF's collections (liabilities) and investments (assets) into common information management system under CBSL (Yes/No, Process, 2.00, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	No	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
▲DLI 3.2 CBSL Monetary Board issues decision to adopt a diversified investment strategy to reach adequate replacement income for retirees (Text, Process, 1.00, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	Yes (strategy approved by MB, need critical adjustments)	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
►DLI 4 Establishment of Delivery vs Payment (DvP) mode of settlement for corporate securities to minimize possible risks to financial stability. (Text, Process, 1.50, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	No (technical model under discussion)	No (technical model under discussion)	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
▲DLI 4.1 SEC & CSE adopt rules and regulations necessary to enable the settlement of the corporate securities segment on DvP basis. (Yes/No, Process, 0.50, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	No	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--



▲DLI 4.2 Successful CSE Business Continuity Planning test involving the DvP arrangement completed. (Yes/No, Process, 0.50, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	Yes	No	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
▲DLI 4.3 SEC undertakes on-site or off-site inspection/audits one year after enabling DvP to ensure DvP is happening. (Yes/No, Process, 0.50, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	No	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
▶DLI 5 Restructuring of the NITF by separating the underwriting and reinsurance businesses (Yes/No, Process, 3.50, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	No	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
▲DLI 5.1 NITF Board issues decision to restructure NITF by separating the underwriting and reinsurance businesses (Yes/No, Process, 2.00, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	Yes	Yes	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
▲DLI 5.2 SLIRC issues no objection to separation. (Yes/No, Process, 0.50, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	No	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--
▲DLI 5.3 MoNP&EA/MoF submits cabinet memorandum, requesting to approve the proposed restructuring of NITF and such a request is approved by the cabinet (Yes/No, Process, 2.00, 0.00%)				
	Baseline	Actual (Previous)	Actual (Current)	December 31, 2022
Value	No	No	No	Yes
Date	--	29-Oct-2018	05-Apr-2019	--



Data on Financial Performance

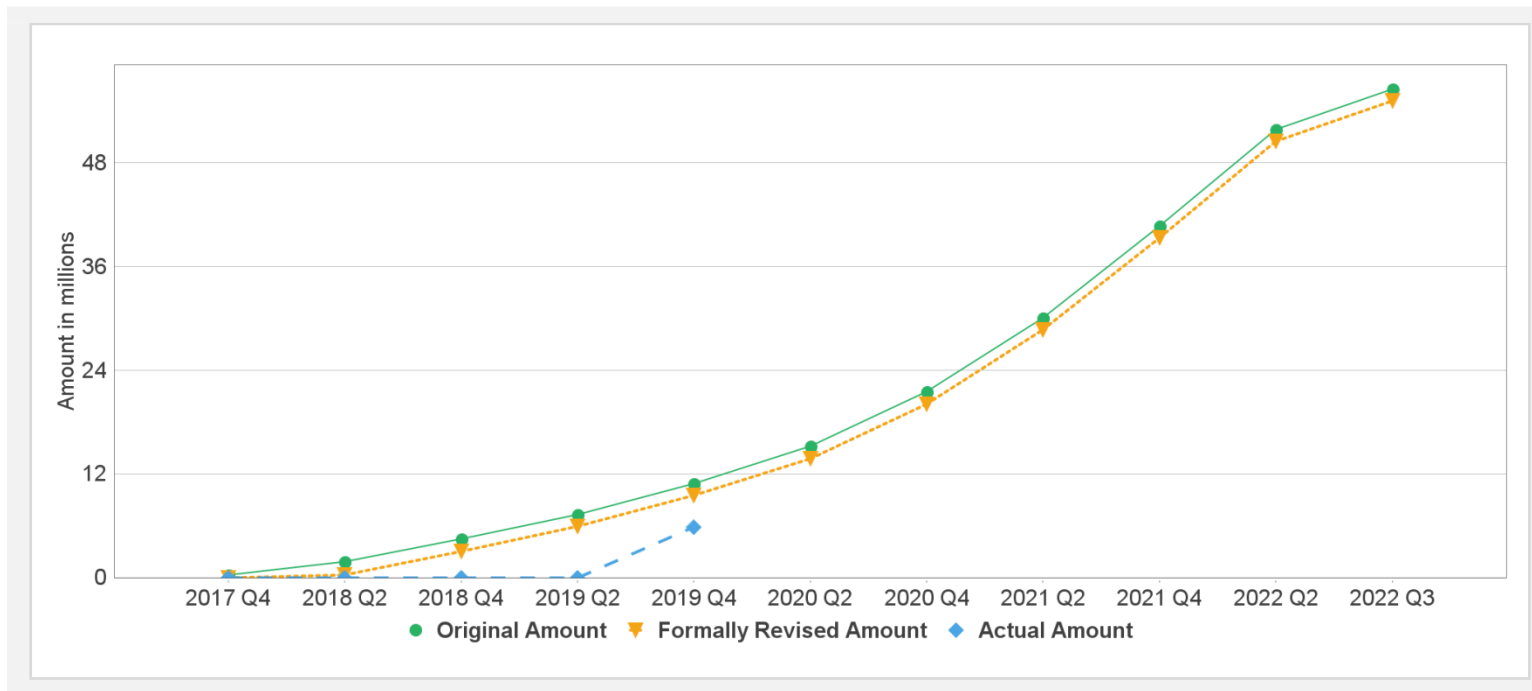
Disbursements (by loan)

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P159303	IDA-60060	Effective	USD	75.00	75.00	0.00	5.99	70.93	7.8%

Key Dates (by loan)

Project	Loan/Credit/TF	Status	Approval Date	Signing Date	Effectiveness Date	Orig. Closing Date	Rev. Closing Date
P159303	IDA-60060	Effective	05-Apr-2017	04-Oct-2017	22-Feb-2018	31-Dec-2022	31-Dec-2022

Cumulative Disbursements



Restructuring History

There has been no restructuring to date.

Related Project(s)



There are no related projects.
