



Report and Recommendation of the President to the Board of Directors

Project Number: 49273-002
Loan Number: 3370-SRI
December 2017

Proposed Loan for Additional Financing Democratic Socialist Republic of Sri Lanka: Small and Medium-Sized Enterprises Line of Credit Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 12 December 2017)

Currency unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.00653
\$1.00	=	SLRs153.10

ABBREVIATIONS

ADB	–	Asian Development Bank
ICT	–	information and communication technology
PAM	–	project administration manual
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance

NOTE

In this report, “\$” refers to United States dollars.

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CONTENTS

	Page
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impact and Outcome	4
C. Outputs	4
D. Investment and Financing Plans	5
E. Implementation Arrangements	5
III. DUE DILIGENCE	7
A. Economic and Financial	7
B. Governance	7
C. Poverty and Social	7
D. Safeguards	8
E. Risks and Mitigating Measures	8
IV. ASSURANCES	9
V. RECOMMENDATION	9
APPENDIXES	
1. Revised Design and Monitoring Framework	10
2. List of Linked Documents	14

PROJECT AT A GLANCE

1. Basic Data		Project Number: 49273-002	
Project Name	Small and Medium-Sized Enterprises Line of Credit Project-Additional Financing	Department /Division	SARD/SAPF
Country Borrower	Sri Lanka Democratic Socialist Republic of Sri Lanka	Executing Agency	Ministry of Finance and Mass Media
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Finance	Small and medium enterprise finance and leasing		75.00
		Total	75.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Pilot-testing innovation and learning		
Partnerships (PAR)	Implementation		
Private sector development (PSD)	Private Sector Promotion of private sector investment		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	Yes	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8, SDG9		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: FI	Involuntary Resettlement: FI-C	Indigenous Peoples: FI-C
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		75.00	
Sovereign Credit line (Regular Loan): Ordinary capital resources		75.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		75.00	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Democratic Socialist Republic of Sri Lanka for the additional financing of the Small and Medium-Sized Enterprises Line of Credit Project.

2. Financial inclusion of small and medium-sized enterprises (SMEs) in Sri Lanka remains a key development priority for the government given SMEs' large demand for credit, the financial barriers facing SMEs, and SMEs' potential for reducing unemployment and regional inequalities. This additional financing will provide loans to Sri Lankan banks to encourage them to grow their SME portfolios, and will extend the current successful project, which otherwise would close ahead of schedule, through March 2020.

II. THE PROJECT

A. Rationale

3. **Small and medium-sized enterprise exclusion.** A vibrant SME sector has the potential to mitigate several of Sri Lanka's most difficult development challenges.¹ SMEs have higher growth potential, can create jobs, and, over time, increase the tax base at a quicker pace than larger enterprises. They can also reduce regional inequalities. While all firms in Standard & Poor's Sri Lanka 20, the main national stock market index, are headquartered in Colombo, SMEs are spread throughout the country. For women, whose participation in the Sri Lankan workforce lags that of international peers, and for youths, whose unemployment rate exceeds the national average, start-up businesses offer an opportunity to participate meaningfully in the economy. A more vibrant SME sector could also increase exports and attract foreign direct investment.

4. Access to finance is the main challenge for SMEs. The World Bank's Enterprise Survey found that 30% of Sri Lankan firms identified it as a major constraint, a percentage surpassed only by Mongolia, Nepal, and Afghanistan among the developing member economies of the Asian Development Bank (ADB). Only in Tonga are firms more reliant on internal funding for new investments, and just 25% of Sri Lankan firms said that they did not need a loan, the lowest among ADB developing members.² High financial barriers are even more imposing for often-excluded segments such as SMEs that have not borrowed previously from a bank, are led by women, or are located outside of Colombo.

5. Recognizing these difficulties, the government has prioritized SMEs' financial inclusion. This involves business development services, initiatives to promote venture capital funding, and programs such as the ADB credit line to encourage banks to target the SME segment. SME financing has been identified and enhanced as a priority in ADB's country partnership strategy, 2018–2022 for Sri Lanka³ and is being supported by other development partners.⁴

¹ The project uses the Sri Lankan government's definition of SMEs, which is annual turnover of less than SLRs750 million, fewer than 300 employees if a manufacturer, or fewer than 200 employees if in the service sector. The definition effectively includes microenterprises.

² World Bank. Enterprise Surveys. <http://www.enterprisesurveys.org/data> (accessed August 2017).

³ ADB. 2017. *Country Partnership Strategy: Sri Lanka, 2018–2022—Transition to Upper Middle-Income Country Status*. Manila.

⁴ Development Coordination (accessible from the list of linked documents in Appendix 2).

6. **Banking environment.** The government's focus on SMEs' financial inclusion remains relevant given developments in the Sri Lankan banking during 2016–2017. The Central Bank of Sri Lanka has raised interest rates three times since February 2016. Tighter monetary conditions have reduced private sector credit growth, which decreased from 6.2% in January–May 2016 to 4.5% in January–May 2017. In a restrictive environment, initiatives to promote financial inclusion of SMEs have more significance because banks may be inclined to focus on established client bases.

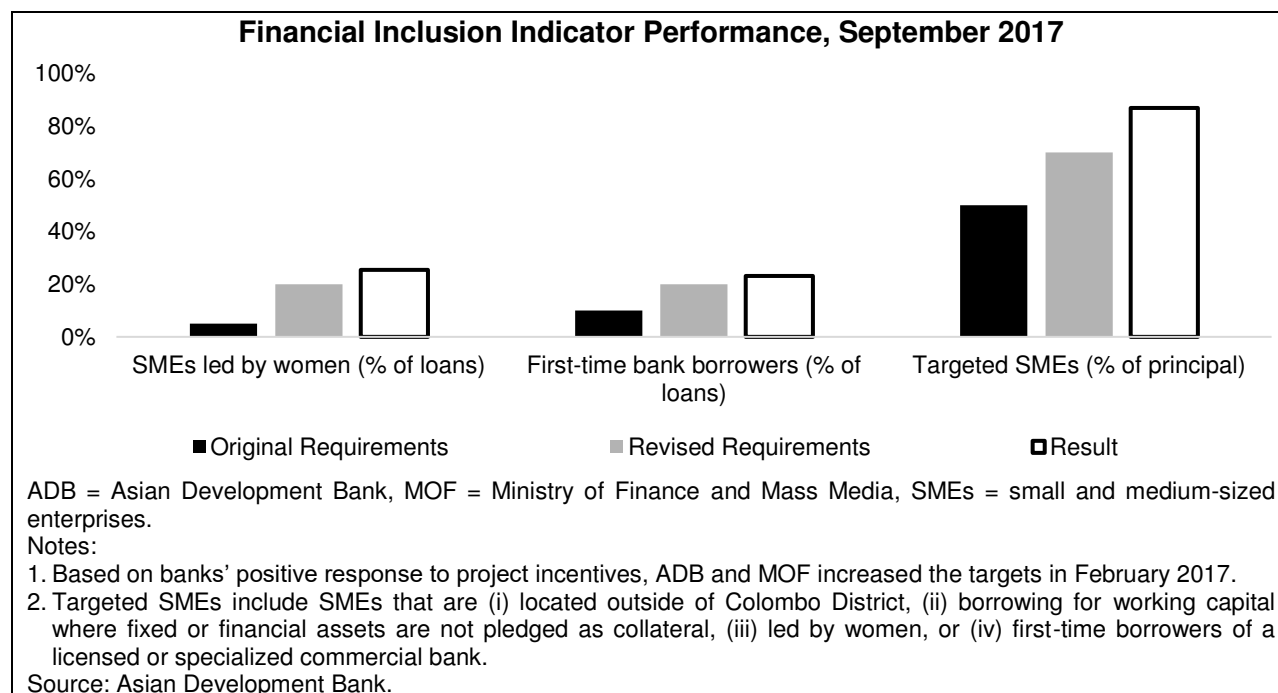
7. **Original project.** ADB approved in 2016 an SME credit line that is on track for completion.⁵ The original project used incentives and penalties to promote financial inclusion. Like other SME projects, it set requirements for onlending to underrepresented segments such as women-led SMEs and SMEs that had previously not borrowed from a bank. In contrast to other credit lines, banks choose their own disbursement targets but incur sharp financial penalties for not achieving the targets within 3 months.⁶ Moreover, banks that have not disbursed 80% of their allocation and met their financial inclusion targets within 5 months are not eligible to participate in the next semiannual allocation, effectively ceding more funding to their competition.

8. This mix of incentives and disincentives has worked well. To avoid being penalized and excluded from future funding rounds amid a restrictive monetary climate, banks have overshot their financial inclusion targets. Capitalizing on the results of these incentives, ADB and the government increased after the first 12 months the amount available at each funding round and raised the financial inclusion targets. Despite higher targets, banks have continued to perform beyond expectation (Figure). The additional financing continues this approach, which the Sri Lanka Solar Rooftop Development Project has adopted as well.⁷

⁵ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka for the Small and Medium-Sized Enterprises Line of Credit Project*. Manila.

⁶ The original project ran a pilot allowing banks to bid on their borrowing rate. Because the auction limited participation, the government requested a conventional allocation system that allowed all eligible banks to participate. However, the banks continue both to identify their borrowing quantity and to incur a financial penalty for nonperformance.

⁷ ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka for the Rooftop Solar Power Generation Project*. Manila.



9. The original project included incentives for banks to establish an ADB-compliant environmental and social safeguard management program. Participating banks can only lend to subprojects classified *category B* for the environment if they have an ADB-approved environmental and social management system. Otherwise, lending is limited to subprojects classified *category C* for the environment. At project inception, only three banks had ADB-approved safeguard systems. Recognizing their competitive disadvantage, two banks have since introduced safeguard systems and four more banks are working with ADB to develop their own. Collectively, these nine banks are responsible for more than 80% of lending in Sri Lanka.

10. The original project also strongly emphasized data collection. Little information was available on SMEs or their borrowings when the original project was structured. To rectify this shortcoming, the technical assistance (TA) attached to the original project funded a third party to collect data on the SMEs participating in the project. This data is publicly available and can be a resource to the government, other development agencies, and academics.⁸ This sound management information system strengthens subproject monitoring and implementation.

11. This data also provides insights into how the project is helping SMEs. For example, as of May 2017, 26% of the SMEs had taken a previous loan from the same bank. With their own funds, those banks extended the loans for an average of 49 months, but with ADB funds, the average tenor increased by 31%. The longer tenor of ADB funding also supports capital expenditures, which represent a clear majority of investment activity. The manufacturing industry has been one of the prime beneficiaries and has received 17% of the funding. Moreover, the data provides insights into these SMEs. First-time borrowers, for instance, are generally newer businesses with seven employees on average; other SMEs have about 30. Only businesses owned solely by women are managed entirely by women, which underlines the

⁸ ADB. Sri Lanka: Small and Medium-Sized Enterprises Line of Credit Project. Documents (Consultants' Reports). <https://www.adb.org/projects/49273-001/main#project-documents>.

importance of this project's focus on gender mainstreaming.⁹ A supplementary "Impact Stories" appendix provides further examples of how the original project has helped small-business owners.¹⁰

12. **Rationale for additional financing.** Given the project's strong performance—particularly in reaching SMEs that are first-time borrowers, women-led, or located outside of Colombo—and its compliance with ADB's additional financing eligibility criteria, the government requested \$150 million to scale up this project for four more funding rounds of \$37.5 million each.¹¹ Given other demands on Sri Lanka's resource envelope, ADB and the government eventually agreed to an additional funding request of \$75 million for three more rounds of \$25 million each.

B. Impact and Outcome

13. The project's impact and outcome are unchanged. The impact will be that employment opportunities in SMEs have increased.¹² The outcome will be that SMEs' access to finance has been strengthened. The additional financing increases the outcome indicator—\$50 million to be lent via the credit line to SMEs that are (i) located outside of Colombo District, (ii) borrowing for working capital, (iii) led by women, or (iv) new borrowers—to \$102.5 million.

C. Outputs

14. **Output 1: Financing to SMEs through formal intermediaries increased.** The original output of disbursing \$100 million to participating banks by 2020 will be raised to \$175 million.

15. **Output 2: Innovative SME financing schemes developed.** This output is unchanged. The original performance indicators, which established the auction pilot in June 2016 and prepared a proposal for a Sri Lankan SME credit guarantee institution in December 2016, have been achieved. Sri Lanka's cabinet has since approved the proposal to establish an SME credit guarantee institution, which ADB is actively supporting.

16. **Output 3: Capacity of SMEs in targeted clusters to access financial services enhanced.** This output is unchanged. The TA attached to the original project is funding this activity, and its work is scheduled for completion by 2018.¹³ The targeted clusters are information and communication technology (ICT) and business process outsourcing, fruits and vegetables, and processed food and beverage.

17. **Output 4: International competitiveness of the ICT–business process outsourcing cluster strengthened.** The TA attached to the original project funded this activity (footnote 13). The output is unchanged and will increase the presence and networks of women interested or working in ICT and business process outsourcing.

⁹ Data is based on the portfolio of 292 subloans as of May 2017, and figures will evolve as the portfolio grows.

¹⁰ Impact Stories (accessible from the list of linked documents in Appendix 2).

¹¹ The project meets the eligibility criteria for additional financing. It (i) remains technically feasible, economically viable, and financially sound; (ii) is accorded high priority by the government; (iii) is consistent with the project's expected outcome; and (iv) is consistent with the current country partnership strategy.

¹² Government of Sri Lanka. 2017. *Vision 2025: A Country Enriched*. Colombo.

¹³ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka for the Small and Medium-Sized Enterprises Line of Credit Project*. Attached Technical Assistance (accessible from the list of linked documents in Appendix 2). Manila.

D. Investment and Financing Plans

18. The original project was estimated to cost \$100.0 million. With the additional financing, the total project cost is estimated at \$175.0 million (Table 1).

Table 1: Financing Plan

Source	Current^a (\$ million)	Additional Financing (\$ million)	Total (\$ million)	Share of Total^b (%)
Asian Development Bank				
Ordinary capital resources (regular loan)	100.0	75.0	175.0	100.0
Total	100.0	75.0	175.0	100.0

^a Refers to the original amount.

^b The share of total is constant for both current and additional financing.

Source: Asian Development Bank.

19. With 5 years as the average duration of an SME loan in the original project, banks can reuse the funds twice during the 10-year borrowing period. Moreover, SMEs have contributed on average 35% equity to the subprojects. The combined effect is that ADB's \$175 million is expected to support \$538 million of SME subprojects.¹⁴

20. The government has requested a regular loan of \$75 million from ADB's ordinary capital resources to help finance the project. The loan will have an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year, and such other terms and conditions set forth in the loan and project agreements. The loan will be disbursed in three tranches of about \$25 million each. Each tranche will have a 10-year term and a disbursement-linked bullet repayment. Based on the foregoing, the average loan maturity is 11 years, and there is no maturity premium payable to ADB.

E. Implementation Arrangements

21. The government will relend the local currency equivalent to participating banks at the banking industry's average weighted deposit rate, and will assume the foreign exchange risk. The loans will have 10-year tenors and bullet repayments that mirror the government's repayments to ADB.

22. An increase in the banks' development targets is the biggest change in the implementation arrangements from the original loan. For a bank to qualify for a subsequent funding round,

- (i) 20% of the number of subloans (previously 10%) must be to first-time borrowers of a licensed commercial or specialized bank;
- (ii) 20% of the number of subloans (previously 5%) must be to SMEs led by women;¹⁵

¹⁴ (\$175.0 million ADB funding + \$94.2 million estimated average SME equity contribution) x (10 years) / (5-year estimated average loan duration) = \$538.4 million.

¹⁵ Defined as led by a woman, at least 51% of the enterprise ownership is controlled by women, at least 60% of senior managers are women, or at least 50% of board members are women.

- (iii) 70% of the amount of subloans (previously 50%) must be lent cumulatively to the targeted SMEs, which include SMEs that are (a) located outside of Colombo District, (b) borrowing for working capital that is not collateralized by fixed or financial assets, (c) led by women, or (d) first-time borrowers from a licensed commercial or specialized bank; and
- (iv) 80% of the amount (no change) of a bank's allocation must be onlent.

23. Subject to continued satisfactory performance, the 10 participating banks from the original project are expected to remain in the project.¹⁶ The selection criteria included (i) central bank confirmation that the bank is in good regulatory standing (including corporate governance, reputation, integrity, and anti-money laundering procedures); (ii) compliance with the central bank's regulatory capital norms;¹⁷ (iii) tangible equity of at least SLRs1 billion; and (iv) ADB's own due diligence on the banks' financial strength, financial management, integrity, and governance.

24. The implementation arrangements are summarized in Table 2 and described in detail in the project administration manual (PAM).¹⁸ The government has expressed potential interest in further additional financing should the project continue to perform well.

Table 2: Implementation Arrangements

Aspects	Arrangements
Implementation period	January 2018–March 2020
Estimated completion date	31 March 2020
Estimated loan closing date	30 September 2020
Management	
(i) Oversight body	Steering committee, including the secretary or deputy secretary to the Treasury (chair), Department of External Resources, Department of Development Finance, ADB, Central Bank of Sri Lanka, Department of Project Management and Monitoring, Export Development Board, and Federation of Chambers of Commerce
(ii) Executing agency	Ministry of Finance and Mass Media
(iii) Implementing agency	Department of Development Finance
(iv) Implementation unit	Project management unit with nine staff members, under the leadership of the director general, Department of Development Finance
Procurement	Participating financial institutions will use the loan funds as described in ADB's Procurement Guidelines (2015, as amended from time to time) for loans to financial intermediaries (para. 3.12).
Consulting services	Consultants retained under the original project will continue to work during the additional financing and include a safeguard specialist, a project officer, and a consulting firm that is implementing the cluster development work.
Disbursement	ADB will disburse the loan proceeds following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB. An advance account will be used. The advance request must equal the amount

¹⁶ Bank of Ceylon, Commercial Bank, DFCC Bank, Hatton National Bank, National Development Bank, Nations Trust Bank, People's Bank, Regional Development Bank, Sampath Bank, and Seylan Bank.

¹⁷ Sri Lanka is in the process of implementing Basel III; the exact capital requirements will change during the project as implementation progresses.

¹⁸ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Aspects	Arrangements
	requested through the semiannual allocation plus any funds not yet liquidated at the time of the withdrawal application. ADB's Controller's Department will disburse the requested amount net of the unliquidated amount.

ADB = Asian Development Bank.
Source: Asian Development Bank.

III. DUE DILIGENCE

A. Economic and Financial

25. The project is economically and financially viable. Economically, the gains are likely to come from the project's requirement to lend to SMEs that are struggling to access the banking system. Providing SMEs with better access to finance has a multiplier effect because SMEs can borrow to (i) invest in more productive technologies and (ii) enlarge their businesses to achieve economies of scale. These gains are especially significant in economies such as Sri Lanka's, where unmet SME credit demand is significant.¹⁹ Financially, the banks assess each subproject for its capacity to make timely repayment.

B. Governance

26. ADB's financial management and integrity due diligence on each participating bank indicates moderate risk. The project's design includes several governance mechanisms, such as (i) steering committee oversight, (ii) well-developed project reporting that provides detailed data on the subloans, and (iii) other measures detailed in the PAM. With these measures, the overall financial management arrangements are considered adequate.

27. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the Ministry of Finance and Mass Media. The specific policy requirements and supplementary measures are described in the PAM (footnote 18).

C. Poverty and Social

28. **Poverty impact.** Although Sri Lanka has made notable progress in reducing poverty, regional imbalances remain. SMEs struggle to borrow for working capital because they often lack real estate or financial assets that banks require as collateral. In response, the project targets SMEs that have less access to financial resources but have a key role in reducing income and social imbalances. These SMEs are (i) located outside of Colombo District, (ii) borrowing for working capital without pledging financial assets or real estate, (iii) led by women, or (iv) first-time borrowers from a licensed commercial or specialized bank. The expected project impact includes employment creation and increased income, especially among the targeted SMEs.

29. **Gender and social dimensions.** Sri Lanka's low female labor participation rate of 39% suggests a large pool of untapped human resources for national economic development. One measure to address this is to support women's greater involvement in SMEs. Thus, the project is classified *effective gender mainstreaming* because of its large potential to contribute to women's empowerment and gender equity. In view of this, the project requires at least 20% of

¹⁹ Economic Analysis (accessible from the list of linked documents in Appendix 2).

subborrowers to be SMEs led by women. This is a fourfold increase in the original project's target, which has been raised because the banks—when properly incentivized—have proven that they can identify creditworthy SMEs led by women.²⁰

D. Safeguards

30. Following ADB's Safeguard Policy Statement (2009), the project is classified *financial intermediary* for the environment, involuntary resettlement, and indigenous peoples. The project complies with ADB's information disclosure and consultation requirements. Subproject selection criteria will ensure that participating banks exclude SME subprojects with activities under ADB's Prohibited Investments Activity List and with involuntary resettlement or indigenous peoples impacts (*category C*). For the environment, the rules for participating banks are:

- (i) Exclude all subprojects with environmental impacts (*categories A and B*). These banks may only lend to subprojects that are included in an ADB-preapproved list of subprojects²¹ or that the project management unit's safeguard specialist has confirmed as *category C* for the environment.
- (ii) Exclude subprojects with significant safeguard impacts (*category A*) but include subprojects with impacts that are not significant (*category B*). ADB will require these banks to maintain a safeguard and environmental management system that complies with ADB requirements and national laws.²²

31. Safeguard due diligence concluded that five banks currently have safeguard and environmental management systems that meet ADB's standards. Due diligence also suggests that most of the subprojects classified *category B* for the environment will involve small-scale building construction, the risks of which are manageable. As part of the original project's implementation, an ADB safeguard officer has conducted site visits to 12 subprojects and did not identify any material environmental or safeguard issues.

E. Risks and Mitigating Measures

32. The project's overall risk is *low*. Its benefits are expected to outweigh its costs. Major risks and mitigating measures are summarized in Table 3 and described in detail in the risk assessment and risk management plan.²³

Table 3: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Some participating banks cannot meet the onlending disbursement and development targets because of poor management.	Three months after the fund allocation date, participating banks are required to start paying interest to the government on their allocation, even if the bank has not yet onlent the funds to a subloan. In addition, banks are not allowed to participate in the next fund allocation unless they have met the disbursement and development targets. Finally, the steering committee may decide to reallocate any undisbursed funds prior to the last allocation to

²⁰ In further support of the promotion of women entrepreneurship, the project may seek grant funding from the Women Entrepreneurs Finance Initiative, a World Bank-managed trust fund launched in October 2017. World Bank. Women Entrepreneurs Finance Initiative. <http://www.worldbank.org/en/programs/women-entrepreneurs>.

²¹ Environmental Management System Framework (accessible from the list of linked documents in Appendix 2).

²² If ADB has not approved a participating bank's environmental management system, the Public Management, Financial Sector, and Trade Division of ADB's South Asia Department, in consultation with safeguard specialists, may subsequently do so after the completion of satisfactory due diligence; and footnote 21.

²³ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risks	Mitigation Measures
	ensure that the loan's closing is not delayed.
Other government schemes with subsidy elements crowd out SMEs' demand for ADB's credit line.	The SME market is large. In 2016, Sri Lankan banks disbursed \$4.8 billion to SMEs. Additionally, the market for unserved or underserved SMEs is about \$2.3 billion. ^a This demand exceeds the assistance that government programs and development institutions' public and private operations can provide.
Macroeconomic conditions deteriorate and bankable SME projects decrease.	Under the IMF program that runs from 2016 to 2019, the macroeconomic management of Sri Lanka has been and will be strengthened. ^b

ADB = Asian Development Bank, IMF = International Monetary Fund, SMEs = small and medium-sized enterprises.

^a Economic Analysis (accessible from the list of linked documents in Appendix 2).

^b The IMF program is on schedule with the latest tranche released in July 2017.

Source: Asian Development Bank.

IV. ASSURANCES

33. The government and the Ministry of Finance and Mass Media have assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents.

34. The government and the Ministry of Finance and Mass Media have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement and project agreements.

V. RECOMMENDATION

35. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$75,000,000 to the Democratic Socialist Republic of Sri Lanka for the additional financing of the Small and Medium-Sized Enterprises Line of Credit Project, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, with repayment terms as described in para. 20, and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board.

Takehiko Nakao
President

13 December 2017

REVISED DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
Current project Employment opportunities in SMEs increased (Vision 2025) ^a			
Overall project Unchanged			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Current project SMEs' access to finance strengthened	Current project a. By 2020, \$50 million lent via the credit line to SMEs that are (i) located outside of Colombo District, (ii) borrowing for working capital, (iii) led by women, ^b or (iv) new borrowers (2015 baseline: 0) b. By 2016, a report on a national credit guarantee scheme for SMEs endorsed by the steering committee (2015 baseline: not applicable) c. By 2017, at least one cluster-based loan is financed (2015 baseline: 0) d. By 2018, at least 60% of female entrepreneurs trained under the project have applied for business loans or have business plans endorsed by a business development service provider (2015 baseline: 0)	a. Consultant's quarterly monitoring report b. Steering committee minutes c. Loan documentation or confirmation from the lender d. Consultant's final report	Macroeconomic conditions deteriorate and bankable SME projects decrease.
Overall project Unchanged	Overall project a. By 2020, \$102.5 million lent via the credit line to SMEs that are (i) located outside of Colombo District, (ii) borrowing for working capital, (iii) led by women, ^b or (iv) new borrowers (2017 baseline: \$50 million) b–d. Unchanged	a. PMU semiannual report b–d. Unchanged	
Outputs Output 1 Current project Financing to SMEs through formal intermediaries increased	Current project 1. By 2020, \$100 million disbursed to participating banks (2015 baseline: 0)	1. Consultant's quarterly monitoring reports	Some participating banks cannot meet the onlending disbursement and development targets

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Overall project Unchanged</p> <p>Output 2 Current project Innovative SME financing schemes developed</p> <p>Overall project Unchanged</p> <p>Output 3 Current project Capacity of SMEs in targeted clusters to access financial services enhanced</p> <p>Overall project Unchanged</p> <p>Output 4 Current project International competitiveness of the ICT–BPO cluster strengthened</p>	<p>Overall project 1. By 2020, \$175 million disbursed to participating banks (2017 baseline: \$100 million)</p> <p>Current project 2a. By June 2016, auction management unit and auction procedures for the project established, and first auction carried out^c (2015 baseline: not applicable)</p> <p>2b. By 2016, a report on a national credit guarantee scheme for SMEs submitted to the steering committee (2015 baseline: not applicable)</p> <p>Overall project 2a–b. Unchanged</p> <p>Current project 3a. By 2017, at least one cluster-based loan presented to the banks (2015 baseline: 0)</p> <p>3b. By 2018, 500 actual and potential female entrepreneurs from SMEs in the three clusters (ICT–BPO, fruits and vegetables, and processed food and beverage) trained in business development and management (including financial literacy) (2015 baseline: 0)</p> <p>Overall project 3a–b. Unchanged</p> <p>Current project 4a. By 2017, international branding campaign of ICT–BPO cluster launched (2015 baseline: not applicable)</p> <p>4b. By 2017, at least 500 women participated in career events on working in the ICT–BPO cluster (2015 baseline: 0)</p>	<p>1. PMU semiannual report</p> <p>2a. Consultant's inception and first quarterly monitoring reports</p> <p>2b. Consultant's final report</p> <p>2a–b. Unchanged</p> <p>3a–b. Consultant's final report</p> <p>3a–b. Unchanged</p> <p>4a–b. Consultant's final report</p>	<p>because of poor management.</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Overall project Unchanged	Overall project 4a–b. Unchanged	4a–b. Unchanged	
Key Activities with Milestones			
1. Financing to SMEs through formal intermediaries increased			
1.1 Conduct seven disbursements during Q1 2016–Q1 2019 (four rounds conducted) (changed)			
1.2 Submit monthly and semiannual performance reports and a completion report on auction results by Q2 2020 (reports through September 2017 submitted) (changed)			
2. Innovative SME financing schemes developed			
2.1 Established an auction management unit and auction procedures for the project, and carried out the first auction by Q1 2016 ^c (completed)			
2.1.1 Established an independent administration unit for the auction mechanism by Q1 2016 ^c (completed)			
2.1.2 Established operating rules for the auction mechanism, including a dissemination plan for auction results, by Q1 2016 ^c (completed)			
2.1.3 Conducted first auction by Q2 2016 ^c (completed)			
2.2 Submitted a report on a national credit guarantee scheme for SMEs to the steering committee by Q3 2016 (completed)			
2.2.1 Collated all relevant information on undertaking a demand analysis for the NCGS for SMEs by Q1 2016 (completed)			
2.2.2 Provided a business plan, based on the demand analysis, for the NCGS and structure options for establishing the NCGS, including as partnerships and a subsidiary of existing entities, by Q3 2016 (completed)			
2.2.3 Specified NCGS incorporation options, including fund ownership arrangements and capital requirements, by Q3 2016 (completed)			
2.2.4 Organized a seminar on the NCGS and provided draft reports, including capitalization and structuring options, and presentation materials to seminar participants by Q4 2016 (completed)			
2.2.5 Submitted a proposal on the NCGS to the steering committee by Q1 2017 (completed)			
3. Capacity of SMEs in targeted clusters to access financial services enhanced			
3.1 Present at least one cluster-based loan to the banks by 2017 (unchanged)			
3.1.1 Identified a potential borrowing cluster by Q2 2017 (completed)			
3.1.2 Established a special purpose vehicle or other collaboration that will borrow on behalf of SMEs in the cluster by Q2 2017 (completed)			
3.1.3 Structured the loan and prepared the loan proposal by Q4 2017 (completed)			
3.2 Train 500 actual and potential female entrepreneurs from SMEs in the three clusters (ICT–BPO, fruits and vegetables, and processed food and beverage) in business development and management (including financial literacy) by 2018 (unchanged)			
3.2.1 Conducted a gender-responsive value chain analysis of the three targeted clusters, and developed a strategy for expanding female entrepreneurship and financing and helping women move up the value chain in the three clusters by Q2 2017 (completed)			
3.2.2 Assessed the capability development needs of female entrepreneurs and designed training modules on business development and management (including financial literacy) in the three clusters based on the identified capability development needs by Q2 2017 (completed)			
3.2.3 Launch initiatives to strengthen networks of female entrepreneurs by Q4 2017 (unchanged)			
3.2.4 Train 500 actual and potential female entrepreneurs in business development and management (including financial literacy) in the three SME clusters by Q4 2018 (unchanged)			
4. International competitiveness of ICT–BPO cluster strengthened			
4.1 Launched an international branding campaign for the ICT–BPO cluster by 2017 (completed)			
4.1.1 Conducted a gap analysis on current international branding campaigns by other stakeholders in the ICT–BPO cluster and developed a strategy for strengthening EDB support for international branding of the ICT–BPO cluster by Q1 2017 (completed)			

<p>4.1.2 Launched an international branding campaign, including strengthening EDB's business matching services, by Q3 2017 (completed)</p> <p>4.1.3 Developed a product and/or service quality assurance mechanism for the ICT–BPO cluster, if practical, in partnership with organizations such as the Sri Lanka Association of Software and Service Companies by Q2 2017 (completed)</p> <p>4.1.4 Facilitate the participation of at least 40 ICT–BPO staff members attending a seminar on international branding of Sri Lanka's ICT–BPO cluster by Q4 2017 (changed from Q4 2017 to Q1 2018)</p> <p>4.2 Have at least 500 women participate in career events on working in the ICT–BPO cluster by 2017 (changed from 2017 to Q1 2018)</p> <p>4.2.1 Identified economic, social, and regulatory barriers that prohibit women from entering and staying in the ICT–BPO cluster; included an assessment of the cost and benefits of statutory prohibitions on women's working hours; and developed a cluster strategy to attract female workers by Q1 2017 (completed)</p> <p>4.2.2 Provide support for school career counselors to construct a strong network with ICT–BPO professionals by Q3 2017 (changed from Q3 2017 to Q1 2018)</p> <p>4.2.3 Launch a career forum for women with interest in the ICT–BPO cluster by Q4 2017 (completed)</p> <p>4.2.4 Facilitate the participation of at least 500 women in career events on working in the ICT–BPO cluster by Q4 2017 (changed from Q4 2017 to Q1 2018)</p>
<p>Inputs</p> <p>Asian Development Bank (loan) \$100.0 million (current) \$75.0 million (additional) \$175.0 million (overall)</p> <p>Japan Fund for Poverty Reduction (technical assistance grant) \$2.0 million (current)</p>
<p>Assumptions for Partner Financing Not applicable.</p>

BPO = business process outsourcing, EDB = Export Development Board, ICT = information and communication technology, NCGS = National Credit Guarantee Scheme, PMU = project management unit, Q = quarter, SMEs = small and medium-sized enterprises.

^a Government of Sri Lanka. 2017. *Vision 2025: A Country Enriched*. Colombo.

^b Led by a woman, at least 51% of enterprise ownership is controlled by women, at least 60% of senior managers are women, or at least 50% of board members are women.

^c The government successfully completed performance indicators and activities related to the auction. But after completing two rounds, the government decided to end the pilot and revert to a more conventional allocation.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=49273-002-3>

1. Loan Agreement
2. Project Agreement
3. Sector Assessment (Summary): Finance (Small and Medium-Sized Enterprises Financing)
4. Project Administration Manual
5. Summary of Project Performance
6. Contribution to the ADB Results Framework
7. Development Coordination
8. Financial Analysis
9. Economic Analysis
10. Country Economic Indicators
11. Summary Poverty Reduction and Social Strategy
12. Gender Action Plan
13. Financial Intermediary: Environmental and Social Management System Arrangement
14. Risk Assessment and Risk Management Plan

Supplementary Documents

15. Financial Management Assessment
16. Assessment of Auction Mechanism
17. Impact Stories