



Regional: Expanding Development Bank Financing of Micro, Small, and Medium-Sized Enterprises in the Pacific

Project Name	Expanding Development Bank Financing of Micro, Small, and Medium-Sized Enterprises in the Pacific	
Project Number	51142-001	
Country / Economy	Regional Fiji Samoa Solomon Islands Tonga Vanuatu	
Project Status	Active	
Project Type / Modality of Assistance	Technical Assistance	
Source of Funding / Amount	TA 6935-REG: Expanding Development Bank Financing of Micro, Small and Medium-Sized Enterprises in the Pacific	
	European Union	US\$ 13.05 million
Strategic Agendas	Inclusive economic growth	
Drivers of Change	Gender Equity and Mainstreaming Governance and capacity development Knowledge solutions Partnerships Private sector development	
Sector / Subsector	Finance / Small and medium enterprise finance and leasing	
Gender Equity and Mainstreaming	Gender equity	
Description	The knowledge and support technical assistance (TA) will support government-owned banks in five Pacific countries Fiji, Samoa, Solomon Islands, Tonga, and Vanuatu to increase the number and volume of loans to micro, small, and medium-sized enterprises (MSMEs). The TA will work with a government-owned bank in each country to strengthen the bank's governance and enhance its operations to increase its lending to MSMEs. The TA will also support business development services (BDSs) to MSMEs to help them become more creditworthy and bankable.	

Project Rationale and Linkage to Country/Regional Strategy

1. The TA will support access to finance for SMEs in the five countries. In turn, it will support employment, economic growth, and income generation of the SMEs and the broader societies. The TA will primarily work with development banks in each country to strengthen their balance sheets, improve their governance, and enhance their operations to increase their lending to SMEs in a profitable and sustainable manner. The TA will also work with SMEs to help them become more creditworthy and bankable.
2. Importance of financial sector development. There is a large and established body of literature which shows the critical importance of the financial system for economic growth through fostering productivity growth and resource allocation. Specifically, the availability of external finance is positively associated with entrepreneurship and higher firm entry as well as with firm dynamism and innovation. The impact of financial sector deepening on firm performance and growth is stronger for small and medium-sized enterprises than for large enterprises.
3. Finance sector context in the Pacific. Across the Pacific, the absence of capital markets means that banks are the primary medium to intermediate between savers and borrowers. Because Samoa, Solomon Islands, Tonga, and Vanuatu are unlikely to ever have comprehensive finance sectors, well-functioning banks are critical to ensure credit flows into the economy and particularly to businesses. The finance sectors in these countries are characterized by relatively low private sector credit. This TA will focus on these countries because they have relatively low credit to gross domestic product (GDP) ratios, they have banks that are interested in participating in the TA including expanding lending to SMEs, and they have requested ADB support for improving access to finance.
4. SMEs are critical to private sector development but lack access to finance. SMEs make up a large proportion of businesses in these countries and are the backbone of the economy. However, many SMEs lack access to finance. Without access to finance, these businesses cannot expand their production or increase employment. A 2017 International Finance Corporation study estimates an SME finance gap relative to potential demand of over \$1.5 billion: \$1,085 million in Fiji, \$26 million in Samoa, \$174 million in Solomon Islands, \$165 million in Tonga, and \$135 million in Vanuatu.
5. There are several reasons why SMEs have limited access to affordable finance in these countries. First, the two foreign banks that dominate the banking sector in all four countries ANZ and Bank South Pacific are not incentivized to lend to SMEs because their existing activities are very profitable. Second, some of the local banks that are interested in making loans to SMEs lack sufficient capital to significantly expand their SME loan portfolios. Third, some of the local banks need to improve their capacity to make SME loans on a sustainable basis. Fourth, many local banks have antiquated technology (for example, core banking systems) and have not embraced new technology to enhance SME lending. For example, processing a loan for a customer located in an outer island of Vanuatu can take up to two months because paper applications need to be physically transported to Port Vila for credit assessment. Fifth, many SMEs are unable to meet banks' lending requirements, such as written business plans and adequate financial records.
6. Governments' policy and strategy. The TA is consistent with (i) Fiji National Financial Inclusion Strategic Plan 2016 2020; (ii) Samoa Strategy for the Development of Samoa and National Financial Inclusion Strategy for Samoa 2017 2020; (iii) Solomon Islands Micro, Small & Medium Enterprise Policy and Strategy and National Financial Inclusion Strategy 2016 2020; (iv) Tonga Strategic Development Framework 2015 2025 which seeks a stronger, deeper, more inclusive financial system; and (v) Vanuatu National Financial Inclusion Strategy 2018 2023.
7. Alignment to ADB strategies. The TA is aligned with ADB's Strategy 2030, which provides that ADB will increase its support for banks to help increase their capacity, quality, and reach particularly to low-income populations. Additionally, the TA is aligned to Strategy 2030 operational priorities related to strengthening governance and institutional capacity and accelerating progress in gender equality. The TA also reflects Strategy 2030's approach to small island developing states which emphasizes promoting private sector-led growth. Finally, the TA is aligned to ADB's Pacific Approach, 2016 2020 and its three-pronged strategy to reduce costs, manage risks, and enable value creation.
8. ADB's experience and lessons learned. ADB has experience in implementing numerous financial sector projects and TAs in the Pacific. In the last decade, these have included the Microfinance Expansion Project in Papua New Guinea, the Agribusiness Support Project in Samoa, the Expansion of Rural Financial Services Technical Assistance in Vanuatu, and the Strengthening Financial Inclusion Technical Assistance in Solomon Islands. ADB has also promoted financial sector development through the Pacific Private Sector Development Initiative.
9. Several lessons from these projects and TAs will be applied during TA preparation. First, institutional strengthening is critical to increasing outreach sustainably. Second, business development services are helpful in increasing demand for bank loans. Third, technology can be a key driver for innovative financial services. Fourth, a supportive enabling environment, including a personal property security register and a credit bureau, is vital to credit expansion. Taking these lessons into account, institutional strengthening (including a focus on technology) and the provision of business development services will be key elements in the TA.

Impact	Financial inclusion deepened for MSMEs
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Project Outcome	
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Description of Outcome	Access to finance for MSMEs increased (including those owned or led by women)
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Progress Toward Outcome	
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Implementation Progress	
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Description of Project Outputs	Bank assessments conducted and work plan for each bank developed Gender-responsive governance, relationship management, and lending practices in each bank improved Banking IT infrastructure improved MSMEs' capacity in key skills required for developing bankable finance proposals improved
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Status of Implementation Progress (Outputs, Activities, and Issues)	
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Geographical Location	Fiji - Nation-wide; Samoa - Nation-wide; Solomon Islands - Nation-wide; Tonga - Nation-wide; Vanuatu - Nation-wide
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Summary of Environmental and Social Aspects	
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Environmental Aspects	
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Involuntary Resettlement	
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Indigenous Peoples	
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Stakeholder Communication, Participation, and Consultation	
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During Project Design	
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During Project Implementation	
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Responsible ADB Officer	Kirkby, Jonathon A.
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Responsible ADB Department	Pacific Department
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Responsible ADB Division	Pacific Liaison and Coordination Office in Sydney, Australia
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Executing Agencies	Asian Development Bank 6 ADB Avenue, Mandaluyong City 1550, Philippines
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Timetable	
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Concept Clearance	20 Oct 2021
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Fact Finding	04 Oct 2021 to 08 Oct 2021
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MRM	-
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Approval	28 Jul 2022
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TA 6935-REG

ADB	Cofinancing	Financing Plan/TA Utilization				Total	Cumulative Disbursements	
		Counterpart					Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
0.00	13,052,566.00	0.00	0.00	0.00	0.00	13,052,566.00	-	0.00

Project Page

<https://www.adb.org/projects/51142-001/main>

Request for Information

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