



Report and Recommendation of the President to the Board of Directors

Project Number: 51203-001
April 2018

Proposed Loan DFCC Bank PLC Improving Access to Finance for Micro, Small, and Medium-Sized Enterprises (Sri Lanka)

This is an abbreviated version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 5 April 2018)

Currency unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.0064
\$1.00	=	SLRs155.95

ABBREVIATIONS

ADB	–	Asian Development Bank
CAR	–	capital adequacy ratio
CASA	–	current account and savings account
CEO	–	chief executive officer
CRO	–	chief risk officer
DVB	–	DFCC Vardhana Bank
LCB	–	licensed commercial bank
LSB	–	licensed specialized bank
MSMEs	–	micro, small, and medium-sized enterprises
NBFI	–	nonbank financial institution
NPL	–	nonperforming loan
ROAA	–	return on average assets
ROAE	–	return on average equity
SBE	–	small business enterprise
SMEs	–	small and medium-sized enterprises

NOTE

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

Vice-President	Diwakar Gupta, Private Sector and Cofinancing Operations
Director General	Michael Barrow, Private Sector Operations Department (PSOD)
Director	Christine Engstrom, Private Sector Financial Institutions Division, PSOD
Team leader	Biao Huang, Senior Investment Specialist, PSOD
Team members	Jose Frazier Gomez, Safeguards Officer (Environment), PSOD Apurva Kumar, Senior Investment Officer, PSOD Isabella McDermid, Counsel, Office of the General Counsel Noel Peters, Principal Safeguards Specialist, PSOD Marife Principe, Social Development Officer (Safeguards), PSOD Viswanathan Ramasubramanian, Senior Safeguards Specialist, PSOD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE FINANCIAL INTERMEDIARY	1
A. Investment Identification and Description	1
B. Business Overview and Strategy	3
C. Ownership, Management, and Governance	3
III. THE PROPOSED ADB ASSISTANCE	4
A. The Assistance	4
B. Implementation Arrangements	4
C. Value Added by ADB Assistance	4
IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT	5
A. Development Impacts, Outcome, and Output	5
B. Alignment with ADB Strategy and Operations	5
V. POLICY COMPLIANCE	6
A. Safeguards and Social Dimensions	6
B. Anticorruption Policy	6
C. Assurances	7
VI. RECOMMENDATION	7
APPENDIXES	
1. Design and Monitoring Framework	8
2. List of Linked Documents	10

PROJECT AT A GLANCE

1. Basic Data		Project Number: 51203-001	
Project Name	Improving Access to Finance for Micro, Small, and Medium-Sized Enterprises	Department /Division	PSOD/PSFI
Country	Sri Lanka		
Borrower	DFCC Bank PLC		
2. Sector		ADB Financing (\$ million)	
✓ Finance	Small and medium enterprise finance and leasing		50.00
		Total	50.00
3. Strategic Agenda		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		Gender Equity and Mainstreaming	
Private sector development (PSD)	Promotion of private sector investment	Effective gender mainstreaming (EGM)	✓
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG1, SDG8		
6. Nonsovereign Operation Risk Rating			
Obligor Name		Obligor Risk Rating	Facility Risk Rating
DFCC Bank PLC			
7. Safeguard Categorization	Environment: FI	Involuntary Resettlement: FI-C	Indigenous Peoples: FI-C
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		50.00	
Nonsovereign LIBOR Based Loan (Regular Loan): Ordinary capital resources		50.00	
Cofinancing		0.00	
Others		0.00	
Others^a		0.00	
Total		50.00	

^a Derived by deducting ADB financing and Cofinancing from Total Project Cost.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan of up to \$50,000,000 (or in Sri Lanka rupee equivalent) to DFCC Bank PLC (DFCC) for Improving Access to Finance for Micro, Small, and Medium-Sized Enterprises in Sri Lanka.

2. The project entails the Asian Development Bank (ADB) providing longer-term financing to DFCC, a leading bank in Sri Lanka, for onlending to micro, small, and medium-sized enterprises (MSMEs). ADB's financing will meet DFCC's funding requirements for medium-term funding, which is in short supply. This will enable the bank to provide longer-tenor MSME loans and help the bank diversify its funding sources.

II. THE FINANCIAL INTERMEDIARY

A. Investment Identification and Description

3. **Banking sector overview.** The banking sector in Sri Lanka consists of seven licensed specialized banks (LSBs) and 25 licensed commercial banks (LCBs),¹ of which 13 are categorized as domestic banks and 12 are foreign banks.² The banking sector has experienced rapid growth since the end of the civil war in 2009. From 2009 to 2016, gross loans grew at an annual rate of 19.5%. Total bank deposits grew at a slower pace of 16.0% per annum during the same period. The banking sector's asset quality has improved consistently since a peaking of the nonperforming loan (NPL) ratio in 2013. The gross NPL ratio decreased from 3.2% at the end of 2015 to 2.6% at the end of 2016 and then increased marginally to 2.7% in Q3 2017. The banking sector is sufficiently capitalized, with capital adequacy levels remaining largely stable since 2015. At the end of Q3 2017, the total capital adequacy ratio (CAR) was 15.2%, compared with 15.6% at the end of 2016 and 15.4% at the end of 2015. In July 2017, Central Bank of Sri Lanka introduced the Basel III regulatory regime. To comply with the new requirements, several banks are strengthening capital, primarily via a combination of rights issues, subordinated bonds, and more conservative dividend policies. Sector profitability is stable and has been growing consistently since 2009. In 2016, the profit after tax for the sector increased by 19.9% over the previous year, driven by lower operating costs and better asset quality and leading to lower provisions. Net profits continued growing by 20.3% in the first 9 months of 2017 (compared to the corresponding period in 2016) because of lower operating costs.

4. **Access to finance by micro, small, and medium-sized enterprises.** MSMEs are an important part of the Sri Lankan economy. In 2013, they accounted for 35% of total employment, 30% of gross domestic product, and 20% of total exports, and they accounted for 99.5% of all enterprises in the country.³ Although Sri Lanka has many banks and nonbank financial institutions (NBFIs), access to credit remains a major issue. A 2011 study by the International Finance Corporation listed difficulties in obtaining bank finance as one of the top five constraints to the development and expansion of MSMEs in Sri Lanka.⁴ Studies also revealed that the difficulties that small and medium-sized enterprises (SMEs) have in accessing credit in Sri Lanka are the

¹ The Central Bank of Sri Lanka issues banking licenses for two categories of banks: LCBs and LSBs. LCBs are permitted to accept demand deposits from the public and can act as authorized dealers in foreign exchange. LSBs cannot do either activity.

² Sector Overview (accessible from the list of linked documents in Appendix 2).

³ N. Yoshino and F. Taghizadeh-Hesary. 2017. Solutions for Small and Medium-Sized Enterprises' Difficulties in Accessing Finance: Asian Experiences. *ADB Institute Working Paper Series*. No. 768. Tokyo: ADB Institute.

⁴ International Finance Corporation. 2011. *Enterprise Surveys: Sri Lanka Country Profile 2011*. Washington, DC

result of (i) shortcomings within SMEs, including poor financial literacy, lack of market knowledge, and lack of transparency; (ii) shortcomings within financial institutions, including a risk-averse banking culture, heavy reliance on collateral, and lack of understanding of genuine SME-oriented banking practices; and (iii) shortcomings within market infrastructure, including insufficient mechanisms to improve information asymmetries in SME banking.⁵ The Government of Sri Lanka identified three major problems affecting MSMEs' access to finance: (i) unavailability of funds and other credit instruments; (ii) limited access to equity and loan capital; and (iii) financial mismanagement.⁶ As a result, the government has introduced a number of SME finance initiatives to address these problems. Over the years, the country has also improved its market infrastructure for MSME finance, including the establishment of a credit bureau, the introduction of an electronic searchable collateral registry, increased reliability of property rights, and a functioning bankruptcy and insolvency system. Hence, despite challenges in lending to MSMEs, more financial institutions have started to focus on MSME lending and have been expanding their network and accessibility throughout the country.

5. **Investment rationale.** ADB has been active in Sri Lanka in the finance sector providing critically needed medium- and long-tenor funding to a variety of financial institutions. Through its nonsovereign operations, ADB has funded financial institutions that have demonstrated the commitment and ability to serve the needs of the financially excluded, as well as other segments. In 2013, ADB provided a \$15 million senior loan to Nations Trust Bank to support SME finance in Sri Lanka.⁷ In 2015, ADB approved a project providing senior loans to two NBFIs for MSMEs in Sri Lanka.⁸ Given the continued difficulty faced by MSMEs in accessing finance, DFCC has been identified as a good partner to support continued financing of this critical sector. DFCC has been funding MSMEs since it was established in 1955 with a mandate to spearhead development financing in a newly independent nation. It had a broad network of 102 branches and 36 service outlets located inside branches of Sri Lanka Post across the country as of 2017. Since 2016, DFCC has been actively targeting an emerging subsegment called small business enterprises (SBEs), which are formal microenterprises. SBE financing is considered part of the "missing middle," as the financial requirements of SBEs are more complex than loans provided by microfinance institutions and they are considered too risky or costly for commercial banks. DFCC has good corporate governance, strong management, and satisfactory financial performance. Through its nonsovereign operations, ADB has a relationship with DFCC and its former subsidiary DFCC Vardhana Bank (DVB). DVB joined ADB's Trade Finance Program in 2004, and ADB's Board also approved a \$15 million loan to DVB for housing finance in 2012.⁹ DFCC is also a participant in ADB's Small and Medium-Sized Enterprises Line of Credit Project.¹⁰

⁵ A. Wijesinha and N. Perera. 2015. *Banking on SME Growth: Concepts, Challenges and Policy Options to Improve Access to Finance in Sri Lanka*. Colombo: Institute of Policy Studies of Sri Lanka.

⁶ Government of Sri Lanka, Ministry of Industry and Commerce. 2016. *National Policy Framework for Small Medium Enterprise Development*. Colombo.

⁷ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Senior Unsecured Loan to Nations Trust Bank for Small and Medium-Sized Enterprises Finance*. Manila.

⁸ ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to LOLC Finance PLC and LOLC Micro Credit Limited*. Manila.

⁹ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Senior Unsecured Loan to DFCC Vardhana Bank for Housing Finance*. Manila. The loan is performing and will be repaid fully in September 2022.

¹⁰ ADB. 2016. *Report and Recommendation of the President: Proposed Loan and Administration of Technical Assistance Grant to the Small and Medium-Sized Enterprises Line of Credit Project in Sri Lanka*. Manila. A total of \$12.5 million has been disbursed to DFCC under this project in 2017 and 2018.

B. Business Overview and Strategy

6. **Overview.** The Government of Sri Lanka founded DFCC in 1955, with support from the World Bank; DFCC was listed on the Colombo Stock Exchange in 1956. Initially established as an LSB under Sri Lankan law, the Central Bank of Sri Lanka (CBSL) regulations required DFCC to focus on providing long-term finance with tenors of at least 5 years (referred to as development finance, which also included project finance). In 2003, DFCC acquired over 94% of a local LCB, which was subsequently rebranded as DVB. DVB operated as an independent subsidiary of DFCC until it was absorbed by its parent on 1 October 2015. At the time of amalgamation, DVB represented just over half of the amalgamated entity's total assets. The amalgamated entity, DFCC, became an LCB. The integration of the two entities has since been completed, and DFCC showed significant improvement in its performance in 2016. At the end of 2016, the total assets of the bank were SLRs291 billion, and it ranked sixth among all LCBs in Sri Lanka with a market share of 3.7%.

CONFIDENTIAL INFORMATION DELETED.

C. Ownership, Management, and Governance

7. **Ownership.** DFCC is publicly traded and is listed on the Colombo Stock Exchange. As of 31 December 2017, the government indirectly controlled a 35.1% interest, held via Bank of Ceylon's pension fund (14.4%), Sri Lanka Insurance Corporation (10.0%), and the Employees' Provident Fund and the Employees' Trust Fund (combined 10.7%).¹¹ Other shareholders include Hatton National Bank (12.2%) and five funds of Aberdeen Asset Management PLC (United Kingdom) (aggregate 9.5%). Muzaffar Ali Yaseen, a prominent businessman in the textile sector in Sri Lanka owns 9.9%. The other shareholders with over 5% stakes are Melstacorp (8.4%), Renuka Group (6.1%), and Seafeld International (5.8%). Melstacorp is ultimately controlled by Harry Jayawardena. ADB has conducted integrity due diligence.¹² Further information is provided in the Integrity and Tax Due Diligence Disclosure.¹³

8. **Corporate governance.** DFCC is a board-driven company with five independent directors, one executive director, and two non-executive directors nominated by shareholders (as of 2017).¹⁴ C.R. Jansz, a non-executive director, has been the chairman since August 2014. Jansz oversaw the merger between DFCC and DVB and has many years of experience in logistics, insurance, banking, and finance relating to international trade. The board monitors and approves DFCC's major financial and business strategies and policies. It oversees the mechanisms for financial control, internal control, and risk management, and it ensures that the processes are in place for strict compliance with applicable laws. The board has established multiple committees, including an audit committee, credit approval committee, credit restructure committee, human resources and remuneration committee, nomination and governance committee, integrated risk management committee, and related party transactions committee.

CONFIDENTIAL INFORMATION DELETED

¹¹ Ownership, Management, and Governance (accessible from the list of linked documents in Appendix 2).

¹² ADB. 2003. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila.

¹³ Integrity and Tax Due Diligence Disclosure (accessible from the list of linked documents in Appendix 2).

¹⁴ One independent director, although not nominated by shareholders, is a senior executive at Renuka Group. In February 2018, a director appointed by the government filled a vacant board position.

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

9. ADB will provide a senior loan of up to \$50 million for up to 6 years to DFCC to improve access to finance for MSMEs. At least 5% of the ADB loan will be used to support MSMEs owned or managed by women,¹⁵ and 20% of the proceeds of the ADB loan will be lent to businesses located outside Colombo.

B. Implementation Arrangements

10. **Use of proceeds.** DFCC will use the proceeds of ADB's debt financing to finance loans and leases to MSMEs in Sri Lanka.

11. **Reporting arrangements.** ADB's Private Sector Operations Department will monitor the project. DFCC will, at predetermined regular intervals and as requested, provide ADB with financial reports, including (i) quarterly unaudited financial statements; (ii) annual audited financial statements; (iii) quarterly compliance certificates for financial covenants; (iv) annual reporting on the MSME loan portfolios; and (v) annual reporting on environmental and social performance, including gender equality and selected development indicators agreed upon by ADB and the borrower.

12. **Evaluation.** DFCC will prepare monitoring reports and submit them to ADB regularly, and at least annually. The bank will submit the first report no later than 12 months after the first disbursement.

C. Value Added by ADB Assistance

13. **Provide access to longer-tenor debt in support of micro, small and medium-sized enterprises.** The ADB 6-year loan will provide critically needed longer-tenor funding to MSMEs in Sri Lanka, whose ability to access funds has been constrained by a variety of factors. Longer-tenor financing for financial institutions is needed given the country's low level of finance sector development—including the absence of a well-developed capital market—which limits the availability of such funding. ADB's funding will also help support improved access to finance in rural areas, which had a poverty incidence of 82.2% in 2016, as compared with 8.0% in urban areas. While DFCC has been successful in gradually increasing its CASA deposits, it still relies on wholesale borrowing to fund part of its lending operations. The ADB loan will be a long-term and stable funding source not readily available from other commercial banks.

14. **Gender mainstreaming.** Women lack access to finance in Sri Lanka. The International Finance Corporation estimated that women entrepreneurs in Sri Lanka face a credit gap of \$350 million.¹⁶ ADB will help strengthen DFCC's outreach to women entrepreneurs and bolster internal policies pertaining to women. The project is categorized *effective gender mainstreaming* in design, as it aims to increase the number of SBE women borrowers by 3 times and SME women

¹⁵ At end 2017, 1.09% of the outstanding SME loans were to women; 0.68% of the SME loans disbursement in 2017 were to women.

¹⁶ Daily Mirror. 2018. *Lankan women entrepreneurs need US \$ 350mn in financing: World Bank*. 6 February. <http://www.dailymirror.lk/article/Lankan-women-entrepreneurs-need-US-mn-in-financing-World-Bank-145230.html>.

borrowers by 40%, and to enhance disbursements for businesses owned and managed by women.¹⁷

CONFIDENTIAL INFORMATION DELETED

IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT

A. Development Impacts, Outcome, and Output

15. **Impacts.** The impacts of the project will be (i) the development of mechanisms for easy and affordable access to finance by MSMEs; and (ii) the enhancement of access to finance, particularly in the MSME sector.

16. **Outcome.** The project's outcome will be the sustainability of DFCC's increased lending capacity to MSMEs.

17. **Output.** The output will be an increase in DFCC's lending capacity to MSMEs, including businesses owned or managed by women and those located outside Colombo.

B. Alignment with ADB Strategy and Operations

18. **Alignment with ADB strategy and country strategy.** Under the Midterm Review of Strategy 2020, ADB aims to strengthen its support for the finance sector by (i) supporting the development of financial infrastructure, institutions, and products and services; and (ii) promoting inclusive growth.¹⁸ The proposed project supports the midterm review's strategic agenda of promoting inclusive economic growth by facilitating more inclusive access to economic opportunities, including jobs offered by MSMEs. It contributes to private sector development, a key driver of change under the midterm review. The proposed project supports the government's priority of enhancing access to finance, particularly in the SME sector, as identified in Vision 2025, the government's 8-year development plan.¹⁹ It is also aligned with ADB's country partnership strategy for Sri Lanka, 2018–2022 and is consistent with the government's policy framework for economic development,²⁰ which identifies MSMEs as a strategic sector and calls for support for private sector development projects that accelerate the pace of private sector participation and promote financial sector development.²¹

19. **Consistency with sector strategy and relevant ADB operations.** The proposed project supports institutional and finance sector development by deepening the finance sector and providing funds for MSMEs onlending in urban and rural areas. It is aligned with ADB's Financial Sector Operational Plan, indicating that ADB will support access to finance by MSMEs.²² The project is also aligned with ADB's Gender Equality and Women's Empowerment and Operational

¹⁷ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

¹⁸ ADB. 2012. *Midterm Review of Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

¹⁹ Government of Sri Lanka. 2017. *Vision 2025*. Colombo.

²⁰ Government of Sri Lanka, Ministry of Industry and Commerce. 2015. *National Policy Framework for Small Medium Enterprise (SME) Development*. Colombo.

²¹ ADB. 2017. *Country Partnership Strategy: Sri Lanka, 2018–2022—Transition to Upper Middle-Income Country Status*. Manila.

²² ADB. 2011. *Financial Sector Operational Plan*. Manila.

Plan, 2013–2020.²³ ADB has actively supported the private finance sector.²⁴ ADB is also supporting SME finance through its sovereign operations in Sri Lanka, where the government onlent ADB funds to local commercial banks in local currency for relending to SMEs. The proposed project will further build upon ADB's work and support finance sector development in Sri Lanka.

V. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

20. The project is classified category FI for impacts on the environment, and FI (treated as C) for impacts on involuntary resettlement and indigenous peoples. ADB has assessed the investment's potential environmental and social impacts, and its risks associated with DFCC's existing and/or likely future portfolio and commitment and capacity for environmental and social management. DFCC's transactions under the loan will have no, or minimal to limited, adverse environmental impacts and are unlikely to entail impacts on involuntary resettlement and indigenous peoples. The proposed project will not finance any subprojects that are classified category A for environment or category A or B for involuntary resettlement and indigenous peoples. DFCC has established an environmental and social management system that generally complies with ADB's Safeguard Policy Statement (2009) requirements. Enhancements to the environmental and social management system will be made prior to the first disbursement to ensure investments using ADB funds are not on ADB's prohibited investment activities list, do not have significant adverse environment and social safeguards impacts, abide by applicable national laws and regulations, and comply with ADB's Safeguard Policy Statement.²⁵ DFCC will, in its annual report, monitor and provide information on its compliance with ADB's Safeguard Policy Statement and with relevant national laws, standards, and guidelines.

21. DFCC will comply with national labor laws and, pursuant to ADB's Social Protection Strategy, will take measures to comply with internationally recognized core labor standards.²⁶ DFCC will report regularly to ADB on (i) its compliance with such laws and (ii) the measures taken. DFCC will conduct information disclosure in accordance with ADB requirements. Proactive gender features are included in the project design to support the project's effective gender mainstreaming category.

B. Anticorruption Policy

22. DFCC was advised of ADB's policy of implementing best international practice related to combating corruption, money laundering, and the financing of terrorism. DFCC's know-your-customer and anti-money laundering policy mitigates the risks of money laundering and terrorist financing. ADB will ensure that the investment documentation includes appropriate provisions

²³ ADB. 2013. *Gender Equality and Women's Empowerment Operational Plan, 2013–2020: Moving the Agenda Forward in Asia and the Pacific*. Manila.

²⁴ In addition to the housing finance loan (footnote 10) and three SME finance loans, ADB provided a \$100 million senior loan to Hatton National Bank for infrastructure onlending in 2014. There are currently eight Sri Lankan banks active in ADB's Trade Finance Program.

²⁵ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2); Safeguards and Social Dimensions Summary (accessible from the list of linked documents in Appendix 2); and Financial Intermediary: Environmental and Social Management System Arrangement (accessible from the list of linked documents in Appendix 2).

²⁶ ADB. 2003. *Social Protection Strategy*. Manila (adopted in 2001).

prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

CONFIDENTIAL INFORMATION DELETED

C. Assurances

23. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),²⁷ ADB will proceed with the proposed assistance upon establishing that the Government of Sri Lanka has no objection to the proposed assistance to DFCC. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the ADB Board of Directors.

VI. RECOMMENDATION

24. 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 proposed loan of up to \$50,000,000 (or in Sri Lanka rupee equivalent) from ADB's ordinary capital resources to DFCC Bank PLC for Improving Access to Finance for Micro, Small, and Medium-Sized Enterprises in Sri Lanka, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Takehiko Nakao
President

24 April 2018

²⁷ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

DESIGN AND MONITORING FRAMEWORK

Impacts the project is aligned with: Mechanisms for easy and affordable access to finance by SMEs developed (National Policy Framework for Small Medium Enterprise Development) ^a Access to finance, particularly in the SME sector, enhanced (Vision 2025) ^b			
Results Chain	Performance Indicators with Targets and Baselines	Data and Reporting Mechanisms	Risks
Outcome DFCC Bank PLC's increased lending capacity to MSMEs sustained ^c	By 2024 a. Number of SME borrowers increased by 40% (baseline data withheld due to commercial confidentiality) b. Number of SBE borrowers increased by 3 times (baseline data withheld due to commercial confidentiality) c. SME borrowers owned or managed by women increased by 40% (baseline data withheld due to commercial confidentiality) d. SBE borrowers owned or managed by women increased by 3 times (baseline data withheld due to commercial confidentiality) e. SME borrowers located outside Colombo increased by 40% (baseline data withheld due to commercial confidentiality) f. Total SME portfolio increased by 40% (baseline data withheld due to commercial confidentiality) g. Total SBE portfolio increased by 3 times (baseline data withheld due to commercial confidentiality) h. NPL ratio for SME segment does not exceed	a-i. Annual development effectiveness monitoring reports from DFCC	Political instability and/or persistent economic slowdown Adverse changes in market conditions

Results Chain	Performance Indicators with Targets and Baselines	Data and Reporting Mechanisms	Risks
	6% (baseline data withheld due to commercial confidentiality) i. NPL ratio for SBE segment does not exceed 3% (baseline data withheld due to commercial confidentiality)		
Output DFCC's lending capacity to MSMEs, including businesses owned or managed by women and those located outside Colombo, increased	By 2020 a. Annual disbursement of SME loans increased by 10% (baseline data withheld due to commercial confidentiality) b. Annual disbursement of SBE loans increased by 20% (baseline data withheld due to commercial confidentiality) c. Annual disbursement of SME loans to women increased by 10% (baseline data withheld due to commercial confidentiality) d. Annual disbursement of SBE loans to women increased by 20% (baseline data withheld due to commercial confidentiality)	a–d. Annual development effectiveness monitoring reports from DFCC	Political instability and/or persistent economic slowdown Adverse changes in market conditions
Key Activities with Milestones			
Withheld due to commercial confidentiality			
Inputs			
ADB: \$50 million (loan)			
Assumptions for Partner Financing			
Not applicable			

ADB = Asian Development Bank; MSMEs = micro, small, and medium-sized enterprises; NPL = nonperforming loan; SBE = small business enterprise; SMEs = small and medium-sized enterprises; Q = quarter.

^a Government of Sri Lanka, Ministry of Industry and Commerce. 2015. *National Policy Framework for Small Medium Enterprise (SME) Development*. Colombo.

^b Government of Sri Lanka. 2017. *Vision 2025*. Colombo.

^c MSMEs include SBEs, which are formal micro-enterprises and SMEs (excluding micro enterprises).

Source: ADB.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=51203-001-4>

CONFIDENTIAL INFORMATION DELETED

1. Contribution to the ADB Results Framework
2. Country Economic Indicators