

## SUMMARY OF PROJECT PERFORMANCE

### A. Background

1. The Small and Medium-Sized Enterprises (SMEs) Line of Credit Project was financed from ordinary capital resources and approved on 15 February 2016 for \$100 million. The loan agreement was signed on 23 February 2016. The loan became effective on 27 April 2016. The loan closing date was 30 November 2020, and the executing agency is the Ministry of Finance and Mass Media. To support the project's implementation, technical assistance (TA) for Cluster Development and SME Finance Innovations was concurrently approved for \$2 million. The loan is expected to be fully disbursed in January 2018.

### B. Performance of the Project

2. **Delivery of expected outcomes and outputs.** The project's outcome was "SMEs' access to finance strengthened" and had four performance indicators. Of these, two have been achieved and two—pertaining just to the accompanying TA—are ongoing (Table 1).

**Table 1: Outcome Performance Indicators**

Performance Indicator	Status
1. 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, or (iv) new borrowers (2015 baseline: 0)	Completed. \$57.1 million lent to these types of SMEs as of 31 September 2017.
2. By 2016, a report on a national credit guarantee scheme for SMEs endorsed by the steering committee	Completed
3. By 2017, at least one cluster-based loan is financed (2015 baseline: 0)	Cluster-based loan has been structured, and a bank is expected to approve the loan by 2017.
4. 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)	Completion expected by 2018

SMEs = small and medium-sized enterprises.

Source: Asian Development Bank.

3. The project had four outputs. Two are completed and two—pertaining just to the accompanying TA—are ongoing (Table 2).

**Table 2: Outputs and Output Performance Indicators**

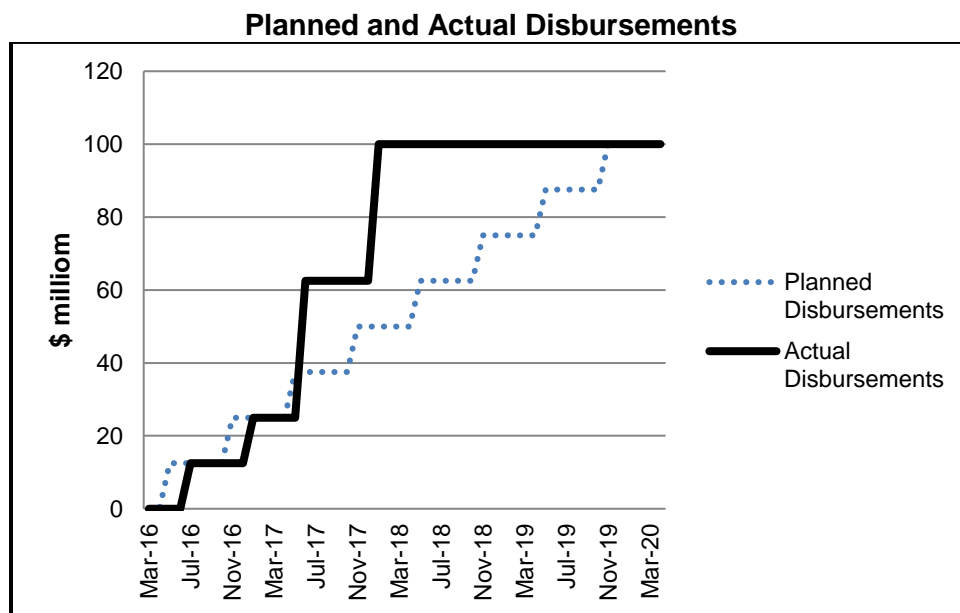
Output	Performance Indicator	Status
1. Financing to SMEs through formal intermediaries increased	1. By 2020, \$100 million to participating banks disbursed (2015 baseline: 0)	Expected to be completed in January 2018
2. Innovative SME financing schemes developed	2a. By June 2016, auction management unit and auction procedures for the project established, and first auction carried out	Completed
	2b. By 2016, a report on a national credit guarantee scheme for SMEs submitted to the steering committee	Completed

Output	Performance Indicator	Status
3. Capacity of SMEs in targeted clusters to access financial services enhanced	3a. By 2017, at least one cluster-based loan presented to the banks (2015 baseline: 0)	Cluster-based loan has been structured, and a bank is expected to approve the loan by 2017
	3b. By 2018, 500 actual and potential female entrepreneurs from SMEs in the three clusters (ICT-BPO, fruits and vegetables, and rubber) trained in business development and management (including financial literacy) (2015 baseline: 0)	Training commenced; 500 entrepreneurs expected to be trained by 2018
4. International competitiveness of the ICT-BPO cluster strengthened	4a. By 2017, international branding campaign of ICT-BPO cluster launched	Completed
	4b. By 2017, at least 500 women participate in career events on working in the ICT-BPO cluster (2015 baseline: 0)	Career events are scheduled for Q1 2018

BPO = business process outsourcing, ICT = information and communication technology, SMEs = small and medium-sized enterprises.

Source: Asian Development Bank.

4. **Satisfactory implementation progress.** The project was scheduled to make its final disbursement in November 2019, with banks making their final loans to subborrowers by May 2020. Because of the high demand and resulting accelerated disbursement schedule, the final disbursement is scheduled for January 2018, with banks making their final loans to subborrowers by June 2018.



Source: Asian Development Bank.

5. **Satisfactory compliance with safeguard policy requirements.** ADB's project agreement with the participating banks excluded subprojects classified as A and B for resettlement or indigenous peoples. Subprojects classified A for the environment were also excluded, and subprojects classified as category B were only allowed if ADB had approved the

bank's environmental and social safeguard management framework (ESMF). Key contributors to the satisfactory level of compliance are:

- (i) **Site visits conducted.** An ADB safeguard officer conducted six subproject site visits in December 2016 and six more in January 2017 to verify their compliance with ADB safeguard policy requirements. No major deficiencies were identified.
- (ii) **Safeguard reporting completed.** Banks eligible to lend to subprojects classified as category B for the environment are to submit an annual environment report. For 2016, this requirement only applied to the National Development Bank, which submitted the report in 2017.
- (iii) **Safeguard resources enhanced.** To assist banks that are not eligible to lend to subprojects that are category B for the environment in determining a subproject's category, ADB provided at project inception a list of subprojects that would be considered category C. To assist banks to determine if subprojects not on that list are also category C, ADB amended the attached TA to retain a full-time safeguard consultant to work out of the project management unit.
- (iv) **Environmental and social management framework developed.** At the project's inception, only 3 of the 10 banks had ADB-approved ESMFs. Because the project effectively motivates banks to have an ESMF, five additional banks have since volunteered to establish an ESMF. Presently, ADB has certified the ESMF for two of these five banks.

6. **Successful management of risks.** The project has successfully managed or mitigated the risks identified during processing (Table 3).

**Table 3: Summary of Risks and Mitigating Measures Identified at the Original Processing**

Risks	Mitigating Measures	Remarks
Participating banks could collude in the auctions.	The attached TA will provide a third party to administer the auction. With 10 participating banks, collusion will be difficult to enforce. The auction administrator will publish auction bids to provide transparency. ADB and the steering committee will review the auction's performance after the first two auctions and can implement changes if needed. These could include, in the extreme, replacing the auction with a first-come, first-serve funding distribution.	ADB had also included the right to cancel an auction at its sole discretion, which served to further preempt any possible collusion.
The SME credit guarantee scheme is not viable because the price of the guarantee deters financial intermediaries.	Guarantee pricing has deterred similar schemes previously. The government may need to consider a subsidized capital structure or other such incentives to ensure that the credit guarantees are affordable.	This risk applies to the associated TA. The Sri Lankan cabinet did indeed endorse a proposal for an SME credit guarantee institution with below-market return-on-equity forecasts to ensure that the guarantees are affordable.
Participating banks cannot disburse the funds to SMEs because of pricing or SME credit risks.	The auction mechanism will allow participating banks to factor in pricing and higher credit risks when developing their bids.	Although the project replaced the auction with an allocation mechanism, banks still have control over how much they expect to disburse at the given rates by determining the size of their allocation up to a

Risks	Mitigating Measures	Remarks
		cap.
PFIs or SMEs are not interested in cluster-based lending because of insufficient financial incentives.	The associated TA will prepare one cluster-based loan, which can have a demonstration effect and encourage other potential borrowers.	One cluster-based loan has been structured with input from a local bank. That bank is expected to approve the loan within 2017.

ADB = Asian Development Bank, PFIs = participating financial institutions, SMEs = small and medium-sized enterprises, TA = technical assistance.

Source: Asian Development Bank.

7. **On track rating.** The project performance rating is *on track*.

#### D. Conclusion

8. The project is performing well across different key metrics—design monitoring framework indicators, implementation targets, safeguard requirements, and risk management—and warrants additional financing.