

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
1. Some participating banks cannot meet the onlending disbursement and development targets because of poor management.	H	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 ensure that the loan's closing is not delayed.	PFIs
2. Other government schemes with subsidy elements crowd out the SMEs' demand for ADB's credit line.	S	The SME market is large. In 2016, Sri Lankan banks disbursed \$4.8 billion to SMEs. Additionally, the market of unserved or underserved SMEs is estimated at \$2.3 billion. <sup>a</sup> This demand exceeds the assistance that government programs and development institutions' public sector and private sector operations can provide.	MOF
3. Macroeconomic conditions deteriorate and bankable SME projects decrease.	S	Under the IMF program that runs from 2016 to 2019, the macroeconomic management of Sri Lanka has been and will be strengthened.	MOF, CBSL
4. Monetary conditions may become more favorable for PFIs, and their demand for ADB's credit line may decrease.	L	Under the IMF program until mid-2019, the CBSL is required to restore its foreign reserves and sustain a moderate inflation level. Therefore, the project team expects the monetary condition not to loosen materially. Even if the monetary policy becomes accommodative, there will still be demand for ADB's long-tenor funding for asset-liability management.	CBSL
5. Subprojects may not be financially viable.	L	PFIs will be required to screen the viability of SME subprojects as a condition of borrowing from the ADB project. Furthermore, under the project agreements, PFIs are required to maintain their nonperforming loan ratio at or below 5%.	PFIs
6. Corruption takes the form of loan fraud.	L	PFIs could lend the funds to spurious subloans. However, the integrity due diligence and financial management assessment suggest that the PFIs' internal controls are sufficient to prevent any widespread abuse.	MOF, PFIs

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7. Safeguard management is inadequate.	M	Some PFIs have already established an ADB-compliant environmental safeguard management system. In addition, the TA attached to the original project recruited a safeguard expert for the PMU to screen subloan applications for safeguard compliance. To confirm the compliance status, an ADB safeguard officer has periodically monitored the implementation of PFIs' environmental safeguard management systems, and no issue has been identified so far.	MOF, PFIs
8. Public financial management is inadequate.	L	The risk assessment prepared by ADB as part of the most recent country partnership strategy did not highlight any material governance risks. <sup>a</sup> Moreover, the PMU demonstrated excellent capacity for financial management during the implementation of ADB's existing credit line. The attached TA has been financially supporting the PMU and recruited an accounting firm to prepare project financial reports on a quarterly basis.	MOF, PFIs
9. Women-led SMEs are not interested in training programs on business development, including financial literacy training.	L	The attached TA has conducted gap analyses on the targeted clusters (fruits and vegetable, processed food and beverage, and ICT-BPO) and identified sufficient need for training on business development among women-led SMEs in two of the clusters (fruits and vegetable, and processed food and beverage). Under the attached TA, the training program was designed to meet the identified needs of women-led SMEs. During the implementation of the training program, the EDB will collaborate with industrial associations and women's chambers to attract and screen women-led SMEs that are motivated to expand their existing businesses to export markets.	EDB
10. PFIs or SMEs are not interested in cluster-based lending because the financial incentives are insufficient.	M	The attached TA has supported EDB to conduct dissemination seminars on cluster-based lending, and shortlisted two groups of SMEs to borrow cluster-based loans. The attached TA will prepare a loan proposal for at least one cluster-based loan, which can have a demonstration effect and encourage other potential borrowers.	EDB

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11. ICT-BPO firms and relevant government agencies cannot agree on implementation arrangements for the international branding campaign.	L	The attached TA supported forming a consensus on the implementation framework for an overarching national brand for the ICT-BPO industry among key stakeholders, such as the Sri Lanka Association of Software and Service Companies, Information and Communication Technology Agency of Sri Lanka Limited, and EDB. The attached TA will finalize the guidelines for the use of the national brand and support EDB in administering and monitoring the branding campaign.	EDB
12. Female students are not interested in attending career events for the ICT–BPO industry	L	The attached TA conducted a gap assessment for enhancing the participation of female students in the ICT–BPO industry, and recommended improvement to the existing career counseling framework and career events. The TA will develop a new career-counseling framework, and career events will be structured to address the concerns of female students. Also, the career events will be disseminated to potential female students through partner educational institutions.	EDB

ADB = Asian Development Bank, BPO = business process outsourcing, CBSL = Central Bank of Sri Lanka, EDB = Export Development Board, H = high, ICT = information and communication technology, IMF = International Monetary Fund, L = low, M = moderate, MOF = Ministry of Finance and Mass Media, PFI = participating financial institution, PMU = project management unit, S = substantial, SMEs = small and medium-sized enterprises, TA = technical assistance.

<sup>a</sup> ADB. 2015. *Interim Country Partnership Strategy: Sri Lanka, 2015–2016*. Manila.

Source: Asian Development Bank.