



Sri Lanka: Small and Medium-sized Enterprises Credit Guarantee Institution

Project Name	Small and Medium-sized Enterprises Credit Guarantee Institution								
Project Number	50349-002								
Country	Sri Lanka								
Project Status	Proposed								
Project Type / Modality of Assistance	Loan Technical Assistance								
Source of Funding / Amount	<table border="1"><tr><td colspan="2">Loan: Small and Medium-sized Enterprises Credit Guarantee Institution</td></tr><tr><td>Ordinary capital resources</td><td>US\$ 100.00 million</td></tr><tr><td colspan="2">TA: Small and Medium-sized Enterprises Credit Guarantee Institution</td></tr><tr><td>Financial Sector Development Partnership Special Fund</td><td>US\$ 500,000.00</td></tr></table>	Loan: Small and Medium-sized Enterprises Credit Guarantee Institution		Ordinary capital resources	US\$ 100.00 million	TA: Small and Medium-sized Enterprises Credit Guarantee Institution		Financial Sector Development Partnership Special Fund	US\$ 500,000.00
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Financial Sector Development Partnership Special Fund	US\$ 500,000.00								
Strategic Agendas	Inclusive economic growth								
Drivers of Change	Knowledge solutions Partnerships Private sector development								
Sector / Subsector	Finance - Small and medium enterprise finance and leasing								
Gender Equity and Mainstreaming	Some gender elements								
Description	The proposed \$100 million loan would support the establishment of the Small and Medium-sized Enterprises (SMEs) Credit Guarantee Institution, a new nonbank financial institution that would help SMEs to access commercial loans.								
Project Rationale and Linkage to Country/Regional Strategy	<p>1. SMEs are critical for Sri Lanka's economic growth. They are responsible for 52% of the country's gross domestic product. SMEs are arguably even more important for poverty reduction as they provide 45% of employment. Despite their importance and despite the presence of key market infrastructure such as secured lending legislation, a credit information bureau, and a property registry, SMEs struggle to access financing. A 2011 World Bank survey found that 30% of Sri Lankan firms, the fourth highest among the 29 developing member countries included, cite access to finance as a major constraint. A key explanation is that Sri Lankan banks are hesitant to lend to SMEs because they rely on collateral-based lending. Yet, many SMEs cannot provide such collateral.</p> <p>2. To address such market failures, the government has introduced various SME credit guarantee schemes over the years. However, none has flourished. Market participants cite slow claims processing, limited guarantee coverage, and high premiums. Recognizing the need for a comprehensive solution, the government proposed developing SME credit guarantees in the 2016 Budget Speech and requested ADB's assistance. ADB originated a capacity development technical assistance (TA) to assess market demand, research international best practices, and prepare a business plan. The steering committee established under ADB's 2016 Small and Medium-Sized Enterprises Line of Credit Project (SME LoC) reviewed this work and endorsed the draft final report in September 2016 to Sri Lanka's Cabinet. The Cabinet Committee on Economic Management, chaired by the Prime Minister, endorsed ADB's proposal in October 2016, and the finance minister highlighted the plans to establish the institution in the 2017 budget speech.</p> <p>3. The proposed approach draws heavily from lessons learned from previous domestic SME credit guarantee schemes and international best practices. The new guarantee institution should be well-funded, efficiently managed, financially sustainable, removed from political influence, operated with the highest level of corporate governance, and subject to central bank regulation and supervision. The institution's initial gearing should be conservative to ensure profitability and a strong credit rating. The proposed approach is also aligned with World Bank principles for public credit guarantee schemes for SMEs.</p> <p>4. The proposed ADB loan and TA are aligned with one of the two pillars of ADB's country partnership strategy for Sri Lanka 2018-2020 catalyzing private investment and enhancing the effectiveness of public investment. Moreover, ADB has three ongoing projects - a \$100 million SME LoC and two TA projects on improving Sri Lankan SME's access to finance. A credit guarantee institution is a natural extension of this work.</p>								
Impact	Contribution of SMEs to Sri Lanka's economy increased								
Outcome	SMEs' access to finance improved								

Outputs	Corporate and regulatory framework for SME credit guarantee institution established Financially sustainable SME credit guarantee institution operationalized SME credit guarantee outreach enhanced
Geographical Location	Nation-wide

Safeguard Categories

Environment	FI
Involuntary Resettlement	FI-C
Indigenous Peoples	FI-C

Summary of Environmental and Social Aspects

Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	

Stakeholder Communication, Participation, and Consultation

During Project Design	A seminar was held in 2017 to discuss the proposed structure with stakeholders.
During Project Implementation	

Business Opportunities

Consulting Services	tbd
Procurement	tbd

Responsible ADB Officer	Hoshino, Takuya
Responsible ADB Department	South Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, SARD
Executing Agencies	<i>Ministry of Finance and Mass Media The Secretariat Building Colombo 01 Sri Lanka</i>

Timetable

Concept Clearance	15 Feb 2017
Fact Finding	04 Apr 2017 to 06 Apr 2017
MRM	15 Feb 2018
Approval	-
Last Review Mission	-
Last PDS Update	26 Sep 2018

Project Page	https://www.adb.org/projects/50349-002/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=50349-002
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