



# Sri Lanka: Small and Medium-Sized Enterprises Line of Credit Project - Additional Financing

Project Name	Small and Medium-Sized Enterprises Line of Credit Project - Additional Financing		
Project Number	49273-004		
Country	Sri Lanka		
Project Status	Proposed		
Project Type / Modality of Assistance	Grant Loan Technical Assistance		
Source of Funding / Amount	Loan: Small and Medium-Sized Enterprises Line of Credit Project - Additional Financing		
	Ordinary capital resources	US\$ 80.00 million	
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth		
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development		
Sector / Subsector	Finance - Small and medium enterprise finance and leasing		
Gender Equity and Mainstreaming	Effective gender mainstreaming		
Description	Based on the successful implementation of the ongoing project, the government has requested ADB for additional financing to expand and deepen its outreach to targeted SME segments, in particular (i) women-led/owned SMEs, and (ii) tea smallholders as key export-oriented SME cluster. An \$80 million new additional loan was included in the recent Country Operational Business Plan (COBP) as 2020 firm project. The consultation mission on 20 22 June 2019 confirmed government's commitment on the proposed new additional financing.		
Project Rationale and Linkage to Country/Regional Strategy	<p>SME finance ecosystem development with focus on women entrepreneurs. Over 3.5 years of implementation, PFIs have been undergoing their transition to mainstream their SME operations and proactively reach out to underserved SMEs, such as women-led, first-time borrower, and located in rural areas. The continuation of ADB's credit line will further expedite this PFIs' transformation. The ongoing initiative is being further strengthened by another ADB project to strengthen Regional Development Bank, a state-owned financial institution following a mandate on promoting financial inclusion in rural areas.</p> <p>In particular, support for women's business should be further promoted as policy priority in Sri Lanka given its low-level of women's economic participation despite gender parity in access to social services. Although the ongoing blended-finance has been accessed by 482 women-led/owned SMEs exceeding the original target of 250, the continued financial support, utilizing the remaining We-Fi grant balance of \$3.07 million, will further enhance the effectiveness of the GEN project with the ongoing We-Fi TA for strengthening capacity of banks, government, women-led/owned SMEs, and other key stakeholders to promote sustainability and systemic behavioral change.</p> <p>Support for tea smallholders. In Sri Lanka, tea sector has been an important socio-economic fabric with significant macroeconomic policy implications in terms of earning foreign exchange and promoting inclusive economic growth. The sector accounts for 15% of the exports and employs 10% of the workforce, majority of whom are less educated and stuck at the bottom of the social ladder with chronically low wages. The tea sector currently depends for 75% of the total production on over 400,000 tea smallholders, most of which are informal family business with landholdings less than one acre. Despite its brand recognition, the Sri Lanka tea has been recently losing international competitiveness with declining quality and quantity of tea leaves due to aged tea bushes and lack of technological upgradation in agricultural practices, including climate change adaptation. The current replanting rate is only less than 1% while the ideal rate is 2% 3%.</p> <p>Although tea smallholders are eligible SMEs for the ongoing ADB's credit line, only a few loans have been provided to tea smallholders while tea processing factories have adequately modernized and upgraded their facilities. The underinvestment by tea smallholders in replanting, business upgradation, and other productivity enhancement measures is caused by (i) their limited access to formal long-term financing; (ii) their limited access to trainings, knowledge on good agricultural practices, technology, and market information; and (iii) ineffective enabling policy framework to strengthen international competitiveness of the sector.</p>		
Impact	Employment opportunities in small and medium-sized enterprises increased (Vision 2025)		
Outcome	SMEs' access to finance strengthened		
Outputs	Financing to SMEs through formal intermediaries increased Innovative SME financing schemes developed Capacity of SMEs in targeted clusters to access financial services enhanced International competitiveness of the ICT-BPO and tea cluster strengthened Gender-inclusive policy and regulatory framework and support enhanced Evidence based on women entrepreneurship development to inform future policymaking strengthened		
Geographical Location	Galle, Kandy, Matara, Ratnapura District		
Safeguard Categories			
Environment			FI
Involuntary Resettlement			FI
Indigenous Peoples			FI
Summary of Environmental and Social Aspects			
Environmental Aspects			

Involuntary Resettlement
Indigenous Peoples
Stakeholder Communication, Participation, and Consultation
During Project Design
During Project Implementation

Business Opportunities	
Consulting Services	ADB will recruit consultants to monitor and evaluate the progress of the non-financial component of the JFPR grant and ensure the achievement of the targets and indicators in the DMF and GAP. At overall project level, the full-time national consultant at ADB's Sri Lanka Resident Mission who has already been recruited under the TA will coordinate with the PMU, PFIs, and consultants.
Procurement	Not applicable

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

Timetable	
Concept Clearance	07 Nov 2019
Fact Finding	21 Oct 2019 to 24 Oct 2019
MRM	29 Nov 2019
Approval	-
Last Review Mission	-
Last PDS Update	12 Nov 2019

Project Page	<a href="https://www.adb.org/projects/49273-004/main">https://www.adb.org/projects/49273-004/main</a>
Request for Information	<a href="http://www.adb.org/forms/request-information-form?subject=49273-004">http://www.adb.org/forms/request-information-form?subject=49273-004</a>
Date Generated	14 November 2019

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