

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Sri Lanka	Project Title:	Proposed Senior Unsecured Loan Nations Trust Bank Small and Medium-Sized Enterprises Finance Project
Lending/Financing Modality:	Loan	Department/ Division:	Private Sector Operations Department / Private Sector Financial Institutions Division

I. POVERTY ANALYSIS AND STRATEGY		
A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy		
<p>Strategy 2020^a of the Asian Development Bank (ADB) calls for ADB to support to the finance sector at the regional and national levels by helping develop finance sector infrastructure, institutions, and products and services and by promoting inclusive growth. Through such initiatives, ADB intends to continue helping to channel savings in South Asia into the most productive investments and to build capacity in financial institutions by introducing international best practices. The project will provide a senior unsecured loan to Nations Trust Bank (NTB) to be used exclusively for onlending to small and medium-sized enterprises (SMEs).</p> <p>The project is consistent with the government’s 10-year development policy framework (DPF) for 2007–2016 and ADB’s country partnership strategy (CPS) for 2012–2016. The DPF was revised in 2010 to reflect the change in the country’s economic environment brought about by the end of a 30-year civil war. The DPF aims to accelerate economic growth, improve access to finance, address low private sector investment, improve social indicators, eradicate hard-core poverty, and improve the environment. The CPS, which is built on the DPF and Strategy 2020, focuses ADB assistance on private sector development, including projects that support SMEs. It identifies SMEs as an important strategic sector for promoting growth and social development in ADB’s developing member countries. SME growth has gained wide recognition as a major driver of employment, income generation, poverty alleviation, and regional development.^a The SME sector is often described as the backbone of Sri Lanka’s economy, accounting for about 70% of gross domestic product.^b SMEs are prominent in agriculture, mining, manufacturing, construction, and services. The CPS notes that ADB’s private sector operations should support banks with projects that have high development impact.</p>		
B. Poverty Analysis	Targeting Classification:	General Intervention
<p>1. Key issues. Demand for SME finance has steadily increased since the end of the civil war in 2009, which led to improved consumer sentiment, a rise in income levels of about 16%, and repatriation of Sri Lankans who had fled the conflict.^c Due to a significant government current account deficit and the need to bridge an external funding gap, the government is encouraging overseas borrowings by Sri Lankan banks for both senior and subordinated debt.^d Banks face difficulties in lending to SMEs, which fall into the middle- and lower-income segments of potential borrowers. Most of prospective SME borrowers suffer from a perception of heightened risk because they are self – employed workers. The underdevelopment or lack of sophisticated and specialized credit analysis techniques at the banks make it hard for them to serve SMEs better. Affordability of interest rates is also an issue at the lower end of the market.</p> <p>2. Design features. Given the need for long-term funding to increase private commercial bank participation in the SME market, and with the goal of encouraging banks to target underserved customer segments, ADB met with several banks in 2011 to identify a candidate suitable for support and with an interest and the ability to serve this segment. ADB also sought a bank that could effectively branch out to the northern, northeastern, and southern parts of the country that had been heavily affected by the civil conflict and the 2004 Indian Ocean tsunami. NTB, a medium-sized bank and a participant in ADB’s Trade Finance Program, was selected as a partner bank for the project.^e</p>		
C. Poverty Impact Analysis for Policy-Based Lending		
N/A		

II. SOCIAL ANALYSIS AND STRATEGY	
A. Findings of Social Analysis	
Key issues.	
<p>Social safeguards. The project is classified category FI (treated as C) for both involuntary resettlement and indigenous peoples under ADB's Safeguard Policy Statement (2009). The project will give SMEs greater access to finance, help in diversifying the economy by increasing the SME share in gross domestic product, and generate employment. No involuntary resettlement is involved and the project is not expected to affect indigenous people as a community.</p> <p>Labor. To strengthen core banking areas and match the growth of business, NTB ex^{pa}nded its employee strength to 1,817 in 2011, a 13% increase over 2010, and it employed 1,984 as of June 2012.⁹ NTB's expanded geographical coverage and larger staff enable it to meet SME needs and tailor its products to their requirements in rural and semi-urban areas.</p>	
B. Consultation and Participation	
1. Provide a summary of the consultation and participation (C&P) process during project preparation.	
Consultations were undertaken with NTB's management and staff on setting geographical targets and improving benefits to SMEs owned or managed by women.	
2. What level of C&P is envisaged during the project implementation and monitoring?	
<input checked="" type="checkbox"/> Information sharing <input type="checkbox"/> Consultation <input type="checkbox"/> Collaborative decision making <input type="checkbox"/> Empowerment	
3. Was a C&P plan prepared for project implementation? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Information sharing on NTB's lending program for SMEs is part of NTB's marketing strategy.	
C. Gender and Development	Gender Mainstreaming Category: Some Gender Elements
1. Key issues. The key issues are (i) poor access to finance for women due to a lack of collateral; and (ii) too few women entrepreneurs, due to a lack of financial literacy training. Other issues include the difficulty in attracting women managerial talent often observed in family-owned businesses (which affects the majority of SMEs) and inadequate infrastructure facilities.	
2. Key actions. Measures included in the design to promote gender equality and women's empowerment—access to and use of relevant services, resources, assets, or opportunities and participation in decision-making process:	
<input type="checkbox"/> Gender action plan <input checked="" type="checkbox"/> Other actions or measures <input type="checkbox"/> No action or measure	
NTB has a large network of branches. Of these 53 branches, 18 are outside Colombo, including 6 in the northern and the eastern regions greatly affected by the civil war that ended in 2009. This will help NTB better assess and serve the post-conflict areas, as well as customers outside of Colombo. ^h The retail and SME division is the bank's largest business and involves all its branches and 500 employees.	