

Early Warning System

ADB-49365-002

Capital Market Development Program

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Quick Facts

Countries	Sri Lanka
Financial Institutions	Asian Development Bank (ADB)
Status	Active
Bank Risk Rating	C
Voting Date	2016-10-26
Sectors	Finance
Investment Type(s)	Loan
Investment Amount (USD)	$ 250.00 million

Project Description

DESCRIPTION

The specific objective of the proposed Capital Market Development Program (CMDP) is the enhanced capacity and size of the capital market that is grounded on a strong legal and regulatory framework. The CMDP is scheduled to be approved by the Board in the fourth quarter of 2016.

PROJECT RATIONALE AND LINKAGE TO COUNTRY/REGIONAL STRATEGY

The capital market in Sri Lanka has not been effective in channeling the country's savings to support investment in the economy. From 2006 to 2015, government policy support for capital market development was limited. Governments recognized what needed to be done to strengthen the capital markets, but reforms were piecemeal and the appetite for designing and implementing comprehensive change was lacking. This resulted in weak investor confidence. The market capitalization of the Colombo Stock Exchange (CSE) stagnated as a percentage of gross domestic product (GDP) at about 30% during 2006 2015. The CSE's price index dropped by 9% between January 2016 and June 2016 a significantly weaker performance than those experienced during the same period by other middle income countries in the region.

Sri Lanka's underdeveloped capital market narrows the viable financing options for companies seeking to grow. It also places undue pressure on the banking sector. Bank assets account for almost 60% of the country's overall financial assets, and the sector is not the most appropriate nor does it have the capacity to offer the long-term financing essential for private sector capital investments and infrastructure projects. The corporate bond market is still in the nascent stage. The ratio of outstanding corporate bonds to GDP is only 2% and significantly lower than those of other middle-income countries in Asia.

Against this backdrop, the program will seek to deepen and broaden Sri Lanka's capital market by (i) extending the government yield curve and thereby promoting a more liquid government bond market and eventually a more developed corporate bond market; (ii) catalyzing institutional investor demand by broadening, deepening, and diversifying the investor base; (iii) strengthening the institutional and regulatory capacity of the SEC, the IBSL, the EPF, and SLAASMB; (iv) developing important market infrastructure such as a surveillance systems, trading system, and information and communication technology systems; (v) enhancing capacity development through training and promoting financial literacy; and (vi) enhancing the supply of alternative financial instruments such as derivatives to include for commodities and securitized bonds. The program will also support financial inclusion by promoting financial literacy among retail investors, expanding mutual funds, and developing consumer protection in the insurance sector through its adoption of grievance mechanisms.

ADB has worked to closely coordinate its capital market development activities with those of other development partners and to complement their efforts. ADB's program is part of an umbrella operation to support economic recovery led by the International Monetary Fund (IMF). In June 2016, the IMF approved an extended fund facility of $1.5 billion for Sri Lanka that aims to restore macroeconomic stability. The World Bank approved a $100 million development policy loan in July 2016, with the Japan International Cooperation Agency providing another $100 million of parallel financing. ADB has been closely coordinating with these organizations.

ADB's finance sector strategy for Sri Lanka, which is part of its country partnership strategy and country operations business plan, is based on the government's emphasis on private sector development, lessons from ADB's previous finance sector interventions, and coordination with other development partners.

IMPACT

Basic capital and investment needs, as well as Sri Lanka's longer-term economic objectives supported.

OUTCOME

Investment Description

- Asian Development Bank (ADB)

Loan 3446-SRI: Capital Market Development Program
Ordinary capital resources US$ 250.00 million

TA 9213-SRI: Developing the Capital Market
Technical Assistance Special Fund US$ 750,000.00

Financial Sector Development Partnership Special Fund US$ 750,000.00
Japan Fund for Poverty Reduction US$ 500,000.00

Contact Information

ACCOUNTABILITY MECHANISM OF ADB

The Accountability Mechanism is an independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an Asian Development Bank-financed project. If you submit a complaint to the Accountability Mechanism, they may investigate to assess whether the Asian Development Bank is following its own policies and procedures for preventing harm to people or the environment. You can learn more about the Accountability Mechanism and how to file a complaint at: http://www.adb.org/site/accountability-mechanism/main

CONTACTS

Responsible ADB Officer Lambert, Donald J.
Responsible ADB Department South Asia Department
Responsible ADB Division Public Management, Financial Sector and Trade Division, SARD
Executing Agencies
Ministry of Finance
Treasury Building
Colombo-01
Sri Lanka

Bank Documents

- Capital Market Development Program: Concept Paper [Original Source]
- Capital Market Development Program: Initial Poverty and Social Analysis [Original Source]
- Capital Market Development Program: Project Data Sheet (Sinhala Translation) [Original Source]
- Capital Market Development Program: Project Data Sheet (Tamil Translation) [Original Source]
- Capital Market Development Program: Project Preparatory Technical Assistance Report [Original Source]
- Capital Market Development Program: Report and Recommendation of the President [Original Source]
- Capital Market Development Program: Sri Lanka Capital Market Assessment [Original Source]
- Loan Agreement (Ordinary Operations) for Loan 3446-SRI: Capital Market Development Program [Original Source]
- Program Agreement for Loan 3446-SRI: Capital Market Development Program [Original Source]
- Project Disclosure PDF
- TA 9105-SRI Capital Market Development Program: Final Report [Original Source]