



# විදේශ සම්පත් දෙපාර්තමේන්තුව

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25/03/2024

### PRESS RELEASE

## Financing of USD 100 million from the Asian Development Bank to boost Small and Medium-sized Enterprises (SME) of Sri Lanka

*Since 2015, the Government of Sri Lanka engaged in discussions with the Asian Development Bank (ADB) to mobilize necessary financial assistance amounting to USD 452.5 million to support the Small and Medium - Sized Enterprises (SMEs) of the country.*

Accordingly, the original credit line of USD 100 million, which is a financial intermediation loan through 10 participating financial institutions (PFIs) to eligible SME subprojects became effective in April 2016. The loan was financially closed in January 2019, 1.5 years earlier than the initial plan. It had exceeded development targets on reaching out to underserved SMEs, including women-led, first-time borrowers, and those located outside Colombo. Considering the high demand from the sector, an additional USD 75 million (the first additional financing) and a USD 9.5 million grant (the second additional financing) from We-Fi were mobilized in 2018 as further assistance to the sector.

In November 2020, the Government of Sri Lanka entered into loan and grant agreements with ADB to obtain another loan of USD 165 million and grants worth of USD 3 million from the Japan Fund for Poverty Reduction (JFPR), to provide further assistance as a credit line to SMEs.

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Since 2022, the Ministry of Finance, Economic Stabilization and National Policies continuously engaged in discussions with ADB to ensure further assistance to the SME Sector which faced severe difficulties due to the effects of unprecedented COVID 19 pandemic and consequent economic crisis situation and hence, had negotiations with ADB in 2023 to mobilize USD 100 million and Technical Assistance (TA) on grant basis to finance the *“Enhancing Small and Medium-sized Enterprises (SME) Finance Project”* in order to further enhance SME’s access to finance.

This project is an important component of the government’s comprehensive economic reform strategy. The reform measures implemented over the last 2 years have been successful in stabilizing the economy, and in parallel, measures have been put in place to shift economic trajectory from stabilization to growth. Considering the fact that revitalisation of the SME sector is a crucial component of economic recovery, the government commenced technical discussions with ADB over a year ago in order to design this project to address key financial constraints faced by SMEs.

As the backbone of Sri Lanka's economy, SMEs represent over 75 percent of all businesses, and contribute more than 50 percent to the country's Gross Domestic Production (GDP). SMEs are estimated to generate employment for over 45% of the workforce, thereby creating significant spill-over impacts on the economy as a whole. Following significant challenges stemming from a series of shocks, including the COVID-19 pandemic and the prevailing economic downturn, the SME sector has faced substantial disruptions to their normal business operations largely due to factors beyond their control. Accordingly, the Government of Sri Lanka considered it a priority to address these challenges through early interventions, of which this project is a key component. USD 50 million of the ADB financing will be allocated towards a SME line of credit loan scheme which will facilitate easier access to finance for SMEs. This will be a crucial financial injection which will support the stabilization of SMEs and set the foundation for sustainable growth and SME’s contribution to the recovery of the Sri Lankan economy.

One of the key challenges faced by SMEs in the past has been the inability to adequately utilize credit lines or concessional loan schemes due to perceived credit risk and associated requirements for collateral and guarantees. To remedy this constraint, the Government has taken a strategic step by incorporating the National Credit Guarantee Institution (NCGI) as a public limited company, to address the issue of collateral and guarantees. This initiative aims to provide partial credit guarantees for SMEs, offering them a sustainable solution to their financing challenges. USD 50 million of the ADB financing will be allocated as the Government's initial capital infusion into the NCGI.

The Ministry of Finance, Economic Stabilization and National Policies (MOF) will be the executing agency of the above program and will implement the project in collaboration with the Department of Development Finance and NCGI.

The loan agreement to borrow the above loan of USD 100 million was signed between the Government of Sri Lanka and the Asian Development Bank today at the General Treasury in Colombo. Mr. K. M. Mahinda Siriwardana, Secretary to the Treasury, and the Ministry of Finance, Economic Stabilization and National Policies, placed his signature on behalf of the Government of Sri Lanka, and Mr. Utsav Kumar, Principal Country Economist, ADB Sri Lanka Residence Mission, signed on behalf of the Asian Development Bank.

Department of External Resources

Ministry of Finance, Economic Stabilization and National Policies

25 March 2024