

Ex-ante Evaluation

1. Name of the Project

Country: The Democratic Socialist Republic of Sri Lanka

Project: Poverty Alleviation Micro Finance Project II

Loan Agreement: July 29, 2008

Loan Amount: 2,575 million yen

Borrower: The Government of the Democratic Socialist Republic of Sri Lanka

2. Necessity and Relevance of JBIC Assistance

1. Situation and issues of poverty in Sri Lanka

As of 2006, people living in poverty made up approximately 23% of Sri Lanka's population (comprising 8% of urban residents, 23% of rural residents, and 30% of plantation workers). While the situation of Sri Lanka with regards to its poverty rate and regional disparities is considered to have improved over the past 20 years, poverty still continues to be a problem in the development of Sri Lanka. Furthermore, regarding the situation in the North-East of the country which is considered to be one factor delaying efforts to deal with the issue of poverty in Sri Lanka, the conflict has continued for more than 20 years, resulting in dramatic deterioration of the economic environment; while the rate of economic growth in the country as a whole averages 5.5% a year, an economic growth rate of minus 6.2% is recorded when the North-East region alone is considered.

Sri Lanka's development policies and the position of this project

The Government of Sri Lanka has set a target of reducing the poverty rate across the country as a whole to 13% by 2015. In November 2005, Mahinda Chintana, the new administration's basic policy, was announced, part of which set out efforts to be made towards reducing poverty and correcting regional disparities through regional and rural development. The policy stated with regard to the North-East "If a peaceful environment with a basic minimum of rights can be achieved in which the people who live there can make a living, we can expect the rapid social and economic development of Sri Lanka." The economic and social stabilization of the North-East, considered indispensable for the development of Sri Lanka as a whole, has been at the forefront of this micro finance project, which is positioned by the Government of Sri Lanka as an effective tool for poverty reduction; the project will be carried out targeting the North-East and surrounding regions, which have borne the brunt of the long-running conflict.

3. Direction of Japan's and JBIC's assistance policies for Sri Lanka and its poverty reduction strategy

In Japan's Country Assistance Programme for Sri Lanka (April 2004), "Assistance for Poverty Alleviation" is stated as the direction for assistance during the next five years. Moreover, in JBIC's Medium-Term Strategy for Overseas Economic Cooperation Operations (to the end of September 2008), "basic infrastructure aimed at sustainable growth" is positioned as a priority area for assistance, and areas such as "economic growth assistance for poverty alleviation" and "correction of disparities

between regions and ethnic groups in order to build peace” are positioned as priority areas for assistance to Sri Lanka. Through implementing micro finance activities targeted at the North-East and surrounding regions where poverty levels are high, this project aims at the economic and social reconstruction of the targeted regions, and thus accords with the Country Assistance Programme and JBIC’s Medium-Term Strategy for Overseas Economic Cooperation Operations. Thus, JBIC’s support of this project is highly necessary and relevant.

3. Project Objectives

Through providing credit to people living in poverty in the North-East and surrounding regions where the poverty rate is high, and carrying out training for participating financial organizations, micro finance assistance organizations and beneficiaries, this project aims to increase the incomes of people living in poverty, and thus to contribute to poverty alleviation and social and economic stabilization in the regions.

4. Project Description

(1) Target Area

North-East and surrounding regions where the poverty rate is high (targeting 14 districts)

(2) Project Outline

- (a) Financing for people living in poverty
- (b) Procurement of necessary equipment for project supervision/monitoring
- (c) Consulting services (capacity building for participating financial organizations and micro finance assistance organizations, assistance for the strengthening of activities for increasing incomes of targeted beneficiaries carried out by micro finance assistance organizations etc.)

(3) Total Project Cost/Loan Amount

2,759 million yen (Yen Loan Amount: 2,575 million yen)

(4) Schedule (as envisaged at time of appraisal)

January 2008 to December 2013 (72 months). The project will be considered completed when consulting services are completed.

(5) Implementation Structure

- (a) Borrower: The Democratic Socialist Republic of Sri Lanka
- (b) Executing Agency: Central Bank of Sri Lanka
- (c) Operation and Maintenance System: Same as (b). The revolving funds for this project will be managed on an integrated basis with the revolving funds of the Poverty Alleviation Micro Finance Project I (hereinafter referred to as PAMP-I) by the Regional Development Department of the Central Bank of Sri Lanka.

(6) Environmental and Social Consideration

- (a) Environmental Effects/Land Acquisition and Resident Relocation
 - (i) Category: C

(ii) Reason for Categorization

This project is classified as Category C because it does not correspond to a sector/characteristic likely to have an impact on the environment, or a region which is likely to suffer such impact, as set out in “Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations” (established in April 2002) and it is thus judged that adverse impact on the environment will be minimal.

(b) Promotion of Poverty Reduction

In selecting the target regions for the project, priority will be given to those regions where the percentage of people living in poverty is high. This condition corresponds to the poverty countermeasures stipulated by JBIC.

(c) Promotion of Social Development (e.g. Gender Perspective, Countermeasures for Infectious Diseases Such as HIV/AIDS, Participatory Development, Consideration of The Disabled etc.)

The executing agency will give consideration in the selection of their micro finance assistance organization to creating an environment in which anybody can access the project regardless of ethnicity or race etc., as long as they meet its conditions.

(7) Other Important Issues

None.

5. Outcome Targets

(1) Evaluation Indicators (Operation and Effect Indicators)

Indicators	Targets (2015, 2 years after project completion)
Number of loans (cases)	75,000
Total amount of approved loans (rupee)	2,000,000,000
Percentage of targeted beneficiaries (end users) who are taking on loans for the second time (or more) (%)	90%
Rate of repayment by settlement date (%)	90%
Percentages of beneficiaries who rise above the poverty line	50%

(2) Number of beneficiaries

Total of 315,000 people

6. External Risk Factors

Influence of climatic conditions, particularly flooding and droughts, on income-increasing activities.

7. Lessons Learned from Findings of Similar Projects Undertaken in the Past

The following lessons have been learned from ex-post evaluations of similar projects in the past. (1) It is essential to implement exercises and training for management staff and staff in charge of lending at the central level and prefectural levels of the organizations which will provide funds, and to create mechanisms to prevent disparities in screening methods from appearing between different branches; it

is also essential for intermediary organizations to learn beforehand about effective access to distant places using organizational networks and about effective follow-up of cases where repayments are in arrears. (2) Training provided on a one-off basis does not lead to sustainable capacity development of end users, so improving this is essential; it is also essential to strengthen monitoring of the executing agency in order to grasp and respond to issues at the local sites in a timely manner. (3) It is important to monitor the situation regarding the usage of revolving funds, at the same time as continuing discussions with the executing agency regarding methods for promoting usage; it is also important to give attention to the compliance with the revolving fund schemes of other similar projects and the preceding project, and to carry out countermeasures regarding this.

These following measures will be carried out in this project. (1) Strengthening of training for participating financial organizations and micro finance assistance organizations through consulting services, and strengthening of frameworks for monitoring through the installation of field officers. (2) Sustainable input at the end-user level at the local sites through working to build capacity at participating financial organizations and micro finance assistance organizations through consulting services, at the same time as strengthening monitoring of the executing agency at both central and regional levels. (3) A decision has been made in this project to shift towards schemes which will allow funds repaid by end users to be rapidly financed from executing agencies in the form of revolving funds, to lead to the promotion of the use of revolving funds. It is also planned that in this project, the credit component of the project itself and the revolving funds portion shall be combined, and monitoring carried out by the executing agencies. In addition, with the operation of revolving funds from the previous projects (PAMP-I) starting from 2007, discussions are being carried out continuously with the Government of Sri Lanka and the Central Bank of Sri Lanka to ensure that the revolving funds of the project are compliant in terms of interest rates and lending periods.

8. Plans for Future Evaluation

(1) Indicators for Future Evaluation

In addition to those given in “5.” as operation and effect indicators, other indicators are planned to be set at the time of the baseline study.

(2) Timing of Next Evaluation

Two years after project completion