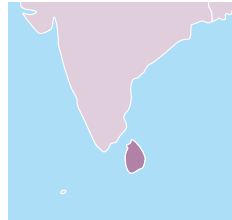




# Small and Micro Industries Leader and Entrepreneur Promotion Project (1) (2)

Asia **Sri Lanka**



Contributing to job creation and export increase by providing “two-step” loans to small and medium-sized enterprises (SMEs) and micro enterprises

**[External evaluator]**

Hajime Sonoda, Global Group 21 Japan, Inc.

**Rating**

Effectiveness, Impact	a	Overall rating <b>A</b>
Relevance	a	
Efficiency	a	
Sustainability	a	

**Project Objectives**

To improve the productivity, profitability and technical capabilities of SMEs and micro enterprises in Sri Lanka by providing them with financial assistance for business operation and technical transfer at low interest rates, thereby promoting job creation and contributing to balanced economic growth and poverty alleviation.

**Outline of the Loan Agreement**

- Loan amount / disbursed amount: (I) 5,432 million yen / 4,838 million yen; (II) 5,410 million yen / 4,492 million yen
- Loan agreement: (I) August 1997; (II) January 2001
- Terms and conditions: Interest rate: (I) 2.3% / (II) 2.2%; 30-year repayment period (including a 10-year grace period); general untied
- Final disbursement date: (I) October 2001; (II) March 2006
- Executing agency: National Development Bank (NDB)
- Website URL: <http://www.ndbbank.com/>

**Effects of Project Implementation (Effectiveness, Impact)**

The 9,300 small and SMEs and micro enterprises or some 30% of the total number of such enterprises in Sri Lanka received loans under this project. It was estimated that one-third of them increased their productivity and profitability while a half of them saw their technical capabilities improved. Almost 70% of the enterprises made some sort of reinvestment. In sum, about 90% of the sub-loans were considered successful.

It was estimated that sub-loans under this project resulted in the creation of about 40,000 jobs and export increases of some four billion rupees per year (0.7% of total exports nationwide).

Therefore, this project has largely achieved its objectives and its effectiveness is high.

**Relevance**

This project has been highly relevant with Sri Lanka's national policies and development needs at the times of both appraisal and ex-post evaluation. There has been a high demand for funds among SMEs and micro enterprises.

**Efficiency**

The total amount of loans reached 94% of the planned figure, although the demand for sub-loans for technology transfers was low. Both project period and costs were almost as planned; therefore, efficiency of the project is high.

**Sustainability**

Although the commencement of the revolving funds\* was delayed, no major problems have been observed in the financial sustainability of participating financial institutions, the status of repayments from them to the NDB, or the sustainability of the beneficiary enterprises. Therefore, sustainability of this project is high.

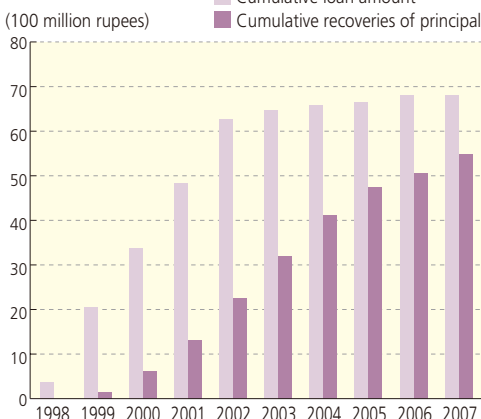
**Conclusion, Lessons Learned, Recommendations**

In light of the above, this project is evaluated to be highly satisfactory. One lesson learned is that periodic review and adjustment of the interest rate for end-users linked to the market rate will result in smooth loan operations. Another lesson is that in order to promote the use of sub-loans for training and technical services, low procedural cost, information dissemination, promotion and publicity activities for clients and coordination with providers of training and technical services are important. It is advisable to promptly start operation of revolving funds which has yet to be started.



The case of a beneficiary enterprise, a biscuit factory

**Cumulative loan amount / recoveries of principal by NDB (I, II)**



Source: Questionnaire results from NDB

\* Surplus funds generated by the gap between the repayment period for a sub-loan and that for an ODA loan. A new loan will be offered by taking advantage of such a surplus.