



# Draft Design and Monitoring Framework

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Project Number: 36117  
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## SRI: Regional Small and Medium Enterprise Development Project

A design and monitoring framework is an active document, progressively updated and revised as necessary, particularly following any changes in project design and implementation. In accordance with ADB's public communications policy (2005), it is disclosed before appraisal of the project or program. This draft framework may change during processing of the project or program, and the revised version will be disclosed as an appendix to the report and recommendation of the President.

**Asian Development Bank**

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanism	Assumptions and Risks
<p><b>Impact</b></p> <p>Greater share of private sector in economic development through SME contributions</p>	<ul style="list-style-type: none"> <li>• Increased employment opportunities in regional SMEs outside Colombo and Gampaha by 50,000 persons by mid 2010.</li> <li>• Increased output in regional SMEs outside Colombo and Gampaha, amounting to about \$360 million from mid 2007 to mid 2010, with annual average incremental output amounting to 0.4% of 2005 national output.</li> </ul>	<ul style="list-style-type: none"> <li>• Government economic and social statistics</li> <li>• Central Bank of Sri Lanka (CBSL) Annual Reports</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Positive correlation between regional SME growth and SME cluster development and regional employment, output, and export earnings in Sri Lanka</li> <li>• Macroeconomic stability</li> </ul> <p><b>Risks</b></p> <ul style="list-style-type: none"> <li>• Political and security situation deteriorates to the point that SME operations in the region are adversely affected</li> <li>• Natural disasters</li> </ul>
<p><b>Outcome</b></p> <p>Accelerated development of the SME sector outside Western province with positive effect on moderating regional disparities</p>	<ul style="list-style-type: none"> <li>• Development of SME clusters. On average, about 3-5 clusters can be developed in each illustrative sector. There can be cluster development outside the illustrative sectors.</li> <li>• Increase in per capita income outside Colombo and Gampaha for balanced regional growth</li> </ul>	<ul style="list-style-type: none"> <li>• Government SME statistics</li> <li>• CBSL reports</li> <li>• PCI reports on SME loan portfolios, including regional breakdowns</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Generally improving economic and policy environment in the country</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>• Security situation deteriorates further</li> </ul>
<p><b>Outputs</b></p> <p>1. Greater sustainable credit by PCIs to regional SMEs, SME value chains, and business development service providers</p>	<ul style="list-style-type: none"> <li>• SME loan portfolio driven average credit to deposit ratio of participating credit institutions (PCIs) regions outside Colombo and Gampaha districts increased by about 4% from 2008 to end 2010.</li> <li>• Compliance of PCIs with eligibility criteria for access to ADB funds according to disbursement target</li> </ul>	<ul style="list-style-type: none"> <li>• Fitch Lanka ratings reports on PCIs</li> <li>• PCI compliance reports to CBSL</li> <li>• PCI annual reports</li> <li>• CBSL imprest account data</li> </ul>	<p><b>Assumption</b></p> <ul style="list-style-type: none"> <li>• Sound financial and operational performance of eligible PCIs</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>• PCI regional lending engenders operational risk</li> </ul>

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<p>1.1 Access to Credit</p> <p>1.2 Strengthening PCI capacity, risk management, and institutional governance for regional SME lending</p> <p>1.3 Strengthening bankability of regional SMEs through value chains equity and credit</p>	<ul style="list-style-type: none"> <li>• Project loan fully utilized by PCIs by end 2010</li> <li>• Project Loan disbursement targets of PCIs compliance for annual reviews and mid-term review</li> <li>• Project Steering Committee headed by CBSL and PIUs established prior to effectiveness of the Project loan for monitoring credit disbursements of PCIs</li> <li>• SME finance staff of PCIs to undergo IFC SEDF or equivalent training programs by 2011 in the 5 PCIs.</li> <li>• Increasing cash flow based lending to regional SMEs by PCIs</li> <li>• Increasing application of SME credit scoring by PCIs</li> <li>• PCI compliance with anti-money laundering (AML) framework and corporate governance standards in Sri Lanka</li> <li>• PCI lending to bankable regional SMEs and SME value chains established by lead firms as part of PCI disbursement targets</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly monitoring reports of CBSL chaired Project Steering Committee</li> <li>• Monthly progress reports of PCIs</li> <li>• Annual and mid-term review reports of CBSL chaired Project Steering Committee</li> <li>• Externally audited PCI accounts and financial statements within 6 months of end of each fiscal year</li> <li>• Progress reports of International Finance Corporation (IFC) South Asia Enterprise Development Facility (SEDF) under MOUs with PCIs</li> <li>• Monthly progress reports of PCIs</li> <li>• PSIDC surveys</li> <li>• Monthly progress reports of PCIs</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Availability of qualified SME finance staff and SME risk management systems in PCIs</li> <li>• SME BDS able to be cost recovery based for PCI borrowing</li> <li>• PCIs find it cost effective to lend to regional SMEs and SME value chain clusters and expand their SME lending portfolio</li> </ul> <p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Availability of regional PCI branches or other regional lending means</li> <li>• PCI commitment to establish or strengthen their SME finance units to undertake credit risk management and risk based loan pricing</li> <li>• PCI commitment to establish/strengthen corporate governance structures and AML checks and balances</li> <li>• PCI commitment to establish or strengthen systems for environmental safeguard compliance monitoring</li> </ul> <p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Productive loan utilization by SME value chains</li> <li>• Lead corporate firms driving establishment of value chains</li> </ul>
<p><b>Activities and Milestones</b></p> <ul style="list-style-type: none"> <li>• Mid Term Review in June 2009</li> <li>• Annual reviews</li> <li>• Quarterly PSC reports</li> </ul>		<p><b>Inputs</b></p> <ul style="list-style-type: none"> <li>• \$50 million Ordinary Capital Resources</li> <li>• PCI own credit contributions \$16.67 million</li> </ul>	

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<ul style="list-style-type: none"><li>• Monthly PCI reports</li><li>• Quarterly BDS provider reports</li></ul>			