

Promoting Women's Entrepreneurship in Sri Lanka

Update on the
Asian Development Bank's
Small and Medium-Sized Enterprises
Line of Credit Project

Supported by the Women Entrepreneurs
Finance Initiative (We-Fi)



Women-Led SMEs: Untapped Potential for Growth

As Sri Lanka undergoes its transition to upper middle-income status, the country has achieved gender parity in access to education, but women's economic participation is well below potential. Female participation in the labor force was at 33.6% in 2018, significantly lower than that for men (73%). Women's ownership of formal small and medium-sized enterprises (SMEs) is low in Sri Lanka, and most women struggle to transition away from informal microscale businesses.¹ These gender inequalities represent a missed opportunity to boost growth in the context of a steadily aging population and expected future labor shortage.



COUNTRY SNAPSHOT SRI LANKA

- **GDP per Capita:** \$4,102 (current, 2018)
- **Average Annual GDP Growth Rate (2014-2018):** 4.2%
- **Poverty Index (below \$1.90 PPP a day):** 0.8% (2016)
- **Population:** 21.7 million (2018)
- **Total Fertility Rate:** 2.0 (2016)
- **Female Labor Force Participation Rate:** 33.6% (2018)

ADB's Approach to Fostering Women's Entrepreneurship

The Asian Development Bank (ADB) has been supporting the Government of Sri Lanka in promoting women's entrepreneurship through the Small and Medium-Sized Enterprises Line of Credit Project, supported by the Women Entrepreneurs Finance Initiative (We-Fi). This reflects a central pillar of ADB's new Strategy 2030 in promoting gender equality.

ADB's project in Sri Lanka targets the following four interconnected challenges and bottlenecks to bring about institutional changes that will foster an environment conducive to women's entrepreneurship in Sri Lanka:

- Women entrepreneurs' limited access to finance;
- Low business capacity of women entrepreneurs;
- Inadequate policy and regulatory framework for women entrepreneurship; and
- Poor data and evidence on women entrepreneurs on which to base policies and practices.

¹ The International Finance Corporation estimated that the proportion of formal women-owned micro and SMEs was 38%-47% in East and Southeast Asia but only 8%-9% in South Asia in 2011.

In the project's first phase (2016–2018), ADB provided a line of credit worth \$100 million to SMEs, with targets for those owned or led by women. Through a novel approach of penalties and incentives, the financing was successfully disbursed through 10 local banks, which lent it to 1,754 SMEs, including 484 (27.6%) owned or led by women.² The proportion of women who owned or led SME borrowers exceeded a target that was set initially at 5% but was increased to 20% over the first phase. The government requested additional financing worth \$75 million for 2018–2020, given the strong results and potential for expansion. The project also embedded features for women in export-oriented sectors, such as specialized business development training in agri-businesses and awareness raising campaign for entrepreneurship in the information and communications technology sector, thanks to support from the Japan Fund for Poverty Reduction (JFPR).



\$12.6 million We-Fi Grant

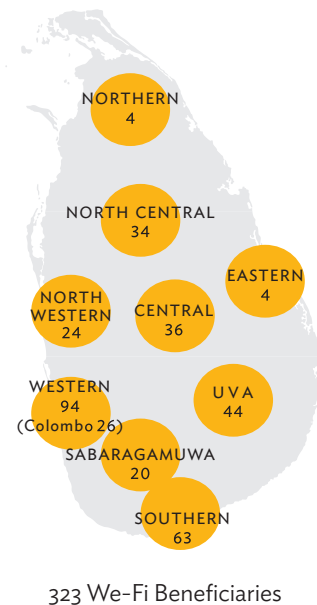
A \$12.6 million grant from We-Fi was introduced in 2018 to further enhance the gender-related impact of the project. The We-Fi grant will help ADB ensure that more women-owned or led SMEs have access to finance, training, and mentorship opportunities. In addition, ADB will strengthen the technical capacity of a wide range of stakeholders, including government, banks, and chambers of commerce and SMEs. All these efforts will contribute to more effectively address the four major bottlenecks while fostering a women's entrepreneurship ecosystem. The key targets include:

- More than 600 women-owned or led SMEs accessing finance;³
- 700 women accessing the online networking platform and personalized business development training;
- Government agencies and chambers of commerce introducing gender action plans, while partnering banks introduce new policies and banking practices to reach out to women SMEs; and
- Rigorous impact evaluation to be carried out and results disseminated.



Progress Update (August 2018 - April 2019)

- **Access to Finance.** 323 women-owned or led SMEs employing 3,934 people have financially benefitted from the We-Fi grant.
- **Leverage.** \$2.9 million of the We-Fi grant has mobilized a \$11.5 million ADB credit line for debt and \$6.7 million in commercial financing for equity.
- **Outreach.** More than 90% of loans and We-Fi grants were made for economic activities outside Colombo District, including 22% in lagging regions (Eastern, Northern, Sabaragamuwa, and Uva) and across various industries (including manufacturing, tourism, trade, healthcare, and agriculture).
- **Capacity Enhancement.** The We-Fi grant incentivized women to complete a comprehensive tailored training program to be eligible to receive an additional 10% We-Fi grant to be blended with their future bank loans. In fact, 504 women entrepreneurs in the agri-business sector in 22 locations across the country have successfully completed the training.



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2 The participating banks need to meet semi-annual lending targets, including the gender target, to retain their eligibility to access ADB's line of credit and interest is charged on the undisbursed amount.
 3 The We-Fi grant is blended with ADB's SME credit line for eligible SMEs owned or led by women up to 20%-35% of the total loan principal to improve their access to finance.

Way Forward

We-Fi has been instrumental in creating a lasting impact in changing the culture of participating banks to lend to women-led SMEs. Banks have expressed interest in expanding the lending portfolio to women-led SMEs through We-Fi. Building on this momentum, it is timely to strengthen the capacity of banks, government agencies, and other stakeholders in an integrated approach to transform their behaviors. Thanks to We-Fi, the ADB project will foster a more sustainable environment for women entrepreneurs and generate more opportunities for women in Sri Lanka.



PROJECT PROFILE 1

Commercial Guava Farming for Local Community Development

After a two-decade career break to care for her children, Ruchirani Munasinghe (Ruchi, above) leased land in 2015 to cultivate guava in her small home village in Anuradapura District, North Central Province. Over 4 years, Ruchi expanded her guava farm to 2 hectares with 6 workers. ADB's business development training for women entrepreneurs inspired her interest in more commercially oriented farming. In the training, Ruchi enjoyed learning about finance, marketing, and other managerial subjects, while interacting with other aspiring women entrepreneurs. To complete the training, she presented her business proposal to local bank officers who gave positive feedback. She succeeded in mobilizing blended financing of SLRs800,000 (\$5,333) from the Regional Development Bank, 30% of which was grant-funded under the We-Fi scheme. The proceeds were used to introduce better farming practices, including new plants, equipment and an irrigation system for 0.8 hectares of newly leased land. "I've got more confident in communicating and negotiating with banks after the intensive training. The ADB's financing facility seemingly encouraged banks to smoothly process my loan application," Ruchi recalled. Motivated by her early success, she is planning to expand her farming to penetrate overseas markets and generate more employment in her local community.



PROJECT PROFILE 2

Giving Brides Their Dream Kandyan Style Weddings

In 2011, Indumala Rajapaksha (above) opened a bridal service salon in Kandy, Central Province, with capital of just SLRs8,000 (\$53). The salon prepares brides to be a "Kandyan Princess" on their wedding day. Indumala's husband creates hand-made sarees in the company's design factory. Indumala has rapidly grown her business in Kandy and was considering opening a new branch in Colombo. However, it was a challenge managing larger operations with new staff while continuing to meet standards of service across multiple branches. Financial support from a We-Fi grant of SLRs2 million (\$13,333) blended with the ADB credit line of SLRs8 million (\$53,333) through the Commercial Bank of Ceylon allowed Indumala to overcome these challenges. She was able to invest in salon facilities in the new Colombo branch and add 6 new staff to the existing 37 employees, out of which 27 are women. "I am proud serving new brides with traditional Sri Lankan attire to enhance their inner beauty. I am also glad to create new employment opportunities, especially for females, and promote local production of wedding dresses," Indumala said.

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Photos by ADB and Indumala Rajapaksha (cover, 2nd photo and page 4, right).

On the cover: ADB-supported business in Sri Lanka. Photos on page 3: Business development trainings for women.