

The Rural Finance Sector Development Programme

Rationale: The Rural Finance Sector in Sri Lanka is highly fragmented and rural finance sector institutions suffer from weak governance, poor repayment rates, high transaction costs, weak supervision, and recurring losses. The contribution of rural finance to rural growth through investment in agriculture and rural enterprises remains very lower. Production and marketing bottlenecks, due to weak rural infrastructure and low skill levels, reduce the profitability of the rural sector. This will have long-term negative effects on consumption of the poor and asset building, for them. In order to address these issues, the Rural Finance Sector Development Programme has been designed.

1. Objectives: The Rural Finance Sector Development Programme has been designed to establish a sustainable rural finance system through the policy adjustments and improvement of the operations of the rural finance sector institutions by providing the necessary training in rural finance, efficient service delivery, sector supervision, and outreach expansion. Strengthening of the key sector institutions in rural areas will increase the access of rural households to rural finance services.

2. The Project Execution Agency: The Department of Development Finance of the Ministry of Finance and Planning

3. The Project Implementing Agencies: The Central Bank of Sri Lanka
The National Development Trust Fund
The Samurdhi Authority of Sri Lanka
The Ministry of Small and Rural Industries
The Ministry of Agriculture Marketing
Development Co-operative Development
Hindu Affairs and Assisting Education and Vocational Training

4. The total estimate cost: US \$ 77 mn:

Asian Development Bank	- US \$ 70 mn
Consolidated fund	- US \$ 7 mn

5. Components and Activities:

5.1 Programme Loan

- Conducive Policies
- Supportive legal and regulatory framework
- Institutional reforms for sustainability
- Strengthening the demand side
- Expansion of rural finance in conflict-affected areas

5.2 Project Loan

- Building of sector capacity
- Development of financial infrastructure
- Restructuring of the rural finance institutions
- Development of rural enterprises through the provision of credit.

6. Progress achieved:

6.1 Projects loan:

10,250 number of micro finance projects have been implemented. Of this number 8700 of project have been located in the Tsunami affected area.

6.2 Programme Loan:

A monitoring unit has been established in the Bank Supervision Department of the Central Bank of Sri Lanka.

The draft Micro Finance Act has been prepared to undertake the supervisory and regulatory functions of the micro finance institutions.

The co-operate plan has been prepared for the National Development Trust Fund.

The Strengthening Plan has been prepared for Samurdhi Banking Societies.

The Restructuring Plan has been prepared for co-operative rural banks.

The Rural Economy Reputation Fund has started a pilot project in two districts.