

POLICY-BASED LENDING

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24 September 2026

***Facilitating the Growth of
Micro, Small, and Medium-Sized Enterprises
in ASEAN***

***A Consultative Workshop on
Enabling Environment Reforms***

ADB



What's a Policy-based Lending?

A financing modality that couples general budget support with an agreed reform program.

GENERAL BUDGET SUPPORT

Funds are not tied to explicit project costs.

Financing responds to development financing needs and is released against the modality's agreed requirements.

What it supports

Sector and inter-sector reforms that address binding legal, regulatory, institutional, or policy constraints.

What enables it

Strong government ownership, credible diagnostics, policy dialogue, and a satisfactory macroeconomic direction.

What changes

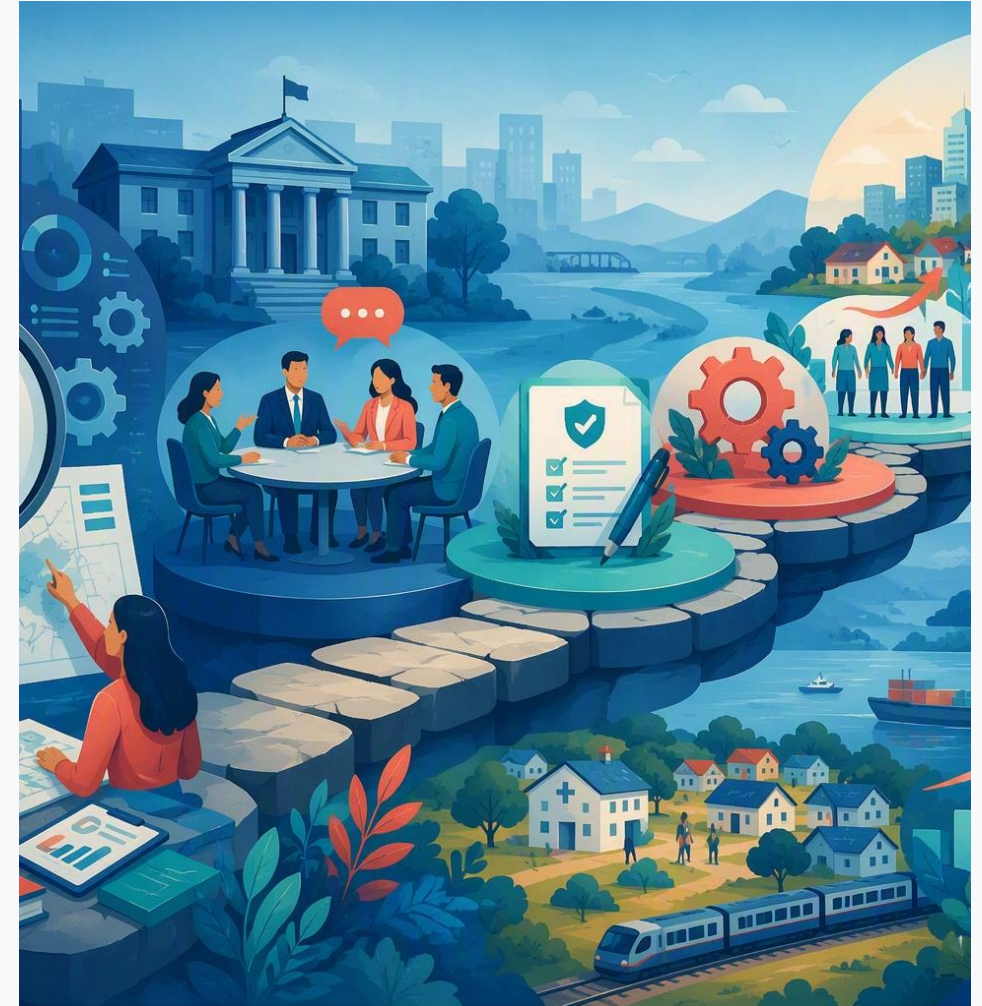
Reforms can improve institutions, markets, public finance, service delivery, resilience, and private sector conditions.

What ADB adds

Structured policy dialogue, analytical work, financing, coordination, and targeted technical assistance.

One instrument family, five financing purposes

01	Conventional PBL	A single reform program, commonly delivered in two or three tranches.
02	Programmatic approach	A sequenced series of subprograms over the medium term.
03	Sector development program	Policy reform and a linked investment project in one integrated solution.
04	Countercyclical support facility	Rapid fiscal stimulus during an economic crisis.
05	Contingent disaster financing	Quick-disbursing support after an eligible disaster event.



Designing Credible Reform Programs under Policy-based Lending



Foundations of a high-quality PBL

01 Strong diagnostics

Sector analysis, stakeholder consultation and development-partner coordination.

02 Focused policy actions

Specific, substantive, verifiable and logically sequenced actions.

03 Credible financing case

Aggregate financing needs, macro assessment and debt sustainability.

04 Value addition & risk discipline

Show ADB's contribution and frame uncertain risks with mitigations.

DIAGNOSE FIRST

DESIGN FOR IMPACT

GOVT. OWNERSHIP



ADB

What makes policy actions **SMART**?

Relevant

Addresses a binding policy or institutional constraint.

Material

Has sector-wide or economy-wide significance.

Verifiable

Completion can be assessed with clear evidence.

Sequenced

Fits the reform pathway and implementation capacity.

Owned

Backed by responsible institutions and political commitment.

Sustainable

Supported by systems, resources, and follow-through.

SPECIFIC

Observable change

MEASURABLE

Quantifiable or countable

ACHIEVABLE

Meaningful yet attainable

RELEVANT

Aligned with the result

TIME-BOUND

Target date and tracking intervals

Best Practices in Policy Design and Monitoring Framework

× **A long reform wish list**

✓ Select actions critical to removing binding constraints and achieving the outcome.

× **Process steps presented as reforms**

✓ Prioritize substantive legal, regulatory, institutional, or implementation milestones.

× **Loan size treated as reform cost**

✓ Justify financing through development financing needs, debt sustainability, and country context.

× **Indicators not linked to actions**

✓ Use indicators that measure direct or credible intermediate effects within the evaluation horizon.

× **Technical assistance as add-on**

✓ Target TA to unresolved policy issues and the capacity constraints that determine implementation.

× **Disbursement seen as finish line**

✓ Plan sustained policy dialogue, monitoring, and a post-program partnership framework where useful.

Sustainability: bridge the program to lasting impact

The Post-Program Partnership Framework keeps priority reforms visible after completion.

Maintain, deepen and enforce reform priorities after the final subprogram.

Identify future engagement and technical assistance opportunities.

Monitor whether outcomes endure, not only whether administrative steps were completed.

The quality of PBL is ultimately judged by whether reforms endure and improve development outcomes.



ADB's Track Record of Policy-based Lending Programs

Offers Proven Models for MSME-Led Industrial Transformation



Indonesia



CITA Program

MSME access to public procurement via sustainable procurement & domestic preference policies



Sri Lanka



Trade, Investment & Industry Development.

Integrated industrial zones, PPP concessions, consolidated MSME institutions



Uzbekistan



SME Development Program

Credit guarantees, nonbank finance, unified SME legal framework



Vietnam



SME Development

Credit guarantee mechanisms; strengthened SME legislation



India



MSME Cluster Development

Shared infrastructure & CFCs



Bangladesh



Skills for Employment (SEIP)

Industry-aligned, demand-driven training linked to employers

Reforms in MSME Related Policy-based Lending Programs



Operationalize MSME Policy and Institutions

Consolidate existing schemes into a lifecycle-based framework



Improve Ease of Doing Business

Digital single window for approvals, incentives and services



Deepen MSME Finance

Risk-sharing instruments credit delivery



Value Chain Development and Infrastructure

Development of clusters, and industrial infrastructure, PPP frameworks



Enhance Market Access

Export readiness, branding, state marketing authority, logistics



Skills and Capability

Demand driven skills for labor force



Example of Programmatic Policy-based Lending

Sri Lanka: Trade, Investment, and Industry Development Program (TIIDP)

Integrated Reform Areas

Trade facilitation: Market access

Streamlined processes, improved logistics and regulatory efficiency to boost global trade.



Enhanced connectivity
Streamlined procedures



Economic Zones: Growth Enablers
Providing shared infrastructure, logistics and resources for scaling businesses.

Cluster development
Productivity and innovation

Economic diversification

GVC integration

SME development: Business Creators

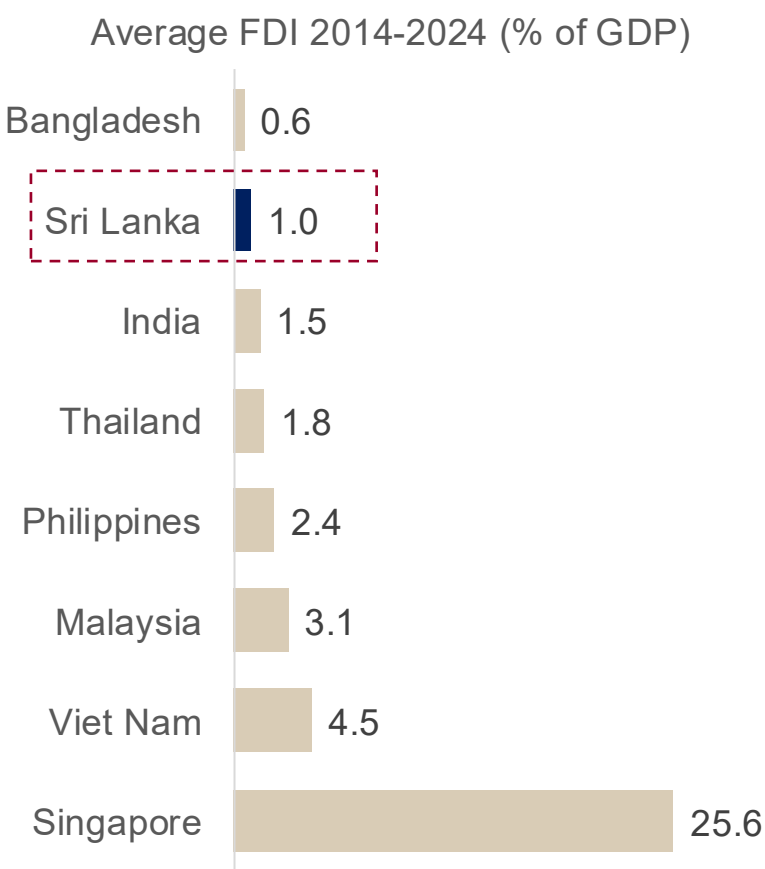
Driving innovation, employment and economic diversification.



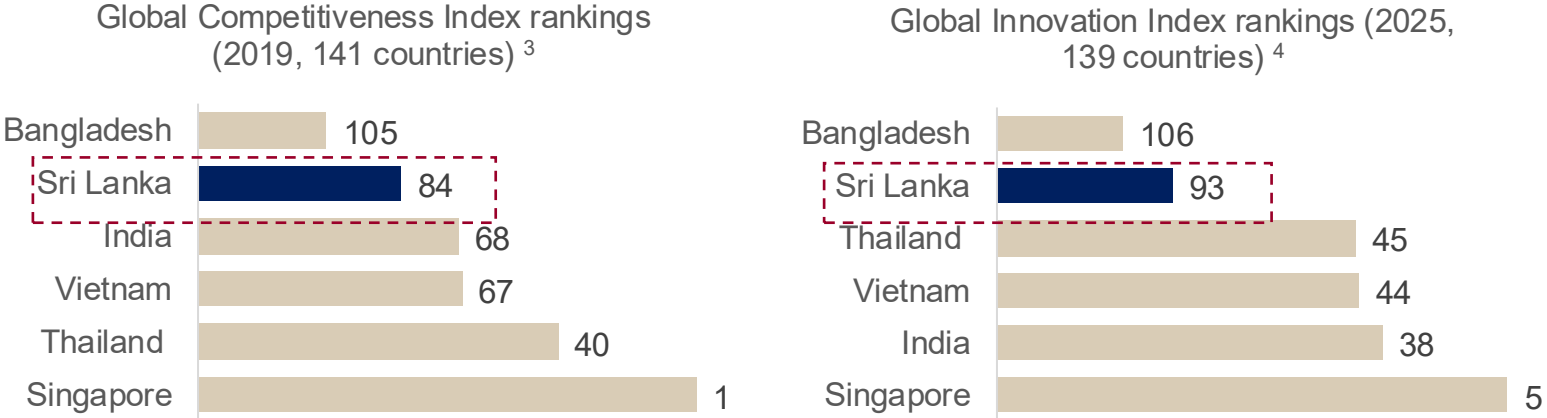
Development Constraint #1: Sri Lanka’s industrial competitiveness and investment climate remains weak compared to peers

Only 9.6% of Sri Lanka’s total output is Global Value Chain (GVC) related output

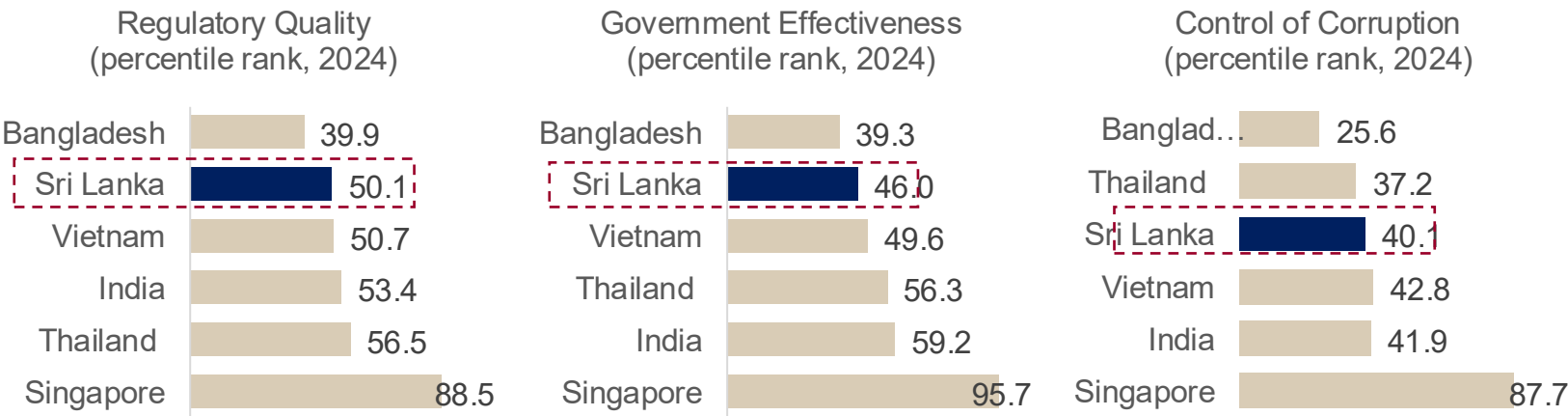
Sri Lanka’s FDI inflow lags its peers²



Sri Lanka’s Industry competitiveness remains low



Performance on Worldwide Governance Indicators ⁵



Source:

¹ World Integrated Trade Solutions. The World Bank, GVC Output Table.

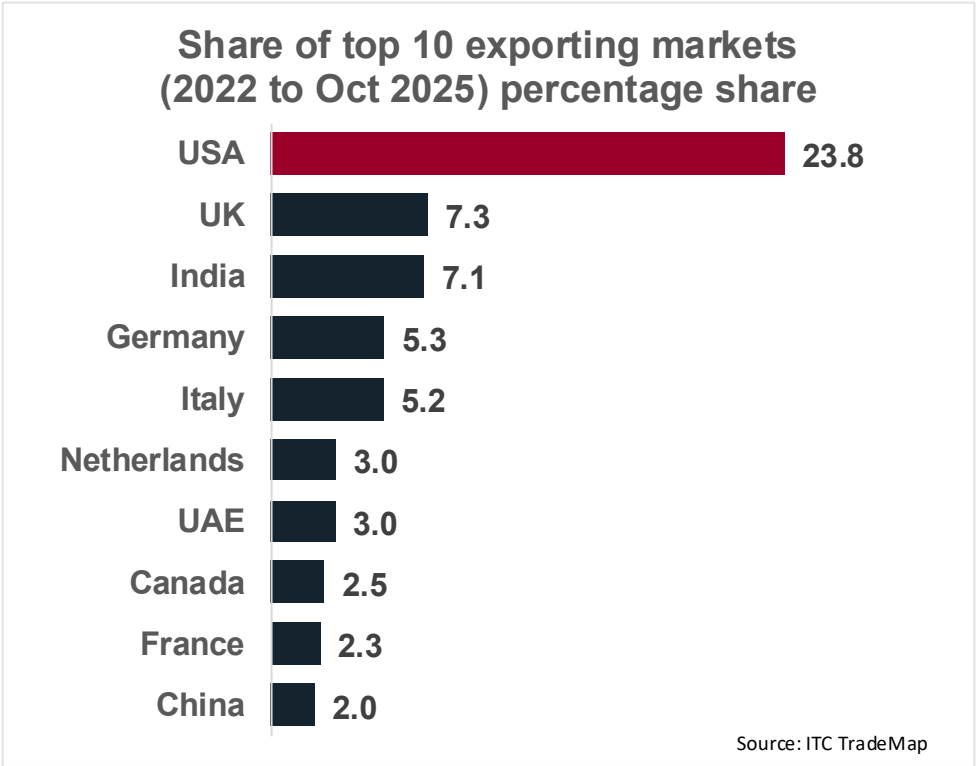
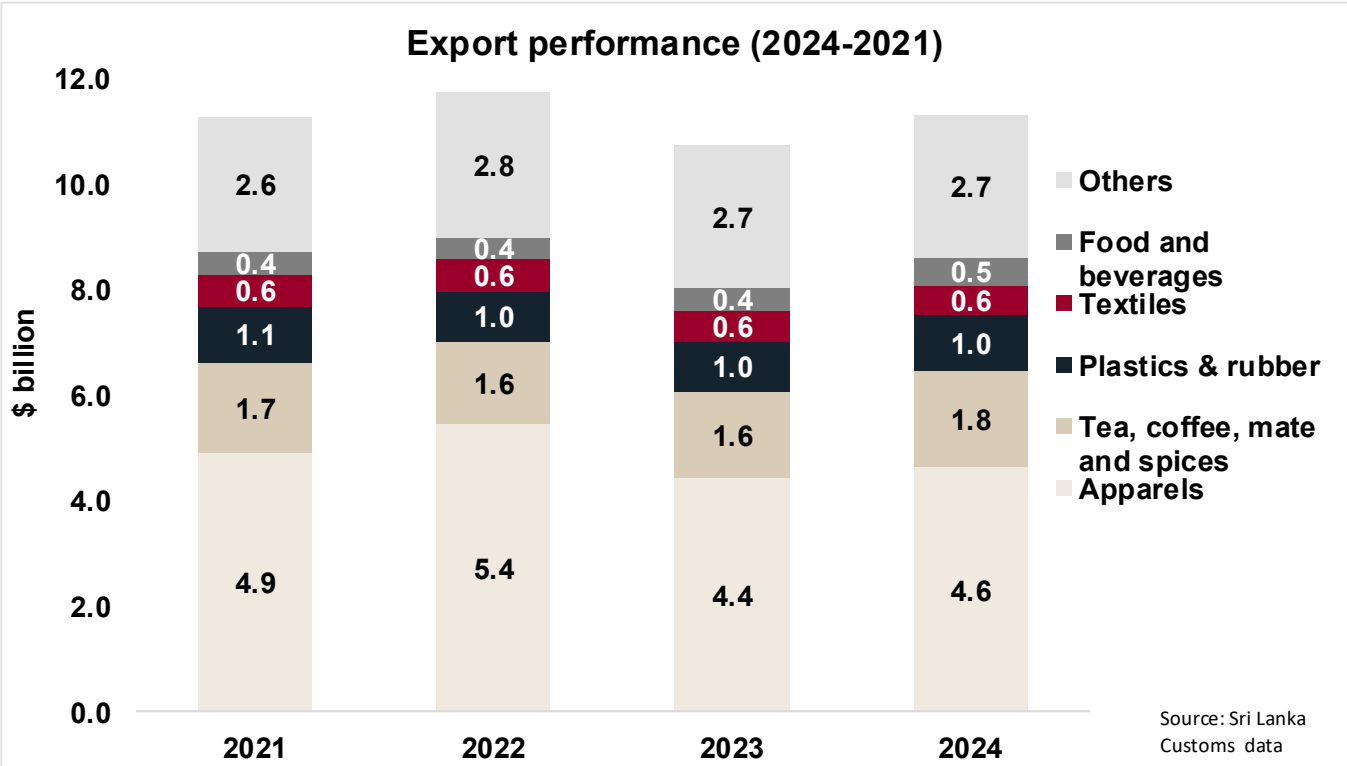
² World Bank. World Development Indicators

³ World Economic Forum. Global Competitiveness Report 2019

⁴ World Intellectual Property Organisation. Global Innovation Index 2025

⁵ World Bank. World Governance Indicators

Development Constraint #2: Limited product diversification and reliance on few export markets increase exposure to external shocks



Apparels dominate exports

Apparels remain the top export sector from 2021 to 2024, contributing to about 41 % of export earnings between 2021- 2024

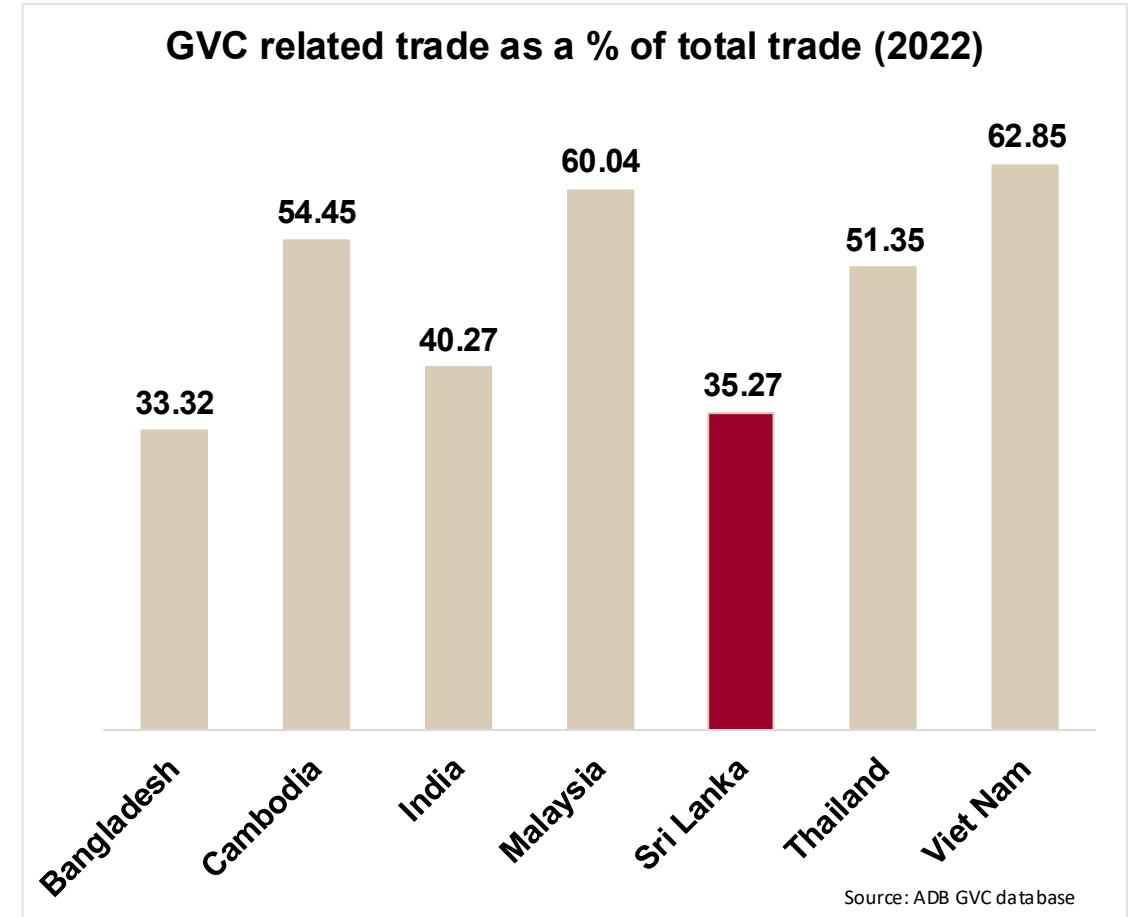
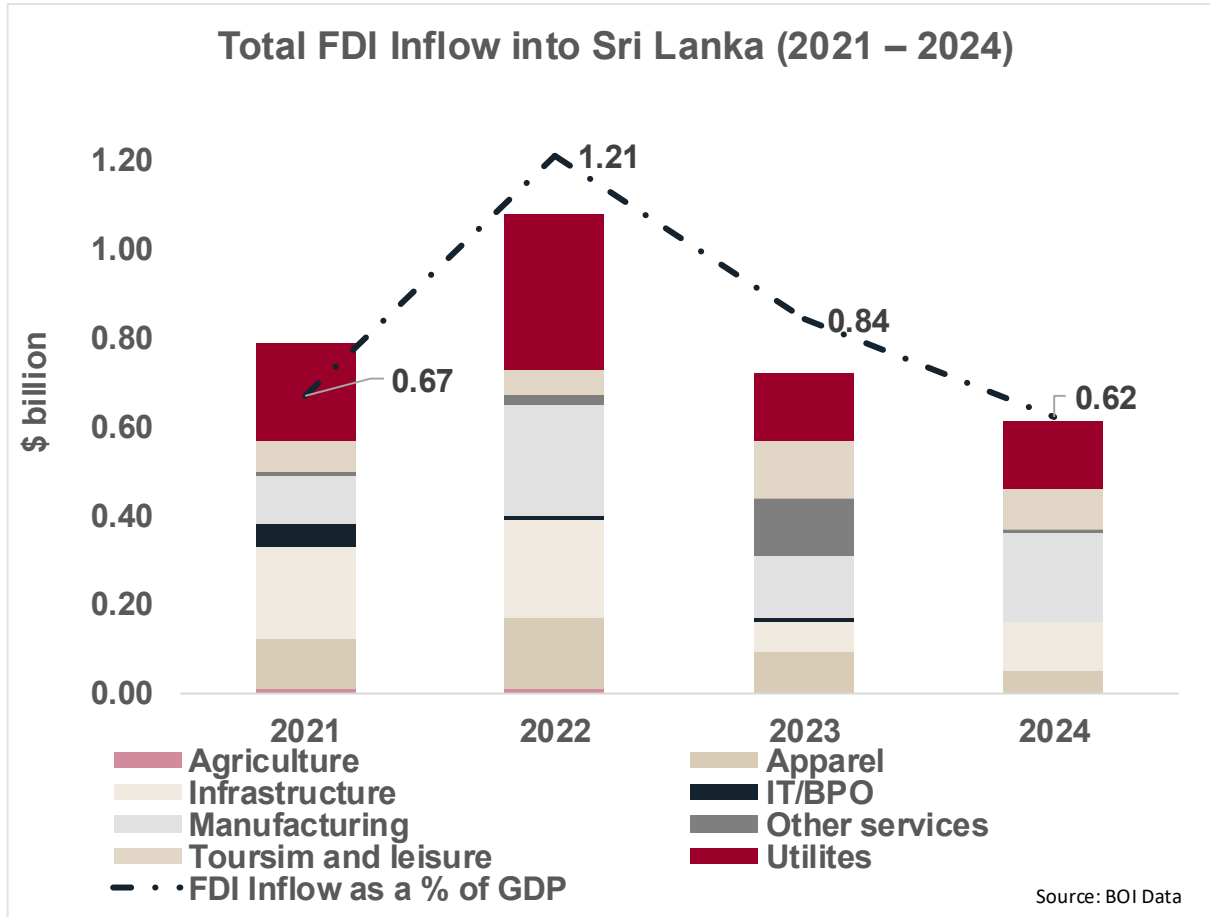
Export market concentration

USA, UK, and India account for 38.2% of Sri Lanka’s export earnings

Diversification gap

Export earning from other products has stagnated at \$2.7 billion - indicating little progress in expanding into new sectors and products

Development Constraint #3: Declining FDI as a % of GDP and limited Global Value Chain (GVC) participation



Declining FDI inflows

FDI into Sri Lanka fell from \$0.8bn in 2015 to \$0.6bn in 2024.

Stagnant GVC participation over a decade

Sri Lanka's GVC participation has remained largely unchanged over time, averaging around 36% of total trade over time during 2010 to 2022.

Development Constraint #4: Industrial land and economic zones have not been effectively managed to reach their full economic and employment potential

Over 80% of land is state-owned, but just 0.04% is used for industrial zone²

Binding Constraints for effective utilization of economic zones in Sri Lanka

Inefficient land allocation & administration

Complex procedures, non-transparent land allocation, tenure insecurity, underutilized public land and selection of locations not linked with market demand

Rigid, narrow and unstructured investment appraisal processes for zones

Lack of uniform and transparent investor-type and sector-specific financing modalities; lack of eligibility criteria considering financial viability, readiness, inclusivity, economic spillovers, etc.

Weak integrated and sector-specific planning

Inadequate and uncoordinated infrastructure and sector-level development planning

Limited marketing & investor outreach

Gaps in enabling business environment

Domestic and foreign investment promotion needs strengthening to attract investment

PPP & financing gaps

Lack of objective and actionable framework for private sector participation in zone development

Lack of standardized evaluation and PPP guidelines

Development Constraint #5: Sri Lankan SMEs face weak enabling business environment and fragmented support

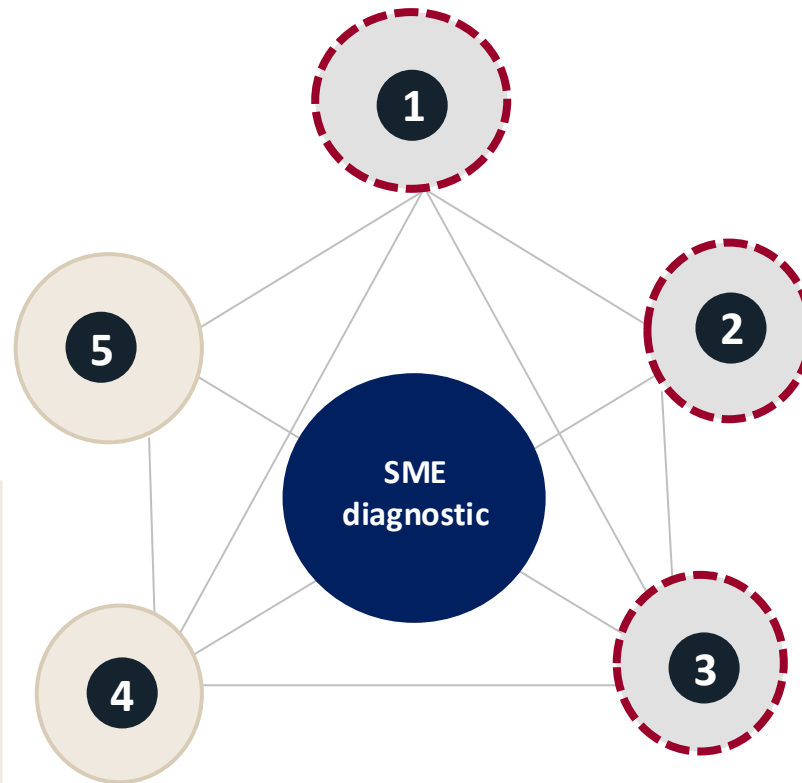
Sri Lanka's SME Landscape: >75% of registered businesses; >52% of GDP; ~45% of employment

5- Access to finance

- Financial institutions have **limited focus on serving SMEs** especially women-led
- Low financial literacy** and awareness of government schemes
- High **cost of borrowing**

4- Firm capabilities

- Inadequate use of technology** and outdated processes
- brain drain of skilled workforce
- Lack of quality certification** enterprises/SMEs unable to meet quality standards
- Skill gaps of labor force** compared to market demand



Source: ADB's diagnostics, 2025

1- Access to market

- Limited market linkages** for enterprises/SMEs
- Limited **support from the government** for exports
- Complex regulatory environment** for exporters

2- Business environment

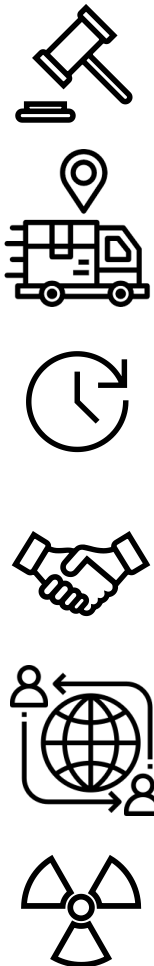
- Business registration can take up to 2 years** to acquire and cannot be done digitally; SMEs prefer to exist outside the government radar
- High VAT and Income Tax rates** disincentivizes formalization

3 - Government support

- Multiple agencies with **overlapping mandates and limited coordination.**
- No long-term approach** to enterprise/SME development
- Limited M&E** of programs, leading to redundancies in SME schemes

Development Constraint #6: Institutions and systems for trade facilitation in Sri Lanka need harmonization and modernization

Trade-to-GDP ratio fell from 76% to 44% between 2002 to 2025 with a protectionist trade regime.



Unclear process for obtaining approvals for importing and exporting; License for re-exporting must be renewed every year and the approval process takes 2-3 months

Weak coverage of the Electronic Cargo Tracking System (ECTS)

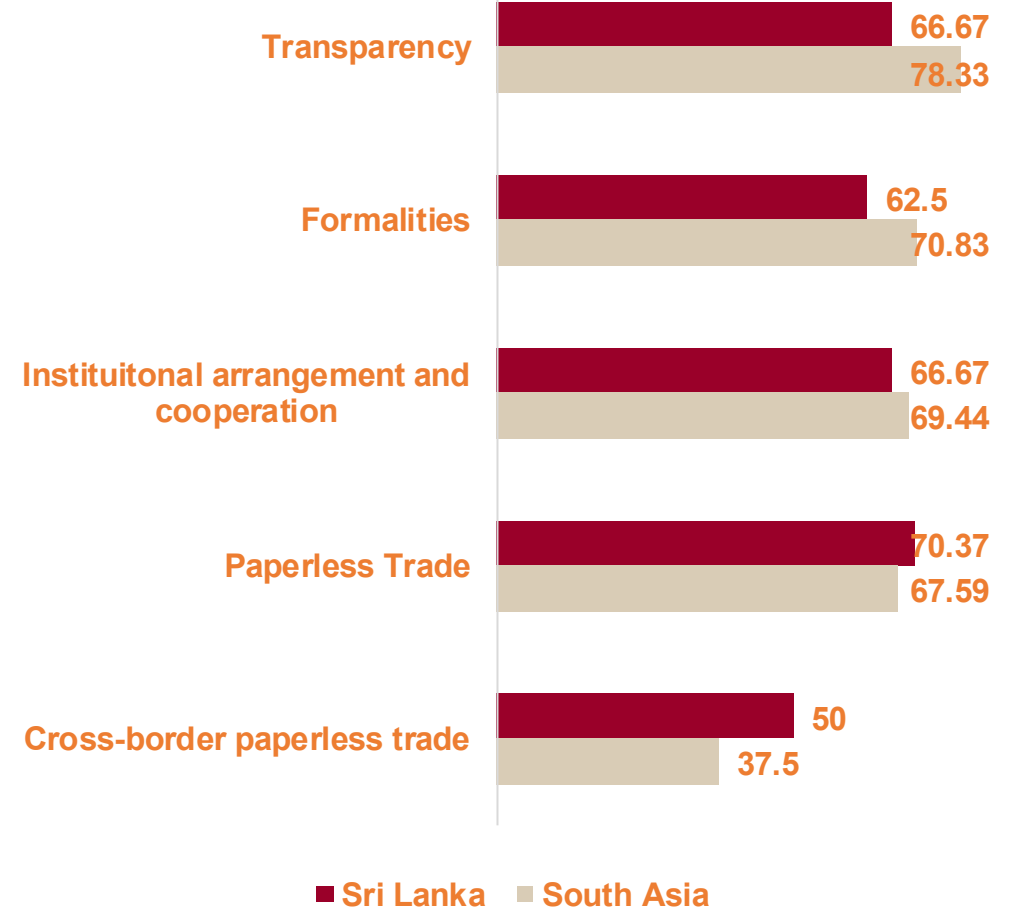
Lack of predictability in trade due to weak adoption of Advance Ruling Mechanisms

Slow expansion of Authorized Economic Operator (AEO) program

Weak mechanism of coordinated border management (CBM)

Risk Management System (RMS) inadequate and not aligned to international standards

Sri Lanka's performance on trade facilitation (2024, % implementation)



Alignment of the Proposed Program with the Priorities of the Government of Sri Lanka

- Program is aligned with GOSL’s reforms under Public Investment Programme (PIP), 2026-2030, Memorandum of Economic and Financial Policies submitted to IMF in 2023, and ADB’s Country Partnership Strategy for Sri Lanka (2024–2028).
- TIIDP comprised two subprograms: \$200 million for Subprogram 1 and \$100 million for Subprogram 2.



Problem Tree Analysis

Impact

Reduced regional disparities, inclusive and sustainable growth

Outcomes

Private sector development

Accelerated industrialization

Inclusive jobs growth

Increased export competitiveness

Transmission channels

Efficient industrial land utilization

Boost FDI, private investment

Reduced compliance burden

Efficient use of public funds

Stronger SME ecosystem

Reduced trade cost and time

Enhanced supply chain reliability

Mechanisms

Industrial export zone development

- Simplify land allotment
- Strengthen zone governance
- Sector-specific financing frameworks, design & development of zones
- Marketing & promotions

SME development

- Institutional consolidation
- Regulatory rationalization & simplification
- Export development strategy
- Targeted SME support programs
- M&E

Trade Facilitation

- Harmonized, simplified and modernized trade processes
- Digitalization of customs
- Introduce risk-based systems
- Establish periodic feedback mechanisms (Time Release Study and Regulatory Impact Assessment)

Reform area 1: Institutional Structures and Mechanisms for Economic Zones in Sri Lanka Strengthened

Policy Actions under the Programmatic Approach (SP1 & SP2)	Rationale
★ Adoption of Land Allotment Policy and development of digital database of land allocated for industrial zones by Board of Investment (BOI)	- Rigid, single criteria for allotment and no documented process for land allotment - Employment generation, technology adoption and value chain integration not considered - Rigidity in capital deployment – upfront payment under lease model, instead of diversified assets suited to different investor classes
★ Development of Investment Appraisal and Financing Policy for Integrated Industrial Zones and approval of at least 5 Investment Proposals in line with the new policy.	- Lack of robust pre-screening and due diligence procedures and processes - Global peers consider financial feasibility of project, economic spillovers, technology adoption, priority for less developed region, ancillary services development, etc.
★ Adoption of Model Public-Private Partnership Concession Agreement for master developers to streamline investment procedures and execution of PPP Concession Agreement with a Master Developer by BOI	- No clear framework for using PPPs in zone development - Private sector expertise and capital not being engaged adequately - Lack of clarity on provisions of concessions
★ Adoption of Concept Development Plan for Integrated Planning and Strategic Development Framework and development of at least one Economic Zone based on the framework by BOI	- Lack of sector-specific planning, design, financing and development framework for zones in line with good practices - Lack of sector-specific provision of common infrastructure and services, and integrated social and commercial infrastructure
★ Adoption and implementation of Marketing and Investment Promotion Strategy for industrial zones by BOI	- Inadequate organizational resource allocation, ad hoc selection of platforms and messaging tailored for sector-specificity and investor category

Reform area 2: Competitiveness of Small and Medium Enterprises (SMEs) Improved

Policy Actions under the Programmatic Approach (SP1 & SP2)	Rationale
★ Institutional consolidation by merging three SME development agencies to establish the Industrial Transformation and Innovation Authority of Sri Lanka (ITIA-SL) with enterprise facilitation centers in all districts in the country.	- No single agency owns SME development. - Overlapping mandates and limited coordination amongst government agencies. - Limited government support to SMEs.
★ Adoption of the National Export Development Plan (NEDP), ★ 2025–2029 with robust institutional arrangements for implementation, coordination, tracking and monitoring.	- Previous National Export Strategy lapsed; implemented partially. - Global trade uncertainty necessitates product and market diversification for Sri Lanka to insulate from external shocks. - Ineffective mechanisms to facilitate market access for SMEs.
★ Adoption of a National Regulatory Reform Action Plan with an Integrated Business Permit Licensing System to streamline compliance landscape for businesses, end-to-end mapping and streamlining of regulatory processes in at least 2 sectors	- Delay in obtaining permits and licenses. - High cost of formalization especially for SMEs. - Low awareness of the regulatory burden. - No objective review of quality of business regulations.
★ Establishment of a Centralized Coordination and Monitoring Unit to track performance of government schemes and undertake evidence-based rationalization of SME schemes	- Information asymmetry about government interventions. - Redundancies in schemes & programs. - Limited monitoring and evaluation of programs.

Reform area 3: Industry's Access to Simplified, Harmonized, and Modernized Trade Processes Increased

Policy Actions under the Programmatic Approach (SP1 & SP2)	Rationale
★ Adoption of the Electronic Cargo Tracking System (ECTS) and interface with customs automation system (ASYCUDA) to cover cargo movements along the supply chain	- Customs need to track each and every container released from port to be delivered to yards. - ECTS allows customs authorities and other entities in the logistics chain to continuously monitor the movement of vehicles and cargo during transport from origin to destination.
Adoption of Advance Rulings for tariff classification with Revised Regulations , based on findings of regulatory impact assessment, and automation of filing and receiving of advance rulings.	- Currently advance rulings cover classification and is applied manually. - Coverage of advance rulings need to be expanded to origins and valuation and make it easy to apply through digitalizing the process.
Adoption of an enhanced Authorized Economic Operator (AEO) program particularly tailored for SMEs, and strategy for mutual recognition agreements with key trading partners	- Current AEO manual yet to cover SME-specific measures. - Assessment on how to enhance the AEO program to encourage more participation from business operators incl. SMEs and implement findings.
Institutional embedment of the conduct and publishing of periodic data-driven Time Release Study (TRS) in line with international requirements, and implementation of TRS recommendations .	- No evidence-based approach to assess the key trade facilitation constraints in Sri Lanka - Limited transparency and coordination for trade facilitation.
★ Paperless submissions by Sri Lanka Customs and processing of CusDecs through ASYCUDA World system with digital signatures	- Reduces time and cost of trade, minimizes physical interface, enhances efficiency, and supports end-to-end digital trade processes.
★ Adoption of the National Ports Master Plan by the Cabinet and a timebound investment roadmap	- Current misalignment of roles and capacities of different ports reducing efficiency and competitiveness - Sets out a plan for expansion and efficiency improvement of strategic ports in Sri Lanka, enhancing trade facilitation

Sector Development Program



The Sector Development Program (SDP) Modality

Dual Pillars of an SDP

1. Policy-Based Lending (PBL):

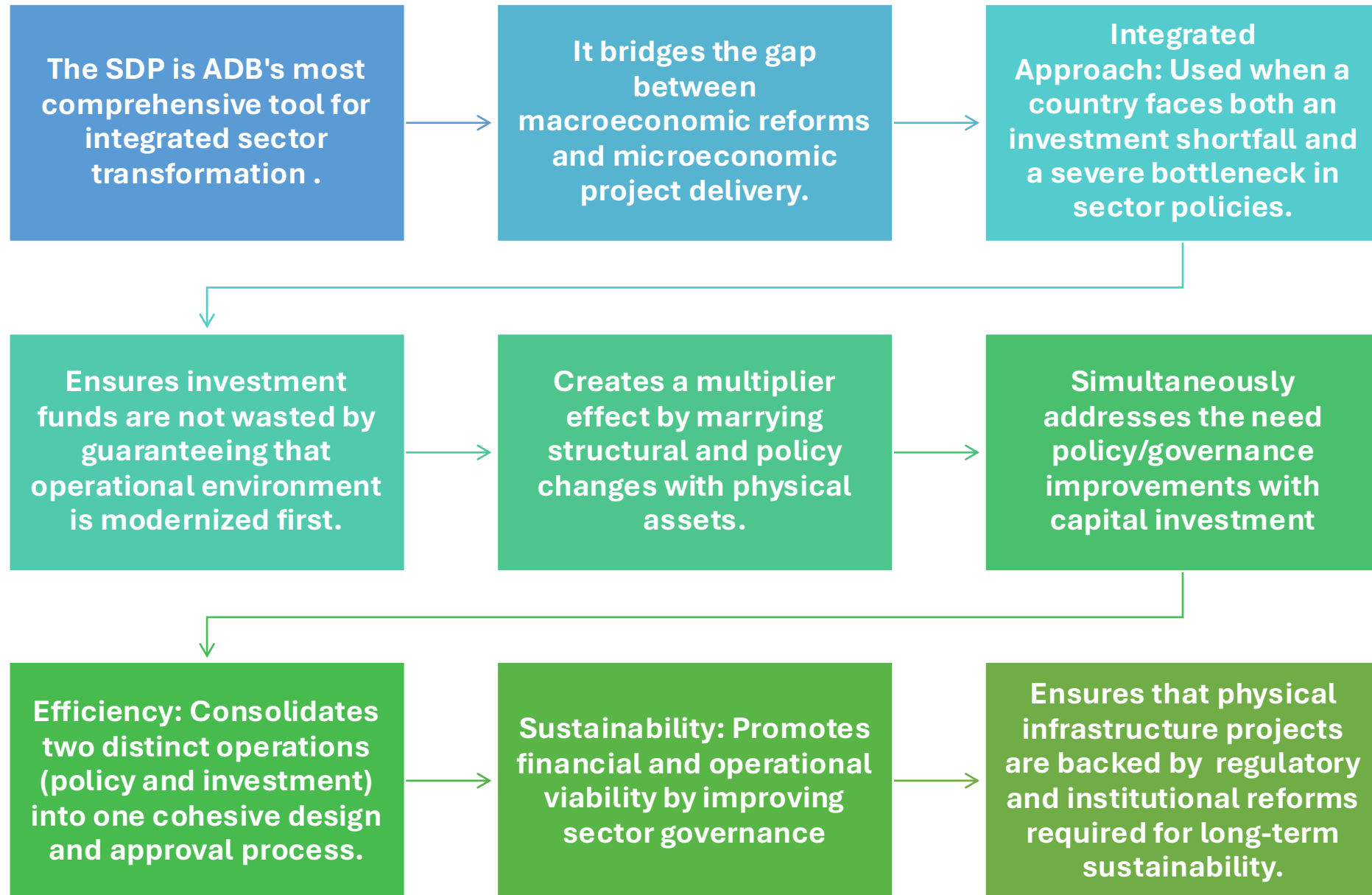
- Transfers funds directly to the government's general budget .
- Tied to the achievement of agreed-upon policy, legal, and institutional reforms .

2. Investment Project Loan:

- Finances specific infrastructure, equipment, or capacity-building components .
- Tangibly supports the implementation of the new policies on the ground.



Advantages of SDP



Examples of SDP Operations



Agriculture & Rural Development: Reforming agricultural policies alongside investing in irrigation, market infrastructure and agribusinesses.



Education & Skills Training: Modernizing educational curriculums while constructing or upgrading school facilities.



Energy & Utilities: Implementing tariff and regulatory reforms alongside building new power grids or renewable energy plants.

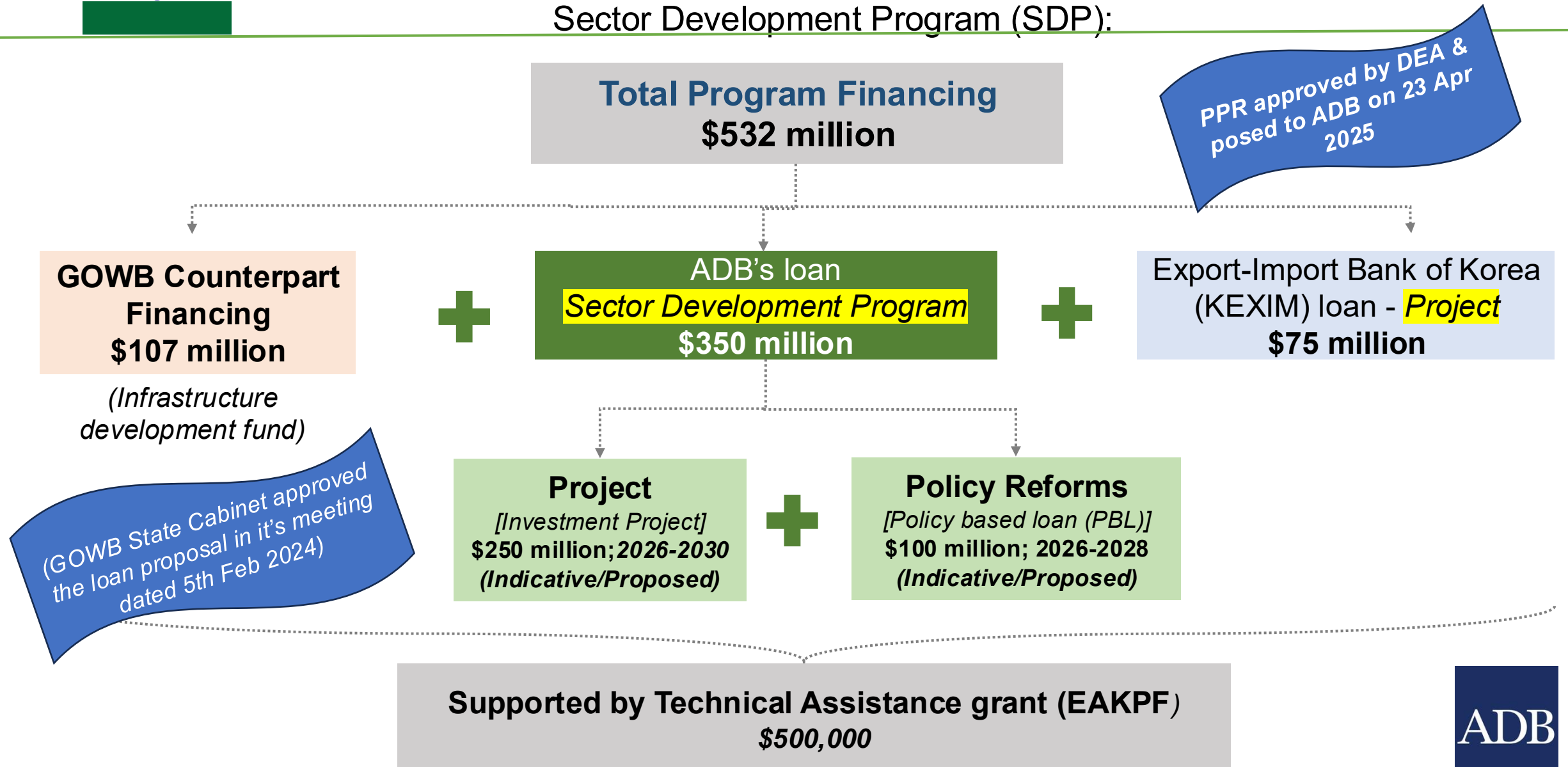


Finance: Strengthening financial governance and MSME policies alongside financial intermediation lending.



India: West Bengal Industrial and Economic Corridor

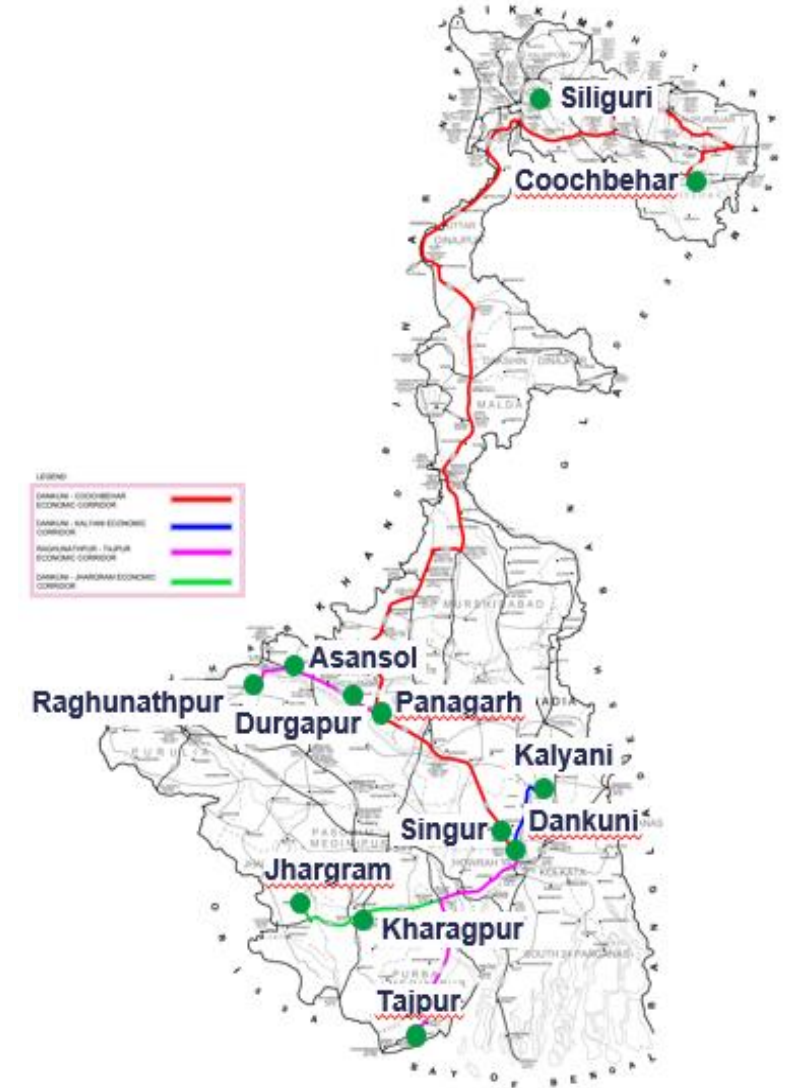
Sector Development Program (SDP):



West Bengal Industrial and Economic Corridor SDP

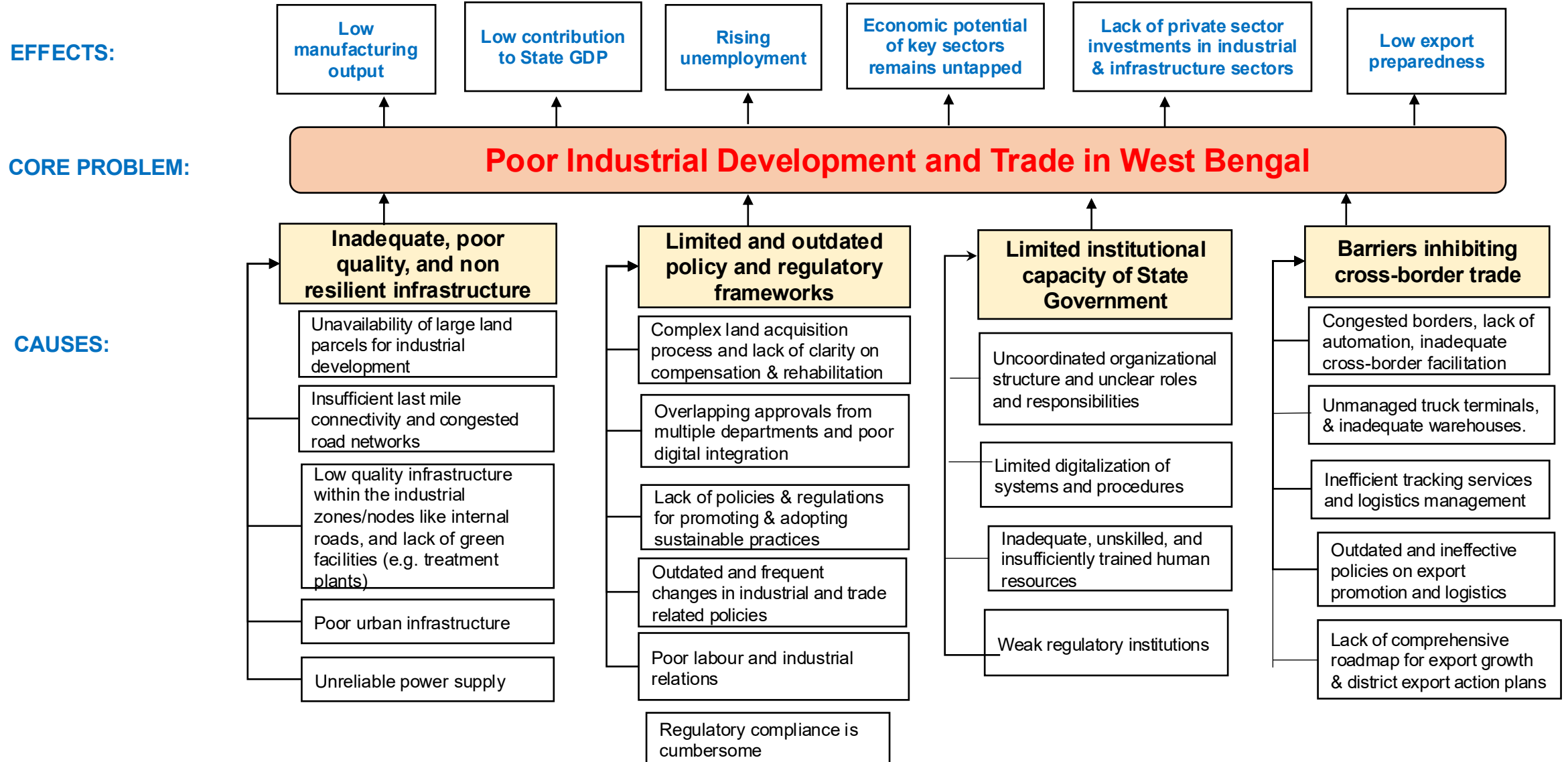
GOWB approved an *Industrial and Economic Corridor Policy of the State of West Bengal* in August 2023 with the objective to unleash the inherent and underutilized economic potential of the State by developing six industrial and economic corridors across the State in different phases

- Government of India (GOI)'s initiative of *National Industrial Corridor Development Program (NICDP)* to develop industrial cities to boost economic growth and generate employment
- Aligns with *GOI's Make in India, Atmanirbhar Bharat program, PM Gati Shakti National Master Plan*
- Will help implement GOI's '*Act East*' policy to connect to the markets of Southeast Asia
- Aligns with ADB's *Corporate Strategy 2030 Operational Priorities – 1,2, 3,4,6 & 7*
- Aligns with all **three pillars** of ADB's *country partnership strategy for India, 2023–2027*
 - ❑ Pillar 1: Accelerating structural transformation and job creation through multimodal and integrated logistics infrastructure, industrial corridor development, and MSME development,
 - ❑ Pillar 2: Promoting climate-resilient green growth through the adoption of sustainable practices,
 - ❑ Pillar 3: Deepening social and economic inclusiveness



Driving Sustainable and Inclusive Industrial Growth

Strategic Approach: **Problem Tree Analysis**



West Bengal Industrial and Economic Corridor SDP

Policy, Regulatory, and Institutional Reforms

Reform Area # 1: Industrial Development, Logistics Modernization, Investment Promotion & Trade Facilitation

Reform Area # 2: Sustainable, Inclusive, & Conducive Business Environment

Reform Area # 3: Integrated Industrial and Urban Planning



Infrastructure Development (Project)

Development of Logistics hubs

Proposed locations
Siliguri & Dankuni

Potential subprojects:
Multimodal logistic (*resilient*) infrastructure, including warehouses, freight facilities, utilities, and truck terminals

Upgradation of existing industrial zones/nodes (Brownfield)

Proposed locations -
Panagarh, Vidyasagar, Haldia, Mangalpur, Dhakeshwari

Potential subprojects:
(i) Last mile connectivity (trunk infrastructure)
(ii) Internal (*resilient*) infrastructure & facilities, including truck terminals & urban services.

Development of new industrial zone/node (Greenfield)

Proposed locations
Jungle Sundari & Raghunathpur

Potential subprojects:
(i) Trunk infrastructure (*last mile connectivity*)
(ii) Internal infrastructure, (e.g. *Solid waste management, treatment plants, utilities etc*).

West Bengal Industrial and Economic Corridor SDP

Policy, Regulatory, and Institutional Reforms

Reform Area # 1: Industrial Development, Investment Promotion, & Trade Facilitation

1. Green Industrial and Economic Corridor Policy,
2. Green and Gender Responsive Industrial Development and Investment Policy
3. Logistics Policy
4. Export Promotion Policy
5. PPP Policy and Gender responsive Industrial Township Policy (social infrastructure)
6. Sectoral Policies e.g. ESDM Policy; IT/ITES Policy; and Food Processing Policy
7. Establishment of Industrial Township authority at Raghunathpur
8. Institutional mechanism for Logistics & Export (Eg. EP Cell established)

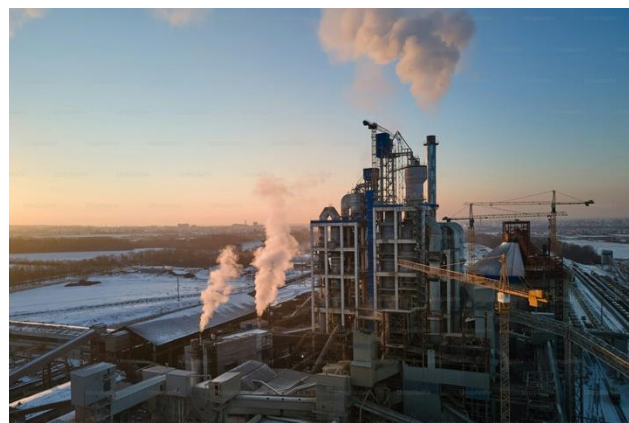
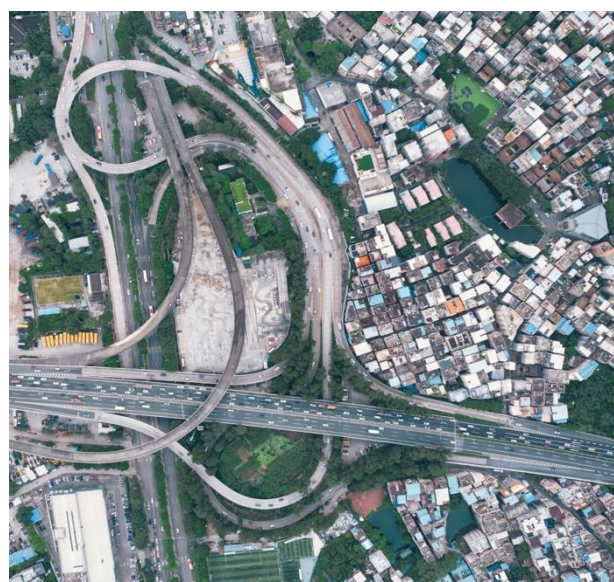
Reform Area # 2: Sustainable, Inclusive, & Conducive Business Environment

1. MSME Scheme (Banglashree + SAIP)
2. Vehicle Scrapping Policy
3. Renewable Energy Manufacturing Promotion Policy, and/or Green Hydrogen policy
4. Minor Minerals Mining Policy
5. State Action Plan on Climate change
6. Single window for streamlining approvals / Geo-tagging of Industrial land bank
7. EV Policy
8. Establishment of centers of Excellence for Green Hydrogen
9. Industry water use policy (including reuse of treated wastewater)
10. Centers of Excellence for Skills
11. Air quality improvement policy and plan

Reform Area # 3: Integrated Industrial and Urban Planning

1. Integrated industrial and urban planning policy to embed industrial node development in city master plans/zoning frameworks.
2. Clear policies for convergence of municipal infrastructure systems with industrial development.
3. Corridor-level coordination mechanism to facilitate cross-sectoral convergence
4. Urban & spatial analysis-based policy to address land-market mismatches & node viability.
5. Mandates for master planning and infrastructure coordination functions in urban-industrial co-planning.
6. Institutional strengthening programs for ULBs to support corridor development and replication of successful models (e.g., VCIC, Amaravati, etc.)

West Bengal Industrial and Economic Corridor SDP



Prioritize medium to high value-add, job-creating, and/or export-oriented manufacturing sectors with strong MSME integration potential for investment components.

Project component focused on:

(i) Industrial Infrastructure

- New and resilient state of art facilities to attract private investments
- Upgradation of old infrastructure with resilient, inclusive, and eco-friendly infrastructure
- Green and resilient (e.g. wastewater treatment plants, concrete roads, air quality monitoring)

(ii) Resilient multimodal logistics infrastructure (at logistic hubs) to facilitate international cargo movement and prepare the region for port-linked industrialization and export

- Truck terminals to reduce congestion in cities and trading gateways and organized parking
- Warehousing and
- ICT infrastructure

(iii) Last mile connectivity

- Connecting industries to nearest highways, and gateways for smoother movement of goods and seamless access to domestic and international markets
- Improve supply chain efficiency

(iv) Urban infrastructure and Services

- Water supply and sewerage facilities to industries
- Urban mobility infrastructure including public transport systems and non-motorized transport facilities for industrial zones
- Integration of housing and mobility with industrial planning for workforce accessibility

Thank you
Q&A