

Regional Development Department
Central Bank of Sri Lanka
No. 30, Janadhipathi Mawatha
Colombo 01
30.06.2020

To: All Participatory Financial Institutions

**Operating Instructions for Implementing a Credit Guarantee and Interest Subsidy
Scheme for Businesses affected by the COVID-19 Pandemic**

The Operating Instructions (OIs) No: RDD/CGIS/WCL/2020/01 dated 30.06.2020 is issued by the Director, Regional Development Department (RDD) of the Central Bank of Sri Lanka (CBSL) to all Participatory Financial Institutions (PFIs) to introduce and implement a Credit Guarantee and Interest Subsidy Scheme (herein after referred to as “the Scheme”), to accelerate lending by banks to businesses adversely affected by the COVID-19 pandemic.

1. Introduction

- 1.1 CBSL, having identified the national importance of reviving the businesses adversely affected by the COVID-19 pandemic, decided to implement the Scheme to accelerate lending by banks to affected businesses. This scheme will operate in parallel with the ‘Saubagya COVID-19 Renaissance Facility’ and the new Facility approved by the Monetary Board under Section 83 of the Monetary Law Act, within the already announced threshold of Rs. 150 billion.
- 1.2 PFIs are expected to use their own funds to grant loans to address working capital requirements of the affected businesses at a concessionary interest rate. Interest subsidy will be provided to PFIs to cover the cost of funds of PFIs and a credit guarantee as a risk sharing tool, against loans granted under the Scheme.
- 1.3 PFIs are eligible to claim interest subsidy and credit guarantee from the CBSL for the sub loans granted to the sub-borrowers under the Scheme
- 1.4 RDD of the CBSL has been vested with the authority to operate the Scheme as the implementing agency.

2. Funding

This Scheme will be funded by the CBSL and the Government.

3. Participatory Financial Institutions (PFIs)

Existing PFIs under the “Saubagya COVID-19 Renaissance Facility” will be considered as eligible PFIs for the Scheme.

4. General features of the Scheme

4.1 Eligible Businesses	<p>(i) Any business adversely affected by the COVID-19 outbreak, as stated in the Section 2 of the Monetary Board Circular No. 5 of 2020, will be eligible. Accordingly, eligible businesses are the businesses with an annual turnover below Rupees one billion (Rs. 1 bn.). However, Rupees one billion (Rs. 1 bn.) limit of annual turnover will not be applicable to any business engaged in tourism, exports and related logistical supplies.</p> <p>(ii) Two months working capital requirement will only be considered under this Scheme.</p>
4.2 Maximum Loan Limit	<p>Maximum of Rupees twenty-five million (Rs. 25 mn.) per sub-borrower or a business entity</p>
4.3 Interest Rate applicable to the sub-borrower	<p>(i) Four <i>per centum</i> per annum (4% p.a.)</p> <p>(ii) PFIs shall not, in any circumstance, grant any loan under the scheme to the sub-borrowers at a rate higher than four <i>per centum</i> per annum (4% p.a)</p>
4.4 Interest Subsidy	<p>CBSL provides five <i>per centum</i> per annum (5% p.a) for each sub-loan granted by PFIs</p>
4.5 Grace Period	<p>(i) Maximum of six (06) months depending on the nature of the business</p> <p>(ii) Sub-borrowers are required to service the interest during the grace period</p>
4.6 Repayment Period	<p>Maximum duration of loan repayment is twenty-four (24) months including the grace period</p>
4.7 Extent of Guarantee Cover	<p>Guarantee cover is based on the loan size as follows;</p> <p>80% - below Rs. 0.5 million</p> <p>70% - Rs. 0.5 million to Rs. 1 million</p> <p>60% - Rs. 1 million to Rs. 10 million</p> <p>50% - Rs. 10 million to 25 million</p>
4.8 Guarantee Premium	<p>Zero point five per cent (0.5%) of the total sub-loan amount</p>
4.9 Collateral	<p>PFIs are requested to grant loans considering the viability and the cash flows of the business rather than collateral.</p>

5. Registration of sub-borrowers

- 5.1 PFI shall place the date stamp on the loan application received from sub-borrower and assign to it a reference number. A formal acknowledgement shall be made to the sub-borrower on the same day.
- 5.2 PFI shall process the loan application within seven working days of the receipt of the application and inform the acceptability or otherwise of such application.
- 5.3 The Head Office of the PFI shall forward details of the sub-borrowers, eligible to obtain loans under the Scheme, by submitting duly completed Loan Registration List (**Annex I**) signed by the authorised officer of the PFI to the RDD. Soft copy of **Annex I** shall be sent to the email address issued by the RDD, along with hard copy.
- 5.4 PFIs shall ensure;
 - (a) the accuracy and compatibility of the information provided in **Annex I**;
 - (b) the eligibility of sub-borrowers under the Scheme is duly assessed; and
 - (c) that all relevant documents relating to such assessment are collected.
- 5.5 Upon receipt of **Annex I** from the PFI, the CBSL will verify the details contained therein and determine the eligibility of sub-borrowers and the loan amount to be disbursed. Accordingly, the CBSL will register the eligible sub-borrowers under the Scheme.
- 5.6 Upon registration of a sub-borrower, the CBSL will allocate a designated Registration Number for each sub-loan and notify such Registration Number to the Head Office of the respective PFI. This Registration Number, unique for each sub-borrower, shall be used for any correspondence with the CBSL with respect to such borrower.
- 5.7 If the CBSL observes any discrepancy and/or inaccuracy of information submitted in **Annex I**, the CBSL reserves the right to cancel the registration of the respective sub-borrower whose information is found to be inaccurate, without any prior notice to the PFI.
- 5.8 The CBSL reserves the right to refer back the registration application to the PFI, in the event any further information or clarification is required by the CBSL, for the purpose of registering such application.
- 5.9 PFIs shall keep all supporting documents and records, in the event any further inspection or clarification is required under Section 5.5 above.
- 5.10 The deadline for submission of Loan Registration Lists as per **Annex I** to the RDD shall be 31.08.2020.

6. Release of sub-loans

- 6.1 Upon receipt of Registration Numbers from the CBSL, PFI shall release sub-loans to the registered eligible sub-borrowers as given in **Annex I**, within 7 working days from the date of such receipt.

6.2 If any PFI is unable to disburse sub-loans registered with the CBSL within the period as given in Section 6.1 above, PFI shall immediately inform CBSL of such facts with valid reason/s within 7 working days. The CBSL may consider the reasons given by the PFI and take appropriate decisions/actions.

6.3 Any failure of PFI to disburse sub-loans or to provide valid reasons to the CBSL within 30 calendar days of such registration, may cause cancellation of the registration of sub-borrowers by the CBSL, without any prior notice to the PFI.

7. Payment of Interest Subsidy

7.1 The CBSL will provide an interest subsidy of five per centum per annum (5% p.a.) for sub-loans granted by PFIs under the Scheme, subject to the terms and conditions stipulated in this OIs.

7.2 In order to be qualified for the interest subsidy under the Scheme, PFIs are required to provide loans to the eligible sub-borrowers at the rate of interest specified in Section 4.3 above at all times, whilst complying with Section 4.8 of this IOs.

7.3 PFI shall not be eligible to receive interest subsidy or credit guarantee by the CBSL for any sub-loan granted under the Scheme, if not complied with any condition stipulated herein.

7.4 The interest subsidy provided by the CBSL shall be subject to the following conditions;

7.4.1 PFIs shall release sub-loans registered by the CBSL subject to Section 6.1 above and duly completed **Annex II** shall be forwarded to the CBSL with the guarantee premium of zero point five per cent (0.5%) for each sub-loan, within 30 calendar days from the date of the loan released.

7.4.2 PFI shall submit the duly completed **Annex III** to the CBSL semi-annually, through the Head Office, adhering to the deadline/s given in Section 7.4.4 of this OIs. Both soft and hard copies of such applications shall be submitted to the CBSL.

7.4.3 Interest subsidy will be provided semi-annually, calculated on a monthly basis using the Reducing Balance Method and Actual/ 365-day count basis. Payment of interest subsidy relating to each sub-borrower is based on the capital outstanding calculated using the repayment schedule by the CBSL.

7.4.4 Duly completed **Annex III** hereto shall be submitted to the CBSL on or before the 15th day of the month of July and January in each year for consideration of releasing interest subsidy under the Scheme.

7.4.5 Hard copy of **Annex III** shall be forwarded to the “Director, Regional Development Department, Central Bank of Sri Lanka, No. 30, Janadhipathi Mawatha, Colombo 01” and a soft copy of the same shall be sent to the e-mail address provided by the CBSL.

7.4.6 The CBSL releases the interest subsidy, in terms of Section 4.4 of this OIs, to the PFI within thirty calendar (30) days after receiving duly completed **Annex III** above.

- 7.4.7 The CBSL reserves the right to suspend the interest subsidy application of any PFI, in the event that further clarifications are required to be made available. Further, the CBSL has the authority to reject any interest subsidy application which is not in compliance with this OIs.
- 7.4.8 The CBSL reserves the right to adjust over/under payment, if any, from the impending interest subsidy payments.
- 7.4.9 The interest subsidy will only be provided for a maximum period of twenty-four (24) months for each sub-loan.
- 7.4.10 In the event if the PFI claims credit guarantee relating to a sub-borrower within the twenty four (24) months repayment period, the payment of interest subsidy will be paid only up to the date of guarantee claim.

8. Credit Guarantee

8.1 Guarantee Cover

- (a) The Guarantee cover becomes effective from the date of the Guarantee premium paid by the PFI to the CBSL.
- (b) The Guarantee cover will cease to be operative if, in the opinion of the CBSL, the PFI has failed to exercise due care and prudence or has been negligent in the disbursement of the loan, and/or has been monitoring the account without any effective recovery process/actions.

8.2 Payment of Guarantee Premium

- (a) The premium payable to the CBSL shall be calculated at the rate of zero-point five percent (0.5%) from the value of the sub-loan amount released to any eligible sub-borrower under the Scheme.
- (b) Failure of servicing the guarantee premium to the CBSL shall be a reason for disqualifying a PFI to claim the guarantee cover.
- (c) The credit guarantee will cease to be operative at the end of the repayment period of twenty-four (24) months, unless extended.
- (d) The premium statement (**Annex II**) shall be sent to the “Director, Regional Development Department, Central Bank of Sri Lanka, No.30, Janadhipathi Mawatha, Colombo 01”, together with the premium due thereon.
- (e) Payment of premium shall be made by way of a cheque written in favor of the “Director, Regional Development Department of the Central Bank of Sri Lanka” or through the RTGS, to the credit of **RDD Bank Account No. 2-54518**.
- (f) The cost of premium for the Credit Guarantee shall be borne by the PFI and shall not be passed on to the sub-borrower.

9. Obligations of PFIs

- 9.1 PFIs shall take all reasonable steps to assess the ability of revival of the affected business before registering/granting the loan.
- 9.2 PFIs shall, at all times, exercise due care and prudence in disbursing the loan to the sub-borrower and ensure that the loan is utilized for the purpose it has been granted.

- 9.3 PFIs shall also supervise the status and operations of the account of sub-borrowers and take prompt actions where necessary, to minimize any losses to the PFI.
- 9.4 PFIs shall take necessary and adequate measures to recover the loans granted under the Scheme.
- 9.5 PFIs shall pay premium to the CBSL in terms of Section 8.2 of this OIs.
- 9.6 PFIs shall keep records and furnish data and information requested by the CBSL on a weekly basis, using the templates given by the CBSL or otherwise.
- 9.7 PFI is not permitted to write off any sub-loan granted under the Scheme without prior written approval of the CBSL.

10. Obligations of the CBSL

- 10.1 The CBSL issues the OIs of the Scheme to PFIs and make amendments as and when necessary.
- 10.2 The CBSL makes interest subsidy payments semi-annually to PFIs.
- 10.3 The CBSL issues guarantee covers to each PFI with regard to the eligible sub-borrowers provided that the PFI has paid guarantee premium in terms of the Section 8.2 of this OIs.
- 10.4 The CBSL monitors/evaluates the progress of the Scheme and implements policy actions as and when necessary.
- 10.5 Th CBSL reserves the right to revoke any credit guarantee issued to a PFI, if such PFI has failed or violated or been negligent to comply with any requirement, or terms and conditions of the Scheme or when imprudent practices are revealed.

11. Reporting Default Loans

- 11.1 If any sub-loan or an installment thereof is not repaid by the sub-borrower on due date, PFI shall take prompt and effective action to recover such loans or arrears from the sub-borrower/s in a timely manner.
- 11.2 When loans granted under the Scheme are classified as non-performing loans (NPL) in accordance with “Banking Act Directions No.03 and 04 of 2008 on Classification of Loans, Income Recognition and Provisioning”, the PFI shall submit a report to the CBSL giving the status of each sub borrower. The report shall include the following information.
 - 11.2.1 An assessment of problem/s faced by the sub-borrower;
 - 11.2.2 An assessment of the sub-borrower’s capacity to repay the loan;
 - 11.2.3 Steps taken by the PFI to recover the loan and future steps contemplated;
 - 11.2.4 The opinion of the PFI with regards to status of recovery / rehabilitation; and
 - 11.2.5 Such other information as may be required by the CBSL.

12. Claim Procedure

- 12.1 Where any amount of sub-loan is in default and/or the sub-borrower is unable to comply with requirements of Section 11 of this OIs, the PFI shall send a Demand Notice

to the sub-borrower within 30 calendar days from the date of transferring the respective loan to the NPL category.

- 12.2 Subsequently, the PFI shall submit a claim to the RDD, after expiry of one month, but not later than two months from the date of which the Demand Notice is served to the sub-borrower.
- 12.3 Certified copies of the Demand Notice issued to the sub-borrower and evidence of the undertaking to initiate legal action shall accompany when sending the claim application (**Annex IV**).
- 12.4 The CBSL settles the applicable guaranteed amount in two (02) installments subject to Section 12.5 and 12.8 of this OIs.
- 12.5 Upon receipt of **Annex IV**, the CBSL pays the first installment i.e. fifty percent (50%) of the guaranteed amount based on the outstanding amount of the sub-loan.
- 12.6 PFIs shall implement recovery actions against all defaulted sub-borrowers. PFIs shall refer the defaulted sub-loans below Rs. 500,000 to the Mediation Board and shall take necessary legal actions against defaulted sub-loans above Rs. 500,000.
- 12.7 The CBSL reserves the right to demand the amount already paid, if the CBSL found that the PFI has failed or been negligent in the exercise of necessary supervision and actions as required under this OIs.
- 12.8 After the payment of first installment, the CBSL pays the final installment, once the PFI furnishes the duly completed **Annex V** to the CBSL with the case numbers arising from legal/recovery action, within six (06) months from the payment of first installment mentioned in Section 12.5 above.

13. Recovery Action

- 13.1 PFIs shall have a proper internal control mechanism in place to monitor the recovery of sub-loans under the Scheme, notwithstanding the availability of the credit guarantee.
- 13.2 PFIs shall endeavor to take immediate and effective action to recover any overdue amount and to keep the CBSL informed of the actions taken and progress of the business as and when advised.
- 13.3 PFIs shall take any action that may be suggested by the CBSL for the purpose of effecting recovery action against defaulted sub-borrowers. PFIs shall not discontinue the recovery action that has already been taken against such sub-borrowers, even after obtaining the credit guarantee under the Scheme.

14. Post Claim Recoveries

- 14.1 The recoveries, if any, made by PFIs from the sub-borrowers after obtaining the credit guarantee, shall be shared between the CBSL and the PFI in the proportion of 80:20, 70:30, 60:40 and 50:50, as appropriate. For this purpose, the prescribed format is

given in **Annex VI**. Duly completed **Annex VI** shall be submitted by PFIs to the CBSL semi-annually within 30 calendar days from 30th June and 31st December each year.

- 14.2 PFIs shall maintain a register indicating the total guarantee amount received from the CBSL and the recoveries etc., and the register must be made available to any officer authorized by the CBSL.
- 14.3 Legal expenses incurred on recovery of defaulted sub-loans shall have the first charge on the amount recovered from the sub-borrowers and the balance amount shall be shared with the CBSL at the rate specified in Section 14.1 above.

15. Inspection

- 15.1 As may be necessary for the purpose of the Scheme, the CBSL has the right to inspect books of accounts and other records of PFIs pertaining to any loan guaranteed under the Scheme.
- 15.2 PFIs shall make it a condition of each sub-loan that the sub-borrower shall submit to the CBSL such documents, books of accounts as may be requested in relation to the activity financed under the Scheme and permit the officers authorized by the CBSL to inspect the business, as and when necessary.
- 15.3 The CBSL reserves the right to revoke the guarantee cover and/or any payment made in settlement of claims if it is found that the PFI has violated the terms and conditions of the Scheme.

16. Furnishing of Returns and Information

The PFI shall submit such returns and furnish such information relating to any loan guaranteed under the Scheme to the CBSL as requested.

17. Modification and Supplementary Provisions

- 17.1 The CBSL reserves the right to modify or withdraw the Scheme without affecting the rights or obligations arising out of any guarantee issued under the Scheme.
- 17.2 In respect of any matter not specifically provided in the Scheme, the CBSL makes such supplementary or additional provisions as may be necessary for the purpose of the Scheme.

The Scheme will be effective from the date of *01 July 2020*

Sgd. M S K Dharmawardane
Director of Regional Development
Central Bank of Sri Lanka