
27th ATP 2017 in Kuala Lumpur, Malaysia

Credit Supplementation Institutions: Going beyond Guarantee for SMEs

Regional Development Department



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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

About Sri Lanka



Commercial Capital: Colombo

Capital: Sri Jayawardhanapura

Land Area: 65,610 km²

Currency: Rupees

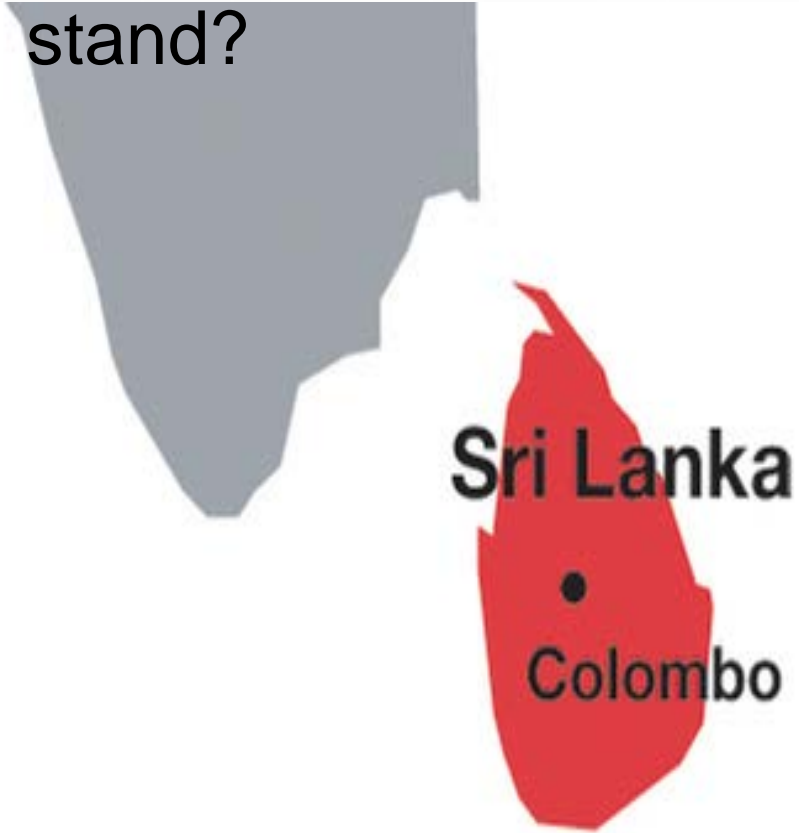
Population: (Mid year)(‘000)-2016
21,203

Languages: Sinhala, Tamil, English

Religions: Buddhist - 70.1%
Hindu - 12.6%
Islam - 9.7%



Sri Lanka, where do we stand?

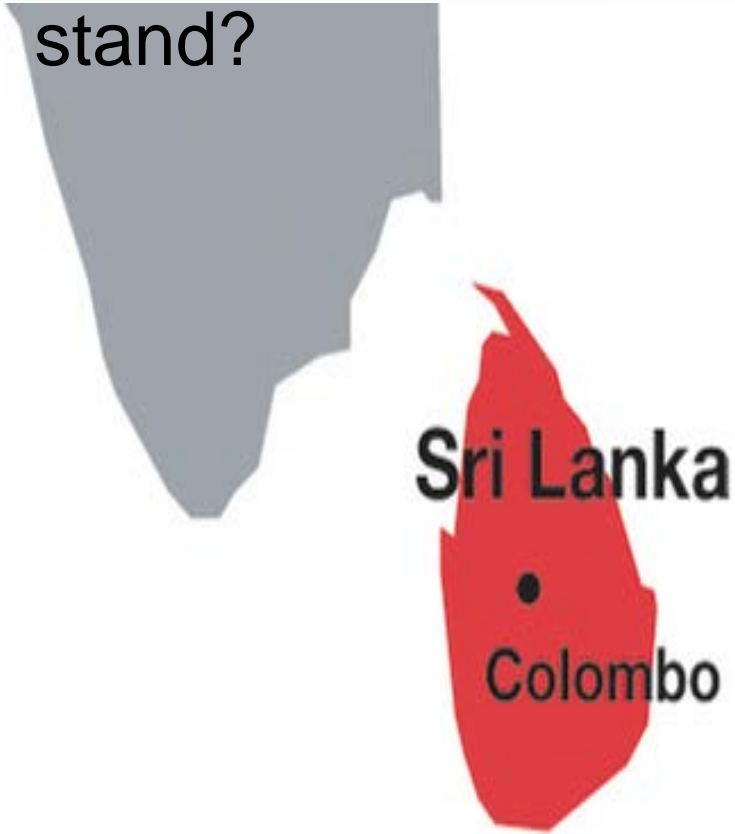


Key Economic Indicators

	2016	2015
GDP Growth Rate	4.4	4.8
GDP Per Capita	3,835\$	3,843\$
Annual Inflation	4%	2.2%
Unemployment Rate	4.4%	4.7%
Debt to GDP Ration	57.3%	55.7%
Budget Deficit	-5.4%	7.6%
Official Reserves	3.7%	4.6%



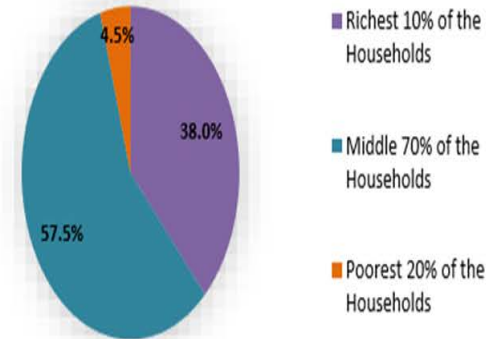
Sri Lanka, where do we stand?



Key Socio-Economic Indicators

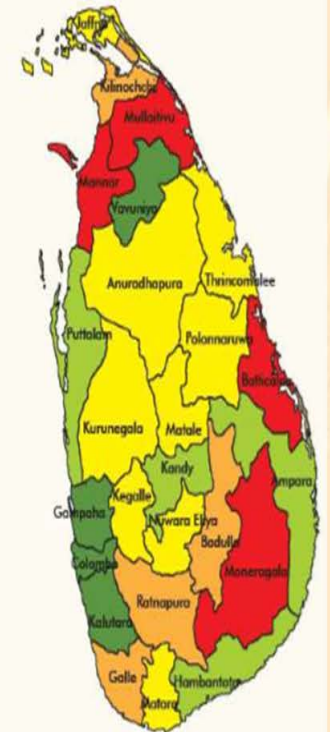
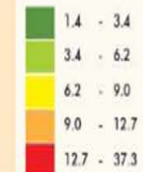
- It is needed to implement policies that will reach the extreme poor, especially in peripheral districts.
- As there is a legitimate right for the poor to have access to the socioeconomic infrastructure of the country, the government has the responsibility of addressing the issues on a systematic basis.

Income Inequality - Share of Income

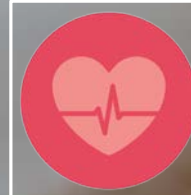


Spatial Distribution of Poverty in Sri Lanka - 2012/13

Poverty Head Count Ratio



Sri Lanka, where do we stand?



Expectation of life
at Birth (2016) -
76.8

Human
Development Index
(2015) - 0.766



Rank among 188
countries – 73
• Literacy Rate
(2015)

Male 94.10%



Female 92.40%



The Role of the Central Bank of Sri Lanka

Objectives of the Central Bank

Maintain economic and price stability

Maintain financial system stability

Key business areas of the Central bank of Sri Lanka Core Function

Economic and price stability

Financial system stability

Ancillary to core

Currency issue and management

Agency Function

Employees provident fund management

Foreign exchange management

Public debt management

Regional Development



Regional Development Department

One of the agency functions of the CBSL is the promotion of regional development initiatives through coordination among all stakeholders, namely, the Government of Sri Lanka (GOSL), financial institutions, foreign donors, other lending agencies and beneficiaries with a view to improving economic conditions of low income groups and reducing poverty.

To achieve this purpose ,
CBSL has implemented
followings,

- Regional development Lending programmes
- Credit Guarantee Schemes*



SME sector contribution to the Sri Lankan Economy?



The contribution of SMEs to the country's Gross Domestic Production (GDP) and employment generation is quite significant. It has been estimated that Small and Medium Enterprises (SMEs) accounts for more than 75 per cent of the total number of enterprises in Sri Lanka.



The contribution of SMEs' to the total GDP of the country recorded 52 per cent by end 2014.



Furthermore, it accounts for 45 per cent of the employment in agricultural, industrial and services sectors.




20 per cent of exports in the country

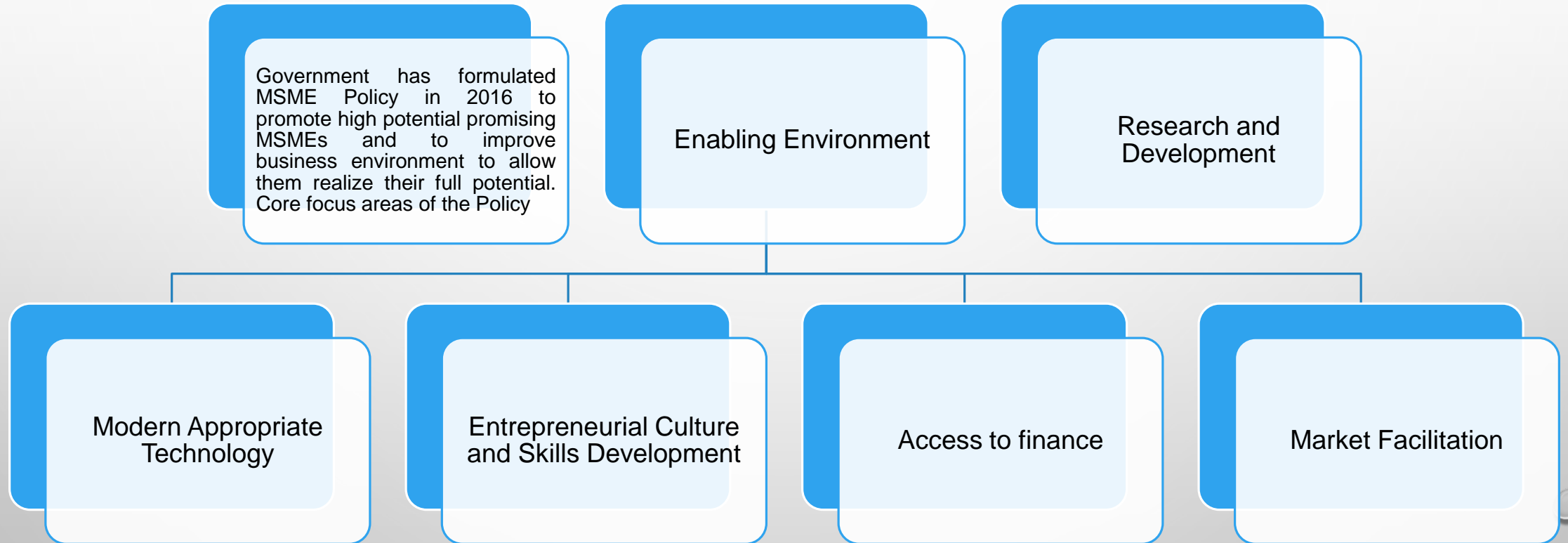


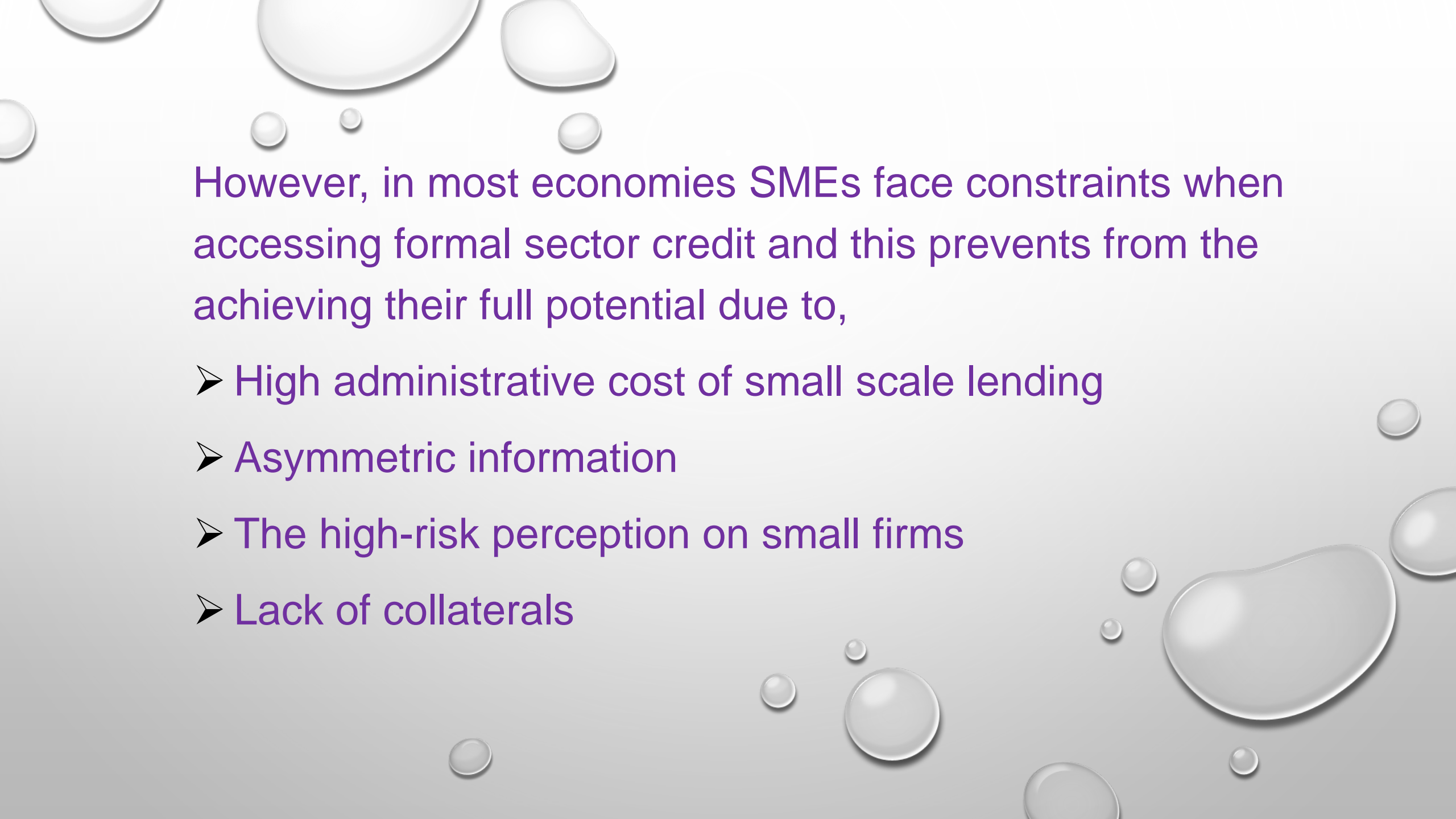
30 per cent of Value added manufacturing activities

Challenges for SMEs

- 
- **Finance**
 - **Access to information and markets**
 - **Linkage formation**
 - **Legal & Regulatory framework**
 - **Entrepreneurship skills**
 - **Technology**
 - **Business development services**
 - **Infrastructure**
 - **Industrial relations and labour**
 - **Environmental issues**

MSME National Policy Framework





However, in most economies SMEs face constraints when accessing formal sector credit and this prevents from the achieving their full potential due to,

- High administrative cost of small scale lending
- Asymmetric information
- The high-risk perception on small firms
- Lack of collaterals

Why CGS in Sri Lanka.....

Get loan
without collateral
security
under
Credit
Guarantee
Scheme (CGS)

**Address
Collateral
Based
Issue**

**Minimize
the default
risk
effected to
PFIs**

**Protect
SME
Sector**



Main objectives of the CGS in Sri Lanka

Grant loans for small and medium enterprises, agriculture sector, plantation sector and banking sector with the objectives of:

Increase credit to abovementioned sectors to promote Small and Medium Scale Enterprises (SMEs)

Encouraging Commercial Banks to take their lending decision more on the viability and debt servicing capacity of the project to be financed rather than concentrating their decision purely on the availability of security or collateral

Encourage banks to use project oriented approach in appraising the projects, as well as the credit and capital needs of the project, in fulfilling the genuine credit needs of SMEs and other projects and follow-up of the project performance and help the borrowers who experience difficulties

Reduce risk exposure of the credit institutions in lending to SMEs and other sectors by bearing a part of their risk



Sri Lankan History

Sri Lanka has not any separate Credit Guarantee Organization



To fill this vacuum, CBSL provides Credit Guarantee for Banks to encourage them to lend on income generating activities



CBSL has been the implementing body of various credit guarantees in Sri Lanka since 1967. For this purpose, Regional Development Department (RDD) of Central Bank of Sri Lanka (CBSL) act as an agent of Government of Sri Lanka (GOSL).



A development role was envisaged for the CBSL by MLA

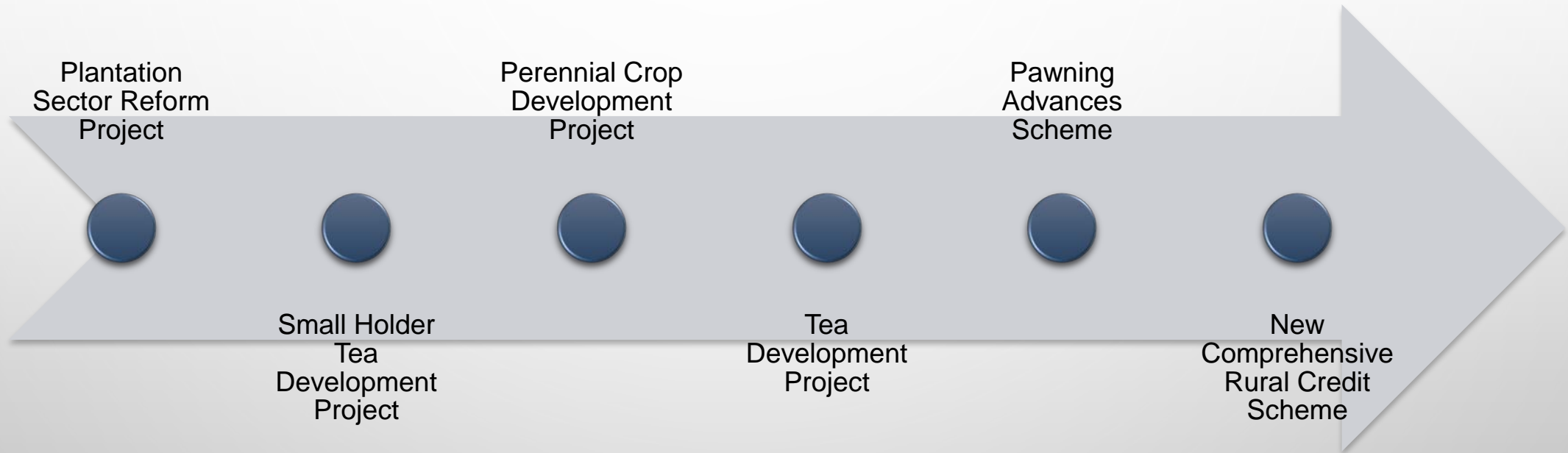


SRI LANKA EXPORT CREDIT INSURANCE CORPORATION (SLECIC)

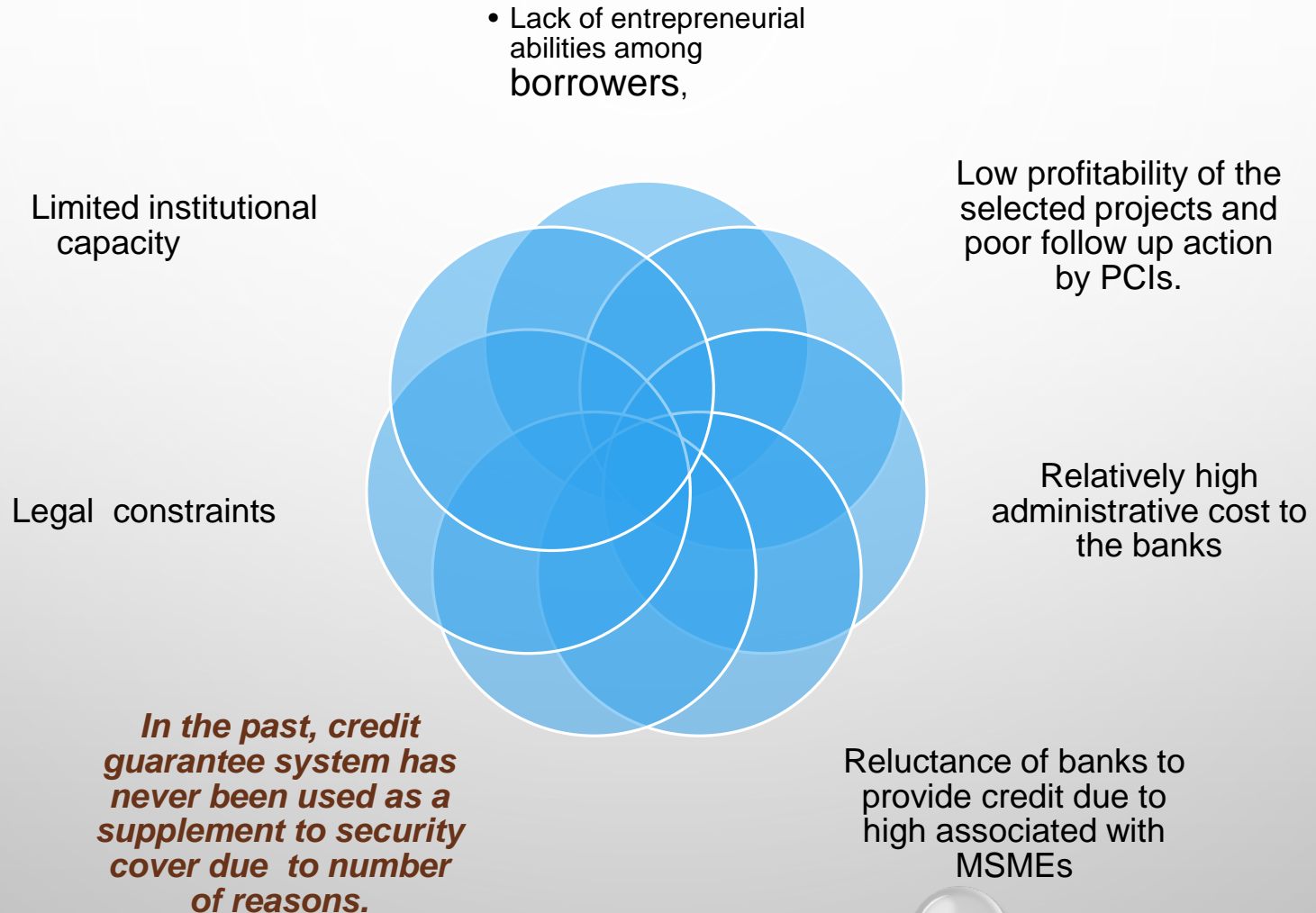


- SLECIC is committed to provide attractive and innovative Export Credit Insurance and Guarantee support services for the development of exports of Sri Lanka.
- Credit Insurance (Seller's Risk)
- Credit Guarantee
- Buyer Information

On going Projects with CG



Credit Guarantee Schemes: ISSUES

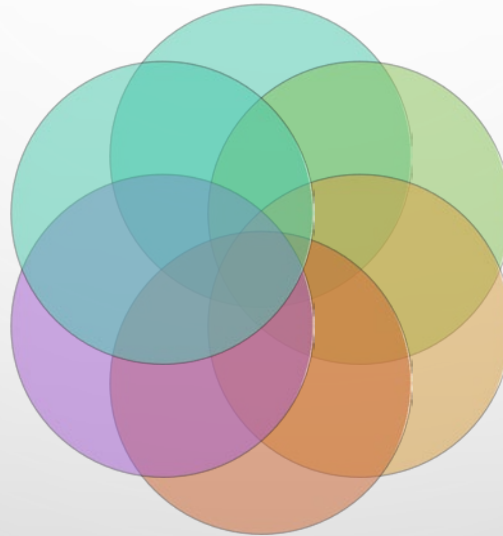


Credit Guarantee Schemes: ISSUES

Frequent rejection of claim payments in terms of Operating Instructions due to:

Practices followed by Banks in the credit operations especially on project evaluations and acceptance of securities not being prudent.

Abnormal delay in serving the Demand Notice once the loan goes into arrears:



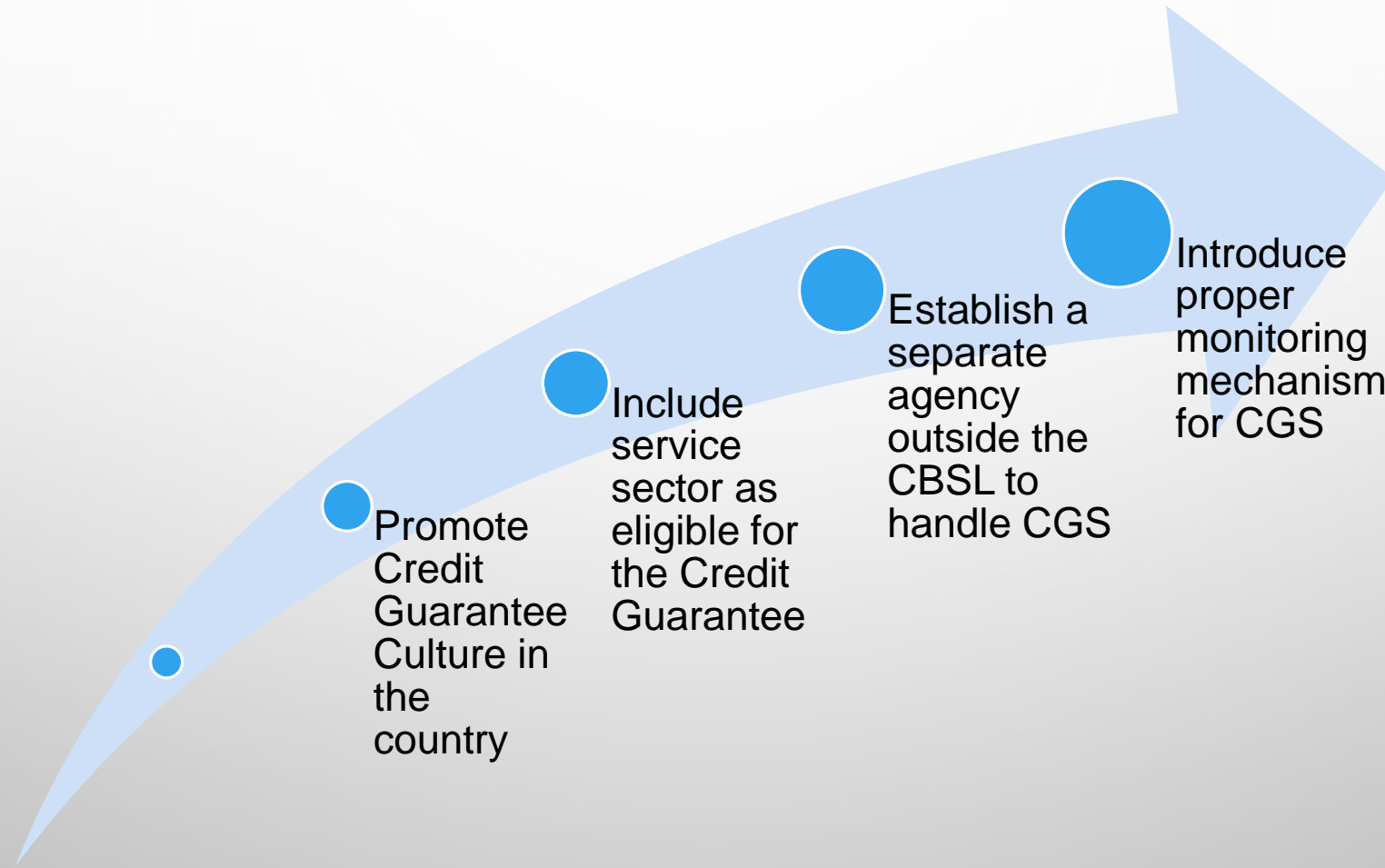
Non-submission of claims by Banks in time i.e. within six months from the date of Demand Notice

Poor monitoring of projects by PFIs after the loan has been defaulted especially in the case of small loans

Lack of evidence with regard to follow up actions i.e. reports on inspections undertaken



Way Forward to a Proper Mechanism....



National Credit Guarantee Institute in Sri Lanka

Budget 2017 proposed new legal entity for implementation for CG

National Credit Guarantee Institute (NCGI) - Why



Going Beyond Guarantee for SMEs

- Conduct Entrepreneurship Development Programme
 - Financial Management
 - Human Resources Management
 - Marketing Management
 - Production Management
- **Capacity Building/Skill Development Programme**
- **Introducing Modern Practices and Technologies for SME s**
- **SME Monitoring Center**
- **Marketing Arrangements (SME Trading Center/Market Development**
- **Promote Bank's lending to SMEs**

NCGI – Proposed for Sri Lanka

Technical assistance to develop a suitable mechanism will be provided by Asian Development Bank (ADB)

It has been proposed to establish the NCGI as a limited public company under the company act in Sri Lanka at the last quarter of 2017 with the contribution of private sector, where the government is the major shareholder



Expected Outcomes by setting up New Institute

Proper monitoring platform as centralized system

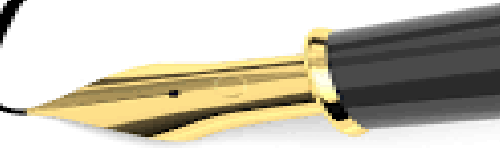
Reducing administration cost

Absorb credit risk of financial institutions & encourage them to lend to high risk business

Proper legal procedure to recover the defaulted loans



*Thank
you*



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