

National Credit Guarantee Institution (NCGI)

Background

On April 27, 2021, the Cabinet of Ministers approved Cabinet Paper No. 21/0662/304/054 dated April 4, 2021, to establish NCGI with the objective of supporting the small and medium enterprise (SME) sector in the country by assisting SMEs in overcoming obstacles such as an inability to adapt to rapidly changing market demands, changing technology, and limitations in capacity due to a low level of financial inclusion, limited access to finance, and esoteric regulations. In the 2017 budget speech, it was proposed to obtain USD 100 million from the Asian Development Bank (ADB) as the government's contribution to establish the initial secure fund of the guarantee institution.

Accordingly, the National Credit Guarantee Institution (NCGI) has been incorporated as a public limited company under the registration number P B 00271461 and the initial Board of Directors (BoD) members have been appointed to represent the Government of Sri Lanka. The operationalization mechanisms of NCGI, which include the development of operation manuals, integrated credit, and market risk manuals, the establishment of the organizational structure, and the recruitment and training of staff, are currently being processed, and the organization has hired consultants to assist with the operationalization process.

Selected Participating Financial Institutions (PFIs)

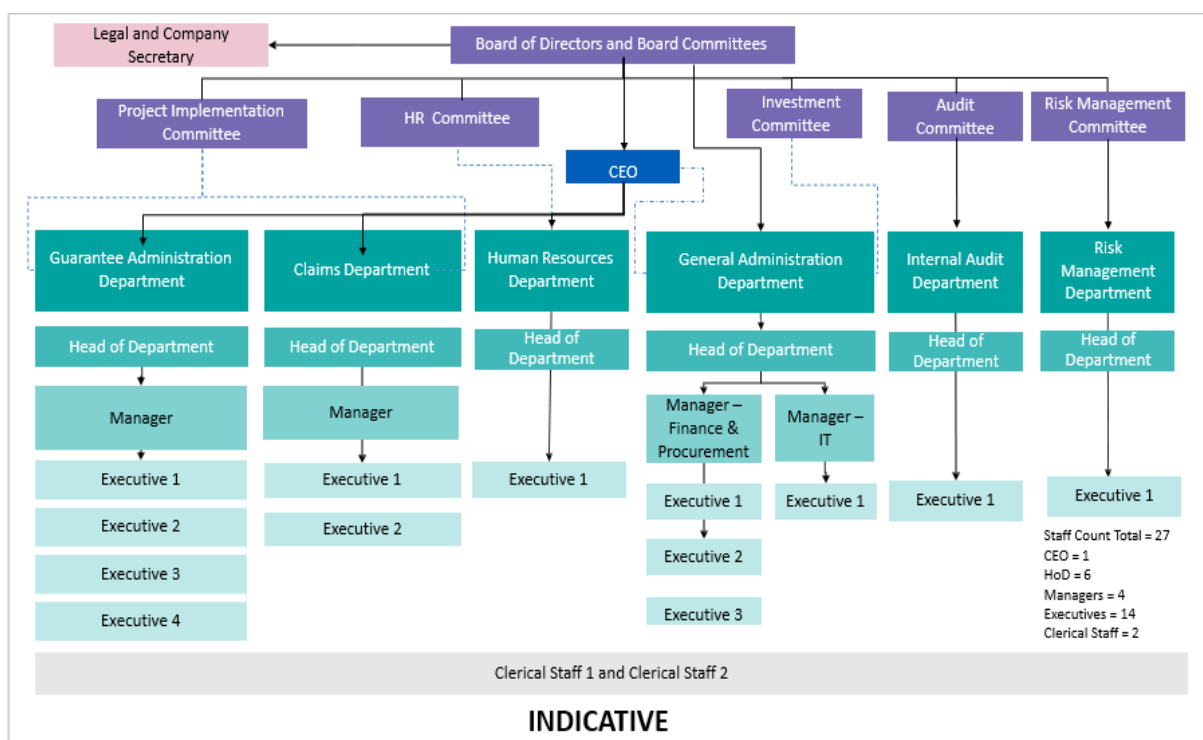
- **Licensed Banks (LBs)**
 - Bank of Ceylon
 - Peoples' Bank
 - Hatton National Bank
 - Sampath Bank PLC
 - Commercial Bank of Ceylon PLC
 - Seylan Bank PLC
 - National Development Bank PLC
 - Nations Trust Bank PLC
 - Sanasa Development Bank PLC
 - Regional Development Bank

- **Non-Bank Financial Institutions (NBFIs)**
 - LB Finance PLC
 - Citizens Development Business and Finance PLC
 - Central Finance Co. PLC

Main Features of the NCGI

Feature	Option
Legal Entity	Public Limited Company
Ownership	90 (Gov.) : 10 (PFIs)
Expected Contribution (Gov. and PFI)	Government: USD 100mn PFIs: USD 11mn
Expected Contribution (LBs and NBFIs)	LBs: USD 10mn NBFIs: 0.75mn
Corporate Governance	9 Board Members – 4 nominated by the Government (1 will be chairperson, 1 from CBSL), 2 nominated by PFIs and 3 are independent
Revenue Model	Investment Income + Guarantee Fee Income + Government Subsidy
Appraisal	Individual basis
Guarantee Coverage	Up to 2/3 of the Loan (67%); Pari-passu basis
Maximum Guarantee Limit	Maximum Five (5) times of the total investment
Sustainability	Listing the NCGI in the share market and make it open for private investors

Proposed Organization Structure



Benefits to SMEs

The partial loan guarantee is one of the game-changing financial assistance options for MSMEs. It enhances existing collateral, reduces the risk for financial institutions, and enables MSMEs to gain access to critically demanded credit. This will mitigate the difficulty they typically face in obtaining new loans due to their inability to meet the banks' collateral requirements, as banks prefer collateral-based lending to cash-flow-based lending.

The proposed pricing is based solely on the risk of the business, with fees ranging from 1% to 2% depending on the nature of the enterprise and the borrower's risk profile.

The guarantee application should be submitted through PFIs, and if the PFI approves the loan, the MSME's proposal should be deemed viable. The NCGI will ultimately decide whether or not to provide a guarantee. The NCGI will guarantee the loans as long as the loans are viable and meet the eligibility requirements.

It is expected that guarantee issuance will commence in the second quarter of 2024.