RESERVE BANK OF FIJI

MICRO, SMALL AND MEDIUM ENTERPRISE CREDIT GUARANTEE SCHEME GUIDELINES

(For the use of Commercial Banks, Licensed Credit Institutions and the Fiji Development Bank)

May 2020

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1. INTRODUCTION

In an effort to promote and develop the local business industry and stimulate growth in the economy, the Fiji Government has allocated funds for the establishment of a micro, small and medium sized enterprise (MSME) Credit Guarantee Scheme to encourage private sector lending to MSMEs. The MSME scheme, which was set up in 2012 and recently expanded to include micro enterprises, has a total allocation of $9.0 million and is administered by Reserve Bank of Fiji.[1]

Under the Scheme, Government will guarantee 60 percent of the principal outstanding on defaulted MSME loans up to a limit of $60,000 per business. In particular, to encourage women participation in business and support the development of rural areas and traditional sectors, Government will guarantee 75 percent of the principal outstanding on defaulted loans up to a limit of $75,000 per business on all MSME loans to women entrepreneurs as well as to those involved in the agriculture, forestry and fisheries sectors.

The MSME Credit Guarantee Scheme covers lending to all sectors except for loans to Sugar Cane farmers and Government-subsidised businesses. The Scheme is expected to improve MSMEs access to finance by alleviating high collateral requirement and at the same time enable lending institutions to share part of the risk with Government. The Scheme is accessible through the commercial banks, licensed credit institutions (LCIs)[2] and the Fiji Development Bank (FDB). Claims will be allocated on a first-in basis.

This Scheme is available for use immediately for all new loans granted from 01 June 2020.

2. DEFINITIONS

The following is defined for the purpose of these guidelines only:[3]

- A "**micro enterprise**" means any enterprise that has a turnover or total assets of less than $50,000.
- A "**small enterprise**" means any enterprise that has a turnover or total assets between $50,000 and $300,000.
- A "**medium enterprise**" means any enterprise that has a turnover or total assets of above $300,000 up to a maximum of $1.25 million.

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[1] The Government established the scheme in 2012 with a $2.5 million allocation and this was subsequently raised to $4.0 million in 2013. Under the Covid-19 Response Budget in March 2020, the Government allocated an additional $5.0 million to a total of $9.0 million.

[2] LCIs include Credit Corporation Fiji Limited, Merchant Finance Limited, BSP Finance (Fiji) Limited and Kontiki Finance Limited.

[3] The definition for MSMEs has been revised in line with the Ministry of Commerce, Trade, Tourism and Transport definition.

- An "enterprise" means any going concern that trades in goods or services for profit.
- "Total assets" means any assets that belong to an enterprise.
- "Turnover" means annual sales of goods and services.

3. ELIGIBILITY

Effective from 01 June 2020, all new **micro**, **small** and **medium** enterprise loan facilities approved by commercial banks, LCIs and the FDB will be covered by the Scheme, except for the following:

- Loans with interest rates above 9.49 percent;
- Businesses in the sugar industry; and
- Businesses that already enjoy some form of Government subsidy.

The Scheme does not cover lending that is not directly related to MSME operations such as property investment.

Clarification on the above may be sought from the Domestic Markets Unit, Financial Markets Group of the Reserve Bank.

4. GUARANTEE COVER

Loss claims under the Scheme will be assessed under the following categories:

- For MSME loans to women entrepreneurship, agriculture, forestry and fisheries sectors, the Scheme will cover 75 percent of the defaulted principal outstanding amount up to a maximum of $75,000 per individual business
- For other MSME loans not included in the category above, the Scheme will cover 60 percent of the defaulted principal outstanding amount up to a maximum of $60,000 per individual business

The MSME Credit Guarantee Scheme guarantee cover is for new MSME loans approved from 01 June 2020 and is limited to the principal amount only. All other MSME loans registered under the scheme before 01 June 2020 will be covered under previous guarantee cover of 50 percent of the defaulted principal outstanding amount up to a maximum of $50,000 per individual business. Interest and other dues are not covered under the Scheme.

5. INTEREST RATES

To be eligible for a claim, interest rates on MSME loans should not exceed 9.49 percent per annum.

6. FEES AND CHARGES

The Reserve Bank will not levy any fees or charges for accessing funds under the Scheme. However, lending institutions are permitted to charge their respective advertised commercial fees.

7. REPORTING REQUIREMENTS

To be eligible to access funds under the Scheme, all commercial banks, LCIs and the FDB are required to submit monthly reports to the Reserve Bank with details of the following:

[i] Detailed list of all new and renewed MSME loans including the borrowers name, amount and interest rate;

[ii] List of all MSME loans that are past-due (i.e. failure to repay interest and/or principal for 90 days or more); and

[iii] List of all outstanding MSME loans covered under the Scheme at month-end.

Reports must be submitted via email to domesticmarkets@rbf.gov.fj by the tenth working day of the next month.

8. APPLICATION FOR CLAIM ON GUARANTEE

To apply for a claim, the lending institution must provide evidence that:

- The loan has been in arrears for at least 120 days;
- All reasonable steps have been taken to recover the debt.

Written applications with information listed below should be emailed to the Reserve Bank:

1. Details of the loan for which guarantee cover is being sought;
2. Background and nature of business;
3. Summary of assessment of loan at the beginning of the lending relationship;
4. Transaction History Statements;
5. Documentary evidence of attempts to recover loans; and
6. Confirmation that the loan has been booked as bad debts and/or non-performing loan.

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All claims submitted are to be addressed to:

The Chief Manager Financial Markets Group
Attention: Manager Domestic Markets
Reserve Bank of Fiji
Private Mail Bag
Suva

Email: domesticmarkets@rbf.gov.fj

9. PROCESSING OF CLAIMS

All claims will be processed and responded to within 5 working days from the date of receipt of application. The assessment criteria used is the same for all lending institutions.

10. CLAIM DISBURSEMENT

Upon approval, the RBF will credit the commercial bank exchange settlement account, LCI advance account or FDB call account with the full amount of the approved claim.

11. LOAN RECOVERY AFTER SUBROGATION

Following the payout of an approved claim from the RBF, lending institutions may recover from the customer, only the remainder of the total loan principal amount and interest dues covered by the Scheme.

Any recovery of funds in excess of this amount must be refunded to the RBF.

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