

## **What you need to know about the SME Guarantee Scheme**

By **CBSI Media**

A lot of people have asked questions and are keen to understand what the SME Credit Guarantee Scheme is all about.

Before jumping in to any of those information let's look at how this scheme first came about.

In 2015 the Democratic for Change Government (DCG) initiated a guarantee scheme to improve and support credits and assist small startup business.

The Central Bank of Solomon Islands (CBSI) in partnership with the Ministry of Commerce and Industrial Labor and Immigration (MCILI) and the Ministry of Finance and Treasury (MFOT) took up the initiative and finalized and implemented what was called the Micro Small and Medium Enterprise (MSME) Guarantee Scheme.

The three partners then sets out the objectives and governing policies for the SME scheme through partnership with the Commercial Banks.

In 2016 to 2017, it was noted that there was a very low uptake of approved Small Medium Enterprise (SME) loans from the commercial banks. So in 2018 the MSME working group with the assistance of Strongim Bisnis, engaged a TA to revise the scheme and make recommendations to areas that needs adjustment.

Significant changes were made following the revision. A rebranding of the schemes name was one. From Micro Small Business and Medium Enterprise (MSME) to Small Medium Enterprise (SME) Credit Guarantee Scheme.

### **So What is SME Credit Guarantee Scheme?**

The SME Credit Guarantee Scheme was created to support Small Medium Enterprises (SME) in cases when they have a collateral or a short fall when applying for a business loan from a certain group of Credit Providers and Financial Institution.

In this case the credit providers and financial institutions (PFI) who signed an agreement to be participants of the scheme are, Bank of South Pacific (BSP) Pan Oceanic Bank (POB) Australia NewZealand Bank (ANZ) and Credit Corporation (S.Is) Limited.

**Who administers the scheme?** The scheme is administered by CBSI with special funds established at CBSI. CBSI is also responsible to provide progressive reports on the scheme.

### **How the scheme does supports SME's**

Under the scheme of arrangement, the guarantee scheme can guaranteed 90 percent of the total shortfall or unsecured portion of the loan provided the PFI has approved the application.

The scheme support SMEs through the guarantee of 90 percent of collateral shortfall with their business loan application with the credit providers.

Here's how it works. If an SME submits a business loan to any of the PFI with all the required documents and information and the PFI assessed the loan and confirmed it is willing to approve the loan because the borrower has 100 percent collateral than the scheme won't be applied.

The scheme can only be applied in a case where for example, an SME applied for a total loan amount of \$100 thousand. The application was assessed and the value of collaterals taken by PFI is \$40,000. A shortfall of \$60 thousand.

If the PFI approves the application and submit its nomination under the scheme, the scheme can approve 90 percent of the \$60 thousand which is equal to \$50 thousand.

The scheme will then send a formal approval to PFI and maintain its record till expiry date of the guarantee.

### **What is the process like to access assistance from the guarantee scheme?**

For SME's seeking financial assistance and would like to access the guarantee scheme, they will need to approach their partner bank or credit provider fill in an application with all the necessary requirements and information and submit. The bank or finance company will review the request/application and make a decision on whether the SME could be supported with credit.

In those cases where the finance provider is prepared to support the request but there is a shortfall in the security offered, a submission can be made to the CBSI for support under the scheme.

If the submission for a guarantee is approved, the bank or finance provider will then advise the SME and provide the credit under its normal terms and conditions.

At no stage does the SME become involved with the guarantee request or direct contact with the CBSI. It is an arrangement between CBSI and the credit provider.

### **Which SME is Eligible to be supported under the guarantee scheme?**

Only Registered SMEs with a Business License and registered SMEs that are 80 percent to 100 percent locally owned. Cooperatives are also eligible to apply if they satisfy the lender's requirements

### **Cost to the Borrower**

A fee of 2 percent of the guaranteed amount is charged to the borrower and this is only collected when the credit is provided to the borrower and then immediately transfer to CBSI.

### **What to do next**

Eligible SMEs seeking commercial finance should contact their bank or finance company (as listed earlier) in the normal manner. There is no special application form for the scheme

Banks and Finance Companies will assess credit applications, make their own decisions on the credit worthiness of the application. If a guarantee is required to proceed with credit, the lender will approach CBSI for support.

Finally If you need more information on how the scheme works, please call in at CBSI and ask for Rachel or call Rachel on phone 21791 and dial extension 1710.

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