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BANKING & FINANCE

TIMOR-LESTE | CREDIT GUARANTEE SYSTEM FOR SME

A Credit Guarantee System (CGS) for Small and Medium-sized enterprises (SME) has recently entered into force by means of Decree-Law n. 23/2017, of July 12.

It consists in a public programme for granting guarantees which involves the sharing of credit risk between the State and commercial banks covering up to 70% of loans, the State being responsible in the event of default by an SME in the proportion of the guarantee.

The CGS essentially aims to facilitate the access to credit in sectors that are considered strategic for the diversification of the national economy (*e.g.* agriculture, forestry, livestock, fishing, manufacturing industry, transportation and tourism) and to incentive the formalization of Timorese businesses and responsibility for the repayment of loans.

The CGS will be funded by the Timor Leste's Annual Budget and will be implemented and managed by the Central Bank. The implementation will be monitored by a Monitoring Commission which will have powers to modify the number of sectors considered eligible for the CGS.

For the purpose of the CGS a small-sized enterprise is an enterprise with headcount ranging from 6 to 20 employees and a medium-size enterprise is an enterprise with headcount ranging from 21 to 50 employees.

Only self-employed entrepreneurs of Timorese nationality and commercial companies incorporated in Timor-Leste where at least 75% of the shareholding with voting rights is owned, directly or indirectly, by individuals of Timorese nationality may benefit from the CGS.

The CGS cannot be used on loans granted to enterprises holding shares at companies that are not considered SME, on loans granted to companies whose shareholders are not SME and on loans granted to companies where the State or any public entity owns more than a 10% stake.

The access schemes to the CGS and the requirements and procedures pertaining to the granting of guarantees shall be regulated by the Central Bank within 90 days of the entry into force of the Decree-Law.