

COVID-19 - Government backed re-financing scheme for businesses

The Central Bank of Sri Lanka ("CBSL") has set up a LKR 50.0Bn refinancing scheme to facilitate concessions such as the debt moratorium and working capital facilities for business and individuals impacted by COVID-19.

	What is it	Who is it for	How do you access it	Key considerations
Funding schemes for businesses	1. Existing performing loans <ul style="list-style-type: none"> 6 month debt moratorium for affected industries and eligible sectors for term loans and trade finance loans. 6 month extension for permanent overdraft facilities. 2 months extension for temporary overdraft facilities for eligible borrowers and the interest rate to be capped at 13%. 	<ul style="list-style-type: none"> Tourism, direct and indirect export-related businesses including apparel, IT, tea, spices, plantation and related logistic suppliers adversely affected by work disruption and overseas lockdowns. 	<ul style="list-style-type: none"> Approach banks with well structured funding request. 	<ul style="list-style-type: none"> Eligible trade finance facilities falling due or maturing or were under review during the period shall be extended by 6 months. Pawning facilities falling due or maturing during the period up to be extended by 6 months.
	2. Existing Non Performing Loans <ul style="list-style-type: none"> The penal interest charged up to 25th March 2020 to be waived off. Rescheduling NPL's for a 3 year period with a 6 months moratorium. 	<ul style="list-style-type: none"> SMEs in business sectors such as manufacturing, services, agriculture (including processing), construction, value addition and trading businesses including authorized domestic pharmaceutical suppliers with turnover below LKR 1.0Bn. 	<ul style="list-style-type: none"> Approach banks with well structured funding request 	<ul style="list-style-type: none"> If financial institutions have commenced or given notice of recovery action, such recovery action to be suspended, provided that the financial institution and the client reach an agreement. Banks may reclassify NPLs as performing loans, provided the borrower serviced the interest for 6 consecutive months during the moratorium period for any outstanding instalment interests.
	3. Granting of new loans <ul style="list-style-type: none"> LKR 25.0Mn per borrower, per bank (LKR 10.0Mn for other NBFI's) or 2 months of WC requirement, whichever is higher at an interest rate of 4% by banks and 7% by NBFI's. The facility shall be repaid across 2 years. Investment loan facility can be granted for performing borrowers up to LKR 300.0Mn per borrower at a maximum interest of AWPLR plus 1.5% with a repayment period of 5 years. A moratorium for a period of 6 months will be granted for both working capital loans and investment loans. 		<ul style="list-style-type: none"> Approach banks with well structured funding request and a business plan. 	<ul style="list-style-type: none"> Financial institutions may grant a new loan facility provided the borrower submits a credible business plan.

- Borrowers are expected to request for the above facilities by 30 April 2020, and the banks and NBFI's shall complete processing of such requests within 45 days. Until the completion of the processing of the requests, recovery of loans shall be suspended.**
- Import facilities are not permitted, other than for pharmaceutical drugs, medical equipment, food, fertilizer and essential raw materials and machinery and equipment.**
- Financial institutions shall discontinue charging for cheque returns, stop payments, late payment fee on all credit cards and other credit facilities during the period up to 30 September 2020.**

COVID-19 - Key considerations and market observations

In practice, most additional funding (over and above self-help) will need to be pursued through lenders. Both the outcome and speed of any request is likely to be heavily influenced by the nature of requirement, strength of existing relationships and quality of the request

How are lenders reacting?

The market remains very fluid. We would note the following common themes across the market:

- Most lenders are prioritising short term liquidity requests for existing customers over new transactions.
- Both banks and NBFI are looking to be supportive of existing customers where possible
 - But requests being evaluated on a case by case basis and lending criteria have not been relaxed
- Lenders are working to increase the depth of their credit and relationship teams to manage volume
 - The additional processes attached to new government-backed funding schemes may impact execution timescales
- Banks are discussing how the government can facilitate them to recover the cost of funds under the low-interest WC and investment loans.

How we can help:

KPMG has set up a Response Team with our Deal Advisory, Management Consulting and Risk Advisory practices to provide clients with strategic and independent advice:

- To evaluate the different financing strategies and options available in the current market
- To assist them to obtain the maximum benefit possible from the government's COVID-19 Refinancing Package:
 - Prepare a quick business plan for the purposes of new WC and/or investment loans.
 - Structure financing requests and negotiate terms



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How do you maximise the prospects of lender support?

1. Understand your liquidity requirements to get through this period ASAP in order to define your additional funding requirements:

- Likely to require multiple scenarios to reflect different risks and time variables
- Need to be realistic about potential impacts to inform decision making, actions and any requests

2. Approach lenders fast with your request

- We anticipate a significant volume of lender requests which will impact decision-making / speed

3. A well-articulated request will be hugely important to securing support at the first time of asking:

Core underlying strength:	Demonstrate financial strength / performance prior to the Covid Crisis
Contextualise your request:	Articulate the nature of disruption and outline your proactive business response
Self-help:	Demonstrate the Board's/Owners' commitment to comprehensive self-help action. Important to minimising the financing ask, credibility and speed
Outline financial projections:	Evidenced by a robust short term cash flow (12 months) and medium term forecast to that trends back to 'normal' trading. Grounded assumptions and realistic sensitivity scenarios required to inform ask / risk profile
Well-structured ask:	Clear request covering funding, required amendments and any available security provisions

4. Understand your alternative options:

- Given available timescales, Plan B / C should be pursued to provide potential fall backs