DEMOCRATIC REPUBLIC OF TIMOR-LESTE VI CONSTITUTIONAL GOVERNMENT

Decree-Law No 23/2017 of July 12 CREDIT GUARANTEE SYSTEM FOR SMALL AND MEDIUM-SIZED ENTERPRISES

In Timor-Leste, small and medium-sized enterprises (SMEs), namely those operating in sectors relevant to the national economy such as agriculture and fisheries, face major difficulties in obtaining bank credit. Such difficulties jeopardize entrepreneurship, jobs creation, and economic growth.

The difficulties experienced by the SMEs in obtaining credit are due to several factors and among them the low business productivity and the inability to provide real securities, as required by the current legal system.

Supporting SMEs is a Government priority. Besides being a tool for social justice, it is also essential for the implementation of a solid and viable business framework that will then allow the economic and social development of the country.

Therefore, the establishment of a

(d). To foster the

- The CGS shall apply to credits granted in pertinent areas that prioritizes the diversification of the economy such as, agriculture, forestry, livestock, fisheries, manufacturing, transport, tourism and their affiliated activities to be implemented in the national territory in agreement with the guidance of the Strategic Development Plan 2011-2030.
- 2. Without prejudice of the preceding paragraph, the Steering Committee after consulting the member of the government responsible for the economy, can then decide which areas to include and/or exclude from CGS.
- 3. For the purpose of the two preceding paragraphs, it is required the BCTL to divulge through adequate procedures to banks and SMEs, the areas included and excluded from the CGS.
- 4. To be eligible to benefit from the CGS, the SMEs must demonstrate at the moment of credit granting that:
 - (a). They fall within the criteria of article 4;
 - (b).

BCTL is responsible for implementing, managing and regulating the CGS, in accordance to the law.

Article 8 Monitoring Committee

- 1. With the objective of monitoring the implementation of the CGS, a Monitoring Committee is established and shall be composed of:
 - (a). The Member of the Government responsible for the economic sector, President of the Commission;
 - (b). The Governor of the Central Bank;
 - (c). A representative of the Government member responsible for the agriculture and fisheries sectors;
 - (d). A representative of the Government member responsible for the finance sector;
 - (e). A representative of the Government member responsible for the trade and industry sectors;
 - (f). A representative of the Government member responsible for the tourism sector;
 - (g). A representative of the Government member responsible for promoting equality;
 - (h). A representative of the Government member responsible for vocational training and employment;
 - (i). A representative of the Government member responsible for the youth;
 - (j). A represen

- (c). To issue non-binding propositions and recommendations to the BCTL on the implementation of the CGS and it respective schemes.
- 4. The BCTL shall provide the administrative and logistical support necessary to assure the smooth functioning of the Monitoring Committee
- The Monitoring Committee shall meet twice a year and occasionally when a meeting is summoned by the president.
- The Monitoring Committee shall approve its bylaws in accordance to the present Decree-Law.

Article 9 Financing and Budget Execution

- 1. The amounts that shall be directed towards the implementation of the GCS will be included in the annual General State Budget.
- The amount referred to in the previous number shall be transferred to an official account created in accordance with the law, and specifically for that purpose.

Article 10

- 3. The sanctions established in the paragraphs above are extended to the respective administrators and partners with dominant position as well as to any SMEs where they detain participation or effective control, unless it is proven that they act without fault or gross negligence.
- 4. For the purposes of this article, are considered partners with dominant positions those who individually or jointly act in an articulated manner, control more than 50% of the social capital or of the voting power and can elect more than half of the members for the administrative bodies.
- The BCTL is responsible for certifying, under the terms of the schemes respective regulations, the non-compliance with the provisions of this Decree-Law or its regulations and for maintaining an up-to-date list of non-compliant SMFs.

Article 14 Obligations of Institutional Banks

- 1. It is the obligation of the banking institutions whom benefit from the CGS under each loan granted by them to:
 - (a). Ensure that the loan is granted solely to individual sole traders of Timorese nationality, properly registered for the purpose of commercial registration and considered as SME under this diploma;
 - (b). Ensure that the credit is granted solely to Commercial Companies incorporated and registered under the Timorese law in which individuals holding a Timorese citizenship directly or indirectly own at least 75% of the capital shares with voting right.
 - (c). Verify before the credit is granted that the Individual sole trades or commercial companies are not in event of default of bank credit recorded in the Timor-Leste Central Bank;
 - (d). Ensure that the credit is financing activities within the scope of the annual list of the prioritized sectors identified in article 6;
 - (e). Define and evaluate the criteria necessary to determine the financial viability of the enterprise;
 - (f). Define and evaluate the criteria necessary to determine viability of financed project.
 - (g). Evaluate if the individual sole trader or the commercial company is able to meet the credit in accordance to criteria of valuation, that is no less demanding than those used to grant loans covered by CGS;

- (h). Adhere to the requirements established by the respective schemes approved by the BCTL.
- (i). To reimburse the CGS in case of a supervening credit charge will be done, in a judicial or extrajudicial matter,

| Approved by the Council of Ministers, on 7th of July 2017 |
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| The Prime Minister, |
| Rui Maria de Araújo |
| The Minister of State, Coordinating Minister for Economic Affairs and Minister of Agriculture and Fisheries, |
| Estanislau Aleixo da Silva |
| Promulgated on ———— |
| For publication. |
| The President of the Republic, |
| Francisco Guterres Lú-Olo |