# Stimulating Package for Re-energizing the MSME Sector in Sri Lanka – (Re-MSME Plus)

# Government Funded Revival Financing Scheme for Non-Performing MSMEs in Sri Lanka

## Operating Guideline

*DFD/2026/NPL/OG/02*

**Department of Development Finance**
**Ministry of Finance, Planning and Economic Development**
**Colombo, Sri Lanka**

**01st August 2026**

## 1. Introduction

The Micro, Small and Medium Enterprise (MSME) sector continues to face financial stress following recent economic disruptions. A significant number of otherwise viable MSMEs have fallen into Non-Performing Loan (NPL) status, limiting their access to fresh working capital required for business revival. This scheme is introduced as a targeted financial intervention to support selected NPL MSMEs by the Ministry of Industry and Entrepreneurship Development (MOI&ED) that demonstrate the capacity for recovery, safeguard employment, and restore productive economic activity while ensuring prudent management of public funds.

## 2. Objective

To provide **working capital facilities** to pre-identified NPL MSMEs through Participating Financial Institutions (PFIs), enabling business revival and gradual reintegration into the formal credit system.

## 3. Overall Management of the Project

The Department of Development Finance (DFD) of the Ministry of Finance, Planning and Economic Development (MOFP&ED) is the implementing agency of this loan scheme.

## 4. Areas of Operation of the Scheme

This loan scheme shall be operated in island wide.

## 5. Participatory Financial Institutions of the Scheme

Licensed Commercial and Specialized Banks.

## 6. Eligibility of MSMEs

Eligible beneficiaries must:

1. Have been recommended through the MOI&ED evaluation process.
2. Be included in the official bank-wise NPL MSME list of 238 recommended by the MOI&ED.
3. Be currently operational or capable of revival with working capital support.
4. No new applicants outside the approved lists shall be considered.

## 7. Appraisal and Approval by PFIs

**7.1** PFIs shall conduct independent financial viability assessments of each borrower.

**7.2** PFIs shall determine:

- Eligible loan amount
- Repayment capacity
- Appropriate repayment structure

## 8. Salient Features of the Scheme

| | | | |
|---|---|---|---|
| 8.1 | Total Fund Allocation | : | Rs. 1,200 million |
| 8.2 | Target Group | : | Only the 238 NPL borrowers recommended by the MOI&ED through its evaluation process |
| 8.3 | Loan Type | : | Working capital loans only |
| 8.4 | Loan Limit | : | Maximum Rs. 5 million based on financial viability and working capital requirement |
| 8.5 | Funding Mechanism | : | DFD will refinance the funds to Head Offices of the respective PFI |
| 8.6 | On-lending Interest Rate to Borrower | : | 5% per annum |
| 8.7 | Effective Rate to PFIs | : | 2% per annum remitted semi-annually |
| 8.8 | Disbursement Method | : | Lump sum working capital facility |
| 8.9 | Grace Period | : | Maximum of 6 months commencing from the date of disbursement, if requested |
| 8.10 | Repayment Period | : | Maximum of 5 years including the grace period |
| 8.11 | Security Requirement | : | Revaluation of existing collateral or additional security, if required |
| 8.12 | Credit Guarantee Option | : | PFIs may obtain cover from the National Credit Guarantee Institution Ltd. (NCGIL), if applicable |
| 8.13 | Date of Implementation | : | 01st August 2026 |

## 9. Documentation and System Reporting by PFIs

**9.1** After conduct due diligence to assess the viability of the loan, the respective SME units of each PFIs established in head offices should enter the necessary data and information related to the loan application and upload the required documents mentioned in the annex II to the Loan Management System (LMS) established under the DFD.

**9.2** If all documents are in order and all requirements have been fulfilled, the borrower will be registered and a Temporary Loan Number (TLN) will be issued by the DFD on first-come-first-served basis and a system generated "No Objection Letter" will issued to the Head Office of relevant PFI by the DFD.

## 10. Disbursement of Loans by PFIs to Sub Borrowers

**10.1** Once received the "No Objection Letter", the loans would be released by the respective banks for the sub-borrowers within 60 days from the No objection letter date.

**10.2** PFIs should be uploaded the documents and information related to the loan disbursement mentioned in annex IV to the LMS after releasing the loan to sub borrower to obtain refinance within 30 days of loan disbursed date.

**10.3** Loans should be disbursed as lump-sum working capital facilities.

**10.4** PFIs shall ensure funds are used strictly for business revival purposes.

**10.5** Refinance interest rate should apply from the date of release the loan to the sub borrower.

**10.6** Loans must be disbursed to relevant MSME within 3 months from the date of the scheme commenced.

**11. Security and Guarantees**

PFIs are responsible for revaluing existing collateral and obtaining additional guarantees when necessary to secure their financial positions. Furthermore, PFIs have the option to obtain guarantees from NCGIL, adhering to the applicable terms and conditions set forth.

**12. Fund Allocation and Management**

12.1 The DFD shall provide refinance facilities to PFIs equivalent to the value of loans disbursed by PFIs under this scheme, loan by loan subject to the approved maximum limit of Rs. 5 million per eligible MSME.

12.2 PFIs shall grant loans to NPL customers utilizing own funds for this purpose, during the period mentioned in the section 10.6 above.

12.3 Refinance shall be released only after confirmation of loan disbursement by the relevant PFI together with required supporting documentation as prescribed in section 10.2 above.

**13. Repayment Mechanism to the General Treasury**

13.1 PFIs shall remit to DFD, on a semi-annual basis, the amounts recovered from borrowers under this scheme, including both capital and interest components actually paid by customers during the relevant period.

13.2 PFIs shall not be required to settle the total refinance amount irrespective of customer repayments, and repayment obligations to the General Treasury shall be limited only to actual recoveries made from borrowers.

13.3 PFIs shall continue to maintain proper records of recoveries, arrears, and outstanding balances relating to each borrower and submit periodic reports as required by DFD.

**14. Recovery of Default Loans**

14.1 PFIs shall undertake all necessary recovery actions in accordance with established banking laws, regulations, and recovery procedures applicable to defaulted facilities.

14.2 In the event of enforcement or recovery from collateral or assets already under the custody/control of the PFI, the dues payable to the Government under this scheme shall be settled on priority basis prior to recovery of any dues payable to the respective PFI.

14.3 PFIs shall take steps to recover these loans by implementing the relevant legal procedures within a period of three (3) years from the date of default, and if at the end of such legal procedures, the amount cannot be recovered through the acquisition of property, through guarantors or through other collateral.

14.3.1 The outstanding capital loan amount shall be borne equally by the Government and the Bank.

14.3.2 The arrears of interest payable by the SME to the Bank shall be borne by the Bank and the Government shall bear the arrears of interest payable by the Bank to the Government.

14.4 PFIs shall ensure that all recovery actions are pursued diligently and in good faith to maximize recoveries relating to Government refinance provided under this scheme.

**15. Monitoring and Reporting**

PFIs are required to submit quarterly reports to DFD, which must include details on repayment performance and the movement of non-performing loans (NPL) status. Additionally, DFD retains the right to conduct inspections and may request further information as necessary to ensure compliance and monitor overall performance effectively.

**16. Roles of Stakeholders**

Successful implementation of the NPL MSME Revival Financing Scheme requires coordinated action among the DFD, PFIs, and the MOI&ED.

**16.1 Role of the Department of Development Finance (DFD)**

DFD, as the implementing agency of the scheme, shall be responsible for overall administration, fund management, and monitoring.

Policy and Operational Oversight, DFD shall:

- Issue Operating Guidelines, circulars, and instructions as necessary
- Provide clarifications on implementation matters
- Ensure the scheme operates in line with Government policy objectives

Beneficiary List Administration, DFD shall:

- Receive the officially recommended MSME lists from MOI&ED
- Verify and distribute bank-wise beneficiary lists to respective PFIs
- Maintain a central database of all approved beneficiaries

Fund Management, DFD shall:

- Release allocated funds to the Head Offices of PFIs
- Maintain proper financial records relating to fund transfers and recoveries
- Monitor utilization of allocated funds

System Management, DFD shall:

- Operate and maintain the digital monitoring and reporting system
- Ensure data integrity and system access for PFIs
- Review uploaded documentation and loan data
- Approve and register loans in LMS and issue TLN / No objection letters via LMS
- Approve refinance and release funds to PFIs

Monitoring and Evaluation, DFD shall:

- Review quarterly performance reports submitted by PFIs
- Monitor fund utilization, recovery performance, and scheme impact
- Conduct field inspections or request additional documentation where necessary

Financial Reconciliation, DFD shall:

- Monitor semi-annual remittances made by PFIs to the General Treasury
- Reconcile capital recoveries and interest payments
- Follow up on overdue remittances or unreturned funds

### 16.2 Role of Participating Financial Institutions (PFIs)

PFIs shall be responsible for credit appraisal, loan disbursement, monitoring, and recovery of facilities granted under the scheme.

Scheme Administration, Each PFI shall:

- Appoint a designated senior officer at Head Office level to coordinate scheme implementation
- Issue internal instructions to branches regarding procedures under the scheme
- Ensure staff awareness and proper handling of scheme-related lending

Credit Appraisal and Approval, PFIs shall:

- Conduct independent financial viability assessments of recommended MSMEs
- Determine loan amounts based on working capital requirements and repayment capacity
- Approve facilities only where reasonable revival potential exists

Loan Disbursement, PFIs shall:

- Disburse loans as lump-sum working capital facilities
- Ensure funds are used strictly for business revival purposes
- Maintain proper loan documentation in accordance with banking standards and scheme's requirements

Documentation and System Reporting, PFIs shall:

- Upload all required borrower and loan documentation to the DFD system in a timely manner
- Ensure accuracy and completeness of all data submitted
- Maintain separate records and ledgers for loans granted under this scheme

Post-Credit Supervision, PFIs shall:

- Undertake periodic monitoring of borrowers to ensure proper utilization of funds
- Maintain regular contact with borrowers to monitor business performance
- Identify early signs of stress and take corrective action where possible

Recovery and Default Management, PFIs shall:

- Follow standard recovery procedures in the event of overdue accounts
- Maintain records of recovery actions taken
- Prioritize settlement of Government dues from recoveries made under this scheme

Financial Obligations to the Treasury, PFIs shall:

- Remit recovered capital and 2% interest to the General Treasury on a semi-annual basis
- Ensure timely and accurate financial reporting to DFD

### 16.3 Role of the Ministry of Industries and Entrepreneurship Development (MOI&ED)

MOI&ED, as the line Ministry responsible for MSME development, shall provide sectoral oversight and field-level facilitation. Regional and Field-Level Support, MOI&ED, through its regional, district, and divisional officers, shall:

- Maintain engagement with recommended MSMEs
- Facilitate coordination between MSMEs and PFIs where required
- Assist MSMEs in overcoming operational or administrative challenges

Monitoring of Business Revival, MOI&ED shall:

- Support monitoring of business progress of assisted MSMEs
- Provide sectoral feedback and field observations to DFD.

## 17. Duration of the Scheme

Effective from the date of approval and issuance of the OG and shall remain in operation for 63 months from that day onward, unless otherwise decided by the MOFP&ED.

## 18. Other Matters

The DFD has the right to revise the terms and conditions in respect of refinance scheme as and when necessary with prior notice to the PFIs.

P M K Hettiarachchi
Director General
Department of Development Finance
Ministry of Finance, Economic Stabilization and National Policies
The Secretariat
Colombo 01.
August 01, 2026.

**Annex I**

**STIMULATING PACKAGE FOR RE-ENERGIZING THE MSME SECTOR IN SRI LANKA – (RE-MSME PLUS)**

**REVIVAL FINANCING SCHEME FOR NON-PERFORMING MSMES**
**REGISTRATION APPLICATION**

| *Loan Amount:*<br>*Approved Date:* |
|---|

| *Loan No. To be filled by DFD/MOF* |
|---|

**1. PFI DETAILS**

1.1 Name of the PFI:

1.2 Branch of the PFI:

1.3 Branch Contact No.:

**2. BORROWER'S DETAILS**

2.1 Name of the Business:

2.2 Business Address:

2.3 District of the Business located:

2.4 Business Registration No:

2.5 Date Registered: *DD/MM/YY*

2.6 Eligible Sector: *(Please mark the relevant)*

| Nature of the business | | Women-led | | Climate Financing | | Export-oriented | | | Eligible Sub-sector | Pls. mark the relevant |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Yes | | | | |
| | | Yes | No | Yes | No | Direct | Indirect | No | | |
| Agriculture | | | | | | | | | Agriculture & Agro Processing: | |
| Tourism | | | | | | | | | : Paddy Millers | |
| Manufacturing | | | | | | | | | : Tea Factory | |
| Technology | | | | | | | | | : Oil Millers | |
| Export-oriented | | | | | | | | | : Floriculture | |
| | | | | | | | | | : Others (pls. mention) | |
| | | | | | | | | | Apparel & Garments | |
| | | | | | | | | | Animal Husbandry | |
| | | | | | | | | | Beauty Culture/dressmaking | |
| | | | | | | | | | Construction Industry | |
| | | | | | | | | | Carpentry, Furniture & Lathe work | |
| | | | | | | | | | Educational activities | |
| | | | | | | | | | Fisheries | |
| | | | | | | | | | Healthcare activities | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | IT/Software development | |
| | | | | | | | | Manufacturing: Foot wear/Gift items/Machinery ect, | |
| | | | | | | | | Mining & quarrying | |
| | | | | | | | | Ornamental Fish | |
| | | | | | | | | Processed Food: Bakery items/Catering/mobile foods etc, | |
| | | | | | | | | Tourism & Restaurants | |
| | | | | | | | | Transport | |
| | | | | | | | | Others except Trading/Leasing & Renting etc, | |

2.7 Annual Turnover of the Business in the previous year:

Rs…………..Mn/ Year…………. (From [month/year] to [month/year]

2.8 Employment:

| **Gender** | **No. of Employees** | |
|---|---|---|
| | **Existing** | **Expected/ New** |
| Female | | |
| Male | | |
| Total | | |

2.9 Target Category: *(pls. Mark the relevant)*

| Category 01- Micro | | Category 02- Small | | Category 03- Medium | |
|---|---|---|---|---|---|

***Pls. refer Note 1***

2.10 Type of Business: Sole-Proprietor ☐ Partnership ☐ Company ☐

2.11 Details of Owner/Partners/Directors/Shareholders:

| **SN** | **Name in Full** | **NIC No*** ***(Pls attach a certified copy/copies)*** | | **Tele/Mobile** ***(Compulsory)*** |
|---|---|---|---|---|
| | | **Old** | **New** | |
| 1 | | | | |
| 2 | | | | |
| ….. | | | | |

* If a borrower holds a new NIC number, please mention the old NIC number as well. (If available).

2.12 Brief description of the Existing Business: (***Minimum 50 words***)

| |
|---|
| |

## 3. LOAN DETAILS

3.1 Loan Amount: (Maximum Rs. Rs. 5 million) Rs………………Mn

3.2 Interest Rate of the Loan : (%)

3.3 Grace Period : (in months)

3.4 Repayment Period (excluding grace period): (in months)

3.5 Brief description of the project as per the Credit Appraisal: (***Minimum 50 words***)

| |
|---|
| (The details of the expected improvement in annual turnover and the employment opportunities due to new working capital loan facility should also be included) |

## 4. COLLATERAL DETAILS

4.1 Type of Security (*pls. mark relevant*)

| Collateral | | Type of Security | |
|---|---|---|---|
| **1. No** | | None | |
| | | Guarantors | |
| **2. Yes** | | Movable Assets | |
| | | Immovable Assets | |
| | | Guarantors | |
| | | Others: (Deposits/Promissory Notes) | |

## 5. RECOMMENDATION/APPROVAL

This is to certify that we have appraised the application made by ……………(borrower's name) of ……………………………………………………………………….(borrower's address) for a loan of Rs………………………(loan amount) and are of the opinion that on the basis of the investigations done and the assumptions used, the project is financially viable and technically feasible.

| | | |
|---|---|---|
| ………………… | ………………… | …………………… |
| Prepared by: | Recommended by: | Authorized by: |
| Officer | Branch Manager | Authorized Officer/Head Office |
| *Date: DD/MM/YY* | *Date: DD/MM/YY* | *Date: DD/MM/YY* |

***Note 1: Definition of the MSMEs***

| Size/Sector | Criteria | Medium | Small | Micro |
|---|---|---|---|---|
| Manufacturing | Annual Turnover (Rs. Mn) | 351-1000 | 20 -350 | less than 20 |
| | No. of Employees | 51-200 | 10-50 | less than 10 |
| Service sector | Annual Turnover (Rs. Mn) | 351-1000 | 20 -350 | less than 20 |
| | No. of Employees | 51-200 | 5 -50 | less than 5 |

***Note: if when an MSME comes across two parameters, the parameter that yields a higher value between the number of employees and the annual turnover would be the decisive factor in determining which category it falls under.***

**Annex II**

**Evidencing Proper Utilization of the Sub Loan Proceeds – Approval Level**

1. A Copy of the Business Registration (BR)

    a. For sole proprietorship and partnership – Certificate of registration issued by the relevant local authority

    b. Private limited company – Form 01 and other relevant forms (Articles of Association) with the details of directors, shareholders, and company address etc.

2. Certified copy of the Recommendation letter issued by the MOI&ED

3. Approved bank evaluation report

4. National Identity Card (NIC) – Certified copy and purpose of business

5. Working capital calculation as per the specimen in **Annex III** (Original)

*Finished Goods Holding Period = $\left(\frac{Average\ Finished\ Goods\ Stocks}{Cost\ of\ Sales}\right) \times 365$

| | | | |
|---|---|---|---|
| **Turnover / Sales** | | | |
| **Cost of Sales** | | | |
| **Current Assets** | | | |
| - Inventories | - Raw material | $\left(\frac{Cost\ of\ Sales/Purchases}{365}\right) \times Raw\ Material\ Holding\ Period$ | A |
| | - Work in progress | $\left(\frac{Cost\ of\ Production}{365}\right) \times Work\ In\ Progress\ holding\ Period$ | B |
| | - Finished Goods | $\left(\frac{Cost\ of\ Sales}{365}\right) \times Finished\ Goods\ Holding\ Period\ *$ | C |
| - Debtors | | $\left(\frac{Credit\ Sales}{365}\right) \times Debtors\ Collection\ Period\ **$ | D |
| - Other Current Assets (specify) | | | E |
| Total Current Assets | | (A+B+C+D+E) | F |
| **Current Liabilities** | | | |
| Trade Creditors | | $\left(\frac{Credit\ Purchases}{365}\right) \times Creditors\ Payment\ Period\ ***$ | G |
| Other Current Liabilities (Excluding Bank Borrowings) | | | H |
| Total Current Liabilities | | (G+H) | I |
| **Total Working Capital Needed** | | **(F-I)** | J |
| **(Less) / Add** : Working Capital Available in the Business (Long-term sources less long-term uses) | | | K |
| Net Working Capital Needed from Bank Borrowings | | (J-K) | L |
| **(Less) :** Already financed with bank borrowings (Our Bank & other Bank) | | | M |
| **Additional Working Capital Requirement** | | **(L-M)** | **N** |

**Debtors Collection Period = $\left(\frac{Average\ Trade\ Debtors}{Credit\ Sales\ or\ Total\ Sales}\right) \times 365$

*** Creditors Payment Period = $\left(\frac{Average\ Trade\ Creditors}{Cost\ of\ Sales}\right) \times 365$

| | | |
|---|---|---|
| ..................... | ................................ | ............................ |
| Prepared by: | Recommended by: | Authorized by: |
| Officer | Branch Manager | Authorized Officer - Head Office |
| Date: | Date: | Date: |

**Annex IV**

**Evidencing Proper Utilization of the Sub Loan Proceeds – Refinance Level**

1. Authorization / Offer Letter

2. **A certified copy** of the Borrower's Bank Statement/Bank Pay Order or Cheque payment

3. Restructuring agreements (if any)