

Financing facility for special persons

The State Bank of Pakistan continues to play its vital role in enhancing financial inclusion in the country. In order to improve socio-economic life of special persons in Pakistan, it has launched a concessionary Small Enterprise Financing and Credit Guarantee Facility for special persons. Under the scheme, banks and DFIs will be required to provide financing facilities to special persons to meet their credit needs for establishing new business enterprises or expansion of existing ones and claim refinance up to 100 percent of finance extended by them. Special persons can avail financing up to Rs 1.5 million for a maximum period of 5 years, including a grace period of 6 months. On its part, SBP will provide risk coverage of 60 percent to banks/DFIs on their outstanding loans under the scheme. As for the interest rate, refinancing will be provided by the SBP at zero percent to Participating Financial Institutions (PFIs) for onward lending to special persons falling under small enterprise category at the rate of 5 percent per annum. If a borrower repays the loan amount or its instalment, in part or in full, before the due date, the PFIs will be under obligation to repay the amount so received within 15 days to the concerned office of SBP BSC, failing which, a fine for late adjustment of loan will be recovered from the concerned institutions at the rate of 60 paisas per day per Rs 1,000 or at a rate announced by the SBP from time to time. Under the scheme, special persons will be defined as those holding CNICs with disability logo/symbol.

It seems that the above concessionary scheme was designed by the State Bank after a great deal of consideration and with a special purpose. The importance of the scheme could be gauged from the fact that this special facility was announced by the Governor, SBP, Tariq Bajwa himself at the 7th meeting of the National Assembly Standing Committee on Finance, Revenue and Economic Affairs held at the SBP. Members of the Committee as well as senior SBP Executives were also present on the occasion. The objective of the scheme is of course to help improve access to finance of a particular vulnerable segment of society which, at present, is mostly dependent on its close relatives for survival. By availing the said facility, the special persons could have a good chance to be fully independent, retain their dignity and pride and play a more productive role in country's economy. Under the scheme, refinancing in full will be provided by the SBP to the PFIs and SBP will also provide risk coverage of 60 percent to banks/DFIs on their outstanding loans. This would mean that financial institutions could provide credit facilities to special persons at a much lower rate without caring much for adequate collateral acceptable to banks. It is also quite clear that the banks would not have to use their own deposit resources for lending to the special persons due to the availability of refinancing facility from SBP. In fact, a gap of 5 percent in the rates of refinancing facility and lending to the special persons could push up the gross profits of the PFIs without much effort for deposit mobilisation.

However, while this is a good idea for a disadvantaged group of society, the experience of the past state-sponsored schemes like yellow cabs and green tractors suggests that a majority of the borrowers under the scheme would not be inclined to repay their loans and outstanding stock of non-performing loans of the PFIs would increase accordingly which could ultimately turn out to be a drain on budgetary resources of the government because profits of the SBP are transferred to the treasury of the country. Also, Governor SBP must realise that social objectives like providing relief to special persons are sought to be achieved by fiscal policies and not through monetary and credit policies. As such, he should have advised the government to support special persons through its budget if he felt so strongly about the plight of this deprived group of society. The SBP, on its part, should continue concentrating its attention on monetary stability and overall development of the country which is its real responsibility.