

SBP Rozgar Scheme extension

The State Bank of Pakistan has extended its Rozgar Scheme for small and medium enterprises (SMEs) supporting employment and risk-sharing for another three months. The decision to extend its duration must be appreciated for two reasons. First and foremost, the earlier projections of the pandemic peaking in early June have been revised with the Prime Minister, backed by healthcare professionals, recently stating that the virus could peak as late as early August while at the same time cautioning the public, in parliament and outside, that there is continued uncertainty about the time the virus would peak in Pakistan. In the event that the peak goes beyond September then the Rozgar Scheme may have to be extended further. Given that the scheme ended in June, there was, therefore, a need for an extension as it would enable many an SME and small corporate to retain their staff in spite of the extent of the economic downturn the enterprise face - from reduced activity to complete closure.

Secondly, the staff members of the enterprise would continue to be paid their salaries and instead of joining the ranks of the unemployed and becoming eligible for cash injections from the Prime Minister's signature Ehsaas programme (with possible delays due to the government's inability to quickly verify an applicant's eligibility under Ehsaas – a delay that has been evident in disbursing cash to daily wage earners during the pandemic) this scheme would also ensure that once the pandemic's peak is past and the economy picks up, the enterprise would not have to struggle to rehire the staff it lays off.

Secondly, the economic downturn and the precise time of revival of economic activity remains uncertain globally. For Pakistan, the International Monetary Fund has forecast a growth rate for the current fiscal year of 1 percent while the budget documents have forecast a 2.1 percent growth for 2020-21. These growth rates do not provide a comfort level as to an early revival notwithstanding the opening of key industries by the government, particularly the construction sector. What does provide a comfort level; however, is the Prime Minister's assurance on the floor of the lower house of parliament that his administration would extend full support to agriculture and SMEs and in this context, it has been revealed that the federal government has decided to enhance the risk coverage of the Rozgar Scheme from 40 to 60 percent first loss on portfolio basis – an enhancement that would enable banks to provide financing to collateral-deficient SMEs.

The focus of the Rozgar support programme is for SMEs and small corporates. The SBP defines a small enterprise with an upper annual sales turnover limit of 150 million rupees and a maximum of 50 employees while a medium enterprise is defined with an upper annual sales turnover limit of between 150 to 800 million rupees (though the Rozgar Scheme is for turnover of up to 2 billion rupees) and with total number of employees from between 51 to 250. However, the smaller the unit the more challenging is its capacity to provide collateral and notwithstanding the enhanced risk coverage to 60 percent it would be helpful if the SBP would incorporate a ceiling for the collateral that the lending bank/DFI can demand from the borrower. This is necessary for the success of this scheme as different banks are demanding collaterals ranging from 125 to 175 percent of the lending amount. Furthermore, as the amount of loans taken under this scheme would increase because of the justified extension in its application, there should be a corresponding enhancement in its repayment period so that businesses are able to service and repay the loans obtained under the scheme.