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Rs 30bn SBP Refinance Scheme: Banks refusing to bail out SMEs on trivial grounds

ISLAMABAD: Despite earmarking of Rs 30 billion by federal government for absorbing default, the banks are refusing to rescue private firms under SBP's Refinance Scheme using different excuses including weak audited accounts.

In the post COVID-19 situation, the SBP's Refinance Scheme has not provided relief to SMEs up to the desired extent. According to State Bank of Pakistan's announcement it introduced Refinance Scheme providing concessional loans at three percent to any company that commits not to lay off workers for three months (April to June) 2020. The SBP also said that in first two weeks, application from 700 companies worth of Rs 65 billion are being processed at banks and DFIs to protect jobs of more than half a million employees there.

Contrary to these tall claims made by the SBPs, the companies especially small and medium enterprises (SMEs) are facing immense difficulties as they were arranging collaterals and fulfillilng other requirements of the banks but their loan applications are being rejected on grounds of weak audited accounts. Some entrepreneurs who contacted this scribe lamented that there was no justification for strong audited accounts in the prevailing conditions because if the company was in good financial shape there was no need to seek bank loans.

Even with the launch of the Salary Refinance Scheme SBP has not clearly defined eligibility criteria allowing grounds for rejection to loan request by banks like in the past.

Ideally any company which has no default history or ECIB (credit information bureau) clearance issue, and is able to present collateral and audited accounts should have no reason to be denied such a credit facility if and as per SBP Circular the company undertakes to not lay off its workers during this period. Contrary to the purpose of the scheme, the banks are rejecting applications on grounds of deteriorating financial condition as per recent audited accounts.

The SBP Refinance Scheme offers many organizations an avenue for survival. For both manufacturing and service based organizations their core asset continues to be their workers and staff and their retention and livelihood is paramount to business continuation and survival. The scheme will be available to all businesses in Pakistan through banks and will cover all type of employees including permanent, contractual, daily wages as well as outsourced workers. The scheme will provide financing for wages and salaries expense for three months from April to June 2020 for those businesses which do not layoff their employees for these three months.

The spirit of the scheme has lost its momentum despite this fact that one of top official of Finance Ministry told The News on Saturday that the government has approved Rs 30 billion as risk sharing for the first 40 percent of NPLs (non performing loans) when it occurs. So there is no reason for banks to deny the application of these companies.

Subsequent to the announcement SBP has now offered further incentives which include amongst others relaxation in collateral requirements, per party exposure limits and borrowing from banks other than maintaining payroll. However when and to what an extent such a scheme may be successful needs to be assessed

The banks will not charge any loan processing fee, credit limit fee or prepayment penalties for loans under this scheme. A grace period of six months will be allowed to the borrowers while the repayment of the principal amount will be made in two years. Banks will provide weekly reporting to SBP on the take up of the scheme and in particular the reasons for any denials of financing requests under this scheme.

Whereas this scheme has been primarily designed for protection of layoff of workers during the pandemic, it has given the banks to either accept of deny requests by the businesses through their routine credit processes. No specific targets have been given to banks so they are least bothered to provide relief to firms.

Pakistan banking sector has conventionally maintained a low advances to deposits ratio ADR and more so towards smaller businesses. Time and again any attempts by the central bank to encourage banks to enhance credit deployments towards the smaller businesses more particularly the SME sector have met with little success.

The SBP high-ups were of the view that the central bank could issue regulations but it could not force banks as they would have to take into account their risks and therefore it would be their decision. However, on the basis of excuse the banks could not deny loans by using excuse of regulations imposed by the central bank because the central bank is encouraging them to lend to all those firms who provided some kind of guarantees, collateral and made commitments not to lay- offs their workers for three months.