

Govt promises to bear 40pc first loss to banks on SME loans

ISLAMABAD: The government has said that it will bear 40 per cent of the first loss to banks on loans given to the small and medium enterprises (SMEs).

In a statement, the ministry of finance announced on Wednesday the risk-sharing mechanism to support bank lending to SMEs and small businesses availing Refinance Facility of the State Bank of Pakistan (SBP) to support employment.

The ministry said it had taken cognizance of the SMEs facing difficulties in arranging adequate collateral and banks' risk averseness in taking exposures for such lending under the SBP's Refinance Scheme to Support Employment.

Finance ministry says the risk-sharing mechanism is expected to increase the banks' incentive to lend to small businesses

Therefore, it has decided to address these challenges and prevent layoff of workers through risk sharing with banks. Accordingly, the federal government would use Rs30 billion under a credit risk-sharing facility for the banks spread over four years to share the burden of losses due to any bad loans in future.

Under this risk-sharing arrangement, the government will bear 40pc first loss on the principal portion of the disbursed loan portfolio of the banks. This facility will incentivise banks to extend loans to collateral deficient SMEs and small corporates with sales turnover of up to Rs2bn to avail financing under SBP's refinance scheme.

Under the SBP's Refinance Scheme to Support Employment and Prevent Layoff of Workers due to the impact of Covid-19, businesses that commit to not lay off workers in the next three months can avail credit through banks for the three months of wages and salary expenses at a concessional mark-up rate.

The ministry said that the risk-sharing mechanism rolled out on Wednesday was expected to increase the banks' incentive to lend to SMEs and small corporates under the scheme. The mechanism was developed on the basis of feedback received from relevant stakeholders and in collaboration between the finance ministry and the central bank.

"The ministry of finance's swift approval of the subsidy to provide risk coverage to banks has made it possible for the SBP to launch this credit risk-sharing facility for which relevant circulars had been issued on Wednesday," said the ministry, adding that the central bank would continue to monitor the implementation of the scheme.