

Prime Minister's Youth Business Loans Programme (PMYBL)
Procedure for payment of service charges subsidy & 5% PMYBL portfolio loss sharing by GOP

Prime Minister launched PM Youth Business Loans Programme (PMYBL) on December 7, 2013 to provide loans to unemployed youth for establishing or extending business enterprises thereby promoting entrepreneurship and reducing unemployment and poverty in Pakistan. State Bank of Pakistan has issued necessary instructions to all banks through IH&SMEFD Circular No.10 dated November 18, 2013, and subsequent Circular Letters.

Under this Programme, loans up to Rs. 2,000,000 will be provided through the banking system at service charges of 8% per annum for borrowers, while **the rate of return for banks working as Executing Agencies (EAs) for PMYBL would be one year KIBOR+500 bps with KIBOR to be reset every year.** Government of Pakistan (GOP) shall absorb the difference between the rate of return for EAs and 8% as service charges subsidy. Besides, GOP will also bear 5% of the losses on the portfolio of banks under the Programme. As per SBP's Prudential Regulations for Small Enterprise Financing, loans are classified as loss on objective basis (time based criteria) when default period is 18 months or more or on subjective basis. Hence, for determination of admissible claim for 5% portfolio loss sharing against EA's total PMYBL outstanding portfolio at the end of each quarter, only loan cases classified under loss category as per SBP PRs will be considered. In first year of the Programme, loans would be extended to 100,000 borrowers with an estimated portfolio of Rs 100 billion. 50% of loans shall be provided to women. The programme is initially being implemented through National Bank and First Women Bank. Later on, other banks shall also participate in the Programme.

Procedure for loans disbursements, availing service charges subsidy and 5% portfolio loss sharing:

Executing Agencies shall evaluate loan applications of unemployed youth as per parameters of PMYBL Programme approved by the Prime Minister and circulated by the State Bank of Pakistan to all banks vide its Circular. Given that a youth is deemed eligible by the EA for availing loans under PMYBL as per approved parameters of the Programme, the loan facility for such a borrower shall be sanctioned by the EA. Executing Agencies sanctioned loans that are also declared successful in balloting process conducted by the Federal Government shall automatically be entitled for service charges subsidy and 5% partial guarantee cover. No further evaluation on eligibility of borrowers would be conducted by the State Bank of Pakistan and the EAs shall make disbursement against loans approved in the balloting of PMYBL Programme.

Allocation of Funds:

Finance Division will release allocated funds in the Federal Budget for PM Youth Business Loans Programme to State Bank of Pakistan in quarterly installments within first week at the beginning of each quarter from which payments shall be made to EAs.

Mechanism for payment of service charges subsidy:

State Bank of Pakistan will make payment of service charges subsidy to EAs through its operational arm of Development Finance Support Department (DFSD), SBP BSC, Head Office, Karachi.

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Executing Agencies shall prepare and submit claims to DFSD, SBP BSC for receiving government service charges subsidy on outstanding principal amount of their regular PMYBL portfolio upto expiry of each individual loan. In case of a loan becoming non-performing, no service charges subsidy will be paid after being classified as 'Loss' as per SBP PRs for SME Financing. The EAs claims shall contain particulars of each individual loan along with calculations of subsidy based on relevant one year KIBOR used. The service charges subsidy claim should also be duly vetted by internal audit department of the EA. The audited claim along with a certificate from EA relating to eligibility of borrower for PMYBL Programme and correctness of the subsidy amount shall be submitted to DFSD within 10 working days after the end of respective quarter for payment of service charges subsidy.

DFSD, SBP BSC shall scrutinize subsidy claims of EAs and ensure that the particulars of loans match with the particulars of the loans appearing in the approved PMYBL balloting list. Further, DFSD shall also ascertain that calculations of EAs subsidy claims are correct and applicable KIBOR has been used by the EAs. Thereafter, DFSD, SBP BSC shall make payment of service charges subsidy to EAs within 10 working days after receiving of such claim from the EAs subject to availability of funds from the Federal Government.

Banking Inspection Department of State Bank during regular inspection of the EAs shall conduct inspection of their PMYBL portfolio on sampling basis using its own sampling techniques. SBP inspectors shall randomly select credit files and review them from the perspective of eligibility of borrowers under PMYBL Programme, status of loan (regular or NPL) and GOP subsidy claim. The BID inspection report section on PMYBL shall be used as an important input for reviewing the PMYBL Programme and assessing its effectiveness in fulfilling the Government objective of promoting youth entrepreneurship in the country.

Mechanism for payment of 5% portfolio loss sharing by Government:

On behalf of Government of Pakistan, State Bank will make payment of 5% credit losses (i.e. 5% of outstanding PMYBL portfolio at the end of each quarter) incurred by EAs through Development Finance Support Department (DFSD), SBP BSC, Head Office Karachi.

Executing Agencies shall prepare claims for submission to DFSD, SBP BSC for receiving payment on account of 5% portfolio loss sharing by the government on their outstanding PMYBL portfolio. The list containing details of individual loans classified as 'Loss' as per SBP PRs for SME Financing and calculation of 5% portfolio loss sharing based on total outstanding PMYBL portfolio of EAs at the end of respective quarter shall be submitted to DFSD, SBP BSC. EAs claims in this respect should be duly vetted by their internal audit department. The audited claim along with a certificate from EA relating to correctness of the claimed amount shall be submitted to DFSD, SBP BSC within 10 working days after the end of respective quarter for payment of service charges subsidy.

DFSD, SBP BSC shall scrutinize portfolio loss sharing claims of EAs and ascertain that calculations of EAs loss claims are correct. Thereafter, DFSD, SBP BSC shall make payment against admissible claims to EAs within 10 working days after receiving of such claims from the EAs subject to

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availability of funds from the Federal Government. EAs will return excess amount arising, if any, to DFSD, SBP BSC, in case movement in their PMYBL portfolio causes amount of credit loss to be less than/falls below 5% of total outstanding portfolio of EA at the end of reporting Quarter.
