

Kamyab Pakistan Program (KPP)

Payment Mechanism

The Government of Pakistan (GOP) has launched Kamyab Pakistan Program (KPP) to provide subsidized micro loans to small businesses, agriculture sector and housing sector. Commercial banks/DFIs hereinafter referred to as Wholesale Lenders (WLs) will provide liquidity to Executing Agents (EAs) i.e. Microfinance Providers (MFPs) and Housing Finance Companies (HFCs) for onward lending to borrowers. Microfinance providers include Microfinance Banks (MFBs), Microfinance Institutions (MFIs) and Rural Support Programs (RSPs). State Bank of Pakistan (SBP) has communicated necessary instructions to all banks/MFBs/DFIs through IH&SMEFD Circular No. 11 dated October 04, 2021.

KPP has three components related to financing i.e. (i) Kamyab Karobar (ii) Kamyab Kissan and (iii) Naya Pakistan Low Cost Housing (NPLCH). MFPs shall extend financing under all three components of KPP, whereas HFCs will only extend financing under NPLCH component.

1. Procedure for availing GOP subsidy

EAs shall evaluate loan applications of borrowers as per parameters of KPP approved by the Federal Cabinet and circulated by SBP to all banks/MFBs/DFIs vide IH&SMEFD Circular Letter No. 11 of 2021 dated October 04, 2021. The loan facility for a borrower shall be sanctioned and disbursed by the EAs after completion of documentation formalities. These loans shall be entitled for mark-up subsidy and credit loss subsidy. Finance Division, Government of Pakistan shall provide Direct Debit Authority to SBP to the extent of budgetary allocation to ensure timely and seamless payment of mark-up subsidy and credit loss subsidy claims to WLs and EAs as per the modalities mentioned in Section 6 "Key Elements of KPP" of "Operational Framework¹".

2. Role of External Audit Firms

WLs shall appoint External Audit Firms on the Panel of SBP to undertake audits of at least 50 percent of the subsidy & loan loss claims by EAs/WLs on an ongoing basis. Audit firms shall prepare the format for receipt of mark-up & credit loss subsidy claims for onward submission to Program Management Unit (PMU). These formats will be reviewed and approved by State Bank. The Scope of Work/Terms of Reference of the External Audit Firms shall broadly cover certification of:

- a. Compliance of each subsidy & loan loss claim with all the requirements set forth in the Operational Framework for KPP;
- b. Accuracy of subsidy & loan loss calculations; and
- c. Conduct special audit in case EAS credit loss default rate exceeds 10 percent.

Finance Division, Government of Pakistan shall also hire an independent external auditor on annual basis for audit of the subsidy and loan loss claim processed by the Government during the last one year.

3. Mechanism for Payment of Mark-up Subsidy

Payment of mark-up subsidy to WLs will be made on quarterly basis through SBP's operational arm viz. Development Finance Support Department (DFSD), SBP BSC Head Office Karachi. The

¹ The operational framework of KPP can be accessed at https://www.finance.gov.pk/jobs/Operational_Framework_10102021.pdf

modalities mentioned in Section 6 "Key Elements of KPP" of "Operational Framework" with respect to mark-up subsidy claims/calculation methodology shall apply for payment of mark-up subsidy.

Government shall pay difference of "customer rate" and "bank rate" as mark-up Subsidy. Bank rate shall be determined through competitive bidding process by ensuring transparency and compliance of Public Procurement Regulatory Authority (PPRA) Framework in letter and spirit. Bank rate is defined as the WLs rate approved by the Government through competitive bidding process and includes both the WLs and EAs spread. Within approved bank rate, WLs and EAs will negotiate and decide the rate which covers the EAs operational cost for financing under KPP. Markup subsidy claimed by WLs will be the difference of bank rate and markup rate charged by EAs from customer(s).

EAs shall prepare and submit their subsidy claims (as the difference of EAs operational cost rate agreed with WLs and customer rate) to WLs on the standard format. WLs will also prepare their own mark-up subsidy claims. WLs will arrange audit of the subsidy claims by External Audit Firms and submit the audited claims to PMU for receiving mark-up subsidy on outstanding regular KPP portfolio of WLs and EAs.

The audited claims of EAs/WLs along with a certificate from external auditor relating to accuracy of markup subsidy calculations shall be submitted through WLs to PMU within 15 working days after the end of respective quarter for payment of mark-up subsidy claims.

PMU shall, within 5 working days, validate the claim before recommending it for payment by DFSD, SBP BSC Head Office Karachi. DFSD shall advise the SBP BSC Karachi Office to debit the GOP's Account and credit the respective WL's account within three working days from the date of receipt of claim from PMU. DFSD shall apply a sanity check on each claim to maintain consistency of each claim payment. Sanity check means that claims do not contain illogical mistakes or are not based on invalid assumptions. The SBP BSC Karachi Office shall make disbursement of subsidy as per advice of DFSD SBP BSC within two working days from the date of receipt of advice for the same. WLs shall retain their own mark-up subsidy amount and shall credit the remaining amount of subsidy in the accounts of claimant EAs on the same day.

4. Mechanism for payment of credit loss subsidy

The modalities mentioned in Section 6 "Key Elements of KPP" of "Operational Framework" with respect to credit loss subsidy calculations/mechanism and guarantee structure shall apply. The EAs/WLs shall submit their credit loss claims on the standard formats and Prudential Regulations (PR) of SBP pertaining to Microfinance Banks to determine the default i.e. Regulations related to classification of loan in "Loss" category would be the benchmark for this purpose and presently it is 180 days. However, in case of EAs regulated by SECP, Non Banking Finance Companies & Notified Entities Regulations, 2008 of SECP shall apply. WLs shall only be eligible to claim 50 percent Pari-Passu Government Guarantee when their respective EAs will declare the default or file bankruptcy/insolvency i.e. WLs shall make all efforts to recover the default amount over and above 10 percent against each component/scheme from respective EAs and remedy to claim Pari-Passu 50 percent Government Guarantee shall only be available to WLs when EAs will declare default/file bankruptcy and recovery is no more possible from EAs.

EAs shall prepare and submit their credit loss claims to WLs. WLs will also prepare their own credit loss claims, if any and will arrange audit of the External Audit Firms for onward submission

of both claims (EAs & WLs) to PMU for receiving credit loss subsidy on outstanding principal amount.

The audited claims of EAs/WLs along with a certificate from external auditor relating to accuracy of subsidy & loan loss calculations shall be submitted through WLs to PMU within 15 working days after the end of respective quarter for payment of credit loss subsidy claims.

PMU shall, within 5 working days, validate the claim before recommending it for payment by DFSD, SBP BSC Head Office Karachi. DFSD shall apply a sanity check on each claim to maintain consistency of each claim payment. DFSD shall advise the SBP BSC Karachi Office to debit the GOP's Account and credit the respective WL's account within three working days from the date of receipt of claim from PMU. The SBP BSC Office shall make disbursement of subsidy as per advice of DFSD SBP BSC within two working days from the date of receipt of advice for the same. WLs shall retain their own credit loss subsidy amount, if any, and shall credit the remaining amount of subsidy in the accounts of claimant EAs on the same day.

PMU may conduct special audit in case EAs credit loss default rate exceeds 10% or in any other case where it is deemed necessary.

The PMU will define an arbitration process to resolve issues regarding disputes on amounts of subsidy and guarantee claims, etc. The decision of PMU will be final in resolution of disputes regarding claims and disputes, if any, between EAs and WLs.
