



## Optimizing the Role of PM's Youth Business & Agriculture Loan Scheme (PMYBALS) towards achieving UN SDGs through Financial Inclusion and enhancing Outreach: A Case of SMEs in Pakistan

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**Abstract:** SMEs are crucial to the growth of the national economy, the creation of jobs, and the eradication of poverty. This sector of the economy is thought to be its cornerstone. More than 5 million small and medium-sized businesses (SMEs) call Pakistan home; together, they generate 40% of the country's GDP and 25% of all exports. Among the largest obstacles facing Pakistani SMEs has been access to financing. Bank loans to SMEs fell steadily from 15% in 2008 to 7.3% in 2023 as a share of private sector lending. With a gloomy progress on achievement of UN SDGs in Pakistan, explicitly, on-track: 20%, limited progress: 52%, and worsening: 28%. Pakistan's inadequate progress on the achievement of UN SDGs made it incumbent upon the Government to introduce a scheme that ensured financial inclusion and outreach at grass root level of the society. However, despite best intentions, features and incentives offered by the PM's Youth Business & Agriculture Loan Scheme (PMYBALS), visible results in terms of reducing the demand and supply gap have still not been achieved. Taking cognizance of the Pakistan's large population of 241.5M, only 0.03% (71,107) could be benefitted from the PMYBALS scheme despite its highly attractive features. By identifying the gaps in delivery of the PMYBALS scheme, this paper incorporates workable solutions to optimize the contribution of the PMYBALS scheme towards achievement of the intended objectives as well as UN-SDGs. Recommendations are targeted at Policy and Operational Levels with the objective to reap the maximum benefits from PMYBALS scheme in terms of Financial Inclusion and Outreach. In anticipation of our contribution in terms of implementation of the given suggestions, our case study will contribute towards achievement of UN-SDG numbers 1 (No Poverty), 3 (Wellbeing), 8 (Economic Growth), 9 (Industry, Innovation & Infrastructure), 10 (Reduced Inequalities), 16 (Peace, Justice & Strong Institutions), 17 (Partnerships for the Goals), as well as considerable progress in the current status of achievement of UN SDGs for Pakistan.

**Key Words:** Business & Agri Loans, SMEs, Financial Inclusion, Outreach, UN SDGs.

### 1. Introduction

The Service Dominant Logic Theory provides the theoretical framework for this study. The core tenet of the service dominating logic paradigm is that products and services only become valuable when consumers use them. This point of view is spreading in popularity as a way to understand the interactions that exist between businesses and their clients. By thoroughly understanding the concept of service dominance from the standpoint of client needs, banks may utilize it to develop a customer-centric strategy. Every interaction that occurs inside an economy is

viewed as occurring between services in S-D logic. Early in the new millennium, Robert F. Lusch and Stephen L. Vargo proposed the idea. This viewpoint maintains that all products are meant to serve customers and that the value of a product comes from the interactions between customers and products.

The service-dominant perspective maintains that people bring more to business interactions than just money, and views customers as co-creators of value. Its perspective is customer-focused. By taking a service-dominant stance, banks may focus on the needs of SMEs rather than just the product. There are two of Lusch and Vargo's foundational premises of S-D logic that are relevant to our study. First, service is the essential building block of exchange. Every transaction in an economy is a service-to-service transaction. The provider and the client share and co-create value. The information, abilities, and functionality that come from the company's products are the service that they offer, and customers can utilize this to better their lives in various ways. Second, value is always co-created with the client. The conventional belief that customers are merely recipients of value is challenged by S-D logic. According to the S-D logic perspective, customers co-create value. Customers' interactions with the services that businesses offer shape the value they deliver, allowing them to evolve, better understand their clientele, and produce more useful services.

## **2. Literature Review**

The availability of formal credit to individuals is crucial when it comes to financial services and goods. Having access to finance could be helpful in reaching SDG 1, which aims to end extreme poverty. SDG 1 states that everyone should have equal access to financial services, including microfinance, particularly the poor and vulnerable. Formal credit includes things like mortgages, student loans, credit cards, consumer credit, and microloans for individuals, small businesses, and startup owners. By using credit to spread the cost of large-scale consumption over time, people can increase their investment options, protect themselves from dangers and unplanned expenses, and smooth their income. In the end, these advantages lead to improved housing, greater chances for training and education, more mobility, and more robust social networks. Moreover, by easing their anxiety and assisting in their recovery from shocks, financial products like credit can increase the resilience of impoverished businesses. They then have the financial and psychological assurance to take on risk and make long-term investments as a result (El Zoghbi et al., 2019).

On the other hand, when a business entity is unable to obtain credit, they may encounter several obstacles to improving their standard of living, exacerbating their financial hardship. Based on data from multiple countries, empirical evidence suggests that microfinance could lessen financial burden on the underprivileged segments of society (Pitt and Khandker 1998; Zhang 2017). Moreover, a substantial body of research suggests that financial development functions as a reliable macroeconomic predictor of economic growth (see, for instance, Levine and Zervos, 1996; Levine, 2004). According to Beck et al. (2007) and Park and Mercado (2015), financial expansion causes the incomes of the poor to rise faster than the average per capita GDP, which lowers poverty and income inequality. Additionally, it is asserted that a lack of formal credit and other financial tools may cause individuals to become impoverished in a number of nations (Banerjee and Newman, 1994; Aghion and Bolton, 1997; Beck et al., 2007; World Bank, 2014).

Furthermore, statistical evidence indicates that access to financial resources fosters innovation and entrepreneurial endeavors, subsequently resulting in the establishment of new enterprises, employment opportunities, and economic expansion (Meghir, 2014; Banerjee et al., 2015). As a result, recognizing individuals, companies, and SMEs is important for both SDG 8 and SDG 9, which support innovation and sustainable industrialization and sustainable economic growth and full and productive employment, respectively. Women are able to assert their economic power when they have sufficient access to essential financial services like bank loans (World Bank, 2014). It is stated that women have a greater need for access to these services because they are more likely than men to work for themselves (Demirguc-Kunt et al., 2013). 40% of all workers worldwide are women, and in developing nations, SMEs owned by women account for about 34% of all SMEs (Isaac, 2014). Concurrently, 42% of women globally do not have access to the financial system (Demirguc-Kunt et al., 2013).

## **3. Data Analysis and Discussion**

For a country's economy to grow, the Small and Medium Enterprise (SME) sector is essential. This sector of the economy is thought to be its cornerstone. SMEDA estimates that there are more than 5 million small and medium-sized enterprises (SMEs) in Pakistan. 40% of Pakistan's GDP and 25% of all exports are made up of SMEs. The SME sector employs the greatest percentage of the working people in the country, second only to the agriculture industry. SME employment makes up 78% of the non-agricultural sector's employment. SMEs have a significant role in employment creation, poverty reduction, and national economic progress. Since 2013, there has been an

increase in SME financing thanks to a number of regulatory initiatives and SBP's supportive role. December 2021 saw an outstanding SME financing of Rs 524 billion, up from Rs 284 billion in December 2013. Bank lending to SMEs is still hampered by structural obstacles, such as information asymmetries, expensive transaction fees, and the absence of physical collateral required for loan approval by SME owners and entrepreneurs (1).

Table 1: The National SME Definition that has been embraced by Pakistan is as follows:

Enterprise Category	Criteria
	Annual Sales Turnover
Small Enterprise (SE)	Up to PKR 150 Million
Medium Enterprise (ME)	Above PKR 150 Million to PKR 800 Million
Start-up	A small enterprise or medium enterprise up to 5 years old will be considered as Start-up SE or Start-up ME

One of the biggest obstacles facing Pakistani SMEs has been access to financing. Bank loans to SMEs fell steadily from 15% in 2008 to 7.3% in 2023 as a share of private sector lending. Commercial banks were lending PKR 519 billion to SMEs as of May 2023, substantially less than the demand, which was projected to be between PKR 3.20 and 4.05 trillion, or only 13–16% of the estimated demand (2).

According to a study by the Competition Commission of Pakistan (CCP), financing availability is a major roadblock to the expansion of SMEs. Despite legislative efforts to raise finance to 17%, the report reveals that Pakistan's SME sector barely obtains 6-7% of private sector financing. In contrast, SMEs in India receive 18% of funding, while those in Bangladesh receive 25%. The conclusions are based on information gathered from 18 focused group discussions, 50 Financial Institutions (FIs), 362 SMEs spread over 11 cities, and a seminar on female entrepreneurs (3). Please refer to the Tables 1-3 of SME Financing Data as of June 30, 2023 in Appendix. (4). In the global economy, SMEs hold a unique position of prominence. The development and expansion of a robust SME sector is fundamental to the global economy's prosperity. Accordingly, the rise of SMEs will be essential to global economic development and prosperity (Savlovski & Robu, 2011).

The UN Sustainable Development Goals (SDGs) can benefit greatly from the contributions made by SMEs in terms of job creation, sustainable industrialization, innovation, and income inequality reduction, according to the OECD (2017). The financial viability and performance of SMEs are critical to these objectives and strategies (Bartolacci et al., 2020). In particular, our case study will contribute towards achievement of UN-SDG numbers **1** (No Poverty), **3** (Wellbeing), **8** (Economic Growth), **9** (Industry, Innovation & Infrastructure), **10** (Reduced Inequalities), **16** (Peace, Justice & Strong Institutions), **17** (Partnerships for the Goals). SMEs comprise 90% of the world economy, and they also provide 60% to 70% of GDP and 60% to 70% of employment, according to the World Trade Report (2016). This highlights the importance of SMEs as current and future catalysts for economic growth and development. Despite their enormous contributions, SMEs have many challenges and restrictions. A growing body of research indicates that one of the most significant, if not the most significant, factors preventing the inclusive growth of SMEs in the global economy is access to finance (Ang, 1991, 1992; Baker et al., 2020; Carpenter & Petersen, 2002; Chittenden et al., 1996; Cosh & Hughes, 1993; Fazzari et al., 1988; Gibson, 1992; Guariglia et al., 2011; Hall & Hutchinson, 1993; Hamilton & Fox, 1998; Hutchinson & Xavier, 2006; Jordan et al., 1998; Kaplan & Zingales, 1997; Lopez-Gracia & Aybar-Arias, 2000; Moscalu et al., 2020; Robson et al., 1993). Furthermore, studies show that limited access to capital restrains the growth in productivity in developing countries (Bloom et al., 2010; Hsieh & Klenow, 2009).

Financing constraints stem from a variety of factors, such as deficient accounting, financial, and regulatory systems (Beck & Demirguc-Kunt, 2006), competition (Anzoategui & Rocha, 2010), laws and regulations that impact financing availability, like interest rate laws (Foltz, 2004), and a lack of knowledge about available financing sources and how to access them (Cook & Nixon, 2000).

The bulk of the time, SMEs' access to formal financial channels is restricted because they are unable to meet security criteria in comparison to their financial requirements. Collateral is usually required by formal capital

lenders in order to control their exposure to risk. It's interesting to note that SMEs may experience a substitution effect if they are turned down by traditional lenders like banks and financial institutions. In this case, the SMEs may turn to unofficial and alternative funding sources like (a) family, friends, and relatives, who are usually trustworthy borrowers but pose a significant risk to lenders because formal agreements are likely missing; or (b) unlicensed lenders like loan sharks, who may subject the SMEs to additional difficulties (like extortion, harassment, and inflated costs of doing business). Financial constraints can therefore impede the growth and development of SMEs even in situations where there is a strong market demand for their product (Chandra et al., 2020; Cook & Nixon, 2000) because they may not be able to meet this demand quickly enough without having to make additional financial investments to increase production capacity.

Pakistan's Progress on achievement of UN SDGs is as follows:

<b>SDG INDEX RANK</b> <b>128/166</b>	<b>SDG INDEX SCORE</b> <b>59</b>	<b>SPILLOVER SCORE</b> <b>99.3</b>
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**Status of SDG targets for Pakistan (% trend indicators):**

Achieved or On-Track: 20%

Limited Progress: 52%

Worsening: 28%

(Source: Sustainable Development Report, 2023.)

**3.1 PMYB&ALS, the Prime Minister's Youth Business and Agriculture Loan Scheme: The Epitome of Financial Inclusion & Outreach**

Pakistan's inadequate progress on the achievement of UN SDGs made it incumbent upon the Government to introduce a scheme that ensured financial inclusion and outreach at grass root level of the society. Financial inclusion is the process of offering affordable financial services and products to all segments of society. Financial inclusion has been recognized by national and international policymakers as a crucial development goal because to its favorable effects on economic indicators. Financial inclusion is positively connected with employment and has a considerable impact on growth, according to macroeconomic empirical research (Cull et al. 2014; Pasalı 2013).

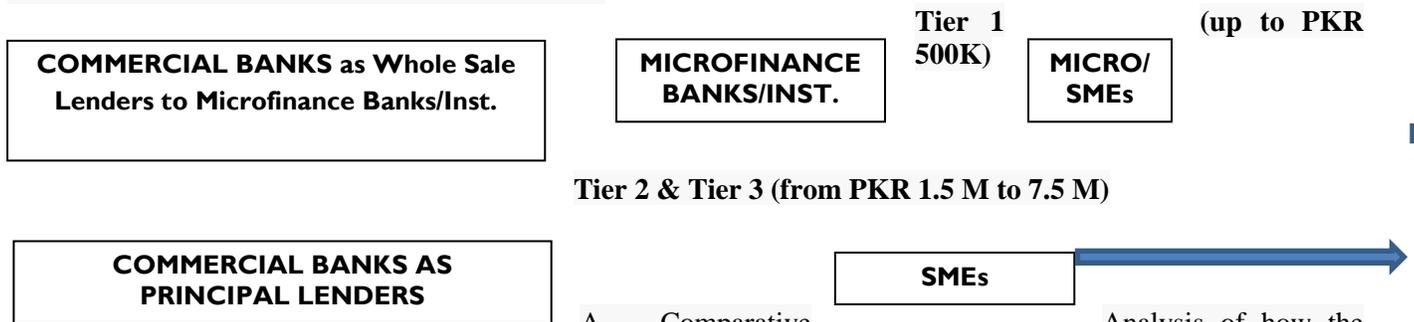
Government-sponsored programs, such as the PMYBALS, can be very helpful in developing nations by giving credit to underprivileged individuals who are unable to obtain official credit, which typically requires collateral. Assuming that credit availability improves welfare, it is sufficient to state that the banking system's distribution of credit to the impoverished is a fundamental function and that the extent of outreach, or the spread of credit to the impoverished, is a crucial success factor. Donors have rationalized their subsidies by claiming that giving the poor credit can improve their well-being and have justified their support for nonprofit organizations because they think these organizations can reach the poorest populations the most deeply and most efficiently.

Salient features (5) of the PMYBAL Scheme are:

- All Pakistani nationals with a valid CNIC who are between the ages of 21 and 45 and have the potential to become entrepreneurs are eligible to apply for financing under PMYB&ALS. The lower age limit is 18 for firms connected to IT/E-Commerce.
- Small & Medium Enterprises (both new and established companies) run by young people in the aforementioned age ranges are also qualified.
- Financing is divided into three levels under PMYB&ALS. The maximum loan amount under Tier-1 (T1) is Rs 0.5 million. The loan ceiling for Tier-2 (T2) is from Rs 0.5 million to Rs 1.5 million, and for Tier-3 (T3), it is from Rs 1.5 million to Rs 7.5 million.
- Every T1 loan is devoid of markups. The markup rates for T2 and T3 are 5% and 7%, respectively.
- Both T1 and T2 loans will be clean(without security); the borrower's personal guarantee is the only prerequisite. The security requirements for T3 loans are determined by the credit policies of the executing institutions.
- Credit guarantees and risk mitigation: the government will cover credit losses (just the principal amount) on the banks' dispersed portfolio in the following ways:  
T1: Up to 50%, comprising 10% for MFBS/MFIs on a first loss basis and 40% for wholesale lenders on a pari-passu basis.  
T2: Based on initial default, up to 25%  
T3: Based on initial loss, up to 10%

It is pertinent to mention here that the current profit rates on deposit range from 18-21%. Given the interest rate scenario, the markup rates on T2 and T3 loans are heavily subsidized and ensure to optimize financial inclusion as well as depth of outreach to the poor.

Structure of Credit Flow of the PMYBAL Scheme:



A Comparative Analysis of how the PMYBALS addresses the bottlenecks in delivery of credit to the SMEs is elaborated in the Appendix.

### 3.2 Conclusion and Recommendations: Fine Tuning the PMYBALS for Optimizing Financial Inclusion and Outreach

Table 5 is evident of the fact that despite best intentions, features and incentives offered by the PMYBALS, visible results in terms of reducing the Demand and Supply Gap have still not been achieved.

Please refer to the Table 4 on Quarterly Data Tables for the PM's Youth Business & Agriculture Loan Scheme (as of September 30, 2023). (6)

Taking cognizance of the Pakistan's population 241.5M, only 0.03% (71,107) could be benefitted from the PMYBALS scheme despite its highly attractive features. The data reflects period of activity of approx., nine months.

In order to optimize the contribution of the PMYBALS scheme towards achievement of UN-SDG numbers **1** (No Poverty), **3** (Wellbeing), **8** (Economic Growth), **9** (Industry, Innovation & Infrastructure), **10** (Reduced Inequalities), **16** (Peace, Justice & Strong Institutions), **17** (Partnerships for the Goals), the following recommendations are submitted at Policy and Operational Levels with the objective to reap the maximum benefits from PMYBALS scheme in terms of Financial Inclusion and Outreach:

1. To foster financial inclusion and outreach, the State Bank of Pakistan, the regulating body for the Banking system, may consider the following policy and operational initiatives:
  - a. Increase partner Banks in the PMYBALS as much as possible. Currently, there are only 5 partner Banks out of the total of 53 Banks operating in the Banking system.
  - b. Introduce a controlled credit expansion plan under PMYBALS. Allocate credit targets for SMEs to partner Banks according to their deposit base and risk appetite.
  - c. Introduce a Performance Penalty Mechanism for partner Banks not meeting their credit targets and breaching the Turn Around Time (TAT) of 45 days.
  - d. Reward the efforts of Banks meeting their credit targets by formal recognition or award of monetary benefits to the relevant staff.
  - e. Introduce flexibility in Prudential Regulations for SME lending to align them as far as possible with PMYBALS. Data analysis may be conducted on the declined cases to ascertain the reasons that resulted in refusal of the case. Flexibility in either eligibility criteria or approval requirements can subsequently be considered according to the risk appetite and growth targets.
  - f. Introduce regular educational activities, trainings and seminars for SMEs to increase financial literacy through partner Banks as well as NIBAF (National Institute of Banking & Finance).
  - g. Utilize social media marketing tools to increase awareness about PMYBALS.
  - h. Use of Artificial Intelligence tools such as Chatbot on SBP website to ensure live response to frequently asked questions about PMYBALS.
  - i. Introduce and monitor a Complaint Resolution Mechanism for expedient redressal of SMEs issues and complaints.
  - j. Encourage cross-institutional training exchange programs between SBP and partner Banks to enhance learning, experience sharing, knowledge enhancing and professional development.

- k. Coordinate with other institutions like SECP, Chambers of Commerce & Industry, Local Trade Bodies and Media houses to increase the impact of PMYBALS in terms of financial inclusion and depth of outreach.
2. The Government of Pakistan may consider the following policy initiatives:
    - a. At the application stage on the PMYBALS portal, reduce the initial application size from 8 pages to 1 page comprising of bare minimum and important details. Comprehensive application can afterwards be filled out under guidance of disbursing Banks.
    - b. Given the current inflationary pressures and cost of inputs, the Tier 1 Loan may be increased up to Rs.1 M (from 0.500M) and Tier 2 Loan to Rs. 2.5 M (from 1.5M).
    - c. Introduce Tax incentives schemes for Banks meeting their credit targets to SMEs under PMYBALS.
    - d. Ensure sustainability of the PMYBALS through legislation to insulate the scheme from changes in power structure.
    - e. Ensure that sufficient Budget allocations are available at all times for timely reimbursement of subsidy claims of Banks.
  3. Banks and Microfinance Institutions may consider the following policy and operational initiatives:
    - a. Formulate and adopt a “GO-TO-CUSTOMER” policy in SME lending as opposed to serving the customers who approach the Banks on their own.
    - b. Ensure depth of Outreach by carefully selecting staff adept in both credit and marketing skills. The mindset of staff should ideally not be microfinance averse.
    - c. Adopt a policy of “Group Lending” for SMEs followed by Grameen Bank of Bangladesh ensuring low incidence of loan defaults.
    - d. Allocate sufficient budgets for SME lending under all tiers of PMYBALS.
    - e. Formulate a policy for “Advance Provisioning” i.e. a percentage of portfolio size, for expected loan defaults. This may help build a gradual reserve for provision of bad debts and create a buffer against an un-expected large provisioning requirement in one accounting period.
    - f. Formulate a Quality Delivery Policy for SME lending under PMYBALS to ensure prompt, swift and courteous service to SME customers.
    - g. Formulate a policy for SME lending in geographical areas which are under privileged and most deserving for economic uplift of those areas.
    - h. Formulate a clear policy for Gender Equality and Diversity.
    - i. Formulate a policy for Turn Around Time of 40 days to avoid breaching the 45 day benchmark fixed by the PMYBALS. Similarly, formulate a policy for maximum 60 days TAT where collaterals are offered under Tier 3 Loans necessitating perfection of securities before disbursement.
    - j. Ensure flexibility Credit Policies for SME lending practices in areas where the SBP allows discretion by Banks.
    - k. Allocate lending targets under PMYBALS to regions and staff.
    - l. Introduce a Reward and Incentive mechanism for staff meeting their targets including weightage in annual appraisals.
    - m. Impart regular training to staff to keep them abreast with contemporary trends and issues in SME lending.
    - n. Arrange regular proactive education and discussion sessions with SME customers across all regions, business sectors in order to increase awareness and financial literacy.
    - o. Utilize social media tools to increase awareness about SME lending and PMYBALS.
    - p. Use of Artificial Intelligence tools such as Chatbot on Bank website to ensure live response to frequently asked questions about SME lending and PMYBALS.
    - q. Introduce and monitor a Complaint Resolution Mechanism for expedient redressal of SMEs issues and complaints within a 15 day TAT.

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## APPENDIX.

### Tables of SME Financing Data - June 30, 2023

Table No 1: SME Financing profile of Banks & DFIs			PKR BILLIONS
Category	Jun-22	Mar-23	Jun-23
Outstanding SME Financing	484.81	479.05	457.10
*Domestic Private Sector Financing	8,438.21	8,985.47	8,761.39
SME Fin as % of Domestic Pvt Sector Financing	5.75%	5.33%	5.22%
SME NPLs Ratio	16.52%	16.99%	17.12%
No. of SME Borrowers	168,750	155,380	154,229

Table No 2: Sector-wise SME Financing			PKR BILLIONS
Sector	Jun-22	Mar-23	Jun-23
Trading SMEs	189.46	190.34	185.72
Manufacturing SMEs	167.75	171.01	151.52
Services SMEs	127.59	117.71	119.85

TOTAL	484.81	479.05	457.10
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Table No 3: Share of Banks in SME Financing			PKR BILLIONS
Banking Cluster	Jun-22	Mar-23	Jun-23
Domestic Private Banks	332.90	313.00	281.92
Public Sector Commercial Banks	101.67	116.95	118.52
Islamic Banks	37.08	36.35	43.97
Specialized Banks & others	8.83	8.21	8.01
DFIs	4.33	4.54	4.69
Total	484.81	479.05	457.10

Data is based on monthly reports submitted by banks & DFIs to SH&SFD, State Bank of Pakistan.

**Quarterly Data Tables for the PM's Youth Business & Agriculture Loan Scheme (as of September 30, 2023). (6)**

Table 4 : Consolidated (TIER-I, TIER-II & TIER-III)						PKR Millions
	SME Number	SME Amount	AGRI Number	AGRI Amount	TOTAL Number	TOTAL Amount
Total Applications approved	43,675	23,555.2	38,498	21,195.6	82,173	44,750.8
Total Disbursements	35,782	21,377.8	36,215	20,262.0	71,997	41,639.9
Total Outstanding finance	35,696	19,604.0	35,411	19,807.0	71,107	39,411.0
Total Non-performing Loans (NPLs)	23	11.8	3	0.2	26	12.1

Source: State Bank of Pakistan Quarterly Publications

**Comparative Analysis: How the PMYBALS addresses the Bottlenecks in Delivery of Credit to the SMEs**

Consequent upon results of the qualitative interview with Mr. Rizwan Hameed, a banker with thirty years' plus experience in banking and currently on the Board of a local Microfinance Bank, the significant bottlenecks in delivery of credit to SMEs and how PMYBALS addresses those bottlenecks are captured in Table 5 below:

Table 5

S#	Bottlenecks	Remedies offered by PMYBALS
1	Lack of Geographical Outreach.	Loan applications under T1 are processed and disbursed by MFBs/MFIs chosen by the individual wholesale lenders. Every citizen under 45 is qualified. Use the online application form provided by the PM Youth Program (PMYP) Portal for efficient monitoring. This form is available on the internet in both Urdu and English.
2	Lack of Spirit of Financial Inclusion among Banks.	It is advised that all commercial and Islamic banks join forces. It is encouraged for banks and DFIs to take part in T1 as wholesale lenders in order to supply money to MFBs and MFIs for subsequent lending. All business/commercial industries and goods are covered. All crop and non-crop sectors (such as agricultural production, livestock, poultry, fisheries, dairy, etc.) are eligible for agriculture.
3	Bank Loans are usually Short-Term	Tier 1: Up to 3 years

	whereas, SMEs prefer 3-5 term loans	Tier 2 & 3: For Working Capital/Production loans up to 5 years. Tier 2 & 3: For long term/development loans up to 8 years.
4	Restrictive and Narrow Product Features of Bank Loans for SMEs	<p>Within the overall maximum financing limit of Rs 7.5 million, a customer may take out a maximum of two loans (one long-term loan and one short-term loan). A customer may apply for one production loan and one development loan in the case of agriculture, up to a total financing ceiling of Rs 7.5 million. Relaxations in the ratio of debt to equity: Concerning New Businesses: T1 and T2 at 90:10. T3 - 80:20</p> <p>The equity contribution from the borrower may take the form of cash or real estate that will be needed once the loan has been approved. For already-existing businesses: zero at every tier.</p> <p>The equity contribution from the borrower may take the form of cash or real estate that will be needed once the loan has been approved. For already-existing businesses: zero at every tier. Term loans and working capital loans, such as morabaha, are available for financing or leasing of machinery and locally produced cars for business purposes. Per borrower, just one vehicle is permitted. A food franchising and distribution business borrower may be eligible for financing for multiple vehicles. For civil works, up to 65% of the overall finance ceiling is available. Loans for development, production, and agriculture are eligible.</p>
5	Banks enforce strict Repayments Terms not generally suited to SMEs resulting in Loan Defaults.	<p>Tier 1: Crop loans with a maximum one-year term and a lump sum repayment due on or before maturity that is dependent on the crop cycle. Tiers 2 and 3: Banks may choose to offer working capital or production loans. In the first two years, only the markup is due; in the following three years, both the principal and the markup are due, for a maximum five-year repayment period. Tiers 2 and 3: Long-term and development loans for up to 8 years, with a maximum 1-year grace period.</p>
6	SMEs considered High Risk for Conventional Credit by Banks. Absence of Credit Guarantees.	<p>Risk mitigation: The government will pay the principle amount of credit losses on the banks' dispersed portfolio in the following ways: T1: Up to 50%, comprising 10% for MFBs/MFIs on a first loss basis and 40% for wholesale lenders</p>

		on a pari-passu basis. T2: Based on initial default, up to 25% T3: Based on initial loss, up to 10%
7	MFBs/Banks insist on Collaterals	Security arrangements: T1: Clean (backed solely by the borrower's personal guarantee). Furthermore, MFBs and MFIs must adhere to the norms and regulations of SECP and SBP. T2: Clean (backed exclusively by the borrower's personal guarantee). T3: In line with bank policy. Collateral will be vehicle(s) financed under T1, T2, and T3.
8	High Interest rates crowd-out projects otherwise viable	End user rate for SMEs: T1: 0% T2: 5% T3: 7% As compared to usual Bank Lending rates starting @ 25% p.a. for SMEs under the current scenario.
9	High Interest Rates culminate in repayment issues for SMEs	Subsidized & Affordable rates ensure help in easy management of SME loans.
10	Easy availability of Extortionist Loan Sharks with exorbitant rates	PMYBALS features over-ride all alternate products
11	Gender Discrimination. Male driven SMEs considered Low Risk.	25% of the loans reserved for Women borrowers.
12	Lack of Incentives for SME financing	T1: KIBOR+9%, which consists of an 8% margin for microfinance banks (MFBs) and microfinance institutions (MFIs) and a KIBOR+1% margin for wholesale lenders. T2 & T3: 3% + KIBOR The mark-up subsidy will be calculated using the six-month KIBOR offer.
13	Long Turn Around Times for Approval	The application form expressly states that the processing period cannot exceed 45 days.
14	Demand & Supply Gap	Objective of features and incentives to reduce gap.

*Notes: 1. 6 Month KIBOR (Offer) as of 22 Jan 2024: 20.83% p.a. from SBP website.*

*2. Table developed by Author.*