

PROJECT CONCEPT FORM FOR NEW PROJECTS / INITIATIVES

Rs. in Million

Cost		Allocation for 2017-18				Through forward		
Local	Foreign	Cap	Rev	Foreign	Total	2018-19	2019-20	Beyond 2019-20
7000.00		1000			1000	2000	4000	-

1	Title of the proposed project	Credit Guarantee Scheme for Development and Promotion of SMEs in Punjab
2	Proponent information	<p>By reviewing the lending trend of Commercial Banks towards uncollateralized credit to SMEs, it has been observed that banks feel reluctance to extend uncollateralized credit to SMEs, even at high interest rates. Mostly SMEs do not have the sufficient property / assets that could serve as collateral for the loan therefore they remained ignored. Resultantly, this financing gap becomes hindrance towards prosperity of SMEs in Pakistan. To encourage the banks / lenders towards SME financing, Credit Guarantee Schemes are being introduced.</p> <p>Credit Guarantee Schemes are programmes that ensure partial payment to lenders in case of default on the part of borrower in order to motivate lenders to lend to borrowers which would not have access to credit under normal circumstances.</p> <p>Globally speaking, various Credit Guarantee Schemes are being offered in the world to promote financing access to SMEs. These schemes are considered pivotal initiative to increase the growth and innovation in SMEs of the country. In South America and Africa credit guarantee schemes created more than 2,70,000 new jobs and in India these guarantees created more than 9,00,000 jobs in last thirteen years. The country wise detail of different credit guarantee schemes and risk coverage is hereunder:</p>

Sr. No.	Name of the Country	Risk Coverage	Target Group
i.	India	85 % of the amount in default	Micro and small enterprises
ii.	Mexico	40-90% of total loan	agriculture sector
iii.	Nigeria	Mark-up rebate And 75 % of the total loan	Small farmers
iv.	Turkey	80% of total loan	small and medium-sized enterprises (SMEs)
v.	Argentina	100 % risk coverage	Small entrepreneurs
vi.	Jorden	50%-75% loss coverage	Multiple sectors
vii.	Japan	90% of the loan value	For SME start-up and its growth
viii.	Malaysia	70-90% of loan value	For SMEs (in the general business, manufacturing and agricultural sectors)
ix.	Korea	50% to 85 % of the value of the loans	SMEs (for all types of business and for evolving new technology)
x.	Italy	80 % of the loan value	SMEs
xi.	Canada	80% of default amount	For capital investments

In Pakistan, State Bank of Pakistan (SBP) is managing following two Credit Guarantee Schemes in collaboration with UK Department for International Development (DFID):

“Microfinance Credit Guarantee Scheme”, under this scheme, SBP shares the borrower’s default risk with banks for their lending to MFBs / MFIs under two different options a). 40% Partial Guarantee on the principal outstanding and b). 25% First Loss Default on the principal disbursed. The facility is available for commercial banks/DFIs entering into lending arrangements with financially and socially sustainable MFBs/MFIs with significant potential to maximize the outreach to poor and marginalized segments of the society.

“Credit Guarantee Scheme for Small and Rural Enterprises”, under this facility, SBP shares 40 percent of the bonafide losses of banks resulting due to defaults by the SME and Agriculture sector borrowers of the banks. So far, the credit guarantees amounting to Rs.3.20 Billion has been issued to the Participating Financial Institutions (PFIs)/banks and the default rate is less than 2%.

These schemes are being offered to reduce mark-up rate and credit risk coverage. Reportedly by SBP that through this intervention, the financial access has been increased up to 31% for targeted segments.

Based upon the significance of the Credit Guarantee Schemes, PSIC intends to initiate Credit Guarantee Scheme to furnish guarantees to the Scheduled Banks for the repayment of loans to the SMEs for development and promotion of enterprises and to share losses on account of bad debts with the total cost of Rs. 7000 million in phased manner in Punjab with special focus on areas of SMEs constraints.

As per Section 18, Clause 2(b) of PSIC Act, 1973 “the Corporation may furnish guarantees to the Scheduled Banks for repayment of loans to borrowers for development of industries and to share losses on account of bad debts in accordance with the agreements executed

		<p>or made in this behalf between the Corporation and such Banks” (Annex-A).</p> <p>After visit of the Chief Minister to Turkey in December, 2015, a delegation of Turkish Small & Medium Enterprises Development Organization (KOSGEB) visited Punjab and an MOU was signed between KOSGEB and Punjab Small Industries Corporation (PSIC) for future cooperation in areas of mutual interest in March, 2016.</p> <p>Chief Minister constituted a steering committee under convenorship of Minister for Finance for formulation & implementation of sustainable model for SMEs Development and Growth. Credit Guarantee Scheme is one of the component of access to finance for SMEs in Punjab.</p>
3	<p>Goals and objectives set to be achieved</p>	<p>The major goal of this scheme is to provide easy access to capital to collateral deficient SMEs and to minimize the financing gap of SME sector and to encourage the scheduled banks / Financial Institutions to lend in the sector.</p> <p>It is expected that through Rs.1000.00 million, to be allocated for the year 2017-18, more than Rs. 7000.00 financial additionality will come in the sector and 7000 thousand SMEs would be served.</p> <p>(Detailed Working is Attached at Annexure-B)</p> <p>Following are the major objectives of the scheme:-</p> <ul style="list-style-type: none"> • Entrepreneurial development. • Employment Generation. • Poverty alleviation. • Economic and Social Development. • Financial Stability. • Industrial Growth. • Increase in export of the country.
4	<p>Rationale for ADP Funding</p>	<p>In Punjab Industries Sector Plan (2014-18), The Punjab Government has targeted a GDP growth rate of 8% by 2018 in order to absorb the growing workforce. To achieve this and to improve living standards and employment, the Government has identified six key drivers of growth. These are:-</p>

- Catalyzing Punjab's GDP growth based on improvements in productivity of resources and better functioning urban clusters.
- Private Sector-led economic growth that will require a revival of investment by the private sector.
- Employment-intensive economic growth that will require a focus on employment generation by revival of employment-intensive sectors and creation of quality jobs by addressing critical gaps in human capital
- Export buoyancy to be driven by a focus on export-oriented economic growth.
- Complete social sector coverage to be embedded in quality provision of education, healthcare and social protection for the poor and vulnerable.
- Effective security through improved governance and law & order

The industrial sector has the potential to be the driving force in achieving the target growth rates for income, employment and investment in the province.

To achieve the desired targets set by Government for Economic growth in the province some project is required to be prepared and need to include in ADP because SME Sector having more than 90% share in total industrial sector of the country and provide employment opportunity to 70% of non-agriculture labor force, share 30% in GDP and 25% in export of the country.

On the proposal, the Chief Minister constituted a committee under convener-ship of Minister for Finance to examine the proposal of PSIC in depth and determine the modalities broad parameters of the scheme. The committee decided to engage an internationally reputed consultancy firm to develop complete model of CGS including legal and regulatory framework, corporate governance & risk management, operational framework, monitoring & evaluation mechanism and ISP design plan.

Subsequently, M/S. Ernst & Young Ford Rhodes Sidat Hyder has been selected through competitive process for development of

		complete model of Credit Guarantee Scheme. The firm will complete the assignment and submit the report during May, 2017. Pertinent to mention here that PSIC Board of Members in its meeting held on 26.8.2015 agreed to initiate the scheme.								
5	Geographical Coverage (for whole province or specific district / tehsil)	Throughout Punjab								
6	Is the project aligned with sector plan	The project is aligned with PSIC Policy Reforms for helping in achieving economic growth through creating revolving fund for cheap loans on succession basis to facilitate in growth of small and cottage industries.								
7	Relationship of the project with growth objectives	In Punjab Industries Sector Plan (2014-18), The Punjab Government has targeted a GDP growth rate of 8% by 2018 in order to absorb the growing workforce. This project is aligned with growth strategy of Punjab Government to achieve the target of employment, export and GDP.								
8	Nearest place where similar facility is available	In Pakistan, State Bank of Pakistan (SBP) has introduced two Credit Guarantee Schemes, these are; Microfinance Credit Guarantee Scheme and Credit Guarantee Scheme for Small & Rural Enterprises to boost up the financing access for the target sector. As reported by State bank of Pakistan, through this intervention the financial access has been increased up to 31% for targeted segments and with below to 2% of the bad debts.								
9	Gestation period	2017-18 to 2019-20								
10	Financial Phasing	<table border="0"> <tr> <td>Financial Year 2017-18</td> <td>Rs. 1000.00 Million</td> </tr> <tr> <td>Financial Year 2018-19</td> <td>Rs. 2000.00 Million</td> </tr> <tr> <td>Financial Year 2019-20</td> <td>Rs. 4000.00 Million</td> </tr> <tr> <td>Total</td> <td>Rs. 7000.00 Million</td> </tr> </table>	Financial Year 2017-18	Rs. 1000.00 Million	Financial Year 2018-19	Rs. 2000.00 Million	Financial Year 2019-20	Rs. 4000.00 Million	Total	Rs. 7000.00 Million
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Total	Rs. 7000.00 Million									
11	Detail of post completion annual operation and maintenance cost (AOM&R) <ul style="list-style-type: none"> ▪ Maintenance ▪ HR ▪ Operation ▪ Repairs 	It will be finalized on the basis of findings of the consultant report								

	▪ Others	
12	Beneficiaries (Type & Number)	Existing / New SMEs will get benefit from this intervention. It is expected that about 7,000 Nos. SMEs annually would be benefitted from this intervention. An amount of Rs.7000.00 million annually financial additionality would be in the sector.
13	Expected output (Qualitative & Quantitative)	<ul style="list-style-type: none"> • Entrepreneurial development. • Employment Generation. • Poverty alleviation. • Economic and Social Development. • Financial Stability. • Industrial Growth. • Increase in export of the country. • Low cost of doing business. • Creating of competitive environment.
14	Priority (Indicate Top, Normal or Low)	<ol style="list-style-type: none"> i. All entrepreneurs who would obtain entrepreneurial training in their respective fields from any (Public / Private) Training Institutes. ii. All entrepreneurs who would obtain training / assistance in their respective fields from Incubation Centers to be established by PSIC at Lahore, Gujranwala and Faisalabad. iii. All export oriented industries with special focus on Apparels, Surgical Instruments, Sports goods, Leather garments / goods, Light Engineering and cutlery etc. iv. SMEs established and to be established in existing and new PSIC Small Industries Estates (SIEs). v. Other potential SMEs of the province and projects to be identified under the project of PSIC titled “Cluster Development Initiative”.