



Prime Minister Nawaz Sharif speaking at the launching ceremony of the Prime Minister's Youth Business Loan scheme in Islamabad in December 2013

A middle-class revolution

Prime minister's loan scheme is out of touch with realities and out of tune with economic discourse

By Asad Sayeed

T rue to form, Prime Minister Nawaz Sharif has launched a business loan scheme for the youth. The importance of the scheme for Sharif can be gauged from the fact that he used it to launch his daughter Maryam Nawaz's political career. Thus, it can rightly be termed the flagship social welfare programme of this government. Even though the scheme has barely taken off, newspaper columnists have had a field day, praising and lampooning it in equal measure. Some say the scheme has the potential to unleash Silicon Valley-like productivity in Pakistan, while others predict that it will end up in a mess similar to Sharif's brainchild of the 1990s — the yellow cab scheme.

First, some essential details of the scheme: It will provide business loans to 100,000 men and women, falling in the 21-45 year age bracket, who will receive loans for up to two million rupees each. So far, public sector banks (the National Bank of Pakistan and the First Women Bank) providing the loans under the scheme think the government is trying to convince private sector banks to join in. Applicants will have to submit a business plan and demonstrate that they are able to put together themselves 10 per cent of the total money required for their proposed project — they will have to provide equity, in other words, to use financial jargon. They will also need a guarantor who owns assets valued up to 150 per cent of the loan amount applied for. The interest payable on the loans will be the Karachi Inter Bank Offered Rate (Kibor) plus 500 basis points, which right now translates to roughly 15 per cent per annum. Of this, the receiver of the loan will pay eight per cent and the rest will be paid by the federal government.

Without getting into the specific merits or demerits of the scheme's potential impact on the economy, contribution to innovation and reduction of unemployment, the first thought that comes to mind is its similarity to the 1990s. Between 2000 and 2008, when Sharif and his family were in Jeddah, some important developments took place in the global policy discourse on welfare. The broad consensus among international policymakers is that globalisation and liberalisation create vulnerability among a large number of people who do not have the resources or capacity to effectively participate in the market process. These people — the underclass of the world — need to be safeguarded by social protections and safety nets. As such, the focus of welfarism has

shifted from loans for the relatively well-heeled – the potential beneficiaries of Sharif's Youth Business Loan scheme – to those who are eking out an existence on the margins. Those with financial resources or appropriate human capital endowments are seen as being capable of participating in the market and, thus, do not need state support.

As such, there is little we see across the world in terms of entrepreneurship-related loan programmes for youth underwritten by the state. There are student loan schemes in a number of developed and developing countries and schemes to promote small-scale indigenous industries, but none of these offer loans as big as two million rupees and that too for those who can put together 10 per cent equity and find guarantors willing to put together the



The Prime Minister's Youth Business Loan scheme chairperson Maryam Nawaz talks to prospective applicants regarding acquisition of forms for loans

necessary collateral. What the rest of the world, including Pakistan, is doing is subsidising food for the poorest, providing work programmes like the guaranteed employment being implemented in India, Argentina and South Africa or providing conditional or unconditional cash transfers to the poorest cohort of the population, as is being done in Sri Lanka, Brazil, Mexico and Argentina. Overt subsidisation of the middle class by the state is not the norm across the globe, neither in developing nor developed countries.

So, apart from the time warp explanation when the Sharifs were sitting in Jeddah, why else has the government decided to make the Youth Business Loan scheme its flagship welfare programme? The short answer is that Sharif and those close to him belong to the right wing. Not only do they consider the middle class to be their core constituency, but they also actually believe that such interventions can unleash

dynamic entrepreneurship that will contribute to economic growth. Obviously, small details such as a failing education system, crumbling infrastructure and energy starvation will not be hurdles in conquering this brave new frontier. This scheme may also be another move to counter Imran Khan's appeal amongst the middle-class youth. A mere 100,000 loans, however, does not appear to dent the appeal of Khan's Pakistan Tehreek-e-Insaf (PTI) when election time comes.

In the meantime, what happens to the poor or vulnerable is really not the concern of this government. It is not that their hearts don't bleed for them. After all, the Benazir Income Support Program (BISP) carries on, and according to Finance Minister Ishaq Dar, it was his brainchild anyway. Although it might be too early to say, the

likelihood is that BISP will be scaled back on one pretext or another as Sharif is known for his aversion to doling out money and making beggars out of the poor. Besides, the government is going to embark on trickle-down economics that it supposes will benefit the poor – one fine day – through all the bold initiatives this government intends to take, such as improving the business(man) climate and promoting privatisation. In any case, the ruling party believes that the poor do not vote for it anyway. Even if they do, it is through party machine and muscle rather than any inherent love for the party.

Will the Youth Business Loan scheme leave an indelible impact on the social protection landscape of Pakistan? Will it be a scheme that is emulated by other countries

in the years to come? No. At best, it will enable some young, enterprising men and women to start small businesses in cases where the only constraint to doing so is access to capital. That still leaves unanswered the issue of the scaling-up and sustenance of these businesses. The worst case scenario is one where there are large-scale loan defaults that further damage the federal government's fiscal position in the years to come. Still, it will not be as disastrous as the yellow cab scheme, which precipitated a crisis of the external balance of payments. More likely, the outcome will be somewhere in between. There will be some poster boys and girls who will be touted as examples of how to pull yourself up from the bootstraps (with some help from the state), and there will also be a lot of defaults and a consequent dent on state coffers.

In all likelihood, there will be not much to say about the scheme five years from now. As for Maryam Nawaz's political career, something else will make or break it, regardless of the success or failure of the Youth Business Loan scheme. ■