



## Quarterly SME Finance Review As of December, 2014

### Infrastructure, Housing & SME Finance Department



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## Contents

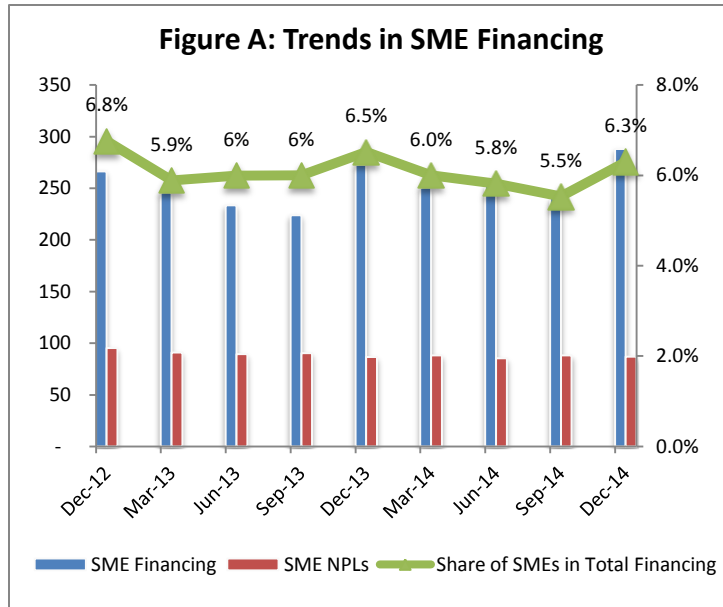
<b>EXECUTIVE SUMMARY .....</b>	<b>4</b>
<b>TRENDS IN SME FINANCING .....</b>	<b>5</b>
NON PERFORMING LOANS .....	6
SECTOR-WISE SME FINANCING .....	6
BANKING GROUP-WISE DISTRIBUTION OF SME FINANCING.....	7
SME FINANCING BY ISLAMIC BANKS AND ISLAMIC BANKING DIVISIONS .....	7
PRIME MINISTER YOUTH BUSINESS LOANS SCHEME.....	8
GENDER-WISE POSITION OF PMYBL .....	8
REGION-WISE BREAK UP OF PMYBL .....	8
CREDIT GUARANTEE SCHEME FOR SMALL AND RURAL ENTERPRISES .....	9
MARK UP SUBSIDY AND GUARANTEE FACILITY FOR THE RICE HUSKING MILLS IN SINDH.....	9
STRENGTHENING SECURED TRANSACTIONS FRAMEWORK.....	9
<b>EVENTS AND PROGRAMS CONDUCTED DURING THE QUARTER.....</b>	<b>10</b>
ONE DAY TRAINING PROGRAM ON REVISED SME PRS – QUETTA .....	10
SECOND MEETING OF JOINT WORKING GROUP OF SBP, SECP AND SMEDA (3S).....	10
SME FINANCE FOCUS GROUP MEETING –MULTAN OFFICE.....	11
SME FINANCE AWARENESS PROGRAM – SUKKUR OFFICE .....	11
ERF TRAINING FOR HBL – GUJRANWALA OFFICE .....	11
<b>SME RELATED NEWS .....</b>	<b>11</b>
GOVT FOCUS DEMANDED TO PROBLEMS OF SMALL, MEDIUM ENTERPRISES.....	11
GOVT URGED TO PROMOTE MICRO-SMALL TO MEDIUM ENTERPRISES .....	11
SMEDA, SBE INK DEAL FOR COLLABORATIVE RESEARCH ON SME.....	12
UNIDO TO FOCUS ON SMES FOR SUSTAINABLE DEVELOPMENT.....	12
KOREAN EXPERTISE CAN TRANSFORM SME SECTOR OF PAKISTAN.....	12
ROLE OF SMES IN BOOSTING ECONOMY HIGHLIGHTED.....	12

## **EXECUTIVE SUMMARY**

SMEs significantly contribute to GDP growth, exports and employment generation. The sector therefore needs to be given due importance. SBP has been taking initiatives for promotion and development of SME banking, as a result of which the outstanding SME financing (domestic) increased by almost 20 percent, as compared to the previous quarter, and stood at Rs 287.8 billion as of December 31, 2014. As compared to last year, almost 6 percent growth in SME financing can be witnessed. The non-performing loans (NPLs) declined by 3 percent on Y-o-Y basis. Number of borrowers also showed a Y-o-Y decline of 7 percent. The SME Finance NPLs indicated declining trend due to conservative lending approach of banks/DFIs; on the other hand it also shows that banks/DFIs tried to clean their overdue loans. With improvements in overall SME Financing of the industry, NPLs to loans ratio of SME Financing decreased to 30 percent in December, 2014 from 36 percent in September, 2014. The continuation of this trend would encourage banks/DFIs to lend more in this sector in future. Facility-wise breakup shows that the working capital financing constituted around 74 percent of total SME financing followed by fixed investment and trade finance with shares of 13 percent each. Banking Group-wise distribution of SME financing shows that the share of private sector banks in outstanding SME financing was 72 percent during period under review. Private sector banks were followed by public sector banks, whose share was around 22 percent of total SME financing which was 20 percent as of September 30, 2014. Five full-fledged Islamic Banks provided 2.4 percent of SME Financing and combined with the financing of Islamic banking divisions of conventional banks, the total SME financing of Islamic banking industry came to nearly 6 percent of outstanding SME financing in December, 2014, which was higher than last year's share of same quarter.

**Trends in SME Financing**

The Outstanding SME Financing of the banks/DFIs increased significantly in December, 2014 as compared to previous quarter. SME financing was 240.71 billion as on September 30, 2014 which was 287.88 billion as on December 31, 2014 showing an increase of almost 20 percent. SME financing showed a Y-o-Y increase of 6 percent when compared with December, 2013.



SME outstanding financing climbed to 6.3 percent of total financing as compared to 5.5 percent in the previous quarter. Moreover, decline in SME NPLs was also witnessed in the quarter under review.

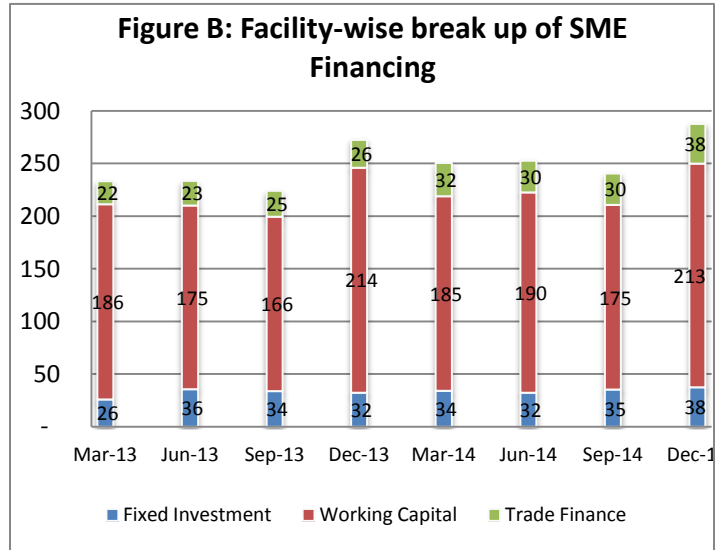
**Table 1: SME Financing Profile of Banks/DFIs**

Category	Periods ending			Change	
	Dec-13	Sep-14	Dec-14	Quarter	YoY*
(Amount in Billion Rs.)					
<b>Outstanding SME Financing</b>	272.53	240.70	287.88	19.60%	5.63%
<b>Total Financing</b>	4,181.94	4,352.00	4,599.46	5.69%	9.98%
<b>SME Financing as % of Total Financing</b>	6.52%	5.53%	6.26%		
<b>SME Finance NPLs</b>	89.47	85.82	87.05	1.44%	-2.69%
<b>NPLs as % of Outstanding SME Financing</b>	32.83%	35.65%	30.24%		
<b>No. of SME Borrowers</b>	144,141	135,557	134,521	-0.76%	-6.67%
<b>* YoY: Year on Year</b>					

The number of SME borrowers declined from 135,557 to 134,521 during the 4<sup>th</sup> quarter of 2014, while on Y-o-Y basis; there was a decline of 6.7% (Table 1).

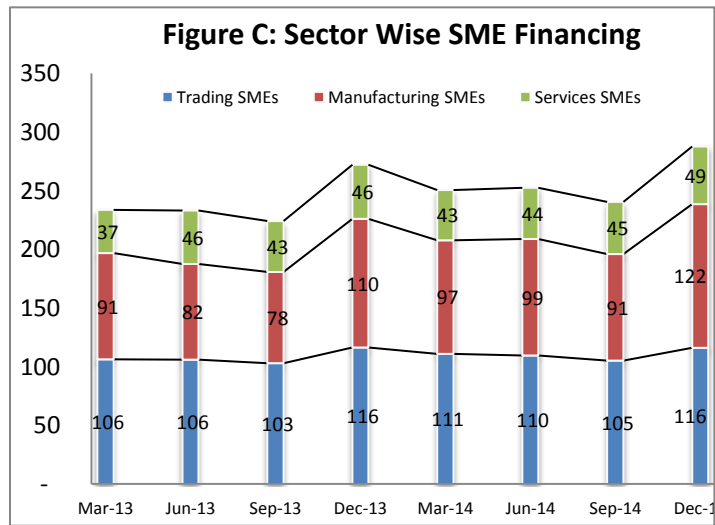
**Non Performing Loans** declined by 3% on Y-o-Y basis and when compared to previous quarter, NPLs showed an increase of 1.44% (**Table 1**). SME NPLs were 87 billion rupees as on December 31, 2014 when compared to 86 billion as on September 30, 2014.

**Facility-wise breakup** in **figure B** shows that the working capital financing constituted almost 74 percent of outstanding SME financing followed by fixed investment and trade finance with shares of 13 percent each. The facility-wise distribution of borrowers depicted the tilt of banks towards working capital financing and trade finance to SME borrowers. Trade finance picked up 27



percent more than previous quarter while working finance acquired 22 percent more than previous quarter.

**Sector-wise SME financing** in **figure C** shows the shares of trading at 41 percent, manufacturing at 42 percent and services sector at 17 percent in outstanding SME financing. On Y-o-Y basis, manufacturing was higher by 11 percent as compared to same quarter of previous fiscal year. On the other hand, trading SMEs remained stagnant when compared to last year.

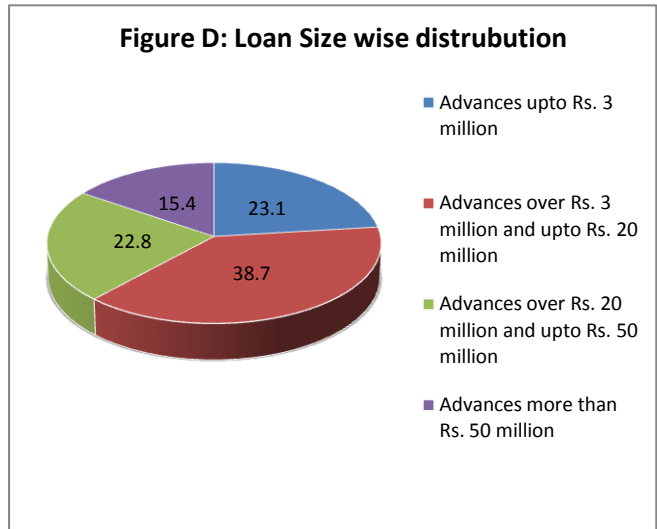


The SEs<sup>1</sup> availed 59% of the total financing to the SMEs primarily because of the large number of lower-end SMEs availing financing facilities from banks/DFIs.

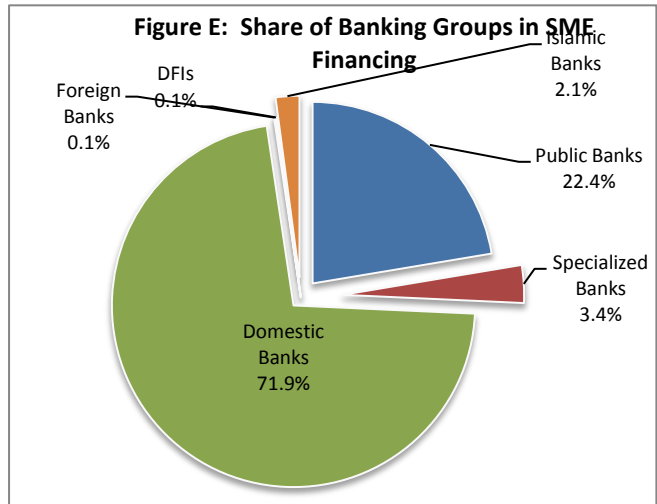
<sup>1</sup> Small Enterprises as per revised prudential regulations on Small & Medium Enterprises, 2013



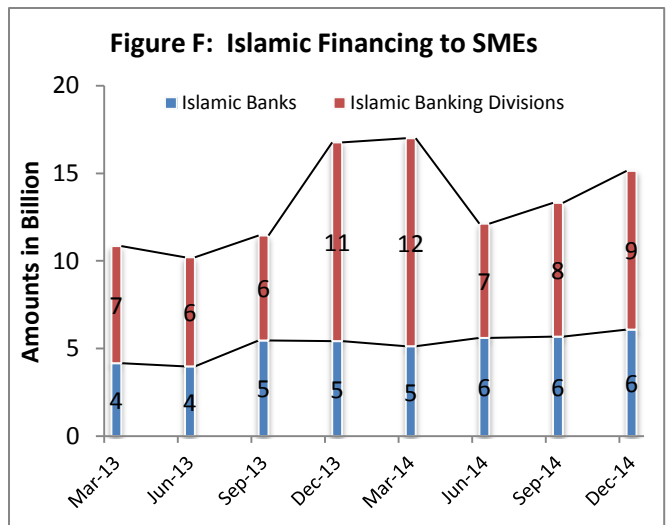
**Loan size-wise review** in figure D shows that around 86 percent SME borrowers used loans up to Rs. 3 million and their share in total SME financing was 23 percent, out of which, a major number of SME borrowers availed loans of up to 0.5 million. Advances over Rs. 3 million and up to Rs. 20 million had share of 39 percent in total financing while Advances more than Rs. 50 million had a share of 15 percent in total financing.



**Banking Group-wise distribution of SME financing** in figure E shows that the share of 17 private sector banks in outstanding SME financing was the highest as 72 percent (decreased from 74 percent at the end of previous quarter). Private sector banks were followed by public sector banks, which shared around 22.4 percent (increased from 19.6 percent at the end of previous quarter) of total SME outstanding amount.



**SME financing by Islamic banks and Islamic banking divisions** (collectively called IBIs) increased by 7 percent in quarter under review whereas share of Islamic Banking institutions (IBIs) decreased by almost 6 percent when compared to same quarter of previous year. The share of SME financing of Islamic Banking Divisions is more than the



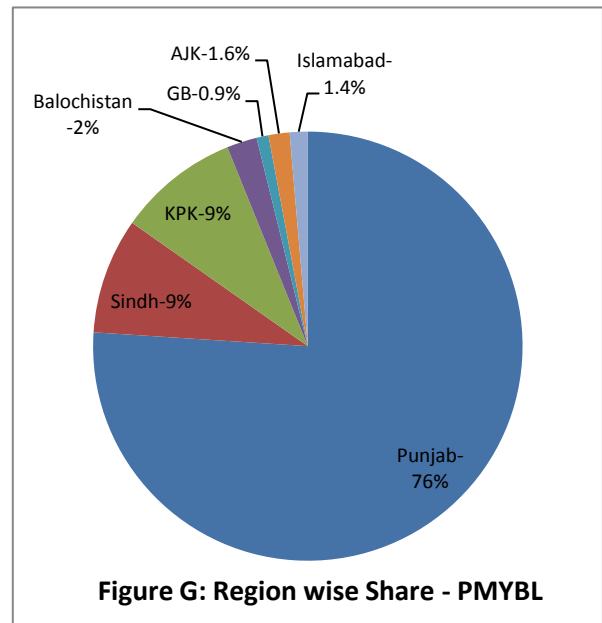
share of Islamic Banks in Pakistan. Total share of Islamic Banks in SME financing was around 2% while IBDs are contributing around 4%. The share of Islamic Banks remained stagnant for the last three quarters while Islamic Banking Divisions have been consistently increasing their SME financing.

**Prime Minister Youth Business Loans Scheme**

Prime Minister Youth Business Loans (PMYBL) Scheme was launched by the Prime Minister on December 7, 2013 for promoting youth entrepreneurship in the country. In this regard, State Bank of Pakistan (SBP), being implementing agency (IA) for PMYBL Scheme, issued necessary instructions to all banks through IH&SMEFD Circular No. 10 dated November 18, 2013, which were amended vide IH&SMEFD Circular Letters No. 8 and 9 of 2013 and Circular letter No 1, 8 and 9 of 2014 respectively which can be accessed at <http://www.sbp.org.pk/sme/d/circulars> Statistical position of Prime Minister Youth Business Loans (PMYBL) Scheme after two balloting is as follows:

**Gender-wise position of PMYBL:** Out of total 59,442 completed application forms received by both the NBP and FWBL, 51,067 or 86% were submitted by male and 8,375 or 14% by female loan applicants respectively.

**Region-wise break up of PMYBL applications'** data shows that out of total 59,442 completed forms submitted by applicants, 76% of total loan applicants were from Punjab, 9% from each of KPK & Sindh, 2% from Baluchistan, 1.6% from AJK, 1.4% from Islamabad and 0.9% from Gilgit-Baltistan (**Figure G**).



**Disbursements of loans:** Against approved cases in the two ballots, NBP disbursed 4,545 loans amounting to Rs. 2, 580 million as of September 30, 2014, whereas 76 loans amounting to Rs. 95.2 million were disbursed by FWBL up to September 30, 2014.



### **Credit Guarantee Scheme for Small and Rural Enterprises**

The Scheme shares 40% of credit losses of lending banks on their loans to Small and Rural Enterprises. State Bank allocated Credit exposure limits of Rs. 6.56 billion (SBP Guarantee Coverage Limit of Rs. 2.62 billion) for the CY 2013 to 10 banks selected as Participating Financial Institutions (PFIs) under the Scheme. The Scheme has been well-picked, as the net utilization of the guarantee limits by the banks at the end of the year was 64% with sanctioned loans of Rs. 4.19 billion to 6,268 borrowers. However, this figure does not include 3,555 guaranteed loans with sanctioned amount of Rs. 2.14 billion which have already been closed. State Bank would now allocate fresh limits to the banks under the Scheme for 2015-16. The details of the scheme can be glimpsed at: [www.sbp.org.pk/sme/d/circulars/2011/C2-Annex/Scheme.pdf](http://www.sbp.org.pk/sme/d/circulars/2011/C2-Annex/Scheme.pdf)

### **Mark up Subsidy and Guarantee Facility for the Rice Husking Mills in Sindh**

The objective of the Mark up Subsidy and Guarantee Facility for the Rice Husking Mills in Sindh is to help the sponsors of rice husking mills of Sindh to undertake projects of BMR for increasing efficiency of their mills. Under this Scheme, Sindh Enterprise Development Fund (SEDF) provide, through SBP, mark up subsidy of 6.25% and credit risk sharing facility of up-to 30% against the long term loans extended to rice husking mills of Sindh under the SBP Refinancing Scheme for modernization of SMEs. Under this scheme, loans worth Rs. 38 million have been sanctioned while few more cases are in pipeline. The scheme and its features can be seen at: [www.sbp.org.pk/sme/d/circulars/2013/C6-Annex-1.pdf](http://www.sbp.org.pk/sme/d/circulars/2013/C6-Annex-1.pdf)

### **Strengthening Secured Transactions**

#### **Framework**

State Bank, with the financial support of DFID UK, is implementing Secured Transactions Reform (STR) Project. SBP has hired legal consultants for drafting of Secured Transaction

*Secured Transactions Framework calls for existence of a modern Secured Transaction Law that provides for establishment of Secured Transactions Registry in the country, which will register charge on assets especially moveable assets of the borrowers*

Law. During period under review, legal consultants submitted to SBP draft of the Secured Transactions Bill on September 20, 2014, which was shared with Project Committee (PC) members for their feedback. The World Bank is also facilitating and providing feedback on

further refinement of the draft Secured Transactions Bill. Final draft of the Bill is to be revised in the light of PC members and World Bank STR expert. After approval of the PC on Final Draft of the Secured Transactions Bill, it shall be forwarded to GOP for approval from the Parliament.

#### **Events and programs conducted during the quarter**

The programs and events organised or attended during the period under review are summarized below:

##### **One Day Training Program on Revised SME PRs – Quetta**

State Bank of Pakistan BSC (Bank), Quetta organized one day training program on “Revised SME Prudential Regulations” in SBP BSC, Quetta on December 1, 2014. This program was a combined effort of Development Finance Support Department (DFSD), HOK, SBP and IH&SME Finance Department. Mr. Akhtiar Ahmad, Joint Director IH&SMEFD, the resource person, highlighted the main objective of issuing the revised SME PRs in 2013. Previously, banks focused mainly on “Medium Enterprises”; thus excluding “Small Enterprises” from the formal net. Therefore, the broader objective of the review was to create more focus on small enterprises, by defining them separately and formulating more specific and simpler regulations for them.

##### **Second meeting of Joint Working Group of SBP, SECP and SMEDA (3S)**

The second meeting of joint working group of State Bank of Pakistan (SBP), Securities and Exchange Commission of Pakistan (SECP) and Small and Medium Enterprises Development Authority (SMEDA) was held on December 12, 2014 at SECP Head Office, Islamabad. Mr. Imran Ahmed, Addl. Director, IH&SMEFD briefed the participants about the scope of the Working Group and its terms of reference finalized during the first meeting. He informed that meeting of the joint working group shall be held on quarterly basis. He shared the initiatives taken by SBP for promotion of SMEs. He also shared his views about information sharing through websites and literacy programs to be announced in near future.

During the discussion on issues faced by leasing companies, Mr. Imran appreciated the strategy of some leasing companies for providing funding to the untapped SME sectors.

**SME Finance Focus Group Meeting –Multan Office**

SBP BSC, Multan organized SME Finance Focus Group (SMEFG) Meeting on December 26, 2014. Mr. Imran Ahmad, Additional Director, IH&SMEFD, SBP, Karachi chaired the meeting and delivered detailed presentation on “SBP’s SME Finance Initiatives” and comprehensively responded the queries of participants of the SMEFG meeting.

**SME Finance Focus Group Meeting & Awareness Program – Sukkur Office**

An awareness program and an SME Focus Group Meeting under the chairmanship of Chief Manager SBPBSC Sukkur office were held on 16-12-2014, to resolve the queries of relevant stakeholders and were attended by different commercial banks/MFBs.

**ERF Training for HBL – Gujranwala Office**

A training session was organized on 09-12-2014 for the officials of HBL dealing in refinance schemes cases in collaboration with the regional management of the HBL.

**SME related News**

**Govt focus demanded to problems of Small, Medium enterprises**

The Union of Small and Medium Enterprises (UNISAME) invited the attention of Ghulam Murtuza Jatoi, the federal minister for industries and production (MoI&P) to the urgent needs of the SME sector under his ministry and urged him not to shy and to take up the issues with the prime minister Mian Mohammad Nawaz Sharif. Details can be accessed through following link: <http://pakistannewsexpress.com/story/%ef%bb%bfgovt-focus-demanded-to-problems-of-small-medium-enterprises/>

**Govt urged to promote micro-small to medium enterprises**

The Union of Small and Medium Enterprises (UNISAME) has urged the government to promote the micro and small to medium sized enterprises (SMEs) through hire purchase, leasing and special schemes designed for the sector and also urged the Institute of Bankers Pakistan to coordinate with the government to design products for the sector .....  
<http://pakistannewsexpress.com/story/%EF%BB%BFgovt-urged-to-promote-micro-small-to-medium-sized-enterprises/>

**SMEDA, SBE ink deal for Collaborative Research on SME**

The Small and Medium Enterprises Development Authority (SMEDA) and University of Management and Technology's School of Business and Economics have joined hands for carrying out collaborative research for the development of Small and Medium Enterprises (SMEs) in Pakistan. A Memorandum of Understanding was signed in a ceremony held at the University of Management Technology.

<http://businessnewspakistan.com/small-and-medium-enterprises-development-authority-school-of-business-and-economics-ink-deal-for-collaborative-research-on-sme/>

**UNIDO to focus on SMEs for sustainable development**

UNIDO will continue to work for inclusive and sustainable industrial development in Pakistan with major focus on SMEs, said United Nations Industrial Development Organisation Director General Li Yong while addressing the project beneficiaries and business community at Islamabad Chamber of Commerce and Industry (ICCI).

<http://www.livenewspak.com/unido-to-focus-on-smes-for-sustainable-development/>

**Korean expertise can transform SME sector of Pakistan**

“Knowledge sharing in Small & Medium Enterprises (SME) is a key to economic turnaround therefore Pakistan and Korea should join hands in this particular sector”. The consensus was reached out during a meeting between the LCCI President Ijaz A. Mumtaz and two-member Korean delegation led by Jong-Woon Kim from Hannam University Korea, here at Lahore Chamber of Commerce & Industry. Senior Analyst Doh Yoosuk was also present on the occasion.

<http://customstoday.com.pk/korean-expertise-can-transform-sme-sector-of-pakistan-lcci/>

**Role of SMEs in boosting economy highlighted**

Developing and developed countries have recognized the importance of Small Medium Enterprises SME's which play an important role in the development of national economy. This was stated by research scholar Muhammad Munir Ahmedani .....

<http://ppinewsagency.com/50518/role-of-smes-in-boosting-economy-highlighted/>