Quarterly SME Finance Review-September, 2014


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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 increased by 2 percent when compared to the same quarter of the previous year, SME Outstanding is Rs 240.71 billion as of September 30, 2014. The non-performing loans (NPLs) showed a decline of 4.11 percent on Y-o-Y basis. However, these improvements are not parallel with number of borrowers, which showed a Y-o-Y decline of 6 percent. The decline in SME Finance NPLs indicates that banks/DFIs have cleaned up their balance sheets through write off of loans with longer delinquency periods. With improvements in overall SME Financing of the industry, the ratio of SME Finance NPLs to the total SME Financing decreased to almost 36 percent in September, 2014 from 38 percent in September, 2013. The continuation of this trend would encourage banks/DFIs to lend more in this sector future. Facility-wise breakup shows that the working capital financing constituted around 73 percent of total SME financing followed by fixed investment and trade finance with their respective shares of 15 percent and 12 percent. This shows banks'/DFIs' inclination towards short-term financing to SMEs. Banking Group-wise distribution of SME lending shows the share of private sector banks in total SME financing was 74.4 percent during period under review, which is less than last year's share of 77 percent. Private sector banks are followed by public sector banks, whose share was around 18.9 percent of total SME financing which is almost equivalent to 18.7 percent as of September, 2013. 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 stood nearly 6 percent of outstanding SME financing in September, 2014, which is higher than last year's share of same quarter.

Trends in SME Financing

The Outstanding SME Financing of the banks/DFIs was Rs. 240.71 billion as on quarter ending September 30, 2014. SME portfolio was 4.76 percent lower than Rs. 252.73 billion (June, 2014). SME financing however, showed a Y-o-Y increase of 2.04 percent. SME financing was 5.5 percent of total financing at the end of quarter under review, while it was 5.8 percent in the previous quarter. SME financing in the quarter under review moved downwards while total financing moved upwards in the same quarter. Total financing by banks/DFIs was 3.36 percent higher than the financing in the same quarter of the previous year, while there was no significant change in total financing when compared to previous quarter. Moreover, NPLs did not significantly change in the quarter when compared to previous quarter and were slightly lower in comparison with same quarter of previous year. (**Table 1**)

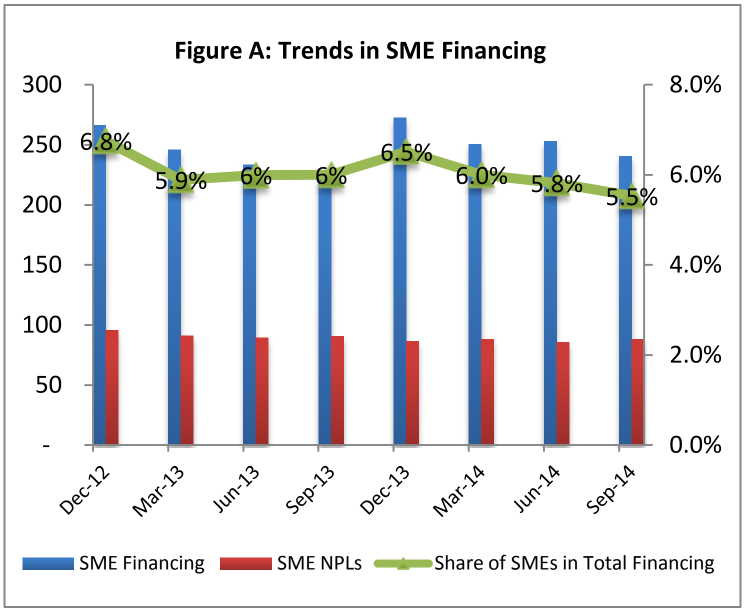
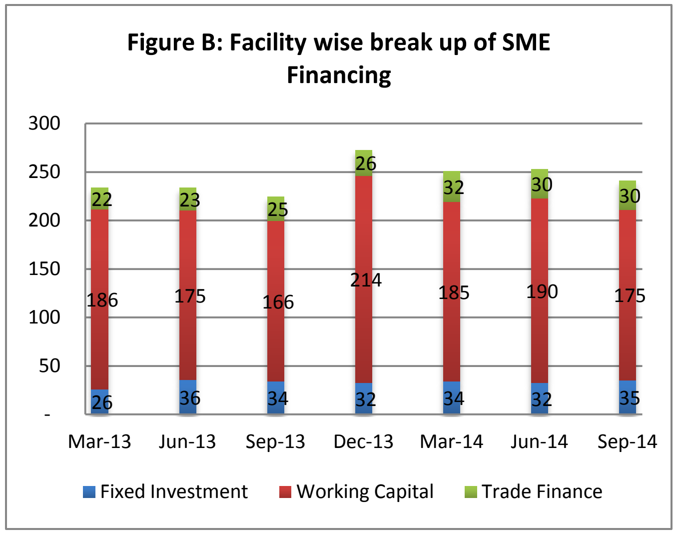


Table 1: SME Financing Profile of Banks/DFIs (Amount in Billion Rs.)					
Category	**Periods ending**			**Change**	
	Sep-13	**Jun-14**	**Sep-14**	**Quarter**	**YoY***
Outstanding SME Financing	235.90	252.73	240.70	-4.76%	2.04%
Total Financing	4,210.34	4,339.23	4,352.00	0.29%	3.36%
SME Financing as % of total financing	5.6%	5.82%	5.53%		
SME Financing NPLs	89.50	85.49	85.822	0.39%	-4.11%
NPLs as % of Outstanding SME Financing	37.94%	33.83%	35.65%		
No. of SME Borrowers	144,141	133,018	135,557	2%	-6.0%
***. YoY: Year on Year**					

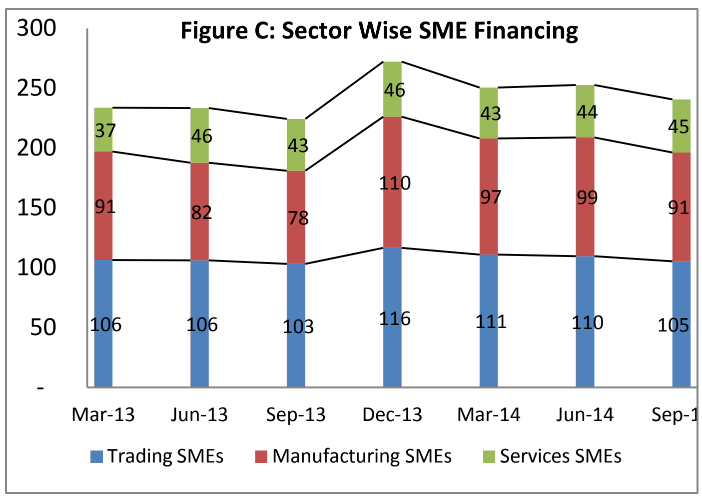
Although the number of SME borrowers increased by 2% during the quarter from 133,018 in June 2014 to 135,557 in September 2014, the Y-o-Y trend witnessed a decline of 6 percent when compared with the September, 2013 position of SME borrowers (**Table 1**).

Non Performing Loans declined by 4 percent on Y-o-Y basis. When compared to previous quarter, NPLs did not change significantly (**Table 1**). This decline in SME Finance NPLs can be referred as a positive sign for revitalization of outstanding SME financing which has been neglected by the banks/DFIs so far. If this trend of decrease in SME NPLs portfolios and growth in SME financing carries on, the current excessively high NPL ratios of banks/DFIs may normalize.

Facility-wise breakup of SME financing shows that the working capital financing constituted around 73 percent of outstanding SME financing followed by fixed investment and trade finance with their respective shares of 15 percent and 12 percent. The facility-wise distribution of borrowers also depicts a similar scenario and further accentuates the tilt of banks towards working capital financing to SME borrowers. (**Figure B**)



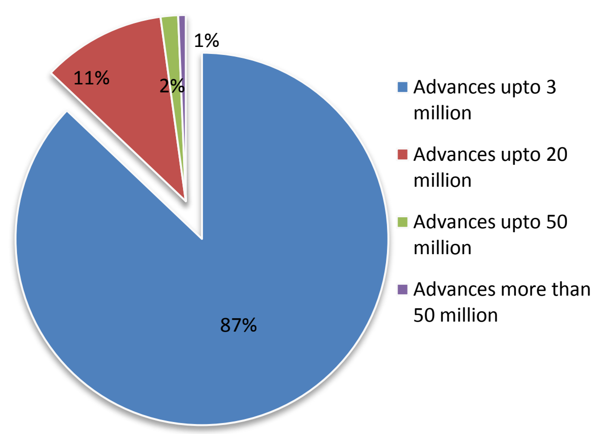
Sector-wise Break up of SME Financing in **Figure C** shows the share of trading concerns got 44 percent of the financing. Manufacturing obtained 37 percent and services sector got 19 percent share in outstanding SME financing. This share remained stagnant without any significant change over the quarter, while on Y-o-Y basis, manufacturing sector grabbed 17 percent more share as compared to same quarter of previous year. As a normal trend, the manufacturing and trading SMEs together received around 80 percent of the SME financing while the remaining 20 percent was received by the services sector of SMEs.



The SEs (Trading & Services) availed 59 percent of the total financing to the SMEs primarily because of the large number of lower-end trading and services SMEs availing financing facilities from banks & DFIs. On the contrary, manufacturing SEs availed 47 percent of financing to the SME manufacturers, which is 4 percent lower when compared to the previous quarter.

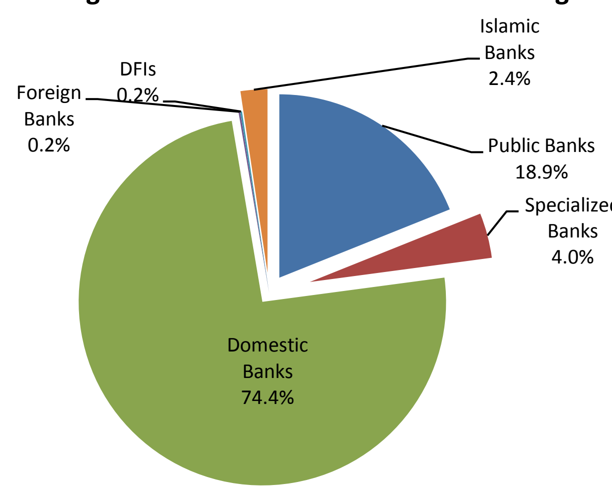
Loan size-wise review in **Figure D** shows that around 87 percent SME borrowers availed loans up to Rs. 3 million and their share in total SME financing was 25 percent, out of which, 7.3 percent of SME borrowers availed loans of 'over Rs. 0.5 million to Rs. 1 million'. It seems that for adequate capture of large segments of small enterprises which are not tapped as yet, banks/DFIs have to develop capacities in terms of human resources and branch infrastructure.

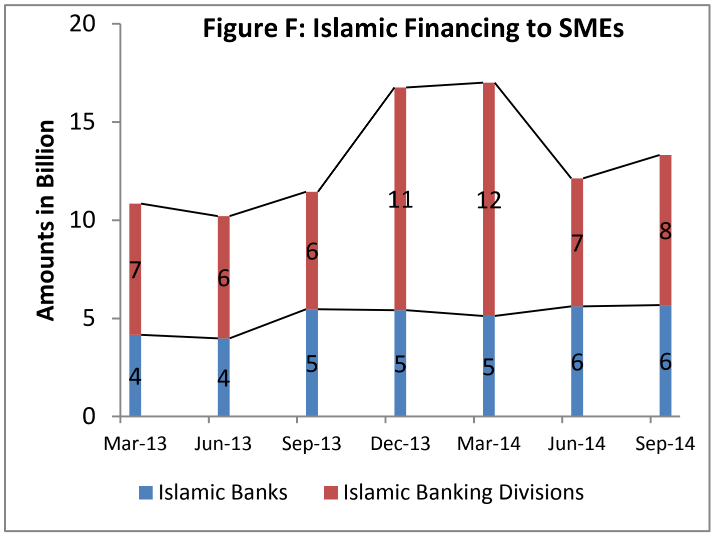
Figure D: Loan Size wise distribution



Banking Group-wise distribution of SME financing shows that the share of private sector banks (17 institutions) in outstanding SME financing was highest at 74.4 percent (increased from 72.2 percent at the end of previous quarter). Private Sector banks are followed by Public Sector banks which shared around 18.9 percent (decreased from 19.6 percent at the end of previous quarter) of total SME outstanding amount **(Figure E)**. Among public setor banks, National Bank of Pakistan had the highest share of 10 percent. Among private sector banks; Habib Bank Limited grabbed the largest share of 15 percent of SME financing followed by Bank Alfalah Limited with a share of 10 percent.

Figure E: Share of Banks in SME Financing





Islamic Financing to SMEs by Islamic banks and Islamic banking divisions (collectively called IBIs) increased by 8 percent in quarter under review whereas share of Islamic Banking istitutions (IBIs) increased by 27 percent when compared to same quarter of previous year which is an emerging trend **(Figure F).** The increase in overall SME financing with an increase in Islamic SME financing in the period under review was witnessed. The share of SME financing of Islamic Banking Divisions was more than the share of Islamic Banks in Pakistan.Total share of Islamic Banks in SME financing is 2.4 percent out of which 0.9 percent was financed from Albaraka Bank (Pakistan) Limited and 0.6 percent was financed by Meezan Bank Limited while IBDs are contributing 3.2 percent. Islamic Banks need to move towards SME financing which will not only provide a variety of Islamic products to SMEs but will also help Islamic Banks in exploring SME markets.

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 has 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/smefd/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**).

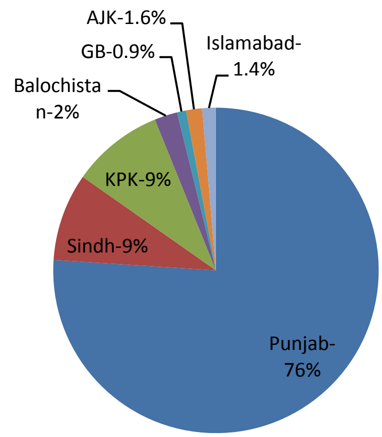


Figure G: Region wise Share

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. 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 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/smefd/circulars/2011/C2-Annex/Scheme.pdf**

Sanctioned loans equal to Rs 4.19 billion to 6,268 borrowers as on Sep 30, 2014.

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, SBP on behalf of SEDF[1] provides 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/smefd/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 the services of legal consultants for drafting of Secured Transaction Law. During period under review, legal consultants submitted to SBP fourth revised 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. After approval of the PC on Final Draft of the Secured Transactions Bill, it shall be forwarded to GOP for approval from the Parliament.

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

[1] SEDF: Sindh Enterprise Development Fund