



Quarterly SME Finance Review As of March, 2016

Infrastructure, Housing & SME Finance Department



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EXECUTIVE SUMMARY

Small and Medium Enterprises (SMEs) significantly contribute to GDP growth, exports and employment generation. In view of this, SBP has been taking several initiatives for promotion and development of SME banking. Some of these include issuance of separate PRs for Small Enterprises (SEs) and Medium Enterprises (MEs), efforts for putting in place a Secured Transaction Registry in the country, implementation of supportive financing schemes for SMEs like credit guarantee scheme and other refinance schemes for SMEs, implementing the PM Youth Business Loan Scheme and capacity development measures for banks/DFIs.

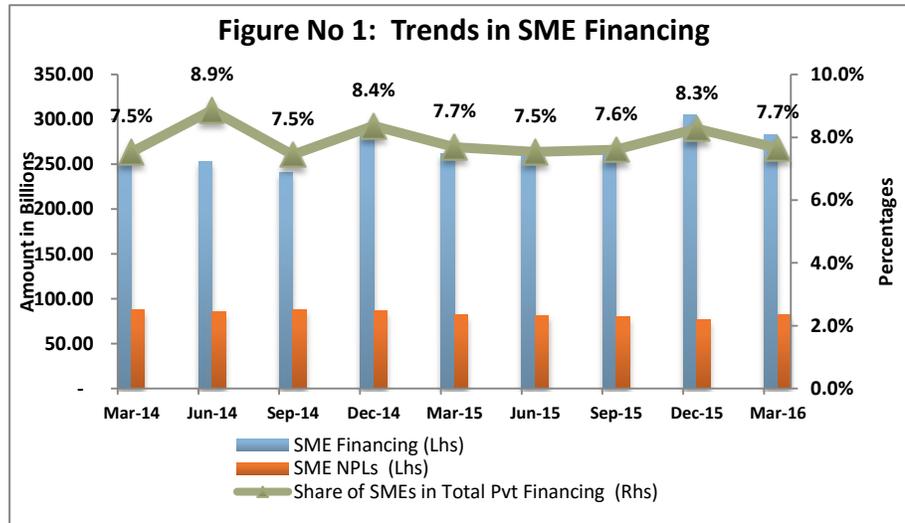
Outstanding SME Financing of the banks/DFIs improved by 8.34 percent as compared to previous year in March, 2015 and stood at Rs. 284 billion as on 31st March, 2016. On Q-o-Q basis, SME financing showed a decline of almost 7 percent when compared with December, 2015. Facility-wise breakup shows that the working capital financing constituted 66 percent of outstanding SME financing followed by fixed investment and trade finance with shares of 24 percent and 10 percent respectively. Banking Group-wise distribution of SME financing shows that the share of private sector banks in outstanding SME financing was the highest at 64 percent. Private sector banks were followed by public sector banks, which shared around 29 percent of total SME outstanding loan amount.

SME financing by Islamic Banks and Islamic banking divisions (collectively called IBIs) decreased by 9 percent when compared to the previous quarter. IBIs showed an increase of 74 percent when compared to the same quarter of the previous year. There was a decrease of 24 percent in share of Islamic Banking Divisions of conventional banks when compared to previous quarter.

SME Financing Analysis

Outstanding SME Financing

Outstanding SME Financing of the banks/DFIs improved by 8.34 percent as compared to previous year in March, 2015 and stood at Rs. 284 billion as on 31st March, 2016. On Q-o-Q basis, SME financing showed a



decline of almost 7 percent when compared with December, 2015. SME outstanding financing was 7.7 percent of total private sector financing as compared to 8.3 percent in quarter ended on 31st December, 2015 and remained same as of March, 2015. (Figure 1)

Category	Periods ending			Change	
	Mar-15	Dec-15	Mar-16	Q-o-Q	Y-o-Y
Outstanding SME Financing	261.75	305.09	283.58	-7.05%	8.34%
SME Financing as % of Total Outstanding Credit	5.80%	6.13%	5.73%	-	-
SME Financing as % of Private Sector Financing	7.69%	8.28%	7.65%	-	-
SME Finance NPLs	82.13	77.17	82.23	6.20%	0.12%
NPLs as % of Outstanding SME Financing	33.83%	25.29%	29.00%	-	-
No. of SME Borrowers	145,031	158,387	163,604	3.20%	12.81%
Ratio of SME Financing to GDP at mp ¹ (2014-15)	0.96%	1.11%	1.04%	-	-

*. YoY: Year on Year

The number of SME borrowers stood at 163,604 (from 158,387) during the quarter under review. On Y-o-Y basis, there was a significant increase of 13 percent in the number of SME borrowers (Table 1). Different studies show that SMEs contribute 30 percent to the GDP of the country but, formal sector's financing to SMEs makes just 1 percent of the GDP. SME outstanding financing is 7.65 percent of total private sector credit as on 31st March, 2016.

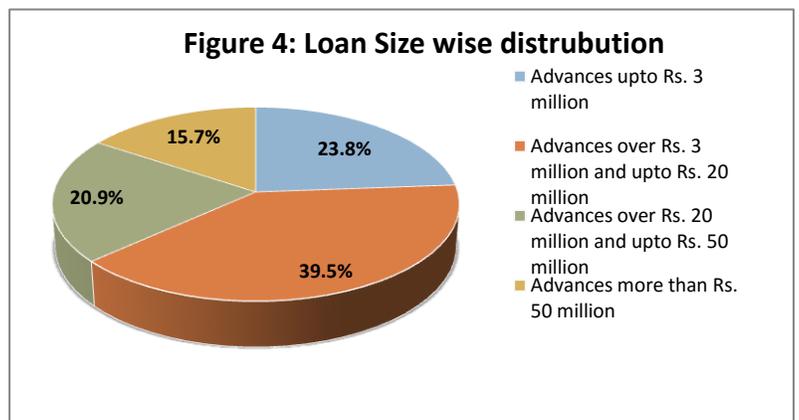
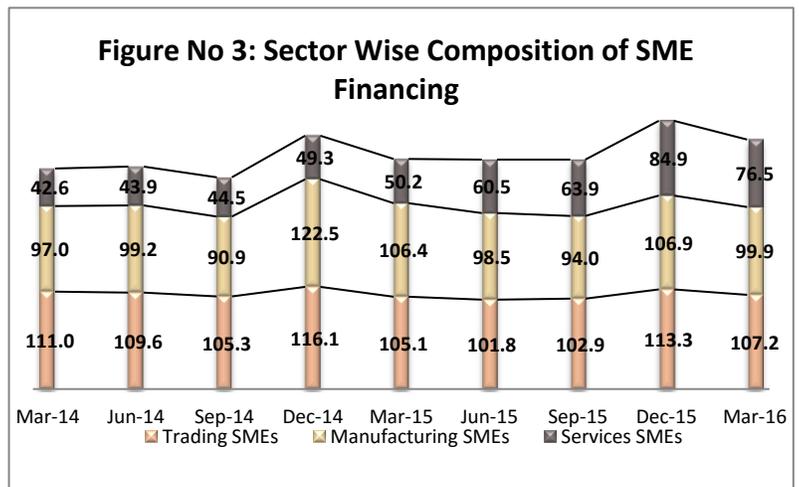
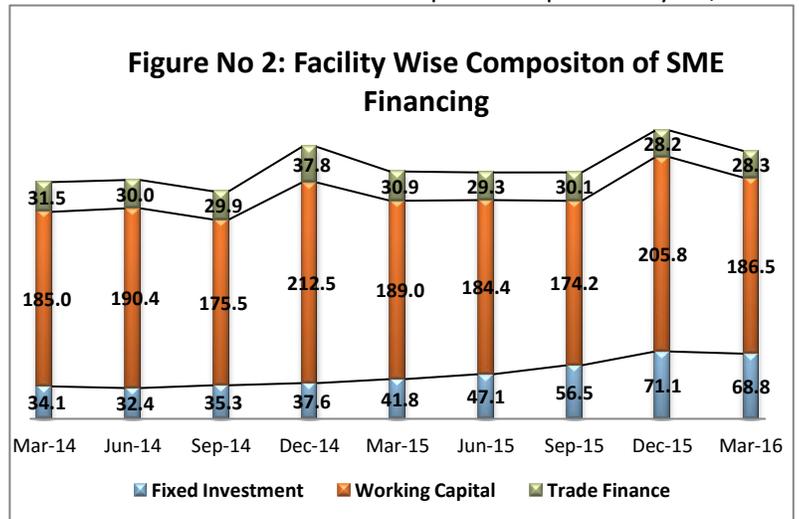
¹ mp: market price

Non Performing Loans increased by 6 percent on Q-o-Q basis and when compared to previous year, NPLs showed an increase of 0.12 percent (Table 1). SME NPLs were Rs 82.23 billion as on March 31st, 2016 as compared to Rs 77.17 billion as on December 31st, 2015.

Facility-wise breakup in Figure 2 shows that the working capital financing constituted 66 percent of outstanding SME financing followed by fixed investment and trade finance with shares of 24 percent and 10 percent respectively. The facility-wise distribution of borrowers depicted that working capital managed to pick 49 percent of borrowers while fixed investment had 47 percent share of borrowers.

Sector-wise SME financing in Figure 3 shows the share of trading as 38 percent, manufacturing as 35 percent and services sector as 27 percent in outstanding SME financing. On Q-o-Q basis, financing for manufacturing sector increased by 1 percent and for Services decreased by 1 percent only.

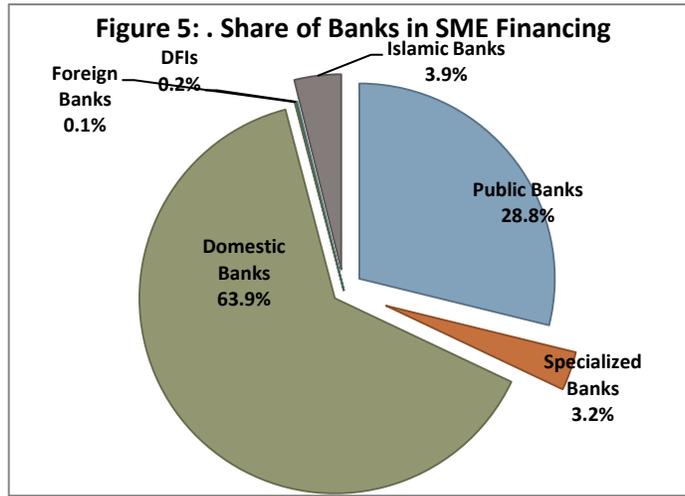
Loan size-wise Review: Figure 4 shows that loan up to Rs. 3 million had 24 percent share in total SME financing. It covered 90 percent of total SME borrowers, out of which, a large number of SME borrowers availed loans of up to 0.5 million. Advances over Rs. 3 million and up to Rs. 20 million had share of 39.5 percent in total financing. While Advances over Rs. 20 million and up to Rs. 50 million had a share of



almost 21 percent and Advances more than Rs. 50 million had a share of 16 percent in total financing showing an increase of 3 percent when compared to previous quarter.

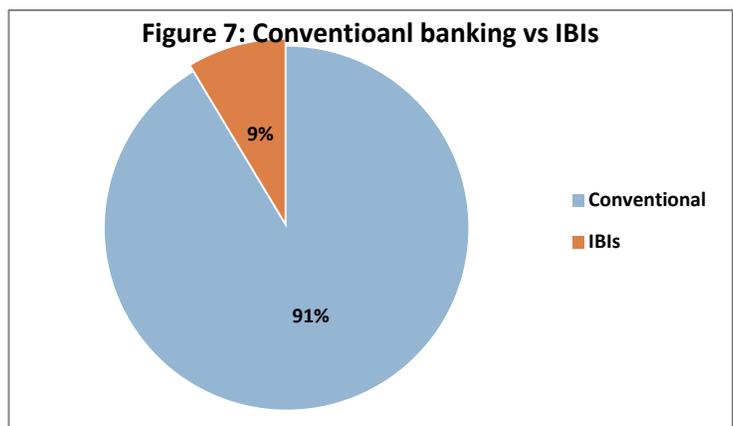
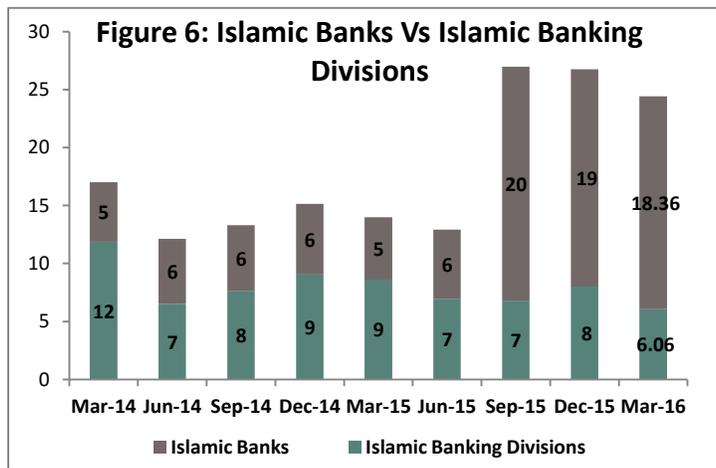
Banking Group-wise distribution of SME

financing in figure 5 show that the share of private sector banks in outstanding SME financing was the highest at 64 percent. Private sector banks were followed by public sector banks, which shared around 29 percent of total SME outstanding loan amount. Few banks showed the highest increase in outstanding SME Financing in the quarter under review as compared to the previous quarter. Bank of Punjab, has shown a tremendous increase in the SME financing in last few quarters.



SME financing by Islamic Banks and Islamic banking divisions

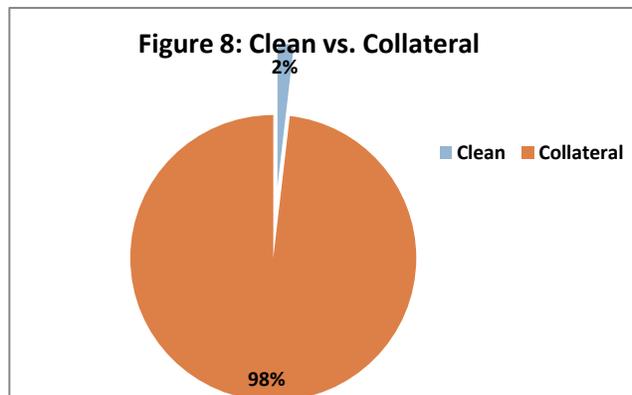
(collectively called IBIs) decreased by 9 percent when compared to the previous quarter (Figure 6). IBIs showed an increase of 74 percent when compared to the same quarter of the previous year. There was a decrease of 24 percent in share of Islamic Banking Divisions of conventional banks when compared to previous quarter. Dubai Islamic Bank increased its SME share by 18 percent and BankIslami increased its SME share by 5 percent as compared to the previous quarter while share of Meezan Bank Limited decreased by 1 percent in the quarter under review.



If we look at Figure 7, it is noticeable that conventional banks had a share of 94 percent of SME financing and 6 percent was the share of Islamic Banking Institutions.

Clean Vs Collateral

As shown in **Figure 8**, 98 percent of the lending is collateral based while rest of the 2 percent is clean lending. State Bank of Pakistan, has encouraged banks/DFIs, from time to time, towards cash flow based lending.



Outstanding Financing to Agri SMEs

In order to identify small and medium enterprises operating in agricultural sector, a data on Agri SMEs has been collected from banks/DFIs (**Table No. 4**). According to the data collected, outstanding financing of banks to

Parameters	March, 2016	Dec, 2015	Q-o-Q Change
Outstanding Financing to Agri SMEs	14.01	23.11	-39.38%
No. of Borrowers	7,833	6,575	19.13%
Non-performing Loans - Agri SMEs	2.25	3.02	-25.50%
No of non-performing borrowers	4,090	2,242	82.43%

Agri SMEs was Rs 14 billion, which was 39 percent lower than the financing in previous quarter. Out of this, Rs 2.25 billion was non- performing loans, which decreased by 26 percent as compared to previous quarter. The share of financing of Small Agri Enterprises was 36 percent while Medium Agri enterprises' share stood at 64 percent. HBL had the highest share of financing to Agri SMEs i.e; Rs. 9.7 billion, which was 22 percent lower than the share as compared to quarter ended on 31st December, 2015.

Credit Guarantee Scheme for Small & Rural Enterprises:

In order to support small and rural enterprises in accessing the formal sector financing, SBP, in collaboration with DFID and Government of Pakistan, launched a Credit Guarantee Scheme (CGS) for Small and Rural Enterprises in March 2010. Under the Scheme, 40% of credit losses of lending banks/MFBs on their short to medium term loans (3 to 5 years) to Small and Rural Enterprises are shared. The CGS utilization for the period ending March, 2016 was around 72%. Sixteen PFIs have been allocated credit exposure limits of Rs 8.4 billion with guarantee coverage of Rs 3.36 billion up to December 2016. Bank-wise utilization of the limits in terms of percentages is given in **Table No 3**.

S.No	Participating Financial Institution	% Utilization
1	Allied Bank Ltd	52%
2	Burj Bank	6%
3	Faysal Bank Ltd	64%
4	Habib Bank Ltd	84%
5	MCB Bank Ltd	92%
6	National Bank of Pakistan	43%
7	Tameer MFB	84%
8	The Bank of Khyber	100%
9	United Bank Limited	24%
10	Bank Alfalah	37%
11	FINCA	100%
12	ADVANS	67%
13	Meezan Bank	9%
Total Utilization		72%

Outstanding Financing under Export Finance Schemes for Small & Medium Enterprises:

The Export Finance Scheme (EFS) is in operation since 1973 to boost exports of the country. Under the

scheme, short term financing facilities are provided to exporters through banks for exports of manufacturing goods especially value added products with the exception of basic & primary commodities/ raw materials. It operates in two parts viz Part-I (Transaction Based) and Part-II

Category	Amt in Million Rs.		
	Dec-15	Mar-16	Q-o-Q Change
Export Finance Scheme* (EFS)	6,353	6,169	-3%
• Textile/Textile Products	2,175	2,159	-1%
• Edible Goods (including Rice)	719	726	1%
• Leather/Leather Goods	967	913	-6%
• Engineering Goods (Machinery and Metal Products)	1,352	1,330	-2%
• Carpets	243	233	-4%
• Cement	-	-	0%
• Sports Goods	775	702	-9%
• Others	122	106	-13%

(Performance Based). As of 31st March, 2016 the outstanding advances to SMEs under EFS stood at Rs. 6 billion, showing a decrease of 3 percent when compared to previous quarter (**Table 4**). Textiles Sector products, Engineering Goods and Leather Goods were the major contributors towards EFS. All sectors showed decrease except Edible Goods which showed an increase of 1 percent in the quarter under review.

In order to encourage SMEs to modernize their factories for producing quality products and to meet their power shortages, State Bank of Pakistan has introduced Refinance Facility for Modernization of SMEs. Under this

scheme, the outstanding financing stood at Rs 75 Million as on 31st March, 2016 which was 8

Category	Amount in Million Rs.		
	Dec-15	Mar-16	Q-o-Q Change
Refinance Facility for Modernization of SMEs	81.34	75	-8%
Financing facility for Storage & Agriculture Produce	1,765.75	1,685	-5%
Islamic Export Refinance	31,935.80	23,308	-27%

percent lower than the outstanding financing as on quarter ended December 31st, 2015. Another refinance scheme was introduced to encourage private sector to establish silos, warehouses and cold storages in order to enhance storage capacity. Under this scheme outstanding as of March, 2016 stood at Rs. 1.7 billion which was 5 percent lower than the outstanding on December, 2015 (**Table No 5**). Islamic Export Refinance Scheme recorded a decrease of 27 percent when compared to previous quarter.

SME Financing Targets

SME sector plays a vital role in economic growth, employment generation and poverty reduction in the country. However, despite economic significance of SMEs, they have been unable to receive their due share from formal source of financing which hampers the development of SME sector. Keeping in view the potential of SMEs in Pakistan and to promote SME finance in the country, SBP has introduced targets for SME finance for banks/DFIs. The targets have been set on the basis of size of the banks in terms of assets, branch network, existing SME finance portfolio and the capacity of the bank to achieve the required targets. Further, banks have been advised to take following minimum measures which will facilitate in achieving the assigned target smoothly:

1. SME financing set up should be separated from commercial financing departments/divisions.
2. There should be at least one dedicated SME finance specialist placed in each of the Credit Administration Department and Risk Management Department.

To further deliberate the SME targets regime, one-on-one meetings have been organized with all financial institutions which have proved fruitful in terms of bridging the gaps and understanding the SME sector. The SME Financing targets assigned to banks/DFIs would be monitored through monthly and quarterly quantitative and qualitative reporting.

Prime Minister Youth Business Loans Scheme

Under PMYBL Scheme, loans up to Rs. 2,000,000 are being provided through the banking system at service charges of 6 percent per annum to unemployed youth for establishing or extending business enterprises. The rate of return for banks working as Executing Agencies (EAs) for PMYBL is one year KIBOR+500 bps with KIBOR to be reset every year. Portfolio risk coverage of up to 5 percent is also available under the Scheme for EAs. During Jan-Mar, 2016 quarter, with addition of one more bank i.e. Faysal Bank Limited, number of PMYBL executing agencies increased to seventeen. Among seventeen (17) EAs, three (03) are public sector banks (NBP, FWBL and Sindh Bank) and fourteen (14) are private banks (Habib Metropolitan Bank, HBL, Bank Al Habib, Al Baraka Bank, Summit Bank, Meezan Bank, Soneri Bank, UBL, Askari Bank, Allied Bank, MCB, JS Bank, Dubai Islamic Bank (Pakistan) Limited and Faysal Bank Limited).

Moreover, in order to avoid disbursement of multiple loans to the same person under the scheme, a central portal based on daily and monthly data has been launched which will allow bankers to check the loan status then and there. A separate quarterly review has been prepared on the PMYBL scheme which can be accessed at <http://www.sbp.org.pk/departments/ihfd/PMYBL-Dec-2015.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) provides, through SBP, a mark-up subsidy 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 legal consultants for drafting of Secured Transaction Law. The World Bank is also facilitating and providing feedback on further refinement of the draft Secured Transactions Bill. The draft bill has been referred to the Parliament for approval, after which Secured Transactions would be formed in near future.

Events and programs conducted during the quarter

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

Fairs/Exhibitions/Melas/Seminars/Focus Groups

SBP BSC Multan Office – 22nd February, 2016

Access to Finance Unit SBP BSC Multan in collaboration with Infrastructure, Housing & SME Finance Department, SBP and all banks of the region organized SME Finance Mela at Multan. The basic objective of the event was to create awareness among SMEs regarding available products and services offered by financial Institutions/banks. Financial Institutions showcased their products & services in the Mela effectively and SMEs identified the windows/options available for financing their needs through Financial Institutions and got their queries addressed at the spot. Moreover, SMEs had also set up their stalls besides the Financial Institutions to sell and showcase their products. Mr. Qasim Nawaz, Managing Director SBP-BSC graced the event as the Chief Guest of the Program. After the Chief Manager's welcome address, experts from SMEDA, Commercial Banks and Trade Bodies gave their insight on role and functions of different stakeholders, scope and best practices in SME financing, key issues and challenges faced by SMEs and also highlighted some ideas for further development. Mr. Qasim Nawaz added that he was very keen to attend the event as it was the first of its kind in Multan. Further, he highlighted the importance of SME sector by stating that SMEs contribute around 30% to the GDP of Pakistan. He added, SMEs could serve as growth engine and offer opportunities like generating jobs, creating countless self employment opportunities and enhancing production with special emphasis to value addition. Moreover, he emphasized that SBP is playing its due role for the promotion of SMEs. To enhance the effectiveness of the event, the regional heads of various banks distributed cheques and credit advices among their SME clients in order to exhibit a practical example of their efforts to promote SMEs with their products & services.

SBP BSC, Lahore Office – 11th January, 2016

Infrastructure, Housing & SME Finance Department organised a one day interactive session with Financial institutions in collaboration with SMEDA in Lahore Office. This session provided an opportunity to the SMEDA, Banks and LCCI members from the business community to interact with each other to discuss the issues/challenges being faced by them in availing SME financing from the banks. Further, initiatives of SBP to promote SME financing in Pakistan were also highlighted.

SBP BSC, Rawalpindi Office – 21st January, 2016

Access to Finance Unit, SBP BSC Rawalpindi organized a bi annually SME Focus group meeting on 21st January, 2016. The meeting was focused to address the concerns of the relevant stakeholders. The relevant stakeholders including commercial banks and government departments especially SMEDA provided feedback about the situation prevalent in the SME sector. The meeting ended on vote of thanks and all participants agreed upon that further measures are needed to be taken to promote SME finance in Pakistan.

SBP BSC, Lahore Office – 22nd February, 2016

Supply chain finance (SCF) is one of the widely used terms in financing markets across the globe. For SMEs that supply goods and services to major corporate buyers, access to SCF products is slowly becoming more common and SCF is a welcome additional working capital alternative. SBP gives immense significance to designing and delivery of capacity building programs as a measure to spur change, knowledge-sharing, and building expertise in a particular area/domain like SCF. Keeping in view these objectives, this department organized a workshop titled “Financing SME Supply Chains in Lahore” on 22nd February, 2016 in collaboration with Access to Finance Unit SBP BSC Lahore. The seminar focused on enhancing the knowledge base and skill set of the mid-to-senior level management involved in SME banking functions. Seminar also served as a platform for sharing knowledge and practical experiences.

SBP BSC, Quetta-24th February, 2016

An SME Focus Group Meeting on request from Quetta Chamber of Commerce was held in SBP BSC Quetta on 24th February, 2016 to discuss the reasons of low financing to SMEs in the region.

The meeting highlighted the basic aim of the event in-depth and discussed the issues faced by the SMEs to meet their financing needs. Both sides; bankers and stakeholders agreed upon working together for the betterment of SMEs in the region. The forum agreed upon following resolutions:

- The banks insisted that Baluchistan had not been declared as a Red zone and that they were providing financing throughout Baluchistan. The forum decided that grievances of SMEs regarding non financing will be addressed.
- Property to be used as collateral for financing will not be divided in to “A” and “B” category.
- The banks suggested to their higher management reducing the mark up being charged to SMEs in order to boost SME financing in Baluchistan.
- The banks will increase their credit staff in order to facilitate financing to SMEs.

SBP BSC, Lahore Office – 10th March, 2016

Access to Finance Unit, SBP BSC Lahore organised an SME Focus Group meeting on 10th March, 2016. The meeting was focussed on the arrangement of SME Mela that was scheduled for April, 2016. The important points of discussion were; publicity of SME Finance Mela at chambers of commerce & industry, FM Radio, and through e-mail to their registered twenty thousand (20,000) members approximately. Participating Financial Institutions were advised to market the event through their relationship officers and existing clients while displaying the publicity banners/standees etc.

ANNEXURE

Useful links for SME Finance schemes and cluster profiling.

1. Cluster profiling <http://www.sbp.org.pk/departments/ihfd-ifc.htm>
2. SME Finance Prudential Regulations <http://www.sbp.org.pk/publications/prudential/PRs-SMEs.pdf>
3. Credit Guarantee Scheme for Small and Rural Enterprises
<http://www.sbp.org.pk/smefd/circulars/2010/C1.htm>
4. Credit Guarantee and Risk Sharing Scheme for Rice Husking Mills in Sindh
www.sbp.org.pk/smefd/circulars/2013/C6.htm
5. Refinance Facility for Modernization of SMEs <http://www.sbp.org.pk/incentives/ltf-eop/ConsolidatedScheme.pdf>
6. Scheme for Financing Power Plants using Renewable Energy
<http://www.sbp.org.pk/smefd/circulars/2009/C19.htm>
 - a. Extension in renewable energy circular:
<http://www.sbp.org.pk/smefd/circulars/2014/CL7.htm>
7. Prime Minister Youth Business Loans for SEs
<http://www.sbp.org.pk/smefd/circulars/2013/C10.htm>
8. Development Finance Review <http://www.sbp.org.pk/SME/DFG.htm>
9. Incentives for Exporters <http://www.sbp.org.pk/incentives/index.asp>
10. Quarterly SME Finance Reports <http://www.sbp.org.pk/departments/ihfd-qdr.htm>
11. SME Finance Related Training Programs <http://www.sbp.org.pk/departments/ihfd-smefp.htm>