Quarterly SME Finance Review
As of December, 2015

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.

The outstanding SME financing in Pakistan improved by 17 percent, as compared to the previous quarter, and stood at Rs 305 billion as of December 31, 2015. As compared to the last year, 6 percent increase in SME financing has been observed. Facility-wise breakup shows that the working capital financing constituted 67 percent of outstanding SME financing followed by fixed investment and trade finance with shares of 23 percent and 9 percent respectively. Banking group-wise distribution of SME financing shows share of private sector banks at 60 percent, public sector banks at 28 percent, Islamic banks at 8 percent while specialized banks were at 3.5 percent of total SME outstanding financing.

SME financing by Islamic Banks and Islamic banking divisions (collectively called IBIs) remained almost stagnant at 6 percent when compared to the previous quarter. There was an increase of 14 percent in outstanding financing 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 17 percent as compared to previous quarter and stood at Rs. 305 billion as on 31st December, 2015. On Y-o-Y basis, SME financing showed an increase of 6.0 percent when compared with December, 2014. SME outstanding financing was 6.1 percent of total financing as compared to 5.5 percent in quarter ended on 30th September, 2015. (**Fig 1**)

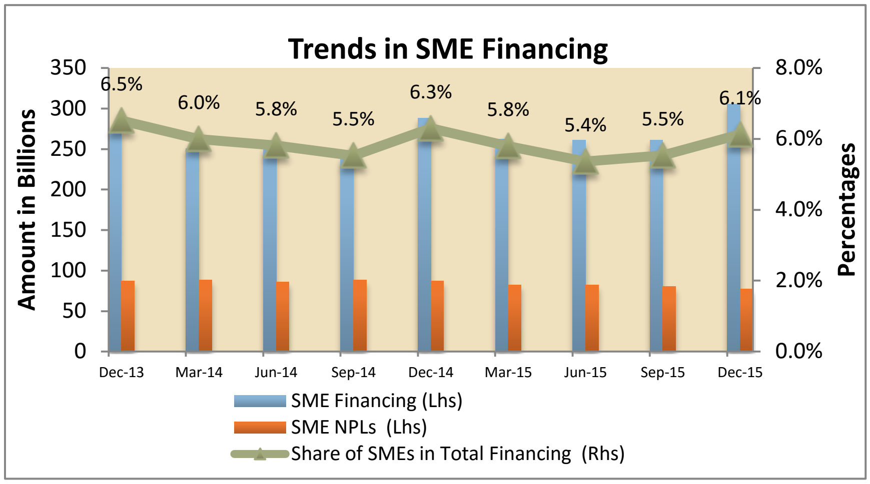


Table No 1: SME Financing Profile of Banks/DFIs (Amounts in Billion Rs.)					
Category	Periods ending			% Change	
	Dec-14	Sep-15	Dec-15	Q-o-Q	Y-o-Y
Outstanding SME Financing	287.88	260.83	305.09	17.0%	6.0%
Total Financing	4,599.46	4,712.21	4,976.14	5.6%	8.2%
SME Financing as % of total financing	6.26%	5.54%	6.13%	-	-
SME Finance NPLs	87.05	80.17	77.17	-3.7%	-11.3%
NPLs as % of Outstanding SME Financing	33.83%	30.74%	25.29%	-	-
No. of SME Borrowers	134,521	168,408	158,387	-6.0%	17.7%
***. YoY: Year on Year**					

The **number of SME borrowers** stood at 158,387 (from 168,408) during the quarter under review. On Y-o-Y basis, there was a significant increase of 18 percent in the number of SME borrowers (**Table 1**).

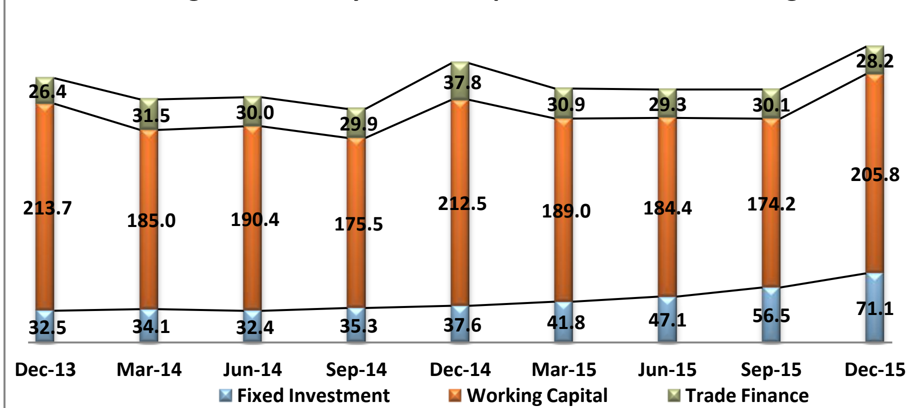
Non Performing Loans declined by 4 percent on Q-o-Q basis and when compared to previous year, NPLs showed a decrease of 11 percent (**Table 1**). SME NPLs were Rs 77.17 billion as on December 31st, 2015 as compared to Rs 80.17 billion as on September 30th, 2015. In the **Table 2**, position of the banks has been shown which managed to bring down their SME NPLs in the quarter under review. As compared to the previous quarter, Burj Bank Limited reported highest reduction of 20 percent in NPLs. Similarly, Standard Chartered Bank (Pakistan) Limited was able to reduce its NPLs by 17 percent in the quarter under review. United Bank Limited stood third in recoveries, as it reduced its NPLs by 13% in the quarter ended on 31st December, 2015.

Table 2: Position Table of Banks w.r.t Highest Reduction in NPLs

S.No	Banks	% Change in NPLs (Q-o-Q)
1	Burj Bank Limited	-20%
2	Standard Chartered Bank(Pakistan) Limited	-17%
3	United Bank Limited	-13%
4	Al Baraka Bank (Pakistan) Limited	-12%
5	MCB Bank Limited	-8%

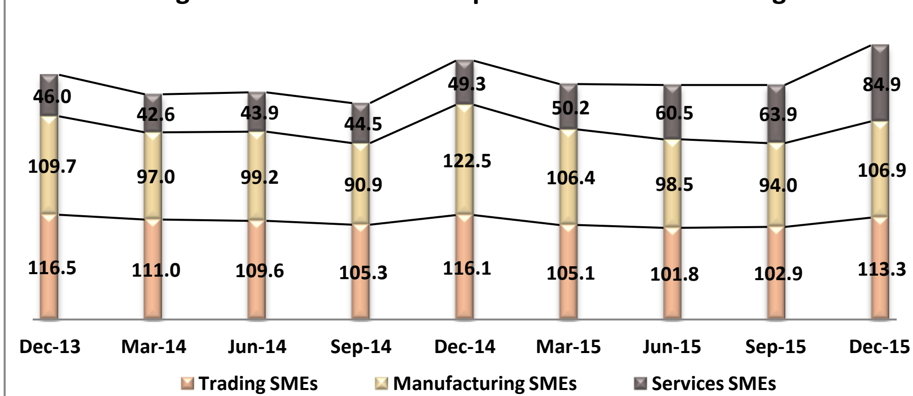
Facility-wise breakup in **Figure 2** shows that the working capital financing constituted 67 percent of outstanding SME financing followed by fixed investment and trade finance with shares of 23 percent and 9 percent respectively. The facility-wise distribution of borrowers depicted that working capital managed to pick 49 percent of borrowers while fixed investment had 47 percent share of borrowers.

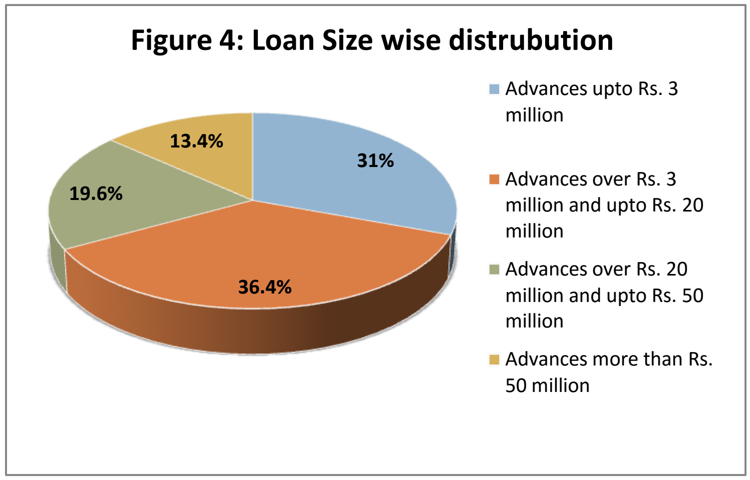
Figure 2: Facility Wise Compositon of SME Financing



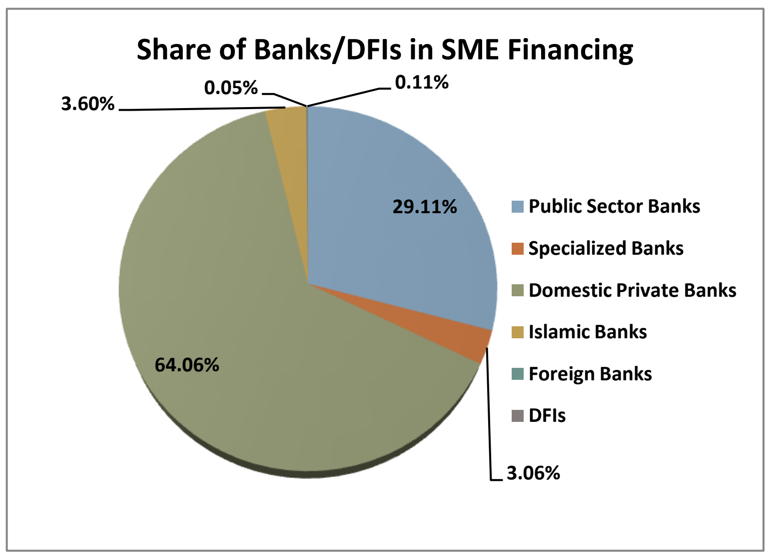
Sector-wise SME financing in **Figure 3** shows the share of trading as 37 percent, manufacturing as 35 percent and services sector as 28 percent in outstanding SME financing. On Q-o-Q basis, financing for manufacturing sector decreased by 1 percent, for trading remained stagnant at 37 percent while for services sector, it increased by 3 percent.

Figure 3: Sector Wise Composition of SME Financing



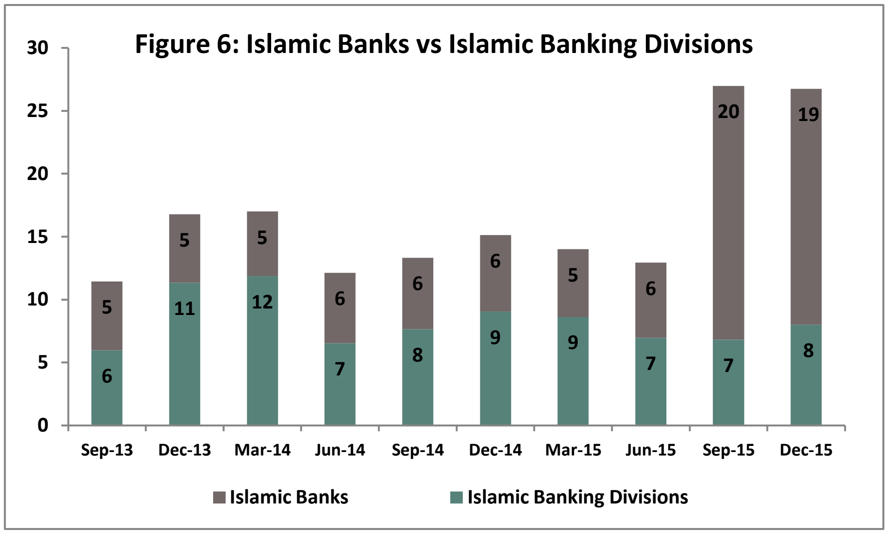


Loan size-wise Review: **Figure 4** shows that loan up to Rs. 3 million had 31 percent share in total SME financing. It covered 90 percent of total SME borrowers, out of which, a large number of SME borrowers availed loans of up to 0.5 million. Advances over Rs. 3 million and up to Rs. 20 million had share of 36 percent in total financing. While Advances over Rs. 20 million and up to Rs. 50 million had a share of almost 20 percent and Advances more than Rs. 50 million had a share of 13 percent in total financing.

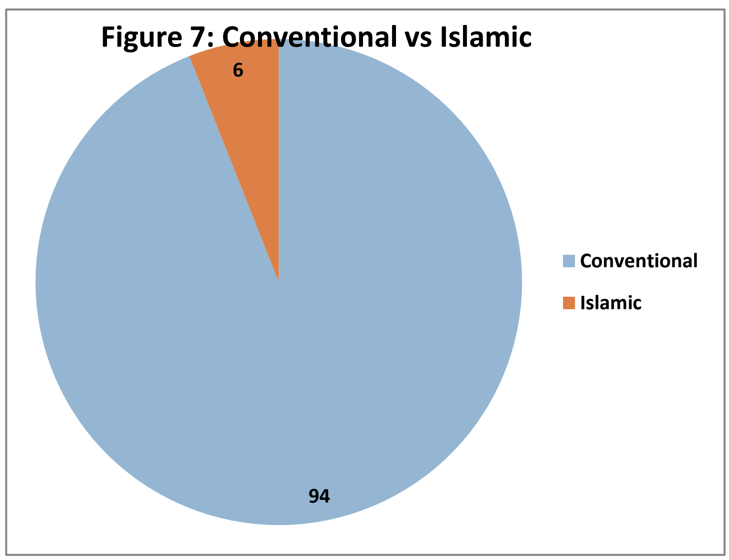


Banking Group-wise distribution of SME financing in **figure 5** show that the share of private sector banks in outstanding SME financing was the highest at 64 percent (increased from 60 percent at the end of previous quarter). Private sector banks were followed by public sector banks, which shared around 29 percent (increased from 28 percent at the end of previous quarter) of total SME outstanding amount. Few banks showed the highest increase in outstanding SME Financing in the quarter under review as compared to the previous quarter. Bank Islami showed a tremendous increase of 242 percent in SME financing during quarter under review. It was mainly because of merger of KASB Bank into BankIslami. Sindh Bank Limited increased SME financing by 50 percent, while Meezan Bank Limited managed to increase its SME portfolio by 38 percent.

Table 3: Position Table of Banks w.r.t. Highest SME financing during quarter Sep-Dec, 2015		
S.No	Banks	% change in SME financing (QoQ)
1	BankIslami	242%
2	Sindh Bank Limited	50%
3	Meezan Bank Limited	38%
4	Allied Bank Limited	36%
5	United Bank Limited	29%



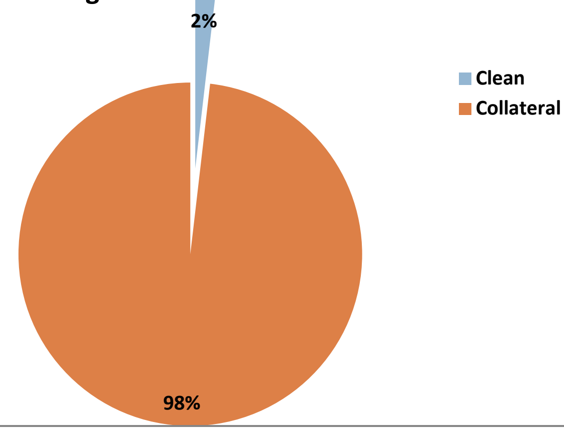
SME financing by Islamic Banks and Islamic banking divisions (collectively called IBIs) remained almost stagnant when compared to the previous quarter (**Figure 6**). There was an increase of 14 percent in share of Islamic Banking Divisions of conventional banks when compared to previous quarter. BankIslami increased its share by 242 percent, Meezan Bank Limited by 38 percent while Dubai Islamic Bank Limited stood at third among Islamic Banks with 11 percent increase. 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

Despite revision in SME Finance Prudential Regulations in May, 2013, banking institutions have been more inclined towards collateral based lending. 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.

Figure 8: Clean vs. Collateral



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**).

Table No 4: Agri SME Financing as on 31st December, 2015			
Parameters	**Dec, 2015**	**Sep, 2015**	**Q-o-Q Change**
Outstanding Financing to Agri SMEs	23.11	20.10	15%
No. of Borrowers	6,575	8,294	-21%
Non-performing Loans - Agri SMEs	3.02	2.44	24%
No of non-performing borrowers	2,242	4,249	-47%

According to the data collected, outstanding financing of banks to Agri SMEs was Rs. 23 billion, which was 15 percent higher than the financing in previous quarter. Out of this, Rs. 3.02 billion was non-performing loans, which increased by 24 percent as compared to previous quarter. The share of financing of Small Agri Enterprises was 30 percent and Medium Agri enterprises share stood at 70 percent. HBL had the highest share of financing to Agri SMEs i.e; Rs. 12.45 billion, which was double the share as compared to qurater ended on 30th September, 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 on their short to medium term loans (3 to 5 years) loans to Small and Rural Enterprises are shared by SBP. The CGS utilization for the period ending December 2014 was around 61%. Moreover, HBL was the biggest participant under this scheme. Sixteen PFIs have been allocated credit exposure limits of Rs. 8.4

billion with guarantee coverage of Rs. 3.36 billion up to June 2016. Bank-wise utilization of the limits in terms of percentages is given in **Table No 5**.

Table No 5: Total Limit Utilization as of 31st December, 2014		
S.No	**Participating Financial Institution**	**% Total Utilization**
1	Allied Bank Ltd	49%
2	Askari Bank Limited	61%
3	Burj Bank	20%
4	Faysal Bank Ltd	52%
5	Habib Bank Ltd	85%
6	MCB Bank Ltd	32%
7	National Bank of Pakistan	58%
8	Tameer MFB	79%
9	The Bank of Khyber	36%
10	United Bank Limited	99%
Total Utilization		**61%**
* Position as of December 31, 2015 is yet to be finalized		

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

The Export Finance Scheme (EFS) is in operation since 1973 with the objective 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 (Performance Based). During quarter ended on 31st December, 2015, the outstanding advances to SMEs under EFS stood at Rs. 6 billion. Outstanding amount under EFS showed an increase of 13 percent when compared to previous quarter (**Table 6**).

Table No 6: Outstanding Financing under SBP Finance Facilities for SMEs (Amt in Million Rs.)			
Category	**As on**		**Q-o-Q Change**
	Sep-15	**Dec-15**	
Export Finance Scheme* (EFS)	**5,637**	**6,353**	**13%**
Textile/Textile Products	1,470	2,175	48%
Edible Goods (including Rice)	543	719	32%
Leather/Leather Goods	985	967	-2%
Engineering Goods (Machinery and Metal Products)	1,198	1,352	13%
Carpets	238	243	2%
Cement	-	-	-
Sports Goods	1,013	775	-0.23%
Others	190	122	-36%

Textiles Sector products, Edible Goods and Engineering Goods are the major contributors towards EFS. Leather Goods and Sports Goods outstanding showed a decrease 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. 81 Million as on 31st December, 2015 which was only 1 percent higher than the outstanding financing as on quarter ended September 30, 2015.

Table No 7: Outstanding Financing under SBP Refinance Facilities for SMEs

Category	Sep-15	Dec-15	Q-o-Q Change
Refinance Facility for Modernization of SMEs	80.20	81.34	1%
Financing facility for Storage & Agriculture Produce	1,850.40	1,765.75	-5%
Islamic Export Refinance	23,455.58	31,935.80	36%

Another refinance scheme was introduced to encourage private sector to establish silos, warehouses and cold storages in order to enhance storage capacity and develop agricultural produce marketing. Under this scheme outstanding as on December, 2015 stood at Rs. 1.2 billion which was 5 percent lower than the outstanding on September, 2015 (**Table No 7**). Islamic Export Refinance scheme has picked up quite well and it showed an increase of 36 percent when compared to previous quarter.

Events and programs conducted during the quarter

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

Awareness Programs

SBP BSC Gujranwala Office – 26th November, 2015

IH&SME Finance Department along with Development Finance Support Unit, SBP BSC Gujranwala have organised an awareness session on 26th November, 2015 regarding short run and long run refinance schemes of State Bank of Pakistan. The participants were SME proprietors of the region, who were briefed about the different finance schemes of State Bnak of Pakistan which can be useful for them. The participants found this set of information very informative and showed their willingness to utilize LTFF facility.

SBP BSC, Hyderabad Office – 13th November, 2015

Access to Finnace Unit of SBP BSC Hyderabad office organised an awareness session in e-Camp (entrepreneurs camp), Isra University, Hyderabad on 13th November, 2015. More than 60 young entrepreneurs attended the camp. The participants were informed about SBP's different refinance schemes and credit guarantee scheme. Students were told about SBP's active role in promoting financial inclusion; they also got to know how to avail loans from the banks under various SBP's schemes. It was recommended that SBP should take more steps to promote awareness amongst masses regarding its various financing schemes.

SBP BSC, Hyderabad Office – 25th November, 2015

An awareness session on SBP export refinance schemes and guarantee scheme was organized by SBP BSC Hyderabad office on 25th November, 2015. This activity was organized to spread awareness regarding SBP's Refinance Scheme and Credit Guarantee Scheme amongst the business and trade community, and bankers of Mirpurkhas region, who are usually unaware of SBP's initiatives regarding Agri, Micro and SME Finance. Besides this activity, people were also informed about CFC (Customer Facilitation Center) in SBP BSC Hyderabad, where they could get their issues/complaints against banks, sorted. This session not only broadened their knowledge regarding SBP's various schemes but it also helped them in understanding the process of filing their grievances against banks. It was recommended that SBP should take more steps to promote awareness amongst masses regarding its various financing schemes.

SME Finance Focus Groups Meeting

SBP BSC, Bahawalpur Office – 29th October, 2015

First biannual SME Finance Focus group meeting took place in collaboration with World Wild Fund (WWF) On 29th October, 2015 in Bahawalpur office. In addition to the regular discussion on the agenda points, the meeting also included detailed discussion on the project of WWF-Pakistan. WWF-Pakistan, the country's largest environmental organization, has been working with businesses, governments, farmers, research institutes and other organizations to discover and demonstrate ways of growing cotton and sugarcane in Pakistan by using less water, synthetic fertilizers and pesticides since 1999 under the Sustainable Agriculture Programme (SAP). SAP is the outcome of WWF-Pakistan efforts towards sustainable agriculture as a holistic and scientific approach, and a participatory movement for socio-economic transformation that endorses and respects local knowledge and values for better ecosystem management.

SBP BSC, Quetta Office – 22nd October, 2015

SME Foucs group meeting was held on 22nd October, 2015 in Quetta Office. The aim of the meeting was to promote SME financing by highlighting the issues faced by SMEs for the provision of its financing needs. The meeting also concluded the measures helpful in solving those issues.

SBP BSC, Multan Office – 26th November, 2015

On 26th November, 2015 an SME Finance Focus Group meeting was held in Multan Office chaired by Chief Manager, SBP BSC, Multan. The chair highlighted the importance of focus group meetings and stressed upon the need to make the forum more instrumental by sharing policy and operational issues for review at respective level. This meeting also discussed following points:

- SME Finance Mela in Multan with the objective to create awareness among SMEs.
- Small businesses cannot offer adequate collateral. It was apprised that clean financing models are available in the market upto some extent.
- Banks are unable to determine whether the borrower possesses technical, managerial and marketing skills that will allow him to generate adequate cash flows and repay the loan on time. An understanding wax developed in the forum to educate the prospective borrowers through financial literacy jointly by banks and trade bodies.
- Banks lend to those SME having business track record of at least 03 Years thus lending to new entrants is almost negligible. The banks were advised to follow PML Youth program model.
- Documentations for SME lending also create hindrance and it must be curtailed at minimum so that TAT (Turnaround time) could be ensured.
- High Markup to SMEs as compared to Corporate Customers. Banks should revisit their SME lending pricing policies to boost SME lending.
- Banks should encourage lending to skilled persons Or group of skilled persons having feasible/ workable business plans
- Programmed Lending

- Personal Guarantee Loan
- Mandatory binding on Banks for SME loan
- Business Strategies with the specific needs of the SME sector

SBP BSC, Gujranwala Office – 22nd December, 2015

SME Finance Focus group was organised by Gujranwala office on 22nd December, 2015. The meeting was chaired by Chief Manager Gujranwal Office. The meeting focssed on the issues, developments or related policy matters for enhancing the growth of SME industry in the region. The chair highlighted the SBP refinance schemes like generator finance under SME BMR and Schemes for Financing Power Plants Using Renewable Energy etc. Further, representative from SMEDA explained the activities and steps being taken for the development and growth of SMEs. Different banks shared their products for SME sector. Banks were advised to play the advisory role to the existing and prospective customers of the bank.

SBP BSC, Lahore Office – 9th December, 2015

An SME finance focus group meeting held on 9th December, 2015 in Lahore office. The meeting was chaired by Senior Deputy Chief Manager. He shed light on the initiatives of SBP for promotion and facilitation of SMEs, concerns of Banks were discussed in detail along with proposals of centralized MIS for SMEs & Guarantors and Training Programs at SMEDA and Women Chamber of Commerce and Industry. The idea of holding an SME Mela was also shared and feedback taken.

SBP BSC, Peshawar Office – 16th December, 2015

SME Focus group meeting held in Peshwar Office on 16th December, 2015. It was first bi annual meeting for FY 2015-16. The purpose of the meeting was to discuss progress and strategies for the development of SME Financing in the region. The leading issue deliberated on the forum was the higher stamp duty in KPK, which according to the participating banks had seriously hampered the SME financing besides deteriorating the banks' competiveness with those operating in other provinces. Further, the banks also pointed out other issues like: Un-documented SMEs & centralization of credit sanctioning authorities. The participants were of the view that non-documentation of regional SMEs & prevailing centralized authority at banks' head office level (instead at branch/regional level) were affecting credit flows to the SME sector pessimistically.

SBP BSC, Sialkot Office – 9th December, 2015

SME Focus Group meeting held on 9th December, 2015 at SBP BSC Sialkot Office, the main objective of the meeting was to discuss significant issues responsible for low SME Finance in the region. Participants of the meeting discussed important points like:

- Reduction in the turnaround time for loan processing and standardization of products,
- Increase in outreach of financial services to SMEs of the region.
- Enhanced interaction and collaboration among various stakeholders
- Education of the SMEs of the region about various financial services.

Participants further stressed upon the fact that SME financing is the need of the hour as SMEs contribute upto 40 percent in National GDP, 30 Percent in exports and employ more than 80% of non-agriculture workforce.

SME Fair/Conference/Exhibition

SBP BSC, Sialkot Office – 15th December, 2015

SME mela held in Sialkot on 15th December, 2015 The purpose of the mela was to create awareness and disseminate information. The mela was part of the SBP initiatives regarding SME Finance Development in the region. It was an outcome of the combined efforts by SBP, SBP BSC and Commercial bankers of the region. Approximately 1500 persons form different walks of life visited the mela. It was a huge success.

SBP BSC Bahwalpur – 29th October, 2015

Seminar on Sustainable Cotton Production in Pakistan's Cotton-ginning SMEs

Sustainable Cotton Production in Pakistan’s Cotton Ginning SMEs (SPRING, 2012-15) is a project of the Sustainable Agriculture Programme (SAP), being implemented in Sukkur, Rahimyar Khan and Bahawalpur Regions. The project is funded by the European Union (EU) under its regional initiative SWITCH-Asia. During the project period, the core areas being focused are Process Efficiency, Energy Efficiency & Occupational Health & Safety of Workers. The machines used in the Ginning Sector are outdated and are old. To address the various issues of the sector during the project activities, the ginners are encouraged to move towards modernization.

SBP BSC, Faisalabad – 10th November, 2015

A two days workshop in order to enhance the human capital of the banks was held in Faisalabad office on 10th of November, 2015. This workshop covered product development, marketing, promotion of the SME products. More than twenty (20) participants attended this session. The main objective of this workshop was to promote lending to the SME sector.

SME Related News

E-Commerce in Pakistan Gaining Strength

Not long ago, e-commerce in Pakistan was primarily related to online sales of smartphones, laptops and fashion apparel and almost all online retail sales were generated from Karachi, Lahore and Islamabad – the largest urban centres constituting major markets for e-commerce even today…….

http://www.unisame.org/843/

Government to Provide Maximum Support To SMEs

Federal Minister for Finance and Economic Affairs Senator Muhammad Ishaq Dar said the government fully realized the importance of small and medium etnerprises (SMEs) in an economy and was providing maximum support to them. He assured more incentives to the SMEs as this sector was backbone of the country’s economy. The minister was speaking at an interactive session with the business community here at Federation of Pakistan Chambers of Commerce and Industry (FPCCI)……..

http://www.unisame.org/government-to-provide-maximum-support-to-smes/

SMEs Significantly Contributing to GDP

The State Bank of Pakistan has acknowledged significant contribution of small and medium enterprises to the country’s GDP and stressed more steps to meet financing needs of the SME sector. In its quarterly SME Finance Review issued on Tuesday, the SBP said it had been taking initiatives for promotion and development of SME banking as a result of which the banks’ outstanding SME financing (domestic) increased by almost 20 per cent to Rs287.8 as of Dec 31, 2014………

http://www.dawn.com/news/1178777/smes-significantly-contributing-to-gdp

Thematic Discussion: Mobile Technology for Financing SMEs in Asia and the Pacific: Challenges and Opportunities[1]

The use of mobile technology for the purpose of facilitating the exchange or movement of money has become a core instrument over the past 10 years. Mobile technology has helped bring financial services to people around the world, in both developed and developing countries. With its ability to overcome the constraints of financial access—such as time, distance, and costs—mobile technology has spawned everything from internet banking on PCs, smart phones, and tablets, to 'mobile money' for payments and transfers using the most basic mobile phones. The Asia and Pacific region is the world's most prolific user of mobile technology. It dominates the global mobile industry in terms of both unique subscribers (subscribed individuals) and connections (registered SIM cards, of which an individual may have more than one). In 2013, the Asia-Pacific region had 1.7 billion unique subscribers and is projected to have 2.4 billion by 2020. Of total subscribers in the region, 99% of them live in the 21 largest countries **(Table 8**). While mobile technology has been making access to financial services easier, faster, and cheaper for everyone from high-income individuals to even bottom-of-the pyramid households, the small and medium-sized enterprise (SME) segment around the world seems to have made minimal use of this new technology for their financial needs. The so-called SME "missing middle" in terms of financial access appears to have mobile financial services missing as well.

Mobile Financing for Rural and Women-owned SMEs

Access to finance for women-owned SMEs is not a topic that is lacking for attention. The particular constraints that affect the ability of women entrepreneurs to obtain growth capital have been well documented internationally. It is generally acknowledged that women-owned SMEs constitute an enormous potential for economic growth in emerging markets, particularly in Asia and the Pacific. However, women-owned SMEs consistently lag behind their male counterparts in the development of their businesses, and this is often due to financial constraints.

[1] This excerpt is taken from "Asia SME Finance Monitor 2014 published by Asia Development Bank, it can be accessed at http://www.adb.org/114D0CBC-5F68-452E-9D25-2F752E421DE7/FinalDownload/DownloadId-59999F30CAF64E571403797C4CC23B43/114D0CBC-5F68-452E-9D25-2F752E421DE7/sites/default/files/publication/173205/asia-sme-finance-monitor2014.pdf

Table No 8: Asia-Pacific Region Mobile Outreach 2013		
Economy	**Unique Subscribers (millions)**	**Connections (millions)**
China, People's Rep of	628.8	1,233.8
India	405.5	886.3
Japan	115.0	153.5
Indonesia	103.7	314.9
Bangladesh	62.9	114.3
Pakistan	56.1	134.8
Vietnam	51.2	123.7
Philippines	49.0	109.3
Korea, Rep of	44.3	56.0
Thailand	36.6	92.7
Taipei, China	21.8	31.4
Australia	21.7	30.9
Malaysia	16.2	42.3
Sri Lanka	10.2	42.3
Nepal	21.6	24.6
Cambodia	7.8	21.6
Hong Kong, China	6.5	21.1
Myanmar	6.2	13.7
Singapore	5.0	8.4
New Zealand	3.8	5.4
Lao PDR	3.1	6.4
Source: ***Groupe Speciale Mobile Association. The Mobile Economy Asia Pacific 2014***		

A 2011 report by the IFC, titled Strengthening Access to Finance for Women-Owned SMEs in Developing Countries, assessed enterprises that had at least one woman owner, and had applied for or were in need of finance. The report found that, in East Asia, between 53% and 65% of very small enterprises, between 27% and 33% of small enterprises, and between 21% and 25% of medium-sized enterprises were ‘un served’ for financing (did not have a loan). Notably, the un-served percentage for very small, women-owned enterprises in East Asia was the highest of all regions surveyed by the report. So, can mobile technology overcome some of the factors that are constraining access to financing by women-owned SMEs? The IFC report found that not only was it more difficult for women-owned SMEs to obtain a loan—due to cultural, infrastructural, and legal and regulatory issues (such as property rights and identity documentation)— but that, even when they do, they are often subjected to less favorable terms, such as higher interest rates, higher collateralization ratios, and shorter loan periods. Mobile technology can help to overcome some issues faced by women-owned SMEs. The ability to apply for a loan online, by emailing or uploading official and non-official documentation to a bank’s website using a laptop or tablet, would solve the cultural restrictions some women can face in travelling to financial institutions. Similarly, using video-calling applications, such as Skype, through a laptop or tablet could allow a loan officer to conduct an interview of a woman business owner, and to make observations about the business' assets and activities. This can take place without the business owner travelling to the bank, or the loan officers conducting a visit to the business premises, which may also be the SME owner's primary residence. Because women-owned SMEs are generally perceived by banks to involve more risk, higher costs, and lower returns, many creditors are hesitant to finance them. Where this is the case, the mobile technology of crowd funding represents an alternative source of potential financing for women-owned SMEs. Another constraint is a relatively low level of business management skills and education among women business owners. These deficiencies can be addressed by online training programs and courses for capacity building, especially for financial literacy training. In August 2014 in Fiji, 160 rural-based women were trained through the 'Money Minded Pacific Financial Literacy' program, conducted by the Australia and New Zealand Banking Group (ANZ) in partnership with the Fiji Ministry of Women, Children and Poverty Alleviation's Department of Women. The aim of program was to educate women on components of financial management, savings, budgeting, and micro financing. Although this particular program was delivered in a conventional classroom, there is potential for such a program to be delivered online using mobile devices.

Mobile Technology for Underwriting SME Lending

In this discussion of mobile technology and how it can be used to improve access to growth capital by SMEs in Asia and the Pacific, the two core physical requirements of financing—submission of applications and disbursement/repayment of funds—have been the focus. This is because the time that SMEs need to spend on loan applications is almost universally recognized as the top constraint to financing, with lack of collateral being another. SMEs in rural areas may have the additional challenge of physical proximity to a branch, while women-owned SMEs may stay away from branches due to cultural reasons. Even when they have equity and their country has an active stock exchange or bond-rating agency, most SMEs are far too small to release an initial public offering (IPO) on a stock exchange. The process of assessing the credit risk of SMEs is also one of the challenges of lending to enterprises in developing markets. Lenders must address the problem of 'asymmetric information' i.e., the fact that the SME has far more knowledge about itself than the bank does, and therefore knows the true level of lending risk it represents. Can mobile technology step in and improve the risk assessment of SMEs? There are two different lending technologies that banks can use to assess risk; transaction-based technology and relationship-based technology. According to a study on SME financing from 2007, the current paradigm in SME lending research is that large banks tend to service relatively large, information transparent firms, using 'hard', quantitative information (derived from the borrowers' balance sheets and/or the collateral guarantees they offer). Conversely, the study contends that small banks have advantages in lending to smaller, less transparent firms, using "soft" or qualitative information that is difficult to codify (obtained via personal interaction and acquaintance). In either case, decisions on loan approvals take time, often too much time for an SME likes. Many studies have revealed that SME owners typically say that, in evaluating credit offerings, speed of credit access is more important than the interest rate. One tool that is being used more widely is the 'psychometric testing' of business loan applicants. As an example, tests by Entrepreneurial Finance Labs assess a loan applicant's honesty, intelligence, aptitude, and beliefs. Such tests help to overcome concerns about the risk posed by borrowers who do not have a credit history, collateral, or set of accounts. Entrepreneurial Finance Labs claims that it has helped to enable financing for single-person micro enterprises borrowing $800 to medium-sized enterprises receiving financing of over $500,000, and that their credit application can be completed on a personal computer or mobile device, with or without an internet connection. Other forms of testing by companies such as Visual DNA are relatively quick, taking 10 or 15 minutes. The bulk of the questions require applicants to choose from a selection of pictures, which can help to reflect their attitudes toward different types of risk. The results of psychometric testing are considered "soft" information. The mobile technology for this type of testing can be provided via software on a tablet or laptop, with touch-screen capabilities that a loan officer can use to administer the exam in the field. However, there are limits to how much soft information can be gathered from a psychometric test. Lenders should combine this information with indicators of financial behavior, such as whether suppliers are paid on time, the satisfaction level of employees and landlords, and records of mobile phone payments.

Challenges and Opportunities for Mobile Financing for SMEs

Examining the current state of financing for SMEs through the use of mobile technology in Asia and the Pacific reveals that there are specific challenges that need to be overcome before mobile financing can become a reliable alternative to traditional bank lending for SMEs.

These challenges, however, create opportunities. One significant challenge revolves around the difficulty in completing an entire SME loan process using only mobile technology over the internet. Most banks in Asia and the Pacific offer e-banking or internet banking services, though they are generally limited to sharing information and making account transactions. The question becomes: Can an SME loan be entirely processed and approved online? The answer is: Yes. Across the globe, several online lenders are actively financing SMEs while never meeting them, never collecting paper documents, and never conducting site visits.

One example is *OnDeck*. Based in New York, *OnDeck* offers SME loans via an online application process, approves the loan analyzing the applicant's credit score and online financial account and transactional data, and then funds the loan directly to the SME's bank account. This system allows for a credit decision to be made "in minutes" and the funds received within 1 day. However, this speed of approval means a sacrifice of a higher price on the loan. A loan of $100,000 over 24 months attracts an interest rate of between 20% and 40%. Additionally, start-ups are not funded by *OnDeck*. The key here is that SMEs in the United States conduct many of their business operations online. This includes procurement, payment of invoices, accounting, and banking. It means that SME owners will have a credit score to assess. In developing countries across Asia and the Pacific, the level of online business transactions is extremely low, and countries often do not have a rating from a credit agency.

The opportunity for SME lenders in Asia and the Pacific is to develop the use of online systems for SME business services and transactions. Lenders must then design mobile technology to complement those systems for remote lending processes. A more basic approach would be to introduce a personal credit scoring agency. This would enable evaluation of the credit risk posed by individual SMEs, giving lenders a better opportunity for risk assessments. (*https://www.ondeck.com*).

The use of alternative risk assessment mechanisms, such as psychometric testing using mobile devices, as well as the widening of peer-to-peer lending platforms and equity investments, is opportunities for those interested in mobile financing of SMEs. Another opportunity exists to overcome the challenge of high search costs for SME loans, by introducing online marketplaces for loans. These platforms (websites) allow SMEs to compare loan choices from a variety of lenders, and the website collects only a small fee for the 'matching' service. Such platforms allow the SME to save time, and therefore cost, in approaching multiple banks or other lenders.

An example of a marketplace platform is Biz2credit.com, where an SME may use a tablet, phone, or laptop to search and review loan offers online. Typically, a marketplace like Biz2credit.com earns revenue by charging a small fee, if the borrower gets funded and accepts the terms of a loan from its platform.

Conclusion

The introduction of mobile money has brought millions of unbanked individuals into formal financial systems. Meanwhile, online banking has added convenience for many small businesses seeking to access account information and make simple transactions. This means the potential for mobile technology to increase access to growth financing for SMEs in Asia and the Pacific is significant. However, many issues, such as regulatory arbitrage risks and unclear money-back guarantees, have yet to be solved. Growth-oriented SMEs require larger amounts of capital, borrowed over longer periods of time, compared to loans sought by individuals and micro enterprises. Traditional loans via mobile avenues will require significant changes in the legal, regulatory, and financial systems of countries in the Asia-Pacific region.

Equity investment, which is more likely to come from institutional investors as compared to public crowd funding, is more promising for SMEs with regard to long-term funding. Mobile technology can help meet the funding needs of SMEs, with flexibility and innovation, by overcoming the traditional lending constraints—such as lack of real estate collateral and formal documentation—that still persist in emerging markets.

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