



SME BANKING REGULATORY FRAMEWORK

Infrastructure, Housing & SME Finance
Department
State Bank of Pakistan



SME Sector in Pakistan

- SMEs are engine of growth, employment, and income distribution leading to poverty alleviation.
- SMEs are nurseries of entrepreneurship and innovation
- SME sector contribution is around 30% towards GDP , employs more than 70% of non-agricultural workforce and contribute 25% to export earnings of Pakistan.
- 99% of total 3.2 million economic establishments in Pakistan are SMEs.



Credit to SMEs – Trends & Current position

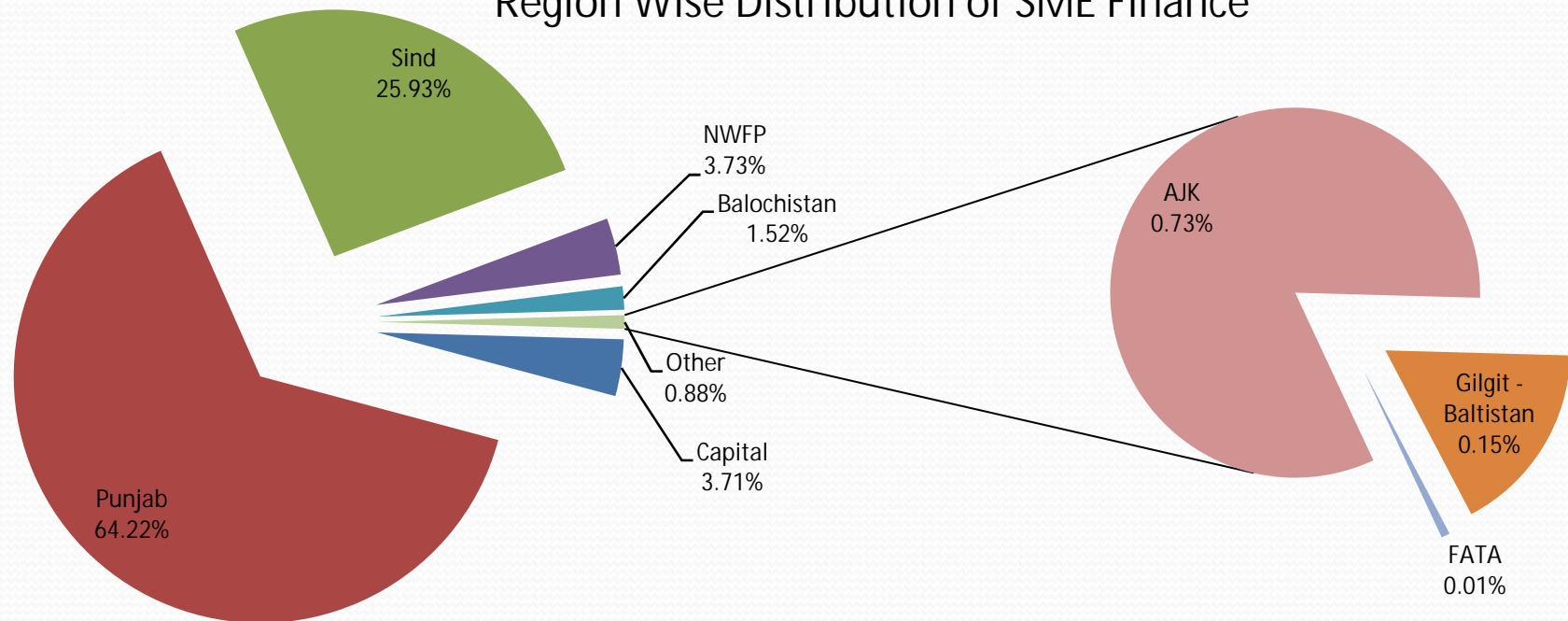
Rs. in Billions

	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
SME-O/S	284.0	361.4	408.3	437.4	383.0	348.2	334.0
SME NPLs	30.1	42.1	36.0	41.3	61.5	79.2	96.5
% age Share	10.6	11.6	8.8	9.4	16.1	22.7	28.9

- SME Finance portfolio forms about 10% of total banking sector advances which is proportionately lower keeping in view the huge potential of SME sector.
- There has been decrease in SME Finance in the last 2 years due to economic & financial crises, power outages, deteriorating law & order situation in the country.

Current SME Finance Portfolio

Region Wise Distribution of SME Finance





Some major Issues in SME Finance

Demand Side Issues & Constraints

- ⇒ Absence of Proper Accounts Management, Business Planning, Missing Formal Management
- ⇒ Lack of Collaterals to Meet Banks' Requirements
- ⇒ Low level of Awareness about Different Financing Options
- ⇒ Absence of Reliable and Credit Worthy data

Supply Side Issues & Constraints

- ⇒ Shortage of Credit Evaluation, Product Design, Marketing Skills and non- Innovative Products
- ⇒ Perceived to be High Risk Projects by Banks
- ⇒ Absence of Credit Scoring, Cash flow based Lending, Program Based Lending, Downscaling
- ⇒ Absence of SME R & D in Banks

SBP Initiatives for Promotion of SME Finance

- ⇒ Provision of Enabling Regulatory Framework:
 - ⇒ Review of current Regulatory Framework for SMEs
- ⇒ Formulation of Refinancing Schemes for SMEs.
- ⇒ Credit Guarantee Scheme for Small and Rural Enterprises
- ⇒ Cluster Development Surveys (with LUMS & IFC)
- ⇒ Capacity Development of Banks (Grass Root & with IFC)
- ⇒ SME Sector Development Project with Donor Agencies



Prudential Regulations for SMEs

Definition of SME:

Maximum Employees:

- 250 for manufacturing/service concern
- 50 for trading concern

Max. Total Assets less Land & Building:

- 100 M for manufacturing concern
- 50 M for trading & service concern

Net Sales not Exceeding Rs. 300 M

An individual can also be treated as an SME



Prudential Regulations for SMEs ..Cont'd...

- Source and Capacity, Cash Flow Backed Lending:
- Personal Guarantees of Owners of SMEs
- Clean Limit of Rs 3m (excluding clean consumer financing limits to sponsors of SME)
- Per Party Exposure Limit
 - ✓ Maximum Exposure from all FIs Rs 150 M.
 - ✓ Exposure of a Single Bank/DFI on SME 75M.
 - ✓ The limit has no relationship with equity of the borrower.
 - ✓ An SME, willing to comply PRs for Corporate/Commercial Banking, may be allowed higher exposure limit.



Prudential Regulations for SMEs ...Cont'd

- Minimum Conditions for taking Exposure
 - CIB report for exposure exceeding Rs. 0.5M (defaulters may be extended loan on genuine grounds)
 - Financial Accounts for exposure exceeding Rs. 10 M
 - Borrower Basic Fact Sheet (BBFS)
- Proper utilization of loan
- Restriction on facilities to related parties (Director, Major Shareholders, Chief Executive and Employees of bank)

Classification and Provisioning

Category	Overdue period	Provision
S/S	90 Days	25%
D/F	180 Days	50%
Loss	One year	100%

Notes:

1. Provision will be calculated on the O/S less liquid assets & FSV upto 40% of mortgaged/pledged securities, for up to 3 years (for land up to 4 years).
2. The evaluation of property will be valid for 3 years only (For Land 4 years)

Classification and Provisioning

cont'd...

■ Restructuring of loans

- ✓ Restructuring of bad debts can be done with 10% cash recovery.
- ✓ Behavior for 1 year (excluding grace period) has to be positive to qualify for declassification.
- ✓ Adjustment of 50% restructured loan amount lead to immediate declassification.
- ✓ Reporting to SBP will be reported as stuck-up; however, to e-CIB it can be reported as restructured/rescheduled account instead of default.
- ✓ Subsequent default will place the account in the old category.



Classification & Restructuring (of Loans in Flood-affected areas)

1. For areas as identified by National Disaster Management Authority (NDMA).
2. Banks may reschedule/restructure SME loans to borrowers, as per existing Prudential Regulations of SME Financing, where the possibility of recovery exists.
3. On such rescheduled/restructured loans, Banks may defer loan provisioning up to 31st December 2011. However, classification of such loans shall be done as per criteria laid down in the relevant PRs.
4. This relaxation is available only for those loans which have become non-performing since July 1, 2010.

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Thank you