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## Salim Raza urges banks to make serious efforts to meet financing needs of SME Sector

Syed Salim Raza, Governor State Bank of Pakistan has stressed upon the banks to make serious efforts in order to meet the financing needs of SME Sector. He regretted that the sector's share in total banks' financing has drastically reduced during the last two years.

Addressing the third meeting of the SME Credit Advisory Committee held at State Bank of Pakistan, Karachi today, he said the central bank has been playing its due role in the development of SME sector, and has recently launched three SME related schemes which included Credit Guarantee Scheme for Small & Rural Enterprises, Refinance Scheme for SMEs of Khyber-Pakhtoonkhwa, Gilgit-Baltistan & FATA and Refinance Scheme for meeting the long-term financing needs of Small & Medium Enterprises (SMEs). Besides, SBP has also developed financing facility for storage of agricultural produce, as well as broadening the scope of recent refinance facility for all key SME clusters. Mr. Raza said the objective behind these schemes is to ensure availability of credit to SMEs but its success and utilization is dependent upon the active participation of the banks.

SBP Governor urged the banks to come up with initiatives and other measures to meet the funding needs of the sector on sustainable basis. "A paradigm shift in strategic focus of banks is needed to target SMEs through increased commitment, dedication and effective planning," he said and added the banks will have to explore beyond the domain of SME finance into the sphere of SME banking, i.e. the success lies in cross selling.

Expressing his concern over declining trend in SME finance, he informed the participants of the meeting that SME financing of banks, which was Rs 437 billion in December 2007, has significantly declined to Rs 348 billion in December 2009 whereas the share of SME financing in total lending portfolio of banks has also been reduced from 16.2% to 10%. "This was despite the fact that we all are aware, SMEs play an important role in economic growth & development through employment generation, business innovation and reduced income inequalities," he added.

Mr. Raza said the major share of total SME advances i.e. 89% is being disbursed for meeting working capital requirements, reflecting on banks' reluctance to bridge the long-term financing needs of SME sector. "This has affected both the drive for modernization, expansion of businesses and the process of asset formation," he said and added that the pre-dominance of short-term lending also shows banks' lack of interest in long-term viability of SME customers.

SBP Governor pointed out that 90% of total SME portfolio is concentrated in Punjab (64.22%) and Sindh (25.93%) while only 10% is shared by Khyber Pakhtoonkhwa, Balochistan, FATA, Gilgit-Baltistan and AJK reflecting severe regional disparity. "Another worrying facet of this geographic concentration is that three cities i.e. Lahore, Karachi and Faisalabad account for more than half of SME

financing," he said and added that top 20 districts make up 85% of total SME financing, ignoring the remaining 110 districts.

"I feel that a sustainable approach towards the development of SME sector would require a more active role from all stakeholders specially the banks, in view of their key role in improving the availability of finance," He said and added that an effective SME Strategy should be developed aimed at alignment of banks' strategic focus along with other important areas related to SME Banking.

While giving a detailed presentation on SME Finance, Mr. Mansoor Siddiqui, Director SME Finance Department of the State Bank, stressed the need for developing a multi-dimensional strategy for SME Banking and not just SME Finance in the country. In this regard, a sub-committee of the SMECAC will be assigned the task. Mr. Siddiqui said that the central bank will provide the initial sketch of the strategy to the committee.

With regard to capacity development, he said that the State Bank would arrange international resources to develop capacity of banking industry in specialized areas such as product development, strategic planning, risk mitigation and low-cost delivery channels. He said the State Bank is also looking at the possibility of setting up a Venture Capital Fund in collaboration with the Federal Government, besides initiating SME Sector Development Projects with the support of World Bank and the USAID. He also mentioned that in order to enable the banks to understand the SME sector dynamics and accordingly come with customized measures & products, various clusters have been identified where surveys will be conducted with the support of reputed local and international institutions. The banks welcomed SBP move and assured their full support including funding of such projects.

Representatives of banks gave several proposals for enhancing SME finance in the country and briefed the meeting about the steps being taken by their respective banks to promote credit disbursement to the SME sector.

The meeting was attended, among others, by heads of commercial banks, representatives of SME associations and the Federal Government, besides senior officials of the State Bank.

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