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Mr. Shahid Kardar stresses upon banks to develop new products for SMEs

Mr. Shahid H. Kardar, Governor, State Bank of Pakistan has stressed upon the banks to develop new products to effectively meet the growing financing needs of the Small & Medium Enterprises (SME) sector in Pakistan.

While delivering his key note address at a conference on "SME Banking in Pakistan: Global/Local Trends and Role of Value Added Services," which was jointly organized by the State Bank of Pakistan and International Finance Corporation (IFC) at SBP Learning Resource Centre in Karachi today, he observed that the financial industry at present lacked relevant skills to evaluate SMEs on non-traditional parameters that was reflected in the lack of innovation in the financial products to address the financing needs of the sector.

Mr. Kardar noted with concern that banks' lending to SMEs had declined in the last three years. He said that bank credit to SMEs had declined from Rs 437 billion in 2007 (16% of bank advances) to Rs 334 billion in Dec 2010 (10% of advances) showing a huge decline in real terms at a time when input prices had risen sharply pushing up demand for working capital credit.

He said that the future of banking industry in Pakistan was critically dependant on the strength and performance of the economy in which SME sector had attained a crucial role in terms of its growth potential and greater employment opportunities.

SBP Governor emphasized the significance of SME sector, which could not be ignored. 'Most particularly and especially when you consider that almost 99% of all business establishments are services, providing employment to 77% of the non-agro workforce – contributing 30% to the GDP, no one can deny a key role of this sector in overall economy,' he added.

He said that SBP had been trying to develop financial institutions to support SME sector growth. 'We issued specific Prudential Regulations in 2003 to facilitate banks in financing SMEs in effective and prudent manner and more recently Credit Guarantee Schemes were launched and now the State Bank of Pakistan is conducting cluster surveys on SMEs in collaboration with IFC and LUMS,' he added.

'The new communications technology has also brought new areas, like services (computer software, consultancy), into the framework. Earlier, services were not tradable across time and space. Now, they can be exported via the internet and even stored electronically and used a long time after they have been produced. Now that services are tradable they can be included as a component in the comparative advantage of developing countries, export of labour-intensive services (typing, programming, call centers, etc.),' he said and added: 'Computers can be used to automate low productivity tasks previously performed by office secretaries. The tradability of services across space, the reduced attraction of large markets and shrinking importance of economies of scale are all combining to provide developing countries the opportunity to sell their labour-intensive services and manufactures.'

Mr. Kardar observed that the existence of global commodity chains either producer-driven (capital and technology intensive products) or buyer-driven (design and marketing intensive for products like textiles and leather) have left industrial enterprises no choice but to become part of these chains, to be able to access markets. He said that Pakistani manufacturing units, even those small-sized, had also realized that they could not operate in isolation any more. 'However, to be accepted as a part of these production and trade networks, individual enterprises have to meet standards of the buyers with respect to price, quality and delivery schedules,' he added.

He said that all this required substantial upgrading of technology and development in organizational structures and information systems as increasing presence of multinationals opened up opportunities for subcontracting and outsourcing, especially in the automobile and telecommunication sectors. 'The Chinese development experience demonstrates how each enterprise can grow at a faster pace by basing focus on its own competency and subcontracting other work, instead of following the Pakistani model of doing everything in-house through vertical integration of production structures within an organization,' he added.

SBP Governor said that the importance of this sector was widely acknowledged all over the world in view of its success in sustaining high growth in countries like Korea, Taiwan, China, Vietnam and Thailand.

Mr. Kardar said that this conference had provided a great opportunity to learn through sharing of experiences and information on successful models in the region. 'We at SBP, look forward to exchange of ideas on financial products, packages and policies to support the accelerated development of the SME sector,' he added.
