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SBP Deputy Governor stresses upon banks to promote SMEs through prudent banking solutions

Kazi Abdul Muktedir, Deputy Governor, State Bank of Pakistan (SBP) has stressed upon the banks to promote Small & Medium Enterprises (SMEs) through prudent banking solutions.

'I would stress the financial industry to break-out of the tendency of lending to conventionally profitable and relatively safer sectors, and move towards promoting SMEs through prudent banking solutions, he said in his key-note address on "Engaging the SMEs to Stabilize Economy" at the 6th SME Banking Conference at a local hotel in Karachi today.

Mr. Abdul Muktedir said that banks need to shift from traditional banking approach towards SMEs by developing and implementing appropriate credit evaluation techniques, used globally, such as credit scoring, cash flow & program based lending, ' he added.

He said that SMEs would greatly benefit the financial institutions themselves as SMEs will grow into larger corporations, resulting in increased business opportunities for them. 'Banks need to remember that their industry is only as strong as the underlying economy,' he emphasized.

SBP Deputy Governor said there exists strong evidence that SMEs expansion boosts employment more than large firm growth due to the fact that SMEs are normally more labour intensive. 'In Pakistan, the SME sector contributes 30 percent towards the country's GDP, employ more than 70 percent of the non-agricultural workforce, accounts for 35 percent of the value added in the manufacturing industry and generates 25 percent in the export earnings. The sector has huge potential in generating employment and alleviation of poverty in the country,' he added.

Keeping in view the specific business dynamics of the sector, SBP issued specific Prudential Regulations (PRs) for SMEs in 2003 that greatly helped banks to focus on SME financing and accordingly align their business strategies, he said and added that these Prudential Regulations for SMEs do not make it mandatory for banks to require collateral but allow them to take cash flow generation as the basis for loan approval. 'We have always been open to any suggestion from the sector for further improvement and strengthening of these regulations, he added.

Mr. Abdul Muktedir said the Credit Guarantee Scheme for Small and Rural Enterprises launched by the State Bank has been highly successful as over 64% of the guarantee limits allocated to banks have been utilized by them.

He said in collaboration with IFC, SBP is assisting banks in their capacity building efforts, focusing on the areas of Strategy Formulation, Product Development, Risk Management, HR Development and Marketing Area.

Mr. Abdul Mukhtar said that SBP has been undertaking cluster development surveys, in partnership with IFC and LUMS, that will greatly help stakeholders, and especially banks, in coming up with cluster-specific products and tailored SME banking strategies. 'So far, 11 clusters have been covered whose survey profiles are available on the SBP Web, while surveys of 10 more SME clusters are underway, that will soon be completed for the use of relevant stakeholders,' he added.

SBP Deputy Governor emphasized that a large number of players have to be involved in contributing to the success of SMEs. 'There are number of different stakeholders who have to work together in a coordinated and cohesive manner to ensure sustainable growth of SMEs especially removing the hurdles in the way of their easy access to finance.

Expressing dissatisfaction over the role of banks in SME financing, Mr. Abdul Mukhtar disclosed that bank credit to SMEs has declined over the last 4 years from Rs 437 billion in 2007 to Rs 248 billion on June, 2012. 'With this decline, the SMEs' loan proportion to the total advances of banks has also decreased from 16 percent in 2007 to less than 8% percent in 2012,' he added.
