

SMEs can serve as growth engine of economy: Governor SBP

Mr. Yaseen Anwar, Governor State Bank of Pakistan has said that close collaboration among the key stakeholders would help in creating synergies for growth of SMEs. In his keynote address to 7th Pakistan SME Conference on “Strengthening Institutional Ties for Increasing SME’s Access to Finance” organized by M/s Shamrock Conferences at Lahore, he said SMEs “have the potential to serve as a growth engine of the economy by providing economic linkages/ services to the corporate sector, generating employment and alleviating poverty.”

According to the Governor SBP, the SME sector contributes 30 percent towards Pakistan’s GDP, employs more than 78 percent of the non-agricultural workforce, accounts for 35 percent of the value added in the manufacturing industry, and generates 25 percent in export earnings.

“However, despite its strong potential, the SME sector is vulnerable to economic shocks and hence is perceived as a highly risky sector by the banks,” Mr. Anwar said, adding that the key reason for the low level of exposure in the SME sector is the banks’ reticence towards this market segment.

Mr. Anwar mentioned high risk perception, high transaction costs of lending and increasing NPLs, lack of proper accounting records and financial literacy as some of the problems contributing to this reticence.

He further said that this state of affairs “demands a robust strategy for the development of the SME sector.”

The Governor SBP said that the stakeholders appeared to be operating in their silos. He stressed the need for forging close collaboration among the key stakeholders like SBP, PBA, SMEDA, Business Support Fund (BSF), SME Associations and the Chambers of Commerce & Industry.

He urged all institutions responsible for SME sector uplift to strengthen their ties and work together for achieving the objective of SMEs enhanced access to formal credit.

On SBP’s role in the promotion of SME Financing he said that “financial inclusion is an integral part of SBP’s financial sector development strategy, and SME Finance is one of the key components of financial inclusion.”

He said that SME Consultative Group established by SBP was working on developing a long term SME Sector Strategy for improving SMEs access to finance. “To further improve the SME finance regulatory environment, SBP issued revised Prudential Regulations for SME Financing in May 2013.”

He said that the SBP launched a Credit Guarantee Scheme (CGS), under which SBP shares 40% of credit losses of lending banks on their loans to Small and Rural Enterprises. The scheme is a great success in meeting the credit needs of collateral deficient but credit worthy micro, small and rural enterprises from short to medium term loans of 3 to 5 years.

“SBP arranges primary surveys of important SME Clusters in collaboration with IFC and LUMS, and so far Cluster Surveys of 21 SME sub-sectors have been completed,” he added.

He informed the audience that the State Bank “is also facilitating capacity building of commercial banks in SME banking with support from IFC.”

He added that the State Bank and SMEDA are also working on signing a Memorandum of Understanding (MoU) to further strengthen institutional ties between the two organizations towards uplifting the SME sector.

He was confident that SMEs would continue to play a very important and vital role in our economy where the twin problems of unemployment and poverty constitute major development challenges.
