

Key Note Address: Mr. Jameel Ahmad, Deputy Governor, SBP

Pakistan Innovative Finance Forum

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Honorable Minister for Economic Affairs Mr. Hammad Azhar, Chairperson Karandaaz Dr. Shamshad Akhtar, Chairman FBR Mr. Shabbar Zaidi, CEO Karandaaz Mr. Ali Sarfraz, ADB officials, Bank representatives, Ladies & Gentlemen!

Assalam O Alaikum and Good Morning!

1. It is my pleasure to speak today at this Pakistan Innovative Finance Forum. First of all, I would like to thank Karandaaz and Asian Development Bank for arranging this important event. I hope that this Forum will provide an opportunity to the participants to share knowledge and pool innovative ideas for addressing the challenges being faced by the SMEs sector in Pakistan.
2. In my speech today, I would briefly discuss the regulatory and policy initiatives taken by the State Bank of Pakistan (SBP) to promote SME financing and also highlight the role of Fintechs in facilitating innovative financing options.
3. **Ladies and Gentlemen!** Let me begin by reiterating SBP's commitment to the growth of development finance sector. As most of you are aware that State Bank of Pakistan considers SMEs, agriculture and low cost housing as key priority sectors and is fully focused to ensure their smooth and easy access to credit. The development of SME sector especially is a key to creating jobs, improving competitiveness, boosting exports, fostering

economic growth and reducing poverty. Studies and global best practices acknowledge the role of SMEs in improving forward and backward linkages among social and economic activities. SMEs in any country are key contributors in creating and promoting entrepreneurial culture that help in the transformation of economies from low to middle income levels. In Pakistan, SME sector is contributing 40 percent in GDP, 25 percent in export earnings and 80 percent in non-agricultural workforce.

4. Despite huge potential, SMEs in Pakistan have been confronting a number of constraints both on supply and demand side. A major constraint that has hindered the growth of SME sector is limited supply of credit by private sector. Banks have been reluctant to finance SMEs over past few years due to their perception of high credit risk coupled with fears of higher defaults and high transaction costs. Apart from these supply side limitations, SMEs are also facing numerous challenges and issues emanating primarily from their size and manual nature of business operations. SMEs, generally, do not maintain proper accounting records and do not own sufficient assets to satisfy underwriting requirements of banks. Lower level of financial literacy is another major hindrance towards improving access to finance for this important sector. Another key issue that I want to highlight is that SMEs have limited awareness about different financing options and do not have the expertise to present their project proposals and borrowing requirements to banks.
5. In order to increase access to finance for SMEs, State Bank in 2016 introduced targets for SME financing for banks & DFIs. In addition to overall SME financing targets, SBP has also allocated gender-wise and province-wise targets to commercial banks & DFIs. Resultantly,

outstanding SME Finance has increased from Rs. 305 billion on December 31, 2015 to Rs. 513 billion on December 31, 2018.

6. **Ladies & Gentlemen**, please allow me to take this opportunity to briefly talk about a key initiative of State Bank for promotion of SME finance. This initiative is development and launch of a comprehensive “Policy for Promotion of SME Finance’ in December, 2017. The policy identified nine key challenges faced by SMEs and accordingly proposed solutions to address these challenges. One of the key pillars of SBP policy for promotion of SME finance is related to bringing improvements in regulatory framework for SME Financing. In this respect, SBP issued revised SME Prudential Regulations, which provided much needed comfort to banks to increase their financing to SMEs.
7. Another important pillar of SBP’s policy for SME finance is the risk mitigation strategy. To encourage the banks focus on SME financing, SBP has been providing risk coverage to banks on their loans to SMEs under a Credit Guarantee Scheme for Small and Rural Enterprises with funding support from DFID and Government of Pakistan. The scheme provides risk coverage of upto 60% for credit losses of participating institutions on their lending to collateral deficient small, micro and rural enterprises.
8. You must be aware that Pakistan Credit Guarantee Company has been established which will offer risk sharing facility to financial institutions on their financing to the SME sector. The company is expected to commence its operations by March 2020. Apart from this entity, a Secured Transactions Electronic Collateral Registry is being established. This project is vital as it will enable un-incorporated SME entities and individuals to

avail financing against their movable assets. The establishment of E-Registry will help banks to create charge on the movable assets of the SMEs.

9. While most of the pillars of the SME policy focus on policy interventions, the most important pillar in my opinion is the capacity building & awareness creation. Let me share that SBP puts great emphasis on capacity building of not only financial industry but also borrowers. In recent years, State Bank through its subsidiary National Institute of Banking & Finance is actively involved in developing capacity of bankers in the area of SME finance and also creating awareness about SME finance at both demand and supply side.
10. You might also be aware that State Bank provides liquidity to banks and DFIs at concessionary rates for their onward lending to SMEs and export sectors. Currently SBP is offering various short term and long term refinance schemes for setting up new businesses, BMR of existing businesses and for meeting their short term working capital requirements. SBP has also provided Shariah compliant alternatives of most of its refinance schemes. Furthermore, Government of Pakistan has also recently launched Prime Minister's Kamyab Jawan Youth Entrepreneurship Scheme. This scheme will enable the youth to avail affordable financing of upto Rs. 5 million for starting-up new businesses or strengthening their existing businesses.
11. Now let me switch over to another important and a very critical aspect of today's business environment which is technology! Technology has

reshaped the way businesses are done and goods and services are delivered to the customers. Today we are in the age of platforms and mobile apps. Platforms have enabled businesses and especially small businesses to achieve scale by showcasing their products and services to the entire world. On the other hand, consumers can not only access these platforms through their mobile phones, but also review and recommend the services provided by the sellers. I am sure that at later stages of this conference, experts would deep dive into how automation and flow of advanced digital technologies have increased the productivity and created new economic opportunities for SMEs and businesses domestically and internationally. But I would briefly highlight latest generation of digital technologies, such as Artificial Intelligence, the Internet of things, Big Data, Distributed Ledger Technology that are promising to transform the manual processes and bring efficiency to small businesses which will increase the competitiveness of businesses.

12. In today's world, the Fintechs are rapidly having an impact on all aspect of our lives. FinTech companies, which usually start small, use disruptive technologies to challenge conventional players in providing innovative financial services with enhanced customer experience and in a more cost effective manner. In my opinion, some of the areas where Fintechs can be beneficial for innovative finance options for SMEs are:

- **One is Access to Market:** as most of you would have experienced that E-commerce and digital payments have opened up access to market like never before and really small-scale players have been able to do digital business, with minimal investments. The question is, are SMEs in Pakistan aware of all these options, and are there companies or forums

that help them quickly understand these technologies and set them up for online ecommerce at a minimum cost. This is where I believe FinTech's have a really large role to play.

- **Second is Documentation requirements:** We all know that SMEs in Pakistan either lack formal documents like business plans and or get scared with the cumbersome processes which banks demand. I believe this is also an area where FinTech companies could contribute by providing templates for plans, documentation and help them to link with formal financial service providers.
 - **Third is Collateral Management:** FinTechs are constantly investing in data modeling and latest technologies that helps in building financial models, credit assessments and risk score. Here I think banks can partner with FinTechs and bring in transparency, bring down the risk through more in-depth analysis of the business. This will ultimately result in bringing down the risk premium or the interest.
 - **Fourth is the decision cycle:** Fintech companies are helping in quick decision making for loan sanctions by enabling digital KYC checks and other regulatory requirements in an efficient manner. I believe that if adopted properly, SMEs will not have to wait forever for a loan as they would also have multiple options to choose from through recommendations given by FinTech players.
13. Ladies and Gentlemen! These were some of the innovative ways in which SME and other development finance sector can leverage to enhance access to financial markets, and improve their product offering, service level and customer experience. Let me say that as a progressive regulator, SBP has been taking various initiatives not only to improve regulatory environment

through amendments in prudential regulations, incentivize SME sector by supporting refinance schemes and risk sharing facilities, but in recent years, SBP has also been using technology and adopting innovation across industry to solve bigger issues. I must mention few innovative steps SBP has taken to facilitate the SMEs and other small businesses especially in digitizing their payments at low cost.

a. **One is Fintech facilitation:** As I mentioned earlier that Fintechs have a great role to play in digitization of SME sector in Pakistan. I am happy to mention that SBP has already taken Fintech facilitation as a core objective. In recent years, State Bank of Pakistan has continuously been engaging with new and established Fintech companies in order to help them launch their product and services in the country. As most of you would be aware that SBP issued Regulations for new entities called E-Money Institutions (EMIs) earlier this year. Fintechs who are now applying to SBP for EMI license are expected to offer innovative, user-friendly and cost-effective low value digital payment instruments like wallets and prepaid cards and will digitize cash based payments for SMEs like merchant checkouts, e-commerce, bill payments etc. I urge SME sector to benefit by partnering with not just banks and conventional financial institutions but also with EMIs to upgrade and automate their manual processes and digitize their payments.

b. **Second is Digital Onboarding of Small Merchants:** To bring SMEs into formal financial sector in a simplified manner, SBP recently issued rules and regulations for digital onboarding of merchants. This step is expected to promote digital acceptance of payments in the country by facilitating opening of accounts and wallets of individual and self-employed persons that will help them gain access to digital payment

system being offered by banks and EMIs in the country. In addition SBP is also promoting cost effective payment acceptance touch points like QR codes especially for small value payments which can be extremely beneficial to SMEs at their point of sale.

- c. Finally, I would also like to say few words about our instant payment system which is called micro payment gateway. This new system which would be owned and operated by SBP will help our businesses and customers to send and receive payments immediately. The system has been designed on global best practices, and with the consultation of some highly respected experts from around the world. It will have advanced features like faster payments, Application Programming Interfaces (APIs), request to pay etc. I am sure that the deployment of MPG will rapidly digitize cash dominant use cases and especially our SME sector by providing them access to a faster payment system. The MPG system is being built with support from Bill & Melinda Gates Foundation and Karandaaz Pakistan for which I would especially like to thank them today.

14. In the end, I would reiterate that State Bank of Pakistan is fully focused and committed to expand and enhance access of finance to priority sectors. However, it is equally important that all stakeholders including banks should join hands to develop a facilitative ecosystem for SME sector in Pakistan. I strongly believe that constructive and close cooperation among all stakeholders will contribute significantly towards SME sector development and in fulfilling SMEs financing requirements through formal financial channels.

Thank You for your attention! Pakistan Zinadabad *****