



Quarterly SME Finance Review As of March, 2015

Infrastructure, Housing & SME Finance Department



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EXECUTIVE SUMMARY

SMEs significantly contribute to GDP growth, exports and employment generation. In view of the aforesaid fact, SBP has been taking several initiatives for promotion and development of SME banking. Some of these include issuance of separate PRs for SEs and MEs, efforts for putting in place a secured transaction registry in the country, implementation of supportive financing schemes for SMEs like credit guarantee scheme and other refinance schemes for SMEs, PM Youth Business Loan Scheme and capacity development measures for banks.

The outstanding SME financing (domestic) increased by 4.46 percent, as compared to the previous year, and stood at Rs 261.75 billion as of March 31st, 2015. However, as compared to last quarter, 9 percent decrease in SME financing has been observed. Number of borrowers showed an increase of 8 percent Y-o-Y and Q-o-Q. The non-performing loans (NPLs) declined by almost 7 percent on Y-o-Y basis. The possible reasons for this decline could be the loans' write off or recoveries, resulting in decrease in amount of NPLs. NPLs to loans ratio of SME Financing decreased to 31 percent in March, 2015 from 34 percent in December, 2014. The continuation of this trend would encourage banks/DFIs to lend more in this sector in future. Facility-wise breakup shows that the working capital financing constituted 72 percent of outstanding SME financing followed by fixed investment and trade finance with shares of 16 percent and 11 percent respectively. Banking Group-wise distribution of SME financing shows that the share of private sector banks in outstanding SME financing was the highest at 70 percent (decreased from 72 percent at the end of previous quarter). Private sector banks were followed by public sector banks, which shared around 24 percent (increased from 22 percent at the end of previous quarter) of total SME outstanding amount. Accordingly, the share of Islamic Banking Institutions (IBIs) decreased by almost 7 percent when compared to previous quarter. The share of SME financing of Islamic Banking Divisions (IBDs) was more than the share of Islamic Banks in Pakistan. Total share of Islamic Banks in SME financing was around 2% while IBDs contributed around 3%.

Outstanding SME Financing

The Outstanding SME Financing of the banks/DFIs went down by 9 percent to Rs. 261.75 billion as on 31st March, 2015 as compared to previous quarter. However, SME financing showed a Y-o-Y increase of 4.46 percent when compared with March, 2014. SME outstanding financing was 5.8 percent of total financing as compared to 6.3 percent in the previous quarter. Moreover, a significant decline in SME NPLs was also witnessed in the quarter under review.

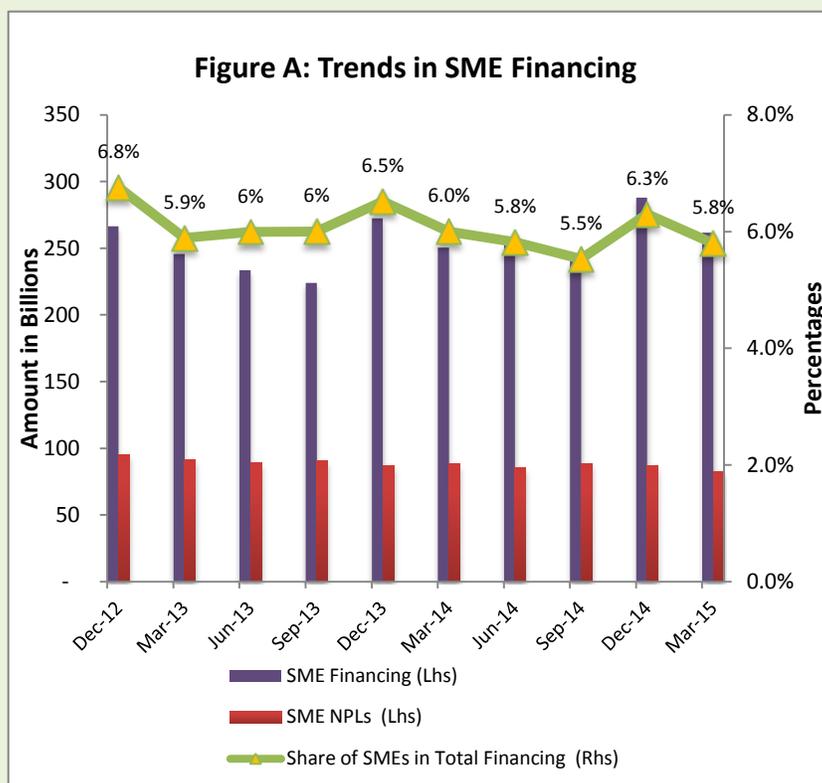


Table 1: SME Financing Profile of Banks/DFIs

Category	Periods ending			Change		
	(Amount in Billion Rs.)	Mar-14	Dec-14	Mar-15	QoQ	YoY*
Outstanding SME Financing		250.58	287.88	261.75	-9.08%	4.46%
Total Financing		4,176.50	4,599.46	4,513.09	-1.88%	8.06%
SME Financing as %age of total financing		6.0%	6.26%	5.80%		
SME Finance NPLs		88.23	87.05	82.128	-5.65%	-6.92%
NPLs as %age of Outstanding SME Financing		35.21%	33.83%	31.38%		
No. of SME Borrowers		134,166	134,521	145,031	8%	8.1%

* YoY: Year on Year, QoQ: Quarter on Quarter

The number of SME borrowers increased by 8 percent to 145,031 (from 134,521) during the quarter under review; similarly, on Y-o-Y basis, there was an increase of 8 percent in the number of SME borrowers. (Table 1)

Non Performing Loans declined significantly by almost 6 percent on Q-o-Q basis and when compared to previous year, NPLs showed a decrease of 7 percent (Table 1). SME NPLs were Rs

82 billion as on March 31, 2014 when compared to Rs 87 billion as on December 31, 2014. In the Table 2, the position of the banks has been shown which managed to bring down their SME NPLs in the quarter under review. As compared to the previous quarter, JS Bank Limited recovered all its NPLs in this quarter. Similarly, Albaraka Bank (Pakistan) limited recovered 52.4 percent NPLs in the quarter under review. Faysal Bank Limited stood third in recoveries, as it recovered 31.2% bad loans in the quarter ended on 31st March, 2015.

Table No 2: Position Table of Banks w.r.t Highest Recoveries		
S.No	Banks	% Recoveries
1	JS Bank Limited	100.0%
2	AlBaraka Bank (Pakistan) Limited	52.4%
3	Faysal Bank Limited	31.2%
4	National Bank of Pakistan	15.4%
5	SAMBA Bank Limited	11.9%

Facility-wise breakup in figure B shows that the working capital financing constituted 72 percent of outstanding SME financing followed by fixed investment and trade finance with shares of 16 percent and 11 percent respectively. The facility-wise distribution of borrowers depicted that fixed investment managed to pick up 11 percent more share than the share in previous quarter. While trade finance decreased by 18 percent as compared to previous quarter. Similarly, working capital decreased by 11 percent as compared to previous quarter.

Sector-wise SME financing in figure C shows the share of trading at 40 percent,

Figure B: Facility Wise Composition of SME Financing

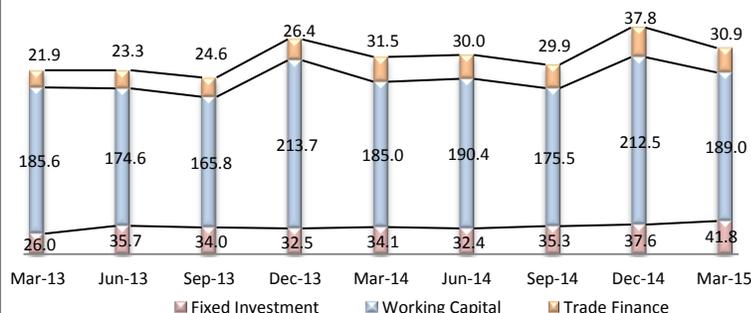
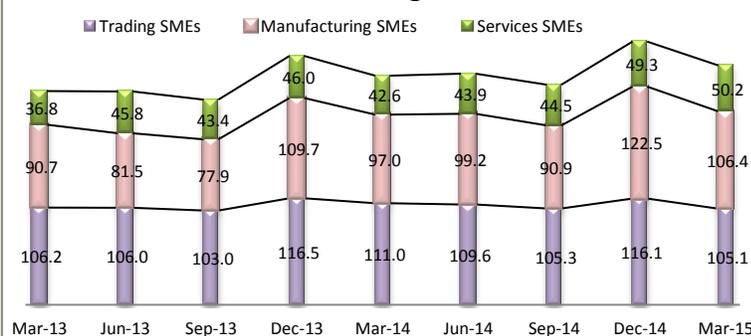
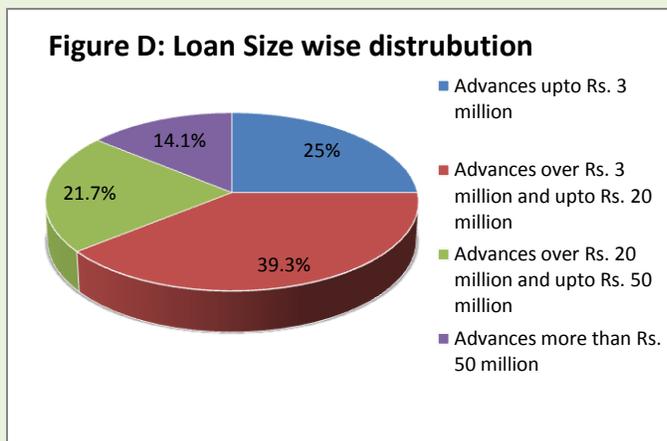


Figure C: Sector Wise Composition of SME Financing

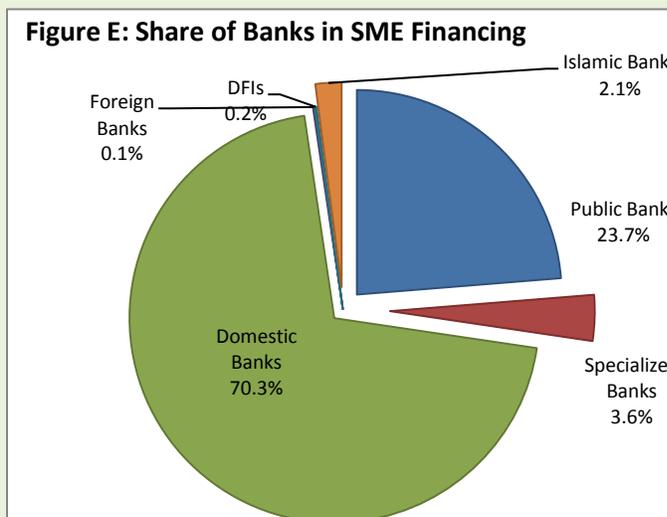


manufacturing at 41 percent and services sector at 19 percent in outstanding SME financing. On Q-o-Q basis, financing for manufacturing sector decreased by 13 percent, for trading decreased by 10 percent while for services sector increased by 2 percent.

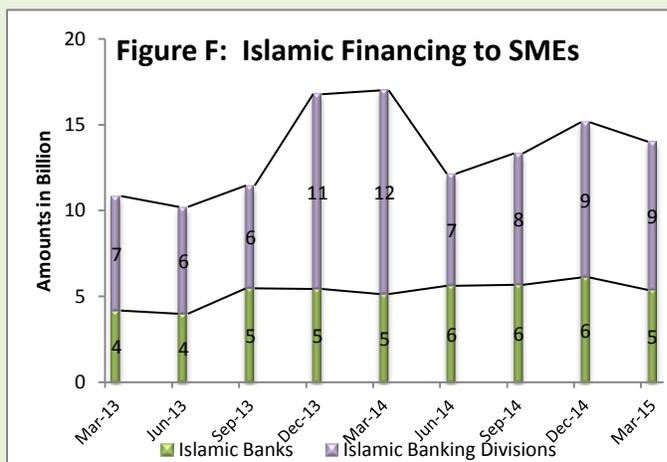
Loan size-wise review in figure D shows that loans up to Rs. 3 million had 25 percent share in total SME financing. It covered 88 percent of total SME borrowers, out of which, a major number of SME borrowers availed loans of up to 0.5 million. Advances over Rs. 3 million and up to Rs. 20 million had share of 39 percent in total financing while Advances more than Rs. 50 million had a share of 14 percent in total financing.



Banking Group-wise distribution of SME financing in figure E shows that the share of 17 private sector banks in outstanding SME financing was the highest at 70 percent (decreased from 72 percent at the end of previous quarter). Private sector banks were followed by public sector banks, which shared around 24 percent (increased from 22 percent at the end of previous quarter) of total SME outstanding amount.



SME financing by Islamic banks and Islamic banking divisions (collectively called IBIs) decreased by 7 percent in quarter under review whereas share of Islamic Banking Institutions (IBIs) decreased by almost 18 percent when compared to same quarter of

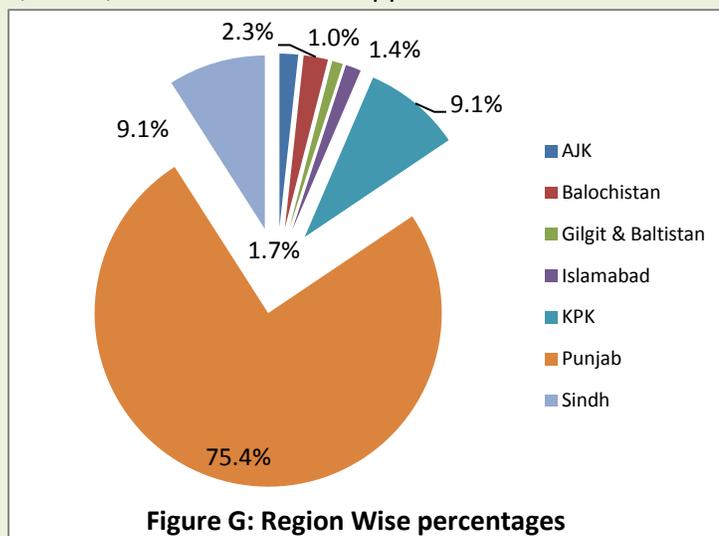


previous year. The share of SME financing of Islamic Banking Divisions was more than the share of Islamic Banks in Pakistan. Total share of Islamic Banks in SME financing was around 2% while IBDs contributed around 3%. The share of Islamic Banks have been decreasing for the last three quarters while Islamic Banking Divisions have been consistently increasing their SME financing.

Status of Prime Minister's Youth Business Loans

During March 2015 Quarter, three more banks launched financing under the Scheme. Habib Metropolitan Bank and Sindh Bank launched PMYBL Scheme from January 2015, while Habib Bank introduced PMYBL Scheme from February 2015. PMYBL Scheme data also indicates steady progress of PMYBL considering the significant number of applications received under the Scheme. As of 31st March, 2015, potential borrowers submitted 62,696 applications which were 1 percent higher than the applications received as of 31st December, 2014. Out of 62,696 applications, 62,225 applications were received in NBP, 460 applications were submitted in FWBL, 7 applications were received in Sindh Bank limited and 4 applications were received by HBL. However, during the Quarter, no application was received in HMBL.

Region Wise Position: As of 31st March, 2015, total number of applications submitted was 62,696, out of which 75.4 percent loan applications were received from Punjab, 2 percent from AJK¹ and Baluchistan each, 1 percent from GB² and Islamabad (Capital Territory) each while 9 percent of applications were received from KPK³ and Sindh each. **(Figure G).** As compared to previous quarter, in the quarter under review, share of applications received shows same pattern as of previous quarter.

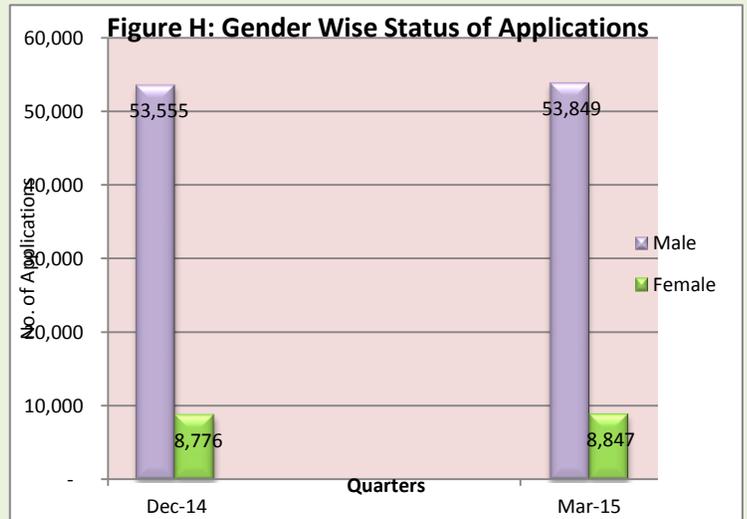


¹ AJK: Azad Jammu & Kashmir

² GB: Gilgit-Baltistan

³ KPK: Khyber Pakhtunkhwa

Gender-wise position: Out of total 62,696 completed application forms received by both NBP and FWBL, 86 percent (53,849 applications) were submitted by male and 14 percent (8,847 applications) by female (**Figure H**). The ratio of women applicants is quite low in view of the fact that under PMYBL, 50 percent quota is allocated for women. Hence, banks may gear up their sales team to target unemployed women entrepreneurs with technical degrees to avail financing under this scheme. When compared to previous quarter, female applicants increased by 0.8 percent. Similarly, the share of male applicants witnessed an increase of 0.5 percent during the quarter under review.



Events and programs conducted during the quarter

The programs and events organised during the period under review are summarized below:

Capacity Building /Training Programs on SBP Initiatives and Revised Prudential Regulations for SME's at Faisalabad office

AFU, SBP BSC, Faisalabad Office, in coordination with IH&SMEFD, SBP Karachi, arranged a capacity building program on SBP Initiatives and Revised Prudential Regulations for SMEs at SBP BSC Faisalabad on 20th January 2015. Mr. Akhtiar Ahmed, JD, and Mr. Karim Alam, Deputy Director, IH&SMEFD, SBP delivered presentations on the subject respectively. Participants from commercial banks dealing with SMEs in Faisalabad region attended the session.

Regional Focus Group Meetings on SME Finance

AFUs at SBP BSC offices viz; Faisalabad, Peshawar, Bahawalpur, Gujranwala, Sialkot Muzaffarabad, Lahore and Hyderabad arranged regional SME Finance Focus Groups' meetings during quarter January-March, 2015 under the Chairmanship of respective Chief Managers. Officials of IH&SMEFD, SBP also participated in the meetings and delivered detailed presentation on SBP initiatives for the promotion of SME financing. The subject meetings were attended by the representatives of different SME stakeholders and banks and traders associations of the respective regions.

Joint Sessions of Regional Focus Group on Agri/ SME & Microfinance at Hyderabad and Muzaffarabad offices

AFUs at SBP BSC, Hyderabad and Muzaffarabad offices arranged joint sessions of Regional Focus Group meetings on Agri/ SME & Microfinance on January 13 & 29, 2015 at their offices respectively to discuss and evolve local level operational strategies for increasing the outreach of Agri/ SME & Microfinance in their respective regions. Those meetings were attended by representatives from various commercial banks, trade bodies, Provincial Government Departments etc. The Chief Managers of respective offices highlighted the basic objective of the event in-depth and discussed the issues faced by those sectors in meeting their financial needs.

Awareness Program on SBP policies and schemes for Agri./SME/Microfinance & Islamic Banking at Muzaffarabad office

AFU, SBP BSC, Muzaffarabad, in collaboration with NBP, conducted an Awareness Program on SBP policies and schemes for Agri./SME/Microfinance & Islamic Banking on February 26, 2015 at District Kotli, AJK. The purpose of the program was to disseminate information about SBP policies & schemes and to highlight and discuss the issues and challenges to those sectors in the region.

Awareness Workshop on “Export Finance Scheme (EFS) and Long Term Financing Facilities (LTFF)”

Small and Medium Enterprises Development Authority (SMEDA), in collaboration with Rawalpindi Chamber of Commerce and Industry (RCCI) and the State Bank of Pakistan (SBP), organized an Awareness Workshop on “Export Finance Scheme (EFS) and Long Term Financing Facilities (LTFF)” at RCCI, Rawalpindi on 20th March 2015. Mr. Iqbal Hussain, Deputy Director, IH&SMEFD was the resource person at the occasion.

Training session on Refinance Scheme & Credit Guarantee Operations at Hyderabad office

AFU, SBP BSC, Hyderabad office arranged training session on Refinance Scheme & Credit Guarantee Operations in collaboration with IH&SMEFD, SBP at SBPBSC Hyderabad office on 31-03-2015 for bankers.

SME Related News

Turkish government launches World SME Forum as part of its G20 strategy

Deputy Prime Minister of Turkey Ali Babacan has announced the official launch of the World SME Forum (WSF), a major new initiative to drive the contributions of small- and medium-sized companies (SMEs) to global economic growth and employment.....

<http://finchannel.com/index.php/business/item/44329-turkish-government-launches-world-sme-forum-as-part-of-its-g20-strategy>

Special incentives for SME sector demanded in upcoming budget

President Pakistan Businessmen and Intellectuals Forum (PBIF) and former provincial minister Mian Zahid Hussain on Tuesday demanded special incentives for the sinking SME sector in the upcoming budget. The sector having 40 percent share in the GDP,

<http://www.sabahnews.net/business/special-incentives-for-sme-sector-demanded-in-upcoming-budget/>

Mauritius royalty program a model for Islamic SME financing

One of the challenges facing Islamic finance has been how to move into more innovative areas of financing that allow the incorporation of greater sharing of business risk with the companies being financed. This is not only viewed as being a more 'authentic' structure for Islamic banks, but could allow them to better reach SMEs, which may find value from the increased flexibility.....

<http://mbgs.govmu.org/English/News/Pages/Mauritius-royalty-program-a-model-for-Islamic-SME-financing.aspx>

SME Sector Invites Attention of Budget Makers on Proposed Roadmap

The Union of Small and Medium Enterprises (UNISAME) has submitted road map to the Prime Minister (PM) Mian Nawaz Sharif and urged him to ensure that the budget making committee does not over look the crucial requirements of the majority sector which is the engine of growth and the backbone of the economy. President UNISAME Zulfikar Thaver said UNISAME is a sponsored forum entrusted with the task to create awareness of the rights of the SMEs, to identify impediments in SME growth, to recommend remedies and help the government in policy making.....

<http://budget.par.com.pk/news/sme-sector-invites-attention-of-budget-makers-on-proposed-roadmap/>

Useful links for schemes and cluster profiling.

1. **Cluster profiling** <http://www.sbp.org.pk/departments/ihfd-ifc.htm>
2. **SME Finance Prudential Regulations** <http://www.sbp.org.pk/publications/prudential/PRs-SMEs.pdf>
3. **Credit Guarantee Scheme for Small and Rural Enterprises** <http://www.sbp.org.pk/smefd/circulars/2010/C1.htm>
4. **Credit Guarantee and Risk Sharing Scheme for Rice Husking Mills in Sindh** <http://www.sbp.org.pk/smefd/circulars/2013/C6.htm>
5. **Refinance Facility for Modernization of SMEs** <http://www.sbp.org.pk/incentives/Itf-eop/ConsolidatedScheme.pdf>
6. **Scheme for Financing Power Plants using Renewable Energy** <http://www.sbp.org.pk/smefd/circulars/2009/C19.htm>
7. **Prime Minister Youth Business Loans** <http://www.sbp.org.pk/smefd/circulars/2013/C10.htm>