

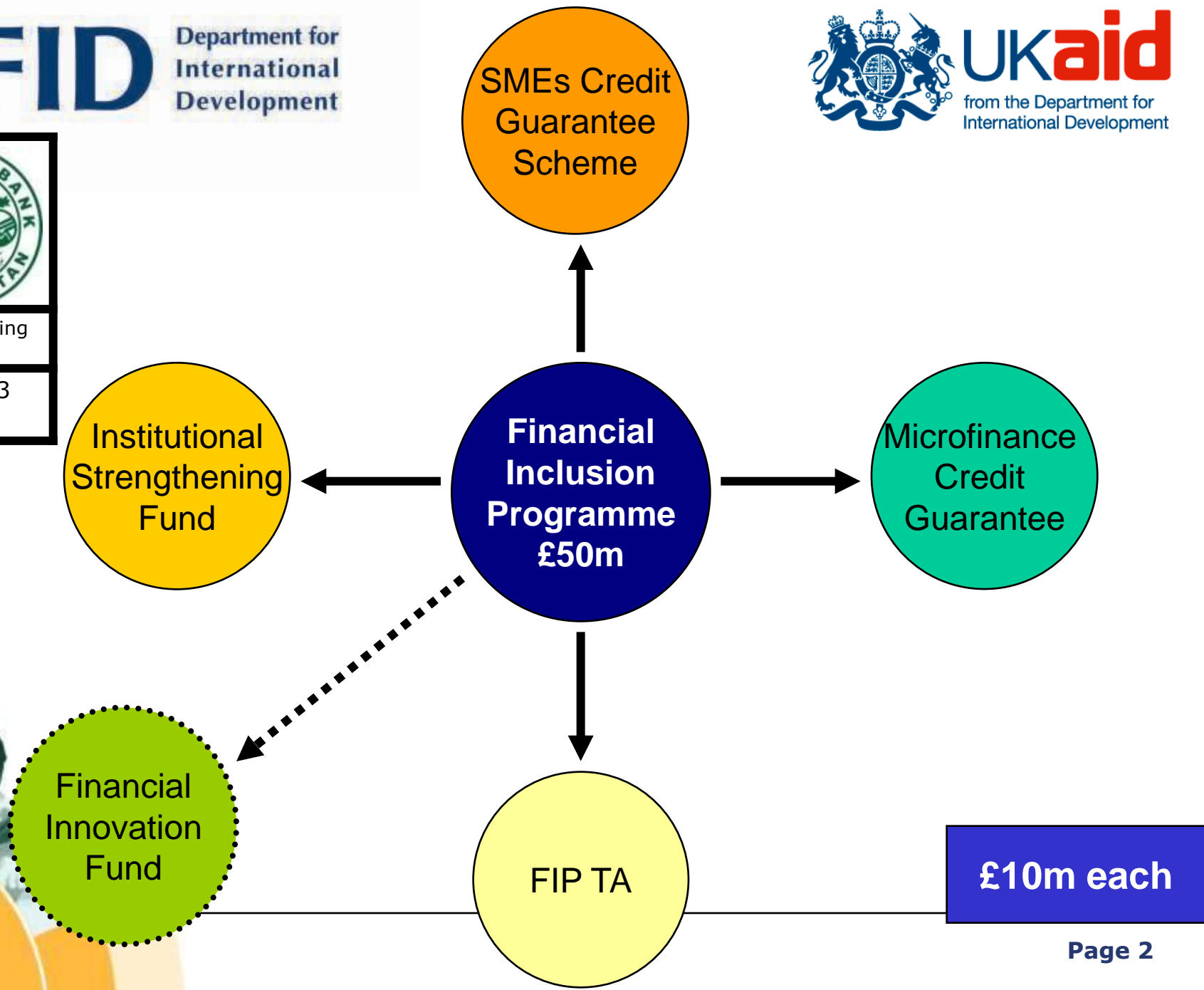
# **SMEs Credit Guarantee Scheme Financial Inclusion Programme**

**15<sup>th</sup> March 2011**





Implementing Partner  
2008-13



# Why:

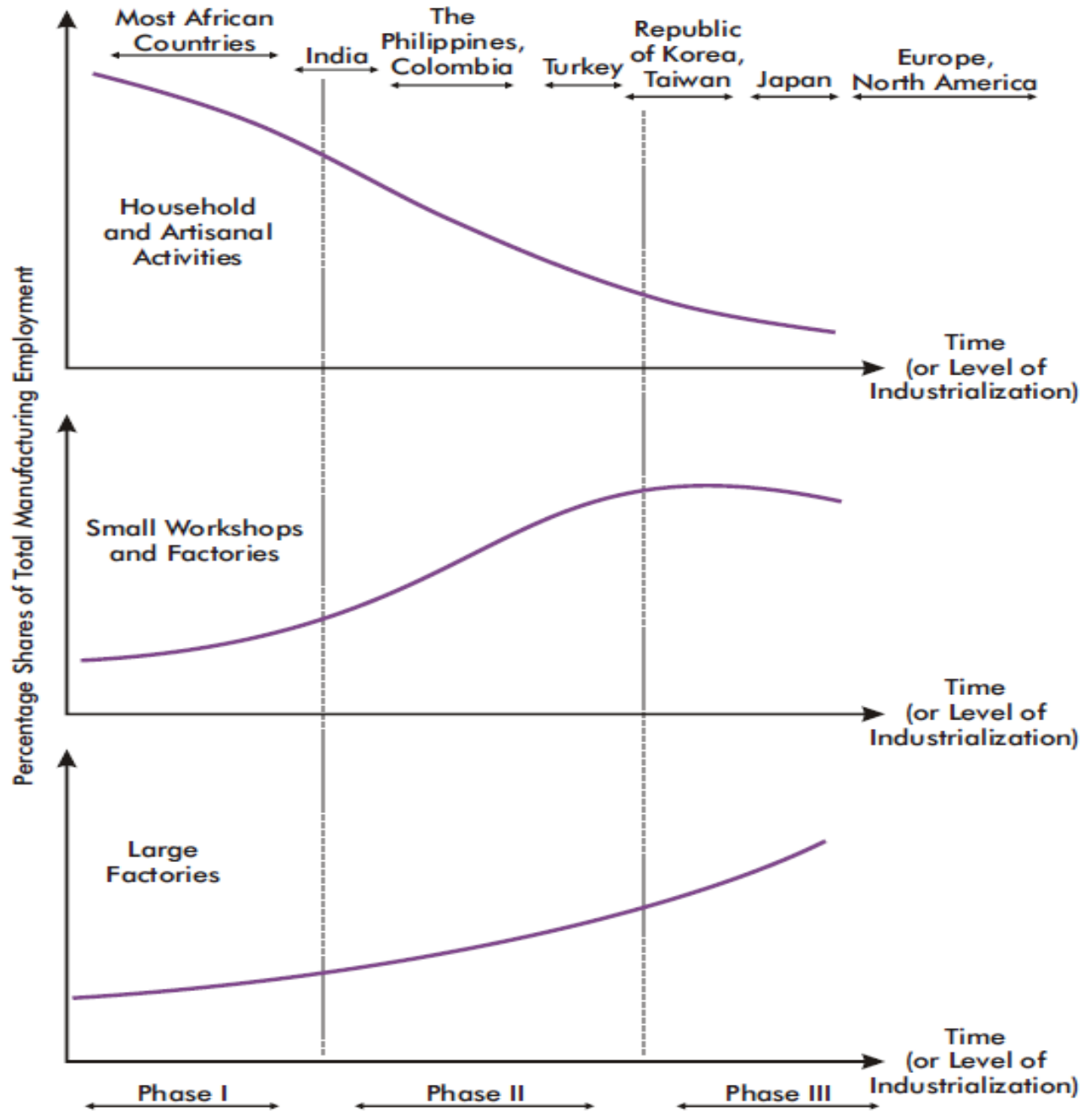
- **SMEs?**
- **SME Finance?**
- **SME Credit Guarantee?**



# Why SMEs?

- Contribute over 30% to GDP
- 25% exports
- 70% labour force

## Changes in the Size Structure of Industry over Time



# Why SME Finance?

## Sources of Finance by Percentage of Investment Financed

Financial Constraints	Pooled SME Sample (%)	Small Firms (%)	Medium-Size Firms (%)	Large Firms (%)
<b>Sources of Fixed Investment</b>				
Retained Earnings	19.3	12.5	30.7	32.1
Commercial Banks	6.1	9.4	7.1	20.3
Development Financial Institutions	0.0	0.0	0.0	0.0
Leasing	14.3	2.5	25.7	9.1
Self-Financing	55.7	67.5	36.4	34.4
Local Moneylenders	0.0	0.0	0.0	0.6
Family/Friends	4.6	8.1	0.0	3.2
Trade Credit	0.0	0.0	0.0	0.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Sources of Working Capital Investment</b>				
Retained Earnings	62.9	66.3	56.4	40.9
Commercial Banks	11.8	5.0	26.4	40.9
Development Financial Institutions	0.0	0.0	0.0	0.0
Leasing				
Self-Financing	18.9	26.9	2.1	8.8
Local Moneylenders	5.4	0.0	10.7	7.9
Family/Friends	1.1	1.9	4.3	0.0
Trade Credit	0.0	0.0	0.0	1.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Binding Financial Constraints

Financial Constraints	Pooled SME Sample	Large Firms	Exporters
<b>Formal Sector Credit</b>			
Stringent Collateral Requirements	4.4 (53)	3.1 (67)	4.1 (42)
Lack of Connections with Credit Agencies	3.8 (47)	1.8 (27)	2.1 (25)
Procedural Delays in Loan Disbursement	4.3 (53)	2.9 (53)	3.9 (42)
Lack of Access to Credit	3.8 (47)	2.7 (47)	3.9 (38)
High Interest Rates	3.5 (65)	4.3 (100)	4.0 (71)
Corrupt Systems for Obtaining Finance	3.8 (65)	1.3 (0.05)	1.8 (17)
<b>Leasing</b>			
High Cost	4.0 (31)	3.8 (33)	3.8 (21)
Large Down Payments	3.6 (32)	3.5 (33)	3.3 (17)
<b>Export Finance (for Exporters Only)</b>			
Lack of Access to Export Finance	4.3 (32)	2.5 (47)	3.9 (46)

SME = small or medium enterprise.

Notes: Constraints are ranked as average scores on a scale of 1 (least important) to 5 (severe).



# SME Credit Guarantee Scheme

- **Enhancing Credit for SMEs, Informal Market Penetration and Clean Financing**

- Total funds: Rs 1.7 billion including DFID's Rs 1.3 billion
- Guarantee Coverage: 40%
- Total Size of Credit Limits Allocated: Rs 5 billion

- Number of partner banks: 5 – 7
- Criteria based allocation and no price for banks

- No Interest Rate Cap
- Loan Limit
  - SMEs – Rs 15 million
  - Farmer (Eco Holding) – Rs 2 million



# Global Experience – Guarantee Success Factors

• DFID Policy Division 2005 – Evidence from China, Egypt, India & Poland

- Open Competitive Banking Environment
  - SBP WP 2009: Monopolistic Competitive Market
- Dynamic/Expanding Business Sector
- Well coordinated policy environment and market-based financial instruments
- Stable monetary and regulatory environment
- Central agency leadership (MoF/SBP etc)
- Supporting financial infrastructure (credit bureau etc) and banking skills



# SME Credit Guarantee Scheme – Future and Donor Linkages

- **USAID**
  - Access to Finance Program (\$85m)
- **Joint CGS – IFC Pilot**
- **DFID SME Finance Programme**
  - SME Challenge Fund
  - SME Investment Climate
  - SME Venture Capital Facility







# Thanks

