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SBP Governor asks banks to launch more aggressive initiatives to promote SME Financing

Dr Shamshad Akhtar, Governor State Bank of Pakistan has urged the commercial banks to promote Small & Medium Enterprises (SMEs) financing more aggressively.

Addressing the first meeting of the SME Credit Advisory Committee (SMECAC) held at State Bank in Karachi today, she observed that it is in the interest of banks to diversify their credit portfolios with focus on SME financing. For this purpose, banks need to launch innovative products to meet the needs of this important sector of the economy, she added.

The SBP Governor said that the State Bank has established SMECAC to provide a forum for interaction with all the stakeholders and deliberate on the issues hindering the growth of SME financing. She said that SME sector offers huge potential which can be tapped through collective wisdom of all stakeholders. She further said that development of this sector will immensely contribute in the employment generation and economic growth of the country.

She said the State Bank is determined to ensure that ample credit is available to the SME sector and added that it (SBP) will continue to use ‘moral suasion’ to encourage banks to enhance their SME loan portfolios. “We may impose some kind of allocation requirements if banks do not venture into SME lending”, Dr. Akhtar said.

Stressing the need for resolving the issues impeding the growth of credit disbursement to SME sector she said: “We need to have a coordinated approach

in consultation with the related government agencies and banks to resolve these issues”.

Dr Akhtar also emphasized the need for introducing credit enhancing mechanism for SME financing. She said that SBP is also studying various structures of credit guarantee agencies operating in other countries and will coordinate with stakeholders for establishing such an agency in Pakistan.

SBP Governor directed to set up a Committee, having representation of SME Heads from the banks, SME Department from State Bank and other relevant stakeholders, to deliberate on the issues associated with SMEs financing and suggest corrective measures. She also directed the Pakistan Banks' Association to revitalize its SME Committee for the purpose. Similarly, she also directed the banks to immediately identify their SME Heads as focal points so that the efforts of various stakeholders could be well coordinated through the SME Department at State Bank.

She also underscored the need for capacity building both within the banks and SMEs. For this purpose, she said that the State Bank will provide support to banks by arranging training programs in SME financing at National Institute of Banking & Finance and Institute of Bankers and will also utilize field offices of SBP Banking Services Corporation for arranging such programs for local staff of banks. She said that SMEDA can help SMEs in enhancing their entrepreneurial skills and making them bankable for availing financing from banks.

Dr Akhtar said that there is also a need to carry out a study on funding cost of SMEs. “We have to examine in detail the pricing issues and prepare a catalogue of rates charged by banks for SME lending,” she added.

Earlier, Mr. Mansoor H. Siddiqui, Director SME Department of the State Bank briefed the participants about the scope and functions of SMECAC and initiatives taken by SBP to promote SME finance. He informed that as of 30th

September, 2007 total number of SME borrowers stood at 184,798 while total outstanding loans to them were Rs 409.86 billion.

It may be mentioned here that the SME sector, which contributes about a third of total Gross Domestic Product, comprises 99% of total 3.2 million business enterprises in the country. Among these SMEs, 96.37% employ 1-5 persons, 2.69% have employment size of 6-10 persons, while only 0.95% establishments have an employee base of 11-50 and above. The total outreach of the banks to SMEs has shown an annualized growth of around 11% but there is huge scope for increase given the potential size of the market.

The meeting was attended, among others, by heads/representatives of commercial banks, SMEDA, private sector trade bodies, Federal & Provincial Government, besides senior officials of the State Bank.
