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SBP taking several initiatives to boost SME financing: Salim Raza

Syed Salim Raza, Governor, State Bank of Pakistan today said the central bank has taken a number of initiatives for the promotion of SME financing in the country.

Addressing a press conference at the launching of a Pilot Program for Training and Development of SMEs in Pakistan under the aegis of Standard Chartered Bank and International Finance Corporation of the World Bank at Lahore Chamber of Commerce and Industry this afternoon, Mr Raza stressed the need for enhancing the access of credit to small and medium enterprises, especially the small entities.

He urged upon commercial banks to increase financing to SMEs, especially small entities, enabling the SME sector to play its due and critical role in the economic development of the country.

“If SMEs are broadly bifurcated into ‘M’ and ‘S’ categories, we find that entities under ‘M’ have had easy access to finance as compared to those under ‘S,’” he said and added the synopsis of SME Finance also reflects that out of total SME portfolio of Rs. 383 billion, only 38.3 per cent is being channeled to entities having less than 20 employees.

“This depicts that the focus of financial institutions has been on medium entities,” he said and added the primary reason for this skewed distribution was the unorganized way of doing business by small entities.

Referring to major hurdles in the way of development of SMEs in Pakistan, Mr Raza said that major issues faced by SMEs are: lack of skilled labor, outdated technology, weak governance, lack of management hierarchy, absence of book keeping, taxation issues coupled with limited access to formal sources of finance.

He said the State Bank has allowed commercial banks to lend up to Rs 3 million to SMEs without collaterals and is encouraging them not only to introduce cash-flow based methodologies instead of relying on the tradition collateral based lending but also to come up with innovative products and cost effective delivery channels to increase outreach for small enterprises.

He said the State Bank is also working for capacity building of banks through launch of SME Finance Grass Root Cluster Training Program for credit officers based in SME Clusters that include Lahore, Sialkot, Gujranwala, Rawalpindi, Peshawar, Quetta

and Karachi. Similarly, the central bank is also working on devising a Credit Guarantee Fund for Small & Rural Enterprises with the help of DFID, UK.

Highlighting the importance of SMEs, he said globally SMEs have helped to achieve diversified economic growth, employment generation, reduced income inequalities and poverty alleviation in developed and the emerging economies like USA, Japan, Malaysia, Thailand and South Korea. He said that focus on SMEs could help achieve the Millennium Development Goals of the UNO like ending poverty & hunger, universal education and gender equality in developing countries like Pakistan.

He said the Pilot Program, launched jointly by SCB and IFC, is indeed a landmark attempt to develop the capacities of smaller entities. It would be helpful in developing innovative products such as hybrid financing models combining consumer and micro finance models, Mr Raza said and added hopefully it would also encourage other banks to focus on this area.

Speaking on the occasion, Badar Kazmi, Chief Executive Officer of Standard Chartered Pakistan said: "This program will provide small and underserved SMEs with innovative banking products; help develop their skills in critical areas such as business planning and product marketing; and provide them with business mentors. The commitment also supports the State Bank of Pakistan's priorities for the nation's economic development."
