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Salim Raza asks commercial banks to increase SME financing

Syed Salim Raza, Governor State Bank of Pakistan, today asked the commercial banks to make concerted efforts to explore new avenues of business, especially financing to small & medium-sized enterprises (SMEs), which play a critical role in employment generation and poverty alleviation.

Presiding over the 2nd meeting of the SME Credit Advisory Committee (SMECAC) held at SBP, Karachi, Mr Raza highlighted importance of the SME sector and said: "SMEs play an important role in the creation of employment opportunities with relatively lower investment levels, help reduce poverty and propel economic growth which remain one of the prime objectives of both Government of Pakistan and the State Bank."

He pointed out that out of the total 3.2 million economic establishments in the country around 99 percent of them employ 1-10 persons, clearly indicating that they fall under the definition of SMEs, more specifically lower-end SMEs. The SMEs share currently in export earnings is 25 percent and contribution towards gross domestic product has been around 30 percent, he added. However, he noted with concern that despite economic significance of SMEs, they have not yet been able to avail due share of financing from the banks.

SBP Governor asserted that in the current economic situation banks will have to play their due role in the promotion of economic growth. "We know these are difficult time....we don't want to strangle banks and stop incremental credit growth," Mr Raza said. He assured banks that the central bank will even look into the possibility of 'sensible relaxation' of SME prudential regulations in order to help banks promote SME financing.

Participants of the meeting highlighted several issues that are hampering SME financing and proposed that separate prudential regulations be developed for small enterprises as these small businesses have a huge potential for growth compared with medium-sized enterprises.

Mr Raza said that he recognizes that currently banks may be facing problems in keeping their customers and more severely in luring new customers but the conditions of hardship are in fact a testing phase for banks to prove their determination, resilience and business viability. He said that he is aware that a number of demand and supply side issues are hindering the flow of credit to the sector including lack of reliable information & documentation, cumbersome lending procedures, lack of strategic focus by banks, human resource constraints, dependence on collateral based lending, SMEs' reluctance to disclose financial position and the banks' perception that SMEs are high-risk customers. He urged upon banks and other stakeholders to put forth new ideas and highlight areas which may be explored for further development of the sector.

Mr Raza informed participants of the meeting that the State Bank is currently working on establishing SME Credit Guarantee Agency in the country to share risk with the lending institution, so that when borrowers default on a loan and thus incur a loss for the lender, the lending institution will be compensated for all, or part, of the loss involved.

Mansoor Siddiqui, Director of SME Finance Department of the State Bank, briefed the participants about the findings of a study conducted by SBP on interest rates prevailing in Pakistan and few other regional countries. The objective of the study was to have insight into SME lending rates, compare the results in regional perspective to know the pricing trends on SME loan products. The meeting was informed that the rate of mark-up charged by commercial banks in Pakistan on SME loan products appears to be appropriate keeping in view the risk profile of SME sector and rate of inflation in the country. However, despite apparent reasoning for interest rate charged by Pakistani banks, Mr Siddiqui said that room does exist to bring down lending rates on SME loan products through market mechanism. He said that based on the overall comparative analysis SME lending rates are not at such high levels that they could be treated as a major hurdle towards discouraging SMEs from accessing banks for finance. The reason also lies in other factors such as overall credit risk that is perceived to be high by banks for SME credit coupled with other demand and supply side issues, he added.

The meeting was attended, among others, by heads and chief executives of the commercial banks, representatives of SME trade bodies and SMEDA besides senior officials of the State Bank.
