

March 19, 2010

## Salim Raza launches two new schemes to boost credit flow for SME, agri. sectors

Syed Salim Raza, Governor State Bank of Pakistan today launched two separate schemes aimed at enhancing the flow of credit to the Small and Rural Enterprises with greater emphasis on revitalization of business activities in the troubled areas of North West Frontier Province (NWFP), Federally Administered Tribal Area (FATA) & Gilgit-Baltistan (GB).

The new schemes are: Credit Guarantee Scheme for Small and Rural Enterprises and Refinance Scheme for SMEs of NWFP, FATA and GB.

While unveiling the details of Credit Guarantee Scheme at a ceremony held at SBP Learning Resource Centre, Karachi this morning, Mr. Raza said under the scheme, launched under the Financial Inclusion Programme (FIP) of SBP, the banks will provide short and medium term loans of up to three years for both working capital and medium-term capital needs of up to a maximum of Rs 5.0 million at the markup rate of KIBOR (3 Months) + 300bps. State Bank will share bona fide losses of lending banks to the extent of 60% of financing to their eligible borrowers, he said and added that half of the resources under the scheme have been allocated for NWFP, FATA & Gilgit-Baltistan; whereas the other half will be used for priority clusters/areas of other parts of the country.

He said that the major objective of the scheme is to enhance the flow of credit to those Small and Rural Enterprises which are creditworthy but cannot offer adequate collateral to satisfy the normal requirements of banks. Due to banks' perception about such customers being more risky, the State Bank will share banks' losses on their lending under the scheme, he said and added that the scheme, apart from sharing credit risk of banks, will also contribute in lowering the transaction costs.

SBP Governor said that the initial seed money for the scheme is GBP 8.0 million, under the FIP funded by the UK's Department for International Development (DFID), with the option of later being bolstered up through further allocation of funds from other sources including the Federal Government and international/bilateral agencies.

Mr. Raza said the State Bank will allocate Credit Guarantee Limits (CGLs) to each of the selected participating financial institutions (PFIs) on quarterly basis. For the component of scheme reserved for NWFP, FATA & GB, all banks would be considered as PFIs while for other component few banks in good financial condition and having considerable share/expertise in small/rural/agricultural financing will qualify for receiving credit guarantee under the scheme, he added.

Similarly, SBP Governor disclosed that under the Refinance Scheme the banks will provide short term facilities for working capital requirements and long term facilities for SMEs of NWFP, FATA and Gilgit-Baltistan. The rate of service charges under the scheme will be linked with weighted average yields (WAY) of relevant 6 months Treasury Bills (TBs) and Pakistan Investment Bonds (PIBs). Currently, the end user's rate will

be 8.50%, 9.20%, 9.70% and 10.25% for up-to 1, 3, 5 and 7 year financing respectively. Scheme will remain valid up-to December 31, 2012, he added.

He said that the banks will provide short-term facilities to meet working capital requirements and long term facilities for BMR/up-gradation of existing SME units or installation/setting-up of new SME units in NWFP, GB and FATA. Mr. Raza said that under the two schemes, refinance/guarantee limits will be allocated to participating financial institutions (PFIs) and hoped that banks will enthusiastically participate in these two schemes in order to make them successful.

Talking about importance of SME and agriculture sectors, SBP Governor observed that these Sectors are the largest sources of employment in the country. 'Within these areas lie Pakistan's best projects for increased economic growth, reduction in income disparities, poverty alleviation and the promotion of innovation and entrepreneurship. SME Sector's share in export earnings and GDP stands at 25% & 30% respectively', he said and added that agriculture Sector employs 42% of labor force, contribute around 22% to GDP and 60% to exports directly or indirectly. "Importance of this sector in our rural economy may further be seen from the fact that it provides livelihood to 66% of our population," he added.

Mr. Raza pointed out that despite immense economic importance of these sectors, they have not been able to avail their due share in financing from the formal sources specially the banking sector. The recent data reflects that the share of SME finance and agri. finance in Banks' total financing is 10% and 4.8% respectively. Moreover, as per latest survey, only 7% of total SMEs use formal financial institutions for meeting their funding needs thus posing a big challenge to banks, requiring them to enhance the level of credit to the neglected sectors of the economy, he added.

SBP Governor said that credit disbursement situation has further aggravated for SME and agriculture sectors of NWFP, FATA & Gilgit-Baltistan, where social and economic infrastructure have been seriously damaged, thus, increasing manifold risks of doing business in these areas. "Taking cognizance of the situation, the State Bank has initiated many important steps to improve the flow of credit to the agri. and SME sectors and provide boost to revitalization efforts in the affected areas of the country," he informed the participants. "I urge banks to take the opportunity provided through these schemes to reach out to the deprived segments of society and enthusiastically participate to make a success story out of them', he added.

The ceremony was attended, among others, by various stakeholders including representative from banking industry, donors and consultative groups of SMEs, agriculture and microfinance, besides senior officials of the State Bank.

\*\*\*\*\*