

## **SBP Governor urges banks to develop effective strategy for the sustainable growth of SME sector**

The Governor, State Bank of Pakistan, Mr. Yaseen Anwar has stressed upon the banks to develop an effective SME Strategy by focusing on important areas for the sustainable growth of SME sector.

Presiding over the 4<sup>th</sup> meeting of the SME Credit Advisory Committee at SBP, Karachi today, he observed that a sustainable approach towards the development of SME sector would require a more active role from all stakeholders specially the banks in improving the availability of finance and other banking services for Small & Medium Enterprises.

Mr. Anwar said that the growth of the SME sector is critical to the country's prospects of increasing employment, supporting productivity through greater business innovation and reducing income inequalities. 'This is very important, as SMEs account for the vast majority of the business establishments in Pakistan (over 98%) and account for over 78% percent of the non-agricultural employment in the country,' he observed.

SBP on its part stands ready to support banks wishing to increase lending to this important sector with appropriate policy interventions, he said and added that the State Bank has revamped its Credit Guarantee Scheme and various refinancing schemes with some encouraging results. He, however, noted with concern that the overall utilization of these schemes is still below the expected levels, which, he said, needs to be looked into seriously by participating banks. 'The review of SME Prudential Regulations has been completed after collecting feedback from relevant stakeholders and the revised PRs will be issued soon,' he added.

Expressing his dis-satisfaction over the decline of SME financing by banks, he said that it was Rs 437 billion in Dec-2007, which dropped to Rs 268 billion in Sep-2011. 'In percentage terms, the share of SMEs financing in the total lending portfolio of banks has also fallen from 16.2% in Dec-2007 to 7.7% by Sep-2011. Clearly, this is not a very desirable situation,' he observed.

SBP Governor said that a broad analysis of banks' aggregate SME loan portfolio shows that a major share of total SME Advances (i.e. 76%) constitutes Working Capital loans, which suggests reluctance on the part of banks to meet the long-term financing

needs of the SME sector. 'This has significant negative implications for both the drive for modernization, expansion of businesses and the process of asset formation by SMEs,' he added.

Mr. Anwar said that the overall adverse macro-economic conditions have led to decreasing demand and lower SME lending. 'However, I feel that another major factor for this decline is banks' excessively cautious approach toward SME lending in the face of a difficult business environment,' he noted.

'I would suggest that this is not a sustainable situation. Banks need to recognize that their own need to diversify and grow their customer base entails greater focus on this potentially lucrative market segment,' the SBP Governor added.

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