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Kazi Abdul Mukhtar urges upon financial industry to take steps for promoting SMEs through innovative banking solutions

The Deputy Governor, State Bank of Pakistan (SBP), Kazi Abdul Mukhtar has urged upon the financial industry to take steps for promoting Small and Medium Enterprises (SMEs) through prudent and more innovative banking solutions.

Inaugurating a three-day Training Program on 'Scaling Up SME Banking Business', arranged by the State Bank of Pakistan, in collaboration with International Finance Corporation (IFC), at a local hotel in Karachi today, he said the banks should formulate strategies to overcome the challenges faced by the SME sector.

'Banks need to shift from traditional banking approach towards SMEs to the provision of more customized and differentiated financial products and services to suit different SME segments, he said, adding that they also need to develop and implement appropriate credit evaluation techniques used globally such as credit scoring, cash flow-based lending and program-based lending.

Mr. Abdul Mukhtar pointed out that the SME sector contributes 30 percent towards GDP, employs more than 70 percent of the non-agricultural workforce and generates 25 percent in the export earnings of the country. 'However, despite its significance, the growth of SME sector in Pakistan remains constrained by a number of factors on both the demand and supply side,' he added.

He pointed out that lending figures of SMEs are not encouraging in recent years and said the bank's credit to SMEs has declined over the last 4 years from Rs 437 billion in 2007 to Rs 248 billion in June, 2012. With this decline, the SMEs' loan proportion to the total advances of banks has also decreased from 16 percent in 2007 to less than 8% percent in 2012, he said, adding that this decline can partly be attributed to adverse economic conditions during the

period and growing non-performing loans (NPLs). However, he observed that a more risk-averse posture of banks remains a major factor responsible for their low exposure to SMEs. 'Banks in recent years have increasingly invested in safer havens - opting for government paper and increased financing for commodity operations, rather than supporting the private sector which is the main driver of economic activity,' Mr. Abdul MuktaDir added.

Recounting the various important measures taken by the State Bank for improving the business environment for SME sector, he said these include provision of Prudential Regulations (PRs) for SMEs, Refinance Schemes for SMEs, Credit Guarantee Scheme for Small and Rural Enterprises and cluster development surveys. He said that SBP, in collaboration with IFC, has been assisting banks in their capacity building efforts with focus on the areas of Strategy Formulation, Product Development, Risk Management and HR Development. 'These efforts will revitalize the SME lending in participating institutions and will be a prototype for other institutions which could see SME financing as profitable business venture,' Mr. Abdul MuktaDir added.

The Deputy Governor expressed the hope that this training program will provide an opportunity to the participants to improve their insight in successful SME banking models and strategies used globally, enhance their skill set enabling them to serve the sector more effectively and will result in better banking solutions by the respective institutions for the benefit of SMEs.
