

March 4, 2014

State Bank introduces incentives for SME Borrowers under Export Finance Scheme

Recognizing the economic significance of Small & Medium Enterprises (SMEs), State Bank of Pakistan (SBP) in line with its regulatory policy framework for development of the sector has introduced some special incentives for both banks and SME exporters to enhance their share under Export Finance Scheme (EFS). These incentives will enable SME borrowers to fulfill their financing needs and ultimately contribute to exports growth of the country.

Effective March 4, 2014 Banks' spread in EFS mark-up rate has been increased from 1% to 2% for SME borrowers, according to a circular issued by SBP today. Banks can charge spread of 2% (currently 1%) under the scheme against lending to SMEs without changing prevailing end user rate. SBP refinance rate will be adjusted accordingly. Any bank claiming refinance facility against financing provided to SMEs will be required to give a certificate on a prescribed specimen.

Under existing performance based mark-up rebate system of EFS Part-II, exporters can avail mark-up rate rebate ranging from 0.5 – 1.5 percentage points depending on the level of export performance achieved. For SMEs the incentives of mark-up rebate have been increased by 0.5 percentage point for each category of existing export performance level. This performance based mark-up rate rebate will be allowed to high performers of SME borrowers against achievement of high export performance during FY 2013-14 and onward.

It has been decided that utilization of the available limit for SMEs by banks will also be taken into account while sanctioning their annual revolving limits under EFS. Banks will be required to allocate at least 10% of their limit for SMEs out of their total limit. Accordingly banks can extend financing to corporate exporters up to a maximum of 90% of their annual limit. However, new limits of banks will be adjusted in a way that existing share of corporate borrowers is not disturbed due to meeting the minimum SME share i.e. 10%. A reasonable transition period is given to the banks to adopt this mechanism for limit allocation and adjust their corporate clients share accordingly. SBP BSC offices will start implementing this new mechanism from 1st July, 2015. While extending finance, banks should continue to follow the regulations regarding maximum exposure against a single SME prescribed under Prudential Regulations for SMEs.
