



## Quarterly SME Finance Review As of June 30, 2016

Infrastructure, Housing & SME Finance Department



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## **EXECUTIVE SUMMARY**

Small and Medium Enterprises (SMEs) significantly contribute to GDP growth, exports and employment generation. In view of this, SBP has been taking several initiatives for promotion and development of SME banking. Some of these include issuance of separate PRs for Small Enterprises (SEs) and Medium Enterprises (MEs), efforts for putting in place a Secured Transaction Registry in the country, implementation of supportive financing schemes for SMEs like credit guarantee scheme and other refinance schemes for SMEs, implementation of the PM Youth Business Loan Scheme and capacity development measures for banks/DFIs.

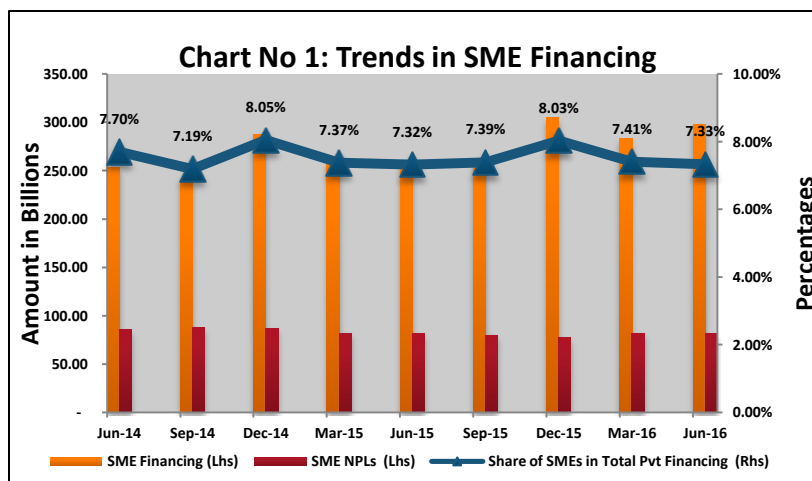
SME Financing of the banks/DFIs improved by 5 percent when compared to previous quarter ended on March, 2016 and stood at Rs. 298 billion as on 30<sup>th</sup> June, 2016. On Y-o-Y basis, SME financing showed an increase of 14 percent when compared with June, 2015. Facility wise break up shows that the working capital financing constituted 66 percent of outstanding SME financing followed by fixed investment and trade finance with shares of 23 percent and 11 percent respectively.

Banking Group-wise distribution of SME financing shows that the share of private sector banks in outstanding SME financing was the highest at 67 percent, 3 percent higher than that of March, 2016. Private sector banks were followed by public sector banks, which shared around 27 percent of total SME outstanding loan amount.

## SME Financing Analysis

### Outstanding SME Financing

SME Financing of the banks/DFIs improved by 5 percent when compared to previous quarter ended on March, 2016 and stood at Rs. 298 billion as on 30<sup>th</sup> June, 2016. On Y-o-Y basis, SME financing showed an increase of 14 percent when compared with June, 2015. SME outstanding financing was 7.3 percent of total private sector financing as compared to 7.4 percent in quarter ended on 31<sup>st</sup> March, 2016 and 7.3 percent as of June, 2015 (**Chart No 1**).

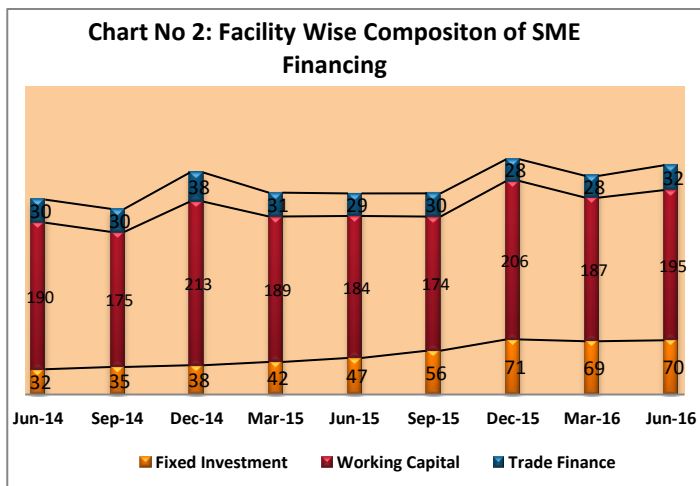


Category	Periods ending			Change	
	Jun-15	Mar-16	Jun-16	Q-o-Q	Y-o-Y
Outstanding SME Financing	260.78	283.58	297.52	4.92%	14.09%
Total Private Sector Financing	3,561.00	3,828.62	4,055.53	5.93%	13.89%
SME Financing as % of total private sector financing	7.32%	7.41%	7.33%	-	-
SME Finance NPLs	81.77	82.23	81.42	-1.0%	-0.4%
NPLs as % of Outstanding SME Financing	31.36%	29.00%	27.37%	-	-
No. of SME Borrowers	152,495	163,604	164,733	0.69%	8.03%
Ratio of SME Financing to GDP	0.88%	0.96%	1.00%		

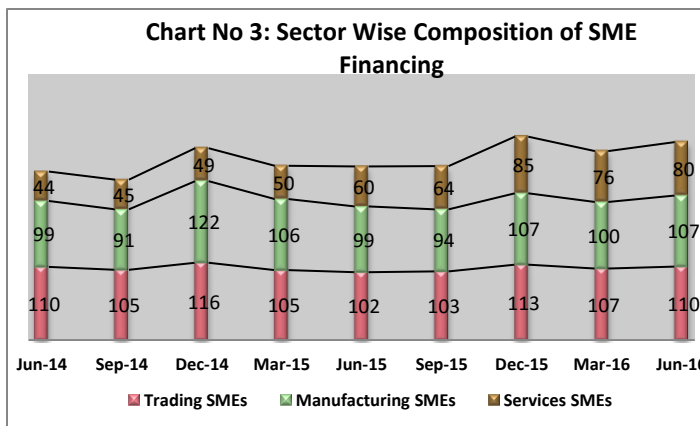
The **number of SME borrowers** stood at 164,733 during the quarter under review. On Y-o-Y basis, there was a significant increase of 8 percent in the number of SME borrowers (**Table 1**).

**Non Performing Loans'** as percentage of outstanding SME Financing has decreased by 2 percentage points on Q-o-Q basis and when compared to previous year, this ratio showed a decrease of almost 4 percentage points. (**Table 1**).

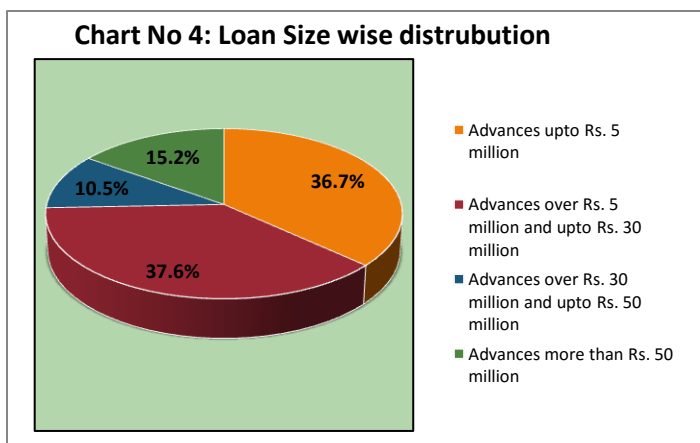
**Facility-wise breakup** in **Chart 2** shows that the working capital financing constituted 66 percent of outstanding SME financing followed by fixed investment and trade finance with shares of 23 percent and 11 percent respectively. The facility-wise distribution of borrowers depicted that *fixed investment* was the most popular facility among SMEs which managed to pick 52 percent of borrowers while *working capital* had 45 percent share of borrowers, dropped from 49 percent as of 31<sup>st</sup> March, 2016.



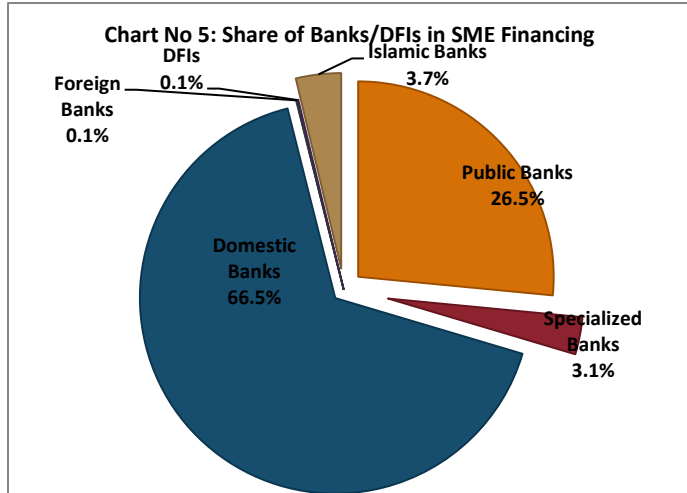
**Sector-wise SME Financing** in **Chart 3** shows the share of *Trading* as 27 percent, *Manufacturing* as 36 percent and *services* sector as 37 percent in outstanding SME financing. On Q-o-Q basis, financing for *Manufacturing* sector decreased by 1 percent and for *Services* sector increased by 10 percent.



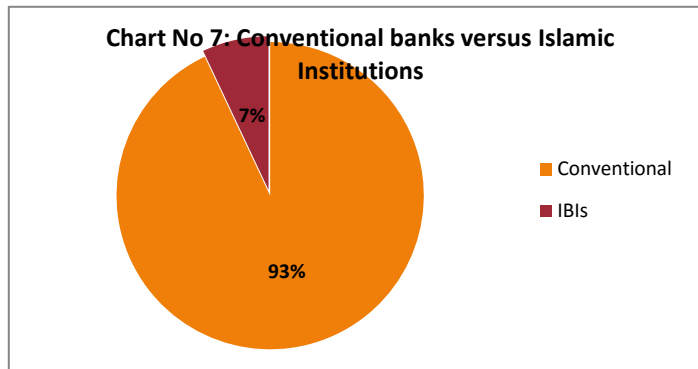
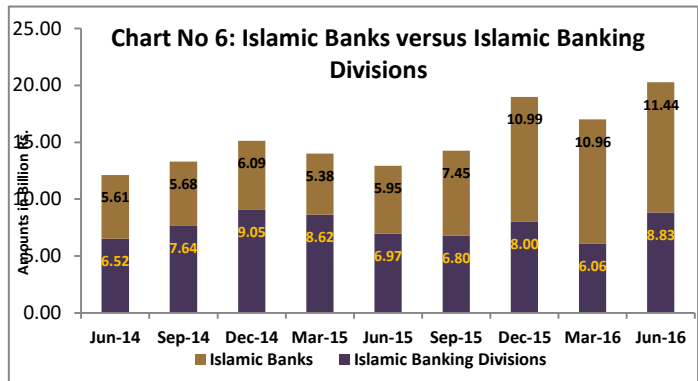
**Loan size-wise Review:** **Chart 4** shows that at the end of Jun-16 quarter, loans up to Rs 5 million had 36.7 percent share in total SME financing. It covered 93 percent of total SME borrowers, out of which, a large number of SME borrowers availed loans of up to Rs 0.5 million. Advances over Rs. 5 million and up to Rs. 30 million had a share of 37.6 percent in total financing, while Advances over Rs. 30 million and up to Rs. 50 million had a share of 10.5 percent and Advances more than Rs. 50 million had a share of 15.2 percent.



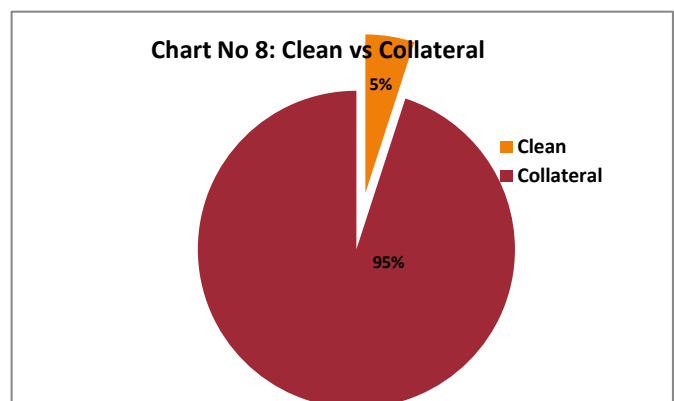
**Banking Group-wise distribution of SME financing** in chart 5 show that the share of private sector banks in outstanding SME financing was the highest at 67 percent, 3 percent higher than that of March, 2016 position. Private sector banks were followed by public sector banks, which shared around 27 percent of total SME outstanding loan amount.



**SME financing by Islamic Banks and Islamic banking divisions** (collectively called IBIs) increased by 18 percent when compared to the previous quarter (Chart 6). IBIs showed an increase of 46 percent when compared to the previous quarter (ending 31<sup>st</sup> March, 2016). A Y-o-Y comparison shows an increase of 27 percent in share of Islamic Banking Divisions of conventional banks. Islamic Banks outstanding financing increased by 4 percent in this quarter as compared to the previous quarter (ending 31<sup>st</sup> March, 2016) and increased by 92 percent from previous year. From the Chart 7, it is noticeable that conventional banks had a share of 93 percent of SME financing and 7 percent was the share of Islamic Banking Institutions.



**Clean Vs Collateral:** As shown in Chart 8, 95 percent of the lending is collateral based while rest of the 5 percent is clean lending. State Bank of Pakistan has encouraged banks/DFIs, from time to time, towards cash flow based lending,



which is why it has improved from 2 percent in quarter ended on 31<sup>st</sup> March, 2016 to 5 percent in this quarter ended on 30<sup>th</sup> June, 2016.

### Outstanding Financing to Agri SMEs

In order to identify small and medium enterprises operating in agricultural sector, a data on Agri SMEs has been collected from banks/DFIs

(Table 2). According to the data collected, outstanding financing of banks to Agri SMEs

<b>Table No 2: Agri SME Financing as on 30th June, 2016</b>			
<b>(Amount in Rs. billion)</b>			
<b>Parameters</b>	<b>March, 2016</b>	<b>June, 2016</b>	<b>Q-o-Q Change</b>
Outstanding Financing to Agri SMEs	14.01	16.30	16%
No. of Borrowers	7,833	8,563	9%
Non-performing Loans - Agri SMEs	2.25	2.28	1%

was Rs 16 billion, which was 16 percent higher than the financing in previous quarter.

### Credit Guarantee Scheme for Small & Rural Enterprises:

In order to support small and rural enterprises in accessing the formal sector financing, SBP, in collaboration with DFID and Government of Pakistan, launched a Credit Guarantee Scheme (CGS) for Small and Rural Enterprises in March 2010. Under the Scheme, 40 percent of credit losses of lending banks/MFBs on their short to medium term loans (3 to 5 years) to Small and Rural Enterprises are shared. The CGS utilization for the period ending June, 2016 was around 61 percent. Sixteen Participating Financial Institutions (PFIs) have been allocated credit exposure limits of Rs 8.4 billion with guarantee coverage of Rs 3.36 billion up to December 2016.

### Outstanding Financing under Export Finance Schemes for Small & Medium Enterprises:

The Export Finance Scheme (EFS) is in operation since 1973 to boost exports of the country. Under the scheme, short term financing facilities are provided to exporters through banks for exports of

<b>Table No 4: Outstanding Financing under SBP Finance Facilities for SMEs</b>			
<b>(Amt in Million Rs.)</b>			
Category	As On		Q-o-Q Change
	Mar-16	Jun-16	
Carpets	233	237	2%
Edible Goods (including Rice)	726	825	14%
Engineering Goods (Machinery and Metal Products)	1,330	1,372	3%
Leather/Leather Goods	913	1,031	13%
Sports Goods	702	702	0
Textile/Textile Products	2,159	2,111	-2%
Others	106	128	21%
Export Finance Scheme (EFS)	<b>6,169</b>	<b>6,406</b>	<b>4%</b>



manufacturing goods especially value added products with the exception of basic & primary commodities/ raw materials. It operates in two parts viz Part-I (Transaction Based) and Part-II (Performance Based). As of 30<sup>th</sup> June, 2016, the outstanding advances to SMEs under EFS stood at Rs. 6.41 billion, showing an increase of 4 percent when compared to previous quarter (31<sup>st</sup> March, 2016) (**Table 4**). Textiles Sector products, Engineering Goods and Leather Goods were the major contributors towards EFS.

### **Outstanding Financing under SBP Refinance Facilities for SMEs**

In order to encourage SMEs to modernize their factories for producing quality products and to meet their power shortages, State Bank of Pakistan has introduced Refinance Facility for Modernization of SMEs. Under this scheme, the outstanding financing stood at Rs 67 million as on 30<sup>th</sup> June, 2016. Another refinance scheme was introduced to encourage private sector to establish silos, warehouses and cold storages in order to enhance storage capacity. Under the said scheme, outstanding as of 30<sup>th</sup> June, 2016 stood at Rs. 1.7 billion (**Table No 5**).

### **SME Financing Targets**

SME sector plays a vital role in economic growth, employment generation and poverty reduction in the country. However, despite economic significance of SMEs, they have been unable to receive their due share from formal source of financing which hampers the development of SME sector. Keeping in view the potential of SMEs in Pakistan and to promote SME finance in the country, SBP has introduced targets for SME finance for banks/DFIs with effect from January 1, 2016. The targets have been set on the basis of size of the banks in terms of assets, branch network, existing SME finance portfolio and the capacity of the bank to achieve the required targets. Further, banks have been advised to take following minimum measures which will facilitate in achieving the assigned target smoothly:

<b>Category</b>	<b>Mar-16</b>	<b>Jun-16</b>
<b>Refinance Facility for Modernization of SMEs</b>	75	67
<b>Financing facility for Storage &amp; Agriculture Produce</b>	1,685	1,656

1. SME financing set up should be separated from commercial financing departments/divisions.
2. There should be at least one dedicated SME finance specialist placed in each of the Credit Administration Department and Risk Management Department.

The SME Financing targets assigned to banks/DFIs would be monitored through monthly and quarterly

quantitative and qualitative reporting. After assigning of SME Financing targets, there would be an addition of Rs. 81 bn in SME portfolio of banks/DFIs and it is expected to increase from Rs. 305 bn at the end of Dec-15 to Rs. 386 bn at the end of Dec-16.

### **Prime Minister Youth Business Loans Scheme**

Under PMYBL Scheme, loans up to Rs. 2,000,000 are being provided through the banking system at service charges of 6 percent per annum to unemployed youth for establishing or extending business enterprises. The rate of return for banks working as Executing Agencies (EAs) for PMYBL is one year KIBOR+500 bps with KIBOR to be reset every year. Portfolio risk coverage of up to 5 percent is also available under the Scheme for EAs.

During Apr-Jun, 2016 quarter, with addition of one more bank i.e. Bank Alfalah Limited, number of PMYBL executing agencies increased to eighteen. Among eighteen (18) EAs, three (03) are public sector banks (National Bank of Pakistan, First Women Bank and Sindh Bank) and fifteen (15) are private banks (Habibmetro Bank, Habib Bank, Bank Al Habib, Albaraka Bank, Summit Bank, Meezan Bank, Soneri Bank, United Bank, Askari Bank, Allied Bank, MCB Bank, JS Bank, Dubai Islamic Bank (Pakistan), Faysal Bank and Bank Alfalah).

Moreover, in order to avoid disbursement of multiple loans to the same person under the scheme, a central portal based for daily and monthly data reporting by PMYBL Executing Agencies has been launched which will allow bankers to check the loan status without any delay. Besides, SBP also prepares a separate PMYBL Quarterly Review which can be accessed at following SBP web link. <http://www.sbp.org.pk/departments/ihfd/PMYBL-Dec-2015.pdf>.

### **Mark up Subsidy and Guarantee Facility for the Rice Husking Mills in Sindh**

The objective of the Mark up Subsidy and Guarantee Facility for the Rice Husking Mills in Sindh is to help the sponsors of rice husking mills of Sindh to undertake projects of BMR for increasing efficiency of their mills. Under this Scheme, Sindh Enterprise Development Fund (SEDF) provides, through SBP, a mark-up subsidy and credit risk sharing facility of up to 30 percent against the long term loans extended to rice husking mills of Sindh under the SBP Refinancing Scheme for modernization of SMEs. Under this scheme, loans worth Rs. 38 million have been sanctioned while few more cases are in pipeline. The scheme and its features can be seen at [www.sbp.org.pk/sme/d/circulars/2013/C6-Annex-1.pdf](http://www.sbp.org.pk/sme/d/circulars/2013/C6-Annex-1.pdf).

### **Strengthening Secured Transactions Framework**

State Bank, with the financial support of DFID UK, is implementing Secured Transactions Reform (STR) Project. SBP had hired legal consultants for drafting of Secured Transaction Law. The World Bank has also facilitated and provided feedback on further refinement of the draft Secured Transactions Bill. After approval of both the Draft Bill by both the Houses of Parliament, President of Pakistan signed the Bill and Financial Institutions (Secured Transactions) Act 2016 was published in the official Gazette on July 1, 2016. The work is in progress to establish electronic registry under the new law.

### **National Financial Inclusion Strategy (NFIS)**

Globally, there is an increasing trend towards adoption of financial inclusion strategies with explicit financial inclusion targets at country level. Empirical evidence suggests that, having a National Financial Inclusion Strategy could double the pace of progress on financial inclusion targets. Keeping in view the international best practices, State Bank of Pakistan has also opted for National Financial Inclusion Strategy. The National Financial Inclusion Strategy will guide efforts to promote financial inclusion over the coming five years. It includes targets and objectives that will be monitored; however, it will serve as a living document that can be adjusted as required. Headline targets for SME financing as outlined in NFIS aligned with SBP Vision 2020 for enhancing access to credit for SMEs are as under:

- **By end of 2020, SME credit outreach would increase to 300,000 SMEs recording a growth of 82 percent.**
- **Increase the proportion of SME lending to total bank credit to the private sector from 7 percent in 2015 to 15 percent in 2020.**

## ANNEXURE

### Useful links for SME Finance schemes and cluster profiling.

1. SME Cluster profiling <http://www.sbp.org.pk/departments/ihfd-ifc.htm>
2. SME Finance Prudential Regulations <http://www.sbp.org.pk/publications/prudential/PRs-SMEs.pdf>
3. Credit Guarantee Scheme for Small and Rural Enterprises  
<http://www.sbp.org.pk/smefd/circulars/2010/C1.htm>
4. Credit Guarantee and Risk Sharing Scheme for Rice Husking Mills in Sindh  
[www.sbp.org.pk/smefd/circulars/2013/C6.htm](http://www.sbp.org.pk/smefd/circulars/2013/C6.htm)
5. Refinance Facility for Modernization of SMEs <http://www.sbp.org.pk/incentives/ltf-eop/ConsolidatedScheme.pdf>
6. Scheme for Financing Power Plants using Renewable Energy  
<http://www.sbp.org.pk/smefd/circulars/2009/C19.htm>
  - a. Extension in renewable energy Circular:  
<http://www.sbp.org.pk/smefd/circulars/2014/CL7.htm>
7. Prime Minister Youth Business Loans Scheme  
<http://www.sbp.org.pk/smefd/circulars/2013/C10.htm>
8. Development Finance Review <http://www.sbp.org.pk/SME/DFG.htm>
9. Incentives for Exporters <http://www.sbp.org.pk/incentives/index.asp>
10. Quarterly SME Finance Reports <http://www.sbp.org.pk/departments/ihfd-qdr.htm>
11. SME Finance Related Training Programs <http://www.sbp.org.pk/departments/ihfd-smefp.htm>