

Financing for Revitalizing SMEs - A case of Flow of Financing to Manufacturing SMEs of Pakistan

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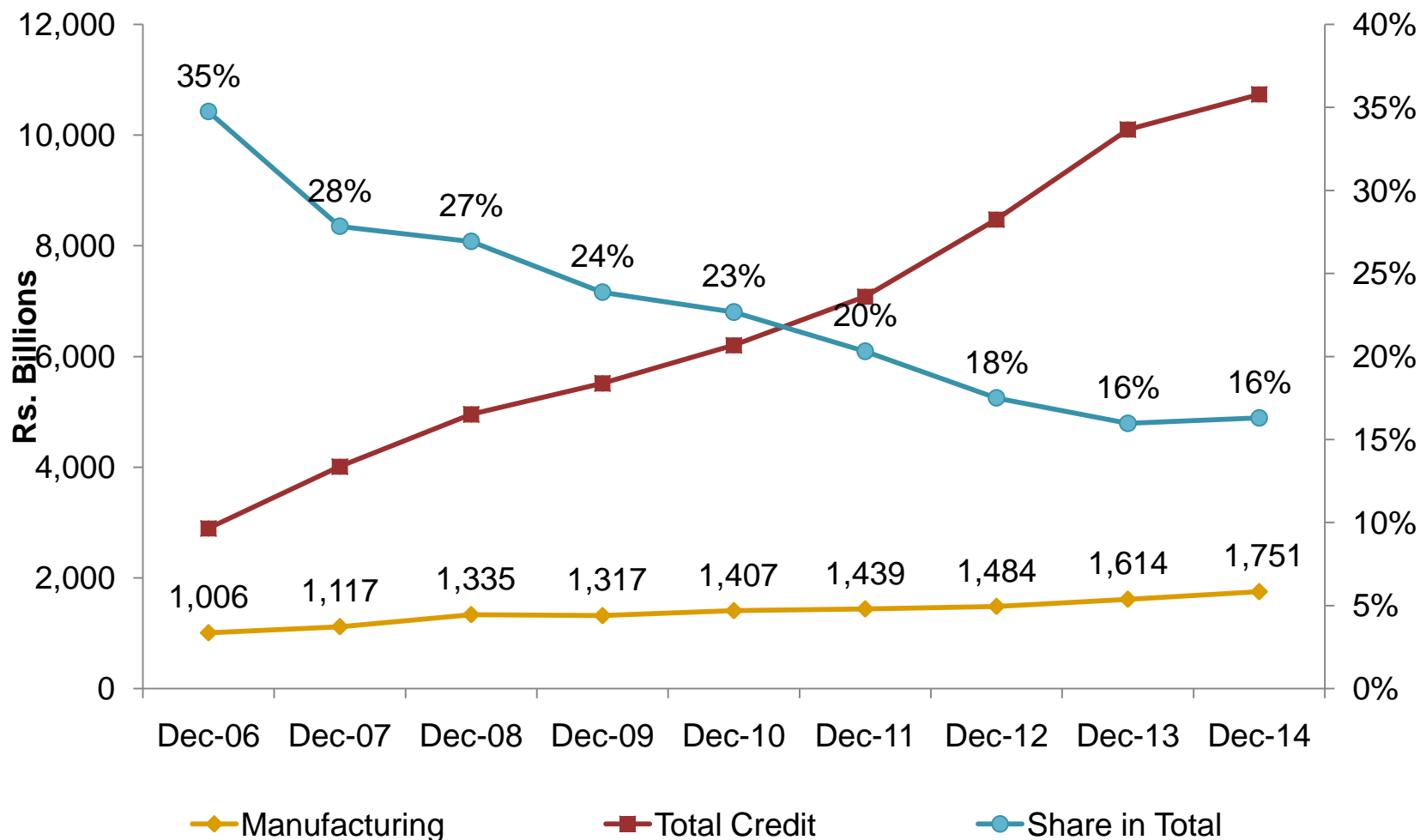
Abstract

- The paper will present a country profile on flow of credit to the manufacturing SMEs by describing and identifying financing to: a) manufacturing sector of Pakistan, b) manufacturing SMEs of Pakistan, and c) their corresponding key sub-sectors. Moreover, highlights and discusses the challenges faced by the SME sector as well as the role of SBP. To achieve these objectives, the study uses available literature and data on manufacturing sector of Pakistan, while analysis is based on descriptive statistics in an effort to summarize the general nature and characteristics of SME sector in the country.
- The study shows that flow of financing to the manufacturing sector witnessed gradual and steady increase in absolute terms; however, its share in total industry credit saw a sharp decline over a period of nine years, while financing to manufacturing SMEs after witnessing a declining trend saw an increasing trend over a period of six years.

Why Financing is Critical

- Access to finance is considered key for economic growth and development, besides existence of an efficient financial system can make a huge difference and contribution in the economic development of a nation ([Nasr, 2008](#)).
- Access to finance is often seen as a constraint to industrial growth, especially for the SME sector. Therefore, it is pertinent to identify its importance as well as to understand that the financing needs are being met by the formal sector

Flow of Financing to Manufacturing Sector in Pakistan



Share of Top 10 Manufacturing Sectors Vs Average Financing

Sub-Sectors (Avg. Financing in Rs. Billions)	Share in Total O/S to Manufacturing Sector	Average Flow 2006-2014
• Textiles	35%	551.7
• Food Products and Beverages	25%	253.7
• Chemicals and Chemical products	11%	146.9
• Basic Metals	5%	50.2
• Other Non-Metallic Mineral Products	3%	86.8
• Wearing Apparel, Readymade Garments	3%	48.2
• Coke, Refined petroleum products	3%	31.7
• Electrical Machinery and Apparatus	3%	43.0
• Paper, Paperboard and Products	2%	24.4
• Machinery and Equipment	2%	20.6

Source: State Bank of Pakistan

SMEs - Significance and Contribution

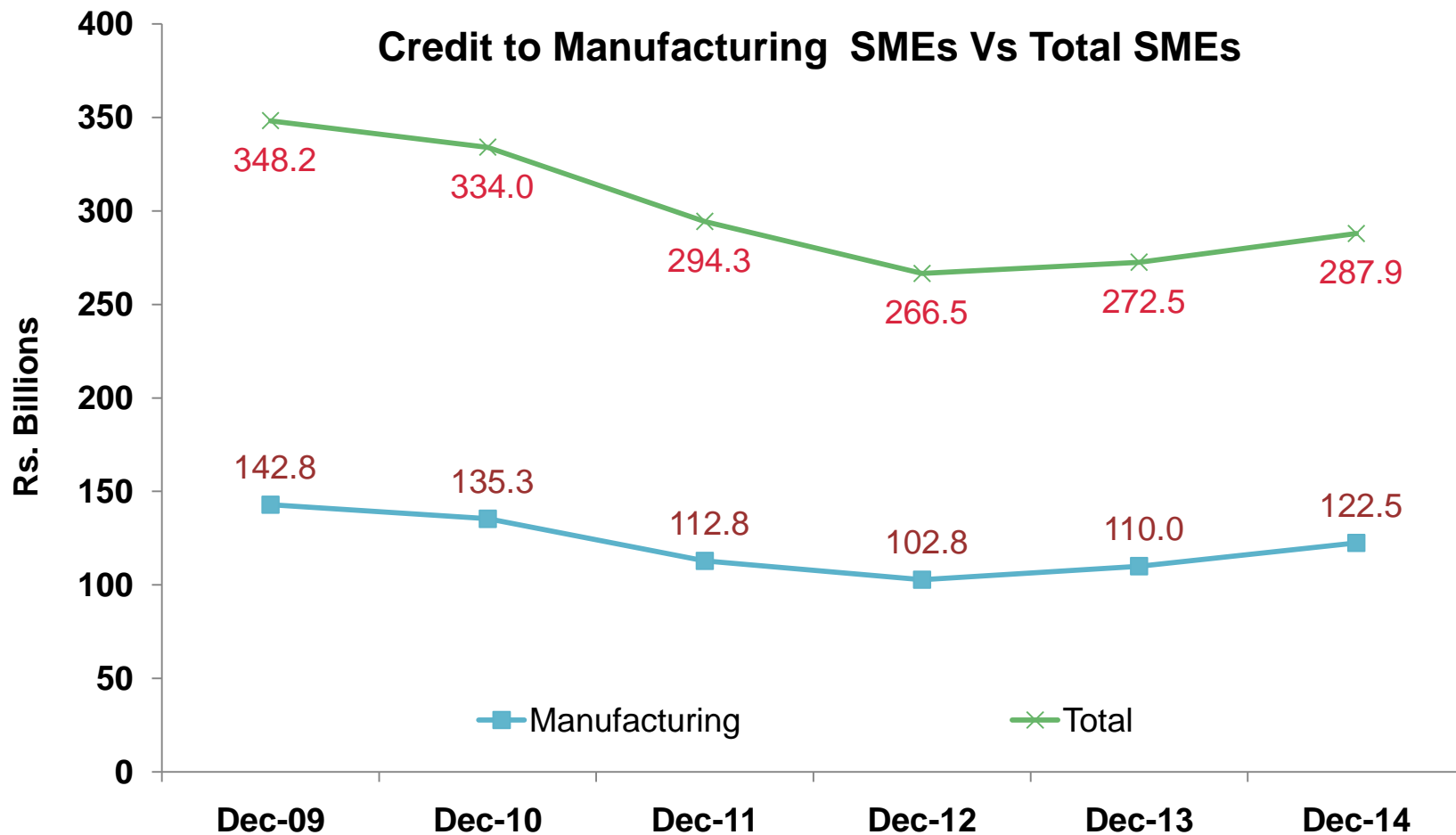
- SMEs contribute 30% in GDP, 25% in exports and 78% in the industrial employment.
- Of the total 3.2 million economic establishments, SMEs constitute more than 90%, with a pre-dominant portion as sole proprietors.
- Less than 4% of SMEs currently avail loans despite about 40% have banking relationship.
- Banks and Governments have started realizing the particular needs and preferences of SMEs.

SME Financing Trends

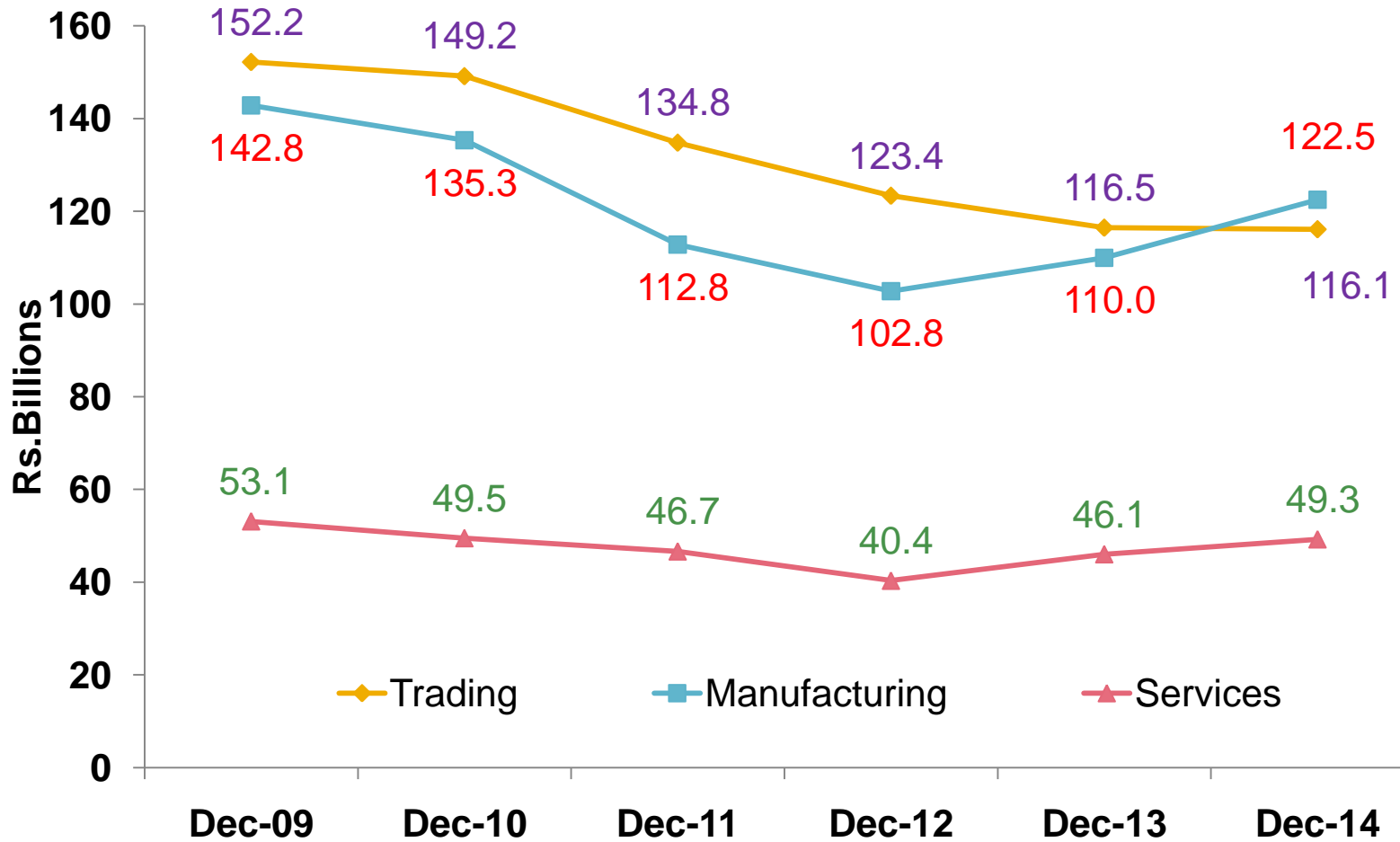
	Borrowers in '000'					Amount in Billions					
	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14
SME Outstanding	284.0	361.4	408.3	437.4	375.0	348.2	334.0	294.3	266.5	272.5	287.9
% Share in Total O/S	17.5%	17.7%	17.0%	16.2%	11.7%	10.3%	9.6%	8.3%	6.8%	6.5%	6.3%
SME Borrowers	106	161	168	185	215	212	211	168	132	137	135
% Share in Total Borrowers	3.1%	3.8%	3.7%	3.9%	4.7%	4.8%	5.4%	4.5%	3.7%	4.0%	4.2%
NPLs - SME Sector	30.1	42.1	36	41.3	61.5	79.2	96.5	95.5	95.4	86.6	87.1
% Share in Total NPLs	16.7%	24.3%	22.6%	20.5%	20.6%	18.6%	19.4%	16.0%	16.0%	15.5%	15.4%

Note: Dec-08 and onwards is the aggregate of Banks & DFIs

Flow of Credit to Manufacturing SMEs Vs Total SMEs



Sector wise SME Financing



Share of Key Manufacturing SMEs Vs Total SME

Sectors	Share in Financing to	Share in total
	MF	SME Financing
• Food Products and Beverages	37%	17%
• Textiles	22%	22%
• Chemicals and Chemical Products	6%	6%
• Wearing Apparel, Readymade Garments	4%	2%
• Basic Metals	4%	2%
• Tanning and dressing of leather; manufacture of luggage and footwear	2%	1%
• Rubber and Plastics Products	2%	1%
• Paper, Paperboard and Products	2%	1%
• Fabricated Metal Products	2%	1%
• Medical, Precision and Optical Instruments, Watches and Clocks	2%	1%
• Other Non-Metallic Mineral Products	2%	1%
• Sports Goods	2%	1%

Source: State Bank of Pakistan

Key Issues-SME Banking

Supply-Side Issues

- High transactional cost of serving SMEs
- Banks' risk averse approach
- Lack of Financial Products' Innovation
- High investment in government securities

Demand-Side Issues

- Lack of satisfactory business plans, accounting and other information
- Inadequate assets for use as security
- Lack of financial awareness about different banking services
- Limited new/innovative approaches to address the SME segment

Macroeconomic Situation

- Law & Order
- Energy

SBP Role- SME Financing

Enabling Regulatory Framework for Increasing Finance to SMEs

1. Legal & Regulatory Framework
 - Revised PRs on SME Finance
2. Financial Infrastructure
 - Credit information Bureau
 - Working on Secured Transaction Registry
3. Provide a facilitative role in Government Interventions
 - Government Subsidy Schemes

SBP Role-Potential Interventions/Facilitation

To Increase Access to Financing for SMEs

1. Enabling Infrastructure
 1. Capacity Building/workshops/seminars
 2. NBFCs as business facilitators
 3. Financial Literacy for SMEs
 4. NFIS
 5. Incentivize Venture Capital for SMEs
2. Risk Management
 1. Strengthen and Expand the Scope/Role of e-CIB
 2. Market Segmentation Studies



Thank You