

# Role of SBP in SME Development

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# Presentation Outline

- Developmental Role of SMEs in the Economy
- Significance of SMEs in the Economy
- Strategic Direction of SBP
- SBP Role in SME Development
- SBP Regulatory/Policy Framework
- SBP Recent Policy Changes related to SMEs

# Developmental Role of SMEs in the Economy

- SMEs play an important role in economic development:
  - Employment Opportunities (esp. new jobs)
  - SMEs are Labs of Innovation
  - SMEs are promoters of Entrepreneurship
  - Mobilizing Domestic Savings
  - Social Development (Income Distribution and better quality of life)
  - Regional Development (heterogeneous nature of SMEs in each major region/hub/cluster)
  - Creating an environment in which large firms flourish (forward & backward linkages)
  - Contributing to export earnings

# Significance of SMEs in the Economy

- Of the total 3.2 million economic establishments, SMEs constitute more than 90%, with a pre-dominant portion as sole proprietors.
- SMEs contribute 30% in GDP, 25% in exports and 78% in the industrial employment.
- For the Economy: SMEs provide 2/3 of formal jobs in the private sector in emerging markets (IFC Report).

**Opportunity for Banks:** Less than 4% of SMEs currently avail loans despite about 40% have banking relationship.

# Strategic Direction of SBP

## SBP Vision 2020:

The vision recognizes activities around the following six Strategic Imperatives:

- ❖ Enhance the effectiveness of **Monetary Policy**
- ❖ Strengthen the **Financial System Stability** regime
- ❖ Improve the **Efficiency, Effectiveness and Fairness** of the Banking System
- ❖ **Increase Financial Inclusion**
- ❖ Develop modern and **Robust Payments System**
- ❖ Strengthen **SBP's organizational efficiency** and effectiveness

## National Financial Inclusion Strategy (NFIS):

- ❖ Framework for action and Headline Targets
- ❖ NFIS encourages investment in new credit products tailored to SMEs
- ❖ SME Lending to private sector bank credit from 7% to 15% by 2020

# SBP Role in SME Development

- In addition to traditional functions, SBP **performs developmental functions** like promoting provision of credit to priority sectors of the economy as well as other allied activities.
- To look after the developmental functions, a dedicated group named *Development Finance Group (DFG)* is operating at SBP.
- DFG **acts as a focal point and coordinates** all matters related to supply of financial services to priority sectors of the economy i.e. microfinance, SME finance, agricultural finance, Green Banking, and housing finance.

# SBP Regulatory/Policy Framework

## 1. Enabling Regulatory Framework

- ❖ Prudential Regulations for SME Financing

## 2. Market Development

- ❖ SME Targets Regime 2015, SBP Schemes (CGS, BMR for SMEs, EFS Scheme etc.)
- ❖ Building Market Infrastructure (Secured Transactions Framework, Credit Bureaus, Credit Ratings of SMEs)
- ❖ Capacity Building (comprehensive training programs, workshops, seminars, conferences, awareness programs)
- ❖ Surveys/Studies (SME lending market, NPLs Study, SME sub sector studies etc.) and Publications

## 3. Stakeholders Coordination

## 4. Facilitative Role in Government Initiatives for SMEs

# SBP Recent Policy Changes related to SMEs

- Changes in Regulatory Framework
- Introduction of SME Finance Targets Regime



# SBP Measures

- ❖ Secured Transaction Framework
- ❖ Implementing Supportive Financing Schemes for SMEs
  - Credit Guarantee for Small & Rural Enterprises.
  - Refinancing Schemes for SMEs – BMR (SMEDA Role)
  - Mark up Subsidy and Guarantee Facility for the Rice Husking Mills in Sindh
    - Coordination with other provincial agencies
- ❖ PM Youth Business Loans (PMYBL) Programme
- ❖ Capacity Development (Seminars/Workshops, IBP, NIBAF, Univ., Interactive Sessions for FIs, Awareness Sessions)
- ❖ Surveys/Studies (SME lending market, NPLs Study, SME sub sector studies etc.) and Publications
- ❖ Multi-stake-holders' Forums
- ❖ Islamic SME, SME Portal

**Thank You**

# Useful Links

- ❖ *Survey Reports/Cluster profiling* <http://www.sbp.org.pk/departments/ihfd-ifc.htm>
- ❖ *SME Finance Prudential Regulations* <http://www.sbp.org.pk/publications/prudential/PRs-SMEs.pdf>
- ❖ *Credit Guarantee Scheme for Small and Rural Enterprises*  
<http://www.sbp.org.pk/smeafd/circulars/2010/C1.htm>
- ❖ *Credit Guarantee and Risk Sharing Scheme for Rice Husking Mills in Sindh*  
[www.sbp.org.pk/smeafd/circulars/2013/C6.htm](http://www.sbp.org.pk/smeafd/circulars/2013/C6.htm)
- ❖ *Refinance Facility for Modernization of SMEs*  
<http://www.sbp.org.pk/incentives/ltf-eop/ConsolidatedScheme.pdf>
- ❖ *Scheme for Financing Power Plants using Renewable Energy*  
<http://www.sbp.org.pk/smeafd/circulars/2009/C19.htm>  
*Extension in renewable energy circular:* <http://www.sbp.org.pk/smeafd/circulars/2014/CL7.htm>
- ❖ *Prime Minister Youth Business Loans for SEs* <http://www.sbp.org.pk/smeafd/circulars/2013/C10.htm>
- ❖ *Development Finance Review* <http://www.sbp.org.pk/SME/DFG.htm>
- ❖ *Incentives for Exporters* <http://www.sbp.org.pk/incentives/index.asp>
- ❖ *Quarterly SME Finance Reports* <http://www.sbp.org.pk/departments/ihfd-qdr.htm>
- ❖ *SME Finance Related Training Programs* <http://www.sbp.org.pk/departments/ihfd-smeafd.htm>
- ❖ *Financing Facility for Storage of Agricultural Produce (FFSAP)*  
<http://www.sbp.org.pk/smeafd/circulars/2010/C8.htm>
- ❖ *Incentives for Exporters* <http://www.sbp.org.pk/incentives/index.asp>

# Recent Changes in Regulatory Framework

- **Regulation SME R-3, Personal Guarantee:** In case of limited companies, guarantees of only sponsor directors shall be obtained.
- **Regulation SME R-6, Restriction on Facilities to Related Parties:** For the purpose of this PR, the words “dependent family member” have been replaced with “family member” to bring it in conformity with BCO, 1962.
- **Regulation SE R-1, Definition of Small Enterprise (SE):** For SEs, Annual Sales Turnover upper limit has been increased from Rs 75 million to Rs 150 million and upper limit regarding number of employees has also been enhanced from 20 employees to 50 employees.
- **Regulation SE R-2, Per Party Exposure Limit:** For small enterprises, maximum per party exposure limit has been increased from Rs 15 million to Rs 25 million. Besides, the banks/DFIs are now also allowed to deduct the liquid assets held under their perfected lien for the purpose of calculation of per party exposure limit.
- **Regulation SE R-3, Requirement of Audited Accounts:** Banks/DFIs shall obtain a copy of audited financials from small enterprises for exposure above Rs 15 million.

# Recent Changes in Regulatory Framework

- **Regulation SE R-7, General Reserve against Small Enterprise Finance:** General Reserve requirement against non-fund based SE portfolio has been abolished. Furthermore, for calculation of General Reserve, netting of liquid securities has also been allowed.
- **Regulation SE R-9, Restructuring/Rescheduling of Loans (Sub Para i of Para 1):** For immediate declassification of loans to small enterprises, the condition of 50% payment in cash of restructured loan amount has been replaced with 35% cash payment.
- **Regulation ME-1, Definition of Medium Enterprise (ME):** For MEs, parameters of annual sales turnover and number of employees have been revised upward.
- **Regulation ME R-3, Per Party Exposure Limit:** Medium Enterprises can now avail financing (including leased assets) upto Rs 200 million from a single bank/DFI or from all banks/DFIs. Besides, the banks/DFIs are now also allowed to deduct the liquid assets held under their perfected lien for the purpose of calculation of per party exposure limit.
- **Regulation ME R-5, Classification and Provisioning for Assets (Para 3):** For immediate declassification of loans to medium enterprises, the condition of 50% payment in cash of restructured loan amount has been replaced with 35% cash payment.

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# SME Finance Targets

- A key policy measure introduced in December 2015 by SBP is the assignment of SME financing targets to banks/DFIs along with some supplementary measures.
- A part of the SME targets is setting Islamic SME Financing targets of banks with Islamic Banking Divisions.
- The targets regime is expected to play a catalytic role in enhancing share of SME financing from the existing 6 percent to around 8 percent of the overall banking sector credit to private sector.

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