

SME Financing Portfolio in Pakistan

As of March 2024



Financial Services – B&SDS Division

TABLE OF CONTENTS

Disclaimer	3
List of Acronyms	4
1 Overview of SME Financing in Pakistan	5
2 Debt Financing	6
2.1 Small and Medium Enterprise Financing	6
2.2 Micro and Small Enterprise Financing	10
3 Equity Financing	11
3.1 IPO at GEM Board by PSX	11
3.2 Startup Funding	12
4 Digital Finance	14
5 References	14
Annexure 1: List of Government Subsidized Schemes	15
Annexure 2: List of Approved Fintechs by SECP	16

LIST OF TABLES

Table 1: SME Financing in Pakistan	5
Table 2: SME Incentive Schemes, Tenor and Pricing	15

LIST OF FIGURES

Figure 1: SME Sector Lending Portfolio	6
Figure 2: Share of FIs in SME Financing	6
Figure 3: Total Outstanding SME Portfolio	7
Figure 4: SME Financing by Facility Type	7
Figure 5: SME Financing by Sector Type	8
Figure 6: Non-Performing Loan Ratio	8
Figure 7: No. of SME Borrowers	9
Figure 8: Average SME Loan Size	9
Figure 9: Micro & Small Enterprises Financing by MFIs	10
Figure 10: Equity Raised via GEM Board	11
Figure 11: Startup Funding in Pakistan 2015-2024	12
Figure 12: Startup Funding Quarterly Q1-2021 to Q1-2024	12
Figure 13: Top Funded Sectors Q1 – Q4 2023	13

DISCLAIMER

To provide insights into the SME financing landscape, the following report on SME Financing Portfolio in Pakistan has been prepared by the Financial Services – Business and Sector Development Services Division of the Small and Medium Enterprises Development Authority (SMEDA).

The information presented in this report is based on secondary data derived from external sources and is duly referenced throughout the document. Although efforts have been made to ensure the reliability of such data, SMEDA does not assume responsibility for the accuracy, completeness or authenticity of the same. Such responsibility rests with the sources from which the data has been collected.

The SME financing landscape is subject to change as it is influenced by economic, regulatory and market dynamics. The findings within this report reflect a specific time frame and region that may not be representative of current conditions.

Readers and users of this report are informed that decisions based on the analysis and findings presented herein; shall be taken at their own discretion. It is recommended to verify specific details from primary sources and consult relevant experts before making critical decisions. SMEDA disclaims all liability for any consequences arising from the use of such information.

LIST OF ACRONYMS

DFIs	Development Finance Institutions
DFS	Digital Financial Services
FBR	Federal Bureau of Revenue
FINTECH	Financial Technology
GEM	Growth Enterprises
i2i	Invest2Innovate
IBFT	Interbank Fund Transfers
ICT	Information and Communication Technology
IMF	International Monetary Fund
IPO	Initial Public Offering
KJP	Kamyab Jawan Program
MFB	Micro Finance Banks
MFI	Micro Finance Institutes
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
NBFIs	Non-Banking Finance Institutions
NPLs	Non-Performing Loans
NRSP	National Rural Support Program
PE	Private Equity
PKIC	Pakistan Kuwait Investment Company (Private) Limited
PMN	Pakistan Microfinance Network
PMYBAL	Prime Minister Youth Business and Agriculture Loans
PSX	Pakistan Stock Exchange
SAAF	SME Asaan Finance Scheme
SBP	State Bank of Pakistan
SECP	Security and Exchange Commission of Pakistan
SMEDA	Small and Medium Enterprises Development Authority
SMEs	Small and Medium Enterprises
TELCOS	Telecommunication Companies
UNSL	Universal Network Systems
VC	Venture Capital

1 OVERVIEW OF SME FINANCING IN PAKISTAN

SME financing in Pakistan is facilitated through various financial institutions, including banks, leasing companies, microfinance banks, PSX through its GEM Board, angel investors and VCs.

NATIONAL SME DEFINITION	
As per the National SME Policy 2021, the National SME Definition as adopted by Small and Medium Enterprises Development Authority (SMEDA), State Bank of Pakistan (SBP) and Security & Exchange Commission of Pakistan (SECP) is as follows:	
Enterprise Category	Criteria
Small Enterprise (SE)	Up to PKR 150 Million
Medium Enterprise (ME)	Above PKR 150 Million to PKR 800 Million
Start-Ups SE or ME	A small enterprise or medium enterprise up to 5 years old will be considered as Start-up SE or Start-up ME

SME Debt Financing has increased to PKR 542.53 billion as of December 2023 from PKR 438 billion as of September 2024. Micro financing to Micro and Small Enterprises (MSEs) has increased over the past 5 years to PKR 134.36 billion as of December 2023 with a ticket size of PKR 496,713¹. However, the MSE loan size remained under PKR 500,000 which indicates that micro financing in Pakistan is mainly focused towards micro enterprises only. There are five fully digital banks registered with SBP for providing digital financial solutions to SMEs but for completing the stipulated test period as per regulatory compliance requirements, they will be fully functional from next year subject to completion of the pilot successfully. Further, there are also some fintech companies registered with SECP but unfortunately there is no separate database available for analyzing their contribution in SME Financing (Annexure 3).

To facilitate equity financing, PSX has provided SMEs with the opportunity to list on GEM Board in order to enable SMEs to raise capital through the Pakistan Stock Exchange. To date, GEM Board has enabled four companies to raise PKR 1,449 million collectively through IPOs. The startup ecosystem in Pakistan, despite a promising start in 2019 has undergone a steady and marked decline in 2023. Political and economic uncertainty has adversely affected startup financing in Pakistan. As of September 2023, startup financing was USD 73.58 million as compared to USD 354.4 million in year 2022, including; VC funding, private equity and angel financing.

The following table highlights total SME Financing in Pakistan:

Categories	Period	Amount
SME Debt Financing	Up to 31 st Dec 2023	PKR 542.53 billion
MSE Financing by MFIs and MFBs	Up to 31 st Dec 2023	PKR 134.4 billion
Equity Financing (IPO at Gem Board by PSX)	Up to 4 th June 2024	PKR 1,449 million
Startup Financing (Q1 2023 to Q1 2023)	Jan 2023 – Dec 2023	USD 73.58 million

Table 1: SME Financing in Pakistan²

¹ Micro Watch: A Quarterly Update on Microfinance Outreach in Pakistan, ISSUE 70:Q4 (Oct-Dec) 2023 by PMN

² Data sources: sbp.org.pk, portal.karandaaz.com.pk, dps.psx.com.pk and insights2i.com

2 DEBT FINANCING

Debt financing is a common method for Small and Medium Enterprises (SMEs) in Pakistan to secure funding for their operations, expansion, or other business needs. SMEs can secure debt financing traditionally from commercial banks, microfinance banks, development finance institutes, SBP schemes, government backed schemes and Islamic banks.

2.1 SMALL AND MEDIUM ENTERPRISE FINANCING

There is a continuous decline in SME financing as a percentage of private sector financing in Pakistan as shown in Figure 1 below. However, SME financing saw an increase in the last quarter i.e. from 5.2% to 6% as of December 2023 but the overall the trend is declining due to the tough economic conditions for SME businesses.

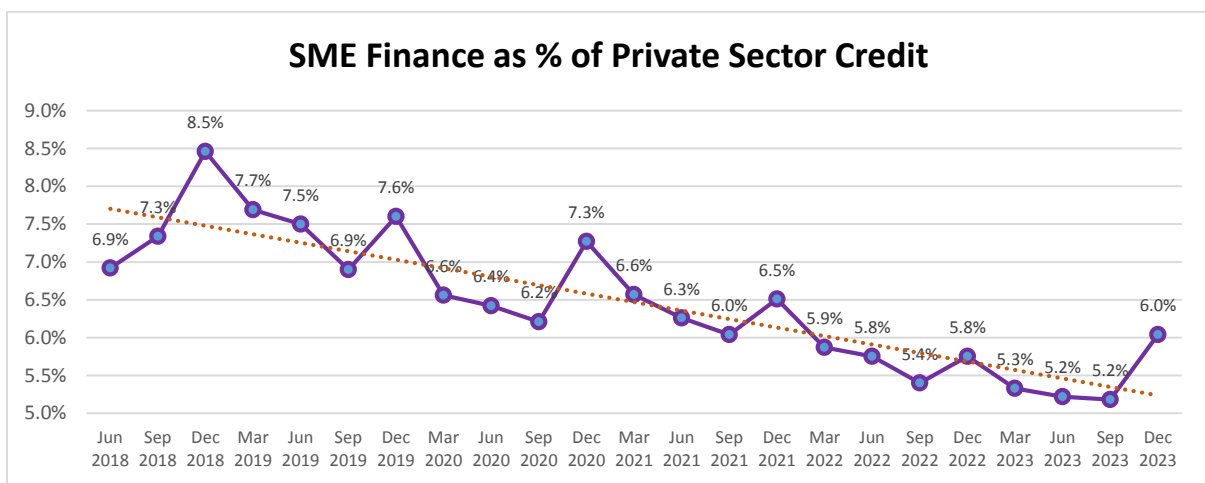


Figure 1: SME Sector Lending Portfolio

Source: www.sbp.org.pk

Figure 2 reflects the share of financial institutions in total SME debt financing as of December 2023. Domestic private banks have the largest share of 60% in total SME financing in Pakistan, followed by 30% share of public sector commercial banks, 8% of Islamic banks whereas specialized banks and DFIs comprise 1% share respectively.

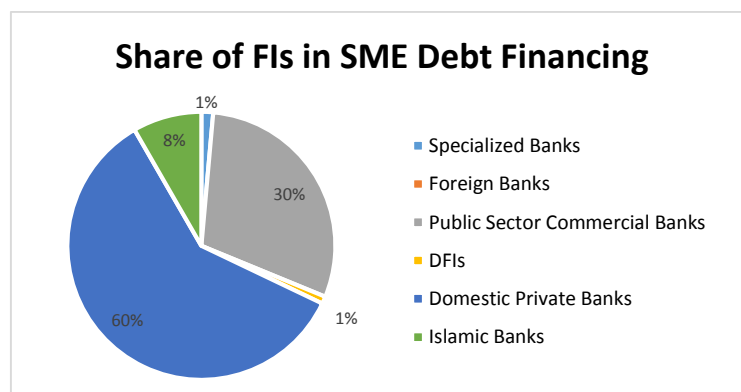


Figure 2: Share of FIs in SME Financing

Source: www.sbp.org.pk

The restrictive economic situation, high interest rates, currency devaluation and inflation in Pakistan have influenced financing decisions of both startups and SMEs. The profitability and payback capacity of SMEs has declined over a period of 5 years. In an environment of high cost of borrowing, SMEs look for alternative financing sources for raising funds as opposed to traditional debt financing facilities. However, outstanding SME debt financing in the last quarter of 2023 reached its highest ever value of PKR 543 billion. The recurring increase in the SME portfolio every December is due to banks' closings at yearend whereas the declining trend from January to September is due to settlements of outstanding loans.

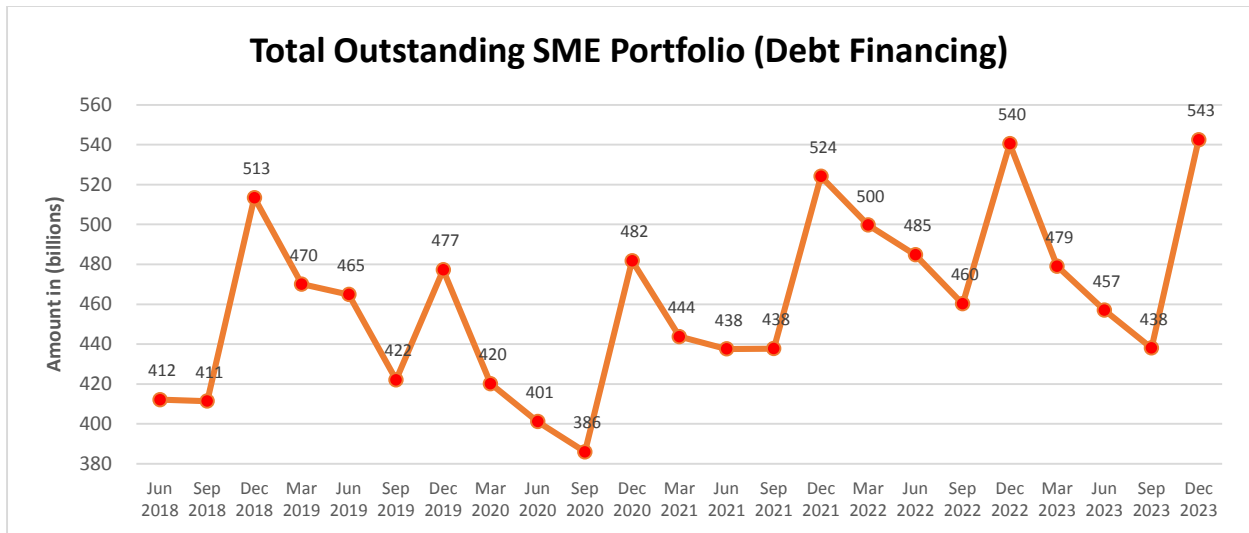


Figure 3: Total Outstanding SME Portfolio

Source: www.sbp.org.pk

In general, there is a slight rise in the outstanding portfolio, however, it is clear from the above graph, comparing December 2021, 2022 and 2023, SME financing has not increased considerably despite various subsidy loan schemes offered in recent times by SBP and the Government of Pakistan such as SAAF Scheme, KJP and PMYBAL Scheme.

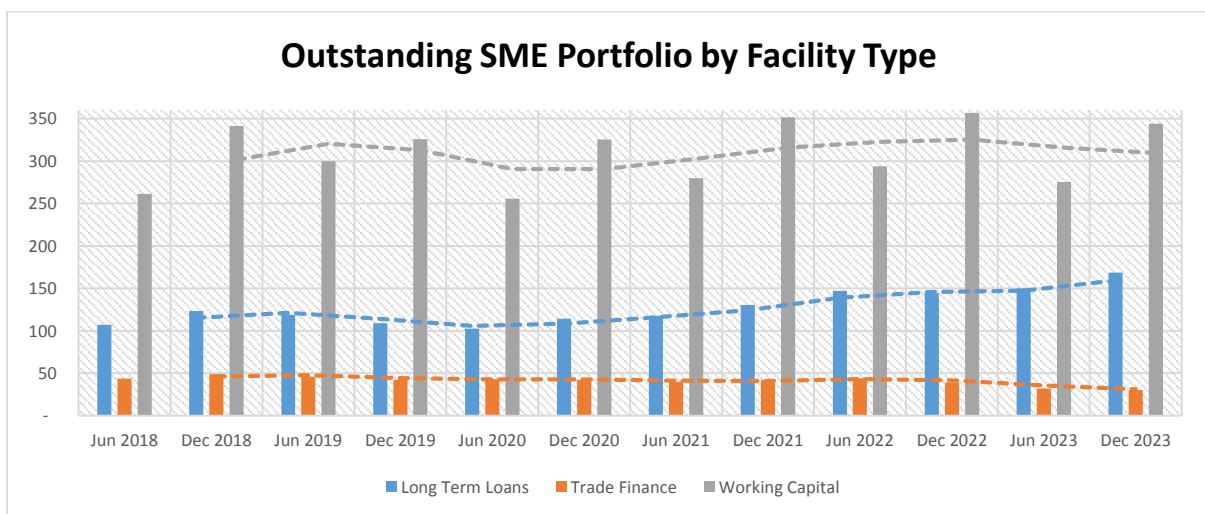


Figure 4: SME Financing by Facility Type

Source: www.sbp.org.pk

Figure 4 above indicates total SME debt financing by facility type i.e. long-term loans, trade finance and working capital. Majority of SME financing has been done through working capital loans over the years. There is a slight decline in working capital loans, however, long-term financing increased slightly over the last six months of 2023. The flat trend lines of each facility type is also an indication of no change in SME loan portfolio over the past 5 years.

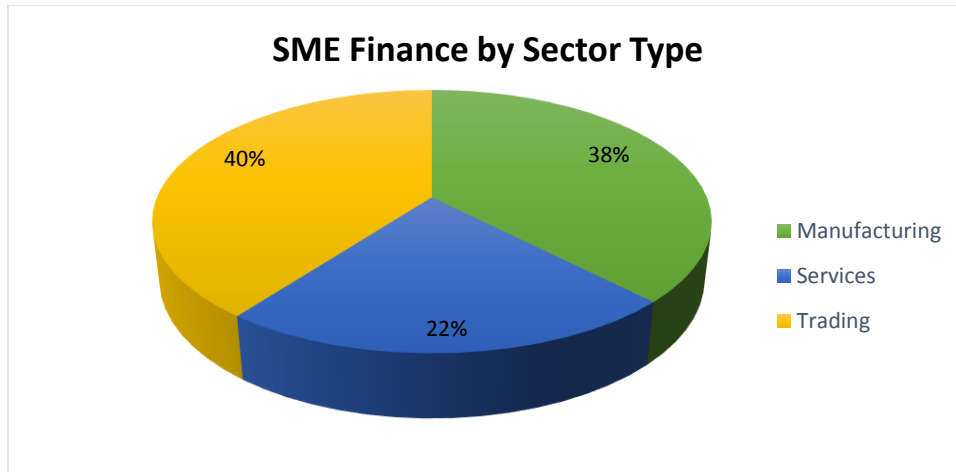


Figure 5: SME Financing by Sector Type

Source: www.sbp.org.pk

In Figure 5 above, it is apparent that 40% of the total SME financing is in trading sector, 38% in manufacturing sector and 22% in services sector. Figure 6 below indicates non-performing loans (NPL) as a percentage of total outstanding SME loan portfolio which remains between 15% and 22% in the last five years. Given sluggish economic growth and business interruptions due to COVID pandemic, the SME NPL ratio surged to 22% in Sep 2020. As of December 2023, non-performing loans (NPLs) have declined to 15% as compared to 18% in September 2023. This decrease in NPLs every December is characteristic of issuance or renewals of new credit mobilized in the last quarter and settlements of outstanding loans from previous quarters.

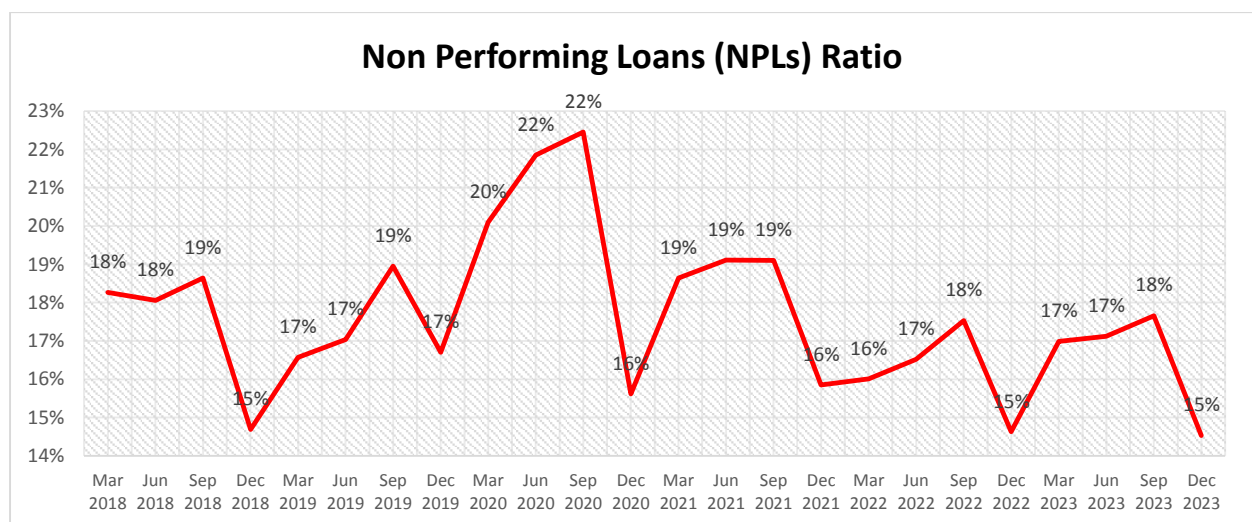


Figure 6: Non-Performing Loan Ratio

Source: www.sbp.org.pk

Likewise, in Figure 7 below the number of borrowers decreased from June 2020 to June 2023. The significant increase in KIBOR rate above 22% and high inflation resulted in decrease in the no. of borrowers that reached 154,229 in June 2023 which were the lowest in last five years.

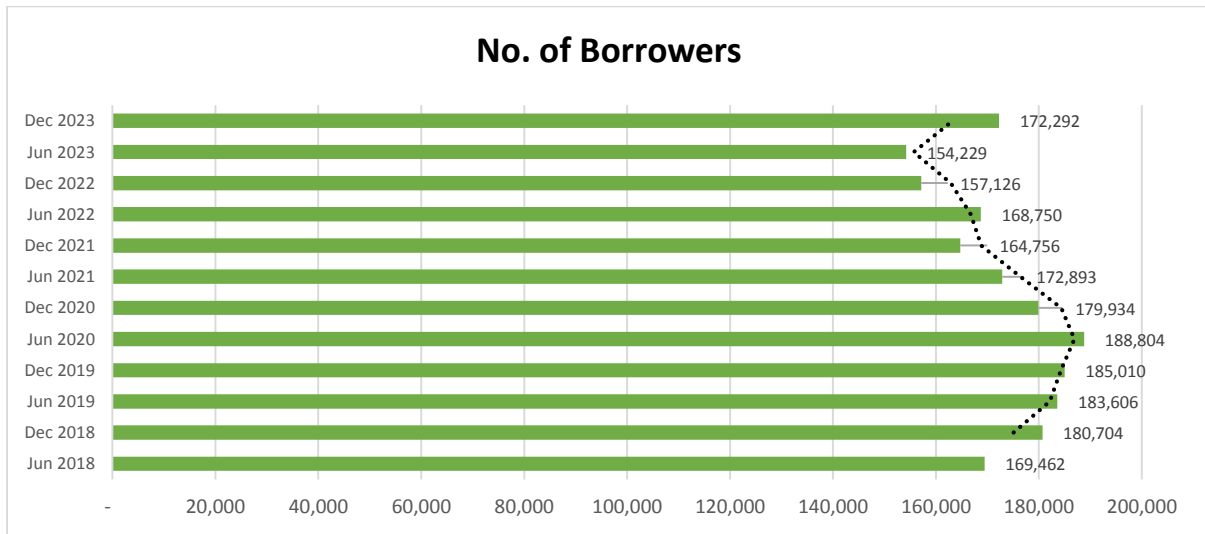


Figure 7: No. of SME Borrowers

Source: www.sbp.org.pk

Many SMEs failed to repay their loans, most of them took early settlements, repaid, reduced their debt burden, rescheduled or converted to Government subsidized scheme such as PMYBAL where end user rate ranges from 5% to 7%. This shift of SME borrowers from conventional to government subsidy schemes mainly PMYB&ALS resulted in a sharp increase i.e. 18,000 plus SME borrowers up to December 2023. As of December 2023, SME borrowers increased to 172,292 due to PMYBAL and renewal of SAAF Scheme. However, the average loan size per SME, as shown in figure 8 below, has not changed considerably even though no. of SME borrowers shows an increase from June 2023 to December 2023.

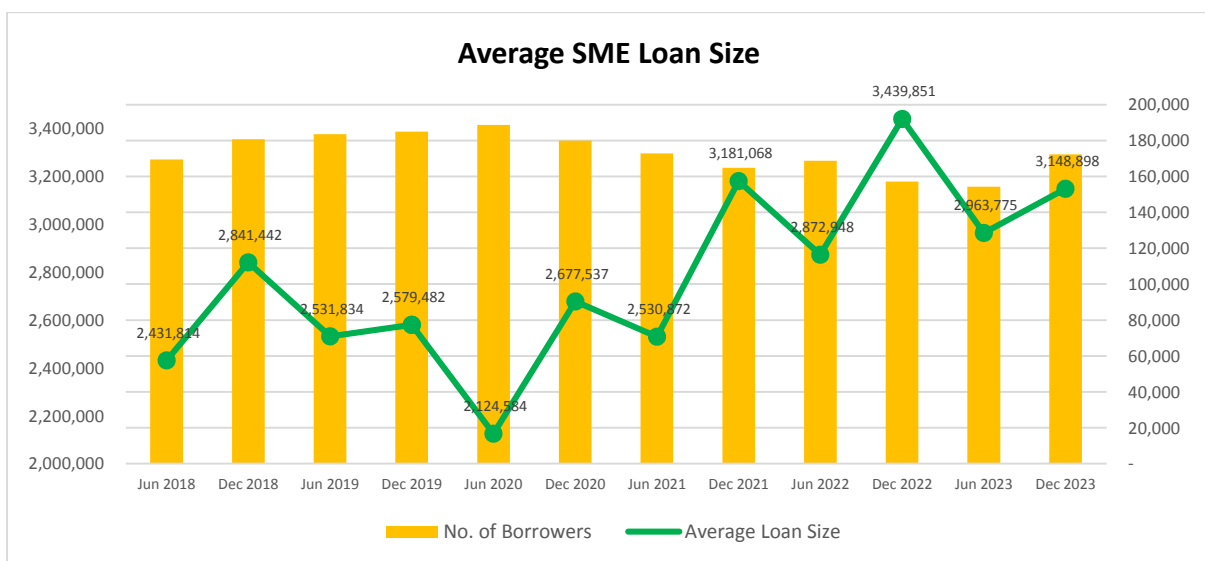


Figure 8: Average SME Loan Size

Source: www.sbp.org.pk

2.2 MICRO AND SMALL ENTERPRISE FINANCING

Microfinance is pivotal for inclusive and sustainable economic growth of the country; crucial to livelihood creation; and a key driver of grass-root-level development. The outstanding gross loan portfolio of the microfinance industry including individuals, group and micro/small enterprises (MSEs) crossed half trillion Pak Rupees (PKR 0.546 trillion) amount for the first time in the quarter ending December 2023.

In terms of market share, HBL Microfinance Bank leading with 18% share as of December 2023 followed by Ubank with 13.77%, and Khushali Microfinance Bank (KMBL) with 13.4%. In terms of active borrowers, Mobilink Microfinance Bank leading with market share of 24%. Following Mobilink Microfinance Bank, Tameer Microfinance Bank holds 14.8% of the clients, and FINCA Microfinance ranks third with 8% of clients³.

Pakistan's MFBs serve 337,132 micro and small borrowers including a loan portfolio of PKR 134.4 billion as of December 2023. Loan sizes have been increasing, with the current average ticket size of PKR 496,713 in December 2023 as compared to PKR 298,709 in June 2023.

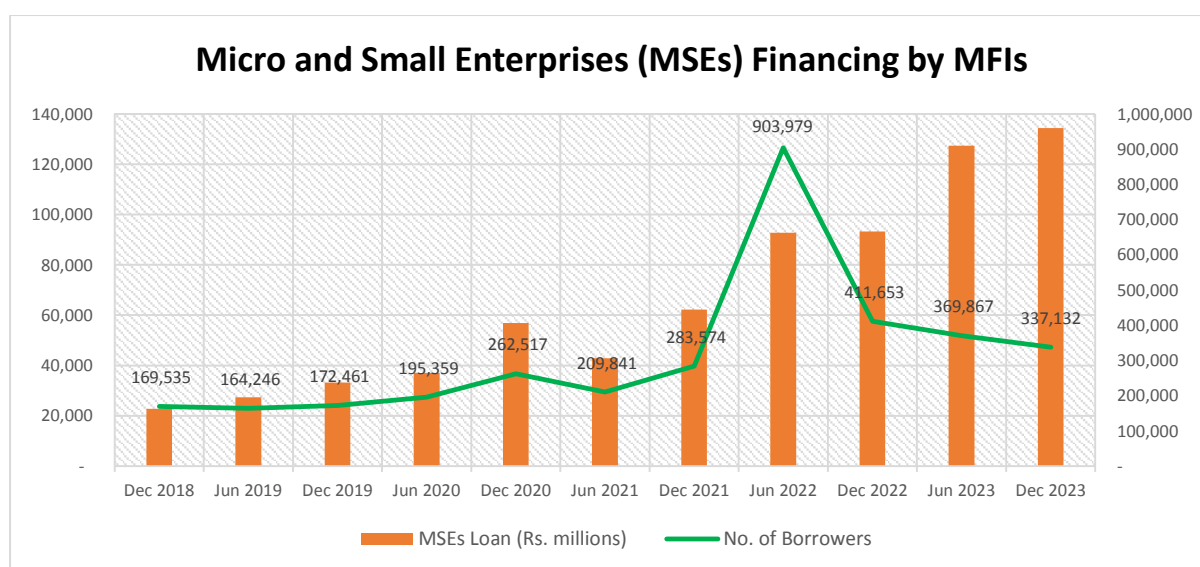


Figure 9: Micro & Small Enterprises Financing by MFIs

Source: Micro Watch by Pakistan Microfinance Network

NOTE: It is pertinent to mention that since there is no bifurcation available in data regarding the size of the enterprise and the average ticket size remains below PKR 500,000, it can be safely assumed that majority of MSE financing is directed towards micro enterprises only.

³ Micro Watch: A quarterly update on microfinance outreach in Pakistan ISSUE 70: Q4 (Oct-Dec) 2023 by PMN.

3 EQUITY FINANCING

3.1 IPO AT GEM BOARD BY PSX

The Growth Enterprise Market (GEM) Board was separately designed from Main Board of PSX to welcome high growth SMEs, green-field projects and tech startups at PSX. The GEM Board, as part of the Stock Exchange, offers startups a means to exit whenever they choose, providing flexibility and liquidity in the trading of shares. Those companies which will attain maturity in three to five years while listing on the GEM Board will move to the main board at PSX⁴.

According to the data portal of Pakistan Stock Exchange, at present, there are four companies listed at the GEM board namely Universal Network Systems (UNSL), a logistics firm operating under the brand name of BlueEX, Pak Agro Packaging – an agricultural textile company, Supernet Limited an ICT solution provider company and Mughal Energy Limited – 25 MW power house to supply electricity to Mughal Iron and Steel Industries Limited (MISIL). They have cumulatively raised equity worth PKR 1,449 million by offering their shares to investors at PSX as shown in figure 9 below.

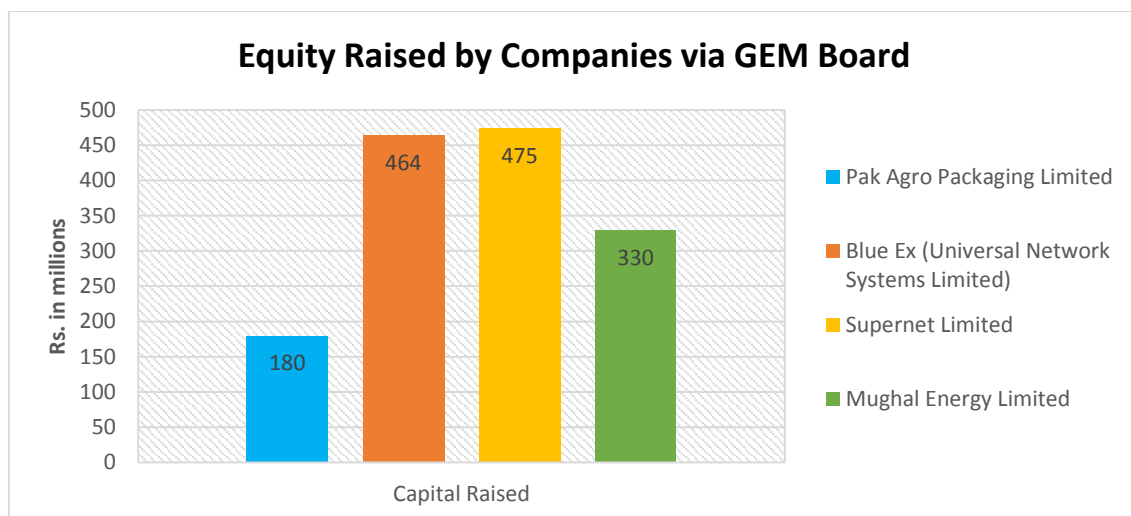


Figure 10: Equity Raised via GEM Board

Source: dps.psx.com.pk

The share value of the above three SMEs has declined over the period of last 2 years since December 2021 i.e. Pak Agro Packaging Ltd share value declined by 72.3%, Universal Network Systems Ltd by 64.6% and Supernet Ltd by 39% as per the PSX Trading Panel⁵. Whereas, Mughal Energy Limited is listed on GEM Board effective Thursday, June 13, 2024. Despite the high target of PSX to list 100 growth-oriented SMEs, green-field projects and tech startups by

⁴ "On Listing SMEs and Other Small Companies" by Business Recorder Research published on April 13, 2022

⁵ Pakistan Stock Exchange (PSX) data retrieved from <https://dps.psx.com.pk/trading-panel> on Dec 13, 2023

the end of year 2022, the offtake remains low; primary reason being lack of awareness amongst SMEs and Startups regarding IPOs and equity financing.

3.2 STARTUP FUNDING

In 2023, the Pakistani startup ecosystem experienced a considerable decline in venture capital activity, a reflection of broader global and local macroeconomic challenges.

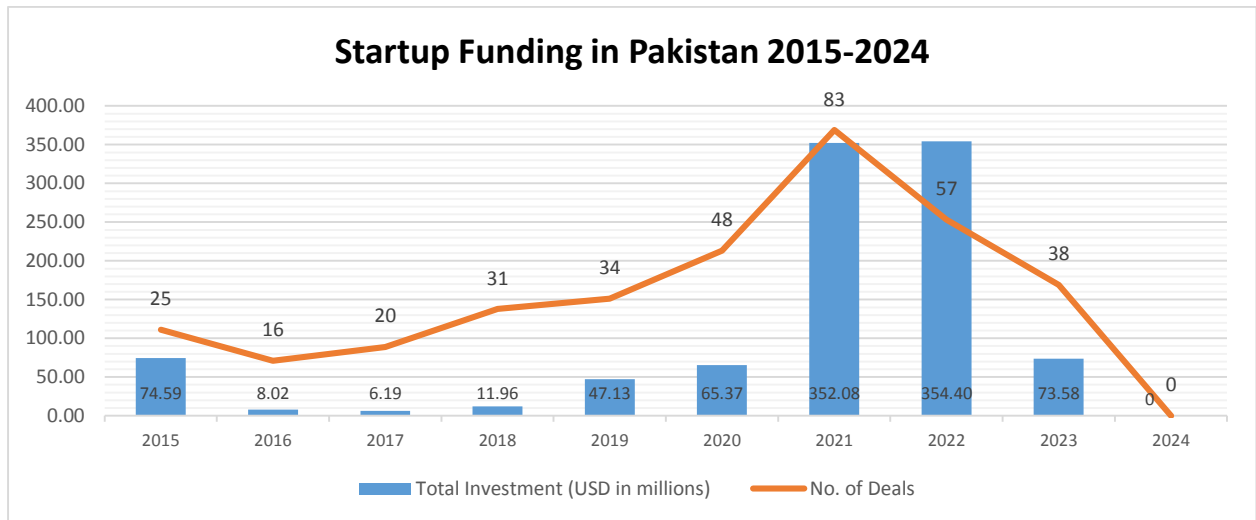


Figure 11: Startup Funding in Pakistan 2015-2024

Source : insights.datadarbar.io

In the first nine months of 2023 (Jan – Sep), startups in Pakistan raised around USD 33.6 million, which was only about 10% of the total funds raised in 2022. The Q1 of 2023 started slowly with startups announcing USD 23 million raised, a substantial portion of which were deals closed in 2022 but announced in 2023. This initial period was characterized by cautious investment, influenced by Pakistan's macro-economic struggles and political instability.

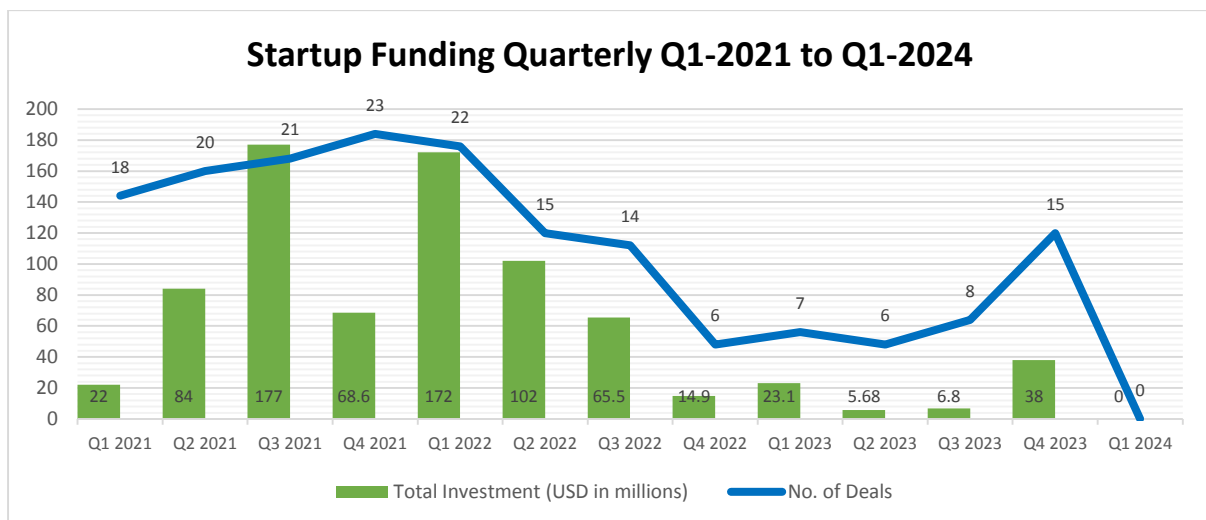


Figure 12: Startup Funding Quarterly Q1-2021 to Q1-2024

Source: Deal flow tracker for Pakistani startups by insightsi2i.com

By the second quarter of 2023, the situation improved slightly, with a total of USD 5.2 million raised, indicating a quarter-on-quarter increase from the first quarter. However, the overall trend remained in a decline, with the total funding for the first half of the year (January - June) amounting to USD 28.3 million across 13 deals, a major contrast to the USD 274 million raised across 27 deals in the same period of the previous year. The Q3 saw a further decline, with funding falling to just USD 6.8 million, an 89.6% reduction from the USD 65.5 million reported in the corresponding period of the previous year. The Q4 of 2023 witnessed a significant uptick in Pakistan's tech startup funding, breaking the year's earlier funding drought. The average ticket size has also dropped significantly, indicating a more challenging environment for startups seeking funding.

Unfortunately, in Q1 of 2024, Pakistani startups raised zero funding with no publicly disclosed deals, marking a clear contrast to the total funding since 2015. The economic instability and lack of political cohesion have dented investor confidence across asset classes in Pakistan. Furthermore, the uncertain global economic situation and the high-interest rate environment locally have dried up the venture funding pipeline. Even though, the global VC funding has declined considerably, however, the MENA region continues able to raised USD 429 million in the Q1 2024; Saudi Arabia raised USD 224.7 million in 42 deals, UAE raised USD 151.2 million in 44 deals and Egypt raised USD 34.6 million across 17 deals.

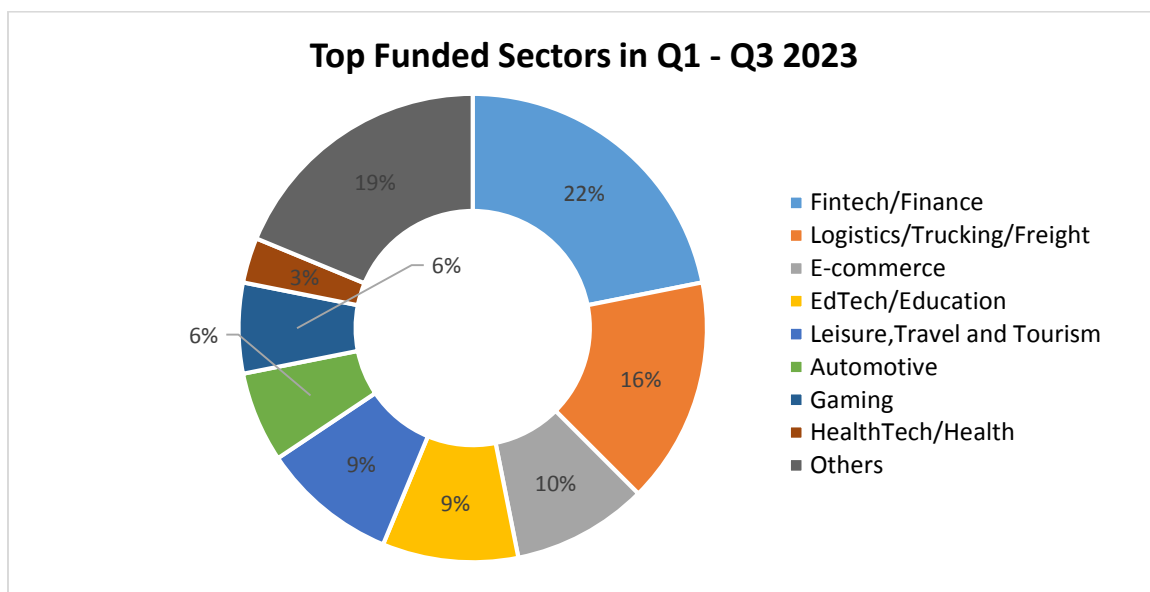


Figure 13: Top Funded Sectors Q1 – Q4 2023

Source: *insights.datadarbar.io*

The top funded sector in 2023 has been Fintech with 22% share followed by Logistics/Trucking/Freight with 16% and e-commerce with 10% share as shown in Figure 12 above. The others include Consumer Service, Human Resource/HR Tech, Management Consulting, MarTech/Marketing, On-Demand Services and Transportation/Mobility.

4 DIGITAL FINANCE

Digital finance encompasses the utilization of emerging technologies and digital channels, including internet banking, mobile banking, electronic money models, and digital payment platforms, to meet customers' demands for conventional financial services. Digital financial services (DFS) will offer all the services of a conventional bank but in a branchless and a paperless environment without any need of physical visits. The SBP has issued in-principal approvals to the following five applicants for establishing digital banks⁶, whereas they will assume full operations from the next financial year 2025 by completing the stipulated test period as per regulatory compliance subject to completing the pilot successfully.

1. Easy Paisa DB (Telenor Pakistan B.V & Ali Pay Holding Ltd.)
2. Hugo Bank (Getz Bros & Co., Atlas Consolidated Pte. Ltd. and M & P Pakistan Pvt. Ltd.)
3. KT Bank (Kuda Technologies Ltd., Fatima Fertilizer Ltd. and City School Pvt. Ltd.)
4. Mashreq Bank (Mashreq Bank UAE)
5. Raqami (Kuwait Investment Authority through – PKIC and Eneritech Holding Co.).

Digital banks will promote financial inclusion through cost effective digital financial services access to unserved and underserved segments of the society.

5 REFERENCES

1. Quarterly SME Finance Review by SBP retrieved from sbp.org.pk as of December 31, 2023
2. Data Darbar website insights.datadarbar.io as on August 21, 2023
3. Pakistan Stock Exchange (PSX) Data Portal website dps.psx.com.pk as on June, 2024
4. Deal Flow Tracker for Pakistani Startups website insights2i.com as on March 31, 2024
5. World Economic Outlook Update 2023 by IMF, published on July 10, 2023
6. Micro Watch: A quarterly update on microfinance outreach in Pakistan issue no. 70: Q4 (Oct – Dec) 2023 by Pakistan Microfinance Network (PMN).

⁶ SBP's NOCs for establishing Digital Banks press release published on January 13, 2023

ANNEXURE 1: LIST OF GOVERNMENT SUBSIDIZED SCHEMES

Sr. #	Scheme Name	Limit (PKR)	Tenor	Pricing
1	Credit Guarantee for SEs & Special Persons	Up to 1.5m	5 years including up to 6 months grace period	Up to 5%
2	Refinance Scheme for WC Financing	Up to 50m	Maximum tenor of 1 year	6%
3	Refinance and Credit Guarantee for Women	Up to 5m	5 years including up to 6 months grace period	Up to 5%
4	Refinance Facility for Modernization of SMEs	Up to 200m	10 years including. up to 6 months grace period	Up to 6%
5	Renewable Energy Financing Category-I	Up to 6b	12 years including up to 2 years grace period	Up to 6%
6	Renewable Energy Financing Category-II	Up to 400m	10 years including up to 3 months grace period	Up to 6%
7	Renewable Energy Financing Category-III	Up to 2b	10 years including up to 6 months grace period	Up to 6%
8	Financing for Storage of Agriculture Produce	Up to 500m	10 years including up to 6 months grace period	Up to 6%
9	Prime Minister Youth Business & Agriculture Loan (PMYB&AL)	Up to 7.5m	8 years including up to 2 years grace period	Up to 7%
10	Punjab Rozgar Scheme	Up to 10m	5 years including up to 2 years grace period	Up to 5%
11	SME Asaan Finance Scheme	Up to 10m	Tenor of the loan as per bank policy	Up to 9%

Table 2: SME Incentive Schemes, Tenor and Pricing

Source: www.sbp.org.pk

ANNEXURE 2: LIST OF APPROVED FINTECHS BY SECP

The following is the list of the Fintech Companies in Pakistan registered with SECP. It includes startups, banks, and telecom companies offering digital financial solutions. The categories focused here include general online and mobile banking, micro lending, mobile wallets, and payment gateways etc.

1. ALPHA APP by Bank Alfalah
2. ASKARI BANK LTD.
3. AUTOSOFT DYNAMICS
4. CAREEMPAY
5. CREDITFIX
6. FINJA
7. KEENU
8. MCB BANK
9. MEEZAN BANK
10. MONET
11. NAYAPAY
12. ONELOAD
13. FONEPAY
14. FOREE
15. KONNECT by Habib Bank Limited
16. JAZZCASH
17. Ufone PAY/UPAISA
18. STANDARD CHARTERED
19. TELENOR BANK
20. TEZ FIN
21. TPS
22. UBL OMNI