SME Financing Portfolio in Pakistan

As of September 2024

FINANCIAL SERVICES - B&SDS DIVISION

Small and Medium Enterprises Development Authority (SMEDA)

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PREFACE

The **SME Financing Portfolio Report September 2024** is a comprehensive analysis prepared by the Financial Services team of the Business and Sector Development Services (B&SDS) Division at SMEDA. This report serves as a vital resource for understanding the evolving landscape of SME financing in Pakistan, covering both traditional and innovative financing avenues. It highlights trends, challenges, and opportunities in SME debt, equity, and digital financing while presenting an in-depth overview of sector-wise and demographic insights.

SMEDA recognizes the critical role of SMEs as a cornerstone of Pakistan's economy, driving employment, innovation, and regional development. The findings of this report underscore the ongoing efforts to address barriers in access to finance for SMEs, especially in underserved and marginalized areas.

This report also reflects SMEDA's unwavering commitment to fostering financial literacy, enhancing the bankability of SMEs, and creating a conducive ecosystem for growth. By providing actionable insights, the report aims to guide policymakers, financial institutions, and SME stakeholders in designing strategies that promote sustainable economic development.

We extend our gratitude to all contributors and stakeholders whose collaboration made this report possible. We hope it serves as a useful tool for driving informed decision-making and strengthening the SME financing ecosystem in Pakistan.

Financial Services Team
Business and Sector Development Services Division
Small and Medium Enterprises Development Authority (SMEDA)

Dated: 20th January 2024

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
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
PMN	Pakistan Microfinance Network
PMYBAL	Prime Minister's Youth Business and Agriculture Loan
PSX	Pakistan Stock Exchange
SAAF	SME Asaan Finance Scheme
SBP	State Bank of Pakistan
SECP	Securities 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

The SME financing landscape in Pakistan is characterized by a mix of debt, equity, and venture capital options, facilitated through various financial institutions, including banks, leasing companies, microfinance banks, PSX through its GEM Board, angel investors and VCs, though each has faced its own set of challenges in recent years.

<table>
<tr><th colspan="2">NATIONAL SME DEFINITION</th></tr>
<tr><td colspan="2">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 Securities & Exchange Commission of Pakistan (SECP) is as follows:</td></tr>
<tr><td>Small Enterprise (SE): Annual sales turnover of up to Rs. 150 million</td><td>Medium Enterprise (ME): Annual sales turnover between Rs. 150 million and Rs. 800 million</td></tr>
<tr><td colspan="2">Start-up: A small or medium enterprise up to 5 years old</td></tr>
</table>

SME Debt Financing has increased to Rs. 478.37 billion as of Sep 2024 (Rs. 438.05 billion as of Sep 2023). Micro-financing to Micro and Small Enterprises (MSEs) has increased over the past 5 years to Rs. 171.29 billion as of September 2024 from (Rs. 137.46 billion as of Sep. 2023) with a ticket size of RS. 447,303 (Rs. 354,829 as of Sep 2023)[1]. However, the MSE loan size has increased but remains below Rs. 500,000, indicating that micro financing in Pakistan is mainly focused towards micro enterprises only. There are five fully digital banks registered with SBP that aim to provide digital financial solutions to SMEs. By achieving 100% operational readiness as per regulatory requirements, they can apply for pilot licensing from SBP. Mashreq Digital Bank has received restricted license from the SBP to start pilot operations as a first digital retail bank in Pakistan.

To facilitate equity financing, initially for green-field projects and tech startups only, 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. Up to 30th Sep 2024, GEM Board has enabled five companies to raise Rs. 1,551 million collectively through IPOs. The startup ecosystem in Pakistan, despite a promising start in 2019 has undergone a steady and declined in 2024. In the year 2024, startup financing fell to USD 37 million as compared to USD 73.58 million in 2023, including; VC funding, private equity and angel financing.

Categories	Period	Amount
SME Debt Financing	Up to 30th Sep 2024	Rs. 478.37 billion
MSE Financing by MFIs and MFBs	Up to 30th Sep 2024	Rs. 171.29 billion
Equity Financing (IPO at Gem Board by PSX)	Up to 30th Sep 2024	Rs. 1,551 billion
Startup Financing (Q1 2024 to Q4 2024)	Jan 2024 – Dec 2024	USD 41.5 billion

Table 1: SME Financing Protfolio in Pakistan[2]

[1] *Micro Watch: A Quarterly Update on Microfinance Outreach in Pakistan, September 30, 2024 by PMN*

[2] *Data sources: sbp.org.pk, pmn.org.pk, dps.psx.com.pk and invest2innovate.com as of December 16, 2024*

2 Debt Financing

Debt financing has remained a cornerstone of SME financing in Pakistan, enabling businesses to access essential funding for operations, growth and expansion. 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 Chart 1 below. However, SME financing, at 5.2% of total private sector credit, saw no change in the past one year since Sept. 2023 reflecting challenging economic conditions for SME businesses.

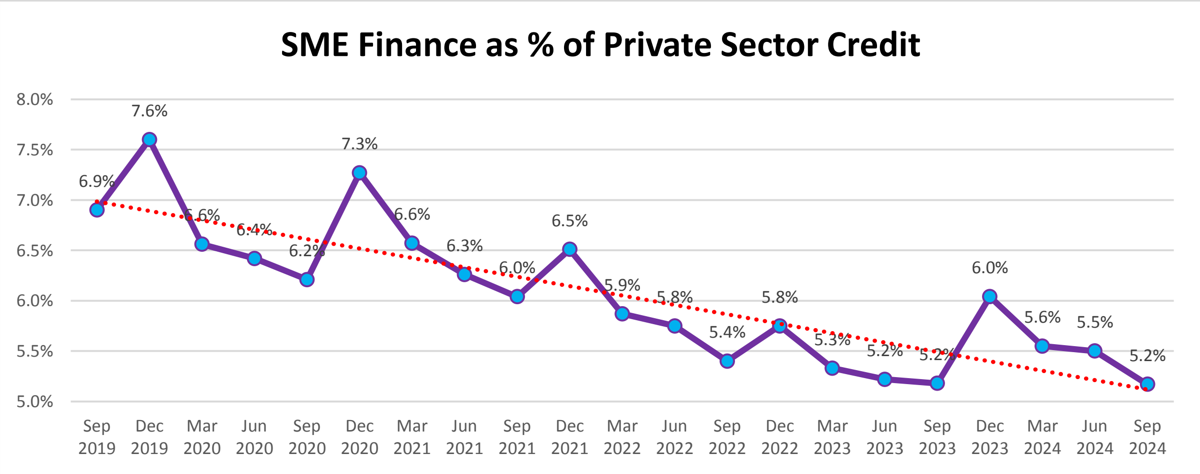


Chart 1: SME Sector Lending Portfolio

Source: www.sbp.org.pk

Chart 2 indicates the share of financial institutions in total SME debt financing as of September 2024. Domestic private banks have the largest share of 60% in total SME financing in Pakistan, followed by 27% share of public sector commercial banks, 10% of Islamic banks whereas specialized banks and DFIs comprise 2% and 1% share respectively.

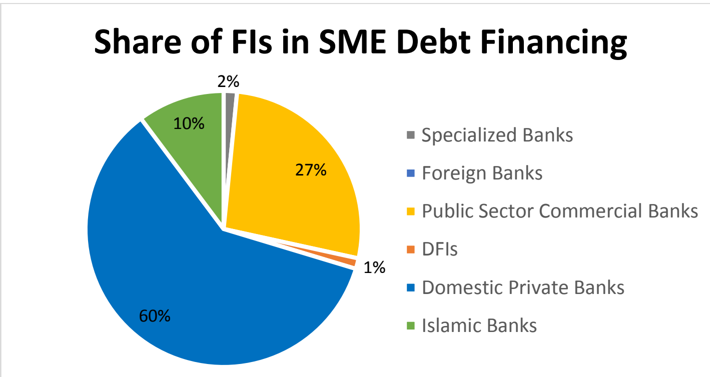


Chart 2: Share of FIs in SME Financing

Source: www.sbp.org.pk

The economic environment in Pakistan in the recent past, marked by high interest rates, currency devaluation, and inflation, has significantly impacted financing decisions of startups and SMEs. Over the past five years, SMEs have experienced a decline in profitability and repayment capacity, forcing them to explore alternative funding sources beyond traditional debt financing. Despite these challenges, the outstanding SME debt financing portfolio reached Rs. 478 billion by September 2024, compared to Rs. 438 billion in September 2023.

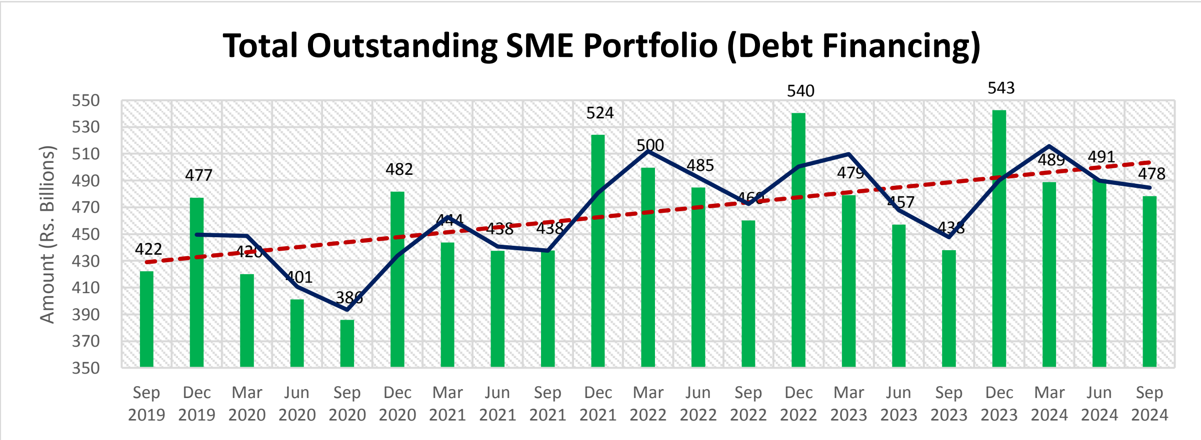


Chart 3: Total Outstanding SME Portfolio

Source: www.sbp.org.pk

A past 5-year comparison from Sept. 2019 to 2024 shows dismal growth in SME financing from Rs. 422 billion to Rs. 478 billion, indicating a slow upward trend over the past five years. Seasonal fluctuations are evident from the recurring increase in December due to year-end banks' closings, followed by a decline from Jan to Sep as loans are settled. However, recent Government measures to reduce the KIBOR rate from 24.54% to 11.89%[3] and control inflation from approximately 38% (as of May 2023) to 4.9%[4] as of December 2024 are expected to restore SME confidence and drive a more significant increase in SME financing.

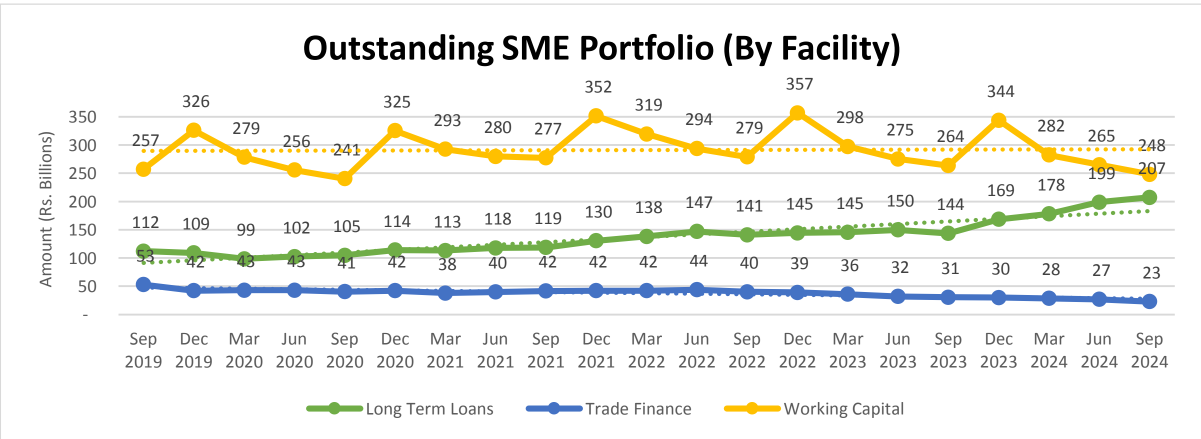


Chart 4: Outstanding SME Portfolio by Facility Type

Source: www.sbp.org.pk

[3] State Bank of Pakistan: As of 20th January 2025

[4] Karandaz Dara Portal: Date retrieved from https://portal.karandaaz.com.pk/

As the Chart 4 above illustrates, the loans for SME trade finance decreased steadily to half of the number they were in September 2019. The overall trend of the past five years of working capital financing is almost steady, whereas, financing for long term loans indicates a steady rise. The flat trend lines of all facility types are also an indication of no major change in SME loan portfolio over the past 5 years. While banks have generally shown a low-risk appetite for SME financing, broader economic conditions have played a major role in shaping these trends. The initial decline in financing can be attributed to the high inflation and interest rates following the post COVID-19 pandemic, which made debt financing less feasible for SMEs. Inflation reached a record high of 37% in May 2023, remaining elevated until September before beginning to decrease. Similarly, KIBOR peaked upto 24% in September 2023, staying at this level for nearly a year before dropping which added to reduced affordability of SME associated loans.

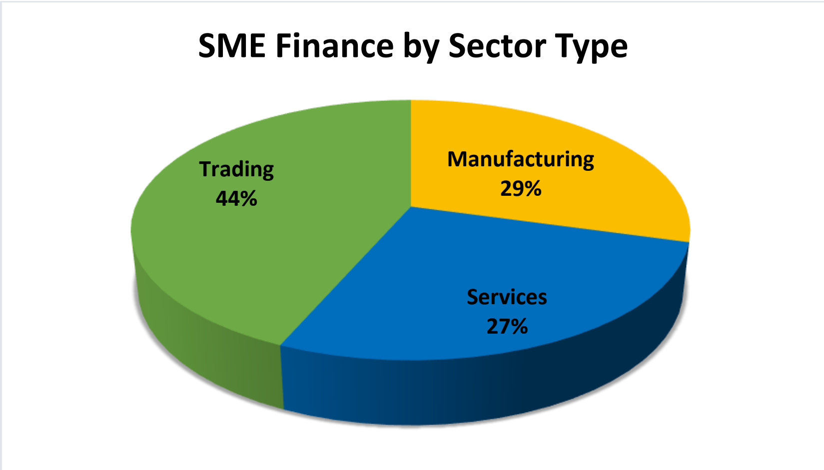


Chart 5: SME Financing by Sector

Source: www.sbp.org.pk

As indicated in Chart 5 above, 44% of total SME financing was extended to the trading sector, 29% to the manufacturing sector and 27% to the services sector.

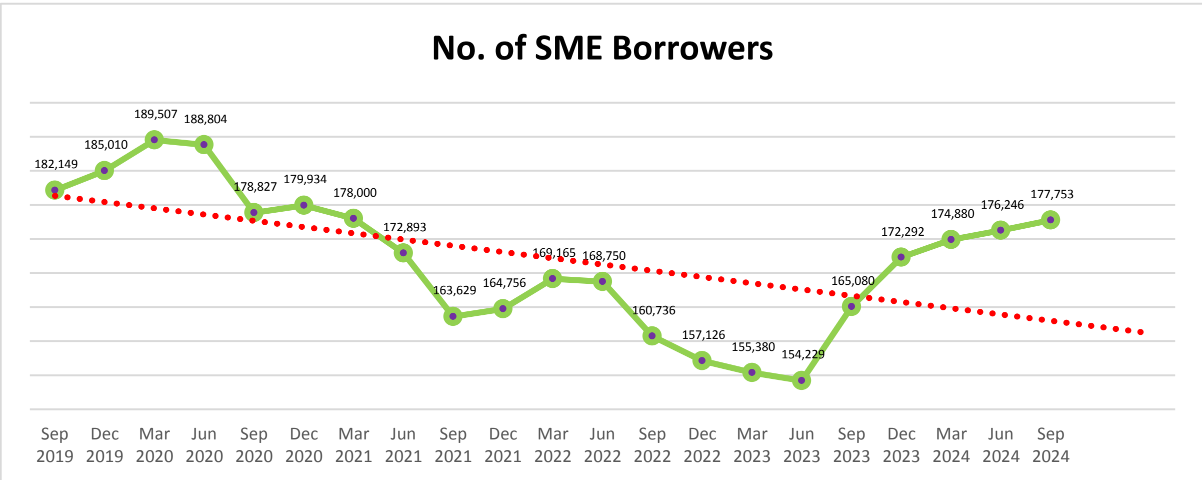


Chart 6: No. of SME Borrowers

Source: www.sbp.org.pk

The chart above shows the declining trend of number of borrowers in last five years. The significant increase in KIBOR to 24.7% and high inflation resulted in decrease in the number of borrowers that reached 154,229 in June 2023 which were the lowest in last five years. However, since then, the borrower base has increased but the average loan size has decreased as shown in the chart below, resulting in a static total SME loan portfolio. The average loan size is Rs. 2.69 million as of quarter ending Sep 2024 which was Rs. 2.79 million in quarter ending June 2024 and Rs. 3.15 million in the Dec 2023.

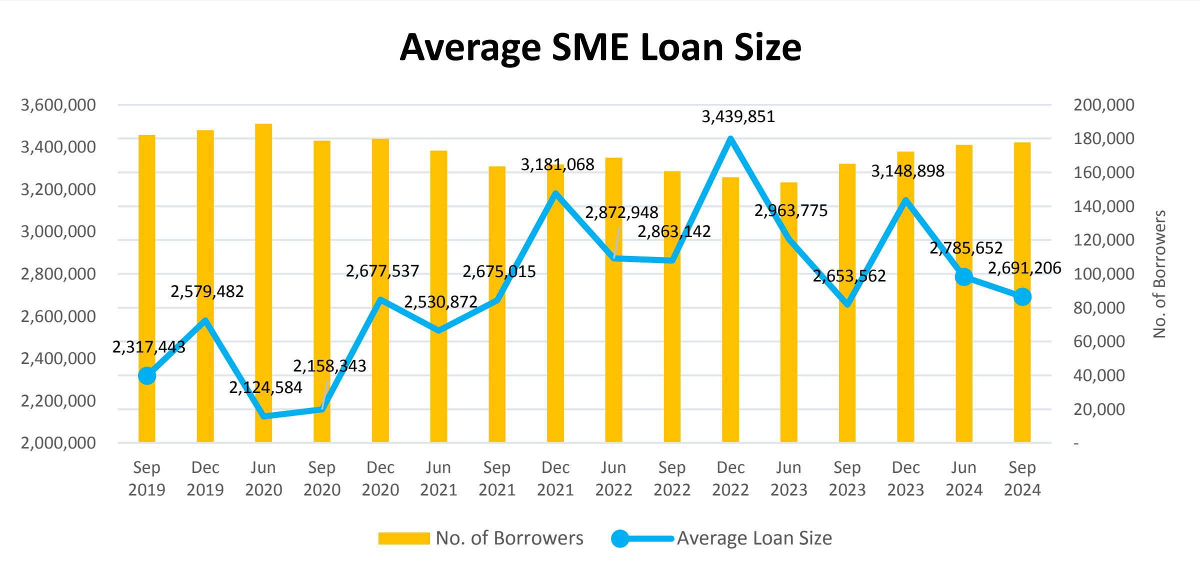


Chart 7: Average SME Loan Size

Source: www.sbp.org.pk

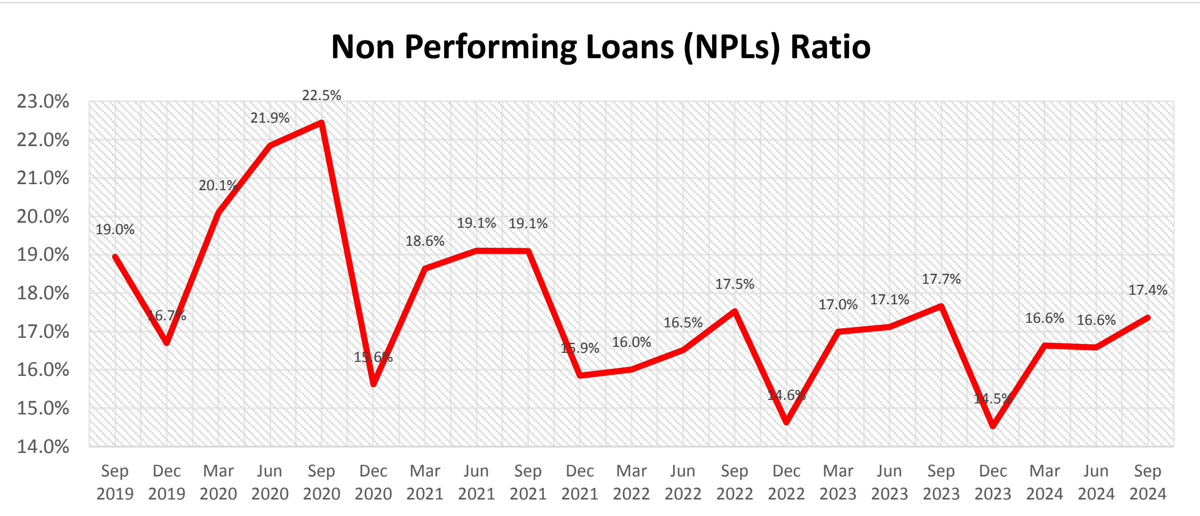


Chart 8: Non-Performing Loan Ratio

Source: www.sbp.org.pk

Chart 8 above 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. A high NPL ratio pushed banks to greater scrutiny of loan applications resulting in a smaller number of loans disbursed. As of September 2024, non-performing loans (NPLs) remain at 17.4%. Whereas, the 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.

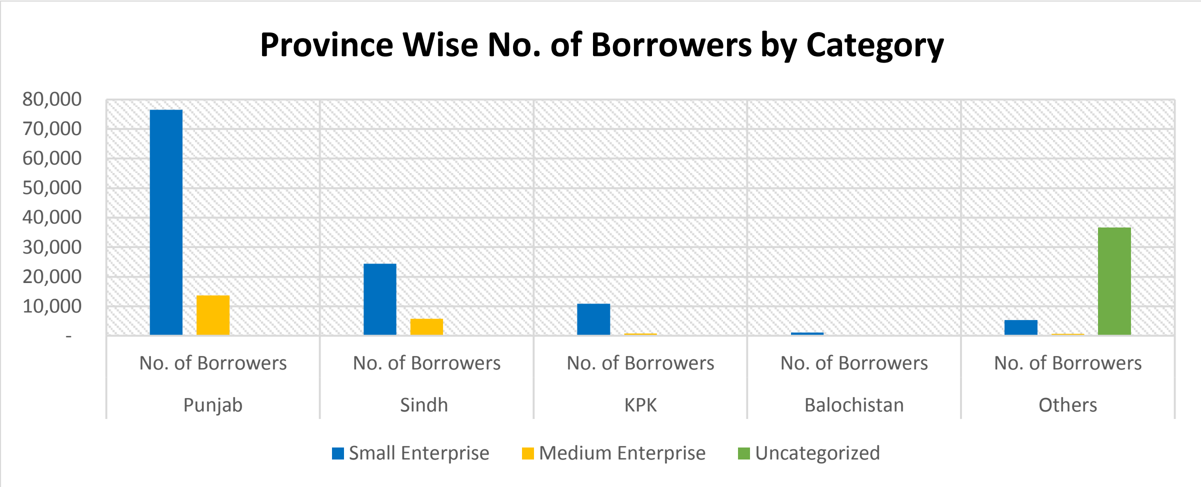


Chart 9: Province Wise No. of Borrowers by Category

Source: www.sbp.org.pk

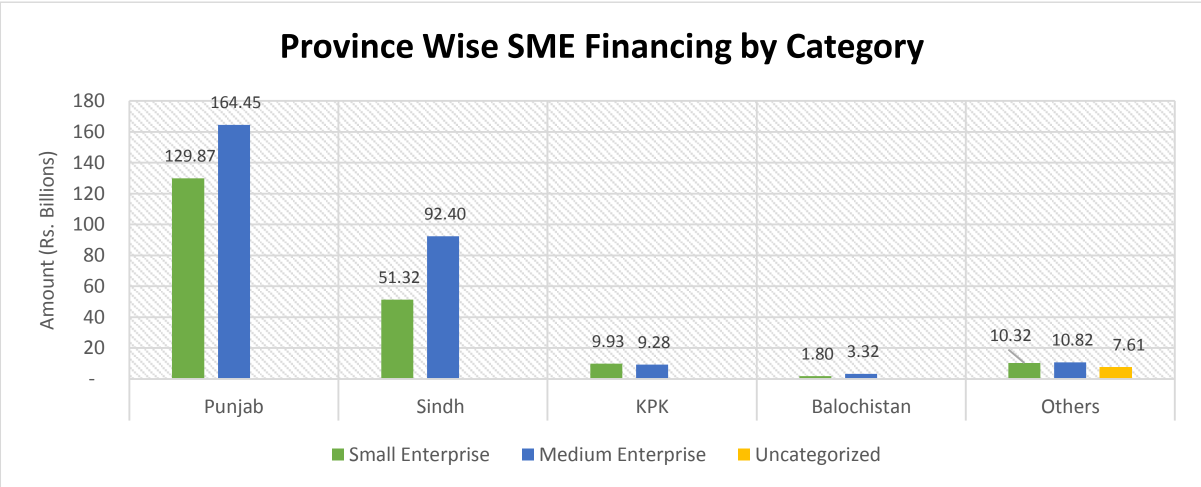


Chart 10: Province Wise SME Financing by Category

Source: www.sbp.org.pk

The above charts reveal a stark disparity in SME financing and borrower distribution across Pakistan as of 30th June 2024. Punjab dominates SME financing, receiving 59.93% of total value of SME financing, with 44% allocated to small enterprises and 56% to medium enterprises. Sindh follows with 29.26%, while Khyber Pakhtunkhwa (3.91%), Balochistan (1.04%), and other territories (5.85%, including Islamabad, AJK, and G.B.) collectively account for a minor share. Similarly, in terms of borrowers, Punjab leads with 51.18%, followed by Sindh at 17.16%, Khyber Pakhtunkhwa at 6.63%, Balochistan at a negligible 0.78%, and other territories at 24.25%.

These figures highlight a significant imbalance, suggesting that SME financing stakeholders have failed to adequately finance underserved and marginalized areas. The low financing shares for Balochistan and Khyber Pakhtunkhwa provinces, despite their economic potential, showcases an urgent need for inclusive financing. Banks are to be encouraged to ensure equitable distribution of financing and meaningful engagement with SMEs in provinces beyond Punjab. The statistics demand a reevaluation of strategies to address the needs of underserved regions and foster nationwide SME growth.

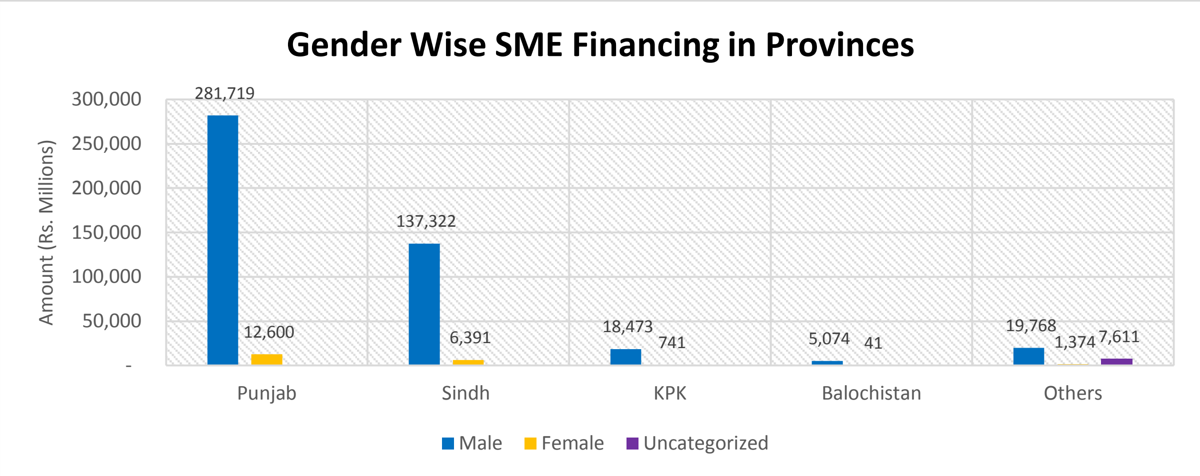
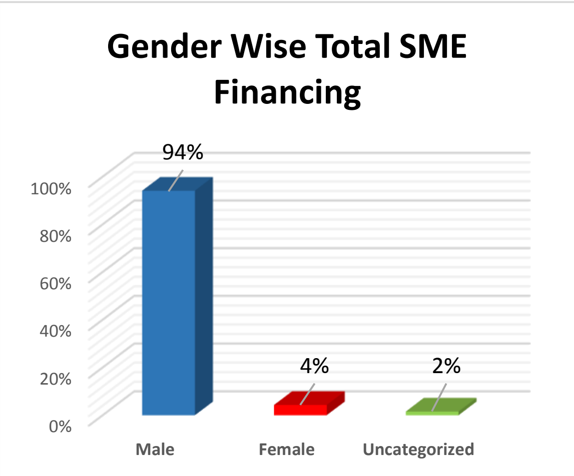


Chart 11: Gender Wise SME Financing in Provinces[5]



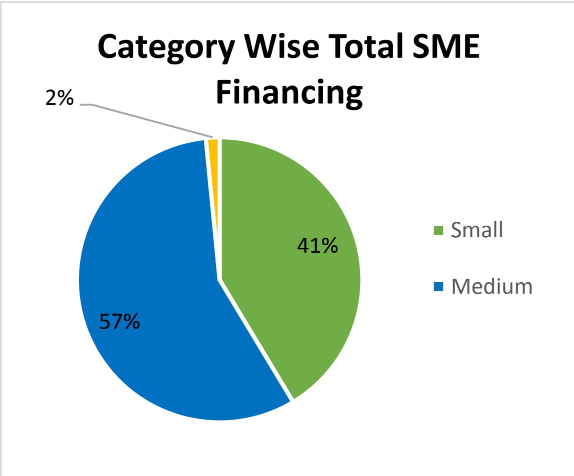


Chart 12: Gender Wise and Category Wise Total SME Financing[5]

A staggering 94% of SME financing is allocated to male borrowers, with only 4% to females and 2% for uncategorized loans. This significant gender disparity reflects exclusion of women from accessing financial resources. Moreover, 57% of the total SME financing goes to medium and 41% to small enterprises. The overall statistics paint a grim picture, indicating the need for immediate action to address regional imbalances, prioritize support for neglected provinces, and implement measures to promote gender equality in SME financing.

[5] *Source: State Bank of Pakistan (SBP) 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) has crossed half Trillion Pak Rupees standing at Rs. 0.573 trillion as of September 2024. In terms of market share for MSEs, Khushali Microfinance Bank leading with 27.26% share as of September 2024 followed by Mobilink Microfinance Bank with 21.68%, HBL Microfinance Bank with 16.89% and NRSP-Bank with 14.14%. In terms of active MSEs borrowers, Mobilink Microfinance Bank is leading with market share of 28.71%. Following Mobilink Microfinance Bank, Khushali Microfinance Bank (KMBL) holds 13.88%, NRSP-Bank 13.15%, and FINCA 10.1% of clients respectively[6]. Pakistan's MFBs serve 382,942 micro and small borrowers with a loan portfolio of Rs. 171.29 billion as of September 2024. Average ticket size of micro loans have been increasing, with the current average ticket size of Rs. 447,303 in September 2024 as compared to Rs. 354,829 in September 2023.

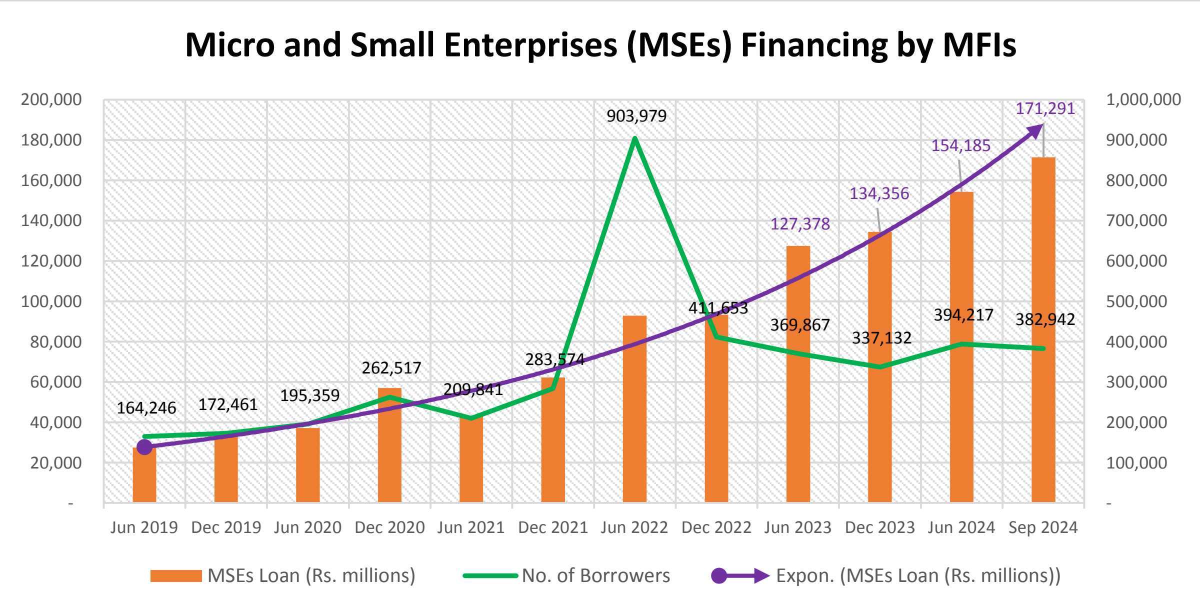


Chart 13: Micro & Small Enterprises Financing by MFBs

Source: Micro Watch by Pakistan Microfinance Network

The trend in Chart 13 shows a continuous rise in MSE financing, with a 21% increase from June 2023 to June 2024 and an 11.1% rise from June 2024 to September 2024. This growth reflects increased borrower confidence due to improved access to micro financing through simplified and quick loan application process with minimal documentation requirements.

NOTE: *Due to lack of data available regarding bifurcation based upon the size of the enterprise and that the average ticket size remains below Rs. 500,000, it can be safely assumed that majority of MSE financing is directed towards micro enterprises only.*

[6] *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 Pakistan Stock Exchange (PSX) to welcome high growth SMEs, green-field projects and tech startups at PSX. The GEM Board, as part of the Stock Exchange, provides a more favorable environment for emerging businesses seeking equity capital and 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 PSX[7].

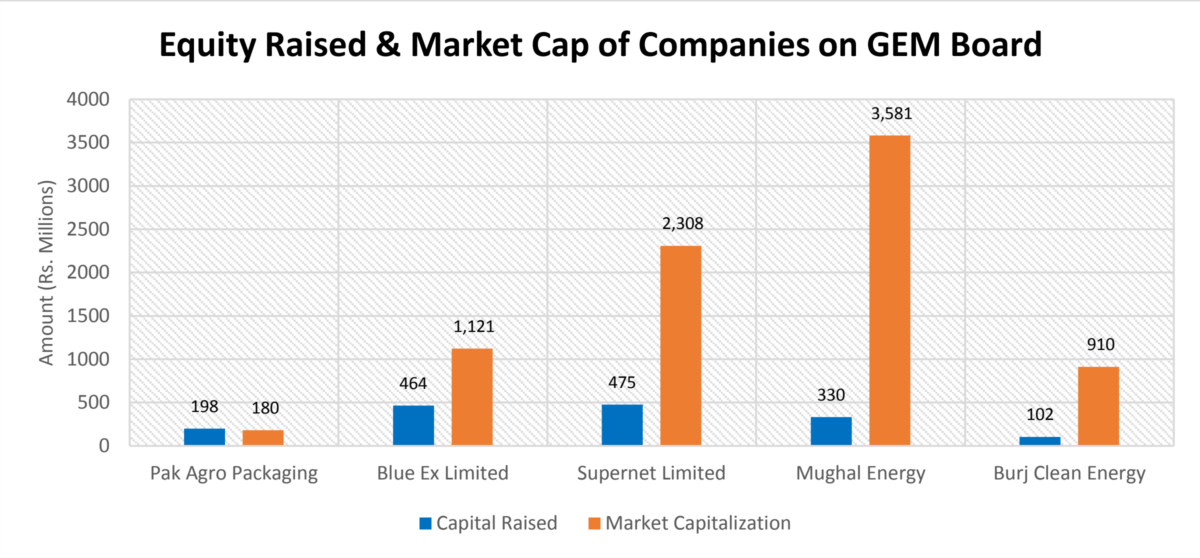


Chart 14: Equity Raised & Market Cap via GEM Board

Source: dps.psx.com.pk

According to the data portal of PSX, at present, there are five companies listed at the GEM board. They have cumulatively raised equity worth Rs. 1.6 billion by offering their shares to investors at PSX with total market cap of Rs. 8.1 Million as of 26th December 2024 as shown in Chart 13 above. Despite various claims by authorities, including the Pakistan Software Export Board (PSEB) and Pakistan Stock Exchange (PSX), to list 40-100 companies on the GEM Board[8] by relaxing listing criteria and increasing the number of listed tech companies, progress has been slow.

To date, only five companies have been listed on the GEM Board. Furthermore, no company has transitioned from the GEM Board to the main stock exchange, highlighting gaps in achieving the intended objectives. The primary obstacle remains a lack of awareness among SMEs and startups about IPOs and equity financing. Additionally, the slow progress can be attributed to the underperformance of the stock market in the past, where post-pandemic

[7] *"On Listing SMEs and Other Small Companies" by Business Recorder Research published on April 13, 2022*
[8] *"7 IT Companies Eye PSX's GEM Board Listing" by Pro-Pakistani published on April 19, 2024.*

conditions, coupled with higher interest rates, drove investors towards debt instruments. However, the proposed reduction in interest rates towards the end of the year signals a potential shift in investor sentiment.

Increased activity in the stock market has been fueled by favorable macroeconomic indicators such as a current account surplus, declining inflation, and reduced interest rates. The KSE-100 Index[9] achieved a historic milestone by crossing the psychological barrier of 100,000 points, signaling renewed confidence in the market. Although barriers to wider participation remain, these developments offer optimism that the GEM Board may follow the positive trajectory of the Main Board, provided economic stability continues.

3.2 Startup Funding

From 2022 to 2024, the Pakistani startup ecosystem experienced a considerable decline in startup funding activity, a reflection of broader global and local macroeconomic challenges during this period as shown in Chart 15 below.

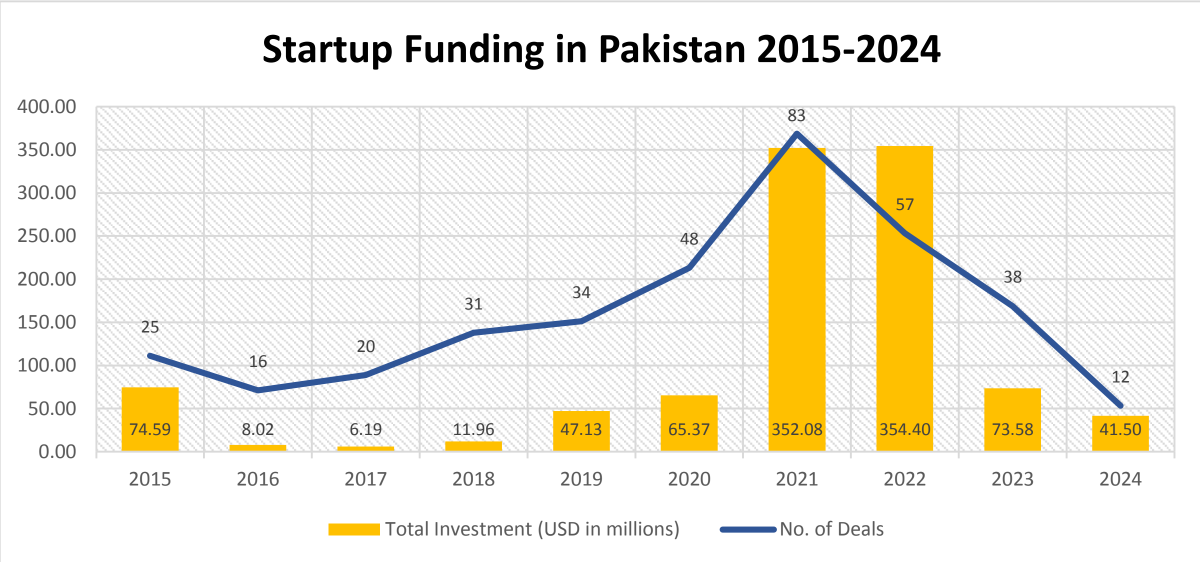


Chart 15: Startup Funding in Pakistan 2015 – 2024

Source: Deal flow Update by invest2innovate.com

Global VC funding saw a decline of 38%, but Pakistan faced an even sharper drop of 79%, highlighting deeper challenges in the ecosystem.

In 2024, the trend persisted, with funding dropping by 49.7%. Notably, Q1 2024 recorded zero funding for Pakistani startups, with no publicly disclosed deals—a sharp contrast to the country's total funding since 2015. Although there was a modest recovery in Q2–Q4 2024, with USD 41.5 million raised across 12 deals, the cautious stance of investors remained evident.

[9] *The KSE-100 Index is a total return stock index acting as a benchmark to compare prices on PSX over a period. It represents 85% of all the market cap of the exchange, calculated by Free Float Market Cap methodology.*

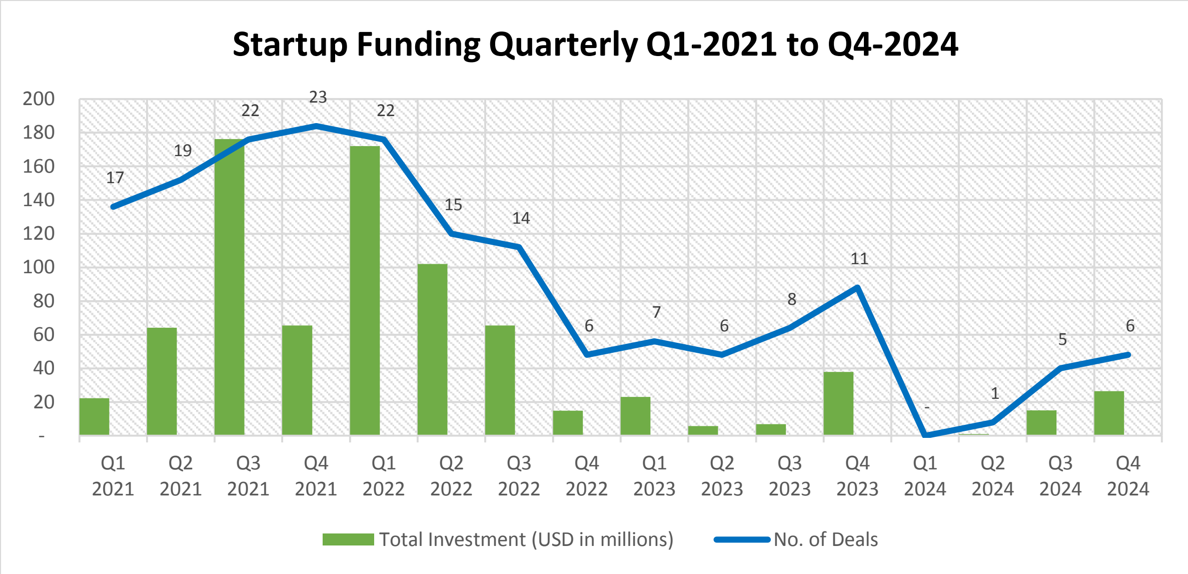


Chart 16: Startup Funding Quarter Update

Source: Deal flow Update by invest2innovate.com

The top funded sector in 2024 has been Fintech with 42% share followed by e-commerce and artificial intelligence with 25% and 9% shares respectively as shown in Chart 17 below. Other sectors include clean-tech, agri-tech and travel/tourism/hospitality with 8% contribution each.

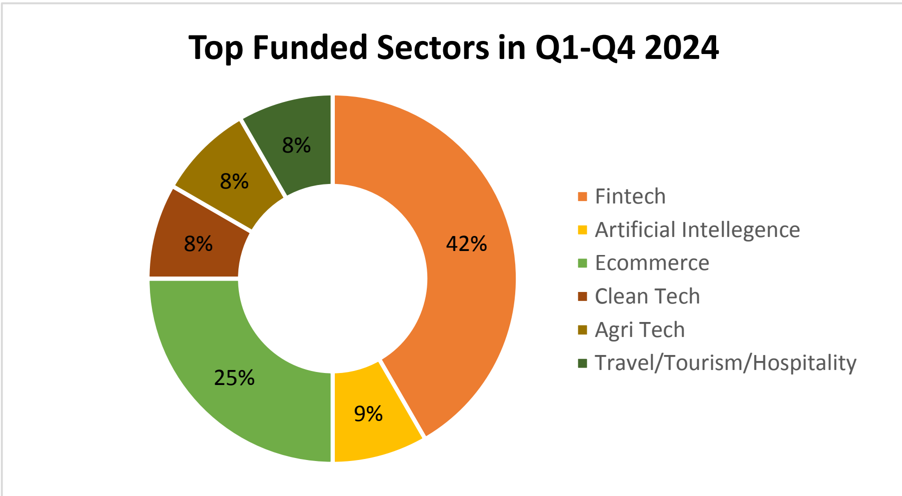


Chart 17: Top Funded Sectors Q1-Q2 2024

Economic challenges, including record-high inflation, policy rate increase, rupee devaluation and fiscal deficit discouraged both local and foreign investors from investing in Pakistani Start-ups. Rising living costs, energy shortages, and demands for fiscal reforms added to the climate of uncertainty. Although, "the Government avoided immediate default through IMF negotiations, the combined effects of political, economic, and security instability significantly dampened venture capital investment in Pakistan's SMEs"[10].

[10] *"Pakistan Startup Ecosystem Report 2024" by Invest2Innovate published December 2024*

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) offers all the services of a conventional bank but in a branchless and a paperless environment without any need of physical visits. To promote innovation, financial inclusion, and affordable digital services, the State Bank of Pakistan (SBP) granted In-Principle Approval (IPA) to five digital retail banks[11] and are expected to roll out full-scale digital banking operations in 2025, following successful pilot trials:

1. Hugo Bank Limited,
2. KT Bank Pakistan Limited,
3. Mashreq Bank Pakistan Limited,
4. Raqami Islamic Digital Bank Limited, and
5. Telenor Microfinance Bank Limited.

Nearly two years after the shortlisting process began, Mashreq Bank was granted the first restricted license in first week of Jan 2025, allowing it to launch pilot operations in the country[12]. Under this arrangement, the bank can operate within a limited group of individuals, with the State Bank of Pakistan (SBP) closely monitoring its progress.

Digital banks aim to address gaps in SME financing, cater to underserved areas, and provide cost-effective, user-friendly services to promote financial inclusion. While Pakistan’s young and largely unbanked population presents opportunities, earning customer trust in digital banking remains a challenge due to concerns over cybersecurity and resistance to transitioning from manual transactions to digital platforms. To overcome these hurdles, the digital banks are focusing on customer-centric products, seamless banking apps, and robust cybersecurity measures.

Once operational, these banks will enhance the digital ecosystem by offering affordable credit and financial services, particularly to unserved and underserved segments. They will also ensure comprehensive readiness across governance, risk management, compliance, consumer protection, cybersecurity, and technology deployment, as mandated by the SBP. This initiative promises to transform financial inclusion in Pakistan and create a competitive landscape alongside conventional banks.

[11] *SBP’s NOCs for establishing Digital Banks press release published on January 13, 2023*
[12] *https://www.mashreq.com/en/uae/news/2025/january/mashreq-pakistan-launch-digital-operations/*

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 Working Capital 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 1 year grace period	Up to 7%
10	Punjab Rozgar Scheme	Up to 10m	5 years including up to 6 months grace period	Up to 5%
11	SME Asaan Finance (SAAF) Scheme	Up to 10m	Tenor of the loan as per financing facility from the participating bank	Up to 9%

Table 2: SME Incentive Schemes, Tenor and Pricing

Source: www.sbp.org.pk