



SME FINANCE REGULATORY & POLICY FRAMEWORK

SME Finance Department
State Bank of Pakistan





Presentation Outline

- Current SME Finance Scenario
- SBP's Initiatives
- Regulatory Framework for SMEs

SME Finance Current Profile & Future Vision

- SME finance is the second largest sector after corporate receiving 437.351 Billion of total loan portfolio by end of December,2007. This accounts for 16.2% of total credit advance of banking industry.
- Consistent increase in SME finance portfolio as it has reached to the level of Rs. 437.351 Billion from Rs.284 Billion by the end of December, 2004.
- Significant Outreach expansion has also been witnessed as the Number of SME Borrowers has increased from 106,000 by the end of December,2004 to 185,000 by the end of December,2007.
- Working Capital finance accounts for Rs.309 Billion, followed by Trade Finance and Fixed investment with Rs.67 Billion and Rs.60 Billion respectively by end of December,2007.
- Manufacturing sector receives major chunk of SME finance standing for 43% of total Credit availed by SMEs followed by Trade and Communication sector by 32% of total SME Credit.
- SBP plans to increase the SME finance to Rs. 1000 billion over the next 5 years.
- The Number of Borrowers to be increased from existing 185,000 to 300,000 by end of 2012.

SBP Initiatives for the Promotion of SME Finance

- Formation of SME Credit Advisory Committee; first meeting held in February this year.
- Introduction of Indicative Target Mechanism for Commercial Banks
- Formation of SME Core Group
- Formation of SME Finance Help Desk
- Issuance of SME Finance Quarterly Review
- Feasibility Study to Establish “*Secured Transactions Regime*”
- Feasibility on Establishing a Credit Guarantee Fund
- Task Force on encouraging SMEs for credit rating
- Development of a Capacity Development Mechanism & Structure for SME Finance; Recently conducted a training program at NIBAF.
- Best International SME Finance Business Models- Customization to Own Market Dynamics(Credit Scoring, Program Lending, Down Scaling).

Regulatory Framework for SME financing- Major Highlights

- Definition of SME
 - Ideally not a Public Limited Company
 - Maximum Employees: a) 250 for manufacturing/service concern and b) 50 for trading concern
 - Max. Total Assets less Land & Building: a) 100 M for manufacturing concern and 50 M for trading & service concern
 - Net Sales not Exceeding Rs. 300 M
- Stress on cash flow based lending
- Total Clean Exposure Rs. 3M
- Margin Requirement to be decided by Banks
- No debt/equity and Current ratio requirement

Regulatory Framework cont...

- **Per Party Exposure Limit**
 - Maximum Total Exposure (including leased assets) from all FIs Rs. 150 M
 - Maximum Total Exposure (excluding leased assets) Rs. 100 M
 - Exposure of a Single Bank/DFI on SME 75M
- **Financial Accounts where exposure exceeds Rs. 10 Million and Above**



THANK YOU