

**4TH PAKISTAN
SME
CONFERENCE 2010**

**STRUCTURAL REFORMS &
SUSTAINABILITY IN THE SME SECTOR**

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What Renders SMEs So Important



- **Employment Generation**

Over 80% of urban labor force employed by SMEs

- **Contribution to GDP**

Over 30%

- **FOREX Revenue Generation**

Through direct or indirect exports, generate 25% of Manufacturing Export Earnings

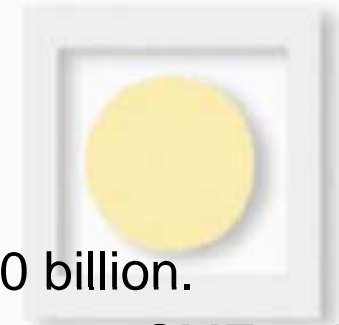
- **Import Substitution**

SMEs promote indigenous resources, Contribute 35% in Manufacturing Value addition

- **Better Credit Risk as compared to Large Enterprises**

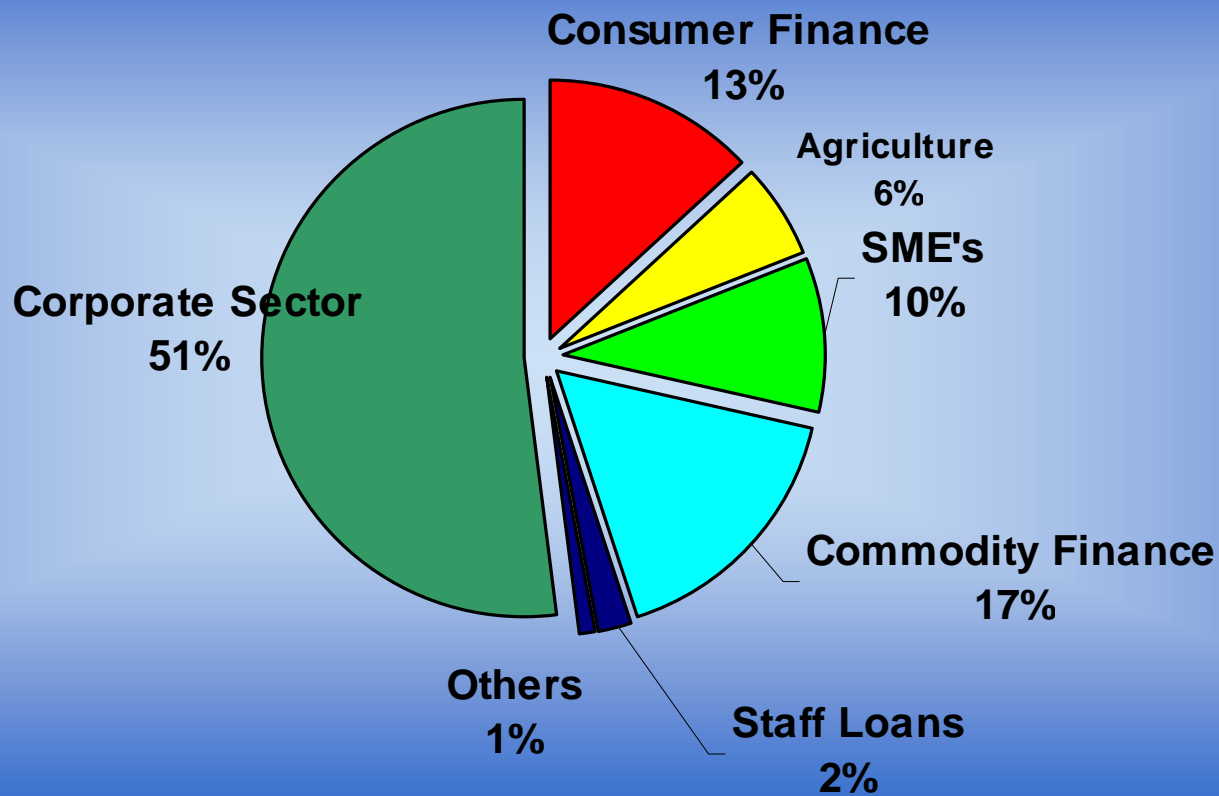
- **Market Size**

- The size of SME credit market is estimated to be 250 to 400 billion.
- Out of 3.20 Million business enterprises in Pakistan, 99.06% are SME units. 56%are in Urban Areas.



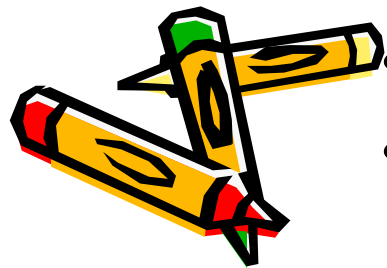
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Loans by Type of Borrowers-CY-09

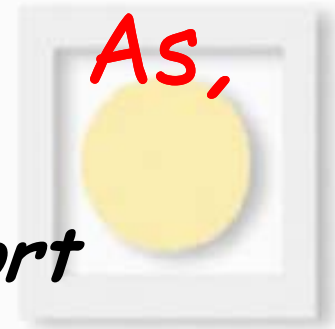


Thus ... !

*Sustainability Of The SME
Sector Merit Support &
Structural Reforms By All The
Stakeholders !!!*



*SME Business reliant on Support
System of Stakeholders ...*



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Consequently.....

- They face problems to access finance.
- Business Expansion is not possible...**their capacities are under utilized...hence many businesses perish.**
- Informal means of financing become unaffordable at some point...**leaving entrepreneurs indebted.**
- Unavailability of required business development services causes business failures.
- SMEs lack synergy... **hence their concerns don't reach the regulatory authorities.**



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Therefore

Hand holding of SMEs and helping them graduate from small to medium to large is essential.

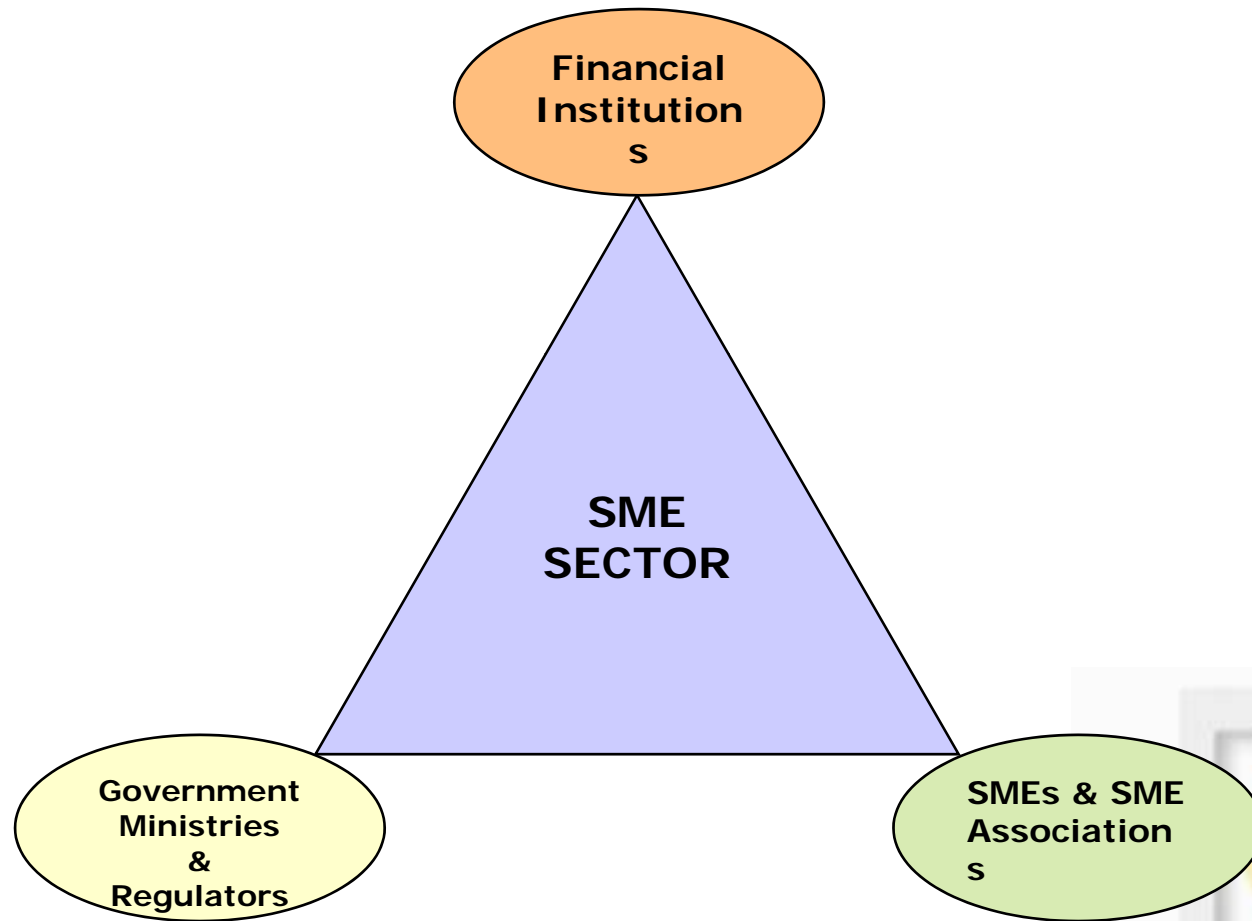
For this

We need a Home Grown Structural Reforms Recipe which would hold true in Pakistan

The logo of Soneri Bank, featuring a yellow circle inside a grey square frame.

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Main Stakeholders Of SME Sector



Reforms May Be Addressed By FIs

- Segmentation of the market and identification of clusters. Research on markets/clusters and development of products for SMEs.
- Special focus on this sector... by defining need based tailor-made (mass customized) specific lending programs and other modes of financing (life cycle products) thus bridging the GAP between the Entrepreneurs and the Banks.
- Build up and strengthen human resources with particular emphasis on SME lending operations and mindset to analyze and deal with SMEs.
- Develop delivery mechanism to reduce transactional costs and Post Disbursement Monitoring & Counseling of SMEs for risk mitigation.



- Financing & Business Development Services requirements.
- Out reach policy by developing multi channel network for delivery of products & services (Branches, Mobile Credit officers, Pre - Approved Credit, E-Banking/Marketing etc.).
- Use of advanced cost effective tools for comprehensive risk management (IT Based).
- Commercial banks attitude – strongly skewed in favor of commercial banking with little interest in SMEs. A focused approach by FIs on SME sector - full involvement of Senior Management is critical. Development of a full fledge SME Division is essential.
- Sound lending policies and principles are key to successful small business lending; Proper cash flow-based credit analysis & view collateral as a secondary source of repayment

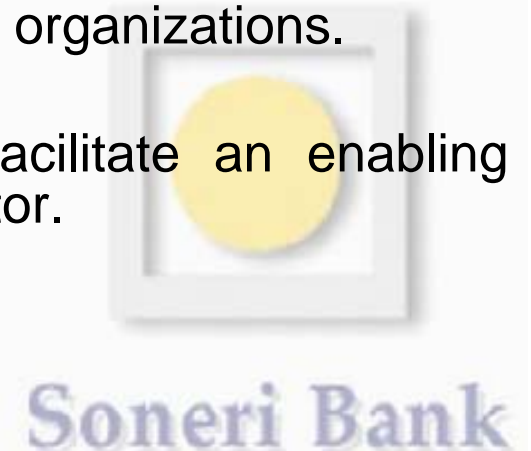
Reforms May Be Addressed By GOP & Regulator

- Capacity building of SMEs - roles of support institutions SMEDA, EPB, PCSIR etc.
- Special Funds in Federal Budget for SME Development. SME Financing Credit Fund
- Separate legislation, Specialized Institutions for; (Ombudsman for SMEs, Credit Guarantee Mechanism, SME Credit Bureau, Securitization and Reconstructions of financial assets etc.).
- Formulation of Laws shall vary directly with respect to the stage of development of SME sector e.g. Laws focusing promotion of the SME Sector. Risk Mitigation Regime e.g. SME Credit Insurance Law; Credit Insurance Fund. Credit Guarantee Association Law; Credit Guarantee Corporation, Credit Guarantee Fund.
- Foreclosure laws needed to be addressed to avoid complicated and lengthy legal process of the court system.
- Building a Conducive Environment, Developing Sectors and Clusters

- Missing links between SMEs and the financial institutions – Credit Guarantee and Insurance (Laws & Institutions)
- Tax Related Laws – SMEs unwilling to share operations related data and information on accounts.
- Inconsistent government policies-Up dated SME Policy . No policy or legal support for business Start-ups or projects backed by only sound business plans.
- Insurance, valuation & legal cost should be on lower side of SMEs customers then Corporate clients.
- Lower interest rate regime & creation of some body through which registration of charge for sole proprietorships & partnership.

Reforms May Be Addressed By SMEs & Associations

- Undocumented & Unorganized Sector e.g. Informal accounts and management systems, Assessment of total demand by region/ sector, Access to Industry/ Business Benchmarks, Securitization of Business operation, Poor documentation by SMEs etc, etc. Lack of information - limited market research on the needs of the SMEs. They are generally uneducated and lack managerial talent & do not provide adequate financial information. Some time do not disclose their true financial position
- Associations & SMEs Interaction (Through Registration). Capacity building of SMEs through providing technical, marketing and financial counseling to SMEs.
- Facilitate the development and strengthening of SME associations and chambers through linkages with federal and provincial organizations.
- Develop a forum of public private partnership to facilitate an enabling environment for business development in the SME sector.



- Assist SMEs in getting international certifications (UL, CE, DIN, JIS, ASME, KS, etc.) for their products and processes.
- Assist SMEs in getting Intellectual Property Rights.
- Technology & Human Resource Development (Short of information & lack of managerial skills)
- Environmental & Social issues compliance.
- Develop SMEs through donor-assisted programs and projects.



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THANK YOU

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