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Launch Seminar of Asia Small and Medium-Sized Enterprise Monitor 2021

Session 5 :Policy Actions Fighting Against the Pandemic –Case of Pakistan

Fatima Javaid

State Bank of Pakistan

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Definition of Micro, Small Enterprises and Medium Enterprises

Enterprises	No. of Employees	Annual Sales Turnover	Financing Limit [#]	Legal & Regulatory Framework
Microenterprises	up to 25 individuals (excluding seasonal labor)		PKR 3,000,000/- to a Single Project or Business	Microfinance Ordinance 2001
Small Enterprises	Upto 50*	Upto PKR 150 million	Upto PKR 25 million	Banking Companies Ordinance 1962
Medium Enterprises	51-250 (Manufacturing & Service) 51-100 (Trading)	Above PKR150 million & up to PKR 800 million	Upto PKR 200 million	

These definition became effective since May, 2016

*Including contract employees

[#]from a single Bank/DFI or from all banks/DFIs

SMEs: Significance and Contribution

- SMEs contribute 40% in GDP, 25% in exports and 78% in the industrial employment.
- Of the total 5.2 million economic establishments, SMEs constitute more than 90%, with a pre-dominant portion as sole proprietors.
- Around 6% of SMEs currently avail loans despite about 40% have banking relationship.
- Banks and Governments have started realizing the particular needs and preferences of SMEs.

Constraints & Challenges

- COVID-19 has delivered an enormous shock across the world, leading to steep recessions in many countries.
- The pandemic and associated mitigation measures (lockdowns) within Pakistan, have sharply curbed consumption and investment, as well as restricted labor supply and production.
- The detrimental effects of COVID – 19 have been felt by almost all industries within the country.
- The external and domestic headwinds have disrupted financial and commodity markets, trade, supply chains, travel, and tourism.
- As a result of COVID -19, businesses in Pakistan have experienced lower investment, an erosion of human capital through lost work and schooling, and fragmentation of global trade and supply linkages.

Constraints & Challenges

- Emergence of coronavirus pandemic has disrupted microfinance industry more than any other sector, as its clients belonging to low income segments were unable to continue their livelihood activities amid lockdowns and ultimately lost their ability to honor debt obligations.
- Similarly, many SMEs are facing the possibility of going bankrupt in the short term.
- Most small enterprises lack cash reserves to handle the long lockdown interruption. As a result, they have started facing low cash flow, delayed payments and many of the workers started losing their jobs.

Specific measures to support MSMEs

Reduction in Policy Rate

- SBP has reduced the policy rate by a cumulative 625 basis points from 13.25 percent to 7 percent in a short span of time from mid-March to June 2020.
- This is one of the largest reduction in the policy rate among the emerging economies during Pandemic.
- The major factors prompting aggressive reduction in the policy rate was a sharp fall in inflation and continued economic slowdown.

Regulatory Relief:

- Upper limit for retail exposure has been enhanced from PKR 125 million to PKR 180 million for preferential risk weight of 75% for calculating CAR. More retail portfolio of banks benefited due to this regulatory change.
- Under SBP's relief package for households and businesses, the borrowers are allowed to avail deferment of principal amount of loans for one year while continue servicing mark-up charges or get them rescheduled or restructured if they are unable to service both principal and markup.
- SBP also allowed deferment and rescheduling in its long-term refinance schemes.

Specific measures to support MSMEs

Liquidity Measures:

- To combat the impact of COVID-19, SBP introduced a time bound emergency support for hospitals & manufacturers of protective gears and equipment, including items such as masks, dresses, testing kits, hospital beds, ventilators etc. under its **Refinance Facility for Combating COVID-19 (RFCC)**.
- SBP provided refinance at 0% while end-user rate is kept at 3 percent.
- SBP launched **Refinance scheme for Payment of Wages & Salaries to the Workers and Employees of Business Concerns** (popularly known as Rozgar Scheme) with the aim to save employment.
- The Rozgar Scheme provides financing support to all types of businesses at subsidized rate of upto 5% p.a. For active taxpayers, the rate has been further reduced to 3% p.a. Moreover, in order to address collateral deficient smaller entities with annual turnover of upto PKR 800 million, Government of Pakistan (GoP) has provided 60 percent first loss risk coverage on portfolio basis and 40 percent for small corporate borrowers with maximum turnover of upto PKR 2 billion.

Specific measures to support MSMEs

Liquidity Measure:

- SBP announced a concessionary refinance namely, **Temporary Economic Refinance Facility (TERF)** aimed at promoting investment both new and expansion and/or Balancing, Modernization and Replacement (BMR).
- Financing was provided at end-user rate of 5 percent for 10 years for setting up of new industrial units as well as BMR/expansion of existing one. Y

Facilitating International Trade:

- In view of declining demand in overseas markets, SBP has reduced performance requirements and extended the time period to meet these requirements under its original Export Refinance Scheme.
- SBP also enhanced time period for realization of export proceeds. SBP has also allowed banks to enhance the time period for realization of exports proceeds from existing requirement of 180 days to 270 days on a case by case basis where the delay is related to COVID-19.

Specific measures to support MSMEs

Promoting Digital Payments:

- Charges were waived on online funds transfer and mobile banking transactions. This is initiated to reduce the need for visits to bank branches and ATMs as well as to promote use of Digital Payment Services such as internet banking and mobile phone banking.
- Banks were instructed to immediately facilitate education fee and loan repayments through internet banking or mobile devices.

Measures to Support Small Farmers, Micro-Entrepreneurs & Micro-Enterprises

- Lending limits under all microfinance loan categories have been enhanced, in line with PM's Package for Improving Liquidity and Credit for Individuals and Business and SBP's commitment to promote microfinance as a tool for financial inclusion and broad-based economic growth.
- Portfolio limits for lending against gold collateral has also been enhanced, to enable microfinance borrowers to meet their immediate domestic or emergency needs during the pandemic.

What policy actions would be required to support MSMEs post COVID-19 crisis?

Launch of New/improved Financing Schemes with Risk Coverage

- **SME Asaan Finance Scheme-Collateral Free Lending**
 - Under the scheme, SBP provides refinance to selected banks at 1 percent whereas end user rate under the scheme is 9%.
 - Risk coverage of up to 60 percent is available to banks on their collateral free financing to SMEs under the scheme.
 - Maximum loan size under the scheme is PKR 10 million.
- **Kamyab Jawan Program-Youth Entrepreneurship Scheme**
 - Financing of upto PKR 25 million is available for youth aged between 21 and 45 years for establishing new business or extending existing business at end user rate of 3% to 5% for maximum loan tenor of 8 years including one-year grace period
 - Size of the loan is segregated into three tiers, as under:
 - Tier 1 (T1) loans- PKR 100,000 to Rs. 1 million
 - Tier 2 (T2) loans- Above PKR 1 million and upto PKR 10 million
 - Tier 3 (T3) loans-Above PKR 10 million and upto PKR 25 million
 - Government is providing risk coverage of upto 50%

Policy actions to support MSMEs post COVID-19 crisis?

Launch of New/improved Financing Schemes with Risk Coverage/Credit Guarantee

- **Kamyab Pakistan Program**

- SBP has launched Kamyab Pakistan Program (KPP) developed by Government of Pakistan for promotion of SME, Agri. and Low Cost Housing Finance in consultation with the stakeholders.
- Commercial Banks shall extend Wholesale Loans to MFPs for onward extension of small loans for the purpose of Kamyab Karobaar (business loan), Kamyab Kissan and Low-Cost Housing Finance. The government will provide markup and credit loss subsidy under the Program.

- **Digital Banking Framework**

- A **digital bank** serves customers primarily through digital/electronic channels that were historically carried out at a bank branch.
- *Digital Retail Bank* may deal with retail customer segments including individuals, SMEs, micro and agriculture entities.

Policy actions to support MSMEs post COVID-19 crisis?

- **Other Measures**

- Awareness creation of SMEs on financing products
- Increasing Non-Financial Advisory Services
- Capacity Building of Bankers
- Provision of Risk Sharing Facility
- Gender Equality Policy (improving finance to Women entrepreneurs)
- Encouraging Cash Flow Based Business
- Development of Multibank Supply Chain Financing electronic Platform

Thank you