

Launch Seminar of the Asia SME Monitor 2025
Global Uncertainty, Trade, and Private Sector Businesses in Asia and the Pacific

Session 3: Financing MSMEs amid Global Uncertainty –
How Financial Regulators Can Handle the
Potential Financing Risks for MSMEs

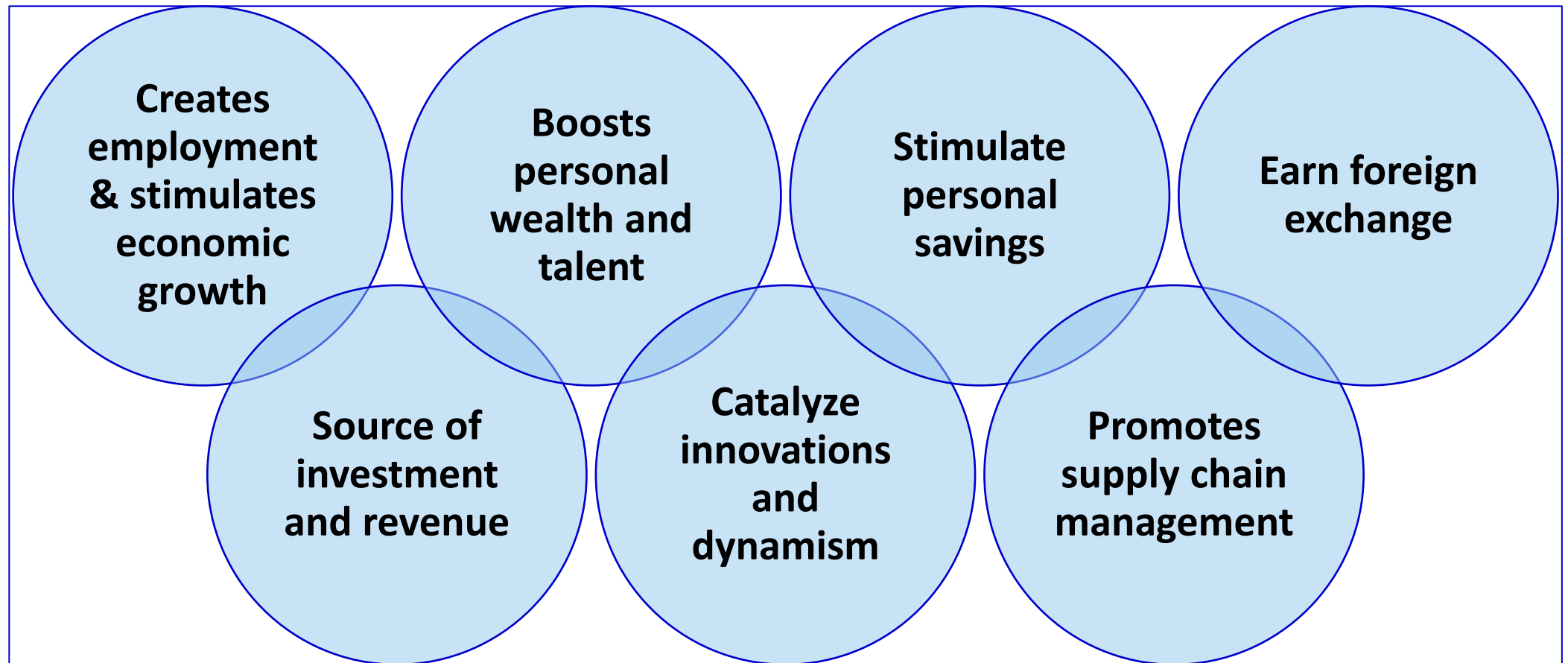
‘Response from Pakistan’

Presented by Ms. Fatima Javaid

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Four Seasons Hotel Baku, Azerbaijan

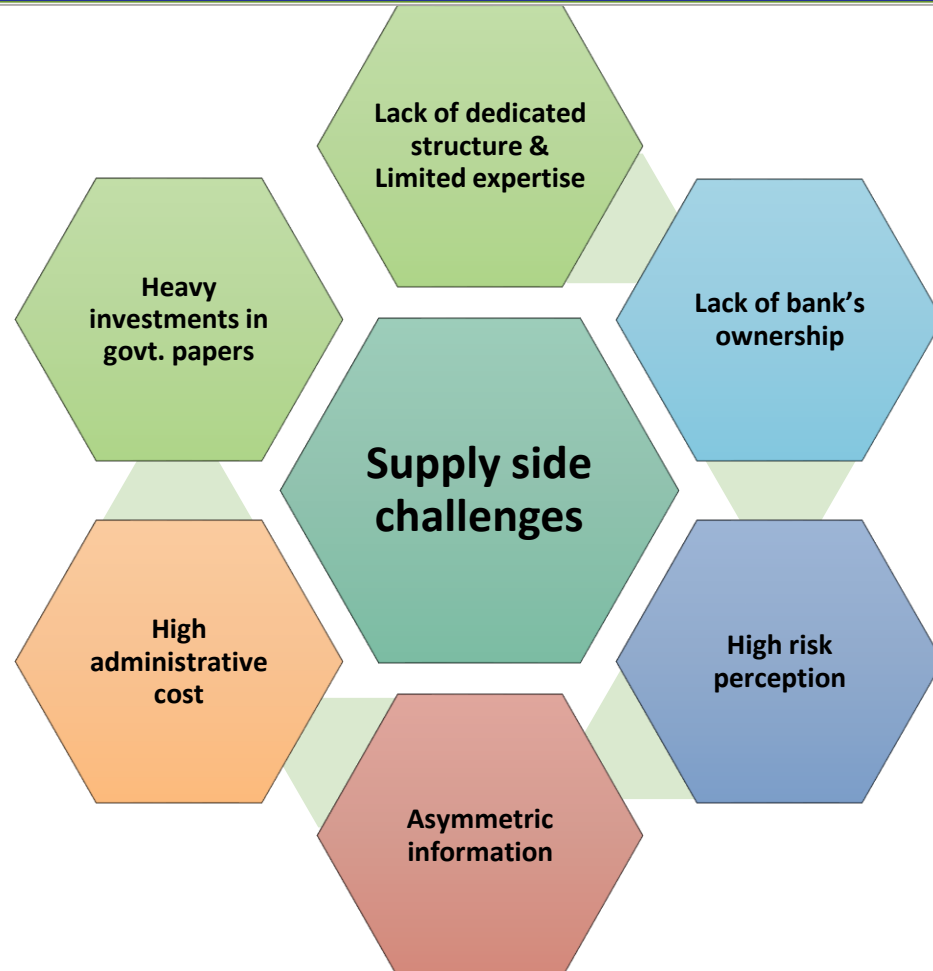
Importance of SMEs-backbone of economy



SMEs: Significance and Contribution in Pakistan

- **SMEs contribute 40% in GDP ; 80% in the industrial employment.**
- **Exports by SMEs: Around USD 4.48 billion contributing 14.4% in overall exports of goods**
- **Out 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.**

Issues & Challenges



Financing Risks to SMEs

Financial risk

The inability of the business to meet its financial commitments is a major issue.

Collateral risk

There is a risk that the collateral is incomplete and insufficient to repay the loan in the event of default.

Governance risk

Who controls the business? Are there related companies also owned by the client that might pose a risk for the SME if it got into difficulties?

Integrity risk

The intentions and trustworthiness of the owners are a fundamental risks.

Management risk

There are several management risks, deriving from lack of developed management skills and capabilities i.e. Sales and marketing, Accounting and internal control, HR management,

Concentration risk

the risk of a dominant client or supplier that may fail or cancel a contract, causing severe difficulties for the SME.

Market risk

The market conditions clearly affect the SME's prospects in a business sector.

Legal risk/compliance

Problems can occur if the SME does not possess the required documentation and certification (business registration, trading certificates, and tax obligations).

Environmental risks

If the business has a negative ecological impact or negative social impact it may well face prosecution.

Performance risk

The risk that the company is unable to supply products or services in a manner that is: Cost effective, Timely, Efficient, Ensures enough quality

Key Risks to SMEs in Pakistan

Climate and geopolitical uncertainties

High inflation and interest rates

Risk-averse banking behavior

High default rates among MSMEs (Legacy portfolio)

Limited collateral/formal records

Liquidity crunch and delayed payments

- Geopolitics significantly impacts economy by influencing energy security, debt sustainability, trade dynamics, and regional stability.
- Severe damage due to unexpected floods-Climate change
- High inflation upto 38%
- Policy rate upto 22%
- Reluctance of banks to lend to MSME sector
- Default rate increased upto 35%

Response from Financial Regulator

- **Monetary Easing Measures**

- SBP cut policy rate (22% → 11%)
- Regulation in inflation (38% to 6%)

- **Refinance schemes**

- For Export, Long term financing, Renewable Energy, Payroll, collateral free lending

- **Relaxed Regulations for SME Financing**

- Enabling regulatory framework
- Increase in regulatory retail portfolio for preferential risk weight of 75% for calculating CAR. More retail portfolio of banks benefited due to this regulatory change.
- Loan deferments and rescheduling allowed

Response from Financial Regulator

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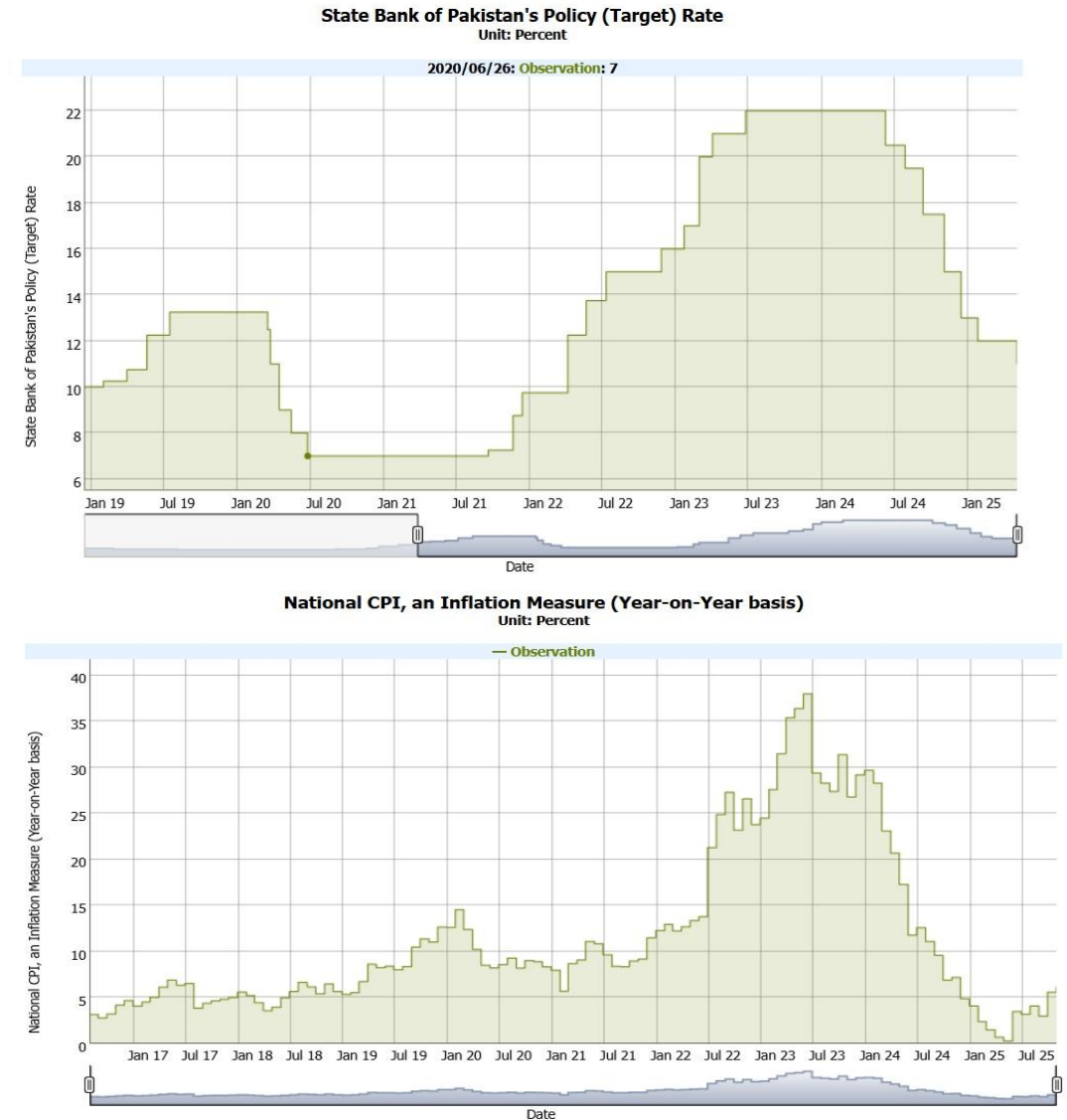
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- **Market & Infrastructure Development**

- Implementation of Subsidized financing Schemes by Government to promote youth business loan, agriculture finance



Mitigation of Credit Risk

- **Risk Coverage Scheme for SMEs**

- Announced by Government of Pakistan
- 20% risk coverage on Small Loans
- 10% risk coverage on medium loans
- Premium free scheme

- **Risk coverage under subsidized Scheme**

- Risk coverage on government financing scheme at varying risk coverage from 50% to upto 10%
- To enhance the resilience of the Microfinance Providers and their agri clients against floods, a Climate Risk Fund I (CRF-I). The Fund essentially aims at promoting climate resilient farming and providing liquidity support to the small farmers affected by floods.

- **Launch of National Credit Guarantee Scheme**

- Public private partnership as NBFI & Operationalized in 2025
- De-risking SME financing and enabling their access to finance

Enabling Regulatory Framework

- **Revision in Prudential Regulations for SME Financing**
 - Shift from rule based regulations to principle based mechanism
 - Ownership from management-SME Finance Strategy
 - Dedicated risk management structure
 - Oversight through establishment of Management Committee
 - Increased financing limits (Rs 25 mn to Rs 100mn & Rs 200 mn to Rs 500 mn)
 - Clean lending limits raised to upto Rs 50 million
- **Increase in regulatory capital limit**
 - Capital relief through low credit risk under BASEL
- **Simplified Loan Application Form and credit process**
 - Standardized loan application forms

Promotion of Exports

- **EXIM Bank of Pakistan** wholly owned by the GOP for enhancing the overall competitiveness of Pakistani exporters, particularly middle-market and SME players, by providing funds, risk mitigation tools and a support network for export growth potential.
- EXIM Bank is currently authorized to provide trade credit insurance and manage subsidy payments on behalf of the GOP.
- **EXIM administered Export Finance Scheme (E-EFS)**, banks are providing financing through their own liquidity while the Government is providing markup subsidy of 5% through EXIM Bank of Pakistan
 - E-EFS is available to exporters at an end user markup rate of 3% below SBP policy rate
 - EFS Enhancement Plan with additional portfolio of Rs 230 billion to encourage SME exports, GoP has reserved 40% of the incremental E-EFS for SME exporters

Leveraging Technology through Digitalization & Fintech

- **Instant Payment System**
 - Raast
- **Easy Account opening**
 - Aasaan Digital Accounts for MSMEs
- **Launch of Digital Retail Banks**
 - Licensing of 5 digital banks
- **Digital Lending platforms for Government Scheme**
 - Subsidized schemes launch on digital portals
- **Promotion of Supply Chain Financing**
 - Digital Supply Chain Financing
- **Encouraging fintech-lending partnerships**
 - Promoting digital account keeping & access to accounting history of SMEs
- **Digital onboarding & credit scoring**
 - Digital onboarding of SMEs and have in place digital score card
- **Secured Transactions Registry for movables assets**
 - E-Registry for charge registration

Initiatives for Promotion of Access to Finance to Women Entrepreneurs

Banking on Equality Policy

- Gender Diversity in FIs and their access points.
- Women centered products and outreach targets.
- Robust gender disaggregated data collection and target setting.
- Women champions at FIs touch points .
- Policy forum on gender.

Promoting Financial Literacy

- Financial literacy among women segments in rural and urban areas
- Through SBP's National Financial Literacy Programs (NFLP) for Youth & Adults, more than 1.2 million women have been reached to disseminate basic financial literacy concepts for their financial wellbeing.

Incentive Schemes for Women Entrepreneurs

- PM Youth Business & Agriculture Loan Scheme
- Cost sharing scheme for electric bikes and rickshaws/loader
- Refinance and Credit Guarantee Scheme for Women Enterprises

SBP Commitment

- WE Finance CODE
- Women Inclusive Program
- National Financial Inclusion Strategy
- SBP Vision 2024-28

Sustainable Finance

Green Banking Guidelines

- i. Reduce the vulnerability of banks from risks arising from the environment
- ii. Fulfill their responsibilities for the protection of environment
- iii. Provide finance to transform Pakistan into resource-efficient and climate-resilient economy



ESRM Manual's Applicability

- All new loans and credit renewals after issuance of the Manual.
- Loans pertaining to retail, trade, microfinance, SME, corporate finance and project finance.
- Not applicable on earlier loans portfolio or loans that have been marked as non-performing assets or for restructuring.
- Adherence of all applicable national/provincial E&S regulations.

Inclusion of
Social Risks

A Standardized
Toolkit

Implementation
by November
2025

Sustainable Finance & Climate Resilience- Way Forward

- **Pakistan Green Taxonomy has been launched by Ministry of Climate Change**
 - It is a classification system that defines which economic activities and assets are “green” or environmentally sustainable.
 - Taxonomies aim to increase investment in green activities, and facilitate transparency in the financial sector through the detection of greenwashing
- **Implementation Roadmap for Pakistan Green Taxonomy**
- **Launch of Cost Sharing Scheme for E-Bikes & Rickshaws/Loader**
- **Regulatory Framework on Climate Risk Management & Supervision**
- **Guidelines on Climate Stress Testing**
- **Disclosure Guidelines on Climate-related Financial Risks**

International Partnership

- **Launch of WB FIIP Challenge fund for Digitalization of SME Banking**
- **ADB: Women Inclusive Finance Program, promotion of Supply Chain Financing**
- **SBP signed Women Entrepreneurship Finance Code(WE-Finance Code) with World Bank**
- **Member-Alliance for Financial Inclusion**
- **Cross-border peer learning programs**

Way Forward

- **Ownership of banks**
- **Adoption of Digitalization**
- **Decrease in fiscal burden**
- **Lending to women, youth and marginalized segment for increasing entrepreneurship**
- **Program based lending; cash flow based lending**
- **Development of capital market-Venture Capital, Crowd funding**
- **Exploring the provision of Green bonds**

SME Sector is considered as the Priority Sector Lending

Thank You

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Facilitation to Exporters

- **Trade Development Authority of Pakistan (TDAP)** promotes Pakistan's exports through trade fairs, delegations, and market research. It supports exporters with training, product development, and policy advocacy, while also encouraging non-traditional exports like IT and handicrafts.
- **Export Development Fund (EDF)** Established under the Ministry of Commerce, enhances export infrastructure. It is funded by a 0.25% Export Development Surcharge (EDS) on all goods exports.
- **Export Facilitation Scheme (EFS) of FBR** simplifies tax and duty rebates procedures to boost exports. It replaces older schemes such as DTRE, Manufacturing Bond, and EOUs.
- **Export Processing Zones Authority (EPZA)** promotes export-led industrialization through dedicated zones offering tax and duty incentives for export-focused manufacturing.

Exports of Pakistan and SMEs

- Total Exports of Goods: **USD 32.34 billion** (increase of 4% from previous year), while Service Sector exports: USD 8.4 billion
- Pakistan's exports have averaged **around 10 percent of GDP since 2010**
- Major products: Textile, Food Group and Telecommunications, computer, and information services
- Major destinations: U.S.A., U.K., China, U.A.E.
- No of Active exporters: Around total 18,000 exporters.
 - Small exporters (i.e. with less than US\$ 1.0 million export volume) account for 85% i.e. approximately 15,500 exporters