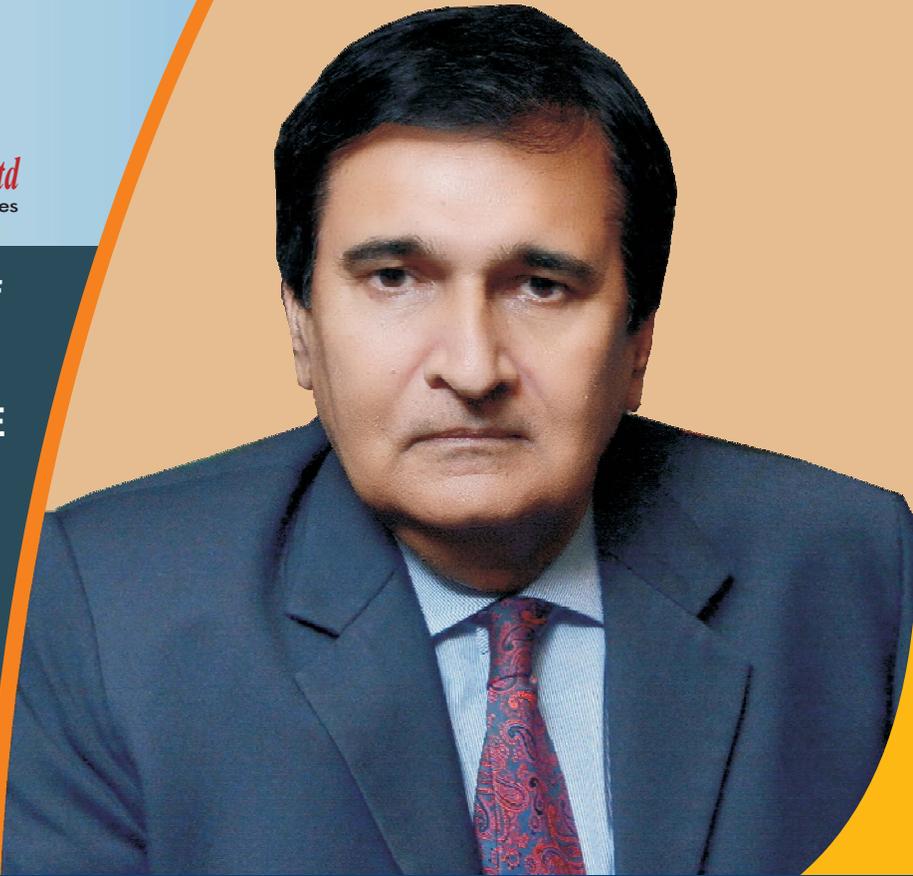


EXCLUSIVE INTERVIEW



“ Inadequate financing of SMEs in Pakistan is a result of disequilibrium in the SME credit market. This infers that the demand and supply of SME financing do not clear each other due to a mismatch of issues on both sides ”



Mr. Dilshad Ali Ahmad President & CEO SME Bank Limited

ICMA Pakistan: SME Bank was established to cater to the financial needs of the SME sector in Pakistan. How far do you think the Bank has been successful to stimulate SME development and pro-poor growth in the country?

Dilshad Ali Ahmad: SME Bank is Pakistan's pioneer financial institution for the development of the SME Sector. The bank is owned by the Government of Pakistan and has a network of 13 branches that are strategically located in areas of SME concentration in the country. Despite its limited size and constraints, SME Bank is at the forefront of providing financial assistance for the development and promotion of SMEs. We work for the growth of local entrepreneurs and help in generating employment opportunities. Bank has developed various deposit and lending products to meet SME financing needs and is also operating some of the SBP's concessional refinance schemes/credit lines. SME Bank has served around 14,000 SMEs, disbursing an amount exceeding Rs 28 billion and creating employment for over 150,000 persons since inception, which signifies its consistent performance in stimulating SME development and pro-poor growth.

ICMA Pakistan: What are the key industry sectors in which the SME bank is providing the highest financial assistance?

Dilshad Ali Ahmad: In line with SME bank vision, Alhamdulillah since its inception, the SME Bank has extended financial facilities to various key sectors of the economy to develop and support SMEs such as the manufacture of basic iron & steel, leather & leather goods, surgical instruments, pharmaceuticals, furniture, jewelry, construction, schools (education), hospitals and clinics (health), hotels & restaurants, manufacturing/trading of Auto Parts, manufacturing/ trading of agricultural machinery and equipment, sports goods, storage and warehousing, petrol pumps and CNG Stations, etc.

ICMA Pakistan: Please briefly share the various financing facilities being offered by your Bank to the new and existing SMEs?

Dilshad Ali Ahmad: Any commercially viable business proposal merits SME Bank's support, irrespective of the new/existing SMEs.

“SMEs are the backbone of any economy that boosts employment opportunities because they are labor-intensive”

The Bank prefers to assist and support enterprises that use indigenous raw material, add value, and are export-oriented. We offer financing facilities i.e., Running Finance Facility, Medium Term Running Finance Facility, Term Finance for Fixed Assets, Term Finance for Working Capital, Letter of Guarantee, Assan Financing Facility, Seasonal Business Running Finance Facility, SBP Refinance Facility for Storage of Agriculture Produce, SBP Refinance Facility for Modernization of Machinery. In addition, under Programme-based lending, financing for Chappell maker of Charsadah and Peshawar is being offered.

ICMA Pakistan: Can you please pinpoint a few of the major problems faced by the SME sector and how these could be resolved?

Dilshad Ali Ahmad: SME sector in Pakistan is faced with a host of problems such as no across-the-board legal definition of SME, lack of coordination and cohesiveness among the Government and its bodies representing the SME Sector, poor infrastructure, skills shortage, poor management, scarcity of capital, lack of data on the sector, marketing difficulties for export-oriented SMEs, high energy cost, lack of awareness about intellectual property rights and brand building, and increasing trend in the cost of inputs due to inflationary pressure.

Inadequate financing of SMEs in Pakistan is a result of disequilibrium in the SME credit market. This infers that the demand and supply of SME financing do not clear each other due to a mismatch of issues of both sides. On the supply side, banks shy away from lending to SMEs due to; (i) highly risky sector because of its greater sensitivity to economic fluctuations; (ii) lack of collateral; (iii) lack of credible data on market size; (iv) creditors high search cost; (v) high processing cost, etc. On the demand side, the SME industry cannot address the concerns of banks due to; (i) smaller size; (ii) limited management capabilities; (iii) limited resources in keeping a business account with banking requirements; (iv) inadequate collaterals, etc.

These concerns of both sides show that banks are risk-averse and are reluctant to extend credit to SMEs while SMEs cannot afford to meet banking requirements,

SMEs have a limited market for their products due to inadequate resources and inadequate information about other potential markets of their products. They sell their products on credit to create demand for their products and on the other side purchase raw material in cash to keep production costs on the lower side. In the local market purchasers / linked major industries keep the substantial part of their credit purchases unpaid to reduce their working capital requirement and ensure credit supply remained intact. This gradually increases the receivables of the SMEs that badly affect their cash flows putting the survival of SMEs in question.

Despite having these inherent problems there exist strong evidence that SMEs are the backbone of any economy that boosts employment opportunities because they are labor-intensive. A sustainable solution requires a holistic view of all these problems. To overcome these problems coordinated and cohesive efforts are required from all the stakeholders and the regulatory agencies who are involved in SME financing. The SMEs are required to be provided a conducive and enabling environment to operate. The macro-economic policies have to be sound, the regulatory regimes to be supportive and the legal system to be judicious and quick. The role of Provincial and local Governments is also very important as they have to allocate and earmark land for setting up industrial estates and to provide infrastructure facilities. Requirements of Regulatory Bodies / Special Commercial Courts are felt for the protection of SMEs from the exploitation of linked major industries that use products of SMEs as inputs. Arrangements of bills discount, with certain risk mitigated measures for SMEs, are also suggested. By the arrangements, SMEs could be able to discount their recoverable bills against credit sales through banks.

“The majority of the banks in Pakistan have developed SME's Division in their respective banks for financing to SMEs. However, posted staff in the divisions lack the capacity and know-how to evaluate SME Credit, especially under cash flow-based lending”

“The role of Management Accountants in achieving short- and long-term business goals in the industry cannot be denied as they help in the preparation of internal financial reports, records, and accounts to aid decision making”

Financial institutions especially big commercial banks have to take the lead in supporting SMEs by establishing their branches and set-ups at the selected clusters/places having large untapped potential. The Banking industry has to invest in people, processes, and systems to minimize their risks and enhance their returns on the SME segment.

The existing structure of the financial sector of Pakistan is to serve Government / large enterprises. The majority of the banks in Pakistan have developed SME's Division in their respective banks for financing to SMEs. However, posted staff in the divisions lack the capacity and know-how to evaluate SME Credit, especially under cash flow-based lending. They still deal with them on a relationship basis. On the other hand, Specialized Banks / Micro Finance banks have teams and structures to serve the SMEs sector but they do not have adequate low-cost funds. In that scenario, we need to have a scheme of arrangement by low-cost funds that could be shifted from big banks to the banks / Financial Institutions having the capability to serve SMEs.

ICMA Pakistan: What incentives are expected in the National SME Policy to be announced soon by the Government to address the financial needs of the SME sector, especially the export-oriented SMEs?

Dilshad Ali Ahmad: The national SME policy, keeping in consideration demand and supply-side constraints of the SMEs sector of Pakistan, will encompass financial and fiscal incentives. Measures are to be taken for enhancing SMEs' access to collateral-free lending and a simplified taxation regime for SMEs. The policy will provide a framework to improve the macroeconomic and regulatory environment, access to finance, skills and human resource, infrastructure development, entrepreneurship, innovation and incubation, business development services, and local & international market opportunities for small and medium enterprises. Priority sectors are focused on the policy. Preferential public procurement regime from SMEs /SME

Quotas is under consideration. Duty/tax-free imports of inputs for export facilitation are on the card. Since the National SME Policy is being finalized, therefore sharing of details of expected incentives is avoided.

ICMA Pakistan: Management Accountants can act as Consultants or Advisors for SME Bank for capacity building and improving the efficiency of SMEs which receive loans from your bank. What do you say about this proposal?

Dilshad Ali Ahmad: It has been clear that SMEs have potentially important for the economic growth of a country. However, from empirical records, it has also become clear that SMEs are in general lacking required skills and less active than large enterprises in training their workers and more broadly developing their human resources. The market system by itself cannot correct this imbalance between SMEs and large enterprises in developing human resources. To realize SMEs' potentially important contributions to the economy and society as a whole and to redress the imbalance between large and small enterprises, the concerned quarters will have to intervene in the skills training market in favor of SMEs. Small Medium Development Authority (SMEDA) is at the forefront in providing development services to SMEs and conducts workshops, and training programs from time to time to create enabling environment. The role of Management Accountants in achieving short- and long-term business goals in the industry cannot be denied as they help in the preparation of internal financial reports, records, and accounts to aid decision making. Option of Management Accountants as Consultants or Advisors for SME Bank for capacity building and improving the efficiency of SMEs may be proved fruitful. This proposal can be deliberated for adoption.

The Editorial Board thanks Mr. Dilshad Ali Ahmad, President & CEO, SME Bank Limited for giving his exclusive interview for Management Accountant Journal.