

Erum Zaidi

### **'Target of increasing SME loans to 17 percent quite achievable'**

Banks have a high appetite to lend to small and medium businesses due to glimmers of hope for an improvement in the economic outlook.

These views were expressed by Babbar Wajid, executive vice president and head of product development at JS Bank, in an exclusive interview with The News.

Following are the highlights of our in-depth talk with the senior banker.

**Q: Why are banks in Pakistan intensifying on small and medium enterprises (SMEs) this time?**

**A:** An SME establishment is extremely significant for the economy of Pakistan. Emergence of the SMEs and startups results in large job creation. Currently, there are multiple issues facing the economy. These include high inflation, high interest rates, and some sectoral tightening. This has impacted the buying power and the pace of economic expansion has slowed. However, this situation is expected to ease in the medium term, with a positive economic impact.

The target of increasing small business loans to 17 percent is quite achievable (500,000 borrowers) as over 40 percent of SMEs in Pakistan already have a banking relationship. SBP has assigned targets to respective Banks for SME Financing and they are playing a very constructive role in helping Banks expand SME lending, with support now coming through from the Govt of Pakistan.

JS Bank is focused on financing to SMEs and currently 18.8 percent of our outstanding loans consist of loans to SMEs, which includes a portfolio of Rs45 billion and over 20,000 customers. We are currently offering ten customised SME products catering to different financing needs of the customers, varying from short- to long-term financing needs. JS Bank is playing its part to achieve the goal.

**Q: What are the challenges associated with the SME financing in Pakistan?**

**A:** There are quite a few challenges, but all these can be overcome by simply understanding the long-term benefits.

To start with, the SMEs are hesitant toward filing taxes or developing national tax number (NTN) for their businesses. The SMEs have little incentive to document their income, unfortunately, which must change. Awareness issues exist about benefits of filing taxes and process to file taxes; however, the situation is changing as the Federal Board of Revenue is making convenient portals and easing the filing of taxes. Moreover, the SMEs need to document their income and maintain bank accounts.

Banks are hesitant to finance the SMEs, as in case of default, the legal recourse is weak. Both the Securities and Exchange Commission of Pakistan and the government are working towards solutions to mitigate this risk for banks.

There is lack of SME financing specialists in the banking industries and training is required to teach bankers about the SME financing and the end terms. The SBP has been promoting the SMEs through awareness sessions. However, it's still a long way to go as banks are initiating SMEs awareness for wider economic coverage.

Q: Will a high interest rate environment and economic slowdown take a toll on SMEs credit?

A: There is a slight increase in industry's non-performing loans (NPLs), which is due to both economic slowdown and rising rates. There are several sectors which continue to show inelasticity in demand and are continuing to expand. With both situations expected to get better, we don't see a significant buildup of NPLs in the long-term, but banks should be cognisant of the risks of this sector and continue to invest in this space in long-term national and economic interest.

Q: How differently is JS Bank working on this segment?

A: JS Bank is the 3rd largest SME lender, with over 20,000 customers. The bank successfully continues to expand in SME lending primarily through its relationship management, market-leading lending solutions and prudent risk assessment, which have allowed it to manage its expansion with one of the lowest NPL ratios in the industry.

We are actively working to finance SMEs in different sectors. Our SME borrowers enjoy faster processing times, simpler documentation and stronger relationship management. The bank only started this journey five years ago with almost no SME portfolio, and we continue to expand in this sector with confidence. In addition to marketing SBP schemes which offer substantial incentives and subsidies to borrowers, targeting mainstream and non-traditional sectors.

JS Bank is also spearheading clean energy financing, which is a double bottom line initiative, with over 3MW in renewable energy being financed through the Bank, and another 18MW in process for agricultural, SME, and residential clients.

However, banks, which have lower understanding of business and credit cycles of SMEs, are more exposed to the risk of monetary tightening leading to defaults. Some sectors have shown greater exposure to monetary and trade tightening policies than others; however, that should not stop banks from expanding into segments which continue to grow, albeit at a slower pace. Another critical aspect is educating SME clients and optimising their value propositions. JS Bank is very confident in terms of the future of Pakistan, and we expect alternative and conventional SME segments to expand very rapidly when the economic cycle is in the upswing.

Q: How is JS Bank playing its role in Prime Minister's Kamyab Jawan SME Lending Programme?

A: Prime Minister's Youth Business Loan (PMYBL) played a pivotal role in the SME landscape across Pakistan. Through our relationship-based approach, JS Bank has transformed more than 10,000 lives across Pakistan.

The bank is currently gearing up to launch JS Kamyab Jawan Youth Entrepreneurship Scheme (YES) which is a replacement for PMYBL. The bank is looking to venture into the sectors of ride-hailing, agricultural value chain, business incubation, transportation, education, retail and other segments to further impact SME growth across the country. We feel that the expanded PMYES provides SME opportunities across a much broader group of sectors and JS Bank is committed to expanding this programme with a view to create wealth and value for the promising youth of Pakistan, one of the highest potential populations in the world.