

8 Aims/ Objectives of the “SME Banking” Course

The principal objective of this course is to impart knowledge and expertise in the field of SME financing. It enables the student to understand the global perspective and growth opportunities in the SME sector; popular business models and challenges faced by SMEs in Pakistan. The course will also cover the strategies to promote SME financing and development.

Specific Objectives

After the successful completion of the course, participants will:

- Have a basic understanding of
 - The SME business models in developed and emerging markets
 - Trends in the financing of SMEs
- Understand the difference in the nature and need of an SME and large corporate borrower
- Be able to analyze the risk management techniques deployed by the banks
- Understand the different marketing tools that can be used to attract SMEs to financing
- Understand the role of banks, government and international agencies in promoting SME financing

8.1 Syllabus

SME Banking

Course Topics:

1. Definition and classification of an SME
2. SME sector in perspective
 - a) Global perspective - importance, survival through economic cycles and growth opportunities
 - b) SME banking business models in developed and emerging markets
 - c) Trends in financing of SMEs
3. SME sector in Pakistan
 - a) Role, importance and contribution of SMEs on the socio-economic front
 - b) Conventional and emerging industry/sector concentrations
 - c) Popular SME banking business models
 - d) Challenges faced by SMEs in Pakistan
 - i) Lack of proper infra-structure
 - ii) Regulatory complexities
 - iii) Shortage of skilled manpower
 - iv) Quality control problems
 - v) Lack of entrepreneurial expertise
 - vi) Shortage / irregular availability of financing facilities
 - vii) Shortage of equity sources
 - viii) Inability to meet credit criteria / credit conditions
 - ix) Inadequate bargaining skills / options
 - x) Lengthy documentation procedure
4. Financing of SMEs
 - a) Understanding the SME
 - b) Understanding the banking needs of SME customer- borrowing needs and other banking needs such as collection, payments, trade etc
 - c) Difference in the nature and need of SME borrower and large corporate borrower
 - d) Financial products geared towards SME customer- loan products and others
 - e) Services and banking advice required by SMEs
 - f) Analyzing financial ratios
 - g) Analyzing the cash-flows of an SME
 - h) Challenges in obtaining true financial statements from SMEs
 - i) Proxy techniques
 - j) Understanding the collateral/securities of an SME
 - k) Use of scorecards - Importance and challenges

5. Credit risk management of SME loans
 - a) Loan eligibility and evaluation criteria- ownership, financial analysis, understanding the borrowing cause etc
 - b) Formulating a credit approval package for SMEs
 - c) Loan disbursal management
 - d) Risk management post-loan disbursal
 - e) Difference in loan monitoring of SMEs and large corporate borrowers
 - f) SBP lending guidelines and Prudential Regulations
 - g) Early warning signals to arrest past-due portfolio

6. Making SME Financing a larger portion of bank lending
 - a) Need for banks to focus on this segment
 - i) Diversification of loan portfolio
 - ii) Boosting the industrialization process
 - iii) Reducing unemployment
 - iv) Growth of the export sector
 - v) Improving the balance of payment situation
 - vi) Low loan loss ratio on SME bank deposits / banking services
 - b) Challenges to banks in SME financing and the need to overcome them
 - c) Need for marketing of SME banking products to customers
 - i) Lack of awareness
 - ii) Lack of willingness
 - d) Need for product development
 - i) Products tailored based on the needs of SME
 - ii) Flexibility in product structure to absorb changing requirements of the SME

7. Strategies to promote SME financing and SME development
 - a) Role of banks
 - b) Role of State Bank of Pakistan
 - c) Schemes
 - d) Other initiatives
 - e) Role of Government through specialized institutions
 - i) SMEDA
 - ii) Provincial Small Industries Corporation (PSIC)
 - iii) SBFC and other DFIs
 - iv) Trade Development Authority of Pakistan (TDAP)
 - f) Role of international agencies
 - i) IFC/World Bank
 - ii) Asian Development Bank (ADB) etc
 - iii) DFID and other agencies

8.2 Specific Learning Objectives (SLOs)

SME Banking

Specific Learning Objectives	Candidates Learning Outcome	Cognitive Level			
1	Introduction	Candidates should be able to:	K	U	A
	a. Define SME		*		
	b. Define SME from a global perspective		*		
	c. List and describe the various classifications of SMEs			*	
	d. Identify the popular sectors of SME and describe their characteristics			*	
	e. Explain the organizational structure of SME			*	
	f. Describe the inherent strengths and weaknesses of SMEs			*	
	g. Discuss the need for appropriate governance in the SME arena			*	
	h. Explain the important characteristics of an optimal 'ecosystem' for the growth of SME sector			*	
2	SME sector in perspective	Candidates should be able to:	K	U	A
	a. Discuss the global outlook on SME sector and explain its importance in the international market			*	
	b. Explain the popular practices adopted by SMEs for surviving through economic cycles			*	
	c. Describe the growth opportunities that exist for SMEs globally			*	
	d. Differentiate between lending business models adopted by SMEs in developed and emerging markets			*	
	e. Discuss the SME banking business models in developed markets			*	
	f. Discuss the SME banking business models in emerging markets			*	
	g. Analyze the trends that exist in financing the SMEs				*
3	SME sector in Pakistan	Candidates should be able to:	K	U	A
	a. Discuss the importance of SMEs in Pakistan			*	
	b. Explain the role and contribution of SMEs in the socioeconomic development of Pakistan			*	
	c. Explain the present structure of SMEs in Pakistan and their future prospects			*	
	d. Discuss the conventional and emerging industry/sector concentrations of SMEs in Pakistan			*	
	e. Identify and describe the challenges faced by SMEs in Pakistan			*	
	f. Discuss the regulatory complexities that exist for SMEs in Pakistan			*	
	g. Discuss the impact of lengthy documentation procedure on obtaining financing for SMEs			*	

		h. Discuss the problems faced by SMEs due to shortage of equity sources and difficulty in obtaining financing facilities due to their inability to meet credit criteria and inadequate bargaining skills		*	
		i. Discuss the impact of lack of proper infrastructure, quality control problems and lack of entrepreneurial expertise on the performance of SMEs in Pakistan		*	
		j. Explain the role of specialized institutions for development of SMEs in Pakistan		*	
		k. Describe the popular business models used by SMEs in Pakistan		*	
4	Financing of SMEs	Candidates should be able to:	K	U	A
		a. Define the term SME borrower	*		
		b. Discuss the banking needs in terms of borrowing and related services (collections, payments and trade etc) for SME customers		*	
		c. Differentiate between the nature and need of SME borrower and large corporate borrower		*	
		d. Describe the role of banks in catering to the SME needs in Pakistan		*	
		e. Discuss the nature and features of the financial products available for SMEs		*	
		f. Analyze the financial products geared towards SME customers			*
		g. Discuss the need for organizing a sustainable program for SME financing through financial institutions		*	
		h. Explain the services and banking advice required by SMEs		*	
		i. Discuss the challenges in obtaining true financial statements from SME. Describe the use of informal / proxy techniques for arriving at close to real financial statements		*	
		j. Analyze the credentials of an SME in terms of the following: <ul style="list-style-type: none"> ■ Sponsor credibility ■ Management depth and vision ■ Business model ■ Financial health ■ Repayment capacity ■ Ratio analysis ■ Cash flow analysis ■ Collateral 			*
		k. Analyze the operating ratios, debt / equity ratios, risk ratios, marketing / industrial / business norm ratios and/or preferred ratios for SME financing			*
		l. Explain the security collateral coverage and discuss the importance of personal guarantees for SME financing		*	
		m. Discuss the important parameters of credit approval package for SMEs		*	
		n. Discuss the role of scorecards in SME lending		*	
		o. Describe the important components of a scorecard. Also explain the challenges that exist in using this credit scoring technique		*	

5	Credit risk management of SME loans	Candidates should be able to:	K	U	A
		a. Discuss the importance of credit risk management in SME financing		*	
		b. Describe the loan eligibility and evaluation criteria in SME financing		*	
		c. Describe the process of loan disbursement management for SMEs		*	
		d. Differentiate between the loan disbursement process for SMEs and corporate borrowers		*	
		e. Perform critical analysis of a credit approval package prepared for SMEs			*
		f. Explain the risk management techniques deployed by banks post loan disbursement		*	
		g. Differentiate between the loan monitoring of SMEs and corporate borrowers		*	
		h. Recall SBP lending guidelines and prudential regulations governing SME financing	*		
		i. Recall the early warning signals to arrest past-due cases and explain their significance		*	
6	Making SME financing a larger portion of bank lending	Candidates should be able to:	K	U	A
		a. Describe the importance of SME financing from bank's perspective		*	
		b. Discuss the challenges faced by banks in SME financing and evaluate the need to overcome them			*
		c. Discuss the need for banks to market SME financing products to the customers		*	
		d. Discuss the benefits that can be earned in terms of boosting the industrialization process and enhancing the export sector by lending to SMEs		*	
		e. Describe the impact that SME financing can have on reducing employment and improving balance of payments situation in a country		*	
		f. Explain how banks can achieve diversification of loan portfolio		*	
		g. Demonstrate the strategies that banks take to create awareness about SME financing			*
		h. Explain the different marketing tools that can be used to attract SMEs to financing		*	
		i. Discuss the need to incorporate flexibility and customization in products being offered to SME customers		*	

7	Strategies to promote SME financing and SME development	Candidates should be able to:	K	U	A
		a. Describe the role that the banks play in providing support to SME development in Pakistan		*	
		b. Discuss the role of SBP in developing the SME sector of Pakistan via schemes and other initiatives		*	
		c. Discuss the role of SMEDA (Small & Medium Enterprises Development Authority) in overall development of the SME sector in Pakistan		*	
		d. Discuss the role of PSIC (Provincial Small Industries Corporation) in overall development of the SME sector in Pakistan		*	
		e. Discuss the role of IFC/World Bank, ADB, DFID and other agencies in overall development of SME sector in Pakistan		*	
		f. Discuss the role of TDAP (Trade Development Authority of Pakistan) in overall development of SMEs in Pakistan		*	