



Unlocking potential for MSME sector

Q1 2025

Key Messages

- MSMEs (Micro, Small, and Medium Enterprises) represent over 90% of Pakistan's businesses but remain vastly underbanked.
- Unlocking the MSME sector's potential is essential for driving economic growth, job creation, and financial inclusion.
- Challenges such as limited access to finance, regulatory hurdles, and inadequate support systems need urgent attention.
- Solutions include digitized banking, tailored financial products, and regulatory reforms that ease access to credit.

Atta-ur-Rehman, Chief Business Officer Mobilink Bank emphasized the importance of this issue, stating *"The MSME sector is the engine of economic resilience and innovation, yet its potential remains largely untapped due to structural financial barriers. At Mobilink Bank, we recognize that access to finance is not just about capital—it is about empowerment, growth, and sustainability. Through tailored microfinance solutions, digital banking innovations, and strategic partnerships, we are committed to transforming financial inclusion from a challenge into an opportunity. By bridging the credit gap, simplifying access, and fostering digital transformation, we aim to unlock the true potential of Pakistan's entrepreneurs, driving sustainable economic progress for generations to come."*

Overview

The MSME sector in Pakistan is the backbone of the economy, contributing significantly to employment and GDP. With over 5 million MSMEs in the country, they account for nearly 40% of GDP and 80% of non-agricultural jobs^[1]. Despite their critical role, these businesses are largely untapped in terms of formal financial services. Due to high informality and a lack of access to structured financing, the MSME sector remains undercapitalized and faces constraints in expanding and modernizing.

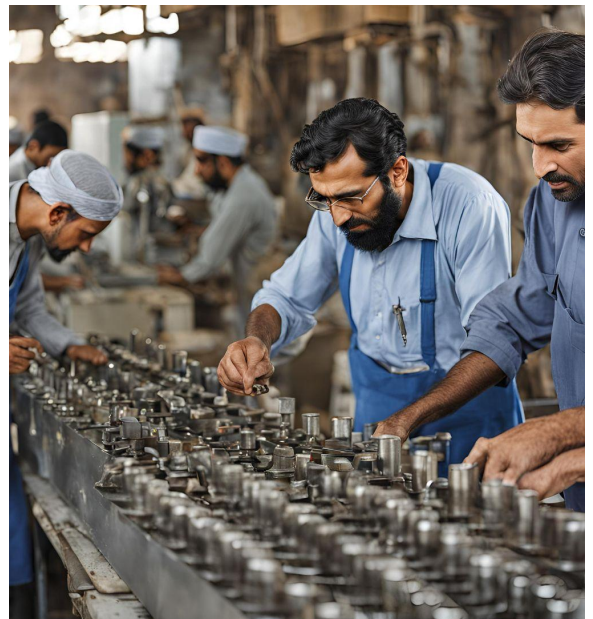
[1]<https://karandaaz.com.pk/blog/unlocking-micro-small-medium-enterprise-msme-potential-pakistan/>

What are MSMEs according to State Bank of Pakistan?

Metric	Micro	Small	Medium
Annual Sales	-	Up to Rs.150 M	Rs. 150 M - Rs. 800 M
Number of Employees	Self-employed or the firm employing individuals not exceeding 10 (excluding seasonal labor).	Up to 50 employees	51- 100 (trading) 51 - 250 (manufacturing and services)

What are the major financing issues faced by MSMEs in Pakistan?

- **Limited Access to Finance and high informality:** One of the most significant challenges faced by MSMEs in Pakistan is the lack of access to formal financial services. According to estimates, less than 6% of MSMEs have access to bank financing. This is primarily due to the fact that many MSMEs operate informally, without proper documentation or credit history. Banks view these enterprises as high-risk, with concerns over repayment capacity. Additionally, the absence of proper collateral often leads to loan rejections, as most MSMEs do not own significant assets. The traditional banking system's reliance on collateral-based lending further limits MSMEs' ability to secure loans.
- **Regulatory Barriers and Complex Procedures:** Complex bureaucratic processes and high compliance costs deter many small businesses from approaching formal financial institutions. Small businesses often struggle with burdensome paperwork and extensive documentation requirements, making the application process for loans and other banking services cumbersome and time-consuming. Furthermore, taxation policies for small businesses are often not MSME-friendly, adding to their operational burden and reducing their competitiveness.
- **Lack of Financial Literacy:** Many MSME owners lack basic financial literacy, which hinders their ability to manage finances effectively and make informed decisions about funding options. They may not fully understand how to navigate the formal banking system or may have little awareness of available financial products, such as microloans, trade finance, or digital lending platforms. This lack of financial awareness also prevents them from maintaining proper financial records or using tools like credit scoring, which would otherwise improve their eligibility for loans.



Inadequate Infrastructure and Technology Gaps: Pakistan's MSME sector faces significant operational challenges due to the country's underdeveloped infrastructure. Inconsistent electricity supply, poor transportation networks, and inadequate logistics significantly increase operational costs and reduce productivity. Technology adoption among MSMEs is also low, further impeding their ability to compete in both local and international markets. The lack of modern technology solutions hinders business processes like financial tracking, marketing, and customer engagement, creating inefficiencies that hamper growth.

Microfinance - Bridging the credit gap for MSMEs

Microfinance plays a pivotal role in banking the MSME sector in Pakistan by addressing the significant financial gap that limits these businesses from achieving their full potential. The MSME sector represents 98% of all economic establishments in Pakistan, contributing around 30% to GDP and employing 80% of the non-agricultural workforce [2]. However, despite their importance, MSMEs face severe limitations in accessing formal financial services, with only a small fraction able to secure bank credit.

Microfinance institutions (MFIs) like Khushhali Microfinance Bank and organizations like Karandaaz have emerged as critical players in bridging this gap. By offering smaller, less collateral-intensive loans, MFIs are well-positioned to meet the financial needs of micro-enterprises, which constitute 99% of the MSME sector. These micro-enterprises, primarily engaged in trade and small services, are traditionally underserved by commercial banks that tend to focus on larger, more established businesses.



According to the State Bank of Pakistan, commercial bank lending to the SME sector has steadily declined, falling to just 7.3% of private sector lending in 2023, compared to 15% in 2008. This leaves a massive unmet demand for credit, estimated between PKR 3.2 to 4 trillion, with current lending covering just 13-16% of the potential need [3]. Microfinance offers a vital solution here by providing accessible financial products, often at a smaller scale, which are tailored to the needs of micro and small enterprises..

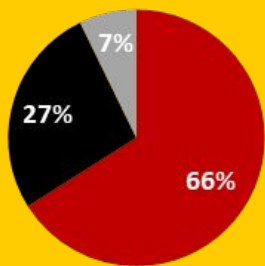
In addition to direct lending, microfinance initiatives in Pakistan, such as Karandaaz's partnerships and strategic programs, focus on enhancing the financial ecosystem for MSMEs. Initiatives include creating digital payment systems like RAAST, a moveable asset collateral registry, and partnerships with non-bank financial companies (NBFCs) to extend financial reach to SMEs. These efforts, along with credit guarantees, are designed to de-risk lending to MSMEs and make them more attractive to larger financial institutions.

[2]Enhancing the economic efficiency of SMEs in Pakistan, 2023, https://cc.gov.pk/assets/images/Downloads/assessment_studies/enhancing_the_economic_efficiency_of_smes_in_pakistan.pdf

[3] <https://www.karandaaz.com.pk/research/blogs/unlocking-micro-small-medium-enterprise-msme-potential-pakistan>

SME Financing Outlook

SME Loans by Use

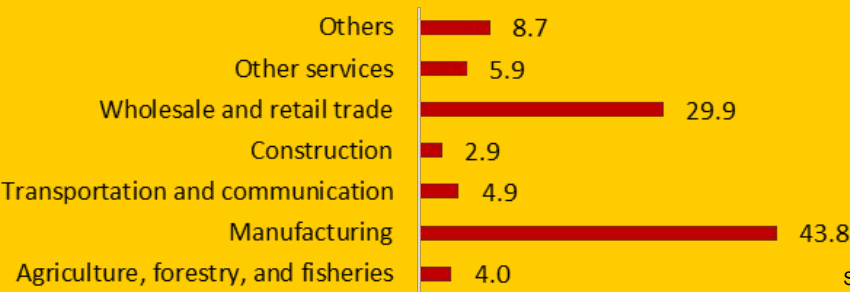


- For working capital
- For capital investment
- For other purposes

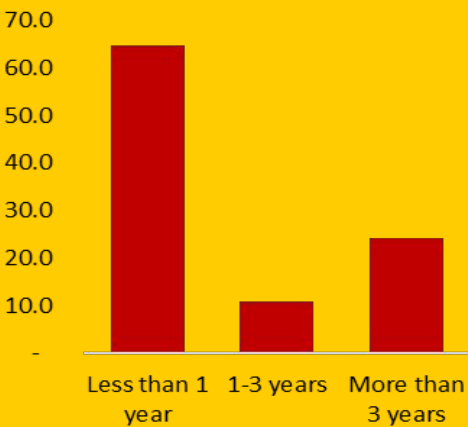
73.2% growth in Microfinance loans in 2023 from PY

7.4% Non performing SME Loans to total bank loans

SME Loans by Sector (% share)



SME Loans by Tenor



Source: ADB Asia SME Monitor 2024 database.
* Data refers to loans by commercial and specialized banks only

% of Private Sector Financing received by SMEs



6-7%



18%



25%

Microfinance Lending to MSMEs (Q1, 2024)

No. of Active Borrowers	401,127
Gross Loan Portfolio (PKR Million)	169,923
No. of Loans disbursed	71,227
Total Disbursements (PKR Million)	28,553
Average Loan Size (PKR)	400,867

Source: Microwatch Issue 71

31% of Microfinance Gross Loan Portfolio is lent to MSMEs

Public Finance and Guarantee Schemes

Fund Size (PKR Million)	23,604
Amount Disbursed (PKR Million)	8,004
MSMEs Benefitted	1,707

Source: ADB Asia SME Monitor 2024 database.

SME Clusters

10-Year Cluster-Based Development Plan for the Growth of SME Sector 2024 [5]

The focus clusters include the following:

- Fruit and vegetable processing
- E-bike
- Pharmaceutical
- Sea foods
- Marble and Granite.

Over the next five years the plan aims to generate:

-
- **1 million** new enterprises
- **6 million** jobs
- **\$3 billion** in exports
- SME share in GDP expected to increase by **44%**



[5] <https://www.nation.com.pk/02-Jul-2024/smeda-launches-10-year-cluster-based-development-plan-for-smes-grow>

Cluster Name	Locations for prospective businesses[6]	Potential Customers (Local and Export)[6]	Associated Products[6]
Fruit and Vegetable Processing	Karachi, Lahore, Islamabad, Peshawar, Quetta and other large to medium cities in Pakistan. For sourcing of fruits and vegetables Districts Killa Saifullah, Zhob, Mastung, Pishin and Killa Abdullah, Swat and South Waziristan	Local cities and Export to European and Gulf Countries	Jam, Jelly, Canned Fruits and Vegetables
E-Bike	Major cities/Industrial areas of Pakistan	Reduce reliance on imports to fulfill local demand	Electric Motorbikes and Scooters
Pharmaceutical	Major cities of Pakistan	Reduce reliance on imports to fulfill local demand	Pharmaceutical Drugs
Sea Food	Karachi, Islamabad, Quetta, Lahore, Sukkur,Hyderabad Ormara, Pasni, Gawadar, Muzaffargarh and Multan Gilgit, Hunza, Skardu, Kalam, Naran, and Madyan	Local Restaurants and superstores	Fish Shrimps Trout
Marble and Granite	Gujranwala, Islamabad, Rawalpindi, Karachi, Lasbela, Lahore, Peshawar, Swat, Buner, Nowshera and Risalpur	Local companies, commercial traders, builders. Export to Central Asia,USA and Australia	Marble mosaic, Granite flooring/ tops

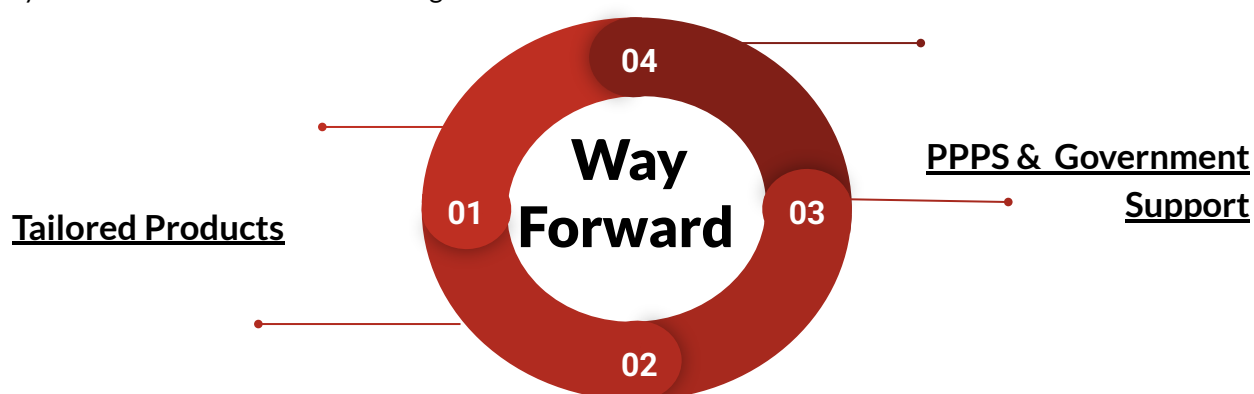
[6] SMEDA Pre-Feasibility Studies, https://smeda.org/index.php?option=com_phocadownload&view=category&id=122&Itemid=308

Digitized Banking Solutions

- ❖ Leveraging Fintech: Financial technology (fintech) can play a transformative role in bridging the gap between MSMEs and formal banking services. By introducing mobile banking solutions, digital wallets, and online lending platforms, banks can reduce the cost of servicing small enterprises. Digital onboarding and automated credit scoring systems based on alternative data (such as transaction history, utility bill payments, or mobile phone usage) can help mitigate the lack of traditional credit histories.
- ❖ Digital Payment Ecosystems: Encouraging digital payment systems will allow MSMEs to integrate into formal channels, improving transaction transparency and helping banks assess their creditworthiness more accurately. Initiatives like QR code-based payments or mobile money systems can ease the transition to digital finance.

Regulatory Reforms and Simplified Procedures

- ❖ Simplifying the documentation process for MSMEs by reducing bureaucratic hurdles can increase their access to formal banking services. Creating a single-window system for MSME loan applications, which integrates multiple regulatory steps into one platform, can significantly reduce time and costs.
- ❖ Establishing a robust credit bureau for MSMEs can enable financial institutions to assess businesses based on transaction history, payment behaviors, and other non-traditional metrics. This would help banks make informed lending decisions and reduce the perception of risk.
- ❖ Implementing MSME-friendly taxation policies, such as reduced tax rates, tax holidays, or simplified tax filing procedures, can encourage more small businesses to formalize and seek financing from banks.



Tailored Products

- ❖ Introducing low-collateral or collateral-free loan products, such as unsecured micro loans or group-based lending models (where MSMEs guarantee each other's loans), can mitigate the collateral issue. Banks could also leverage credit guarantee schemes where the government or development agencies guarantee a portion of the loan.
- ❖ Designing credit models that evaluate MSMEs based on alternative indicators like business cash flow, inventory turnover, or supply chain relationships rather than just collateral will increase access to finance.
- ❖ Dedicated microfinance institutions (MFIs) and development banks that specifically cater to the needs of small enterprises can help address the financing gap. These institutions tend to have more flexible criteria than traditional banks and can extend smaller loans tailored to MSME requirements.

PPPS & Government Support

- ❖ Introducing credit guarantee schemes can encourage banks to lend to MSMEs by sharing the default risk. These schemes ensure that a portion of the loan is guaranteed by the government, lowering the risk profile for banks and increasing lending activity.
- ❖ The government, in partnership with development organizations, can establish business support services to help MSMEs with capacity building, marketing, technology adoption, and financial management. These services can also help MSMEs with compliance and formalization.
- ❖ Investing in reliable infrastructure (such as roads, power, and digital connectivity) in industrial clusters can lower operational costs for MSMEs and enhance their productivity and competitiveness.

Conclusion

The challenges facing MSMEs in Pakistan are significant but not insurmountable. By adopting a holistic approach—combining regulatory reform, tailored financial products, capacity building, and leveraging technology—the untapped potential of MSMEs can be unlocked. This will not only accelerate economic growth but also create millions of jobs, drive innovation, and enhance financial inclusion.



Success Story:

Asad Junaid's Journey to Business Growth with Mobilink Bank

For the past 10 years, Asad Junaid has been running a surgical sterilization basket manufacturing business, striving to meet the growing demand in the healthcare industry. However, managing the business without proper financial support was a constant challenge. Limited cash flow forced Asad to purchase essential materials on credit, leading to frequent financial strain and operational hurdles.

A turning point came when his cousin, a satisfied Mobilink Bank customer, introduced him to the bank's SME financing options. Encouraged by the prospect of a reliable funding solution, Asad decided to apply for a loan. With the support of Mobilink Bank, he secured the funds needed to purchase raw materials upfront, improve production efficiency, and streamline business operations.



Today, Asad's business is thriving. The availability of working capital has enhanced his purchasing power, allowing him to maintain quality standards and fulfill larger orders without financial stress. Additionally, he leverages Mobilink Bank's digital banking services through DostApp, making transactions smoother and more efficient.

"I am very happy with my loan from Mobilink Bank. Their staff is extremely cooperative, and my overall experience has been excellent," says Asad. His success story is a testament to how access to the right financial support can transform small businesses, empowering entrepreneurs to achieve sustainable growth.



Mobilink Bank remains committed to supporting SMEs across Pakistan, enabling business owners like Asad Junaid to scale their enterprises with confidence.

Contact Us

Address: Mobilink Bank Head Office, 3-A/2 F-8 Markaz Islamabad

Phone: 051 2817070

Website: <https://mobilinkbank.com/>

For general information you can email us at: info@mobilinkbank.com

Other Products and Services of MMBL



Become a Brand Ambassador Today

MORE ACCOUNTS MORE CASH



EARN 2%
ON NEW CURRENT ACCOUNTS



SCAN TO DOWNLOAD NOW



SPEND LESS ENJOY MORE

WITH
MobilinkBank

Mobilink Bank Solar Financing





Dost

Get Started With Us

- Login
- Register
- Open Account

Dost Services

- Send Money
- Bill Payment
- Top Ups
- Loans
- Cards
- Others



YOUR BANK, YOUR FAMILY'S HEALTH GUARDIAN

