

## *Chapter 7*

# **SME Sector in Pakistan: Mapping the Policy Framework, Opportunities and Constraints**

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This study explores the policy framework, opportunities, and constraints faced by Small & Medium Enterprises (SMEs) in Pakistan. The study focuses on figuring out avenues of development, challenges, and prospects for SMEs in Pakistan. The research covers the perspectives of policymakers, policy facilitators, and the SMEs (of the Multan district). The findings suggest that though the government authorities are well aware of opportunities and challenges, SMEs are not well prepared due to lack of formal business set up with no spending on R&D. Moreover, policies for the integration of SMEs in the mainstream are missing. This research emphasises that policy measures must be undertaken to strengthen our domestic industry, including; announcement of a new SME Policy, mass awareness, and registration campaign for SMEs to integrate them with global value chains and international production networks.

### **7.1. INTRODUCTION**

Small & Medium Enterprises (SMEs) play a significant role in economic growth acceleration in developing and developed countries. SMEs assist in employment generation, innovation, and value addition in the production cycle. With this, SMEs facilitate entrepreneurship, helps in poverty alleviation, assist in export-led growth and boost trade through product diversification (Harvie, 2010; Harvie and Lee, 2005 and Asasen et al., 2003). Literature highlights a positive relationship between economic growth and SME's share in the Gross Domestic Product (GDP) of the economy, which is evident from its share of contribution in the developed countries including; China (60 percent), Malaysia (47.3 percent), Germany (57 percent), Korea (50 percent), and Japan (55.3 percent) (Beck et al., 2005; Levine and Renelt, 1992; Aris, 2007; Katua, 2014).

Hussain et al. (2012) categorised the role of SMEs in an economy in three important domains: Trade, Technology, and Investment. Through these, SMEs play a proactive role in economic growth in terms of competition and innovation. Globalisation has provided the entrepreneurial sector, especially SMEs, the opportunities to broaden their domain internationally through involving in global value chains and international production networks (Harvie, 2010). Aceleanu et al. (2014) highlighted the factors that play a significant role in the development of SMEs, including the macroeconomic environment, government policies for new investment, structural characteristics of the economy, and microeconomic factors like the structure of enterprises.

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SMEs are the source of employment generation in low-income economies. Sharafat, et al. (2014) described SMEs in Pakistan as one of the key drivers of growth in the Pakistan economy. Therefore, one of the principles of SME Policy was to align the SME development in the areas of technology, human resource development, marketing, and creating space for these SMEs in other policy areas through proper measures including labour policy, industrial policy, trade, and fiscal policy. With a modified business proposition after CPEC and having spent 14 years in vogue, it is high time to map the success and shortcomings of the 2007 SME policy. This exercise needs to be undertaken before the announcement of the new SME policy 2021, which is expected to be out soon.

As a facilitator to develop SMEs in the country, the Small and Medium Enterprise Development Authority (SMEDA) was formed in 1998 under the Ministry of Industries & Production (MOIP)<sup>123</sup>. SMEDA was established to work as a pivot for streamlining SMEs and is facilitating SME operation and growth through several programs. Its efficacy, though needs to be reassessed after the 18<sup>th</sup> constitutional amendment. According to the National SME Policy 2007, there were 3.2 million SMEs contributing 30 percent to the GDP and having 25 percent of the share in exports of the country. Currently, in 2021, there are 5.2 million SMEs in the country as per the given definition. Despite the fact that SMEs are the most significant contributor to employment generation in the country i.e., 78 percent of non-agriculture sector employment, still these suffer due to low productivity. SMEs contribute only 40 percent to the value addition in the economy (MOIP, 2007). SMEDA is trying to create awareness among the local investors but any particular objectives related to the development of SMEs within the country are missing. In the recent pandemic, SBP launched innovative plans to support the SMEs and ease their financial constraints, an applauded new initiative.

To summarise, the above discussion makes it obvious that SMEs have an important role in inclusive growth and sustainable economic development. Consequently, it is important to explore the issues, challenges, and opportunities faced by SMEs under the existing policy framework in Pakistan. We need to assess how much our SMEs are aware and prepared to realise their potential out of the emerging opportunities in the globalised world. We also need to examine the role of the government in facilitating and regulating these SMEs. Hence, it is important to focus on the development of domestic industry, especially SMEs, and make it an explicit part of the development agenda. It can only be achieved if domestic investments and local industries are developed to their optimal potential and if SMEs are considered while seeking long-term sustainable development. Moreover, CPEC can be utilised and planned in such a way that the development takes place not only on the inter-regional level but also at an intra-regional level.

## **7.2. SMES IN PAKISTAN**

Afaqi (2010) explained that Pakistan inherited a weak industrial base with more dependency on agriculture. The large-scale manufacturing sector was focused initially, and with time, Pakistan was successful in developing its industrial sector. In the First

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<sup>123</sup>“Official Website of SMEDA; Objectives of SMEDA” [http://www.smeda.org/index.php?option=com\\_content&view=article&id=2&Itemid=689](http://www.smeda.org/index.php?option=com_content&view=article&id=2&Itemid=689)

Five Year Plan (1955-1960), SMEs were particularly focused for the first time. According to the Pakistan Bureau of Statistics (2008), about 78 percent of the non-agricultural labour force is employed in the SME sector. SMEs contribute more than 30 percent to the manufacturing sector (GoP, 2005). According to the Economic Census of Pakistan in 2005, there are 2.96 million business units in the country for goods and services divided into two categories of established units and units at households. The provincial concentration of these units is as follows; Punjab (65.26 percent), Sindh (17.82 percent), Khyber Pakhtunkhwa (KPK) (14.21 percent), and Baluchistan (2.09 percent)<sup>124</sup>. Moreover, the SMEs constituted 53 percent of the businesses in wholesale and retail trade, 20 percent of the industrial units and 22 percent of the services sector. Despite these facts, the SME sector is still majorly unregistered. More than 96 percent of these SMEs are established on sole proprietorship, while only 2 percent are based on partnerships. Importantly, it is evident from the data of growth rate of Large-Scale Enterprises and SMEs in three decades 1970s, 1980s, and 1990s that the gap of output growth rate and the employment growth between LSEs and SMEs has increased, with LSEs in the lead (Khawaja, 2006).

### **7.2.1. Constraints Faced by SMEs**

In developing countries, the key constraints that SMEs face include difficulty in market access, financial constraints, lack of information, and institutional constraints such as international competitive market, financial issues, infrastructural problems, and political instability; restraining the SMEs' performance. Khan and Khaliq (2014) identified lack of infrastructure, political instability, energy crisis, and lack of capital as the critical issues SMEs face in Pakistan. Similarly, Khattak et al. (2011) highlighted the hurdles faced by SMEs in Pakistan by categorising these into internal and external barriers. Internal barriers are linked with the company and its products, lack of expert personnel, and production capacity and capital. While the external barriers include low foreign demand, legal procedures, and competition. In Pakistan, SMEs face 32 percent of the external barriers and 68 percent of the internal barriers. In an Annual International Conference's session on 5<sup>th</sup> December 2016, it was highlighted that the financing had improved significantly during these years. Yet, banks are hesitant in providing loans to SMEs due to their riskier financial status. They have low human capital, which makes them more vulnerable to financial shocks.<sup>125</sup>

### **7.2.2 Overall Business Environment**

Internationally, Pakistan stands at 108<sup>th</sup> rank in 'Doing Business (DB) Rank in 2020 while it was at 147<sup>th</sup> position out of 190 in 2018. Pakistan has gradually improved its position during the last three years. The disaggregated information of Pakistan's rank

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<sup>124</sup> Economic Census of Pakistan, (2005). Economic Census 2005 | Pakistan Bureau of Statistics, December 5, 2017, from <http://www.pbs.gov.pk/content/economic-census-2005>

<sup>125</sup> "Challenges and Potential of SME Sector financing in Pakistan and a Way Forward through CPEC" <https://cpec-centre.pk/challenges-and-potential-of-sme-sector-financing-in-pakistan-and-a-way-forward-through-cpec/>

according to the 'Doing Business Rank 2020,<sup>126</sup> is as follows; starting a business (72), dealing with construction permits (112), getting electricity (123), registering property (151), getting credit (119), paying taxes (161), trading across borders (111) and enforcing contracts (156). Hence, on a relative basis, Pakistan has a weaker position in DB indicators globally. If we compare the situation in the South Asian region, India ranked at 63<sup>rd</sup> and China ranked at 31<sup>st</sup> position in DBI 2020 rankings. An important constraint is that there are 12 different procedures to begin a business which require about 18 days to complete, while proper registration requires 155 days. Similarly, in the 'Global Competitiveness Index (GCI)', Pakistan ranked at 107 out of 122 in 2018 compared to 115<sup>th</sup> rank in 2017. However, Pakistan stood at second last position in South Asian countries, according to GCI<sup>127</sup>. There is a need to identify the constraints that barred the business sector from flourishing up to its true potential.

Lastly, countries are spending a significant amount of money to facilitate SMEs. Naveed (2012) discussed the budgets allocated for organisations working to facilitate SMEs in different countries. According to the study, India is spending \$109 million, Korea is spending \$3.49 billion, Malaysia is spending \$2.22 billion, and Thailand is paying \$122 million, whereas Pakistan spent only \$1.74 million. He emphasised that due to rapid urbanisation, the SMEs are a better source of utilising skills, entrepreneurship, and capital from rural regions; therefore, they deserve more investment.

### **7.2.3 Defining SMEs; A National and International Perspective**

In countries like France and Germany, the SME sector makes up more than 95 percent of the economy. According to World Bank, 7 out of 10 jobs in developing countries are created by SMEs; therefore, financing SMEs needs to be hassle-free. The World Bank in G-20 summit-2010 highlighted different factors responsible for making up the SME and stressed a global definition of SMEs. With this background, different definitions were offered from time to time. Most of the definitions are based on the size of employees, acceptable loan size, and sales size.

The definition by WB as prescribed in the IFC document is a registered business with less than 250 employees and has assets and annual sales of less than \$100,000. SME categories are micro, small, and medium, based on the number of employees and asset size. The European Union (EU) defines SMEs against the number of employees and annual turnover. Where the number of employees remains less than 250, and the annual turnover is less than 50M Euros. The World Trade Organisation (WTO) has not provided any specific definition of SMEs and has agreed that each country can define it for themselves based on their economic conditions and the market structure. However, the base for the definition will be the number of employees, the capital investment, and sales turnover. This baseline is the basis of most of the definitions worldwide.

To operationalise the definition of SMEs for the current study, it is pertinent to see the definitions used in Pakistan. The SBP defines SMEs based on the global guidelines of the headcount and the capital investment. For SBP, a small firm is the one with employees

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<sup>126</sup> 'Doing Business Ranking 2020' <http://www.doingbusiness.org/content/dam/doingBusiness/country/p/pakistan/PAK.pdf/>

<sup>127</sup> <https://tribune.com.pk/story/1850073/2-global-competitiveness-index-pakistan-faces-supply-side-constraints/>

not exceeding 50, and the investment of 25M (maximum), whereas the medium scale company can have employees no more than 250, and their capital investment can be up to 200M PKR. The Pakistan Stock Exchange defines SMEs as registered firms under the company act 1984 with assets between 25M PKR to 250M PKR.

The SMEDA agrees to the definition of State Bank of Pakistan as most of the financing is being done by the banks. The definition of SME has been a work in process to date, the acceptable criteria for defining SMEs is more than a decade old, but each country is defining these according to their economic and market conditions. The current study will define the SMEs as: *“Any firm that has less than 250 employees and the capital investment up to the maximum of 250M PKR”*.

### **7.3. METHODOLOGY**

This study uses qualitative techniques for analysis. This study undertakes an extensive review of the literature, including research articles, research reports, and other policy documents available on the SME sector in Pakistan. It thus conducts a comprehensive document analysis of the policy framework and the current state of SMEs. Secondly, intensive interviews were conducted with the important stakeholders, i.e. policy-makers, facilitators, and business organisations, regarding the development of SMEs and analysed their perspective through thematic analysis. Last but not least, to explore and learn from the perspective of SMEs, manufacturers were also interviewed about the opportunities, challenges, and expectations. This study covers Multan as a sample area for data collection from SMEs. The following points will explain the assessment tool adopted for analysis of each aspect.

- (i) SME sector performance review-Review of Literature
- (ii) SME Policy, Regulations, and Facilitation in Pakistan- Document analysis
- (iii) Insights from SMEs-Interviews with Manufacturers
- (iv) Insights from sector’ facilitators-Interviews with SMEDA, Islamabad Chamber of Commerce and Industry (ICCI), Islamabad Chamber of Small Traders and Small Industry (ICSTSI), and Multan Chamber of Commerce and Industry (MCCI)

#### **7.3.1. Sampling Method**

The selection of SMEs in Multan is made based on stratified random sampling, using the SMEs clusters defined by SMEDA. Moreover, list of pre-investment directory of Multan published in 2012 by the Directorate of Industries, Punjab, was also used to locate the SMEs in the selected clusters.<sup>128</sup>

#### **7.3.2. Sample Size**

In this study, 31 interviews consisted of in-depth and key informants’ interviews from the selected stakeholders. The sample was further divided, having 14 key-informant interviews from the government officials and business facilitation organisations (Table 7.1), while 17 in-depth interviews were conducted from manufacturers, as shown in Table 7.2.

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<sup>128</sup>Pre-Investment Study Multan’ <https://doi.punjab.gov.pk/system/files/Multan.pdf>

Table 7.1

*Sample of Key Informants' Interviews*

S. No.	Stakeholders for Key Informants' Interviews	Number of Interviews Conducted
1.	Small and Medium Development Authority (SMEDA) Head Office, Lahore	3
2.	Regional Business Centre (RBC) Multan, SEMDA	1
3.	Islamabad Chamber of Commerce and Industry (ICCI)	1
4.	Islamabad Chamber of Small Traders and Small Industry (ICSTSI)	2
5.	Multan Chamber of Commerce and Industry (MCCI)	2
6.	Pakistan Small Industries Corporation (PSIC), Multan	3
7.	Technical Education and Vocational Training Authority (TEVTA), Multan	2
		<b>Total= 14</b>

Table 7.2

*Sample Size for In-depth Interviews from SMEs in Multan District*

No.	Categories of SMEs in District Multan	No. of In-depth Interviews
1.	Textile (Handlooms, Power looms, Cotton Ginning & Weaving, and Bed Wears)	8
2.	Food Processing Units (Food Packaging, Fruit Processing Plants, and Bakery Items)	5
3.	Handicrafts (Blue Pottery & Camel Skin Products)	4
		<b>Total=17</b>

**7.3.3. Data Collection and Analysis Method**

For data collection, different versions of questionnaire were designed for different stakeholders (as mentioned in Table 7.1 & 7.2). Each questionnaire was specifically focused based on the stakeholder's nature of functioning and role in the development of SMEs. The questions asked from the officials (policy makers and facilitators on federal and provincial level) were generalised into three parts: facilities provided to SMEs by these organisations, policy perspective of SMEs under these organisations, and perception about prospects and threats for the development of SMEs. Perspectives and initiatives of business organisations (Chambers) were also captured through interviews.

Similarly, interviews were conducted from SMEs in three clusters present in Multan, as mentioned in Table 7.2. The themes for the questionnaires from SMEs included the status of SMEs, challenges faced by the SMEs, perspectives of the SMEs about future challenges, and awareness & preparedness of SMEs. For data analysis of the data collected from interviews, a scheme of 'thematic analysis' was adopted in this study.

The interpretation of the data is based on the selected themes and objectives of the study. The ethical considerations of the data collection and analysis are followed while interviewing and interpreting the data. The identity of the respondents is kept confidential with their consent.

## **7.4. FINDINGS & DISCUSSION**

### **7.4.1. SME Policy of Pakistan**

The SME policy implemented currently in the country is the policy that came out in 2007. The SME Policy 2007 was made in order to promote: the business environment, ease access to finance, human resource development, technical guidance, and technology up-gradation. The SME policy was good in assessing the sector's needs, tried to address the issues of the sector, and set a baseline of how the SME sector should be and how it can grow. The problem is that even after 14 years, the 2007 policy is still intact without any assessments on the extent of success.

The SME policy 2007 was based on the SME act 2006, and the policy facilitated the marginalised groups and women by encouraging them to start up their businesses. The policy planned to introduce the entrepreneurship culture in the country. The policy also mentioned barriers to firms' growth and promised solutions to those issues by providing technical and human support (in the form of labour and human resource development programs). The policy also planned to promote the rural areas and the agro-based initiatives.

To improve the business environment in the country, the policy recommended simplifying the fiscal/monetary laws for the small and medium firms, ease registration processes for the firms by incentivising them to register. The help desks are to be placed at all the major government offices, and the facilitation promises to encourage the people to start up their businesses. The policy had recommendations to ease out the financing for the SMEs by including the SBP to ease out the credit terms for the SMEs and other public and private sectors to ease out the credit policies for the SMEs. Similarly, for the human resource development and technology up-gradation, laws were made, and terms were promised to be relaxed to acquire technology and increase the capacity.

Apparently, the SME Policy 2007 was serving the purpose and proved to be an excellent first step to encourage SMEs. The major concern about the policy is that it is still to be assessed for its efficiency and effectiveness when the circumstances, technology, and rules of engagement for new businesses<sup>129</sup> have changed manifold. During 14 years, the focus seems to have majorly remained on the agriculture and manufacturing sector despite a clear mention of the service sector in the policy document; because the services sector has been contributing more than 50 percent to the GDP of Pakistan since 2006.

### **7.4.2. Need for an updated Policy**

It is now very important to have an updated policy and a proper implementation plan to facilitate the SMEs in the country and achieve the international standards. It is

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<sup>129</sup> e.g. virtual world, required skills set, innovation, imitation and value chain integration

pertinent to have an official SME policy to align all the policies and determine the roles of all the players and stakeholders. Giving liberty to multiple officials to define the sector can impact the autonomy of the said department that has to manage the major issues. Moreover, the updated policy needs to be finalised, implemented, and smoothen the procedures to facilitate the SMEs across the country. It is important for the progress of SMEs and the country's economic development as unregistered firms are still part of the informal economy, which is suboptimal for the state and the firms. The most important factor in the policy implementation remains the system that needs to be strengthened by removing sludge to get work done easily, timely, and make it hassle-free.

**Fig. 1. Targets under the New SME Policy**



Source: Prospective SME Policy 2019, A presentation by SMEDA and ICG.

The efforts for new SME policy have been taking place since 2019, when the policy was presented to the Prime Minister<sup>130</sup>. The new draft policy is reportedly developed after the review of the 2007 policy. The new policy updates the definition and calls for strengthening the financing channels. The proposed policy focuses on the increase in the economic contribution through the export and manufacturing sector. Both the ideas are good if implemented properly, but the focus on the service sector remains missing. The draft policy also plans to introduce a culture of entrepreneurship, and the result is an increasing number of student-based start-ups which is beneficial for the economy by relieving pressure from the unemployed youth. The draft SME policy made the start-ups

<sup>130</sup> <https://fp.brecorder.com/2018/07/20180719392095/>

growth a major agenda which if successful can provide a great support to the economy. The proposed policy intends to formalise the SMEs across the country, which looks like a good plan, though SMEDA was supposed to already do that. By formalising SME sector, youth and local investors can be encouraged towards new start-ups which is believed to bring innovation, employment and more output.

As per the reports, the policy draft is focused towards the development of a proper system and is successful in presenting a good plan. Despite being under consideration since 2019, the irony is that it is still to be formally approved and announced<sup>131</sup>. This, though provides an opportunity to further fine-tune the new policy in the wake of Covid-19 to match the SME sector of Pakistan to the international standards. One of the main targets of the policy is to strengthen the institutions, which is also needed to streamline the processes and management of the sector, which asks for universal ownership of the policy across all the involved institutions.

The draft for the domestic commerce policy of Pakistan is also on the tables, and that too recognises the importance of SMEs. The draft recommends policies to accommodate SMEs in the special economic zones, in collaboration with FBR, lessen the tax burden and increase the credit guarantees and facilitations. The brightest recommendation is E-commerce, as with the change in technology and the current world conditions is the way out and the survival regime. E-commerce needs to be encouraged, and capacity building in this area is required too, as it can facilitate manufacturing and agriculture if appropriately implemented.

It is important to mention that the initial delays in the approval of new SME policy were caused by the absence of its implementation plan. The policy was presented at the highest level for approval without an implementation and evaluation plan. Once highlighted, work on the implementation plan for the policy was initiated, requiring active coordination with the provinces in the wake of 18<sup>th</sup> amendment. Relevant forums agreed upon the new implementation plan in October 2020; however, the new SME policy is still awaited.

In the meantime, SBP has updated its terms and conditions for financing small and medium enterprises. SBP has updated their definitions of SMEs and is now using a differentiation between small and medium firms. Small firms are defined as having less than 50 employees with the annual sales of upto 150M while medium enterprises with employees upto 100 if trading, and upto 250 in the manufacturing and service industry with the upper limit of Net capital to be 800M. The situation thus calls for active coordination among different stakeholders of the SME policy, and the Ministry of Industry and Production is suited best to take the lead on this.

#### **7.4.3. Evidence from Key Informant Interviews**

Before going on the objective analysis of the findings, it is important to discuss the structural and functional importance of the selected stakeholders for this study. The stakeholders include policymakers, facilitators, and SMEs.

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<sup>131</sup>Despite formal announcement of New SME Polciy on January 21, 2022, the draft is still not accessible (as of January 23, 2022)

**(a) Role of Policymakers**

Policymakers selected for the study comprised stakeholders including SMEDA Head Office, Lahore, and Regional Business Centre (RBCs) of SMEDA in Multan are the policy making and facilitating bodies for SMEs at the federal and provincial levels respectively<sup>132</sup>. SMEDA has an important role to play in policymaking and serves as a pivot for upper tiers of policy-making bodies, including Ministry of Industries and Production, Ministry of Planning, Development, and Special Initiatives, SBP and BOI.

**(b) Role of Facilitators**

Other important stakeholders working as a facilitator for SMEs are; Islamabad Chamber of Commerce and Industry (ICCI), Islamabad Chamber of Small Traders and Small Industries (ICSTSI), and Multan Chamber of Commerce and Industry (MCCI). All these serve as the contact organisation at the district level for SMEDA, MOIP, and SMEs. Punjab Small Industries Corporation (PSIC), another important stakeholder, has been a sound contributor to the development of small industries in the province through its various schemes. The organisation provides loans to Small Scale Industries (SSIs). Technical Education and Vocational Training Authority (TEVTA) – is also an important facilitator for SMEs which provides technical and vocational education for a productive and competitive labour force in Punjab. There are 18 institutes of TEVTA in Multan, including the Institute of Technology, blue pottery, technical training centres, and vocational training centres for both men and women. The role of TEVTA is very important in enhancing the skills set of the SMEs.

Financial institutions also play a very important role in bridging the financial gaps for SMEs. The role of Government sector banks and commercial banks differ in terms of facilitation to SMEs. SME Bank is a specialised government entity, which facilitates SMEs only. It was officially established in 2001 when three organisations, Youth Investment Promotion Society (YIPS), Regional Development Finance Corporation (RDFC), and Small Business Finance Corporation (SBFC), were merged into one entity as ‘SME Bank.’ The mission of SME Bank includes financial and technical assistance to SMEs to promote SME sector for value addition, exports, to provide entrepreneurship and employment opportunities. On the other hand, the State Bank of Pakistan (SBP) is the central governing body for all other commercial banks; therefore, the response of SBP was different from other selected commercial banks. Being a regulatory authority, SBP has a significant role in policymaking, such as defining SMEs, formulating schemes for SMEs policymaking, and providing guidelines to other banks.

**7.4.4. Role of SMEDA**

**(a) New Definition of SMEs**

Despite highlighting SMEDA’s positive role, the stakeholders agreed during interviews regarding the lack of consensus on a definition of SMEs in the country. The

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<sup>132</sup> “Introduction to SMEDA” [https://smeda.org/index.php?option=com\\_content&view=article&id=2&Itemid=689](https://smeda.org/index.php?option=com_content&view=article&id=2&Itemid=689)

Also find Annexure-I for further details

officially approved definition is the one mentioned in the SME policy 2007, approved by the federal cabinet. However, the State Bank of Pakistan follows a different definition, which is enunciated in the credential regulations of the State bank that deals with the financial sector. Unless the SME sector is not defined properly, it is rather difficult to target support and monitor and evaluate what kind of support is going into the sector.

#### **SMEDA Objectives**

- Formulate Policy to encourage the growth of SMEs in the country and to advise the Government on fiscal and monetary issues related to SMEs.
- Facilitation of Business Development Services to SMEs.
- Facilitate the development and strengthening of SME representative bodies i.e. associations/ chambers.
- Set up and manage a service provider's database including machinery and supplier for SMEs.
- Conducting sector studies and analysis for sector development strategies.
- Facilitation of SMEs in securing financing.
- Strengthening of SMEs by conducting and facilitating seminars, workshops and training programs.
- Donor assistances for SME development of SMEs through programs and projects.
- Assist SMEs in getting international certifications (such as UL, CE, DIN, JIS, ASME, KS, etc.) for their products and processes.
- Identification of service opportunities on the basis of supply/demand gap.

Interviews with SMEDA revealed that SBP and SMEDA have now agreed on a definition that has only one parameter, the annual sales/turnover. Based on this parameter, a distinction is made between small and medium enterprises. An annual turnover of 150 million has been classified as small enterprise, while anything between 150 to 800 million has been classified as medium enterprise. This also synchronises with the SBP existing definition, except that the parameter of employment is no longer used to define the SME sector. This is a consensus definition, and once the policy is approved by the cabinet, it will be announced and published in the official gazette. Following that, relevant changes in the prudential regulations will also be made so that across the country, a single definition of SMEs is adopted. So the targeting of a particular sub-sector or category of the firms that government wants to support would be possible. Initially, there is an agreement on it across certain institutions, but eventually, in the coming years, SMEDA is eyeing to have multiple definitions of SME across sectors. An SME in a manufacturing sector will be defined differently from SME in a services sector.

It was elaborated that the existence of multiple definitions is though problematic when the contribution of the sector is assessed in terms of macroeconomic variables like GDP, employment, exports. The PBS has a classification of small and large manufacturing firms based on the employment size. Any unit with less than ten employees is classified as small, and anything above that is large. There is no middle-sized unit. For one indicator, the set of parameters being used to define a sector is

different from what is being used in another indicator to define a sector. In the case of access to finance, the financial sector follows the prudential regulation and uses their group of indicators to define SME. The disaggregated data is a must to assess the various contributions of the SME sector in macroeconomic indicators. It is also very important to track progress across various institutions, programs, and across different levels within the government.

- (a) **The 18<sup>th</sup> amendment** has raised issues regarding ownership of SMEDA. With this change of policy framework, the organisation's DNA has remained intact, and continuity is ensured. The services and portfolio have remained the same. As per the structure of SMEDA, it is a lean organisation that reports to the Ministry of industries and production. There are 5.2 million SMEs in the country as per the given definition. SMEDA operates in terms of supporting SME development at three levels. One is at the macro policy level at the planning level. At other, it works with different institutions with more of a sectoral and cluster-based approach. And the third is the direct service that is provided to the SME through multiple delivery channels. These services are business development portfolio which includes pre feasibilities, business plans, training programs, energy efficiency related programs. For this direct delivery, SMEDA engages with the private sector. For developing programs related to SME development, it engages with associations, chambers, and different provincial governments. SMEDA works across different levels of government and relevant agencies and the private sector in a very collaborative manner across the entire SME ecosystem. The coordination is a challenge at times. At the provincial level, there are cultural barriers. For example, the community may be close-knit in KPK as compared to Punjab. So the relationship will be stronger in KPK as compared to Punjab. The level and degree of relationships vary across different regions.
- (b) **The SBP financial package of SBP during COVID 19:** Institutionally, SBP and SMEDA have good working relationship. SMEDA is a part of different SBP committees. The input of SMEDA on SME is communicated through those committees or official channels. SMEDA terms the ties with SBP-SME committees as professional and welcoming. The financial package for SME was designed in collaboration with SMEDA. However, most of the Covid 19 policies were designed in collaboration with the Ministry of Industries as lead on the industrial development. And on the social side at the grass root level, Ehsas was the lead. To conclude, SMEDA has been working with Ehsas and SBP instead of taking the lead, reflecting a shortcoming from the perspective of policy initiation. Additionally, SMEDA does not get a projection for even what has been done. For example, the agriculture projects in Punjab are huge projects conducted under SMEDA, but when it comes to the Punjab level, the same programs are not that big to make an impact. There is also a political economy angle to it in addition to visibility and cost-benefit analysis.
- (c) **IT help is required:** The private sector is agile but has issues of understanding and implementation. During interviews, stakeholders highlighted the rising polarisation and political capture in the private sector. In delivery, the private

sector does not operate optimally. Concerning the readiness of the private sector to take up government activity, there is a disconnect. SMEDA needs IT-based mechanisms and outreach that can enable the dissemination of policy initiatives to the SMEs.

- (d) **Resources are a challenge too:** The resource constraint is there in terms of financial resources for developing, designing and delivery of programs at a larger scale. SMEDA tries to tap in with international development partners. They deliver and design programs through their financial institutions that are project-based, short-term interventions. Similarly, for training SMEDA works with academia. The institution-building does not take place as a major source of funding i.e., the donors are project-driven.
- (e) **Ownership:** ownership is very important in ensuring the success of the project. If the federal government designs a program for provinces and does not give these their ownership, then the benefits are not scaled up. SMEDA tries to act as a bridge between the federal and provincial governments. At the policy level, whether it is a policy for SME or any input on any policy, provinces are taken on board by SMEDA. Such interactions helps in getting diverse ideas that help develop a consensus document where the federal government sets the policy direction, and provincial governments come up with a better implementation plan. The objective is to ensure that there is a bare minimum level of ownership for implementing the policy direction.
- (f) **The New SME Policy:** SMEDA has drafted a revised policy framework which is pending for formal approval and implementation. This revision of policy took three years, considering that the 18<sup>th</sup> amendment and the role of provinces were to be incorporated in it. This policy document also has an action plan with it. The action plan describes, what needs to be done, who will do it, the timelines, and the kind of resources that are made available to implement the policy. Recently, the action plan has been approved by the National Coordination Committee on SME, and SMEDA is now implementing that SME Action Plan 2020. Most of the things have already been taken up by the provinces. There are three areas primarily that have been prioritised. The regulations simplifications for SME, simplification of taxation, and access to finance. The SBP has designed some additional financing schemes that are expected to be announced in the near future.

#### **(b) Facilitation**

**Initiatives:** In the business development portfolio, the SMEs are linked up with different commercial banks. Since SMEs lack the capacity to be bankable, SMEDA builds that capacity of SMEs. This is done by organising training programs, deploying software within those SMEs, and providing one-on-one advisory services. SMEDA also works with commercial banks to conduct the initial assessment of a business proposal. Thus a group of people is linked with commercial bankers that helps in securing finance.

It was further stated that SMEDA played a phenomenal role in developing the website of Kamyab Jawan. SMEDA also developed the information tool kit for the small businesses to provide guidelines both on the parameters of the program as well as on

business side. On the business side, tips were provided on how to pitch the business idea and clear the first round of scrutiny by the banks. This round was conducted via telephones by the banks. There was active involvement in the beginning, but now the banks have taken over. The policies for the said program are more oriented towards the financing of the businesses that have tangible assets associated with cars etc., they will take time in opening up to new ideas. There is no bifurcation between services and manufacturing SME.

**(c) *Issues with SMEs***

**Registration:** SMEDA was of the opinion that different formal and informal registration exist, e.g. with SMEDA, Chambers and market committees; the last two though are not considered formal registration. Hence, the information does exist, but it is not consolidated. There is no data on single proprietorship and the home-based businesses, however, there is a deed for partnership registered at the district level. Efforts for the formalisation of registration are underway in Punjab province. The management of registration data is required for targeted intervention.

The incentive for formal registration depends upon the pros and cons of being documented. As long as the pros do not exceed the cons, the registration will not take place. The cost of doing business immediately increases as enterprises join the formal economy, so the cons are high. There are genuine hurdles, for instance, 32 departments visit each installation which increases the compliance costs; thus requires serious intervention. On the contrary, the unregistered businesses are out of SEMDA's radar. Generally, they are not aware that their opportunities to access finance, skills, training, and emerging opportunities in the formal economy can probably reduce the cost of doing business. The perception and mindset also needs to be influenced to convince these for formal registration. The avoidance from registration varies across the size, as the medium-sized units are registered somewhere as a compulsion. The access and flow of information is also a challenge that needs to be covered. For better policy intervention and targeted facilitation, registration is the first step to follow. The government checks, balances, and quality control could only be imposed in a formal economy; therefore, it also needs to facilitate registration.

**7.4.5. Role of ICCI, ICSTSI and MCCI**

The Islamabad Chambers of Commerce and Industry (ICCI) does not observe any specific differentiation between SMEs and large enterprises. ICCI accepts any firm that has a turnover of above PKR 50 million. Engagement with policymakers and policy facilitators is its routine job to seek ease of business. During interviews, the importance of SMEs was though iterated concerning CPEC and Kamyab Jawan program. On the contrary, the Islamabad Chambers of Small Traders and Small Industries (ICSTSI) which was set up under the ordinance in 2013, was actively involved in SME affairs. They were in regular contact with SMEDA, which has its office at their premises for weekly interactions. The ICSTSI is helping SMEs with business ideas, taxation matters, and SBP financing schemes. The chamber termed the excessive documentation, cumbersome procedures, and post documentation inspection visits as big hurdles which discourage the registration process. This, though was termed as a barrier to timely awareness being off

the SMEDA’s radar. Furthermore, to get membership of ICSTSI, the trader must be a tax filer with an NTN number; thus once undocumented, the firms can remain off the grid from many relevant forums. On the ground, Multan Chambers of Commerce and Industry (MCCI) is also trying to make businesses aware and prepared, especially SMEs, through seminars and meetings with the higher officials.

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*“We are aware of the opportunities, and we want our local industry to be aware of these benefits as well, for which we try to engage them through SMEDA, which conducts awareness seminars, and have started awareness campaigns all around the country. The Chamber also has meetings with FBR, FPCCI, Chinese stakeholders, and MOIP regarding SMEs integration in CPEC.”*

**(Respondent from MCCI)**

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**(a) Lost SMEs**

The 2013 ICSTSI ordinance has added further to the already existing several definitions of SMEs. ICSTSI can accept memberships only from the firms with paid-up capital between PKR 2 to 20 million, which falls under no official definition. Thus, we can expect that lack of observance of a single definition has brought genuine issues on the ground, and policymakers need to resolve this at all relevant forums (Table 7.3).

Table 7.3

*SMEs Definition Currently Being Observed in Pakistan*

<b>Organisation</b>	<b>Definition</b>
SMEDA	Any firm that has less than 250 employees, Capital of Rs.25 million and Annual Sales up to Rs.250 million
SBP	A small firm is the one with employees not exceeding 50 and an investment of 25M (maximum) A medium scale firm can have employees no more than 250, and their capital investment can be up to 200M PKR
ICCI	No special differentiation for SMEs. Starts accepting registration of firms with NTN having a minimum annual turnover of PKR 50 million
ICSTSI	A registered business with NTN and annual turnover between PKR 2 to 20 million
<b>International Organisations</b>	
World Bank	A registered business with less than 250 employees and have assets and annual sales of less than \$100,000
European Union	A firm with employees less than 250 and an annual turnover is less than 50M Euros

**7.4.6. Insight from SMEs**

The SMEs of Multan were categorised into three categories that are handicrafts, textile, and fruit processing units. These SMEs were further divided into categories from which interviews were conducted. The SME’s perspective is the foundation of our findings and analysis for this subsection.

- (i) **Handicrafts Cluster:** In the handicrafts cluster, SMEs with blue pottery and camel skin products in Multan were covered. Most of the businesses were categorised into small enterprises (SEs) because they are home-based. The list of these businesses was provided by TEVTA and PSIC because they are facilitating these SEs. Blue Pottery of Multan is the most famous around the world. The units of blue pottery and camel skin products are established in homes and the two departments are dealing with the facilitation of these businesses, TEVTA and PSIC. In terms of financial assistance, PSIC and NBP also provide these businesses the interest-free small loans. Whereas, in terms of technical assistance, TEVTA provides vocational training. They have established training institutions in Multan, such as the Institute of Blue Pottery in Multan. They were not aware of SMEDA as an organisation for the facilitation of SMEs because of a lack of interaction with them. However, Punjab Small Industries Corporation (PSIC) supports them by buying their products and selling from their shops that PSIC has developed to promote these handicrafts.
- (ii) **Textile Cluster:** In the cluster of Textile, SMEs with businesses of Handlooms, Power looms, Cotton Ginning and Weaving and Bed wear were interviewed. These SMEs are in a better position than the handicrafts SMEs to some extent because they are involved in government schemes and projects on and off through SMEDA, PSIC, and TEVTA. These medium enterprises (MEs) are satisfied with the banking facilities for loans, but the sampled firms never approached the SME bank because they were unaware of it. They were aware of SMEDA and its facilities, though. However, the SEs of handlooms and power-looms were not aware of SMEDA or SME Bank.
- (iii) **Food Processing Cluster:** The food processing cluster comprises the major portion of Multan SMEs of fruit pulp processing units and packaging units. The SMEs in this cluster were more stable and developed than the other SMEs in other clusters. Their businesses have expanded in the last five years. The Labour force is skilled well as the major portion is of daily wage labourers, which is unskilled. When asked about approaching banks for loans, they claimed that the banking process for loaning facility is difficult to understand and complex. However, MEs are satisfied with the banking facilities. They are well aware of SMEDA as a facilitator and policymaker for SMEs. They also are invited to the awareness sessions or workshops organised by SMEDA in Multan. MEs are performing better and stable than SEs as they can easily get loans for expansion.

According to the respondents of the SEs of handicrafts cluster, their business has declined during the last five years. As they are micro industries, so they do not trade outside the country. They face several constraints in their businesses, but the financial constraint is the foremost issue for them. Although they apply for loans in banks but SEs, applications are rejected due to lack of collateral.

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*“Banks are not favourable for us to take loans because they have the complicated process, as well as they, ask for collateral as guarantee which we, as small enterprises, do not have” (Respondent from Handicraft Cluster)*

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The handicraft SEs do not get the required profit for their work. They complained that there is no tax exemption or subsidy for them by the government. The second major constraint they face is the role of the middleman in the dealing of their business. The owners of these SEs are not educated; therefore, they get easily exploited by the higher authorities. One of them stated that;

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*“The craft making is time taking activity and needs sufficient skills as well. However, the profit we get is meager as compared to our input. We also face a shortage of buyers in the market. We then have to approach middlemen for selling our products. In that way, we do not get the idea about the real price of our products.” (Respondent having a business of camel skin products)*

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In the textile cluster, Multan has the highest number of handlooms in the country. But unfortunately, this sector was unable to attract foreign buyers for their products due to increased competition in the market and lack of funds for expansion of their businesses. Another major constraint that the handloom businessmen have to face is the role of middlemen. These businessmen cannot approach the market directly and do not have the required information about the market demands due to illiterate entrepreneurs. They produce what they are told to by the middlemen and associations. In this way, they do not get what they deserve for their products. On the other hand, MEs are performing better than SEs in textile because they are financially stable. Similarly, the SMEs of the power loom sector is majorly home-based businesses. The present production of existing looms and quality of the fabric is catering mostly to the lower end of the export markets that are low quality, low price and hence is unable to fetch good unit prices. The power looms face major setbacks due to the energy crisis in the country. The role of middlemen is again an issue for these SMEs due to their lack of education and information about the foreign demands and products.

In the case of cotton ginning and weaving SMEs, the situation is not much different. The ginning sector has been adversely affected by the electricity crisis, which has been one of the most pressing problems the country faces. Also, the cotton produced in Pakistan is considered of lower quality due to impurities and contamination, hence unable to meet the international standard required for exporting cotton. To survive as an SME, business owners believe that experience was the most essential element, followed by education. Most businesses are either family-owned or established by the owners themselves. The major constraint that they face is outdated technology or limited technology, and the reason behind the lack of automation and mechanisation in this segment is linked to the unavailability of funds to the small manufacturers for the purchase and installation of such machinery. These businesses required many suppliers to meet their inventor needs. In the cluster of Food Processing units, the major constraints these SMEs face are the lack of funds for up gradation of capital, less skilled labours, low training opportunities, and high cost of production due to technological advancement.

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*“Production is insufficient because the demand for Mango and other food products increases every year. Due to limited capacity, producers/dealers process their food from private factories that charge them a higher cost. A request has been sent to Government for its expansion or some new units in this area to meet the requirements of the manufacturers.” (Respondent from Agro Food Processing)*

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It is concluded that the SMEs of Multan showed satisfaction with the facilities provided by the Government organisations, including SMEDA, PSIC, and TEVTA. But they complained about the non-availability of adequate funds or loans for the expansion of their businesses. Most of these manufacturers are not well-educated, so there are several misperceptions regarding government organisations like SMEDA and SME Bank. However, MEs are more stable and involved in the loan process than SEs due to sound financial condition and education. Regarding financial assistance, the SEs are not satisfied with the services because commercial banks ask for collateral for loans and SEs do not have such a guarantee. On the other hand, MEs are satisfied with the financial services provided by the financial institutions.

Regarding technical assistance, technical and vocational training are provided to SMEs by TEVTA and PSIC (for SEs) for their capacity building. On the other hand, policy-makers, facilitators and financial institutions claimed that only particular businesses are targeted for the trainings which included textile, food processing and logistics sector because these clusters will be the most demanded in the initial phase of CPEC. However, they are planning to include SMEs, especially SEs from other sectors of the district in the training and workshops in the near future. They are also planning to improve their general facilitation in all the districts through marketing.

## **7.5. CONCLUSION**

SMEs are considered as growth incubators or foundation enterprises for the sustained development of the economy of any country. They are labour intensive; hence, they generate employment opportunities in the economy at a massive level. The developed countries such as China, Italy, and Japan are exemplary models because they have focused on the development of their small industries and made them independent and competitive through policy initiatives taken on a massive level. As a result, these SMEs were able to contribute up to 60-80 percent to the growth of these economies. The role of SMEs is important in the development of mega development projects to promote Global Value Chains (GVC) and International Production Networks (IPN), in which SMEs were given opportunities to establish their businesses in these directions.

The findings of the study revealed that the officials are well aware of the prospects for SMEs. The new SME Policy is under approval in which SMEs are focused on innovations and facilitation. MEs were relatively more aware and wanted to expand their businesses, nevertheless, SEs were not aware of market conditions and future expansion mainly due to lack of education, lack of finances, and small size in the market. SMEs do not have any formal setup for R&D departments, thus lacks in innovation. However, the authorities like PSIC and TEVTA are organising training and workshops for the awareness as well as the preparedness of the SMEs.

## **7.6. POLICY RECOMMENDATIONS**

From the above findings and discussion, various loopholes are identified for SMEs and the supporting organisations. This section covers the policy recommendations based on findings and literature. Following are the key policy interventions proposed to build a strong nexus of SMEs and growth.

**(a) Mass Awareness Campaign among SMEs**

According to our findings, SMEs lack proper information on these projects due to illiterate managers and less exposure to the international market. Therefore, to take the local investors into confidence, the authorities at the federal and provincial level must plan mass awareness sessions about the potential projects for SMEs and the opportunities for SMEs in the international market by using cost benefit analysis and technical approaches.

The government must provide doorstep financial and technical assistance to these organisations for conducting these campaigns and roadshows. These awareness sessions must be conducted in collaboration with electronic and print media and public meetings. Similarly, training sessions and workshops must be organised for the targeted clusters among SMEs related to CPEC projects to fulfil skilled labour demand. SMEDA must be given a special budget for the organisation of such awareness and training sessions with respect to the potential projects for SMEs under CPEC. The Federal and Provincial Government must facilitate SMEDA, TEVTA, and PSIC to expand their facilitation by establishing help desks in all the country districts.

**(b) Strengthening the Role of SME Bank**

SBP must continue special refinancing schemes and credit guarantee schemes and direct all commercial, financial institutions strictly following these schemes. Moreover, SBP must declare SME Bank as a priority financial institution for the facilitation of SMEs. A special budget must be allotted for SME Bank by the government for marketing and awareness sessions for the SMEs.

**(c) Strengthening Inter-Organisational Coordination**

It is evident from the findings that coordination between the organisations was very weak. Therefore, organisations like PSIC, TEVTA, Chambers of Commerce and Industries, Business representative, associations, and other financial institutions must be connected with the SMEDA to build inter-organisational coordination. Moreover, SMEDA and SME Bank must work together in policy-making decisions regarding SMEs. The inter-coordination between these organisations will build a business-friendly environment for the SMEs due to ease of accessibility, provision of proper information regarding facilities and policymaking initiatives in national policies including labour policy and SME Policy.

**(d) Introduction of Global Value Chains and International Production Networks for SMEs**

The concept of GVC and IPN is followed globally under which the SMEs of particular sectors are incentivised for the expansion of their businesses and linking these with the international markets through new trade routes provided by the economic corridors and settling their businesses along those routes. For this purpose, particular global value chains and production networks for SMEs must be identified at first by the government. Then, the Government must plan and offer incentives for SMEs to invest in particular businesses, which will serve as backup for LSEs.

**(e) Alignment of SME Policy with CPEC Long-Term Plan (2017-30)**

Following the execution of CPEC in the country, it is important to revisit and modify our policies regarding demands of CPEC. Hence, keeping in mind the importance of SMEs for inclusive development, the Government must formulate a framework for the inclusion of SMEs in CPEC projects under the revised SME Policy. The principles, objectives, and policy recommendations in the SME Policy 2007 must be revised in consideration of the demands of CPEC and the role of SMEs. Under this framework, the existing and new avenues for SMEs in SEZs and infrastructural projects must be identified so that they can benefit from the opportunities placed in the industrial and agriculture sector. All the federal and provincial stakeholders working for the SMEs, business representatives of SMEs, and associations must be involved in formulating this framework for a representable and demand-driven policy intervention.

**(f) One Window Facilitation for SMEs**

According to the Doing Business Rank 2020, Pakistan ranked 108 out of 190 countries. It means that starting a new business is far more difficult in Pakistan in terms of the complex registration process, getting permits, access to financial assistance, and dealing with the taxation process. To improve the ease of doing business, one window facilitation for the SMEs must be introduced in the light of the revised SME Policy. The authority of one window facilitation must be given to SMEDA and SME Bank because they are the organisations established solely for the facilitation of SMEs in the country. The revised SME Policy must direct the collaboration of SMEDA and SME Bank so that SMEs can get all the facilities, including registration, financial, legal business development services, under one umbrella. The cost of doing business will be lowered in this way, and SMEs will be encouraged for legal certification as well.

**ANNEXURE-I**

**SMEDA: Mandate, Initiatives and Challenges**

In order to develop SMEs in the country, Small and Medium Enterprise Development Authority (SMEDA) was formed in 1998. SMEDA is the mandated to facilitate SMEs in Pakistan and help firms to overcome their weaknesses and realise their potential. It is an independent body working under the Ministry of Industries & Production (MOIP) for the growth and development of SMEs through creating and promoting;

- (i) Conducive regulatory environment;
- (ii) Industrial clusters; and
- (iii) Business Development Services to SMEs in all areas of business management.

Over the time, SMEDA has initiated a number of cluster development projects especially in the areas of leather garments, carpet weaving, cotton ginning, auto sector, marble & granite, glass bangles cluster, fruit processing, fishery, furniture, and ceramic kilns. They have taken several initiatives such as ‘Technological Up gradation, access to Formal Finance for SME clusters, Marketing support, establishment of Common Facility

Centres (CFCs), Improving Human Resource skills and Awareness on International Certification & Regulations.’

SMEDA also offers ‘Business Development Services’ to SMEs in all four regional offices. Under these services, SMEs are provided support on different aspects such as Project Briefs, Pre-feasibility Studies and guidance on Regulatory Procedures. SMEDA also offers specific advice to SMEs on different problems. In addition, these helpdesks provide Human Resource Training services by conducting extensive training on need analysis of different SME clusters. Moreover, currently SMEDA has a range of twenty-eight projects with a total outlay of Rs.4.2 Billion under Public Sector Development Project (PSDP) which includes provincial projects in Punjab and Khyber Pakhtunkhwa (KPK).<sup>133</sup>

On policy awareness, SMEDA organises annual National SMEs Conference and Expo in collaboration with business representatives, financial institutions, Government organisations, international partners and private sector. The first conference was held in 2016<sup>134</sup>.

### ***Regional Business Centres***

The Regional Business Centres (RBCs) of SMEDA are a ‘One Man Office’ i.e., only one person is leading RBC in the region. There are total twelve RBCs of SMEDA all over the country which includes Abbotabad, Dera Ismail Khan, Lahore, Faisalabad, Gujrat, Multan, Gujranwala, Sialkot, Rawalpindi, Rahim Yar Khan, Dadu and Ghotki. RBCs provide facilitation only and do not have Research and Development (R&D) unit or policy role, but the rest of the functions are similar as of the Head Office, SMEDA.

### ***Financial Services***

On financial front, SMEDA Head Office and RBC do not provide direct financial services or loans to SMEs. However, it has ‘Financial Services under the department of Business & Sector Development Services (B&SDS). The financial role of SMEDA is divided in to four sub-categories that are ‘Supportive role, Advisory services, and SME Financing Products and Financial publications’. SMEDA is playing supportive role for SMEs in terms of conducting ‘Financial Analysis’ or pre-feasibility studies in their sector studies which includes historical status of that particular sector in business market, competitive analysis and source of financing in that sector. SMEDA also prepare ‘Financial models’ or business plans for their clients on their request. One of the respondent from SMEDA Head Office told that;

*“We have prepared up to 200 pre-feasibility studies published so far which are also available on our official website. Whenever a client visits SMEDA and asked which business he/she should start, we give them briefing on these pre-feasibility studies for their information.” (Respondent from the Business & Sector Development Services Division, Head Office, SMEDA).*

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<sup>133</sup> “SMEDA Official Website” [http://www.smeda.org/index.php?option=com\\_content&view=category&id=34&Itemid=164](http://www.smeda.org/index.php?option=com_content&view=category&id=34&Itemid=164)

<sup>134</sup> <https://smeda.org/smeconference/index.php/1st-sme-conference/>

Furthermore, for financial assistance, reference-based loans are provided to SMEs for which the regional office assists their clients for completion of their documents for loan application to respective banks. Moreover, RBC have also Memorandums of Understanding (MoUs) signed with the banks and helps them designing their schemes for the SMEs. In this regard, the respondent from RBC Multan told that;

*“We refer our clients to the banks as well for loans and help them in completing their documentation for the application of loans. We have Memorandums of Understandings with the banks like right now we have signed a MoU with the Bank Alfalah for easy loans for SMEs. Whenever, we organise any event in the district or regional level, we invite banks to set their help desks in these events for the easy accessibility of our clients”*

For SME financing, SMEDA guides the financial institutions about the demands of SMEs regarding loan facilities. It also updates the information of banking services related to SME financing on its website periodically and make it accessible through one portal on its website named as ‘SME Financing Products Database’. Furthermore, an accounting software ‘SMEDA Accounting Package (SMAP)’ is also introduced for the training of SMEs on book keeping.

*“We provide basic training of SMEs on book keeping and preparing financial statements for themselves because most of the SMEs do not keep record of their business matters due to lack of education and guidance, as a result of which, they face difficulties in approval of loans from banks.” (Respondent from RBC Multan, SMEDA)*

### ***Business Development Services***

For business development, SMEDA works on a hierarchical agenda. First, a sector is identified, then within that sector, sub-sector is formed and under a sub -category, cluster is formed. For these clusters, SMEDA conducts diagnostic studies (complete profile of that district as well as that sector/ cluster), available for everyone on the website so that the clients and new entrants should have complete information of that region/ district before starting a business. SMEDA guides its clients on the spot regarding their queries about business start-up, investment plan, feasibility studies, legal matters, or refers them to other resource persons as well. It also design Customised Business Plans on subsidised cost for the new entrants.

SMEDA also facilitates SMEs through projects as well. There are NGOs which provide short term grants for their projects to SMEDA for technical assistance like setting up businesses for SMEs. Then, SMEDA also supports Pakistan Poverty Alleviation Fund (PPAF) and their partner organisations in several schemes. Financial support is provided through grants from these organisations while technical support is provided by SMEDA such as setting up their model frameworks and hiring consultants for that project. ‘Industry Sector Program (ISP)’ is also initiated by SMEDA in 2004 in which it works in collaboration with the national and international organisations for transferring of technical expertise and assistance to the local investors.

Then, SMEDA also gets share in PSDP projects as well for which funding is provided by government but implementing authority is SMEDA for those projects. Other

than PSDP projects, there are funded projects of United Nation Organisation (UNO), United States Agency for International Development (USAID) and World bank as well, for which Government also gives quarterly funds through Ministry of Industries and Production (MOIP) for execution of these projects. SMEDA also facilitates through Public Sector Development Program (PSDP) annually.

*“There were 18 PSDP projects of SMEDA completed in 2017 and five to six projects are under process of approval for this year, 2018 under PSDP. The successful PSDP projects of SMEDA include fruit processing plants in Multan, facilitation to the people of KPK and Ex-Federally Administered Tribal Areas (Ex-FATA) who lost their businesses during war against terrorism, Cutlery project in Wazirabad, Granite Plant in Baluchistan, Foundry Services Plant in Lahore, Honey Processing Plant and Fruit Processing Units in Swat, Business Centres in Gujranwala, Sports Goods in Sialkot, Spices Processing Plant in Kunri (Sindh), Women Business centres in five regions Karachi, Lahore, Quetta, Peshawar and Swat. Mega projects of SMEDA under PSDP covered Embroidery, Marble & Granite and Gems & Jewelry which later on had converted in to separate independent companies/businesses like ‘Aik Hunr Aik Nagar (AHAN)’, Pakistan Gems and Jewelry Development Company (PGJDC).” (Respondent from Business & Sector Development Services Division, Head Office, SMEDA).*

### ***Capacity Building Services***

In case of capacity building, SMEDA has an annual calendar of activities which includes scheduled trainings based on demand of the market or participants. It organises vocational trainings for SMEs annually 10- 12 in every region. The trainings are conducted for Export documentation and Human Resource trainings as well.

### ***Potential Identification Services***

For potential identification, the research wing of SMEDA publishes studies on the sector specific analysis to improve exports and surveys of SMEs. In these studies, there is a separate section of ‘potential projects’ at the end, which serves the purpose of identifying the gap where new investment is needed in the potential projects. District profile is also published which includes Human Resource (HR) profile, climate, sector identification and potential projects in that particular district. For potential identification, RBC Multan provides information related to required raw materials and business options.

### ***Legal Facilities***

For legal facilities, SMEDA provides contracting services for the SMEs in which SMEs are informed about the regulation related to businesses and also provides legal opinions for their issues. Regional Business Coordinators are trained for legal purposes so that they can guide their clients. SMEs have an easy access to legal and commercial contracts in a separate section ‘Regulatory Procedures’ on our official website where clients can get all the information regarding legal matters. There are also help desks for one to one information for the SMEs where they can get information about company formation, registration or other services. Moreover, there is a ‘legal cell’ in which legal experts and lawyers are available in every RBC and Head Office.

*“For legal services, legal help desks are organised on monthly basis for which experts are invited who tell the clients about financing options and requirements. Either RBC Multan advertises about these helpdesks or conveys through chambers which they forward to their groups.” (Respondent from RBC Multan, SMEDA)*

### ***Constraints and Challenges for Organisations and SMEs***

SMEDA is the only direct facilitating body for SMEs among facilitators and policy makers therefore, there are some of the challenges that SMEDA has to face in general as well as while dealing with SMEs. First, SMEs misconceive SMEDA as a loan provider or financial assistant for SMEs, which is not true because SMEDA is a facilitator only. The second major challenge SMEDA has its low outreach and human resource to SMEs. Third challenge that SMEDA is facing is the inadequate funds from government and immobility. Fourth challenge is related to RBC Multan, the SMEs are not registered so RBC cannot reach out these SMEs. Registration body is SECP which do not have much work to do with SMEs and RBC does not have any coordination with Securities and Exchange Commission of Pakistan (SECP). Moreover, they inferred that SMEDA must be a registering authority to keep record of these SMEs.

*“There are only 22 stations of SMEDA functioning all over the country. SMEs out of these 22 stations do not have an easy access to our organisation. The organisation has less than 100 employees in all branches. RBC is led by only one person and the regional matters are dealt by this person only (Respondent from RBC Multan, SMEDA).*

On the other hand, the respondents told that there are number of constraints for SMEs in the market such as unfriendly business environment due to complicated process of registration which may irritate new entrants for business startup, lack of financial support because banks provide loans to SMEs on the basis of collateral which many of the SMEs may not be able to provide, lack of skilled labour, lack of complete or adequate knowledge, lack of experience and technological constraints.

*“There are two major constraints for SMEs that are incomplete information and lack of financing. In addition to that seriousness of SMEs is also an issue; they invest their money in different avenues and at the end they face difficulty in return of loans that is proper utilisation of loan is their issue. Understanding of SMEs is also a problem because creativity or new ideas are missing. There is no innovation or technical education for these SMEs. They also feel hesitant in legal documentation” (Respondent from RBC, Multan Head Office).*

Though the objectives highlight the mandate of the organisation, SMEDA over the years has evolved as an organisation to support SMEs and take a stock of what has been done. SMEDA has assessment mechanism in place while it has also developed five-year business plan for the institution as well as SMEs. The SMEs vary geographically and regionally therefore SMEDA continuously scrutinise in terms of what SMEDA can deliver itself and what it offer in collaboration with other organisations to facilitate the SME ecosystem.

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