

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

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Roadmap of Presentation

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Introduction

➤ What is Small and Medium Enterprise (SME)?

- Hundreds of definition of SMEs around the globe.
- According to '**National SME Policy 2007**', SME is defined as the
 - 'Enterprise with an Employment Size up to 250, Capital of Rs.25 million and Annual Sales up to Rs.250 million.'
- As defined by **State Bank of Pakistan**;
 - A **Small Enterprise (SE)** is a business entity which does not employ more than 50 persons and annual sales turnover is up to Rs.150 million.
 - A **Medium Enterprise (ME)** is a business entity which employs more than 50 employees and less than 100 employees in case of trading establishments. In case of manufacturing & service establishments, employs more than 50 employees and less than 250 employees. For all MEs annual sales turnover is over Rs.150 million and up to Rs. 800 million.
- As defined by **National SME Policy 2021**;
 - Yet to be confirmed!!!

SMEs definition currently being observed in Pakistan

Organization	Definition
SMEDA	Any firm that has less than 250 employees 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
PSIC	Small scale business or cottage industries with fixed investment up to Rs. 20 million
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
International Organizations	
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

Importance of SMEs

- Small & Medium Enterprises (SMEs) play a vital role in **accelerating economic growth of both developing and developed countries** through;
 - a) Trade
 - b) Technology
 - c) Investment
 - d) Entrepreneurship (Innovation in production cycle)
 - e) Poverty alleviation by employment generation
- Factors having a significant role in the development of SMEs include;
 - a) Macroeconomic Environment
 - b) Government Policies for Promotion of Investment
 - c) Structural Characteristics of the Economy
 - d) Microeconomic Factors like structure of the enterprises.
- The share of contribution of SMEs in the developed countries is;
 - China (60%), Malaysia (47.3%), Germany (57%), Korea (50%), and Japan (55.3%)
- According to the Pakistan's National SME Policy 2007, there are 3.2 million SMEs but according to the current statistics, the number of SMEs has reached up to 3.8 million.
- According to the MOIP, SMEs are contributing up to 30% to the GDP.

Problem Statement

- Though, SMEs are the largest contributor to employment generation in the country i.e., 78% of non-agriculture sector employment, and having 25% of the share in exports of the country but they contribute only 40% to the value addition in the economy (MOIP)
- It is important to focus on the development of domestic industry especially SMEs and make it an explicit part of the development agenda.
- For this to happen, it is important to find out the perception of policy-makers, facilitators and financial institutions regarding the development of SMEs & to explore and learn about the avenues of opportunities, challenges and expectations of the SMEs

Objectives of the Study

- The objectives of this study is to explore:
 - The policy framework for dealing with SMEs
 - Assess the role of Government by understanding the role of organizations like MOIP, SMEDA, PSIC and TEVTA
 - The challenges anticipated by business Chambers and the SMEs

Data & Methodology

- The following points explain the assessment tool adopted for analysis of each aspect.
 - SME sector performance review-Review of Literature
 - SME Policy, Regulations, and Facilitation in Pakistan- Document analysis
 - Insights from SMEs-Interviews with Manufacturers (case study of Multan)
 - Insights from sector' facilitators-Interviews with:
 - SMEDA (Head office and regional office)
 - Technical Education and Vocational Training Authority (TEVTA)
 - Pakistan Small Industries Corporation (PSIC)
 - Islamabad Chamber of Commerce and Industry (ICCI),
 - Islamabad Chamber of Small Traders and Small Industry (ICSTSI), and
 - Multan Chamber of Commerce and Industry (MCCI)

Continued...

➤ Sampling Method

- Random Sampling was adopted for the selection of SMEs from the clusters defined by SMEDA, PSIC and TEVTA.
- Interviews consisted of 'In-depth and Key Informants' interviews from the selected SMEs and government official stakeholders

No.	Type of Interviews	Sample Size
1.	In-depth Interviews	17
2.	Key Informants' Interviews	14
No.	Categories of SMEs in District Multan	Number of In-depth Interviews
1.	Textile	8
2.	Food Processing Units	5
3.	Handicrafts (Blue Pottery & Camel Skin Products)	4
		Total=17

Sr #	Stakeholders for Key-Informant Interviews	Number of Interviews Conducted
1.	Small and Medium Development Authority (SMEDA) Head Office, Lahore	3
2.	Regional Business Center (RBC) Multan, SEMDA	1
3.	Multan Chamber of Commerce and Industry (MCCI)	2
4.	Pakistan Small Industries Corporation (PSIC), Multan	3
5.	Technical Education and Vocational Training Authority, Multan (TEVTA)	2
6.	Islamabad Chamber of Commerce and Industry (ICCI)	1
7.	Islamabad Chamber of Small Traders and Small Industry (ICSTSI)	2
	Total	14

Findings & Discussion

Ministry of Industries and Production (MOIP)

Definition of SMEs

As per SME Policy 2007, defines SME as an entity having employment size up to 250, paid up capital up to Rs. 25 million and annual sales turnover up to Rs, 250 million

Role of MOIP in Policy making

Facilitating body for the development of industrial sector of the country through policy interventions, Medium Enterprises Development Wing (MED) and Professional Skills Development Wing (PED),
In favour of revision of The SME Policy

Development of SMEs

Industrial Infrastructure Development Wing (IID), Joint ventures in the proposed nine SEZs, Pakistan Industrial Technical Assistance Centre (PITAC) and Technology Up gradation and Skill Development Company (TUSDEC)

Small and Medium Enterprises Development Authority, SMEDA

Core Facilities for SMEs

Pre-feasibility studies, SME Financing Products Database, SMEDA Accounting Package (SMAP), Diagnostic studies, Customized Business Plans, PSDP Projects, Vocational trainings, Legal cells

Definition of SMEs mentioned in the SME Policy 2007, planning to align the definition of SMEs with the definition given by SBP

Role of SMEDA in Policy making

Direct input in policy making process, Revision of SME Policy 2007

Challenges for SMEDA and SMEs

SMEs misconceive SMEDA as a loan provider, ownership issues after 18th amendment, low outreach and human resource to SMEs from SMEDA due to inadequate funds, Registration of SMEs still a problem

View on Development of SMEs

SMEs are important stakeholders for 'Technological transfer', direct benefits from SEZs, Joint ventures, competition, MEs & LSEs are aware and prepared of emerging economic opportunities

Multan Chambers of Commerce & Industry, MCCI

Core Facilities provided to SMEs

Contact Organization (representing businesses) for other organizations such as SMEDA and PSIC, use Chambers Office for conducting their trainings and sessions for SMEs, helpdesks in Federal Board of Revenue (FBR), TEVTA, State Bank of Pakistan, SMEDA and National Crafts Council (NCC)

Role of MCCI in Policy making

Policy advocacy,

sends recommendations to the Ministry for
budget

Punjab Small Industries Corporation (PSIC)

Engagement with SMEs

Caters only small scale business mostly home-based or cottage industries with fixed investment up to Rs. 20 million

Core Facilities provided to Small Scale Industries (SSIs)

Small loans to SSIs starting from 5 lac, Only one interest free loaning scheme for SMEs - loan of 2 lac with three years repayment duration

Specifically those SSIs (clusters) of hand embroidery, products of camel skin, products from camel bone, local shoe (khussa) makers, and khaddi/handlooms

Development of SMEs

At micro level, small units are not concerned about overall macroeconomic developments

It is for sure that CPEC will impact our industry but more in negative sense. However, home-based cottage industry might not get affected adversely due to the unique technique or expertise

Technical Education and Vocational Training Authority (TEVTA)

Importance of TEVTA

- Provides technical and vocational education to the people for a productive and competitive labor force in Punjab
- 18 institutes of TEVTA in Multan

Core Facilities

- 19 services center in different regions of the country based on six streams including ceramics, woodworking, agricultural sector, leather, small tools and machinery and textile.
- Government Polytechnic Institute for Agriculture Technology and Institute of Blue Pottery, TEVTA had an agreement with AKHUUWAT to provide funding of Rs. 500 million

Role of CPEC

- *“TEVTA has established Punjab Tianjin University of Technology (PTUT) with the collaboration of three Chinese universities to provide graduate programs in electrical engineering, automobile engineering, mechanical engineering, fashion design, textile engineering for the young generation. Trained 2000 students in Chinese language. Moreover, we are planning to set up our institutes along the route of CPEC for the easy accessibility of people from underserved areas.” (Respondent from TEVTA, Multan)*

Role of Islamabad Chambers of Commerce and Industry (ICCI)

- No specific differentiation between SMEs and large enterprises
- Registers any firm having turnover of above PKR 50 million
- Engagement with policymakers and policy facilitators is its routine job to seek ease of business
- In brief,
 - No special focus on SMEs

Role of Islamabad Chambers of Small Traders and Small Industries (ICSTSI)

- In regular contact with SMEDA, helping SMEs with business ideas, taxation matters, and SBP financing schemes
- Accept memberships only from the firms with paid-up capital between PKR 2 to 20 million, which falls under no official definition
- Excessive documentation, cumbersome procedures and post documentation inspection visits, are the big hurdles
- Lack of registration with SMEDA keeps the firms off the radar, hence such firms lack awareness
- In brief,
 - Many firms are off the radar
 - Procedures and post-registration documentation encourages owners to avoid formal registration

State Bank of Pakistan (SBP)

Core Facilities for SEs and MEs

Provide guidelines and regulations for other commercial banks for the sound facilitation of SMEs, SME Specific Credit Policy”, ‘Clean Facility’, SBP provides 60% payback guarantee of loan, Management Information System (MIS) for the reporting of problems of SMEs, SEs-loan up to Rs. 25 million from all banks , cash-base lending for SEs. MEs-loan up to Rs. 200 million

Role of SBP in Policy making for SMEs

Redefining SMEs, formulating schemes for SMEs policy making and providing guidelines to other banks, ‘Prudential Regulations for Small and Medium Enterprises’

Definition of SMEs;
Categorized in SEs and MEs separately in 2013

SME’s Development

Loan refinancing facilities during Covid-19

Challenges for SBP and SMEs

“The constraints that commercial banks has to face while dealing with SEs is more than the MEs because of lack of expertise of SEs in financial services, lack of education, improper documentation, improper maintenance of accounts and book keeping.”

Continued... Textile Cluster



Handlooms, Power looms, Cotton ginning and weaving and Bed wear, mostly comes under the MEs,
Interested in expansion of their business
Engages in government schemes and projects through SMEDA, PSIC, and TEVTA

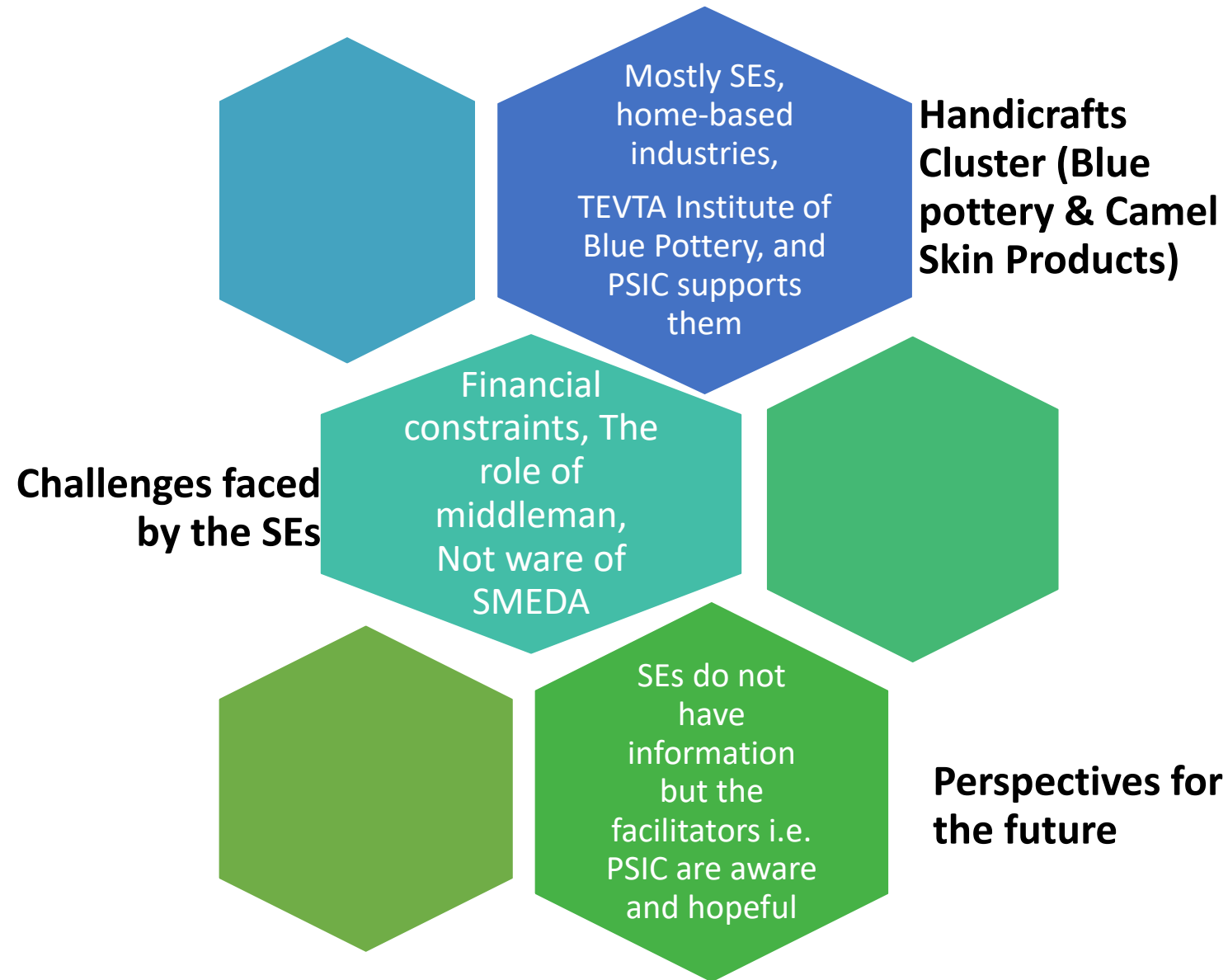
Constraints : The SEs of handlooms and power-looms were not aware of SMEDA or SME Bank.

High competition, Role of middlemen, Energy crisis are the issues



No R&D: Firms lack awareness about available modern technology

Continued...The Manufacturers...



Continued... Food Processing Units



Fruit pulp processing units, agro food processing units and packaging units, MEs are performing better and stable than SEs,

SMEs were interested in expansion and ready to align their business with new demands



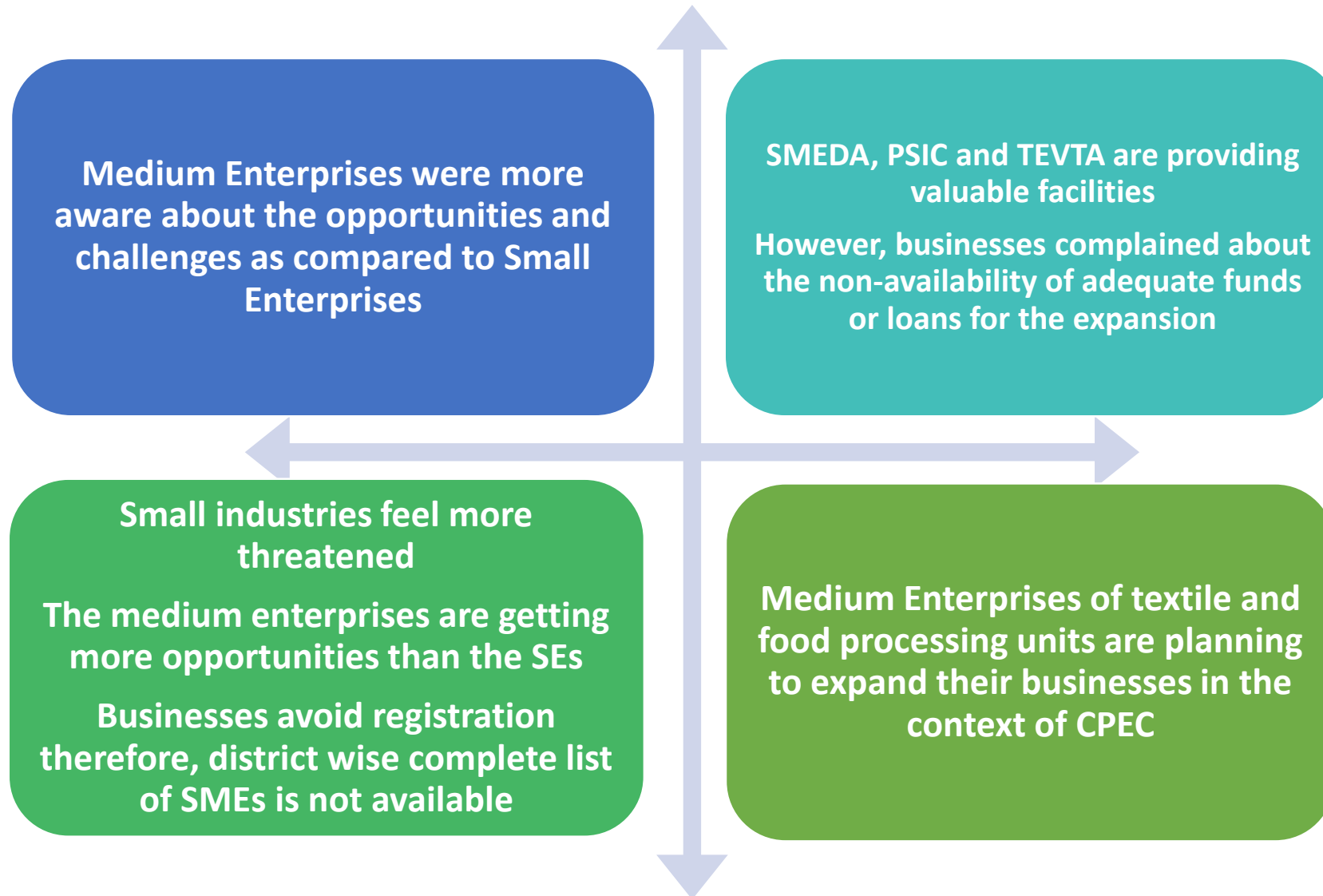
Agro Food Processing Unit in Multan Industrial estate, established by SMEDA, PSIC and MCCI,

Four types of services; business facilitation, consultation services, technical expertise in pulp extraction, packaging and grading services for the growers, farmers, processors and businessmen



Constraints: lack of funds for up-gradation, less skilled labor, low training opportunities and high cost of production

Summary of the Findings...



Policy Recommendations

Revision of SME Policy

- The SME Policy 2007 must be revised
- Formulation of a single definition of SMEs needed
- Registration of all SMEs in the country needed to help better targeting

Strengthening Inter-Organizational Coordination

- Organizations like PSIC, TEVTA, Chambers of Commerce and Industries, Business associations, and other financial institutions must be connected

One Window Facilitation for SMEs

- One window facilitation must be given at SMEDA and SME Bank
- The revised SME Policy must get all the facilities including registration, financial, legal business development services, under one umbrella

Continued...

Role of Government

- The Government must keep its emphasis on creating awareness among the SMEs
- Propagate opportunities for SMEs in the international market
- Outweigh benefits of registration (through extended facilitation) over its costs
- SMEDA, Chambers of Commerce and Industry, Financial institutions and academia must form a collective R&D committee for the SMEs

Coordination between the Stakeholders

- SMEs must be incentivized for the expansion of their businesses and linked these with the international markets through new trade routes provided by the economic corridors
- The provincial governments must instruct the provincial TEVTA offices and Regional Business Centers of SMEDA to conduct seminars and workshops on future prospects of the SMEs

Alignment of SME Policy with Long-Term Plans

- SMEs must be capacitated (through information, business plans, start-ups and loan facilities) to cater opportunities in wake of CPEC
- Link SMEs with the international markets through new trade routes



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