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(An analytical commentary upon SME policy
proposed by SMEDA Pakistan)

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This research work is attributed to Shahid Saleem of Hailey College of Banking and Finance, 5th Constituent College of University of Punjab, Pakistan. The university has been oldest university; established under British rule in India, & has earned 2 Nobel laureates till date. Also, studying in Managerial level with Chartered Institute of Management Accountants of England & Wales (CIMA) London, founder of IMA (USA), ICWAI (India) & a leader of Management & cost accounting in the world.

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Purpose and Objective of Critical analysis

SMEs and sound financing of SMEs are latest trends in Pakistani educational and banking scenario. Although, the concept got importance during Bhutto regime of 70s, but never gained much strength especially to financial sector, until SMEDA and SME bank had not emerged during last decade. Pakistan, as we know it today, is a developing country with a GDP per capita ranking, recently shifted from Low income countries to Middle income countries, contains a lot to SMEs. Furthermore, SMEs existing in Pakistan are contributing a 30% of national GDP, 25% in export earnings², & employing about 78% of non-agricultural labor force³.

So, it is right time to develop and implement a sound, comprehensive, and coherent policy for all SMEs working in the country. While also right time for government, to develop a practical solution to problems and difficulties of this important, but neglected sector of the past.

As a coincidence which added to my interest in this sector, I belong to a father, who has also notable service related to this very sector as well⁴. Keeping it aside, I want to tell you when I started analyzing this policy; I worked on following main lines, to have a critical analysis for this policy paper of SMEDA, given below:

- ✓ I made a basic research, & studied some basic theories about global emergence/background of SMEs.

² Economic Survey of Pakistan 2003-04

³ According to Census of Establishments 2005, small and medium size enterprises (with employment base up to 99) constitute about 90% of all private enterprises employing approximately 78% of non-agriculture labor force in Pakistan.

⁴ My father, Dr. M. Saleem Bhutta, has worked with **PSIC** (Punjab Small Industries Corporation) and **TEVTA** (Technical Educational & Vocational Training Authority), for a long time in his professional career at middle and senior positions (Govt. 19 Grade & above) throughout province Punjab.

- ✓ Then, I moved to discuss the basic introduction of SMEDA policy, my analysis of Pakistani SME sector and need for this policy, in form of quick review.
- ✓ Then I made a critical analysis of policy objectives /scope/ principles, recommendations, implementation, & monitoring mechanisms.
- ✓ Finally, I made a final conclusion of all above mentioned working of mine with some additional informative links, as well for my report's reader.

Policy Introduction- a Basic Critical Review

This policy is basically the working of SME task force and its 4 working committees⁵. The basic aim of this policy is to develop a SME led private sector to maintain 6+% GDP growth rate, but with reduced poverty, less income distribution, and more employment in the country.

It understood the past policies, schemes and programs made under different political regimes of the country, and try to make a better and comprehensive solution towards sustained growth of SME sector and consistent development of the nation ultimately. But, in its background & purpose, the policy paper lacks the main reason because of what, Youth investment scheme, Yellow cab scheme, & Self employment scheme were failed to achieve their potential goals.

Under Field Marshal Ayub regime, focus was on rapid industrialization and stabilization of the newly born Pakistani large scale manufacturing & trading or any other form of commercial

⁵ As per policy statement on its page 7, "Government of Pakistan constituted a Task Force for SME Policy Development in January 2004 under the chairmanship of Secretary, Ministry of Industries, Production and Special Initiatives. The Task Force, comprising of Government officials and major private sector stakeholders".

activity; concentrated in just few rich hands⁶, as mentioned by Dr. Mahbub ul Haq's "22 families"⁷. Even with nationalization of industries and emphasis on small and medium enterprises under Z.A. Bhutto regime, no sound policy and regulatory framework was developed to discipline both large and SME sector. Both were the most powerful regimes in history of the country, and almost of extremities to each other, even they utilized the best economists of that time to develop some solution to reduce poverty and have better income distribution, the very aims on which this policy (of current regime) in year 2007 targets.

On basis of above critical analysis of introductory portion of this policy, I suggest that instead of better and much heavy regulations for industrial sector, it would be better and much useful to devise fewer policies and regulations, and much focus shall be upon development and awareness of the people acting with those laws, with proper (up-to-date not obsolete) education, quality improvement and control, use of private public partnership, marketing of exports using Pakistani embassies & trade ministry, and sufficient micro-credit schemes like that of Grameen Bank of Bangladesh.

⁶ See: **Wikipedia "Legacy of Ayub Khan"**- He subsidized fertilizers and modernized agriculture through irrigation development, spurred industrial growth with liberal tax benefits. In the decade of his rule, gross national product rose by 45% and manufactured goods began to overtake such traditional exports as jute and cotton. **It is alleged that his policies were tailored to reward the elite families and the feudal lords.** During the fall of his dictatorship, just when the government was celebrating the so-called "Decade of Development", mass protests erupted due an increasingly greater divide between the rich and the poor.

⁷ See: **For SME led growth by Jamil Nasir**, DAWN, November 22, 2007. It is evident that the trend has been pro-elite with the result that big businesses and corporate giants have benefited most from the economic policies that have been adopted. **This led the renowned economist Dr Mahbub ul Haq to come up with his thesis of the '22 families', who were the main beneficiaries of this lop-sided growth of the national economy.** This pro-rich pattern of economic development has further widened the existing polarization between different sections of society.

Policy Objectives and Scope

SME policy suggests a concurrent policy measures in all possible areas of SME development, but main 4 areas are identified as:

- 1) Business Environment
- 2) Access to finance
- 3) HRD
- 4) Support to technology up-gradation and marketing of goods/services.

For implementation, the policy proposes that its recommendations have to be implemented via SME act 2006. Rural sector, women, agro processing units, and other marginalized groups are given a special attention. Development of the level plying field for all small versus large firms in Pakistan is perhaps the most point in this part of the policy.

Comments on Policy Recommendations

It has to be acknowledged that SMEDA policy paper has solved or tends to solve a basic level confusion bout SMEs, i.e., its definition. Absence of such a singular definition had created non-uniformity among various public and private sector institutions dealings with SMEs in Pakistan. Prior to that, various organizations were using different definitions of SME sector (see: Table 1 t end of paper).

Then comes 4 main areas which I have mentioned above on these pages, I will try to review and comment on each of them separately.

Business Environment: Minimum quota classification for SMEs, easy and voluntary registration, Periodic review of SME legislation, creation of equal opportunity ground for SMEs vs. Large scale sector, Cluster development, and infrastructure development polices and purposals should be acclaimed. But, I think that there shall be separated quota for each division of province, especially in Balochistan and sindh where microfinance and SME development can be used to uplift people living standard. Further, no recommendation has been devised towards establishment of SMEs from overseas Pakistanis or foreign nationals, especially when there is very huge scope for such tiny but smart investments especially in fishery, jeans & hosiery making, or acting as raw material value addition unit for crops of this country.

Access to finance: I found⁸ the wordings of Dr. A.R. Kemal, a famous economist that the biggest problem and restriction to this sector is access to finance and he gave some very blackening pictures of that fact as well in his essay. Same is found by a LUMS research study, as mentioned in this policy paper⁹. Recommendations proposed are review of Prudential Regulations, SME quota in annual credit Plan of country, establishment of credit insurance and credit guarantee agencies, incentives for venture capital companies, & use of Islamic modes of financing for SMEs.

HRD and Marketing Support: Likewise other government forums, in this policy it is assured that HRD is major potential scope for Pakistan, and it is accepted with open heart that Pakistan has

⁸ It is my habit (although I have suffered some time shortage for my regular studies due to which) that when I start studying some curricular subject, I made some internet searches and in college library search for 1-2 most related books, so when I began searching for SME subject and hired a book (actually a Research Paper Series, one paper by top Pakistani economists, accountants, & bankers on one topic SME and its possible future role for economic development including my college principal Dr. Khawaja Amjad saeed as well).

⁹ See page 16 of policy: "Also, as per a study by LUMS on 'Barriers to SME Growth in Pakistan: An Analysis of constraints', access to finance, was identified by SMEs, as the single most important impediment to growth".

inadequate and generic education, poorly focused and under serving training infrastructure. SMEs draw most of staff from 2 tiers and much disparity lie in their workings and attitudes:

1. Middle and senior managers from higher education institutes.
2. Lower level clerks and workers from technical/vocational institutes or untrained.

It is irony that still in 2007 when human capital is considered to be epitome of 21st century and as universal primary education included as one of millennium development goals¹⁰ of UN, we are trying to correct our direction (may GOD help us understand this factor now, running and progression towards developed countries level is still beyond imagination).

One of recommendations proposed in this regard is establishment of “centers of excellence” in HRD and marketing, etc. It is stupidly ignored that which type and level of education shall be equipped and what will be after education scope for entrepreneurship or SME management skills development. For technology up gradation, it is proposed that TICs, and R&D projects with public-private sector partnership will be developed. For marketing, it is proposed that directories and membership catalogs will be published, and over the world its distribution will be taken place.

I want to mention my own experience, when I started working on socks manufacturing unit proposal for my curricular project, I found that majority of socks unit manufacturers are facing this basic stupidity and negligence, by not putting up a website, which will not cost you more than few thousand rupees, but can be a powerful source, especially for export oriented SMEs.

Entrepreneurship: Entrepreneurship development policies are fine in appearance but their implementation is hardly possible and how this sublevel of policy will be achieved, this is still not

¹⁰ See: The eight Millennium Development Goals (MDGs) – which range from halving extreme poverty to halting the spread of HIV/AIDS and **providing universal primary education**, all by the target date of 2015 – form a blueprint agreed to by all the world’s countries and all the world’s leading development institutions.

clearly mentioned. Inclusion of Entrepreneurship course in university level will not create entrepreneurs, until current scenario for venture capital and SMEs is not changed in this country keeping in mind of one of Far East Asian tigers (Singapore, Thailand, Malaysia, and Hong Kong) model or to implement with government support some radical model like KASHF¹¹ based on GRAMEEN Bank model.

Implementation and Allocation- Critical review

Once again, like previous policies of Government sector, filling 17-18 pages of theory and scope of policy, on just half page, its implementation is barely discussed. It means that Govt. Of Pakistan is not serious in its real and practical implementation in near future. It is said merely that all ministries and departments will play respective role, even when in background of same policy it accepted that past SME related policies were very well versed and thoroughly developed but major shortfall came in their implementation.

¹¹ The idea of Kashf foundation was gestated when its Founder and President Roshaneh Zafar (a wharton graduate) met Professor Muhammad Yunus of the Grameen Bank in a chance meeting in 1993; Inspired by the success of the Grameen Bank, Kashf Foundation (meaning miracle or revelation i.e. a process of self-discovery) began in 1996 as an action research program focusing, for the first two years, on determining and understanding key factors having an impact on the demand for microfinance services by poor women.

Kashf Foundation began with many firsts: it was the first specialized Microfinance institution in Pakistan, it was the first Microfinance institution targeting only women from low income communities and it was also the first Microfinance institution to charge a sustainable price for its services. Since its inception, Kashf Foundation has continued to trail-blaze – in 1999 it introduced the first pro-women consumption loan in the sector, in 2001 it was the first Microfinance institution to offer micro-insurance services by collaborating with one of Pakistan's oldest insurance companies, in 2003 it was the first Microfinance institution to become financially sustainable, in 2004 it was the first Microfinance institution to obtain an investable credit rating and in 2007 it has been able to close over \$36 million in commercial deals with key local and international banks. As of April 2007 it had 94 branches, 182,000 clients and operates in 12 different districts in two provinces of Pakistan.

On allocation side, the proposed expenditure is 13 billion Pak. Rupee about 211 million US\$. A good and smart one for development of this sector, but again, if properly allocated.

Monitoring and Continuous policy improvement: A Critical review

However, it shall be acknowledged that a detailed scheme for continuous up gradation and improvement for this policy proposal is devised, and like previous Pakistani governments' "obsolete British raj" laws¹² of "century" ago, it will be not be much obsolete with passage of changing time. Establishment of committees shall be acknowledged, at senior level, for provinces and federation both.

Conclusion

After analyzing this policy paper, I think that this policy paper is not sufficient towards very complex needs and changing requirements of Pakistani SMEs, especially in its implementation part. Recently, in Pakistan we heard that hundreds of businesses have been closed due to shortage of Electricity, water, Sui gas (natural gas), or due to very

¹² See what **Aasim Sajjad Akhtar** (a political activist, writer and teacher associated with the People's Rights Movement) says in his article : **Decolonization and us** within Issue 367of *NEWINTERNATIONLIST* "The colonial state around the world introduced a social contract founded upon the extraction of wealth, and therefore all of its institutions served this purpose in one way or another. So, for example, private property facilitated the massive system of revenue collection, particularly in rural areas, that kept the British exchequer overflowing for over a century.

It is interesting that, in spite of this, Western-influenced leaders of the Indian independence movement, such as Nehru and Jinnah, paid tribute to the Western liberal tradition for awaking India from its 'backward' and 'obsolete' traditions and customs. A more accurate appraisal of the introduction of the Western liberal tradition to the subcontinent would include mention of the fact that it contributed to mass pauperization and to the establishment of a centralized state structure largely exempt from accountability to the people of the region".

poor law and order¹³ situation (like assassination of Ex-Prime Minister of Pakistan Benazir bhutto in Rawalpindi¹⁴). It is also heard that every day millions of assets are being transferred to Gulf countries by existing business community, in such a scenario no SME can prevail and grow with reasonable level of certainty. Moreover, economically, this policy is viable but not focused for some excellence sectors in future, like a widely acclaimed adopted “one village, one product” model¹⁵ for microfinance and SMEs, this policy shall be focused on some specific businesses and product lines, instead of forming a mass of unplanned and less cost-effective SMEs, in today world of globalization and specialization.

¹³ **The Economist** is saying “**Pakistan-The world's most dangerous place**” in its Jan 3rd 2008 print edition, and “**A country on the brink**” in its Jan 3rd 2008 edition. *The Economist* further says” If as many in Pakistan believe, the security services were themselves complicit, that is perhaps even scarier. It would make it even harder to deal with the country's many other fissures: the sectarian divide between Sunni and Shia Muslims; the ethnic tensions between Punjabis, Sindhis, Pushtuns and “mohajir” immigrants from India; the insurgency in Baluchistan; and the spread of the “Pakistani Taliban” out of the border tribal areas into the heartlands”.

¹⁴ See: **Pakistan Economy Hits Rough Patch**, February 13, 2008 Source News Agencies Under Pakistan News: “Immediately after Benazir Bhutto’s death on Dec. 27, rioters from her native Sind province caused an estimated \$1.3 billion in losses, according to Karachi’s Chamber of Commerce. Power transmission, telecommunications and roads were affected. Among the recent issues exacerbating the larger energy crisis, the two main power transmission lines were blown up in January 2008 in Sind, creating a shortfall of 1,000 MW. The business community complained that lopsided and unplanned shutdowns resulted in closures in almost all industries. Many factories in Karachi, the heaving commercial hub — including some owned by Colgate-Palmolive Co. and Philip Morris International Inc. — sustained damage, according to Tasleemuddin A. Batlay, president of Karachi’s American Business Council and a director of Colgate-Palmolive’s Pakistan unit, as reported in Wall Street Journal. At Italian garment maker Maxco Pvt. Ltd., a fire engulfed several refurbished buildings, killing eight workers; damage was estimated at \$25 million, according to a report in Wall Street Journal.”

¹⁵ See: **One Village One Product Movement**- The movement was initiated in 1979 by former governor of Oita Prefecture, Morihiko Hiramatsu. Soon after he took office that year, Mr. Hiramatsu proposed this movement to Oita's regional leaders and by the following year, OVOP was introduced in all of Oita's 58 cities, towns and villages. In 2002, OVOP products comprised of 338 local specialties, 148 facilities, 133 cultural items, 111 revitalized regions, and 80 items related to environment, coming to 810 products in total.

Owing to OVOP, Oita began to be recognized in not only in Japan, but also in other parts of the world. More than 10 million tourists flock to Beppu for its hot-springs, while Yufuin town, whose less-than-ten-thousand people pioneered OVOP, welcomes more than 3.8 million visitors every year. Additionally, countless groups of government officials and specialists from abroad pay frequent field trips in Oita all throughout the year. Owing much to this, flights between Oita and Seoul, and Oita and Shanghai, went into commission in April of 1992 and 2002 respectively, thereby deepening Oita's links with Korea and China.

Additional Readings recommended

Following studies, reports and researches which I personally recommend for further analysis:

1. Global Definition & introduction of Small and medium enterprises
http://en.wikipedia.org/wiki/Small_and_medium_enterprise
2. SMB segmentation white paper- written by Gadi Shamia
http://gadishamia.files.wordpress.com/2007/10/smb_segmentation.pdf
3. SMEs- their role in foreign trade by UNO
<http://www.unece.org/indust/sme/foreign.htm>
4. Social Impact Model- Enterprise Solutions to Poverty
<http://www.shellfoundation.org/index.php?menuID=25&smenuID=25&bmenuID=48&nwsID=222>
5. OCED-APEC keynote paper on removing barriers to SMEs access to international markets. <http://www.oecd.org/dataoecd/4/16/37818320.pdf>
6. <http://www.pakistan.gov.pk/divisions/economicaffairs-division/media/S-III-AN-OVERVIEW-OF-SME-SMEDA.pdf>
7. LUMS Entrepreneurial Society (LES)
<http://ravi.lums.edu.pk/enterprise/society/index.htm>
8. Dr. Faisal Bari, Dr. Ali Chema and Dr. Ehsan ul Haq, “BARRIERS TO SME GROWTH IN PAKISTAN: AN ANALYSIS OF CONSTRAINTS”, ADB working paper series, 2002.

Table 1 (Table of SME Definitions used by various institutions in Pakistan)¹⁶

Institution	Small	Medium
Small and Medium Enterprise Development Authority (SMEDA)	10-35 Employees or Productive assets of Rs 2-20 million	36-99 Employees or Productive assets of Rs. 20-40 million
SME Bank	Total Assets of Rs. 20 million	Total Assets of Rs. 100 million
Federal Bureau of Statistics	Less than 10 employees	N/A
State Bank of Pakistan (SME Prudential Regulations)	An entity , ideally not being a public limited company, which does not employ more than 250 persons (manufacturing) and 50 persons (trade / services) ³² and also fulfills one of the following criteria: (i) A trade / services concern with total assets at cost excluding land and buildings up to Rs 50 million. (ii) A manufacturing concern with total assets at cost excluding land and building up to Rs 100 million. Any concern (trade, services or manufacturing) with net sales not exceeding Rs 300 million as per	Same as for small.

¹⁶ This Table is actually reproduced from **Table of SME Definitions used by various institutions in Pakistan ANNEX-III Developing SME Policy in Pakistan**. SME Issues Paper- for Deliberation by SME Task Force - Policy Planning & Strategy Department ANNEX-III Table of SME Definitions used by various institutions in Pakistan

	latest financial statements.	
Sindh Industries Department	Entity engaged in handicrafts or manufacturing of consumer or producer goods with fixed capital investment up to Rs.10 million including land & building	Same as for small.
Punjab Industries Department	Fixed assets with Rs. 10 million excluding cost of land	Same as for small.
Punjab Small Industries Corporation	Fixed investment. up to Rs. 20 million excluding land and building	N/A