Pakistan Development Forum 2006

"Unleashing the Potential of the SME sector with the focus on Productivity Improvement"

SMEs in Pakistan

- Estimated Number : 3.2 million (99% SMEs)
- Value Addition in Manufacturing: 35%
- Contribution to GDP: 30%
- Share in manufactured exports: 25%
- 84% of enterprises have sales below Rs. 0.5 million & 93% have sales below Rs. 1 million
- 19% SMEs are less than 5 yrs old & only 4% survive beyond 25 years
- Contribution in industrial employment – 78%

*Source: *Economic Census Pakistan 2005 & Labour Force Survey 2003-4*

Growth of Small vis-à-vis Large Scale

	Large-Scale		SME Sector	
	Output Growth Rate %	Capital Formation Growth %	Output Growth Rate %	Capital Formation Growth %
1970s	4.84	-2.28	4.4	5.5
1980s	8.16	8.15	4.7	10.5
1990s	3.6	-5.02	2.6	7.2

Source: Dr. Ehsan ul Haq, Dr. Faisal Bari- LUMS; *Barriers in SME Growth - 2002*

It is Difficult to Grow for an SME

Growth in Employment	Micro	Small	Medium	Large
Negative Growth	11%	12%	16%	18%
No Growth	46%	50%	48%	30%
Growth	39%	36%	35%	51%

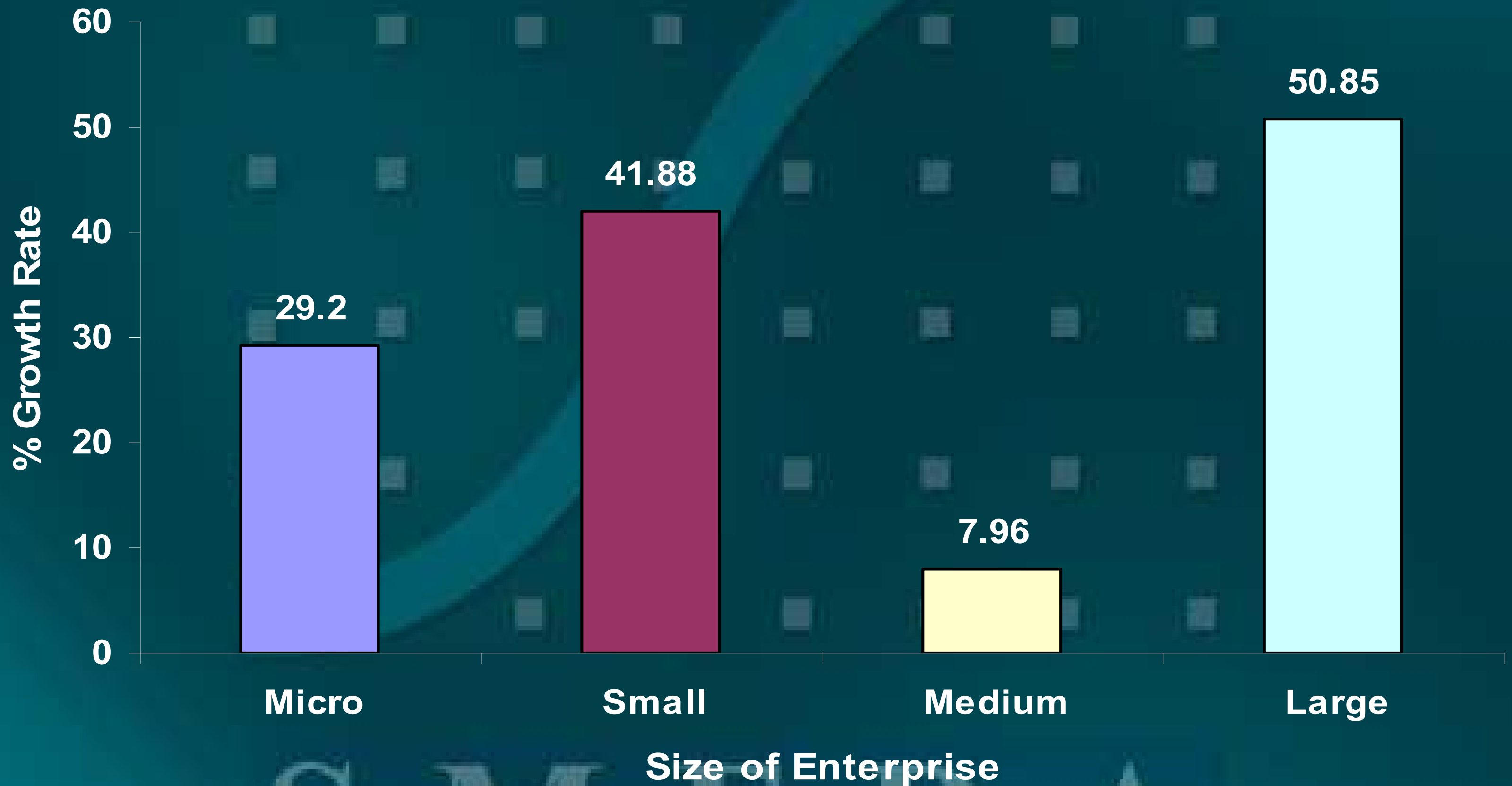
Source: SMEDA World Bank Investment Climate Survey 2001

It is more Difficult in Sindh & Balochistan

Growth by Employment	Sindh	NWFP	Punjab	Balochist an
Negative Growth	9.2%	15.8 %	15.3 %	8.2 %
No Growth	66.9%	28.9 %	37.6 %	70.5 %
Growth	23.4%	48.7 %	44.3 %	21.3 %

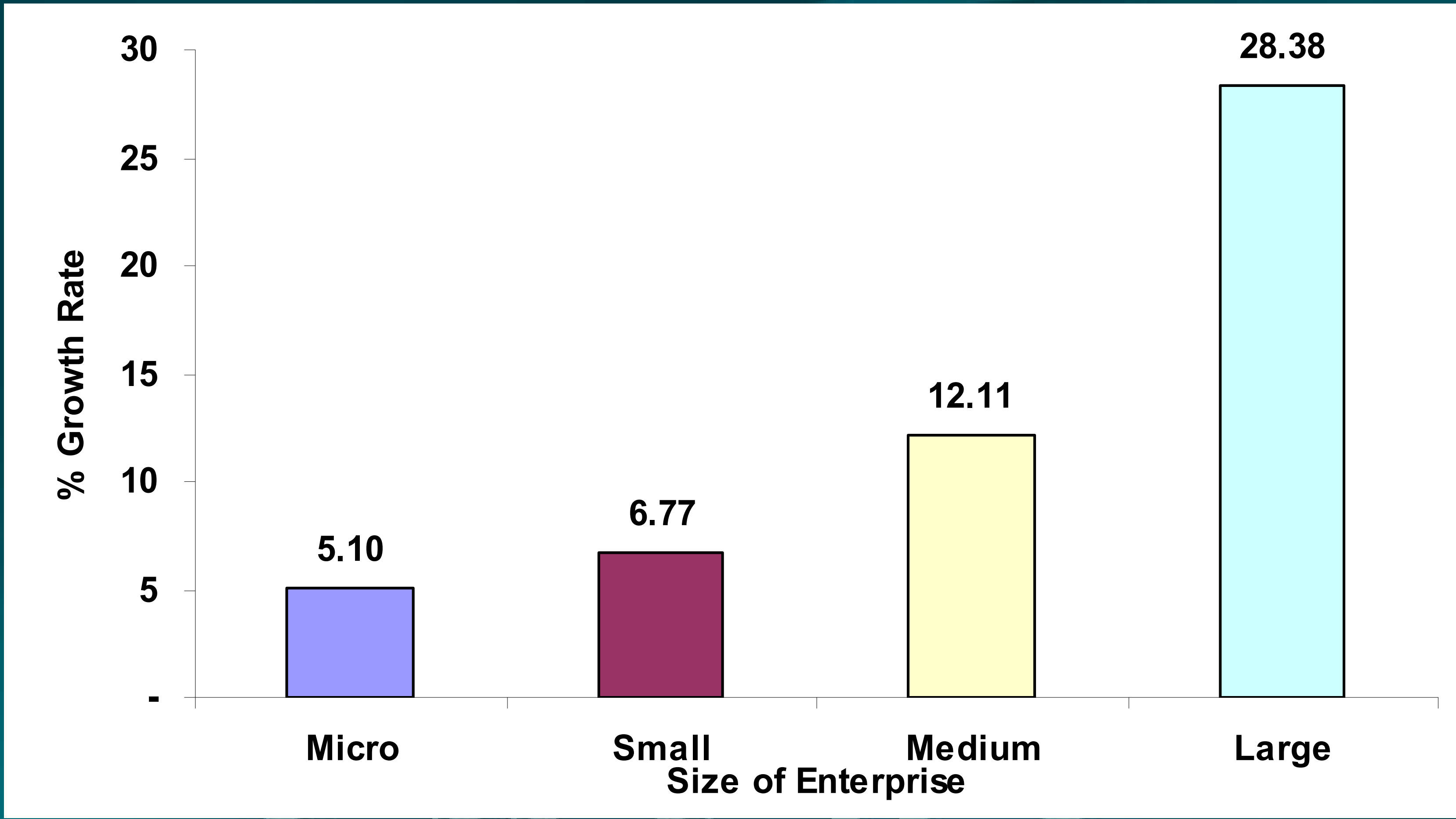
Source: SMEDA World Bank Investment Climate Survey 2001

Output Growth by Firm Size - 2001



Source: SMEDA World Bank Investment Climate Survey 2001

Growth in Equity by Firm Size - 2001

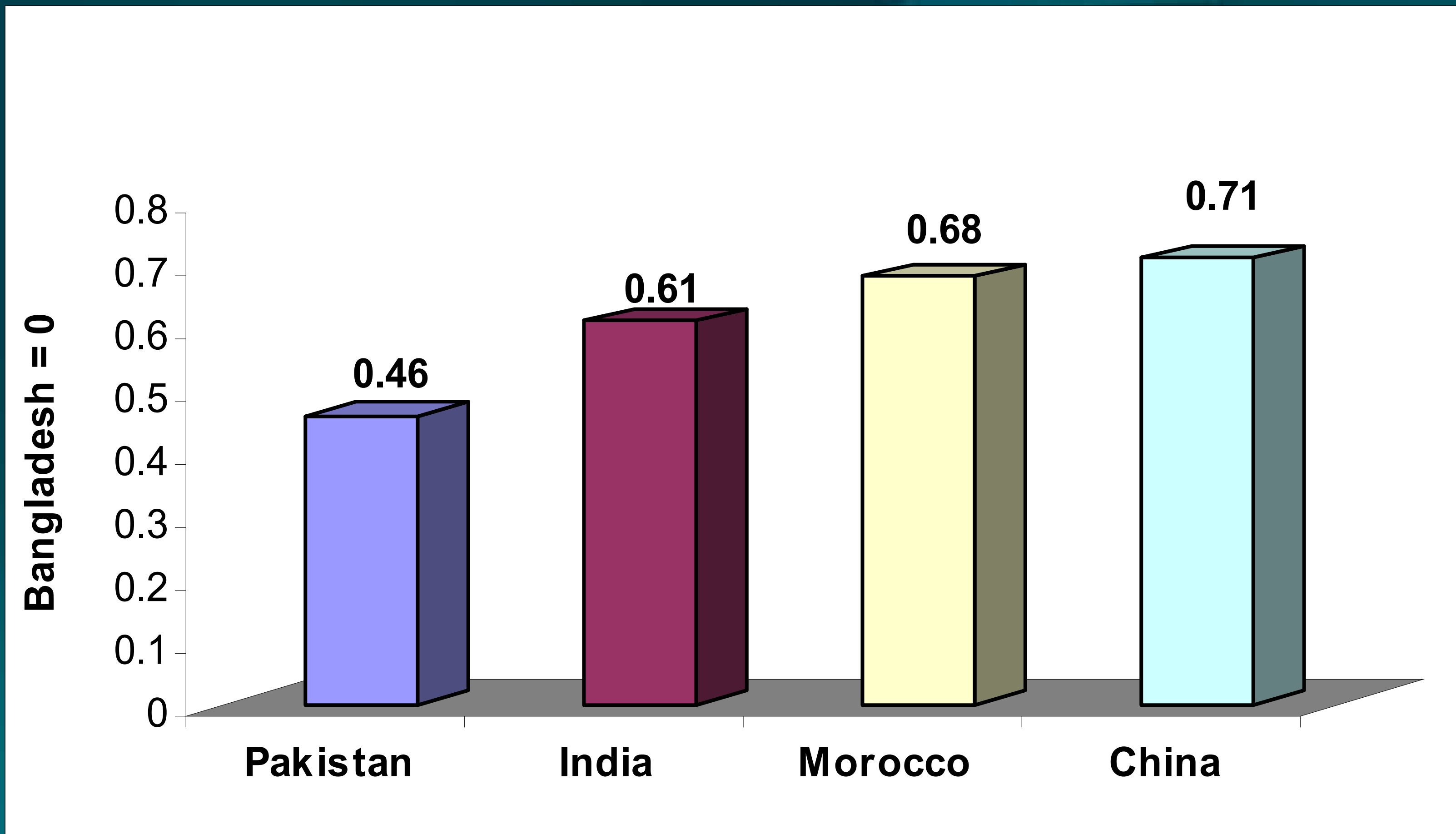


Source: SMEDA - World Bank Investment Climate Survey 2001

Firms Reporting of Constraints

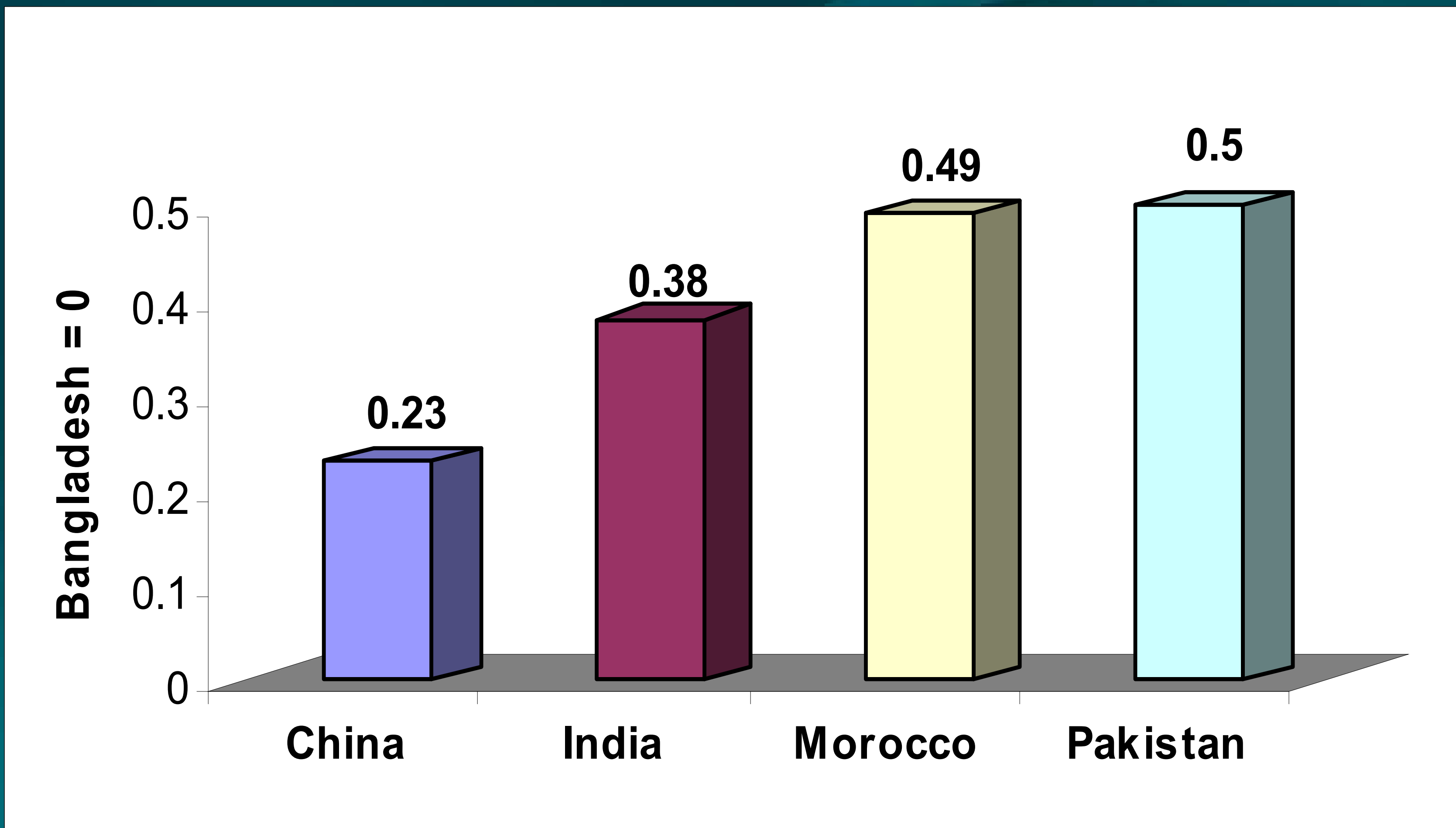
	Micro	Small	Medium	Large
Economic Policy Uncertainty	41%	39%	38%	47%
Tax administration	35%	48%	53%	50%
Financing Costs (int. rates)	33%	46%	42%	44%
Access to Financing (collateral)	33%	41%	39%	32%
Corruption	33%	39%	45%	45%
Electricity	33%	39%	48%	38%
Tax rates	29%	46%	60%	54%
Macro-economic instability	28%	33%	34%	46%
Anti-competitive practices	26%	22%	12%	26%
Source: Investment Climate Survey 2001				

Competitiveness -Value Added per Worker



Source: World Bank - Investment Climate Survey 2001

Labour Productivity Gap - Capital Required per Worker



Source: World Bank - Investment Climate Survey 2001

Ranking in Terms of Key Factors Affecting Growth

Category	Country	Technology Index	Macro-Economic Env. Index	Public Inst. Index	Business Compt. Index	Global Compt. Index	Human Developmen t Index	Availability of Scientists & Engineers	Growth Competitive ness Index-(GCI)
Leaders	Finland	3	3	3	2	2	13	2	1
	USA	1	15	21	1	1	8	8	2
	Israel	8	43	24	21	22	22	3	19
	Korea	9	35	41	24	26	28	52	29
	Ireland	37	21	17	22	27	10	26	30
Potential Leaders	Malaysia	27	20	38	23	23	59	43	31
	China	62	24	55	47	32	94	67	46
Dynamic Adopters	India	63	52	53	30	37	127	1	55
	Turkey	52	84	62	52	67	88	42	66
Marginalized	Pakistan	87	67	102	73	87	142	61	91

Source: *Global Competitive Index, World Economic Forum, 2005.*

Development Potential of SME Sector

- Low Cost Employment Generation*
  - less than Rs.0.50 million to set up an SME
  - Additional investment of Rs.0.265 million creates another direct employment
- SME ensure better Geographical coverage
  - Few Medium & Large firms (513) in less developed (rural) Areas
  - Micro & Small Firms Everywhere
- Potential to accelerate GDP growth
- Accelerate Export Growth
  - SME Sector - Growth rate 18% five years average

* SMEDA Estimates Based on Investment Climate Survey 2001

Cost Competitiveness – SME Policy

- Existing policies not sufficiently specified or prioritized for SMEs
  - Few public sector programs supporting SMEs
- Regulations not coherent
  - High compliance cost
- SME promotion programs disjointed
  - Access to business services inadequate and not affordable
- Absence of coordinating mechanism
  - Coverage, duplication, costs, best practices, institutional capacities
- Regional disparities

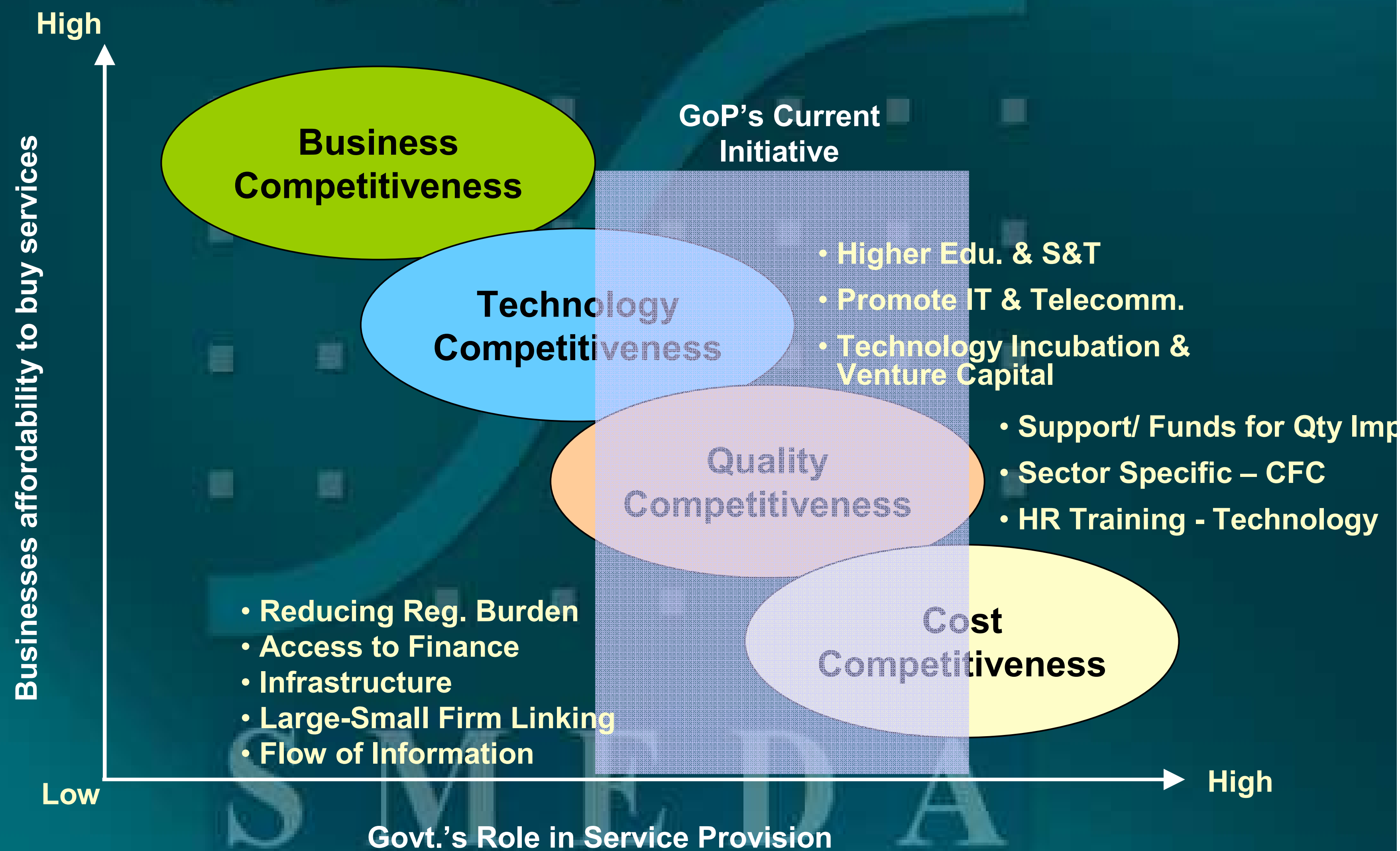
Objectives of SME Policy

Formulate	Specify	Institution-alize	Build	Identify/ Address	Encourage
SME Definition	Roles of stakeholders	Support systems	Awareness and Confidence in Regulatory framework	SME Concerns through risk Mitigation mechanisms	Pvt. Sector Business Development Service Providers

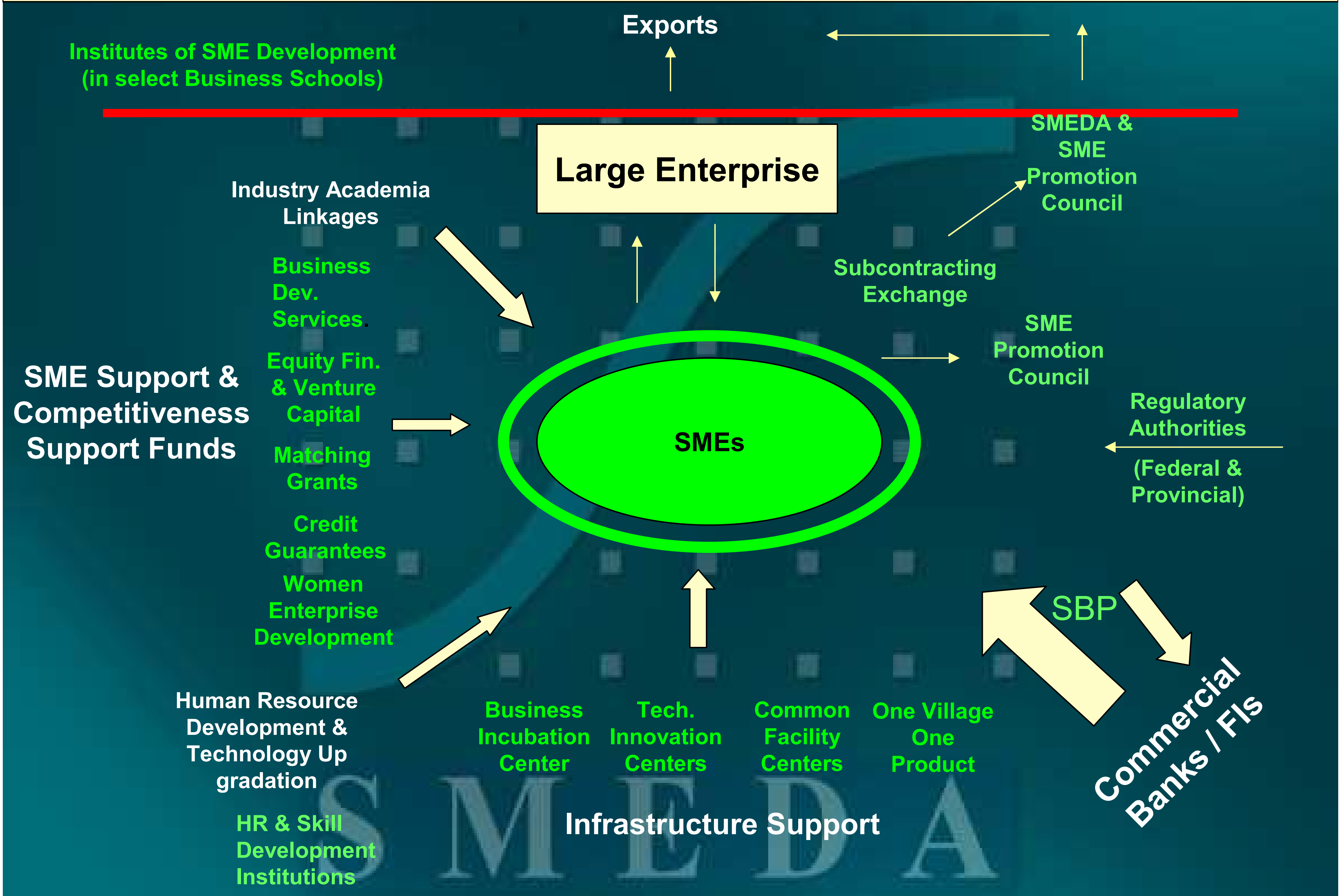
Productivity Enhancement & SME Competitiveness

Sustainable SME Growth

Govt.'s Role in Competitiveness



Proposed SME Sector Support Mechanism



SMEDA Operational Strategy

Building a Conducive Environment

- Proposing and facilitating changes in Policy and Regulatory Environment
- Reducing the Cost of Doing Business
- Facilitating Government-SME Interface

Developing Clusters and Sectors

- Sector Studies, Strategies and Implementation
- Cluster Development
- Common Facility Centers (CFCs)

Provision and Facilitation of Services

- Investment Facilitation
- Technology, Training, Finance, Business Information, Marketing, and Legal Support
- Productivity and Competitiveness Improvement

SMEDA Initiatives

- **Data on SMEs** – Baseline Survey, ICA etc.
- **Business Environment** – SME Policy, Fiscal & Trade Policy Recommendations
- **Infrastructural Support** – Projects & Programs for sector & clusters
- **AHAN (One Village One Product)** – Rural Enterprise Promotion & Development
- **Priority Sectors** – Strategy Formulation

Priority Sectors

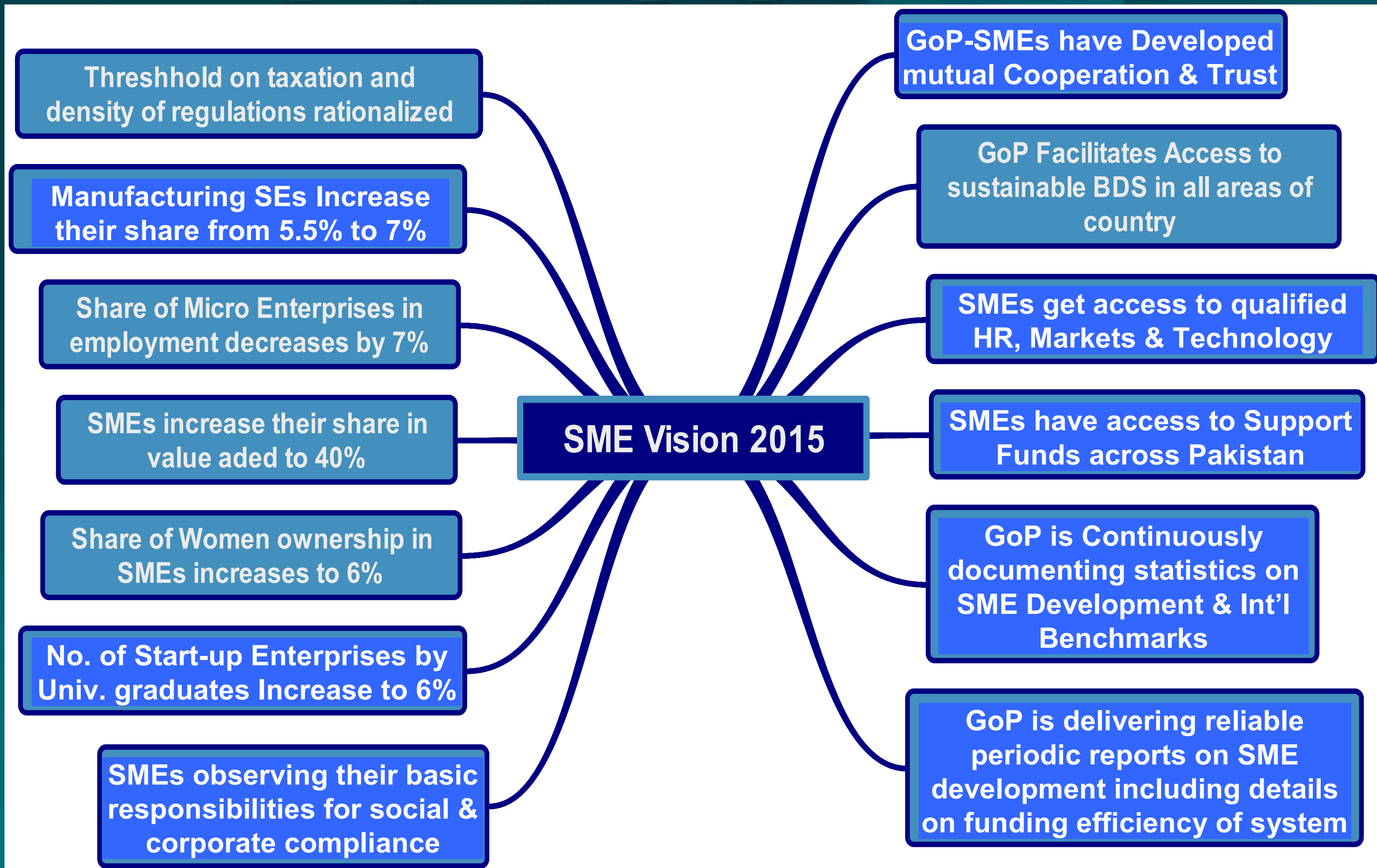
SMEDA is engaged in developing strategies for following sectors aiming competitiveness improvements

- **Dairy & Agro Processing**
- **Gems & Jewelry**
- **Marble & Granite**
- **Furniture**
- **Sports Goods**
- **Light Engineering – Fans and Surgical Instruments**
- **Fisheries**

Productivity Improvement – Gaps

- **Cost & Quality competitiveness of SMEs**
  - Regulatory Burden, Fiscal and Monetary Incentives, Infrastructure
- **Incentives for SMEs and service providers for investment in emerging sectors and skill up-gradation**
  - Capacity Building of SME associations & support institutions, HRD development, Tech. up-gradation, Market & Industry Standards
- **Rural Enterprise Development** – Infrastructure
- **Sector Specific Infrastructure support**
- **Supply – Demand mismatch**
  - Gap analysis, BDSPs, Industry – Academia Linkages

SME Vision


SME Vision 2015
Threshhold on taxation and density of regulations rationalized
Manufacturing SEs Increase their share from 5.5% to 7%
Share of Micro Enterprises in employment decreases by 7%
SMEs increase their share in value aded to 40%
Share of Women ownership in SMEs increases to 6%
No. of Start-up Enterprises by Univ. graduates Increase to 6%
SMEs observing their basic responsibilities for social & corporate compliance
GoP-SMEs have Developed mutual Cooperation & Trust
GoP Facilitates Access to sustainable BDS in all areas of country
SMEs get access to qualified HR, Markets & Technology
SMEs have access to Support Funds across Pakistan
GoP is Continuously documenting statistics on SME Development & Int'l Benchmarks
GoP is delivering reliable periodic reports on SME development including details on funding efficiency of system

Thank You

SMEDA