
Are SMEs Marginalised by the government

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The Current Scenario Facing SME's

- Low-growth trap -dealing in traditional products
 - Unable to climb up the technology ladder
 - Problems of Financing
 - SME fear becoming part of documented economy
 - SME's legal status is not satisfactory
 - Vulnerable to various shocks
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Despite that SME's are still

- Showing **mushroom-like growth**
 - Employ **90 percent** of Labour Force
 - Accounting for **30%** of the GDP.
 - Represent **3.2 million SME's** in the country
 - Represent a share of **78% in the industrial employment**
 - Contribute **28%** to Pakistan's **Value Addition**
 - Ensure **national foreign exchange earning** in manufacturing exports up to **25%**.
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Are SME's

Marginalised ??

The Current Scenario Facing SME's

- Problems of **Financing**
 - Poor **disclosure, high risk** clients
 - SME's do not understand **FIs costing methodology**
 - Cumbersome *legal documentation*
 - Lack of ***trained human resources***, advice on technology upgrading and marketing
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Issues - Marginalized SME's

❑ **Fiscal Disadvantages**

- No tax breaks
- No Government Subsidies (Training)

❑ **Monetary Disadvantages**

- Credit crunch
 - Lack of liquidity (assets side/capital side)
 - Lack of preferential lending schemes
 - Or debts through BONDS (guaranteed funds)
 - Regulatory Impediments
 - No Venture Capital Funds available
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SME Sector Profile – Business Setup

- SMES in the **manufacturing sector** are 15 to 20 years old
 - More than 96% of the SME's are owned and managed by an individual as a **sole proprietary** concern.
 - 2% SME's are **partnerships**
 - *Hardly any corporate entities* in the SME sector
 - **58% of the SMEs in the Golden Triangle** have been established after 1990, while 18% were set up before 1980.
 - Professional and technically qualified human resource working in the SME sector are as **low as 5 in 76% of the SMEs**.
 - The remaining workforce is either **semi-skilled or unskilled**.
 - On an average, professionally qualified staff is 2.
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SME Sector Profile – Financial Setup

- 87% of the SME's have no budget allocation to human resource development.
 - Almost 54% of the SME's sell their products in the **local markets**
 - Major deterrent to the growth potentials are availability of financing as identified by 91%
 - Lack of modern technology 88%.
 - Fear of **losing collateral** e.g house
 - Increase of **tax related problems**
 - **Unaware** of new financial products
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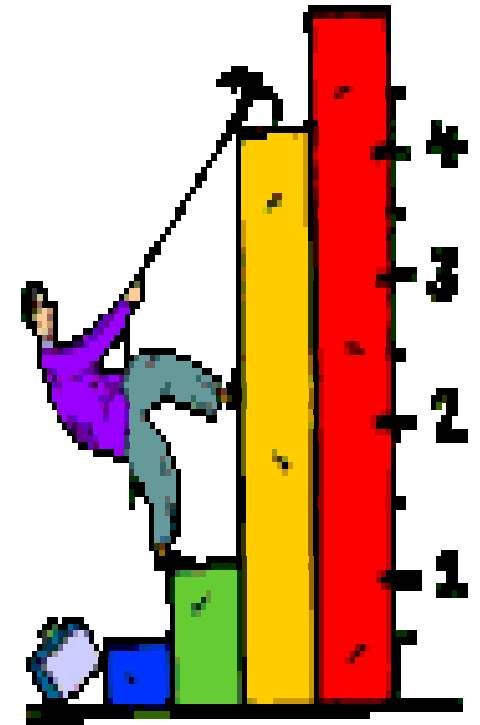
Lack of linking with FI and SME's

- Problems in **accessing formal financing**
- 90% of the SME's indicated that it is due to **Excessive documentation**
- Repayment terms are **stringent and slow turnaround** time
- **Heavy penalties** on default and High interest rates
- Collateral requirements difficult to meet
- FIs are unable to understand frequent market problems of the SME's and there are no separate SME bankers
- Cash flow based financing is not available
- **Rules and procedures are SME unfriendly**
- Specialized SME's Products are not available
- On an average, a FI requires 10 documents



Promoting SME's

- HRD Support
- Developing a viable Platform for SME (chambers)
- Develop innovation incentives (awards)
- Develop Quality Control Standards (standards for premium products)
- Introduction of marketing vehicles (fairs)
- Support facilitation and Intellectual Property Rights



Recommendations

- R & D Fund
 - Venture Services
 - Entrepreneurship Development Centers
 - School of Trades
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Thank you
