

Second Pakistan SME Conference

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SMEs DEVELOPMENT

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What is a SME ?

The first step to qualify as an SME is to be an **enterprise**.

An **enterprise** is 'any entity engaged in an economic activity, irrespective of its legal form'.

Thus, **economic activity** is the determining factor and not the legal form.

Types of SME's

✓ MICRO ENTERPRISES

- Employ fewer than 10 people

✓ SMALL ENTERPRISES

- Employ 10 to 50 people

✓ MEDIUM ENTERPRISES

- Employ between 50 and 250 people

Why SMEs ?

Because, SMEs

- ✓ Can foster sustainable economic growth
- ✓ Route to escape and eradicate poverty
- ✓ Largest share of employment outside agriculture
- ✓ Generate significant domestic and export earning
- ✓ Engines of growth

SMEs Development ?

- ✓ **National SME Strategy**
- ✓ **Dialogue between stakeholders**
- ✓ **Access into local, national & global markets**
- ✓ **Enhancing women participation**

National Strategy ?

- ✓ Ability of government to implement
- ✓ Capability of stakeholders to develop business environments
- ✓ Simplified legal and regulatory framework
- ✓ Good governance
- ✓ Abundant and accessible finance
- ✓ Suitable infrastructure,
- ✓ Supportive education,
- ✓ Skilled labor
- ✓ Capable public and private institutions
- ✓ Ability of SMEs to implement best practices
- ✓ Integrated in the broader national development strategy

Stakeholders Dialogue

B/W Public/Private Sectors & Civil Society, to

- ✓ **Foster ownership of national strategy**
- ✓ **Support implementation**
- ✓ **Provide political Support**
- ✓ **Ensure sustainability**

Access to Markets

- ✓ **Investment in sustainable institutional and physical infrastructure**
- ✓ **Ensure service delivery to SMEs in all areas**
- ✓ **Continued dialogue b/w stakeholders**
- ✓ **Implementation/review of supportive measures**
- ✓ **Capacity building in executing institutions**
- ✓ **Capacity building in SMEs for improved yields**

Women participation

- ✓ **Women account for half of the population**
- ✓ **Important share in private sector activity**
- ✓ **Contribute most to poverty reduction.**
- ✓ **Gender equality needed for SME development**
- ✓ **Specific targeted initiatives**

Investment Capacity of SMEs

- ✓ **Financial institutions are customer oriented**
- ✓ **Demonstrated capability of penetrating the SME sector**
- ✓ **Develop profitable SME lending programs**
- ✓ **Development of innovative solutions for collateral issues**
 - Acceptance of more flexible forms of collateral
 - Group guarantees
 - Loan guarantee schemes
 - More emphasis on cash flow than balance sheets
 - Easy and effective loan application assessment

Trade Capacity of SMEs 1/5

- ✓ **Strengthen the business support system, by building capacities in business services,**
 - **Market, product and process information**
 - **Accounting, market analyses and research**
 - **Legal aid**
 - **Transportation**
 - **Delivery**
 - **Advertising**

Trade Capacity of SMEs 2/5

- ✓ **Develop a national strategy for export development and promotion**
- ✓ **Participation of all stakeholders.**
- ✓ **To increase the volume and value of exports**
- ✓ **To increase number exporters**
- ✓ **Integration with national policy.**

Trade Capacity of SMEs 3/5

- ✓ **Single export promotion agency**
- ✓ **Separate policy making from implementation.**
- ✓ **The agency should:**
 - **Operate with commercial orientation**
 - **Result oriented than regulation oriented**
 - **Managed by people with relevant, practical business experience**
 - **Include private sector representation on its Board**
 - **Funded to commensurate with its objectives.**

Trade Capacity of SMEs 4/5

- ✓ **Develop export support, to**
 - ✓ **Provide information about specific markets and customers**
 - ✓ **Help in making contact with potential customers**
 - ✓ **Help in making contact with public and private intermediaries**
 - ✓ **Assist market visits**
 - ✓ **Provide information about potential local suppliers to potential MNC purchasers**
 - ✓ **Develop a national Website and/or business directories**
 - ✓ **Arrange 'Meet-the-Buyer' events.**

Trade Capacity of SMEs 5/5

Setting up of

- ✓ Industrial parks
- ✓ Business incubators
- ✓ Cluster development

Challenges

- ✓ Challenges are multi-dimensional
- ✓ Trade barriers
- ✓ Transport costs
- ✓ Value addition to stay ahead and compete with lower cost rivals
- ✓ Technological advances
- ✓ New rules introduced through the multilateral trade system
- ✓ Customer local and foreign require compliance with quality, environment, social accountability standards
- ✓ Competition within the developing world for export markets, foreign investment and resources is also intensifying.
- ✓ SME associations, support institutions and governments in developing countries have to continuously evolve new approaches

Strengthening SME in Developing Countries

Measure the

- ✓ **Current efficiency/effectiveness of use of resources**
- ✓ **Willingness and the ability to relate profitability to growth of capacity (i.e. the willingness to invest)**
- ✓ **Ability to innovate, adopt new technology**
- ✓ **Efficiency and productivity**
- ✓ **Competitive advantage, in relation to rivals market**
 - **Products**
 - **Labor**
 - **Capital**

Strengthening SMEs

Change of mindset at planning & policy levels

“Think about small first”

instead of

“Think about Big only”

Strengthening SMEs

SMEs can have better market access by

- ✓ **Improving technical and business skills**
- ✓ **Providing high quality goods and services**
- ✓ **Having access to finance**
- ✓ **Strengthening supply and distribution network**
- ✓ **Focusing in areas where fewer options exist for local enterprises**

How ?

- ✓ **Regular monitoring based on pre-determined performance indicators**
- ✓ **Systematic measurement of indicators e.g.**
 - **Job creation**
 - **Investment**
 - **Productivity**
 - **Exports**
 - **Impact on overall economy**
- ✓ **Introduction of good practices**

Reasons ?

The most important reasons are, the lack of

- ✓ Government commitment
- ✓ Measurable performance indicators
- ✓ Grass root implementation of SME policies
- ✓ Measuring & monitoring of indicators
- ✓ Knowledge on part of stakeholders

Where are we ?

No Where

Why ?

Because we are not monitoring and measuring

Problems

- ✓ **Too much of regulations**
- ✓ **Weak legislation**
- ✓ **Weak enforcement and monitoring**
- ✓ **Lack of SME's confidence in policies**
- ✓ **Negligible contribution in policy setting by SME's**
- ✓ **Weak SME Associations**
- ✓ **Low priority to SME Sector**

What to do ?