

THE RAPPETEURS REPORT

6th Pakistan SME Conference 2012 - Karachi

The 6th Pakistan SME Conference 2012 organized by **SHAMROCK Conference International** was held in Karachi on 5th September, 2012. More than 150 delegates from the government regulatory bodies, including State Bank of Pakistan, SMEDA, UNISAME, Chamber of Commerce, financial institutions, banks, trade media and electronic media along with print media attended the day-long conference.

WELCOME ADDRESS:

Mr. Menin Rodrigues,

President & CEO SHAMROCK Communications Pvt. Ltd.

He opened the conference with some inspiring remarks, urging a stronger policy for National Support of the SME sector due to insufficient regulatory support, energy crisis and apathy towards infrastructure development. The government needs to facilitate SMEs with land, finances, infrastructure, technical support, logistics, training and marketing facilities.

KEYNOTE:

Mr. Saquib Mohyuddin,

*CEO, SME Business Support Fund (BSF), Ministry of Finance,
Government of Pakistan*

He delivered the Keynote address, highlighting the importance of Innovation and knowledge-management to stimulate growth. He identified structural reforms, SME empowerment, and good governance, entrepreneurial culture, global competitiveness, Information Technology and HR Training as the key factors in enabling pro-poor growth as the aim of SMEs.

Mr. Mohyuddin suggested simplification of regulatory framework and dynamic revisions in the SME policy 2007, to allow special financial assistance for the SMEs and exploration of new markets. He suggested that SMALL enterprises should be treated and nurtured separately from Medium enterprises, because of the inherent differences in their structures and financial capacity.

He advised relevant policy interventions to enable more liberal trading with India. He quoted India's example where there is a rule for every MNC to outsource a given percentage of its work to the SME sector.

He urged the need for smarter warehousing and Logistic Value Chain for this sector. He rejected the perception that SME's are risky customers for the Banks in case of sectoral lending. He suggested the establishment of broader business platforms for SMEs to coordinate the initiatives and developmental efforts.

CHIEF GUEST:

Mr. Kazi Abdul Muktadir,

Deputy Governor of State Bank of Pakistan

He stressed the need to promote SMEs through prudent banking solutions, instead of lending just to relatively safer conventionally profitable sectors, this had resulted in sharp drop in lending in 2012 over 2007. Although this decline can partly be attributed to adverse economic conditions during that period, the risk-averse posture of banks remains a major factor responsible for low exposure to SMEs.

The deputy governor stated that in recent years, banks have increasingly invested in safer options such as government paper and increased financing for commodity operations, rather than supporting the fragile manufacturing sector which is the main driver of economic activity. The banks should formulate strategies to overcome the challenges presented by

the market as well as by the cyclical nature of economic conditions. Banks need to shift from traditional banking approach towards SMEs, to the provision of more customized and differentiated financial products and services to suit different SME segments.

He added there was a great need for banks to develop and implement appropriate credit evaluation techniques used globally such as credit scoring, cash flow based lending, and program based lending.

Session I

What Ails the SME Sector in Pakistan?

CHAIR:

Barrister Shahida Jamil

Former Federal Minister, Law & Parliamentary Affairs

She highlighted the fact that the real ailment in the SME sector is the deteriorating tax culture and ethical decay in society. She urged a realistic personal outreach approach, as most SME's do not have IT literacy or internet access in Pakistan.

SPEAKER:

Mr. Kalim ur Rehman,

CEO, JS Bank

He stated that only 7% of SME's (200,000 units) are currently borrowing from banks in Pakistan, although 25% of the export earnings are generated by SMEs. Main hurdle is the undocumented nature of our economy. 37% of SME loans portfolio are non-performing loans. Thus the present mindset of bankers tends to avoid lending to SMEs.

He said SME's can be a big opportunity for banking growth, if risks and returns are managed carefully. Agriculture financing went from 60 billion

Rupees to 300 Billion, because it can offer land and crops as collateral. He supported the idea of an exclusive SME bank to closely monitor performance and support this sector. SME Bank should be owned by all commercial banks as partners. Each bank could give 1% of its deposits for this purpose. All employees of SME bank should be local people, who know the local entrepreneurs and their business performance.

SPEAKER:

Mr. Javed Iqbal,

Project Manager, Business-Edge IFC World Bank Group

He gave a global perspective on financial inclusion programs and highlighted IFC's efforts towards promoting global best-practices, financial literacy, banking outreach, agri-business advisory, mobile banking, professional training and Capacity-Building in Pakistan.

Session – II

Costs/Impediments of doing Business, Market Forces and Challenges

CHAIR:

Mr. Zulfiqar Thaver,

President of UNISAME

SPEAKER:

Mr. Samar Hasnain,

Director SME, State Bank of Pakistan

He gave various examples of developing countries where SME strengthening programs created successful results. He highlighted that the State Bank has a policy to absorb 40% of default risks, in case a commercial bank lends to a new SME. SBP also provides cheaper liquidity to the commercial banks for SME lending.

SPEAKER:

Mian Abrar Ahmed

President, Karachi Chamber of Commerce & Industry

He briefed about the SME-Specific challenges in Karachi, including the Energy Crisis and serious weaknesses in Law and Order, Extortions, Kidnappings, etc. He criticized the implementation of 16% Sales Tax on all enterprises, regardless of their size and earnings. He suggested that the smaller companies should pay a lower ratio of taxation. He was of the opinion that Textile Export Quotas are restricting our exports. He highlighted the effort of KCCI where hundreds of SMEs are being established by engaging 400 students from Universities, through sponsorship from KCCI.

SPEAKER:

Mr. Ahmed Chinoy

Chief, Citizens' Police Liaison Committee (CPLC)

He talked about the deteriorating Law and Order situation in Karachi and analyzed its causes. Target killings, kidnapping for ransom and street crimes are being ignored due to political and ethnic reasons. Karachi accommodates diverse communities with high economic pressures, where misunderstandings and aggression can grow easily. Thus, investors are fleeing the city.

He suggested that the political machinery, bureaucratic structure and law enforcement bodies should make synchronized efforts to control the situation. CPLC has established a call center that attends and caters to more than 6000 calls per day. CPLC has a vast data base on car thefts, FIRs and jailed prisoners. Community Policing and Hi-tech camera monitoring networks are being created, but cover only 15% of the city areas. Non-verified Cellular SIMs pose major threats to peace efforts.

PANEL DISCUSSION:

Public Sector Development Program & Sub-Sector Opportunities

CHAIR:

Mr. Sultan Tiwana,

Director, Small & Medium Enterprises Authority (SMEDA)

PANELISTS:

1. Mr. Ateeq ur Rehman, Advisor KCCI,
2. Mr. Nasir Jamil, Representative, Chartered Institute of Logistics and Transport,
3. Mr. Abid Hussain Director of Pakistan Institute of Management,
4. Mr. Teizoon Kisat, Chairman Leasing Association of Pakistan and
5. Captain Raffat Zaheer, Country Representative of International Multi Modal Transport.

The discussion revolved around various suggestions like; the need to evolve a specialized banking system for SME's with exclusive institutions and specially trained bankers. Since the corporate bankers are trained to evaluate all transactions in strict monetary terms, we need to produce specialized SME bankers with a vision for social uplift through financial services. This will lead to the creation of program-based lending products. SMEs should also be provided with special Ombudsmen, simplified legislation, credit insurance products, softer laws for foreclosure, and international certifications to rank SME performance.

Stronger Cash-Flow analysis skills should be developed among SME Bankers. Selective programmes in the SME sector lending have shown that there is actually a low default ratio in the SME financing sector. 95% of Leasing SME clients paid promptly, even during the Global Financial Crisis. We need to change our approach where we have been traditionally helping the rich elite against the talented small entrepreneurs.

More Hydel, Solar, Wind and Coal energy projects should be encouraged to overcome the energy crisis. Transport and Warehousing efficiencies and Supply chain support from government can reduce costs of SME Exports.

In Public Sector procurement, a fixed percentage of purchases should be made from the local SME sector.

The Commercial banks may consider lending more to the SMEs if they can build a higher markup rate to cover their additional risks. Thus the depositors' money remains safe and the banks enter a vast new market. Special packages offered to CNG Rickshaw financing and Gems- Jewelry sector in Swat have given excellent results with Zero rate of Defaulting SMEs.

A permanent forum should be established to discuss SME issues more frequently and regularly to engage all stakeholders.