

# Role of SME in Pakistan's Economy

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Before elaborating the SME role, first need to understand, what is SME and what are the parameters to measure it?

SME (Small Medium Enterprise) is the organization that does commercial activity to earn profit. There are three parameters which indicate any organization under SME cap.

- **Employment** → up to 250 employees.
- **Productive Assets** → Worth up to Rs 100M (Approx. USD 700K).
- **Turnover** → up to Rs 300M (Approx. USD 2M).

### SME Fueling to Global Economy

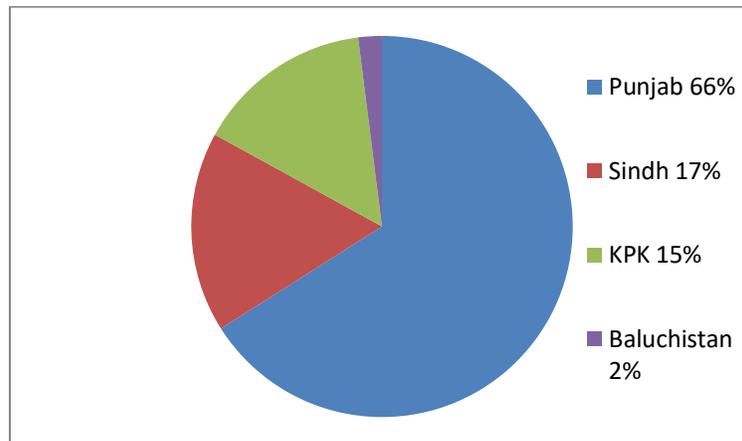
	High income countries	Middle income countries	Low income countries	Pakistan
<b>GDP</b>	55-60%	70%	60-65%	30%
<b>Employment</b>	65-70%	95%	70-75%	78%
<b>Export</b>				25-30%
<b>Value addition</b>				28%

### Contribution to GDP (Comparison within Asia):

Pakistan	India	China
30%	40%	60%

Here it is noteworthy that with the collaboration of china, Pakistani SME's contribution to GDP will raise to 50-55% in upcoming years. After properly activation of Pak-China economic corridor and then Pakistan will be second emerging country in Asia.

## SME's proportion all over Pakistan:



So, with this proportion, SME's are not only improving GDP, but also supporting livelihood of local people by creating more opportunities.

## Factors to grow SME industry:

- **Finance**- If available to investor at affordable markup.
- **Land**- If provided at concessional price.
- **Raw Material**- If available at low cost with un-interrupted supply.
- **Environment**- If supportive
- **Basic Infrastructure**- If transportation facility, waste management, (electricity, gas and water supply) and roads are developed.
- **Government Support**- Tax facility, supportive rules and regulations.
- **Strong" large scale industry"**- If this so then they locally purchase up to 60% through SME's which boost them.
- **Leasing facility**- If Buildings, equipment, machinery are also available on lease.
- **Insurance facility by state bank** – To back up private banks for further facilitates the investors in terms of loans.

## Role of SMEDA to support SME's:

To manage and support these entire factors, Pakistan Government organizes one regulatory body named SMEDA. **SMEDA** (Small & Medium Enterprise Development Authority) is consultative body having 200 projects feasibilities ready with them. They have facility to prepare new feasibilities on

demand at very nominal cost. Its funds are Rs 2.8 billion, which are only 0.38% of total budget. Although less, but still SMEDA is actively contributing in development of SME's. SMEDA is already working on 28 projects on ground. Major are as follow: Fishery, Marbles, Spices specially Chili from Kundri Sindh, Mango farming, Leather industry, Rice, Jems & Stones jewelry, Potato chips, Surgical equipment, Fans and Furniture industry.

SMEDA is playing its role in modernizing the SME's and promoting them to international level. But also it should play role to make possible the transfer of technology. Mostly Pakistan SME's are exporting raw materials, but SMEDA is focusing to produce finish goods by its local SME's and exports it. So for this, they are modernizing SME industry and also providing funds to equip with latest equipment,

For this purpose, loan facilities are also increased from Rs 1.5 M to 30M. With all these efforts growth is increased to 48% in past years. Now this is standing at 78%. There is also task force, who report to government on this progress.

### **SME role in Pakistan economy:**

Nobody can ignore the role of SME over the world. Similarly SME in Pakistan plays base brick role in Pakistan economy. With the small investments they earn more profit. These industries provide employment and also with the use of local facilities and man power "helps in working better to large scale industries". In 2005 economic survey, it was provided that among 3.2 million industries, 98% are small and medium industry. SME role in creating employment in Pakistan is 78%, in value addition 28% and in exports 25-30%. Still it requires a lot of attention. To cope with financial issues five micro finance banks operated in Pakistan whose 92 branches and 139 service center, helps 270,000 SME investors with the funds and financing facilities.

Government is also encouraging women based industries like sewing at homes, pickle, jam, clothing, carpets, handicrafts and other industries like agriculture industry and paper industry. Now a days government is facilitating animal forming, eggs industry and real estate industry.

For this government has taken initiative to promote SME's and established support center for individual sectors.

- Handicraft industry center.
- Pre investment counseling center.
- Pakistan small industry cooperation.
- Punjab Small industry cooperation.
- Sindh small scale industry cooperation.
- KPK small scale industry development board.
- In Baluchistan, directorate of small industry.
- Pak small and medium enterprise vibrant model of entrepreneurship

## **Problems facing to SME's:**

Still with all of these efforts, SME are facing some hurdles and limitation.

- Due to lack of infrastructure, products are difficult to reach its destination at low cost.
- Price competition, Power energy crises, Lack of logistic support, required storage and boarding facility.
- 40% of fruits and vegetables rot due to lack of proper logistic facility, roads and storage.

## **Solution:**

To improve SME's performance these pillars should be strong;

- Leasing, logistic, banking and finance, Insurance, Infrastructure, Environment.
- SME's need innovation, education and transfer of technology to groom themselves.
- Job market is dull in Pakistan so mostly graduates should take step towards entrepreneurship with their better knowledge and experience.

## **Conclusion:**

Without SME, we cannot have inclusive growth which is critical to stabilize the economy of any country, so as in Pakistan.