
WORKING GROUP 2 CASE STUDY – PAKISTAN

Small and Medium Enterprise Development Association (SMEDA)

Andleeb Abbas, Consultant

Background

Since its independence in 1947, Pakistan has been trying to develop itself as a market economy. Despite being ruled for the most part by military dictators, it has always favoured trade liberalization and welcomed foreign investment.

However, its political instability and cross-border conflicts have created risks for long term foreign investment. Frequent government changes have caused instability, and an unwieldy taxation system, bureaucratic delays and red tape have retarded economic development. Pakistan became democratic in the early 1990s, but this did not bring about stability as governments changed frequently with the two major parties trading accusations of corruption.

Nonetheless, this period saw the creation a forum to look after the special needs of SMEs. Pakistan is an economy comprised mainly of SMEs: of the estimated 3.2 million enterprises in Pakistan, 95% employ less than 100 people, accounting for 78% of the non-agricultural labour force. SMEs contribute over 30% of GDP and US\$ 2.5 billion in exports, accounting for 25% of exports of manufactured goods and 35% of value added in manufacturing.

SMEs have not been able to take full advantage of the opening of the economy and increasingly accessible world markets. The main constraints are labour laws, skills, taxation, trade capacity, finance and credit availability and market access. Efforts to help SMEs have tended to be piecemeal, and associations trying to develop this sector have been isolated.

The Small and Medium Enterprises Development Authority (SMEDA) was established in 1998 under the Ministry of Industries and Production, to foster the development of SMEs. It is a public-private partnership, its board comprising members from each sector. Its functions include facilitating policy making, research and evaluation of matters related to SMEs, monitoring and evaluation, and protecting SME interests.

Public-Private tensions within SMEDA

There has been a power struggle between the public and private sector within SMEDA since its inception. Initially SMEDA operated on a private sector ethos, paying market salaries to attract the best human talent. This created resentment in the public sector, and after 2003 the power balance changed and the culture of dynamism gave way to bureaucracy, with many of the most able private sector representatives resigning.

The present minister however is a dynamic entrepreneur who is trying to revive SMEDA as catalyst to bridge the gap between public and private sector priorities and performance.

Objectives

- Formulate a policy to encourage the growth of SMEs in the country and to advise the government on fiscal and monetary issues related to SMEs.
- Identify business opportunities on the basis of gaps between supply and demand.
- Set up and maintain a machinery and supplier database for SMEs.
- Arrange sector studies.
- Help SMEs secure financing.
- Facilitate internationalization of SMEs by conducting seminars, workshops and training programs.
- Facilitate sectoral business development services to SMEs.
- Assist SMEs in getting international certifications (UL, CE, DIN, JIS, ASME, KS, etc.) for their products and processes.
- Facilitate the development and strengthening of SME associations and chambers through linkages with federal and provincial organizations.
- Develop a forum of public private partnership to facilitate an enabling environment for business development in the SME sector.
- Develop SMEs through donor-assisted programs and projects.

Structure and participation

From the public sector, the representatives are the Minister of Industries and Production, the Secretary of the Ministry of Industries and Production, the Secretary of the Ministry of Commerce, the Secretary of the Ministry of Finance, the Chairman of the Central Board of Revenue, and the Chief Executive Officer of SMEDA.

From the private sector, the representatives at the time of writing are Mr. Almas Hyder, Chief Executive Officer Synthetic Products Enterprises (Pvt.) Ltd.; Mr. Mansur Khan, President/CEO SME Bank; Mrs. Amna Nasir, Proprietor, Arts & Gems Exports; Dr. Faisal Bari, Executive Director, Mahboobul Haq Human Development Centre; Engr. Squadron Leader (Rtd) Nauman Wazir, Chief Executive Officer, Frontier Foundry (Pvt) Ltd.; and Mr. Kamal-ud-din Ahmed, Chairman/Chief Executive Sika (Pvt) Ltd.

Initially SMEDA was organised into ten economic sector departments – fisheries, light engineering, gems and jewellery, textiles, marble & granite, urban transport, agriculture, IT, ceramics and surgical goods. However, the vertical structuring of departments into sectors created a fragmented organisation with inadequate inter-departmental linkages, not conducive for an overall view of SMEs in the country.

During 2000, SMEDA was restructured into a parallel organisation with specialist departments in finance, technical, business technology and SME policy, which provided expert support to regional offices and provincial headquarters. Regional offices formed the outreach department for SMEs. Donor liaison and sectoral analysis wings were also created separately.

SMEDA's future road map comprises three areas:

1. Policy and regulation reforms to make life easier for SMEs.
2. Cluster development of major industries.
3. Outreach for SMEs.

The intention is to emphasise the latter point more as SMEDA progresses.

In 2001, the Asian Development Bank initiated a long-term support program for SMEDA. GFA of Germany was commissioned to study the project, from December 2000 to October 2001.

During 2001, SMEDA initiated amendments in prudential regulations and company incorporation laws with the State Bank and Security Exchange Commission of Pakistan respectively, and under its cluster development programs executed cluster development work in the ginning industries and power loom sector in Faisalabad, ceramics industries in Gujranwala, the leather sector in Sialkot and other areas.

In a document titled “Review and Recommendations for the Restructuring of SMEDA”, GFA submitted its recommendations to Ministry of Industries and Production. GFA lauded SMEDA for its achievements in a short period of 3-4 years, approved the organizational structure of SMEDA and recommended minor changes. However, the Ministry of Industries and Production gave SMEDA less autonomy than was requested by the ADB.

Characteristics

SMEDA’s major task, bringing the public and private sector together, has been tackled by forming an SME task force. Implementing change required the formulation of a policy for SME development and assigning specific responsibilities for its implementation and continuous improvement. The Government of Pakistan thus constituted the SME Task Force in January 2004 to define the basic elements of SME policy.

As there are many cross-cutting issues to be addressed, the SME Task Force is composed of diverse sectors and levels of government and includes major stakeholders from the private sector, and from SMEs in particular. The SME Task Force may also invite specific organizations or individuals to assist in its work, and may co-opt further members.

To enable the SME Task Force to work effectively, four Working Committees were set up to carry out technical analyses and deliberate the findings. The Working Committees addressed the following core issues:

- (i) Business environment – creating a favorable business environment for SMEs in Pakistan's economy and eliminating unnecessary obstacles
- (ii) Access to finance – increasing SMEs’ access to formal finance, including equity financing, by addressing the questions of documentation requirements, banks' technical capabilities, and SMEs' capacity to become bankable.
- (iii) Access to resources and services – improving the delivery mechanisms for services and resources such as business development services, qualified human resources, and technology.
- (iv) SME definition, feedback, and monitoring and evaluation mechanism – establishing harmonized definitions for Pakistan of what are to be considered micro, small, medium, and large enterprises; establishing a sound mechanism to monitor the development of the SME sector and the effectiveness of the assistance provided to SMEs.

The working committees have finalized their recommendations in each of these areas.

Results

SMEDA has achieved change in several business environment areas. Textile Vision 2050 is a document laying the road map for long term development of the sector. SMEDA and JICA (Japan International Cooperation Agency) have initiated an industry support program, working together to provide technical assistance to various industrial sectors through Japanese senior experts, which

also focuses on textiles – to bring in the most modern techniques, methodologies and management systems, and cope with the challenge of the WTO, JICA has placed five textile experts as senior volunteers at SMEDA for a period of two years.

The Pakistan Initiative for Strategy Development and Competitiveness is a joint SMEDA and USAID sponsored public-private dialogue on competitiveness, conducted over an eight-week period (May-July 2004) in which sessions were held with stakeholders of all important SME clusters in Pakistan. The purpose of the dialogue was to stimulate debate by leading a focused discussion that sought to identify global trends in innovation and investment, the two drivers of competitiveness.

Business champions in each region and from key SME sectors and others were brought together in a series of workshops to identify trends in innovation and investment in the global markets within each sector. The implications of these trends were considered in terms of four areas: human resources, research and development, infrastructure, and management. From this discussion, the dialogue was developed into one that identified priority areas for business and the policy community.

After consultations with over a thousand SMEs, Pakistan's first draft SME policy document was developed, along with a draft SME Act; approval is to be followed by implementation through a public-private partnership.

Outreach

SMEDA has established regional offices in all four provinces – NWFP, Punjab, Sindh and Baluchistan. These regional offices have been given autonomy to develop association with the local chambers of commerce and develop a regular dialogue with SMEs to address regional issues which need localized solutions.

SMEDA has carried out regional studies on business potential in all these areas, especially in remote areas of the NWFP where the gems and marble industry has been neglected. Training of SMEs has been going on build capacity to develop marketing plans and improve the quality and technology of products.

Challenges

SMEDA has had a mixed bag of achievements, as its excellent performance in the beginning five years has slowed somewhat. Challenges include:

- The need to maintain a balance between public and private sector demands, accounting for the public sector's style of working without disillusioning the private sector.
- Creating stability in the structure of the board, and strengthening its ability to withstand political policy changes.
- Transforming the culture within SMEDA from a focus on personality to performance.
- Attracting donor funding to build capacities of all stakeholders in terms of skill development and education.
- Helping to create a level playing field in the regulatory and competitive environment, to give SMEs the chance to compete with larger organizations who have more political influence.
- Increasing outreach from the formal to the informal SME economy, which is significant in size, to bring informal entrepreneurs greater access to information and infrastructure.
- Become financially and legally sustainable as an organization which is not dependent on donors or government but responds to the demands of the public and private sectors.

Author:

Andleeb Abbas, Consultant

Andleeb Abbas has been involved in the field of training and consultancy for the last 12 years. She specializes in the areas of strategic management and institutional reforms of SMEs and has provided management, business consultancy and training to all major local and multinational and SME organizations. She is presently running her own consultancy and training institute in Lahore, Pakistan, which has provide services to both the public and private sector.

She is a capacity building and institutional development consultant to the World Bank, Asian Development Bank, and DFID, SDC etc.