

EDITOR'S PAGE

SMEs in Pakistan are vitally important for a healthy and growing economy

SME Sector plays an important role in the economic, modern and social advancement of a country. It has a key behind innovation, competitiveness, entrepreneurship and the foundation of a successful innovation framework for advanced nations. SMEs constitute nearly 90% of all enterprises in Pakistan. It employs 80% of the non-agricultural labor force; and their share in the annual GDP is 40%, approximately. The studies reveal that SMEs not only impact GDP, it also helps to enhance the livelihood of people of the country by creating more economic opportunities. In high-income countries, SME's contribute more than 55% of GDP and over 65% of total employment.

The Small and Medium Enterprises (SMEDA) established in 1998 in Pakistan for the development of Small and Medium Enterprises with the responsibility to provide Sectorial Feasibility Studies with coordination of the Chambers & Stakeholders for the promotion of SMEs. SMEDA announced SME policy in 2007, but this policy did not play any major role in the promotion of SMEs as it did not comply with the fast-changing business environment of the world due to which the SMEs and Vendor industries could not grow in Pakistan. Moreover, for the promotion of SMEs, SME Bank was established but regret that its privatization has been announced. These institutions did not pay any significant role in promoting SMEs in Pakistan.

In the recent past, the Ministry of Industries and Production in consultation of SMEDA has prepared a draft National SME Policy 2019 and sent to their Board Members including FPCCI for the feedback of stakeholders and Chambers of Commerce and Industry.

One main reason for the lack of promotion of the SME sector in Pakistan is that this sector is not providing loans at affordable interest rates. Two decades ago, State bank of Pakistan had the same Rules and Regulations (Prudential Regulation) for getting loans by corporate as well as the SMEs sector, and the SMEs sector had to mortgage their factory, assets, and machinery as security/collateral for getting credit/loans from banks. As most of the small scale factories are on rent basis and due to non-ownership rights, such factories cannot be mortgaged which was a hurdle in getting a loan from banks. In order to solve this problem I, as a Chairman of FPCCI Standing Committee for Banking, Credit & Finance demanded the Governor of the State bank of Pakistan to devise separate rules of loans for Small scale Industries wherein SMEs should be provided loans on cash flow basis rather than holding of assets/collateral.

Today, the SME sector in Pakistan is providing 80% employment to non-agriculture labor and contributes 40% in GDP while the share of SMEs in Global GDP is 55%. The growth of the small and medium sectors is 8% in the manufacturing sector, 10% in exports and 10% in the service sector which need to be enhanced. SMEDA and SME bank should establish special clusters like Women shawls, motor pumps, and manufacturing of fans so youth can establish small and medium industries and earn their livelihoods rather than running from pillar to post looking for a job.

The growth of the small and medium sectors needs to be enhanced and government Institutions involved in promoting SME Sector should establish special clusters to establish and grow SME's and especially entrepreneurs to earn their livelihoods. The government needs to take steps to flourish Small and Medium Enterprises as it is vitally important for a healthy and growing economy.◆



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