

SECTOR BRIEF



By Research and Publications Department, ICMA Pakistan

Small & Medium Enterprises (SMEs) Sector In Pakistan

SMEs are recognized globally as an important pillar for poverty alleviation as they create jobs, increase the standard of living and play a critical role in ensuring equitable income distribution. The SME sector plays a pivotal role in Pakistan's economy and contributes an estimated 40 percent to GDP and 25% to export earnings (Source: SMEDA).

Small and Medium Enterprises Development Authority (SMEDA) which was established in 1998 is the premier organization working under the Ministry of Industries and Production, that acts as an SME policy-advisory body to provide an enabling environment and business development services to the SMEs in the country.

According to an estimate by SMEDA, there are around 3.25 million Micro, Small and Medium Enterprises (MSMEs) that constitute over 90 percent of all the enterprises in Pakistan. The majority of these MSMEs are under individual ownership and operate in the informal sector (undocumented). They constitute an integral part of the supply chain of key export industries including textiles, food processing, engineering, etc.



SME sector is included in the topmost economic agenda of the Government. Last year, during the lockdown, several programs were launched to protect SMEs that included Mazdoor ka Ehsas Program, PM's Small Business, and Industry Relief Package; Chota Karobar Imdadi Package; Pre-Paid Electricity, and construction sector package. On 8th October 2020, Prime Minister also approved a 'National SME Policy Action Plan 2020'. In August 2021, the State Bank of Pakistan (SBP) launched an innovative 'SME Asaan Finance scheme (SAAF) for lending to SMEs without collateral. Under the scheme, SBP will provide refinance for three years to the selected banks.

SME Financing Data

(Source: SBP Quarterly SME Finance Review, June 2021]

1	Outstanding SME Financing	Rs. 437.57 billion
2	No. of SME Borrowers	172,893
3	SME Finance as %age of Private Sector Financing	6.26%
4	SME NPLs Ratio	19.11%

Sector-wise SME Financing [June 2021]

Trading SMEs	Rs. 163.37 billion
Manufacturing SMEs	Rs. 160.74 billion
Services SMEs	Rs. 113.46 billion

SWOT Analysis of Small & Medium Enterprises (SMES) Sector in Pakistan



STRENGTHS

- Around 3.23 million SMEs in Pakistan
- Contributes around 40% to GDP
- Have almost 25% to 30% share in exports
- Provide 80% of total employment
- Major source of poverty eradication
- Major source of generating employment
- Self-governing with a flexible entrepreneurial structure
- Strong family support (inherited business)
- Low-cost labor-intensive nature of products
- Mostly use indigenous raw materials
- Helps in mobilizing domestic resources
- Stimulate competition and growth in the economy
- Vital role as a service provider to primary industry

WEAKNESSES



- Highly undocumented (informal sector)
- Financial constraints
- Poor cash flow management
- Poor access to finance
- Poor infrastructure
- Unskilled labor force
- Lack of access to market information
- Power shortages
- Lack of entrepreneurial skills
- Outdated production processes
- Inability to adopt new technology
- Scarcity of entrepreneurial education.
- Quality of products



OPPORTUNITIES

- Role in local and national economic growth
- Role in rural industrialization
- Role in enhancing productivity in the manufacturing sector
- Role in export growth
- Opportunity for franchise and joint venture
- Scope for up-gradation of existing technology
- Scope for SME cluster growth in Special industrial zones
- Potential for SMEs to get international quality certificates
- New enterprise development
- Potential in value addition of products
- Exploring of new export markets
- Business expansion to other countries

THREATS



- Weak Performance and high failure rates
- Market competition
- Inefficient infrastructure
- No proper budgeting and planning
- Taking risks without calculation
- Inability to embrace new production technology
- Inability to compete in international markets
- Incapability to sustain unforeseen economic situations like pandemic
- Non-interest in moving to the formal sector
- Avert paying taxes