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EVOLUTION OF SMES IN PAKISTAN AND KEY CHALLENGES THAT HAMPERS THEIR EXPANSION

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Abstract

"Small and Medium Enterprises" commonly referred to as SMEs have had a pivotal role in socio-economic development across the globe. Much of the growth of leading economies in Asia - Pacific came from the growth of SMEs, in the 1990s, that acted as "Economic Engine" to lift millions from poverty and provided a sustainable platform for socio-economic development. In Pakistan, the SMEs continuum is widespread with a footprint in every sector of the economy and accounts for 30-40% of GDP. These SMEs are not only the source of employment but act as a major supply chain component for "Large Scale Manufacturing" (LSM) and "Services Sector" of the country. Pakistan, since the 1990s, had attempted to rejuvenate SMEs' growth by offering lucrative business opportunities and enacting the "Small and Medium Enterprise Development Authority" (SMEDA) and later by promulgating a coherent Policy Framework in 2007 with the aim to propel growth and expansion. Nonetheless, serious policy and implementation challenges like business regulations, bureaucratic glitches, skilled human resource shortage, limited investment, etc. have mired the growth of SMEs and as a result, the true potential of SMEs could not be fully realized in Pakistan. Therefore the aim of this paper is to analyze the SMEs' growth in Pakistan and to determine the key Challenges that Hampers their Expansion. The paper concludes that there are a number of factors that have created hindrances towards the successful growth and expansion of SMEs. On the basis of analysis and conclusions, remedies have been recommended.

Keywords: SMEs, SMEs in Pakistan, Expansions of SMEs, Growth of SMEs, etc.

Introduction

“Small and Medium Enterprises” commonly referred to as SMEs have had a pivotal role in socio-economic development across the globe. The SMEs’ potential to alleviate poverty, job creation, as supply chains for high-end enterprises and promoting growth makes them an essential element of the national economic framework for any nation. Much of the growth of leading economies in Asia - Pacific came from the growth of SMEs, in the 90s, that acted as “Economic Engine” to lift millions from poverty and provided a sustainable platform for socio-economic development. This SME centric growth strategy has been dubbed and accepted as a fundamental economic tool by leading global financial agencies including IMF, World Bank, and Asian Development Bank. Thus, it would be fair to conclude that SMEs in the industrialized world are a key source of economic impetus for any nation and indispensable ingredient to achieve inclusive economic growth (Amir et al., 2020).

In Pakistan, the SMEs continuum is widespread with a footprint in every sector of the economy and accounts for 30-40% of GDP. These SMEs are not only the source of employment but act as a major supply chain component for “Large Scale Manufacturing” (LSM) and “Services Sector” of the country. With 3.2 million business entities, SMEs’ role is undisputed towards enticing growth with the potential to expand with greater output, equitable income, employment, and exports. Given the current economic situation, SMEs can be the key factor in overcoming the economic woes of the country (Amir et al., 2020).

Pakistan, since the 90s, had attempted to rejuvenate SMEs’ growth by offering lucrative business opportunities and enacting the “Small and Medium Enterprise Development Authority” (SMEDA) and later by promulgating a coherent Policy Framework in 2007 with the aim to propel growth and expansion. Nonetheless, serious policy and implementation challenges like business regulations, bureaucratic glitches, skilled human resource shortage, limited investment, etc. has mired the growth of SMEs and as a result, the true potential of SMEs could not be fully realized in Pakistan (Amir et al., 2020).

SMEs Growth in Pakistan

SMEs in Pakistan have been embroiled in non-uniform growth over the years, although they comprise over 90 percent of all enterprises and employ around 80 percent of the non-agricultural labor force. This non-uniform growth of SMEs is primarily rooted in the inconsistency in the policies of successive governments and the lack of political will to undertake necessary reforms.

A development plan for “Small Scale Industries” (SSIs) was conceived to be part of the “First Five-Year Plan” of the country in the 60s and the theme “kept on echoing

in subsequent plans,” but the situation “on the ground remained more or less dormant.” The “Second Five Year Plan” in the 70s focused on building upon the objectives set forth earlier and emphasized on small industries development. Thus, “Government investment was earmarked for setting up of Small Industrial Estates,” Technical & Management Services Centers, and Common Facility Centers. Nonetheless, in the absence of a coherent policy framework, the desired results could not be accrued.

SMEs in Pakistan was first recognized at the policy level in 2007 when the Federal Cabinet approved the first SME Policy of Pakistan. The Policy lays down a comprehensive roadmap for achieving coordinated growth in the SME sector which would provide opportunities and conditions for creating new jobs leading to poverty alleviation and social uplift (Amir et al., 2020).

The definition of SMEs has remained a subject of intense debate in Pakistan over the years. Various agencies have continued to interpret their own understanding of SMEs reflecting an amalgam of various understanding of the issue. Several definitions adopted by various agencies such as the “State Bank of Pakistan”(SBP) and the ‘Federal Board of Revenue” (FBR) differ in terms of the number of employees and annual turnover figures (Dar et al., 2017).

Nonetheless, keeping in view the significance of SMEs in economic wellbeing, an SME definition was approved by the Federal Cabinet, as part of the “SME Policy 2007” that defines SMEs as “an establishment with an employment size up to 250, paid-up capital up to 25 million and annual sales up to 250 million”. Even though the SME definition was approved in the SME Policy 2007, various Government agencies, e.g. State Bank of Pakistan, Federal Bureau of Statistics, Provincial Labor **Departments**, etc. use their own definitions. The State Bank defines in the following manner (Dar et al., 2017):

Table 1: SME Definition by State Bank of Pakistan¹

Institutions	Enterprise	Employment Size	Annual Sales Turnover
State Bank of Pakistan	Small	Up to 50	Up to Rs. 150 million
	Medium	51-250 (Manufacturing & Service MEs) 51-100 (Trading MEs)	Above Rs 150 million and up to Rs 800 million

Not having a commonly agreed-upon definition that describes the functional and economic structure of SMEs in Pakistan makes it challenging to “ascertain target groups, align development facilities and programs, collect and synthesis data and subsequently correct monitoring of the progress by targeted groups” as noted by

¹ Source: SMEDA, n.d.

SMEDA CEO. Nonetheless, large academic fraternity finds it more convenient to refer State Bank understating on SMEs. It is also true that SMEs' definitions ought to reflect the economic realities of the country. A more ambitious and aggressive definition may only restrict much Government assistance to the small businesses that are endeavoring to flourish and may require subsidies or assistance to expand their footprint. Nonetheless, currently, National SME Policy 2019-24 is under development in collaboration with various stakeholders which is likely to settle the issue and SME definition will be implemented nationwide (Dar et al., 2017).

Broader Contours of Economy in Pakistan and SMEs:

Pakistan with a population of 217 Million and nominal GDP per capita of \$1300 ranks 154th in the world. Despite being the 23rd largest economy of the world in terms of Purchasing Power Parity,² the country remains underdeveloped lagging behind with regional countries in terms of embracing technology and innovation. The service sectors with 69% have been the major chunk of the economy surpassing Agriculture (18%) and Industry (13%). The economic growth over the years was barely hovering around 3% except for a few spikes in the last few years. This marginalized growth is clearly not enough when viewed from the prism of population growth rate. As a result, due to fewer opportunities, stagnant wages, and increase unemployment, more people are sliding into the coffers of poverty (Katua, 2014).

Many countries in the Asia-Pacific region have reversed this tide by effectively mobilizing and investing in SMEs. Business-friendly regulations, access to finance, ease of doing business, security, and skilled human resource have ushered the rapid development cycle in Bangladesh, China, Malaysia and many other developing countries (Abe et al., 2015).

Notwithstanding, in the case of Pakistan, the true potential of SMEs could not be realized. From very on-set, the small businesses were relegated in favor of large-scale manufacturing. Though, the effort was made in the first and second five-year development plan to bring some impetus to small businesses. However, in the absence of business-friendly regulations, lack of technology, and access to finances these efforts largely remained limited to lip service with no worthwhile fallouts. Lately, the establishment of the SMEDA and framework of 2007 has offered somewhat concrete guidelines to rejuvenate SMEs in Pakistan. Nonetheless, it is a complex interplay of Government policies, the financial sector, level of skilled HR, the connection of the global supply chain, and other factors (Rehman et al., 2005).

Currently, despite haphazard growth, SMEs contribute an estimated 40% to Pakistan's GDP which may be far less in comparison to other regional countries. This

² "Purchasing Power Parity" is the theory to measure the prices/worth of goods using a common basket of currency which is the US\$.

disparity is primarily rooted in less favorable business conditions and coherent push from Central Government to develop SMEs on modern lines in coordination with other state agencies.³ Nonetheless, lately, things are moving in a more favorable direction for SMEs' growth. Improvement in ease of doing business and Government desires to invest in skilled HR, IT support systems are bound to attract investment and growth in SMEs (Rehman et al., 2005).

SMEs Evolution in Pakistan

At the Government level realization of a thriving SME sector as an instrument for sustained growth and alleviating poverty through Government incentivized policies has remained a challenge. The growth of the 60s and the nationalization of the 70s largely focused on the development of large-scale manufacturing. As a result, the growth impetus for SMEs was either lacking or remained limited to lip service (Amir et al., 2020).

SMEs' role for a flourishing and emerging economy is well documented and understood by other developing countries much earlier in comparison to Pakistan. However, such benefits could not be fully realized in Pakistan, as the SME sector has been underperforming. In yesteryears, the central Government role in the "development of small industries in terms of determining national policies, coordination of activities and fixing priorities of development," conducting research, and arranging training programs to promote SME led economic development has remained limited or lack manifestation on the ground (Shah, 2018).

In this context, a "development and uplift plan" for "Small Scale Industries" (SSIs) was made part of the "First Five Year Plan" of the country and "the theme kept on echoing in subsequent Plans, but the situation on the ground remained dormant." The "Second Five Year Plan"⁴ also builds upon the goals and objectives set forth earlier emphasized in small industries development. Government investment was earmarked for setting up of Small Industrial Estates, Technical & Management Services Centers, and Common Facility Centers. However, SMEs in Pakistan was first recognized at the policy level in 2007 when the Federal Cabinet approved the First SME Policy of Pakistan. The Policy lays down a comprehensive roadmap for achieving coordinated growth in the SME sector to create jobs and opportunities for socio-economic development thus helping in reducing poverty (Shah, 2018).

³ State Bank, FBR, Commercial Banks, etc.

⁴ 1960-65

SMEs Growth in the 60s and the 70s

At the time of independence, Pakistan “inherited a limited industrial base.” Traditionally this part of the subcontinent was an agrarian society with wheat and cotton as main crops. “Pakistan at that time had industrial assets worth only PKR 580 Million.”⁵ However, Government focused on “public sector investments in areas of defense, hydroelectricity telephone, and telegraph” and large industries. As a result of the development plan of the 60s, the industrial sector was assigned “high priority, followed by water and power development.” The plan “envisaged an increase in industrial output by about 60% in major industrial sectors.” Interestingly, a “program for the development and uplift of small-scale enterprises did figure up in the very first Five Year Plan.” It was hoped that expansion of the industrial base would trickle down and result in the development of smaller industries as “Supply Chain”. However the same could not be realized completely. Instead, it propelled the growth of a large loose network of SMEs void systematic functioning and processes to develop and modernize (Syed, et al., 2012).

In the 70s situation became more precarious due to the nationalization drive that strangulated competitiveness in manufacturing sectors with further uneven growth of SMEs void of Government regulations and state organ support.

SMEs Growth in 80s and 90s

During the period between 1978 to 83, “a minimal shift” occurred in the “Public-Private Sector Relationship”. Partial de-nationalization and “the demarcation of areas for private sector investment were carried out in this period” (Wikipedia, 2020). In the 1983-88 “Sixth Five Year plan” the theme was deregulation and privatization whereby the government adopted a “Laissez-Fair Philosophy” which “limited the role of the state” to “afacilitator of privateinitiatives” and as “an investor of last resort”. Apart from increasing the private sector share in the investment, the objectives were “to diversify investments towards capital goods production and ensure balanced regional development” (Wikipedia, 2020). Nonetheless, the uneven patterns for SMEs’ development remained unabated. The skilled force duly aligned with modern needs could not be flourished properly.

Establishment of SMEDA

The decade of the 1990s heralded the success of rapidly developing economies of Asia which was attributed significantly to the performance and resilience of their businesses under the umbrella of SMEs. Likewise, Pakistan also following the “trends in international development” realized that sustained development and economic growth were possible only through “strengthening the bulk of economic establishments in the

⁵ approx. the US \$112 Million

economy” i.e. SMEs (Dar et al., 2017). The need “to establish an institutional support structure for their development” was therefore evident. “Small and Medium Enterprise Development Authority” was created in 1998 to meet this need. SMEDA had a broad and multi-pronged mandate. “Institutionally organized as a model of a corporate entity, it drew its strength from the apex authority in the public sector.” This gave SMEDA the “leverage of resources of both public and private sectors towards the betterment of SMEs” (SMEDA, n.d.).

SMEs Growth beyond 2007

Past 2007, SMEs’ development has started to garner attention at the highest levels of government. The policy was successful in documenting various challenges that hamper their growth and progression. Consequently, SMEs’ growth has remained an important instrument to propel socio-economic development for Governments after 2007. Nonetheless, it can be safely said that Pakistan is still far from an SME driven Economic paradigm. As of 2019, Pakistan houses more than “3.8 million SMEs inclusive of 0.8 mil industrial units, 1.2 mil service sector entrepreneurs while 1.8 mil is commercial/ retail shops.” Amongst the industrial units, 41% are in urban areas. SMEs are providing 80% employment for non-agriculture labor and contribute 40% in GDP.⁶ Growth of SMEs in the manufacturing sector is 8% in the manufacturing sector, 10% in exports, and 10% in the service sector (Baig, 2019).

Table 2: SMEs Factors and Relationship Impact⁷

SMEs Factors	Relationship Impact			Impact on SMEs (only direct impact is considered)		Remarks
	Government Policies	Investment	HR	Growth	Employment	
Regulations	√	-	-	√	-	True potential of SMEDA and 2007 policy framework could not be realized due to lack of coordination amongst various state organs
Infrastructure	√	√	-	√	√	Infrastructure in form of modern road and rail network directly contributes towards growth and employment.
Affordable Energy	√	√	-	√	√	Affordable energy dictates competitiveness and attraction of SMEs in global supply network

⁶ share of SMEs in Global GDP is 55%

⁷ Source: Authors’ own work

Ease of Doing Business	√	-	-	√	-	Red tape and excessive bureaucratic channels are hurdle in start-ups
Access to Finance	√	-	-	√	-	Investment and competitive bank loans are the key ingredients for sustenance of SMEs
IT support System	-	√	-	√	-	Embracing modern IT system would organize SMEs and increase productivity however reduces HR dependence
Technology	-	√	-	√	-	Modern technologies / software would allow SMEs to become part of global supply chain however reduces HR dependence
Skill development	√	-	√	√	√	Skilled workforce increase productivity and allow SMEs to remain competitive and relevant against rapidly changing global trends
Vocational Certification	√	-	√	√	-	The most important tool in developing the skilled work force to meet contemporary needs
HR Incentives	√	-	-	-	√	Attractive pay package and other incentives are necessary to prevent brain drain
Competitive	√	√	-	√	-	Competitiveness is the by-product of other key factors (skill, IT, technology, finance, HR incentives, Energy and business environment)
Security	√	-	-	√	√	Security situation directly impacts growth of SMEs. This also impacts SMEs ability to connect to global supply chain.
Global Supply Chain integration	-	√	-	√	-	It is the byproduct of other key factors. The SMEs which is competitive, skilled and innovative is bound to attract global networking subject to friendly Government regulations
Large Scale Manufacturing	-	√	-	√	-	Large Scale Manufacturing allows SMEs to become the part of their network and provide necessary capital of their expansion and growth

The lack of coherence is mainly due to the multiple interests and influences at work, which ought to be balanced within the matrix of prevailing realities. A conducive business environment based on sound policy interventions is a pre-requisite for sustainable SME development as already noted.

The current government assigns a high priority to SME development and the creation of a conducive business environment for their growth across Pakistan. In this regard, an SME Policy 2019-24 is under formulation to provide a comprehensive guideline to boost Pakistan's economic growth. The Policy intends to include support packages for SMEs in the areas of Access to Finance; Business Development Services;⁸ Simplifying Taxes and Cost of Doing Business (Khan, 2019a).

Key Challenges for SMEs Growth in Pakistan

SMEs in Pakistan are plagued with a host of challenges and structural deficiencies. These impediments have constrained the ability of SMEs to optimally benefit from rapidly changing global business environment and opportunities. The continuum of this includes regulations for businesses, "constrained access to formal finance and other input resources," lack of technology, availability of skilled human resource, relatively narrow base of value-added products; inadequacies in an effective business information culture and infrastructure; deficiencies in SME support services for desired entrepreneurship development and promotion; and a comparatively low level of integration in global value chains (Syed et al, 2012).

As highlighted earlier that one of the key ingredients of SMEs growth in regional countries is their effective and result oriented strategy to tackle the above-mentioned challenges. Similarly, Pakistan ought to address to mitigate these challenges as without addressing these structural issues the current SMEs development pattern in Pakistan could not be altered (Katua, 2014).

i. Government Regulations: In Pakistan, the fiscal, monetary, labor, and enterprise regulations of the Government may be thought to have a positive impact on SME development through creating a "conducive business environment, investment facilitation, and productivity improvement. However, as mentioned by CEO SMEDA "in reality, these policy frameworks do not focus on the SME sector. Generally, fiscal regulations divide enterprises by income levels and labour related regulations, that realize only two forms of enterprises, i.e. small and large, thus, not providing laws and implementation mechanisms that are sensitive to SME needs. Largely, the support and grievance redressal regime of the government does not differentiate between enterprises on the basis of their size thus making it difficult for SMEs to access public support programs and attention of public authorities when competing for it with the

⁸ HR Development, Technology, Marketing, Market Access, Standards, and Certifications, etc.

large firms" (Khan, 2019a). The country has a complex and sub-optimal tax system, with a large number of tax payments in a year and an extremely narrow tax base. On the demand side, most SMEs lack the capacity to fulfill legal, regulatory documentation and compliance requirements. Also, filing of appeal against the assessment of tax is a difficult, costly and cumbersome process for SMEs;

ii. Weak Support Infrastructure: A considerable improvement has come about in road networking quality of roads; however, the networking remains concentrated to some part of the country with others remain devoid of essential linkages between industrial zones and source of raw material thus considerably increasing the transportation cost. The limited communication network also impact transport of finished products; while random interruption and uncertainty in the supply of electricity or gas puts a cost burden especially on small business owner;

iii. Affordable Energy: With the increasing depletion of natural resources and encouragement for IPPs in the 1990s, the cost of electricity was considered to be "the most severe constraint" in the 2007 "Investment Climate Survey (ICA)." For SMEs, the burden of costly energy sources became compounded due to "an increase in the number of power outages experienced per month and a lack of independent power generation sources." Unscheduled outages disrupt operations more severely, and lead to greater wear and tear of machinery, much of which cannot be repaired locally. The combined impact of higher energy cost and sporadic availability leaves the industry unable to fulfill orders and increases the production cost. A 2012 pilot survey finds that "more than half the firms report the number of outages to vary between 45 to 100 times a month, an increase from the 2007 ICA survey." This is compounded by "the shortage of gas, which could otherwise have served an important alternative source of energy" (Hussain and Khan, 2013). Consequently, lack of cheap and uninterrupted energy resource has remained a predominant barrier to the productivity of SMEs having "a significant impact on growth potential across all sectors."

iv. Access to Finance: From the supply side, access to finance has always been a constraint for SME despite a number of initiatives from the State Bank of Pakistan (SBP) aimed at improving finance access to local businesses. Few of them include SBP's Prudential Regulations for SMEs and Policy for Promotion of SME Finance, which is a direct policy initiative to enhance SMEs' access to credit. Another important step of SBP to develop SMEs in Pakistan is "The Financial Institutions (Secured Transactions) Act, 2016" to facilitate SMEs and agriculture borrowers to access credit from the banking sector by using their movable assets as collateral (Siddiqui et al., 2008).

As of May 2019 around 6% of SMEs were currently availing loans from banks. However, "low financial literacy, lack of collateral and documentation and complicated loan procedures" were the main challenges for SMEs due to which they could not avail

more loans from banks for growth and expansion. While on the banking side “high-risk perception, high administrative cost, lack of collateral, lack of expertise in banks for SME finance” were issues due to which banks had been reluctant to give loans to SMEs. Moreover, businesses were facing problems in access to finance as banks prefer investment in government securities instead of providing easy credit to the private sector (App, 2019);

v. IT Support System: Today, the integration of Information Technology in every business is vital for its efficiency and success. Developments in IT have equipped businesses the necessary capability to mitigate complex problems, help in decision making, improve marketing, better customer support, and optimize resource management. The integration of IT innovations and resources helps lowering production costs and also centralized task management. Besides, modern IT tools help foster innovation in the organization thus keeping them abreast of changing demands. Though IT-based SMEs can contribute to Pakistan’s economy in a number of ways, however, their cumulative effect across the SMEs landscape in Pakistan is yet to fully materialize. Although operational applications such as word processing, databases, and spreadsheets are used more widely, the majority of SMEs use of telecommunications and interconnectivity remains wanting (Ahmed et al., 2010). There are several sectors in Pakistan which can benefit from the integration of IT. The service role of IT can enhance rural communities’ opportunities in Pakistan by improving their access to market information and developing solutions to improve their local trading abilities. Since IT Services is a sector which relies on skills and human resource, it can contribute significantly to Pakistan services exports. Growth in IT services can also pave the way for increased foreign direct investment in Pakistan with a subsequent impact on other industries. With a clear direction and strategy, the IT industry can take optimum advantage of the growing middle class and can further expand its reach in regional countries (Zafar and Mustafa, 2017).

vi. Technology application: The advantages that can be accrued from interfacing with technological advancement into SMEs are well acknowledged. Technologies improve SME function efficacy, lessen production costs, and extend market access domestically as well as beyond borders. In Pakistan, low technological capability is also a major impediment to the development of SMEs. There is a need to give more focus on the role of digital technology in the creation of intelligent products and production processes with digital enhancement or even the re-engineering of products and services. In this regard, developing regulatory sandboxes for such business would be advantageous. A durable “Knowledge-Based Development” can only be realized through linking the “internal social cohesion” of a country to its ability in “stimulating, developing, and nurturing education; research and development; entrepreneurship; networks and ICT infrastructure; and provision of seed capital and intellectual property rights” (Khan, 2019a)

vii. HR Management: HR development has played a key role in the SME growth of many countries. The spectrum of HR development covers the imparting of entrepreneurs and trade-specific skills to vocational centers and incentives to retain HR. Though, in the past many years, Governments have introduced a number of initiatives vis-à-vis HR development. The continuum of such initiatives includes the Prime Minister's loan schemes, incubation centers, and the introduction of entrepreneurship in the university curriculum. Moreover, in order to facilitate SMEs, SMEDA has developed common facility centers all over Pakistan, under Public Sector Development Programme. These projects are conceived in consultation with prominent cluster stakeholders and have an aim to "catalyze adaptation of best business practices and induction of new technologies through demonstration, training, and provision of common facilities to small and medium enterprises" (Katua, 2014).

viii. Skill Development: The productivity of SMEs largely depends on the quality of its human resource. Formally educated and skilled workers can add value to a firm's productivity through innovation and applying new production techniques. In many developing countries like Pakistan, the quality of human resources employed in SME are generally deficient in desired knowledge and professional skills particularly in "market analysis, marketing and product innovation as well as business planning and financial management".

In Pakistan, dedicated efforts are required for skills development as around 80% of the population employed in the manufacturing sector is unskilled which is highest among its competitors. There are dedicated institutions including TEVTA, NAVTTC, NPO, and PITAC that impart technical skills and training to improve the productivity of human resources; however, there is a demand-supply mismatch. In addition, several provincial institutions conduct training and capacity building programs at the provincial level across Pakistan. There is a need to develop and implement policy initiatives to align human resource development initiatives to the actual needs of SMEs in-line with global trends (Shah, 2018).

ix. Vocational Certification: Despite the availability of many vocational training opportunities in Pakistan, there is a perpetual lack of sector-based focus in vocational training as most formal vocational training institutes impart skills and training only in primary technologies that include "electrical, mechanical, and chemical subjects.... Training institutions for catering to the needs of many other up and coming sectors of our economy including precious stones, gems and jewelry, marble and granite, hunting and sporting arms, dairy, plastic, etc" are still not materialized. Moreover, SMEs also stand disadvantageous in terms of acquiring skills and technology as compared to large firms due to the insufficiency of financial capital to invest in training and skill development for producing and retaining more productive workers.

There are severe gaps in the skills market that need to be addressed, as there is a demand-supply mismatch between the skilled workers produced by the technical & vocational training system and those required by the industry (Khan, 2019b). Realizing the importance of the availability of skilled and certified human resources for SMEs, the incumbent Government has taken "a number of initiatives in the past two decades to address the problem." The creation of institutions like "Technical Education and Vocational Training Authority" (TEVTAs), "National Vocational and Technical Education Commission" (NAVTEC), "Technology Upgradation and Skills Development Company" (TUSDEC) steps in the right direction however the problem still exists (Khan, 2019a). These structural issues are also being addressed in the new Draft SME policy which remains subject to formal promulgation by the Ministry of Industries and Production (Khan, 2019b).

x. HR Incentives: Retaining HR along with Continuous Professional Development is another grey area that has mired the HR in SMEs. Due to the lack of Government regulations wages and associated benefits are uneven for every sector in SMEs. As a result, HR is either forced to work on a limited benefit or they tend to avail opportunity abroad after gaining a certain skill set. Most SMEs do not have the required enough financial strength to pay higher wages to retain more productive workers (Masood and Inam, 2019). This results in continued brain drain and skilled labor from every sector in Pakistan to relocate elsewhere in pursuit of better living.

xi. Lack of Competitiveness: SMEs in Pakistani due to prevalent lack of competitiveness fail to make their space in international markets and value chains. "Shortage and cost of power hits the industry at multiple levels. It increases production times and overheads and reduces worker productivity. The cost of self-generation is about 3.5 times the cost of power from the grid" (Dar et al., 2017). Moreover, "the tariffs are not industry-friendly. The industry ends up subsidizing the cost of electricity for domestic and commercial users, whereas, internationally the practice is the reverse." The electricity tariffs keep on increasing in arrears, with instances "where the firms have had to pay the increased cost of electricity of the past 6-9 months. These ex-post tariff changes make it impossible to do appropriate costing for businesses leaving them with uncertain profit margins" (Afriz et al., 2013). Moreover, in Pakistan the cost of doing business is high because of land acquisitions and other restrictions by the local government. This high cost of land results in a shift of interest towards other businesses like real estate in which funds are allocated to expensive land which is used for business growth.

xii. Ease of Doing Business: Over the years, Pakistan has lagged behind in the ease of doing business index. In the Doing Business 2019 report, Pakistan stands at 136th rank improving 11 notches from the Doing Business 2018 report (State Bank of Pakistan, 2019). After strenuous efforts of the Government of Pakistan focused on

efforts to bring about reforms and positive impacts in the ease of doing business area "Pakistan climbed 28 places on the World Bank's (WB) Ease of Doing Business Index for the year 2020" and secured a place among the "top 10 countries with the most improved business climate". According to the World Bank, Pakistan has improved in six areas measured by 'Doing Business', which are: "starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders"(Sherani, 2019).

xiii. Security Situation impact on SMEs Growth: Economic development cannot occur without peace while peace and security without growth cannot be sustained. The overall law and order situation in Pakistan remained marred by a weak writ of law and volatile political dispensation since independence. In specific the internal security situation further deteriorated post 9/11 impact every walk of life-impacting physical and human capital while also undermining socio-political institutions that were essential for positively affects economic growth, SME sector is no exception, the unfavorable environment created excessive barriers on the performance of the business. The dilapidated security situation dented the investor confidence domestically and globally curtailing domestic and foreign investments and also forced human and financial resources to shift abroad adversely affecting economic growth. Moreover, for entrepreneurs staying put, a considerable financial and human expenditure had to be invested provision of requisite security and safeguards thus spending lesser capital on economic and social infrastructure (Zakaria et al., 2019). Apart from law enforcement and desire security, these problems are also coupled to the criminal justice system. The higher cost of seeking legal recourse together with lack of access to both effective informal and formal enforcement mechanisms, increase the costs associated with business environment (SMEDA, n.d.).

xiv. Role of Large-Scale Manufacturing: The growth of Large-scale manufacturing is catalytic from SMEs and plays an important role in the flourishing of SMEs network across the country. The small industry tends to act as a bloodline for large industries and become part of their Supply Chain. During the process, they fetch investment, improve their processes, undertake Quality Certifications, and in-process induce growth. However, the continued erosion of Large-Scale manufacturing in Pakistan has created a negative domino effect for SMEs. The growth has stopped, the skilled workforce is unemployed and living standards are declining. Thus, Large Scale Manufacturing decline has a caustic effect on SMEs development in Pakistan (Katua, 2014).

xv. Impact of COVID-19 on SMEs: The outbreak of COVID-19 has added another dimension to woes being faced by SMEs in Pakistan in addition to prevailing structural and fiscal challenges. An online survey was carried out by SMEDA on 14 April 2020 to make an assessment of the "Impact of COVID-19 on SMEs" to which 920 business entrepreneurs responded. As a result of the survey "SMEs may experience

supply chain distortions due to irregular supply of raw materials and intermediate goods, revenue loss and shortage of liquidity to continue business operations” (Ganaei and Sethi, 2020). The survey indicates that a result of the lockdown imposed in the wake of the pandemic: a. 95% have experienced a “reduction in operations.”; b. 23% reported upto 100% “loss in export orders.”; c. 92% have suffered “disruptions in the supply chain.”; d. 48% have “laid of employees.”; e. 89% facing “financial issues.” Although Federal and Provincial Governments have gradually started to ease down on the stringent application of lockdown and social distancing, the losses suffered in almost 2 months of zero economic activity would essentially require favorable government SME specific interventions and support measures including “financial packages, tax relief, guarantees and grants, relaxation in payments of utility bills, support in paying salaries and easing conditions for loan repayments” (Seth et al., 2020).

Conclusion

After examining the data various sources; the following are concluded:

i. The limited contribution of SMEs towards economic growth in Pakistan is the by-product of an uneven growth pattern void of innovation and Government support.

ii. The evolution of SMEs in Pakistan suggests that they are generally engaged in low-level manufacturing through inefficient labor using outdated technology for a limited market segment. The lack of capacity and financial prowess kept them away towards acquiring modern entrepreneur enterprise activity.

iii. The gap in SMEs in Pakistan is the interplay of many variables and spread over decades of the inefficient business environment and mostly wrong priorities of the government.

iv. The expansion of the industrial base in the 60s failed to translate into corresponding SMEs network down the line. Whereas uncalled privatization of the 70s resulted in unproductive Government enterprises which further derailed the SMEs’ development.

v. Even the desired objectives of the SMEDA and Policy framework of 2007 could not be fully realized primarily due to lack of synergy amongst various State institutions.⁹ Therefore, a sound conducive business environment as a base for innovative SMEs proliferation in Pakistan remains a challenge.

vi. In essence, the relegated Government priority, lack of skill set, no capital investment, a dearth of an innovative supportive culture in organizations, reluctance to embrace technology, limited global attraction, shrinking large scale manufacturing in Pakistan, outdated regulations that hamper start-ups, higher interest rates are the key obstacles in SMEs growth in Pakistan.

vii. Study of Key Challenges of SMEs growth in Pakistan suggests that Pakistan needs to adopt a comprehensive and inclusive approach towards SMEs development

⁹ SBP, FBR, etc.

by simultaneously addressing all key factors to achieve an optimal relationship between Government Policies, investment, and HR development (Table 2).

viii. Despite the main source of income for the majority of people, SMEs in Pakistan are generally categorized as low value-added manufacturing using inefficient labor, outdated technology with limited market reach. SMEs' inability to transform on modern lines have constrained their growth.

ix. SMEs in Pakistan are suffering from structural issues which require a coherent and synergetic response from all stakeholders.¹⁰ The real challenge is on the ground manifestation of these initiatives in close coordination with other state organs and stakeholders.

Recommendations

On the basis of the conclusion, the following are recommended:

i. There is a need of formulating a National Policy that not only provides a road-map to address key challenges but at the same time builds an institutional mechanism to monitor the progress through benchmarks and allows the appropriate forum to formulate strategies to mitigate hiccups faced during implementation.

ii. The access to capital, development of skilled workforces, cheap energy, a better security environment would enable a conducive business environment for SMEs growth.

iii. SMEs can embrace technology, IT system, and train their workforce to create an edge in a highly competitive global market.

iv. Policymakers ought to develop a coherence policy that is designed to focus on all key factors concurrently. Merely focusing on one issue, while relegating others, would continue the current growth pattern of SMEs in Pakistan. This, in turn, requires better coordination and input from stakeholders or Government organs to create a synergetic effect. The main areas that require immediate focus include: a. Conducive business environment to facilitate start-ups and incentivize investment from Multinationals to develop their supply chain networks; b. Access to low-interest loans as the loans with a higher interest rate would shrink credit flow to SMEs, limit opportunities, and degrade competitiveness; c. HR development on modern lines through skilled vocational centers that prepare the current labor force to operate highly automated machines/software and IT support system; d. Competitive Energy rates for industry and SMEs to allow them to compete globally; and e. Enacting E-financing and tax filing facilities.

¹⁰ Govt, state organs, and Business community.

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