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Why Think Small and Medium?

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Introduction

The Micro-Small and Medium-sized Enterprises (MSMEs) Day is celebrated by the United Nations (UN) on June 27th each year. In celebrating this day, the UN system aims to perform the dual purpose of highlighting the role of these enterprises and garnering support for them.

Micro-Small and Medium-sized Enterprises are the backbone of economies around the world. In fact they play a vital role in developing them. They provide jobs and promote inclusiveness by employing women, the youth and even people from less fortunate households. The MSMEs also contribute to sustainable development and are in line with SDG 8 (decent work and economic growth) and SDG 9 (industry, innovation and infrastructure). Thus, in supporting MSMEs the UN is also indirectly supporting the implementation of Sustainable Development Goals.

On this day, the General Assembly of the UN hosts all Member States, the various organizations of the United Nations system and other international and regional organizations, along with the civil society. In accordance with the objectives of the day, those concerned research, present and debate ideas to promote and improve MSMEs all around the world and particularly in developing countries.²

In 2018 the slogan for the Micro-, Small and Medium-sized Enterprises Day was 'MSME Day 2018: The Youth Dimension'. The objective of this was to stresses the ability of SMEs in employing the youth, to promote the potential of youth entrepreneurship and also to raise awareness about the skills needed by the youth to gain employment.³

Situation Analysis

Pakistan needs to feed off from this day to give MSMEs the importance they deserve. At present, 90% of Pakistan's enterprises are small or medium sized. These enterprises employ 80% of the non-agricultural labor force and contribute around 40% to the GDP⁴. However, this isn't to say that the SMEs have reached their maximum potential yet. The potential needs to be realized through planning that develops and promote SMEs especially through provision of financial and technical support systems. This could clearly become a catalyst for economic growth and revival in Pakistan and can play a vital role in creating jobs and improving export potential.

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² <http://www.un.org/en/events/smallbusinessday/index.shtml>

³ <http://www.intracen.org/MSME-day-2018/>

⁴ https://smeda.org/index.php?option=com_content&view=article&id=7:state-of-smes-in-pakistan&catid=15

Around 6.1%⁵ of the Pakistan's labor force is unemployed. The employment opportunities available are meagre, particularly for women, the youth and low-skilled workers. The lackluster performance of the Government in this area seems to be in total disregard of the MSMEs can play a vital part in changing this because they are fast growing and labor-intensive enterprises which also employ people with limited skills and with little or no work experience including women, the youth and low skilled workers. This is essential for Pakistan which is currently facing a youth bulge. The percentage of unemployed youth in 2017 was 7.683 (% of total labor force ages 15-24).⁶ However, it should be considered that, this youth bulge is providing an ideal opportunity to Pakistan since those of working age are more than the dependents. Pakistan needs to use this opportunity to harness the potential of the youth by supporting SMEs and consequently creating more jobs.⁷ Similarly, a glaring 6.7 percent of the female labor force is unemployed.⁸ This is even more concerning considering that the female labor force is already really small to begin with. This is mostly because the female population of Pakistan is not given equal opportunities. So, Pakistan needs to consider developing SMEs to provide job opportunities to women. SMEs also help increase Pakistan's exports. Pakistan is a country which has constantly had a trade deficit for many years. It needs more value-added products of good quality which can be exported. An increase in exports would reduce Pakistan's current account deficit and increase the aggregate demand. It would also promote the local service industries since once the people working in SMEs earn more there will be an increase in their spending. Hence, SMEs help improve the economy and are needed by Pakistan.

Institutional Deficit and Access to Finance

There are several institutions that promote and assist SMEs especially the SME Bank Ltd. and the Small and Medium Enterprises Development Authority (SMEDA). SMEDA was established by the government in 1998. Its mission was "To assist in Employment Generation and Value Addition to the National Income, through Development of the SME Sector, by helping Increase the Number, Scale and Competitiveness of SMEs".⁹ In order to achieve its goals SMEDA has a number of projects in place including the Cluster Development, Prime Minister's Youth Business Loan Scheme, the Development Partner Initiatives and the Public-Sector Development Programme (PSDP).

MSMEs are currently operating short of their potential. Some prominent constraints that hold them back include the institutional ineptitude in defining SMEs, lack of finances and technology available, the energy crisis and the fact that MSMEs do not focus on value-added products.

Talking about institutional deficits, there are a number of problems that plague SMEDA (the premier SME support institution) and hinder it from effectively delivering its mandate. First, is paucity of funds available to it to that disable it from truly becoming an SME support institutions. Access to funds and lack of investor interest in the small, and medium sized industry are two constraints that small businesses regularly. This impediment keeps several

⁵ <http://www.imf.org/external/datamapper/LUR@WEO/NOR/PAK>

⁶ <https://data.worldbank.org/indicator/SL.UEM.1524.ZS?locations=PK>

⁷ <http://www.pk.undp.org/content/dam/pakistan/docs/HDR/FACT%20SHEET%20-%20NHDR.pdf>

⁸ <http://datatopics.worldbank.org/gender/country/pakistan>

⁹ <https://smeda.org>

winning business ideas from developing. However, if SMEDA has to make corrections to secure SMEs, it has to provide some level of access to finance which it fails to do so in the wake of some lackluster financial support by the government. The SME Bank was formed in 1984. It was established mainly to provide “necessary financial and technical assistance [to the SME sector] on a sustainable basis”¹⁰, especially since commercial banks seem reluctant to invest in SMEs. Unfortunately, the SME Bank also falls short. These reasons for this again come down to low investments and the lack of due importance given by the government.

Conclusion

The UN days are either meant express solidarity or sensitize its member countries and people around the world about a certain theme, issue or event. In that vein, the MSMEs day, sensitizes the international community about the vitality and importance of promoting MSMEs as an engine to alleviate poverty amongst the poorest of the poor while also fostering greater economic growth through higher levels of production and exports. Pakistan needs to promote and develop SMEs. It needs to strengthen and support the existing small and medium sized institutions, digitize SMEs by providing them access to finance and technical resources, give SMEs the incentive and the means to make value-added products, and most importantly work towards securing investments for the SME sector.

¹⁰ <http://smebank.org/about-us/mission-statement/>