The Role of Small and Medium-Size Enterprises in Socio-Economic Sustainability in Pakistan

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Abstract

The report is based on an exploratory research on an assessment of the problems and constraints faced by small and medium-sized enterprises (SMEs) in Pakistan with regard to access to financing. The purpose of this report is to identify the core constraints in financing of SMEs in Pakistan that impede their growth and even undermine their liquidity and financial position. The research methodology includes qualitative data and quantitative data. A survey was undertaken from a sample group of 500 respondents of SMEs in Karachi from whom various questions were asked through a structured questionnaire. In addition, one-on-one formal and informal interviews were taken from various businessmen and bankers. Samples were selected conveniently. A conceptual model/framework was devised to test and ascertain the statistical validity. It includes dependent variable SME financing and independent variables, financing constraints, functional/internal barriers, government support and incentives, and SMEs growth and development.

Index terms—

1 Introduction

he development of small and medium-sized enterprises plays a pivotal role in the growth and prosperity of nation. Although large-scale corporations, particularly industrial concerns contribute sizably/largely in gross domestic products (GDP) and other economic variables of prosperity but the significance of SMEs is widely recognized around the Author : PhD Scholar SZABIST, Karachi , Adjunct faculty member SZABIST, Iqra University, Indus University Karachi, Pakistan. E-mail : ramangi30@gmail.com globe. SMEs make a substantial contribution toward GDP, revenue collection in the form of taxes, fostering entrepreneurship culture, employment opportunities, income generation, skills development of human resources, poverty alleviation, and improving the standard of living and quality of life (Qureshi 2010). Above all the prime economic benefits of SMEs development include encouraging perfect competition and fair distribution of wealth. If only large-scale corporations exist, there will be either a monopoly in an industry, with a single suppliers, or oligopoly with only few suppliers, or monopolistic competition with only some suppliers, while the major portion of national income and wealth will move around the hands of big capitalists. SME sector, however, begets fair competition and equitable distribution of wealth.

SMEs assist in regional and local development since SMEs accelerate rural industrialization by linking it with the more organized urban sector and help achieve fair and equitable distribution of wealth by regional dispersion of economic activities ??SME Bank 2009). According to a report by State Bank of Pakistan ??SBP 2004), the small and medium enterprises have played key role in development of economies like Japan. It has also been playing key role in providing impetus to the development of some of the world's best economies like Taiwan, Korea, Hong Kong and China. Countries in South America and India have also been concentrating their efforts in developing the SME sector. Pakistan in not an exception to this as both the Government of Pakistan and the State Bank has been trying to give impetus to their efforts aiming to develop SME sector in Pakistan. In this

regard government has restructured the key support institutions such as SMEDA and SME Bank. However, the problems of small businesses differ than that of medium size businesses. As stated by West (2010) by quoting in the Economist newspaper, 'small business has a big problem that is access to finance.' Access to finance usually means access to bank finance, because small and medium size enterprises (SMEs) are usually too small to access bond and equity markets. Access to finance is one of the most significant challenges for the creation, survival, and growth of SMEs.

There appears a mushroom growth of SMEs throughout Karachi including the SMEs in leading industrial estates, cottage industrial areas, industrial parks, export process zones (EPZs), trade plazas, malls, and small business units scattered in the city and its surrounding villages. Historically, many SMEs thrived in Pakistan because of appropriate entrepreneurial spirit and skills, managerial and labor skills, access to finance (as one the foremost salient success factor), access to technology, marketing skills, innovative products, dedicated customer services, and the drive and capability to meet the customer expectations and opportunities better than the competitors. But unfortunately, all the SMEs and micro enterprises in Pakistan are unable to enjoy access to finance and particularly the sufficient level of finance and not all of them possess appropriate level of managerial and technical skills to thrive and excel in the market place. Since the independence of Pakistan in 1947, the nation has witnessed the marvelous growth of thousands of micro, small, and medium enterprises in Karachi and all across the country. a) SME Defined Generally, SME means small and medium enterprises but one definition given by State Bank of Pakistan (SBP) refers SME sector as, the SME sector can itself be classified into micro, small, and medium enterprises (SBP 2010). As defined by State Bank of Pakistan -SME (Small and Medium Enterprise) means an entity, ideally not a public limited company, which does not employ more than 250 persons (if it is manufacturing concern) and 50 persons (if it is trading/ service concern) and also fulfills the following criteria of either 'a' and 'c' or 'b' and 'c' as relevant: a. A trading/service concern with total assets at cost excluding land and buildings up to Rs50 million. b. A manufacturing concern with total assets at cost excluding land and building up to Rs100 million. c. Any concern (enterprise) with net sales not exceeding Rs300 million as per latest financial statements.

2   b) Salience of SMEs

SMEs are considered the engine of economic growth in both developed and developing countries, these generate more employment opportunities than large-scale firms with relatively small investment; provide low cost/investment employment since the unit cost of persons employed is lower for SMEs than for large-size units; and they are more labor intensive than large-scale enterprises, since labor uses either manual, or semi automatic, and seldom uses automatic processes of production.

SMEs assist in regional and local development since SMEs accelerate rural industrialization by linking it with the more organized urban sector; help achieve fair and equitable distribution of wealth by regional dispersion of economic activities; contribute significantly to export revenues because of the low-cost, labor intensive nature of its products; have a positive effect on the trade balance since SMEs generally use indigenous raw materials; assist in fostering a self-help and entrepreneurial culture by bringing together skills and capital by linking various lending and skill enhancement schemes; impart the resilience to withstand economic upheavals and maintain a reasonable growth rate since being indigenous is the key to sustainability and selfsufficiency (SME Bank 2009).

The economic and social importance of the small and medium enterprise (SME) sector is well recognized in academic and policy literature (UN/ECE 2007). It is also recognized that these actors in the economy may be underserved, especially in terms of finance (OECD-APEC 2006). There have been numerous schemes and programs in different economies to build the SME sector. However, there are a number of distinctive recurring approaches to SME finance, as elaborated by Berger (2005)

3   c) Problem Statement

SMEs play the foremost important role in the development of an economy and these need funds and other support for growth, while as per the report of SBP (2009), the total financing to SMEs in Pakistan has been substantially declined by 20% from Rs437 billion to Rs348 billion from 2007 to 2009, due to slowing economy and loan defaults. The situation poses direct threats to the sustainable nourishment of the SMEs. That's why the research topic has been selected as a problem for a detailed study as: "Role of Small and Medium-sized Enterprise (SME) Financing in the Socioeconomic Sustainability in Karachi."

4   d) Research Objectives

The research objectives are delineated below: 1. To identify core constraints in access to finance by SMEs in Pakistan and other pertinent obstacles in the growth and development of SMEs. 2. To identify the role of government incentives and support for the growth and development of SMEs and understand their significance.

e) The Benefit/Rationale of the Study

The benefit/rationale to conduct this study is to ascertain the wide gap in demand and supply of finance to SMEs in Pakistan, in a bid to offer proposals to overcome their growing needs for finance.

5 f) Scope of the Study

The scope of the analytical research work of this Thesis is to explore the following key points:

? The study will be helpful in pointing out the gaps in SME financing. The actions required to tackle SME financing constraints. The factors which create functional/internal barriers to SME financing need to be addressed. The study intends to provide solutions to develop SME-friendly policies of the government for the growth and development of the SMEs.

6 g) Research Limitations

The key limitations of the research are portrayed hereunder:

? The time frame, financial resources, geographic scope, and sample size to undertake exploratory activities were limited. In conducting interviews, many bankers, the officials of lending institutions, the senior SME leaders, and other stakeholders showed reluctance to express their opinions and considered it as leakage of secrecy. Due to lack of higher educational background by many of the owners and top managers of various SMEs, it took a lot of difficulties and time to get them comprehend the questionnaire and get the answers during survey.

7 h) Research Methodology

The qualitative cum quantitative research techniques were utilized to discover innovated solutions for SME financing in Pakistan. The data collection methods used in this study included primary data collection techniques i.e. collecting data from unpublished and original sources including surveys. A survey was conducted and a structured questionnaire was framed, pretested, and filled by a sample of 500 respondents of SMEs in Karachi (males and females of varying ages and social classes, selected on the basis of convenience method) belonging to manufacturers, traders, importers, exporters, and service businesses. The measurement scale selected was 5-point Likert scale to know the amount of agreement or disagreement of respondents on a scale of five. Interviews from renowned high profile bankers were taken. One-on-one interviews were recorded on convenience basis from officials of State Bank of Pakistan (SBP), Small & Medium Enterprises Development Authority (SMEDA), National Bank of Pakistan (NBP), MCB, Habib Bank Limited (HBL), United Bank Limited (UBL), Allied Bank Limited (ABL), Standard Chartered Bank, Albarka Islamic Bank, micro credit banks, ORIX Leasing Pakistan Limited, and high ups of Federation of Pakistan Chambers of Commerce Industry (FPCCI, the apex body of trade and industry in Pakistan) were recorded to get acquainted with the latest developments and updates on SMEs. As a businessman, the personal observations and relevant experiences of the researcher also helped in compiling data.

In the secondary data collection method, data was traced from journals, books, magazines, news papers, diaries, internet/online sources, etc. In particular, data was extracted from the publications of SBP, SMEDA, International Monetary Fund (IMF), World Bank (WB), Asian Development Bank (ADB), United Nations (UN agencies), World Trade Organization (WTO), European Union (EU), research papers, government websites, and other various authentic data sources. The data analysis was carried separately for a qualitative and quantitative assessment to know the relationships among variables and to test the hypotheses. The figure 1.1 exhibits various kinds of constraints or issues that hamper the growth and development of SMEs in the country. The model exhibits SME financing as a dependant variable, while the independent variables include financing constraints, functional/internal barriers i.e. internal weaknesses, government incentives and support, and SMEs growth and development. The independent variables serve as obstructions to the growth and development of SME sector and eventually, if these constraints are removed, they will lead to the superb growth and development of the SMEs, which will ultimately lead to overall macroeconomic development. Indeed the independent variables form constructs since they comprise of subvariables as well, as portrayed below: The figure ??.1 elaborates that it has been reckoned that the total count of economic enterprises in Pakistan stands 3.2 million, out of which 99% comprise of SMEs, providing 90% jobs in the economy including agriculture related SMEs and provide 78% jobs in the economy excluding agriculture related SMEs, having 1 to 10 employees as an average in 99% SMEs, and their share in export revenues, GDP, and manufacturing industry comprise 25%, 30%, and 35% respectively.

8 i) Research Hypothesis

According to very latest statistics by State Bank of Pakistan (SBP 2010), 90% of the total SME loan portfolio is concentrated in Punjab and Sindh, 64.22% in Punjab and 25.93% in Sindh, while only 10% share is taken by Khyber Pakhtunkhwa, Balochistan, Gligit Baltistan, and Azad Jammu and Kashmir. The SBP report uncovers that an overall decline in SME financing was observed, which fell 20% to Rs348 billion in 2009 from Rs437 billion in 2007, as a consequence of loan defaults and slowing economy. It was also reported that 89% of the loan disbursements by SMEs were for working capital requirements, which reflects banks' reluctance for providing long-term financing and venture capital needs. According to a recent article on the same issue, the three major cities in Pakistan, Karachi, Lahore, and Faisalabad account for more than 50% of total SME financing in the country and top 20 cities together make up 85% of total SME financing (Dawn 2010). The share of SME financing in total lending portfolio in Pakistan is only 10% (Daily Times 2010). In 2009, 89% of the SME financing was received for meeting working capital needs, which shows banks' reluctance to finance longrun projects (SBP 2010). According to another publication by SBP in December 2008, at the end of fourth quarter of 2008, the total outstanding credit of SME sector stood Rs383 billion. About 48% of this amount has been availed by

manufacturing SMEs, followed by 36.4% by trading SMEs, and the rest i.e. 15.6% by service SMEs. The share of short-term loans (up to 1 year) constitutes about 70.9%, long-term loans (exceeding 3 years) up to 19%, and the rest was the share of medium-term loans (1 to 3 years), i.e. 10.1%. As per SBP review on SMEs (2008), the total nonperforming loans up to 31-12-2007 stood Rs41.3 billion, which constitutes 9.5% of the total financing to the SME sector in 2007.

The SME sector contributes 60% of GDP and over 70% of total employment in low-income countries; while they contribute over 95% of total employment and about 70% of GDP in middle-income countries **??**Berger et al. 2003). Surprisingly, more than 90% industrial units in the country are small SMEs. 84% of the SMEs have annual revenue of less than Rs0.5 million (SBP 2008). Table 2.2 : Distribution of MSMEs by Sector, As % of GDP.

9 Sector

Share in GDP 1.

10 Services 17%

2.

11 Manufacturing 30%

3.

12 Trade & Hotels 53%

Source : ILO/SMEDA (2002)

The table 2.2 explains that the services sector in Pakistan possesses 17% share in GDP, while manufacturing and trade plus hotels contribute 30% and 53% respectively.

The Role of Small and Medium-size Enterprises in Socio-economic Sustainability in Pakistan

13 SME sector in Pakistan has amazing potential of development but the key problems include various factors as depicted below:

Till late 90s, the focus of the government, banks, and financial institutes remained mainly on the corporate sector, particularly large-scale industries and manufacturing concerns. The greater concentration of facilitating and financing corporate sector resulted high rates of failures, owing to economic slumps, institutional malpractices, political motives, and damaging activities of labor unions in that sector left the formal lending institutes with huge infected portfolios (SME Bank 2009). A substantial portion of SME sector may not have the security required for collateral. Most of the SMEs appear deficient in accounting and financial information that hinders the effectiveness of financial statement-based lending and credit scoring. This leads to "SME finance gap" particularly in emerging economies (Newberry 2006). Another obstacle is lack of business plans/viability reports to assess the cash flows of business and expected return on investment. Since the viability based approach provides general business development assistance (Kamanyi 2003). Other major causes are lack of accounting and other information; and insufficiently high levels of profitability, gearing, liquidity, and other performance criteria on the part of funding applicants (ISRP 09). Some other constraints in the swift growth of SMEs in Pakistan include shortage of skills, scarcity of capital goods, poor management, lack of data on the sector, resistance to change and marketing (SBP 2009). Another report highlights that one of the problems being faced by this sector is that it does not have access to formal sources of financing (their formal credit usage is around 12%). Interestingly enough, compared to the high default rate of 65% among large concerns, SMEs default rate is only 15% (Tanveer 2001).

According to a report by World Bank Pakistan (WB Pakistan 2009), there is an enormous growth potential for financial services in Pakistan, especially in rural areas. Around one third of the population borrows, but only 3% use formal services to do so. The same report further adds that an incomplete legal and regulatory framework and non-SME-friendly products and procedures hamper increased SME lending. Indirect costs, legal fees, collateral registration, and documentation make bank lending expensive for small and medium enterprises (SMEs), (WB 2009). A similar report on SME sector in Canada highlights a situation, which seems common in Pakistan as well. A research report by International Monetary Fund (IMF) reveals that financing SMEs may be a challenge. Small loans do not always justify the overhead costs of financial institutions. Many SMEs are start-ups, with little or no credit history, and with few tangible assets to secure a loan. A large portion of SMEs offer untested ideas and innovative products whose commercial success is uncertain (IMF 2007). A similar report on SME sector in China also highlights a situation, which seems a resembling to the Pakistani situation. A study by Asian Development Bank (ADB 2002) reveals that SME investments are difficult to evaluate, take time to mature, and difficult to liquidate. In China, major institutional investors (including pension funds and insurance companies) are not allowed to invest in private SMEs. The study makes insights on international best practices

on SME financing and states that to encourage investment in SMEs, most countries have the programs that either increase potential return to investors, or reduce risk of loss (ADB 2002).

14   d) SME Policy

The The concept of SMEs has been widely acknowledged and promoted by the private sector in Pakistan. On the front of the private sector in Pakistan, all the branches of chamber of commerce and industry and trade associations have formulated SME committees within their offices. The chairmen and members of such committees address, promote, and protect the interests of SMEs around the country. Union of Small and Medium Enterprises (UNISAME) is the specialized body of the private sector to deal with the issues of SMEs. On the academia side, business and commerce graduates are fully aware of the notion and significance of SMEs. FPCCI has also set an SME standing committee to deal with the affairs of SMEs. The Committee regularly reviews and proposes the Government the policy recommendations about SMEs in a bid to promote and safeguard the interests of the SMEs (FPCCI 2010). The Committee has added input in the SME policy as well.

15   Data Analysis

The quantitative data analysis has been undertaken through the software, SPSS (Statistical Package for Social Sciences) by using descriptive statistics, reliability test, and correlation techniques to test the model. The results are tabulated and elucidated hereunder: The reliability test shows Cronbach's Alpha score of .922, while the benchmark of it is .7, which means the questionnaire and scale are highly reliable. According to respondent's opinions, as exhibited in table 3.2, the rating on independent variable SME Growth and Development was the highest with a mean of (4.32). The rating of Government Incentive and Support was second the highest with a mean of (4.07), the rating of SME Financing was the third highest with a mean of (3.79), the rating of Functional/ Internal Barriers was the fourth highest with a mean of (3.55) and the rating of Financing Constraints was the lowest with a mean of (3.49).

The standard deviation of respondents' opinions on "Financing Constraints" was the least (0.54), as compared to the other dimensions. This indicates that there is the highest participation in SME Financing dimension. The standard deviation of respondents' opinion on SME Growth and Development was the highest (1.25), as compared to other dimensions. This indicates that there is the least involvement in SME Financing dimension. As exhibited in table 3.3, the correlation values show that there is a positive correlation among dependant and independent variables including SME Financing with Financing Constraints, Functional/Internal Barriers, Government Incentives and Support and SME Growth and Development. The dependent variable "SME Financing" has the strongest correlation with Government Incentives and Support (0.966**), then with Financing Constraints (0.937**), with SMEs' Growth and Development (0.931**) and with Functional/ Internal Barriers (0.929**), while the significance level stands .00, which means all the alternative hypotheses are accepted. O The R value shows Coefficient of Correlation that is the numerical measure of strength of the linear relationship between two variables. The R value (.882) shows that there is a positive correlation among all variables, the dependant and independent variables, while the R Square and Adjusted R Square show Coefficient of Determination that provide a value of (.821), which means the results are 82% reliable to be used for estimation of population. The table 3.5 exhibits the following statistics: O The Sum of Square shows the total variability around the mean, the Sum of Square of Residual Mean, the Sum of Squared Errors in Prediction, and Sum of Square Regression, which means the improvement in Prediction by using the predicted value of (Y) Dependent Variable over just using the mean of (X) Independent Variable.

O The degree of freedom means number of sample minus one.

O The F Test value (358) shows the combination of all variables and overall significances of the Model, it means there is a clear dependence of all the variables on each other, and the results appear significant.

The Role of Small and Medium-size Enterprises in Socio-economic Sustainability in Pakistan The table 3.6 exhibits the following statistics:

The t values of independent variables, Financing Constraints, Functional/Internal Barriers, Government Incentives & Support, and SME Growth & Development respectively stand (52.269), (54.912), (81.752), and (51.85). According to the rules if t value is greater than 2 (t>2.5), then null hypothesis will be rejected and alternate hypothesis will be accepted. That means the results accepted the hypothesis framed for the study and met its objectives, as delineated below: The findings of qualitative research suggest that most people/SMEs borrow but they use informal channels. They invest from their savings and retained earnings or borrow from friends and family members.

Most of them feel reluctant to borrow from banks and financial institutes because of stringent collateral requirements, lengthy and convoluted documentary process, heavy mark up, and somehow hanky-panky / mal practices at banks and financial institutes. Most of the SMEs borrow for purchasing inventory and to meet working capital needs because the lending institutes evade sanctioning loans for venture capital or project financing for start-up businesses. The preference of the lending institutes is the corporate or large-scale sector, as they swiftly grant credit to them at discounted mark up and indirectly, they have been using credit rationing.

The contribution of SME financing to total loan portfolio in 2009 stood only 10%, which decreased about 6 plus percent from last year.

16   IV. Conclusion and Recommendations a) Conclusion

Formal financing is the biggest problem of SMEs because a substantial portion of SMEs does not have the security required for collateral. The loan processing time is very lengthy and cumbersome and the loan terms are not succinct and thoroughly understood by the borrower. The share of SME financing in total lending portfolio in Pakistan is only 10% (Daily Times 2010). In 2009, 89% of the SME financing was received for meeting working capital needs, which shows banks' reluctance to finance long-run projects (Dawn 2010). Due to insufficient funds and relatively small size of business, most SMEs even don't envisage of becoming the members of a stock exchange and issue shares of stock and bonds. There is an enormous growth potential for financial services in Pakistan, especially in rural areas. Around one third of the population borrows, but only 3% use formal services to do so. In addition, an incomplete legal and regulatory framework and non-SME-friendly products and procedures hamper increased SME lending. Indirect costs, legal fees, collateral registration, and documentation make bank lending expensive for small and medium enterprises (WB 2009). The unofficial sources report that the relations managers of various banks charge hanky-panky amount, generally 3 to 5% of the loan amount against sanction of a loan, but it all depends on case to case basis. The mark up rate on financing at 12.5 % appears very high in the whole region. In addition, the banks also add a mark up spread from 2 or 3 to 6% on loans, which discourages the investment climate and the cost of doing business apparently becomes too high (SBP 2010). Islamic banking and stand-alone Islamic branches of conventional banks can make remarkable and stupendous growth provided their products offer interest free and profit and loss sharing financial solutions to enhance leverage to the SMEs.

Most of the SMEs appear deficient in accounting and financial information that hinders the effectiveness of financial statement-based lending and credit scoring. Another obstacle is lack of business plans/viability reports that is to assess the cash flows of business and expected return on investment. Other major causes are lack of accounting and other information; and insufficiently high levels of profitability, gearing, liquidity, and other performance criteria on the part of funding applicants. Some other constraints in the swift growth of SMEs in Pakistan include shortage of skills, scarcity of capital goods, poor management, lack of technology and data on the sector, resistance to change, and marketing. Using positive cash flows and company credibility or goodwill in the market need to be considered as tantamount to traditional requirement of collateral/mortgaged property. This will be especially suitable for SMEs with track record of success.

Collateral free Sale-Purchase Agreement for inventory:

As vast majority of SMEs borrow to buy inventory/stock, so such schemes should be launched on priority basis. The insurance cover for the lenders will be to get the stock of borrower insured and with consent of the borrower, some sensible person(s) can be hired on contractual terms to assist the warehouse in charge of the borrower and monitor and report the bank on the continuous progress of sale and balance status of inventory. Such products might attract very high demand. Collateral free lending against Trust warehouse receipt of tradable commodities: This practice is common in India and various parts of the world; it should also be adopted in Pakistan. The risk of the lender is minimized through receiving fresh stock of easily tradable commodities like rice, wheat, sugar, cotton, and the like. The private warehouses under an agreement with the lender can provide such facilities. Moreover, the commodities can be covered from the risk of theft, fire, burglary, etc through an agreement with an insurance company. Collateral free leasing: There should be no collateral requirement on leased products especially for financing machinery and equipments. The risk of the leasing companies can be covered through insurance of the leased products. Moreover, the leasing company can utilize other risk minimizing instruments to safeguard its interests.

Establishing credit guarantee/insurance agencies: The Pakistan Export Finance Guarantee Scheme (PEFGA) was established to facilitate the availability of finance for export trade to exporters and indirect exporters (SBP-PEFGA 2010). But unfortunately, it is known that PEFGA is about to close its operations and is undergoing the process of loans recovery, only because of lack of interest by the present regime. Like Pakistan Export Credit Guarantee Agency (PEFGA), other such agencies also need to be established, which can share the credit risk with the banks for financing SMEs. Financing ready-made businesses: Schemes like 'President Rozgar Scheme' and 'Mera Apna Karobar-NBP Karobar' offered by National Bank of Pakistan (NBP) in 2007, offer tailormade solutions for generating self-employment. The products included utility store, mobile utility store, general store, rickshaws, public call offices (PCOs), and telecaster (tele-call centre) having great demand in the country. The mark up/ interest on loans is subsidized by Government of Pakistan, as the borrower only pays 6% mark up and the rest is borne by the Government (NBP ??010). NBP attracted huge customers and involved them in income-generating projects to earn their livelihood and enjoy the spirit of self-employment. Such schemes appear need of the hour and must be initiated by numerous banks and financial institutes at concessionary mark up/interest rates. Low/subsidized mark up loans for targeted rural SMEs: The new SMEs, SMEs of exporters, women, and in particular of unfortunate and marginalized communities located in rural areas should be given subsidized mark up rates by State Bank of Pakistan and National Bank of Pakistan (NBP). In a similar manner, NBP's scheme, Apna Karobar is subsidized (NBP 2010). Establishing institutes for entrepreneurship training, capacity building, and loaning to SMEs: In collaboration with SMEDA, banks and lending institutes, specialized institutions need to be opened to train and develop entrepreneurs and SMEs. The potential entrepreneurs and SMEs should be groomed to develop business management skills, engage in business and selfemployment opportunities, enabling them to identify potential projects, design new products, conduct brief viability studies (or cost/benefit analysis), and eventually, they should be offered loans to resume their own businesses. It all requires commitment, mutual

338 trust, capacity building, and continuous coordination among all stakeholders inclusive of entrepreneurs, SMEs,
339 SMEDA, banks and lending institutes, and institutes for entrepreneurship training, capacity building , and
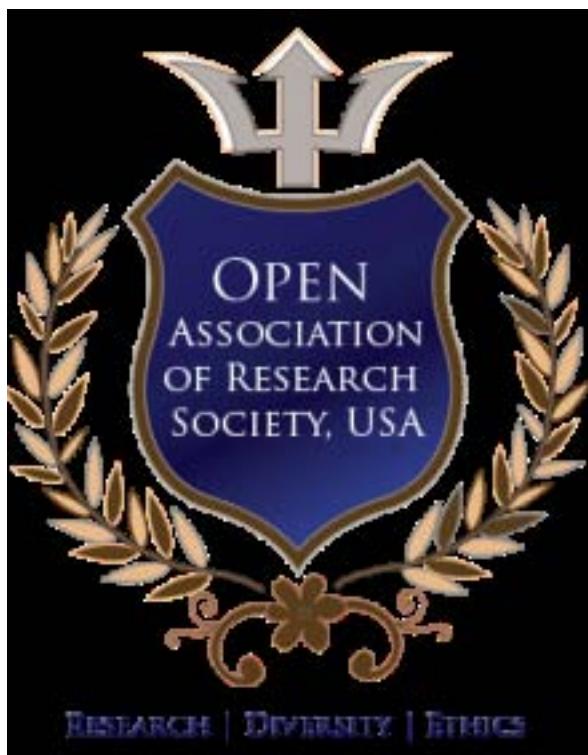loaning. [1] [2]

Figure 1: Following

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[Note: a]

Figure 2: Table 2 .

340

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[2] © 2012 Global Journals Inc. (US)

The SME Policy formulation was a participatory process through executives from ministry of production, industries, and special incentives, ministry of commerce, SBP, SMEDA, and other public sector institutions were involved, while the private sector bodies included, chambers of commerce and industries, trade associations, public sector organizations, and more than 1000 SMEs were consulted across the country.

[Note: e) SMEs Promotion by Private Sector]

Figure 3:

3

1 : Reliability Test
Scale : ALL VARIABLES

Figure 4: Table 3 .

3

Cases	Valid		500	100.0
	Excluded	a	0	.0
	Total		500	100.0

[Note: a. List-]

Figure 5: Table 3 .1.1: Case Processing Summary N %

3

Figure 6: wise deletion based on all variables in the procedure.Table 3 .1.1 Reliability Statistics Cronbach's Alpha N of Items .922 10

3

N   Mean   Std. Deviation

Figure 7: Table 3 .

3

		SME	Financing Constraints	Functional/Internal	Government	SMEs' Growth
		Financing		Barriers	Incentives & Support	& Development
SME Financing	Pearson Correlation	1	.937(**)	.929(**)	.966(**)	.931(**)
	Sig. (2-tailed)		.000	.000	.000	.000
	N	500	500	500	500	500
Financing Constraints	Pearson Correlation	.937(**)	1	.875(**)	.921(**)	.903(**)
	Sig. (2-tailed)	.000		.000	.000	.000
	N	500	500	500	500	500
Functional/Internal Barriers	Pearson Correlation	.929(**)	.875(**)	1	.884(**)	.857(**)
	Sig. (2-tailed)	.000	.000		.000	.000
	N	500	500	500	500	500
Government Incentives & Support	Pearson Correlation	.966(**)	.921(**)	.884(**)	1	.961(**)
	Sig. (2-tailed)	.000	.000	.000		.000
	N	500	500	500	500	500
SMEs' Growth & Development	Pearson Correlation	.931(**)	.903(**)	.857(**)	.961(**)	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	500	500	500	500	500

Figure 8: Table 3 .

3

4 : Regression.

Figure 9: Table 3 .

3

ANOVA
b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.817	4	6.954	41.781	.000 a
	Residual	82.391	495	.166		
	Total	110.208	499			

Figure 10: Table 3 .

3

		Coefficients a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.912	.356		46.589	.000
	Financing Constraints	.851	.056	.871	52.269	.000
Functional/Internal Barriers		.74	.061	.647	54.912	.001
	Government Incentives & Support	.86	.045	.536	81.752	.000
SME Growth &	Development	.72	.044	.625	51.851	.002

Figure 11: Table 3 .

Using cash flows & market credibility against financing:
b) Recommendations
Profit and loss sharing/ Islamic financing: It
presents the best solution for promotion of SMEs in
Pakistan because the owner does not bear the complete
risks of loss and work freely to enhance the business

[Note: with the financial support of a friendly bank. Collateral free lending: It should be offered for running finance (to meet working capital needs) and project finance/venture capital in a similar way. The prudential requirements of the State Bank of Pakistan also allow collateral free lending up to Rs3 million based on cash flows lending (SBP 2010).]

Figure 12:

341 [Bari et al. ()] , Bari , Ali Cheema , Ehsan-Ul-Haq . 2005.

342 [Daily Pakistan ()] , Daily Pakistan . `http://www.daily.pk/undp-reports-pakistan-poverty-declined-to-17-unde`
343   2010.

344 [Federal Bureau of Statistics ()] , `www.statpak.gov.pk/depts/index.html` *Federal Bureau of Statistics*
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