

Editorial

Promotion of SMEs

Authorities in Pakistan have usually been striving to promote small and medium enterprises (SMEs) with a view to accelerating the pace of development and creating new employment opportunities in the country. However, the results of their efforts have not been up to expectations. Speaking at the “Pakistan Innovative Finance Forum” organised by the Asian Development Bank and Karandaaz in Islamabad, the Chairman FBR, Syed Shabbar Zaidi, described a difficult tax system and a trust deficit as two principal reasons behind the underdevelopment of SMEs. As such, a large portion of this sector remained undocumented and reluctant to come under the taxation system. “We have never tried to make laws relating to SMEs and things simpler for SME sector,” he commented. SMEs have a fear of harassment from the regulators. There are 3.1 million industrial and commercial consumers. Technically, all of them should have been in the tax net but only 43,000 consumers are registered in the sales tax.

The Minister for Economic Affairs, Hammad Azhar revealed at the forum that the government has decided to increase the share of private sector credit for SMEs from the current level of 7.5 percent to 17 percent by 2023. The minister castigated the previous governments for ignoring SMEs which contribute 30 percent of GDP and comprise 90 percent of all enterprises besides providing 80 percent of non-agricultural jobs. Substantial increase in credit lines will expand the financial outreach to 700 SMEs by 2023 from the existing 200. Sharing the regional examples, the minister disclosed that the share of private sector credit in SMEs is 25 percent in Bangladesh and 29 percent in Turkey. Referring to the past two successive governments, he stated that this figure declined from 16 percent to 7.5 percent in the last 11 years. Former Governor State Bank of Pakistan Dr Shamshad Akhtar argued that sustainable economic growth and job creation are impossible without SMEs but these institutions are facing the immense challenge of financial gap. In Pakistan, the demand for SME finance is Rs 2.4 trillion but only 15 to 20 percent of this demand is catered by formal financial institutions, while the rest is met either through informal sector or remains unmet. The Deputy Governor of the SBP, Jameel Ahmad, also spoke about the emphasis of the State Bank to promote SME sector.

The observations and comments of the top officials of the present government speak volumes about its commitment to develop the SME sector. The importance given to this sector by the present dispensation could be gauged from the fact that Prime Minister himself has underlined a number of times the need to develop this sector and had several meetings with his economic team in which SME sector was at the top of the agenda. Developing this sector is of course the key to creating more jobs, promoting economic activities and reducing poverty in the country. It could be recalled that job creation was the central pillar of the PTI manifesto at the time of elections and a commitment was made to the nation that the PTI government would provide job opportunities to an estimated 10 million young people in its five-year tenure. This was sought to be achieved through initiatives like Kamyab Jawan Programme and increased emphasis on construction sector that could jump-start a number of downstream industries to provide jobs. While these projects are in initial stages of

implementation, expansion of SME sector is a project which existed already but needed government support to flourish. It is good to see that the present government is determined to enhance the share of private sector credit from the current level of 7.5 percent to 17 percent by 2023, simplify the tax laws to encourage SMEs to come into the tax net and make the regulatory environment conducive to the growth of SMEs. It may be added, nonetheless, that these are mere intentions at the moment and it will take a great deal of time and effort to implement measures which would be really helpful to enhance the outreach of SMEs and smooth the way for their documentation. Hammad Azhar has referred to such efforts in his address without divulging the real action plan in this regard. It is quite possible that such an action plan has not still been developed and would take time to be announced and implemented. Shamshad Akhtar and Deputy Governor, SBP also spoke about the importance of SME sector by comparing its growth in Pakistan vis-a-vis other countries and low level of credit extended to this sector by commercial banks but did not mention any real plans which may be in the offing to promote SME sector. Shabbar Zaidi may be able to remove the trust deficit between the tax machinery and the SMEs through his praiseworthy efforts but the reluctance of commercial banks to provide more loans could only be addressed by telling them that the government would be responsible to repay loans if these could not be recovered by banks themselves. Obviously, such a guarantee plan or commitment by the government would enhance the level of credit to SMEs but would be an added burden on the budget which the government will be unable to bear in view of stringent fiscal position.