

## **BANKS AND SME DEVELOPMENT**

The State Bank of Pakistan (SBP) has urged banks to prepare an action plan for the next three months which would provide input to the “policy for promotion of small and medium enterprises (SMEs)” that was launched on 22 December 2017 by the then Prime Minister Shahid Khaqan Abbasi. This was the outcome of the realization by the SBP that there is a lack of awareness by banks of SBP’s SME policy. Particular directives in this regard by the regulator, SBP, to banks include: (i) target 1000 account holders (sole proprietorship/partnership/private limited company) per city; (ii) advise their clients/SMEs about specific products with area managers keeping a record of contact details of targeted SMEs and provide these to SBP BSCs; (iii) SBP to use print, electronic and social media to disseminate information on SME policy and refinance schemes through one advertisement per quarter of the salient features of the SME products, and display them prominently on their websites and posters, screens, banners at their branches and ATMs; and (iv) dispatch brochures containing information of SBP’s refinance schemes with the annual statement of accounts of the account holders. Failure to implement these directives would, the SBP has warned, lead to penal action under the Banking Companies Ordinance 1962.

The objective of any policy for promotion of SME is without doubt to encourage industrial penetration through expansion of the supporting industry network and institutions, for example, SMEs operating in the downstream industry that supports Pakistan’s industrial sector; and additionally SMEs achieve competitiveness with suppliers, domestic and foreign, through innovation, adoption of new technologies, development of improved products and quick adjustments to a change in market tastes – factors that require access to credit that the banks may provide. Unfortunately, large-scale industrial sector prefers to import rather than to use the products of the SMEs. To change this trend would require a change in policy as well as insisting that large-scale manufacturing sector adheres to meeting its indigenization plan, for example, in the case of the auto sector.

SMEs also provide employment opportunities; however, research casts “doubt on a causal link between SMEs and economic development,” according to Thorsten Beck and Asli Demirguc-Kunt in Journal on Banking and Finance November 2006 titled “Small and medium-size enterprises: Access to finance as a growth constraint.” However, they add that “there is substantial evidence that small firms face larger growth constraints and have less access to formal sources of external finance, potentially explaining the lack of SMEs’ contribution to growth. Financial and institutional development helps alleviate SMEs’ growth constraints and increase their access to external finance and thus levels the playing field between firms of different sizes.” In other words, the SBP drive may have a salutary impact on the development of SME sector in this country.

Unfortunately, in Pakistan critical supporting policies that are required to encourage growth of SMEs are sorely lacking. It is imperative that the government considers amending the labour laws that would encourage SMEs to operate in the formal sector and not have to be subjected to the provisions of the Industrial Relation Ordinance (IRO) and other laws as it is possible to comply with its provisions. One way to do this would be to increase the threshold for the number of employees from the present figure of 10 to 100 for application of the IRO.

SBP’s recent directives are therefore unlikely to bear fruit unless accompanied by supporting policies by the government as regards other legislations. To conclude, it is hoped that the next government would begin to take a holistic approach to the sector.