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In this Issue

Adapting the SME Policy to accommodate for an increasing number of women-owned micro enterprises

By Daanika Kamal

Accommodating Gender-Sensitive Micro Enterprises

Introduction

The 2007 Small and Medium Enterprises (SME) Policy defines SMEs as all enterprises that employ less than 250 people and make an annual sum of under 250 million rupees. However, a recent study estimates that 84 per cent of SMEs have less than 20 employees, with 99 per cent having assets worth less than 1 million rupees[1].

The majority of upcoming women entrepreneurs employ less than 10 people on average, have low financial turnover and minimal high valued assets. They increasingly rely on technology to navigate social media, market their products and often run home based businesses. The structure of these mushrooming women-led concerns warrants that they be viewed through a gender-sensitive micro enterprise lens, instead of being clubbed under the SME Policy by default. Under the present policy, enterprises in the former and latter clusters (although institutionally different) are subject to the same regulations and compete for access to the same finances and resources; ultimately retaining micro enterprises at a disadvantage. To accommodate women entrepreneurs, there is a need to shift policy focus from Small and Medium Size Enterprises (SME) to Micro and Small Enterprises (MSE).

Economic growth policies in Pakistan have traditionally focused on large scale industry, despite the majority of the country's industrial landscape comprising of informal small-scale firms. Over the years, the Government has taken few initiatives to facilitate small scale enterprises. The policies have been limited in scope, emphasizing material resources such as electricity, land, and machinery, and failing to enhance skill development and access to information. For example, the West Pakistan Small Industries Corporation was established in the 1960s to enhance economic growth and create employment opportunities, however it was soon dissolved and succeeded by its provincial counterparts. Although the provincial corporations still exist, they lack the policy structure required to efficiently address SME-related concerns.

The most recent (and arguably more successful) government initiative has been the Small and Medium Enterprises Development Authority (SMEDA), established in 1998 under the Ministry of Industries and Production. SMEDA acts as a policy advisory body for the Government and aims to establish monitoring mechanisms at Federal and Provincial levels so as to assess development initiatives, decrease SME sector regulations for more efficient costs of business, and increase gender-sensitive ownership of enterprises. The Small and Medium Enterprises (SME) Task Force formed in 2004[2] was mandated to establish a holistic SME Policy aimed at encouraging business environment, increasing access to formal finances, improving access to resources, and establishing a working definition for SMEs. The SME Policy is therefore an interdisciplinary review of the small and medium enterprise sector, approved by the Federal Cabinet in 2007.

Definition of Small and Medium Enterprises

Recent figures show approximately 3.2 million enterprises in Pakistan, of which 90 per cent have less than 99 employees and contribute to over 30 per cent of the GDP[3]. Definitions for SMEs often have fluctuating criteria in different institutions nation-wide. As per the 2007 Policy published by SMEDA, SMEs are defined as having up to 250 employees, annual sales of up to 250 million, and capital of up to 25 million rupees[4]. All enterprises which fall under this category are bracketed and regulated under the same rules, regardless of wide discrepancies between the number of employees and yearly earnings. The State Bank of Pakistan uses the same definition for medium enterprises, but has also included a definition for small enterprises consisting of less than 20 employees and having an annual turnover of less than 75 million rupees. However, because SBP policies reflect provisions set out in the 2007 SME Policy, it is unable to effectively cater to microenterprises regardless of having an additional definition.

Despite the economic opportunity that SMEs provide to our economy, small enterprise lending in Pakistan remains limited. Micro and small enterprises tend to internally finance 90 per cent of working capital and 81 per cent of new investment, while medium sized enterprises tend to have greater access to finance[5]. Lack of inclusion in financial markets is premised less on poor performance of enterprises and more on incomplete regulatory frameworks and procedures which hamper their access to loans. Bank practices tend to mirror corporate lending largely targeting medium or large firms, hence micro enterprises are often unable to meet their regulatory requirements. Legal fees, collateral requirements and indirect costs make bank lending an expensive and cumbersome process for small enterprises.

The 2007 SME Policy advised the State Bank of Pakistan (SBP) to take a number of initiatives to create a secure transaction system and ease collateral requirements on loans. These streams, independent but complimentary, could assist in maintaining sustained access to finance. Under their current framework, SBP requires immovable collateral, well documented business plans and audited financial statements for corporate lending. Given the secure transaction system traditionally used by banks, it is risky to provide loans against limited (and movable) collateral if SMEs are unable to produce requisite documents. While the SBP has attempted to introduce a registry for movable assets that regulates uncollateralized loans for up to 3 million rupees, this practice is usually challenged by traditional commercial banks and is therefore unsuccessful in incorporating SMEs into the financial system.

In 2013, the average size of loans delivered by Micro Finance Banks (MFB) in Pakistan was estimated around 26 thousand rupees, with microfinance initiatives focusing more on facilitating access to finance for low income households rather than micro enterprises. The SBP has revised loan limits for microfinance banks, increasing limits from 150,000 to 500,000 rupees[6], however many banks are yet to implement the revised parameters. Lack of consensus on whether loans to micro and small enterprises ought to be backed by collateral or based on cash flow continues to hamper progressive policy implementation. MFBs find it difficult to secure loans to intended recipients due to their inability to provide physical collateral (gold or property) or financial capital (financial guarantees or post-dated checks)[7]. Mitigating risks by instituting collateral similar to commercial banks means that entrepreneurs running micro enterprises will be unlikely (and often unable) to offer high value insurance, retaining them at a disadvantage.

Relaxing collateral requirements for MSEs would require micro finance providers to rely heavily on cash flow based lending. Unlike collateral, cash flow practices are premised on profits generating from the business. While this mode of lending is definitely a better option for smaller enterprises, it needs to be adequately documented and managed by MFPs to avoid risks associated with inadequate projections.

Facilitating Business Environment

The challenges faced by micro enterprises are similar to those faced by SMEs. Generally, micro enterprises are late beneficiaries of technology uptake, have deficient management systems and operate under discouraging regulatory environments. SMEDA recognizes that current fiscal and labour regulations divide enterprises by revenue generation, classifying them as either large or small businesses without defining entry criteria for either. Federal and provincial governments usually have policies and regulatory mechanisms for large firms, but have failed to build accessible public support programs for small and medium sized firms. The latter are already in constant competition for resources, which leaves little or no opportunity for micro enterprises to maneuver their way into mainstream markets. When coupled with irregular financial lending practices, the business environment under which firms operate is far from facilitating. Given that micro enterprises lack an independent category for business registration, they are often mistakenly registered under SMEs. Under the Companies Ordinance of 1984, companies can be registered under three categories: a company limited by shares, a company limited by guarantee or an unlimited liability company. All three processes have minimum thresholds to meet in order to qualify, and requisites are set according to the average properties of SMEs defined by SMEDA. Due to size differences, most micro enterprises do not meet company registration requirements and are therefore unable to register themselves.

Women Entrepreneurship and Micro Enterprises

The SME Policy fails to address the heterogeneity of women or men entrepreneurs. Instead of considering gender dimensions, the policy presents generalized problem statements and recommendations in attempt to facilitate the productivity and sustainability of SMEs. As the last few years have seen a rise in women entrepreneurship, there is a need to understand gender differences and imbalances in enterprise development. Women-led businesses are predominantly small and concentrated in industries traditionally considered to be 'less profitable' than others[8]. While SMEDA has discussed the need to increase the participation rate of women entrepreneurs from 3 to 6 per cent, the policy does not allow for a gender-sensitive space within the existing regulatory framework to incentivize and foster their active and stable participation. Although SMEDA is an autonomous body set up by the Government, it has little to no institutional jurisdiction and does not have judicial links with regulatory bodies, nor does it have the infrastructural or financial resources required to benefit the operations of SMEs. As a result, women entrepreneurs continue to face a multitude of impediments, most of which stem from a lack of access to credit, market and network, posing a significant threat to the facilitation and sustainability of micro enterprises.

Access to Finance

Women-owned SMEs are an underserved segment in the financial sector[9]. There are high numbers of women who report being denied bank loans, which in turn discourages other women from applying. Reported difficulties include high interest rates, collateral requirements and complex application procedures. For example, 68 per cent of women entrepreneurs required a male relative's permission to qualify for a loan[10]. Microfinance lending to single women is considered 'risky,' and application processes often require female clients to provide two male guarantors, one of which has to be unrelated to her[11]. Given the societal and mobility restrictions that most women are subject to, the latter clause is a challenging condition to meet. As a result, women entrepreneurs heavily depend on informal sources of support to start their enterprises, with over 50 per cent relying on a male family member and only 5 per cent seeking assistance from governmental institutions[12]. The interplay of these factors ensue that only 25 per cent of businesswomen in Pakistan access microfinance, 70 per cent of which is reportedly being used by their male relatives[13]. Such an arrangement enables men to use women to access credit, making them solely accountable for those loans. The discriminatory nature of lending practices in Pakistan is discouraging women from using micro-finance providers, and reflects poorly on SME loan policies.

Access to Markets

Access to markets is inherently linked to the initial financial endowment of the firm. A survey of 150 female entrepreneurs[14] found that spatial immobility is the biggest issue in gaining initial access to markets and can include both physical and sociocultural limitations[15]. Due to difficulties faced by women in financing business ventures, entrepreneurs find it problematic to attain initial market penetration[16]. Women-owned businesses tend to operate in the informal sector with low turnover rates[17] which, in conjunction with their physical and sociocultural immobility leads to difficulties in networking with suppliers, distributers and consumer base. The current SME policy does not adequately respond to gender-based inaccessibility to markets. Further, information essential to market access relating to product requirements, manufacturing technology and pricing strategies is mostly available through networks that women entrepreneurs are unable to leverage.

Access to Networks

Personal networks traditionally engaged by women are not suited to the marketplace, and women therefore have less access to information needed[18]. Based on data assessing 30 variables relating to female entrepreneurship in Pakistan, Pakistan's highest performance was in women's willingness to start[19]. However, given that most women entrepreneurs operate micro enterprises, they are normally not members of large professional networks to advance their ambition. Combined with a lack of female representation in policy-making bodies and consequent lack of access to policy-makers, women entrepreneurs are limited in their ability to influence policies in their favour. Recent establishments of women entrepreneurship wings at the Trade Development Authority of Pakistan and the Chamber of Commerce and Industry are positive examples of initiatives taken to promote women networks. However, these institutions do not have authority to implement policy changes. Initiatives relating to women entrepreneurship are therefore usually focused on awareness building and are unlikely to target policy advancement.

Policy Recommendations: Micro Enterprises for Women

Recommendations for a gender-sensitive policy which accommodates micro enterprises requires new regulations to be crafted within the existing SME space. This should include a distinct definition for micro enterprises and establish capital indicators, financial services, monitoring mechanisms and incentives for women entrepreneurs.

1) Defining Micro Enterprises

Current SME definitions exclude micro enterprises and bracket all structurally different firms under the same policy. Businesses that find themselves at the lowest end of the limit compete with those at the upmost limit for the same access to resources, markets and networks. Micro enterprises therefore need to be distinctly defined within the current SME Policy in order to ensure they are not grouped (and consequently policed) under the larger bracket of SMEs. Micro enterprises should only include businesses with less than 20 employees, with financial turnover and annual sales limits set accordingly. Further, the definition of micro enterprises should be uniform throughout various governmental departments, banks, and other stakeholders. A consultative session organized by SMEDA earlier this month asserted the need to have one mutually agreed definition for various types of enterprises in order to effectively identify target groups and align development programs accordingly[20].

2) Capital Provisions for Women Entrepreneurs

The State Bank of Pakistan and the SME Bank have theoretically provided policy support for women entrepreneurs. The First Women Bank under SBP has been mandated to work specifically to provide sustainable financial resources to women. The SME Bank was established to offer sustainable resources that foster the development of SMEs and promote entrepreneurship opportunities. However, servicing women-owned enterprises effectively require financial firms to tailor their services and products to the specific needs of this market segment by revising collateral requirements and cash flow lending schemes. Establishing regular monitoring mechanisms for loans (microcredit or otherwise) taken by women entrepreneurs will provide support for reinvestment funding opportunities accommodating for technical upgrades, business expansion and working capital[21]. Further, government sponsored finance programs under an action plan that advocates gender-responsive budgeting and maintains accessibility to easy delivery mechanisms for credit should be introduced. Women entrepreneurs running micro enterprises should be allowed the liberty and independence to manage all government requisites, tax and monetary aspects of their businesses without requiring a financial or personal (male) guarantor. Heavy reliance on male counterparts in order to assume debt limits the mobility of females within and beyond the scope of their enterprises.

3) Skill Building Incentives

To incentivize entry, government grants can be allocated to vocational training for women. Vocational training and skill development of women can break down current segregation and segmentation in the labour market by promoting non-traditional avenues of employment, setting targets for the participation of women in these avenues, and understanding the supply and demand regime under which they will operate. Women-only training plays an important role in developing the next generation of business leaders, and the lack of such training opportunities is commonly cited as a limitation in their managerial development. Through specialized capacity building training, women are more likely to develop confidence and effective inter-personal skills[22]. However, women-only training initiatives should take place *in addition* to (and not as a substitute for) general entrepreneurship courses so as to not further segregate male and female entrepreneur networks.

4) Leveraging Information and Networks

Network assistance strategies should be targeted at improving female access to social networks, including the implementation of microenterprise development programmes (MDPs). MDPs must develop links with organisations and individuals willing to convey resources towards a gender-sensitive outreach network for female participants. Development programs may provide information for future entrepreneurs by connecting them to lawyers, bankers and suppliers that are currently beyond the reach of their networks[23]. This may range from a simple package containing business concepts and relevant resources, to courses of study offered by academic institutions that emphasize female entrepreneurship. SMEDA has also been previously identified as a suitable candidate for gender auditing to include women in entrepreneurial networks, implementation of which may merit consideration.

5) Sustainability

Using gender-responsive budget allocations, the financial sector should incorporate gender concerns in their distribution and consequent mobilization of resources. Shifting policies from the monetary and financial goals of enterprises to goals of gender equality *within* enterprises will allow for a more sustainable development program. Capacity building to address gender gaps needs to be the main focus of a revised SME Policy. Instead of treating women entrepreneurs as exceptional cases, they should be recognized as constant stakeholders of the policy. Basing policies on gender-blind assumptions without including women in mainstream policy dialogues will ultimately maintain the already prominent gender imbalance. Introducing gender-sensitive policies that target and accommodate micro enterprises will be the first step in ensuring that women are given the resources and incentives to not only enter entrepreneurship but also the ability to access, build and sustain their businesses in an adaptable MSE sector.

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