

The 13th RPC Meeting

Concept Paper on "Observatory on SMEs for Member States of ECO" by Islamic Republic of Pakistan

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Annex-VII

In the name of God

The contents of the paper aim at developing an understanding about the concept of SME Observatory. The concept has been successfully implemented in the European Economic Area and Switzerland. SMEs of 19 countries are covered by this extensive project. The Observatory has been very effective in evaluating the SME sector in the region and also develops policy tools to foster the growth of this sector. The paper further stresses the need to replicate the concept of SME Observatory for the Economic Cooperation Organization (ECO) member states.

Importance of SME Support Programs

The Small and Medium Enterprises (SMEs) play a vital role in income generation and employment creation. This is not only true for the developed countries but also in the Less Developed Countries (LDC) where the SMEs are considered to contribute significantly to economic development and growth.

Realizing the existence of strong correlation between the SME growth and improved economic indicators, most of the developed countries have taken the initiative to start programs in order to develop this sector. The nature of a program varies according to the scope of objectives to be achieved through its implementation. Almost all the developed economies such as Japan, America, and majority of the European countries have established a development agency on SMEs. This agency is responsible to develop comprehensive strategies for the advancement of SMEs in an organized fashion.

International Cooperation in SME Development

All these SME support programs are limited to the geographical boundaries of a single country. The European countries, after observing similarities among the attributes of SMEs within the region and their problems, came up with the idea of establishing an SME Observatory in 1992. The Observatory is constituted of a network of leading organizations and institutions, which specialize in SME research. This network: The European Network for SME Research (ENSR) covers all the member states of European Economic Area and Switzerland.

Broad Objective of the ENSR SME Observatory

The Observatory conducts research on the SMEs within the European region with the objective to provide an independent annual report with a structured overview of the

European SMEs. This comprehensive report contains not only quantitative analysis but an in-depth qualitative analysis forms an integral part of it.

ENSR serves as the hub for the entire network to coordinate the activities of all the members. The strength of the network lies in the quality and experience of the partners, large number of SME researchers and a wide geographical base. All these factors contribute to the quality of research conducted.

Need to Establish SME Observatory

In all the member countries of the Economic Cooperation Organization (ECO), the small and medium sized firms play a dominant role by adding positively to the key economic drivers. Economic literature considered SMEs to develop into large enterprise after passing through an evolutionary process. This was considered important in the growth process so as to realize the benefits of economies of scale. There has now been a shift from this idea of SME evolution.

Peter Drucker's View

Drucker pointed out that the period of "Economic Darwinism" is over. According to him the SMEs will continue to play a vital role in the global economy provided they are made a part of the industrial ambience of efficiency and competition.

He further expressed his views:

"Many middle-sized and even small businesses will have to become active in the world economy. This will be a part of process of businesses integrating themselves into the world economy through alliances".

There is a great need to establish an institutional platform for the growth of innovative SMEs in the region. The ENSR model can be adopted as a role model to set up an SME Observatory in the region.

Similarities in ECO Countries

The socio-economic set up is more or less similar through out the region. This is true to the extent that solution of problems in one country can be replicated with slight variations in other countries of the region.

Major Economic Problems of ECO countries

- Unemployment
- Low per capita income (per capita income of all the countries in the region lies within the same range)
- Society divided by two classes (Haves and Haves not)
- Unfavorable balance of trade

- Inflationary pressures in the economy
- Dependence on Primary Sector (agrarian economies)
- Underdeveloped Secondary Sector (Industries)
- Technological Backwardness
- Lack of Social Overhead Capital (SOC)

Besides all the above-mentioned common economic features, SMEs also constitute a vital segment of their economy. An important aspect of the SMEs is their employment generation capability. Without involving huge investments like that in the large-scale sector, they are able to create a great deal of employment opportunities with small investments.

The major problems faced by the SMEs are the lack of proper institutional support for their advancement at the national as well as international level. There is strong need to set up an SME Observatory for the ECO countries. It will enable these countries to conduct detailed studies and also mobilize assistance from other donor agencies. It will also become a central depository of data and information from all the countries in the region.

Research Structure of SME Observatory

Greater part of the Observatory's responsibility will comprise of the gathering of information and data which already is available within the member states, but is unorganized and remains latent and unreported due to a number of reasons. Collection of scattered information from network partners and its compilation in an organized format enables the observatory to recommend effective policy measures for SMEs in the region.

1- SME Overview

The Observatory will gather information regarding prevailing economic environment in each country. It will give an overall scenario of SMEs in the Asian countries on consolidated as well as individual basis

- Key economic indicators of all the member states
- Total number of SMEs in the region
- No of persons employed in these SMEs
- Average size and sector wise contribution
- Average turnover
- SME growth rate
- Total Exports

2- Structure of SMEs by Country

- Number of SMEs in each member state
- Average enterprise size

- Labor productivity relative to the large scale
- Profitability relative to the large scale
- Real value added

3- Structure of Individual Industry

The Observatory will also gather and analyze information on individual industry basis. To start with the observatory can focus on some broad categories. These categories cover almost all the sub-sectors in which there is SME presence in the region.

- Manufacturing
- Extraction
- Transport and Communication
- Whole Sale and Retail Trade
- Services Sector

The industry wise statistics can be further classified to sub sector level details. The information may be given to represent.

- Total number of Enterprises in each sub-sector
- Average enterprise size in the sub-sector
- Industry class dominance
- Labor productivity in each sub-sector
- Advisable economic size in the sub-sector
- Level of technology employed

4- Information on Craft Trade

Craft trade may be defined as that class of SMEs, which are predominantly involved in customized production, carried out by skilled entrepreneurs and employees. A vast majority of rural as well as urban population of member countries is associated with craft made.

The Observatory can be helpful in centralizing collection of data on craft trade from all the ECO countries. Following the ENSR model the data may be classified on the basis of:

- Profession Approach
- Sector and Size Approach
- Artist Approach

5- Theme Studies

Besides data collection and compilation, the ECO SME Observatory can also conduct theme studies on the sectors having growth potential. Having access to information, the

Observatory will be in a position to conduct in-depth sector studies in order to develop the unexploited potential of the sector.

SMEDA and the Observatory

SMEDA's primary objective is to develop the SME sector in Pakistan. This can only be achieved by conducting thorough research on each sector, where SMEs play a dominant role. The research would ultimately lead to development of comprehensive strategies for the sustainable development of this sector. In conducting all these research tasks, a lot of resources will be required. These are not only limited to the mobilization of funds but also finding the right human resource capable of handling such massive projects.

SMEDA's initiative to establish such an Observatory in ECO countries will be helpful to SMEs in Pakistan in the following ways:

Transnational cooperation between SMEs

To transnational cooperation refers to the level of international support that could be generated through the establishment of such an institution at the international level. The transnational support may come in the form of:

- Commercial Support
- Financial Support
- Technical Support

Use of External Advice by SMEs

Unskilled entrepreneurs, lack of technical know how and competencies sometimes become a major hindrance in the development of a small enterprise, which otherwise could prove to be very innovative and productive. Access to information within the region world over recognition as an international forum would enable to tackle such management related issues. It can be useful in enhancing the ability of SMEs by:

- Greater access to external advice
- Expert advice on growth and change
- Ability to tackle crisis
- Better access to information
- Improved implementation strategies

SMEDA's Role: Center of Excellence for Research on SMEs

Having taken the initiative to set up an SME Observatory in the ECO region, SMEDA will have a central role to play. It can work as the center of all the activities of the Observatory. Another important function to be carried out by the Observatory will be to

publish a detailed report on SMEs in the region. The report will be based on the format as mentioned earlier and will be published every year.

All this process will involve handling and management of large databases. Not only organizing such data sets is a rigorous task in itself, it will further involve the data analysis and drawing of inferences. This will require the services of quality SME researchers. Initially these research assignments may be sub-contracted to foreign consultants, but ultimately it will also enable the member states to develop local expertise in SME research.

The management of such an institution will make SMEDA a center of excellence on SME research not only in Pakistan but also in the entire region. It will ultimately benefit the SMEs by:

- Development of National SME policies
- Favorable business conditions for SMEs
- Research and Development (R&D)
- Increased cross border cooperation
- Identification of potential markets
- Latest technological developments
- Healthy competition
- Information and globalization