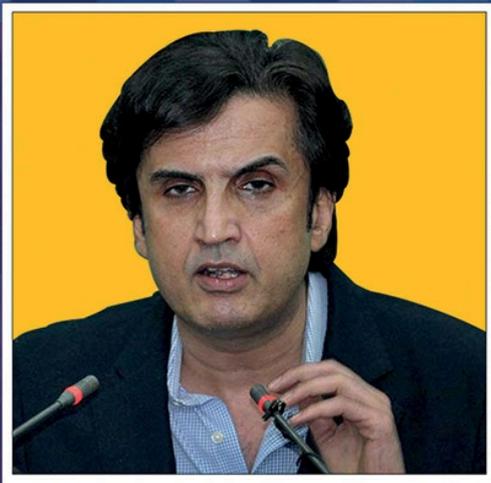


# MANAGEMENT ACCOUNTANT

## Exclusive Interviews



“National SME Policy 2021 will soon be launched by the Hon’ble Prime Minister of Pakistan”

**Makhdoom Khusro Bukhtiar**

Federal Minister for Industries & Production  
Government of Pakistan



**Mr. Sergio Arzeni**  
President, The International Network  
for SMEs [INSME] - Organisation  
for Economic Co-operation  
and Development (OECD)



**Dr. Matthew Gamser**  
CEO, SME Finance Forum  
International Finance  
Corporation (IFC)



**Mr. Hashim Raza**  
Chief Executive Officer  
Small and Medium Enterprises  
Development Authority (SMEDA)



**Mr. Dilshad Ali Ahmad**  
President & CEO  
SME Bank Limited

## Financial Challenges and Way Forward for Small Businesses



Institute of Cost and Management  
Accountants of Pakistan

# From the Holy Quran

In the name of ALLAH,  
the Most Magnificent, the Most Merciful

Surely, those who reject the verses of Allah and slay the prophets unjustly, and slay those of the people who bid justice, give them 'the good news' of a painful punishment. (21) Those are the ones whose deeds have gone to waste in this world and in the Hereafter. For them there are no helpers. (22) Did you not observe those who have been given a share from the Book? They are invited to the Book of Allah, so that it may decide between them. Then, a group from them goes back, turning their faces away. (23) That is because they have said: "The Fire shall not touch us except for a few days." Thus they are deceived in their faith by what they themselves used to invent. (24) Then, how (will it be) when We will gather them together on a day about which there is no doubt, and everybody will be paid in full for what he has earned, and they shall not be wronged? (25) Say: "O Allah, O Lord of the Kingdom, You give kingdom to whom You will, and take kingdom away from whom You will; and You bestow honor on whom You will, and bring disgrace to whom You will. In your hand lies the betterment (of everyone). You are surely powerful over everything. (26)

(Surah 3: Al-E-Imran, verses 21-26)

Translation : Mufti Taqi Usmani  
<http://www.quranexplorer.com>

Respecting the sanctity of the Qur'anic verses is the duty of all of us

قرآنی آیات کا احترام ہم سب پر فرض ہے۔



## Vision

To be the Preference in Value  
Optimization for Business

## Mission

To develop Business Leaders through  
imparting quality education and training  
in financial and non-financial areas to  
bring value-addition in the economy



## Core Values



Competence



Innovation



Ethics



Transparency



Professionalism

This Journal is also available on ICMA Pakistan's Website :  
[www.icmap.com.pk/management\\_accountant.aspx](http://www.icmap.com.pk/management_accountant.aspx)

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Nov-Dec 2021

**Impact of Inflation: Causes & Remedies**

[Deadline: 20<sup>th</sup> December 2021]

Research & Publications Committee would welcome articles on the above-mentioned theme for Journal's forthcoming issue

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**ICMA**  
Pakistan



# President's Message

# President's Message

I am delighted to issue this message for the current issue of Management Accountant Journal which is on the theme of 'Financial Challenges and Way Forward for Small Businesses'. This issue is being released at a very opportune time when the Government is contemplating to launch a new SME Policy to be announced by the Prime Minister very soon.

I am sure this issue will provide useful insight into the significant role played by SMEs in the national economy especially in stimulating industrial and economic growth and providing employment to a large segment of people.

I would like to confine myself here only to highlight the vital role that CMAs (Management Accountants) can play in ensuring the growth, productivity, and sustainability of the small businesses in Pakistan by providing technical and advisory support to minimize the failure rate of startups and SMEs and also help them develop effective strategies to improve their operations and cash flows, mitigate business risks, ensure cost efficiency, make future forecasting and deal with the market competition effectively. CMAs can especially act as a strategic partner of small businesses to guide them on how to navigate through the current post-COVID business repercussions.

I would like to emphasize upon the Federal Minister for Industries & Production and CEO of SMEDA (whose interviews are part of this issue) to incorporate this role of CMAs in the forthcoming SME Policy 2021. ICMA Pakistan would be willing to have interaction with them separately to deliberate on this proposal and devise a joint strategy to ensure sustainability and growth in the micro, small and medium-sized enterprises in Pakistan, especially the startups.

The Assan Finance Scheme (SAAF) is a great initiative of the State Bank of Pakistan (SBP) under which the SMEs are provided financing through eight selected banks; however, these banks are charging upto to 8% on top of SBP's 1% lending cost which makes a total of 9% mark up. This excessive interest rate is not supportive for SMEs especially when they are faced with COVID-19 consequences. ICMA Pakistan would suggest bringing the interest rate to 3 percent.

**Zia ul Mustafa, FCMA**  
President, ICMA Pakistan



## From the Desk of

# Chief Editor

I am pleased to present the Sep-Oct 2021 issue of Management Accountant Journal on the theme of 'Financial Challenges and Way Forward for Small Businesses' which carries some good write-ups on SMEs; the vital economic role played by them; the challenges they experience; the regulatory environment under which they operate and their way forward, especially in the context of the new SME Policy to be announced by the Government very soon. I think readers can have some valuable information and the regulators can also derive some ideas for policymaking.

I am extremely grateful to hon'ble Makhdoom Khusro Bakhtiar, Federal Minister for Industries and Production, for his exclusive interview in which he highlighted the salient features of the upcoming SME Policy. We look forward to having interaction with the Ministry to develop a long-term relationship for the benefit of the industrial sector.

I am much indebted to our two foreign dignitaries viz. Mr. Sergio Arzeni, President of the International Network for SMEs (INSME) and Mr. Matthew Gamser, CEO of SME Finance Forum, IFC, for sharing their exclusive interviews which have added significance to this issue in making it relevant in the global context.

Let me also express my gratitude to Mr. Hashim Raza, CEO, Small and Medium Enterprises Development Authority (SMEDA) and Mr. Dilshad Ali Ahmad, President, and CEO of SME Bank Limited for sharing their interviews which would provide some useful insight into our readers about the significant role played by their organizations in the support and development of SMEs in Pakistan. Surely, ICMA Pakistan would be looking forward to working with them.

We have received an overwhelming response from the authors who contributed 15 focus articles, including 10 by the members of the Institute and one by a foreign writer, Mr. Adrian Gunadi who is the Co-Founder and CEO of Investree - a platform that offers digital business solutions to SMEs in Indonesia. I am thankful to Mr. Gunadi for sharing his very relevant article on financial challenges faced by Southeast Asian SMEs that would provide useful insight to our readers.

Please have a nice reading and share your views on [rp@icmap.com.pk](mailto:rp@icmap.com.pk)

**Awais Yasin, FCMA**  
Chairman, Research and Publications Committee

From the Desk of  
**Chief Editor**



**ICMA**  
Pakistan

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# EXCLUSIVE INTERVIEW



“ Supporting SME-led inclusive growth is one of the top priorities of the Government. A recent development in this regard is the formulation of National SME Policy 2021 that will soon be launched by the Hon’ble Prime Minister of Pakistan ”



## Makhdoom Khusro Bukhtiar Federal Minister for Industries & Production Government of Pakistan

**ICMA Pakistan:** Industrial development plays a pivotal role in the economic development of any country. Please share briefly the initiatives taken by the Government for industrial development in Pakistan.

**Federal Minister:** Industrialization has always been one of the major objectives of development planning in Pakistan for the reorientation of the economy from the production of raw materials to more value-added manufacturing. The government has taken the following proactive measures to promote industrialization:

- 1) The government is providing a series of subsidies for electricity and gas to export-oriented industries (textiles, leather, carpets, surgical and sports goods). Power price has been fixed at US\$ 0.07/unit for July-August FY2021 and US\$ 0.09/unit for September-June FY2021. Gas tariff fixed at US\$ 0.065/MMBtu for the whole FY2021. Power Division has allocated Rs 20 billion subsidy for this purpose.
- 2) The government has introduced a Rs. 1.24 trillion stimulus package to support the economy during the COVID-19 pandemic. In this package, Rs 200 billion has been allocated to support business and economy. As of March 2021, Rs 146 billion has been disbursed, including Rs 100 billion refunds to exporters, which is an encouraging sentiment for export-oriented industries.
- 3) Pakistan exports have been liberalized under China-Pak FTA-II. Textile, prepared food, leather, chemicals, and engineering goods are among the top priority items.
- 4) Increased demand for these products will boost Large Scale Manufacturing (LSM).
- 5) The government has announced a special package for the construction sector which includes amnesty scheme tax exemptions and Rs 36 billion subsidies (for 10 years) for construction under Naya Pakistan Housing Scheme.
- 6) The automotive sector is one of the major industrial sectors of the country. It has the potential to drive the entire economy of the country. Moreover, Auto Industry Development and Export Policy (AIDEP) 2021-26 is in the final stages of approval which aims to introduce entry-level car (Meri Garri Scheme), enhancement of exports for the sectors (Motor Cycles, Tractors and Auto Parts), quality & safety (by the introduction of WP.29), and shorten delivery time. This policy aims to create and promote competition in the interest of the industry benefitting both the Auto Sector and the Consumer.
- 7) Electrical Vehicles are introduced to reduce the environmental degradation emissions and to make Pakistan a manufacturing hub for these technologies. Till to date, five firms with 13 models have been approved for manufacturing 2/3 wheelers.
- 8) Industries and Production Division formulated the Mobile Device Manufacturing Policy, to promote industrial activity in the country by boosting the local assembly/manufacturing of the Mobile handsets for the domestic market as well as for exports.

“ In terms of enhancing SMEs' access to finance, the proposed SME policy envisages collateral-free lending for SMEs, developing specialized schemes for SMEs that possess collateral and for taxpayer SMEs ”

Twenty-six new companies have been authorized to start local manufacturing. M/s VIVO, Airlink, Inovi telecom, OPPO are among the new investors. The combined capacity of these companies is more than 1 million mobile sets. M/s Samsung is also poised to enter the local market. With existing and new players Pakistan will be able to meet the major portion of local demand which was around 3.6 million mobile phone sets in 2020.

- 8) The Tariff Policy Board (TPB) has reduced more than 1800 tariff lines on raw materials of industrial goods for FY 2021-22 and more than 2000 tariff lines were reduced on different raw materials for FY 2020-21.

**ICMA Pakistan:** In developed countries, specialized industrial zones have been established. What are the measures taken by the Government to facilitate the business community in industrial zones?

**Federal Minister:** Federal Government has initiated a project titled "Development of Karachi Industrial Park (KIP)" on 1500 Acres of Pakistan Steel Mill's land at Karachi including feasibility. This initiative will provide a plug n play environment to potential local/international investors to set up the industry with minimum upfront investment toward land and basic amenities. The feasibility component of the project with an execution period of 8 months has been approved for which hiring of a consultancy firm of international repute is in process.

National Industrial Parks Development & Management Company (NIP) has been established as a special initiative of the Ministry of Production to develop world-class industrial parks across the country. NIP has been formed as a public-private partnership to catalytically facilitate focused industrial growth. NIP is currently developing and managing the following four Special Economic Zones (SEZs):-

- Korangi Creek Industrial Park-SEZ, Karachi - Sindh
- Bin Qasim Industrial Park-SEZ, Karachi - Sindh
- Rachna Industrial Park-SEZ, Sheikhpura - Punjab
- Naushero Feroz Industrial Park-SEZ, Naushero Feroz - Sindh

SEZ avails one-time exemption from Customs duties and taxes for all plant, machinery and equipment imported into Pakistan for the development, operation, and maintenance of the industrial unit. Besides, exemptions are also available from all taxes on income accruable to the development and operation of SEZ for a period of ten years.

Export Processing Zone Authority (EPZA) was established under an Ordinance in 1980 to proactively facilitate the investors and create enabling environment for them to enhance export-led manufacturing, trade, and investment for export-oriented industrial growth. All facilities like an uninterrupted supply of utilities, security, skilled and educated workforce on cheaper rates, peaceful and environmentally protected pollution-free work area, one window operation with simplified procedures, etc. are provided by EPZA to investors. Seven (07) EPZs have so far been established i.e., at Karachi EPZ, Tuwairqi Steel Mills EPZ, Saindak EPZ (Extraction of Copper & Gold), Duddar EPZ (extraction of Zinc & Lead), Sialkot EPZ, Gujranwala EPZ, and Risalpur EPZs' cumulative exports, since the inception of EPZA up till 2020-21, remained to the tune of US\$ around 10 billion.

Pakistan has planned to establish 09 Special Industrial Parks/Zones under the CPEC framework. Two Special Economic Zones (SEZs) were assigned to the Federal Government one at Pakistan Steel Mill's Land, Karachi, and the other at Islamabad as ICT Model Industrial Zone, while the rest of the 07 SEZs shall/are being developed by provincial governments.

**ICMA Pakistan:** The success of developing countries is their special focus on SME-led export growth. Why can't Pakistan follow the same model and provide incentives and infrastructure facilities to our SMEs?

**Federal Minister:** SME development has been pursued as a key economic development agenda by many governments around the world. Policies have, therefore, been framed and implemented for supporting existing SMEs and new start-ups in developed and developing countries. Several SME development organizations around the world have played a pivotal role in supporting, steering, and coordinating SME development in their respective countries.

In Pakistan, supporting SME-led inclusive growth is one of the top priorities of the Government. A recent development in this regard is the formulation of National SME Policy 2021 that will soon be launched by the Honorable Prime Minister of Pakistan. The policy envisages providing support to SMEs under the key thematic areas of Simplification of Regulatory Procedures and Taxation; Access to Finance; Business Development Services; Entrepreneurship; Human Resource and Skills Development; Technology up-gradation; Market Access and Standards and Certifications.

Earlier, SME Policy Action Plan 2020 was approved and implemented in coordination with various ministries and departments such as the Board of Investment, Federal Board of Revenue, Public Procurement Regulatory Authority, Securities and Exchange Commission of Pakistan (SECP), National Vocational and Technical Training Commission (NAVTTTC) and Higher Education Commission (HEC).

Key initiatives of regulatory simplification include Simplification & elimination of regulations impeding SMEs' growth. In this regard, policy envisions introducing No NOC / Self Declaration / Time-Bound Approvals regime, e-inspection Portal, and Sample Based Audits. Besides, a simplified taxation regime for SMEs in the IT&ITES sectors, FBR/Single Point Collection of taxes and levies, and progressive reduction in Withholding Tax with a corresponding increase in formalization and Sales/ Income Tax receipts will be introduced.

In terms of enhancing SMEs' access to finance, the proposed SME policy envisages collateral-free lending for SMEs, developing specialized schemes for SMEs that possess collateral and for taxpayer SMEs.

The government acknowledges the importance of the availability of proper infrastructure for SMEs and to this end, allocation of land in existing industrial estates on a land lease-based model and smaller plot sizes to cater to SME needs shall be ensured. Furthermore, leased Plug and Play infrastructure for SMEs will be provided.

For skill development and technology enhancement, initiatives such as Training Needs Assessment for SMEs, the establishment of National Skills Fund, technology acquisition and research & development for technology upgradation, and model of labor market data management are included in the policy.

International best practices were taken into account while developing programs and initiatives envision under the policy as it aims to provide a level playing field to SMEs to enhance their access to the international market.

**ICMA Pakistan: The majority of the small businesses and SMEs are in the informal sector. What steps the government is taking for facilitating the SME sector for their access to finance?**

**Federal Minister:** The State Bank has introduced an innovative initiative to improve access to finance for Small and Medium Enterprises (SMEs) in collaboration with the Government of Pakistan with the express aim of enabling businesses who cannot offer security/collateral to access bank finance. This initiative has been brand named, 'SME Asaan Finance' or SAAF to emphasize the SME facilitation feature of this scheme to provide clean lending i.e. lending without collateral to SMEs. SAAF is a refinance and credit guarantee facility that has been developed through a wide-ranging consultative process and is aimed at assisting SMEs that are creditworthy but are still unable to access finance as they cannot offer the security required as collateral by banks. The SBP will provide refinance to banks while the

Government of Pakistan will support partial credit guarantees to the participating banks. This support is being provided initially for three years to facilitate investments by banks in technology, infrastructure, and team building specialized in SME lending, after which SME financing by banks is expected to be sustainable without SBP or Government support.

Apart from the above important initiative, the following financing schemes are also available to SMEs:

- a) Refinance Facility for Modernization of SMEs
- b) Refinance Scheme for Working Capital Financing of Small Enterprises or Low-End Medium Enterprises
- c) Refinance and Credit Guarantee Scheme for Women Entrepreneurs
- d) Small Enterprise Financing and Credit Guarantee Scheme for Special Persons
- e) Prime Minister Kamyab Jawan Youth Entrepreneurship Scheme
- f) Financing Facility for Storage of Agricultural Produce
- g) Export Finance Scheme
- h) Long Term Financing Facility for Plant & Machinery

**ICMA Pakistan: The increasing cost of raw materials including electricity and gas is worrisome for the SME sector. What is the future course of action giving relief through the reduction of raw material costs to SMEs?**

**Federal Minister:** To reduce the cost of raw material and other inputs for industry, the Government has introduced an electricity and gas package for export-oriented industries including textiles, leather, carpets, surgical and sports goods, and an Industrial Support Package for industrial consumers of DISCOs and K-Electric. Furthermore, Regulatory Duty (RD) and Additional Custom Duty (ACD) have been abolished on 164 tariff lines of the textile sector and 152 tariff lines for raw material used in the manufacturing sector. The Government has also introduced Export Facilitation Scheme 2021 to facilitate zero-rated import of raw material and other inputs for the manufacturing sector.

**ICMA Pakistan: ICMA Pakistan and the Ministry of Industries can collaborate in undertaking joint training for the industrial sector and also joint sectoral studies. What is your viewpoint of this proposal?**

**Federal Minister:** Ministry's collaboration with ICMA Pakistan for conducting joint training programs and awareness sessions will play an important role in improving the financial management literacy of individuals employed in key industrial sectors. Furthermore, collaborative efforts of developing cluster studies will be instrumental in devising strategies for cluster growth.

*The Editorial Board thanks Makhdoom Khusro Bukhtiar, Federal Minister for Industries & Production, Government of Pakistan for giving his exclusive interview for Management Accountant Journal.*

# EXCLUSIVE INTERVIEW



“ To improve access to credit for SMEs, we have to reduce their dependence upon the banking system and use alternative sources of finance, such as crowdfunding, peer-to-peer lending, business angels and fintech ”

## Mr. Sergio Arzeni

President, The International Network for Small and Medium Enterprises [INSME]  
Organisation for Economic Co-operation and Development (OECD)

**ICMA Pakistan:** International Network for Small and Medium Enterprises [INSME] is working under the auspices of OECD. Can you briefly share its objectives and core services offered to support the SMEs?

**Sergio Arzeni:** The OECD provides policy recommendations to member countries and beyond given its role as informal technical Secretariat of the G20. INSME is addressing the problems arising in the implementation of OECD policy recommendations for making economies more competitive, innovative, resilient, and inclusive. The growth of SMEs and new startups are essential factors to create jobs and ensure social prosperity and political stability.

**ICMA Pakistan:** How do you assess the impact of the COVID-19 pandemic on global SMEs, especially in developing countries? What challenges the SMEs are faced with in the post-COVID scenario and how could these be addressed?

**Sergio Arzeni:** SMEs have been most severely hit by the pandemic, particularly in those countries that were not in a

position to fund extensive furlough schemes. The OECD estimated that about 50 million workers in total had their wages supported by job retention programs in member countries. Registered SMEs received a vast array of public support, but informal SMEs, which are so widespread in low-income countries got nothing. This exacerbated inequalities. The way out is in the drastic reduction of red tape for entrepreneurs, fostering digitalization and internationalization of SMEs. We have members of INSME that have innovative, for free, innovations able to boost access to credit and trade finance for SMEs.

**ICMA Pakistan:** Would you specifically pinpoint some of the financial challenges faced by small businesses and what sources or platforms are available globally that are financing the SME projects?

**Sergio Arzeni:** To improve access to credit for SMEs we have to reduce their dependence on the banking system and use alternative sources of finance, such as crowdfunding, peer-to-peer lending, business angels, and fintech.

“SMEs have been most severely hit by the pandemic, particularly in those countries that were not in a position to fund extensive furlough schemes”

The Digital Economic Platform set up by GCEL (Global Coalition for Efficient Logistics) is precisely aimed at filling this gap.

**ICMA Pakistan:** How INSME can facilitate the Pakistani SME sector, especially the business startups, in building the capacity to play a vital role in the economic and export growth of the country?

**Sergio Arzeni:** Among INSME members there are export champions such as the German and Italian confederations of SMEs and we can share best practices among our members on how to adapt at the local level, in local cultures, foreign experiences. You don't just buy expertise. You have to try to empower yourself. There is an education effort and INSME can help with that. For instance, at the moment, INSME is supporting an Export Accelerator in Bulgaria.

**ICMA Pakistan:** How ICMA Pakistan and INSME can work together, especially in establishing a joint forum of all stakeholders for SME development and enhancing SME-led exports of the country?

**Sergio Arzeni:** For a start, ICMA Pakistan can apply to join the INSME network and become a full member. Then we can devise a set of initiatives that we can implement together. ICMA Pakistan's participation in the INSME Annual Meeting that will take place in Sofia, Bulgaria, on 9-10 December 2021 could be important for establishing direct contact and figuring out a joint program of work.

*The Editorial Board thanks Mr. Sergio Arzeni, President, The International Network for SMEs [INSME] - Organisation for Economic Co-operation and Development (OECD) for giving his exclusive interview for Management Accountant Journal.*

“ICMA Pakistan can apply to join the INSME network and become a full member. Then we can devise a set of initiatives that we can implement together”



# EXCLUSIVE INTERVIEW



SME FINANCE  
FORUM

“ Going from cash to digital payment and from paper to digital business contracts and transactions, is the key factor in improving MSME access to finance ”



## Dr. Matthew Gamser CEO, SME Finance Forum International Finance Corporation (IFC)

*Dr. Mathew Gamser has over 40 years of experience in private enterprise and financial sector development. He has worked for IFC, the private sector arm of the World Bank Group, for 16 years in various positions from Washington, DC, and Hong Kong, where he has focused on SME finance and financial sector development. Before that he spent 25 years in management consulting and senior leadership in an international NGO.*

**ICMA Pakistan:** The SME Finance Forum is managed by the International Finance Corporation (IFC) to expand access to finance for small and medium businesses. Can you share briefly about the international membership network of the Forum, especially in South Asia, including Pakistan?

**Matthew Gamser:** Today there are over 230 banks, NBFIs, MFIs, fintech, development banks, and other types of institutions involved in SME financing in our global network, many of whom work in Pakistan and South Asia in general. Our Members Map at <https://www.smefinanceforum.org/members/member-list> reveals the 10 international and domestic institutions active in Pakistan,

although there are some others in the process of joining.

**ICMA Pakistan:** What are the key financial challenges faced by the global SMEs and how your Forum is playing a role in providing them access to finance to the SMEs in developing countries?

**Matthew Gamser:** SMEs in Pakistan and everywhere rank getting access to finance as one of their top challenges. Whether it's providing working capital credit for short-term opportunities, or longer-term finance for innovation, growth, and greater sustainability, the financial sector has struggled with the SME market.

“The SME Finance Forum has been on top of all the major digital innovations going on in SME financing; helping global leaders share their experiences with others, and encouraging replication”

However, technological advances, particularly in the digitalization of business and of financing itself, open up many new opportunities. The SME Finance Forum helps the finance industry to accelerate the adoption of these advances, by enabling our members to learn from each other, link to new business/partnership opportunities, and lead the industry voice in policy dialogue to improve the enabling environment for responsible innovations.

**ICMA Pakistan:** How important is the digital transformation of MSMEs in present times and what steps the SME Finance Forum has taken to create MSME's digital infrastructure and ecosystem for financial services?

**Matthew Gamser:** As noted above, going from cash to digital payment and from paper to digital business contracts and transactions, is the key factor in improving MSME access to finance. The greater the digital footprint an MSME has, the easier its financial demands and risks can be assessed, both by financiers and by entrepreneurs.

The SME Finance Forum has been on top of all the major digital innovations going on in SME financing; helping global leaders share their experiences with others, and encouraging replication. We also, through our relationship with the G20, APEC, the Basel Institutions, and other global and regional policymaking bodies, have helped encourage governments to improve the common infrastructure of financial markets to promote digital progress in particular improving credit information and movable assets/secured transactions regimes. The G20's SME Finance Action Plan contains strong commitments to continued policy reform and infrastructure building in these areas, for example.

**ICMA Pakistan:** How SME Finance Forum can assist the SMEs and Small businesses in Pakistan in collaboration with the relevant stakeholders, to provide them the opportunity for growth and development?

**Matthew Gamser:** As for all countries in which we work, the more the finance industry from Pakistan can participate in the SME Finance Forum's knowledge sharing, networking promotion, and public-private dialogue activities, the more quickly it will become aware of successful practices both from the region and from elsewhere. This should accelerate local innovation and improve SME access to finance. I would particularly encourage Pakistani financiers

and service providers to the financial sector to register for our Global SME Finance Forum 18-21 October, which will focus on a key cutting-edge issue, Greening SME Finance. Information for this virtual conference and registration is available at <https://www.globalsmeffinanceforum.org/2021/>.

**ICMA Pakistan:** How ICMA Pakistan and SME Finance Forum can work together to facilitate the Pakistani small businesses to have access to international financing sources?

**Matthew Gamser:** The more ICMA's members can be aware of digital technologies and how they can be applied both in financial institutions and in MSMEs themselves, the more ICMA Pakistan can promote progress in this area – for example, in finding ways to expand digital platforms for B2B transactions and link these to risk management for financial institutions, financial management for MSMEs, and compliance management for tax and other obligations for governments. The more ICMA Pakistan members can come to understand the real factors that influence risk in MSME financing, and the more they can encourage both bankers and regulators to move away from a fixation on fixed collateral, cash deposits, and other less useful factors, the quicker the progress that can be made in opening up new access to finance.

**ICMA Pakistan:** What is your viewpoint on the proposal of collaboration between SME Finance Forum and ICMA Pakistan to organize webinars to promote knowledge exchange on financing sources and the latest trends in SMEs worldwide?

**Matthew Gamser:** I wish that I could agree to do webinars with every association in every country that asks, but as a global institution run by a small, very hard-working team, I'm afraid we cannot respond every time we are asked. However, we are always happy to see if members of our global network, particularly those with relevant knowledge for the topic in question, might be able to support ICMA Pakistan and others working to promote knowledge exchange.

*The Editorial Board thanks Dr. Matthew Gamser, CEO, SME Finance Forum, International Finance Corporation (IFC) for giving his exclusive interview for Management Accountant Journal.*

## EXCLUSIVE INTERVIEW



“ There is no doubt that the SME sector has enormous export potential. SMEs make up about 25% of the total export earnings of Pakistan and I believe this percentage can be greatly enhanced ”



### Mr. Hashim Raza

Chief Executive Officer

Small and Medium Enterprises Development Authority (SMEDA)

**ICMA Pakistan:** SMEDA was established way back in 1998 to develop SMEs in Pakistan. During the last 23 years, how far SMEDA has been successful in stimulating the growth of SMEs and small businesses?

**Hashim Raza:** SMEDA has focused on supporting the creation of an enabling environment and business development services to small and medium-sized enterprises since its inception. SMEDA serves as an advisory body to the Government of Pakistan on SME policy matters and also assists other stakeholders in advancing their SME development agendas. To promote entrepreneurship in Pakistan, it offers a variety of Business Development Services via helpdesks. For walk-in clients, these services include prefeasibility studies based on current market trends; developing business plans; providing access to information; commercial contract templates, and other such information resources. Additionally, as an SME promotion agency, it offers a variety of training, seminars, and workshops tailored to the specific needs of

entrepreneurs and SMEs. These programs are primarily concerned with technical advancement and the resolution of legal issues, among other things. SMEDA also hosts seminars/workshops at Universities throughout the country to foster an entrepreneurial mindset. SMEDA assisted over 133,000 SMEs since its inception with regard to business advice and consultation.

In the last fiscal year, SMEDA organized 121 theme-specific helpdesks to assist SMEs with training and capacity building, which is important for increasing export capacity, investment promotion, business transparency, human resource development, and managerial transparency, among other benefits.

SMEDA also intervened to assist Women Entrepreneurship (WE), a historically marginalized segment of the economic enterprise. Through its training programs and workshops, it has aided hundreds of women in developing their entrepreneurial skills.

“ SMEDA has launched a unique service called SMEDA One Window (SOW) to provide solutions to start-ups and small and medium-sized businesses (SMEs) through a single platform”

**ICMA Pakistan:** What are the key hurdles in the sustained growth of SMEs in Pakistan and what role SMEDA is playing to overcome these hurdles?

**Hashim Raza:** The significant roadblocks for SMEs include financial access; cumbersome regulations; taxation; inadequate business training, digitization, and adoption of new technologies.

In terms of access to finance, SMEDA is not a financial institution per se, but it does assist SMEs in obtaining necessary funds by giving SMEs guidance particularly related to how they should approach the bank to successfully procure the required funds. In this way, we have been instrumental in helping SME to procure millions of rupees to date. Additionally, we have initiated and continue to support several projects that provide small grants to start-ups.

In terms of regulations, I believe that small and medium entrepreneurs in Pakistan are required to comply with a plethora of regulatory requirements to establish and operate a business. As a result, SMEDA has launched a unique service called SMEDA One Window (SOW) to provide solutions to start-ups and small and medium-sized businesses (SMEs) through a single platform. Through its business concierge, professional and technical services, the SMEDA One Window (SOW) program aims to reduce startup costs and increase time efficiency. SOW offers convenient, on-demand services ranging from business idea validation to business registration, allowing SMEs to focus entirely on their business operations.

SOW serves as a one-stop shop for aspiring start-ups and SMEs seeking to establish and streamline their business operations in Pakistan.

SMEDA typically addresses the last three obstacles through its training programs, workshops, seminars, thematic helpdesks, and one-on-one consultations.

**ICMA Pakistan:** What is the potential of promoting exports from the SME sector? Please share the current exports by SMEs and the incentives being provided by the government for boosting exports of small and cottage industries?

**Hashim Raza:** There is no doubt that the SME sector has enormous export potential. SMEs make up about 25% of the total export earnings of Pakistan and I believe this percentage can be greatly enhanced. That is precisely why SMEDA recently signed an MOU with the Trade Development Authority of Pakistan (TDAP) under which the two organizations will collaborate to conduct training programs, seminars, and workshops on all aspects of exports and skill development for SMEs and WEs, including the use of E-commerce, online business, and business digitization, both locally and internationally.

**ICMA Pakistan:** SMEs are facing extreme difficulty in getting soft loans from banks for capacity and export development. What initiatives different stakeholders like SMEDA and State Bank have taken to facilitate the SMEs in this regard?

**Hashim Raza:** As I have said, SMEDA is not a financial institution; however, it has currently several ongoing projects that provide small grants to SMEs. These are:

- 1) **1000 Industrial Stitching Units** – where the grant of 60% is awarded against the cost of machinery and 40% is borne by the SME. 250 grant applications have been received and 46 grant cases have been approved by the project and 32 grants disbursed for the establishment of Industrial stitching units.
- 2) **National Business Development Program for SMEs** – It is a project of SMEDA funded through the Public Sector Development Program of the Government of Pakistan.

“Whereas the COVID-19 epidemic adversely impacted economies, we are now witnessing the emergence of new opportunities, particularly in e-commerce, that is paving the way for an entirely new set of business dynamics”

## “ICMA Pakistan and SMEDA could collaborate to conduct training programs for SMEs and small businesses”

The program will be implemented in all provinces of Pakistan. Priority areas of high growth for SME development will include but may not be limited to manufacturing energy, construction, trade, transportation, tourism, innovation and communication, technical and managerial activities. Special focus will be given to sectors where there are higher possibilities of value addition and innovation. This project will provide a grant for up to PKR 0.5 million to the start-ups. The proposed program aimed at facilitating 314,000 SME beneficiaries over 5 years.

- 3) **Economic Revitalization of Khyber Pakhtunkhwa (ERKP)** – designed to support the economic recovery and revitalization of the crises-affected areas of KPK and merged areas. During the FY 2020-21 it has sanctioned a total amount of Rs.361.34 million thereby facilitating 567 SMEs in the region.

As far as State Bank is concerned, currently, it is rigorously following the policy of providing soft loans to SMEs. Striking initiatives in this regard by SBP are:

- 1) **Prime Minister's Kamyab Jawab Program** – for young entrepreneurs and existing businesses between the age group of 21 - 45 years (18 Years for IT sector), is designed to provide subsidized financing through 21 Commercial, Islamic, and SME banks under the guidance and supervision of the State Bank of Pakistan. The Program aims to provide 25% of the loans to women entrepreneurs. SMEDA has been tasked with an advisory role in the implementation of PM's scheme.
- 2) **SME Asaan Finance Scheme** – all types of loans i.e. term loans as well as working capital/running finance loans will be eligible with up to Rs.10 million for a single SME with a lower mark-up rate.
- 3) **Refinance and Credit Guarantee Scheme for Women Entrepreneurs** – maximum financing of Rs.5 million can be availed.
- 4) **Export Finance Scheme**
- 5) **Refinance Facility for Modernization of SMEs**

**ICMA Pakistan:** How do you see the status of the adoption of technology and e-commerce by small businesses on how they can improve their productivity and achieve cost efficiency. Please share your comments.

**Hashim Raza:** Whereas the COVID-19 epidemic adversely impacted economies, we are now witnessing the

emergence of new opportunities, particularly in e-commerce, that is paving the way for an entirely new set of business dynamics. In this regard, I must commend our nascent but astute entrepreneurs, particularly start-ups, who have adapted extremely well to the onslaught, but there is still a huge gap in terms of adoption of digitization and e-commerce by small businesses. Apart from providing training, and organizing thematic helpdesks, we recently launched several initiatives to assist SMEs in this area:

- 1) To promote **SME trading through e-commerce channels**, SMEDA has signed MOU with Extreme Commerce to facilitate SMEs' access to international markets.
- 2) **Energy Desks** – serves as a knowledge data center to promote Energy Efficiency (EE) and Renewable Energy (RE) and systems. It aims to provide EE and RE solutions to SMEs and to enhance their capacities through an online Data Management System / Portal for providing seamless access to information including technical guidelines, manuals, links to energy exports and technology suppliers, and updates on training programs and events.

**ICMA Pakistan:** ICMA Pakistan and SMEDA can join hands to initiate training programs for SMEs and small businesses to improve productivity and achieve cost efficiency. Please also share your viewpoint on the proposal of a strategic partnership between ICMA Pakistan and SMEDA to undertake sector-specific studies for the benefit of all industry stakeholders, including the SMEs?

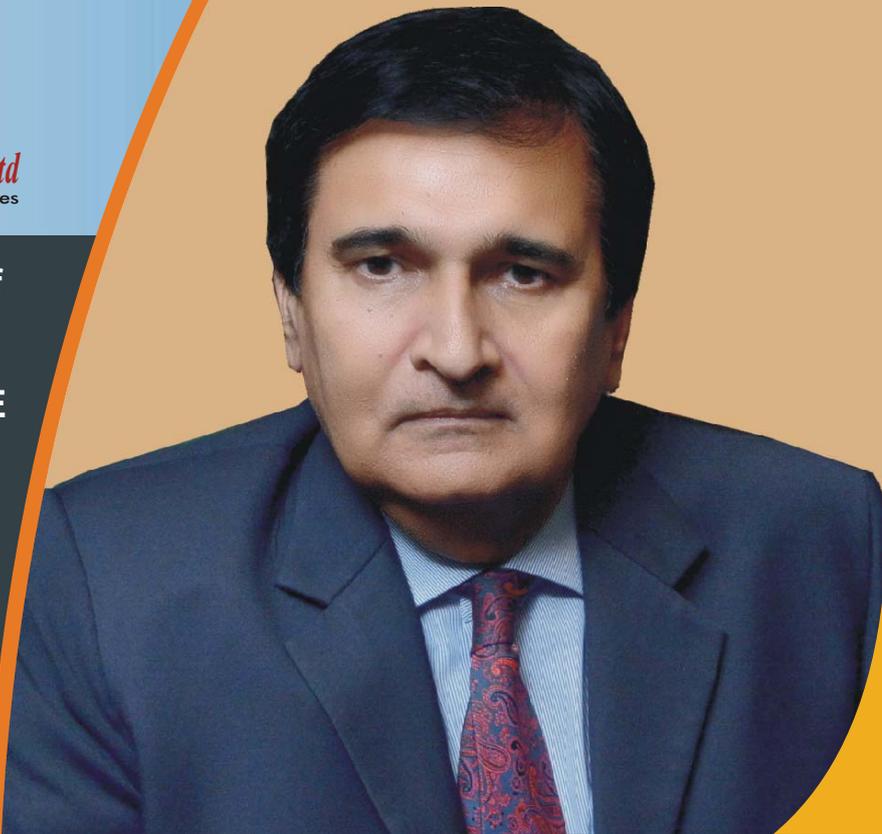
**Hashim Raza:** Naturally, ICMA Pakistan and SMEDA could collaborate to conduct training programs for SMEs and small businesses. We are always eager to strengthen institutional ties and have previously collaborated with a variety of institutions. We can make efforts and implement programs to promote entrepreneurial culture. This includes joint training programs and workshops for SMEs and ICMA Pakistan students on topics of mutual interest, such as entrepreneurship, business plan development, idea generation, and business start-up. We are certainly capable of conducting sector-specific research for the benefit of all industry stakeholders.

*The Editorial Board thanks Mr. Hashim Raza, Chief Executive Officer, Small and Medium Enterprises Development Authority (SMEDA) for giving his exclusive interview for Management Accountant Journal.*

## EXCLUSIVE INTERVIEW



“ Inadequate financing of SMEs in Pakistan is a result of disequilibrium in the SME credit market. This infers that the demand and supply of SME financing do not clear each other due to a mismatch of issues on both sides ”



### Mr. Dilshad Ali Ahmad President & CEO SME Bank Limited

**ICMA Pakistan:** SME Bank was established to cater to the financial needs of the SME sector in Pakistan. How far do you think the Bank has been successful to stimulate SME development and pro-poor growth in the country?

**Dilshad Ali Ahmad:** SME Bank is Pakistan's pioneer financial institution for the development of the SME Sector. The bank is owned by the Government of Pakistan and has a network of 13 branches that are strategically located in areas of SME concentration in the country. Despite its limited size and constraints, SME Bank is at the forefront of providing financial assistance for the development and promotion of SMEs. We work for the growth of local entrepreneurs and help in generating employment opportunities. Bank has developed various deposit and lending products to meet SME financing needs and is also operating some of the SBP's concessional refinance schemes/credit lines. SME Bank has served around 14,000 SMEs, disbursing an amount exceeding Rs 28 billion and creating employment for over 150,000 persons since inception, which signifies its consistent performance in stimulating SME development and pro-poor growth.

**ICMA Pakistan:** What are the key industry sectors in which the SME bank is providing the highest financial assistance?

**Dilshad Ali Ahmad:** In line with SME bank vision, Alhamdulillah since its inception, the SME Bank has extended financial facilities to various key sectors of the economy to develop and support SMEs such as the manufacture of basic iron & steel, leather & leather goods, surgical instruments, pharmaceuticals, furniture, jewelry, construction, schools (education), hospitals and clinics (health), hotels & restaurants, manufacturing/trading of Auto Parts, manufacturing/ trading of agricultural machinery and equipment, sports goods, storage and warehousing, petrol pumps and CNG Stations, etc.

**ICMA Pakistan:** Please briefly share the various financing facilities being offered by your Bank to the new and existing SMEs?

**Dilshad Ali Ahmad:** Any commercially viable business proposal merits SME Bank's support, irrespective of the new/existing SMEs.



“SMEs are the backbone of any economy that boosts employment opportunities because they are labor-intensive”

The Bank prefers to assist and support enterprises that use indigenous raw material, add value, and are export-oriented. We offer financing facilities i.e., Running Finance Facility, Medium Term Running Finance Facility, Term Finance for Fixed Assets, Term Finance for Working Capital, Letter of Guarantee, Assan Financing Facility, Seasonal Business Running Finance Facility, SBP Refinance Facility for Storage of Agriculture Produce, SBP Refinance Facility for Modernization of Machinery. In addition, under Programme-based lending, financing for Chappell maker of Charsadah and Peshawar is being offered.

**ICMA Pakistan:** Can you please pinpoint a few of the major problems faced by the SME sector and how these could be resolved?

**Dilshad Ali Ahmad:** SME sector in Pakistan is faced with a host of problems such as no across-the-board legal definition of SME, lack of coordination and cohesiveness among the Government and its bodies representing the SME Sector, poor infrastructure, skills shortage, poor management, scarcity of capital, lack of data on the sector, marketing difficulties for export-oriented SMEs, high energy cost, lack of awareness about intellectual property rights and brand building, and increasing trend in the cost of inputs due to inflationary pressure.

Inadequate financing of SMEs in Pakistan is a result of disequilibrium in the SME credit market. This infers that the demand and supply of SME financing do not clear each other due to a mismatch of issues of both sides. On the supply side, banks shy away from lending to SMEs due to; (i) highly risky sector because of its greater sensitivity to economic fluctuations; (ii) lack of collateral; (iii) lack of credible data on market size; (iv) creditors high search cost; (v) high processing cost, etc. On the demand side, the SME industry cannot address the concerns of banks due to; (i) smaller size; (ii) limited management capabilities; (iii) limited resources in keeping a business account with banking requirements; (iv) inadequate collaterals, etc.

These concerns of both sides show that banks are risk-averse and are reluctant to extend credit to SMEs while SMEs cannot afford to meet banking requirements,

SMEs have a limited market for their products due to inadequate resources and inadequate information about other potential markets of their products. They sell their products on credit to create demand for their products and on the other side purchase raw material in cash to keep production costs on the lower side. In the local market purchasers / linked major industries keep the substantial part of their credit purchases unpaid to reduce their working capital requirement and ensure credit supply remained intact. This gradually increases the receivables of the SMEs that badly affect their cash flows putting the survival of SMEs in question.

Despite having these inherent problems there exist strong evidence that SMEs are the backbone of any economy that boosts employment opportunities because they are labor-intensive. A sustainable solution requires a holistic view of all these problems. To overcome these problems coordinated and cohesive efforts are required from all the stakeholders and the regulatory agencies who are involved in SME financing. The SMEs are required to be provided a conducive and enabling environment to operate. The macro-economic policies have to be sound, the regulatory regimes to be supportive and the legal system to be judicious and quick. The role of Provincial and local Governments is also very important as they have to allocate and earmark land for setting up industrial estates and to provide infrastructure facilities. Requirements of Regulatory Bodies / Special Commercial Courts are felt for the protection of SMEs from the exploitation of linked major industries that use products of SMEs as inputs. Arrangements of bills discount, with certain risk mitigated measures for SMEs, are also suggested. By the arrangements, SMEs could be able to discount their recoverable bills against credit sales through banks.

“The majority of the banks in Pakistan have developed SME's Division in their respective banks for financing to SMEs. However, posted staff in the divisions lack the capacity and know-how to evaluate SME Credit, especially under cash flow-based lending”

“The role of Management Accountants in achieving short- and long-term business goals in the industry cannot be denied as they help in the preparation of internal financial reports, records, and accounts to aid decision making”

Financial institutions especially big commercial banks have to take the lead in supporting SMEs by establishing their branches and set-ups at the selected clusters/places having large untapped potential. The Banking industry has to invest in people, processes, and systems to minimize their risks and enhance their returns on the SME segment.

The existing structure of the financial sector of Pakistan is to serve Government / large enterprises. The majority of the banks in Pakistan have developed SME's Division in their respective banks for financing to SMEs. However, posted staff in the divisions lack the capacity and know-how to evaluate SME Credit, especially under cash flow-based lending. They still deal with them on a relationship basis. On the other hand, Specialized Banks / Micro Finance banks have teams and structures to serve the SMEs sector but they do not have adequate low-cost funds. In that scenario, we need to have a scheme of arrangement by low-cost funds that could be shifted from big banks to the banks / Financial Institutions having the capability to serve SMEs.

**ICMA Pakistan: What incentives are expected in the National SME Policy to be announced soon by the Government to address the financial needs of the SME sector, especially the export-oriented SMEs?**

**Dilshad Ali Ahmad:** The national SME policy, keeping in consideration demand and supply-side constraints of the SMEs sector of Pakistan, will encompass financial and fiscal incentives. Measures are to be taken for enhancing SMEs' access to collateral-free lending and a simplified taxation regime for SMEs. The policy will provide a framework to improve the macroeconomic and regulatory environment, access to finance, skills and human resource, infrastructure development, entrepreneurship, innovation and incubation, business development services, and local & international market opportunities for small and medium enterprises. Priority sectors are focused on the policy. Preferential public procurement regime from SMEs /SME

Quotas is under consideration. Duty/tax-free imports of inputs for export facilitation are on the card. Since the National SME Policy is being finalized, therefore sharing of details of expected incentives is avoided.

**ICMA Pakistan: Management Accountants can act as Consultants or Advisors for SME Bank for capacity building and improving the efficiency of SMEs which receive loans from your bank. What do you say about this proposal?**

**Dilshad Ali Ahmad:** It has been clear that SMEs have potentially important for the economic growth of a country. However, from empirical records, it has also become clear that SMEs are in general lacking required skills and less active than large enterprises in training their workers and more broadly developing their human resources. The market system by itself cannot correct this imbalance between SMEs and large enterprises in developing human resources. To realize SMEs' potentially important contributions to the economy and society as a whole and to redress the imbalance between large and small enterprises, the concerned quarters will have to intervene in the skills training market in favor of SMEs. Small Medium Development Authority (SMEDA) is at the forefront in providing development services to SMEs and conducts workshops, and training programs from time to time to create enabling environment. The role of Management Accountants in achieving short- and long-term business goals in the industry cannot be denied as they help in the preparation of internal financial reports, records, and accounts to aid decision making. Option of Management Accountants as Consultants or Advisors for SME Bank for capacity building and improving the efficiency of SMEs may be proved fruitful. This proposal can be deliberated for adoption.

*The Editorial Board thanks Mr. Dilshad Ali Ahmad, President & CEO, SME Bank Limited for giving his exclusive interview for Management Accountant Journal.*

# CORPORATE LEADERS OF ICMA PAKISTAN

## Abdul Sattar Jumani [F-874]

Chief Executive Officer, Yunus Energy Limited  
Yunus Brothers Group (YBG)



**Mr. Abdul Sattar Jumani** is working with Yunus Brothers Group (YBG) since March 2005 and currently, he is the CEO of Yunus Energy Limited, a 50 MW wind power project. In addition, he is looking after Gadoon Textile Mills, the largest textile spinning unit in Pakistan, as its Executive Director Finance. He is also the CEO of Tricom Wind Power Ltd., and CFO of Yunus Wind Power Limited, both 50 MW wind power projects to be built in Jhimpir, District Thatta, Sindh. He has over 33 years of working experience in the formulation and implementation of policies; system development; and coordination, control and decision making in various projects. Earlier, he has worked with M/s. Mehran Spice & Food Industries as General Manager Finance; M/s. Dewan Mushtaq Group as Manager Finance & Accounts (Textile Division) and M/s. Baba Farid Sugar Mills Limited (FECTO Group) as Senior Manager Finance & Accounts. He is an Independent Director on the Board of Sindh Microfinance Bank Ltd.

“ICMA qualification is one of the best professional qualifications in the world and recognized globally. Needless to say, that this qualification has helped me immensely in understanding the complexities of the business and industry and providing valuable input to the management and board to take timely decisions. I would advise the students to keep in mind that once they qualify from the Institute, they can play the role of a strategic business partner of the Business and Industry. However, to accomplish this goal, they must fully concentrate on their studies and make their concepts clear. Your command in the subjects, especially on cost accounting and business laws, would impact your future career.”

## Mariam Khawar [F-1654]

Chief Executive Officer  
Pakistan Expo Centres Private Limited



**Ms. Mariam Khawar** is the CEO of Pakistan Expo Centres Private Limited and accomplished management professional with extensive experience of 19 years in the public and private sector. Before joining Expo Centres Pvt. Ltd., she worked for three years as CEO in Lahore Transport Company (LTC) and as CFO and Company Secretary Post for over five years in the same company. She had worked at different key positions in various private sector organizations like JGC-Descon, a multinational venture of Descon and Japanese biggest engineering company; Millat Tractors Ltd, a leading tractor manufacturer in Pakistan; and Service Industries Ltd, one of the giants of shoe and Tyre manufacturing industry.

She is currently representing on different Boards as Independent Director and also teaching in different prestigious universities as a visiting faculty. She has expert knowledge and skills in operational and financial management, financial modeling, budgeting, forecasting, negotiations, contract management, appraisals evaluation, due diligence, ERP implementation, and strategic management.

“My advice to the professional accountants is to don't let any situation compromise your integrity and trust. Integrity comes first for a leader. My message to women finance professionals would be that they must identify their strengths and work on them smartly and efficiently so that they can carve out a place for themselves in the finance profession. For students, I would like to say that before taking jobs, they must inculcate in them two important skills viz. adaptive thinking and communications skills. They must continuously adapt to emerging changes and look out for learning new things and skills.”

# CORPORATE LEADERS OF ICMA PAKISTAN

## Muhammad Irfan Farid [F-915]

Managing Director  
CHIP Training & Consulting (Pvt) Ltd.



**Mr. Muhammad Irfan Farid** is an entrepreneur and Management Consultant having experience of around 24 years and is currently the Managing Director of CHIP Training & Consulting (Pvt) Ltd. a company engaged in training and consulting business in Pakistan. He is also the Director & CEO of Hilal Meat Processing (Pvt) Ltd. which is engaged in farming and processing of red meat for export to the Middle East and retail market with the brand name of 'Meat Pro'. In addition to being a Fellow member of ICMA Pakistan, he is also an MBA from Warwick Business School (UK); holds an Advance Diploma in Management Accounting from Chartered Institute of Management Accountants (UK); a Post Graduate Certificate in Management Consulting from Grenoble Graduate School of Business, Grenoble (France) and a Certificate of Achievement from Judge Business School, University of Cambridge, UK. As a serial entrepreneur, he has designed and successfully established three entrepreneurial setups in the hospitality, consulting, and meat processing sectors in Pakistan. He has also successfully managed multimillion-dollar development projects.

“CMA qualification has immensely helped me in building my career from employment to entrepreneurship. The management accounting techniques and concepts have developed my specialized skills in the areas of financial management, business planning, and management that not only gave me an edge in conceptualizing, planning, and managing large-scale projects and new startups but also in implementing cost-effective development sector initiatives. I would strongly recommend the young students aiming to build their career in finance, to take up CMA qualification as it has great potential in Pakistan. I would also suggest members take the initiative to acquire entrepreneurship skills and set up startups for which the government is also providing lucrative incentives and facilities. I wish all of you best of luck in your endeavors”

## Abdul Shakoor [F-1124]

General Manager Finance  
Haroon Fabrics Pvt. Ltd. [Faisalabad]



**Mr. Abdul Shakoor** is currently working with M/s. Haroon Fabrics (Pvt) Ltd, a leading manufacturer and exporter of home textile and woven fabrics in Faisalabad, since June 2001. He possesses a rich experience of over 25 years in the textile industry and has earlier worked in various finance-related positions at a few well-known textile mills, including Imperial Textile Mills Ltd.; Shalimar Group and Mukhtar Textile Mills Ltd. In addition to being a Fellow Member of ICMA Pakistan, he is also a Fellow Member of the Pakistan Institute of Public Finance Accountants (PIPFA). Mr. Shakoor also served as Chairman of the Faisalabad Branch Council of ICMA Pakistan in 2010 and 2021, respectively. He is providing high-end financial and accounting solutions within the manufacturing industry and playing an active role as a Member of the Faisalabad Tax Bar Association (FTBA) and as a faculty member in various reputable institutes like ICMA Pakistan, Agriculture University of Faisalabad, National Textile College and IDBP Institutes.

“After qualifying from ICMA Pakistan, I have throughout been associated with the textile industry and let me acknowledge that CMA qualification has greatly helped me in efficiently supervising and ensuring better results in all the accounting and costing activities as well as in devising methods and strategies for the management to improve production and organizational performance. My humble advice to members would be that they must create their identity in a specific industry like I have done in the textile sector, so that they can achieve specialization, instead of moving around different industries. For students, I would like them to expand their horizons and keep themselves updated on emerging realities in the global arena, especially the latest trends in the financial and management accounting profession”

# Financial Challenges for Southeast Asian SMEs and Post-Pandemic Recovery

Exclusively written by the author for the current issue of Management Accountant Journal

The Covid-19 pandemic has affected the world globally, especially in Southeast Asia. Almost all industries are impacted by the pandemic, which has resulted in the drastic fall of economic activity in many regions. In the digital financing industry, however, online banks and fintech companies have become popular as there is a change in consumer behaviour during the Covid-19 pandemic where people are forced to stay at home and conduct their daily activities remotely with the help of digital technology, such as grocery shopping. According to McKinsey's proprietary Personal Financial Services 2021 survey, covering approximately 20,000 urban banked respondents in 15 Asian markets, about 88% of the region's consumers now use digital banking actively, and most consumers are open to purchasing more banking services through digital channels<sup>[1]</sup>.

Although the pandemic has drastically affected the economy, there has been a significant rise in the use of financial technology with the increasing shift towards digitalization, especially in developing Southeast Asian countries such as Indonesia. These changes in consumer behavior have pushed businesses to move to online platforms, resulting in an increasing number of SMEs in Indonesia who offer a wide range of products and services.

For countries in Southeast Asia, SMEs are often the backbone of each nation's economy. Especially in developing ASEAN economies, such as Indonesia, Thailand and the Philippines, SMEs make up a significant portion of the region's economic activities, described by EY as the 'engines of growth' of Southeast Asia as they create job opportunities for society, foster innovation of new products and services, encourage consumption growth and encourage competition in industries. For instance, in Indonesia, SMEs contribute to 56% of the GDP and 97% of the workforce in 2020<sup>[2]</sup>.

However, despite being a significant part of Southeast Asian countries' economies, SMEs often face financial challenges in conducting business activity. These financial challenges have been intensified by the Covid-19 pandemic due to decreased social mobility and spending power. Over 80% of MSMEs in Indonesia said that the pandemic

has negatively affected their business, with 63.9% of MSMEs experiencing more than 30% decrease in turnover<sup>[3]</sup>. In the Philippines, lockdown measures have resulted in MSMEs experiencing a sharp drop in demand and revenue, even 6 months after the regulations were first implemented<sup>[4]</sup>. 48% of SMEs in Thailand have also experienced a decrease in sales, and 44% of Thai SMEs reported that they were unable to reach their customers due to the pandemic<sup>[5]</sup>. Moreover, one of the most common problems faced by SMEs is a lack of access to capital and a healthy cash flow, especially since SMEs are less resilient when faced with delays in payments and operating costs. SMEs also often find it difficult to obtain loans from traditional financial institutions such as banks; SME owners are far more likely to rely on sources such as internal funds, or cash from friends and family to run their enterprises<sup>[6]</sup>. During the pandemic, these challenges become even more apparent for SME owners, resulting in unfavourable business performance or even business closure.



**Adrian Gunadi**  
Co-Founder & CEO

**Investree** - A platform offering digital business solutions to SMEs in Indonesia

In order to support SMEs during tough times, financial technology or fintech can be utilized to alleviate some of the pressures faced by SME owners throughout the pandemic and widen financial inclusion. Half of the population in the 6 largest ASEAN economies - Indonesia, Vietnam, Thailand, Philippines, Malaysia, and Singapore - are unbanked, with no access towards any financial services. A further fifth of the population in these countries are underbanked, lacking access to other financial services except for a bank account<sup>[7]</sup>. Fintech has an immense opportunity to serve the unbanked and underbanked population through digital technology, who are unable to obtain loans from traditional banks due to insufficient credit histories.

As a fintech lending pioneer in Indonesia, Investree aims to serve SMEs by providing quick and easy access to loans through a transparent process, while maximizing technology and data to provide essential financial and business solutions for SMEs. To support even more SMEs throughout Southeast Asia who are experiencing similar financial problems especially during the pandemic, we have also expanded our services to Thailand and the Philippines in 2021 to further drive the success of SME businesses on a regional scale. In order to deliver the needs of Southeast Asian SMEs, including improving working capital, reducing supply chain risks, improved cash flow and supporting business growth, Investree is focused on adopting a supply chain financing model that is truly beneficial for SMEs, which supports all elements involved to be more empowered from upstream to downstream.

Supporting and empowering SMEs is essential in driving national economic recovery, especially after the devastating economic impact of Covid-19. To assist SMEs recovery, Investree helped 7 SMEs through loan restructuring for borrowers affected by COVID-19 with a total restructured loan outstanding amount at IDR 9.86 billion (USD 700,000), while also supporting the government in distributing National Economic Recovery Program Funds with a total amount of IDR 50.2 billion (USD 3.56 million) to impacted SMEs.



Moreover, SMEs from all industries are facing financial difficulty during the pandemic and supporting each SME industry is imperative to encourage national economic recovery throughout Southeast Asia. Investree is

continuously expanding its provision of financing for SMEs in various industries in the Indonesia, Thailand and The Philippine markets, including education, healthcare and creative industries. In particular, there has been a growth in borrowers from the healthcare sector, as even healthcare SMEs have been struggling during a global health crisis; Investree managed to record an increase of 1,344% in total amount of loans disbursed in the healthcare sector in the same period of September 2018 - February 2020 to March 2020 - August 2021. All SME sectors need to be given an equal amount of attention and support through the provision of accessible financial and business solutions, to bounce back and recover from the economic downturn.

Another challenge faced by Southeast Asian SMEs is a lack of financial literacy. Low levels of financial literacy affect enterprises in all stages. Many SME owners across ASEAN countries still have limited business and managerial skills along with lacking financial literacy, which prevent them from properly scaling up and growing their business. Problems such as incomplete bookkeeping and little knowledge about administrative processes remain common for SME owners in Southeast Asia.

To advance SME businesses in a sustainable manner, there needs to be more accessible financial education for SME owners, as rapid advancement in financial technology without financial literacy could also lead to financial instability<sup>[8]</sup>. For instance, according to the OECD, regulators in Indonesia have previously identified over 1,100 illegal fintech platforms and 363 illegal investment products in 2021; SMEs who are looking to obtain loans during this difficult period are vulnerable to scams and fraud. SMEs should be provided with adequate financial education to obtain funds from trusted institutions, and furthermore, how to utilize capital to scale up their enterprises and achieve favourable business performance.

Recognizing the importance of financial literacy for SMEs, Investree is also committed to providing education on financial literacy and helping SME owners increase their skills in conducting business. As part of our commitment in increasing financial inclusion, Investree collaborated with Gramindo Berkah Madani, a service cooperative with a savings and loan business unit that focuses on Grameen-based super micro-financing. In this collaboration, Investree supported female entrepreneurs within the Gramindo ecosystem, all of whom are 'unbanked' or do not have access to traditional banking services, by providing special classes on having an entrepreneurial mindset and basic financial planning to further ensure the continuity of their business. This is especially significant since barriers to financial inclusion, including unequal access to resources, cultural norms, and financial literacy, tend to be higher for women<sup>[9]</sup>; endeavours to increase financial literacy should be inclusive of all groups in society.



Currently, Investree also has 4000 female borrowers on our platform, demonstrating our continuous support to empower female business owners. Further efforts need to be made by the public and private sector to continue encouraging financial literacy for SMEs in order to support their long-term growth and success.

To move forward and recover from the global financial crisis resulting from the Covid-19 pandemic, SMEs in emerging economies like Indonesia and Pakistan should pay attention to and understand the potential sources of finance that they can take advantage of to grow their enterprise and improve business activity. In order to do this, SMEs must have a good understanding of their own business model in order to choose the right type of financing that suits the needs of their business activity. For example, invoice financing can be beneficial for businesses that need to improve their cash flow, pay their employees and suppliers, and reinvest in operations to maintain business activity. Fintech platforms, and fintech lenders, offer vast financing products and solutions that can be utilized by SMEs to fulfill their maximum business potential. If possible, preparing the right kinds of collateral will also be helpful for SMEs to obtain the capital that they need to survive and flourish during difficult times.

However, taking advantage of alternative sources of finance should also be accompanied by efforts to increase financial literacy. Adopting the right entrepreneurial mindset, paying attention to essential business activities (e.g. bookkeeping and financial planning) and having adequate financial knowledge to run a business is key to the success of SMEs. Providing easily accessible funding options through digital technology and encouraging further digital & financial literacy are very important solutions to sustain and empower SMEs, especially during tough economic periods.

To conclude, the Covid-19 pandemic has dramatically affected the world's economies, including Southeast Asia. The need for social distancing measures have pushed us to rely on digital technology in our daily lives, including behaviours related to finance. The shift towards digitalization during the pandemic has also been significant

for the SME sector as a means of surviving through tough times. SMEs in Southeast Asia were hit hard by the global crisis, despite being an essential part of ASEAN countries' economic growth. The financial problems often experienced by SMEs in Southeast Asia were worsened by the pandemic, negatively affecting their businesses.

The presence of fintech has the potential to greatly help SMEs, especially in providing alternative sources of funding for the unbanked & under-banked population who are unable to obtain capital from traditional financial institutions. Financial literacy also remains a challenge for SMEs in developing economies; increased levels of financial education need to be provided for SMEs to successfully sustain and grow their businesses in the long-term. In the aftermath of the global pandemic, SME owners can take advantage of digital fintech to scale up their business and further move into digitalization. Combined with necessary efforts from regulators, governments, the private sector, and SMEs themselves to increase financial literacy, this will be the key in the recovery of SMEs throughout Southeast Asia. As a pioneer of fintech lending present in Indonesia, Thailand, and the Philippines, Investree is continuously striving to support SMEs by providing quick and easy access to funding and business solutions, while also empowering SMEs for the long-term by increasing our efforts to further financial literacy.

### End-Notes

- [1] <https://www.mckinsey.com/~media/mckinsey/industries/financial%20services/our%20insights/reaching%20asias%20digital%20banking%20customers/asias-digital-banking-race-web-final.pdf>
- [2] <https://www.accenture.com/sg-en/blogs/southeast-asia-blog/a-shift-in-focus-for-asean-smes-in-the-new-normal-2>
- [3] <https://katadata.co.id/umkm>
- [4] <https://www.adb.org/publications/covid-19-impact-msme-under-lockdown-evidence-rapid-survey-philippines>
- [5] [https://acn-marketing-blog.accenture.com/wp-content/uploads/2020/09/ASEAN\\_SME\\_Transformation\\_Study\\_2020\\_Key-Insights\\_Thailand.pdf](https://acn-marketing-blog.accenture.com/wp-content/uploads/2020/09/ASEAN_SME_Transformation_Study_2020_Key-Insights_Thailand.pdf)
- [6] <https://www.worldbank.org/en/topic/sme/finance>
- [7] <https://www.macquarie.com/au/en/perspectives/delivering-digital-financial-inclusion-in-southeast-asia.html>
- [8] <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2020/06/29/The-Promise-of-Fintech-Financial-Inclusion-in-the-Post-COVID-19-Era-48623>
- [9] <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2020/06/29/The-Promise-of-Fintech-Financial-Inclusion-in-the-Post-COVID-19-Era-48623>

**About the Author:** *Adrian Gunadi is the Co-Founder & CEO of Investree, a pioneer of fintech lending in Indonesia, and the Chairman of Indonesian Joint Funding Fintech Association (AFPI). Prior to co-founding Investree, he spent 20 years of his career in banking. Adrian co-founded Investree in 2015 to further close the credit gap faced by SMEs, who were often unable to obtain sources of funding. Through Investree, Adrian implemented a digital platform to empower SMEs by providing them access to funding.*



# Overcoming Financial Management Challenges of Small Businesses in Developing Economies

Small and Medium-sized Enterprises (SMEs) are recognized as the drivers of socio-economic growth in developing economies. SMEs provide more than 50 percent of jobs in the private sector and developing countries have the majority of SMEs in their corporate sector. In the post-1980s, the significance of SMEs has increased greatly in developing countries and the focus has shifted from large corporations to small businesses. The developing economies faced many challenges in different economic crises and the SMEs played a vital role in improving their economies. During that rebuilding period, SMEs became one of the vital components of the macro-economic enhancements in developing countries, because of their significant role in the development of generally speaking GDP, job creation, and products. SMEs can take on the vital monetary administration rehearses for managing issues, endurance, development, and working on the general presentation.

## SMEs' vital role in Developing Economies

SMEs are essential for delivering more inclusive globalization and growth. They have played a vital role in improving the developing economies, especially those countries which faced the challenges of low growth, weak trade and foreign direct investments. Based on many pieces of research, it is concluded that SMEs are the main players of developing economies that helped them to transform into developed economies. SMEs are in a better position to satisfy the needs of their customers and take better advantage of small market niches.

SMEs create jobs in a faster way and help reduce unemployment. In many developing countries, SMEs collaborate with governments to provide technical training to students and idle human resources to enable them to earn for support of families. SMEs react quickly to changes in the marketplace due to lower layers of management whereas large companies are unable to respond to quick market changes due to multiple layers of management.

SMEs also fuel the local economies as lower investments are needed to start a business in developing economies. SMEs

play a major role in decreasing the poverty level and enhancing the living standards of the communities.

SMEs are fundamental for conveying more comprehensive globalization and development. Many emerging nations are faced with low development, feeble exchange, and unfamiliar direct ventures. SMEs are the primary players in

creating economies and play a crucial role in creating economies and working on the expectations for the everyday comforts of neighborhood networks. They are making new positions and diminishing the destitution level in the non-industrial nations. Helpless admittance to monetary assets is one of the significant obstacles in the accomplishment of SMEs in the agricultural nations and legislatures ought to give monetary help to SMEs to surmount this obstacle.

## Financial Challenges of Small Businesses

(a) **Limited Budget and Cash Flows:** SMEs face many challenges in developing economies such as they struggle with limited or inconsistent cash flows due to which they are unable to cover their operational expenses. They even cannot use their budgets sufficiently because of uncertain cash inflows. In SMEs, there is a need for regular updates of the budget based on uncertain cash flows and meet the financial responsibilities. Due to limited finance, SMEs also cannot make heavy investments in marketing and promotions of products. Needless to say that it becomes difficult for small businesses to compete effectively with large companies without appropriate marketing activities.



**Jamshed Chaudhry, FCMA**  
CEO, Global Freelancing & Solutions

- (b) **Limited Funds for Expansion:** One of the major financial management challenges of small businesses is the lack of funds for the expansion of business in new markets. SMEs are not in a better position to expand business operations in new markets due to lack of finance. To stay competitive, SMEs need to keep a cash reserve for business expansion in new markets.
- (c) **Client Dependency:** It is another major challenge for SMEs in developing countries as they cannot diversify client base for growing their business as large customers pay well and few customers are buying the products of SMEs.
- (d) **Lack of Capital:** It is another financial challenge faced by SMEs as they cannot avail of finance facilities from financial institutions as compared to the large companies. Sometimes, owners of small businesses sell their personal properties to capitalize on their businesses and run the operations.
- (e) **Unforeseen expenses** are another challenge faced by small businesses which disturb their cash flows and create difficulties for them to manage such expenses. Sometimes, SMEs also don't utilize their financial plans adequately because of dubious money inflows. In SMEs, there is a need to refresh the spending plan consistently based on questionable incomes and meeting the monetary obligations.

### Possible Solutions for Financial Management Challenges

The following are the possible solutions for financial management challenges in developing economies:

- The Government may provide financial assistance to SMEs in the shape of subsidies, tax-cuts on import or export, financing from local financial institutions at lower interest rates
- SMEs should focus on increasing their target markets to enhance revenue and cash inflow as improving sales can lead to the better overall performance.
- SMEs should preserve some portion of their profits to utilize them in unforeseen crises. They should also forecast the worst-case cash flow for managing the operations
- SMEs should improve the negotiation process with financial institutions to avail loans
- SMEs should curtail their expenses by decreasing avoidable expenses to improve cash flow
- SMEs should review business processes to eliminate non-productive activities and improving productivity.
- SMEs should review business plans and rewrite them to improve performance
- SMEs should seek investment partners to avail of finance facilities for business expansion and to capture new target markets.
- SMEs should adopt the latest technology to improve business processes
- SMEs should hire professional staff having sound financial management knowledge and a business environment for effective financial management and business performance improvement.

### Strategic Financial Management practices and SME performance

Strategic financial management practices help SMEs in aligning the vision of management and employees. One of the major benefits of strategic financial management practices is that it ensures that all stakeholders of the company are on the same page. Strategic financial management practices also provide a common framework by setting up common goals of the organizations. These practices also help the employees in improving their productivity and working for the common goals of the organizations. Strategic financial management also helps small businesses in the adoption of the latest technology and innovations for improving business operations. Strategic financial management practices help the management in effective resource allocation in small businesses for improving their performance.



These practices also help the SMEs in effectively forecasting the expenses and revenues for the budgeting process. It is a need of time that financial resources should be managed effectively. These practices also assist SMEs in profitability management and liquidity monitoring. SMEs don't put more in advertising and advancements of their products because of the low accessibility of money. It is hard for independent ventures to contend successfully with big organizations without proper promoting exercises. One of the significant challenges of independent ventures is the absence of assets for the development of business in new business sectors.

### Conclusion

Many problems of SMEs are the results of poor financial management and this is one of the major causes of business failures in developing countries. SMEs can adopt strategic financial management practices for dealing with issues, survival, growth and improving the overall performance.

SMEs are playing a vital role in improving the developing economies and improving the living standards of local communities. They are creating new jobs and reducing the poverty level in developing countries. Poor access to financial resources is one of the major hurdles in the success of SMEs in developing countries and governments should provide financial assistance to SMEs for overcoming the hurdle.

One of the major benefits of strategic financial management practices is that it ensures that all stakeholders of the company are on the same page and all employees should work for the common goals of the organization. The role of SMEs in improving the developing economies has been widely recognized and many developed countries are investing in SMEs of developing countries for supporting their economies. In many developed nations, SMEs are a significant tool for economic development and the creation of new jobs.

**About the Author:** The writer is a Fellow member of ICMA Pakistan and the CEO of Global Freelancing & Solutions.



# SME National Action Plan and its Role in Development of Small Businesses in Pakistan

*Some people dream of success, while other people get up every morning and make it happen – Wayne Huizenga - Owner of Blockbuster Video and The Miami Dolphins*

*Failure is simply the opportunity to begin again, this time more intelligently... A business absolutely devoted to service will have only one worry about profits. They will be embarrassingly large – Henry Ford - Founder of Ford Motor Co.*

*I knew that if I failed, I wouldn't regret that, but I knew the one thing I might regret is not trying – Jeff Bezos, Founder and CEO of Amazon*



**Muhammad Faisal Maqsood, FCMA**  
Senior Manager Finance & Accounts  
Lucky Cement Limited

**S**mall Enterprises face many challenges in the global economy which is dominated by large multinational organizations. The business environment is critical as it determines the decision and success of an enterprise. Micro, small and medium-scale enterprises (SMEs) make vital contributions to economic and social development.

## Definition of SMEs

The definition of SMEs depends upon the scale and structure of business in the economy and varies from country to country. The most commonly used measure is that of employment because of its simplicity and ease of data collection. Turnover and assets employed can also be measured but both are problematic. Hence, to resolve this issue, a general distinction can be made between self-employment, micro, small, and medium-sized businesses by following the convention of the **European Union**:

Category	No. of Employees
Micro Business	2 - 9
Small Business	10 - 49
Medium-Size Business	50 - 249

In all economies, SMEs constitute the vast majority of business establishments and help create jobs. They account for almost 1/3rd to 2/3rd of the turnover of the

private sector. SMEs have been the engine of growth in employment and output over the last two decades and a major 'instrument for alleviation of poverty.

## Developing an SME Policy

A major challenge for governments in designing institutional, organizational, and regulatory frameworks is to encourage entrepreneurs to engage in legitimate activities. However, today the governments have changed their approach by recognizing that SMEs not only create jobs but also play a vital role in social, economic, and political development. A major difficulty is that the SME sector is always highly differentiated but its power base is essentially local. Hence, in developing a public policy framework following points need consideration:

- A culture of enterprise in society which rewards individual as well as collective initiative and innovation of all its citizens. The first step towards the creation of such culture lies in education.
- An economic, political, and social climate that encourages a high rate of business startup and survival leads to an overall increase in the SME sector.

- c) A significant proportion of quality businesses are contained in the new stock.
- d) An economic and social climate that encourages existing SMEs to grow.
- e) A sympathetic and entrepreneurially-conducive environment for SMEs.

In general, regulatory policy should aim at creating a 'level playing field' for all types of businesses because there is an imbalance in both economic and political power, which enables larger firms to influence the environment more substantially, and there are particular difficulties for small and medium firms in accessing information. In addition, the relative costs of conforming to regulations can be proportionately higher for the small firm but they stimulate the growth of the informal economy. Key areas to observe in monitoring the impact of regulation are direct and indirect taxes; business licensing and registration; health and environment protection and access to public resources. It is important to ensure ease of compliance, removal of barriers to SME development; developing harmony between local and national authorities, legislations, etc. These criteria set a general framework for monitoring the existing and proposed legislation. There is also a need to establish mechanisms for effective public-private sector dialogue and feedback from those who implement legislation. Business associations can undertake studies of members' needs and governments anticipating a particularly acute problem or proposing new forms of legislation.

### Government's Role in SME support

The government must be supportive of the SME sector and have trust in the private sector. The Government must promote entrepreneurial attitudes in government agencies and delegate real power to the local level and adapt government services to specific needs of localities and SME segments. The Government must facilitate the creation of markets and strengthen the role of stakeholders, especially in the creation of sustainable local institutions via stakeholder partnerships and through business associations. They must give the status of 'Role Models' to the entrepreneurs and consult regularly and openly with small business representative groups on policy issues that affect the growth of the sector and program development.

### Financial Challenges faced by SMEs

The challenges faced by SMEs are huge as compared to the financial resources available. Every issue has a specific solution that can be implemented before it transforms into a crisis. These challenges are as follows:

- a) **Access to Financial Resources:** According to the Venture Capitalist (U.S Online Business Magazine), almost 29% of small businesses fail due to liquidity crises. Access to funding is essential for long-term

success; however, not all funding resources are feasible for all ventures. The most crucial factor is to select the most appropriate financing option. The Financial resources available to any small business include (1) Small business bank loans (2) Venture capital firms (3) Small business grants (4) Individual investors and (5) Strategic Asset Financing. It is advisable to consult a qualified business advisor to gain knowledge about the details of each funding resource and how it would blend with the structure, goals, and business plan. As a general rule, one must match the type of funding with the length of project for which the funding is required, i.e., long term/short-term finance for short-term and long-term goals.

- b) **Debt Repayment:** Many small business owners depend on debt financing to launch businesses. However, at the onset of any new business venture, one cannot ascertain whether the business will generate sufficient income/liquidity for repayment of debt. It takes time for any small business to work up to a healthy income, and in the meantime, payments have to be made to the employees and suppliers. Hence, it is advisable to consider debt consolidation and other strategies under these circumstances to get the business back on track.
- c) **Inconsistent Cash Flow:** Consistent cash flow should be a top priority for small businesses as it provides resources for payment to employees, overheads, and suppliers. Unfavorable cash flow in any single month can disturb a business's liquidity to such an extent that it may take sufficient time to regain stability. A small businessman can implement several strategies to stabilize inconsistent cash flows such as preparing and maintaining a cash flow forecast; establishing clear and easy payment terms for the clients; timely preparation of Invoices; introducing periodic payment packages; improving liquidity through minimization of Debtor days (Average time for receipt of payments from customers); focusing on cash flow and not profits; and outsourcing CFO services.
- d) **Emergency Expenditures / Contingencies:** Many unexpected expenses can substantially destabilize the cash flow of a small business such as new taxation measures introduced by the Government; breakdown of critical equipment that may interrupt operations and an accident that may result in huge repair expenditures. Some of these contingencies can be anticipated through careful planning and budget forecasting. The risks against such unexpected expenses can be minimized by acquiring adequate insurance and creating an emergency cash buffer fund.
- e) **Reporting:** Small business owners perform many tasks simultaneously. They interact with clients, work on marketing, track bookkeeping and deal with matters related to staff/personnel on daily basis.

It takes much time and effort to control the day-to-day business operations that proper reporting of the same may be neglected. Neglecting to report can lead to financial losses, especially due to missing deadlines resulting in huge penalties. The best method for any small business is to consider outsourcing to ensure that proper reporting is done and the business owners can concentrate on core issues and rely on expert skills.

**f) Taxes:** Taxation is the most critical aspect for any size of business. By using smart data, FBR continuously tracks and monitors businesses and individuals having flaws in taxes. It is, therefore, critical to ensure proper record keeping, correct account codes, substantiation, and precise accounting of all business transactions.

**b) Facilitate access to resources:** Improving the delivery mechanisms for assistance and access to resources for SMEs with a special focus on Finance, Business Development, Services, Qualified human resources, and Technology, to improve productivity and capacity for employment generation. Market-driven support programs are important to attain sustainability, maximize the potential for cooperation with the private sector, and minimize irregularities in the economy.

**c) Monitor SME development:** To monitor SME growth, it is vital to develop a procedure for the classification of enterprise size categories as micro, small, medium, and large enterprises; and to establish a mechanism through which SME development and the effectiveness of the assistance provided to SMEs can be monitored. The main points to focus on are gender development and environmental issues.

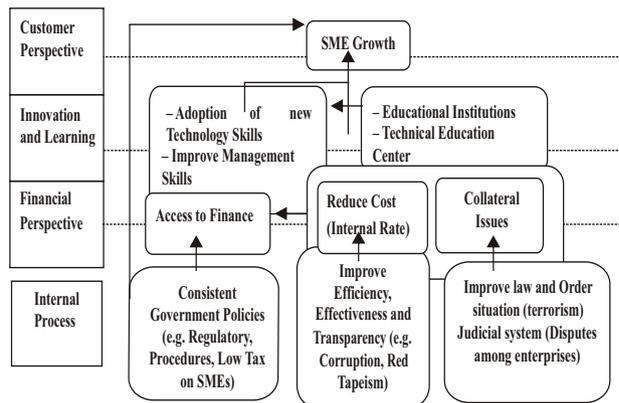


### Challenges for SME Growth in Pakistan

Pakistan is largely an SME economy however, our policies have been more inclined towards large enterprises, neglecting the significant role of SMEs in the economy. The policy documents and other measures are not sufficiently specified and prioritized for the development of a coherent SME policy. The responsibility for facilitating SMEs development lies with SMEDA, attached to the Ministry of Industries and Production. Unfortunately, SMEDA has not been provided with a mechanism to initiate, coordinate, monitor, and evaluate initiatives of SME development outside of its own scope of activities.

The issues faced by SMEDA in formulating a proper policy for the SMEs may be summarized as under:

**a) Business Environment:** Creating a favorable business environment for SMEs and eliminating unnecessary obstacles that obstruct their development. There is a need to improve the relationship between the Government and SMEs especially in the specified areas of labor and taxation.



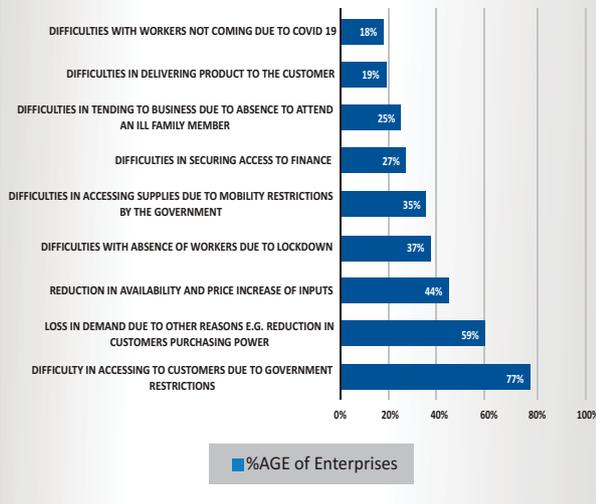
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### Impact of COVID-19 on SMEs

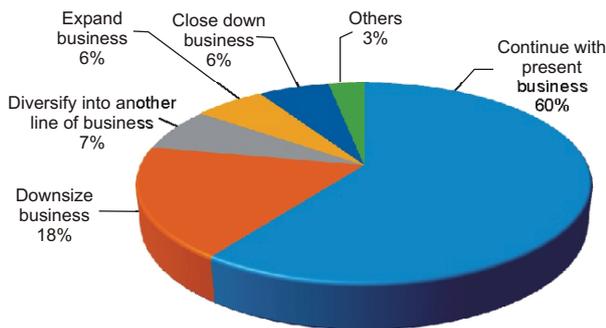
COVID-19 pandemic has affected businesses of almost all sizes which has placed severe strain on income and employment generation worldwide. SMEs which represent 90 percent of the businesses and over 50 percent of the employment in the world economy have also been severely affected by the pandemic. In Pakistan's context, the estimated 5.2 million SMEs form more than 90 percent of the businesses and employ 80 percent of the non-agricultural labor force and contribute 40 percent to GDP.

Even after the relaxation of lockdown, the enterprises have faced several challenges. The major challenges include the difficulties in accessing customers; a loss in demand due to customer's ability to afford products; reduction in availability and/or price increase for inputs; workers not coming to work due to government's mobility restrictions; and difficulties in accessing suppliers due to government's mobility restrictions. These challenges are not only confined to the operational and supply chain-related aspects of the business, but also related to difficulties in securing access to finance.

### Challenges faced by SMEs due to COVID-19 Outbreak and Related Restrictions



### FUTURE EXPECTATIONS OF ENTERPRISES AND THEIR ABILITY TO SUSTAIN DURING LOCK DOWN



### National SME Action Plan - Way Forward

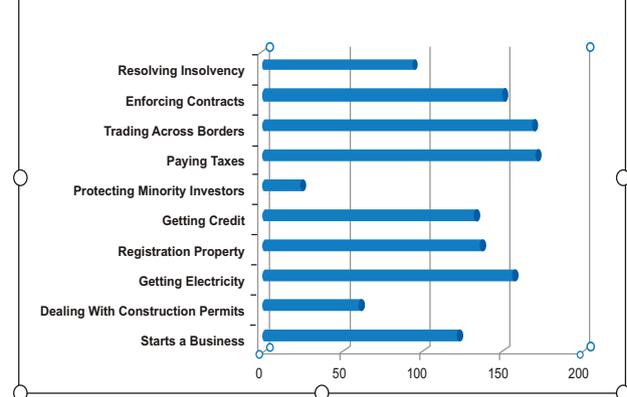
To meet its job creation agenda, the Government is making efforts to provide a level-playing field for businesses by devising policies that are favorable for SMEs. However, despite having limited access to financial resources, the small-scale manufacturing sector registered a reasonable average growth. To provide support to SMEs the government had announced a National SME Policy Action Plan in October 2020. The plan focuses on key areas which include a definition of SME, access to finance, business development services, skills & HR, technology, market access, infrastructure, entrepreneurship; and provision of extensive recommendations in each of the afore-mentioned areas which, inter alia, include the following:

- Simplification of rules, regulations, and taxation regime
- Programs for SME access to credit

- SME quota in public procurement
- Simplification of SECP procedures
- Facilitation to participate in international fairs and exhibitions at subsidized rates
- Developing an SME data bank to bridge the information gap

The overall implementation of the National SME Policy Action Plan is being supervised by NCC on SME Development. Provincial Working Groups have been notified under the chairmanship of Provincial Chief Secretaries. SMEDA is working closely with various ministries and departments and has signed MoUs with HEC, PSX, and NBP to initiate and implement joint activities proposed under the SME Policy Action Plan 2020.

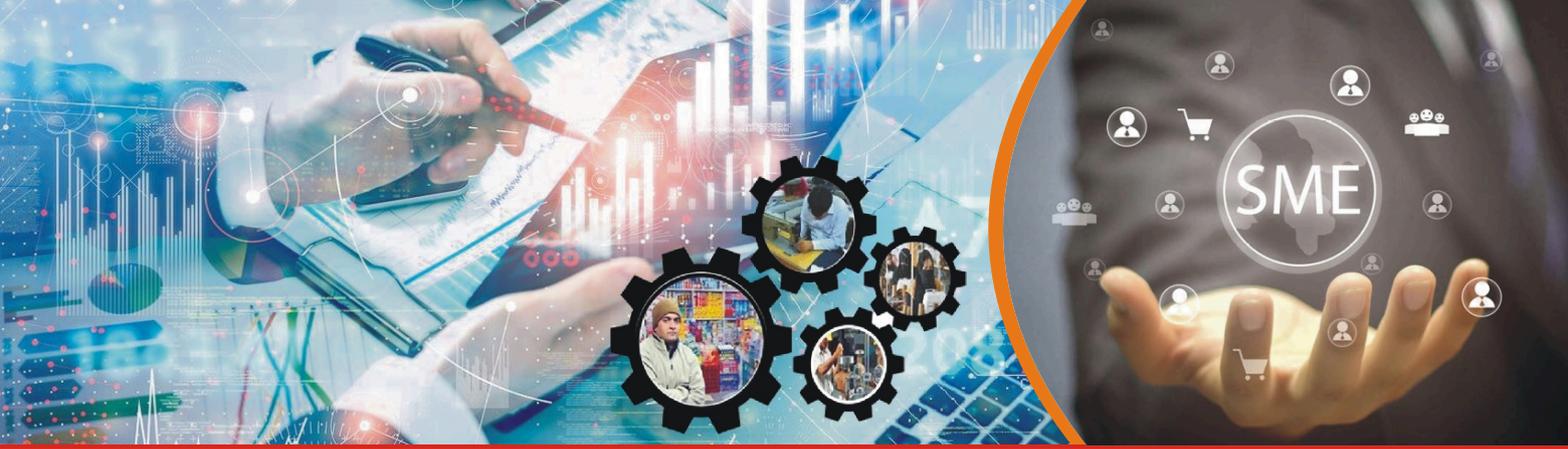
### Most Problematic Factors for Doing Business in Pakistan



### Conclusion

Pakistan faces numerous challenges. Among other issues, energy crises in many parts of the country from 2000 onwards have had a significant impact on our industrial sector. This not only had a significant negative impact on foreign investment but also stalled local investment. Shortage of key infrastructure, rising prices, is increasing the production cost. Hence, to move forward we must plan and implement energy generation plans, gas import projects, skill enhancement of works and managerial staff, compliance with HSE, SPS, HACCP, and a friendly policy environment for manufacturers as well as exporters, especially in the SME sector.

**About the Author:** The writer is a Fellow member of ICMA Pakistan and presently associated with Lucky Cement Limited as Senior Manager, Finance & Accounts since 2011. He has over 20 years' experience in the areas of Financial Management & Planning, Budgeting & Variance Analysis, and Corporate Financial Research & Analysis. He is a Motivational speaker and a Mentor at ICMA Pakistan and has also conducted various training workshops for student's professional development. He is a Member and Club Coordinator of Rotary Club of Karachi Avenue District 3271 and Co-Chairman of its Career Counselling Committee FY 2020-21.



# The well-being of SMEs at the times of ill-being



**Author:**  
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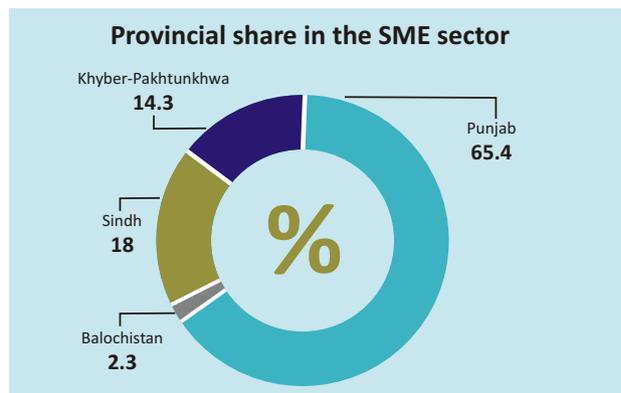
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Auditor General of Pakistan

The face of the business world has been changed due to COVID-19. It has drastically affected almost every sector and industry. Lockdown has resulted in massive socio-economic disasters and forced people to sit at home. As per International Labor Organization (2020), around 82% of companies and 67% of employees have been negatively affected, and 437 million small and medium enterprises (SMEs) are in danger. Keeping in mind the importance of SMEs it is vital to take every possible step to keep the sector alive. The severity of the matter can be gauged from the fact that even in the developed countries like the UK, 41% of businesses have been closed, and out of this 35% may not reopen.

Likewise, Pakistan's economy has also been severely affected. OECD Interim Economic Assessment (2020) depicts a decline between 2.9% to 2.4% in the current fiscal year due to COVID-19. It has affected European Union (EU) followed by the USA. Bloomberg (2020) reported that COVID-19 affected almost 1.2 million people. In developing countries like Pakistan, the situation is getting more critical, because, rather than having proper contractual jobs as in developed countries, most of the people in Pakistani SMEs work on daily wages, therefore, it is hard for these people to make both the ends meet.

The impact of COVID-19 on small and medium enterprises is massive; almost every business is facing difficulty to stay afloat during the pandemic period. Uncertainty, economic and financial issues had a devastating impact on SMEs. Covid-19 has forced many businessmen to reconfigure, reset and re-align their businesses, find a spontaneous solution of problems and move on. It has created opportunities for the local small businesses i.e., instead of being dependent upon the imports, local companies can increase and diversify their production to turn the crisis into an opportunity for growth as well.

Small business owners are unable to manage in this situation of flux due to financial challenges. It is hard for them to manage as they are unable to pay the salaries due to a decline in operations and sales. For survival in current scenario, it is a must to recognize the ingenious ways of doing business.



As a developing country, Pakistan owes a major portion of its GDP to SMEs. There are over 3.3 million small and medium businesses. Manufacturing companies, service providers, and start-ups all fall within this category. SMEs employ 78 percent of Pakistan's non-agricultural labor population, account for roughly 25% of industrial exports, and over 30% of the country's GDP (SMEDA). They have an important role in the economy, yet they receive very little attention in contrast.

## Reasons for failure of start-up SMEs

Many small businesses start with a lot of potentials. The entrepreneur is gifted and visionary; his team at the start is dedicated and creative and the venture's concept is also sound.

Unfortunately, even promising small enterprises fail within a year or two due to financial difficulties. As a small-business owner, it's critical to be aware of the financial hazards that many companies face as they try to prosper.

Many new firms fail because of their initial undercapitalization. It is not enough to have a novel and unique business idea to guarantee the firm's survival. Sometimes, company's fail to start due to a scarcity of cash on the part of the founders.

Doing business comes with a lot of concerns and responsibilities for the owner, but managing finances is one of the most common issues. Lack of sufficient capital, or undercapitalization to keep the business running, is one of the leading causes of small business failure. It is necessary to educate oneself on business financing to avoid this problem while beginning a new firm and to be able to deal with it effectively. Luckily, under-capitalization can be catered to at the beginning with proper planning.

According to estimates from the Small Business Association (SBA), roughly 45% of small enterprises survive for a minimum of four years. The rest fail for a variety of reasons, though the financial difficulty is most common. "Weak Business Plan", "Lack of Reserve Cash," "Overspending," and "Poor Capital Structure," are all prevalent factors for small business closure. These difficulties have to do with the company's financial position.

According to a 2019 poll performed by Pepperdine University professor John Paglia, many small businesses wish to expand but lack of the financial resources do not allow them to do so. Only 40% of businesses stated that they had enough capital to expand.

Small businesses face a range of challenges. Any business that grows encounters multiple problems ranging from financial, political, environmental to uncertainty. Business problems demand different solutions. Solutions that worked a year ago might not work today. There is a dire need of recognizing and overcoming the pitfalls linked with the growth if the business is to continue to thrive and grow.

### Solutions to address financial challenges

Reviewing, revamping, researching, and rewriting the business plan is one technique to address financial challenges in a small corporation. If your current strategy, which includes spending on staff, products, and advertising isn't working, the need of the hour might be to bring about some changes.



The business owner can also apply for loans and grants that are expressly designed to help established businesses grow. Some lenders will

let the business owner refinance the loan. Small businesses can receive financial aid from local governments and private community organizations.

Venture capitalists, peers, and angel investors are more ready to take bigger risks and may be willing to help a small business owner get the cash he needs to stay in business if the owner can demonstrate the viability of the business concept.

Owning more cash is not always the solution to problems. In certain situations, poor financial management due to the owner's ignorance is to be blamed. Effective planning, better

utilization of available resources, education, and training can help to overcome financial difficulties.

Today Pakistan stands at a turning point. In the present situation when dark clouds of pessimism hover there is always hope. There is a chance that Pakistan becomes the next breakthrough nation. Of course, that will take time, a decade. If steps are being taken in the right direction over the next couple of years and being optimistic about the future of Pakistan might pay off in a better way.

### Conclusion

For small businesses to get back on their feet during or after the pandemic, and again be able to serve as an engine to a country's growth and innovation, they need support at the government level. Business owners need to make the best possible decisions to get them successfully through these trying and testing times.

Worldwide SMEs are struggling hard to stay in business. In the uncertain situation and lack of financial resources to keep thriving, SMEs can focus on their human resources. Because it's the people of your organization that make you or break you. So if a business cannot increase the salaries of the employees still there are certain ways to get through the financial crunch.

Downsizing and shut down of businesses is very common nowadays than ever before. Organizations can retain talented staff by motivating and supporting them in these testing times by promoting flexibility, building a supportive company culture, productive performance reviews, and providing a positive onboard experience. It is the moment to interact with others in a kind manner. Whatever happens to your company, employees are going to have a difficult time for a variety of reasons. For example, many of them have an aging families. Make every effort to keep them safe and to demonstrate that you are concerned about their well-being. Generosity in the face of adversity can help to strengthen a bond.

SMEs as the backbone of any country's economy can greatly contribute to the employment generation. We cannot leave such an important sector to come out of the crises and thrive on its own. Governments all around the world are focusing on SME sustainability because this sector has the capacity of saving the nation from food insecurity, poverty, and unemployment. Currently, SMEs are experiencing unprecedented challenges, now it's the responsibility of the governments and all commercial banks to take prompt action to facilitate these organizations by introducing easy loan policies with the least markup, simple documentation, and re-scheduling of their existing loans.

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# COVID-19 and Survival of Small Businesses in Pakistan

## “Growth Policies & Financial Challenges”

**C**COVID-19 crisis threatens the entire world but disproportionately it hit developing countries, not solely as a matter of health failure but within the small span it is converted into a global social, economic and political crisis. Nowadays, the larger challenge for the global economy particularly in developing nations is to stay moving to retain food security throughout the varied barriers of physical distancing and lockdowns.

SMEs are widely considered as a solution to many economic crises and a key source of reducing unemployment and poverty. In Pakistan, manufacturing is the largest sector of the economy and contributes around 18.4% to the national GDP (Source: SMEDA/ADB). According to an estimate, there are more or less 3.2 million businesses in Pakistan out of which around 90% fall in the domain of either SMEs or MSMEs. This sector of the economy offers a major share of total value addition and industrial employment.

During the pandemic, the country was on either partial or complete lockdown which adversely impacted all businesses, mostly the SMEs. The economy witnessed stagnation in the services, manufacturing, and agriculture sectors and an increase in unemployment (both domestic and expatriate). These factors resultantly led to a decline in government revenues, exports, and disturbance in global supply chains.

Lockdowns during the different phases of COVID-19 across the country made the situation worse for the business enterprises in Pakistan. To analyze the crisis and its impact on SMEs, an online survey was launched by SMEDA in April 2020 in which 920 businesses, having an estimated total annual sales turnover of PKR 29 with almost 19,641 employees, participated in this survey from all across Pakistan. These businesses employ an estimated 8,950 daily wagers, 33% have an annual sales turnover of up to PKR 1 million, and 34% employ 1 to 5 employees. The Survey Reports revealed that the basic issue faced by SMEs during lockdown affected employment and production. Around 95% of businesses

reported a reduction in operations, 92% reported disruption in the supply chain, and 23% reported up to 100% loss in export orders. Increasing unemployment has been a major issue during the lockdown and 46% of surveyed businesses laid off some of their employees. However, 26% reported that they will rehire their employees in one month after the release of lockdowns.

Almost 89% of SMEs are facing financial issues while 60% have reported issues in selling their goods and services so require public sector support to sustain their businesses and these areas include SME-specific support measures including financial packages, tax relief, guarantees, and grants, relaxation in payments of utility bills, support in paying salaries and easing conditions for loan repayments.

The major issue faced by SME's and MSMEs is their cash flows due to which they are unable to retain their workers. Domestic relaxation in lockdowns will not ease the working of SMEs as many SMEs are export-oriented and their working and cash flows depend on international (buyer) lockdown practices.

Every economy has a threshold capacity to support SMEs or any sector as we don't have any timeline. Hence, it is required to expand the public-private dialogue to target those micro-level and cottage industries whose losses are even not identified through sectorial analysis on SMEs especially on export-oriented, serving major domestic demands and others so that the fiscal stimulus must be created to respond to those targeted SMEs.



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## Recommendations

COVID-19 affects SMEs and MSMEs on both demand and supply sides with reduced confidence of financial markets in the form of low credit which requires effective policy response to deal with the crisis. There is a need for implementing a variety of financial facilities to help companies address the short-term consequences of the outbreak as part of wider fiscal policy responses such as tax relief or direct financial support to SMEs (for the period covering COVID-19). Special measures must be taken to deal with the issues related to procurement and payment delays, support prices, and emergency loans to support SME clients along with the flexibility for repayments of existing loans. Revolving credit lines is also a good option to facilitate this sector and importantly the Government must ensure access to facilities for all SMEs and MSMEs.

## Policy in Action

- a) To support SMEs SBP will offer a clean lending facility up to Rs. 2 million with 0% markup
- b) Risk sharing facility is offered by the Ministry of Finance to ease loan access from commercial banks
- c) A special facility on electricity is available only for SMEs by the Ministry of Industries & Production
- d) Soft loan facility is also announced by SBP to meet issues in cash flows and payments of their workers with the grace period of 6 months after Jan 2021.

## Policy Priorities

- 1) SME policy framework must promote and develop SME sector to be competitive through initiatives like Technology & Innovation, Financing & Venture Capital, Quality Control, Strategic Alliances, Creating Market and Branding, Application of ICT, Entrepreneurship and Skilled Human Capital.
- 2) There is a strong need to identify those industries which are excluded to access facilities announced by Government by finding the gaps.
- 3) Despite the offer of a risk-sharing facility by the Ministry of Finance, the commercial banks are still reluctant to provide loans to SMEs due to high risk in feasibility and indefinite time to retain cash flows. There is a need to build confidence between Ministry, SBP, and Commercial banks.
- 4) MSMEs and some SMEs lack information about Government facilities and information costs to these organizations are very high so the Chambers and Associations bonding should be improved.
- 5) Direct taxes including corporate taxes must be reduced for SMEs in line with other countries and reduce their burden. Most developing countries offer less than 30% while Pakistan charges over 35%.

- 6) The government must ensure the removal of excise duties as announced.
- 7) The government must ensure the availability of announced facilities to all SMEs as banks are reluctant. The credit facilities must be attached with FBR as electronic data of all industries are available at FBR and after reviewing the tax profile of the industry loans are allocated.
- 8) SBP policy to cover loans for SMEs (Rs. 2 billion transactions in 3 months) to retain workers is unrealistic as most SMEs transactions during 3 months are less than 2 billion. This restricts the deserving SMEs to avail of this facility of SBP loans. Hence the limit must either be reduced or the tax profiles are reviewed at FBR.
- 9) Tax harmonizing schemes need to be introduced as after the 18th Amendment all the Provinces have their own tax collection units other than FBR due to which SMEs are required to submit their taxes at 13 different platforms which increases their transaction costs.
- 10) A uniform tax base and tax rates are recommended to be implemented in all provinces for SMEs.
- 11) Targeted subsidies may be announced for MSMEs and measures be taken for innovation and entrepreneurship within the organizations to promote local solutions.
- 12) The industrial policy needs to be announced which is held in abeyance for a long time.
- 13) Several environment, labor and municipal level levies are enforced on SMEs so there is a need for Risk Impact Assessments (RIA) which was last time conducted in 2005. There is a need to rationalize the RIA to reduce the compliance (almost 126 licenses levies, permits, etc. are required in a year) to facilitate the SMEs. Every province is required to review its RIA.
- 14) The Board of Investment had started a regulatory modernization initiative last year but there is a need for expanding its scope to the provincial level as many provincial laws and regulations are redundant. These regulations have high compliance costs and must be automated or rationalized.
- 15) Government must increase the credit facility from Rs. 2 million to Rs. 5 million to facilitate SMEs on 0% markup.
- 16) Instead of providing credit facilities for new industries, the Government should facilitate the existing SMEs to protect them from dying and to avoid unemployment of existing workers.
- 17) Special schemes need to be announced for export-oriented SMEs and MSMEs.

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# Meeting the Challenges of a Growing Business

A business enterprise is always looking for sustained growth however the pace of growth must be higher at the startup time as it signifies that the business is in a growing stage. Like a tree, until the time it does not reaches maturity or start bearing fruits, it is said to be in the growing stage, though it keeps growing even after this time. Hence, a growing entity will be considered as such a business that is not operating at its full potential or capacity and moving towards maturity over time. Such businesses face a host of challenges. As a business grows, different problems and opportunities demand different solutions. Strategies suited a year ago might not be the best ones now. Much often, avoidable mistakes turn what could have been a great business into an also-ran.

Recognizing and overcoming common pitfalls associated with growth is essential for the continuity and growth of any business. It needs to be ensured that actions taken today do not create difficulties for the business in the future. Effective leadership will help to avail of the opportunities and create sustainable growth for the future.

This article highlights specific risks and mistakes that most commonly affect growing businesses and suggests possible solutions. Let's have a look at these risks/mistakes:

## Remain sailing at market pace

Market research is essential not only at the time of launching your business. Business conditions change continually so



your market research should also be continuous. Decisions based on wrong and outdated information lead to business failure. The more you succeed, the more competitors

notice - and react to - what you are doing. A market-leading offer one day may be no better than average a few months later. Apparently, loyal customers can be quick to find alternative suppliers who provide a better deal.

With the aging of products (and services), the growth in sales and profit diminish. You must know the actual stage of your products in their lifecycles that can position you to maximize overall profitability. You also need to invest in innovation to build a stream of new, profitable products to market.

Taking time to talk to key customers pays off as you can have useful information from your suppliers, buyers, and business partners. . Effective IT systems can make it easier for you to share and analyze key information such as customers' purchasing behavior and preferences.

## Plan ahead

A plan that was successful in the past cannot bring the same result in the future. Market conditions change persistently so you must rethink and keep yourself updated on future business plans. As businesses grow, you need to align yourself with the changing circumstances and emerging realities and opportunities. There are obvious risks to relying solely on existing customers so you may diversify your customer base to spread those risks.

You should not be too opportunistic and take cognizance of the new ideas that suit your strengths and business vision. Risks are always associated with new business development so you must have contingency plans.



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## Cash cycle management

Good cash flow control is important for any business, particularly a growing business. Cash constraints can be the biggest factor limiting growth so you must make the best use of your finances. Planning helps you anticipate your financing needs and arrange suitable funding. For many growing businesses, a key decision is to bring in outside investors to provide the equity needed to underpin further expansion.

## Problem-solving

New businesses often run in perpetual crisis mode. Every day brings new challenges that urgently need attention. As your business grows you need to focus your problem-solving on core issues instead of trivial issues. For example, your business might be increasingly at risk unless you take steps to ensure your intellectual property is properly protected. If you are focusing on individual marketing campaigns, you might need to devote more resources to developing your brand. A disciplined approach to management focuses on leading employees, developing your management team and building your business strategy. Instead of treating each problem as a one-off, you develop systems and structures that make it easier to handle in the future.

## Right systems

All businesses produce and rely on large volumes of information - financial records, interactions with customers and other business contacts, employee details, regulatory requirements and so on. It's too much to keep track of - let alone use effectively - without the right systems.

Responsibilities and tasks can be delegated as your business grows, but without solid management information systems, you cannot manage effectively. The larger your business grows, the harder it is to ensure that information is shared and different functions work together effectively. Putting the right infrastructure in place is an essential part of helping your business to grow.

Many growing businesses find using established management standards one of the most effective ways of introducing best practices. Quality control systems can be an important part of driving improvements and convincing larger customers that you can be relied on.

Investing in the right systems is an investment that will pay off both short and long term. You benefit every day from more effective operations. If you ever decide to sell the business, demonstrating that you have well-run, efficient systems will be an important part of proving its value.

## Skills and attitudes

Entrepreneurs are the driving force behind creating and growing new businesses. All too often, they are also the people holding them back. The abilities that can help you launch a business are not the same as those you need to help it grow. It's vital not to fool yourself into valuing your



own abilities too highly. The chances are that you'll need the training to learn the skills and attitudes required by someone who is leading growth.

To grow your business, you need to learn to delegate properly, trust your management team, and give up day-to-day control of every detail. It's all too easy to stifle creativity and motivation with excessive interference. As the business becomes more complex, you also need to develop your time management skills and learn to focus on what's really important.

For many successful entrepreneurs, learning to listen to - and take - advice is one of the hardest challenges they face. But it may also be essential if you are going to make the most of your opportunities. Some entrepreneurs, recognizing their limitations, even appoint someone else to act as managing director or chairman.

## Change should be constant

Complacency can be a major threat to a growing business. Assuming that you will continue to be successful simply because you have been in the past is very unwise.

An up-to-date plan helps you identify what action you need to take to change your business and the way it operates, for example:

- Changing to suppliers who can grow with you and meet your new priorities. As your business grows, consistent quality and reliability may be more important than simply getting the cheapest offer.
- Renegotiating contracts to take account of increased volume.
- Training and developing employees. Your role will also evolve as the business grows. See the page in this guide on skills and attitudes.
- Make sure that you keep up to date with new technologies. You need to be fully committed to your strategy even if it takes you out of your comfort zone. This may involve hard decisions which if you do not take can place your business at great risk and unexpected competitive disadvantage.

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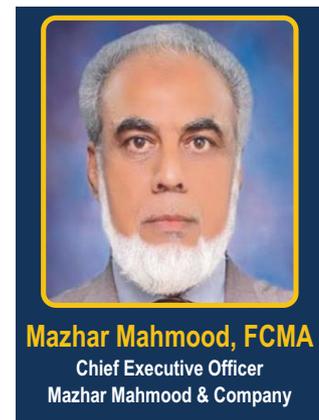


SME

# A Roadmap for addressing the Financial Challenges of Small Business Enterprises

**A** Small Business Enterprise is commonly designated as a business with less than 500 employees in UK and 250 employees in Pakistan as a Small-Medium Business Enterprise. There are other important indicators used by different countries and organizations in Pakistan to define small businesses and SMEs. What one can conclude is that Small Business is set of MBE, SBE & SME - as given below in **Table-1**.

SBEs or SMEs play a vital role by generating employment, contributing to GDP, boosting exports, and enhancing the socio-economic status of the community. Let us see the contribution, in the numeric term, of SMEs in different countries as a driver to boost the economic activities **Table-2**.



Institution Small Enterprise Medium Enterprise	Bases	Micro Business Enterprise (MBE)	Small Business Enterprise (SBE)	Small Medium Enterprise (SME)	
State Bank of Pakistan	Employees Annual TO	Self-employed - less than 5 employees (Purely on research bases) - Not defined by any of institutions in Pakistan.	Up to 20 Up to PKR 75 million	From 21 to 250 From Rs. 75 to Rs. 400 m.	
SMEDA	Employees Paid up Capital Annual TO		Up to PKR 250 Full-time Up to PKR 25 million Up to PKR 250 million	Employees between 51 to 250	
	SME Bank		Employees Annual TO		Up to 50 Up to PKR 150 million
Punjab Small Industries Corporation	Fixed Assets			Rs. 10 m without Land & Building.	
Pakistan Bureau of Statistics				Up to 10 employees	
Sindh Industry Dept.	Fixed Assets			Rs. 10 m without Land & Building.	Rs. 10 m without Land & Building.
<b>Examples of three business catagories.</b>	Number of employees		Tailor, barber, mason, street howker cobbler, lawyer, farmer, retailer etc.	Manufacturer, distributors, consultant, small hotel, cash & carry, law firm, partnership etc	Medium size- Textile unit, flour mill, steel mill, supply chain, transport company, hotel, supper store, grocery cash & carry, supplier etc.

Country	SMEs in (M)	Share in (%)			
		Total Entities	GDP	Export	Employment
Pakistan	5.00	90.00	40.00	30.00	80.00*
USA	43.20	99.90			
Japan	3.50	99.70	55.30	25.00	71.00
China	38.00	99.00	56.00	68.00	75.00
Bangladesh	7.00	80.00	50.00	75.00	82.00
Malaysia	1.15	97.20	30.00	48.10	40.00
India	63.00	99.60	32.00	13.50	56.00

\*Non Agriculture Labor

The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of \$5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending. The major formal sources of financing available for SMEs in Pakistan are Commercial Banks, SME Bank, SBP and SMEDA.

### Financial Challenges faced by existing SBEs

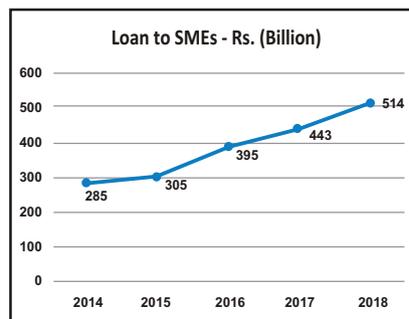
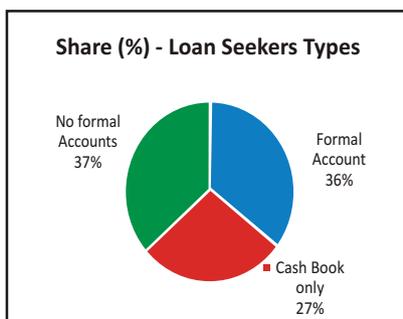
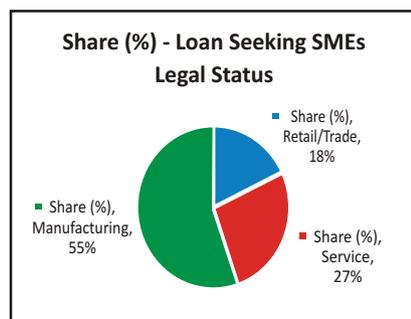
Most of the Financial Challenges faced by SBEs at the globe are common but still, exceptions are there due to the economic, cultural, and socio-economic status of different countries. Financial Challenges are faced by both the businessperson as well as the non-business person. As per a survey conducted by SMEDA 37% SBEs are facing taxation challenges in taxation matters followed by 34% by financial challenges. SMEs in Pakistan face Financial Challenges in two phases;

**a) Pre-Start-Up Phase** – This includes shortage of capital to finance the business; non-availability of sleeping partner or other investor: ineligible for bank loan having no business history; feeble idea or oral business plan unappealing to financier; no concept of angles investor to help start-up or new idea; and personal credibility though having a workable idea or feasible business plan.

#### b) Post Start-Up Phase.

1) No book keeping or accounts to be presented to bank for loan (34% maintain cash book, 23% formal accounts and remaining 23% run the business without any proper record SMEDA)

- 2) No or week bank statement depicting feeble business history (50% loan rejected on this ground).
- 3) Low education level of owner having least knowledge & skills to complete legal formalities (Owners of 31% SMEs are undergraduate)
- 4) Legal status as a Private limited Company has more acceptable options of collateral offered to bank, like hypothecation of stock that is finally registered with SECP to enhance the level of security to bank. (SMEs in Pakistan - 15% Limited liability companies, 22% partnerships and remaining 58% as sole proprietors)
- 5) Having risky collateral as a security to bank (69% offer the residential properties as security)
- 6) No awareness to entrepreneur about the formalities to qualify for bank loan facility
- 7) Banks are undue risk averse (UBL has leading share of 23% in funding followed by MCB, Meezan & MCB with 9%)
- 8) Head Offices of commercial banks do not delegate powers to branches for, even, a small /petty loan. Branch managers can accurately assess the risk having in direct contact with beneficiary
- 9) Banks hesitate small loans due to high cost of loan maintenances
- 10) Central Bank's irrational policies & tedious officialdom for loan processing.



- 11) Banks' focus on LSM/ MNCs rather than SMEs (Average share of SMEs in total lending is 8% only).
- 12) More than 50% of receivables, if not recovered in a reasonable time period.
- 13) Debtors' risk may create financial or creditors risk (Debt or receivable is one of the major killers in business ecosystem. Even the giant company has no exemption from this curse).
- 14) SOEs and LMU/ LBU always linger on invoices for months that stimulates financial challenge to SBEs more worsen.
- 15) No concept of venture capitalist for help and promotion or expansion of existing business (On average, 41% use personal references to bank, 31% seek information / working on prior history and only 23% seek helps from professional consultants)
- 16) To see the interest-based financing under Islamic teaching as a fear of God.

### Key Reasons of financial constraints of SMEs

- 1) Feasibility not prepared before start-up
- 2) Avoiding government dues (Tax, PESSI, EOBI and Licensing where applicable).
- 3) Absence of Angel investor or venture capitalists as informal sources of funding the SBEs.
- 4) Ineffective business integrations like Chambers and trade unions to support small businesses
- 5) Absence of any linkage between actuarial / retirement funds with the investment.
- 6) Lack of Islamic mode of financing to attract entrepreneurs who prefer loss over interest bearing funds
- 7) Non availability of sector specific funding.

### Way forward for existing SBEs

There are many models and strategies to address the financial challenges faced by SBEs/SMEs. These challenges have been created due to mushroom growth of SBEs / SMEs and mostly related to pre-start-up and post-start-up phases; operational and market challenges. These are discussed briefly as under:

#### (1) Pre-Start-up stage

SBP may authorize banks to extend loan facility against gold, silver and other such assets with Marginal Requirement (MR) upto fifteen (15) percent. Banks may also be allowed to extend financing to professionals against their educational credential and business plan/ prefeasibility study. The consideration for these loans should be, "loan

maintenance expenses with addition of nominal profit instead of high mark-up". These loans should be insured up to 50% to distribute risk in case of business failure. Mandatory three-days training / certification may be provided on the topics of business platforms, legal formalities, operational intricacies, financial challenges, financial sources, book keeping, final reports and how to make business decisions from final reports etc. No license or NTN would be issued until they complete this training. There should also be a mandatory business plan for all start-ups before entering into business.

#### (2) Post-Start-up stage

A SME faces two types of financial challenges categorized as internal and external challenges. Internal challenges include cost, expenses, capital budgeting and creditors payments etc. while external financial challenges comprise of receivables, volumes of sales, government dues and arrangement of formal or informal finances. After sale of products, the major issue that originates is 'Receivable' from buyers. This depends on customers' financial health payment policy such as SOE, LBU, SME, SBE, MBE or Consumer.

#### (3) Operational Challenges

There are certain challenges at operational level which are common to all SBEs such as:

- a) A unique business model to attract the more customers to enhance profitability.
- b) To control the variable cost and make rational decisions for capital expenditure to create a revenue generating assets rather expense bearing liability. An expensive car for business use is one example.
- c) Optimum level of inventory should be maintained by applying inventory management tools as huge financial resources stuck-up in inventory can lead to financial challenges for the SBEs
- d) Agreement with debtors (Credit policy) and creditors for timely receipts and payments
- e) Preparing cash forecast on regular basis to meet the financial constraints
- f) Daily book keeping and preparing different reports for operational / financial decisions
- g) To adapt the Ansoff's Business Growth matrix to expand the range of product / services, to expand market and diversification of business.
- h) Taking regular advice from a consultant or Adviser on how to meet business challenges
- i) Motivate the venture capitalists for business expansion with incentives of lucrative ROI.

**(4) External / Market Challenges**

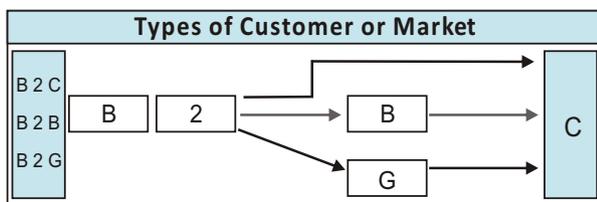
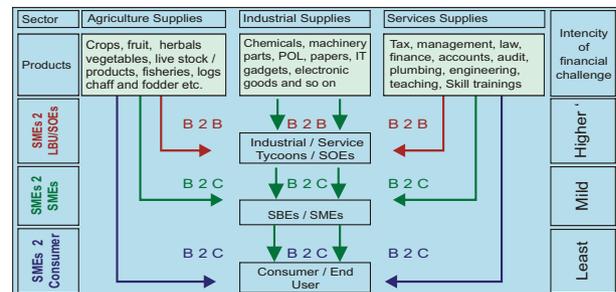
**a) B 2 C: When SBE is supplying goods to consumers**

In case of B 2 C, most of business is done on cash with end user or consumer. There is no exposure to credit risk in absence of massive receivables. Such situation will enable the entrepreneur to minimize the financial challenge to pay the creditor, payroll, taxes and expenses etc. Entrepreneur should continue business on cash or at mild credit and try to increase the sales.

**b) B 2 B / B 2 G: When SBE is supplying goods to Govt. or business tycoon.**

Business tycoon (LBU) and Government (SOEs) need supplies in bulk and pay the invoice after long officialdom. Hence the supplier /SME has to face the big financial challan due to heavy investment both in inventory and receivable. The only solution lies in government intervention to chalk out special legislation for earliest recovery of receivables to protect entrepreneur from financial crunch.

There is a challenge if B2B is in between the two SBEs. Financial risk is least in absence of receivables for SBEs if goods are sold to consumer (B2C) directly.



**Policy for creating SBEs in the formal sector**

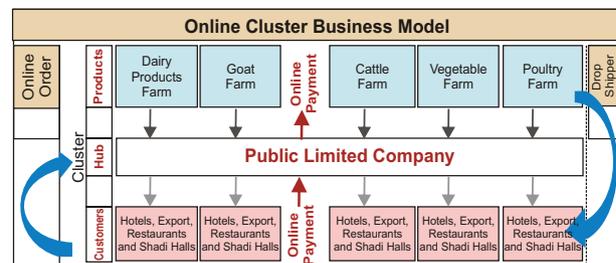
SBEs can be created in all sub-sectors of agriculture under umbrella of cluster farming to provide the ready market, pivot target of business, to all sundries. Major problems for SBEs are to dispose of the final product on cash to avoid financial challenges. The duty of marketing in cluster is to pay the farmer at the spot and deliver the raw material onward to Agro-based industrial units against prior agreement. Livestock products to be disposed of to another market cluster such as hotels, restaurants, marriage halls and exporters. Similarly, the SMEs selling the industrial supplies/services to industrial units should be paid as per government supportive policy. It is the best option to feed the SBEs through cluster instead of hundreds are approaching to bank, under great constraints, to mitigate the financial challenges.

**Relationship between SMEs & Large Business Units (LBUs)**

A Large Business Unit (LBU) accommodates many SBEs/SMEs in supplying goods / services such as a cement plant demands SMEs to provide coal, industrial parts, electrical supplies and other items. SOEs also demand different items and services from hundreds of SMEs. Small businesses face financial constraint when their invoices are not timely materialized before the next supply from LBUs. Resultantly, SMEs contact the banks for urgent relief but their concerns are mostly unresolved.

**Online Business Cluster Model**

Essence of business model is the Value Proposition - Incentives or advantages that company offers to attract the customers for maximization of profit and supplier for greater consideration. There are too many variables inducted in developing economic or financial model as illustrated below:



A business cluster is a geographic concentration of interconnected businesses, suppliers, and associated institutions in a particular field. Pothohar Plateau is best fit for livestock farming due to availability of natural pastures in all four districts of Pothohar. People have great danger of financial challenges lurking in their mind when they individually cultivate at high cost and sell their products at dust cheap prices in informal markets. The only solution is cluster farming by induction of a public limited company for quick purchase and earliest payment to SBEs so that farmers may not be trapped into financial challenges. The company may keep liaison with banks to seek loans in case of financial constraint. A Modaraba Company may be preferred so that the funds of pensioners could be utilized instead of interest-based bank finance. Multibillion pension fund are lying unproductive and pensions are looking for opportunities of investment. SMEDA can be helpful in materializing this proposal for the benefit of SBEs/SMEs in the country.

**More model for cluster business can be design for subsectors of industrial and service sector.**

*About the Author: The writer is a Fellow Member of ICMA Pakistan and CEO at Mazhar Mahmood & Company, Rawalpindi. He is the official Trainer of SMEDA for Business Development and also Consultant at PIPS for commentary on Budget. In the past, he served as GM Finance at NFRD – A business incubation Centre of eight commercial units.*



# Opportunities and Obstacles in Running a Small Business

Very few people are managing their businesses with ease and comfort. It's a constant vigil to handle multifarious situations causing tension, anxiety, and pressure, especially the fright of uncertainty and being personally responsible for the decisions made resulting in lack of sales, rising debts, scarcity of funds, issues with employees, and customers, operational problems and so on.

Running a business is a challenge and it all depends upon the entrepreneur how he transforms this challenge into an opportunity. There are two main perturbations viz. time and money, rather than their scarcity. You can't have unlimited time and money. All other issues are corollaries of these two fundamentals. The crazy pursuit of early dilation distraught the assortments of time and money. This celerity causes almost 50% of small businesses to disappear within 5-6 years of their startup.

Almost all the giant corporations were small at some time; may it be Google, Amazon, Mattel, Apple, Disney, and others. The key concern is the quest for expansion as it is hard to grow without money and it is difficult to arrange money when you are a small business. However, when you strive hard to improve, you feel you are short of time while you want to perform every task by yourself.



Business is static and cannot grow by itself. You build a good team and efficient workforce which drives business operations.

Small business has much potential to breed and sprout faster. Business growth is limitless as no growth is final. There is always room for improvement unless you are complacent. It is the courage to continue that counts. The condition is the entrepreneurial traits and get-getter commitment as the road is very bumpy with jolts and jerks without which life is unrealistic.

Challenges and Opportunities are the designations of different situations in the same venture. Every challenge is essentially an opportunity and vice versa. It's the way you think and proceeds to handle the occurrences. For instance, the event could be a reduction in import duty on raw materials. It is an opportunity to import cheap material and reduce the cost of production. On the other hand, this relaxation is available to all including your competitors. Therefore, whosoever avails this facility with diligence would win and call it an opportunity. For others, it appeared a challenge. As a pessimist, you see the difficulty in every opportunity and as an optimist, you see an opportunity in every difficulty. Problems and difficult times are a way of life. You only have to struggle in difficult situations which teaches you how to steer out of the mess. Problems are there only to build your character and engage you in creativity. In reality, success is never contentment, rather a continuous phenomenon. You have to keep moving as there are always your competitors who are at work and would not allow you to relax. It's always the first who gets the oyster, the second one gets the shell. We all want to reach the top but how many sustain the hardship of climbing?



**Shamim Ahmed, FCMA**  
Former General Manager Finance  
Karachi Port Trust (KPT)

## Opportunities and Challenges for Small Businesses

Every business needs sufficient cash to pay for expenses to run the business; to pay its investors as return on their investment and for future expansion. Arranging cash could have been easy if it enjoys a global monopoly but it has all the competition right from next door.

Small Business has all the more weaknesses to face competition creating challenges. Everything begins small and grows with time and faces teething problems during its growth cycle. Some survive, some vanish, and some grow large. Small business has to be looked after on the principles of nature where small things don't go up or expand but grow slowly and steadily with proper attention. Any small business which does not follow this simple principle and is in a hurry to swell has every likelihood to disappear. Only big trees have deep roots and strong trunks to brave the thunderstorm.

Small business also enjoys many advantages like close contact with customers and employees, easy and early decision making by the owner, flexible and quick to adopt changes in the market, easy to become specialist in providing a specific product or service to customers. The owner has a glimpse of every activity that helps him adjust to changes. Small businesses are the laying foundation stone for giant corporations and complement the economic activities of large organizations. They are contributing a lot by way of upgrading human capital, improving business management skills, diffusing technical learning, and fulfilling the needs of a majority of the population. Their major role is poverty alleviation, social uplift, growth in the economy, and pillar for employment.

Small businesses have to face the following types of challenges during their growth process:

### 1) Cash Flow Constraints

Merely the fact of being small is a sure indication of paucity of funds. Why would any entity carry on a small business if there are no financial limitations? The paucity of funds compelled you to start with a small material capital, frail workforce, weak market strategies, hesitant credit sales keeping you small. A little jerk in day-to-day operations would create the need for cash which is difficult to arrange. Friends would shy away for the fear of non-payment in time.

Approaching banks would pose further difficulties as they would demand a lot of formalities like your credit scores, properly maintained accounts, business plans, and collateral to safeguard their interest and ensure repayment. Being a small private enterprise, the bank may ask for additional information like business licenses, registrations, tax returns, financial liabilities, payroll records, personal securities, etc. Normally all such records and information are not properly maintained by small businesses to satisfy

banks. Due to these protocols, Small and Medium-size Enterprises (SMEs) have hardly a 17% share in the total bank loans. This situation compels small businesses to tap non-traditional expensive borrowings which at times reach up to 25%, making the cost of production uncompetitive. Hence, SMEs must ensure to maintain up-to-date accounting records, chalk out a business plan, keep track of account receivables and payables, valuation all tangible assets, and keep all government payments up to date. Maintaining all records will keep the bank lenient for collateral when inventories, account receivables, and other tangible assets are considered good collaterals.



Small businesses are generally entangled in the cash conversion cycle when you do not watch how long it takes your business to convert cash into inventory, then into sales, then into receivables, and finally back into cash again. The shortest the cash conversion cycle, the better it is. It is therefore necessary that you take care of your inventory levels with minimum shelf life. High-value items must be purchased as and when needed, proper arrangements with suppliers who should hold and store such items for you and are supplied upon order. Similarly, account receivables are followed vigorously, and credit facilities must only be extended with caution, customers making delayed payments may be refused credit sales. At the same time, you should also be vigilant in making payments to your creditors which will establish trust and creditworthiness for future credit facilities. Online payment solutions may be implemented for early billing and follow-up.

Spending has to be made with extra care as it is not your income that makes you rich but your spending habits. Every penny spent has to be questioned and checked. Make only necessary payments. If you buy things you don't need, you might soon be selling things you need. It's your cash flow which tells you where the money is to go instead of wondering later where it went.

Any amount of profit made must not be spent but invested. Instead of spending on furniture, fixture, and luxury items, it must be put on equipment that would enhance production capacity. Nowadays electricity, gas, and fuel are getting expensive and must be controlled. Keep up with advanced technology which is constantly improving for efficient and cost-effective production. This will improve the quality of your product keeping customers satisfied and ready to pay more.

## 2) Manage Time

Spending time on petty matters is like wasting money. Don't think that you will look after all the activities of the business. Manage your time and involve your employees in the job they can handle while you deploy yourself in important business matters. Understand how you spend your time each day. Make programs beforehand and stick to it unless some emergency creeps into it. Pick and choose what is important and focus only on critical issues. Delegate routine work to staff down the line and only check progress. Use business and accounting software for efficiency and accuracy.

## 3) Marketing Strategy

Keeping abreast with market trends is of utmost necessity for a small business as ignorance would hurt your sales. Customers are very smart and well-informed as technology has brought everything into their hands. They know what product is available and what product is going to add to the market and at what price. They know changes and improvements in product features on daily basis. Further, you are not alone in the market, but a lot of your competitors are there dealing in the same product and almost the same customers and introducing new products with new marketing techniques. You have to adapt and adopt market changes.

The best marketing strategy is to make your customers follow you instead of you following your customers. Prepare a market plan setting your vision over some time and break it down as what you plan to do on weekly basis with smaller targets. The plan must spell down the survey of the market and then target a market based on the share of your product in the market setting goals. Conduct the competitive analysis regarding products of your competitors with quality and their price. Prepare a strategy to compete on quality and price by adding new features to your product and offering discounts etc. Before putting your plan into action, you need to list your key performance indicators to determine the success of your plan.

## 4) Smart Workforce

The importance of developing your employees and nurturing them must never be undermined. No matter how advanced and sophisticated your physical assets are, yet their effective and efficient use is reliant on the capabilities of your people to get the maximum output of the physical installations. A small business must therefore hire efficient skilled employees who can keep in constant touch with customers, debtors, and creditors. How they deal and handle them tells the story of the business. In this constantly changing world, only a team of prudent employees can cope up with changes in technology, customer needs, mobility, and values.



Hiring and retaining talented and qualified employees is a key concern for small businesses. They feel more valued when employers invest in their training and development and are considered an employment benefit. Employees must have clear communication about the company's mission, and they should be taken on board to fulfill the same which creates a sense of belonging and ownership with them. Their performance and contribution towards the mission should be awarded accordingly. This will create confidence, trust, and loyalty contributing their best to keep the company afloat. All this will spare you a lot of time to involve in important jobs.

Mentioned above are some of the important grueling situations being faced by small businesses which are to be braved by themselves. However, they also face external myriad challenges like government policies, multiple regulations together with rampant corruption. No doubt government always remained concerned and has been announcing various schemes to provide a helping hand from time to time including Kamyab Jawan Portal, Prime Minister Youth Business Loans Schemes, Loan through Microfinance banks, guidelines from State Bank of Pakistan to banking industry focusing on SMEs identifying them as a key priority sector. Under the policy of advancement of SMEs sector, the government also has many schemes for Healthy Business Environment, Ease of Doing Business, Human Development, Technology Upgradation, etc. A long-distance yet to be covered.

## Conclusion

Small Businesses are a vital economic sector for any country and contribute a major share in the GDP. Their main challenge is the shortage of funds. Bank loans remain the best option but due to stringent bank requirements, most small businesses don't reach this facility and recourse to non-conventional lending channels at a high cost. Hence, small businesses must keep in touch with banks even before a need for cash arises and equip themselves by fulfilling banks' requirements. This will avert panic when the requirement emerges. Every expense has to be monitored to avoid spendthrift. Keep in mind that your sales are dependent on customers whereas expenses are within your control.

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# Lockdown Implications on Small Businesses in Pakistan

**T**he COVID-19 pandemic has had an adverse impact on the world economy which not only led to the loss of precious lives but also resulted in an economic slowdown globally. The pandemic outbreak last year forced all the countries to impose lockdowns. Pakistan also imposed complete and smart lockdowns across the country which is now being eased with increased vaccination and adoption of strict SOPs by the citizens.

Small and Medium Enterprises (SMEs) are recognized as drivers of national economies by providing income and employment generation opportunities to a large segment of people. A dynamic SME sector can play a vibrant role for a country to achieve sustainable and incredible economic growth. In Pakistan, SMEs represent an important part of the manufacturing, agriculture, trade and service sectors. As per the Pakistan Economic Survey 2020-21, the SME sector contributes an estimated 40 percent to the national GDP.

## Key difficulties faced by SMEs

SMEs have always underperformed due to many unavoidable factors such as lack of required financial and skilled human resources; unavailability of technological assistance to carry out business operations; lack of knowledge on market trends and strategies restricting their economic growth and development. Some of the major issues faced by this sector mainly are outlined below:

### Working capital management

The goal of working capital management is to maximize operational efficiency. The most common issue SMEs face is working capital management. They often fail to maintain liquidity for ordinary business needs and keep a balance between receivables and payables. They can overcome this problem by possessing enough cash resources for their routine business transactions, encouraging customers for early payments by offering discounts, and selecting the right financing instrument for proper management of short-term financing.

### Access to finance

For financing operations of the business, the SMEs mostly depend upon their savings and borrowing from their

friends and families instead of borrowing funds from financial institutions. Although many of the banks have introduced a range of services such as receivable discounting, cash management services, trade finance in both local and foreign currency products for fulfilling short term and long-term financing needs of SMEs still most of the SMEs find it difficult to obtain loan from banks because of:

- Complicated and prolonged loan procedures in banks
- High transaction cost owing to the size of the transaction
- High-interest rates of banking companies
- Inaccurate or inadequate documentation and financial record-keeping by SMEs
- Inability to meet the tangible collateral requirement

### Inappropriate management structures

Management structure refers to the hierarchy of authority, responsibility, and accountability of individuals within an organization. It also includes the communication channels of a company with its internal and external environment. Each organization has its unique management structure based on its operations, but the common factor which is often absent in SMEs is that it does not define the flow of responsibility of employees within an organization.

The managers in SMEs don't possess the required skills and expertise in running the affairs of the business and often lead the business towards failure. For attaining a competitive advantage there is always a chance for improvement, innovation, and up-gradation of knowledge and skills.



**Bushra Ilyas, ACMA**

In today's business world, the basic requirement for managers is that they should be able to think in a way to create cause and effect relationships for determining the long-term capabilities of a business structure and to develop new business models.

### Low level of technological advancement

Large-sized organizations in all sectors are moving towards equipping their staff with digital technologies which help them to generate data and analyze operations in new ways for improving performance. It also reduces transaction costs by providing better and quicker access to information, and communication among staff, suppliers, and other stakeholders. The use of Information Technology (IT) in the business world has proved to be extremely advantageous in providing customer services which lead to customer satisfaction.

Despite all the opportunities and benefits of information technology, many SMEs continue to lag in the adoption of digitalization due mainly to a low level of available investment, insufficient knowledge of staff to operate the software. However, IT can help SMEs integrate into global markets, through reductions in costs associated with transport and border operations and it significantly enhances the scope to trade services.

### Hindrances towards implementing CSR

Corporate Social Responsibility (CSR) refers to business practices that benefit the environment, society, employees, and stakeholders as a whole. CSR is not only concerned with large businesses but SMEs with strong CSR reputations are more likely to win contracts from larger businesses. Unfortunately, the SME sector in Pakistan faces innumerable challenges that hinder their way to be engaged in CSR initiatives. Limited financial resources impede SMEs to invest in the environmental cause. Most of the top management of SMEs view CSR as a volunteer activity and responsibility of only large organizations. They don't realize that the responsibility of CSR belongs to everyone, regardless of how large or how small is the size of the business.

Government can play a major role to encourage CSR participation from SMEs by arranging different seminars and training on the importance of CSR activities to upgrade their knowledge about CSR activities and giving them financial support and equipping them with the latest technologies.

### Lockdown Implications on SMEs

Lockdowns have compelled business owners to rethink their business models. Many large-sized organizations managed to move their operations online and implemented smart working solutions at short notice to remain in business and overcome disruptions in supply chains. However, many businesses could not plan effectively during this transition. The SMEs faced the impact of coronavirus the most and it

seems that they would continue to feel its impact for an indefinite period. Many of the firms experienced a reduction in operation, loss in export orders, employees' layoffs, and disruption in the supply chain.

The future of almost all small businesses is up in the air. According to a survey conducted by the Small and Medium Enterprises Development Authority (SMEDA) in April 2020, about 95% of enterprises acknowledged having experienced a reduction in their production, work activity, and contracts due to the Coronavirus outbreak. Only 5% of the enterprises stated that they did not experience any reduction in business operations. SMEs have been affected by lockdown in the following ways:

### Disruption in Supply Chain

The lockdown resulted in the interruption of the physical flow of material, logistics services, resource management, and information workflow of almost all businesses. The sectors that were severely affected due to lockdown include readymade garments, leather, textile, cosmetics, sports goods, and many others.

### Decline in Production and Sales Revenue

SMEs provide low-cost employment as the unit cost of employed persons is lower for SMEs than for large-size firms. SMEs contribute significantly to export revenues because of the low-cost labor-intensive nature of their products. During the lockdown period, most manufacturing SMEs experienced an abnormal decline in capacity utilization due to a shortage of inputs like raw material, utilities, transport facilities, and a low level of demand that forced them to expense out all fixed manufacturing costs associated with unused capacity. These adjustments impact reported net operating income and ending inventory amounts of many SMEs.

### Employees' layoffs

Covid-19 destabilized the financial position of salaried persons as compelled businesses to cut remunerations, delay salaries, and temporarily or permanently lay off employees from jobs. However, it is observed that after July 2020 the recovery process of employment started but employers are still trying to manage their businesses with a reduced labor force and are reluctant to hire despite the need for human resources.

### Difficulties in Fulfilling Contracts

Shortage of cash flow, raw materials, skilled labor force to complete the allocated task, and the inability of businesses to outsource any assignment due to budgetary constraints caused the businesses to lose their contracts or to timely complete their export orders. As per a survey by SMEDA, almost 75% of national-level work activity was affected during the lockdown whereas 19% of SMEs reported a loss in their exports orders.

The overall picture of problems encountered by SMEs in carrying out their operations due to imposition of lockdown and even after reopening of businesses along with SOPs can be summarized as below:



## Sector-wise Impact of lockdown

### Educational institutions:

The education sector is one of the severely affected sectors. This crisis has confined students and teachers within their homes, which has left students far behind in their studies and has caused teachers to lose their jobs as schools are not able to pay their salaries. All these circumstances have created a certain level of anxiety and other psychological disorders among students and teachers both.

### Agricultural and transportation industry

The farmers faced issues due to market closures and traders' unavailability due to movement restrictions. SMEs operating in the tourism and transportation sectors are also significantly affected.

### Sports goods industry

Pakistan's sports industry is still trying to recover from the repercussions of the pandemic. The sports industry has not only seen a reduction in new orders but the manufacturers also had to recall the orders that were either ready to ship, or on their way to be shipped after importers canceled them or extended the delivery dates due to the lockdown. Millions of game-related inventories like cricket bats and accessories, tennis balls, footballs, hockey sticks were lying in the warehouses in the city of Sialkot.

### Restaurants industry:

The closure of restaurants and cafes caused many employees to lose their jobs and only a few workers received half their salaries for the full month. Now the restrictions are being eased by the Government to allow dining at restaurants and hotels for vaccinated people only.

## Opportunities and Way Forward for SMEs

Every crisis has an inherent opportunity. Covid-19 has resulted in promising modifications of business

operations, product transformation, and the adoption of new business models to address the ever-changing demands of the consumer market. It has unlocked new opportunities for investment for business growth and expansion. For instance, new business opportunities are emerging in the healthcare sector and related products. Health care businesses operating worldwide are paying attention to making face masks, hand sanitizers, hospital scrubs, etc. In Pakistan textile and readymade garment manufacturers have also started making protective suits, gloves, and facemasks.

Covid-19 has also established a new paradigm shift in teaching and learning processes. Online schooling has introduced new ways to keep education moving. The mode of learning has been shifted towards visual classrooms. Many institutions have developed strategies to involve students in learning processes and conducting exams through online methods.

Technology adoptions by small businesses that were expected to take years happened in weeks. Many of the business owners devised ways to list products and services online and sell their goods and services through their apps or websites for the first time. Whether it is food, books, clothes, and perfumes, even many of the services are now available online. The customers are also getting accustomed to this new way of business.

SMEs are also diverting their ways towards accepting online payments in addition to accepting physical cash payments. Despite a widespread transference to online sales and purchase some SME owners, in particular, believed that online sales are typically less profitable, because of costs for fulfillment of contracts and delivery and online sales are not substitute for their closed physical retail spaces.

## Conclusion

We can conclude that in the future, our society will learn to appreciate such personnel who are taking steps in online working and that these will be valued differently in the future. All small businesses must be prepared for the new norm of a digitally-driven economy. Government can play a vital role for SMEs in accessing capital, tools, and training. Those firms are inclined to be more resilient to future shocks who will adopt technology and be flexible in their working environment.

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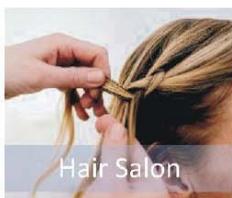


# SMEs in Malaysia: Coping with COVID-19

**S**mall and Medium-size Enterprises (SMEs) are businesses that maintain revenues, assets, or number of employees below a certain threshold. Each country has its own definition of an SME and in the below chart we provide the definition of a small and medium enterprise as applicable in Malaysia.

Organization	Criteria		
	Sector	Sales Turn Over	Employee Count
Central Bank	Manufacturing	< RM 50 million (~US\$12 million)	<200
	Services & Others	< RM 20 million (~US\$5 million)	<75
Ministry of Human Resources	<b>No. of Employees</b>		
	Micro		<75
	Small		76-200
	Medium		>200
Inland Revenue (Tax)	1. Paid-up capital of <RM2.5 million (~US\$ 0.6 million)		
	2. Annual Sales Turnover <RM5 million (~US\$ 1.2 million)		

Though small, SMEs play a significant role in the economy of any country. SMEs outnumber large firms, employ directly and indirectly a vast number of people, are generally entrepreneurial in nature and they help to shape innovation.



SMEs are considered the heartbeat of both emerging and developed economies. They are responsible for providing many jobs. Malaysia's SMEs contribute 40% of GDP.

Malaysia's SME GDP grew at 5.8% in 2019, which is above Malaysia's GDP growth of 4.3%. SME exports are over US\$ 40 billion (almost 1.75 times Pakistan's total exports).

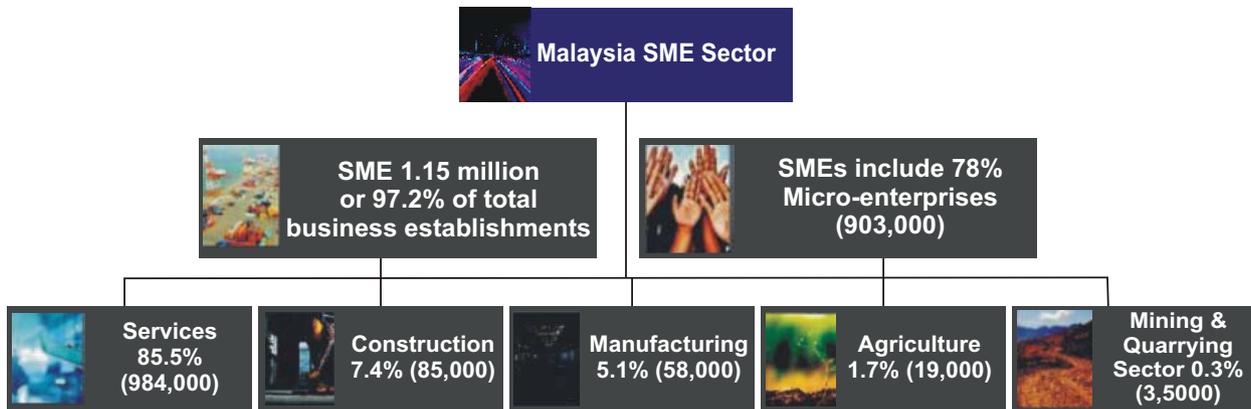
Malaysia's SMEs employ more than 7 million persons i.e., 48% of Malaysia's employment. We can anchor in a snapshot of Malaysia's SME sector to better understand financial challenges and the way forward for small businesses.

Factors influencing SME operations and growth include technology, start-up funding, marketing, management skills, education levels, social networks, age of the owner, government, gender, financial support. Malaysia provides enabling environment which addresses almost all of those factors with easy access to capital for start-up funding through a stable progressive banking system, business-ready and trained human resources with entrepreneurial and leadership mindset, inclusive and diverse social fabric that cuts across any gender biases and ethnicity and nationalities and other perceived restrictions, healthy aging population and dependable healthcare infrastructure,

integration into and exposure of human capital with regional integration into ASEAN as well as into international trade network.



**Humayun Habib, FCA**  
Member, Executive Committee  
Malaysia Pakistan Business  
Council (MPBC)



Two distinct growth drivers for SMEs are the ability of the country to attract Foreign Direct Investment (FDI) and Tourism (domestic and international). FDI and tourism create a “Multiplier effect” in the economy.

Malaysia attracted US\$9 billion FDI in 2019 that bringing accumulated FDI in Malaysia to US\$ 175 billion. The economic value of this FDI is much greater as 'multiplier effect' which drives the SME sector, brings new technologies and products, increases income and more purchasing power to locals, and creates opportunities to upskill human capital; and all of this, in turn, leads to an overall boost in targeted economies.

The tourism sector in Malaysia is one of the largest industries contributing 5.9% of its GDP and employing close to a quarter of the total workforce in Malaysia. Malaysia generated about US\$22 billion in the tourism sector alone (slightly less than the total exports of Pakistan). Tourist arrivals into Malaysia reached 26 million in 2019 - this means 0.81 tourists per resident which are amazing. Tourism brings many benefits including infrastructure development, a country's improved brand image, source of foreign exchange earnings, source of employment generation.

The pandemic in 2020 has been an uncontrollable variable in the global economy. This health crisis has multiple economic consequences which tested the commitment of SME owners to the limit and created financial challenges because of their inability to operate with social restrictions put in place by governments around the world. This impact for SMEs can be analyzed in two ways:

### 1) Revenues

- Revenue generation ability was affected due to a reduction in sales through traditional channels.
- Future revenue streams were affected as many growth projects were halted or progress slowed down.

### 2) Costs of doing business

- While most businesses were not able to continue to operate and generate revenues, they had to incur costs to maintain the business infrastructure i.e., lease

rentals for hotel and office buildings, employee salaries, interests on borrowings, etc. which started eating into the reserves and personal savings.

- Pandemic also increased the cost of doing business because now customers expect additional health and hygiene protocols which cost dollars.

It is commendable that governments have stepped up to pump financial assistance into the economy and for SMEs. The key thrust of such assistance has been three-pronged as under:

- Empower People
- Propel Businesses
- Stimulate the Economy

Such assistance is through tax incentives on capital investments; wage subsidy programs; micro-credit schemes; employer advisory services program; employer covid assistance programs to reimburse incremental hygiene and testing costs; government levies exemption for a few months; postponement of income tax installment payments; grants, and loans to support SMEs who are looking to digitalize their operations or automate their business; promote gig economy; shop online campaigns to encourage e-commerce consumption using e-vouchers which are co-funded by government and e-commerce platforms.

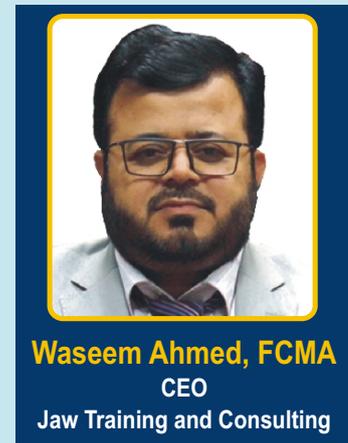
On the flip side, the pandemic has accelerated the adoption of technologies and some product innovations. One very interesting case was where some of the Walmart stores in the US converted their huge parking lots into Drive-in cinemas.

There is no second opinion that the way forward is for the government to create enabling environment for ease of doing business; and adoption of digitization across all sectors of the economy and government service delivery to the residents.

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# Ingredients of a Successful Business Model to transform a SME into a big business



**W**e have been watching around us that new small business enterprises are launched but after some time they fail to survive and vanish away. Many of them come up with unique ideas and exceptional plans but unfortunately, they do not last long. Why this is so? What are the reasons for their failure?

According to research conducted by the US Chamber of Commerce, around 80% of the news small businesses and startups make it through to the first year, whereas 70% continues to year two, and surprisingly half of the businesses win this marathon by the fifth year.

Running a small business is not an easy thing due to various factors such as limitation of funds; competition with giant leaders, and fewer opportunities to avail of. Having said that, these hurdles can be controlled well and converted into strengths. Below are some guidelines that can help a small business run smoothly, successfully, and overcome challenges to become a large business.

## 1) Controlled Business Plan and Budget

Many business plans are made based on capital investments only. A proper business plan does not include only capital investments but other factors as well. For Instance, if an organization needs rental premises, it must be considered an advance payment in Business Plan. Likewise, some reserves are kept for future contingencies while handling the business. Moreover, you have to add in capital planning for any shortcomings that may arise from a shortage of working capital during a particular period.

A proper budget should be made which includes business fixed cost, variable cost, sales volume, and prices. Proper segregation should be made in calculating various segments of budgets discussed. These budgets should not be limited to only Profit and loss accounts but must be extended to Balance Sheet, and cash flows. Normally small businesses are not started with proper feasibilities and budgets.

Later, these budgets are compared with actual results to ascertain the lackings. This provides insight to the small businesses to tackle the challenges and also make future planning.

## 2) Fire-wall for Bad Debts

Putting a firewall for all bad debts expense means proper recoveries of your sales which saves your business from the close-down stage. The problem is that merely having profit in books does not reflect the business health properly until it is recovered. A good debt collecting ratio and collection in days shows how good your business is running and meeting the cash cycle.

Ideally, you should have credit-free businesses but in case you are bound to allow credit, it should have proper recoveries from customers because it supports your cash flows position of the business. You should analyze your invoices collection ratio and consider that on priority task of your business. Those customers who are delaying in paying the dues should be monitored carefully. Try to offer them attractive packages, for example, offer them a discount if they buy in cash. Similarly, you should be extra vigilant and act timely while preparing invoices for your customers. An automatic reminder should be placed, so a manual factor of forgetting can be eliminated.

## 3) Managing Cash Cycle

There is also a need to manage your cash flow cycle i.e. working capital requirements. While you are collecting cash from your sales, you are also paying cash for the purchase of your raw materials. Similarly, you have to pay cash for overheads and expenses. Suppose, your collection period is 60 days from customers, and you have to pay your vendors within 45 days, so you have to manage 15 days of the cost which you have to collect from your customers. In addition, you have to bear other overheads and expenses like Staff Salaries, Utility payments and so on. This has to be properly planned by forecasting the cash flow of each stage. You may consider all numbers in the above example which was taken in the preparation of your budgets.

Successful Business models are having fewer collection days and more days in payment to vendors. However, most of the overheads and salaries are paid after 30 days. Your credit policy should be designed while considering your payments to suppliers and others.

## 4) Online setups

Since COVID-19 hit the world, all of us can witness that how online setups are important. Those businesses which were following the orthodox style of businesses collapsed whereas those who converted to online are surviving. The last two years have changed peoples' thinking completely. They now prefer everything at their doorstep. Small businesses are successful as they are offering their services



online. It seems that most of the physical business will vanish completely. For small businesses, online sale offers a wide opportunity with fixed cost savings. The world is confined to the laptop.

## 5) Customer-client relations

If your customer is loyal, you can be a successful business. The customer wants proper attention. If you treat your client with a warm wish on their birthdays, anniversaries, and on special occasions, they will remember this gesture. This move will make a strong relationship with your client and he will become loyal to you and not shift to your competitor. Customer surveys form can also help retain your customer. You should be prompt to the complaints made by your customer and positively treat them to overcome the issue. These things always help your loyal customers retain and help businesses.

## 6) Your team and you

The owners are grossly engaged in businesses and sometimes they never trust their employees which is not good. There are roles and jobs which need to be done by your team which you have to hire. Many small businesses fail because their owners engage themselves extra-ordinary and do not let their team-mate do the job independently. Clear job descriptions with responsibilities should be assigned and KPIs may be established to evaluate performance. As a leader, you must identify the best performers in your team and reward them. Weak team members should be motivated, trained, and adjusted.

## 7) Proper Marketing and Sales plan

You must have a proper marketing and sales plan for your products. You can make the best use of the social media marketing tools which could help you to outreach the target audience at a minimal cost. This leads to building your sales plan that includes the product or service mix, Sales price, and credit period of the product. You can find new buyers through proper marketing as you can entice them with better social media marketing advertisements. Some psychological tricks in form of jingles, or humor can also be used to attract customers. The marketing cost should be a part of the business plan.



## 8) Risk Management

Most businesses fail due to not anticipating and taking cognizance of future business risks. Before COVID-19, no one has ever thought that businesses like food, education, barbershops, petrol pumps, and so many other common businesses will face huge problems and will be closed down in months due to this situation. Particularly small businesses should oversee all businesses risks and their solutions in advance. For Instance, if any small business is offering services in foreign currency, they should consider in their mind that this could lead to problems in case any currency exchange fluctuation happens. This could be in, either way, i.e. negative or positive. Another example can be that if any business is dealing with fuel as its raw material, it could face problems, in case of a sudden surge in fuel prices. Risk management is so crucial for small businesses and they must plan these risks properly to avoid failure.

## 9) What-If Analysis

A successful businessman deals and manage his operations in all circumstances. Planning does not mean that you are going to face everything as you planned. You have to manage various things in different scenarios which you never thought. You have to be prepared for any contingent execution in case you face any unusual situation. Problems always bring some solutions and you have to think positively, be strong and trust yourself. A strong person can convert small businesses into big ones if proper actions can be taken timely.

You should also make what-if analyses while preparing budgets by asking a question and making the calculation on different outcomes. For example, if sales targets are met up to 80% what would be the results, and if expenses exceed 20% what would be its impact on profitability and cash flow and so on. Each segment should properly be analyzed so you will deal with all sorts of challenges immediately.

## 10) Mixing personal expenses with Business

One common mistake committed by small businesses is that they mix personal expenses with the businesses which puts a burden on expenses and cash out-flows. This mistake also adversely impacts the business plan and direction. These personal drawings should not be included in official transactions as they put extra pressure on small businesses which themselves are limited in resources.

## 11) A different approach

Uniqueness is always noticed by people. If you are different and creative from others, your chances are high to get succeeded especially, if you are doing a small business. Think differently but positively for your business. Offer something free which attracts your customer and provide quick support. A common question is that why anyone comes to small business leaving big giants? Put yourself in the customer's shoe and see if you will accept this product? Being a starter and small you have advantages of experimenting with things which is not the case when you are associated with any brand.

## 12) Legal impact

One of the problems with small businesses is that they do not look-into legal aspects in detail. There are a lot of legal compliances which must be made. For example, if you are doing any restaurant business, it must comply with the food quality standard otherwise you can be penalized.



Small businesses also need to understand what taxes could impact their business. For example, some businesses have to include Sales tax in prices. Similarly, withholding taxes deductions are to be treated by various businesses. Some of the sections of tax laws say that you have to add withholding taxes while preparing invoices. The story does not end here. You have to file proper returns, deposit money on time otherwise you may be panelized by law agencies. Similarly, various social security laws should be considered in mind while starting any small business.

## Conclusion

It is a common perception that doing small business is much easy which is a wrong perception. A proper business plan can lead a startup to a successful business enterprise. The points raised in this article can make all small business models successful and they can come big business soon. There are many success stories in the country as well as across the globe that can be read and followed by small businesses.

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- 9) **Mingling business and personal finances:** Maintaining a single account of your business and personal finances is troublesome. Financial issues arise in managing business assets and personal assets.
- 10) **Poor Marketing Plan:** If your marketing plan doesn't effectively incorporate two crucial marketing tools i.e. Push Marketing and Pull Marketing, you may encounter the consequences such as low customer volume; drop in sales; intense budget problems; losing potential customers, and even business closure.
- 11) **Aligning with Changing Needs:** Businesses that do not keep pace with changing needs can never gain a competitive market advantage and may in the long run lose their influence within the industry. For example, by not adapting to new technology, you cannot remove process inefficiencies; and by not giving priority to customers' preferences you can face a drop in sales.
- 12) **Not hiring new talent:** Because of a lack of funds, small business owners cannot hire new talent despite the need. They are, therefore, not able to explore business markets, competitive and eventually expand their share in the market.

### How Small Businesses can overcome Financial Challenges

Financial challenges are significant concerns of almost all small businesses. Overcoming these challenges requires a thorough analysis of the business process and identification of the main problem that causes the crisis. Identifying and eliminating one big financial obstacle is key to the survival and growth of the business. It is imperative to take immediate corrective action when the root cause is identified. The financial crisis arises due to Internal or External Factors. The Internal Factors include poor cash flow management; insufficient capital, and poor marketing plan; whereas, External Factors include: a weak economy, natural disasters such as calamities, and pandemics. Some possible ways to overcome these challenges are provided below:

- 1) **Review of Business Plan:** Improvement is a continuous process. If your business plans are not working effectively and operational outcomes are not profitable, then you must review the business plan and analyze the flaws and weaknesses that need to be removed.
  - 2) **Make a Budget:** After reviewing your business plan, you must prepare a detailed budget that incorporates a realistic revenue forecast, an estimate of expenses, and provision for unexpected expenditures. Budgeting will help you to plan and manage business finances and control spending. The savings to come be utilized for investment.
  - 3) **Develop a Cash Flow Statement:** A cash flow statement is one of the most crucial financial statements for efficiently managing your business accounts and
- finances. It equips businesses with a clear picture of the availability of net cash at the end of each month and helps business owners to determine whether they need to borrow cash or have enough cash to run day-to-day business operations smoothly. Moreover, a cash flow statement is also important for creditors and investors in evaluating the potential of the business.
- 4) **Generate Positive Cash Flow:** After creating a budget and developing a cash flow statement, you have a clear guideline to generate positive cash flow. For this, you should focus on increasing revenue and reducing costs by increasing customer base, avoiding an unnecessary build-up of inventory, boosting sales efforts, offering discounts and using push and pull marketing tools, and implementing a competitive pricing strategy. Positive cash flow is an indication of an increase in liquid assets and enables business owners to meet current expenses, re-invest in the business, attract potential investors, pay-back to the investor, and meet future financial challenges.
  - 5) **Practice Life Cycle Costing:** Life Cycle Costing (LCC) is a vital tool in making the right purchasing decision for an asset. Poor purchasing decision negatively impacts your business which leads to business loss and financial burden. Always practice life cycle costing before purchasing new assets which include initial investment and all other future expenses like additional investments, and recurring costs that will be incurred over the lifespan of an asset. Use of life cycle costing can help you in realistic budgeting, product pricing, and right decision making.
  - 6) **Sell Assets not in use:** If your business is no more using some of the assets, those must be disposed of. This step will improve cash flow, and your financial position will be further strengthened.
  - 7) **Focus on Financial Reporting:** By adopting Financial Reporting methods, you can ensure real-time tracking of the accounts of your business that may help in making accurate and timely decisions. It would provide a clear picture of the financial situation and improve your debt management which is beneficial to the business.
  - 8) **Acquire Skills to grow business:** As a business owner, you must understand the marketing functions and changing business needs. You must focus on potential customers' perceptions about your Products or Services. To maintain your influence in the industry and to gain a competitive advantage in the market, you should adapt to changing needs of your business. Hiring new talent is key to maintaining the share of your business in the market.

**About the Author:** The writer is an entrepreneur, having more than thirty years of experience both in the Supply Market and Demand Market. He has completed his M.Sc. in statistics from the Karachi University and MBA (Marketing) from IBA Karachi.



# SMEs – Engine of Economic Growth

Everyone faces challenges in life. It's a matter of how you learn to overcome them and use them to your advantage.

Small and Medium-sized Enterprises (SMEs) are the firms that have limited business activity. Commonly, SMEs are startup companies or already operating companies with limited financing. They are non-subsidiary, independent firms that employ less than a given number of employees that vary from country to country. A small Enterprise (SE) is defined as a business entity which does not employ (including contract employees) more than 20 persons and annual sales turnover are up to Rs.75 million (Source: SBP Prudential Regulations for Small Enterprise Financing -Chapter 2). In Pakistan, the Small and Medium Enterprise Development Authority (SMEDA) looks after SMEs.

## SMEs as Engine of Economic Growth

The SMEs sector is the backbone of Pakistan's economy and plays a pivotal role in economic development. It is fair to say that Pakistan is primarily an SME-based economy as 90% of businesses are engaged in Small and medium enterprises which contribute a major share in the national GDP and also employ a large segment of the labor force. SMEs are also exporting a large basket of products to many countries and earning valuable foreign exchange for the country.

## SMEs Misgivings

The Small and Medium Enterprises (SMEs) in Pakistan have to face a host of both internal and external challenges & obstacles.

**Internal obstacles** include lack of entrepreneurial skills; low level of capacity and capability; outdated production facilities; incompetent workers and management; improper accounting records, high cost of operations, and weak financial structure, etc.

**External obstacles** cover poor infrastructure; insufficient energy and power; frequent load shedding and unreliability of power supply, power theft; extensive corruption; abrupt exchange rate fluctuation; mini budgets; dynamic and turbulent inflation rate, inconsistent government policies; risks of venture failure and the ability to service their loans properly; lengthy and tedious judicial system, etc.

## If opportunities don't knock, build doors

It is unrealistic to expect that the gaps can be addressed fully and adequately. There is a lot to be done to go towards the best practice in each of the policy areas. It is best to view the Index as a mechanism for a step-by-step process of improving the policy and institutional environment as well as setting targets and timelines.

## Promotion of entrepreneurial education

There is a need for streamlining and incorporating entrepreneurial education into the education policy and curricula of academic institutions. Entrepreneurial education

also needs to be integrated with human resources development, skill development, and upgrading of programs as a core part of the national development strategy.

## Providing a business-friendly regulatory environment

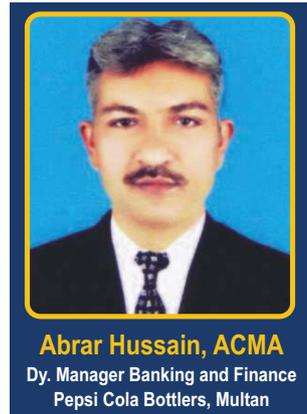
Short time and low costs required for registration, completion of all processes to enter into operation, coupled with one-stop-shop services and proper regulatory impact assessment make the start-ups more productive for SMEs.

To facilitate the financing needs of SMEs, the government should promote awareness of the role of credit bureaus in facilitating the loan application process. Commercial banks should have a vivid way forward enabling/promoting SMEs to obtain a loan by keeping fair and clear a few accounting records. Proper disclosures by SMEs will minimize the risk of individual and institutional investors. Pakistan should realize the importance of SMEs development, especially, for employment. With provincial consensus, Government should announce a transparent policy for the promotion of SMEs. SMEDA and TDAP must be armed with competent and on-merit HR, updated equipment, and necessary infrastructure for the growth and development of SMEs.

There is a dire need to adopt the advance financial mods of financing so that entrepreneurs may have a vast range of choices to get finance. In a country like Pakistan Islamic modes of financing is of great importance. The financing modes provided by Islamic banks are divided into two broad categories: Profit-loss sharing, i.e., Musharakah and Murharabah principle of cost-plus, or profit-margin participation, i.e., Murabahah, Ijarah, Salam, and Istisna. Generation of profits not only comes from amounts and compositions of financing modes but also from bank management behavior which is of the highest importance.

I conclude with the wonderful statement that says "Challenges are what make life interesting. Overcoming them what makes it meaningful".

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# Financial Endurance and Way Forward for Small businesses

Self-employment in the present decade is something the majority of us are dreaming of as it provides us with a sense of independence. Moreover, an uncertain environment during the pandemic had made this more promising and sustainable for generating finances. Online businesses and digital marketing have heightened the capability for people to develop multiple income streams to have diversification in income generation.

Entrepreneurship seems promising but to master the art is something separate and needs attention. There can be many challenges associated with entrepreneurship such as government regulations, hiring quality people as employees, and a lot. As per US studies, these are the problems that can arise for small business owners.

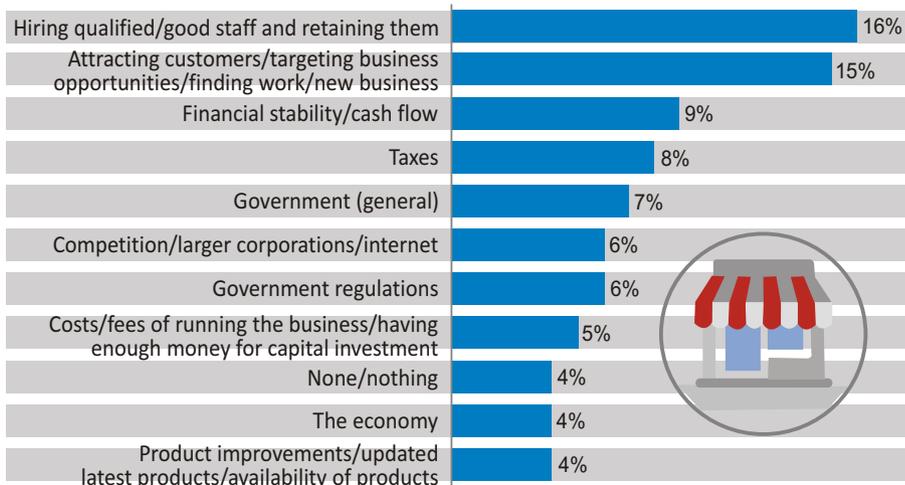
For financial institutes, it is best to lend under such promising and viable projects that can generate a positive return going forwards. This would be beneficial for both sides; first, it will benefit the business owner as his difficulty to raise finance is now abolished; second, for the financial institute, it will become easy to recover the finances that



were lent to the struggling yet good quality entrepreneurs. Much of the literature is focusing on studying the challenges at hand for small businesses, the resistance or the hurdles they may face in the field of business hurdles being faced in raising finance; and how variation in finance constraints can affect the entrepreneurship rate being experienced.

## Attracting New Business is a Top Challenge for SMBs

U.S. small business owners' assessment of their biggest challenge in 2019



603 small business owners in the U.S. were interviewed over the phone between January 9 to 15, 2019 for this survey.

@StatistaCharts Sources: Gallup, Wells Fargo



Among these challenges, the biggest and inevitable one is managing finances. Surveys have suggested that entrepreneurs at many stages in growing and developing their business have faced resistance to generate funds or to generate sufficient access to the capital has remained one of the biggest challenges for the entrepreneur in their journey. Entrepreneurs with innovative ideas in mind such as how to keep the net present value of the project in hand positive thus making the project viable for the long run.



assurance that they will get the principal amount in a limited time. Uncertainty makes the banks to be less likely to lend to people owning startups. Bertrand et al. (2007) finalized that the banking sector considers it less feasible to bail out firms that have poor performance in the market after banking reforms introduced by the French in 1985. As a result, the firms of French were intended to restructure that were relying on financing through banks.



The sustainability of the business is what matters in the long run. Generally, it is seen that to create and maintain a business empire even for small businesses is a tough nut to crack as it is evident from the sources of Bloomberg that among 8 out of 10 companies fail to sustain and stay in the business within the first 18 months.

There is a bundle of challenges related to capital management and proper allocation during establishing a small business. The first and foremost challenge arises when people cannot differentiate between personal and business finances. In most cases when business is in the initiation stage, entrepreneurs add in their capital for the growth of the business. As per Clutch Survey, around 23% of companies practice amalgaming personal and business finance as they face challenges in running an enterprise.

The second challenge is the limitation of the cash flowing in the channels of business or even if it is adequate, to streamline the cash flow in a particular time is what is considered important for the sustainability of the business. Enterprises generally manage finances by focusing on the cash to cash conversion cycle as it keeps the availability of cash at hand and cash flows stay manageable especially in small business setups.

The third biggest challenge is the unavailability of proper budgeting techniques to define and allocate resources is very important while running a business. Entrepreneurs entering the business world need to understand that business is an entity and cannot be treated carelessly when it comes to planning. The owners of enterprises generally have very well-defined goals that where they want to see their business in three to five years but they lack in the planning portion. Deciding milestones for growth is really important for business.

Fourth challenge is the lack of availability of finances for emergency usage. In economics, there is a motive for holding money that is called precautionary motive where money is kept for emergency use, the same is needed for business where unforeseen events can be just around the corner.

The fifth challenge can arise for people who have taken loans from people and from banks to establish their business empire. Accumulation of business debt over time will increase the interest rate and hence repayment pile will be increased so this can be challenging at the time of payback. Excess accumulation can be sorted out by consolidation of loans into a single payment that will help in the reduction of monthly interest payments. Further, selling excess or unused equipment can also generate cash and aid in the business setting.

Unavailability of mandatory processes can also grow and lead to nexus of challenges that can become strong with time so to avoid that or if a person is already surrounded by them, to cope up with challenges thrown to the emerging business, certain strategies can help to minimize the potential financial risk of future. The very essential one is bookkeeping, which is maintaining records of all the

transactions done insider the business entity. This helps in tracking the company's performance, keeping a record of whether the business finances are aligned with the budget allocated. For bookkeeping, a proper accounting system is also needed to track the transaction on a cash or accrual basis. Further to track every entry, preparation of reports and preparation of financial statements can help and ease the monitoring position of the company. Similarly, managing cash flows is important as well through recording cash inflows and outflows, monitoring cash flow gaps and backup management system to cope with and fill the gap, defining channels of cash in case of shortage for revenue generation and amount of inventory the business should have in hand are basics to keep on a check to avoid any emergence of challenges related to financing for the business.

### Invest in growth

It is a famous saying 'Don't put all your eggs in one basket' which implies that we should be highly focused on diversification. Now the question arises that why do we need to diversify even when we want to establish our own business? The answer to this is very simple, to create a backend setup for finances. As a business owner, people spend all of their savings and whatever they own to enhance their business but even that proves to be insufficient that can lead to chronic shortage and bankruptcy. To avoid that what we do is to invest somewhere from where one can generate returns or profits regularly. The earned return can be saved or spent on the business as per need but this can help a business thrive and elevate its health even for the coming future. Investment in growth-oriented projects can help employees motivate to work, customers to believe in the company that it is motivated to stay, and to invest in projects that have a future.

### Solutions

These challenges can be addressed by considering some remedies or solutions that can help either to avoid such problems before emergence or to nullify them after arising in a future stage of business growth. It is essential to understand that the people who own SMEs are not those who are accounting wizards and it is not any hard requirement to be one but what is of foremost importance is that they must have expertise in managing finances. As per Richard Weinberger, having the basic knowledge about managing finances is what is considered crucial for businesses. Lack of this art makes most of the business make less profit and then ultimately to an end. Moreover, financial management is what every household practices as well so extrapolating the skill in a new setting on an enhanced scale with regular exercise of monitoring and bookkeeping can help startups to grow more wisely.

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# Small Business Management

**S**mall business management refers to the process of aligning and coordinating all aspects of a small business, whether it is managing employees, suppliers, business finances, roadmap, or performing daily tasks. Managing a small business presents some unique challenges for the owner.

Small businesses include a diversified range of enterprises dealing in health care and social assistance; accommodation and food services, arts, entertainment, and recreation; personal trainers, site-building and web design, local auto repairs, secondhand (online) stores, etc.

Let us now discuss some key challenges being faced by small businesses.

Firstly, majority of small companies struggle with managing cash flow. It is important to have sufficient cash to sustain business and also to invest for future growth. There is need to factor in contingencies industry changes, economic downturns, customer shift, and use scenarios to develop a realistic financial plan. Scenario planning is on the top-priority list of many companies now-a-days to avoid the unprepared situation such as the pandemic that we witnessed recently.

Secondly, a budget should be a living document and you should regularly update your budget to reflect current circumstances and use it to make good business decisions.

Thirdly, unforeseen expenses can derail any small business's best-laid plans and therefore you must have a dedicated account in which you build up a reserve amount of money to be used in times when regular income is disrupted or decreased.

Fourthly, small businesses must be fully cognizant of their credit score. According to Nav's Small Business American Dream Gap Report, 82% of all the business owners surveyed did not know how to interpret their companies' credit scores. The research also shows that individuals who have a better understanding of their business credit scores are 41% more likely to be approved for a loan.

Entrepreneurs are rightfully proud of bootstrapping (the process of starting and developing a business by using a lot of effort and no investment by outside owners) their way to success, so it is not unusual for business owners to take on doubt to launch their businesses. Whichever debt vehicle was tapped into these situations, can have a significant short and long-term impact on the company.

Accurate reporting is crucial when filing forms required by local, provincial and federal tax authorities and potentially other governing bodies, depending on where your business is located. Some small business owners create reports based on data retrieved from spreadsheets and receipts, while others use automated, accurate financial statements. A modern financial reporting solution delivers real-time financial analysis and modeling across every dimension of your business for detailed insight into corporate performance and improved decision-making. The suppliers, landlords, and utilities want to get paid on time and while the occasional late payment may be overlooked, consistently remitting payments late can cost a small business dearly. Damaged supplier relationships being

cut off from need services and constantly running behind the debt eight ball can all have a profound impact on a company's financial health.

A credit system is used by lenders to gauge the creditworthiness of potential borrowers. The system weighs the capacity and credibility of the borrower and conditions of the loan, attempting to estimate the chance of default and

consequently the risk of a financial loss for the lender. Capacity measures the borrower's ability to repay a loan by comparing income against recurring debts and assessing the borrower's debt to income ratio. A large contribution by the borrower decreases the chance of default. Even special mortgages designed to make home-ownership accessible to more people such as loans guaranteed by the Government and other financial institution for example House Building Finance Corporation charges some additional markup.

Collateral can help a borrower secure a loan. It assures the lender than if the borrower defaults on the loan, the lender can get something back by repossessing the collateral.

The conditions of the loan such as the interest rate and amount of principal influence the lender's desire to finance the borrower. In addition, the lenders may consider conditions that are outside of the borrower's control such as the state of economy, industry trends, or pending legislative changes.

## Conclusion and Way Forward

Small business enterprises or SMEs play a critical role in the economic growth, progression of technological innovation, sourcing to large-scale and cottage industries, reducing poverty and promoting economic renewal and social development. Small businesses are facing unprecedented challenges. The banks and policymakers need to make sure to create a clear and credible set of guidelines for businesses. They can eliminate uncertainty about getting a loan and offer clarity about rules surrounding loan forgiveness.

At the same time, the small businesses must ensure that they are doing the best to navigate the current crisis. Owners and managers of small businesses must act with a sense of urgency and with prudence. By taking steps to avoid such mistakes and by thinking through the broader set of levers available right now, it is possible to navigate this complicated situation arising from the pandemic.

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# The Internal Audit Framework

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

[The Institute of Internal Auditors, USA]

The definition of internal audit provides comprehensive guidelines for the framework of internal audit. It should always be kept in mind while internal audit work is being carried out. It helps in devising the complete internal audit approach.

## The main objectives of Internal audit are:

The prime objective of internal audit is successful operations of a business organization through:

- ◆ Checking the adequacy, efficiency and effectiveness of the whole control environment,
- ◆ Advising at an early stage in the implementation of any system developments, amendments to processes, making recommendations in the formation of policies, procedures and controls, and
- ◆ Noting deviations from the organization's policies, procedures and controls and recommending actions to mitigate the risks arising out of such deviations,
- ◆ Ensuring effective discharge of the responsibilities of all workers for achieving the organizational objectives.



## Secondary objectives include:

- ◆ Making sure that the organization's values are preserved
- ◆ Ensuring that rules, laws and regulations are complied with
- ◆ Evaluating that financial statements and other information are accurate and reliable
- ◆ Reviewing human, financial and other resources are managed efficiently and effectively
- ◆ Examining that a wider anti-fraud and anti-corruption framework exists for a company
- ◆ Checking that feedback and feed-forward controls are in place

## Types of Internal Audit

The following are the types of audits that are included in the framework of internal audit:

- ◆ **Compliance audit:** To ensure compliance with rules, regulations and laws applicable to a company.

- ◆ **Operational audit:** To ensure the efficient and effective conduct of operations of a company.

- ◆ **Information system audit:** To ensure the proper functioning of the information system throughout the life of a business.

- ◆ **Performance audit:** To ensure the efficient use of resources to obtain the objectives of a company.

- ◆ **Environmental audits:** To ensure compliance with the environmental laws and regulations.

- ◆ **Special assignments** relate to investigations on fraud and corruption, or any other special service with the approval of the board.



Ahmad Tariq Bhatti, FCMA



## Independence and Objectivity

The internal audit activity must be free of interference from any influence that hinders the progress of work, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.



Internal auditors should have no direct operational responsibility or authority over any of the activities under audit.

Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by any interest in forming the judgments.

Chief Audit Executive (CAE) should confirm to the board, at least annually, the organization's independence of the internal audit activity. The approved internal audit charter and a competent audit committee may protect the independence of the internal audit activity.

### Code of Conduct for the Internal Auditors

As per the code of conduct framed by the IIA, USA for the internal auditors, all internal auditors are required to follow the principles of integrity, objectivity, confidentiality and competency during the conduct of their work.

### Assurance and Consulting Activity



Assurance services are the services that improve the quality of information about the processes, effectiveness of controls, reliability of the information, compliance with the statutory framework, and efficiency and effectiveness of the operations being carried out.

Consulting services mean that apart from highlighting problems, internal auditors provide quality solutions to the problems. It is very much a value-adding service.

- ◆ Internal auditors do not implement their recommendations. Implementation of solution alternatives is the sole responsibility of the management. The internal auditor's powers allow them to make recommendations only.
- ◆ The internal auditors should have a mechanism in place to monitor objectivity in every assurance and consulting activity. Prompt actions must be taken to prevent the potential loss of objectivity.
- ◆ The internal auditors should review the potential loss and impairment to their independence during and after the audit work, by any action of the management.

### Role of Internal Audit in the Governance Process

Management is primarily responsible for overall risk management. Internal audit activity assesses risks embedded in all functions across all departments of a company and recommends controls to mitigate them. The purpose is to eliminate and mitigate all risks in the system. The successful elimination of all risks ensures the efficient and effective accomplishment of business plans and guarantees business success. Management has a key role to play in the development and implementation of the control system. The assessment of the risks by the internal auditors provides refinement to the process of control systems. The reinforcement of controls upon the recommendation of the internal auditors helps a company in improving the effectiveness of risk management, control system and governance process.

### Audit Committee

An audit committee is an arm of the board of directors, generally comprises of 3 to 5 members of the board, with a chairperson selected from among the committee members. The members should be board members and outsiders i.e. the individuals who are neither employees nor part of management.



The audit committee has oversight responsibility for internal and external audit functions. The audit committee acts as an independent check on management and helps the external financial statements' users in assuring that the financial statements accurately portray the business activities of a company. And that an effective internal control system is in place. Further, all laws and regulations are complied with by the company.

### Authority of the Internal Auditors

The staff of the Internal Audit Department reports to CAE who reports to the Audit Committee or the board directly. CAE has full and free access to the audit committee or the board for discussion and resolution of all matters and issues about his work.

For **administrative purposes**, CAE may report to the CEO/GM, but for **functional purposes** shall always report to the audit committee or the board directly.

#### Internal audit is fully authorized to:

- ◆ Have complete and unrestricted access to records, personnel, and physical properties and assets relevant to the performance of internal audit engagement.
- ◆ Delegate duties, allocate resources, select team, determine the scope of work, budget time and cost, and select required techniques and procedures to accomplish objectives of the audit.
- ◆ Obtain the necessary information from the audited company staff and other specialized services within or outside the organization.

#### Internal audit staff is not authorized to:

- ◆ Perform operational duties for the company under audit.
- ◆ Initiate or approve accounting transactions external to the Internal Audit Department.
- ◆ Direct the activities of any department's employees not employed by the Internal Audit Department, except those who have been assigned to assist the audit team.

### Responsibilities of the Internal Auditors

CAE normally performs the following responsibilities:

- ◆ Provide periodic information on the status of the annual audit plan and the sufficiency of the Internal Audit Department's resources.



- ◆ Present a periodic (say monthly/quarterly) report to the audit committee.
- ◆ Assess the reliability and security of the information produced from the financial, management, and operations' system of the company.
- ◆ Assess the means of safeguarding assets and resources.
- ◆ Provide an annual assessment on the effectiveness of the company's controls in managing all risks and activities. Identify and assess potential risks to the operations during a particular year.

Review the adequacy of controls established to ensure compliance with policies, plans, procedures, management guidelines, and business objectives.

- ◆ Review established procedures and systems and propose improvements.
- ◆ Appraise the use of resources concerning economy, efficiency and effectiveness.
- ◆ Follow up recommendations to make sure that effective remedial or corrective action is taken.
- ◆ Carry out appraisals, investigations, or reviews requested by the management.

**CAE** and staff of the internal audit department have the responsibility to:

- ◆ Develop an annual audit plan based on comprehensive risk assessment, including the risks identified by the management.
- ◆ Submit the annual audit plan to the audit committee or the board for approval.
- ◆ Implement the annual audit plan as approved, including special requests by management.
- ◆ Issue periodic reports to the audit committee summarizing the results of the audit.
- ◆ Coordinate with and provide oversight of other controls and monitoring functions related to risk management, compliance, security, ethics, and environmental issues.
- ◆ Assist in the investigation of suspected fraudulent activities within the organization upon request made by management.
- ◆ Consider the scope of the work of the external auditors and regulators to provide wider audit coverage.
- ◆ Consider the scope of work required of external service providers or consultants.

### Control Environment

The philosophy, attitude and actions of the board and management regarding the importance and existence of a control system within the organization defines the control environment.

The control environment provides the discipline and structure for the achievement of the objectives of the system of internal controls.

The control environment includes the following elements:

- ◆ Integrity and ethical values,

- ◆ Management's philosophy and operating style,
- ◆ Organizational structure,
- ◆ Assignment of authority and responsibility,
- ◆ Human resource policies and practices, and
- ◆ Competence of personnel.

External auditors consider the internal audit framework as a component of the control environment.

### Fraud Deterrence

Managing the risk of fraud and corruption is the responsibility of the management. Audit procedures alone, even when performed with due professional care, cannot guarantee the detection of fraud or corruption and illegal practices.

**Internal auditors** do not have responsibility for the prevention or detection of fraud and corruption. **Internal auditors** will, however, be **alert** in all their work to the risks and exposures that could allow them to find fraud or corruption. They will exercise their efforts to unearth any fraud if such risks are found during the risk assessment process or a piece of evidence is found during the conduct of the fieldwork.

Internal auditors may be requested by the management also to assist in fraud examination work if any evidence or risk of fraud is noted by them.

### Scope of the Internal Audit Work

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal process as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives.

The scope of internal audit generally includes the following:

- ◆ Evaluating the reliability and integrity of information and the means used to identify, measure, classify and report such information.
- ◆ Examining the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations that could have a significant impact on the organization.
- ◆ Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- ◆ Checking the effectiveness and efficiency with which resources are employed.

### Internal Audit Charter

According to the internal audit standards given by the IIA, USA, the purpose, scope, authority and responsibility must be mentioned in an internal audit charter.

A typical internal audit charter outlines the following information:

1. Mission
2. Scope



3. Responsibilities of management
4. Responsibilities of internal auditors
5. Relationship with external auditors
6. Status of internal auditors
7. Authority of internal auditors
8. Reporting
9. Conclusion



The internal audit charter must be reviewed periodically (normally every year) and should be approved by the board or the audit committee. It helps a lot in the conduct of fieldwork. For all special assignments, approval should be taken from the board separately. If additional resources are needed to perform such a special assignment, intimation must be sent to the audit committee for approval before the start of the work. If the cost budget is revised because of the special assignment, it should also be intimated to the reporting authority i.e. the audit committee or the board.

### Annual Audit Plan

In cooperation with the senior management, perform the following:

- ◆ Conduct a preliminary risk assessment by utilizing a group interview of the staff.
- ◆ Gather top management input on the preliminary risk assessment.
- ◆ Prepare a Draft Annual Audit Plan based upon the results of the risk assessment process.
- ◆ Obtain the formal approval of the audit plan by the Audit Committee or the board.

This plan will be subject to review during audit work to ensure that the focus continues to be on the higher-risk areas. In addition, the need to conduct special assignments requested from the Audit Committee and senior management may also require the deferral of planned audit work. Additional work may require additional staff and the help of a specialist or a consultant coming from outside the company.

The approval of the audit committee is sufficient, however, where no audit committee exists, approval of the board should be taken.

### Communication of the Internal Audit Plan

- ◆ Distribute the annual audit plan to senior management.
- ◆ Keep senior management informed of all changes made to the annual audit plan.
- ◆ Ensure that management is informed about the internal audit work at least a month before starting the work.
- ◆ Note that special assignments may require different procedures involving little or no notification to management.
- ◆ If there is any special assignment going parallel with the normal audit work, intimation should be made about the time frame for the completion of the special assignment to the Audit Committee and management.
- ◆ If there is a need for additional persons in the team because of a special assignment, a requisition must be raised at the most appropriate time.

### Planning

- ◆ Evaluating operations or programs to ascertain whether results are consistent with the established objectives and goals and whether the operations or programs are being carried out as planned.
- ◆ Monitoring and evaluating governance processes.
- ◆ Monitoring and evaluating the effectiveness of the organization's risk management processes.
- ◆ Evaluating the quality of performance of the external auditors and the degree of coordination required with internal audit work.
- ◆ Performing consulting and advisory services related to governance, risk management and control as appropriate for the company.
- ◆ Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance related to its plan.
- ◆ Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- ◆ Evaluating specific operations/activities/processes at the request of the board or management, as appropriate.

### Perform Audit Fieldwork



- ◆ Carry out fieldwork as approved and indicated in the annual audit plan.
- ◆ Obtain cooperation from the management and the staff as necessary to identify, obtain documentation and conduct interviews, etc.
- ◆ Conduct fieldwork with minimal disruption to the operations of the company being audited.
- ◆ Build a friendly environment with the management.
- ◆ Agree on a time for meetings with the staff and meet them on the agreed time only. However, extraordinary circumstances may require unscheduled meetings also.
- ◆ Give reasonable time to the staff for the resolution of queries related to the internal audit work.

## Risk Assessment, Management and Control

Internal audit has a responsibility to cover financial, operational, information system, legal/regulatory and all other risks that may have a significant impact on the business of an entity.



### Risk Management Process

#### 1. Risk Identification

This is the stage where all kinds of risks are identified. Common risks are legal risks, operating risks, environmental risks, market risks and regulatory risks, etc.

Following are the ways through which these risks are noted.



- ◆ Expert interviews with the management personnel and the staff
- ◆ Risk assessment meetings with the relevant persons
- ◆ Review of previous risk assessment working papers by the internal audit department
- ◆ Filling detailed questionnaires for adequate existence of internal controls
- ◆ Ensuring the appropriateness of these questionnaires in alignment with the operations of the company
- ◆ Carefully review the results of internal audit questionnaires and mark red flags where serious control violations are found
- ◆ Reviewing management working papers for risk assessments made by them
- ◆ Reviewing system descriptions available from management and available manuals for operations, financial controls and accounting and noting down risks, weak controls or absence of controls

#### 2. Risk qualification and prioritization

Once risks are identified, it is important to determine the probability and impact of each risk on the efficient and effective conduct of the business activities. Risks that are more likely to occur and have a significant impact on the business will be the highest priority risks while those which are more unlikely or have a low impact will be a much lower priority. This is usually done with a probability/impact matrix. Once the risks are assigned a probability/impact and placed in the appropriate position on the chart, the auditor moves the process to the next step of risk monitoring.

#### 3. Risk monitoring

Normally, each control is assigned a number say 1 to 5, 1 is showing the lowest strength and 5 showing the highest strength of control. Internal audit assigns these numbers to each control. And after all, controls are marked with these numbers, then an average is taken by adding all numbers and dividing them by the number of controls. The number obtained defines the overall strength of the set of controls being examined. Based on the overall strength of the controls, the extent of work is calculated.

#### 4. Risk mitigation and avoidance

Once risks have been qualified, the internal audit team must determine how to eliminate those risks which have greater probability and impact on the business operations. This stage explains the considerations which must be made and the options available to the management in mitigating and avoiding these risks. The internal auditor shall exercise his judgment as to how he can eliminate the risks identified during the process. After the examination is completed, he shall recommend management in writing to follow certain procedures that shall ensure the elimination of risks.

### Reporting Audit Results

- ◆ Share important and sensitive findings with the responsible managers immediately upon verification is completed; short memo reports may be issued in this process of communication.
- ◆ Make notes of the comments and responses of the management and personnel on all observations discussed with them.
- ◆ Prepare a first draft of the final report and discuss it with responsible managers immediately following the completion of the fieldwork.

### Finalize Audit Work

Schedule an exit meeting after management has received the first draft of the audit report; this meeting will provide the opportunity for management to discuss findings, conclusions, and recommendations with the auditor.

## Difference between Internal and External Audit

Internal audit	External Audit
Internal auditors are appointed and removed by the management of a company at any time.	External auditors are appointed and removed by the shareholders directly during the AGM.
The scope of internal audit is much broader and covers all risks to a business entity.	The scope of external audit is specified in the terms of reference signed with the company.
The objective of an internal audit is to help management in risk management and add value by creating efficiency in systems and finally obtain the objectives of a business entity.	The objective of an external audit is to report on the truth and fairness of the financial statements by examining underlying records and based on the evaluation of evidence gathered during the work.
Internal auditors report to the audit committee.	External auditors report to the shareholders' representatives, the members of the board of directors. They directly interact with members while sitting in AGM or EGM.
The report of internal auditors is shared with management via the audit committee.	The report of the external auditors is shared with the shareholders and after being published is shared with the public, in the case of a listed company having share capital from the public.

During or immediately after the exit meeting, internal audit requests management to provide their responses to the auditor's findings and recommendations, either in writing or in sufficient detail for the auditors to capture them and reduce them to writing in the final draft report.

### Review Final Audit Report

Send a final draft of the audit report to the management and discuss suggested changes by them. After processing changes, issue the final report to the distribution as indicated on the cover letter to the report.

All reports contain an executive summary which provides in a short form the observations, risks, recommendations, management responses, and the auditor's conclusion of his work.

### The Final Audit Report

- ◆ Issue the final audit report to the management
- ◆ Prepare a checklist of issues to be discussed with the management in the next period audit
- ◆ Write down the comments of the management on the audit report



### Feedback on the Internal Audit Work

After the internal audit work is completed, the internal auditor sends an evaluation survey form to the audit clients. This form is completed and returned to the office of internal audit, to ensure continuous improvement of the audit procedures and increase the effectiveness of the internal audit function. The form is filled in by the companies where internal audit work is outsourced.

### Follow up Review on the Internal Audit Report

Approximately three to six months following the completion of the internal audit work, the auditor conducts a follow-up review to ensure the completion of agreed-upon management

actions and ascertain the status of open recommendations.

The management must take corrective actions to plug all risks highlighted in the internal audit report. The auditor notes down the actions taken on the observations and also notes the issues for which no corrective action is taken.

A follow-up review report is generated annually for distribution to senior management and members of the audit committee.

### Avoid Pitfalls

Richard Chambers, CIA, has shared his experience about the failure of internal audit assignments. He has mentioned 6 main reasons for the failure of internal audits.

They are as given below:

1. Not setting aside **enough time to properly plan the audit work**. **Proper planning** is the glorious road to successful audit work.
2. Trying to audit **too much, be relevant to risk**. Keep one eye on the **relevance of the work** being done with the overall objectives of the audit.
3. Not involving **the client or the audited company's personnel**.
4. Failing to augment the audit team with **"functional expertise"**.
5. Forgetting that the audit should ultimately add value.
6. Forgetting to follow the risks. New risks may emerge during the progress of audit work. Change work plan according to them.

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# Winding up of the Companies - Judicial Prospects

(With essential legislation for companies' survival in COVID-19 Pandemic)

A company concern can be considered as the lifeline of a society and country, as it is an effective tool for employment, livelihood, and wellbeing to its surrounding inhabitants. These entities become the source of economic prosperity, economic infrastructure, production, and services ultimately contribute to the enhancement of national wealth. The prosperity of a company is the prosperity of the wealth of a country and covers industrial health, employment generation, etc. The death of any of these capital-generating entities will certainly have an adverse impact on the socio-economic development of the country.

The death of a company may be compared to the death of a man. When a man dies, he winds up all its affairs of his life and leaves his life. In corporate law, winding up a company means collecting all the assets and liquidating them to make the company cease to work.

Indian corporate law has evolved mostly from the common law jurisprudence and winding up procedures are much similar, hence a critical evaluation of the reforms and development of the principles of legal theory relating to winding up has been taken into account.

This incorporates the principle of natural justice *audi alteram partem* (right of any other person to be heard) and thus weaving of the corporate governance principle into the concept of winding up.

The right given to courts to make a winding-up order has been imported from common law that courts qualify a rule of law when they pass this order on "just and equitable grounds.

Generally, the winding up of the company may be considered in the situation, inter alia, given in the following circumstances if the company:

- Has decided that it should be wound up by the High Court
- Registered as a public limited company more than a year previously but has not yet been issued with a trading certificate
- Has not begun trading within a year of its incorporation or has suspended its trading for a whole year
- Cannot pay its debts



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In addition, it can be said that different shareholders and creditors may be categorized into different classes if sufficient justification exists to connect them (e.g. a class of preferential shareholders). A winding-up petition may therefore be denied by the court on the grounds that it is prejudicial to a particular class of shareholders or creditors. This is to be said in a broader spectrum as practiced internationally.

The court also has the ability to provide alternative relief when it is justified and a genuine insolvency situation does not exist. For example, when the underlying motive for filing a winding-up petition is not insolvency-related, rather it is related to a creditor wanting to take an unfair advantage over other creditors (when the company itself is not insolvent) or to apply pressure on the company to pay debts that are genuinely contested, the court would seek to recognize those underlying motives and deny the winding-up petition using its power under section 314 of the Companies Ordinance 1984.

In the winding-up situation, in many cases, the directors are responsible for the failure of the company and loss of going concern like lack of expertise, lack of knowledge of business, competency, Impractical business ventures, defective agreements, and contracts.

You can act as the director of another company unless you are subject to a disqualification order. A disqualified person must obtain the permission of the High Court to act as a director to be concerned in the promotion, formation, or management of a company. You cannot be involved in another company or business that has or uses a name that is so similar that it suggests that there is an association with the failed company.

It is to be observed that whenever a case of winding up of a running company is placed before a Company Judge or the Appellate Court they should examine such matter differently other than a company which is not in running condition. In this behalf, efforts should be made by the judicial forums to adopt such a device so the project may remain to continue running commercially, so its financial liabilities start reducing gradually. [*Hala Spinning Mills Ltd (2002 SCMR 450)*]



The Honourable Lahore High Court has withdrawn the winding-up order which was passed only because the company was unable to pay its debts, and now has the requisite funds to discharge its liabilities and miscellaneous expenditure. [*National Bank of Pakistan vs. Punjab National Silk Mills Ltd. (1989 MLD 2963 Lahore)*]

The mode of winding up of just and the equitable ground is a concept based on the law of equity developed in England in the 18th century to overall the procedural defects present in the common law system. The object of this law was to provide justice to the people according to fairness and natural law apart from procedural technicalities prevalent in the common law system. Just and equitable ground is a relative term that may vary from case to case and circumstances of the matter, in this way only courts of law are considered the best judges to access the condition,

circumstances, and facts of the case to apply this ground for winding up of a company. It is the sole power of the court to decide that it is just and equitable ground for the winding up of a company.

There is no significant difference in the case of winding up in companies of two laws of the countries i.e. repealed Companies Ordinance and Companies Act 2017. Companies Act, 2017 provides the remedy for filing the petition for winding up if any stakeholder thinks that is a situation that warrants the interference of the court on just and equitable ground. It is the sole discretion of the court to see whether there is sufficient ground for winding up on this ground or not. The court can adjourn the case with or without conditional order for winding up as it thinks fit according to the circumstances of the case.

In the Companies Act 2017 “A company may be wound-up by the Court if the Court believes that it is just and equitable that the company should be wound up. The ground of “Just and equitable” is the product of the law of equity developed in the UK to supplant the procedural defects of common law. Both the systems continued side by side for a long time and after Judicature Act, some principles of the law of equity were included in the common law.

With this background, we can see there are equitable principles present in the English system in the shape of equitable reliefs. These reliefs can only be sought when there is no other relief in general law. It is the power of the court to see what ground constitutes the ground of “Just and equitable” while exercising discretion, this should be exercised according to sound judicial reasoning without prejudicing the rights of parties. So, the court while deciding for issuing the order for winding-up a company on “just and equitable” grounds must be cautious in its handling of the case to avoid any injustice and for betterment for the corporate sector.

Generally, there are two reliefs available to the petitioner. One is a general remedy provided under general law and the other is an equitable remedy provided by the law of equity enshrined in Law by Law of equity. The law commands that in presence of alternative remedy provided under general law equitable relief cannot seek for. So, in case of winding-up, the remedy of winding-up on just and equitable ground petitioner has to satisfy to the court that there is no other alternative remedy available to him according to the Company law in Pakistan. Some examples of Just & Equity in appropriate circumstances are:

- Formation of a company for fraudulent or illegal purposes
- Oppression of the minority shareholders by a majority. The acts of oppression must be a serious and sustained, not isolated act.

- Grounds that would justify the dissolution or where a deadlock has arisen in the management of a company.
- Where a company was formed for a specific purpose, and that purpose has either been attained and complete or can no longer be attained and
- To conclude the affairs of companies which have achieved objectives as set out in Articles of Association

There are three ways that winding-up proceedings can be stopped:

- 1) The court can rescind (i.e., cancel) a winding-up order the company (or anyone else) can apply for it to be rescinded if the Court did not have all the relevant facts when making the winding-up order-application should be made available.
- 2) The company can appeal against a winding-up order as a result of an appeal, the Court can rescind the winding-up order or otherwise vary its decision.
- 3) Liquidation proceedings can stay permanently or temporarily on the application of the liquidator, the Official Receiver, a creditor, or shareholder-liquidation proceedings as stayed permanently, the directors usually regain control of the company- an application to stay the liquidation proceedings can be made at any time after a winding-up order has been made

No doubt the Covid-19 Pandemic highly damaged the global society in segments of life physically and psychologically. This impact continues and nothing can be said about its phase of disappearance from the world. Internationally, some measures are taken by the lawmakers and under the common law either to delay the process of the liquidation or winding up of the Companies or to provide temporary relief as a breathing space for survival.

The Corporate Insolvency and Governance Act 2020 (CIGA or the Act) has introduced new procedures and measures to seek to rescue companies in financial distress as a result of the COVID-19 pandemic and the resulting economic crisis. The restriction was started from March 2020 to 30th September, four-time ended and it is expected that further extension shall be given.

Jessica Williams, Associate Corporate Restructuring & Insolvency of UK has rightly pointed out on 24th June 2021 that the temporary restriction on winding up petitions brought under the law supra to protect the company. The restrictions provide that a creditor may not present a winding-up petition during the relevant period unless it has reasonable grounds to believe that coronavirus has not had a financial effect on the debtors or the debtor would have been unable to pay its debts even if coronavirus has not had a financial effect on the debtors.



Similarly, James Sutherland, Expert in Dispute Resolution from England also opined on 20th September 2021 that the action taken by the legislators and their approach does appear to strike a fair balance between a return to normality and ongoing protection for otherwise viable companies which are struggling with COVID-related debt.

Part 3 of the COVID-19 (Temporary Measures) Act 2020 on Bankruptcy and Winding Up of Singapore Law provides temporary relief for financially distressed individuals, firms, and other businesses by introducing modifications to amongst others, the bankruptcy Act, the Companies Act, and the insolvency, restructuring, and Dissolution Act, 2018 during the prescribed period of 6 months from 20 April 2020 to 19 October 2020. The main features include increasing the period as well as the monetary threshold for suitability for the debt repayment, etc.

Pakistan is already passing through the phase of the financial disaster in public and private sectors; therefore the Legislators, Regulators, Economists, Accountants, Advocates, and Social Societies should proceed with the legislation and develop an economic and financial mechanism and model for maximum sustainability of the companies for the survival and maximum relief to the whole society.

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# Pseudo Change Management

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## Context

In modern times, change is considered so inevitable that every business enterprise believes it must change, without a second thought. Standard formula for change is generally driven by technology interventions followed by changes in visual side of the enterprise: new logo, new color scheme, modern office look, etc. These interventions bring change but in a very confined way. Real change comes when the change program is designed on solid evidence, sustainable commitment of the change agents and that is perceived as a win-win solution by all stakeholders especially employees. Paradoxically, however, many times enterprises move into change program on assumptions and rhetoric narratives. This often times happens when a group of pseudo professionals come to power and begin to impose their stereotype knowledge and half cooked ideas. Generally, their understanding about the enterprise as well as change-dynamics is superficial, limited and deceptive. They actually influence the enterprise by their halo-effect in two ways: First, they force upon the management to start believing that all is wrong and show untrue green-pastures ahead. Second, the solutions they come up with are generally detached from the enterprise's context and reality. Consequently, the enterprise end-up back on square one at the end of the day after spending rather humongous amount of resources. In this short article, I will explore some of the often-ignored realities of ("Pseudo Change Management").

Corporate sector has interest in increasing their profit. So, they invest in change but again the change consultants usually come up with stereotype solutions which are not in line with the organizational context. Usually the entire change management program revolves around alien ideas, mesmerizing workshops and fancy presentations, which finally culminate into reports that are full of rhetoric.

What really happens is that initially a group of pseudo professionals enter in the enterprise as proclaimed champions of change and start talking about initiating change. They very tactfully influence the perception of management: Things are wrong; enterprise is not performing up to the mark; employees are not doing their jobs well; and, most importantly enterprise is losing money. Thus, the enterprise must change and that change would bring exponential gains in terms of competitive advantage, market share, profits, sustainability and what not. In short, they articulately paint a rosy picture that mesmerizes the management and makes them somewhat dissatisfied with their present make them follow their wish list. Initially they manage to bring in expensive consultants, advisers and even employees at hefty remuneration, justifying all this for exponential profit raise in the near future. First, they would scribe a fantastic yet eye catching vision, mission and values of

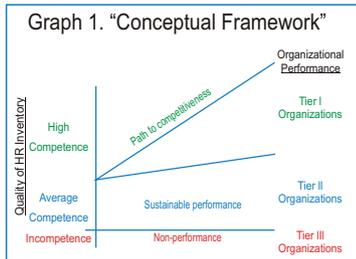
the enterprise. Most of the time it is too much fantastic and never understood by the people at large. Followed by investment in big time technology solutions, whether these are feasible or not for the enterprise. They won't stop here, but would also change the façade of the enterprise to a modern look. Interestingly they manage to create a perception that all this is a sure path to exponential growth and success.

Who and how they lead the enterprise is the decisive factor, how the subject enterprise will respond to these proclaimed change agents? Take an example of National Bank of Pakistan. It was built on sound footings and managed on astute principles during its early times. Consequently, it not only became the soundest bank of the nation in past but also added real value in the economy. Exodus of the old managers and their sound management legacies followed by induction of self-proclaimed forward-looking managers having lack of contextual appreciation, inadequate knowledge base, quick fix approaches and amoral orientation had put the bank at the brink of insolvency. Underneath of modern looks and sophisticated personnel, service standards have deteriorated; and, profits have been wiped off. A similar tragedy was done in Bearings Bank during the times of a young CEO who led the 200 years old sound bank to its collapse. The infused motivation in both enterprises was same; desire for exponential growth in profit while disregarding nature of business and potentials thereof. Examples abound.

Sovereign development agencies often times reach out to govt. organizations and public utilities as change facilitators. They bring in consultants, sometimes international as well, who mostly come with a stereotype narrative for change. Since these organizations are not profit centric and the money is promised by the development agency, they buy the solutions rather quickly but not for any substantial change: Because neither the solution is well carved to the organizational context nor there exists the will to change.

## Linking Change Program to Enterprise Business Context

Conceptually, we can cluster businesses into three tiers, namely; Tier-one, Tier-two and Tier-three. Tier-one businesses are the ones that operate in a competitive market, which offers infinite opportunities for expanding profit margins through diversification, expansion and differentiation of the services (products). Tier-two businesses typically operate in commodity markets. Generally, there is no to little opportunity for diversification, expansion and differentiation of services in such markets hence their potentials to increase profit margins are constrained. Consequently, such businesses are bound to keep their cost of doing business as low as possible to maximize their



profits at the given market prices. Tier-three businesses are the ones which either happen to be in the market that is already defunct or the business itself has structural problems that has made it permanently

loss making. Refer to the graph.

In short, the required rate of innovation and change in competitive markets is a lot higher while a nominal rate of change would suffice in the commodity markets. Third-tier enterprises are rather defunct and loss making. Such are usually fit case for transformation. Paradoxically, however, pseudo change management programs totally ignore the organizations' internal dynamics and market context while introducing stereotype change interventions, only to fail ahead.

### Case in Point

Often times, change program is initiated for a personal motive not really warranted by the situation. Consequently, much is based on normative arguments and a wish list which is literally detached from the ground realities. During a consulting project at a medium sized conglomerate, the author had made first-hand observations in this regard, which he has shared in this article.

The portfolio of existing business of the conglomerate is mostly in the commodity markets with limited to no potentials for expansion of their markets and diversification of their services. Performances are at average and sustainable levels, which is understandable by the fact that potentials for growth and margins in a typical commodity markets are flatter while the profits are maximized through cost-leadership strategies. Typically, it is a tier-two type company: The rate of change in its performance is rather naturally flat and no space for product differentiation hence profits would rather remain at low-end come what may. In this scenario, the viable driving factor for maximizing profits is cost-leadership and operational efficiency.

The incoming MD is an intrinsic-professional, having understanding beyond the rhetoric and follows objective approach. Hence, he is a difficult target for the pseudo change adviser to sell their Monday-bubbles. He is cognizant of the fact that the current portfolio does not require the type of changes the pseudo-professionals are attempting to sell. He knows that the existing businesses require cost-efficient systems and go-getter employees with honest work attitude and average intelligence. Nevertheless, he rightly believes that the conglomerate should add a few strategic star projects in competitive markets: Some are already there and some are in the pipeline. He is cognizant of the fact that these projects would require competitive management professionals not the average ones who are running the businesses in commodity markets, supported with state-of-the-art technologies. Because he knows these are ventures that have potentials to become tier-one companies yielding super-normal profits, hence he is willing to invest in these ventures while committed to maintain the cash-cows in parallel.

### Internal Foes of Change

Presence of internal foes of change make the change management even more difficult target. Employees often

compete with the change agents. They try to weaken management's commitment, storm consultants' findings and recommendations with lame arguments but in a powerful voice only to secure their personal agendas and interests. They usually tend to prevail by their executive power, which the change agents normally do not enjoy. They just do not stop here, but make all efforts to take over the work from the change agents. While the employees have expertise in operations, but in their own interest they proclaim that they can do change interventions. Having no experience and knowledge of conducting change management interventions, they rely on following their whims and copying the concepts, policies and processes from external sources, which ends up into a superficial output that is out of context and does not provide the required solutions. In short, by hijacking the change management from the change agents, employees secure their agendas and interests by producing superfluous output, which is not implementable thus they maintain status quo while pretending that they have made progress.

### Conclusion

Remember! Apples never turns into mangoes. Beware of Pseudo Change Management. Instead, define your change management strategies on the basis of your enterprise context, type of market and its potentials. Considering the example of the subject conglomerate, its existing businesses require economies of scale through cost-efficient systems and go-getter employees with honest work attitude and average intelligence. However, aggressive marketing may not work in its situation; selling may benefit in tapping additional customers at the given price. But for its high-end ventures, it would surely require appropriately sophisticated technologies, competitive marketing strategies and market smart work force. It is arguable that in the competitive market conditions high cost can be compensated with higher profit margins.

The crux of all this debate is that to institutionalize a real change management program, enterprises need intrinsic professionals having sound knowledge base, pragmatic vision and power of informed decision making. On the contrary if the enterprise is overpowered by pseudo professionals its change management program is bound to damage the enterprise more than benefiting it. The pseudo professionals are the ones who bring their halo effect, lack of knowledge beyond few jargons, think fantastically and make decisions on whims all leading to their personal gratification. Beware!

*Here is the brief of my co author **Capt (R) PN Hassan Mukhtar**: He spent his early career in Pakistan Navy, then after retirement he moved to business sector and worked at several key positions. Besides administration he had been involved in change management interventions in a number of companies. He holds Ph D in Engineering and Masters in Business Administration.*

**About the Author: Sohailuddin Alavi** is a practicing management consultant and executive coach for many years. He brings his insights on managing time from the real world of work and validates them from the teachings of the Noble Quran and Prophetic traditions (PBUH). Sohail has a professional qualification in Commercial Banking. Having worked for a commercial bank in the capacity of Management Training Specialist, he moved into Corporate Training and Management Consulting. He writes for the professional journals of the Institute of Bankers Pakistan, Institute of Cost and Management Accounts Pakistan, and Institute of Chartered Accountants Pakistan. He has authored 4 books and many training manuals, business policies, and standard operating procedure manuals.

# TOP TECHNOLOGY TREND



## Digital Skill Gap – Excel & Power BI The Right fit for all



**Syed Hassan Al-Ahdal, FCMA**  
Sr. Management Accountant &  
Corporate Trainer for  
Advanced Excel & Power BI

**B**ig data and analytics present many opportunities for businesses and accountants to derive greater insight, predict future outcomes and improve organizational decision making. The ability to interrogate larger datasets, access new sources of data and undertake more advanced statistical modelling provides opportunities to improve and fundamentally rethink the way that many accounting and auditing tasks are done.

Data analytics managers within the finance function can help businesses utilize and use that data, which requires certain skills. More and more companies are realizing the importance of data analysis and its relationship to improving performance and increasing profits. Excel and Power BI are two of the most popular data analysis applications, but which one is better? Excel, which is part of Office 365 and was released in 1985, is a program known by virtually everyone. Whether or not you are an expert in data analysis and whether or not you work with data, you have almost certainly used Microsoft Excel at some point. The program has the format of a spreadsheet that distributes data into rows and columns and has the ability to perform calculations and mathematical formulas easily and quickly. In addition, like Power BI, it is also used to transform data

sets into visual information. Power BI is a set of tools, software services and business intelligence

applications oriented to business. One of the great advantages of Power BI is that it is able to connect with a large number of data sources of many sizes: Excel spreadsheets, relational and non-relational databases, cloud services, files in different formats, Big Data tools, web applications, etc. In addition, it has high graphic and data transformation capabilities in reports, dashboards fundamental and customized, attractive, interactive, and easily understandable visualizations.

### WHICH IS BETTER: POWER BI OR EXCEL?

Power BI works very well with Excel, as the two Microsoft products complement each other. Excel is a great source of data for Power BI, which can receive data from hundreds of possible sources. Power BI is a great choice for a vast array of visualization options, higher-level analytics, automatic updates upon changes to source data, very large sets of data, and user interaction, among other uses. Let's explore the strengths, weakness, and capabilities of the two Microsoft products.

Excel Strengths	Excel Weaknesses
<b>Quick calculations:</b> Excel allows user to make calculations, operations and create formulas in data quickly and easily	It makes collaborative work difficult
<b>Multifunctional:</b> Excel can be used for a wide variety of issues and allows user to work with data in multiple ways without having to switch to another app. Its uses are much more diversified	Limited amount of data
<b>Sophisticated Tables:</b> If user needs to create more advanced, complex, and personalized calculations tables, Excel has more advanced functions than power bi	

Power BI Strengths	Power BI Weaknesses
<b>Automatic Updates:</b> One of the greatest advantages is it updates auto. File contain any changes needs not to be reloaded. Only Refresh	<b>Not for tabular reporting:</b> If user wants to create tabular formats, Excel is the go-to app and has more user-friendly options, packed with power in terms of formulas and functionality
<b>Superior Connectivity, Designed for Big Data:</b> It can access and extract data virtually from any system or application, and is designed to work in cloud. The most prominent part is that huge data can be processed	
<b>Collaborative Work, Ideal for dashboards &amp; KPIs, Better Visuals &amp; Alerts</b> Work in real time through PBI services, files can be published, and people can work simultaneously. PBI is the ideal program for creating personalized and interactive dashboards. It has complex and sophisticated charts and has the option to schedule alerts that notifies you via email when metrics in the data file increases or decreases, with other advanced functionalities	

Excel Vs Power BI	EXCEL	POWER BI
01 Tabular reports	Ideal for creating reports in tabular format	Creating tabular reports is more limited
02 Duplicated tables	Allows you to display duplicated tables	Cannot display duplicated tables
03 Reports	Simpler and less attractive reports than those of Power BI	More beautiful, personalized, attractive, and interactive reports
04 Crossed filters	No advanced cross-filtering between graphic	Supports advanced cross-filtering features between charts
05 Charts and visuals	It has the most advanced and newest charting features but cannot be connected to the data models	Optimal for dashboards, alerts and KPIs includes better visuals than Excel and allows data to be analysed visually
06 Automatic update	Data is not automatically updated	Data is automatically updated.
07 Availability	Reports are limited to a specific number of users	Reports can be worked on by a large number of users, whether they are experts or that
08 Analytics	Fewer data analysis options than Power BI	More powerful analytical capabilities than Excel
09 Data model	Ability to work on simple and structured data models	Ideal for building complex data models easily
10 Separate tables	It is difficult to connect separate tables	Separate tables can be easily related to each other
11 Tool	It is a traditional spreadsheet program with a lot of features	It is the advanced version of a data analysis tool, with a great amount of possibilities to work with the data
12 Collaborative work	Sharing documents and working with others is complex	Sharing data and reports is easy with Power BI
13 Big Data	Can handle a limited amount of data	Allows you to process much larger datasets
14 Dashboards	Users have limited features for creating dashboards	More advanced features for creating custom dashboards
15 Processing	Slower processing than Power BI, as formula works on a cell	Faster processing than Excel, as formula works on column
16 Utility	Mostly used to organize data, perform calculations, mathematical formulas and create more complex tabular reports	Used to create and share dashboards, as well as to develop powerful data visualizations
17 Data Model Language	MDX Language	DAX Language
18 Connectivity	Limited connectivity with other applications and systems	You can extract data from virtually any platform, software and applications
19 Price	Excel 365 is a paid version	It has a free version and a payment version
20 Usability	More difficult to use than Power BI	Easy to use compared to Excel

**“The best time to plant a tree was 20 years ago. The second-best time is now.”**

**About the Author:** Syed Hassan, FCMA, FPFA, MCOM, MBA is a Senior Management Accountant by profession. Syed is a recognized Corporate trainer & Technology Instructor. He possesses in-depth knowledge in leading ERP's. He has a solid knack for Accounting and linked Technology with his Advanced Analytics & BI Reporting. Data Wrangling & Visualization skillsets, Python for Data Analysis, etc. Syed Hassan has conducted several workshops and trainings on Data Analytics, Advanced Excel, Power Query, Power Pivot, and Power BI. He has 20+ years of experience in Accounting, Finance & Reporting. He is also certified BI. Syed possesses an extensive 10+ years of experience in Advance Analytics & Management Reporting.

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# SECTOR BRIEF



By Research and Publications Department, ICMA Pakistan

## Small & Medium Enterprises (SMEs) Sector In Pakistan

SMEs are recognized globally as an important pillar for poverty alleviation as they create jobs, increase the standard of living and play a critical role in ensuring equitable income distribution. The SME sector plays a pivotal role in Pakistan's economy and contributes an estimated 40 percent to GDP and 25% to export earnings (Source: SMEDA).

Small and Medium Enterprises Development Authority (SMEDA) which was established in 1998 is the premier organization working under the Ministry of Industries and Production, that acts as an SME policy-advisory body to provide an enabling environment and business development services to the SMEs in the country.

According to an estimate by SMEDA, there are around 3.25 million Micro, Small and Medium Enterprises (MSMEs) that constitute over 90 percent of all the enterprises in Pakistan. The majority of these MSMEs are under individual ownership and operate in the informal sector (undocumented). They constitute an integral part of the supply chain of key export industries including textiles, food processing, engineering, etc.



**SME sector is included in the topmost economic agenda of the Government.** Last year, during the lockdown, several programs were launched to protect SMEs that included Mazdoor ka Ehssas Program, PM's Small Business, and Industry Relief Package; Chota Karobar Imdadi Package; Pre-Paid Electricity, and construction sector package. On 8th October 2020, Prime Minister also approved a 'National SME Policy Action Plan 2020'. In August 2021, the State Bank of Pakistan (SBP) launched an innovative 'SME Asaan Finance scheme (SAAF) for lending to SMEs without collateral. Under the scheme, SBP will provide refinance for three years to the selected banks.

### SME Financing Data

(Source: SBP Quarterly SME Finance Review, June 2021)

1	Outstanding SME Financing	Rs. 437.57 billion
2	No. of SME Borrowers	172,893
3	SME Finance as %age of Private Sector Financing	6.26%
4	SME NPLs Ratio	19.11%

### Sector-wise SME Financing [June 2021]

Trading SMEs	Rs. 163.37 billion
Manufacturing SMEs	Rs. 160.74 billion
Services SMEs	Rs. 113.46 billion

# SWOT Analysis of Small & Medium Enterprises (SMES) Sector in Pakistan



## STRENGTHS

- Around 3.23 million SMEs in Pakistan
- Contributes around 40% to GDP
- Have almost 25% to 30% share in exports
- Provide 80% of total employment
- Major source of poverty eradication
- Major source of generating employment
- Self-governing with a flexible entrepreneurial structure
- Strong family support (inherited business)
- Low-cost labor-intensive nature of products
- Mostly use indigenous raw materials
- Helps in mobilizing domestic resources
- Stimulate competition and growth in the economy
- Vital role as a service provider to primary industry

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## WEAKNESSES



- Highly undocumented (informal sector)
- Financial constraints
- Poor cash flow management
- Poor access to finance
- Poor infrastructure
- Unskilled labor force
- Lack of access to market information
- Power shortages
- Lack of entrepreneurial skills
- Outdated production processes
- Inability to adopt new technology
- Scarcity of entrepreneurial education.
- Quality of products

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## OPPORTUNITIES

- Role in local and national economic growth
- Role in rural industrialization
- Role in enhancing productivity in the manufacturing sector
- Role in export growth
- Opportunity for franchise and joint venture
- Scope for up-gradation of existing technology
- Scope for SME cluster growth in Special industrial zones
- Potential for SMEs to get international quality certificates
- New enterprise development
- Potential in value addition of products
- Exploring of new export markets
- Business expansion to other countries

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## THREATS



- Weak Performance and high failure rates
- Market competition
- Inefficient infrastructure
- No proper budgeting and planning
- Taking risks without calculation
- Inability to embrace new production technology
- Inability to compete in international markets
- Incapability to sustain unforeseen economic situations like pandemic
- Non-interest in moving to the formal sector
- Avert paying taxes

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# ECONOMY WATCH



By Research and Publications Department, ICMA Pakistan

## Budget deficit narrows to Rs. 438.5 billion



Pakistan's budget deficit has narrowed to Rs. 438.5 billion (0.8% of GDP) during the first quarter (Jul-Sep) of FY2022 mainly due to handsome growth in tax collection as FBR surpassed the tax collection target. The Budget deficit was 1.1% of GDP during the same quarter of last year. It may be noted that the Government has set a budget deficit target at Rs. 3.4 trillion (6.3 percent of the GDP) for the current FY2022.

The country's expenditures stood at Rs. 2.25 trillion in 1QFY22 as against the revenues of Rs. 1.81 trillion, leaving the budget deficit at Rs. 438.5 billion. The Primary balance, which is the difference between the government's revenue and its non-interest expenditure, was recorded in a surplus of Rs. 184.2 billion (0.3% of GDP). Of the total revenues of Rs. 1.81 trillion, the non-tax revenue collections stood at Rs. 275.7 trillion during the first quarter of FY2022.

## Over 23% growth in exports of the Services Sector

In the first quarter of FY2022 (Jul-Sep), the value of service exports increased to \$1.572 billion, up from \$1.275 billion in the same period last year. On a monthly basis, service exports increased by 15.73% in September to \$550.91 million, compared to \$476.04 million in the same month the previous year. Export of services increased by 1.25% month over month. In FY2021, service exports climbed by 9.19% on Year on year basis to \$5.937 billion,

up from \$5.437 billion the previous year. The highest-ever export of IT services is driving the increase in service exports. Finance and insurance, transportation and storage, wholesale and retail trade, public administration, and defense are among sectors that export services. For the years 2021-22, the trade ministry has set a target of \$7.5 billion in services exports.

## SBP reserves soar to \$17.2 billion

The foreign exchange reserves held by the SBP rose 0.3% on a weekly basis and on October 29, 2021, it was recorded at \$17,199.6 million, up to \$53 million compared with \$17,146.7 million on October 22, 2021. The overall liquid foreign currency

reserves held by the country, including net reserves held by banks other than the SBP, stood at \$23,925.9 million. Net reserves held by banks amounted to \$6,726.3 million.

## Trade deficit swells to \$15.52 billion

Pakistan's trade deficit has widened by 103.8% in the first four months (Jul-Oct) of the current FY2022 due mainly to a sharp rise in imports. The trade imbalance was recorded at \$15.525 billion in July-Oct 2021 as against \$7.617 billion during the same period of last year, showing massive growth of 103.8%, according to the official data of the Ministry of Commerce. Pakistan's imports

have gone up by 65% to \$24.994 billion in July-Oct 2021 from \$15.193 billion in the same period of the previous year. Meanwhile, the country's exports were recorded at \$9.468 billion in Jul-Oct 2020-21 as compared to \$7.576 billion in the corresponding period of the previous year, showing a growth of 25 percent.

## Textile exports surge 27.41% to \$4.42 billion in 1QFY2022

The exports of textile commodities witnessed an increase of 27.41% during the first quarter of the current FY 2021-22 as compared to the same period of last year. The textile exports stood at \$4,420.969 million in Jul-Sep FY2022 against exports of \$3,469.852 million in Jul-Sep FY2020-21, showing a growth of 27.41%, according to the Pakistan Bureau of Statistics (PBS). The

textile commodities that contributed to trade growth included cotton yarn, cotton cloth, cotton (carded or combed), yarn (excl. cotton yarn), knitwear, bed wear, towels, readymade garments; art, silk, and synthetic textile, etc. The only commodities that witnessed negative growth in trade included raw cotton and tents, canvas and Tarpaulin.

## IT exports increase by 42% in the first quarter of 2021-22

The Information Technology (IT) related exports have witnessed a 42% increase during the first quarter (Jul-Sep) of the current Financial Year. IT and IT-enabled services exports increased to \$635 million from July-Sep as against exports of \$445 million in the same period of the last year - showing an increase of 42% on year growth.

Pakistan's IT exports increased 47.4 percent, and crossed the \$2

billion mark for the first time in the country's history, whereas, in the fiscal year 2019-20, the exports were \$1.44 billion. Pakistan's IT industry is delivering high-quality products and services to over 120 countries, earning valuable foreign exchange, creating high-paying jobs, improving the nation's productivity and quality of life through innovative technology solutions.

# REGULATORY WATCH

By Research and Publications Department, ICMA Pakistan

## FBR received a record number of Income Tax Returns

The Federal Board of Revenue (FBR) has received the highest number of returns ever in its history. By the end of the extended deadline on 15th October 2021, FBR received 2.6 million returns and collected Rs. 48.6 billion taxes with returns as against 1.8 million returns and 29.6 billion taxes paid with returns on 8th December 2020, the closing date, last year. This signifies 45%

growth in the filing of tax returns while 64% growth in tax paid with returns. FBR, however, had received only 0.5 million returns and Rs. 9.8 billion taxes with returns on 15th October 2020, registering almost five times higher growth both in returns filed & tax paid with returns on the same date, last year.

## FBR to develop Single Tax Portal to facilitate taxpayers

The Federal Board of Revenue (FBR) is all set to launch the Single Sales Tax Portal in November 2021. This landmark initiative has been made possible after thorough discussions with the provincial revenue authorities of Punjab, Sindh, KPK, Baluchistan, and AJK. This facility will enable taxpayers to file single monthly Sales Tax returns instead of multiple returns (6 in the past) on different portals; thereby, significantly reducing the time and cost of compliance, and thus achieving maximum efficiency.

The system would be intelligent enough to sift and collect revenues from a single taxpayer and distribute the same among multiple revenue agencies. This unique project would also help in resolving the long outstanding issues of input tax adjustment among relevant stakeholders. With the proposed launch of the Single Sales Tax Portal, the existing cumbersome and tedious processes would be replaced with an efficient & automated system of tax adjustments, with minimum human involvement.

## SECP registers 2,017 new companies in October 2021

The Securities and Exchange Commission of Pakistan (SECP) registered 2,017 new companies in October 2021, raising the total number of registered companies to 154,093. The total capitalization (paid-up-capital) of the new companies stood at Rs2.7 billion.

Around 99% of companies were registered online while 140 foreign users were also registered from overseas. The October incorporation consists of 63% private limited companies, 33%

single-member companies, and 3% public unlisted companies, not-for-profit associations, and limited liability partnerships (LLP). The construction & real estate sector took the lead with the incorporation of 369, trading with 302, and IT with 270 companies. These segments were followed closely by the services sector with 173 companies, e-commerce with 98, food & beverages with 76, and education with 67 companies. Foreign investment has been reported in 58 new companies.

## SECP simplifies onboarding of mutual fund investors

The Securities and Exchange Commission of Pakistan has specified a swift and simplified onboarding framework for customers of the Asset Management Companies (AMCs) and Pension Fund Managers (PFM). Under the new framework, the accounts can be opened online, while the Asset Management Companies (AMCs) and Pension Fund Managers (PFMs) can conduct customer verification and authentication through virtual

platforms such as WhatsApp, Skype, etc.

The new framework classifies three categories of investment accounts based on investment & transaction limits, and the respective documentation/verifications, which are Sehl Sarmayakari Account, Sahulat Sarmayakari Account, and Sarmayakari Account. Digital joint account opening is also allowed.

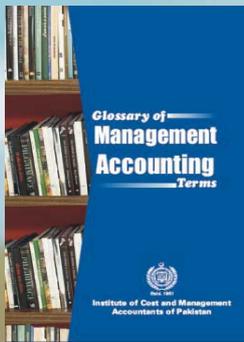
## SBP allows eight banks to roll out collateral-free loan scheme for SMEs

The State Bank of Pakistan (SBP) has introduced an innovative financing scheme for collateral-free lending to SMEs with the support of the Government of Pakistan. Out of 20 banks that competed for participating in this scheme, 8 banks under four categories have been selected based on the highest amount of finance and highest number of SME clients to be served. These categories include large banks, mid-sized banks, small banks, and banks in collaboration with fintechs. The winning banks are Habib Bank Ltd, United Bank Ltd, Allied Bank Ltd, Meezan Bank Ltd, Bank Alfalah Ltd, The Bank of Punjab, JS Bank Ltd, and The Bank of

Khyber. These banks have been selected through a transparent bidding process.

SBP has allocated refinance limits to eight winning banks for three years. It is expected that selected banks will shortly roll out their SAAF programs through public announcements and marketing campaigns so that SME borrowers can approach any of these eight banks to request collateral-free financing. Details of the SAAF scheme are available at SBP website <https://www.sbp.org.pk/smfed/circulars/2021/C9.htm>

## Other Features

**Actual costing**

An approach that assigns actual costs of direct materials, direct labor, and overhead to products.

**Budget period**

The time period covered by a budget.

**Computer-integrated manufacturing (CIM) system**

The most advanced form of automated manufacturing, in which virtually all parts of the production process are accomplished by computer-controlled machines and automated material-handling equipment.

**Directing operational activities**

Running an organization on a day-to-day basis.

**Economic order quantity (EOQ)**

The amount that should be ordered (or produced) to minimize the total ordering (or setup) and carrying costs. The amount that should be ordered (or produced) to minimize the total ordering (or setup) and carrying costs.

**Forward contract**

An agreement that requires the buyer to exchange a specified amount of a currency at a specified rate (the forward rate) on a specified future date.

**Hybrid product-costing system**

A system that incorporates features from two or more alternative product-costing systems, such as job-order and process costing

**Inseparability**

The fact that producers of services and buyers of services must usually be in direct contact for an exchange to take place.

**Just-In-Time (JIT) manufacturing**

A demand-pull system whose objective is to eliminate waste by producing a product only when it is needed and only in the quantities demanded by customers.

**Labor rate variance (LRV)**

The difference between the actual hourly rate paid and the standard hourly rate multiplied by the actual hours worked.

**Material usage variance (MUV)**

The difference between the direct materials actually used and the direct materials allowed for the actual output multiplied by the standard price.

**Non-inventorial (period) costs**

Costs that are expensed in the period in which they are incurred.

The complete book on Glossary of Management Accounting Terms is available on link: [https://www.icmap.com.pk/News\\_Pdf/Final\\_Glossy.pdf](https://www.icmap.com.pk/News_Pdf/Final_Glossy.pdf)



# Expression of Interest

## For Writing Books on Professional and Sector-specific Topics

The Research and Publications (R&P) Committee of ICMA Pakistan invites 'Expression of Interest (EOI)' from the valued members of the Institute for writing books on professional and sector-specific topics as per given details:

### Preamble

The Research and Publications Committee has decided to provide an opportunity to our valued members to get their literary work recognized through publication of books on different sectors by the Institute. These publications would be a useful source of knowledge and professional learning for other members, students, and stakeholders.

### Objective

To provide an opportunity to the members of the Institute to share their knowledge, wisdom and practical experiences, while working in diversified roles at various government, business and industry sectors/organizations, with the others members and students as well as relevant stakeholders for their benefit and professional learning.

### Eligibility Criteria

- 1) All 'Active Members' of ICMA Pakistan
- 2) Self-employed or employed in any public or private sector organization with experience of at least ten (10) years
- 3) Have previously written article(s) which was published in any national or international Journal or magazine

### Documents Required

The following documents are required to be submitted by the interested member [Applicant]:

- 1) A '**Consent Letter**' to write book which shall also mention the topic selected
- 2) One-page '**Synopsis**' which shall cover the following aspects:
  - (a) Abstract of the Book
  - (b) Time required to complete the book
  - (c) Intent to write voluntarily or anticipate some honoraria [Chairman R&P Committee to coordinate with writer]
- 3) A '**Detailed CV**' or Profile which should mention all working experiences of applicant with timelines
- 4) Soft copy of published article [online link shall also be provided].

### Selection Process

The following shall be the process of selection of the applicant interested in writing book:

- 1) Receiving the EOI from the Applicants and verification of the required documents
- 2) Review of 'Synopsis' and other documents by the Evaluation Committee [formed for this purpose]
- 3) Selection of Authors by the R&P Committee and its official communication to the Authors
- 4) Submission of final manuscript of book by the Author to R&P Department within prescribed deadline
- 5) Review and approval of the final manuscript of Book by the R&P Committee
- 6) Release/publication of the book by the R&P Committee of ICMA Pakistan

### Instructions for Book Writing

The interested members [Authors] should consider the following instructions for writing books:

- 1) The contents of the book are not published elsewhere [blogs are also included]
- 2) The writing must be creative with at least 85 percent unique contents [mandatory] plagiarism to be checked
- 3) Figures/statistics used in the book must be authentic and updated
- 4) Images and tables used in the book must be original or else references be provided, if taken from other sources
- 5) The word counts in the book must be in the range of 20,000 to 30,000 words
- 6) The manuscript of the book is expected to have been proof-read by the writer before submission
- 7) The Institute reserves the right to edit or rephrase any part of the content, wherever deemed necessary, without changing its meaning. In case any substantial change is required, the same shall be done with mutual consent of Writer.

## Topics for Writing Book

The Author must select one topic from the below list to write a book. The selected topic must be communicated to the Institute in the Consent letter to be submitted by the Applicant [Author]:

INDUSTRY-SPECIFIC TOPICS			
No.	Sector/Industry	No.	Sector/Industry
1	Cement Industry	9	Livestock Sector
2	Fertilizer Industry	10	Oil and Gas Sector
3	Pharmaceutical Industry	11	Banking Sector
4	Automobile Manufacturing	12	Insurance Sector
5	Surgical Instruments Industry	13	Information Technology
6	Ghee and Cooking Oil Industry	14	Telecommunication
7	Textile Industry	15	SME Sector
8	Engineering Industry		

The above list is only indicative and the writer may suggest other sector of his choice for consideration by the R&P Committee

PROFESSIONAL TOPICS	
1	Business Process Re-engineering (BPR)
2	Fin-Tech and Management Accountants
3	Data Management and Business Analytics in Corporate Sector of Pakistan
4	Corporate Governance
5	Improving Tax Regime in Pakistan: Weaknesses and Way Forward
6	Supply Chain Management in the Manufacturing Industries in Pakistan
7	Credit Risk Management and Financial Performance of Banks
8	Management Reporting System
9	Cost Audit of Industries
10	Big Data Analytics
11	Digitalization in Pakistan: Challenges and Way Forward
12	Islamic Banking
13	Environmental Accounting
14	Practical Implications of Financial Accounting Standards
15	Startup and Entrepreneurship

The above list is only indicative and the writer may suggest other topic of his choice for consideration by the R&P Committee

## Recognition for Authors

The Authors of Books shall have recognition in the following ways:

- 1) The book written by member writer shall be officially released and published by ICMA Pakistan
- 2) A Certificate and Shield shall be presented by the Institute to the author for writing a book
- 3) Honoraria as per approved policy of the Institute shall be paid to the writer
- 4) The author's book shall be widely circulated in the public and private sector organizations
- 5) The book shall be hosted on R&P e-portal on website and also on social media with due credit given to writer

## Last date for sending Consent

The consent letter may be sent on email address: [rp@icmap.com.pk](mailto:rp@icmap.com.pk) by the deadline of **30<sup>th</sup> November 2021**.

Regards,

**Awais Yasin, FCMA**

Chairman, Research and Publications Committee



# National Council 2021-23

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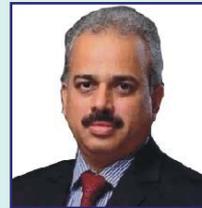
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Pakistan  
Crude oil price: WTI

Research and Publications Committee  
has selected the theme of  
Management Accountant Journal

**Nov-Dec 2021 Issue**

# Impact of Inflation: Causes & Remedies

**[Deadline: 20<sup>th</sup> Dec 2021]**

The members interested to share articles on the above theme are requested to confirm their consent to R&P Department on email: [rp@icmap.com.pk](mailto:rp@icmap.com.pk) and send the article by the given deadline

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