

DETERMINING SUSTAINABILITY OF SMEs

(ERKF PROJECT BENEFICIARIES)



SUBMITTED TO:

**ECONOMIC REVITALIZATION OF KHYBER PAKHTUNKHWA & FATA (ERKF), PROJECT
PU - SMEDA & PMU – KP Pakistan**

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EXECUTIVE SUMMARY

The Multi Donor Trust Fund (MDTF) for Khyber Pakhtunkhwa (KP), the Federally Administered Tribal Areas (FATA) and Baluchistan was established in 2010 as one of the financing mechanisms to address the recommendations of the Post-Crisis Needs Assessment (PCNA). Under MDTF, This Economic Revitalization of Khyber Pakhtunkhwa and FATA was specifically designed to cater for the economic rehabilitation needs of SMEs. This also addresses one of the key programmatic themes of PCNA which is “Job Creation and Economic Growth”.

After the militancy crisis in KP and FATA and the counter offensive by the Government of Pakistan, along with the repatriation and then rehabilitation of displaced persons, another focus was to rehabilitate the business communities. ERKF focused its support around businesses that suffered substantial losses, however yet had the potential to revive and provide job opportunities to the local population. Under the SME development component the project has extended grant support for economic revitalization of different SMEs to enhance their productive capacity and create employment opportunities.

In order to determine the sustainability of the SMEs supported by ERKF it is of critical importance to evaluate the operational status, investment mobilized as a result of project support and number of direct jobs created or sustained by the supported SMEs. This specific study is conducted to gauge SMEs sustainability in terms of above mentioned parameters. To serve the purpose as outlined in terms of reference, four clusters/sectors were selected for physical verification namely marble processing cluster Buner, traders cluster Qissa Khawani Peshawar, weaving cluster Islampur Swat and fish huts cluster Charsadda (including hotels in Peshawar). Other than cluster based, SMEs functioning independently were also visited physically. Beside these for telephonic interviews mainly geographical spread of SMEs is considered.

The methodology adopted for this sustainability study is clearly aligned to meet the requirement outlined in the Terms of Reference, catering to key parameters to determine sustainability. A customized data collection approach was adopted that includes face to face interviews and focus group discussions with the project beneficiaries during physical visits and separate checklist for telephone interviews.

The project has extended grant support to a total 1,253 SMEs¹ across various clusters/sector in KP. The sample size of the study is 40% of beneficiaries (out of fully disbursed grants 1,253), about 250 SMEs were visited physically and 250 SMEs were contacted via phone. The sample beneficiaries those visited physically are mainly based in marble cluster Buner, trade cluster Qissa Khawani Peshawar, weaving cluster Islampur Swat, fish huts cluster Charsadda and other SMEs operating independently. Whereas SMEs contacted via phone includes trading enterprises,

¹ ERKF, PU SMEDA

education institutes, micro hydel units, food outlets and ICT service providers. Telephonically interviewed beneficiaries are mainly based at Bannu, D.I. Khan, Karak, Kohat, Hangu, Mansehra, Charsadda, Peshawar, Dir, Shangla and Swat. The accumulative grants received by the SMEs that were included in this study amounts to a total of PKR 314.95 Million.

Analysis of the data collected through physical visits shows that these project beneficiaries are operational and functioning. Analysis of the data collected via telephone calls pinpoint that about 98.80 % of SMEs (out of 250) are operational and productive whereas about 1.20% are non operational and non productive at the moment. The key constraints and variables that contribute to non functionality of these SMEs include; death of the business owners, critical medical illness of the owner/immediate family member, family disputes and recurring floods etc. Verification of these businesses is not possible via phone hence it is recommended that these units should also be visited in person.

Investment mobilization for the purpose of this study is taken as total grants provided by the project and additional investment generated by beneficiaries as a result of grant support. The total investment mobilized as a result of ERKF grant support around the sample SMEs is PKR 959.74 million. Out of the total investment mobilized, 644.79 million is the additional investment made by SMEs as a result of 314.95 million project grant support.

In terms of recording direct jobs, total direct jobs created and retained are considered one and the same. Hence retaining direct jobs would have not been possible if grant support was not provided. Total direct jobs created or retained in the SMEs units that received grant support (sample size) are around 3,428. These jobs are recorded across key functions such as management, technical/skilled labor, semi skilled and support staff.

In terms of carrying business transactions most of the supported beneficiaries are operating as sole proprietors and their routine business transactions were carried through cash. Before project support most of the beneficiaries were dealing in cash. However as a result of project support these business units not only open bank accounts but on the whole more than 30% of their business transactions are now carried through the same bank accounts.

Very limited numbers of women SMEs are provided grant support under the project. Share of women businesses in overall grant support should be increased. Proper study should be conducted in order to identify, stock take and categorize women owned businesses across KP. It is recommended that relatively easy terms and conditions should be separately developed for women SMEs that best fit to nature of businesses these women are running.

The ERKF grant support as a spinoff effect has improved social and economic conditions of the beneficiaries and geographical areas where they are operating. For instance micro hydel units are providing nonstop electricity to some of most remote areas including education and health

facilities. Revival of education institutes offers best quality education particularly for girls then before as these are easily accessible once again.

The project has also impacted overall income level of the beneficiaries positively and most of SMEs recorded improved income and profit as a result of grant support. The study findings show that beneficiaries have recorded upto 20 % increased income than before.