



With ambitious plans to help local SMEs improve business performance and profitability, David Monkman, CEO, SME Business Support Fund (BSF) makes a substantive case for trade development and integration in Pakistan.

The SME Business Support Fund (BSF) has been established by the Ministry of Finance, Government of Pakistan, in collaboration with the private sector as part of an Asian Development Bank (ADB) supported Small and Medium Enterprise (SME) Sector Development Program. The overall program objective is to improve competitiveness of SMEs in Pakistan using external Business Development Services (BDS). ADB has set up similar projects in other South Asian countries and the establishment of BSF in Pakistan is seen as bolstering trade integration among countries in South Asia.

David Monkman, CEO, and his associates at BSF, are aiming to provide leadership and guidance to SMEs in managing existing business, developing new business, and brand management through service and user grants to private SMEs whose proposals

have been approved by the BSF. Approved applicant SMEs will receive grants to cover 50 percent of the costs of using business development services aimed at enhancing competitiveness. A broad range of business development services are offered including technology upgrading, market and product development, compliance with international standards, business and financial planning, training and skills development, management development, and general business strategy. 'We encourage firms to brand and differentiate themselves. That improves loyalty to our products. It is imperative for improved regional trade for firms to take a proactive role driving their market power,' says Monkman.

David Monkman has more than 18 years of experience as an entrepreneur, SME finance specialist, venture capitalist and financial analyst, several years of which were spent practicing in South Africa, Zambia and Argentina as founder, Chief Executive Officer and Head of Business Development for AniCap Venture Partners. Equipped with a Masters degree in economics from the London School of Economics, Monkman has previously worked for United States Agency for International Development (USAID), Department of International Development (DFID) and different trade associations in other markets. What set him up for this job was the vigor of working in the public sector where you've got a very diverse range of stakeholders and great exposure. Nearly as compelling is his impassioned belief in the catalytic role entrepreneurs can play in the development of an economy.

According to a 2005 ADB study on SME development in Pakistan, the lack of access to credit is a binding constraint not only on the growth potential of enterprises, but also their risk taking. The key recommendations in the study include measures such as the improvement in creditor rights, revisiting of collateral requirements, and a reduction in the cost of finance, which will improve access of SMEs to credit.

BSF employs the definition of SMEs specified by Small and Medium Enterprise Development Authority (SMEDA), which classifies an SME as any enterprise employing up to 250 permanent employees with a maximum turnover of Rs.250 million. BSF grants are provided on a 50 percent cost sharing basis, with a maximum limit of Rs.1.8 million. BSF's strategic course is steered by a private sector led Board of Directors. Applicants are evaluated by members of an appraisal committee with project experience in varied industries. Applicants obtain written approval from BSF before embarking on their project. BSF teams work in alliance with both the SME and the nominated service provider.

The SME sector in Pakistan grapples with low usage of BDS, one of the major reasons being that SMEs are mostly unaware of their need for BDS and its potential benefits. On the other hand a major constraint on developing a vibrant BDS market is the limited number of service providers whose services are not tailored to suit the needs of SMEs.

In short, demand for and supply of BDS does not always meet. A large segment of SMEs need advisory services,

but are unable to find suitable suppliers. Certain BDS types are perceived as not available, although they are actually on offer by a range of BDS providers. This indicates a disparity between what customers want and what providers offer. Enter BSF! Monkman says the faster an SME is able to build within itself depends on the expansion of varied skills, know-how, and market understanding of ever changing external economic realities. An effective method for building these capacities within an SME is the application of external business development services through international and domestic consultation. BSF expects that SMEs using external business development services will exhibit significantly better performance in terms of turnover and profitability compared to SMEs not making use of such services.

The purpose is for existing and budding SMEs to improve their performance by using business development services. By the end of November 2007 over 200 SMEs using BDS support with the assistance of BSF have increased their business operations (or expect to, once their projects are finalized) through growth in sales, cost reduction, increased productivity, higher quality assurance, better management information system reporting, and customer satisfaction. BSF has received more than 1800 inquiries about the Fund, received more than 7000 hits on its website, and met with nearly 500 consultants or consulting firms interested to be associated with the Fund and its beneficiaries.

BSF is working to generate public awareness and interest in entrepreneurship and business development. At the heart of BSF's strategy is an improved demonstration of the effectiveness of small companies making significant and intelligent investments in business development services. 'As such, we were careful to develop systems that we hope will improve the potential for identifying and



monitoring viable projects. It starts the time we first meet a potential beneficiary,' says Monkman. 'We explain to them how we allocate our grants. Like a scholarship program, we explain that we allocate funds to companies based on the quality of their firm and the project's potential for growth. We require that firms and their service providers complete their projects and provide a copy of deliverable supporting the successful completion of the project. Until we are confident that the work has been completed according to the original terms of the project, we do not reimburse our clients 50 percent of the associated project costs.'

BSF also conducts due diligence of both the bona fides of the SME as well as the business development service provider. So how exactly does that benefit his applicants? Answers Monkman, 'We assist companies by asking important questions along the way such as: is this the most attractive investment in business services currently facing the company, or are their better consultants who can provide the desired business or technical assistance required by the beneficiary? Our clients understand that we are more successful if we gather sufficient information up front so we can better assess the impact of our contribution to their performance, say, six months after their project is completed.'

Doing Business 2008, an annual report series issued by the World Bank and International Finance Corporation (IFC), has ranked South Asia the second-fastest reforming region in the world over the past year. This growth has created a momentum for regional integration. As to how organizations like BSF can accelerate that momentum vis a vis. Pakistan, Monkman says BSF is committed to improve linkages between local firms and foreign markets. 'We believe it is crucial to invest in Pakistan's export capacity and, therefore, we are striving for BSF to be an important catalyst for creating export driven growth. Large companies in the textile, sports equipment and surgical instruments sectors have been in the business of exporting for generations; in the future, we should expect to see other sectors tapping into regional and global markets. BSF can significantly improve how SMEs in various sectors explore business development efforts abroad, for example, they may employ consultants for which the BSF pays 50 percent of their associated fees.'

Referring to the creation of bilateral and regional trade opportunities, Monkman laments the fact that 'most small and medium enterprises tend to favour trade outside the region when they think of exporting.' However, he sees recent trade policy developments encouraging trade within the region. Does he feel that trade integration for Pakistan remains limited due to Government constraints on trade, specially non-tariff barriers? 'Government constraints on trade and non-tariff barriers have been designed to encourage local industry, although many

won't see it this way. In the short term we expect that firms will face significant competition from abroad as they loose market share to more competitive foreign trading partners. In the long term, however, we feel local firms will emerge stronger for their investment in regional competitiveness.'

The ten Association of South East Asian Nations (ASEAN) have the most successful South Asian Free Trade Agreement (SAFTA) among themselves. Pakistan's export sector, particularly SMEs, can benefit from SAFTA. In this context Pakistan is negotiating bilateral Free Trade Agreements (FTAs) with Indonesia, Singapore, Malaysia and Thailand and is also negotiating a bilateral agreement with the entire association on a 10+1 basis (i.e. one non Member with the ten Members).

And finally, does Monkman see a progressive role for professional accountants in the BSF setup? 'Up until recently, there was a nexus between Pakistan's most qualified auditing firms and management consultancies. With the adoption of prudential and ethical codes of conducts, CAs are no longer able to provide both forms of support to their clients. But for CA firms that do focus on management consulting, there is a significant role to play in supporting SMEs in Pakistan through BSF. Chartered Accountants would typically bring a tremendous depth of experience to SME clients, especially in areas that promote fiscal and operational transparency like installing state of the art Enterprise Resource Planning (ERP) solutions. Indeed, nearly a quarter of BSF's support has been allocated to SMEs investing in financial management systems that have been provided by CAs who see transparency and corporate governance as the way SME owners operators can improve their competitiveness both in Pakistan and abroad.'

The gains from trade go well beyond exports and imports. Trade intensifies competition and encourages businesses to be more productive and innovative. As any earnest entrepreneur will tell you, it is the business environment that stimulates SME growth. That is what BSF is trying to do: develop an adequate business infrastructure, and introduce sufficient SME financing, to create a return maximizing business environment that facilitates that growth

Bill George, bestselling author of True North, a tour de force for business leaders, believes incentives work around a central mission, a set of values ***'and then the incentives become the frosting on the cake; they become the payoff.'***

Visit www.bsf.org.pk for basic information on business start-up, available support services, and other relevant business information.

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