

SME OBSERVER

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From The Editor's Desk

The summer is waning as autumn sets in. The previous quarter July - Sept 2011 was witness to changes in both the fiscal and monetary policies of the country. Interest rates have been slashed and brought down from 13.5 percent to 12 percent, in the hope of increasing private sector borrowing from the banking system, stimulating long term investment and growth. On the fiscal side, however, in the wake of meager economic performance of the country during Q1-FY12, the government has revised its fiscal deficit projection for the current fiscal year from 4 percent to 4.4 percent. On the other hand, the government has withdrawn from the IMF program as a result of growing external sector of the economy. The results of such measures are yet to be seen in the proceeding months.

Cont. Pg. 16

MONEY, CREDIT & BANKING

The State Bank of Pakistan (SBP), motivated by declining inflation, high probability of meeting the FY12 inflation target and a need to support private sector credit and investment growth, has decided to reduce its policy rate from 13.5 percent to 12 percent with effect from 10th October, 2011. While policy rate cut of 150 bps, the biggest in more than ten years, is being hailed by the private sector, it is also being termed by some analysts and economists as risky and an indicator of SBP's shortsightedness. SMEs and LEs find it encouraging for long term investment whereas economists and policy makers consider it as counterproductive for limiting inflation as it increases money supply and leads to constant higher core inflation. However the effect of 50 bps reduction in the policy rate announced in July 2011 has managed to trickle down and the market interest rates have come down considerably. Moreover, the effect of 200 bps reduction in the last



three months on corporate lending rates would become more visible in the coming months.

The demand for credit by the private sector including SMEs over and above their working capital needs may also be positively affected.

(Cont. Pg.2)

SME TRADE OUTLOOK EXPLORING AFRICA

Africa is the world's third largest continent. Around 32 of its 52 African countries are among the 40 poorest countries of the world. The major economic players of Africa are classified as the SANE group - South Africa, Algeria, Nigeria and Egypt which represents almost a fifth and third of the continent's land mass and population, respectively, and accounts for 51% of Africa's total GDP in both nominal and purchasing power parity terms. The remaining 49 countries, with two-thirds of the region's population, contribute 45 percent to Africa's GDP.

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MONEY, CREDIT & BANKING (CONT. FROM PG. 1)

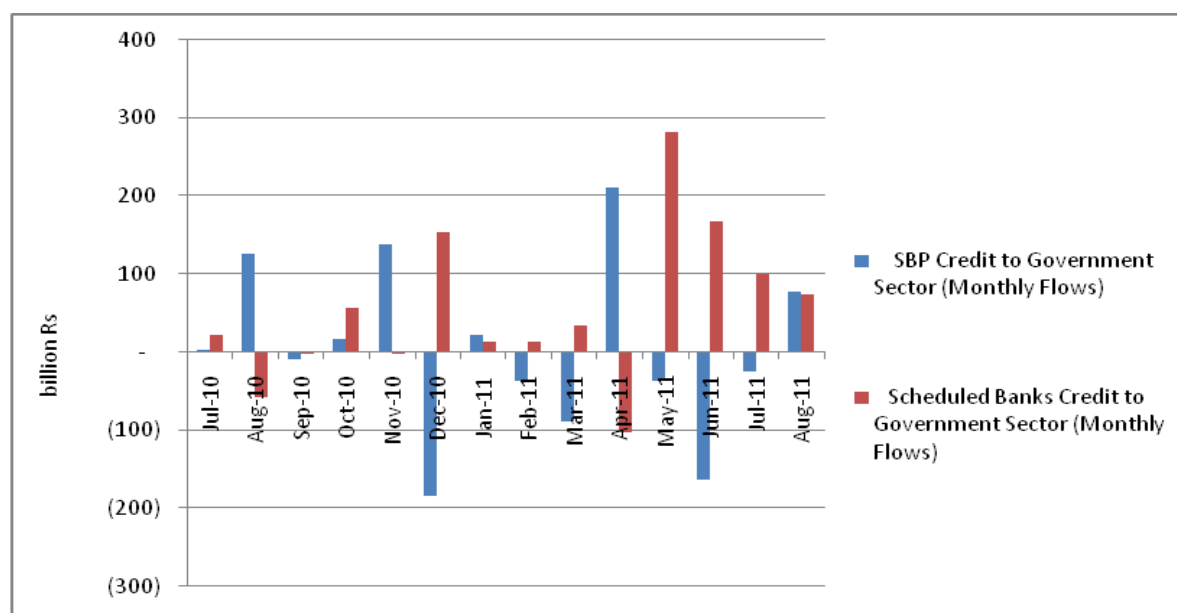


Monetary Policy Highlights

- Decline in CPI inflation and government borrowing from SBP is lower than its end-June level.
- Consistent inflow of workers' remittances led to a comfortable external current account position whereas a decline has been witnessed in SBP's foreign exchange reserves.
- Balancing inflation and growth considerations through monetary policy alone seems complicated in the midst of severe energy crisis, unstable law and order conditions, recent floods in Sindh and adverse global economic conditions particularly in Pakistan's export-destination countries.
- The year-on-year inflation in September 2011 has come down to 10.5 percent from 13.3 percent in June 2011 whereas month-on-month inflation is more than 1 percent on average.
- Although temporary changes such as an expected seasonal rise in inflation in the first month of a new fiscal year, the Ramadan seasonality of food prices, and the unexpected effect of floods on inflation have all coincided in the months of Q1-FY12, the probability of meeting the 12 percent average CPI inflation target for FY12 remains high.
- However, hitting the medium-term inflation targets of 9.5 in FY13 and 8 percent in FY14 appears to be less likely due to the risks arising from persistent government borrowing from scheduled banks, exchange rate depreciation and likely upward adjustments in the administered prices of energy.
- The government raised Rs 851 billion as compared to an announced T-bill auction target of Rs 750 billion for Q1-FY12. The announced target for Q2-FY12 is Rs 1025 billion, including Rs 63 billion incremental requirements and it is also likely that the government may borrow more than this amount.
- Tight liquidity conditions, as indicated by an outstanding liquidity injection by SBP of Rs292 billion as on 7th October 2011, do not only stem from seasonal factors but a decrease of \$1.1 billion in SBP's foreign exchange reserves during Q1-FY11 also has key role to play.
- Plummeting foreign exchange reserves are a product of a number of factors including a growth of 42 percent in oil import payments and continued decline in foreign financial flows during the first two months of FY12. As a result, the rupee also experienced a depreciation of 1.7 percent against the US dollar in Q1-FY12.
- The external current account deficit during July-August, FY12 remained as modest as \$189 million.

Restrained government borrowing from SBP over the financial year has led government to increase borrowings from the scheduled banks so as to meet its budgetary requirements. However, Q1-FY12 on the contrary saw an increasing trend in the government borrowing from SBP and diminishing government borrowing from scheduled banks.

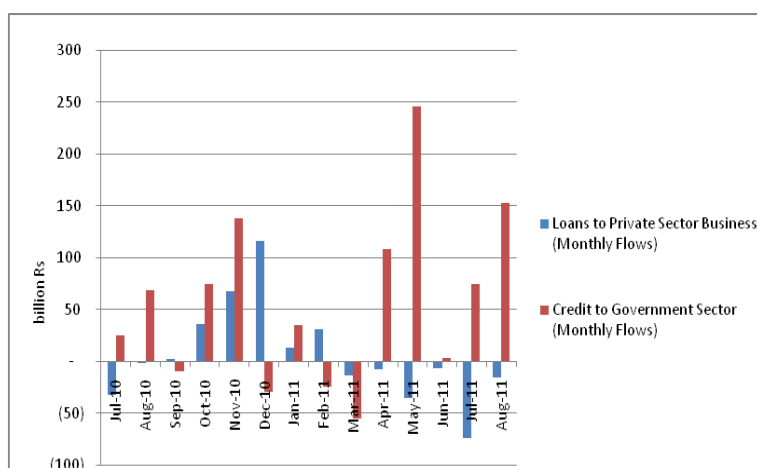
Fig: 1



Whereas, according to the provisional data, the outstanding stock of government borrowings from SBP (on cash basis) has come down to Rs1051 billion as on 30th September 2011. This is considerably lower than the mutually agreed limit of Rs1155 billion for FY12 and this trend, if continues, is likely to have a positive impact on inflation outlook.

Although SBP has been restraining credit to government in Q4-FY11, monthly flows of credit to government sector remained significantly higher than those to private sector business due to increased government borrowing from the scheduled banks. In the wake of declining external budgetary support, it is crucial for government to curtail its reliance on borrowings from the banking system. Therefore, fiscal reforms in the shape of increasing the tax-to-GDP ratio are required so that a durable expansion in the private sector credit and subsequent investment in the economy can be ensured.

Fig: 2



In addition to restrained government borrowing from the banking system and tax reforms, government should also take measures to overcome the financial intricacies of the energy sector so that already installed productive capacity can be optimally utilized. According to SBP, Government has recently taken one such initiative and decided to consolidate the outstanding inter-agency circular debt of the energy sector and settle the unpaid subsidy claims on account of its commodity operations by issuing government securities of close to Rs400 billion.

TRADE OUTLOOK

EXPLORING AFRICA (CONT. FROM PG.1)

The SANE group also shares half or more of Africa's exports, total trade, foreign direct investment, and foreign reserves. More than two-thirds of the largest 1,000 African companies and the thirty of the largest 50 African banks fall in the SANE region. Keeping in view the economic and regional importance of the SANE group in the continent, we outline the following prominent sectors for economic relations and trade collaboration between Pakistan and SANE group countries.

Table 1: Pak- SANE Economies Macro Economic Indicators 2010-11

Value in Billion US\$

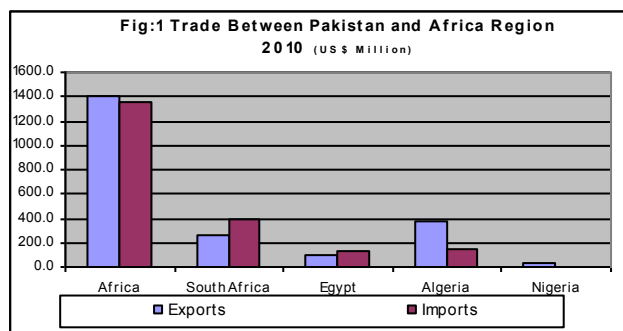
Indicators	SANE ECONOMIES				Pakistan
	Nigeria	South Africa	Egypt	Algeria	
GDP	216.8	357.3	218.5	160.3	174.9
Exports	82.54	85.83	25.02	57.19	21.39
Imports	44.1	81.86	51.54	38.38	32.21
Major Trading Partners	US, UK, Brazil, China, Spain,	US, UK, Germany, China, Japan, Saudi Arabia	US, Italy, China, Germany, Saudi Arabia	US, France, China, Italy, Spain	USA, UK, China, UAE, Germany, Saudi Arabia

Source: CIA Fact Book

Table 1 illustrates the macro economic comparison of SANE nations and Pakistan. Members of the group enjoy high GDP and surplus trade balance. However, it is important to mention that the growth and development of SANE economies are exclusively supported by Small and Medium Enterprises of their countries. In SANE region, SMEs account for 95% of formal manufacturing activity and 70% of industrial jobs, while contributing 22% to GDP and 30% to exports. In Pakistan, 99% of economic entities are SMEs contributing 40% to GDP and 80% to total manufacturing sector employment.

Collaboration between SMEs through improving trade relations between Pakistan and African countries can play an important role in accelerating industrial development and economic growth. Fig: 1 shows Pakistan's position in African countries. Though Pakistan enjoys a trade surplus in aggregate trade with African nations, it faces a trade deficit with South Africa, Egypt and Algeria. The total volume of exports to African nations is around 1.4 billion US \$ which constitutes only about 6.5% of total exports of Pakistan.

As Pakistan's trade relations are limited to traditional markets

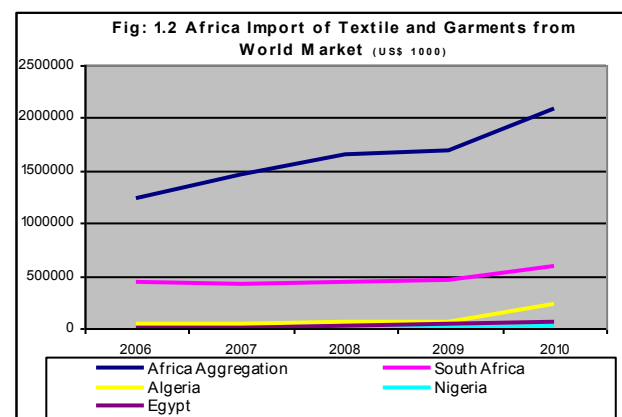
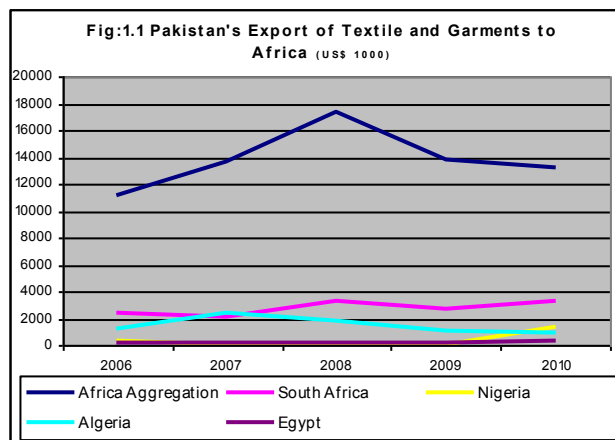


and traditional products, there is an urgent need to explore new markets and diversify exports in order to improve the trade balance. Given the magnitude of SMEs' contribution to formal manufacturing and industrial jobs, SANE group emerges as one of the most attractive destinations for market diversification. In this regard, an analysis has been developed to identify prominent sectors for economic cooperation between Pakistan and African countries.

Textile and Clothing

Even though all SANE nations enjoy advantage in textile and clothing, they also import these commodities from other world markets. The African region imports 1.2 % textile and garments from the world market. As evident in Fig 1.2, African imports of textiles and garments has increased sharply in the last five years.

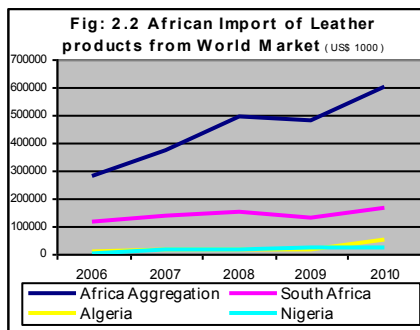
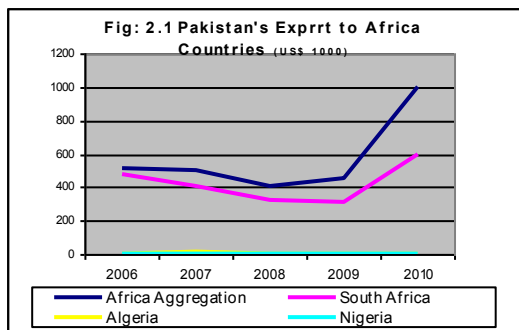
South Africa and Algeria are the major importers of these commodities. At the same time, South Africa and Algeria are also the major markets for Pakistani products. However, in contrast to Algeria's increasing imports of textile and garments from the



world market, Pakistan's exports of textile and garments to Algeria has reduced gradually over the last few years. The overall export of textile and garments to Africa from Pakistan has witnessed a declining trend since 2008. One of the major reasons for overall reduction in export may be the focus of Pakistani exporters on South Africa and Algeria only. Other countries such as, Egypt, Nigeria, Tunisia, Togo, Morocco, Angola and Sudan are neglected by local exporters. However, Pakistan and African countries can develop their textile and other related sectors by sharing raw materials, expertise, packaging techniques and cooperating in market development.

Leather and Leather Products

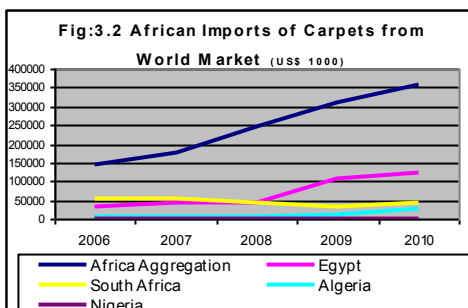
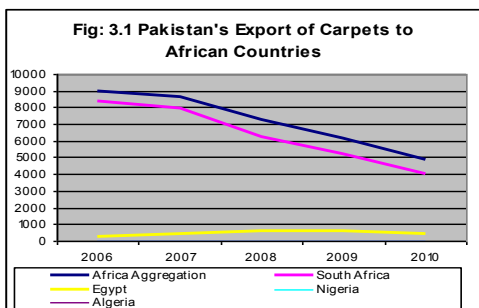
Pakistan is a manufacturer and exporter of genuine leather products such as footwear, suitcases, handbags, belts, wallets, and so on. One percent of total world export of leather and related items comes from Pakistan. There is an ample opportunity for local producers to export their leather products to Africa. Fig 2.1 and 2.2 show trading pattern of both economies. Pakistan's export of leather accessories is rising with the increasing import of African countries from the world market. However, Pakistan's total export of these commodities is relatively low and does not cater to the growing markets of Algeria and Nigeria. This is an area where Pakistan can expand its export base, not limiting itself to the traditional African markets but also beyond.



Carpet

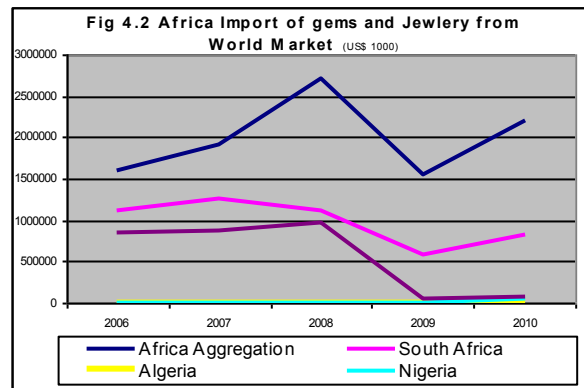
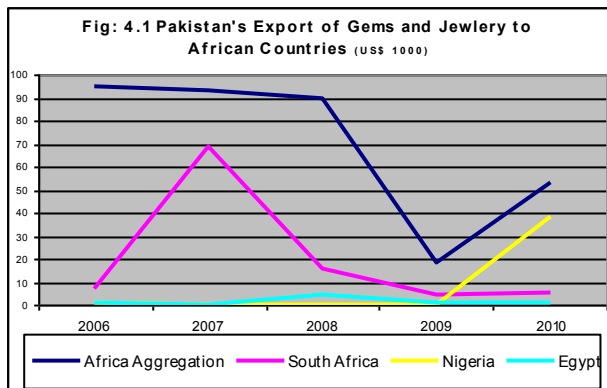
Pakistan is one of the leading exporters of hand knotted carpets to the world market. The country's carpet industry constituted 1.34% of total world exports of carpets in 2010. Its export is only limited to US, UK and EU countries. African countries have not been explored yet as trading partners. As explained in Fig: 3.1, Pakistan's exports of carpets to African countries has declined sharply in the past five years. On the other hand, carpet demand has been expanding in the African region as indicated by sharply increasing aggregate import of carpet (Fig: 3.2). The widening gap between Pakistan's exports of carpet and African imports of carpet may be due to increasing global demand of machine made carpets in contrast to Pakistan's comparative advantage in manufacturing hand knotted carpet. Nonetheless, there is an opportunity for local carpet manufacturers to enhance their export to African region by targeting other countries such as Algeria, Nigeria, Morocco, Angola, and Cameroon. Diversification in colors, style, size and quality according to African culture is also important to get high market share in the continent.

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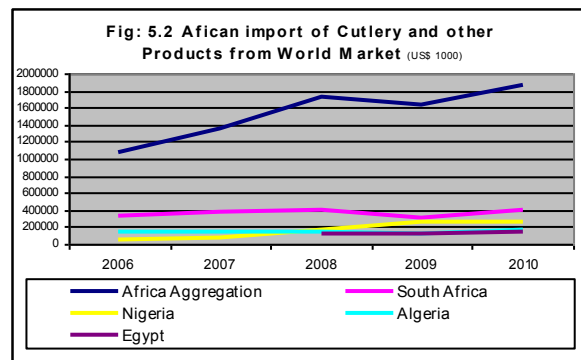
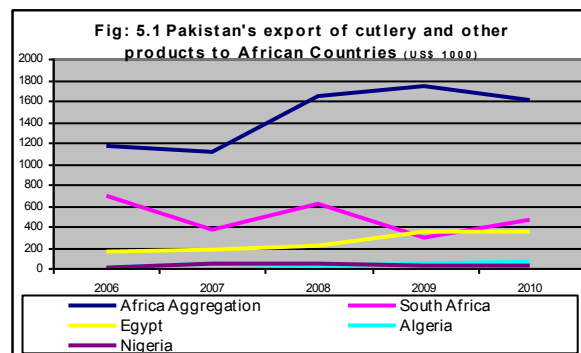
Gems and Jewelry Sector

African countries are producers, exporters and importers of gems and precious metals. South Africa is the world largest producer of gold and platinum. Pakistan's gems export constitute 0.07% of world exports and is ranked 61st in world exports. However, the trade between SANE nations and Pakistan is limited in this sector. Pakistan's export of gems and jewelry is quite low in terms of monetary value and has also decreased sharply in 2009. The African import of gems and jewelry from the world market (fig: 4.2) has also fluctuated during last five years and is gradually increasing since 2010. Both economies have comparative advantage in this sector. However, there is a need to adopt measures to boost trade through trade fairs and exhibitions. Traditional silver jewelry studded with precious gems has high demand in African countries. Artisans of silver jewelry and real gems should explore South Africa, Algeria, Nigeria, Botswana, Libyan Arab Jamahiriya, Mauritius, Tunisia, Benin, Namibia, Morocco and Angola as target markets for their products.



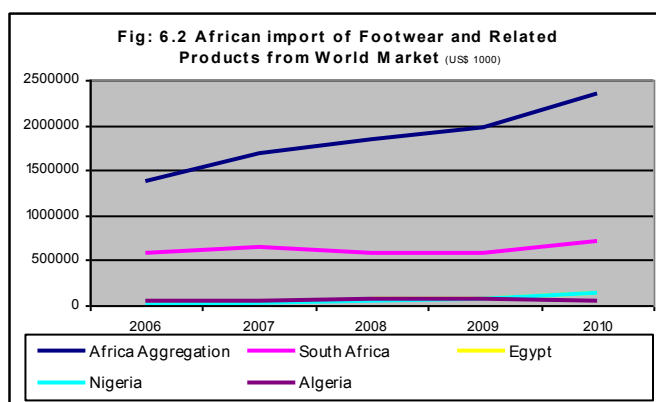
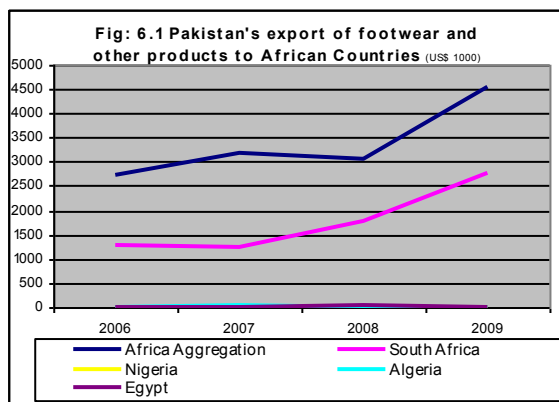
Cutlery and Utensils

Pakistan Cutlery Exports constitute 0.12% of total world exports. Major importers of Pakistan cutlery are USA, UAE, Brazil, Germany and France. Currently only 20-25% of cutlery manufacturers are exporting their products to world market, whereas, over 90% of the knives, blades and hunting equipment are exported. Over the last four years, the exports of cutlery sector have remained stagnant at the level of US\$50 million as our local producers have restricted their exports to traditional markets only. Africa is also a growing market for cutlery and related products. During the last five years, import of cutlery and related products by African region has increased rapidly. Pakistan took partial advantage of increasing demand of African countries from 2007 to 2009 as its export of cutlery products to South Africa and Egypt increased. Pakistan's export of cutlery items to Algeria, Nigeria is nominal. There is a great opportunity for local manufactures to exploit growing demand of cutlery products in Algeria and Nigeria in order to enhance total export volume to this region.



Footwear and Related Articles

Pakistan ranks 48th in Footwear exports, representing 0.15% of world exports. Major importers of Pakistan's Footwear are Saudi Arabia, UAE, Germany, France and Yemen. The African region is not a new destination for local footwear exporters. Fig: 6.1 and 6.2 show that Pakistan's export of footwear has increased from 2006 to 2010 with an increasing demand in the African region. However, the total volume of export is quite negligible in terms of quantity and value. Enhancing quality and design of local footwear according to the African consumer tastes provides an opportunity for Pakistan's footwear manufacturers to capture a growing market.



Other Potential Sectors

Other potential sectors such as processed food, dairy, seafood, dry and fresh flowers, hand embroidered clothes and ribbons, hand-crafts, bangles, antique articles, hosiery, towels and bed linen may also attract a reasonable clientele in African countries. Table 2 provides an analysis of potential areas for mutual trade and economic collaboration while table 3 lists all the prominent products traded with SANE nations. This can serve as a guideline for local producers and manufacturers to explore new avenues of trade with SANE countries.

Table 2:

Countries	Imports	Exports
South Africa	<ul style="list-style-type: none"> • Mineral fuels, oils, distillation products, etc • Iron and steel • Organic chemicals • Vehicles other than railway, tramway • Electrical, electronic equipment • Inorganic chemicals, precious metal compound, isotopes • Nuclear reactors, boilers, machinery, etc • Pharmaceutical products • Salt, sulphur, earth, stone, plaster, lime and cement 	<ul style="list-style-type: none"> • Articles of apparel, • Leather and leather products • Carpets and other textile floor coverings • Manmade filaments • Plastics and articles • Furniture and lighting, signs, prefabricated buildings • Footwear • Pharmaceutical products • Sugars and sugar • Cutlery • Electrical, electronic equipment • Ceramic products • Paper & paperboard, articles of pulp, paper and board • Iron and steel
Nigeria	<ul style="list-style-type: none"> • Cotton • Ships, boats and other floating structures • Plastics and articles thereof • Raw hides and skins (other than furskins) and leather • Iron and steel • Miscellaneous chemical products • Rubber and articles thereof • Lac, gums, resins, vegetable saps and extracts nes • Pearls, precious stones, metals, coins, etc • Coffee, tea, mate and spices 	<ul style="list-style-type: none"> • Cereals • Pharmaceutical products • Plastics and articles thereof • Articles of apparel, accessories, knit or crochet • Optical, photo, technical, medical, etc apparatus • Other made textile articles, sets, worn clothing etc • Inorganic chemicals, precious metal compound, isotopes
Algeria	<ul style="list-style-type: none"> • Mineral fuels, oils, distillation products, etc • Iron and steel • Articles of iron or steel • Nuclear reactors, boilers, machinery, etc • Electrical, electronic equipment • Railway, tramway locomotives, rolling stock, equipment • Vehicles other than railway, tramway • Aircraft, spacecraft, and parts thereof • Ships, boats and other floating structures 	<ul style="list-style-type: none"> • Cereals • Cotton • Manmade staple fibres • Articles of apparel, accessories, knit or crochet • Other made textile articles, sets, worn clothing etc • Manmade filaments • Articles of leather, animal gut, harness, travel goods • Pharmaceutical products • Tools, implements, cutlery, etc of base metal
Egypt	<ul style="list-style-type: none"> • Cotton • Manmade staple fibres • Other made textile articles, sets, worn clothing etc • Plastics and articles thereof • Nuclear reactors, boilers, machinery, etc • Fish, crustaceans, molluscs, aquatic invertebrates nes • Ships, boats and other floating structures • Optical, photo, technical, medical, etc apparatus • Manmade filaments • Tobacco and manufactured tobacco substitutes • Cereals • Yarn • Vegetable textile fibres nes, paper yarn, woven fabric • Pharmaceutical products 	<ul style="list-style-type: none"> • Cotton • Oil seed, oleagic fruits, grain, seed, fruit, etc, nes • Electrical, electronic equipment • Soaps, lubricants, waxes, candles, modelling pastes • Salt, sulphur, earth, stone, plaster, lime and cement • Pharmaceutical products • Iron and steel • Articles of iron or steel • Plastics and articles thereof • Nuclear reactors, boilers, machinery, etc • Manmade staple fibres • Impregnated, coated or laminated textile fabric • Paper & paperboard, articles of pulp, paper and board

Table 3:

Status	Pakistan	Prominent Sectors for Corporations				Avenues for Cooperation	
		Nigeria	South Africa	Egypt	Algeria		
Significantly Different Sectors	<ul style="list-style-type: none"> • Sports Goods 	<ul style="list-style-type: none"> • Oils and distillation Products 	<ul style="list-style-type: none"> • Platinum and Gold 	<ul style="list-style-type: none"> • Crude oil and petroleum products 	<ul style="list-style-type: none"> • Petroleum and related products 	<ul style="list-style-type: none"> • Cross country investment opportunities • Market Access • Establishment of Industrial Zones • Production Sharing Arrangement and Human Resource Skill Development 	
Identical Sectors at Relatively Different Levels of Development	<ul style="list-style-type: none"> • Textile • Knitwear • Denim Jeans • Garments (cotton) • Hosiery (cotton) • Home textile • Bed Linen • Table ware • Carpets and Rugs • Wood, processed wood • Leather • Gems and Jewelry • Surgical Instruments • Sports goods • Electrical goods 	<ul style="list-style-type: none"> • Cotton • Rubber • wood and Furniture • Hides and skins • Textiles • Cement and other construction materials • Food products • Footwear • Chemicals • Fertilizer • Printing • Ceramics • Iron and Steel 	<ul style="list-style-type: none"> • Automobile assembly • Metalworking, machinery • Textiles • Iron and steel • Chemicals • Fertilizer • Food and Food Processing 	<ul style="list-style-type: none"> • Textiles • Food processing • Tourism • Chemicals • Pharmaceuticals • Construction • Cement • Metals • Light engineering 	<ul style="list-style-type: none"> • Light industries • Mining • Electrical • Petrochemical • Food processing 	<ul style="list-style-type: none"> • Mutual Capacity Building • Joint Ventures • Packaging • Co-branding • Production Sharing Arrangement • Franchises • Licensing • Designing • Technology transfer • Technology Transfer • Human Resource Management 	

RAW MATERIAL IN FOCUS

STEEL

Iron and Steel are basic inputs in a range of industries comprising capital goods, consumer items, shipping, transport, housing, construction, energy distribution and infrastructural facilities etc.

World steel production crossed 1.0 billion tonnes for the first time in 2004, primarily due to the increase in consumption as a result of high growth rates experienced by both India and China. The total for the first eight months of 2011 was just over one billion tonnes, 8.3% vis-à-vis the same period in 2010.

It is widely believed that the fortunes of steel industry are no longer dependant on the markets of high income countries in Europe and Americas. Their role since the turn of the millennium has decreased as their share of global production has fallen from 50% in 2000 to 40 % in 2005. It decreased further to only 27% in 2010 and is forecast to fall under 25% by 2015.

Pakistan Market

Pakistan's per capital consumption of steel compared to other countries is quite low. Till 2003, Pakistan's per capita consumption stood at only 14 kg which suggests that there is great potential for growth. At present, Pakistan's per capita consumption of steel is only 21.7 percent of the global average, while most countries have per capita consumption of around 175 kg of steel every year, Pakistanis consume only 38 kg.

Pakistan's installed steel manufacturing capacity is estimated to be around 4 million tonnes with capacity utilization averaging around 80%. As a result, the gap between demand and supply has increased by 2.5 to 3.0 million tonnes, which is being met through import. The total demand for steel was estimated to be around 4.563 million tons in 2004-05 and was expected to increase to 6.837 million tons in 2009-10 at a growth rate of 8% per annum raising the deficit approximately from 1.9 million tons to 4 million tons.



Table 2 Per Capita Steel Consumption (kgs)					
Year	Pakistan	India	China	EU (15)	N.America
2001	14.4	27.9	123.7	378.4	288.1
2002	13.0	29.5	149	369	292.3
2003	14.3	31.3	186.2	369.8	285.9
2004	30.0	32.9	212.4	382.6	320.3
2005	35.0	36.6	266	366.5	293.1
2006 (e)	35.0	41.2	287.4	412	320.5
2007 (e)	35.0	45.8	319.6	429.6	289.8
2008 (e)	35.0	45.1	326.9	387.9	264.3
2009 (e)	35.0	50	409.4	252.5	164.8
2010 (e)	38.0	54.9	427.4	314.2	222.1

Source: International Iron and Steel Institute World Steel
EU (15): Top 15 European economies, (e): Estimated figures

Capacity

Out of the total installed capacity, the capacity to produce long steel products is around 2.5 million tonnes, flat products around 1.2 million tonnes and 0.3 million tonnes of other products. The primary domestic producers are Pakistan Steel Mills and Scrap Melters, the remaining demand is mainly met through imports and ship breaking.

Pakistan Steel Mills

This is the country's only integrated steel plant with an installed capacity of 1.1 million tonnes that employs blast furnace and converter technology and is totally dependent on imported iron ore and coking coal. Pakistan Steel Mills product mix includes slabs & billets, rolled billets, hot rolled flat products and secondries (cobble plates etc), thin strip, pig iron and hard coke which are consumed by a wide variety of down-stream industrial consumers. Plans to increase the installed capacity to 1.5 million tonnes are already underway.

It is widely believed that the fortunes of steel industry are no longer dependant on the markets of high income countries in Europe and Americas.

Steel Melters:

There are 110 units operating in this sub-sector that re-melts imported and locally generated scrap. It constitutes an installed capacity of 2 million tonnes, part of which works away from the organized sector, and a small portion of this part is also run as a cottage industry.

Steel Re-rollers:

This sector uses locally manufactured, imported and ship-demolition rollable material and has an installed capacity estimated to be around 3.2 million tonnes. This sub-sector also operates informally and as cottage industry.

Ship Breaking Industry:

Till a few years ago this sub-sector of the steel industry supplied up to a million tonne of re-rollable and re-meltable scrap besides forged steel shafts, non-ferrous scrap and serviceable engineering goods. Due to the use of old and obsolete breaking technologies and a sharp increase in international market for demolition vessels, the production capacity of this sector has been reduced to only 0.2 million tonne.

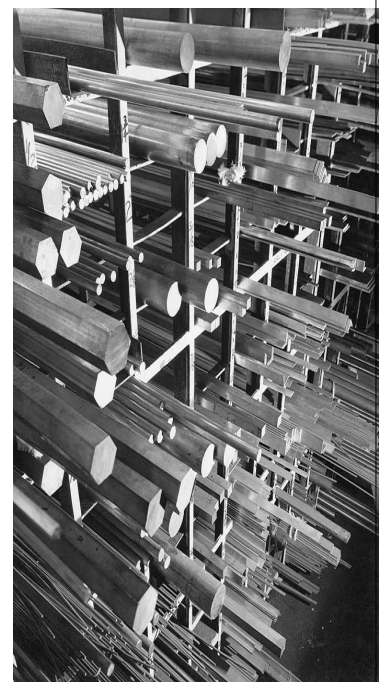
Future Prospects

At present, despite the relatively low consumption per capita of steel, Pakistan is faced with a shortage of steel production. This requires that avenues for enhancing production capacity be explored so that the iron and steel sector products can help promote economic growth within the country and also reduce the burden on an already import heavy economy. There are three possible options to further develop production capacity in the country:

- Expansion in the capacity of Pakistan Steel Mills.
- Establishment of another steel mill based on indigenous iron. This option should be treated as a long term option, yet one that needs to be considered to secure steel production in the country for years to come.
- Setting up of new induction furnaces

In order to avail these options and achieve the goal of increased steel production Pakistan needs to develop a multi pronged strategy, which motivates local and foreign investors alike to set up new iron and steel production units in the country. In this regard Engineering Development Board (EDB) is preparing a National Steel Policy aimed at promoting mining industry in the country to produce steel for meeting country's demand through local production. The steel production target, under the new policy evolved in consultation with all the stakeholders, has been set at 10 million tonnes by the year 2015 and 15 million tonnes by the year 2020. According to the policy, government will provide incentives for the promotion of steel industry in the country by giving incentives in this sector as well as allot lease of ore deposit areas on better terms besides others facilities and removing unnecessary procedural difficulties. According to the Geological Survey of Pakistan, total reserves of 920 million tons of iron ore deposits exist in the country, out of which 780 million tons are considered to be proven reserves with the remaining 120 million tonnes classified as estimated deposits. This clearly suggests that steel sector in Pakistan holds great potential for progress.

Avenues to enhance steel production capacity need to be explored so that iron and steel sector products can help promote economic growth within the country and also reduce the burden on an already import heavy economy.



FISCAL DEVELOPMENTS FOR SMEs

A LOOK AT THE ECONOMY

In the wake of meager economic performance of the country during Q1-FY12, the government was urged to revise its fiscal deficit projection for the current fiscal year from 4 percent to 4.4 percent. The figure can go above 5 percent if provinces fail to create Rs 125 billion projected surplus in consequence of unanticipated government spending on militancy and flood affected areas along with plunging revenue collection. Although the resultant development expenditure and tax exemptions would further add to the fiscal deficit, it will breathe life into the industry of affected areas and help bolster the SMEs in particular and national economy in general.

Multi-Donor Trust Fund (MDTF), in this regard, announced the approval of the US\$ 20 million grant. It will create sustainable employment opportunities through rehabilitation of some 850 Small and Medium Enterprises (SMEs) in the areas of Khyber Pakhtunkhwa, FATA and Balochistan led by mobilizing Diaspora investments and building institutional capacities to support regulatory reforms.

Similarly, the Ministry of Commerce has approved Rs.31.62 million for the establishment of Research and Development Centres at Haripur Chamber of Commerce & Industry (HCCI), Tribal Area Chamber of Commerce & Industry (TACCI) and Dera Ismail Khan Chamber of Commerce & Industry (DCCI). Key institutional-technical support for implementation of the projects will be provided by SMEDA Khyber Pakhtunkhwa.

Moreover, the Federal Board of Revenue (FBR) has allowed special exemption in withholding tax to growers of agricultural produce, incidental expenses of oil tankers and steel melters.

- Growers' sale receipts from agricultural produce and expenditure on purchase of agricultural produce from its grower have been exempted from withholding tax and require payment through crossed banking instruments / banking channel.

- Payments made by the owners/ contractors of oil tankers for meeting necessary incidental trip expenses paid to crew of oil-tankers have also been exempted. However, this exemption shall not be allowed in case of payments made under any other head of their business expenditure.
- The rate of deduction of withholding tax has been reduced from 3.5 percent to 1 percent for local purchases of scrap steel made by the steel melters who have opted for the Sales Tax Special Procedure Rules 2007 relating to steel melters and are regularly filing returns under the said scheme. Steel melters who are outside the ambit of Sales Tax Special Procedure Rules 2007, or who have failed to file Sales Tax Returns regularly are not eligible to benefit from this reduction in rate of tax.

On the other hand, the government has withdrawn from the IMF program as a result of growing external sector of the economy. Government's confidence on the performance of external side and achieving 5 percent increase in exports growth is attributable to a range of noticeable shifts such as 19 percent increase in exports and 23 percent increase in imports in Q1-FY12 compared to Q1-FY11 and remittance worth \$3.3 billion during Q1-FY12 compared to \$2.4 billion for Q1-FY11. Real foreign exchange reserves, on the contrary, fell by \$1.4 billion from June 2011 to 11th October, 2011.

However, the economy at large is facing the challenges that are too big to be outshined by a few positive indicators of the external sector. Currently, energy crisis is the biggest among all the challenges and requires substantial government funding for resolving the issue of circular debt. Government, in this regard, is negotiating with Asian Development Bank (ADB) and World Bank (WB) for arranging the required funds to clear the circular debt. Since SMEs comprise more than 90 percent of Pakistan's economic establishments, narrowing down the above macroeconomic inferences to the SME sector remains completely appropriate.

government
 spending
 taxing
 use
 specific
 policy
 purpose
 stabilizing
 Fiscal
 economy

PRICE TRENDS

LIQUEFIED NATURAL GAS

Liquefied Natural Gas (LNG) is natural gas that has been condensed into liquid form. It is super cooled to minus 260 degrees Fahrenheit (minus 162 degrees Celsius). In liquid form, it takes up to 600 times less space than in its gaseous state. This makes LNG highly feasible for transport over long distances, safely and profitably.

In the form of LNG, natural gas can be shipped from parts of the world where it is abundant to where it is in demand. It is not flammable. In order to ignite, it has to vaporize, then mixed with air in proper proportions (flammable range is 5% to 15%) which is not very likely. LNG is odorless, colorless, non-corrosive and non-toxic and its weight is less than one-half of that of water, which means that in case of a spill at sea it will neither burn nor contaminate the water as it will float on water and vaporize rapidly, as opposed to other fossil fuels such as oil. The vapour cloud would be visible and would disperse quickly as it is lighter than air. In addition to this, LNG industry has an exemplary safety record. A 100 million mile journey of LNG tankers over 40 years without any major accident testifies to the fact that specially designed ships, modern technology, standard operating procedures and strict adherence to industrial standards can and does allow the safe handling of LNG.

Natural gas is the world's cleanest burning fossil fuel and has emerged as the environmentally preferred fuel of choice. In liquid form, it has much lower emissions compared to other fossil fuels such as oil and coal, as it is free of impurities such as dust, water and heavy hydrocarbons that cause higher emissions. The use of LNG is a proven, reliable and safe process, and it has been in use in the United States since 1944.

Global Reserves & Demand

Natural gas, in the form of liquefied natural gas or LNG, has the potential to be exported from countries with large, proven natural gas reserves and relatively high reserves-to-production ratios. Figure 1 shows the countries with the largest gas reserves in the world.

Fig:1

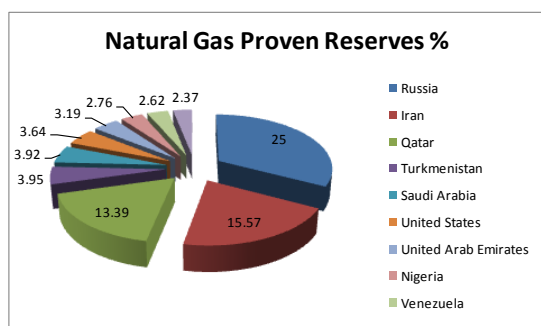


Table 1 shows the total gas reserves and consumption trends according to different regions. It also shows the number of years each reserve is likely to last, given the current rate of consumption.

Table 2

World Natural Gas Supply and Demand			
Regions	Reserves (Tcf)	Consumption (Tcf/yr)	Reserves/Prod. (yrs)
North America (ex Arctic)	263	27.3	10
Europe	201	18.5	11
Asia Pacific	524	14.4	36
S&C America	248	4.4	56
Former Soviet Union	2059	21.1	98
Africa	508	2.5	203
Middle East	2546	8.9	286
Total	6349	97.1	65

Interestingly, this leaves only Middle East and Africa as two regions with excess supply, which is likely to last for a lengthy period of time, given no new reserves are discovered. This will mean that more and more Natural Gas will be required to transport as LNG in future to meet the demands of regions with declining production capacities, yet rising consumption.

As a sign of the rising importance of LNG, at present there are 26 existing export or liquefaction marine terminals located on or off shore, in 15 countries. This includes major producers like Qatar and the fastest growing LNG producers such as Australia, Algeria, Nigeria, Papua New Guinea and Egypt. In contrast, there are 60 existing import, or regasification, marine terminals, on or off shore, spread across 18 different countries such as the fast growing and energy hungry India and China as well as the United States of America.

Market Trends

LNG is widely considered as a clean fuel in today's world and has now become a globally trading energy source. Low price, environmental friendliness and declining construction costs of LNG have resulted in a large number of countries and companies investing in LNG with United States alone scheduled to add around 30 re-gasification terminals by 2015. The demand is increased further by the rapid rates of growth by Asian countries such as China and India in particular. For example, China's demand for LNG has grown from 1 bcm in 2006 to around 13 bcm today. Another factor in the increased demand for LNG is the suspicion over the safety of nuclear energy as a source in the aftermath of the crisis in Japan.

It is clear that demand for LNG in the long run is likely to increase only, thus making it an attractive option for both countries and companies to invest in. However, the recent periods of economic slowdown and recession have affected the LNG market. For example LNG was priced around \$8/MMBtu in early 2008 and its spot price was around \$13/MMBtu. However, unlike oil, of which prices bounced back, LNG is still trading at around \$4-\$5/MMBtu, which is affecting the profitability of most of the companies. Another factor that is likely to impact the LNG market is the technological developments related to Shale Gas, yet its impacts are most likely to be felt in United States and a few European countries.

According to recent reports on the prospect of LNG Markets, there will be several positive highlights in the next 5 year period till 2015. Some of them are listed below:

- Currently, the global LNG Export capacity is 262 mtpa and the LNG import capacity is 565 mtpa. By 2015, 'LNG Reports' expects these to grow by 90% and 105% respectively.
- More than US\$140 billion will be invested in construction of new LNG export plants between 2010 and 2015.
- The number of LNG tankers sailing across the world will increase to around 400 in the next three years.
- A total of 16 importing and 6 exporting markets are set to enter the global LNG trade by 2015.

- Strong GDP growth in China and India will ensure that these markets will remain profitable and promising for LNG suppliers across the globe.

Prospects of LNG In Pakistan

Pakistan has been undergoing a severe energy crisis for the last few years. At present, Pakistan is reporting an electrical shortfall as high as 4680 MW (24%). This scenario becomes even grimmer since 6195 MW or 41.6% of Pakistan's total electricity production is dependent on natural gas, supply of which has become a problem in its own right.

Pakistan's dependence on natural gas as an energy source is enormous and not just restricted to power generation. For example, Pakistan has the largest number of cars, approximately 21% of the 9 million cars, operating on Natural Gas. These cars on average consume 320 million cubic feet per day. This means that Pakistan is struggling to meet with its demand for Natural gas as a fuel.

According to petroleum ministry estimates, Pakistan's domestic gas production is expected to fall from the current 4 billion cubic feet per day (cfd) to 2 billion cfd by 2020. Demand, on the other hand, is expected to soar to 8 billion cfd by that time, creating a 6 billion cfd shortfall. This huge deficit both is due to a mixture of low production, efficiency issues such as gas leaks and theft – which amounts to 300 mmcf/d or Rs. 20 billion. As a result, Pakistan in order to meet its energy requirements will need to tap into sources such as LNG which has a huge and increasing global market.

One of the major benefits that use of LNG can provide to Pakistan's economy is its relatively low cost and more expedient addition to the supply lines. For example, projects such as the deal to sign Natural Gas from Turkmenistan are both extremely costly and time consuming. The deal with Turkmenistan was first signed in 1996, and construction of the pipeline was to begin in 2006 at a cost of USD 7.6 billion.

Instead, if LNG from Qatar were to be utilized, 50% of the capacity to be added from the Turkmen pipeline could be made up for



in a period of 18 months at a cost of USD 0.5 billion only.

It is also worth noting that major pipeline deals, such as the one with Iran and Turkmenistan are tedious and uncertain projects due to the international political factors such as the opposition from the US in case of Pak – Iran pipeline and general instability and presence of hostile forces such as the Taliban in case of the Turkmen pipeline.

LNG Policy - Pakistan

In 2011, Ministry of Petroleum and Natural Resources framed the LNG Policy for Pakistan which is a continuation of Pakistan's policy for the sustainable development of the energy sector, including the provision of reliable and competitively-priced energy. The Policy emphasizes the need to meet the energy shortage by shoring up supply through import of gas from neighboring countries through cross-border pipelines and as LNG. The draft which is a revision of the original policy of 2006 aims to facilitate and expedite the installation of LNG receiving, storage, re-gasification facilities and expansion of gas transmission infrastructure, for the distribution and sale of regasified LNG ("RLNG") in the domestic market. For this purpose the policy directs the creation of a specific task force which is to act as a 'one stop shop' to address all issues concerning LNG projects in Pakistan, including the interpretation of policy regulations. The Policy in its attempt to promote LNG growth in the country outlines methods to facilitate LNG developers through tax and import duty rebates/ waivers as well as assist with setting up of infrastructure. According to the draft, government will encourage the participation of Multilateral Development Banks (MDBs) in LNG import projects to facilitate the financing of such projects also.

LNG Projects

- In March 2011, government announced the launch of an off-shore LNG terminal capable of importing 3.5 million tons of LNG per year. The first shipment is expected to be received by the first quarter of 2013.
- In October 2011, government signed a deal with an American firm Overseas Private Investment Corporation (OPIC) for an on-shore LNG terminal worth 400-500 million cubic feet. The project will cost USD 166 million and is expected to be complete by 2013.



LAHORE ON RAILS OPEN SOURCE TECHNOLOGIES—*OPENOFFICE*

This section of SME observer has specially been developed to:

- Motivate SMEs in Pakistan to use open source technologies
- Educate Pakistani SMEs in the use of free and open source technologies at minimal cost
- Present rich features of open source tools and to provide technical assistance to SMEs regarding its implementation

In this Issue, we look at another Open Source tool that holds great benefit for SMEs.

Why OpenOffice?

A plausible rival to Microsoft Office, OpenOffice includes rich functions to create text documents, spreadsheets, presentations, diagrams, and databases. It will let you edit basic documents such as letters and faxes, however it also handles equations and complex and multi-part documents with bibliographies, reference tables, and indexes. The interface is akin to that of Microsoft Office, and even advanced Office users will find almost everything they're used to such as templates, collaborative features (versions, recording changes), macros, and even a programming language.

It lets you open and save documents in formats as diverse as MS Office, PDF, HTML, and XML. It can also import files from these formats, as well as WordPerfect and others. However, it normally saves files in the open-standard Oasis OpenDocument XML format, for maximum compatibility with other applications. The most recent versions of OpenOffice have seen growth in the extensions available for the program. These include templates for professional writers, an export tool for bi-directional functionality with Google Docs, blog publishing, and others.

Following table shows the results of a survey (2010), conducted by webmasterpro regarding market share of OpenOffice.

Sweden	13 %
Austria	12 %
Luxembourg	12 %
Switzerland	11 %
Canada	11 %
Hungary	11 %
Australia	10 %
United States	9 %
United Kingdom	9 %
Netherlands	8 %
Brazil	8 %
Romania	8 %
Ukraine	7 %
Bulgaria	7 %
Russian Federation	6 %
Turkey	5 %
India	5 %
China	0.2 %

Market

share as per survey conducted by webmasterpro.de in 2010
Source: <http://www.webmasterpro.de>

Compatibility

OpenOffice completely supports Microsoft Windows (all versions), Linux (all flavours), Solaris, BSD, OpenVMS, OS/2 and IRIX. However, the current primary development platforms are Microsoft Windows, Linux and Solaris.

Components

OpenOffice encompasses a collection of applications that work together closely to provide the features commonly included in modern office suites. Many of the components mirror those available in Microsoft Office. The components available include:

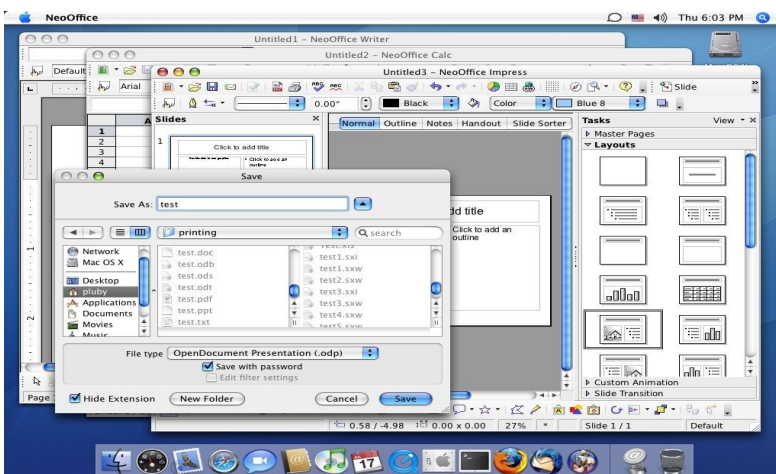
1. **Writer:** It is similar to Microsoft Word. It can export [Portable Document Format](#) (PDF) files, and can function as a basic [WYSIWYG](#) editor for creating and editing web pages.
2. **Calc:** It is comparable to [Microsoft Excel](#). Calc can export spreadsheets to the PDF format. Calc provides a number of features not present in Excel, including a system which automatically defines series for graphing, based on the layout of the user's data.
3. **Impress:** It is similar to Microsoft PowerPoint and Apple Keynote. Impress can export presentations to Adobe Flash (SWF) files, allowing them to be played on any computer with a Flash player installed. It also includes the

“Lahore on Rails” is basically inspired from “Madrid on Rails”, also stirred by famous open source web application framework “Ruby on Rails”; a project initiated by the city council of Madrid to motivate SMEs to use open source technologies.

ability to create PDF files, and the ability to read Microsoft PowerPoint's .ppt format. Impress lacks ready-made presentation designs but this can be overcome by downloading free templates online.

4. **Base:** It is similar to Microsoft Access. It allows the creation and manipulation of databases, and the building of forms and reports to provide easy access to data for end users. As with MS Access, Base can function as a front-end to a number of different database systems, including Access databases (JET), ODBC data sources and MySQL. Base became part of the suite starting with version 2.0. Native to the OpenOffice suite is an adaptation of HSQL. While Base can be a front-end for any of the databases listed, there is no need to install any of them. Raw SQL code can be entered by those who prefer it, or graphical user interfaces can be used.
5. **Draw:** This graphics editor is comparable in features to early versions of CorelDRAW and Microsoft Visio. It features versatile "connectors" between shapes, which are available in a range of line styles and facilitate building drawings such as flowcharts. It has similar features to desktop-publishing software such as Scribus and Microsoft Publisher. Draw can also export its creations to the PDF format.
6. **Math:** A tool for creating and editing mathematical formulae, similar to Microsoft Equation Editor. Open Office users can embed formulae inside other OpenOffice.org documents, such as those created by Writer. It supports multiple fonts and can export to PDF.

Both Microsoft Office and OpenOffice are well-built platforms that will support office efficiency. You might want to think installing both office suites according to your own preferences.



*Open Source Technologies
provide SMEs an
opportunity to grow and
expand their business.*

Developer's Site: <http://www.openoffice.org/>

Download Link: http://download.services.openoffice.org/files/stable/3.3.0/OOo_3.3.0_Win_x86_install-wJRE_en-US.exe

Help Files: <http://support.openoffice.org/>

For more information regarding aforesaid Open Source Tool, please contact:

SME Observer HelpDesk

(042) 111- 111- 456 Ext: 342

Or e-mail at farhan.tanveer@smeda.org.pk



Turn Potential Into Profits

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Small & Medium Enterprises Development Authority (SMEDA)

Vision

“Growth of globally competitive SME sector, through a conducive environment and support services, serving as an engine of sustainable growth for national economy”

SMEDA Mandate

- *Facilitate Policy-making and provide overall planning relating to SMEs in Pakistan*
- *Advise Federal Government for allocation of funds*
- *Act as resource base for providing expertise, information, data and statistics*
- *Provide, arrange and facilitate support services*
- *Initiate activities for growth and development of SMEs*

FROM THE EDITOR'S DESK

In the Trade Outlook section, we have taken a rather different approach. This issue includes a look at a non-traditional market, Africa. Within the African continent, we focus on South Africa, Algeria, Nigeria and Egypt as destinations for export growth and diversification. The Raw material section highlights the importance and market of steel while we also look at the LNG sector as a potential source of energy to support industrial growth and development in Pakistan. Given the fact that information technology is becoming a necessity for business, the “Lahore on Rails” section provides information on Open Office, a plausible rival to Microsoft Office. It includes rich functions to create text documents, spreadsheets, presentations, diagrams, and databases.

Your feedback is extremely important and valuable for us. We hope that we will continue receiving your suggestions to make SME Observer a comprehensive, analytical publication according to the requirements of our Readers. Till then, we hope you find this issue of SME observer informative and useful.

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