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INSIDE THIS ISSUE:

From The Editor's Desk

The second issue of the quarterly "SME Observer" is in your hand. Kudos to the team, an idea long incubated has seen the light of day. One finds it difficult to strictly point at the audience of such a publication; is it SMEs? Policy makers? Academia? Students? I myself, have grappled with the question for a while and have arrived at the conclusion that there is pretty much everything for everyone. The Trade Analysis section provides information for SMEs on potential markets, this time focusing on the sports goods sector.

Cont. Pg. 16

ECONOMIC REFORMS AND SME DEVELOPMENT

Economic managers in current turbulent times are striving to achieve macro economic stability through increasing tax revenues and simultaneously controlling sky-rocketing inflation. The State Bank of Pakistan (SBP) has played an important role in this regard, through restricting further government borrowing and being watchful of the developments in the financial market. Reduced government borrowing from SBP may contribute towards the efforts to control inflation but it may not completely solve the issue of credit availability for SMEs. In order to arrange funds to support fiscal deficit and public procurement, Government needs to seek assistance from scheduled banks. As the government is believed to be a more secure borrower than SMEs, scheduled banks are more likely to lend to the government, leaving lower amount of credit available for SMEs.

SME Development; Driving Economic Growth

The government has also indicated power tariff increases as high as 21 percent. If implemented, this measure will directly increase the cost of production of SMEs impeding their growth and development.

(Cont. Pg.2)

SME TRADE OUTLOOK
SPORTS GOODS

"The beginning of Sports goods Industry in Pakistan can be traced back to as early as 1918 when the first football supplied by a British Army personnel, was re-stitched in Sialkot followed by its local production. Currently, there are over 3,000 small and medium sized sports goods industrial units, and some 50 well established industries functioning in and around Sialkot. The Sports Goods Industry of Sialkot produces quality commodities mainly for foreign markets. It is a labour-intensive industry providing direct and indirect job opportunities to about 60,000 workers, while sub-contracting of work on piece rate is a common practice, resulting in more jobs for people".

(Cont. Pg. 2)

Economic Reforms and SME Development

Moreover, government is also forced to curtail development expenditure after having been unable to implement tax reforms proposed earlier. Consequently, the funds for SME development related projects falling under PSDP may also be slashed.

On the other hand, SBP has again kept the policy rate unchanged in the latest Monetary Policy statement. According to SBP, a favorable external current account position and relatively disciplined government borrowing are primarily the reasons behind keeping the policy rate intact. From a small business perspective, 14 percent policy rate is still too high for business competitiveness. Policy rates in the neighboring economies like China and India are as low as 6.06 and 6.75 percent respectively. As Pakistan is competing with these economies in international markets, securing a reasonable chunk in the region's exports could be encouraged by reducing policy rate along with other measures. In case policy rate option is not available, other credit enhancement mechanisms for SMEs need to be explored.

Although implementation of economic reforms has become extremely inevitable, the significance of SME sector and its contribution to the overall economic development can not be disregarded.

Monetary and fiscal authorities need to strike a balance between executing critically required economic reforms and facilitating the SME sector. Otherwise, existing structural weaknesses together with desperate economic policy shifts may only impede SME development as well as economic growth of the country.

SME Trade Outlook—Sports Goods

A major portion of the total production comes from cottage and small scale manufacturing units. However, some units have joint ventures with foreign manufacturers, which is beneficial for the local industry in technical and marketing aspects.

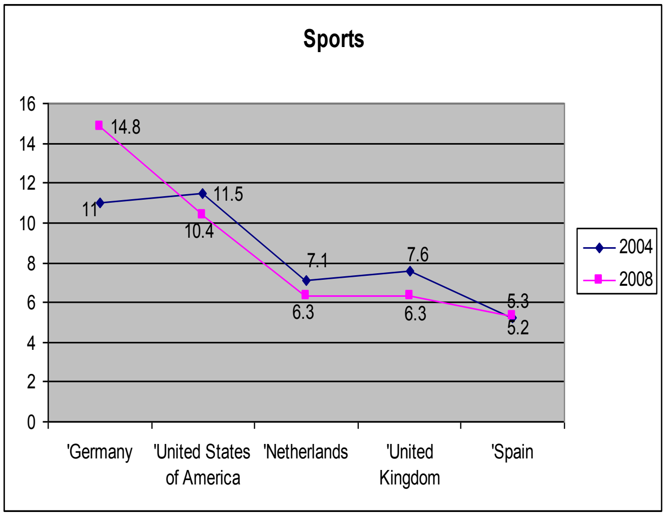
Sports Industry of Pakistan is famous worldwide for its footballs, volley balls, hockey sticks, cricket bats, other sports garments including gloves, pads etc. Pakistan's export of Sports Goods only accounts 0.23% of total world exports, ranking 28th in the world market. Major importers of Pakistan's sports goods are Germany, United States of America, Netherlands, United Kingdom and Spain.

Table: 1 State of Pakistan's Exports of Sports Goods Globally

Importers	Trade Indicators FY 2008-09		Competitors
	Share in Pakistan's exports, %	Share of partner countries sports items imports, %	
'Germany	14.8	0.5	China(66.8), Japan (9.4), Czech Republic(4.9) Netherlands (3.2), Austria (2.2)
'United States of America	10.4	0.1	China (85.6), Japan (2.7), Chinese Taipei (2.2), Mexico (1.6) Canada (1.2)
'Netherlands	6.3	0.2	China(65.3), Germany (9.3), UK (4), USA (3.7), Japan(2.8)
'United Kingdom	6.3	0.3	China (56.4), Germany(16.7), USA (5.6), Hong Kong (3.2), Ireland(2.6)
'Spain	5.3	0.6	China (35.7), Germany (25.7), UK (13.5), France (4.3), Italy (3.2)

As evident from table 1, Pakistan's share in the import of sports goods by partner countries is negligible, while it accounts for a significant share in Pakistan exports. From 2004-2008, Pakistan's export of sports goods to its major trading partners except Germany has declined.

Fig. 1 shows the pattern of Pakistan's exports to various countries.



As visible, Pakistan's exports to Germany increased by 3.8% while share of USA, Netherlands, and UK decreased by 1.1%, 0.8% &1.3% respectively during 2004-08.

Market Analysis: Pak- German Sports Goods Trade

Germany is the largest importer of sports goods from Pakistan; 14.8% of Pakistan's exports find their way in the German market. China, Czech Republic, Japan, Netherlands, and Austria are the leading competitors of Pakistan in this Market. China enjoyed the largest share in Germany's Sports goods market (66.8%) followed by Czech Republic 6.3%, Japan 5.5% and Netherlands 4.2% in 2008. The graph below illustrates the trend of German sports market with respect to its demand and supply by major exporting countries.

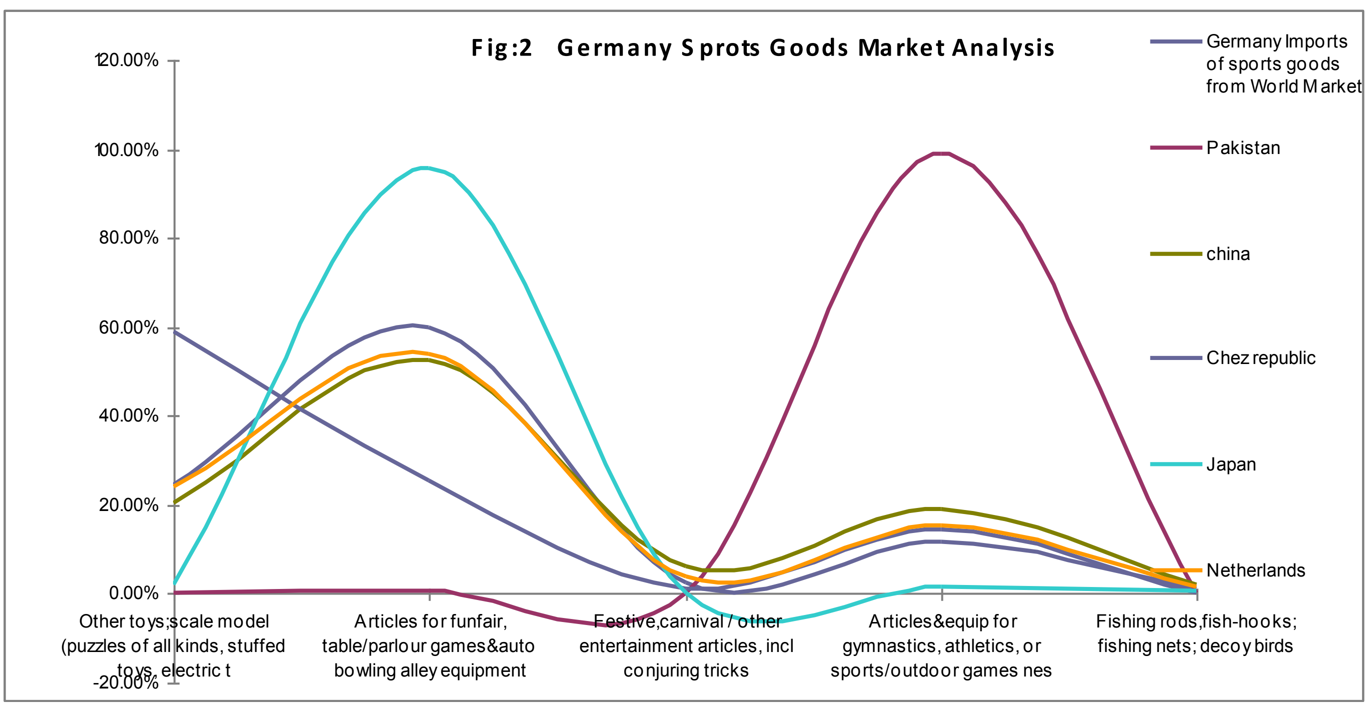
Exports of sports goods from China and Netherlands are well aligned with the market demand of Germany. Approx 98% of Pakistan's export to Germany consists of Articles for Gymnastics, Athletics etc. while its export of other commodities which are in high demand in Germany is negligible.

Product Analysis: HS code: 9506 Articles & Equipments for Gymnastics and Athletics

Pakistan's export to world market only concentrates on articles of gymnastics and athletics but it does not cover all commodities falling under this category. Pakistan's exports under this category exist in only two products:

- HS:Code 950662 Inflatable Balls (foot balls and other)
- HS:Code 950699 sports & outdoor games articles (hockey sticks, cricket bats etc.)

Export of other sports articles is insignificant, even non existent.



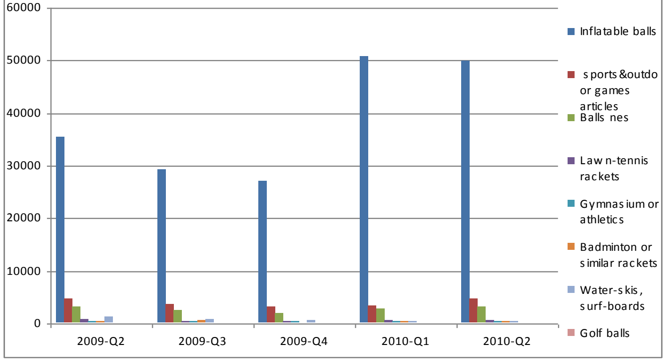


Fig:3 Product wise Analysis of Pak Exports to World Market: 9506 Articles&equip for gymnastics, athletics, or sports/outdoor games nes

Fig:3 shows that's export of inflatable balls (footballs etc) has increased sharply within last two quarters of 2010.On the other hand, very nominal increase of sports and outdoor games (cricket bats, hokey sticks and others) is observed in Q1 and Q2 of 2010. However, demand of lawn tennis/badminton rackets, articles of gymnastics and athletics and golf balls etc. is increasing gradually. Pakistan needs to concentrate on these commodities also in order to broaden its export base.

Market Analysis: H.S.Code 950662 Inflatable balls

Pakistan's export of Inflatable balls in German market is impressive. Fig: 4 shows that in Q2 and Q3 of 2010, Pakistan's exports of inflatable balls exceeded that of China. Over all though both countries witnessed a decline in Q1 and Q2 of 2010, however, China's export declined more sharply than Pakistan's. Rapid improvement in production techniques is now a pre-requisite for remaining competitive in this particular market against China, as well as the Netherlands, an emerging competitor of Pakistan.

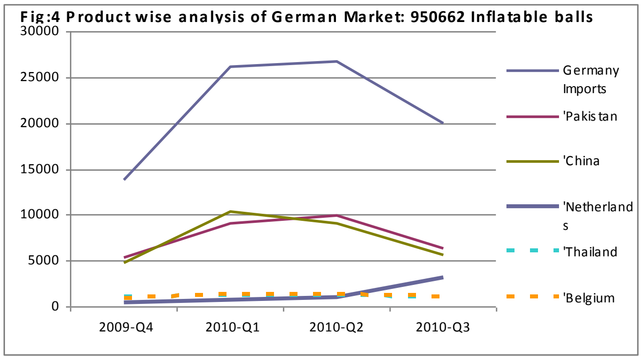


Fig:4 Product wise analysis of German Market: 950662 Inflatable balls

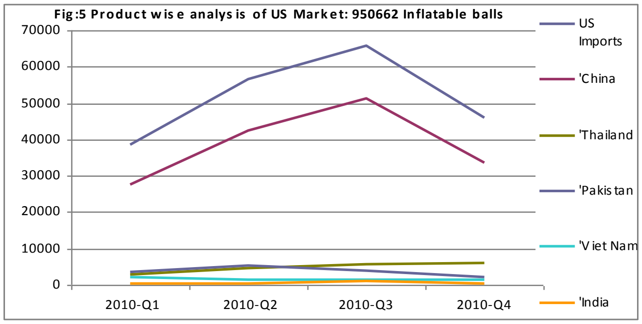


Fig:5 Product wise analysis of US Market: 950662 Inflatable balls

This situation is quite different in US market. Fig:5 shows US market of inflatable balls. China is the major exporter of inflatable balls followed by Thailand and Pakistan. In Q3 and Q4 of 2010 total US imports of Inflatable balls declined. Consequently, export of China and Pakistan shows a decline in the same time period. Thailand on the other hand, is gradually capturing Pakistan's share in US market as its export of inflatable balls shows an increase in last two quarters of 2010.

Market Analysis: 950699 Articles and Equipments for Sports and Outdoor Games (Cricket Bats and Hockey Sticks)

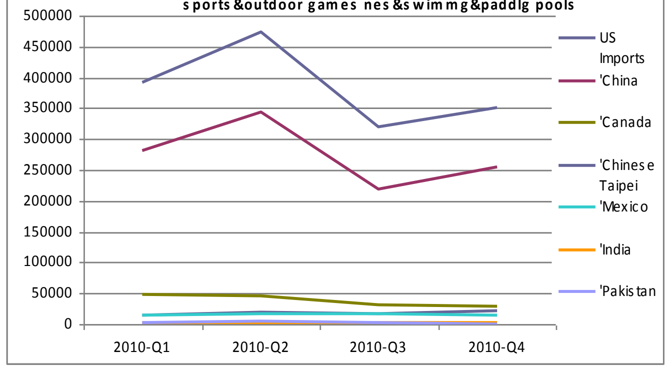


Fig:6 Product wise analysis of US Market: 950699 Articles&equip for sports&outdoor games nes&swimmg&paddlg pools

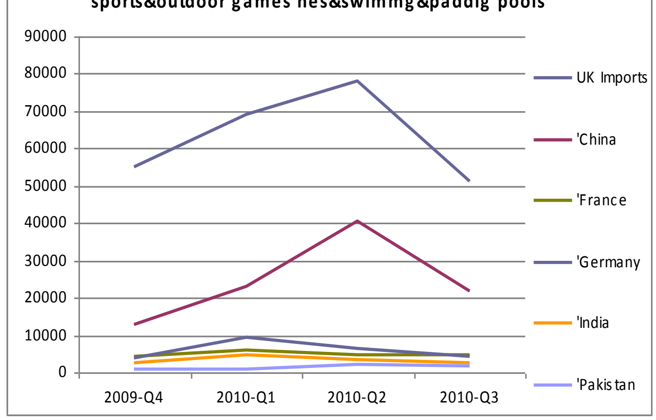


Fig:7 Product wise analysis of UK Market: 950699 Articles&equip for sports&outdoor games nes&swimmg&paddlg pools

Fig: 6 and Fig: 7 depict Pakistan's export of articles equipment for sports outdoor games nes & swimmy & paddle pools (including bats and hockey sticks) to US and UK markets respectively.

Analysis shows that (fig: 6), China is the leading exporter of articles of equipment for sports outdoor games nes & swimmy & paddle pools (including cricket bats and hockey sticks) in US and UK. Pakistan's share in both markets is negligible. Total import of articles of out door goods by US decreased sharply in Q2 and Q3 of 2010 and increased in Q4 of 2010. Consequently, export from China to US market also declined.

Fig: 7 shows the state of UK market, where China again is the largest exporter of outdoor games articles. UK market for this commodity is declining and depicts the international declining demand of these items. At the same time, Pakistan's export to UK shows increase in Q2 and Q3 of 2010, while export from India declined in Q2 and Q3 of 2010.

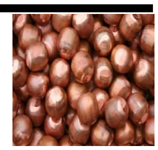
Pakistan is the major exporter of inflatable balls, cricket bats and hockey sticks. The existing export base of sports goods in too narrow for expansion of its share in the global market. There is an urgent need of market diversification and product up gradation. Lack of state of the art technology, skilled human resource, financial constraints and high cost of doing business are the major issues faced by this industry. To provide technological support to sports industry, SMEDA is in the process of establishing Sports Industry Development Centre in Sialkot for product upgradation of inflatable balls. The project will enable sports goods sector to adopt the new technology of mechanized ball which is threatening the current hand stitched inflatable (mainly soccer) ball. The Centre shall provide skilled labour, technology infusion, mould making, proto type development & technical consultancy services.

In addition to this, Sialkot Business and Commerce Centre is also being established. The project offers a shared display, meeting and conference facility, to serve as a one Stop Shop for local and international buyers, offering year-round exhibitions and business development services for small & medium sized exporters. Sports goods producers should take advantage of this facility in order to enhance their linkages with international buyers to expand their export.

Copper was the first mineral that man extracted from the earth's crust

Raw Material In Focus

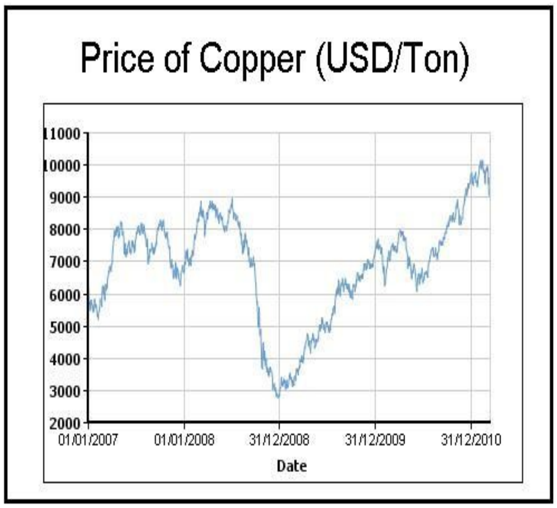
Copper



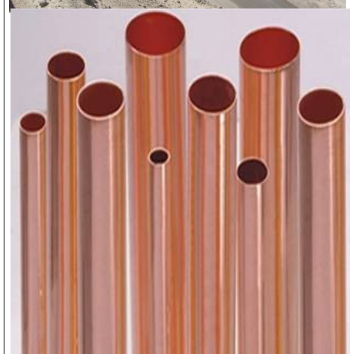
Copper was the first mineral that man extracted from the earth's crust and as technology progressed the use and demand for copper increased significantly. With distinctive physical properties – being malleable and ductile, a good conductor of both heat and electricity, and being resistant to corrosion, demand and exploration for the metal was extended throughout the world laying down the foundations for the industry as we know it today. Being an excellent conductor of electricity, one of the main usages of copper in Pakistan is for the production of cable, wire and electrical products for both the electrical and building industries. The construction industry also accounts for copper's second largest usage in such areas as pipes for plumbing, heating and ventilating as well as building wire and sheet metal facings. While copper and its products are in high demand in the local market, export of copper products has also been increasing at a rate of around 37% per annum since 2005 and in 2009. Total copper exports valued at $57,352,000; with copper waste and scrap ($23,907,000), wire ($20,782,000), bars, rods and profiles ($5,223,000), and copper table, kitchen, household articles ($5,145,000) making up the major share of copper exports. Moreover, apart from huge domestic demand for fans (for which copper wire is one of the primary raw material), during the last few years Pakistan has seen a surge in its export of fans from $18,448,000 in 2006 to $32,041,000 in 2009. Such high demand in both local and the international market shows the importance of copper and the economic benefits that copper trade can bring to Pakistan's economy.

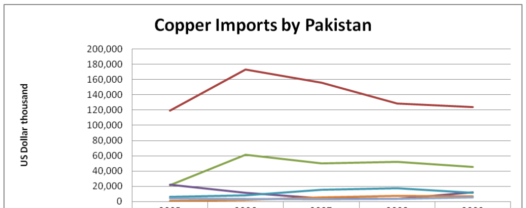
While Pakistan is rich in metallic and non-metallic minerals, copper extraction in the country has been low with annual production of blister copper (copper with almost 98% purity) being 36583 tons in 2007-8; 17,799 tons in 2008-9 and 18,121 tons in 2009-10. A number of copper occurrences have been reported in all the four provinces in the country either associated with magmatic and volcanogenic sequences or ophiolites and hydrothermal alteration zones, the most promising geological settings for copper resources associated with gold and silver. While all these occurrences are of significant importance, major deposits of copper are located at Saindak and Rekodiq and Bela in Balochistan and Shinkai, Waziristan. Pakistan has an opportunity to expand its copper production base, lessen the burden on the national exchequer while at the same time, develop its copper industry. One such copper deposit in Rekodiq (the 7th biggest copper deposit in the world) according to estimates can produce 200,000 tons of copper coupled with gold and silver annually. To cater to the local and international demand copper exploration, mining and processing projects should be initiated on priority basis - which on a micro level will help local businesses with better prices as compared to the international prices and at a macro level propel Pakistan to become a copper exporting country.

In the international market the price of copper has been increasing significantly during the last 3 years. As seen in the graph, the economic recession led to a sharp decrease in the price of copper, hitting its lowest point near the end December 2008. However, since then the price of copper has seen an increasing trend which is likely to continue as economies around the world



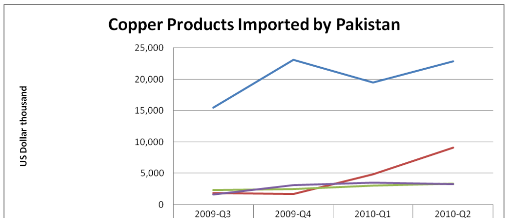
recover and economic activity speeds up, which further provides incentives to extract copper locally.





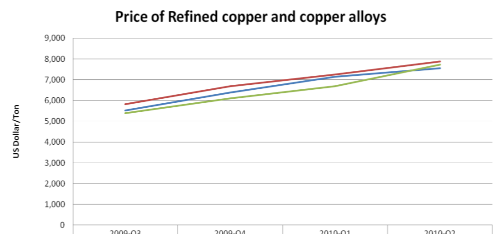
	2005	2006	2007	2008	2009
World	119,260	173,079	155,709	128,799	123,880
Zambia	21,574	61,464	49,988	52,303	45,566
Russian Federation	21,925	11,856	4,541	3,736	12,370
China	6,365	8,460	15,622	17,597	11,679
India	957	2,450	5,892	7,778	6,810
Republic of Korea	4,454	3,567	2,729	3,127	5,613

Analyzing Pakistan's copper imports during the past few years it is seen that accumulated import rose and topped up in 2006, followed by a steady decline up till 2009. 66% of Pakistan's total copper imports were from Zambia, Russian Federation, China and India.



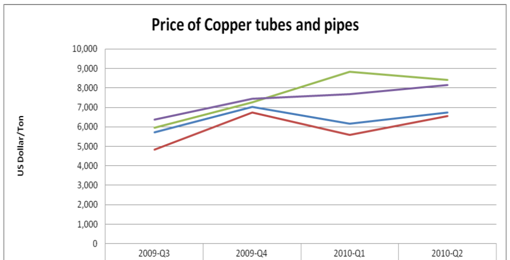
	2009-Q3	2009-Q4	2010-Q1	2010-Q2
Refined copper and copper alloys, unwrought	15,469	23,131	19,470	22,889
Copper tubes and pipes	1,901	1,712	4,882	9,085
Copper bars, rods and profiles	2,287	2,463	3,004	3,357
Copper foil of a thickness not exceeding 0.15mm	1,628	3,133	3,534	3,260

Product wise analysis shows that the imports of refined copper and copper alloys have been considerably higher than the rest during the last year. Copper tubes and pipes after being somewhat steady in the third and fourth quarters of 2009 show a sharp increase of US$7,373,000 in the subsequent quarters. Meanwhile, import of copper bars, rods and foil has been gradually increasing as the year progressed.



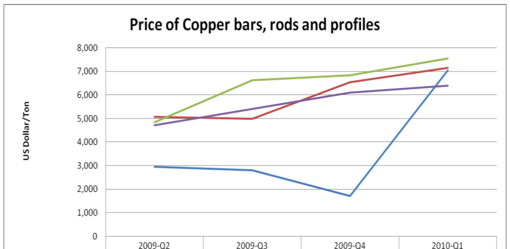
	2009-Q3	2009-Q4	2010-Q1	2010-Q2
World	5,530	6,400	7,150	7,560
Indonesia	5,820	6,690	7,250	7,880
Zambia	5,400	6,120	6,700	7,730

From Pakistan's perspective, the pattern of price variation of refined copper and copper alloys in the graph shows that it has been more or less the same for the world, with prices from Indonesia being slightly higher than that of the world and Zambia's slightly lower.



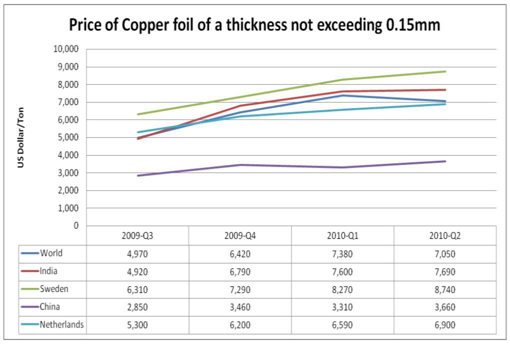
	2009-Q3	2009-Q4	2010-Q1	2010-Q2
World	5,710	7,020	6,150	6,720
China	4,830	6,740	5,580	6,560
Thailand	5,950	7,270	8,830	8,400
Republic of Korea	6,370	7,440	7,680	8,160

Coming to price trends of copper tubes and pipes in Pakistan, China offers the lowest price for these products. Prices from Thailand the Republic of Korea cross each other in 2009-Q4 after which Thailand peaks and falls back to almost equal to those in the Republic of Korea by 2010-Q2. The imports from Thailand have followed the price patterns by increasing in value from 2009-Q3 to 2010-Q1 and falling thereafter in 2010-Q2.



	2009-Q2	2009-Q3	2009-Q4	2010-Q1
World	2,950	2,810	1,710	7,040
Republic of Korea	5,080	4,990	6,540	7,160
Thailand	4,840	6,630	6,830	7,550
Malaysia	4,710	5,405	6,100	6,390

The import of copper bars, rods and profiles (3rd largest copper import by Pakistan) has seen a steady increase during the last year. Almost 50% of the total imports of copper are from the Republic of Korea. Price wise, we see that Malaysia offers the best prices in this category along with Thailand and Korea.



Lastly, import of copper foil has almost doubled during the last year with India being the largest import partner for Pakistan. The prices in India have been on a continuous rise since 2009-Q3. Despite being the second largest import partner, Sweden has the highest price which has also been on a steady increase throughout the given time period, reaching 8,740 US$/ton in the second quarter of 2010. However, China offers significantly lower prices compared to the rest of the countries.

The effects of the recent economic slow, which led to a contraction in copper imports and exports by Pakistan, is now fading away and economies are recuperating. This revival of economic activities is likely to increase the demand of copper all over the world along with prices, which will present Pakistan with both challenges and opportunities. By mining copper deposits locally, not only will Pakistan have an opportunity to capture a share in the world copper market but will also cater to the local demand. Moreover, as explorations in recent years by government agencies as well as by multinational mining companies and various regional geological surveys have confirmed that Pakistan has great potential in metallic minerals like copper, e.g. Rekodiq. Realizing the vast potential of major metallic and non-metallic mineral reserves, there is great opportunity for the multinational companies to invest in this sector which will be beneficial for the economy and the investors in the long run.

Realizing the vast potential of major metallic and non-metallic mineral reserves, there is great opportunity for multinational mineral exploration, mining and processing companies to invest in this promising sector

Monetray & Fiscal Developments for SMEs

Keeping in view the broader macroeconomic situation, the State Bank of Pakistan (SBP) has decided to keep policy rate unchanged at 14%. Although the policy rate has been kept intact, third quarter of this fiscal year witnessed a number of changes in the SME Finance sector. Following initiatives pertinent to SME development have been pursued by the Government and SBP in their individual capacities.

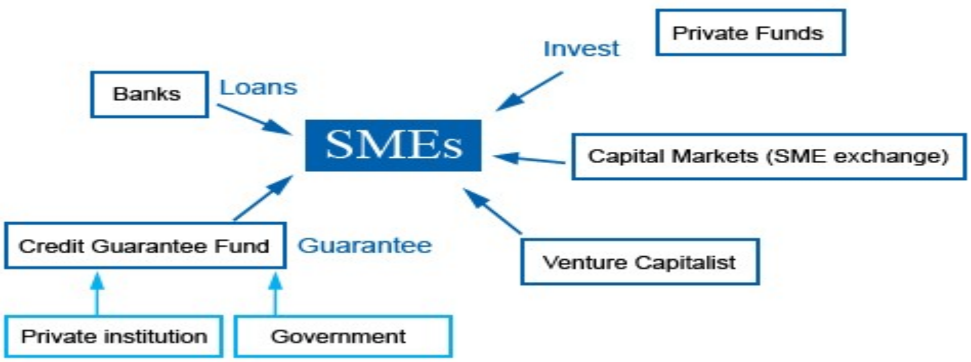
Credit Guarantee Scheme for Small and Rural Enterprises

With the aim of endorsing accessibility of financing for low-end fresh and collateral deficient borrowers, Credit Guarantee Scheme (CGS) for small and rural enterprises was introduced on March 19, 2010. Technical Committee on Credit Guarantee represented by State Bank of Pakistan, UK's Department for International Development (DfID) and the Pakistan Banks Association (PBA) recommended the following amendments on February 14, 2011:

	CGS as at 19th March, 2010	CGS (revised) as at 14th February, 2011
Guarantee Coverage	60%	40%
Interest Rate Cap*	KIBOR (3 Months) + 300bps	No Cap
Farmers' Eligibility	Subsistence	Economic Landholding
Loan Size (Farmers)	Rs. 0.5 Million	Rs. 2 Million
Loan Size (Small Enterprises)	Rs. 5 Million	Rs. 15 Million
Target Clients	Regional/Cluster Restrictions	No Restrictions

*in cases where the SBP has provided a refinancing facility (such as SME Credit Refinancing Facility), the interest rate cap allowed by SBP to the PFI under a particular facility would prevail.

The revised scheme is believed to provide desired impetus through ensuring maximum utilization of the facility and increasing market penetration. The only amendments that seem to be serving the said purpose are larger loan sizes and a broader clientele. Whereas lower guarantee coverage, removal of interest rate cap and increasing farmer's eligibility are the amendments that could restrain the scheme's utilization. Lower guarantee coverage means that the scheme will now be sharing lesser risk with Participating Financial Institutions (PFIs). Consequently, the incentive for PFIs to lend to borrowers who would not have access to credit in normal circumstances will tend to be reduced. Removal of interest rate cap may send a signal to PFIs to charge higher interest rates; going market rates in the banking sector. This will increase the price of loans and discourage borrowers to obtain credit. As reinforced in SME Baseline Survey 2009, 37% respondents believe that high interest rates are a major reason for not applying for a bank loan. To be able to clearly analyze changes in the CGS, it will be useful to analyze the performance of the scheme over the past one year.



Some fresh thinking and quick regulatory action is needed to support SMEs by providing them access to increased funding

Fiscal Relief Package to rehabilitate the economic life in Khyber Pakhtunkhwa, FATA and PATA

Under Fiscal Relief Package to rehabilitate the economic life in Khyber Pakhtunkhwa, FATA and PATA, Ministry of Finance (MoF), Government of Pakistan has advised to release second installment of the subsidy for the period from 1st July 2010 to 31st December 2010 to the beneficiaries of Textile Sector and Other Eligible Sectors. Banks, Development Finance Institutions (DFIs) and Micro Finance Banks (MFBs) have been advised to charge mark-up rate on all business loans (Corporate, SMEs, Agriculture & Microfinance) outstanding as on 31-12-2009 of the borrowers from the said districts. The mark-up rate shall be charged @ 7.5% p.a. or six month KIBOR-offer side, whichever is lower, up-to 31-12-2011. Such an initiative will help reduce the cost of credit. Subsidized mark-up rates will have a direct impact on businesses' annual financial expenses and hence improve their cash flows.

Another budgetary allocation has been released by MoF under the same Relief Package for the borrowers of Malakand, Swat, Buner and Chitral districts. A procedure has also been devised for reimbursement of write-off loans outstanding as of December31, 2009. It will provide immense relief to the businesses in these districts by reducing the burden of liabilities and financial expenses.

Long-Term Financing Facility (LTFF)

Under SBP's Long-Term Financing Facility (LTFF) for Plant & Machinery, Glass Sector now stands eligible for financing plant, machinery and equipment to be used by the export oriented projects. Moreover, maximum financing limit to a single export oriented project under LTFF scheme has been increased from Rs. 1,000 Million to Rs. 1,500 Million. In 2010, the sector produced glass products worth Rs. 6.90 billion contributing 1.9% to the total manufacturing sector's value. Total investment in the sector is estimated to be about Rs. 15 billion. Pakistan's glassware products are mainly exported to United Arab Emirates (UAE), Iran, South Africa, Tanzania, Oman, Bangladesh and Belgium.

As reinforced in SME Baseline Survey 2009, 37% respondents believe that high interest rate is a major reason for not applying for a bank loan.

In order to become competitive in the international market, Pakistan's glassmakers need to overcome the barrier of high production costs. Getting hold of latest technology along with extension and addition in modern machinery and equipment through LTTF would help resolve the issue of high production costs and lead to growth in export oriented glass sector.

Export Finance Scheme (EFS)

Various exporters' associations have been identifying that banks are not allowing export refinance facilities under SBP's Export Finance Scheme (EFS) to exporters due to non-realization of export proceeds. On June 30, 2010, waiver for 180 days (up-to December 31, 2010) was allowed for the purpose of availing financing under this scheme to those exporters whose export proceeds were overdue. The period of above waiver has now been extended up to June 30, 2011. First waiver for the said purpose was allowed on December 30, 2008. Exporters who could not arrange to repatriate export overdue bills due to bankruptcy/liquidation and litigation involving foreign buyers can benefit from the scheme and have relatively easier access to finance.

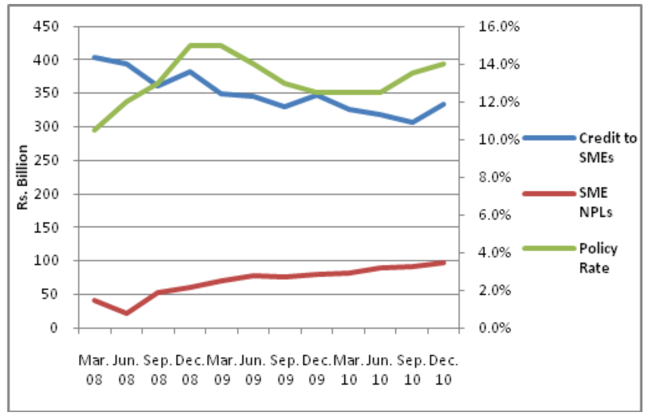
Furthermore, Ministry of Textile Industry has released budgetary allocation for FY 2010-11 to release up-to 8% un-paid Export Finance Mark-up Rate Facility for the period from 01-09-2009 to 28-02-2010. Subsequently, offices of SBP-BSC (Bank) would release Export Finance Mark up Rate Facility to the extent of 8% of total claims against the cases which have been found in order. Since 92% reimbursement has already been made to the banks under said Scheme, banks have been advised to pass on this additional reimbursement to the concerned exporters right away.

SME Sector's Credit Off-take

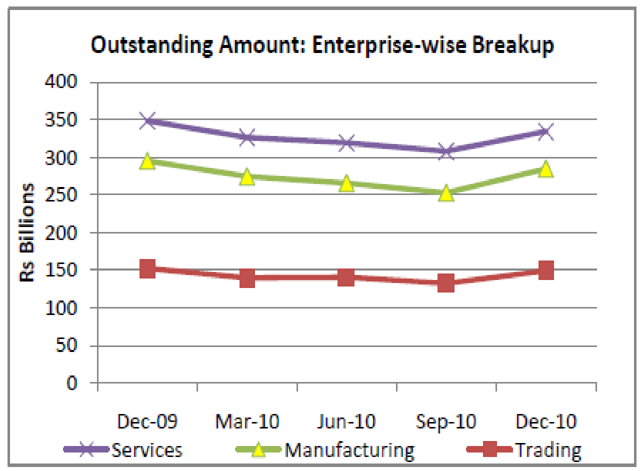
According to recent Development Finance Review by State Bank of Pakistan, SME sector's outstanding credit has increased from Rs. 307.7 billion in September 2010 to Rs. 334 billion in December 2010 while the number of outstanding borrowers have come down to 211,419 from 225,057 in the same quarter. The rise in credit to SMEs in the quarter ending in December 2010 may be due to a restriction imposed on government borrowing by International Monetary Fund's Stand By Arrangement (IMF-SBA) along with other financing facilities provided by the Government.

SME sector's Non Performing Loans (NPLs) have increased from Rs. 91.6 billion at the end of September 2010 to Rs. 96.5 billion at the end of December 2010.

The absolute outstanding amount against Trading, Manufacturing and Services sectors has been recorded as Rs. 149 billion, Rs. 135.3 billion and Rs. 49.5 billion and their share in total SME outstanding amount is 44.7%, 40.5% and 14.8% respectively. Trading and Manufacturing SMEs witnessed a



quarterly growth of 12.8% and 12.4% respectively while a decline of 9.8% has been recorded in the share of Services sector.



It is also evident in SBP's Development Finance Quarterly Review that 96.4% of the financing is collateral based whereas only 3.6% of the financing is classified as clean lending. Major share of the outstanding amount is categorized under Working Capital and is 78.3% of SME financing. On the other hand, the share of credit for Fixed Investment and Trade Finance is only 10.8% and 10.9% respectively.

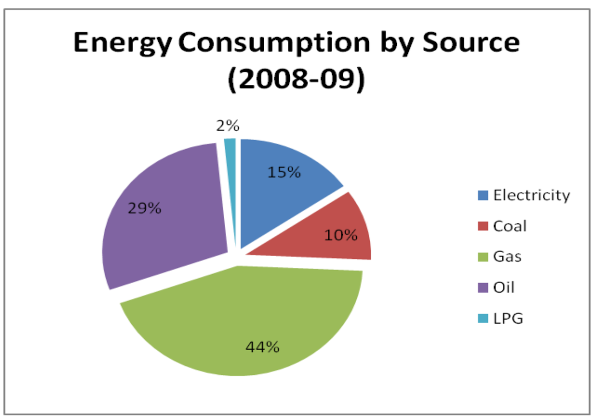
In order to control increasing inflation, tight monetary policy has been adopted in the shape of higher interest rates. It has subsequently led to higher cost of credit that is one of the barriers for accessing finance as well as a predominant factor behind escalating Non Performing Loans (NPLs). On the other hand, higher government borrowing from the central bank to finance fiscal deficit is increasing money supply and diluting the impact of monetary policy tightening. As a result, amount of credit available to SMEs has also reduced due to banks' increased reliance on comparatively more secure lending options.

Price Trends

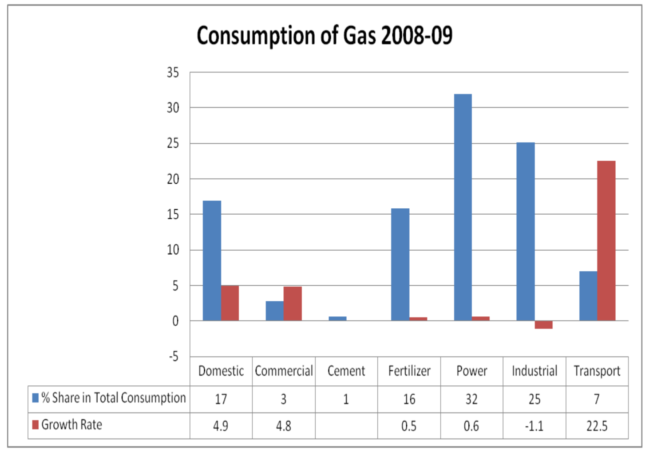
Gas

Energy shortages in the country have severely constrained Pakistan's economy in recent years. Regular gas shortages and load shedding have become a nuisance for the citizens and are proving fatal for industries; gas load shedding is one of the major factors that led to the shifting of textiles units to other countries. Therefore corrective policy actions with regard to gas shortages are needed to be taken urgently to provide a conducive environment for local industries.

The importance of natural gas in Pakistan has been increasing rapidly. As of January 1st 2010, natural gas reserves were estimated at 28.33 trillion cubic feet, with the average production of natural gas during July-March 2009-10 being 4,049 million cubic feet per day, showing an increase of 1.56 percent against production during the same period in the previous year. As shown in the graph, in 2008-09 gas was a major source of energy, providing around 44% of the total energy consumed in the country, while that of electricity, coal and LPG at 15.2 percent, 13.7 percent and 1.5 percent respectively. Moreover, the annual consumption of gas has been increasing at the annual rate of 7 percent over the last four decades.



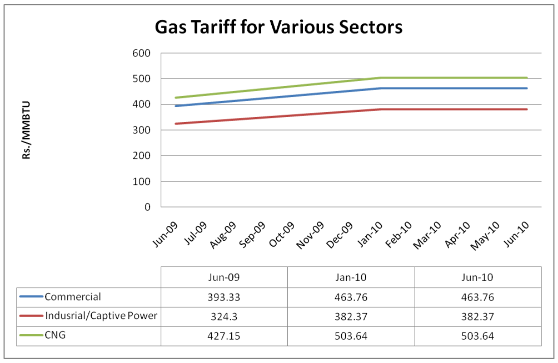
Looking at a snapshot of gas consumption by type of consumer, it can be seen that during the 2008-09 the major share in consumption of gas is by power plants (32%), industries (25%) and domestic consumers (17%). Moreover, even though the share of transportation in gas consumption is relatively low (7%), its growth rate of about 22.5% is by far the highest when compared to other types of consumers. In an effort to reduce dependency on other fuels as well as to improve the environment, the use of CNG in vehicles is being continuously encouraged, which has resulted in 2 million cars in the country using CNG, 3,116 CNG stations and an investment of over Rs. 70 billion; making Pakistan the largest CNG user in the world. However, shortages of liquefied petroleum gas (LPG) and condensed natural gas (CNG) have been increasingly disrupting household and manufacturing activities in urban areas.

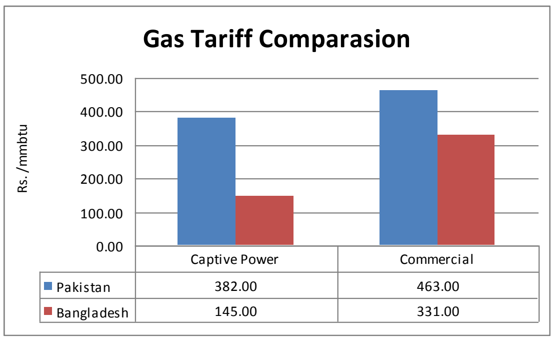


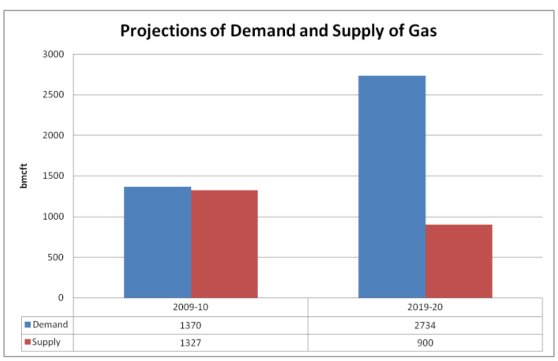
	Domestic	Commercial	Cement	Fertilizer	Power	Industrial	Transport
% Share in Total Consumption	17	3	1	16	32	25	7
Growth Rate	4.9	4.8		0.5	0.6	-1.1	22.5

As visible in the graph, the price of CNG since June 2009 has increased by almost 18%. Moreover, frequent gas load shedding is proving a nuisance for the public who often have to wait in long queues for hours to get CNG filled in their vehicles. Other sectors have also been severely affected by both the increase (18% since June 2009) in gas tariffs and the repeated and often unscheduled gas loadshedding. Meanwhile, uninterrupted gas supply and lower tariffs for captive power in countries such as Bangladesh has resulted in many industrial units moving to countries where they face lower costs of production. Bangladesh is currently offering gas for power generation at about 62% cheaper as compared to Pakistan. Tariff for commercial gas is also lower in Bangladesh which means that producers in Bangladesh enjoy lower cost of production than those in Pakistan. This difference in gas tariff and the resulting higher cost of production in Pakistan is becoming a major hurdle for Pakistan's industry.

Bangladesh is currently offering gas for power generation at about 62% cheaper as compared to Pakistan.







Using data from the Planning Commission of Pakistan, it is seen that unless corrective measures are taken, the deficit between supply and demand is likely to increase to 1830 bmcft by 2019-20. This deficit can be attributed to the low pace of exploration and drilling, slow development of deeper reservoir at Sui and Tal block, and lack of activity at 16 other gas fields (majority in Sindh) which are lying dormant. Moreover, due to lack of capability, proper institutional set up, absence of indigenous design engineering technology and manufacturing inputs, coal development (which can provide a potential substitute if the energy mix is changed) has been neglected for over 50 years despite major finds at Thar, Larkana, Sonda Jherak and recently discovered coal deposits in Chamalang in Balochistan, Hangu in Kohat division, Khyber Pakhtunkhawa and FATA areas. To overcome the impending crisis the following recommendations should be considered:

- Exploration and mining/exploration of oil, gas and coal resources
- Providing conducive environment for the participation of private sector
- Import of gas from Turkmenistan, Qatar and Iran
- Incentives for expending exploration and exploitation of huge coal reserves of the country.
- Develop a plan for Liquefied Natural Gas imports
- Develop a comprehensive plan for solar products (fans, cookers, geysers, etc.)
- Introduction of wind mills in identified areas for domestic and commercial use
- Formulation of policies and measures to converse gas.

Lahore on Rails
Open Source Technologies

1. Introduction

Today's business milieu is typified by an escalating concentration of competition, globalization of world economies and especially swift technological transformations. This hasty intensification of technological improvement and the synthesis of information technology have radically altered the way the companies contest. The adoption of IT may result in firms focusing on long term business success rather than on operational matters (Chan & Williams, 1993) and IT has the potential to provide SMEs with a competitive advantage (Fuller, 1996). IT is recognized as a viable, competitive actor via increased productivity, better profitability and value for customers (Hitt & Brynjolfson, 1996).

Thus, to acquire benefits of IT and to compete in the global business environment, the owners/managers of SMEs in Pakistan have got to be familiar with the strategic worth of IT and make use of it. As aptly said by Herbert & Bradley, “advancement in computer technology can also assist owners and managers of SMEs in making the transition from ‘doing’ to ‘managing’ “.

2. Inspiration & Objectives

This segment “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.

At present, SMEs in Pakistan have a lethargic approach towards IT adoption and implementation. The results of SME Baseline Survey 2009, a research study conducted by SMEDA, depicts that high percentage of SMEs do not even use internet & personal computers as they do not consider these to add value to their trade activities. It is because they are oblivious of the value to be gained, or believe that Information Technology will be more expensive to deploy. There may be a discrepancy in knowledge among SME business owners/managers, and scarcity of cost efficient reliable guidance for them.

“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

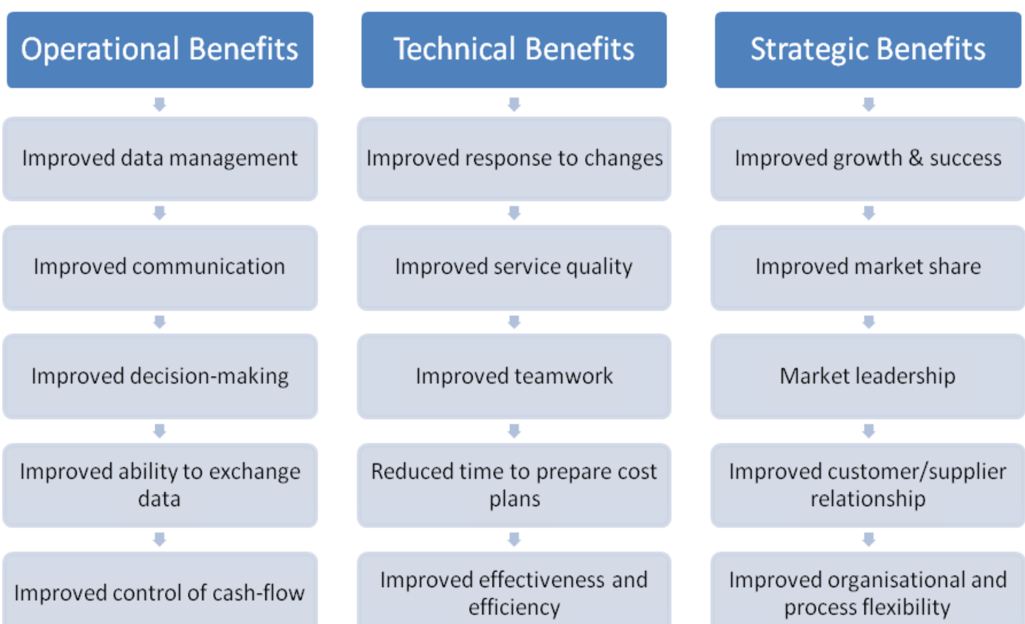


Fig 1: Operational, Technical & Strategic benefits of ICT adoption by SME's.
Source: Use of ICT in SME's Management within the sector of services by Plumb Ion & Zamfir Andreea.

Therefore, SMEDA, has taken the initiative to:

- Motivate SMEs in Pakistan to use open source technologies
- Educate Pakistani SMEs in use of free and open source technologies so that they can grow at minimal cost
- Present rich features of open source tools in each quarterly publication of SME Observer
- Provide technical assistance to SMEs regarding implementation of open source tools, if requested/contacted

3. What are Open Source Tools

Open source, a software developed by a group of people who are keen to work mutually in an extremely collaborative and evolutionary mode. Fig 2 shows some benefits of Open Source tools over Proprietary tools.

Open source software has achieved abundant positive results since it provided awareness to IT devotees and businesses globally. In this post we talk about the "why, how, what and whether" of employing Open Source in your environment rather than proprietary software. If you are looking to disentangle from the restraining monopoly of proprietary software vendors who order each click of your mouse and each pat of your keyboard, you perhaps don't require further convincing.

Business success, especially for SMEs is about cutting costs and improving efficiency by using Linux-based, open-source software. However, Open Source is more than just Linux: Plenty of free, open-source applications are available for Windows and Mac OS X, as well. All and sundry is familiar with the Mozilla Firefox Web browser, and the users of OpenOffice.org office suite are growing constantly, but these aforesaid applications are only the tip of the iceberg. Offered here are just a little of the prevailing open source substitutes to key proprietary software which can assist your SME humming on a shoestring budget.

There is an extensive assortment of tools available for Pakistani SMEs which are ready to employ in their environment. This range includes:

- Operating Systems
- Databases
- Content Management Systems (CMS)
- Enterprise Resource Planners (ERP
- Customer Relationship Management (CRM) etc.

In this post we talk about the "why, how, what and whether" of employing Open Source in your environment rather than proprietary software

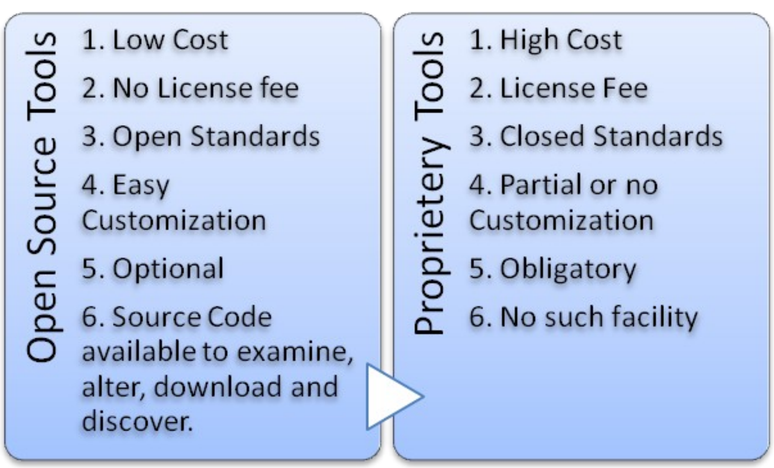
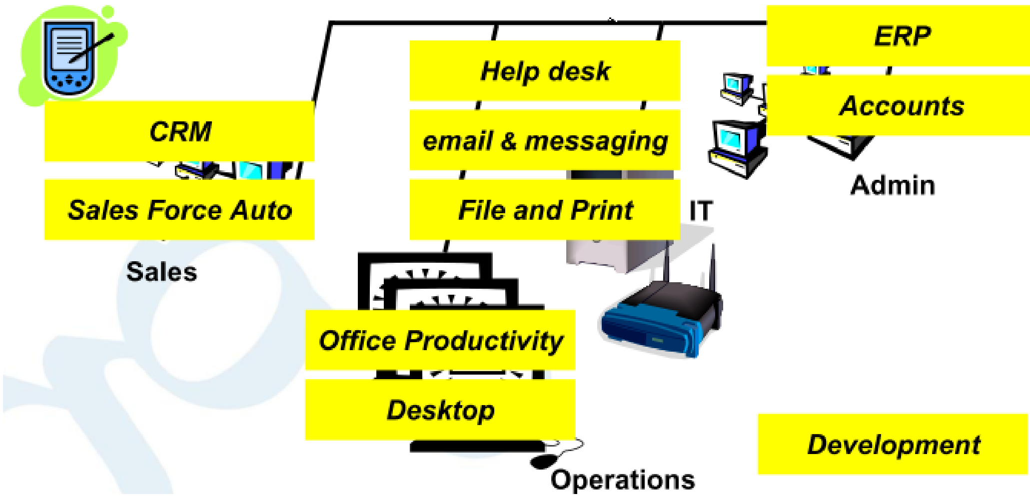


Fig 2: Benefits of using Open Source Tools over Proprietary Tools.



"Failing to plan is planning to fail"

4. Benefits to SMEs— OpenProj

As pertinently said by Oslen (2006) "failing to plan is planning to fail". Even Mason (2010) added that lack of planning is one of the root causes of enterprise failure. Thus, keeping in mind the importance of planning, we are going to start from an OS tool, named as OpenProj, developed by Serena Software. It contains quite similar features as MS Project.

According to the statistics by Serena's website, this desktop utility has been:

- Downloaded more than 1, 250, 000 times
- Currently being used in 142 countries
- Translated into 12 languages

By using this tool you can control, track and manage your projects. You are only required to enter Project Name on the Create New Project window to create a new project and the start date of the project can be changed as per your requirements

You can insert tasks in the Gantt diagram providing the start and end dates of every task, similarly you can add information to each task such as the predecessors and successors tasks, resources, notes, etc. One great feature is that it provides the Work Breakdown Structure (WBS) which is an important tool to order and control the tasks of the project. An additional feature is the Resources Breakdown Structure (RBS) to classify the configuration of the resources, teams, providers etc. Further, you may also view the information about the current status of your project through Report Tool. This utility provides different views of the project at the same time such as Histogram, Chart, Task Usage and Resource Usage to have a better perspective of the advances or delays in your projects. The interface is user friendly, easy to use and innate. Finally, the installation procedure is easy to carry out and requires Java 5 minimum or Java 6 recommended. The documentation is not included on the software, but is available online on its website, though it is not detailed

If you want to download OpenProj or are interested in viewing help files, the tool is just at a distance of single click from you.

Developer's Site: http://www.serena.com/
Download Link: http://sourceforge.net/projects/openproj/files/
Help Files: http://openproj.org/wiki/index.php?title=OpenProj_Documentation

For more information regarding aforesaid Open Source Tool, please contact:
SME Observer HelpDesk
(042) 111- 111- 456 Ext: 342
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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

The sections on fiscal and monetary policies highlight key changes at the macro economic level. This quarter the policy rate has not changed, though ramifications of earlier changes in the policy rate are being witnessed and will continue to be felt across the economy due to lags. Meanwhile our focus on raw materials this quarter is on copper; markets for imports and global price fluctuations, with a bit of analysis on its use in industries in Pakistan. Gas, and its availability a key industrial input has been talk of the town for quite some time. This issue features an analysis on its importance and its erratic availability for fueling our industrial growth.

In this issue of the "SME Observer" you will witness a new section "Lahore on Rails". No, the section is not about Pakistan Railways, or the much talked about and eagerly awaited tram service for the citizens of Lahore; it is a section that highlights the importance and role of information technology in the development and growth of small and medium enterprises. The pre-condition for use of IT in business is not a degree in information technology, or a state of the art computer hardware or software. In fact, it is much simpler. With basic skills in computing, an up and running machine and access to the world wide web can do the trick. Open source software, free of cost and readily available can do wonders for your business planning, procurement, management and other aspects.

We hope that this issue of SME Observer will measure up to your expectations – we know, it does, to ours!

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