Challenges Faced By SMES in Getting Credit in Sindh: A Case Study of Sukkur-Sindh

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Abstract:
This research investigates the Challenges faced by SMEs in getting credit in Sindh: A Case Study of Sukkur-Sindh. Data were collected from 100 SMEs business ventures in Sukkur and their vicinity. It was revealed that these findings support the view on the difficulties encountered in obtaining loans (bank loans) for operation by small and medium-sized Pakistani enterprises. Nevertheless, one big turning point is the inadequate management of the accounts receivable of the small and medium-sized companies. Nonetheless, we accept that they should get enough cash to run their company to operate their businesses and fulfill their financial obligations by managing small and medium-sized accounts receivables properly.
Keywords: *SMES*

Introduction:

A company with no more than 50 employees, including contractors, is a small business enterprise (SE) and annual retail spending amounts to Rs.150 million. In the case of trading enterprises, Small Enterprise (ME) has more than 50 employees and less than 100 staff and preferably not a government entity containing over 50 employees (even contract workers). It has more than 50 employees and less than 250 employees for its production and service operations (including contract workers). The annual sale of all MEs exceeds 150 million Rs and is increased to 800 million Rs from 155 million Rs to 200 million Rs (State Bank of Pakistan). SMEs are known as the engine of economic development for developing as well as for industrialized economies, offering low-cost jobs, because the unit costs for employees are less for SMEs than for major companies.

- Local and local development funding as rural development is being driven by SMEs into a more developed urban market.
- Support for regional and local growth.
- Help to achieve equitable and fair distribution of resources through regional economic expansion.
- The low-cost labor intensive design of its goods contributes substantially to export revenues.
- As small and medium enterprises typically use indigenous raw materials, they are positive to the trade balance.
- To support a range of lending and development programs for self-help and entrepreneurial culture
- Impart economic upheaval resilience and maintain a sustainable growth rate as indigenous communities are essential for prosperity and independence.

Nearly 90 percent of all Pakistan's industrial development companies are SMEs. 80% of non-agricultural workers work and their proportion of GDP every year is about 40%. The role of the SME sector should be stressed in the industrial development of a country. However, in contrast to large companies in the business sector, the financial and other resources of SMEs are limited. This inherent feature of a SME means that it is important for there to be a network which can support various business functions, including improved technology, marketing, training and financial and human resource development. SMEDA is a Pakistani flagship organization that provides SMEs with the requisite instruments to overcome their own endogenous vulnerabilities. The Department of Industry and Production is a separate department that promotes growth and creation of SMEs in Pakistan, establishes regulatory environments, develops industry clusters and provides market development services for enterprises across the board. In order to slowly establish favorable business conditions for its key customers, in Pakistan SMEs have a clear vision and a reasonable roadmap for quantifiable objectives, SMEs conduct a wide-ranging international survey of trends, state policies & other macroeconomic forces impacting SME's in Pakistan. We have also a connection with small-scale enterprises working in fisheries, agriculture, handloom, textiles, marble & transportation industries, tapestry industry and light engineering. This partnership is formed individually and collectively to provide political, technical, management and marketing services for SMEs that are productive and sensitive.

Through an industries cluster, SMEDA serves the interests and the needs of SMEs in a certain specific location by focusing on fairly homogenous companies world-wide. SMEDA frequently interacts and gathers information and awareness from the stakeholders of these clusters about their needs & issues. During this dedication, the issues are given priority & main issues are chosen to separate projects/programs. Support for the SME is provided on two fronts: policy investigation aid and, if considered appropriate, consultations with competent authorities on issues relevant to any government or government policy / regulation. SMEDA provides institutional support for SMEDA through networks between the parties concerned or the immediate start of the creation of the project cluster. This can include creating a training center, constructing a certain facility center and building a model plant with cutting-edge technologies by reverse engineering by small and medium-sized companies. Such measures typically include technical improvements in a certain sector and in partnership with financial firms the creation of a network loan scheme for these purposes.

SMEDA has been involved in boat change, car vendor loans, carpet fabrics, marble and granite construction, glass bracelets, ceramic kilns, leather floors, and wood furniture to date. SMEDA also provides human resources planning through a thorough training review of its market development services of the requirements for the various SME clusters. SMEDA's goal is for companies to establish a fairer, more responsible and better regulatory environment. SMEDA believes in the convergence of home-grown solutions to SMEs through cross-country study, experience with indigenous companies and policy restrictions based on foreign expertise and local experiences.

SMEs have played a leading role in developed countries in emerging economies like China, Hong Kong, and Korea. SMEs and Pakistan have received the attention of countries in India and South America, especially as both the Pakistani government and the State Bank are trying to step up efforts to boost Pakistani SMEs. The policy changes have been pursued in this context by major aid agencies like SMEDA and the SME Bank.

The Pakistani SME market, like the other developing countries, cannot access the formal sector financing and mostly relies on informal lending facilities, to the detriment of those SME lenders who are in a state of affairs like the banks. It can be reaffirmed that they have inadequate access to formal sector financing. The cost is higher still. It turns out that the main reason why SME borrowers have reduced their access to finance is inadequate, allowing for a regulatory climate, in which the banking industry is not allowed to determine the financing requests of potential creditors under current prudential regulations, which have been guided essentially by their lending requirements Draft prudential for SMEs have been already drawn up by the State Bank and will likely be introduced in the near future. When these are operational, they will be able to build the skills / mind of commercial banks to fund SMEs. In order to fulfill the criteria for SME finance, we have also demanded that the banks set up different departments.

Contribution of SMEs in Economic Growth & Development

Private industry is the driving force behind economic growth and the means to increase economic development must therefore be developed. Economic growth is a process for transforming the economy through industrialization, increased GNP and per capita revenues through the structural changes in the economy.

Economic growth, on the other hand, leads to prosperity in the country. It is beneficial as it enables the economy to absorb, and helps increase services through increasing investment, increased labor force, the output of inputs to boost production and technical progressivity. If the government is willing to promote progress by additional market-centered monetary and fiscal policies, a growing nation that is undergoing economic growth and will benefit from better living conditions.

Across various economies, the SME sector is seen to be the most relevant because it creates jobs, pays taxes, is creative and is important in competing countries. Beck and Kunt (2004) observed that a large part of the small and large international capital markets, like a world bank, flows to the SME sectors of this country through channels, are essential to SMEs in the common of developed countries for their operations and economic growth. Almost 93% of Pakistani companies are SMEs, thus playing a key role in economic development through new employment openings, entrepreneurship, innovation, etc. The leading players in achieving the development targets of developed countries are Kayanula and Quartey (2000) and are considered to be alternative employment and revenue prospects for many developing economies. Mensa (2005) points to SMEs' being a spongy for ensuring that Pakistan receives a large proportion of its jobs and incomes by consuming excess work.

Different studies have shown that SMEs improve efficiency and income and that direct policy intervention will enhance economic development and growth. Given growing competition for labour and expanded use of relatively low capital resources, growth in small and medium-size businesses is still rising faster than big firms. Hellberg (2000) further suggests that developed countries are a significant donor in cultural and manufacturing activities of SMEs. Young (1994) said that SMEs are drivers of growth and productivity, not just as a major source of employment. Overall, these factors are important for poverty alleviation, as they contribute to poverty reduction in most nations, particularly developed countries, where poverty is greatest. The findings are expected as they target disadvantaged and marginalized people which are the main source of employment in remote areas.

Credit Accessing Constraints to SMEs

The economy of Pakistan has tremendous growth prospects, but unfortunately, while a number of attempts by many politicians have been made in different times, we have not been able to achieve optimum benefits. In the large-scale manufacturing and production firms, the motivation was the entire effort. Besides the negative impact of traditional lending institutions, such as bad and low-grade production to meet the local and global market demands, the traditional lending institutions have also undermined significant economic uncertainty, uneven structures, political ambitions and labor-related negative performances in this area. SMEs in Pakistan currently struggle to realize their potential and desperately need management facilities and market growth.

Statistics revealed that small and medium enterprises have a higher credit risk if collateral is not available because the default rate was slightly smaller than that of large companies (LEs). Finally, small and medium-sized businesses created immense opportunities for financial institutions to develop different tools of corporate growth (e.g. lending schemes, credit scores, bond finance etc.). Clusters, technical parks and industrial complexes all feed SMEs with dynamism and vibrancy. The banking industries also benefit from interest-free financial services focused on Islamic principles for that region. Numerous studies have shown that exposure to bank loans by SMEs poses a threat to economic growth. Insufficient guarantees are a common explanation why SMEs are reportedly unable to receive bank loans. They sought to explicitly block and expand access to structured credits through existing land ownership and transactions. Small real estate numbers were initially used as insurance, since there were no clear names of other properties in Pakistan. However, access to collateral has reduced policy limits on stools and purchases on parental property. Lastly, if title or loan is ambiguous and alienating, the transfer rule continuously prevents mortgage termination and subsequently entry into capital loan. Aryeetey etal (1993) stated that strengthened financial factors which overshadowed all other constraints on growth in the private sector.

In order for banks to respond to privately-owned demands, access to collateral played an important role and Collateral provided for the recovery and repair of defaults losses. Therefore, almost 75% of sample companies needing credit under a study on demand for financing for small companies in Pakistan (p 19) were expected to provide collateral (see above). In the report, 65% of the survey company usually asked for any bank loans, but only a limited amount declined. For companies which submitted credit applications, there was nearly a probability of 2:1 that their application would be denied. The main reason provided by the banks was the lack of adequate collateral (usually landed property) among companies that rejected their applications. Aryeetey et al (1994) suggested that banks had opportunities such as equity, contract sale and asset funding for insurance. In his opinion, the constraints attached to the banking methodologies discourage SMEs from assessing loans. It was divided into two structured bank methodologies: many methods for pre-select clients, and a comparatively limited number of public transfers. In-house banking methodologies include: close family connections and professional market relationships; feasibility reports, collateral, track records and minimum deposits. Dr. Ansah Ofei's Journal also notes that they have been unable to seek a loan because of fear of danger, and in particular the loose wealth of their (SME) operators.

Methodology

The section provides information about the research data collection, analytical methods employed, data collection processes, target population range, sample size and sampling techniques and the data analysis approach. In the end, it addresses the method of gathering these data and its vulnerabilities.

Research Method

The aim is to reach the desired research goal by identifying the unique challenges for the SMEs, through securing loans and funds for Pakistan, through a quantitative research strategy that is also the most successful and economic method of analyzes. The analysis explores the access of SMEs to Pakistani finance in the context in which SMEs work, and thus follows a comparable approach to research. This study focuses on the issues relating to SME financing in Pakistan 'Access Terms and Credit Availability: Expectations of SME/Entrepreneurs in Pakistan. Therefore, with all banks based in the Pakistan Union having branches in and for the purposes of this study in the different regions of Pakistan, conditions in the banks located in the Sukkur area in the branches of the Bank located in the other regions of Pakistan are presumed to be the same. All SMEs, irrespective of the position in the world, are required to satisfy the same requirements of access to deposits or credit from these banks. Keeping this in mind, in Pakistan's Sukkur district, a case study strategy based on SMEs has been introduced.

Data Collection techniques

Information was collected from primary and secondary data sources for this study and for this research the questionnaire was the main database source. The questionnaire was split into three sections to answer research questions and first-hand questionnaires on data processing were given to SME operators and/or owners. The questionnaire's Section B consisted of different questions that were intended to respond to the research objective that helped us identify the kind of small and medium-sized company with which we were involved. These issues discussed the constraints of SMEs in the securement of loans and the opportunities for further financing, and if, in the eyes of, among others, these SMEs, the financial cost was small. In the end of that segment the future of the small and medium-sized companies was addressed with the expansion of their financial assistance industry into other areas of Pakistan.

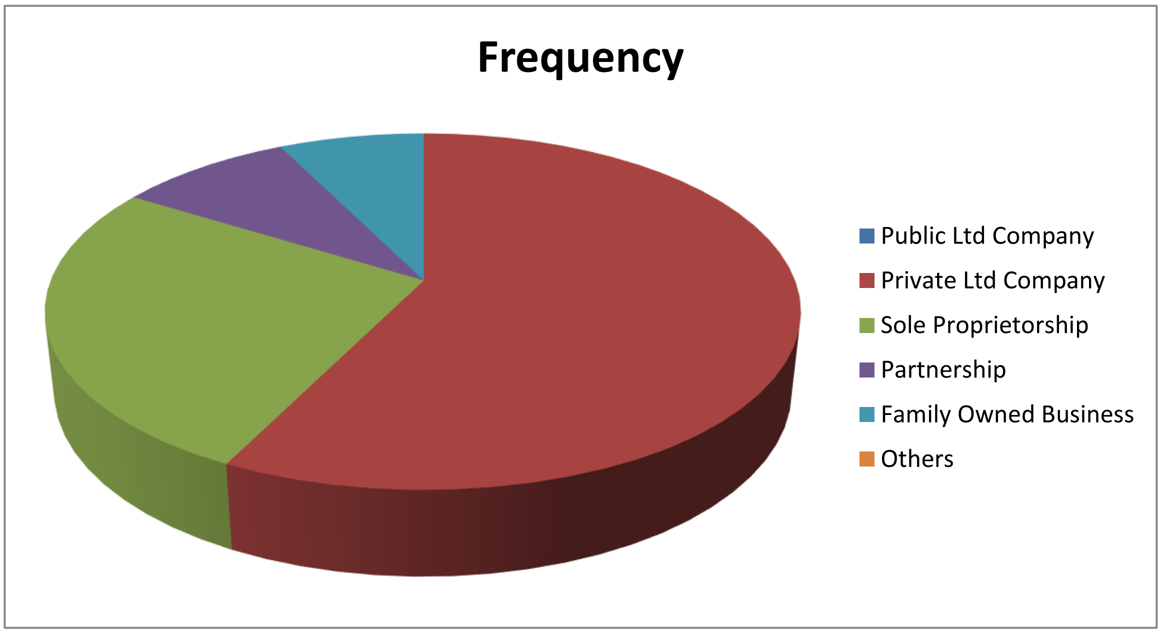
Secondary data have been gathered from the analysis of publications and literature on the topic of the research. The Pakistani government's journal source and official policy papers on the matter were also investigated. Electronic search: the subject was typically used for up-to - date purposes at www.google.com. The secret to this analysis is primary sources, as it offered a forum for appropriate first-hand responses.

Results and Discussions

Table I- Frequency Distribution of Forms of Participant SMEs

Form	Frequency	Percentages (%)	Cumulative (%)
Public Ltd Company	0	0.0%	0.0%
Private Ltd Company	39	57.4%	57.4%
Sole Proprietorship	18	26.5%	83.8%
Partnership	6	8.8%	92.6%
Family Owned Business	5	7.4%	100.0%
Others		0.0%	0.0%

Source: Research questionnaire

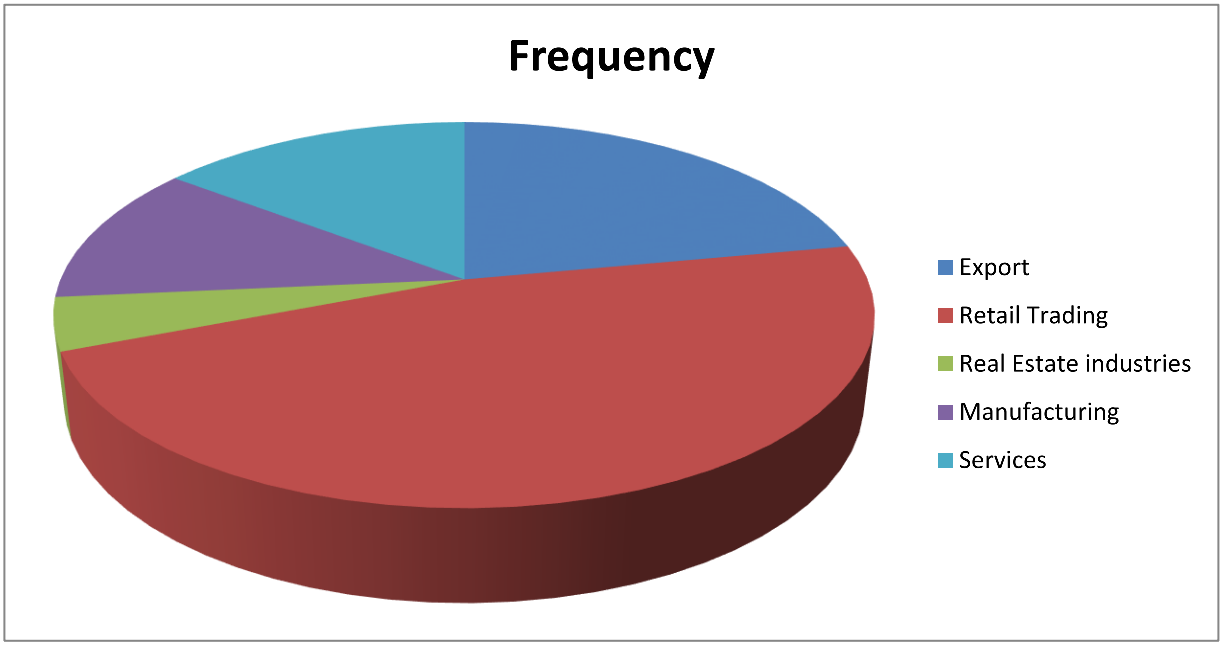


As can be seen in Table I, primarily private liability undertakings known as SMEs are respondents. None of the respondents were Public Responsibility Company staff of the 68 respondents, or 57 percent. The other 8%, SMEs, were classified as family-owned businesses, with 18 or 26% as sole ownership, and 6 were partnerships. As shown by Tables (II) and/ (III), these SMEs have examined and spread across the various parts of the economy of Pakistan with a total sales of 15,000 rupees and up to 35,000 rupees per month.

Table II.
Frequency Distribution of Nature/ Kind of Participant SME

	Frequency	Percentages (%)	Cumulative (%)
Export	15	22.1%	22.1%
Retail Trading	32	47.1%	69.1%
Real Estate industries	3	4.4%	73.5%
Manufacturing	8	11.8%	85.3%

Services	10	14.7%	100.0%
Farming		0.0%	100.0%
Others		22.1%	22.1%



It is well recognized that SMEs are cutting across the specific economic sector, and the corresponding 68% was spread equally through a broad spectrum of Pakistan's retail economy with the highest concentration. There have been 15 per cent in the export market, including 22%, 10% or 15%, 8% or 12% of the retail industry, and 3% or 4% of the immobilizer business. All primary economic sectors, with the exception of the agricultural sector, were listed for all purposes and purposes.

Table III

Frequency Distribution of Average Monthly Turnover of Respondent SME

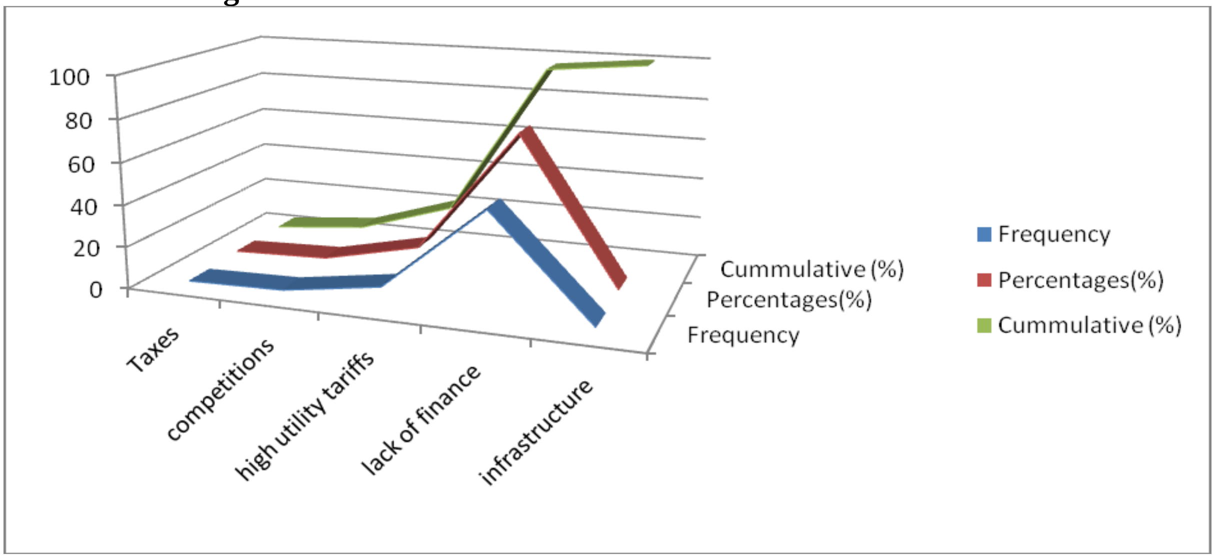
Amount (Rupees)	Frequency	Percentages (%)	Cumulative (%)
Less than 20,000.00	8	11.8%	11.8%
20,000.00 to 30,000.00	22	32.4%	44.1%
30,000.00 to 40,000.00	18	26.5%	70.6%
Above 40,000.000	20	29.4%	100.0%

As listed above in Table III, the average monthly turnover of 68 respondents reflected total sales of 20 Rupees over 40,000. It provided 29% of total responses to the export, manufacturing and immobilizing industry, particularly SMEs. 26% of income ranged from Rs 30,000.00 to Rs 40,000.00 and 32% from Rs 20,000.00 to Rs 30,000.00, respectively. A monthly turnover of just 12 or 8 participants was below 20,000.00 rupees. It describes SME as an industry with no more than 100 workers and equivalent of US$ 1 million not in excess of its overall asset base, except land and construction.

SMEs Constraints

SMEs worldwide recognized are facing several difficulties and this was not different from what our target respondents got. Nevertheless, the key constraints they faced in their company's operations and development were asked by the SME operators who took part in the research. Lack / insufficient access to financing (bank credits) was seen as a major restriction, as it accounted for 75%. This makes the lack of loan facilities for participating SMEs a major constraint, given the economic, high tariff, and infrastructure problems faced by SMEs in operation. In the test run in Chapter 3 of the Sub-Section Data Analysis P ($p^*=0.00$) < $\alpha = 0.05$ was tested. The multiple challenges facing SMEs in Pakistan are shown in Table (IV) below.

Table IV.
Major Constraint to the growth of SME

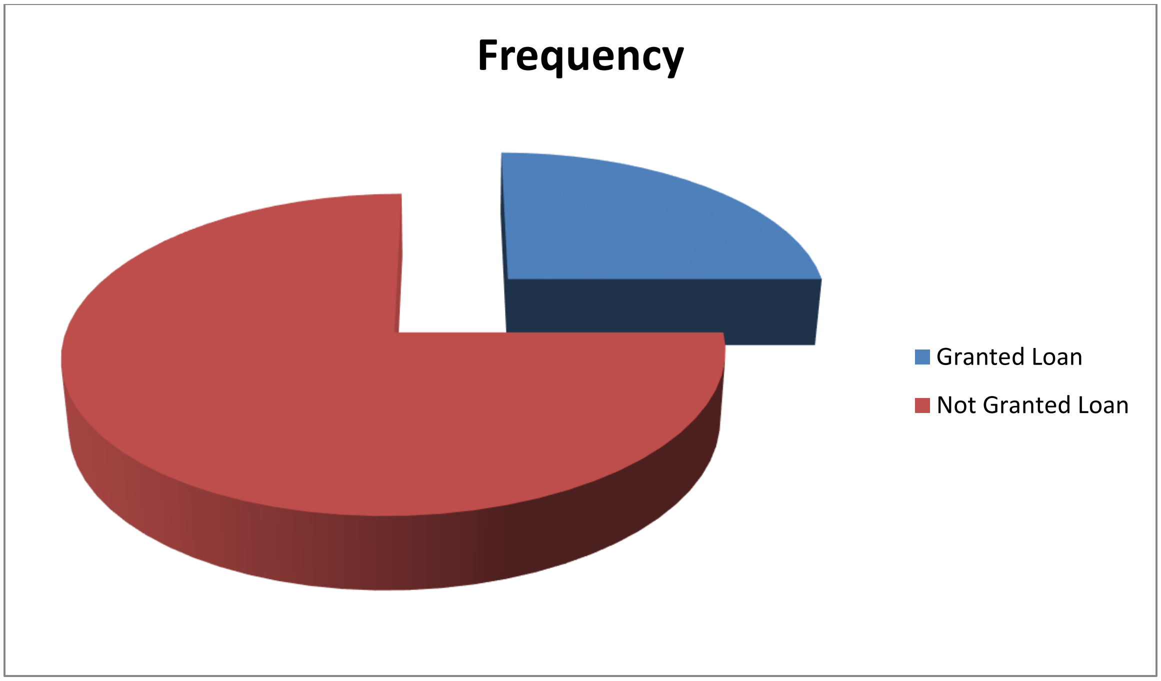


It illustrates the importance of the big challenges to the success of their companies. The key restraints on market development accompanied by 15% high service tariffs were the lack of finances for 50 or 74% of participants. The 3rd biggest constraint on the growth of SMEs was competition and infrastructure; only 3% thought that taxes also reduced their production.
This result reinforced the idea that access to bank loans for SMEs was an obstacle and is still highlighted by multiple studies as a key growth constraint that further endorsed financial issues that dominate any other restriction of business expansion in the particular field. These also indicate that financing for small businesses particularly in Pakistan remains a major problem, although since 1993, the first study has led to a considerable increase in the number of banks in the country. Strong competition is positive that SMEs will significantly increase access to loans by providing 25 NBFI banks and numbers. The findings indicate that the lack of access to loan / bank loans and increased SME growth continue to be a key factor restricting expectations but have not been fulfilled. Small businesses have been more challenging than mid-sized firms and thus face more problems than big ones.

Factors Contributing to SMEs Constraints

There are a number of reasons why Pakistani SMEs are unable to easily access loans from their own financial institutions (banks). There are many factors linked these factors to the supposed high-risk life, weak portfolios and high bank transaction costs levied on SMEs before their credit was released. Berger and Udell (2006) offered a variety of reasons for the lack of a national loan program in identifying the factors contributing to hurdles in financing SMEs. For them, the feasibility and competitiveness of the various financing technologies of SMEs are affected. The research first examined the possibility for these SMEs, before disclosing what this study made, to be denied credit from the banks of the country. You can note that from the results below:

The Number of SMEs included in the credit given or denied

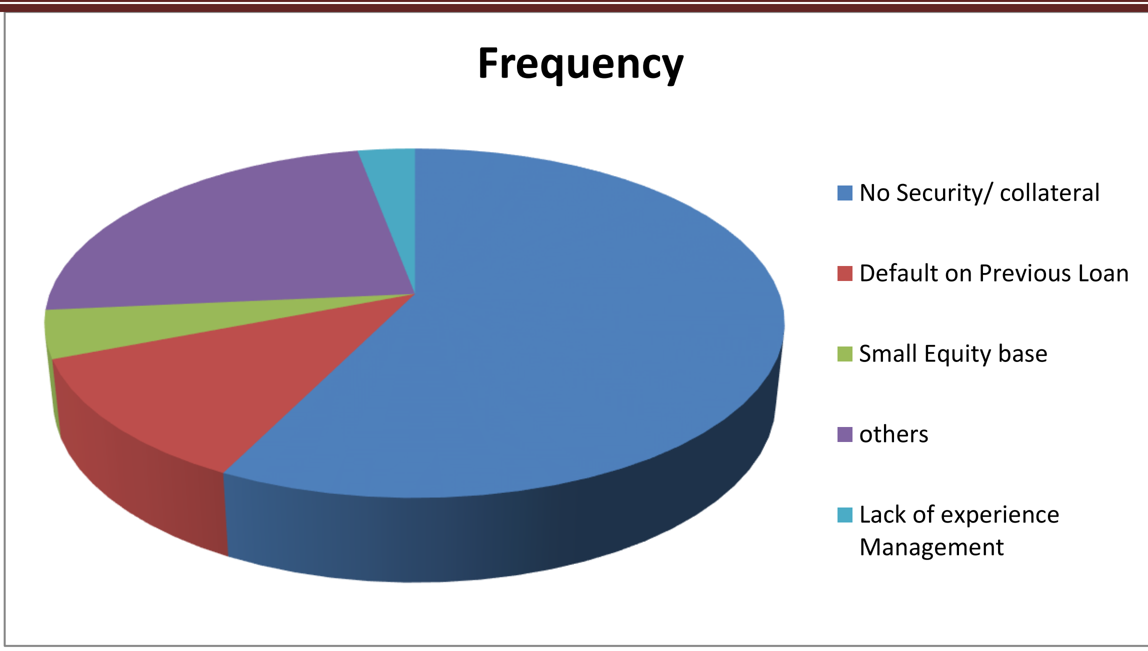


The diagram above shows a number of participating SMEs that have been given or denied access in any way by financial institutions. 75% of all respondents said that access to credit was refused while 25% said they did not answer the same question. Of the 68 respondents interviewed, 60% indicated that there was a lack of access to or protection for loans and loans through banking loans or credit and were able to provide insufficient protection. The reasoning was that small companies are unlikely to provide collateral, so when they are, it is not enough, so asset-funded collateralization is commonly classed as a carcass interest, making access to the loans they are seeking more difficult for them.

The results of the table below show the ratings of various factors which prevent SMEs from getting their loans.

Table VI

Factors	Frequency	Percentages (%)	Ranking
No Security/ collateral	39	57%	1
Lack of experience Management	8	12%	3
Default on Previous Loan	3	4%	5
Small Equity base	16	24%	2
others	2	3%	4



Of the total of 68 respondents, the inability to receive loans from funding institutions was considered by 57 percent to be the main factor. As a factor impacting your access to loans, the private equity base rate was 16 or 24 percent. Information administration was the opinion of 8 to 12% of participants, while 3% claimed that certain variables, including not presenting audited accounts, prevented their access to credit and 4% did not access previous loans' credit defaults.

In many SMEs the rate of interest on credit facilities of several banks to access such loans is appalling and not attractive, aside from the above-mentioned collateral and other factors, this makes the full access of SMEs to various expansion projects very challenging. Almost all interviewees focused on the interest rates paid on the facilities of investment banks, though some even claimed that they had only a small rate. The Table (VII) estimates are as follows:

Table VII

Frequency Distribution of the interest rate rates on loans

Measure	Frequency	Percentages (%)	Cumulative (%)
Extremely High	44	64.71%	64.71%
High	19	27.94%	92.65%
Acceptable	4	5.88%	98.53%
Low	1	1.47%	100.00%

The table shows the participants' views on interest rates on bank and non-bank financing loans. 44 of the 68 respondents, 65% of the total response, were considered to be extremely high interest rates in loans. In all respondents, nineteen or 28 percent reported high rates; only 3 percent suggested manageable rates.

Ironically, not all respondents found that low rates of interest were levied on loans by financial institutions. A total of approximately 48 out of 68 respondents paying interest ranging from 31 to 40 percent annually at exceptionally high interest rates. The rate paid by the financial institution, 28 per cent of the respondents said, is also high from 21 to 30 per cent, with only 3 per cent significant "lucky" to complete their loans at an annual interest rate below 20 per cent. The fact that the profits they produce are absorbed by the high finance cost makes their businesses unprofitable. Because of the significant default on funding for SMEs, the high interest level expected by banks on the SME market is a result of the high risks of the industry. The substantial losses of the SMEs involved were thus correlated with the gap in the payment of their services or goods. It can be seen in the answers to the question why major losses in their loan obligations were incurred by small and medium-sized enterprises. One surprising result was that delivery delays had associated with approximately 85% of the overall respondents. These delays have significant consequences on their cash flow, which preclude their loans from meeting their repayment terms, which lead to higher borrowing expenses despite the increased costs of the already high interest rates for the lending facility.

Conclusion

The theme of the study, "the problem of financing for SMEs in Pakistan" illustrates the difficulty SMEs have in securing credit for their own operations and development from financial institutions. To do so, the analysis will ask the following questions:

• Do SMEs have trouble getting loans? If that is the problem.

• To what extent they have influenced their activities and how feasible alternative funding options are for Pakistani SMEs.

Responses obtained through the circulating questionnaires show, like the majority of SMEs in other nations, that Pakistan is facing serious difficulties with access to finance. The study explains these difficulties by explaining that, in combination with high borrowing costs, SMEs are unable to provide collateral and other necessary data for the banks, such as the financial statement audited, making access to bank loans very challenging. This also confirms the assumption that the bank's main reason for 75 percent of sampled companies needing loans analyzed by the supply of demand for small companies in Pakistan, which have rejected their applications, is especially a lack of adequate protection. In Pakistan, SMEs cannot raise resources to grow and develop as quickly as possible, given the access constraints and the debt management difficulties faced by SMEs mainly due to delays in ensuring the payment of goods and services. Cash cannot be expanded and produced by SMEs in Pakistan. Nonetheless, we remain weak because, without expanding the companies in other places in the world, we obtain the requisite financial support. Finally, SMEs do not use strategies other than banks, or banks that do not. While SMEs still are key credit sources, the failure to comply with these strict requirements will prohibit SME sources from meeting their needs without fully reforming the financial authorities' methodologies to make them simpler and more efficient.

Recommendations

We infer from the results of the analysis that the following advice helps to unlock credit / capital in the SMEs.

Establishment of bank and non-bank financial facilities factoring services.

Many SMEs find it hard, to meet their business needs and financial obligation to sustain their loans as anticipated, to maintain a good cash flow position. As is well known, factoring will help SMBs breathe some oxygen in the management of debt accounts, as it has several advantages. Something that would include:

• Tap Unlimited Cash: the only way that sales increase is to contribute, as the so-called "factoring." As income rises, more capital is instantly available and factoring does not have a growth limit, unlike transitional bank financing.

• Quick set-up: Account debt funding does not need the paperwork usually required to receive loans from banks, and factoring debt gives instant access to cash.

At present, none of the country's financing companies are providing services that we believe would take up to 30 days for SMEs in the city to pay their immediate cash bills while they work. You will also be free to undertake any potential development ventures. While the Pakistani Government has engaged the credit law to encourage referral agency operations, there are only three referral offices in Pakistan that find it difficult to have cooperation between the different banks to share their credit details with customers as well. The establishment of more offices and the government's willingness to force the banks to reveal this information to these offices would provide clarity on the credit market, which is far from being enhanced by banks, as banks are unlikely to lend loans without ensuring that small businesses are available for loans and can repay.

Provision of incentives for banks' lending to SMEs

Because banks are reluctant to offer loans without ensuring the willingness of small companies to lend and pay back, having more offices and obliging governments to disclose these details to these offices will provide the credit system with transparency, which itself is far from being enhanced by banks. The credit market would not change. We propose that the government offer banks involved in the development of SMEs some form of fiscal incentives in order to encourage banks to take the so-called 'fair risk' to facilitate business negotiations in other countries. Banking may also plan to develop a branch to provide customized services for SMEs. These are usually less relevant than other business lending divisions to investment banks with such a section. Increasing the value and status of SMEs will help increase attention as well as emphasis on the SMEs market. In addition, SMEs will help finance and educate their institutions and reduce bank reliance.

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