Challenges of SMEs in Iran and its role in economic development in the country

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In the name of God

The most compassionate, The most merciful
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SMEs in Iran

The Information and Impacts on Economic Development
What is SME?

The main factors determining an SME are:

1. **Staff headcount**
2. **Turnover or Balance sheet total**

<table>
<thead>
<tr>
<th>Company category</th>
<th>Staff headcount</th>
<th>Turnover or</th>
<th>Balance sheet total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medium-sized</strong></td>
<td>&lt; 250</td>
<td>≤ € 50 m</td>
<td>≤ € 43 m</td>
</tr>
<tr>
<td><strong>Small</strong></td>
<td>&lt; 50</td>
<td>≤ € 10 m</td>
<td>≤ € 10 m</td>
</tr>
<tr>
<td><strong>Micro</strong></td>
<td>&lt; 10</td>
<td>≤ € 2 m</td>
<td>≤ € 2 m</td>
</tr>
</tbody>
</table>

These ceilings apply to the figures for individual firms only. A firm that is part of a larger group may need to include staff headcount/turnover/balance sheet data from that group too.
SMEs and Micro Density Across the world

Map showing the number of MSMEs across different regions of the world. The map distinguishes between high-income and low-income regions, with specific indicators for OECD members, Middle East and North Africa, Sub-Saharan Africa, Latin America and the Caribbean, Europe and Central Asia, East Asia and the Pacific, and High-income Non-OECD economies. The number of MSMEs per 1,000 people is also indicated with different color codes.
Six SME’s Obstacles (Most Commonly Cited, out of 15)

- Electricity
- Access to Finance
- Practices of the Informal Sector
- Tax Rates
- Political Instability
- Corruption
SMEs and Micro Shadow Economy:

<table>
<thead>
<tr>
<th>In Emerging global markets</th>
<th>No. of companies ( Million )</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs</td>
<td>25 - 30</td>
</tr>
<tr>
<td>Micros</td>
<td>55 - 70</td>
</tr>
<tr>
<td>Informal</td>
<td>285 - 345</td>
</tr>
</tbody>
</table>

World Bank survey
## Criteria to measure SME in Iran:

<table>
<thead>
<tr>
<th>Source</th>
<th>Max. Quorum Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ministry of Industries &amp; Mines</strong> / <strong>Ministry of Agriculture</strong></td>
<td>SME: &lt; 50</td>
</tr>
<tr>
<td></td>
<td>Micro: 1-9</td>
</tr>
<tr>
<td></td>
<td>Small: 10-49</td>
</tr>
<tr>
<td></td>
<td>Medium: 50-99</td>
</tr>
<tr>
<td></td>
<td>Large: &gt; 100</td>
</tr>
<tr>
<td><strong>Statistical Center of Iran</strong> / <strong>Central Bank of Iran</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ISIPO</strong> <em>Iran Small Industries and Industrial Parks Organization</em></td>
<td>SME: 5-50</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Executive Decree for Fast Run SME</strong></td>
<td>SME: 50</td>
</tr>
</tbody>
</table>

By definition, enterprises run by 50 workers or less, and 100 workers or less are considered small- and medium-sized respectively.

*Source: CBI (Central bank of Iran)*
**SME’s Share in different Economies**

<table>
<thead>
<tr>
<th>Index</th>
<th>USA</th>
<th>Japan</th>
<th>Germany</th>
<th>Turkey</th>
<th>Iran</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Total Registered Ones</td>
<td>97.2</td>
<td>99.4</td>
<td>99.8</td>
<td>99.5</td>
<td>98.4</td>
</tr>
<tr>
<td>Employment to Total Employment</td>
<td>50.4</td>
<td>81.4</td>
<td>64</td>
<td>61.1</td>
<td>44</td>
</tr>
<tr>
<td>Capital to Total Registered Capital</td>
<td>38</td>
<td>40</td>
<td>44</td>
<td>65.5</td>
<td>22</td>
</tr>
<tr>
<td>Value Added to Total Value Added</td>
<td>36.2</td>
<td>52</td>
<td>49</td>
<td>37.7</td>
<td>34</td>
</tr>
<tr>
<td>Export to All Export</td>
<td>32</td>
<td>38</td>
<td>31.1</td>
<td>8</td>
<td>10</td>
</tr>
</tbody>
</table>

95% of manufacturing companies in Iran is SME’s.
But, doesn’t have competitive advantage in industrial and economic development over large companies.

*Source: CBI (Central bank of Iran)*
Iran Industrial Parks & Zones Layout
Industrial Park Statistics and Investment:

There are about 960 industrial parks in Iran, and around 700 is Active.

<table>
<thead>
<tr>
<th></th>
<th>No. of Units</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Active Businesses</strong></td>
<td>30,443</td>
<td>81%</td>
</tr>
<tr>
<td><strong>Inactive/stopped</strong></td>
<td>7,141</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>37,584</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Units in Operation</th>
<th>No. of Units</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Small</strong></td>
<td>80,046</td>
<td>90.6%</td>
</tr>
<tr>
<td><strong>Medium</strong></td>
<td>4,362</td>
<td>4.9%</td>
</tr>
<tr>
<td><strong>Large</strong></td>
<td>3,013</td>
<td>3.4%</td>
</tr>
<tr>
<td><strong>Micro</strong></td>
<td>931</td>
<td>1.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>88,352</td>
<td>100%</td>
</tr>
</tbody>
</table>

* About 98,000 units are under construction or just licensed to operate.
* ISIPO has 31 provincial subsidiaries.

Date: Around Jan. 2016
Industrial Park Statistics and Investment:

<table>
<thead>
<tr>
<th>No. Percentage to Industry</th>
<th>Percentage of Industry’s Investment</th>
<th>Average of Investment</th>
<th>Percentage of Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>92%</td>
<td>24%</td>
<td>2 billion Toman</td>
<td>42%</td>
</tr>
</tbody>
</table>

Unfortunately, SME with 92% accounts only 24% of the industry's investment.

<table>
<thead>
<tr>
<th>Total Number of employees</th>
<th>Number of employees In SMEs</th>
<th>% employment in SMEs</th>
<th>No. In Large Companies (100+)</th>
<th>No. in Medium Companies (50-99)</th>
<th>In Small Companies (10-49)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,309,058</td>
<td>369,132</td>
<td>28.2 %</td>
<td>369.132</td>
<td>147.988</td>
<td>221.144</td>
</tr>
</tbody>
</table>

So, Paying attention to and eliminating the barriers to these firms can increase employment, and become a motor for economic growth in the country.

Distribution of employees:

Large 70%
Medium 12%
Small 18%

Date: Around Jan. 2016
Summary of Iran Data:

• There are **960 industrial areas and settlements** in the country.

• The number of **closed and stopped units** is about **7,875 in industrial park** which is around **18%**.

• **20% of production units** in industrial parks are stopping.

• **19% of small industrial units, 18% of medium-sized enterprises and 11% of large industrial units** of the country are **completely shut down**.

• **Owning 99,000 industrial units** of the country from **Banks** (for debts).

• **12 percent of the active population** are **unemployed**.

• **An increase of 0.4% in the unemployment rate**.

Iran Statistical Center, 2014
ISIPO

Iran Small Industries and Industrial Parks Organization

And SMEs Role in development
### SME’s Roles in Industrial Development Process:

- Creates many **Job Opportunities**
- **High power in Localization of technology**
- **Power to train entrepreneurs and managers**
- **Producing regional and sectoral balances in the economy**
- **Build a competitive environment in the economy and increase efficiency**
- **Fast decision-making power and high flexibility in management**
- **Networking with large companies and creating industrial Integrity**
ISIPO Main infrastructure:

- Licensing 959 parks, 794 land assignment, and Delegating 257 managing roles.
- Park Available Lands 139,164 hectare, and 80,793 in Operational phase.
- Giving 769 Document property (about 118,560 hectare).
- Water supply, Electrification, and Gas delivery
- Building Green Regions
- Utilization and Operation of 2740 Workshop units
- Refinery, Extraction of industrial water from waste water, fire station
ISIPO Main Prompts since 2000:


- Payment of 3173 billion rials credit facilities, for the renovation plan (1449 contracts and recruiting 29,423 people).

- Activities of 1023 industrial units with an export value of $1.8 billion.

- 201 foreign investors with 15785 employment and 2017 million dollars investment.

- The formation of 46 export management companies, and 56 export consortiums.

- Financing and funds: Establishment of Treasury Bills and Small Industries Exchange (OTC).

- Establishing technology parks with powerful infrastructure (physical facilities, software services, supporting of technology and basic knowledge, entrepreneurship ideas and research commercialization).
Technology Parks:

- Northeast Food industry and Biotechnology (near Mashhad)
- Auto parts (near Tabriz)
- Food industry and Electronics (Urmia)
- Isfahan
- Chemical and petrochemical industries (Shiraz)
- Modern construction equipment (hamedan)
- Tehran technology & Pardis
**ISIPO Main Prompts since 2000 (-continued):**

- **Consulting and Technology Service firms, and consultants**
- **Holding 20,475 training courses for 549,649 industrial workers; and 2834 industrial tours for 66298 people;**
- **commodity exchange services (commodity markets; Derivative Markets)**
- **Setting up Iran-South Korea (SMBA) Technology Exchange Center:**
  - Educating 50 Iranian Consultants, Identifying and Documenting 36 Technological Needs;
  - Communicating with 17 Iranian Parties
SMEs Challenges in Iran

Challenges
Types of SMEs in Iran

• **There are two main categories of SMEs in Iran:**

  1. **Which provides public needs of consumers:**
     - usually have a traditional structure and are essentially based on simple technologies.

  2. **Which provides goods and intermediate materials for large industries:**
     - Usually use highly advanced technology.

• **three reasons why the situation of SMEs is inadequate in the country:**
  - “the highlighting of the role of the government in the manufacturing sector”,
  - “the lack of financial market development”,
  - “the lack of a supporting cycle of small and medium enterprises”.
Reasons for Closing or deactivating SMEs:

- Lack of Liquidity: 73.3%
- Lack of Market: 17.9%
- Partner disagreement: 4%
- Supply of Raw Materials: 2.9%
- Supply of Machineries: 1.5%
- Others: 0.4%

ISIPO, 2017
Obstacles and challenges faced by SMEs:

1. Lack of resources (financial, technology, skilled labor, market access, and market information).
2. Inability to benefit from economies of scale and mass production.
3. Higher trading costs than large corporations.
4. Lack of proper access to communication networks (weak access to information, expertise and experience in domestic and international markets).
5. Increased market competition by multinational corporations.
6. Inability to compete with larger companies in terms of research and development costs and innovation.
7. Lack of motivation, capacity and skills for entrepreneurship.
Obstacles and challenges faced by SMEs in Iran

1. Market barriers:
   - Supply and demands fluctuation.
   - Inflation and changes in exchange rate.
   - Sharp changes in the price of raw materials and equipment.

2. Financial barriers:
   - Letter of guarantee or tender guarantee of Bank.
   - Delays in receiving sales revenue.
   - Increased liquidity pressures.

3. Lack of Marketing and other needed Information:
   - Not having access to domestic and foreign information markets, financial situation and technology, technical and operational information, supply chain and so on, to choose right investment.
Obstacles and challenges faced by SMEs in Iran

4. Government policies:
   • Create an enabling environment for SMEs.
   • Administrative barriers duties, customs house, Insurance, Tax.

5. Bureaucracies:
   • In licensing of setting up, production, exports, and various customs.

6. Lack of Capital and Necessary technologies and infrastructures:
   • Weakness of Working capital and Liquidity.

7. Marketing Inabilities:
   • Various problems in the products marketing.
   • lack of recognition of consumer markets.
1. **Institutional Framework to Support SMEs:** to play a central role in supporting and planning for the growth of SMEs. (ISIPO)

2. **Supporting packages and governmental policies:** increased government-guaranteed facilities for exports, Loan, interest rate subsidy, exemption or delay in paying taxes and credit.

3. **Developing special Banking:** the banks’ specific needs and the rapid development of these firms, the regulation of the banking system, efficient methods to overcome exposure to high credit risk. And the high cost of services.

4. **Network development:** arranging subcontractors, expanding home networks, and expanding business clusters.

*the development of SMEs should be based on a clear and efficient mechanism between the government and financial market participants.*
Specialized Industrial and Business Clinic For SMEs

Diagnosis and Solution

in Iran
Objectives of Empowerment Plan for SMEs

- Diagnosis, Pathology and Providing Improvement and Action Plans
- Reconstruction and Modernization
- Enhancing Capability Level
- De-activation of Inactive and Dormant Business Units
**Project Plan:**

- **First Phase:** Diagnosis and build Empowerment Plan
- **Second Phase:** Implementing Empowerment Plan
- **Third Phase:** Evaluating the effectiveness

**Execution:**
- Enablers (consulting firms and specialist consultants)
- Entrepreneurship & Implementor Companies
- Clinics

**Monitoring:**
- Industrial Management Institute (IMI) Through Clinics
Main Goals of SME’s Empowerment Plan

- Increasing productions (products and services)
- Increasing the Quality of goods and services
- Increasing Competitiveness
- Increasing Sustainable Employment
- Increasing Specialized and Technical Knowledge
- Increasing Managerial Capability and Knowledge
Project Organization Chart :

National Policy Council:

- Deputy Minister and Managing Director, Deputy Minister of Small Industries and Iran Deputy of Planning of Small Industries and Industrial Parks, Deputy of Consulting of Industrial Management Organization, Representative of Ministry of Industry, Mine and Trade, Representative of provincial clinics

Provincial Steering Council:

- Chief of Industry, Mine & Trade Organization, Managing Director of Industrial Park, Deputy Director of Small Industries & Planning, IMI Representative, Chamber of Commerce Representative, Agent Bank Representative

Clinic Board of Trustees:

- Representative of IMI, Elected Members of Clinics

consulting firms and specialist consultants (enablers):

- Qualified Companies and Consultants

Firms (improvement Teams):

- Specialist Qualified Firms
An enterprise applying for an empowerment plan

Applicant for the renovation and reconstruction of industries
Applicant for half-finished projects with a physical advance of over 60%
Applicant for circulating and fixed capital projects
Applicants referring directly to clinics

Emergency Planning Clinic (Provincial - Industrial Park)
- Feasibility study of the project implementation
- Identifying Empowering Companies
- Monitor implementation plan

Empowering company
- Diagnosis Management Contract (MC)
- Identify Advisors

Empowerment consultants
- Team Preparation
- Implementation Schedule
- Determine empowerment strategies

Improvement teams
- Data gathering for implementation and Diagnosis
Project Administration and Headquarter

ISIPO

- Secretary of the Policy Council (ISIPO)
- Secretary of the Steering Board (provisional Industrial PARKS Org.)
- Secretary of Clinic Board of Trustees

National Policy Council

- Secretariat in ISIPO

Provincial Steering Council

- Secretariat in Industrial Park Org. (provisional)

Clinic Board of Trustees

- Secretariat in Technology and Business Services Centers
Organizations, institutions and centers involved in:

- Ministry of Industry
- IMI
- IMI’s Provincial Representatives
- Universities
- Consulting Firms
- Specialized Consultants
- Management Consulting
- Business clusters
- Knowledge-based Companies
- ISIPO
- ISIP’s professors
- Industrial Parks
- Chamber of Commerce, Industry and Mine
- Supportive funds
- Supportive headquarters
- Insurances
- Provincial Government
- Businesses
Sum up
Thank you for Your Attention!

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Future of small and medium size business (SMEs) for Iran & Germany