ROLE OF SMEs IN THE ECONOMY OF PAKISTAN: A CRITICAL ANALYSIS

Hafeez-ur-Rehman, Masood Sarwar Awan, Imtiaz Ahmad*

ABSTRACT: SMEs are the most important sector of the economy. It plays a pivotal role in creating and expanding markets. Moreover, it provides employment and a source of scarce foreign exchange earnings in most of the economies. Researchers have tried to examine various issues related to this sector. However, a little research has been conducted to analyze the role of SMEs and its shortrun and longrun impact on the developing economies like Pakistan. This study highlights the role of SMEs in developing economies. The main sectors of SMEs in Pakistan are discussed. On the basis of critical analysis it can be concluded that SMEs plays a pivotal role in the development process of Pakistan. Some important policy measures are also forwarded that help in overcoming the weaknesses in the various sectors of economy.

1. INTRODUCTION

Pakistan economy is based on agriculture. Agriculture contributes 23.3 % to GDP, employs 42% of the country's workforce and contributes substantially to export earnings. To supplement the agricultural sector and strengthen the economy of Pakistan, the government of Pakistan had focused on large -scale industrialization in the past. The major large scale industry includes textile, sugar, food and beverages, leather, paper and paper board, chemical, basic metal, automobile, etc.

The objectives and rationalism to support the large-scale industry was to attain Self-sufficiency through import substitution and t`o develop the large-scale entrepreneur since they have a higher propensity to save, thus higher propensity to invest. Hence almost 80% of the total deposits of financial institution were spent on financing large-scale projects. Large-scale industry form the formal sector of the economy, but as record and experience indicates, most of these investments become unprofitable due to a combination of reasons; and the development financial institutions have booked huge non-performing portfolios.

With the prevailing economic conditions, the government had to look at other alternatives to revive the economy .The emphasis, therefore, shifted from import substitution to export oriented products and value addition. Keeping in view, the significant contribution of small & medium enterprises (SMEs) in the GDP in the developed countries, and realizing the importance of SMEs especially in the export sector, the government of Pakistan has now focused on the development of small & medium enterprises. This will also assist in poverty alleviation that is a burning economic and social problem faced by Pakistan's economy.

* The authors are respectively, Assistant Professor at the Department of Economics, University of the Punjab, Lahore and Lecturer in Economics at University of Sargodha and University of the Punjab, Lahore.

The study analysis is divided in to a number of sections. The meanings of SMEs are discussed in section II, the role of SMEs in different countries is analyzed in section III. while section IV highlights the importance of SMEs. The sectors of SMEs in Pakistan are discussed in section V; and section VI discusses the role of the government machinery in Pakistan to encourage SMEs in the country. The last section concludes the discussion and the policy suggestions are presented.

II. Meaning of SMEs

In Pakistan, SMEs contain the informal sector of the economy .The term "informal sector" refers to small scale units, producing and distributing goods. Most enterprises in the small-scale sector exist as independent individuals or family operations where authority of managing the business lies with the owner. Thus the management structure of SMEs varies from a simple one-man show to the collective management by shareholder. They operate with very little capital, low level of technology and skills. They don't have access to the organized markets, credit institutions and to formal education and training institutions.

SMEs are a very heterogeneous group in term of industrial/services/agriculture sector, size, location, number of employees and customer profile. They include a wide variety of firms e.g. textile sector, leather sector, automobile vendor sector, fisheries sector etc. Their owners may or may not be resourceful. Some are dynamic innovative and growth oriented while others are traditional enterprises that draw satisfaction in remaining small. Small & Medium Enterprises Development Authority (SMEDA) defines SME'S **as:**

- Micro Enterprises
  -Less than 10 people
  -Productivity assets limit of Rs 2.0 million
- Small Enterprises
  -Between 10-35 people employed. -Productive assets limit of Rs 20 million.
- Medium Enterprises
  -Between 36-99 people employed
  -Productive assets limit of Rs 40 million.

The SME Bank defines SMEs as follows:

- Small enterprise as any business entity having a project cost of up to Rs.20 million
- Medium enterprise as any business entity having a project cost of between Rs.20 million to Rs.100 million.

Meaning of Small & Medium Enterprises in different countries is given in the following table 1.

TABLE: 1

COUNTRY	CATEGORY OF INDUSTRY	CRITERIA/COUNTRY'S OFFICIAL DEFINITION
Australia	Manufacturing services	Small enterprises <100 employees Medium enterprises <200 employees
China	SME's	Depend on product group, usually <200 employees
France	SME's	10-499 Employees
Indonesia	SME's	<100 employees
India	SSI Medium Industries Tiny units	<10 million Rs. of investment in plant & M/c <100 million of investment in plant & M/c <2.5 million Rs. of investment in plant & M/c
Japan	A: Manufacturing B: Wholesale trade C: Retail trade & services	A:<300 employees or asset capitalization <300 million yen b:<100 employees or asset capitalization <100 million Yen c:<50 employees or capitalization <10 million yen
Korea	Manufacturing Services	<300 employees <20 employees
Malaysia	SMIs Sis Mis	<75 full-time workers or with a shareholder fund of <RM 2.5 million Manufacturing establishment employing between 5 and 50 employees or with a shareholder fund up to RM 500,000 Manufacturing establishment employing between 50 and 75 full-time employees or with shareholders fund between RM 500,000 to RM 2.5 Million
Singapore	Manufacturing Services	<S$12 million fixed assets <100 employees
Taiwan	SMEs SSEs	In Manufacturing, mining, and construction, invested capital is <NT$40 million or the # of regular employees not to exceed 200 In manufacturing & construction, sales turnover <NT$120 million or employees <20
Thailand	Labour intensive sector Capital intensive sector	<200 employees <100 employees
UK	SMEs	No fixed definition
USA	Very small enterprises Small enterprises Medium enterprises	<20 employees 20-99 employees 100-499 employees
Vietnam	SMEs	No fixed definition

Source: Global Development and Small & Medium enterprises (2002), National Productivity Council Pakistan.

Where:

SMEs: Small & Medium enterprises
SMIs: Small & Medium Industries
MIs: Medium Industries
SSIs: Small scale industries
Sis: Small industries
SSEs: Small scale enterprises

III. Role of SMEs in different countries

SMEs have played an increasing and vital role in the industrial structure of developed and developing countries in Asia and other parts of the world. As a result, a number of nations have witnessed successful SME-led economic growth and development. The growth-oriented SMEs both in terms of domestic market share and direct exports, notably in leading economies of the Asia-pacific, have come to be identified as the driving force behind economic growth as witnessed in the 1980s and 1990s. The experience of small enterprise development in Asia indicates that small units working in product clusters generally tended to perform better than those operating individually. The better performance of enterprises through clustering was due to easier access to networks and the benefits arising out of economies of agglomeration.

Much of the growth in output and employment in the late 1980s and early 1990s in the leading Asian economies came from approximately 20-25% of firms, which were typically medium-sized (more than IOOemployees), fast-growth establishments. Smaller firms comprised of establishments in these economies. A recent study published by the United Nations Conference on Trade and Development (UNCTAD) stated that SMEs in these economies accounted for around 40% to 60%of capital investment, employed over 60% of the workforce, and generated 50% of income and 35%of exports. This needs to compare with the status of the small-scale sector and its contribution to GDP growth in the developing countries of Asia.

Economic growth in countries like Indonesia and the Philippines has been dominated by large firms (300-500 employees), as the same account for more than 65% of output. The UNCTAD study also pointed out that establishments in the small industry sector tend to be concentrated in the informal, craft, and agricultural sectors and face constraints of access to finance and managerial skills. Furthermore, these economies also lack a core of smaller, growth-oriented firms, which in countries like, Japan and the Republic of China generate more than 30%and 25% of output, respectively. Such firms in Indonesia and the Philippines contribute only 8% and 14% of output, respectively. The data indicate that these countries need a much larger SME base as well as stronger subcontracting linkages between small firms and larger firms.

The small-scale sector's contribution in the economy of the Republic of China demonstrated that the small business sector acts as an entrepreneurial growth engine in economic development. In Malaysia, even though the small sector is yet to increase its share in output and employment from the existing level of 13.8%and 17.4%respectively, per-worker productivity has nevertheless registered significant gains. Malaysian small industries have experienced substantial gains in productivity where the value added per employee at an annual rate of 6.4%for the period from 1991 to 1996.

The SMEs share in leading Asian economies in terms of the number of establishments, employment, output, and exports is summarized in Table 2.

Table 2: Share as % of SMEs in the total manufacturing sectors.

Economy		Establishments	Output	Employment	Exports
Japan	(1989) (1995)	99.20 99.60	NA 52.20	80.00 72.00	12.00 13.50
Taiwan	(1991) (1997)	99.00 97.81	61.00 81.53	82.00 79.43	56.00 48.77
Singapore	(1987) (1994)	90.00 97.00	18.00 32.00	44.00 58.00	15.90 16.00
Republic of Korea	(1983) (1988)	95.90 90.40	28.60 33.00	46.20 51.20	NA 40
Indonesia	(1986) (1990)	93.00 99.20	23.00 36.00	NA 45.0	7.00 10.60
Malaysia	(1988) (1996)	90.57 92.00	36.23 13.08	41.43 17.40	NA 15.0

Source: National Productivity Organization December 2002.

It can be seen that SMEs account for an overwhelming percentage both in establishments and employment. While the share of SMEs in term of number of establishments is by far the largest, their contribution in terms of output and exports is more diverse in Asian economies.

The role of SMEs in the development and prosperity of developing economies cannot be marginalized. Now it is normally said that in most of the developing countries only large-scale enterprises may not serve well. The infant industries have failed to grow up, self-reliance is no nearer, despite absorbing a major share of total investment, these large scale enterprises have not made a significant contribution to total employment in the economies. This deploring situation has prompted many to look at SMEs sympathetically. Kilby (1981) found the expansion of small-scale units would result in five contributions.

- Greater output.
- Greater employment per unit of output.
- Enhanced mobilization of savings.
- More equal distribution of income.
- Development of entrepreneurship.

The following aspects highlight the contribution of SME in Developing Countries and Pakistan's economy

The Employment Issue:

There is considerable evidence that small scale firms are much more labour intensive than large scale industry and hence SMEs contribute more towards employment generation in developing countries. Mazumdar, Berry, White and Kilby also have the same stance and conclude that: "At least in case of densely populated countries of South Asia, small scale industries should be encouraged at the expense of large firms because more jobs will be generated from the limited capital available".

The Efficiency Issue:

An important issue concerning SMEs role in economic development is efficiency. The main point of investigation is to probe how efficient is the SME sector in utilizing the existing resources of production as compared to the large-scale sector.

Economic efficiency is analyzed from two perspectives, namely allocative & technical efficiency. Allocation is aimed at profit maximization and allows to determine returns to scale of firms operations. To comment on these two efficiencies, data are collected for both (small & large) sectors and econometric estimates of relevant parameters obtained by utilizing a production function (usually Cobb-Douglas). These estimated parameters facilitate comparison of technical efficiency. The existing evidence on rural industry in Bangladesh (Hossain, 1983) &on agri-machinery manufacturing in Pakistan (Nabi, 1983) shows that return to scale are constant, so that there is no significant difference in the per unit cost of production of small & large firms in the two countries.

The studies regarding technical efficiency also suggest that both sectors have specific advantages but larger sector is likely to be relatively more technically efficient. For Pakistan, Nabi's study also shows that the larger firms are more efficient. Thus it appears that the factors that contribute to technical efficiency are more likely to be available to the larger firms. However, japans experience of small & medium sectors contribution to industrialization is the reference point in the literature. The evidence from 1960"s show that both COR (capital output ratio) & LOR (labour output ratio) are smaller in large-scale sector, which suggest that SME sector uses more of labour and capital. But when capital was redefined by excluding buildings from capital, the lower COR for small scale was reported. Thus it appears that small firms are efficient because they use resources (such as part of their residence, hoarded savings, family labour etc), which would otherwise not be used.

From social point of view, however returns to scarce resources are more important in determining efficiency than returns to the scale of operations. So to compare the two sectors COR is the appropriate criterion because capital is scarce input. Empirical studies in Bangladesh (Hossain) & in Pakistan (Nabi,Hamid) indicate that small & medium sector have a considerably lower

COR. Thus it is argued that small-scale firms are more efficient, from the social point of view. Our discussion of efficiency indicates that choice of sector size ultimately depend upon a careful examination of the empirical evidence in specific countries at a given point in time.

Linkages Issue:

SMEs have greater linkages effect, because these are properly integrated with the rest of the economies in developing countries. As the technology and raw materials used in the large sector are often imported so that the multiplier effect of investment in the sector is rather small. On the other hand, small sector has better forward and backward linkages. The linkages argument is most clearly seen in the nature of machinery used in the small sector. Pakistani farm machinery manufacturing sector use locally manufactured parts while with the increase in size of industry, the need for imported material increases and thus both forward and backward linkage is curbed.

Production in small and medium sector is dependent primarily on domestically produced raw material. This dependence results in a complementarily between small and large sectors. For example, farm machinery manufactured in the small sector represents demand for the products of Pakistan steel mill. This argument, however, is closely related to the product mix produced in the country.

The government has declared SME sector as one of the four drivers of growth. There has been a consensus among economists and policy makers that the foundation of industrialization couldn't be established without efficient network of the SMEs. It fosters entrepreneurial culture and provides resilience in the economy against global economic fluctuations. The SMEs are confronted with structural problems like the weaknesses in the financial, technological and management systems beside lack of skills and marketing techniques. To provide assistance in these areas, the government has established small and medium enterprise development authority (SMEDA). The SMEs constitute over 90% of business in Pakistan, and majority of them (operatej) in the undocumented informal sector. They represent a significant component of Pakistan's economy in terms of both value addition and employment generation. As they predominantly provide employment to low income groups, they are also considered an important vehicle for poverty reduction. The SMEs in particular, play a key role in the manufacturing sector, providing 80% of the industrial labour force and contributing around 40% to GDP, and generating one fourth of the sector's export earnings.

Table 3: Share of key sub-sectors in SMEs

SECTOR	SHARE
Wood & furniture	10%
Jewellery	4%
Grain milling	16%
Art silk	5%
Carpets	4%
Metal products	7%
Cotton weaving	13%
Other textiles	6%
Others	35%

Source: Pakistan Economic Survey, 2002-03

A Sectoral analysis of the SMEs reveals that the most significant areas of activity are depicted in the above table. As evident from the above table that approximately, half of total SMEs activity is concentrated in five sub sectors; grain milling, cotton weaving, wood & furniture, metal products and art silk. For the past three decades, the fastest-growing export industries have been dominated by the SMEs. Export contribution from SMEs emanates from sub- sector, cotton weaving and other textiles and, surgical equipment.

The SMEs exports, however, have largely tended to dominate low value added sectors that rely on traditional technologies. The SME sector also suffers from low productivity. Despite their numerical dominance, SMEs account for a relatively small, albeit increasing, proportion of value added among the organized sectors. The fact that this sector employs 80% of workers and produces only 40% of value added indicates that, on average, the productivity in this sector is low. While some of the units survive due to efficiency in the resource use and linkages, other survives despite being inefficient, merely by evading taxes and circumventing state regulations.

IV. Importance of SMEs

It has been observed that a dynamic and vibrant SME sector plays a key role in the successful economic growth of the countries. An effective SME sector helps to achieve many socioeconomic objectives of a country. It provides low cost employment since the unit cost employed is lower for SMEs than the large size units.

It assists in regional and local development since SMEs accelerate rural industrialization by linking it with the more organized sector. It convert the raw material with in the country in to semi-finished items and later passed it on to the Large Scale Enterprises that have capital, skill and equipment to process these into finished goods. It contributes significantly to export revenues because

of the low cost labour intensive nature of products. It has a positive effect on the trade balance since SMEs generally use indigenous resources reducing dependence on imported machinery, technology and raw material.

SMEs are well placed to meet the demands of consumers in local and regional markets as they scatter throughout the country producing differentiated products at low cost. They satisfy end users more than the branded products of LSEs and the multinational companies. SMEs provide rural women an opportunity for income generation and personal growth since they can work at home. This helps to achieve fair and equitable distribution of wealth by creating nation-wide non-discriminatory job opportunities. SMEs assist in fostering a self-help and entrepreneurial culture by bringing together skills and capital through various lending and skill enhancement schemes. SMEs attract direct foreign investment since multinationals and big conglomerates have started to outsource from countries with strong SME sectors. The low labour cost makes production of semi-finished goods very economical for large concerns operating in international markets.

Considering these advantages, almost all countries in the world aim at supporting and strengthening their SMEs. However, SMEs still need to overcome the economic and competitive disadvantages that they face due to their small size.

V. Sectors of SMEs in Pakistan

The main sectors of SMEs in the economy of Pakistan are discussed below:

Agriculture

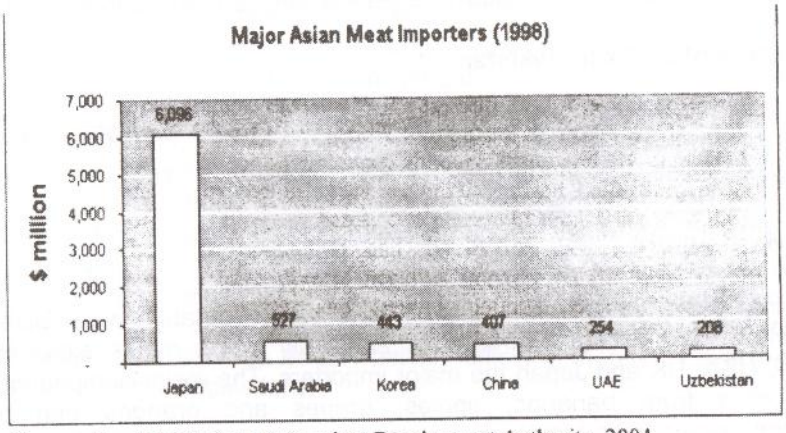
Horticulture

During 1997, the global trade of fruits and vegetables was US$ 75.56 billion with USA, Spain, Netherlands and Italy being major exporters and Germany, USA, UK and Japan the major importers. The major component of fruit trade comes from bananas, apples, grapes and oranges and that of vegetables comes from tomatoes, potatoes and beans. The farm gate value of our horticulture produce was US$ 1,900 million in the year 1998-99 while exports were only US$102 million. Nature has bestowed Pakistan with the ability of producing a high quality and superior variety of fruits and vegetables, but we have not been able to fully exploit the potential. Pakistan has been exporting fruits and vegetables for quite a long time. The major items, which constitute our fresh horticulture exports, are citrus, mangoes, potatoes and onions while tomatoes, peas, beans, okra, turnips, brinjals (aubergine), mushrooms, apples, pears, apricots, melons, plums, berries and prunes also figure in the export list. In addition to these, a major component of our exports also comes from dates and mandarins with Middle East, Far East and Europe as key markets. Due to the geographical proximity, Asia is an attractive market for Pakistan.

SMEDA has developed a comprehensive horticulture export strategy. Detailed research work has been carried out for citrus and mango exports. A plan is currently being finalised with the collaboration of Export Promotion Bureau (EPB). This plan encompasses all the links in the value chain i.e. growers, processors, traders and exporters and will be implemented in the coming season. The problems of each link are being identified and their solutions are being proposed. This plan includes the roles and responsibilities of various government functionaries and the private sector organizations. SMEDA, along with EPB, has also started working towards the formation of a Horticulture Export Board (HEB). This board will be an important milestone in the enhancement of horticulture exports. It will take on the activities of marketing, creating an export-conducive environment through legislation and monitoring the export consignments to ensure their adherence to international standards. SMEDA is also working for the establishment of cold storage facilities at key locations, including ports, available to the growers, processors and exporters.

Meat Sector

Asia is a huge market for meat exporters. The major Asian meat importing countries are shown in the following graph.



Source: Small & Medium Enterprises Development Authority, 2004.

Japan alone imports meat worth nearly US$6 billion. Countries like Saudi Arabia, Egypt and Iran are good prospects for Pakistan as they import Hilal meat. It is easier to capture the Middle East market, the only thing we need to do is to assure quality standards at each level of the value chain. Pakistan needs to evolve an export driven strategy to develop the livestock sector. Meat is the second largest commodity, after milk, in Pakistan's agriculture sector. Livestock contributes 31 percent of the agricultural value added produce. The size of the meat market in Pakistan at present is 2,185,000 metric tons. Meat demand is growing at almost 6% per annum while supply is growing at 1.8%. Hence there is a wide gap of 4.7% and this gap is likely to grow in the prevailing circumstances. The growing world meat market is presently valued at US$81 billion per annum. Pakistan remains miles away

from this market primarily because of weaknesses in the supply chain management. The first step towards accessing the international market would be to introduce health and hygiene protocols in the domestic meat market. Unless the domestic market of meat is better developed it is not possible to exploit the export potential. At present meat production and distribution is almost totally in the informal sector.

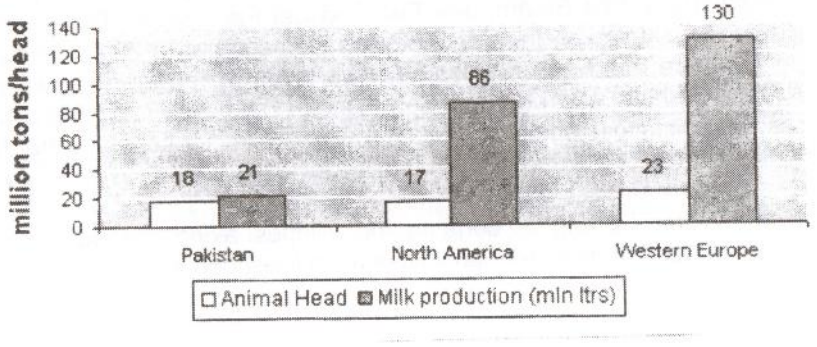
SMEDA is currently involved in chalking out a sectoral strategy for the development of the meat industry. The focus of this strategy will be on linkages between the producer, processor and consumer. Initially, the plan would be to take on beef production with a strong emphasis on export of quality products. Feed lots operations are currently missing in the livestock production sector. The average weight gain is much higher in case of feedlots as compared to open grazing and this is an efficient way to produce beef on a commercially viable basis. The quality of beef produced is also much better, which can be used for making value added meat products.

Dairy Sector

Dairy is a major component of the Livestock Sector in Pakistan. Generally, due to the absence of specialization, the dairy sector has to be viewed in the overall perspective of the livestock sector. Milk production is the least commercialized enterprise in the agricultural economy but even then it is the single largest commodity from the agricultural sector with a value of around Rs. 160 billion per annum. Pakistan is the seventh largest producer of milk but even then we have to import powder milk to meet our domestic needs. Milk collection and distribution for the urban areas, although commercially organized, is almost entirely handled by the informal sector. Organized collection, processing and marketing of milk represents hardly two percent of total demand of the urban milk market. The milk production and distribution system suffers from many anomalies, which have diverse negative impacts on the economy in general, continuing rural poverty, and creating national health hazards and other environmental issues.

All the problems of the sector are translated into our low dairy productivity levels, as shown below:

Animal Population vs Milk Production (1997)



The above table clearly shows that we have to go a long way to meet the international productivity levels. In the year 1997, we produced only 21 billion liters of milk with 18 million animals while North America produced 86 million liters of milk with only 17 million animals. The productivity levels of Western Europe are even higher.

The Punjab Government has approved in principle the establishment of a Punjab Dairy Authority (PDA) on SMEDA's recommendation to revitalize the dairy sector. This authority is expected to bring about the necessary changes in dairy policies and laws to provide fresh impetus to this sector.

Marine Fisheries Sector

Major part of the fish catch in Pakistan is Marine, which forms 71 percent of the total catch. The Arabian Sea, which washes the coast of Sindh and Balochistan, has rich fish deposits of commercial significance in close proximity. Pakistan has a very long range of coast-line with number of bays and broad continental shelf lying in front of Indus deltas and other natural factors which are ideal for growth of marine life in general and fisheries of commercial importance in particular.

The total seacoast of Pakistan is 682 miles, of which Balochistan and Sindh have 477 and 205 miles respectively. Of the Balochistan coastline Makran has 367 miles and Lasbella district of Kalat division 110 miles. Makran coast falls under Gawadar district, east of which is Lasbella district, to the west is Iran's border, to the north is Turbat district and Arabian Sea is to the south. Lasbella district has Karachi to east, Gawadar to the west, Khuzdar to north and Arabian sea is to the south. The Baluchistan coast runs east to the west while Sindh coast runs diagonally from north to south. The coastline of Karachi is more than 110 miles long. It extends from lailath on the east situated on the first channel of Korangi creek upto Beda situated on the north west of Karachi on Sonmiani Bay. There are 30 fishing settlements out of which 19 fishing villages are of permanent nature. Temporary fishing centers are inhabited only during fishing season and abandoned later on.

A variety of marine life is found on the seacoast of Pakistan, more than 30 species of Shrimps, 10 species of Crabs, 5 species of Lobster and about 70 commercial species of fish including Sardine, Hilsa, shark. Mackerel, Butterfish, Pomfret. Sole, Tuna, Sea Bream, Jew Fish and Cat Fish, Shark. Eel and Shrimp. Marine fishing is undertaken from right beyond the seacoast to 200 n. miles in the sea. The distance has been divided into two broad categories known as: (1) Coastal Water Fishing, and (2) Deep-Sea Fishing. Deep Sea is further divided in two zones. The distances specified are: up-to 12 n. miles for coastal water fishing, 12 to 35 n.miles for Zone 1 and 35 to 200 miles for Zone II.

Coastal Water Fishing is done in the villages along the coast that are predominately inhabited by fisherman whose main livelihood is fishing.

The fishermen community is mainly Sindhis, Balochis, Kutchies, Zikries and Makranis. Karachi, which is the nucleus of fishing industry, is an old fishing settlement. In Sindh the south of the Karachi Coastal area is Indus delta and has a number of fishing settlements in creeks, of which Keti Bunder is an important center.

In Balochistan the major centers for fish catching are (i) Ormara (ii) Kalmat (iii) Pasni (iv) Gawadar (v) Jiwani (vi) Kor Bandar, (vii) Ras Shumal Bundar (viii) Kapar (ix) Sur (x) Peshukan and Bandari. Lassbella district has Sonmiani, Damb and Gadani as its fishing centres.

The harbors and main landing points with their provincial location and relative importance are as follows:

Harbors Location and Relative Importance

	Province	Relative Importance
Karachi	Sind	****H
Korangi	Sind	*** H
Ibrahim Haidery	Sind	**
Shams Peer	Sind	*
Lath Basti	Sind	*
Hawks Bay Coast	Sind	*
Manjhar	Sind	*
Sonari	Sind	*
Mubarrak Village	Sind	*
Kaitee Bandar	Sind	**
Shah Bandar	Sind	**
Kharo Chaan	Sind	**
Jatthi	Sind	**
Jhungi Sur	Sind	**
Badeen	Sind	**
Gowadar	Baluchistan	***H
Pasni	Baluchistan	***H
Ormara	Baluchistan	***
Gaddani	Baluchistan	**
Bhunda Wari	Baluchistan	*
Beroo	Baluchistan	*
Sonmiani Daam	Baluchistan	**

Source: Small & Medium Enterprises Development Authority, 2004. Legends: *meets local users requirements, ** important **** most important, *** very important
H = Fishing Harbor

Marble Sector

Productivity of the mining sites and processing units is highly dependent on the usage of appropriate technology and supply of desired raw material. With the implementation of our Marble and Granite sector development plan, productivity can be enhanced many fold with high qualitative and quantitative yields. Irregular blocks commonly referred to as "Potato blocks" have the inherent disadvantage at the saw load in addition to latent cracks etc. It occupies space, which could otherwise be utilized for almost two squared blocks. With potato blocks only 400 tons of stone loads can be processed compared to 912 tons of squared blocks in a month. Time spent on cutting the undesired portion of the stone is an additional problem. With an uneven block. 60-70 square feet of the finished product is achieved per ton while a square block produces about 110 to 120 square feet per ton, while keeping thickness of the tiles as constant at 1 inch.

Quality Problems

Most of the units even those with good quality machinery setups are unable to produce high quality products because of substandard raw materials and low skill level of the production workers. International buyers allow variation of 0.5mm for tiles and 1.0mm for slabs. Prevailing industry average variations are too high and do not conform to the international standards. In addition to the above there are many other factors associated with low quality output by the processing units.

- Input of bad quality raw material. As discussed earlier irregular blocks hardly result in good quality of output.
- Lack of machinery and equipment in most of the processing units. To cater for the export markets, majority of the processing units need to add essential equipment that is missing in the production line. These items vary from unit to unit.
- Lack of skilled workers.
- Lack of use of calibration instruments for quality checks during the whole production process.
- No use of standard cutting tools according to the specifications and composition of the stones.
- Lack of qualified engineers and professional managers in the processing units.

Gems and Jewelry Sector

Nature has gifted Pakistan with rich deposits of some of the finest and valuable gemstones in the world. Most of these deposits are concentrated in the Northern Areas of Pakistan. Malakand Division, Bajaur Agency etc. A variety of gemstones including Emerald. Ruby. Peridot. Aquamarine. 1 opa/. which have a worldwide demand are mined and traded for local and foreign markets. SMEDA. which has been given the mandate of small and medium enterprise development from the Government of Pakistan, has also selected Gems and Jewelry sector for

development. In this regard SMEDA has maintained close interaction with gems exporters, cutters and local and foreign experts with the perspective of identifying hurdles that mar growth in this sector and coming up with appropriate solutions. Heavy reliance of local market on rough gemstone exports (total of $12.6 m in 1999-2000) is one of the important challenges for any effort of shifting the industry paradigm from non-value added to value added exports. Apart from that, lack of a cohesive marketing strategy with focus on target market requirements, absence of financial incentives and problems in custom and airport handling have been observed as factors that hinder accelerated growth in this sector.

SMEDA. with lead support from the industry participants, has proposed a concept of creating an Art and Trade Centre, which would be equipped with gems and jewelry showrooms, cutting and polishing units mid one window facilities for gems exports. Moreover, work is also being done on founding a Gemological institute for uplifting the standards of cutting and polishing skills in the local market. Similarly, a proposal for encouraging documentation of exports in the industry, specific financial concessions for boosting exports of value added gemstones and simplifying export procedures for facilitating exporters has been presented to the government after close coordination with the industry. For the long term sustainable uplift of the sector and shifting the industry paradigm from non-value added exports to value added exports, SMEDA is also making a detailed study of the resources, opportunities and trends in this sector under its Gems and Jewelry Sector Development Plan.

Gems Sector Development Plan of SMEDA

- Modification in Mining and Industrial Regulations towards a more efficient and investor friendly framework, market oriented export and progressive fiscal regime.
- Coordination of concerned stakeholders and strengthening of trade bodies to effect policy making and support sustainable development measures.
- Introduction of modern exploration/mining machinery. Gems identification, cutting/polishing and jewelry making equipment through private foreign joint ventures and buy back arrangements. Additionally, setting up of a Gemological Institute.
- Identification of local and international market with focused marketing efforts, including a trade center for the display of value added gem products, holding exhibitions and facilitation of foreign and local buyers.
- A large number of banking and financial transactions for modernisation of the industry.
- An overriding factor affecting various components of the development plan will be the influence of Afghans with raw materials, entrepreneurial and technical skills.

VI. Role of The Government of Pakistan To Encourage SMEs

Several measures have been taken in the past to establish, stimulate, and encourage small industries in Pakistan. Important among those are the development of infrastructure facilities including industrial estates, establishment of technical services and training centres, and marketing facilities. Besides, fiscal and monetary measures are being applied in various forms to boost investment in small industries. Financing being the most significant among the factors of industrial growth, a number of institutions were created to cater for the special need of small industries. These included Provincial Small industries Corporation/ boards, industrial development banks, and special credit lines from international lending agencies. For the development of the small and medium enterprises, the following specific measures and programmes will be pursued during the ninth plan periods.

- Emphasis will be given to the development of SMEs. Private sector will facilitate growth of light engineering and SMEs, including clusters/incubators such as services/technology parks and business incubators
- Industrial support centers will be established at growth points for small-scale industry. The centers will provide advisory services to potential entrepreneurs, including feasibility studies.
- A dedicated credit fund for labour intensive, small scales self-employment units
  will be created at the federal and provincial levels through the national credit plan.
- For the training of small entrepreneur, efforts will be made to setup entrepreneur development institutes, one each in all provincial and at the federal level.
- Development of infrastructure (including farm-to-markets roads, space to establish business in urban areas, and provisions of utilities in industrial estates, parks, and sheds) will be undertaken through public/private partnership.
- Cluster approach for the development of small and medium industries will be adopted in key areas including textile, leather, sports goods, surgical instrument, cutlery, and light engineering.

The small and medium enterprises development authority (SMEDA) has been created as an autonomous corporate body at the federal level to act as a key resource base for the SMEs. The authority will serve as a linkage between the DFIs and the SMEs, and will mainly be run by the initiative of the private sector and with active participation of the federal ministries and close collaboration of the planning commission.

SMEDA has been assigned the major tasks of generating massive employment opportunities, gender balance, and poverty alleviation, in addition to other activities for the development of SMEs in Pakistan.

CONCLUSIONS

The existence of SMES may be explained in term of their specialization in products, which have limited demand. Overtime, through standardization of production design and increase in demand the market may expand allowing large-scale production that enjoys economics of scale. In this way the SMEs play a pivotal role in creating and expanding markets in Pakistan.

Normally, SMEs use resources that would otherwise be left idle in the economy. For instance, production may take place in a section of the private residences of firm owners; capital may be diverted from unnecessary consumption or hoarding depleted and family labour, that would otherwise be idle, put to production. Thus, the SMEs may help to remove under employment of scarce resources in the economy.

The choice of producing in SME sector can result in forward and backward linkages with the economy.

For products that allow factor substitution, encouraging production in the SME sector amounts to choosing the appropriate technology. This implies the use of local machinery, indigenous skills, and a lower capital-output ratio compared to the large sector.

The SME sector may be regarded as a training ground for entrepreneurial skills. Highly competitive market conditions imply considerable risk of failure. This risk may be considered worthwhile since operations and investment are small and firm's mobility, i.e. freedom of entry and exit, is greater compared to that in the large sector.

Overtime, only those firms stay in business or expand their operations whose managers acquire the entrepreneurial skills that yield profits. This process is facilitated considerably by the small size of the initial operations.

Finally, the above discussion suggests that the desirable feature of the small and medium firms, i.e., their being more labour intensive, compared to large firms is the result of choices made under a given configuration of input prices. More precisely, for small and medium firms capital is relatively more expensive and imported materials and machinery less accessible compared to large firms. Therefore they use local machinery and work with less capital than the large firms. This results in a development pattern with considerably employment opportunities. In a nutshell, SMEs can play a pivotal role in the development of Pakistan economy.

Policy Suggestions

The policy framework should primarily focus on promoting and developing SMEs to make them more competitive and able to focus the emerging challenges of the fast-changing market. Focused protective policies must slowly be replaced by supporting role of government.

Mutual cooperation among SMEs in the form of cluster, etc. should be promoted and supported including developing "mutual relief system" to secure easy finance/credit on the lines prevalent in Japan.

In this knowledge era, the establishment of venture business in the areas of information and communications technology (ICT) and biotechnology should receive greater focus in the policy framework.

Policies and programs should lead to the creation of an environment that fosters cooperation among SMEs, academia, research bodies, and large enterprises for innovation and technology up gradation.

Technology and Innovation:

The key to enhancing competitiveness, whether in the "bricks and mortar" SMEs or emerging ICT and biotechnology businesses, is technological up gradation as well as breakthrough innovations. The incubator approach is a more practical way to achieve technology up gradation

The successful approach adopted by Singapore, which demonstrated remarkable economic development through SMEs during the past two decades and the current Technopreneurship program, may be considered for suitable adoption by developing countries. The objectives of this program primarily centers on creating a pro-enterprise environment with venture capital support, complimented by entrepreneurship, human resources development, and promotion of a world class R&D infrastructure.

Financing and Venture Capital:

Finance is a vital requirement for SME operations. A more effective and unified structure should be introduced for extending finance/credit, particularly for venture capital, easy, quick access to funds is needed to meet the SME requirements

Technology .up gradation, cleaner production efforts, export marketing, and implementation of measures for enhancing competitiveness should be given greater priority when financing institutions or considering loans to SMEs.

Quality Control:

The high quality of products and services is a basic requirement of global

consumers. SMEs need to revolutionize their quality culture by adopting suitable management practices as well as cost management. Focus on ISO 9000 and other quality management systems are a must not only for entry into the global market but also for improving the quality of products and achieving cost reductions. There is an urgent need for strengthening the institutional framework for consultancy and training for productivity, quality improvement and human resources development at affordable prices for SMEs.

Inter firm Cooperation and Strategic Alliances:

The new economy market is built on continuous change, demanding interdependence of partners in the form of alliances to take advantage of their core competence. Cooperation in the form of strategic alliances has become essential to remain in the market. Trust and mutual learning are two essential components of successful strategic alliances

SMEs are less informed on various aspects of strategic alliances and thus need to be given training and matchmaking opportunities as part of the package of institutional support.

Networking between SMEs and multinational corporations (MNCs) or domestic large enterprises in the form of ancilliarizing, subcontracting, and function as supporting industry should be further strengthened. This would not only enable them to serve the domestic market better but also go global.

Creating Marketing:

In this customer-centered age, focusing on marketing strategies is necessary. Some of the creative approaches to marketing include:

i. Integrating ICT with manufacturing and marketing to improve response time;

ii. Focusing on deliverables like, cost, quality, and performance;

iii. Brand image development on the basis of consistent performance; and

iv. Exploiting linkages with MNCs to go global.

Environment:

In general, the existence of a strong linkage between the environment and business is not well understood in the SME sector. This calls for a major promotional drive on the lines of pollution prevention pays" To satisfy the fast-changing concerns of society.

Approaches like zoning, common effluent treatment plants, and participative approaches to waste minimization under the title "waste minimization circles"(similar to quality circles) as being promoted in India are some of the common strategies

applicable to SME clusters. In addition, they should resort to cleaner production technologies to the extent possible.

Information technology and Biotechnology in SMEs:

Information technology (IT) integration in SMEs should be introduced. This has been done successfully in the Republic of China in four stages: Web site installation; financial accounting; electronic data processing; and customer relations management and supply chain management.

Just as the IT revolution has created a total paradigm shift in industrial operations, developments in biotechnology are having a similar impact on agricultural processes and products and on related industrial products.

The development of IT infrastructure in the form of telecommunications networks, bandwidth facilitation, etc. should be complementary to the efforts of IT integration in SMEs.

SMEs and Entrepreneurship:

Developing societies have yet to imbibe the business culture, work ethics, and work ethos suited to industrial societies in the current context of fast-changing globalization markets through entrepreneurial skills.

The government and concerned institutions in developing countries should devise innovative interventionist strategies to promote the entrepreneurships skills needed for setting up new enterprises and/or running existing enterprises to enhance competitiveness for SME growth and survival.

SMEs and Human resources Management:

In this area of innovation era, the creation of knowledge and continuous learning are integral to the efficient functioning of working systems. Hence the intellect of employees, its promotion, and harnessing to result in innovation and entrepreneurial activity are basic inputs to achieve continuous improvement in various facets of SME function

Investment in continuous training and retraining of human resources in tandem with regular up gradation of IT infrastructure are vital during this era of rapid change.

REFERENCES

Berry Alber, "The Potential Role of The SME Sector in Pakistan in a World of Increasing international Trade". The Pakistan Development Review, 37:4, part 1 (Winter 1998).

Dr. S. Ranghunath, "M anaging Inter-Organizational Alliance: The Challenge for Small and Medium Enterprises". Enhancing SME Competitiveness in the Age of Globalization (2001).

Federal Bureau of Statistics (1995), "Census of Manufacturing Industries Karachi". Government of Pakistan. Economics Survey of Pakistan, 2001-02.

Iqbal Javed Khan, "Small Scale Industries and Employment Creating Techniques in Paksitan". Paksitan Economic and Social Review, volume XXXII, No.1, (Summer 1994).

Kilby, P. "Small Scale Industry in Kenya, Mimeo (Development Economics Department, World Bank, 1981).

Let. Gen. H. Lal, "New Strategy for Quality Promotion in small Industrial Units in Developing Countries". Enhancing SME Competitiveness in the Age of Globalization (2001).

Mahmood, Mir Annice and Shamim A. Shaibzada, winter 1988" The Economic Rate of Return in Small Scale and Household Manufacturing Industries". The Pakistan Development Review, Vol. XXVII No.4, part II.

Malik Muhammad Hussain and Aftab Cheema, winter 1986, "The Role of Small-Scale Industry in Pakistan's Economy and Government Incentives". The Pakistan Development Review, Vol. XXV, No. 4.

Nabi, I., "A Study of the Agricultural Machinery Sector in Pakistan". Mimeo, (International Development Research Centre, Canada, 1984).

National productivity Organization (2002). "Total productivity and SMEs 9th – Five year Plan. (Chapter-22).

Shaibzada Shamim A. and Mir Annice Mahmood (1986), "Social Rate of Return in Pakistan's Large Scale Manufacturing Sector". The Pakistan Development Review, vol. XXV,No.4.

S.A. Khader, "Global Development and Small and Medium Enterprises". Enhancing SME Competitiveness in the Age of Globalization. 2001.