

**IMPACT OF INSTITUTIONAL REFORMS ON
THE DEVELOPMENT OF SMALL AND MEDIUM
ENTERPRISE SECTOR VERSUS THE LARGE SCALE
INDUSTRY OF PAKISTAN**

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ABSTRACT

The Small and Medium Enterprise Sector can be termed as a revenue generation and employment creation in developing economies. The sector is highly cost effective as compared to large scale industries. After independence, Pakistan started with a very weak share of 34 industrial units. During the last six decades economic managers, realizing importance of the small and medium enterprises as a real source for the improvement of economy, formulated various policies for the development of the sector with basic emphasis on the optimal utilization of domestic raw material. In light of those policies, financial and technical institutions were established to provide advisory services and to assist in obtaining credit, training and basic facilities for the development of small and medium enterprises, however, the sectoral contribution of Small and Medium Enterprise Sector in the gross domestic product is not appreciable as against large scale industry, which reveal that the specific needs for the promotion of small and medium enterprises have not been answered in appropriate manner. Consequently, small and medium enterprises of Pakistan are unable to take part in the growing markets of the world. According to the Economic Survey of Pakistan, 2013 the sector constitutes over 90 percent of business in Pakistan and being highly labor intensive, provide employment up to 83 percent work force of the non agricultural labor, contributes 40 percent towards the country's gross domestic product, accounts for 35 percent of the value added in the manufacturing industry and generates 25 percent of manufacturing sector export earnings.

The purpose of this paper is to highlight role of the measures and programs in respect of financial, managerial and technical assistance were launched by the economic managers and planners of Pakistan for the improvement of Pakistan's Small and Medium Enterprises.

INTRODUCTION

The Small and Medium Enterprises (SME) sector represents an important part of socio economic development of Pakistan in value addition in manufacturing and also minimizes the burden of unemployment upon short investment against heavy investment in the large scale industry or business. The SME sector is a significant force for economic growth and the poverty reduction. Majority of the small scale industries are family owned and they install their industries or start trade and keep the business cycle operational from their own or friends or relatives savings and in these set ups a small number of employees get jobs. The major obstacles in their better performance are obtaining credit, training and basic facilities among them the major one is lack of the financial facilities.

The small and medium enterprises have a constructive impact on regional development. The sector provides technical and professional training as an institute for worker to a manufacturing industry or trade business and not only this it also improves their skills. The small and medium enterprises contribute appreciably to set up forward-and-backward relations and play a corresponding role between the large and huge firms in the economy.

OBJECTIVES OF THE STUDY

1. To examine the historical background of Small and Medium Enterprise Institutions in the economic development of Pakistan.
2. To study the working environment of the institutions for Small and Medium Enterprises, their policies with a view to provide the conceptual and analytical awareness.
3. To identify constraints, bottlenecks impending Small and Medium Enterprises.

HYPOTHESES

1. Small and Medium Enterprises financial leasing is advantageous for a real mechanism of investment and finance.

2. Expansion and operations of Small and Medium Enterprise leasing financial institutions help in the development of semi urban and rural areas of the country.

METHODOLOGY

The qualitative research approach adopted to chart out policy measures taken for the development of Small and Medium Enterprises against the Large Scale Industry.

The Quantitative approach adopted to collect data and tabulated and analyzed through the statistical means.

THE INSTITUTIONAL REFORMS

Economic managers or planners of the country realizing importance of the small and medium enterprises being real source for the improvement of economy formulated various policies during the following six decades since independence. In perspective of these policies, various institutions were established for technical and financial assistance of the small and medium enterprises in order to improve economy of Pakistan.

Period Ranging from 1950 to 1960

After the partition of sub continent in 1947, Pakistan started from scratch i.e. very weak and meager condition. "Pakistan inherited only 34 small industrial units out of 921 in the sub-continent. Most of them were cotton textile, cigarettes, sugar, rice, husking, cotton ginning and flour mills. These together contributed only 7% of gross national product and employed a little over 26,400 employees all over the country. Since the independence economy of Pakistan, has remained highly dependent upon agriculture sector. On the other hand, the huge amount of foreign exchange was spent on import of consumer goods. It was not possible for an underdeveloped country to arrange a mammoth amount of foreign exchange for consumer goods every year and it became the cause of deficit in balance of trade. The failure of the crops in one season could bring serious economic problems also. In view of these facts, the first industrial policy was framed in April 1948, it was further supplemented with the statements in

November 1954 and February 1959. These policies were framed to set up industries in where domestic raw material could be utilized. This could provide new job opportunities. The small and medium enterprise sector including micro scale industry or trade highlighted as the real force of economic augmentation and employment creation in the policy statements, strategies, initiatives and institutions were established for technical and financial support of the small and medium enterprise sector. The institutions namely, Pakistan Industrial Finance Corporation established in 1950 to provide finance facilities to private sector for development of industrial units, Pakistan Industrial Development Corporation established in the 1952 with objective of setting up new industries and resell to the private sector, Pakistan Industrial Credit and Investment Corporation established in 1957 for the large and medium size industries, and National Small Industries Corporation established in 1956 recognizing the importance of the small and medium enterprise sector as a vital source of employment growth and development of the economy (GoP, 1968:3).

These institutions supposed to provide advisory services, assist in obtaining credit and provide training and common facilities for establishing the small industries in their respected provinces for selected industries like metal, leather, ceramics, wood-working, pottery, cutlery, small tools, textiles etc. The Small Industries Corporation functioning in the provinces also remained inefficient in formulating effective policies for the small industries due to the uniformity of the trade and commerce policies and preference of large scale industry by the economic managers and planners. The corporation could not answer the problems of the sector and the sectoral contribution of manufacturing small and medium enterprises declined continuously, which reveals the attitude of the policy makers who could not differentiate in the large and small scale industries or businesses. Consequently, the specific needs for the promotion or development of small and medium enterprise industry and trade could not be answered in appropriate manner. That can be judged from the following tables 1 and 2.

TABLE-1
CONTRIBUTION OF MANUFACTURING SECTOR
IN GNP FROM 1950-60

(Rs. in Millions)

Year	Contribution of Manufacturing Sector	Contribution of Large Scale Manufacturing Sector		Contribution of Small Scale Manufacturing Sector	
		Total	Share	Total	Share
1949-50	961	277	28.82%	684	71.18%
1950-51	1,042	342	32.82%	700	67.18%
1951-52	1,123	406	36.15%	717	63.85%
1952-53	1,235	502	40.65%	733	59.35%
1953-54	1,396	646	46.28%	750	53.72%
1954-55	1,569	802	51.12%	767	48.88%
1955-56	1,727	942	54.55%	785	45.45%
1956-57	1,821	1,018	55.90%	803	44.10%
1957-58	1,889	1,068	56.54%	821	43.46%
1958-59	1,968	1,128	57.32%	840	42.68%
1959-60	2,018	1,159	57.43%	859	42.57%

Source: Government of Pakistan. (1996). *Economic Survey 1991-1992*, Appendix, p.38.

Table-1 shows that the contribution of small-scale industry being the third largest sector of the economy had continuously declined from 71.18% in 1950 to 42.57% in 1960. While their absolute share increased from 684 to 859. The table also supports to understand that declining trend was due mainly to uniformity in the trade and commercial policies for both large scale industry and small scale industry.

TABLE-2
EMPLOYMENT IN INDUSTRIAL SECTOR

(No. in Millions)

Particulars	1950-51	1960-61
Manufacturing	0.9	1.84

Sources: J. Hamid. (1978). *Choice of Technology, Employment and Industrial Development*, Islamabad: PIDE, Monograph.

The Table-2 shows that labor force employed by manufacturing sector rose from 940,000 in the period of fifties to 1,840,000 in 1960s.

Period Ranging from 1960 to 1970

During the sixties, various measures were taken in the light of the commercial and industrial policies for the development of industrial sector. Accordingly Industrial Development Bank of Pakistan was established in 1961 for financial assistance of small and medium enterprise sector in the rural and economically deprived regions of Pakistan. While National Small Industries Corporation was merged with Pakistan Industrial Development Corporation in 1965 with the idea that new setup, will provide better technical and financial support to the small scale industry or trade and will address the problems of the sector to achieve better results but could not improve the outcome over the preceding.

TABLE-3
CONTRIBUTION OF MANUFACTURING SECTOR IN GNP
(Rs. in Millions)

Year	Contribution of Manufacturing Sector	Contribution of Large Scale Manufacturing Sector		Contribution of Small Scale Manufacturing Sector	
		Total	Share	Total	Share
1960-61	2,278	1,394	61.19%	884	38.81%
1961-62	2,581	1,671	64.74%	910	35.26%
1962-63	2,870	1,934	67.39%	936	32.61%
1963-64	3,196	2,233	69.87%	963	30.13%
1964-65	3,514	2,523	71.80%	991	28.20%
1965-66	3,816	2,796	73.27%	1,020	26.73%
1966-67-	4,032	2,982	73.96%	1,050	26.04%
1967-68	4,289	3,209	74.82%	1,080	25.18%
1968-69	4,659	3,548	76.15%	1,111	23.85%
1969-70	5,187	4,043	77.94%	1,144	22.06%

Source: Government of Pakistan. (1996). *Economic Survey 1991-1992*, Appendix, p.38.

TABLE-4
GROWTH RATE AND CAPITAL FORMATION OF SMALL
SCALE AND LARGE SCALE-1970

	Large-Scale		Small Scale	
Period	Output Growth Rate	Capital Formation %	Output Growth Rate	Capital Formation %
1970s	4.84	-2.28	4.40	5.50

Source: Faisal Bari, (Dr.); Ali Cheema (Dr.), Dr. Ehsan Ul Haq (Dr.). 2002). *Barriers to SME Growth In Pakistan: An Analysis of Constraints*.

Table-3 shows that the number of small and medium enterprises increased from 0.884 million to 1.144 million however, their contribution in the gross national product dropped from 38.81% to 22.06% from 1961-1969-70. At the same time, Table-4 is indicative of the fact that despite capital formation of 5.5 percent the growth rate was only 4.4 percent as against 4.84 percent achieved by the large scale industry.

TABLE-5
SECTORAL SHARE IN GROSS DOMESTIC PRODUCT
(%)

	1969-70
Commodity Producing Sector	61.6
Agricultural	38.9
Major Crops	23.4
Minor Crops	4.2
Livestock	10.6
Fishing	0.5
Forestry	0.1
Industrial Sector	22.7
Mining & Quarrying	0.5
Manufacturing	16.00
Large scale	12.5
Small scale	3.5

Slaughtering	0
Construction	4.2
Electricity & Gas	2
Services Sector	38.4
Transport Storage & Comm.	6.3
Whole Sale & Retail Trade	13.8
Finance and Insurance	1.8
Ownership of dwelling	3.4
Public Admin & Defence	6.4
Other Services	6.7

Source: Government of Pakistan. (2007). *Economic Survey of Pakistan, 2007-08*, p.10.

Table-5 presents that the share of services sector was 38.40% in 1969-70 while the small and medium enterprises accounted for more than 50% business activities in the service sector. It can be envisaged from the above tables that the financial institution set up in view of the commercial and industrial policies had not much success and failed to improve share of small scale industry or trade in the gross national product despite its economic importance.

Period Ranging from 1970 to 1980

Once again, to answer the issues in seventies one more institution with the title of Small Business Finance Corporation was setup in four provinces of Pakistan to promote the growth of the small and Medium Enterprises. In 1972 and 1973 the Provincial Government of Pakistan established Small Industries Corporations in all four provinces. In this period, the growth rate of small and medium enterprises reached 27.50% in response to the nationalized movement of late Prime Minister Mr. Zulfikar Ali Bhutto because the terrified industrialist preferred to set up the small scale industries instead of large scale industries. Furthermore, the large inflow of remittances in the range of 2 to 3 billion USA dollar annually from Pakistanis residing abroad in seventies and early eighties created large market for a variety of consumer durables, produced by the small industry sector that became the cause of the growth of small and Medium Enterprise

Sector in seventies (Haider 2001). That can be envisaged from the Tables 6 and 7.

TABLE -6
GROWTH RATE AND CAPITAL FORMATION OF SMALL SCALE AND LARGE SCALE

	Large-Scale		Small Scale	
Period	Output Growth Rate	Capital Formation %	Output Growth Rate	Capital Formation %
1980s	8.16	8.15	4.70	10.50

Source: Faisal Bari, (Dr.); Ali Chema, (Dr.) & Ehsan Ul Haq, (Dr.). (2002). *Barriers to SME Growth in Pakistan: An Analysis of Constraints*.

Table-6 shows that the output growth rate of small scale industry has showed nominal increase during the eighties from 4.4 percent to 4.7 percent even though the capital formation or credit to the small and medium enterprises rose to 10.5 percent, 5.50 percent attained during preceding decade.

TABLE-7
CONTRIBUTION OF MANUFACTURING SECTOR IN GNP
(Rs. in Millions)

Year	Contribution of Manufacturing Sector	Contribution of Large Scale Manufacturing Sector		Contribution of Small Scale Manufacturing Sector	
		Total	Share	Total	Share
1970-71	5,521	4,293	77.76%	1,228	22.24%
1971-72	5,590	4,273	76.44%	1,317	23.56%
1972-73	6,078	4,665	76.75%	1,413	23.25%
1973-74	6,464	4,948	76.55%	1,516	23.45%
1974-75	6,498	4,871	74.96%	1,627	25.04%
1975-76	6,588	4,843	73.51%	1,745	26.49%
1976-77	6,707	4,834	72.07%	1,873	27.93%
1977-78	7,392	5,362	72.54%	2,030	27.46%
1978-79	7,984	5,783	72.43%	2,201	27.57%
1979-80	8,803	6,417	72.90%	2,386	27.10%

Source: Government of Pakistan. (1996). *Economic Survey 1991-1992*, Appendix, p.38.

Table-7 indicates that the share of the small and medium manufacturing industries in the gross national product during the decade of seventies had enhanced from 22.06% to 27.57% and the number of the enterprises also increased in response to the nationalized movement of Zulfikar Ali Bhutto.

Period Ranging from 1980 to 1990

In June 1984, Government of Pakistan introduced the industrial policy defining the small and medium enterprise as a unit having fixed capital investment of upto Rs.10 million and took measures to strengthen the existing structure including availability of credit, training facilities, marketing infrastructure to support the small and medium enterprises. In continuation to the industrial policy Regional Development Finance Corporation was established under the Regional Development Finance Corporation Ordinance, 1985. Furthermore, with vision to attain participation of the females and to fulfill needs of female entrepreneurs a bank for women was formed under the title of First Women bank Limited in 1989 with aim to enhance the female participation in the economic activity (GoP 1984).

TABLE-8
CAPITAL FORMATION OF LARGE SCALE & SMALL SCALE
(Rs. in Millions)

Years	Manufacturing	Large Scale	Share (%)	Small Scale	Share (%)
1980-81	9,388	8,299	88.4%	1,090	11.61%
1981-82	10,155	8,935	88.0%	1,219	12.00%
1982-83	11,949	10,595	88.7%	1,354	11.33%
1983-84	14,266	12,759	89.4%	1,507	10.56%
1984-85	13,822	12,163	88.0%	1,719	12.44%
1985-86	16,890	14,887	88.1%	2,002	11.85%
1986-87	16,762	14,607	87.1%	2,155	12.86%
1987-88	19,605	16,966	86.5%	2,639	13.46%
1988-89	25,915	22,592	87.2%	3,323	12.82%
1989-90	31,875	28,048	88.0%	3,827	12.01%
Total	170,627	149,851	87.82%	20,835	12.21%

Source: Government of Pakistan (1929). *Economic Survey 1991-92*, Islamabad: Economic Advisor Wing, p.53.

Table-8 shows that average share of small scale industry in the fixed capital investment was not more than 12.21 percent during 1981 and 1990 as against more than 87 percent of the large scale industry in the manufacturing industry.

TABLE-9
CONTRIBUTION OF MANUFACTURING SECTOR IN GNP
(Rs. in Millions)

Year	Contribution of Manufacturing Sector	Contribution of Large Scale Manufacturing Sector		Contribution of Small-Scale Manufacturing Sector	
		Total	Share	Total	Share
1980-81	9,739	7,153	73.45%	2,586	26.55%
1981-82	11,079	8,276	74.70%	2,803	25.30%
1982-83	11,858	8,820	74.38%	3,038	25.62%
1983-84	13,828	10,258	74.18%	3,570	25.82%
1984-85	14,872	11,002	73.98%	3,870	26.02%
1986-87	15,991	11,796	73.77%	4,195	26.23%
1987-88	17,201	12,654	73.57%	4,547	26.43%
1988-89	70,300	51,244	72.89%	19,056	27.11%
1989-90	74,324	53,667	72.21%	20,657	27.79%

Source: Government of Pakistan. (1996). *Economic Survey 1991-1992*. p.38.

TABLE-10
GROWTH RATES OF GROSS NATIONAL PRODUCT (%)

Sector	1982	1983	1984	1985	1986	1987	1988	1989	1990
Commodity Producing	15.09	4.64	0.38	9.48	6.94	5.74	6.12	5.77	4.69
Agricultural	4.72	4.4	-4.82	10.92	5.95	3.25	2.73	6.87	3.03
Major Crops	4.72	3.23	-14.3	18.2	6.50	1.63	3.17	7.00	-0.09
Minor Crops	8.11	6.51	3.38	2.81	3.93	3.43	-3.24	8.55	5.17
Livestock	3.13	4.3	5.96	6.1	6.2	5.75	5.69	5.91	6
Fishing	0.67	9.21	5.64	5.21	7.62	2.99	3.45	5.91	8.15
Forestry	2.96	14	13.82	0.1	2.98	11.21	2.35	3.20	9.70
Industry									
Manufacturing	13.75	7.03	7.89	8.09	7.55	7.53	9.89	3.96	5.72
Large scale	15.70	6.57	7.71	8.09	7.55	7.22	10.55	2.4	4.73
Small scale	8.40	8.40	8.4	8.4	8.4	8.4	8.4	8.4	8.4
Mining & Quarrying	10.83	-0.26	1.46	13.46	23.66	7.54	13.86	2.07	9.56
Slaughtering*									
Construction	5.66	-2.71	0.94	9.40	6.69	12.46	4.94	2.26	3.12
Electricity & Gas Distribution	1.60	6.67	13.54	2.62	11.70	10.11	16.34	13.20	14.61
Services Sector	7.9	9.24	7.61	8.21	5.77	5.86	6.77	3.81	4.64
Transport Storage & Comm.	8.29	7.95	8.27	7.94	4.95	7.23	6.82	-4.01	6.54
Whole Sale & Retail Trade	9.72	8.4	4.6	11.71	6.72	5.96	8.99	5.28	3.49
Finance and Insurance	16.98	15.51	16.92	-0.17	3.48	0.6	3.74	3.08	3.78
Ownership of dwellings	9.82	14.46	14.69	10.18	5.28	5.28	5.28	5.28	5.28
Public Admin & Defence	1.44	10.01	7.92	3.12	5.3	5.45	4.18	7.9	2.73
Other Services	6.53	6.53	4.6	8.49	6.53	6.53	6.53	6.53	6.53

Source: *Economic Survey of Pakistan, 1991-92*, p.43.

*Slaughtering is included in small scale

It can be viewed from Table-9 and 10 that all efforts and measures during the period 1981 to 1990 the growth rate of the sector stuck at 8.4%, while absolute number increased from 2,586/- in 1980 to 20,657 in 1990 but the sector could not improve its share in gross national product. This trend was due to the political mismanagement and corruption in the Small Business Finance

Corporation that was the only development financial institution for the financing assistance to the small scale industry or trade. At the same time almost all commercial banks and the development financial institutions were continuously lending in the large sector considering it lowest risk level against the Small and Medium Enterprise.

Period Ranging from 1990 to 2000

The Small and Medium Enterprise Development Authority was established at federal level in October 1998 by the Governments of Pakistan with aim for the development of the small and medium enterprise sector to put economy on the faster track and to answer unemployment issue in the country. The organization supposed to help small scale industry or trade in obtaining financing from the financial institutions and from commercial banks to recycle their business operations or to start up the business at lower risk level, to provide information to the entrepreneurs in the field of export, to explore the international markets for consumption of goods produced or manufactured by the small and medium industrial sector, to help entrepreneurs in book keeping and etc. For this a criteria was introduced by the authority to target the small and medium enterprises that can be viewed from Table-11.

TABLE-1
CRITERIA FOR SMALL AND MEDIUM ENTERPRISES

Enterprise Category	Employment Size	Paid Up Capital	Annual Sales
Small & Medium Enterprise (SME)	Up to 250	Up to Rs.25 Million	Up to Rs.250 Million

Source: SAMEDA, *SME Policy 2007-2008*.

Authority had not played any considerable role in the growth of small and medium enterprises as the authority has not been acting as a proper service industry to provide service at the door step. Due to that its services have not been able to attract a large majority of small and medium enterprises and that can be judged

from the fact that a large number of small and medium enterprise are unknown about existence of the authority or its tools such as accounting software, marketing mechanism.

The Small Industries Corporations in Punjab, Sindh, Khyber Pakhtunkhwa and Directorate of Small Industries in Baluchistan engaged with the aim for the modernization of existing units and setting up new units under the rural industrialization and self employment schemes for providing financial assistance and the technical knowledge to the male and female of the poor areas to help reduce rural urban migration.

TABLE-12
CONTRIBUTION OF MANUFACTURING SECTOR IN GNP
(Rs. in Millions)

Year	Contribution of Manufacturing Sector	Contribution of Large Scale Manufacturing Sector		Contribution of Small Scale Manufacturing Sector	
		Total	Share	Total	Share
1990-91	78,969	56577	71.64%	22,392	28.36%
1991-92	85,324	61051	71.55%	24,273	28.45%
1992-93	89,889	63577	70.73%	26,312	29.27%
1993-94	94,234	66,212	70.26%	28,022	29.74%
1994-95	98,228	67310	68.52%	30,918	31.48%
1995-96	102,939	69424	67.44%	33,515	32.56%
1996-97	104,271	67941	65.16%	36,330	34.84%
1997-98	102,593	73102	71.25%	29,491	28.75%
1998-99	106,877	75820	70.94%	31,057	29.06%
1999-00	108,553	75847	69.87%	32,706	30.13%

Sources:

- I. Government of Pakistan. (1996). *Economic Survey1995-1996*, Appendix, p.29.
- II. Government of Pakistan. (1996). *Economic Survey1997-1998*, Appendix, p.31.
- III. Government of Pakistan. (1996). *Economic Survey2004-2005*, Appendix, p.9.

Table-12 shows that the share of the small and medium enterprises had continuously increased in gross national product and the contribution was 30.13% in 1999-2000.

TABLE-2
GROSS CAPITAL FORMATION FROM 1990 TO 2000
(Rs. in Millions)

Years	Manufacturing	Large Scale	Share (%)	Small Scale	Share (%)
1990-91	38,898	34,084	87.6%	4,814	12.38%
1991-92	58,540	52,598	89.8%	5,942	10.15%
1992-93	63,433	56,536	89.1%	6,897	10.87%
1993-94	69,549	61,283	88.1%	8,566	12.32%
1994-95	51,178	41,355	80.8%	9,823	19.19%
1995-96	62,515	50,558	80.9%	1,157	1.85%
1996-97	72,515	58,284	80.4%	14,231	19.62%
1997-98	83,991	68,468	81.5%	15,523	18.48%
1999-00	140,345	120,532	85.9%	19,813	14.12%
Total	556,973	475,230	85.32%	71,243	12.79%

Sources:

- I. Government of Pakistan. (1998). *Economic Survey 1997-98*, p.40.
- II. Government of Pakistan. (2004). *Economic Survey 2006-2007*, p.18.

Table-13 presents the position of the capital formation which was 85 percent of investment made in large-scale manufacturing as against 15 percent in small-scale manufacturing sector which employs the bulk of the non-agricultural labor force at the lower cost in comparison to large scale in the manufacturing industry.

Period Ranging from 2000 to 2010

The growth of the small and medium enterprise sector has mainly been affected due to lack of financing facilities in the past. Recognizing the issue of scarcity of funds the government considered that an institution be established with a management that would have professional belongings to the sector, well-equipped with solutions for the Small and Medium Enterprise problems particularly financial problem is necessary. In light of that a specialized non credit bank namely the SME Bank Limited was established on 1st January, 2002 with amalgamation of

Regional Development Finance Corporation and Small Business Finance Corporation with the primary objective to providing financial assistance and business support to Small and Medium Enterprises with network in the localities where the small industries or trade are operating in big number such as Sialkot, Gujranwala, Multan, Sukkur, Hyderabad, Mirpur, Dera Ismail Khan, Gilgit. Second one is Khushali Bank with the motive of social services including women development, capacity services for skill development and provision of finances to basic sectors such as health, education, drinking water, sanitation, and communication etc. (*Pakistan Economic Survey 2004-2005*).

TABLE-14
DEFINITIONS USED BY VARIOUS INSTITUTIONS IN PAKISTAN

Institution	Small	Medium
SME Bank	Total Assets of Rs.20 million.	Total Assets of Rs.100 million.
Federal Bureau of Statistics	Less than 10 employees	N/A
Punjab Small Industries Corporation	Fixed investment upto Rs.20 million excluding land and building	N/A
Punjab Industries Department	Fixed assets with Rs.10 million excluding cost of land.	
Sindh Industries Department	Entity engaged in handicrafts or manufacturing of consumer or producer goods with fixed capital investment up to Rs.10 million including land & building.	
State Bank of Pakistan (SME Prudential Regulations)	An entity, ideally not being a public limited company, which does not employ more than 250 persons (manufacturing) and 50 persons (trade / services) and also fulfills one of the following criteria: (i) A trade/services concern with total assets at cost excluding land and buildings up to Rs.50 million. (ii) A manufacturing concern with total assets at cost excluding land and building up to Rs.100 million. (iii) Any concern (trade, services or manufacturing) with net sales not exceeding Rs.300 million as per latest financial statements.	

Source: Small and Medium Enterprises Development Authority, *SME Policy 2007-2008*.

Table-14 shows that in view of the forgoing policies, measures and initiatives, the eligibility criteria set to fit for targeting purposes in line with the economic development based on fixed assets, employment and sales for the credit and development of the small and medium enterprise sector.

TABLE-15
CONTRIBUTION OF MANUFACTURING SECTOR IN GNP
FROM 2001 TO 2010

(Rs. in Millions)

Year	Contribution of Manufacturing Sector	Contribution of Large Scale Manufacturing Sector		Contribution of Small Scale Manufacturing Sector	
		Total	Share	Total	Share
2000-01	571,357	375,687	65.75%	195,670	34.25%
2001-02	596,841	389,859	65.32%	206,982	34.68%
2002-03	638,044	416,955	65.35%	221,089	34.65%
2003-04	727,733	492,937	67.74%	234,796	32.26%
2004-05	840,243	590,759	70.31%	249,484	29.69%
2005-06	912,953	639,585	70.06%	273,368	29.94%
2006-07	988,301	695,439	70.37%	292,862	29.63%
2007-08	1,036,101	723,626	69.84%	312,475	30.16%
2008-09	997,966	664,405	66.58%	333,561	33.42%
2009-10	1,049,569	693,355	66.06%	356,214	33.94%

Sources: (i) Government of Pakistan. (2005). *Economic Survey 2004-2005*, Appendix, p.9.

(ii) Government of Pakistan (2010). *Economic Survey 2009-2010*, Appendix, p.9.

Table-15 shows that in absolute terms Small and Medium Enterprise's strength have grown to 3.56 million from 1.95 million during the preceding decade however, their share in manufacturing sector of the gross national product declined from 34.25% to 33.94%.

TABLE-3
GROSS CAPITAL FORMATION FROM 2001 TO 2010
(Rs. in Millions)

Years	Manufacturing	Large Scale	Share (%)	Small Scale	Share (%)
2000-01	142,550	120,952	84.85%	21,598	15.15%
2001-02	153,417	129,781	84.59%	23,636	15.41%
2002-03	149,275	120,969	81.04%	28,306	18.96%
2003-04	144,010	115,700	80.34%	28,310	19.66%
2004-05	148,129	117,147	79.08%	30,982	20.92%
2005-06	169,444	135,538	79.99%	33,906	20.01%
2006-07	179,530	142,424	79.33%	37,106	20.67%
2007-08	164,909	124,299	75.37%	40,610	24.63%
2008-09	138,239	93,796	67.85%	44,443	32.15%
2009-10 (P)	128,000	79,363	62.00%	48,637	38.00%
Total	1,517,503	1,179,969	77.76%	337,534	22.24%

Sources: (i) Government of Pakistan, *Economic Survey 2003-2004*, Appendix, p.18.

(ii) Government of Pakistan, *Economic Survey 2009-2010*, Appendix, p.17.

Table-16 indicates that the average share of small and medium enterprises has remained 22.24% in the Fixed Capital Investment in last ten years from 2001- to 2010 as against 77.76 % of large-scale manufacturing industries. In spite of that its socio economic importance against large-scale manufacturing industry in terms of production, employment generation and poverty reduction can be gauged from the fact that Fixed Capital investment in large scale manufacturing declined from Rs.138,239 million in 2008-2009 to Rs.128,000 million in 2009-2010. Overall position of the fixed investment in small scale manufacturing sector increased from Rs.44,610/- million in 2008-2009 to Rs.48,637/- in 2009-2010 .

TABLE-17
SECTORAL SHARE IN GROSS DOMESTIC PRODUCT (%)

Sector	2000-01	2001-02	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08-F	2008-09-R	2009-10-P
Commodity Producing	48.7	47.9	47.9	47.6	48.4	48.7	48.3	48.2	47.0	46.9	46.7
Agricultural	24.9	24.1	24.1	24	22.9	22.4	22.5	21.9	21.3	21.9	21.5
Major Crops	8.5	8	8	8.2	7.8	8.4	7.6	7.7	9	7.4	7
Minor Crops	3.3	3.1	3.1	3	2.9	2.7	2.6	2.4	2.6	2.5	2.4
Livestock	11.9	12	12	11.7	11.2	10.6	11.6	11.1	11.1	11.4	11.4
Fishing	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Forestry	0.7	0.7	0.7	0.7	0.6	0.4	0.4	0.3	0.3	0.3	0.3
Industrial Sector	23.8	23.7	23.7	23.7	25.6	26.3	25.8	26.3	24.8	25.0	25.2
Mining & Quarrying	2.4	2.4	2.4	2.5	2.6	2.7	2.6	2.5	2.5	2.5	2.4
Manufacturing	15.7	15.9	15.9	16.3	17.3	18.3	18.8	19	18.3	18.3	18.5
Large scale	10.3	10.4	10.4	10.6	11.7	12.9	13.2	13.4	12.2	12.2	12.2
Small scale	5.4	5.6	5.6	5.6	4.2	4.1	4.3	4.3	4.7	4.7	4.9
Slaughtering	2.9	3	0	0	1.4	1.3	1.4	1.3	1.3	4.2	4.3
Construction	2.4	2.4	2.4	2.4	2	2.1	2.2	2.6	2.4	2.07	2.3
Electricity & Gas	3.3	3.3	3	2.5	3.7	3.2	2.2	2.2	1.6	2.1	2
Services Sector	51.3	52.1	52.1	52.4	51.6	51.3	51.7	51.8	53.00	53.1	53.3
Transport Storage & Comm.	11.6	11.4	11.4	11.4	10.9	10.4	10.2	10.2	10.2	10.2	10.2
Whole Sale & Retail Trade	17.9	17.8	17.8	18	18.2	18.7	17.2	17.1	17.3	16.9	17.1
Finance and Insurance	3.1	3.5	3.5	3.3	3.4	4	5.5	5.9	6.4	5.8	5.4
Ownership of dwellings	3.2	3.2	3.2	3.1	3	2.9	2.8	2.7	2.7	2.8	2.7
Public Admin & Defence	6.2	6.4	6.4	6.6	6.3	5.9	6.1	6.1	5.9	6.1	6.3
Other Services	9.3	9.8	9.8	9.9	9.7	9.5	9.9	10	10.6	11.4	11.6

Source: *Economic Survey of Pakistan, 2009-2010*

F-Final, R-Real,
P-Provisional

Slaughtering is included in Small scale

TABLE-4
GROWTH PERFORMANCE OF COMPONENTS OF GROSS
NATIONAL PRODUCT GROWTH AT CONSTANT FACTOR
COST 1999-2000

(%)

	2000-1	2001-2	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08-F	2008-09-R	2009-10-P
Commodity Producing Sector	0.8	1.4	4.2	9.3	9.5	5.1	6.6	1.4	0.8	3.6
Agricultural	-2.2	0.1	4.1	2.4	6.5	6.3	4.1	1.1	4	2
Major Crops	-9.9	-2.5	6.8	1.7	17.7	-3.9	7.7	-6.4	7.3	-0.2
Minor Crops	-3.2	-3.7	1.9	3.9	1.5	0.4	-1.0	10.9	-1.6	-1.2
Livestock	3.8	3.7	2.6	2.9	2.3	15.8	2.8	4.2	3.5	4.1
Fishing	-3	-12.5	3.4	2	0.6	20.8	15.4	9.2	2.3	1.4
Forestry	9.1	-4.4	11.1	-3.2	-32.4	-1.1	-5.1	-11.5	-3.0	2.2
Industry	4.1	2.7	4.2	16.3	12.1	4.1	8.8	1.7	-1.9	4.9
Mining & Quarrying	6.2	6.3	6.6	15.6	10	4.6	3.1	4.4	-0.2	-1.7
Manufacturing	5.5	5.7	6.9	14	15.5	8.7	8.3	4.8	-3.7	5.2
Large scale	9.3	4.5	7.2	18.1	19.9	8.3	8.7	4.0	-8.2	4.4
Small scale	11	3.5	6.3	-20	7.5	8.7	8.1	7.5	7.5	7.5
Slaughtering								4.2	4.2	4.3
Construction	0.5	1.6	4	-10.7	18.6	10.2	24.3	-3.9	-11.2	15.3
Electricity & Gas Distribution	-13.7	-7	-11.7	56.8	-5.7	-26.6	4.7	-22.0	30.8	0.4
Services Sector	3.1	4.8	5.2	5.8	8.5	6.5	7	6.6	1.6	4.6
Transport Storage & Comm.	5.3	1.2	4.3	3.5	3.4	4	4.7	5.7	2.8	4.5
Whole Sale & Retail Trade	4.5	2.8	6	8.3	12	-2.4	5.8	5.3	-1.4	5.1
Finance and Insurance	-15.1	17.2	-1.3	9	30.8	42.9	14.9	12.9	-7	-3.6
Ownership of dwellings	3.8	3.5	3.3	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Public Admin & Defence	2.2	6.9	7.7	3.2	0.6	10.1	7.1	1.2	3.6	7.5
Other Services	5.6	7.9	6.2	5.4	6.6	9.9	7.9	10	8.9	6.6

Source: Government of Pakistan. (2010). *Economic Survey 2009-2010*, Appendix, p.2.

Table-17 presents the sectoral share of small scale industry which has been 9.2 percent including the slaughtering and the table no. 3.18 indicates that the growth rate of manufacturing units of

Small and Medium Enterprises Sector has declined to 7.5% from 8.4% in nineties. Service sector has shown the growth of 4.6% in 2010 against the last year's 1.6%. In general, the growth rate of 3.6% of the total commodity producing sectors an improvement over the last two years weak performance.

Recently, State Bank of Pakistan has also initiated measures including formation of Small and Medium Credit Advisory Committee, Strengthening Secured Transaction Framework, Small and Medium Enterprise Portfolio Projected Targets for Banks, Small and Medium Enterprise Finance Booklet, Small and Medium Enterprise Credit Guarantee Fund, Small and Medium Enterprise Credit Rating Agency. These measures have been taken to explore the options of chalking out an alternative financing mechanism for small and medium enterprises to keep the business cycle operational for the modernization.

Impact of Small Industries in the Economy of Pakistan

Small and Medium Enterprise sector is the basic sector of the developed and underdeveloped economies being largest source of domestic employment in both rural and urban areas across all economic sectors, and providing opportunities for male and female to participate in the growth of the economy of a country. It is broadly acknowledged that the Small and Medium Enterprise sector supplies skill, create employment by supporting and motivating the expansion of the industrial sector. The Small and Medium enterprises sector is a recognized track to accomplish economic growth, to reduce unemployment and alleviate poverty in the industrialized and developing countries of the world. The developed and the under developed economies emphasized on the development of sector considering it as the bloodline of their economies and also from the socio economic perspective the sector provides opportunity to the youth of society to play their part in the economic development and also reduce the rural urban migration.

According to the figures of world Bank Report of 1997 in the industrialized countries small and medium enterprises sector contributes to over 55 percent of gross domestic product and over 65 percent of total employment. Small and medium enterprise

account for over 60 percent of GDP and over 70 percent of total employment in low income countries, while they contribute about 70 percent of gross domestic products and over 95 percent of total employment in middle income countries (GoP, *Pakistan Economic Survey 2006-2007*).

After the severe economic crisis in Pakistan, a moderate recovery in the domestic economy has been achieved during the outgoing year ended June 30, 2010. Despite the challenges, the country has shown resilience with Gross Domestic Product Growth of 4.1 percent up from 1.2 percent in the previous year. The growth was attributed primarily to recovery in the industrial and service sector, which grew by 4.9 percent and 4.6 percent respectively. Large Scale Manufacturing accounts for 4.4 percent from -8.2 percent in the previous year. The Small Scale Manufacturing posted 7.5 percent. The Small and Medium Enterprise sector of Pakistan accounts 30% of the gross domestic product, employs 80% non-agricultural labor force, 25% to total export, and 35% to manufacturing value addition in 2009-2010 (SBP, *Annual Report 2008-2009*).

With effect from early years of the independence of Pakistan, the Small and Medium Enterprise Sector of Pakistan documented as the real force for the development of economy in the industrial and commercial policies. The strength of the sector had continuously increased from very meager share in the economy of newly born country in 1947. The sector comprises of over 90% of business in Pakistan among the total 3,200,000 business enterprises out which over 93% or 2,976,000 entities fall in the category of small and medium enterprises in the country. (GoP, FBS, *Pakistan Statistical Year Book 2009*).

According to the *Economic Survey of Pakistan 2008-2009*, state that “the small and medium enterprise sector have all-encompassing presence across the economy with varying density i.e. wholesale and retail trade, restaurant and hotel business 56% or 1,577,695 with work force of less than 5 person, lion share followed by other services 23%.or 726,714 and manufacturing sector 21% or 665,885. More than 65 percent of the small and medium sized enterprises exist in the Punjab, 18 percent in Sindh,

14 percent in NWFP and 2 percent in Baluchistan. Most of them are working as informal sector of the economy”.

In terms of number, the Small and Medium Enterprise Sector of Pakistan is an important part of economy. The sector being the highly labor intensive and major part of small and medium enterprise sector is performing as informal part of the economy provide more employment as against that of the formal sectors in services, trade and manufacturing sectors of economy.

TABLE-5
CIVILIAN LABOR FORCE, EMPLOYED AND
UNEMPLOYED FOR PAKISTAN

(In Millions)

	2001- 2002	2003- 2004	2005- 2006	2006- 2007	2007- 2008	2008- 2009
Labor Force	41.83	45.5	50.05	50.33	51.78	53.72
Employed	38.37	42	46.95	47.65	49.09	50.79
Unemployed	3.46	3.5	3.1	2.68	2.69	2.93

Source: Labor Force Survey 2001-02, 2003-04, 2005-06, & 2006-07, Federal Bureau of Statistics, Islamabad.

TABLE-6
EMPLOYMENT BY FORMAL AND INFORMAL SECTORS
FROM 2007 TO 2009 (%)

Sectors	2007-2008			2008-2009		
	Total	Male	Female	Total	Male	Female
Total	100.00	100.00	100.00	100.00	100.00	100.00
Formal	27.20	27.20	27.40	26.70	26.60	27.60
Informal	72.80	72.80	72.60	73.30	73.40	72.40
Rural	100.00	100.00	100.00	100.00	100.00	100.00
Formal	24.90	25.10	23.20	23.80	24.00	22.20
Informal	75.10	74.90	76.80	76.20	76.00	77.80
Urban	100.00	100.00	100.00	100.00	100.00	100.00
Formal	29.50	29.20	32.50	29.40	29.10	32.80
Informal	70.50	70.80	67.50	70.60	70.90	67.20

Source: Labor Force Survey 2008-2009, Federal Bureau of Statistics, Government of Pakistan.

According to Labor Force Survey 2008-2009, Federal Bureau of Statistics, Government of Pakistan both the Tables 19 and 20 presents that pattern of labor force in informal sector increased by 33.00 percentage points against 40.50 percentage points in 2007-2008. Thus, share of the informal Sector improved to 73.3% in year 2009 against 72.8% in fiscal year 2008. Employment in the main jobs outside agriculture in rural was 75.10% than in urban areas 70.50 percent. On the contrary, the share of formal sector employment shrunk form 35 percent to 27 percent in case of male labor force and from 33 percent to 27 percent and in case of female in 2000-2008. In-formalized enhancement in the urban labor market against the total labor force in Pakistan stood at 51.78 million out of which 49.09 million employed in 2007-2008.

TABLE-217
EMPLOYMENT BY FORMAL AND INFORMAL SECTORS
FROM 2007 TO 2009 (%)

Sectors	2007-2008			2008-2009		
	Total	Male	Female	Total	Male	Female
Agriculture	44.65	36.90	75.00	45.10	37.30	74.00
Manufacturing	12.99	13.30	11.80	13.00	13.30	11.90
Construction	6.29	7.80	0.40	6.60	8.30	0.40
Transport	5.46	6.80	0.20	2.50	6.60	0.20
Service	13.70	14.40	10.60	13.66	11.10	11.60
Others	2.30	2.60	0.20	0.10	2.90	0.30

Source: Labor Force Survey 2008-2009, Federal Bureau of Statistics, Islamabad.

Table-21 shows the statistics labor forced engaged with the main sector of the economy. The labor force employed has not increased from the last years in the major sectors of economy that support that the employed labor force shifting from formal sector to the informal sector.

CONCLUSION

In keeping with the shortage of vocational and technical training institutions, the government has to play its role by establishing knowledge societies at municipal and town levels with help of experienced professionals of small and medium enterprises, lenders of financial institutions such as executives of leasing companies, specialized bankers, educationist and researchers for technical and managerial development of human resource. Furthermore, the training courses for the youths to be arranged with the group effort of manufacturers, Service Providers, and Wholesale and Retail Traders associations of small and medium enterprises.

The equipped and skilled training institutions or trainers can chisel skills and produce much healthier management of small and medium enterprise sector in the aspects of sound management, operational growth and profitability. The government has to play its role to introduce new institutions to provide training to the entrepreneurs and their staff.

The interaction with the multilateral agencies for the promotion of small and medium enterprises should be sought, because the multilateral agencies are good source of foreign funds for the economic development and for technical help.

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