

ROLE OF SMALL AND MEDIUM ENTERPRISES IN UPLIFTING PAKISTAN ECONOMY

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ABSTRACT

This paper throws light on the role of SMEs in uplifting Pakistan economy and identifies various small scales, labor intensive, industrial sectors where investments can be made for greater dividend. Pakistan due to its weak economic conditions and lack of planning has not yet been able to gain the full benefits of this sector. SMEs form an important sector of a country's economy. More so, in case of developing economies like Pakistan which lack large-scale industry. Unfortunately no concrete steps were taken by our governments in the last half-century to develop this sector by providing greater incentives. The paper concluded that if the small sector with sustainable competitive advantage and export potential is targeted through recent government's support program, much can be done for the economy of Pakistan.

INTRODUCTION

As a developing country, Pakistan is plagued with several problems like stagnant economic growth, lower literacy, higher unemployment, limited financial resources, higher population growth, insufficient infrastructure facilities, huge debt burden and unequal distribution of resources, which have slowed down the economic development of the country. As our dependency on foreign assistance is increased, our economic conditions are getting worse. During the last decade the economy of Pakistan has been fluctuating at various levels.

At present, in many developing countries SMEs (Small and Medium Enterprises) are considered as an effective tool to mobilizing economic activities, providing massive employment opportunities and enhancing social status of the people. To overcome the economic obstacles in such a way that we may contribute towards our economic growth can be based upon sound establishment of Small and Medium Enterprises (SME). In this

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paper we have discussed the role of SME in Pakistan and the various impediments faced by this sector and in the conclusion we have tried to find out some steps through which this sector expands its share to the economic development of Pakistan.

SLOW ECONOMIC GROWTH AND ITS IMPACT ON POVERTY

During the last decade 30.25 million people have been added to the population whereas unemployment is also increasing. The GDP growth rate has been decreased from 7.6% in 1992 to 2.5% in 2001. However, the overall inflationary trend is at decline, but according to current estimate more than 45 million people are living below the poverty line,⁽¹⁾ with the implementation of structural adjustments like downsizing, more people have been pushed below the poverty line. The cost of living has increased by 16 times in 2001 as compared to 1950. The rupee having depreciated from Rs.30.93 to a dollar in 1995 to Rs.62 today,⁽²⁾ slow economic growth is the major indicator of increased poverty in Pakistan. The poor in Pakistan are not only deprived of financial resources, but also lack access to basic needs such as education, health, limited access to education, health and nutrition, undermines their capabilities, limits their ability to secure gainful employment and result in social exclusion also.

TABLE - I
KEY ECONOMIC INDICATORS

| Year | Total Population (Million) | Unemployed Labor Force (Million) | GDP Growth Rate | Overall Inflation Trend |
|------|----------------------------|----------------------------------|-----------------|-------------------------|
| 1991 | 112.61 | 1.95 | 5.4 | 12.7 |
| 1992 | 115.54 | 1.87 | 7.6 | 10.6 |
| 1993 | 118.50 | 1.53 | 2.1 | 9.8 |
| 1994 | 121.48 | 1.61 | 4.4 | 13.0 |
| 1995 | 124.49 | 1.80 | 5.1 | 13.0 |
| 1996 | 127.51 | 1.85 | 6.6 | 10.8 |
| 1997 | 130.56 | 2.25 | 1.7 | 11.8 |
| 1998 | 133.61 | 2.28 | 3.5 | 7.8 |
| 1999 | 136.64 | 2.33 | 4.2 | 5.7 |
| 2000 | 139.76 | 3.12 | 3.9 | 3.6 |
| 2001 | 142.86 | 3.19 | 2.5 | 4.4 |

SOURCE: Economic Survey 2001-2002. Labor Force Survey 2000.⁽³⁾

SMEs IN GENERAL AND PAKISTAN IN PARTICULAR

The role of SMEs in the development of any country is considered essential for uplifting the economic growth. In this context, a sustainable economic growth requires sound policies, better infrastructure and advancement of credit at reasonable terms and conditions to boost this sector. A study of the developed nations reveals that the countries like United States, Japan, Germany, Malaysia, Thailand and China has spurred their economic development by promoting SMEs in an organized manner.⁽⁴⁾

After Asian Financial Crises (AFC) in 1997, when Thailand's economy severely effected, its government has shifted its emphasis from large-scale enterprises towards the small and medium-sized enterprises. Number of policy initiatives and efforts has been carried out to create Small and Medium Enterprises Friendly Environment,⁽⁵⁾ similarly the Royal Government of Cambodia is giving increasing attention to the development of small and medium enterprises and trying to create a favorable policy environment for this sector.⁽⁶⁾

If we take an insight into the South Asia, it will be apparent that, many governments of the developing countries like India, Sri Lanka and Bangladesh, perceive Small and Medium Enterprises as engine of employment, social uplift and broad-based economic growth.⁽⁷⁾ In the lift of successful experience of Bangladesh regarding the role of micro credit availability and self-employment particularly for women may be considered as an example for this region.⁽⁸⁾

The definition and the size of Small and Medium Enterprise varies from country to country. However, in our country as defined by Small and Medium Enterprises Development Authority (SMEDA), an enterprise with total assets of up to Rs.20 million is termed as a small enterprise and an enterprise with total assets exceeding Rs.20 million to Rs.1000 million is considered as a medium enterprise.

Unfortunately during the last 50 years the government has not been very supportive towards SME in comparison to other developing countries and these unfriendly policies have rendered SMEs almost ineffective. SMEs will not only provide employment opportunities to the number of people but will also contribute towards the socio-economic development of the society.

Pakistan is one of those few countries in the world, where Small and Medium Enterprises contribute significant importance in the overall national economic development in contrast to large-scale corporate sector. Pakistan's economy grew at an average rate of 6% per annum. The small sector registered an impressive growth of 8.4% during the same period. Due to widespread network through out the country and its labor-intensive nature, SMEs are providing more employment opportunities. This sector has at least 5:1 capital efficiency ratio, in terms of value addition and almost 10:1 in employment generation compared to large-scale industry whereas only 20% of the total investment is made in SMEs in contrast to 80% is made in heavy industry by the banks.⁽⁹⁾

According to the figures provided by Small and Medium Enterprise Development Authority (SMEDA), it is estimated that approximately 220,000 SMEs are currently working in Pakistan which are providing employment to the 80 percent of the total labor force, which includes artisans, workshops, craft industries, vendors and agro-based businesses in the urban as well as in rural areas. In Pakistan, SMEs contribute more than 50 percent to GDP and approximately 50 percent towards export earnings through direct and indirect exports. This is not enough but it needs greater attention of the state to develop this sector.

The development of SMEs will not only provide employment opportunities but it will also contribute towards the better distribution of wealth, reduce socio-economic disparities of a large section of our society, upgrade living standard of lower and middle class income group, increase competition to avoid monopolies. To excel in this sector, Government should not only provide sufficient funds to potential small and medium

entrepreneurs but also provide them proper guidance, frame stable policies and provide them conducive business environment.

Currently, a very small proportion is getting financial help in SMEs sector and approximately their debt-equity ratio is 25:75. The main fact in this regard is that usually commercial banks do not encourage micro-credit and development financial institutions (DFIs) do not target the poor people and usually the mark up rate is approximately 19 percent or higher. In rural areas, the loan mostly comes from informal sector, whereas according to the SME bank the recovery rate from small sector is higher than industrial sector and SMEs have less default rate of 15 percent against 65 percent for heavy industry.⁽⁴⁾

At present, when the poverty rate is continuously increasing in our country and efforts have been made to alleviate the poverty, the availability of micro-credit to the number of small entrepreneur may become a useful tool in this regard. Over the last ten years, successful experience in providing finance to small entrepreneur and producers demonstrate that poor people, when given access to increase responsive and timely financial services at market rates, repay their loans and use the proceeds to increase their income and assets.⁽¹⁰⁾

SMEs can work parallel to the development of large-scale concerns by providing them quality inputs, semi-finished items and experienced human resource. During 1998, Pakistan's SME sector contributed 30.2 percent of value addition in manufacturing sector, that could be enhanced by creating a conducive environment for this sector.⁽¹¹⁾ SMEs also have export earning potential in the areas of hand knit carpet industry, leather goods, gems and jewelry, export of fruits and vegetable and in software development.

In a country like Pakistan, much can be done in the areas of fisheries, CNG, kits, shoe making, poultry, management consultancy, ready-made garments, dry fruit packaging and retailing, hosiery, and dates processing. Women entrepreneurs can also be encouraged to actively participate in the economic development. Priority should be given to the establishment of agro-

based industry, because nearly 68 percent of the total population lives in the rural areas and majority of them is engaged in the agriculture sector. The problems faced by our rural labor force like low productivity, underemployment, income disparity can be solved through proper guidance, availability of funds and use of new technology. In particular agro-based industry will help in local development and it will also reduce the rural-urban migration. This is the only way of making them self-sufficient in the long run.

Our past experience in providing institutional financial help to this sector is not more result-oriented, because of the reason that we were practicing standard financial mode, which includes use of collateral, personal guarantee and these are not available to poor borrowers.⁽¹²⁾ By realizing all ground realities it is important that we have to depart from the usual banking practices and incorporate a new structure with innovative modes like group based lending and tailor-made policies relevant to area-specific requirements.

CONCLUSION

We can conclude here that the step taken by the Government in the form of establishment of Small and Medium Development Authority (SMEDA) is a big hope in the development of small sector. It has been established with a mission that it will launch an aggressive SME support program. Those sectors, which should be prioritized through SME support program, must have growth potential, sustainable competitive advantage, high value addition and export potential.

Another recent step taken by the Government is the establishment of SME bank. It will provide commercial banking facilities and also support in areas of management, product innovation and development, product positioning and acquisition of new technology. At this stage, when the government is trying to make constructive efforts towards the development of this sector, care should be taken for the proper implementation of proposed policies. The most important factor among them is that funds

availability alone can not achieve the target but the productive utilization of those funds is very necessary. Most of the SMEs are working with centralized management structure and unprofessional management that should be replaced by professionally qualified management through helping them in understanding the basic concept of strategic management. SME are required to file Central Excise Duty, Sales Tax and Income Tax Returns and has to pay the respective amounts. So the government should simplify the procedures for collection of income tax, sales tax and central excise duty. Law and order is very critical. Deteriorated law and order is a killer of SMEs, as delivery schedule is disrupted. Better and adequate infrastructure is the prerequisite for the development of this sector. And above all, the interest rate should be rationalized to increase the share of SMEs in our economic revival.

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