

Analyzing the Stylized facts for Developing SME's Business Opportunities in Pakistan

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Abstract: This research explores the potential of SMEs about the Stylized facts for developing SMEs business opportunities in Pakistan. Data were collected from various secondary sources such as various reports of SMEDA and economic review of Pakistan. This research reveals that SMEs contribute about 30 percent of annual GDP. In 2006, SMEs represented almost 90 percent of all the enterprises in Pakistan employing 78 percent of industrial labour force. There are 3.2 million SMEs are working in Pakistan and out of which more than half are involved in business of trade, wholesale, retail, restaurants employing less than 5 persons.

Key words: Sterilized, Enterprises, opportunities, SEMs Business, Developing..

INTRODUCTION

The SMEs have been serving as breathing apparatus in achieving the high standards of economic development and their contribution towards GDP, value addition, export earning and employment have been of immense importance in carrying forward the economic objectives of developing countries. SMEs sector plays an important role in promoting exports of Pakistan. It will then review the role of important industries categorized as SMEs by SMEDA in Pakistan's exports. The idea of promoting SME sector turns up in eighteenth century in the world because policy makers and economist have realized that without promoting small medium enterprises, the growth of exports could not be achieved. SMEs require less capital induction and create employment opportunities in accelerating the pace of economic development. SMEs contribute about 55 percent of GDP and over 65 percent of total employment in high-income countries, whereas in Pakistan, SMEs contribute about 30 percent of annual GDP. In 2006, SMEs represented almost 90 percent of all the enterprises in Pakistan employing 78 percent of industrial labour force. There are 3.2 million SMEs are working in Pakistan and out of which more than half are involved in business of trade, wholesale, retail, restaurants employing less than 5 persons. It is evident from the fact that SMEs are the considered as backbone of the economy. The role of SMEs is critical in employment generation and poverty reduction.

Table 1: Contribution of SME in Pakistan and GDP of Pakistan (Share in Percentage)

Year	SME as a percentage of GDP	Percentage share of SME Manufacturing in Value Addition	SME as a percentage of Industrial Labour
2001-02	30	30	80
2002-03	30	-	80

Source: Economic survey of Pakistan, Various Issues.

The diversification and innovative ability of SMEs sector make its contribution towards exports more significant. These enterprises accounted for 25 percent of exports of manufactured goods sharing 35 percent in manufacturing value added goods (SMEDA). Several measures have been introduced to enhance its share in Pakistan's exports. Through the introduction of SMEs policy and other budgetary measures, Government of Pakistan stresses on the need of a strong SME support for sustained economic development. Although SME sector has a great impact on GNP of the country but despite all measures and efforts to keep SMEs in spotlight, it has not remained in spotlight that it deserves. It is found that SMEs sector has not performed according to targets set for and could not contribute significantly to the exports of Pakistan.

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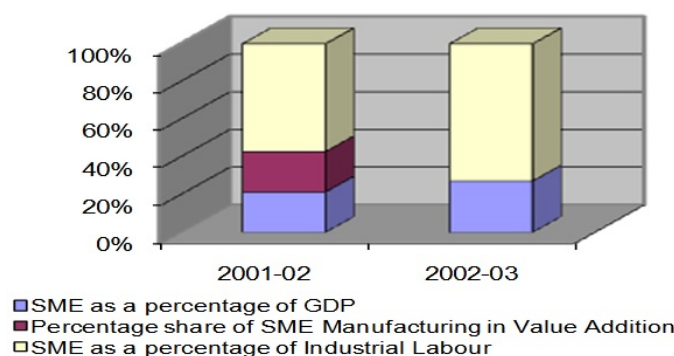
MATERIALS AND METHODS

Data were collected from various secondary sources such as various reports of SMEDA, annual economic survey of Pakistan and various reports of UNCTAD. The data has been analyzed by using SPSS16.5 Statistical software for analysis of data and interpretation of results. We selected few samples of small and medium enterprises such as footwear industries automatic parts industries, dairy industries, and leather industries.

RESULTS AND DISCUSSIONS

It is evident from the data of 1996-97, percentage share of SMEs in export of manufacturing was 30 percent. However, the percentage share of SMEs in value added manufacturing reduced to 27 percent as compared to 32.8 percent in 1995-96. Ironically, public sector did not invest in small scale manufacturing during 1996-2000 and investment level remained at zero from public sector during this time period. However, private sector had invested in small-scale manufacturing, which amounted to Rs.20, 659 millions in 1999-2000 as compared to Rs. 14,231 millions in 1996-1997 indicating 45.17 percent increase during the same time period. One of the main reasons hindering the growth of this sector is non-availability of credit. Therefore, government has announced opening of micro finance banks to facilitate small sector entrepreneurs, which started its operation in July 2000.

Graph-1



SMEs sector in Pakistan got importance when government declared the SME sector as wheel of growth in 2001-02. Due to shortage of liquidity, SMEs faced a number of technical and managerial problems along with lack of skilled work force and marketing techniques. It is interesting to note that percentage share of SMEs in GDP showing sharp increase of 30 percent during 2001-02 as compared to almost 5 percent on average during 1994-99. This sharp increase in Small and Medium Enterprises' share in GDP might be because of easy access of small vendors and entrepreneurs to make credit possible for entrepreneurs. Government of Pakistan has also established the SME Bank and Khushali Bank to promote SME sector by facilitating availability of credit to entrepreneurs.

Footwear Industry:

Leather products can be segregated into leather garments, leather footwear, leather goods, leather gloves etc and out of which leather footwear is one of demanding product among consumers over the world. Leather footwear was also an important product constituting almost 50 percent of total exports of leather products in 1999. During 1999 Italy, China and Portugal were considered as major supplying countries, whereas Pakistan had a meager share of 1.5 percent only in world's exports during 1995-1999. Leather footwear is mainly available in the cities of Lahore, Karachi, Hyderabad, Rawalpindi, Faisalabad, Sialkot, Multan, Sargodha, Sahiwal, and Gujranwala etc.

Footwear is also treated as one of the important sector since independence. However, the number of institution of footwear sector remained between 23 on average during 1970-1991. Even in 20th century, footwear industry in Pakistan is still on the road of development as only 20% of the whole industry was organized. Despite the fact that Pakistan has large leather tanning industry, the induction of leather as raw material in this industry is quite meager. As a result, raw material used in this industry is mostly imported because locally available leather is utilized in garments industry, which ultimately results in increase of cost of production.

The value of footwear exports of Pakistan stood at US\$ 135, 213 thousand in 2006 as compare to 90,204 thousand in 2003 which showed 49 percent increase during the same period. The major buyers for this product include Saudi Arabia, Afghanistan, UAE, Yemen, Germany, UK, France, Italy, and Spain etc. The share of Pakistan’s export of footwear in world exports stood at 0.18 percent only in 2006, which could further decrease due to many factors such as political instability, electricity fluctuations and inflation in preceding fiscal year.

Graph-2

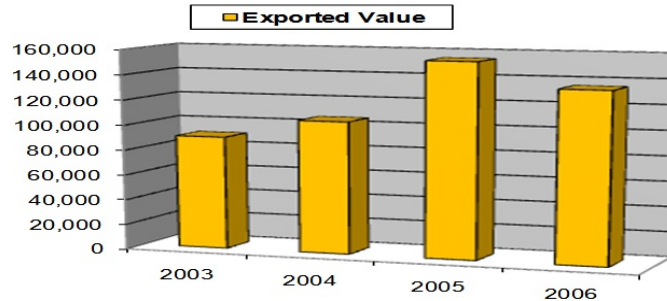


Figure depicting the footwear exports of Pakistan, which shows an increasing trend from 2003 touches its peak level in 2005 and afterwards decreases in 2006. Pakistan has great potential in this sector due to shut down of footwear industry in Europe. Further, TDAP offers 6 percent R&D subsidy in 2006 for footwear industry to attract potential investors. Although footwear industry was indulged in exports since early 50s still fails to emerge as leading exporting sector of Pakistan.

The main problems faced by footwear entrepreneurs included low quality standards, lack of creativity and innovation, lack of infrastructure and unawareness of small vendors related to subsidies offered by the government. Being a labour intensive sector it takes several weeks to develop a product, which increases the time span of delivery of products. Human Resource development is another important issue of this sector should be tackled on high priority. Material testing, lab testing, patent laws, ISO standardization are the main Non-Tariff Barriers adversely affecting the production and export of this sector.

Automotive Parts:

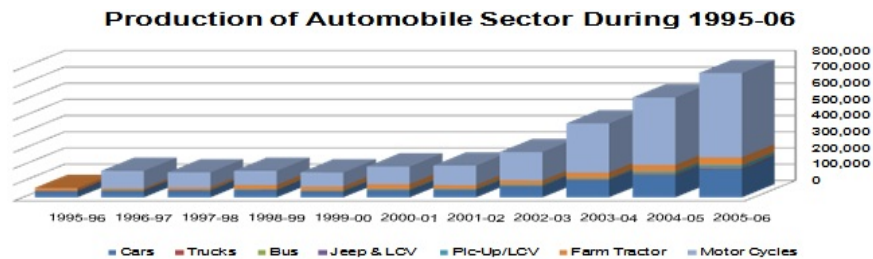
Although around 90 percent of automotive industry in Pakistan comprises of small-scale enterprises. But indigenous technology along with liaison with multinational companies transformed this industry into an organized one. In early 2000, automotive Industry showed rapid growth because of including lower rate of interest, easily access to credit. These measures triggered production of automotive industry. Deletion program also played an important role in development of this sector by protecting and promoting domestic industry. However, deletion program has been swept away with the introduction of Tariff Based System (TBS) in 2006. The basic objective of TBS is to promote new investment, gain economies of scale, protect local industry etc. It would aim to protect the domestic industry by applying higher custom duty on import of these products.

Table 2: Production of Automotive Sector during 1995-06

Year	Cars	Truck	Bus	Jeep & LCV	Pic Up/LCV	Farm Tractor	Motor Cycles
1995-96	33419	2994	474	2274	2682	16093	-
1996-97	37032	2917	456	792	4553	10417	106797
1997-98	38676	1683	591	657	4843	141444	92978
1998-99	42927	1083	1124	622	3834	26644	87504
1999-00	35332	913	1460	380	3785	24559	86959
2000-01	41556	912	1326	459	4982	31635	108850
2001-02	42679	1134	1086	564	5900	23801	120627
2002-03	66432	1929	1296	374	7815	26240	175169
2003-04	103662	2022	1380	807	8888	35770	303383
2004-05	133722	3204	1762	1564	16294	43200	416183
2005-06	170487	4518	825	2472	19152	48887	520124

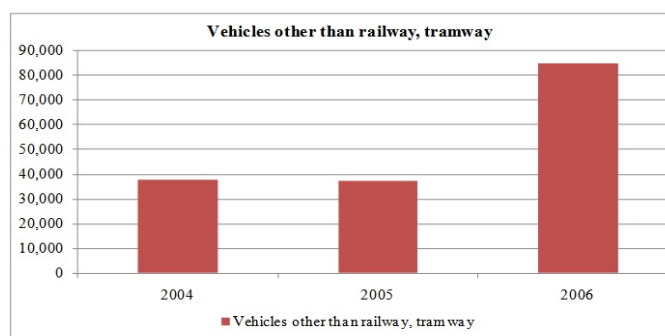
Source: PAMA

Graph-3



Direct interaction of OEM in Pakistan with all kind of Suppliers makes the process of assembling lengthy which increases dependency of OEM on many kinds of suppliers as compare to western countries where OEM interact with only 1st tier suppliers. This also resulted in completely stuck up whole process of assembling if supply shortage occurs even from one supply tier. It also restricts precious resources into management of wide spread supply chain rather than to spend on R&D.

Graph-4



The prominent factor of this sector is that almost 95 percent firms are self-financed. In 2005, automotive industry contributed Rs 198 billion of Pak economy emerging as a potential exporting sector, whereas investment increases 130 which percent stood at Rs 115 billion in 2005 as compare to Rs. 50 billion in 2002. Despite the fact that Engineering Development Board of Pakistan, Pakistan Association of Automotive Parts and Accessories Manufacturers (PAAPAM) and Pakistan’s Automotive Manufacturer Association (PAMA) played actively its role in promotion of automotive industry which still fails to achieve desired targets.

Table 3: Export of Vehicles other than railway, tramway during 2002-06 (US \$000)

Year	Vehicles other than railway, tramway	% Change in Vehicles other than railway, tramway
2004	37443	42.81%
2005	36913	-1.42%
2006	84550	129.05%

Source: Trade map 2006, ITC

Table exhibits the exported value and growth rate of vehicles other than railway, tramway during 2002-06. Exported value of “vehicles other than railway tramway” has increased from US\$26,219 thousand in 2003 to US\$ 84,550 thousand in 2006 showing an increase of 222.48 percent over the same time period. “Vehicles other than railway, tramway” shows positive growth rate except in 2005 decreased by 1.42 percent.

Obstacles

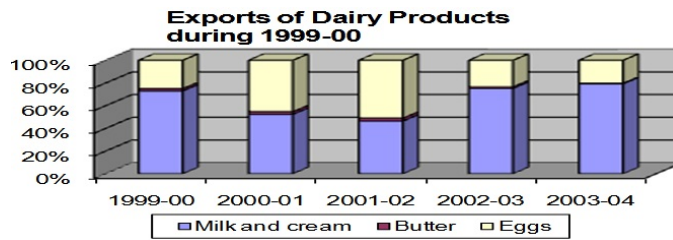
- Govt. force industry to import expensive raw material from specific countries results in the rise of cost of production.
- Locally available raw material is of low quality
- Availability of skilled labour is another problematic area
- The import of used vehicles deteriorates the domestic industry and Govt should made strict policy to save the infant local industry.
- Strict compliance by the Govt. and importers especially in case of European countries to meet international laws of standardization, environmental laws, labour regulations and liability to the product which suffer export of this sector.

Dairy Industry:

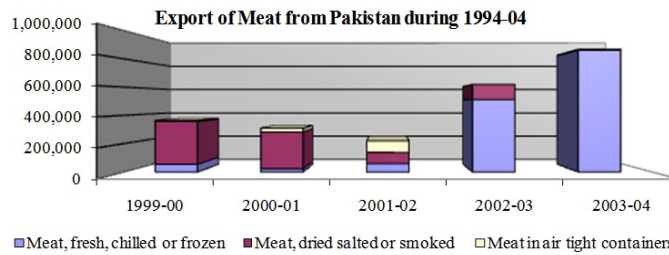
It is a well known fact that Pakistan being one of largest milk producing country could not be able to cater domestic needs of milk and milk products. Dairy sector of Pakistan is unstructured with low level of investment resulting low productivity and greater enhance on import of dry milk.

It reveals from the table that exported value of milk and cream from Pakistan has increased by Rs. 444,506 thousand in 2003-04 as compare to Rs. 54,517 thousand in 1999-00, exhibiting an increase of 715.35 percent during the same time period. Whereas export of eggs from Pakistan showing tremendous increase by 63.31 percent and 25.82 percent in 2001-02 and 2003-04 respectively. Pakistan’s export of butter increased from Rs. 1,560 thousand to Rs. 3,003 thousand during 2001-06, showing an increase of 92.5 percent over the period. However data on export of cheese and curd is not available.

Graph-5



Graph-6

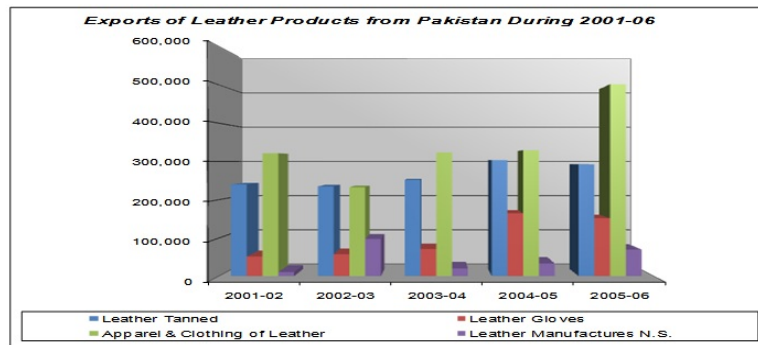


Meat industry in Pakistan’s export of “meat, fresh, chilled or frozen” showed tremendous increase from Rs. 54,966 thousand in 1999-00 to Rs. 859,733 thousand in 2003-04 with an increase of 1464.12 percent over the period. However, export of “meat, dried salted or smoked whether or not in air tight containers” and “meat in air tight containers en’. & meat preparations whether or not in air tight containers” from Pakistan decreased by 97.87 percent and 98.28 percent respectively during 1999-0

Leather Industry:

The world’s leading exporters of finished leather were Italy, Republic of Korea, Argentina, USA, Germany and Brazil. Further, Hong Kong, Italy, Germany, Spain and France were important buyers of finished leather from Pakistan in 2002 (Finished Leather, 2002). During 2002, Kasur (223) was main cluster city of finished leather in Pakistan followed by Sialkot (210), Karachi (174), Gujranwala (51), Multan (43), Sheikhpura (28), Lahore (15), Sahiwal (8), Faisalabad (7), Peshawar (6), Sargodha (5) etc.

Graph-7



The Table showing export of leather products during 2001-06; export of leather tanned showing a variation during 2001-06. Exports of leather tanned decreased from US\$ 239,934 thousand in 2001-02 to US\$ 234,774 thousand in 2002-03 showing fall in exports by 2.15 percent during the same time period. Then, further exports of leather tanned shows increasing trend in two consecutive years of 2003-04 and 2004-05 by 7.21 percent and 20.63 percent respectively. However, it depicts decrease by 3.69 percent in 2005-06.

Further export of leather gloves from Pakistan is showing an increasing trend during 2001-06 except 2005-06. In 2005-06 export of leather gloves stood at US\$ 151,459 thousand as compare to US\$ 164,333 thousand in 2004-05 decreased by 7.8 percent during the same time period. Major buyers of Pakistan for the product of leather gloves are USA, Germany and France with their share at 22.99 percent, 11.64 percent and 7.85 percent respectively in 2005-06. Export of leather products in the category of apparel & clothing increased except 2002-03. The value of Export of Pakistan in this product stood at US\$ 501,786 thousand in 2005-06 as compare to US\$ 321,341 thousand in 2001-02, with an increase of 56.15 percent over the period. While Pakistan’s export of leather manufactures n.s. shows growth of 558.21 percent during 2001-06.

It is evident from the above Figure that Apparel clothing of leather and leather tanned are two major exporting items of Pakistan in the category of leather products. Further, Export of leather gloves also shows progress in 2004-05 and 2005-06.

Conclusion:

SMEs contribute about 55 percent of GDP and over 65 percent of total employment in high-income countries, whereas in Pakistan, SMEs contribute about 30 percent of annual GDP. In 2006, SMEs represented almost 90 percent of all the enterprises in Pakistan employing 78 percent of industrial labour force. There are 3.2 million SMEs are working in Pakistan and out of which more than half are involved in business of trade, wholesale, retail, restaurants employing less than 5 persons. It is evident from the fact that SMEs are the considered as backbone of the economy. The role of SMEs is critical in employment generation and poverty reduction. So it is a virtually mandatory for the Pakistan Governments to take the bold steps in order to ensure the long term growth of the SMEs sector for the sake of eradicating the poverty and creating job opportunities in Pakistan. Indeed, in Pakistan there are various constrained by a number of factors that include skills shortage, dearth of credit facilities, poor management, lack of infra structure facilities, bad law and order situation, resistance to change and marketing difficulties especially for export-oriented SMEs. There is a dire need to work together in a coordinated and cohesive manner for the purpose of creating conducive atmosphere for better growth of SMEs in Pakistan.

It is also found that most of SMEs enterprises do not maintain proper accounting of there operation and do not have a trained accountants on their staff. So in this regards, SMEDA can organize training courses in the filed of accounting, marketing and management. Accounting software package are also available in the markets which can be used by the owners of small medium enterprises for the purpose of upgrading the financial records of the business.

We have also found that in Pakistan there are various potential cities where small and medium enterprises can be established for instance, DI Khan, Wazirbabd, Khairpur, Kotri, Larkana, Sukkur and Gawadar which have large untapped potential. Besides, Banks and DFIs, leasing companies and modarabas are also the right vehicles for delivery of credit to the SMEs sector in Pakistan.

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