

**DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES
DURING POST NATIONALIZATION PERIOD IN
PAKISTAN: ISSUES, CHALLENGES AND REMEDIES**

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ABSTRACT

Small and Medium Enterprises (SMEs) are considered as backbone of any economy. It is important to develop the SMEs of the country. The strong net work of SMEs would lead to poverty alleviation, employment creation and foreign exchange earnings. There are approximately 3200,000 SMEs in Pakistan. The nationalization process was a policy measure programme started in 1972. This process began after the separation of East and West Pakistan. The objective of this study was to review the development of small and medium enterprise in general and apparel SMEs in particular after the nationalization process in Pakistan. This was an exploratory study. SMEs development is reviewed for the period starting from 1970 to 2012. This study concludes that despite of realizing the importance of the SMEs in Pakistan, the seriousness in effort for development of SMEs was lacking before 1998. After the establishment of SMEDA, its contribution towards development of SMEs is quite evident.

Keywords: SMEs Development, problems of SMEs, Challenges of SMEs, Remedies for SMEs, Apparel Sector, Textile Sector

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1 Introduction

Small and Medium Enterprises (SMEs) are considered as backbone of any economy. It is important to develop the SMEs of the country. The strong net work of SMEs would lead to poverty alleviation, employment creation and foreign exchange earnings. There are approximately 3200,000 SMEs in Pakistan (Pakistan, Government Of, 2005-06). The number could still be improved provided that due attention is paid towards the development of SMEs. The SMEs importance is validated as it the source where the national economic indicators especially national income could be improved by investing less capital as well as other resources. Thus, small enterprise would generate employment, income and ultimately growth of the country. Data showed that 80% of the industrial labor worked in the small-scale industries, which was of 2 million employees out of total employment of 2.3 million (Pakistan, Government of, 1977, p. 101). The nationalization process began on January 2, 1972 in Pakistan. This process was a policy measure programme with objective to improve the economy of the country. This process began after the separation of East and West Pakistan therefore economic development could vary during both periods. (Raza, 2008). There could be different implications on the development of SMEs during the pre and post period of nationalization therefore separated for the purpose of this study. This study would analyze the development of SMEs after the nationalization process. The objective of this study was to review the development of small and medium enterprise in general and apparel SMEs in particular after the nationalization process in Pakistan. There were three major changes at the start of post nationalization period. The separation of East Pakistan, which changed the structure of the markets, second the nationalization process, which took place in 1972; Third the exchange reforms, the liberalization of import policy and removal of quantitative controls (Pakistan, Government of, 1970, p. 197). Therefore, post nationalization growth of the apparel sector SMEs were taken under this study

2 Data and Methodology

This study was exploratory research as far as research design is concerned. This was qualitative research considering its nature. SMEs development is reviewed for the period starting from 1971 to 2012. In this study, this period is named as post nationalization period. This study is important as it would help the Government institutions to relook into the development process and decide the next step of promoting the development of SMEs Deductive approach was used for the data analysis. Yearly development under the head of each group was covered in this study. Each

subsection covered issues, challenges and remedies for SMEs and issues, challenges and remedies for apparel SMEs, Finally overall performance of SMEs during specified period.

3 Review of SMEs Development of SMEs in Pakistan

3.1 Development of SMEs from 1970 to 1977

The definition of small industries was modified during this period of time and was given as industries which employ manual labor but do not use any motive power or industries which use motive power and use fixed assets valued PKR 1 million excluding land (Pakistan, Government of, 1970, p. 366).

3.1.1 Issues, Challenges and Remedies for Small and Medium Scale Industry during 1970-77

The issues and challenges identified during this period were poor governing principles of the development of small industries (Pakistan, Government of, 1970, p. 366) (Pakistan, Government Of, 1960, p. 260) (Pakistan, Government Of, 1965, p. 255). For this purpose expansion of the advisory and commercial services for the small scale industries services, mobile extension units, to give technical and management advice, subcontracting, promotional government financed activities were planned to be provided (Pakistan, Government of, 1970, p. 367) (Pakistan, Government Of, 1965, p. 255). There was no serious effort made towards the improvement of these problems, as these problems existed ten years before as well. Until 1970, the investment and production targets were not set separately for the small medium and large enterprise (Pakistan, Government of, 1970, p. 368). This statement was in fact the denial of definite plan for the development of small and medium enterprise at this point of time.

3.1.2 Issues, Challenges and Remedies for Small and Medium Scale Industry of Textile and Apparel Sector during 1970-77

The issues challenges and remedies of the apparel sector were not discussed in the literature however these problems were not different from the problems of all other SMEs

3.1.3 Performance of Small and Medium Enterprises during 1970-77

While reviewing the performance of the small-scale industries during this period the following statement was found, in the official documents of government of Pakistan as:

“Output in small scale industry increased at a more rapid rate than to large scale industry but the extent of increase is not fully documented.” (Pakistan, Government of, 1977, p. 198)

The investments were also made in the small-scale industries, which were not accounted for during this period (Pakistan, Government of, 1977, p. 199).

3.2 Development of SMEs from 1977 to 1983

Despite of not paying proper attention to the SMEs for the last seven years Government of Pakistan still considered small-scale industry as an important tool of economic development. During this period, almost all developing countries realized the importance of the small-scale industries. They believed in the quicker economic returns could only be achieved through SMEs. Setting up such industries in the localities and small town or densely populated areas was given due concentration. (Pakistan, Government of, 1977, p. 100) (Pakistan, Government of, 1977, p. 95).

3.2.1 Issues, Challenges and Remedies for Small and Medium Scale Industry during 1977-83

The major problems of small-scale industries remained unsolved despite of the proper planning over the years. Therefore, the overall production and its quality of the products significantly declined. This ultimately had an impact on the output, employment, and exports of the country. The major problems faced by the small industries were SMEs organization, finances, technology and marketing (Pakistan, Government of, 1977, p. 101).

The trading zones that were developed through previous plans had almost no facilities water, power, gas etc. It was decided that such facilities shall be provided such facilities during this period (Pakistan, Government of, 1977, p. 94).

The subcontracting was encouraged in the large firms and the financial assistance was to be provided to the small manufacturers. For this purpose, the role of government was quite eminent. It was planned to form a subcontracting exchange with the help of united national development program (Pakistan, Government of, 1977, p. 99).

Following measures were proposed during these five years to meet the challenges of small and medium scale industries.

1. Unavailability of proper statistics was a big hindrance towards the proper planning and development of SMEs. The arrangement for the proper database was made.
2. Small-scale units were provided finances. Proper arrangement of adequate and timely credit was necessary for the economic growth. This would have been possible by forming specialized bank, which would be assigned, this task. procedural delays in the sanctioning of the credit were avoided .
3. Facilities for like provision of water, power, telephone, was necessary for the growth of SMEs.

4. More industrial estates were also proposed in cities of Uthal, Hub and Quetta of province Baluchistan.
5. The packages like supply of inputs, designs, credit facilities and marketing of the output were planned to be provided.
6. Proper feasibility reports were to be prepared by the agencies like SIC, DBP and the IACP.
7. For the technical assistance it was decided that services centers like Pakistan Industrial Technical Assistance Centre (PITAC), Lahore, Swedish Pakistani Institute of Technology, Karachi. Leather Institute of Technology Gujranwala had to close liaison with each other for the provision of services in the form of technical training to the small scale industries.
8. There was a need of a specific purpose marketing programs. It was proposed that marketing centers for the display of products should be set up on an extensive basis. SIC was supposed to take initiative in this respect by setting up design and marketing cells. Objective of these programs were to promote sale of quality products at home and abroad directly or through sub-contracting arrangements.
9. Formation of Dehi Mazdoor Workshops to provide technical training in rural areas.
10. Continuous information on the technological and marketing facilities were to be provided and the information services were provided.
11. The most serious operational problems of the small scale industries are the low quality of its products, managerial inability to run small businesses, proper use of technology, and lack of marketing knowledge. These have been the major cause of failures. The research should also be conducted for this purpose to identify the problems of SMEs across the country.
12. The training programs were proposed during these this period of time to strengthen the ability of the human resource across the country with view to improve the efficiency of qualified person.
13. It was also planned to give prizes to the small-scale industries for their best performance in order to improve the quality of the products (Pakistan, Government of, 1977, pp. 103-105).

3.2.2 Issues, Challenges and Remedies for Small and Medium Scale Industry of Textile and Apparel Sector during 1977-83

Issues and challenges of small scale industries were not different from the issues and challenges of the SMEs in general and are reported in the previous section.

It was expected that most of the investment in the SMEs would come to the agro-based industries particularly in textiles and in private sector. This would be due to the good performance of readymade garments over the past few years. (Pakistan, Government of, 1977, p. 106)

The problem of the unavailability of the statistics was properly addressed in a way that it was for the first time the statistics of the cloth i.e. readymade garments so called apparel nowadays were available and the projections were also available for the next five years. Thus, the projections could also be made in the GNP of the country (Pakistan, Government of, 1977, p. 107).

It was realized by that time that export potential of apparel sector was excellent and similarly it was for the first time that the employment potential of this industry was realized because of the fact that this sector was value added sector. This industry was further to be encouraged in the form of provision of trainings for the creativity and designs. It was also projected that 15000 sewing machines would be required in the next five years, which would help the apparel industry to grow further. The total investment of PKR 330 million was planned to be provided during these five years.

At the same time the specialized textile and handloom products could not be ignored as it had the large potential of employment in the country. Due care to this sector was provided in the under the tag of Small Industries Program.

Information about the international market were to be provided to this sector in order to compete in the international market, help in the adoption of new designs and marketing facilities were also provided to this sector (Pakistan, Government of, 1977, p. 116).

United Nations Development Programs (UNDP), Pakistan Crafts Project (PCP) and Provincial SIC would coordinate for such efforts will assist and coordinate and investments (Pakistan, Government of, 1977, p. 157).

3.2.3 Performance of Small and Medium Enterprises during 1977-83

There was no breakup of the contribution of small scale business however, the definite contribution of the small scale was suspected. It was known through the fact that that major exportable items were manufactured in the small scale industries of Pakistan. More than 80% of the industrial labor works in the small and medium scale industries (Pakistan, Government of, 1977, p. 101).

Total of exports of PKR 2008.64 million were recorded in the year 1976-77. The major contributors of small-scale industries were in the field of carpets, handicrafts, surgical

instruments, sports goods, leather products, clothing (readymade garments). Contributions of the readymade garments were PKR 417.79 million was second highest after carpets which contributed to PKR 980.3 million in the year 1976-77. More than 100% growth in the exports of readymade garments were recorded in previous two years. The rise had taken place from PKR 198.80 million in the year 1974-75 (Pakistan, Government of, 1977, p. 101).

3.3 Development of SMEs from 1983 to 1988

3.3.1 Issues, Challenges and Remedies for Small and Medium Scale Industry during 1983-88

Following problems were identified in the small-scale industries during this period and it was decided that measures should be taken by the Government of Pakistan to solve the problems. General problems identified during this period were the cash flow problems, access to the credit, lack of advisory marketing boards, encouragement of interaction with large firms and provision of inadequate infrastructure (Pakistan, Government of, 1983).

Following measures were taken to meet the challenges of small and medium enterprise during this period.

1. The government planned to provide fiscal incentives to small firms to ease initial cash flow.
2. Special institution was formed for the purpose of the granting credit to the small business. Credit Consultative Committee (CCC) was formed headed by the Governor of State Bank of Pakistan (SBP) would decide matters relating to the provision of credit to the public and private sector for large, medium and small firms. Industrial Credit Cell (ICC) along with Advisory Council for Industrial Credit (ACIC) should also be established for discussion of the relevant issues.
3. Management and formation of advisory marketing boards, which could advice to the SMEs for marketing their manufactured goods.
4. Since there was no proper interaction with the large scale firm the necessary arrangement would be made for this purpose in a way that large firms would be encouraged to interact with small firms through subcontracting.
5. It was also during these years that necessary infrastructure to be provided to the small firms (Pakistan, Government of, 1983).

3.3.2 Issues, Challenges and Remedies for Small and Medium Scale Industry of Textile and Apparel Sector during 1983-88

Beside the problems of SMEs in general, specific problem faced by the small-scale industries of textile and apparel in particular were improper dissemination of information and lack of training and development.

Proper information was disseminated about the export designs and suitable technologies for the improvement of the exports in the country and also proper trainings were provided to get the required skills (Pakistan, Government of, 1983)..

3.3.3 Performance of Small and Medium Enterprises during 1983-88

The small firms usually depend upon the raw material. The firms depending upon local raw material are much better than the firms depending upon imported raw material because it would benefit economy in two ways. It would increase growth and employment in the country (Pakistan, Government of, 1983, p. 187). The role of small and cottage industry was well known by this time. Growth of 15% consistent was expected in upcoming years. However, the discussion about the performance of SMEs is not available in the literature.

3.4 Development of SMEs from 1988 to 1998

It was realized that the textile industry was very important subsector of manufacturing sector in Pakistan because of its agro based industry (Pakistan, Government of, 1993, p. 192).

3.4.1 Issues, Challenges and Remedies for Small and Medium Scale Industry during 1988-98

The issues during this period were not different like infrastructure facilities, marketing facilities, credit facilities etc. steps needed to be taken for this purpose (Pakistan, Government of, 1993, p. 190).

3.4.2 Measures taken by the Government for Pakistan during 1988-98

Problems of the SMEs were well known during this period. SMEs related problems existed were the lack of infrastructure facilities, promotion of small scale industrial estates, strengthening the role of provincial SIC as promoter of private enterprise, and provider of common facilities, marketing facilities, establishment of small scale industry bank and expansion of credit facilities (Pakistan, Government of, 1993, p. 190).

The unorganized small scale business continue to generate the huge quantity of low value added grey cloth, which had the great potential to be increased. The apparel sector was also without institutional credit facilities (Pakistan, Government of, 1993, p. 192). The determinants of the low price of the readymade garments were also found. The low price of the readymade garments

was because of the poor stitching and designing, poor marketing, lack of standardization (Pakistan, Government of, 1993, p. 192).

It was realized that strong value added sector in the form of readymade garments was curtail. The export oriented apparel sector was necessary for the balanced growth of textile sector. It was planned that all the problems faced by the readymade garments would be solved due to its importance of value addition (Pakistan, Government of, 1993, p. 190). The proper allocation must be made for this purpose.

3.4.3 Performance of Small and Medium Enterprises during 1988-98

Out of total 45% of the employment is created by the SMEs and 60% of the exports are made by this sector. Approximately 30% of the value addition in the manufacturing is done by this sector. At this point of time Pakistan had become largest exporter of cotton yarn and third largest producer of raw cotton. The textile sector of the Pakistan had performed very poorly in the export of apparels/ readymade garments which indicated that the most of the textile industry has concentrated on the preliminary form of textile goods. It was estimated that investment of PKR 150,000 create one job in small scale industry where as for one job in large scale industry a investment of PKR 350,000 were required (Pakistan, Government of, 1993, p. 190).

3.5 Development of SMEs from 1998 to 2012

The role of SMEs in the poverty reduction, creation of the employment and economic growth was eminent. The research has shown that the SMEs can resist the shocks and have the tendency to meet the challenges of the changing technology at the quicker pace.

It was known to the policy makers that there is a major contribution of SMEs in creating jobs. The lessons could be learnt; from countries like America, Japan and Korea (Pakistan, Government of, 2005).

3.5.1 Issues, Challenges and Remedies of Small and Medium Scale Industry during 1998-2012

The biggest issues and challenges faced by the SMEs were identified as first, there was a need of the institutional arrangement. The SMEs were generally found inefficient in management and organization. Technical skills were also lacking in these enterprises. There was lack of information about the factors affecting the quality and competitiveness. for example process, management, or marketing. There was need to pay a proper attention to the quality and standards. The labor must be given a tax relaxation and the legislation of the country must also support the industry so that they are able to compete at international level. The biggest problem

was the implementation of the intellectual property rights which created problems for the genuine sellers. Limited access to the finance was not still resolved so it also needed attention. Transaction cost was very high which created problems of competing in international market. Industry/sector newsletters were also missing which could disseminate market trends and demands quickly and reliably. The small business were not aware of the WTO requirements. High energy cost had also created problem. The unavailability of time data about industry turnover, employee skills. These all factors contributed towards the poor show of the SMEs and needed a proper attention.

Small and Medium Development Authority was established (SMEDA) in October 1998. The purpose of the SMEDA was to meet the challenges of SMEs in Pakistan. The SMEDA was built to provide multipurpose tasks and services including professional management services, business development services, SME policy-advisory services and helping other stake holders for developing SMEs.

SMEDA was formed with the following objectives

1. To form the policies for development of SMEs
2. To play a Government advisory role on issues related to SMEs
3. To provide Business Development Services to SMEs
4. To help the SME representative bodies associations/chambers
5. To develop the all kind of databases of the services providers
6. To conduct the sector wise SMEs performance analysis
7. To help SMEs for access to finance
8. To further, strengthen SMEs with the help of training programs, facilities and seminars
9. To assist donors for SME development
10. To help SMEs in getting international certifications
11. To help SMEs in identifying service opportunities based on supply and demand gap

3.5.2 Issues, Challenges and Remedies of Small and Medium Scale Industry of Textile and Apparel Sector during 1998-2012

The problems faced by the SMEs of apparel and textile sector have not changed significantly. The change has occurred in the quantity of requisitions for example power was also needed 66 years back but today power is required more in quantity. It has been reported in the literature that textile industry has gone through one of the toughest periods in recent years. Pakistan still had

the bumper cotton production the again the readymade manufacturing industry has not been able to use available raw material completely (Pakistan, Government of, 2012, p. 8). The problem of the low International Demand still needs to be resolved.

The literature shows that not even a single study of this nature is done where the strategic factors affecting the performance of apparel SMEs have been identified. This study would be systematic study and contribution towards the exploration of the strategic factors affecting the performance of apparel SMEs in Pakistan. SMEDA has the contributed in proving the sector briefs where the brief explanation related to each sector is given. SMEDA has also provide the brief review of the apparel sector firms. It includes product wise details of total production in Pakistan and world. There is one problem with this explanation, that it is not been updated (SMEDA, 2012). This sector brief was written in 2002 and latest figures are not reported any where in the literature. Further SMEDA has provided the details of the institutions who provide training in the apparel textile and apparel sector. Names and addresses of the companies dealing in the apparel sector industry are also given. These provisions are not updated, also since 2002.

3.5.3 Performance of Small and Medium Enterprises during 1998-2012

The overall growth rates have been consistent for small-scale industries. The growth rate had been hovering around 7.4% during these years (Paksitan, Government of, 2005-06, p. Annex 1.1). SMEDA is helping SMEs to meet all the strategic challenges. It is working in all directions. SMEDA is providing services like business plan development services, financial services for easy access to finance. It has the industry support programs for the efficient use of machines. SMEDA also provides the services of the information resource center to meet the information needs of the SMEs and researchers. It also helps in resolving legal problems related to the property rights, compliance of the laws, rules etc. It also provides the facility of the technical services needed by the SMEs. For the women economic development, SMEDA has the program of women entrepreneurship initiative (SMEDA, Services, 2012).

SMEDA has the Public Sector Development Program (PSDP) started in 2006-07. It initiated its work with four common facility centre projects. These programs helped SMEs to deal with induction of new technologies through demonstration and training. Currently SMEDA is working on the 28 such Projects of PKR 4200 million. Second program of the SMEDA is the cluster development program help the firms which are producing same products in same areas. Like Sportswear in Sialkot, electrical fitting industry Sargodha etc. Third program of SMEDA is

the development partner initiative where the donor funded projects are included under this head (SMEDA, Projects, 2012).

SMEDA also has the publication section which includes prefeasibility studies, regulatory procedures, sector briefs, guidelines for SMEs on compliance and ISO certification. It also provides information regarding regional profiles of Sindh, Punjab, Khyber Pakhtunkhwa and Baluchistan. It also provides the consultants directory along with the software support as per its applications in the SMEs (SMEDA, 2012).

The textile sector has managed to post a growth of 0.9% in general during the year 2011-12. However, no statistics of the apparel sector are available (Pakistan, Government of, 2012). The overall performance of the SMEs was outstanding during this period as it posted 7.5% growth in line with its historical growth rate (Pakistan, Government of, 2012, p. 8).

4 Conclusion

This study concludes there was very poor planning as regards to SME development during post nationalization period. The seriousness in effort for development of SMEs was lacking before 1998 until the SMEDA was established. Before 1998 problems regarding expansion of the advisory and commercial services for the small-scale industries services, mobile extension units for giving technical and management advice, subcontracting, promotional government financed activities showed zero improvement during 1970 to 1980. Infrastructure facilities, raw material facilities, poor coordination between SMEs and large firms, poor credit facilities, poor marketing, mismanagement of enterprises, energy problem, poor institutional arrangement were the challenging issues. Moreover, issues related to quality of the products, awareness to SMEs regarding WTO agreements were the problems faced by the SMEs in general and apparel or textile SMEs in particular. SMEDA was established and assigned the task to solve the problems related to SMEs. Yet there is a need to conduct to research to explore the problems related to each sector so that SMEDA may be able to take action to solve these problems.

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