

SME SECTOR THE BACKBONE OF PAKISTAN'S ECONOMY

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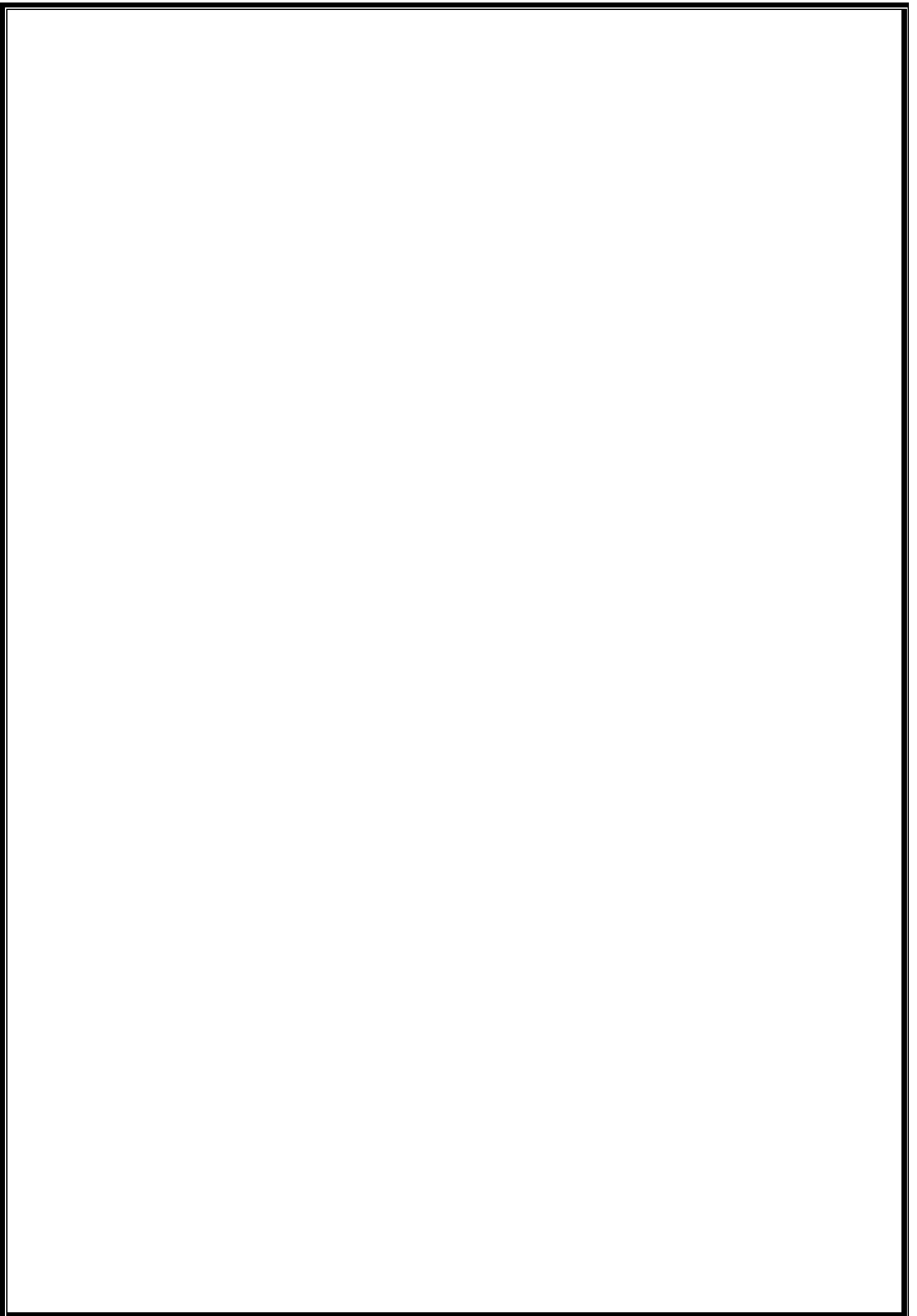
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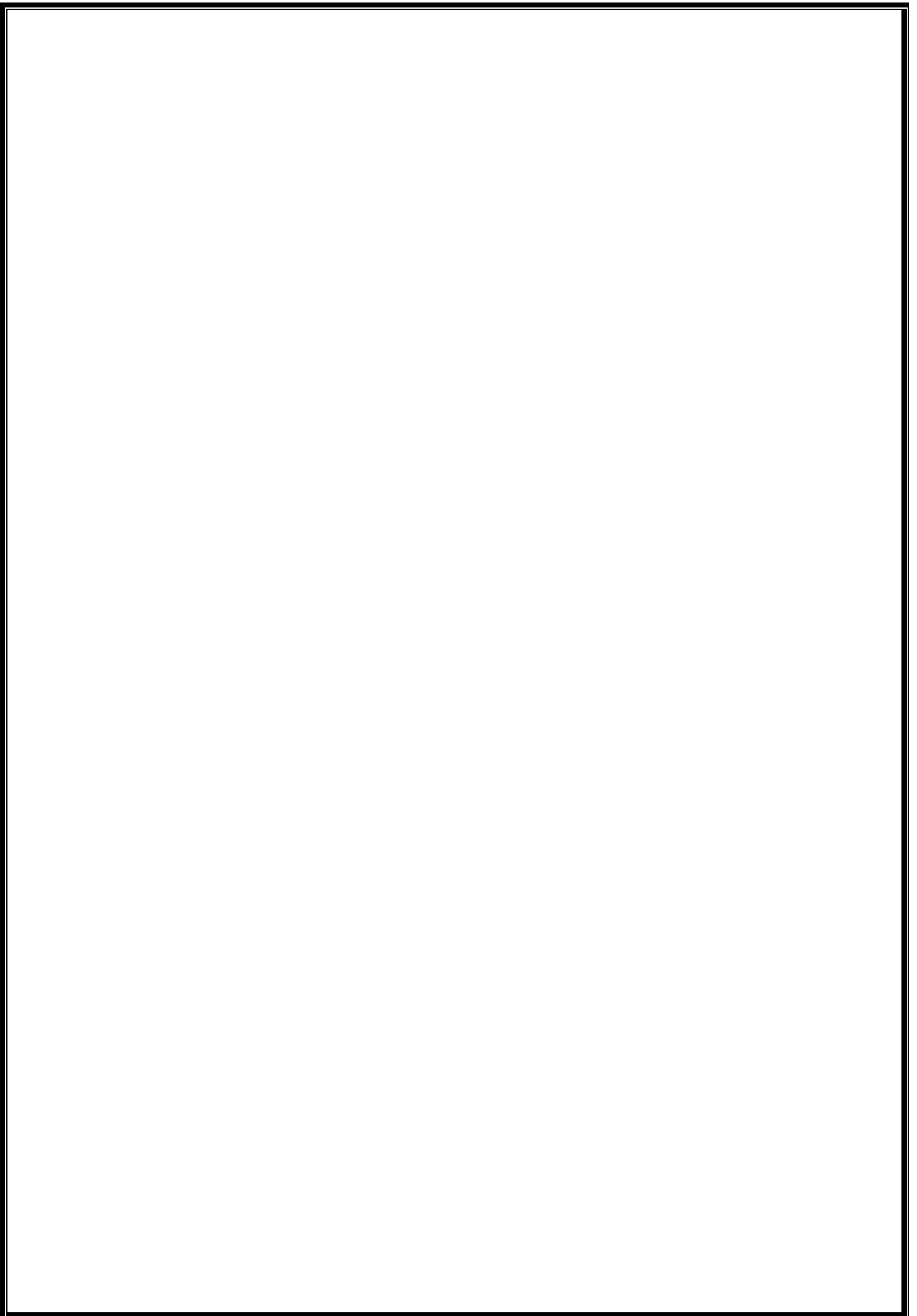
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*This report is dedicated
to the people who can
experience the world
with feelings but
are unable to See it.*



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I thank, almighty Allah who bestowed upon me, the knowledge and courage to fulfill this task.

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ABSTRACT:

This is the Final Research Thesis Report into the development and issues regarding Small and Medium Enterprises and their contribution towards Pakistan's Economy. It outlines the main purpose of research, the activities undertaken and the responses proposed. The development of a strong and vibrant SME sector is proposed in this report as a significant means through which quality employment opportunities can be created, along with additional incomes. Such development will, in turn, contribute to improved social and economic well-being, as well as to the alleviation of poverty. This project reviewed policies and programs affecting SMEs in urban areas. It identifies the main areas of constraint, opportunity and concern for the SME sector and endeavored to find ways to support government, non-government, civil society organizations and the private sector, in their efforts to promote SMEs.

This Report will support the Government in its examination of the current situation and in the design of strategies that address the growing concerns of employment and poverty alleviation. In doing this, the Report has attempted to demonstrate the importance of the hundreds of thousands of medium and small enterprises that can be found throughout Pakistan. These enterprises perform a number of essential functions. They create millions of jobs, generate additional incomes that are of significance to many poor and disadvantaged families, and they generate a high proportion of the country's wealth. They also have important trading linkages with larger enterprises and are a natural stepping-stone for business growth - where medium and small businesses become bigger ones. Despite its size and contributions to the economy, little attention has been paid to the SME sector. As a consequence, a potent resource for change and development is being overlooked.

Our SME suffer from a variety of weaknesses, which have constrained their ability to adjust to the economic liberalization measures introduced and to take full advantage of rapidly expanding markets of the world. But SME importance and contribution in the economic activity suggests that there is a significant potential to enhance their growth through appropriate regulations and promotion.

While SME are being mentioned in some of our socio-economic strategies and policy documents, measures are not sufficiently specified and prioritized for us to be able to speak of any coherent SME policy or approach. The SME Sector Development Program

seeks to improve this situation by inviting all concerned stakeholders to draft Pakistan's future SME policy.

SME promotion is an important issue for many government departments and central offices. However, there is an existing lack of coordination and regular information exchange mechanism among institutions, which constrains their collective ability to deliver in the SME development process.

The responsibility for facilitating SME policy development lies with SMEDA, attached to the Ministry of Industry and Production. One of the major reasons for the lack of coordination is that SMEDA has not been provided with a mechanism to initiate, coordinate, monitor, and evaluate initiatives of SME development outside of its own scope of activities.

Therefore, cross-departmental and stakeholder consultations, resulting in the preparation of our national SME policy are our key to success.

The issues highlighted in this paper give a retrospective view of things while giving a current picture of the SME business environment in Pakistan. There are issues we may only solve in the long term and which therefore are beyond our current scope. And there are issues we may solve in the short to medium term. These issues should become the focus of our SME policy.

Many practical recommendations have been provided in this Thesis Report for ways in which The Government of Pakistan can begin to boost the potential of the SME sector. These recommendations cover policy issues, as well as concerning programs that promote SME development.

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CHAPTER # 1 INTRODUCTION

1.1 Introduction:

Pakistan is a country with a population of 150 million & an average growth rate of 2.8 % per annum. Women form 49% of the total population and 51 % are men. According to the estimates 99 million people live in rural areas whereas 51 million in the urban areas. The total labor force is estimated at 43.5 million, of which 29 million (66.67%) is in rural areas and 14.50 million (33.33%) in urban areas. Agriculture is the mainstay of economy with sustaining 48.4 % of the employed labor force. The other main sectoral employers are services 15.02 %, trade 13.87 and manufacturing 11.25 %. Per capita income is estimated at US\$ 520. Exports in 2002-03 were estimated as 19.7% of GDP. Exports mainly comprise of primary commodities 11%, semi-manufactures 14% and manufactured goods 75%.

The main export items are cotton, leather, rice, synthetic textiles, sports goods etc. There is a trade gap of US\$ 1,246 million. Major imports include petroleum, machinery, edible oil, chemical and fertilizers.

The Small Medium Enterprises have played key role in development of economies like Japan. It has also been playing key role in providing impetus to the development of some of the world's best economies like Taiwan, Korea, Hong Kong and China. Countries in South America and India have also been concentrating their efforts in developing the SME sector. Pakistan is not an exception to this as both the Government of Pakistan and the State Bank have been trying to give impetus to their efforts aiming to develop SME sectors in Pakistan. In this regard government has restructured the key support institutions such as SMEDA and SME Bank.

Although SMEs are important across the region, there are considerable differences in the role of SMEs in the various economies. For example, SMEs play a larger structural role in Chinese Taipei, where they make up some 80% of employment, than they do in Indonesia or Malaysia where they contribute only around 40%. Similarly, the dynamic role that SMEs play varies widely. For example in Singapore, even though SMEs are not as significant in terms of numbers and employment, SMEs are important in providing a flexible skilled production base which attracts larger MNCs. The dynamics are different in China, where entrepreneurial SMEs are important in creating new jobs and in Chinese

Taipei where SMEs have played a pivotal role in economic development, but where the traditional base of low cost SMEs is rapidly being eroded.

SMEs contribute significantly to any Country or Region's GDP, wealth; export earnings, as intermediate and final producers as well as consumers of goods and services. It is also the biggest source of domestic employment, providing a livelihood for over three quarters of the region's workforce, especially women and the young

SMEs no doubt have moved to center stage in the superior performance of a nation. The SME sector is very important in keeping the trade balance of a Nation and resultantly they are one of the most important factors behind the generation of precious foreign exchange.

On several social and economic grounds, small and medium-sized enterprises (SMEs) are of overwhelming importance in most Asian countries. Typically, the SME sector accounts for upwards of 90 per cent of all firms outside the agricultural sector of East and South-East Asia, and of Japan as well.

As such, the SME sector will remain the backbone of virtually every economy in this region and, for that matter, of the world in the foreseeable future. A concerted push in support of SME growth and competitiveness, moreover, is no longer an option. In fact, the financial and economic crisis of 1997-1998 has induced a return to "the fundamentals" among the "miracle economies" in East and South-East Asia, including a renewed focus on SMEs. This policy shift has been harmonized by higher budget allocations and external aid for the SME sector, including sizeable resources made available by Japan under the so-called New Mizayawa Initiative. Such a reorientation is needed not just to underpin the ongoing socio-economic recovery, which was disrupted somewhat again by the 2001-2002 global economic slowdowns. It is also necessary to accommodate an expanding pool of millions of job-seekers (especially young and female workers) and, at the same time, to widen the available opportunities for current as well as potential SME entrepreneurs' themselves.

In the recent Governmental reforms and plans Four sectors have been identified where employment opportunities would be generated, namely agriculture, housing and construction, small and medium enterprises (SMEs), and information and communications technology. Out of these four sectors the most important is the SME sector, as being the largest and having the greatest potential.

1.2 Significance of Research:

Small and medium enterprises (SMEs) play a vital role in the economic strength of any country. They act as the cornerstone for the growth, prosperity, poverty alleviation, and exports and at the same time they are very important players in creating jobs. SME Sector is undoubtedly the backbone of Pakistan's economy and its key to success. But very sadly this important sector has been neglected by nearly all of our previous governments for the last 57 years and now it's facing many daunting challenges and problems, which has resulted in the current inefficiencies of this important sector.

This important Sector has been neglected and sacrificed to help the LSE's (Large Scale Enterprises), which has not come out as per the expectations. All the Financial aids and resources have been given to the Large Industries expecting a miracle turnaround in Pakistan's Economy. Whereas on the real grounds the large Industrialists have taken huge amount of industrial loans and they have added almost nothing towards the ailing industry of Pakistan. Rather than adding to the prosperity of Pakistan these loans have to be written off in the shape of bad debts and added further to the misery unemployment and poverty of Pakistan.

If this financial assistance had been given to the Small and Medium Enterprises the results would have been much different than what they are now. Pakistan would have been standing in the line of more developed economies of Asia like Japan, Korea, China and Thailand. The main difference between the developed countries and developing countries of Asia is their approach towards their SME sector; we have to understand that to become an economic champion we have to start from a small scale rather than making futile high jumps.

In this report I have tried to point out some of the key problems being faced by the SME sector of Pakistan and suggested some of the measures which if taken can improve this ailing sector of Pakistan.

1.3 Research Question:

Because of the growing importance of Small and Medium Enterprises sector, the research is intended to study:

- What actually are SMEs.
- What types of Issues and problems are being faced by the SME sector of Pakistan.
- How are These SMEs contributing to the Economy of Pakistan.

- What practical measures can be taken to improve and enhance the efficiency of this sector.
- What is the role of Central Bank and different authorities in the financial assistance of this sector.

1.4 Research Objectives:

- There is a global recognition towards the need and importance of an efficient Small and Medium Enterprises sector in the economic growth of a country, the objective of this study is to bring into light the importance of this sector in general and particularly in the context of Pakistan.
- It is also intended to examine the issues being faced by this sector and point out the most important problem of financing and funding being faced by them.
- Another objective of this thorough research work and study of the whole problem is to give some practical recommendations for the improvement of this sector.
- The study is also intended to enhance my professional skills regarding the SME sector, which is the need of the hour and a very important issue faced all over the world.
- Another objective of this research thesis is to contribute to the already scant research in this area.

1.5 Research Methodology:

This study is descriptive in nature and in this qualitative research methodology is adopted. An interview schedule was developed by carefully reviewing relevant literature on SME sector. The main objective was to get information through open-ended questions, which provided richer discussion of each item.

Individual interviewing was done with the concerned persons for the collection of data. The interviews were recorded and transcribed for analysis. It was planned to collect available secondary data from any documents of the enterprises under study to verify the facts. The findings of this research are not meant to be specific to one sector but it is generalizable to the whole SME sector of Pakistan.

A mix approach of breadth and depth has been chosen to cover the various components, yet keeping more focus on depth study.

1.6 Data Sources:

The whole study is based on data collected from various sources such as:

- University libraries
- SMEDA
- SME bank
- Khush haali bank
- Press cuttings
- Books and other publications
- Interviews and
- The Internet.

1.6 Limitations of the Study:

Some of the major limitations and problems, which were faced while carrying out this research work, are as follows:

- Most of the Small and Medium Enterprises are based outside Rawalpindi/ Islamabad. So due to geographical limitations it was not possible to onsite visits to their actual locations.
- Disclosure of information termed as confidential by the banks and government authorities and non-availability of past data on this sector was another limitation.
- Time was another limitation since it was not possible to study the whole SME sector in the time span provided for this study.
- Budget was another problem. As currently there was no initial sponsor for this study, hence the financial constraint was another impediment.

CHAPTER # 2 IMPORTANCE OF SMEs

2.1 Defining SMEs

There are many misunderstandings defining SMEs and it is rather difficult to find a single consistent definition of small enterprises. *Firstly*, the definition varies from country to country. *Secondly*, there is more than one criterion for referring to small enterprises within Pakistan. *Thirdly*, the quality of reporting on the given criteria is rather poor and unreliable. *Fourthly*, the terminology of "small" and "informal" is used interchangeably, for valid reasons or otherwise, which further complicates the situation.

Notwithstanding the complexity and inconsistency in defining small enterprises, there are generally two bases for distinguishing them from large enterprises: *Firstly*, a legal criterion, which classifies an enterprise as small if it is not registered with the Department of Labor under Factories Act, 1934. *Secondly*, there is a criterion that is based on size. According to this criterion, enterprises have been variably classified as those which employ less than 10, less than 100 or less than 250 as small. The Federal Bureau of Statistics implicitly uses the limit of 10, because its SHMI (Household survey of Small and Medium Manufacturing Industries) includes all manufacturing establishments, which are not registered under the purview. Since any establishment employing more than 10 should register under the Factories Act, the implicit size limit is 10. The Integrated Survey of Services and Manufacturing Industries (ISSMI) consider all units employing less than 250 persons as small. *Thirdly*, there is a criterion based on the nature of business premises. If a business unit operates from in or around the house in which its owners are living, it is considered a household, irrespective of whether it employs family members only or other persons as well. However a micro enterprise is sometimes defined as a business unit if it employs none other than unpaid/proprietor family members.

To sum it up, the survey Small and Household Manufacturing Industries (SHMI) defines small as those units which are not registered and (implicitly) employ less than 10 persons, whereas ISSM Small includes all manufacturing units which employs less than 250 persons. In between these two extremes the State Bank of Pakistan considers a unit as small if it employs less than 100 persons. If the total assets exceed Rs.20 million up to Rs.100 million, the enterprise is defined as a medium enterprise. In Pakistan, SMEDA has defined the SMEs in terms of employment generated as well as investment in productive assets. SMEDA's definition of SMEs is primarily based on the number of personnel

employed in the enterprise. The secondary criteria for classification of the SMEs, is the value of productive assets employed in the enterprise. According to the definition by SMEDA and SME bank an enterprise with total assets of up to Rs. 20 million is defined as a small enterprise.

Institution	Small	Medium
Small and Medium Enterprises Development Authority SMEDA	10-35 Employees or productive assets of Rs. 2-20 million	36-99 Employees or productive assets of Rs. 20-40 million
SME Bank	Total Assets of Rs. 20 million	Total Assets of Rs 100 million
Federal Bureau of Statistics	Less than 10 employees	N/A
State Bank of Pakistan	<p>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 fulfils one of the following criteria.</p> <p>i) A trade/ services concern with total assets at cost excluding land and buildings up to Rs. 50 million.</p> <p>ii) A manufacturing concern with total assets at cost excluding land and building up to Rs. 100 million.</p> <p>Any concern (trade, services or manufacturing) with net sales not exceeding Rs. 300 million as per latest financial statements.</p>	
Sindh Industries Department	Entity engaged in handicrafts or manufacturing of consumer or producer good with fixed capital investment upto Rs. 10 million including land and building	
Punjab Industries Department	Fixed assets with Rs. 10 million excluding cost of land	
Punjab Small Industries Corporation	Fixed Investment up to Rs.20 million excluding land and building	N/A

Table# 1 SME Definitions used by various Institutions in Pakistan

The reported number of average employees in each of the three types of manufacturing units is quite revealing, as shown by the following figures:

Household Manufacturing Units ¹	=	2 persons per unit
Small Manufacturing Units ²	=	3-4 persons per unit
Large Manufacturing Units ³	=	126 persons per unit

Recent attempts at defining the small enterprises in Pakistan have come to the following Conclusion:

Small enterprises should be defined as Informal own-account enterprise, which cannot distinguish between personal and business expenses.

This is often identified on the basis of following indicators:

- a It is a household enterprise, and the owner operates from in or around his/her own dwelling with the help of family labour or employees.
- b It is not registered and its number of employees does not exceed a certain number (let us say 10).

This definition is broadly in conformity with the International Labour Organization (ILO) guidelines that characterize Informal Sector on the basis of three criteria:

Smallness

Family ownership

Reliance on indigenous resources

Here the problem of defining the small enterprises is being highlighted, as we can see that there is need for a standardized and revised definition of small enterprises for both research and policy purposes.

Small and Medium Enterprise (Definition according to State Bank of Pakistan) means an entity, ideally not a public limited company, which does not employ more than 250 persons (if it is manufacturing concern) and 50 persons (if it is trading / service concern) and also fulfills the following criteria of either 'a' and 'c' or 'b' and 'c' as relevant:

- a A trading / service concern with total assets at cost excluding land and buildings up to Rs 50million.
- b A manufacturing concern with total assets at cost excluding land and building up to Rs 100million.
- c Any concern (trading, service or manufacturing) with net sales not exceeding Rs 300 million as per latest financial statements.

<i>Sr No.</i>	<i>Country</i>	<i>Definition of SME</i>	<i>Measure</i>
1	Australia	Manufacturing-less than 100 employee Services-less than 20 employees	Employment
2	Canada	Manufacturing less than 500 employees Services less than 50 employees	Employment
3	China	Varies with industry, usually less than 100 employees	Employment
4	Indonesia	Less than 100 employees	Employment
5	Japan	Less than 300 employees, or ¥10 million assets Wholesaling - less than 50 employees, ¥30 million assets Retailing - less than 50 employees, ¥10 million assets	Employment
6	Korea	Manufacturing - less than 300 employees Services - less than 20 employees	Employment
7	Malaysia	Varies. Less than RM 2.5 million and less than 75 employees. Definitions are for SMI. Different for Bumiputera enterprises	Shareholders Funds employees
8	Philippines	Less than 200 employees, P 40 million assets	Employment
9	Singapore	Manufacturing - less than S\$12 million fixed assets Services - less than 100 employees	Fixed assets employment
10	Chinese Taipei	Manufacturing - less than NT\$ 40 m paid up, capital, and less than total assets of NT\$ 120 m. In business, transport, and other services - sales of less than NT\$ 40 m.	Paid up capital, assets and sales
11	Thailand	Less than 200 employees for labour intensive, Less than 100m Baht for capital intensive	Employment, capital
12	USA	Less than 500 employees	Employment

Table 2: Summary of Main Definitions of SMEs

2.2 Significance of SMEs

Small and medium enterprises (SMEs) occupy an important and strategic place. They contribute significantly to any Country or Region's GDP, wealth, export earnings, and employment, as intermediate and final producers as well as consumers of goods and services. SMEs are considered the engine of economic growth in both developed and developing countries; as they provide low cost employment since the unit cost of persons employed is lower for SMEs than for large-size units. SMEs assist in regional and local development since SMEs accelerate rural industrialization by linking it with the more organized urban sector. These also help achieve fair and equitable distribution of wealth by regional dispersion of economic activities. SMEs very much contribute significantly to

export revenues because of the low-cost labor-intensive nature of its products. They have a positive effect on the trade balance since SMEs generally use indigenous raw materials.

SMEs also assist in fostering a self-help and entrepreneurial culture by bringing together skills and capital through various lending and skill enhancement schemes and impart the resilience to withstand economic upheavals and maintain a reasonable growth rate since being indigenous is the key to sustainability and self-sufficiency.

SMEs are not only significant for the developing countries like Pakistan, India, Bangladesh Sri Lanka etc but if we look closely at the developed countries like Japan, Australia, USA etc more than 90% of their economies are comprised of SMEs. SMEs are the primary vehicles by which new entrepreneurs provide the economy a continuous supply of ideas, skills and innovation. Strong SME sectors are not only responsible for the local investment but they also attract and enable foreign investors to establish and expand domestic linkages. SMEs thus play a critical role in creating opportunities that make the attainment of equitable and sustainable growth possible.

Around the world, SMEs are increasingly seen as the creators of new jobs. The flexibility and dynamism of SMEs have made them more competitive and adaptable than larger firms, many of which have been forced to 'down-size' and restructure. The benefits of business networks and commercial linkages between SMEs are now recognized as effective and efficient means of doing business as we enter the new millennium. Pakistan faces the challenge of unlocking the potential of SMEs to boost new quality employment opportunities and create additional incomes. This will contribute to improved social and economic well being, as well as to the alleviation of poverty.

Pakistan's economy is an economy of Small and Medium Enterprises (SME). Policies in the past by all the previous governments have given a general viewpoint, direction and defining broad parameters of activity within the macroeconomic framework and relating to larger enterprises, but the SMEs have been neglected altogether, which if we analyze are at the heart of our economy. It will not be wrongly said if we say that SME can be called as the backbone of Pakistan's economy.

Promotion of Small and Medium Enterprises (SMEs) seeks to enhance the competitiveness of the economy and generate additional employment. SMEs normally have a disadvantage of size compared with large enterprises. The rationale for

Government to assist SMEs in a market economy is that it is inefficient to have them go bankrupt when demand-driven, well-targeted assistance may assist them in overcoming their size-related difficulties.

It is understood that despite previous efforts the SME sector has not received due priority on account of segregated efforts and non-consolidation of programs to achieve well targeted results. In order to move forward, we need to develop a common vision for SMEs to be real engine of growth. Our vision also needs to be achievable so we may find motivation in implementing phase.

Empirical evidence from the latest available SHMI and CMI (Census of Manufacturing Industries-Large) suggests that of the approximately 400,000 manufacturing units in the country, only 1,000 are reported to employ more than 100 persons and less than 10,000 are registered under the Factories Act of which barely 5,000 are functioning and traceable. Thus by any definition approximately 99% of the manufacturing units are small and household. The situation of services sector units may not be any different. Furthermore nearly 40% of the small and household manufacturing units operate from owners dwelling and are therefore treated as household manufacturing units.

It is evident that the core studies conducted by the Government of Pakistan (Federal Bureau of Statistics) use a definition hinging on the criterion of registration under the Factories Act, 1934 for being included in a survey of Large Manufacturing units; and it uses the criterion of operating from the dwelling of the owner to be treated as household manufacturing and distinct from small manufacturing unit which is a unit that is not registered under the Factories Act and operates from a premises other than the dwelling of its proprietor.

2.3 SMEs in Pakistan

Pakistan's economy is an economy of SME. Policies in the past have given a general perspective, direction and defining broad parameters of activity within the macroeconomic framework, but efforts have focused on the large enterprises, neglecting SME, which are at the heart of our economy. In Pakistan, the SME sector is growing into a major source of employment for the urban population and is expected to contribute substantially to the country's GDP.

It is fair to say that our economy is an economy of SME. The significant role of SME is clearly indicated by various statistics. According to more recent estimates there are some 3.2 million-business enterprises in Pakistan. Enterprises employing up to 99 persons constitute over 95% of all private enterprises in the industrial sector and SME employ some 78% of non-agriculture labor force. They contribute over 30% to GDP, Rs.140 billion to exports, and 25% of manufacturing export earnings besides sharing 35% in manufacturing value added.

Although no accurate data is yet available, it is estimated that there are approximately 220,000 SMEs in Pakistan, which:

- SMEs provide employment to over 80% of the labor force since artisans, workshops, household units, craft industries, vendors and agro-based businesses that cluster around townships and population centers have a tremendous capacity to provide employment.
- SMEs contribute more than 50% to GDP by manufacturing products to meet the demands of local and regional markets.
- Contribute more than 50% towards export earnings through both direct and indirect exports. Have a default rate that is far less than that for Large Scale Enterprises.
- 15% for SME's as against 65% for LSEs(large Scale Enterprises)avail credit to the tune of only 12% from the formal financial sector, which indicates the wide gap between the lenders and SMEs.
- The SME sector also provides both rural and urban women an opportunity to utilize their vocational skills while staying within their residential premises. In urban areas, many female entrepreneurs have introduced product lines whose uniqueness has created a strong demand in the market.
- Today, the SME sector is the lifeline of big industrial establishments due to its direct contribution and support towards value addition and exports. For the past three decades, the fastest growing export industries have been dominated by SMEs. Of all, cotton weaving and textile rank between the top two exporting sectors. Others include sports goods, surgical instruments, carpets

and footwear etc. SME exports dominate low value added sectors and rely on traditional technologies.

2.4 Government and Institutional Support for SME

SME are a distinct pillar of the economy that needs to be given due attention. It requires specific policy and regulatory space to turn SME into an effective tool for driving the economy and increasingly contribute to economic growth and employment.

The Government of Pakistan has developed a number of strategies for socio-economic development.

- Poverty Reduction Strategy Paper (PRSP)
- Micro Finance Sector Development Program
- SME Sector Development Program
- Education Sector Reforms 2001-05
- Reform of financial sector
- Reforms in Tax Administration

While SME are being mentioned in some of these important socioeconomic strategies and policy documents, including even very specific measures for their promotion, these measures are not sufficiently specified and prioritized for us to be able to speak of any logical SME policy or approach. The SME Sector Development Program seeks to improve this situation by inviting all concerned stakeholders to draft Pakistan's future SME policy. Although SME policy is a sector-specific policy, it should be noted that the task of formulation is not a simple exercise. SME are a cornerstone of our economy. Many changes in existing legislation may have direct or indirect effects on SME, e.g. in labor law, financial law, export regulations, banking system regulations, tax regulation etc. SME promotion therefore comes close to a crosscutting issue.

Furthermore, the environment for SME is constantly changing, in particular with an increased exposure to world markets due to the opening up of the economy. Therefore, SME policy within a socioeconomic development strategy cannot be a one-off exercise. Only a process of regular review linked with predictable behavior by all stakeholders will ensure successful outcomes in the long run.

The role of government as a facilitator of business and its interaction with business support institutions is imperative for the establishment of a mutually beneficial

relationship for the growth of the sector. SME promotion is an important issue for many government departments and central offices.

For example, the Ministry of Labor plays an important role in shaping the labor market policy of the state. Similarly, in order to gather information on the health of the SME population the role of Federal Bureau of Statistics, the Ministry of Finance, and planning division is pivotal. Other ministries and divisions such as Ministry of Finance, Ministry of Commerce, Planning Division, Ministry of Food, Agriculture and Live Stock, Ministry of Environment, Ministry of Local Government and Rural Development, and the Ministry of Science & Technology also influence the situation of our SME. Provincial and local governments also take their share in responsibility.

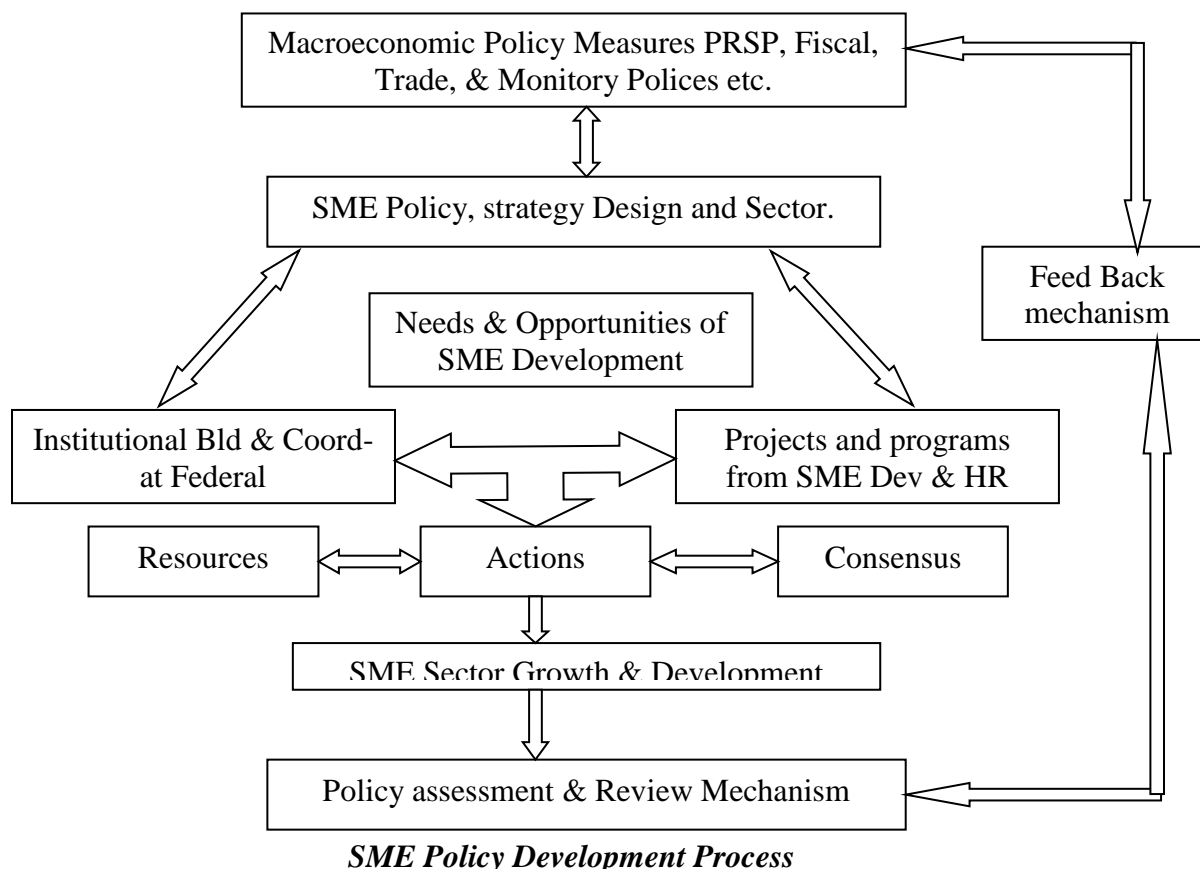
However, there is an existing lack of coordination and regular information exchange mechanism among institutions, which constrains their collective ability to deliver in the SME development process. As a result of the Governments more recent efforts, two institutions Small and Medium Enterprise Development Authority (SMEDA) and SME Bank were created. The responsibility for facilitating SME policy development now lies with SMEDA, which is attached to the Ministry of Industry and Production (MoIP). SMEDA is responsible for creation and coordination of Government policy for the SME sector. Parliament, naturally, is responsible for monitoring policy and its implementation. One of the major reasons for the lack of coordination is that SMEDA has not been provided with a formal mechanism to initiate, coordinate, monitor, and evaluate initiatives undertaken for SME development, which fall outside of its own scope of activities. Therefore, cross-departmental and stakeholder consultations, resulting in the preparation of our national SME policy are our key to success.

Regular information exchange mechanism and networking needs to be developed amongst our public and private sector institutions. There is a strong need to devise such an information exchange mechanism and redefine the role of institutions, specifying their functions in order to avoid duplication of efforts and allowing the best-possible usage of resources. Under the SME Sector Development Program it is expected that SMEDA

- Prepares Government documents on policy regarding SME
- Drafts relevant laws and regulations to form a collective view of all stakeholders

The SME Task Force has been established at the MoIP and SMEDA will serve as the secretariat. The SME policy will require inputs from a wide range of stakeholders. To develop the SME policy, which comprises representatives from the following organizations:

- (i) Ministry of Industries & Production (MoIP);
- (ii) Ministry of Commerce (MoC);
- (iii) Ministry of Finance (MoF);
- (iv) State Bank of Pakistan (SBP);
- (v) Ministry of Labor, Manpower and Overseas Pakistanis (MOL);
- (vi) Export Promotion Bureau (EPB);
- (vii) Provincial economic development departments;
- (viii) Chambers of Commerce;
- (ix) Industry and trade associations;
- (x) Financial institutions; and
- (xi) Private sector representatives of SMEs and/or SME organizations from each province.



2.5 SMEs and Poverty Alleviation

More than 21 million people were added to the poor in Pakistan between 1996 and 2002. The mounting poverty was the consequence of poor governance and slow economic growth. The government, NGOs and private sector are implementing programs aimed at improving governance and responsibility of public institutions to be able to better react to the needs of the poor, assisting them economically through creating income and employment opportunities, and improving their access to enhanced services.

Employment creation is one of the most viable ways of reducing poverty levels in the country. Around the world, SMEs are increasingly seen as the creators of new jobs. This wins SMEs an important place in the economy since the declining growth of agricultural and large scale manufacturing (LSM) sector has crippled their abilities to absorb Pakistan's surplus labor. The capital to labor ratio in the SME sector is around one-fourth that for LSM industries. Thus SMEs also need less level of investment per job created, offering a rather inexpensive way of accommodating excess labor in the rural and urban areas alike. SMEs thus become a tool of equitable wealth distribution through out the country. If approached strategically, millions of jobs could be created in the five key sectors of textile, leather, dairy, marble and fisheries.

SMEs are able to contribute to national development goals in a number of significant ways. These include:

- Job creation, particularly through self-employment, and also when the enterprise owner or manager begins to employ others;
- Services that are provided (e.g. catering, repairs, transportation);
- Products that are provided (e.g. garments, food products, handicrafts);
- Linkages (e.g. through sub-contracting) to larger firms and exporting enterprises;
- Incomes that are generated, much of which provides important financial resources to poor families;
- Equitable growth across regions and amongst women and men;
- Mobilization of savings and internal financial resources for productive enterprise activities; and
- The start of a development path towards larger enterprises.

The interim PRSP (Poverty Reduction Strategy Paper) highlights the importance of pro-poor growth led by the private sector especially through SMEs. The Strategy has identified four sectors, namely agriculture, SMEs, IT (information technology) and energy (gas and coal). These sectors are generally labor intensive and their development will eventually lead to job creation.

2.6 Role of SMEDA in SME Promotion:

2.6.1 INTRODUCTION

The Small and Medium Enterprise Development Authority (SMEDA) was established in 1998, with the objective to provide fresh impetus to the economy through the launch of an aggressive SME development strategy. SMEDA initially focused on nine priority sectors with the intention of developing sector strategies and proposing regulatory reforms to stimulate growth on the sole criterion of SME presence. In depth research was conducted and comprehensive plans were formulated after identification of impediments and retardants. These strategies as proposed by SMEDA comprehensively covered all-important areas of business operation such as regulatory environment, finance, marketing, technology and human resource development. Resultantly, SMEDA successfully formulated strategies for sectors, including fruits and vegetables, marble and granite, gems and jewellery, marine fisheries, leather and footwear, textiles, surgical instruments, transport and dairy. The task of SME development at a broader scale still required more coverage and enhanced reach in terms of SMEDA's areas of operation. Therefore, after successfully qualifying in the first phase of sector development SMEDA reorganized its operations in January 2001.

Currently, SMEDA along with the sectoral focus offers a range of services to the SMEs including over the counter support systems, exclusive business development facilities, training and development for SMEs and information dissemination through wide range of publications. SMEDA's activities can now be classified into following three broad areas: makers to devise facilitating mechanisms for SMEs by removing regulatory impediments across numerous policy areas:

- Creation of a Conducive Business Environment.

- Cluster/Sector Development; comprises formulation and implementation of projects for SME clusters/sectors in collaboration with industry/trade associations and chambers.
- Enhancing Access to Business Development Services (BDS); take into account development and provision of services to meet the business management, strategic and operational requirements of SMEs.

The aforementioned reorganization of SMEDA is driven by enhanced interaction with the stakeholders and suggests that SMEDA's is a true learning organization and always ready to take lead in the SME development arena. (Source: www.smeda.org.pk)

2.6.2 SMEDA Vision

Growth of globally competitive SME sector through a conducive and facilitating environment and support services.

2.6.3 Mission Statement

To develop SME sector in Pakistan by creating a conducive and facilitating environment as well as providing services to equip, sustain and develop SMEs and enhancing their contribution in the overall national economy.

2.6.4 SMEDA Objectives

1. Formulate a policy to encourage the growth of SMEs in the country and to advise the Government on fiscal and monetary issues related to SMEs.
2. Identification of business opportunities on the basis of supply/demand gap.
3. Set up and maintain a machinery and supplier database for SMEs.
4. Arranging sector studies.
5. Facilitation of SMEs in securing financing.
6. Facilitation for WTO and other matters related to internationalization of SMEs by conducting seminars, workshops and training programs.
7. Facilitation of sectoral Business Development Services to SMEs.
8. Assist SMEs in getting international certifications (such as UL, CE, DIN, JIS, ASME, KS, etc.) for their products and processes.
9. Facilitate the development and strengthening of SME associations/chambers, through linkages with Federal and Provincial organizations.

10. Development of SMEs through donor assisted programs and projects.

Historically, the Government has not distinguished between large and small enterprises in industry or trade. Industrial and Commerce policies have been uniform for all scales of enterprises. As a consequence of which specific needs of Small and Medium Enterprises could not be addressed. SMEDA is creating an SME focus within Government for this crucial sector of the economy which provides low cost employment opportunities and helps the economy in two valuable ways: One for boosting exports and two in poverty reduction. Also, a strong SME presence provides the resilience to the economy from global economic fluctuations that the large business enterprises are unable to respond to quickly.

To achieve these objectives SMEDA's work plan is based on following major activities:-

1. Remove all regulatory retardants in the shortest possible time
2. Assist SME's with:
 - Technical up gradation
 - Marketing support, especially in the export markets
 - Human Resource development through training & organization structure development
 - Access to formal capital.

SMEDA is well on its way towards this formidable mission. One of the first exercises SMEDA conducted was determining the definition of SMEs. Local research showed there were a varying number of definitions in use by different organizations.

As a result SMEDA set upon the path to develop a uniform definition of SMEs that would be acceptable to all those concerned. In Pakistan, SMEDA has defined the SMEs in terms of employment generated as well as investment in productive assets. SMEDA's definition of SMEs is primarily based on the number of personnel employed in the enterprise. The secondary criteria for classification of the SMEs, is the value of productive assets employed in the enterprise.

2.7 SWOT analysis of SME sector of Pakistan:

We are entering in the world of globalization. This new world era is so cruel because it only adjusts those nations who can deliver with professionalism. We being a nation are actually failed to deliver. We have all the resources but we haven't used them properly. That is why we fall far behind the developed nations.

To come out of this recession period we have to set goals and then we have to put a sincere effort to achieve them because GOD helps those who help themselves. SME sector is under utilized so in order to utilize it up to its maximum and make it competitive with other countries SME sector lets first identify our strong areas and weak links in this area.

2.7.1 Strengths

2.7.1.1 *Cheap Labor*

Pakistan is an underdeveloped country with the population of more than one hundred and forty million. We have the total GDP of about \$60billion and per capita income of \$421 which is decreasing by every year. According to the latest UN report 50% of our population is below poverty line. Unemployment is increasing day by day so people are ready to work on low wages because we have less employment opportunities as compare to our population. And the chances of increase in wages are getting low because in the past few years more industries got closed.

So our SME sector should effectively utilize this strength in order to be competitive and survive in the post globalization era.

2.7.2 Weaknesses

2.7.2.1 *Illiteracy*

Unfortunately we have very vague literacy measurement criteria. Even then approximately 45% of our population can be considered as literate. Literacy creates professionalism, professionalism establishes vision and vision changes the fate of nations. But we lack in the basis for change of fate that is literacy. Government is trying to start few educational programs in order to boost literacy rate of the country but much more effort is required in this sector. Illiteracy affects the SME sector a lot because every business needs a feasibility study of that business to judge that whether that business is viable or not. Most of the businessman is unaware of the importance of feasibility studies

and they consider such studies as a financial burden. This behavior causes the failure to most of the businesses resulting in over all set back to the SME sector and the economy of the country.

2.7.2.2 Ignorance

Ignorance is also one of the dilemmas of our society we don't want to accept change and want to stick with the old and obsolete ways of doing business. Now we have to change this habit and accept the new methods and technological advances. We can no longer survive like an ostrich.

2.7.2.3 Lack of Professionalism

In order to convey one should be a professional. This is an era where you need to have Full command on your work so that you can deliver the best. We need specialized people in particular business. A non specialized person cannot deliver the thing the way it should be or in the way which is the demand of the market.

2.7.2.4 Risk Avoidance

During the past few years' businesses in Pakistan suffered huge losses due to above-mentioned reasons and due to not keeping pace with the global technical advances. These losses have actually created a fear in the minds of investors and business mans and they now avoid risk taking.

2.7.3 Opportunities

2.7.3.1 Liquidity

As mentioned earlier in this study that banks in Pakistan have more liquidity now a days than before and they are willing to give advances. Few banks have already reduced the mark up rates. This is a very good opportunity for SME's to avail these low marked up loans.

2.7.3.2 Government Support

Government of Pakistan is taking keen interest in developing SME sector in the country. Government has already taken few very positive steps toward this noble cause. The first step was establishment of Small & Medium Enterprise Development Authority, which is working effectively and supporting the SME sector with full commitment but still it needs

some changes in its policies which will be discussed in the recommendation part. Secondly Government has also established a bank solely for the purpose of promoting and supporting SME sector of the country. This bank has made the advances of 1 billion rupees in one year, but still lot more to done on part of this bank as well.

2.7.3.3 *Estimated Potential*

A large market of Pakistani products is yet to be discovered. We have so many natural recourses that if we exploit them properly we would do much well than what we are doing right now. All what needed is commitment and professionalism. SME bank has given 1 billion rupees loan in a year and the estimated potential is 20billion rupees per year.

2.7.4 Threats

2.7.4.1 *Lack of Confidence*

Past experiences with the governments have lessened down the trust of the people on the government. If this situation will go on than it will be a big threat for the economy of the country because it actually decreases the people's initiative in expanding or starting a new business, which ultimately affect the SME sector.

CHAPTER # 3 SME'S & THEIR SHARE IN EXPORTS MARKET

SMEs have been contributing a fair amount of share in the Pakistani exports sector. Some of the selected SME sectors are given below:

3.1 APPAREL

3.1.1 Introduction:

The textile industry has been the driving force behind the manufacturing sector growth of Pakistan. This sector accounts for nearly 60% of total exports for Pakistan, 46% of total manufacturing produce and employs 38% of the total manufacturing labor force. Textile trade is classified into two broad categories i.e textile which include yarn, fabric and made-ups and clothing which represents ready-made garments.

The largest growing sector within the global textiles trade has been the apparel sector. Over the last decade, the apparel trade has surpassed the trade in textile products such as yarns and fabrics. In the year 2000 total trade in textiles was \$157 billion and trade in clothing was \$199 billion. There was a switch in trade patterns after 1985 when clothing became more significant as compared to textiles. This sector lies at the pinnacle of the textile value chain, which begins with cotton and synthetic fibers.

3.1.2 Global Perspective:

Apparel being a major international trading commodity accounted for more than US\$ 2.2 billion trade in 2003. Global exports of apparel have increased by 15.2% in previous 5 years i.e. 1998-2003. The average annual increase was approximately 3.04%. This has been because of factors such as frequent movements in the global fashion scene and enhanced usage of diverse fabrics and materials particularly in the women apparel segment.

Asian countries being the leading players in the international apparel exports, accounted for 45% of total apparel trade in 2000. China was the largest exporter with 40% share, Hong Kong being second shared 14% while Turkey was third with 10% of the total exports of the Asian region. South Asian countries in 1999 exported apparel worth \$12.5 billion and have a combined share of 20% in Asian exports. Leading global importers of apparel in the year 2000 have been U.S.A. with 32% and Japan with 10% share of total imports.

3.1.3 Pakistan:

The textile exports of Pakistan were approximately \$5.1 billion in the year 1999-2000 while apparel exports were \$1.74 billion, which was 34% of the total textile exports. There was an increase in value of apparel exports by 18% during 1998-2003. The share of Pakistan's apparel exports in the global market is less than 1%.

Leading importers from Pakistan were U.S.A. and the European Union, which accounted for 92% of Pakistan's exports. Globally, they are also major players in the import market, accounting for approximately 65% of total world imports. The United States has been the largest importer of apparel from Pakistan and its imports from Pakistan have increased by 44% from 1998-2002. Imports from Pakistan by the European Union have increased by 19% during the same period.

Within the apparel sector, there are several segments. Each segment has been individually discussed in the subsequent sections.

3.1.4 Woven wear

One sub-category is Men/Boys Wear, Woven. The main exporter of Men/Boys Wear, Woven in the year 2003 was China with 32% of total exports for Men/Boys Wear, Woven.

Italy had 7.3% of the total exports and Mexico had a share of 6.9% of total exports in the year 2003 for Men/Boys Wear Woven. Important to note here is that Mexico's share has increased significantly by an annual average of 27%. This is due to the fact that Mexico is a member of NAFTA and has a competitive advantage in low labor costs.

There has been a 3% decrease in exports of Men/Boys Wear, Woven between 1998 and 2003. The main importer of Men/Boys Wear, Woven is U.S.A. In the year 2003 U.S.A. imported approximately 35% of total imports and Japan imported 14% of total imports of Men/Boys Wear, Woven.

Pakistan's exports of Men/Boys Wear, Woven has increased by 21% over the period 1998- 2003.

Another sub-category of apparel is Women/Girl Clothing, Woven. The main exporters of Women/Girl Clothing, Woven are China, which had a share of 21.2% of total exports, Italy, which had a share of 8.17% of total exports and Hong Kong, which had a share of

7.4% of total exports in the year 2003. Again Mexico has shown impressive growth, registering an increase in growth of approximately 25% per annum.

Pakistan's exports have decreased by approximately 14% for Women/Girl Clothing, Woven over the period 1996-2000. This has been due to the bias of Pakistani exports in favor of men's wear.

3.1.5 Knit Crochet wear

Another sub-category is Knit Crochet. The main exporters of Knit Crochet are China with 28% of the total export market in the year 2003, U.S.A. that had 9% of the total market share of exports in the year 2003. Pakistan was third with 7.3% of the total market share of exports in the year 2003. Pakistan recorded an annual average increase of 12.3% and Mexico recorded an annual average of 52%.

Pakistan's exports of Men/Boy Wear Knit Crochet have increased by 59% over the period 1998-2003.

3.1.6 Articles of Apparel

Another sub-category is Articles of Apparel. This sub category includes those categories, which are not reported elsewhere. China was the leading exporter of Articles of Apparel in the year 2003 and exported approximately 21.5% of total exports for this category. Second was Italy with 8.51% and Hong Kong had approximately 6.3% of total exports for Articles of Apparel. There has been an increase of 23% in the value of total exports for Articles of Apparel over the period 1998-2003. Mexico recorded an annual average increase of 24%.

Pakistan's share of exports had decreased by 2% over the period 1996-2000.

3.1.7 Clothing Accessories

One of the sub-categories of the apparel segment is Clothing Accessories. Italy was the leading exporter of Clothing Accessories in the year 2003 with a share of 18.3%. Second was China with 17% of total exports and third was USA with 14% of total exports of Clothing Accessories.

There has been an increase of 11.5% in the value of exports of Clothing Accessories for the period 1998-2002. Hong Kong has shown an impressive annual average growth rate of 20.3% during this period.

Pakistan's exports of Clothing Accessories have decreased by 11% over the period 1996-2000.

3.1.8 Industry Structure in Pakistan

The total number of units in the apparel segment in 2000-01 was 4500. Out of these 80% are cottage based/small units and 20% are industrial units. Total installed capacity was 650,000 machines, out of which 200,000 machines are industrial sewing machines used by the industrial units and the rest of the 450,000 machines are the home workers/domestic sewing machines used in the cottage based small units. Production in 1972-73 was 9.5 million pieces, which in 2000-01 had increased to 685 million pieces. The majority of the manufacturing units are located in Karachi and Lahore. Other important areas include Faisalabad, Gujranwala, Quetta, Rawalpindi and Sialkot.

The apparel-manufacturing sector also becomes important as it has huge potential to create employment with low investment levels. Due to the labour intensive nature of the industry it currently employs an estimated number of 700,000 individuals. In the knit garments manufacturing sector there is a strong tendency to have integrated manufacturing facilities, which not only produce the fabric but also stitch it to garments. However, in the woven segment there are standalone stitching units due to heavy investments in weaving and processing industries.

3.2 BED LINEN

3.2.1 Introduction

Textile made-ups are one of the most valuable and important international trading commodities. In 1999 the international textile made-ups trade value was above US\$ 11 billion which can be divided into six major categories i.e. towels & cleaning cloths, bed wear & bed linen, blankets, curtains and furnishings, canvas products and table linen. Major exporters of textile made-ups include China, Pakistan, Turkey and Portugal exporting nearly 47% of the total international market of textile made-ups. The textile made-ups industry has been on a slow growth, for the last five years with an average growth rate of 3%.

Pakistan being the second largest exporter of textile made-ups has increased its share in the international market from 6.6% to 10.1% in previous five years by earning a foreign exchange of US\$ 1.18 billion in 1999 and an average growth of 15% per annum.

According to Federal Bureau of Statistics data, Pakistan exports for the year 2000-01 were about US\$ 1.3 billion.

3.2.2 Global Trade of Bed wear & linens

Bed wear is an important value-added sub-sector of textile sector. Bed wear products include bed sheets, pillow covers, quilts etc. In made ups bed wear & linens sub-sector is the second largest in terms of production and exports and shares 28% of total textile made-ups market.

China is the main exporters of bed wear & linens as a whole and exported 21.34% of the bed wear & linens market in 1999. Pakistan that had second largest share i.e. 20.89% in 1999 had a phenomenal growth of 16% per annum in last five years and then was Portugal, capturing 11.67% of bed wear & linen market.

U.S.A. has been the biggest importer of bed wear & linens for the last five years and shared 22.5 % of total imports with a value of US\$ 688 million in 1999. Germany was second with approximately 14.46 % of world imports of bed wear & linens.

3.2.3 Pakistan

In 1999 bed wear & linens accounted for \$681 million in foreign exchange earnings, which was approximately 57.4% of total textile made-ups exports of Pakistan. The share has increased from 54.4% which shows that Pakistan exports of textile made-ups as a whole has increased at a much lower rate than this sub category. In Pakistan, the bed wear & linen market has increased by an annual average of 16% in last five years with a high growth in 1996 and 1999 i.e. by 25% and 20% respectively. Looking at the international perspective Pakistan's share of the bed wear and linen market has increased from 13.65% in 1995 to 21% in 1999.

For international comparisons the data used is for the year 1999. However, data is also available for Pakistan for the year 2000-2001, which shows that there has been an increase in exports from \$681.01 million to nearly \$752.53 million – by more than 11% in last two years. Some of the leading importers from Pakistan include U.S.A., which imported 24.9% of Pakistan's Bed wear and linen, the UK, which imported nearly 12.1% and Germany, which, shared 11.39% of the Pakistan exports of bed wear & linens in 1999.

Looking at the break-up of Pakistani bed wear & linen exports, it has been found that about two thirds of the total value exported is accounted by just one category which is 'non-knit bed linen of cotton' i.e. 70% of the total bed wear & linens exports. This is in line with the world trend since this category is the largest category in the global exports with 64% share.

3.2.4 Bed wear & linen Industry in Pakistan

A major chunk of the Pakistani bed linen industry is in the informal sector. According to industry sources, there are 150 units producing bed linen in the organized sector and the rest of the units are in the unorganized sector. There is no data available on these units. The bed linen industry may be large or small depending upon the number of operations carried out by a unit itself. It involves weaving/knitting, processing and stitching. A bed linen manufacturer may be buying fabric from outside and converting it into final product after processing it in-house. Or the processing is subcontracted and manufacturers are just cutting, stitching and packing in their own premises. Vertically integrated units are smaller in number and they operate in relatively upper market segments since it is easy to control the quality in a vertically integrated operation.

Another reason for non-availability of data about Bed Linen industry is the nature of data reporting. The classification of the industry is based on the operations rather than the products. Moreover, manufacturers also keep on changing products. Major clusters of Bed Linen are in Karachi, Faisalabad, Lahore, Multan and Hyderabad.

Pakistan is an important exporter of bed wear in the world. The main driver for the development of this industry in Pakistan is the existence of power looms sector. Most of the products in this sub-sector are made from low-density fabrics of wider widths. This fabric can be easily manufactured on power looms, which forms the major chunk of weaving industry of Pakistan.

3.3 BICYCLE SECTOR OF PAKISTAN

3.3.1 Summary

Pakistani bicycle market is struggling to establish itself due to smuggled bicycles coming from China and high raw material prices. There is no export presence of Pakistan in this sector and one player monopolizes the local market. For a new manufacturer to establish it in this sector they would need to concentrate on the fancy bicycle segment and can only

flourish if they enter into a Joint Venture agreement with some internationally reputed firm. If bicycle imports from India are allowed, then it will be difficult for the local bicycle industry to survive.

To increase the mobility of the local labor force along with increased sales tax revenue for the government through higher production in the local bicycle industry. To determine the factors that is hindering export development in this sector and provides a solution.

World Trend

Year	Production (million per annum)	Year	Production (million per annum)	Average Production over Last Nine Years
1950	11	1990	94	102
1955	15	1991	100	
1960	20	1992	103	
1965	21	1993	109	
1970	36	1994	107	
1975	43	1995	107	
1980	62	1996	99	
1985	79	1997	94	0%

The growth in of bicycle production over the past nine years has been 0%, indicating a stagnant and saturated world market. Key World Players The world bicycles export market in 1997 was US\$2.4 billion and Taiwan was the largest exporter with US\$ 860 million (37%), followed by China with 22%, Italy with 9% and Netherlands with 6% share of the export market.

3.3.2 Key World Markets

In 1997, USA was the largest importer of bicycles with US\$ 600 million (24%), followed by Germany, Japan and Hong Kong with 10%, 9% and 8% share of the bicycle import market respectively.

There are 300 bicycle vendors in Pakistan, employing 3000 workers. These vendors buy raw material worth Rs49 million and after value addition sell it on to the manufacturers for Rs98 million. The 300 vendors supply to 7 big Original Equipment Manufacturers (OEMs) and 20 unorganized OEMs (small firms). These OEMs employ a total of 5000 workers. The OEMs supply a further of Rs1.32 billion worth of new bicycles and Rs100 million worth replacement parts of bicycles to the retail assemblers/dealers/puncture shops. The retailers are supplied spare parts (including tires and tubes) through some

175 component manufacturer, employing 4000 workers in a market worth Rs230 million as new parts and Rs1.62 billion as the replacement market bicycles. There are some 3000 retailers/assemblers, employing 9000 people and cater to the Rs1.71 billion new bicycles demand and Rs2.78 billion replacement bicycle market. The annual foreign bicycle market is worth Rs1.29 million consisting of some 429,000 imported and smuggled bicycles. The foreign parts bicycle market is worth another Rs1.19 billion.

3.3.3 Current Exports and Potential

In 1998-99, US\$11,000 worth of bicycles was exported from Pakistan for the first time but there remains an untapped potential of US\$ 3-4 million because of low capacity utilization in the bicycle industry.

3.4 BLANKETS:

3.4.1 Introduction

Textile made-ups are one of the most valuable and important international trading commodities. In 1999 the international textile made-ups trade value was above US\$ 11 billion which can be divided into six major categories i.e. towels & cleaning cloths, bed wear & bed linen, blankets, curtains and furnishings, canvas products and table linen. Major exporters of textile made-ups include China, Pakistan, Turkey and Portugal exporting nearly 47% of the total international market of textile made-ups. Compared to previous years, the textile made-ups sector has had a slow growth rate of 3% for the last five years and 1999 was the worst year for textile made-ups products (3% decline in international exports), which is the only year with negative growth in last five years.

Pakistan being the second largest exporter of textile made-ups has increased its share in the international market from 6.6% to 10.1% in previous five years by earning a foreign exchange of US\$ 1.88 billion in 2002 and an average growth of 15% per annum. According to Federal Bureau of Statistics data, Pakistan exports for the year 2000-01 were about US\$ 1.4 billion.

3.4.2 Global Trade of Blankets

Blanket is an important value-added sub-sector of textile sector. In made ups blankets sub-sector shared 7.58% of total textile made-ups exports. Its share as a sub category had remained stable and has grown by 3% per annum if total exports are analyzed.

Looking into the different products of blankets it is seen that blankets of synthetic fiber was the largest product in terms of international exports. In 1999, total exports of this product were \$585 million, which constituted 66% of the total exports of blanket market.

China is the main exporter of blankets as a whole and exported 22.49% of the blankets market in 1999. Next was Korea which had 21.58% of the export share and then Mexico, capturing 7.03% of blanket market.

3.4.3 Pakistan:

In 2002 blankets accounted for \$14.92 million in foreign exchange earnings, which was nearly 0.84% of total textile made-ups exports of Pakistan. The share has increased from 0.74% that shows that Pakistan exports of textile made-ups as a whole has increased by much lower rate than exports of blankets. In Pakistan, the blanket market has increased by an annual average of 20% in last five years with high growth rates in 1998 and 1999 i.e. by 53% and 26% respectively. Looking at the international perspective, Pakistan's share of the blanket market has increased from a level of 0.65% in 1995 to 2.2% in 2002. For international comparisons the data used is for the year 1999. However, data is also available for Pakistan for the year 2000-2001, which shows that there has been an increase in exports from \$9.92 million in 1999 to nearly \$13.53 million – by more than 36% in last two years.

Pakistan has one major partner in this category i.e. U.S.A., which imported 86.9% of Pakistan's blankets in 1999. Others include Canada, which imported nearly 3.07% and Japan, which shared 2.51% of the Pakistan exports of blankets.

3.5 CERAMICS:

3.5.1 Introduction:

Ceramics may be defined as any inorganic, nonmetallic solids processed or used at high temperatures. They are one of the three most important types of engineering materials; the other two are metals and plastics. Ceramics include such everyday materials as brick, cement, glass, and porcelain. Minerals used in making ceramic products include clay, feldspar, silica and talc.

3.5.2 Global Perspective:

World exports of ceramic products were US \$ 10.8 billion in the year 1999. Exports have steadily decreased over the period 1995-99 at an annual average rate of –6%. USA was

the largest importer in 1999 with 19% of total global imports of Ceramics, while Germany was second with 11% share.

3.5.3 Pakistan:

Pakistan's exports of ceramics have been insignificant. In 1999 exports of all ceramic products were \$2.36 million. Pakistan's imports of ceramic products in the year 1999 were US \$ 18.8 million. 41% of total imports consisted of ceramic tiles. Ceramics can be divided into ceramic tiles, Tableware, Refractories, Sanitary-ware and Electric Insulators. The production of insulators and tiles is entirely concentrated in the organized sector, and are fully documented. However, Sanitary-ware, Tableware and refractories are primarily in the unorganized sector and thus the statistics provided are estimates.

3.5.4 Ceramic Tiles:

The world export trend for ceramic tiles has decreased by 0.8% over the period 1995-99. However, exports of ceramic tiles in 1999 had 52% of total exports of ceramics, which indicates that ceramic tiles have been the most important of ceramic products in the world market. The major exporters of tiles include Italy, which had a share of 43% in 1999 and Spain, which had a share of approximately 29%. Others included Turkey, with 3.48% and Germany with 3.16%. Notably, Mexico's exports have increased by 83% over the period 1995-99.

Pakistan's imports of ceramic tiles have increased at an annual average rate of 82% over the period 1995-1999. Major trading partner of Pakistan in ceramic tiles includes Spain, which accounted for 69% of total imports in 1999. Others include Dubai with 10% share and Italy with 8% share.

3.5.5 Tableware:

Tableware, which includes kitchenware, had experienced a fractional decrease of 0.99% in world exports over the period 1998-2002. This is the second major category in ceramic products and had a share of 20% of total exports of ceramic products in 2002.

Major exporters of tableware include China, which had a share of approximately 41% in 2002 and Germany, which had a share of 16%. Important to note here is that in line with the global trend of decreasing exports, all the major players in the tableware market have had a decline in export shares except China, which had experienced an annual average increase of 11%.

In 2002 Pakistan had a share of 0.08% of total world exports of tableware. The value of exports was \$0.74 million.

3.5.6 Sanitary-ware:

This category is the only one, which showed some signs of growth. World exports of sanitary-ware have increased by 8.8% over the period 1998-02. The average growth rate is 2% per annum. Major exporters of sanitary ware include Germany, which had a share of 17% in 2002 with exports of \$179 million. Spain and France had a share of 11% with exports of \$102 million.

Total imports of sanitary-ware in 2002 were \$1.05 billion. Major importers of sanitary-ware included Germany with 17% and USA with 11% of total imports. Other key players in the import market include Spain, France and Canada.

Pakistan's exports of sanitary-ware peaked at \$505,000 in 2001-02 and increased by 52.5% over the period 1995-2000. Pakistan exports to Saudi Arabia, Dubai and Oman i.e. Middle Eastern countries. Pakistan received contracts for exports of sanitary-ware to Iraq as well as some African countries through International donor agencies, which is why exports have shown an upward trend. Pakistan's imports of sanitary-ware have increased by 29% over the period 1998-2002. Pakistan imports from Spain, the United Kingdom and Thailand.

3.6 COTTON & GINNING

3.6.1 Introduction

Cotton is a natural vegetable fibre used primarily as a raw material for textiles. Cotton's strength, absorbency, and capacity to be washed and dyed also make it adaptable to a considerable variety of textile products. Leading producers of cotton include USA, China, India, Pakistan, Uzbekistan and Turkey. The current market share of cotton is 56 percent in all fibers. World textile fiber consumption in 1998 was approximately 45 million tons, of this cotton accounted for approximately 20 million tons.

Agriculture sector is the base of Pakistan's economy with approximately 25% share in GDP. Within the agriculture sector cotton crop is the basic raw material for the textile industry. As textile exports comprise more than 60% of Pakistan's total exports, thus the success or failure of cotton crop has a direct bearing on textile exports. Cotton production is the inherent comparative advantage of the textile sector of Pakistan.

3.6.2 Ginning

The first mechanical process involved in the processing of cotton is ginning. Ginning is the process for separating lint from seed to cotton. The ginning industry has mushroomed in the cotton growing areas of Pakistan informally, without adequate regulation. There are 1,221 ginning factories in the country. Ginning industry has and installed over capacity of more than one million bales on a single shift basis and a total capacity of around 20 million bales on three-shift basis, part of which lies unutilized.

In Pakistan cotton-processing industry has catered to low quality products - lint, yarn and fabric, over the past few decades. Changing global demands and textile market profiles are demanding a shift to quality products. In this the ginning factory plays a pivotal role for determining quality of cotton fiber as raw material for downstream industry. Yet this component of local textile industry is the most neglected and antiquated. Unless up gradation of this industry is undertaken, it would not be possible to remain competitive in export markets. However, now government is taking some serious steps to up grade this sector of the industry. Establishment of cotton standards through PCSI, setting up of a Ginning Institute is positive steps towards the right direction.

3.7 DAIRY

Dairy sector is a major component of the Livestock Sector. In Pakistan, due to the absence of specialization, dairy sector has to be viewed in the overall perspective of the livestock sector. Milk production is the least commercialized enterprise in the agricultural economy but even then it is the single largest commodity from the agricultural sector with value of around 160 billion rupees per annum. Pakistan is the seventh largest producer of milk but even then we have to import powder milk to meet our domestic needs. Milk collection and distribution for the urban areas, although commercially organized, is almost entirely handled by the informal sector. Organized collection, processing and marketing of milk represent hardly two percent of the total demand of the urban milk market. The milk production and distribution system suffers from many anomalies, which have diverse negative impacts on the economy in general, continue the rural poverty, national health hazards and other environmental issues. In the year 1997, we produced only 21 billion liters of milk with 18 million animals while North America produced 86 million liters of milk with only 17 million animals. The productivity levels of Western Europe are even higher.

The financial viability of dairy farms has been analyzed in detail. The capital investment required and the operational cost figures have been based on the present market prices. A list of such projects is as under:

1. Commercial Dairy Farm 25-Animals (Mix of Cows and Buffaloes).
2. Commercial Dairy Farm 50-Animals (Mix of Cows and Buffaloes).
3. Milk Collections, Distribution and Marketing.
4. Mini Dairy Plant (Pasteurization unit).
5. Milk centers.
6. Private Veterinary Service.

3.8 ELECTRIC FANS.

3.8.1 Introduction

In 1999 the international trade value of fans was above US\$ 3.6 billion, which can be divided into two major categories i.e. industrial & domestic fans. Major exporters of fans include Germany, China, Japan, USA and Taiwan exporting nearly 70% of the total international market of fans industry. Major importers are USA, Hong Kong, Germany, Japan and Canada, which shared 57% of the total imports. The fans industry grew by 8% and 5% in 1996-1997 respectively but declined by an average of 4% in last two years.

Pakistan has a meager share in the international trade but share has increased from 0.01% to 0.05% in previous five years by an average growth of 75% per annum. Pakistan earned a foreign exchange of US\$ 1.66 million in 1999 and according to Federal Bureau of Statistics data; Pakistan exports for the year 2002-03 were about US\$ 6.5 million.

3.5.2 Global Trade of Industrial Fans

Industrial fans have a larger share, almost 71%, as compared to the domestic fans in the total fan exports. This percentage share has increased from the level of 66% in previous five years Germany is the main exporter of industrial fans with a 29.22% share in the global exports of industrial fans. Japan has the second largest share of 17.07% followed by USA with 13% share.

In 1999 industrial fans accounted for \$0.57 million in foreign exchange earnings, which was approximately 34.14% of total fans exports of Pakistan. The share has increased from

24%, which shows that Pakistan's exports have been diverting towards Industrial fan exports.

Pakistan's industrial fan exports have increased by an annual average of 96% in last five years with high growth rates in 1996 and 1998 i.e. 187% and 145% respectively. Looking at the international perspective Pakistan's share of the industrial fan has increased from 0.002% in 1995 to 0.08% in 2003.

Some of the leading importers from Pakistan include Bangladesh, which accounts for 47.8% of Pakistan's domestic fans exports, Saudi Arabia, has 18.7% share followed by UAE, with 17.3% share. The South Asian region and the Middle East are the major target markets of the fan industry of Pakistan. It is worth mentioning here that the total annual imports of these markets are not more than US \$ 20 million. In order to increase exports of fans on sustainable basis the industry will have to target the larger markets including the USA, Latin America, European Union and Japan. Industrial fans products can be subdivided into blowers and other fans that are not specified.

Looking at the break-up of Pakistani Industrial fan exports, it has been found that about 88% of the total value exported is accounted for by the fans that come under the category of non-specified fans.

3.8.3 Global Trade of Domestic Fans

The domestic fan category shares 29% of total fan exports. This share has decreased from 33% over the last five years due to an average decline of 6% in domestic fans international market in last three years.

China is the main exporter of domestic fans and exported 58.77% of the domestic fans trade. Thailand shared 8.70% of the export and Germany, captured 6.79% of domestic fans international market in 1999.

In 1999 domestic fans accounted for \$1.09 million in foreign exchange earnings, which was approximately 65.86% of total fans exports of Pakistan. The share has decreased from 76%, which shows that Pakistan's exports have higher growth rate in industrial fan exports. In Pakistan, the domestic fans export has increased by an annual average of 82% in last five years with a high growth in 1996 and 1999 i.e. by 123% and 205% respectively and a decline in 1998 by 18%. Looking at the international perspective

Pakistan's share of the domestic fans market has increased from 0.01% in 1995 to 0.10% in 1999.

For international comparisons the data used is for the year 1999. However, data is also available for Pakistan for the year 2000-2001, which shows that there has been an increase in exports from \$1.09 million in 1999 to nearly \$3.896 million in 2000-01- by more than 257% in last two years. Some of the leading importers from Pakistan include Bangladesh, which imported 47.8% of Pakistan's domestic fans, the Saudi Arabia, which imported nearly 18.7% and UAE, which shared 17.31% of the Pakistan exports of domestic fans in 1999.

Domestic fans products can be subdivided into ceiling, pedestal, table, exhaust and other fans that are not specified. Looking at the break-up of Pakistani domestic fan exports, it has been found that about 70% of the total value exported is accounted by just one category which is pedestal fans.

3.8.4 Fan Industry in Pakistan

Fans have been manufactured in Pakistan since its inception in 1947 and all of the fan manufacturing is in the private sector. The fan industry is mainly clustered in the four major cities namely, Gujrat, Gujranwala, Lahore and Karachi. This cluster meets the entire need of the country producing fans with extended product types, models, designs, and colors. The product line includes ceiling, pedestal, table bracket or circumetric, exhaust, and louver fans. Sales are also fairly concentrated with five large firms in Gujrat and two in Gujranwala, accounting for 40% of total industry sales. The present conditions of Fan industry in Pakistan are:

Total capital investment	Rs. 3 – 3.5 billion
Contribution to GDP	Rs. 1.5 billion
Installed Capacity	5 -6 million fans per year
Current capacity utilization	50%
Total production of industry	2.5 – 3 million fans per year
Size of market in Country	Rs. 2.25 – 2.27 billion
Total exports	US\$ 3.89 million (2000-01)
Total employment	25,000

The industry can be classified into four segments on the basis of revenue generation. The large industry (high sales segment) comprises of 8 firms, with Rs. 250-350 million

investments in each firm, providing employment to 250 people on average. Medium sales segment comprises of 50 firms. Each firm has an investment level of Rs. 5-10 million and is providing employment to 100-250 people. Low sales segment also requires an investment level of Rs. 5-10 million. 100 firms come under this segment providing employment to 30-50 people on average. The vendor segment provides employment to 5-20 people per firm and requires an investment of Rs. 0.45-1 million. Currently 1500 firms are operating within this segment.

3.9 GARMENTS AND MADE-UPS

3.9.1 Garments

Garments alone are a global annual market of more than US\$ 113 billion. While total global exports of Made-ups are around US\$ 13 billion. USA and the European Union are the two largest markets for garments and other apparel products with a combined share of 73% in total global apparel imports.

In 1997, over 59% of textile and 70% of clothing exports originated from Asia. Apparel is a rapidly changing business with very short product life cycles and consumer preferences. Responding quickly to these changing demands is vital for the success of garment exports. Pakistan with total exports of US\$ 1.24 billion has a meager share of 1% in the global apparel market. Exports of Made Ups in the corresponding period have been around \$1 billion. The apparel export product mix from Pakistan is heavily tilted towards men's wear and knitted garments.

The major thrust of garments and made-ups exports from Pakistan is on the USA market. The European Union is the second largest market for garment manufacturers from Pakistan. Major markets that Pakistani manufactures have so far not been able to explore are the Japanese, Far East and Middle East markets. These markets demand high product standards and in return offer higher unit price realizations. The shift towards newer product and non-traditional markets can only be brought about by more emphasis on synthetic garments, development of a marketing and research infrastructure for the industry. The production of garments and made-ups in Pakistan is concentrated mainly in Lahore, Faisalabad & Karachi. These three clusters have their own specialties.

Faisalabad caters more to Home Textile; Lahore is the home of Knitwear & Karachi lives up to its reputation of being the mini Pakistan. Karachi has established itself both in Knit

as well as Woven side of the industry. In Lahore all major units are vertically integrated & are involved in knitting, dyeing, finishing & stitching. Major reasons to set up vertically integrated units are the desire of the manufacturer to have full control over all the processes involved & to ensure that right products are delivered at the right time.

3.9.2 Industry Structure of Apparel Sector of Pakistan

Pakistan's apparel & garment industry comprised of approximately 700 vertically integrated units in the knitwear sector, whereas very few integrated woven garment manufacturing units are present. It additionally has 670 finishing units both for the knit and woven fabrics. There are approximately 4,000 garment units, with a diverse range of stitching capability including leather, knit and woven garments and made-ups with 160,000 industrial and 450,000 domestic sewing machines. Most of these garment manufacturers are small units having less than 30 stitching machines. There are 400 units with 30 – 50 machines and 600 units with 50 – 300 machines. Knitting industry is growing at a rate of 15 to 17 percent annually. The knitting sector has become a large consumer of domestic cotton yarns. Pakistan's knitting industry comprises of approximately 700 separate or vertically integrated units with approximately 15,000 knitting machines, which are mostly imported. The machinery used in the knitting sector, especially for circular knitting is largely imported from Europe and Japan. Despite current economic conditions, the industry is expected to continue to grow at a stable rate either through the expansion of existing units and /or through the establishment of new small and medium scale specialized knitting units.

Pakistan's fabric finishing industry comprises of approximately 670 units, the majority of which are independent small units with obsolete dyeing and finishing facilities. Their installed machinery is considerably old and in need of major maintenance or replacement. The state of the art large-size processing units are a part of the integrated mill sector, which process woven fabric. Most of the knit processing units are also small scale with traditional wench dyeing facilities. The ready-made garments sector is comprised of 4,000 small, medium and large-scale units that altogether have approx. 160,000 industrial and 450,000 domestic sewing machines.

Garments Sector is divided in to some sub-sectors:

Men's Wear

(Woven & Knit), Women's Wear

(Woven & Knit), Babies wear,

Sports wear, T-Shirts & Pull Over and Hosiery.

A brief of each sub-sector is given below:

3.9.3 Men's Wear - Woven

Pakistan has a very solid base in men's garment segment. In 1997 exports of Pakistan in woven men's garments were \$519 million. This level of exports earns Pakistan a share of almost 2% in total world imports of woven men's garments. The growth in this product has been significant since 1993 when export value was \$324 million. Another important aspect of this growth is the marked increase in the unit price realization of exports. The effect would have been twofold had there been a simultaneous increase in production volumes. The increase in the value of exports is almost 60% from 1993 to 1997, whereas the volume has increased by only 31%. Pakistan exports in the category are primarily in cotton trousers and shorts with exports of \$199 million in 1997. Second major export category is shirts of cotton of which Pakistan exported \$180 million in the same year.

Pakistan has unfortunately not been able to penetrate in the non-quota markets including Japan & Hong Kong, which together imported woven garments of \$5.7 billion comprising 17% of total world imports in 1997. Due to high tariff barriers on import of fabrics in Pakistan and limited variety of local fabrics the domestic apparel manufacturers have been unable to develop products for these markets.

3.9.4 Men's Wear - Knit

In knit based, men's wear exports of Pakistan are less as compare to the woven-based men's garment segment. In 1997 the exports of knit men's wear were \$314 million, while in woven, men segment, the exports are almost 65% higher. However this fact is understandable when the overall global value in both categories are taken into account. With an export of \$ 314 million Pakistan holds a market share of 4.5% of the world imports. Again here quantity growth has been stagnant since 1993 registering a meager rise of 5 million units while export earnings showing a substantial growth, which increased by more than 70% in five years. However this growth in value has now stabilized indicating that it would be impossible to increase export value without products as well as market diversification.

3.9.5 Women's Wear

Women wear is the largest single product category of garments in value terms. In 1997 total global imports in this single category were to the tune of US\$ 48 billion. This means that this segment accounts for 32% of the total world apparel imports. Total trade in woven women garments is around \$28.4 billion having with a lion's share of 74% in the women apparel segment. The magnitude of trade in women woven garments can also be measured by looking it in the broader framework of total apparel exports including the men's and women garments. The woven women apparel constitutes almost one fourth of the total apparel trade. Knitted women garment is comparatively a smaller segment with world imports of \$10.8 billion in 1997. However higher growth rates in value terms of knit women garments make this segment highly attractive. The women woven clothing exports have grown by 4% during 1993-1997, the knit segment grew by a healthy cumulative annual growth rate of 10% over the same period. This phenomenon of growth in women knit garments is also observed in the world's largest market, i.e the USA, but at the same time the importance of the woven women garment segment cannot be underestimated, which still is the largest segment in global apparel trade.

3.9.6 Women's Wear - Woven

Despite the fact that the women wear have the largest share of 33% in the global apparel exports, Pakistani manufacturers and exporters have not been able to gain a sizable portion in this total trade. Pakistan's exports in woven women wear were US\$ 136 million during 1997, which dropped almost 17% over a period of five years, during 1993 the exports in this segment were US\$ 168 million. This is not a very promising performance by any standards, particularly for a growing global market segment such as women wears. Pakistan's share in total export value of woven women garments is only 0.5%. One threatening fact is that Pakistani exporters are gradually losing out their market share of quantities exported in all major markets. Volume of woven women apparel has declined by 7% during 1993-97. Japan & Hong Kong together imported \$7billion worth of women woven garments in 1997, however Pakistani exporters have completely overlooked these no quota countries?

3.9.7 Women's Wear - Knit

Knit based women garments are a smaller market segment as compare to woven based women apparel, with a total world imports of \$10.8 billion in 1997. Exports of knit

women garments from Pakistan in 1997 were \$52million, which is only 0.63% of total global trade value in the sector. Quantities exported from Pakistan in the category has not shown any growth in five years while export values have marginally increased by less than 1% annually. Latest figures however show a marginal rise in value with an exports of around \$90 million in 1999.

3.9.8 Babies wear

Babies wear is a relatively smaller sector when compared with apparel product segments including men's and women's wear. The global market of knit and woven babies' wear is around US \$ 3.5 billion, with a market share of 2.3% in the total apparel trade. The world imports in babies' wear have shown a cumulative annual growth rate of 7% during 1993-1997. Growth in the world imports of babies' wear has been greater in knit segment as compared to woven-based babies' wear. The overall split of knit and woven in the segment is 70% and 30% respectively. The Pakistani apparel exporters/manufacturers have kept their focus on producing only traditional products. Product development is considered to be a high-risk activity in the business circles. This is also true for the babies wear segment that is considered a complex product with little export opportunities. Despite the fact that the babies wear segment is limited to US\$ 3.5 billion, still it holds potential to enhance the export earnings through developing and marketing high value added products in this segment.

3.9.9 Babies Wear - Woven

Pakistan exported a total of \$16million worth of woven based babies wear in 1997, with a market share of 2% in the world exports of this segment. Exports in this category have been continuously declining during 1993-1997. From total exports of \$27million in 1993 the exports have registered a 41% decrease, which in 1997 were limited to only \$16million. A cumulative annual growth rate of -12% in a market that is growing by 3% p.a. is not a very healthy sign.

3.9.10 Babies Wear - Knit

Babies wear knit is a larger market than woven segment. However again the category is not very popular with exporters from Pakistan and in 1997 total export value from Pakistan was as low as \$3 million. Major export partners of Pakistan in Babieswear have been EU countries.

Germany is the largest importer of babies' garments from Pakistan with a share of 31% in woven segment and 21% in knit babieswear. USA is the second largest market for Pakistan exports in the category. As mentioned earlier that, Saudi Arabia and U.A.E are large import markets of babies wear where Pakistani exporters can increase their trade with these two countries.

3.9.11 Sportswear

Sportswear is one category, which holds a high growth potential for exporters. In very recent years this category has shown healthy growth trends with a simultaneous increase in unit price realization. Sportswear category comprises of ski suits, swim suits and a diverse range of other sports gear manufactured from high performance fabrics. Overall cumulative growth rates in the value of imports of sportswear were 3% for woven garments and 7% for knit sportswear. Total world imports in sportswear were \$4.1 billion in 1997, making it one of the major categories besides men's and women clothing. Sportswear is one category where total trade is balanced between knit & woven garments; the split is 45% and 55% respectively.

3.9.12 Sports Wear - Exports from Pakistan

Sportswear is a growing category with high unit values. Pakistani manufacturers and exporters have not yet been able to exploit the potential that sportswear offers. Out of total global exports of more than \$4 billion in 1997, Pakistan exports in the category were only \$22.4 million. Except for a small \$0.4 million all of the exports were in knit sportswear. In woven sportswear, Pakistan's export product mix is very narrow with little product diversification. Product range of sportswear include only two items i.e. women outer and male swimwear. Germany is the largest buyer of woven sportswear from Pakistan followed by USA, Italy & Canada. Sportswear market demands continuous product innovation and performance improvement. Lack of the concept of product development in garment industry of Pakistan has therefore resulted in declining unit values of sportswear. In knit sportswear Pakistan has higher exporters in most of its Asian competitors. However for exports from Pakistan has shown continuous decline during 1993-1997. Exports in the category have dropped by 45% in five years. Knitted sportswear exports from Pakistan have been limited to just one category i.e. knit tracksuits specially made of synthetic material. Tracksuits constitutes more than 99% of exports from Pakistan in the category.

USA is the largest export partner of Pakistan in this category with a share of 50%. While Germany that is the second largest importer of sportswear from Pakistan. Italy and France in Europe and countries in south and Central America are other major markets for sportswear that can be explored in order to diversify the current market mix.

3.9.13 T Shirts & Pull Overs

This grouping consists of T-shirts, cardigans, jerseys, pullovers and kaftans items and other items not covered in men's wear or women's wear. This is the third largest apparel category in terms of global trade values, after men & women woven garments. Total world imports in the category were \$33.8 billion in 1997. Within the category, there are two main products. Jersey & pullover is the larger product group with a share of 72% and the second is T-shirts with a share of 28%.

Exports of T-shirts, Cardigans, jerseys and pullovers from Pakistan were \$55 million in 1997, which gives Pakistan a share of 1.7% in total world exports. One of the reasons of smaller Pakistan exports in the category is that a large portion of t-shirts from Pakistan gets reported under men's wear. It is evident that Pakistani manufacturers and exporters have totally overlooked a category of this huge size.

3.9.14 Hosiery, Underwear and Nightwear

Hosiery and nightwear has been combined into one category. This category includes briefs, nightdresses, undergarments, brassieres, tights, vests and other hosiery items for both men & women. This is the fourth largest category with a share of 10% in total apparel trade. Total world imports in this category have been \$17 billion in 1997.

3.10 LEATHER

3.10.1 Introduction:

World leather market in 1998 was \$11,891 million as compared to \$11,147 million in 1994. Average growth rate for leather exports during the five years (1994-98) was 2%. World exports increased from 1994 to 1996 and then declined. One of the reasons for this decrease was the Far Eastern crisis. Since Far Eastern countries constitute the major import market for finished leather, so the currency devaluation led to making their imports expensive. In addition to this, a decreased demand of leather garments in the international market during this period also contributed towards the decrease of leather exports.

Italy is at the top of the list of major leather exporters with 26% share of total global trade in 1998. Italy is considered the best leather producer in the world with highest unit price. Korea is the second largest exporter, with 10% market share and USA the third with 7% share. Germany and Argentina both hold 6% market share each.

Major importers include China with 15% market share. Hong Kong is at second position with 14% of market share. Hong Kong acts a trading hub and majority of the leather imported into Hong Kong is re-exported. It is interesting to note that Italy is not only the largest exporter of leather but also is the third largest importer. Most of this imported leather is converted into value-added leather products and is re-exported. USA also imports leather and holds 9% share in world import market. These four countries hold more than 50% of total import market.

3.10.2 Break up of World Leather Market

World market for leather can be divided into three main categories:

1. Leather of Hides
2. Leather of Skins
3. Other Leather

Almost 80% of the trade in leather is in leather of hides. Remaining 20% is equally divided amongst leather of skins and other leather. Major use of hides' leather is in footwear and upholstery and leather goods. Skins are mostly used in Leather Garments. Average market growth rate for the period 1994-98 has been 4% per annum. Major decline during the period 1997-98 was due to fall in trading of skins leather for which the average decline rate was 5% per annum. The cause of this decline was decrease in demand due to change in fashion. Market for other leather declined too but the decline was not as sharp as in case of skin leather.

3.10.3 Unit Price Realization

There has been an average growth of 5% in the quantities of leather traded over the period of five years. In comparison to that the total increase of 2% in the total trade value, this depicts an over all decrease in unit price of leather.

The analysis of the price realization shows that the highest price realized per kg of leather is in leather of skins. This is the case since the skins leather is thin compared to hides. So

the same weight of skin leather translates into larger surface area compared to that of same weight of hides. In terms of surface area, the rates are comparable. The trend of unit price is very much in line with the export trends. An increase till 1995 shows the increase in demand that is also reflected by increased exports during this period. After 1996, there is a decline in unit prices and the sharpest decline is seen in case of skin leather. The reason is that the best use of the skin leather is in leather garments. A decline in demand of leather garments with the corresponding decline in demand for skin leather resulted in this sharp decline in price of skin leather.

The price of other leather remained stable, as there was a growth of 1% over the period of five years.

3.10.4 Pakistan Exports of Leather

Exports of leather from Pakistan are normally of finished leather. This finished leather is mostly used in footwear, goods and upholstery. The exports of leather from Pakistan in 1994 were \$ 249 million, next year was period of growth and exports of leather grew from 249 million to 266 USD million; this translates into 15% growth. After that there was a period of continuous decline till 1998. The average rate of decline for five years was 2% of the total leather exported from Pakistan, 53% of total exports is that of skin leather. This is opposite to the world trend where skin leather constitutes only 11% of the total leather exports. Further break up of the skin leather exports show that out of skin leather exported in 1998-99, 99.98% was goatskin leather, which is also opposite to the world trend where about 80% of the skin leather traded is that of sheep.

Hong Kong was Pakistan's biggest trading partner in 1998 with 20% share of Pakistan's exports. In 1994 exports to Hong Kong from Pakistan were of \$ 23 million which reached to \$35 million in 1998. Overall growth rate was 17% per annum.

Imports of Italy from Pakistan remained on a continuous decline during this period. In 1994 Pakistan's exports to Italy were \$47 million, which declined to \$24 million in 1998 with an overall decline rate of 10% per annum.

3.11 SURGICAL INSTRUMENTS

3.11.1 Introduction

The surgical instruments manufacturing cluster is located in the city of Sialkot and its ancillary areas. It's been nearly hundred years, that the people of this region are

manufacturing surgical instruments. The industry has transformed from a very small level and low technological base to a highly sophisticated level. The surgical instruments manufacturing has come a long way, from repair of ordinary scalpels and scissors to the manufacturing of complicated surgical instruments. The skill in the industry has reached a stage where it has enabled the industry to manufacture nearly 10,000 different types of surgical instruments. Initially the industry started manufacturing very few basic instruments, to cater to the needs of the local hospital. In the late 1940s the industry got some export orders from Egypt and Afghanistan worth a few thousand dollars. Currently more than 95% of the instruments manufactured in Sialkot are exported to other countries. The surgical instruments sector, if considered as a sub-sector of the light engineering sector, contributes about 70% to the total exports of this sector.

The light engineering sector consists of twenty-eight sub-sectors including consumer durables and other industrial products.

3.11.2 World Trade (Exports) of Surgical Instruments

The world exports of the two categories of Standard International Trade Classification, SITC 87229 representing medical instruments and SITC 87219 representing dental instruments, during the year 1997 was US \$ 11.6 billion.

These are the two major categories in which instruments are exported from Pakistan. Pakistan's export of surgical and dental instruments during the same year was US \$ 134 million. Out of the total exports of US \$ 11.6 billion, USA enjoys the largest share with 23% of the world exports of medical and dental instruments. Germany comes next with 15% share. Other countries such as Japan, United Kingdom and France also have 8%, 7% and 5% share respectively in the global exports.

Considering the size of the export market and share of other countries, Pakistan enjoys a meager share of 1% of the world exports of medical and dental instruments. The encouraging part of it is that Pakistan is competing with some of the world's most developed and technologically advanced countries.

3.11.3 Some Basic Facts about the Industry

There are about 2500 large, medium and small sized manufacturing units within the industry. Some of the units have in-house facility to perform all the processes. Some smaller units specialize in a distinct process and work as subcontractors for the industry.

The surgical instruments industry provides employment to about 50,000 skilled and semi-skilled workers. The production of the industry can be broadly classified into two categories, i.e. disposable instruments and the reusable instruments (OR instruments). The largest market for Pakistani disposable instruments is USA. Majority of the reusable instruments, manufactured in Sialkot, are exported to the European countries.

3.12 TOWEL & CLEANING CLOTHS

3.12.1 Introduction

Textile made-ups are one of the most valuable and important international trading commodities. In 1999 the international textile made-ups trade value was above US\$ 11 billion which can be divided into six major categories i.e. towel & cleaning cloths, bed wear & bed linen, blankets, curtains and furnishings, canvas products and table linen. Major exporters of textile made-ups include China, Pakistan, Turkey and Portugal exporting nearly 47% of the total international market of textile made-ups. Compared to previous years, the textile made-ups sector has had a slow growth rate of 3% for the last five years and 1999 was the worst year for textile made-ups products (3% decline in international exports), which is the only year with negative growth in last five years.

Pakistan being the second largest exporter of textile made-ups has increased its share in the international market from 6.6% to 10.1% in previous five years by earning a foreign exchange of US\$ 1.18 billion in 1999 and an average growth of 15% per annum. According to Federal Bureau of Statistics data, Pakistan exports for the year 2000-01 were about US\$ 1.3 billion.

3.12.2 Global Trade of Towels

The towel is an important product used in everyday life. In made ups, the towels sub-sector is the largest in terms of production and exports and shared 32.9% of total textile made-ups market in 1999. Its share has declined from 33.2% as a sub category but has grown by 3% per annum if total exports are analyzed for the years 1995-99. 1999 was the worst year for towels and cleaning cloths as the market declined considerably by 9%.1 Looking at the major products of towels, more than half of the total exports are accounted by just one category which is reported as SITC 65847 and named 'Other Linen of Cotton'. This includes cotton towels made on mill and on hand looms, toilet and kitchen linen of cotton & manmade fibers etc. In 1999, total trade under this category was \$2.28 billion and it accounted for 59% of the total global exports of towels.

China is the main exporter of towels and cleaning cloth as a whole and exported 23.79% of the towels market in 1999. Next was Pakistan, which had 9.76% of the export share and then Portugal, capturing 6.92% of towel and cleaning cloth market.

3.12.3 Pakistan:

In 1999 towels & cleaning cloths accounted for \$374.5 million in foreign exchange earnings, which was nearly 31.5% of total textile made-ups exports of Pakistan. The share has declined from 36% that shows that Pakistan exports of textile made-ups as a whole has increased by much more than exports of towels & cleaning cloths. In Pakistan, the towel & cleaning cloths market has increased by an annual average of 12% in last five years, with a negative growth rate in 1997 of 5%. Looking at the international perspective, Pakistan accounted for 9.76 % of the total towel market in 1999, which has increased from 7.11% in 1995. For international comparisons the data used is for the year 1999. However, data is also available for Pakistan for the year 2000-2001, which shows that there has been an increase in exports from \$374 million in 1999 to nearly \$420 million in 2000-01 – by more than 12% in last two years. Some of the leading importers from Pakistan include U.S.A., which imported 60.4% of Pakistan's towels and cleaning cloths, UK, which imported nearly 5.30% and Germany, which accounted for 4.55% of the Pakistan exports of towels and cleaning cloths in 1999. Looking at the break-up of Pakistani towel exports, it was found that more than half of the total value exported was accounted for by just one category which is 'Other Linen of Cotton' i.e. 54% of the total towels and cleaning cloths exports. This is in line with the world trend since this category is the largest category in the global exports with 60% share.

3.12.4 Towel Industry in Pakistan

Unlike many of the SME sectors in Pakistan, the towel-manufacturing industry is mostly in the organized sector. According to the industry sources, there are 325 towel-manufacturing units in Pakistan out of which 250 (77%) are in organized sector.

The Pakistan towel industry at large is using locally manufactured power looms. There are some 9000 locally manufactured looms being used by the industry. However some units are also equipped with imported auto looms and their number is about 250. Of the total production, 91.5% were from power looms and remaining from imported auto looms.

Pakistan has a strong presence in international towels market and is second only to China. This strong presence can be used to move into next tiers of towel market. Although the international perception of Pakistan is that of a low quality producer, efforts for product diversification can be started in the markets where the perception of Pakistani products is better. Thus efforts should be started to move into higher end of the markets. Such an area of high value added products is represented by the towels manufactured from dyed yarn, which fetch better prices compared to the piece-dyed towels. The towel industry should concentrate towards this segment of the market. Current facilities of yarn dyeing are limited in Pakistan and investment is required in this area.

3.13 WOODEN FURNITURE

3.13.1 Introduction:

The global trade of furniture is concentrated in selected countries. Four of the largest markets for furniture are USA, Germany, France and Italy - all with a domestic market of over \$10 billion. The United States is the world's largest furniture market, where the opening to imports in the last few years has been impressive. There exists huge potential for future growth in trade of furniture as new markets continue to open such as China, India and Russia, which have the capacity to reach up to US \$ 10 billion.

3.13.2 Global Trends:

Total world exports of wooden furniture have increased by 17.2% from 1995-1999. The value of exports in absolute terms increased from US \$ 15.7 billion to US \$ 18.5 billion. The export market is growing at an annual average rate of 4%. Major exporters of wooden furniture include Italy, with 15.3% share of total exports in 1999 and Germany, with 10% share of the total exports in 1999. Others include Denmark with 7% and Canada with 9% share. Although Italy still is the export market leader but the exports have dropped over the last five years. Emerging players in wooden furniture that have shown impressive growth during 1995-99 include China and Canada as their exports increased at an annual average rate of 23%. The export growth of wooden furniture from Malaysia has also increased at a decent rate of 12% per annum. According to the latest available trade data (1999) the largest importer of wooden furniture is the USA, which imported 31.2% of total imports, the second largest was Germany with 11% share in total imports and the third largest importer was France important to state that more than 40% of the imports are concentrated in the European region, with 7% share. It is Wooden

furniture has several categories, which include Office furniture, Kitchen furniture and bedroom furniture. Bedroom furniture is the largest product segment as far as the exports of furniture are concerned. It accounts for 19% of total exports of furniture. The kitchen furniture category comes next with a 14% share in total exports, followed by the office furniture category having a share of 11%. The growth in value of exports of kitchen and office furniture appears to be much higher than the bedroom furniture category.

Data has been used for the period 1995-1999 for international comparisons. However, for Pakistan, data is also available for the years 1999-2001. Pakistan's exports of wooden furniture to the rest of the world have increased by more than 130% over the period 1996-2001.

Pakistan's exports of wooden furniture comprise mostly of kitchen furniture. In 2000-01 approximately 14% of total exports of furniture were accounted for by kitchen furniture. Office furniture was second, with a meager share of 0.55%. The difference between the export shares indicates the importance of kitchen furniture as compared to the rest of the categories for Pakistan, although the export market of bedroom furniture is much larger than any other category but the export growth in the kitchen furniture segment is almost 6% per annum.

3.13.3 Office Furniture:

Total world exports of office furniture have increased by approximately 26% over the period 1995-1999. The main exporters of office furniture include Canada, which had a share of approximately 21% of total exports and Italy, which accounted for 12.71% of total exports in 1999. China has shown an annual average increase of 19% during this period. Major importers of office furniture include USA, which imported approximately 33% of the total imports in 1999. Other major importers include Belgium, which imported 7% of total imports of office furniture in 1999 and France, which imported over 6%.

Pakistan's exports of office furniture were comparatively insignificant in 1996-97. In 2000-01 the exports had a value of \$24,000.

3.13.4 Bedroom Furniture:

World exports of bedroom furniture have increased by 9.4% from 1995-1999, however this increase has been at a decreasing rate.

Italy was the largest exporter in 1999 with 13.26% of total exports of bedroom furniture. Denmark was second, with 12.14% of total exports. Canada registered an annual increase in growth rate of 20%. The major importer of bedroom furniture in 1999 was USA with 37.38% of total imports. Second was Germany with 13.45% of total imports.

Pakistan's exports of bedroom furniture have remained insignificant, in 2000-01 Pakistan exported bedroom furniture with a value of \$9000. Pakistan exports mainly to the UK and USA.

3.13.5 Other Furniture of Wood:

World exports of Other Furniture of Wood have increased by approximately 16% over the period 1995-1999. Major exporters of Other Furniture of Wood include Italy, which exported 17.28% of total imports in 1999. Second was Denmark with 6.44% of total exports. Major importers of Other Furniture of Wood include USA with a share of 29.25% of total imports in 1999. Others include Germany and France with 11.81 and 7.33% of total imports in 1999 respectively.

Pakistan's exports in the year 2000-01 were valued at \$3,754,000 for Other Furniture of Wood. Growth has remained stagnant over the last two years in this category. Major importers of Other Furniture of Wood from Pakistan include USA, Dubai and the United Kingdom.

3.13.6 Kitchen Furniture:

Total world exports of kitchen furniture in 1999 was \$2,534 million. There has been an increase of approximately 29% in the value of exports of kitchen furniture over the period 1995-1999. The major exporters of kitchen furniture include Germany, which exported approximately 28% of total exports in 1999, and Italy, which exported 12% in 1999.

The largest importer of kitchen furniture in 1999 was USA with 29.3% of total world imports of kitchen furniture. The Netherlands was second with approximately 10% of total imports.

Pakistan's exports of kitchen furniture peaked at a value of \$607,000 in the year 2000-01. The main importers of kitchen furniture from Pakistan include the UK with approximately 24% of total imports in 1999 and USA with 18% of total imports from Pakistan in 1999.

CHAPTER # 4 PROBLEMS FACED BY SME SECTOR**4.1 PROBLEMS FACED BY SME SECTOR**

There are many issues facing SMEs in the region; technology transfer, human resource development, finance, regulatory red tape, access to markets, to name but a few. These issues are not unique to SMEs; they affect large firms as well, although to differing degrees. Pakistan's economy has this amazing potential for development but sadly; we haven't been able to derive optimal benefits regardless of a series of efforts launched by various policy makers at different times. The impetus of all these happenings was on the large-scale industries and manufacturing concerns. High rate of failures, owing to economic slumps, institutional malpractices, political motives and damaging activities of labor unions in that sector, left the formal lending institutions with huge infected portfolios, in addition to adverse effects on the entire economy e.g. insufficient and low quality production to meet the demands of local and international markets, deficit in balance of payments and ever rising unemployment, etc.

Pakistan's SMEs are still unable to achieve their maximum potential and are in dire need of 'hand-holding' and business support services. Pakistan's SME Sector has been facing many problems for a long time. It has been one of the most neglected areas and due to this negligence we have been left behind the rest of the world which have progressed thorough the development of their small and medium sector rather then just focusing on the large scale enterprises.

A broader picture reveals that difficulty in accessing the financial assistance, unfriendly tax structure, high market transaction costs, inefficient contract repudiation and distorted competition are some of the key retardants in the growth of manufacturing and retail firms in Pakistan. Competition from smuggled goods and unregistered companies is acting as a severe constraint on firm-level SME growth especially for small and medium scale manufacturing sector.

Some of the most important issues, which are really hampering the efficiency, and effectiveness of SME are discussed as given below in two sub categories first one are the Short term issues and second are the longer term issues.

4.2 SHORT AND MEDIUM-TERM PROBLEMS

By short term here we mean a period of less than 7 – 8 years and this section reflects issues where it is felt that we may achieve strong impacts in the short and medium-term, i.e. until 2011. These issues should therefore become major topics of the deliberation and shape the formulation of an appropriate SME policy.

4.2.1 Business Environment

The large size of the SME sector limits the ability of Government and business support institutions to achieve complete coverage by support programs. This is a fundamental reality in most countries of the world and it is why policy framework and regulatory measures are of tremendous importance when SME promotion is concerned.

It is agreed that only appropriate policy tools and regulations rather than with support programs can achieve much more. Likewise, SME development is hampered more by inappropriate regulations than compensated by means of appropriate support programs. Most of the developed nations therefore have mechanisms in place to revert the biases against small firms. For instance, the United Kingdom introduced the “Think Small First” initiative, which requires all Government organizations to assess the impact of their actions on small business prior to implementation. Furthermore, contribution of small business in government procurement is being facilitated as a matter of practice. The result of such policies is that (inopportune) surprises to small firms are less frequent. It is made sure that businesses potentially affected are consulted and informed of any forthcoming policy shifts so as to avoid negative impacts. They are also allowed an adequate grace period for the adjustment of economic activity and there is no retroactivity of new set of laws. Besides this, special awareness is paid to minimizing the room for bureaucratic discretion while developing policy rules or procedures.

All such mechanisms are missing in present policy or legal environment in Pakistan. The absence of a specialized, uniform legal framework for the development of SME hampers SME operations.

4.2.2 Relationships between Government and SME

The relationship between Government and SME seems to be fundamentally flawed. In many cases this extends also to other large organizations and their interaction with smaller clients as SME.

Our compulsion of centralized control stems from the fear of the regulator to be misled by the opportunistic profit-seeking entrepreneur. And our administration practice is characterized by rent-seeking bureaucrats who, given the low level of their pay, take advantage of the semi-literate entrepreneur.

Of course, we all know there are also many dedicated and honest professionals on both sides. But the fact of the matter remains that there are severe attitude problems in the relationship between the two sides. The only way to break this discouraging situation is to face the problem squarely and seek solutions in a positive spirit and entertain systematic dialogue between the two sides.

The present divide is, among others, reflected in a language gap. Part of the concern for local business people is the inadequate business facilitation process in the local language, which includes laws, regulations and business support material available in the English language only.

A typical SME in Pakistan caters to the domestic private sector. A fewer than 4% are supplying to the government sector. Some of the issues are related to tough bargaining price (36%) and supplies on credit (34%) and other are related to absence of rules on how to the public sector should increase its procurement from SME.

4.2.3 Taxation problems

High tax rates are one of the major reasons for firms to drift into the informal economy. This holds for countries all over the world, including developed countries. These effects are compounded by high compliance costs for small firms to deal with tax laws and other forms of government regulation. This is a specific size-related disadvantage compared to large-scale firms, which have not only the necessary accountants, but frequently also in-house tax and legal advisors.

Compliance costs have monetary implications (such as paying tax advisor fees or salary payments to personnel dealing with tax issues), time cost implications (in the form of time spent by a taxpayer to handle tax issues), and physiological cost (in terms of anxiety, stress, and apprehensions related to possible mistakes or a possible audit by the tax authorities).

Firms in Pakistan's SME sector, encounter an increasingly complex legal, tax and administrative environment, both in starting up and developing their business. According

to the already done research, 67% of enterprises termed tax regulations as most problematic. 56% of businesses reports a crunch of taxes, while 28% of businesses felt that taxes in the country are too high.

From SME point of view, the present tax structure and administration generally distort incentives and discriminate against small firms who are harassed by the tax authorities. Smaller firms found tax related issues more restrictive than larger firms, 69% of firms, whose size of assets was less than Rs.1 million faced the greatest of tax related problems. Many small firms claim it is not possible for them to maintain books as per law or hire a professional due to cost constraints.

The prevailing system is non-standardized and offers excessive discretion to the tax authorities. There is no consolidation or rationale in current provincial or local tax structure either. Hence, there has been a constant confrontation between tax authorities and the business communities resulting in very slow expansion in tax base. Two sectors; retailers and small to medium sized manufacturers have already propounded the idea of fixed taxation as remedy to this continuous ailment.

Cognizant of the change required to cater to the SME sector in its policies, there have been reforms in the advance stage of implementation of Pakistan's tax regime. But these reforms are focused on tax administration and management, instead of addressing the aspects that directly affect SME. No incentives are being offered to SME to enter the formal economy. There has been no consideration as such for reviewing tax law from an ordinary SME or even micro enterprise perspective.

4.2.4 Labor issues

Likewise, the intensity of regulations is the second most important reason for firms to drift into the informal economy all over the world. Labor Laws and regulations in Pakistan are considered to be one of the most complicated areas with which any business enterprise deals. The present set of labor laws was the result of checkered initiative of various governments to create a healthy business environment for labor. Consequently, enterprises have to deal with fifty six (56) labor laws with some of them being industry specific. The existing plethora of labor laws has made compliance impossible for the enterprises due to their inherent inconsistencies. Numerous labor inspections under these laws are yet another impediment that retards the growth of SME.

The Labor market dynamics have changed considerably over the years, a higher degree of adaptability and flexibility along with Labor market security, including protection against arbitrary loss of employment, reductions in income and unhealthy work practices are essential requirements of new environment. Besides, the condition for compliance of international labor standards under the global economic system is another issue.

Taking into account the need of labor market and employers, the Ministry of Labor and Manpower introduced an employment security regime. The new labor policy initiatives is aimed at creating a favorable environment for facilitating industrial promotion and revival along with legislative and structural changes to bring in an environment devoid of restrictive labor practices, but protecting the rights and interests of the workers.

The only issue highlighted thus far through direct interaction with SME is that of co-ordination. The business and labor community at large has been supporting the reforms.

4.2.5 Delivery of assistance and access to resources

Competitive advantage is determined by the productivity with which a country, region or cluster uses its human, capital and natural resources. Pakistan's international competitiveness markedly declined over past few years. Part of the blame is shared by lower productivity of the workers. The evidence reveals that median labor productivity, as measured by annual value added per worker, is 25 percent lower in Pakistan than in India and 35 percent lower than in China. Trade liberalization at the global and regional levels and the new information and communication technologies have entwined to create rich opportunities as well as formidable challenges to all interdependent countries and enterprises. Competition has become increasingly fierce among the global and regional economies and enterprises. The structure of markets and their demand is increasingly complex. Despite operating locally, Pakistan's SME need to be increasingly aware of the world market. They cannot escape it even in their local economy. To meet this challenge, there is growing need for information on global technology trends, rules and compliance cost including facilitation services regarding global issues.

An integrated program for improving competitiveness, promoting trade, and developing workforce can help. Training, research and development, labor productivity enhancement, technology transfer and up-gradation and support to business startups through business

incubation and various other business support services, including finance, are issues that need to be addressed separately by the SME policy.

What is important is that access to resources and services necessary to compete in this global environment are being provided to SME because their size poses an effective limit on their capacity to assess world market conditions and tap appropriate resources. Old policy tools of protection now require replacement with promotional and facilitation functions. The roles of business development services, hence, become imperative.

The capacity to deliver such services by the public or private sector led institutions is a major topic for debate but also relates to the specifics of the service in question. However, market-driven support programs are a cornerstone in any SME support system, which strives for sustainability. This also maximizes the latent for collaboration with private sector organizations and minimizes the distortions in the market economy. Yet the structures for such a system still need to be mutually agreed and implemented in Pakistan. Below we flag the important issues.

4.2.6 Access to Finance

One of the most important problems accountants are likely to deal with in acting as advisors to a small or medium sized enterprise (SME) concerns the issue of financing. More succinctly, directors and owner managers in SME's often complain of the lack of finance for what are profitable investment opportunities. For candidates preparing for professional examinations, the problem of learning about sources of finance for small businesses is one of merely thinking of different ways of listing the available sources of finance. This can be considered as the most important problem being faced by the SME sector of Pakistan. Access to equity and formal debt financing has repeatedly been identified as a recurring constraint to SME growth and development. Commercial banks apply conservative policies in lending to SME. More, importantly the existing structure of financial sector was developed to serve medium to large enterprises, which are organized as a formal business. Most banks prefer to hold risk free-income generating assets and lending to SME is unattractive due to a range of objective and subjective factors. These include high transaction costs, inability to do away with tangible collateral requirement, no linkage of financial products with sector needs and the inability to structure /offer and manage risk-prone SME specific medium to long term financing options.

It has been observed that 57% of new investment for Small and Medium Enterprises and 67% of working capital finance come from internal finance or retained earnings; only about 7% of funds for investment or working capital come from banks or other financial institutions. Even suppliers' credit rivals the contribution of the banks as a source of working capital (4.5%). Another survey by SME Bank concludes that SME are indeed being rationed out of the credit market, rather than merely exhibiting a lower demand for credit. However, financing SME is one of the key prerequisites for the future development of the national economy and the achievement of economic growth. The Government of Pakistan had originally responded to the growing needs of the sector by introducing a Self Employment Scheme through Small Business Finance Corporation of Pakistan (SBFC) in 1992. SBFC continued to grant loans to small businesses and disbursed 12 billion by June 1998, catering to the needs of 157,162 unemployed persons. Other schemes for SME development or employment generation included the Youth Investment Promotion Society, Provincial Small Industries, Prime Minister's Self Employment Scheme, and Yellow Cab Scheme. But all of these efforts lacked coherence across institutions, and, in the absence of any national policy, resulted in disjointed efforts and even corruption.

Previous efforts have therefore had rather limited results and were highly inefficient because the financial sector accumulated a huge portfolio of non-recoverable loans under these schemes. The SME Bank will need to undergo restructuring for next three years.

Furthermore, severe damage has been done because the financial sector has developed disinterest for any such initiatives in future, and we need to basically start from scratch. The banking industry in general is also not venturing into the areas where new processes and procedures with a view to improve SMEs access to credit are required. It is likely that market-led mechanisms will take some time to improve the access of smaller firms to formal credit. In particular, outreach shall remain to be a problem for the due to the limited presence especially in the rural SME market.

The Government is seeking to facilitate the participation of commercial banks in SME lending by training with the assistance of the ADB. The sooner commercial banks obtain the know-how how to successfully engage in cash flow based lending to small enterprises, the better.

Finally, new prudential regulations increase the likelihood of viability and sustainability in the financial sector. However, the broad definition of SME also bear a risk of upward filtering of the loan portfolio towards the higher-end medium enterprises unless targeted programs for micro and small enterprises exist. The creation of SME credit endowment fund may be one way of mitigating this effect.

Types of financing and growth in SME are a broad list of SME financing can be listed as below which changes with the progress of any SME:

1. Initial owner financing
2. Business angel financing
3. Trade credit
4. Leasing
5. Factoring
6. Venture capital
7. Short term bank loans
8. Medium term bank loans
9. Mezzanine finance
10. Private placements
11. Public equity
12. Public debt.

This list is loosely structured along growth lines. Thus, very small organizations start at point 1 and work through to point 10. Not all of the financing is successive and a number will overlap. Further more, as businesses grow, more information becomes known as they develop a track record.

4.2.7 Human Resource Development

One of the major challenges that SME have to face is the emergence of the knowledge-based economy. People must continue to innovate, change and upgrade. There is a need to nurture the entrepreneurial spirit and skill development for adopting innovative technologies. The low-literacy level of our population poses an immense challenge to our competitiveness. Yet, it is a fact of life, which we will not overcome, in the short run. It is therefore absolutely crucial that we seek intelligent short and medium-term solutions to bridge the literacy gap.

A frequent grievance is the mismatch of the output of our human resource development institutions with the demand of SME. There are also only limited training options for middle management. Low skills of work force, inadequate vocational training facilities yet remain outside the scope of the reform agenda. Are there any mechanisms by which we may achieve effective consultation between the supply and the demand side of our vocational training system so as to attain a maximum benefit for our economy?

4.2.8 Technology Transfer and Up-gradation

Technology transfer is the use of knowledge and when we talk about transfer of technology, we really mean the transfer of knowledge. Transfer does not mean movement or delivery; transfer can only happen if technology is used. So, it is application of technology and considered as process by which technology developed for one purpose is used either in a different application or by a new user. Technology transfer is usually considered as dissemination of information, matching technology with needs and creative adaptation of items for new uses. Developing SME based on local skills/resources has now been rightly recognized as a means of promoting economic growth and a very effective tool for providing productive employment in any country.

But up to date technology also plays a vital role in the vertical integration of firms, moving them up the economic ladder in terms of firm productivity enhancement.

In our country, growth oriented exporting firms still have problems sourcing quality inputs due to the lack of a network of reliable suppliers. This adds to their transaction costs. Likewise, the SME are not large enough to furnish sufficient demand to be an incentive for a big high quality input supplier.

Major technology up-gradation obstacles include:

- Inability to acquire sophisticated testing equipment and R&D facilities. (SME see it as a financial problem.)
- Lack of skills/ experience to operate high-tech machinery
- Insufficient information on technological co-operation opportunities
- Lack of information on target market quality requirements and lack of knowledge on how to achieve these quality levels

- Absence of appropriate metrology and testing equipment and related infrastructure as common facility centers

4.2.9 Market and Industry Information

Access to market and industry information is one of the keys to develop successful business strategies. Frequently, business and trade associations are able to provide their members with such services. By associating with like institutions in foreign countries, they are also able to establish links and obtain information on foreign markets.

Over half of our SME (54%) belong to a business or industry association. Their perceived role is limited to lobbying and negotiation with the government. Yet very few SME (12%) perceive their associations to be a source of information on new developments in their fields of business operation. How to increase the service provision by all types of stakeholders will become a fundamental issue when SME support programs will be looking for delivery channels.

4.2.10 Gender Development

Each of the two genders of any society constitutes roughly half of the population, and Pakistan is no exception. People of both genders embody not only labor force, but also knowledge and creativity, which may be mobilized, to achieve economic ends. Discarding either of the genders, therefore, implies foregoing the potential benefits, which arise from mobilizing the respective human resources for development.

Pakistani women have been engaged in production process for ages. Their participation in economic activities in the modern society has also progressed beyond agriculture into the local market economy. Women are increasingly migrating to urban areas for employment in a range of cottage industries, such as carpet weaving, textiles and handicrafts. In search for wage employment, women are moving into small business and self-employment ventures thereby creating many formal and informal opportunities for work.

Women entrepreneurship (*appendix III some successful women entrepreneurs*) in the formalized sense, however, remains a new concept. Our current strategies also tend to focus on increasing women's participation in the labor force. The business environment for women in Pakistan reflects a complex interplay of many factors made up of social, cultural, traditional and religious elements. These have taken shape over many centuries; are anchored in the patriarchal system and are clearly manifested in the lower status of

women. The form of constitutional structures, policy documents, regulatory arrangements and institutional mechanisms is contemporary rather than traditional, so it is cosmetically impartial. Yet, the gender bias is rigid and deep-rooted as it draws legitimacy from the perpetuation of a traditional mind-set, established rituals and a firm belief system. It has conclusively been shown that women business owners encounter more obstacles, and face more risks, financially, socially- economically, culturally and legally than male business owners face.

4.2.11 Discrepancy in defining SMEs

Pakistan has no across-the-board legal definition of SME. This makes it extremely difficult to monitor the development of our SME economy and to establish benchmarks against other countries in order to devise areas of intervention and support.

Various government departments and public-sector agencies have adopted their own definitions (*Table # 1 Chapter # 1*). There are, of course, various reasons for them to define SME, and there may even be discussion on just how a strict and reasonable size standard could be defined.

A number of current definitions are based on capital standards since this influences patterns of fund raising in the formal and informal financial market by SME.

There are also rationales beyond the particular organizational motivations for defining specific size classes, and it will therefore be useful for all stakeholders to review definitions on technical grounds.

For a national policy, it is extremely important to have a harmonized definition for as it is important for the government to focus assistance as reasonably as possible for maximum efficiency. It is also imperative to adopt a definition to foster the coherence of vision in SME policy development and for the better implementation of related support programs across institutions.

4.2.12 Environmental Issues

Environmental issues are most frequently a result of the interaction between human activities of production and the environment. Under fierce competitive pressure in the market economy or as part of a coping strategy when faced with difficulties to cover basic needs, enterprises and individuals are creating environmental issues.

While certainly one of the economic root causes for environmental damages are externalities, which require appropriate government intervention, it is frequently overlooked that there are many economic gains, which may be achieved from producing in an environmentally friendly manner. Reducing material waste can be one way of reducing input cost. Saving resources such as water and energy does not only generate benefits at the national level but may translate into competitiveness and thus economic gain at the enterprise level.

There is also a direct link between the effectiveness of technology transfer and the stabilization of global climate change and natural resources depletion. Major constraints to effectiveness lie in the high transaction costs associated with the development of capacities and capabilities to manage and generate technological change. Developing country enterprises thus tend to ineffectively exploit available technology options, as well as to inefficiently utilize the transferred technologies.

Many OECD countries make use of channels of SME promotion in order to achieve improvements for the environment. For example, special credit lines may be provided in order to encourage the adoption of environmentally friendly technologies. Specific training courses are being offered to SME on waste reduction. ISO 14000 is actively being promoted in the European Union as one way of combining environmental concerns with quality and thus competitiveness. How may we best use our current and future SME support structures in order to achieve positive effects?

4.2.13 Raw Materials

This problem has always been faced by the manufacturing sector of Pakistan. High price and unsatisfactory quality of raw material is a matter of great concern for those belonging to the manufacturing sector. This problem adds to many other problems and due to the high prices of raw materials the output is not only up to the international standards but at the same time their produces are much expensive then their counterparts in other parts of the world.

4.2.14 Marketing problems

Small entrepreneurs supplying to the domestic markets face issues like bargaining on price and credit purchases. And as they become outward oriented, they need to adjust and link with international markets.

The above are some of the major impediments that the country's SMEs and stakeholders face today in addition to ever fluctuating currency rates, worsening economic slump, increasing unemployment, natural calamities and the never ending list of taxes.

4.3 LONG-TERM PROBLEMS

There are issues, which are of a long term in nature and don't have a short-term scope and short term solution. They are partially rooted in the multiple cultural structures of our society, frequently exacerbated by our geo-political situation. We, nevertheless, recognize their importance some of the most important long term problems being faced by the SME sector of Pakistan are as follow:

4.3.1 Literacy

The evidence reveals that SME find it extremely difficult to grow because of their inability to delegate to soundly trained staff. The day, the small businessman feels comfortable to delegate, SME start progressing. The low literacy level also determines the potential of our labor force.

Higher literacy rates are essential to enhance the quality of production can be enhanced by multiple factors which is what we need to be able to effectively compete in the international economy which is being extended to our local markets by the effects of opening up and WTO accession in January 2005.

4.3.2 Law and Order

Law and order situation in Pakistan has always been regarded as worrisome. There is a rough assessment that businesses in NWFP spend 4.5%, Sindh and Punjab 1-2% of their revenue on security. One in four SME consider law and order to be a severe problem.

Law and order problems weaken property rights and as a result weaken the investors' decision to invest. These problems are clearly linked to the manner in which the law enforcement and criminal justice system functions. The high time cost involved in seeking legal recourse together with lack of access to both effective informal and formal enforcement mechanisms, increase the costs associated with contract enforcement.

4.3.3 Intellectual Property Rights

Intellectual Property Rights (IPR) is a vital issue that needs to be looked into. It has been observed that many developing countries, with the help of a change in their IP systems

and laws, are able to attract Foreign Direct Investment (FDI) in the Research and Development (R&D) especially in the industrial and scientific field.

Therefore, promotion and protection of intellectual property spurs economic growth, creates new jobs and industries, enhancing the quality and enjoyment of life.

Another benefit for Pakistan in properly adopting IPR culture is that it will protect the indigenous products such as rice, kinno, traditional knowledge, pottery etc. The owner of IPRs has the most valuable assets, which can be utilized in commercial transactions, whether IP licenses, joint ventures, manufacturing, purchase, or distribution agreements, or mergers and acquisitions. Licenses to use patents, trademarks and copyrights, are often combined with transfer of know how in the form of training and are increasingly an important term in such transactions.

4.3.4 Infrastructure

Basic physical infrastructure is a prerequisite to growth and development. Power outages and access to connections are considered an irritant, which significantly affects the productivity of firms in Pakistan. It is estimated that a typical business in Pakistan loses 5.6% in annual sales revenue due to just this single factor.

Differences associated with firm size recognize that smaller firms are relatively hard hit in comparison with the larger ones because of inability to arrange alternate power source such as private power generators. High rates of power, the poor quality of delivery and its reliability are the serious concerns of SME.

Similarly, access to telecommunication facilities and transport also serve as a detriment to smooth growth and transition of smaller firms to larger ones. The chief problem in the provision of telecom services is the shortage of new fixed line connections, which currently stand at a mere 0.5–0.6 million a year for the whole country. Pakistan could also save up to 16.5% of the value of exports by improving its trade and transport logistics systems. Inefficiency in transport alone is estimated to cost the economy Rs. 320 billion a year.

The concentration of power, telecommunication, and transport services, except for road transport, in the public sector has been regarded as the major concern. Evidence suggests that Pakistan's state-controlled and concentrated structure of infrastructure delivery is highly inefficient.

CHAPTER # 5 CONCLUSION & RECOMMENDATIONS

5.1 CONCLUSION:

As the final report of this Research Thesis on Small and Medium Enterprise Development, this document has outlined the contribution of SME sector to the economy of Pakistan and major issues affecting the SME sector and formulated a series of policy and program recommendations for the Government of Pakistan and other stakeholders in SME development. As such, this thesis report and the recommendations contained in this report seek to add value to the considerable work already being undertaken in this field by the Government of Pakistan and other partners in development.

One of the greatest priorities for the development of the SME sector is to address and rectify the prevailing policy mind-set and framework. Current policies and programs are largely geared toward the more formal and substantially larger enterprises. In addition, this Research thesis has identified the need for more balance between financial support for enterprise development and non-financial business development services (BDS). It has highlighted the importance of new SME development methods and instruments being used in other countries, and many of these approaches remain largely untested in Pakistan.

The main problem being faced by our SME sector is the lack of financial assistance to them. Most of the entrepreneurs fail due to this catastrophic problem of lack of funds and finances. If proper measures are taken by The Government of Pakistan to create a trust worthy and helpful environment for the growth of this sector and make such policies which are helpful in the promotion of this sector then its for sure that Pakistan can join the club of developed nations. An efficient SME sector can be an integral player for the decrease in the trade deficit by increasing exports and decreasing imports and hence can be a major source for precious foreign exchange earnings. Not only that but SME is and can be the main source of creating employment opportunities for millions of jobless youth of Pakistan and resultantly can become an important player in poverty alleviation, but the key is SME promotion.

In addition to the creation of jobs and sustainable livelihoods that can help to alleviate poverty, the SME sector provides a vital stepping stone for businesses to grow along the path to becoming larger enterprises. The SME sector represents a groundswell of entrepreneurial effort and behavior that can be more effectively nurtured and built upon.

The Government has a crucial role to play in establishing and maintaining the elements of enterprising traditions in Pakistan that is conducive to business formation and expansion. It should recognize SMEs as important players in the national economy, and understand their special needs, constraints and opportunities. It should promote entrepreneurial business people as role models, and support the formation of participatory SME associations that work for their members by providing practical services and lobbying on their behalf for relevant policies and programs. The Government should also maintain a balance between its regulatory functions and its development functions. The Government should promote enterprising behavior in local communities and by community organizations. It should also encourage an entrepreneurial culture by providing enterprise and business skills in the school curricula, and ensure that college and university students are able to learn more about business management and entrepreneurship.

On their own, no one of these behaviors, attitudes or instruments can fully boost the potential of the SME sector. But taken together, they provide a rich environment for Pakistani people to assess their resources, seek opportunities and take initiatives that will not only improve their own lives, but also the lives of the people they employ, sell to and purchase from – at all points in the supply chain. This then is the vision to be articulated – where the people of Pakistan develop a deep desire for a future, based upon their own aspirations, abilities, opportunities and endeavors.

5.2 RECOMMENDATIONS:

The following recommendations are proposed in this report:

RECOMMENDATION A:

It is recommended that the access of SMEs to finance for start-up and expansion be improved.

Proposed actions: This can be achieved by

- Enhancing SMEs' access to existing support schemes and take measures specially create a trustworthy atmosphere among the commercial and specialized banks (e.g. SME Bank, Khush hali Bank etc.) and the Small and Medium Enterprises and Entrepreneurs.
- Creating new channels or delivery mechanisms to serve the SME sector, and
- Designing innovative financial support services (both cash and advisory) to overcome barriers and improve SMEs' access necessary financial support, and for this the role of SMEDA will be very crucial.

RECOMMENDATION B:

It is recommended that the increased usage of Urdu and local languages in the written documentation along with English, in the official deliberations and communications.

Proposed actions: The Government of Pakistan and SMEDA should make sure that the documentation for all the loans and helping literature is not only done in English but in Urdu and the local understood languages too so as to enable the majority of Pakistani's who are interested/ willing to become the part of emerging SME sector and also if they are a part of it and want to take help. Eventually, we should expect the SME policy we are going to develop to be published in Urdu and the main locally understood languages as well, and to regularly report about the achievements under this policy in Urdu to the policy's clients, our nation's SME.

RECOMMENDATION C:

It is recommended that a commonly understood and agreed upon set of definitions be established for the classification of all micro, small, medium and large enterprises, as well as for the informal sector.

Proposed actions: The Govt. of Pakistan in its SME policy and by the help of SMEDA should clearly define and categorize these enterprises based on their capital and sizes so that there is no ambiguity in their definition.

RECOMMENDATION D:

It is recommended that at the national and local levels effective structures and processes be created to improve co-ordination and collaboration both within and across Government ministries, as well as with other key stakeholders, including non-government, private sector organizations and donors engaged in the development of the SME sector.

Proposed actions: This can be achieved by some of the following actions:

- a. Establishing enterprise working groups in key line ministries to help coordinate and streamline their respective contributions to enterprise development;
- b. Inter-ministerial initiatives and committees should also involve the Ministry of Labor and Social Welfare, Ministry of the Interior and Ministry of Education;
- c. At the local level, networks of key organizations can be created, based on work already undertaken by agencies, to bring together governmental, NGO, civil society organizations (CSOs) and private sector organizations to promote local economic development.

RECOMMENDATION E:

It is recommended that the major gaps in the understanding of the dynamics, needs, constraints and opportunities of the medium and small enterprise sector be addressed on all possible levels i.e. on the National and individual levels.

Proposed actions: Proper Surveys of Small and medium enterprises and the informal sector should be embarked on, using sex disaggregated information gathering tools, and a further study carried out to determine the specific factors (barriers, constraints and opportunities) facing women entrepreneurs in Pakistan. Findings of these surveys should be disseminated widely and incorporated into policy measures as appropriate.

RECOMMENDATION F:

It is recommended that a program of research into various aspects of the SME sector be designed to underpin and inform policies, programs and actions aimed at developing the sector, and that local communities be actively involved in various stages of its design and

implementation. (This recommendation is an extension of the previous recommendation C)

Proposed actions: A series of in-depth studies should be commissioned on various key aspects, characteristics and issues facing SMEs (as businesses) and entrepreneurs (as people) in Pakistan. Suggestions for research topics could include factors affecting successful new enterprise creation; dynamics of growth enterprises; successful ingredients of community-based enterprises; dynamics of worker cooperatives; gender differences in the operation and management of SMEs; working conditions and job security in SMEs, etc.

In addition, prominent academic institutions should be encouraged to mainstream research and teaching on micro, small and medium-sized enterprises into their research agenda and teaching curricula, with the ultimate objective of creating at least one internationally recognized center for research on this subject.

RECOMMENDATION G:

It is recommended that the Government of Pakistan initiate activities with its regional neighbors and international organizations to promote the sharing of information, resources and development strategies for SME development.

Proposed actions: A series of national conferences and workshops could be organized nationally to share best practices from Thailand and other countries in the field on SME development. This could be supplemented by study tours to become aware of best practices internationally.

RECOMMENDATION H:

It is recommended that the SME sector be effectively monitored on a regular basis to determine changes in its character, needs, challenges and development prospects.

Proposed actions: Studies should be undertaken to determine the strengths, weaknesses, opportunities and threats facing SMEs in Pakistan in the context of market liberalization, globalization and innovations in information and communication technologies (ICTs), and to highlight the human and financial resource implications for SME development in Pakistan. Appropriate policies, programs and projects can be formulated based on these findings. (This Recommendation has strong links to C and D above.)

RECOMMENDATION I:

It is recommended that stronger public and private efforts are undertaken to promote associations of SMEs at the national, regional and local levels, as well as within specific industry sectors, and to ensure their representation in policy and program development, legal and regulatory reforms, and the formulation of research agendas, as well as in the formation of public-private partnerships, and contribute to their wider involvement at regional and national levels.

Proposed actions: Direct activities should be undertaken, at local community or district level, as well as on a sectoral approach, to promote associations of SMEs, and as an initial incentive the associations should be provided with preferential access to BDS and/or financial support services.

The private sector, and in particular existing employers' organizations and other private sector member-based associations, have an important role to play in promoting associations of SMEs, either as affiliated members or as independent units.

The non-government sector can provide an important and unique function in the development of SMEs in Pakistan. This sector comprises non-government organizations (NGOs) that are often national, regional, or even international in their structure. NGOs are predominantly "not-for-private-profit" entities. It is important that the Government considers ways in which it can support NGOs in their activities. Rather than being instrumental in setting up these organizations directly, the Government should create an environment, which is conducive to communities forming organizations that can promote SME development efforts. This will require the formulation of a range of supporting policies, laws, attitudes and communications.

RECOMMENDATION J:

It is recommended that concerted efforts be taken by the Government of Pakistan to improve the existing infrastructure and build more road networks, communications facilities and other necessary facilities so that the owners of SMEs and different entrepreneurs can have a better access to the markets.

Proposed actions: Government of Pakistan Should hold a nation wide survey for the existing situation of Road, communication facilities and other technical infrastructure. And most important being the Power situation in the country should be improved for the

overall growth of the industry. A proper task force should be made which would look for the small and medium sized businesses through out the country and their access to roads and communication facilities. For this the government should collaborate with other concerned authorities too.

RECOMMENDATION K:

It is recommended that concerted efforts be taken to build the capacity of NGOs to enable them to become effective in the delivery of business development services, so that they become productive key service providers and partners of Government.

Proposed actions: Training and other related capacity-building activities should be carried out by the authorities for the development of SMEs in Pakistan, in association with various donor-assisted programs, to establish a strong competency base among NGOs and in the fields of BDS (Business Development Services) and financial support services for SMEs.

RECOMMENDATION L:

It is recommended that the range of BDS providers to the SME sector be expanded beyond government, to include more community, non-government, private sector and representative agencies. (This is a further development of Recommendation H.)

Proposed actions: On a pilot basis, the Government should promote new BDS providers from among local community networks, NGOs and the private sector. They could be invited to prepare competitive bids for the provision of (a) new and innovative services; (b) services to reach target groups not adequately serviced, with particular emphasis on disadvantaged groups; (c) services which recover all or part of their costs; (d) services which meet a clear market need.

RECOMMENDATION M:

It is recommended that a nationwide program about the gender awareness and development should be introduced and implemented. This program is very important keeping in view that the females constitute more than half of the population of Pakistan and our environment is not very much friendly for these entrepreneurs.

Proposed actions: The Government of Pakistan should devise such programs which can directly help the female entrepreneurs. Not only that it should be included in a sustainable

SME policy but it should be obligatory for all the concerned departments so that the problems being faced by these female entrepreneurs can be reduced.

RECOMMENDATION N:

It is recommended that the coverage and impact of financial and non-financial business development services to SMEs be improved, by broadening the types of service providers and improving development methods and instruments.

Proposed actions: Following on the identification of best practices within Pakistan, as well as replicable lessons from international experiences, a wider range of new, innovative, effective and market-driven business and financial support services should be promoted widely throughout Pakistan.

RECOMMENDATION O:

It is recommended that structures and processes for the monitoring and evaluation of development efforts within the SME sector be improved and closely connected to the design and review of development policies and programs.

Proposed actions: Based on lessons learnt from the work carried out by (among others) the Donor Committee on Small Enterprise Development, and its findings on best practices in monitoring and evaluation methods, a number of measures should be introduced to improve the impact of existing and new programs and projects supporting SME development in Pakistan. Both quantitative and qualitative measures should be adopted to determine the impact of SMEs and SME development strategies on employment creation and poverty alleviation.

Appendices

Appendix I

BIBLOGRPHY:

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- Secrets of E-commerce (Published by SMEDA)
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- Allal, Maurice; Business Support Services for Micro and Small Enterprises (SMEs), ILO Working Paper #1
- Gibson, A. (1999); The Development of Markets for Business Development Services: Where we are and how to go further; Committee of Donor Agencies for SED.
- ILO (1995); General conditions to stimulate job creation in small and medium-sized enterprises; Report V (1), ILO, Geneva, Switzerland.
- International Donors' Co-ordination Group on 'Small and Micro Enterprises Promotion in Pakistan' (1995); Promotion of small-scale enterprises in Pakistan.
- Loucks, K. (1988); Training entrepreneurs for small business creation: Lessons from experience; ILO, Geneva, Switzerland.

LIST OF USEFUL WEBSITES

Website from which material is used for the completion of this project

<http://www.smeda.org.pk>

<http://www.smebank.org>

ILO websites on Employment and Enterprise

http://www.ilo.org/pubcgi/links_ext.pl?http://www.ilo.org/public/english/employment/index.htm

http://www.ilo.org/pubcgi/links_ext.pl?http://www.ilo.org/public/english/employment/index.htm

http://www.ilo.org/pubcgi/links_ext.pl?http://www.ilo.org/public/english/employment/index.htm

The Small Business Administration of the government of the United States:

<http://www.sba.gov>

Appendix II

TECHNOLOGY TRANSFER IN SMEs: PROBLEMS AND ISSUES IN THE CONTEXT OF NEPAL

*Chiranjibi Nepal, Bishwa Raj Karki and Kabya Prasad Niraula **

A. Introduction

The promotion of small and medium enterprises (SMEs) is considered as a prominent approach to sustainable development. This sector mobilizes scarce resources and caters the needs of fragmented domestic market in the least developed country (LDC) economies. Thus, SMEs have remained one of the most important sectors for any nation of this region that contribute significantly to the gross domestic product (GDP), create employment and earn foreign currency through export.

Various studies conducted in the past have indicated that usually in the developing countries, SMEs are found to contribute 40-60 per cent of the total output or value added to the national economy. Emphasis to be given in the promotion and development of SMEs in LDC is much more urgent where about 50 per cent people are unemployed. The SMEs in LDCs, producing products and services with moderate quality applying to a great extent outdated technologies, have been facing tough competition with the imported product and situation may further be worsened in the days to come because they have to compete with international competitors due to trend in globalization, the widening free trade and phasing out of tariff barriers. The changes that have been taking place in the international economic scenario have definitely brought challenges for the SMEs. However, these same changes at the same time have opened up tremendous business and market opportunities for this sector.

In most LDCs, the problems faced by SMEs are more or less similar in nature. The major problems and constraints faced by them are in the field of policy and legal framework, finance, entrepreneurship, management, socio-cultural values and of course technology.

One of the main factors that influences in the success or failure of enterprise is technology. The best use of technology no doubt enables enterprise in reducing cost of production, maintain consistency in quality, improve productivity and finally develop the competitiveness of the enterprise. Most LDCs, in fact, are aware of the importance of technology but found it irrelevant in the process of transfer of technology. SMEs in LDCs

are heavily dependent on the imported technology and they remain always dependent on imported skills for the maintenance and operation of plant. This is happening because these countries have not given proper thought to technology transfer process. Adaptation to the local needs has always been of less priority. National budget allocated for technology transfer and Transfer and Development Project, IEDI development is quite low in these countries whereas, technology transfer and development process requires huge investment and adequate infrastructure.

1. Concept of technology transfer and development

Technology transfer is the use of knowledge and when we talk about transfer of technology, we really mean the transfer of knowledge. Transfer does not mean movement or delivery; transfer can only happen if technology is used. So, it is application of technology and considered as process by which technology developed for one purpose is used either in a different application or by a new user. Technology transfer is usually considered as dissemination of information, matching technology with needs and creative adaptation of items for new uses. In many LDCs, the concept of technology has to be made clear among concerned stakeholders through organizing workshops and seminars. It equally applies in the context of Nepal too.

2. Small and medium enterprises in Nepal

SMEs have been an important foundation of industrial development in Nepal. Even before the initiation of the process of industrialization in 1936, SMEs especially the cottage industries were the basis of supply of processed products of the country. The advent of democracy in 1951 introduced the planned development process even though the actual practice started from 1956. The plans and policies developed since then laid emphasis on small and cottage industries but no economic plans or industrial policies gave due emphasis on the SMEs sector as foundation of organized development. Considering the fragmented market, geographical situation and limited resources, Nepal has less choice other than to promote SMEs with comparative advantage especially small and cottage enterprises.

3. Socio-economic situation of Nepal

Nepal has been facing a problem of fast population growth (23.15 million) estimated to be in the range of 2.2 to 2.5 per cent on the one hand, on the other, it has an annual per

capita at \$US 230 with an average economic growth rate is 3 per cent. During the past four decades of planned development in Nepal, the proportion of the population dependent on agriculture and non-agriculture sectors have not changed significantly and is in the ratio of 80 to 90 versus 10 to 20. Limited agricultural land and natural resources to support the growing population signifies serious social and economic problems associated with the weak capacity of the manufacturing and service sectors of the economy in absorbing the surplus population which is increasing in the agriculture sector. The situation is quite worse in the rural economy of the country. Thus, promotion and development of sustainable and local resources-based micro and small enterprises might be a reliable option the country has.

Substantial efforts are needed to lead our economy from subsistence to market oriented production and from subsistence-based to an enterprise-based production pattern with enough emphasis on comparative advantage of the regions. Enterprise development, even in-products with comparative advantages and unique opportunities, is severely constrained in the absence of technology development and transfer mechanism. Access to markets is, of course, the main problem and niche-based products are often new and markets have to be developed for them, which is also not an easy job. All of these also demand marketable products or services which are nowadays possible only by applying technologies that are cost effective and assurance about quality of products and services. Nepal has a policy issue on how to promote a broad-based economic growth with built-in system of income distribution. SMEs, which account for 90 per cent of all enterprises, employ 95 per cent of the non-agriculture workforce, and contribute 50 per cent of the industrial GDP, are definitely the means to attain this goal.

4. Classification of industry

Large industries: industries with fixed assets of more than 100 million rupees shall be termed as large industries.

Medium industries: industries with fixed assets between 30 million rupees to 100 million rupees shall be termed as medium industries.

Small industries: industries with fixed assets up to an amount of 30 million rupees shall be termed as small industries.

Cottage industries: traditional industries that utilize specific (indigenous) skills or local raw materials and resources, labour-intensive and are based on national tradition, art and culture and industries with fixed assets up to 200,000 rupees shall be termed as cottage industries.

Many organizations involved in the promotion and development of micro enterprises have defined it in different ways and forms. Some of them have defined it based on the number of employment whereas others have focused on volume of investment.

It has been mentioned that the micro-enterprise sector by contrast is less well defined; there are only rough estimates of its size. In general, the micro-enterprise and cottage and small industries sectors can be similarly characterized as owner-managed, with limited division of labour and using primarily family labour, and by informal relations with clients, including suppliers. Although the number of employees (less than 10) does not clearly distinguish the micro-enterprise sector from the small and cottage industries sector, the Government has defined the cottage industries as including those businesses with fixed assets up to 200,000 rupees with other characteristics mentioned above. Micro-enterprises are defined as those with fixed assets of less than 100,000

Rupees.¹ Similarly, Industrial Enterprise Act has classified industries as:

Manufacturing industries: industries that produce goods by utilizing or processing raw materials, semi-processed materials, by-products or waste products or any other goods.

Energy-based industries: industries which generate energy from water resources, wind, solar, coal, natural oil, gas, biogas or any other forms of such resources.

Agro and forest-based industries: enterprises mainly based on agriculture or forest products such as integrated sericulture and silk production, horticulture and fruit processing, animal husbandry, dairy industry, poultry farming, fishery, tea gardening and processing, coffee farming and processing, herbs processing, vegetable seed farming, mushroom farming, vegetable farming or processing, tissue culture, green house, bee keeping, honey production, rubber farming, floriculture, and forestry-related enterprise such as lease-hold forests, agro-forestry etc.

Mineral industries: mineral excavation or processing thereof.

Tourism industries: tourism, lodging, motel, hotel, restaurant, resort, travel agencies, skiing, gliding, water rafting, cable car complex, pony-trekking, trekking, hot air ballooning, para sailing, golf-course, polo, horse-riding, etc.

Services industries: services industries include workshop, printing press, consultancy service, ginning and bailing business, cinematography, construction business, public transportation business, photography, hospital, nursing home, educational and training institution, laboratory, air services, cold storage, etc.

Construction industries: industries such as road, bridge, ropeway, railway, trolley bus, tunnel, flying bridge, industrial/commercial and residential complex construction and operation.

5. Cottage and small industries

The number of cottage and small industries registered from the year 1997/98 to 1999/2000 is in increasing trend, however, the pace of increment is quite slow. In the year 2000/01 the industrial registration is in decreasing trend. Same impact can be observed in total capital investment. However, in the case of employment and annual production, the trend is slightly in the negative side despite the increased number of registration.

It does not mean that all the industrial registrations are in operation. According to a survey report of the Department of Cottage and Small Industries (DCSI), Ministry of Industry, Commerce and Supplies, only 25 per cent of the total registered industries are estimated to be in operation. Besides these, most of the micro-enterprises which are in operation are not registered.

6. Contribution of small and medium enterprises

According to the latest Census of Manufacturing Establishments covering industries with 10 and more labour force, out of a total of 3,557 of such establishments, 3,485 (89 per cent) were SMEs with less than 50 million rupees worth of fixed assets investment, which, in turn, accounted for 87 per cent of employment.² In terms of the size of the fixed assets, SMEs are found to be labour-intensive in nature that constitute about 40 per cent of the total gross fixed assets and the large industries constitute 60 per cent of the assets. Similarly, SMEs contribute 63 per cent of the total manufacturing value added.³ In Nepal, most of the micro and small industries are located in rural areas. Small manufacturing industries have been providing gainful employment to a large number of people. This

sector also accounts for a large share of industrial output and plays an important role in the export sector.

In 1991/92, the manufacturing sector contributed 8.85 per cent to the GDP and in 1998/99 about 10 per cent. It provided employment for 5 per cent of the total labour force and GDP increased from 4.61 per cent to 10 per cent over a decade. This clearly indicates that the contribution of small manufacturing sector to the national economy has gradually been increasing overtime.⁴

7. Private sector

Realizing the important role of the private sector in technology transfer and development, the Government has strongly emphasized on private sector development in its policy guidelines. A strong private sector is considered capable to face the changes that have come up mainly due to rapid pace of globalization. The private sector-led economic development has been proved the most effective way and sustainable as well. To develop the industrial sector and attract foreign direct investment, availability of skilled human resources is prerequisite together with entrepreneurial initiatives and disciplined labour force. For it, sound measures need to be initiated so as to develop and update human resources leading to overall competence enhancement with active private sector participation. This is equally applicable in the context of Nepal too.

B. Organizations involved in technology transfer and development

1. Overview

There is no strong institutional mechanism for technology transfer in the

SME sector in Nepal. Nevertheless, many organizations are found involved, in some way or the other, in the field of technology transfer and development in general. Such organizations can be found in the government, non-government and private sectors. But the majority of them are involved basically in skill development training for cottage and micro-enterprises level. Based on the human resources and physical infrastructures available, a few of them (such as the Royal Nepal Academy of Science and Technology, Research Centre for applied Science and Technology, Nepal Agricultural Research Council) seem to be capable to have significant contribution in this field. But these organizations are reported to be modestly functioning due to financial constraints. It is observed that national priority areas for science and technological research and

development (R&D) have not yet been adequately determined. On the other hand, the science and technology related organizations are not in a position to contribute significantly even in areas indicated by the state policies due to lack of adequate budgetary support from the Government. Their yearly budget reveals that the fixed cost is far more than that of program budget. As a result, even the capable public sector organizations appear to have involved in donor-supported small projects (international nongovernmental organizations' aid projects) as and when asked for, rather than working on a long-term basis on the national priority areas.

Despite the non-existence of strong technology transfer mechanism within the country, there are many examples of technology transfer and foreign investment in public as well as private sector companies. The technology transfer in public companies was arranged through government-to-government agreements, while such agreements in the private sector are found to have materialized through negotiations between technology recipient and provider companies.

Though not directly related to the SME sector, technology development and transfer/diffusion in the alternative energy sector in Nepal appears to be remarkable. These technologies particularly include the biogas, solar power and micro-hydro power plants, spread to several districts in Nepal. Spread of these technologies has been made possible from various foreign assistance projects.

Short description of the activities of some national level technology related Institutions /organizations are given in the following.

(a) Ministry of Science and Technology

The Ministry of Science and Technology is the apex body within the Government in the field of science and technology (S&T) development in Nepal. It is learnt that the Ministry is in the process of formulating S&T policy. There are some foreign assistance projects which are affiliated with this Ministry. However, there is no technological infrastructure established yet within it.

(b) Royal Nepal Academy of Science and Technology (RONAST)

This academy was established in 1982 for contributing to the development of the nation from the S&T sector. However, its contribution to industrial development is not noticeable. Although, the human resources of RONAST consist of a number of scientists

and technical experts in different scientific disciplines, it is reported that the academy is not able to contribute significantly in the field of technology development and transfer due to budgetary constraints. The academy is occasionally involved in small donor supported projects in the field of alternative energy and other technology development. Some of RONAST's technological projects include:

- Solar photo-voltaic pump and lighting system;
- Biomass brequetting technology from solid fuel;
- River boat (used in Ghatbesi, Trisuli River).

(c) Research Centre for Applied Science and Technology (RECAST)

RECAST was established in 1976 under Tribhuvan University with an objective of undertaking research and development in the field of S&T. It has human resources as well as fairly developed physical facilities (laboratories) for some specific scientific work. Despite the availability of physical as well as human resources, it is learnt that the Centre could have made significant contribution in technology transfer and development, particularly in the SME sector. It is reported that the Centre is not in a position to conduct research programs due to budgetary constraints. Some of the Center's work on S&T includes:

- Energy: solar, bio-mass, bio fuel, improved cook stove, water turbines;
- Food technology;
- Building materials and low cost housing;
- Natural dye, etc.

(d) Nepal Agricultural Research Council (NARC)

NARC was established in 1990 for the research and development in the agriculture sector. The Council has physical and human resources (scientists) in different disciplines of agriculture science. Obviously, the Council's research activities are focused on agriculture field, hence there is not much contribution made to the SME sector. However, the Council can possibly make substantial contribution to agro-based industry development (e.g. mushroom, bee-keeping, horticulture, etc.) in the country. The Council is basically a research and development organization, and the research findings and knowledge are

disseminated through different departments and offices of Ministry of Agriculture and other related organizations.

(e) Technology Transfer and Development Project (TTDP), Ministry of Industry,

This project was established under the Ministry of Industry, Commerce and Supplies (MoICS) in 1996 with an overall objective of providing services to the industrial sector in technology-related field. Due to lack of necessary budget, human resources and infrastructure, the project could not achieve its objectives effectively. The project was merged within the Industrial Enterprise Development Institute (IEDI) in 2002. Since its merger with IEDI it has conducted some awareness workshops, and a technical need assessment study of small and micro-enterprises in the food industry sector in the Kathmandu valley. It is also modestly functioning due to the similar problems mentioned above.

(f) Other organizations

Apart from the above, there are a number of organizations in the public, nongovernmental organizations and the private sector involved in technology improvement in enterprises as well as in other areas. Giving details of all of them is out of the scope of this paper. To name few of them, the Department of Cottage and Small Industries and Cottage and Small Industries Development Board under MoICS have network all over the country, and are involved primarily in technology transfer through skill development training programs. Similarly, the Intermediate Technology Development Group (ITDG) is one of the international non-governmental organizations which is mainly involved in the alternative energy, food industry and rural transportation sector. Furthermore, the Asia Network for Sustainable Agriculture and Bioresources (ANSAB), a non-governmental organization involved in the bio-resources conservation, is actively engaged in non-timber forest products-based enterprise promotion through dissemination of technical and market information to the small entrepreneurs. But most of these organizations are primarily involved in skill development training programs, and lack adequate physical infrastructure and human resources (technologists/scientists) for technology transfer (from abroad), adaptation and innovation.

2. Technology transfer in the Nepalese industrial sector

(a) Legal provisions

As part of the modernization drive the country has opened to direct foreign investment and other types of technology transfer from abroad. Legally speaking the only law that governs technology transfer (from foreign countries) in Nepal is the Foreign Investment and Technology Transfer Act 1992, which has laid down the regulations and rules governing foreign investment and technology transfer.

This Act defines technology transfer as any transfer of technology to be made under an agreement between an industry and a foreign investor on the following matters:

- a. Use of any technological right, specialization, formula, process, patent or technical know-how of foreign origin;
- b. Use of any trademark of foreign ownership;
- c. Acquiring any foreign technical, consultancy, and management and marketing service.

Looking at the definition adopted by the Act, technology transfer encompasses a broad range of know-how transfer including management and consultancy services. However, the Act appears to be more focused on foreign investment than on technology transfer as such. Except for the legal provisions contained in the above Act, there is no other legal framework that governs and promotes technology transfer to Nepal. However, it is learnt that S&T policy is being formulated by the Ministry of Science and Technology.

A number of facilities and concessions have been provided to foreign investors as per the Foreign Investment and Technology Transfer Act. Such facilities include:

- Except for the projects listed in the negative list, 100 per cent equity participation by foreigners is allowed in almost all sectors. The industries listed in negative list are cottage industries;
- Technology transfer is allowed even in projects where foreign investment is not allowed;
- Firms established with foreign participation are treated equally as 100 per cent Nepalese-owned firms;
- Interest paid on loans obtained from foreign source is tax free;
- Income from royalty and technical management services is levied a standard tax rate of 15 per cent;
- Residential and business visa is provided for foreign investors and their dependents;
- Non-nationalization of industry is assured;

- Provision of dispute settlement between the contracting parties;
- Expatriate employees in firms with foreign equity can take back up to 75 per cent of their salary income abroad.

(b) Status of technology transfer and foreign investment projects

Most of the technology transferred to Nepalese industries in the past were in the form of turnkey plants to the state sector, financed through international aid and/or loans. However, in the latter years, many large and medium-scale industries have been established with foreign collaboration in the private sector as well.

It is difficult to find out, thus, not only the level and extent of informal technology transfer, but even the numbers of such units, as the details regarding technology transfer are not found in the government records. The only data available relating to technology transfer agreements are of the companies for which permission is sought under Foreign Investment and Technology Transfer Act.

(c) Number and category of projects

According to the statistics of the Department of Industries, MoICS, a total of 859 projects with foreign collaboration (financial and technical) have been approved so far. The following table highlights the category, number, type of collaboration and scale of the projects.

Number and category of projects with foreign collaboration

Category	Number of projects	Equity only	Equity + Technology	Technology only	Scale		
					Small	Medium	Large
Manufacturing	419	338	39	42	269	98	49
Agro based	14	13	0	1	9	5	0
Energy based	14	14	0	0	2	1	0
Construction	17	15	2	0	8	5	3
Mineral Based	3	1	1	1	1	0	2
Services	186	176	3	7	141	32	13
Tourism	206	196	6	4	154	22	30
Total	859	753	51	55	584	163	107

Out of these 859 projects, 55 involve technology transfer while 51 projects involve both equity and technology transfer agreements. Investment in most of the projects (753 projects), however, is arranged under “equity only” agreement. The country-wise data of foreign investment projects in Nepal shows that around 33 per cent projects (282 projects) are from India, while Japan stands at the second position with 91 projects (around 11 per

cent). A total of 45 countries so far have been involved in foreign collaboration in Nepal. The following table depicts the country-wise status of projects (with 10 and more projects).

Status of foreign investment project by country or area

(With 10 or more projects)

<i>Sr No.</i>	<i>Country/ area</i>	<i>No of projects</i>
1	Bangladesh	10
2	China	82
3	France	21
4	Germany	38
5	Hong Kong	12
6	India	282
7	Italy	13
8	Japan	91
9	Pakistan	10
10	Korea	41
11	Singapore	10
12	Switzerland	18
13	United Kingdom	29
14	United States of America	87

(d) Operational status of the projects

Looking at the operational status, around 40 per cent of them are operational. The following table shows the latest status of foreign investment projects in Nepal.

Status of Foreign Investment Projects

<i>Sr No.</i>	<i>Status</i>	<i>No. Of Projects</i>
1	Operational	346
2	Under Consideration	47
3	Licensed	152
4	Approved	227
5	Closed	22
6	Cancelled	71
	Total	859

(e) Sector-wise status of the projects

The sector-wise list of projects under Foreign Investment and Technology Transfer Act 1992, shows that the majority of the projects fall under manufacturing industries followed by hotels and resorts. In the manufacturing sector, around 33 per cent are textile

and ready made garments. The following table depicts the number of foreign investment projects (sector-wise).

No of Foreign investment projects, by sector	
<i>Type Of Industry</i>	<i>Number</i>
Agriculture and forestry	13
Manufacturing	423
Food beverages & tobacco	74
Wood and wood made products	6
Textile and ready made garments	140
Paper and paper products	20
Chemical and PI products	76
Non-met MI product	15
Basic Metal Products	24
Fabric metal M/C	51
Other manufacturing units	17
Electricity, water and gas	18
Construction	27
Hotel and Resort	204
Transport and communication	24
Housing and apartments	17
Services industry	133
<i>Total</i>	<i>859</i>

C. Problems and issues of technology transfer in Nepalese small and medium enterprises

There are a number of problems that hinder technology transfer and development in Nepal. Particularly important in this context is the information about the requirements for foreign technology in Nepalese industry and the problems associated with the transfer process, such as options, conditions, absorption and diffusion.

1. Lack of technology assessment mechanism

It is important to point out that technology transfer is not simply the importation of a technological system to a country. Therefore, the problems involved with technology transfer are not only related to the purchase of hardware or the contractual agreements for supply of technology, but are also linked to the country's existing socio-economic environment. The process of technology transfer, thus, must be seen within a larger framework, which takes into account also the historical and socio-economic context because technology is applied in a productive system, in which hardware interact with knowledge or methods of operating it, the software part of the system. Furthermore, a social structure and organization appropriate to the level and characteristics of the

technology used are also considered. Without any of these three components, imported technology cannot be efficiently absorbed, diffused and assimilated in the system.

Nepal is no exception to the common characteristics of developing countries, where more attention is given to the hardware part than to the conditions required to ensure the efficient use of the technology. Insufficient attention to creating a favorable environment for technology transfer package as a whole often leads to failure of even the best transfer deals.

The technology recipients in many instances lack information about different technologies available and have then been restricted in identifying available options. The SME entrepreneurs are not in a position to pay for technology assessment and they also lack knowledge about the trend of technological change. Even if they afford to do so, there is a lack of appropriate mechanism as well as human resources required for this purpose. It is therefore, necessary for the Government to have an appropriate system in place to provide technology assessment and match making services to the industries/entrepreneurs.

2. Lack of technological infrastructure

Technology developed in foreign industrialized countries is, in general, created at a higher level of development, with different economies of scale, and often with different technological requirements. It thus becomes necessary for a recipient country to adapt the imported technology to avoid the negative effects on employment, cultural patterns and habits, and effects leading to increasing dependence on imported raw materials and spare parts. In Nepal's context, there is a need for appropriate mechanism for technology adaptation, reproduction/modification, innovation and absorption which, in the long run, help to build the nation's own technological capability. Technology development and transfer mechanisms are needed for continuous innovation at the firm level. But SMEs do not have technology creation mechanisms due to limited resources, therefore, it is necessary on the part of the Government to build necessary technology infrastructure.

It is also necessary for the recipient country to create a favorable climate to facilitate an effective incorporation of the imported technology into the socio-economic environment of the country.

Thus, the ultimate purpose of a government's technology transfer policy must be to enhance the indigenous technological capability in the long run. Once a suitable technology has been imported, a process of adaptation of this technology should take place in order to absorb it efficiently.

3. Lack of technical manpower

Studies conducted in the past reveal that lack of adequately trained manpower for operation and maintenance of imported machinery is a serious problem in several industries. Lack of clear provision for training of technical people of the industries from technology suppliers is one of the causes for inadequate expertise to handle and maintain the technology transferred to Nepal. This has led to dependency on foreign experts even to run and maintain the machinery, which is not affordable for most SMEs.

4. Unavailability of spare parts

Often production operations are jeopardized because of delay in procuring spare parts of machinery imported from foreign countries. Moreover, rapid obsolescence of the imported machinery further makes it increasingly difficult to obtain spare parts. One of the best ways to resolve such problems is to develop our own technological capability to absorb and adapt the imported technology rather than to look for short-term solutions

5. Policies and plans

The Foreign Investment and Technology Transfer Act 1992 has, to some extent, been able to attract foreign investor in the industrial sector. To attract them a number facilities have been provisioned in the Act. In fact the Act seems to promote foreign investment rather than technology transfer. Except for the definition, the Act does not spell out about technology transfer process and facilities which could be instrumental in transferring and developing technology in the country. So Nepal has lacked an Act that addresses the needs of technology transfer and development issues.

The information technology policy has been formulated to create conducive environment in making information technology accessible to the general public and increase employment through this means. It also emphasizes on building a knowledge based society and establishing knowledge-based industries. The policy has already been made effective. However, effective implementation of the Act is a must.

6. Financial

Technology transfer and development is an area where lot of investment is needed because it requires adequate infrastructure and long duration to develop and test the technology. It is contextual to look at the investment made by the Government in R&D activities in the field of science and technology. The following table shows that the importance of investment in R&D is virtually not realized by the Government despite all positive policy formulation.

D. Challenges

(a) Given the externalities and market failures involved, the state support will be required for S&T learning. Can the State in LDCs, therefore, take an active role in promoting science and technology learning? (b) The aid-dependence development is unlikely to help in technology promotion.

Can LDCs, therefore, get out of the vicious circle of aid dependence?

(c) Given the weak S&T capability and the absence of any serious network for developing it, there is not much prospect of technology leap-frogging in low income developing countries.

(d) A major challenge facing these countries is how to turn the system into what may be called a “supportive state” i.e. of the type that we witness in the industrialized countries.

E. Conclusion

By focusing on transfer of technology we do not want to give an impression that it is the only issue that matters. There are obviously other internal and external factors, which no doubt, have contributed towards the slow growth or even the decline of many LDCs. However, SMEs play an important role in nation building in LDCs. By emphasizing technology transfer, we hope to draw attention to an issue, which we believe, is of serious importance, and also an issue which appears to have been ignored by the policy-makers of LDCs.

Appendix III

SUCCESSFUL WOMEN ENTREPRENEURS

With reference to the economic recession in Pakistan, there is a pressing need to empower women economically and to create employment opportunities and income generating activities to enable them to survive, prosper support their families. For the development of women-to- women business potential, women entrepreneurs require support in the form of training in strategic business development, access to credit funds, and assistance with marketing skills, product design and development.

Gallup in collaboration with International Labour Organization's office in Islamabad and South Asia Advisory team (ILO_SAAT) based in New Delhi has contributed in field research and data analysis, in the published report "Women Entrepreneurs in Pakistan" by Nabeel A Goheer.

Part three of the report comprises of stories of 20 women entrepreneurs, selected from the survey sample. They come from different background and are engaged in a variety of business. Each one of them has a unique story of starting and doing business. Here are some of the selected Kamyab Women.

Ambreen Bukhari Menika Mines, Islamabad

Ambreen faced a volley of troubles and criticism when she dared to enter into a difficult business. She collects, cuts and exports precious stones and prepares studded jewelry for the domestic market. Nobody believed her when she decided to do this business 11 years back. It was considered a purely male domain, as one is supposed to travel to the mountains, interact with male entrepreneurs for the management of backward and forward linkages of the business, and to explore actively for the niche markets. Many of her colleagues thought that it would be insulting for men that a female entrepreneur wanted to do this business, but she stated it and is successful at it. She completed her post-graduate studies abroad and specialized in geology. She divorced and returned to Pakistan with her two daughters and started this business soon after in what for her were very difficult circumstances. However, she was confident and wanted to make herself stronger so as to support her children and to be tackle the cruelties in life. That made her fearless in her resolve to do business and to fight against all odds. Today she has full floor showroom for her jewelry in a business center in the most famous market of Islamabad.

She also arranges exhibitions in Islamabad and Karachi and has participated in international events. She is a leading exporter of precious stones and has represented Pakistan at a couple of international forums. She also works as a consultant and imparts training in stone-cutting techniques.

Uzma Gul Varan Tours, Sadar , Rawalpindi

Uzma Gul established a transport company initially with only one bus, and now the company owns a fleet of 75 buses, which are running on various routes of Rawalpindi and Islamabad. Transport is considered to be a very difficult domain where even the male entrepreneurs fear to enter — but Uzma dared to. She wanted to dispel the notion that woman entrepreneurs restrict the SMEs to certain traditional businesses. Uzma has been associated with this business for the last 10 years, and is looking forward to expanding her business. She faced a multitude of problems in the beginning. One big problem was inconsistency in the transport policies of successive governments. "The only thing that remained consistent was a negative attitude of the government officials. They felt very awkward to deal with a woman transporter", she recollects. Within the company she faced administrative problems and a strange form of resentment from the staff, as they were very uneasy to have a woman boss. Uzma started with an inter-city service between

Sargodha and Rawalpindi, and later expanded to the twin cities of Islamabad and Rawalpindi.

Along with the profit motive, she wanted to start a quality transport service for the workingwomen, which was hitherto absent. Uzma believes that one can only achieve things through hard work, commitment, courage and a little bit of craziness. "I have also learnt that it is a male-oriented society out there, and a woman cannot perform well if the male members of her family do not create a right kind of environment for her. Your family should be very supportive, otherwise you cannot do anything in this society, and I have been quite lucky in this regard", she concludes.

Adeeba Talat Lok Virsa Boutique, Lahore

Adeeba got married at the age of 15. She had hardly finished her matriculation at that time. She is 40 now, the mother of five children, and running her own business for the last 10 years. Adeeba was very fond of dress designing from the beginning, and her mother-

in-law encouraged her to start designing and selling clothes. She was short of money and wanted to be independent as well. Hence she decided to do her own business, and she chose crochet lace clothes to start with.

The idea caught on quickly as it was relatively new in the market and public response was very good. This gave her some business confidence and she decided to expand by making outfits to be sold in the market. She made a verbal contract with a local shopkeeper to sell her clothes by displaying at his shop. This turned out to be a very bad experience. The treacherous shopkeeper sold her clothes but never paid her. She was not the only one who became the victim of a male retailer. Many of her friends told her that their small initiatives had met with the same fate.

Disgruntled and disappointed, Adeeba decided not to use this marketing channel any more but resolved to carry on with her business. She changed her strategy and started direct marketing by participating in the local exhibitions and fun-fairs. A moderate response in the beginning soon turned into a good stream of orders. These days she serves a number of clients, but produces only to order. Her husband manages the marketing and sales, while she manages designing and production. Adeeba intends to expand her business and enter into the export market. The main purpose behind earning more money is to send her son abroad for higher education. She has recently sent some designs to her sister who lives in the USA and is expecting to get some orders from there.

Zoya Aleem Herbal Workshop, Lahore

Zoya was deeply inspired by her grandmother who was a doctor of traditional Greek medicine. She developed an interest in herbs that her grandmother used to use for medicines. Although she did her Masters degree in Journalism, her passion had always been in working with herbs and their effective use for the benefit of humankind. This led her to start "The Herbal Workshop" 10 years ago. She was very lucky to have a supporter like her husband. She comes from a traditional Pakistani family, but her husband stood all the way with her to help her to establish and run this business. "He supports me from the core of his heart", Zoya says. In answering the question about the difficulties that she had to face while starting this business, she regrets the limited role that government support offers to businesswomen. She complained that the procedure of getting loans from the financial institutions is cumbersome it is rather impossible. She is of the opinion that it is

a waste of one's time even to think of getting government financing for one's business. "Dealing with the government is awful", she maintains. It is difficult to get registered as a taxpayer, and even difficult to deal with the government officials thereafter. Her business is going well, and she wants to have her own production units in place very soon. She has been promoting her

Appendix -IV

Govt To Promote SME Sector For Economic Growth: Shaukat

ISLAMABAD, Pakistan: June 11 (PNS) - Finance Minister Shaukat Aziz Tuesday said that Pakistan's overall macroeconomic conditions have improved significantly and government is now concentrating on improving the lives of the common man.

He expressed these views while addressing as the chief guest at the Launching ceremony of Pakistan Enterprise Development Facility (PEDF) here in a local hotel yesterday. Kaiser H Naseem Chief Executive Office of PEDF, Advisors of The organization, Stephen Rasmussen, and John Macnulty also spoke on the occasion. Shaukat Aziz while highlighting the importance of SMEs for Economic growth said that the sector is the most important component of the informal economy. He said this sector consists of heterogeneous activities but its components can be found in all sectors of the economy and has also labor intensive.

He said that government has selected the SMEs as one of the four major drivers of growth. The other three sectors, he said are agriculture, oil and gas, and Information Technology. This, he said is essential for providing initial impetus to industrialization. "The experience around the World suggest that the SMEs have played an important role in the industrialization of the country", he remarked.

Appendix-V

Jatoi Addresses OECD Conference At Istanbul

ISLAMABAD, Pakistan: June 05 (PNS) - The Federal Minister for Industries and Production, Liaquat Ali Jatoi has suggested strengthening of technical, marketing and managerial expertise of SME sector in the non-OECD member states and greater access to capital lending by the commercial banks and specialized financial institutions on reduced mark up.

He said this while addressing the 2nd Organization of Economic Cooperation and Development (OECD) Ministerial Conference at Istanbul on Friday. According to a message received from Istanbul, he said that developed countries will have to come forward to play their role by transfer of technology and financial help to developing countries, if they are not at pace with them, at least they can economically survive.

Gap between richer and poor countries is widening. We will have to reduce this gap otherwise it is going to be world disorder rather than order, he added. He also stressed the need for Regional economic cooperation and integration for promotion of SME and Cluster development and trading houses for SME sector. SMEs all over the world have played a fundamental role in promoting economic and industrial development. In particular, SMEs provide the necessary foundation/breeding ground for sustained growth and rising incomes in the developing countries. It is difficult to imagine raising overall living standards and social stability in these countries without SME Development.

The Minister further proposed improving the competitiveness of SMEs sector through reducing cost of doing business and regulatory impediments at domestic level and removing non-tariff barriers for products of SME sector in the developed world, Increased investment flow in the SME sector both by domestic and foreign investors, and use of information technology and E-commerce. Jatoi said people in many developing countries are without pure drinking water, roads, hospitals and schools. If we cannot provide basic facilities in 21st century then we are doing the exercise in economic development in futile. Let us give what the needy need.

In Pakistan, access to markets is the cornerstone of the government's facilitation strategy. To this end, the government has put in place various programs and schemes for small and medium-sized enterprises (SMEs). He highlighted the Government's efforts for promotion

of SME sector in Pakistan, and stated that a national level convention on SMEs will be held next month at the initiative of President of Pakistan who attaches lot of importance to this sector. All stakeholders are going to participate. Without solving the problem of SMEs, we cannot expect this sector to grow, he observed.

In the globalization process for SME development, there is need for a comprehensive and well-integrated package of policy decisions both on the supply side (i.e., the developing countries) and on demand side (i.e., the developed countries) to foster the growth of a vibrant SME sector and, improve the competitiveness of SMEs in both domestic and international markets.

Before concluding his address, he hoped the Working Party on SMEs will consider their recommendations and provide solutions to the problems facing SME's to achieve the desired objective of Bologna Charter to enable the member as well as non-member countries alike to adopt polices accordingly.

Appendix -VI

Pakistan advocates cheap lending for SMEs

ISLAMABAD: Liaquat Ali Jatoi, the federal minister for industries and production, has suggested that the technical, marketing and managerial expertise of the SME sector be strengthened in non-OECD member states and greater access to capital lending by the commercial banks and specialized financial institutions be ensured at reduced rates of mark up. He said this while addressing the 2nd Organization of Economic Cooperation and Development (OECD) ministerial conference at Istanbul on Friday, according to a message received from Istanbul.

Mr. Jatoi said that developed countries will have to come forward to play their role by transfer of technology and financial help to developing countries, if they are not at pace with them, at least they can economically survive. “Gap between richer and poor countries is widening,” he said and added they would have to reduce this gap otherwise it is going to be world disorder rather than order.

He also stressed the need for regional economic cooperation and integration for promotion of SME and cluster development and trading houses for SME sector. The minister further proposed improving the competitiveness of the SMEs sector through reducing cost of doing business and regulatory impediments at domestic level and removing non-tariff barriers for products of the SME sector in the developed world, Increased investment flow in the SME sector both by domestic and foreign investors, and use of information technology and e-commerce.

Mr Jatoi said people in many developing countries are without pure drinking water, roads, hospitals and schools. “If we cannot provide basic facilities in 21st century then we are doing the exercise in economic development in futile. Let us give what the needy need.” He said in Pakistan, access to markets is the cornerstone of the government’s facilitation strategy and added to this end, the government has put in place various programs and schemes for SME sector.

He highlighted the government’s efforts for promotion of SME sector, and stated that a national level convention on SMEs will be held next month at the initiative of President of Pakistan who attaches lot of importance to this sector. In the globalization process for SME development, there is need for a comprehensive and well-integrated package of

policy decisions both on the supply and demand side to foster the growth of a vibrant SME sector and, improve the competitiveness of SMEs in both domestic and international markets, he said. Before concluding his address, he hoped the working party on SMEs will consider their recommendations and provide solutions to the problems facing SME's to achieve the desired objective of Bologna Charter to enable member as well as non-member countries alike to adopt polices accordingly

Appendix -VII

Ishrat For Capacity Development, Change Of Mind Set, New Products For SMEs

KARACHI, Pakistan : April 13 (PNS) - Governor State Bank of Pakistan (SBP) Dr Ishrat Hussain Monday underlined the pre-requisites for the success of Small and Medium Enterprises (SMEs) Financing with special emphasis on change of mind set of the bankers.

In his inaugural speech on the launch of 6-days "Training of Trainers Course on Small and Medium Enterprises Financing", at Institute of Bankers Pakistan held in collaboration with the International Finance Corporation (IFC), he said the capacity development, diversification of products for SMEs and getting out of old mind set of looking at balance sheets, collateral or other financial statements were the basic factors that can help SMEs take off.

"You are the change agent, catalysts to change, go to your Presidents and tell them what you (your Bank) need to capture high potential of the SME sector", Ishrat said and hoped that the trainers would lay the solid foundation of SME lending in the country. Explaining how the SME lending would help the depositors, Banks, economy and entrepreneurs, Governor said the entrepreneurs have not updated or improved their technology and depending on the machines and techniques of 1950s, 60's or 70's.

"The credit you will provide will enable them to acquire the new technology, improve quality of their products to meet the needs of the 2010. They will re-position them through the new financing facilities that will help earn more profit. As SMEs after Agriculture, were intensive employment sector, so it would help mitigate the unemployment problem and high profitability will make them pay more taxes. All this exercise would benefit directly and indirectly to the health of the economy, he explained.

"If the income of the SMEs goes up, the growth rate and employment ratio, vis-a-vis economy will also be accelerated. So it (SME lending) is good business for the depositors, who will get higher returns, good business for banks and entrepreneurs. You can't find this kind of fine linkages in any other sector except SME and Agriculture,"

Appendix -VIII

Policy for SME uplift being prepared

KARACHI, July 14: The Small and Medium Size Enterprises Development Authority (Smeda) is preparing a policy document for the development of small and medium enterprises. It will be enforced from March 2005.

This was stated by Smeda chief executive officer Shahab Khawaja at a luncheon meeting organized by the Union of Small and Medium Enterprises (Unisame) here on Wednesday. The objective of the meeting was to solicit suggestions and proposals from the representatives of SMEs.

Giving details about the working on the policy document, Mr Khawaja said that he was holding meetings in the four provinces and Azad Kashmir in order to accommodate maximum suggestions and proposals.

He said without identifying core issues the policy document on SMEs would not be pragmatic and it would also fail to produce desired results. He asked the SME representatives to come forward and give their suggestions before the policy was finalized.

Mr Khawaja said that a draft document of the policy would be ready by the end of this year and thereafter it would be presented before the prime minister. After getting the consent of the prime minister the document would be placed before the cabinet for final approval.

However, the Smeda chief said before working on policy document the government had set up four committees of task force with different mandates to cover. The purpose of these committees is to identify major issues confronting SMEs, and how to enhance their capacity.

Mr Khawaja said the committees had representatives from public and private sectors who were interacting with each other and the ministries concerned. They are asked to identify all obstacles that are hindering the growth and development of SMEs.

"There are issues related to availability of finance and bank demand for providing collateral against funding to SMEs. Such matters could not be resolved so easily and need full government support and enabling environments for the growth and development of SMEs," he added.

Referring to a task force headed by Unisame president Zulfikar Thaver, Mr Khawaja said its main task was to resolve the issue of SME definition. He said at present there were several definitions used by different government and private institutions for the SMEs.

Without reaching to a single definition, he said the SMEs could not get facilitations and services from different government and private organizations. Consequently, it was necessary that such issues be resolve before finalizing the policy document.

Appendix -IX

Pakistan Times Staff Report

ISLAMABAD: The Asian Development Bank (ADB) has approved US\$260 million for assistance to Pakistan for the SME Sector Development Program and the Southern Punjab Basic Urban Services project.

Program to boost Competitiveness

ADB sources told *Pakistan Times* Friday that SME Sector Development Program to boost Competitiveness and Profitability of Pakistan's SME Sector.

The sources added that the SME Sector Development Program will help boost the competitiveness. The sources said that profitability of Pakistan's small and medium enterprises will promote economic growth, through an assistance package approved of US\$ 170 million in loans, a partial credit guarantee (PCG).

The Program will support Government policy reforms on SMEs to improve the business climate, emphasizing leveraging private sector involvement, the sources said. It will also help build better services to SMEs from financial institutions and business development services (BDS), the sources said. The sources said that the program comprises four parts including a program loan of \$ 152 million to support policy reforms.

Business Development Services

The sources said that a project loan of \$ 18 million equivalent to build institutions and markets for Business Development Services (BDS) and credit for SMEs. This will support implementation of the policy and institutional reforms designed under the program loan.

The Partial Credit Guarantee (PCG) facility, of up to \$65 million, to leverage market based credit to SMEs.

The ADB sources said that a technical assistance (TA) grant of \$250,000 to assist the Government and private sector stakeholders in coordinating reforms.

About 30,000 SMEs will benefit from access to financial services and 8,000 from the operations of the private sector-managed Business Support Fund. This fund will be set up to serve as a knowledge tool to enhance the productivity and competitiveness of SMEs.

Objectives n' Targets

"The program aims to fill an important gap in the Government's and ADB's strategic agenda, given that lack of access to formal sources of finance and BDS are big constraints on SME growth", says Rainer Hartei, an ADB Financial Sector Specialist.

The Government recently affirmed the importance of SME and their potential for economic growth employment, and income generation in its poverty Reduction Strategy paper, he said.

However, the true significance of SMEs is much higher taking into account the SMEs operating in the informal sector reach employing between 5 and 10 staff, the sources maintained. SMEs account for about 80% of urban jobs and 30% of the country's gross domestic product.

However, despite their importance, policies and laws favor large businesses and are mostly outdated and inaccessible to the vast majority of SME owners, the sources said.

Preparatory work for the project identified SME needs and being highly diversified, including practical and strategic business advice, financing, marketing, and technology upgrading.

Task Force

Under the program, a task force will be established to develop on SME policy paper and provide the background analysis and basis for improving the policy environment.

To increase understanding of labor protection and its positive impact on enterprise efficiency, they said, a national labor protection and labor inspection policies will also be developed.