Other Industrial Sectors

• Pakistan's chemical industry produces a number of basic chemicals used in its other industries, including soda ash, caustic soda and sulfuric acid.

• Industrial output from other major industries includes

  *refined* sugar, vegetable ghee, urea, rubber tubes, electric motors, electrical consumer products (light bulbs, air conditioners, fans refrigerators, freezers, TV sets, radios, and sewing machines), and pharmaceuticals.

Small and Medium Industries
What are SME’s

- Small and medium enterprises or SMEs, also called small and medium businesses or SMBs are companies whose headcount or turnover falls below certain limits.

- The abbreviation SME occurs commonly in the European Union and in international organizations, such as the World Bank, the United Nations and the WTO. The term small and medium sized businesses or SMBs has become more standard in a few other countries.

What are SME’s

- EU Member States traditionally had their own definition of what constitutes an SME, for example, in Germany had a limit of 500 employees, while, for example, in Belgium it could have been 100. But now the EU has started to standardize the concept. Its current definition categorizes companies with fewer than 50 employees as "small", and those with fewer than 250 as "medium“

- Where as in the United States, when small business is defined by the number of employees, it often refers to those with less than 100 employees, while medium-sized business often refers to those with less than 500 employees.
Institutional Definition of SMEs in Pakistan

<table>
<thead>
<tr>
<th>Institution</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small and Medium Enterprise Development Authority (SMEDA)</td>
<td>10-55 Employees or Productive Assets of Rs 2-20 million</td>
<td>56-99 Employees or Productive Assets of Rs. 20-40 million</td>
</tr>
<tr>
<td>SME Bank</td>
<td>Total Assets of Rs. 20 million</td>
<td>Total Assets of Rs. 100 M.</td>
</tr>
<tr>
<td>Federal Bureau of Statistics</td>
<td>Less than 10 employees</td>
<td>N/A</td>
</tr>
</tbody>
</table>
| State Bank of Pakistan (SME Prudential Regulations effective since January 2004) | An entity, ideally not being a public limited company, which does not employ more than 250 persons (manufacturing) and 50 persons (trade/services) and also fulfills one of the following criteria:  
  (i) A trade/services concern with total assets at cost excluding land and buildings up to Rs 50 million.  
  (ii) A manufacturing concern with total assets at cost excluding land and buildings up to Rs 100 million.  
  (iii) Any concern (trade, services or manufacturing) with net sales not exceeding Rs 300 million as per latest financial statements. |                                                                      |
| Punjab Industries Department                                               | Fixed assets with Rs. 10 M excluding cost of land                      |                                                                      |
| Sindh Industries Department                                                | Entity engaged in handicrafts or manufacturing of consumer or producer goods with fixed capital investment up to Rs.10 million including land & building |                                                                      |
| Punjab Small Industries Corporation                                         | Fixed Investment up to Rs. 20 million excluding land and building      | N/A                                                                 |

SME’s IMPEDIMENTS TO GROWTH

- The main constrains faced by SMEs is **lack of skills in**
  
  **Entrepreneurship**
  
  **Management**
  
  **Marketing skills.**

- While most **owner-managers** and **start-up entrepreneurs** are experts in their product and service, but often lack of wider managerial skills hinder their long-term success.
SME’s IMPEDIMNTS TO GROWTH

Lack of managerial and marketing skills;

- Strategic planning,
- medium-term vision,
- Marketing (difficulty in finding customers)
- Impatient “to get rich overnight”
- Management of innovation
- Commitment to quality
- Knowledge of quality systems
- Knowledge of foreign languages
- Cash-flow management
- Information technology

These are a few of the factors – which are all critical elements of management required to meet challenges of the market economy, especially in the international market environment.

SMEs - Pakistan

- SME sector is the backbone of Pakistan’s economy.
- According to more recent estimates there are approximately 3.2 million business enterprises in Pakistan.
- Enterprises employing up to 99 persons constitute over 90% of all private enterprises in the industrial sector and employ nearly 78% of the non-agriculture labor force.
- Promotion of SMEs has therefore been the center piece of Government’s strategy for economic revival, poverty alleviation and employment generation.
SMEs : Significance

- SMEs foster an entrepreneurial culture and provide resilience in the economy.
- SMEs dominate the fastest growing export sub-sectors, such as cotton weaving and surgical instruments.
- SMEs are an important vehicle for poverty reduction.
- Finally, SMEs are significant contributors to the Pakistani economy in terms of both value-addition (30 per cent) and employment (80 per cent).

SMEs - Pakistan

They contribute over 30% to the GDP and account 25% of exports of manufactured goods besides sharing 35% in manufacturing value added.

Table 2: Contribution of SMEs in Manufacturing Sector

<table>
<thead>
<tr>
<th>Employment</th>
<th>GDP</th>
<th>Value Added</th>
<th>Export Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>80%</td>
<td>30%</td>
<td>30%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: Economic Survey of Pakistan, 2003-04
Economic Importance

1. SMEs constitute more than 90 per cent of businesses in Pakistan, mostly operate in the undocumented informal part of the economy.
2. They represent a significant component of Pakistan's economy in terms of both value addition and employment.
3. As they predominantly provide employment to lower income groups, they are also considered an important vehicle for poverty reduction.

SME Product/Process

Sub-sectors (% Share)

- Cotton Weaving: 13%
- Other Textiles: 6%
- Metal Products: 7%
- Carpets: 4%
- Art Silk: 5%
- Grain Milling: 16%
- Jewelry: 4%
- Wood & Furniture: 10%
- Others: 35%
SMEs have higher Efficiency

- SMEs provide more employment at lesser capital costs compared to large enterprises.
- For instance, the Ministry of Labour, Government of Pakistan, estimates that between 2003 and 2008, there will be an addition of 16 million persons to the labour force. To put these new entrants to work would take an investment of:
  - Rs. 5.2 trillion in large scale sector
  - while only Rs. 8 billion in the small/micro scale sector.
  - In the medium scale sector the cost would be Rs. 0.8 trillion.

- These figures are based on SMEDA estimates assuming ONE job requires:
  - textile spinning unit (large scale) Rs. 330,000
  - Stitching Unit (medium scale) Rs. 50,000 a
  - Hand-knotted carpet factory (small/micro scale) Rs. 500

INVESTMENTS FOR JOB CREATION

<table>
<thead>
<tr>
<th>Year</th>
<th>Labour</th>
<th>Investment Required to Create Jobs (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Large Scale Sector</td>
</tr>
<tr>
<td>New Labour Injected 2k3-08</td>
<td>16 M</td>
<td>5.2 Trillion</td>
</tr>
<tr>
<td>New Labour Injected 2k8-13</td>
<td>14 M</td>
<td>4.6 Trillion</td>
</tr>
</tbody>
</table>

Source: SMEDA estimates based on approximated number of future entrants in the job market.