

## GALLUP CYBER LETTER ON SME IN PAKISTAN-2004

Based on Researches Conducted by Gallup during 2000-2004

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**From the Editors**

Dear Colleague,

The Small Medium Enterprises has been playing key role in providing impetus to the development of some of the world's best economics.

Gallup with some of its partners (World Bank, ILO, SMEDA) has been actively involved in the area of research on Small and Medium Enterprises.

We are sending you our first cyberletter based on Researches conducted by Gallup during 2000-2004.

Your comments and advice will be valuable to us.

With best regards,

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### Anatomy of SMEs in Pakistan

There are approximately 2 million Micro Small and Medium Enterprises in Pakistan. These include **400,000 Manufacturing** units, **600,000 Service** sector units and **1 million Trade** sector units (retailers).

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### Problems of Small Enterprises in Pakistan

- Majority Relies on personal finances, loans from friends and relatives and credit from suppliers.
- The role of Banks is very limited.
- 40% of small business employ and train shagirds.
- Taxes, corruption and high price of gas and electricity are three key grievances against the Government

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### Application of IT in SMEs

- 40% of small and medium businessmen (at the time of study) own a computer. Another 30% intend to buy one within a year.
- Small Businesses of Karachi were slightly behind Lahore in starting to use computers. Similarly Faisalabad was behind Sialkot and Gujranwala.

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### Women Entrepreneurs in Pakistan

- 49% of the women entrepreneurs contacted were aged between 20-39
- 47% of the women entrepreneurs were housewives before starting business.

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- Comparison of Small and large scale Enterprises.
- Impact of regulatory environment on employment in SME in Pakistan.
- Defining Small Enterprise (the crucial issue)

## ANATOMY OF SME IN PAKISTAN

### Its size structure and contribution to the National Economy

The data are based on a wide range of official statistics collected through; Small and Household Manufacturing Industries 1996-1997 (SHMI), Census of Manufacturing Industries 1995-1996 (CMI) and Establishment Survey 1988.

There are approximately 2 million Micro Small and Medium Enterprises in Pakistan. These include 400,000 manufacturing units, 600,000 Service sector units and 1 million Trade sector units (retailers).

**Contribution to GDP:** They constitute well above 90% of all enterprises in the country in terms of numbers. But because they are by definition small their share in GDP is not quite as dominant. They are estimated to be contributing approximately 11% to GDP.

**Contribution to Employment:** The SMEs employ roughly 80% of the total non- agricultural labour force in the country.

### Manufacturing Sector:

The following information on the SMEs in the Manufacturing Sector would help in getting a bird's eye view of the situation.

**Value:** SMEs (Manufacturing units\*) contribute approximately 34 billion Rupees a year to GDP. They constitute nearly one third (29%) of the total value of manufacturing in the country.

**Employment:** SMEs (Manufacturing) employ more than 1.2 million persons, whereas the total labour force in the manufacturing sector is around 1.8 million persons. Hence they account for approximately 70% of total labour force in the manufacturing sector.

**Number:** The number of SME (Manufacturing) in the country is over 400,000, whereas the number of all other units is less than 10,000. Hence SMEs constitute more than 98% of total number of manufacturing units.

**Stratification by type:** The SME (Manufacturing) can be broadly classified into two types of units:

- 1. Household Units:** Those which operate from the dwelling of their owner, mostly employing the family members of the owner. There are approximately 160,000 such manufacturing units in the country.
- 2. Small Units:** There are units which do not operate from the residential dwelling of their owner but are not registered under the Factories Act either Typically (but not necessarily) they employ less than 10 persons per unit. There are approximately 265,000 manufacturing units in the country, which fall in this category.

### Location-wise Distribution:

Of the total SMEs (Manufacturing) 41 % are Urban and 59 % are Rural. The majority of Household units are in rural areas, whereas the majority of Small and Medium units are in the urban areas.

Among Household units the location-wise distribution is: 78% rural (125,000 units) 22% urban (35,000 units).

Among Small Units the location-wise distribution is: 47% rural (125,000 units) and 53% urban (140,000 units).

For details see Report " "

\* CMI excludes services and trade sectors

## PROBLEMS OF SME'S IN PAKISTAN

### Lack of finance has been rated as # 1 problem by SME's

According to a study conducted by Gallup Pakistan with the cooperation of World Bank and the Government of Pakistan there are approximately 2 million small businesses in the country. Although they are generating 11% in our GDP but the problems faced by them are tremendous. At the beginning of the survey, the 500 sampled entrepreneurs were asked to list down the most important problems faced by them in setting up their business. The top ten problems emerging out of this exercise were the following:

	% of respondents mentioning the problem
• Lack of Finance	55%
• Shortage of skilled labour	39%
• Getting business site	38%
• Bribe	21%
• Orders/Marketing of product	28%
• Lack of knowledge	12%
• Government interference	12%
• Getting quality Raw material	10%
• Getting license for work	8%
• Knowledge of new Technology	8%

Financial Problem (lack of Finance) stood out as the major problem of SME's in Pakistan. The findings show that very few small businesses have ever received a bank loan. They generally start the business with personal savings and loan from family and friends. Their working capital and investment needs are met from their profit or from purchases or credit and advance from customers. Only 4% of the small businesses interviewed during this survey had ever contacted the Small Business Finance Corporation. The small businesses interviewed in the survey considered **taxes, corruption and high price of utilities** especially electricity as three of their major grievances against the government. The Gallup study has identified and summarized sixty different Government laws which affect small businesses. Many of these laws, says the study, need to be reformed or repealed. The Gallup survey shows that 40% of small businesses employ apprentices or shagirds and train them. Many of these shagirds acquire their know how from their employers and subsequently start their own small businesses. The findings of the Gallup survey were discussed in three roundtable discussions at IBA, Karachi University, LUMS Lahore and Allama Iqbal Open University in Islamabad in the month of February 2001. Gallup invited policymakers, practitioners and academics in these roundtable discussions to seek their views on what may be the solutions to the problems of small business in Pakistan.

For details see Report " "



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### COMPARISON OF SME'S WITH LARGE ENTERPRISES

#### A World bank supported study

A survey of 100 Large Scale Enterprises across the country was entrusted to Gallup to get some initial understanding of their problems, and to compare them with the problems of Small and Medium Enterprises, which had been studied through a separate survey of 500 units, conducted a few months earlier in the year 2000.

The survey was carried out in Pakistan's 8 major cities which house most of the Large Scale Enterprises. The definition of Large Scale Enterprise is a unit which employs more than 100 persons or whose productive assets are in excess of Rupees 20 million. The surveyed units included both Manufacturing and Service Sector enterprises.

[For details see the next issue](#)

## APPLICATION OF IT IN SME's A UN Supported Study



A majority of small and medium businessmen of Pakistan believe that information received through personal contacts on subjects such as marketing, technical equipment, management and government regulations is more valuable to them compared to information which they received or can receive through the internet on the same subject.

Computer based information is today seen throughout the world as a means to development or progress. It is believed that achievement in information technology will determine the wealth of nations in future. Keeping this background, Gallup was assigned by UNIDO to carry out a study in six major cities of Pakistan. The particular focus of the study was:

### **“Need assessment regarding the proposed industrial information network”.**

A Need assessment survey of 400 SMEs in the Textile and Leather Sectors was undertaken to understand how they can be approached and motivated to use an Industrial Information network (IIN). The IIN is being currently developed by UNIDO Pakistan.

The findings show that 40% of small and medium businessmen in these two sectors own a computer either at their business premises or at home. Among those who do not have one yet, nearly half are keen to purchase it during the next one year, if they were convinced of its benefits to their business and were assured that they can use it without much technical know how. UNIDO plans to introduce an Industrial Information system in Pakistan which could be widely used by Pakistani businesses for successfully competing with other countries in exports and for increasing their productivity at home. Interestingly, the survey findings showed that small businesses in Lahore were slightly ahead of Karachi in computer usage as 48% of them were presently using a computer compared to 45% in Karachi. It also showed that Faisalabad lagged far behind Sialkot and Gujranwala in exposure to Information technology.

Answering a question on their current sources of information nearly 60% of the respondents said personal contacts were their most important source of information on marketing, technical equipment and government regulations, compared with nearly 30% who gave higher importance to internet as an information source. A detailed report of the study is available for wider consultation through the Industrial Information Network at [www.IIN.org.pk](http://www.IIN.org.pk).

This report was based on a statistical survey of 400 small and medium enterprises in six major cities of Pakistan.

For details see Report “ “



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### **IMPACT OF REGULATORY FRAMEWORK ON EMPLOYMENT IN SME**

**An ILO/SMEDA  
supported study**

In June 2001 SMEDA entrusted Gallup Pakistan to carry out a survey of over 330 SME's across Pakistan to study the impact of regulatory environment on the operations of Micro, Small and Medium sized enterprises leading to empirical findings of the effect on job creation in the sector.

For details see the next issue

## WOMEN ENTREPRENEURS IN PAKISTAN

The report is based on a survey of 150 women entrepreneurs in Pakistan. The survey was carried out in Lahore, Rawalpindi and Islamabad(ICT). The sample distribution was made even by interviewing 75 women in Lahore and 75 in Rawalpindi/ICT. The field work , data collection and analytical support was provided by Gallup.

The International Labour Organization's office in Islamabad and South Asia Advisory team(ILO\_SAAAT) based in New Delhi, in association with Its In Focus Programme on Boosting Employment through small enterprise Development (IFP/SEED), has published the report on "Women Entrepreneurs in Pakistan" (How to improve their bargaining power) By Nabeel A. Goheer.

The report highlights the constraints facing women entrepreneurs in business, reviews their operating environment, describes the predominate gender inequalities, and most interestingly provides the narrative stories of some 20 women selected from various economic background and family situations. It is aimed at obtaining a better understanding of Pakistani women entrepreneurs and their problems:

### Profile of the women entrepreneurs:

- ⇒ 49% of the respondents were aged between 20-39, 31% were between 40-49 and on the other hand only one respondent was below the age of 20.
- ⇒ 65% of the respondent had only one or two children.
- ⇒ 59% of the respondents were found to be living in a nuclear family.
- ⇒ The female literacy rate is 32.6% in Pakistan and 35.3% in the province of Punjab.
- ⇒ The majority of women entrepreneurs belonged to upper tiers of graduates (43%) and post graduates (32%).
- ⇒ 43% had substantial work experience, 21% had little experience and 35% started from scratch.
- ⇒ 47% of women entrepreneurs were housewives before starting business, 28% were employed in different capacities with different organizations, and 21% were students.

### Management style:

59% of the women entrepreneurs use a hierarchical management style while 39% believe in a consensus-based approach. A majority of 77% believe that this is more effective; 14 % say that it suits the culture and 7% are convinced that it is more productive.

### Computer Literacy:

The computer skills of women entrepreneurs are also better than average: 31% felt confident that they could compose a letter on a personal computer;37% could use e-mail and internet, 11% were able to use spreadsheets and power point presentations while the remaining 8% had even better skills than all those mentioned above.

### Start-Up and ownership:

Concerning the pattern of start-up, the majority of the respondents claimed that they established the business by themselves.9% inherited their business.

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## WOMEN ENTREPRENEURS IN PAKISTAN

### Motivation to start business:

What motivates women in Pakistan to start a business? This was a multiple response question addressed only to respondents who had started a business by themselves. 76% mentioned economic reasons that varied between the 'urge to make money' to "financial crisis in the family". The other significant reasons were continuation of hobby(53%), productive occupation(47%), desire for recognition and economic independence(24%) and philanthropy(9%).

### Factors contributing to start-up:

A high response rate of 75% suggested family help as the most important enabling factor; 30 % of women entrepreneurs believed that their own skills helped them to establish the business; 11% attributed their commitment to developing a hobby as a major factor, while only 3% said that cheap factors of production (FOP) was a helping factor.

### Problems and barriers at start-up:

	% of Response
People are not cooperative toward women	51
It was a problem to attract customers	28
Non-supportive family	26
Lack of finance	26
Government departments are not cooperative	16
Transport problems	6
Convincing people	28
Did not face any problem	14

### See Next Issue for.....

### The Crucial Issue of Defining Small Enterprise

During the study on Pakistan's Small entrepreneur (Gallup-World Bank Survey) a careful reading of the available literature on Small enterprises shows that it is rather difficult to find a single consistent definition of Small enterprise.

Notwithstanding the complicity and inconsistency in defining Small Enterprises, there are generally two bases for distinguishing them from large enterprises: **Firstly**, a large criterion, which classifies as enterprise as small if it is not registered with the department of labour under factories Act, 1934. **Secondly**, there is a criterion which 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.

[For details see the next issue](#)