

Impact of SMEs on Economic Development of Pakistan (A Case Study of District Larkana)

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Abstract

Since 1947 the exceptional growth of SMEs has been anticipated and economically carried out in the country's development. It has helped to increase GDP, generate jobs and produce exports. In terms of the economic and social development of the country, the SME sector has made an exceptional contribution. The damaging factors for the growth of this industry include the low capital base, technological accessibility, credit policy, consistent business services, quality human resources, a low degree of market sensitivity and infrastructure deficiencies. In the current globalisation process, the SME sectors are a growth engine for economic growth. The purpose of this paper is to explore different issues in relation to the economic situation in Pakistan. Since small and medium-sized enterprises constitute more than 95% of the industrial units, about 40% of the industrial output and about 36% of total exportations. More than 18 million people work in different SME units, and in the country there are approximately 3,2 million registered SME units. The paper deals with the development and economic efficiency of SMEs in the world age. It defines contributions to GDP growth for small and medium-sized enterprises.

Keywords: SMEs, Economic Development

Introduction

In economic development in both underdeveloped and developed countries, small and medium-size companies (SMEs) have played a critical role. In the countries of the European Union and even in international organisations, the abbreviation SME is widely used. The UN and the World Trade Organization (WTO) are such the World Bank. In a few other countries the term Small and Medium-sized Enterprises (SMB) also prevails. EU Member States had their own definition of SME (wikipedia2008) by convention. The solution for the modernization and growth of economic change, employment, future earned income generation and scientific progress in most advanced countries is known as small and mid-sized enterprises (small enterprises). The presence of SMEs in the economy is substantial (Bhutto and Assad 2008) also maintained by Hamid and Ubaidullah 2006). This is possibly a characteristic of the SME sector worldwide.

What are SMEs ?

In general, SMEs are companies with a workforce of not more than 250. The technical definition varies across countries in the Asia-Pacific region and is generally based on employment or combination of both. There are different definitions for manufacturing and service (Kotelnikor2007) in certain countries.

SMEs are clarified by different ways that some scholars have described long (1971) SMEs as an organisation of not more than 100 employees. SMEs have very significant definitions. Owners / contractors in the SME sector are usually in their shift. The Verhees and Meulenberg 2004 made the same argument that the owner himself owns and runs a small corporation.

SMEs in Pakistan are included in the informal economic market. The term informal industry extends to small units that produce and export products. Many small-scale companies depart as separate or family businesses where the owner has the authority to run the company. This system of management of small and medium-sized companies differs from one single person to the shareholder management. They operate with very little technological and skills capital. The organised market is not accessible to them. Credit institutions and institutions of formal education and training.

SMEs are a highly heterogeneous group with a large number of workers and a wide range of companies within the industry of industrial services and agriculture. The leather sector of the textiles industry, the automotive industry industry sector, the fisheries industry etc. Some companies are dynamic innovative and

growth-driven, while others are traditional companies that are satisfied with SMEs as defined by the SMEDA.

Micro Enterprises

Less than 10 people

Productivity assets limits of RS 2.0 million

Small Enterprises

Between 10 – 35 people employed

Productivity assets limits of 20 million

Medium Enterprises

Between 36 - 99 people employed

Productivity assets limits of 40 million

The SME bank defines SME as follows:

The cost of a project is from 20 to 100 million RS for small companies as for any company.

The economy of Pakistan is called the economy of SMEs only because 90% of the companies involved in the SMEs play an important role in boosting economic growth. The producer and delivery of quality goods by Pakistan in foreign countries makes a greater contribution to Pakistan's GDP of 13.20%. It also gives important jobs to the working group that helps improve the country's standards of living and contributes to the prosperity of the domestic economy. Small and medium-sized enterprises development agency (SMEDA))-SMEDA

The SMEs in Pakistan are mainly active in the industrial sector, which has a government focus on boosting the economy, creating jobs and bringing economic prosperity to the country. The SMEs also take Pakistan's vital role in the national economy as a roadmap for its economic growth. Through their substantial contribution to GDP and an increased living standard, small and medium-sized businesses are playing a crucial role in the global economy. The main causes of economic growth are the developing countries which comprise 90% of small and medium-sized enterprises. By exporting their own countries' domestic products the manufacturing industry of SMEs plays an important role in the world economics. The International Trade Commission 2012 reports that the United States economy is also based on SMEs that contribute between 50 and 70% of their national GDP through job creation and self-reliance. SMEs are an effective vehicle for employment development and poverty reduction in developing countries. The presence of SMEs assures successful utilisation of local resources and the global economy. Imported and exported services that contribute to global economic development play an important role in the industrialised countries' markets.

Literature Review

Eberheart: 2012 reveals the relationship between the elimination of poverty and job growth of Gross Domestic Product by entrepreneurship capacity. This theory is analysed in response to a legislative plan. This approach, taken after 1980, has had a significant influence in most countries, such as Singapore, Taiwan, Malaysia, Korea, SMEs and others, on their GDP and poverty alleviation strategy. This approach is a crucial force in many countries of Asia. This often illustrates the issue of small to medium-sized businesses, such as the issue of marketing funding. It is the State's duty to improve the skills acquisition initiative Entrepreneurial manufacturing knowledge methods. Provides sufficient direction and support for development and commitment to job production in small and medium-sized businesses at all stages (Eberheart A2012).

For this phase of research began between 2001 and 2010 Arif & Farooq (2012) summarises the condition of poverty in Pakistanian panel results. The Sindh and Punjab people are, according to this article, mostly imprisoned in the poverty line. There are two severe and transitory forms of poverty in Pakistan. No direct strategy to counter this poverty trend and to minimise the poverty ratio is actually envisaged and enforced. The author proposed that different policies should be maintained for the different kind of poverty such as funding for one kind of poverty and increasing the labour market share. Wages will also be raised to assist them to emerge from the cruel poverty trap (Arif. M.GFarooq S.2012).

Ali (2013) provides the SME and poverty methodological research. Ali (2013). For this study, secondary data are obtained. The inference is that the small and medium-sized businesses have close ties in Pakistan and that poverty alleviation occurs. Small and medium-sized businesses' challenges are worries that they drive productivity by generating employment and reducing poverty. However, this sector must be

adequately used as a strong foundation for the creation of Pakistan's economy is growth for small and medium-size enterprises. (Ali. S. 2013).

The reform recommendations for poverty reduction and wealth inequity in Brazil were analysed by Awan et al. (2014). He argued that government should share growth benefits within the company's low-income segment and increase the underdeveloped market. The government should also use SMEs to minimise poverty and wage disparities. The impacts of SMEs on rural growth in Sindh are studied by Shafiq and Shah (2014). The data source is main and Gen-stat is used for data processing using statistical applications. The findings suggest that government policies are not ideal in rural Sindh for developing SMEs. They played a major role in lowering unemployment. The researcher investigated that. Exports of small and medium-sized businesses goods face challenges. Asian developing countries embracing small to medium-sized exports to industrialization. The researchers also present a contrast between Pakistan and Asia and propose guideline policies for the growth of SMEs in Sindh and Pakistan. (Shafiq and 2011 Shah)

Both emerging and developed economies have a foundation in the SME market. The development or underdeveloped countries need more commitment to creating the small and medium-sized sector for their economies to flourish. As analysis indicates, if countries do not understand at an early stage the value of this field. They live behind advanced economies and must take more time and commitment to drive their small and medium-sized enterprises to reach their job goals and minimise poverty to raise their level of productivity and generate equal growth. The effort in Sri Lanka had begun before, but not until the beginning. It requires institutional and infrastructural structures for the youth- and output-level development of the SME market. (Friedrichsburg.2002)

Many hypotheses are important to the debate on the role of SMEs in developed countries' growth. This research concentrates on classical and contemporary ideas. The classic theory is based on (Adim Smith 1776: Hoselitz 1959: Kirzner 1973: Anderson, 1965: Staley & Morse 1962) among other works. Classic theories point to the benefits of small and medium-sized firms, and suggest that they will gradually decrease in the course of time and that big corporations will gradually dominate economic growth as income increases (Onakoya et al. 2013) In comparison, contemporary theories are split into the Schultz hypothesis and the Kirzner hypothesis. It advocates two important positions for small and medium-sized businesses. The first is to accelerate economic growth by increasing its gross domestic product (GDP) output contribution, the latter is to reduce poverty by creating jobs and diversifying income-generation activities that will impact its productive growth. (Philippine, 2012).

Methodology

The research is currently focused on the success of SMEs in Larkana. This suggested study used both qualitative and quantitative methods. For the reliability and validity of results, a structural questionnaire has been established.

Area

District Larkana and its surroundings is the chosen place for the research.

Sample

The Larkana District. This analysis would use the sample random methodology. This sample is 200 in size.

Collection of data

Key data was obtained by questionnaires from separate primary and secondary sources.

Results & Discussions

The global economy idea has made the world a small town. Therefore, the rivalry in every sector in the global village is rising high. Nations are implementing economic reforms plans by introducing (SMEs) with the help of incentives and aid. The Government of Pakistan has begun to concentrate on SMEs and their country-based growth opportunities which have contributed favourably to the country's economic development. In an era of competitiveness in Pakistan's economy, SMEs have contributed in 2003, Wani et al. reported, because of the change after independence in Pakistan's economy. The SMEs have made a major contribution to Pakistan's economic and social growth. It is also classified as micro, small and medium-sized enterprises (SMEs) in many countries. In policy papers and pronouncements, several developing and industrialised countries have discussed this. SMEs are developing and shaping wages, the labour market and exports and taking market and innovation into the economy of Pakistan. Since democracy, it has led to brand changes and globalisation. SMEs are viewed as targets in most countries, according to Pandey and others, since 50 to 66 percent of firms worldwide are SMEs. Approximately 45

percent of SMEs' production contributions are registered. Its exports have also risen and have recently been reported at 40%. In recent years, GDP growth in Pakistan has consistently exceeded 7% per year, which is equivalent to the world's average GDP growth. The growth rates in small and medium-sized businesses worldwide are higher than in big corporations. In different countries, the meanings of SMEs are different. Few countries categorised small and medium-sized companies based on work standards; others classified them on commodity, many on sales and few on shareholder funds.

International Conference on "The growth of Pakistan's economy as a labour market engine: the role that Pakistan can play in creating, Pakistan's digital economy, Pakistan's start up and Pakistan's skills". The small and medium-sized businesses sector has reported a continuous growth of four percent in total units. It is estimated that the units will rise from 11,395 million to 11,853 million. The production was about Rs. 39,90,200 million higher than Rs. 35,77,330 million. During 2004-05, the generation of workers noticed 4.2 percent grew from 27,136 million to 28,282 million. SMEs have arisen with fresh foreign possibilities. The unrestricted economy offers SMEs the ability to expand their markets. This would help them boost their magnitude economies.

The governments of different countries will help small and medium-sized companies benefit from global financial reform. The flexible approach to economic environments and international investment and trading can be accomplished. This can be accomplished. SMEs' networking and expertise help them to compete in world markets. This paper aims to address questions on the trend of development of the SME sector in Pakistan. It examines the economic situation of small and medium-sized businesses in Pakistan. In an age of globalisation, it also contrasts GDP growth and SME growth. This text gathers material from many reports by the Pakistani government as well as the literature available in this region.

Launching of the IPR proposal

In order to make Pakistan SMES more competitive in the world climate, the IPR proposal for "Improved understanding of the (IPR)" was introduced. The IPR project is said to have taken place over a period of five years, with a cumulative spending of US\$ 12,5 million. Protection of intellectual property rights plays a key role to attain a competitively advantageous place in the sense of technological gain for further economic growth.

Separate umbrella organization

More attention could be provided to policymakers by a centralised umbrella organisation focused on the growth of the Pakistan SMES market. In the fields of the promotion, finance and growth of Pakistan's SMEs, the Ministry of SMES, the Reserve Bank of Pakistan, and the Small and Industrial Development Bank of Pakistan have always sponsored a range of initiatives. However, an association that provides additional support for Pakistani companies, including technical assistance, design production, facilitating the provision of raw materials, marketing support etc. is always welcome.

Low value addition

In manufactured goods exported to Pakistan Industry, the average technology added value is about 8 percent. Compared to other developing countries, it is comparatively low. The low value is mainly seen in sectors such as gems and jewellery, in which added value is insignificant. Items such as engineering products and leather products are still behind in terms of their added value. Its added value must also be improved in the future.

Memorandum of understanding

SMES is a joint action plan with 19 countries to harness the ability of SMES. The Ministry of SMES has reached a long-term agreement on the popular action plan. In order to reinforce the bilateral cooperation in the mutual advantages of the SMEs of both countries, the SMES Ministry and NSIC also held discussions with the international delegations. The Ministry of Micro, Small and Medium Enterprises (SMES) is steadily introducing International Cooperation (IC) schemes in order to compete on the global market. The

scheme has been in service since the Ninth Plan and continued with a Rs.24.50 crore allocation in the Twelfth Plan. The Scheme aims primarily at technical infusion, modernisation and export promotion. Rs. 4 crore was allocated to modernization and boosting of exports under the financial year 2015-16. Due to the vital link between technological innovation, the future policymaker is challenged to include the innovation systems concerns in the context of the trade and investment framework relationships.

The purpose of this chapter is to analyse the literature to identify the skills that are important for the success and development of the SMEs. The chapter begins by discussing briefly all the factors which are identified as essential to small and medium-sized enterprises success in order to establish how important skills are for businesses. The section describes the literature skills that can affect SMEs 'survival and growth, and how a lack of skills will restriction SMEs' development and eventually lead to small and medium-sized enterprises failing. The chapter offers a model of SME health and performance on the basis of an exploratory analysis. This template is then converted into the ideas that will or will not be illustrated by this study.

In consideration of the enormous amount of literature in risk success / survival / failure, this chapter can not be regarded an exhaustive study, rather rather as clarifications of the relevance of research concerns. The literature reflects in this review on the reasoning used in the collection of the survey questionnaire. In order to determine the concepts to be applied in the theory, a large range of textbooks and journals were reviewed. The associated books will be published in leading academic journals and annual conferences, covering the fields marketing, business, management, social psychology, industry, organisational behaviour and organisational theory.

This research restricts itself to factors that are unique to the functions of an organisation and aims at identifying certain factors that are clearly empirical to the business performance. The established factors have been divided into:

- Factor listing skill factors from other research in published papers and books.
- Influences in published articles which show solid evidence that skills are correlated with business success.
- Factors that relate training and skill factors listed in published papers.
- Factors listed by professionals in models , theories and entrepreneurship

A number of skills that can be successful and which cannot prevent small and medium-sized enterprises from succeeding. The integration variables were analysed and a semi-structured questionnaire was developed and used as a method for analysis.

Table 2.1: The Hofstede dimensions with key entrepreneurial dimensions

Hofstede's cultural dimension	Entrepreneurial orientation score on the Hofstede	Entrepreneurial dimension	Categorization for African culture
Power distance	Low	Innovativeness	High
Masculinity	High	Energy / aggressive competitiveness	Low - more feminine
Uncertainty Avoidance	Weak	Risk taking / pro-activeness	Strong – risk averse
Individualism	High	Internal locus of control / Autonomy	Low – collective

Source: Adapted from van Vuuren & Pretorius (2003:522)

As in other developing countries, South Africa is relatively far away from influence, preventing chaos and low on individualism and masculinity (Themba et al, 1999). Compared to America, the South African culture supports entrepreneurship (GEM, 2002), due to its negative self-esteem, industry and general failure, does not encourage entrepreneurship growth (Pretorius & van Vuuren, 2003; GEM, 2003). Business ownership in South Africa is considered questionable and entrepreneurial, associated with dishonesty, poor economic ethics, and discipline (Gbadamosi, 2002; Rwigema & Venter; 2004). In addition the idea of the formation of companies may be contradicted by Ubuntu's culture, which undermines the production of

wealth and thus discourages SMEs (a popular sharing concept) from growing companies (Mayrhofer & Hendriks, 2003).

Conclusions

This study aimed to examine in detail how Pakistan's SMEs, in view of the multiple obstacles in their different ways, would withstand themselves on the global market. It has been found that the economy in Pakistan has a range of problems such as high lending rates, the issue of raw materials being procured at reasonable prices, insufficient facilities for utilities and a shortage of qualified labour. A Pakistan Coir Industry case study was performed. It has shown that while exports in the global market have risen, the export earnings in recent years have not increased substantially. The Coir industry faces harsh competition from synthetic exporting companies (particularly China). Investing in better technologies is a feasible way to address these challenges over time, to help the coir commodity in the global market. The technical advancement is usually used to help to distinguish between a product and its competing goods. From time to time, GOP have introduced many steps for Pakistan's small and medium-sized enterprises to boost its international competitiveness. New programmes and programmes like Make-In Pakistan, Skill Pakistan and Modern Pakistan have been implemented over the years to overcome the other issues too.

Despite the emphasis on technology-based goods, the results suggest that more substantial problems still need to be tackled concurrently. There are also challenges such as access to loans, production of appropriate facilities (power, electricity), raw materials supply and worker training for small and medium-sized enterprises. Therefore, for Pakistan 's ultimate performance in the export market all these problems must be resolved at the same time. Finally, SMEs, which still have to enter the world market, should speak about challenges, how they can be overcome and how GOP is able to fulfil the global market in the long term. Pakistani businesses need to constantly update their technologies in the changing global environment in order to keeping of the planet. (International consultancy in Pakistan) take (continuously) more action to establish foreign consultants. The most popular phenomenon in SMEs is horizontal technology transfer, as horizontal transfer can carry out many tasks. In Pakistan, SMEs may also opt for technology relocation, such as vertical transfers or horizontal transfer of technology. SMEs are thus required to boost efficiency, minimise costs, extend their size of production, resource to new product growth, grow their product revenue and share of the market and enter most notably the world or foreign market, not only through the diversified use of technology but also by the use of other significant production factors. Finally, in the future decade, a powerful, vibrant SMES industry would be highly important if the Pakistan Economy is to maintain its growth rate of 8-10%. Pakistan SMEs will become multinational companies. SMEs in Pakistan The Pakistan SMEs are certainly expected to become international players in the next decade through continuous efforts in different ways and successful GOP support / schemes.

Increasingly, Pakistan should embrace an innovation network and increase its cooperation with other academic institutions , universities and other organisations. The SMES would not propose the introduction of IPR as an entrepreneurial tactic and as a way to improve competition and become a global competitor. IPR as a way of building strategic advantage on the competition of industry & technology and bringing value to business is widespread lack of knowledge. In order to compete in the global market and experience business growth, the Pakistanian SME sector needs more knowledge, guidance and facilities to protect its intellectual powers and to demonstrate a constructive approach to IPR production, security and management. This would further inspire and allow the Pakistan Economy to introduce the IPR proposal.

SMEs' capacity to access external funding outlets, such as angel funds and venture capital, needs to be dramatically increased to promote business in particular through the participation of inventions and emerging technology. This should serve the aim of eliminating tax / regulatory barriers to the use of such funds by SMEs. Other potential options for funding SMEs may be Venture / Risk Capital.

Studies have shown that there are few ICTs that are used to their benefit by organisations or clusters in the SMES market. SMEs must know that the gains outweigh the costs of implementing ICTs. The use of ICTs will help to make small and medium-sized businesses more process effective and help them focuses on key innovation fields. In order to promote the sharing of knowledge, connectivity and involvement in e-commerce networks, the development of an appropriate ICT infrastructure, as well as the advancement of interoperability and standards, are essential for access to global business markets.

In their schooling (mainly basic) and training programmes, developed countries examine considerably. The ties between training strategies and SME growth strategies remain, however, small. Economic practises are

affected by schooling and training programmes. The educational programmes of the business associations should be expanded, with the implementation of modern technologies in order to develop the capabilities of the workers every day. In addition, labour regulations can be streamlined as well.

The role of administering and spending human capital (HR) in Pakistan SMEs is also urgently needed. In order to succeed worldwide, Pakistan SMES needs to invest substantially in HR functions. Human resources have a well-established role in rising organisational productivity and efficiency. In the management capital perspective, workers are strategically necessary and critical capital, regardless of business size, in order to accomplish the goal of the enterprise.

The shortage of essential infrastructure and insufficient funding and access to key facilities such as water, electricity, and road / rail connexions have raised the operating costs of SMES to make them less efficient. In rural areas it is important to promote the use of solar or green energy. The Ministry (SMES) has followed the cluster growth methodology to redesign infrastructural facilities as a primary strategy for Pakistan's SMES competitiveness.

In many respect of the market climate, Pakistan's tax system has been criticised as unwanted for the amount of payments needed and the process of filing payments and non-uniformity in taxation-related states (Ease of Doing Business Index, International Finance Corporation, World Bank 2014). The market simplicity increased considerably from 131st across 190 countries to 130th in 2018. Improving market ease can be seen as a positive predictor of Pakistan SMES's good results.

Finally, the Government of Pakistan is well aware of globalisation issues and has taken suitable steps to plan SMES to resolve liberalisation and globalisation issues. All these combined steps of the future would lead to better access for Pakistani SMEs on global markets.

This study is restricted by the fact that data are restricted. A primary survey of selected Pakistan small and medium-sized companies may have allowed us to understand better how SMEs work globally. A research can still be performed in future through a sample survey covering those selected SMEs. The data which from now on be collected on their age, their qualifications, sales, imports of goods, tools, expenditures for research and development as well as other services-based variables such as (professional information technology, advertisement and marketing expenses). Finally, it should be done an econometric exercise in order to analyse the possible effect of the variables on Pakistan's SMEs' competitiveness. This research could in future be expanded for a more empirical exercise for limited data limitations.

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