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A BRIEF DESCRIPTION AND EVALUATION OF PAKISTAN'S
EXPERIENCE IN SMALL INDUSTRIES DEVELOPMENT ^{1/}

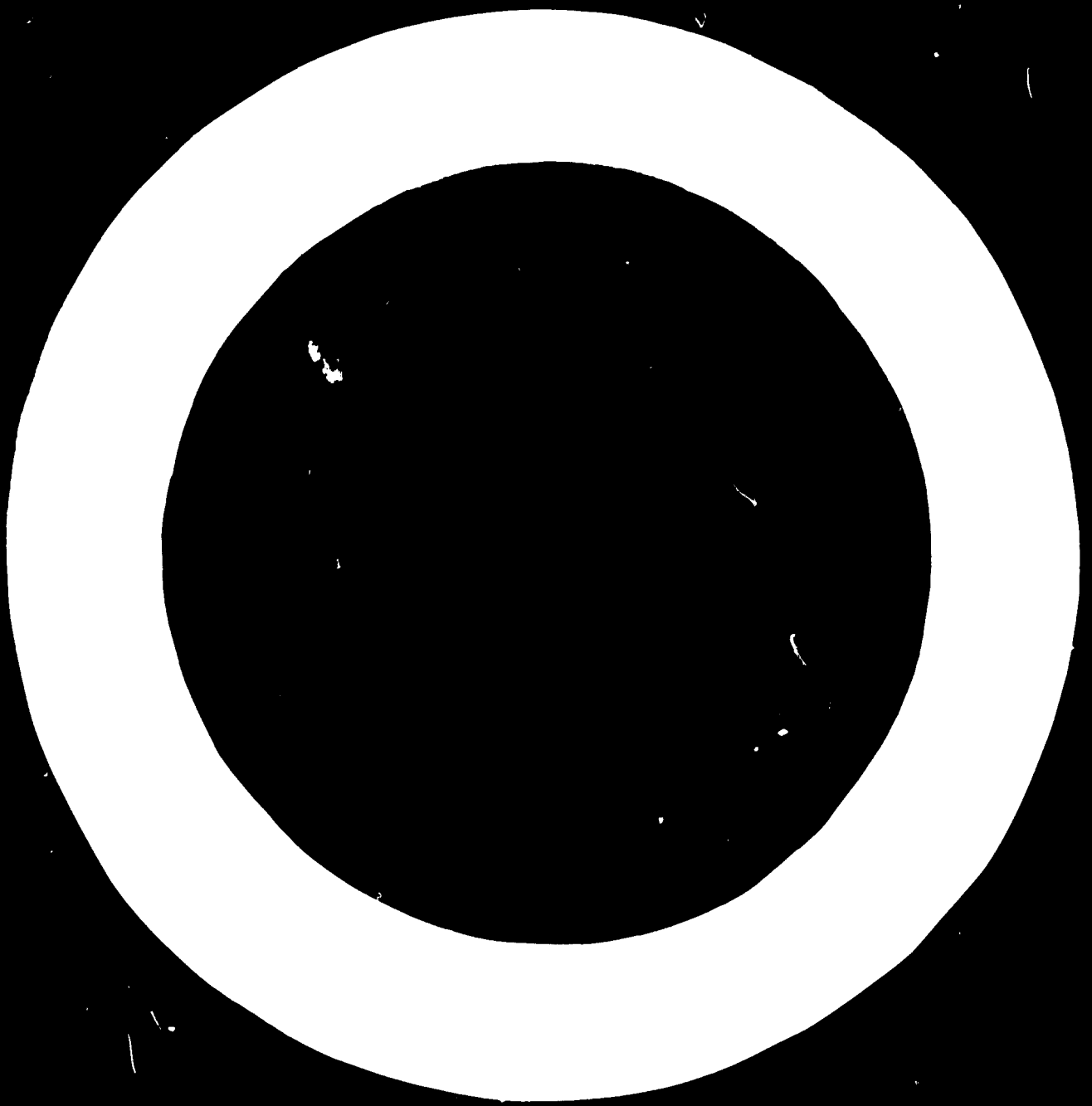
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A BRIEF DESCRIPTION AND EVALUATION OF PAKISTAN'S
EXPERIENCE IN SMALL INDUSTRIES DEVELOPMENT.

by

Syed Nisar Ali Shah, PASAS

BACKGROUND

After the emergence of Pakistan in August, 1947 the country was faced with a multitude of political and economic problems, as such no serious consideration could be given to planning and executing a development programme of small industries. However in 1955 the Government of Pakistan set up a Central Small Industries Corporation to provide credit facilities to industries having a capital outlay of not exceeding Rs. one lac. This helped a great deal in reviving the traditional cottage industries such as sports goods, surgical instruments, cutlery, etc., which had become stagnant due to the lack of capital investment and proper marketing facilities.

It was subsequently felt, that merely providing credit facilities will not significantly help in pulling the small industries to a position of substantial income generating sector, as the problems facing these industries warranted a broad based assistance in the field of finance, technical advisory service, and promotion. Thus in 1960 the development of the small industries was made the responsibility of the Provincial Governments, and the functions of the Central Small Industries Corporation were bifurcated and East and West Pakistan Small Industries Corporations came into being as a result of this bifurcation.

In 1962 the West Pakistan Small Industries Corporation was merged with the West Pakistan Industrial Development Corporation and various programmes for the promotion and development of small industries were initiated in which the Estate Development programme figured most prominently. The International Development Agency under-took to finance this programme which consisted of two industrial estates at Sialkot and Gujranwala, a Small Industries Service Institute at Lahore and two Service Centres of Sports Goods and Light Engineering, and one Ceramic Institute at Gujrat for providing technical, advisory and training facilities to small industries. Apart from this IDA aided programme, 7 industrial estates and a number of handicrafts and carpet development centres and service centres were also planned to cover almost the entire small industries sector in West Pakistan.

After sometime it was realised that West Pakistan Industrial Development Corporation was mainly occupied in carrying out the responsibility of establishing big industries in public sector, and that the execution of the small industries programme needed a separate and independent authority for effective implementation. Thus in 1965 West Pakistan Small Industries Corporation in its present shape and form emerged through the promulgation of West Pakistan Small Industries Corporation Ordinance 1965.

According to this Ordinance a small industry was defined as an industrial undertaking having fixed assets (Excluding the cost of land) of not exceeding Rs.5,0,000. (The Government has recently decided to raise the fixed

investment limit to one million rupees). The Corporation was assigned the following major function:-

Functions

- a) Render assistance in the establishment and development of cottage, small and other industries;
- b) Provide limited credit facilities for the development of industries;
- c) Furnish guarantees to scheduled banks for the repayment of long terms loans to industrial borrowers;
- d) Preparing and submitting schemes to the Government for the development of industries and to give effect to approved schemes;
- e) Sponsoring industries to be set up in the small industries estates;
- f) Taking over from the Government projects and training institutions and running them;
- g) Promote integration of small industries with large industries;
- h) Census and survey of small industries;
- i) Organising trade associations for promoting and marketing the products of small industries;
- j) Organising fairs, pavilions and display of products;
- k) Establishing service centres and common facilities centres for specific industries;

- l) Establishing small industries estates;
 - m) Establishing artisans colonies, designing workshps, institutes for promotion and development;
 - n) Establishing projects in special cases in the less developed areas;
 - o) Procuring and distributing raw materials, machinery and spare parts in certain cases;
 - p) Maintaining and running depots for the supply of selected raw materials and for the purchase and sale of finished goods;
 - q) Promote training of artisans and small Industrialists;
 - r) Assist and guide the grading and standardization of products of small industries;
- and
- s) Sanctioning, balancing, modernizing, etc., of industries.

PROGRAMS

To achieve the objectives as laid down in the Ordinance this Corporation undertook the following programmes for the development and promotion of small industries and handicrafts in West Pakistan :-

1) Estate Development Programme.

This programme aims at providing financial assistance for the establishment of new industries at the Small Industries Estates located in different parts of West Pakistan. These estates created infrastructure and offered technical facilities to prospective small industrialists thus creating suitable climate for gainful investment on scientific

lines. This is done by affording facilities such as land, water, sewerage, roads, communication channels, electricity and other amenities at the estates and institutionalised technical assistance through service centres.

ii) Credit & Development.

For the prospective industrialists and established industries financial assistance in the form of local and foreign credit is provided for the establishment of new industries as well as for the balancing modernization and replacement of existing ones.

iii) Institutionalized Assistance Programme.

The programme aims at providing training, designing, research and technical advisory services to the small industrialists and handicrafts through a net work of service centres and handicrafts development centres established throughout West Pakistan. The objective is to train manpower engaged in small industries and handicrafts for achieving better efficiency level for increasing productivity. The technical and management advisory service is rendered for the solution of specific problems.

iv) Common Production Facilities.

Small Industries by definition do not have recourse to sufficient capital resources for installing modern and expensive machinery. In such cases modern machineries are installed in the service centres and the small industrialists are provided

with facilities to make use of these machines on job charge basis. The major areas of assistance in this regard are tool designing, diesinking and engraving, electro-plating, heat treatment testing and grinding of hard ceramic materials, sports goods, wood seasoning etc.

v) Extension Service Programme.

This programme has been designed to assist small investors in the selection of feasible industries for investment by providing economic and technical data, assistance in the preparation of project

reports and information on sanctioning and legal

procedures, government policies etc. Small Industries Advisory Service located at Lahore and its two extension cells at Foshawar in the north and Sukkur in the south have been established for this purpose. This service is also provided to some extent by field offices where extension cell do not exist at other places in West Pakistan.

vi) Marketing Promotion Service.

Handicrafts shops have been established in almost all the major cities of West Pakistan as well as at places of historical interest which sell handicrafts items of various varieties and designs after purchasing from the handicrafts workers and other establishments dealing in this trade. These shops provide an excellent outlet for the sale of handicrafts thus ensuring a definite marketing channel to the

handicraft workers.

**SUMMARY OF AVAILABLE RESOURCES, THEIR UTILIZATION
AND ACHIEVEMENTS.**

i) Resources.

Since the establishment of this Corporation through June 30, 1970, the following funds were received.

- a) Rs.40.45 million for the completion of on-going projects as well as for the implementation and execution of new projects;
- b) Cash foreign exchange amounting to Rs.8.5 million for the modernization of industries located at Djalhot and establishment of industries inside and outside the estates;
- c) IDI credit Pak-30 of \$ 6.5 million for the Industrial Estates Project. To accelerate the pace of utilization a part of this credit amounting to Rs.6 million was converted into cash foreign exchange;
- d) Lines of credit available with Industrial Development Bank of Pakistan (allocation for small industries in each credit is not specified);
- e) The resources of the Commercial Banks for granting loans in local currency.

ii) Utilization

- a) Rs.56.91 million were spent on the public sector projects during the period 1965-70.

- b) Rs.8.5 million as cash foreign exchange were distributed to 175 units for the modernization of industries located at Sialkot and elsewhere and for the establishment of new industries inside and outside the estates;
- c) ID. credit for Rs.6.5 million was completely utilized for developing industries at the Sialkot and Gujranwala Estates.

iii) Achievements.

- a) Completed civil works on all the 9 small industries estates located at Feshawar, Gujrat, Sialkot, Gujranwala, Bahawalpur, Larkana, Sukkur, Quetta, and Lahore;
- b) 38 new projects were planned out of which 25 have been completed in the third plan period.
- c) Distributed loans amounting to Rs.50.71 million to 562 units inside and outside the estates, out of which Rs.43.40 million was the foreign exchange component;
- d) Loans thus distributed generated further investment of Rs.14.26 million by the private sector, out of which Rs.6.32 million was the foreign exchange component;
- e) Distributed short term loans amounting to Rs.4.16 million to 353 units;
- f) Investment thus made created job opportunities for 7385 persons;
- g) Produced 2752 skilled craftsmen and technicians in public sector institutions;

- h) Produced goods and handicrafts of the value of Rs.4.40 million in its handicrafts institutions and other projects;
- i) Sold goods and services produced by its various projects to earn a gross revenue of Rs.8.56 million;
- j) Sold handicrafts of the value of Rs.9.43 million through its handicrafts shops;
- k) Developed 1801 handicrafts designs and 1566 proto-types for distribution among the craftsmen;
- l) Provided 3234 technical advisory services to the private sector through its various service institutions;
- m) Completed house to house census of small manufacturing establishments listing 50,000 units;
- n) Printed and published 12 directories of small industries and statistical books;
- o) The Small Industries Advisory Service at Lahore prepared 133 economic and technical reports and investment briefs, brought out 49 publications and prepared 215 architectural designs, sketches and plans for private and public sector;
- p) Imported and distributed imported raw materials of the value of Rs.11.47 million among the handicraftsmen and industrialists;
- q) Sponsored 171 projects to the Licensing Board out of which 170 were admitted for direct licensing.

GOVERNMENT POLICIES & PROCEDURES.

The Central Government issues guidelines in the shape of Industrial Investment Schedule for determining the policies to be adopted for the development of industries and also sets forth financial targets and priorities to be achieved during a five year plan period. The import liabilities to be created for each industry on the import of raw materials is also fixed. Small Industrial Sector is covered under this policy document. The fundamental criteria of the priority to be given to industries are

Balance of payments impact of new industrial establishments,

More emphasis on export orientation than on import saving,

better utilization of existing capacity, and reduction of inter-regional disparity.

Hence the executing and financial agencies have to move within the frame work of this policy.

This Corporation has been made to enter into an agreement with the Industrial Development Bank of Pakistan for the disbursement of all foreign credits as well as long term credits in local currency. As such this Corporation has to depend almost entirely on the Industrial Development Bank of Pakistan for the utilization of private sector financial allocations as laid down by the Government.

EVALUATION

1) Financial Assistance.

Whereas this Corporation made significant contribution towards fulfilling its objective for the promotion of small industries as indicated above, yet because of certain government policies and inadequate flow of credits, particularly foreign credits, the rate of investment in private sector was rather sluggish. During the 3rd Five Year Plan an allocation of Rs.250.36 millions was made for investment in private sector in the comprehensive industrial schedule. This was 4.4% of the total allocation of industrial sector. The schedule was released in 1961 after about one year of the launching the 3rd Plan. This allocation was later on revised to Rs.20.16 million. From April, 1966 to April, 1968 Rs.50.04 millions were utilized which was 26.8% of the revised allocation. When in 1968 the Comprehensive Investment Schedule was replaced by priority List of Industries the allocation for small industries was reduced to 50.67 million. Out of this allocation by June, 1970 this Corporation assisted in the utilization of over Rs.20 million which was 22% of the provision.

2) Summary of obstacles to development of small industries.

The following factors have caused to restrict the growth of small industries.

a) Investment Schedule allocations
and procedural handicaps.

- i) The publication of comprehensive investment schedule was delayed for about a year and as such investment allocations could not be utilized at a faster rate.
- ii) The government imposed an embargo on the development of industries mainly based on imported raw materials according to which no industry using more than 20% raw materials could be established. This restriction discouraged investment in more than 50% of various groups of industries.
- iii) The lull continued further as the government delayed the announcement of the priority List of Industries. When it was finally published out of 200 industries only, 67 were provided allocations and the remaining 133 were excluded altogether including most of attractive ones. Of those included in the list, sufficient allocations were not made for attractive industries and in most of unattractive industries no investment could be made.
- iv) While determining ceilings for import liability, some of the attractive small industries were not provided with adequate allocations for the import of raw materials as were allowed to large/medium sector. The examples of Light Engineering, Printing, Plastic Industries etc., are quoted in this regard.

- v) The scope of investment in small sector was considerably reduced with the announcement of priority List of Industries, it was expected that the government would allow drawing upon the allocations of large/medium sector as was provided previously. But this facility was also denied during the first year of operation of PLI. Later on when it was allowed in 1969, allocations in attractive industries like specialised textiles in large/medium sector were already exhausted.
- vi) No flexibility was provided to divert the allocations from unattractive industries to attractive industries. This resulted in unutilized allocations in unattractive industries and sufficient flow of investment could not be diverted towards attractive industries. This is one of the most important factors which adversely affected the performance of private sector.
- vii) Various textile industries whether based on local raw materials and having export potential or based on imported raw materials have been grouped together under 'Specialised Textiles'. This has resulted in lop-sided development of these industries because allocations have not been made for individual industries but for 'Specialised Textiles' as a group. It so happened that one or two industries utilized the major chunk of investment allocations and very little or nothing was left for other attractive textile industries such as towels, handkerchief, tapestry cloth, plush cloth and synthetic textile etc. For this reason allocations in 'Specialised Textiles' were exhausted in the first few months of the operation of schedule.

- viii) Interpretation of the schedule and debiting of investment allocations to external and internal resources in the schedule was the prerogative of Industrial Development Bank of Pakistan. Because of difference of opinion regarding the schedule interpretation and debiting between WPCIC and the Industrial Development Bank of Pakistan finalization of projects was delayed.
- ix) Industrial Development Bank of Pakistan and Central Government gave sanctions to industries covered by Small Sector, utilizing provisions in attractive industries.
- b) Foreign trade & Exchange Controls.
- i) Foreign trade policy and foreign exchange regularizations have a strong bearing on the development of small industries. Because of the scarcity of foreign exchange the Central Government applied rigid import and foreign exchange regularization. For example the import of capital goods as well as raw materials for use in small industries are subject to very high tariff duties. The custom duties for capital goods is as high as 50% of the CIF value. Before the establishment of the letter of credit the prospective industrialist has to surrender a cash margin of 35% of the value of imported machinery. This results on the one hand in a heavy strain on the meagre resources of small industrialist and on the other makes the total cost of establishment of small industry very high. As the custom duties on raw materials are also fairly high, it becomes difficult for a small

industrialist to compete in the international market and also in the domestic market.

- ii) At present rebate on custom duty is allowed after machinery is cleared. In most cases the rebate remains unclaimed because the parties connected with the transaction are unable to claim the rebate for various reasons.

c) Fiscal policy

Tax holidays which range from 2 to 6 years are allowed to the industries establishment in under developed regions. But since entrepreneurs prefer to establish industries in developed areas this facility is also not made use of properly. Moreover this facility is available only to incorporate bodies whereas the small industry is normally either a sole proprietorship or a partnership concern. Also no special fiscal incentive is provided to industries established in the states.

AREAS OF ATTENTION

The areas in which the special attention is needed are:-

- i) Provision of adequate foreign currency credits specifically for small industries.
- ii) Adoption of special measures to stimulate investment in less developed areas.
- iii) Rationalisation of fiscal and monetary policies with special reference to the problems of small industries development in less developed areas.

- iv) Strengthening and diversifying the programme of advisory service to cover entire West Pakistan. Foreign assistance in this field could be of great help.
- v) A programme of sub contracting both in the field of international and local sub contracting may be designed. Foreign assistance in this field can be useful.

CONCLUSION

So far our achievement in promotion of small scale industries has affected only small fraction of our population living in towns and cities. Like the other developing countries of Asia, Pakistan has primarily an agrarian economy where majority of people still live in the rural areas. Farmers remain idle over four months in a year. Besides, there is a problem of 'disguised unemployment' in agriculture sector where the family members depend for livelihood on one bread-winner. The extension of development programme of cottage industries and promotion of traditional crafts in these areas will help a great deal in providing not only employment to the people in rural areas but also supplement the income of the farmers.

In the Fourth Five Year Plan the investment target for small industries promotional programme is fixed at 255 million rupees to be achieved in next five years. Our primary objective will be to adapt small industries to changing technological, economic and social conditions and to preserve and promote traditional art and craft. The main disadvantage of the traditional artisan or handicraft operator is his inability to compete with modern industry. The market of the artisan is extremely limited and covers only the vicinity of his home. In most of the Asian countries

traditional crafts are dying out for these reasons. One has therefore to decide what craft can make an affective contribution to the developing economy so that Government could help in promotion of this craft. The traditional crafts in Pakistan which need Government patronage for promotion include the textiles, wood work, metal work and pottery. In order to improve their quality and help marketing these products the Government should take active steps to assist them in technique and finance eventually to re-orientate the craftsman to enter into industries and other modern activities.

The small Industries Corporations in Pakistan have drawn the plans to set up net-work of small industries service centres all over the country supplemented by extension services including mobile units giving technical advice. Similarly a net-work of marketing service centres will be set up. The programme also visualises that sub contracting which implies that some large scale industries will buy systematically from smaller units, will be fostered.

In order to improve credit services a Consortium of Banks will be set up in West Pakistan which will disburse loans for modernisation and extension and credit for purchase of raw material and marketing. Such a Consortium of commercial banks is already working successfully in East Pakistan since 1966.

The regional cooperation in the NCD Countries for development of these services and facilities will be mutually beneficial. We can pool our experience, organise and manage technical services in the institutional arrangement. The member countries can also provide technical information for extension and training centres and other research development and service institutions.

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