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The Role of Small-scale Industry in Pakistan's Economy and Government Incentives

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INTRODUCTION

Despite the recognition of the importance of small-scale industry, the Government of Pakistan's industrial policy has been biased in the past towards the large-scale manufacturing sector. The First Five Year Plan (1955–60) document states the significance of small-scale industry in the following words.

> Small industry has specific contributions to make to economic development. In the first place, it can contribute to the output of needed goods without requiring the organization of large new enterprises or the use of much foreign exchange to finance the import of new equipment. Secondly, it can provide opportunities for employment beyond the narrow boundaries of urban centres. Finally, as history shows, it can perform an important function in promoting growth, providing training ground for management and labour, and spreading industrial knowledge over wide areas [8, p. 471].

The importance of the small-scale industry was highlighted again in the subsequent five-year-plans. The large-scale manufacturing sector has its own advantages and played no doubt, has, an important role in the economic development of the country. In this study, our intention is not to minimize in any manner the importance of the large-scale sector but merely to examine the case for small industries in Pakistan.

Promotion of small-scale industry can help in achieving many objectives and, in particular, it can help in reducing the problem of widespread unemployment in the country. This problem is expected to aggravate with the inflow of returning migrant workers from the Middle East. Small industry uses relatively more labour-intensive techniques and can generate employment for the expanding labour force. It can also be an important source of foreign-exchange earnings, as it intensively uses the relatively abundant factor of production, viz. labour. By relying on domestic inputs, it also economises on foreign exchange. Other arguments given in favour

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of small industry are that it is an efficient user of the scarce factor-capital-and has better linkages with other sectors of the domestic economy.

The objective of this study is to examine briefly the role of small-scale industry in the economy and to analyse fiscal, financial, and other incentives provided to this sector by the government.

THE ROLE OF SMALL-SCALE INDUSTRY

Before analysing the role of small-scale industry in the economy, it may be appropriate to look at the definition of the term 'small scale'. A small enterprise may be defined differently for different purposes, but whatever criterion is used to distinguish a small from a large manufacturing enterprise, an element of arbitrariness is involved in it. The provincial Small Industries Corporations define a small enterprise in terms of an upper limit on the value of fixed assets, excluding land. This definition has been employed by them and other organizations to collect data on small industries. As our study is based on published data, we have used the same definition of 'Small-scale Industry' in terms of the value of fixed assets. The upper limit on the value of fixed assets has been changing over time but at present it is 5 million rupees.

The role of the manufacturing sector in the economy can be judged from its contribution to the Gross Domestic Product (GDP). Its share in GDP at constant prices has increased over time in Pakistan. In 1959-60 prices, the share went up from 15.5 percent in 1972-73 to 18.3 percent in 1985-86. The share of the 'small-scale' manufacturing sector in GDP has also increased from 3.6 percent to 5.0 percent during the same period. Similarly, the share of small scale in total manufacturing has increased from 23.3 percent in 1972-73 to 27.5 percent in 1985-86. It may be pointed out here that these results are based on constant growth rates of the small-scale industry for different periods, as assumed in the National Income Accounts. The growth rate was taken to be 7.3 percent between 1972-73 and 1976-77, and 9.4 percent thereafter. These rates are, however, not incontrovertible. In an ARTEP study [3], it has been shown that the rate of growth of the small-scale industry in Pakistan is higher than the one assumed in the National Income Accounts. Based on data from different surveys, the study reports the annual rate of growth of 7.2 percent for the period from 1966-67 to 1969-70, and of 13.5 percent for the period from 1969-70 to 1976-77.

According to the available statistics, although the contribution of small-scale sector to GDP does not appear to be very high, it is, nonetheless, an important sector in many other respects, especially in terms of employment generation, exports, and better linkages with other sectors of the domestic economy. A brief discussion on these aspects is given below.

Employment

The performance of Pakistan's small-scale industry has been very impressive in terms of employment generation. It is estimated that about 80 percent of the total industrial labour force is currently employed in this sector [8, p. 63]. However, to date very few surveys at the national level have been conducted to obtain data on the small-scale industry. A census of small and household manufacturing units was done in 1967 for the urban areas of (West) Pakistan by the West Pakistan Small Industries Corporation. Two years later, in 1969-70, a sample survey of Small and Household Manufacturing Industries (SHMI) was carried out by the Statistics Division in 81 towns of Pakistan, but the results of the survey were never published [2, p. 162]. The Statistics Division carried out another sample survey of SHMI in 1976-77, covering only the urban areas of Pakistan. The Punjab Small Industries Corporation conducted a census of SHMI in 1975-76 and subsequently also carried out a number of surveys of particular industries and districts in the Punjab. The latest survey of SHMI was carried out in 1982-83 by the Federal Bureau of Statistics, covering both rural and urban areas of Pakistan. The results of this survey have not yet been published. Data from the available surveys are not of much relevance at present as they are quite obsolete. Pakistan's *Economic Survey 1985-86* [8] gives some information about employment and other aspects of small-scale industry for the periods from 1963-64 to 1969-70 and from 1969-70 to 1980-81. These data are reported in Table 1. The source of these data is not provided in the *Survey* and we believe that the data have been estimated.

Results in Table 1 clearly show that the employment generated in the small-scale manufacturing sector has been much larger than that generated in the large-scale manufacturing sector. During the 1963-64 – 1969-70 period, additional employment generated in the manufacturing sector was 550,000 jobs, out of which 152,000 were in the large-scale sector and 398,000 in the small-scale sector. The employment generated in the small-scale sector was 2.6 times that generated in the large-scale sector. Between 1969-70 and 1980-81, the employment generated in the former sector accounted for 660,000 jobs as compared with the 60,000 jobs in the latter sector. During this period, the employment generated in the small-scale sector was 11 times that generated in the large-scale sector.

The small-scale industry expanded more rapidly in the period from 1969-70 to 1980-81 than in the 1963-64 – 1969-70 period. There were many factors responsible for this rapid growth of the small-scale industry during the latter period. The Pakistani rupee was drastically devalued in 1972, which improved the competitiveness of the small-scale industry with the large-scale industry. Prior to the devaluation, the large-scale industry could import machinery and raw material cheaply on an overvalued official exchange rate, whereas the small-scale industry had no such access to foreign exchange. Devaluation also provided a boost to many export-oriented small industries. Nationalization of industries and labour legislation by the Peoples Party government also forced investors to move to small-scale industry. A dramatic increase in Pakistani workers' remittances from abroad also provided an impetus to the small-scale industry by creating demand for their products.

The capacity of small-scale industry to generate relatively more employment is due to its use of labour-intensive technology. During the period from 1963-64 to 1969-70, the incremental capital requirement in the small-scale sector was Rs 1920 per labourer as compared with Rs 36230 in the large-scale sector. In the small-scale sector it went up slightly to Rs 2320 during the period from 1969-70 to 1980-81, while in the large-scale sector it increased substantially to Rs 185233. The employment elasticity, which measures responsiveness of employment to changes in output, also shows that the small-scale sector has relatively greater potential for employment generation. The employment elasticity in the small-scale sector was higher than that in the large-scale sector in both the periods, though it decreased in the period from 1969-70 to 1980-81 as compared with the 1963-64 – 1969-70 period.

It is argued that the small-scale sector is an efficient user of the scarce factor, capital. Normally the capital-value added ratio is employed to check the efficiency of capital. However, in Table 1, only the incremental capital-output ratio is reported. For the 1963-64 – 1969-70 period, the incremental capital-output ratio in the small-scale sector (4.22) was greater than that in the large-scale sector (3.04). However, for the period from 1969-70 to 1980-81, the ratio for the former sector (1.07) was much lower than that for the latter (4.30). If we use the incremental capital-output ratio to measure the efficiency of capital, it is only in the latter period that the small-scale is a more efficient user of capital than the large-scale sector. For the small-scale sector, data on capital-value added ratio are available from SHMI [7] for 1976-77 and for the large-scale sector from the Census of Manufacturing Industries 1975-76, and these clearly show an efficient use of capital by the former.

Exports

Small-scale industries in Pakistan have great potential for earning foreign exchange. It is stated in the *Sixth Five-Year Plan* that 'the engine of export growth will be agrobased and small scale industries' [10, p. 162]. The plan envisages a 15-percent per annum increase in the exports of output of small-scale and cottage industries. The share of manufactured goods in total exports has increased considerably over time. It is difficult to determine the contribution of small-scale industry to total manufactured exports.[1] However, we have identified a few items which are mainly

[1] According to a World Bank Study submitted to the Government of Pakistan in 1980, cited in [12], nearly 45 percent of the manufactured exports come from small industries.

Table 1

Employment Generation in Pakistan's Manufacturing Sector

	1963-64 to 1969-70			1969-70 to 1980-81		
	Total	Large	Small	Total	Large	Small
Change in Employment (000 Nos)	550	152	398	720	60	660
Change in Output at Constant Prices of 1959-60 (Million Rs)	1,991	1,810	181	4,026	2,584	1,442
Investment at Constant Prices of 1959-60 (Million Rs)	6,271	5,507	764	12,650	11,114	1,536
Incremental Capital/Labour Ratio	11,402	36,230	1,920	17,569	185,233	2,327
Percentage Change in Employment	24.9	37.8	22.0	20.7	10.8	29.9
Percentage Change in Output	62.3	81.0	18.8	77.6	63.9	126.0
Employment Elasticity	0.40	0.47	1.17	0.27	0.17	0.24
Incremental Capital/Output Ratio	3.15	2.04	4.22	3.14	4.30	1.07

Source: [8, p. 64].

produced by the small-scale industry. These items include ready-made garments and hosiery, carpets and rugs, footwear, surgical instruments, and sports goods. The shares of these items in total exports, as well as in manufactured exports, are presented in Table 2. The share of these items, taken together in total exports, increased from 7.53 percent in 1972-73 to 16.80 percent in 1984-85. In manufactured exports, it increased from 24.76 percent to 31.25 percent during the same period.

It has been argued that large-scale industry is mainly concentrated in the import substitution sector which is heavily protected [2, p. 40]. Small-scale industry is not only an important source of foreign exchange earnings but it also economises on foreign exchange by relying mainly on domestic machinery and other inputs.

Other Aspects

It has already been discussed that small-scale industry has better linkages with the domestic economy in terms of employment generation and use of other inputs. The growth of this sector creates demand for domestic capital goods industry. Small-scale industry also acts as a training centre both for workers and entrepreneurs. As it uses less sophisticated machinery, workers get training easily and in a shorter period. Entrepreneurs, with their acquired skill in small businesses, can move to bigger businesses.

GOVERNMENT INCENTIVES AND FACILITIES

A number of fiscal, financial and other incentives have been provided by the government to the small-scale industry. The *Sixth Five-Year Plan* lists the following special incentives to be provided to the small-scale industry [10, pp. 169-170]:

- A combination of fiscal incentives to ease initial cash-flow problems;
- Preferential access to credit through stronger specialized institutions;
- Institutionalized dissemination of information about acceptable export designs and suitable technologies;
- Assistance in training for the required skills;
- Organization of advisory marketing boards;
- Encouragement for integration with the large-scale sector through sub-contracting; and
- Provision of adequate infrastructure and measures to make it accessible to the small-scale investors.

The provincial Small Industries Corporations, set up by the government, are working for the promotion of the small-scale industry. As discussed in the *Sixth Five-Year Plan*, the special incentives are being provided to the small-scale industry mainly through these corporations. A few of these incentives and facilities, viz.

Table 2

Shares of Some Export Items in Total and Manufactured Exports

(Percentages)

Item	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
	Share in Total Exports												
...dy-made Garments and Hosiery	1.13	1.64	2.38	2.91	3.70	1.07	2.23	3.12	2.54	4.93	5.88	7.90	7.00
...and Rugs	3.30	4.50	4.43	6.39	8.08	9.02	10.43	9.39	7.66	6.39	5.55	6.22	5.34
...wear	.98	.93	1.22	.59	.78	.55	.57	.45	.34	.38	.43	.57	.65
...cal Instruments	.53	.84	1.25	1.16	1.19	1.24	1.25	1.03	.90	.96	.83	1.15	2.04
...rts Goods	1.59	1.85	1.99	1.68	1.76	1.50	1.25	1.05	1.07	1.22	1.28	1.78	1.77
...otal	**7.53**	**9.76**	**11.27**	**12.73**	**15.51**	**13.38**	**15.73**	**15.04**	**12.51**	**13.88**	**13.97**	**17.62**	**16.80**
	Shares in Manufactured Exports												
...eady-made Garments and Hosiery	3.73	4.33	6.05	7.66	8.74	2.16	4.73	7.27	5.67	9.48	10.39	13.80	13.04
...rpets and Rugs	10.84	11.84	11.27	16.79	19.07	18.20	22.17	21.86	17.08	12.30	9.81	10.87	9.95
...otwear	3.23	2.46	3.11	1.54	1.86	1.12	1.22	1.05	.77	.74	.76	1.00	1.21
...gical Instruments	1.73	2.20	3.19	3.06	2.80	2.50	2.65	2.39	2.01	1.83	1.47	2.01	3.79
...rts Goods	5.23	4.87	5.07	4.41	4.16	3.03	2.66	2.44	3.38	2.34	2.27	3.11	3.26
...l	**24.76**	**25.70**	**28.69**	**33.46**	**36.63**	**27.01**	**33.43**	**35.01**	**27.91**	**26.70**	**24.70**	**30.79**	**31.25**

...ce: Based on Economic Survey 1985-86 [8].

exemption of cottage industry from central excise and sales taxes, credit and training facilities, and small industries estates, are discussed below.

Exemption of Cottage Industry from Central Excise and Sales Taxes[2]

A number of domestically produced commodities are subject to central excise duty and/or sales tax. However, such commodities are totally exempted from these taxes if they are produced by the cottage industry. The definition of the term cottage industry for tax purposes is different from that used in the ordinary language. The important conditions for a manufacturing enterprise to fall under the category of cottage industry are that the capital employed should not exceed Rs 100,000, and the number of workers on a single-shift basis should not exceed fifteen. Moreover, the owner of the cottage industry either should not own other enterprises, or if he does, the capital employed in all enterprises taken together should not exceed Rs 100,000.[3]

While the purpose of this tax exemption was to provide relief to very small manufacturers, it is alleged that the exemption is being grossly misused and has raised issues relating to equity and efficiency. The alleged gross misuse of cottage industry exemption essentially takes place in the form of undervaluation of capital stock and underreporting of workers. It is also alleged that in some cases, because of its tax advantage, the cottage industry hits hard the organized sector by giving it undue competition.

We now briefly examine these allegations and their implications. It is true that misuse of cottage industry tax-exemption of an unknown magnitude exists in the country. An extreme measure to solve this problem may be to completely withdraw the exemption. We may, therefore, like to have an idea of the additional tax revenue which would be generated if such exemption is withdrawn. Based on the data obtained from the Collectorates of Customs and Central Excise at Karachi, Lahore, Rawalpindi and Peshawar, we have estimated that the additional revenue for the entire country comes to about Rs 21.37 million, which is only 0.41 percent of the total federal tax revenue for 1984-85.[4] This is certainly not a large amount, and while computing it we have totally ignored the additional collection costs. In the case of total withdrawal of tax-exemption, since quite a large number of very small units will be involved, the collection costs may be substantial and may even outweigh the additional revenue.

[2] This section is based on an earlier study by the authors on cottage industry [6].

[3] The following eight commodities do not enjoy cottage industry tax exemption: (1) gas apparatus and appliances, (2) sanitary wares, (3) foam and foam products, (4) washing machines, (5) spring mattresses, (6) marble tiles, (7) flush doors, and (8) P.V.C. pipes.

[4] Detailed procedure to estimate the tax revenue is given in [6].

The other allegation which is often made is that in some cases the organized sector is hit hard by the cottage industry. The degree of competition between the two sectors can be determined by commodity-wise comparisons of their annual output levels. But in the absence of the required data we were constrained to confine our analysis to a comparison of the numbers of manufacturing units, and the actual and estimated revenues from units in cottage and non-cottage industries. Since tax revenue is directly related with the level of output, it can be used as a proxy for the latter.

If we look at the number of the tax-paying and tax-exempt units (i.e. non-cottage and cottage units) as shown in Columns 2 and 4 of Table 3, competition appears to exist in quite a few industries. These industries include plastic products, rubber products, electrical goods, auto parts, brushware, bus/truck body-making, cassettes, confectionary and bakery, ice cream, metal products, paper and paper board, and R.C.C. pipes. The largest number of manufacturing units was in the plastic industry which is an important and rapidly expanding industry in the country. Out of 455 units in this category, located in the areas of Karachi, Lahore, Rawalpindi, and Peshawar Collectorates, and for which official record existed, 156 units were paying taxes in 1984-85 while 299 were operating under the umbrella of cottage industry exemption. Thus, for each tax-paying unit there were almost two units in the cottage industry which were operating without paying any sales tax. Similarly, out of 113 units producing electrical goods, 17 tax-paying units were facing competition from 96 other units operating under cottage industry exemption. A similar situation prevailed in many other industries, although the degree of competition faced by them was not as great.

While a comparison of the numbers of manufacturing units in cottage and non-cottage industry indicate the existence of some competition in certain areas, its magnitude, however, cannot be ascertained without looking at the size of the industry in the two categories. The output of 100 cottage industry tax-exempt units, for example, may only be a small fraction of the output of one large tax-paying unit. To have an idea of the relative size of the cottage industry we have estimated for each category the amount of tax that could be collected if cottage industry exemption was withdrawn. These estimates are given in Column 5 of Table 3. The estimates are based on the assumption that the maximum tax that can be obtained from a cottage industry unit is, at most, equal to the minimum tax paid by a unit producing the same commodity in the non-cottage category. The last column in Table 3 gives the estimated revenue as a percentage of tax collected from non-cottage industries. Figures in this column show that except in the cases of only a few commodities, the estimated revenue from cottage industry is negligible as compared with the actual collection from non-cottage industries. In the case of 12 out of 29 commodities it is less than 1 percent, while for another 10 commodities it is less than

Table 3

Commodity-wise Comparison of Estimated Tax Revenue from Cottage Industry and the Actual Collection from other Industries

Commodity	No. of Tax-paying Units	Central Excise Duty and/or Sales Tax Paid (Rs)	No. of Tax-exempt Units	Estimated Tax Revenue from Tax-exempt Units (Rs)	Estimated Revenue as a Percentage of Tax Collected from Non-cottage Industry
(1)	(2)	(3)	(4)	(5)	(6)
Arms and Ammunition	18	7157698	2	64884	0.91
Auto Parts	48	17151482	56	935928	5.46
Beverages	52	454263322	5	14635	0.00
Brushware	3	920909	4	131016	14.23
Bus/Truck Body Making	38	5740689	28	105000	1.83
Cassettes	5	5411519	5	39748	0.73
Chemicals	30	20450548	14	385224	1.88
Confectionery & Bakery	63	57849172	120	300000	0.52
Cosmetics	69	80090585	13	97786	0.12
Electrical Goods	17	7622821	96	203904	2.67
Glass & Glassware	19	38888592	16	345600	0.89
Gum & Gum Products	7	1089817	3	117648	10.79
Ice Cream	8	14763199	42	281232	1.90
Laundry Soap	35	110093826	3	28800	0.03
Man-made Yarn	70	82621922	2	18714	0.02
Metal Containers	37	68852202	28	20892	0.03
Metal Products	10	1648689	12	135360	8.21
Paper & Paper Board	22	105739552	89	3898200	3.69
Plastic Products	156	68119462	299	1308125	1.92
R.C.C. Pipes	16	356305	37	226625	63.60
[illegible]ofing Felt	3	76589	1	8167	10.66
[illegible] Products	20	4267865	42	124572	2.92
[illegible]y Napkins	6	2654975	3	236844	8.92
[illegible]	8	1484639	6	25938	1.75
[illegible] Products	100	28195851	18	240408	1.04
[illegible]ulin & Tentage	16	2188122	1	18276	0.84
Varnishes & Paints	82	115181721	5	34310	0.03
Wire & Cables	43	27207291	29	172550	0.63
Miscellaneous	18	4088083	18	191689	4.69
Total	1019	1329121942	997	9712075	0.73

Continued –

Table 3 – (Continued)

Source: Reproduced from [6].

5 percent. Only in the case of four commodities, viz. brushware, gum and gum products, R.C.C. pipes and roofing felt, does the estimated revenue from cottage industry units amount to more than 10 percent of the actual tax collection. Strong competition appears to exist only in the case of R.C.C. pipes where the estimated revenue comes out to be almost 64 percent of the actual tax collection.

In short, the earlier impression that in quite a few cases the organized sector was getting competition from the cottage industry, as the number of units in the latter category far exceed those in the former, is negated by the evidence that we get from the comparisons of the estimated and actual revenue collections from cottage and non-cottage industries, respectively. Most of the units in cottage industry are so small that they do not appear to create any serious problem for the organized sector. The allegation of competition is not supported by the available evidence, except in the major and only case of the R.C.C. pipe industry.

On the basis of our analysis we feel that the above mentioned fiscal incentive to very small manufacturers should continue. Withdrawal of this exemption will not only create administrative problems but also retard the growth of small manufacturing units.

Credit Facilities to Small Industries

Investment in small-scale industry is mostly financed by the personal savings of the owner, supplemented by borrowings from the informal sector. However, there are a number of financial institutions which provide credit to small industries in Pakistan and these include (i) the commercial banks, (ii) the Small Industries Corporations, (iii) the Industrial Development Bank of Pakistan, and (iv) the Small Business Finance Corporation.

Owing to the lack of the relevant data, it is difficult to evaluate individually, and even collectively, the role of these institutions in meeting the financial needs of small industries. Whatever evidence we could gather indicates that the loans provided by these institutions are not very significant. According to a UNIDO study "not even 2 percent of the Pakistan's SSI (Small-scale Industry) units are provided with bank financing" [4, p. 94]. Similarly, a report published by the Punjab Small Industries Corporation shows that out of the total credit of Rs 17034.8 million made available to the industrial sector in the country in 1980, the share of small industries was only Rs 553.9 million, which was just 3 percent of the total [12, pp. 4-5]. The Small Business Finance Corporation (SBFC) is a specialized institution which provides credit to small manufacturing as well as non-manufacturing enterprises. During 1984, the SBFC disbursed loans to small businesses amounting to 37.43 million and the share of cottage/small industries was 8.78 million, or 23 percent [11, p.1]. The available data on category-wise outstanding financial assistance by SBFC, as on 31st December, 1984, show that the share of the small manufacturing sector was very low.

Two factors are mainly responsible for the poor credit situation for small-scale industry: (i) limited availability of funds for the industry, and (ii) the demand by commercial banks for sufficient collaterals against their loans, which in most cases are not available. To ensure an increasing role of small manufacturing enterprises in the economy the government should therefore take appropriate steps to remove these bottlenecks.

Technical Training Facilities

Small industries require not only financial resources for their development but also the availability of trained workers. At present, there are 293 secondary vocational institutions in the country with a total enrolment of 59,000, where technical training in various fields is provided to the students [8, pp. 167-168]. Graduates from these institutions not only go to the industrial sector but also serve in all others sectors of the economy. In addition, technical training facilities are also provided by the provincial small industries corporation through their technical assistance and training programmes. We discuss below the training facilities in the Punjab only, but more or less similar facilities are available in other parts of the country as well.

Workers in the Punjab receive training at various service centres/institutes, *dehi mazdoor* (rural labour) training centres, and carpet and handicraft centres, all of which are financed and managed by the Punjab Small Industries Corporation. *Dehi mazdoor* training programme was started in the Punjab in 1973 to train rural unemployed workers in skills like repair and maintenance of farm machinery, welding, machining, carpentry and electronics. At present there are 25 training centres in the Punjab where 5093 workers had been trained till 1984 [12].

Training is also provided at the various service centres/institutes set up by the Punjab Small Industries Corporation at Gujranwala, Gujrat, Sialkot, Nizamabad, and Shahdara. These centres train workers in the fields of light engineering, leather, ceramics, metal, cutlery and small tools, sports goods, pottery, and woodwork. The quantitative aspect of the performance of these centres has not been very encouraging. During the twelve-year period between 1972-73 and 1983-84, only 770 persons successfully completed their training at these centres.

The Small Industries Corporation in the Punjab has also set up a number of handicraft development centres and carpet centres in different cities where workers are trained in *duree* (thick bedspread) making, blue pottery, camelskin products, wooden furniture, basketry, wood carving, mats and *ban* (rope) making, *Gabba* (mattress; quilt) making, and carpet weaving and designing. About 900 trainees had graduated from these centres by 1984.

SMALL INDUSTRIES ESTATES

For planned development of small industries, a number of industrial estates have been set up by the [illegible] Corporation at different places in the country. There are 13 such industrial estates in the Punjab, 12 in Sind, 10 in the NWFP and 1 in Baluchistan [5]. Moreover, plans for the future envisage the setting up of other small industries. Fully developed factory plots in these estates are allotted to interested entrepreneurs. Common facilities provided in these estates include roads, sewerage, water, power, telephone, post office, telegraph office, banks, centres to provide technical assistance, and others as needed.

CONCLUSIONS

The importance of small industries in the economy can hardly be overemphasized. They provide employment opportunities to a large number of workers, require less technical skills, depend mostly on indigenous resources, and have better linkages with the other sectors of the economy. Realising the importance of this sector the government of Pakistan has provided a number of incentives – fiscal, financial and other – for its promotion in the country. Establishment of Small Industries Corporations in the Punjab and Sind, Small Industries Board in the NWFP, and Small Industries Directorate in Baluchistan was an important step in this connection. These institutions are playing a significant role in the promotion of small industries through establishment of industrial estates and provision of financial, technical, and marketing facilities. Although all these activities are commendable, there is need for an even greater role of these institutions in the growth of small industries. The currently available credit and training facilities are insufficient and need to be improved. On the basis of this limited analysis we would like to make the following suggestions.

1. The task of promotion and development of small-scale industry is largely assigned to the provincial governments, which pursue their policies through their respective small industries corporations. On the other hand, the commercial banks and other lending institutions are under the control of the federal government. There is a great need for a homogeneous development policy for small-scale industry at the national level. It is suggested that a committee consisting of representatives from the federal and provincial governments, provincial small industries corporations, and lending institutions, should be formed to formulate a systematic policy for the promotion of small-scale industry in the country. The representatives of entrepreneurs and workers can be included in such a committee to present their points of view. The committee can co-ordinate and supervise the activities of the relevant institutions. It may be pointed out here that similar suggestions have been made by others also [4].

2. It is a well-recognized fact that lack of funds is a major constraint on the expansion of small-scale industry in Pakistan as only a very small proportion of units in the industry have access to institutional credit. Since the commercial banks and other institutions providing loans to small industries are in the public sector, the government can take appropriate policy measures to ensure that a larger amount and proportion of the funds go to small manufacturing units In particular, the role of the Small Business Finance Corporation, which looks after the credit needs of small enterprises, can be increased considerably in this regard. Another problem faced by small units is that they find it very difficult to provide guarantees for their loans as demanded by commercial banks. Guarantee for at least part of the loan can be provided by the government through the Small Industries Corporations. This sort of scheme had been in operation till 1982. Revival of such a scheme will enhance the use of the available funds. With the Islamization of the banking sector and the introduction of profit-and-loss-sharing system, the financial institutions in Pakistan may be reluctant to provide loans to small industries mainly due to their being characterized as relatively high-risk enterprises. Some imaginative schemes, therefore, need to be worked out to ensure continued flow of required funds to small industries.

3. Small-scale industry has a great potential for foreign-exchange earning. Foreign markets should be surveyed periodically and small manufacturers should be informed of the demand for their products. They should also be informed of acceptable designs and quality of products so that they can compete in the foreign markets.

4. Provincial Small Industries Corporations and other organizations have set up a number of training centres for workers. There is an equally great need to set up training centres for entrepreneurs of small-scale industry. A few basic courses on management, marketing, quality control, etc., should be offered at these centres. With great knowledge of these aspects, entrepreneurs may become more productive and be able to make better use of the existing facilities.

5. Last but not least is the need for regular periodical surveys of the small-scale industry at the national level. In the absence of precise and up-to-date information about the industry, the policy-makers are seriously handicapped in working out future plans for this sector.

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Comments on "The Role of Small-scale Industries in Pakistan's Economy and Government Incentives"

The paper by Malik and Cheema summarizes the macro-economic trends of the Small-scale industries (SMIs) in terms of employment, production, investment, exports and value added from 1963-64 to 1984-85 and provides a general review of government incentives for the promotion of this sector. The paper can be divided into two parts and I propose to organize my comments accordingly.

As regards the macro-economic trends, the authors have rightly stated that drawing of inferences from these trends is very difficult because officially published data are only available for 1969-70 and 1975-76. Results of the last survey of Small and Household Manufacturing Industries (SHMIs), conducted in 1982-83, still remain unpublished. The data series published in the National Accounts are generated on the basis of fixed growth rates and elasticities. For instance, the value added series are estimated on a 7.3-percent growth rate for the years from 1972-73 to 1976-77 and on a 9.4-percent rate for the years from 1976-77 to date. Therefore a comparative analysis of the role of SMIs *vis-à-vis* Large-scale Manufacturing Industries is *not* possible from these arbitrary growth rates. A more appropriate method to estimate various trends is through the application of the Input-Output Table (I-O Table) [4] or the Social Accounting Matrix (SAM) [1]. The latter incorporates not only the backward and forward linkages with respect to other sectors in the economy by means of the production account (I-O Table) but also the interrelations with the income and expenditure account.

My second comment concerns the authors' review of the existing government policy for the promotion of the SMIs. At the outset of their review I would have expected them to express their concern about the present government policy which does not explicitly distinguish between modern and traditional, or between modern and cottage (household) industries. Similarly, no distinction is made between urban and rural SMIs. As is well recognized in applied research on this sector [2; 3], the SMIs are very heterogeneous in nature and should be differentiated according to (a) labour markets (i.e. low-skilled versus high-skilled; family workers versus non-family workers); (b) capital investment (those with low capital-labour ratios, versus those with high capital-labour ratios); (c) production linkages (local consumer market versus inputs in other industries – intermediate inputs – and exports); (d) product design (non-standardized and low-quality products versus standardized and high-quality products; and (e) absence versus presence of government linkages (i.e. access to formal credit and training facilities and other extension services). Taking into account the differentiation of the SMIs into two groups according to their distinct modes of production, two separate policy packages should be formulated to resolve the specific problems faced by each group of the SMIs.

This two-sided approach is not new. It can be clearly discerned when comparing the policy recommendations formulated by the ILO and World Bank. The ILO relates its policy to the improvement and stimulation of the cottage industries while the World Bank directs its policy towards the modern SMIs.

In their review of the government incentives for the promotion of the SMIs, the authors do not go beyond statements of facts except in the case of fiscal incentives. As regards the survey of available credit and training facilities and the development of small industrial estates, it would have been interesting to analyse the extent to which these facilities can be improved to meet their objective and hence to learn from past experience.

More interesting in the authors' review of government incentives is the analysis of fiscal incentives for the SMIs, especially where they discuss

(i) the potential collection of indirect taxes from the cottage industries when exemption is withdrawn, and

(ii) the degree of competition between cottage industries and the modern manufacturing industries.

These topics are analysed on the basis of the data obtained from the Collectorates of Customs and Central Excise at Karachi, Lahore, Rawalpindi and Peshawar.

As regards the methodology used for estimating the potential indirect taxes, I suggest that the authors should also take into account those cottage industries which are not officially registered. From a pilot survey of the SMIs in urban areas [3], which was conducted in 1980 in the same four Collectorates, it was found that only 20 percent of all cottage industries were officially registered. Moreover, when using this percentage for calculations along the lines of the paper, the estimated additional tax revenue as a percentage of total tax revenue in the country for the year 1984-85 is not 0.04 percent but 0.2 percent of the total federal indirect tax collected – an insignificant amount when the total costs of collecting these taxes are taken into account.

For estimating competition between cottage industries and modern industries, Malik and Cheema compare in principle output estimates on the basis of potential versus actual indirect tax collection between cottage and modern industries. However, in my opinion it is not the production of two different segments which should be compared but the customers to whom they supply their products. If two firms, one a cottage firm and the other a modern firm, supply their output to the same customer, there will naturally be a sense of competition.

In conclusion, the authors describe five policy suggestions about data collection, credit facilities, marketing assistance, training opportunities and organization of interprovincial coordination, all to promote the small-scale industries. All these five suggestions are sensible and valid. However, the promotion of and support for the SMIs should be based on a recognition of distinction between cottage industries and modern industries as well as between rural industries and urban industries.

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