

# PROBLEMS FACED BY SME's AND PROPOSED STRATEGIES

## Introduction

Few cities in Pakistan can claim to contribute as intensively to the country's export revenues, industrial growth and global reputation as the city which is now popularly known as the '**City of Opportunities**'. Sialkot as Pakistan's third largest export center after Karachi and Lahore has a substantial share of Pakistan's total export revenue\*. The contribution of Sialkot industry for Pakistan's international trade growth is also crucial for employment generation and GNP growth.

Sialkot's industry, by virtue of its export orientation, illustrates a staunch commitment to comply with international quality and production standards. The industry is quite fascinating making Sialkot one of the most prosperous cities in Pakistan with highest per capita income (US Dollar 2800 in 2012). The industry has gained global prominence for a highly diverse range of products ranging from sports goods, surgical instruments, leather goods and gloves, readymade garments to musical instruments.

Though it is a major source of foreign exchange earnings through its exports and remittances from overseas workers, it is still under a developing stage. There are several issues faced by businessmen especially the SME's that have hampered the industrial growth but with government support and staggering policies, these problems can be dealt with and industry could reach new heights.

## Issues for Industrialists

Presently industrialist especially SME's are facing a number of issues that need to be addressed by the Government Authorities, so that they can put their substantial share in the economic uplift of the country.

### 1: Lack of proper Infrastructure:

Infrastructure plays a pivotal role in the development and expansion of any industry; it has major contribution to growth of a country. A strong efficient and affordable infrastructure is crucial element for enabling investment environment. In today's competitive world we are facing serious issues relating to infrastructure e.g.

- **Lack of Material testing lab:** There is absence of "Material testing lab" which must be establish to maintain the quality of the products in order to match up the international standards.
- **Absence of Common facility center:** There are no "Common facility centers" to facilitate the SME's. It is difficult for SME's to afford the latest technology to enhance the quality of their products and to meet global demand.
- **Lack of proper R&D centers:** Research & Development sector is neglected by the Government which is very crucial for developing economies like ours. There is lack of proper R&D centers the present ones are non-functional.

- **Non-functional training centers:** There are limited training centers for providing modern skills to labors related to material handling, machinery handling, production procedures and packaging etc.
- **Inefficient supply chain system:** Supply chain encompasses the steps a company takes to get a good or service from the supplier to the customer. Supply chain management is a crucial process for many companies, and many companies strive to have the most optimized supply chain because it usually translates to lower costs for the company but unfortunately we lack proper supply chain system.
- **Absence of proper Railway and Cargo system:** Transportation system serve as the backbone of any industry but our railway and cargo system is inefficient in facilitating the industry.
- **Inefficient security system:** There is lack of proper security system at ports e.g. unavailability of latest scanners because of which exporters face many issues related to packaging of goods and lead timing issues.
- **Absence of engineering university:** Industry is in a critical need of technical personals to handle latest technology. We do not have any engineering university in our city therefore we have to hire learned people from outside which increase our expense burden.

## **2: Energy Crisis:**

Energy crisis is another factor that impedes the growth of all industries to a large extent. The national energy policy should define parameters to remit dedicated energy to the industrial sectors for smooth transition of operations. Sialkot's daily energy requirement hover around 180 MW whereas the supply is approximately 110 MW, leaving a shortage of 70 MW. The city's industrial sector is willing to invest in power projects which can produce 75 MW electricity but Government policies are not favorable as they restrict the private sector to use only 5 MW of their production capacity.

## **3: Price Fluctuation:**

Lack of price consistency of material affects the export prices of industrial products. Fluctuation in rates of different goods and facilities which decreases the consistency of FOH cost (Factory Overhead Cost) e.g. electricity rates, transportation fairs and petrol prices etc. because of this persisting issue our businessmen are unable to make long-term dealings with global businesses.

## **4: Lack of Government support:**

Lack of government support in different issues faced by exporters and SME's;

- Lack of significant subsidies by the Government.
- The concerned authorities assured exporters for expeditious payments of outstanding refund claims and removing the bottlenecks but there has been a constant delay in implementation.

- Exporters face severe problems regarding ANF (anti-narcotics force) strict rules for checking the traded material. ANF is resistive to changes demanded by the traders to maintain the proper profile record of regular traders for facilitating them.
- Direct and indirect tax burden is also increasing day by day which affects adversely on our business and export e.g. Sindh Government is imposing “infrastructure development cess” on the traded material that adds to the cost.
- Huge amount of Duty Drawback and Sales Tax refund claims of the exporters are stuck-up with the concerned authorities and Non-payment of their refund claims of millions of rupees has further exacerbated their grievances to great extent. It has become impossible for the exporters to meet the commitment of foreign buyers’ export orders.
- EDF (Export Development Fund) is collected by the government for development but there is no effective utilization of these funds for the development of our major export sectors.
- Presently the government announced duty drawbacks and sales tax refunds only for the textile industry, sidelining the other major export sectors e.g. surgical, sports and sportswear, leather products.
- Most of our products are sold in global market by the international companies with their brand name, and our industry is considered as a “vendor”, having no brand recognition in global market. We cannot reach to our real potential in global market because our traders face a lot of obstacles within the country e.g. technological backwardness, tax and refunds issues, no common facility centers, infrastructure problems and majorly energy crises. Govt. is not playing its active role for resolving such problems. That’s why; our exporters are unable to take effective steps to stand strongly in global market as a “Brand”.

#### **5: Lack of Financial Support:**

There is major lack of actual support regarding financial facilities, incentives like subsidies on gas and electricity, interest free loans, land concessions for young entrepreneurs, tax relaxations and duty free imports. Small businesses face a lot of complications in getting loans on easy terms and conditions. The paper formalities and heavy securities demanded by the banks enhance the difficulties for SME’s. Furthermore there is no development of “Exim banks” for the growth of import and export.

#### **6: No Regulatory Framework:**

Regulatory Framework Cumbersome procedures of government departments and the difficulty of dealing with a number of government agencies have been identified as major problems facing exporters. For example, exporters have to deal with more than forty government departments, each having its own individual documentation requirements. The excessive procedural requirements not only raise the transactions costs of exporters but also impede their access to the benefits offered under various incentives and export facilitation schemes. Government is not facilitating the traders with one-window operations.

## **7: Labor issues:**

- There are no strict policies regarding labor contracts. Most exporters especially SME's are facing problems related to labor contracts. Big enterprises often attract skilled labor by offering more wages as a result the labors keep on shifting to better opportunities regardless of the rules and conditions.
- There is current issue is to lack of proper transfer of skills to the next generation as in modern age everybody tries to change their life style and prioritize the “white collar job”. Due to this trend the issue regarding “shortage of labor” is arising.
- Presently, the training and education centers are not effective in equipping the labor with the desired skills of the industry. Organizations like TEVTA and NAVTTEC are not working to their optimal capacity and also use outdated curriculum which does not comply with the dynamics of the industry.

## **Strategies:**

### **1: Infrastructure Development:**

Transportation is the backbone of export and industrial sector as a heavy portion of the product cost of an exporters include the transportation expenses and cargo charges. This issue must be resolved through;

- 1) Roads linked with rural areas and main cities must be properly constructed for better approach and smoothing the internal trade directly and export indirectly.
- 2) Check & balance of dry port and airport fair system for controlling the cost and improving the quality of products.
- 3) Government must invest heavily in the improvement of physical and financial structure including shipment, clearance, cargo system, handling at the ports and airports for smooth flow of export and import of good.
- 4) Govt. should utilize the non-active Samarayal interchange and link it with Sialkot dry port to facilitate the inflow and out flow of products and goods.
- 5) In developing economies like ours research and development is the most important area of concern. For upgrading and modernizing the export-oriented industries of Sialkot, research and development facilities are urgently required. R&D centers must be established to facilitate the industry. These centers should be efficient enough to educate development tactics to businessmen especially young entrepreneurs in order to compete with their competitors in international markets, plus the direly needed Research & Development funds should be initiated.
- 6) Establishment of material testing laboratories to facilitate product development. This would help in cost optimization of the product with enhanced quality. It will enable the industry to move into a higher technological ambit.

- 7) Common Facility centers like SIDC must be established especially for surgical industry because its production process is quite long and complex. There is a wide variety of products in surgical sector therefore the crucial need of the hour is to facilitate the complete production process at one place to save time and cost.
- 8) To acquire affordable and quality technical assistance at home, an excellent engineering university should be established in Sialkot to give boost to the trade.

## **2: Development of Power projects:**

Private sector of Sialkot has been investing for projects that would pave up the way for staggering growth of the economy. It has proposed to initiate a power project that could meet the present shortage of 70 MW but Govt. policies are unfavorable as they permit the industry to use only 5 MW of the whole production. Government should revise the energy policy and allow the private sector to invest in such power projects to eradicate the prevailing menace. Moreover the share of individual cities may also be increased in the grid.

## **3: Consistency in prices of oil, gas, electricity etc.:**

Today, China and other dumping countries are entertaining their importers with long term trade deals at reasonably low rates to sustain their customer for long run. But Pakistani exporters fails to adopt such strategies because of constant fluctuation in prices of oil, gas, electricity, material's cost etc. Therefore our exporters could not reach out to their real potential. In this regard Govt. and other trade related bodies must perform their role by framing some long term projects on the extraction and usage of natural resources as well as electricity plants e.g. Sialkot has the abundant water resources but the need is to use this blessing of ALLAH properly and efficiently. Many other areas of our country has abundant resources but the need is to fully utilize them through some new projects by the government with the cooperation of sound trade bodies.

## **4: Trade incentives:**

Our Govt. must revise its policies related to industrial products as well as export good to make them cost effective for increasing the profit margins and ultimately increasing the business and export.

- Govt. should encourage the trade related bodies and extend its full support for development of trade e.g. Chamber's effort, PREGMA's efforts for textile and garments industry, Asian sports and allied industries federation, UNIDO (providing technical assistance to leather industrial labor) and LIDO etc.
- Govt. in collaboration with concerned authorities should devise policies to improve online return system as well as to provide tax relaxations.
- Subsidies announce by the government must be given timely and with easy documentation.
- The tariff on imports of machinery and raw material adds to the cost of the products. This tariff should be reduced to facilitate exporters.

- Pending rebate and refund claims must be cleared timely to keep the flow of business activities and to minimize the financial complexities.

### **5: Improving financial services:**

- Banking and financial institutional system must be easy to understand and easily available for especially SME's. State bank must frame such policies to provide financial assistance to the traders with less paper formalities and complications at reasonable rates.
- Credit policies should be framed in favor of our industrial and trade sector. One of the key strategies to be employed for the uplift of the industry is, to provide special packages of incentives for small and medium enterprises. Interest free loan on easy terms and conditions must be given to young entrepreneurs. Export finance schemes must be devised for both short and long term financing. Credit enhancement incentives must be provided with the view to enhance the access of small and medium exporters to bank credit.
- National saving centers and other non-banking institutions must also play their vital role in this regard.
- There must be taken strong steps by the government for the establishment of "Exim banks" for promoting international business.

### **6: Enhancing the use of latest technologies:**

Sialkot's more than a century old export-oriented sports goods, surgical and musical instruments and leather garments manufacturing industries are in dire need of up gradation and modernization to meet the global challenges. The advanced manufacturing and production technologies should immediately be brought in Pakistan from abroad for developing and boosting these industries in the larger national interest.

- Govt. should provide funds and subsidies to import latest technologies required for surviving in such a competitive business world.
- Govt. should contribute and take some initiatives to provide some main technological machinery related to our major trade sectors in common facility centers to enhancing the production capacity and ultimately our foreign exchange earnings.

### **7: One-window operation:**

There are two aspects of this concept that;

- Govt. should devise policies with the mutual consent of concerned departments for providing the facility to the exporters as they pay their whole tax liability at once to eradicate their grievances regarding tax issues.

- Govt. and concerned authorities must try to abridge the complicated procedure of trade and tax related documentation in many govt.'s departments to facilitate foreign exchange earners of the country.

### **8: Labor skill development:**

Punjab govt. as well as other responsible institutions must focus on the training facilities for workers for enhancing their abilities and production capacity in all sectors.

- Training centers must be established under TEVTA to provide more skilled labor to the industry of Sialkot as well as the existing training centers must also be developed by all means. With the collaborative efforts of government and businessmen, such projects must be established in nearby rural areas of Sialkot to attract labor class to enhancing their skills.
- Monthly training courses for machinery handling must be given according to the present demand of industry to the labors by the collective efforts of government and employers.
- Strict rules must be devised regarding labor contracts with owners related to their advances, wages, time durations etc. (because labor mostly moves from one organizations to another even after receiving advance money from the owner, thus creating complications small exporters).
- Due to lack of skill-transfer to the adolescents, a gap is arising between demand and supply of labor which can be filled by the sincere efforts of Govt. and businessmen to fix some attractive & reasonable wage rates for them.
- Skill up gradation of the workforce in the production process specially pattern making, stitching, embroidery, printing, dry & wet processing, finishing, many surgical production processes, quality control and productivity for competing international standards. Awareness and skill up gradation on modern techniques & use of more environment friendly chemicals in different production processes in garments and leather industry must be facilitated.

### **9: Implementation of Lean manufacturing technique:**

Internal manufacturing processes should be rationalized by implementing Lean manufacturing technique, thereby reducing the Non-Value Added Processes which confine to the limited scope of production. The strategy so proposed would help a long way reducing the lead time and increase the dedicated capacity/order fulfillment rate of the organization. For this purpose, government should support to establish the common facility centers for the smooth flow of production procedure and supply chain system. Therefore government proved helpful for saving exporters from heavy imports of machinery etc.

### **10: Effective Commercial sections:**

Commercial sections must be facilitated as they are effective for international marketing and image building at various trade forums. These sections shall be accompanied by industry specific technical marketing experts to carry out the campaign in an effective manner.

### **11: Enhancing the entrepreneur ability:**

On ad hoc basis, vocational/technical training institutes must be established to enhance participation rate of young entrepreneurs as they have insufficient knowledge regarding new business environment, new methodologies and do documentation. To equip such SME's training sessions, seminars and workshops must be arranged.

### **12: Brand Development:**

The leading manufacturers and exporters of textiles, leather garments, and sports goods should be encouraged to develop their own brands and labels for their products. The highest level of value addition occurs when products are sold under a brand name.

Sialkot is the major export oriented city in Pakistan. Sialkot based export goods are highly appreciated in International markets. It's high time for Pakistan to make good use of the opportunities available at international level. Govt. should encourage and back the leading manufacturers and exporters of textiles, leather garments, and sports goods to develop their own brands and labels for their products. Such steps will ultimately flourish the business, industry, exports, employment opportunities, investments, per capita income, GDP and economic growth of Sialkot as well as of the whole country

### **13: Improved Law and order conditions:**

Political stability and improved law and order conditions are imperative for industrial development. Trade-boosting strategies should be evolved to flourish and promote trade abroad and to boom up national exports by taking the exporters into confidence. The government should strive to promote "soft image" of Pakistan globally for opening the trade promotional ways and for bringing maximum foreign investment in Pakistan by rebuilding the confidence of the foreign investors.

### **14: Proper check & balance:**

Even though there is a crucial need to developed many new departments, projects and ideas stated above, for the enhancement of business activities and export of the city but the most important step is to give upswing the concept of accountability in existing government departments, agencies, authorities and different trade related centers to ensure their credibility and performance for the development of trade.

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