Problems of Small and Medium Enterprises in Khyber Pakhtunkhwa

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Abstract

The role of SMEs in the economic development of any economy can hardly be over emphasized. In developing country like Pakistan SMEs is the major sector of employment. The SMEs in a province like Khyber Pakhtunkhwa attains more importance because of its rich mineral potential, irrigated agricultural land with very hard working labor force and entrepreneurial talents. In spite of these natural blessings out of a total 2222 SMEs there are more than 330 units which have been closed their business for one reason or the other. The failure or slow growth of SMEs in the province warrants intensive study for finding out the root cause and suggest measures which can help revive and rejuvenate the existing SMEs and also pave way for expansion in this vital sector of the economy. This study focuses on the existing situation of SMEs in province, identifies problems confronted by the SMEs and on the basis of first-hand information collected through a questionnaire makes recommendations for improving the situation.

Key Words: Industrial history of KPK, Population urbanization, SMEs categorization, problems identified, suggestions

1. INTRODUCTION

The industrial revolution in the West changed the production pattern. The Products of small manufacturers and producers operating on handlooms and primitive appliances could not compete with mechanized production with refined quality and were, resultantly, wiped out of the scene. The products of blacksmith, the potters, weavers, knitters, cobbler’s and other artisans lost their market because of quality products out of sophisticated machine operation available supplied to the market at comparatively low price. Nevertheless, the art and craftsmanship continued transforming to the posterities of these men of the art. Mechanized production process added to the production volume tremendously and due to demonstration effect the aggregate effective demand increased. Consequently, trade and industry received a very strong momentum. The world economy grew at fast rate. The employment opportunities increased because of industrialization. The economic activities increased at very fast rate. Still the small manufacturers had been playing a very vital in the overall economic growth of almost
the countries because of small capital requirement and better management by the
sponsors themselves. However, small industrial units in Khyber Pakhtunkhwa have
been facing serious problems due to which the growth rate in this sector remained
stagnant. This paper discusses the role of SMEs in world economies. It highlights the
problems of SMES in Khyber Pakhtunkhwa and suggests measures for improving the
situation in province which is severely hit not only by natural calamities but also by
international aggression in the form of terrorism and sabotage activities.

2. LITERATURE REVIEW

Shahid (2015) commenting on the importance of SMEs in the economy and job
creation informed that there are 3.2 million small and medium enterprises operating in
Pakistan which are contributing 40 percent share to the GDP. He [1], further informed
that this sector has been contributing 46.5 percent of the exports of the country. This is
all about the SMEs already registered while most of the SMEs have not yet been
registered. Out of the total 3.2 million only 14 percent are registered in Khyber
Pakhtunkhwa. 65 percent of these SMEs are functioning in the province of Punjab and
2 percent have been registered in the province of Baluchistan.

Hammer et al. (2010) discussing the participation of Small and Medium Enterprises
in US export informed that; during period from 1998 -2004 the SME contributed half
of the non-agricultural GDP. And provide 99.9 percent of the 27 million employers and
an employer private nonfarm business in the United States of America in the year 2006.
In the same period, it provided to nearly half of the non-farm 120 million workers in
the private sector. It is further informed that SMEs in America a major source of
innovation and have been more in innovative activities than the larger firms.
Interestingly SMEs were providing employment opportunities to nearly 48.5 percent of
the total work force engaged.

Gambage (2014) in his article states that turnover of employees largely depends the
Human resource policy of the firm. It is said that firms which attract, develop and
motivate qualified people need not to worry about excessive turn over. This is because
when talent is selected and allowed to work with job satisfaction they rarely leave the
firm.

The concept of Small business has been controversial. The scholars have different
point of views on the subject because of the volume and life of business venture.

Shambhu (2010) while conducting an appraisal of Micro, Small and Medium
Enterprises (MSMEs) in India disclosed that the MSME sector in India has been
contributing 45 percent of the manufacturing industry and has a substantial share of
nearly 40 percent in Indian export. It further added that this sector is providing
employment to some 42 million persons in more than 13 million units producing nearly 6000 products.

Ludovica and Nicolet (2011) commenting on the role of SMEs in modern economy have also endorsed the major role of SMEs in job creation. Providing job opportunities to majority of the job seekers is the distinguishing characteristic of Small and Medium Enterprises. SMEs are providing nearly 70 percent of the jobs in the market. They were of the view that the SMEs form more than 99 percent of the companies. Being sponsored by middle class of the society SMEs is factor of balancing the distribution of wealth and reducing the risk of monopolistic and oligopolistic exploitation of the society.

Lukács (2005) while highlighting the role of micro, small and medium enterprise in European economic area including Switzerland apprised that there are more than twenty million enterprises which are providing jobs to 122 million of people and more than 93 percent of them are carrying on business of micro level and employing not more than ten workers in each unit. Two third of the workers are engaged in small and medium enterprise while rest of the one third are employed in large industrial and other units.

According to International Chamber of Commerce the industrial units with employ from 100 to 2000 will be placed in the category of SM. This classification or for that matter definition in no way suits developing countries like Pakistan where majority of business and industry is run by either individuals or small groups with limited amount of finances generally contributed by sponsors themselves.

European Union had recommended categorizing the Small and Medium enterprise in the following manner.

<table>
<thead>
<tr>
<th>Table: 1</th>
<th>Categorization of SME</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entity</strong></td>
<td><strong>No. of Employees</strong></td>
</tr>
<tr>
<td>Medium-sized</td>
<td>Less than 250</td>
</tr>
<tr>
<td>Small</td>
<td>Less than 50</td>
</tr>
<tr>
<td>Micro</td>
<td>Less than 10</td>
</tr>
</tbody>
</table>

Small and medium-sized enterprises (SMEs) are defined in the EU recommendation 2003/361. This definition is relative to those entities which operate individually. The entities which are part of a larger group then the head count and balance sheet of the larger group will also be taken into account.

In Pakistan, State Bank of Pakistan while issuing Prudential Regulations for Small and Medium Enterprises has defined the SMEs in the following manner.
i. In terms of Prudential Regulation No. SE, R.1 the firms or individuals engaged in manufacturing or business and employing not more than 20 employees or annual sale turn over not more than 75 million will be treated as Small Enterprise. Such enterprise can avail finance facilities from banking companies up to 15 million.

ii. Prudential Regulation No. ME, R. 1 defines the Medium Enterprise as one which in case of manufacturing concern with number of employees from 21 to 250 and sales above Rs.75 million but less than Rs.400 million. The sales turnover is for all types of Medium Enterprises.

iii. In case of trading unit, the same regulation describes that organization employing workers from 21 to 50 will be treated as Medium Enterprise. The entity should ideally be not a public limited company

So, the number of employees forms basic criteria for determining the category of the business concern. The philosophy behind these criteria is encouraging those units which promote employment level by creating job opportunities and help in poverty alleviation.

Table 2: SME Categorization

<table>
<thead>
<tr>
<th>S. No</th>
<th>Category of SME</th>
<th>Type of business</th>
<th>No. of maximum employees</th>
<th>Sales turnover per year</th>
<th>Entitlement to Finance facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Small enterprise</td>
<td>Trading/Manufacturing</td>
<td>1-20 persons</td>
<td>Up to Rs. 75 million</td>
<td>Up to Rs.15 m Clean facility Up to Rs.5m</td>
</tr>
<tr>
<td>2</td>
<td>Medium Enterprise</td>
<td>1.Trading 2.Manufacturing</td>
<td>21-50 persons 21 – 250 persons</td>
<td>Above Rs. 75 m but less than 400m</td>
<td>Up to Rs. 100m</td>
</tr>
</tbody>
</table>

3. SMALL AND MEDIUM ENTERPRISE IN KHYBER PAKHTUNKHWA

In Khyber Pakhtunkhwa the business and industrial community has been initiating businesses both of trading and manufacturing but pessimistically confronted numerous difficulties in not only establishing their business units but faced difficulties while continuing with their businesses. In this part of the country entrepreneurs made all out efforts to contribute towards the national economy by establishing new industrial units and business points for expanding the market for our agricultural output, and simultaneously add to foreign exchange reserve by producing import substituent and export-oriented goods. But their strife hard could not fructify because of failure of SME units at a large scale.
From the Table below, it transpires that out of total 2299 small and medium enterprise (almost all of them in the industrial sector) registered till 2011-12 in Khyber Pakhtunkhwa 478 units had been closed. Total number of SMEs increased to 2365 in the 2012-13 but the number of closed units decreases by two because of recommissioning of two closed units. During the period 2013-14 the situation more worsened and the total number of units came down to 2222 because one more running unit had to wind up its business and 142 of the closed units ultimately packed their paraphernalia. From the perusal of No.4 it deplorably transpires that some 133 flour mills are closed due to non-availability of wheat from Govt. stores. The flour demand of the province is being met through import of wheat flour from Punjab. 29 enterprises which were supposed to produce various food items could not continue their business. 41 cold storages and ice factories stopped operation due to power breakdown and energy crisis.

Table: 3 District Wise Total No. of Registered Industrial Units Running & Closed in Khyber Pakhtunkhwa.

<table>
<thead>
<tr>
<th>District</th>
<th>2011-12</th>
<th>2012-13</th>
<th>2013-14</th>
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<tr>
<td></td>
<td>Total</td>
<td>Runnin</td>
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<tr>
<td>Khyber Pakhtunkhwa</td>
<td>2299</td>
<td>1821</td>
<td>478</td>
</tr>
<tr>
<td>Abbottabad</td>
<td>95</td>
<td>52</td>
<td>43</td>
</tr>
<tr>
<td>Bannu</td>
<td>42</td>
<td>37</td>
<td>5</td>
</tr>
<tr>
<td>Battagram</td>
<td>3</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Buner</td>
<td>197</td>
<td>192</td>
<td>5</td>
</tr>
<tr>
<td>Charsadda</td>
<td>37</td>
<td>30</td>
<td>7</td>
</tr>
<tr>
<td>Chitral</td>
<td>5</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>D. I. Khan</td>
<td>69</td>
<td>40</td>
<td>29</td>
</tr>
<tr>
<td>Dir Lower</td>
<td>24</td>
<td>23</td>
<td>1</td>
</tr>
</tbody>
</table>
Swat was once industrial hub for artificial silk cloth and was major supplier to Faisalabad and other parts of the country. The SMEs in Swat started in eighties decade. More than looking at the list of closed units in Swat seems a very glooming picture. It is pertinent to mention that the list contains only the SMEs already registered with the regulatory authorities and the list is confined to industrial units. The trading enterprises have never been given any importance whenever a survey is conducted. Proving the criteria of SMEs millions of the trading entities constitute the group of SMEs. The small shop keepers engaged in delivering services of supplying raw

<table>
<thead>
<tr>
<th>District</th>
<th>12</th>
<th>12</th>
<th>0</th>
<th>12</th>
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<th>0</th>
<th>12</th>
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<td>Dir Upper</td>
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<tr>
<td>Hangu</td>
<td>6</td>
<td>5</td>
<td>1</td>
<td>6</td>
<td>5</td>
<td>1</td>
<td>6</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Haripur</td>
<td>202</td>
<td>157</td>
<td>45</td>
<td>204</td>
<td>159</td>
<td>45</td>
<td>172</td>
<td>150</td>
<td>22</td>
</tr>
<tr>
<td>Karak</td>
<td>7</td>
<td>6</td>
<td>1</td>
<td>7</td>
<td>6</td>
<td>1</td>
<td>5</td>
<td>5</td>
<td>0</td>
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<tr>
<td>Kohat</td>
<td>28</td>
<td>16</td>
<td>12</td>
<td>28</td>
<td>16</td>
<td>12</td>
<td>23</td>
<td>19</td>
<td>4</td>
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<tr>
<td>Kohistan</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
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<tr>
<td>Lakki</td>
<td>20</td>
<td>15</td>
<td>5</td>
<td>20</td>
<td>15</td>
<td>5</td>
<td>18</td>
<td>16</td>
<td>2</td>
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<tr>
<td>Malakand</td>
<td>50</td>
<td>41</td>
<td>9</td>
<td>51</td>
<td>42</td>
<td>9</td>
<td>68</td>
<td>62</td>
<td>6</td>
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<tr>
<td>Mansehra</td>
<td>51</td>
<td>32</td>
<td>19</td>
<td>58</td>
<td>37</td>
<td>21</td>
<td>66</td>
<td>60</td>
<td>6</td>
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<tr>
<td>Mardan</td>
<td>172</td>
<td>152</td>
<td>20</td>
<td>172</td>
<td>152</td>
<td>20</td>
<td>192</td>
<td>185</td>
<td>7</td>
</tr>
<tr>
<td>Nowshera</td>
<td>213</td>
<td>194</td>
<td>19</td>
<td>216</td>
<td>195</td>
<td>21</td>
<td>205</td>
<td>187</td>
<td>18</td>
</tr>
<tr>
<td>Peshawar</td>
<td>614</td>
<td>515</td>
<td>99</td>
<td>654</td>
<td>558</td>
<td>96</td>
<td>547</td>
<td>475</td>
<td>72</td>
</tr>
<tr>
<td>Shangla</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Swabi</td>
<td>228</td>
<td>88</td>
<td>140</td>
<td>237</td>
<td>103</td>
<td>134</td>
<td>253</td>
<td>146</td>
<td>107</td>
</tr>
<tr>
<td>Swat</td>
<td>216</td>
<td>203</td>
<td>13</td>
<td>220</td>
<td>205</td>
<td>15</td>
<td>164</td>
<td>157</td>
<td>7</td>
</tr>
<tr>
<td>Tank</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>1</td>
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<tr>
<td>Tor Ghar</td>
<td>0</td>
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<td>0</td>
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</tr>
</tbody>
</table>

Source: Bureau of Statistics, Planning and Development Department of Khyber Pakhtunkhwa-Development Statistics of Khyber Pakhtunkhwa
material, semi-finished goods and consumable products have rarely been counted as part of SMEs.

The artisans manufacturing steel/metal goods, wood/timber products, variety of pottery, handicraftsmen engaged in producing accessories, the weavers, knitters, cobbblers etc are not less important. The manufacturers of domestic and agricultural appliances in Reti Bazar, shoes makers in Mochilara, carpet weaving workshops operating in Faqirabad and Afghan colony have never been made part of study on SMEs. Their role in the promotion of economic welfare warrants to be acknowledged and their efforts ought to be recognized. The research so far conducted on the area of SMEs has neglected the service industry of Health and Education significantly contributing towards growth of welfare state of Pakistan. In Khyber Pakhtunkhwa, as reported in Development Statistics of Khyber Pakhtunkhwa 2015 published by Bureau of Statistics, there are 2127 private primary schools and 3718 middle and higher secondary education schools functioning in the province with 67034 teachers rendering services of imparting education, but never included in the study on SMEs.

The same report reveals that there are 3607 private medical practitioners in the province. However, it is not mentioned that whether these practitioners are running their private clinics or have confined themselves to deliver services as individual in their personal capacity. In each case the private practitioners as per above definition form part of SMEs and ought to be taken care of while formulating and approving an SME policy. There is no data available on unregistered private clinics and hospitals although these service units are providing job to thousands of professionals of the province.

Geographically Khyber Pakhtunkhwa is business hub because of its geographic location. Its trade transactions via Afghanistan can stretch to whole of Central Asia. With great export potential the Khyber Pakhtunkhwa can play a very pivotal role in the economy of Pakistan. With abundance of natural resources and very hardworking, sturdy and strong manpower it positively changes the destiny of the people of Pakistan had it been given the opportunity to flourish. We conducted a sample survey to find out the problems associated with closure of the these more than 400 units and have reached the conclusion that almost all the major problems relate to Paucity of finance and energy and poor management of the affairs by the Govt. The ice factories closed due to seasonal market of the product and again decreasing demand in the market due.

District Swabi need immediate attention because here 107 out of 253 units are closed. There is a variety of products expected out of the operation of these closed units which will not only add to the Govt. revenue but also provide employment opportunities to the local population.
Peshawar is second zone with seventy-two closed units. The first industrial zone in Khyber Pakhtunkhwa was established in Peshawar in early seventies when the Small Industrial Development Board was constituted in 1972.

This is the district wherein the Gadoon Amazai Industrial Estate locates. This estate was established in early eighties to provide job opportunities to local population as an alternative to poppies cultivation. With a view to induce entrepreneurs and industrialists from other parts of the countries Govt. had announced tax holidays and other concession as incentives.

Incidentally the entrepreneurs from other provinces availed the tax concession and the time the concessions were withdrawn the production units were deserted leaving the machinery to rust at the cost of the financiers.

With a view to obtain firsthand information a sample research was conducted to investigate into the problems confronted by SME units in Peshawar, Swat, Haripur, Nowshera and Gadoon Amazai (Swabi District).

The study was conducted on 150 SMEs under convenience sampling basis. Out of 150 SMEs 142 complained against the non-availability of electric power which caused the failure of their business.

The second serious problem was reported to be cut-throat competition from smuggled goods which put the local product at secondary option before the buyers both in the province and also in other parts of the country.

Out of 150 SMEs 119 respondents demanded substantial subsidy in the price of inputs. They assured success of the process of industrialization if the Govt. Subsidize the supply of Electricity and Gas so that production cost can be reduced, and the SMEs may be able to compete price wise.

During the study it was observed that 110 units could not continue due to shortage of investment funds. They could not adopt BMR policy and modernize their units because of non-availability of in time sufficient capital. Their inability to access the latest information caused failure to integrate and have information on demand for their products in the market and also availability of alternate suppliers of inputs.

From the study it transpires that the following problems were serious obstacles in the way of promotion, expansion and development of SMEs in Khyber Pakhtunkhwa.

4. PROBLEMS OF SMES

i. Lack of business Plan

A comprehensive survey of the area and a feasibility report on a specific business activity assists in initiating a business or launching a particular product. Such a feasibility report identifies the hurdles and suggests the alternatives to success of the
business. The feasibility report identifies the problems to be confronted during the course of business and also guides in adopting the course of action for the success of the business and a business plan draws contours for the business activities. It sets the course of action, the availability of the resources and time frame within which the activities are considered more lucrative. The small and medium enterprise generally commence with business without first finding out the possibility and knowing the difficulties to be removed. Initiating a business activity in the absence of business plan is like” To find out a key to a lock out of a bunch in the dark”.

ii. Lack of Finance

The financing by public sector commercial Banks mainly concentrated upon the development of big industrial ventures and their financing portfolio remained confined to large scale industries. The individual business crisis and failure of industries to liquidate their liabilities resulted in expansion of infected portfolio of the financing institutions. Again, political involvement, labor union and professional malpractices added fuel to the fire. The golden rule of financing “It is unwise to put all the eggs in basket” lost sight off. The huge losses due to bed debts sent a wave of pessimism in the banking industry. It was because the banker could follow the principle of dispersal while allowing finances, consequently the small and medium enterprise could not be benefitted from the bank finances. Admittedly the SMEs could not offer that type of security and larger volume of turnover because of small size and limited resources. Had there not been a discriminate treatment, this sector might have gone long way in the economic development of Pakistan. Shying attitude of the commercial banks in this province with a pretext of deteriorating law and order situation causing the industrialization particularly the small and medium enterprises starving of financial assistance in mid of sky soaring prices of inputs and highly expensive transportation. It was only after 2004 when SMEDA was formed to find ways and means to gear up the growth pace of small and medium enterprises. The situation was worse in case of Small and medium enterprises in Khyber Pakhtunkhwa. Finances are the major obstacle in the way of industrial revival in this province. Short of liquidity and apathetic attitude of the banking sector towards SMEs in Khyber Pakhtunkhwa was further aggravating. The share of bank finances availed by the entrepreneurs of KP hardly account 1.7 percent of the total finances of the banking sector.

There are financial resources constraints which have confined the KP SMEs to local buying and selling markets.
iii. Lack of Govt. Interest

Political interference and many a time state intervention has been serious barrier in the way of industrialization throughout the life of this province. Amount of Us $20 million was approved by Multi Donor Trust Fund (MDTF) initiated under the auspices of World Bank for the Economic Revitalization of Khyber Pakhtunkhwa and FATA. Its objective was to offset the adverse effects of earth quake, flood 2010 and militancy on SMEs of Khyber Pakhtunkhwa. Under the scheme Us $14.1 million were allocated for the development of SMEs in the province while US $ 4.9 million were allocated for SMEs in FATA, 50 percent of the grant has already been disbursed. However, the Grant Review Monitoring Committee declined to review because of underutilization of the funds previously disbursed.

The province has estimated more than 4 billion tons of quality marble, but the potential could not be properly exploited due to energy and financial constraints.

vi. Lack of Skilled Labor

Mostly labor has been hired from outside the province due to lack of skilled manpower in the area which has been obstacle in maintaining the production unit, poor infrastructure facilities and lack of access to market not only adding to cost but delaying the supply to meet the instant demand.

v. Law and order situation

Afghan war since early eighties and aftermath of presence of international security forces in Afghanistan put the interest of our entrepreneurs at stake. One after another wave of terrorism created pessimism and feeling of insecurity causing hesitation in undertaking any development activity by the entrepreneurial class. The abduction, kidnapping and other terrorist activities has compelled rather forced many very energetic entrepreneurs to either migrate or go underground to save lives.

vi. Socio Cultural barriers

Most serious obstacle hindering the process of industrial promotion and sustenance/maintenances is wrong perception of the entrepreneurs themselves about the socio-cultural environment of the province leading to insecurity in the minds of the entrepreneurs and also workforce moving into KP from other parts of the country.

vii. Lack of Competitive Strength

The small and medium enterprises have always been on weak pitch due to their size. They cannot compete with large scale industries which enjoy privileges in
obtaining credit from banks, buying raw material in bulks, and engaging distributors for the sale of their products.

Ackah and Vuvor referring to a study conducted by The Korean Development Institute (KDI) on “Building the Foundations for the Development of SME in Ghana” (September 2008) pointed out that Small and Medium Enterprises in Ghana face difficulties in competing in the international market because of their small size. With smaller number of employees which is less than ten with 80 percent of the SME units their value addition is also smaller because of smaller processes involved in production activities carried out by these SMEs.

viii. Availability of illegally imported products

The SMEs in Khyber Pakhtunkhwa have of late been suffering from cut throat completion by the illegally imported goods via Afghanistan. No doubt Afghanistan is one of our export markets but the inflow of smuggled goods from industrially advanced countries has been severely damaging our industries. Our infant industries might have grown into large scale producing units had there not been cut throat competition from the import of foreign goods. More production means improved quality and better competitive edge. Better quality adds to demand and good opportunity to expand the producing capacity. Before Worlds War II the Japanese products were considered inferior as compared to England and Germany but Japan has now dominance in the manufacturing of textiles, automobiles and electronics.

ix. Govt. SMEs Policy

Inconsistency and instability in Govt. policy with regard to industrialization in the province is one of the major causes of backwardness of this province. Unveiling the industrial policy 2016, the Chief Minister of the Province announced that the Govt. has decided to allow 25percent subsidy in the purchase of land for industrial purposes, transportation charges of machinery and electricity, but it is not mentioned whether these concession will be available to all SMEs. The provision of cheap electricity to industries was announced but not clarified as to whether these concessions can be availed by trading SMEs or remain restricted to industrial units in the industrial estates. Our artisans engaged in manufacturing activities in the rural and suburban areas i.e. unorganized sector consisting on small enterprises have been neglected whenever a concession is announced.

x. Lack of integration/coordination among SMEs

Small enterprises have been playing a significant role in the development of economy but failed to access Govt. desk to get their problems listened to and addressed
because of lack of integration/coordination among them. Huge number of enterprises engaged in the manufacturing activities is contributing in their individual capacity. The individual manufacturers of the agricultural appliances in District of Mardan, manufacturers of men’s shawl in Matta Mughal khel and cotton khaddar in Rajar in Charsadda, Peshawari chappal in Peshawar, Charsadda and Nowshera districts, Woolen shawl manufacturers in Islampur (Swat).

xi. Lack of Information

The modern era has changed the world scenario through innovation and inventions. The SMEs are required to be familiar with day to day changes in the methods of production and also the changes in the demand due change in habits and fashion resulting from increase in purchasing power and demonstration effect. The SMEs due non-access to these changes cannot modernize their production process. Obsolete machinery with low productivity producing goods with declining demand results in the failure of the unit. Little use or no use of information technology pertaining to the innovation which could help the entrepreneurs update caused the SME unit lagging behind. World has been moving fast towards excellence and it is possible only when modern technology is adopted. The electronic media has shortened the distance and turned the world into a Global Village. Update knowledge of the new technology will definitely enable the SMEs to compete in the market and minimize the risk of failure.

In the absence of E-marketing the scope of market of the SMEs has been limited and so is the chance of expansion and business growth. Lack of knowledge on marketing techniques is again an obstacle in the promotion of sales.

xii. Lack of management/Managerial skills

With every new dawn the science and technology are taking new horizon. The production process is undergoing rapid change because of innovative environment. The Pakistan is also moving towards knowledge-based economy. According to Ding and Li (2010), “in a knowledge-based economy the intellectual capital is gradually replacing the physical assets in modern enterprises.” Incidentally there is least consideration on intellectual capital development. It, therefore, necessitates to concentrate on development of the use of latest technology is possible with latest knowledge on innovations. The adoption of new business techniques is core requirement to compete in the market. The enterprises are established and run by the principal entrepreneurs with little consideration to managerial strength.
5. CONCLUSION

The Khyber Pakhtunkhwa rich in natural resources with energetic manpower could not flourish its Small and Medium Enterprises merely because of non-conducive environment and financial difficulties confronted by the entrepreneurs. The non-availability of sufficient energy has been causing the failure of most of the units. Instable and weak Govt. policy regarding wheat procurement and supply to wheat grinding mills put billions of rupees invested in the construction of flour mills at stake because of closure of mills in the province. Industrial units remain in infancy because of illegal imports which put a great challenge to the local SMEs in the province. Dearth of capital is mainly due to apathetic attitude of the banking industry operating in the province which has been neglecting the industries in bare need of finances.

6. LIMITATIONS

There are millions of both trading and manufacturing SMEs in the province which have not been availing any subsidy or concession. To collect data on all SMEs was not possible because of financial and time constraints. The researcher may undertake a complete survey for suggesting more practicable measure for the promotion of SMEs and their role in the economic growth.

7. RECOMMENDATIONS

Protection to infant industrial units

The chronic problem causing Industrial failure in Khyber Pakhtunkhwa traces its roots in the unchecked flood of illegal imports from industrially advanced countries. It is the major cause of slow industrialization in area. Our industries are compelled to be closed in the infancy stage because of inability to compete with products smuggled through neighbouring countries. Fencing against these illegal imports will allow, the indigenous domestic products, hold ground and subsequently improve quality by increasing production. Law enforcing agencies may check the illegal import on borders instead of inland roads.

End to Energy Crisis

Shortage of energy and perpetual load shedding has paralyzed our SMEs. Immediate measures need to be taken to provide alternative energy sources so that not only the performance of the existing units can be improved, and closed units can be re-commissioned but new entrepreneurs be attracted to benefit from the rich raw material availability. The provision of subsidised solar energy panels by the provincial Govt. can help the closed SMEs to revive and also induce new entrepreneurs to enter and
become part of the industrialization campaign and contribute towards the economic growth of the province.

**Stable Govt. Policy**

The Govt. of Khyber Pakhtunkhwa has drafted Industrial Policy. Need is to implement the policy in letter and spirit and allow the concessions provided in the policy. Also extend the policy concessions to the far-flung area SMEs operating on their own capital with local managerial skills. We had to conduct survey to get first-hand information on SMEs operating in outside the Industrial Estates of Swat, Mardan and Peshawar. It was really agonizing that the treatment of different Govt. agencies was creating harassment to small artisans who are contributing substantially towards the growth of economy with their own skill and capital. All these SMEs be registered and made part of the SMEDA agenda in allowing subsidies, facilities and concessions announced by the govt. From time to time.

**Restoration of Peace**

The deteriorating law and order situation in the province has been pushing the provincial economy backward. Insecurity, threat to lives and property has discouraged the entrepreneurs and skilled labor from other parts of the country.

It is, no doubt, a serious problem confronted by the country and being tackled by our armed forces gallantly, and need not be discussed, yet a strong persuasive movement and correcting the public perception will restore confidence of the people. It will be advisable to seal the western border so that the foreigner’s intrusion and sabotage activities can minimise the risks which phenomena will help in restoring peace and assuring security.

**Training and Development**

The skilled labor / manpower has always been assets for economic growth. The provincial Govt. may launch a scheme of skill development in different trades at divisional headquarters level not only free of cost but with reasonable stipend so that maximum number of desiring apprentices can benefit and subsequently join as part of SMEs work force.

**Financing of SMEs**

Finance is the life of blood of trade and industry. Timely availability of financial support help in continuity of the SMEs production activities. Rising cost of production necessitates additional funds. Non-availability of finances results in discontinuity of the production process and ultimate closure of the business. Under Prudential Regulation
No. SE R-2 for SMEs every Small and Medium enterprise can avail exposure up to Rs.15 million from a single bank/financial institution or from all banks/financial institutions. During the course of study, it was commonly complained that banks were hesitating in extending finance facility to SMEs in the province. The Bank of Khyber had since launched a scheme of Micro Finance in the province, but the actual entrepreneurs rarely benefitted because of selective treatment. The disbursement from other banks was negligible. It is suggested that a meeting of the Heads of all banks be arranged by State Bank of Pakistan and Mandatory Credit Targets be allocated for financing of SMEs in Khyber Pakhtunkhwa. The proposal for meeting be initiated by SMEDA Peshawar.

Product Marketing

The publicity and advertisement play very effective role in the marketing of SME’s product and sale thereof. The SMEDA with the cooperation of K.P Chamber of Commerce and Industry arrange display centres and exhibitions for the local products both at national and international level.
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