Problems of Small Entrepreneurs

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Abstract

This thesis is designed to discover the problems faced by entrepreneurs of micro (5-9 employees), small (10-35 employees) and medium sized (36-99 employees) firms in Pakistan. Efforts were made to determine the problems resisting new entrants and difficulties of present entrepreneurs which are resisting them to grow and expand their enterprises.

The research was based on a survey of 100 small entrepreneurs in Pakistan, and covered the four major cities of Islamabad, Lahore, Rawalpindi and Karachi. The sample comprised of entrepreneurs from a variety of sectors. The research was conducted by distributing questionnaires and at the same time conducting short informal interviews.

The research revealed that Finance and access to finance was the biggest problem. Law and order situation, Infrastructure problems, Tough regulations and corruption are also negatively affecting small businesses.

The recommendations of the research are to reform regulations, strengthen rule of law, engaging private sector in policy making, assisting skill and knowledge development and linking large and small firms.

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CHAPTER-I

Introduction

A growing number of studies have underlined the economic and sociological impact of entrepreneurship's on the economy of any country. To maintain entrepreneurship and establish favorable conditions for its expansion, appropriate support must be provided to match the particular characteristics of the communities. The design of support activities and programs must clearly be based on a properly articulated understanding of the problems faced by entrepreneurs; however, almost no studies have so far been carried out in Pakistan to identify and isolate the implications of these problems.

A society with a vibrant entrepreneurial culture is a prosperous society. But independent research shows that in Pakistan, the proportion of independent business owners in the population is significantly small at 3%. (SMEDA, 2006) This is well below the developing countries average (6-10%) and potential (e.g. India has over 15%). According to independent economists, the economy of Pakistan needs to grow at a rate of 5.5% per annum to reduce the poverty level in the Country. This is significantly greater than the growth rate of 3.4% achieved over the past 5 years. However, it is smaller than the rate (6.2%) achieved in the 1980s. According to the best practices, a focus on promotion of Entrepreneurship's or SMMEs (Small, Medium & Micro Enterprises) is the only way to achieve this target. As a first step in this process, we need to promote the entrepreneurial culture, so that we can create the entrepreneurs and then assist them to be a success.

To bring about a coherent and cogent effort, it is important to derive the problems, which are resisting entrepreneurial growth. The aim of this thesis is to discover and then give recommendations to overcome those problems. It will bring together, all the initiatives that need to be taken, in order to promote entrepreneurship. The result of this effort would be a multiplier effect resulting in a lower poverty level.

Background

Entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, relativity and/or innovation with sound management, within a new or an existing organization.

According to independent research findings, in a total population of about 150 million in Pakistan, approximately 70 million are economically active (Human development report 2000). But the proportion of independent business owners in the population of Pakistan is significantly small at 3%. It indicates a low incidence of private initiative, induced by an unfavorable business environment and lack of entrepreneurial culture. In addition, with 800,000 young people entering the labor force every year, the pressure on the job market to create new jobs is increasing.

Again, according to independent research, to reduce poverty, and for long-term economic growth, the economy needs to grow by more than 5.5%, up from the 3.4% achieved over the last 5 years.

However, more positively, the same statistics show that there are considerable opportunities for employment generation and economic growth from within the SMME sector. There is a huge potential for income generating opportunities in labor-intensive sectors. Entrepreneurs can make these opportunities real by starting and managing new enterprises.

To unlock this potential and relieve the pressure on the job market, an urgent coordinated effort to promote entrepreneurial culture in Pakistan is needed at the national level. The challenge is to identify the key factors, which are resisting the people to take action and to build a climate in which entrepreneurial initiative and business activities can thrive. These policy measures should seek to boost the levels of entrepreneurship, adopting the most appropriate approaches for encouraging and producing more entrepreneurs and thus getting more firms to grow.

The purpose of this thesis for entrepreneurship is to find those problems that current entrepreneurs are facing and at the same time these problems are also giving strong resistance for new comers. Finding these problems will help in giving guidelines for what is to be done in order to unleash entrepreneurship in Pakistan. The result and recommendations of this thesis will help achieve four strategic goals:

- *Fuelling entrepreneurial mindsets*
- *Encouraging more people to become entrepreneurs*
- *Reducing poverty in Pakistan*
- *Reducing un-employment in Pakistan*

These areas are seen as important when dealing with the question of *what* must be done in order to reach the objectives. Further, as one looks upon the flourishing economies around the world, there is a clear pattern of entrepreneurship, investment in innovations and encouraging activities for individuals to become self employed. Numerous researchers and empirical findings are pointing at the fact that entrepreneurship has a great effect on economical growth. At the present time, there are areas in the world where the economy has clearly seen better days. So in order to see bad trends turn into good ones, more emphasize on entrepreneurial activity and SME issues are stressed.

Rational of the Study:

Entrepreneurship development has become an important tool, if not the most important, in economic development of any country. The question of the wealth of nations has been at the center of economics for over two centuries. Many explanations for economic growth have dealt specifically in the realm of Macroeconomics. However, over the last decade, the importance of the entrepreneur as the driver of economic growth has received increasing attention. In academia, this recognition of the entrepreneur has a longer history but the focus on entrepreneurship by policymakers has been a recent phenomenon. Worldwide Governments launched programs, to better understand the role of entrepreneurs in the economy at large. Governments throughout the world have launched various initiatives designed to promote entrepreneurship and economic growth. The importance of the entrepreneur in economic development has also been realized by the key international aid organizations. The

World Bank, the United States Agency for International Development (USAID) and the International Monetary Fund (IMF) have all commissioned studies and undertaken initiatives to understand and promote entrepreneurship.

Many international surveys rank Pakistan as one of the most corrupt countries in the world. Entrepreneurs are cautioned. Although it has strong potential to be an entrepreneurial nation, there are certain problems that prevent it from being so. This report is about discovering those problems and providing solutions to unleash the power of local entrepreneurs to reduce poverty in Pakistan.

With reference to the economic recession in Pakistan, there is a pressing need to empower the people economically and to create employment opportunities and income generating activities to enable them to survive, prosper and provide support for their families. For the development of business potential, entrepreneurs require support in the form of training in strategic business development, access to credit funds, and assistance with marketing skills, product design and development.

One of the central goals of the economic policy of Pakistan is promoting entrepreneurship. SMEDA is the premier Federal Level Agency in Pakistan, charged with assisting & promoting SMMEs (Small, Medium & Micro Enterprises). As part of its mandate, SMEDA has undertaken different initiatives towards promoting enterprise development. However, the primary focus of SMEDA’s activities has been and will be assisting SME support institutions, so that they can provide better and more effective services to the SMMEs.

But even with the help of SMEDA and the Government of Pakistan, the entrepreneurship culture in Pakistan is not growing at a fast pace. The only reason to this is that the current entrepreneurs in Pakistan are facing a lot of problems. These problems need to be surfaced so that the Pakistani economy can grow at a higher rate and all the economic goals are met.

This will help the government make decisions, which in turn will help create a friendly environment for entrepreneurs and SME's. Solving these problems will have a multiplier effect, that is, it will help reduce un-employment in the country, as more entrepreneurs will be entering the market, the demand of workers will also increase. This will also help to reduce poverty in the country.

Finding and solving these problems would also attract foreign businesses to invest in Pakistan. Foreign investment is also necessary for the economic development of any country.

Problem Statement

To discover the problems faced by entrepreneurs of micro (5-9 employees), small (10-35 employees) and medium sized (36-99 employees) firms in Pakistan.

Objectives of the study

The main aim of the research is to identify the key issues and problems facing entrepreneurs, in order to inform policy development and facilitate effective support for target groups. The Objectives of the thesis are:

- To discover problems faced by current small entrepreneurs.
- To discover problems resisting new entrants.
- Gearing entrepreneurs for growth by removing obstacles.
- Improving the flow of finance from the lenders to borrowers.

Definitions of concepts

The following concepts will appear throughout the thesis, and I will give definitions that will help the reader to get a better understanding of the study. When I use these concepts; it is the definitions below that I refer to.

Entrepreneurship:
This word is important to define, as it has so many different meanings depending on whom you are asking. To simplify this matter, one internationally accepted definition will be used.

“Entrepreneurship is the process of identifying opportunities for which marketable needs exist and assuming the risk of creating an organization to satisfy them”

“Entrepreneur is a person who sees an opportunity and assumes the risk of starting a business to take advantage of the opportunity or idea”

SME:

These three letters stands for “Small and medium size enterprise”. According to the State Bank of Pakistan, the Definition of SME is: An entity, ideally not a public limited company, which does not employee more than 250 persons (if it is manufacturing concern) and 50 persons (if it is trading / service concern) and also fulfills the following criteria of either ‘a’ and ‘c’ or ‘b’ and ‘c’ as relevant:

(a) A trading / service concern with total assets at cost excluding land and buildings up to Rs 50 million.

(b) A manufacturing concern with total assets at cost excluding land and building up to Rs 100 million.

(c) Any concern (trading, service or manufacturing) with net sales not exceeding Rs 300 million as per latest financial statements.

On the basis of number of employees, the classification is as follows:

Micro Enterprises	(5- 9 employees)
Small Enterprises	(10 - 35 employees)
Medium Enterprises	(36-99 employees)
Large Enterprises	(99 + employees)

Limitations of the Study

Each of the sample units was visited by the researcher. Some problems were encountered during the fieldwork. Some of the people who were reached were found to be non-responsive.

The availability of the Entrepreneur (owner) was a real problem. Researcher could not make any appointments prior to the interviews. So he directly used to visit the units on the day of the interview. For this reason, Time management was a problem.

CHAPTER-II

Literature Review

The UN commission on the private sector and development conducted many detailed researches on reasons for slow entrepreneurship growth in developing countries around the world.

On 1st March 2004, the commission published and presented a report titled “UNLEASHING ENTREPRENEURSHIP; making business work for the poor” to the Secretary General of the United Nations; Mr Kofi Annan. Review of the report along with other UN reports regarding entrepreneur’s problems in developing countries is discussed below.

Who are all the entrepreneurs?

The Commission took an expansive view of the private sector. Large companies are a vital part of the private economy, but the poor are an equally important part. They are often entrepreneurs themselves frequently of necessity, operating informally, trapped in subscale enterprises. The United Nation endorses the view that market oriented business ecosystem comprise many forms of private enterprise coexisting in a symbiotic relationship. The ecosystem generally includes multinational corporations, large domestic companies, cooperatives, small and medium enterprises and micro enterprises, with formal and informal players. It thus encompasses the farmer in the field as much as the multinational company.

Constraints on the Private Sector in Developing Countries

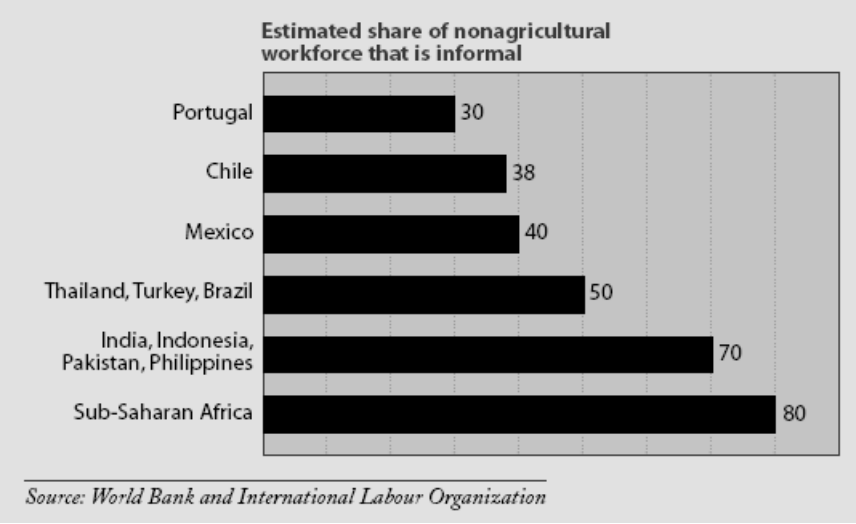
Developing countries have remarkable energy and assets, and all segments of the private sector have demonstrated the ability to respond when empowered. But some major structural challenges confront the private sector in all developing countries, to varying degrees.

- Micro enterprises and many small and medium enterprises operate informally.
- Many small and medium enterprises have barriers to growth.
- A lack of competitive pressure shields larger firms from market forces and the need to innovate and become more productive.

Widespread Informality for Micro Enterprises

Micro entrepreneurship is a common form of employment in many developing countries (figure-1**).**

(Figure-1)



In developing countries, almost all micro enterprises operate outside the formal legal system, contributing to widespread informality. (Ayyagari, Meghana, Thorsten Beck, and Asli Demirguç-Kunt, 2003)

Informality provides some benefits in some circumstances. It can act as a form of employment substitution for laborers who have difficulty finding jobs. For example, urban dwellers in Thailand who lost their jobs during the economic crisis of the late 1990s supported themselves by turning to informal street-vending opportunities. In societies that limit the economic role of women, home-based enterprises provide women with opportunities to earn money. If the formal rules, enforcement systems and cultural conditions in a country are so restrictive that most entrepreneurs cannot use their talents, the economy may benefit if they operate informally.

Difficulties in getting finance also trap developing country entrepreneurs in subscale operations. Entrepreneurs and enterprises that operate informally cannot borrow at a reasonable cost because they do not have legal status or title to the land they occupy. Frequently, the only option for access to capital is through illegal moneylenders who charge high rates and who may be able to lend only small sums relative to the needs of a growing enterprise. (Ananth, Bindu, and Annie George Soju. 2003)

The access of businesses that operate informally to the formal legal system and its benefits are limited. In general, the formal legal system should enforce contracts and protect property rights more fairly than informal enforcement systems do. Predictable rules and dispute

resolution mechanisms are essential for entrepreneurs to engage in the long-term arrangements that enable them to innovate, to scale up and to diffuse their knowledge and benefits. Side payments to officials that increase predictability in an uncertain world reduce income that could otherwise be invested in making operations more productive.

Cruel and arbitrary informal enforcement systems limit the ability of entrepreneurs to be productive as well. (Batra, Geeta, Daniel Kaufman, and Andrew Stone, 2003). Local debtor prisons and mafia-like punishments can hurt an entrepreneur's full access to crucial human inputs. According to Hernando de Soto, a third of debtors who obtained credit informally in Egypt spent some time in private jails because they did not pay back what they owed.

Entrepreneurs who operate formally are hurt by the implicit subsidies that informal enterprises receive through uneven enforcement and by poor mechanisms for protecting property and contracts, both of which distort competition. Both aspects create an uneven playing field and reduce formal entrepreneurs' access to inputs and markets, discouraging entrepreneurs who operate formally from making investments to increase productivity. (De Soto and Hernando, 2000)

Informal firms can charge less because they avoid paying taxes or complying with other regulations. More productive formal firms have difficulty capturing market share from informal firms because the formal firms pay taxes and other contributions, which increases their costs significantly. More productive firms are less able

to drive the less competitive informal firms out of business. So, poor enforcement permits the informal firms to continue to exist, holding back the productive firms from reaching maximum scale. Yet, given the significant productivity advantage held by formal firms, the inability to compete may reflect an unwillingness to serve some parts of the market rather than the cost advantages offered by informality.

In most developing countries it is costly to be formal. Formal players are often overtaxed because a few formal companies carry most of the tax weight. Registering a business can be a long and expensive proposition (in Angola it takes 146 days and more than 8 times the per capita income). Regulations and government requirements are complex and compliance costs high. The opportunities for bribery increase with the complexity of regulations, exposing smaller players who lack the legal resources to defend themselves.

Entrepreneurs also see little benefit in going formal. While formal businesses in developed countries can raise capital by mortgaging their assets, this is often not possible in many developing countries where mortgage laws are weak and banks prove reluctant to finance small players. In theory, being formal would facilitate selling beyond geographic boundaries, but poor local infrastructure and customs abuse limit the opportunities.

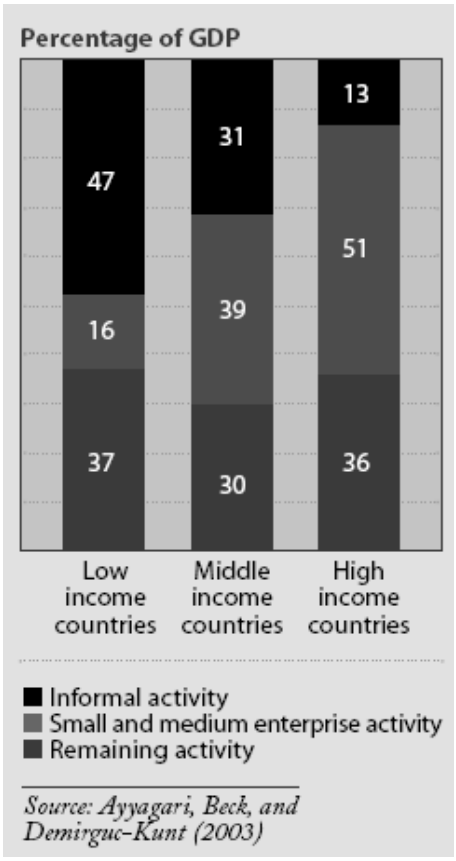
And bankruptcy laws, which protect formal players in developed countries, are often ineffective in developing countries; exposing formal entrepreneurs to even more risks, than if they remained informal.

Few Competitive Small and Medium Enterprises

Small and medium enterprises tend to be engines of job creation seeds for innovation and entrepreneurship. By providing new entry and competition, they can boost efficiency and growth and lead to economic development.

Indeed, recent research indicates that economic growth in poor countries is accompanied by a more than proportional growth in the share of the formal small and medium enterprise sector. In low income countries the share of formal small and medium enterprises in employment is about 30% and in GDP about 17%, while in high-income countries the share are about 60% and 50%. (Ayyagari, Meghana, Thorsten Beck, and Asli Demirgüç-Kunt, 2003). Indeed, richer countries see far less informal and much more small and medium enterprise activity (figure-2).

(Figure-2)



The reality in many poor countries, especially in Sub-Saharan Africa, is that the small and medium enterprise sector is relatively marginal in the domestic ecosystem.

Widespread informality and the lack of skills also affect the ability of entrepreneurs to scale up a business. While often animated by innovative ideas or addressing untapped markets, small and medium enterprises suffer from lower total factor productivity, by using older technologies or employing inferior workforce practices. The cost of business services is often more than small and medium enterprises can pay, or is not in tune with their needs. (Daley-Harris and Sam, 2003).

Lower export sales from small and medium enterprises come in large part from lack of access to knowledge about foreign standards of quality.

Perhaps most important, small and medium enterprises lack access to financing and long-term capital, the base that companies are built on. High risks associated with small and medium enterprises, whether real or perceived, exist in the absence of financial instruments that manage and diversify the risk. Banks also face high costs or cannot acquire information that they can trust, even when small and medium enterprises are creditworthy. These factors raise interest rates and reduce lending volumes, setting up price and quantity barriers to small and medium enterprise growth. Small and medium enterprises have to resort to financing from networks of family or friends, from retained earnings, or from short-term credit from other small buyers or suppliers, rather than from larger institutions providing dedicated long-term financing

vehicles for specific purposes. (Fairbanks, Michael, and Stace Lindsay, 1997)

Lack of Competitive Pressure on Large Companies

Large companies form the hub of networks and clusters and by the virtue of their size and range of business activities, provide the spark for the private sector ecosystem. But in many developing countries large incumbent companies can also stifle entrepreneurial energy and initiative. Too often, they can take advantage of weak institutional environments to raise anticompetitive barriers and protect their dominant position. While local informal markets can often function without much regulation, more mature and complex markets need appropriate regulations to function effectively. (McKinsey and Company, 2003)

A dynamic financial sector, in which new entrants and incumbents can get finance under competitive terms, is also important for creating competitive pressures in the market. But companies with a protected position in there markets often have strong incentives to use their lobbying power to slow government progress in improving the institutional infrastructure for markets. (Duggal, Bikram, and Amit Singhal, 2002)

Such practices directly hurt poor people, through higher prices and lower quality products. Poor people benefited from the opening of competitive markets in India in the early 1990s. Until then the population was effectively subsidizing a large part of the private sector, which was selling low quality products at high prices made possible by controls on entry by domestic competitors and severe

quotas and high tariffs on imports. Such anticompetitive policies are often perpetuated by an unlikely alliance between large protected incumbents and poor people, who fear a loss of jobs in competitive markets.

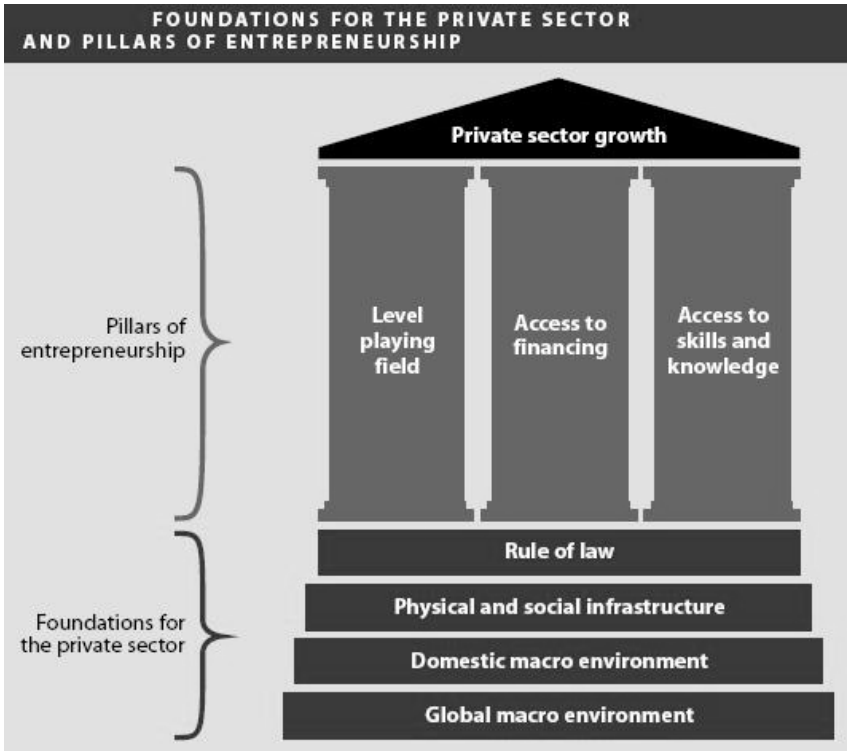
Corruption combined with weak and arbitrary legal enforcement, defends incumbent firms at the expense of potentially more competitive ones. Specifically, incumbents might receive subsidies, special licenses or other privileges that preserve their position and dampen the incentive to innovate and reduce prices. Such firms may respond to perverse incentives to strip assets or dole out contracts to uncompetitive suppliers even when more efficient providers exist. The poor domestic macro environment encourages wasteful rent seeking and retards the growth of competitive firms based on productivity. (McKinsey and Company, 2003)

These firms might also indirectly starve competitors from receiving capital by contributing to an environment that keeps finance underdeveloped. Large firms thus command the lion’s share of resources in an underdeveloped financial system.

Foundations of Entrepreneurship not yet in Place

Building a sound private sector requires a strong foundation in the global and domestic macro environments, physical and social infrastructure and rule of law. (Figure-3) (Fields, Gary and Guy Pfeffermann, 2003).

(Figure-3)



Global Macro Environment

The foundations for growth in the private sector start with a well functioning global macro business environment involving a dynamic global economy that provides markets, as well as adequate trade rules that enable competitive access to market opportunities. The open exchange of goods, capital and information and the transfer of technology and ideas stimulate private sector development. This occurs through several mechanisms: open markets, good-quality foreign investment, effective

development aid and efficient transfers of technology and knowledge. It requires such reforms as dismantling the agricultural subsidies and other forms of protection that so evidently impede export-oriented private sector development in the rural areas of developing countries.

An open trade policy fosters productivity growth by opening the private sector to competition. Free trade helps countries allocate their resources towards their most productive areas of comparative advantage. Cheaper imports raise the domestic standard of living and allow for the use of lower cost inputs as the private sector produces for domestic or foreign customers. Such a regime provides open market access through lower tariff and no tariff barriers.

Domestic Macro Environment

The central elements of a strong domestic macro environment for business include peace and political stability, good governance with policy predictability, transparency and accountability, and sound macroeconomic policies. For businesses, internal or external conflict increases cost and uncertainty, deterring both domestic and foreign investment. Worse, conflict forestalls private sector development, because it often leads to the tragic destruction of human capital, the misallocation of scarce public funds, the devastation of land, the seizure of natural resources and the elimination of market access.

Physical and Social Infrastructure

A country’s physical and social infrastructure includes roads, power, ports, water and telecommunications as well as basic education and health. Building up these basic

services has a dual benefit: improving the lives of poor people directly and enabling the growth of businesses.

Technical inefficiencies in roads, railways, power and water alone caused an estimated $55 billion a year in losses in the early 1990s— an amount equal to 1% of the GDP of developing countries or twice the annual budget for financing infrastructure in the developing world. These losses fall on firms large and small and on individuals, especially the poorest.

Low quality roads can shut small producers off from regional markets and encumber large producers with shortages of critical inputs.

Well-maintained infrastructure improves commerce by speeding the transport of goods and raw materials, sustaining energy intensive production and making information readily accessible and communication timely. Poor physical infrastructure often precludes business activity.

Ensuring connectivity through telecommunications and information technology has become particularly important in recent years, helping to overcome some of the barriers of inadequate physical infrastructure. Efficient access to information is clearly a vital part of the basic infrastructure need of modern economies.

Maintaining high quality physical infrastructure is largely, but not solely, a matter of capital investment. Efficient contracting, open bidding, regulatory credibility and private and public managerial capability carry weight as well.

Investments in health and education involve both the public and private sectors, and counter to conventional belief; many education and health services in developing countries are delivered through private initiatives, including cooperatives and mutual health insurance organizations. In some systems 70–80% of health care expenditures are through private actors. Often, but not always, private involvement is a response to government under investments. Improving the social infrastructure and ensuring that those surviving on the lowest incomes have access to affordable and high quality health and education services is an important foundation for private sector development.

The Rule of Law

The rule of law means that government decisions are made according to a set of written laws and rules, to be followed by every citizen. The rules are applied consistently, administered by a professional bureaucracy and adjudicated by a fair and transparent judiciary that is adequately compensated. In nearly all cases, courts provide reasons for their decisions based on the law, through some form of due process. Countries may subscribe to different legal systems arising from different political and social cultures, but the fair administration and enforcement of a just system of laws is a cardinal principle. Both elements matter laws and their administration.

Laws form an intrinsic layer of the foundation for a robust private sector. Without a transparent legal framework and a fair judicial and administrative system, other efforts to foster private sector development cannot work as intended, and may even do harm. Home governments

must establish the “rules of the game”, a system that reduces transaction costs by making them predictable and enforceable. Legal and administrative systems influence whether and how transactions take place.

The rule of law manifests itself in the private sector with commercial laws, customs laws and contract laws, among others. Critically, the assignment and protection of property rights circumscribe private sector behavior. Confusing and contradictory legal systems make formal business practices difficult and push businesses to become or remain informal. Poor legislation buttresses oligarchic and corrupt firms against competitive forces, often at the expense of small and medium enterprises. Cozy relationships between business and regulator impair the development of open, free market competition. The poor are likely to be the first victims of lawlessness.

Even though a written set of laws may exist, the legal system in many developing countries works informally. In the shift from informal to formal systems, many countries have old and new systems coexisting, often in conflict. The loser is often the more formal new system, implemented in a shallow and ineffective manner. One estimate suggests that as many as 80% of the legal issues facing the poor are addressed through customary or informal systems.

Corruption and confusion over the enforcement of rules are often to blame for high compliance costs. Bureaucratic red tape, backlogs, arbitrary decision-making and other onerous requirements and inefficient practices hamper private activity. Arbitrary or corrupt enforcement subvert laws intended as benevolent

protections, including laws for worker safety, environmental protection and consumer safety. And corrupt practices distort prices and markets, and hinder free and fair competition.

The World Bank estimates that corruption can reduce a country's growth rate by 0.5 to 1.0 percentage points a year. Transparency International's Corruption Perception Index could, with very few exceptions, almost be ordered by income poorer countries are almost universally rated more corrupt, though there is plenty of recent evidence that corruption is not limited to lower income categories.

Three Pillars of Entrepreneurship — Too Often Missing

Even with strong macroeconomic and institutional foundations, three additional factors are indispensable for entrepreneurship and the private sector to flourish in an economy: (Fields, Gary and Guy Pfeffermann, 2003).

1. A level playing field
2. Access to finance
3. Knowledge and skills.

A Level Playing Field with Fair Rules, Fairly Enforced

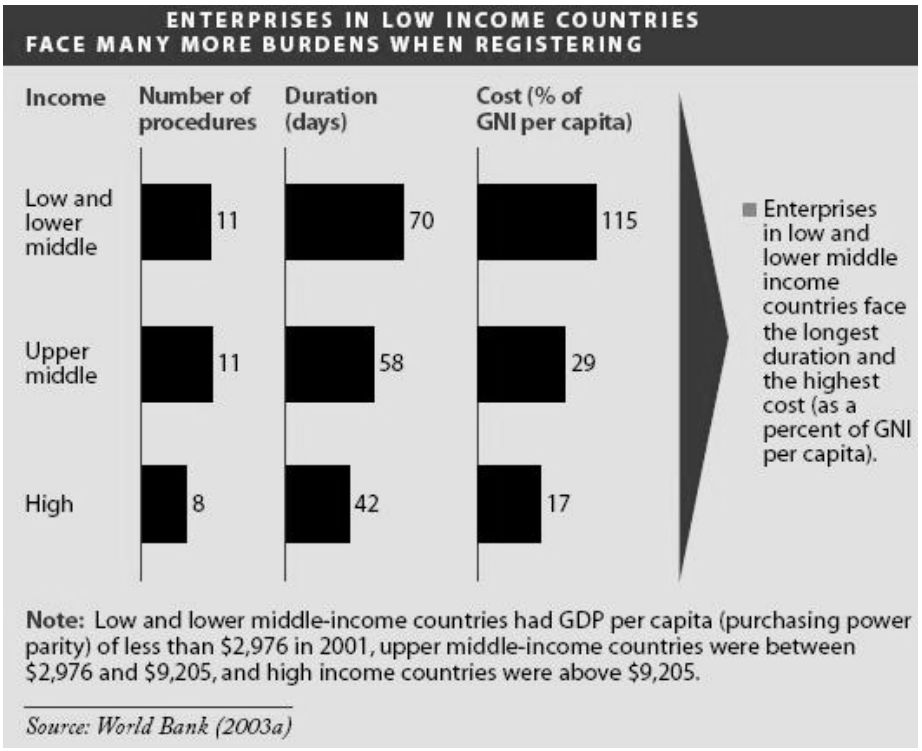
Perhaps most important in allowing entrepreneurship and the private sector to blossom is a level playing field for firms competing in the domestic market. That can be created only by a system of rules and enforcement mechanisms that is fair, trustworthy and effective. Predictable rules ensure that entrepreneurs have open

access to markets and can do business efficiently. And basic trust in the system encourages entrepreneurship and attracts talent (local and foreign) to embark on entrepreneurial ventures.

Good rules are a critical element in creating a level playing field, and effective regulations are essential for the market economy. Rules, if excessively complex and incorrectly applied, can turn into significant barriers for enterprises and hamper business growth. This applies to rules for entry, operating, market and exit.

Entry rules: Excessive procedural requirements for business registration and licensing procedures raise the cost of entry into the formal sector and tilt the playing field in many developing countries. (Figure-4)

(Figure-4)



For example, the World Bank's Cost of Doing Business survey estimates that starting a business requires $5,531 in Angola (more than eight times the per capita income)

and about $28 in New Zealand (far less than 1% of the per capita income). Cumbersome entry regulations are directly correlated with lower productivity. When countries are ranked by ease of starting a business, the top quartile of countries has labor productivity of about $40 per worker, almost twice that of the bottom quartile. Longer registration processes are directly associated with higher levels of corruption.

Operating rules: Disclosure requirements can have a positive impact at the industry and business environment by giving consumers and investors the information they need to make choices about the products they purchase and the capital they allocate. Labor market rules are critical to protecting employees from exploitation. But a number of developing countries have excessively complex labor rules, more than wealthier countries. For laying-off employees, companies in middle and low income nations face higher barriers on average than their counterparts in developed economies. The mechanisms for social dialogue to find ways of justifying the effects of layoffs, and safety nets to protect the poor are often weak or non-existent in most developing countries. Moreover, rigid employment regulations are associated with higher female unemployment. Note, however, that few of these rules are regularly enforced, making the case for simpler rules with better enforcement. Complex tax rules and structures also impose high costs that fall more on small and medium enterprises than on large enterprises, which can afford tax experts.

Credit rules: Many countries lack rules for sharing credit information, which makes it virtually impossible for creditors to check how indebted a potential client

already is. In addition, creditors have limited protection in the case of default, significantly lessening their willingness to assume the risks associated with small and medium enterprise lending.

Tax rules: High tax rates and complex tax administration is a significant constraint for small and medium enterprises and can lead them to the informal sector if tax burdens become excessive.
A large informal economy can mean lower government revenues and higher taxes for firms in the formal economy, creating more incentives for informal operation. For example, in Brazil the informal economy grew as tax revenues increased from 24% of GDP in 1991 to 29% in 1999.

Market rules: Barriers in the land market are high in many nations. For example, it takes about 168 steps, involving 53 public and private agencies and 13–25 years to acquire “informal” land and receive legal title to it in the Philippines. This arduous process discourages people from formally purchasing land, making it impossible to use land as collateral for getting credit, one of the main sources of capital in developed countries.

Product market barriers also stifle growth. Subsidies and trade barriers in the developed world are the biggest culprits. But many developing countries also raise barriers to entry—say, by forbidding small companies to distribute electricity in rural areas, even when state monopolies do not serve those areas.

Restrictions on pricing can also cloud the business environment. For example, many governments charge excessively high prices for fixed-line domestic and international telecommunications services. The monopolies that operate in these conditions are highly profitable as a result, but their capital and labor productivity are low. The high prices provide few incentives for telecommunications players to use their resources more effectively.

Exit rules: Inadequate bankruptcy rules and protections can create additional hurdles for financing enterprises. Countries with better insolvency regulations tend to have more and cheaper lending.

Poor enforcement by formal institutions permits enterprises to avoid some or all of these rules, advantaging some of them over others. Breakdowns in formal institutions occur when officials do not have the skill or will to carry out their oversight functions. Government officials may not have the will to enforce the laws because the institutions they work for do not provide the right incentives. The institutions may not reward officials for applying the law fairly and equally, and the organizations may lack transparency and may not supervise officials sufficiently. In addition, government officials may not have the skills and resources they need to enforce the laws. They often require additional training or tools.

Access to Financing

While foreign direct investment has had an essential role in the development process, it is impossible for a country to progress without domestic investment based on

domestic savings. This requires domestic financial institutions that can efficiently manage risk and allocate capital to productive investments. Many developing countries have had weak, state dominated financial sectors unable to act as a catalyst for development. But where genuine reform has been implemented, the benefits have been quick and evident, even if creating and restructuring an efficient domestic financial sector is a long task.

Large companies are well served by existing banking systems, and there has been good progress in microfinance over the last 10 years with 41 million poor people served in more than 65 countries. But the progress on small and medium enterprise financing has been slow at best. It is not only about money needed, though. Small and medium enterprises are risky ventures. They require risk capital, but the sources of such capital are difficult to tap. So small and medium enterprises generally have to turn to classic debt financing. This can be difficult for them, because few entrepreneurs in developing countries can leverage assets as collateral the way they do in developed countries. Why? Mainly because of informal property rights and the lack of mortgage markets. Collateral requirements act as a screen that selects wealthy borrowers and crowds, out many entrepreneurs with high growth potential.

Most emerging markets finance up to 90% of their investments locally, although for Sub-Saharan Africa the figure is closer to 65% (and most productive enterprises generate revenue in local currency, so the reliance on local financing is sustainable). Private credit as a percentage of GDP rises from 12% in low income countries

to 25% in lower middle-income countries, 30% in upper middle income countries and 85% in high income countries. A web of factors is at work, more than just the lack of capital.

- Rules and their enforcement are often at the core. Most countries have weak property rights, making the use of assets as collateral difficult. Even when property rights are well defined, the enforcement of mortgage contracts is often impossible, for both political and judicial reasons. In addition, bankruptcy laws are typically lacking, increasing the risk to creditors and further deterring them from investing in small and medium enterprises.

- Poor financial institutions are also a problem. Domestic financial institutions can operate in oligopolistic or monopolistic conditions, with limited shareholder pressure to enter new and more difficult markets, such as lending to small and medium enterprises. Added to the lack of incentives is the public borrowing that crowds out private borrowing.

- Even when financial institutions have the will, they often lack the skills for small and medium enterprise lending. Banks are accustomed to full-blown risk assessments working with large clients too costly for small and medium enterprises. At the other end of the spectrum microfinance institutions lend with very limited analysis, relying mostly on social networks for repayment. This does not work well for the larger amounts that small and medium enterprises require.

- A lack of reliable credit information also hampers the growth of small and medium enterprise lending—usually because there are no credit information agencies and disclosure requirements are weak or not enforced.

- Investors lack exit opportunities. Capital markets are absent or highly illiquid in many poor countries, making public offerings impossible. Private offerings can work, but most markets are far from liquid, with very few transaction opportunities.

- Entrepreneurs often lack the skill and the will for receiving risk capital. On skill, management talent is limited. On will, private equity investors report the reluctance of small and medium enterprises to open their books to outsiders in environments where parallel accounting is widespread.

Access to Skills and Knowledge

Technological innovations and the shift towards knowledge based economies make human capital investment a prerequisite for sustained economic growth and central to the start-up, growth and productivity of firms. Human capital can determine the potential for a firm’s growth and survival. It contributes directly to a firm’s productivity by enabling the adoption of innovative technologies and processes. A firm’s competitive advantage comes from its entrepreneurial capabilities; its management and technical know-how, including labor management relations; and the skills, education and adaptability of its employees.

The level of education matters and the skills of employees need to be continually upgraded through on-the-job training to increase the firm's productivity and its ability to absorb new technologies. In Costa Rica, Mauritius and Singapore the private sector has benefited from a virtuous cycle with formal education reinforced by on-the-job learning and training. Costa Rica has the most software exports per capita in Latin America, making it a technological hub in the region, thanks to its investments in both basic education (producing one of the highest literacy rates) and technical education.

Many developing countries suffer from low levels of human capital investment, aggravated by the outward migration of highly skilled professionals. The cumulative "brain drain" since 1990 has been estimated at 15% for Central America, 6% for Africa, 5% for Asia and 3% for South America. The International Organization for Migration estimates that some 300,000 professionals from the African continent live and work in Europe and North America.

This persistent brain drain deprives developing countries of the know-how of thousands of their most talented people. It reduces the stock of human capital at home, erodes the domestic tax base and shrinks the educated middle class, a stabilizing factor in most societies. The migration of talented risk seeking entrepreneurs from the developing world seeking opportunities in more entrepreneurially minded societies spotlights the obstacles to starting and scaling up businesses in their native countries. The underlying cause is a disabling social environment that limits both the number of potential entrepreneurs and the degree to which they can

unfold their potential. This diagnosis of the structure of the private sector and the constraints to its rapid growth applies in differing degrees across a wide range of developing countries. The balance among the different factors varies with income, institutional development and the composition of the private sector. Addressing the constraints to unleash the potential of the private sector will require programs tailored to the needs of individual countries, but the underlying approaches will be broadly similar.

CHAPTER-III

Method

Sample

These small businesses in Pakistan can be classified into 3 major groups:

Manufacturing	(Approximately 400,000)
Services	(Approximately 600,000)
Retailers	(Approximately 1 million)

Their share is:

Number of Establishments	99%
Labor Force	85%
Contribution to GDP	35%

The sample I have chosen to conduct my research is 100 units based on:

Manufacturing	20%	(20 units)
Services	30%	(30 units)
Retailers	50%	(50 units)

Sample Profile

	Percentage	Units
Manufacturing	20%	20
Personal services	10%	10
Information technology	5%	5
Construction	5%	5
Trade	10%	10
Retailers	50%	50

Research Design

- The research design of the thesis was based on Exploratory Research.

- People’s opinion and views were gathered by preparing questionnaires.

- After the questionnaires were completed, a small informal interview was conducted to clarify confusions and to understand what else the respondent has in mind about the topic.

- The research was designed in such a way that it will be very much beneficial for the Government and other governing authorities who could then make strategies to help unleash entrepreneurial culture in the country.

Research Method

- The research method of the thesis was based on Data Collection Method.

- A lot of data was to be gathered which was only possible through various questionnaires that were filled by various respondents.

Sources of Data

There are two sources of data, which will be used in this research:

- *PRIMARY SOURCES.*
- *SECONDARY SOURCES.*

Primary Sources

- Primary sources of data were the questionnaires which were filled by the respondents and the various small informal interviews, which were conducted.

Secondary Sources

- Although the core of the present work is dependent on primary data, the study, like any other research work, uses some secondary data for better understanding of the study area. Secondary sources of data are some SME related websites, online financial magazines, articles and newspapers that will help me in getting a clear picture of my thesis.

Research Instruments

The research instruments that were used in this project were as follows:

- Questionnaires that were filled by the Entrepreneurs.

- Interviews. The short informal interviews were mostly unstructured with some basic questions being the same.

Procedure

First of all the geographical areas within which the research was to be conducted was identified. The cities selected were Islamabad, Rawalpindi, Lahore and Karachi. The reason for choosing these cities is that these are the hub for businesses and that the researcher is well aware of these cities, so distributing questionnaires and gathering data in these cities will be helpful.

Timing

The fieldwork was conducted between October 2005 and January 2006.

Checking Of the Questionnaire Answer Sheet

Every weekend, the answers were checked for completeness, mistakes, omissions and irrelevant responses. Identified mistakes and problems were again discussed with some of the Entrepreneurs. In two cases respondents had to be re-interviewed.

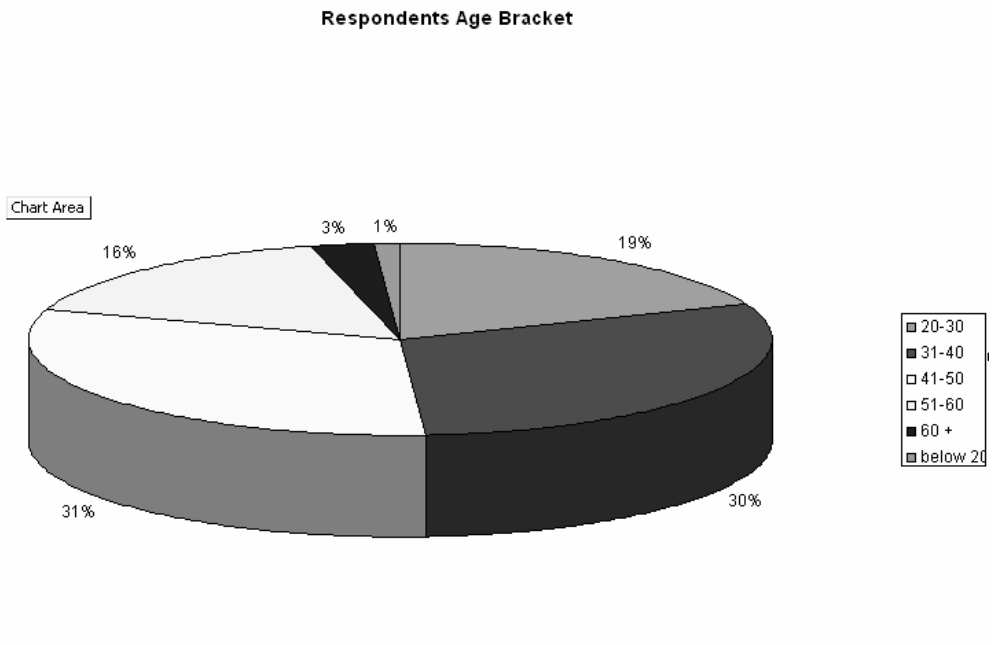
CHAPTER-IV

Results and Discussions

1. Age Group of Respondents

Nineteen per cent of respondents were aged between 20-30. (Figure-5) Thirty percent were between 31 and 40. Thirty one per cent were between 41-50. The probability of starting and running a business falls dramatically after the age of 50, dropping to Sixteen per cent for the age bracket 51-60 and to three per cent after 60. On the other hand, only one respondent was below the age of 20.

(Figure-5)



2. Level of Education

The literacy rate of entrepreneurs is well above the national average. The literacy rate is 46 percent in Pakistan and 35.3 per cent in the province of Punjab.

(*Pakistan Statistical Yearbook 2001*) Table-1 shows the educational attainment of respondents, 98 per cent of whom are literate.

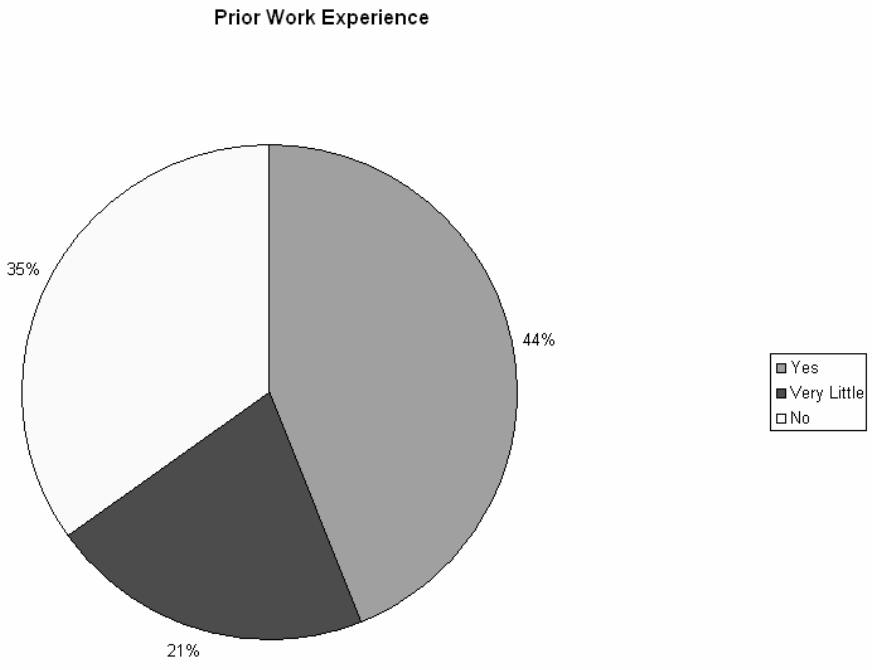
(Table-1)

Postgraduate	**15**
Graduate	**50**
Secondary/primary	**33**
No formal education	**2**

3. Prior Work Experience

More than half of the respondents had attained some kind of training before going into business (Figure-6). Forty-four per cent had substantial work experience, Twenty one per cent had little experience, and Thirty five per cent started from scratch.

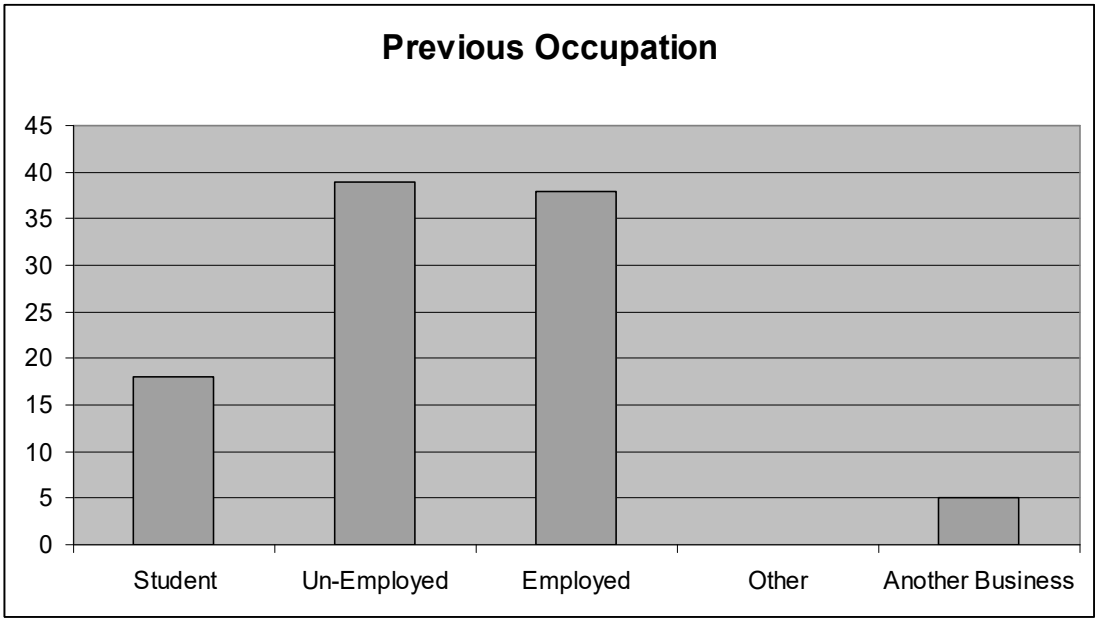
(Figure-6)



4. Previous Occupation

Following chart (Figure-7) shows that 39 percent of entrepreneurs were unemployed before starting business, 38 per cent were employed in different capacities with different organizations, 18 per cent were students and 5 percent were managing another business.

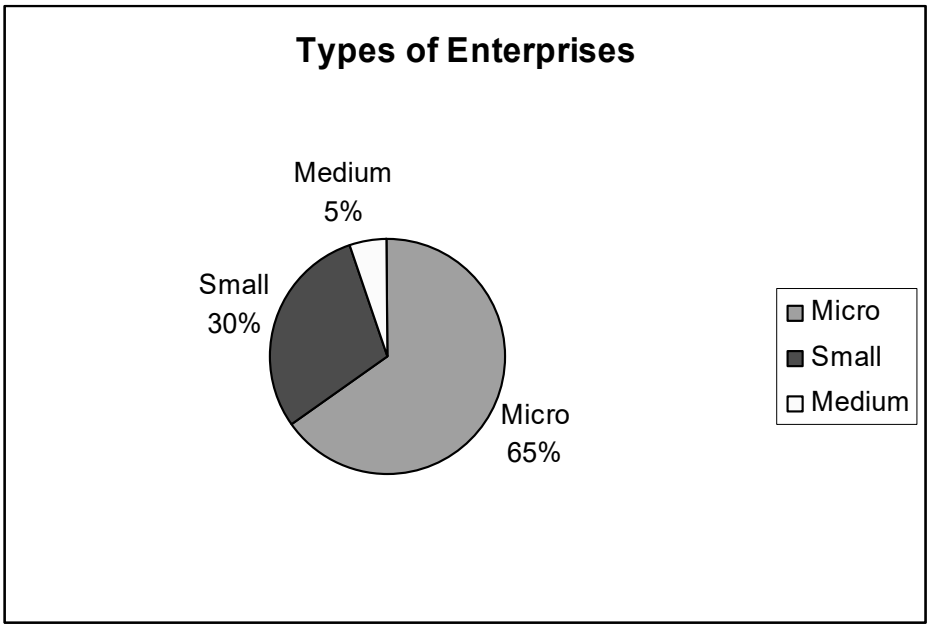
(Figure-7)



5. Type of Enterprises

According to the overall summary of replies received, the large majority (65%) of entrepreneurs had micro enterprises (Figure-8); with 5 to 9 employees. 30% have small companies (10-35 employees), 5% medium sized companies (36-99 employees).

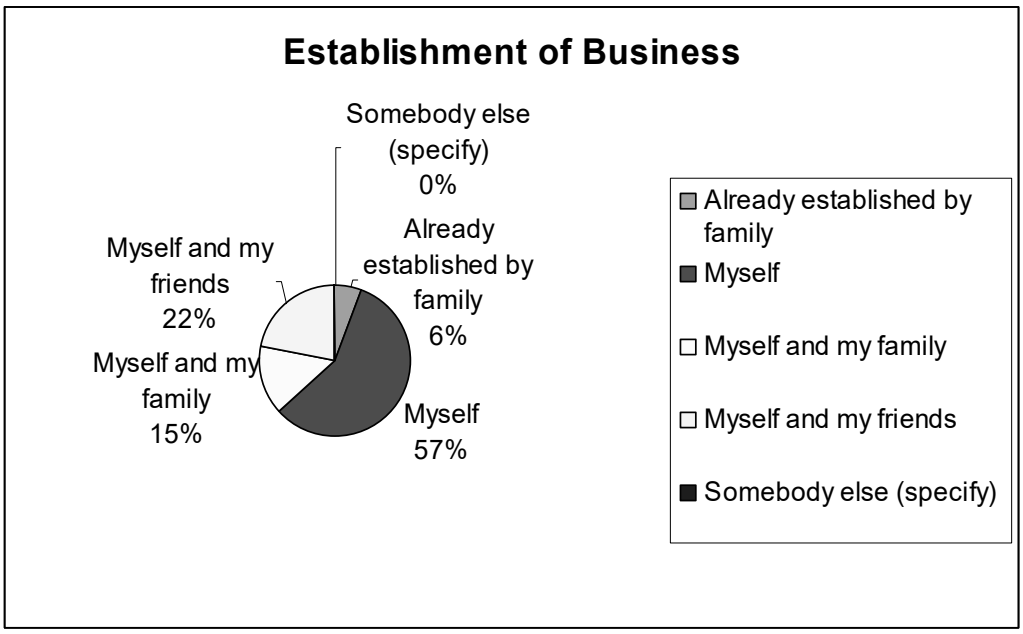
(Figure-8)



6. Establishment of Business

Majority of the entrepreneurs surveyed (57%) created their business themselves (Figure-9). 22 percent created the venture with their friends, 15 percent created it with their relatives and 6 percent inherited a family business.

(Figure-9)

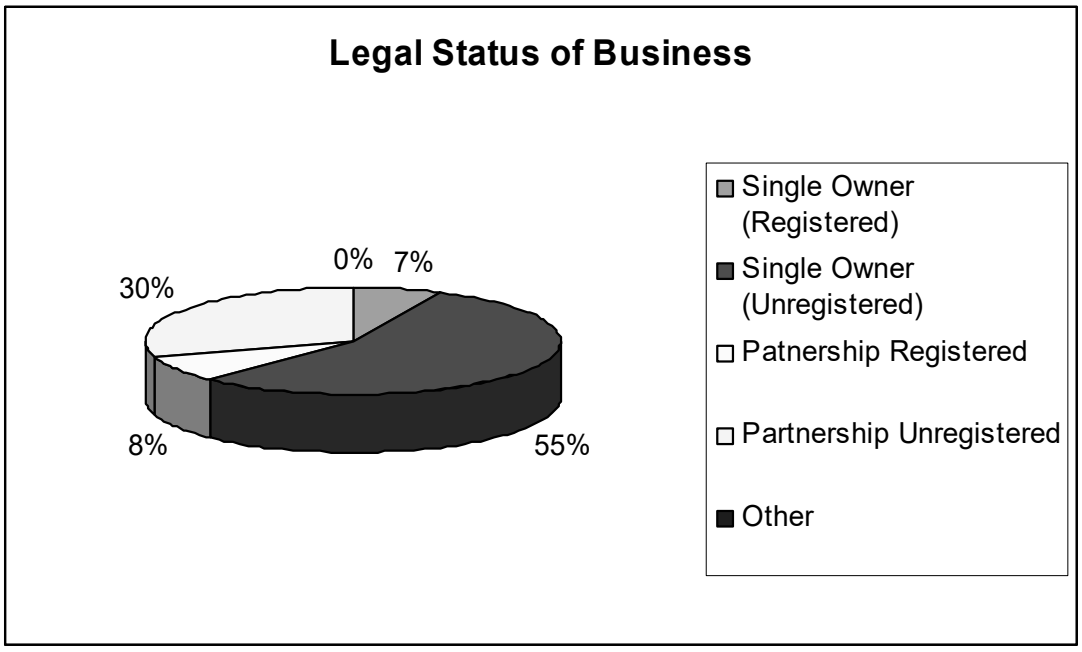


7. Legal Status of the Business:

62 percent of the respondents are Single Owner; out of which only 7 are registered and the rest 55 are unregistered. 38 percent respondents are having partnership out of which only 8 percent are registered and the rest 30 percent are unregistered (Figure-10).

The Integrated Survey of Services and Manufacturing Industries (ISSMI) 1991/92 shows that 92.5 per cent of small businesses in Pakistan are sole proprietorships and 5.9 per cent are partnerships.

(Figure-10)



It is clear from this that in Pakistan, most of the small, medium and micro enterprises are not registered. As discussed in the literature review, 70 percent of Pakistani enterprises are not registered.

Problems Faced By Entrepreneurs

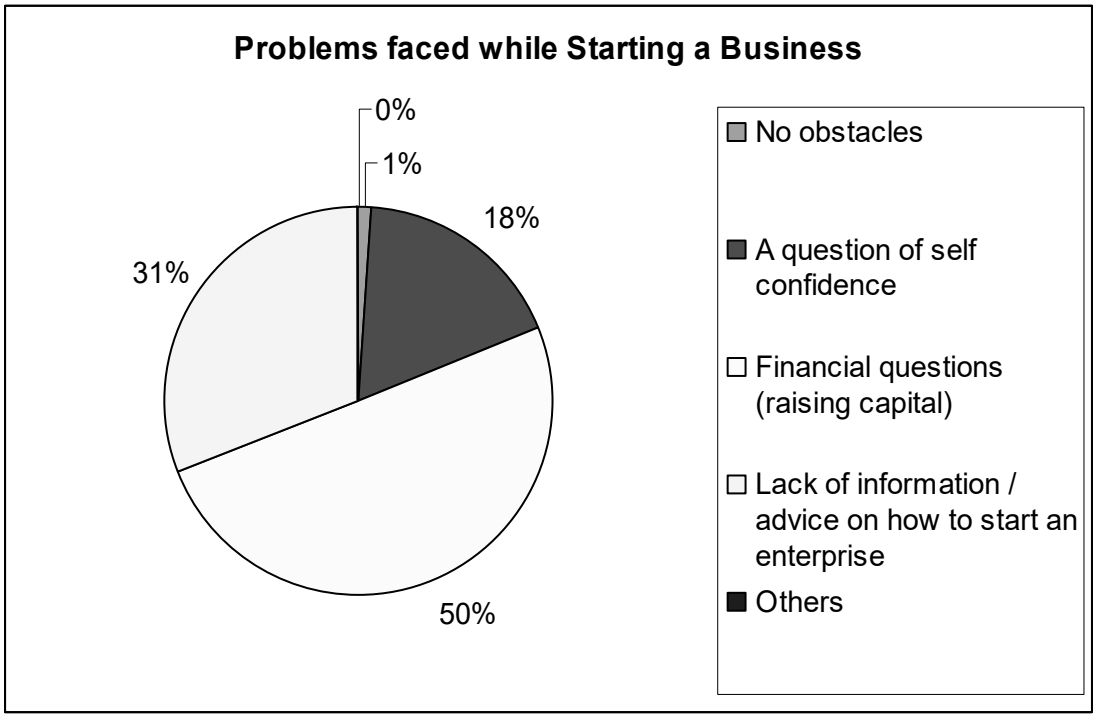
99 percent of the respondents agreed that they faced problems while starting their business. When asked, if it was possible to start a business without a problem? All of them were of the opinion that the problems are always there, but the problems faced by people in Pakistan can be minimized to a great extent.

1. Problems Faced While Starting a Business

Financial questions came clearly first with 50% of respondents quoting this factor as the most important one (Figure-11), followed by the question of self-confidence with 18% and the lack of information and advice with 31%.

Only one respondent stated that he did not experience any problems when starting their business.

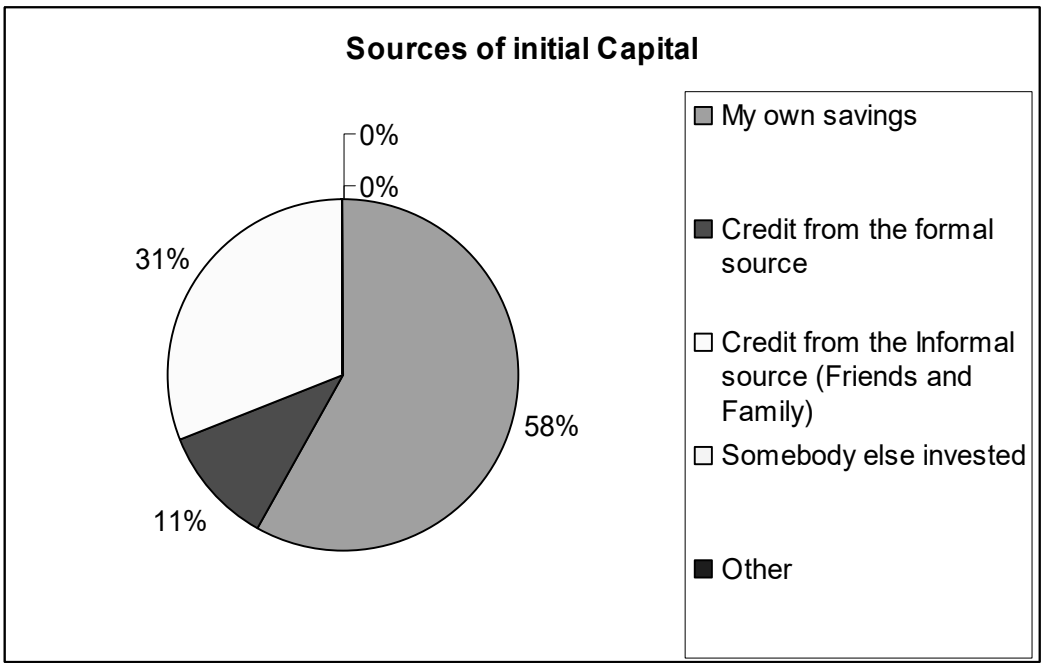
(Figure-11)



2. Source of Capital

The predominant source of start-up capital for business was reported as personal savings (58 per cent) ;(Figure-12) informal sources were in second position at 31 per cent. Only 11 per cent of respondents had access to formal sources of credit.

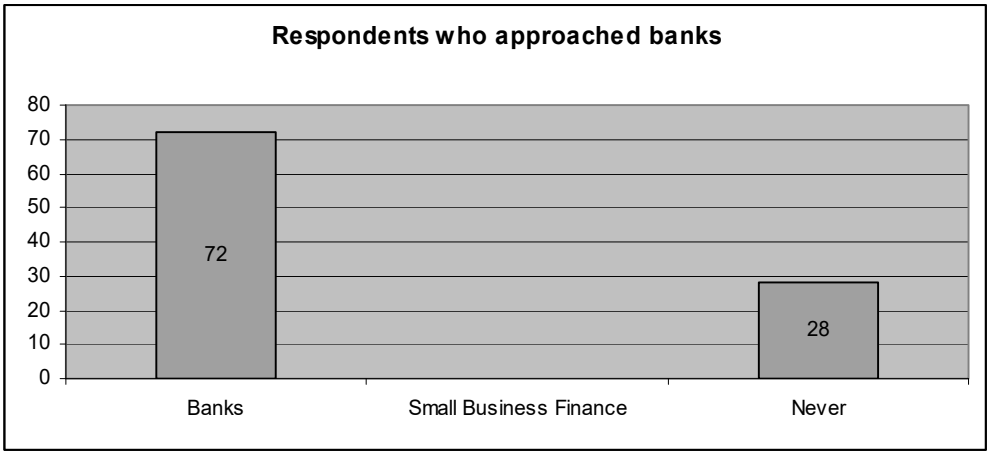
(Figure-12)



All of the 31 respondents who took credit from an informal source agreed that there sources don't ask for any kind of mark-up. They only have to payback the money they initially took. That's why this is the largest source of getting capital on credit.

72 percent of the respondents had approached Banks for assistance (Figure-13). 28 percent never needed bank's assistance. Surprisingly, not a single respondent ever reached the small business finance.

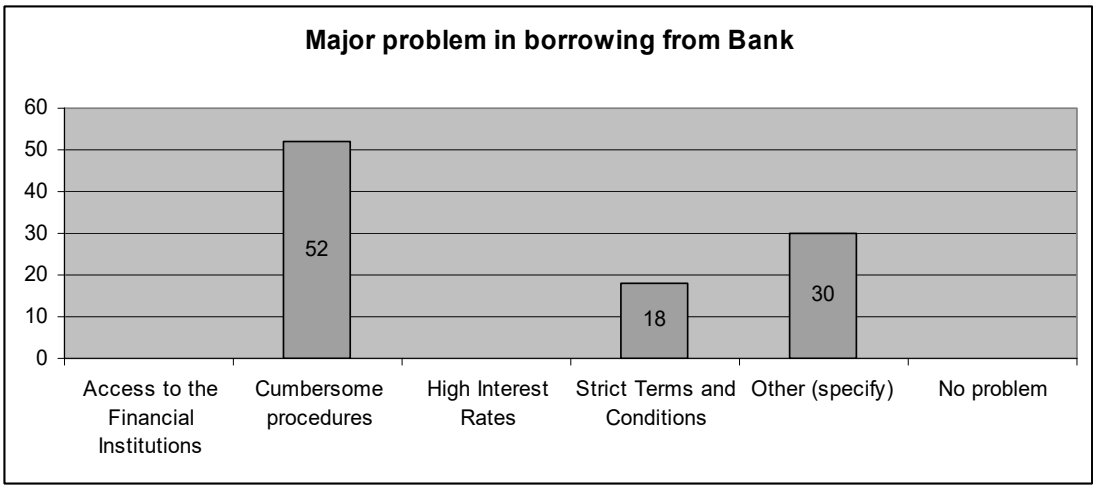
(Figure-13)



When asked whether they ever borrowed from a bank, only 14 percent of the respondents had ever borrowed (Figure-14). Here it is clearly visible that 72 percent people approached the banks for assistance, but only 14 percent ever borrowed. Most Small Entrepreneurs are reluctant to even contact banks.

Respondents say that borrowing from a bank is really complex and difficult.

(Figure-14)



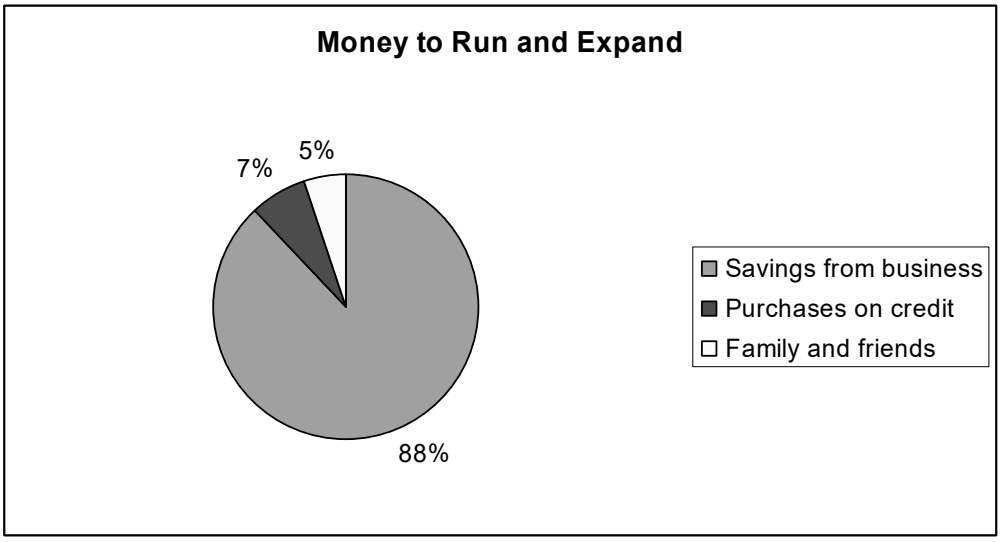
52 percent of the respondents said that completion of papers is the biggest problem. 18 percent said that the security guarantees required by the banks are tough, and

it is really difficult for a small business owner to provide all that guarantees.

30 percent of the respondents considered a problem not mentioned here as the most serious one. Most of the respondents told me that the biggest hurdle in borrowing from banks is Bribery. In the interviews they said that management of the Banks shamelessly ask the people to bribe them, otherwise they reject their applications. The respondents also agreed that the interest rates were also high, but did not consider it as a serious problem.

To run and expand their businesses, 88 percent of the respondents relied on personal savings (Figure-15), 7 percent purchase on credit and only 5 percent asked family or friends for money.

(Figure-15)



During the interview, it was revealed that sometimes mixtures of these three strategies are used, but most of the time expansion is only done through personal savings. The reason is that purchases on credit have a huge markup and they mostly avoid putting more pressure on themselves by borrowing money.

3. Factors Affecting Small Business's

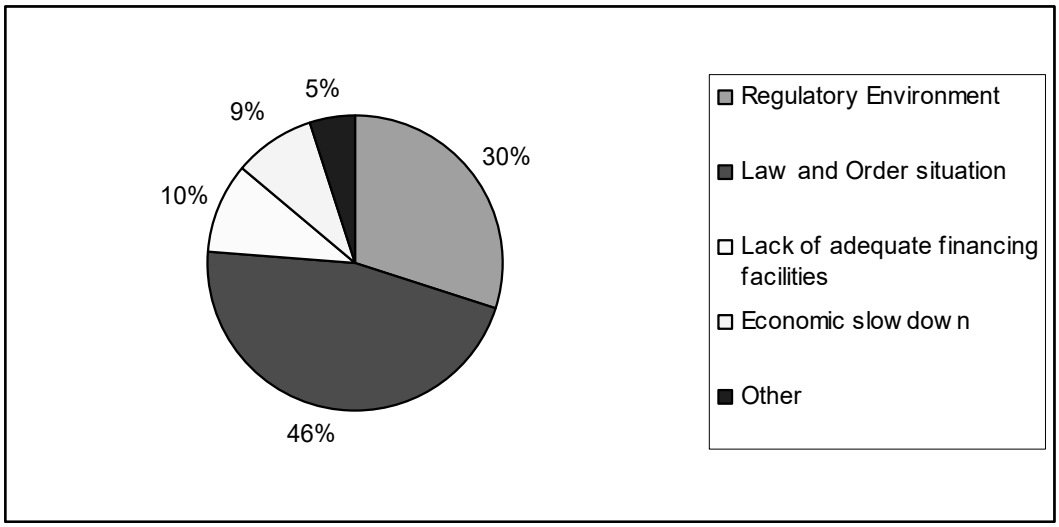
First if all it was asked from the respondents that which is the most important factor that has negatively affected their business in the recent past.

46 percent of the respondents said that the law and order situation has negatively affected their business (Figure-16). Later in the informal interview it was clarified that strikes by political parties were the major cause of law and order concern.

30 percent of the respondents were affected by the regulatory environment of the country. 10 percent were affected by lack of financing facilities and 9 percent because of economic slowdown.

5 percent respondents said that import of low priced Chinese products have had a great impact on their business. Two of the respondent also said that if this trend continued for another year, they will wind up their businesses.

(Figure-16)



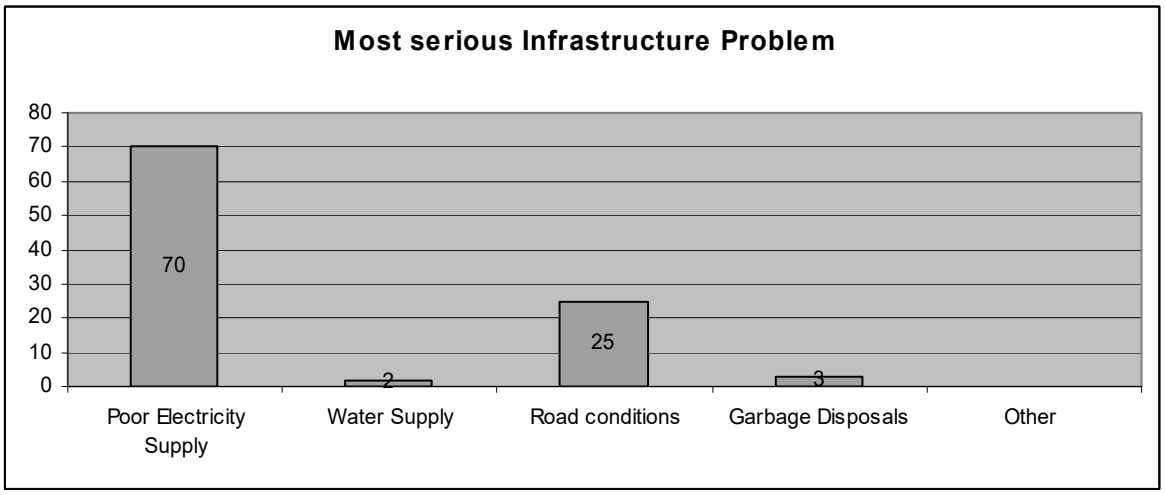
4. Infrastructure Problems

70 percent of the respondents considered poor electricity supply as the major infrastructure problem (Figure-17), followed by 25 percent considered road conditions as the major problem. Only 2 percent respondents considered water supply as a problem and 3 percent considered garbage disposal as a major problem.

Most of the respondents complained that breakdown of electricity was a serious problem. Most of them said that in summers, they would sometimes not have access to electricity for more than 3 days. When asked whether a new electricity connection is easily available, most of them complained that one cannot get an electricity connection unless you bribe the electricity people.

98 percent of the respondents said that electricity price hikes affect their businesses. During interviews it was noted that for more than 40 percent of the respondents, electricity was more than 10 percent of their expenses/costs.

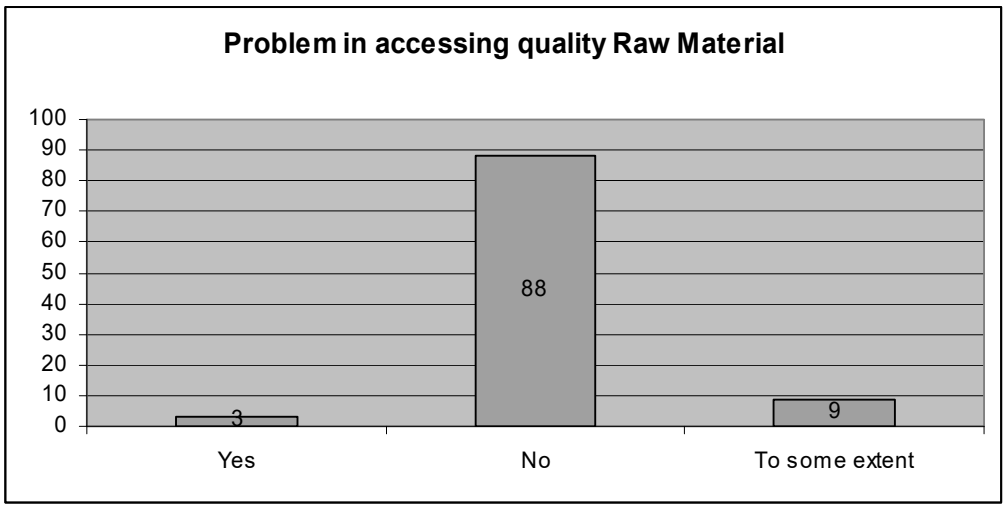
(Figure-17)



Electricity also emerged as a major input to most of the respondents. They considered it important because no other operation could take place unless there is electricity.

When asked whether the respondents were having problems in accessing quality raw materials, 88 percent of the respondents said they had no problems in that (Figure-18), 9 percent said to some extent they were having problems and 3 percent said they were facing problems. Presently Most Small Entrepreneurs are concerned about Price of Raw Material. Access and Quality are not very pronounced problems.

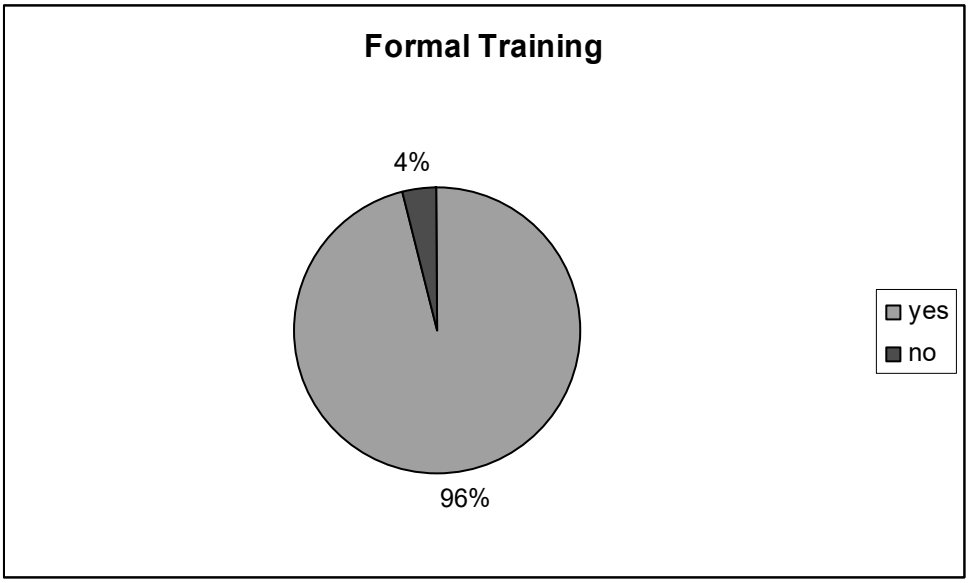
(Figure-18)



5. Training of Employees

When asked if they or their employees had undergone any formal training in the last three years. 96 percent said that no formal training has been done by them or their employees (Figure-19). 4 percent have had formal training.

(Figure-19)



96 percent who said that no formal training was given said, claimed to provide on the job training to their employees. Some said that they employ "*Shagirds*" with an emphasis on cut in wastages, Quick turn-around and Quality Output.

4 percent who had formal training included training like operating a computer and Accounting/Finance classes.

Interestingly some 10% of respondents said they had benefited from government sponsored IT training programme, which was launched by the Pakistani Government at provincial levels.

6. Government Policies and Institutions

The survey revealed that more than half of the entrepreneurs did not know about government policies related to investment, trade and export promotion, income and sales tax, concessionary finance and labor regulations (Table-2). None of the respondents knew about

the Statutory Regulatory Ordinances (SROs) that are issued by the Central Bureau of Revenue (CBR) for business and tariff concessions. Table provides details of the responses.

(Table-2)

Policies	% who know	% who don't know
Policies of the Board of Investment that provide incentives for new and existing investments	34	66
Policies of the Ministry of Commerce and Industry for trade and export promotion	41	59
Policies of the Ministry of Finance (income and sales tax concessions)	53	47
Policies of the State Bank of Pakistan for concession in loans	35	65
SROs issued by the Central Bureau of Revenue for tariff concessions	0	100
Policies of the Ministry of Labor that entail labor-related regulations	35	65

Same is the case with government institutes (Table-3). Very few respondents knew about the government institutions.

(Table-3)

Institutions	% who know	% who don't know
PCSIR (Pakistan Council for Scientific and Industrial Research)	22	78
STEDEC (Scientific and Technological Development Corporation)	29	71
PITAC (Pakistan Industrial and Technical Assistance Center)	40	60
NPO (National Productivity Organization)	2	98
PVTC (Punjab Vocational Training Council)	47	53
TEVTA (Technical Education and Vocational Training Authority)	4	96
None		8

7. Government Regulations

It was asked from the respondents that which government regulations hurt them the most. They had to rate the three most widely discussed regulation problems:

Tax regulations
Labor Regulations
Number of regulations and their cost

67 percent of the respondents rated Tax regulations the most affecting law. 45 percent rated labor regulations second and 42 percent rated number of regulations and their cost as the most affecting government regulation.

It was also asked from the respondents to rate the following on the basis of problems faced by them:

Oppressive role of Police and Local Officials
Utility Charges
Tax
General corruption

TAX	1st	56 percent
Utility Charges	2nd	40 percent
General Corruption	3rd	39 percent
Oppressive role of police	4th	26 percent

8. Problems in Growth and Export

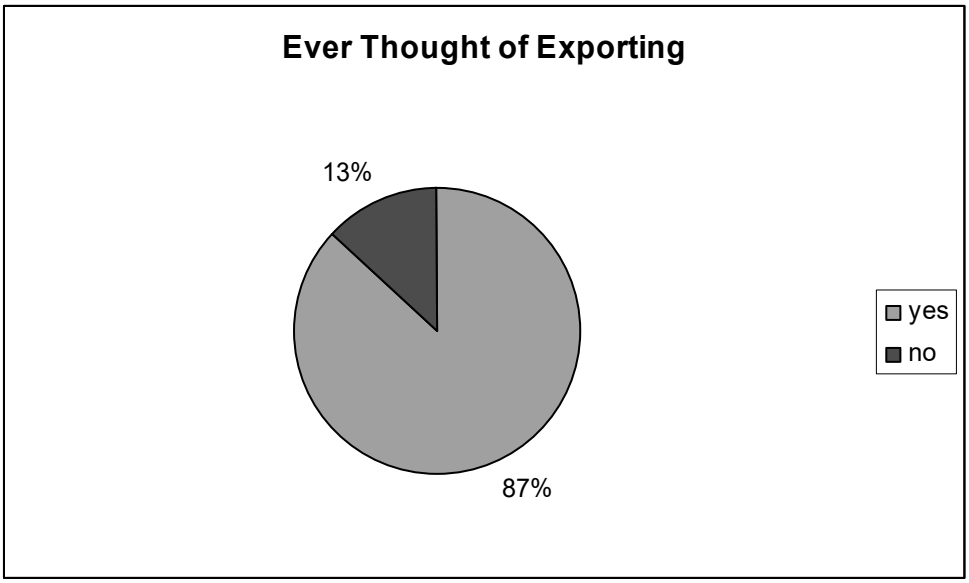
Most of the entrepreneurs; 57 percent, were of the opinion that their business will grow. 36 percent of the respondents were not sure if there business would grow or not. They were of the opinion that it all depends on the

economy and government regulations. 7 percent said that their business would not grow. The reason they gave was that Chinese products are damaging their sales. So slowly and gradually their demand in the market is decreasing.

Most respondents; 88 percent, Work for domestic private sector. Only 8% are in the Export sector. And only half of them i.e., 4-5% make their Major earnings from exports. Only 4% work for the Government sector.

When asked whether they have given a serious thought of exporting their products, only 13 percent have given a serious thought on it (Figure-20).

(Figure-20)



87 percent of the respondents did not give a thought because most of them said that they cannot even think of it because of lack of information. Some of the respondents who had information regarding exporting said that they don’t have the financial resources available to expand their business by exporting.

An open-ended question was asked about the bottlenecks for growth for their business. A variety of answers were received. Most of the common answers were:

Financial resources
Insufficient demand
Knowledge of technology
Government interference and Bribery

Then a second related question was asked that if the above-mentioned bottlenecks were removed, then what would then prevent you from growing?

Almost all, 97 percent, respondents say that then the main obstacle will be Taxes. Other common factors were Government intervention and Tough Competition.

Some respondents also thought WTO as a major threat to their growth.

Respondents were also asked about their opinion on how could the problems faced by entrepreneurs be removed.

Most common solutions given for the problems were:

Improve police performance
Effective governance
Enforce Laws
Improve infrastructure of the country
Easy loans should be available

CHAPTER-IV

Conclusion and Recommendations

Findings

- The source for most of the problems is finance and access to finance.
- Law and order situation is having a huge negative impact on Businesses.
- Tough Rules and Regulations are burden on small entrepreneurs.
- Infrastructure (Electricity, roads etc) Problems are also negatively affecting small businesses.
- Unawareness regarding Government policies and institutions among entrepreneurs.
- Lack of Technological knowledge
- Corruptions in Government Organizations slow down business growth.
- Lack of information regarding growth through export.

Recommendations

The primary responsibility for eliminating these problems and to achieve growth lies with the Government of Pakistan. This responsibility includes creating the conditions that make it possible to secure the needed financial resources for investment. The state of governance, macroeconomic and microeconomic policies, public finances, the financial system and other basic elements of Pakistan's economic environment are largely determined by the actions of domestic policymakers. Their challenge is to capitalize on advances in macroeconomic stability and democracy and to launch reforms that would bring about further changes in institutional frameworks to unleash and foster the private sector.

Recommended Actions

- **Reform regulations and strengthen the rule of law.**

  Pakistan's government has to make a strong and unambiguous policy commitment to sustain private sector development and combine that with a genuine commitment to reform the regulatory environment by eliminating artificial and policy induced constraints. Everything starts with the tone at the top. Emphasizing on a realistic, end user perspective that focuses on actual improvements in an entrepreneur's dealings with public institutions or regulations is needed. And as governments develop and enforce more effective formal rules and regulations, they need to understand the importance of private sector ecosystems in creating broader

participation in the economy and in illustrating the value of the capacity to govern transactions.

Strengthening the rule of Law will automatically remove all problems faced by entrepreneurs. Rule of law can stop bribery, which could help small businesses have access to easy finance.

- **Engage the private Sector in Policy Making.**

  The Government needs to create a real partnership with representatives of the private sector to implement changes and ensure that the voice of the private sector includes small, medium enterprises and micro enterprises.

- **Facilitate access to broader financing options.**

  Innovative schemes are also needed to transform financial flows from the many Diasporas into long term productive investment in small businesses.

- **Assist skill and knowledge development.**

  Skill-building activities could range from programs for top public and private leadership to training micro entrepreneurs with public authorities and unions to improve workforce skills. Large alliances with business and trade schools, public-private collaboration in professional education and training, and mentoring programs for entrepreneurs are needed for entrepreneurial growth. This includes formal programs of multinational companies to make their human resources and know-how available to small local entrepreneurs.

- **Make possible sustainable delivery of basic services, particularly energy and water.**

  There is a need to develop innovative models for partnerships of governmental service providers and local companies. Government should provide un-affected electricity to the areas housing small businesses. Electricity connections to new businesses should be provided on immediate basis. The roads, garbage disposals and water supply in the small business area should be looked after well.

- **Develop linkages with multinational and large domestic companies to nurture smaller companies.**

  Linkages between different types of firms provide an effective channel for local companies to gain access to markets, financing, skills and know-how. There is an urgent need for multinational corporations to integrate better with local small and medium enterprises. Many parties need to work together for this to happen.

- **Make strategies to make small firms aware of different government policies and institutions.**

  The government should properly market its institutions and policies so that small entrepreneurs can take full advantage from their establishment. This will help small businesses to work with the help of the government and at the same time it would be easy for the government to make new policies. This will also help the entrepreneurs to know about different policies like the export policy.

Conclusion

Promotion of an entrepreneurial culture is compulsory for sustainable growth of a country. But for enterprises to flourish, a network of support services is needed. Although Pakistan has strong potential to be an entrepreneurial nation, there are certain problems that prevent it from being so. There is a pressing need to empower the people economically and to create income generating activities to enable them to survive, prosper and provide support for their families. For the development of business potential, entrepreneurs require support in the form of training in strategic business development, access to credit funds, and access to basic necessities for businesses.

The recommendations will help solve most of the problems faced by small businesses in Pakistan. The government should also do its part by providing its help to small entrepreneurs especially by maintaining the law and order situation in the country.

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APPENDIX-A

Research Questionnaire

Problems Faced by Entrepreneurs

	Date of interview: dd_____mm_____yy____
	Interviewer's name:

To be filled by researcher after interviews.				
Checked By		**Corrected**	**Yes**	**No**
City				

Respondent Criteria (To be asked by researcher prior distributing the questionnaire)

Please ensure that the respondent meets the following criteria by asking:	**YES**	**NO**
Do you own this business?		
Do you have 5 or more than 5 employees in your business?		

Instructions:

Fill the questionnaire using a Pen.

Avoid overwriting

Be Honest.

Tick only one answer unless other wise said so.

1. Which age bracket are you in?

Less than 20
20-30
31-40
41-50
51-60
60-above

2. What is the level of your education?

No formal education
Primary/Secondary
Graduate
Postgraduate

3. Did you have any prior work experience relating to this business?

- Yes-Substantial
- Very little
- No-Started from scratch

4. What is the size of the enterprise in terms of number of employees?

- Micro (5-9)
- Small (10-35)
- Medium (36-99)

5. What were you doing immediately before starting this business?

- Student
- Unemployed
- Employed
- Another business (specify)
- Other (Specify)

6. Who established this business?

Already established by family
Myself
Myself and my family(relatives)
Myself and my friends
Somebody else (specify)

7. What is the legal status of your business?

Single Owner/Sole Proprietor (Registered)
Single Owner (Unregistered)
Partnership (Registered)
Partnership (Unregistered)
Other (specify)

8. Were there any problems you faced in starting this business?

Yes
No

---

9. When you started your business, what were the main obstacles you faced?
(You can check more than one answer)

- No obstacles
- A question of self confidence (believing in your abilities)
- Financial questions (raising capital)
- Lack of information / advice on how to start an enterprise
- Others (please specify):_____

10. How did you finance your business at the start? (If Multiple, write 1 or 2)

- My own savings _____
- Credit from the formal source _____
- Credit from the Informal source _____
- Somebody else invested _____
- Other (specify) _____

11. Is there any markup when you ask for money from a friend??

Yes
No

12. Did you ever Approach the following for assistance.

- Banks
- Small Business Finance
- Never

13. Have you ever borrowed from any bank or has any bank helped you in establishing this business?

- Yes
- No

14. What was the major problem you face in borrowing money from banks?

- Access to the Financial Institutions
- Cumbersome procedures (Completion of Papers)
- High Interest Rates
- Strict Terms and Conditions
- Other (specify)
  _____
- No problems

15. Where do you get money to run and expand the business?

- Savings from business
- Purchases on credit
- Family and friends

16. Which was the MOST important factor that has NEGATIVELY affected your Business in the recent past? (Please tick one)

- Regulatory Environment (government policies, regulations and institutions)
- Law and Order situation
- Lack of adequate financing facilities
- Economic slowdown
- Other (Specify)

17. Do you consider Law and Order a Serious Problem?

- Yes (What type)----------

- No

18. Which is the most serious Infrastructure problem that your business Faces (Please tick one)

- Poor Electricity Supply
- Water Supply
- Road conditions
- Garbage Disposals
- Other _____

19. Do damaged roads affect your Business?

Yes
No
Don’t think so

20. Do electricity Price hikes affect your business?

Yes
No
Don’t think so

21. What is the most important input for your Business?

_____

22. Do you have problems accessing quality Raw materials?

- Yes
- No
- To some extent

23. Did you or your staff undergo any formal training in the last three years?

- Yes(what type)_____
- No (why not)_____

24. Have your Business ever Benefited from the government sponsored IT training Program?

- Yes
- No

25. Tick the following policies of the government that you are aware of.

- Policies by the Board of Investment to give incentives for new and existing investments
- Policies of the Ministry of Commerce and Industry for trade and Export Promotion
- Policies of the Ministry of Finance like income and sales tax concessions
- Policies of the State Bank of Pakistan for concessional loans
- SROs issued by the Central Bureau of Revenue for tariff concessions
- Policies of the Ministry of Labor that entail labor related regulations

26. Tick on the institutions you know?

- PCSIR (Pakistan Council for Scientific and Industrial Research)
- STEDEC (Scientific and Technological Development Corporation)
- PITAC (Pakistan Industrial and Technical Assistance Center)
- NPO (National Productivity Organization)
- PVTC (Punjab Vocational Training Council)
- TEVTA (Technical Education and Vocational Training Authority)
- None

27. Which regulations hurt you the most? (Rank Them)

- Tax regulations _____
- Labor Regulations _____
- Number of regulations/their cost _____

28. Rank the following on the basis of problems faced by you. (Rank Them)

- Oppressive role of Police and Local Officials____
- Utility Charges _____
- Tax _____
- General corruption _____

29. What is the growth Potential of your Business? (Will your business grow?)

- Yes
- No
- Not sure

30. What is the main market for your product?

- Domestic Private Sector
- Domestic Government Sector
- International

31. Do you export your product?

- Yes
- No

32. Have you ever given a serious thought of exporting?

- Yes
- No(Why Not)_____

33. What are the bottlenecks for growth of your business?

---

34. If all the above mentioned Bottlenecks were removed, what would then prevent you from growing?

---

35. How can these problems be removed?

Name of Enterprise: ----------

Name of Entrepreneur: ----------

Business address: ----------

Telephone: ----------

Fax: ----------

Email: ----------

Website: ----------

Thank you very much for your cooperation

Any Comments

APPENDIX-B

List of Small Businesses Surveyed

Manufacturing

1. Adam Enterprises Karachi.
2. Apparel Manufacturers Karachi
3. Eurasia Manufacturers Karachi.
4. G.M Manufacturers Karachi.
5. Good Luck Manufacturers Karachi
6. Shahbaz rubber manufacturers Karachi.
7. Rose aluminum manufacturers Karachi.
8. Azam Rubber Manufacturer Lahore.
9. I.A Gear manufacturers Lahore.
10. Sabri Springs Lahore.
11. A Qadir Furniture Rawalpindi
12. Coltex(socks) Rawalpindi
13. Munir and Company(sanitary) Rawalpindi
14. Tekna Lamps Rawalpindi.
15. Shalimar dori Lahore
16. Mehtab Plastic works Lahore
17. Aslam Furnitures Islamabad
18. A.P.A Bottle manufacturers Islamabad
19. Javed Heater Manufacturer Rawalpindi
20. Red paper manufacturer Rawalpindi

Construction

1. Al Sayed Islamabad
2. Property Choice Islamabad
3. Mehran Associates Karachi
4. Qureshi Estates Rawalpindi
5. Space construction and real estate Lahore.

Personal Services

1. Mian car A/C Centre Lahore
2. Waqas Advertisers Karachi
3. Auto Fix Workshop Islamabad
4. Niazi Truck Services Islamabad
5. Crystal Dry Cleaners Rawalpindi
6. Road Runners Workshop Karachi
7. A.B Mirza and Company Karachi (Recruiting Agents)
8. Abid Estate Lahore
9. Capital Homes Rawalpindi
10. American Consultants Lahore. (Visa advisors)

Information Technology

1. Call Central Islamabad
2. Bauxhall Communication Islamabad
3. Obax Rawalpindi
4. City Communications Karachi
5. Global Computer Services Lahore

Trade

1. Al-Rauf Automobile Import and Export Karachi
2. A.M Traders Karachi. (Mechanical Parts)
3. Abbas Traders Karachi
4. Multi Trade Karachi (Cotton and Rice)
5. A&Z Traders Karachi (Lights)
6. A.Q Traders Rawalpindi (Medicines and drugs)
7. A.S Traders Lahore (Sports goods)
8. Abdullah Traders Rawalpindi (Medicines)
9. A.A Traders Lahore (Leather Goods)
10. Al-Saud Traders Rawalpindi (Auto Parts)

Retailers

1. Prime Motors Karachi
2. Appolo Motors Karachi
3. Basit Jewellers Lahore
4. Time Medicos Karachi
5. Bargain Plus Islamabad
6. Kaybees Karachi
7. Fitrite Footwear Karachi
8. Mr Big Mac Karachi
9. Jumbo Super Market Karachi
10. Hashmi sports kits Karachi
11. Big Save Karachi
12. Hot and Spicy Karachi
13. Jauhar Sweets Karachi
14. Music City Karachi
15. Computer Scope Rawalpindi
16. Pakistan Electronic and music store Islamabad
17. Ripples Islamabad
18. Sanis Medicos and general store Karachi
19. Munchies Islamabad
20. Shalimar Sports Islamabad
21. Chimera Islamabad
22. Musix Rawalpindi
23. Xoundz Rawalpindi
24. Japan Garments Rawalpindi
25. Dilhousie shoes Lahore
26. Shoe Plant Lahore
27. Kulsoom Boutique

28.Out fitters Lahore
29.Winner shoes Lahore
30.Sell n Cell Lahore
31.Javaid Brothers Lahore (Sanitary)
32.Imran hardware store Lahore
33.OK CD Corner Lahore
34.Ahmed Fabrics Lahore
35.Dulha House Lahore
36.Kadam Exclusive Lahore
37.Karigar Collection Lahore
38.Gun Smoke Lahore
39.Nadeem Bar B Q Lahore
40.Ziafat Lahore
41.Natinal Tiles Rawalpindi