

**ISSUES IN GROWTH AND DEVELOPMENT OF  
SMALL AND MEDIUM ENTERPRISES (SMEs). A  
CASE STUDY OF DISTRICT NORTH  
WAZIRISTAN ERSTWHILE FATA KPK**



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CERTIFICATE

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## Author's Declaration

I Tahir zaman hereby declare that this MPhil thesis titled ISSUES IN GROWTH AND DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES (SMEs). A CASE STUDY OF DISTRICT NORTH WAZIRISTAN ERSTWHILE FATA KPK is my own work and has not been submitted previously by me for taking any degree from Pakistan Institute of Development Economics or anywhere else in the country/world. I confirm that this thesis was done while in candidature for the research degree at PIDE and this work presented for my MPhil degree has been undertaken entirely by myself and is result of my own work.

At any time if my statement is found to be incorrect even after my Graduation the university has the right to withdraw my MPhil degree.

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## **Dedication**

To my family, academics, friends and all well-wishers

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## **ABSTRACT**

Small and medium enterprises (SMEs) play a significance role in economic, industrial and social development of a country. SMEs in Pakistan assume a basic part in the financial development, resourceful and innovative development, sourcing to large businesses, house enterprises and advancing monetary recharging and social turn of events. SMEs are considered as one of principle elements to decrease poverty, help up public economy. This can be the base of employment and communal uplifting. Pakistan is a developing country, and Pakistani SMEs have a lot of room to boost up the country's economic development. In Pakistanis economy the small businesses could execute better and contribute to the GDP of Pakistan's economy, like that of many developing countries is a direct reflection of its SME sector. This thesis aim to study the issues in growth and development of small and medium enterprises (SMEs). Data was collected through semi structured interviews from SME's owners and Managers using purposive sampling technique. The study is qualitative in nature and thematic analysis was used for analysis of the study. Each sector has their own issues which hinders their growth and development. The study concluded the major issues which hamper the growth of SMEs in the area was financial constraints, security issues, lack of formal education and poor government support. The government should encourage the banking system in North Waziristan erstwhile FATA KPK to facilitate the business community and maintain law and order situations so that the businesses grow, operate and perform well. To overcome the issues of illiteracy and unskilled workforce, government should establish trade schools and training centers in District North Waziristan KPK.

**Key terms:** SMEs, Growth, Development, Barriers, Access to Finance, security

# Chapter 1

## Introduction

Small and medium-size enterprises (SMEs) assume a critical part in the monetary, mechanical and social improvement of a country. As per (Rohra & Panhwar, 2009) The majority of the developed nations yield the significance of SME area in helping their economies. SMEs assume a particular part in the turn of events, as it has been a wellspring of work creation and income generation, the share of industrial production of the small and medium enterprise are considered to be more than 80% (Otsuki, 2002). Given the importance of SMEs in any economy, it is no surprise that almost all the countries in the world place a special attention on strengthening and supporting their SMEs through a various support institutions and schemes general funded SME company in japan were constructed in 1948, 1954 in India, 1966 in Tanzania, 1953 in USA and 1976 in Turkey. The SMEs development has been long considered as necessary for attainment of broader development objectives, including, social stability through the development of the middle class, economic development and notable number of new employment generation (Al-Hyari, 2013). Empirical studies showed that the contribution of SMEs to GDP is over 55% and in developed nations over 65% of total employment. Informal enterprises and SMEs, add up to over 60% of GDP and in developing countries over 70% of total employment, while the total employment contribution is over 95% and account for about 70% of GDP in middle-income nations.

Previous studies agreed upon that small and medium enterprises have a positive impact on the economics measures such as gross domestic product (GDP), income and jobs but there a lot of hurdles due to which this sector is unable to achieve the targets. One of the problem is less credit availability. As noted by Sharafat et al. (2014), Ali (2013) examined that the SME

sector of Pakistan confront credit constraints. Agyapong (2010) in his study reported that the key obstacle the Ghana SMEs sector confront is the non-availability of credit. Similarly (Shah 2018) considerably argues that the SME sector of Pakistan confront absence of credit availability, credit assurance projects and the complicated financial structure which is very regulated as the key constraints to the economic growth and development. Previous studies have paid attention to the effect of SMEs on economic progressions and their part in poverty eradication, some have find out lack of access to credit as the crucial obstacle by developed as well as developing nation like Pakistan but there has been less work on recognizing the specific constraints to credit availability and the nature of those hurdles confronted by SMEs and the possible way to eliminate those constraints.

. These contribute in the development of a nation in nourishing the standard of life by increasing the income of the people. Small and medium enterprises pay a major contribution in the competitiveness and development of the economy (Minniti et al., 2005).

Small and Medium Enterprises (SME's) are very important part of the economy. The definition of SMEs is contested, it varies from context to context .SMEs Policy (2005) adopted the unified definition of SMEs in term of “employment size” / assets (excluding land and building) SMEDA, 2005).(Dar et al., 2017) did study on the definition and key problems of Pakistani SME sector. Their study suggested that SME play a pivotal role in the development of a country, but the sector confront multiple issues that makes it hard to add value to the GDP of the country. Their study focuses on the considerable constraints confronted by SMEs. The result of study revealed that SMEs don.t have regularized and defined size and they examined that the definition of SMEs which are given by various government institutions of Pakistan in terms of size and gave suggestions for a single standard definition of SME. Furthermore they

highlighted the key barriers of Pakistani SMEs such as technological. Individual, financial and physical. They also gave policy implication for the policymakers.

For instance, in USA SME'S are defined as enterprises having an employee strength of less than 500 while in European union the employee strength of SME'S is said to be 2501 . SME's are also defined on the basis of financial assets that they own. For example SMEs balance sheet should not surpass than forty three million EURO and should not surpass than fifty million EURO in turnover. As we know that there is difference in SMEs definition in different countries. Its definition also differs in Pakistan that are creating problems for the businessman. As according to SBP (state bank of Pakistan) SMEs are also defined differently. Small enterprises are those having an employee strength fewer than fifty staff with an annual sales turnover of one hundred and fifty million rupees, while medium enterprises are those having an employee strength of fifty to hundred staff in the case of a trading establishment or having fifty to two fifty staff in the case of a manufacturing establishment. The annual sales turn over should be between 150 million to 800 million Pakistani rupees. While federal bureau of Pakistan defines SME's in a way that small enterprises are those that employ less than 10 persons). So as we know in Pakistani context SME definition varies from context to context. so my definition of SME is the companies with less than 50 workers with an annual turnover of 10 million Pakistani rupees will come under small enterprises and companies with more than 250 workers personnel with an annual sale turnover of 50 million rupees will come under medium enterprises But the contest over the definitions is of little value considering the impact SME'S have on an economy. For instance, as quoted above according to some studies SME's account for 60 to 70 % total employment in low income countries.

## **1.1 Contribution of SMEs in Pakistan:**

Pakistan is 24th largest economy in term of purchasing power parity and 42 largest in its nominal GDP. Pakistan is a country of 207 million populations with \$1641 nominal GDP per capita who rank on 147th all over the world. SMEs are very significant part of economy in which there are almost thirty-eight million small enterprises and medium enterprises in Pakistan where 8 lacs are industrial units, 12 lac service sectors, and 18 lac commercial and retails shops in which 41% of industrial units are in urban areas while 59% are in rural areas. The provisional GDP growth rate for Fiscal year 2019 is accessed at 3.29% which is based on 0.85, 1.40 and 4.71% growth in agricultural, industrial and services sectors separately. Where SME sector donates 40% to the GDP. The provisional agriculture sector growth is determined at 0.85%. The crops sector has a negative growth of 4.4% in FY2019 mostly due to negative growth of -6.6% of important crops in 2019. The temporary growth in the industrial sector was estimated to be only 1.40% mainly due to 2.06% reduce in the large scale industrial sector and 1.96% reduce in mining and quarrying sector. Provisional growth in service sector is assessed at 4.71%. While Wholesale and Retail Trade sector grew at a rate of 3.11%.

According to Farid (2016), the number enterprises in Pakistan are 3.2 million enterprises of about 99% and the value added share is 35%. According to Pakistan today (2018) SMEs are giving 30% to GDP, the share to industrial job is 78%, value share of 25% to the exports, which are instituted very prominent part in the economic progression and development. Similarly, the growth of SME has an ability to make a prosperous economy. Particular businesses recruits almost 78 percent of non-agricultural labor force in the industrial sector, 25 percent of manufactured goods exports besides sharing 35 percent of added value in manufacturing.

SMEs in Pakistan assume a basic part in the financial development, resourceful and innovative development, sourcing to huge businesses, house enterprises and advancing monetary recharging and social turn of events. SMEs are one of the principle sources to decrease poverty, help up public economy. It can be the foundation of employment and social uplifting. Pakistan's economy, like that of many developing countries is a direct reflection of its SME sector(Khalique et al., 2011).

As per Economic Census of Pakistan 2005 the number of enterprises in Pakistan is 3.2 million. SMEs address in excess of the vast majority of every single personal business and non-agribusiness related workforce use is almost 78% in Pakistan (PBS, 2011). SMEs area add a commitment of 40% to Gross Domestic Products (GDP).Moreover, the area addresses 25% of manufactured goods and value added of 35% in manufacturing sector. Almost 53% of all SME activity is in wholesale, retail trade, hotel and the restaurants sector. As noted the industrial establishments of SME activity is 20% and 22 % in service provision (PBS, 2011). Recognizing the critical commitment of SMEs to monetary expansion, employment generation, pay age, and decreasing of poverty, the Government of Pakistan (GOP) has been investing a lot of energy and assets towards the advancement of the improvement of business and SMEs as a rule. For instance, the GOP set up a Small and Medium Enterprise Development Authority (SMEDA) in October 1998 determined to raise this area. The government of Pakistan has added to resolve a SME and SMEs in Pakistan presume a basic role in the monetary development, activity of mechanical advancement, sourcing to enormous enterprises, small enterprises and advancing monetary restoration and social turn of events. SMEs are one of the principle sources to reduce the poverty, grow public economy. It very well may be the establishment of work and social inspiring. Pakistan's economy, similar to that of many agricultural nations is an immediate impression of its SME area(Khalique et al., 2011).The government of Pakistan has additionally



settled a SME and miniature money banks to help and fund this area. Additionally, on the heading of legislature of Pakistan the business banks have particular organizations for SME area in than country (Bhutta et al., 2008).However, giving little attention to their monetary importance, Pakistani SMEs experience the hard effects of a mixture of insufficiencies and have limited their measurements to familiarize to the financial advancement which are granted by GOP and their potentiality to exploit the swiftly developing world business sectors. These insufficiencies incorporate, for instance, center around little worthy added components, absence of a powerful business data base, absence of essential arrangements, energy crisis, low level of monetary education, incompetent HR and non-forceful loaning systems by banks (Bari & Cheema, 2005); (Khawaja, 2006); (Mustafa & Khan, 2005); (Rohra & Panhwar, 2009); SBP, 2010). According to Pakistan Economic Survey (2012-13), however, economy of Pakistan is constantly facing problems due to energy crises, rains and floods, weak law and order situation and many other systemic barriers that are creating problems in country's development. Pakistan's economy over the past five years has grown up at an average percentage of 2.9 per annum. Industrial sector has 20.9 per cent share of GDP has subsectors: manufacturing, construction, mining & quarrying, distribution of electricity and gas. The trade sector has a GDP share of 13.2 per cent. Trade sector growth is assessed at 3.5 per cent compared with last year's 2.1 per cent growth(Khan & Khalique, 2014).

Since the foundation of SMEs Pakistani Government is disregarding their significance and not working with them to deal with crisis (Haque, 1961). Although, there is huge potential in Pakistani SMEs that can be utilized. Therefore, the government influence is required in private and public authorities to work with the new definition of SMEs as it's anticipated to be massively beneficial and go about as an impulse for financial development and advancement (Khan & Ali Qureshi, 2007). According to Soomro and Aziz (2015), the specialists and

scholastics recognize it with its various benefits. Subsequently, it is fundamentally imperative to change number of workers, worth of all out resources, deals up turnover and settled up capital, likewise with standard definition worldwide business sectors will effectively be infiltrated and Pakistani SMEs could more be waved in this period of globalization (Phore & Shaikh, 2010). This will advance development and cultivate innovative work. It will likewise assist with improving admittance to capital as it offices value financing for SMEs and finished up to be a public monetary development motor (Ejaz & Ramazan, 2012). On the off chance that premier difficulties are attempted SMEs stimulates the financial development and advancement of Pakistan.

In the emerging economies like that of Pakistan, SMEs are pondered as the principle element of economy and SMEs are likewise supposed to be answerable for the sole development and for making competition in numerous financial area. SMEs are hotspot for work generation and main thrust for the business spirit. Like in Pakistan different specialists and establishment chipping away at SME, SMEDA (Small and Medium Enterprises Development Authority) characterizes SME in term of aggregate sum of beneficial resources and number of representatives similar to a substance which doesn't utilize in excess of 250 workers with settled up funding to 25 million and PKR 250 million of yearly deal volume (Smeda.org, 2014). SMEs participate in expulsion of unemployment by making occupations in the monetary area, assists with building the foundation for enterprises and decrease of speculation chances. The monetary insecurity can eliminate through the assistance of SMEs and everybody can acquire equivalent chances of directing organizations in the financial area.

In Pakistan SMEs assuming a critical part in financial progression as in different countries of the globe like Taiwan, Japan and China. Additionally South Asia and South America are settling difficult work to foster this area. It put up in degree of work more than the

huge firms since more work is include in it. There are different issues in this area identified with talented HR, absence of capital products, absence of appropriate preservation of the book of records and monetary data. The absence of account is the forthright imperative for small and medium enterprises. The state bank of Pakistan is giving reasonable climate to SMEs to eliminate monetary barriers. So there is requirement of interest of the other administrative organizations like SMEDA to take actions at field level to boost the SMEs sector in Pakistan. Overall money looking like advance methods is from banks side, the SMEs are small in nature and size therefore they didn't have to deal in any with the open capital age of market as security markets. The need of SMEs is essential and furthermore the principle issue for them since it can impact the extension and improvement endurance, and SMEs progression (Husain, 2005).

Erstwhile FATA now merged in Khyber Pakhtunkhwa province was previously a federal subject characterized by extremely less developed institutions and infrastructure. Now with the merger which took place through 25th Amendment passed by parliament in May 2018, a number of improvements are in pipeline such as uplift of infrastructure, institutions and other areas. One of them is the development of SMEs in erstwhile FATA region. Before merger No. of SMEs in KP and FATA were 27000 (DAWN, 2012).FATA face several constraints including no access to finance (especially for the immediate rehabilitation), shortage of equipment, low productivity, outdated technology, and lack of skilled labor force. As in most other developing and post-conflict regions, the credit market for SMEs in this area is characterized by market failures and gaps including information asymmetries, inadequacy or lack of recognized collateral, high transaction costs of small-scale lending, cumbersome documentation and perceptions of high risk. Other issues include hard to manage supply chain, lack of proper marketing, transportation etc. The study in hand will try to explore these issues along with others which create hurdle in the path of SMEs growth and development.

Furthermore, this study will propose solutions and policy recommendations needed to increase the growth and development of SMEs in Erstwhile FATA and particularly in sub-division MiranShah, Razmak and Mir Ali District North Waziristan KPK.

## **1.2 Problem Statement**

The SMEs lack of finance is 55% of the entire problems faced which is due to oscillation in Pakistani economy and non-payments in the loan (Qureshi & Herani, 2011). Pakistan has amazing potential of development to uplift the economy and standard of living of its people. However, there are some key problems or challenges that slow down the progress of SMEs in remote areas which have been brought under consideration. One such area is the District North Waziristan erstwhile FATA region. The reason being, the problem has been chosen for the research to analyze “the issues in growth and development of SMEs in District North Waziristan. The reason for selection of North Waziristan is obviously the constraints of data collection and comparatively less resources requirement yet this study will try to bring most of the issues related to the access of finance and subsequently the barriers to growth and development of SME sector in erstwhile FATA. This study shall have the potential to set a precedence for more research in this area.

## **1.3 Research Gap**

Various studies have been conducted to explore the issues of SMEs on international as well as at national level. Haleem et al (2019) did exploratory study on barriers to growth of SMEs an exploratory study on different operating manufacturing sector of Khyber Pakhtunkhwa. Their findings revealed that lack of government support, strict government rules and regulations, corruption, energy crises, political influence, less profit margin and seasonal effects are the main barriers manufacturing firm faces. Based on the previous literature none

of the study has been conducted to find the issues in growth and development of small and medium enterprises (SMEs) in Pakistan especially in District North Waziristan Erstwhile FATA. So the study in hand will contribute to the existing literature that want a focus on erstwhile FATA region and particularly District North Waziristan.

#### **1.4 Purpose of the study**

Various studies have been conducted to explore the issues of SMEs on international as well as at national level. Based on the previous literature none of the study has been conducted to find the issues in growth and development of small and medium enterprises (SMEs) specifically in district North Waziristan Ex-FATA. The purpose of this study is to fill the gap by studying the main variables through taking evidence from the local community, owners and managers of the SMEs in the region.

Moreover the research purpose is to identify the core constraints in financing of SMEs that impede their growth and development in the erstwhile FATA and particularly in North Waziristan. The reason for choosing North Waziristan as population is because their businesses have been effected due to military operations and their physical, social and economic impacts are undeniable. Locals in these areas are dependent on small and medium enterprises for their livelihood. So financial constraints are hindering the business and employment opportunities. To this end this study will assist those who aim at boosting their businesses by identifying the main hurdles their firms face through providing anecdotal evidences. There is a dire need of research to highlight the barriers, SMEs are facing and give policymaker, development practitioners, regulatory authorities and stakeholder to develop and implement a mechanism that enhance growth and development of SMEs. In sum, this study will make contribution to the existing body of scientific work by highlighting the synergy of main impediments in growth and development of SMEs in the region.

### **1.5 Significance of the study**

This study will focus on an area that has not previously been studied properly. This leaves room for intensive research in various areas, and in our case, that area is the financial constraints faced by business entities of North Waziristan Agency. This study will also focus on study of various other factors that hamper the growth of small and medium enterprises of North Waziristan District.

### **1.6 Objectives of Study**

The focus of the study is as following:

1. To identify the barriers and its effect on performance of SMEs in North Waziristan Erstwhile FATA.
2. To identify core financial constraints for the growth and development of SMEs in district North Waziristan Erstwhile FATA.

### **1.7 Research questions**

- 1 What are the different barriers that affect the performance of SMEs in North Waziristan Erstwhile FATA?
- 2 What are the issues in access to finance that effect the growth and development of SMEs in North Waziristan Erstwhile FATA?

### **1.8 Organization of Study:**

After introduction, this document has overviewed the past literature available on the topic in chapter 2. It comprises of thematic analysis of the issues discussed in previous literature. It ranges from international level to country level, down to the provincial level and

from provincial to specific area. Chapter 3 includes methodology .Chapter 4 include personal observations and findings. The interviews in depth and are analyzed for responses from the very enterprises while chapter 5 comprises of conclusions and policy recommendation.

## Chapter 2

### Literature review

#### 2.1 SME definition

Definition of enterprises vary from country to country but there are some common qualities which include annual sales, number of workers, quantity of asset of the firm, market capitalization etc. Small and medium enterprise has no specific definition and it vary from country to country. Furthermore, a modern and competitive SME must have the following characteristics:

- I. Investing in the resources that include both human and capital resources that constitute the natural structure of new knowledge and skills.
- II. Implementing the management and operation methods of modern organizations and international standards.
- III. Set up for networks and the distribution of information, new access and products.
- IV. Connecting with new knowledge producing bodies, novel poles and R & D institutions.
- V. Switching to new services, innovative products, domestic and foreign markets.
- VI. Investment in both human resource and capital, account for the natural cradle of new knowledge and skills.

The commonly used definition of an SME in United States depends on the total turnover, number of workers and industry to industry (Eikebrokk & Olsen, 2005). Kommission



et al. (2005) have defined SME according to the firm size which are, Micro enterprise have few or less than ten workers, a maximum turnover of Euro 2 million; Small enterprise have 10-49 workers and has less than Euro 10 million turnover; and Medium enterprises have 50-250 workers and having a turnover not more than Euro50 million.

## **2.2 Proposed definition of SME in the SME Policy 2007**

In Pakistan small and medium enterprise does not have single definition. Different government organization i.e state bank of Pakistan (SBP), provincial labor department (PLD) and federal bureau of statistics (FBS) has their own definitions, so it makes it difficult to identify a particular target firm due to absence of single definition of small and medium enterprises SMEs. Align expansion project, data collection and monitor progression (SME Policy, 2017). The government of Pakistan may implement a single accepted definition of SME that is used by both public and private organizations. On the other side some organizations may be allowed frame of two year to coordinate their existing definition of SME in line with the proposed definition of this policy (SME Policy, 2007). The proposed definition of SME which is recommended by SME policy 2007 is that small and medium enterprises are those which has employment size up to 250 having paid up capital of up to Rs.25 Million and annual sale up to RS. 250 Million.

## **2.3 Operational definition of Small and Medium Enterprises**

The meaning of SME aren't distinctive. Different countries and organizations has their own definition of SME. It vary from country to country and some countries recognized very separate types of SMEs. The other definitions of small and medium enterprises is based on their revenue some of them are based on their employment while some of them is based on their reserve assets. In Pakistan the definition of small and medium sized firms is described by SMEDA on the foundation of numbers of employees and manufacturing assets.

While the SME bank definition describes the small and medium enterprises as the metric which is based on the total numbers of capital. According to Dar et al. (2017) the state bank of Pakistan SBP has described SME based on the number of workforce, net sale per year, company character and the quantity of capital employed. The definition of SME in Pakistan is contextual. So my definition of SMEs is the firms having less than 50 workforce with an annual turnover of RS. 10 Million are small enterprises and companies having employee strength more than 250 labors with annual turnover of Rs. 50 Million are medium size enterprises.

The importance of small and medium enterprises has been recognized by both developed and developing economies because they play their part in economic development and beneficial in economic prosperity but there has been a controversy about the pattern of SME contribution to overall economic growth because the developed economies generally exploit the entrepreneurs while in case of developing nations SMEs play the part of job creation (Naudé, 2010).

Enterprises are considered as principal elements of economic growth of any country because they play their part in provision of employment and also act as supplier of products and services to mega organizations (Kumar & Singh, 2017). Hence, according to Wang (2016) it is of due importance to sort out the factors that impede the growth of SMEs and furthermore, his findings unfolded that financing of SMEs and borrowing costs are major obstacles.

#### **2.4 Importance of SMEs in a Country:**

SMEs play an important role in most of the economies particularly in emerging economies. The Formal SMEs contribution accounts up to 40% of Gross domestic products (GDP) in developing countries. SMEs represents more than 50% of employment and 90%

businesses all over the world. Kongolo (2010) examined the role of SMEs on the economic development of South Africa. His findings suggested that SMEs play an important part in many ways like employment generation for both rural and urban workforce and providing continuity and innovation to the economy which leads to economic growth and development. His study also shows that SMEs has a major part in big businesses in emerging economies. Development economist. Researchers, Academicians and politicians argue that promoting small businesses development and enhancing good entrepreneurial strategies would contribute and increase economic development. From the lens of economics development, small firms and businesses generate almost half of new employment in the economy(Edmiston, 2007). Furthermore the study suggested that it is of due importance to create a favorable environment in which small firms and businesses can easily innovate, operate and generate the required jobs as a strategy needed for better economic development.

Agyapong (2010) studied on the importance of MSMEs (micro, small and medium enterprises) for economic development and poverty eradications in Ghana. The study of the literature has two significant view pro and anti pro MSMEs where the pro MSMEs are of the view that small businesses brings economics growth while the anti pro believes on large institutions that increases economic prosperity. Furthermore the above study concluded that small firms and businesses play an important part in employment generation, increases the imports and exports, contribute in taxes, increses human resource development and are the cradle for innovations and entrepreneurship which eridicate poverty. He gave recommendations to the polymakers and government to establish credit support services and non financial business centers to MSMEs.

Khan et al. (2013) did study on human resource practices and small medium enterprises in Pakistan. They examined that SMEs play pivotal role in the economic growth and development and their study discussed the global views of SMEs operating in human resource practices of SMEs in Pakistan. The results of the study implies that SMEs has a great potential to lift up social and economic developments. They also revealed the problems which lies in the SMEs sector in Pakistan regarding human resource practices. They noted that there exists incompetency in implementing and HR practice and the lack of HR practitioners are the main problem confronted by SMEs to increase the success factors. Furthermore they noted that significant steps should be taken to improve the source of organizational expertise to get the performance of SMEs.

Subhan et al. (2014) examined empirically the impact of process innovation prevailing in SMEs over the period 1980 to 2013 on economic development by taking case of small and medium enterprises in Pakistan. They noted that innovations has great potential to uplift the economic development. They used national and international data bases like Pakistan economics survey, government of Pakistan, and Asian development bank (EDB) outlook 2013 and key measures 2013 to collect the data. They used the log linear regression model to measure effect of SME's performance and impact of innovations on economic development. After constructing two equations to know the impact and the results showed that innovation and economic development has a positive relationship that prevails in small and medium enterprises. The results also showed that making improvements in the process of innovation will ultimately increase in SME growth and it will prosper Pakistan's economy.

## 2.5 SMEs and financial constraints:

The financial constraints small and medium enterprises SMEs faces are about 60% both in developing and developed economies. Beck (2007) did a survey empirical research and his study revealed that small and medium enterprises SMEs confront more financial constraints and other organizational barriers than large enterprises due to the poor financial and monetary systems of many emerging economies. Their conceptual framework reveals that the main factors SMEs in emerging economies confront are explaining financial constraints because of information failure and borrowing cost among the lender and borrower. Furthermore they take it into account the improvements and strategies that can guide financial institutions to give loans to SMEs and highlight the government role in providing the controlling framework and take policies that are market friendly such as schemes related to credit assurance. They also highlight the difficulties in government participation in financing to SMEs.

Ullah (2020) did a study on over 10,000 small and medium size enterprises SMEs in central Asian countries and Eastern European countries and examine the impact of corruption and level of firms financial constraint. His study revealed that financial constraint effect employment and firms sales growth negatively while corruption has no such direct impact on growth. His findings also examined that larger, older, foreign-owned and firms which got higher ownership concentration report are less financially constrained compared to exporting firms which report higher financial constraints. Furthermore his study showed that countries which has higher GDP per capita, better legal system, property rights, stock market development and less corruption level firms confront lower levels of financial constraints. He provided empirical evidence that firms level corruption hampers SMEs access to financing and impede their resources within transition economies.

S. Khan (2015) studied the impact of various funding sources on the growth and development of small and medium enterprises SMEs by using developing nation Pakistan as case study. They used panel data and took data of 78 SMEs from enterprise survey and world bank in Pakistan for over 3 years including 2002, 2007 and 2010. The results of the findings showed that banks role play a positive impact on the growth of SMEs in the sample given time period. But the role of other informal sectors showed negative impact on the growth of SMEs and these are not significant in all the given time period because it indicate the positive impact of government,s policies. They gave recommendations to the policy makers and government to take necessary steps to impede the problems of SMEs in accessing to finance from banks.

Small and medium enterprises SMEs play an important part in the Kenyan economy. The contribution of SMEs sector to the gross domestic products (GDP) increased from 14% to 20% during the period from 1993 to 2007. For this purpose Koech (2011) did a survey on financial constraints which hamper the growth of small and medium enterprises in Kenya taking a case of Kamukunji district of Nairobi country. The study was qualitative, descriptive design was used for sixteen types of business ventures and data was collected from 100 businesses through structured questionnaires. The results of the study showed that market price, financial market, access to finance are the most contributing components which constrain the growth of SMEs into large industries and revealed that profit and sales are the elements which effect the growth of the businesses. Furthermore the results will lead government and microfinance institution to come up with proper planning, better loan provisions and provide informations to small firms.

SMEs play an important role in poverty alleviation of a country. Sharafat et al. (2014) examined the role of small and medium enterprise SMEs in Pakistan. Their study focused on the impact of small and medium scale industry on poverty in Pakistan. They use autoregressive

model where population growth rate, income inequality, health expenditure, inflation and one year lagged value of poverty head count index as explanatory variable. Furthermore their study revealed that SMEs play an important part in economic growth, poverty alleviation and job creation in Pakistan. The results of the study also showed that strong SMEs foundation is required for the economy and poverty eradication in Pakistan.

Okpara (2011) did study on the factors that impede the growth and survival of Nigerian SMEs by taking application for poverty alleviation. He used a survey method and collected data from 211 small business managers, owners and conducted several statistical analysis to find out the elements constraining the growth and survival of SMEs which are located in cities of Nigeria. The findings of the study revealed that poor financial support, lack of management, inadequate training and expertise, corruption, less profits and low demand for commodities and services are the most common obstacles which hamper the growth and survival of small businesses in Nigeria. The study also gave implications to the policy makers, stakeholders and government (federal, state and local) and NGOs to develop targeted policies and schemes that actively drive innovations and as well as helping policy makers to support, encourage and promote small businesses for eradication of poverty in Nigeria.

Small and medium enterprises SMEs play a significant role in employment generation of every nation. Syed et al. (2012) examined the impact of small and medium enterprises SMEs on job creation in textile industry of Pakistan by using simple random technique. They generate the structural questionnaire to collect data of 30 organizations from 100 respondents, collected data from different sources including all Pakistan Mills Association, World Trade Organization WTO, Cotton Central Research Centre Multan and the Export Promotion Bureau. Their study showed that SMEs are the main driving force in poverty alleviation through job creation. The

result also revealed that SMEs play an important part in foreign exchange earnings, increase GDP of country and boost up entrepreneurial strength.

Small and medium enterprises SMEs are considered as driving force in the growth and sustainable development of an economy. Aremu and Adeyemi (2011) did study on survival strategies of small and medium enterprises SMEs for job creation in Nigeria. The results of the study revealed that SMEs sector is a base for entrepreneurship which is carried out by creativity of individual and innovation. They noticed in their study that SMEs are the main principle element behind employment generation, poverty alleviations. Revenue generation, income distribution and economic inequalities but government involvement failed to nurture the required change in the SMEs sector due to poor strategies and monitoring and incompatible policies. Their study also gave recommendations for policy makers to take an important attention for the implementation of this programs in SMEs sector in Nigeria.

## **2.6 Factors that hinder SMEs growth and Development**

Govori (2013) examined the effects of external factors with a particular focus on access to finance for Small and Medium Enterprises (SMEs) in Kosovo. The findings of the study have shown that external factors having a special impact on the development of SMEs in Kosovo include financial access, corruption and policies made by Government. In this context, it is also obvious that, regardless of the difficulties and barriers in obtaining loans, bank loans are critical to the development of SMEs in Kosovo.

Siyanbola (2015) did study on challenges to growth and development of service and manufacturing industry of Nigeria. Qualitative data for the study was collected through semi-structured interviews and NVIVO from the respondents including owners, managers and experts



on SMEs management and development. His finding revealed that there exist many challenges faced by SMEs which include inefficient business education to the owners, lack of support from government organizations, poor employee management by owner-managers, and affordable workplace for startup. According to Abor and Quartey (2010) the development of small and medium enterprises faces numerous challenges i.e access to appropriate technology, limited approach to international markets, weak organizational or institutional capacity, lack of managerial and management training and skills, the current laws, rules and regulations which hamper the development of SME sector.

Agwu and Emeti (2014) examined that multiple taxation and lack of managerial skills, insufficient social infrastructure and poor financing create major hurdles in the performance of SME during October 2012 and November 2013 in Port-harcourt city. They selected 120 registered businesses and developed a descriptive research design by scrutinized data collection using descriptive statistics while drawing up hypotheses they used z-test. Furthermore they proposed facilities of soft loans, long term loans schemes from government, capacity building support from both public and private sectors and establishment of SMEs financial institutions for SMEs operators.

Al-Hyari (2013) reveals that the main issue SMEs confront are lack of competition barriers, poor financial support, lack of qualified human resource and inflexible business rules and regulations. Previous studies and research also explore that lack of access to information, technological issues, functional issues, problems in support from government and business development services. Furthermore the hurdles SMEs confronts like banks and facilitating financial organization to supply worthy credit provisions to this sector and provide SME with soft loan and many subsistence programs required by SMEs to obtain technology that help in their business. According to Yoshino and Taghizadeh Hesary (2016) the major challenges

SMEs faces are embryonic sales medium, low R&D spending, lack of databases, limited access to finance, inadequate use of information technology and low levels of financial inclusion. Rahman et al. (2016) in their study discovered availability of credit, management expertise and marketing as major barriers to SME despite financial, functional and managerial aspects.

Beh (2013) examined that the failure of SME are due to the fact that owners of SME are not aware of the challenges that businesses confront in terms of financial and managerial skills. Beck et al. (2005) in their study find out the relationship of small medium enterprises relative size, poverty alleviation and economic growth and took sample of 45 countries to examine the share of SMEs workforce in the total manufacturing workforce. They used OLS Regression and find out a positive relationship among the SMEs and economic growth but the cross country analysis of data showed no evidence that SMEs alleviate poverty or income inequality.

Kumar (2013) in his study examined that there are many elements small and medium firms faces but one of the main factors are the suitable adoption of strategies to fight the challenges. His study find three major obstacles which are commodities price, fixed cost relative to firm and competition with large enterprise. Okpara and Kabongo (2009) did study on empirical evaluations of factors that hinders the growth and success of small businesses in developing country Nigeria. Different statistical analyses were conducted to find out the elements that hamper the growth of small firms in Nigeria. The results of the study discovered that services, demand for commodities, corruption, lack of financial help and poor management are the challenges that hinder the growth of SMEs. The other numerous obstacles SME confront which increase their competition with other large and well-set up enterprises are to develop quality goods and services.

According to Neville (2015) the issues that hamper and exploit the ability of SME to grow are due to financial burden, abrupt changes in market structure, technological advancement and globalization. The growth of enterprise is negatively related to enterprise size and also the growth of enterprise decreases due to the presence of financial and organizational barriers Bartlett and Bukvič (2001), Rehman et al. (2019) found in their study that WBCs nations faces obstacles that impede labor productivity (LP) of SMEs and their findings suggest that corruption, uneducated labor force, political uncertainty, and tax management appears to be the main hurdles which are negatively influencing labor productivity of SMEs in WBC.

Nkwabi and Mboya (2019) did study on the factors which effects the growth of small and medium enterprises SMEs in Tanzania. In the study a mix method technique was used and content analysis from 21 units of literature in Tanzania to extract the constraints. Therefore qualitative approach was adopted and descriptive statistics was used to find out the percentage and frequency of factors which effect the growth SMEs in Tanzania. They suggested in their findings that lack of entrepreneurial knowledge, access to market, bureaucracy and access to finances are the obstacles SMEs faces which hemper their growth. Forthermore they also suggest the elemenets such as capital constraints, limited finance, lack of technology, poor infrastructure, corruption, strick regulations, lack of motivation of enterprise owners and limited access to information affect the growth of SMEs. The study recommended that providing financial assistance by lowering intrest rate and making borrowing procedures easy will help SMEs to avail the required capital and finance for their establishments. Furthermore they suggested that government and other regulatory authority should support by making the regulations easy like levying the taxes for SMEs sector and business incubations centre must be established to provide training to the SMEs such as small industries development organization (SIDO) to smooth the business knowledge.

A study has found that financial access is critical for the long-term growth and profitability of SMEs since it helps in the creation of new firms and nourish the novel methods. Along with that the enhancement of the development and growth of currently existing enterprises which contributes to the economic growth of nation (Abdulsaleh & Worthington, 2013).

The authors proposed that the factors influencing the expansion of SMEs in the region are as follows (Olawale & Garwe, 2010). According to the literature there are numerous barriers to SMEs' growth in the South African region. Principal component analysis methodology was employed to analyse the findings which revealed that the role of SMEs has remarkable in the progression of the economy of South Africa. Regardless of their significance to the economy's development, the rate of new SMEs in the nation is frightening. Therefore authors attempted to examine both the inside and outside environmental elements which hinder the new SMEs growth and result in their failure in the nation..

Ting (2004) did study on the pivotal change of SMEs in Malaysia and found many issues Malaysian SMEs still faces and the main challenges are access to finance, inadequate and limited or incompetency to adopt technology, constraints in human resource, low information related to market ability and customers and world competition.

Bouazza et al. (2015) did study on the initiated element that effect the growth of small and medium enterprises of Algeria and analyzes the elements which are influencing the growth of SMEs in Algeria. Their study examined the principle factor responsible for slow or limited growth of Algerian SMEs by exploring different factors both internal and external. They revealed that there are common factors which hamper the growth of Algerian SMEs like business domain, legitimate and regulatory body, outreach to external finance and human

resource ability. The internal components are market expertise, management abilities, entrepreneurial attributes and technological abilities. Furthermore they gave recommendation to the government that they should make efforts to constitute a policy to improve the business environment and make legal and regulatory framework for the progression of SME sector.

## **2.7 Pakistani context:**

SMEs in Pakistan are defined by Small and Medium Enterprise Authority (SMEDA). This definition is based on the number of employees working in an enterprise, annual turnover and paid up capital. According to SMEDA, a business entity with not more than 250 employees, annual turnover of 250 million and paid up capital of 150 are said to be called as a small and medium enterprise.

Syed et al. (2012) did study on the effect of small and medium enterprises on the employment and economic development taking the case of textile industry of Sindh in Pakistan. In the study to analyze the data they used descriptive statistics, Pearson product moment correlation analysis and sample t test. To collect data they used questionnaire research design. The result of the study showed that SMEs have a positive impact on their foreign exchange earnings, gross domestic products, exports and on the economic progression of Pakistan. The results of the study also showed that small and medium enterprises play an important part in the job creation of rural areas of Sindh in Pakistan. Furthermore they also proposed government to take necessary measures for the development of SMEs sector of Pakistan.

Haneef (2010) did an empirical study on the issues in growth and development of small and medium enterprises SMEs and their impact on SMEs in Lahore. The obstacle confronted

by SMEs includes shortage of capital, unpaid accounts receivable, high production cost and interest rate and lack of access to financing. Primary data was collected through questionnaire using multiple regression and Pearson correlation through SPSS to analyze the data. Their result of the study showed that these impediments have negative impact on the growth of SMEs in Lahore. Furthermore they also gave recommendations to the government that they should step forward and provide capital to Small and medium enterprises and make legal structure which take legitimate action against the delayed action to increase the progression of SMEs.

The prospective of small and medium businesses is the enterprises. The small and medium enterprises' potential can be increased if bigger corporations collaborate and relocate with small businesses in their small schemes because subsidizing is one of the most important issues for Pakistani SMEs, the State Bank of Pakistan is providing and has set the targets for finance to SMEs(Hamid & Abaidullah, 2017). The lack of access to credit is a key problem for Pakistani SMEs. Therefore according to the Pakistan Microfinance Network, there are 27.7 million individuals in Pakistan which require microfinance, yet only 7% of the population has access to it (PMN, 2007). Pakistan is a progressing country, so the Pakistani SMEs have a lot of room to boost up the country's progressing economy. The SMEs can contribute and perform well in Pakistani economy and can add their share value to GDP.

Hyder and Lussier (2016) did study on the success and failure of small businesses in Pakistan. They used logistics regression analysis and took sample of 143 small firms in order to better understand the success and failure factors. Their results showed that proper business planning, insufficient capital inflows, proper employee staffing and partnerships are important feasible factors for the success of small firms in Pakistan. The study also showed that managers and owners of small firms should be well qualified.

M. M. Khan (2015) did study on the formal and informal sources of finance available for the SME sector of Pakistan. He noted that SMEs are the principle part of poverty alleviation, economic development of a nation, employment creation, entrepreneurial culture and income equality. With the establishment of SMEDA stockholders gained many milestones in SMEs sector of Pakistan but at the mean time SMEs confronts many barriers like unskilled human resource, poor infrastructure, uncompetitive commodities, less expertise in the entrepreneurial department, short range businesses and failure factor to pay for businesses. From all the above the main hurdle SME faces is access to credit specially small businesses because small businesses don't take lot of risk and they have no formal financial statements for their growth and development. Furthermore the study focuses on the availability and sources of finance for SMEs and hurdles confront to SMEs in attaining financial facilities. He noted that the main factor of success of SMEs in Pakistan is availability of finance. He also examined that the entrepreneurs of Pakistan faces lack of managerial abilities which are needed to for the success of business.

Raziq (2011) did study on the comparative analysis of high performance management practices (HPMP) of service and manufacturing based SMEs of Pakistan. The study was conducted in Karachi by using the data of 436 service and manufacturing based organizations and large scale questionnaire was designed using SPSS for data analyzation. The results of the study revealed that there is huge difference between industrial and service based SMEs considering the adoption of HPMP. The service based SMEs assumed more formal recruitment, training, production and payments compared to manufacturing SMEs.

M. M. Khan (2015) examined in his study that SMEs play important part in employment generation, income distribution and poverty eradication. He empirically studied and find out the impact of various types of answers on Small and medium enterprises growth

and development in developing nations taking Pakistan as case. A panel data analysis was carried out for using 78 SMEs data for the 3 years in Pakistan which includes year 2002, 2007, and 2010. The results of the study showed positive part of banks in the growth of Pakistani SMEs in the given sample period while on the other side other non-formal sectors have not played a positive role in the growth of Pakistani SMEs and the year 2007 and 2010 showed a positive impact due to government policies among the property scatter. Apart from that they gave recommendations to the government to take necessary steps to reduce the issues of SMEs while utilizing finance from the banks.

Another problem is that Pakistani entrepreneurs lack the managerial abilities that are needed to run a successful enterprise. Despite the importance of SMEs, the institutes of Pakistan that assist them are insufficient. SME growth is impossible without institutional assistance (Nguyen et al., 2009). Such type of assistance required to guide SMEs is very critical. But as of 1998, when SMEDA was established a flicker of hope was seen.

SMEs in Pakistan currently account for about 90% of all establishments, employing up to 80% of the non-agricultural workforce and contributing over 40% of the country's annual GDP. SMEs unlike large enterprises in the formal sector are confined by other resources and finances. This innate attribute of SME necessitates the creation of a structure via which it can receive assistance in many tasks of business such as technological upgradation, financial, marketing, and human resource development and training (SMEDA, 2019). In order to boost industrial growth and generate jobs for our youth, our country desperately needs SMEs. As a result, it's critical to figure out what's preventing our small and medium-sized businesses from growing. Those variables should be investigated in order to overcome the challenges that are stifling the expansion of our SMEs and as a result are impeding our economic progress. This research will also be useful in identifying the elements that influence the growth and



establishment of SMEs. As a result of identifying the crucial variables that obstruct SMEs' growth, small business owners will also receive guidelines as they will be informed of the crucial elements that hold back SMEs' growth. As a consequence of avoiding such problems our country's SMEs will begin to function better contributing to increased economic growth and employment opportunities.

Saeed and Sameer (2015) studied empirically on the impact of bank merchandise concentration of financial constraints on business investments by taking evidence from Pakistan. A cross-industrial panel data was taken for 368 non-financial firms of listed companies for the period of 2002 and 2009 and a generalized procedure of moment estimation technique was used to evaluate the panel data model. They came to the conclusion that small and medium enterprises confront credit constraints due to decrease in bank concentration. Their results also showed that non-transparent firm faces more credit constraints due to less concentration of the bank and the results of the study assist to the market power hypothesis and revealed that the competition barriers carried out to decrease firm level investment for credit constraints. They noted that the effect of bank market concentration is more positive for small businesses. The result continue unchanged when we alternate the bank merchandise concentration variable for different estimate. Firstly the results of the study estimate the effectiveness of current monetary improvements in Pakistan and the second offer 23 proposals for other economies which showed economic progression similar to that of Pakistan.

## **2.8 Context of this study:**

Contrary to common perception about Erstwhile Fata, which is now part of the Khyber Pakhtunkhwa as districts, business and trade was one of the main sources of livelihood as huge

wholesale distributors, go downs, transport, textile and many other businesses were thriving before militancy and security crisis hit them (Dawn, 2019). But SMEs in erstwhile FATA like the rest of Pakistan confronts electricity breakdown and need behavioral adjustment to overcome the problems of SMEs (Sial, 2014). Their study revealed that the impact of energy crises on SMEs is both qualitative and quantitative in Pakistan. The research used 23 unit instruments to gather the responses from 107 small and medium enterprises examined all over the nation. The findings of the study revealed that small and medium enterprises were badly knocked by unexpected power issues. These issues resulted in behavioral adaptation of small and medium enterprises while the water and power development administration was considered responsible for overall scheme. Furthermore the results of the study put up for the policy makers and practitioners to make sustainable policies to decrease electricity issues.

Haleem et al. (2019) did exploratory study on the issues faced by different operating manufacturing sector of Khyber Pakhtunkhwa. They use multi-case approach and data was collected through sixty semi-structured interviews from managers and chief executives. Their findings revealed that lack of government support, strict government rules and regulations, corruption, energy crises, political influence, less profit margin and seasonal effects are the main barriers manufacturing firm faces. However, in erstwhile FATA, there is no reliable data set containing the registered business units (Dawn, 2019). This report also notes that due to non-mainstreaming and non-existence of tax regime in the region, no effort was made for making a registry of SMEs. Therefore, studying the factors related to the growth of SMEs was also difficult before merger and hence lacuna remained as it was. Now efforts are taking place to cover this gap through studies financed by World Bank and national agencies such as ERKF, SRSP, FAO, Akhuwat foundation and others to know the extent of business activity and for future strategy for development of the same.

The part of small and medium enterprises in the economic progression of any nation cannot be denied. In a developing economy like Pakistan SMEs sector play a pivotal role in the employment generation. Rahman and Rahman (2019) did study on the issues of small and medium enterprises SMES. Out of total 2222 there are more than 330 units which are close because of one or the other reason. The slow growth of small and medium enterprises in the region needs thorough study for discovering the main factor and recommendations which can help the revitalization of the existing firms and make path for the progression of the pivotal sector of the economy. The study aims on the currents situation of small and medium enterprises in the region and identifies issue which are faced by the SMEs and on the support of first-hand information was collected through questionnaire make recommendation for improving the situation. The result of the study revealed that SMEs in Khyber Pakhtunkhwa lack of business plan, financial constraints, less or little government interest, unskilled labor, law and order situations and lack of government SME policy. They also noted that lack of managerial and lack of information are the problems confronted by the SME sector in Khyber Pakhtunkhwa. Furthermore they give policy recommendations to the government to protect small startups firms, resolve energy crises, financing SMEs, resolve security issues and devised policy for SME sector which can ultimately boost and can add value to the economic growth and development.

The number of SMEs exist in Khyber Pakhtunkhwa (KP), are approximately 5.7 million. There is no doubt in the fact of importance of SMEs, our governments almost take no practical steps and noticeable plan or policy that persuade the growth, startup and survival. The World Bank after the war against terrorism has initiated the economic revitalization program in Khyber Pakhtunkhwa and FATA (ERKF). The project was started in 2011 to facilitate the affected areas especially in FATA to create sustainable job opportunities through rehabilitation

of small and medium enterprise SMEs, organizational establishment and investment mobilization. The project is initiated by multi donor organization which worth 20 million dollar. Due to shortage of funds, only 500 were given grant to revitalize their businesses whereas the rest were left out as there was no grant money left for them.

## **2.9 Why FATA is unique?**

Fata is unique because according to my knowledge and review of literature there is no research conducted on the issues of SMEs in my area of research. The security situations in Fata and specifically in North Waziristan is totally different from the rest of the country. The businesses sometimes don't operate on daily basis due to extended curfew even after the Military operation and non-government organizations NGOs are threatened to quit their operations in the region. There is uncertainty of doing businesses in the area and business community are effected. Due to this reason they don't prefer to further invest in their existing businesses and instead migrating to Bannu, Dera ismail khan and Peshawar. FATA is completely different from elsewhere in the country. There are developmental and infrastructural issues. The cultural dynamics and norms of FATA is also different from the country. So the business environment is also unique and requires investigations.

## **Chapter 3**

### **Methodology**

#### **3.1 Research Design**

The research design of the present study is descriptive in nature. As the proposed study is based on both qualitative and quantitative approach. It is based on descriptive research design to answer the objectives and questions of the study as I have described as well as explained my objectives related to particular segments of the people.

#### **3.2 Research Methodology**

For research methodology ontology and epistemology assumptions provide basic foundation. A researcher will understand if he knows well about his positions and phenomena under study in a better way. Research methods are techniques or strategies carried out by researchers in order to collect data (Blaikie, 2007). Whereas methodology is a step-by-step process employed by researchers to answer research issues (Kothari, 2004).

This area of the study is small and medium size businesses in District North Waziristan and FATA KPK. The qualitative research techniques are used to find out the issues in growth and development of small medium enterprises in transform means to sort out SMEs financial impediments and their effect on growth and development. Data is collected through semi-structured interviews from Managers, and from the owners of different firms.

### **3.3 Data Collection Methods**

#### **3.3.1 Primary data:**

The primary data is collected from Local managers and owners of the firms, manufacturing firms. Collection of data is done through semi structured interviews from Managers and owners of different firms.

Some reports are collected from newspaper like Dawn and other sources i.e Smeda.org.pk, which have been cited, published and unpublished sources and commonly from Pakistan Bureau of Statistics, But for the analysis of data only primary data has been collected from SMEs owners and managers.

#### **3.3.2 Tools and techniques**

Different tools and techniques has been used for data. Details of tools and techniques are given below.

***Personal observation:*** Some barriers may not be taken into consideration by the firm directly. During data collection these observations were recorded accordingly.

***Semi Structured Interviews:*** In semi structured interviews we do not have official list of questions. In such type of interviews, we ask an open ended questions. This method will allowed us to have a discussion instead of asking to the point question and answer format. Commonly business owners are shy of sharing information with the interviewers. Therefore, this study has fully made use of a combination of formal and informal style to reveal as much information as possible.

***In depth interviews IDIs:*** in depth interviews are a method of qualitative data collection technique that include conducting thorough individual interviews and are engaged with one on

one or limited respondents and know about their point of view about specific idea, program or circumstances. In depth interviews were conducted from the SMEs owners in order to get deep understanding of the issue which impede the growth and development of SMEs. This will benefit in report building which gives time for researchers to build relationship with the subject.

### **3.4 Locale of the study**

Area of analysis for this study include operating SMEs of District North Waziristan Erstwhile FATA KPK.

### **3.5 Unit of analysis (target population)**

In this research unit of analysis was SMEs from areas in District North Waziristan where there are issues that impede the growth and development.

### **3.6 Sampling technique and size**

The data from the respondents was collected using purposive sampling. The sample size can vary from 1 to more than 100 and depending upon the quality of interviews and nature of research (Sim et al., 2018). The sampling frame of the present study comprise of all the SMEs operating in district North Waziristan-erstwhile FATA which include three Tehsil, Miranshah, Dutta Khel, Ghulam Khan and Sub division Mir Ali, North Waziristan is the population of the research. North Waziristan as population has been selected due to ease of availability of data in terms of time, finance and collection of data. The sample size is operating enterprises in District North Waziristan as data was collected from owners and managers of the firms among the population consisting of industries related to compact concrete block factory, poultry farms and wholesale enterprises. 10-15 semi-structured interviews from different firms particularly in North Waziristan are managed and the sector wise findings is summarized,

briefed and will find out the different manufacturing zones faces some general and some specific issues, so, both these issues are addressed under their particular titles.

### **3.7 Data Analysis**

In line with the research objectives and data collection, qualitative data analysis techniques, thematic analysis was applied for analysis of data. The responses from the interviewees are recorded first, semi structured interviews were recorded and then transcribed. The criticality of the barriers is determined by the frequency of the issue raised by the interviewees. Finally, the main barriers and suggestions for overcoming these issues are summarized and reported.

### **3.8 Thematic analysis:**

In the qualitative data scheme, thematic analysis is one of the most recurrent professional research technique (Bryman, 2016). Thematic analysis was used to create themes from the data. Firstly themes are generated through the conversation with the targeted respondent from the field and then those themes are transcribed in the light of their views (Fugard & Potts, 2015). The interviews were conducted in Pashto and later on were transcribed to English using clean transcription to curtail repetition and unhelpful phrases. It is important to mention that interviews are in typical original Pashto and will be provided upon demand. One of the reasons to use the thematic analysis for this study is that lack of proper datasets creates problems in empirically analyzing the issues pertaining to SMEs growth in North Waziristan. Therefore, the best way to address the issue is to talk and take responses from the stakeholders in the form of interviews, then drawing insights from their responses to reach a conclusion. Therefore, thematic analysis as put earlier by (Bryman, 2016) and (Fugard & Potts, 2015) best suits our purpose of the study.



### **3.9 Rapport building**

Rapport building plays an important part in successful communication. The communication will be more effective and better understanding. This will benefit the study by generating in-depth meaningful data.

## Chapter 4

### Findings and Discussion

#### 4.1 General Growth Related issues

The general growth related issue faced by small and medium enterprises SMEs includes security issues, lack of formal education, corruption and lack of government support.

##### 4.1.1. Security issues

Data collected from respondents revealed that Taliban and other militant groups are big constraints in growth and development of small and medium enterprises in District North Waziristan. Counter attacks and cross firing between different militant groups has threatened the locals as well as the business community. Doing business in this environment is impossible for them to growth. The area is not safe for doing businesses. People left their hometown because of security issues and even their business don't operate on daily basis due to fear of these militants. Security forces clashes with militants is further exacerbating the SMEs growth along with other barriers.

*“Due to high threat and target killings after operation zarb-I-azb as well as kidnapping, people are avoiding travelling to these sensitive areas.”*

*(Respondent 1).*

Hyder and Lussier (2016) also noted that security, the political instability and electricity were the three main reasons in Pakistan that businesses confront.

#### **4.1.2. Lack of formal education**

The data collected from the respondents showed that being inhabitant of FATA and especially Waziristan the community is badly affected due to war against militancy and they even don't have basic education facilities and the literacy rate is very low. Lack of formal education is the main issue in growth and development of their businesses/ firms because the owners of the firms don't know how to assess their business plan and has no skills. So they don't know where their businesses stands, whether they are in profit or suffering losses. Majority of the businesses even don't prepare financial statement and after some years they have to either close or sell out their businesses to other person.

*“I face a lot of difficulties in managing my business, as I am illiterate. I cannot operate a smartphone. As well as I manage my receivables and payables through an accountant. Now time has changed, people in big cities are using computers and smartphones to manage their business and hence they are able to know the benefit or loss early on.”*

*-Respondent 2.*

Hyder and Lussier (2016) Insisted that managers or owners of the firms needs to be qualified and well trained in order to be successful.

#### **4.1.3. Corruption**

According to interviewee or respondents Pakistani businesses environment is exposed to corruption and corrupt practices. This practices has impact on society as well as on business community. The interviewee revealed that their business is exposed to internal factor of corruption. Therefore their businesses don't grow and operate properly. The government regulators or watch dogs want bribery in returns of giving green signals. We lose a bunch of our profit in return of bribery demanded by the government officials in that region. Okpara and

Kabongo (2009) also reported that, demand for commodities, corruption, lack of financial help and poor management are the challenges that hinder the growth of SMEs.

#### **4.1.4. Lack of Government support**

Data collected from the respondents showed that their businesses don't grow because there is poor government support. They revealed that they are migrating to other foreign countries to seek alternative jobs e.g UAE, Saudi Arabia, Qatar and Malaysia. Furthermore they explained the reason of migrating businesses to other countries like poor infrastructure, competent rule of the relevant authority, poor or less interest of the government and the most important issue is security as their businesses are exposed to war against militancy. Haque (1961) reported the lack of government support as well. He suggested that the obstacle to innovation is government itself. Similarly Hyder and Lussier (2016) noted that Pakistani government take interest in large businesses compared to small businesses. Moreover they suggested that on doing business the cost is high which propose that the local government should make their rules and law simple and pay dire attention to SMEs sector.

**General findings table 1**

General themes

Examples

|                            |   |
|----------------------------|---|
| Security issue             | Militancy leads to target killings and kidnapping, which leads to uncertain times of curfews and lockdowns. |
| Lack of formal education   | Dearth of educational and vocational institutes   |
| Corruption                 | Red tapism and nepotism in distribution of funds for support of businesses                                  |
| Lack of government support | As reported by respondents, schemes are there but with limited outreach                                     |

**Sector Specific Table 2**

| <b>Sectors</b>          | <b>Sector wise subthemes</b> | <b>Examples</b>   |
|-------------------------|------------------------------|---|
| Compact concrete blocks | Input prices,                | The price of inputs soared which has effected the demand for blocks and people are substituting it with bricks                              |
|                         | Financial constraints        | Financial assistance is required for a business and there is no source to expend my business  |
|                         | Lease and contracts          | The land is rented and there is no formal agreement with the owner. This create business uncertainty.                                       |
|                         | Security issue               | The extended curfews and security situation are hindering the investment  |
| Poultry Farms           | Lack of training             | Unavailability of VETS doctors and no training centers  |
|                         | Poor infrastructure          | Lack of resources for establishing new infrastructure is required   |
|                         | Lack of finances             | Unawareness about financial schemes by government   |
|                         | Involvement of middleman     | Lack of direct access to the local market   |
| Wholesale Enterprises   | Financial constraints        | Businesses demolished in operation zarb e azb and there are limited outreach of the banks   |
|                         | Price fluctuations           | Trust deficit between buyers and customers due to problem rooted in supply chain so prices are unstable                                     |
|                         | Contract agreements          | Company gave contracts to other distributors so business contracted instead of expansion  |
|                         | Security issues              | Region is not conducive to businesses due to security issues, uncertainty for the business community and they are migrating to other areas. |

## **4.2 Sector Specific Analysis of Issues in Growth of SMEs**

Following are analyzed some issues which in view of owners, that hampers the growth of their business units. Literature also agrees to the problems discussed which are cited accordingly.

### **4.2.1. Compact Concrete Blocks**

Five producing units of compact concrete blocks were included in this study. Interviews were conducted in a friendly manner .After my introduction and purpose of interview, they were informed of the voice recording for transcription purpose, to which they agreed. Interview contained almost same questions for each unit with a little variation from respondent to respondent based on their responses. Following issues were noted and found to be common among the five respondents from compact cement block factories. According to respondents, slow growth of their enterprises was owed to these factors.

#### **4.2.1.1. Input Prices**

Cement block factories in question were operated mainly upon fuels such as diesel and petrol based machines with only few operating on electricity. Furthermore, other inputs include cement, crush stone, sand and human labor for production of concrete blocks. According to data collected from respondents, a truck of sand cost Rs. 12,000-14,000 before and now it costs between Rs. 20,000 and Rs. 22,000. A 50 KG bag of cement now costs Rs. 600 as opposed to previously Rs. 400. Also a price of a truck of crush stone has soared from Rs. 4,000 to Rs. 7,000. This has led to increase in block price, which has affected the demand for concrete blocks and people are substituting it with bricks. Therefore, less demand for blocks cannot be complemented with expansion and more production of blocks. Therefore, our businesses have not grown over time.

#### **4.2.1.2. Financial Constraints**

During the course of interview financial constrained was noted to be a major issue in expansion of the concrete block businesses. Almost all of the respondents were found to be unhappy with the performance and slow growth of their businesses. Financial constraints included the capital requirement for expansion of their businesses. Abdulsaleh and Worthington (2013) also examined that access to finance is of due importance for sustainable growth and profitability of small and medium enterprise SMEs because it helps in creating new businesses and nourish the innovation methods as well as enhancing the growth and development of already existing businesses which in turn boost national economic growth. Respondents told that they are unaware of the government schemes for business growth as well as other NGOs based support programs. E.g. one respondent told us:

*“Awareness about any government or NGO support is limited merely to the hearsay. We only know about certain financial scheme from the common public. No proper outreach of officials is present. So, small enterprises like ours remain deprived of the opportunity to expand our units.”*

Respondent 1, Age 47,  
Tehsil Mir Ali,  
North Waziristan.

#### **4.2.1.3. Lease and Contracts**

Concrete block factories require relatively large space. They are generally located alongside the roads. Also such factories are built in the commercial areas near towns which are relatively hard to find as well as owners generally do not agree on long term contracts which can allow the factories to prepare and execute long term plans. Block factories operate under



uncertainty therefore they are not able to prosper accordingly. This situation is evident from this response while others also seconded the stance of following excerpt from the interview:

*“The land I use for my factory, is rented. There is no formal agreement with the land owner whenever he wants, he can order me to evacuate the space.”*

Respondent 2, Age 26,  
Tehsil Datta Khel,  
North Waziristan.

#### **4.2.1.4. Security Issues:**

Although, military operation against militants has been successful in eliminating widespread terrorism, yet still there is rampant target killing which has created a sense of insecurity among the common populace as well as it continues to affect the small business sector. One of the respondents said that with the merger of Ex-FATA, people in anticipation of regularization of land, fall in dispute. The same disputes create further insecurity and a minor activity of cross-firing leads to prolonged curfews during which our businesses remain closed. Therefore, it directly affects the expansion of our businesses. He said:

*“It’s been 2 years that I have started my businesses, right after I moved back to Waziristan after Operation Zarb e Azb. But security issues still linger, although minor but still involve extended curfews. During the curfew, my establishment remains closed. During such uncertainty, I can’t think of investing more, rather I am planning to move to Bannu or Peshawar.”*

Respondent 3, Age 28,  
Tehsil Miranshah,  
North Waziristan.

## **5. Poultry Farms**

In this study five poultry farms units from different areas of North Waziristan were included. The interviews were conducted after my introduction and purpose of interview as they were as part of building of confidence. The interviews were recorded when they allowed and felt secure. Interview contained almost same questions for each of the poultry farms owners and variation from respondent to respondent which were based on their responses. After interviews following issues were reported and found to be similar among the five respondents from poultry farms units. According to the five respondents, slow growth of their enterprises was owed to these factors.

### **4.2.2.1.Lack of Training**

Poultry farms requires proper training and skills to operate and perform their activities. During the field visit and interview from the respondents it was revealed there exist no training centers for the farmers. As poultry farms require proper care and training the respondent revealed that there is no formal training schemes are available in the area. They also told that in some specific areas non-governmental organization NGOs like FAO visited our area for training purposes but they were warned by the Taliban or militant groups to evacuate and quite their activities. Abor and Quartey (2010) also noted that weak organizational or institutional capacity, lack of managerial and management trainig and skills, the current laws, rules and regulations are the factors which hamper the growth and development of SME sector.

*“The government is not giving due consideration to open training centers for the poultry farms. There is no attendant for the sick birds. Sometime we call the VETS Doctor for the sick birds from Bannu for vaccination and treatment. At other times, we have to separate the sick*

*fowls and load them in vehicles to take them for vaccination. During the course of journey, lots of sick birds die before treatment and we incur heavy losses”*

Respondent 4, Age 32

Tehsil Razmak

North Waziristan

#### **4.2.2.2.Poor infrastructure**

The respondent's results from different areas showed that after operation Zarb e azb our homes and businesses were demolished. We have very limited resources to establish new infrastructure and the old ones have poor infrastructure. A huge number of poultry farms could not even reestablish their businesses due to dilapidated conditions of their farm buildings and facilities. Nkwabi and Mboya (2019) also noted the elements such as capital constraints, limited finance, lack of technology, poor infrastructure, corruption, strict regulations, lack of motivation of enterprise owners and limited access to information affect the growth of SMEs.

#### **4.2.2.3 Lack of Finances**

Just like other sectors, poultry sector is also characterized by rigid financial structures. It ranges from startup funds and is not limited to it but operation of the poultry farms is also affected by severe constraints on the financial side. Most of the poultry farms interviewed revealed that their source of startup fund was either the selling of some agriculture farms, selling of some other property or loans arranged from the near kins and friends. On a question asked about loans from formal banking or Small and Medium Enterprise Development authority or other similar sources, most of the farmers showed unawareness to such schemes. While others, who were aware complained about the hectic documentation procedures as well

as nepotism by the government officials. One of the respondent expressed his situation in the following words,

*“ I sold a piece of land but finances required for setting up a poultry farms was not enough, so I took loan from my relative. At the time I had no knowledge about the financial schemes announced by government. Had I any knowledge of bank loans I must have applied and could have saved my piece of land”*

Respondent 5, Age 24

Tehsil Ghulam Khan

North Waziristan

Apart from startup capital there were also issues in the operation of poultry farms. Startup capital helped in setting up of buildings and other amenities required for the firms operations but startup capital still falls fell short of arrangements of inputs such as chicks, feed and vaccination. To that end, like most of the other small scale farms, the above stated inputs are arranged on deferred payment basis from whole sale input supplier. But it is does not come without conditions. These conditions involve the sale of final poultry product to that whole sale supplier of inputs on lower than market prices. Therefore, the growth of small and medium poultry farms is hampered severely.

#### **4.2.2.4. Involvement of Middleman**

As stated above, middleman involvement comes at the operational stage of the poultry farms. The middleman enters the poultry business when it comes to the inputs supply such as chicks, vaccines and feed. The middleman on one hand helps in operationalizing the small businesses by providing inputs but they also monopolize the final product. Final product could be bought only by the wholesaler which is nominated by the middleman at lower than market

prices. Therefore, less profits are accrued by the farmers which ultimately hurts the growth of poultry related SMEs in North Waziristan. One of the respondents told:

*“The contractor in one way help us by giving chickens, feed and other amenities on loans required for the operationalization of our businesses but on the other hand they take a large chunk of the profit from us. We don’t have direct access to the local markets and the contractor help us by providing the inputs required for the farms. This hamper our businesses for further expansion as the middleman takes profit from us.”*

Respondent 6, Age 52

Tehsil Miranshah

North Waziristan

#### **4.2.3. Wholesale Enterprises**

Various problems that were faced by the small and medium businesses of whole sale enterprises include the financial issues during startup as well as operation, price fluctuations, rent agreements, transportation costs and security issues and its aftermath. Following, these are discussed one by one.

##### **4.2.3.1.Financial Constraints:**

. After operation zarb e azb their businesses were lost and to recover they needed financial of all, the financial constraints faced by the wholesale sector are the main hurdles noted during the interviews from various respondents. For the startup capital for their businesses most of the respondents said that they took loans from their relatives and friends assistance but due to lack of financial institutions, loans schemes and no Microfinance banks

in the region recovery process is very low. Therefore the Wholesale sector has been affected and couldn't grow accordingly. Al-Hyari (2013) also noted that the main issue SMEs confront are lack of competitions barriers, poor financial support, lack of qualified human resource and inflexible business rules and regulations.

As one of the respondent reported that,

*“We are facing financial issues after our businesses went into dilapidated conditions following operation zarb e azb. The capital we invested in our business prior to Military operation has been lost and left no capital for further maintaining our business establishment. There were trust issues due to which bank couldn't provide financial assistant and also there was limited outreach on the banks. Furthermore the government rehabilitations programs didn't started in time”*

Respondent 7, Age 24

Tehsil Mirali

North Waziristan

#### **4.2.3.2.Price fluctuations**

Price fluctuations arise mostly from supply side shocks whereby supply falls short of the demand. According to a respondent, black-marketing on the upper side of the supply chain is also a contributing factor to the price fluctuation of the wholesale items such as sugar, wheat flour and rice among other items. Although price fluctuation in itself is considered to be a market phenomenon linked to the supply and demand but this creates another problem which becomes a hurdle in the growth of wholesale SMEs. Price fluctuations create the trust deficit

among the buyers and dealers. Another contributing factor is transportation cost which results price fluctuation. These factor hamper the growth and development of their businesses.

*“Due to price fluctuation over relatively small period of time create a trust deficit, Buyers think that it is us who charge the unfair prices but actually the problem is rooted somewhere else. It is high up the supply chain due to which prices are unstable. In this process we sometimes loose our permanent customers.”*

Respondent 8. Age 32

Tehsil Razmak

North Waziristan

#### **4.2.3.3.Contract Agreement**

.As noted in concrete block factories, same issue of rent agreement exists in wholesale business sector. Most of the businesses interviewed reported that they have no formal lease agreements with the landlords. Another problem is that of the agreements and contracts for distribution of the products of companies that produce them. Especially after the anti-militancy operation Zarb e Azb, the companies did not keep agreements with old distributors only rather they found new distributors. This also contributed to the non-development of wholesale SMEs sector

*“Before the operation zarb e azb we were the sole distributors of PepsiCola in sub division Miranshah and Mirali. The company’s agreement was given to two other distributors as well. This contracted our business level instead of expansion.”*

Respondent 9, Age 30

Tehsil Miranshah & Mirali

North Waziristan

#### **4.2.3.4. Security Issues**

After operation Zarb e Azb, our businesses have affected a lot. Security check posts are still numerous due to which most of the people choose not to return to their family homes and instead they stay out of Waziristan. This results in uncertain and less demand than normal. Also, most of the NGOs working in Waziristan focus on social issues instead of economic activities. Furthermore, new investments may yield uncertain results therefore, it's safer to invest elsewhere than in Waziristan. Curfews are another factor due to which markets remain closed over long period of times. One of the respondents told this while reflecting and noting his insecurities:

*“The main issue our business faces in our region is the current security situation which is not conducive to the businesses. This create uncertainty for the business community not to invest more instead, they are migrating to Bannu or Peshawar which are business conducive. Furthermore the NGOs which has already limited operations in our region quit their activities due to security issues.”*

Respondent 10, Age 54

Tehsil Miranshah

North Waziristan

#### **4.3. Discussion and qualitative analysis**

In line with research objectives a qualitative data analysis technique was applied as the whole work is qualitative. The findings of the study showed some general and sector specific issues confronted by SMEs in District North Waziristan. The general growth related issues were security issue, corruption, lack of formal education and less government support. While the sector specific issues confronted by SMEs were financial constraints, security issues, input



prices, contract agreements, lack of trainings, involvement of middleman and lease and contracts. Literature also agreed upon these issues which hamper the growth and development of small and medium enterprises SMEs. Small and medium enterprises are considered as driving force in the economic prosperity of a country both in developed and developing countries. But unlike developed countries the SMEs sector in developing countries confront lot of issues in their growth and development. Pakistan is a 24<sup>th</sup> largest economy in term of purchasing power parity and 42 largest in its nominal GDP and is home to 207 million population. The economy is dependent on SMEs sector as it add 40% of value to its GDP, employ up to 78% labor in industrial sector and has a value share of 25% to the export. The people of District North Waziristan is mainly dependent on small and medium enterprises for their livelihood but their businesses are effected by the ongoing operations against the militancy. The findings of the study in region District North Waziristan showed both general and sector specific issues confronted by the SMEs sector. The general growth and development impediments faced by the SMEs were security issues, lack of formal education, corruption and lack of government support. The issue of security was also noted by Hyder and Lussier (2016) that security, political instability and electricity are the main elements faced by small businesses in Pakistan. Similarly the inhabitant of Erstwhile FATA especially North Waziristan are badly effected due to war against militancy and the literacy rate is very low and the owner or manager of firm don't know how to assess their business plan. The work of Hyder and Lussier (2016) also revealed that the owner and manager of the business needs to be qualified and well trained in order to be successful. The general findings of the study also showed that their businesses don't grow and operate because it is exposed to internal factor of corruption. The government regulators in return want bribery by giving green signals and we loss a bunch of profit in return. . Okpara and Kabongo (2009) also reported that, demand for commodities, corruption, lack of financial help and poor

management are the challenges that hinder the growth of SMEs. Further more the findings of the study also noted that their business don't grow because there is lack of government support or the government take interest in large businesses compared to small. Haque (1961) also reported the lack of government support as well. He suggested that the obstacle to innovation is government itself. Similarly Hyder and Lussier (2016) noted that Pakistani government take interest in large businesses compared to small businesses

The sectors specific analysis of the findings showed issues in growth and development of SMEs are in view of owners and managers which hamper the growth of their business units. The units were compact concrete blocks, poultry farms and wholesale enterprises. Each sectors confronted issues that hamper their growth and development. The concrete blocks issues in findings of the study were input prices, financial constraints, lease and contracts, security issues. Literature also agreed upon the issues faced by the SMEs sector. The findings of the study noted that the major issue confronted by compact concrete blocks was financial constraints .Financial constraints include the capital requirements for expansion of business. Abdulsaleh and Worthington (2013) also examined that access to finance is of due importance for sustainable growth and profitability of small and medium enterprise SMEs because it helps in creating new businesses and nourish the innovation methods as well as enhancing the growth and development of already existing businesses which in turn boost national economic growth. The other issue SMEs confronted were lease and ciontract. The findings of the study showed that the contractors don't agree on long term contracts which can allow them to make a long term plan and the block factories operate under uncertainty.

## Chapter 5

### Conclusion and Policy Recommendation

#### 5.1 Conclusion

Throughout the course of this study, past literature was reviewed carefully related to SMEs growth. Abroad, ample literature is available on the SMEs growth but in Pakistan, very little research was found to focus on the issues and growth of SMEs. A few studies were found on the subject such as the base paper selected for the study in hand that of (Haleem et al., 2019). They had worked on the barriers and growth issues faced by SMEs sector in Khyber Pakhtunkhwa not including Ex-FATA region. But problems do exist with the growth of SMEs in erstwhile FATA including North Waziristan. So the study in hand focuses on the issues in growth and development of SMEs of the district North Waziristan. There exist some issues common to all the SMEs sector and there are others which are sector specific. Issues were identified during the course of interviews with the owners of the SMEs. As it was mentioned earlier, the sectors included in the study were, concrete block factories, poultry farms, whole sale and distributing agencies/dealerships.

Issues common to all the businesses include, financial constraints, security issues, illiteracy, no to very little government support and corruption. The firms working in district North Waziristan find it very hard to manage loans from formal financial institutions such as banks. One of the reasons is that in North Waziristan, there is no existence of SME Microfinance and very little number of formal banks. Another reason is that the documentation process of getting loans is very difficult to be understood by the less educated owners. Due to dilapidated law and order situation, there are disruptions in supply chain as well as from time to time, curfews disrupt the businesses. Also, due to these conditions, large number of people

live out of North Waziristan therefore, low demand also leads to low profits and hence, SMEs sector does not grow accordingly. Illiteracy also hampers the growth of SMEs of North Waziristan as it does elsewhere. Illiteracy affects the business growth by the inability of keeping the accounting system and bringing prudent ideas as well as their lack of market information such as the incumbent businesses startup and support scheme of Kamyab-jawan program, SMEDA and Economic Revitalization of Khyber Pakhtunkhwa project (ERKF). Another common issue among the SMEs is the dearth of government support as it is more interested in businesses operating in more settled parts of the country.

Sector specific issues in compact concrete block factories include input prices, lease and contracts. Fluctuations in input prices eats up the profit margins of concrete block factories because of the price inelasticity of the blocks' prices to input prices which in turn is a result of highly elastic demand and has high cross elasticity with burnt bricks. Due no lease and contract system, expansion is very hard in concrete block sector. Poultry farms issues include lack of training, poor infrastructure, and involvement of middlemen. Little to no training results in loss of the fowl before being sold and various diseases add further to the loss of poultry farmers. Pertaining to the middleman involvement, they supply the chicks, the feed and the vaccines on loans on conditions of the final birds to be sold to the very middleman on lower than market prices. This results in narrow profit margin and growth of poultry farms sector is severely hurt. While the major issue related to wholesale enterprise/agency was lack of contract agreements. Various companies have chosen multiple wholesalers due to which various small wholesale businesses have mushroomed but none can grow as much as they should.

## 5.2 Policy recommendation

1. The government should encourage the banking system to facilitate the operations of the businesses and especially Islamic banking due to general tendency of the people to avoid usury in micro-finance loans. Chamber of commerce and industries should be set up for local businesses to boost their links with financial institutions.
2. Businesses can thrive well in a peaceful environment so the government should ensure business friendly law and order situation in the region so that the businesses grow, operate and perform well.
3. Government and non-governmental organizations NGOs should not only introduce the businesses startup and incubation schemes such as Kamyab-Jawan scheme, SMEDA and Economic Revitalization of Khyber Pakhtunkhwa project (ERKF) but also they should have an outreach programs for the public awareness and local business community.
4. To overcome the issue of illiteracy and unskilled workforce government should establish training centers and trade schools. This will help in achieving more productivity and less losses will incurred.
5. Non-existence of formal agreements on contracts is because District North Waziristan was part of tribal area is now a merged District there is dire need of regulations so that businesses operate confidently with the peace of mind.
6. Involvement of middlemen in poultry sector could be eliminated by enabling the businesses to purchase the inputs directly from the open market through cash instead being indebted to input supplier. In this way the producer will be able to sell their product in open market at market prices.
7. There is a lot of scope for further research and policy should be devised on the basis of research.

### **5.3 Limitations of the study**

As the study was based on primary data collection from the targeted population i.e SME's owners and managers of District North Waziristan erstwhile FATA KPK. Therefore, there were number of limitations regarding the availability of data. Below are some of the limitations which are confronted during compilation and data collection of this study

1. The security dynamics of study area are complex and limited respondents and regions were explored due to extended curfew and some no go areas.
2. Due to limited time allowed from academic department the researcher has confined the idea to very specific area or region.
3. Due to lack of financial support and research funds, student was unable spend more than affordable money to further improve the data and data formation of this research.
4. The availability of SMEs in the area for interview were limited due to shortage of time and people were hesitated to share detailed information due to security situation but they were willing to respond , hence limited interviews 10-15 were conducted.

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## Annex I Respondent list

| ID            | Age | Tehsil                  | Business                        |
|---------------|-----|-------------------------|---------------------------------|
| Respondent 1  | 47  | Tehsil Mirali           | Compact concrete blocks factory |
| Respondent 2  | 26  | Tehsil Datta Khel       | Compact concrete block factory  |
| Respondent 3  | 28  | Tehsil Miranshah        | Compact concrete blocks factory |
| Respondent 4  | 32  | Tehsil Razmak           | Poultry farms                   |
| Respondent 5  | 24  | Tehsil Ghulam khan      | Poultry farms                   |
| Respondent 6  | 52  | Tehsil Miranshah        | Poultry farms                   |
| Respondent 7  | 24  | Tehsil Mirali           | Wholesale Enterprise            |
| Respondent 8  | 32  | Tehsil Razmak           | Wholesale Enterprise            |
| Respondent 9  | 30  | Tehsil Miranshah&Mirali | Wholesale Enterprise            |
| Respondent 10 | 54  | Tehsil Miranshah        | Wholesale Enterprise            |

*Table All the names have been changed to respondent 1, 2 and so on to protect confidentiality. Table 1 shows respondents, Tehsils and along with their nature of businesses.1*

# Appendix 1

## Interview guide

### Preliminaries

1. Self-introduction (Sharing of contact information) [ ]
2. Introduction to the study (purpose and use) [ ]
3. Informed consent (for participation, audio recording) [ ]
4. Anonymity and confidentiality (explain different possibilities) [ ]
5. Offer of sharing results post completion of report [ ]
6. Rights of the interviewee (withdraw, future contact with interviewer, verify authenticity of the study etc.) [ ]
7. Ask if interviewee has any query at this stage and permission to start the interview [ ]
8. Turn-on the recording device [ ]

Date ---/---/2021

Interview Location ..... Confidentiality setting (Yes/No) .....



## **Respondent's Profile**

1. Name of the respondent .....
2. Years of Education.....
3. Age.....
4. Respondent's primary business .....
5. Experience in years .....
6. Family Size .....
7. Type of ownership.....
8. Yearly household Income (last year) in PKR.....
9. Business premises status.....
10. Source of finance for start up.....
11. Awareness about business support schemes.....