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Small and Medium Scale Enterprises in Informal Sector in Pakistan and Sri Lanka with Research Agenda

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Abstract

The Small and Medium Scale Enterprises/Industries (SMEs) are functioning as a lifeline in informal sector in Sri Lanka and Pakistan due to their significant contribution to overall economy in terms of employment, exports, tax income, innovation, equitable income distribution, social stability, domestic resources usage and regional development. However in both countries lack of first hand information is the main obstacle to understand various issues related to the growth and development of SMEs. The main data sources for this study are the latest national level Industry Census in both countries. The main objective of this paper is identification of issues related to the SMEs with special emphasis on definitional and future research direction aspects. The final outcome of this paper is to show the issues emerging from national level SME data bases in Pakistan and Sri Lanka to formulate coherent policies and strategies to develop SMEs to their full potentials to accelerate economic growth and development in both countries. The issues raised and research directions set by this paper can be used to any South Asian country to develop their informal sector SMEs to full potentials.

Key words: Small and Medium scale industries: SMEs, informal sector, development, research, Sri Lanka, Pakistan.

JEL Classification: L, M and O

1.0) Introduction

After objectives and methodology, the first part of this paper deals with definitional issues related to SMEs in both countries and the second part analyzes the national level SME data in both countries to show informal sector SMEs contribution to employment, value addition and various other aspects. Finally concluding remarks and agenda for SMEs research will be presented.

1.1) Objectives

1) To analyze issues related to definition of SMEs in Sri Lanka and Pakistan.
2) To assess the current situation of SMEs in Sri Lanka and Pakistan.
3) To identify issues emerging from the national level SME data bases in both countries.
4) To set an agenda for future SMEs research directions in both countries.

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1.2) Methodology

The current situations of SMEs in both countries are analyzed by using the latest industry census. For Sri Lankan analysis, Census and Statistics Dept conducted industry census of 1986, 1993 and 2003/04 used. In Pakistan such SME data series is not available. Therefore the latest Economic Survey of Pakistan 2003-04 and industrial survey for year 2000 (Federal Bureau of Statistics in Pakistan, 2000, 2003 and 2004) are used. In addition to this, various other data sources such as Small and Medium Enterprises Development Authority, Industrial Development Board, Non-governmental organizations are used.

2) Definitional Issues of SMEs in Pakistan and Sri Lanka

The Pakistan and Sri Lankan SMEs are engaging in wide range of business activities in agriculture, mining, fishing, industry/manufacturing, construction, retails and whole sales and services in rural, urban and estate settings by servicing local and international markets (Dasanayaka.S and Sardana.G, 2007). They are active in most of the industry sub sectors such as agricultural inputs/outputs business in rural areas to food and beverages business in city up to more advanced light engineering sectors such as computer, chemical, machinery, apparel and construction business in local and foreign markets. Most of these SME's in both countries are one-person show or are run by few family individuals, usually relatives, friends or business partners, who take most of the decisions. Usually no distinction between private and business assets, and subjective and personal factors play a large role in decision-making. The personal stakes of SMEs in both countries have in their businesses are much higher than those of corporate executives in their companies (Dasanayaka.S, 2008a). This enhances the attendant risks and commits entrepreneurs even more strongly to the success of their enterprises. Most SMEs in both countries in informal sector are reporting very low productivity and income therefore owners and workers are 'working poors' but SMEs in formal sector report very high productivity and efficiency and provide very high income and decent life for workers and owners. This wide variation of diversity in SMEs in both countries bring various types of assets, employees, skills, capital, turnover/revenue, sophistication, innovation, productivity and growth orientation. Due to this complexity, it is very hard to define SMEs overtime in Pakistan and Sri Lanka. Currently nationally acceptable single definition is not available in both countries. There are very many definitions available based on assets, employees, skills, capital, turnover/revenue in local and exports markets, sophistication, innovation, productivity and growth orientation. But most of these definitions are made according to organizational needs and purpose of interests about SMEs. Financial institutions, public sector authorities, non-governmental organizations (NGOs), trade and industry chambers, international organizations, researchers, SMEs service providers and consultancy firms have their own definitions based on their own criteria selection (Dasanayaka.S, 2008b). Most of these organizations used various terms for SMEs such as Small and Medium Scale Industries (SMIs), Micro Enterprises (MEs), Rural Enterprises (REs), Small and Medium Scale Activities (SMAs), Cottage and Small Scale Industry (CSSI), Informal Sector Activities (ISAs), Micro and Small Scale Activities (MSSA), etc. Generally, enterprise is defined as any business activity or entity

that engaged in industry, agri-business and/or services whether single proprietorship, partnership or corporate venture. This enterprise definition is universally accepted around the world. The following table 1 and 2 shows most popular definitions on SMEs available in Pakistan and Sri Lanka.

Table 1: Definition of SMEs in Pakistan

Institution	Criterion	Medium Scale	Small Scale
Small and Medium Enterprise Development Authority (SMEDA)	No. of Employees Productive assets	Between 36 – 99 20- 40 Million PK Rs	Between 10 – 35 2 – 20 Million PK Rs
SME Bank	Total assets	Over 100 Million PK Rs.	Less than 100 Million PK Rs.
Federal Bureau of Statistics	No. of Employees	N/A	Less than 10 employees
State Bank of Pakistan	Nature of the business (Manufacturing Trade/Services) No. of Employees Capital employed Net sales value	Less than 250 employees and less than 100 million PK Rs. assets for manufacturing. Less than 50 employees and less than 50 million PK Rs. for trade/services. Net sales less than 300 million PK Rs.	Less than 250 employees and less than 100 million PK Rs. assets for manufacturing. Less than 50 employees and less than 50 million PK Rs. for trade/services. Net sales less than 300 million PK Rs.
Sindh Industries Dept.	Nature of the business Total Investment including land and buildings	Handicrafts or manufacturing capital investment less than 10 million PK Rs.	Handicrafts or manufacturing capital investment less than 10 million PK Rs
Punjab Industries Dept.	Value of assets other than buildings and lands.	Less than 10 million PK Rs.	Less than 10 million PK Rs.
Punjab Small industries corporation	Capital investment excluding lands and building	Less than 20 million PK Rs.	Less than 20 million PK Rs.
Pakistan Tax Ordinance (2005)	Equity Turn over		Less than 25 million Pk Rs. Less than 200 million PK Rs.

Source: Small and Medium Enterprises Development Authority, Pakistan 2006 and Author

Table 2: Definition of SMEs in Sri Lanka

Institution	Criterion	Medium Scale	Small Scale
Sri Lanka Standards Institution (SLSI)	No. of Employees	Between 50 - 249	Less than 50
Industrial Development Board (IDB)	Value of Machinery	Between Rs. 4 Million to 10 Million	Less than Rs. 4 Million
Ministry of Industry, Tourism and Investment Promotion	Value of fixed assets other than land and buildings	Up to Rs. 16 Million	Less than Rs. 16 Millions
Federation of Chambers of Commerce and Industry of Sri Lanka	Capital employed	Between Rs.2 Million to 20 Million	Les than Rs. 2 Million

Ministry of Small and Rural Industries	Total Investment	Between Rs. Million 20 to 50 Million	Between Rs. 1 Million to 20 Million
Ceylon National Chamber of Industries	i) Value of assets other than buildings and lands. ii) No. of employees	Between Rs. 4 Million to Rs. 20 Million Between 10 -50	Less than Rs. 4 Million Less than 10
Sri Lanka Export Development Board (EDB)	i) Capital investment excluding lands and building ii) Annual export turnover	More than Rs. 40 Million More than Rs. 100 Million	Less than Rs. 20 Million Less than Rs.100 Million
World Bank (for Sri Lankan country studies and loan programmes)	No. of employees	Between 50-99	Less than 1- 49
Dept. of Census and Statistics	No. of Employees	More than 25 (Year 2000) More than 10 (Year 2003/04)	Less than 25 (Year 2000) Less than 10 (Year 2003/04)
Task Force for SMEs Development in Sri Lanka (2002)	Asset Value excluding land and buildings value	Not exceeding more than Rs. 50 Million	Not exceeding more than Rs. 20 Million
Sri Lankan Apparel Industry, Task force on five year strategy (2002)	i) Export value ii) No. of Employees	Rs. 101 Million to 250 Million 1 - 100	Rs. 0.25 Million to 100 Million 101 - 250
The Dept. of Small Industries	i) Capital investment ii) No. of Employees	Between Rs. 25 – 5 million Between 100 - 50	Less than Rs. 5 Million Less than 50 employees

Source: Author

In addition to these, various banks, financial institutions, donor agencies, NGOs, industry related task forces, trade and industry chambers adopted their own definitions for SMEs for their convenience and objectivity of studying SMEs. But almost all these definitions adopted their main criteria as no. of employees, capital employed/total assets and turnover. But these criteria have its own limitations overtime and need changes with technology improvement, productivity increases and inflation, etc. Very recently in Pakistan for this SME equation, Micro and Cottage enterprises also came and now Micro, Cottage and Small Scale Enterprises are in picture and in most cases medium scale enterprises are out from the equation (Bari.F and et.al, 2002, 2003). Some policy makers and researchers in both countries have pointed out that micro, cottage (less than five employees) and small enterprises should receive government more care and attention not the medium scale enterprises and they have many justifications for that. However overtime this SMEs definition criteria should be changed to fit with changing economic, technology and productivity scenarios. In addition to this various other criteria and range of values should be assigning to define SMEs sector as a whole and sub group-wise. Still in both countries, SMEs data bases mainly concentrated on manufacturing rather agriculture and service activities. Therefore researchers and authorities should take steps to expand SMEs data base from manufacturing to agriculture and service sectors while finding a proper definition for SMEs and change it overtime looking at the market changes. Recently in Pakistan SMEDA appointed SMEs working committee on SME definition vested power to come up with new definitions for SMEs, micro and large scale industries to more specifically target incentives to promote and develop SMEs. In Sri Lanka, currently (2009, June) JICA led mission is undertaking this exercise under the Ministry of industry project.

3) Data Analysis on Pakistan's SMEs

The Pakistan's SMEs data base is very fragile and unreliable due to regular change of survey units definitions, partial sector wise coverage with bias to manufacturing, too aggregative nature of the data, non-continuity of surveys, non-compilation of data on important aspects such as overall and sector wise SMEs contribution to value added and net foreign exchange, some parts of the country data can not access due to arms conflict and many organizations involvements in SMEs data compilation, etc. The most reliable data base available with government three statistical bureaus (now these three bodies amalgamated). But that also do not specifically give exact contribution of SMEs alone. But we assume (an intelligent guessing) that Pakistan is naturally a SME economy and more than 98% of its enterprises are SMEs (SMEDA, 2005). Normally industrial or establishment surveys cover all size of enterprises and therefore it is very hard to separate data for SMEs due to aggregative nature and survey definitions changes overtime. But most of the enterprises/industries data in household level can assume as micro or small scale and establishment level data as medium and large scale enterprises. Available data mainly categorized under the region-wise (Punjab, Sindh, NWFP, Balochitan and Islamabad) and urban and rural-wise.

The latest available data on Economic Survey of Pakistan 2003-04 reveals that SMEs contribution to manufacturing sector in terms of GDP around 30%, employment 80%, export 25% and value addition 30%. More details information available on industrial survey for year 2000 (Federal Bureau of Statistics in Pakistan, 2000). These survey data show that in geographical location-wise of enterprises/industries, 65% enterprises are located in Punjab, 18% in Sindh, 14% in NWFP and other 3% in Balochistan and Islamabad. In concentration of enterprises, 53% are wholesale, retail, restaurants and hotels, 22% community, social and personal services and 20% are in manufacturing. In rural, urban and house holds wise also this concentration is holding true. More than 96% of establishments belong to less than 5 employee category and this is true for region-wise also. This may be a good area to further research to see that most Pakistan establishments are micro level rather SMEs. Another interesting fact is that ownership-wise more than 96% enterprises are belonging to individuals and this picture hold true for regions as well. In age wise, more than 90% of SMEs are less than 20 years old and this picture holds for rural and urban areas as well. This may be the main obstacle to access to finance. Generally small and very young SMEs have many obstacles to access to finance and credits markets.

In analyzing ISIC (two digit) industry categories a large proportion of industries are concentrated on few categories: 43% industrial establishment are in textile, apparel and leather, 20% in food, beverage and tobacco, 10% in wood and wood products, 10% in metal and fabricated metal sector and 8% in handicrafts and related other activities. This shows Pakistan's industrial concentration in textile, apparel and leather sector and foods and beverages sectors. Even in region and rural and urban area wise this picture holds true. This may be the right message policy makers to think to diversify Pakistani industrial structure.

In terms of employment status more than 70% of employees are unpaid family workers, partners and self employed people and this is very clearly visible in Pakistan's house hold level

enterprises and it is truly valid for rural, urban and region-wise as well. In gender-wise, female participation is very less even in paid or unpaid, partnerships and self-employed areas. In overall female labour participation is 7%. And it is 3% in unpaid, partnerships and self-employed areas. In rural, urban, households, and region –wise this picture holds true.

Building status wise in overall establishments more than 58% are running their business in rented buildings and this is true in urban-wise (74%) but rural-wise majority of business are conducting in their own premises. More than 99% establishment employed capital (not included land and buildings) is less than one million PK Rs. And this picture holds true for rural, urban and region-wise. More than 97% of Pakistan enterprises are earning less than 20 million PK Rs. per year and this is hold true in region-wise as well.

SMEs are naturally labour intensive and therefore they contribute heavily for employment, income distribution and poverty eradication. More than 98% of Pakistan enterprises in terms of urban, rural and region-wise employ less than 10 persons.

4.0) Data Analysis on Sri Lanka's SMEs

The Sri Lankan SMEs data base is also very fragile and unreliable due to regular change of survey units definitions, partial sector wise coverage with bias to manufacturing, too aggregative nature of the data, non-continuity of surveys, some parts of the country can not access due to ethnic conflict and many organizations involvements in SMEs data compilation, etc. The most reliable data base available with Census and Statistics Dept (CSD). But that also do not specifically give exact contribution of SMEs alone. Normally CSD surveys cover all size of enterprises and in most cases hard to separate data for SMEs due to aggregative nature and survey definitions change overtime.

Table 2 shows the geographical distribution of SMEs in Sri Lanka. This table shows that most small scale industries are concentrated in Western Province based districts of Colombo (10%) and Gampaha (13%) and North-Western Province based district of Kurunagala (14%). Medium and large scale industries are concentrated mainly in Western Province based districts of Colombo (20%) and Gampaha (18%). In terms of small industries employment generation Gampaha (14%), Kurunagala (13%) and Colombo (12%) are the main districts and in generating employment from medium and large scale industries Gampaha (29%) and Colombo (23%) are the main districts. This clearly shows that heavy concentration of Sri Lankan SMEs in well developed Western Province of Sri Lanka. This industrial location is very worse in terms of large scale industries. According to the Central Bank of Sri Lanka - Annual Report 2005, 80% of industries are concentrated in Western Province. SMEs are not developed at all in Northern Province districts of Jaffna, Mannar, Vavunia, Mulativu and Kilinochchi mainly due to on-going ethnic conflict and collapse of economic activities and infrastructure during last 25 years.

Table 2: No of Industrial Establishments and persons engaged by District, Sri Lanka – 2003/04

Census of Industries – 2003/2004
Listing of Industrial Establishments

District	Small Industries (Persons engaged less than 10)		Medium & Large Industries (Persons engaged 10 and more)	
	No. of Establishments	Persons engaged	No. of Establishments	Persons engaged
Colombo	12,089	34,146	1,996	169,366
Gampaha	15,516	40,339	1,818	213,754
Kalutara	6,454	15,732	611	52,593
Kandy	8,100	19,447	645	36,803
Matale	3,321	6,995	193	11,991
Nuwara-Eliya	1,746	3,752	234	19,252
Galle	5,682	13,504	444	35,052
Matara	5,033	10,455	273	18,416
Hambantota	3,893	7,318	84	12,674
Jaffna	2,684	6,933	113	2,224
Mannar	413	1,083	20	336
Vavunia	567	1,417	37	1,177
Mulativu	492	1,456	36	630
Kilinochchi	441	1,188	25	732
Baticaloa	1,898	4,764	120	2,752
Ampara	3,682	8,627	174	5,297
Trincomalee	1,487	3,254	38	2,998
Kurunegala	16,943	37,868	877	48,384
Puttalam	5,930	16,451	737	25,491
Anuradhapura	4,581	9,653	205	12,656
Polonnaruwa	2,489	5,002	221	11,152
Badulla	3,142	6,639	201	10,607
Moneragala	2,261	4,352	60	5,506
Ratnapura	5,916	12,521	534	29,744
Kegalle	6,666	12,727	265	18,241
Total	**121,426**	**285,623**	**9,961**	**747,828**

Source: Department of Census & Statistics, Sri Lanka – 2004.

4.1) Employment Distribution and Value added of SMEs in Sri Lanka

SMEs are naturally labour intensive and therefore they contribute heavily for employment, income distribution and poverty eradication. ILO (1994) reported that in 1994 more than 75% of Sri Lankan labour force employed in SMEs sector. Even though SMEs have more contribution to employment generation and equity, their labour intensive nature and low productivity bring low value addition to the economy. As shown in table 3, 85% of industrial establishments are in Small scale and 12% are in medium scale and only 3% are in large scale enterprises. Altogether 96% of industrial establishments are in SMEs but their contribution to employment and value added is not that much high compared to large scale enterprises and they are decreasing over the years. Large scale establishments account for less than 4% of total establishments but their contribution in terms of employment 64% and value added is around 80% in 1996 and compared with 1983 data it is a significant growth.. This shows an increasing trend in growth of large scale enterprises and their contribution to employment and value added.

Table 3: Relative Size of SMEs: 1983, 1996 and 2004 (%)

	1983	1996	2004

Size Group	Establishments	Employment	Value added	Establishments	Employment	Value added	Establishments	Employment	Value added
Small	86.6	29.2	11.3	85.4	18.7	4.9	92.4	27.6	-
Medium	11.4	19.4	19.8	10.7	17.6	14.7			
Large	2.0	51.4	68.9	3.9	63.7	80.4	7.6	72.4	-
All	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	

Source: Department of Census and Statistics 1983, 1996 and 2004.

Table 4 shows distribution of SMEs in ISIC two-digit level and it shows that large proportion of industries (80%) are concentrated in four groups of industries and they account for 80% employment generation as well. These industry categories are: i) food, beverage and tobacco products. ii) textile, apparel and leather products. iii) non-metallic mineral products iv) mining. The interesting point is that this table shows the lack of dynamism, stagnant nature and non- diversification of Sri Lankan SMEs over the years. However compared to other industry sectors, in mining and wood sector based SMEs are highly active in terms of employment generation and valued added and they are very much ahead to large scale enterprises in these industry sectors.

Table 4: Distribution of SMEs by Type of Industry - 1983 and 1996

Type of Industry (2 – Digit level)	Employment (%)			
	1983	**1996**	**1983**	**1996**
Mining	11.6	12.5	9.0	6.9
Food, beverage, and tobacco products	35.5	33.7	36.8	38.4
Textile, apparel and leather products	19.8	19.3	23.4	24.2
Wood and Wood products	7.3	7.3	6.1	5.2
Paper and paper products	2.2	2.3	2.4	2.1
Chemical, petroleum, rubber & plastics	5.8	6.4	7.4	8.0
Non-metallic mineral products	12.1	12.3	8.9	9.2
Basic metal products	0.06	0.08	0.09	0.27
Fabricated metal products, etc	4.3	4.5	4.7	4.2
Manufactures n. e. s.	1.4	1.7	1.2	1.4
Total	**100**	**100**	**100**	**100**

Source: Department of Census and Statistics 1983 and 1996

Table 5 shows the latest census (2003/04) data on Sri Lankan industry in more disaggregated level. In this table, small scale enterprises (less than 10 employees) easily can be identified but medium and large are very hard to separate but more than 90% of these establishments are medium scale enterprises (more than 10 employees). In overall, large scale enterprises are account for less than 5% in Sri Lankan total industrial establishments. As this table shows, most small scale industries are concentrated in food and beverage, furniture and related products, non-metallic mineral products, textile and apparel sectors and they contribution for employment also very high. Among the medium and large scale industries, food and beverages, textile and apparel and mining and quarrying concentration can be seen and more than 50% employment comes from textile,

apparel and leather sector. In addition to data in table 4 and 5, available industry surveys in 1998, 1999 and 2000 done by Census Statistics Dept. confirmed the fact that the non-diversification of Sri Lankan industry structure and its heavy concentration on the few low value adding industry categories. This may be a valid point for policy makers to take up and to formulate strategies to diversify the Sri Lankan industrial structure. It is very hard to find reliable data on SMEs earning capacity. However, there are few SMNEs studies deal on this area (Dasanayaka.S, 2007a,b), Central Bank, 1998 and Small and Medium Enterprise Development Project (SMED, 2005) give some reliable data on this issue.

Census of Industries – 2003/2004

Listing of Industrial Establishment

Table 5 – Establishments and persons engaged by Industry, Sri Lanka – 2003/04

Type of Industry	Small Industries (Persons engaged less than 10)				Medium & Large Industries (Persons engaged 10 and more)			
	No. of Establishments	**%**	**Persons engaged**	**%**	**No. of Estbs**	**%**	**Persons engaged**	**%**
Other mining and quarrying	5,414	4.46	21,388	7.49	834	8.37	15,560	2.08
Manufacture of food products and beverages	35,418	29.17	70,955	24.84	2,290	22.99	102,924	13.76
Manufacture of tobacco products	437	0.36	1,491	0.52	103	1.03	5,812	0.78
Manufacture of textiles and yarns	2,930	2.41	12,199	4.27	1,006	10.10	52,848	7.07
Manufacture of apparel	12,976	10.69	27,999	9.80	1,633	16.39	353,742	47.30
Manufacture of leather products	1,181	0.97	3,689	1.29	190	1.91	13,352	1.79
Manufacture of wood and products of wood and cork	5,944	4.90	17,741	6.21	428	4.30	10,103	1.35
Manufacture of pulp and paper based products	229	0.19	837	0.29	120	1.20	7,584	1.01
Publishing, printing and reproduction of recorded media	1,738	1.43	5,157	1.81	280	2.81	13,654	1.83
Manufacture of refined petroleum products	13	0.01	62	0.02	8	0.08	2,018	0.27
Manufacture of basic chemical and chemical products	1,401	1.15	4,415	1.55	329	3.30	18,878	2.52
Manufacture of rubber and plastic products	4,534	3.73	7,269	2.54	501	5.03	43,586	5.83
Manufacture of non- metallic mineral products	17,486	14.40	45,117	15.80	754	7.57	25,525	3.41
Manufacture of basic metal	412	0.34	1,256	0.44	114	1.14	9,059	1.21
Manufacture of fabricated metal products	11,434	9.42	23,068	8.08	248	2.49	8,900	1.19
Manufacture of machinery and equipment	302	0.25	775	0.27	102	1.02	7,258	1.97
Manufacture of office accounting and computing machinery								0.00
Manufacture of electrical machinery and equipment	125	0.10	383	0.13	67	0.67	9,722	1.30
Manufacture of radio, television & communication equipments	81	0.07	213	0.07	23	0.23	2,131	0.28
Manufacture of medical & optical instruments, watches & clocks	28	0.02	82	0.03	6	0.06	186	0.02
Manufacture of motor vehicles, trailers & semi – trailers	209	0.17	562	0.20	51	0.51	1,979	0.26
Manufacture of other transport equipment	43	0.04	144	0.05	30	0.30	2,470	0.33
Manufacture of furniture & other products	18,286	15.06	38,907	13.62	688	6.91	35,123	4.70
Recycling	21	0.02	92	0.03	8	0.08	234	0.03
Supply of electricity, gas steam and hot water	130	0.11	228	0.08	22	0.22	661	0.09
Collection, purification and distribution of water	527	0.43	1,225	0.43	109	1.09	4,041	0.54
Not Specified	127	0.10	374	0.13	17	0.17	478	0.06
Total	**121,426**	**100.00**	**285,623**	**100.00**	**9,961**	**100.0**	**747,828**	**100.00**

Source: Census of Industries, Department of Census & Statistics – 2003/04

5) Conclusions and Recommendations

- The universally acceptable official definition for SMEs not available in Pakistan and Sri Lanka overtime as the case in most developing countries. All the existing definitions depend on convenience and objectivity of studying SMEs. But almost all these definitions adopted their main criteria as no. of employees, capital employed/total assets and turnover in local or foreign markets. But these criteria have its own limitations overtime and need changes with technology improvement, productivity increases and inflation, etc. Still in both countries, a separate SMEs data base is not available and generally all the surveys (except a very few) or census at establishment level collect data on rural, urban and region-wise. Therefore researchers and authorities should take steps to expand SMEs data base regularly covering manufacturing, agriculture and service sectors while recommending a proper definition for SMEs overtime.
- Heavy concentration of SMEs and their supportive organizations in urban areas in both countries may be the reason for urban bias unequal development pattern. Therefore some polices and strategies have to design to promote SMEs in more disadvantageous regions and SMEs related organizations to provide services for underdeveloped rural areas as well. Furthermore, the non-diversification of Pakistan and Sri Lankan industrial structures and its heavy concentration in the few low value added industry categories is a main problem for sustainability of industrial development in both countries. This may be a valid point for policy makers to take up and to formulate strategies to diversify the industrial structure to create more value addition to local economy and to increase resilience of the both economies (Nelson.O and Dasanayaka.S, 2006).
- In Pakistan's the main heart of industry is Punjab and most SMEs are very young and owned by individuals and concentrates in service sector activities. In ISIC (two digit) industrial activities they are concentrated on few areas such as textile, apparel, leather, food and beverages sectors.
- General assumption is that SMEs is the main contributor for generation of employment and value added in any economy. But that is very hard to prove through the available SMEs data bases in both countries. For instance, in Pakistan all the available industry census/survey data confirmed that in terms of number of establishments SMEs account for over 98% employment and enterprises but value added data not collected. However, manufacturing sector-wise value added data available for some years without specifically stating SMEs contribution (SMEDA/ILO: 2002, Bary. F and et.al:2001, 2003). These data shows that large scale industries generate more value addition compared with SMEs. This situation is same in Sri Lanka as well. For instance, all the available industry census/survey data confirmed that in terms of number of industrial establishments SMEs account for over 90% but in terms of employment and value added generation SMEs contribution are around 35% and 20% respectively (See table 2, 3, 4 and 5). But these data mainly manufacturing industry (ISIC) based surveys/census. Services and primary sector SME data do not explicitly available in Sri Lanka.

- There are very many organizations and institutions involve in development and promotion of SMEs in Pakistan and Sri Lanka but overall coordination is very poor among them. In 1998 Pakistan set up SMEDA as an apex body for development and promotion of SMEs. But still most SMEs promotion bodies not under SMEDA and therefore naturally resource wastage and confusion among the SMEs is quite normal. In Sri Lanka also SMEs promotion started in 1960s with establishment of Industrial Development Board and very recently SME Bank. It seems like better coordination among various SME stakeholder are badly necessary in Sri Lankan as well. Furthermore, the government SME support institutional setup seems like very complex and systems and procedural oriented (Dasanayaka.S Sardana.G, 2008). Therefore, it should be simplified and customer driven. But government can implement regionalization with centralization and uniformity with diversity in their SME supportive systems and delivery mechanism looking at the special characteristics of regional SMEs. The decentralization of government SMEs supportive organizations and structure may be good to provide more flexible, responsive and customer driven service to the informal sector SMEs who badly need these business development assistance. SMEDA, IDB and SME Banks may be the right places to start this overall coordination of SMEs promotion and development initiatives. Especially proper coordination of various SME stakeholders (government institutions, private sector, NGOs and donors) are badly necessary. But problem is skills and capacities of the above two organizations and trust of SMEs about the efficiency and customer-drivenness of these organizations. Especially SMEDA in Pakistan and IDB in Sri Lanka have to undergone severe restructuring and image building to suit with current needs of SMEs in both countries. Just appointing expensive committees, formation of common facility centers or setting up of Banks may be not the solution to SMEs complex problems. Private sector Business Development Service (BDS) providers should strengthen through fiscal measures and regulatory bodies to give more quality services to regional SMEs (Dasanayaka.S, 2007b). Especially governments in both countries can take facilitator roles in providing services to SMEs through BDS providers by coordinating their activities through regional trade and industry chambers.

6) Future SME Research Directions

1) Research agenda need to identify key issues in SMEs in informal sector in both countries that are currently affecting operations of SMEs. Can promote research to undertake diagnostic review of public, private, NGOs and donors supported SME institutions. It is better to document earlier SME sector studies, current SME programmes and activities, main donors, policies being implemented and key policies affecting small rural enterprises.
2) Research necessary to identify training needs of SME support institutions and same time can promote case study to see effectiveness of regional programming strategy of key aid agencies working in both countries and make a catalogue of rural SME development interventions that highlights successful examples of rural SME development in various thrust areas.

3) Research necessary to identify and make recommendations of priority sectors and sub-sectors of SMEs that could be supported and promoted with potential for value addition, employment creation and growth in exports. Especially, identifying SME sectors which are giving more benefits to the poor of the poorest can be promoted as thrust areas of SME research.
4) Research agenda needs to analyze the activities of financial institutions, particularly banks, serving rural areas by defining a range of financial products offered in rural areas, evaluating whether the supply of products/services fits local needs and highlighting supply shortfalls and potential opportunities.
5) Research necessary to design operational guidelines providing standards and performance indicators, which donors, NGOs and Government interventions /programmes in rural areas should comply with.
6) More empirical research are necessary to frame national policy framework, strategies, operational guidelines, institutional set-up and support, network development strategies and an implementation plan to a workshop of key stakeholders, providing options for Government consideration. Same time sub research agenda can workout to identify, design and deliver targeted capacity building initiatives for networks and support institutions to support strategy.
7) How far we can use ICT related various E-commerce applications and tools to promote and develop various aspects of SMEs. Especially SMEs competitiveness, productivity, efficiency, operational and production process and connectivity, clustering and networking be improve by using ICT may be good areas to research.
8) Research on productivity differences in small, medium and large scale enterprises and their various implications are necessary. Especially better to explore why competitive markets are not automatically ensure that less productive firms are forced out? Why market leave room for bigger firms with higher productivity but less potential to create employment and social justice? Why is it that small firms still dominate the economic structure even in more developed economies? What is their competitive advantage? Should development strategies ignore small-scale activities in order to raise overall productivity of economies? Does the dominance of small firms hinder or harm poverty reduction? Or is there a way to enhance productivity growth in small and medium enterprises?
9) More quantitative research are necessary to see the exact relationships between the share of employment and value added in SMEs and its relationships to growth of GDP in econometric terms. And the same time more scientific research can be promoted to further develop SMEs vicious cycle idea (Dasanayaka.S: 2008a) and to find strategies and means to break it. Furthermore, SMEs stakeholder integration framework can be further develop to link the various SMEs stakeholders.
10) Re-establishment and rehabilitation of recent Tsunami and earth quake affected SMEs in both countries are very slow even with floods and rains of foreign and local assistance to this area. Therefore, action oriented research necessary to find out reasons for this failure and to find new framework and model to implement for disaster affected SMEs rehabilitation.
11) More research can be promoted to see the technology management issues in important SME sub sectors or industry clusters in both Sri Lanka and Pakistan. Especially

various business incubator models can be experimented to both countries looking at the best practices around the world.
12) An applied research project can be promoted to see an effectiveness of Sri Lankan and Pakistani SME apex bodies operational strategies in terms of costs/benefits or impact assessment studies. Especially effectiveness of SME clusters and common facility centers may be right start point for research.

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