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SMALL-SCALE INDUSTRIES AND RURAL DEVELOPMENT: IMPLICATIONS FOR RURAL INDUSTRIALISATION IN PAKISTAN

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The main objective of this chapter is to review the major policies and programmes concerning rural industrialisation and its impact on employment in Pakistan. However, since the Government has never really had an overall policy or programme on rural industrialisation and since data on rural industries are not available, we focus attention on two major aspects of development programmes which seem to have had some impact on rural industries, directly or indirectly. These include the programme on industrialisation in general and small industries in particular; and the programme on rural development.

The first section of this paper presents a brief outline of the importance of small-scale manufacturing industries (urban and rural) in the Pakistan economy; the following sections deal respectively with the different policies and programmes of small-scale industry, rural industrialisation and conclusions.

THE IMPORTANCE OF SMALL-SCALE ENTERPRISES IN THE PAKISTAN ECONOMY

In this section, an attempt is made to estimate the importance of small-scale industries ² in the national economy and to trace their growth over the last 30 years. Wherever possible, figures pertaining to the rural small-scale sector will be separated from those of the urban sector.³

Contribution to GDP

The lack of reliable statistics makes it impossible to trace either the exact contribution of small-scale industries to GDP or its growth rate over the last 30 years. In the national income accounting statistics compiled by the Government of Pakistan until 1969-70, an indirect estimated technique

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Table 15. Contribution of small-scale manufacturing to GDP, 1949-50 to 1979-80

| Item | 1949-50 | 1959-60 | 1969-70 | 1974-75 | 1979-80 |
|---|------------------|---------|--------------------|---------|--------------------|
| Total GDP ¹ | 12 398 | 16 826 | 32 336 | 39 393 | 50 189 |
| Total manufacturing output ¹ | 961 | 2 018 | 5 186 | 6 136 | 7 741 |
| Small-scale industry ¹ | 684 ² | 859 | 1 144 ² | 1 627 | 2 315 ² |
| Small-scale industry as: | | | | | |
| % of total manufacturing | 71.2 | 42.6 | 22.1 | 26.5 | 29.9 |
| % of GDP | 5.5 | 5.1 | 3.5 | 4.1 | 4.6 |

¹ pR. million at constant 1959-60 factor cost (US\$1 = pR.10.63 (1983)). ² Extrapolations.

Source: Ministry of Finance, Government of Pakistan: *Pakistan Economic Survey 1979-80* (Karachi).

Table 16. GDP growth rates in manufacturing, 1950-55 to 1975-80 (percentages)

| Item | 1950-55 | 1955-60 | 1960-65 | 1965-70 | 1970-75 | 1975-80 |
|---------------------|---------|---------|---------|---------|---------|---------|
| Total manufacturing | 10.3 | 5.2 | 11.7 | 8.0 | 3.4 | 4.7 |
| Large-scale | 23.5 | 7.6 | 16.8 | 9.9 | 2.2 | 3.7 |
| Small-scale | 2.3 | 2.3 | 2.9 | 2.9 | 7.3 | 7.3 |
| Overall GDP | 3.1 | 3.0 | 6.8 | 6.7 | 4.1 | 4.9 |

Source: *Pakistan Economic Survey*, op. cit.

was used. An estimate of a benchmark year, 1959-60, was computed on the basis of the number of persons employed and value added per worker in small industries. Subsequently, a growth rate equal to the growth rate of population was assumed. Estimates for the period 1969-70 to 1979-80 are, however, based on the Statistics Division's Survey of Small and Household Manufacturing (1969-70) and Punjab Small and Household Manufacturing Industries Survey (1975-76). On the basis of these and other estimates, the share of small-scale industry in GDP and its growth rates over the different subperiods are given in tables 15 and 16.

Employment trends

Tables 17 and 18 show that employment in the manufacturing sector grew rapidly in the 1960s but that the growth rate declined in the 1970s, mainly because of an absolute decline in employment in large-scale manufacturing. In 1960-61 the manufacturing sector accounted for

Table 17. Estimates of population and employment in manufacturing, 1960-61 to 1977-78

| Item | 1960-61 | 1965 | 1969-70 | 1974-75 | 1977-78 |
|---|---------|--------|---------|---------|---------|
| Total population (millions) | 46.90 | 52.60 | 59.80 | 69.20 | 75.00 |
| Urban population (millions) | 10.60 | 12.50 | 14.90 | 19.50 | 23.10 |
| Urban labour force (millions) | 3.08 | 3.73 | 3.95 | 5.02 | 5.95 |
| Urban manufacturing employment (millions) | 0.62 | 1.03 | 1.17 | 1.29 | 1.53 |
| Large-scale ('000s) | 425.30 | 562.60 | 759.50 | 729.80 | 700.00 |
| Small-scale ('000s) | 194.60 | 467.40 | 410.40 | 560.20 | 830.00 |
| Rural population (millions) | 36.30 | 40.10 | 44.90 | 49.70 | 51.90 |
| Rural labour force (millions) | 11.90 | 13.80 | 13.90 | 15.10 | 15.80 |
| Rural manufacturing employment (millions) | 1.20 | 1.48 | 1.57 | 1.41 | 1.47 |

Sources: (a) For total population, Government of Pakistan: *Pakistan Statistical Year Book 1978* (Karachi, 1979). (b) For distribution of population between urban and rural, *Pakistan Economic Survey*, various issues, op. cit. (c) For estimates of urban/rural employed labour force and for manufacturing, based on Labour Force Surveys carried out by the Central Statistical Office (CSO): for 1969-70 onwards based on *Pakistan Statistical Year Book 1978*, op. cit., and for earlier years on CSO: *Twenty-five years of Pakistan in statistics* (1972). (d) For large-scale manufacturing in urban areas until 1969-70, based on A. R. Kemal: "Consistent time series relating to Pakistan's large-scale manufacturing industries", in *Pakistan Development Review*, Vol. XV, No. 1, Spring 1976; for later years based on J. Hamid: "Choice of technology, employment and industrial development in Pakistan", in ILO: *Employment planning and basic needs in Pakistan*, Asian Employment Programme (Bangkok, 1978). Note that from Kemal's estimates those units employing less than 20 people have been subtracted.

Table 18. Breakdown of employment in manufacturing, 1960-61 to 1977-78

| Item | 1960-61 | 1965 | 1969-70 | 1974-75 | 1977-78 |
|---|---------|-------|---------|---------|---------|
| Total manufacturing employment (millions) | 1.82 | 2.51 | 2.74 | 2.74 | 3.0 |
| Rural (%) | 65.90 | 59.00 | 57.30 | 52.20 | 49.0 |
| Urban (%) | 34.10 | 41.00 | 42.70 | 47.80 | 51.0 |
| Large-scale (%) | 23.40 | 22.40 | 27.70 | 27.70 | 23.3 |
| Small-scale (%) | 76.60 | 77.60 | 72.30 | 73.00 | 76.7 |

Source: As for table 17.

12.1 per cent of the total labour force, which increased to 15.4 per cent in 1969-70 but declined to 13.8 per cent in 1977-78.

The percentage of employment in rural manufacturing in relation to the total manufacturing sector is still very substantial, although it declined from 65.9 per cent in 1960-61 to 49 per cent in 1977-78. Employment in small-scale industry as a percentage of total employment in manufacturing remained around 75 per cent during the 1960s and 1970s. Because of variations in participation rates, it is impossible to state with any

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Table 19. Percentage of labour force employed in manufacturing in urban and rural areas, 1960-61 to 1977-78

| Item | 1960-61 | 1965 | 1969-70 | 1974-75 | 1977-78 ¹ |
|---------------------|---------|-------|---------|---------|----------------------|
| Manufacturing/urban | 20.10 | 27.60 | 29.6 | 25.7 | 25.7 |
| Large-scale urban | 13.80 | 15.10 | 19.2 | 14.5 | 11.8 |
| Manufacturing/rural | 10.08 | 10.72 | 11.3 | 9.3 | 9.3 |

¹ Based on 1974-75 estimates.

Sources: As for table 17.

confidence the growth rates either of employment in small-scale manufacturing or of employment in the manufacturing sector in the rural areas, but percentage breakdowns show that those employed in manufacturing in rural areas increased from 10 per cent in 1960-61 to 11.3 per cent in 1969-70, and declined to 9.3 per cent in 1977-78 (table 19).

Major small-scale industries

Although it is not possible to provide a rural/urban or sectoral breakdown of small-scale industries for the country as a whole, the available data for Punjab (the most populous province with about 60 per cent of total population) suggest the following. Table 20 gives a summary of the major small-scale industries in the Punjab in 1975. In terms of value added, three major industrial groups, namely processing of agricultural produce, textiles and engineering industries, contributed almost 80 per cent; and the same three industries contributed over 60 per cent of total employment. The other major industries were wood products, carpets and chemical industries.

In agricultural processing, the major industrial subgroups in terms of employment (> 1,000) were bakeries, wheat and grain milling, *bidi* (cigarette) making, cotton ginning, oil expelling, ice and cold storage, and poultry farming. These industries together contributed over 90 per cent of total employment in this industrial group. In textiles, the major contributor to employment (over 50 per cent) was the manufacture of cotton cloth by power looms, followed by the production of silk cloth (7.1 per cent) and hosiery (3.8 per cent). In the case of engineering industries, light engineering and surgical instruments together contributed over 50 per cent of total employment. The other major industries were electric fans (15.8 per cent), oil engines (9.9 per cent) and cutlery (5.6 per cent).

The breakdown of data on small industries in the Province of Punjab between large (i.e. with over 100,000 population in 1972) and small towns shows that the small towns accounted for 28.2 per cent of total

Table 20. Small-scale industries ¹ in Punjab Province by economic activity, 1975

| Sector of economic activity | No. of units | Nos. employed ² | Value added ('000s) ² | 1970-75 growth rate ³ (%) |
|--|---------------|----------------------------|----------------------------------|--------------------------------------|
| 1. Processing of agricultural products | 6 355 | 27 404 (14.8) | 53 522 (30.3) | 48.10 |
| 2. Textiles | 11 820 | 48 749 (26.4) | 43 394 (24.6) | 100.08 |
| 3. Carpets | 1 346 | 10 105 (5.5) | 3 275 (1.9) | 66.58 |
| 4. Leather and leather products | 2 008 | 6 574 (3.6) | 3 333 (1.9) | 83.87 |
| 5. Wood products | 4 661 | 13 621 (7.4) | 4 246 (2.4) | 70.23 |
| 6. Engineering industries | 6 778 | 40 675 (22.0) | 41 850 (23.7) | 62.07 |
| 7. Ceramics and minerals | 895 | 8 333 (4.5) | 3 371 (1.9) | 24.92 |
| 8. Paper and cardboard | 179 | 771 (0.4) | 925 (0.5) | 18.54 |
| 9. Printing presses/stationery | 1 214 | 6 965 (3.8) | 4 447 (2.5) | 54.06 |
| 10. Travelling and carrying kits | 131 | 526 (0.3) | 197 (0.1) | 254.05 |
| 11. Transport industry | 99 | 570 (0.3) | 353 (0.2) | 120.00 |
| 12. Glass and glass products | 33 | 305 (0.2) | 163 (0.1) | 230.00 |
| 13. Chemical industries | 1 644 | 9 405 (5.1) | 8 887 (5.0) | 14.08 |
| 14. Plaster/rubber products | 326 | 1 920 (1.0) | 2 438 (1.4) | 44.24 |
| 15. Handicrafts and toys | 815 | 3 034 (1.6) | 4 553 (2.6) | 79.91 |
| 16. Sports goods and musical instruments | 729 | 5 685 (3.1) | 1 399 (0.8) | 73.15 |
| Total | 39 033 | 184 642 (100.0) | 176 353 (100.0) | 67.39 |

¹ Small establishments plus household units. ² Percentages are given in parentheses. ³ Growth rate in number of units.
Source: Calculated from Punjab Small Industries Corporation: *Basic statistics on small and household manufacturing industries, Census Report 1975-76* (Karachi), Vol. I to Vol. IV.

employment in the textile industry, 46.7 per cent in the case of engineering goods and 62.6 per cent in the case of agricultural products.

POLICIES AND PROGRAMMES FOR DEVELOPING SMALL-SCALE INDUSTRIES: THE FIVE-YEAR PLANS

One measure of the Government's support and interest in small-scale industry can be gauged from the various five-year plan documents. In the First Five-Year Plan (1955-60),⁴ it was stated that:

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Small industry has specific contributions to make to economic development. In the first place it can contribute to the output of needed goods without requiring the organisation of large new enterprises or the use of much foreign exchange to finance the import of new equipment. Secondly, it can provide opportunities for employment beyond the narrow boundaries of urban centres. Finally, as history shows, it can perform an important function in promoting growth, providing a training ground for management and labour and spreading industrial knowledge over wide areas.

The Plan recommended the setting up of a Small Industries Corporation (SIC) which would provide loans of up to 10,000 Pakistan Rupees (pR.),⁵ give technical assistance and help in marketing products. It also proposed the setting up of research institutes for the development of improved processes and designs for production for, according to the planners, "if small industry is to survive and prosper in the face of increasing competition from large industry, it stands in need of technical guidance".⁶ It also recommended the creation of small industrial estates where the Government could provide land, roads, water, power and similar facilities.

The Second Five-Year Plan (1960-65)⁷ noted that the implementation of the First Plan had fallen far short of objectives and the major problems of small-scale industries remained unsolved because of a lack of concerted effort to tackle them. It set out the following principles for the development of small-scale industries:

- (i) to adapt small-scale industries to changing technological, economic and social conditions;
- (ii) to stimulate the production of implements and equipment required for agriculture;
- (iii) to encourage the processing of indigenous raw materials;
- (iv) to create additional employment opportunities;
- (v) to modernise such existing units as have sound economic prospects;
- (vi) to promote the speed of modernisation by encouraging the growth of small-scale industries in rural areas generally, and in particular wherever resources and markets are available;
- (vii) to bring about a closer relationship between small- and large-scale industries through, for example, the production of spares and accessories or components for large-scale industry or through providing facilities for the maintenance and repair of equipment in use either by large-scale industry or in other sectors of the economy; and
- (viii) to preserve and promote traditional arts and crafts.

The Second Plan also emphasised that the development of small-scale industry within each province was to be the concern of a provincial SIC with emphasis, as in the First Plan, on industrial estates, design centres, sales and display centres, development-cum-training and training-cum-

production centres for certain selected industries like carpets, woollen goods, pottery, leather tanning and woodworking. The Central Government was mainly to help establish technical training and technical and advisory centres.

In the Third Five-Year Plan (1965-70)⁸ and Fourth Five-Year Plan (1970-75),⁹ the principles for development of small-scale industries stated in the Second Plan were repeated verbatim and the basic approach was to be identical, with emphasis on SICs.

The Fifth Five-Year Plan (1978-83)¹⁰ in operation at present was more generous in that it did not repeat the identical words of the Second, Third and Fourth Plans but gave one paragraph to small-scale industries in which it was stated that:

The small industries sector has considerable potential for growth but it suffers from a number of problems relating to organisation, financing, technology and marketing. To facilitate the development of this sector, there is need to have a closer look at the constraints under which this sector operates and to remove the hurdles which inhibit its healthy growth. There is also need to provide some special incentives and assistance to small entrepreneurs who have the resources or skill that can be profitably exploited. Fiscal and commercial policies will give due recognition to these factors during the Plan period.¹¹

The Plan documents clearly show the limited importance assigned to small-scale industries in Pakistan's overall development strategy.

As regards rural industries, the Fifth Plan states that small-scale enterprises based on agricultural raw materials will be located in the rural areas. These include rice and wheat milling, *gur* and sugar making, oil crushing, cotton ginning, hosiery and other textile crafts, carpets, leather and footwear. Efforts are also to be made to develop new industries based on agricultural by-products and waste products like molasses, wheat and rice straw, etc.

Small Industries Corporations

Turning to the question of implementation, the task of promoting small industries was primarily the responsibility of the SICs created for the purpose. On the recommendation made in the First Five-Year Plan, a SIC came into being for the Federal Area of Karachi in 1955 and another in East Pakistan in 1957. It was on the eve of the Second Five-Year Plan period, in 1960, that the first West Pakistan SIC was established and allowed to function in areas excluding Karachi and the Tribal Areas. In 1962, however, the two SICs operating in West Pakistan were merged with West Pakistan Industrial Development Corporation to form its Small Industries Division (WPIDC/SID).

The Government reconsidered its decision in 1965 and decided to establish a separate SIC for West Pakistan (WPSIC). As a result of that decision, the WPSIC was established in September 1965 through the

promulgation of an ordinance according to which small-scale industry was defined as “an industry engaged in the handicrafts or manufacture of consumer or producer goods, the value of total fixed assets whereof (excluding value of land) does not exceed 5 lakhs of rupees”.¹²

The main responsibilities of the SICs were as follows:

- (i) preparing and submitting schemes to the Government for the development of cottage and small industries;
- (ii) preparing schemes for establishing service centres and common facility centres to promote the development of cottage and small industries;
- (iii) establishing small industries estates, artisans’ colonies, design centres, handicrafts development institutions, and such other institutions as are needed for the promotion and development of handicrafts and small industries;
- (iv) giving loans for the purpose of setting up small and cottage industries;
- (v) furnishing guarantees to the commercial banks for the repayment of loans to borrowers for the development of small industries, and sharing losses on account of bad debts in accordance with the agreements in this regard between the SIC and the bank;
- (vi) undertaking censuses and surveys to collect basic statistics for preparing programmes to support cottage and small industries;
- (vii) revising schemes for the improvement and reorganisation of training institutions and other projects taken from WPIDC/SID;
- (viii) maintaining and running depots for the supply of raw materials and for the purchase and sale of finished goods from cottage and small industries;
- (ix) formulating and implementing schemes for training artisans and small entrepreneurs;
- (x) importing raw materials and maintaining stocks of these materials for supply to non-licensed industrial units;
- (xi) introducing better means of production and new designs, including prototypes;
- (xii) sanctioning funds for balancing and modernising cottage and small industrial units established or likely to be established within and outside small industrial estates in West Pakistan; and
- (xiii) establishing in special cases, and with the prior approval of the Government, small and cottage industries in less developed areas.

By 1972, the WPSIC had developed 87 projects in the public sector at a cost of pR.40 million. A brief description of some of its major projects is given below to indicate the nature of the production facilities and technical services which were offered by the Corporation.

Small industrial estates

The WPSIC established nine industrial estates at Peshawar, Gujrat, Sialkot, Gujranwala, Lahore, Bahawalpur, Sukkur, Larkana and Quetta, which provided 2,276 fully developed factory sites. The prime object of this project was to ensure the planned development of small industries in these estates. In 1969, there were 257 factories located there with a value added of pR.328.5 million and employing 7,048 workers. Data from five estates in the Punjab up to June 1973 show that the bulk of the projects are in textiles, light engineering, surgical goods, and rubber and plastics.¹³

Service centres

By 1972 the WPSIC had established 14 centres for providing technical know-how, training and production assistance to specialised industries in different parts of West Pakistan. These centres, located at Lahore, Gujranwala, Karachi, Multan, Hyderabad, Sialkot and Gujrat, specialised in light engineering, textiles, leather, footwear, metals, cutlery, sports goods, ceramics, pottery, surgical instruments, rubber and plastics. The services offered by these centres were mostly free, although some made a nominal charge. They also trained a large number of apprentices through their regular programmes of training.

Handicrafts development centres

WPSIC developed 14 handicrafts development centres with a total capital cost of pR.18.69 lakhs. Two crafts were assigned to each centre for development, keeping in view the traditional crafts of the areas covered. The main objectives of these centres were:

- (i) to train and produce craftsmen and artisans, particularly in backward areas;
- (ii) to provide new and improved designs and prototypes for craftsmen and artisans; and
- (iii) to organise production of handicrafts.

In addition, WPSIC established a Handicrafts Design Centre in Lahore to produce new and improved designs and prototypes to be distributed amongst artisans and craftsmen for adoption and commercial production; they covered carpets, textiles, pottery, woodwork and metalwork. Among other projects, a metal and wood workshop at Pishongri, a textile training centre in Urmer, and a ceramics training centre in Pubbi were also set up.

In 1972 the WPSIC was dissolved and a separate corporation was created for each province: Punjab, Sind, North-West Frontier Province (NWFP) and Baluchistan. However, they continued to operate along the same lines as those of the WPSIC. Small-scale industry was now defined

to cover units having fixed assets to the value of pR.20 lakhs. After 1976 the definition was changed to include all units with fixed assets (excluding the value of land) up to pR.30 lakhs.

The role of financial institutions

The institutions which play a role in financing small-scale industry are the commercial banks, the provincial SICs, the Industrial Development Bank of Pakistan (IDBP),¹⁴ the Equity Participation Fund (EPF)¹⁵ and the People's Finance Corporation (PFC). However, the PFC is the only specialised financial institution serving the small-scale sector. It is difficult to quantify the amount of financing which actually goes to small-scale enterprises, both because of lack of records as regards borrowers and problems of definition of small-scale enterprises. According to 1976 World Bank estimates (which are based on weak data and are only indicative), during the 21-month period between July 1972 and March 1974, of an estimated investment of pR.700 million by household and artisan workshops (employing fewer than 20 workers) and pR.220 million estimated investment in small factories (employing 20-99 workers), the total lending by these different institutions was only pR.130.8 million (about 14 per cent), while the rest came from private owners/sponsors and the "curb" market (informal credit sources).¹⁶ The evidence therefore indicates that small industries are not being adequately financed from institutional sources. This applies particularly to household and artisanal workshops employing fewer than 20 workers, since almost all the schemes for small-scale industry tend to concentrate on the small factory sector employing between 20 and 99 workers.

Provincial Small Industries Corporations

The provincial SICs provide financing to small-scale industries through two arrangements, one with a consortium of commercial banks and the other with IDBP. Under this arrangement, the SIC promotes a project, prepares the appraisal report and submits it to the commercial bank. The bank then assesses the creditworthiness of the borrower, an exercise which involves mainly an analysis of the borrower's credit standing, collateral and securities. If the project is found satisfactory, then the matter is referred to a Technical Advisory Committee; if approved, the commercial bank is responsible for completing the legal documentation and other formalities and for disbursement of the funds. The risk in case of default is shared on a 50 : 50 basis between the SIC and the bank. The interest rate on loans is $\frac{3}{4}$ per cent lower than what commercial banks normally charge. The minimum contribution by the borrower to the total project cost is normally 50 per cent. However, this

is sometimes relaxed to a minimum contribution of 40 per cent in the case of loans for working capital and 30 per cent in the case of fixed assets.

People's Finance Corporation

The PFC was established in 1972 and started operating in early 1973. Its objective is to encourage the creation of small businesses in order to improve the situation of the poorer classes, to reduce unemployment, particularly among the educated unemployed, and to increase the production capacity of the economy. The PFC can make loans and guarantees either directly or through commercial banks, or in association with them. It finances all classes of small enterprises owned or sponsored by individuals or firms having net assets not exceeding pR.50,000 in value. No borrower can receive a loan which, when added to other borrowings for business, trade, profession or industry from a financing institution or bank, exceeds pR.50,000. The PFC's appraisal and follow-up procedures are similar to those of the commercial banks. Appraisal mainly involves an analysis of collateral and securities by the commercial banks. Follow-up is also undertaken by the commercial banks, though PFC is responsible for initiating recovery in case of default. The PFC usually provides 60 per cent of the cost of the project, although it is prepared to provide up to 80 per cent.

Commercial banks: small loans scheme for businessmen and industrialists

To facilitate loans to small businessmen, the State Bank of Pakistan has undertaken to guarantee any bona fide loss which might be incurred by commercial banks in granting loans under the scheme, to the extent of 50 per cent. The commercial banks have been advised to establish Small Loans Departments at their head offices and Small Loans Cells at branch offices to supervise the implementation of the scheme and to give necessary guidance to applicants. A uniform application form has been drawn up for all banks and time limits set for decisions. The State Bank has also laid down standards for the selection of projects which are an improvement over the past, when commercial banks were very conservative in providing loans to small borrowers.

Non-institutional finance

Small entrepreneurs, especially those in cottage industries and artisanal workshops, do not rely on institutional sources for funds for their investment or working capital. As in most developing countries, Pakistan has an extensive "curb" market which provides credit to small traders, particularly in the rural areas. Money-lenders seem to exist mainly

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in North-West Frontier Province. They charge about 25 per cent per year and normally require security to the extent of 60 per cent of the amount of the loan. Loans from wholesalers and suppliers are the most common form of credit. Wholesalers provide the raw materials to the cottage entrepreneur/artisan who then returns the finished product, which the supplier/wholesaler sells. In some cases, the supplier/wholesaler pays only the labour charges. In other cases, the profits are shared, the wholesaler/supplier taking the bulk. Sometimes the supplier provides the raw materials and at the time of sale (normally within one year) he is repaid an amount 15 per cent higher than the original investment (effectively a higher than 15 per cent interest rate). However, the entrepreneur's own or family funds or loans from friends (at no interest) are the main sources of funds (over 10 per cent in the cases reviewed).

RURAL INDUSTRIALISATION

It is evident from the previous section that the emphasis on and the approach toward the development of small-scale industries has changed over time. Further, the programmes for small-scale industries did not distinguish between units located in rural and urban areas, so that their impact on rural employment is unclear. Since the institutions serving small-scale industries and a majority of the units benefiting from the programme are to be found in urban rather than rural areas, it would seem that these programmes had a minimal impact on rural employment.

In this section, an attempt is made to determine whether the programmes on rural development had any impact on rural industries and employment. As can be seen from table 21, though a number of programmes for rural development have been promoted over the years, none of them seems to have received more than 4.5 per cent of total development expenditure.

Among the various programmes promoted, two deserve attention. The first is the Village Agricultural and Industrial Development Programme (Village AID) which formed part of the rural development programme introduced during the 1950s. The second is the Integrated Rural Development Programme (IRDP), introduced later in the 1970s, which had the promotion of rural industries as one of its goals. These are discussed below.

Village Agricultural and Industrial Development Programme (Village AID)

The Village AID Programme was initiated in 1953 to improve social and economic conditions in villages through community development

Table 21. Expenditure on rural development programmes

| Programme | Year | Total expenditure (p.R. millions) | % of public sector development programme |
|---|------------------------|-----------------------------------|--|
| Village AID ¹ | 1955-60 | 298 | 3.20 |
| Rural Works Programme ² | 1960-65 | 650 | 3.71 |
| Rural Works Programme ² | 1965-70 | 1 136 | 4.48 |
| Integrated Rural Development Programme ³ | 1972-77 | 131.10 | 1.99 |
| People's Works Programme ³ | 1972-77 | 887.80 | |
| Agrovilles Development Programme ³ | 1973-77 | 22.75 | |
| Rural Development Programme ⁴ | 1978-83 (projected) | 1 500 | 1.50 |

Sources: ¹ National Planning Board: *First Five-Year Plan, 1955-60* (Karachi, 1957), p. 75. ² Planning Commission: *Fourth Five-Year Plan, 1970-75* (Islamabad, 1970), p. 37. ³ A. S. Bokhari: "Review of direct employment creation schemes and rural development programme in Pakistan", in ILO: *Employment planning and basic needs in Pakistan*, Asian Employment Programme (Bangkok, 1978), p. 176, for expenditure on programmes. For total Public Sector Expenditure Programme during these years, Planning Commission: *Annual Development Programme* (various years). ⁴ Planning Commission: *Fifth Five-Year Plan, 1978-1983* (Islamabad, 1978).

methods. The first Five-Year Plan gave a very high priority to the objective of rural development and strongly supported the Village AID Programme to help achieve it. According to the Plan document it aimed "at increasing the production from agriculture and village industries and thereby increasing the incomes of the rural people", among other things.¹⁷ These objectives were to be achieved through the "initiative and energy of village people themselves, co-operating and pooling their own resources". The Government was to provide the assistance of "village workers" under the leadership of development officers, who were to help the villagers make plans for local development and organise themselves to carry them out. It was also to provide the services of specialists from the different government departments—agriculture, animal husbandry, health, and so on—and some funds and materials to enable the villagers to carry out work which they could not otherwise do. It was emphasised that the programme would be successful if it was able to realise and organise the very large and frequently unrecognised resources that exist in the villages and to "stimulate the spirit of self-help and co-operation". The key to the whole programme was the assistance and advice of the village worker, trained to help the villagers to find ways to solve their own problems and directed and guided by the development officer.

The Village AID Programme was also to channel technical and material assistance for cottage and small-scale industries in the rural areas which, it was felt, was badly needed. Village industries were divided into two kinds, needing two distinct types of workers. The first were those industries in the rural areas producing for the local community, serving

their everyday needs and employing village artisans like weavers, blacksmiths, carpenters and potters. It was felt that there should probably be an organiser in each development area or *tehsil* to serve this type of industry, supported at the district or provincial level by a specialist for each of these main industries. The second type of industry included the more highly skilled arts and crafts like sports goods, fine textiles, metalwork, basket and straw work, furniture, ceramics, and so on. It was felt that these industries might face special problems in marketing their products and that a specialist in each major craft in a district or province could render valuable services. It was recommended that training courses for the village organisers and for the various kinds of specialists should be organised in co-operation with the central and provincial education, labour and Village AID authorities.

Some rural areas, to be called "development areas", were to be selected for intensive development. Each development area, consisting of 150-200 villages with a population of about 100,000, was to be placed in charge of a development officer. During the period 1955-60, about one-quarter of the rural population were to be covered by organised Village AID development areas, i.e. about 26,000 villages and 17 million people. It was hoped that by 1965 it could cover the whole of the country.

The Village AID Programme achieved a fair degree of overall success during the First Plan period (1955-60). The Programme was introduced into 176 development areas, as against the Plan target of 172 areas, but its impact on rural small-scale industries is unclear.

Integrated Rural Development Programme

The phasing out of the Village AID Programme more or less coincided with the introduction of the Rural Works Programmes in 1960; unlike the former, the primary objective of the latter was to reduce unemployment and underemployment, mainly through the development of rural infrastructure. Notwithstanding the significant success of these programmes in asset creation, it was also phased out in 1969. The "Comilla" approach to rural development, initiated in 1958, was by now acquiring greater prominence. It emphasised greater self-reliance through co-operative forms of organisation. The IRDP developed on the basis of the above experiment stressed the need for institutional arrangement in satisfying the needs of people. One of the major components of the IRDP was to organise multi-purpose village co-operatives which would initiate group action to secure economic and social services for their members. These co-operatives in turn were brought under an umbrella known as Markaz Co-operative Federation. The limited evaluation of the IRDP in two Markaz Federations (one each in Punjab and North-West Frontier Province) suggests that the programme could not initiate new productive

non-farm activities; neither did it attempt to accelerate or reinforce the emergence of non-farm activities on their own. Another measure to promote non-farm activities, notably in small towns, was envisaged under what is known as the Agrovilles Development Programme, in 1973. As in the case of IRDP, the programme had only a limited success, partly due to the small sums of money allocated (pR.34 million during the 1973-77 period, of which only two-thirds were utilised) and partly due to organisational constraints.

CONCLUSIONS

The above evidence indicates that the Government has, over three decades, attempted to promote small-scale industries through the creation of appropriate institutions, first through centralised and then through decentralised locations. The main aim of these efforts has been to rely on local resources, create more employment or save foreign exchange by avoiding import of sophisticated capital equipment. To the extent that the rural development programme has focused on rural industries, the aim has been to promote the production of commodities based on agricultural output. However, a number of factors seem to have rendered the objectives of the programme difficult to achieve. Besides a poor understanding of the problems of small-scale industries, the meagre resources allocated to the various programmes seem to explain their limited impact. Since these programmes were administered from selected urban locations and since the definition of small-scale industries followed was fairly broad, it seems likely that they had a minimal impact both on rural and on very small-scale activities.

The rural development programmes, while addressing themselves specifically to the rural poor, nevertheless paid little attention to rural industries as such. In fact, the proportion of total public sector development expenditure devoted to rural areas was so small that they could not have made a bigger impact. The few scattered attempts to promote rural industries suggest that the approach to development stressed the role of organisation. It is also perhaps true that the authorities overestimated the capacity of village workers to provide the necessary advice and the capacity of the community to raise the resources needed locally. Perhaps the most important conclusion emerging from this exercise is that there was little understanding of the problems of small-scale industries and their employment potential.

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Notes

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² The official government statistics organisation, the Central Statistical Office (CSO), defines small-scale manufacturing as covering all manufacturing industries other than large-scale industries registered under Section 2 (j) of the Factories Act, which until 1976 referred to factories employing more than 20 people on any day during the year and which use power in their manufacturing operation, and after 1976 to factories employing more than ten people.

³ Urban areas were defined by the 1961 Census of Population Survey as "all municipalities, civil lines, cantonments and any other area inhabited by not less than 5,000 persons and consisting of a continuous collection of houses". In applying this definition, it was found that almost all urban areas are duly constituted municipalities or areas administered by notified area committees. In a few cases, places having distinctly urban characteristics have also been classified as urban although their population falls short of 5,000. The CSO uses this definition of urban areas in its other major surveys of the economy.

⁴ National Planning Board, Government of Pakistan: *First Five-Year Plan, 1955-1960* (Karachi, 1957), p. 473.

⁵ US\$1 = pR.10.63 (Apr. 1983).

⁶ National Planning Board: *First Five-Year Plan*, op. cit., p. 473.

⁷ Planning Commission, Government of Pakistan: *Second Five-Year Plan, 1960-1965* (Karachi, 1960).

⁸ idem: *Third Five-Year Plan, 1965-1970* (Karachi, 1965).

⁹ idem: *Fourth Five-Year Plan, 1970-1975* (Islamabad, 1970).

¹⁰ idem: *Fifth Five-Year Plan, 1978-1983* (Islamabad, 1978).

¹¹ *ibid.*, p. 96.

¹² A lakh is equal to pR.100,000.

¹³ A. A. Singhera: *Development of small industries in Pakistan from 1960-1970 (with special reference to Punjab)*, unpublished MA thesis (Lahore, Punjab University, 1979; mimeographed), p. 243.

¹⁴ Though IDBP is in principle supposed to finance medium and small-scale industries, in practice it has concentrated on the former in recent years.

¹⁵ The impact of EPF on small enterprise promotion seems to have been negligible.

¹⁶ World Bank: *The role of small-scale industry in Pakistan development: Opportunities and constraints*, Report No. 887-PA (Washington, DC, 1976).

¹⁷ National Planning Board: *First Five-Year Plan*, op. cit., p. 29.

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