

INTEGRATED MODEL FOR ENTREPRENEURSHIP DEVELOPMENT IN PAKISTAN

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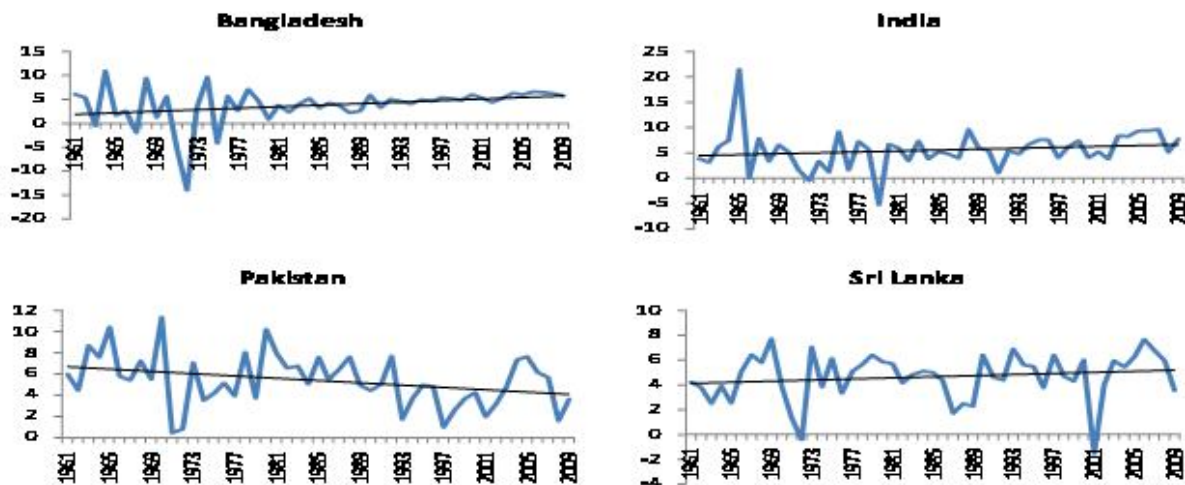
ABSTRACT

Purpose of this paper is to devise an integrated model for entrepreneurship development in Pakistan. The paper highlights that Economic growth does not depend only on infrastructure and factor accumulation but productivity and innovation play a significant role. Mature enterprises in diverse sectors do contribute in the overall resilience of economy and growth path. Unemployment has posed serious socio economic challenges to economic growth and prosperity in Pakistan. Thus it is essential to promote entrepreneurship in Pakistan in order to reap socio-economic benefits for the nation. The findings of the paper are based on literature review, various reports by public and private sector, meetings with professionals and students and focus group discussions with various stake holders. Findings of the paper include that there is a need to adopt an integrated model for entrepreneurship development in Pakistan. Current efforts in isolation are not yielding results. A multi-agency collaboration should be ensured in order to pursue integrated model for entrepreneurship development. A strong role may be played by the academic institutions. The paper suggests that an integrated model for entrepreneurship model may entail (i) Policy Advocacy and Knowledge Management; (ii) Counseling and Capacity Development; (iii) Ensuring Access to Finance; (iv) Affordable Micro Enterprise Management Solutions; (v) Franchising and Networking; and (vi) Focus on Women Entrepreneurship.

PURPOSE AND BACKGROUND

Pakistan's economy is facing a number of daunting challenges at present, namely a low growth rate, persistent inflationary trends in food and non-food items, rising unemployment and poverty rates, worsening fiscal performance due to low tax-GDP ratio, energy shortages, deteriorating governance, weak performance of manufacturing and agriculture and lagging social development amongst others. The growth performance of the economy is influenced not only by the short term fluctuations in the macro economy but also by some of the deeper structural determinants outlined above. The following graphs compare the economic growth experience of South Asian countries:-

Figure 1 Economic Growth experience of South Asia



Source: Pakistan Economic Growth Framework by Planning Commission, Govt of Pakistan

Pakistan's declining economic growth potential calls for an urgent need to develop mature and internationally competitive enterprises. A growing young population is the foremost challenge to be addressed upfront. Pakistan's economy needs to grow at 7 to 8% in order to absorb the backlog and upcoming labor force. Such a high and stable growth trajectory cannot be

achieved without addressing the underlying structural issues, entrepreneurship development and engaging youth in nation building process.

Entrepreneurship is now considered as more than a business start up. Haque (2007) has defined entrepreneurship as “entrepreneurship is the process of identifying, developing and bringing a vision to life. The vision may be an innovative idea, an opportunity or simply a better way to do thing. The end result of this process is the creation of new venture, formed under conditions of risk and considerable uncertainty”.

Economic growth does not depend only on infrastructure and factor accumulation but productivity and innovation play a significant role. Mature enterprises in diverse sectors do contribute in the overall resilience of economy and growth path. Concept of entrepreneurship has become more vital in the context of knowledge driven growth and global competitiveness.

Pakistan has achieved high growth rates in a certain periods which contributed in employment creation, poverty eradication and improving quality of life of people. But as a matter of fact, the goal of inclusive, equitable and sustainable growth could not be achieved. Sporadic and non-inclusive growth has contributed to a considerable level of unemployment in Pakistan. Unemployment has posed serious socio economic challenges to economic growth and prosperity in Pakistan. Following graphs present awful trends in the labor force structure of Pakistan. First graph describes the structure of labor force in Pakistan while second provides comparison of unemployment rate across different age groups.

Figure 2 Structure of Labor Force in Pakistan

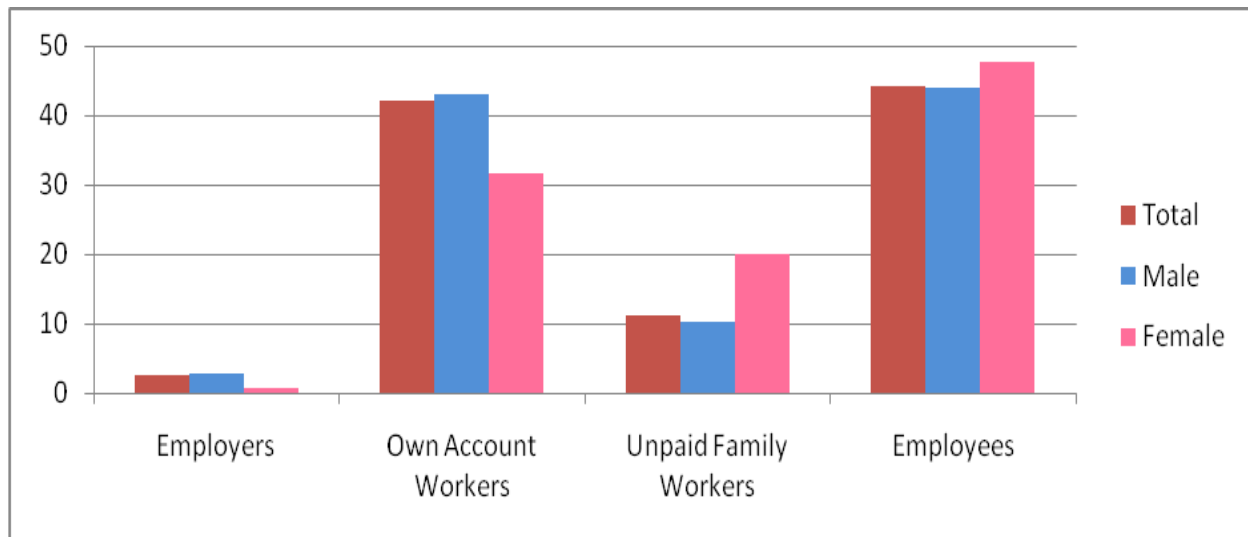
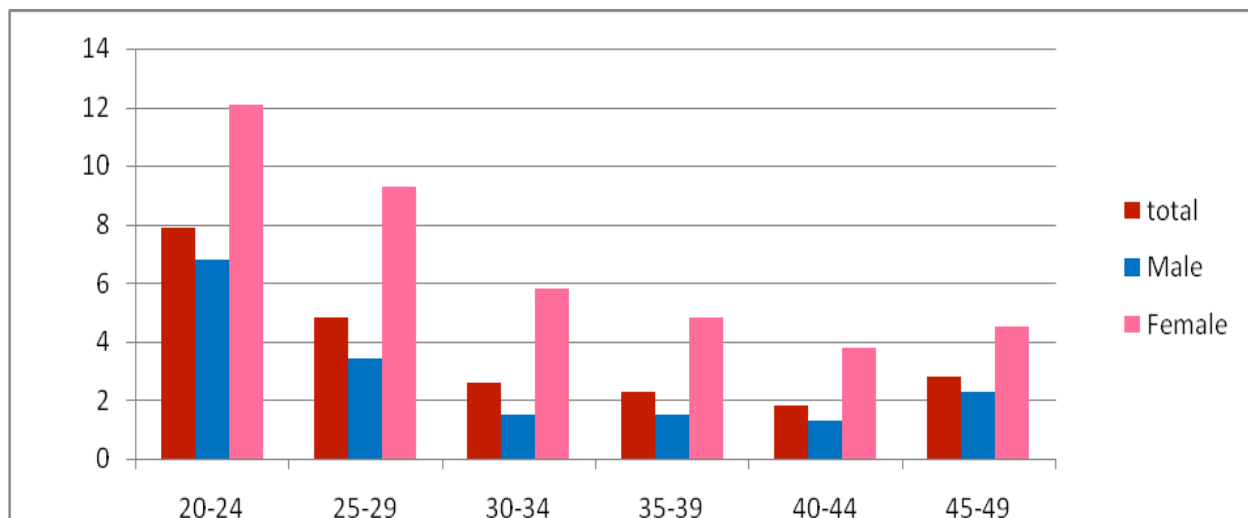


Figure 3 Unemployment Rates across Different Age Groups



Source: Pakistan Labor Force Survey 2009-10

Currently Pakistan's economy is facing difficult times. It is becoming difficult for young graduates to enter into the job market due to the fiscal constraints of public sector and squeezed industrial and services sector. Potential of our youth is not being exploited in the nation building

process. An unnecessary craze for white collar jobs is mainly due to uncertain business environment and social fabric of society. It is widely considered that such jobs carry high value in the marriage market. We need to produce business leaders and employers rather than unemployed work force.

Purpose of this paper is to devise an integrated model for entrepreneurship development in Pakistan. The rest of the paper entails literature review, findings and policy recommendations and conclusion.

II. LITERATURE REVIEW

Malik (2003) has briefly explained the historical evolution of entrepreneurship concept in following lines:

“The term entrepreneur was first introduced by the early 18th century French economist, Richard Cantillon. Later on, Adam Smith, David Ricardo, and John Stuart Mill briefly touched on the concept, under the term of “business management”. Mill highlighted the significance of entrepreneurship in economic growth, and believed it to be “no ordinary skill”. Alfred Marshall however, was the first to recognize the necessity of entrepreneurship for production in 1890, in his famous treatise Principles of Economics, recognizing entrepreneurship as one of the key factors of production. Like Mill, Marshall believed that the skills associated with entrepreneurship are rare and limited in supply and are “so great and so numerous that very few people can exhibit them all in a very high degree”.”

Encyclopedia Britannica emphasizes the role of J. A Schumpeter to highlight the importance of an entrepreneur in the process of economic growth. It states that “modern growth theory can be said to have started with Joseph A. Schumpeter. Unlike most Keynesian or pre-Keynesian theorists, Schumpeter laid primary stress on the role of the entrepreneur, or

businessman. It was the quality of his performance that determined whether capital would grow rapidly or slowly and whether this growth would involve innovation and change—i.e., the development of new products and new productive techniques. Differences in growth rates between countries and between different periods in any one country could be traced largely to the quality of entrepreneurship.”

Entrepreneurship is the process of undertaking activities concerned with identifying and exploiting business opportunities while assuming its associated risks. Entrepreneurship is about a kind of behavior that includes initiative taking, reorganizing economic activities and the acceptance of its risks (Shapero, 1975). Sue et al (2000) argue that entrepreneurship is influenced by genetic power, family background and economic environment. Since economic environment could support or suppress entrepreneurship, governments world over undertake to develop macro economic policies that focus mainly on providing access to resources and support services to individuals and organizations that display flair for expanding their business horizons.

Sagagi (2005) has explained the relationship between entrepreneurship and economic development in the following paragraph;

“The association of entrepreneurship and economic development of nations has long been recognized by economists of the past such as Jean Baptiste (1803) and Joseph Schumpeter (1934). Small firms tend to employ more labour per unit of capital and require less per capital unit of output than do large one (Kuratko and Hodgetts, 1998). Thus, the creation of small businesses and growing the existing ones is considered to be the fastest way to achieve economic growth. Conventionally, ideas about how businesses ideas emerge in society have assumed that the process starts and ends with the individual character traits (Kilby, 1988). This suggests that an entrepreneurship character is in-born. However, many argue that entrepreneurship behavior could be stimulated through policy intervention (Clelland and Winter, 1969). This is the reason why entrepreneurship is increasingly promoted in less developed countries.”

In the last 30 years or so, East Asia in particular was the most dynamic region in the world economy. The leading countries in the region have recorded 5 to 6 growth in per capital income much higher than European and North American economies which recorded only about 3% during 1950-1975, the golden age of capitalism. Many believed East Asia developed on the basis of liberal economic policies. On the contrary, the Asian miracle emanates from infant industry protection, export subsidies, skillful integration of education and training policies with industrial policy, support for research and development (R&D) and promoting entrepreneurship spirit. These efforts work in Asia because of Asian's generated sense of hard work, high savings propensity, zeal for education and compliance with government policies. Chang (2003)

CIPE (1998) has highlighted the need for policy advocacy for promotion of entrepreneurship. Govt. of Norway (2009) has mentioned that training in entrepreneurship can help students to exploit their entrepreneurial potential. OECD (2006) explains that financing is necessary to help entrepreneurs set up and expand their operations, develop new products, and invest in new staff or production facilities. Many small businesses start out as an idea from one or two people, who invest their own money and probably turn to family and friends for financial help in return for a share in the business. But if they are successful, there comes a time for all developing SMEs when they need new investment to expand or innovate further. That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, capital markets or other suppliers of credit.

Populova (2007) has found that problems with existence and development of small enterprise could be solved with closer attention to vital managerial skills and management knowledge for the small entrepreneurs. Support and provision of further education in these areas

could help small entrepreneurs overcome initial development difficulties. Goheer (2003) explains business environment for women in Pakistan following paragraph;

“The business environment for women in Pakistan reflects the complex interplay of many factors, which fall into two basic categories. The first is made up of social, cultural, traditional and religious elements. This aspect of the environment has taken shape over many centuries: it is anchored in the patriarchal system and clearly manifested in the lower status of women. The gender bias of this type of system is rigid and deep-rooted as it draws legitimacy from the perpetuation of a traditional mind-set, established rituals and a firm belief system. The second group of factors derives from the first group, taking the form of constitutional structures, policy documents, regulatory arrangements and institutional mechanisms. This category is contemporary rather than traditional, so it is cosmetically impartial. The traditional systems pose difficulties for women in general and entrepreneurs in particular in two ways. First, they are inherently discriminatory; and second, they inhibit the equity-based composition of modern institutions and their fair working, as modern institutions are derived from traditional ones.”

Tambunan (2009) has found that the relative low representative of women entrepreneurs in Asian developing economies including Pakistan can be attributed to many factors, and the most important ones among them are:

- i) Low level of education and lack of training opportunities that make women severely disadvantaged in both the economy and society.
- ii) Heavy household chores.
- iii) Legal, traditions, customs, cultural or religious constraints on the extent to which women can open their own businesses.
- iv) Lack of access to formal credit and other facilities.

Spinelli et al (2004) has emphasized the need to initiate franchising to promote entrepreneurship. They articulate that one of the strengths of franchising is that it provides a wide breadth of options for individuals to find an opportunity to meet their financial goals and business visions, however conservative or grandiose. Franchising allows entrepreneurs to build wealth to varying degrees according to the scale of the business enterprise. For those whose life goal is to own a pizza restaurant and earn a comfortable income, the opportunity is there. They become small business owners. But franchising may afford the opportunity to build 300 pizza restaurants using a business model that allows a sharing of both risks and rewards with other “owners” in a system.

III. RESEARCH METHODOLOGY

This paper may be considered as an attempt by practitioners instead of an academic exercise. The analysis and findings in this paper are based on following:-

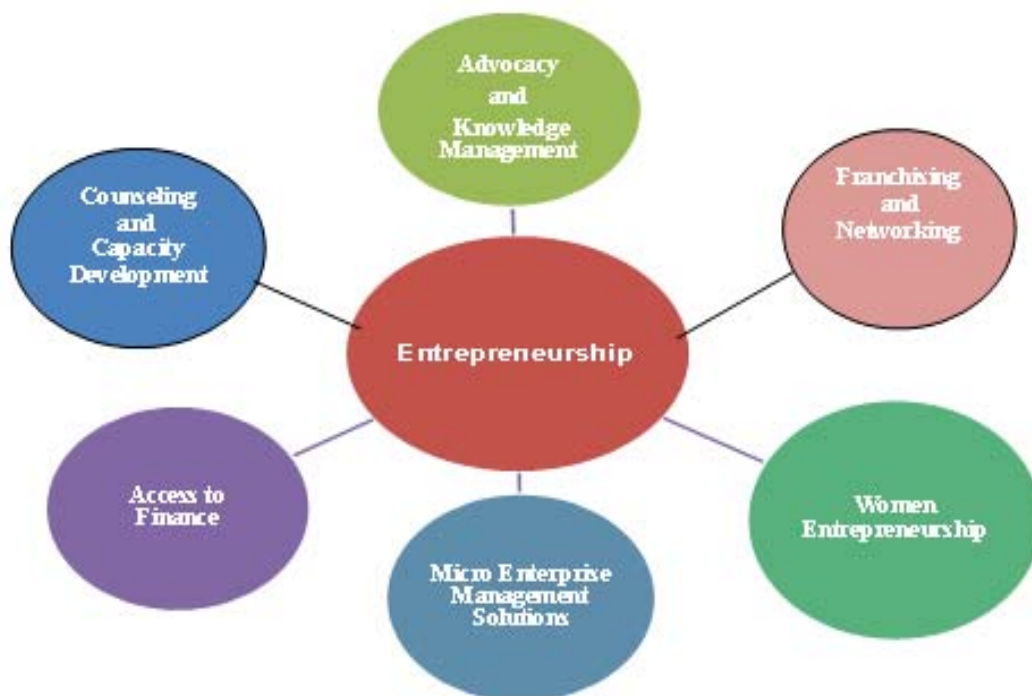
- a. Review of literature;
- b. Review of various reports and surveys;
- c. Meetings with professionals;
- d. Meetings with Government Agencies
- e. Meetings with Micro Finance Institutions
- f. Input by private sector representatives;
- g. Focus group discussions with stake holders; and
- h. Deliberations with students as potential entrepreneurs.

IV. FINDINGS AND POLICY IMPLICATIONS

It has been found that a piecemeal approach will not help further to develop entrepreneurship. There is a need for an integrated model to promote entrepreneurship in Pakistan. Multi agency cooperation is required to address the underlying constraints. There are complex issues associated with entrepreneurship development process in Pakistan which can only be resolved with an integrated approach.

Our analysis suggests the following integrated model for entrepreneurship development.

Figure 4 **An Integrated Model for Entrepreneurship Development in Pakistan**



This model has recently been adopted by SME Business Support Fund of Ministry of Finance, Government of Pakistan.

III.A POLICY ADVOCACY AND KNOWLEDGE MANAGEMENT

Advocacy and Knowledge Management is a crucial aspect of entrepreneurship development in Pakistan. There is a need to identify the potential constraints for small enterprises and then through various communication options, policy makers must be realized about the need to facilitate small enterprises. Regulatory environment also needs to be studied in-depth in order to suggest changes in regulatory regime for making it more business friendly and promoting level playing field for young entrants. Diagnostic studies and various policy dialogues can really contribute significantly for ensuring informed decision making by the policy makers. A comparison of business environment of Pakistan vis other developing economies and best practice economies indicates that there is a strong need to address business constraints.

Economic activity requires good rules and these rules form an institutional framework for business environment. Following table based on Doing Business Report by the World Bank in 2011 validates the argument to improve investment climate in Pakistan:-

Figure 5 Doing Business Ranking out of 187 Economies

Economies DB 2011	Starting a business	Dealing with construction permits	Registering property	Getting credits	Protecting investors	Paying taxes	Trading across border	Enforcing contract	Closing a business
Egypt	18	154	93	72	74	136	21	143	121
Indonesia	155	60	98	116	44	130	47	154	142
Malaysia	113	108	60	1	4	23	37	59	55
Singapore	4	2	15	6	2	4	1	13	2
South Africa	75	52	91	2	10	24	149	85	74
Thailand	95	12	19	72	12	91	12	25	46
turkey	63	137	38	72	59	75	76	26	115
Pakistan	85	98	126	65	28	145	81	155	67

Knowledge management must focus on a need to analyze various international best practices in accordance with the local environment in Pakistan. Steering agencies should collect, manage, apply and disseminate critical knowledge regarding entrepreneurship development.

Following areas must be focused in this regard;

Figure 6 Areas for Policy Advocacy and Knowledge Management



III.B COUNSELING AND CAPACITY BUILDING

It is believed that there is a huge entrepreneurial potential in Pakistani youth but it needs to be exploited. Agencies should design activities and programs for young graduates in order to boost their confidence to start their own business. We need to ensure counseling of different segments of society including parents and other stake holders. Moreover, if the economy in general has positive attitudes toward entrepreneurship, this will generate cultural support, financial resources, networking benefits and various other forms of assistance to current and potential entrepreneurs.

Following activities can contribute significantly in this regard:-

- Sensitization Sessions on Exploiting Entrepreneurial Potential
- Sharing Success Stories of Local and International Businessmen
- Proactive Attitude Development for Entrepreneurship
- Key Qualities for a Successful Entrepreneur
- Business Start up Facilitation
- Tax and other Regulatory Compliances
- Concept Notes and Business Proposals
- Entrepreneurial Excellence
- Pre-feasibility Studies

Following model may be pursued for counseling and capacity development:-

Figure 7 Areas for Counseling and Capacity Development



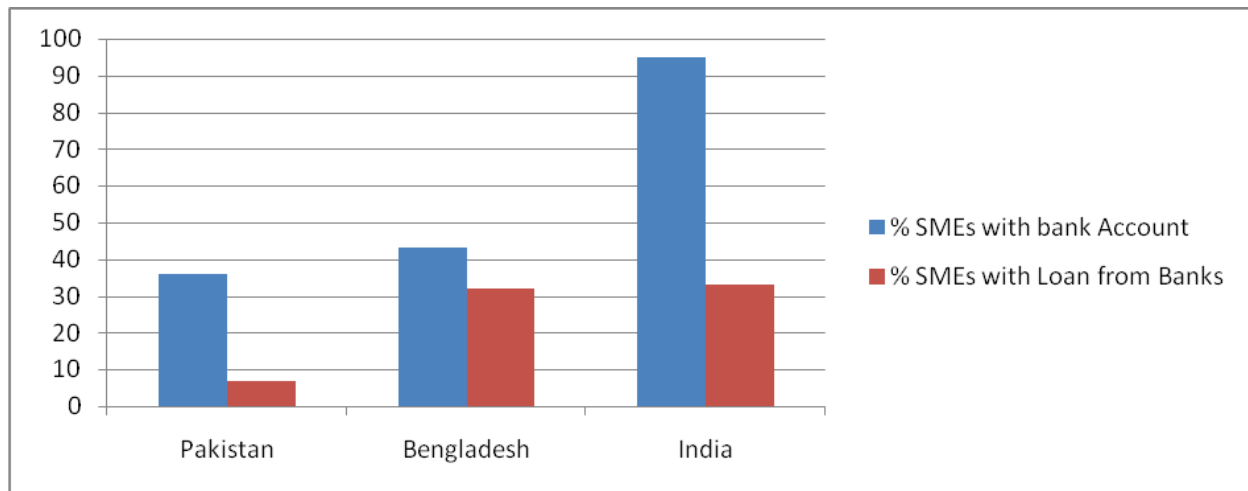
III.C ACCESS TO FINANCE

Provision of financial resources for entrepreneurial ventures is analogous to blood circulation in human body to keep it alive and active. Unfortunately, state of access to finance in Pakistan is not much encouraging. Access to Finance Study conducted by the World Bank in 2009, reports following facts about SMEs and their access to finance:-

“SMEs account for a substantial part of the economy, yet small enterprise lending remains limited. There are about 3.2 million enterprises in Pakistan, of which about 3 million (93 percent) are SMEs. SMEs spread across the economy with varying density: Most are in wholesale and retail trade and restaurants and hotels (53 percent), followed by other services (27 percent) and the manufacturing sector (20 percent).¹ The SMEs census shows that SMEs contribute more than 30 percent to the GDP and 25 percent to the country’s total export earnings, and they employ close to 70 percent of the labor force in the manufacturing industry, services, and trade. Their share in the manufacturing value addition is estimated to be around 35 percent. Despite the importance of SMEs in the economy, as of December 2007 fewer than 200,000 borrow from the banking sector and SME lending volumes (that is, loans of up to Rs 75 million) account only for 16 percent of total credit. Although no disaggregated supply-side data are available, demand-side data and interviews with banks have shown that there is a particularly acute financing gap for loan sizes between Rs 100,000, the maximum loan size that microfinance institutions (MFIs) can offer, and Rs 5 million, the loan size range required mainly by small businesses.”

Following graph based on World Bank (2009) indicates the percentage of SMEs having access to finance in three countries:-

Figure 8 Access to Finance in Pakistan, India and Bangladesh



There is a need to focus on following areas for enhancing access to finance for promoting entrepreneurship:-

- Partnership of Entrepreneurship Centers with Micro Finance and other Financial Institutions
- Design Program Lending Schemes with Specific Roadmaps
- Capacity Building of Entrepreneurs for Developing Bankable Proposals/Documentation
- Awareness Raising Seminars on Loaning procedures and Compliance
- Establishment of Venture Funds
- Policy Advocacy for a Quality Financial Regulatory Regime

III.D **ENTERPRISE MANAGEMENT**

Young Entrepreneurs need a hand holding support to sustain their business. Business Management has become a very complex phenomenon in the wake of globalization and rapid technological advancements across the world. Businessmen have to be innovative and productive to gain competitiveness now a day.

There is a need to provide consulting and training services at an affordable rate to the small and micro enterprises in order to strengthen their capacity for developing appropriate business strategies and translating them into implementation. Following areas need to be focused for enhancing capacity of small enterprises:-

- Certification Programs for Enterprise Management
- Training on Financial Management and Internal Auditing
- Training and Consulting for International Certifications
- Developing and Implementing Business Plans
- Effective Marketing and Sales Management
- Human Resource Management for Enhanced Profitability
- Networking and Consortium Building of Informal Workers and Entrepreneurs

Figure 9 Areas for Enterprise Management

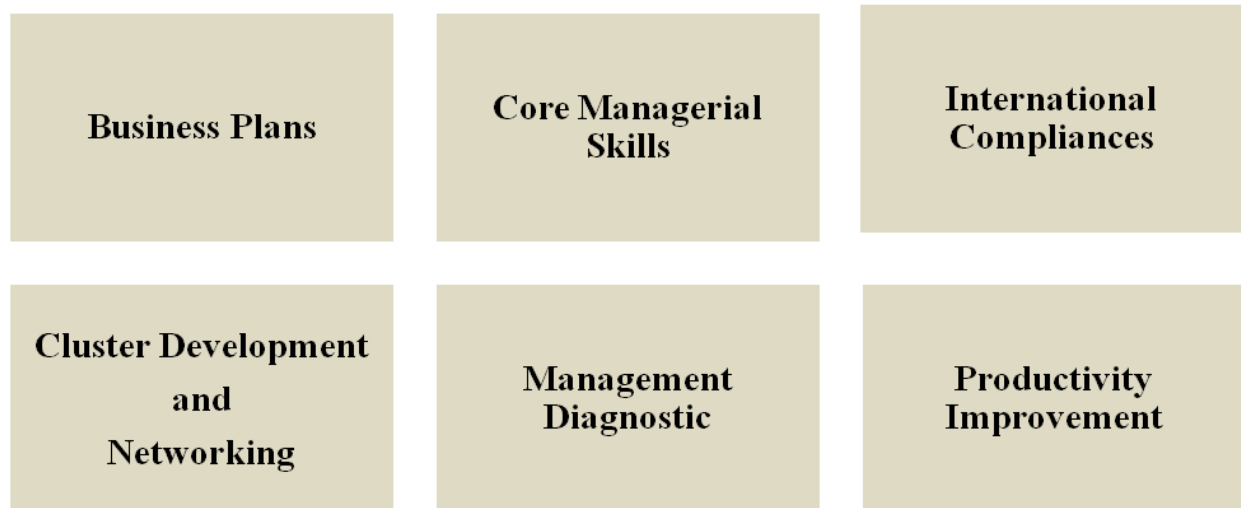


Figure 10

III.E WOMEN ENTREPRENEURSHIP

There is a great potential in the Women Entrepreneurship sector. Women entrepreneurship is most effective tool for their empowerment and contribution to national development. There is a need to remove inequities and imbalance in all sectors of socio – economic development and to ensure women’s equal access to all development benefits and social services. Following areas may be focused for fostering women entrepreneurship:-

Figure 10 Areas for Women Entrepreneurship



Following dimensions are crucial for enhancing women entrepreneurship;

Figure 11 Dimensions for Women Entrepreneurship



Figure 11

III. F **FRANCHISING**

Franchising is a novel concept for promotion of entrepreneurship in a high risk environment like Pakistan. A win-win model is pursued for mutual benefit of franchiser and franchisee. There are certain fundamental principles of franchising that make it rather unique. By applying some of these principles to business it will operate more efficiently and one will become a more effective and resourceful business owner. These franchise principles include¹:

- a) An attractive service or product with a common brand with trademark protection
- b) The processes for running the business can be systematized
- c) When guidelines and procedures are followed success typically follows
- d) There is a strong emphasis on marketing and brand promotion
- e) Standards of quality are established for the franchisees and they are enforced
- f) Franchisee performance is evaluated on a regular basis
- g) Franchisees are recognized for outstanding performance

It is suggested that academic institutions need to develop partnerships with service providers, civil society, international agencies, financial institutions, private sector associations/chambers, public sector organizations and broad spectrum of society to pursue integrated model for entrepreneurship development in Pakistan.

¹ <http://www.businessknowhow.com/manage/learnfr.htm>

V. CONCLUSION

The paper highlights the need to promote entrepreneurship for stimulating economic growth, job creation and socio-economic development.

Findings of the paper include that there is a need to adopt an integrated model for entrepreneurship development in Pakistan. Current efforts in isolation are not yielding results. A multi-agency collaboration should be ensured in order to pursue integrated model for entrepreneurship development. A strong role may be played by the academic institutions. The paper suggests that the integrated model for entrepreneurship model may entail (i) Policy Advocacy and Knowledge Management; (ii) Counseling and Capacity Development; (iii) Ensuring Access to Finance; (iv) Affordable Micro Enterprise Management Solutions; (v) Franchising and Networking; and (vi) Focus on Women Entrepreneurship.

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