

EMERGENCE AND GROWTH OF SMALL AND MEDIUM ENTERPRISES IN DAROGHAWAL

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INTRODUCTION

Punjab province sources 22% of its GDP from industries. 96.5% of the industries in the province are located outside official zones. Pakistan's policy aims to support prioritizes small and medium enterprises (SMEs). Using Lahore's organic industrial cluster Daroghawala as a case study, this research contributes in three ways. First, it explains the factors that contribute to the emergence of these clusters. Second, it quantifies the factors that cause SMEs in these clusters to grow. And third, it estimates the economic ties of these clusters to inform the policy makers of the inherent economic potential.

METHODOLOGY

This research profiles industrial clusters in Lahore, focusing on Daroghawala's SMEs (enterprises with less than 99 employees). The study is grounded on primary data, primarily from 175 interviews with Daroghawala's SMEs, providing both qualitative and quantitative insights. Additional data was collected from land use surveys, and various additional interviews from other industrial clusters, large industries and industry supporting commerce in Daroghawala, and key local figures. Secondary data sources, including governmental entities, further added to the research. Each of the three research contributions used these datasets in their own analytical methodology.

To explore the factors causing emergence of organic industrial clusters, a mixed methods case study methodology allowed for the qualitative analysis of the interviews supported by the quantitative evidence. The resulting grounded theory was generated through the content analysis of the interviews to explain which factors endowed industrial activity in Daroghawala and possibly other similar clusters. The other two contributions were, however, majorly quantitative. The effect of different factors on the growth of SMEs was estimated using two stage least square regression. Finally, the economic linkages and cash flows for the cluster were estimated through construction of a transactions table showing monetary transactions within the cluster and beyond at different spatial scales.

FINDINGS AND CONCLUSIONS

Each of the three research contributions offer findings. Firstly, the exploration of Daroghawala highlight key dynamics of organic industrial clusters in Lahore. For example, these areas have emerged organically and incrementally as industrial clusters. Unlike planned zones, such as Special Economic Zones (SEZs), these clusters evolved naturally, mainly driven by entrepreneurs who transformed cheap agricultural lands into manufacturing units in response to economic needs over time. Over time, as cities expand and residential areas envelop these industrial hubs, larger industries

tend to migrate to newer urban fringes, leaving their former locations more focused on trading activities.

Proximity to vital infrastructures, like the Grand Trunk Road and the Lahore Ring Road, played a pivotal role in the formation and growth of clusters like Daroghawala. Furthermore, around 95% of industries are located within 2km of major roads, emphasizing the importance of accessibility. These clusters house a broad spectrum of industries, both in terms of size and type. From small-scale cottage industries to medium and larger-scale units, these hubs exhibit a rich diversity that promotes resilience and symbiotic inter-industrial relationships. Furthermore, associations of industrial entrepreneurs play a significant role in these clusters. They act as collective bodies that represent the interests of the cluster, negotiating better rates with suppliers or voicing concerns to local government bodies.

The growth and nature of specific clusters, like Daroghawala, are influenced by external factors. The surge in vehicle usage nationwide, for instance, stimulated the demand for related products in Daroghawala, thus promoting entrepreneurship in the automobile, iron, and steel sectors. The Daroghawala cluster, as an example, showcases a range of metal products catering to both local and international markets, from top-quality products for Original Equipment Manufacturer (OEM) clients to grade-B and grade-C products for the local low-cost automobile maintenance market.

Though not directly highlighted, the role of industrial entrepreneur associations in negotiating with local governments implies a level of interaction and possibly oversight. Each cluster, like Daroghawala, possesses idiosyncratic features and dynamics which influence its development, such as specific industry typologies, ecosystems, and key actors. This underlines the importance of cluster-specific research to grasp their nuances.

For the second contribution of this research, effect of factors influencing the growth of SMEs in Daroghawala was estimated. The research looked at what influences the yearly growth of businesses, focusing on factors like the percentage of permanent customers, available loans, money spent on research, and manufacturing processes. Control variables were also considered like the age of business, the education of the entrepreneur, and the kind of industry. It was found that businesses that use digital or semi-digital manufacturing processes grow faster compared to those using older, conventional methods. It is possible because businesses grow when they upgrade their manufacturing processes due to an increase in the product demand.

Furthermore, it was found that companies with more permanent clients experience more growth. Many SMEs in Daroghawala were found to be manufacturing their products for other large scale industries. Having permanent clientage leverage their business over time.

Surprisingly, having more available loans or spending more on research did not seem to affect growth much in the area they studied. But, this could be because the businesses did not share detailed data on these variables. There is, however, literature in Pakistan which suggest that SMEs rarely use formal credit. Our finding seems to be in line with that body of literature.

The third contribution of the research is highlighting the inherent economic potential of Daroghawala industrial cluster and its extent. It was found that Daroghawala is not just an isolated industrial area. Its intricacies and dependencies within the formal and informal sectors reveal the essential role it plays in the broader economic landscape. This interconnectedness means that any policy targeting Daroghawala will have ripple effects on other areas.

The international economic activities of Daroghawala highlight that even its seemingly informal businesses are not marginalized but play a crucial role in the broader economic framework, both locally and globally. There is an inherent potential to strengthen international trade and export policies that could cater to these industries, ensuring they receive the necessary support to maintain and expand their international linkages.

Transactions table also bring to the fore the tax data of otherwise largely unknown industrial cluster. The difference in tax contributions between primary and ancillary industries suggests that they have different approaches to formal, documented economy. It, however, also hint possible intentional evasion. There is, again, inherent opportunity to implement a taxation strategy that recognizes the diverse contributions and capacities of different sectors in Daroghawala. The key could be to focus on incentivizing ancillary industries to formalize and increase their tax contributions.

Daroghawala's transactions with Lahore indicate the region's potential as a key driver for economic prosperity based on external demand. This could be leveraged to enhance regional transportation, communication, and logistics infrastructure to facilitate and optimize these transactions, promoting both local and external economic growth. Currently, Daroghawala's enterprises have access to production means, contradicting some traditional views of informal economies that used to say that these are marginal economies. With this opportunity, the investment in infrastructure and training programs could further enhance the production capabilities of Daroghawala's enterprises.

This transaction table also shows that Daroghawala economy is embedded in Pakistan's economic situation. The structure of economic activity in Daroghawala and the broader Pakistan environment significantly affects the businesses within this cluster. This research hints that there is room to conduct a comprehensive macroeconomic analysis to identify potential bottlenecks and areas of intervention that could enhance the overall business environment in and around Daroghawala, and similar clusters. The transaction table from this research reveals significant insights into the monetary flow dynamics of Daroghawala. Similar research across other industrial clusters in Lahore and Punjab will provide not only the triangulation for this study but also the overall economic profile of metropolitan Lahore. This will not only provide valuable insights but will also guide targeted investments and policy interventions, optimizing the economic impact across the region.

POLICY RECOMMENDATIONS

Based on the rigorous research conducted on Daroghawala's industrial dynamics, SMEs' growth factors, and the inherent economic potential of this cluster, the following policy guidelines are suggested to foster sustainable economic growth and strengthen enterprises within this cluster, and other areas of sort.

Infrastructure Enhancement & Development:

Connectivity: Prioritize infrastructural development around major roads and vital arteries such as the Grand Trunk Road and the Lahore Ring Road to enhance accessibility.

Logistics and Communication: Develop state-of-the-art logistics hubs and communication networks to ensure smooth transactional flow within and outside Daroghawala, ensuring faster and more efficient transportation of goods and services.

Supportive Ecosystem for SMEs:

Digitalization: Encourage and support businesses to transition to digital or semi-digital manufacturing processes through incentives and training programs. This will bolster their growth and make them competitive.

Strengthen Client Relationships: Facilitate business to business (B2B) programs that allow SMEs to establish permanent client relationships, leading to stable growth. Establish forums and platforms where businesses can network and collaborate.

Financing and Credit Systems:

Redefine Loan Structures: While current loan structures might not seem influential, there is a need to redefine and tailor these to cater specifically to the needs and capacities of businesses in Daroghawala. Current system works on the available assets to leverage credit seeking ability but this does not seem to work. Alternative models need to be explored.

Financial Literacy: Organize financial literacy programs that highlight the benefits of formal credit systems, ensuring that more SMEs tap into available financial resources.

Foster Entrepreneurial Associations:

Strengthen Collective Bodies: Recognize and empower associations of industrial entrepreneurs, allowing them to negotiate better terms with suppliers and voice concerns more effectively to governmental bodies.

Establish Cluster-Specific Councils: Considering the idiosyncratic features of each cluster, form cluster-specific councils that can provide insights, share best practices, and address unique challenges.

International Trade and Export Policies:

Trade Facilitation: Develop export promotion policies and provide support, especially to those industries in Daroghawala that are involved in international trade, not only directly but also through one link of another directly exporting business, ensuring they receive necessary support for their ventures.

International Collaboration: Facilitate international partnerships that can help businesses in Daroghawala to expand their horizons and tap into new markets.

Taxation Strategy:

Incentivized Taxation: Implement a fair taxation strategy, focusing on encouraging ancillary industries to formalize and contribute equitably. Introduce tax incentives for those that join the formal sector and maintain transparency in their operations.

Tax Education: Organize awareness campaigns about the importance and benefits of tax contributions for both primary and ancillary industries.

Comprehensive Macroeconomic Analysis:

Research & Analysis: Fund research to conduct a thorough macroeconomic analysis of Daroghawala to understand potential bottlenecks and areas for intervention, ensuring a conducive business environment.

Holistic View: Extend similar research to other industrial clusters in Lahore and Punjab. Such a comprehensive analysis will guide targeted investments, ensuring optimized economic growth across the region.

The economic vitality and resilience of the Daroghawala industrial cluster serve as a testament to the entrepreneurial spirit and the potential of organic industrial growth. The outlined policy guidelines, grounded in research, aim to support, and amplify this growth, ensuring that Daroghawala and similar clusters continue to thrive as economic powerhouses within the region.