

The Surveys of Domestic Commerce
conducted for
the Ministry of Commerce

Presentation at
The Pakistan Development Forum
April 26, 2007

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Layout of the Presentation

- Rationale for the Domestic Commerce Studies
- Domestic Market Structure
 - Firm Characteristics
 - Competitiveness and Efficiency
 - Governance Issues
- Using Survey Results as a Guide to Effective Policy Making

Rationale

- Domestic commerce new area of emphasis for MOC
- Very little research on the commercial sector in Pakistan
- Domestic Commerce plays a key role in promoting **innovation, product development, entrepreneurship and quality assurance.**
- Domestic commerce **positions** the country to tap international markets effectively.
- ***Domestic Commerce is key for private sector growth***

Key Elements for Development of Domestic Commerce

- ***Retail and Wholesale Trade*** are the Front end of Domestic Commerce
- ***Storage and warehousing*** is endogenous to this front end and to international trade development.
- The ***transport industry*** links the whole supply chain and determines its productivity.
- The overall ***regulatory*** environment including the extent of the ***effective*** policy related trade distortions and the ***level of subsidies and incentives*** determine the overall level competitiveness and potential for growth
- ***Modern business practices*** such as standardization of quality, weights and measures and adoption of accountancy, record keeping and insurance services are key to elements of development of domestic commerce

Survey Areas of Inquiry

Firm Characteristics

- -Registration Status
- -Size (paid up capital, employment levels).
- -Employment (part time, full time, family, wages)
- -Human capital
- -Sources of Finance
- -Use of Business Services

Survey Areas of Inquiry (contd.)

Competitiveness and Efficiency

- -Level of Competition (firms within a distance)
- -Barriers to Entry
- -value addition and profitability
- -Cost and access to infrastructure
- -Constraints

Survey Areas of Inquiry (contd.)

Governance

- -contract enforcement
- -law and order
- -taxation
- -regulation (zoning, other issues)
- -collective action (association, etc)



Some Survey Results on the State of Domestic Commerce

Most trading and storage
Enterprises are **sole**
ownership, **single** outlets
serving **small local** area with
minimal backward and forward
geographic linkages

Significant Percentage of Enterprises are unregistered

	Percentage of total
Retail	39.4
Wholesale	51.6
Storage	72.8
Transport	59.2
Total	47.5

Reasons for Not Registering

- Not Required 76%
- No Penalty 15%
- Tedious Procedures 4%
- High taxes 3%

Most Owners/managers have NO PRIOR EXPERIENCE at Start Up

Years Experience	Percent
None	46.5
1 thru 3	18.6
4 thru 6	13.1
Sub Total	78.2

The Median Size of Domestic Enterprise (measured by startup capital) is small

	Median (Rs)
Retail	150,000
Wholesale	200,000
Storage	1,000,000
Transport	575,000
Total	200,000

Average Employment Levels are Low – 37% Retail and 18% Wholesale Enterprises have NO paid Employees

	Mean full time employees (number)	Mean part time employees (number)
Retail	2	0
Wholesale	2	0
Storage	9	2
Transport	8	1
Total	3	0

Education Levels amongst employees is low

	Percentage that have not finished primary school
Retail	62.2
Wholesale	42.8
Storage	16.3
Total	51.2

Only a small % of Firms borrow for business expansion or startup

	Retail	Wholesale	Storage	Transport	Total
Commercial Banks	4.9	3.4	5.1	10.1	4.8
Money Lenders	0.2	0.4	1.5	0	0.4
Friends and Relatives	3.8	2.6	5.1	0	3.4
Others	0.3	0	0	0	0.2
Total	9.2	6.4	11.7	10.1	8.8



However, a large proportion of working capital transactions are credit based

Enterprises are heavily concentrated Geographically – (% respondents reporting)

Number of Similar Enterprises within One kilometer	Retail	Wholesale	Storage
1 to 5	31	26	51
6 to 11	21	18	18
12 to 25	18	19	9
> 25	27	32	7
Don't Know	3	4	15

Barriers to Entry are high

- Over 60 percent of the Respondents stated that Barriers to Entry were high
- High Capital Requirements were Ranked as the most important barrier across the board
- Lack of contacts within the market was ranked as the second most important barrier

Infrastructure Quality is reported to be poor and percentage cost is high (% of Total cost)

	Retail	Wholesale	Storage	Total
Electricity	9.86	7.09	31.51	17.27
Water	0.56	0.22	0.60	0.50
Telephone mobile internet fax postal	4.81	10.84	2.27	5.22
Total	15.23	18.14	34.39	22.99

Reported constraints to growth in Order of Importance are

1. Access to finance
2. Taxation and Regulation
3. Quality of Public Services
4. Corruption and Law and Order

Governance Issues

- Formal Contracts Absent
- Contract Enforcement Issues
- Alternative Dispute Resolution Mechanisms Preferred
- Baradari/Community preferred for protection against fraud etc.

Percentage of Respondents Reporting Use of Modern Services is small

Service	Retail	Wholesale	Storage	Transport	Total
Engineering	13.4	11.8	33.2	42.4	16.7
Management	3.9	7.2	21.4	8.1	7.0
Accounting	6.7	8.2	25.5	6.1	9.1
Legal	5.4	9.6	21.9	25.3	9.5
Insurance	3.6	3.4	12.2	21.2	5.5
Information Technology	5.1	5.2	15.3	2.0	6.1

Reasons for Not Expanding the Business – Retail Markets

	Percent
Financing	73.8
Do not have the means to assess market demand	9.5
Do not have a reliable network of partners at other places	10.8
Government regulations	1.1
Other	4.8
Total	100

Commercial Real Estate for Retail Enterprises

- 62 percent of the respondents stated that additional space for expansion was not available
- the road leading to the shopping area was in average condition in 60 percent of cases - in 16.8 percent of cases the road was poor
- In 31 percent of the locations no parking space was provided outside the shopping area

Commercial Real Estate and Whole Sale Markets

- 57.1 percent of respondents stated that additional space was not available
- In 63% of cases the road leading to the shopping area was in average condition- in 18%, road was poor
- No parking space was provided outside shopping area in 37% of locations
- In a further 34.6% of cases, parking space provided was inadequate

Some Barriers Specific to the Development of Wholesale Markets

- Very little planning involved in the development of wholesale markets
- Are often congested, lack well designed entry and exit points, and are devoid of basic infrastructure facilities like roads, storage, etc
- Congestion due to high traffic as well as poor parking, berthing, storage and drainage facilities

Storage Services

- Most traders use own storage
- Commercial Storage is ill developed, primitive and generally **not** available
- Even if available Traders are reluctant to use commercial storage due to business confidentiality, traditional attitudes and lack of contracts and ability to enforce them

Road Transport: The Truck Fleet is aging, truck sizes are small and transport Efficiency is very Low

- Mean time taken per route is much lower for passenger vehicles than for freight services
- Average transportation times more than twice as long as times in Europe and East Asia
- Average freight carrier speeds lower than speeds in Europe by a factor of 2 to 3
- Competition is extremely intense, profit margins are minimal and quality of service depends on what you pay

The Rail System handles **only 4 percent** of domestic cargo

Using Survey Results to Guide Policy Making Focused on.....

- Human capital development in entrepreneurship and business practices
- Improved access to information, credit, accounting, insurance and legal services
- Improved access to justice and contract enforcement processes
- Government in the role of a facilitator with policy considering all elements of the value chain in a holistic manner for seamless integration
- This requires the **coordination** of policy and implementation amongst various organs of government at various levels - all working towards the same direction
- And a changed mindset that sees domestic commerce as the main engine of growth

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Thank You