

## QUESTION NO. 1

See Paper 2014 Question No. 1

## QUESTION NO. 2

**PROBLEMS OF AGRICULTURAL CREDIT:**

The important problems of agricultural finance in Pakistan are as follows:

**(1) Small Units:**

Agricultural land is spread in small units over a wide area. It makes the financing of agriculture very difficult because millions of loans have to be given.

**(2) Damages to Crops and Land:**

Damages to crops by natural calamities as well as to land by water-logging and salinity increase the risk of loss of money provided to farmers.

**(3) Low and Uncertain Yields and Incomes:**

The yields on capital invested in agriculture as well as incomes of the farmers are low and uncertain. It reduces the loan repayment ability of the farmers.

**(4) Lack of Credit Worthiness:**

As judged from a commercial bank viewpoint a very large majority of the farmers in Pakistan lacks credit worthiness. Banks, therefore, cannot be expected to increase flow of credit to agriculture unless they are given proper incentives or forced to do so.

**(5) Problem of Security:**

An average farmer can offer only land, crops as security against finance but they are not liked by the Banks, A tenant cannot offer even land as security although his credit needs are more urgent than those of owner cultivators.

**(6) Small and Large Cultivators:**

The financial institutions, if left to themselves, ignore small cultivators and provide credit mainly to large cultivators.

**(7) Absence Proximity:**

The difficulty of financing agriculture also arises from the absence of proximity (nearness) between a farmer and a banker. This makes a bank unwilling to provide finance to farmers.

**(8) Unproductive Uses:**

A considerable proportion of credit granted to farmers is used for unproductive purposes, unless it is in kind and supervised.

**(9) High Cost:**

High cost of borrowing money i.e. rate of interest also discourages many farmers to get credit.

**(10) Limited Flow of Capital to Small Farmers:**

In the early years after independence, there was unequal distribution of credit facilities. Industrial sector was availing of maximum facilities due to securities, strong financial position and minimum risks while, agriculture sector remained neglected. In recent years, the proportion was changed but the opportunities are availed of by big land lords, and small farmers who hold small holdings having no political push are not receiving credit in sufficient amounts.

**(11) Delayed Disbursement of Credit:**

Another problem is that even after the approval of loan, delayed tactics are used and small farmers cannot get credit in the time of needs.

**MEASURES TO SOLVE THE PROBLEMS:****(1) Establishment of Agriculture Credit Institutions:**

In the backdrop of the government's budgetary initiatives for promotion of agriculture sector, SBP has assigned the indicative agriculture credit disbursement targets of Rs. 1,001 billion to 52 participating institutions including 19 Commercial banks, 2 Specialized Banks, 5 Islamic Banks and 11 Microfinance banks and 15 Microfinance Institutions/Rural Support Programmes (MFIs/RSPs).

**(2) Establishment of Federal Bank for Co-operatives (F.B.C):**

The F.B.C was established in 1976. It has been playing very useful role in agriculture credit.

**(3) Agricultural Credit Advisory Committee (A.C.A.C):**

The Committee was formed by the Government in 1972 to tackle the problems of agricultural credit.

**(4) Special Schemes:**

In 1977 the Commercial Banks, introduced a special-scheme to extend larger amount of credit to agriculture under the instructions of the Government.

**(5) Recovery of Loans:**

A provision has been made in law for the recovery of agricultural loans of the Government.

**(6) Pass Book System:**

The "Pass Book" system has been introduced to simplify the procedure and to facilitate the disbursement of agricultural credit.

**(7) Mandatory Credit Targets:**

Agriculture credit disbursement increased by 39.4 percent to Rs. 570 billion (57 percent of annual target) during FY 2018 (July-February) compared to same period last year, which shows commitment of the government to support agriculture sector. This amount has 39.4 percent higher than the disbursement of Rs. 409 billion during the same period of last year. Similarly, outstanding portfolio of agriculture loans has increased by Rs. 79.5 billion i.e., from Rs. 373.1 billion to Rs. 452.6 billion or 21.3 percent at end February 2018 as compared to the same period last year.

**(8) Reimbursement of Return:**

The State Bank receives on its finance to ZTBL return of 6% below the Bank rate. The Government reimburses 4% return to the State Bank.

**(9) Finance in Kind and Supervised:**

In order to ensure the proper use of credit, the banks have been advised to give supervised finance in kind as far as practicable.

**QUESTION NO. 3****MEANING OF SMALL-SCALE AND MEDIUM ENTERPRISES**

Medium and small-scale industry includes all the industrial units, which are running with small capital and small number of workers, usually home level.

In other words:

“An industrial unit that has capital assets upto Rs. 2 – 20 million excluding land and building and has 10 to 35 employees”.

Small and medium industries usually engaged in carpet industry, poultry farming, rice husking, bee keeping at rural level and urban small scale industries included hand and power looms, manufacturing of armaments, furniture making etc.

**[PROBLEMS OF SMEs IN PAKISTAN]**

Although small scale industries are growing rapidly in our country, yet they are facing number of problems. We have discussed below these problem briefly.

**(1) Financial Constraint:**

Financial constraints have been identified as the top most problem impending the future of SMEs in the country. Poor financial position of the people does not allow them to buy modern tools and raw material for production. They remain unable to meet their requirements in time.

**(2) Problems in Getting Loans:**

The lack of finance is one of the most binding constraints in the growth of SMEs. For many reasons SMEs not going to banks or other financial institutions to meet financial needs like; lack of information regarding banks, low market penetration by bank, lengthy and difficult procedures of providing loan etc.

**(3) Problems of Marketing:**

In current scenario of competition, marketing of products are considered necessary part of production. Poor and insufficient marketing facilities are affecting adversely to the impact of SMEs.

**(4) Shortage of Raw Material:**

In case of developing countries like Pakistan, mostly small and medium enterprise is not provided with sufficient and cheap raw material. Due to this factor, SMEs are unable to produce cost-efficient and quality products in time.

**Lack of Appropriate Tools:**

(5) Non-availability of appropriate and modern tools for SMEs, create barriers for efficient production. Old techniques and out dated tools are adopted in most of SMEs. Due to all these factors, quality and quantity of produce remains low.

**Lack of Standardization and Grading of Products:**

(6) The output of these industries faces the problems of standardization and grading. Sub-standard goods are not generally accepted in domestic as well as international market.

**Lack of Technical Education:**

(7) SMEs in Pakistan is mostly owned, managed and operated by illiterate and untrained persons. The provision of technical advice and training fault in small scale industries are inadequate. All these factors keep the quality and quantity of produce poor.

**Problems of Electricity:**

(8) Situation of electricity supply in rural as well as in urban areas is contestable. Specially in remote areas either electricity supply is not available or they are facing problems of load-shedding. The small investors cannot afford the facility of generators or other means of power supply. These factors influence adversely the performance of SMEs.

**Lack of Co-ordination:**

(9) There is lack of coordination between different producers, which creates differences in the quality and price of the product. These differences in prices, quality and standard of same nature products loose the confidence of the buyer. And they prefer to buy products of developed industries instead of small scale.

**Lack of Government Attention:**

(10) Lack of attention of government to industries also a great problem of small-scale industries. Government sometimes allow to import these products by reducing import duty or by other ways, which are being produced in SMEs. SMEs cannot afford competition with established nations and have to face loss.

**Lack of Facilities:**

(11) Facilities like loan, electricity, telecommunication, roads and other tax concisions are mostly given to the large scale industries, and small industries remain ignored. Lack of these facilities and discriminative behaviour of the government discourage the small investors.

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**QUESTION NO. 4**

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See Paper 2014 Question No. 5

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**QUESTION NO. 5**

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**DEFICIT FINANCING**

When a government spends more than what it currently receives in the form of taxes and fee during a fiscal year. It runs into a deficit budget. When the budget deficit is financed by borrowing from the public and banks, it is called deficit financing.

Deficit financing is said to have been practiced when the expenditure of the government both development and non-development exceeds its current revenue and capital budget and the deficit is met through government borrowing.

Deficit financing is a delicate fiscal weapon for stimulating economic development. If it is wisely used, it has the following beneficial effects on the economy:

- (i) It mobilizes additional resources for economic development.
- (ii) It helps in utilization of unutilized and under utilized resources of the country.
- (iii) It helps in building up social and economic overheads.
- (iv) It helps in ensuring higher level of employment in the country by productive use of resources.

### [DISADVANTAGES]

- (i) The effects of deficit financing on the economy depends upon the method for which it is financed. When the government borrows funds, it competes with the private business borrowers for funds. The additional demand for funds raises interest rate in the money market. As a result, therefore, the **private investment is depressed**.
- (ii) In case the deficit financing is financed by printing of notes by the central bank, it creates **inflationary impact** on the economy, which (a) discourages foreign investment (b) reduces exports (c) increases imports (d) increases inequality in the distribution of income (e) lowers saving rate in the economy and (f) encourages wasteful expenditures.

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### QUESTION NO. 6

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## MARKETING OF INDUSTRIAL PRODUCTS

Pakistani exports are highly concentrated in a few items namely textile manufactures, carpet, leather, sports goods, electric good, footwear, fish processing, software etc. The main markets of Pakistan manufactured goods are USA, European Union and Japan. Pakistan is facing stiff competition in the marketing of goods to boost exports. **The main problems faced in marketing of goods abroad are as under:**

#### (1) **Higher Cost of Production at Home:**

The goods produced in Pakistan are heavily burdened with taxes. The rates of electricity are high. Billion of rupee of the exporters are struck up with the government on account of overdue refund of sales tax, income tax and duty draw backs. Higher prices of raw material, rise in wages higher mark up rate have raised the production cost of manufactured goods and have made them incompetent to sell in the international market.

#### (2) **The Manufacturing Sector Works Less for Value Addition:**

As a result, therefore the demand of our mostly semi-manufacturer goods is falling in the international market.

#### (3) **Smuggling of Goods:**

Huge quantities of super finished goods are daily smuggled into Pakistan. The goods manufactured in Pakistan are unable to compete them and as such the production of various goods is on decline.

**(4) Information Technology:**

The advanced countries are making full use of internet in the sale of products in the international market. Pakistan is making a start in this field and is far behind in attractly the customers in the national and international markets.

**(5) Lack of International Trade Services:**

Pakistan also lacks in the provision of international trade services such as trade fairs, setting up exports business centres and exhibitions.

**(6) Advanced Digital Technology:**

Pakistan also lacks advance digital technology in the sale of electronic goods and thus cannot compete globally in the field.

**(7) Falling Qualities of Product:**

The customers want better standard and quality goods at cheaper rates, Pakistan is yet to improve the quality of its products to face foreign competition in various goods.

**(8) Rapid Exports Growth Strategy:**

Rapid Export Growth Strategy has to be effectively drawn and implemented to meet the global competition of our goods on liberalization of trade. The development of sports, agro based industries, leather and light engineering sectors are to be developed.

**STEPS TO IMPROVE THE MARKET OF INDUSTRIAL GOODS**

**(1) Diversification of Product and Market:**

At present our exports are highly concentrated in five products namely cotton, leather, rice, synthetic, textiles and exports which account for 78% of our exports. These items are generally of low quality and low priced in the international market compared to other competitive countries. Pakistan should move towards not only higher value added products in export to textile manufactures but should **add more sectors** like engineering goods, marble and granite, fisheries, IT and finance and accounting services etc.

**(2) Value Added in Exports:**

Pakistan's share in international trade is merely 0.12 percent. For increasing exports, it is necessary that it should move **towards higher value added in exports.**

**(3) Cluster Development:**

If there is a concentration of small and medium enterprises producing related goods, it helps the industries in complementing each other resources and exports.

**(4) Brand Development:**

The Export Promotion Bureau (EPB) now called Trade Development Authority of Pakistan (TDAP) is persuading the exporters of textiles, leather garments, rice, sports goods to develop their own brands and labels for their products. The highest level of value addition occurs when products are sold under a brand name.

**(5) Setting Export Processing Zones:**

The Government should establish new export processing zones in Sialkot, Gawadar, Quetta and Multan for facilitating businesses to export goods.

**(6) Improvement in Physical and Financial Infrastructure:**

The Government should invest heavily in the improvement of physical and financial structure including shipment, clearance, cargo space, handling at the ports and airports for smooth flow of export of goods.

**(7) Improving Skill Development:**

For increasing exports, stress should be laid on increasing labour productivity through education, on the job training, skill up gradation and importing new knowledge and latest techniques. This will help the businesses to produce higher value added goods at low labour unit cost.

**(8) WTO Obligations:**

Pakistan is one of the founding members of World Trade Organization (WTO). It is fully abiding by WTO rules of non-discrimination among various members in their tariff regimes and other rules and regulations. It is hoped that Pakistan will get a larger share of its products in the international market.

**(9) New Era of Exports:**

Pakistan should prepare itself for the new era of exports where hi-tech and information technology (IT) has major role to play.

**(10) Export of Horticulture Products:**

For increasing export of perishable horticulture products, the setting up cool chains and cold storages should be encouraged in the country.

**QUESTION NO. 7****MEANING OF UNEMPLOYMENT**

“People who are able to work and looking for job but unable to find suitable paid employment”.

In other words; Unemployment is the situation where an able bodied person seeks a job but is unable to find one at current wage rate. The classification of unemployment as under:

**Unemployment can also be defined as:**

Unemployment is defined as all persons ten years of age and above who during the reference period were; (a) without work i.e., were neither in paid or self employment nor employed as unpaid family helpers, (b) currently available for work i.e., were available for paid employment or self-employment, and (c) seeking work i.e., had taken specific steps in a specified period to seek paid or self-employment.

**[CAUSES OF UNEMPLOYMENT IN PAKISTAN]****(1) Poverty:**

Poverty and unemployment goes together, there are less chances for poor to get employment. Because of poverty there is a problem of unemployment. Majority of able-bodied people have less chances of starting business.

**(2) High Population Growth:**

At present population growth rate is 1.95%, which is high enough. On one side about one million people are entering for employment while job opportunities are not available to absorb this labour force.

**(3) Shortage of Capital:**

There is a shortage of capital in Pakistan. That is why the level of investment is low and due to low level of investment and lack of investment opportunities, less chances of employment are available.

**(4) Agricultural Mechanization:**

Due to mechanization in agriculture per hectare yield is increasing but rural population is becoming unemployed. Surplus labour force is seeking employment in the urban sector but job opportunities are not available.

**(5) Slow Rate of Industrial Development:**

Political, social, cultural and economic conditions are obstacle in economic development. Development of large scale, small scale and cottage compared to many countries is slow. Under developed industrial sector cannot absorb surplus labour force.

**(6) General Education:**

Most of the students opt for general education. They are not interested in vocational training. They have degrees but no work training. Employment opportunities for general education are limited while, the candidates seeking employment are large.

**(7) Capital Intensive Industries:**

Most of the large and medium sized industries are capital intensive i.e. they need huge funds, but fewer human hands. Labour intensive industries can create more job opportunities.

**(8) Attitude Towards Job:**

In our country, attitude of people towards jobs is biased, government jobs have more prestige than in private sector. Private jobs demand more labour and involve risk. So people prefer to become an office clerk than to work as a private electrician.

**[REMEDIES]**

The unemployment and underemployment problems can be solved by adopting following remedial measures:

**(1) Population Control:**

This is the most important method to reduce unemployment. When the growth of population will slow down, the number of job seekers will be lower to match the availability. Government of Pakistan has succeeded to control population growth rate. It was 3.1% in 1993 and now it is 1.95% in (2015-16).

**(2) Increase in Capital Formation:**

Capital formation means rapid economic development. In order to increase capital formation, savings should be encouraged. Higher capital formation means more investment and a higher level of employment.



**(3) Rapid Industrial Growth:** www.paksights.com

Another solution of the problem of unemployment lies, on rapid expansion of industry. It is industry which can provide not only jobs but also higher incomes to remove poverty from the country.

**(4) Small Scale Industries:**

Since small scale industries are more labour intensive. So in industrial policy, development of such industries should be encouraged and small scale businessmen should be financed.

**(5) Technical Training and Skill Formation:**

There should be more emphasis on imparting technical and training skills to the people. In the future development of our economy, only skilled persons have scope for employment.

**(6) Encouragement of Self-employment:**

Through various industries and financial schemes, self-employment should be encouraged in the form of small business, workshops, clinics etc.

**(7) Diversification of Agriculture:**

Instead of concentrating on formal crops, activities allied to agriculture should be expanded, e.g. fruit growing, dairy, poultry, fish and bee keeping, processing, preservation and packing of foods.

**(8) Change in Social Attitudes:**

Through education, people's attitude towards work and jobs needs to be changed. They should be taught not to hesitate work in factories. Manual labour should be given due respect so that young people willingly adopt it.

**(9) Government Policy:**

The government through various steps and policies, has always encouraged generation of employment opportunities. In this regard, there have been good programmes like 5-Point Programme of Junejo government, Peoples Programme of Benazir government, Taamir-e-Watan Programmes of Nawaz Sharif government and poverty elevation programmes of the present government. By concentrating on small projects, these programs create large number of jobs.

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**QUESTION NO. 8**

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**(i) NATURAL RESOURCES IN PAKISTAN**

See Paper 2014 Question No. 8(ii)

**(ii) ELECTRICITY CRISIS IN PAKISTAN**

See Paper 2015 Question No. 8(b)