

# **Framework for SME Sector Development in Pakistan**

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## **Executive Summary.**

Small and Medium Enterprises (SMEs) are indispensable to the progress of the nation; countries all over the world associate their national development to a strong, thriving SMEs sector. Furthermore, SMEs hold great potential in initiating domestic-led growth and reinforcing the strength of the economy in the period of cut-throat competition. SMEs contribute to the economy of Pakistan in a myriad ways: employment creation, human resource development, value addition to the economy and innovation in the sector. Despite the immense significance of a well-established SMEs sector, the government of Pakistan needs to reprioritize and focus more on the development of SMEs to fully tap the potential and lead to economic advancement. It needs a comprehensive action plan and sustained efforts to achieve a globally competitive sector that can revive the economy of the country.

This paper sheds light on a range of cross-cutting issues and gaps that have weakened the sector; the challenges range from an over-regulated business environment; complex human resource development environment, which includes dearth of skilled workforce and lack of updated technological framework; market constraints, covering limited exposure of SMEs to international market and inability to tap new market and resources; lack of entrepreneurial ventures, portraying the need for new ventures and incubators to assist in new businesses development; and complicated financial facilities, which is a key challenge to the SMEs sector.

Keeping in view these entrenched weaknesses, the paper has devised interventions in the form of a policy framework to address and curb the challenges emanating in the sector. The policy framework encapsulates the recommendations for the Legislative Environment, Sectors Development Approach, Institutional Framework, Sectors Development Approach, Access to Finance, which suggests steps in the form of Credit Guarantee Schemes and Equity Participation Fund. Moreover, it also suggests Women Entrepreneurship Development, that covers Start Your Own Business proposal and Women @ Business Proposal and Business Help Line; Youth Entrepreneurship Development, Technical and Vocational Skills Development, E-Enablement and Ease of Doing Business. Towards the end, the paper outlines the expected outcomes and impact that would be achieved through materializing the recommendations.

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## INTRODUCTION

In most countries, SMEs constitute more than 90% of all enterprises and significantly contribute towards economic growth. Nations all over the world give huge importance to this sector for the purpose of stimulating economic growth; according to Rohra and Panhwar (2009) most of the high-income nations acknowledge the importance of SME sector in supporting their economies. Due to their immense importance to the economy, countries all over the world have been enhancing their support to SMEs through developing and implementing an integrated SME Development Framework, which clearly lays down roles and responsibilities of institutions to support SME development in a holistic manner.

Developing economies around the world face a host of challenges in their pursuit for economic growth. While every developing economy may experience its own variant of problems, most economies face challenges of equitable income distribution, employment generation, widespread poverty and infrastructure & institutional deficit. In this context, the role of SME sector becomes more significant as it contributes towards greater output, equitable income distribution, employment and exports.

The importance of the SME sector can be gauged from its contribution to the world's leading and emerging economies. Countries such as Japan, China, Brazil, India, Malaysia and Sri Lanka among others have heavily relied on SME development for economic growth, through adoption of intensive policies and strategic private sector development. According to Bhutta, Rana and Asad (2007) "a host of international agencies/organizations such as WB, ADB, ILO and the UNDP have started support initiatives in the SME sector within the last ten years". SME sector is the backbone of Pakistan economy.

In order to sustain a healthy SME sector, it is imperative to support SME development in a well coordinated manner as a one of major catalyst of growth. The most critical among other long

term agendas, a well focused and coordinated SME Strategic Development Framework is need of the day for development of this sector. The Framework maybe developed on the basis of inputs from all stakeholders; relevant policy making institutions of the government, business promotion organizations, private sector representative bodies, not-for-profit sector and international development partners.

### **Significance of the Study:**

There has been a gap between the desired level of SME Development and actual development. With the renewed commitment of the Government of Pakistan to develop SME Sector it has become imperative to initiate new efforts with a right policy and institutional focus. This will make Pakistani SMEs competitive in international markets and fulfill the multiple agenda of employment creation, new enterprise development, export promotion and contribution to value addition.

The SME development framework will result in creation of innovative and sustainable SMEs besides developing enabling environment for existing SMEs. Cumulatively, the government can achieve its SME development goals in more systematic way.

### **OBJECTIVE**

1. Identify and address major demand-side SME concerns including; business environment (regulation, inspection, annual fiscal policy changes, and regional specific concerns), access to finance and other aspects for improving competitiveness.
2. Define the roles of different stakeholders in SME support, including federal ministries, provincial and local government departments, private sector SME and SME organizations, employer and worker organizations, academia, and non-governmental organizations; adopt least-intervention government approach.

3. Identification and recommendations of key areas for regulatory reform with short, medium and long term action plans.

4. Developing recommendations for provision and facilitation of business development services across sectors and development of entrepreneurial ecosystem along with programmes and projects.

5. Institutionalize SME support system to ensure regular communication between the national, provincial and local governments and target stakeholders through (i) permanent national policy committee, (ii) regular coordination among different levels of government and different ministries/departments, (iii) regular monitoring and independent evaluation (iv) Continuous absorption and integration of international experience to refine the support system.

**Data Set and Methodology:**

The existing literature on high performing countries in economic growth dependent on Small and Medium Enterprise development export products has been reviewed. The existing secondary data sources of Pakistani government organizations such as Small and Medium Development Authority (SMEDA) Small Industries Development Corporations/Boards have been used for analysis. Qualitative and Quantitative analytical techniques have been adopted. A number of employees, private businessman involved in SME business have be interviewed.

## **SME SECTOR PAKISTAN**

Small and Medium Enterprises (SMEs) are one of the largest and the most important sector of Pakistan's economy. SMEs play a key role in shaping national growth strategies, employment generation and social cohesion by improving standard of living of vulnerable segments of society. In most countries, SMEs constitute more than 90% of all enterprises and significantly contribute towards inclusive economic growth. To further fortify the efforts in strengthening SMEs sector, the government enacted the SMEs Policy 2007; the policy aimed at providing a long-term framework for the advancement of SMEs sector and a sound implementation mechanism which could provide an environment conducive to the economic growth of the whole country. The scope of the policy covered areas pertaining to ease of financial accessibility, spurred human development, technological up-gradation and a healthy business environment – all these facets of the policy are directly intertwined with a thriving SMEs sector which has unlimited potential to turn around the economy of Pakistan. SMEs contribute to development in multiple ways; creating employment for an expanding labor force, providing much needed flexibility and innovation in the economy, enhancing exports and contributing to increased value addition in GDP.

According to Farid (2016), “SMEs account for 99 per cent of over 3.2 million business enterprises in Pakistan and have 35 per cent share in value addition; Pakistan’s SMEs undoubtedly have the potential to contribute considerably more than their current share of about \$86 billion towards GDP”. Furthermore, according to Pakistan Today (2018), “SMEs contributed 30 per cent to GDP, 25 per cent to exports and 78 per cent to industrial employment that showed their important role in the economic development of the country”. Therefore, growth of SMEs is directly proportional to a progressive economy. Private enterprises in the industrial sector and employ nearly 78% of the non-agriculture labor force, 25% of exports of manufactured goods besides sharing 35% in manufacturing value added. In Pakistan, SMEs collectively contribute an estimated 40% to GDP and over 40% to exports.

The government realized that more awareness and concrete steps are required to fully utilize the potential of SMEs sector and lead it to a trajectory of growth; quite recently, State Bank of Pakistan (SBP) has urged all the banks to provide their input to devise an action plan for the policy of promotions of SMEs. This is the outcome of SBP's realization that strong institutions are a pre-requisite for an efficient SMEs sector which also encompasses a strong network of industries which could provide the necessary support to the SME's making it easy for them to achieve financial ease and competitiveness. A strong SMEs sector will also make the indigenization process smooth which would eliminate the need of expensive imports in the long run and boost the economy. Moreover, SBP has also set a goal of augmenting the financial inclusion of SMEs by 2020 to enable the sector witness considerable growth and development.

## **GAP ANALYSIS**

SME sector in Pakistan is constraint by many inter related variables. However, Pakistan has immense potential in this sector that can be tapped for socio-economic development. Therefore, this demands a serious government support and requires effective facilitation from public and private sector to facilitate the new definition of SMEs as it is predicted to be immensely productive and act as a catalyst for economic growth and development (Khan & Ali Qureshi, 2007). SMEs have been facing difficulties in gaining access to resources since a very long time and have received little support which could drive their engine of growth. Aside from bottlenecks such as little technical support, low human resource, lack of skills and limited knowledge of employers, the biggest predicament faced by the sector is financial constraints. SMEs find it difficult to access loans from the banks as they maintain weak financial records and don't have security required for collateral at banks. Ultimately, SMEs rely on personal finances and have small scale credit opportunities which further aggravate their weak financial position. Furthermore, SMEs also face hurdles in the form of high corruption, less tax concessions, limited regulatory support and high interest rates. Therefore, SME's require immediate attention and a comprehensive government action plan which could tackle all the facets of the SMEs challenges. Some of the core and cross cutting issues faced by this sector largely are outlined as below;

### **Business Environment:**

The fiscal, labor and enterprise regulations of the Federal and Provincial Governments in Pakistan do not provide for a focus on SMEs that is in line with their specific needs. Generally, fiscal regulations divide enterprises by income levels and labor related regulations, which realize only two forms of enterprises, small and large, thus, not providing laws and implementation mechanisms that are sensitive to SME needs.

### **Human Resource Development:**

The poor national performance on the Human Development Index of the UN has its consequences for SMEs in Pakistan. These include inadequate and generic education and insufficient, poorly focused and under-serving training infrastructure. SMEs mostly draw their human resource (including the owners) from either the higher education institutions or the

technical training infrastructure, both of which are not attuned to the SME needs nor are they equipped to address them. This situation limits the capacity and capability of SMEs to innovate, add value, upgrade technology and devise new marketing strategies.

Adding to these constraints are the limited options available to SMEs to invest in HRD, technology and exploration of new markets. As a result, the SME sector in Pakistan is usually engaged in low value added manufacturing using inefficient labor, outdated technology and operating in limited and traditional markets. The SME sector neither possesses the financial strength nor the collective wisdom to climb its way out of this 'low equilibrium' enterprise activity.

### **Access to Finance:**

In order to increase SMEs' access to financing, interventions in all three areas of SME financing are required, i.e., demand side (SMEs), supply side (Banks) and intermediaries and regulators. It is imperative to enhance SMEs' access to formal finance including equity financing, while addressing the question of 'lacking documentation' and collateral. Furthermore, SMEs also hesitate in accessing loan facility due to insufficient repayment ability; owing to this constraint, SMEs resort to borrowing from relatives or friends or drawing from their savings to finance their operations as the opportunity cost of equity financing from banks is much higher from SMEs as compared to the cost that personal borrowing entails.

### **Low Level Technology.**

The SME sector mainly operates on traditional and relatively low technology, which is less cost and time efficient. The quality of products are also relatively less competitive, which has lesser probability of completion in international market for improvement in exports or substitution of imports. Weak system of technology transfer prevails in SME Sector, with low Research and Development (R&D) expenditure.

### **Entrepreneurship Development:**

Entrepreneurship is usually undertaken by those belonging to the existing business families. As a result the economy witnesses a small number of new enterprises being created and that too

in traditional areas of business, overcrowding the supply/product base and their markets. On the other hand, there are no limitations in the entrepreneurial capabilities in the populace. If, this entrepreneurial potential can be unleashed, by providing a level playing field, information, awareness and support in establishing enterprises, Pakistan can witness fast paced growth in establishment of new enterprises, creating new employment opportunities, improving distribution of wealth and exploiting the opportunities offered by international markets. To ensure progression in the SMEs sector, business ventures, especially the ones initiated by the youth, are imperative and to achieve the purpose, maximum government support and a focused strategy is required.

### **Inefficient Management**

Management is a key dimension of a well performing firm and management styles dictate the success and profitability of corporations and firms all over the world. However, SMEs sector doesn't possess a strong managerial structure which serves as an obstacle to its smooth performance and success. The managers don't possess the necessary skills and expertise in running the affairs of the business and often lead the business towards failure. In Pakistan, the opportunities of skills training and vocational education are a handful which further aggravates the predicament faced by SMEs. The sector doesn't enjoy high influx of funds and the minimal finance they have is spent on core operations of the business which diminishes the chances of training and education for employees. MacRae (1991) found that the education, training and experience of senior managers are major differences between high growth and low growth SMEs firms. A number of study revealed that the economic performance of SMEs in Pakistan is badly affected by the insufficient managerial skills, especially small firms (Aftab and Rahim, 1986).

### **Lack of Automation of the System**

The existence of non-commensurating laws has created several complications for SMEs sector. It's not easy for the common man to understand those procedures and the cross-cutting aspect is complicated to be comprehended by the people due to which the performance in the sector has remained sub-standard. These laws create time-consuming processes combined with

excessive paperwork which creates further hurdles for the SMEs rendering them unable to produce optimum results.

**Market Constraints:**

A typical SME in Pakistan caters to the domestic private sector and their activities are mostly concentrated in some specific regions. SMEs have less access to information and communication channels; and they face difficulties complying with labor, environmental, social, and international standards therefore, operate in limited markets. Access to domestic and international market plays a key role in enhancing value chain breadth of SMEs.

## **SME DEVELOPMENT FRAMEWORK**

SME sector development, growth and competitiveness underpin need for a comprehensive framework to pave way for a complete Entrepreneurial Ecosystem in Pakistan. The SMEs Development Strategy Paper outlines strategic pillars to approach the daunting challenge of SME development in Pakistan in a structured manner. This paper identifies key priorities for reforms in SMEs sector conducive for the growth of SMEs. These key priority pillars are summarized below.

### **1. LEGISLATIVE ENVIRONMENT**

Despite the improvement of legislation and general operational environment for business activity in Pakistan, the SME sector still faces difficulties in a number of areas, which negatively influence their competitiveness. Currently, there is no Regulatory Impact Assessment system in the country. For creation of conducive and SME-oriented regulatory environment, at first stage the existing legislation requires assessment in terms of regulatory burden imposed on SMEs and estimation of the compliance costs of such regulations.

There is need for development of new policies and regulatory frameworks that directly promote SME sector growth and competitiveness. However, importantly the SMEs sector may uld be engaged to secure inputs on new legislation.

### **2. INSTITUTIONAL FRAMEWORK**

SME support institutions play a crucial role in SMEs growth and development. Despite the existence of SME support institutions in Pakistan, there is still a need for greater involvement in SMEs promotion. In this regard, close cooperation and consultation with the private sector will greatly contribute to establishing result-oriented support programmes.

Strong SME support institutions will support the enhancement of SME sector competitiveness in every aspect. In order to strengthen SME support institutions, a comprehensive institutional review may be conducted and the needs for further institutional strengthening should be identified and prioritized.

Small and Medium Enterprises Development Authority (SMEDA) is the only public sector premier SME development organization in Pakistan. SMEDA need to be strengthened enabling

it to better address SMEs needs, as currently due to limited human & financial resources it is constrained to do so. Outreach of SMEDA needs to be expanded to district level with appropriate resources so that SMEs at all levels can be supported.

### **3. SECTORS DEVELOPMENT APPROACH**

In 2005, Pakistan signed an agreement with USAID, Pakistan Initiative for Strategic Development (PISDAC) to develop strategy for a few priority sectors in Pakistan. SMEDA being the official counterpart on behalf of Government of Pakistan facilitated the process and the strategy level process was primarily led through private sector engagement in the form of Strategy working Group (SWOG). The sector development process resulted in creation of five sector development companies; Pakistan Stone Development Company (PASDEC), Furniture Development Company, Pakistan Gems and Jewelry Development Company (PGJDC), Pakistan Dairy Development Company (PDDC), Pakistan Hunting & Sporting Arms Development Company.

However this process was not adopted on continuous basis despite of the many achievements in shape of sector development companies. This strategy development process should be adopted on continued basis. Through private sector consultation, priority sectors along with detailed diagnostic studies may be undertaken. The priority sector may include; Minerals, Tourism, Logistics, ICT, Gems & Jewellery, Horticulture, Construction, Fisheries, Dairy & Livestock, Textile, Leather, Engineering, Energy.

### **4. ACCESS TO FINANCE**

The importance of providing SMEs with access to finance has been a recurring and unanimous concern of the Government and SME development platforms. Traditional sources of formal financing; commercial loans and leasing products have reached a ceiling in tapping the SME sector's financing potential. SMEs mostly rely on informal sources of lending along with internally generated trade credit for financing of their operations and fixed expenditures.

The main problem for SMEs in developing countries is not their small size but their isolation. And this results in lack of access to market, financial, information and institutional support. Best practices in facilitating financing to small and medium enterprises include government support

for establishment of guarantee schemes against commercial financing and introduction of equity support programs.

**a. Credit Guarantee Scheme**

Credit Guarantee Scheme for SMEs sector may be prioritized and synchronized with priority sectors through initial government seed money. This initiative will ensure, increase the number of SMEs accessing loans from financial institutions, create an environment for banks, based on the realization of potential and fair competition, to develop institutional capacities for SME financing, increase commercial activity, employment generation, productivity, and economic growth.

**b. Equity Participation Fund**

Equity participation fund identify, facilitate and finance high growth potential small and medium enterprises through easy availability of equity financing. Equity participation funds, as international best practices, function through government funding of seed capital followed by investments mobilized through the private sector. It is proposed that fund may be developed through seed money from the Government and attracting private investment as leverage 40:60 ratio. The fund may target the following categories of SMEs”

- Green – field projects: SMEs with sound and sustainable business idea looking for investment options may be funded for long term fixed asset financing support.
- Early stage – high growth: SMEs with approximately 2 years of successful operations, looking for working capital or fixed asset financing.
- Mature / Established Businesses: SMEs looking for long term, fixed asset financing for business innovation, business expansion, progression from small to medium / medium to large, etc.

**5. WOMEN ENTREPRENEURSHIP DEVELOPMENT**

Women businesses are crucial to the economic success of a country as they can generate substantial economic impact given the availability of right regulatory support. To address gender empowerment, each provincial setup consists of women development department

working to reduce gender equality gap. The current focus of these departments is limited to administrative / institutional reforms, political reforms, reforms in public sector recruitment process and reforms of key processes of policy formulation and budget preparation.

However, these women development plans do not shed any special emphasis on economic empowerment through enterprise development. Special attention needs to be given for creating sensitization with respect to economic and financial policy review and rationalizing regulatory procedures/ requirements and introducing incentives for encouraging gender integration in economic cycle.

Thus from economic standpoint, women entrepreneurs, whether new entrants or experienced, not only face social and mobility restrictions but also have to overcome discriminatory challenges culminated in the present setup. Thus for long term sustainable economic development and empowerment of existing and potential women entrepreneurs, some of the significant steps may include;

**a. Start Your Business Program (SYBP):**

Start Your Own Business is a very significant initiative and may be designed to cater to business development needs of young graduates inexperienced and informal women businesses. The key thematic components may include; business development services, grants, equity support funds and subsidized lending schemes through which the beneficiaries be facilitated to ensure proper business setups and their inclusion in formal economic cycle. Special incentives may be announced for value added export products.

**b. The Women @ Business Program (W@BP)**

Women entrepreneurs (WE), whether new entrants or experienced, have to counter various challenges for business start-up, survival, daily management or expansion on continual basis. Although there are a number of players claiming to have a substantial range of support available for women businesses, it is difficult for women entrepreneurs to access required information and identify best available options.

Women @ Business Program is recommended to counter the above highlighted issues by ensuring WEs inclusion in the financial system, provision of technical advisory services, product diversification for targeting export and access to markets required for their business expansion

and sustainability. This may include; business development services, grants, equity support funds and subsidized lending schemes through which the beneficiaries will be facilitated to ensure proper business expansion and their inclusion in formal financial system.

**c. Business Help Line**

Business Helpline may provide women business owners with a highly visible point of contact to access information and referral services to improve their business sustainability. This may be done through team of facilitators connecting WEs via e-mail or call to relevant experts, consultants having extensive experience in different business sectors, areas, for provision of tailored advice to the needs of women businesses. Webinars and other documents covering a diversity of knowledge including business start-up information, banking, finance, accounting, marketing, advertising, taxation, information technology, licensing, and certification etc. may be made available.

Additionally, it can serve as information depository for all activities and programs, being offered by all stakeholders (Government agencies, trade bodies, technical institutes, donors, financial institutions, women businesses, etc.). This initiative can also provide support in linking WEs with organizations providing advice and support to women businesses.

**6. YOUTH ENTREPRENEURSHIP DEVELOPMENT**

Total number of students enrolled in technical and vocational courses in Pakistan both in the public and private sector reaches over 0.3 million (National Vocational and Technical Training Commission). The number of unskilled workers is estimated to be even higher than the formally trained population. Thus, the ever increasing labor inflow is exerting enormous pressure on the Pakistani job market. Some of these young trained have the ability and potential to manage small businesses and given some financial assistance, can change the job market profile. The skilled youth can be supported in number of ways to start their own small scale enterprises such as;

**a. Industry Academia Linkages:**

Coordinated linkage between industry and academia is the critical bridge in solving business related production, technology and management problems. This initiative may include; identification of priority sectors for carrying out industry academia linkages projects for any

research that can be commercialized and has a significant economic impact, or for such business improvement projects that can be replicated across a number of firms and industries. Capacity of the Offices of Research, Innovation and Commercialization (ORICs) can be developed and provide financial support for research commercialization and business improvement projects.

**b. Business Angels and Mentors Network**

Business Angles & Mentors Network can play a vital role in supporting innovative business start ups by fresh university graduates. As for realizing high growth businesses, it is essential that expertise and experience of industry and academia experts, entrepreneurs, R & D and business support institutions are linked with university start ups and other individuals having a high growth entrepreneurial business ideas. This can address the gaps that exist between the ideas to launch, commercialization stage primarily through the proposed 'Business Angels and Mentors Network'. This may provide business mentoring, sector specific expertise and facilitate linkages with markets and entrepreneurial finance.

**c. Business and Technology Incubation Service**

Strengthening of existing business incubation Services BIS and technology incubation services (TIS) and potential for new such initiatives is essential for high growth entrepreneurial start ups. For strengthening of existing BISs & TISs, universities may be induced to partner with relevant platforms i.e. SMEDA, with regard to access to their on-going entrepreneurship support programs such as business plan competitions and Business Incubation Centers (BICs)/ Technology Incubation Centers (TICs). The findings may be focused towards availability of better services for sustainability of the existing start ups at commercial scale.

New business and technology incubation services can also be assessed and developed at the universities and academic institutions where innovative and sustainable start ups can be initiated with limited support.

**7. E- ENABLEMENT**

Developments in the fields of Information Communications Technology (ICT) are indeed revolutionary in nature; Information and knowledge are expanding in quantity and accessibility. In fields such as agriculture, industry, health, education, transport, telecommunication, environment, human resources management and business development, the consequences can

be revolutionary. ICT contributes directly to spread fruits of sustainable development and reduce traditional geographical barriers, providing an opportunity for all to access local and global markets in a more equitable manner.

For E-enablement of SMEs web based platforms may be developed that that provides online business opportunities and value added services to SMEs by building partnerships. This platform may act as a hub of business information interchange through functional B2B trade Portal, Business information Portal and a variety of value added products and services.

## **8. TECHNICAL & VOCATIONAL SKILLS DEVELOPMENT**

Development of competitive human capital is very important for growth and competitiveness of SMEs. This further require development of Technical Education & Vocational Training (TVET) system ensuring formation of high qualified and competitive workforce meeting labor market needs. Despite the ongoing reform in TVET sector, there is still job mismatch on the labor market - mismatch between the skills available and those required by the industry.

Scarcity of high-qualified labor is a barrier especially to SMEs growth and development while SMEs' resources devoted to human capital development are limited. Therefore, a target oriented approach is very important to facilitate employment of highly qualified people in SMEs. Identification of labor market needs for SMEs is essential for the elaboration of relevant programmes for skills development.

### **a. Implementation of the National TVET Policy**

The Government of Pakistan has approved the first-ever national policy for the technical and vocational education and training (TVET) in 2018 by the federal cabinet. The national TVET policy speaks about the opportunities and the environment where youth can contribute to the economy of the country. The policy involves mechanism to formulate national standards for the development of qualifications, its implementation and training delivery based on Competency-Based-Training (CBT) system.

However there is need for implementation of this policy in true sense uniformly at the federal and provincial level. Some of the key aspects that need greater attention during implementation are;

- Continued accelerated reform of the public sector for the implementation of the policy initiatives.
- Promote cooperation between public and private sector and involvement of private sector in implementation.
- Strengthening quality assurance and monitoring mechanisms at federal and provincial level.
- Accreditation of TVET institutes.
- Strengthening of National Skills Information System for better employment opportunities.

b. Public Governance and Management in TVET sector

Effective public governance and management continue to be key issues in the technical education and vocational training sector in Pakistan. Outdated and weak curriculum, lack of market oriented training, practical exposure and absence of proper monitoring & evaluation mechanism is mainly due to weak governance and management of the public sector TVET sector. There is dire need for development of updated, market oriented and demand driven curriculum, introduction of new training disciplines and a robust monitoring & evaluation system. This can be achieved through improved governance and management structure based on international best practices.

c. Private Sector Engagement in TVET

An active role of the private sector in planning, designing and delivery of technical and vocational education and training is a pre requisite for producing skilled workforce according to the demands of the market. Better TVET system is subject to the private sector engagement for access to quality skills training through various modes including on-the-job training.

There is a greater realization of the fact that a close collaboration and sharing of responsibilities between public and private sector is essential to build a demand-driven TVET system in Pakistan. Some of the key points in ensuring private sector engagement in TVET are;

- Increased participation of private sector in TVET decision-making bodies.
- Establishing federal and provincial forums with representation from public and private sectors establishing Sector Skills Councils.

- Facilitation of joint ventures between TVET providers and industry.
  - Establishment of employer-led Institute Management Committees.
- d. Establishment of Life Long Entrepreneurial Learning

For continuous development and growth of SME sector, the entrepreneurship should be introduced at the early school level. There are multiple such success models across the world. Lifelong entrepreneurial learning may be made through provision of entrepreneurship education at all levels of the education system. This involves gap assessments and needs analyses in relation to the education system. International experience and best practices in this field may be analyzed for introduction of appropriate model backed by appropriate regulatory framework.

## **9. EASE OF DOING BUSINESS**

The Ease of doing business index ranks countries against each other based on how the regulatory environment is conducive to business operation stronger protections of property rights. Pakistan is ranked 136 among 190 economies in the ease of doing business, according to the latest World Bank annual ratings. The rank of Pakistan improved to 136 in 2018 from 147 in 2017. Ease of Doing Business in Pakistan averaged 118 from 2008 until 2018, reaching an all time high of 148 in 2015 and a record low of 85 in 2009.

Though Pakistan has made some positive changes and ranking on Ease of Doing Business has increased. This include, introduced digital signature for company incorporation with a less costly personal identification number, improved the transparency of the land registration process by making the fee schedule and list of documents to submit for property registration available online and increased minority investor protections by making it easier to sue directors in case of prejudicial transactions with interested parties. Besides these Pakistan made importing and exporting easier by developing a new container terminal and enhancing its customs platform for electronic document submission. However these reforms apply to only Karachi and Lahore.

However there is greater need for polices that call for investing in human capital and creating jobs, attracting investments through ease of doing business, and better regional connectivity. The government must align policies to bring its ranking in ease of doing business under 100.

## 10. IMPLEMENTATION ARRANGEMENT

S #	Thematic Area	Tasks	Responsibility	Yr-1	Yr-2	Yr-3	Yr-4	Yr-5
1	<b>Legislative Environment</b>	<ul style="list-style-type: none"> <li>Assessment of existing regulations in terms of regulatory burden imposed on SMEs and estimation of the compliance costs of such regulations.</li> <li>Formulation of new investment friendly policies in consultation with private sector.</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of Industries &amp; Production.</li> <li>Ministry of planning &amp; development.</li> </ul>	..... ..... .....	..... ..... .....			
2	<b>Institutional Strengthening</b>	<ul style="list-style-type: none"> <li>Comprehensive institutional review for further institutional strengthening should be conducted for identification &amp; prioritization of SME support institutions.</li> <li>Strengthening of SMEDA in terms of technical and financial resources &amp; expanding SMEDA access at district level.</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of Industries &amp; Production.</li> </ul>	..... .....				
3	<b>Sector Development Strategy</b>	<ul style="list-style-type: none"> <li>Sector development process should be adopted on continued basis.</li> <li>Through private sector consultation, priority sectors along with detailed diagnostic studies should be undertaken. The priority sector may include; Minerals, Tourism, Logistics, ICT, Gems &amp; Jewellery, Horticulture, Construction, Fisheries, Dairy &amp; Livestock, Textile, Leather, Engineering, Energy.</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of Industries &amp; Production.</li> <li>Ministry of planning &amp; development.</li> <li>SMEDA</li> </ul>	***** ***** **	***** ***** **	***** ***** **	✓ ✓	✓ ✓
4	<b>Access to Finance</b>	<ul style="list-style-type: none"> <li>Credit Guarantee Scheme for SMEs sector must be prioritized and synchronized with priority sectors through initial government seed money.</li> <li>Equity participation fund should be initiated to identify, facilitate and finance high growth potential small and medium enterprises.</li> <li>Developed special sector/industry wise financial products for SMEs.</li> <li>Government should reduce mark-up on the existing SME financing and government may take the burden of excess mark up out of this facility. Introduce low mark-up financial products for SMEs.</li> </ul>	<ul style="list-style-type: none"> <li>State Bank</li> <li>Commercial Banks</li> <li>SMEDA</li> <li>Chambers/Associations</li> </ul>	✓ ✓ ✓	✓ ✓ ✓	✓ ✓ ✓	✓ ✓ ✓	✓ ✓ ✓
5	<b>Women Economic Empowerment</b>	<ul style="list-style-type: none"> <li>Initiate Start Your Own Business Program to cater to business development needs of young graduates and informal/inexperienced women businesses.</li> <li>Women @ Business Program should be initiated to ensure proper business expansion and their inclusion in formal financial system.</li> <li>Business Help Line should be launched for WEs that serves as information depository for all activities and programs, being offered by all stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of Industries &amp; Production</li> <li>National Commission on Status of Women</li> <li>Provincial WDPs<sup>1</sup></li> <li>SMEDA</li> </ul>	..... .....	..... .....	✓ ✓ ✓	✓ ✓ ✓	✓ ✓ ✓
6	<b>Youth Entrepreneurship Development</b>	<ul style="list-style-type: none"> <li>Development of industry and academia linkages for internship and apprenticeship programs.</li> <li>Business Angels and Mentors Network programs should be developed to provide</li> </ul>	<ul style="list-style-type: none"> <li>HEC</li> <li>Ministry of Youth Affairs</li> <li>SMEDA</li> </ul>	***** ***** ***** *****	***** ***** ***** *****	✓ ✓ ✓	✓ ✓ ✓	✓ ✓ ✓

		<p>business mentoring, sector specific expertise and facilitate linkages with markets and entrepreneurial finance.</p> <ul style="list-style-type: none"> <li>▪ New business/technology incubation services should developed at the academic institutions where innovative and sustainable start ups can be initiated with limited support.</li> </ul>						
7	<b>E-Enablement of SMEs</b>	<ul style="list-style-type: none"> <li>▪ Web based platforms may be developed that that provides online business opportunities and value added services to SMEs by building partnerships.</li> <li>▪ Information interchange programs should be developed that act as a hub of business information interchange through functional B2B trade Portal, Business information Portal and a variety of value added products and services.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ministry of Science and Technology.</li> <li>▪ Ministry of Planning &amp; Development</li> <li>▪ Provincial IT Boards</li> </ul>	..... ..... ..... ....	****	****	****	✓ ✓ ✓
8	<b>TVET Sector Development</b>	<ul style="list-style-type: none"> <li>▪ Implementation of the National TVET Policy</li> <li>▪ Updated, market oriented and demand driven curriculum, introduction of new training disciplines and a robust monitoring &amp; evaluation system should be developed for public sector TVET.</li> <li>▪ Public Governance and Management in TVET sector should be aligned based on international best practices.</li> <li>▪ Private Sector Engagement in TVET</li> <li>▪ Establishment of Life Long Entrepreneurial Learning.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Provincial TEVTs</li> <li>▪ Ministry of Overseas Pakistanis and Human Resource Development</li> <li>▪ SMEDA</li> </ul>	...	****	****	✓ ✓ ✓	✓ ✓ ✓
9	<b>Ease of Doing Business</b>	<ul style="list-style-type: none"> <li>▪ Development of conducive regulatory framework for SMEs with focus on lower taxes, incentives for women entrepreneurs, one window facilities at federal and provincial level for facilitation of investors and etc.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ministry of Planning &amp; Development.</li> <li>▪ FBR</li> </ul>	****	****	****	✓ ✓ ✓	✓ ✓ ✓

... (Short Term) \*\*\*\* (Medium Term) ✓ (Long Term)

<sup>1</sup> Women Development Departments

## 11. IMPACT & OUTCOMES

Development & implementation of a comprehensive SME Strategic Framework based on priorities set out in this paper will result in:

1. Economic Growth of Pakistan through creating synergy amongst stakeholders for structured/focused growth of SMEs.
2. SMEs are given due priority in government policies.
3. SME support systems are better focused, complementary and aligned within the overall development framework of the Government of Pakistan.
4. Institutional coordination is established and roles and responsibilities are defined.
5. SME growth related concerns are addressed.
6. SMEs become more competitive in the domestic and international market.

## 12. References

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## **Annexure**

### **Small and medium Enterprises clusters of KPK:**

1. Textile Weaving Cluster - Matta Mughal Khel, Charsadda
2. Textile Weaving Cluster - Islampur Swat
3. Footwear Cluster – Charsadda & Peshawar
4. Honey Cluster - Tarnab, Peshawar
5. Agriculture Tools and Implements Cluster - Takhtbhai, Mardan
6. Spices Cluster - Bannu
7. Furniture Cluster - Tehkal, Peshawar
8. Sporting and Hunting Arms Cluster Darra Adam Khel
9. Sporting and Hunting Arms Cluster Kohat road, Peshawar
10. Dhaki Dates Cluster, D I Khan
11. Marble & Granite Cluster – Warsak Road Peshawar.
12. Pharma Cluster – Industrial Estate Hayatabad. Peshawar
13. Honey Cluster – Karak.
14. Sohan Halwa Cluster – D.I. Khan
15. Embroidery Cluster – D.I. Khan.
16. Embroidery Cluster – Haripur

### **SME Clusters of Punjab:**

1. Agricultural Implements - Sargodha
2. Auto Body Parts - M.B.Din
3. Auto Parts - Lahore
4. Bed Wear - Multan
5. Ceramics - Gujranwala
6. Coal Mines - Chao Sadan Shah Chakwal
7. Cotton Ginning - Rahim Yar Khan
8. Cotton Seed Processing - Rahim Yar Khan
9. Crankshaft - Sargodha
10. Electrical Fittings - Sargodha
11. Fan Cluster - Gujranwala
12. Foundry - Lahore
13. Foundry Cluster - Gujrat
14. Gas Appliances - Gujranwala
15. Home Appliances - Gujranwala
16. Light Engineering - Faisalabad
17. Light Engineering - Gujranwala
18. Meat Processing - Lahore
19. Pottery - Taxila
20. Power Looms - Faisalabad
21. Power Looms - Hafizabad
22. Power Looms - Jalapur Jattan
23. Rice Husking - Mandi Bahauddin

24. Sanitary Fittings - Gujranwala
25. Sports Goods - Sialkot
26. Wooden Furniture - Gujrat
27. Wooden Furniture - Rawalpindi

**SME Clusters of Sindh :**

1. Dates Cluster - Khairpure
2. Mangoes Cluster - Hyderabad, Tando Allahyar & Mirpurkhas
3. Red Chillies - Kunri
4. Guava Cluster - Larkana
5. Tomatoes Cluster - Thatta & Badin
6. Coal Cluster - Lakhra
7. Marble Processing Cluster - Karachi
8. Chromite Processing - Karachi
9. Granite Cluster - Tharparkar
10. Fisheries Processing - Karachi
11. Auto Parts Cluster - Karachi
12. Plastic Processing - Karachi
13. Dairy Cluster - Sukkur
14. Glass Products - Hyderabad
15. Pulses Processing - Hyderabad
16. Rice Processing - Karachi
17. Horticulture - Karachi
18. Rice Milling - Larkana & Surrounding Districts
19. Printing & Graphic Arts - Karachi
20. Light Engineering Cluster - Hyderabad
21. Lake /Sea salt - Tharparkar
22. Silk fabric Cluster - Karachi
23. Spices Processing Cluster
24. Meat Processing - Karachi
25. Beverages & Frozen food - Karachi
26. Pickles Processing - Shikarpure
27. Logistics & Freight Forwarding - Karachi
28. Calf Fattening - Tharparkar
29. Garments & Textiles - Karachi
30. Leather Tannery, Garments & Goods - Karachi
31. Pharma - Karachi
32. Jewelry – Karachi

**Small and medium Enterprises clusters of BALOCHISTAN:**

**Minerals cluster**

1. Marble & Granite/ Onyx – Khuzdar, Chagh, Mastung & Loralai.
2. Chromite - Khuzdar, Khanozai & Muslim Bagh
3. Coal - Much, Quetta, Kuhlo & Soranj

### **Agriculture Cluster**

1. Condiments - Khuzdar, Kharan, Awaran, Lasbela & Harnai, etc.
2. Fruits (Apple, Dates, Grapes, Apricot, Plum & Peach etc) - Mastung, Pishin & QillaSaifullah.
3. Floriculture – Quetta & Mastung
4. Medicinal Herbs - Khuzdar, Kharan & Harnai, etc.
5. Mushroom - Quetta, Mastung & Pishin
6. Cotton Ginning - khuzdar, Naseerabad & Sibi
7. Rice Husking Naseerabad & Jaffarabad

### **Dairy & Livestock Cluster**

1. Sheep & Goat - Khuzdar, Kharan & Sibi
2. Dairy - Khuzdar, Kharan & Harnai, etc
3. Poultry, Quetta, Panjgor, Mastung, & Noshki
4. Wool - Khuzdar, Kharan & JhalMagsi.
5. Skin & Hide - Kachchi, Qila Saifullah & Harnai,

### **Fisheries Cluster**

1. Fish Processing – Lasbela & Gwadar
2. Boat Manufacturing - Lasbela & Gwadar
3. Tourism - Lasbela, Gwadar, Kachchi,, Washuk & Zairat