Enhancing the Economic Efficiency of Small and Medium Enterprises in Pakistan

2023

Competition Commission of Pakistan
Creating a level playing field

Contents

LIST OF TABLES

LIST OF FIGURES

ACRONYMS

ADB	Asian Development Bank
BDS	Business Development Services
BOI	Board of Investment
CAR	Capital Adequacy Ratio
CCP	Competition Commission of Pakistan
CD	Custom Duty
CGS	Credit Guarantee Scheme
DFI	Development Financial Institution
DTRE	Duty & Tax Remission for Exporters
e-CIB	Electronic Credit Information Bureau
ECs	Exchange Companies
EPB	Export Promotion Bureau
FATA	Federally Administered Tribal Area
FBR	Federal Board of Revenue
FEI	Female Entrepreneurship Index
FLFP	Female Labour Force Participation
GDP	Gross Domestic Product
GEM	Growth Enterprise Market
GoP	Government of Pakistan
HEC	Higher Education Commission

HS	Harmonized System
IBK	Industrial Bank of Korea
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
KPIs	Key Performance Indicators
LNG	Liquefied Natural Gas
MCR	Minimum Capital Requirement
MDGs	Millennium Development Goals
MEs	Micro Enterprises
MSMEs	Micro, Small & Medium Enterprises
MSS	Ministry of SMEs and Startups
NAVTTC	National Vocational & Technical Training Commission
NBFCs	Non-Bank Finance Companies
NBFI	Non-Bank Finance Institutions
NCC	National Coordination Committee
NESDC	National Entrepreneur SME Development Council
NFIS	National Financial Inclusion Strategy
NFLP	National Financial literacy program
NFLP-Y	National Financial Literacy Program for Youth
NIBAF	National Institute of Banking and Finance

NPLs	Non-Performing Loans
P2P	Peer-2-Peer Lending
PCGC	Pakistan Credit Guarantee Company
PCSW	Punjab Commission for Status of Women
PIBs	Pakistan Investment Bonds
PIMC	Pakistan Micro Finance Investment Company
POS	Point of Sale
PPP	Public Private Partnership
PRs	Prudential Regulations
PSX	Pakistan Stock Exchange
RBI	Reserve Bank of India
RD	Regulatory Duty
RLNG	Re-gasified Liquefied Natural Gas (RLNG)
SBP	State Bank of Pakistan
SDGs	Sustainable Development Goals
SE's	Small Enterprises
SECP	Securities & Exchange Commission of Pakistan
SEZs	Special Economic Zones
SMEDA	Small and Medium Enterprises Development Authority
SMEs	Small and Medium Enterprises
SNGPL	Sui Northern Gas Pipelines Limited
SROs	Statutory Regulatory Order

SSGC	Sui Southern Gas Company Limited
STR	Secured Transaction Registry
TDAP	Trade Development Authority of Pakistan
TFP	Total Factor Productivity
TVET	Technical and Vocational Education and Training
UK	United Kingdom
UNCTAD	United Nations Conference on Trade & Development
VCs	Venture Capitals
WB	World Bank
WIF	Women Inclusive Finance

ACKNOWLEDGEMENT

The basic aim of the Competition Policy is *to maintain and encourage the process of competition*[1] in order to promote the efficient allocation of resources. Small and Medium Enterprises (SMEs) constitute a key role in an economy. Creating a level playing field for SMEs and enhancing their economic efficiency is critical as they play a pivotal role not only in employment and income generation but also in realizing governments' long-term goal of achieving sustainable economic development. The Competition Commission of Pakistan (CCP) is cognizant of the fact that this long-term goal cannot be realized without *Enhancing the Economic Efficiency of SMEs.*

The endeavour of conducting comprehensive research on the SME sector could not have been possible without the support and guidance of the Chairperson. It was her vision and leadership that kept the research team motivated to explore deeper into the SME realm. The Research Department would also like to express its sincerest appreciation to the Advocacy Department, which played an instrumental role in conducting the Financial Institutions survey and the demand side survey, conducted across the country at various small chambers of commerce & industry and the SME associations.

The department recognizes the contribution of important stakeholders in the SME sector and duly acknowledges the support and guidance provided by the Small and Medium Enterprise Development Authority (SMEDA), State Bank of Pakistan (SBP), the Securities and Exchange Commission of Pakistan (SECP), the SME Bank, and all FIs that made a meaningful contribution through their participation in the financial inclusion survey conducted by the Commission. We would further like to acknowledge the unparalleled support, contributions, and constructive suggestions provided by various chambers of small traders and industries, chambers of commerce and industry, and trade associations all over Pakistan who constituted a critical role in collecting demand-side data. Lastly, we would also like to acknowledge the support and assistance from Dr. Faisal Bari, Dean School of Education, Lahore University of Management Sciences (LUMS).

[1] https://www.oecd.org/competition/the-goals-of-competition-policy.htm

EXECUTIVE SUMMARY

The Competition Commission of Pakistan (CCP) under the Competition Act, 2010 (the 'Act') is entrusted with the mandate to promote competition and ensure a level playing field for all businesses to promote economic efficiency and to protect consumers from anticompetitive practices. As small and medium enterprises (SMEs) constitute a key role in an economy, CCP conducted the present study in the SME sector of Pakistan. Creating a level playing field for SMEs and enhancing their economic efficiency is critical as they play a pivotal role in employment and income generation and achieving governments' long-term sustainable economic development goals. The present report on the SME sector is to study ways and means of enhancing the competitiveness of Pakistan's SMEs.

Globally, SMEs comprise almost 90% of businesses and employ more than half the global workforce. Formal/registered SMEs in developing markets contribute roughly 40% to the gross domestic product (GDP) and generate at least seven out of ten jobs. They are critical innovation actors in a country or region's competitive and creative capacity.

With over 5.2 million SMEs in Pakistan, the sector represents approximately 90% of businesses, contributing 40% to the country's GDP and 30% to the total exports. The sector also employs an estimated 80% of the non-agriculture labour force in Pakistan. Despite their significance, SMEs only receive 6-7% of private sector financing. A comparison with regional countries shows that the sector receives 25% financing in Bangladesh and 18% in India.

The present study highlights barriers to competition and provides recommendations vis-a-vis enhancing the economic efficiency of SMEs based on data collected from 50 financial institutions (FIs), 18 focused group discussions held with 21 trade & commerce bodies, and 362 SMEs in 11 cities, review of the policy framework and international best practices in the SME sector, and a seminar conducted by CCP on women entrepreneurs,

The SME policy space comprises broad policies and specific targeted policies impacting them. These cut across the levels of government, various ministries, government agencies, and the private sector. The review of the National SME Policy, 2021 by CCP finds it as a roadmap for SMEs' growth and expansion. The policy is based on two central pillars, reforming the policy and regulatory framework and addressing SME market constraints. However, a comparison of the SMEs definition with other regional countries shows that the National SME Policy, 2021 has not included micro-enterprises in the definition, leaving out a significant segment from the focus of the policy debate. Besides, startups are also defined under the policy, although they are distinct in their overall composition and need to be treated independently in line with international practices. A comparison of the startup definition under the Companies Act, SME Policy, and Income Tax Ordinance reveals that revenue, innovation, and age thresholds, defined under the three, are different and need to be rationalized. Also, a clear and transparent legal structure governing startups is emphasized for laying out the rights and obligations of all parties working under the 'Startup' umbrella.

The present study findings identify that access to finance is an unwavering barrier to SMEs' growth. Data suggests that medium enterprises (MEs) received more than 80% of the financing, and during 2018-2020, only 2 FIs achieved the indicated SME lending targets set by SBP. Under the SME Policy, the SME definition based on annual turnover criteria creates a void as Small Enterprise (SE) and micro enterprise annual turnover is not bifurcated, and the ME benchmark is too wide. The SME thresholds can thus act as a barrier to accessing finance. For enhanced access to finance, it is recommended that the SME definition be rationalized with respect to the annual turnovers.

In response to CCP's questionnaire, it was concluded that 93% of SMEs found it cumbersome to avail financing facilities from banks, and 80% had not availed bank financing. It is recommended that SBP may consider allocating separate SE and ME lending targets for FIs, set sector-specific targets, set separate financing facilities (for poor districts), and introduce standardized pricing of insurance and evaluation reports. In line with international practices, public sector commercial banks should be encouraged to take the lead in SME financing. To increase SE lending, the top-tier banks may be given mandatory credit targets. In addition, a framework also needs to be developed by the SBP for greater engagement of small chambers of commerce.

The study highlights that the funds available under various SBP credit guarantee schemes for micro and SEs need to be enhanced. Non-bank financial institutions, leasing companies, crowdfunding, and equity financing can play an important role in providing credit to startups and SMEs. Improvement in the regulatory environment for these alternate financing channels is required.

Regulatory uncertainty, complexity, and inconsistency, evident in a complex taxation regime coupled with regulatory and customs duties on key inputs, affect SMEs disproportionately. Regulatory frameworks, their delivery, and governance challenges have become more fragmented following the 18th Amendment and the devolution process. Instead of abiding by and adhering to one harmonized and transparent regulatory regime, businesses with country-wide operations need to comply with five distinct regulatory regimes that are administered with little coordination and often with overlapping jurisdictions. The study points out that there are at least 12 different categories of general regulatory layers that are applicable to all firms doing business in Pakistan. In the manufacturing sector, a total of 50 laws and numerous secondary regulations are enforced by over 40 national and subnational agencies and departments. It is proposed to simplify the system of licensing and registration and develop one-stop portals for issuing licenses, permits, and registration of SMEs. The data also shows that the regulatory duties in various sectors make imported raw materials expensive for downstream businesses, and therefore, a critical review of such import duties is paramount.

Various studies show that Pakistan's business environment faces a complex and non-conducive tax structure which adds a burden on businesses. Data reveals that SMEs find it challenging to comply with the existing tax system. The withholding tax deduction from the registered SMEs is a challenge due to the existence of a large informal/unregistered SME sector. It is recommended that the tax structure must be based on fairness, efficiency, convenience, and certainty.

To provide a level playing field, allocating land for SMEs in Special Economic Zones (SEZs) or creating specialized SEZs for SMEs is imperative. The interests of SMEs need to be safeguarded in existing SEZs and industrial parks. Small chambers are recommended to be engaged on the board of SEZs, and land is made available to SMEs at affordable rates.

A review of the micro, small, and medium enterprises (MSMEs) sector in international jurisdictions shows that countries have either legislation or master plans to achieve growth. Enacting an MSME Act is therefore proposed. Legislation may provide clarity in enforcing rights within a framework. Under the law, funds may be allocated for the development and promotion of the sector, such that there is an improved registration process of SMEs, statutory purchase preference, mapping out an inclusive share of SMEs for a specific period, credit support, and penalty for delayed payments enforced.

The study data shows that SMEs lack the requisite skills and training to conduct their businesses efficiently. To equip SMEs with the technical skills, the federal and the provincial technical and vocational institutes need to provide SMEs with demand-driven and latest skills to compete. It is recommended that the federal/provincial authorities invest greater funds in Technical and Vocational Education and Training institutions with the latest learning output, systems, and technology use and fast-track non-operational training institutes. In addition, higher education institutions and business incubation centres should also be focused on and utilized.

Women make up almost half of the population in Pakistan, while their labour force participation is only 24.6 %. The country has only 1% female entrepreneurs compared to 21% male entrepreneurs. SBP data reveals that women SMEs received only 3.2% of the total SME lending in 2022. Although SMEDA is part of the National Coordination Committee (NCC) to review SMEs' policy and the regulatory framework, the study recommends having women departments and women-led SMEs in the NCC to propose concrete policies and legislation measures for women's inclusion. For enhanced financial inclusion, the FIs should be required to maintain a certain percentage of financing for women entrepreneurs. Further, the maximum limit of SBP's refinance and credit guarantee scheme for women entrepreneurs may also be enhanced.

Pakistan lacks a key financial institution specializing in SME financing and a dedicated SME banking network. There is also a lack of trained banking staff to deal with SMEs. For the sector's growth, it is proposed to create dedicated SME desks across the banking network to educate, guide, and facilitate SMEs. Capacity building of the banking staff dealing with SMEs is also proposed.

Thus, to have an SME sector that is more efficient, productive, and resilient, the government's policy formulation needs to cautiously and continuously add the lessons learnt domestically and internationally to help SMEs adapt and cater to the vagaries of unpredictable economic conditions that will persist in this decade as issues of sustainability, trade slowdown, affordable energy, the need for innovation take centre-stage.

CHAPTER 1: INTRODUCTION

SMEs are identified as the driver of economic growth and development[2] , providing a platform for local, regional, and international progression.[3] The SME sector's growth plays an integral role in income generation, job creation, and poverty reduction. Globally, SMEs represent about 90% of businesses and generate 50% of employment. In developing countries, SMEs contribute up to 40% of the GDP through the formal (registered) sector alone. These businesses are innovative and adapt to the changing competitive dynamics in the market. They are key innovation actors and play a critical role in a country or region's competitive and innovative capacity. Thus SMEs are significant for enhancing competition, innovation, efficiency, and entrepreneurship.[4]

The International Finance Corporation (IFC) finds that the SME Sector creates 9 out of 10 jobs in developed countries and 7 out of 10 in emerging markets.[5] According to World Bank (WB) estimates, by the year 2030, 600 million jobs will be needed to ensure the market is able to absorb the rapidly expanding labour force globally, providing a strong impetus for prioritizing SME development for many governments.

As SMEs promote competition, efficiency, and a healthy business environment, these have gained importance over larger corporations. These businesses have the capacity to adapt quickly to economic shocks, are less capital intensive, have a low cost of management, and, therefore, lower production costs.[6] SMEs present many benefits for developed and developing countries alike; however, these also face obstacles in their growth and development. These obstacles/barriers exist on both the demand and the supply side.

SMEs face increased competition in the market due to changing market demand, innovation and technological change, capacity constraints, and creativity. These businesses are unable to realize their full potential due to a lack of financial resources, skilled labour, market access, asymmetric information, and small-scale operations. Owing to these barriers, SMEs are unable to generate economies of scale and scope, have high transaction costs, limited information about global markets, and are unable to compete with larger domestic and multinational enterprises.[7]

Financial access is critical for SMEs' growth and development. In their early stages of development, SMEs are less likely to obtain loans from financial institutions compared with large firms. This credit constraint results in SMEs relying on internal funding sources, including the owner's savings, retained earnings, funding through the sale of assets, or obtaining credit from friends and family. As firms expand, external funding sources become increasingly important, and their availability can determine their growth possibilities. Access to finance, however, remains a key constraint to SMEs' development, especially in emerging economies. According to IFC, 41% of the formal MSMEs in developing countries have unmet financial needs, equal to USD 5.2

---

[2] https://www.econstor.eu/bitstream/10419/192968/1/SMEs%20SECTOR.pdf
[3] ibid
[4] https://core.ac.uk/download/pdf/153446896.pdf
[5] ibid
[6] ibid
[7] https://www.adb.org/sites/default/files/publication/182532/adbi-wp564.pdf

trillion. If the demand of the informal (unregistered) SMEs is also included, the amount rises to USD 8 trillion.[8]

While developing countries stand to gain significantly from policy guidance that supports improved access to finance for SMEs, developing countries face a more severe set of challenges in providing enabling policy and legal frameworks for SME financing. Both supply and demand side factors contribute to the low observed use of financial services offered by the banking sector in the case of SMEs. Supply-side problems such as insufficient external funds to finance projects, information asymmetry, or weak creditor protection make it difficult for financial institutions to assess the creditworthiness of SMEs, monitor their work, and enforce repayment. These problems lead to limited lending by financial institutions. Meanwhile, on the demand side, SMEs' lack of creditworthiness continues to be a problem, and creditors are unwilling to lend to SMEs as they do not want to incur losses.

Regulatory divergence across countries creates difficulty for SMEs to participate in global markets and Global Value Chains. Compared to larger businesses, SMEs are typically less equipped to scan the regulatory environment and deal with relevant laws in the global market. Since they usually lack information or in-house expertise, SMEs often incur indirect costs, paying for external expertise or investing in the specific training of staff to comply with new obligations. Thus, the complexity of regulatory procedures and conditions for regulatory compliance are especially onerous for SMEs.

Despite these barriers SMEs face, most economies remain greatly reliant on them for income, employment generation, and poverty alleviation. Where these businesses receive an enabling policy, regulatory and business environment to start and grow, they become the main drivers of economic growth.

1.1 Situation Analysis / SME Sector Performance

With over 5.2 million SMEs in Pakistan, the sector represents almost 90 percent of businesses, contributing approximately 40 percent to the GDP and 30 percent to the total exports[9]. The SME market also provides employment opportunities to an estimated 80% of the non-agriculture labour force in the country.[10]

According to the National SME Policy, 2021, SMEs are defined using annual turnover as a key variable. Under the SME Policy 2021, the definition to be adopted across Pakistan is according to the details provided in **Table 1**. The State Bank of Pakistan (SBP) defines SMEs in the SME Prudential Regulations, 2017 (updated in 2021). It is a commonly adopted definition of SMEs across Pakistan, presented in **Table 2**.

.

[8] Regulatory framework for NBFCs in Pakistan, Karandaaz Pakistan
[9] National SME Policy, 2021 & SMEDA
[10] Innovative Financial solutions for SME Finance, Karandaaz Pakistan

Table 1: SME's Definition as per the SME Policy 2021

Enterprise Category	Criteria (Annual Sales Turnover)
Small Enterprise (SE)	Up to PKR 150 million
Medium Enterprise (ME)	Above PKR 150 million to PKR 800 million
Startup	A small enterprise or medium enterprise up to 5 years old will be considered as Startup SE or Startup ME.

Source: SME Policy 2021

Table 2: SME's definition as per the State Bank of Pakistan SME Prudential Regulations, 2017 (updated 2021)

Enterprise	*Number of Employees	Annual Turnover
Small Enterprise (SE)	Up to 50	Up to PKR 150 million
****Medium Enterprise (ME)**	51-250 (manufacturing & services) 51-100 (trading)	Above PKR 150 million and up to PKR 800 million (for all types)
Note: *An enterprise must meet both the conditions of the number of employees and the annual turnover for categorization as a SE or a ME. However, if an SE meets one criterion and falls in the range of ME in the second criterion, it will be classified as a ME. Further, if a ME meets one criterion of ME and falls in the range above the ME in the second criterion, it will be classified as a commercial/corporate entity.*		
Including contract employees, **a business entity, preferably not a public limited company.		

Source: SBP Prudential Regulations

In Pakistan, the demand for SME financing is estimated in the range of Rs.3-4 trillion. Out of this total demand, only 15-20 percent is met by formal funding, whereas the remaining is met through informal channels, including family and friends, and the remaining demand remains unmet.[11]

Pakistan's SME sector represents an untapped potential market, requiring government support and access to finance and credit. The sector is also a potential market for financial service providers, such as commercial banks, Development Financial Institutions (DFIs)[12] , and Non-Bank Finance

[11] ibid

[12] Include Saudi Pak Industrial and Agricultural Investment Company Limited, the Pak Kuwait Investment Company Limited, Pak Oman Investment Company (Pvt.) Limited, Pak-Brunei Investment Company Limited, and any other financial institution notified under Section 3-A of the banking Companies Ordinance, 1962.

Companies (NBFCs).[13] The SBP and the Government of Pakistan (GoP) devised a National Financial Inclusion Strategy (NFIS) in 2015, in which the SME sector was identified as a priority area. Under the strategy, the targets set for 2020 were (a) to increase SME share from 8 percent of private sector credit to 17 percent and (b) to increase the number of borrowers from 174,000 to 500,000.[14]

As per SME Prudential Regulations, 2017, a *small enterprise can avail exposure[15] up to Rs. 25 million from a single bank/DFI or from all banks and DFIs. Whereas the medium enterprises can avail financing up to Rs. 200 million from a single bank/DFI or from all banks and DFIs*.[16]

Table 3: SME Financing Profile of Banks & DFIs (PKR In Billion)

Category	Sep-21	Jun-22	Sep-22
No. of SME Borrowers	163,629	168,750	160,736
Domestic Private Sector Financing	7,247.56	8,438.21	8,527.74
SME Fin as %age of Domestic Pvt Sector Financing	6.04%	5.75%	5.40%
Outstanding SME Financing	437.71	484.81	460.21
SME NPLs Ratio	19.10%	16.52%	17.53%

Source: SME Financing Data, 30 September 2022, SBP.

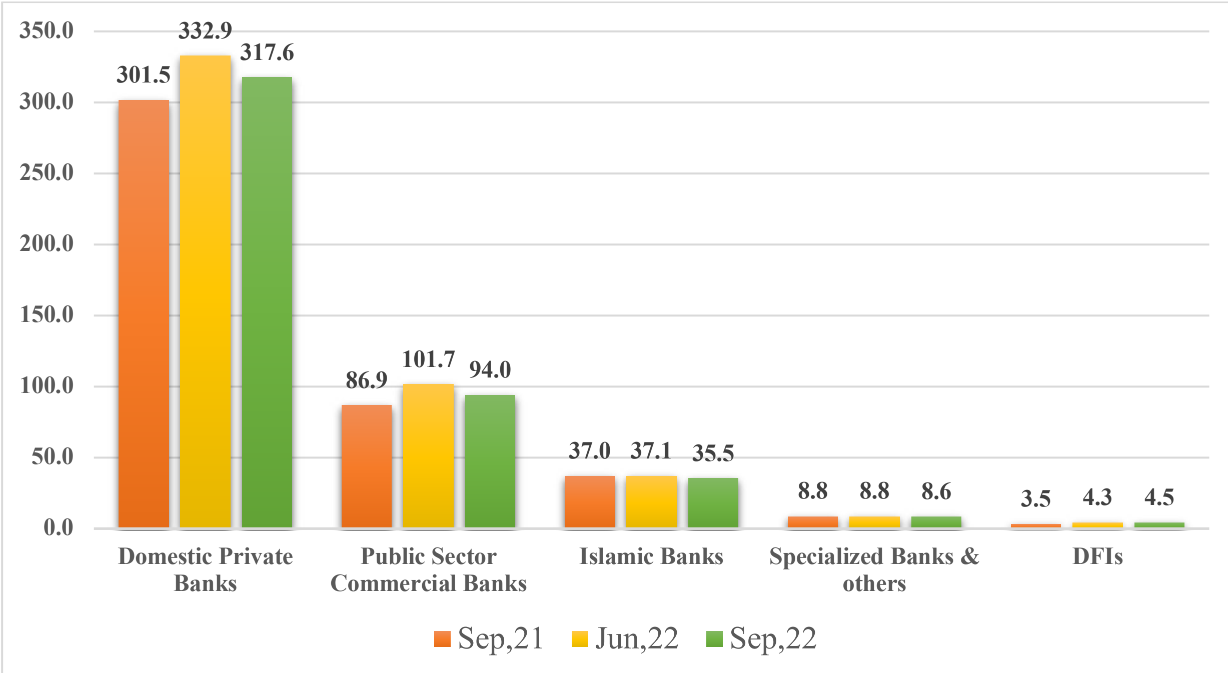
Table 3 shows the SME financing performance of banks and DFIs from September 2021 to September 2022. Despite the initiatives taken by SBP to enhance SMEs' access to finance, sector performance from September 2021 to September 2022 remained weak. Although SME financing and private sector financing have increased, SME financing as a percentage of private sector financing declined from 6.04 percent in September 2021 to 5.75 percent in June 2022 and further reduced to 5.4 percent in Sep-22. The total number of SME borrowers also decreased from 163,629 to 160,736. However, the Non-Performing Loans (NPLS) ratio decreased, reflecting improvement over the same period.

According to a report by Karandaaz Pakistan, the total SME lending in Pakistan as a proportion of private sector lending was 15 percent in 2008, which fell to 7.5 percent in 2019. In comparison, it was 39 percent in Turkey, 25 percent in Bangladesh, and 18 percent in India and Sri Lanka during the same period.[17] When compared with the SBP targets as discussed earlier, the SME sector has not achieved the desired performance even in the year 2022, (a) the number of borrowers has not increased to the desired level of 500,000, and (b) the SME financing as a share of private sector financing is not close to the expected 17 percent.

---

[13] NBFCs include a leasing company, housing finance company, investment bank, discount house, an asset management company and a venture capital company.
[14] Policy for promotion of SME finance, 2017, as on December 31, 2016 figure
[15] Financing facility extended
[16] SBP, SME Prudential Regulations, 2017
[17] Innovative Financial solutions for SME Finance, Karandaaz Pakistan

Figure 1: Share of Banks in SME Financing (PKR In Billions)



Source: Based on SBP SME Financing Data, 30 September'2022

Figure 1 presents banks' share in SME financing from September 2021 to September 2022. The data shows domestic private banks have the highest share in SME financing, followed by public-sector commercial banks, including Islamic banks. The above graph shows higher SME financing by domestic private and public sector commercial banks in September 2022 compared to September 2021.

1.1.1 Startup Landscape

Startups are identified as emerging businesses with a technology component in their production process or service delivery. They exist in all sectors of the economy and are classified worldwide as technology-driven and conferred various benefits through policies and the legal framework. Startups require a nurturing ecosystem in the form of startup accelerators[18] and incubators.[19] Globally, the key features of a startup definition include age threshold, revenue threshold, innovation & disruption, scalable business, employment generation, and a technology component.

[18] Also known as seed accelerator, a business program that supports early stage, growth driven business with mentorship, education, and finance.

[19] A startup incubator is a company that helps early stage startup firms to develop their business, product or service. They offer trainings, workspace and other services. At times they are also the investors in the startup. The examples include academic institutions, for profit property development, not for profit development corporations, venture capital or a combination of these. https://www.starttech.vc/library/whats-a-startup-incubator/

Pakistan's startup landscape is still a novice, with the most progress in the last 5-8 years.[20] However, Pakistan has the 5th major population in the world with almost 230 million people, one of the largest in terms of middle-class and 4th largest English-speaking population. The country has a significant proportion of young individuals with a median age of 22 and approximately 100 million mobile broadband subscribers. These facts depict the country's importance as an excellent market for innovative businesses, technology-oriented products, and digital services.[21] Airlift, Bazaar, Retailo, Jugnu, CarFirst, Zameen.com, Daraz.pk, and Bykea are a few notable startups.[22]

In Pakistan, although there is no separate legislation on startups, however, startups are defined under the SME policy 2021, and the policy also gives a general road map for the startups' growth. Certain amendments have been made in the Income Tax Ordinance 2001 and the Companies Act 2017 specific to startups. The SME Policy 2021 defines a startup as a small enterprise or a medium enterprise with an age of up to 5 years old.

The Securities and Exchange Commission of Pakistan (SECP) defines a startup under the Companies (Amendment) Act 2021 as a company that is not more than ten years of age from the date of its incorporation, has an annual turnover of less than PKR 500 million since incorporation, is working towards the innovation, development or improvement of products or processes or services or is a scalable business model with a high potential of employment generation. Given that a company formed by splitting up or reconstruction of an existing company is not considered a startup.[23]

In 2017, the government, through the Finance Act 2017, made amendments to the Income Tax Ordinance, 2001. One of the amendments was related to the introduction of the concept of startups [Section 2(62A)]. A startup was defined as:

"*a business of a resident individual, Associations of Persons (AOP) or a company that commenced on or after first day of July, 2012 and the person is engaged in or intends to offer technology driven products or services to any sector of the economy provided that the person is registered with and duly certified by the Pakistan Software Export Board (PSEB) and has turnover of less than PKR 100 million in each of the last five tax years;*"

To provide incentives to startups, a tax exemption was granted on the profits earned by businesses (incorporated on or registered after July 1, 2012) in the year in which they are certified by PSEB and two subsequent years. An exemption from the levy of minimum tax was also granted to startups through the Finance Act 2017. For women startups, taxes payable by women enterprises on profit and gains from business chargeable to tax were proposed to be reduced by 25 percent.

The definition in the Income Tax Ordinance, 2001, only covered technology-related companies that were certified with PSEB. After extensive stakeholder consultations in 2019, SECP proposed several changes in the Companies Act 2017 that included the introduction of a definition of a startup.[24] SECP's new definition of a startup is broad compared to the one in the Income Tax

---

[20] https://karandaaz.com.pk/wp-content/uploads/2020/12/Legal-Framework-for-Startups-in-Pakistan.pdf
[21] https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/whats-fueling-pakistans-emerging-start-up-ecosystem
[22] ibid
[23] https://na.gov.pk/uploads/documents/1624009159_888.pdf
[24] https://karandaaz.com.pk/wp-content/uploads/2020/12/Legal-Framework-for-Startups-in-Pakistan.pdf

Ordinance, 2001. The ceiling for annual revenue has increased (from PKR 100 million to PKR 500 million), and a limit is placed upon the number of years of incorporation (up to 10).

1.1.2 SMEs in International Jurisdiction

SMEs, by number, dominate the world business stage. Although precise, up-to-date data are difficult to obtain; estimates suggest that more than 95% of enterprises worldwide are SMEs. Whereas the contribution made by SMEs does vary widely between countries and regions. For an in-depth analysis, a few jurisdictions are selected based on geographical location, population size, and their scale of economies. A cross-country comparison is drawn explaining the definition of SMEs, legal developments, and policy interventions to encourage the SME sector's growth. The selected jurisdictions- India, Bangladesh, Malaysia, and South Korea- are briefly discussed below. (For further details, see **Appendix I**)

India

The Indian SME sector is governed under the Micro Small & Medium Enterprise (MSME) Act, 2006. However, the definition was updated in 2020 to include higher investment and turnover figures as the defining feature for SMEs. Some **prominent features** of India's MSME sector are the MSME policy directive of a 40% bank credit earmarked for priority sector lending, specialized SME bank branches for easy access to credit in industrial clusters (2998 specialized MSME branches),[25] the Udyam registration portal replaced former filing process for registration of MSMEs. Under Public Procurement Policy for Micro and Small Enterprises (MSEs) Order 2018, every central ministry, department, and public sector enterprise has a 25% mandatory target set for procurement from MSEs. In addition, a penalty for delayed payments to the sector (a period of 45 days set to settle any credit of MSMEs) is also in place. Realizing the significance of **e-commerce**, the MSMEs are encouraged to market their goods and services on e-platforms, more specifically on the **Government e-Marketplace (GeM)**, owned and run by the government. Ministries and other public sector enterprises source their procurement through GeM.

Bangladesh

Moreover, the country has mandated specialized public banks, such as State-owned Bangladesh Small Industries and Commerce Bank Limited, to provide SMEs 50% of the credit. To facilitate and encourage SME exports, businesses exporting 80% or more of their products are eligible for duty-free import of machinery and spares.[26] The bank also introduced an Islamic finance fund with the objective of enhancing the role of Islamic banks. Due to the effective policies of the Bangladesh Bank, 25% of the consolidated loan book of commercial banks is dedicated to SMEs.[27]

---

[25] https://www.rbi.org.in/commonman/english/Scripts/FAQs.aspx?Id=966#:~:text=A.-,8.,sector%20dated%20July%2024%2C%202017

[26] https://www.researchgate.net/publication/333447970_SMEs_Development_in_Bangladesh_Problems_and_Prospects

[27] https://documents1.worldbank.org/curated/en/995331545025954781/Financing-Solutions-for-Micro-Small-and-Medium-Enterprises-in-Bangladesh.pdf

Malaysia

Malaysia's SME Sector is governed by the National Entrepreneur SME Development Council (NESDC), established in 2004. As the highest policy-making authority, NESDC drives the national SME development agenda across all sectors of the economy. The standard SME definition was endorsed by National SME Development Council (NSDC) in 2005 in three key sectors, manufacturing, services, and agriculture. The redefinition of SMEs resulted in a greater number of enterprises classified as SMEs in absolute terms. Further, the redefinition resulted in the classification of enterprises previously classified as large-scale to SMEs, thus increasing the number of enterprises eligible for government support.

The key achievements of the NESDC council include adopting a standard definition of SMEs, establishing an SME database, and monitoring and analysing SME sector performance to facilitate policy formulation. The council formulated the **SME Master Plan** (2012- 2020) to enhance the sector's performance. The country also enacted the Temporary Measures for Reducing the Impact of **Coronavirus Disease 2019 Act, 2020 (COVID Act)** to assist businesses and individuals in meeting contractual obligations.[28] **SME Master Plan (2012- 2020)**, carried out with 15 ministries and 60 agencies, aimed to help SMEs grow by emphasizing technology and innovation, and exports as the main drivers of growth. During 2006-2010, more than 500 government programs were run to boost the SMEs' growth and diversified financial landscape, supporting and strengthening the SME sector, such as venture capital, crowdfunding, angel investments, peer-to-peer, government funds, and microfinancing.[29]

The country also dedicates a significant budget to the SME sector. An amount of **RM 38.7 billion (PKR 1.433 trillion)[30]** was set aside for the SME sector in Budget 2021.

South Korea

In the case of South Korea, the **Ministry of SMEs and Startups (MSS)** is the highest authority that deals with policy development and implementation related to the SME sector. Under the Ministry's direction, SMEs are defined based on a single parameter, i.e., the 3-year average sales of a company's main business. MSS is the key organization to develop and implement government policies on the SME sector. The sector is governed by 21 different SME laws.

In 2020, the number of venture capital firms (registered with MSS) investing in SMEs and startups was 165.[31] Korean Securities Dealers Automated Quotations (KOSDAQ) and Korea New Exchange (KONEX), part of the public capital markets, are used by SMEs to raise capital. These public stock markets, venture capital firms, and government guarantees of SME loans have significantly contributed to the growth of Korea's SME sector.[32]

Under the Financial Services Commission, Korea Credit Guarantee Fund (KODIT) provides credit guarantees to all SMEs (including startups, innovative firms, and SMEs without collateral). The guarantee is 100% for startups, and for others, it is 70%. Further, KODIT funding is 45% by

---

[28] ibid
[29] https://www.proquest.com/docview/2164477670?fromopenview=true&pq-origsite=gscholar&accountid=135034
[30] Conversion rate PKR/MYR=37.036 as of 5/5/2021 https://themoneyconverter.com/MYR/PKR
[31] https://www.statista.com/statistics/880154/south-korea-venture-capital-firms-for-small-and-medium-sized-enterprises-and-start-ups/
[32] https://www.koreascience.or.kr/article/JAKO202034651879157.page

the central government, 50% by commercial banks, and 5% by other sources.[33] Although the Korean financial system is complex, it is behind the SME sector's growth.

Based on a thorough review of the SME sector policies and initiatives in the international landscape, this report is able to identify several gaps in the local SME sector policy and implementation plans. Compared with countries such as India, Bangladesh, Malaysia, and South Korea, it is evident that the growth of the SME sector is heavily dependent on SME-specific legislation in the shape of consistent legislation and increased public sector financing.

1.1.3 SME Sector Amid COVID-19

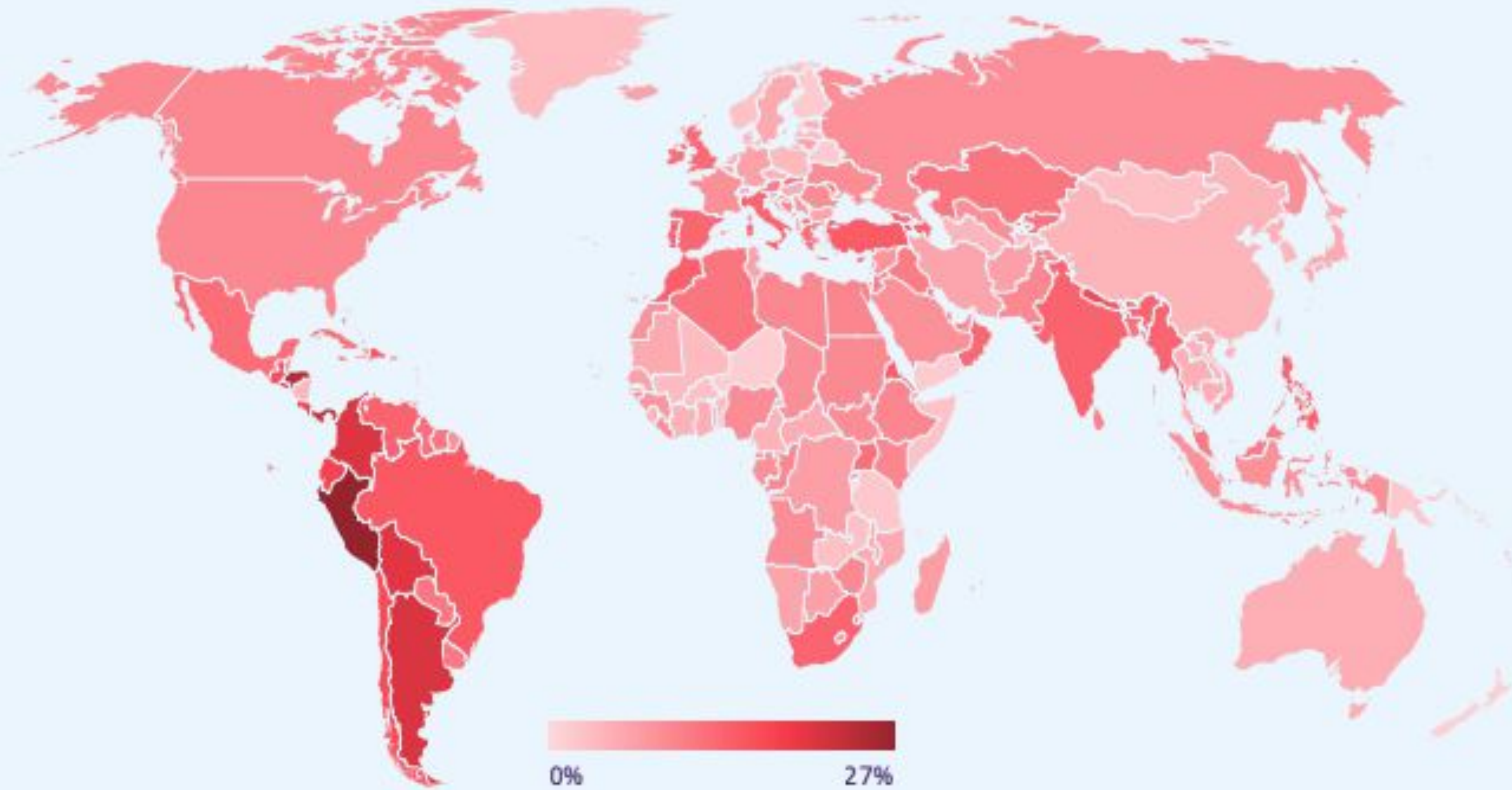
The Covid-19 pandemic has brought a global decline in economic activity, reducing consumption and forcing SMEs to lay off workers (the map below34 shows the number of working hours lost in 2020 relative to the last quarter of 2019). According to the International Labour Organization (ILO) report, Pakistan is among the countries that have witnessed relatively smaller working hours lost, indicating less stringent lockdown measures in the country. However, amid the pandemic, SMEs are in a struggling position, and many of these SMEs lack the financial resources to survive. A failure to protect them could therefore put the domestic economy at risk.

This section discusses policies adopted by Pakistan's government to provide some relief to the SME sector amid COVID-19. A similar in-depth analysis of other countries in the region is presented in **Appendix I**.

---

33 https://www.unescap.org/sites/default/files/Panel%202-2.%20KODIT_Mr.%20Jong-goo%20Lee.pdf
34 https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/briefingnote/wcms_767028.pdf

Figure 2: Working Hours Lost Around the World in 2020 Relative to 4th Quarter of 2019 (%)



Source: ILO nowcasting model (see Technical Annex 1).

To provide some relief and support to the SME sector in the face of the pandemic, the Government of Pakistan formulated a policy response to the evolving situation that provided various measures to help people and businesses weather the storm. Under this policy response, the government implemented a sizeable number of measures/programs to address the needs of SMEs. Nearly all measures introduced aim at improving liquidity through postponement of payments, value transfer to businesses (for example, payroll support and reduction in government fees), and balance-sheet support (for example, loan guarantee programs). A few major actions[35] taken by the government are listed below:

- PKR 1.25 trillion comprehensive relief/stimulus package with PKR 100 billion for financial support for the agriculture sector and SMEs and PKR 200 billion of cash assistance for the daily wagers.
- 'Ehsaas Emergency Cash Program' was launched with a total allocation of PKR 144 billion.
- Launch of domestic Sukuk bond for generating PKR 700 billion to finance the escalating budget deficit and meet the increasing financial requirements for combating COVID-19.
- Reduction in electric power tariff by 25 to 50 percent.
- A special incentive package for builders and developers Under Naya Housing Scheme.
- SBP moved to reduce the policy rate by a cumulative 525 basis points within two months (i.e., 17 March to 15 May 2020)[36].
- SBP's refinance scheme to prevent layoffs through the financing of wages and salaries of all types of workers and employees like the permanent, contractual, daily wagers, and outsourced workers. Funding under the scheme was available to those borrowers who undertook not to lay off their employees for at least the next three months[37].
- Federal Government introduced a credit risk-sharing facility to incentivize banks to extend loans to collateral-deficient SMEs and small corporates with sales turnover of up to PKR 2 billion under the SBP refinance scheme. For this purpose, PKR 30 billion was allocated for the risk sharing for banks spread over four years to share the burden of any future loan losses from SMEs and small corporates[38].
- Kamyaab Jawan Programme to provide subsidized loans to the youth. A subsect of the program plans to provide essential funding to HEC and NAVTTC to accelerate the expansion of Business Incubation Centers by introducing a blended incubation model.
- The Securities and Exchange Commission of Pakistan (SECP) approved Growth Enterprise Market Listing Regulations to enable SMEs, Greenfield projects, not-for-profits, and other companies to conveniently raise capital through capital markets.

1.2 Objectives

The Competition Commission of Pakistan (CCP) under the Competition Act, 2010 (the 'Act') is entrusted with the mandate to promote competition and ensure a level playing field for all businesses to promote economic efficiency and to protect consumers from anticompetitive practices. Under Section 28 (1) (b) and (e), CCP regularly carries out sectoral studies with the aim

---

[35] https://home.kpmg/xx/en/home/insights/2020/04/pakistan-government-and-institution-measures-in-response-to-covid.html
[36] https://www.sbp.org.pk/FSR/2019/Box-1.pdf
[37] ibid
[38] https://www.sbp.org.pk/smefd/circulars/2020/C9.htm

to promote competition in the markets. Under Section 29 (b), policy framework is reviewed with the objective to foster competition and make suitable recommendations.

As the SME sector constitutes more than 90 percent of businesses in Pakistan and adds significantly to the total output, exports, and employment generation in the country, creating a level playing field for the sector is of critical significance to flourish entrepreneurship and a dynamic economy as when markets flourish businesses and consumers both benefit. New and small businesses need to operate in a business environment that allows them to start, grow and compete and does not allow larger, well-established competitors or the policy framework to deter their growth. Being at the centre stage of economic activity, CCP's strategic vision for 2020-2023 also sets SMEs as a priority area to improve their economic efficiency.

In 2018, the Federal Government notified a National Steering Committee of public and private sector representatives to develop a new National SME Policy. As a result of this notification, the National Steering Committee drafted the National SME Policy, 2021, a blueprint providing recommendations to support the growth of SMEs. Under its mandate, CCP deemed it necessary to review the policy framework, conduct a research study on the SME sector, and offer recommendations based on extensive fieldwork.

Given the above, the objectives of this study are;

1. **To review the policy framework governing the sector.**
2. **Examination and identification of the barriers to the financial inclusion of SMEs.**
3. **To review women's role in the SME sector from national and global perspectives.**
4. **Examination and identification of the supply and demand side barriers to competition in the SME sector.**
5. **To provide recommendations for a more competitive, efficient, and inclusive SME sector for purposes of enhancing economic efficiency.**

1.2.1 Overall Methodology of the Study

The research methodology adopted includes both primary and secondary research. For secondary research, policy documents governing the SME sector were reviewed in detail, including those of SMEDA, SBP, and others, along with an extensive literature review of the sector. On the supply side, data was collected through extensive in-person and online meetings with SMEDA, SBP, SECP, and Financial Institutions (FIs). A survey methodology was adopted to gather primary data from SBP and 50 FIs through questionnaires (**Appendix II**). The FIs include public and private commercial banks, DFIs, and Islamic banks. In addition, data was also requested from Pakistan Stock Exchange (PSX). Based on the initial data analysis findings, further meetings were held with SME Bank, Pak Brunei Investment Company Ltd, and Meezan Bank. On the demand side, primary research was conducted using (a) survey methodology, where data was collected through a questionnaire, and (b) focused group discussions with SMEs to deepen insights into the SME sector. This data was collected from 21 trade and commerce bodies through 18 interactive sessions

(**Appendix III**). The focused group discussions were held with the trade associations and chambers of small businesses and industries representing SMEs in the trading, manufacturing, and services sectors in 11 cities of Pakistan.[39] The map in

Figure 3 pins down the cities and bodies with whom the consultations were held. In contrast,

[39] The total number of participants in 18 sessions held was 362, and on average 20 participants attended a session.

Table 4 lists the diverse pool of sectors covered.

Figure 3: Map of the Targeted Sample Cities and Bodies for Consultation

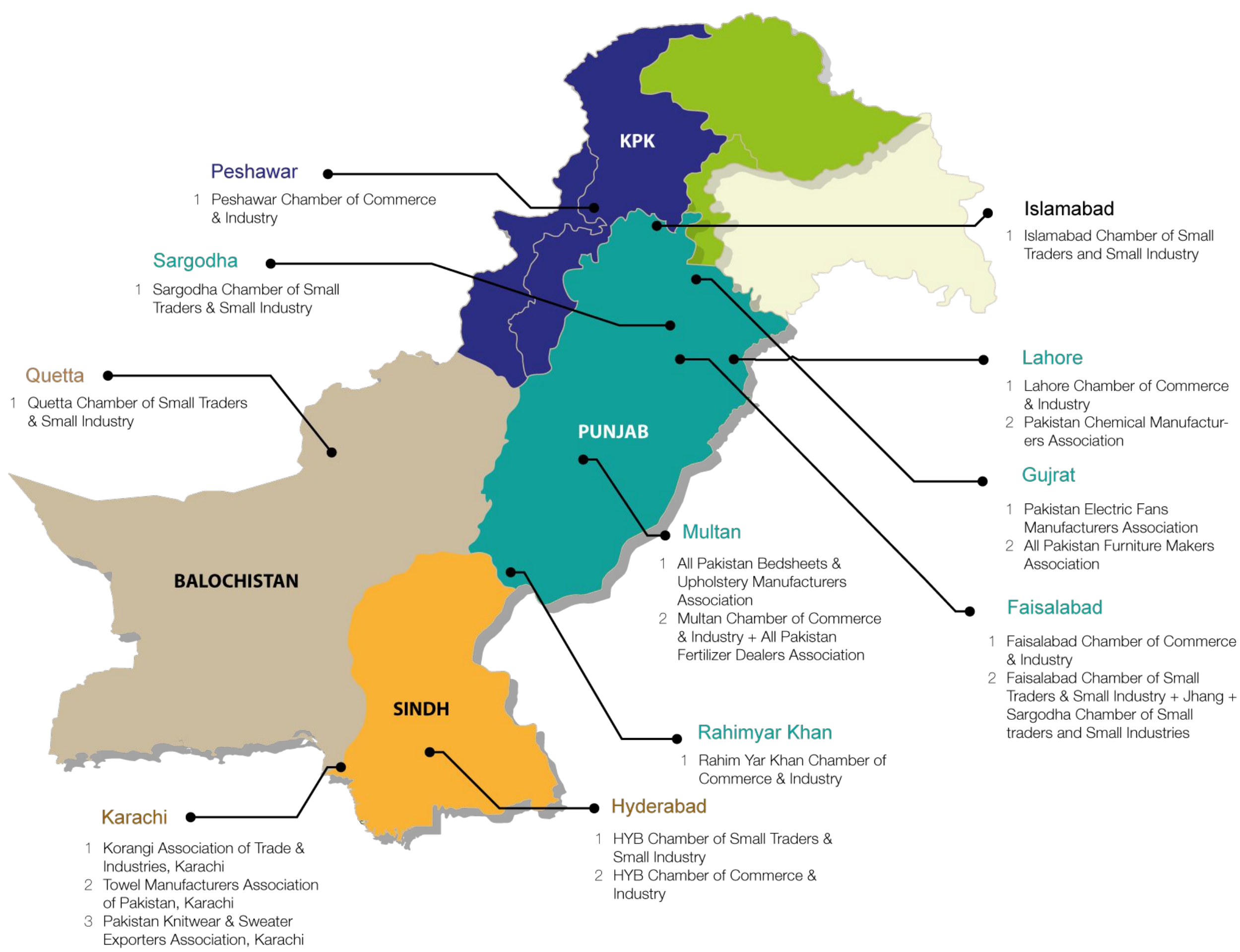


Table 4: List of the Sectors Covered

SECTORS	
1. Jem Stones	2. Furniture
3. Paints	4. Cables
5. Textile *(cotton, grey cloth, apparel, hosiery, bedsheets & upholstery, knitwear, towel, polyester)*	6. Leather
7. Shoe	8. Hardware
9. Resins	10. Caustic soda & flakes
11. Pharmaceutical	12. Chemicals & petrochemicals
13. Electric Fans	14. Fertilizers
15. Foods *(Poultry, wheat & flour, rice, fruits, vegetables, dry fruits, salt)*	16. Packaging
17. Sports goods	

CHAPTER 2: REVIEW OF SME POLICY FRAMEWORK

2.1 SME Policy Framework

Policy documents provide a structured and holistic roadmap enabling governments to implement initiatives that enable growth and development. The Government of Pakistan (GoP) identified the SME sector as critical for the economic revival plan laid out in 1999-2000. To devise a framework for the growth and development of SMEs, the GoP constituted a Task Force for SME Policy Development in January 2004.[40] The SME Policy, 2007 was thus developed to foster growth in the sector and to achieve the government's long-term goal of sustainable development. The changing world and domestic dynamics called for a review of the policy framework governing the sector and the formulation of the National SME policy, 2021.

The National SME Policy, 2021 serves as a guiding document that takes account of the challenges faced by the SME sector to produce a detailed policy guide to support and guide the implementation of reforms in the SME sector. The policy document is intended as a guiding document and reference for the relevant authorities, providing a roadmap for planning, assessing, and implementing policy and legal measures to support SME access to finance.

2.1.1 National SME Policy, 2021

The National SME Policy, 2021 presents a comprehensive framework focusing on policy and regulatory measures. It sets out models and emerging best practices for policy and legal reforms and public interventions to support the SME sector. The policy endeavours to cover the impending challenges (both on the supply and demand side) and means to reduce regulatory burden and increase institutional strength. The policy document introduced a new definition of the SME sector that recognizes and acknowledges startups as part of the SME sector, in line with international standards. The key priorities set in the 2007 Policy and the National SME Policy, 2021 have remained the same, i.e., access to credit, business development, and amendments/development of rules & regulations. The significant differences noted in both policies are presented in **Table 5**.

[40] https://pbit.punjab.gov.pk/system/files/SME%20Policy%202007.pdf

Table 5: Comparison of SME Policies, 2017 & National SME Policy, 2021

	SME Policy 2007	National SME Policy, 2021
Definition	Single definition for SME No distinction between SE and ME	Separate definitions for SEs and MEs Definition of Startup
Ensuring credit provisioning	Listed 10 broad recommendations to ensure SMEs' access to credit	Lists 23 detailed recommendations to improve credit provisioning to SMEs
Improving business climate	Listed 14 policy recommendations for a conducive business environment	Lists 21 detailed recommendations to reform the regulatory and tax environment
Other domains in Policy Framework	Listed separate recommendations for: Human Resource Development Technology Up-gradation Marketing Entrepreneurship Development	Entails separate recommendations for: Skills, human resources & technology Infrastructure Entrepreneurship (with a focus on women entrepreneurship development), innovation & incubation Business Development Services Market Access Public procurement
Institutional framework	Constitution of National Committee	Constitution of National Coordination Committee on SME development
Women inclusion	National Committee included women's development departments SME vision included increasing the share of women ownership in SMEs to 6%	Although women are not specifically mentioned in the composition of the National Coordination Committee, preferential treatment of women-owned businesses is mentioned.
Legislation	Recommended promulgation of an SME Act	

The National SME Policy, 2021 lays out a detailed monitoring and evaluation mechanism with Key Performance Indicators (KPIs) to be achieved by 2025 to provide a clear map for implementing the regulatory processes. The KPIs divided into five main domains are depicted in **Error! Not a valid bookmark self-reference.**.

Table 6: Key Performance Indicators (KPIs) to be Achieved by 2025

A. INCREASING THE ECONOMIC CONTRIBUTION OF SMEs	• **The growth rate of sectors:** • Manufacturing – sustain at 9% per annum • Services – increase by 10% • Employment - increase by 5 % • Exports - increase by 10 %
B. MAKING SMES MORE COMPETITIVE & PRODUCTIVE	• Increase in SME credit • Increase in number of borrowers • Certify 500 SMEs • Improve Doing Business Index ranking by 30 places
C. ENHANCING FORMALIZATION AND INCREASING THE NUMBER OF SMES	• Increase in number of newly registered businesses by 10% each year • Launching of SME Registration portal
D. IMPROVING NETWORKING OF SMES	• Reserving and increasing public sector procurement from SMEs by 30% in 5 years
E. INCREASING START-UP ENTERPRISES	• Launching sector-specific SME programs • Public and private incubators, accelerators and co-working space to increase by 20% in 5 years

Specific to startups, the KPI set in the National SME Policy, 2021 to be achieved by 2025 is to increase the number of startup enterprises (creation and growth) *by (i) launching sector specific SME programs for preferred sectors (ii) Increase the public and private incubators, accelerators and co-working spaces by 20% in 5 years.* To encourage entrepreneurship, innovation and incubation, the policy further directs the creation of a legal framework for crowdfunding and the development of rules for VC and PE funds to register with SECP. With the creation of the SME fund under the said policy, SMEDA and the Ministry of Industries and Production (MoIP) will also undertake initiatives to support entrepreneurship, incubation, and startup accelerator programs and support digitalization, automation, and adoption of new technologies.

The key policy recommendations offered by the National SME Policy, 2021 embody the ultimate aim to support the government in meeting the vision and mission of the Policy. Which is:

> *"An SME sector that is globally **competitive** and innovative, creates high value jobs, and encourages SMEs to scale up and move towards value-added **exports.**"*
>
> *[National SME Policy, 2021]*

This vision aligns with the mandate of CCP under the Competition Act 2010, i.e., to ensure competition in the marketplace, not just for SMEs but for all business activities.

2.2 Key Recommendations Proposed in the SME Policy 2021

This section briefly overviews the **key recommendations** proposed in the SME Policy 2021. The key recommendations of the SME Policy 2021 policy fall into four main domains. The key recommendations within each domain are shared below:

a. Regulatory and Tax-Related Measures to Improve Business Climate:

- Initiation and implementation of a process to refine the regulatory system through review, simplification, elimination, and guillotine.
- Reduction of unnecessary intrusion of inspectors and payment of all fees and taxes through e-challans.
- Establishing an E inspection portal at the federal and provincial regulatory departments.
- Placing a 'NOC/Self Declaration and Time-Bound Approval' regime for new SMEs, expansion of business, and Balancing, Modernization & Replacement (BMR).
- Launching a facilitative SME tax regime for selected sectors such as IT & ITES.
- Consolidation, harmonization, and amalgamation of taxes and levies rates.
- A gradual reduction in Withholding Tax with a corresponding increase in formalization and Sales/Income Tax receipts.
- Reduction of import tariffs on raw materials, intermediate goods, and machinery.
- Prioritizing SMEs for pending payments for sales tax and duty drawback refunds.
- Establishing bonded warehouses for the import of key inputs. Competition Commission of Pakistan to enforce strict penalties on cartelization of commercial importers of raw material.
- 20% corporate tax on small companies, as compared to 29% for large companies.

- Designing incentive schemes to channelize savings into equity finance.
- Separate window for SMEs in Tax Ombudsman.
- SECP and IPO to create an online database of names, logos and patents for firms.
- Single portal for online registration co-host by provincial departments of industries and SECP
- A single unique identifier for all registered firms can be used to pull up relevant data electronically.
- Use of technology to merge invoice systems with tax record keeping.
- A simplified taxation regime for manufacturing SMEs and incentivized tax regime for IT & ITeS and selected service sector SMEs. (**Table 7)**

b. Addressing Supply Side Challenges

- ***The Policy proposes 23 measures to facilitate SMEs' access to finance. Some of them are:***
  - SBP to encourage lending to SMEs under SME Asaan Finance Scheme (SAAF) scheme.
  - Enhancing credit limits (e.g. doubling the credit limit after successful completion of every three years loan period) for borrowers of the Kamyab Karobar program.
  - Reforming Venture Capital (VC) regime for SMEs in the IT & ITES sector.
  - SBP may make it easier for SMEs to avail of lower interest rates offered by SBP.
  - Ensuring full implementation of the Enhanced National Financial Inclusion Strategy (NFIS) 2023.
  - Quarterly progress on financing to SMEs by SBP
  - Review key regulations relating to SME financing by SBP.
  - Disseminating information of the 'moveable asset registry' to commercial lending institutions.
  - Periodical review of the account opening process and required documentation and capacity building of banks and SMEs to address the information.
  - Opening of back-to-back Letters of Credit (LCs) to able exporting firms to use their receivables as collateral to secure short-term financing.
  - Moral persuasion with commercial banks to enhance SME financing and periodical review of assigned targets.
  - Operationalizing Pakistan Credit Guarantee Company. SBP shall consider the viability of incentivizing banks by offering different risk coverage levels based on performance.
  - Strengthening the data collection role of SMEDA and initiating a process of collecting industry-level and firm-level data required for credit scoring and risk assessment.
  - A study by SMEDA to ascertain the viability of establishing a credit risk rating and assessment agency.
  - Conducting value Chain studies on Key clusters by SMEDA.

- A viability analysis of using innovative blended finance, such as Islamic products, for enhancing the flow of resources to SMEs.
- Better utilization of SBP's refinance & credit guarantee scheme for women entrepreneurs.
- Carrying awareness campaigns by Pakistan Stock Exchange (PSX), SMEDA and Chamber of commerce and industries.
- Incentivize to enlist on the Growth Enterprise Market (GEM) Board of the PSX.
- Capacity building of SMEs.
- Review strategic options for SME Bank, given that the bank remains the only FI focused exclusively on SMEs.
- Formulation of a committee for expanding SME financing in Pakistan (including the operationalization of the Pakistan Credit Guarantee Company).

- ***The Policy proposes 12 measures to build human capital. Some of them are:***
  - Implementation of National TVET Policy
  - Skills' mapping covering key SME sectors
  - National Vocational and Technical Training Commission (NAVTTC) and provincial Technical and Vocational Education and Training (TEVTAs) to streamline the institutional overlaps and regulatory burden for private sector investment.
  - Developing a detailed module and design of a 'soft skills' training program to be incorporated in NAVTTC and provincial TEVT courses.
  - Partnership framework among provincial TEVTA and SME association to develop industry-relevant courses, content, delivery and assessment techniques.
  - SMEDA, Technology Upgradation and Skill Development Company (TUSDEC) and SME associations' partnership for technology acquisition and R&D local replication.
  - Developing a sustainable model of labour market data management. It will support skilling Pakistan in populating its job portal with SME data and potential areas of employment in the industry.
  - Creation of women-centric training programs.
- ***Measures for the Provision of adequate and quality infrastructure***
  - Plug & Play infrastructure for SMEs on a lease basis.
  - Allocation for SMEs in industrial estates, Export Processing Zones (EPZs), and Special Economic Zones (SEZs).
  - Power Division will consider moving manufacturing SMEs from commercial electricity to industrial connections with lower tariffs.
  - SMEDA to support the development of innovative off-grid clean energy solutions.
  - Spatial mapping as done by the Punjab province to serve as a central planning tool for all infrastructure decisions.
- ***Measures to develop a culture of entrepreneurship***
  - Adoption of the Limited Liability Partnership Act, 2017 by the provinces as a more flexible model of partnership registration.

- Creation of a legal framework for crowd-funding and developing suitable rules for venture capital funds, private equity funds etc., to register with SECP.
- Effective implementation of Corporate Rehabilitation Act, 2018.
- Expansion of regulatory sandbox approach (e.g. fintech).
- Evaluation of National Incubation Centre.
- Initiation of entrepreneurship boot camps.

- ***Measures to enhance Business Development Services (BDS)***
  - SMEDA to undertake a need assessment survey.
  - SMEDA to link SMEs to BDS Providers and provide the necessary funding.
  - SMEDA to host an online ranking system to share feedback on BDSPs.
- ***Special focus on women entrepreneurship development.***

c. Increasing Market Opportunities for SMEs (addressing Demand Side Challenges)

- ***Access to local and international markets.***
  - Trade Development Authority of Pakistan (TDAP) to organize and facilitate the participation of small firms at subsidized rates (SME quota for women).
  - Regular trade fairs and exhibitions in all major cities of Pakistan.
  - Establishing permanent emporiums to exhibit the art, crafts and cuisine.
  - Creation and implementation of National Product Standard.
  - Implementation of the E-Commerce Policy of Pakistan 2019 and creation of 'Online Market Place/Digital Platforms'.
  - Increase SME participation in international e-commerce.
- ***Measure to ensure a level playing field in public contracts***
  - Federal Public Procurement Regulatory Authority (PPRA) to develop a detailed proposal by January 31, 2022, for expanding SME share in public procurement.
  - Revision of procurement rules to facilitate greater SME participation.
  - Allocation of quota for SMEs. By 2025, this may be increased to attain a maximum of 30%.
  - Creation of a procurement support unit to help SMEs cope with capacity issues.

d. Institutional Mechanism

- ***Establish a National Coordination Committee (composed from the specified list of 16 federal and provincial institutions -Table 7) to lead the agenda of SME development and ensure implementation of the National SME Policy, 2021 .***
  - The National Coordination Committee will be supported by Provincial Working Groups set up in each province under the Chief Secretaries.
- ***Institutional strengthening of SMEDA by:***
  - Legislative amendments in SMEDA Ordinance, 2002 to enhance its role and power.
  - Creation of a new wing, 'Fund Management Capacity', under the existing organizational structure.

  - Creation of ‘SME Intelligence Unit’ to address the asymmetry of information.
  - Identification of BDS Providers in the private sector.
  - Entrepreneurship and skill expertise development in SMEDA.
  - Development of a monitoring dashboard for monitoring & evaluation of SME Policy.
- ***Development of an SME Registration Portal (SMERP)***
  - Creation of an on-line formal forum of consultation with SMEs to register their inputs on regulatory topics.
  - Issuance of SME Size Certificate.
- ***SME Development Fund for its operational activities (to the tune of PKR 30 billion).***
- ***Census of Economic Establishment / SME Census by Pakistan Bureau of Statistics.***
- ***SMEDA to take the lead role in SME advocacy.***
- ***Presence of SMEDA in key regulatory and taxation policy bodies to ensure the voice of SMEs.***

Table 7: Actions and Responsible Departments

Sr.	Institutional Framework Actions	Responsible Departments
1	Establishment of SME National Council	• Ministry of Industries & Production • Small & Medium Enterprises Development Authority (SMEDA)
2	Establishment of Provincial SME Working Group	• Chief Secretaries • SMEDA • Provincial Industries Department
3	Census of Economic Establishment	• Ministry of Planning, Development & Special initiatives • Pakistan Bureau of Statistics • SMEDA
	Institutional Strengthening Actions	**Responsible Departments**
1	SMEDA to become the Voice of SMEs	• Ministry of Industries & Production • Chief Secretaries • State Bank of Pakistan (SBP) • Trade Development Authority of Pakistan (TDAP) • Technology Up-gradation and Skill Development Company (TUSDEC) • National Vocational & Technical Training Commission (NAVTTC) • National Productivity Organization (NPO) • Board of Investment (BOI)
2	SME Development Fund (to the tune of PKR. 30 Billion)	• Ministry of Finance • Ministry of Industries & Production • SMEDA
3	SME Portal	• SMEDA • Pakistan Bureau of Statistics (PBS) • Securities and Exchange Commission of Pakistan (SECP) • Federal Board of Revenue (FBR) • Registrar of firms
	Macro-Policy And Regulatory Environment Action	**Responsible Departments**
1	SME window at Tax Ombudsman	• FBR • SMEDA

2	Implementation of Regulatory Guillotine at the National and Provincial level	• BOI • All relevant federal & provincial departments
	Credit Provisioning To Smes Action	**Responsible Departments**
1	Implementation of SBP's 2017 Policy (increase SME lending to PKR 1.8 trillion)	• SBP
2	Improving credit provisioning to SMEs	• SBP • SECP • SMEDA • Pakistan Stock Exchange (PSX) • Pakistan Credit Guarantee Company (PCGC)
3	Update on Credit Guarantee Company	• SBP • Pakistan Credit Guarantee Company
	Skills & Human Resource Action	**Responsible Departments**
1	Improving workforce	• National Vocational & Technical Training Commission (NAVTTC) • Provincial - Technical Education & Vocational Training Authorities (TEVTAs) • SMEDA
	Miscellaneous Action	**Responsible Departments**
1	Improving infrastructure	• Power Division • Provincial Industries Department • CPEC Authority (providing allocated space for SMEs in SEZs and industrial estates)
2	Promoting sustainable entrepreneurship	• SECP • Higher Education Commission (HEC) • Chief Secretaries • Provincial Education Departments • Information Technology Boards
3	Business Development Services	• SMEDA

4	Better market access for SMEs	• Ministry of Commerce • Public Procurement Regulatory Authority • Provincial Public Procurement Regulatory Authority

To date, several important steps have been taken to provide a policy framework for the development of the SME sector in Pakistan. Among them, the major initiatives are the formulation of the SME Policy, 2007, and then the revision of the framework under the National SME Policy, 2021. The policy progression from 2007 to 2021 indicates the enhanced focus on the SME sector by the GoP. The National SME Policy, 2021 provides comprehensive recommendations in the context of market failures, regulatory constraints, financial infrastructure, financial institution capacity, and behaviour with an aim to create an enabling environment for SMEs to grow and expand. It also presents an in-depth discussion of supply-side and demand-side barriers to SME development in Pakistan. A review of the 2007 and 2021 policy framework shows progression and a step forward in the SME sector development. However, the review of the policy framework and its recommendations are from the Competition law and policy principles.

Chapter 3: Assessment of Financial Inclusion of SMEs

Access to finance is a major contributing factor to the growth and expansion of businesses, helping businesses develop a competitive advantage through increased efficiency. Access to credit is generally associated with a firm's size. The smaller a firm's size, the more difficult it is to obtain external financing. Many reasons may explain this correlation, such as the high informality rate of small businesses, the higher perceived risk profile for lending institutions, fewer collateral options, and the firms' low accounting and financial management capacity.[41] However, one of the major impediments to SME sector growth is their difficulty in finding external funding sources. SMEs' access to finance is thus a fundamental challenge for an economy's financial and economic development.

While large firms can easily access finance, SMEs are less likely to obtain finance and thus rely on internal funds available through their savings or family and friends. SMEs are typically opaque compared to large firms because they have less publicly available information. As a result, lending institutes find it more challenging to assess the creditworthiness of SMEs, thus discouraging lending to these firms. According to International Finance Corporation (IFC), 65 million firms, or 40% of MSMEs in developing countries, have an unmet financing need of USD 5.2 trillion annually. East Asia and the Pacific account for the largest share, with 46% of the global financing gap, followed by Latin America and the Caribbean with 23%, and Europe and Central Asia with 15% (**Figure 4**).

Access to finance results from the complex interaction of several determinants, such as the state policy on MSME financing, the macroeconomic environment, local financial markets, and the creditworthiness of enterprises.[42] Before the review of access to finance in the SME sector in Pakistan, it is pertinent to briefly review the financial ecosystem governing the sector, including (i) banking finance, (ii) non-banking finance, and (iii) financial literacy.

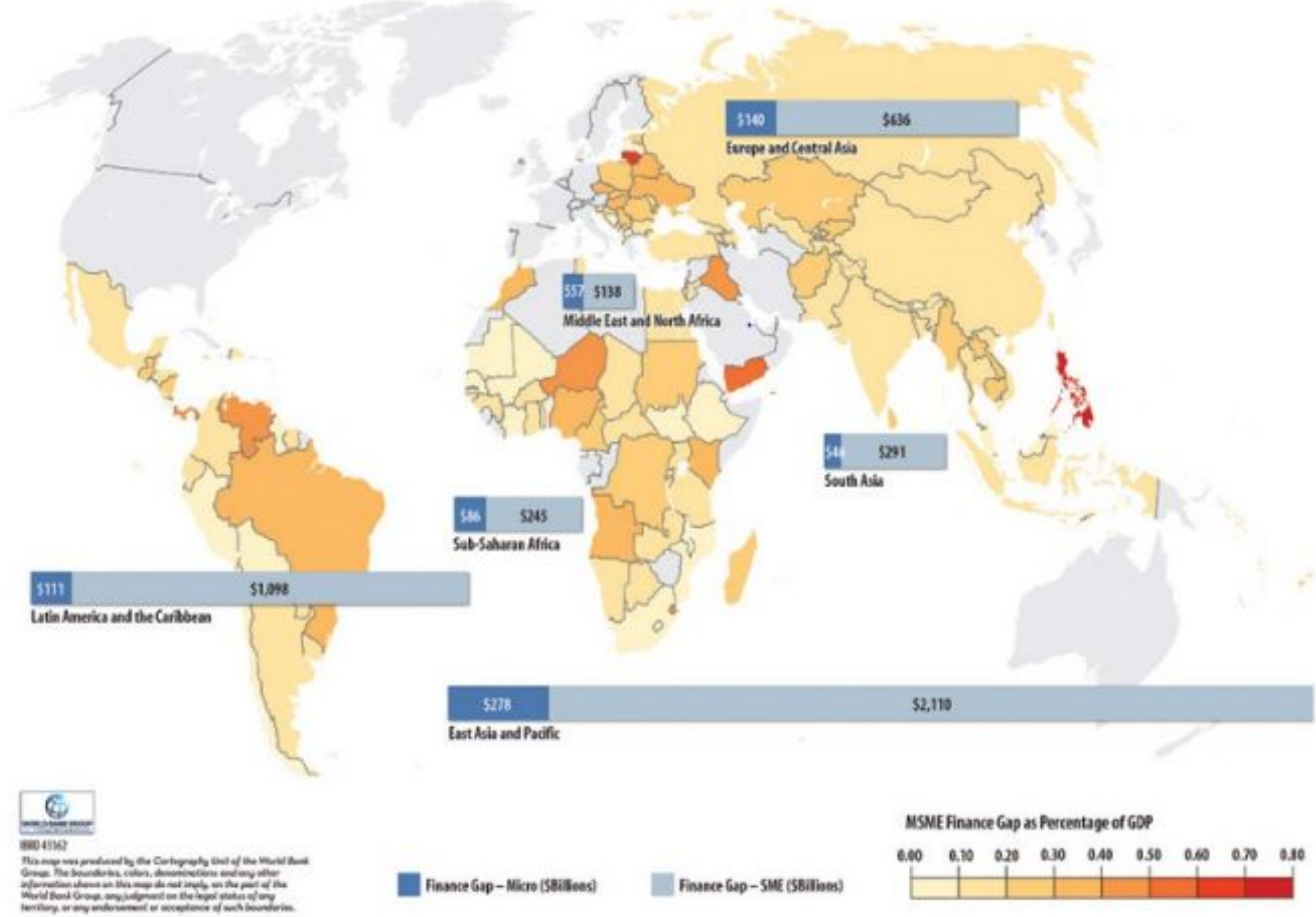
3.1 Banking Finance

The State Bank of Pakistan (SBP), operating as the country's central bank, is mandated to regulate the monetary and credit system of the country. One of the core responsibilities of SBP is regulating and supervising the financial system and the development of capital markets.[43] SBP regulates Banks, Development Finance Institutions (DFIs), Microfinance Banks, Exchange Companies (ECs), Payment Service Providers, Payment Systems Operators, Electronic Money Institutions, and Credit Bureaus.[44]

---

[41] https://www.oecd-ilibrary.org/docserver/16fc8d6d-en.pdf?expires=1638738386&id=id&accname=guest&checksum=05FFF2D378A6F1D58B95B81F7A0CD02F
[42] https://www.oecd-ilibrary.org/docserver/16fc8d6d-en.pdf?expires=1638738386&id=id&accname=guest&checksum=05FFF2D378A6F1D58B95B81F7A0CD02F
[43] https://www.sbp.org.pk
[44] https://www.sbp.org.pk/about/pdf/RBS-Policy.pdf

Figure 4: Formal MSME Financing Gap in Developing Countries



I

Source: World Bank, https://www.worldbank.org/en/topic/smefinance

The SME sector is governed under the SBP SME financing policies, regulations and specific financing products rolled out by the financial institutions regulated by SBP. As the country's central bank, it is responsible for creating an enabling environment for SME financing. The sector is governed under the Policy for Promotion of SME Finance 2017 and a dedicated set of SBP Prudential Regulations for SME Sector Financing (issued in 2003 and revised over time, updated in April 2021).[45] ECIB reporting has been amended in the revised prudential regulations to obtain credit information about SMEs. Now, banks/DFIs can get credit information reports from private credit bureaus licensed by SBP. SME financing schemes rolled out by SBP are discussed below.

Prime Minister's Youth Business and Agriculture Loan Scheme (PMYB&ALS)

Financing under PMYB&ALS is available for citizens aged between 21-45 years. The scheme provides long-term and working capital loans, including leasing/financing locally manufactured vehicles for commercial use and agricultural production and development. The funding is segregated into three tiers. Under Tier-1 (T1), the loan limit is up to PKR 0.50 million, payable within three years; however, the tenor for crop loans is one year. Under Tier-2 (T2), the loan limit is from PKR 0.5 million to PKR 1.5 million; under Tier-3 (T3), the loan limit is above Rs 1.5 million and up to Rs 7.5 million. All T1 loans are markup-free loans. On T2 loans, the markup rate is five percent, while on T3, the markup rate is seven percent.

SME Asaan Finance (SAAF) Scheme

All SMEs, including new and operative businesses, can get loans under this scheme. An SME can get up to PKR 10 million in financing at a markup rate of up to 9% percent (p.a). The maximum loan tenor is per the financing facility approved by the participating bank.

Refinance Facility for Modernization of SMEs[46]

Under this scheme, medium to long-term financing is available to SMEs to modernise their existing units or set up new SME units. Financing is available against local purchase/ import of new machinery at a mark-up rate of up to 6 percent p.a. Financing by Small Enterprises can be availed upto PKR 25 million, and medium Enterprises can avail PKR 200 million for a period of up to 10 years.

Refinance Scheme for Working Capital Financing of Small Enterprises and Low-End Medium Enterprises[47]

Under Refinance Scheme for Working Capital Financing of Small Enterprises & Low-End Medium Enterprises, a short-term financing facility is available for selected SME sectors, including Information Technology, Furniture, Surgical goods, Dates processing, Gems and jewellery, Leather industry, Fruits, vegetables and food processing & packaging and Printing & packaging. Islamic Refinance Scheme for Working Capital Financing of Small Enterprises and Low-End Medium Enterprises financing is a scheme available for working capital requirements of SMEs in the sectors of information technology, gems and jewellery, furniture, leather industry,

---

[45] https://www.sbp.org.pk/publications/prudential/SME-PRs-Updtd-Apr-2021.pdf
[46] https://www.sbp.org.pk/Incen-others/sme-1.asp
[47] https://www.sbp.org.pk/smefd/circulars/2017/C11-Annex.pdf

surgical goods, fruits, vegetables and food processing & packaging, dates processing, and printing & packaging. The maximum financing tenor under this scheme is one year.[48]

Financing Facility for Storage of Agriculture Produce[49]

Under the scheme, financing can be availed for the establishment, expansion and, balancing, modernization & replacement (BMR) of Steel/Metal/Concrete Silos, Warehouses & Cold Storage facilities for storing agricultural produce. Loans can be taken at a markup rate of up to 6 percent p.a. for 7-10 years with maximum financing of up to PKR 500 million.

Refinance and Credit Guarantee Scheme for Women Entrepreneurs[50]

SBP launched a refinance and credit guarantee scheme for women entrepreneurs to increase their access to finance. Under the project, refinance is available to participating FIs at 0 percent for onward lending to females at an annual markup of up to 5 percent. The maximum financing available under this scheme is PKR 5 million for up to 5 years.[51]

Small Enterprise (SE) Financing and Credit Guarantee Scheme for Special Persons[52]

Under this scheme, the financing can be availed by special persons for setting up new business enterprises or for expanding existing ones for an amount of PKR 1.50 million at a markup rate of up to 5 percent p.a. for up to 5 years.

Prime Minister's Kamyab Jawan Youth Entrepreneurship Scheme

Financing under PMKJ-YES can be availed by all citizens of Pakistan aged between 21 and 45 years. Financing can be availed for long-term loan /working capital loans, including Murabaha and leasing /financing of locally manufactured vehicles for commercial use. The financing tenure is up to eight years. The funding is segregated into three tiers. Under tier-1, the loan limit is from PKR 0.10 million up to PKR 1 million on a markup rate of 3 percent. Under tier-2, the loan limit is above PKR 1 million and up to PKR 10 million at a markup rate of 4 percent. Under tier-3, the loan limit is above Rs 10 million and up to PKR 25 million at a markup rate of 5 percent.

Mark-up Subsidy and Guarantee Facility for Rice Husking Mills in Sindh

Financing can be availed for the modernization of rice husking mills in Sindh at a markup rate of 2 percent p.a. for a maximum tenor of 5 years. Under the markup subsidy and guarantee facility for rice husking mills in Sindh, a maximum loan size of PKR 10 million is available to farmers.

SBP financing schemes available to the SME sector include credit guarantee schemes (CGS) for small and rural enterprises. SBP, in collaboration with the Federal Government and UK's Department for International Development (DFID), has launched CGS. This scheme is aimed at helping micro and small enterprises easily obtain credit from banks and DFIs.[53] The guarantee coverage was enhanced in 2017 and is now available to start-up businesses, female borrowers, and small and rural enterprises operating in underserved areas. The maximum financing available

[48] https://www.sbp.org.pk/smefd/circulars/2019/C11-Annex-I.pdf
[49] https://www.sbp.org.pk/Incen-others/sme-3.asp
[50] https://www.sbp.org.pk/Incen-others/sme-6.asp
[51] https://www.sbp.org.pk/Incen-others/pdf/maximum.pdf
[52] https://www.sbp.org.pk/Incen-others/sme-7.asp
[53] https://smeda.org/index.php?option=com_content&view=article&id=496&Itemid=972

under this scheme is Rs.25 million.[54] For special persons (persons holding a disability CNIC), SE financing and the CGS scheme are also available nationwide. Loans under the SBP CGS scheme have 60 percent risk coverage. Under this scheme, refinancing by SBP is available to participating FI at zero percent markup, and the end user rate is up to 5 percent.[55]

To improve financial inclusion and access to finance by SMEs and the agriculture sector, SBP adopted National Financial Inclusion Strategy (NFIS) 2020, launched in 2015, and currently, NFIS 2023, launched in 2018. NFIS is aimed at achieving sustainable, inclusive, and equitable economic growth.[56] The headline targets set in NFIS 2023 concerning the SME sector promotion are to extend finance to 700,000 SME borrowers and to increase the share of SME financing to 17% of private sector financing by 2023. The summary of initiatives under NFIS 2023 is as under.[57]

I. Launch a fully functional Credit Guarantee Company
II. Launch fully functional E-Registry
III. Strengthening First Women Bank Limited and SME Bank through privatization
IV. Speedy disposal of SME loan cases by banking courts
V. Incentivized refinance schemes for tourism and IT&ITeS sectors
VI. National SME Policy to be in place
VII. The active role of provincial governments
VIII. SMEDA reorganization and empowerment
IX. Census of business enterprises
X. Banks to be incentivized through fiscal measures, i.e., tax incentives

3.2 Non-Banking Finance

The Securities and Exchange Commission of Pakistan (SECP) supervises and regulates non-bank finance companies (leasing companies, investment banks, discount houses, housing finance, venture capital, mutual funds), insurance companies, Modarabas, capital markets, and other corporate entities[58] under the Companies Ordinance, 1984. **Figure 5** gives a snapshot of the NBFI industry in Pakistan. Out of the total NBFI financing, SMEs' share was 46% in FY2018 and reduced to 40% in FY2019[59]. However, it is not significant compared to financing banks/DFIs in the sector. As per data, the total lending advances by the NBFCs (including investment banks, modarabas, leasing companies, and NB-MFCs) stood at PKR 151 billion in comparison to the total advances by the domestic banking sector stood at PKR 8.30 trillion in March 2020 (around 1.88% only).

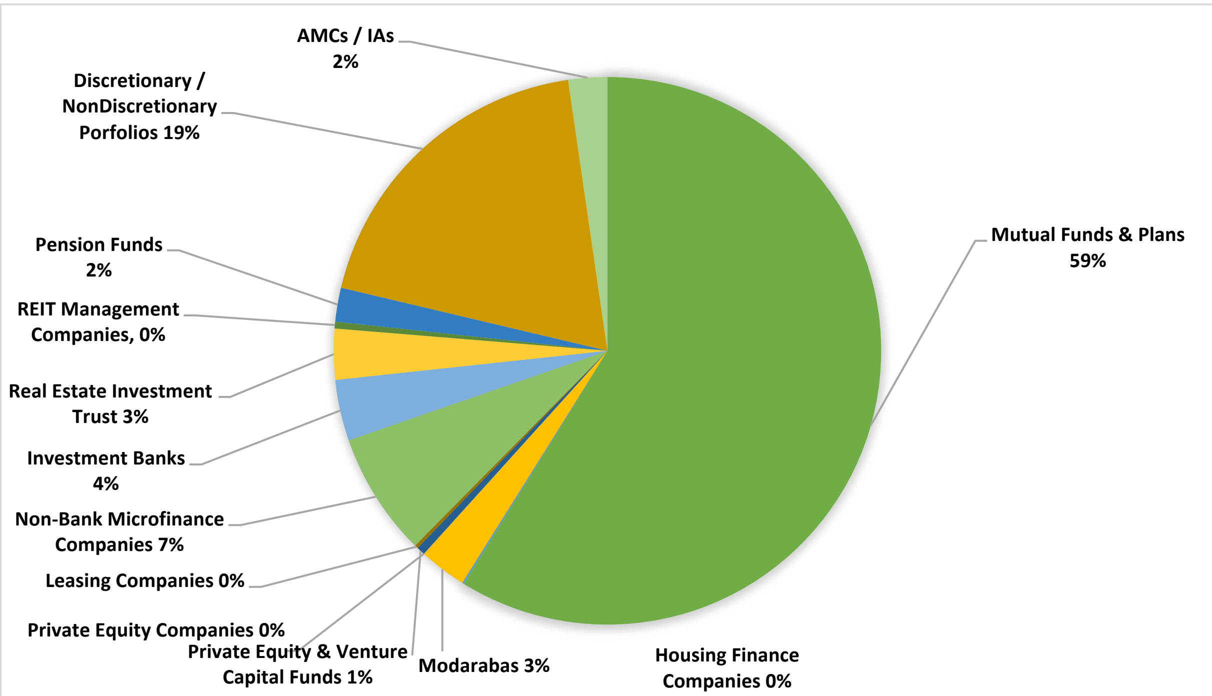
To raise capital through capital markets, the Growth Enterprise Market (GEM) board, regulated under the SECP, operates as a second-tier board at Pakistan Stock Exchange (PSX). The GEM

[54] https://www.sbp.org.pk/smefd/circulars/2017/C1.htm
[55] https://www.sbp.org.pk/smefd/circulars/2019/C7-Annex-A.pdf
[56] In 2015, Pakistan had one of the lowest level of financial inclusion in the world, with only 16% of adult population having a bank account. Only 11% of women had an account ownership.
[57] http://www.finance.gov.pk/NFIS.pdf
[58] https://www.sbp.org.pk/about/SupRegime-SBP.PDF
[59] https://www.pacra.com/sector_research/Modarabas%20&%20NBFCs%20-%20PACRA%20Research%20-%20Apr21_1618491539.pdf

Board was operationalized on 26th November 2021. GEM board works for the listing and trading of equity securities as an alternative to the main board.[60]

GEM regulations are specifically designed to facilitate SMEs, startups, and greenfield companies that want to raise funds through capital markets but cannot meet the cumbersome listing conditions of PSX.

Figure 5: Snapshot of NBFI Industry as of September 30, 2021 (Percentage of total assets)



Source: SECP

For listing on the GEM board, any public limited company having audited accounts for the last two financial years and a post-issue paid-up capital of at least PKR 25 million is eligible. The minimum fee for listing on the GEM board is PKR. 50,000.[61] The post-listing regulations of the GEM board are also relaxed compared to the main board, such as the non-applicability of the corporate governance code and submission of half-yearly progress reports compared to quarterly progress reports. However, to date,[62] only three companies have been listed on the GEM Board, with several others in the pipeline. The listed companies are Pak Agro Packaging Limited, Universal Network Systems Limited, and Supernet Limited, and the capital raised is PKR 198 million, 445.705 million, and 475 million, totalling PKR 1,118.705 million.

---

[60] Meeting with SECP officials

[61] https://www.secp.gov.pk/wp-content/uploads/2019/11/Press-Release-Nov-12-SECP-approves-Growth-Enterprise-Market-listing-regulations.pdf?__cf_chl_f_tk=MCj3q5PIakuihmKGE1hSEkF7ktIdHtegKRkxa_YgVe4-16424197-0-gaNycGzNCRE

[62] Information received by PSX in September, 2022

3.3 Financial Literacy

Financial literacy refers to the knowledge, awareness, and information about financial service providers, products, and the terms used in the everyday decision-making of firms, such as interest rate, savings, investment, risk, and returns etc.[63] While financial literacy plays a significant role in SMEs' growth and success, small enterprises' failure is often attributed to their weak financial management.[64] Financial literacy allows SMEs to discern and make effective financial management decisions. Financial literacy coupled with an entrepreneur's skills, attitude, and experience results in a firm's goal to maximize its profits and sales and to capture a particular market share.[65]Available literature suggests that a rise in financial inclusion occurs due to higher financial literacy.

Globally, 33% of the world's adult population is financially literate, 1 in 3 adults.[66] It is 35% for male adults, whereas, for females, it is 30%. Comparing the developed economies with the emerging economies, the financial literacy rate of the former is 55%, and that of the latter is 28%. In Pakistan, the adult financial literacy rate is 26%, and only 21% of the adult population has a bank account.[67]

The National Financial literacy program (NFLP) was launched by SBP in 2017 to impart primary financial education to the general public, aiming to educate 1 million people over five years. Under this program, the target participants are 50% female and overall 70% rural population. As of May 2021, 886,000 participants have received financial education through NFLP.[68] In addition to NFLP, SBP, in collaboration with the National Institute of Banking and Finance (NIBAF), launched National Financial Literacy Program for Youth (NFLP-Y) to impart basic financial education to youth and school-going children.

NIBAF launched the National Financial Literacy Program for Youth (NFLP-Y). The program aims to impart essential financial education to Pakistani youth and school-going children to strengthen their money management skills and understanding of financial matters. NFLP-Y is expected to serve as a medium to connect youth with financial institutions that offer banking products and services. The program will mainly target three age groups, i.e., school-going children aged 9-12 years, adolescents aged 13-17 years, and youth aged 18-29 years, across 45 selected districts, including GB and AJK. NIBAF aims to reach 1.6 million children, adolescents, and youth through classroom training and digital learning platforms during the next five years, i.e., 2018 to 2023.

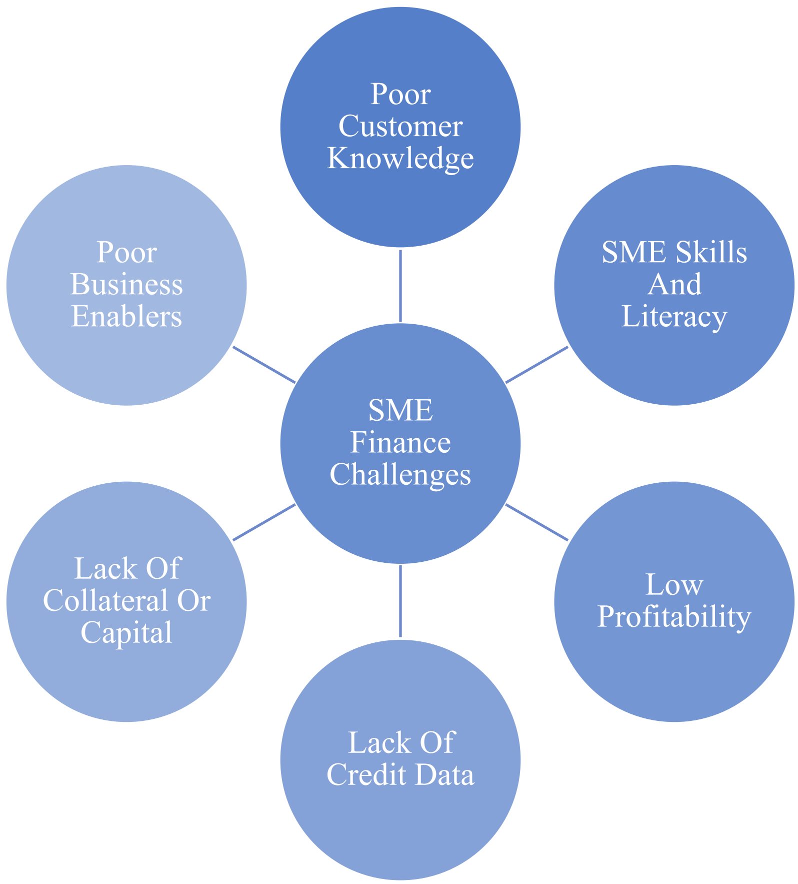
---

[63] https://pide.org.pk/psde/wp-content/uploads/role-of-financial-literacy-and-financial-self-efficacy-on-financial-inclusion-in-pakistan.pdf
[64] https://www.researchgate.net/publication/327799809_SME_Managers_and_Financial_Literacy_Does_Financial_Literacy_Really_Matter
[65] https://www.researchgate.net/publication/284434148_Financial_literacy_and_SME_firm_performance
[66] https://gflec.org/initiatives/sp-global-finlit-survey/
[67] Global Findex 2017
[68] https://www.sbp.org.pk/BOE/Initiatives.html

3.4 Barriers Faced by FIs in Lending to the SME Sector [69]

According to the World Bank report, Facilitating SME Financing through Improved Credit Reporting (2014), SMEs face many challenges that create barriers for FIs in financing the sector. Significant challenges are presented in **Figure 6**.

Figure 6: Challenges Faced by FIs in SME Lending



Source: Facilitating SME Financing Through Improved Credit Reporting, World Bank

3.4.1 Creditworthiness of SMEs

A key barrier to SMEs' access to finance is their credit rating, as there is a lack of credit data available about SMEs. Creditworthiness is the mediating variable that helps SMEs access finance. The primary reason for the lack of data on SMEs' creditworthiness is the considerable variation in SMEs' size and nature of the activity, and thus the difficulty of having a standard SME credit rating. SMEs have different needs and require different solutions, thus challenging their rating.[70] In addition, these businesses present less conventional collateral, reducing their chances of

---

[69] *Note: this is not an exhaustive list yet covers the most common themes affecting the lending patterns of the financial institutions*

[70] https://www.smefinanceforum.org/post/how-sme-credit-rating-can-unlock-financing-for-small-businesses

securing finance from FIs.[71] The latter focuses on fixed collateral, cash on hand or in banks, mortgages, and land, which SMEs generally lack.[72] Despite this barrier to expansion and growth, historical data suggests that SMEs are more likely to survive economic crises.

In Pakistan, SBP revised the Prudential Regulations (PRs) for SME Financing in March 2022. Under the regulations, the banks/DFIs can obtain credit information reports on SMEs from the Electronic Credit Information Bureau (e-CIB) reporting of the SBP and the Credit Bureau established under the Credit Bureau Act, 2015, and licensed by the SBP. Certain amendments in the PRs have been made to allow banks/DFIs to obtain credit information on SMEs from licensed private credit bureaus.[73]

e-CIB, established in 1992 by SBP, has played a vital role in gathering, consolidating, and disseminating critical information about the creditworthiness of borrowers to assist FIs in their lending decisions and deterring the incidence of default.[74] Four privately owned and managed credit bureaus operate in Pakistan, facilitating FIs with credit information for screening and monitoring borrowers.[75]

Over the past decade, SME lending by the FIs in Pakistan has remained low due to the latter's tilt towards fixed collateral. SBP, being the market regulator, along with other government agencies, continuously strives to boost SME financing, and consequently, various policy interventions have been taken to incentivize FIs for SME lending. These incentives include improved regulatory framework, credit guarantee schemes, mark-up subsidies, annual SME credit targets, risk coverage schemes, and sector-specific SME lending schemes.[76]

Despite all the efforts and incentives to boost SME finance, SME lending remains low (5.40 % of private sector financing in September 2022). A major factor is SMEs' low creditworthiness due to a lack of acceptable collateral, leading to insufficient access to credit, thus, resulting in a lack of credit data available about them.

While supply and demand challenges exist that create a barrier to accessing finance by the SMEs, consequently resulting in market failure, **public sector deficit financing by commercial banks has resulted in crowding out of private sector financing, specifically SMEs. In addition, commercial banks find it easy to invest in risk-free government bonds or large corporations**.[77]

The current SME portfolio of commercial banks is tilted towards MEs with an average loan size of PKR 8 million. In contrast, the average loan size of a micro-enterprise (microfinance) is PKR

[71] For example, technology companies generally have intellectual properties as their main asset, which is not acceptable as collateral by FIs.
[72] 98% of private sector credit is against collateral, https://www.researchgate.net/publication/348654590_BANKS'_LENDING_PREFERENCES_AND_SME_CREDIT_IN_PAKISTAN_EXPERIENCE_AND_WAY_FORWARD
[73] https://www.sbp.org.pk/publications/prudential/SME-PRs-Updated.pdf
[74] The existing e-CIB system is in line with international best credit sharing practices, it has a record of over 4 million borrowers and is collected by over 100 member FIs.
[75] Datacheck (Pvt.) Limited, News-VIS Credit Information Services (Pvt.) Limited, ICIL/ PakBizInfo and Credit Chex (Pvt.) Limited, https://openknowledge.worldbank.org/handle/10986/21810
[76] Various schemes announced by SBP are discussed in the report.
[77] ibid

50,000[78], which shows that commercial banks are not meeting the requirement of micro and small enterprises. Lack of product innovation on the part of banks is a critical contributor to low SME lending in the country. The FIs lack the motivation to opt for innovative lending techniques to serve the under or unserved SMEs.

3.4.2 Capital Markets and Equity Financing

The NBFI sector in Pakistan has shrunk over the years. In the past, NBFIs were regulated by SBP, and the sector was performing well as these companies had the SBP backing of lenders of the last resort, thus boosting their confidence in lending to SMEs. However, now the sector is regulated by SECP, whereby it has struggled to maintain its financial portfolio.[79] NBFIs need to step in and tap the market. However, they would require regulatory support.

Globally there are six sources of equity finance available to SMEs and startups. These include business angels, VC/PE finance, crowd-funding, enterprise investment schemes, alternate platform finance schemes, and stock markets.[80] In Pakistan, however, the financial landscape is heavily dominated by conventional banking finance, which has not been able to enhance lending in the SME sector despite the efforts and incentives announced by the regulator. The financial markets (stocks and bonds markets)[81] and the financial intermediaries (banks, insurance) are still underdeveloped and lack depth and maturity. The stock market remains significantly underdeveloped despite technical assistance from various aid agencies. The total number of investors in 2021 stood at 253,000[82] out of a population of over 220 million which is very low. The 5-year performance of the Pakistan Stock Exchange (PSX) shows that in the last five years, very few new companies registered yearly, with only two new companies in 2022 alone. The total number of listed companies in 2022 is 530 compared to 2018, which stood at 546.[83]

Banks and insurance companies are major constituents of the financial markets, which generally ‘play safe’ while investing funds. With 50 percent on average lending, T-Bills and Pakistan Investment Bonds (PIBs) are one of the major investments through which banks and insurance companies generate profits. In 2019, 83 percent of the banks’ total investments were in T-Bills and PIBs.[84] In the case of insurance companies, 64% of the industry gross premium is earned through life insurance/companies. Further, these companies are not an active part of the financial markets through which funds may be channelled to private businesses.

Under the Regulatory Sand Box, SECP has tested six innovative business solutions/products, including Peer-2-Peer Lending (P2P), digital equity crowdfunding/venture capital, mutual funds, and digital insurance, based on the success of which amendments in the relevant regulations are to

---

[78] ibid

[79] Orix leasing Pakistan is the only leasing company with 80% market share in the SME finance, the micro finance borrowers’ stand at 7 million, out of which 10% graduate annually.

[80] https://www.nibusinessinfo.co.uk/content/six-sources-equity-finance

[81] The financial markets in Pakistan include (a) debt and equity markets (b) Primary & secondary markets (c) Exchange and Over the Counter markets (d) Money and capital markets

[82] https://www.dawn.com/news/1622302

[83] https://dps.psx.com.pk/progress-report

[84] https://pide.org.pk/pdfpideresearch/pv-25-the-poor-state-of-financial-markets-in-pakistan.pdf

be made. Once these innovative business solutions are out of the testing face and start to operate, it is expected that these will provide stimulus to the financial lending in the SME sector.

Developing the financial/capital markets requires a favourable regulatory environment to operate and invest in increasing their economic footprint. At the same time, weak governance, underdeveloped institutional capacity, over-regulation, and risk-averse attitude of the leading financial players have contributed to the underdevelopment of the financial ecosystem.

3.5 Research Conducted on Financial Sector for SMEs' Inclusion

3.5.1 Methodology

Where access to finance is a key pillar for SME sector growth and performance, yet out of the PKR. 3-4 trillion potential SME market for finance, only 15-20% is met through formal sector financing.[85] In Pakistan, the primary source of SME financing is banks and DFIs; therefore, CCP collected data from these FIs on SME financing through a survey questionnaire to assess the access to finance available to SMEs. Furthermore, comprehensive interview sessions with three prominent institutions were held, including SME Bank Limited, Meezan Bank Limited, and Pak-Brunei Investment Company Limited. The SME Bank Limited was interviewed because of the strategic importance of the institute concerning SME financing. At the same time, Meezan Bank Limited and Pak-Brunei Investment Company Limited were the only FIs that met their SME financing targets SBP set in 2018-2020.

3.5.2 Sample and Data Collection

In total, 50 FIs registered with SBP for conducting their operations in Pakistan were targeted. The names and types of FIs can be found in **Appendix II**. The questionnaire was sent to these FIs by post. Among the listed 50 institutions, 37 were engaged in SME financing, which responded, and 12 were not. In contrast, the reply was not provided by one institution.

3.6 Analysis of Data Received

The data collected from 50 FIs operating in Pakistan[86] for 2018-2020 shows that out of a total of 50 FIs, 37 lend to the SME sector. Further, out of these 37 FIs, only 30 provided complete and usable data, which was further used for analysis. Among these 30 institutions, 21 FIs have more SE borrowers than ME borrowers. On the other hand, compared to the higher total number of SE borrowers, MEs received more aggregate financing facilities than SEs. More specifically, 26 FIs have higher ME financing, and SME Bank is the only FI where SE financing is higher. The data also showed that out of the 30 FIs, only 2 achieved the indicated lending targets set by SBP in the sector. A summary of the information is presented in **Table 8**.

---

[85] ibid
[86] Total number of Banks, DFIs and MFBs operating in Pakistan are 53. https://www.sbp.org.pk/f_links/f-links.asp

Table 8: Data on SME Financing by FIs

Overview of SME Financing in Pakistan	Frequency	Percentage
Total SME Financing	-	100.00%
Share of ME (in total SME Financing)	-	86.60%
Share of SE (in total SME Financing)	**-**	13.40%
Total No. of Financial Institutions as per SBP	50	100.00%
No. of Financial Institutions dealing in SME Financing	37 (out of 50)	74.00%
No. of Financial Institutions with a greater number of SE Borrowers	21 (out of 30)	70.00%
No. of FIs that achieved SBP's Lending Targets for SMEs	2 (out of 30) (1 Islamic Bank and 1 DFI)	6.67%

Source: Competition Commission of Pakistan's Research

The data in **Table 8** highlights a tilt of the FIs towards MEs in providing financing. The number of SE borrowers is higher, indicating that these borrowers are small but more in number and thus show on the portfolio of FIs. However, in terms of actual financing, the more structured, organized MEs receive the funds. SBP sets indicative targets of SME financing for the FIs. However, these targets are not designated for SE and ME separately, and therefore financing available to the SME sector as a whole is received more by the MEs. The data received also shows that only SME bank has higher SE financing during the reference period indicating that where a bank provides focused funding to the SME sector, higher financing to SEs is provided.

The collateral acceptable by FIs is in accordance with SBP guidelines. The data collected by CCP indicates that the acceptable collateral, among others, are generally of four types, i.e., lien over the deposit, hypothecation of current assets, charges on stock and commodities, and mortgage of property (residential, commercial & agriculture). The information shared by 30 FIs shows that the most acceptable form of collateral is the mortgage of property (immovable asset), followed by hypothecation of current assets, a pledge of stocks and commodities, and accepting a lien over a deposit. **Table 9** shows a breakdown of types of collateral acceptable by FIs.

Table 9: Breakdown of Types of Collateral Acceptable by the FIs with SME Financing

Type of Collateral Accepted	No. of FIs Accepting (n=30)	Percentage (n=30)
Lien Over Deposit	9	30.00%
Hypothecation of Current Assets	16	53.33%
Pledge (Stocks & Commodities)	11	36.67%
Mortgage (Residential, Commercial & Agriculture)	26	86.67%

Source: Competition Commission of Pakistan's Research

Each FI takes risks per its defined credit policies and procedures with the broad parameters laid down by SBP. Risk averseness strategies vary from bank to bank depending on their size, financial position, risk appetite, and trained staff. The data highlights the tilt of FIs in accepting immovable assets as collateral which restricts and creates a barrier for SMEs' growth against movable assets of businesses.

3.6.1 Recommendations Proposed by the FIs for the Support of the SME Sector

Considering the impact of digitization, rising inflation and input costs, volatile exchange rate, and increase in utility charges, most of the **FIs requested an upward revision in the annual turnover limit** (given in the SME Definition for both SE & ME, under the SME Prudential Regulations, 2017 of SBP). Since the dynamics of sectors differ in terms of the number of employees, and annual turnover, among others, and a single definition may not achieve the desired financing targets, the **FIs also proposed a sector-specific definition for SMEs.** In addition, 10 FIs opted for an enhancement in lending/credit amount to both SE & ME, which stands at PKR 25 million for an SE and up to PKR 200 million for an ME under the SBP's SME Prudential Regulations, 2017. **Table 10** summarizes the changes proposed by FIs in the existing definition of an SME.

Table 10: Changes Proposed by FIs in the Existing Definition of an SME

Needs Suggested by the FIs	No. of FIs Suggesting (n=30)	Percentage (n=30)
Enhanced Annual Turnover	8	26.67%
Sector-specific definition of SME	6	20.00%
Single parameter for the definition	3	10.00%
Endorsing SBP's definition / no changes required	7	23.33%

Source: Competition Commission of Pakistan's Research

3.6.2 Barriers Identified through Consultative Sessions with FIs

Based on consultative sessions, this report presents key insights shared by FIs regarding barriers faced by SMEs in accessing credit. These barriers are listed below.

Demand Side:

- SEs are undocumented businesses and do not keep transactions and accounting books. They **prefer to keep the business out of the formal system** and keep transactions in cash instead of a bank. Thus, it is challenging to assess the cash flow of their business.
- In the case of **SE** customers, there is a **lack of acceptable collateral** to secure loans.
- Low technological innovation by the SMEs, more specifically SEs which use old methods of doing business, records, and bookkeeping.
- Lack of managerial skills, **financial education,** and absence of business planning lead to high transaction costs.
- FBR-related hurdles and **fear of proper documentation of sales** and turnover records. Thus, borrowers tend to hide their income for tax evasion, especially in the case of MEs. Therefore, FIs are unable to assess their financial situation.
- **Asymmetric information** and a lack of awareness among borrowers about banking channels and products thus create hurdles in the way of SME financing.
- **The SME sector is more prone to economic shocks**. During an economic downturn, these businesses shrink and close. Thus, there is a low absorption capacity of economic shocks.
- Lack of financial resilience (e.g., a slight increase in Kibor rate would adversely affect the repayment capacity.
- Due to **lacking marketing expertise,** SMEs are weak in marketing their products. Due to inadequate and lack of product branding and marketing, they remain globally uncompetitive.

Supply Side:

- The non-performing loans in the sector are, on average, 20%. Further, ineffective and lengthy litigation for collateral liquidation exists, which impacts the confidence in extending finance by the FIs.
- Financial institutions make their internal policies for acceptable collaterals. Collaterals such as unapproved societies, fard based, shamlaats, and agri properties are generally avoided by banks for extended financing. Owners of such properties are requested to provide additional documents/requirements from revenue departments, which are sometimes cumbersome to obtain. SME borrowers who own such properties are generally deprived of financing even if their cash flows are satisfactory.
- High-interest rate/cost of credit.
- Scarcity of trained SME resources in financial institutions to understand an SME’s needs and cash flow.

- SMEs, in general, and SEs, in specific, have small needs and low transaction sizes, which is costly for FIs. Moreover, the acquisition and management costs are generally higher when compared to revenues generated from other sources of credit.
- FIs are risk-averse and more inclined to invest in risk-free government securities.
- Inadequate information about SME financing products and schemes by banking staff.
- Access and non-availability of consolidated sector-wise data from the government on the SME sector increase the risk and transaction cost of FIs to lend.

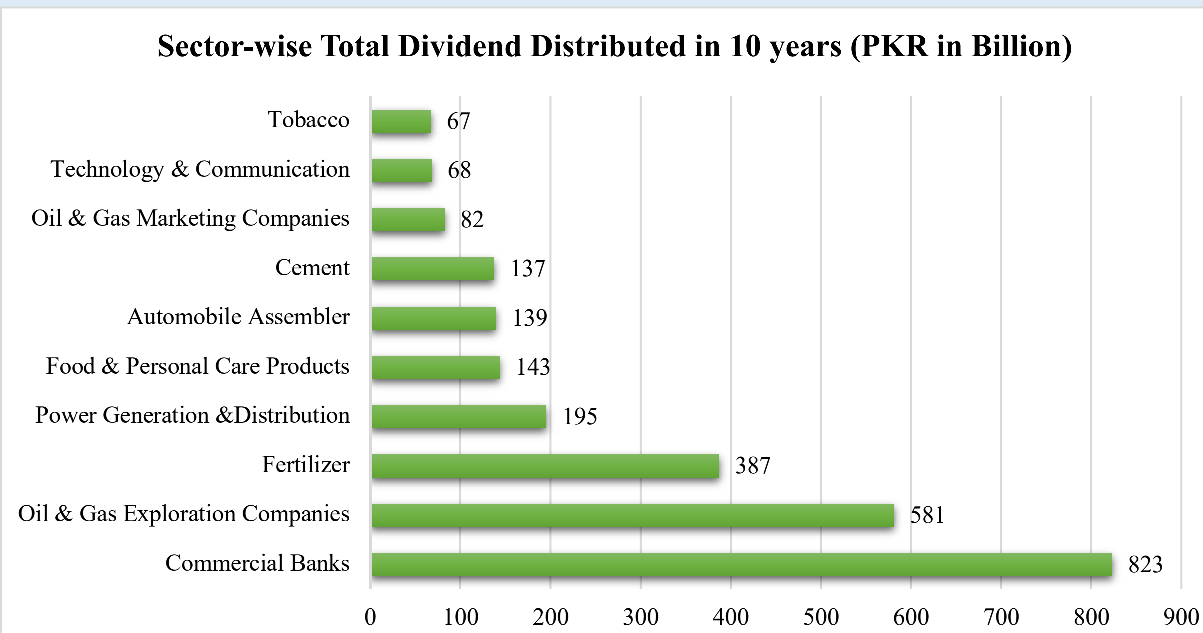
Banking Profitability and SME Lending – An Analysis

Reviewing the performance of the top 10 sectors from over 500 listed companies on the PSX based on the dividend payout (for the period 2011 to 2020) shows that the top 3 sectors are commercial banks, oil and gas exploration companies and fertilizer. Commercial banks top this list with PKR 823 billion as the total amount of dividend given during this period, followed by oil and gas exploration companies with PKR 581 billion and Fertilizer PKR. 387 billion.

Higher dividend shows higher accumulated profits in the banking sector. **As indicated by the FIs in the data collected, these FIs earn extensive profits through investment in secure government securities**. The FIs are reluctant to lend in the SME sector as these businesses are seen as risky, and investment in government securities is a means to maximize profits. This is also indicated by the stagnant share of the SME sector in private sector financing and the total number of borrowers during the same period. The **Figure 7** shows the list of the top 10 dividend-paying sectors along with the total amount given during the period 2011-2020.

Visible improvement in SME sector financing can occur if the top tear FIs align their credit strategies with the specific needs of the SME sector within the governing parameters set by the SBP.

Figure 7: Total Dividend Distributed by the Top 10 Sectors in 2011-2020



Source: https://www.brecorder.com/news/40145204

CHAPTER 4: SITUATION ANALYSIS OF WOMEN IN THE SME SECTOR

4.1 Global Perspective

In 2021 the world population stood at 8 billion[87] , and women constituted 50%. The Female Labor Force Participation (FLFP) rate (women age +15) was 47% in 2021, whereas men's labour force participation rate was 72%.[88] The percentage share of FLFP in the developed countries was 55-60%, and the FLFP in the least developed countries stood at 55%. However, the FLFP in South Asia stood at 25%, indicating that the FLFP of the region is low compared to other developing regions of the world.[89]

Women spend less time in the labour market, have lower pensions, and are at higher risk of poverty in old age. Whereas among the ones employed in the formal sector, a few rise to senior positions.[90] According to IMF studies on gender gaps' impact on economic growth, men and women at birth have the same potential. However, due to unequal access to education, health care, access to technology, finance, legal rights, and social and cultural factors, women are unable to realize their potential. These barriers result in a lower pool of talent available to firms, lower economic growth, and economic loss.

In 2015, the United Nations approved 17 Sustainable Development Goals (SDGs), replacing the Millennium Development Goals (MDGs) of 2000. The development of SDGs shifted the world's focus to more sustainable goals. The 17 goals under the SDG umbrella are interconnected, and the progress of one depends on the progress of others. SDGs focus on eradicating poverty, hunger, health, education, gender equality, employment, safety, and climate change.[91] The SDGs apply to all countries and are country led; thus, each country develops its framework to achieve them.[92] SDG-5 is about achieving gender equality and empowering all women and girls. It includes providing equal rights to economic resources, property ownership, and financial services; women empowerment through technology adoption; and strengthening policies and enforceable legislation for gender equality.[93]

Women's entrepreneurship has been recognized as an important untapped source of economic growth.[94] Women entrepreneurs create new jobs for themselves and others and provide society with different solutions to manage, organize business problems, and explore opportunities. According to a UNIDO study, the higher the gender equality in law in a country, the higher the

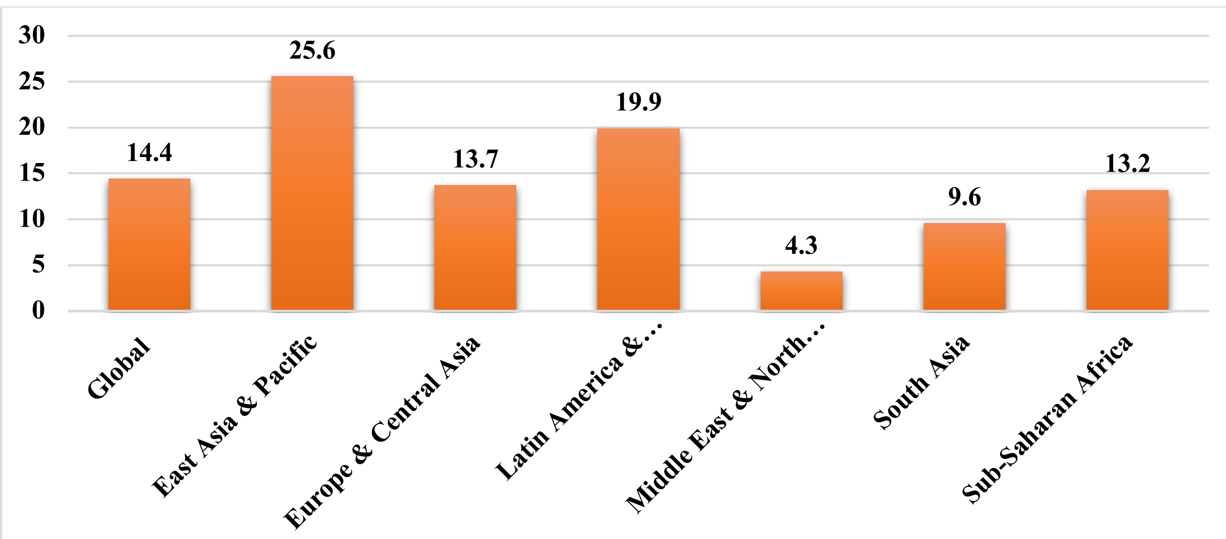
[87] https://www.un.org/en/observances/world-population-day
[88] https://data.worldbank.org/indicator/SL.TLF.CACT.MA.ZS
[89] Ibid
[90] https://www.sipotra.it/wp-content/uploads/2019/04/CLOSING-THE-GENDER-GAP.pdf
[91] https://www.undp.org/sdg-accelerator/background-goals
[92] https://psa.gov.ph/content/how-are-sustainable-development-goals-different-mdgs#:~:text=Unlike%20the%20MDGs%2C%20which%20only,framework%20in%20achieving%20the%20SDGs.
[93] https://www.sdgpakistan.pk/uploads/pub/APR-2021.pdf
[94] OECD. (2004). Women's Entrepreneurship: Issues and Policies.

women entrepreneurs share.[95] Formal education, access to banks, and availability of finance all have a positive relationship with women's entrepreneurship.

A growing body of research shows that increased female participation in the economy, particularly via women-owned SMEs, positively affects economic growth and broader developmental goals and priorities. Despite such mounting evidence, women still represent a minority of all entrepreneurs. Women-owned SMEs and female entrepreneurs face barriers and constraints that severely restrict their growth potential.[96] These barriers in entrepreneurship are rooted in the socioeconomic, cultural, and legal gender discriminatory practices and norms. Resultantly, gender bias not only affects the daily lives of men and women but also significantly impacts women's entrepreneurship and economic activity. Consequently, as per Karandaaz's SME report, the global difference in lifetime earnings between men and women results in a worldwide loss of $172 trillion in wealth.[97]

Figure 8 gives the percentage of women-led businesses (sole owners or majority owners) globally, which stood at 14% in 2022, with the highest share in East Asia and Pacific and the lowest in the Middle East and North Africa. In South Asia, it was 9.6%.

Figure 8: Businesses with Majority Female Ownership (%)



Source: https://www.unido.org/stories/women-smes-and-sustainable-development-lessons-learnt-road-ahead (2022)

Literature review shows that the greater the profits in a higher-wage sector, the fewer the women managers, business owners, and decision-makers there.[98] Not only have women lower participation rates in entrepreneurship than men, but they also generally choose to start and manage firms in different industries than men tend to do. The industries (primarily retail, education, primary healthcare, and other service industries) chosen by women are often perceived as less rewarding in monetary returns than high technology and manufacturing. Furthermore, mainstream

---

95 https://www.unido.org/stories/women-smes-and-sustainable-development-lessons-learnt-road-ahead
96 https://karandaaz.com.pk/blog/women-owned-smes-a-vital-engine-of-growth/
97 ibid
98 https://blogs.worldbank.org/voices/tackling-global-profitarchy-gender-and-choice-business-sector

research, policies, and programmers tend to be "men streamed" and too often do not consider the specific needs of women entrepreneurs. Consequently, equal opportunity between men and women from the perspective of entrepreneurship is still not a reality. Women entrepreneurs are also less likely to operate in technology-intensive sectors, including greater machinery. On the other hand, women are overrepresented in low-tech sectors, having lower profit margins, such as the garment and textiles sector, food, services, and retail. Lack of skills, training, education, limited access to formal credit, and social barriers pushes women into the informal economy.

Women's occupational and geographical immobility results in labour market failure. This market failure is further aggravated due to women's financial and non-financial barriers to becoming entrepreneurs. Resultantly, they earn less than 1% of all global spending on vendors by large corporations and governments worldwide (UN Women 2020; Vazquez and Frankel 2017)

Globally, 28% of MSMEs are owned by women. A breakdown of this 28% would show that most women own micro-enterprises, with very few owning SMEs. Women-led SMEs face greater financial barriers compared to their male counterparts. Women own 28% of MSMEs; however, the MSME finance gap they face is 32%. This gender finance gap is more pronounced in developing countries, and the gap continues to widen with the business size. It is wider at the SME level compared to microenterprises. Startup financing also shows similar results; women-led startups only receive 7% of venture capital funding globally.

Studies show that gender equality and diversity increase the profitability and innovation of businesses. Data suggests that the return on investment of women-led startups and MSMEs exceeds the average returns. **Table 11** shows the results of a study conducted on 350 companies, of which men founded 258, and 92 were founded or co-founded by women. The results show that women-led startups have lower investment but higher returns.

Table 11: Returns on Investment in Startups

Startups	Investment (USD in Million)	Revenue (USD in Million)
Founded by Men	2.120	0.662
Founded or Cofounded by Women	0.935	0.730

Source: Women, SMEs and sustainable development – lessons learnt for the road ahead | UNIDO (Year)

4.2 International Jurisdictions Initiatives for Women Entrepreneurs

4.2.1. Bangladesh

Bangladesh, as a rapidly developing nation, stands to gain the most from the inclusion of women in the business world. Over 13 million micro, small, and medium enterprises (MSMEs) are registered in Bangladesh. These MSMEs account for 25 percent of the country's overall production and provide jobs to 20.3 million people.[99] The labour force participation rate by females stood at 37.7% in 2022.[100] In contrast, only 7.2% of the total businesses are owned by women in Bangladesh.[101]

Women entrepreneurs in Bangladesh are involved in different kinds of businesses, such as manufacturing, trading, service, and others. The highest proportions (69 percent) of the enterprise are trading category, followed by manufacturing (19 percent) and service (12 percent).

The Central Bank of Bangladesh has taken numerous policy initiatives for the development of women entrepreneurs. Banks and Financial Institutions must maintain 10% of their total MSME portfolio for women entrepreneurs, which must be raised to at least 15% by 2024. Another initiative includes having women entrepreneurs dedicated desks in banks/NBFIs and increasing the size of refinance funds from Tk 850 crore to Tk 1500 crore to include more entrepreneurs, especially women entrepreneurs from remote areas, in the financial activities.[102] Furthermore, at least 15% of SME refinance funds have been allocated to women entrepreneurs.

A minimum 15%of all refinance windows of the SME & Special Programmes Department have been allotted for women entrepreneurs. For greater inclusion of marginal and home-based women entrepreneurs loan limit has been set up to BDT 10,000/- and group-based lending of up to BDT 50,000 is permit

4.2.2. India

According to the data by ILO, the FLFP rate in India has declined from 32% in 2000 to 24% in 2022.[103] Women entrepreneurs account for 8 million (13.76%) of India's total 58.5 million entrepreneurs.[104] Historically, women in India did not choose entrepreneurship eagerly. However, now younger women willingly choose to take on entrepreneurial ventures, with 58 percent of female entrepreneurs in India being in the age group 20 to 30 years at the time of 'starting up.'[105]

The government of India has introduced many programs to support the development of women's entrepreneurship. Some of these programs are as follows;

- The government's Stand-Up India scheme facilitates bank loans from INR 10 lakh to 1 crore to at least one woman and one scheduled caste[106] per bank branch to support entrepreneurship among women.[107]
- The Trade Related Entrepreneurship Assistance and Development (TREAD) scheme for women assists in the form of grants up to 30 percent of the total project cost, while a lending

[99] https://asiapacific.unwomen.org/sites/default/files/Field%20Office%20ESEAsia/Docs/Publications/2020/11/Women_MSMEs_Policy%20brief_final2.pdf
[100] World Bank, WDI.
[101] https://asiafoundation.org/2021/05/26/women-entrepreneurs-in-bangladesh-barely-staying-afloat/
[102] https://www.bb.org.bd/smeportal/wepolicy_updated.php
[103] World Bank, WDI
[104] https://economictimes.indiatimes.com/news/company/corporate-trends/womens-entrepreneurship-day-4-lady-bosses-from-indian-startups-on-how-to-slay-the-challenges-and-whats-the-reality/articleshow/95608701.cms
[105] Chakraborty. (2020). *Women's Entrepreneurship in India*. Position Paper. Initiative for What Works to Advance Women and Girls in the Economy.
[106] These castes have remained disadvantaged and discriminated. Some of these castes include Mahar, Bhangi, Mala, Cheruman etc.
[107] https://www.standupmitra.in/Home/SUISchemes

agency finances the remaining 70 percent as a loan for undertaking activities as envisaged in an entrepreneurial venture. The grant is utilized for training, counselling, and tie-ups for marketing, over and above capacity building for women.[108]

- The Rashtriya Mahila Kosh also gives out multiple loans of up to INR 10 lakh under various schemes to help women, from new and smaller organizations to start-ups.
- The Women Entrepreneurship Platform (WEP) by NITI Aayog has been created to accelerate female-led tech ventures by Zone Startups India to provide them with dedicated support. It helps aspiring women connect with relevant people in their industry and fosters networking amongst female entrepreneurs.
- Startup India has launched a nationwide women's entrepreneurship program (WING), which organizes basic and advanced workshops for aspiring and existing innovators, respectively focusing on knowledge sharing and how to kick start entrepreneurial aspirations with capacity building for female entrepreneurs.

4.2.3. China

China is one of the most populous countries, with a population of 1.41 billion people and 689.69 million females (48.9%).[109] Women's participation in economic activity in China is one of the highest in Asia, with a labour force participation rate of 61% in 2022.[110] It is partly the legacy of the Communist Party's rule in China since 1949 and the constitution of the Communist Party in which women are considered equal to men in all spheres of life (Yu and Liu, 2000). In 1968, Mao Zedong envisioned a China where "women hold up half the sky." In keeping with this vision, the Government of China implemented specific measures to ensure women's participation in the labour force through the provision of childcare and social security systems, especially since the end of the Cultural Revolution in 1978.[111]

According to the Mastercard Index of Women Entrepreneurs 2020, about 24% of businesses in China are owned by women.[112] According to national statistics, women are more likely to be self-employed than men. For example, 38.7% of women were self-employed in 2018, compared to 34.9% of men.[113] Women entrepreneurs tend to concentrate in the light manufacturing and service sector, including the internet and other information services (i.e., telecommunications, radio, television, satellite transmission services industry), leasing and business serving, and professional technological services. According to data, approximately 55% of the new Internet businesses are founded by women.

Women entrepreneurs in China face several barriers that prevent them from establishing their businesses. One of the significant barriers is the gender differences in access to finance amongst Chinese enterprises. Women entrepreneurs find it difficult and costly to obtain financing. According to statistics from the China Association of Women Entrepreneurs (2016), one-third of

---

[108] https://iwwage.org/wp-content/uploads/2021/03/ISST-and-IWWAGE-Position-Paper.pdf
[109] https://www.statista.com/statistics/251129/population-in-china-by-gender/
[110] https://www.statista.com/statistics/252721/female-labor-force-participation-rate-in-china/
[111] Dasgupta. (2015). Women in the labour market in China. International Labor Organization.
[112] https://www.mastercard.com/news/media/1ulpy5at/ma_miwe-report-2020.pdf Pg. 54.
[113] https://www.tandfonline.com/doi/abs/10.1080/13678868.2020.1842983?journalCode=rhrd20

their members raised funds through personal savings and one-third through friends, and the amount of bank loans to private enterprises is restricted.[114]

The government implemented several policies encouraging women to start their businesses, including skill training allowance, micro-credit loan guarantees with discounts, and tax benefits. In January 2023, China's National People's Congress Standing Committee updated the Women's Rights and Interests Protection Law. The revised legislation aims to safeguard the interests of women in the workplace and society.[115]

The new provisions strengthen the protection of the rights and interests of disadvantaged groups, such as poor women, older women, and disabled women. The revisions are aimed at addressing issues concerning women's rights, including gender-based discrimination in the workplace, birth rights, and sexual harassment.

Under the latest version of the women's protection law, employers are not allowed to withhold promotions and professional advancement based on factors like marriage, pregnancy, or parental status. Similarly, employers are barred from asking discriminatory questions about a female job applicant's marital or parental status during the recruiting process. Another significant change in the updated law is the ban on certain hiring practices, including pregnancy tests as part of pre-employment physicals and making hiring decisions based on marital or parental status. In addition to these legal protections, the government has also enacted measures to provide a positive fertility support system. Many women are forced to leave their newborn babies at home because of the pressure to return to work. It is on this premise that the government is striving to make the workplace a more fertility-friendly place. Measures like reinforcing maternity leave guidelines are among a string of policies put in place by the Chinese government.

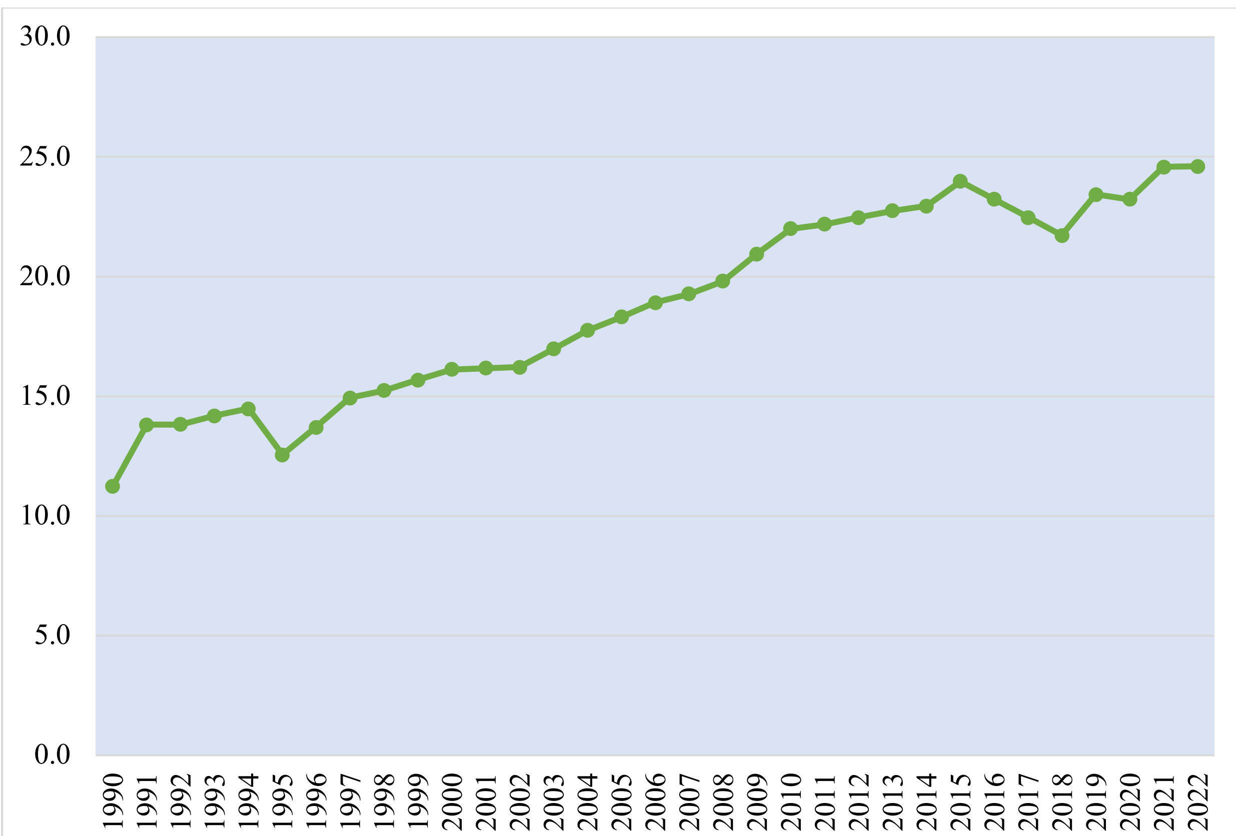
114 https://www.tandfonline.com/doi/abs/10.1080/13678868.2020.1842983?journalCode=rhrd20
115 https://www.china-briefing.com/news/china-takes-steps-to-empower-women-latest-developments-in-womens-protection-law/

4.3 Women in SMEs- Pakistan

As female empowerment increases in societies, more women are interested in entrepreneurship. Female entrepreneurship highly depends on social, cultural, and institutional factors that encourage and motivate females to participate in entrepreneurship activities. Pakistan is a developing country with a high population growth rate compared to job creation. With a 2.1% projected growth rate of the working population for the next decade, engaging in entrepreneurship is the most sustainable solution.

According to World Bank data, Pakistan's female labour force participation (FLFP) rate is 24.6% in 2022 (India 24%, Bangladesh 37.7%, Sri Lanka 33%), which is 56% less than male LFP. **Figure 9** shows the percentage of the FLFP rate in Pakistan from 1990- 2022. While the last two decades have seen an increase in FLFP, a clear peak emerged in the year 2015 with a participation rate of 24%. Unfortunately, since then, it has declined and remained stagnant during 2020 and 2021.

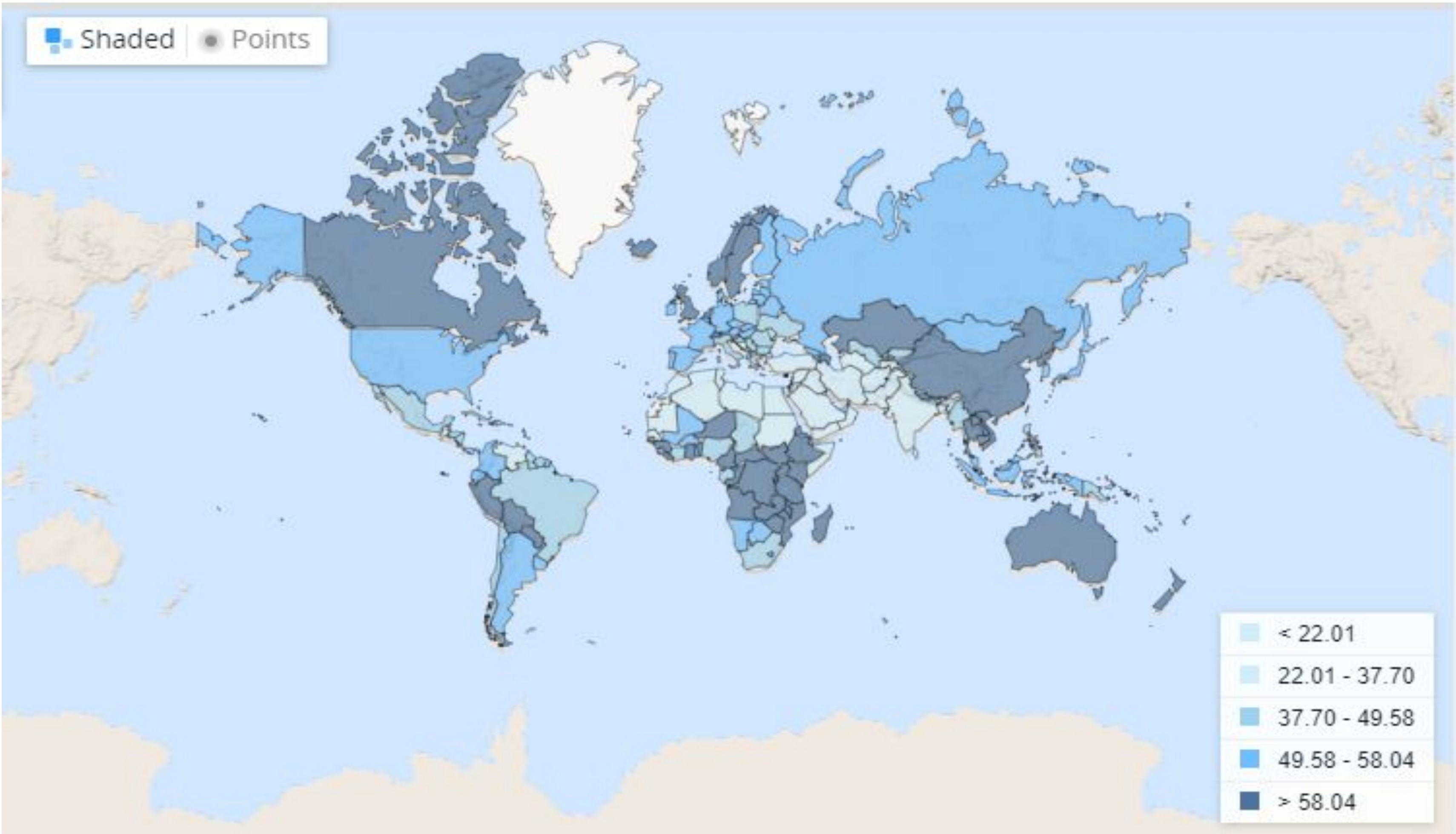
Figure 9: Female Labour Force Participation Rate in Pakistan (%), 1990-2022



Source: World Bank

Compared to developed regions such as North America (56%), European Union (51%), and regional countries including Malaysia (51%), Indonesia (54%), and China (62%), Pakistan's FLFP is extremely low. **Figure 10** shows the FLFP rate across the world in 2021.

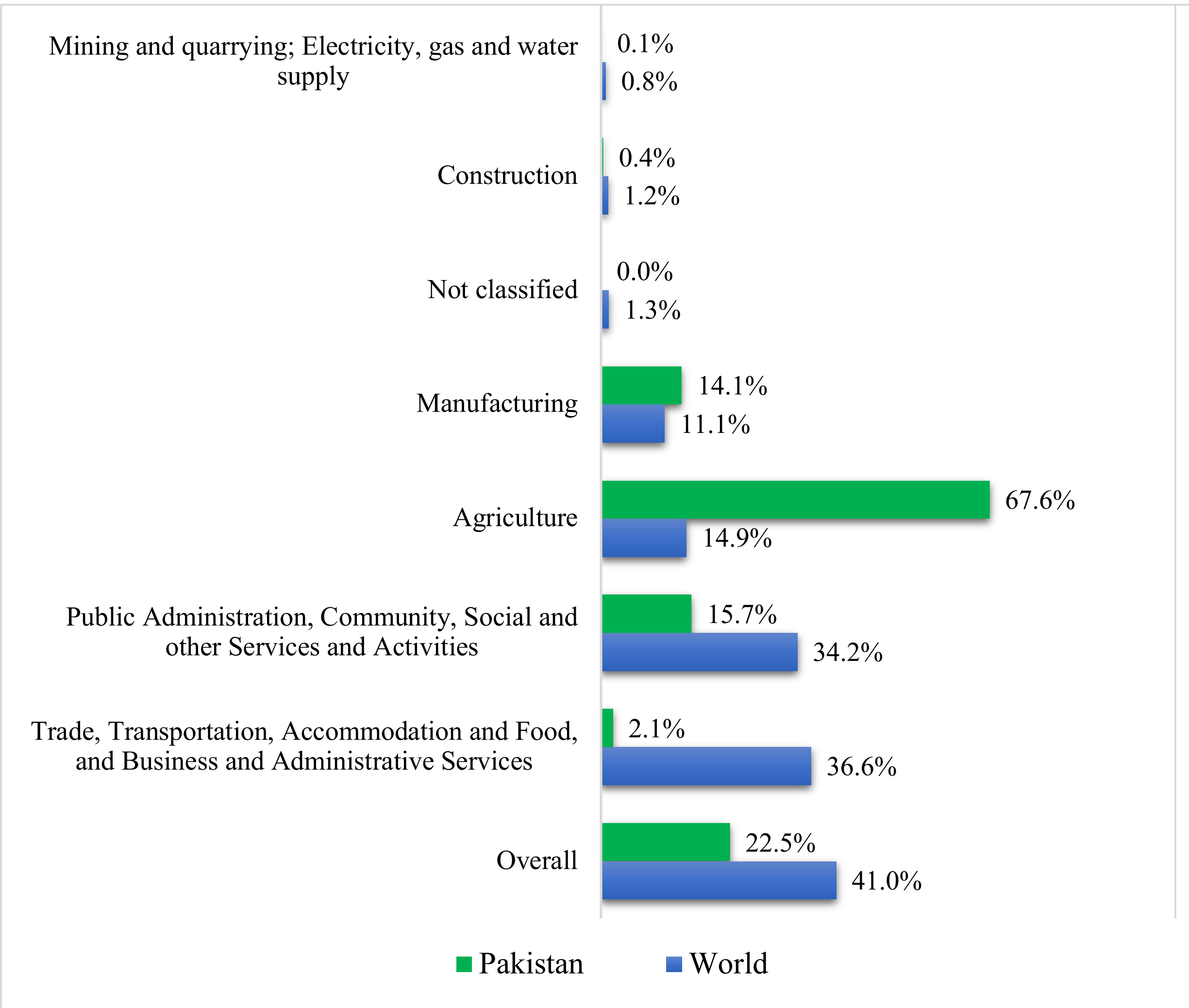
Figure 10: Female Labour Force Participation Rate in the World (2021)



Source: World Bank https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS?end=2021&start=1990&view=map

According to ILO (2021) (**Figure 11**), in Pakistan, out of the total employed women, the majority are employed in the agriculture sector (67.6%), followed by public administration (15.7%), the manufacturing sector (14.1%) and the remaining 2.6% in others. Nationwide, the agriculture sector employs more than 40 % of the labour force. Women's reliance on agriculture for employment is more prominent, and most work as unpaid family workers.[116] However, worldwide trade, transportation, accommodation, and business administrative services account for the highest proportion (36.6%) of female employment. The ratio of females in this sector is low in Pakistan due to social and cultural barriers women face to participate in this sector.[117] Similarly, the share of females in agriculture and manufacturing is lower globally than in Pakistan.

Figure 11: Comparison of Female Employment across Sectors, 2021 (%)



Source: CCP's calculations based on ILO Employment by Sex and Economic Activity

[116] https://documents.worldbank.org/en/publication/documents-reports/documentdetail/544371552660120963/pakistan-at-hundred-shaping-the-future-2047
[117] https://lahore.comsats.edu.pk/Papers/Abstracts/539-8588278248237588308.pdf

The FLFP rate in Pakistan has slightly improved over the last two decades due to an increase in the rural FLFP rate. The urban FLFP has stagnated at around 10% over the last decade.[118] With a total population of over 230 million, females constitute 49% of the total population, however, the FLFP is only 21%, and only 25% of women with a university degree are working.

Lack of access to health and education, especially in rural areas, are significant barriers to women's economic empowerment. In the former Federally Administered Tribal Area (FATA), for instance, 1 out of 10 girls can read, and 50% of girls are out of school. Balochistan has the lowest female literacy rate of 24%, whereas 67% of girls are out of school, and the FLFP is merely 4.9%.[119]

Gender inequality is a significant challenge the country faces, whereby women do not have equal opportunities in health, education, political participation, and employment, among others. According to the UN Gender Gap Index Report 2022, Pakistan is ranked 145th out of 156 countries in economic participation and opportunities, 135th out of 156 in educational attainment, and 143rd out of 156 in health.[120]

Pakistan is ranked lowest in entrepreneurship in the formal and knowledge-driven sectors[121] (the Global Entrepreneurship Development Institute ranked Pakistan 120 out of 137 countries in 2018), and only 8% of MSMEs are owned by women. The social and cultural setup is such that females hesitate to interact with male representatives in FIs, as women only constitute 12% of the financial sector workforce.

One of the key barriers for women entrepreneurs is access to finance. According to World Bank Report, 2018, borrowing from friends, family, and shopkeepers remains the most frequent method of acquiring credit in the country, and only 2% of women borrow from formal sources. Women do not borrow from formal sources due to a lack of information about financing products available and unfavourable credit conditions.[122]

---

118 https://documents.worldbank.org/en/publication/documents-reports/documentdetail/544371552660120963/pakistan-at-hundred-shaping-the-future-2047

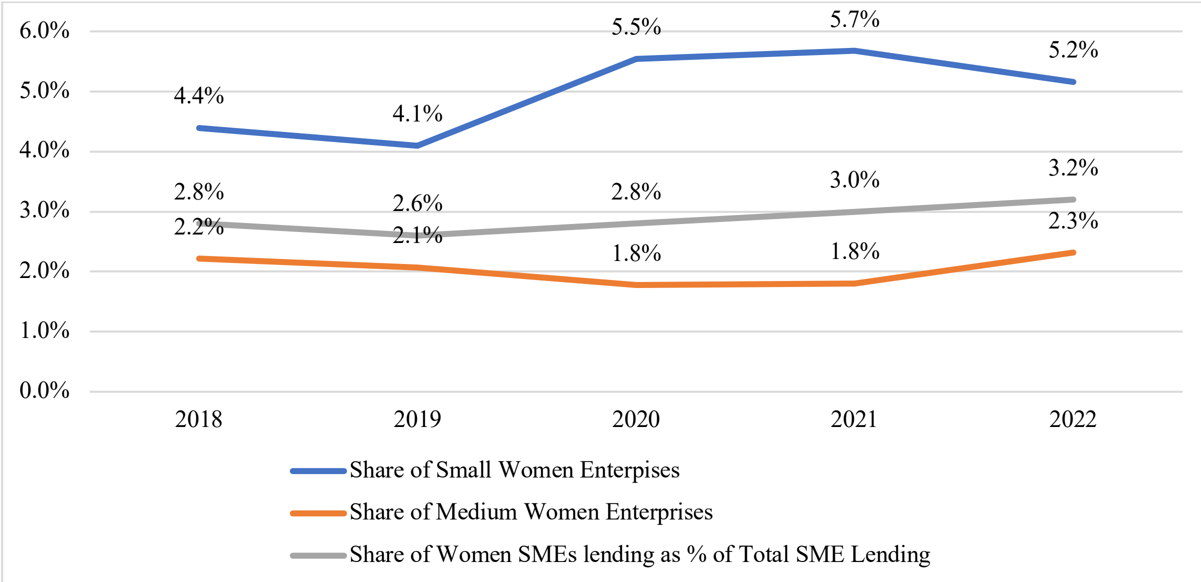
119 https://southasianvoices.org/empowering-women-in-pakistans-economy-lessons-from-bangladesh/

120 https://asiapacific.unwomen.org/en/countries/pakistan

121 https://www.mckinsey.com/featured-insights/middle-east-and-africa/pakistans-start-up-landscape-three-ways-to-energize-entrepreneurship

122 https://www.sbp.org.pk/departments/ihfd/Sub-Segment%20Booklets/Diagnositic-SurveyReport-Women-SMEs.pdf

Figure 12: Share of Women SME Lending in Pakistan



Source: Calculations from Data provided by SBP

According to SBP data, in 2022, the share of women SMEs as a percentage of total SME lending was 3.2%. **Figure 12** shows that the share of small women enterprises is higher than that of the medium. The share of small women enterprises has increased by 0.8% from 4.4% in 2018 to 5.2% in 2022. On the other hand, the percentage of medium-sized women enterprises declined from 2.2% in 2018 to 1.8% in 2021 and then increased to 2.3% in 2022. Overall, the share of women SME lending in total SME lending has increased by 0.4% from 2.8% in 2018 to 3.2% in 2022.[123]

Table 12: Share of Total Loans Extended to Women Entrepreneurs (2018-2022)

Year	Gross Loan Portfolio of Microfinance Banks	Total Lending to Women Enterprises	Share of Women Enterprises in Total Lending to Microenterprises
2018	189,540	35,576	19%
2019	214,942	39,065	18%
2020	239,345	42,547	18%
2021	290,017	49,704	17%
2022	343,502	59,547	17%

Source: State Bank of Pakistan

[123] Data provided by SBP

Table 12 shows that the share of women enterprises in total lending to microenterprises has declined to 17% in 2022 from 19% in 2018. However, it may be noted that the share of women enterprises in micro-enterprise lending is higher than that of SME lending.

In 2021, women-led startups in Pakistan only raised 3% of the startups' total funding.[124] During 2015-19, out of 101 Venture Capital deals, only 24 invested in women-led companies. Pakistan has only 1% female entrepreneurs compared to 21% (of the labour force) of male entrepreneurs.[125] Only 12% of firms have female owners, whereas the global percentage is 34.[126]

The government acknowledges that women's economic empowerment is critical for the country's economic development. For this purpose, many initiatives have been taken to increase gender parity. These include gender-inclusive policies, amendments in laws and regulations, and working closely with international donors and other multilateral agencies, including ADB, WB, JICA, and others.

Under the Policy Direction, the National SME Policy, 2021 states;

'The National SME Policy, 2021 recognizes the enormous potential of women in contributing towards job creation and income generation in the economy. Women entrepreneurs .... The policy is cognizant of this constraint and puts forward specific recommendations and programs to facilitate women entrepreneurship in the country', in furtherance under 'Addressing Supply Side Challenges,' the policy recommends:

a) State Bank will ensure better utilization of its refinance & credit guarantee scheme for women entrepreneurs.
b) SMEDA will advocate for increasing women centric training programs and the scaling up of initiatives across the country, such as 'Job Assan' af the Punjab Commission for Status of Women (PCSW) that are focused on assisting women with job search and applications.
c) Women Entrepreneurship Development-measures to support women owned SMEs will include consultative group of MoIP on supporting women owned SMEs,
d) ensuring 'banking on equality' of SBP
e) Simplification of taxation and reduced taxation for women
f) Develop a one window virtual facility for women entrepreneurs for enhanced access to information,
g) Provision of women friendly work environment
h) Development of specialized business facilitation programs and developing linkages.

Access to finance is one of the key factors contributing to the already existing gender gap in the country. To enhance women's financial inclusion, the SBP has launched the gender mainstreaming policy "Banking on Equality: Reducing the gender gap in financial inclusion." To improve women's financial inclusion and increase their economic participation, instructions have been issued to the FIs to achieve the following targets by 2024.

- Increase women's ratio in the financial sector to 20% from 12% (2020)
- Placing women champions at 75% of all bank touchpoints

---

[124] https://invest2innovate.com/weraise/
[125] Only 1% females of the total labour force are entrepreneurs, whereas for men it is 21%
[126] https://www.scirp.org/journal/paperinformation.aspx?paperid=107324

- Increase the ratio of women agents in branchless banking to 10% from 2% (2020)
- Impart gender-sensitive training for all staff to eliminate gender biases.
- Financing to women entrepreneurs to reach 20 million unique active digital accounts[127].

SBP has also launched a refinance and credit guarantee scheme for women under which SBP provides refinancing at 0% with 60% risk coverage to the FI for onward lending to women entrepreneurs at a markup of 5% per annum. Women enterprises can also be financed up to PKR.5 million, preferably against the personal guarantee, for a period of 5 years with a grace period of up to 6 months. To encourage women's entrepreneurship in Balochistan, the banks are required to allocate 20% of their total financing limit.[128] Under NFIS 2023, one key initiative is strengthening First Women Bank Limited to increase access to finance for women entrepreneurs.

SMEDA's Women Entrepreneurship Development Cell (WEDC) interacts with and facilitates women entrepreneurs for women's economic empowerment. SMEDA is the lead partner in the Women Inclusive Finance (WIF) Sector Development Program (SDP) of the Asian Development Bank (ADB). The programs aim to enhance women entrepreneurs' formal access to credit. SMEDA also conducts exclusive training programs for the capacity building of women entrepreneurs on topics such as accounting, bookkeeping, marketing, e-commerce, Amazon, social media, business management, business registration, and taxation. It also helps women entrepreneurs participate in trade fairs across the country.[129]

Amendments have also been made in Articles 31 and 37 of the Companies Act 2017 to ease out the procedure of company incorporation. The Companies (amended) Act 2021 lifts the requirement for women entrepreneurs to provide the names of their fathers or husband (if married) during the company incorporation process, submission of company memorandum, and articles of association. Under the amended Act 2021, Articles 31 and 37, men and women only have to provide their names. [130] The reforms are a result of a partnership between the Government of Pakistan and the World Bank Group's Women, Business and the Law (WBL) Advisory Program, supported by the Women Entrepreneurs Finance Initiative (We-Fi) and the WBG's Doing Business Pakistan Project.

National Financial Literacy Program (NFLP) was launched by SBP in 2017 to impart basic financial education to the general public, with a target to educate 1 million people over 5 years. Under the program, the target participants consist of 50% females and 70% rural. As of May 2021, 886,000 participants have received financial education through NFLP.

4.4 CCP Seminar on 'Women in SMEs-Challenges and Way Forward.'

On 8th March 2023, CCP held a seminar on 'Women in SMEs- challenges and way forward.' Panellists from various sectors participated in the seminar. The panellists included CEO SMEDA, founder of Atomcamp, head of women venture portfolio Karandaaz, women entrepreneurs

[127] https://www.sbp.org.pk/boe/index.html#a
[128] ibid
[129] Information shared by SMEDA
[130] https://www.secp.gov.pk/

representing nutraceuticals, furniture, skincare, gems & jewellery sectors and the consumer association of Pakistan.

The panellists discussed the landscape of SMEs in Pakistan, focusing on women SMEs and entrepreneurs. Various initiatives taken by SMEDA were elaborated, such as developing a women's entrepreneurship policy and preparing a diagnostic report. Initiatives of Karandaaz for financial inclusion and technical assistance to SMEs and women entrepreneurs, in particular, were discussed. Further, the need for an independent credit guarantee company to provide risk cover to FIs lending to SMEs was also deliberated upon. The women entrepreneurs shared their experiences in doing business and the barriers they faced. They discussed both the demand and supply sides issues such as access to finance, regulatory burden, social issues, and lack of education and technical skills of workers.

A summary of the barriers discussed is given below;

- The entrepreneurial ecosystem is missing in the country. Women have mobility, cultural, and security issues, due to which women entrepreneurship is very low (1%) in the country.
- Only 18% of women have access to microfinance.
- SME sector lending is only 6% of the private sector lending, and within SME lending, only 3% goes to women entrepreneurs.
- Business development and skills training of women entrepreneurs is required as women lack basic and technical skills.
- Rural women face a host of barriers in comparison to their urban counterparts. Their capacity building is required.
- Access to finance needs to be simplified.
- Where access to finance is a significant barrier for all businesses, small or big, skill development becomes more crucial for micro-enterprises as their financial needs are much less than those of SMEs.
- Pakistan has seen a digital revolution with high mobile penetration (82% mobile teledensity[131]) and access to the internet (54% broadband, 53% mobile broadband penetration). However, digital inequalities exist in the country. According to a World Bank survey (2021), women in Pakistan are half as likely as men to have a mobile phone.[132]
- Where women have access to the internet, women-led micro-enterprises have grown, and women are doing business from home. Access to the internet and online social/e-commerce platforms have provided the opportunity for women-led businesses to grow.
- The banks do not do cash flow lending like in other international jurisdictions. For cash flow, more analysis is required, and banking staff dealing with SMEs lack the capacity and thus mitigate their risk of lending through accepting immovable assets as collateral.
- SME Chambers can play an essential role in safeguarding the interests of the SMEs, and their role needs to be strengthened.
- A total of 50 laws and numerous secondary regulations are enforced by over 40 national and subnational agencies and departments through innumerable NOCs, permits, and licenses in regulating the manufacturing sector. This over-regulation in the sector has resulted in increased costs of doing business for SMEs. A review of these laws governing

[131] https://www.pta.gov.pk/en/telecom-indicators
[132] https://www.worldbank.org/en/publication/globalfindex

the sector and their simplification are required to provide an enabling environment for SMEs to grow. The policy acts as a catalyst; therefore, its consistency and continuity are needed in the SME sector as changes in the regulatory environment impact the cost of doing business. Ideally, the policies governing the SME sector should be for 10-15 years to have the desired effects.

- There is a need to strengthen and improve the credit guarantee schemes to provide a cover to FIs in lending to the sector. The conflict resolution mechanism is a very lengthy process, and FIs, therefore, are reluctant to lend in the sector.
- In SEZs, women entrepreneurs should be given concessional rates. Alternatively, the allocation of land for women entrepreneurs in SEZs to promote women's businesses.
- On the demand side, SMEs are resistant to change in technology. They are not innovative and do not want to invest in technology and value addition of their products.
- Entrepreneurs in Pakistan are reluctant to develop new skills. They tend to lack the motivation and drive to improve their economic condition. Their attitude towards work, skill development, and training is casual, leading to lower productivity.

Comments Shared by the Panelists

- **Issues for Businesses in the Nutraceuticals Sector**[133]

Nutraceuticals are nutrients presented in pharmaceutical dosage forms for health-related purposes. These, along with Alternative Medicines, including homoeopathy, ayurvedic, Unani, and herbal products, are regulated by the OTC Division of the Drug Regulatory Authority of Pakistan (DRAP). The federal government regulates the manufacturing, registration/enlistment, import, and export, while the sale of these is the mandate of provincial governments.
Division of Health & OTC, under DRAP Act, 2012, is responsible for regulating local manufacturers and importers and their products in the category of nutraceuticals. An issue arises if some non-manufacturer of nutraceuticals intends to register their brand. If an importer who is not a manufacturer intends to launch their own local brand, then they have to consult a DRAP-approved manufacturer who will apply for the brand registration/enlistment with DRAP. The brand will be registered/enlisted in the name of the manufacturer instead of the actual developer of the brand. The only solution for such market players is to register/enlist a trademark of the brand. Otherwise, if the brand is registered/enlisted in the name of the manufacturer and the brand owner (marketing company) intends to change the manufacturer due to costs or any other reason, then the whole procedure of registering the brand will have to be initiated all over again. This process poses a risk and a cost to the brand owner in terms of time, energy, and business loss. Furthermore, if the brand gets successful and the manufacturer parts its ways with the brand owner/marketing company, then the legal process will have to be followed for the settlement of such dispute, which also poses an additional burden on businesses.

However, there are examples in the world where the brand owner does not manufacture the product. Rather they either just do packaging and sell the product with their name or get the finished product manufactured by a third party and sell it under their own name. One such example is of Blackmores, Australia. The company continued its business for 80-90 years without going into the production process, and only recently, it started bulk production. However, in the case of Pakistan, DRAP requires the brand owner to have its own manufacturing facility.

In contrast, it is not feasible for every player to have its own manufacturing facility. This poses a risk and hinders the non-manufacturer from investing in their own brand. In this regard, the DRAP can facilitate businesses by allowing a non-manufacturer to register their own brand and have the manufacturing from an authorized and approved manufacturer. This may also help non-manufacturers to invest and explore export markets instead of focusing on production.

[133] As shared by Ms. Farah Faris, Founder and CEO, Base 6 (Pvt.) Ltd.

- **Comments from a Skin/Beauty Product Manufacturing Brand** [134]

There is a lack of technical human resources for various industries. Some of the technical human resource available is disparate, and SMEs find it incredibly difficult to hire. If the government is training specific sectors (e.g., textile/mining), those institutes should be published and updated by a particular ministry so that hiring needs can at least be simplified. There is also the need to put a robust effort into training resources for specific industries, as this remains weak for most (except perhaps for textiles).

- **Comments from Gem Stone & Jewelry Entrepreneur**[135]

Pakistan has the world's 5th largest gold and copper reserves and has large deposits of precious gem stones. However, the share of mining in the GDP is less than 3%. Strong barriers to export exist in the gemstone business. The export is subject to SRO 760 issued by the Ministry of Commerce. A confirmed order, meeting all criteria of export by TDAP. However, the multiple regulatory layers and agencies involved, such as SBP, FBR, and customs requiring various NOCs, permits, and licenses, constrained the export, resultantly other regional countries have become the beneficiary.

- **Comments from the Consumer Association of Pakistan-Women Wing**[136]

The implementation of reforms should begin at the grass-root level. The rural areas must be injected with funds for training/workshops (at sight villages), providing energy sources through green applications, water efficiency for daily needs, medical camps to educate (Females), and education for children to empower the rural area females who have hidden talents which need to be explored and driven to successful development.
Electronic literacy & power source is vital to modernizing rural area females. Even though they have no education but they have the ability to learn. Information technology is of vital importance for developing these areas, and females if not done now, we will be on the back foot while countries like Ecuador, Peru, Chile, and Colombia have rapidly advanced using this concept.
Consumers Association of Pakistan and Women Wing Pakistan CAP can arrange awareness programs with the Collaboration of CCP and conduct workshops and seminars as CAP has more than 500 women entrepreneurs enlisted.

---

[134] As shared by Ms. Myra Qureshi Jahangir, CEO, Conatural Beauty (Pvt.) Ltd.
[135] As shared by CEO Orah Jewels
[136] As shared by Ms. Raafia Mamujee Chairperson Consumer Association of Pakistan-Women Wing

Regional comparison of female labour force participation shows that Pakistan's FLFP is at par with India's FLFP; however, it is much lower than Bangladesh and Sri Lanka's FLFP. Analysis of financial inclusion measures taken by the regional countries also shows that these countries have allocated much higher funds and have announced greater financial inclusion schemes for women (the case of Bangladesh, China, and India is discussed above). The data provided by SBP on women's financial inclusion shows that women only receive 3.2% (2022) in SME financing. A comparison with Bangladesh, where the FLFP rate is 37%, shows FIs are mandatory to lend 10% of funds to women entrepreneurs. Where Pakistan has taken various initiatives to promote women's entrepreneurship, there is a need to create a level playing field, take affirmative action, and allocate greater funds for women entrepreneurs. The panellists of CCP's seminar on *Women in SMEs* also highlighted various regulatory hurdles in different industries that create substantial barriers constricting investment and growth.

CHAPTER 5: DEMAND-SIDE BARRIERS TO SMES' GROWTH

Market equilibrium cannot be achieved in isolation; both supply and demand can influence the market dynamics. The following chapter reviews the demand side of the SME sector, employing qualitative and quantitative approaches to study the demand-side problems that hinder the growth of SMEs.

5.1 Methodology

To identify the key barriers to the SME sector growth and competition, it was essential to study their perspective and real-time challenges. For this reason, comprehensive research was conducted with various government organisations' cooperation.

5.1.1 Research Approach

The approach to data collection for this study was a mix of deductive and inductive research approaches. The mixed-method study was conducted using qualitative and quantitative techniques. A questionnaire was designed by the researchers that included closed and open-ended questions.

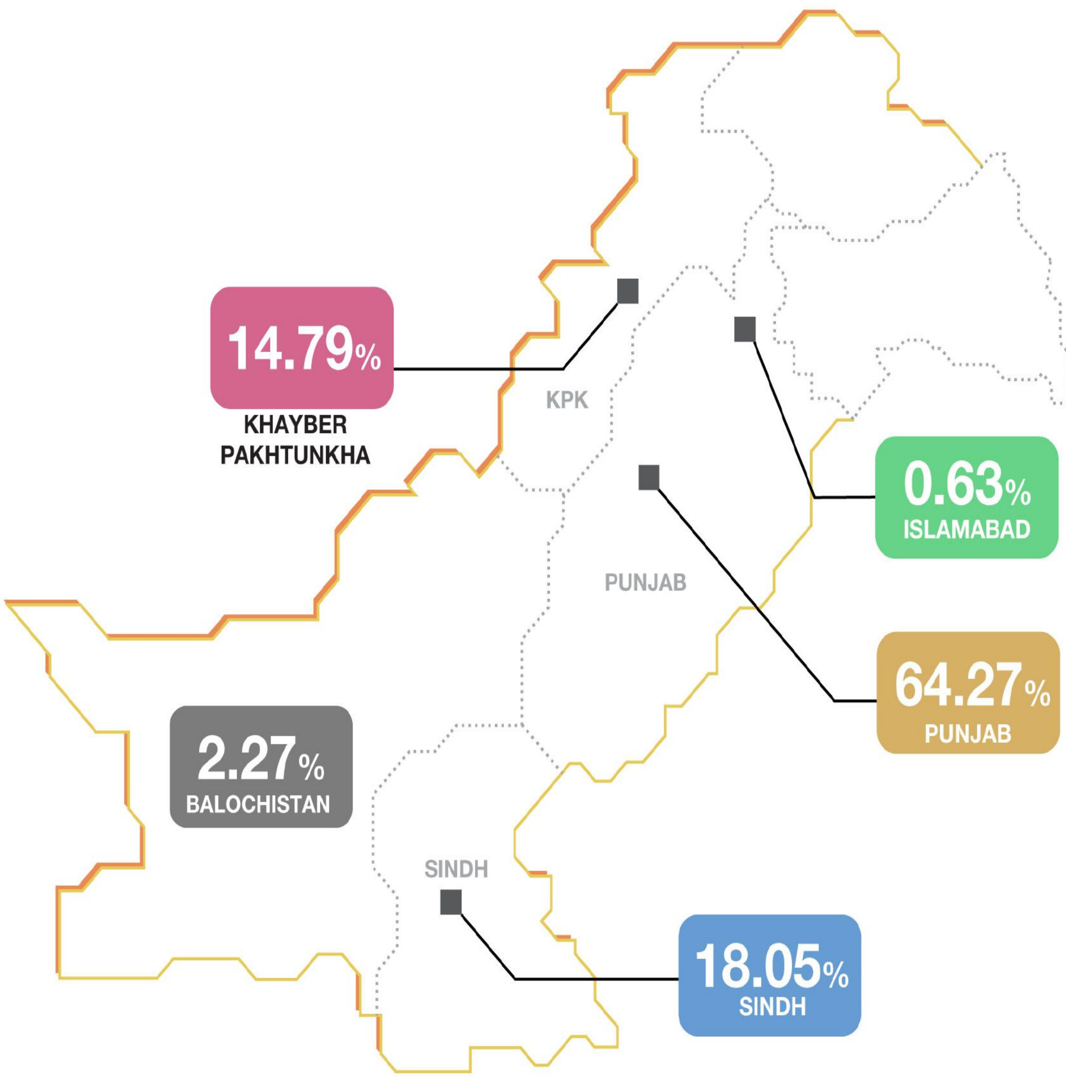
5.1.2 Sample and Data Collection

The primary data was collected through conducting 18 consultative sessions with 21 trade and commerce bodies in 11 major populous and prime cities of all four provinces with chambers of small traders and small industries, chambers of commerce & industries, and trade associations.

A total of 362 SME owners were contacted through the stated industrial platforms, and sessions were held with them to personally administer data collection through a semi-structured questionnaire (**Appendix III**). The survey instrument comprised 28 questions, of which 23 were closed-ended and five were open-ended to provide freedom to the SME respondents to state their specific issues. It helped the researchers gain deep insights into SMEs' real-time challenges in their financial and operational work. Out of 362 distributed questionnaires, 164 completely usable responses were received, with a comprehensive list of issues highlighted during these consultative sessions nationwide. The response rate was 45.30%. However, the respondents who did not complete the questionnaire still were part of the sessions. They actively described their issues and provided suggestions for improvements.

The country map in **Figure 13** shows the distribution of SMEs in the country. 64.27% of SMEs are located in the province of Punjab, 18.05% in Sindh, 14.79% in Khyber Pakhtunkhwa, and 2.27% in Balochistan. The data have been collected keeping in mind the spread of SMEs. Hence, out of 18 sessions, 11 were held with the SMEs in Punjab through the commerce and trade bodies. The summary of targeted localities, number of sessions held, and data collected are presented in **Table 13**, whereas **Appendix III** contains the details about trade and commerce associations.

Figure 13: Area-wise Distribution of SMEs' in Pakistan



Source: SMEDA

Table 13: Summary of Sessions Held and Data Collection

Sr. No.	Targeted Locations		No. of Organizations Sessions Held with	No. of Participants	No. of Questionnaires Distributed	No. of Complete Responses Received
	Province	City				
1	Federal Capital	Islamabad	1	16	16	9
2	Punjab	Faisalabad	2	21	21	6
3				39	39	5
4		Gujrat	2	20	20	9
5				11	11	6
6		Lahore	2	20	20	13
7				9	9	6
8		Multan	2	43	43	15
9				20	20	16
10		Rahim Yar Khan	1	15	15	6
11		Sargodha	1	24	24	15
12	Sindh	Karachi	3	10	10	0
13				15	15	7
14				15	15	8
15		Hyderabad	2	22	22	19
16				25	25	14
17	Khyber Pakhtunkhwa	Peshawar	1	22	22	10
18	Balochistan	Quetta	1	15	15	0
Total			**18**	**362**	**362**	**164**

Source: Competition Commission of Pakistan's Research

5.2 Barriers Highlighted by SMEs in Consultative Sessions

Among the comprehensive data received from this robust set of activities, a list of the most critical barriers to SMEs' growth were identified according to the response rates of the SMEs. These barriers highlighted by the SMEs are discussed further in detail, and recommendations are proposed to improve the competitiveness and efficiency of SMEs.

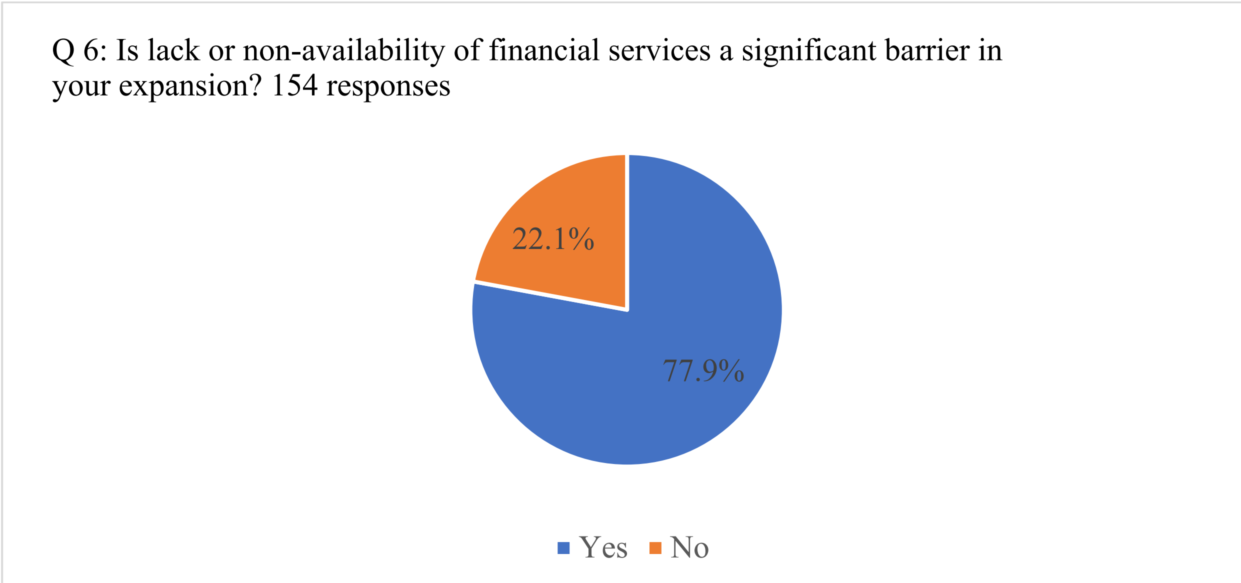
5.2.1 Lack of Formal Sector Finance:

A key issue that the stakeholders vehemently highlighted was the non-availability of finance to SMEs by the formal sector. Interestingly, while SME lending has remained stagnant at around 7% of private sector financing, the banking sector's profits have shown exponential growth. Most of the lending institutions are concentrated in a few metropolitan cities. These FIs focus primarily on the public sector or, at best, the medium to large enterprises for secure investments. Ironically, the SME sector in general, and the small enterprises and startups in particular, are unable to secure credit, irrespective of their geographical location. The situation worsens as we move from the provincial capitals to peripheral cities.

Multiple problems, such as the requirements of excessive documentation and collateral based on immovable assets, make it an uphill task to get an SME loan. The non-availability of financing, thus, is a key barrier to the growth and development of SMEs. Where SBP has been introducing new schemes for the growth of the SME sector, the FIs seem reluctant to pass them on to SMEs. Most of the time, the small enterprises that approach FIs to avail of the SBP-offered financing schemes are unable to avail the same and instead encouraged to apply for financing products of the respective bank/FI's, available at higher interest rates. Thus, the expected results of SBP financing facilities for the SME sector are marginal at the grass root level. To meet their financing needs, these SMEs either resort to equity financing or cannot grow because of unmet financing needs. This results in a lack of competition and inefficiency in markets.

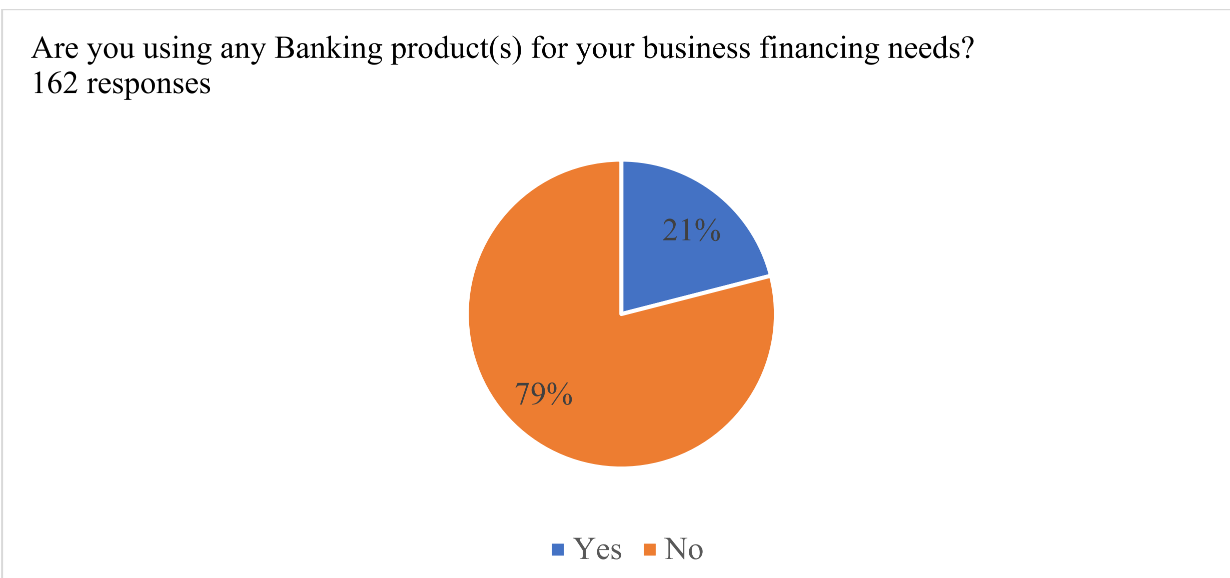
The responses to the questionnaire also show that 78% of SMEs consider a lack of financial services a significant barrier to their expansion (Reference **Figure 14**). Moreover, 80% have not availed of bank financing (Reference **Figure 15**).

Figure 14: Response to Non-Availability of Financial Services a Barrier to SME Expansion



Source: Competition Commission of Pakistan's Research

Figure 15: Response to Use of Banking Products for Business Financing Needs



Source: Competition Commission of Pakistan's Research

5.2.2 Lack of Trained Staff in FIs to Meet the Needs of SMEs:

Another big hurdle for SMEs in availing the financing products is the lack of required capacity in financial institutions (commercial banks and DFIs). The banks and DFIs in the larger cities and provincial capitals have dedicated SME departments and trained staff. However, the same is missing in most of the peripheral districts. The banking staff lacks the technical skills and expertise to understand the financing requirement of SMEs (SEs in particular) or assess their cash flow cycle and transactions record/history. In addition, the banking staff lacks knowledge of the SBP financing products and is, therefore, unable to meet the financing needs of the SMEs.

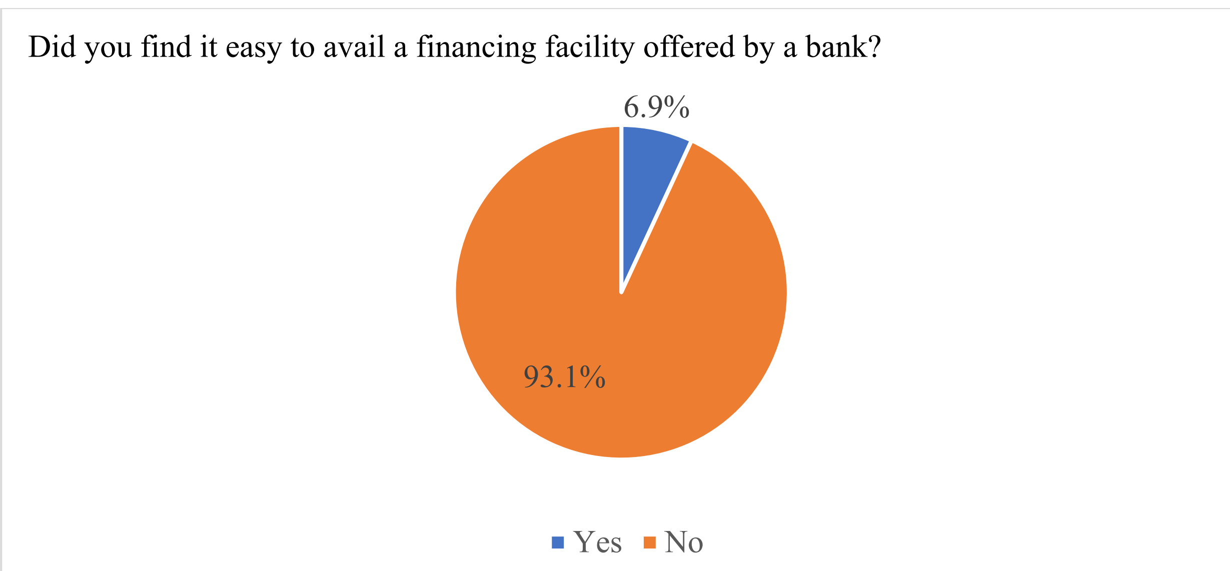
Thus, lacking trained SME staff and knowledge of SBP financing products creates a key barrier in SME sector financing. It leads to unequal distribution of credit funds and the credit facilities announced by the SBP.

س۔ کیا آپ کے کاروبار میں برآمدی منڈی تک رسائی کیلیے کوئی خاص رکاوٹیں ہیں؟

Ans: Banking Sector procedures are so difficult to access export market.

The responses to CCP's questionnaire show that 93% of SMEs do not find it easy to avail financing facilities from banks, indicating that banking service providers lack the expertise to identify SMEs with a growth potential (Reference **Figure 16**)

Figure 16: Response to Availing Financing Facility Offered by Bank



Source: Competition Commission of Pakistan's Research

5.2.3 Asymmetric Information about the Role of Insurance & Asset Evaluation Companies and High Cost of Access to Finance

Apart from the FIs specific loan documentation, two essential steps in applying for a business loan are;

i) Getting the proposed assets, provided as collateral, insured by a qualified insurance firm
ii) Getting the proposed assets, provided as collateral, evaluated by a qualified asset evaluation company

The FIs require these two critical documents to mitigate these securities' systematic and unsystematic risks. The collateral evaluators assess the asset's market and risk-free value and present it as an evaluation report. The FIs use these reports to approve the amount of financing that can be allowed to a borrower. However, the insurance policies and evaluation reports cost considerable funds, creating barriers to SMEs' access to required financing. These secondary, more appropriately obscure financing costs are mostly initially unknown by the applicants. It makes them anxious about the operational costs associated with the financing they have to bear out of their pockets. Most SMEs are owned by people not formally educated or aware of lending finance's technical and legal issues. Thus, the benefits of getting finance are subset by these extra expenses and the difficulty of documentation.

5.2.4 Expensive Land in Economic/Industrial Zones:

The Government of Pakistan has set up Special Economic Zones (SEZs) in all provinces to incentivize private sector economic activities in various geographical areas. Under the SEZ Act 2012, SEZs can be created by the federal or provincial governments (including Gilgit-Baltistan) or in collaboration with the private sector under various Public-Private Partnership (PPP) modes.[137] Under the SEZ package, there is a one-time exemption from customs duties and taxes for all capital goods imported by the investor and an exemption from all taxes on income for a period of 10 years. The Board of Investment (BOI) operates as the secretariat of the board for approval for SEZ development.[138] These SEZs are to provide essential support and benefits to small, medium, and large enterprises to help them grow.

It has been observed that large enterprises mostly benefit from economic zones and industrial parks, whereas medium and, more specifically, small enterprises can hardly acquire land in SEZs. SMEs highlighted two issues about the land; (a) the high cost of land in SEZs and (b) the preference of authorities for large and medium enterprises whose land requirement is far greater (compare 10 acres with 1-2 acres). These factors increase the cost of doing business for SMEs and thus a barrier to SME growth and competing with larger enterprises in the market.

Q . کیا ڈومیسٹک مارکیٹ کے حوالے سے ایسے قوانین ، قواعد و ضوابط یا دیگر عوامل ہیں جو آپ کے کاروبار کی راہ میں رکاوٹین کھڑی کرنے کا سبب بنتے ہیں؟

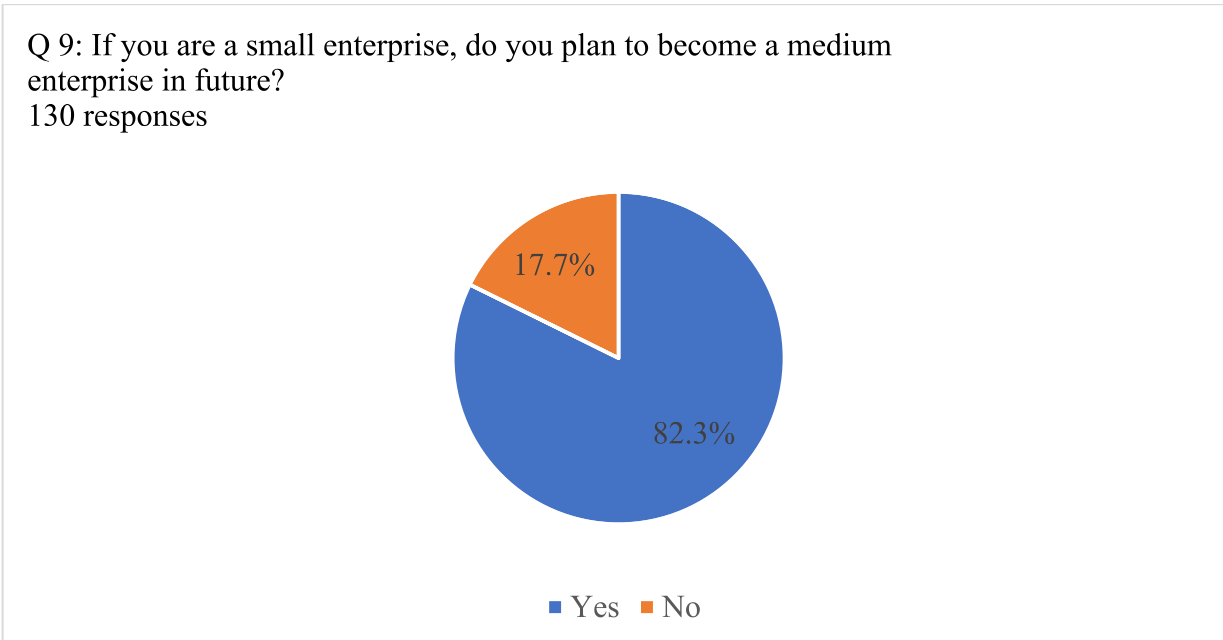
SME Sector Stakeholder's response: High Duty, High Taxes, Very High "Land" prices.

---

[137] https://nip.com.pk/sez/
[138] ibid

The data collected from SMEs shows that 82% of SMEs want to expand and grow into medium enterprises. However, due to the high cost of production and unfavourable policies, they are unable to grow (Reference **Figure 17**).

Figure 17: Response to an SE Aspiring to Grow into a ME



Source: Competition Commission of Pakistan's Research

5.2.5 Complex Taxation Regime, Regulatory Duties (RDs), and Discriminatory Custom Duties (CDs) on Imports by SMEs:

Under the Finance Act 2012, certain amendments have been made to the Income Tax Ordinance, 2001. Under Section 4 of the Act, a special tax regime has been introduced for manufacturing SMEs. Under Category I, SMEs having a turnover up to Rs. 100 million have to pay 7.5% of their taxable income, and for Category II, SMEs having a turnover exceeding Rs. 100 million and upto Rs. 250 million to pay tax at 15% of their taxable income. The other option under the Act is to pay tax on a turnover basis, Category I SMEs may opt to pay 0.25% of their turnover, and Category II SMEs having turnover exceeding Rs. 100 million and up to Rs. 250 million may opt to pay tax at 0.5% of their turnover. Further, the export proceeds of SMEs are to be taxed at the reduced rate of 0.25% and 0.5% final tax based on their category.[139]

Through the Finance Act 2021, the taxation regime is being simplified for manufacturing SMEs and, more specifically, for small enterprises. However, it is significant to point out that most of the SME sector in the country is undocumented and unorganized and engaged not only in

[139] https://download1.fbr.gov.pk/Docs/20217118751147CircularNo.2of2021-22.pdf

manufacturing but also in trading and services. Pakistan's tax to GDP ratio hovers between 8-9%, which is low compared to other Asian countries like Thailand, Malaysia, Indonesia, and Sri Lanka.[140] The SMEs face a high tax burden. A maximum of 16 documents are involved at the income tax registration stage alone. In addition, a taxpayer SME must comply with approximately 50 procedures in a given tax year, increasing the cost of doing business. They fear registering their businesses and are hesitant to be covered in the tax net. These SMEs are informal businesses. For instance, out of 3.1 million industrial value chain consumers (SMEs) in Pakistan, only 43,000 are under the tax system. These businesses keep themselves out of the formal system due to a lack of trust in the public sector and higher scrutiny.

The SMEs also find the taxation system complex and difficult to understand. Under-invoicing is pervasive in the sector at different value chain levels, discouraging businesses from paying these taxes. Retailers have to pay 17% sales tax at the Point of Sale (POS), whereas there is under-invoicing at the upstream production and manufacturing stage.

Q. If you are in the domestic market, are there any other barriers to entry in your business in the form of laws and regulations or any other factors? Briefly explain.

SME Sector Stakeholder's response: Almost 35 different taxes are applicable to run business.

The withholding tax (WHT) deduction from the registered SMEs is a challenge due to the presence of a large informal SME sector, where the vendors and suppliers provide the materials and the services without invoice/record. Subsequently, the registered taxpayer SMEs are penalized instead of the supplier/vendor if they are unable to produce WHT documents from them.

In addition to the complex taxation system, SMEs cannot compete in the market due to various regulatory duties (RDs) imposed on imports under applicable Statutory Regulatory Orders (SROs) issued from time to time. These RDs, on the one hand, benefit the large players in the market upstream, controlling the supply of essential raw materials. It further gives them discretionary power to exert in the form of prices and quality control.[141] Due to RDs, SMEs have to procure raw materials from the local industry at high prices. There is a high regulatory burden of the tax system, which is overbearing for SMEs, creating a non-conducive environment to operate, especially for small businesses that constitute the bulk of these SMEs.

During data collection, SMEs in the steel and glass sector raised concerns about RD, due to which they have to use local glass and steel for making tins. The price of local glass and steel used as raw materials is higher than if the SMEs were allowed to import from China. However, due to RDs, the imported price is raised. Likewise, applicable CDs based on Harmonized System (HS) Code are such which are discriminatory and favour some goods under a certain HS Code against a similar good under another HS code.[142] For example, the Yarn Merchants Association raised concerns that the same raw materials in the textile sector are imported under different HS code making, the discrimination putting some players in the downstream market at a disadvantage. Such policy

[140] https://www.oecd.org/tax/tax-policy/revenue-statistics-asia-and-pacific-pakistan.pdf
[141] Issues highlighted at Lahore, Faisalabad and Karachi chambers w.r.to RDs in glass, chemicals and textiles.
[142] An issue highlighted by Pakistan Yarn Merchants Association, and raised in consultations in the textile sector.

distortions lead to protectionism for local industry, which results in higher costs of production for the SMEs downstream, stifling their growth and making them uncompetitive.

5.2.6 Lack of Technical and Vocational Education and Training (TVET) and Missing Linkages between Formal TVET and Industry:

A necessary condition to enhance labour productivity is the access and availability of current and emerging TVET. Where an increase in human capital development through technical training and skills raises labour's total factor productivity (TFP), a lack of the skill set acquired through TVET is also identified as a critical barrier to boosting export and industrialization.[143] Pakistan's labour productivity is low compared to other countries in the region. **Figure 18** below compares Pakistan's labour productivity with other regional countries.

Figure 18: Change in Labour Productivity, 2000-2019*

Source: SBP, State of Pakistan's Economy, 2nd Quarterly Report, 2020

Where the large-scale producers/manufacturers have the finances to train their labour, SMEs do not have the resources to do so and depend on the public institutions providing TVET. At the federal level, National Vocational and Technical Training Commission (NAVTCC) is the regulatory body governing TVET. Each province has a provincial Technical Education and Vocational Training Authority (TEVTA) to promote and provide TVET, and the TVET institutions operate under the guidelines of provincial TEVTAs.[144] There are many issues with the current TVET[145], such as these are located mostly in major urban areas, missing linkages/gaps between TVET institutions and industry, and funding issues with the current TVET. A point highlighted at

[143] https://www.sbp.org.pk/reports/quarterly/fy20/Third/Special-Section.pdf
[144] ibid
[145] There are 3,740 such institutes operating in the private and public sector together.

various consultative sessions was the closing down of such institutions due to a lack of funding.[146] A deficiency in skill development has thus resulted in the non-availability of a trained labour force for multiple industries under the SME umbrella, adversely affecting SMEs' competitiveness and efficiency. Furthermore, there is a missing link between the courses taught at TVET institutes and the actual requirements of the industry, worsening the requisite skill gap.

5.2.7 Insufficient Utilization of Business Incubation Centres and Lack of Industry-Academia Collaboration:

The Higher Education Commission (HEC) of Pakistan encourages the development of business Incubation Centers (BICs) in Pakistan's higher education institutions (HEIs) to flourish entrepreneurial skills among young individuals. These BICs aim to facilitate the existing and potential startups and businesses with the primary infrastructure, training, and development. It is to inculcate and encourage the culture of entrepreneurship among researchers and young people. These centres have been formed and are available in 35 public and private universities[147] . BICs, in mutual collaboration with the HEC Pakistan and relevant educational institutions, provide services to people struggling to establish their businesses. The program aims to produce successful firms on a profit-sharing basis for the collective benefit of young entrepreneurs, HEIs, and the economy of Pakistan. These centres represent an excellent group of resources that can be utilized to enhance SMEs' primary and secondary entrepreneurial skills.

Furthermore, BICs allow young women to step forward in forming their entities through secure and advanced platforms. Young university students are also potential entrepreneurs in Pakistan. BICs target these students and young professionals to help achieve mutual economic objectives. However, these centres are not fully utilized due to insufficient industrial and educational collaboration.

5.2.8 Low SME Exports, High Freight Charges, and Lack of Processing Plants:

The Government of Pakistan has taken various initiatives to boost the SME sector's exports. However, there are multiple issues creating barriers to SMEs' export growth. One of the critical challenges identified is high freight charges. Post-Covid, the shipping lines operating worldwide had increased the freight charges at an alarming rate, with a $2000-$3000 increase in freight charges per container (in a month or fortnight), resulting in export decline even when the SMEs had confirmed export orders. In addition, exporting SMEs lack the requisite support of the foreign missions and embassy staff in exporting countries, such as the provision of warehouses, and redressal in non-payment issues, thus discouraging the SMEs from exporting.

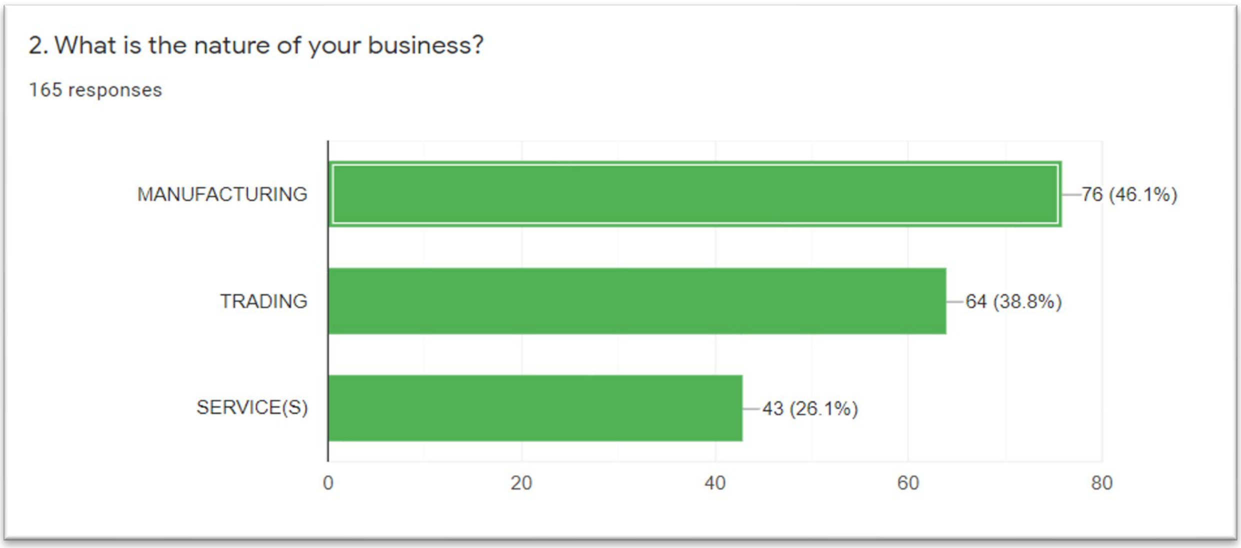
Furthermore, a lack of processing plants also hinders the export potential of SMEs. In Balochistan, good quality fruits such as apples and dates are produced, but due to a lack of processing and grading, these fruits are unable to achieve their export potential. Land trade with neighbouring

[146] 'Fan Development institute' with TEVTA in Gujrat, 'Furniture Pakistan' and 'Gems & Jewelry/gold workshop' in Sargodha
[147] https://www.hec.gov.pk/english/services/universities/ebic/Pages/default.aspx

countries through the western borders has also not achieved desired results due to a lack of infrastructure, law & order situation, and coordination & interest by the relevant authorities.

The data collected from SMEs through the questionnaire shows that 46% of SMEs operate in the manufacturing sector. The sector has export potential. However, due to multiple issues of taxation, RDs, and high freight cost, they are unable to export (Reference **Figure 19**).

Figure 19: Nature of SME Business



Source: Competition Commission of Pakistan's Research

5.2.9 Issues of Gas Pricing:

Energy availability and its pricing both affect the cost of production of SMEs. Oil and gas are the two primary energy supply sources in the country. Compared to oil, natural gas is a cheaper energy source; therefore, most industrial units demand natural gas. With the depleting reserves of natural gas in Pakistan, it is becoming increasingly challenging to meet domestic, commercial, and industrial demands. Due to the rising natural gas shortage in the country, the federal government decided to import Liquefied Natural Gas (LNG) in 2015. Initially, the demand was generated from Punjab, as other provinces were producing sufficient gas to meet their energy requirements.

However, the demand for natural gas grew with the economic growth. Consequently, both Sui Northern Gas Pipelines Limited (SNGPL) and Sui Southern Gas Company Limited (SSGCL) have been providing natural gas to new industrial units on Re-gasified Liquefied Natural Gas (RLNG) for the last five years. Where the rising demand for natural gas is met through imported LNG, it has led to a discriminatory gas pricing regime in the country. The industrial/commercial connections on indigenous natural gas have lower applicable gas rates. In contrast, the same on RLNG has two to three times higher applicable gas rates in the same industry. It has resulted in higher production costs for new entrants, making them unable to compete with the existing players in the industry.[148]

5.3 Recommendations to Mitigate the SMEs' Demand-side Barriers

Based on the data collected through a consultative process, this report outlines some feasible and innovative solutions that can be implemented to help address the demand challenges faced by SMEs in their attempts to access finance in Pakistan. This section provides a list of recommendations for policymakers and implementing bodies with the objective to increase the contribution that SMEs can make to the economy if the demand-side barriers are addressed.

Table 14: Recommendations to Mitigate Demand-side Barriers

S. No.	Type of Demand-side Barriers	Recommendation
1.	**Lack of Formal Sector finance**	SBP plays a proactive role by setting specific targets for the SME sector based on the following: a. **Indicative targets for SE and ME** to ensure maximum credit disbursement in the sector b. **Sector-specific targets** for SE and ME are based on the growth potential of the sector. The government needs to adopt an interest-free micro-financing option such as the Riba-free lending service, for instance, loans offered by the Akhuwat Foundation. Furthermore, to uplift the economic condition of **poor districts, separate financing facilities** need to be available for SMEs in these districts. Innovation in lending techniques by the FIs can play a significant role in boosting SME lending. Innovative solutions such as separate risk management teams for SMEs, treating them separately compared to commercial and corporate clients at commercial banks, can enhance lending in the sector.

[148] Gas pricing issue has been raised in all consultative session held in Karachi, Hyderabad, Lahore, Multan, and Faisalabad.

S. No.	Type of Demand-side Barriers	Recommendation
		Value chain financing and cluster financing can also lead to building the SME credit portfolio.[149] Equipment rental is another option that can be explored by the FIs. Although bank financing remains critical for the SME sector, there is a general concern that credit limitation will simply become "the new normal" for SMEs and entrepreneurs. It is necessary to broaden the range of financing instruments available to SMEs and entrepreneurs in order to enable them to continue to grow and innovate.[150]
2.	**Lack of trained staff to meet SME needs**	Capacity building of private sector banking staff. In response to CCP's questionnaire, it was found that 93% of SMEs find it cumbersome to avail financing facilities from banks, alluding to the lack of expertise available at the banks to support borrowers. In order to improve access to finance, t**he banks' staff should be well aware of the SBP's financing products and the financing needs of SMEs and have the skill set to assess their financials**. To enhance the competitive environment within the SME sector, it is suggested to **create dedicated SME desks** in the banks network to educate, guide, and facilitate SMEs for availing financial services.
3.	**Asymmetric Information about the Role of Insurance & Asset Evaluation Companies and High Cost of Access to Finance**	To encourage the SMEs' access to available financing opportunities and mitigate the deceptive practices linked with the loan documentation, the study recommends to SBP that the requirements of insurance and evaluation reports may be eliminated by introducing finance schemes for SMEs backed by government guarantees. In other cases, the potential costs associated with these requirements may be clearly addressed in the loan policies and procedures so the applicants may be aware and not exploited due to their lack of knowledge. Furthermore, standardized pricing of insurance and evaluation reports may

[149] Some lending has been done in agri value chains that are developed such as maize and potato. Bank Alfalah is an example providing value chain financing, with 40% of the bank's SME portfolio under value chain financing mode.
[150] https://www.oecd.org/cfe/smes/New-Approaches-SME-full-report.pdf

S. No.	Type of Demand-side Barriers	Recommendation
		also be set for the SMEs according to the appropriate connected factors (e.g., bracket pricing as per asset location, type, measurement, or quantity).
4.	**Expensive land in Economic/Industrial Zones**	Small chambers need to be on the board of SEZs to protect the interests of SMEs. Further, a proportion for SMEs must be allocated in SEZs is proposed such that the small players have a level playing field to do business.
5.	**Complex Taxation System**	Through favourable taxation and regulations, SMEs need to be encouraged and incentivized to enter the formal sector, increasing their visibility and chances to secure credit through various financing modes. It is recommended that the federal government may review the taxation regime, including the Custom Duties (CDs) and RDs, and simplify tax filing procedures. The withholding tax (WHT) deduction from the registered SMEs is a challenge due to the existence of a large informal SME sector, where the vendors and suppliers provide the materials and the services without invoice/record. Subsequently, the registered taxpayer SMEs are penalized instead of the supplier/vendor if they are unable to produce WHT documents from them. It is recommended that the tax structure applicable to SMEs should be based on fairness, efficiency, convenience, and certainty. For SMEs, **simple tax filing procedures and information/forms in the Urdu language should be developed to facilitate SMEs.** Further, **protectionism to local large-scale manufacturers through various RDs is giving them discretionary monopolistic power and, at the same time, making it difficult for SMEs to compete. T**o enhance efficiency and competitiveness, it is critical that RDs and CDs are reviewed by the Federal Board of Revenue (FBR).

S. No.	Type of Demand-side Barriers	Recommendation
6.	**Lack of skilled labour for SMEs**	a. To improve the supply of skilled workers, federal/provincial authorities need to invest in TVET institutions with the **latest learning output, systems, and use of technology to ensure the TVET institutions are training based on industry demand**. In addition, the already **existing training centres need to be operationalized** that face a lack of funds on a fast-track basis such that SMEs attain the requisite skill set to compete. b. The study recommends that the higher education institutions and the Business Incubation Centres formed with the mutual collaboration of the Higher Education Commission of Pakistan should also be focused on and utilized for the development and capacity building of SMEs and women-led businesses. The technical and professional staff of the higher education institutions and the industrial hubs may be involved through the platforms of Business Incubation Centres in bridging the gap between practical and educational fields.
7.	**Low SME Exports**	In order to explore the full potential of the SME sector for boosting exports, the following recommendations are suggested: a. The federal/provincial governments need to address regulatory issues faced by SMEs through a regulatory guillotine to ensure the ease of doing business. b. Processing plants such as fruits, livestock, fisheries, and marble, among others, need to be developed. c. The Export Promotion Bureau (EPB), Trade Development Authority of Pakistan (TDAP), and Board of Investment (BoI) need to facilitate the SME exporters, including arranging training sessions for exporters to tap export markets. d. Post Covid, high freight charges have emerged as a significant contributor to the cost of exporters, making

S. No.	Type of Demand-side Barriers	Recommendation
		them uncompetitive. Export-centric policies must prioritize these new and emerging challenges in international trade. e. Moreover, these SMEs may be given relief through export subsidies to boost their exports.
8.	**Pricing and availability of gas and other fuel sources**	**A revision in the natural gas pricing mechanism** is therefore proposed such that all market players in an industry have a **level playing field to operate**. Alternatively, subsidies and using alternative sources of energy must be available to SMEs to grow and sustain.

Source: Competition Commission of Pakistan's Research

CHAPTER 6: SUPPLY-SIDE BARRIERS TO SME GROWTH

Although demand-side obstacle impedes the growth of SMEs, supply-side constraints are much more prevalent. A World Bank policy brief on SME finance problems reports evidence that shows a high proportion of SMEs that need loans refrain from applying for credit. While some SMEs exclude themselves because they do not have any profitable investment projects, a majority of the firms perceive that their credit application will not be successful. Therefore they choose not to avail the opportunity.[151] Despite existing supply-side barriers designing effective policy interventions is integral to creating an enabling environment for the growth of the SME sector. Developing effective policies requires an in-depth understanding of the causes of the lack of financing in the sector. This section aims to highlight the supply-side challenges prevalent in the SME sector and details a set of recommendations that can positively impact competitiveness, efficiency, and growth in the SME sector.

6.1 Supply Side Barriers

6.1.1 Targets Set in SME Policy 2021 for 2025 - Key Factors to Consider

6.1.1.1 Pandemics, market closures, and SME sector vulnerabilities

The COVID-19 pandemic resulted in a loss of lives and livelihoods across the world. However, the impact of the pandemic has not been equally spread across countries, sectors, and firms of different sizes. COVID-19 highlighted the plight of SMEs and the shock they experienced in light of market disruptions and low sales. According to estimates released by the **International Labour Organization (ILO),** global unemployment rose significantly between the range of up to **5.3 million** (in the low scenario) **to 24.7 million** (in the high scenario).

Table 15 shows the statistics of workforce employment in Pakistan. The 27.3 million informal sector workers are likely to be the most vulnerable (at risk) of losing their jobs and in need of income security due to the lockdown situation resulting from the pandemic. The pandemic has made a significant adverse impact on businesses broadly. Yet, the damage is far worse in the case of SMEs in Pakistan since these businesses, unlike large enterprises, do not possess sufficient financial and managerial resources and, therefore, cannot operate in such a disruptive business environment. The changed economic outlook necessitates addressing the short-term and long-term targets set in the said policy.

---

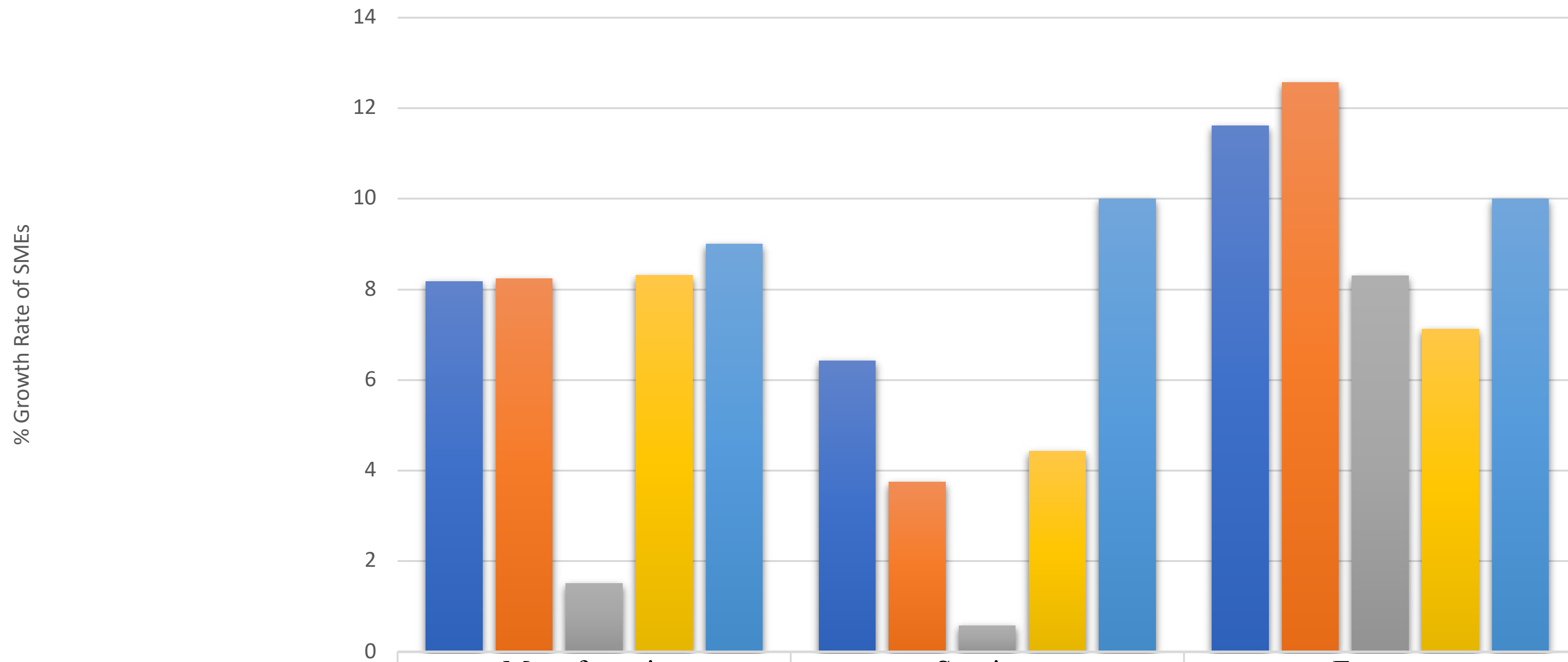
[151] Addressing the SME Finance Problem Abraham and Schmukler, 2017) link: https://documents1.worldbank.org/curated/en/809191507620842321/pdf/Addressing-the-SME-finance-problem.pdf

Table 15: Employed Workers in Pakistan 61.7 million (2020)

Agricultural Workers	Non-agricultural Workers		
23.8 M	**37.9 M**		
	Formal sector	Informal sector	
	10.60 M	27.30 M	
		Wholesale & retail trade sector	*8.88 M*
		manufacturing sector	*6.22 M*
		construction sector	*4.43 M*
		community/social & personal services	*4.37 M*
		transport/storage and communication sector	*3.14 M*

Figure 20, on the next page, shows the actual performance of the SMEs against the targets set in the National SME Policy, 2021, for 2025. It is evident that due to Covid-19, the SME sector could not perform at par. SMEs struggled even to sustain their performance from the previous years. The sector's growth in manufacturing, services, and export regimes during 2019-20 drastically fell compared to 2018-19, away from the targets set for 2025. In 2020-21 however, recovery set in, and the growth rate is close to their pre-COVID levels. The data shows the vulnerability of the SME sector to face economic shocks.

Figure 20: Economic Contribution of SMEs



	Manufacturing	Services	Exports
2017-18	8.18	6.43	11.62
2018-19	8.24	3.75	12.57
2019-20	1.52	0.59	8.3
2020-21	8.31	4.43	7.13
Targets to Grow by in 2025	9	10	10

Source: Pakistan Economic Survey 2017 – 2018, 2018 - 2019, 2019 - 2020, Press Release of National Accounts Committee Meeting (17 May 2017), and Draft Policy 2020.

6.1.1.2. Lack of Gender Perspective in KPIs

In Pakistan, where more than 90% of businesses are characterized as SMEs, the National SME Policy, 2021 outlines a road map to increase the number of SMEs. The said policy recommends measures for the inclusion of female entrepreneurship on both the supply and the demand side. However, there is **a lack of gender perspective in all 5 KPIs set to be achieved by 2025.** The composition of the proposed National Coordination Committee (NCC) on SME Development, under the National SME Policy, 2021, which constitutes various governmental bodies, lacks women representation at the federal and provincial levels. In addition, where the 2007 policy recommended increasing the share of women entrepreneurs to 6% of total SMEs, no such target is set in the 2021 policy for 2025.

As per data, only 2% of women borrow from formal sources, and in the SME sector, they account for 9% of bank borrowers. Pakistan has only 1% of female entrepreneurs compared to 21% of male entrepreneurs. The country has the lowest female entrepreneurship in the region. Many factors are responsible for low entrepreneurship in Pakistan, and the dots need to be connected to gender parity in access to education, health, decision-making, and female empowerment, along with equality in access to finance. Women entrepreneurs face challenges in generating funds, penetrating the market, limited understanding of customers, complex regulatory environment, barriers of mobility, child care, and safety concerns.

6.1.2 SME Definition

Comparing the two definitions of SMEs, as per the SME Policy of 2021 (**Table 16**) and the SME Prudential Regulations of 2017 (**Table 17**), the annual turnover is the same in both. However, the number of employees parameter is only in the SBP definition. Highlighting such discrepancies is essential as it affects SMEs' day-to-day operations and long-term growth and efficiency. For example, the SBP defines SMEs according to **Table 17**, which is outdated.

Q۔ کیا ایس ایم ای کی تعریف میں مائکرانٹرپرائز، سمال انٹر پرائز اور میڈیم انٹر پرائز کے فرق کو واضع ہونا چاہیے؟ براہ کرم اپنے خیالات کا اظہار کریں۔

جواب: بالکل فرق کو واضع ہونا چاہیے۔ 3 سیکٹرز کو اکھٹا کرکے ایک ہی طرح کے ٹیکس سسٹم کو لاگو کیا گیا ہے ۔

Table 16: Definition of SMEs as per the SME Policy of 2021

Enterprise Category	Criteria (Annual Sales Turnover)
Small Enterprise (SE)	Up to PKR 150 Million
Medium Enterprise (ME)	Above PKR 150 Million to PKR 800 Million
Start-up	A small enterprise or medium enterprise up to 5 years old will be considered a Start-up SE or Start-up ME.

Source: SME Policy 2021

Table 17: Definitions of SMEs as per the Prudential Regulations of 2017

Enterprise	*Number of Employees	Annual Turnover
Small Enterprise (SE)	Up to 50	Up to PKR 150 million
****Medium Enterprise (ME)**	51-250 (manufacturing & services) 51-100 (trading)	Above PKR 150 million and up to PKR 800 million (for all types)
Note: *An enterprise must meet both the conditions of the number of employees and the annual turnover for categorization as a SE or a ME. However, if a SE meets one criterion and falls in the range of ME in the second criterion, it will be classified as a ME. Further, if a ME meets one criterion of ME and falls in the range above the ME in the second criterion, it will be classified as a commercial/corporate entity.*		

Source: SBP Prudential Regulations

The SME Policy, 2021 defines start-ups but does not define micro-enterprises. The **international practice is to define micro, small, and medium enterprises (MSMEs) in unions such as those depicted in India, Bangladesh, Malaysia, China, and the EU**. MSMEs are interlinked as successful micro-enterprises rise to the status of SMEs.

Due to small firm size, SMEs are affected far worse by economic shocks than large businesses. Moreover, due to firm size, SMEs have less bargaining power and cannot keep their production cost low. In the past few years, due to the rising inflation, the annual turnover of businesses has risen significantly, shifting them from SE to ME. However, the flip side of this shift is that these SE do not remain eligible for specific government credit schemes, which, if available, could help them become more efficient and competitive. The FIs survey and the demand side survey conducted by CCP show that FIs and SMEs generally requested an upward revision in annual turnover.

A comparison of the startup definition defined under the Companies Act, SME Policy, and Income Tax Ordinance reveals that revenue threshold, innovation, and age threshold, as defined under the three, are different. Where under the Income Tax Ordinance, a startup is defined as technology-driven, under the SME policy, 2021, a startup can be an SE or an ME, there is no restriction on business activity, and the age limit is five years. As per the Companies (amended) Act, 2021, the revenue threshold for startups is up to PKR 500 million, and startup is defined as an innovative, scalable business, and the age limit is ten years. **Table 18** gives a comparison of the three startup definitions.

Table 18: Comparison of the three startup definitions

Source	Sector	Revenue Threshold	Age Threshold
Income Tax Ordinance, 2001(Amended 2017)	Technology	< PKR100 million	Registered on or after July 1st, 2012
SME Policy, 2021	No Restriction, can be an SE or ME	SE < PKR 150 million ME > PKR 150 million<PKR 800 million	< 5 years
Companies Amendment Act, 2021	No Restriction (innovation and scalable business model)	< PKR500 million	< 10 years from the date of incorporation

Internationally, many countries have adopted policies that aim to improve the ecosystem within which Startups are nurtured and operated. These policies include rules around procurement, tax incentives, winding up, and patent applications, among others. There is also an important component relating to access to finance.

6.1.2.1 India

In India, a startup is a company that is not more than ten years old since its corporation, is incorporated as a Private Limited Company, a Registered Partnership Firm, or a Limited Liability Partnership, have an annual turnover not exceeding Rs. 100 crores for any of the financial years since its Incorporation. The entity should not have been formed by splitting up or reconstructing an already existing business and work towards the development or improvement of a product, process, or service and/or have a scalable business model with high potential for creating wealth & employment.[152]

The definition of a startup in India has evolved gradually since 2016. Initially, in 2016, the definition considered entities up to five years of age from their incorporation as startups.[153] However, the definition was expanded on 23rd May 2017, and entities with ages up to 7 years were considered to be startups. The definition was further expanded to include entities with age up to 10 years in 2019.

[152] https://www.startupindia.gov.in/content/sih/en/startup-scheme.html
[153] https://www.startupindia.gov.in/content/dam/invest-india/Templates/public/5_years_Achievement_report%20_%20final%20(1).pdf

6.1.2.2 Singapor*e*

Startup Singapore (SG Singapore) is an initiative of the Government of Singapore. Established in 2017, SG Singapore provides a single platform with the primary objective of promoting local startups (nationally and internationally) while providing a common platform to the startup Community to facilitate dialogue on improvements in the ecosystem. SG Singapore defines startups to have a threshold on the number of years of operations (5 years), requires businesses to prove substantial innovative and intellectual property, be incorporated as a private limited company in Singapore, and have a minimum amount of paid-up capital (S$ 50,000).

In addition, specific sectors, such as gambling and tobacco, are excluded. All programs and assistance schemes for funding startups and providing mentorship have been consolidated under SG Singapore. It is worth mentioning that the Singaporean government will co-invest with 11 partners in businesses that require significant capital outlay and may take a longer time to be commercially viable.

6.1.2.3 Australia

In Australia, Early-Stage Innovation Companies (ESIC) with high growth potential are provided with tax incentives if they have been incorporated in the previous three years, have an assessable income of no more than $200,000 in the prior year, and have been locally incorporated. There is also a cap on the total expenditure stated in the tax return and a requirement for an Australian Business Number.

6.1.2.4 Malaysia

In Malaysia, two funds invest in startups at the seed and pre-seed stage-Cradle Fund and Malaysia Venture Capital Management Bhd (MAVCAP), both under the purview of the Finance Ministry. As a VC, MAVCAP makes direct investments with fund sizes ranging from RM 1 million to RM 20 million and even participates actively in the management and operations of these companies. Cradle offers a maximum seed funding of up to RM 500,000 to help technology companies attain commercialization.

A comparison of startups definition in international jurisdictions suggests that the Companies Act definition of startups is in step with the international best practices. **For ease of doing business, amendments in Income Tax Ordinance 2001 are also proposed in defining startups for them to meet the criteria to avail of tax incentives.**

For startups to grow, there is a need to develop enabling policy and regulatory environment, providing them with investment opportunities and tax exemptions. The gap between the three definitions of startups needs to be closed. Under the SME policy, the startups are clubbed with the SE and ME definition. However, startups have a strong technology, business innovation, disruption, and growth component and are, therefore, different from traditional businesses (SEs & MEs). Startups are designed to grow fast and sell to a much larger market. In comparison, traditional small and medium businesses focus on profitability in an existing model. Startups also generate their funds from venture capitalists/private equity investments. Whereas the SEs & MEs generally receive funding from the FIs such as banks and NBFIs**. Devising a legal structure for a ‘Startup’ is essential to make it viable and functional. The objective of a legal structure is**

twofold. First, it is to clearly lay out the rights and obligations of the parties working under the 'Startup' umbrella. Second, the aim is to safeguard their business interests. Thus, ensuring a stable business platform is vital to an emergent startup landscape where disputes can be prevented, liabilities are defined, and risks can be mitigated.

6.1.3 Risk Exposure of Banks and DFIs and the Lending Targets Set by SBP

According to the SME policy, 2021, to enhance credit provisioning to SMEs, the SBP is to set credit quotas based on the bifurcated definition of SE and ME rather than the overall basis. Encouraging lending to SMEs is an important target for SBP to ensure a balanced distribution of funds.

The existing financial targets regime followed by SBP is the **Indicative target regime,** where SBP assigns annual SME financing targets to banks and DFIs based on their performance, presence, and capacity, and these targets are not given separately for SE and ME financing. Earlier, SBP had adopted a mandatory target regime for the agriculture sector and imposed penalties in case of non-compliance by lending institutions. However, the lending institutions did not perform well, and many faced various challenges of default.[154]

As explained in the Financial Sector Assessment Report of SBP[155],

- *the mandatory credit discourages market forces to determine the allocation of resources, while concessionary credit deprives the banking institutions of earning market rates of return. Thus in both cases, distortions in the market mechanism are created and efficiency is lost. A decline in the share of concessionary and mandatory credit, on the other hand, indicates improvement in the allocative efficiency of credit. It shows that banks are giving more loans to those sectors, which offer competitive rates of returns.*

After reviewing the experiences of the mandatory regime and the global shift from mandatory to indicative targets, the SBP decided to assign indicative targets for SME Finance to the banks and DFIs. The indicative targets provide an enabling regulatory environment for financial institutions and for a developing country like Pakistan, where the banking industry is primarily in the private sector,[156] given there is a Credit Guarantee Scheme (CGS) in place.

Credit guarantee institutions and the CGS play a crucial role in mitigating the risk of FIs when lending to SMEs. CGS is a tool used to reduce the gap between the supply and demand of SME finance.[157] The global practice is the credit guarantee institution that operates in the public sector. The credit guarantee may vary under the schemes, and for the targeted sectors, 100% to 60% of credit lending by FIs is covered.[158] In Pakistan, where the SBP had earlier introduced CGS for small and rural entrepreneurs, in 2019, SBP established the Pakistan Credit Guarantee Company

[154] Meeting with SBP
[155] SBP Financial Sector Assessment Report, 2000
[156] Only 5 Commercial banks in the public sector
[157] https://www.econstor.eu/bitstream/10419/179224/1/adbi-wp768.pdf
[158] ibid

(PCGC)[159] with the objective of increasing SME lending, reducing collateral constraints, increasing the risk appetite of banks, and lower the financing cost of SMEs.[160] The potential customers of PCGC include all commercial banks (including Islamic banks), DFI's involved in SME and agriculture financing, microfinance banks, and leasing companies. The SME policy seeks to strengthen PCGC as currently, **compared to the credit needs of the SMEs, which stand around Rs. 480 billion, the funds available are around only Rs. 6 billion**.[161]

To sum up, strengthening the credit guarantee system and availability of funding will determine the financing to SMEs by the FIs. Rather than *'moral persuasion'* as indicated in the said policy to be adopted by SBP to encourage banks to lend in the sector, the credit guarantee system needs to be strengthened, and in the absence of guaranteed credit, even achieving the indicative targets set by the SBP may not be achieved.

A few examples of countries where a credit guarantee system is in place include;

- Japan, the Japanese credit guarantee system guarantee coverage of 80% to all banks for their lending to SMEs, regardless of their creditworthiness.
- India launched the credit guarantee fund scheme for micro and small enterprises in 2000, with a partial cover of 75%.
- Indonesia started public credit guarantee scheme for MSMEs in 2007, with a partial cover of 70%-80%.

6.1.4 Complex Regulatory and Taxation Regimes

In 2019, Pakistan ranked 108th out of 190 countries on the World Bank Ease of Doing Business Index. In comparison, India ranked 62nd, Malaysia 12th, U.A.E 16th, and South Korea 5th.[162] The Ease of Doing Business Index is based on ten factors: starting a business, dealing with permits, getting electricity, registering property, availability of credit, protecting minority investors, payment of taxes, trading across borders, contract enforcement, and resolving insolvency.[163] There are at least 12 different categories of general regulatory layers that are applicable to all firms doing business in Pakistan (and four additional administrative processes for foreign companies). Administration and implementation of business regulations are based on cumbersome processes with inconsistent implementation and enforcement. A total of 50 laws and numerous secondary regulations are enforced by over 40 national and subnational agencies and departments through various NOCs, permits, and licenses in regulating the manufacturing sector[164] (See Chapter 2, **Table 7**). The multiplicity of regulations, and their fragmentation across different levels of government, together with their ad hoc and mostly manual administration, exposes the system to rent-seeking behaviour, which has served as a major deterrent to private investment in the country. In recent years, the government has taken steps to simplify, automate and integrate regulatory processes across the federal and provincial authorities under the Better Business Regulation

[159] Major funding of PCGC is by UK DFID, and the initial capital provided by UK DFID and Government of Pakistan.
[160] https://www.pcgc.com.pk/
[161] Meeting with SBP officials.
[162] https://data.worldbank.org/indicator/IC.BUS.EASE.XQ?most_recent_value_desc=false
[163] https://www.worldeconomics.com/ESG/Governance/Ease-of-Doing-Business/Bangladesh.aspx
[164] An issue also highlighted at the consultative sessions held across Pakistan by various Chambers of Commerce and Industries, and other trade bodies.

Initiative. The complex regulatory regime creates a regulatory burden for SMEs and increases their cost of doing business.

The general sales tax (GST) reveals the complexity of the tax system in Pakistan. It has demarcated the country into five competing tax jurisdictions, creating high compliance costs for businesses. Businesses operating across the country need to submit 60 tax returns annually[165] , and sales tax refunds take an average time of 18 months. The tax base is split into goods and services, with the power to tax them separately vested with the federal and provincial governments, respectively. The base is further broken down geographically, as each province has the power to tax services supplied within its jurisdiction and levy its own tax rates on these services. This fragmentation has led to inter-provincial and federal-provincial jurisdictional conflicts, resulting in double taxation, exporting of taxes to other provinces, tax evasion, and consequently extremely high costs of compliance for businesses, especially SMEs with a small capital base, whose clientele is located nationally.

6.1.5 Limited Role and Scope of CCP Prescribed in SME Policy

SMEs are multi-sectoral and involve several agencies in setting policies, such as the Ministry of Finance, Ministry of Commerce, and Ministry of Industries & Production. Where the government wants to enhance the performance of the SME sector, it is equally important to regulate the business activities of the SMEs and ensure free competition such that there is no abusive conduct and a level playing field is safeguarded to all market participants.

The CCP, under the Competition Act 2010, is mandated to "*provide for free competition in all spheres of commercial and economic activity to enhance economic efficiency and to protect consumers from anti-competitive behavior.*"

Further, the Act applies to all "*undertakings - any natural or legal person, governmental body, including a regulatory authority, body corporate, partnership, associations, trust or other entity in any way engaged, directly or indirectly, in the production, supply, distribution of goods or provision or control of services and shall include an association or undertakings*".

The National SME Policy, 2021 refers to the role of CCP under the regulatory and tax environment as follows:

"*The government shall establish bonded warehouses for import of key inputs such as plastic, steel, etc. The Competition Commission of Pakistan will enforce strict penalties on cartelization of commercial importers of raw materials.* ***"***

As stated above, the defined scope and role of the CCP under the said policy is limited to only commercial importers. The Commission's function is overlooked and is not reflective of its all-in-compassing role.

Under its mandate, the Commission prohibits abusive conduct in the market through 4 key Sections of the Competition Act, 2010, (1) Abuse of dominant position, (2) certain types of prohibited agreements, (3) deceptive market practices, and (4) mandatory review of mergers & acquisitions. In addition, through its advocacy efforts, the Commission seeks to promote voluntary compliance and develop a 'competition culture' in the economy. The advocacy and enforcement activities of

[165] https://www.fbr.gov.pk/Sales%20Tax/51148/101149

the CCP go hand in glove to achieve the desired result of competitive and efficient markets. The role/function of the Commission, therefore, cannot be undermined to only specific business activity.

6.1.6 Lack of acceptable collateral, alternate forms of financing for SMEs and Startups /Public-Private Partnerships (PPP)

a) To address supply-side issues of access to credit, the SME Policy 2021 maps out and proposes various instruments and measures that the GoP will undertake to enhance SMEs' access to credit. The propositions require SBP to take a proactive position; in encouraging the banking sector to equitably distribute credit, to operationalize the Pakistan Credit Guarantee Company (PCGC), to disseminate information on STR, and to better utilise its refinance and credit guarantee scheme for women entrepreneurs. Another set of propositions focuses on SMEDA taking upon several initiatives such as training banks through NIBAF, assessing the viability of setting up a credit risk rating agency, and carrying out awareness campaigns about capital markets as an additional source to raise funds with PSX, Chambers of Commerce and Industry and Trade Associations.

In the case of banks lending money to start-ups, innovators, and other SMEs, banks impose stringent collateral requirements to cover the risk of lending. As per the **SBP Prudential Regulations on SMEs (revised 2021)**, *banks and DFIs are to prepare a comprehensive SME Specific Credit Policy approved by their board of directors*. The policy prepared to give special mention to Small Enterprises (SE) financing keeping in view their specific business conditions and characteristics. Further *the policy to cover different aspects of financing against pledge of stock under electronic warehouse receipt (EWR) including list of eligible commodities, quality of collateral, valuation, price volatility, margin, limits, tenor of loans, diversification, insurance, substitution of collateral and managing collateral in the event of counter party default, etc.*

Under the said regulations, the acceptable forms of collateral include both movable and immovable assets of SMEs. The most acceptable forms include mortgaged residential, commercial, and industrial properties (land and building only), plant and machinery, pledged stocks, and guarantees issued by domestic/foreign banks and DFIs.

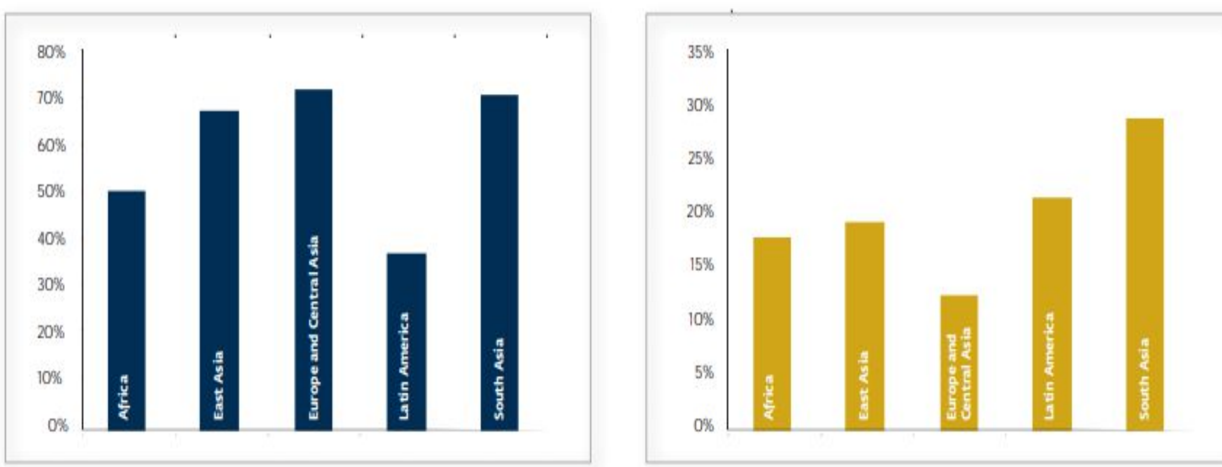
In developing countries, **78% of an enterprise's capital stock constitutes movable assets,** such as machinery, equipment, and inventory, while **22% comprises immovable assets**, such as land and building. F**inancial institutions prefer immovable assets as collateral** due to the lack/inefficiency of the legal environment of secured transactions or a Secured Transaction Registry (STR). STR is an electronic database where a secured creditor (FI) registers a security interest on the movable assets of an entity. Without an efficient STR applicable to incorporated and unincorporated business concerns, lenders (FI) of credit find it difficult to lend against movable assets as collateral.

In comparison, in the developed world, where an efficient, legally secured transaction system exists, lenders can use many of the borrowers' movable assets as collateral. For example, in **the United States, movable assets account for 70% of SME lending.**[166] **Figure 21** shows the regional comparison of supply-side issues of access to credit faced by firms due to (a) insufficient collateral and (b) high collateral requirements.

[166] http://documents1.worldbank.org/curated/pt/193261570112901451/pdf/Knowledge-Guide.pdf

Figure 21: Regional Comparison of Credit Issue Faced by Firms of (i) Insufficient Collateral and (ii) High Collateral Requirement

(i) (ii)



Source: http://documents1.worldbank.org/curated/pt/193261570112901451/pdf/Knowledge-Guide.pdf

It is evident from the above graph that firms in South Asia face greater challenges to secure credit compared to other regions in terms of lack of collateral offered by firms (**70% of firms face the problem of insufficient collateral**) and high collateral requirement (**issue faced by 30% of firms**).

For inclusive access to finance, the key is establishing a legal and regulatory environment where movable assets of firms can be used as collateral. In Pakistan, under the Financial (Secured Transactions) Act, 2016, the Securities and Exchange Commission of Pakistan (SECP) is operating the digital Secured Transaction Registry (STR) system, under which financial institutions can record the security interests of businesses on their movable assets. However, the data available on the STR is currently only available on private limited concerns. Where SMEs are private limited companies registered with SECP, the data on their movable assets is available in the STR (which became operational in April 2020). In 2020, an Amendment was made to the Financial Institutions (secured Transactions Registry) Rules, 2019,[167] to bring in the SMEs (including sole proprietors and partnerships not registered with SECP) under the STR umbrella to enhance access to credit of SMEs. Although the policy directs SBP to 'widely disseminate' information about the STR, however, this system is not fully operational.

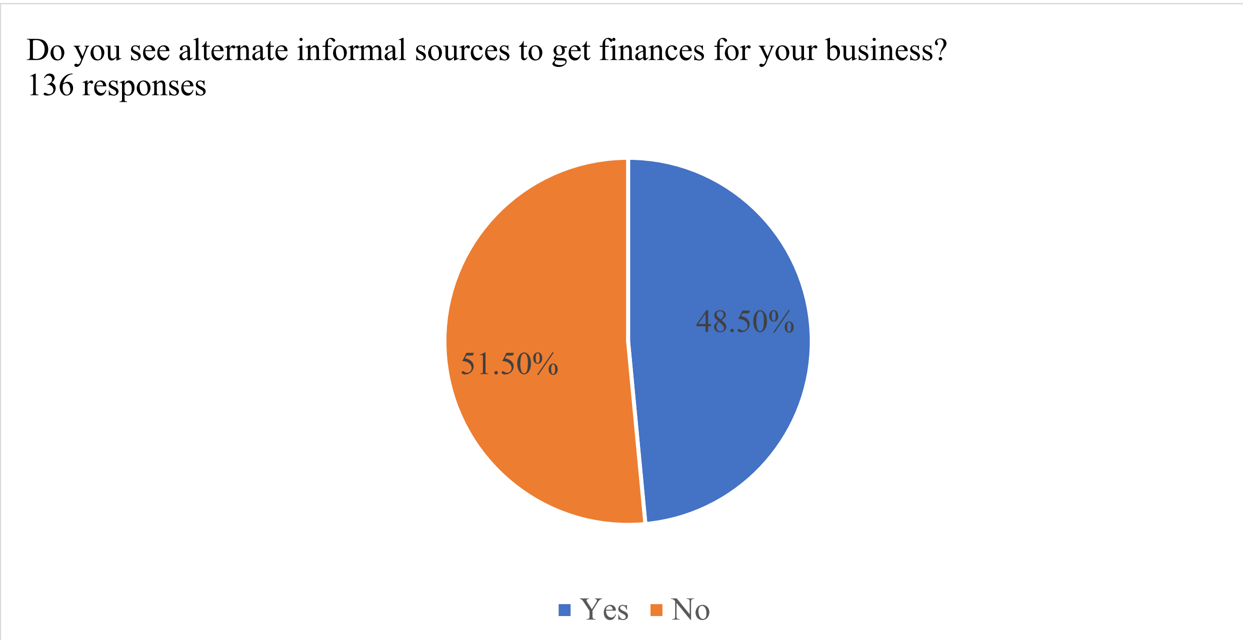
b) Alternate forms of financing for SMEs and Startups: The absence of secured collateral offered by SME borrowers, specifically SEs, results in more focus of the banks on advancing credit

[167] With support and assistance of The World Bank, and Karandaaz

to ME borrowers.[168] Since collateral serves as a barrier to SME sector growth, alternative forms of financing demand greater attention.

The data collected from the 'Demand Side questionnaire' (**Appendix III**) of the study shows that SMEs resort to informal sources due to a lack of formal sector financing. The pie chart in **Figure 22** shows that 48.5% of SMEs use informal sources to meet their financial needs, indicating that there is a need to mobilize alternate sources of financing other than commercial banks (Reference **Figure 22**).

Figure 22: Response to Use of Informal Sources for Business Finance



Source: Competition Commission of Pakistan's Research

Where the Draft Policy envisages increasing alternative sources of credit availability to SMEs, the role of Non-Bank Financial Companies (NBFCs),[169] regulated and licensed by SECP, requires much attention as an alternate source of providing credit. NBFCs are engaged in providing financial services and play an important role in mobilizing finance and thus complementing the outreach of the banking sector to the underserved SMEs. According to United Nations Conference on Trade & Development (UNCTAD)[170], a*n alternative to a traditional bank loan, that has shown promise in many developing countries, is leasing. Perhaps the most* ***significant benefit of leasing*** *compared to traditional bank loans is that* ***no prior collateral*** *from the SME is required (as the equipment leased serves as the collateral).* ***The lack of collateral is one of the obstacles to accessing finance in developing countries.*** *There are also a number of other benefits to leasing, such as financing can reach up to 100 % of the equipment value. The financing company is likely*

[168] This argument is also substantiated by the data gathered from the banks/DFIs lending to SMEs, higher number of ME borrowers in comparison to SE borrowers, except for SME Bank.
[169] https://karandaaz.com.pk/wp-content/uploads/2020/07/Regulatory-Framework-for-NBFCs-in-Pakisatn.pdf
[170] 'How to build an effective policy framework for SMEs: a developing countries perspective' http://www.business-environment.org/dyn/be/docs/86/Session4.3KrylovaDoc.pdf

to have a better negotiation position with suppliers resulting in lower costs for the equipment as well as having expertise in specialized equipment that it could pass to the customer, and flexible contracts and short approval time.

As discussed above, NBFCs can play an important role as credit providers in the SME sector. The National SME Policy, 2021 under Access to Finance, lists comprehensive measures to enhance SME financing; however, the role of leasing companies and NBFIs is not given due attention.

Many international Venture Capitals (VCs), already operating in regional countries like Bangladesh and India, are unwilling to take exposure in Pakistan due to the stringent regulatory requirements and limited exit opportunities. Access to finance has remained a key stumbling block in Pakistan. These VCs and Private Equity (PE) Funds can fill in the existing financing gap for startups and SMEs.

c) Another source of access to finance for SMEs is Karandaaz Pakistan.[171] Established in 2014, Karandaaz is a commercially directed investment platform that provides funding and investment opportunities to MSMEs, increasing their access to credit and financial inclusion. Through four vertical programmes, Karandaaz Capital, Karandaaz Digital, Knowledge Management and Communications, and Karandaaz Innovation, it aims to provide support and develop the market for MSME financing. Specifically, the three key support areas are women's entrepreneurship, youth employment, and innovation. The Investments undertaken by the company include direct investment, wholesale investment, strategic investments, and energy investments.[172] To provide financial services, the company has created financial partnerships with commercial banks and other financial service providers.[173] Through this initiative, the risk of providing credit to the MSME of FIs is shared.

Karandaaz Digital works with SBP, SECP, National Savings, National Bank of Pakistan, and others to develop national digital platforms to improve access to digital finance for low-income, rural, and unbanked populations, including women. Furthermore, for women entrepreneurs, customized financial instruments and business development support are provided.

6.1.7 Absence of a Dedicated SME banking network

Access to financing cannot be increased without dedicated banks and financial institutions catering to the needs of SMEs. For this purpose, SME Bank was established in 2001[174] and obtained Banking License in 2004. The bank has a 93% shareholding of GoP and a 7% shareholding of other banks. The SME bank was established to support, promote and develop the SME sector in Pakistan, such that the sector leads to greater contribution to the GDP, generates employment, and reduces poverty. The Bank has a network of 13 commercial branches and five recovery offices across major cities in Pakistan.

Pakistan's lending market for businesses can be bifurcated into the following:

---

[171] Karandaaz receives funding from the United Kingdom's Foreign, Commonwealth and Development Office (FCDO) formerly DFID and the Bill & Melinda Gates Foundation (BMGF).
[172] https://karandaaz.com.pk/about/about-karandaaz/
[173] These include Bank Alfalah, Meezan Bank, JS Bank, NRSP, PPAF, PMIC, KFW Development Bank, Germany among others.
[174] https://smebank.org/wp-content/uploads/2019/12/Preliminary-Info-Mem-Final.pdf

a. Large Corporate/Commercial Financing
b. SME Financing
c. Micro Financing

SME bank is the only bank in Pakistan mandated to 'specifically' meet the financial appetite of SMEs. In the early years of its banking operations, the bank performed well in SME lending. However, its share in the total SME lending portfolio is currently less than 1%. The key reason for the banks' declining performance can be attributed to the bank being on the active list of privatizations for the past 15 years.

The SBP under Policy for Promotion of SME Finance, 2017, has taken initiatives to increase SME finance by *improving the regulatory framework through SME specific prudential regulations, introduction of SME targets, subsidized refinance schemes, risk coverage scheme, Islamic SME financing, nonfinancial advisory services, and capacity building of banks and SMEs.* SBP has been pushing commercial banks to increase their SME portfolios by setting annual lending targets for this sector. The SBP, through these initiatives, is expected to achieve by 2020 (i) **an increase in SME share in private sector credit from 8% to 17%** and (ii) an **increase in the number of borrowers from 174,000 to 500,000**.

Given the above targets, however, the banking sector has been unable to meet the target. The share of SME finance remains around 7 % of their total private sector credit, while the number of borrowers has remained under 190,000. The data collection effort by the Competition Commission found that **the SME Bank is the only bank prioritizing and encouraging small borrowers while lending.** The bank has a higher amount of SE financing and the number of SE borrowers than that of ME financing and borrowers. With unmet targets, SBP continues to nudge the banking sector to improve SME sector financing through its carrot-and-stick approaches.

This report recommends setting up dedicated desks in all branches of national and commercial banks to educate, guide, and facilitate SMEs for availing of financial services. The State Bank needs to **encourage all national and commercial banks to set up dedicated desks to cater specifically to SME borrowers. In order to increase access to finance for SMEs, the State Bank may develop incentive schemes to nudge private sector banks towards setting up SME-specific desks within their banks.**

8. Void created due to lack of key SME legislation – 'Cockpit without an engine.'

The SME Policy 2007 recommended **promulgation** of an SME Act aimed at legislating issues related to SMEs, providing identification of fiscal, registration, labour, and inspection laws for the SMEs. On the contrary, the National SME Policy, 2021, remains silent on providing the much-needed key legislation on the SME sector. However, the policy proposes a significant overhaul in all legislation at the federal and provincial levels, but the substantial part of ensuring SME-specific legislation is still missing. Without enacting the key legislation, the SME sector would be just like a 'cockpit without an engine.'

As discussed above, for SME sector development, SME-specific legislation is enforced by economies both emerging and developed, such as:

- Micro Small and Medium Enterprise Development (**MSMED) Act, 2006 - India**
- More than **20 SMEs and related Acts - in South Korea**
- The **Small Business Act – adopted by EU** member states

- **SME Promotion Law of China (2003),** revised (2017)

While Small and Medium Enterprise Development Authority (SMEDA) was established under the SMEDA Ordinance, 2002 with the mandate *to provide requisite support services for encouraging and facilitating the development and growth of small and medium enterprises in Pakistan by way of policy making and through the provisions of resources and support services*, the authority (SMEDA) has an advisory role, facilitating policy formulation and planning.

However, SMEDA has limited powers due to the vacuum of key SME legislation, whereby through an act, responsibility is assigned, funds are allocated, statutory purchase preference, credit support, and penalty for delayed payments to the sector, among others, are binding.

6.2 Recommendations for Supply-Side Barriers

Based on a detailed discussion of supply-side barriers that impede the growth of SMEs in Pakistan, this section presents feasible and innovative solutions in the shape of recommendations to help SMEs obtain better access to finance.

Table 19: Recommendations to Mitigate Supply-side Barriers

S. No.	Type of Supply-side Barriers	Recommendation
1.	**Post COVID Challenges**	a. Develop a state-level policy framework to curtail the negative impact resulting from such shocks on SMEs. b. Set realistic KPIs under the national SME policy for 2025 in the wake of such economic shocks. For instance, providing policy guidance on establishing an SME fund for the revival and employee retention of SMEs in unforeseen economic crises as a precautionary measure. Primarily, the policy should give a long-term plan for restart, and recovery focused on exceeding and not just returning to their pre-crisis performance.
2.	**Lack of Gender Inclusive KPIs**	A gender inclusive policy is essential if the economy wants to benefit from both women's and men's intellectual, entrepreneurial, and physical labour in the small and medium enterprises of Pakistan'. To increase women's participation in the labour force and in the SME sector in particular, women representation at all forums, such as the inclusion of the National Commission on the Status of Women in the NCC on SME development along with the representation of provincial women departments, and women-led SMEs is critical to propose and recommend concrete measures in policy and legislation for women inclusion. Further, this will ensure the achievement of the policy targets set for women SMEs for 2025. Gender-inclusive policies are central to women's economic empowerment and increasing their share in entrepreneurship. With almost half of Pakistan's population comprising females, women represent an untapped potential. Long-term measures at the policy level are required to improve gender parity, as women's empowerment is directly linked to women entrepreneurship. To address access to finance, lessons can be learnt from Bangladesh, where the labour force participation has increased due to favourable government policies such as requiring FIs to lend

S. No.	Type of Supply-side Barriers	Recommendation
		15% of the total credit to women entrepreneurs and the initiative to have women entrepreneurs dedicated desks in banks/NBFIs.
3.	**Inconsistency in SME definition**	A revision in the annual turnover is recommended, which would qualify a greater number of businesses to avail special government schemes of credit and other financial benefits. Additionally, startups are different in overall composition and financing channels compared to SEs & MEs and therefore need to be treated separately and in line with international best practices to encourage competition. The existing policy framework defines startups differently across various legislating bodies, e.g., Tax Ordinances and SME Policies. To provide an enabling environment for startups to operate and grow, it is essential to provide them with investment opportunities and tax exemptions using consistent policy frameworks.
4.	**The risk exposure of Financial Institutions & lending targets of SBP**	a. Set separate targets for SE and ME financing to enhance the overlooked SEs' access to credit. b. The Policy directs SBP to ensure the disbursement of credit to the sector, which can only work well if pursued with a rigorous credit guarantee system in place, without which assigning credit targets to FIs will increase their risk exposure. SBP needs to adopt strict measures to ensure FIs lend to the SME sector, more specifically to SEs and startup businesses, such that their share in SME financing increases. This will also generate a ripple effect and, in turn, help in the growth of MEs. It is, therefore, further recommended that the top-tier banks (based on their total assets, deposit size, and number of branches) may be given mandatory credit targets for the SEs.
5.	**High Regulatory Burden**	Government regulation and taxation play a key role in shaping the business climate in a country. Sound regulation addresses market failure and provides a level playing field for businesses to operate. Equally critical is sound taxation that improves the business climate. Pakistan's business environment faces a complex and non-conducive tax structure which adds a burden on businesses. The objective of tax policy has remained to collect more revenues to

S. No.	Type of Supply-side Barriers	Recommendation
		reduce fiscal deficits.[175] Growth facilitation has not remained the objective of tax policy. Hence, the currently prevailing tax structure of Pakistan violates the basic principles of taxation; fairness, certainty, efficiency, and convenience. Ad-hoc measures taken to increase tax revenue through SROs and mini budgets have resulted in a complex tax system that contradicts rational tax policy. Similarly, over-regulation in a sector adds to the cost of doing business. In addition, it also hampers the growth of SMEs in the early stage of setting up a business. Therefore, it is recommended that the tax structure applicable to SMEs is based on fairness, efficiency, convenience, and certainty. The development of a fair tax system will encourage SMEs to enter the formal economy and become active participants in economic activity. Equally critical is to reduce the unnecessary regulatory requirements for SMEs in general and businesses in the early stages.
6.	**Limited role of CCP according to SME Policy**	CCP regulates economic activity under the Competition Act 2010. SMEs need to be aware of the critical role of CCP in correcting the anti-competitive practices in the market through its enforcement and advocacy role. The SME Policy 2021, however, only defines a limited role of the Commission. It is, therefore, recommended that; a. the oversight role of the Commission should not be ignored, and b. in pursuance of the Commission's role as the economic/commercial activity regulator, it should be made a part of the responsible departments in the Institutional Framework (NCC) for implementing the SME policy, to ensure equal market access and opportunities for all market participants without discrimination.
7.	**Lack of acceptable collateral**	It is recommended to make the STR operational for SMEs on a priority basis as this will enhance the credit access of SMEs and will help in achieving the policy targets of increasing the number of borrowers and the share of SMEs in private sector credit.
8.	**Lack of alternate financing sources**	a. In order to increase the depth and liquidity of the financial markets in Pakistan, efforts need to be made at the institutional and policy level to introduce innovative new financing products. b. NBFCs can play an important role in SME lending and require greater policy support as an alternative to bank financing. It is

[175] https://pide.org.pk/pdfpdr/2020/461-468.pdf

S. No.	Type of Supply-side Barriers	Recommendation
		necessary to broaden the range of financing instruments available to SMEs. c. Diversification in the availability of finance channels other than commercial banks and DFIs can play a significant role in the availability of finance to SMEs. Financial instruments such as venture capital, crowdfunding, equity finance, and the role of leasing companies need to be given due weightage in the availability of financing tools to SMEs. d. Policy measures are required by SBP, FBR, and BOI to streamline the approval processes for VC/PE funds to operate, address difficulties faced by them to bring in money, make the foreign exchange flow less difficult, and resolve the taxation ambiguities. The account opening and registration process for foreigners should be made easy for them to invest in the domestic capital markets. The ease of regulations would incentivize SMEs to list and raise money through financial markets instead of going to the banks. Furthermore, if mandatory information disclosure is reduced, more businesses will enter the formal sector. e. Engagement with entities such as Karandaaz[176] through Public Private Partnership (PPP) is proposed for the generation of greater investment opportunities, improved efficiency/better service provision to SMEs, and risk sharing of financial services. f. An over-regulated market puts the firms at a higher likelihood of financial default; therefore, taxation structure and regulations of the financial markets also require attention.
9.	**Absence of a dedicated SME banking network**	To enhance the competitive environment of the SME sector, it is suggested to **create dedicated SME desks** in the banking network to educate, guide, and facilitate SMEs for availing of financial services. For improved performance and efficiency, dedicated SME desks should be set up according to international best practices, catering solely to SMEs to ease the process of borrowing from financial institutions.
10.	**Lack of SME legislation**	For the implementation of SME development instruments in Pakistan, it is paramount to have SME-specific legislation that sets

[176] Established in 2014, Karandaaz is a commercially directed investment platform that provides funding and investment opportunities to MSMEs, increasing their access to credit and financial inclusion. Through four vertical programmes, Karandaaz Capital, Karandaaz Digital, Knowledge Management and Communications, and Karandaaz Innovation, it aims to provide support and develop the market for MSME financing

S. No.	Type of Supply-side Barriers	Recommendation
		parameters to do business and govern the sector. Introducing SME-specific legislation will provide direction and vision to the sector, providing support in the growth and development of SMEs, thus encouraging efficiency, innovation, and entrepreneurship. Development of a Small Business Act/SME Act is therefore proposed. Enacting SME-specific legislation will encourage fair competition leading to improvements in economic efficiency, economic growth, and development. Under the Act, funds may be allocated for the development and promotion of the sector, such that there is an improved registration process of SMEs, statutory purchase preference, mapping out an inclusive share of SMEs for a certain time, credit support, and penalty for delayed payments enforced.

Source: Competition Commission of Pakistan's Research

CHAPTER 7: KEY RECOMMENDATIONS OF STUDY

Chapters 5 and 6 present a detailed discussion regarding supply and demand factors that hinder SMEs' growth and expansion. Based on data collected from 50 FIs, 18 focused group discussions held with 21 trade & commerce bodies and 362 SMEs in 11 cities, a review of the policy framework and international best practices in the SME sector, and a seminar conducted by CCP on women entrepreneurs, this section presents key recommendations of this study.

Table 20: Key Recommendations of the Study

S. No.	Key Findings	Recommendation
1	**Definition of SMEs, Startups, and Micro Enterprises**	i. A comparison of the small & medium enterprises (SME) definition with other regional countries (India, Bangladesh, Malaysia) shows that the National SME Policy, 2021 has not included microenterprises in the definition of SME. Micro enterprises are generally self-funded or require smaller loan amounts. They have limited resources and fewer employees and are thus not equipped for bulk orders. Clubbing micro-enterprises with SME thresholds cannot result in equitable access to finance. Not Defining micro, small, and medium enterprises (MSMEs) separately leaves out this important segment from the focus of the policy debate and frameworks within the larger domain of SMEs. Policy review is therefore proposed. ii. The National SME Policy, 2021 introduced a new definition of the SME sector that recognizes and acknowledges startups as part of the SME sector. However, startups fundamentally differ in their overall composition and financing channels compared to SEs & MEs. Startups aim to build on ideas very quickly. Speed and growth and the focus on quick expansion distinguish them from SMEs. SMEs are more focused on creating and maintaining a constant and stable revenue stream and generating employment. Also, there is much less risk of failure as compared to startups for SMEs which makes them sustainable in the long run. Therefore, startups need to be treated separately in line with international best practices.

S. No.	Key Findings	Recommendation
	Definition of SMEs, Startups, and Micro Enterprises	iii. Startups require a nurturing ecosystem in the form of startup accelerators and incubators. A review of the startup definition defined under the Companies Act, SME Policy, and Income Tax Ordinance reveals that revenue threshold, innovation, and age threshold, as defined under the three, are different. A clear and transparent legal structure governing startups is essential, laying out the rights and obligations of all parties working under the 'Startup' umbrella and safeguarding their business interests to ensure disputes are prevented, liabilities are defined, and risks are mitigated. iv. In addition, based on the review of international jurisdictions, it is recommended to provide an enabling environment for startups to operate and grow. It is essential to provide startups with investment opportunities and tax incentives using consistent policy frameworks.
2	**Access to Finance**	i. As per the SME Policy, 2021 SME definition, the annual turnover of small enterprises (SEs) is up to PKR 150 million, and for medium enterprises (MEs), between PKR 150 million - PKR 800 million. A review of the policy framework, FIs survey and focused group discussions with SMEs reveal that the annual turnover creates a void as SE and microenterprises' annual turnover is not bifurcated. Further, the ME benchmark is too wide and needs to be rationalized. It is important to appreciate that each segment needs a separate definition of turnover and the number of employees. The needs and requirements of each segment are very different. Data received from banks also suggests that MEs receive more than 80% of bank financing, and the SEs are unable to receive the finances to grow. In order to have the desired growth in the SME sector, it is recommended that the SME definition be rationalized with respect to the annual turnover. Revising the annual turnover of SEs and rationalizing the annual turnover

S. No.	Key Findings	Recommendation
	Access to Finance	for MEs will enable more businesses to avail formal sector financing. Data from FIs also shows a tilt towards ME lending, and small and micro enterprises are neglected due to many factors (discussed in detail in Chapters 5 and 6), creating a barrier for SEs to grow and survive. Based on the survey and focused group discussions with SMEs and FIs, it is recommended that the SBP may take the following measures to ensure that small and micro enterprises are not neglected in mainstream SME lending. a. Separate indicative targets for SE and ME be given to banks/DFIs to ensure maximum credit disbursement in the sector. b. Sector-specific targets be set for SE and ME based on the growth potential of the sector. c. Poor districts should have separate financing facilities. ii. The survey of SMEs and discussion with trade & commerce bodies suggest greater engagement of the small chambers to increase the SEs' financial access. Based on the findings of the report, it is recommended that a framework needs to be developed by the SBP where there is greater engagement of the small chambers to increase the SEs' financial access. The chambers of small traders & small industries have knowledge of the business type, entrepreneurial capabilities, and skills of SEs and, therefore, can serve as reference and/or attestation bodies where the small businesses lack acceptable collateral. It will increase financial access for small businesses and encourage more businesses to be registered with the small chambers joining the formal sector. iii. The State Bank of Pakistan (SBP) has introduced a credit guarantee scheme for micro, small, and rural

S. No.	Key Findings	Recommendation
	Access to Finance	enterprises in collaboration with UK's Department for International Development (DFID). The aim is to provide collateral-free credit. The selection of Participating Financial Institutions (PFI's) is to be made by SBP, and each PFI shall be allocated a credit guarantee limit on an annual basis. The borrower's eligibility is restricted to micro, small enterprises, and farmers with economic landholding. Preference is for fresh customers; however, existing borrowers can avail of the additional lending facility. Up to a maximum of 60% risk coverage is envisaged for clean lending, and the percentage reduces depending on the underlying value of the collateral provided. The tenor of the financing is limited to 5 years, and the amount of financing allowed is capped from PKR 150,000/- to PKR 500,000/- for micro-enterprises. The reimbursement of the guaranteed claim shall not obviate the PFIs' right to recover the defaulted amount. As for the farmers, it is up to PKR 2 million only. Policy review and data from FIs show that no threshold is provided for small enterprises, whereas medium enterprises are not even eligible under the scheme. The amount of capping is too low and needs to be enhanced. Pakistan needs a robust credit guarantee system for MSMEs that may catapult their efficiency, growth, and innovation. Without the credit guarantee system, the targets (if any) given to FIs will increase their risk exposure, and the scheme will not be of much help. iv. The SME survey highlighted the issue of insurance & evaluation requirements and deceptive practices linked with loan documentation. To ensure SMEs' access to available financing opportunities and to mitigate the deceptive practices related to the loan documentation, it is recommended to SBP that the requirements of insurance and evaluation reports may be eliminated by introducing finance schemes for SMEs backed by government guarantees. In other cases, the potential

S. No.	Key Findings	Recommendation
	Access to Finance	costs associated with these requirements may be clearly addressed in the loan policies and procedures so the applicants may be aware and not exploited due to their lack of knowledge. Furthermore, standardized pricing of insurance and evaluation reports may also be introduced for the SMEs according to the appropriate connected factors (e.g., bracket pricing as per asset location, type, measurement, or quantity). v. As in the region, Pakistan's public sector commercial banks may be encouraged to take the lead in providing finances to the SME sector. In addition, the top-tier banks (based on their total assets, deposit size, and number of branches) may be given mandatory credit targets for SE lending. vi. The review of the policy framework and the existing literature on ways and means to enhance SMEs' access to finance depicts that diversification in the availability of financing channels other than commercial banks and DFIs can contribute significantly. NBFIs and leasing companies can play an important role in providing credit to the SME sector. Many international venture capitals already operating in regional countries like Bangladesh and India are unwilling to take exposure in Pakistan due to the stringent regulatory requirements and limited exit opportunities. These venture capital and private equity funds can fill the existing financing gap for startups and SMEs if the regulatory environment is improved. It is recommended that the regulatory environment of these alternate financial instruments, such as venture capital, crowdfunding, equity finance, and NBFIs, is improved and facilitated for enhanced financing to SMEs and startups. vii. Private equity can unlock more investor commitments and considerably enhance the ability of SMEs to raise private equity capital. Private equity with technical assistance investment in different types of businesses

S. No.	Key Findings	Recommendation
	Access to Finance	can equip SMEs and startups with strategies to grow better. Pakistani commercial banks can take the lead in this regard by creating some priority sectors for equity investments. It will be beneficial for all the stakeholders involved since the banks will have an opportunity to shift their loan portfolio from government borrowing and other loans without capital accumulation to operating loans, which will generate economic activity and have a multiplier effect on economic development. The firm will enjoy financing, expansion in business, and, most importantly, the technical assistance required for operating and expanding their businesses, contributing to the development and growth of the economy.
3.	**Complex Regulatory and Taxation Regime- High Regulatory Burden**	i. Government regulation and taxation play a crucial role in shaping the business climate in a country. Sound regulation addresses market failure and provides a level playing field for businesses to operate, and sound taxation improves the business climate. ii. Literature review shows that it is critical to improve the regulatory landscape in which businesses operate. In 2019, Pakistan was ranked 108th out of 190 countries on the World Bank Ease of Doing Business Index. In comparison, India ranked 62nd, Malaysia 12th, U.A.E 16th, and South Korea 5th. Upon review of Pakistan's regulatory landscape of businesses and focused group discussion with SMEs show that there are at least 12 different categories of general regulatory layers that apply to all firms doing business in Pakistan (and four additional administrative processes for foreign companies). In the manufacturing sector, a total of 50 laws and numerous secondary regulations are enforced by over 40 national and subnational agencies and departments. The administration and implementation of these business regulations are based on cumbersome processes resulting in the high cost of doing business for SMEs. The regulatory environment of SMEs needs an overhaul. Developing one-stop portals for issuing licenses, permits, and registration will reduce SMEs'

S. No.	Key Findings	Recommendation
	Complex Regulatory and Taxation Regime- High Regulatory Burden	transaction costs. Further, the system of licensing and registration should be simplified and transparent. Businesses thrive in markets that are transparent, with easy access to information. iii. Various recent studies show that Pakistan's business environment faces a complex and non-conducive tax structure which adds a burden on businesses. According to the SMEDA study on income tax regimes for SMEs, there are a maximum of 16 documents involved at the stage of income tax registration alone. In addition, a taxpayer SME has to comply with approximately 50 procedures in a given tax year which increases the cost of doing business. The objective of tax policy has remained to collect more revenues to reduce fiscal deficits.[177] Growth facilitation has not remained the objective of tax policy. Hence, the currently prevailing tax structure in the country violates the basic principles of taxation, fairness, certainty, efficiency, and convenience. Ad-hoc measures taken to increase tax revenue through SROs and mini budgets have resulted in a complex tax system that contradicts rational tax policy. iv. The demand survey and focused group discussion with SMEs informed that the withholding tax (WHT) deduction from the registered SMEs is a challenge due to the existence of a large informal SME sector, where the vendors and suppliers provide the materials and the services without invoice/record. Subsequently, the registered taxpayer SMEs are penalized instead of the supplier/vendor if they are unable to produce WHT documents from them. It is recommended that the tax structure applicable to SMEs should be based on fairness, efficiency, convenience, and certainty. Further, simple tax filing procedures and information/forms in the Urdu language should be developed to facilitate SMEs.

[177] https://pide.org.pk/pdfpdr/2020/461-468.pdf

S. No.	Key Findings	Recommendation
4.	**Policy distortions are impeding competition.**	i. Focused group discussions with SMEs raised concerns about the regulatory duty in the steel and glass sector, which makes imported raw materials expensive for downstream businesses. Such protection given to local large-scale manufacturers through various Regulatory Duties gives them discretionary monopolistic power and, at the same time, makes it difficult for SMEs to compete. To provide a level playing field to the SME sector and to enhance their efficiency and competitiveness, it is critical that such discriminatory Regulatory Duties and Custom Duties are reviewed by the Federal Board of Revenue (FBR). ii. The National SME Policy, 2021 provides the directive to implement the regulatory guillotine. It is expected that through vigorous adoption of the regulatory guillotine and by abolishing many applicable SROs, the predicted growth and efficiency of the SME sector will increase.
5.	**Right to property**	i. Data collected for this study reveals that the right to property is a significant barrier to SMEs' growth. The interests of SMEs, therefore, need to be safeguarded in existing Special Economic Zones (SEZs) and industrial parks developed by the federal/provincial governments. It is recommended that small chambers are engaged on the board of SEZs to promote the interests of SMEs. ii. To provide a level playing field, it is proposed that land, space, and area may be allocated explicitly for SMEs in the SEZs or specialized SEZs dedicated for SMEs may also be created and catered for both at the provincial and the federal level, and land is available to SMEs at affordable rates.

S. No.	Key Findings	Recommendation
6.	**Capacity Building of SMEs**	i. Focused group discussion with SMEs and the data collected from the FIs reveals that the SMEs lack the technical skills to compete. These businesses do not have the finances to invest in their own capacity building or in others and rely on public technical training institutes. It is therefore proposed to the federal/provincial authorities to invest greater funds in Technical and Vocational Education and Training (TVET) institutions with the latest learning output, systems, and use of technology such that these institutions are based on the demand of the industry. In addition, the existing training centres that are non-operational due to a lack of funds need to be operationalized on a fast-track basis such that SMEs attain the requisite skill set to compete. ii. It is recommended that the higher education institutions and the Business Incubation Centres formed with the mutual collaboration of the Higher Education Commission of Pakistan should also be focused on and utilized for the development and capacity building of SMEs and women-led businesses. The technical and professional staff of the higher education institutions and the industrial hubs may be involved through the platforms of Business Incubation Centres in bridging the gap between practical and educational fields.
7.	**MSME Legislation**	i. The review of the MSME sector in international jurisdictions shows that countries have either legislation or master plans to achieve the requisite growth in the sector, such as India has an MSME Act in place, Malaysia has an SME Master Plan and a budget dedicated to the sector, South Korea has a Ministry of SMEs and Startups. Enacting a Micro, Small, and Medium Enterprises Act is proposed to provide for the vision and direction of the MSME sector. The legislation will provide clarity and enforce rights that will help to create an enabling environment.

S. No.	Key Findings	Recommendation
	MSME Legislation	MSME specific legislation will support the growth and development of such enterprises, thus encouraging fair competition and leading to improved efficiency, innovation, and entrepreneurship. ii. Under the law, funds may be allocated for developing and promoting the sector, improving the SMEs' registration process, statutory purchase preference, mapping out an inclusive share of SMEs for a certain time period, credit support, and a penalty for delayed payments. iii. Implementation of the regulatory guillotine at the federal and provincial level, carried out by the Board of Investment and other relevant departments, and the Secured Transaction Registry operationalized by SECP for SMEs (whereby financial institutions can record security interests of businesses on their movable assets) are steps to improve the regulatory environment governing the SME sector, these may as well be brought under the purview of the proposed SME legislation.
8.	**Gender Inclusion**	i. Women's participation in the labour force in Pakistan is only 24.6%, while they constitute almost 50% of the population. Pakistan has only 1% female entrepreneurs compared to 21% male entrepreneurs. Only 12% of firms have female owners, whereas the global percentage is 34. Further, SBP data reveals that women SMEs received only 3.2% of the total SME financing in 2022. Women can play an important role in the economic development and growth of the country if they are provided the opportunities and the requisite skills. The review of the National SME Policy, 2021 shows that where the policy outlines various measures for women-led SMEs with respect to access to finance and technical skill development, there is a lack of gender perspective in all 5 KPIs set to be achieved by 2025.

S. No.	Key Findings	Recommendation
	Gender Inclusion	ii. The composition of the proposed National Coordination Committee (NCC) on SME Development (under the National SME Policy, 2021) constitutes of various governmental bodies; however, it lacks women representation both at the federal and provincial levels. In comparison, the 2007 SME policy proposed the constitution of a National Committee including women development departments and had set a target to increase the share of women entrepreneurs to a minimum threshold of total SMEs. In the 2021 policy, no such target is set for 2025. A review of regional and international jurisdictions also shows concrete measures are taken to encourage women entrepreneurs, such as requiring banks to maintain 10-15% of SME financing for women entrepreneurs to encourage them. iii. A seminar was conducted by CCP on "Women in SMEs- challenges and way forward" where concerns were raised by the participants about the barriers faced by women entrepreneurs. a. While SMEDA is part of the NCC to review the policy and the regulatory framework governing SMEs to ensure a level playing field and reduce barriers faced by women entrepreneurs, however, it is recommended to have women representation at all forums, such as the inclusion of '*National Commission on the Status of Women'* in the *National Coordination Committee* on SME development along with the representation of provincial women departments, and women-led SMEs. The inclusion of women departments and women-led SMEs in the NCC is critical to propose and recommend concrete measures in policy and legislation for women's inclusion. b. To increase access to finance for women entrepreneurs, lessons can be learnt from Bangladesh, where the labour force participation has increased due to favourable government policies such as requiring FIs to lend 15% of the

S. No.	Key Findings	Recommendation
	Gender Inclusion	total credit to women entrepreneurs and the initiative to have women entrepreneurs dedicated desks in banks/NBFIs. Thus, it is proposed that the FIs should be required to maintain a certain percentage of financing for women entrepreneurs. It will ensure the achievement of the policy targets set for women SMEs for 2025. c. Additionally, to improve access to finance for women-led businesses, it is strongly recommended to enhance the maximum limit of SBP's refinance and credit guarantee scheme for women entrepreneurs from the current limit of Rs. 5 million, which is viewed as highly inadequate and would not cater to the financial needs of small or medium women SMEs.
9.	**Absence of a dedicated SME banking network and lack of trained staff**	i. The review of the financial inclusion of SMEs and focused group discussions with FIs and SMEs show that Pakistan lacks a key financial institution specializing in SME financing. In response to CCP's questionnaire, it was concluded that 93% of SMEs found it cumbersome to avail financing facilities from banks, and 80% had not availed bank financing, alluding to the lack of expertise available at the banks to support borrowers. For the growth of the SME sector and increased competition, it is suggested to create dedicated SME desks across the banking network to educate, guide, and facilitate SMEs to avail financial services. ii. To improve access to finance, the banks' staff should be well aware of SBP's financing products and the financing needs of SMEs and have the skill set to assess their financials. Capacity building of the banking staff dealing with SMEs is also proposed since banking staff capacity is critical to have the desired increase in SME sector lending.

Source: Competition Commission of Pakistan's Research

APPENDIX I: CROSS-COUNTRY COMPARISON

This section draws a cross-country comparison explaining the definition of SMEs, legal developments, challenges they have faced since the emergence of Covid-19, and their subsequent responses. The selected jurisdictions include India, Bangladesh, Malaysia, and South Korea.

India

The total contribution of the MSME sector to the GDP is 37.54%. The sector is broadly classified as (i) **Manufacturing Enterprise**; manufacturing and production of goods in any industry, (ii) **Service Enterprise**; engaged in providing services. The Micro, Small & Medium Enterprise (MSME) sector is governed under the MSMED Act, 2006. The Government of India has redefined MSMEs from 1st July 2020. The new definition has higher investment and turnover figures. The revision was aimed at delivering greater benefits and growth in the size of MSMEs. [Further details of MSME's definition –

Table 21]

Other **prominent feature** features of India's MSME sector are; the MSME policy directive of a 40% bank credit earmarked for priority sector lending, specialized SME bank branches for easy access to credit in industrial clusters (2998 specialized MSME branches),[178] the Udyam registration portal replaced former filing process for registration of MSMEs.[179] Under Public Procurement Policy for Micro and Small Enterprises (MSEs) Order 2018, every central ministry, department, and public sector enterprise has a 25% **mandatory target** set for procurement from MSEs. In addition, a penalty for delayed payments to the sector (a period of 45 days set to settle any credit of MSMEs) is also in place.

Realizing the significance of **e-commerce**, the MSMEs are encouraged to market their goods and services on e-platforms, more specifically on the **Government e-Marketplace (GeM)**, owned and run by the government. Ministries and other public sector enterprises source their procurement through GeM. As of June 2021, 2 million registered sellers and service providers have sold their respective products to 52,651 government buyers. Furthermore, MSMEs are rapidly shifting from cash to digital payments, and 72% of payments are now made through digital mode.[180]

The Old and New (2020) Definition of the MSME Sector:[181]

[178] https://www.rbi.org.in/commonman/english/Scripts/FAQs.aspx?Id=966#:~:text=A.-,8.,sector%20dated%20July%2024%2C%202017
[179] https://www.ibef.org/industry/msme.aspx
[180] ibid
[181] https://www.smechamberofindia.com/about-msme-in-india.php

Table 21: MSME Definition –Old and Revised Definition

Classification	Micro	Small	Medium
(Revised Definition) Manufacturing & Services Sector Enterprises	Investment in Plant and Machinery or equipment up to Rs. 1 crore (PKR 20.67 million) and Annual Turnover does not exceed Rs. 5 crore (PKR 103.36 million)	Investment in Plant and Machinery or equipment up to Rs. 10 crore (PKR 206.72 million) and Annual Turnover does not exceed Rs. 50 crore (PKR 1.033 billion)	Investment in Plant and Machinery or equipment up to Rs. 50 crore (PKR 1.033 Billion) and Annual Turnover does not exceed Rs. 250 crore(PKR 5.16 billion)
(Old Definition)			
Manufacturing Sector	Investment in Plant and Machinery less than or equal to Rs. 25 lakh (PKR 5.16 million)	Investment in Plant and Machinery greater than 25 lakh (PKR 5.16 million) and less than Rs. 5 crores (PKR 103.36 million)	Investment in Plant and Machinery greater than Rs. 5 crore and less than Rs. 10 crore (PKR 206.7 million)
Services Sector	Investment in equipment less than or equal to Rs. 10 lakh (PKR 2.06 million)	Investment in equipment greater than Rs. 10 lakh (PKR 2.06 million) and less than Rs. 2 crores (PKR41.34 million)	Investment in equipment greater than Rs. 2 crore (PKR41.34 million) and less than Rs. 5 crore (PKR 103.36 million)

Source: Ministry of MSME, India

Policy measures amid COVID-19: The reserve bank of India lowered the interest rate from 5.15% to 4% in the second quarter of 2020. On term loans, the central bank directed all financial institutions to give a moratorium of 3 months. The cash reserve ratio was also lowered to 3%, and ease in working capital financing by the revaluation of the working capital cycle of borrowers. To support the availability of credit to SMEs and micro enterprises, INR 20 trillion (USD 266 billion) support package was announced. The measures included support from Reserve Bank of India (RBI) and fiscal measures both. The major highlights of the package as given below;

- The package included INR 3 trillion for collateral-free loans to MSMEs of four-year tenure, with no payments due for one year.
- INR 50 trillion in equity funds for MSMEs.
- Bailout of 200,000 ailing SMEs.
- Eligible firms to access an emergency credit line of 20% of their outstanding credit with a 100% government credit guarantee.
- Stressed firms that require equity support will access INR 200 billion subordinate debt scheme with a partial loan guarantee. The government to provide INR 40 billion to the 200 billion funds.
- To provide equity funding to firms with growth potential, a fund of INR 500 billion to be set up.
- To protect firms from foreign competition, global tenders are excluded from government procurement of up to INR 2 billion.
- A 2% interest subsidy on microloans for a period of 12 months for loans up to INR 50,000.
- A special lending program for street vendors of up to INR 10,000 to finance their working capital, targeting 5 million street vendors.

Bangladesh

The SME sector is governed under the SME Policy, 2019, of Bangladesh. According to Asian Development Bank (ADB), 99% of formal enterprises/businesses in Bangladesh are SMEs (2016). These SMEs generate 75% of non-agricultural employment, and manufacturing SMEs contribute 25% to the GDP.[182] The SME Policy 2019 expedites the MSME definition given in the National Industrial Policy 2016, and this definition is broadly accepted at the policy level. [Further detail of definition –**Table 22** and **Table 23**].

The SME definition includes micro-enterprises. To support women entrepreneurs lending institutions, have women entrepreneurs dedicated desks in banks/NBFIs. Specialized public banks such as State-owned Bangladesh Small Industries and Commerce Bank Limited are mandated to provide 50% of credit to SMEs. To facilitate and encourage SME exports, businesses exporting 80% or more of their products are eligible for duty-free import of machinery and spares.[183]

---

[182] https://www.thedailystar.net/education-employment/smes-and-our-development-goals-1366591

[183] https://www.researchgate.net/publication/333447970_SMEs_Development_in_Bangladesh_Problems_and_Prospects

Banks and Non-Bank Financial Institutions (NBFIs) are instructed by the Bangladesh Bank to reserve 15% of total MSMEs funds for women entrepreneurs exclusively. The bank also introduced an Islamic finance fund with the objective of enhancing the role of Islamic banks. Due to the effective policies of the Bangladesh Bank, 25% of the consolidated loan book of commercial banks is dedicated to SMEs.[184]

The SME Policy 2019 is to be implemented during the period 2019-2024. The policy focuses on access to finance, access to technology and innovation, access to market, access to education and training, access to business support services, and access to information.

Table 22: MSME Definition as per National Industrial Policy, 2016

Type of Industry		Replacement Cost (Excluding Land and Factory Building Cost)	Number of Workers Employed
Micro Industry		BDT 1 million (PKR 1.8 million) to 7.5 million (PKR 13.5 million)	16 to 30
Small Industry	Manufacturing	BDT 7.5 million (PKR 13.5 million) to 150 million (PKR 270 million)	31 to 120
	Service	BDT 1 million (PKR 1.8 million) to 20 million (PKR 36 million)	16 to 50
Medium Industry	Manufacturing	BDT 150 million (PKR 270million) to 500 million (PKR 900 million)	121 to 300. But for labour-intensive industries, not more than 1000
	Service	BDT 20 million (PKR 36 million) to 300 million (PKR 540.2 million)	51 to 120

Source: National Industrial Policy, 2016

184 https://documents1.worldbank.org/curated/en/995331545025954781/Financing-Solutions-for-Micro-Small-and-Medium-Enterprises-in-Bangladesh.pdf

Table 23: SME Definition as per Bangladesh Bank

Enterprise Type	Sector	Fixed Asset other than land and building (Tk)	Employed Manpower (not above)
Small Enterprise*			
	Service	50,000-5,000,000 (PKR 90,000- 9,000,000)	25
	Business	50,000-5,000,000 (PKR 90,000- 9,000,000)	25
	Industrial	50,000-15,000,000 (PKR 90,000- 27,000,000)	50
Medium Enterprise*			
	Service	5,000,000-100,000,000 (PKR 9,000,000-180,000,000)	50
	Business	5,000,000-100,000,000 (PKR 9,000,000-180,000,000)	50
	Industrial	15,000,000-200,000,000 (PKR 27,000,000-360,000,000)	150
Note: *(* not public limited company)*			

Source: Small and Medium Enterprise (SME) Credit Policies & Programmes, Bangladesh Bank

Policy measures amid Covid-19: So far Bangladesh government has announced 23 stimulus packages since March 2020 to tackle the negative impact of COVID-19 on SMEs. The total outlay of these packages is around US$ 14 billion, 4.44 % of the GDP.[185] Details of measures taken are as under.[186]

- To support the more vulnerable SME sector, in March 2020, the Ministry of Finance announced a US$ 588 million stimulus package for exporting industries which was distributed by the commercial banks at a 2% service charge.
- To support the workers' salary, funds under the stimulus package were distributed through mobile financial services.
- The Ministry of Finance also subsidized interest payments on working capital loans of up to US$ 7.1 billion provided by the banking sector.
- A support fund of US $176.7 million for the poor facing job losses from the pandemic.
- A stimulus package of US $ 176.7 for micro-credit and marginal people's lifestyle development.
- The Prime Minister announced a US $ 235.6 million package as interest payments for the 13.8 million loan recipients impacted by the national shutdown.
- In May 2021, a US $107 million second round of cash assistance stimulus package was announced for the targeted population that lost their jobs due to the lockdown.

[185] http://www.xinhuanet.com/english/2021-01/18/c_139677131.htm
[186] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#B

- The government raised the Export Development Fund from US$ 3.5 billion to US$ 5 billion and lowered the interest rate to 1.75%, along with enhancing the refinancing limit.
- The Bangladesh Bank (BB) announced several refinancing schemes amounting to US$ 4.9 billion, including a credit guarantee scheme for exporters, SMEs and farmers to facilitate the government's stimulus package.
- BB has also taken measures to delay non-performing loans classification, relaxation in loan rescheduling policies, credit card fee and interest waive off, suspension of loan interest payments, relaxing of Credit Risk Rating (CAR) for banks, extending tenures of trade instruments, lowering of interest rate on farm loans and allowing short term farm loans rescheduling.

Malaysia

In Malaysia, 98.5% of businesses are SMEs, and the sector employs 48.4% of the total Malaysian employment.[187] In the Budget 2021, an amount of **RM 38.7 billion (PKR 1.433 trillion)[188] is earmarked for the SME sector exclusively**.[189] National Entrepreneur SME Development Council (NESDC), established in 2004 and renamed in 2019, is the highest policy-making authority to drive the national SME development agenda across all sectors of the economy. The key achievements of the council include the adoption of a standard definition of SMEs, the establishment of an SME database, and the monitoring and analysis of SME sector performance to facilitate policy formulation. The council formulated the **SME Master Plan** (2012- 2020) to enhance the performance of the sector. The country also enacted the Temporary Measures for Reducing the Impact of **Coronavirus Disease 2019 Act, 2020 (COVID Act)** to assist businesses and individuals in meeting contractual obligations.[190]

Standard SME definition endorsed by National SME Development Council (NSDC) in 2005 in three key sectors, manufacturing, services and agriculture. The definition was revised in 2014. The redefinition of SMEs resulted in a greater number of enterprises classified as SMEs in absolute terms. Further, the redefinition resulted in the classification of enterprises that were previously classified as large-scale to SMEs, thus increasing the number of enterprises eligible for government support.

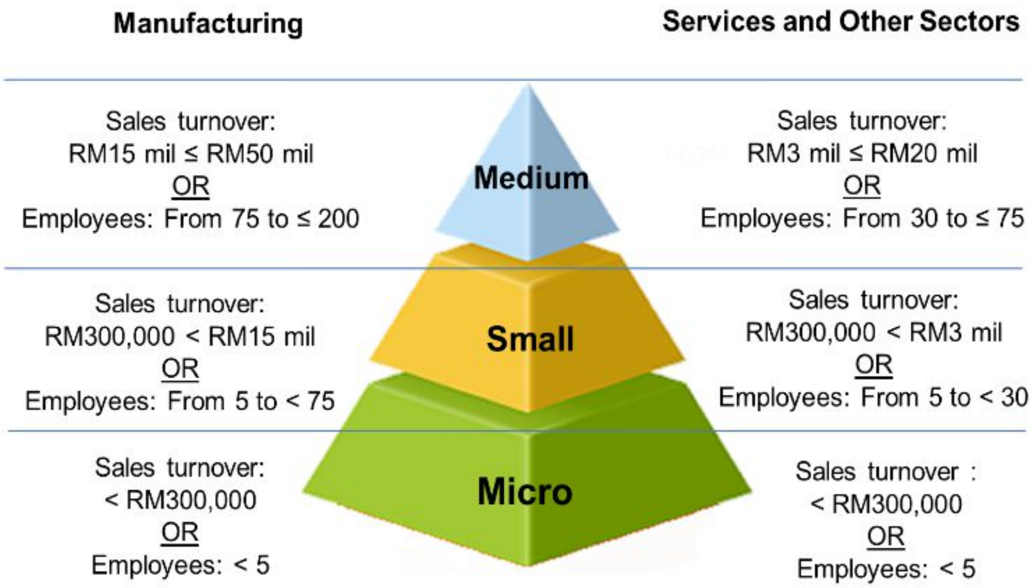
In Malaysia, the services sector has the largest contribution in the SME sector, i.e. 63.3%, followed by manufacturing at 19.8%, agriculture at 9.7%, construction and mining at 5.6% and 0.5%, respectively.

The SMEs are defined on two parameters (i) number of employees and (ii) sales turnover. **Figure 23** presents an overview of these criteria.

---

[187] https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCat&cat=159&bul_id=VjM1enZ2RmlVRDVTNFAwRWZiZUs3QT09&menu_id=TE5CRUZCblh4ZTZMODZIbmk2aWRRQT09
[188] Conversion rate PKR/MYR=37.036 as of 5/5/2021 https://themoneyconverter.com/MYR/PKR
[189] https://www.smecorp.gov.my/images/pdf/2021/LTPKS/BI/Main%20Report/2.%20SME%20Insights%202019-20%20-%20Chapter%201.pdf
[190] ibid

Figure 23: Criteria for SMEs in Malaysia



Source: SME Corporation Malaysia

SME Master Plan (2012- 2020), carried out with 15 ministries and 60 agencies, aimed to help SMEs grow by emphasizing technology and innovation and exports as the main drivers of growth. During the period 2006-2010, more than 500 government programs were run to boost the SMEs' growth and diversified financial landscape, supporting and strengthening the SME sector such as venture capital, crowdfunding, angel investments, peer-to-peer, government funds and microfinancing.[191]

Policy measure amid COVID-19: The Malaysian central bank, Bank Negara Malaysia, announced a decrease in the policy rate along with a directive to all banks on a moratorium of 6 months on all bank loans affected by the pandemic. A total stimulus package of $57 billion was announced, 2/5th of which was aimed at small businesses. The government announced new measures (0.7% of GDP) to support SMEs, including a wage support scheme. A brief of the measures adopted are as below[192];

- The wage subsidy program of RM 13.8 billion provides that all companies with local employees earning a monthly salary of RM 4,000 or below to receive a wage subsidy.
- Companies with a workforce of more than 200 employees to receive a wage subsidy of RM 600 per every retailed worker.
- Companies with employees between 75 to 200 to receive a wage subsidy of RM 800 per every worker retained, and companies having less than 75 employees to receive a wage subsidy of RM 1200/ month per employee.
- A special grant of RM 2.1 billion was established for eligible micro-enterprises, out of which a grant of RM 3,000 to be provided to each company.

[191] https://www.proquest.com/docview/2164477670?fromopenview=true&pq-origsite=gscholar&accountid=135034
[192] https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/

- Income Tax deferment of 6 months for sectors such as tourism.
- Six months rental exemption in case of all federal government, statutory bodies, and other agencies-owned premises.
- Special relief subsidy amounting to RM 5 billion at the interest rate of 3.5% to SMEs offered by the central bank through participating FIs and DFIs
- RM 700 million micro-credit scheme at 0% interest without collateral to affected businesses with a minimum of 6 months in operation.
- SMEs having a business record of less than 4 years may use the leveraging scheme for financing up to RM 300,000 under the Credit Guarantee Malaysia Berhad (CGC).
- Guarantee coverage to increase from 70% to 80% for SMEs under the allocated funds of RM 5 billion.
- To promote the sale of products on e-commerce platforms, RM 10 million grant was allocated.

South Korea

SMEs make up 99.9% of businesses in the Korean Economy and generate 88% of total employment (including micro-enterprises), 38% of total exports, and 51% of value added. The SMEs, as per the Ministry of SMEs and Startups (MSS), are defined on the basis of a single parameter, i.e., the 3-year average sales of a company's main business. Further, the upper limit of an SME's total assets, regardless of the business, should not exceed KRW 500 billion. MSS is the key organization to develop and implement government policies on the SME sector. The sector is governed under 21 different SME laws [See detailed list below].

MSS was created in 2017, and 9 affiliated institutions operate under the MSS to carry out its policies.[193] In 2020, the number of venture capital firms (registered with MSS) investing in SMEs and start-ups was 165.[194] Korean Securities Dealers Automated Quotations (KOSDAQ) and Korea New Exchange (KONEX), part of the public capital markets, are used by SMEs to raise capital. These public stock markets, venture capital firms and government guarantee of SME loans have significantly contributed to the growth of Korea's SME sector.[195]

Korea Credit Guarantee Fund (KODIT), under the Financial Services Commission, provides credit guarantees to all SMEs (including start-ups, innovative firms and SMEs without collateral). For start-ups, the guarantee is 100%, and for others, it is 70%. Further, KODIT funding is 45% by the central government, 50% by commercial banks and 5% by other sources.[196] Although the Korean financial system is complex, it is behind the SME sector's growth.

SME Laws governing the sector are listed below:

i. Framework act on small and medium enterprises

---

[193] These nine institutions include Korea Federation of Credit Guarantee Foundations, Small and Medium Business Corporation, Korea Technology and Information promotion agency, Small Business Distribution Centre, Small Enterprises and Marketing Services, Korea Institute of Start-up and Entrepreneurship Development, Korea Venture Investment Corporation, Korea Small Business Institute, and Korea Technology Finance Corporation https://www.mss.go.kr/site/eng/01/20104000000002019110651.jsp

[194]https://www.statista.com/statistics/880154/south-korea-venture-capital-firms-for-small-and-medium-sized-enterprises-and-start-ups/

[195] https://www.koreascience.or.kr/article/JAKO202034651879157.page

[196] https://www.unescap.org/sites/default/files/Panel%202-2.%20KODIT_Mr.%20Jong-goo%20Lee.pdf

ii. Act on facilitation of the purchase of small and medium enterprise-manufactured products and support for the development of their markets
iii. Act on special cases concerning the regulation of the special economic zones for specialized regional development
iv. Act on the protection of and support for micro-enterprises
v. Act on special measures for the promotion of venture businesses
vi. Act in support of female-owned businesses
vii. Act on the fostering of self-employed creative enterprises
viii. Act on the promotion of collaborative cooperation between large enterprises and small-medium enterprises
ix. Act on the promotion of technology innovation for small and medium enterprises
x. Promotion of disabled persons' enterprise activities act
xi. Special act on support for small urban manufacturers
xii. Small and medium enterprise cooperatives act
xiii. Small and medium enterprises promotion act
xiv. Special act on support for human resources of small and medium enterprises
xv. Special act on the development of traditional markets and shopping districts
xvi. Special act on the promotion of business conversion in small and medium enterprises
xvii. Support for small and medium enterprise establishment act
xviii. Regional credit guarantee foundation act
xix. Act on Support for Protection of Technologies of Small and Medium Enterprises
xx. Act on Special Cases Concerning Support for Techno parks
xxi. Korea Technology Finance Corporation Act[197]

Policy response amid COVID-19: financial sector, including both public and private banks and credit card companies, provided financial support of EUR 2.1 billion to SMEs. The Central Bank of Korea has gradually lowered the interest rates, initially to 0.75% and then to 0.5%. The Ministry of SMEs and Start-ups provided support worth EUR 1.2 billion as a supplementary budget. This plan included;

- An emergency fund has been established to provide direct financial support to SMEs and the self-employed, encouraging firms to keep their employees.
- Government guarantees and insurance on loans
- Sanitary support to the SMEs reopening after closure due to exposure to infected patients.
- Encouraging brick-and-mortar shops to open their businesses online.
- Another $ 39 billion package for emergency financing of small businesses with less than $78,000 in annual revenue to ensure they easily and cheaply get access to credit.
- A further support package of $80 billion for loans to SMEs and to buy corporate bonds and commercial paper for companies facing credit crunch.
- The Ministry of Employment and Labour announced a plan to increase the employee retention of SMEs to cover up to 90% of their employees.
- The Korean fiscal budget increased from EUR 74 million to EUR 371 million.
- A package of KRW 53.7 trillion was also announced, out of which KRW 36 trillion is allocated for trade finance.
- The maturity of trade guarantees and insurance is extended.

[197] ibid

- To support small business owners, an emergency loan program worth KRW 10 trillion is launched.
- The state-run Industrial Bank of Korea (IBK) offered $500 million in foreign currency-denominated social bonds to raise funds for SMEs struggling to recover from COVID.
- Domestic, commercial banks and saving banks will allow loans to be rolled over for small businesses if they are unable to make payments.
- Further, virtual banks have expanded their activities to SMEs during the pandemic.

Appendix II: Detail of Financial Institutions Contacted and Related Questionnaire

List of Banks and Financial Institutions Contacted	
Sr. No.	**Type and Name of the Bank/Financial Institution**
Public Sector Commercial Banks	
1	First Women Bank Limited
2	National Bank of Pakistan
3	Sindh Bank Limited
4	The Bank of Khyber
5	The Bank of Punjab
Specialized Banks	
1	Industrial Development Bank of Pakistan Limited
2	Punjab Provincial Cooperative Bank Limited
3	SME Bank Limited
4	Zarai Tarqiati Bank Limited
Local Private Banks	
1	Allied Bank Limited
2	Askari Bank Limited
3	Bank Al-Falah Limited
4	Faysal Bank Limited
5	Habib Bank Limited
6	Habib Metropolitan Bank Limited
7	JS Bank Limited
8	MCB Bank Limited
9	Samba Bank Limited
10	SILKBANK Limited
11	Soneri Bank Limited

12	Standard Chartered Bank (Pakistan) Limited
13	Summit Bank Limited
14	United Bank Limited
Islamic Banks	
1	Al-Baraka Bank (Pakistan) Limited
2	Bank Islami Pakistan Limited
3	Dubai Islamic Bank Pakistan
4	MCB Islamic Bank Limited
5	Meezan Bank Limited
Foreign Banks	
1	Citi Bank N.A
2	Deutsche Bank AG
Development Finance Institutions	
1	House Building Finance Company Limited
2	PAIR Investment Company Limited
3	Pak China Joint Investment Company Ltd
4	Pak Libya Holding Company Limited
5	Pak Oman Investment Company Limited
6	Pak-Brunei Investment Company Limited
7	Pakistan Kuwait Investment Company Limited
8	Pakistan Mortgage Refinance Company Limited
9	Saudi Pak Industrial & Agricultural
Microfinance Banks	
1	Advans Pakistan Microfinance Bank Ltd
2	APNA Microfinance Bank Limited
3	FINCA Microfinance Bank Limited
4	First Microfinance Bank Limited
5	Khushhali Microfinance Bank Limited
6	Mobilink Microfinance Bank Limited

7	NRSP Microfinance Bank Limited
8	Pak Oman Microfinance Bank Limited
9	Sindh Microfinance Bank Limited
10	Telenor Microfinance Bank Limited
11	U Microfinance Bank Limited

Questionnaire for Financial Institutions on SME sector financing

1. According to the SBP data, SME financing as percentage of domestic private sector financing is 6.4% (June, 2020); with respect to your banks SME financing portfolio, what is the share of Small Enterprise (SE) and Medium Enterprise (ME) in the total SME financing undertaken for last 3 years?

2. What are the number of SE and ME borrowers, separately w.r.to you institution?

3. What is the average turnover of SE companies and ME companies that have availed SME financing products offered by your bank/institution?

4. Data of last 5 years of SE and ME companies (separately) that availed various financial services under each financial service offered by your institution.

5. As commercial banks provide the highest amount of credit facilities to SMEs in general, are these services provided more to MEs as compared to SEs? If yes, please elaborate

6. On the supply side of providing credit facilities to SMEs what are the barriers restricting the increase in financial inclusion of SMEs in general? More specific to SE and ME growth separately.

7. For SME financing what are the various forms of collateral accepted by your bank? Are some financial institutions more risk averse than others? Please elaborate

8. Does your bank meet the targets set by SBP for SME financing? If not, please state major hurdles?

9. Should there be separate definitions for the major SME sectors (such as the number of employees, annual turnover and credit limit) for enhanced financial access? Can this be helpful in achieving the objective of SME sector growth and development? Please elaborate.

APPENDIX III: INTERACTIVE SESSIONS HELD WITH SMES & RELATED QUESTIONNAIRE

Interactive sessions held with SME's (4 Aug - 24 Sep 2021)				
Sr.	City	Date & Time	Organization	No. of participants
1	Islamabad	Wed, 4 Aug, 11:00 am	Islamabad Chamber of Small Traders and Small Industry	16
2	Peshawar	Thu, 5 Aug, 3:00 pm	Peshawar Chamber of Small Traders & Small Industry	22
3	Gujrat	Tue, 10 Aug, 3:00 pm	All Pakistan Furniture Makers Association	20
4	Lahore	Wed, 11 Aug, 11:00 am	Lahore Chamber of Commerce & Industry	20
5		Wed, 11 Aug, 3:00 pm	Pakistan Chemical Manufacturers Association, Lahore	9
6	Gujrat	Thu, 12 Aug, 2:00 pm	Pakistan Electric Fans Manufacturers Association, Gujrat	11
7	Multan	Wed, 25 Aug, 11:00 am	All Pakistan Bedsheets & Upholstery Manufacturers Association, Multan	43
8		Wed, 25 Aug, 3:00 pm	**Multan** Chamber of Commerce & Industry + All Pakistan **Fertilizer Dealers Association**	20
9	RYK	Thu, 26 Aug, 11:00 am	Rahim Yar Khan Chamber of Commerce & Industry	15
10	Faisalabad	Fri, 27 Aug, 11:00 am	Faisalabad Chamber of Commerce & Industry	21
11		Fri, 27 Aug, 3:00 pm	Faisalabad Chamber of Small Traders & Small Industry + Jhang + Sargodha Chamber of	39

			Small Traders and Small Industries	
12	Karachi	Mon, 6 Sep, 11:00 am	Korangi Association of Trade & Industries, Karachi	10
13		Mon, 6 Sep, 3:00 pm	Towel Manufacturers Association of Pakistan, Karachi	15
14		Wed, 8 Sep, 11:00 am	Pakistan Knitwear & Sweater Exporters Association, Karachi	15
15	Hyderabad	Tue, 7 Sep, 2:30 pm	HYB Chamber of Small Traders & Small Industry	22
16		Tue, 7 Sep, 4:30 pm	HYB Chamber of Commerce & Industry	25
17	Quetta	Tue, 14 Sep, 12:00 pm	Quetta Chamber of Small Traders & Small Industry	15
18	Sargodha	Thu, 24 Sep, 2:00 pm	Sargodha Chamber of Small Traders & Small Industry	24

Questionnaire to assess SME - Demand Side Constraints

City:

Date:

BACKGROUND

1. Are you a

   ❑ SMALL ENTERPRISE (SE) (average annual turnover below PKR 150 MILLION) or a

   ❑ MEDIUM ENTERPRISE (ME) (average annual turnover above PKR 150 MILLION?)

2. What is the nature of your business?

   (a) ❑ MANUFACTURING

   (b) ❑ TRADING

   (c) ❑ SERVICE(S)

3. **How long have you been in business?**

   (a) ❑ less than 5 years

   (b) ❑ more than 5 but less than 10 years

   (c) ❑ more than 10 years.

4. Did you start your business as a MICRO-ENTERPRISE? (a) ❑ Yes (b) ❑ No.

5. If yes, how many years did it take before you became an SE?

   (a) ❑ less than 5 years (b) ❑ more than 5 years.

6. If you are a SMALL ENTERPRISE, do you plan to become a MEDIUM ENTERPRISE in future?

   (a) ❑ Yes (b) ❑ No

7. Did you start your business as a MEDIUM ENTERPRISE?

   (a) ❑ Yes (b) ❑ No

8. If No, how many years did it take you to become a MEDIUM ENTERPRISE?

   (a) ❑ less than 5 years

   (b) ❑ more than 5 years but less than 10 years

   (c) ❑ more than 10 years

ACCESS TO FINANCE

9. **REFERENCE QUESTION 6**, is lack or non-availability of financial services a significant barrier in your expansion?

(a) ❑ Yes (b) ❑ No

10. Are you using any **BANKING PRODUCT(S)** for your business financing needs?

    (a) ❑ Yes (b) ❑ No

11. If yes, is it

    (a) ❑ Working capital financing

    (b) ❑ Medium-term financing

    (c) ❑ Long-term financing

    (d) ❑ Non-Fund finance.

12. **Have you** applied financing facility from a BANK?

    (a) ❑ Yes (b) ❑ No

13. **Have you** applied financing facility from an NBFC or a LEASING COMPANY?

    (a) ❑ Yes (b) ❑ No

14. Did you find it easy to avail a financing facility offered by a BANK?

    (a) ❑ Yes (b) ❑ No

15. For a BANK LOAN what is the main barrier for access to finance

    (a) ❑ non availability of acceptable collateral

    (b) ❑ documentation and record of finances

    (c) ❑ lack of a business plan

16. Did you find it easy to avail a financing facility offered by NBFC/LEASING COMPANY?

    (a) ❑ Yes (b) ❑ No

17. For a NBFC/LEASING COMPANY LOAN what is the main barrier for access to finance

    (a) ❑ non availability of acceptable collateral

    (b) ❑ documentation and record of finances

    (c) ❑ lack of a business plan

18. Do you use alternate informal sources to get finances for their business?

    (a) ❑ Yes (b) ❑ No

19. If yes to **QUESTION 18**, what is the reason for using informal sources

    (a) ❑ non availability of acceptable collateral

    (b) ❑ cumbersome procedure of banks

(c) ❑ avoiding taxes

(d) ❑ lack of information

20. Do you have information about various financing facilities announced by the STATE BANK OF PAKISTAN (SBP) for SME SECTOR, startup businesses, women entrepreneurship, *kamyab jawan*, refinance facilities?

(a) ❑ Yes (b) ❑ No **(IF YES, GO TO QUESTION 21; IF NO, GO TO QUESTION 22)**

21. How did you learn about these facilities?

(a) ❑ Newspaper

(b) ❑ Internet

(c) ❑ Bank/Financial institution

(d) ❑ other sources.

REGULATORY FRAMEWORK & BARRIER TO ENTRY

22. Are the applicable laws/regulations for SE or ME business registration easy?

(a) ❑ Yes (b) ❑ No

23. If you are in the export market, are there any specific hindrances to your business in the form of laws and regulations or any other factors? Briefly explain.

____
_

____
_

____
_

____
_

24. If you are in the domestic market, are there any other barriers to entry in your business in the form of laws and regulations or any other factors? Briefly explain.

____
_

____

____

____

25. Are you familiar with the SME SECTOR POLICY FRAMEWORK? (a) ❑ Yes (b) ❑ No

(IF YES, PLEASE RESPOND TO QUESTIONS 26, 27, 28)

26. Do you think there is a need to revise the **SME DEFINITION** as linked to the annual turnover? SE (<PKR 150 million annual turnover) and ME (>PKR 150 million but <PKR 800 million).

    If yes, kindly share your views.

____

____

____

____

27. Should the SME DEFINITION also include MICRO-ENTERPRISE and define the sector as MSME? Kindly share your views

____

____

____

____

____

28. Any other recommendations?

____

–

____

–

____

–

____

–

APPENDIX IV: KEY INSTRUMENTS USED FOR SMEs GROWTH IN DIFFERENT COUNTRIES

Key Instruments Used in Different Countries					
Sr.	**Attributes**	**Countries**			
		India	**S.Korea**	**Germany**	**Bangladesh**
1	Specialized Banks for SME Sector				
2	Specialized Bank Branches for SME lending				
3	Credit Guarantee Institutions				
4	SME priority sectors advances / low-interest rate lending to SMEs				
5	Annual lending targets for SMEs				
6	Composite loans by Banks to SMEs * Term Loans *Working Capital Loans				
7	Cluster financing of SMEs * Provision of specialized branches for clusters				
8	Provision of Loans without collateral/third-party guarantees				
9	Credit rating of SMEs * Mandatory * Optional				
10	Provisions for debt restructuring of advances for sick units				
11	Training Institutes for Entrepreneurs (supported by Financial Institutions)				
12	Priority for Women Entrepreneurs				
13	Priority financing for Research and Innovation				
14	Financing support for SME sector exports				

Source: Policy for promotion of SME Finance, 2017, SBP

Appendix V: Registration Requirements for Manufacturing Businesses in Pakistan

Registration Requirements for Manufacturing Businesses in Pakistan

Securities and Exchange Commission of Pakistan (SECP) is the body that registers businesses in Pakistan. A business can be registered in one of the four business categories. These categories are; i) Proprietorship, ii) Partnership Firm, iii) Limited Liability Partnership Firm, iv) Private Limited Company. Following are the steps for registration of a company in SECP;[198]

1. Obtain PIN from SECP for company registration.
2. Reserve the name, register the company, pay incorporation fees, obtain a national tax number(NTN) and register with the Excise & Taxation Department of the District (Professional Tax), the SESSI, EOBI and Labor Department on the SECP's e-portal
3. Open a bank account for tax registration.
4. NOC or letter of intent/ license from concerned authorities if the business is of some specialized nature.
5. In the case of foreign company incorporation, details such as the List and details of Directors and their nationality, company profile, Company charter's certified copy, Memorandum of Association and Articles of Association.
6. Apply for a Sales Tax Registration Number (STRN) at the tax facilitation centre of the Regional Tax Office (RTO) of the Federal Board of Revenue (FBR)
7. Authorization of Subscribers for filing of documents.
8. Registration/ Filing fee.

SECP will evaluate and validate all the submitted documents and will then grant a digital signature or company seal. All company directors' signatures are needed to receive this company seal.

NTN and Sales Tax Registration process

For NTN registration of Manufacturing Business Proprietor and in case of Company, one of the Member will present Income Tax Authorities by completing the list of requisite documents[199];

1. NTN Registration Form (TRF-01 Form)
2. Letter of Authority in favour of one Partner/Member who will be Principle Partner/Member declared by other Partners/Members. In the case of a Proprietorship Business, no such requirement is needed.
3. Original CNIC of Proprietor/ Partner/Member representing the business.
4. Business Email for NTN Registration, which was never used before in any other NTN
5. Mobile Number of Proprietor/Partner/Member not been used before in any other NTN.
6. Business Premises Title/ownership Documents or Tenancy/Lease/Rent Agreement along with Owner/ Landlord CNIC Copy
7. Paid Electricity Bill (within the last three months from the date of NTN Application)

[198] https://invest.gov.pk/starting-business
[199] https://www.taxcare.pk/how-to-registered-manufacturing-industry-business-in-lahore/

8. Original Incorporation Certificate/Registration Certificate in case of Partnership Firm or Company
9. Original Partnership Deed in case of Partnership Firm Registered under Partnership Act 1932
10. Certified True Copies of Memorandum of Association (MOA) and Articles of Association in case the Company registered under SECP
11. Certified Copy of Form –II (Application for Company Incorporation) in case of Company registered under SECP.

Quality Assurance/Standardization

For quality assurance, the Pakistan Standards & Quality Control Authority assists the manufacturing and services sector in obtaining quality, system and environment certification under ISO-9000 & ISO-14000. The product certification process involves following steps

1. Submission of Application, its Scrutiny and registration
2. Preliminary factory evaluation
3. Sample collection
4. Testing of samples
5. Grant of Certification Marks (CM) License
6. Surveillance
7. Periodic factory visits (on a quarterly basis)
8. Factory sample testing (on a quarterly basis)
9. Market sample testing (on a quarterly basis)
10. Review of License
11. Renewal
12. Expiry/cancellation/Suspension/Withdrawal, as the case may be.

For Export purposes, a company has to fulfil the following additional requirements;

Register with Chambers of Commerce and Association
Registration with the Chamber of Commerce & Industry and concerned Association for obtaining certificate/ membership.

WEBOC (Web Based One Customs) registration necessary for exports & imports[200]

Since 2011, the issuance of WEBOC ID is required for end-to-end customs clearance. A company can hire a clearing agent to process WEBOC ID and all export documents required by customs authorities for export.

Registration with REX (Registered Exporter System)

For export to the EU, registration is required in the REX system through TDAP.

Goods Declaration (GD) Form

It is a custom online declaration form which used to mention complete details (i.e. Quantity, Unit Price, Payment Terms etc.) of Goods that we want to import or export from Pakistan.

Packing List (PL)

---

[200] https://tdap.gov.pk/wp-content/uploads/2022/04/Step-by-Step-Guide-for-New-Exporters-Export-Procedures.pdf

A freight forwarder may use the information on the packing list to create the bills of lading for the shipment. A bank may require that a detailed packing list be included in the set of documents presented to get paid under a letter of credit. Customs officials in Pakistan and the destination country may use the packing list to identify the location of certain packed items they want to examine. The packing list identifies items in the shipment and includes the net and gross weight and dimensions of the packages. It identifies any markings that appear on the packages and any special instructions for ensuring the safe delivery of the goods to their final destination.

Certificate of Origin

Some countries require a certificate of origin for your shipments in order to identify from which country the goods have originated. The certificate of origin is issued by the Chamber of Commerce in the relevant area. A certificate of origin may be required even if details on the country of origin have already been provided on the commercial invoice.

Country Specific Certificate

In addition to the generic certificate of origin form, there are also country-specific certificates of origin. These forms may be required if exports are being made under specific FTA/PTA or under GSP schemes.

Bill of Lading

It's a contract of carriage between the exporter and the shipper of the goods that state where the goods are going; it also serves as a receipt that the goods have been picked up. There are three common bill of lading documents: inland, ocean, and airways.

Dangerous Goods Forms

If products are considered dangerous goods by either the International Air Transport Association (IATA) or the International Maritime Organization (IMO), the exporter needs to include the appropriate dangerous goods forms with the shipment. These forms need to be completed by someone who has been trained to handle dangerous goods shipping.

REFERENCES

Abdin, M. J. (2017). SMEs and Our Development Goals. Social Science Electronic Publishing, 2(2), 34-56.

Akhtar, S. Liu, Y. (2018). *SME Managers and Financial Literacy; Does Financial Literacy Really Matter?* Journal of Public Administration and Governance 8(3):353

Amr, Abdel Bary. (2019). SMEs Sector: A Key Driver to the Egyptian Economic Development. ResearchGate, Berlin.

Armas, B. et, al. (2019). Pakistan at 100: Shaping the Future 2047. World Bank.

Ayyagari, M., Demirgüç-Kunt, A., & Maksimovic, V. (2017). SME finance. Working Paper 8241. World Bank Group.

Bangladesh Bank. Policy Initiatives for Women Entrepreneur. Web Page.

Beom, B. et, al,. (2020). *Capital Markets for Small- and Medium-sized Enterprises and Startups in Korea.* The Journal of Asian Finance, Economics and Business.

Bokhari, A. & Syed, A. (2019). Pakistan's start-up landscape: Three ways to energize entrepreneurship. Mckinsey.

Business Recorder. (January, 6, 2022). A triumphant decade: Pakistan's banks win the dividend payout race.

Business Recorder. (Sep, 5, 2021). *Towards 'SAAF' SME-lending.*

Dawn. (May, 6, 2021). NCCPL discloses number of stock market investors-252,322.

Department of Statistics Malaysia. (2020, July 29). Small and Medium Enterprises (SMEs) Performance 2019 [Press release].

Department of Statistics Malaysia. (July 29, 2020). Small and Medium Enterprises (SMEs) Performance 2019.

Eniola, A. & Entebang, H. (2015). *Financial literacy and SME firm performance*. International Journal of Research Studies in Management 5(1).

European Commission. (2003). concerning the definition of micro, small and medium-sized enterprises. Document Number C (2003) 1422.

FBR. (July 1, 2021). Finance Act 2021- Explanation of Important Amendments Made in the Income Tax Ordinance, 2001. Revenue Division.

Federal Board of Revenue. (2021, July 1). Finance Act, 2021- Explanation of Important Amendments Made in the Income Tax Ordinance, 2001. Circular No. 2 of 2021-22.

Financial Institutions Secured Transactions Act, 2016. (2016, July 1). Government of Pakistan.

Goldstein, M. et, al. (May, 30, 2019). Tackling the global profitarchy: Gender and the choice of business sector. World Bank

Government of Pakistan. (2015, December 31). Special Economic Zones Act, 2012. Board of Investment.

Government of Pakistan. (2021). The Companies (Amendment) Act 2021. National Assembly of Pakistan.

H, S, Turab. et, al. (2019). Draft National SME Policy 2019. USAID. IGC Annual Conference Karachi.

Hamel, I. et, al. Legal Reform in Pakistan: One More Step Towards Gender Equality. Women Entrepreneurs Finance Initiative. Web page.

HEC Pakistan (n.d.). *ESTABLISHMENT OF BUSINESS INCUBATION CENTERS PROGRAM*. Retrieved July 11, 2023, from https://www.hec.gov.pk/english/services/universities/ebic/Pages/default.aspx

Ilyas, S. (2019). Banks' Lending Preferences and SME Credit in Pakistan: Experience and Way Forward. International Journal of Advanced Economics. Vol. 1(1), pp. 18-30.

IMF. (July 2, 2021). Policy Responses to Covid-19. Policy Tracker.

International Committee on Credit Reporting. (2014). *Facilitating SME Financing through Improved Credit Reporting.* World Bank, Washington, DC. World Bank.

International Labour Organization. (2011). Gender Review of SME Policy. Islamabad, Pakistan, ILO.

International Labour Organization. (2021, January 25). COVID-19 and the world of work. ILO Monitor, Seventh edition.

Karandaaz Pakistan. (2020, September 2). About Karandaaz. Karandaaz. Web Page.

Karandaaz. (2020). *Legal Framework for Startups in Pakistan.*

Karandaaz. (July 2020). Regulatory Framework for NBFCs in Pakistan.

KPMG. (2020). Government and institution measures in response to COVID-19.

KPMG. (2020, April 13). Government and institution measures in response to COVID-19.

Mckinsey. (2022). *What's fueling Pakistan's emerging start-up ecosystem.*

Ministry of Finance. Government's 100-days Agenda: National Financial Inclusion Strategy.

Ministry of Planning, Development and Special Initiatives, Government of Pakistan. (2021). Annual Report 2021. Development Policy Unit, UNDP Pakistan.

Ministry of SMEs and Startups. (2021). Regional Small and Medium Business Administration. Korea.

Muntasir, B. (2019, May 8). Absence of a unified definition bar for financing SMEs. Dhaka Tribune, Bangladesh.

Naseem, N. & Sohail, H. (October 3, 2022). Empowering Women in Pakistan's Economy: Lessons from Bangladesh. South Asian Voices.

Newsletter. (2017, October–December). SMEDA, 10(4).

OECD. (2015). New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments.

OECD. (2019). Western Balkans and Turkey: Assessing The Implementation Of The Small Business Act For Europe.

Organization for Economic Co-operation and Development. (2020, July). Coronavirus (COVID-19): SME Policy Responses. Discussion paper.

PACRA. (2021). NBFIs & Modarabas: An Overview.

Pakistan Credit Guarantee Company. Benefits of PCGC. Web page.

Pakistan Innovative Finance Forum. (2020, February). Innovative Financial Solutions for SME Finance: Synthesis of Takeaways. Karandaaz.

Pakistan Microfinance Investment Company Limited. (2021). About Us. Web Page.

PCGC. (2020). Draft Credit Guarantee Guide.

PIDE. (August, 10, 2020). The Poor State of Financial Markets in Pakistan. PIDE Policy Viewpoint. .

Razorpay. (2020, December 16). Turnover to Define MSMEs - The New MSME Definition. New Delhi, India.

Reserve Bank of India. (2017). *Micro, Small and Medium Enterprises*.

Reserve Bank of India. (2018). FAQ. Micro Small and Medium Enterprises. Reserve Bank of India.

Reserve Bank of India. (2019). Financial Stability Report (FY19). Mumbai, India.

Sarwar, S. & Abbasi, F. (2013). An In-Depth Analysis of Women's Labor Force Participation in Pakistan. Middle-East Journal of Scientific Research 15 (2): 208-215, 2013

SBP. (2016). Supervisory Regime. Off-Site Supervision & Enforcement Department.

SBP. (2017). *Small Enterprise (SE) Financing and Credit Guarantee Scheme for Special Persons*.

SBP. (2019). Islamic Refinance Scheme for Working Capital Financing of Small Enterprises and Low-End Medium Enterprises (IWCF).

SBP. (2020). The State of Pakistan's Economy. Special Section: Technical and Vocational Education and Training (TVET) in Pakistan: Issues and Challenges for Productivity Enhancement.

SBP. (2021). *Risk Based Supervisory Framework-July 2021*.

SBP. (2021). *SME Asaan Finance (SAAF) Scheme*. Infrastructure, Housing & SME Finance Department

SECP. (2019). SECP approves Growth Enterprise Market listing regulations.

Singh, S. Asrani, R. Ramaswamy, A. (2016). Study on Mapping the market potential and accelerating finance for women entrepreneurs in Bangladesh. IFC, Canada.

Sipotra. (2019). *Closing the Gender Gap*. Finance & Development.

SME Bank Limited. (2019). Privatization of SME Bank Limited. Web Page.

SME Bank. (December 2019). Privatization of SME Bank Limited.

SME Chamber of India. About SMEs in India. Web portal.

SME Corporation Malaysia. (2020). SME Development Policies, Initiatives and Programmes. SME Insights 2019/20. Malaysia.

SME Corporation Malaysia. (2020). SME Insights 2019/20: SME Development Policies, Initiatives and Programmes.

SME Corporation Malaysia. (2021). About SME Corp. Malaysia.

SME Corporation Malaysia. SME Definition. Web Portal.

SMEDA. (2021). *National SME Policy 2021*. Ministry of Industries & Production. Government of Pakistan.

SMEDA. Credit Guarantee Scheme for Small and Rural Enterprises.

Sohail, H. (2020, July). Regulatory Framework for NBFCs in Pakistan: The SME Lending Perspective. Karandaaz, Pakistan.

Starttech. What's a startup incubator? www.starttech.vc/library/whats-a-startup-incubator/

Startup India. (2020). Evolution of Startup India. Ministry of Commerce and Industry. Government of India.

State Bank of Pakistan. (2000). Pakistan: Financial Sector Assessment 1990-2000. Research Department.

State Bank of Pakistan. (2017, December 22). Policy for promotion of SME Finance. Infrastructure, Housing & SME Finance Department.

State Bank of Pakistan. (2017, December). Prudential Regulations for Small & Medium Enterprises Financing. Infrastructure, Housing & SME Finance Department.

State Bank of Pakistan. (2020). Quarterly SME Finance Review December, 2020. Infrastructure, Housing & SME Finance Department.

State Bank of Pakistan. (2020). The State of Pakistan's Economy. Special Section: Technical and Vocational Education and Training (TVET) in Pakistan: Issues and Challenges for Productivity Enhancement.

State Bank of Pakistan. (2021). Prudential Regulations for Small & Medium Enterprises Financing (Updated ed.). Karachi, Pakistan. Infrastructure, Housing & SME Finance Department.

State Bank of Pakistan. Diagnostic Survey Report of Women-SMEs In Pakistan.

The Micro, Small and Medium Enterprises Development Act 2006. (2006, June 16). Government of India.

UNCTAD. (2005). How to build and effective policy framework for SMEs: a developing countries' perspective. International Conference on Reforming the Business Environment, Cairo, Egypt, 29 November-1 December 2005.

UNDP. (2020, May). Covid-19- Pakistan Socioeconomic Impact Assessment & Response Plan. Version May 1st, 2020.

UNDP. Sustainable Development Goals: Background on the Goals.

UNIDO. (2022). Women, SMEs and sustainable development – lessons learnt for the road ahead.

United Nations. (2017). *Korean Experience in Credit Guarantee Scheme to Enhance Financial Accessibility of MSMEs.* Korea Credit Guarantee Fund.

Whah, Y. & Shiang, L. (2018). Policies and Performance of SMEs in Malaysia. Journal of Southeast Asian Economies; Singapore Vol. 35, Iss. 3.

World Bank. (2019). Financing Solutions for Micro, Small and Medium Enterprises in Bangladesh. Policy Research Institute.

World Bank. (2019). Secured Transactions, Collateral Registries and Movable Asset-Based Financing. Knowledge Guide.

World Bank. (2020). The Cursed Blessing of Public Banks. South Asia Economic Focus, Spring 2020. Washington, DC: World Bank.

World Bank. (November, 2019). Secured Transactions, Collateral Registries and Movable Asset-Based Financing. Knowledge Guide.

World Bank. (October 9, 2017). Addressing the SME Finance Problem. Research & Policy Brief.

World Bank. SMEs Finance: Improving SME's access to finance and finding innovative solutions to unlock sources of capital.

Xinhuanet. (January 18, 2021). Bangladesh approves new COVID-19 stimulus packages for small businesses, low-income communities.

Yoshino, N. and Taghizadeh, F. (2017). Solutions for SMEs' difficulties in accessing finance: Asian experiences. ADBI Working Paper 768. Tokyo: Asian Development Bank Institute.

Yoshino, Naoyuki; Taghizadeh-Hesary, Farhad (2017): Solutions for small and medium-sized entreprises' difficulties in accessing finance: Asian experiences, ADBI Working Paper, No. 768, Asian Development Bank Institute (ADBI), Tokyo

Zaman, A. & Islam, M. (2011). *SMEs Development in Bangladesh: Problems and Prospects*. Entrepreneurial Economics.

Competition Commission of Pakistan

I 7,8,9,3 Floors, ISE Tower, 55-B, Jinnah Avenue,
Islamabad I I Tel: +92-51-9100260-3 I
I Fax: +92-51-9100256 I Web: www.cc.gov.pk I