# Critical evaluation of current policies and practices of SMEs and its impact on economy and women led enterprises in Pakistan

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## *Abstract:*

*The Government of Pakistan is actively promoting industrialization, innovation, and export growth to enhance economic development and job creation. Small and medium-sized enterprises (SMEs) play a pivotal role in this effort, contributing significantly to the country's economic growth. However, the SME sector faces several challenges, including weak data infrastructure, inefficient policy implementation, lack of coordination among stakeholders, and insufficient support for women entrepreneurs. Key recommendations include improving data infrastructure, enhancing single-window operations, and strengthening coordination between SMEDA, provincial governments, and TVETs. Additionally, incentives should be tied to formalization measures, and R&D needs to be promoted. SMEDA should also focus on increasing domestic market access through awareness programs and quality certification. Furthermore, measures to improve access to finance, such as tax incentives and low-interest loans, should be implemented. The promotion of business development through strategic proposals, particularly in import substitution, is also crucial for SME growth.*

## *Key words:*

*Governance, climate change, Pakistan, resilience, adaptation.*

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## *Introduction*

The Government of Pakistan is undertaking a concerted effort to promote industrialization, innovation, enterprise development, and export growth in the country. This effort contributes to the government's target of creating jobs and catalyzing economic growth. Pakistan, with its large and growing population, natural resource reserves, geo-strategic location, and improving global connectivity, has the necessary elements to enhance its role as a regional hub for investment, manufacturing, and business. The majority of manufacturing and business activity in Pakistan takes place in SMEs; therefore, growth in the SME sector contributes directly and substantially to overall economic growth. Facilitating rapid growth in the SME sector is consequently an important pillar of the government's economic development strategy.

## *Statement of the Problem*

SMEs play a crucial role in national output and employment, with the sector contributing upwards of 80% to national GDP in developed economies. In Pakistan, however, this sector only contributes 40% to GDP, and growth in the sector has plateaued for quite some time. An in-depth analysis of the framework in which SMEs operate is required to identify the challenges and roadblocks preventing growth in this sector, so that workable policy recommendations can be devised to achieve the true potential of this sector.

## *Scope and Research Methodology*

This study aims to review the legal and institutional framework governing the SME sector, as well as undertake a comparison of practices within the region to identify gaps and alternatives that could be adopted to facilitate the growth of the sector.

The study shall be limited to the SME sector under the Federal Government, with a particular focus on SMEDA and the SME Policy 2021. Provincial institutions and measures have been excluded, as the Federal Government remains the key driver in this regard. However, a brief overview of the situation in the province of Khyber Pakhtunkhwa shall be provided to highlight the relationship between the Federal Government and the provinces, as well as the challenges and opportunities that this interaction poses.

Primary data has been collected via interviews with senior management of certain key stakeholders, and secondary data has been gathered from official statistical reports and academic studies. The data has been subjected to descriptive analysis with the aid of a formal Gap and SWOT analysis.

## *Literature Review*

SMEs are generally recognized as engines of economic development and can help countries decrease their reliance on international markets. In order to do so, SMEs must improve their marketing, service quality, HR management, operations management, and financial management (Othman, Mahmud, Mustafa, & Abujarad, 2022).

SMEs must also overcome certain crucial factors in order to survive. These include lack of financial resources, internal and external trade barriers, and entrepreneurial ideation and innovation. It is also imperative that they receive government support in the form of infrastructure support, R&D, and export promotion programs (Javed & Syed, 2013).

Innovation has also been identified as a crucial factor for success in the modern economy. Innovation refers to the adoption of new processes and technologies, as well as new products and strategies (Adam & Alarafi, 2021). Networking is another key factor in promoting SME growth. Interaction with financial institutions, government agencies, international organizations, and trade communities is of immense utility in growing businesses and finding new buyers and markets (Ojotu, Tersoo, & Kenneth, 2019).

SMEs have been observed to have a 90% failure rate at the initial stages in Pakistan, despite being mindful of the above factors. Pivoting towards high-value manufacturing and targeting diverse markets can help overcome this (Khan & Abasyn, 2017). One factor that is beyond their control in this regard is the macroeconomic environment, as it has been documented that macroeconomic conditions tend to throttle SMEs. However, adopting the right strategies can help avoid this. For example, high inflation has been linked to higher turnover growth and better export prospects (Ippinaiye, Dineen, & Lenihan, 2017).

## *Situational Analysis*

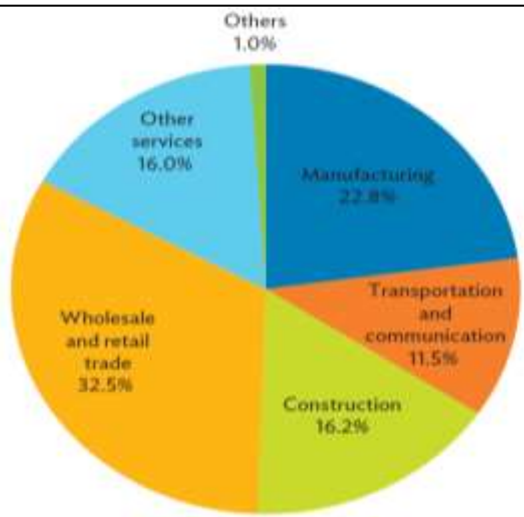
### Current Economic Statistics

The SME sector is of great significance to the economic growth and overall development of the country. This section will summarize the current state of the SME sector in Pakistan through various statistics, with the aim of developing an understanding of the sector's health so that it is possible to better visualize the way forward and set meaningful targets. SMEDA defines small enterprises as firms with a turnover below PKR 150 million, medium enterprises as firms with a turnover of PKR 150 million and above, and startups as any SME that is less than 5 years old. However, this definition is not standardized, as various institutions such as the

Pakistan Bureau of Statistics, the FBR, the SECP, etc., utilize their own definitions in this regard.

Currently, the SME sector is estimated to consist of 5.2 million enterprises. These enterprises contribute 40% to the national GDP and account for 30% of exports excluding services, which reveals that the sector is largely serving the domestic market. However, some firms are trade-oriented or are part of the supply chain of larger export-oriented firms. The overall growth rate for the sector during the period 2010-2020 was calculated at 3.3% (ADB Institute, 2021). As per data accumulated by SMEDA, 53% of these enterprises operate in the wholesale and retail sector, 22% in community and personal services, and 20% in manufacturing (SMEDA, Annual Report 2021-22, 2022). Geographically, 65.2% of SMEs are situated in Punjab, 17.8% in Sindh, 14.2% in Khyber Pakhtunkhwa, 2.2% in Baluchistan, and 0.6% in the ICT region. The sector is also the second-largest employer in the country, employing 72% of the non-agricultural labor force. The sector-wise breakup is depicted below in Figure 1.1.

SMEs were the recipients of 5.2% of the total loans by value disbursed by the banking sector and constituted 3.5% of total borrowers. The Non-Performing Loan rate recorded by banks for SMEs stood at a staggering 16.9%. Overall, the lending rate has not seen any growth and has actually remained negative for many years during the last decade. The contribution of NBFIs in this regard is quite minor, contributing only 1.2% of the financial landscape, but the sector is in its nascent stages and is exhibiting healthy growth (ADB Institute, 2021).




FY = fiscal year; MSME = micro, small, and medium-sized enterprise.
Note: data based on non-agriculture informal economy (as MSMEs).
Source: ADB Asia SME Monitor 2021 database. Data from Labor Force Survey 2017-18.

Figure 1.1 Category wise employment in SMEs

## Challenges in SME Growth

The National SME Policy 2021 identifies the key challenges faced in developing the SME sector in Pakistan. The main challenge pertains to financing. At present, the majority of enterprises operate at the micro and small levels due to their inability to meet capital requirements. Banks are hesitant to lend to SMEs as they are considered high-risk, are not documented in any way, and do not have credit ratings. SMEs also find it very difficult to meet the lengthy and complex requirements imposed by banks and, more importantly, are unable to put up collateral, which is a basic prerequisite imposed by all banks. At the same time, the level of government borrowing in Pakistan is very high, which crowds out private sector businesses, as government debt is more profitable and much more secure from the perspective of banks. There are also socio-religious factors at work, as there is a marked preference for Shariah-compliant financing through Shariah-compliant organizations. The alternatives to the banking sector are also in a fledgling state, as NBFIs and leasing options are just starting to develop in the country.

The second major problem pertains to skilled labor. There is a severe dearth of trained manpower in the country, which handicaps the performance of businesses.

There are also problems with market access and internationalization. The domestic market is dominated by large firms and cheap imports, against which it is very difficult for SMEs to compete. There is also a general perception of local products being inferior, which significantly dampens sales. In the case of exports, the major problems are weak knowledge of export and trade procedures, the absence of quality certifications, and the inability to meet foreign environmental, social, and quality requirements. The cost of legal and tax compliance for SMEs is also quite high, as there are numerous independent organizations with which a business must interface, and most owners lack the knowledge and skills to handle these themselves. Another aspect of this issue is that the overwhelming majority of SMEs operate in the informal sector and are not registered with SMEDA or other government bodies. Apart from the obvious repercussions this has on access to finance and taxation, this severely handicaps the policy process, as governments have very little data on which to rely during policy formulation and evaluation.

The general business management and operational skills of owners are also low, with most being unaware of the tools and methods that can aid in production, marketing, sales, and compliance management. The level of technological adoption and innovation is very low, which restricts business development.

### Challenges to Women-Led Enterprises

Apart from the challenges common to all business enterprises, women-led SMEs face an additional set of challenges as well (SMEDA, Sector Report Women Entrepreneurship in Balochistan, 2019). The main challenge pertains to financing, as women generally do not possess assets and are disadvantageously treated in inheritance matters, preventing them from putting up collateral to seek loans.

Secondly, socio-cultural factors discourage the participation of women in employment and business activities, and there is a lot of resistance faced by women in this regard from their own homes and society in general. Women also have reduced mobility compared to men, which reduces their operational efficiency.

Thirdly, due to historical circumstances, women in Pakistan are less educated and skilled, which prevents them from integrating into the economic sphere and competing with other entities.

## *Domestic Institutional & Policy Framework*

### SMEDA

SMEDA is an autonomous body established under the SMEDA Ordinance 2002 as the premier institution for the promotion and development of SMEs. It has 4 regional offices in the provincial capitals and 21 Regional Business Centers through which it performs its functions.

Its main functional areas are policy formulation, legal facilitation, sector and cluster development, and business development and support services.

### Achievements during FY 2021-22

The bulk of SMEDA's operations consist of business support and development activities. As per their annual report for the year, their achievements were as follows (SMEDA, Annual Report 2021-22, 2022):

1. Facilitating 4,555 SME owners via walk-ins, email, and phone calls.
2. Increasing the total number of pre-feasibility studies of various business opportunities to 137.
3. Developing an additional 14 business plans.
4. Facilitating investment worth PKR 811 million.
5. Conducting 229 training activities targeting 600 participants on various aspects of entrepreneurship and business management.
6. Receiving 389 applications through their online SMEDA One Window portal and issuing 341 Letters of Intent.
7. Reservation of 19,500 plots in various industrial estates and economic zones for the exclusive use of SMEs.

### Initiatives

SMEDA has adopted a component-based approach to SME development, whereby it has identified key target areas requiring intervention and then proceeds to take measures to address the challenges posed in these areas in parallel to each other. These main strategic areas are regulatory simplification, ease of doing business, data availability, entrepreneurship development, financial access, gender inclusion, and HRD.
In the regulatory area, with a means to increase the ease of doing business, SMEDA compiled 170 regulatory change proposals regarding various procedures, of which 118 have been implemented. It has also successfully achieved the simplification of the tax regime for SMEs via the Finance Act 2021, which was one of its major goals set in the SME Policy 2021. SMEDA is also part of the Economic Revitalization of KP Project as a contributor to its multi-donor fund, through which it has disbursed PKR 361.4 million to 567 SMEs for the purpose of upgrading facilities and

capacities.

In the field of data compilation, SMEDA has launched the Research, Regulatory Insight, and Advocacy Assistance project. This project is of utmost importance, as at present there is almost a complete absence of data on the SME sector, with current figures being projections based on data collected in 2005 and 2015 by the Pakistan Bureau of Statistics. This project aims to develop data gathering capabilities in order to generate reliable statistical measures of activity in the sector.

SMEDA has also established an online single-window portal to provide a single point of access for all Government-SME interactions to business owners. The system, however, is not automated or comprehensive and relies on linking applicants to shortlisted consultants, who then proceed to handle their issues ranging from registration with SECP or the Registrar of Firms, tax matters, licensing, etc.

In order to promote entrepreneurship and startups, SMEDA has partnered with the HEC and 5 universities to launch a National Idea Lab, which aims to serve as a central coordinator and facilitator between incubator labs set up at these universities.

SMEDA has also taken measures to facilitate the participation of women in the SME sector. In this regard, it sponsors the participation of women entrepreneurs in various trade exhibitions. In FY 2021-22, it sponsored 52 participants in the WEXNET exhibition organized by the Ministry of Commerce, and 30 participants in the National Blue Fair in Multan. It has also arranged online e-commerce training specifically for women entrepreneurs and pushed through a 25% tax concession from the FBR for women-led enterprises.

**State Bank of Pakistan**

The State Bank of Pakistan is a major stakeholder, as the number one challenge in the SME sector is access to financing, an area that is under the direct regulatory control of the central bank. Financial inclusion programs, digital channels and gateways, and other financial infrastructure are just some of the areas that the central bank intervenes in to facilitate and strengthen the SME sector.

The challenges in lending have already been highlighted above. A major reason behind the reluctance of banks is the high NPL ratio. The reasons behind this are economic uncertainty, fragile consumer demand, and difficulty in assessing creditworthiness. At the same time, consumers also avoid turning towards banks due to socio-religious factors, as there is a marked preference for Shariah-compliant institutions and products. There is also low trust in the banking sector, and little diversity and returns in banking products, due to which most people prefer to hold cash outside of banks or invest in safe options like savings certificates and real estate. It is estimated that only 16% of adults in Pakistan hold bank accounts (ADB Institute, 2021). An interview (Annex-A) with an ex-senior manager of the SME Bank and corporate financial consultant revealed that the environment of corporate banks is also not very SME-owner-friendly, as most of these individuals are from less-educated backgrounds and are uncomfortable in formal branch environments. This was one of the advantages of the SME bank, which was established specifically to cater to this segment. However, the institution has remained in loss since inception and is now almost redundant.

The SBP has taken many steps to rectify these problems. It has resorted to digitalization as the key driver toward financial inclusion by launching projects such as the RAAST payment gateway, Roshan Digital Accounts, and liberalizing the regulatory regime to allow digital microfinance banks. It launched numerous lending schemes targeted toward SMEs. The SME Asaan Finance Scheme offers short-term export financing at 3% and long-term capital financing at 6%. Banks have also been given the target of increasing SME borrowers to 700,000 via the NFIS 2015, but no rules or directives have been issued in this regard yet. It has also created the Pakistan Credit Guarantee Company as a workaround to the requirement of collateral for loans, but the company is yet to commence public operations. It has also launched refinance schemes for the purpose of modernization of businesses, arranging working capital, and providing credit guarantees for small firms. The total users of these initiatives to date are only 185. Interviews with the regional managers of three banks who were overseeing the Peshawar region, however, revealed that the utilization of these facilities was very low and that the requirements and formalities were not easily fulfilled by clients (Annex-B).

## Other Federal Institutions

There is a long list of players in the SME sector in Pakistan. Seeing how SMEDA and the SBP are the primary drivers of all initiatives in this regard, the main focus of this paper shall remain on them. Other relevant institutions shall be briefly deliberated upon below.

The SECP is responsible for regulating affairs related to companies and is authorized to register corporations. It also regulates the securities and equities markets, which has special significance when it comes to arranging non-banking finance for SMEs. The SECP has established the Growth Enterprise Market (GEM), a sub-listing of the PSX with easier listing requirements, as a platform for SMEs to obtain market-based financing from pre-approved investors. The exchange has zero listings at the moment, as SME owners do not wish to dilute ownership, are put off by high compliance costs, have poor accounting practices, and have a very limited understanding of the capital market.

TVETs such as NAVTTC also have a very important role to play, as one of the major challenges in the SME sector is a shortage of skilled labor. NAVTTC and other TVETs are at the forefront of diversifying and raising the standards of the labor pool by imparting training, certifications, and accreditations in a wide variety of skills.

The Ministry of Commerce is also an important stakeholder, as it is responsible for export development and trade policies. Apart from policy and trade regime formulation, the Ministry facilitates trade through TDAP, an autonomous body tasked with promoting Pakistani businesses and products via exhibitions and networking. Ms. Shumaila Sikandar, Deputy Director (Expos), TDAP Karachi, in an interview pointed out that the organization also works toward women empowerment as a matter of policy by reserving a 10% quota for women entrepreneurs in all exhibitions and delegations, and by subsidizing their participation up to 80% in WEXNET, Pakistan’s largest women-only trade expo (Annex-C).

Networking opportunities are provided by numerous business chambers registered across the country. Currently, there are 58 chambers of commerce and 16 women chambers providing business connectivity and trade-related services to all kinds of businesses. It is estimated that 40% of SMEs are registered with these bodies (ADB Institute, 2021).

## Policies

The primary policies of the government for the SME sector are the SME Policy 2021 and the SME Action Plan 2020. The goals set under the policy are to increase the economic contribution of SMEs, make SMEs more competitive and productive, enhance formalization and increase the number of SMEs, and improve networking. The key policy recommendations are to create a single national definition of SMEs, simplify the regulatory and tax environment, improve access to finance, enhance human resource skills and technology utilization, build infrastructure, facilitate entrepreneurship and incubation, promote women entrepreneurship, and provide business development services. The policy also recommends improving market access by integrating SMEs into public procurement. This has the benefit of improving formalization, resolving finance issues, and promoting business growth. The policy also constituted the National Coordination Committee to bring all key players onto the same page, including the provincial governments.

### Provincial Institutions in Khyber Pakhtunkhwa

The 18th amendment granted greater freedom and independence to provinces in managing their industrial policies and economies. It was partially in this context that the SME Policy 2021 was made.
At present, KPK does not have a holistic SME policy or institutional framework and is currently operating through multiple organizations. This situation is representative of the other provinces as well. The main institutions working in this regard in the province are the SIDB, BoI, KPEZDMC, and KPTEVTA. These institutions operate independently with little coordination among them, as evidenced by the fact that three of these organizations work on establishing special industrial zones in parallel, often within the same city. Their focus is on business infrastructure, business development services, and training. Apart from their independent operations within the province, there is also little coordination with the federal government. Though the NCC has been established under the SME Policy 2021, the constitution of the committee is such that it prevents it from doing any meaningful business.

## *International Comparison*

### Bangladesh

The Bangladesh SME Policy 2019 defines SMEs based on the number of employees (up to 100) and net assets under 2.0 million USD (Ministry of Industries Bangladesh, 2019). This definition is standard across organizations.
Bangladesh reports the existence of 7.8 million SMEs, contributing 25% to GDP and accounting for 86% of employment, 16% of which is female. The sector primarily caters to domestic markets, with 87.4% of production sold locally, which is indicative of strong local supply chains. 71.5% of enterprises are scattered in rural areas, which explains the sectoral distribution: 87.5% are cottage enterprises, 1.33% are micro, 10.99% are small, and 0.09% are medium (ADB Institute, 2021).

Bangladesh has managed healthy SME growth by focusing on financing needs. The central bank has set mandatory loan quotas for SMEs, broken up by category, with 15% reserved for women without the requirement of collateral. Loans to SMEs account for 20.2% of the total portfolio and are growing by 13% year on year. They also have credit refinancing and guarantee institutions that facilitate refinancing and lending without needing to put up collateral. They also have a newly emerging NBFI segment exhibiting healthy growth and accounting for 5.9% of the financial space. Bangladesh has also managed to tap into equity markets and has two fully functioning, dedicated SME funding equity markets.

Their current focus is on continued financial access, internationalization, and education and training. Their policy aims at improving the business environment, simplifying procedures, improving coordination between stakeholder institutions, and developing internet and road infrastructure. The government is using ICT interventions in all these areas, as well as promoting the same in the internal operations of SMEs.

**India**

The definition of MSMEs in India is laid down by law and categorized based on the value of investment and turnover. India has over 63 million MSMEs employing 110 million people. 20.3% of these firms are women-owned. MSMEs are growing at the rate of 18% and are sectorally spread as follows: 36.3% in trade, 32.6% in services, and 31% in manufacturing. These firms contribute 30% to GDP and 48% to exports. 51% operate out of rural areas. The sector is managed by the MSME Ministry, which has a permanent separate board to evaluate policies and make recommendations. It also has a dedicated data-gathering wing. The ministry has an app and online portal through which all related services can be accessed.

The ministry runs many programs aimed at improving overall growth as well as the individual scaling up of firms. They have signed numerous international cooperation agreements and have a dedicated program for women's empowerment, from which 259,000 women-led firms have benefitted from 2015 to 2020. They have also reserved a 25% quota for MSMEs in public procurement, including 3% for women, via a centralized online procurement app. They have also set up a Champions Portal to help successful firms scale up their operations and grow into larger firms. The Indian government also offers production incentives by allowing 4-6% tax concessions based on an incremental increase in production over 5 years. They also offer credit-linked subsidies for technological upgradation. They promote research and better practices by establishing common facility centers that provide communal production, processing, designing, and R&D services. They are also pushing the concept of One District One Product to ensure growth across the country and reduce intra-firm competition. MSMEs in India account for 17.6% of all loans disbursed, with an NPL of 7%. MSMEs in India have access to developed equity markets, a credit guarantee fund, and credit rating companies. Furthermore, loans are provided at subsidized rates without collateral, with mandatory targets set by the central bank.

Interestingly, the overwhelming majority of these initiatives have been linked to registration with their official portal, which has greatly enhanced the formalization of enterprises.

**Malaysia**

The definition of SMEs in Malaysia is based on turnover or number of employees. There are 1.2 million enterprises comprising 97.4% of all firms. 83.8% of these operate in the service sector, 8% in manufacturing, 5.8% in manufacturing, and 1.9% in agriculture. These firms contribute 37.4% to GDP and 11.7% to exports, indicating strong domestic consumption. They employ 47.8% of the labor force, which seems low based on the 97% share in companies but seems reasonable when considering that the majority of the firms are in services, where labor requirements are lower.
The SME Corporation of Malaysia is the main policy driver and has formulated a business strategy plan for 2022-2030 to facilitate growth. The focus is on entrepreneurship and scaling up. The corporation conducts competitiveness ratings, as well as awards the National Mark of Malaysian Brand to overcome negative perceptions of domestic products. It runs the PRESTIGE program to support and guide medium enterprises with the potential to upscale their operations and grow larger. It has also launched an e-National Single Window with a comprehensive array of services pertaining to SMEs.

The Malaysian central bank has also mandatorily announced the provision of Shariah-compliant loans at a 2% profit per annum, which have been linked to SME registration. Bangladesh also has 10 equity crowdfunding operators.

**Turkey**

The definition of SMEs in Turkey is based on the number of employees and net turnover. The sector comprises 3.5 million enterprises, of which 8.8% are women-owned. 36.5% of these are in the wholesale sector, 14.9% in transport and storage, and 12.3% in manufacturing. These enterprises contribute 30.4% to exports, with the bulk coming from the manufacturing segment. 78% of total employment in Turkey is in the SME sector.
Turkey has a strong focus on R&D, with the SME sector accounting for 27.1% of all R&D expenditure in the economy. SMEs are also the owners of 513 patents (GoT, 2023).

## *Gap and SWOT Analysis*

### Gap Analysis

Based on the material reviewed in sections II and III above, certain gaps in the framework and approach to development of the SME sector are apparent. The main gaps categorized by strategic policy focus areas are presented subsequently.

**Institutional and Regulatory Level**

a. Absence of a single cross institutional definition of MSMEs.

b. Absence of data sourcing and provision infrastructure.

c. Minimal coordination and collaboration amongst stakeholder institutions and Governments.

d. Minimal digitization and automation of the Government/SME interface.

e. Weak integration in domestic supply chains.

f. Absence of strategic goals based approach to business development services, feasibilities and business plans prepared randomly.

g. No incentives offered for formalization and adopting growth-oriented practices.

h. Incentives offered in isolation, not as a package nor are these offered in a way where Government can achieve its own strategic goals as well.

**Financial Inclusion Gaps**

a. Absence of mandatory lending targets and enforcement mechanisms.

b. No solution for problem of collateral, no credit guarantee system available.

c. No credit rating mechanism to aid banks in better assessing risks.

d. Absence of special quotas for women entrepreneurs.

e. Lack of accommodation of societal values, non-mainstreaming of Shariah compliant institutions and products.

f. Low level of awareness in the banking sector on how to handle and facilitate SME sector clients.

g. Absence of alternative financing options. No leasing or factoring services available.

h. Extremely low literacy of equity markets.

**Market Access**

a. No local brand awareness and domestic product promotion strategy.

b. No quality certifying mechanism to build trust.

c. No preferential access to public procurement, nor ease of access through digitization.

d. No District/Regional level strategy on the lines of “One village one product”.

e. No dedicated institution for cottage industries to mainstream rural areas.

**Capacity Building**

a. Insufficient managerial skills of business owners coupled with a dearth of knowledge/awareness of management/operational best practices.

b. Lack of awareness of buyer requirements, and certification options that build trust,

c. Low adoption of technological tools in management operations.

d. No incentives to improve efficiency and competitiveness.

**Women Entrepreneur Facilitation**

a. No dedicated quotas in lending policies.

b. No special access to public procurement and domestic markets.

c. No tax and customs concessions to overcome structural imbalances.

## *SWOT Analysis*

A SWOT analysis of the various individual policy measures undertaken by the countries under comparison was conducted. These findings are summarized in the following sub-sections.

**Pakistan**

| Strengths | Weaknesses |
| --- | --- |
| • Existence of SMEDA as a central policy mover, dynamic and well resourced<br>• Strong digital financial infrastructure<br>• Strong TVET network across the country, diverse and voluminous training activities | • Poor integration into public procurement<br>• Failure of SBP to increase access to financing<br>• Failure of SMEDA to automate processes and reduce human interaction<br>• Failure to focus on development |

| | |
|---|---|
| • Strong ICT development institutions now exist in public sector<br>• Effective and continued efforts in regulatory simplification<br>• Establishment of online portal | of SME internal management practices<br>• Failure in tying incentives to strategic policy requirements<br>• Failure to strengthen financial infrastructure<br>• Weak measures to facilitate women in domestic markets |
| **Opportunities** | **Threats** |
| • Chinese BRI and CPEC<br>• Transit trade<br>• Diverse agricultural produce, with close access to high demand Gulf countries<br>• Recent overtures towards Russia offering access to Russian markets<br>• Look Africa Policy | • International isolation<br>• Political instability<br>• Fallout from international power politics<br>• Dependence on foreign technological equipment and developments |

**Bangladesh**

| Strengths | Weaknesses |
|---|---|
| • Strong rural integration<br>• Support to cottage industry<br>• Strong domestic market access<br>• Financial inclusivity, quotas for women<br>• Mandatory lending targets<br>• Credit guarantee and refinancing options<br>• Strong equity market<br>• Coordinated approach by stakeholder institutions | • Low participation in exports<br>• Insufficient connectivity and logistics facilities<br>• Low presence of manufacturing enterprises |
| **Opportunities** | **Threats** |
| • Strong international export ties | • Dependence on imported raw materials and equipment in manufacturing |

**Malaysia**

| Strengths | Weaknesses |
|---|---|
| • Local brand awareness and promotion<br>• Competitiveness ratings and awards<br>• PRESTIGE program for upscaling | • Weak manufacturing sector<br>• Low export growth orientation<br>• High compliance costs |

| | |
|---|---|
| • E-National Single Window with comprehensive range of services<br>• Single national level organization as policy setter and coordinator<br>• Shariah based financial inclusion model<br>• Equity crowd funding | |
| **Opportunities** | **Threats** |
| • Global halal certification award | • Dependence on imported raw materials in manufacturing growth |

**Turkey**

| **Strengths** | **Weaknesses** |
|---|---|
| • Strong manufacturing exports<br>• High levels of R&D and innovation | • Weak presence of services and manufacturing in overall SME sector |
| **Opportunities** | **Threats** |
| • Access to European and African markets | • International restrictions due to international politics |

## *Conclusions and Recommendations*

**Key Findings**

a. The data infrastructure in the SME sector is extremely weak and greatly hampers growth as well as policy formulation and evaluation.

b. Pakistan needs to improve its one-window operations.

c. Policy implementation controls need to be strengthened.

d. Coordination between stakeholders needs to be improved, rather than working in silos.

e. Incentives need to be tied to formalization measures.

f. Women entrepreneurs need additional facilitation measures.

g. R&D needs to be promoted.

h. Management practices of SME owners need special attention.

i. Domestic access needs to be improved.

## *Recommendations*

1. SMEDA needs to sign formal MoUs with provincial governments to define roles so that they can work in a coordinated fashion. The NCC established for this purpose is too elaborate and needs to be done away with.
2. Similar MoUs need to be signed with all TVETs so that SMEDA can get programs tailored to the needs they observe in the market.
3. Single-window operations need to be improved, made comprehensive, and automated. It should be fully integrated with all departments SMEs need to interact with, and all operations should run through the app. Incentives can be tied to registration on the platform to enhance formalization and registration.
4. SMEDA needs to prioritize data infrastructure development. The RRIAA Project needs to be fast-tracked.
5. SMEDA should start a "Made in Pakistan" awareness program to improve domestic market access. This initiative should be tied to a quality certification program.
6. SMEDA should devise an upscaling project on the lines of the Champions and PRESTIGE programs highlighted above.

7. Standardized software tools for finance, HR, supplies, accounting, and order management should be developed by SMEDA and offered for free to SMEs upon registration through the portal. Incentives can be tied to continued use of these software tools.

8. In coordination with the FBR, tax concessions for production growth, in-house R&D capacity building, and women entrepreneurs should be provided as incentives.

9. PPRA should mandate quotas for SMEs and women SMEs in public procurement and adopt an online e-procurement system.

10. SBP should bring the Pakistan Credit Guarantee Company into immediate operation to resolve the challenge posed by collateral requirements.

11. SMEs should be incentivized to register with credit rating services by linking subsidized, collateral-free loans to registering with a credit rating authority.

12. SBP should set mandatory low-interest SME loan targets for banks, with built-in penalties for non-compliance.

13. Business development through feasibility studies and business proposals by SMEs should be strategically done. An import substitution approach may be adopted, whereby imported items are studied, and their potential for profitable local production is used as a criterion for whether to develop a feasibility or business proposal for the product.

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