



STRATEGIC DIRECTIONS FOR PAKISTAN'S AGENDA FOR SMEs

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ABSTRACT

This policy paper proposes four strategic directions for Pakistan's agenda for SMEs, which include i) designing and continuing targeted support policies and packages for SMEs throughout four phases of recovery from the COVID-19 ii) putting SMEs at the heart of economic and development policy, iii) establishing database and mapping of the SMEs, particularly the informal SMEs and iv) promoting entrepreneurship and innovation in SMEs. Further, the paper suggests that policy reforms must adopt a gradual approach of Awareness, Action and Advancement (AAA) which is further built around Availability, Accessibility, Acceptability and Quality (AAAQ) framework. It can help improve acceptability of SMEs for policy reforms leading to development of the SMEs and overall inclusive economic development in the country.

Acknowledgment:

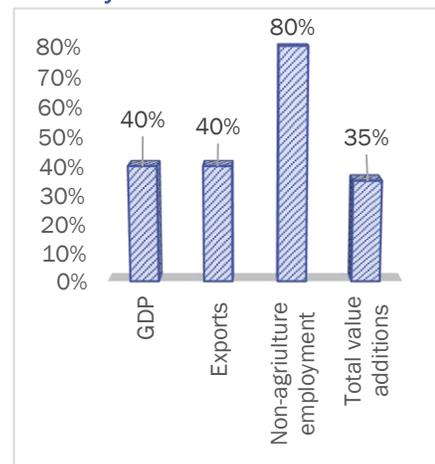
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i) What is the argument?

Evidence from across the globe shows that social distancing and lockdowns have adversely affected the Small and Medium Enterprises, the famous SMEs (OECD, 2020). Protecting SMEs from the hard hit of COVID-19 and supporting their revival has taken priority in the agenda of economic recovery from the pandemic. Consensus exists that SMEs and innovating entrepreneurs are crucial for paths to sustainable and inclusive growth. Inclusive economic recovery from the pandemic, therefore, largely depends upon how economies support their SMEs. As the pandemic moved from health crisis to unprecedented economic shock, halting the economic activity, SMEs are experiencing severe problems of collapsing demand, disrupted local and global supply chains, disturbed cash flows and vaporizing liquidity (International Trade Centre, 2020).

Furthermore, issues in accessing the emergency support packages are inflating these problems further. So is the case in Pakistan where SMEs are even likely to face these problems with increased severity (Javed & Ayaz, 2020).

Figure 1: SME's Share in Pakistan's Economy



The SMEs contribute around 55% of GDP in high income countries, 60% of GDP in low-income economies and 70% of GDP in middle income economies. A consensus is emerging that not all SMEs will be able to survive COVID-19 in the world. Pakistan is likely to suffer the same fate since SMEs have a vital role in the country's economy. They contribute around 40% to GDP, 40% to exports, 80% to non-agricultural employment, and 35% in total value additions (Javed & Ayaz, 2020) (figure 1).



The COVID-19 outbreak and the lockdown to control the spread of virus affected over 94.57% of the MSMEs where over 38% of the participants reported to experience a severe impact (ranging from 91% to 100%) on their businesses (Shafi, et al., 2020). (KARANDAZ, 2020) mentioned that more than half of SMEs (58%) in the country had laid off employees by April 2020. Around 47% of SMEs cut the salaries of employees. More than half of the SMEs in the textile sector reported laying off half of part-time (52.4%) and daily wage (61.9%) workers. According to a study by Small and Medium Enterprise Authority (SMEDA), about 95% of enterprises experienced a reduction in production/work activity/contracts due to Coronavirus outbreak. The lockdown affected up to 100% of the operations of more than half of the enterprises (51.6%). More than one fifth of the export sector SMEs (22.6%) reported up to 100% loss in export orders. While financial issues remained major problem (67.93%), MSMEs in Pakistan report to have supply chain disruption (47.83%), demand compression (44.02%), decrease in sales (38.04%) and profit (41.85%) (Shafi, et al., 2020). SMEs support packages in Pakistan, however, are mainly addressing the liquidity constraints. The measures include deferring payments; supplying extra and more easily available credit to strengthen SME resilience; schemes to support SMEs to avoid, or mitigate the mass lay-offs by extending wage subsidies, and some other policies of ensuring liquidity such as paying power bills (IMF, 2020).

More specifically, the policies to support SMEs mainly include cutting interest rate from 13.25% to 7% in a span of three to four months; reducing the capital conservation buffer from 2.5% to 1.5%, increasing the regulatory limit on extension of credit to SMEs Rs 180 million from 125 million per SME; relaxation of the debt burden ratio (DBR) for consumer loans from 50 per cent to 60 per cent; deferring clients' payment of principal amount on loan obligations by one year (SBP policy measures).

A closer look on SMEs support package clearly suggests that these policies are exclusively limited to the provision of liquidity, which is associated with shutdown during the pandemic. So far, medium to long run horizon agenda for economic reforms for SMEs revival seems missing. Structural policies are required to support SMEs at every phase from shutdown to recovery. Every phase demands a different set of policies (Mohan, 2020).

Similarly, the support policies need to go beyond taking "lack of finance" as the only impact of pandemic on SMEs. Policies will be required to bring SMEs back to supply chain, capacity building to modern modes of work and adjusting to new work environment where safe working practices to avoid the spread of virus will be critical.

In the medium to long run, SMEs support policies need to shift in at least three aspects. One, SMEs policy must move from a current residual policy to mainstream economic policy. It must be integrated into the economic policy. Two, the fiscal and monetary policy to support SMEs must go beyond "export" as the end objective. Rather the objective shall be to motivate the SMEs to improve productivity and value addition through innovation and entrepreneurship. This is essential to achieve the target of decent work in the country.

Three, the support policies and packages must aim at graduation of the beneficiary SMEs through targeted and time bound interventions. SMEs must be told that they will be able to benefit from the advance stage of policy, which have higher level of benefits, only if they are able to grow, and show efficiency, productivity and competitiveness. It means SME policies must have a clear exit strategy, which is based on measurable outcomes of the intervention.

The given structure of SMEs in Pakistan, which is overwhelmingly unregulated in nature and informal in setting, will be a serious challenge to make any set of support policies effective. While there can be long list of reforms required, Pakistan's agenda for SMEs need to build on four pillars. These include i) designing targeted support policies and packages for SMEs throughout different phases, from shutdown to economic recovery, ii) mapping of the SMEs particularly the informal SMEs, iii) putting SMEs at the heart of economic and development policy, and iv) promoting entrepreneurship and innovation in SMEs

2. What needs to be done specifically?

Pakistan needs to clearly mark the phases of SMEs from shutdown to recovery immediately and must put in place specific set of policies for respective phase. A general set of policies will not do the job. Policies effective for one phase may not be equally effective in another phase. For example, liquidity provision may be critical in current phase where SMEs are struggling to survive, provision of critical information on how to operate and secure workers from spreading infections when SMEs can resume business in phase two.



Literature on pandemic shows four phases that SMEs will have to go through: shutdown in lockdown and social distancing, supply-chain disruption, demand depression and finally, recovery (Mohan, 2020). Each of these stages require a different set and combination of policies. A clear timeline or roadmap for these phases must be clearly marked. Once the lockdown is lifted and businesses can start operation, it seems that phase begins in June, information for SMEs on Standard Operating Procedures (SOPs) and how to adhere to them will be very critical. Similarly, policies to mitigate and restore supply chain, getting SMEs through demand depression and starting a recovery must be well designed. Importantly, the nature and timeline of these phases may vary sector to sector and size and nature of SMEs within sector. Disrupted global value supply chain will be far more serious issue for SMEs engaged in exports, compared to SMEs producing for local consumption. Demand depression will also vary sector to sector and by product SMEs specialize in. Presently, policy responses to SMEs seem to be making three false assumptions. One, the provision of liquidity as single cure to every problem for every sector and every SMEs. Two, SMEs will directly move from shutdown phase to recovery phase. Three, the recovery is simultaneous and similar for each sector and SME. These assumptions do not hold.

Also, policies adopted for one phase may create disruptions in any other phase. For example, keeping the tariffs and allocating quotas in the current phase of protection will hurt the productivity in the medium to longer run. All these tradeoffs can be calculated and prepared for only when we have clarity on phases SMEs will go through. And we should plan accordingly.

Which requires database and mapping of the SMEs, particularly the informal SMEs?

As, Peter Drucker said, if you cannot measure it, you cannot improve it. Without any iota of doubt, absence of reliable and updated data has emerged as the biggest stumbling block design policies to response to SMEs, and many other sectors, during the pandemic. Half of the effectiveness of any policy depends on how informed the policy making was. While this is a general problem in Pakistan, situation gravely serious in SMEs, particularly working in informal sector. The knowledge gap about SMEs continues to exist, rather widening. This has three major implications. One, policy response is delayed as the respective policy circles do not know what the problem is and where to start with. Two, it limits space for targeted policies leading to generalized policy responses. Three, the impact of the policy interventions is

immeasurable. These three factors jointly leave policy responses ineffective. It is, therefore, imperative to have unified database for SMEs in Pakistan.

Presently, different agencies, including but not limited to Federal Bureau of Statistics, State Bank of Pakistan, Finance Division, Provincial Industries and Labor Departments collect data on SMEs. All these databases need to be integrated into one. This is important as currently different data collecting agencies use different definitions for SMEs which leave this data redundant when one wants to draw broader picture based on all the available data. Not only that it will help design effective SMEs support policies but will also lead to more robust assessment of the contributions of SMEs in GDP, employment and exports. Similarly, SMEs definition and registration must be unified.

In this regard, Pakistan needs to start from very basic. Even the issues of defining SMEs are unclear and different institutions use different criteria and definition of SMEs (Table 1a).Pakistan needs to harmonize the definition of SMEs, as lack of clarity on it can pose a fundamental challenge to design and implement to support SMEs including but not limited to exclusion of SMEs from different services (Dar, et al., 2017).

Table 1a: Multiple definitions of SMEs exit in Pakistan

Institution in Pakistan	Criterion	Medium Scale	Small Scale
Small and Medium Enterprise Development Authority (SMEDA)	No. of employees Less than 250 employees	Between 36-99	Between 10-35
	Productive Assets	20-40 million PKR	2-20 million PKR
SME Bank	Total Assets	Over100million PKR	Less than 100 million
Federal Bureau of Statistics	No. of Employees	NA	Less than 10 employees
State Bank of Pakistan	Nature of Business (Manufacturing Trade/Services) No. of employees Capital employed Net sale value	Less than 250 employees and less than 100 million PKR assets for manufacturing. Less than 50 employees and less than50 million PKR for trade/services. Net sales less than 300 million PKR	Less than 250 employees and less than 100 million PKR assets for manufacturing. Less than 50 employees and less than 50 million PKR for trade/services. Net sales less than 300 million PKR
Securities and Exchange Commission of Pakistan	Company which has annual gross revenue (grants, income. Subsidies, donations) including Other	A non-listed company which is not a : a) Public Interest Company; or	Other than a non-listed public company: a) Paid up capital not exceeding Rs. 25 million, and b)



	income/revenue less than Rs.200 million	b) Large sized Company or c) Small Sized Company other than a non-listed public company	Turnover not exceeding Rs.100 million
Source: Dar et al. (2017)			
Sindh Industries Department	Entity engaged in handicrafts or manufacturing of consumer or producer goods with fixed capital investment up to Rs.10 million including land & building		
Punjab Industries Department	Fixed assets with Rs. 10 million excluding cost of land		
Punjab Small Industries Corporation	Fixed investment. up to Rs. 20 million excluding land and building		

Source: SME Issues Paper - for Deliberation by SME Task Force¹

Industrial policy of the country must provide standard definition of the SMEs. It will help sort out many issues of exclusion of SMEs from different services from different institutions. SBP and SMEDA must lead the work on harmonizing definition of SMEs which shall be consistent across all the institutions (mentioned in table 1). The definition may broadly have three components, i.e., i) number of employees ii) total assets, and iii) net sales. These criteria may take different values by services, business and industrial sector but must be consistent across the regions and institutions. Bangladesh offers a good example this regard. National Industrial Policy (2016) of Bangladesh provides a clarity of definition and its consistency across all the institutions (table 2).

Table 2: Definition of SMEs in Bangladesh

Enterprises	Sector	Fixed Asset (excluding land and building) in BDT million	Employees (person)
Small	Service	1-20	16-50
	Manufacturing	7.5-150	31-120
	Trade	1-20	16-50
Medium	Service	20-300	51-120
	Manufacturing	150-500	121-300
	Trade	20-30	51-120

Source: Bangladesh National Industrial Policy 2016.

Also, existing databases overwhelmingly lack any record of SMEs operating in informal sector. This limits the reach of the policy to only a smaller segment of SMEs in the country. Many drives to document the informal SMEs have failed. Recently, incumbent government tried, but failed to document the economy, including SMEs. It will be interesting to see why the SMEs are reluctant to document and register themselves.

While there can be many reasons which warrant a deeper understanding, one plausible reason is mixing the

documentation with formalization of the informal sector. Government's policy to document, unintentionally or intentionally, try to overnight formalization of centuries old informal businesses, which creates fear as the businesses perceive government will keep increasing the tax on them. Pakistan needs to apply modern methods of documentation without any drive for changing the structure of the businesses overnight. Move from informal to formal modes of businesses is a gradual process and cannot be achieved through documentation only. Mapping of informal SMEs needs be undertaken immediately if SMEs must be improved and developed to modern methods of production and businesses. Existing data collection exercises need to go beyond number of employees and balance sheet.

While there may be issues of capacity and resources to map informal SMEs, the trust gap remains at the core. The fear of "documentation for taxation" has left SMEs reluctant to participate in any documentation drive, implemented by different governments. Most importantly, every documentation drive meant to "formalize SMEs", which created a resistance from the sector and documentation drives were avoided.

Authorities must understand that they cannot formalize informal structure by force and over the fortnight. This is a gradual process and the purpose is to move SMEs to modern methods of business without labelling "formalization" even. There must be a clear message that mapping/ documentation is meant for bringing SMEs into mainstream development agenda and not for taxation and formalization. At an initial stage, the policies must be put in place to ensure that SMEs may remain informal but can access to financing and enjoy most of the benefits that formal sector has.

And this is not possible without putting SMEs at the heart of economic and development policy as major source of growth, job creation, poverty reduction and socioeconomic development broadly. In other words, SMEs policy of a country becomes its development policy.

SMEs financing is a fundamental challenge in Pakistan. Countries financial development strategies so far have not been able to provide effective solutions to the challenge. A report of Japan International Cooperation Agency (JICA) for Pakistan on Data Collection for SMEs presents a bleak picture of SMEs' access to finance. According to report,

¹ SME Issues Paper - for Deliberation by SME Task Force, Policy Planning & Strategy Department, Small and Medium Enterprise Development Authority <https://www.enterprise-development.org/wp->

content/uploads/SME_Issues_Paper_Pakistan.pdf



SMEs “represents only 9% of outstanding loans to the private sector in amount as of the end of 2016 with only 6% of SMEs receiving loans from banks”.

Table-3: SMEs share in outstanding loans to private business as of end August 2020 (major sectors)

Major Sector	Total loan (Rs. Million)	Loan to SMEs (Rs. Million)	SMEs Share (%)
Overall loans to Private Sector Business	5,247,754	406,398	7.74
Agriculture, forestry and fishing	279,659	1,846	0.66
Mining and quarrying	73,290	2,118	2.89
Manufacturing	3,248,128	166,607	5.13
Construction	113,670	10,335	9.09
Wholesale and retail trade; repair of motor vehicles and manufacturing	449,764	131,078	29.14

Data from State Bank of Pakistan (SBP), as of August 2020, shows that SMEs share in overall loans to private sector stood around 7.74% which further drops to 5.13% for SMEs in manufacturing sector (SBP, 2020) (table 3). In agriculture sector, SMEs receive less than one per cent (0.66%) of outstanding loan to the sector. SMEs in construction sector share 9.09% of total outstanding loans. Wholesale and retail trade sector stand outlier with SMEs sharing 29.14% of total outstanding loans to the sector, i.e., more than 4 times higher than average share of 7.74%. SMEs share in total loans to private sector by end December 2019 was 7%. In other words, very aggressive financing schemes for SMEs after COVID-19 added less than one (0.74) percentage to share of SMEs in loan to private business. This can highlight the barriers SMEs face in access to fiancé in normal times.

It must be noted that the SBP, in December 2017, launched its strategy to increase share of SMEs in private sector credit from 8.7 per cent to 17pc by 2023. The data clearly marks that the strategy is not working and its different components need to be reviewed, including different lending schemes, conditions, and process of lending. Barriers to demand of credit and finance needs to be removed.

One thing that has clearly emerged from the pandemic is reluctance of commercial banks in Pakistan to advance the loans to SMEs because of high risk factors. Despite Rs. 30 billion allocated for SMEs, the banks in Pakistan were not ready to bailout SMEs under SBP’s Refinance Scheme. Reportedly, the most applications were rejected citing weak audited accounts as the major reason. This is happening when it is crisis and urgent support of SMEs is requested by SBP. One may clearly think the situation in normal times. Role of commercial banks needs to be enhanced in

providing credit to SMEs. The government in collaboration with SBP needs to immediately establish risk sharing mechanisms particularly for micro and small enterprise.

Domestic private commercial banks account for 76% of the total outstanding MSME loans in Bangladesh. And MSMEs account for about 27% of commercial banks’ portfolios. Mechanisms for risk sharing shall take high priority if commercial bank lending to SMEs must be increased. The government has outlined some arrangements to share lending risk with banks to motivate lending to SMEs to save jobs in pandemic. The Federal Government will bear 40% first loss on (the) principal portion of disbursed loan portfolios of the banks. Similar arrangements need to be put in place from medium to long run varying by size, sector and nature of SMEs. Upcoming budget for FY2021 must create budget line for risk sharing.

Public commercial banks must drive the advancement of the loans to collateral deficit SMEs, particularly for SMEs working in informal setting. The public commercial banks and public specialized banks (for micro financing) in Bangladesh account for one fifth (19%) and one third (29.7%) of the total outstanding MSME loans. Ministry of Finance, the Ministry of Commerce, the Ministry of Industry (MOI) and the SBP together with other bodies established to support SMEs need to sit together to ensure similar role for public commercial banks. In addition to conventional banking, Islamic banks can be effective in risk sharing based financial inclusion of SMEs.

Finally, evidence gap on drivers of lower SMEs financing and financial inclusion must be reassessed. Literature on limitations to SMEs’ access to finance suggests informality as one of the major drivers. This may be partially the fear of formalization which keeps informal SMEs away from using banking and other financial channels for transactions. Financial inclusion of SMEs must be driven by the idea of financing for competitiveness rather than financing for formalization of SMEs.

Institutional coordination must be improved in all aspects of SMEs support policies. Currently, many ministries, bodies and departments are working to support SMEs. Though this is good, it has been creating multiple challenges, including definition of SMEs which, in turn, decides prospects for participation in financing and other opportunities. A central coordination mechanism can be arranged. “MSME Business Administration” can be established on the structure of “Small Business Administration” of USA.

The policy making for SMEs can also be improved by structuring SMEDA, like the National SME Development Council (NSDC) in Malaysia. Denoting the priority focus on



development of SMEs, NSDC is chaired by the prime minister. It comprised of 13 ministers, as well as the chief secretary to the government, the director-general of Economic Planning Unit and the Governor of Bank Negara Malaysia.

One thing that needs utmost clarity is that it takes enabling environment for SMEs to thrive. SMEs in developing countries, like Pakistan, experience barriers to market access; have asymmetric information, information imperfection (lack of access to information about potential markets), going beyond access to finance.

Restoring of supply chains and integrating SMEs to modern procedures of export, for example new SOPs for production to consignment, will be serious challenge. Not only that it will inflate the cost of production but also requires capacity building of SMEs. The impact will be disproportionately adverse for micro and small enterprise. The government must start working on these issues immediately otherwise SMEs will experience problems in meeting the demands from importing countries and other countries from the region may fill the gap. In this regard, strategy to reactivating business linkages must be developed.

Overall, we need to adopt public policy for SMEs for development moving away from “public policies (that) have been developed, jettisoned, and often reintroduced on a piecemeal basis”. Fiscal policy has greater role to play in creating that enabling environment. The role is even more important in crisis.

While the monetary policy has taken measures to ensure liquidity during the crisis, tax policy will be very critical in mitigating the negative effects of economic crisis resulting from lockdown of economy to control the spread of pandemic. Tax measures in upcoming budget, like VAT, sales tax, tax administration burden, will not only shape the road to recovery for SMEs but will also craft the drive and capacity of SMEs to switch to modern methods of business and production.

Evidence suggests that special schemes for SMEs may be effective tool to mitigate the impact of crisis, but development of SMEs require integration of SMEs policies into mainstream economic policy of the country. The special schemes not only create selection biases, but they are also unsustainable for longer periods of time. For example, tax exemptions are doable for a while, but prolonged exemption -at mass-scale create pressure on fiscal balances.

Same holds true for tariff and other subsidy policies. A prolonged protection through higher tariff creates moral hazard and lowers the incentives for innovation and productivity. Tax legislation in Pakistan is already complex and variation across the provinces create problems of tax

compliance. The costs of compliance unevenly create disadvantage for micro and small enterprises. So does the fixed tax rates.

Economic policy for SMEs, therefore, need priority focus on some key areas. One, tax harmonization and tax simplification. Present debate on SMEs development somewhat covers this issue. Two, government procurement system which is biased against SMEs needs immediate corrections. Three, government needs to work on creating opportunities for SMEs, entry for high income market. In this regard zoning and other regulations that create barriers for SME may need review. Finally, removing the labor market rigidities is important to ensure flexible hiring and firing of labor which allows mobility of the labor force. SMEs are not homogenous. Even SMEs of similar size working in the same sector may have diverse set of problems and viable alternative solutions. For example, lower access to finance may be because of poor collateral or fear of formalization or poor financial literacy or a combination of all three. SME activities (as distinct from some activities of firms regardless of size) are neither economically justified, nor feasible.

Federal government and provinces must integrate their SDGs agenda as the failure of SMEs agenda will lead to the failure of SDGs agenda to a large extent. SDGs targets related to reducing poverty, minimizing inequality, creating jobs and decent work and sustained economic growth in per capita income are contingent on successful development of SMEs to a large extent.

“Leaving no one behind” agenda of SDGs is not possible without integrating SDGs into SMEs agenda and SMEs into SDGs agenda. In this regard, SDGs unit at federal and provincial governments may agree on a minimum SMEs promotion agenda through SDGs targets directly affecting SMEs development and vice versa. Pakistan needs to integrate SMEs into financing for development and innovation for development agenda through targeted business development programs.

Which requires systemic policies to foster innovation and entrepreneurship in SMEs

SMEs are generally less innovative compared to large businesses. This is true for SME sector in Pakistan where it is overwhelmingly informal. The COVID-19 pandemic, however, has brought an opportunity to foster innovation in SMEs. While the lockdowns have hit the sector badly, responses to mitigate the effects of the pandemic on SMEs - priority access to concessional finance, changing market practices and increased use of technologies - offer new opportunities for SMEs to innovate and grow.

Take example of digitalization, which is enabling the emergence of new business models. In addition to



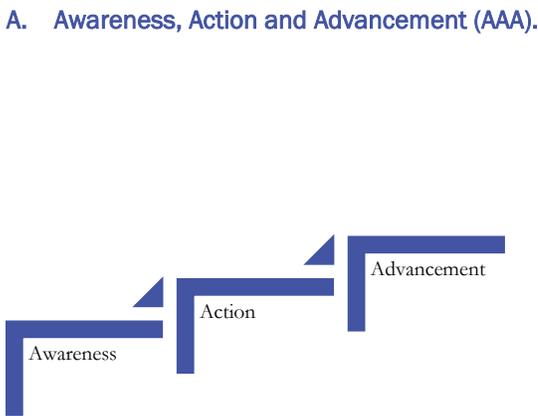
accelerating the diffusion of knowledge, digitalization enables firms to scale at quicker rate with lower manpower, tangible assets or a geographic footprint (OECD, 2017c). Pakistan needs to develop SMEs networking with public sector, market, academics and start-ups to create ecosystem for entrepreneurship and innovation promotion in SMEs. Most importantly, a serious amount of effort is required to develop horizontal and vertical network among SMEs. SMEs-Public Sector networking must mainly aim to design a way forward for the financing to SMEs for innovation at initial stage of the process. SMEs' academic or scientific community will help knowledge-based development of SMEs through undertaking cross-cutting research. SMEs networking with startups is critical for SMEs to adopt to modern methods of entrepreneurship and will facilitate SMEs to strengthen the access to market through development of efficient products and processes. Regional integration of SMEs can also help promote innovation in SMEs through learning from each other. SMEs in Pakistan must be enabled to exchange information with SMEs across the south Asian countries and China. They must be encouraged and provided with opportunities to engage in further training in particular areas or to outsource the R&D management and project handling. Similarly, SMEs in one province of the country must be synchronized with SMEs working in other regions of the country to share the learning. The SDGs agenda of federal and provincial governments in Pakistan must clearly focus on promoting innovation in SMEs. Especially, all the priority SDGs targets falling under

especially SDGs 8 and 9 must be given and implemented with SMEs innovation lens. Regional innovation Centers for SMEs can be established both locally and regionally under the umbrella of 2030 agenda. This will not only smoothen the cooperation across the countries but will also help setting clear targets to be achieved against a fixed timeline. Targeted policies, designed keeping in view the sector specific characteristics of SMEs, must be put in place to promote innovation. Further, these policies must be clearly addressing different types of innovation namely Product innovation , Process innovation , position innovation , Paradigm innovation . The nature, stage, and barriers to these different types of innovations may vary over the time and across the SMEs and region. So, designing the effective policies to promote innovation in SMEs will require a mapping of the factors limiting SMEs capacity to innovate. These factors will vary within and across the sectors and regions.

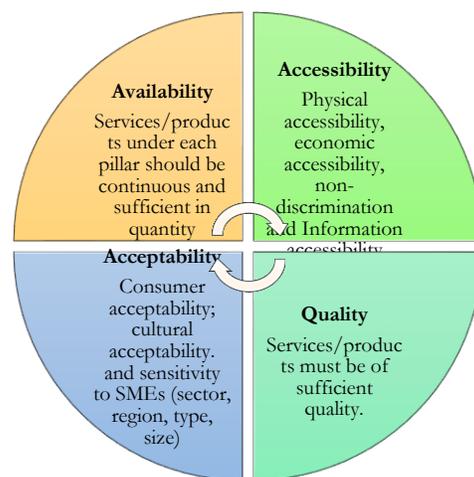
3. How to do it?

Figure 2 provides integrated framework for policy design. Effective policies design and implementation needs a systematic approach from awareness to action and advancement (2A). Every policy and sub policy to promote innovation in SMEs must have very robust gender lens with equity integrated into Availability, Accessibility, Acceptability and Quality (AAAQ) framework (2B) . Finally, policies and strategies to promote SMEs must be stable enough that SMEs are able to predict it without any uncertainty (2C).The framework sets on a very strong foundation of transparency of policies.

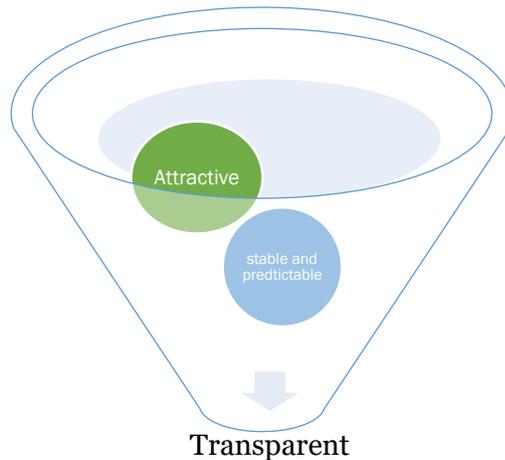
Figure 2: Integrated framework for effective policy design



B. AAAQ Framework



C. Basic characteristics of the policy and their interactions



Many interventions in Pakistan have failed to achieve the desired results as they are implemented without necessary preparedness suggested in 2A. Take example of documentation of SMEs. Businesses resist and protect any efforts for documentation for multiple reasons. One, they are not taken board and are not made aware of the exact process and outcome of the documentation drive. Second, the actions are not acceptable and create a fear, such as taxation and forced move from informal nature to informality.

Also, these actions are sometimes undoable. For example, showing ID card at each transaction above and beyond a certain transaction of purchase creates problem for both the buyer and sellers. In addition to making the transactions complicated, it has social and ethical issues including but not limited to privacy particularly if any or both of the parties are women. This creates issues of acceptability. These and similar issues can be minimized by adopting Availability, Accessibility, Acceptability and Quality (AAAQ) framework (2B).

Available options should be accessible and affordable to SMEs having different backgrounds and requirements. This approach can help tackle many of the issues of inequitable access, lack of preparedness of SMEs and improve trust level of SMEs, particularly those operating in informal sector.

Finally, policies and strategies to promote SMEs and facilitate their growth must not only be attractive for respective SMEs but must also be stable enough that SMEs are able to predict it without any uncertainty (2C). This is necessary for informed policy and business decisions of SMEs. Transparency in policy design and implementation can reduce the uncertainty and distrust of SMEs about the policy and policy makers restively.

4. Who must do what?

Monetary and fiscal policies have a critical overarching role in integrating the SMEs into development policy and planning. In addition to provision of affordable finance, SBP must prioritize SMEs financial inclusion and rethink its strategy as it has not helped so far. Barriers in this regard must be identified and removed. To strengthen SMEs, SBP must enhance its focus on i) financial market infrastructure development which allows inclusiveness of SMEs; ii) enhancing availability of credit information; and iii) affordable, swift, safe and secure banking for small borrowers (Khou, et al., 2015) & (Boldbaatar, 2005). Particularly, the development banks of the country must be engaged on priority basis for financial inclusion, internationalization, and innovation of SMEs.

Fiscal policy has the central role in the promotion and growth of SMEs and their integration to development policy of the country. Tax policy, going beyond meeting the revenue target, must be considerate of the impact of policies and measures on SMEs. Planning Commission of Pakistan at federal level and planning and development divisions at provincial levels need to have clear mechanisms and arrangements to integrate SMEs into national annual and five-year development plans. Federal and provincial governments must also integrate SMEs into their SDGs agenda.

Improvement in business environment for SMEs to a great extent depends upon the legal, regulatory and administrative arrangements. The conducive business environment affects the investment decisions, the opportunities and rewards available to SMEs. In this regard, FBR needs to work on simplification of tax laws, tax filing and resolving tax disputes. Efficient and robust tax refund system is critical for SMEs, particularly those



engaged in exports. Securities and Exchange Commission of Pakistan (SECP) needs to facilitate the process of opening and closing of SMEs. Cost of compliance must be fully considerate to money (fees/licenses) and the time costs.

SMEDA, Pakistan Business Council (PBC) and Chambers of Commerce, particularly those representing small enterprises must be closely engaged at all levels of policy design and implementation. This will provide a twofold benefit. One, the policy makers/authorities will be better able to understand the issues facing the SMEs and the major factor behind different challenges. Two, they bring the trust and confidence to the beneficiaries of the policies, the SMEs. It is important to highlight that the process must engage the different bodies of the workers as well. On the other side, SMEDA, PBC and other bodies must sit together and agree on minimum agenda for SMEs development and must pursue this agenda from common forum.

Pakistan Bureau of Statistics (PBS) has critical role setting the foundations for database for SMEs. At initial stages, it needs to improve its data collection in different surveys such as labor force, PSLM. For example, the PSLM need to collect additional information on the assets of SMEs and must go beyond only number of employees". There must be SMEs census every five year. Sometimes, the complementary information is missing. Sectoral census, such as manufacturing, needs to be updated and implemented timely. Finally, PBS must design mechanisms to collect institutional data, which is available with private and public sector organizations.

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5. Summary

This policy paper proposes four strategic directions for Pakistan's agenda for SMEs which include i) designing targeted support policies and packages for SMEs throughout different phases of recovery from the COVID-19 ii) putting SMEs at the heart of economic and development policy, iii) establishing database and mapping of the SMEs, particularly the informal SMEs and iv) promoting entrepreneurship and innovation in SMEs.

Major stakeholders need to sit together to devise a cross-cutting SME strategy embedded in the national development framework. The broader element of the strategy include:

- sound macroeconomic policies considerate to SMEs
- simplified translation of macroeconomic policies to the ground level to create a conducive environment
- policies to establish and update SMEs databases
- mechanisms to create awareness and trust building of SMEs for proposed policy changes and interventions
- clearly defined and organized institutional arrangements for SMEs interactions with the institutions, markets and organizations.

Efficient use of resources and implementation of the SMEs strategy requires that all these arrangements need to consider the varying nature of SMEs because of differences in size, region

