

SME Policy 2007



SME Led Economic Growth - Creating Jobs and Reducing Poverty

Ministry of Industries, Production & Special Initiatives
Government of Pakistan



Turn Potential into Profit

Small and Medium Enterprise Development Authority
Government of Pakistan

<http://www.smeda.org.pk>

Table of Contents

Abbreviations

Executive Summary	5
Section I Introduction	
Background	7
Economic Rationale/Perspective	8
Small Business Promotion: Historical Perspective	9
SME Development – Recent Steps by GoP	9
Section II SME Policy: Objectives, Scope & Principles	
SME Policy – Objectives	11
SME Policy – Scope	11
SME Policy – Principles	11
Section III SME Policy Recommendations	
SME Development Vision	13
SME Policy Statement	13
SME Definition	14
Business Environment	14
Access to Finance & Related Services	16
Supporting Human Resource Development, Tech Up-gradation & Marketing	17
Entrepreneurship Development	19
Section IV SME Policy Implementation & Resource Allocation	
SME Policy – Ownership & Implementation	21
SME Policy – Investment & Expected Impact	21
Summary of Resource Allocation	21
SME Policy Implementation Plan	22
Section V SME Policy Monitoring, Evaluation & Coordination	
Monitoring & Evaluation	23
Coordination	24

Abbreviations

BMO	Business Membership Organization
BDSPs	Business Development Service Providers
BIP	Business Improvement Program
CBR	Central Board of Revenue
CCIs	Chamber of Commerce & Industries
CIB	Credit Information Bureau
CFC	Common Facility Center
EPZs	Export Processing Zones
EPZA	Export Processing Zones Authority
EPB	Export Promotion Bureau
NCSMEs	National Committee on Small & Medium Enterprises
FBS	Federal Bureau of Statistics
FPCCI	Federation of Pakistan Chamber of Commerce & Industry
FIs	Financial Institutions
GoP	Government of Pakistan
GDP	Gross Domestic Product
HEC	Higher Education Commission
HRD	Human Resource Development
ISIC	International Standard Industrial Classification
ILP	Industrial Links Program
LUMS	Lahore University of Management Sciences
MEs	Medium Enterprises
MTDF	Medium Term Development Framework
MoC	Ministry of Commerce
MoIP&SI	Ministry of Industries, Production & Special Initiatives
MoITT	Ministry of Information Technology & Telecom
MoST	Ministry of Science & Technology
PIM	Pakistan Institute of Management
PRSP	Poverty Reduction Strategy Paper
PAAPAM	Pakistan Association of Automotive Parts & Accessories Manufacturers
PCSMEs	Provincial Committees on Small & Medium Enterprises
R&D	Research & Development

SECP	Securities & Exchange Commission of Pakistan
SMEDA	Small & Medium Enterprises Development Authority
SMEs	Small & Medium Enterprises
SEs	Small Enterprises
SBP	State Bank of Pakistan
TEVTA	Technical Education & Vocational Training Authority
TUSDEC	Technology Up-gradation & Skill Development Company
TDAP	Trade Development Authority of Pakistan
TICs	Technology Innovation Centers
TAs	Trade Associations
UN	United Nations
VC	Venture Capital
WTO	World Trade Organization

Executive Summary

SME sector is the backbone of Pakistan's economy. The significance of their role is clearly indicated by various statistics. According to more recent estimates there are approximately 3.2 million business enterprises in Pakistan. Enterprises employing up to 99 persons constitute over 90% of all private enterprises in the industrial sector and employ nearly 78% of the non-agriculture labour force. They contribute over 30% to the GDP and account 25% of exports of manufactured goods besides sharing 35% in manufacturing value added.

Promotion of SMEs has therefore been the center piece of Government's strategy for economic revival, poverty alleviation and employment generation. To this end, the logical first step was the formulation of a comprehensive SME Policy reflecting the viewpoints of multiple stakeholders.

The Government of Pakistan thus constituted an SME Task Force, by Notification No.1(68)/2003-Inv-III of 29 January 2004 of the Ministry of Industries and Production. SME Task Force included both public & private sector members.

In order to enable the SME Task Force to work effectively, four Working Committees were setup to carry out technical analyses, deliberate findings and address following core issues:

- i. **Business Environment** - Creating a favorable business environment for SMEs in Pakistan's economy and eliminating unnecessary obstacles, reducing cost of doing business
- ii. **Access to Finance** - Increasing SMEs' access to formal finance including equity financing while addressing the question of 'lacking documentation' and banks' technical capabilities and improving SMEs' capacity to become bankable.
- iii. **Access to Resources & Services** - Improving the delivery mechanisms for assistance and access to resources for SMEs in Pakistan, inter alia business development services, qualified human resources, marketing and technology, so as to improve their competitiveness, productivity and capacity for employment generation.
- iv. **SME Definition, feedback, Monitoring & Evaluation Mechanism** - Establishing appropriate and harmonized definitions for Pakistan of what are to be categorized micro, small, medium, and large enterprises. Furthermore, the establishment of a sound mechanism by which development of the SME sector and effectiveness of assistance provided to SMEs can be monitored.

The Working Committees after due deliberation, finalized their recommendations. In order to achieve consensus, wide scale National, Provincial & Regional consultations were held. The participation of stakeholders has been therefore, the cornerstone of the policy development process.

The broader objectives to be achieved by SME Policy as contained in this document are; across the board recognition of SMEs as a sector requiring separate policy & regulatory space, define SMEs that qualify for support, propose counterbalancing measures to eliminate disadvantage of size, remove unnecessary regulatory burden, institute SME support mechanism in both public & private sectors, improve support delivery mechanisms and establish policy evaluation and review systems.

Specifically the Policy envisions increasing the share of manufacturing small enterprises from 5.5% to 7%, while decreasing the threshold and density of regulations thereby reducing the cost of doing business. It also sets the target of increasing the share of SMEs in value added production to 40%, and women ownership to increase to 6%. A number of measures are proposed to achieve these objectives including setting up SME support funds and creating a mutually cooperative & facilitative, hassle free business environment.

The Policy also contains outline of a monitoring mechanism at the Federal & Provincial levels to oversee and assess impact of SME development initiatives being implemented under the Policy.

The Federal Cabinet of Pakistan was pleased to approve SME Policy on January 17, 2007. The approval of SME Policy ushers in a new era of focused SME development initiatives necessary for this sector to realize its true potential and contribute towards economic development.

Section I Introduction

Background

According to the recent Census of Establishments conducted by the Federal Bureau of Statistics (FBS) there are about 3.2 million economic establishments in Pakistan. Out of these small and medium size enterprises (with employment base up to 99) constitute about 90% of all private enterprises employing approximately 78% of non-agriculture labor force¹. SMEs contributed over 30% to GDP, 25% in export earnings besides sharing 35% in manufacturing value addition².

Economic indicators clearly reveal the importance and potential of the SME sector in the national economy. This realization led the Government of Pakistan (GoP) to identify SMEs as one of the four pillars of economic revival plan laid out in 1999-2000.

In order to devise a basic framework for the growth and development of SMEs the Government of Pakistan constituted a Task Force for SME Policy Development in January 2004 under the chairmanship of Secretary, Ministry of Industries, Production and Special Initiatives. The Task Force, comprising of Government officials and major private sector stakeholders, was established with the following objectives:

- Achieve discrete policy and regulatory space for SMEs along with identification of key areas for reforms concerning laws, regulations, and programs.
- Develop SME Policy identifying roles of Federal, Provincial and Local Governments and private & public sectors in SME sector development.
- Define principles of SME support and set priorities.
- Institutionalize SME support to ensure regular information sharing among Federal, Provincial, Local Governments and SMEs.
- Propose detailed processes and time bound action and resource requirement for SME sector development and support programs.
- Propose separate economic indicators to institute monitoring and evaluation mechanisms for SME Policy and Programs.
- Propose a National level Authority to coordinate activities for SME development.

The Task Force further constituted four Working Committees to deliberate upon the areas of i) Business Environment ii) Access to Finance & Related Services, iii) Access to Resources & Services and iv) SME Definition, Feedback & Monitoring Mechanism.

The SME Policy has been developed as a result of the deliberations of the SME Task Force and its four Working Committees. The SME Policy formulation was a participatory process through which private sector bodies, chambers of commerce

¹ Census of Establishments-2005

² Economic Survey of Pakistan 2003-04

and industries, trade associations, public sector organizations and more than 1000 SMEs were consulted across the country.

Economic Rationale / Perspective

Having reached macro economic stability in the first five years of the new millennium the GoP is now looking at second-generation economic reforms to trigger economic growth and reduce poverty. It is realized that the policy interventions implemented during the last five years, though essential, are not sufficient to foster broad based economic growth. Nonetheless, the fiscal space created as a result of the strict financial discipline enforced in past few years provides GoP with an opportunity to invest in supporting private sector led economic growth initiatives. This growth, if well distributed amongst various geographical regions and social population groups, may address the three main economic challenges faced by Pakistan today, i.e.

- Poverty;
- Job creation; and
- Rural development;

GoP has identified SMEs as one of the four priority areas for economic growth. The Poverty Reduction Strategy Paper (PRSP) and the Medium Term Development Framework (MTDF) clearly proposes SME development as a key policy option for poverty reduction and private sector development.

The Government is taking a number of measures for private sector development including liberalization of economy, investment promotion; export facilitation, financial sector reforms, capital market reforms and creation of a conducive business environment. There is, however, a need to create an SME focus amongst these policy initiatives to allow significant accrual of economic gains for the SME sector. Interventions focused at SME led private sector development will not only contribute to higher growth rates but will also ensure that the inequalities in income generation and accumulation of wealth are addressed. Inclusion of marginalized groups and geographical areas are mandated by higher incidence of poverty, e.g., 34.7% in rural areas as compared to the 20.9% urban areas¹. Also an SME led strategy will allow a wide geographic and sectoral spread for investments and job creation including rural areas of the country.

An SME led private sector growth strategy is also in line with the lessons learned in the 60s industrialization process during which although GDP growth rates of 6.0+ were achieved but the skewed income distribution resulted in rising poverty. The 60s strategy was primarily based on support to large-scale manufacturing.

The SME Policy Task Force thus recommends that private sector led economic growth strategy should be primarily based on SME development. To achieve this objective a coherent policy framework is presented in this SME Policy document.

The Task Force feels that unleashing the entrepreneurial potential of the people of Pakistan is the basis on which fast and sustainable economic growth can be achieved.

¹ PRSP December 2003

The Policy framework is expected to contribute in enterprise growth based on the human capacity and market opportunities available in the country.

Small Business Promotion - Historical Perspective

While developing the Policy framework the Task Force reviewed the past initiatives in this area. The various levels of the Government in Pakistan have, in the past, formulated and to an extent implemented small-scale business promotion policies. However, these policies were limited in their scope, to begin with, and are not in line with the dynamics of present time.

Government of Pakistan, initiated small industries promotion through formation of the West Pakistan Small Industries Corporation. Although the Corporation created an impact in its early years yet its Provincial successors could not sustain its contribution due to various limitations. The following features of the Provincial Small Industries Corporations make them inappropriate and insufficient in present time:

- Over emphasis on industrial and manufacturing activities with little focus on service sectors
- Over emphasis on 'hardware' support (land, electricity, machinery, etc) with little or no emphasis on 'software' support, i.e. information, business development services etc.
- Lack of coherent policy framework that determines the role of all relevant stakeholders other than the dedicated institutions created for small scale industry support
- Lack of complimentary skill development initiatives

The Youth Investment, Yellow Cabs and Self-employment promotion initiatives of the 80s and 90s followed the small-scale industrial promotion policy of the 60s and 70s. These schemes were limited in scope and designed as such that they did not address the core issues of enterprise development and employment growth and suffered from political manipulation accruing to bad loan portfolios of banks and loss of public funds. These schemes contributed little in economic growth and employment creation. In some ways these initiatives created the mindset of the banking community that is to date, responsible for a cautious stance towards SME financing in Pakistan.

SME Development – Recent Steps by the Government

In the recent past SMEDA stands out as a significant step towards GoP commitment to SME development. Created as an autonomous institution with private sector led governance structure, SMEDA promises to become an important institution spearheading Government's SME development efforts. However, in absence of a coherent SME development policy framework it is unrealistic to expect a single organization such as SMEDA, to be able to implement aggressive SME development initiatives because:

- Issues to be addressed for SME development fall within the purview of a large number of Ministries and Departments at the Federal, Provincial and Local

government levels. SMEDA has no institutional jurisdiction or linkage with such institutions; and

- SMEDA has limited budget and manpower, posing restrictions on its capacity to launch capital intensive initiatives and extend its outreach

Creation of the SME Bank also marks the Government's commitment towards SME development agenda. The Bank, however, is in its early days of a major restructuring exercise and focuses on a single issue faced by SMEs, i.e., access to finance, and that too on a very limited scale.

Thus to provide a coherent policy mechanism, there is a need to develop a comprehensive SME Policy for Pakistan that defines the role of concerned public sector institutions. Such a Policy framework will provide the required direction and focus for achieving SME led economic growth resulting in job creation and reduction in poverty. Private sector growth in SME sector (as opposed to the large scale manufacturing) will result in lesser investments per job created, wider geographic and social spread of investments and better income distribution.

Section II SME Policy: Objectives, Scope and Principles

Objective

The objective of SME Policy is to provide a short and a medium to long-term policy framework with an implementation mechanism for achieving higher economic growth based on SME led private sector development.

Scope

The SME Policy suggests concurrent and specific policy measures in all possible areas of SME development:

- Business environment
- Access to finance
- Human resource development
- Support for technology up-gradation and marketing

A single SME definition is recommended to be applicable to all institutions countrywide to allow uniformity in designing support systems and incentives and also to monitor progress.

The SME Policy also contains an implementation and adjustment mechanism that identifies the following:

- Implementation and monitoring mechanism
- Capacity building requirements of the public institutions
- Resource allocation and potential sources of funding
- Linkages with other initiatives and public sector reform processes (Social Sector Reforms)
- Self contained framework for ongoing feedback and adjustment
- Role of various public and private sector players at Federal, Provincial and Local levels

Principles

The Policy finds it appropriate to highlight the key principles on which it is being based. They are:

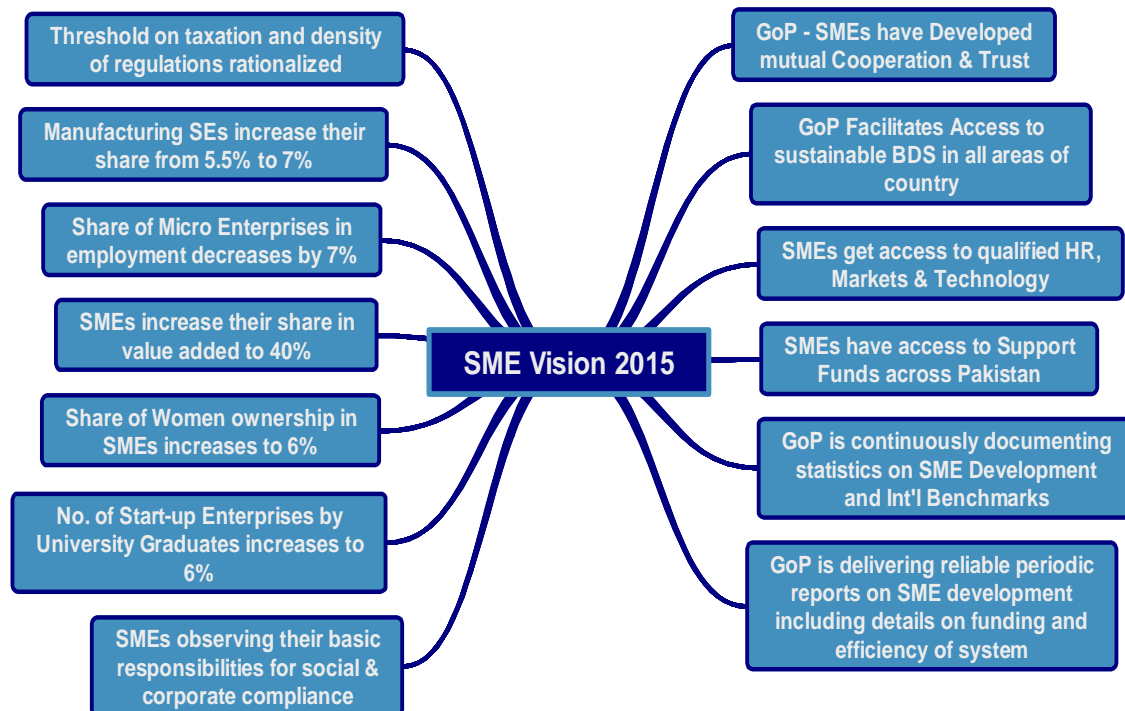
- The recommendations proposed in the SME Policy may be implemented / supported through an SME Act 2006
- The SME Policy covers measures for promotion of 'Entrepreneurship Culture' and support for growth of existing enterprises

- The SME Policy realizes the different approaches required for supporting Small Enterprises as opposed to Medium Enterprises. Thus, wherever required, separate policy measures are proposed for small and for medium enterprise growth
- Women and other marginalized groups are proposed to receive special focus within the SME Policy
- Rural based and agro processing enterprises are proposed to receive special attention while devising specific support mechanisms
- SME development offers most viable option for private sector led growth that reduces poverty and creates a large number of jobs all across Pakistan
- SME development must be at the center stage of all economic growth policies of Pakistan
- SME development in Pakistan will require decisive and concurrent measures in a number of policy areas such as business regulations, fiscal, trade rules, labour, incentives and support (Human Resource Development, Technology, Marketing, etc.) leading to an 'SME Space' in these domains
- SMEs face inherent disadvantages (because of their size) vis-à-vis large firms, which need to be offset by government support mechanisms and incentives
- Effective implementation of the Policy framework will require ownership, commitment and monitoring at highest level of the Government
- SME development requires provision of level playing field for smaller firms vis-à-vis large enterprises
- Private sector will be encouraged to play a key role in implementation of the SME Policy including mobilization of capital and operational responsibility for implementing policy measures suggested in this document
- Financial support to enterprises will be, wherever possible, at a collective level, and will essentially require resource commitment on behalf of the beneficiaries

Section III SME Policy Recommendations

SME Development Vision

“SME led economic growth resulting in poverty reduction, creation of jobs and unleashing the entrepreneurial potential of the people of Pakistan”



SME Policy Statement

“To create globally competitive SMEs by creating a hassle free business environment, ensuring provision of modern infrastructure & institutional support structures for access to resources & services. The Government shall take measures for promotion of women entrepreneurship, cluster development and also focus on neglected/untapped sectors of the economy. Strengthening Industry-Academia linkages shall also be a key feature of the Policy”

To achieve the objectives set-out in the SME Policy Statement, the following recommendations are put forward in various areas affecting SMEs in Pakistan.

SME Definition

Problem Statement

Pakistan does not have a single definition of Small and Medium Enterprises. Various Government agencies, e.g., State Bank of Pakistan (SBP), Federal Bureau of Statistics (FBS), Provincial Labour Depts., etc. use their own definition. Absence of a single SME definition makes it difficult to identify target firms, align development programs, collect data and monitor progress.

Policy Recommendation

GoP may adopt a single SME Definition that is accepted by all public and private agencies. However, various organizations may be allowed a two-year time frame to align their current SME definition in line with the SME Definition proposed in this Policy.

SME definition is as follows:

Enterprise Category	Employment Size (a)	Paid Up Capital (b)	Annual Sales (c)
Small & Medium Enterprise (SME)	Up to 250	Upto Rs. 25 Million	Up to Rs. 250 Million

The Federal Government, in line with the economic development of Pakistan may, from time to time modify the eligibility criteria as it sees fit. All providers of services receiving funding from the Government may define more narrow scopes for specific targeting purposes.

Detailed resource allocation, principal implementing agencies & time-frame for establishing a single SME Definition in Pakistan is annexed.

Expected Impact

Single SME Definition is expected to create focus in Government policies (targeted towards SME development) and uniformity in compilation and reporting of SME related data.

Business Environment

Problem Statement

The fiscal, labour and enterprise regulations of the Federal and Provincial Governments in Pakistan do not provide for a focus on SMEs that is in line with their specific needs. Generally the fiscal regulations divide enterprises by income levels and labour related regulations realize only two forms of enterprises, small and

large, thus, not providing laws and implementation mechanisms that are sensitive to SME needs.

Largely, the support and grievance redressal regime of the Government does not differentiate between enterprises on the basis of their size thus making it difficult for SMEs to access public support programs and attention of public authorities when competing for it with the large firms. This dilutes the ability of SMEs to effectively compete with large firms.

Policy Recommendations

- The Task Force recommends promulgation of an SME Act that (in addition to addressing other issues related to SMEs) provides for identification of fiscal, registration, labour and inspection laws that may be simplified for Small and/or Medium Enterprises.
- A business entity may be certified as an SME by a simple process to be exercised by SMEDA in partnership with other government agencies, chambers of commerce and industries, trade associations and other private sector representative organizations. The process of SME Certification is proposed to be voluntary for those firms who choose to do so, to benefit from the support mechanism and simplified regulatory regime proposed through this Policy.
- The Federal Government may encourage periodic review of all fiscal laws in force with a view to facilitate and improve growth of the small & medium enterprises
- Periodic review of Labour Legislation with a view of facilitating small enterprise growth may be undertaken whereby applicability of certain laws may be relaxed for SEs for a certain period of time. However, provision of education/assistance to SMEs to achieve proper safety at work and compliance with international conventions shall be essential.
- SME Desks may be established at the Federal, Provincial, Banking and Tax Ombudsman Offices for handling and addressing SME grievances. The Complaint Cell established at State Bank of Pakistan may also facilitate redressal of SME complaints.
- A minimum quota is proposed to be established for SMEs for allocation of land in the Industrial Estates and Export Processing Zones (EPZs). SMEs may be charged a concessional rate of land (at no profit no loss basis) as compared to the cost offered to large-scale enterprises.
- All public sector procurement may encourage participation of SMEs with certain products/contracts exclusively to be competed amongst the SMEs.
- GoP may consider to support establishment of an SME Promotion Council (including its local chapters) and SME specific Trade Associations for organizing SMEs and providing them with a platform to lobby for favourable government policies.
- Government to ensure adequate provision of physical infrastructure (roads, utilities etc.) in existing SME clusters.

- Capacity building and strengthening of existing CCIs and TAs, may be undertaken, making them more effective for supporting their members including SMEs, with special focus on WTO & its impact on local industry. Moreover, Government functionaries in tax, registration, labour, etc. departments are proposed to undergo specialized training for handling SME related issues.
- Genuine SME representatives are proposed to be inducted in all federal monitoring and dispute resolution schemes with private sector participation.
- Regulatory regime for specialized sectors in provinces (such as mining) may be developed as per their specific requirements keeping in view their regional dynamics.
- GoP may follow an effective strategy to reach out and communicate with SMEs using appropriate electronic and print media. Regulatory compliance procedures will be widely communicated to SMEs. Communication will increasingly use Urdu & local languages where useful.
- Improving and enforcing Intellectual Property Rights for SMEs.

A vast pool of information, analyses and studies are available that may form the basis for implementing the recommendations on Business Environment. Details of additional resources required are annexed.

Expected Impact

Implementation of the recommendations for creating conducive 'Business Environment' for SMEs will result in reducing the number and simplifying the compliance process of SME regulations. This is expected to trigger fast paced creation and growth of enterprises resulting in economic development and job creation.

Access to Finance & Related Services

Problem Statement

According to the Investment Climate Assessment 2003, banks provide for only 7-8% of the total funding requirement of SMEs. Also, as per a study by LUMS on 'Barriers to SME Growth in Pakistan: An Analysis of Constraints', access to finance, was identified by SMEs, as the single most important impediment to growth. This problem increases in magnitude with reduction in size and experience of the firm.

With the promulgation of the Prudential Regulations for SME Financing by SBP, the basic regulatory framework for promoting SMEs' access to formal financing has been provided. However, increased SME access to financing will require interventions in all three areas of SME financing, i.e., demand side (SMEs), supply side (Banks) and intermediaries and regulators (SBP, SMEDA, etc).

Policy Recommendations

- Incorporation of SME financing in the Annual Credit Plan of the SBP and monitoring to cater for underserved segment of the SMEs.

- Review of Prudential Regulations, periodically, in line with the SME credit demand and supply data.
- Establishment of Credit Guarantee and Credit Insurance agencies, operating inline with sound international practices, to provide incentives and risk cover for banks, so as to provide them the relevant comfort in financing SMEs.
- Support to FIs in designing and launching industry based program-lending schemes.
- Capacity building of the CIB to report positive and negative data & sharing of SME financing data by the SBP.
- Improvement in the regulatory procedures and fiscal incentives for Venture Capital companies.
- Introduction of Bankruptcy Laws with dedicated and effective judicial process.
- Expansion in the role of Banking Ombudsman to include redressal process for SME complaints.
- Awareness and promotion of options for formal financing and good accounting practices amongst SMEs.
- Promotion of Islamic mode of financing for SMEs.

The resource allocation for implementing the recommendations on improving SMEs' access to finance are annexed. These estimates, however, may be modified once detailed studies are conducted on demand and viable size of the credit guarantee, credit insurance and venture capital fund in Pakistan.

Expected Impact

It is expected that improvement in the regulatory framework, provision of specialized credit lines and risk sharing schemes for FIs will result in creating an environment where banks will aggressively pursue the opportunities offered by the SME financing market in Pakistan. Improvement in the regulatory and fiscal environment and provision of matching contribution will result in establishment of new venture capital companies. Both these measures will improve accessibility of startups and existing SMEs to formal sources of financing, removing a major barrier to their growth and development.

Supporting Human Resource Development Technology Up-gradation and Marketing

Problem Statement

The poor national performance on the Human Development Index of the UN has its consequences for SMEs in Pakistan. These include inadequate and generic education and insufficient, poorly focused and under-serving training infrastructure. SMEs mostly draw their human resource (including the owners) from either the higher education institutions or the technical training infrastructure, both of which are not

attuned to the SME needs nor are they equipped to address them. This situation limits the capacity and capability of SMEs to innovate, add value, upgrade technology and devise new marketing strategies. Adding to these woes are the limited options available to SMEs to invest in HRD, technology and exploration of new markets. As a result, the SME sector in Pakistan is usually engaged in low value added manufacturing using inefficient labour, outdated technology and operating in limited and traditional markets. The SME sector neither possesses the financial strength nor the collective wisdom to climb its way out of this 'low equilibrium' enterprise activity.

Public sector institutions alone can not adequately provide HRD, technology and marketing support. However, currently, there exists an insufficient capacity of the private sector Business Development Service Providers (BDSPs) to address SME needs and limited demand for such services by SMEs (because of lack of awareness or capacity to pay). Thus concrete and substantial Govt. commitment is needed to establish 'Islands of Excellence' in HRD, technology up-gradation and marketing, with strong and active participation from SME associations and private sector business service providers. Once established, these 'Best Practice Models' will be emulated by the SMEs. Also, strong incentives need to be provided to both SMEs; for investment in HRD, technology and marketing innovation and to BDSPs to design and provide innovative business development services to SMEs.

Policy Recommendations

Human Resource Development

- Need Assessment Survey to identify major SME needs in HRD, technology up-gradation and marketing.
- Establishment of Institutes of Small and Medium Enterprise & Entrepreneurship Development (INSMED) in select business schools.
- Capacity building and up-gradation (curriculum redesign, provision of equipment, teachers training, SME liaison, etc.) of selected sector specific technical training institutes serving in major SME clusters and establishment of such institutes where none exist.
- Encouraging use of the technical training infrastructure by the private sector BDSPs serving SME sector and incentives for investment in setting up SME training facilities
- Induction of genuine SME representatives in private sector boards of the technical training institutes.

Technology Up-gradation

- Introduction of SME specific research projects supporting R&D and University-Industry liaison programs by Ministry of Science & Technology (MoST), Higher Education Commission (HEC), Pakistan Software Export Board (PSEB), Ministry of Information Technology (MoIT) and others.
- Establishment of Technology Innovation Centers (TICs) offering common facility, technology up-gradation, R&D and design related services to SMEs.

- Launching of pilot technology up-gradation projects for major SME clusters on cost sharing basis.
- Incentives for Investment in new Emerging Sectors and Skills upgrade.

Marketing

- Encourage establishment of SME sector specific export marketing companies by providing matching grants in conducting international marketing research, developing marketing strategies, developing marketing material, packaging, branding, participating and conducting trade fairs and undertaking promotional and marketing activities.
- Matching grants for developing 'world-class' trade and product directories for major SME clusters (e.g., Members directory by Pakistan Association of Automotive Parts & Accessories Manufacturers)
- Establishment of SME quota in trade delegations supported by EPB
- Compilation and dissemination of data on local markets using manufacturers, distributors and retailers data
- Provision of support to SME associations in exploiting local market opportunities by holding domestic product exhibitions
- Establishment of Annual SME Awards (on the lines of Annual FPPCI Export Trophy Awards) for recognizing outstanding performance in domestic and international markets, technology innovation, HRD practices, etc.

Resource allocation, timeframe and implementing agencies for policy recommendation on supporting HRD, technology up gradation and marketing are annexed.

Expected Impact

It is expected that effective implementation of Policy recommendations in supporting HRD, technology up-gradation and marketing will create a human resource pool and necessary infrastructure for adding value to SME businesses by technology up-gradation and innovative marketing. It will also increase role of private sector BDSPs in serving the SME sector in undertaking business development activities.

Entrepreneurship Development

Problem Statement

Pakistan is a society of 'employees'. The education and social system does not encourage entrepreneurship as a preferred career option amongst the youth. Entrepreneurship is usually undertaken by those belonging to the existing business families. As a result the economy witnesses a small number of new enterprises being

created and that too in traditional areas of business overcrowding the supply/product base and their markets.

On the other hand, there are no limitations in the entrepreneurial capabilities in the populace. If, this entrepreneurial potential can be unleashed, by providing level playing field, information, awareness and support in establishing enterprises, Pakistan can witness fast paced growth in establishment of new enterprises creating new employment opportunities, improving distribution of wealth and exploiting the opportunities offered by international markets in the liberalized WTO regime.

The past Government programs to encourage entrepreneurship such as Self Employment Scheme, Youth Investment Promotion Society and Yellow Cab Scheme were limited and not too comprehensively designed and thus achieved little in promoting entrepreneurship amongst the educated Pakistani youth. There is a need for Govt. to actively promote entrepreneurship through changes in education curricula, by creating awareness amongst youth and by providing effective support to those who wish to establish new enterprises.

Policy Recommendations

- Revision in primary and higher education curricula for promoting entrepreneurship amongst the educated youth
- Inclusion of 'Entrepreneurship' courses in (all professional degree awarding) higher education, technical and vocational training institutions in Pakistan
- Entrepreneurship Competitions at university level to culminate in Annual Entrepreneurship Competition at National level for selecting best business plans/models and providing grant for project implementation
- Establishment of technology and business incubators in selected universities in Pakistan
- Identification of investment opportunities offered by backward and forward linkages of successful services/products

Expected Impact

Implementation of the recommendations on supporting entrepreneurship amongst the Pakistani youth will result in larger segments of the educated population taking interest in establishing their own businesses and some will eventually implement their ideas. As a result, a fast increase may be witnessed in enterprise creation thus adding jobs to the economy and improving income distributions.

Section IV SME Policy – Implementation and Resource Allocation

SME Policy – Ownership and Implementation

A large number of Government Ministries and organizations (in addition to the private sector) will have to play their role in removing impediments and providing support for SME growth. Therefore, it is imperative that the SME Policy is approved by the Prime Minister and endorsed by all Provincial Governments. Such support coupled with clear definition of responsibilities of various Government institutions will provide the required policy vehicle for promoting SME led economic growth in Pakistan.

SME Policy – Investment and Expected Impact

The SME Policy also presents the estimates of public and private sector investments for implementation of the policy recommendations and envisages benefits in terms of enterprise growth, job creation and poverty reduction.

Summary of Estimated Resource Allocation

The proposed resource allocation for implementing the SME Policy is summarized as below. However, the estimates may be revised once detailed implementation plans are developed and the studies (proposed in this document) have been conducted:

Sr. No.	Thematic Area	Estimated Resource Allocation (Rs. Million)
1.	SME Definition, Feedback, Monitoring & Evaluation Mechanism	27.6
2.	Business Environment	355
3.	Access to Finance & Services	7736
4.	Supporting Human Resource Development, Technology Up gradation Marketing & Entrepreneurship Development	5010
	Total	13,128.6

SME Policy Implementation Plan

Proposed Institutions/Tasks	Principal implementing Agencies	Estimated Resource Requirement (PKR Million)	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	Jan - Mar	Apr - Jun	July - Sep	Oct - Dec	Jan - Mar	Apr - Jun	July - Sep	Oct - Dec
			2007				2008				2009			
SME Policy - Approval from Cabinet	Federal Cabinet / MoIP&SI													
1. SME Feedback, Monitoring & Evaluation		27.60												
1.1 SME Database Development	SMEDA													
1.2 SME Baseline Survey	SMEDA													
2. Business Environment		355.00												
2.1 Approval & Promulgation of SME Act 2007	SMEDA/MoIP&SI/Mo Law, Justice & Human Rights/Parliament													
2.2 Establishment of SME Promotion Council	SMEDA/MoIP&SI / TAs / CCIs													
2.3 Establishment of SME Certification Process	SMEDA/CCIs/TAs													
3. Access to Finance & Related Services		7,736.00												
3.1 Establishment of Credit Guarantee Funds	SBP/SMEDA/ MoF / MoIP&SI													
3.2 Establishment of Credit Insurance	SBP/SMEDA/ MoF / MoIP&SI													
4. Access to Resources & Services		5,010.00												
4.1 Establish Institutes of Small & Medium Enterprise & Entrepreneurship Development (INSMED)	SMEDA/HEC/ MoIP&SI/ NAVTEC/ TUSDEC/ MoST/Universities													
4.2 SME Subcontracting Exchange	SMEDA/MoIP&SI													
4.3 Business Support Fund	MoF/ MoIP&SI													
4.4 Competitiveness Support Fund	MoF/MoIP&SI													
Estimated Total		13,128.60												
The time line developed is subject to the approval of Government of Pakistan & availability of adequate resources for implementation.														

Section V - Monitoring, Evaluation, and Continuous Improvement of Policy

Monitoring and Evaluation

In order to increase the quality and quantity of information available on the development of enterprises in Pakistan identical standards have to be used for classifying enterprises. The size classification suggested in this Policy document becomes a minimum standard for all organizations in Pakistan which are monitoring enterprise development and/ or administering support to enterprises. All organizations need to be able to aggregate and disaggregate their data according to these size standards.

The application of the measures under the Policy which draw, directly or indirectly, on public funds, Federal, Provincial, and Local, will be continuously monitored and evaluated so as to permit continuous improvement. All organizations, at National, Provincial, and Local levels, which are involved in the administration of support measures to enterprises, both facilitators and providers, will monitor the performance by collecting at least the following information:

- b.1 Number of micro, small, and medium enterprises served
- b.2 Gender of owners
- b.3 Major sectors of enterprise activity (ISIC)
- b.4 Levels of satisfaction recorded
- b.5 Feedback received
- b.6 Total cost of service (direct and indirect) in PKR per beneficiary enterprise
- b.7 Total benefit of service in terms of employment, growth and income (during service and after service) per beneficiary enterprise

The organization of the monitoring and evaluation system, including the aggregation and analysis of the information will be undertaken by SMEDA. SMEDA will provide consolidated reports on enterprise development as well as on the implementation of enterprise support under this Policy on a semi-annual basis to the National Committee on Small and Medium Enterprises (NCSME). SMEDA will also prepare an Annual Report on SME Development to be presented to the Parliament by the Minister for Industries, Production and Special Initiatives.

Continuous Improvement of Policy

Monitoring and evaluation results will be used by all stakeholders to continuously improve the existing policy and the specific measures taken. Moreover SME Surveys shall be undertaken periodically to assess the impact of interventions made and target support mechanisms where required.

Coordination

National Committee on Small and Medium Enterprises (NCSMEs)

The Minister for Industries, Production & Special Initiatives shall chair the semi-annual meetings of the National Committee on Small and Medium Enterprises (NCSMEs). This Committee will review the implementation of Small and Medium Enterprise Policy, and decide which shape specific measures for enterprise development will take and how existing measures need to be adjusted in line with developments and in the interest of continuous improvement. The Committee will also serve as a mechanism to improve coordination between different stakeholders and resolve differences which may exist between them. SMEDA will function as the Secretariat to the Committee.

Members of NCSMEs

Members of the National Committee on Small and Medium Enterprises are; Minister for Industries, Production and Special Initiatives, Minister of State for Finance, Minister of State for Economic Affairs, Deputy Chairman Planning Commission, Provincial Ministers for Industries, Governor of the State Bank of Pakistan, Chairman Central Board of Revenue, Chairman Securities & Exchange Commission of Pakistan, Federal Secretary for Industries, Production & Special Initiatives, Federal Secretary Commerce, Federal Secretary for Labor, Manpower and Overseas Pakistanis, Federal Secretary for Statistics, Federal Secretary for Education, Federal Secretary for Science and Technology, Federal Secretary for Women Development, President of FPCCI, Presidents of Karachi, Lahore, Sarhad & Quetta Chambers of Commerce & Industry and Presidents of small and medium enterprise Business Membership Organizations (BMOs).

The Government in consultation with FPCCI will appoint five representatives of Chambers of Commerce and Industry representing predominantly SME sector. Three representatives of small and medium enterprise business membership organizations shall also be members of the said Committee.

The Committee may co-opt further Members as it sees fit to address specific issues and ensure representation of small and medium enterprise interests. Similarly, the Government may add or remove members of the Committee as it deems fit.

Provincial Committees on Small and Medium Enterprises (PCSMES)

The Chief Executive of each Province will chair the meetings of the Provincial Committees for Small and Medium Enterprises (PCSMES) periodically. These Committees will support the National Committee on Small and Medium Enterprises (NCSMEs) by assembling expertise from all fields as necessary in order to prepare, develop, and improve Small and Medium Enterprise Policy, including but not limited to specific support measures and improvements in the enabling environment. It will prepare recommendations for approval by NCSMEs as necessary. SMEDA Provincial Offices will function as the Secretariat to each of the Provincial Committees.

Members of PCSMEs

Members of the Provincial Committees of Small & Medium Enterprises shall be decided by the Chief Executive of each Province.