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Draft National SME Policy 2019

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Objectives of National SME Policy 2019



- Develop National SME definition
- Improve business & regulatory environment
- Address SMEs access to finance issues
- Support private sector driven business development services
- Strengthen entrepreneurial ecosystem
- Ensure gender mainstreaming
- Institutionalize SME support system
- Develop Implementation / Action plan

Cont...

Process of National SME Policy 2019 Formulation



- **Understanding the SME Universe – Evidence based policy design**
 - Secondary data: Literature Review and analysis of available datasets
 - Primary data: Stakeholder consultations and analysis both Private (over 200 firms) and Public sector (Federal and Provincial)
 - Survey data: Specific responses from firms were obtained on structured questions – over 160 respondents across the country
- **Review of SME Policy 2007**
- **Review of existing national policies on credit and skills**
- **Review of policies and practices in other countries - suitability in the local context**
- **Discussion with National SME Policy Steering Committee**

Technical Assistance provided by USAID funded Small & Medium Enterprise Activity (SMEA)

Draft National SME Policy 2019

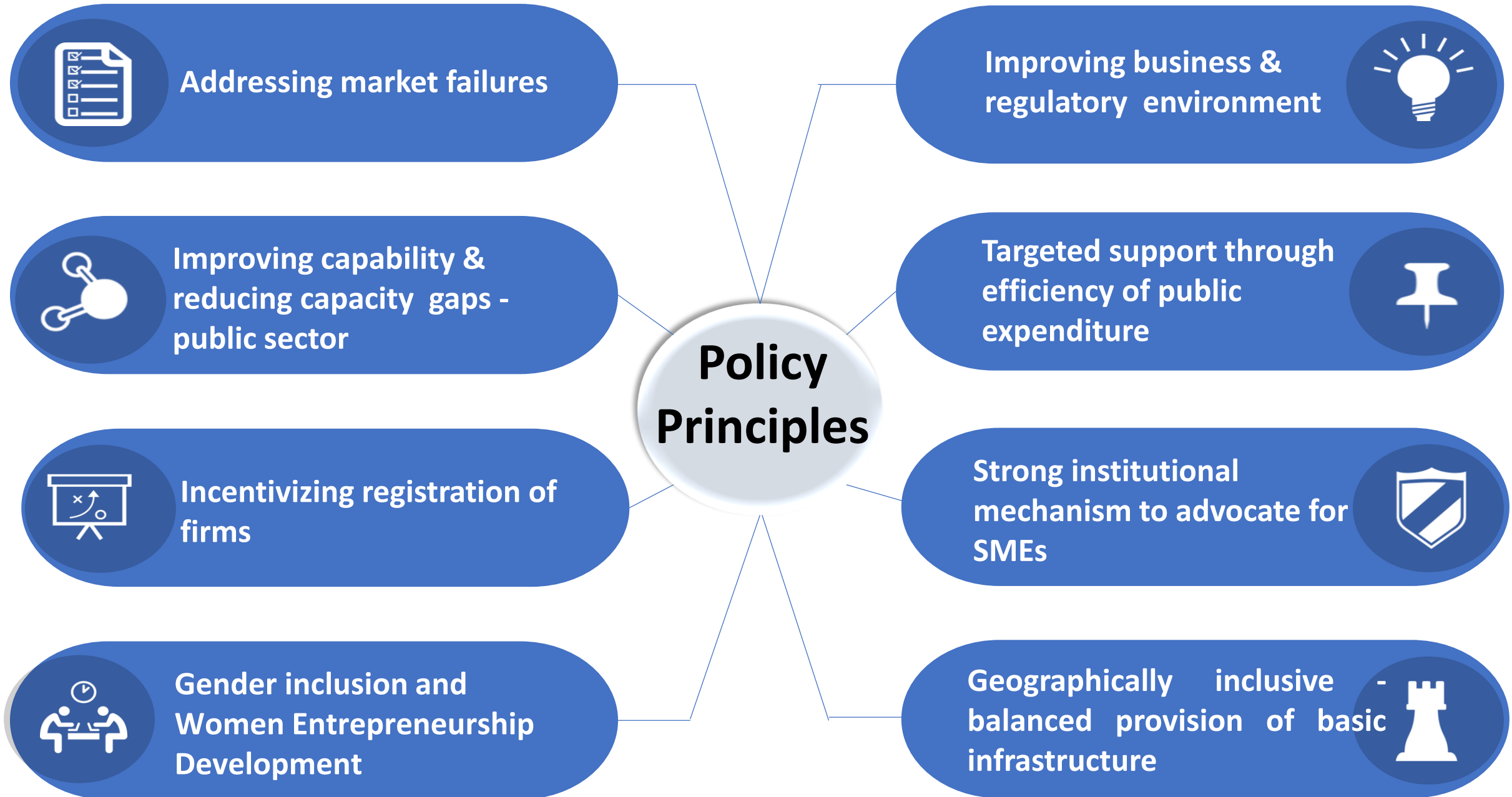


Vision

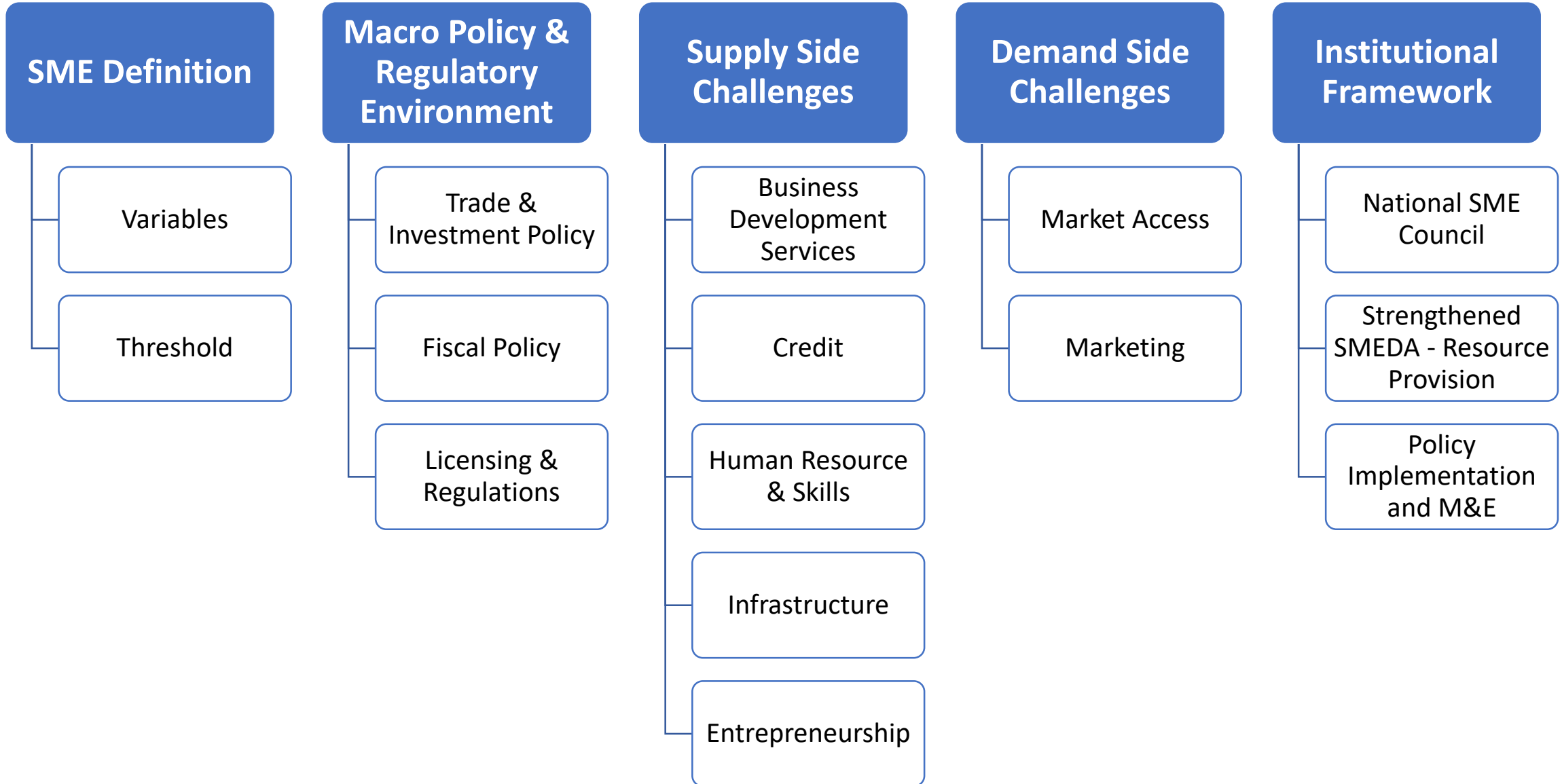
An SME sector that is globally competitive and innovative, creates high value jobs, and encourages SMEs to scale up and move towards value-added exports

Mission

Provide an enabling business and investment environment with ease of tax & regulatory compliance, and equal & sustainable access to credit, business services, productive human capital, technology and infrastructure for cross-sectoral SME growth



Policy Framework



Proposed SME Definition



Enterprise Category	Employment Size	Annual Sales
Small	Up to 50	Up to Rs. 150 million
Medium	51-250 (Manufacturing & Service MEs) 51-100 (Trading MEs)	Above Rs. 150 million and up to Rs. 800 million

Macro Policy & Regulatory Environment



- Simplification of custom duty structures and refunds regime
- Pending payments for sales tax and duty drawback refunds to be first disbursed to SMEs
- Rationalization of import tariffs on raw materials, intermediate goods and machinery
- Establishment of bonded warehouses for import of key inputs
- Strict penalties on the cartelization of commercial importers of raw materials

Cont...

Macro Policy & Regulatory Environment



- SMEs to pay 20% corporate tax
- FBR to design tax incentives to channel savings into equity finance:
 - Individual savings up to PKR 2 million can be invested in stocks and shares, with up to PKR 200,000 tax free dividend allowance, and no capital gains tax on increases in the value of stocks and shares.
 - Develop a tax regime providing tax relief for capital gains tax, and provisions for loss relief for corporate investors to channel their savings to equity finance e.g. to incubators, accelerators and other venture capital and business angel activity.

Cont...

Macro Policy & Regulatory Environment



- Income tax holidays be made conditional on sourcing labor and inputs locally
- Expenses incurred by either SMEs or MNCs that build SME vendor capacity to levels required by MNCs e.g., licensing, labor training, technology upgradation, improvement in management practices be made tax deductible
- Further refinement of process of tax collection by moving to e-challans and e-payments
- Separate window for SMEs at Tax Ombudsman at FBR with a time limit set to dispose all complaints

Cont...

Macro Policy & Regulatory Environment



- Initiate and implement the regulatory guillotine for ease of doing business
- **Reduction of intrusion in business from inspection:**
 - Self-report or inspections through trade bodies
 - Sample inspection by government departments
 - Reduce discretionary powers of field inspectors
 - Payment of all fees and taxes be made through e-challans

Cont...



Addressing Supply Side Constraints

Business Development Services (BDS)

- Undertake Sector focused development initiatives; identifying high growth sectors and implementing initiatives for growth (garments, light engineering, leather, agro-food)
- Develop portal to link SMEs registered with SMEDA to BDS providers
- Cost Sharing mechanism for BDS services for up to 5 years;
 - A larger portion of costs be shared for women-led firms
 - Support in enhancing market access, obtaining quality certifications, access to finance, technology, conducting energy audits etc.
 - SMEDA to oversee quality and efficiency of BDS provided
- BDS activities be funded through an Endowment Fund for SME Development (EFSD)

Addressing Supply Side Constraints



Skills, Human Resource & Technology

- **NAVTCC & Provincial TEVTA to address issues of mandate overlaps**
 - Facilitate growth of private sector skills providers
- **Increase demand led and partnership based trainings to improve supply composition**
- **SME needs assessment & linkage with service providers**
- **SMEDA to be placed on boards of NAVTTC & all Provincial TEVTAs & Skills Councils**
- **Enhance job placement facilities and inclusion of women specific initiatives**
- **SMEDA shall support the launch of pilot technology up-gradation projects for major SME clusters and support SMEs in procurement of suitable technologies to increase productivity, quality and competitiveness**

Addressing Supply Side Constraints



Infrastructure

- Industrial units be offered block tariffs
- Provision of off-grid electricity to rural and remote SMEs in collaboration with private sector
 - Support development of a network of companies providing innovative off grid clean energy solutions
- Conduct spatial mapping to support infrastructure decisions
- Develop farm to market roads to link small and rural firms with main corridor arteries
- Ensure adequate space allocation for SMEs that are part of supply chain in industrial estates & SEZs under CPEC
- Pilot SME industrial estate based on a land lease model to reduce set-up costs for SMEs

Addressing Supply Side Constraints



Entrepreneurship, Innovation & Incubation

- Advocate adoption of Limited Liability Partnership Act 2017
- Create legal framework for crowd-funding and suitable rules for venture capital funds
- Initiate legal review to reform process of business closure incl. options to restructure debt
- Ensure effective implementation of Corporate Rehabilitation Act 2018 and promulgation of ensuing regulations
- **Adopt a regulatory sandbox approach for monitoring & regulation of new businesses that are still evolving and developing e.g. fintech**
- Evaluation & scaling up of incubation, accelerator programs with reservation for women
- Initiate entrepreneurship programs in schools & support entrepreneurship as a specialized stream in high schools and universities
- Conduct Entrepreneurship boot camp to train youth for accessing government's youth entrepreneurship initiatives

Addressing Supply Side Constraints

Access to Finance & Related Services

- Implementation of State Bank's SME Finance Policy 2017
- SME credit targets be set across definitional segments & women
- Regulatory framework to upgrade MFBs (enhance lending limits PKR 1mn)
- Establishment of Credit Guarantee Company
- Increase program based lending & value chain financing
- Establish Excellence Center to build capacity of Banks & SMEs on enhancing credit and increase Non-Financial Advisory Services
- Strengthen data collection on SMEs & support development of credit risk rating agency
- Encourage lending institutions to accept confirmed orders received from government as collateral to advance loans to SMEs

Increasing Market Opportunities



Market Access

- **Establish Trading House / SME Export Houses for enhancing SMEs market access**
- **International Trade Fairs & Exhibitions**
 - Subsidized rates for small firms
 - SME quota, particularly for women & marginalized areas, be fully utilized
 - Private sector firms be hired for organizing, marketing & exhibiting products at international trade fairs
- **Domestic Trade Fairs & Exhibitions**
 - Regular trade fairs & exhibitions for SMEs and cottage industries
 - Establish permanent emporiums to exhibit the arts, crafts and cuisines
- **National Product Standards development, strengthening & implementation**
- **Implementation of E-Commerce regulatory framework incentivizing establishment of 'Online Market Place/Digital Platforms'**
- **Expedite approval of applications by local investors to operate payment gateways**

Increasing Market Opportunities



Public Procurement

- **Revise procurement rules to facilitate SMEs in bidding for public procurement contracts**
- **Target of 1 percent be reserved for SMEs in public sector procurement contracts in the year 2019-2020; to attain a maximum of 10 percent by 2024.**
- **Support establishment of procurement support unit at business support organizations**

Institutional Framework



National SME Council

- Minister for Industries & Production to Chair - SMEDA Secretariat
- Report twice yearly to the Federal Cabinet
- Oversee implementation, evaluation and undertake corrective measures to ensure achieving SME Policy objectives
- Voice of SMEs in the Cabinet to advocate SME sensitive legislations, regulations, laws and interventions
- Information dissemination of government initiatives to SMEs
- Secure relevant funding

Provincial working groups to support SME Council

Institutional Framework



- **Strengthen SMEDA's institutional capacity to lead SME Development Initiatives across the SME Landscape**
- **Adequately resource SMEDA to lead / influence policy implementation and change management in the SME sector**
 - **PKR 30 Bn Endowment Fund for SMEDA - SME Policy initiatives**
- **SMEDA to act as SME Voice and be included in Boards/Committees of relevant organizations**

Goals



Increasing Economic Contribution of SMEs

Enhancing Formalization - Increasing No. of SMEs

Making SMEs more Competitive & Productive

Improving Networking of SMEs





Thank You