



**RESEARCH &
TRAINING WING**

Planning & Development Department
Government of Sindh

Strategizing for Sindh SMEs Development

A Roadmap for Growth



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Introduction

The recent approval of the National SME Policy of 2021¹ by the Government of Pakistan has signaled a pivotal shift towards the inclusive economic growth agenda by spurring the growth of Small & Medium Enterprises in the country. The policy is centered on a competitiveness paradigm with a vision of a 'SME sector that is globally competitive and innovative, creates high-value jobs and encourages SMEs to scale up and move towards value-added exports'. With ambitious targets, the Policy aims to address both the supply-side and demand-side challenges faced by SMEs in the country. The supply-side priority areas include: 1) Access to Finance, 2) Skills, Human Resource & Technology, 3) Infrastructure, 4) Entrepreneurship, Innovation & Incubation, 5) Business Development Services, and 6) Women Entrepreneurship Development. The demand-side priority areas include: 1) Market Access, and 2) Public Procurement.

In addition to many pro-growth facets of the SME Policy, a key development was a consensus on the uniform definition of SMEs with 'Small Enterprises defined as enterprises having annual sales turnover of up to PKR 150 million and Medium Enterprises defined as enterprises having annual sales turnover of above PKR 150 million and up to PKR 800 million.' A small or medium enterprise of up to five years will be considered as a 'Start-Up'. A uniform definition entails that coherent SME development policy measures, strategies, and incentives can be designed to uplift the SMEs and have a positive multiplier effect across the economy.

There are an estimated of 5.2 million SMEs in the country based on the growth extrapolation from Census of Economic Establishments of 1988 and 2005². Harnessing the potential of SMEs can be instrumental in catalyzing the economic growth of Pakistan as they 'contribute 30% towards the country's GDP, employ more than 80% of non-agricultural workforce and generate 25% of country's total export earnings.'³ Productive investments by the public and private sector, and an enabling environment for SMEs can help the businesses thrive and flourish. Indigenous and inclusive growth of the economy can be realized by strengthening the business support network for SMEs.

The key targets of the National SME Policy of 2021 to be achieved by 2025 include⁴:

- Increasing the economic contribution of SMEs via sustaining a growth rate of small-scale manufacturing by 9 percent, services sector SMEs by 10 percent, average employment by 5 percent and exports by 10 percent per annum
- Making SMEs more competitive & productive via increasing credit to Rs 800 billion and number of borrowers from 172,893 to 700,000
- Number of registered businesses to grow by 10 percent per year
- Public and private incubators, accelerators, and co-working spaces to increase by 20% in 5 years

¹ Small and Medium Enterprise Development Authority. (2021, December 15). National SME Policy 2021.

² Pakistan Bureau of Statistics. (2005). Economic Census 2005

³ Karandaaz. (2020, June 29). Businesses in Pakistan and their access to financial services.

⁴ Pakistan Economic Survey 2021-22. Finance Division, Government of Pakistan.

Provincial Development: Sindh SMEs Competitiveness Strategy

The National Coordination Committee (NCC) on SMEs Development, headed by the Federal Minister for Industries & Production, was constituted to lead the agenda of SMEs Development and oversee the implementation of National SME Policy of 2021. NCC on SMEs Development also has representation from Provincial Chief Secretaries. Subsequently, Provincial Working Groups, under the chairmanship of respective Chief Secretaries, were constituted to undertake initiatives for SMEs development to complement and support the National SME Policy. Government of Sindh constituted the Provincial Working Group on 22nd December 2020 with the Chief Secretary, Sindh, as its chairman and representation from both the public and private sector.

The Provincial Working Group, during its meeting on 6th October 2021, initiated the formulation of a robust 'Sindh SMEs Competitiveness Strategy' as the National SME Policy was on the precipice of being approved. Industries & Commerce Department, with technical assistance from International Trade Center (ITC) through EU-funded Growth for Rural Advancement and Sustainable Progress (GRASP) project, initiated multi-stakeholder consultations to define the scope of the Strategy including Vision, Strategic Objectives and Priority Areas. The consultations culminated in a 'technical paper' with the following framework for Sindh SMEs Competitiveness Strategy:

Vision: "Prosperous Sindh powered by progressive and globally competitive SMEs"

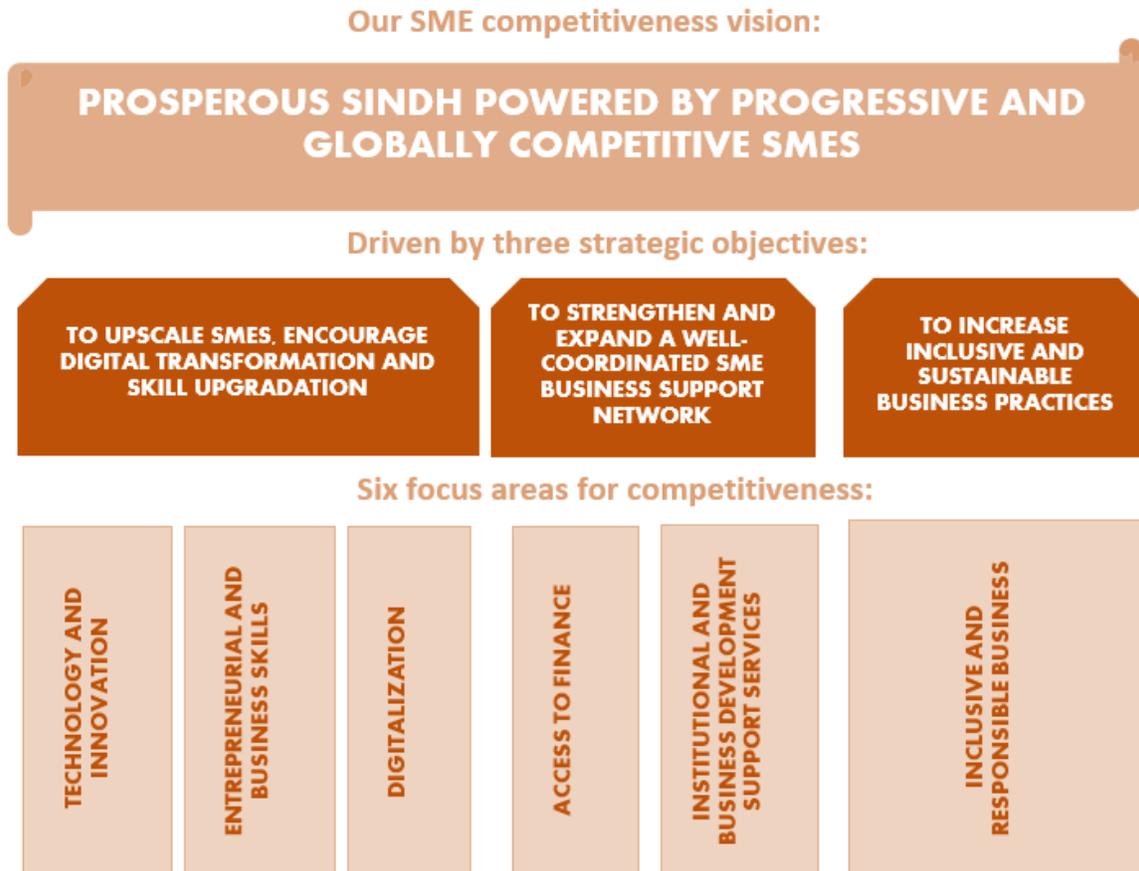
Strategic Objectives

1. To upscale SMEs, encourage digital transformation, and skill upgradation
2. To strengthen and expand a well-coordinated SME business support network
3. To increase inclusive and sustainable business practices

Prioritized Focus Areas

1. Technology and Innovation
2. Entrepreneurial and Business Skills
3. Digitalization
4. Access to Finance
5. Institutional and Business Development Support Services
6. Inclusive and Responsible Business

Figure 1: Sindh SME Competitiveness Strategy Priority Areas



Recommended “Quick Wins” activities

The technical paper also identified a few ‘quick-win’ activities that may be pursued simultaneously with the Strategy design and its finalization. A few quick-win activities are mentioned below:

Financial Activities – Provincial (Projects):

- Develop a training plan for the relevant staff of Industries & Commerce Department and its attached offices (focused on provision of SME support services) to build their capacity to support SME development throughout Sindh
- Consider expanding the mandate of Sindh Enterprise Development Fund (SEDF) to include non-agricultural SMEs.
- Enhance the scope of Sindh Small Industries Corporation (SSIC) to include financing of SMEs in its mandate. Make SSIC self-sustaining through restructuring and securing a new modern office premise/building for it

- Establish and allocate a budget for SME Strategy Development Unit/Secretariat in the Industries & Commerce Department for provision of monitoring and coordination support to the implementation of the SME Strategy

Financial Activities – Federal (Projects):

- Increase the number of SMEDA's Regional Business Centres to expand outreach in Sindh, especially in rural areas
- Digitalize SMEDA's One Window to increase the reach of SMEDA's services to SMEs and to access market intelligence

Non-Financial Activities (Reforms):

- Develop Key Performance Indicators (KPIs) for SME Development to guide the workplan (assignments and timelines) of the Provincial Working Group and Sub-Working Group.
- Identify emerging and high-potential sectors/industries for designing measurable and actionable sector development roadmaps
- Ensure the availability of small and medium-sized plots for SMEs in the Industrial Estates that are being developed by Industries & Commerce Department across all districts of Sindh

The technical working paper was endorsed by the Provincial Working Group in the meeting convened on 29th March, 2022. The Strategy design is now at an advanced stage with all of the six thematic strategies being designed through a consultative process that would culminate into respective plans of action.

Thematic Priority Areas

Technology and Innovation

Sindh is unique in the sense that the province is home to Karachi that has a vibrant entrepreneurial ecosystem with progressive and innovative businesses. The private sector has been amenable to the modernization of technology and innovation for value-addition and improved competitiveness. Leveraging Karachi's potential as a metropolitan, port city, and financial capital of the country, for modern technological adoption can facilitate development of a niche market in the global value-chain in products and services that the province has competitive advantage in. The Federal Ministry of Information Technology and Telecommunication is in the process of setting up an Information Technology (IT) Park in collaboration with South Korea with an estimated cost of Rs. 31 billion. The IT Park is envisioned to house 210 IT Companies and 8,400 employees. Sindh, like South Korea, can evolve a Triple-Helix Model to drive technology and innovation reforms in the province. Triple-Helix approach can provide a platform with strong linkages between university, industry and the government to 'to generate new institutional and social framework for the production, transfer, and application of knowledge.'⁵ The government's role should be to provide an enabling environment for entrepreneurs and enterprises to adopt technology and innovative practices for value-addition in products and services.

⁵ Rahmatullah. (2018). Twelve Things That Can Drive Triple Helix in Pakistan. Triple Helix Association.

Entrepreneurial and Business Skills

A binding constraint in SMEs, especially for small enterprises, is the inadequate skills to compete and thrive in the global market. One of the reasons for the lack of skills might be a mismatch between the demand and supply. Skills development services might be lacking in relevance, accessibility and affordability to bring about a transformational shift. Similarly, on the demand-side, many SMEs might not have a growth-oriented approach which translates into low or no demand for acquiring entrepreneurial and business skills. An unskilled or semi-skilled labor force means that quite a few potential economic opportunities are lost. For example, China would like to relocate its industrial units to Pakistan, but a lack of relevant skills means that the country will not be able to leverage the potential benefits from China Pakistan Economic Corridor projects.⁶ Sindh Technical Education and Vocational Training Authority (STEVTA), in collaboration with private and public skills service providers, can play a pivotal role in upskilling the province's youth to effectively compete in the regional and global economy. The quality of relevant skills must be coupled with effective outreach to reach out to the rural SMEs that can considerably revitalize the rural economy through improved agricultural productivity.

Digitalization

In the COVID-19 context, the pivot towards the digitalization has been catalyzed within the SMEs ecosystem. As the internet and smartphones penetration has been increasing in Sindh, the potential for harnessing this improved coverage for digitalized services provision by SMEs. Ministry of Information Technology & Telecommunication is investing PKR 5 billion in providing high-speed connectivity to 6 districts of Sindh (Larkana, Hyderabad, Badin, Qamber Shahdad Kot, Dadu, and Jamshoro) with an estimated 4.2 million beneficiaries.⁷ Within the public sector, Government of Punjab has been at the forefront of e-Governance with many digital initiatives launched by the Punjab Information Technology Board (PITB). From SMEs perspective, digitalized services can offer potential avenues for SMEs to improve business operations, amplify efficiency and catalyze growth. As digital tools become more prevalent across public and private sectors, SMEs can benefit immensely in receiving and providing services to a larger market more efficiently. An influx of digital services can trigger enormous growth in e-Commerce, FinTech, and other digital core business areas. Government of Sindh should also focus on creating an institution, like PITB, for a rapid transition towards e-Governance. Considerable headway can be made in the realm of 'Ease of Doing Business Reforms' through digitalization of government's regulatory processes.

Access to Finance

Access to finance is considered a binding constraint for SMEs as many small enterprises lack financing sources to expand operations and to foster modernization. Traditionally, risk-averse commercial banks have been reluctant to provide financing for SMEs. Flexible financing products for SMEs can help expand potential avenues for growth-oriented SMEs. State Bank of Pakistan has recently introduced notable initiatives for SMEs Financing, like the SME Asaan Finance Scheme

⁶ Bano, N., Yang, S., & Alam, E. (2022). Emerging challenges in technical vocational education and training of Pakistan in the context of CPEC.

⁷ Ministry of Information Technology and Telecommunication. (2022, June 2). Federal IT Ministry launched 3 more projects of OFC worth PKR 5 billion for 6 Districts of Sindh

(SAAF). Under SAAF, SBP has introduced 'collateral-free' lending to ease the restrictions for SMEs to borrow from the banks⁸.

Sindh Enterprise Development Fund (SEDF) of the Government of Sindh focuses on improving opportunities to improve agriculture sector value-chains. One of its primary initiatives is subsidizing mark-up on loans to agro-based SMEs. SEDF has 'mobilized private investments to the tune of PKR 7,000 million through provision of mark-up subsidy worth PKR 500 million.'⁹ Expanding the scope of SEDF beyond agro-based SMEs financing can help improve the financing landscape for SMEs across all sectors in Sindh. As the recent floods have wreaked havoc on the entire country, especially Sindh, there is a need to design flexible financing instruments and mechanisms to mitigate the adverse impact on SMEs and support their economic recovery.

Institutional and Business Development Support Services

'Institutional and Business Development Support Services' can be termed as a set of support services for SMEs that are aligned with their demands and modern needs. Business Development Support Services (BDSS) are 'the services that small and medium enterprises need in order to improve their business operations so that they can succeed and grow.' BDSS can broadly be categorized across the core areas of information, advice, consultancy, and training. The sub-set of focus areas of support services are human resources, business strategy/planning, accounting, regulatory compliance, marketing, distribution, and sales. The kind of BDSS required by SMEs can vary across different strata, like sector, size of the SME, product-specificity, market dynamics, and other relevant factors. 'Institutions' in this case can be used interchangeably with 'Business Support Organizations' that can span across public & private sectors and are mandated to support SMEs. SMEDA's recent BDS Needs Assessment Survey 2021¹⁰ is a welcome initiative to gauge the needs of SMEs in order to provide demand-based support services.

Inclusive and Responsible Business

An important facet when devising 'Sindh SMEs Competitiveness Strategy' is the thematic pillar of inclusive and responsible business. When designing a holistic strategy, gender and environmental mainstreaming is imperative. Women-led businesses need to be encouraged with special incentives. State Bank's 'Refinance and Credit Guarantee Scheme for Women Entrepreneurs' is a notable initiative to improve access to finance for women with mark-up rate of up to 5% per annum with 60% risk coverage by SBP.¹¹ With a global reorientation towards environmental-friendly businesses, the government can undertake initiatives to encourage green growth. Women-focused policies and strategies should be devised to improve female labor force participation. Similarly, youth-centered programming should be undertaken to promote youth-oriented SMEs. Sindh's Youth Policy 2018 can be used as a frame of reference to harness the youth potential and capabilities for SMEs development in the province. In the light of recent floods, it is imperative that the SMEs that are oriented towards 'green growth' and 'climate change adaptation & resilience' are especially incentivized to develop their capacities and competitiveness. Environmental quality standards and regulations must be streamlined and strictly enforced to ensure that the emissions are kept in check.

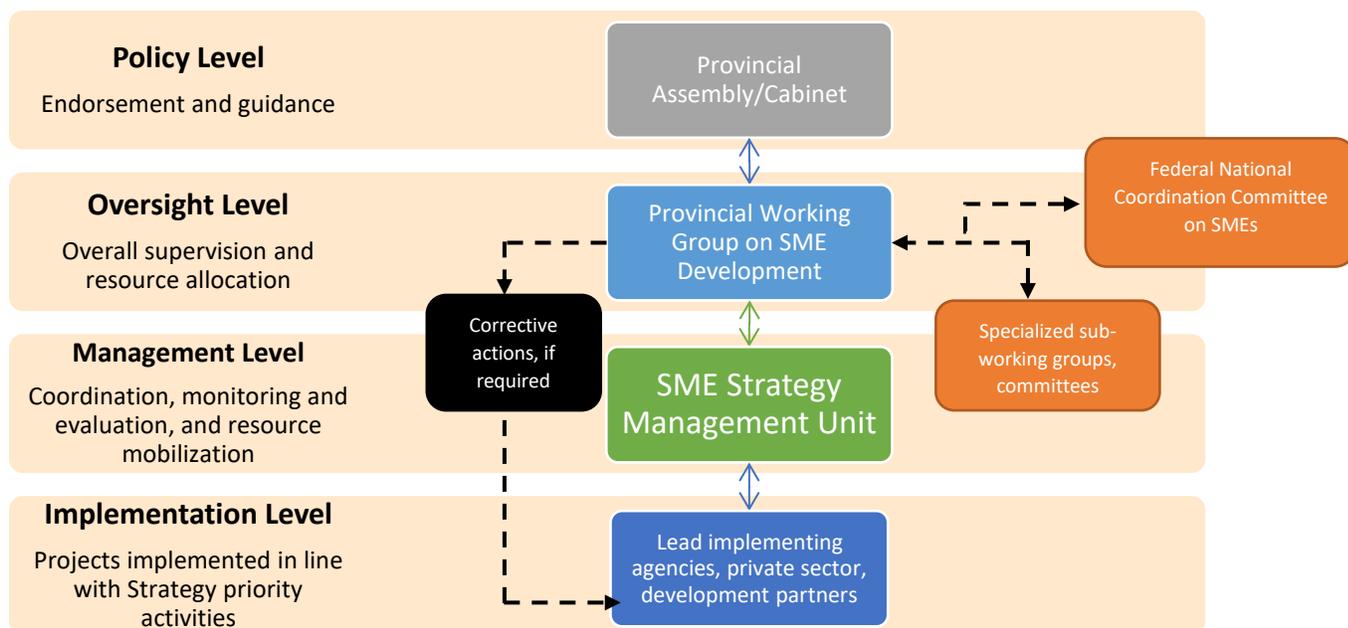
⁸ SBP. (2021, August). SME Asaan Finance scheme (SAAF) for lending to SMEs without collateral. State Bank of Pakistan.

⁹ SEDF. (2022). Introduction. Sindh Enterprise Development Fund Government of Sindh.

¹⁰ SMEDA. (2021). BDS Needs Assessment Survey 2021. Small and Medium Enterprises Development Authority

¹¹ SBP. (2017). Refinance and Credit Guarantee Scheme for Women Entrepreneurs. State Bank of Pakistan.

Figure 2: Sindh SME Competitiveness Strategy (Governance and Implementation Framework)



Global Evidence: Case Study

Singapore: Creating an Enabling Environment for Spurring Digital Economy¹²

In the post COVID-19 context, considerable countries have pivoted towards digital transformation. Singapore has mainstreamed and accelerated the digital transformation of local SMEs with a package of initiatives. The Government's "SMEs Go Digital program" is centered on augmenting the digital skills, and enhancing digital 'capabilities in cybersecurity, data protection and analytics.' Similarly, Singapore has also launched the "Worker 4.0 Digital Readiness Certificate training program" to enhance the digital skills in the manufacturing sector to boost productivity.

Singapore is also leveraging the concept of 'agglomeration economies' to spur local industrial growth. Enterprise Singapore (ESG) is centered on creating linkages between different industries, based on their respective comparative advantage, to foster competitiveness and export-oriented enterprises. These digital initiatives 'are expected to create 10,500 skilled jobs and add S\$10.2b (US\$7.5b) to the economy.'

¹² Ernst & Young. (2019, October). Redesigning for the digital economy: A study of SMEs in Southeast Asia.

Box:1 Case Study of Malaysia: SME Corp. as 'One-Stop Solution' and 'National Entrepreneurship Policy'¹³

Malaysia has made considerable strides in terms of prioritizing core focus on SME development by embedding the high impact areas and institutional arrangements in public policy and strategic planning. The monumental shift toward SME Development was reflected in the Government's SME Masterplan 2012-2020 with SME Corporation (under the Ministry of International Trade & Industry) as the focal agency for coordinating efforts across 14 ministries and the high-powered National SME Development Council (NSDC) headed by the Prime Minister of Malaysia. The Masterplan marked a pivotal shift toward an implementation approach through actionable High Impact Programs (HIP) for SME growth and development in Malaysia.

The SME Masterplan envisioned increasing the participation of SMEs in the national economy and set ambitious targets to attain by 2020, including increasing the contribution of SMEs to national GDP to 41 percent, employment to 65 percent, and exports to 23 percent. To achieve these objectives, the government developed four key strategic goals:

- a) Increasing the rate of business formation;
- b) Expanding the number of high-growth and innovative SMEs;
- c) Raising the productivity of SMEs; and
- d) Intensifying the rate of formalization

The Masterplan did yield results as in 2020, SMEs (including microenterprises) account for approximately 97.2 percent of business establishments in Malaysia. However, SMEs contribution to 48 percent of national employment is well below the target of 65 percent. The contribution of SMEs of 38.2 percent to the overall GDP is laudable, but they only contribute to 13.5 percent of the nation's overall exports as larger firms dominated the export market.

While Malaysia has made significant progress in terms of SME development through its Master Plan, the ambitious targets coupled with generic objectives have somewhat hindered the catalyzation of overall SME productivity and creation of niche markets in the global value chain. SME Corp. has established itself as a 'one-stop shop' for SME solutions, but the agency finds itself overwhelmed in coordinating 150 programs a year for SME Development. In 2019, the Government introduced Malaysia's 'National Entrepreneurship Policy 2030'.

The six core strategies embedded in the policy are:

1. Inculcation of entrepreneurship at every level of society
2. Optimizing regulatory systems and access to financing
3. Stimulating integrated development and holistic entrepreneurship
4. Spurring growth through innovative enterprises
5. Improving capabilities and performance of SMEs
6. Internationalizing high-growth companies.

COVID-19 pandemic has impacted Malaysia's economic growth trajectory along with other countries. In terms of the overall SME development spectrum, Malaysia seems to have been too ambitious in its planning. The generic objectives along with a plethora of programs lead to coordination challenges. Without a focus and actionable strategy, the Policy becomes diluted. Furthermore, other countries (including the Czech Republic, Vietnam and the Philippines) tend to have programs with 'more distinct and focused intermediate objectives, such as skills formation and non-R&D innovation, compared to Malaysia, where the programs tend to have more generic objectives.' Malaysia's SME Development Strategy needs to be more 'targeted and focused' in alignment with its overall economy, especially in the post-COVID-19 context. Recalibration and a pivot towards digitalization of SMEs need to be prioritized as the government is faced with dwindling fiscal space.

The case of Malaysia offers useful insights for Pakistan which has recently introduced its National SME Policy in December 2021. As Sindh delves into the preparation of 'SMEs Competitiveness Strategy', it is imperative that the province prioritizes actionable and high-impact programs that are feasible and would yield good returns on investment.

The capacity of SME-support institutions in Sindh and in Pakistan must be carefully assessed during the design phase of the strategy to avoid the pitfalls of incorporating unattainable goals that would be difficult for the institutions. Public-private partnerships need to be effectively leveraged to ensure that Sindh's SME Competitiveness Strategy translates into substantial economic development for the province and the country.

(World Bank Group – Malaysian SME Program Efficiency Review, 2022)

¹³ World Bank Group. (2022, March). Malaysian SME Program Efficiency Review. Open Knowledge Repository.

Conclusion

With the recent launch of Pakistan's National SME Policy 2021 and the ongoing process of formulation of 'Sindh SMEs Competitiveness Strategy', there is a vast fertile ground for SMEs to prosper and flourish. The Federal and Provincial Government needs to work on creating an enabling environment for SMEs to ensure that private sector led growth spurs the economic development.

Pakistan and Sindh can catalyze the economic transformation by simply providing a conducive environment for SMEs. The recent growth of IT exports from Pakistan is laudable, but there is still a huge untapped economic potential that can be successfully achieved with smart, coherent and sequential reforms to foster the digital economy. The momentum of regulatory reforms for facilitating 'Ease of Doing Business' must continue unfettered in close coordination with the private sector. Linkages across academia, industry, and government must be strengthened to ensure that the economic priorities are aligned. Research & Development is the most important driver of innovation in a country, but is severally lacking in Pakistan. Restructuring of incentives in Higher Education Institutions (HEIs) is urgently needed to improve the quality of research that becomes the impetus for innovations across the economy. Vertical and horizontal coordination and integration across the public and private sectors can prove to be transformational by setting sectoral priorities for the growth of enterprises that foster domestic economic growth and create a niche market in the global value-chain.

Recommendations

- Reorient the focal government departments, like Industries & Commerce Department, as SME-support institutions and functionalize the 'Commerce' Directorate of the Department to streamline provincial commerce & trade imperatives
- Restructure core institutions, like Sindh Small Industries Corporation, to function as the key enabler for SMEs development in the province
- In addition to mainstreaming and operationalizing the 'Sindh SMEs Competitiveness Strategy' after it is approved, earmark sufficient resources for instituting a dedicated 'SMEs Strategy Management Unit' with Six thematic Working Groups on the implementation front
- Prioritize capacity building of institutions, like Sindh Small Industries Corporation, to facilitate the provision of demand-based business development support services
- Coordinate effectively with the core SME-promoting agency of Pakistan, Small & Medium Enterprises Development Authority (SMEDA), to help ensure the adoption of best practices and streamlining SME-development initiatives
- Create and empower public-private platforms for SMEs Development to ensure that the momentum of pro-SME reforms continues with continuous input from the private sector

- Digital transformation needs to be proactively pursued for both SME-support institutions, in public & private sectors, and for SMEs
- Strengthen the evidence-base to assess the business development support (BDS) service needs of SMEs and evolve a 'match-making' digital interface between BDS service providers and SMEs
- Develop 'Skills Development' initiatives, like Ministry of IT's DigiSkills program, to help upskill the youth and women with the capability to earn from home
- Evolve e-Governance models, like Sindh Business Registration Portal, to facilitate businesses in easily navigating the regulatory system of the province
- Foster an ecosystem of rigorous and robust 'Research & Development' institutions that incentivize quality research for catalyzing innovations
- Evolve a 'Triple-Helix Model' of Innovation such that Academia, Industry, and Government work in unison to create phase-wise SME development plans with sectoral priorities to ensure that the resources are efficiently spent on the growth of competitive SMEs
- In light of the recent floods, an extensive damage assessment of the Industrial Estates, Industrial Parks, and overall SMEs in Sindh needs to be undertaken. Government should design dedicated subsidy programs for SMEs to not only mitigate the impact of damage due to the floods, but also incentivize innovations to improve the competitiveness, resilience and sustainability of the enterprises in Sindh