





# Policy Recommendations for Improving Business Ecosystem to Start, Formalize & Grow Businesses in Peshawar



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## CGPA

Centre for Governance and Public Accountability (CGPA) is a not-for-profit, non-governmental, non-partisan, civil society organization working for the promotion of public accountability and good governance. CGPA was established in 2011, and registered in January 2012 under the Societies Registration Act, 1860. CGPA is governed by a Board of Directors, comprising of seven members.

The establishment of CGPA stems from the realization that failure of governance and lack of public accountability have caused serious damages to the trust between state and society in Pakistan. The importance of good governance and public accountability for stabilization and conflict transformation cannot be overlooked. This is specifically true about the areas which are worst affected by conflict in Pakistan.

CGPA approaches the issue of conflict and underdevelopment through re-inaugurating citizens' trust on state. This is done through articulating and promotion of citizens' voices on key governance issues and strengthening state response to citizens' grievances. Generating active and responsible citizenry is central to CGPA strategy for public accountability. CGPA believes on constructive engagement with state entities for promotion of organization's objectives.

## VISION

Just and equitable Society in Pakistan where every citizen can lead their lives to full potentialities.

## PROGRAM AREAS

1. Open Governance, Right to Information
2. Rule of Law, Access to Justice and Police Reforms
3. Democratic Governance
4. Budget Accountability and Social Audits
5. Decentralization & Devolution
6. Promotion of Pluralism, Peace and Stability

## CGPA STRATEGY OF ENGAGEMENT

Under all programmatic areas, CGPA engages with stakeholders, policy community, and citizens through:

1. Policy Research and Advocacy
2. Awareness Raising
3. Capacity Building

## SMEDA

"Small and Medium Enterprises Development Authority (SMEDA) is an autonomous institution of the Government of Pakistan under Ministry of Industries and Production. SMEDA was established in October 1998 for encouraging and facilitating the development and growth of small and medium enterprises in the country. SMEDA is not only an SME policy-advisory body of the government of Pakistan but also facilitates other institutional stakeholders in addressing their SME development agendas."

## SMEDA OBJECTIVES

- Formulate Policy to encourage the growth of SMEs in the country and to advise the Government on fiscal and monetary issues related to SMEs.
- Facilitation of Business Development Services to SMEs.
- Facilitate the development and strengthening of SME representative bodies associations/chambers.
- Conducting sector studies and analysis for sector development strategies.
- Strengthening of SMEs by conducting and facilitating seminars, workshops and training programs.
- Donor assistances for SME development of SMEs through programs and projects.
- Identification of service opportunities on the basis of supply/demand gap.

## PROJECT

Mobilizing Economic Reforms to keep the Critical Space Open in Khyber Pakhtunkhwa introduction

## PROJECT OBJECTIVES

- ◆ To support the market-oriented think tanks & civil society in advancing solutions to challenges of governance & local economic development
- ◆ Provide technical support in facilitating the economic development through inclusive approach
- ◆ To engage Peshawar business community & policy makers from the government for identifying the key barriers in starting, formalizing and growing business in Peshawar
- ◆ Formation of Peshawar Prosperity Five Years Plan
- ◆ Formulate solutions to overcome identified barriers in form of policy reform recommendations or interventions
- ◆ Target Group for this project is Micro, Small & Medium Organizations (MSME)

## METHODOLOGY

PPDs as a Participatory Information Gathering Tool:

Public Private Dialogue (PPD) is a structured & consultative endeavor to bring private business community and policy makers from government sector on the same table to discuss the policy matters pertaining to business ecosystem in order to mend and improve.

PPD is inclusive and participatory policy making approach which enables policy makers not only to develop most suitable policies that are aligned to the interest of business community but also to

improve trust between government and business community. Besides the above stated benefits, PPDs provides government to better govern while ensuring transparency as well.

For the said purpose business community falling into MSME category has been invited along with the concerned government officials to discuss and formulate regulatory solutions. This series of PPDs has been conducted under the five thematic areas, namely legal, access to finance, entrepreneurship, infrastructure and trade & exports. CGPA also ensures participation of the academia to share their latest insights from the research with the PPDs participants so that a link between academia and industry is being established and formalized. It was also ensured that representatives from the women-owned businesses were invited for their specific issues and solutions to remove their issues.

Each PPD was documented with all the discussion took place during the session. Issues and probable solutions were separately mentioned.



## STRUCTURE OF THE PPDs

In the first PPD, facilitated jointly by SMEDA and CGPA, the participants finalized the themes for upcoming PPDs. A list of themes based on the literature review on barriers to ease of doing business in Peshawar and KP were shared with the PPD participants. The participants agreed with the broader themes identified from the literature review and also added another theme on barriers faced by traders, exporters and importers.

For a specific theme, there were two rounds of PPDs which were jointly facilitated by SMEDA and CGPA representatives. In the first round, mainly stakeholders from various clusters of industry and businesses operating in Peshawar were invited and asked to bring key challenges and barriers to the table on ease of doing business for their respective clusters. Specific examples were shared which highlight the practical issues faced by each cluster of industry while operating their business. In the second round of PPD on the same theme, key stakeholders from the concerned government departments were also invited to discuss those barriers and highlight the actions taken already. The second round of PPD on the same theme brought out a consensus on the recommendations to be put in the final report to be submitted to the concerned government departments. An advocacy campaign will be also launched by CGPA where the findings of the study/PPDs will be shared with key stakeholders.

### Review of National SME Policy 2021 & Other Literature

Before consulting key stakeholders through PPDs, the research team reviewed the National SME Policy 2021 which was published in 2020 by the Small and Medium Enterprises Development Authority (SMEDA) of the federal ministry of Industries and Production. SMEDA is the institutional organ which operates at the federal and provincial level for promotion and facilitation of SMEs in the country. The purpose of reviewing the policy document on SME was to identify the common thematic areas which will be brought under discussion in our proposed PPDs.

National SME Policy 2021 did a great situation analysis by surveying over 200 SMEs across four provinces of Pakistan coupled with Key Informant Interviews (KIIs) and FGDs with key

stakeholders. The policy framework as described in the policy document is based on the following two key pillars;

Pillar 1: Reforming the Policy and Regulatory Environment on SMEs

Pillar 2: Addressing Demand and Supply Side Market Constraints faced by SMEs

As per the situation analysis conducted for the National SME Policy, key barriers for SMEs in general and women-owned SMEs in particular were identified for the SME sector in Pakistan;

- ◆ Access to finance issues, especially for women-owned SMEs
- ◆ Issues related to unavailability of skilled Labor, especially for women-owned SMEs
- ◆ Unavailability of industrial space
- ◆ Access issues to modern machinery & technology
- ◆ Issues in R&D and product development issues
- ◆ Insignificant linkages of SME sector with universities TVETA institutions
- ◆ Disproportionally higher costs of regulatory and tax compliance
- ◆ Predatory attitude of government departments
- ◆ Lack of diversification in manufacturing related SMEs
- ◆ Inadequate infrastructure facilities for the SME sector (Industrial Estates, Roads, Electricity, Gas etc) are limited for the SME sector
- ◆ SMEs operate in congested residential places without suitable infrastructure thus limiting the growth of the SMEs

Other independent research outputs reviewed for the current study also indicate most of the above as key constraints. Given the above situation analysis, the national SME policy document then propose the following broad contours of the policy framework as policy prescriptions;

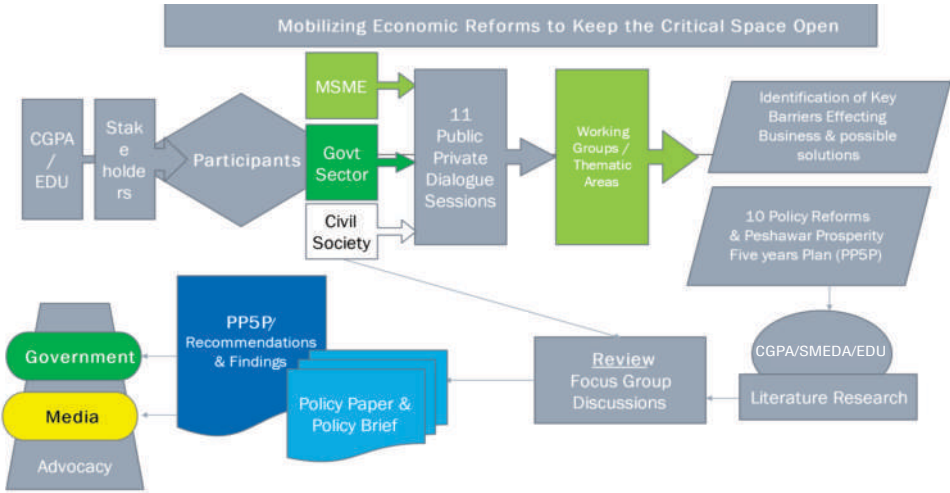
1. Improving Macro Policy and Regulator Environment
2. Supply Side Challenges
3. Demand Side Challenges
4. Institutional Mechanism for Implementation

Based on the above four broad categories, the SME policy then came with recommendations on the following key policy areas;

- ◆ SME definition and application
- ◆ Regulatory & tax environment around SMEs
- ◆ Addressing SME Supply Side Challenges
- ◆ SMEs Access to Finance; Access for finance for women-owned SMEs
- ◆ Skills, HR and Technology
- ◆ Infrastructure
- ◆ Entrepreneurship, Innovation and Incubation
- ◆ Business Development Services
- ◆ Women Entrepreneurship Development
- ◆ Addressing SME Demand Side Challenges
- ◆ Market Access
- ◆ Public Procurement
- ◆ Institutional Framework
- ◆ National Coordination Committee on SMEs Development
- ◆ SMEDA Institutional Strengthening, Capacity Enhancement and Reforms

Most of the barriers and policy prescription identified in the National SME Policy came under discussion in our PPDs in Peshawar.

# PROJECT FLOW CHART



## THEMATIC AREAS

1. Legal (Registrations, NOCs, Taxes)
2. Access to Finance
3. Entrepreneurship
4. Infrastructure
5. Trade, Exports & E. Business



## RECOMMENDATIONS

Micro, Small and Medium Enterprises (MSMEs) provides for about 50% employment worldwide. The role MSME in Pakistan's economy in terms of its contribution to GDP, employment creation, and overall business growth cannot be overlooked. Given the contribution of MSME sector to Pakistan's economy, its revitalization in Khyber Pakhtunkhwa (KP) province is a must for generating economic activity and employment creation. Peshawar is the capital of Khyber Pakhtunkhwa province, a hub of economic activities and a major trading route with Afghanistan. Over the last two decades, Peshawar's economy was devastated by the terrorist incidents as the city was a front-line city in the War on Terror. The city has witnessed a plight of both financial and human capital due to terrorism related incidents. The overall precarious law and order situation has impeded business activities in the city. Current policy brief is the result of a detailed study conducted by CGPA and SMEDA involving key stakeholders in Public Private Dialogues (PPDs). A total of 11 PPDs were conducted in which key stakeholders comprising of representatives from different business clusters/association/chambers, startup entrepreneurs, academia, public sector and civil society. Following are the glimpse of top 10 policy recommendations identified during the PPDs.

## 1. ENTREPRENEURSHIP DEVELOPMENT

There is a general lack of collaboration between industry, academia, research institutions and government departments which is hindering development of entrepreneurship in KP. Government should introduce a joint platform where responsible government institutions, industry, academia, and research institutes can combine their synergies to boost businesses innovations, discuss their problems and arrange financially viable projects. Boot camps for new entrepreneurs should be arranged by relevant government departments and link them with investors for seed funding.

Government should create an online repository with the help of academia of aspiring entrepreneurs and investors so that they can be connected with one another for collaboration. The platform can serve as a learning center for students from where they can develop and workout their projects. There is a need for academic research which can help improve the actual performance of industry and various products developed by the industry. Academia should undertake Demand-Driven action research while the demand should emanate from the practical issues faced by the industry. Government and experienced entrepreneurs should encourage and handhold the aspiring entrepreneurs.

Government should introduce internship programs for students where students can serve as internee in various industries and businesses to gain entrepreneurial experience and equipped them with regulatory, evaluation skills and technical knowledge.

## 2. AVAILABILITY OF ADEQUATE INDUSTRIAL INFRASTRUCTURE

The entrepreneurs are facing difficulties to acquire industrial plots for new business establishment due to deficient plots in industrial estates in Peshawar. Therefore, the businesses owners are compelled to establish and operate their businesses within different housing localities. This creates hurdles for the local residents and also are not commercially viable for entrepreneurs due to lack of basic business amenities (Infrastructure, utilities, market access etc). Further, they are also facing long hours electricity breakdown and expensive tariff which affect their operations adversely.

There is dire need to establish new state of the art industrial zones around the Peshawar city to cater for the growing demands of industrial plots. Keeping in view the local and export potentials, it is highly desirable that dedicated zones must be created for marble & granite, furniture, leather footwear, honey processing & packaging, carpet weaving and Gems Clusters with availability of common facility centers for training and use of modern machinery and common display/other facilities. Most of the industrial plots offered in industrial areas are 1 kanal or more which discourages MSME sector investors. The government should offer small plots as well in order to facilitate MSMEs sector. Government should ensure establishment of environment friendly green industrial areas and address inadequate waste disposal arrangements causing huge degradation to the city's environment.

There is a strong perception among business community that real estate investors are holding industrial plots for investment purposes. The government should introduce and ensure strict compliance to discourage such practices. In this regard, plot aspirants must be screened properly at application and later stages to filter out non-serious investors and encourage real businesses.

The current industrial zones are old which cannot accommodate emerging infrastructure needs, both in terms of space and allied facilities. The old industrial



estates need to be revamped by improving facilities like roads, electricity, water and telecommunication facilities. It is identified that new connections of electricity and gas are very difficult to obtain for new businesses and are available on exorbitantly high cost. Government needs to prioritize the provision of electricity and gas connection to the industrial estates for facilitating SME sector investors. The industrial zones should be exempted from the load-shedding and shortages of electricity and gas.

### 3. IMPROVING AWARENESS REGARDING RELEVANT LAWS, RULES AND REGULATIONS

One of the major issues faced by business community is lack of awareness regarding laws, rules/regulations and incentives schemes announced by the governments. SMEs have less access to information and communication channels; and they face difficulties complying with labor, environmental and social laws. The successive governments introduce different laws, rules/regulations and SROs. However due to lack of knowledge, business community falls short of requirements which hinders their performance.

Government departments should organize awareness seminars/workshops for business community, investors from the MSME sectors for awareness and use ways and means for wider dissemination of information. The chambers of commerce and industry should be taken on board for such drive. For creating understanding, different forums and helpdesks must be established to educate business community. Print, electronic and digital media must effectively be used for circulation of information. Stakeholders from the business community proposed formation of a joint working group consists both of the business community and government officials to discuss and resolve issues regarding various government procedures and policies. The group should hold regular meetings with a clear time bound agenda to resolve the issues faced by business community.

### 4. SIMPLIFIED LAWS, RULES AND REGULATION

One of the major problems faced by the business community is compliance to rules and regulations by different government departments. SMEs at time have to deal with different federal and provincial government departments (income tax, sales tax, professional tax, town/municipality tax, EOBI, ESSI, Environment department, police etc) in addition to their core business functions. Thus, it sometimes very difficult for SMEs to concentrate on their core business issues and they are rather stuck in compliance. Most SMEs lack financial and human resources, and it is very difficult to fulfill all the requirements while any non-compliance can lead to their business closure or penalties. There are instances where SMEs are harassed by government authorities unlawfully which also discourage entrepreneurship. Thus, there is a strong need to introduce unified tax regime where SMEs have to avoid dealing with multiple departments.

The government should take steps to facilitate businesses who file tax returns so that the existing filer entities have ease of doing businesses as compared to non-fillers. Government should provide incentives to businesses that are registered and paying taxes regularly. The trust deficit between government and business community should be bridged to encourage tax culture in the country.

There is also need for rationalization taxes on "Business Name Boards" and additional tax on property rent which is creating hindrance especially for furniture businesses. Industry stakeholders suggested FBR to simplify the procedure so that self-filing can be promoted without the help of financial consultants who charge heavy fee which cannot be afforded by the MSMEs. Khyber Pakhtunkhwa Revenue Authority (KPRA) taxes on services should also be rationalized since such enforcement of multiple taxes from various departments makes business difficult and non-profitable. Multiple taxation leads to avoiding taxes and remain a hurdle in broadening the tax net.

The aggressive/harassing environment should be stopped by educating and training government employees about dealing with businesses & trades. An induction level training for their officials and staff is needed so that businesses don't feel threatened. An SOP with consultation of business community should be designed and strictly implemented.

Business community proposed that the submission of property tax should be made online so that involvement of personal contact is minimized. It can remove the discretionary powers of the tax officials and will lead to ease of doing business. The government should provide tax exemption to the new start-ups and women-owned businesses for incubation periods. This will encourage new businesses to start and will pave the way for more tax collection in future.

## 5. MARKETING AND LINKAGES DEVELOPMENT

There is general lack of marketing strategies for SMEs in Peshawar. While their products are of good quality, lack of marketing strategies has hindered to sell their products to rest of the country and in international market. Stakeholders from both the business community and government emphasized the need for the capacity building of trade and business oriented SMEs in marketing and packaging of products. A close coordination between government departments, training institutes and businesses need to be institutionalized so that these gaps can be filled.

Government of KP in consultation with SMEDA and relevant businesses should develop Business Market Development Unit in the relevant departments which may encourage product promotion and resolve issues faced by producers and traders. There is a need for holding regular exhibitions and workshops to promote local products.

## 6. CAPACITY BUILDING OF SMES

The SMEs in general don't possess the necessary skills and expertise in running the affairs of the business which so often lead the business failure. The opportunities for developing business skills and vocational education are very limited. The lack of financial resources further diminishes the chances of training and education for SMEs. Therefore, there is strong consensus that the government should facilitate in building capacities of SMEs to make them profitable.

Technical Education and Vocational Training Authority (TVETA) needs to be revitalized with aggressive marketing and information campaign to enlist workforce and aspiring businesses. New

modern and need based trades should be introduced in its various programs and should be properly advertised on mainstream and social media.

Focus should be made to train the SMEs on e-commerce as the local SMEs can avail potential of capturing online business opportunities. Successful e-commerce traders should be supported by government to conduct trainings on online selling platforms/portals.

## 7. EASY ACCESS TO FINANCE

Access to finance is very crucial for the growth and profitability of SMEs. It allows entrepreneurs to innovate, improve efficiency, expand to new markets, and provide jobs. Banks are generally not lending business loans to SMEs and they are compelled to avail loans from informal sector at high interest rates. Though there are a few bank loan schemes yet having stringent terms & condition and other documentation requirements which only large businesses can fulfill. SME sector is always at a disadvantageous position in terms of access to finance as they lack collaterals and cannot provide documentation requirements. Stakeholders from the business community has strong demand from SBP and government officials to instruct commercial banks to offer at least 25% of deposits collected in the Khyber Pakhtunkhwa.

Provincial government, SMEDA and Federal Government should design tailored-made grant/loan schemes for start-ups and women-owned businesses. It is advised that chambers of commerce should be consulted before designing different schemes and shall also include components for training and handholding. The loan must be further categorized/tailor made keeping in mind the financing requirements of the SMEs. Special attention should be given to women owned start-ups to harness their full potential.

Banks and micro financing institutions should be encouraged to introduce cluster/association-based lending schemes in which involving personal guarantees of office bearers without any collateral. This practice is successful and followed in many countries providing easy financing solutions to SMEs.

There is a communication gap between banks and private sector which needs to be removed. Banks should be asked to improve its customer outreach and awareness level about bank schemes with special focused on loan procedure and documentation requirements. Bank should train their staff on customer care and facilitation.

Commercial banks take long time to process loan applications and sometime the urgent financing requirements of SMEs are not met on time. Commercial banks should be advised to process the loan application at the local branch or at least at regional level and customer queries should be properly addressed. It has been recommended that SBP should advise commercial banks to create online tracking system, so that customers can track their application status online.

In case of agriculture loans, it was noted that Khyber Pakhtunkhwa revenue department taking very long time in issuing of passbook which is basic requirement for agriculture loans. The requirement of passbook may be eliminated, and loan shall be provided by personal guarantees.

## 8. EASE IN LICENSING, NOCS, REGISTRATIONS, DOCUMENTATION

To support and promote the SMEs sector there is a strong need to facilitate and incentivize them through easing government regulatory requirements for startups. Government departments take very long-time procedures for issuance of licenses, NOCs and registration of new enterprises.

The SME policy 2021 approved several incentives to ease the process of registration and acquiring NOCs. For instance, Time-Bound approval/NoC issuance (Max 30 days) for medium/high risk SMEs, self-declaration by SMEs on regulatory compliance and e-inspection portal to monitor and self-verification of onsite inspections visits.

Some SMEs are facing difficulties dealing with overlapping inspections and notices from different government departments. It is recommended that single online window may be

created for government departments to avoid overlapping activities and inspections. Rules regarding social security and EOBI payments should be made simplified for common man understanding.

"One Window Operation Facility" should be initiated by the government to reduce start-up costs and increase time efficiency through its business concierge, professional and technical services. The government should have well trained, proactive team of professionals and experts from different departments.

## **9. INTRODUCTION OF MODERN TECHNOLOGY, TECHNICAL AND VOCATIONAL SKILL**

The role of technology in business caused a tremendous growth in trade and commerce. Business concepts and models are revolutionized as a result of the introduction of technology. Technology provides a faster, more convenient and more efficient way of performing business transactions. Some aspects of technology in business include modern machinery, accounting systems, management information systems, point of sales systems, and other tools supporting business function.

Government should support the SMEs in introduction of technology through grant schemes and common facility centers. SME should be provided inter provincial and international exposure visits, where they can get familiar to best practices. The government should digitize various process regarding registration, self-evaluation, self-assessment, payments of fee and taxes so that physical interaction with officials of various departments is minimized and venues for corruption can be closed.

Information Technology has great impact on businesses in Pakistan but there is still room for improvement. Businesses need to fully embrace technology to be able to enjoy the impact to the fullest. Information technology institutes and training centers must be strengthened to accommodate the growing demands.

## **10. IMPROVING BUSINESS ECOSYSTEM FOR WOMEN ENTREPRENEURS**

With the help of SMEDA, Trade Development Authority of Pakistan (TDAP) and KP Department of Industries and Commerce, women entrepreneurs should be encouraged through continuous handholding in various trades.

Women business incubations and display facility should be established to promote products made by female entrepreneurs. Women entrepreneurs should be provided with national and international exposure visit. International donor organizations should be engaged by the provincial government

to facilitate provision of small grants for women entrepreneurs. Technical training of women entrepreneurs and skill development for women in handicraft and other home-based businesses should be prioritized. The women entrepreneurs should be prioritized in loan and grant schemes.

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