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PART II

Statutory Notifications (S.R.O.)

GOVERNMENT OF PAKISTAN
MINISTRY OF INDUSTRIES AND PRODUCTION

NOTIFICATION

Islamabad, the 1st February, 2022

S.R.O No. ./2022 - In pursuance of Federal Cabinet's decision in Case No.ECC1214/41/2021 dated 14-12-2021, the competent authority has been please to notify the attached SME Policy, 2021, for general information.

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SME POLICY 2021



Small & Medium Enterprises Development Authority
Ministry of Industries & Production
Government of Pakistan



National SME Policy 2021

EXECUTIVE SUMMARY

The SME Policy 2021 provides a set of recommendations to support SME growth as part of a holistic and integrated framework. It is based on analysis, in light of both economic and constitutional changes of the past decade, including evidence gathered from a field survey of over 200 SMEs and interviews with relevant private and public sector entities. In formulating these recommendations, the experience of other countries and best practices in the domain of SME Policy have been taken into consideration. The objective of the Policy is to trigger SME led private sector growth, which is geographically and socially inclusive, generates countrywide employment, improves business competitiveness and increases exports. The guiding economic principles behind the suggested interventions are to rectify market failure arising from externalities and information asymmetries. These include access to finance, regulations and tax regimes, skills, industrial infrastructure and promoting entrepreneurship culture, amongst others. The Policy framework is based on two central pillars – **reforming the Policy and regulatory environment** and **addressing SME market constraints, both demand and supply side**. Within the Policy and regulatory environment, the focus is on creating enabling and business friendly policies, regulatory simplification and instituting a regime that allows easy entry & exit of firms and start-ups to flourish. The supply side focuses on fiscal and monetary incentives, SME facilitation, entrepreneurship and innovation, credit and skills and infrastructural provisions necessary for SME growth. Demand side recommendations are made in light of issues of market access and the role of public procurement in creating demand for SME products and services. The Policy recommends adoption of a unanimous SME definition by all stakeholders and issuance of SME size certificate (based on voluntary registration on the SME Registration Portal) that allows for identification of SMEs and supports building a National SME Database.

PREAMBLE

The Government of Pakistan is undertaking a concerted effort to promote industrialization, innovation, enterprise development and export growth in the country. This effort contributes to the government's target of creating jobs and catalysing economic growth. Pakistan, with its large and growing population, natural resource reserves, geo-strategic location, and improving global connectivity, has the necessary elements to enhance its role as a regional hub for investment, manufacturing and business.

The majority of manufacturing and business activity in Pakistan takes place in SMEs; therefore, growth in the SME sector contributes directly, and substantially, to overall economic growth. Facilitating rapid growth in the SME sector is consequently an important pillar of the government's economic development strategy. It is estimated that there are over 5.2 million¹ SMEs in the country. Labour force statistics show that 72% of non-agriculture labor force² is employed in the informal sector, which is attributable to SME sector employment. The sector contributes an estimated 40% to GDP³ and 25% to exports⁴. Major exporting sectors such as textiles, IT & ITES, agro & food processing, light engineering, surgical goods, sporting goods, leather, footwear and furniture, etc. mostly comprise small and medium businesses. Similarly, within the domestic economy, SMEs contribute significantly through wholesale and retail, ceramics, construction and hospitality sectors.

POLICY FORMULATION PROCESS

The formulation of National SME Policy 2021 is based on primary evidence gathered through a field survey consisting of data collection and interviews of over 200 SMEs spread across 11 cities. The survey also included extensive discussions with public sector stakeholders and other financial and non-financial institutions that engage with SMEs. Finally, the Policy is also based on engagement with academia and think tanks, in-depth review of current policy literature and thorough analysis of international good practices and their adaptability to the local context.

SITUATIONAL ANALYSIS – CONSTRAINTS TO SME GROWTH

While the SME universe in Pakistan is diverse - manufacturing, services and trading enterprises - there are some salient features, characteristics and constraints, identified in literature and during the field survey evidence, which are generalizable across sectors. These horizontal issues and constraints are summarized below:

- I. A prominent feature is the SME distribution, which is sharply skewed in favor of micro and small enterprises, with limited amount of invested capital. These enterprises have minimal access to formal financial and other resources and services. The labor available to SMEs is, usually unskilled. Access to technology and capacity for in-house research and product or service development is

¹ Extrapolated from data of Census of Economic Establishments 1988 and 2005

² Labour Force Survey 2017-18

³ Pakistan Economic Survey 2010-11

⁴ Pakistan Economic Survey 2009-10

limited. Linkages between SMEs and technical universities and vocational training institutions are ineffective. As a consequence of these constraints, vast majority of SMEs across services and manufacturing are stuck in the low end of the value chain and supply primarily to the local market.

- ii. Small enterprises face disproportionately higher costs of regulatory and tax compliance, which creates an incentive for small enterprises to remain informal or unregistered. The interface with government departments is perceived by SMEs to be predatory and costly.
- iii. SMEs within manufacturing that are relatively more competitive and export oriented have been historically concentrated in sectors such as textile and apparel, light engineering, surgical and sports goods. Mostly, Pakistan's relative export share has been in low value-added products. The business and policy environment within which Pakistani SMEs operate has not encouraged inter-firm collaborations. This has restricted the ability of SMEs to scale up, diversify and export.
- iv. The infrastructure provision (industrial estates, roads, electricity, etc.) for SMEs, especially those in the manufacturing sector, is deficient and there exist major intra-provincial and inter-provincial disparities. Across the country, most SMEs in urban areas are located in congested residential spaces without suitable infrastructure. This is not only a binding constraint for enterprises to grow, but is a serious environmental hazard for residents.

POLICY DIRECTION

A major thrust of the National SME Policy 2021 is to ease the cost of doing business and provide a conducive environment that facilitates enterprise growth. While the National SME Policy 2021 addresses most of the aforementioned horizontal constraints, it also attempts to harness the opportunities that a growing population and a large market offers. The main impetus of growth in recent years has come from the services sector, which is now the largest contributor to Pakistan's GDP. Within services, IT & ITES and e-commerce are SME sectors with high returns, inter sectoral linkages and spill overs which can be exploited. Along with that, agro and food processing, hospitality and tourism are sectors which can generate substantial income, employment and exports in the coming years. Finally, investments in energy, infrastructure and industrial parks under CPEC will bring about opportunities that need to be capitalized by SMEs. The planned Special Economic Zones (SEZs) is an opportunity for joint ventures and sub-contracting with local SMEs in sectors such as garments, light engineering, auto parts, agro-processing and others.

Finally, the National SME Policy 2021 recognizes the enormous potential of women in contributing towards job creation and income generation in the economy. Women entrepreneurs face a host of challenges ranging from access to credit, selling their products or services in the market, to registering businesses and interacting with government departments. The Policy is cognizant of these constraints and puts forward specific recommendations and programs to facilitate women entrepreneurship in the country.

VISION AND MISSION

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

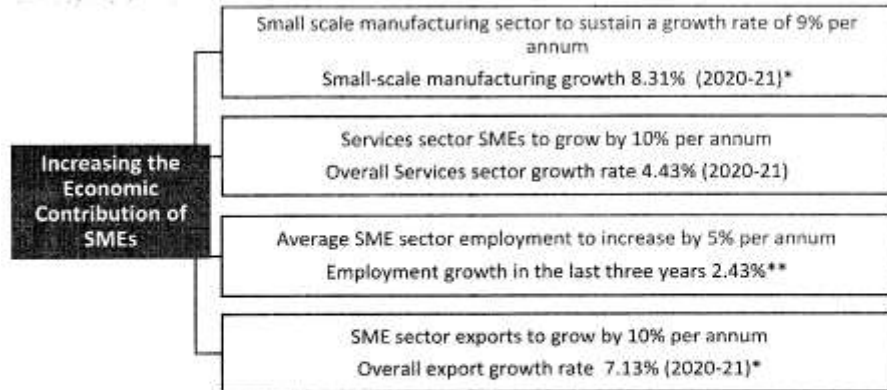
POLICY FRAMEWORK

The National SME Policy 2021 is structured in a comprehensive framework to support the Government in meeting the vision and mission of the Policy. The framework divides the Policy prescriptions in four key domains:

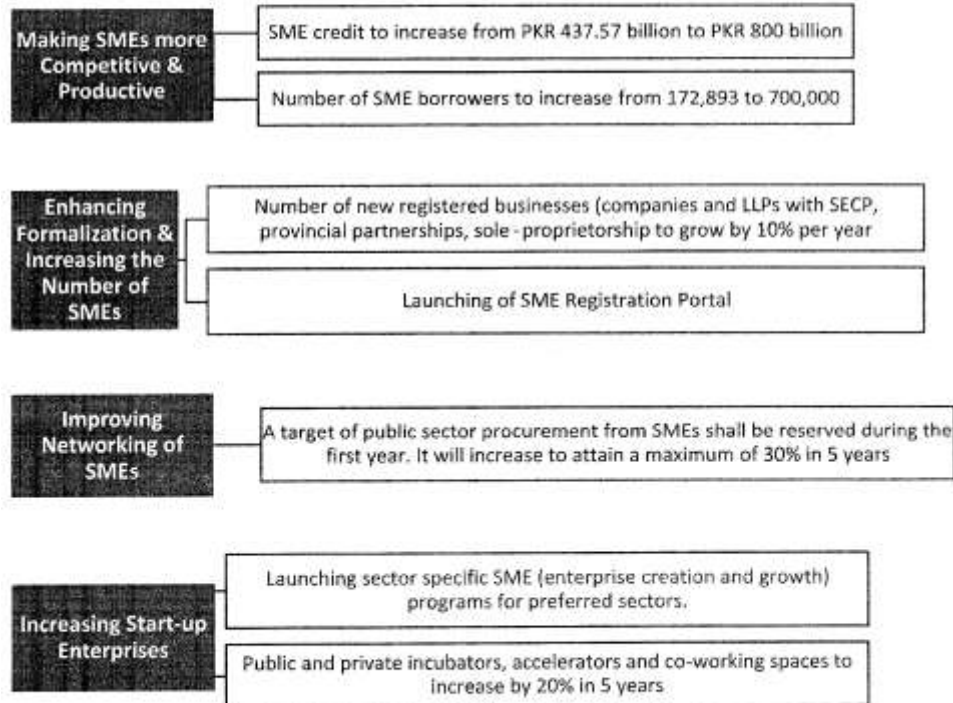
1. **Macro Policy & Regulatory Environment:** The Policy provides broader and SME specific interventions that the Government shall undertake to ensure a more stable macro environment conducive for SME growth. The Policy puts forward a strategy of reform to reduce the regulatory burden that impacts the cost of doing business. This domain covers areas relating to trade, monetary and fiscal policies, as well as compliance and regulatory reforms.
2. **Supply Side Challenges:** The Policy considers the fact that due to market failures, SMEs remain deprived of key inputs that are necessary for growth and competitiveness. This domain covers the provision of quality and affordable business development services, enhanced provision of suitable credit, availability of productive human capital, space and opportunities for innovation and entrepreneurship and sustainable infrastructure. The Policy lays the foundation for undertaking sectoral interventions across high growth economic sectors to address supply side challenges.
3. **Demand Side Challenges:** The Policy supports SMEs in improving local and international market access and increasing demand opportunities for their produce and services. The Policy focuses on helping SMEs gain access to international and domestic markets, link strongly with value chains of large firms and become suppliers to the government.
4. **Institutional Mechanisms:** The Policy places a strong emphasis on strengthening the voice and representation of SMEs in the country and provides an institutional mechanism to ensure comprehensive implementation, with all government decisions being made sensitive to the requirements of SMEs.

TARGETS OF THE POLICY

The National SME Policy 2021 sets the following Key Performance Indicators to be achieved by 2025:⁵



Source of Baseline Statistics: *Provisional Pakistan Economic Survey 2020-21 and **Labour Force Survey 2017-18



⁵ The targets have been proposed at two levels. The outcome level targets provide a view on the contributions expected by SMEs at the end of the five-year period. The output targets are extracted from key policy initiatives prescribed in the policy.

KEY POLICY RECOMMENDATIONS

1. SME Definition & Application

Principally, the purpose of defining any enterprise category is to identify enterprises for interventions targeted at offsetting the disadvantages and market failures that accrue specifically due to their size. These interventions can include regulatory exemptions, differential taxation treatment and direct interventions, such as, subsidized business development services and preferential access to public procurement and finance. Therefore, defining SMEs is an important element of the Policy.

An SME definition is also useful to collect and organize data to understand the role of SMEs, to evaluate the impact of SME policies and to provide information for SME support program design. In addition, a nationally accepted SME definition can help coordinate efforts across multiple agencies such as Small & Medium Enterprises Development Authority (SMEDA), State Bank of Pakistan (SBP), Small Industries Corporations (SICs), Federal Board of Revenue (FBR), Securities & Exchange Commission of Pakistan (SECP) and others, by ensuring that the term "SME" refers to a common and easily understood metric.

The most common variables used to define SMEs globally are the number of employees, assets, and turnover. The Government will ensure that a single definition of SMEs is adopted across Pakistan. It will also, at regular intervals, review the effectiveness of and issues with the definition and agree on refinements, if required. The Government of Pakistan will revise the SME Definition through notification in the official gazette, from time to time, as may be required. Given below is the National SME Definition to be adopted across Pakistan:

SME Definition

Enterprise Category ⁶	Criteria
	Annual Sales Turnover
Small Enterprise (SE)	Up to PKR 150 Million
Medium Enterprise (ME)	Above PKR 150 Million to PKR 800 Million
Start-up	A small enterprise or medium enterprise up to 5 years old will be considered as Start-up SE or Start-up ME

2. Regulatory & Tax Environment

Legal and regulatory frameworks relevant to SMEs are many and include licensing and registration requirements, labor and employee related legislation, market entry and exit procedures, insolvency & bankruptcy provisions, contract enforcement, taxation rates and procedures, etc. The regulatory burden, whether related to registrations or statutes assigning levies, not only increases the cost of doing business, but also discourages businesses from full disclosure, to avoid falling into the complex maze of having to deal with multiple institutions and is an impediment to enterprise growth. Regulations of the Federal and Provincial Governments do not provide for a focus on SMEs that is in line with their specific needs. In order to create an environment that supports SME growth through regulatory reforms, the following measures for improving the business climate in the country will be undertaken:

⁶ An independent, for-profit, privately owned enterprise.

- i. The Government will, at national level and provincial levels, initiate and implement a process to refine the regulatory system through review, simplification, elimination and guillotine.⁷ This will result in a legally binding registry of rules and regulations. Rules, regulations and compliances that are not part of this registry will not be imposed on enterprises. In addition, a new system will be put in place to ensure that regulatory impact assessment is part of the approval mechanism for any new rules and regulations. All new regulations proposed will be approved conditional on the removal of pre-existing regulations of an equivalent cost to business. Reduced or delayed compliances will also be considered for new enterprises.
- ii. The Government, both at federal and provincial levels, will reduce the unnecessary intrusion of inspectors into business premises. A system will be designed by which enterprises self-report or have inspections through trade bodies in the first instance. A smaller sub-sample will be inspected by government departments. The other more subjective inspections, such as labor, etc., will be streamlined and the discretionary powers of all inspectors to shut down premises or impose immediate fines will be withdrawn. The payment of all fees and taxes will be made through e-challans. This will be an on-going reform process for ease of doing business.
- iii. An E Inspection Portal (for authorizing, scheduling, verification and validation, accessible to line departments and SMEs) will be established at federal and provincial regulatory departments.
- iv. A "No NOC / Self Declaration and Time Bound Approval" regime will be put in place for new SMEs, Expansion of business, and Balancing, Modernization & Replacement (BMR). Where applicable, a time bound regime for Registration, Licenses, Certificates and Other Permits (RLCOs) for SMEs will be instituted. Relevant departments will give a maximum of 30 days for issuing licenses and approvals, and a regime of 'deemed to have been approved' will be instituted if the processing time is exceeded and no objection is raised within the deadline. A Risk Assessment Model and /or other parameters will be deployed to determine the regulatory regime falling within a specific category of No NOC, Self-Declaration, and Time-bound approval. A sample based (maximum of 5%, Random Sampling Method) will be used, based on Risk Assessment Model, for inspection visits/compliance audits where required.
- v. FBR will consider launching a facilitative SME tax regime that will benefit selected service sectors such as IT & ITES.
- vi. FBR, Federal and Provincial Governments will consider consolidation, harmonization and amalgamation of taxes and levies rates, numbers and collection systems at provincial and federal levels.
- vii. FBR will consider gradual reduction in Withholding Tax with a corresponding increase in formalization and Sales / Income Tax Receipts.

⁷ Regulatory Guillotine is a formal trademarked approach that looks at the entire universe of regulations and assesses each one for necessity, legality, business ease and costs/fee. The regulations that are found to be unnecessary or illegal are immediately eliminated and those that are constraining business are rationalized.

- viii. Rationalization of import tariffs on raw materials, intermediate goods and machinery will continue to be undertaken, with a special focus on the SME sector, by the Tariff Policy Board. Any specific requirement for tariff rationalization will be taken up independently with the Tariff Policy Board.
- ix. The SME Policy recommends that the FBR may prioritize SMES for pending payments for sales tax and duty drawback refunds, e.g., simple filter for automated refund systems that process smaller refunds on priority basis.
- x. The government will establish bonded warehouses for import of key inputs such as plastic, steel, etc. The Competition Commission of Pakistan will enforce strict penalties on cartelization of commercial importers of raw materials.
- xi. The government will consider providing the category of small and medium enterprise a presumptive tax option.
- xii. Small Company will pay 20% corporate tax, as compared to 29% for large companies.
- xiii. The government will make efforts to design incentive schemes to channelize savings into equity finance.
- xiv. The government has already reduced the frequency of payment of taxes from 47 to 34⁸. It will further refine the process of tax collection by moving to e-challans and e-payments.
- xv. The Tax Ombudsman will be strengthened and a separate window for SMEs will be established with a time limit set for disposal of all complaints.
- xvi. The Securities & Exchange Commission of Pakistan (SECP) and Intellectual Property Office (IPO) Pakistan will facilitate registration of businesses by creating an online database of names, logos and patents respectively that can be checked in real time by firms when selecting a name.
- xvii. The Provincial departments of industries and SECP will host a single portal for on-line registration that automatically registers enterprises with selected agencies such as EOBI, provincial social security institutes, department of labor etc.
- xviii. A single unique identifier will be issued to all registered firms that can be used with all government departments to pull up relevant data electronically, precluding the need to enter information separately.
- xix. Technology will be used wherever possible for simplifying and expediting the interface with government including merging invoice systems with tax record keeping.
- xx. The regulatory review, simplification, elimination & guillotine process has achieved significant progress. 167 reform areas have been identified thus far, out of which 72 have been implemented, while the remaining are at various stages of implementation and under consideration. Concurrently, new reform areas continue to be identified.

⁸ <https://www.doingbusiness.org/content/dam/doingBusiness/country/p/pakistan/PAK.pdf> pg: 69

- xxd. A simplified taxation regime with lower tax rates for Manufacturing SMEs according to size categories has been notified in Finance Act 2021. (Details at Annex-B). FBR will consider a similar incentivized tax regime for the IT&ITeS and selected service sector SMEs.

Monitoring & Evaluation (Key Performance Indicators)	
• Taxation:	
○	Number of SMEs filing taxes
○	Value of taxes collected from SMEs
○	Frequency and extent of complaints registered at the SME facilitation desk at FBR / Federal Tax Ombudsman's Office
○	Time of compliance of regulations
○	Cost of compliance of regulations
• Regulatory guillotine:	
○	Number of regulations eliminated (Net)
○	Number of regulations modified
○	Reduction in fees and regulatory charges
○	Approximate cost savings to businesses
• Formation of a forum for consultation	
○	Number of meetings of the forum on the specific topic of regulation and follow ups with relevant departments
○	Creation of online forum with the option to provide feedback on regulatory issues

3. Addressing SME Supply Side Challenges

3.1 SMEs Access to Finance

Access to affordable finance is a key issue for SMEs; consequently, majority of the SMEs in Pakistan operate through self-financing, informal financial services or retained earnings. This not only limits the scope of expansion, but hinders day to day business operations by limiting working capital available to enterprises. Affordable credit is essential for SMEs to start, expand, acquire new technologies and support a larger operating cycle. However, SMEs' access to affordable finance in Pakistan has been fairly weak. At the end of June 2021, SME financing stood at PKR 437.57 billion or just 6.57 percent of the total private sector financing in the country with only 172,893⁹ SME borrowers. According to the Enhanced National Financial Inclusion Strategy (NFIS) 2023, the State Bank of Pakistan envisages an increase in number of borrowers to 700,000 and a financing target of PKR 800 billion by CY 2023.

While commercial financial institutions operate at one end of the SME finance spectrum, the capital market also provides another avenue for raising finance for SMEs. The regulatory framework (s) for SMEs to raise funds from the capital market is already in place. However, the uptake by SMEs is rather minimal.

⁹ Quarterly SME Finance Review - State Bank of Pakistan, June 2021

To enhance SMEs access to finance, the Government of Pakistan will undertake the following measures:

- i. SBP will also encourage banks to lend to SMEs with the objective of equitable distribution amongst SMEs based upon their size, sector, geography and gender under the SAAF scheme.
- ii. For SMEs offering collateral, Ministry of Finance may consider relaxing age limit to 60 year, to enable SMEs that are registered as Sole Proprietor and listed in the SMEDA Registration Portal, to become eligible for the Kamyab Jawan financing scheme.
- iii. For Micro and Small Enterprises, Ministry of Finance may consider enhancing credit limits (e.g., doubling the credit limit after successful completion of every three years loan period) for borrowers of the Kamyab Karobar program.
- iv. For serving the SMEs in the IT & ITES sector, SECP may consider reforming VC regime to facilitate growth of SMEs)
- v. SBP may make it easier for SMEs to avail lower interest rates schemes already announced by the SBP.
- vi. Ensure full implementation of the Enhanced National Financial Inclusion Strategy (NFIS) 2023.
- vii. Quarterly progress on financing to SMEs as per their size, geographical distribution, gender, sector and other factors, as per requirement, will be provided to SMEDA. The same will be published in the State Bank's Quarterly SME Finance Review publication.
- viii. The State Bank will review key regulations relating to SME financing on a periodic basis and implement changes to smoothen process and reduce the cost of accessing and providing capital.
- ix. The State Bank will widely disseminate information about the 'movable asset registry' to ensure its uptake by commercial lending institutions.
- x. The State Bank will put in place a system to periodically review the process of account opening and documentation required by commercial banks, to ensure that it remains streamlined. Any steps or documents that are not necessary, may be eliminated. Awareness and information provision programs with commercial banks and SMEDA will be launched to encourage small businesses to open bank accounts. The streamlined process will also be advertised and publicized through commercial banks and media. To ensure better awareness on all aspects, SMEDA will work with National Institute of Banking & Finance (NIBAF) for training of banks and SMEs to address the informational gaps between the two.
- xi. The State Bank will facilitate commercial banks to open back to back Letter of Credit (LCs) so that the exporting firms are able to use their receivables as collateral to secure short-term financing.
- xii. The State Bank will use moral persuasion with commercial banks to enhance SME financing. Targets will be assigned to financial institutions for SEs and MEs. These targets will be reviewed periodically and banks will be encouraged to increase the coverage across different sized SMEs.
- xiii. The Pakistan Credit Guarantee Company will be operationalized as per agreement between the Ministry of Finance and the State Bank of Pakistan. The State Bank will consider the viability of incentivizing banks by offering different risk coverage levels based on their performance. The performance matrix may be based both on the quantum of credit and low levels of defaults claimed.

- xiv. SMEDA will strengthen its SME data collection role and initiate the process of gathering industry level and firm level data required for credit scoring and risk assessment. SMEDA will use its outreach to encourage provision of accurate data.
- xv. SMEDA will carry out a study to ascertain the viability of establishing a credit risk rating and assessment agency that can provide consulting services to banks and lending institutions, as well as SMEs. This will include the possibility of using FBR/SECP data for developing credit-scoring models.
- xvi. SMEDA will conduct detailed value chain studies on key clusters. These studies will not only identify the gaps, but will focus on opportunities, supply chain actors, capture business models, and map all key players linked in the supply chain. Based on these studies, SMEDA will inform State Bank and commercial banks on opportunities available for controlling risks and designing customized financial products for specific value chains.
- xvii. SMEDA will conduct a study and viability analysis of using innovative blended finance, such as Islamic products for enhancing the flow of resources to SMEs.
- xviii. State Bank will ensure better utilization of its refinance & credit guarantee scheme for women entrepreneurs.
- xix. Awareness campaigns for SMEs regarding raising finance through the capital market will be continuously carried out by the Pakistan Stock Exchange (PSX) in consultation with SMEDA, Chambers of Commerce & Industry and Trade Associations.
- xx. SMEs will be facilitated and incentivized to enlist on the GEM Board of the PSX.
- xxi. Capacity building initiatives for SMEs shall be undertaken in areas such as accounting and book-keeping in consultation with ICAP, ICMAP, SBP, SECP, NIBAF and other institutions.
- xxii. Government of Pakistan (Ministry of Industries & Production, Ministry of Finance, State Bank and Ministry of Privatization) will review strategic options (privatization and/or restructuring) for the SME Bank, given that the Bank remains the only FI focused exclusively on SMEs.
- xxiii. A committee will be established under the chairmanship of the Advisor on Finance and comprising of Minister of Industries and Governor State Bank (together with other relevant stake holders, if need be) to devise strategies for expanding SME financing in Pakistan (including operationalization of the Pakistan Credit Guarantee Company). The committee will finalize and submit its recommendations by January 31, 2022.

3.2 Skills, Human Resource & Technology

The quantity and quality of human capital in an economy is a key determinant of productivity and competitiveness and has a significant impact on reducing multi-dimensional poverty. The availability of skilled workforce is critically important for small enterprises as it helps them become efficient. Lack of skills and training has been identified as a key constraint to enterprise growth as cited in most competitiveness reports and doing business surveys, including the Global Competitiveness Report 2020.

Small to medium enterprises stand at a disadvantage in terms of acquiring skills as compared to large enterprises as they do not have enough financial margins to pay for training or pay higher wages to retain more productive workers. Furthermore, small enterprises are also reluctant to invest in training for fear of losing workers to competitors, who may offer a slightly higher wage. A second issue is that for certain sectors, production is still stuck in low value-added activities and has not up-graded over several decades. These small businesses do not see skills as a binding constraint. Thirdly, there are issues and gaps identified in terms of quality, relevance and certification of existing skills training provided in the country. Finally, there are also issues of information and coordination failures, such that, employers struggle to find the right workforce, while trained idle youth have no mechanism to access information about available jobs. The job placement mechanism in the country is weak. Overall, SMEs strongly feel that there are severe gaps in the skills market that need to be addressed.

In order to build capacity of human resources, skills and technology, the government will;

- I. Ensure full implementation of the National TVET Policy and establish a steering committee for monitoring its implementation, with SMEDA being made a member for SME representation.
- II. Conduct Skills' mapping covering key SME sectors and align future programs and investments with the demand trajectory over the next 10 years.
- III. SMEDA will be placed on the boards of NAVTTC and all provincial TEVTAs to voice the concerns of SMEs. SMEDA will also be represented on Skills Development Councils.
- IV. NAVTTC in collaboration with provincial TEVTAs will streamline the institutional overlaps and regulatory burden for opening-up space in the skills sector for private sector investments. Prohibitive regulations restricting private sector growth of training service providers will be eliminated and the federal and provincial overlaps and duplications will be streamlined.
- V. SMEDA will coordinate with the provinces to assess the viability of replicating the Punjab Skills Development Fund model. Additionally, SMEDA will liaise with NAVTTC for the establishment of National Skills Fund and to secure a position on the Fund Board to voice the needs of SMEs.
- VI. SMEDA through its network will identify SME sector specific training needs and conduct pilots to test employability. Successful interventions will be shared with provincial TEVTAs for replication and scale up.
- VII. SMEDA will work with SMEs to develop a detailed module and design of a 'soft skills' training program to be incorporated in NAVTTC and provincial TEVT courses.
- VIII. Each provincial TEVTA will develop a partnership framework under which it will work with key SME sector associations such as surgical goods, cutlery, furniture, marble & stone etc. to develop industry relevant courses, content, delivery and assessment techniques.
- IX. SMEDA will work with TUSDEC and SME sector associations on technology acquisition and R&D for local replication and will identify the requisite skills for the use of up-dated technology. These needs will be communicated to NAVTTC and provincial TEVTAs for development of new programs required for upgradation of technology.

- x. SMEDA will support SMEs in procurement of suitable technologies to increase productivity, quality and competitiveness by working with relevant agencies such as TUSDEC and the Ministry of Science and Technology and others. These partner agencies will support in providing appropriately trained labor.
- xi. SMEDA will work with Skilling Pakistan and provincial TEVTA to develop a sustainable model of labor market data management. It will support Skilling Pakistan in populating their job portal with SME data and potential areas of employment in the industry.
- xii. SMEDA will advocate for increasing women centric training programs and the scaling up of initiatives across the country, such as 'Job Assan' of the Punjab Commission for Status of Women (PCSW) that are focused on assisting women with job search and applications.

3.3 Infrastructure

There is sufficient empirical evidence indicating that inadequate and poor infrastructure lowers productivity and competitiveness of SMEs across all sectors of an economy. For instance, poor quality of roads, railways, and telecommunications adversely affects market access for purchase of raw materials and transport of finished products, while shortages of electricity or gas puts a disproportionate cost burden on small enterprises, reducing margins and decreasing competitiveness. Therefore, both quality and quantity of physical infrastructure is a necessary condition for SME development and more broadly for economic growth. The government will take measures for provision of adequate and quality infrastructure. Recommendations in this area include;

- i. Plug & play infrastructure will be made available to SMEs on lease basis.
- ii. Allocation for SMEs will be made in existing industrial estates, Export Processing Zones (EPZs), and Special Economic Zones (SEZs) on land lease-based model with smaller sized plots being offered to SMEs. SMEDA will work with relevant authorities to use government land to set up SME industrial estates based on a land lease model to reduce set-up costs for SMEs.
- iii. SMEDA will coordinate with national and provincial bodies responsible for developing SEZs under CPEC and industrial estates to ensure adequate space is allocated for SME businesses that are part of the supply chain.
- iv. Power Division will consider moving manufacturing SMEs from commercial electricity connections to Industrial electricity connections (B1, B2 only) with access to lower tariffs for incremental consumption in line with relevant provisions of the Consumer Service manual of NEPRA.
- v. Power Division will work on providing off-grid electricity to rural and remote SMEs. This will be done in collaboration with the private sector to remove market entry barriers, provide market insights, and help improve consumer awareness on safe lighting options.
- vi. SMEDA will support development of a network of companies providing innovative off grid clean energy solutions and facilitate SMEs by negotiating provision at affordable cost and through provision of information.

- vii. The Federal government will support all provincial governments to develop spatial mapping as done by the Punjab province. This will then be the central planning tool for all infrastructure decisions by making them more sensitive to the connectivity needs of SME clusters.
- viii. Farm to market roads will be built to link small and rural enterprises with the main corridor arteries.
- ix. In line with PM's Industrial Support Package for power, commercial electricity consumers have also been provided with seasonal discount on incremental consumption. The continuation of this package will be reviewed periodically based on electricity demand and supply situation.

**Monitoring & Evaluation
(Key Performance Indicators)**

The GCI annually provides the ranking on important infrastructure related indicators such as electricity, roads and communication. These ranks shall be used to measure progress and its comparison across countries.

3.4 Entrepreneurship, Innovation & Incubation

Entrepreneurs are distinguished from small business owners ("necessity" or "subsistence" entrepreneurs) in the sense that there is an element of fresh thinking and vision in entrepreneurs, which leads to innovations or commercialization of innovations. This excludes the many self-employed individuals that sell basic items on street corners.

A supportive entrepreneurship¹⁰ ecosystem can encourage individuals to become entrepreneurs, provide them a second chance if they fail, and can support start-ups to scale up into larger businesses. The ecosystem comprises conducive policies, labour market flexibility, access to capital and support mechanisms. To develop a culture of entrepreneurship in the country, the government will undertake the following measures:

- I. Advocate for the adoption of the Limited Liability Partnership Act 2017 by the provinces as a more flexible model of partnership registration.
- II. Create legal frameworks for crowd-funding and develop suitable rules for venture capital funds, private equity funds etc. to register with SECP.

¹⁰ Recommendations contained in this section thus pertain to innovative entrepreneurs ("opportunity" or "transformational" entrepreneurs), defined as "the dynamic, institutionally embedded interaction between entrepreneurial attitudes, entrepreneurial abilities, and entrepreneurial aspirations by individuals, which drives the allocation of resources through the creation and operation of new ventures".

- iii. Undertake legal review to suggest reforms to make it quicker, easier and cheaper to close a business, including options to restructure debt.
- iv. Ensure effective implementation of the Corporate Rehabilitation Act, 2018.
- v. Expand the regulatory sandbox approach for monitoring and regulation of new businesses that are still evolving and developing e.g. fintech.
- vi. Incubators such as National Incubation Centre will be evaluated and scaled up accordingly, including in second tier cities. There will be reserved positions for women in incubators and accelerators.
- vii. Initiate programs for entrepreneurship skills in schools and support teaching of entrepreneurship as a specialized stream in high schools and universities, in partnership with the National Incubation Centre, the Higher Education Commission and the provincial departments for education.
- viii. SMEDA will initiate entrepreneurship boot camps to train youth for accessing government's youth entrepreneurship schemes/programs.

**Monitoring & Evaluation
(Key Performance Indicators)**

The entrepreneurship ecosystem shall be monitored using outcome indicators as follows:

- Number of registered start-ups
- Number of incubated start-ups
- Number of incubators, accelerators and co-working spaces
- Volume of venture capital finance disbursed
- Number of Venture Capital Funds registered onshore
- Number of limited liability partnerships registered

3.5 Business Development Services

Business Development Services (BDS), also known as Non-Financial Advisory Services (NFAS) refer to a wide range of services aimed at skills transfer and business advice. These include training, consultancy and advisory services, marketing assistance, information, technology development & transfer and business linkage promotion. SMEs in general and small enterprises in particular identify gaps in the availability of these services. To fill this gap and to support private sector business growth the government will support the following measures:

- i. SMEDA will undertake a need assessment survey for Business Development Services (BDS) in the immediate term.
- ii. SMEDA will link SMEs to Business Development Service Providers (BDSPs) and will provide funding to share cost of BDS services. A larger portion of costs will be shared for women-led enterprises. These services include (but are not limited to) support in enhancing market access and obtaining quality certifications, access to finance and technology, conducting energy audits etc.

- iii. SMEDA will host an online ranking system that allows SMEs to share feedback on BDSPs.
- iv. Over time, as the market for BDS develops, SMEDA will obtain a fee for registering BDS providers and provide them access to its database of registered SMEs and negotiate cost of providing services. SMEDA will oversee the quality and efficiency of the BDS provided.
- v. Sector focused development initiatives, identifying high growth sectors and implementing initiatives for growth (garments, light engineering, leather, agro-food, IT&ITES, auto, tourism, pottery, surgical, furniture, pharmaceuticals, electronics etc.) shall be undertaken. The following SME categories will be prioritized:
 - a. Vendors of large-scale enterprises
 - b. SME exporters
 - c. Standalone SMEs providing employment in peripheral areas

**Monitoring and Evaluation
(Key Performance Indicators)**

Market size: Number of SMEs purchasing service	SMEs paying fees for service
	Total no. of beneficiaries
Market size (supply): Amount of sales by BDS providers	Providers – sales to SMEs (participation fees)
	Providers – sales total (incl. institutional clients)
Market Penetration	Percentage of potential SME market reached with a BDSP
Number of BDS providers	Providers with similar products
Number of BDS service types	Number of BDS products promoted
Deepen the market: reach underserved groups	Percentage of Female clients
	Percentage regional distribution of clients
Increase customer acquisition of BDS	Customer satisfaction with a BDS
	Repeat customer
Increase customer use of BDS	Increase in employment
	Change in investment
	Change in value added
Increase customer benefits from BDS	Increase in sales
	Increase in profitability

3.6 Women Entrepreneurship Development

Women-owned businesses matter as they contribute to economic and social development in more than one way. Data suggests that increased women entrepreneurship catalyzes economic growth and accelerates job creation. According to statistics, in the United States of America, 40% of businesses are women-owned, generating \$1.8 trillion a year. In Turkey, women-owned businesses represent 40% of

small and medium-sized enterprises (SMEs)¹¹. Pakistan, in comparison pales with only 70,658 (3% of total economic establishments) women-owned economic establishments¹². The Global Entrepreneurship and Development Institute (GEDi) has developed an index consisting of key pillars that measure the entrepreneurship ecosystem across countries. According to its Female Entrepreneurship Index 2015, Pakistan ranks at 77 – the lowest ranked country. However, among the indicators, at the individual level, “willingness to start” has the highest score.

Given the above scenario the National SME Policy 2021 proposes to allow for preferential treatment of women-owned businesses amongst the SME regulatory and business support regimes. The Government, among others initiatives, will undertake the following measures to support women owned SMEs:

- i. MoIP to lead Consultative Group on supporting Women owned SMEs, comprising of public and private sector stakeholders, to formulate and implement policy measures aimed at facilitating women owned SMEs.
- ii. Ensure implementation of “Banking on Equality” Policy of the State Bank of Pakistan.
- iii. Simplification of taxation procedures & reduced tax rates for women owned SMEs.
- iv. Develop a one window virtual facility for women entrepreneurs for enhanced access to information.
- v. Provide women-friendly work environment through establishing women business centres, display facilities, emporiums etc.
- vi. Develop specialized women business facilitation programs in areas such as, starting and managing a business, accounting & book-keeping, fulfilling tax liabilities, marketing & digitization etc.
- vii. Develop linkages with domestic & international markets through aggregation models.

4. Addressing Demand Side Challenges - Increasing Market Opportunities for SMEs

4.1 Market Access

Market access, both local and international has been identified as one of the key constraints impeding the growth of SMEs across the country. Small enterprises and businesses located in rural and remote areas, such as in Balochistan and Gilgit-Baltistan (GB) find it difficult and costly to access major cities and markets within the country. Lack of information, inadequate marketing, infrastructural and logistical problems are the main barriers preventing enterprises located in these areas from selling products or services to markets in the major cities of the country. Moreover, with the exception of the main export clusters, such as Sialkot, Faisalabad, Lahore and Karachi, most of the SMEs in the country do not have the resources, capability or competitiveness to access international markets. The following initiatives will be launched and strengthened;

¹¹https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/turkeys+women+entrepreneurs

¹² Census of Economic Establishments 2005, Pakistan Bureau of Statistics

- i. The Trade Development Authority of Pakistan (TDAP) will organize and facilitate the participation of small firms in international fairs and exhibitions at subsidized rates. The SME quota, particularly for women, will be fully utilized in all trade delegations supported by TDAP through proper dissemination of information and facilitation in the application process. TDAP will specifically target SME clusters located in Balochistan, Khyber Pakhtunkhwa, Gilgit Baltistan and Azad Jammu & Kashmir. Multiple avenues for financing participation of SMEs in international trade fairs and exhibitions will be explored, such as the Export Development Fund (EDF), SME Development Fund as well as tapping into bilateral and multilateral development partners networks.
- ii. Regular trade fairs and exhibitions in all major cities of Pakistan will be organized to improve local market access for small businesses and cottage industries located in remote areas. These trade fairs and exhibitions will be organized in partnership with relevant agencies.
- iii. Permanent emporiums will be established in major cities to exhibit the arts, crafts and cuisine of all provinces and regions of the country. The stalls in these emporia may be rented out on a rotational basis and at a subsidized rate to registered small businesses, with higher subsidies to women owned businesses.
- iv. National Product Standards will be developed, strengthened and implemented.
- v. Implementation of the E-Commerce Policy of Pakistan 2019 developed by the Ministry of Commerce will be ensured in order to incentivize establishment of 'Online Market Place/Digital Platforms' to facilitate SMEs in accessing both domestic and international markets.
- vi. Increase SME participation in international e-commerce.
- vii. The State Bank will expedite the approval of applications by local investors to operate payment gateways.

4.2 Public Procurement

Public procurement can be used as a policy tool for providing market access to SMEs. There are several benefits of public procurement which include; (a) formalization of economic activity; (b) growth and development of SMEs; (c) resolving access to finance issues of SMEs, and (d) support for innovation by small enterprises.

As the public sector is one of the largest buyers of goods and services following a specified set of rules and procedures, it can in comparison to the usually diversified and spread out private sector, act as a major client for SMEs. Recognizing the potential of buyers (public sector) and sellers (SMEs in the private sector) in the transaction of goods and services, governments have used public procurement to incentivize, support or just help sustain domestic SMEs. Additionally, in the case of developing countries, where majority of SMEs are informal entities, the likelihood of winning a government contract or just being eligible for public procurement can act as a strong incentive to register and formalize, bringing these informal enterprises into the documented economy. Interestingly, the share of public procurement to GDP is one metric where the numbers in low-income developing countries are comparable to those in high-income developed countries. According to EU and OECD statistics, public procurement accounts for

16 percent and 12 percent of GDP, respectively. Across regions, South Asia has the highest share of 19.3 percent, whereas this number is 19.8 percent for Pakistan¹³. Preferential public procurement entails that necessary goods and services are procured through a process where small enterprises are not hindered by the regulatory barriers to participation in the procurement process. The World Bank's 2017 Benchmarking Public Procurement report shows that 47 percent of the 180 national economies analysed provide some preferential treatment to SMEs in public procurement.¹⁴

To provide SMEs a level playing field and to compete for public contracts, the following measures will be undertaken:

- I. Federal PPRA will develop detailed proposals by January 31, 2022, for expanding SME share in the public procurement, through consultations with Provincial PPRA's, Ministry of Industries, Planning Commissions, Provincial Planning & Development Departments and the private sector.
- II. The Policy recommends that the Public procurement regulatory authorities (federal and provincial) consider revising the procurement rules to facilitate greater SME participation in federal and provincial public procurement contracts.
- III. PPRA (Federal & Provincial) may develop proposals for allocating quotas for SMEs. A target may be reserved for SMEs in public procurement in the first year. By 2025, this may be increased to attain a maximum of 30 percent.)
- IV. In order to help SMEs cope with capacity issues, SMEDA will support establishment of procurement support units at business support organizations such as chambers of commerce & industry and trade associations with the mandate to:
 - a. Provide assistance in completing bidding documents and technical assistance in complex technological bids.
 - b. Maintain liaison with the government.
 - c. Provide legal and technical support etc.

**Monitoring & Evaluation
(Key Performance Indicators)**

- Percentage of public procurements made from SMEs in the financial year
- Geographical & sectoral spread of public procurement

¹³ Djankov, S., Islam, A. & Saliola, F. (2016). How large is public procurement in developing countries. Peterson Institute for International Economics

¹⁴ Donor Committee for Enterprise Development, 2018.

5. Institutional Framework

Implementation of the National SME Policy 2021 is cross cutting in nature as it involves multiple organizations / departments across the public sector business support infrastructure. In order to ensure robust and well-integrated implementation of the Policy, the following mechanism has been put in place.

5.1 National Coordination Committee (NCC) on SMEs Development

The Government, has notified a National Coordination Committee on SMEs Development to lead the agenda of SME development and ensure effective implementation of the National SME Policy 2021. The NCC is headed by the Minister for Industries & Production.

The NCC will ensure that all stakeholders/departments coordinate and deliver upon their mandated roles and responsibilities and will oversee implementation of the Policy. The Committee will meet on a quarterly basis. Additional meetings may be held if needed on particularly urgent or important aspects.

Composition of the National Coordination Committee on SMEs Development

1. Minister for Industries and Production – Chairman / Convener
2. Secretary, Ministry of Industries & Production
3. Secretary, Commerce Division
4. Secretary, Finance Division
5. Secretary, Power Division
6. Secretary, Petroleum Division
7. Secretary, Ministry of Law & Justice
8. Secretary, Board of Investment
9. All Chief Secretaries or their representative not below the level of provincial Secretary
10. Chairman, Federal Board of Revenue (FBR)
11. Chairman, Board of Investment
12. Deputy Governor, State Bank of Pakistan
13. Chairman, Securities and Exchange Commission of Pakistan
14. Chief Executive Officer, Trade Development Authority of Pakistan (TDAP)
15. Chief Executive Officer, Small & Medium enterprises Development Authority (SMEDA)
16. One (1) representative of SME sector from each province / key sectors Representatives from the SME Sector (All provinces, Gilgit Baltistan and Azad Jammu & Kashmir)

The chairman / convener may co-opt any other person from public /private sector, if deemed necessary, for the purposes of this task.

The National Coordination Committee on SMEs Development will be supported by **Provincial Working Groups** set up in each of the provinces under the Chief Secretaries. The role of these Working Groups will be to ensure provincial implementation, build ownership of the SME Policy, and also bring up issues that SMEs face in the provinces that need to be addressed at the federal level.

5.2 SMEDA Institutional Strengthening, Capability Enhancement & Reform

SMEDA is the apex SME development agency of the Federal Government, established to catalyse SME growth in the country. The mandate of SMEDA, as contained in SMEDA Ordinance 2002 empowers the organization to inter alia, *"initiate, take, continue, implement and perform any and all activities for encouraging and facilitating the growth and development of SMEs"*. In order to ensure implementation of the National SME Policy 2021 and to fulfill its mandate, SMEDA shall be further strengthened through institutional capacity building initiatives and greater resource provision by the Government of Pakistan.

The organization will be further strengthened through greater autonomy, resources, private sector role and staff to enhance efficiency and output and make it fully capable for fulfilling its mandate.

The organization will be further strengthened through legislative amendments, as may be required in SMEDA Ordinance 2002 to enhance its role and power. SMEDA will initiate an institutional reform process to transform its organizational potential to include among other areas the following capabilities:

- **Fund Management Capacity:** Capabilities to manage grants and innovative enterprise development activities, engage with contractors, private sector, monitor and assess, develop scale-up strategies and leveraging private capital for development will be built. This may be a new wing under the existing organizational structure.
- **Policy and Strategy Management:** Capabilities to synthesize research, collect data and information on policy initiatives, and monitor and assess them. Recommending refinements to policy by conducting policy reviews, developing sector strategies and engaging multi-sector stakeholders in design and implementation will also be undertaken. This function will also consider establishing an SME Intelligence Unit to address issues of information for the private sector. The wing already exists but missing skills may be recruited. A key skill set required is to design advocacy and communication strategies for an enabling business environment.
- **Business Development Services:** Identify BDS service providers in the private sector, consolidate their services, and engage with them to short list the best options and market them with SMEs. Capacity to develop effective tripartite arrangements for SME facilitation shall be built in SMEDA.
- **Entrepreneurship and Skills Expertise:** Entrepreneurship development and provision of skills are key levers of the Policy, and therefore there is a need to build capacity in SMEDA to understand these issues from the perspective of entrepreneurs, design programs and provide effective advocacy for SME support at relevant levels.
- **Emerging Technologies, High growth sectors (such as IT&ITES) & Knowledge Economy:** The capacity of the organization will be enhanced through engagement with relevant qualified

expertise to keep pace with changing technologies, support digitization and automation processes in SMEs and catalyze growth across SME sub-sectors.

- **Monitoring & Evaluation:** SMEDA will need strong M&E capacity to ensure implementation of initiatives, obtain feedback from the field and also conduct appropriate analysis. It is also recommended that a monitoring dashboard for monitoring & evaluation of SME Policy be developed.

SMEDA will retain a lean and efficient organization and achieve this through use of digital outreach technology and outsourcing of its research activities. SMEDA will maintain effective networking with higher education and financial institutions for supporting its research and SME support activities.

5.2.1 SME Registration Portal

Consolidated data on SMEs of the country and their characteristics is limited. Absence of a centralized data repository hampers ability of the state to devise evidence-based policies, initiate development programs, and extend targeted incentives / relief where required. Furthermore, access to information and knowledge of SME support incentives also remains low.

To cater to the above, SMEDA will develop an SME Registration Portal. The SME Registration Portal (SMERP) will be integrated with NADRA, FBR, SECP and over time, other data gathering agencies in order to develop a high-quality database of the SME sector. SMERP will help achieve the following key objectives:

- Voluntary registration of sole proprietors, firms, and companies as per SME Definition to create a centralized database of SMEs in the country
- Integration with other business databases / portals for verification
- Alternate verification tool for credit assessment and market linkage

Furthermore, an on-line formal forum of consultation with SMEs to register their inputs on regulatory topics, will be created. The same forum will also be used to allow firms to;

- Access information on all business matters, included but not limited to, business regulations, compliances, services, government incentives etc. that require a government interface
- Identify SMEs to partner with for larger orders and / or to coordinate joint fixed investments and other collaborative projects
- Find suppliers and /or large firms that are looking for SME suppliers
- Find business service providers, provide feedback and ranking

Issuance of SME Size Certificate

SMEs may register at the SME Registration Portal and apply for SME Size Certificate which will be valid for a specific time period. The SME size certificate will be issued free of charge for a limited time after which a nominal fee may be considered to be charged.

5.2.2 SME Fund

As already provided for in the SMEDA Ordinance 2002, an SME Fund will be established to ensure that SMEDA has consistent funding for its operational activities and SME development initiatives. The Ministry of Finance will make appropriate budgetary allocation for the Fund, raising the overall allocation to PKR 30.0 billion over a period of time. ToRs of the funds will be finalized by the Ministry of Industries/SMEDA in consultation with the Ministry of Finance. The Ministry of Industries//SMEDA may pursue raising funds through allocation by FIs and support from bilateral and multilateral donors. The fund will, among other things, undertake the following initiatives:

- Technology upgradation of SMEs
- SME Credit Market Development
- Cost sharing for business development services, technology/product improvement, certification, market access, training, productivity enhancement etc.
- Programs / projects, such as common facility centers and small interventions for SME sector development in partnership with institutional players
- Undertake and promote equity finance, venture capital and other technology based financial solutions
- Support entrepreneurship eco-system development, including support for digitization, automation, adoption of new technologies, incubation and start-up accelerator programs
- Market information, marketing and exhibition support

5.2.3 Census of Economic Establishments / SME Census

The Pakistan Bureau of Statistics (PBS) will conduct Census of Economic Establishments. SMEDA will inform the process and collaborate with PBS to obtain SME specific data. The data collected through the exercise will support populating SMEDA National Database on SMEs being developed through the SMEDA Registration Portal

5.2.4 Advocacy

SMEDA, as the lead agency for SME development, and as laid down in SMEDA Ordinance 2002 will play a more active and central role in SME advocacy and coordination of SME related efforts across the business support infrastructure in the country. It will coordinate initiatives across Government of Pakistan business support institutions to create an environment that fosters new enterprise creation, supports entrepreneurship, and provides demand-based business development services, across the business life-cycle of an SME.

5.2.5 Presence of SMEDA in Key Regulatory Arenas

SMEDA representation will be ensured in trade, macroeconomic, and taxation policy bodies constituted by the Ministry of Finance, Federal Board of Revenue, State Bank of Pakistan, Ministry of Commerce and other agencies. This is to ensure that the SME voice is present at key junctures of policy making, and that policy makers are attentive to the needs of smaller enterprises. SMEDA will act as an SME voice and will be included in:

- Boards/Committees of all provincial small industries departments/entities
- Boards of all provincial TEVTAs
- Board of NAVTTC and will be made part of skills sector councils
- State Bank Committee on SME financing
- International development partner's programs and forums

ANNEX A – DEFINITION OF IT&ITES

Information Technology (IT) to include software development, software maintenance, system integration, web design, web development, web hosting, and network design, IT Hardware manufacturing and Trade, Domestic and E Commerce Companies and Enabler Companies; and

"IT enabled services" include inbound or outbound call centres, medical transcription, remote monitoring, graphics design, accounting services, HR services, telemedicine centers and data entry operations.

ANNEX B - SIMPLIFIED TAXATION REGIME NOTIFIED IN FINANCE ACT 2021 FOR MANUFACTURING SMEs

A Simplified taxation regime has been notified in Finance Act 2021 for Manufacturing SMEs (Section 100E) wherein the following incentive is offered to Manufacturing SMEs:

RULES FOR COMPUTATION OF PROFIT AND GAINS FOR SMALL AND MEDIUM ENTERPRISES

- Application.**—These rules shall apply to small and medium enterprises as defined in Clause (59A) of Section 2 of the Ordinance.
- Registration.**—Small and medium enterprise shall be required to register with FBR on its Iris Web Portal or Small and Medium Enterprises Development Authority on its SME Registration Portal (SMERP).
- Categories and tax rates.**—There shall be following two categories of small and medium enterprises and tax on their taxable income shall be computed at the tax rates given in the table below, namely:—

Sr. No.	Category	Turnover	Rates
(1)	(2)	(3)	(4)
1	Category -1	Where turnover does not exceed Rupees 100 million	7.5% of taxable income
2	Category - 2	Where annual turnover exceeds Rupees 100 million but does not exceed Rupees 250 Million	15% of taxable income

- Option for Final Tax Regime.**—(1) The small and medium enterprises may opt for taxation under final tax regime at the rates given in the table below:

Sr. No.	Category	Turnover	Rates
(1)	(2)	(3)	(4)
1	Category -1	Where turnover does not exceed Rupees 100 million	0.25% of gross turnover
2	Category - 2	Where annual turnover exceeds Rupees 100 million but does not exceed Rupees 250 Million	0.5% of gross turnover

- (2) Option under sub-rule (1) of this rule shall be exercised at the time of filing of return of income and option once exercised shall be irrevocable for three tax years.

(3) The provisions of section 177 and 214C shall not apply to SME who opts for taxation under sub-rule (1) of this rule.

5. **Audit.**—(1) SMEs who opt for taxation under normal law under rule 3 may be selected for tax audit through risk based parametric computer ballot under section 214C of the Ordinance if its tax to turnover ratio is below tax rates given in rule 4 of these rules.

(2) The cases selected under sub-rule (1) of this rule shall not exceed 5% of the total population of SMEs whose tax to turnover ratio is below tax rates given in rule 4 of these rules.

6. **Exports.**—The export proceeds of SMEs shall be subject to tax as per rates prescribed in Rule (4) under final tax regime.”;

7. **Exclusion from Minimum Tax on Turnover.**—The provisions of section 113 of the Ordinance shall not apply to SMEs.

8. **Tax on Supply of Goods.**—The tax deductible under clause (a) of sub-section (1) of section 153 shall not be minimum tax where payments are received on sale or supply of goods by SMEs.

9. **Provisions of Ordinance to apply.**—The other provisions of the Ordinance shall apply mutatis mutandis to the SMEs.”.

ANNEX C - SME ASAN FINANCE SCHEME (SAAF)

The State Bank of Pakistan (SBP) will provide refinance for three years to selected banks. After three years, refinance will be repaid by banks in ten equal yearly installments. Selected banks will get refinance from SBP at 1% p.a. and extend financing to SMEs at end user rate of up to 9% p.a which is very attractive compared to informal finance costs. Under SAAF, SMEs; both new and operative businesses, that are new borrowers of a bank will be eligible to avail financing of up to PKR 10 million. The collateral-free (clean) financing will be available to SMEs, for long term fixed capital investment and working capital finance requirements, against personal guarantees of the borrowers.

Shariah compliant Islamic modes of finance as well as conventional will be available through the SAAF scheme. An attractive feature of the scheme is that the Government of Pakistan will provide risk coverage of 40 to 60 percent to the selected banks against losses depending on the size of loans. This risk cover will be 60% for small loans up to PKR 4 million; 50% for midsize loans from above PKR 4 million to PKR 7 million and 40% for relatively large loans of PKR 7 million to PKR 10 million.