

# Status of SMES in KP, Its Institutional and Regulatory Dynamics: Way Forward to Achieve Economic Development

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## Abstract:

Small and Medium Enterprises (SMEs) are pivotal to global economic development and employment, with their substantial contributions to GDP, exports, and industrial employment in Pakistan. In Khyber Pakhtunkhwa (KP), SMEs constitute 99% of businesses, highlighting their central role in the regional economy. However, the sector has faced significant setbacks due to terrorism, floods, and the COVID-19 pandemic, leading to a decline in SME productivity and growth. This research explores the challenges faced by SMEs in KP and underscores the need for enhanced policy facilitation, financial incentives, and infrastructure development. Recommendations include fostering innovation through incubation centers, increasing women business centers, and leveraging public-private partnerships (PPP) for infrastructure and skill development. Additionally, promoting the China-Pakistan Economic Corridor (CPEC) and establishing foreign trade facilitation centers are proposed to boost exports and investment. The study emphasizes that overcoming these obstacles is crucial for unlocking KP's economic potential and achieving sustainable development.

## Key words:

Small and Medium Enterprises (SMEs), Khyber Pakhtunkhwa (KP), Economic Development, Public-Private Partnership (PPP), China-Pakistan Economic Corridor (CPEC)

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## *Introduction*

The national definition of a small enterprise is an enterprise having 10 to 30 employees with an annual sales turnover of up to 150 million rupees<sup>3</sup> (SMEDA, 2021). A medium enterprise is defined as an enterprise having 31 to 150 employees with an annual sales turnover of 150 to 800 million rupees<sup>4</sup> (SMEDA, 2021). Small and Medium Enterprises (SMEs) play a major role in most economies, especially in developing countries. The majority of businesses in the world are SMEs, which largely contribute to job creation and global economic development. They represent 90% of businesses and more than 50% of employment worldwide<sup>5</sup> (Industries c. a., 2020). In Pakistan, SMEs contribute 30% to GDP, 25% to exports, and 78% to industrial employment (SME Policy 2021). This shows the important role of SMEs in the national economy. The Khyber Pakhtunkhwa (KP) economy is highly dependent on the pace and productivity of SMEs, with 99% of businesses in KP being SMEs. Approximately 1.2 million micro, small, and medium enterprises are operating in KP, including the Newly Merged Districts. The war against terror, coupled with the disastrous floods of 2010 and 2022, has badly affected the SME sector in KP. Many small and medium entrepreneurs have shifted their businesses from KP to other provinces due to unfavorable circumstances, which shall be highlighted in light of this research.

## *Statement of the Problem*

There is no denying the fact that Small and Medium Enterprises play a key role in the economy of Khyber Pakhtunkhwa. Most businesses in Khyber Pakhtunkhwa are SMEs. However, due to various reasons, the SMEs in Khyber Pakhtunkhwa have not fared well over the years. Hence, research is required to understand the present status of SMEs' growth in Khyber Pakhtunkhwa, their institutional and regulatory dynamics, and the way forward to achieve economic development.

## *Methodology*

Secondary quantitative and qualitative data were gathered through authentic sources, including national and provincial government reports, research articles, and news items. Similarly, primary qualitative data were gathered through interviews with the following key informants working in the Small Industries Development Board, Industries Department Khyber Pakhtunkhwa, Khyber Pakhtunkhwa Chamber of Commerce, and Technical and Vocational Authority Khyber Pakhtunkhwa:

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<sup>3</sup> (SMEDA, 2021)

<sup>4</sup> (SMEDA, 2021)

<sup>5</sup> (Industries c. a., 2020)

1. Secretary, Industries Commerce and Technical Education Department KP
2. DG Industries KP
3. MD TEVTA KP
4. Upper management of SIDB
5. Upper management of BOIT
6. Executive members of the KP Chamber of Commerce

To better understand the institutional and regulatory dynamics of SMEs in KP, the following analysis tools were used:

- a. Situational Analysis
- b. Institutional Analysis
- c. PESTLE Analysis

### *Scope of study*

The study focuses on three seminal aspects relating to SMEs in Khyber Pakhtunkhwa (KP). Firstly, it discusses the present situation of SMEs' growth and operational status in the province of KP. Secondly, it explores the effectiveness of the regulatory regimes set up by the Government of KP for controlling and directing SMEs. Thirdly, it recommends a roadmap for the sustainable development of SMEs in KP based on the findings of the detailed analyses.

Most businesses in KP are concentrated in the SME sector, in contrast to the provinces of Punjab and Sindh, where large industrial establishments contribute significantly to the economy. Therefore, in the context of economic development, the need for devising plans to improve the SME sector in KP cannot be overemphasized.

### *Literature review*

During the research process, various reports and research papers were consulted. The Pakistan SME Policy 2020 and Khyber Pakhtunkhwa Industrial Policy 2021 were examined in detail. These policies illustrate the understanding and importance of the SME sector from both federal and provincial government perspectives. However, after studying and interviewing key government functionaries, it was revealed that there is a significant gap between the policies and actual ground realities regarding the SME sector. Dr. Syed Akhter Hussain Shah's research paper on the framework for SME sector development in Pakistan (2018) aptly describes the gloomy situation of SMEs in Pakistan and Khyber Pakhtunkhwa. He elaborates on global best practices for the promotion of SMEs.

The \*Clusters Profile of Khyber Pakhtunkhwa\* (2021) is a relevant report by the Small Industries Development Board. It provides information about the

unique regional small enterprises of Khyber Pakhtunkhwa, highlighting their strengths and the issues they face. Another report, \*Governance Reforms\* by the Small Industries Development Board (2022), was helpful in understanding the reform initiatives taken by the provincial government to promote SMEs. Various reports prepared by KPEZDMC were consulted, including the \*KP EZDMC Company Achievements Report\* (December 2020), which offers a holistic understanding of the company's breakthroughs since its inception. However, this report does not address the factors impeding progress.

The \*Industries, Commerce and Technical Education Department Report on Initiatives for Ease of Doing Business\* (2021-22) was also reviewed in detail. This report comprehensively describes the regulatory framework of the provincial government for managing small and medium enterprises in Khyber Pakhtunkhwa. Maryam Anas Ganie's article (2018) provides insights into the Chinese strategy for promoting SMEs and eradicating poverty. The article discusses notable measures adopted by the Chinese government in the SME sector and draws lessons for Pakistan. Hanan Ezakhel's article (1953) on the Japanese education system beautifully summarizes the importance of technical and vocational education in the economic growth and development of nations.

### *Organization of the Paper*

This paper has been organized into three main sections, as detailed below:

- Section 1: Deals with the actual on-ground situation of SMEs in KP. It indicates the major SME sectors and the unique skill traits of various districts in KP.
- Section 2: Provides the institutional framework dealing with SMEs in KP and includes a critical appraisal of different formations responsible for promoting and protecting SMEs in KP.
- Section 3: Offers a PESTLE analysis of SMEs in KP. This section refers to global best practices for the promotion of SMEs and highlights the issues and challenges faced by SMEs in KP.
- Conclusion and Recommendations: Finally, conclusions and recommendations are presented based on the findings of the study.

### *Situational Analysis of SMEs in Khyber Pakhtunkhwa Various SME Clusters in KP and Their Contribution to Economic Development*

#### *Leather Footwear:*

The leather footwear industries in the districts of Peshawar and Charsadda are widely known for handmade Peshawari Chapal in various designs. More than 15,000 units of leather footwear are operational in these clusters, using

raw materials worth over 100 million rupees daily<sup>6</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021). Over 150,000 direct and indirect laborers are involved in grading, cutting, stitching, and shaping leather footwear in these clusters, producing at least 10 million pairs of handmade shoes<sup>7</sup> monthly (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021). The leather footwear produced in these clusters is renowned both nationally and internationally. Notable personalities such as Imran Khan, Shahrukh Khan, Shahid Afridi, and Abdur Razaq wear these brands. Besides high demand in the local market, these clusters export their products abroad, mainly to the Middle East, UK, Afghanistan, South Africa, and Bulgaria. Prominent brands from Peshawar and Charsadda include Qadam, Chamiyar, Zalmay, and Kaptaan Chapal (SIDB).

### *Textile:*

The textile clusters of Islampur in Swat, and Matta Mughalkhel and Razarr in Charsadda are well-known for their export-quality handloom and power loom textile products, including khaddar, woolen shawls, and cotton. The textile cluster in Charsadda boasts over 500 handlooms and 4,000 power looms, while Islampur in Swat is famous for its handmade woolen shawls with over 2,000 operational handlooms<sup>8</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021). Both clusters use high-quality indigenous and imported raw materials, which are unmatched locally and affordably priced. These clusters' textile products have significant demand in local and international markets. The Charsadda cluster also subcontracts orders from Punjab and Sindh's textile industry, primarily for export purposes. The high demand for these products keeps all looms in Charsadda and Swat operational 24 hours a day, employing over 50,000 workers, yet the clusters still struggle to meet market demand<sup>9</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021).

### *Gemstones:*

Nimak Mandi market in Peshawar and Mingora in Swat are famous for their gemstone clusters. About 300 cutting and polishing units operate in these markets, with over 1,000 workers involved as owners and artisans<sup>10</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021). The cluster makes online sales worth Rs. 20 million per day<sup>11</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021). Business owners directly engage with international business parties, conducting transactions in the global market. Notable indigenous gems with high international demand include tourmaline,

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<sup>6</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021)

<sup>7</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021)

<sup>8</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021)

<sup>9</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021)

<sup>10</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021)

<sup>11</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021)

aquamarine, ruby, spessartine, Swat emerald, quartz, and pink topaz from Katlang, Mardan. These gemstones are cut and designed into various jewelry items.

#### ***Mazri Palm:***

Mazri palm, also known as dwarf palm, naturally grows in several districts of Khyber Pakhtunkhwa, including South Waziristan, North Waziristan, Lakki Marwat, Kohat, Hangu, Lower Kurram, Orakzai, Khyber, and Mohmand. Indigenous people harvest these palms seasonally to produce various handmade products such as mats, baskets, trays, caps, and ropes. Over 70% of women are involved in the production of Mazri products<sup>12</sup>, providing livelihoods for more than 25,000 women and thousands of men in retail business<sup>13</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021). The main retail markets for Mazri products are in Peshawar, Thul-Khurram, Kohat, Lakki Marwat, and Tank. Despite its potential for value addition, this sector has not gained international market attention due to a lack of research and innovation.

#### ***Marble & Granite Clusters:***

The marble and granite processing units in Peshawar, Mardan, Buner, Abbottabad, Mohmand, and Mansehra use local reserves of sunny white, sunny grey, badal, zebra, and ziarat marble extracted from KP's mountainous regions. The Small Industries Estate in Mardan, known as the marble hub of Pakistan, houses more than 220 marble processing units. Around 70 units are also located in the Small Industries Estates of Abbottabad and Mansehra, employing 40,000 workers<sup>14</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021). Pakistan is among the top countries exporting marble worldwide. However, most marble is exported in a semi-finished state and undergoes further value addition by buyers. Major importers of Pakistani marble include China, Saudi Arabia, UAE, and other Gulf states.

#### ***Woodworking (Furniture):***

The furniture industry in Khyber Pakhtunkhwa has been adversely affected by frequent electricity shortages, lack of modern machinery, shortage of sheesham wood, and lack of skilled labor. In Peshawar alone, 14,000 people are involved in furniture making. These challenges have compelled many artisans to move abroad for better working conditions. In the past, Khyber Pakhtunkhwa's furniture had high demand in international markets such as Germany, the USA, Spain, and Saudi Arabia. The decline of furniture enterprises not only affects employment in the province but also has adverse

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<sup>12</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021)

<sup>13</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021)

<sup>14</sup> (SIDB, Clusters Profile of Khyber Pakhtunkhwa, 2021)

effects on the national economy.

Additionally, the other major sectors in which SMEs are mostly operating in Khyber Pakhtunkhwa are listed as under:

S. No.	SMEs
1.	Tourism and hospitality
2.	Services
3.	Health care facilities
4.	Processing and manufacturing
5.	Mines and minerals
6.	Furniture/wood working
7.	Skin care and beauty
8.	Food and beverages
9.	Sports arms manufacturing
10.	Readymade garments and stitching units
11.	Media production industry
12.	Pharmaceuticals
13.	Ceramic and sanitary
14.	Surgical equipment's
15.	Cable operators
16.	Jaggary (gurrh making)
17.	Ware houses/ distributors
18.	Construction
19.	Marble and granite
20.	Private educational institutes
21.	Agro businesses and processing
22.	Leather work/ shoe making
23.	Cutlery manufacturing
24.	Handicrafts
25.	Computer and IT
26.	Interior decorators
27.	Printing and binding
28.	Textile, weaving
29.	Packing and packages
30.	Carpet weaving
31.	Gems and Jewellery
32.	Transport
33.	Wedding hall
34.	Brick / block makers

***Small Industrial Estates of Khyber Pakhtunkhwa***

There are a total of 13 Small Industrial Estates across Khyber Pakhtunkhwa<sup>15</sup> (SIDB, Report, 2022), including the following:

<b>S. No.</b>	<b>Small Industrial Estate</b>
1.	SIE Peshawar
2.	SIE DIKhan.
3.	SIE Bannu
4.	SIE Kohat
5.	SIE Charsada
6.	SIE Mardan 1
7.	SIE Mardan 11
8.	SIE Mardan 111
9.	SIE Kalabat
10.	SIE darghai Malakand
11.	SIE Abotabad
12.	SIE Mansehr
13.	SIE Karak

The total number of functional units in these industrial estates is 625. The development of Small Industrial Estate Abbottabad-II is in process. Land acquisition for Small Industrial Estate Dara Adam Khel is also in process.

***Woodworking Centers of Khyber Pakhtunkhwa***

Similarly, there are 7 Woodworking Centers (WWC) in Khyber Pakhtunkhwa, which include:

<b>S. No.</b>	<b>Wood Working Centres</b>
1.	Pak German WWC
2.	DIKhan WWC
3.	Karak WWC
4.	Manshera WWC
5.	Chitral WWC
6.	Swat WWC
7.	Timargarah WWC

***Women Business Development Centers in Khyber Pakhtunkhwa***

Likewise, the following 3 Women Business Development Centers<sup>16</sup> (SIDB, Report, 2022) are operating in Khyber Pakhtunkhwa:

<sup>15</sup> (SIDB, Report, 2022)

<sup>16</sup> (SIDB, Report, 2022)



S. No.	Women Business Development Centres
1.	WBDC Peshawar
2.	WBDC Swat
3.	WBDC DIKhan

#### *Readymade Garment Centers of Khyber Pakhtunkhwa*

Moreover, 21 Readymade Garment Centers are also operating in the following areas in Khyber Pakhtunkhwa<sup>17</sup> (SIDB, Report, 2022):

S. No.	Readymade Garment Centres
1.	Nasir kali Nowshera
2.	Peshawar
3.	Badrashi Nowshera
4.	Pathari Kati Khel Nowshera
5.	Nowshera
6.	Aman Garh Nowshera
7.	Akhora Khattkak Nowshera
8.	Nandrak Nowshera
9.	Uthmanzai Charsada
10.	Kothra Swabi
11.	Torder Swabi
12.	Bakot Abbottabad
13.	Abbottabad
14.	Jareed Manshera
15.	Talhata Manshera
16.	Timargara Lower Dir
17.	Karak
18.	Bannu
19.	Tank
20.	Singor Chitral
21.	Chitral

#### *Special Skill Profile of Khyber Pakhtunkhwa*

Another special feature of KP's SME sector is that many of its major districts are unique in terms of the special skills<sup>18</sup> in marketable trades (SIDB, Report, 2022). In this connection, the profiles of KP districts with regard to such special skills are provided below:

<sup>17</sup> (SIDB, Report, 2022)

<sup>18</sup> (SIDB, Report, 2022)

S. No.	District	Special Skill
1.	Charsada	Charsada chappal (both leather and rubber), handmade clothes especially kaddar
2.	Nowshera	handmade embroidery (embroidered dresses for children and females, embroidered chadars for females, bed covers)
3.	Peshawar	chappal, graft gallery service, waistcoat, carpentry
4.	Chitral	Chitrali topi
5.	Dir	knife, caps, furniture, embroidery
6.	Swat	handcraft, wool spinning (shawl), embroidery
7.	Swabi	lady shawls, wooden furniture, shoes, pottery
8.	Bajaur	homemade carpets, wood working service
9.	Abbottabad	Pillow covers, cushions, bed sheets, caps
10.	Haripur	Phulkari (silk embroidery on women shawls), handicrafts (jisti and cross stitch embroidery)
11.	Mardan	handicrafts (Mazari products, wooden décor and embroideries)
12.	Mansehra	embroidery stitching units
13.	Kohat	leather cases and covers all types, leather chappals and sandals
14.	Hangu	Mazari products
15.	Karak	Stitching units
16.	Bannu	leather products, footwear, spices
17.	Dera Ismail Khan	Sohan halwa, embroidery, furniture

***Institutional Analysis of SMEs in Khyber Pakhtunkhwa  
KP Industrial Policy 2020***

The KP Industrial Policy 2020 provides the broad outlines for regulating and developing SMEs. The salient features of the policy are summarized below:

- The primary aim is to encourage investors to invest in KP industries, which have recently witnessed stability after years of deteriorated law and order.
- Following the 25th Constitutional Amendment, NMDs have been merged with KP; therefore, greater attention is required for the socio-economic uplift of the area and its people.
- The following issues faced by industries in KP need to be urgently addressed:

- No framework for ease of doing business
- Problems in extending critical utilities like gas and electricity to industries
- Problems in land acquisitions
- Lending by commercial banks
- High cost of land
- There is a need to attract investments for newly formed SEZs under the CPEC portfolio.
- The option of public-private partnerships should be explored.

#### *Institutional Framework of SMEs in Khyber Pakhtunkhwa*

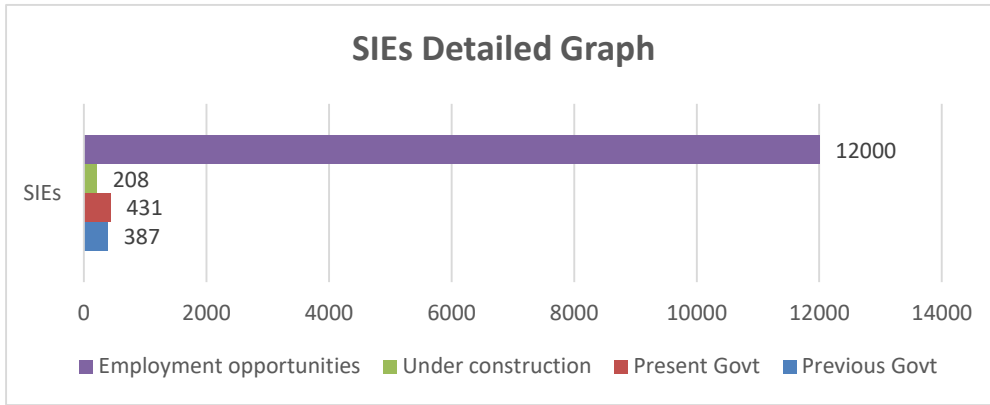
The Industries, Commerce, and Technical Education Department KP has the following attached formations:

- KP Economic Zones Development and Management Company
- KP Small Industries Development Board
- University of Technology Nowshera
- Khyber Pakhtunkhwa Trade Testing Board
- Government Printing and Stationery Wing
- KP Special Economic Zones Authority
- KP Board of Technical Education
- KP Board of Investment and Trade
- KP Technical Education and Vocational Authority
- Directorate of Industries and Commerce

#### *Critical Analysis of Related Institutions*

**SIDB** is striving to promote SMEs in KP. It has recently taken the following major measures in this regard:

- A Research and Development center has been established at the SIDB office for the transformation/upgradation of SMEs and for introducing export-oriented innovations in product diversification.
- Under the previous government, there were only 387 operational industrial units in the Small Industrial Estates (SIEs) throughout the province. However, due to the present government's industry-friendly policy, 431 new industrial units have been established or operationalized, while 208 units are under construction. More than 12,000 employment opportunities have been generated, and approximately Rs. 12,930 million in private investment has been mobilized (Reference needed).



- Establishment of Small Industrial Estate Abbottabad-II at the request of the Industrial Association Abbottabad.
- Industrial Park Peshawar is being established for exporting goods to Afghanistan and CARs. Land has been acquired for the project and designs have been prepared. It will create 10,000 direct employment opportunities by mobilizing more than 6 billion rupees through private investments<sup>19</sup> (SIDB, Governance Reforms, 2022).
- Dargai Small Industries Estate was established in 2017 over an area of 30 acres. It has created job opportunities for over 1,600 individuals.
- Under an ADP scheme, 370 kanals of land are being acquired in Tehsil Khar Bajaur for the establishment of Industrial Park Bajaur. The project cost is Rs. 401 million. It will create more than 4,000 direct employment opportunities.
- Feasibility studies were conducted in all the Merged Districts. According to the feasibility studies, land acquisition is in process for the establishment of Industrial Park Khyber (Bara), Kurram, and North Waziristan.
- Similarly, feasibility studies are in process for the establishment of a Small Industrial Estate on a PPP basis in Mohmand District.
- Independent electric feeders have been recently installed in Small Industrial Estates in DI Khan, Karak, Kohat, and Bannu.
- SIDB is operationalizing the Pakistan Arts and Crafts Gallery in Islamabad through an online business model, wherein customers will have access to KP handicrafts through a web portal.

***Khyber Pakhtunkhwa Economic Zone Development & Management Company (KPEZDMC)***

Currently, KPEZDMC is operating 14 Economic Zones across KP, 9 of which were newly launched in 2020. Five new economic zones are in the pipeline, and the prerequisites for their launch have all been undertaken. Development

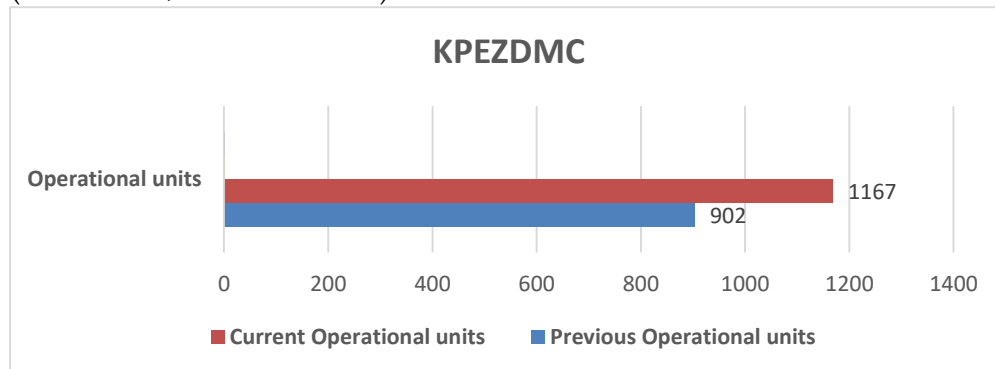
<sup>19</sup> (SIDB, Governance Reforms, 2022)

work in these new zones is in progress, and rehabilitation work in the existing zones is also underway. KPEZDMC has approved an initiative for the solarization of the industry in its economic zones, and the preliminary work for its execution has been completed.

The Hattar and Rashakai Special Economic Zones are the two special economic zones developed and managed by KPEZDMC. Rashakai-EZ, being the flagship CPEC project, has been given special importance in its development and marketing. Besides these special economic zones, proposals for another two special economic zones – Daraband Special Economic Zone in D.I. Khan and the conversion of Mohmand Economic Zone into the Mohmand Special Economic Zone – have been forwarded to the federal government for consideration.

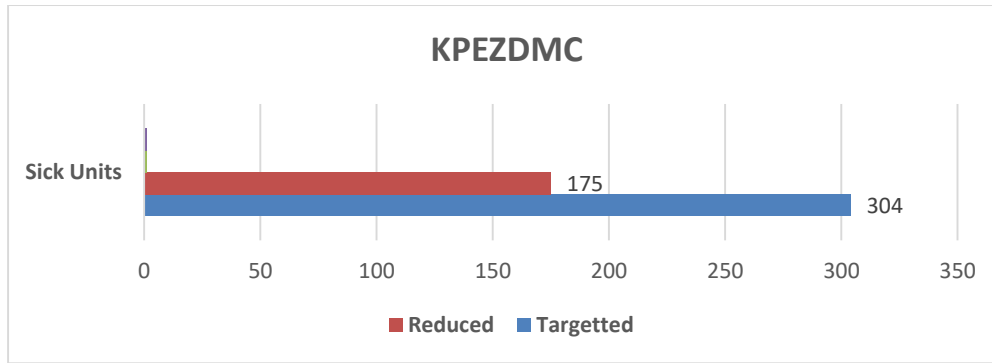
The company has made significant headway in encouraging industrialization in the province, particularly in mineral-bearing areas. KPEZDMC has overcome the bottleneck of non-availability of industrial land for investors in formal setups in the province. As a result, 12,634 applications for industrial land have been received online on the company portal.

KPEZDMC, through its dedicated and professional human resources, has increased the total number of operational units from 902 to 1,167. A total of 304 sick units were targeted for revival, which was reduced to 175, resulting in the revival of 129 sick units. Additionally, 297 units are currently under construction. The enhancement of operational units, revival of sick units, and facilitation of units under construction have resulted in aggregate investment mobilization of approximately PKR 340 billion, of which PKR 129.83 billion relates to new economic zones<sup>20</sup> (KPEZDMC, December 2020). Furthermore, to ensure timely facilitation of investors in the zones, KPEZDMC has established Industrial Facilitation Centers (IFCs) at each zone, and to date, more than 3,700 investors have been facilitated through these IFCs<sup>21</sup> (KPEZDMC, December 2020).



<sup>20</sup> (KPEZDMC, December 2020)

<sup>21</sup> (KPEZDMC, December 2020)



The success of KPEZDMC is evident from the fact that the government of Balochistan has shown keen interest in establishing the Chaman Economic Zone on modern lines through KPEZDMC, and preliminary meetings have already been held. Furthermore, the company has received funds from the World Bank through the KPEC project for the establishment of the Pak-Afghan Economic Zone in District Khyber and a Business Development Park in the Peshawar Economic Zone, Peshawar. The estimated cost of these projects is approximately Rs. 8.00 billion, which will be funded by the World Bank<sup>22</sup> (KPEZDMC, December 2020).

#### *Critical Analysis of KPEZDMC:*

KPEZDMC is facing issues in energizing the newly launched economic zones due to the slow pace of work by PESCO and SNGPL. Additionally, delays in the release of ADP-approved funds to KPEZDMC for development works are affecting the execution of planned activities. Land acquisition for new zones is carried out in coordination with district management, which is often a time-consuming process at the district management's end, leading to significant delays in acquiring the land.

The required details were provided to NHA for the grant of NOC to KPEZDMC for the establishment of the Rashakai Special Economic Zone and the construction of an access road from the Wali interchange to the Rashakai-SEZ. Although KPEZDMC has provided all necessary information to NHA, the issuance of the NOC is still delayed, which is a major concern for KPEZDMC.

The same issue applies to the Irrigation Department. KPEZDMC has repeatedly requested the Irrigation Department to issue an NOC for the construction of a culvert over the irrigation canal for access to the newly developed Mohmand Economic Zone. However, KPEZDMC has not received any response from the Irrigation Department to date.

Whenever KPEZDMC approaches WAPDA for power supply to their zones

<sup>22</sup> (KPEZDMC, December 2020)

and deposits the requisite amount against the issued demand notice, WAPDA often takes considerable time for procurement and installation of the required infrastructure.

Before the development of economic zones, acquiring environmental approval from the EPA is compulsory. However, the EPA takes a considerable amount of time to grant the NOC.

**Khyber Pakhtunkhwa Technical Education and Vocational Authority** is the sole provincial government organization responsible for imparting technical skills. It has a network of institutes for training in almost all districts of KP<sup>23</sup> (TEVTA, 2015). Unfortunately, it has failed to produce a workforce that meets the skills requirements of the industries. This is partly due to the absence of trained faculty and partly because TEVTA does not involve the private sector in syllabus preparation and other policy-level decisions.

Similarly, the Directorate of Industries extends to all districts of Khyber Pakhtunkhwa through its Assistant Directors and Industrial Development Officers. Ironically, these field formations are primarily concerned with price checking and lodging complaints in consumer courts. Promotion of SMEs is not their priority.

Although KP BOIT has arranged expos in Dubai, spending millions of rupees and signing numerous MOUs, it has failed to bring any meaningful investments to the province. Even the MOUs signed with the Chinese government in the context of CPEC have lost momentum.

### *Measures for Ease of Doing Business*

#### *Steps Taken By the Present Government for Ease of Doing Business:*

KP-BOIT, in collaboration with the Provincial Government, has mapped 170 regulations/RLCOs (Registrations, Licenses, Certificates, and Other Permits) across 33 different Departments/Attached Formations in the Province<sup>24</sup> (Industries C. a., 2021-22). As a result of the analysis of the mapping of the RLCOs, regulatory guillotine exercise, and coordination with concerned departments by KP-BOIT, the following reforms have been undertaken in the Province:

- Elimination of multiple inspections by building control authorities for low-risk (category-1) buildings
- Elimination of the requirement for an noc from epa for buildings of non-hazardous categories

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<sup>23</sup> (TEVTA, 2015)

<sup>24</sup> (Industries C. a., 2021-22)

- Waiver of the registration fee for the labour department
- Amendments in building by-laws to determine a specific timeline for approval of maps/layout plans and quick issuance of construction permits
- Environmental assessment rules 2021 notified with reduced timelines for noCs
- Amendments in the registration act, 1908, and rules for online repository and electronic verification of registered property
- Automation of the drug licensing process
- Elimination of the requirement for spittoons in factories
- Elimination of the requirement for whitewashing all surfaces in factories
- Risk-based inspections by the directorate of labour
- Fixed timelines for the registration of a factory from the date of application
- Introduction of an alternate dispute resolution mechanism
- Elimination of regulations for declaring smaller establishments as factories
- Enhancement of the validity period of licenses for auto workshops to 3 years
- Establishment of an online feedback system for businesses
- Online registration of firms by the directorate of industries
- Launching of an online building plan approval system
- Enactment of kp partnership (amendment) act 2021
- Introduction of an automated case management system for courts
- Khyber pakhtunkhwa resolution of commercial disputes bill 2022 (approved by the cabinet and under process of enactment)
- Khyber pakhtunkhwa apprenticeship act 2021 (approved by the cabinet and in process of enactment)
- In order to facilitate business operations in the province, khyber pakhtunkhwa business platform (aasan karobar portal) has been developed with the support of kp information technology board (kp-itb) and digitally connected with concerned provincial departments, including kp-boit, directorate of industries (registrar of firms and boiler), building map approval (lcb), kpezdmc, electric inspector, labour department, kp-ra, kp-ssi, kp-pepa, and excise & taxation department. The purpose is to provide a multi-digital business platform for the facilitation of the business community.
- Establishment of an ease of doing business cell in kp-boit to facilitate investors with various queries and provide maximum guidance and handholding.

### *Recent Incentive Schemes for SMEs*

Some significant initiatives for incentivizing SMEs have been undertaken in KP, which are summarized as follows:



- The ERKP project has awarded matching grants to eligible SMEs since 2012 from the MDTF-allocated fund of US \$25.6 million.
- The provincial government initiated the Insaaf Rozgar Scheme of PKR 1.1 billion for NMDs through BOK.
- A microfinance bill of PKR 1.1 billion is currently under process through SIDB.
- A concept paper for another scheme of US \$5.0 million has been approved from the Turkish government grant for SME development in NMDs.
- The erstwhile FATA Akhuwat Program of PKR 500 million is administered through SIDB.
- The Kamyab Jawan Program.
- The erstwhile FATA Revitalization Program of US \$15 million (UNDP-sponsored).
- The Small and Medium Enterprises Activity (SMEA) of US \$35 million (USAID).
- The RAAST Modernization Financing Scheme for SMEs aims to finance new local and imported machinery for new and existing industrial units, including generators up to 500 KVA. The financing tenure is up to 5 years with a 6-month grace period.
- The RAAST Working Capital Financing Scheme for small and low-to-medium enterprises.

### ***PESTLE Analysis***

#### ***Political Factors:***

The SMEs in Khyber Pakhtunkhwa benefit from a politically stable environment. Over the last nine years, a single political party has been in power, ensuring policy continuity. This stable political environment has led to many SME-friendly policies, legislations, regulations, and incentives, significantly contributing to the stability of the SME sector in Khyber Pakhtunkhwa.

#### ***Economic Factors:***

The past wave of terrorism in the province, the COVID-19 pandemic, and the recent floods have adversely affected the economic conditions of entrepreneurs in Khyber Pakhtunkhwa. The government is also not economically stable enough to compensate for the financial losses of SMEs.

#### ***Social Factors:***

Skills are often passed down from one generation to the next in a seamless manner, which is true for entrepreneurs in KP. However, joint family ownership of SMEs in KP sometimes leads to registration problems with the government and litigation during family business splits.

### *Technological Factors:*

A significant issue for the SME sector in KP is the inability to adopt the latest technologies. SMEs in KP still use outdated machinery for production, partly due to conservative attitudes and partly due to the high cost of modern technologies.

### *Legal Factors:*

Although the provincial government is making efforts to ease the regulatory regime for SMEs, some legal procedures, such as taxes and registration with numerous authorities, can discourage entrepreneurs.

### *Environmental Factors:*

SMEs face severe environmental issues, as they often operate in residential areas, causing pollution and nuisance. The Supreme Court of Pakistan has recently taken suo moto notice of this issue and formed a special commission to suggest ways to mitigate environmental hazards caused by SMEs, especially in residential areas.

### *Best Practices Around the World*

#### *Chinese Example:*

One of the core steps taken by the Chinese government to alleviate poverty was advancing local industries. The "**10 thousand Enterprises Assisting 10 thousand Villages**" project was highly successful in this regard<sup>25</sup> (Ganaie, 2018). Villages were selected based on field surveys by experts to assess their resources and potential. Public and private enterprises selected villages according to their production and business specialties and assisted them in tunnel farming, livestock, animal husbandry, food processing, e-commerce development, branding, packaging, and sales assistance. To date, 46,000 businesses have been paired with 33,600 poor villages. Additionally, China has a relaxed regulatory regime allowing individuals to register an enterprise with as little as one yuan for investment. Pakistan could adopt a similar strategy by involving public and private enterprises in investing in the poorest villages to eradicate poverty and improve living standards.

#### *Japanese Best Practices:*

Japan exemplifies how the education system determines the functioning of the economy, particularly in terms of human capital. Japan's economy is supported by a robust vocational education system, with vocational subjects introduced early in primary school. There are six types of upper secondary schools: (a) general, (b) agriculture and forestry, (c) technical, (d) commercial, (e) fishery, and (f) housekeeping for girls. An interesting feature is that

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<sup>25</sup> (Ganaie, 2018)

students from upper secondary schools spend part of their vacations in the field or factory, gaining practical experience in their subjects<sup>26</sup> (Ezekhel, 1953). In Pakistan, there is a critical need to overhaul the educational syllabus. The current education system produces a workforce that is not technically equipped to transform the industrial sector. Integrating vocational education into the primary syllabus and aligning it with the country's industrial needs is essential.

### *Issues of SMEs in Khyber Pakhtunkhwa*

The issues impeding the growth and operation of SMEs in KP are identified as follows:

- Access to formal credit services is a major constraint for SMEs in KP. SMEs with poor financial backgrounds are neglected by banks and financial institutions. Many SMEs are reluctant to borrow from banks and financial institutions due to high markup rates and cumbersome documentation processes.
- Frequent visits and inspections by government officials also discourage SMEs.
- Lack of coordination among various departments in resolving issues related to SMEs.
- The SME sector is unregistered and undocumented, thus not meeting the criteria for financial support or loans.
- Joint family ownerships often create problems in confirming ownership.
- Reliance on cash transactions instead of using business accounts.
- Absence of registered unions or associations at local, district, and provincial levels.
- Lack of insurance mechanisms for the SME sector.
- No sector- or cluster-wise SME mapping.
- Lack of innovation and continued use of outdated production techniques by SMEs in KP.
- Traditional and unskilled labor.
- No designated sites for SME clusters and cottage industries.
- SMEs operate in densely populated areas, causing environmental and social risks.
- No mitigation plan for environmental protection.
- Absence of independent electricity feeders for SMEs.
- High cost of land.

### *Conclusion*

In light of the above discussion, it is concluded that although the province of

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<sup>26</sup> (Ezekhel, 1953)

Khyber Pakhtunkhwa is rich in natural resources and talented inhabitants, the SME sector has not thrived to the desired level due to several factors, including the COVID-19 pandemic, the previous wave of terrorism, recent floods, and a lack of financial and logistical support from the government. Consequently, the economic development associated with a progressive SME sector has not been achieved.

### ***Recommendations***

#### ***Short Term Recommendations:***

- There should be more focus on facilitation at the policy level instead of focusing on regulations.
- The government should provide incentives to SMEs, such as reductions in electricity prices, transportation subsidies, etc.
- Establish incubation centers to foster innovation.
- Women business centers should be increased and extended to NMDS.
- The Government of KP should place more emphasis on public-private partnership (PPP) projects, especially in the road sector.
- The government should enhance the one-window operation to attract investment.
- Promotion of the China-Pakistan Economic Corridor (CPEC) is crucial. CPEC is significant for the economic growth of Pakistan as it connects Gwadar Port to Xinjiang. The completion of this project will enable Pakistan to access other countries for trade, such as the Central Asian Republics. Similarly, the KPEC project is underway, which will connect Peshawar and Torkham by motorway.
- Skill development is of utmost importance for industrial and economic growth. Khyber Pakhtunkhwa has a large youth population. TEVTA should involve the private industrial sector in policymaking, course development, and the training of instructors for skill development for the youth.

#### ***Medium term Recommendations:***

- KP's significant potential for power generation needs to be fully utilized. Due to its landscape, the province has a strong comparative advantage for hydel power generation. It has the potential to generate 27,000 MW of the 40,000 MW available in all of Pakistan. To address the power shortfall, more power generation stations need to be established through PPP.
- Access roads based on Punjab's 'one village, one road' model need to be constructed. The government should ensure that every village has a well-maintained road.
- KP has great potential for exports. The Government of KP should take export promotional measures by setting up Foreign Trade Facilitation Centers in selected countries such as China, Afghanistan, the six Central Asian Republics (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan,

Uzbekistan, and Afghanistan), Turkey, the UK, etc. These centers will also act as investment facilitation centers.

- The government can assist investors in establishing logistics parks for the industrial sector by providing security management and reliability in logistics, including product movement facilities, material handling/loading/unloading, transportation warehouses, cold storage, container and freight stations, and silos for grain storage.
- Dry ports and border terminals with client-friendly facilities and state-of-the-art infrastructure significantly promote trade. Dry ports and border terminals, modeled after the Sialkot Dry Port Trust, should be established with facilities such as customs clearance, warehouses, loading/unloading, and transport facilities.

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