From the Editor’s Desk

In this Issue of SME Observer, the first article #Breakingthebias highlights the much talked about yet oft ignored phenomenon of economic gender disparity. Developing countries especially find it difficult to grapple with the challenges of gender inequality, amidst limited resources. On the other hand, countries that have done fairly well in addressing inequality have witnessed rapid economic growth. Pakistan paints a bleak image, with low female labor force participation and access to limited resources and services. Economic gender parity, if addressed, has the potential to act as a catalyst for Pakistan’s future growth goals. Women’s contributions to society is imperative for ensuring growth and sustainability.

The next section delves upon Public Procurement as a critical policy instrument for promoting inclusive economic growth by supporting SMEs access to domestic markets. Government procurement offers the state significant power over resource allocation in market economies, allowing private sector enterprises to grow. In this way, government expenditure on diverse sectors of the economy contributes significantly to sector-specific development and growth.

The section on Sector in Focus touches upon the need for formalizing the informal sector of Pakistan which is huge but un-registered. It argues how countries like China promote formalization through the provision of land and infrastructural support below cost, special subsidies, tax privileges, and extension of urban resident benefits in health, education, and welfare to those who are currently part of the informal economy. The same model can be customized by other economies to encourage their informal sector to become part of the formal one.

In the section on Entrepreneurship we have called attention upon Creating the Culture of Second Chance that is a phenomenon that has seldom been discussed on any economic platform whether private or public. Entrepreneurship failure has been largely neglected as a crucial motivator towards entrepreneurial activity. Failure stereotypes can be a huge demotivator for entrepreneurs, especially at startups. However, it is failure that provides ample opportunities for enhancing one’s experience and gaining new information. Therefore, it is argued that reviving entrepreneurs and businesses is a critical economic, social, and cultural challenge, and through specific measures, entrepreneurs can be encouraged to bounce back from failure, thereby creating a dynamic entrepreneurial atmosphere.

Lastly, Lahore on Rails section highlights the benefits of 'Streak – Customer Relationship Management (CRM)’. It is a great tool for e-commerce platforms to know their customer and market their product and services accordingly.

We hope that our readers will find the articles of this publication useful. We welcome suggestions on making the SME Observer a leading publication and information source on the SME sector.

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Turn Potential into Profit!
Small & Medium Enterprises Development Authority
Ministry of Industries & Production
Government of Pakistan
Breaking the Bias

The Unacknowledged Role of Women as Drivers of Economic Growth

Nadia J. Seth*

The role of women participation in economic development is undeniable. Yet, world over they are marginalized, and it takes that extra bit of effort to become and be acknowledged as contributing members of the economy. This reflection, despite the fact that women make enormous contributions as entrepreneurs, employees, on farms and unpaid care givers at home.

The numbers are quite stark. According to the United Nations, only 50% of women of working age participated in the labour market in 2020; for Pakistan this number stands at an abysmal low of 20.1% that is 14.79 million, while constituting 48.41% of the population. Most of the women labour force is engaged in skilled agriculture and fisheries sector (54.6%) followed by elementary (unskilled) occupations (17.9%), craft and related trade (14.4%) while 7.7% are categorized as professional workers. Over the years, there has been an increase in the literacy rate of the female population (10+ age) from 29.6% to 51.8%.

The proportion of women to formal financial services stands at 65%, compared to 72% for men globally. In Pakistan, when it comes to access to finance, the total financing to women borrowers is PKR 13.504 billion, with a mere 12,000+ borrowers. According to the State Bank of Pakistan, Banking on equality policy, the Ratio of women in financial sector is 12%, with 21 million Unique Active Women Accounts and 23% borrowers from micro finance banks being women. On the World Economic Forum’s gender gap Index 2021, Pakistan ranks 153, only above war-torn Iraq, Yemen and Afghanistan.

Let’s have a look at the flip side of the coin. According to McKinsey Global Institute, reaching gender economic parity could add up to 26 percent to annual global GDP in 2025. This statistic alone merits government’s focus

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and prioritization of women economic empowerment, besides the numerous international conventions signed, pledges made and of course achieving the sustainable development goals. Analysis shows that; “As leaders in communities and businesses: one more woman in senior management or on a corporate board is associated with [0.08 – 0.13%] higher return on assets. - As employees: companies in the top quartile for gender diversity are 15% more likely to have financial returns above national industry means. - As constituents and customers: women make or influence 80 percent of buying decisions and control US$20 trillion in global spending. - As contributors to positive public image: a commitment to women can enhance a company’s reputation. - As individual community members [...]: more than one in three private sector leaders report increased profits following efforts to empower women in emerging markets”.

The potential is unparalleled.

Gender equality, bridging the gap, women’s economic empowerment, equal opportunity and many other phrases synonymously used signify one key element; women empowerment - the bottom line for Pakistan being, the 48.421 percent of the population must become gainfully engaged and contributing members of society, if we are to see any semblance of development and growth. Increasing female labor force participation to 50 percent can increase the national labor value added to GDP by 27 percent, while completely closing the gender gap can boost the national GDP by 30 percent i.e., $85.2 billion today.

When it comes to women’s economic empowerment, more specifically entrepreneurship development, there are several challenges that women face, that are compounded merely due to gender. The challenges confounding women can be categorized as highlighted below:

<table>
<thead>
<tr>
<th>Business Environment &amp; Regulatory Regime</th>
<th>Infrastructure Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Absence of women centric policies/ frameworks &amp; action-oriented plans</td>
<td>• Lack of exclusive &amp; secure economic opportunities</td>
</tr>
<tr>
<td>• Cumbersome business regulations and compliances</td>
<td>• Limited career development training and counselling centres at women universities</td>
</tr>
<tr>
<td>• Absence of special subsidies / tax holidays</td>
<td>• Inadequate training centres, display and incubation facilities</td>
</tr>
<tr>
<td>• Property rights</td>
<td>• Limited mobility</td>
</tr>
<tr>
<td>• Lack of one window desks and solutions to bring women towards formal economy</td>
<td>• Industrial estates / special economic zones for women businesses</td>
</tr>
</tbody>
</table>

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advancing%20womens%20equality%20can%20add%2012%20trillion%20to%20global%20growth/MGI%20Power%20of%20parity_Full%20report_September%202015.pdf

5 Synthesis Note: Women’s Economic Empowerment - What do we know? Donor Committee for Enterprise Development
6 National Gender Policy Framework – Ministry of Planning, Development & Special Initiatives
Access to Finance
- Inadequate sensitization of banking products, processes & interface
- Lack of female specific matching grants/revolving funds
- Rates of interest and collateral requirements
- Formal financing documentation

Business Development Support
- Inadequate business knowledge & documentation skill
- Lack of Business Development Service Providers and solutions to women specific needs
- Investment opportunities and information tools for start-ups and growing businesses

Market Access
- Limited knowledge of existing and potential markets, at the national and international levels
- Lack of preferential quota system for public procurement of goods and services from Women Entrepreneurs
- Limited access to market and government support for promotion women exports
- Limited participation in trade fairs and exhibitions

Coordination, Networking & Advocacy
- Access to information
- Lack of coordination among organisations working for Women Entrepreneurship Promotion

For redressal of each of the aforementioned issues, a concerted effort across the institutional infrastructure and business environment is a necessary pre-condition. The Donor Committee for Enterprise Development (DCED) provides a framework that assess the overall business economic environment reform through a gender lens. It is a starting point to assess and design support measures impeding growth and development of women led businesses.


The Government of Pakistan has been making efforts in creating an environment where women led businesses
can flourish and the true potential of women can be realized. The recently drafted National Gender Policy Framework by the Ministry of Planning, Development & Special Initiatives provides a comprehensive structure for pursuing gender development in the country. From social and political inclusion, to education, health, access to justice and employment and entrepreneurship opportunities, policy interventions have been identified. Furthermore, the State Bank of Pakistan, announced its Banking of Equality Policy, that sets targets for women financial inclusion through 6 pillars of support viz.

- Increase women’s ratio in financial sector to 20%.
- Place Women Champions at 75% of all bank touch points
- Increase ratio of women branchless banking agents to 10%
- Impart gender sensitivity training to all staff members to improve elimination of implicit gender biases.
- Increase outreach of women centric products & services, access and usage of accounts, and financing to women entrepreneurs to reach 20 million unique active digital accounts for women by 2023.

On the taxation side women led business have been provided an incentive through the Finance Act 2021, where the tax payable by woman enterprises on profit and gains derived from business chargeable to tax under the head “Income from Business” shall be reduced by 25%. For the purpose of this clause a woman enterprise means a startup established on or after first day of July 2021 as sole proprietorship concern owned by a woman or an AOP, all of whose members are women or a company whose 100% shareholding is held or owned by women. The recently announced National SME Policy 2021 also prioritizes interventions for women entrepreneurship development. These include greater and easier access to information, capacity building initiatives and linking with markets.

With the Sustainable Development Goals in place, and ambitious targets set out in various policy frameworks at the national level, how close will we be in achieving these, and how best to utilize and prioritize limited resources towards gender development merits a stepwise approach across the government’s existing business support infrastructure. A few measures that can be undertaken to support women entrepreneurship development through the existing support institutions are laid down below:

**Business Environment and Regulatory Regime**

- Rules & regulations relating to business registration, taxation, import/export etc. be simplified, made available online and through one window facilities along with awareness and capacity building
- A fixed tax regime for Small Women Entrepreneurs be introduced
- Differentiated tax rates for start-up and established businesses be created. To bring more women entrepreneurs in the tax net, start-ups that are exclusively owned by women, should be given income tax and sales tax exemptions for an initial period of 3-years. Income tax and sales tax rates should be lowered for women owned businesses.
- Complaint redressal mechanisms through alternate dispute resolution and strengthened ombudsperson’s offices.
- Contract enforcement be strengthened and capacity building on legal rights
- Data with respect to innovative / emerging sectors be developed and shared with WCCIs enabling WEs to explore investment opportunities in those sectors.
- Ease of access to information can partially address women’s mobility issues.
Access to Finance
- Women specific business financing initiatives be introduced to meet financing needs
- Awareness creation on financing options and banking tools available in the market
- Micro and small enterprise financing be promoted
- Financial literacy programs be conducted for making WEs bankable

Infrastructure
- Implementation of the banking on Equality Policy of the State Bank of Pakistan
- Establish Women Business Incubation Centers to provide a safe environment, office facilities, networking and access to institutional partners and business support programs. Such facilities may particularly focus on encouraging home-based entrepreneurs and university graduates.
- Establishment of emporium especially for WEs to promote their products in local and international markets.

Technology:
- Digital / e-Commerce support solutions for WEs
- Digital Literacy and facilitation programs especially for WEs of remote areas enabling them to shift their conventional manual business practices to business automation and e-Commerce / digital platforms.
- Access to information. E-commerce can play an important role in empowering the women especially through adopting and promoting aggregation models.

Capacity Building and Skills Development:
- Develop Short Training Videos/ Tutorials at YouTube
- Conduct Sector specific training programs, keeping in mind the unique needs of women, as caregivers.
- Upgradation of Training Curriculum of Government training institutions. Component of "Entrepreneurship" be made part of curriculum of formal trainings offered by TEVTA, PVTC etc.
- Capacity building and capacity enhancement of micro and small women owned businesses to handle large orders (co-operatives model can provide useful insights)
- Connectivity of WEs / Women Chambers of Commerce & Industry with skill development institutions
- Mentorship programs and showcasing successful female entrepreneurs to share their entrepreneurial journey through various communication channels.

Market Access:
- Sponsor women specific delegations every year. TDAP should consider accelerating regional trade by taking women business delegations to regional countries.
- Facilitate WEs in general and WEs operating in rural / remote areas particularly addressing their issues of connectivity and market access at local as well as at international level.
- Develop and share market insights for targeting exports to new and emerging markets
- Preferential public procurement from women led businesses
- Establish B2B and B2C e-commerce platforms specifically for women owned businesses.

For the State to play a meaningful role towards developing and supporting creation of an entrepreneurial ecosystem that breaks the bias and allows for women businesses to grow, well-coordinated measures are the way forward.
Public Procurement
Enhancing SME’s Share in Public Procurement to Support Inclusive Growth

Maryam Anas Ganaie*

Public procurement is an important policy tool to support inclusive economic growth through facilitating domestic market penetration of SMEs. Recent research studies conducted to assess role of public procurement in enhancing GDP growth and employment generation link public procurement with SMEs in order to reap desired results of economic development. Brazil, Ferraz, Finan, & Szerman (2015) reveals that "winning at least one [government] contract increases firm growth by 2.2 percentage points, with 93 percent of the new hires coming from either unemployment or the informal sector. It is an established fact that, government spending is an important component of GDP growth, however, it is not possible to achieve inclusive economic growth targets without inclusion of SMEs in procurement process. Enhancing SMEs participation in Public Procurement process is positively associated with the economic benefits of formalization of economic activity, growth and development of SMEs, resolving access to finance issues, and support for innovation by small enterprises that may result into employment generation, poverty alleviation and narrowing income inequality gap. Syed M. Hassan (2020) indicated that only 10% reservation for SMEs in public procurements can provide eight to nine times larger support to SMEs than any relief package in times of pandemic. Furthermore, governments can also have positive impact on productivity of SMEs through ordering innovative products that help SMEs to invest in technology acquisition, productivity enhancement measures and improving competitiveness. These effects also persist well beyond the length of the contracts and enable businesses to reap long term benefits of product specialization and market access. However, a real challenge in developing countries like Pakistan is to develop and implement preferential public procurement policies and simplifying procurement rules and regulations to enhance SME’s participation in procurement process to enjoy economic benefits associated with it. This paper aims to analyze issues and constraints that limit SMEs participation in procurement process and significance of preferential procurement policies to enhance SMEs participation in public procurement.


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**Economic Significance of Public Procurement in Pakistan and Competing Nations:**

Worldwide, Government procurement gives the state considerable influence over the allocation of resources in market economies that provide opportunity to private sector businesses to penetrate in the domestic market. In this regard, spending of government to support various sectors of the economy plays an important role in accelerating sector specific development and growth. The graph :1 shows total procurement spending and its share in GDP in Pakistan, India, Korea Republic, China, Vietnam, and Mexico. As shown, the procurement spending is the highest in China with more than 4.2 trillion US dollars which is 5.5 times greater than that of Vietnam, however, the share of public procurement in Vietnam’s GDP is relatively higher than that of China’s. Similarly, the amount of public procurement is the highest in India when compared with Pakistan, South Korea and Vietnam, however the Republic of Korea shows the lowest percentage share in GDP relative to these countries.

In comparison to the mentioned countries, Pakistan and Mexico have lowest public procurement spending among the countries analyzed. However, Pakistan has approximately same share of public procurement in GDP as of India’s (20%), however, amount of Pakistan’s spending is approximately 88% lower than that of India’s. This suggests that size of economy determines the higher contribution of Public Procurement in GDP which in turn provides support to SMEs to benefit from government’s procurement of goods and services.

In Pakistan, largest portion of the procurement spending goes to infrastructure development. As shown, 39% of the total procurement spending is allocated to construction, roads, and CPEC related projects. Healthcare sector is the second most important sector with the allocation of 12% of procurement spending. The rest of the 48% of the procurement spending goes to other sectors including education, research and development, industrial sector, energy, general government services, water and sewerage, agriculture, defence affairs, and others. Only 9 percent of total procurement spending is allocated to the industrial sector. The graph given below reflects on the percentage of public procurement spending in different sectors in Pakistan.

**Graph:1 Total Public Procurement Spending and % Share in GDP**

Similarly, size and percentage contribution of procurement spending on goods and services provides opportunities for large, medium and small enterprises to benefit from public procurement. In Pakistan, approximately 72% of the total spending goes to civil work; which primarily is more accessible to only large sized firms. Analysis shows that 21% is allocated to physical assets, consultancy and contractual work (5%), project pre-investment analysis (2%), and repair and maintenance (1%). Most SMEs apply for physical assets, repair and maintained and consultancy work. However, their success rate, in terms of winning and completing contracts is not known due to scarcity of data. Although it is known that SMEs share in public procurement in Pakistan is low, their accurate share in public procurement is yet to be determined.

In order to enhance SMEs’ share in public procurement, various initiatives such as reserving SME quota in public procurement, developing preferential rules for SMEs, providing them financial and technical support for contract management etc. have been considered, analysed and implemented across the globe. However, this phenomenon has remained a challenge for the governments of developing economies due to procedural discrepancies, issues faced by SMEs at various stages of procurement process, and lack of capacity of SMEs. In general, key constraints that limit SME’s participation in Public Procurement are broadly classified as narrow pre-qualification criteria, requirement of bid security deposit, cumbersome documentation, and delayed
payments. However, issues and constraints vary at every stage of the process. The subsequent section provides a brief analysis of public procurements process and issues faced by SMEs.

Comparative Analysis of Procurement Process and Issues faced by SMEs in Pakistan:

Procurement process usually consists of two procurement stages that are broadly classified as i) Bidding Process Stage and ii) Completion of the Contact Stage. For the purpose of analysis, comparative data of China, Republic of Korea, India, Pakistan, Vietnam and Mexico has been analyzed. World Bank’s Doing Business Data 2020 on Contracting Governments suggests that on average there are 17 steps involved in the procurement process of any country. The total procurement time is a key factor that defines the efficiency and effectiveness of the overall procurement process. Although Pakistan does not seem to have excessive procurement steps, yet the processing time taken at each step makes the overall process unnecessarily long and complex. For example, there are 17 steps long procurement process same as of China’s, however Pakistan’s procurement time is more than twice the processing time of China. In contrast, the number of procurement days in Pakistan, India and Vietnam are almost double the number of days taken by China. This reflects that in comparison to developed economies, the developing countries have relatively cumbersome procedures and processes that makes the procurement processes complex and inefficient.

**Graph: 4 Total Time and Steps Involved in Procurement Process**

![Graph](image)

Source: *Doing Business 2020 Contracting with the Government Preliminary Data - As applicable until May 1, 2020*

Public Procurement Phase 1- Bidding Process:

Bidding process is the foremost step and longest of all the procurement processes. Approximately, time of bidding process ranges between 40% to 68% of total time of procurement procedure. It is worth noticing that the process of bidding is relatively longer in Pakistan, Mexico and India as compared to Korea, rep and China countries.
As shown, compared to China, Pakistan’s bidding process constitutes 59% of its overall procurement process whereas China bidding process is 68% of the overall procurement process. This may imply that one of the reasons of efficient procurement process of countries like China is the due-diligence and early scrutiny of the applicant at the very initial stages of the procurement that could make further processing efficient and quick. In Pakistan, prequalification and award time takes 60 and 105 days respectively that are highest among competing nations. The total number of number of days involved in the bidding process are given in the below table.

At the bidding stage, access to information, finding opportunities on tendering platforms on line, lack of understanding of the procurement process, lack of related training (e.g. bid writing, submission process) etc constrains SMEs effective participation in the procurement of goods and services. Generally, SMEs have preconception that governments prefer to contract with large suppliers only, which dissuades them to participate in the bidding process. While at pre-qualification stage, SMEs experience lack of information and clarity of the solicitation document and limited resources to engage in prequalification processes such as vetting bids further.
exacerbates the issue. Further to that, bid submission involves extensive paperwork, documentation and compliance requirement that usually is difficult for SMEs to comply.

In Pakistan, at the time of award of contracts, complex statutory requirement of submitting evaluation report to Public Procurement Regulatory Authority of Pakistan (PPRA) before award of contract and other procedural requirements cause delay in award time. Moreover, in some cases, contracts are awarded to applicants who quote lowest price rather than overall best value of the contract. Majority of the times, SMEs believe that the selection processes of contract award favours established and large firms with prior experience of winning and completing tenders. Complex legislation creates unrealistic expectations with respect to technical and financial capacity and compliance standards that limits SME opportunities.

**Public Procurement Phase 2: Contract Management**

In all the mentioned countries, the contract management process involves fewer number of steps compared to the bidding process steps. However, the countries vary significantly in total number of days spent at each step of contract management phase.

The above graph explains that China and Korea Rep. allocated less time at the contract management process, 32% and 40% respectively of total procurement time. On the other hand, in Pakistan the contract management stage is relatively longer with about 55% of total procurement time and fewer number of steps involved at this phase compared to the bidding process. This further validates the importance of careful selection and scrutiny of applicant at the bidding process is highly important that could significantly reduce the overall procurement processing time, regardless of total number of procurement steps involved. The details of number of days allocated at each step of contract management process for each country is given in the following table.

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8 Source: (Liao, Orser and Riding, 2017[24]).
Certificate of Completion and Payment time in Pakistan is the longest and takes around 68 and 113 days that are highest among all countries that form part of this analysis. Defect liability period causes issuance of delay in certificate of completion. Cumbersome requirement of documentation and timely fund release cause delays in payment time that adversely affects small and medium size businesses. At this phase, contract administration, lack of capacity and resources to meet compliance requirements, complexity of federal accounting and payment systems/schedules, inflexible terms of payment (even when caused by government delays), on-going relationship management, unplanned and unrealistic demands of procuring agency, informal add-ons without due compensation, and lack of communication with respect to expectations are key issues that are faced by the businesses.

**Preferential Procurement Policies to Support SME’s Participation in Public Procurement Process**

Worldwide, various initiatives have been taken to create conducive business environment for SMEs to provide them equal opportunities to participate in public procurement process and to win contracts. Facilitation for successful completion of the contracts is also extended. In China, at least 30% of annual procurement budgets is allocated for micro & small enterprises while 40% and 25% of total procurement budget is reserved for SMEs in Taiwan and Angola. 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. A brief matrix on preferential procurement policies adopted by various countries including SME Specific assistant policies mainly include market support, training and technical assistance, financial assistance, performance guarantee flexibility, framework for SMEs, subcontracting requirements, small lot sizes, flexibility of award criteria, reservation of quota for SMEs and bid preferences is provided as Annex: A.

A positive impact of preferential procurement policies is also reported in Republic of Korea, India and Mexico. Case study of these countries is given in table: 3. These countries also introduced gender specific initiatives and reforms to support SMEs.

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9 Policies that promote SME participation in Public Procurement, DCED-2017
<table>
<thead>
<tr>
<th>Republic of Korea</th>
<th>India</th>
<th>Mexico</th>
</tr>
</thead>
</table>
| **Institutions** | • Centralized and Decentralized procurement process  
• Korean Small and Medium Business Administration supports SMEs  
• Public Procurement Services (PPS) central government agency in charge of procurement | • Largely decentralized procurement process  
• National Small Industries Corporation coordinates efforts to support SMEs  
• Public Procurement Bill (2012) at central government level established set-aside goals | • Ministry of Public Administration handles nationwide public procurement  
• Ministry of Economy establishes policy goals regarding SMEs and facilitates information access for SMEs |
| **Instruments / Policies** | • KONEPS E-Procurement platform,  
• Prompt Payment Reform, Financial assistance, Advanced Payments, SME marketing support, Training services,  
• Contract thresholds, Reserved Products,  
• Multiple Award Schedule for SMEs | E-procurement, Prompt Payment Reform, SME Consortia Formation, Training and Technical Assistance, Reduction of Transaction Costs, Setting up Grievance Cell, Penalties for Payment Delay, Set-asides, Reserved Products, Bid Price Preferences | Streamlining processes, E-procurement, Transparency initiatives, Social Witness (anti-corruption), Prompt Payment Reform, SME online support, Training programs, Financial Assistance, Advanced payments, Public Procurement Fair (marketing), Reserved Contracts, Award Criteria |
| **Gender- specific** | Contracting goals for women-owned businesses, Contract thresholds | Reserved products, indirect support through previously disadvantaged populations support programs | Support for women owned enterprises but not specific to procurement |
| **Impact of Reforms on SME Participation in Public Procurement** | Share of PPS purchases from SMEs up to 73.9%, 75% of KONEPS contracts won by SMEs. | 20% of total government contracts are awarded to SMES Expected $260 billion in public spending directed to SMEs from public sector by 2020. | Six-fold increase in contracts awarded to SMEs since 2009, 67% of contracts (not subject to free trade agreements) won by SMEs, 80% of E-procurement contracts won by SMEs |


In Pakistan, special focus has been given on preferential public procurement under National SME Policy 2021. The Policy envisions reservation in public procurement from SMEs, review of requirement of performance guarantees, bid bonds, securities and turnover restrictions, as well as supplier/contactors being bound to purchase a fixed percentage of business orders from SMEs are also made part of the policy document to enhance SMEs share in public procurement. Furthermore, procurement support units will also be established at business support organizations to provide assistance in completing bidding documents and technical assistance in bidding for complex technological procurements to help SMEs cope with capacity issues bids, maintain liaison with the
government and provision of legal and technical support. Exemption from submission of bid security is one of the recommendations of National SME Policy 2021. In this regard, an amendment was made in PPRA rules, 2004 with effect from June 28, 2021. As per the amendment in Rule 25 of the rules, procuring agencies have been authorized / given the option to obtain bid security in the form of a bid securing declaration instead of a banking instrument. These initiatives are expected to be a positive step to enhance SMEs contribution in Public Procurement in Pakistan.

A concerning rule “Direct Contracting with State Owned Entities” is being encouraged under PPRA rule 42(F) that states “the organization or the body shall accomplish the work or the services including consultancy services, exclusively through its own resources without involving private sector as a partner or in the form of a joint venture or as a sub-contractor”. Such discrepancies in PPRA rules and regulations require a rethink.11

Nonetheless, a real challenge is to implement preferential procurement policy initiatives in true letter and spirit, introducing procurement reforms, tackling red tapism and development of efficient e-procurement system. Empirical evidence supports that procurement reforms improve spending efficiency by 1 % of GDP12. Countries like Bangladesh, India, Nepal, and Malaysia have established e procurement systems. In Pakistan, a dedicated e-procurement portal is in place that is primarily for information purposes. Electronic bid submission, bid opening, or signing of contracts is not available online. However, e-Procurement reform is one of the major drivers of National procurement strategy and its implementation is still underway.

Conclusion and Way Forward:

Like any other country of the world SMEs in Pakistan are critical for economic growth and job creation. There are an estimated 5.2 million SMEs in Pakistan, having 40% share in the GDP with 25% share in exports. Notwithstanding, there substantial contribution to the GDP, there does not exist any mandatory procurement preferential scheme for SMEs in Pakistan to be followed by the public sector entities. In addition, absence of data to provide a true picture of the share of SMEs in the public procurements at the federal and provincial levels makes it all the more difficult to frame support policies. In fact there is a clear lack of procurement related data collection, processing, analysis and management.

In order to develop any preferential public procurement framework for SMEs, it is imperative that a structured exercise is conducted by the federal and provincial governments to document the total outlay of procurements awarded to SMEs in a given period. The exercise should focus on analysis of the procurements awarded to the business with reference to the sectors, their size based on annual turnover, employment etc. Based on the results of the data, appropriate schemes for preferential procurement may be designed for SMEs supported by amendments in relevant provisions in the PPRA Act and Rules/Regulations. Furthermore, key policy initiatives as proposed under National SME Policy 2021 may be implemented. Steps may also be taken to develop centralized, E-procurement portal, minimizing ‘size’ discrimination and providing support to SMEs in terms of financial assistance and skills development to exploit opportunities offered by preferential procurement policies.

11 Public Procurement Regulatory Authority Ordinance, 2002
## Annex A:

### Preferential Procurement Policies for SME’s Participation in Public Procurement Process

<table>
<thead>
<tr>
<th>Specific Instrument/Policy</th>
<th>Stage of Procurement Process</th>
<th>Description</th>
<th>Country Example(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Core Procurement Principles</strong></td>
<td><strong>Transparency and Anti-Corruption</strong></td>
<td>Institutional Procedures; Eligibility of Suppliers; Advertisement of Tender; Bid Opening, Evaluation &amp; Awarding</td>
<td>Making relevant information available on tender opportunities, open bidding process, monitoring systems, clear evaluation procedures, etc.</td>
</tr>
<tr>
<td><strong>Integrity and Accountability</strong></td>
<td>Institutional Procedures; Bid Opening, Evaluation &amp; Awarding; Post-award &amp; Execution</td>
<td>Include codes of conduct, conflict of interest policies to promote trust and responsiveness with fairness to the public and stakeholders.</td>
<td>Republic of Korea</td>
</tr>
<tr>
<td><strong>Value for Money</strong></td>
<td>Institutional Procedures; Bid Opening, Evaluation &amp; Awarding; Post-Award &amp; Execution</td>
<td>Take into account the whole life cost of goods/services procured.</td>
<td>United Kingdom</td>
</tr>
<tr>
<td><strong>Efficiency of the procurement process</strong></td>
<td>Institutional Procedures</td>
<td>Improve simplicity, speed, certainty, and reduce costs of process.</td>
<td>Republic of Korea</td>
</tr>
<tr>
<td><strong>Procurement Reform Policies</strong></td>
<td><strong>E-Government and E-Procurement</strong></td>
<td>Advertisement of Tender; Bidding Process &amp; Bid Submission; Bid Opening, Evaluation &amp; Awarding</td>
<td>Use of online tools for rapid communication, transparent processes, broader reach.</td>
</tr>
<tr>
<td><strong>Streamlining application process</strong></td>
<td><strong>Bid Security</strong></td>
<td>Bidding Process &amp; Bid submission; Bid Opening, Evaluation &amp; Awarding</td>
<td>Minimizing administrative costs to the business.</td>
</tr>
<tr>
<td><strong>Limiting Turnover Requirements</strong></td>
<td>Preparation Stage &amp; Eligibility of Suppliers; Bidding Process &amp; Bid Submission</td>
<td>Preparation Stage &amp; Eligibility of Suppliers</td>
<td>Setting a sales turnover figure that allows SME bids.</td>
</tr>
<tr>
<td><strong>Prompt Payment Reform</strong></td>
<td>Post-Award &amp; Execution; Institutional Procedures</td>
<td>Shorter payment times allow SMEs with limited liquidity to participate.</td>
<td>Republic of Korea, Mexico, U.S.</td>
</tr>
<tr>
<td><strong>Penalties in case of delayed payments</strong></td>
<td>Post-Award &amp; Execution</td>
<td>Payments made to the businesses who suffer from delayed payments.</td>
<td>Canada</td>
</tr>
<tr>
<td><strong>Simplified contract complaint resolution</strong></td>
<td>Compliance &amp; Conflict Resolution</td>
<td>Minimize legal resources needed while presenting fair, timely resolution.</td>
<td>India</td>
</tr>
<tr>
<td><strong>SME-Specific Assistance Policies</strong></td>
<td><strong>Marketing Support</strong></td>
<td>Preparation Stage &amp; Eligibility of Suppliers</td>
<td>Supporting SMEs through visibility of their products/services</td>
</tr>
<tr>
<td><strong>Training and technical assistance</strong></td>
<td>Preparation Stage &amp; Eligibility of Suppliers; Bidding Process &amp; Bid Submission</td>
<td>Providing a range of services to SMEs to enable their better participation in procurement process.</td>
<td>Republic of Korea</td>
</tr>
<tr>
<td><strong>Financial assistance</strong></td>
<td>Preparation Stage &amp; Eligibility of Suppliers; Bidding Process &amp; Bid Submission; Institutional Procedures; Post-award &amp; Execution</td>
<td>Providing access to capital and/or advanced payments</td>
<td>U.S., Kenya, Republic of Korea, Croatia, Macedonia</td>
</tr>
<tr>
<td><strong>Performance Guarantee Flexibility</strong></td>
<td>Preparation Stage &amp; Eligibility of Suppliers; Bidding Process &amp; Bid Submission; Institutional Procedures; Post-award &amp; Execution</td>
<td>Reforming requirements of performance guarantees to reduce difficulties for SMEs</td>
<td>Australia, China</td>
</tr>
<tr>
<td><strong>Framework agreements for SMEs</strong></td>
<td>Preparation Stage &amp; Eligibility of Suppliers; Bidding Process &amp; Bid Submission</td>
<td>Use of predetermined agreements to facilitate continued and more engagement by SMEs</td>
<td>U.S., Republic of Korea</td>
</tr>
<tr>
<td><strong>Subcontracting requirements or SME consortia formation</strong></td>
<td>Preparation Stage &amp; Eligibility of Suppliers; Bidding Process &amp; Bid Submission</td>
<td>Promote SME engagement even when the size of the contract is not suitable for a single SME to pursue.</td>
<td>Italy, India</td>
</tr>
<tr>
<td><strong>Smaller lot sizes</strong></td>
<td>Preparation Stage &amp; Eligibility of Suppliers</td>
<td>Splitting contract sizes into smaller sizes to allow more SMEs to bid.</td>
<td>European Union, Egypt, Albania, Sweden</td>
</tr>
<tr>
<td><strong>Award Criteria</strong></td>
<td>Bid Opening &amp; Evaluation; Preparation Stage &amp; Eligibility of Suppliers</td>
<td>Providing opportunities for SMEs to improve their bid based on characteristics of their firm or work.</td>
<td>South Africa</td>
</tr>
<tr>
<td><strong>Set Asides</strong></td>
<td>Preparation Stage and Eligibility of Suppliers</td>
<td>A designated portion of the procurement budget reserved for SMEs</td>
<td>U.S., China, Algeria, Dominican Republic, Morocco, Kenya</td>
</tr>
<tr>
<td><strong>Contract Thresholds and Reserved Products</strong></td>
<td>Preparation Stage &amp; Eligibility of Suppliers</td>
<td>Either contract sizes or specific products are reserved for SMEs to bid on.</td>
<td>Indonesia, Colombia, India, Republic of South Korea</td>
</tr>
</tbody>
</table>

The SME sector of Pakistan is largely responsible for employment generation and poverty alleviation, though mostly informal, but of high importance. There is no standard definition to describe a hidden or informal economy, however, it is understood that enterprises who do not or cannot register as official entities and operate beyond the framework of legitimacy are called informal enterprises. Assuming that they are unlawful but not harmful, they evade certain costs associated with taxes and compliance to standards or licensing requirements, they lose out on the benefits offered through formalization by the government for registered enterprises. An informal economy is also commonly referred to as unreported economy, black economy and shadow economy. Irrespective of the way it is defined, the sector’s contribution is not reflected in the national economy and poverty remains both a cause and consequence of this informality.

The key characterizing features of an informal firm\textsuperscript{13} are its unincorporated legal status which separates it from its owners based on its own set of accounts, operates at a limited scale, has unregistered employees working at wages lower than those determined by the state, and thus escapes the tax net as well. Developing countries like Pakistan, with a large informal sector, need to be brought into the formal fold, not only to raise tax revenues for the country, but also to enhance productive capacities, scaling up of operations, adoption of technology and product diversification among others. However, several institutional constraints including lengthy business documentation and registration processes, complicated taxation policy, limited access to finance, markets, education, skills and tech savviness, hampers the formalization process. These barriers are created and perpetuated by the system, which further drives away the enterprises from formalization.

The informal economy of Pakistan consisted of about 30 percent of the total economy\textsuperscript{14} until early 2000s, whereas as per latest available data, 40 percent\textsuperscript{15} of our aggregate production comes from the informal sector. Despite that, the workers belonging to this sector have little access to labour welfare services. Decent work

\textsuperscript{13}ILO, Informal economy (2018a)
\textsuperscript{14}SBP, The size of informal economy in Pakistan (2010)
\textsuperscript{15}SBP, Optimal monetary policy in the presence of sizable informal sector and firm level credit constraint (2016)

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environment and practices are hardly adopted and several challenges pertaining to work, child and bonded labour, social protection, lack of sustainable employment, working poverty, gender-based discriminations and migration are rampant. The provincial governments of Punjab, Sindh and Khyber Pakhtunkhwa developed their respective labor policies in 2018 regarding local labor issues and challenges focusing on ensuring effective implementation of labour standards, improvement in wages, child and bonded labour, among other critical areas. Efforts are being made to reduce the cost of shift towards formalization and for simplification of administrative procedures, and capacity building, leading to improved business and household incomes\textsuperscript{16}. At present, informal employment is rampant in the following non-agriculture sectors:

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Sectors</th>
<th>2014-2015</th>
<th>2017-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wholesale and retail trade</td>
<td>34.1</td>
<td>32.5</td>
</tr>
<tr>
<td>2</td>
<td>Manufacturing</td>
<td>23.2</td>
<td>22.8</td>
</tr>
<tr>
<td>3</td>
<td>Construction</td>
<td>16.4</td>
<td>16.2</td>
</tr>
<tr>
<td>4</td>
<td>Community/social &amp; personal services</td>
<td>14.5</td>
<td>16.0</td>
</tr>
<tr>
<td>5</td>
<td>Transport/ storage &amp; communication</td>
<td>10.9</td>
<td>11.5</td>
</tr>
<tr>
<td>6</td>
<td>Others (Include mining and quarrying, gas &amp; water and finance, insurance, real estate &amp; business services)</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: PBS, Labour Force Survey 2017-18

In the comparative period given in Table 1, a marginal downward trend is seen in the wholesale and retail trade, manufacturing and construction while informal employment in all the remaining sectors has trended up. Such a slow transition to formal sector makes the labour look for other opportunities in the informal areas, keeping them trapped in a vicious poverty cycle despite their constant engagement in the labor market. The dynamics and emergence of informal economies remains debatable even today although the concept emerged in the 1970s. Their existence is observable both in developing and developed countries. At a global level, informal firms have provided employment to 85 percent of informal workers while only 11 percent\textsuperscript{17} are employed by formal firms. At a regional level excluding agriculture, Asia holds one of the largest workforces in informal employment at 68.2 percent, preceded by Sub-Saharan Africa at 85.8 percent and Arab States at 68.6 percent\textsuperscript{18}.

Over the past few decades, Asia has shown consistent positive GDP growth rate which is notable in this context as it defies the general idea of its inverse relationship with informality, else higher growth rate would have been a major determining factor of lower informality. According to available data, the share of informal employment is distributed with a very high variance between sub-regions, led by South Asia (87.80 percent) having the maximum share, followed by Southeast Asia (75 percent) and East Asia (50.70 percent)\textsuperscript{19}, as shown in Figure 1.

The competing nations in the Asia and the Pacific regions, operating in somewhat similar entrepreneurial environments, such as China,

\begin{figure}
\centering
\includegraphics[width=\textwidth]{Fig1.png}
\caption{Regional informal employment}
\end{figure}

\textsuperscript{16} World Bank, Overview of Pakistan’s jobs diagnostic: Promoting access to quality jobs for all (2019)
\textsuperscript{17} IMF, What do we know about informal economy? (2021)
\textsuperscript{18} ILO, Informal economy (2018)
\textsuperscript{19} ILO, From informal to formal: A meta-analysis of what triggers the conversion in Asia (2019)
India and Indonesia, having significant shares of informal economy can create positive references for other developing countries. The below results of the Dynamic General Equilibrium Model (DGE) by the World Bank gives the estimated share of these economies in comparison with Pakistan, whereby a progressive decline is observed in the period from 2014 to 2018. The given values are calculated by gathering direct measures from labor force, firms or household opinion surveys, and therefore give the nearest possible estimate.

**Table 2: DGE model-based estimates of informal output (Percentage of official GDP)**

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Countries</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pakistan</td>
<td>33.1</td>
<td>33.0</td>
<td>32.9</td>
<td>32.7</td>
<td>32.4</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>9.5</td>
<td>9.2</td>
<td>9.0</td>
<td>8.7</td>
<td>8.6</td>
</tr>
<tr>
<td>3</td>
<td>India</td>
<td>17.8</td>
<td>17.6</td>
<td>17.3</td>
<td>17.0</td>
<td>16.7</td>
</tr>
<tr>
<td>4</td>
<td>Indonesia</td>
<td>16.2</td>
<td>16.0</td>
<td>15.7</td>
<td>15.5</td>
<td>15.3</td>
</tr>
</tbody>
</table>

Source: World Bank

China, one of the world’s strongest economies during the current times has been able to bring about only a 0.9 percent decrease in its informal output over the past five years. Indonesia also reflects a 0.9 percent reduction during the same comparative period, followed by Pakistan at 0.7 percent and India at 0.3 percent, as depicted in Table 2.

**Table 3: Non-agriculture informal employment (Percentage of total employment)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Pakistan</th>
<th>China</th>
<th>India</th>
<th>Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>70.8</td>
<td>53.5</td>
<td>78.1</td>
<td>80.2</td>
</tr>
<tr>
<td>Rural</td>
<td>78.9</td>
<td>81.4</td>
<td>81.6</td>
<td>84.2</td>
</tr>
<tr>
<td>Urban</td>
<td>65.7</td>
<td>35.3</td>
<td>74.5</td>
<td>78.1</td>
</tr>
</tbody>
</table>

Source: ILO, 2018

The percentage of non-agriculture informal employment of these top performing economies is remarkably huge with major dispersion in the rural sector; Indonesia ranking the highest at 80.2 percent, followed by India (78.1 percent) and China (53.5 percent), reflecting large disparities in labor productivity between the formal and informal sectors. A first glance might indicate that the formal sectors of these economies are lagging in job creation, however this is not the case, rather they are progressing as a whole with a steady decline in informality. A brief overview of their best practices which can be customized for Pakistan.

**China:** China’s economic system is a mix of old planned economy with the new market economy, resulting in a stunning development record in its reform period. The large-scale expansion of the informal economy in China began in the 1980s with people from rural areas quickly becoming a part of it by turning to manufacturing and services sector. By virtue of its extremely large workforce, the country adopted the following key strategies to promote formalization and maintain an exceptionally high employment growth rate:

- Provision of land and related infrastructural support below cost, plus special subsidies and tax privileges.
- Allowing farmers to retain their land rights for three years during the transition period to be converted to cash, until they are traded in the government’s purpose-established rural land exchange.
- Extension of urban resident benefits in health, education and welfare to those who at present are a part of the informal economy.
- Absorption of new entrants as well as re-skilled migrants\(^{20}\) in the formal labour market.

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• Commitment to an urbanization strategy\textsuperscript{21} in view of the huge size of surplus labour prone to migration. Under the tripartite urbanization strategy, a strict limitation was implemented on the size of big cities, with a focus on developing medium-sized cities and encouraging the growth of smaller cities.

• Facilitation of cheaply available labour for global capital, informal and semiformal services, which subsequently spun China’s informal economy into a powerful tool for attracting foreign investment, a phenomenon we may call "planned informality."

• With the expansion of internet-based business models, informality is on the rise again in China due to a number of factors. Low requirements for skills and job access, additional income, flexible contractual arrangements such as franchised cooperation and crowdsourcing are trending, resulting in termination of general labour contracts and increase in informality. The Work Safety Law for occupational health and safety extends to all workers in the informal economy, in law and practice\textsuperscript{22} and considers the digital platform labour as well.

**India:** In comparison to China, India’s economy has been steadily growing, however, its share of informal economy accounts for more than the former. The ratio is continuously increasing in the current times due to the growing trend of contract labour and outsourced productions in India. This sub-contracting creates a positive correlation between formal and informal employment as well as foreign direct investment\textsuperscript{23}. Cognizant of the changing trend and its associated barriers to formalization, India introduced several targeted initiatives to promote micro, small and medium enterprises:

- Skill recognition and certification to formalize and professionalize the industry\textsuperscript{24}.
- Introduction of Goods and Services Tax regime, increased digitization and demonetization exercise in 2016 reduced the country’s informal economy to 15-20 percent of formal GDP in 2020-2021\textsuperscript{25}.
- Introduction of Unorganized Workers Social Security Act, Contract Labour (Abolition & Regulation) Act, and Workers’ Welfare Boards to progressively enforce the formal elements of employment relationships.\textsuperscript{26}
- Introduction of monthly payroll report providing data on establishments remitting first Electronic Challan-Cum-Return (ECR) to analyze the extent of formalization.
- Launch of the first ever national database, E-Shram portal for informal workers in 2021. About 57 million workers registered within the first two months whereby, 55 percent of them belong to agriculture sector, followed by 13 percent from the construction sector. Rate of formalisation through this portal was 3% of GDP during this period.
- Introduction of various insurance and pension schemes for the unorganized sector, such as Pradhan Mantri Shram Yogi Maan-dhan Yojna, (PM-SYM) for old age protection of all unorganized workers except traders and self-employed persons, and National Pension Scheme for the Traders and Self Employed Persons (NPS-Traders). Monthly pension of INR 3000 (PKR 7,018/-) after the age of 60 is assured under these schemes with a monthly contribution of INR 55-INR 200 (PKR 129/- to PKR 468/-), conditional to the beneficiary’s age. An awareness campaign was launched utilizing electronic and print means in regional languages to reach the masses. In addition, ‘Pension Week’ was also celebrated for awareness and State Level Monitoring Committees along with District Level Implementation Committees were practically formed across all states and districts of India\textsuperscript{27}.

**Indonesia:** Over 93% of firms in Indonesia fall in the informal category\textsuperscript{28}. Though within the ASEAN countries,

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\textsuperscript{21} Urbanization and informal economy: Evidence from Chinese municipalities  
\textsuperscript{22} ILO, Digital labour platforms and labour protection in China (2020)  
\textsuperscript{23} World Bank, The long shadow of informality: Challenges and Policies (2021)  
\textsuperscript{24} ILO, promoting transition toward formalization: selected good practices in four sectors  
\textsuperscript{25} State Bank of India Research, Ecowrap (2021)  
\textsuperscript{26} ILO, Informal economy in South Asia  
\textsuperscript{27} Ministry of Labour & Employment, Government of India, New Pension Schemes for Unorganised Sector (2020)  
\textsuperscript{28} Rothenberg et al., Rethinking Indonesia’s informal sector, World Development Vol. 80, pp. 96–113, 2016
Indonesia is a comparatively large and an internationally integrated economy, but it struggles with the management of informal enterprises. With the fall of its agriculture share in GDP from 45 percent in 1970 to 14 percent in 2014\(^{29}\), informalization reached its peak as people turned to urban areas for employment. Thereafter, the Indonesian government rigorously expanded its manufacturing and services sector to counter this phenomenon, and as a result the formal sector expanded annually by 1.3 percent on average. The country is also encouraging all its citizens to open bank accounts, as well as helping local companies and individuals flourish through e-payment platforms\(^{30}\) as efforts leading towards formalization. However, informality persists and firms avoid disclosure as business registration costs are high. Obtaining clearance for the company’s name costs IDR 200,000 (PKR 2,500/-), legal services fees are IDR 1,580,000 (PKR 19,782/-) and maximum notary fee is 1.5% of the object of the deed.

Referring to the successful procedural analyses of other countries and localizing them while defining policies in the future can help Pakistan reduce the development gap in comparison with other developing nations. It will also assist in addressing cumbersome procedural requirements, and help set off on a growth trajectory with a more inclusive approach towards formalization of the informal sector. In addition, the following recommendations regarding access to various features of formality will increase the sector’s productivity and help to achieve desired results:

- In-depth research needs to be conducted to fully understand the profile and characteristics of the informal sector, and for measurement of results with utmost accuracy.
- To ensure a smooth transition of informal sector to a formal one, a Chamber of Informal Economy Associations may be established to provide a platform to organize, educate, advocate, empower and represent the informal economy in the country, covering both rural and urban areas.
- Introduce policies to reward individuals or informal sector enterprises for disclosing themselves, as the solution lies in facilitating the transition by removal of barriers impeding this shift.
- Need to introduce new tax reforms and rationalize existing fiscal measures for SMEs e.g. corporate tax in Pakistan is higher than India, Bangladesh and Malaysia. A subsidy on electricity tariffs is also provided to SMEs in these countries.
- Introduce exclusive financial services for incorporated SMEs, compatible with their size and needs.
- Ensure business development and infrastructural support to the registering SMEs, including facilitating referrals, contractual agreements and inspection.
- Declare those informal businesses as ‘extralegal’\(^{31}\) instead of ‘illegal’ who are not involved in any unlawful activity.
- Raise national level awareness about government’s existing initiatives to make formalization easy, such as SMEDA’s One Window (SOW) to provide solutions to start-ups and SMEs through a single platform, and Credit Guarantee Schemes to make access to finance easier.
- Targeted dissemination of information on formalization procedures should be made through microcredit officers, microfinance institutions, small trader associations, educational institutions, internet cafes, massive multi-pronged campaigns on various platforms including print, electronic and digital media.
- Encourage job creation through private sector by fostering a conducive business environment.
- Support growth of informal firms with a focus to protect employees and help explore and develop other productive activities.
- Create an enabling environment where the sector can flourish through social dialogue.
- Promote inclusiveness of women and youth in labor market by arming them with the requisite trainings and skills.

\(^{29}\) ILO, From informal to formal: A meta-analysis of what triggers the conversion in Asia (2019)
\(^{30}\) ILO, From informal to formal: A meta-analysis of what triggers the conversion in Asia (2019)
\(^{31}\) United Nations, How to formalize the informal sector: Make formalization easy and desirable (2014)
• Promote partnerships and international cooperation with relevant organizations to facilitate the transition from informal to formal economy\textsuperscript{32}.

A country’s growth is associated with the growth in its formal employment, however informality continues to be deeply embedded in the economic system of Pakistan, especially in cases where it is purposefully hidden to evade taxes, not only by micro firms but also by larger firms. To reduce it, managing its growth pattern is extremely important to drive the sector towards formalization as a registered enterprise contributes to GDP and exports effectively, and avails opportunities for growth and international exposure. The country’s relentless determination towards making this transition is an encouraging sign of sustainable economic development as the formal sector tends to be more productive than the informal one.

\textsuperscript{32} ILO, Formalization of the informal economy (2015)
Entrepreneurial Redemption
Creating the Culture of Second Chance
Ali Ishtiaq*

Second chances are rare, they say. But if you can't get them, make them!

Before getting into the relevance of second chances in creating a comprehensive entrepreneurial climate in a community, it's necessary to establish what we mean by failure. The slightly larger definition of business failure that will be used in this brief essay encompasses all forms of firm termination, such as bankruptcy and insolvency. However, cessation due to non-performance will not be included in the definition of failure.

Entrepreneurial failure has been largely neglected as a crucial motivator of later entrepreneurial activity. An Entrepreneurial failure is a typical event, and while it can be unpleasant and costly for the entrepreneur, it can also give wonderful learning opportunities. The likelihood of an entrepreneur succeeding in a company following a loss increases significantly when the entrepreneur learns from their experience and acts on the new information learned. They can accomplish this by utilizing the facts and experience learned from their business failure, refining and applying this previously acquired understanding to succeeding efforts.

Entrepreneurs, on the other hand, typically struggle with this since learning from failure demands the entrepreneur to identify and accept the causes of their failure. Another critical point to consider is the cost of failure and how it creates barriers for businesses seeking to restart. When a firm fails, entrepreneurs are faced with a loss of income and the burden of personal debt with no assistance. Additionally, company failure can have a detrimental effect on professional relationships with stakeholders, such as investors, suppliers, and consumers. Nonetheless, entrepreneurial learning theory suggests that failure serves as a reservoir of information from which an entrepreneur may draw insights and lessons for later ventures. A study conducted by Davidsson and Honig (2003) found the strongest human capital variable in starting a new venture was the tacit knowledge entrepreneurs had attained from a previous entrepreneurial experience33. Thus, it becomes rather paradoxical

33 researchgate.net/figure/Social-capital-human-capital-and-the-nascent-entrepreneur_fig1_313101101

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that entrepreneurs who have seen failures are frequently better qualified to handle new economic ventures.

Although startups, especially young ones, are usually more innovative and may be more connected to new or emerging industries and business-accelerating technologies; they may also be more willing to take chances. However, they are likely to lack expertise and knowledge, as well as limited access to resources, including existing networks that result in high renewal rates in the industrial and service industries. Against this backdrop, reviving entrepreneurs and businesses is a critical economic, social, and cultural challenge. It is crucial, then, to encourage second chances for entrepreneurs by further training them to bounce back from failure. Numerous support measures might be beneficial in achieving this goal: (1) enhancing the activities of players who assist entrepreneurs who are experiencing difficulties or are in the process of relaunching their business; (2) increasing access to finance for re-starters; (3) fostering a positive attitude toward entrepreneurs seeking a fresh start in society; (4) ensuring that re-starters are treated equally with new start-ups, including in support schemes; and (5) minimizing cultural and regulatory rigidities impeding recovery.

A few measures that the State can undertake to cultivate a culture of restarting include:

- The government may establish a PR strategy that portrays unsuccessful businesses in a more favorable light. It should emphasize the entrepreneur's experience and pay close attention to the words employed. Rather than using terms such as "second chance" or "bad business," entrepreneurs would want a more positive and less stigmatizing language that allows failure to serve as a springboard for resiliency. Using the word "re-starter" as an example may illustrate this.

- Entrepreneurs who become aware of financial difficulties endangering the viability of their business sometimes struggle to know exactly what to do or who to call. As a result, detailed information (e.g. what are the first warnings to pay attention to, what to do in the event of a problem, etc.) should be made freely accessible to them, e.g. online, through various entrepreneurial networks. Consider establishing a "one-stop destination." A list of relevant organizations to contact and a list of "do's and don'ts" should be included in the information.

- Besides, for entrepreneurs seeking a second opportunity following bankruptcy, a minimal set of instruments, allowing a second chance should be made available. These should address not just the economic elements of corporate operation, but also the personal and environmental ones. Furthermore, it is beneficial to respect and utilize the skills, competencies, and know-how obtained by responsible entrepreneurs who have encountered business failure.

- To improve the whole support chain, it is necessary to extend the activities of networks dedicated to second chances to better meet the requirements of re-starters. This involves expanding quantitative outreach as well as improving collaboration with support networks for company start-up and takeover. Joint efforts and measures at the state level should be pursued and expanded if successful.

- Restarters should be supplied with non-stigmatizing financing using current financial tools. The government might promote creative mechanisms that bring together investment money and resurgent entrepreneurs with significant expertise and a viable (start-up or take-over) initiative. Guarantees or public counter-guarantees might likewise be provided for/open to re-starters. Also, the government may conduct research on access to finance for rebounding entrepreneurs, examining, among other things, whether and how different funds differ in their approach to financing rebounding entrepreneurs and first-time entrepreneurs.

- Effective and predictable bankruptcy procedures should protect creditors while also encourage strong businesses and provide a second opportunity for ethical entrepreneurs.
Entrepreneurs may be provided with the entitlement to unemployment compensation in the event of failure or a guaranteed basic income.

When public authorities initiate legal action against an entity for non-payment or late payment, they should include a notice asking the company/entrepreneur to seek counsel from a financial expert. Bookkeepers and accountants should encourage their customers frequently to seek professional aid when they identify indicators of significant financial imbalances. They might regularly tell their consumers about scans they could pass or professional advice they could need. Moreover, basic training for bookkeepers and accountants should be enhanced to increase their familiarity with new technology and sector-specific expertise, allowing them to deliver more SME-specific advice and minimise any prejudice. Furthermore, coordination efforts between public and private actors should be bolstered, particularly with relation to monitoring and early warning units.

Similar to current credit mediators, a "silent" mediation mechanism should be established and marketed to resolve disputes resulting from SMEs' financial debts to suppliers and creditors. In this manner, SMEs avoid the danger of losing trust as a consequence of the publicity around their troubles and also profit from a less expensive method than a trial.

To summarize, bankruptcy legislation must strike a balance between two opposing interests. On the one hand, it is necessary to safeguard the creditor's interests. On the other hand, any system must ensure the survival of viable enterprises and, more crucially, foster an atmosphere that encourages entrepreneurs to take risks and launch new ventures. For instance, a couple of years back, USA passed a Small Business Reorganization Act to lower the cost of bankruptcy as well as streamline the plan confirmation process to better enable small businesses to survive bankruptcy and retain control of its operations.34

It is critical to maintain a pool of entrepreneurs within the system. Entrepreneurs possess unique talents and attitudes that are not transferable, yet many government programmes have emphasized the need to "create" new entrepreneurs rather than the importance of preserving the existing stock of entrepreneurs.

For policymakers it is of utmost importance to keep in mind that entrepreneurs don't change in any fundamental sense, rather they evolve, grow, and become self-aware, hence, redeeming them through a second chance might result in some extraordinary outcomes.

34 https://www.americanbar.org/groups/business_law/publications/blt/2020/02/small-business-reorg/
This segment 'Lahore on Rails' is basically inspired from 'Madrid on Rails' adapted from a famous open source web application framework, 'Ruby on Rails', a project initiated by the City Council of Madrid to motivate SMEs to use open source technologies.

"STREAK"

Customer Relationship Management (CRM)

Streak is a CRM that lives inside your inbox. If you’re a marketer managing multiple conversations on guest post pitches, you can use Streak’s CRM functionality to get a visualization of conversation status so you know what to follow up on, and what to leave.

CRM Built Into Gmail

Set up and customize a perfect process for your team no matter the use case or how you work.

- As simple as spreadsheet – adding, editing and collaborating is a breeze.
- Easily filter, sort, and group your data in any configuration to quickly identify bottlenecks.
- See upcoming tasks all across your pipelines
- And much more…

Why Streak?

Streak is halfway between a personal email management tool and a fully-fledged CRM — if you don’t have the budget to invest in a CRM, get started with Streak first.

https://www.streak.com/

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