

EXCLUSIVE INTERVIEW



“ Supporting SME-led inclusive growth is one of the top priorities of the Government. A recent development in this regard is the formulation of National SME Policy 2021 that will soon be launched by the Hon’ble Prime Minister of Pakistan ”



Makhdoom Khusro Bukhtiar Federal Minister for Industries & Production Government of Pakistan

ICMA Pakistan: Industrial development plays a pivotal role in the economic development of any country. Please share briefly the initiatives taken by the Government for industrial development in Pakistan.

Federal Minister: Industrialization has always been one of the major objectives of development planning in Pakistan for the reorientation of the economy from the production of raw materials to more value-added manufacturing. The government has taken the following proactive measures to promote industrialization:

- 1) The government is providing a series of subsidies for electricity and gas to export-oriented industries (textiles, leather, carpets, surgical and sports goods). Power price has been fixed at US\$ 0.07/unit for July-August FY2021 and US\$ 0.09/unit for September-June FY2021. Gas tariff fixed at US\$ 0.065/MMBtu for the whole FY2021. Power Division has allocated Rs 20 billion subsidy for this purpose.
 - 2) The government has introduced a Rs. 1.24 trillion stimulus package to support the economy during the COVID-19 pandemic. In this package, Rs 200 billion has been allocated to support business and economy. As of March 2021, Rs 146 billion has been disbursed, including Rs 100 billion refunds to exporters, which is an encouraging sentiment for export-oriented industries.
 - 3) Pakistan exports have been liberalized under China-Pak FTA-II. Textile, prepared food, leather, chemicals, and engineering goods are among the top priority items.
- Increased demand for these products will boost Large Scale Manufacturing (LSM).
- 4) The government has announced a special package for the construction sector which includes amnesty scheme tax exemptions and Rs 36 billion subsidies (for 10 years) for construction under Naya Pakistan Housing Scheme.
 - 5) The automotive sector is one of the major industrial sectors of the country. It has the potential to drive the entire economy of the country. Moreover, Auto Industry Development and Export Policy (AIDEP) 2021-26 is in the final stages of approval which aims to introduce entry-level car (Meri Garri Scheme), enhancement of exports for the sectors (Motor Cycles, Tractors and Auto Parts), quality & safety (by the introduction of WP.29), and shorten delivery time. This policy aims to create and promote competition in the interest of the industry benefitting both the Auto Sector and the Consumer.
 - 6) Electrical Vehicles are introduced to reduce the environmental degradation emissions and to make Pakistan a manufacturing hub for these technologies. Till to date, five firms with 13 models have been approved for manufacturing 2/3 wheelers.
 - 7) Industries and Production Division formulated the Mobile Device Manufacturing Policy, to promote industrial activity in the country by boosting the local assembly/manufacturing of the Mobile handsets for the domestic market as well as for exports.

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Twenty-six new companies have been authorized to start local manufacturing. M/s VIVO, Airlink, Inovi telecom, OPPO are among the new investors. The combined capacity of these companies is more than 1 million mobile sets. M/s Samsung is also poised to enter the local market. With existing and new players Pakistan will be able to meet the major portion of local demand which was around 3.6 million mobile phone sets in 2020.

- 8) The Tariff Policy Board (TPB) has reduced more than 1800 tariff lines on raw materials of industrial goods for FY 2021-22 and more than 2000 tariff lines were reduced on different raw materials for FY 2020-21.

ICMA Pakistan: In developed countries, specialized industrial zones have been established. What are the measures taken by the Government to facilitate the business community in industrial zones?

Federal Minister: Federal Government has initiated a project titled “Development of Karachi Industrial Park (KIP)’ on 1500 Acres of Pakistan Steel Mill's land at Karachi including feasibility. This initiative will provide a plug n play environment to potential local/international investors to set up the industry with minimum upfront investment toward land and basic amenities. The feasibility component of the project with an execution period of 8 months has been approved for which hiring of a consultancy firm of international repute is in process.

National Industrial Parks Development & Management Company (NIP) has been established as a special initiative of the Ministry of Production to develop world-class industrial parks across the country. NIP has been formed as a public-private partnership to catalytically facilitate focused industrial growth. NIP is currently developing and managing the following four Special Economic Zones (SEZs): -

- Korangi Creek Industrial Park-SEZ, Karachi - Sindh
- Bin Qasim Industrial Park-SEZ, Karachi - Sindh
- Rachna Industrial Park-SEZ, Sheikhpura - Punjab
- Naushero Feroz Industrial Park-SEZ, Naushero Feroz - Sindh

SEZ avails one-time exemption from Customs duties and taxes for all plant, machinery and equipment imported into Pakistan for the development, operation, and maintenance of the industrial unit. Besides, exemptions are also available from all taxes on income accruable to the development and operation of SEZ for a period of ten years.

Export Processing Zone Authority (EPZA) was established under an Ordinance in 1980 to proactively facilitate the investors and create enabling environment for them to enhance export-led manufacturing, trade, and investment for export-oriented industrial growth. All facilities like an uninterrupted supply of utilities, security, skilled and educated workforce on cheaper rates, peaceful and environmentally protected pollution-free work area, one window operation with simplified procedures, etc. are provided by EPZA to investors. Seven (07) EPZs have so far been established i.e., at Karachi EPZ, Tuwairqi Steel Mills EPZ, Saindak EPZ (Extraction of Copper & Gold), Duddar EPZ (extraction of Zinc & Lead), Sialkot EPZ, Gujranwala EPZ, and Risalpur EPZs' cumulative exports, since the inception of EPZA up till 2020-21, remained to the tune of US\$ around 10 billion.

Pakistan has planned to establish 09 Special Industrial Parks/Zones under the CPEC framework. Two Special Economic Zones (SEZs) were assigned to the Federal Government one at Pakistan Steel Mill's Land, Karachi, and the other at Islamabad as ICT Model Industrial Zone, while the rest of the 07 SEZs shall/are being developed by provincial governments.

ICMA Pakistan: The success of developing countries is their special focus on SME-led export growth. Why can't Pakistan follow the same model and provide incentives and infrastructure facilities to our SMEs?

Federal Minister: SME development has been pursued as a key economic development agenda by many governments around the world. Policies have, therefore, been framed and implemented for supporting existing SMEs and new start-ups in developed and developing countries. Several SME development organizations around the world have played a pivotal role in supporting, steering, and coordinating SME development in their respective countries.

In Pakistan, supporting SME-led inclusive growth is one of the top priorities of the Government. A recent development in this regard is the formulation of National SME Policy 2021 that will soon be launched by the Honorable Prime Minister of Pakistan. The policy envisages providing support to SMEs under the key thematic areas of Simplification of Regulatory Procedures and Taxation; Access to Finance; Business Development Services; Entrepreneurship; Human Resource and Skills Development; Technology up-gradation; Market Access and Standards and Certifications.

Earlier, SME Policy Action Plan 2020 was approved and implemented in coordination with various ministries and departments such as the Board of Investment, Federal Board of Revenue, Public Procurement Regulatory Authority, Securities and Exchange Commission of Pakistan (SECP), National Vocational and Technical Training Commission (NAVTC) and Higher Education Commission (HEC).

Key initiatives of regulatory simplification include Simplification & elimination of regulations impeding SMEs' growth. In this regard, policy envisions introducing No NOC / Self Declaration / Time-Bound Approvals regime, e-inspection Portal, and Sample Based Audits. Besides, a simplified taxation regime for SMEs in the IT&ITES sectors, FBR/Single Point Collection of taxes and levies, and progressive reduction in Withholding Tax with a corresponding increase in formalization and Sales/ Income Tax receipts will be introduced.

In terms of enhancing SMEs' access to finance, the proposed SME policy envisages collateral-free lending for SMEs, developing specialized schemes for SMEs that possess collateral and for taxpayer SMEs.

The government acknowledges the importance of the availability of proper infrastructure for SMEs and to this end, allocation of land in existing industrial estates on a land lease-based model and smaller plot sizes to cater to SME needs shall be ensured. Furthermore, leased Plug and Play infrastructure for SMEs will be provided.

For skill development and technology enhancement, initiatives such as Training Needs Assessment for SMEs, the establishment of National Skills Fund, technology acquisition and research & development for technology up-gradation, and model of labor market data management are included in the policy.

International best practices were taken into account while developing programs and initiatives envision under the policy as it aims to provide a level playing field to SMEs to enhance their access to the international market.

ICMA Pakistan: The majority of the small businesses and SMEs are in the informal sector. What steps the government is taking for facilitating the SME sector for their access to finance?

Federal Minister: The State Bank has introduced an innovative initiative to improve access to finance for Small and Medium Enterprises (SMEs) in collaboration with the Government of Pakistan with the express aim of enabling businesses who cannot offer security/collateral to access bank finance. This initiative has been brand named, 'SME Asaan Finance' or SAAF to emphasize the SME facilitation feature of this scheme to provide clean lending i.e. lending without collateral to SMEs. SAAF is a refinance and credit guarantee facility that has been developed through a wide-ranging consultative process and is aimed at assisting SMEs that are creditworthy but are still unable to access finance as they cannot offer the security required as collateral by banks. The SBP will provide refinance to banks while the

Government of Pakistan will support partial credit guarantees to the participating banks. This support is being provided initially for three years to facilitate investments by banks in technology, infrastructure, and team building specialized in SME lending, after which SME financing by banks is expected to be sustainable without SBP or Government support.

Apart from the above important initiative, the following financing schemes are also available to SMEs:

- a) Refinance Facility for Modernization of SMEs
- b) Refinance Scheme for Working Capital Financing of Small Enterprises or Low-End Medium Enterprises
- c) Refinance and Credit Guarantee Scheme for Women Entrepreneurs
- d) Small Enterprise Financing and Credit Guarantee Scheme for Special Persons
- e) Prime Minister Kamyab Jawan Youth Entrepreneurship Scheme
- f) Financing Facility for Storage of Agricultural Produce
- g) Export Finance Scheme
- h) Long Term Financing Facility for Plant & Machinery

ICMA Pakistan: The increasing cost of raw materials including electricity and gas is worrisome for the SME sector. What is the future course of action giving relief through the reduction of raw material costs to SMEs?

Federal Minister: To reduce the cost of raw material and other inputs for industry, the Government has introduced an electricity and gas package for export-oriented industries including textiles, leather, carpets, surgical and sports goods, and an Industrial Support Package for industrial consumers of DISCOs and K-Electric. Furthermore, Regulatory Duty (RD) and Additional Custom Duty (ACD) have been abolished on 164 tariff lines of the textile sector and 152 tariff lines for raw material used in the manufacturing sector. The Government has also introduced Export Facilitation Scheme 2021 to facilitate zero-rated import of raw material and other inputs for the manufacturing sector.

ICMA Pakistan: ICMA Pakistan and the Ministry of Industries can collaborate in undertaking joint training for the industrial sector and also joint sectoral studies. What is your viewpoint of this proposal?

Federal Minister: Ministry's collaboration with ICMA Pakistan for conducting joint training programs and awareness sessions will play an important role in improving the financial management literacy of individuals employed in key industrial sectors. Furthermore, collaborative efforts of developing cluster studies will be instrumental in devising strategies for cluster growth.

The Editorial Board thanks Makhdoom Khusro Bukhtiar, Federal Minister for Industries & Production, Government of Pakistan for giving his exclusive interview for Management Accountant Journal.