

ADDRESSING MARKET CONSTRAINTS FACED BY SMALL AND MEDIUM- SIZED FOOD ENTERPRISES FOR A BETTER NOURISHED PAKISTAN

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KEY MESSAGES

- Pakistan's many small- and medium-sized enterprises (SMEs), including the very large number involved in food supply, face major market constraints from the perspectives of both supply and demand. These could be eased with some concerted effort on behalf of the government and other key stakeholders.
- Based on recent research with SMEs in Pakistan, this brief proposes policy recommendations to a) improve SME market access (e.g. through holding trade fairs and financing sector-specific export marketing companies); b) to make business development services (BDS) more fit-for-purpose (e.g. through helping SMEs to access more appropriate BDS and supporting service providers to shape and deliver these); c) to support entrepreneurship (e.g. through tax and regulatory reform or the provision of infrastructure); and d) to look at multiple avenues (by government or private service providers) to providing special encouragement to SMEs producing particularly nutritious food products.
- Considering enduring gender disparities prevalent in the industry, it is imperative to allocate supplementary resources to initiatives focused on increasing women's involvement and empowerment within small and medium-sized food enterprises. This may entail targeted funding for capacity-building programs, mentorship opportunities, and policies aimed at fostering a more inclusive and supportive environment for women entrepreneurs.



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INTRODUCTION

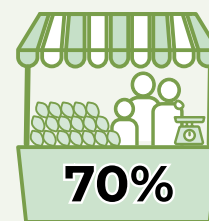
Small- or medium-sized enterprises (SMEs) are a dominant feature of Pakistan's business landscape.



Most Pakistani businesses – **90%**, or more than **5.2 million** – are classified as SMEs.



They employ some **80%** of the non-agricultural labor force, contribute **40%** to the country's GDP, and **30%** to total exports.



About **70%** are estimated to be operating in the informal sector and most are modest in terms of sales turnover (annual turnover figures for **98%** of these SMEs fall below PKR 150 million; SMEDA, 2022).

About this brief

In the context of the latest national SME policy “2021 SME Policy Pakistan”, and findings from a recent in country survey executed by Entrepreneurship Development and Advisory Services (EDAS) and supported by GAIN, this brief, focusing on constraints in the market from supply- and demand-perspectives facing SMEs, and its two sister briefs⁵ have been prepared using the most up-to-date research (conducted over the last 5 years) on ongoing issues faced by Pakistani SMEs, particularly food-related SMEs, to develop policy recommendations.

SMEs in the food sector

The food sector is considered Pakistan's largest industry, accounting for 27% of national value-added production, and 16% of total employment in the manufacturing sector. Much of this food manufacturing and processing is small- or even micro-sized, and many of these businesses are in rural areas, depending heavily on agricultural raw materials and poorly skilled non-farm labor (SMEDA, 2021).

Unfortunately, not enough of the food that is available, affordable and desirable, from SMEs and other sources, is nutritious, safe and sustainable. SMEs face many barriers, including operating in environments that do not always reward good practices. In many cases, SMEs require more support and appropriate incentives if they are to underpin the major changes in our food systems that are needed to protect people and the planet (GAIN, 2021).

Evidence suggests SMEs, including those in the food sector, are constrained by cross-cutting market constraints from both supply and demand sides, by the macro policy and regulatory environment (See Policy Brief-1 “Macro policy and regulation change can better nourish Pakistan- Creating an enabling environment for small- and medium-sized food businesses”) as well as low access to financing (See Policy Brief-3 “Improving access to finance for small and medium-sized food enterprises for a better-nourished Pakistan”) (CDPR, 2023).

Investment in the production of safe and nutritious products is suboptimal as profit margins in the food and nutrition industry can be relatively low. This means that businesses need to be very efficient in order to be profitable (Jabeen et al, 2023).

⁵ “Macro policy and regulation change can better nourish Pakistan- Creating an enabling environment for small- and medium-sized food businesses” and “Improving access to finance for small and medium-sized food enterprises for a better-nourished Pakistan”.

KEY CHALLENGE AREAS

This section describes some of the main issues for food SMEs in Pakistan posed by market constraints. These supply and demand side issues are felt across different sectors, including the food sector. On the demand side, familiar constraints facing food SMEs include poor market access and low public procurement, while on the supply side, they pertain to Business Development Services (BDS), entrepreneurship, credit and skills, and physical infrastructure (CDPR, 2018).

Market access

Lack of information about markets, high logistical costs, as well as a lack of funds for marketing, packaging, standardization, and certification hinder the sale of products locally and internationally. For SMEs located in small towns and remote areas across Pakistan, physical access to sizeable markets is often also a barrier to sales (CDPR, 2018).

Business Development Services

The private sector market for Business Development Services (BDS) is fairly underdeveloped. This is due in part to information failures, since firms do not know the value of the services. Generally, there is poor information on their quality and availability.

Upskilling provided by public sector vocational training institutions in Pakistan is underdeveloped and has not been demand driven. Training curriculums thus don't respond to the real needs of the private sector, especially in the case of SMEs, including food sector MSMEs. Moreover, the institutional structure of skills provision is overly complex. Inter-province, intra-province and federal-provincial coordination issues result in overlaps, inefficiency, and wasted resources. Moreover, most skill-providing bodies have no direct outreach to SMEs (CDPR, 2018).

Competition

The nutrition-focused segment of the food industry is highly competitive, with both large and small businesses vying for market share. This can make it difficult to stand out from the crowd and attract new customers, particularly for SMEs who do not have large budgets for promotion and advertising.

Regulatory compliance

Food and nutrition businesses are subject to a variety of regulations, depending on the products and services they offer. While food safety regulations are put into place to ensure public health, ensuring compliance with various regulations and guidelines related to food safety, labeling, and health claims can be complex and time-consuming, especially for small businesses (Jabeen et al, 2023).

Systemic hurdles limit SME participation in public procurement processes. These include procurement rules relating to non-splitting of contracts, requirements of performance and security guarantees, preferences accorded to firms with high turnover and large size, and information asymmetries adversely affecting SMEs and increasing the SME cost of bidding (CDPR, 2018).

Consumer trends

Shifting consumer trends can require responses from food SMEs seeking to keep their products in demand. Certain adaptations or innovations may be needed to remain relevant and competitive (Jabeen et al, 2023).

Perishable products

Lack of refrigeration in supply chains often leads to perishing of many nutritious food products, opening businesses to the threat of spoilage and waste, which can pose a major financial burden (Jabeen et al, 2023).

Limited resources

Like any business, managing limited financial and human resources can be a challenge, especially when it comes to investing in research and development, marketing, purchasing equipment, and expanding operations.

Access to inputs

Due to high prices and restrictions on imports, access to food inputs, such as grains or edible oils, and other key inputs like fertilizers, can be challenging for SMEs, who may struggle to import in the difficult current climate.

In addition to these general issues, there are also some specific challenges that businesses may face depending on their niche. For example, businesses that sell organic or specialty foods may have difficulty finding suppliers and meeting customer demand. Businesses that offer meal delivery services may face logistical challenges in getting food to customers on time and in good condition (Jabeen et al, 2023).

Gender inclusion

Although women constitute nearly half the population in Pakistan, women's participation in the labor force is less than 25%. Only 12% of firms have female owners – compared to a global average of 34%. The 2021 National SME Policy outlines various measures for women-led SMEs with respect to access to finance and technical skill development, but there is still a lack of gender perspective in all 5 Key Performance Indicators (KPIs) set to be achieved by 2025 (SMEDA, 2022).

It is important to increase women's representation in government bodies so that the issues of women-led SMEs are highlighted and gender-inclusive policy measures are formulated. The proposed National Coordination Committee (NCC) on SME Development (under the National SME Policy, 2021) includes various governmental bodies; however, it lacks women's representation both at the federal and provincial levels. In comparison, the 2007 SME policy proposed the constitution of an NCC including women's development departments and set a target to increase the share of women entrepreneurs to a minimum threshold of total SMEs. The 2021 policy lacks any target for 2025 (SMEDA, 2022).

POLICY RECOMMENDATIONS

The policy interventions suggested here are intended to correct market failures arising particularly from externalities and information asymmetries present in markets – for example, those to do with skills and credit. They aim to lower the disproportionately high costs faced by small firms, while creating a supportive environment to encourage the creation and success rate of fast growing and innovative enterprises. They are inclusive in terms of both geographical coverage and gender. They also include special concessions for women-led businesses to tackle existing gender imbalances (CDPR, 2018). The proposed policy interventions by government and actions to be taken by private sector actors are discussed separately in a later section (see **Table 1**).

Market access

To improve domestic market access, particularly for cottage and small firms in rural and remote regions of the country, provincial SMEDA (Small and Medium Enterprises Development Authority) offices, and AHAN (Aik Hunar Aik Nagar) could co-organize regular exhibitions and trade fairs in major cities.

Permanent Emporiums could also be established to exhibit and market products. Stalls in these Emporia could be rented at a subsidized rate by registered cottage and small firms from remote regions in all provinces, on a rotational basis (CCP, 2023).

A cluster-based marketing strategy could be adopted, whereby incentives are provided to product associations to set up sector-specific export marketing companies. SMEDA could either part fund the establishment of such companies, or provide matching grants for marketing, packaging, branding, quality certifications, and so forth. Moreover, to improve product quality and enhance exports, it is essential to introduce domestic standards and certification through the implementation of existing national quality standards and the establishment of internationally recognized certifications and/or labelling. Financing of these initiatives can come from the proposed Business Development Services Fund (BDSF).

Market access could also be enhanced through greater coordination between SMEs and between SMEs and larger firms looking to outsource products and services to SME vendors. The SME Portal proposed below (See Box A) should facilitate this (CCP, 2023).

Given rapid changes in technology and the emergence of digital platforms, it is suggested that the e-commerce regulatory framework proposed by the Ministry of Commerce be implemented. This would create the space for online marketplaces to be established, which would significantly increase both domestic and international market access for SMEs, particularly those owned by women (CCP, 2023).

Furthermore, an appropriate regulatory environment is required for local payment gateways or fintechs to be established. Financial technology (better known as fintech) is composed of specialized software and algorithms used on computers and smartphones to help companies, business owners, and consumers better manage their financial operations and processes. SMEDA could facilitate the provision of training to SMEs in the use of digital platforms through the BDSF (CCP, 2023).

SMEs can become part of global value chains through sub-contracting relationships with local Multinational Corporations (MNCs). To this end, along with other incentives, specific tax breaks could be provided to MNCs for engaging with local vendors. Encouraging such sub-contracting is expected to lead to technology transfer, labour training and improved management practices of local firms. To achieve this, SMEDA would need to advocate strongly at the Federal Board of Investment (FBI) (CCP, 2023).

The Trade Development Authority of Pakistan (TDAP) should fully use the special quota for SMEs, particularly for women-led businesses, in international trade fairs, and exhibitions. To support this, greater awareness of the TDAP facilities needs to be generated amongst women entrepreneurs.

For women-led SMEs in small town and cities in Baluchistan, Khyber Pakhtunkhwa, and Gilgit Baltistan provinces, the existing subsidy by TDAP for participating in such exhibitions and fairs should be increased. BDSF can fund this activity by securing seed funding from the Export Development Fund and donor assistance (CCP, 2023).

Business Development Services

SMEDA should undertake a comprehensive needs assessment for business development services and partner with financial and other institutions to provide technical support to BDS providers to develop appropriate services (CCP, 2023).

SMEDA should be made a part of the Boards of all key skills providing bodies across the country to represent SMEs. Greater use must also be made of industry partnerships to design specific and relevant training programmes⁶. The Punjab Skills Development Fund (PSDF) model should be explored, and if found feasible, may be replicated in other provinces to improve the outcomes of the Technical and Vocational Education and Training (TVET) market (CCP, 2023).

⁶ For instance, customized and intensive trainings and services have found to be more effective, as are incubation programs that include networking and mentorship. These services have generally been shown to generate benefits in excess of what they cost.

Another option could be to offer matching grants to SMEs that seek BDS (funded through the BDSF), with freedom to choose between BDS providers that are registered with SMEDA. More substantial matching grants could be provided for women-led SMEs (CCP, 2023). An online, publicly available rating system for BDS providers and courses could also help, similar to successful models in ride-hailing and accommodation booking services that also address information problems.

Implementing the recommended measures, including tailored business development services, partnerships with skills providers, matching grants, and an online rating system, could significantly improve the business environment for small and medium-sized food enterprises in Pakistan, fostering their growth and nourishment. This might be included in a central online SME Portal – see **Box A**.

Box A: A proposed online SME Portal

Catalogue of BDS Providers and SMEs:

- Provides a comprehensive listing of Business Development Service (BDS) providers and SMEs. Functions as a platform for SMEs to showcase their products, services, and capabilities.
- Enables BDS providers to highlight their expertise, services offered, and success stories.

Communication Platform:

- SMEs can communicate their specific needs for new training, services, or support.
- BDS developers can directly engage with SMEs to understand their requirements and tailor their services accordingly.
- Facilitates a streamlined communication channel for collaboration and partnership between SMEs and BDS providers.

Geographic Information Access:

- Allows SMEs to provide information about their geographic location, including their headquarters, branches, or operational areas.
- Helps BDS providers to identify and target SMEs in specific regions or localities for offering their services.
- Enhances networking opportunities by connecting SMEs and BDS providers within close proximity.

Key Technical Requirements:

- Enables SMEs to outline their key technical requirements, such as equipment, software, or specialized skills needed for their operations.
- Assists BDS providers in understanding the specific challenges and opportunities faced by SMEs in terms of technology adoption and integration.
- Facilitates the alignment of BDS offerings with the technical needs and preferences of SMEs, fostering more effective support and solutions.

Entrepreneurship

Low and uniform taxes, a sandbox approach to regulation⁷, public procurement targets, and options for restructuring debt before liquidation proceedings are amongst the suggestions for addressing regulation issues. Accelerators and incubators are also useful for supporting gazelles (young, fast-growing enterprises with strong base revenues and a track record of annual sustained revenue growth). A private sector led model is suggested, whereby the government facilitates rather than creates incubators and accelerators itself. This could be achieved through tax incentives for corporates, as well as through provision of infrastructure. It is recommended that incubators and accelerators reserve seats for women. Lastly, school and university linkages should be explored, allowing entrepreneurial culture to be fostered through the formal education system (CCP, 2023).

⁷ Sandboxes allow regulators to base their regulatory response to innovations on the results of live experiments. This helps regulators to make faster and better-informed decisions on how to appropriately regulate (and supervise) new services and providers reaching the marketplace.

Special support for nutritious food businesses

It is essential for governments and development partners to continue to facilitate access to common food inputs, such as grains or edible oils, and other key inputs like fertilizers, especially for SMEs who may struggle to import in the difficult current climate. Technical assistance can also be provided to help SMEs adapt business models, by changing product formulation for instance, or through internalizing aspects of their supply chain (GAIN, 2022).

Further government support policies, rules, and regulations, as well as some from private service providers that would help ease market constraints faced in particular by nutritious food producers are highlighted in **Table 1**.

Table 1: Actions that government or private service providers can take to boost nutritious food offerings from SMEs

	Key action	Description
By government	Support for research and development	Government support to R&D in the food-related industry, such as providing access to government laboratory equipment and facilities, can help businesses to develop new or innovative products and services, or to improve the quality and nutritional value of their existing offerings.
	Technical support	Access to reliable and affordable internet connectivity, devices, and software tools to effectively address current challenges.
	Collaborative support	Opportunities for collaboration and partnerships with government agencies, research institutions, and other stakeholders to leverage resources and expertise.
	Education and public awareness campaigns	Educating the public about the importance of healthy eating and nutrition, as well as the benefits of seeking professional guidance, would in turn drive demand for nutritious products and services.
	Procurement policies	Adoption of procurement policies that favor food-related businesses. This could involve purchasing food and beverages from local or sustainable suppliers, or giving preference to businesses that offer healthy and nutritious products.
By service providers	Technical assistance	Access to experts in areas such as product development, food safety, and quality control can help businesses ensure compliance and improve the overall quality of their products or services. Might include online or face-to-face nutritional training modules (accessible and free training modules covering essential nutritional information, dietary guidelines, latest nutritional trends, and healthy meal planning).
	Marketing and branding support	Service providers that specialize in marketing and branding can help businesses effectively promote their offerings and differentiate themselves in a crowded market.
	Equipment Access Programs	Service providers can establish programs to provide essential equipment on loan or with subsidies for home-based businesses, as well as creating platforms to facilitate shared access to expensive equipment among multiple home-based businesses.
	Networking and Mentorship	Industry networking events can help businesses connect, share experiences, and potentially collaborate. Mentorship programmes whereby experienced food entrepreneurs are paired with newcomers to offer guidance and support may also be considered.
	Marketing and Social Media Assistance	Social media workshops offering guidance on effective social media strategies and providing templates for marketing materials. Collaborative marketing initiatives which facilitate joint marketing campaigns to reduce individual costs.

Sources: Compiled from Jabeen et al., 2023 and authors' elaboration

CONCLUSION

In conclusion, it is evident that Pakistan's many SMEs, including the very large number involved in food supply, face major market constraints from the perspectives of both supply and demand. These could be eased with some concerted effort on behalf of the government and other key stakeholders.

The recommendations put forth in this policy brief highlight the need to improve SME market access, make business development services (BDS) more fit-for-purpose, support entrepreneurship, and look at multiple avenues (by government or private service providers) to providing special encouragement to SMEs producing particularly nutritious food products.

In light of enduring gender disparities prevalent in the industry, it is imperative to allocate supplementary resources to initiatives focused on bolstering women's involvement and empowerment within small and medium-sized food enterprises. This may entail targeted funding for capacity-building programs, mentorship opportunities, and policies aimed at fostering a more inclusive and supportive environment for women entrepreneurs.

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