DAWN

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Good day for SMEs

TODAY is a better day for small and medium enterprises (SMEs) in Pakistan. The World Bank Group's Ease of Doing Business Report 2019 shows that Pakistan's global ranking has improved by 11 places to 136 out of 190 countries. This report assesses, on an annual basis, the processes required to open, operate and wind down a business. This is a great development for SMEs that are the backbone of Pakistan's economy, constituting almost 90 per cent of all enterprises in Pakistan, employing 80pc of the non-agricultural labour force and contributing 40pc to GDP. New Zealand, Singapore and Denmark are the top three economies, respectively.

Substantial reforms at both federal and provincial levels have contributed to this improvement in Pakistan's ranking. At the provincial level, starting a business was made convenient and faster in Sindh and Punjab. Similarly, the transparency of information related to property registration has improved in both provinces. Punjab succeeded in making registering property easier by streamlining and automating administrative procedures. At the federal level, resolving insolvency was made more efficient by allowing businesses to reorganise, rather than shut down. Also, the time required to comply with tax formalities was reduced because of the introduction of improved systems and automation at the FBR.

Pakistan can transform its business regulatory environment and be among the top tier of countries. To accomplish this, four focused business reforms can be considered.

Pakistan can transform its business regulatory environment.

First, the country could implement a regulatory guillotine to streamline outdated rules and regulations across the federation, as was done by South Korea in 1998 and is currently being pursued by Thailand. Second, as the country eliminates outdated regulations, a countrywide online business portal could be created as the single, one-stop e-shop for securing business licences and permits within a specified period, similar to New Zealand and Singapore. Third, the ease of operating a business can be facilitated through measures that make paying taxes easier. Finally, better case management systems at courts would be an important step in reducing the time it takes to resolve insolvency.

Our Investment Climate Surveys for Pakistan show that high compliance on taxation is the biggest challenge for the private sector in Pakistan. In this regard, the federal and provincial governments could come together and develop a single unified tax code that can then be administered by the federal government and provinces as a network with automatic data sharing and common risk-based audit systems. Implementing a consistent general sales tax across the country and administering it through unified declarations via e-filing systems will reduce tax filings by businesses from the current 60 to 12. Concurrently, automating the tax refunds system will ensure capital of businesses is not unduly tied up. Malaysia, ranked 15th, is a good example of a federal government that has such a unified code administered by a professional tax service that balances tax collection with taxpayer services.

These reforms will lead to upgrading the technological stock, enhance productive skills and create linkages of SMEs with larger enterprises. These in turn will deliver new and better jobs, especially for youth. Reforming regulations and procedures, improving ease of paying taxes and

establishing an online business portal will improve the social contract between the state and citizens, provide more incentives for female entrepreneurs to establish businesses and lead to progressive formalisation of the economy.

Recent global experience shows that investors make long-term decisions based on a country's business climate and macroeconomic outlook. As Pakistan modernises the business regulatory environment, it will be important to implement complementary reforms ensuring medium-term macroeconomic stability. Components of the latter include a flexible exchange rate to maintain competitiveness, limiting the general government fiscal deficit to a level that is consistent with low inflation, minimising contingent liabilities so that fiscal risks remain low, and having a well-capitalised financial system that ensures stability while providing innovative financial products to the private sector.

Improvements in the Doing Business rankings and establishing macroeconomic stability and will send a message to SMEs and larger investors that Pakistan is open for business and will remain globally competitive.

Based on my three years of working for Pakistan and the World Bank's global experience, I believe it is entirely possible for the country to transform the regulatory environment and create a more competitive business environment. This encouraging improvement in Ease of Doing Business needs to be sustained and accelerated. Today is a better day for SMEs in Pakistan. With more work there could be even better days ahead.

The writer is World Bank country director for Pakistan.

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