

M.Phil. Thesis

**SME's Business Perspective in the Context of China-  
Pakistan Economic Corridor; A Case Study of District  
Multan**

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**CERTIFICATE**

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## **Declaration**

I, Muhammad Umair Ghani, hereby declare that this thesis, which I submitted to the Pide School of Public Policy (PSPP) at Pakistan Institute of Development Economics (PIDE) for the partial fulfillment of MPhil Public Policy, is my own personal effort. I have not already obtained a degree in this institute or elsewhere on the basis of this work. Furthermore, I took reasonable care to ensure that the work is original, and to the best of my knowledge, does not breach copyright law, and has not been taken from other sources except where such work has been cited and acknowledged within the text.

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**Dated:** 12<sup>th</sup> November, 2018

## **Dedication**

*“This Thesis is dedicated to my beloved Parents who stood by me through thick and thin and offered motivation, encouragement and unconditional support in every walk of my life.”*



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## **Abstract**

Small and Medium Enterprises are growth incubators for the sustainable development of any country. On the other hand, the China-Pakistan Economic Corridor (CPEC) is considered as a game changer for development of Pakistan in socio-economic sectors. Therefore, this study unravels the nexus of CPEC and its influence on SMEs of the country. It is a perception-based exploratory study to figure out avenues of development, challenges and prospects related to the CPEC for Small and Medium Enterprises (SMEs). The methodology adopted for this study is qualitative thematic analysis which included key-informant and in-depth interviews with relevant policy makers, stakeholders at Federal and Provincial level and SMEs (in district Multan).

The study covers perspectives of policy makers which includes the Ministry of Industries and Production, CPEC Officials from the Ministry of Planning, Development & Reforms, Small and Medium Enterprises Development Authority (Head Office and Regional Office) and Multan Chambers of Commerce and Industries; perspectives of facilitators of SMEs such as Pakistan Small Industries Corporation, SME Bank, State Bank of Pakistan, Technical Education and Vocational Training Authority and Commercial banks; and perspectives of SMEs of handicrafts, textile and food processing clusters about the current status, avenues of opportunities and challenges for SMEs in the post-CPEC scenario.

The findings of the study highlighted that the stakeholders from Government side were well aware of opportunities and challenges of the CPEC for SMEs. But, the SMEs of Multan are not that much well aware of prospects and challenges related to the CPEC project especially the Small Enterprises due to lack of awareness and lack of involvement SMEs in the main agenda of the CPEC. Moreover, as per their statements, it is quite an early stage to anticipate influence of the CPEC on SMEs because CPEC is just in its initial phase right now. However, the SME Policy is being revised in the context of CPEC agenda which will clearly define the pathway for development and inclusion of SMEs under the CPEC. The study recommended policy measures to be taken in the context of CPEC as well as in general to strengthen the position of SMEs in the manufacturing sector including One Window facilitation for SMEs, alignment of SME Policy with CPEC Agenda and introduction of Global Value Chains and International Production networks for the SMEs.

## **List of Abbreviations**

<b>AFP</b>	Agro Food Processing
<b>AHAN</b>	Aik Hunr Aik Nagar
<b>AJK</b>	Azad Jammu & Kashmir
<b>B&amp;DS</b>	Business & Sector Development Services
<b>BRI</b>	Belt Road Initiative
<b>CDCs</b>	Cluster development centers
<b>CFCs</b>	Common Facility Centers
<b>CFSs</b>	Common Facilities Services
<b>CPEC</b>	China-Pakistan Economic Corridor
<b>DBI</b>	Doing Business Index
<b>FATA</b>	Federally Administered Tribal Areas
<b>FBR</b>	Federal Board of Revenue
<b>FPCCI</b>	Federation of Pakistan Chambers of Commerce & Industry
<b>GCI</b>	Global Competitiveness Index
<b>GDP</b>	Gross Domestic Product
<b>GTDMC</b>	Gujranwala Tools Dies & Molds Company
<b>GVCs</b>	Global Value Chains
<b>HBL</b>	Habib Bank Limited
<b>HR</b>	Human Resource
<b>IID</b>	Industrial Infrastructure Development Wing
<b>IPNs</b>	International Production Networks
<b>ISP</b>	Industry Sector Program

<b>ITC</b>	International Trade Center
<b>KPK</b>	Khyber Pakhtunkhwa
<b>KTDMC</b>	Karachi Tools Dies & Mold Centre, Karachi
<b>LSEs</b>	Large-scale Enterprises
<b>MCCI</b>	Multan Chamber of Commerce and Industry
<b>MEs</b>	Medium Enterprises
<b>MIS</b>	Management Information System
<b>MOIP</b>	Ministry of Industries & Production
<b>MOPD&amp;R</b>	Ministry of Planning, Development & Reform
<b>MoUs</b>	Memorandums of Understanding
<b>MTDF</b>	Medium Term Development Framework
<b>NCC</b>	National Crafts Council
<b>OBOR</b>	One Belt One Road
<b>MED</b>	Medium Enterprises Development Wing
<b>NBP</b>	National Bank of Pakistan
<b>NPL</b>	Non-Performing Loans
<b>PED</b>	Professional Skills Development Wing
<b>PGJDC</b>	Pakistan Gems and Jewelry Development Company
<b>PIDC</b>	Pakistan Industrial Development Corporation
<b>PIM</b>	Pakistan Institute of Management
<b>PITAC</b>	Pakistan Industrial Technical Assistance Centre
<b>PMYBLS</b>	Prime Minister Youth Business Loan Scheme
<b>PRSP</b>	Poverty Reduction Strategy Paper

<b>PSDP</b>	Public Sector Development Project
<b>PSIC</b>	Punjab Small Industries Corporation
<b>PTUT</b>	Punjab Tianjin University of Technology
<b>RBCs</b>	Regional Business Center
<b>R&amp;D</b>	Research & Development
<b>RDFC</b>	Regional Development Finance Corporation
<b>SBFC</b>	Small Business Finance Corporation of Pakistan
<b>SEs</b>	Small Enterprises
<b>SECP</b>	Securities and Exchange Commission of Pakistan
<b>SEZs</b>	Special Economic Zones
<b>SMAP</b>	SMEDA Accounting Package
<b>SMEDA</b>	Small and Medium Enterprise Development Authority
<b>SMEs</b>	Small and Medium Enterprises
<b>SPEI</b>	Southern Punjab Embroidery Industry
<b>SSIs</b>	Small Scale Industries
<b>TEVTA</b>	Technical Education and Vocational Training Authority
<b>TUSDEC</b>	Technology Up-gradation & Skills Development Company
<b>UNO</b>	United Nation Organization
<b>USA</b>	United States of America
<b>UNTCAD</b>	United States Conference on Trade and Development
<b>USAID</b>	United States Agency for International Development
<b>WTO</b>	World Trade Organization
<b>YIPS</b>	Youth Investment Promotion Society

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# **Chapter 1:**

## **INTRODUCTION**

### **1.1 Background of the Study**

Small & Medium Enterprises (SMEs) play a significant role in accelerating economic growth of developing and developed countries through employment generation, innovation in production cycle by advance entrepreneurship, poverty alleviation, export-led growth and increment in international trade of an economy through product diversification (Harvie, 2002, 2008, 2010; Harvie and Lee, 2002, 2005 and Asasen et al., 2003). The literature highlighted positive relationship between economic growth and SME's share in the Gross Domestic Product (GDP) of the economy which is evident from the share of contribution in the developed countries that is; China (60%), Malaysia (47.3%), Germany (57%), Korea (50%), and Japan (55.3%) (Beck et al., 2005; Levine and Renelt, 1992; Aris, 2007; Katua, 2014).

Hussain et al. (2012) categorized the role of SMEs in an economy in three important domains that is Trade, Technology and Investment through which SMEs play proactive role in the economic growth through entrepreneurial opportunities for the international trade in terms of competition and innovation. The globalization has provided the entrepreneurial sector especially SMEs to broaden their domain internationally through investing in Global Value Chains (GVCs) and International Production Networks (IPNs). (Harvie, 2010). Aceleanu et al. (2014) highlighted the factors that have significant role in development of SMEs which include macroeconomic environment, government policies for the new investment, structural characteristics of the economy and microeconomic factors like structure of the enterprises.

SMEs are the source of employment generation in low income economies. Sharafat et al. (2014) described the role of SMEs in Pakistan as one of the four key drivers of growth for Pakistan economy. Pakistan formed the National SME Policy in 2007 which defined an SME as the 'enterprise with an employment size up to 250, capital of Rs.25 million and annual sales up to Rs.250 million.' One of the principles of the SME Policy was to align the SME development in the areas of technology, human resource development and



marketing and creating space for these SMEs in other policy areas through proper measures including labor policy, industrial policy, trade policy and fiscal policy. In order to develop SMEs in the country, the Small and Medium Enterprise Development Authority (SMEDA) was formed in 1998 under the Ministry of Industries & Production (MOIP) for the facilitation of SMEs<sup>1</sup>.

According to the National SME Policy 2007 (MOIP, 2007), there are 3.2 million with 30% of the share in GDP of manufacturing sector and having 25% of the share in exports of the country. According to the Economic Survey of Pakistan (2017-18), the overall share of industrial sector is 21% of the GDP, out of which manufacturing sector has 13.6% of the share of GDP. In the manufacturing sector, the share of SMEs is 13.8% and 1.9% in overall GDP<sup>2</sup>. Despite the fact that SMEs are the largest contributor to employment generation in the country i.e., 78% of non-agriculture sector employment, still they are unable to play an effective role to boost the economic growth in true manner due to their low productivity. These SMEs only contribute only 40% to the value addition in the economy (MOIP, 2007).

## **1.2 China-Pakistan Economic Corridor- A Breakthrough for Industrial Development**

The China Pakistan Economic Corridor (CPEC), a mega development project of \$62 billion, is one of the flagship projects of ‘Belt Road Initiative (BRI)/One Belt One Road (OBOR) for the regional connectivity between Eurasia and Central Asia through its mega development projects in the sectors of transportation, infrastructure, energy, IT and industry and agriculture<sup>3</sup>. The mission and vision of the CPEC is to enhance living standard of the individuals of both countries by making a corridor based on regional connectivity, exploration of bilateral investment, logistics, trade and bilateral connectivity<sup>4</sup>.

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<sup>1</sup> “Official Website of SMEDA; Objectives of SMEDA”

[http://www.smeda.org/index.php?option=com\\_content&view=article&id=2&Itemid=689](http://www.smeda.org/index.php?option=com_content&view=article&id=2&Itemid=689)

<sup>2</sup> ‘Manufacturing & Mining, Economic Survey of Pakistan 2017-18’

[http://www.finance.gov.pk/survey/chapters\\_18/03-Manufacturing.pdf](http://www.finance.gov.pk/survey/chapters_18/03-Manufacturing.pdf)

<sup>3</sup> “China’s 6 Magical Economic Corridors”

<https://themarketmogul.com/chinas-6-magical-economic-corridors/>

<sup>4</sup> “Official Website of CPEC, Introduction” <http://cpec.gov.pk/introduction/1>

The industrial development is one of the eight domains under the CPEC projects and fourth component of the CPEC Long-term plan (2017-2030). Under the industrial domain, nine Special Economic Zones (SEZs) are planned in all the four provinces including Gilgit-Baltistan and Azad Jammu & Kashmir (AJK). Whereas, in its long-term plan, the value-addition, competitiveness, industrial capacity and improvement in efficiency of the textile sector, engineering sector, pharmaceutical, construction and agro industries are focused upon specifically through creation of industrial parks and economic zones in the country<sup>5</sup>.

The constraints faced by our industrial sector such as lack of infrastructure, political instability, energy crisis and lack of capital are entertained by the multi-dimensional projects of the CPEC like mass transit, highways, railways, energy generation, industrial and economic zones. The CPEC will open the gates of industrial growth in Pakistan by resolving these constraints being faced by our industries specially SMEs. However, in post-CPEC scenario, the major challenge for the local SMEs will be foreign competition that they have to face by the international investors.

The above discussion shows that the SMEs show positive relation with mega development projects like CPEC for the inclusive and sustainable economic development. Therefore, it is important to explore that how SMEs will be entertained through the CPEC which is considered as a game changer for Pakistan because of its regional connectivity, bilateral trade, infrastructural and energy projects, how much our industry especially Small and Medium Enterprises (SMEs) are cognizant of the expected opportunities and challenges in the post-CPEC scenario and how much role the government on Federal and Provincial level is playing in facilitating these SMEs w.r.t CPEC.

### **1.3 Problem Statement**

The China-Pakistan Economic Corridor (CPEC) will not only be a booster for regional development but it will also give a breakthrough for the domestic growth of Pakistan and China. With so many bilateral development projects consisting of energy, infrastructure, economic zones and transport projects, the CPEC offers huge opportunities for SMEs of Pakistan with respect to growth through inter-connectivity within and outside the region.

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<sup>5</sup> <http://cpec.gov.pk/brain/public/uploads/documents/CPEC-LTP.pdf>

Although, SMEDA is trying to create awareness among the local investors regarding CPEC but the framework itself did not mention any particular objectives related to the development of SMEs within the country. Moreover, SME Policy was formulated in 2007 whereas CPEC was initiated in 2015. The SME Policy was not revised later on keeping in view the demands of CPEC.

Moreover, like developed countries, SMEs in Pakistan bear a huge share in the employment generation (78% of non-agriculture sector employment (MOIP, 2007)) but unfortunately failed to contribute up to its potential (only 40% of the value addition and 1.9% of overall GDP, 30% of the total manufacturing sector). Hence, it is important to focus on the development of domestic industry especially SMEs and make it an explicit part of the CPEC agenda, otherwise, Pakistan will not be able to develop its own internal economy and CPEC will remain a ‘CORRIDOR’ for the facilitation of China only. It can only be achieved if the domestic investors or local industries are developed according to their optimal potential and if these SMEs are taken in to consideration while seeking long term sustainable development.

CPEC must be utilized and planned in such a way that the development takes place not only on inter-regional level but also at intra-regional level. Therefore, this research used qualitative method by interviewing the important stakeholders that are policy-makers, facilitators and financial institutions regarding the development of SMEs in the context of CPEC and analyze their perspective through thematic analysis. It is also important to explore and learn about the avenues of opportunities, challenges and expectations from CPEC for the SMEs from the perspective of manufacturers so that they can be facilitated by the government organizations of federal and provincial level through appropriate policy interventions in the context of CPEC.

#### **1.4 Scope of Research**

As discussed in previous sections about the contribution of SMEs in economic growth; the questions arise that whether SMEs are working at par in the international comparison and whether the SME sector is proficiently working according to their potential and capacity, current status of SMEs in Multan and how effectively they are being facilitated by the government through SMEDA. In order to answer these queries, this study is conducted on

perception based exploratory framework. It will help us to find out the current capacity and potential of the SMEs and their plans for the future development in context of CPEC. It will also highlight the factors that can play an important role in the expansion of SMEs if they are streamlined according to the CPEC framework. It is important to find out that how the development of SMEs is catered from the policy perspective in the context of CPEC and does government have any plans to align their SME Policy with the CPEC agenda for the domestic development of the country.

The previous studies regarding SMEs do not cover the nexus between SMEs development and CPEC. It is also important to assess the manufacturer's side as well that whether the local investors are well aware of the emerging opportunities under CPEC, whether they are planning anything for the export-led growth and whether they are confident about the opportunities or feel threatened due to increased competitiveness after CPEC completion. Hence, this research will bring in demand as well as supply side of the research area that is the perception of government organizations at federal and provincial level and manufacturers of Multan district regarding CPEC. It will bring new avenues to focus for the research in the context of status of SMEs in pre-CPEC and post-CPEC scenario in future. It will also set a benchmark by providing a case study of one district in the context of SMEs and CPEC which may be extended for other districts on the routes of CPEC in future.

### **1.5 Policy Relevance of Research**

The exports of Pakistan stood at \$17080 million while imports amounted to \$44379 million in FY-2018 (Pakistan Economic Survey 2017-18). As per the statistics, there is a huge trade deficit that undermines the performance of economy as whole. The huge difference between expenditures and revenues is burdensome for the economy and make it dependent on foreign aid/loans, hence increasing public debt. Therefore, it is important to realize the potential of domestic industry especially SMEs in order to bolster exports of the country. In this aspect, the SME Policy was formulated in 2007 for the development and facilitation of SMEs in the economy through collaboration of federal and provincial policy-makers including the Ministry of Industries and Production (MOIP), the Small and Medium

Enterprises Development Authority (SMEDA), Chambers of Commerce and Industries, Business Councils, Financial Institutions and Development Finance Institutions (DFIs).

Furthermore, Special Economic Zones (SEZs) Act was formulated in 2012 with an objective to establish SEZs to be set up by the Federal or Provincial Governments themselves or in collaboration with the private sector under different modes of public-private partnership or exclusively through the private sector (Board of Investment, GoP 2012). However, these policy interventions need to be revised and aligned with the current demand of CPEC agenda so that the industrial sector of the country can be developed on export-led agenda. It can only be achieved if the current capacity and potential of the local industry especially SME sector is known to the policy-makers and facilitators of the country.

### **1.6 Objectives of the Research**

The objectives of this research is to explore that whether;

- i.** SMEs are aware and prepared to benefit from the opportunities attached with the CPEC.
- ii.** The Government is helping SMEs to realize their full potential through facilitation and policy measures by the Federal and Provincial government organizations like MOIP, CPEC Officials, SMEDA, PSIC, Chamber of Commerce and Industry, TEVTA and Financial institutions (State Bank of Pakistan, SME Bank and other commercial banks).
- iii.** Business plans for expansion are available or in the pipeline in post-CPEC scenario by SMEs.
- iv.** There are any challenges or threats anticipated by the SMEs and government organizations from the CPEC to our local industry.

### **1.7 Organization of the Research**

This thesis is comprised of six chapters along with references and annexures at the end. In the first chapter research background, problem statement, policy relevance and research objectives are introduced. The second chapter is covering literature review in which role of SMEs in economic growth, SMEs in Pakistan, structure of SMEs, policy measures taken

for the development of SMEs, constraints of SMEs and nexus of SMEs and CPEC is discussed. Chapter three is consisting of the detailed methodology adopted for this study which includes sample selection, district selection, and selection of stakeholders, research design and methodology. Chapter four is covering the findings and discussion based on thematic analysis. Following this chapter, chapter five is covering the conclusion of this study focusing on the implications of the findings. Lastly, concluding with the policy recommendations which are given on the basis of findings and desk review done. Lastly, the references and additional information is given in the annexures.

## **Chapter 2:.**

### **LITERATURE REVIEW**

The literature review covers the role of SMEs on global level, history of SMEs in Pakistan, their constraints and how are they being facilitated by the Government through various policy interventions on federal and provincial level.

#### **2.1 Role of SMEs in Economic Growth**

Savlovschi and Robu (2011) described the SMEs as the beginning to the world of entrepreneurs because these SMEs gave opportunities to the nascent businessmen to come up with innovative ideas and developments in the market. SMEs build technical capacity of the economy that is why they are termed as ‘engines of growth’, ‘building blocks of growth’, ‘source of innovation’ and ‘job creators’ (Aris, 2007; Hussain et al., 2012; Savlovschi & Robu, 2011). Tambunan (2009) stated that SMEs are considered as Foundation Enterprises in the United States of America (USA) due to their large share in industrial sector. Kongolo (2010) identified that in USA economy, such small scale businesses are job creators because they constituted 99.7% of the total firms working in the state with share of 60-80% in job market. Therefore, SMEs have a central role in strengthening the economy through export-led growth and revival of the existing industrial sector of the economies.

Pandya (2012) explained that the role of SMEs is crucial because of their influence on income distribution, employment generation, poverty reduction, and export promotion. SMEs are labor intensive that is why they generate more employment opportunities than the large industries. SMEs are more efficient and productive than large enterprises and promote employment generation capacity in an economy due to their labor-intensive nature as compared to Large-scale Enterprises (LSEs). In Japan, SMEs comprises of more than 99% of the total businesses. In Indonesia, SMEs have 56.7% of share in GDP and 19.4% of total exports in 2004. In India, SME has 45% of the manufacturing output and 40% of the total exports. SMEs had significantly increased the economic activities in the developed countries.

Aris (2007) shared the percentage contribution of SMEs to Gross Domestic Product (GDP) in China (60%), Germany (57%), Japan (55.3%), Korea (50%) and Malaysia (47.3%). Chen (2006) highlighted that how Chinese SMEs developed over the time and how did the government play its role in flourishing the SME sector. The Chinese government gave incentives and concessions for the SMEs from time to time. They lowered tax burden and granted these SMEs discounted rate on the tax. They increased the funds for SMEs by incentivizing them through various schemes such as “Innovation Fund for Technology-based, Commercialization Fund for Agricultural Research Findings and Fund for International Market Exploitation.” The era of globalization bring out opportunities in terms of opening up of avenues in global markets as well as challenges in term of competitiveness for the entrepreneurial sector.

Harvie (2010) stated that entrepreneurial sector is internationalized due to changing patterns of trade. The production is leaving behind the traditional process of production dependent on the comparative advantage and now moving towards the heirarchical production process. Different countries are now taking part in the production process at various levels. Production networks and global value chains are formed in this way in the production process. Now, SMEs are getting opportunities to settle their businesses abroad for example the SMEs in Korea, Taiwan and Japan have expanded their businesses abroad. Kimura (2009) stated evidences that SMEs are participating in international production networks in services and distribution networks. International Production Networks (IPNs) and Global Value Chains (GVs) are progressing as a trending structure for the production processes globally. Iin these two tiers, IPNs and GVs, the network is led by one firm and these leading firms are provided support by the small firms or suppliers from lower tiers. SMEs are mostly invloved in these lower tiers due to low cost and labor intensive nature in the global chains and production networks (Abonyi, 2005).

## **2.2 SMEs in Pakistan**

### **2.2.1 Structure of SMEs**

Afaqi (2010) explained that Pakistan inherited a weak industrial base with more dependency on the agriculture sector. The large manufacturing sector was more focused initially. With the time, it has developed its industrial sector and in the First Five Year Plan



(1955-1960), SMEs were focused in particular for the first time. According to Federal Bureau of Statistics, Government of Pakistan (2008), the SMEs have share in employment of about 78% of non-agricultural labor. SMEs contribute about more than 30% to manufacturing sector of the GDP (GOP, 2005)<sup>6</sup>. According to Economic Census of Pakistan in 2005, there are 2.96 million business units in the country for goods and services divided in to two categories of established units and households units.

The provincial concentration of these units are as follows; Punjab (65.26%), Sindh (17.82%), Khyber Pakhtunkhwa (KPK) (14.21%) and Baluchistan (2.09%)<sup>7</sup>. SMEs constitute over 99% of all with the 78% of share in industrial employment and 35% of value addition. The SMEs constituted 53% of the businesses in wholesale and retail trade, 20% of the industrial units and 22% of the services sector. SME sector comprised of majorly unregistered SMEs. More than 96% of these SMEs were established on sole proprietorship and only 2% are based on partnerships. It was evident from the data of growth rate of LSEs and SMEs in three decades 1970s, 1980s and 1990s that the gap of output growth rate and the employment growth between LSEs and SMEs has increased with LSEs in lead (Khawaja, 2006).

### **2.2.2 Policy Measures taken by the Government for SMEs Development**

The Government of Pakistan had been actively responding to the needs of the SME sector from time to time. In 1992, the government formulated ‘Employment Scheme through Small Business Finance Corporation of Pakistan (SBFC)’ for provision of loans to the small businesses. The initiatives like ‘Youth Investment Promotion Society, Provincial Small Industries, Awami Tractor Scheme, Prime Minister’s Self Employment Scheme and Yellow Cab Scheme are some of the steps taken by the government for the employment generation through promotion of small businesses. But these efforts did not bring last longing results due to their specific targets.

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<sup>6</sup> GOP. (2005). Economic Survey of Pakistan, December 5, 2017, from [http://121.52.153.178:8080/xmlui/bitstream/handle/123456789/6552/Pakistan Economic Survey 2004-2005.PDF?sequence=1&isAllowed=y](http://121.52.153.178:8080/xmlui/bitstream/handle/123456789/6552/Pakistan%20Economic%20Survey%202004-2005.PDF?sequence=1&isAllowed=y)

<sup>7</sup> Economic Census of Pakistan, (2005). Economic Census 2005 | Pakistan Bureau of Statistics, December 5, 2017, from <http://www.pbs.gov.pk/content/economic-census-2005>

In order to develop SMEs in the country, Small and Medium Enterprise Development Authority (SMEDA) was formed in 1998. Small and Medium Enterprise Development Authority (SMEDA) is the leading institute of Pakistan which is facilitating SMEs to overcome their weaknesses and to exploit their potentials through proper channel. It is an independent body working under the Ministry of Industries & Production (MOIP) for the growth and development of SMEs in Pakistan through creating and promoting;

- i.** Conducive regulatory environment;
- ii.** Industrial clusters; and
- iii.** Business Development Services to SMEs in all areas of business management.

SMEDA had started cluster development projects in the areas of leather garments, carpet weaving, cotton ginning, auto sector, marble & granite, glass bangles cluster, fruit processing, fishery, furniture, and ceramic kilns. They have taken several initiatives such as ‘Technological Up gradation, access to Formal Finance for SME clusters, Marketing support, establishment of Common Facility Centers (CFCs), Improving Human Resource skills and Awareness on International Certification & Regulations.’

SMEDA had also initiated ‘Business Development Services to SMEs’, in which helpdesks were formed in all four regional offices for the ease of SMEs in need of services such as Project Briefs, Pre-feasibility Studies and Regulatory Procedures along with advice on specific problems. They also provide Human Resource Training services by conducting extensive training on need analysis of different SME clusters. Moreover, currently SMEDA has a range of twenty-eight projects with a total outlay of Rs.4.2 Billion under Public Sector Development Project (PSDP) which includes provincial projects in Punjab and Khyber Pakhtunkhuwa (KPK).<sup>8</sup>

### **2.2.3 SME Policy 2007**

In 2004, the Ministry of Industries and Production (MOIP) formed an SME taskforce including members from public and private sector for the formulation of an SME Policy. In 2007, the SME Policy was approved by the Federal Cabinet for the first time in history.

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<sup>8</sup> “SMEDA Official Website”

[http://www.smeda.org/index.php?option=com\\_content&view=category&id=34&Itemid=164](http://www.smeda.org/index.php?option=com_content&view=category&id=34&Itemid=164)

The SME development was also made a part of the Medium Term Development Framework (MTDF) and Poverty Reduction Strategy Paper (PRSP). The main objective of the SME policy was to provide a short, medium and long term policy framework for the SMEs development. The policy identified four key areas for policy measures that were access to finance, human resource development, business environment and support for technology up-gradation and marketing.

It also defined the criteria for SMEs for the first time according to which an SME will be defined as the ‘enterprise with an employment size up to 250, capital of Rs.25 million and annual sales up to Rs.250 million.’ The SME Policy also provided policy recommendations which included formulation of SME Act, certification of SMEs by SMEDA, review of fiscal policies labor policy and industrial policy in the context of facilitating SMEs, formulations of SME Desks for the financial assistance of SMEs, minimum quota reserved in export processing zones and industrial estates, formulation of regulatory measures, credit policy, credit guarantee schemes and building a nexus of provincial and federal representatives from SME sector.

#### **2.2.4 Policy measures taken by Financial Institutions for SMEs Development**

SMEs have to face a lot of constraints in terms of financing. According to the SBP, in 2016 there were total 177,000 SME borrowers in the country which was very low in number<sup>9</sup>. Therefore, SBP had taken a number of initiatives for the facilitation of SMEs financing. First of all, in 2013, the State Bank of Pakistan formulated ‘Prudential Regulations for SMEs Financing’ as per directions in SME Policy 2007 which was revised in 2016. The PRs defined SMEs in separate categories; small enterprises (SEs) and medium enterprises (MEs). The banks and DFIs were directed in these PRs to formulate SME Specific Credit Policy with segregation of SEs and MEs in the policy.

The Small Enterprise is defined as the entity having up to 50 employees and up to Rs. 150 million turnover. The Medium Enterprise is defined as the entity having employees between 51-250 for manufacturing and services sectors and 51-100 employees in trading sector and turnover of Rs. 150-800 million. Separate regulation were defined for SEs and

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<sup>9</sup> ‘Credit Guarantee Scheme’ <http://www.sbp.org.pk/sme/d/PolicyPromotionSME-Finance.pdf>

MEs in the revised PRs 2016. SME Then, in 2016, ‘The Financial Institutions Act’ was formulated by the SBP for the ease of loaning facilities for SMEs based on moveable assets as collateral.

In ‘SME Development Report (2010-11)’, several initiatives were taken by State Bank of Pakistan as well to promote SMEs such as ‘the credit guarantee scheme’ was initiated in 2010 to ease the financial accessibility for low and fresh SMEs, then ‘Refinancing schemes’ in different domains were also started for the expansion over the SME cluster and then seven training programs for the skill development of officers on grass root level was taken up. More recently in 2017, SBP had revised the “Credit Guarantee Scheme for Small and Rural Enterprises”, under which women borrowers, new businesses, and Small enterprises in under-served areas were included in the net of risk sharing of 60% for provision of loans and the rest of the borrowers will be given loans for risk sharing against set value of collateral. The mark-up rate is 6% under SBP rules and regulations which is still high.

### **2.2.5 Constraints of SMEs**

Naveed (2012) discussed about the budgets of countries given to SMEs development organizations for the facilitation of SMEs in the countries that are India is spending \$109 million, Korea is spending \$3.49 billion, Malaysia is spending \$2.22 billion, and Thailand spent \$122million whereas Pakistan spent only \$1.74 million. He emphasized that due to rapid urbanization, the SMEs will be a better source of utilization of skills, entrepreneurs and capital from rural regions. According to the “SME Baseline Survey 2009”, 71.58% respondents were between 25 -45 years of age. SMEs in Peshawar, Lahore and Faisalabad have more awareness about the laws and regulation as compared to SMEs in Sialkot, Gujranwala and Dera Ismail Khan. 69% of the respondents were felt ignorant of marketing plans and 74% were ignorant of the marketing role. Majority of the respondents wanted to expand their business but faced lack of financial resources as main hurdle.

However, Pakistan stood in ‘Doing Business Rank 2019’ at 136, in 2018 it was at 147<sup>th</sup> position out of 190 while in 2017, it was at 144 in 2016. It has gradually improved its position from last three years. Here are the ranking of Pakistan in the indicators of Doing

Business Rank 2018<sup>10</sup>; starting a Business (130), dealing with construction permits (166), getting electricity (167), registering property (161), getting credit (112), paying taxes (173), trading across borders (142) and enforcing contracts (156). But on relative basis, it has weaker position in DBI globally. India ranked at 77 and China ranked at 46 in DBI Rank. There are 12 kinds of procedures to begin a business which require about 18 days to complete and proper registration requires 155 days. In ‘Global Competitiveness Index (GCI)’ Pakistan ranked at 107 from 122 in 2018 as compared to 115 rank in 2017 but stood second last in South Asian countries<sup>11</sup>. There is a need of identifying the constraints that barred business sector from flourishing up to their true potential.

In developing countries, the key constraints that SMEs have to face are as follows; difficulty in market access, financial constraints, lack of information and institutional constraints such as international competitive market, financial issues, infrastructural problems and political instability restrained the performance of SMEs performance. Khan and Khaliq (2014) identified key issues that the SMEs in Pakistan are facing such as lack of infrastructure, political instability, energy crisis and lack of capital.

Khattak et al. (2011) highlighted the hurdles faced by SMEs in Pakistan by categorizing in to internal and external barriers. Internal barriers are linked with the company and its products, lack of expert personnel and production capacity and capital. Whereas, external barriers include low foreign demand, legal procedures and competition. In Pakistan, SMEs face 32% of the external barriers and 68% of internal barriers. In an Annual International Conference’s session on 5<sup>th</sup> December, 2016, the challenges to SMEs regarding finances and banking sector was analyzed from the 2012-2016. It was stated that the financing has improved significantly during these years. However, banks are hesitant in providing loans

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<sup>10</sup> ‘Doing Business Ranking 2019’

<http://www.doingbusiness.org/content/dam/doingBusiness/country/p/pakistan/PAK.pdf>

<sup>11</sup> <https://tribune.com.pk/story/1850073/2-global-competitiveness-index-pakistan-faces-supply-side-constraints/>

to the SMEs due to their riskier financial status. They have low human resource capacity which makes them more vulnerable to the financial constraint.<sup>12</sup>

### **2.3 Nexus of SMEs and CPEC**

CPEC- a flagship project of One Belt- One Road Initiative- of more than \$64 billion will open up the avenues for industrial development based on regional integration. It will open the gates of industrial growth in Pakistan by resolving constraints mentioned in above section through its multi-faceted projects and if it is properly utilized then SMEs might have a win-win position by obtaining maximum possible benefits from the projects under CPEC. CPEC is bringing in 50 such mega projects in Pakistan, which will provide numerous business opportunities to SMEs creating thousands of jobs in the market. According to the Long-Term Plan of CPEC, the industrial development and cooperation is the third component of the CPEC Agenda<sup>13</sup>, under which nine Special Economic Zones (SEZs) are proposed to establish around the country (Mahmood, 2018).<sup>14</sup>

Under the SME Policy, the government organizations are directed to allocate quota of SMEs in export processing zones and economic zones. Hence, if provided this facility, these SEZs will bring in a number of investment opportunities for the SMEs. In this regard, SMEDA teams headed by Provincial Chiefs of Punjab, Sindh, Khyber Pakhtunkhwa and Baluchistan have visited Chambers of Commerce and Industry located in the respective regions<sup>15</sup> to aware the SME community to avail the opportunities under the mega economic

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<sup>12</sup> “Challenges and Potential of SME Sector financing in Pakistan and a Way Forward through CPEC”

<https://cpec-centre.pk/challenges-and-potential-of-sme-sector-financing-in-pakistan-and-a-way-forward-through-cpec/>

<sup>13</sup> <https://www.pc.gov.pk/uploads/cpec/LTP.pdf>

<sup>14</sup> Nine SEZs under CPEC: China Special Economic Zone, Dhabeji Rashakai Economic Zone near M-1, Nowshera, Bostan Industrial Zone near Quetta, Punjab-China Economic Zone, at M2, Sheikhpura, ICT Model Industrial Zone in Islamabad, Development of Industrial Park on Pakistan Steel Mills Land at Port Qasim, Mohmand Marble City, Moqpondass SEZ in Gilgit-Baltistan and Bhimber Industrial Zone

<sup>15</sup> “SMEDA launches CPEC campaign, published in Business section of Express Tribune on 19<sup>th</sup> July, 2017 <https://tribune.com.pk/story/1461136/smeda-launches-cpec-awareness-campaign/>

development plan of CPEC. SMEDA also organizes free of cost awareness sessions on schemes for SMEs under SBP<sup>16</sup>.

In addition, SMEDA also organizes annual National SMEs Conference and Expo in collaboration with business representatives, financial institutions, Government organizations, international partners and private sector. The first conference was held in 2016<sup>17</sup>. Moreover the third SME National Conference 2018 is scheduled 27<sup>th</sup> and 28<sup>th</sup> of November in collaboration of MOIP, SMEDA, School of Business and Economics and others. The theme for the Conference is based on the nexus of SMEs and CPEC<sup>18</sup>. Moreover, the long-term plan of CPEC is also offering numerous avenues for the industrial development in the sectors of textile, engineering, pharmaceuticals, iron and steel, mining and quarrying and agro-based industries. For this purpose, industrial parks and economic zones are made the part of key cooperation areas under industrial development.

The literature does not cover the perception of the SMEs in particular context of CPEC. The industrial cooperation is the one of the key domains of the CPEC framework, therefore, it is important to find out the perception of the manufacturers and government about the opportunities, challenges and threats regarding CPEC. Hence, this study will focus on the demand and supply side that is the perspective of government and SME manufacturers about CPEC.

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<sup>16</sup> <https://www.thenews.com.pk/print/310808-businessmen-briefed-about-financing-schemes>

<sup>17</sup> <https://smeda.org/smeconference/index.php/1st-sme-conference/>

<sup>18</sup> <https://smeda.org/smeconference/index.php/3rd-sme-conference/>

## **Chapter 3:.**

### **DATA & METHODOLOGY**

The following chapter covers detailed discussion of the research methodology adopted for this study. This chapter covers a brief discussion of research design, sample selection, sampling techniques, data collection methods and methodology used for the analysis of data.

#### **3.1 Research Design**

The study is conducted on qualitative research method. For data collection, in-depth interviews, key informants' interviews of relevant stakeholders and desk review of the development plans and relevant documents are used. The research design is based on exploratory research technique divided on to three sets of stakeholders as shown in the flowchart in Figure 3.1 below;



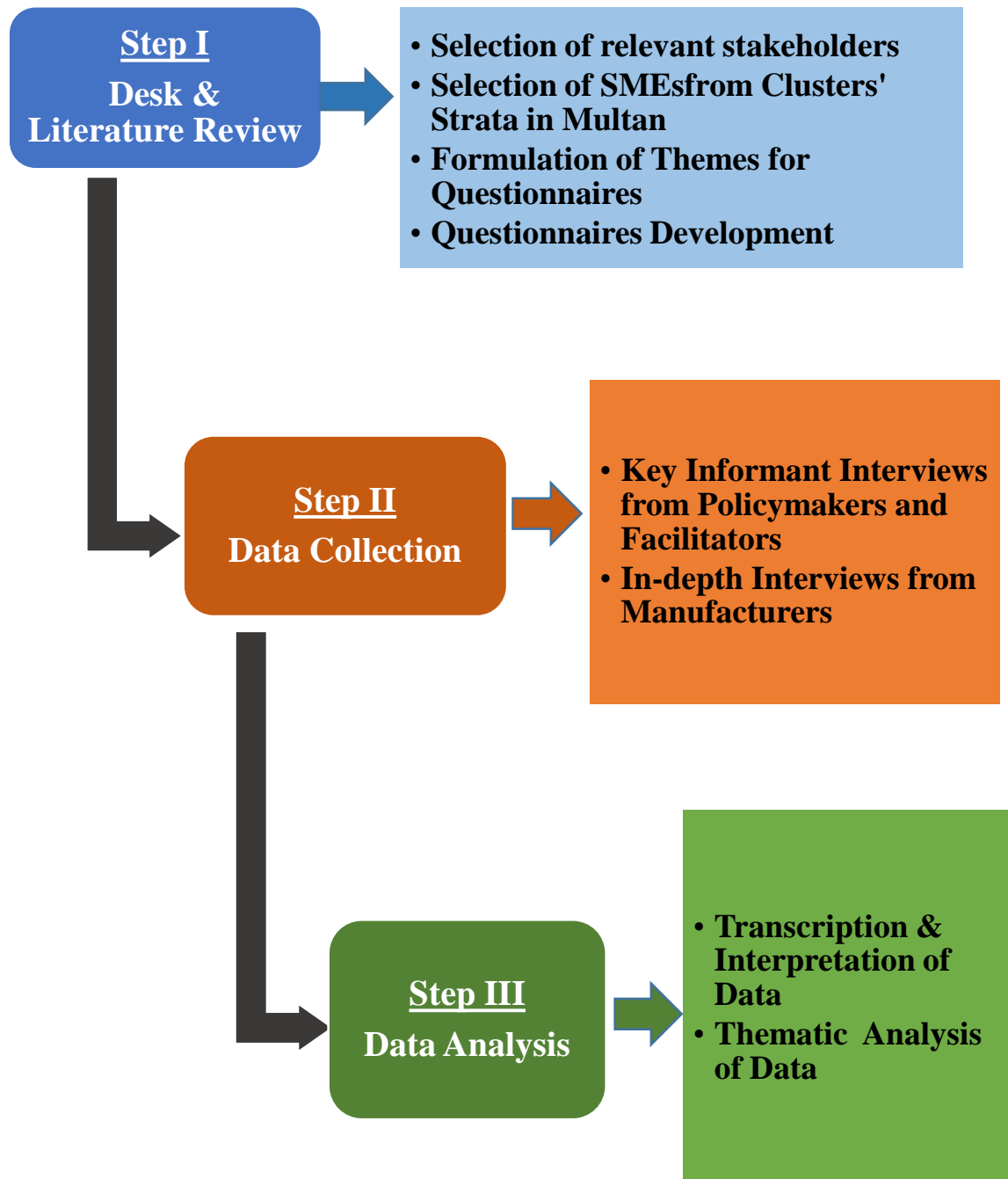


Figure 3.1: Exploratory Research Design

The Research Design in Figure 3.1 covers the exploratory approach used for this study. At first, desk review was conducted based on the literature on role of SMEs in the development of developed and developing countries, constraints to these SMEs and condition of SMEs in Pakistan, role of relevant government organizations working for the SMEs in their development and nexus of CPEC and SMEs. The desk review included analysis of policy documents for correct policy framework and definition being followed for the SMEs (SME Policy 2007, Prudential Regulations of SBP for SEs and MEs, CPEC Long-Term Plan) and relevant websites of the ministries at Federal and Provincial level for the identification of the stakeholders.

This desk review helped in identifying the themes for the interviews. Then, on the basis of those themes, questionnaires were designed for each stakeholder separately. The questionnaires were developed in two sets that is one for the SMEs and one for policy makers. The questionnaires for policy makers were developed on the basis of nature of their functioning and their roles. The data collection techniques consisted of key informants' interviews from the policy makers and facilitators and in-depth interviews from the selected SMEs. Once the data was collected, the responses were coded and interpreted according to the themes and objectives of the study and a detailed analysis of the study was laid out.

### **3.2 Selection of District:**

District Multan is selected for the data collection and analysis of this study for the following multiple reasons;

- i.** It lies on the most important and commercialized route of CPEC; Eastern Route (See Figure 3.2 below and annexure I for details of routes)<sup>19</sup>.
- ii.** There is a priority project identified as construction of Multan-Sukkur section of 392 KM for Peshawar – Karachi Motorway under CPEC. Then projects related to railway lines also include Multan for the up-gradation of existing railway line for expansion of its capacity. The highway and railway projects of CPEC which include Multan district are shown in Figure 3.3 and Figure 3.4 respectively.

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<sup>19</sup> Eastern route is located in a well-populated and well-connected regions of Punjab as compared to the other two routes, Central and Western which are yet to be built.

- iii. Moreover, District Dera Ghazi Khan is a central point in all the three routes of CPEC (Annexure I) and District Multan is located within 100 kilometers of range of DG Khan.
- iv. Multan is also the 6<sup>th</sup> largest populous district in Pakistan among the most populous districts as per 2017 census<sup>20</sup>. It is an economic and cultural center of the Southern Punjab region.
- v. Multan is the one of largest cotton and mango producing district in the Southern Punjab region (Punjab Bureau of Statistics , 2017). Whereas, agriculture development is the fifth key cooperation domain under CPEC Long-term Plan (2017-30). In this aspect, Multan can be the one of the potential destination for the value-added agricultural and agro-based industrial development under CPEC.

The district profile of Multan along with the sources of data is shown in Table 3.1.

**Table 3.1: District Profile of District Multan**

<b>District Multan</b>	
<b>Total Population (1998 Census, PBS)</b>	1,197,384
<b>Urban Population %age</b>	42.18 %
<b>Total Population (2017 Census, PBS)</b>	4,745,109
<b>Urban Population %age</b>	43.3 %
<b>Total no. of Registered Industries Units (Punjab Statistical Book 2015)</b>	456
<b>Adult Literacy Rate (PSLM 2014-15)</b>	57%
<b>No. of Government Vocational and Training Institutes (TEVTA)</b>	18

<sup>20</sup> District wise census result 2017; Karachi: 16,051,521. Lahore: 11,126,285. Faisalabad: 7,873,910. Rawalpindi: 5,405,633. Gujranwala: 5,014,196. Multan: 4,745,109. Peshawar: 4,269,079. DG Khan: 2,872,201. Islamabad: 2,006,572.

### 3.2.1 Data of SMEs in Multan

SMEDA has identified following clusters of SMEs in District Multan<sup>21</sup>:

**i. Handloom SMEs**

There are approximately 423 units of handlooms in Multan out of which 95% of the units are of micro level. There are 15 small level units 15 and 1 large size unit. There are 2,500 handlooms installed in the cluster, out of which 2,000 (80%) handlooms are operational. The major products under this cluster includes; Apparel Products, Floor Rugs, Cushion Covers, Table Mats/Accessories, Chek Fabric, Bed Covers and Sheets, Floor/Foot Mats, Prayer Rugs, Curtain Cloth, Khays, Mushaddi etc..

**ii. Bed wear SMEs**

There are 160 units of bed wear cluster including 10 large size units, 50 medium size units and 100 small size units. The total investment of this cluster is Rs. 285 Million.

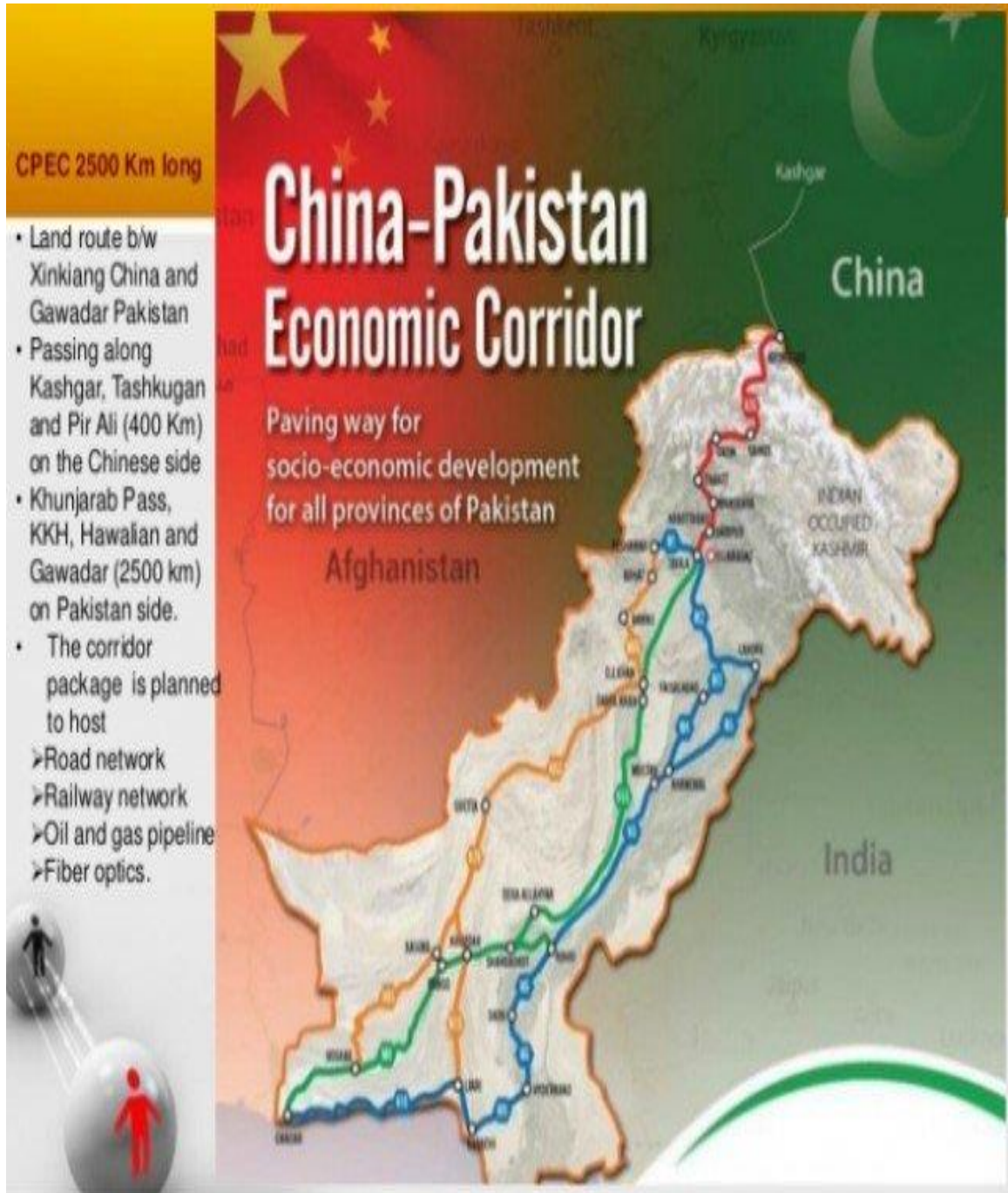
**iii. Fruits export processing SMEs**

The third cluster include mango production for which total cultivated area for Mango in District Multan is 75,783 acre with 2,255,939 mango trees. This cluster shares 60-65% of the employment in the district.

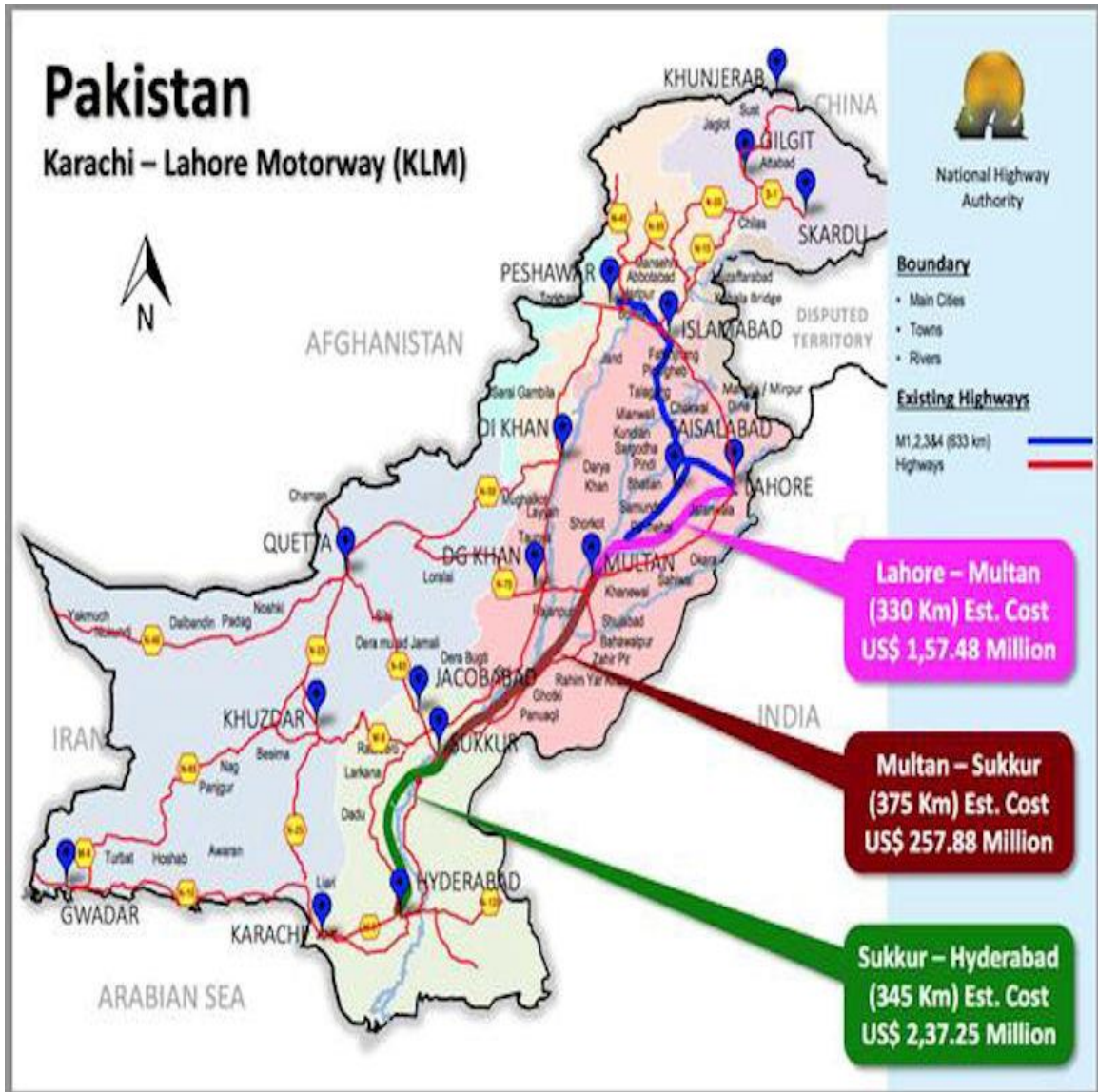
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<sup>21</sup> ‘Cluster Profiles by SMEDA’

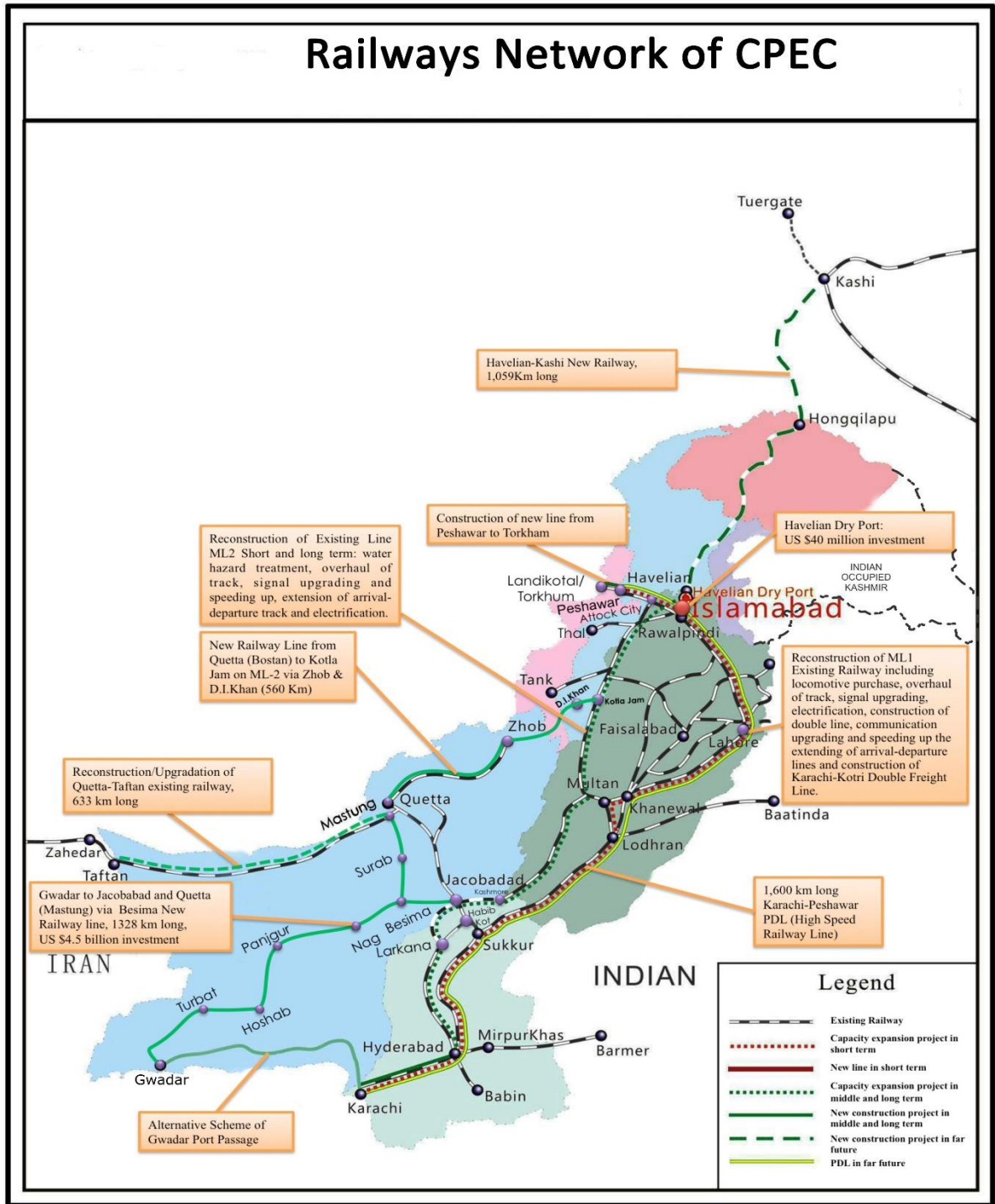
[https://smeda.org/index.php?option=com\\_phocadownload&view=category&id=44:cluster-profiles&Itemid=167](https://smeda.org/index.php?option=com_phocadownload&view=category&id=44:cluster-profiles&Itemid=167)



**Figure 3.2: CPEC Routes: Eastern Route, Central Route & Western Route (from right to left)**



**Figure 3.3: CPEC Karachi- Lahore Motorway: Lahore- Multan & Multan-Sukkur Section**



**Figure 3.4: Railways Network of CPEC**

### **3.3 Sampling Method:**

In this study, following are the sampling techniques used for the selection of sample of policy makers, financial institutions and SMEs;

- i.** The selection of stakeholders from Federal and Provincial authorities is done on the basis of non-probability purposive sampling. Desk review of the policy documents (SME Policy 2007, CPEC agenda, CPEC Long-term Plan etc) was done for the selection of these authorities.
- ii.** The selection of financial institutions from Multan is done on the basis of non-probability convenient sampling.
- iii.** The selection of SMEs in Multan is done on the basis of stratified random sampling for the selection of SMEs from the clusters defined by SMEDA mentioned in the previous section. Moreover, list of pre- investment directory of Multan published in 2012 by the Directorate of Industries Punjab was also used to locate the SMEs in the selected clusters<sup>22</sup>.

#### **3.3.1 Sample Size**

The decision of sample size for qualitative study is difficult because one cannot set a fixed limit for the size of data. It is dependent on the purpose and scope of the study where the point of saturation in terms of information needed for the study is achieved (Bryman, 2016). The range for the number of interviews in qualitative research is defined by various researchers as 5-50 participants as adequate, whereas 25-30 is the minimum criteria for the participants of interview for in-depth analysis (Dworkin, 2012). However, maximum fifty interviews are enough for the qualitative analysis inferred by various studies (Bryman, 2016; Ritchie et al., 2013; Warren, 2002). In this study, total of 40 interviews consisted of in-depth and key informants' interviews were conducted from the selected SMEs and government official stakeholders as shown in Table 3.2.

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<sup>22</sup> 'Pre-Investment Study Multan' <https://doi.punjab.gov.pk/system/files/Multan.pdf>



**Table 3.2: Division of Sample Size for the Study**

No.	Type of Interviews	Sample Size
1.	In-depth Interviews	17
2.	Key Informants' Interviews	23
		<b>Total= 40</b>

### **3.3.2 Sample Size of Key-informants' Interviews**

For the selection of the stakeholders, desk and literature review were helpful in the identification of key stakeholders involved in the development of SMEs. Table 3.3 gives the details of these identified stakeholders and number of interviews conducted from them;

**Table 3.3: Sample Size of Key Informants' Interviews**

No.	Stakeholders for Key Informants' Interviews	No. of Interviews Conducted
1.	Ministry of Industries and Production (MOIP)	3
2.	CPEC Officials (Planning, Development & Reform)	2
3.	Small and Medium Development Authority (SMEDA) Head Office, Lahore	3
4.	Regional Business Center (RBC) Multan, SEMDA	1
5.	Multan Chamber of Commerce and Industry (MCCI)	2
6.	Pakistan Small Industries Corporation (PSIC), Multan	3
7.	Technical Education and Vocational Training Authority, Multan (TEVTA)	2
8.	SME Bank, Head Office, Islamabad	2
9.	State Bank of Pakistan (SBP), Multan Branch	1
10.	National Bank of Pakistan (NBP), Multan Branch	1

<b>11.</b>	Commercial Banks <sup>23</sup> : Bank Alfalah. Multan Branch Al Habib Bank Limited, Multan Branch Habib Bank Limited (HBL), Multan Branch	3
		<b>Total= 23</b>

### 3.3.3 Sample Size of In-depth Interviews

The SMEs from Multan district are categorized in to three categories based on cluster studies of SMEDA and lists provided by PSCI and TEVTA. Table 3.4 shows the division of sample size of SMEs selected for this study.

**Table 3.4: Sample Size for In-depth Interviews from SMEs in Multan District**

No.	Categories of SMEs in District Multan	No. of In-depth Interviews
1.	Textile (Handlooms, Power looms, Cotton ginning and Weaving and Bed Wears)	8
2.	Food Processing Units	5
3.	Handicrafts (Blue Pottery & Camel Skin Products)	4
		<b>Total=17</b>

### 3.4 Data Collection Method

For data collection, questionnaires were developed for all the respondents. There were eight questionnaires designed for the official stakeholders mention in Table 3.3 based on their nature of functioning and role in the development of SMEs. Whereas, one questionnaire was developed for the data collection from SMEs. There were 15-20 semi-structured questions with sub-parts. The questions asked from the official stakeholders

<sup>23</sup> These banks have specific credit hubs for SMEs in Multan and their names are included in the “How to Approach Banks” report of SMEDA for the investors.

(policy makers and facilitators on federal and provincial level) were generalized in to three parts that are; **i.** Facilities provided to SMEs by these organizations, **ii.** Policy perspective of SMEs under these organizations and **iii.** Their perception about CPEC's prospects and threats for the development of SMEs. However, the major themes for the questionnaires of policy makers and facilitators from Provincial and Federal level are as follows;

1. Definition of SMEs followed by that particular organization
2. Core facilities provided to SMEs
3. Interaction with SMEs (constraints and challenges faced by both parties)
4. Role in Policy making
5. Anticipated Prospects of CPEC
6. Anticipated Threats to SMEs from CPEC
7. Awareness and preparedness of SMEs

Similarly, the major themes for the questionnaires from financial institutions are as follows;

1. Definition of SMEs followed by that financial institution
2. Core facilities provided to SMEs
3. Interaction with SMEs (constraints and challenges faced by both parties)
4. Anticipated Prospects & Threats to SMEs from CPEC
5. Awareness and preparedness of SMEs

Moreover, interviews were conducted from SMEs on the basis of three categories mentioned in Table 3.4 present in Multan that are; Textile, Food processing units, Handicrafts. Under Textile cluster, SMEs having businesses of handlooms, power looms, cotton ginning and weaving and bed wears were interviewed. In handicrafts cluster, SMEs of blue pottery and camel skin products were interviewed. Under food processing units, SMEs having businesses in packaging, fruit processing plants and bakery items were interviewed. The themes for the questionnaires from SMEs were as follows;

1. Current Status of SMEs
2. Challenges faced by the SMEs
3. Perspectives of the SMEs about CPEC: Awareness and Preparedness

### **3.5 Data Analysis**

For data analysis, cleaning, writing transcriptions, inspecting and modelling of the data collected from interviews are based on ‘thematic analyses’. The interpretation of the data is based on the themes selected and objectives of the study. The ethical considerations of the data collection and analysis is followed while interviewing and interpreting the data. The identity of respondents is kept confidential with their consent.

## **Chapter 4:**

### **Findings and Discussion**

This chapter provides findings and discussion based on the selected themes mentioned in the previous chapter for the interpretation and information collected from data from interviews. The findings and discussion are based on the analysis of the data under the following major categories with selected sub-themes;

- I.** The Role of Policy makers and Facilitators in the development of SMEs
- II.** The Role of Financial Institutions in the development of SMEs
- III.** The Manufacturers' Perspective of CPEC (SMEs of Multan)

#### **4.1 Role of Policy Makers and Facilitators in the Development of SMEs**

Policy makers selected for the study comprised of stakeholders from Government side including Federal and Provincial authorities. Ministry of Industries and Production (MOIP) and CPEC Officials from Ministry of Planning, Development & Reform (MoPD&R) are the most important policymakers on federal level because all the other stakeholders like SMEDA and Chambers are working under the MOIP<sup>24</sup>. On the other hand, all the details related to CPEC Projects are being monitored by the Directorate of CPEC in MoPD&R.

Whereas, Small and Medium Enterprises Development Authority Head Office, Lahore (SMEDA) and Regional Business Center (RBCs) of SMEDA in Multan are the policy making and facilitating bodies for SMEs on provincial level respectively<sup>25</sup>. Another important stakeholder; Multan Chamber of Commerce and Industry (MCCI)<sup>26</sup> is a contact organization on provincial level for other organizations such as SMEDA, Punjab Small Industries Corporation (PSIC) and MOIP. The mission of MCCI is consistent to the agenda of CPEC that is to promote trade and economic growth in the country.

Punjab Small Industries Corporation (PSIC) has been a sound contributor to the small industrial development in the province through its various schemes. The organization

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<sup>24</sup> "Introduction to MOIP" <http://www.moip.gov.pk/frmDetails.aspx>

<sup>25</sup> "Introduction to SMEDA"

[https://smeda.org/index.php?option=com\\_content&view=article&id=2&Itemid=689](https://smeda.org/index.php?option=com_content&view=article&id=2&Itemid=689)

<sup>26</sup> "Organogram of MCCI" <http://www.mcci.org.pk/Organogram.aspx>

provides loans to Small Scale Industries (SSIs) only<sup>27</sup>. Therefore, it is also one of the important stakeholders selected for this research. Technical Education and Vocational Training Authority (TEVTA) is another important facilitator on provincial level for SMEs because it provides technical and vocational education for a productive and competitive labor force in Punjab<sup>28</sup>. There are 18 institutes of TEVTA in Multan which include Institute of Technology, blue pottery, technical training centers and vocational training centers for both men and women<sup>29</sup>. The role of TEVTA in the context of CPEC is important because the labor force required for the CPEC projects must be skilled in their professions, which can be fulfilled through participation of TEVTA.

The role and perception of these stakeholders in the context of CPEC w.r.t development of SMEs are discussed as follows according to the sub-themes mentioned in section 3.4 in Chapter 3.

#### **4.1.1 Definition of SMEs**

The first theme covers the definitions of SMEs being followed by the selected organizations. There are two definitions of SMEs being followed by the institutions and organizations in the country, one is the definition proposed by SME Policy 2007 and the other one is proposed by State Bank of Pakistan in SBP Prudential Regulations for SEs and MEs 2013. In order to solve the non-uniformity of the definition of SMEs in the country, MOIP has formulated a definition for the SMEs and the organizations were directed to align their definitions with the proposed definition within two years given in SME Policy 2007.

According to this definition, SME is an entity having employment size up to 250, paid up capital up to Rs. 25 million and annual sales turnover up to Rs, 250 million. However, new SME policy is in the process of formulation in which the definition will also be revised as told by the respondent from MOIP. SMEDA also follows the definition of SME Policy

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<sup>27</sup> “Objectives of PSIC” <http://www.psic.gov.pk/index.php/about/objectives>

<sup>28</sup> “Objectives of TEVTA” <http://www.tevta.gov.pk/about.php>

<sup>29</sup> “TEVTA Institutes in Multan” <http://www.tevta.gov.pk/institutes.php>

2007. When asked about the difference of definition of SME Policy and definition proposed by SBP, one of the respondent from SMEDA told that;

*“SMEDA is not bound to follow the definition of SMEs declared by State Bank of Pakistan, we are an independent organization and have the right to follow definition of our own based on the research and international practices. However, in order to avoid confusion among the organizations, we are planning to align our definition of SMEs with the definition given by SBP in our upcoming SME Policy.” (Respondent from Policy & Planning Division, SMEDA Head Office)*

However, SMEDA is working to update the definition of SMEs so that it can be similar to that of SBP, in fact, SBP defined Small Enterprises (SEs) and Medium Enterprises (MEs) separately and the same definition is followed by the banks and other organizations like MCCI, TEVTA and PSIC. According to the definition of SBP, Small Enterprise (SE) has up to 50 employees and annual sales turnover is up to 150 million whereas, Medium Enterprise (ME) has 51-250 number of employees for manufacturing and services and 51-100 number of employees for trading services and annual sales turnover of 800 million. PSIC considers only small scale businesses (SSIs) mostly home-based or cottage industries with fixed investment up to Rs. 20 million.

#### **4.1.2 Core facilities provided to SMEs**

The second theme deals with the basic facilities provided to SMEs by the Federal and Provincial authorities. According to the interview from MCCI, the Chamber is the contact organization (representing businesses) for other organizations such as SMEDA and PSIC. Therefore, it facilitates SMEs in services related to financial, legal, business development, capacity development and potential identification through these departments. These departments use Chambers Office for conducting their trainings and sessions for SMEs.

The Chambers' Executive Committee is divided in to sub-committees which cover SMEs from every sector which are as follows; Taxation, Import/Export, Industry Traders, Corporate Social Responsibility, Social Welfare, Communication and Utilities, Environment, Function/ Fairs & Exhibitions, Women Entrepreneurs, Liaison. Agriculture, Labor, Infrastructure, Banking, Energy, Anjuman-e- Tajiraan, Youth Affairs, Artisans,

Social Media and Research & Development. It also have helpdesks in Federal Board of Revenue (FBR), TEVTA, State Bank of Pakistan, SMEDA and National Crafts Council (NCC). Moreover, it also have membership for Corporate and Associate Members. Associate Member is a member of a non-corporate business trade organization not having annual turn-over of Rs.50 million or above. These Associate members include small enterprises. When asked about the facilitation of SMEs from MOIP, one of the respondent from MOIP stated that;

*“We do not facilitate SMEs directly rather we are responsible for the establishment of such organizations which can facilitate and support SMEs. SMEDA is one of the leading organization working for the development of SMEs.”(Respondent from MOIP)*

When asked about the provision of core facilities by TEVTA, it was told that TEVTA has established 19 services center in different regions of the country based on six streams including ceramics, woodworking, agricultural sector, leather, small tools and machinery and textile. In Multan, it has established Government Polytechnic Institute for Agriculture Technology and Institute of Blue Pottery. Multan is famous for its blue pottery ceramics around the world due to its uniqueness. To keep this tradition alive, TEVTA has formed an institution for the facilitation of blue pottery makers through advisory and technical services. Moreover, recently, TEVTA had an agreement with AKHUWAT top provide funding of Rs. 500 million to TEVTA so that it can provide interest free loans to its graduates of TEVTA worth of Rs. 10,000 to 100,000.

*“We provide three types of services to the SMEs in our services centers that are training, advisory services and Common Facilities Services (CFSs).” (Respondent from TEVTA, Multan)*

In terms of facilitation, PSIC gives small loans to SSIs starting from 5 lac. Only one interest free loaning scheme for SMEs is active in Multan in which they give up to loan of 2 lac with three years repayment duration and processing fee of 3% upon personal guarantee from two of the BPS - 11 scale government officers. But right now, 2 lac of loans are given to specifically those SSIs (clusters) who have businesses in hand embroidery, products of camel skin, products from camel bone, khussa makers, and khaddi/handlooms.



*“There are 22 mini industrial estates in Punjab identified by PSIC out of which two Cluster development centers (CDCs) are located in Multan; light engineering and hand looms, but they are closed right now. We facilitate all types of SSIs whether existing or new entrants. Our main purpose is to target home-based cottage industries in the region because they are mostly ignored in the major policies for industries.” (Respondent from PSIC, Multan Regional Office)*

For the development of handlooms in Multan, PSIC had a project “Customized Lending Program for Promotion & Development of Handlooms” of total cost of Rs. 40 million started in 2008 by the approval of the Punjab Government. Then, PSIC also started “Credit Guarantee Scheme for Development and Promotion of SMEs in Punjab” of total cost of Rs. 10 billion to encourage the banks for lending to SMEs in 2015.

#### ***4.1.2.1 Core Facilities provided to SMEs by SMEDA***

In case of core facilities provided to SMEs by SMEDA, it was laid out that the Head Office, SMEDA deals with all kinds of facilitation including provision of pre-feasibility studies, business plans, legal facilitation and information, trainings, seminars, research and development for the up-gradation of SMEs. It also deals with SME policy making, amending and revising process. However, Regional Business Centers (RBCs) of SMEDA are a ‘One Man Office’ i.e., only one person is leading RBC in the region. There are total twelve RBCs of SMEDA all over the country which includes Abbotabad, Dera Ismail Khan, Lahore, Faisalabad, Gujrat, Multan, Gujranwala, Sialkot, Rawalpindi, Rahim Yar Khan, Dadu and Ghotki. RBCs provide facilitation only and do not have Research and Development (R&D) unit or policy role, but the rest of the functions are similar as of the Head Office, SMEDA.

#### **a) Financial Services**

On financial front, SMEDA Head Office and RBC do not provide direct financial services or loans to SMEs. However, it has ‘Financial Services under the department of Business & Sector Development Services (B&SDS). The financial role of SMEDA is divided in to four sub-categories that are ‘Supportive role, Advisory services, and SME Financing Products and Financial publications’. SMEDA is playing supportive role for SMEs in terms of conducting ‘Financial Analysis’ or pre-feasibility studies in their sector studies which

includes historical status of that particular sector in business market, competitive analysis and source of financing in that sector. SMEDA also prepare 'Financial models' or business plans for their clients on their request. One of the respondent from SMEDA Head Office told that;

*"We have prepared up to 200 pre-feasibility studies published so far which are also available on our official website. Whenever a client visits SMEDA and asked which business he/she should start, we give them briefing on these pre-feasibility studies for their information."* (Respondent from the Business & Sector Development Services Division, Head Office, SMEDA).

Whereas the respondent from RBC, SMEDA Multan told that;

*"Earlier, SMEDA allotted funds for financial assistance of SMEs but these funds were withdrawn later and categorized in to schemes like Prime Minister Youth Business Loan (PMYBLS) Scheme."* (Respondent from RBC Multan, SMEDA)

Furthermore, for financial assistance, reference-based loans are provided to SMEs for which the regional office assists their clients for completion of their documents for loan application to respective banks. Moreover, RBC have also Memorandums of Understanding (MoUs) signed with the banks and helps them designing their schemes for the SMEs. In this regard, the respondent from RBC Multan told that;

*"We refer our clients to the banks as well for loans and help them in completing their documentation for the application of loans. We have Memorandums of Understandings with the banks like right now we have signed a MoU with the Bank Alfalah for easy loans for SMEs. Whenever, we organize any event in the district or regional level, we invite banks to set their help desks in these events for the easy accessibility of our clients."* (Respondent from Regional Business Center RBC Multan, SMEDA),

For SME financing, SMEDA guides the financial institutions about the demands of SMEs regarding loan facilities. It also updates the information of banking services related to SME financing on its website periodically and make it accessible through one portal on its website named as 'SME Financing Products Database'. Furthermore, an accounting

software ‘SMEDA Accounting Package (SMAP)’ is also introduced for the training of SMEs on book keeping.

*“We are working these days for the basic training of SMEs on book keeping and preparing financial statements for themselves because most of the SMEs do not keep record of their business matters due to lack of education and guidance, as a result of which, they face difficulties in approval of loans from banks.” (Respondent from RBC Multan, SMEDA)*

#### **b) Business Development Services**

For business development, SMEDA works on a hierarchical agenda. First, a sector is identified, then within that sector, sub- sector is formed and under a sub -category, cluster is formed. For these clusters, SMEDA conducts diagnostic studies (complete profile of that district as well as that sector/ cluster), available for everyone on the website so that the clients and new entrants should have complete information of that region/ district before starting a business. SMEDA guides its clients on the spot regarding their queries about business start-up, investment plan, feasibility studies, legal matters, or refers them to other resource persons as well. It also creates Customized Business Plans on subsidized cost for the new entrants.

*We design Customized Business Plans for the clients for which Rs.10,000-30,000 are charged, but for pre-feasibility studies, nothing is charged but it is a time consuming process. If they approach market for the business development plan, they would face cost of Rs. 60,000 to 80,000 which is not affordable for many of the SMEs. We charge them because only serious clients will then approach us and they will take their business seriously once they invest some of the amount for business plans. Facilities provided for free are generally taken for granted by SMEs.” (Respondent from the RBC Multan, SMEDA)*

SMEDA also facilitates SMEs through projects as well. There are NGOs which provide short term grants for their projects to SMEDA for technical assistance like setting up businesses for SMEs. Then, SMEDA also supports Pakistan Poverty Alleviation Fund (PPAF) and their partner organizations in several schemes. Financial support is provided through grants from these organizations while technical support is provided by SMEDA such as setting up their model frameworks and hiring consultants for that project. ‘Industry

Sector Program (ISP)' is also initiated by SMEDA in 2004 in which it works in collaboration with the national and international organizations for transferring of technical expertise and assistance to the local investors.

Then, SMEDA also gets share in PSDP projects as well for which funding is provided by government but implementing authority is SMEDA for those projects. Other than PSDP projects, there are funded projects of United Nation Organization (UNO), United States Agency for International Development (USAID) and World bank as well, for which Government also gives quarterly funds through Ministry of Industries and Production (MOIP) for execution of these projects. SMEDA also facilitates through Public Sector Development Program (PSDP) annually.

*“There were 18 PSDP projects of SMEDA completed in 2017 and five to six projects are under process of approval for this year, 2018 under PSDP. The successful PSDP projects of SMEDA include fruit processing plants in Multan, facilitation to the people of KPK and Federally Administered Tribal Areas (FATA) who lost their businesses during war against terrorism, Cutlery project in Wazirabad, Granite Plant in Baluchistan, Foundry Services Plant in Lahore, Honey Processing Plant and Fruit Processing Units in Swat, Business Centers in Gujranwala, Sports Goods in Sialkot, Spices Processing Plant in Kunri (Sindh), Women Business centers in five regions Karachi, Lahore, Quetta, Peshawar and Swat. Mega projects of SMEDA under PSDP covered Embroidery, Marble & Granite and Gems & Jewelry which later on had converted in to separate independent companies/businesses like ‘Aik Hunr Aik Nagar (AHAN)’, Pakistan Gems and Jewelry Development Company (PGJDC).” (Respondent from Business & Sector Development Services Division, Head Office, SMEDA)*

### **c) Capacity Building Services**

In case of capacity building, SMEDA has an annual calendar of activities which includes scheduled trainings based on demand of the market or participants. It organizes vocational trainings for SMEs annually 10- 12 in every region. The trainings are conducted for Export documentation and Human Resource trainings as well. In 2016, about 70 trainings were arranged only in Punjab and above 100 were arranged in all over the country.

*“For capacity development, annual training calendar is formed after training need assessment for all the RBCs. Topics are selected for the trainings and either free trainings are organized or only Rs. 500- 1000 are charged in Multan. 8 - 10 trainings are annually organized in Multan Chambers of Commerce and Industry. Help desks are organized on thematic basis for which experts are invited. In 2017, twelve trainings were arranged i.e., one training/month and 24 help desks were organized last year in Multan. Seminars are also organized mostly with the academia and private sector.” (Respondent from RBC Multan, SMEDA)*

#### **d) Potential Identification Services**

For potential identification, the research wing of SMEDA publishes studies on the sector specific analysis to improve exports and surveys of SMEs. In these studies, there is a separate section of 'potential projects' at the end, which serves the purpose of identifying the gap where new investment is needed in the potential projects. District profile is also published which includes Human Resource (HR) profile, climate, sector identification and potential projects in that particular district. For potential identification, RBC Multan provides information related to required raw materials and business options.

#### **e) Legal Facilities**

For legal facilities, SMEDA provides contracting services for the SMEs in which SMEs are informed about the regulation related to businesses and also provides legal opinions for their issues. Regional Business Coordinators are trained for legal purposes so that they can guide their clients. SMEs have an easy access to legal and commercial contracts in a separate section ‘Regulatory Procedures’ on our official website where clients can get all the information regarding legal matters. There are also help desks for one to one information for the SMEs where they can get information about company formation, registration or other services. Moreover, there is a ‘legal cell’ in which legal experts and lawyers are available in every RBC and Head Office.

*“For legal services, legal help desks are organized on monthly basis for which experts are invited who tell the clients about financing options and requirements. Either RBC Multan advertises about these helpdesks or conveys through chambers which they forward to their groups.” (Respondent from RBC Multan, SMEDA)*

### **4.1.3 Constraints and Challenges for Organizations and SMEs**

SMEDA is the only direct facilitating body for SMEs among facilitators and policy makers therefore, there are some of the challenges that SMEDA has to face in general as well as while dealing with SMEs. First, SMEs misconceive SMEDA as a loan provider or financial assistant for SMEs, which is not true because SMEDA is a facilitator only. The second major challenge SMEDA has its low outreach and human resource to SMEs. Third challenge that SMEDA is facing is the inadequate funds from government and immobility. Fourth challenge is related to RBC Multan, the SMEs are not registered so RBC cannot reach out these SMEs. Registration body is SECP which do not have much work to do with SMEs and RBC does not have any coordination with Securities and Exchange Commission of Pakistan (SECP). Moreover, they inferred that SMEDA must be a registering authority to keep record of these SMEs.

*“There are only 22 stations of SMEDA functioning all over the country. SMEs out of these 22 stations do not have an easy access to our organization. The organization has less than 100 employees in all branches. RBC is led by only one person and the regional matters are dealt by this person only. Let’s suppose if someone wants to meet me, and at the same time, I am at the Chamber for a meeting then who would facilitate that client. I gave my mobile number to the clients so that they can approach me directly whenever they want to meet.”*  
(Respondent from RBC Multan, SMEDA)

On the other hand, the respondents told that there are number of constraints for SMEs in the market such as unfriendly business environment due to complicated process of registration which may irritate new entrants for business startup, lack of financial support because banks provide loans to SMEs on the basis of collateral which many of the SMEs may not be able to provide, lack of skilled labor, lack of complete or adequate knowledge, lack of experience and technological constraints.

*“There are two major constraints for SMEs that are incomplete information and lack of financing. In addition to that seriousness of SMEs is also an issue; they invest their money in different avenues and at the end they face difficulty in return of loans that is proper utilization of loan is their issue. Understanding of SMEs is also a problem because creativity or new ideas are missing. There is no innovation or technical education for these*

*SMEs. They also feel hesitant in legal documentation.” (Respondent from RBC, Multan Head Office)*

#### **4.1.4 Role in Policy making**

The policymakers among the stakeholders include MOIP, MCCI and SMEDA Head Office. The fourth theme revolves around role of these stakeholders in the policy making process for SMEs. On Federal level, the MOIP is functioning as a facilitating body for the development of industrial sector of the country through policy interventions. There are more than 30 organizations working under the MOIP for the development of large-scale, medium-scale and small-scale industries in the country. For the facilitation of SMEs in terms of policy interventions, two wings; Medium Enterprises Development Wing (MED) and Professional Skills Development Wing (PED) is responsible.

MED Wing is responsible for the preparation and yearly review of SME Policy, preparation of annual plans for medium-sized companies, implementation of SME Policy, financial plans for SMEs and the administration and establishment of organizations attached with the MED wing (SMEDA, Khaddi Crafts Development Company Multan, Southern Punjab Embroidery Industry (SPEI), Spun Yarn R&D Company Multan, Leather Crafts Development Company Multan, Juice Producing and Packaging Lines for Fresh Fruits and Vegetables, Multan, AGRO Food Industry and Pakistan Industrial Development Corporation (PIDC)).

On the other hand, PED Wing is responsible for the identification of training & skills gaps of SMEs and Large-scale Industries, establishment and administration of the organizations working under the wing (Technology Up-gradation & Skills Development Company (TUSDEC), Karachi Tools Dies & Mold Centre, Karachi (KTDMC), Gujranwala Tools Dies & Molds Company (GTDMC), Ceramic Development & Training Complex, Gujranwala, Pakistan Chemical & Energy Sector Skills Development Company, Pakistan Institute of Management (PIM), Karachi and Pakistan Industrial Technical Assistance Centre (PITAC)), preparation of skills development plans in correspondence with the above Skills Development Companies attached with MOIP and price regulation.

The organizations working under MOIP are given clear directions in the SME Policy 2007 for the facilitation of SMEs regarding registration, legislation of the Labor and fiscal

policies in the context of SMEs and access to financial services. It also proposed the formulation of SME Act for the implementation of policy recommendations under the SME Policy 2007. But unfortunately, the SME Policy was not implemented in its true sense. On the other hand, for policy advocacy, MCCI conducts meetings on and off with the stakeholders on provincial and federal level.

At the time of budget, they send recommendations to the ministry out of which many suggestions are approved so far. Even in policy making, the opinions and suggestions are sought from the Chambers. The SME Policy is being revised in special reference to CPEC, stated by the Directorate of CPEC. On provincial level, SMEDA provides direct input in policy making process such as formulation of SME Policy, Labor policy, Industrial policy etc. Moreover, SMEDA also gives recommendation and proposals in budget development every year. SMEDA has given application for the approval of ‘SME Business Development Program’ under PSDP earlier this year costing about Rs. 2 billion for the period of five years.

*“A comprehensive project of worth Rs. 2 billion for SMEs is in the pipeline which will provide landmark services to SMEs feasibility reports, regulatory procedures, HR and technology. The most important feature of this project is the access to finance through credit worthiness assessment support to over 9, 500 SMEs to facilitate them having credits from the formal sources. This project is also aligned with the current economic situation of the country related to CPEC. Moreover, the new SME Policy is under the process of formulation in initial phase. The SME Policy 2007 will be amended based on recent demands through involvement of each and every stakeholder in this policy such as SBP, MOIP, Chambers of Commerce, Trade associations, and SMEs representatives, provincial and federal representatives. CPEC is made part of this policy on priority basis but amendments cannot be shared right now due to official constraints.” (Respondent from Policy & Planning Division, Head Office SMEDA).*



#### **4.1.5 Anticipated Prospects of CPEC for the Development of SMEs**

The fifth theme is based on the perception of the policymakers and facilitators about the role of CPEC for the development of SMEs. The respondents from MOIP were optimistic about the CPEC projects especially for the development of the local industry. They perceived that the nine SEZs proposed under CPEC will be the platform of opportunities for our local industry in which skilled and semi-skilled labor force from the local areas will be hired. Joint ventures will be appreciated for the enhancement of local investment and higher cost of Chinese labor force.

*“CPEC is a game-changer for our local industry but proper policy interventions are needed for the facilitation and inclusion of the local industry especially medium enterprises in the SEZs under CPEC.” (Respondent from MOIP)*

According to a respondent from MCCI,

*“CPEC would bring numerous opportunities for Southern Punjab in trade and agriculture sector. It will bring in golden opportunities for our small scale industries through dry ports and special economic zones...” (Respondent from MCCI)*

According to SMEDA Officials, CPEC is a combination of projects in different sectors like Special Economic Zones SEZs, energy projects and infrastructure projects. SMEs are important stakeholder in the mega project of CPEC and SMEs must be given priority by defining separate section for SMEs development in CPEC agenda. In case of opportunities for SMEs from CPEC, the officials highlighted that ‘Technological transfer’ is a major opportunity for the local SMEs. Second phase of CPEC that is establishment of SEZs is an important feature for SMEs .They will be benefitted directly from SEZs and may get indirect benefits through infrastructural development and energy projects. Joint ventures can even be helpful as well. However, they told that SMEs are not aware right now about the opportunities they might get from CPEC rather they have concerns about CPEC, claimed by SMEDA officials.

#### **4.1.6 Anticipated Threats to SMEs from CPEC**

However, SMEDA was more concerned about threats to SMEs from CPEC because major challenge for SMEs is the competition which they may face against Chinese companies, once CPEC completes as Chinese investors are more advance in technology. According to

their views, it will affect our local industry because cost of production of Chinese products is quite low as compared to ours. But these threats are based on perceptions right now.

According to MCCI, CPEC is offering great opportunities for the industries but there are huge threats to our local and small industry. The reason is, China is a competitive market and they will have an edge on our local industry due to low cost of production and technological advancement. Impact cannot be estimated right now because CPEC is just at its initial stages. However, they expect a hopeful future for SSIs.

*“It is for sure that CPEC will impact our industry but more in negative sense. However, home-based cottage industry might not get affected adversely due to the unique technique or expertise. Artisans are given preference due to their creativity and craft work is given importance around the globe. So in that sense, CPEC can be beneficial for the cottage industry.” (Respondent from PSIC, Multan Office)*

#### **4.1.7 Awareness and Preparedness of SMEs**

When asked about the awareness and preparedness of SMEs and contribution of the organizations in doing so, the MOIP and CPEC officials stated that the China is giving skills training to local labor force and it has also sent more than 500 of labor force from Baluchistan to China for skills training. Moreover, there are two institutes on national level actively involved for the training and skill development of the labor force that are Pakistan Industrial Technical Assistance Centre (PITAC) and Technology Up gradation and Skill Development Company (TUSDEC).

In MOIP, out of seven wings, Industrial Infrastructure Development Wing (IID) is responsible for the preparation and implementation of long term and short-term industrial infrastructure development plans with respect to CPEC. However, Chambers is trying to make businesses aware and prepare, especially SMEs, about the CPEC through seminars and meetings with the higher officials.

*We are aware of the opportunities and we want our local industry to be aware of these benefits as well, for which we try to engage them through SMEDA which conduct awareness seminars and has also started awareness campaigns all around the country.*

*The Chamber also has five meetings with FBR, FPCCI, Chinese stakeholders and Ministry of Industries and Production MOIP regarding CPEC.” (Respondent from MCCI, Multan)*

On the other hand, SMEDA is not doing anything in awareness and preparedness of SMEs regarding threats from CPEC but they are conducting sessions about the opportunities of CPEC for SMEs, investment portals and projects where SMEs can be involved. They inferred that only medium and large industries are prepared and aware of the CPEC, its opportunities and threats. However, right now, SMEDA is focusing on research side of CPEC only so that SMEs can be aware of the opportunities and threats attached with CPEC.

*“Research will help us to identify potential products for SMEs in CPEC projects, in which SMEs can invest and export to China as well as on global level. All the important organizations like Chambers of Commerce, Academia, Federation of Pakistan Chambers of Commerce & Industry FPCCI, and Provincial and Federal Ministries are involved in awareness campaigns and sessions for SMEs.” (Respondent from the Research & Development Division, Head Office, SMEDA)*

But the role of SMEDA in creating awareness and preparedness about CPEC is important in a sense that the next proposed SME Policy of SMEDA will be focused on CPEC specifically.

*“The mandate of SMEDA is similar to the agenda of CPEC that deals with the poverty alleviation, employment generation and SMEs development. The role of SMEDA is worth mentioning in the formulation of CPEC agenda because the PC-I of CPEC was formulated by Ex-Head of the SMEDA which shows the importance of SMEDA in CPEC project.” (Respondent from the Planning & Development Division, Head Office, SMEDA)*

According to PSIC, at micro level, small units are not concerned about CPEC, even large units have ambiguous information about CPEC. Whereas, TEVTA is actively participating in awareness and preparedness of the businesses in context of CPEC. The Chinese stakeholders are aware of the role of TEVTA in CPEC and therefore, they are giving number of incentives to TEVTA for the facilitation of productive working force for CPEC

projects. Even TEVTA is taking serious efforts for the training of young generation in different fields of professions useful in CPEC projects.

*“TEVTA has established Punjab Tianjin University of Technology (PTUT) with the collaboration of three Chinese universities to provide graduate programs in electrical engineering, automobile engineering, mechanical engineering, fashion design, textile engineering for the young generation. We have also trained 2000 students in Chinese language. Moreover, we are planning to set up our institutes along the route of CPEC for the easy accessibility of people from underserved areas.” (Respondent from TEVTA, Multan)*

## **4.2 Role of Financial Institutions**

The financial institutions play an important role in providing loans to SMEs. They are the only sources for the financial facilities for SMEs. The role of Government led banks and commercial banks differ from each other in terms of facilitation to SMEs. Therefore, the interviews were conducted from both categories in order to get views from both sides. Government-led banks include SME Banks, National Bank of Pakistan (Multan branch) SME Bank is the government entity which facilitates SMEs only. It was officially established in 2001 when three organizations; Youth Investment Promotion Society (YIPS), Regional Development Finance Corporation (RDFC) and Small Business Finance Corporation (SBFC) were merged in to one entity as ‘SME Bank’. The mission of SME Bank includes financial and technical assistance to SMEs, promotes SME sector for value addition and exports and to provide entrepreneurship and employment opportunities.

State Bank of Pakistan (SBP) is the central governing body for all other commercial banks therefore the response of SBP was different from other selected commercial banks. Being a regulatory authority, SBP has a significant role in policy making such as defining SMEs, formulating schemes for SMEs policy making and providing guidelines to other banks. It has published updated ‘Prudential Regulations for Small and Medium Enterprises in 2016 which provides each every detail about the rules and regulations to be followed by banks and DFIs in facilitating SEs and MEs. The institutional framework of SBP (See Annexure IV) shows that SMEs Financing came under the head of “Islamic Banking, Development Finance and IT”. The commercial banks including HBL, Al-Habib Bank Limited and Bank

Alfalah were also involved in this study based on convenience sampling both government owned and privately owned banks. Their perspective gave us broader dimension for our study that how they are playing their role in the development of SMEs and what is their role in providing services regarding CPEC to SMEs.

The sub-themes for the analysis of role of financial institutions were mentioned in section 3.4 in the previous chapter on the basis of which findings and discussion are discussed below;

#### **4.2.1 Definition of SMEs followed**

All the selected banks follow SBP's definition of SMEs that is SE has up to 50 employees and annual sales turnover up to 150 million whereas, ME has 51 -250 number of employees for manufacturing and services and 51 - 100 number of employees for trading services and annual sales turnover of 800 million.

*“Like all other banks, we also follow definition of SMEs by SBP because it is the regulatory authority whereas SECP is the registering authority for SMEs.” (Respondent from SME Bank, Head Office, Islamabad)*

#### **4.2.2 Core facilities provided to SMEs**

There are only 13 branches of SME Bank in the country out of which three branches are in Karachi, three in Lahore, one in Sialkot, one in Quetta, one in Faisalabad, one in Rawalpindi, one in Peshawar, one in Islamabad and one in Gujranwala. The SME Bank offers financial as well as technical services to SMEs. The main difference between lending services of commercial banks and SME Bank is the ease of SME lending that SME Bank offers to them because SME Bank gives loans on cash base lending. Commercial banks do not lend easily to the SMEs without financial guarantee or collateral. The main lending products and services for SMEs include loans based on personal references. SME Bank does cash based lending instead of an asset based lending. SME Bank provides loans of Rs. 50,000 - 200 million.

*“We do not take fresh clients for loans, actually we cannot take them because we already have very few clients and giving loans to fresh clients is risky for our bank. Credibility of the client is important here.” (Respondent from SME Bank, Head Office, Islamabad)*

Whereas, SBP provides guidelines and regulations for other commercial banks for the sound facilitation of SMEs. In this regard, every commercial and bank Development Finance Institution (DFI) is bound to develop an “SME Specific Credit Policy” with special reference to SEs. They are bound to lend Rs. 5 million upon personal guarantee to SME borrower known as ‘Clean Facility’. Banks and DFIs are bound to monitor the utilization of loans provided to SME to ensure proper use. As SMEs are not aware of the legal documentation for loan applications due to lack of education, banks are bound to translate these documents into Urdu language. Moreover, whenever any SME gets default to any bank, SBP provides 60% payback guarantee of loan to bank on behalf of that SME. SBP also provides Non-Performing Loans (NPL).

Banks are bound to form Research & Development (R&D) divisions for SMEs so that relevant practices for SME Banking and financing should be formed. All banks are bound to have Management Information System (MIS) for the reporting of problems of SMEs. SEs can get loan up to Rs. 25 million from all banks and must use cash-base lending for SEs. Whereas, MEs can get loan up to Rs. 200 million. The definition for SMEs was categorized in SEs and MEs separately because SEs were treated similar to MEs by the banks and other institutions which became hurdle for small enterprises in the expansion of their businesses. Therefore, in 2013, SBP revised the definition of SMEs defining separately the small enterprises and medium enterprises. The regulations for SEs and MEs were also defined separately. However, in 2016 the definition as again revised for SEs and MEs by changing the upper limit for SEs.

On the other hand, all of the selected commercial banks in Multan have SMEs in a large number among their clients. All of the banks prefer existing SMEs instead of new entrants but National Bank of Pakistan (NBP) provides services and loans to existing as well as new SMEs in the market. It provides special facilities for SMEs including SME Karsaaz (loans), trade facilities, cash and debt facilities. The loan provision for SMEs is dependent on SME structure for example, for partnership business, up to Rs. 15 million of loans are given to SMEs. The schemes for SMEs are formulated by SBP on concessional rates which is followed by all commercial banks.

Habib Bank Limited (HBL) has separate credit hubs for SMEs and in Multan, there are two credit hubs. The services for SMEs include provision of loans related to export oriented businesses, normal working loans, conventional financing, small business financing, and HBL Business finance. Loans for SMEs are given as per rules by SBP that is up to 25 million loan for SE and up to 200 million for ME. HBL have a sector-specific focus in dealing with SMEs preferring mostly SMEs involved in trading, shoe-making and leather businesses in Multan.

Bank Alfalah has the highest ratio of financing SMEs among all other banks. Deposit ratio of SMEs is beyond 66%. There are credit hubs for SMEs in all over the country and six such credit hubs are located in Multan only. In Multan, SMEs from sectors of trading, fertilizers, cotton ginning, textile and weaving are among the clients. For loans, clean financing to SMEs is provided that is loan is given to SME without collateral or security. However, financial strength is considered, previous relation with other banks is also considered. The bank gives businessmen loans and even services like cars, passenger vehicle, trading services for business support and chain financing. The sector specific focus of bank is more towards women financing in Multan. However, manufacturing sector is preferred over other sectors for services due to their financial guarantee.

Bank Al Habib also have a specific unit for SME facilitation. It provides a number of facilities for SMEs such as working capital financing, procurement of inventory, procurement of machinery, expansion of production facility, auto leasing, export/import facilities, lease financing for machinery and equipment and commercial vehicle financing. SMEs refinancing schemes include refinancing facility for modernization of SMEs, refinance and credit guarantee scheme for women entrepreneurs in underserved areas. Except Bank Alfalah, rest of the banks do not have any kind of association with SMEDA.

#### **4.2.3 Constraints and Challenges for SMEs and Banks**

All of the banks had almost similar constraints while dealing with the SMEs. According to the SME Bank, the major challenge is the lack of coordination with the government organization who are working for the SMEs like SMEDA.

*“Although the CEO of SMEDA is one of the members of Board of Directors of SME Bank but unfortunately we do not have any kind of association or connection with them. They do*

*not even share their annual reports with us. We have to approach other institutions for the information related to SMEs like National Bank of Pakistan provides us basic information of SMEs.” (Respondent from SME Bank, Head Office, Islamabad)*

The second major challenge for SME Bank is the immobility, SME Bank have only 13 branches in the country which is not enough for the facilitation and approaching SMEs in the country. .

*“Jahan SMEs mojud hain wahan hum mojud nhi. Or jahan hum hain wahan SMEs mojud nhi hain. Ap khud btayen, Islamabad k posh elaqay me SMEs k office ki kya zrrurat hai, jahan hmare aas paas or banks bhi mojud hain jo hmse achi facilities de skte hain SMEs ko, hamen to kahin rural area me hona chahye jahan logo ko hmare hinay ka faida to ho.; our branches are located in the regions, where there are no SMEs. In fact what is the purpose of an SME Bank in the most developed area of Islamabad where other commercial banks are facilitating SMEs on more easy terms and conditions, we should be in rural areas where people can benefit from us.” (Respondent from SME Bank, Head Office, Islamabad)*

On the other hand, the constraints for SMEs in approaching SME Bank are the lack of awareness about SME Banks and psychological barrier because SEs avoid banking relations due to complicated documentation procedures.

*“Humare sath government ka nam lga hai, ye bhi waja hai k SMEs hmaray pas anay se darte hain, unhe lgta hai agar w hme information de ge to hum ye information government ko de skte hain or pr unhe apne business k liye tax net me shamil kr diya jai ga; we are perceived as a typical government entity, therefore, SMEs feel hesitant in approaching us of the fear that they might have to pay taxes for their businesses if registered.” (Respondent from SME Bank, Head Office, Islamabad)*

Moreover, SBP does not directly deal with SMEs but they are kept updated about the constraints that the commercial banks face.

*“The constraints that commercial banks has to face while dealing with SEs is more than the MEs because of lack of expertise of SEs in financial services, lack of education, improper documentation, improper maintenance of accounts and book keeping. It is*



*difficult to for the banks to do income estimation of these SMEs as they usually do not have account statement. That is why we have separated SEs and MEs so that dealing can be easier for both parties.” (Respondent from SBP, Multan Branch)*

#### **4.2.4 Anticipated Prospects & Threats to SMEs from CPEC**

When asked about the role of CPEC in development of SMEs, it was told by respondent of SME Bank that CPEC routes must have local SMEs and should purely use local raw material. In this way, the issue of unemployment can be resolved. Value added goods must be focused for the trade purposes through CPEC because there are hardly any units or plants which can made value added products out of these raw material. In the context of nexus between CPEC and SMEs, authorities from SME Bank are more concerned about the negative impact on local industry. There are threats to the local SMEs as well if they are not provided incentives or given chance to get involve in CPEC, then our local industry may vanish away due to competition and high cost of production.

However, SME Bank have not been offered any kind of these initiatives yet nor government has contacted them so far regarding their role in CPEC. However, they themselves are planning to expand their services and mold their agenda with CPEC but there is still a long way to go. Moreover, SBP is also more concerned about the transparency of the CPEC projects, its financial status and guarantee. However, they consider CPEC as a golden opportunity with huge potential for our local industry to invest in if proper guidelines are given to SEs and MEs through our academia and government training institutions like SMEDA and TEVTA.

#### **4.2.5 Awareness and Preparedness of SMEs**

It was inferred from the interviews that financial institutions at branch level are not directed for particular initiatives related to facilities for SMEs in the context of CPEC. NBP has a Helpdesk formed specifically for CPEC for SMEs in the Head Office but no such initiative is started on branch level. They receive applications related to CPEC from manufacturing, processing and logistics sector.

*“The CPEC is in its initial stage therefore, it is difficult to foresee its impact or comment on it right now. Most of the applications are received from the logistic sectors but SMEs*

*from Multan are not active in the context of CPEC now.” (Respondent from NBP, Multan Branch)*

*“We are receiving most of the application for business loans regarding CPEC from MEs mostly from the manufacturing and textile sector, but SEs have not approached us yet in this regard.” (Respondent from Bank Alfalah, Multan Branch)*

*“We are said to form business models for CPEC projects to encourage our clients to invest in these businesses so that the chain could be started from somewhere. But directions are not clear right now. The major initiatives are taken on Head Office and we are still waiting for instruction regarding CPEC.” (Respondent from HBL, Multan Branch)*

### **4.3 The Manufacturers’ Perspective- Real Players of the Game**

The SMEs of Multan are categorized in to three categories that are handicrafts, textile and fruit processing units as mentioned in Chapter 3, section 3.3.3. These SMEs were further divided in to categories from which interviews were conducted. The SMEs are the most important stakeholder of this study. Their perspective is the foundation of our findings and analysis. The findings and discussion is explained in detail below based on the sub-themes for the analysis of the role of manufacturers.

#### **4.3.1 Current Status of SMEs**

In the cluster of handicrafts, SMEs with businesses of blue pottery and camel skin products in Multan are covered. Most of the businesses were categorized into small enterprises (SEs) because they are home-based businesses. The list of these businesses were provided by TEVTA and PSIC because they are facilitating these SEs .Blue Pottery of Multan is the most famous around the world. The units of blue pottery and camel skin products are established in homes and the two departments are dealing with the facilitation of these businesses that is Technical Education and Vocational Training Authority (TEVTA) and Pakistan Small Industries Corporation (PSIC).

In terms of financial assistance, PSIC and NBP also provides them interest free small loans and need not to approach banks. Whereas, in terms of technical assistance, TEVTA provides vocational trainings. They have established such training institutions in Multan for example; Institute of Blue Pottery in Multan. They were not aware of SMEDA as an

organization for the facilitation of SMEs because of lack of interaction with them. The cluster of handicrafts consists of general customers. Moreover, PSIC supports them by buying their products and selling from their own shops that PSIC has developed for promotion of these handicrafts.

In the cluster of Textile, SMEs with businesses of Handlooms, Power looms, Cotton ginning and weaving and Bed wear are included in the textile cluster. These SMEs are in a better position than the SMEs in handicrafts to some extent because they are involved in government schemes and projects on and off like SMEDA, PSIC and TEVTA. The medium sized manufacturers are satisfied with the banking facilities whenever they approach them for loans. However, they did not approach SME bank because they were not aware of it. They were aware of SMEDA and its facilities as well. However, the SEs of handlooms and power-looms were not aware of SMEDA.

Food processing units cluster comprises of the major portion of Multan SMEs including fruit pulp processing units and packaging units for junk food. The SMEs in this cluster were more stable and developed than the other clusters. Their businesses have expanded in last five years. Labor force is skilled as well as major portion is of daily wage laborers which is unskilled. When asked about approaching banks for loans, they claimed that banking process for loaning facility is difficult to understand and complex as well. However, MEs are satisfied with the banking facilities. They are well aware of SMEDA as facilitator and policymaker for SMEs. They also are invited in the awareness sessions or workshops organized by SMEDA in Multan. MEs are performing better and stable than SEs as they can easily get loans for expansion.

There was an Agro Food Processing Unit in Multan Industrial estate which was established by Government of Punjab with collaboration of SMEDA and some private firms in 2009 for the fruits/vegetable processing of pulp and grading facility. It was an extension of a CFC established by SMEDA, PSIC and MCCI in collaboration in Multan. It provides mainly four types of services that are business facilitation, consultation services, technical expertise in pulp extraction, packaging and grading services for the growers, farmers, processors and businessmen. It has a capacity of 48000 tons Pulp production every year from May to August. It also has a facility of Cold Storage as well.

### 4.3.2 Challenges faced by the SMEs

According to the respondents of the SEs of handicrafts cluster, their business has declined from last five years. As they are micro industries so they do not trade outside the country. They face a number of constraints in their businesses but financial constraint is the foremost issue for them. Although they apply for the loans in banks but for SEs, applications are rejected due to lack of collateral.

*“Banks are not favorable for us to take loans because they have complicated process as well as they ask for collateral as guarantee which we as small enterprises do not have collateral.” (Respondent from cluster of Handicrafts)*

They do not get the required profit for their work. They complained that there is no tax exemption or subsidy for them by the government. The second major constraint they face is the role of middleman in the dealing of their business. The owners of these SEs are not educated therefore they get easily exploited by the higher authorities.

*“The craft making is time taking and need sufficient skilled labor force as well. But the profit we get is very low as compared to their input. We also face shortage of buyers in the market. We then have to approach middlemen for selling our products. In that way, we do not get the idea about the real price of our products.” (One of the Respondents from Businesses of Camel Skin Product)*

In the textile cluster, Multan has the highest number of handlooms in the country. But unfortunately, they are unable to attract foreign buyers for their products due to high competition in the market and lack of funds for expansion of their businesses. Another major constraint that the handloom businessmen have to face is the role of middlemen. These businessmen cannot approach the market directly and do not even have required information about the market demands due to illiteracy. They produce what they are told to by the middlemen and associations. In this way, they do not get the desired revenues for their production. MEs are performing better than SEs in textile because they are financially stable.

Similarly the SMEs of power loom sector is majorly home based business. The present production of existing looms and quality of fabric is catering mostly to the lower end of

the export markets that is low quality, low price and hence is unable to fetch good unit prices. The power looms face major setback due to energy crisis in the country. The role of middlemen is again an issue for these SMEs due to their lack of education and information about the foreign demands and products.

In case of cotton ginning and weaving SMEs, the situation is not much different. Ginning sector has been adversely affected by electricity crisis which in itself has been one of the most critical prevailing problems faced by the country. Also, the cotton produced in Pakistan is of lower quality due to impurities and contamination, hence unable to meet the international standard required for exporting cotton. In order to survive as an SME, business owners believe that experience was the most essential element, followed by education.

Most businesses are either family owned or established by the owners themselves. The major constraint that they face is outdated technology or limited technology and the reason behind lack of automation and mechanization in this segment is due to unavailability of funds to the small manufacturers for purchase and installation of such machinery. These businesses required many suppliers for to meet their inventor needs. In the cluster of Food Processing units, the major constraints these SMEs face are the lack of funds for up gradation of capital, less skilled labors, low training opportunities and high cost of production due to technological advancement.

*“Production is insufficient because demand of Mango and other food products increase every year and due to limited capacity they process their food from private factories which charge them a higher cost. A request has been sent to Government for its expansion or some new units in this area to meet the requirements of the manufacturers.” (Official of Agro Food Processing (AFP))*

#### **4.3.3 Perspectives of the SMEs about CPEC: Awareness and Preparedness**

In the context of SMEs and CPEC nexus, the SEs of handicrafts cluster do not have idea about CPEC because these industries are at micro level. However, their dealers from PSIC claimed that these SEs have opportunities for expansion of their business if they are given space in CPEC through support of government because the artisans are preferred due to their creativity and uniqueness. TEVTA and PSIC are giving such trainings to these SEs

through institutes so that they can streamline their businesses for the future expansion. These SEs take part in exhibitions held annually in Pakistan for the promotion of their products. When asked about the policy perspective, these SEs were not aware of the SME Policy and were not guided by their respective authorities as well. They are hopeful about the future for their businesses due to uniqueness and want to export their crafts as well if opportunities are given to them.

On the other hand, SMEs of textile cluster were aware of CPEC to some extent as their associations are being updated for this project. But do not have any idea of the impact of CPEC on their businesses because it is quite an early stage to comment on it for them when the plan is still under process. The MEs in this cluster were aware of the SME Policy but were not well versed in the components of the policy. These SMEs include most of the MEs and they all were interested in expansion of their business in future.

Whereas, the SMEs of Food Processing Units were aware of CPEC and its opportunities for the local industries. They were also well aware of the SME Policy but were disappointed as the Policy is not implemented in its true manner. They were of the view that such policies are made only to fulfill the formal requirements of the public office tasks. The implementation on such policies are far from the reality. However, they were also interested in expansion and aligning their business with CPEC in future but for that to happen, they need support of government.

#### **4.4 Summary of the Findings**

Following section will summarize the above findings of the study on the basis of our objectives selected for this study;

##### **4.6.1 Awareness and Preparedness of SMEs in Multan regarding CPEC**

It is evident from the above discussion that Medium Enterprises in Multan are more aware about the opportunities and challenges attached with CPEC as compared to Small Enterprises due to focus of government organizations on medium enterprises. The SMEs of textile (cotton ginning and bed wear) and food processing units in Multan are more acknowledged of the avenues of investment opportunities than the SMEs in handicrafts cluster. They are interested to participate in the investment opportunities by setting up their

units across the routes of CPEC. Moreover, the constraint of energy crisis for textile sector will also be resolved through energy projects of CPEC.

On the other hand, the policy-makers and facilitators of the Multan district claimed that they did not get any particular instructions from the Head Offices regarding awareness campaigns for SMEs in the district w.r.t CPEC. But, a lot of engagements are going on Head Office level of these organizations. As CPEC is in its initial stages therefore the impact will be reflected in next 2-3 years when it will move towards its second phase of development of SEZs. Meanwhile, these organizations are working on the research and development related to CPEC so that the avenues of opportunities can be sort out. They are organizing awareness as well as training workshops for the industrial sector. However, there is a need of awareness campaigns for the SMEs on district level regarding CPEC on a broader level from the government organizations like SMEDA, TEVTA, PSIC and Multan Chamber of Commerce and Industry.

The financial institutions also added that the manufacturers from logistics sector is very much active in the CPEC projects and come for loans more often than other investors. The reason is that the CPEC is in its first phase where the infrastructure development is going on. However, manufacturers from other sector visit them to get information about CPEC. The financial institutions were planning to expand their services on the routes of CPEC for an easy access for the investors. However, MEs are more stable and involved in the loan process as compared to SEs due to sound financial condition and education.

#### **4.6.2 Facilitation of SMEs in Multan with reference to CPEC**

The SMEs of Multan showed satisfaction with the facilities provided by the Government organizations including SMEDA, PSIC and TEVTA. But they complained of lack of adequate funds or loan service for the expansion of their businesses. They also complained of lack of incentives in terms of tax exemptions specifically for SMEs. In order to avoid taxes, these SMEs avoid to get registered with the SECP. Most of these manufacturers are not well-educated, so there are several misperceptions that they have regarding government organizations like SMEDA and SME Bank.

In the context of CPEC, they were not offered any special facilities yet to get them prepare for investing. The initiatives are taken on the level of Head Offices but no such initiative

has been started on branch level. However, majority of these SMEs were aware of the CPEC in general way but they need guidance for more information regarding influence of CPEC for their businesses. The SMEs of textile and food processing clusters are aware of the CPEC projects and opportunities for their businesses as well. They were interested in expansion of their businesses regarding CPEC.

Moreover, SMEs of the handicrafts cluster were not aware of the SME Policy due to lack of education and access to information. The SMEs of other two clusters were somewhat aware of the SME Policy but disappointed for the failure of its implementation. In terms of financial assistance, the SEs are not satisfied with the services because commercial banks ask for collateral for loans and SEs do not have such guarantee. On the other hand, MEs are satisfied with the financial services provided by the financial institutions. In terms of technical assistance, technical and vocational trainings are provided to SMEs by TEVTA and PSIC (for SEs) for their capacity building. SMEDA is also actively involved in the awareness sessions of SMEs but their approach is still limited to few SMEs due to lack of direct interaction with SMEs.

On the other hand, policy-makers, facilitators and financial institutions claimed that only particular businesses are targeted for the trainings regarding CPEC which included textile, food processing and logistics sector because these clusters will be the most demand-driven in the initial phase of CPEC. However, they are planning to include SMEs especially SEs from other sectors of the district in the trainings and workshops in the near future. They are also planning to improve their general facilitation in all the districts through marketing.

#### **4.6.3 Business Plans for Expansion in Post-CPEC Scenario by SMEs**

Medium Enterprises of textile and food processing units are planning to expand their businesses in the context of CPEC but in order to do so they need financial and technical support of government in order to set up businesses according to the demands of CPEC. However, the SEs of these clusters were not aware of the CPEC project yet. But their organizers like PSIC was hopeful for the future to get opportunities of expansion in post-CPEC scenario. The financial institutions claimed that as CPEC is in its initial phase, therefore, businesses linked with the infrastructure sector like logistics are taking interest in expansion of their businesses in particular context of CPEC. The development of SEZs



may encourage other sectors for the investment and setting their businesses in the future once the SEZs are completed.

On the other hand, policymakers and facilitators were of the view that in order to explore business plans for the SMEs in post-CPEC scenario, these organizations are focusing on the research areas related to CPEC and its opportunities for the local industry. SMEDA is actively involved in research regarding CPEC. However, coordination between the financial institutions and facilitators as well as coordination between policymakers and facilitators is missing regarding decision-making process and policy making matters.

#### **4.6.4 Challenges or Threats for the SMEs from CPEC**

The policy-makers, facilitators and financial institutions are optimistic about the future of the local industry in the context of CPEC but they are aware of the expected challenges as well that the local industry has to face once CPEC is operational. According to them, it is quite early to claim anything about the expected challenges because CPEC is in its initial phase. They were of the view that in order to cater the challenge of competition from the Chinese labor force and investors, certain policy interventions must be taken for the capacity building and potential identification of the local industry. The SME Policy must be revised in the context of CPEC.

On the other hand, the manufacturers of Multan district are of the view that they are optimistic about the opportunities under CPEC but the small industries feel more threatened in terms of competition as their cost of production is higher than the Chinese production. The Chinese enterprises are more efficient in terms of productivity, efficiency, and management. The medium enterprises can get more opportunities than the SEs initially which may sideline the SEs. In order to cater these challenges, SMEs must be made an explicit part of CPEC agenda especially the long-term plan of CPEC.

## **Chapter 5:**

### **Conclusion**

SMEs are considered as a growth incubators or foundation enterprises for the sustained development of the economy of any country. They are labor intensive, hence, they generate employment opportunities in the economy at massive level. The developed countries such as China, Italy and Japan are the exemplary models because they have focused on the development of their small industries and made them independent and competitive through policy initiatives taken on massive level. As a result of which, these SMEs were able to contribute up to 60-80% in the growth of these economies. The role of SMEs are important in the development of mega development projects in order to promote Global Value Chains (GVC) and International Production Networks (IPN) in which SMEs were given opportunities to establish their businesses in these directions. Similarly, China Pakistan Economic Corridor also offers great opportunities for SMEs especially in its special economic zones and multi-faceted projects like infrastructure and transport projects.

There are 50 such projects for SMEs as investment opportunities in CPEC. It is expected to be the game changer for Pakistan. However, this study is important in the perspective of CPEC because it provides the business perspective of SMEs in context of CPEC that what is the current status of these SMEs, how they will be influenced in the post-CPEC scenario and how are they being facilitated by the government organizations for the preparedness and awareness about CPEC. For this purpose, interviews from the important stakeholders like Small and Medium Enterprises Development Authority (Head Office and RBC, Multan) SMEDA, Punjab Small Industries Corporation PSIC and Multan Chambers of Commerce and Industry MCCI in Multan. Moreover, for the financial arrangements, the SME Bank Head Office, State Bank of Pakistan and other Commercial banks were also interviewed. The clusters of SMEs from Multan for conducting interviews are categorized in three that are Handicrafts, Textile and Food processing units are interviewed.

The findings of the data analysis presented that the officials of the above mentioned stakeholders are well aware of the prospects for SMEs from CPEC. Yet, they are more concerned about the threats that they think SMEs might face in post-CPEC scenario due to the high competitiveness of Chinese labor and investors. They perceived that the local

industry of our country may get adversely affected as our industry lag behind in the technological as well as skilled human capital. Our products are in raw form and do not have value addition. However, policymakers were hopeful that if government incentivize the local industry in CPEC context then they may have an edge in the CPEC. The technological transference would be the foremost factor in the development of our SMEs. On the other hand, new SME Policy is under the process of approval in which SMEs are focused in the perspective of CPEC. SMEs, however were not that much aware of the CPEC in Multan. MEs were aware and wanted to expand their businesses in the context of CPEC, nevertheless, SEs were not aware of CPEC due to lack of education and small size in the market. However, the authorities like PSIC and TEVTA are organizing trainings and workshops for the awareness as well as preparedness of the SMEs in special reference to CPEC.

The policy recommendations are suggested on the basis of the literature and findings that serious efforts in terms of policy measures must be taken regarding inclusion of SMEs and strengthening their position in general. The new trend of production process of hierarchical production process must be focused in the CPEC agenda in the special context of SMEs development. It is not the responsibility of the Chinese stakeholder but the government of Pakistan is responsible to uplift its local industry through immediate policy measures that would include SMEs in the CPEC agenda. These measures include the revised SME Policy in the context of CPEC, quota for SMEs in CPEC related SEZs, capacity building, awareness programs, revised definition of SMEs, coordination between the provincial and federal stakeholders, inclusion of financial institutions for the assistance in the context of CPEC and one window facilitation for SMEs through collaboration of SME Bank and SMEDA.

Moreover, the study provides a perception-based exploratory research on the current status of SME Sector and how are these manufacturers perceiving the CPEC for their future. The current study provides a case study of Multan in this perspective due to its importance in the CPEC projects but it can be extended on other districts on the routes of CPEC as well for the future research in order to set a benchmark in pre-CPEC and post-CPEC scenario.

## **Chapter 6:.**

### **Policy Recommendations**

From the above findings and discussion, various loopholes are identified for SMEs as well as the organizations in the context of CPEC. This chapter covers the policy recommendations given on the basis of findings and literature. The policy recommendations are divided in to two categories that are; policy recommendations with relevance to CPEC and general recommendations for strengthening the position of SMEs in the industrial sector.

#### **6.1 Policy Recommendations for Inclusion of SMEs in CPEC**

In order to make SMEs an explicit part of CPEC, it is important to introduce few necessary policy interventions and reforms in the existing policies. These recommendations are not confined to only SMEs of Multan district rather these recommendations are proposed for the overall SME sector in the country. Following are the key policy interventions proposed in order to build a strong nexus of SMEs and CPEC;

##### **6.1.1 Alignment of SME Policy with CPEC Long-Term Plan (2017-30)**

It was evident from the findings that SME Policy had not been revised since 2007. As after the execution of CPEC in the country, it is important to revisit and modify our policies w.r.t demands of CPEC. Hence, keeping in mind the importance of SMEs for the inclusive development, the Government must formulate a framework for the inclusion of SMEs in CPEC projects under revised SME Policy. The principles, objectives and policy recommendations in the SME Policy 2007 must be revised in consideration of the demands of CPEC and role of SMEs in CPEC. Under this framework, the existing and new avenues for SMEs in CPEC-related SEZs and infrastructural projects must be identified so that they can benefit from the opportunities placed in industrial and agriculture sector related to CPEC.

The long-term plan of CPEC shows more comprehensive initiatives in the agriculture sector, which can be golden opportunity for the SMEs in agro-based businesses, therefore, the long-term plan of CPEC must be kept in mind while formulation of the framework. All the federal and provincial stakeholders working for the SMEs, business representatives of

SMEs, and associations must be involved in the formulation of this framework for a representable and demand-driven policy intervention.

### **6.1.2 Streamlining of SMEs with CPEC related SEZs**

From the desk review, we came to know that the SME Policy 2007 had recommended to place minimum quota for SMEs in the export processing zones and economic zones. On the other hand, SEZs under CPEC are notified but yet to be planned extensively. Therefore, in order to give suitable position to SMEs in the CPEC, the same recommendation must be applied for the inclusion of SMEs in these SEZs. This policy intervention will ensure the direct participation of SMEs in CPEC and will help the local industry to flourish through expansion of trade on the basis of international demands. It will also help in the expansion of small manufacturing sectors through new trade routes and markets.

Moreover, the quota for SMEs in these SEZs must be categorized separately for newly established SME units and relocated SMEs from the cities. On the other hand, SEZs specifically for the SMEs must be established adjacent to these SEZs in which relevant SMEs must be relocated from the cities which can provide backup for the LSEs in these SEZs. The relocation of SMEs from cities to these SEZs will help in reducing environment degradation and congestion in the urban areas.

### **6.1.3 Mass Awareness about CPEC among SMEs**

CPEC has multi-lateral projects including energy project, transport and infrastructure projects, social development projects, Special Economic Zones (SEZs) and IT projects. (See Annexure II for the details of CPEC projects). Large manufacturing industries have awareness about the projects where they can invest. But according to our findings, SMEs lack proper information of these projects due to illiteracy and less exposure to the international market. Therefore, in order to take the local investors in to confidence, the authorities at federal and provincial level must plan mass awareness sessions about the potential projects for SMEs from CPEC as well as the opportunities for SMEs in international market by using cost benefit analysis and technical approaches.

The government must provide financial as well as technical assistance to these organizations for conducting these campaigns and road shows. The more the SMEs are aware of CPEC, the more they will plan the expansion of their businesses in the context of

CPEC. These awareness sessions must be conducted in collaboration with electronic and print media and public meetings. The investors must be cleared about the false myths and fears regarding CPEC through clarification about the agreements, terms and conditions attached with these agreements and incentives being offered for the local industry and Chinese investors and division of labor in CPEC projects. Similarly, trainings sessions and workshops must be organized for the targeted clusters among SMEs related to CPEC projects to fulfill the demand of skilled labor. SMEDA must be given special budget for organization of such awareness and training sessions with respect to the potential projects for SMEs under CPEC. The Federal and Provincial Government must facilitate SMEDA, TEVTA and PSIC to expand their facilitations by establishing help desks in all the districts of country where the routes of CPEC are located. In this way, the under-serving regions will also get chance to get aware of the CPEC and they can be motivated for the businesses settlement on the routes of CPEC.

#### **6.1.4 Strengthening the Role of SME Bank in Relevance to CPEC Projects**

SBP must formulate special refinancing schemes and credit guarantee schemes in the context of CPEC and direct all commercial financial institutions to strictly follow these schemes. Moreover, SBP must declare SME Bank as a priority financial institutions for the facilitation of SMEs. Special budget must be allotted for SME Bank by the government for marketing and awareness sessions for the SMEs regarding such facilities by the banks to invest in CPEC related projects. For this to happen, awareness sessions must be organized through all electronic, print and social media. In this way, the SMEs will be encouraged to invest in CPEC projects.

#### **6.1.5 Strengthening Inter-Organizational Coordination**

It is evident from the findings that coordination between the organizations was very weak. Therefore, the organizations like PSIC, TEVTA, Chambers of Commerce and Industries, Business representative, associations and other financial institutions must be connected with the SMEDA so that inter-organizational coordination should be build. Moreover, SMEDA and SME Bank must work together in policy-making decisions regarding SMEs with specific reference to CPEC. The inter-coordination between these organizations will build a business-friendly environment for the SMEs due to ease of accessibility, provision

of proper information regarding facilities and policy making initiatives in national policies including labor policy and SME Policy.

#### **6.1.6 Introduction of Global Value Chains and International Production Networks for SMEs**

The concept of GVC and IPN is followed globally under which the SMEs of particular sectors are incentivized for the expansion of their businesses and linking these with the international markets through new trade routes provided by the economic corridors and settling up their businesses along those routes. The same agenda must be followed in CPEC. For this purpose, particular global value chains and production networks for SMEs must be identified at first by the government. Then, the Government must plan and offer incentives for SMEs to invest in particular businesses which will serve as backup for LSEs along the routes of CPEC.

### **6.2 Policy Recommendations for Strengthening the Position of SMEs in the Industrial Sector**

In order to strengthen the position of SMEs in manufacturing sector, following are the proposed key policy interventions;

#### **6.2.1 Devolution of SMEDA in to SEDA and MEDA**

In order to improve the efficiency of facilitation of SMEDA, it must be devolved in to ‘Small Enterprises Development Authority (SEDA)’ and ‘Medium Enterprises Development Authority (MEDA)’ which will serve SEs and MEs separately respectively. However, the main governing responsibility may remain under SMEDA. In this way, differentiation of facilities will be clear between SEs and MEs at organizational level. Moreover, the mandate of SMEDA and other related organizations for the development of SMEs must be clearly defined by MOIP for clear understanding of their role in decision-making processes.

#### **6.2.2 Revision of SME Definition**

The formulation of a single definition of SMEs categorized in to SEs and MEs must be given to the single authority that is MOIP who is also responsible for the formulation of SME Policy and this definition must be adopted by all government organizations and

financial institutions to avoid asymmetry. In this way, the regulations for SEs and MEs will be easily decided as per prudential regulations of SBP to avoid confusion about SEs and MEs among the organizations. The exploitation of SEs will be catered in this way.

### **6.2.3 Registration of SMEs**

It was evident from the findings that all of the official stakeholders were facing issues of lack of data regarding registered SMEs. SECP is the registering authority of SMEs whereas the rest of the selected stakeholders in this study were facilitators and policymakers. SMEDA being the leading authority for the development of SMEs must be given the authority of registering all SMEs of the country under its head instead of SECP. The registration process must be simple and SMEs must be incentivized to get register by removing their fears and concerns related to registration process. It was one of the policy recommendation in the SME Policy that the certification of SMEs must be given under SMEDA in collaboration with MOIP and Chambers of Commerce and Industry. In this way, the data discrepancies can be catered and exploitation of SEs can be reduced.

### **6.2.4 One Window Facilitation for SMEs**

According to the Doing Business Rank 2018, Pakistan ranked at 147 out of 190 countries. it means that the starting a new business is far more difficult in Pakistan in terms of complex registration process, getting permits, access to financial assistance and dealing with taxation process. In order to improve the ease of doing business, one window facilitation for the SMEs must be introduced in the light of revised SME Policy. The authority of one window facilitation must be given to SMEDA and SME Bank because they are the organizations established solely for the facilitation of SMEs in the country. The revised SME Policy must direct the collaboration of SMEDA and SME Bank so that SMEs can get all the facilities including registration, financial, legal business development services under one umbrella. The cost of doing business will be lowered in this way and SMEs will be encouraged for the legal certification as well.

### **6.3 Limitations of Study**

The study was based on primary data collection from the selected stakeholders and SMEs of Multan. Therefore, there are number of limitations regarding data availability. Following are the limitations faced during data collection and compilation of this study;



- i.** The list of SMEs of Multan was not updated since 2012.
- ii.** The pre-investment directory was used for locating SMEs in Multan. It had the complete list of industries established in Multan but SMEs were not categorized separately.
- iii.** The organizations like SMEDA, MCCI and PSIC did not have complete list of SMEs, even if they had a list, the data was kept confidential.
- iv.** The availability of SMEs for interviews was difficult because they hesitated to share details of their business, thus were not willing to respond. Hence, only 17 SMEs were interviewed.

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## **Annexures**

### **Annexure I- Routes of CPEC**

CPEC is divided into three major routes; Eastern, Western and Central. Here are the details of these routes;

#### **1. Eastern Route**

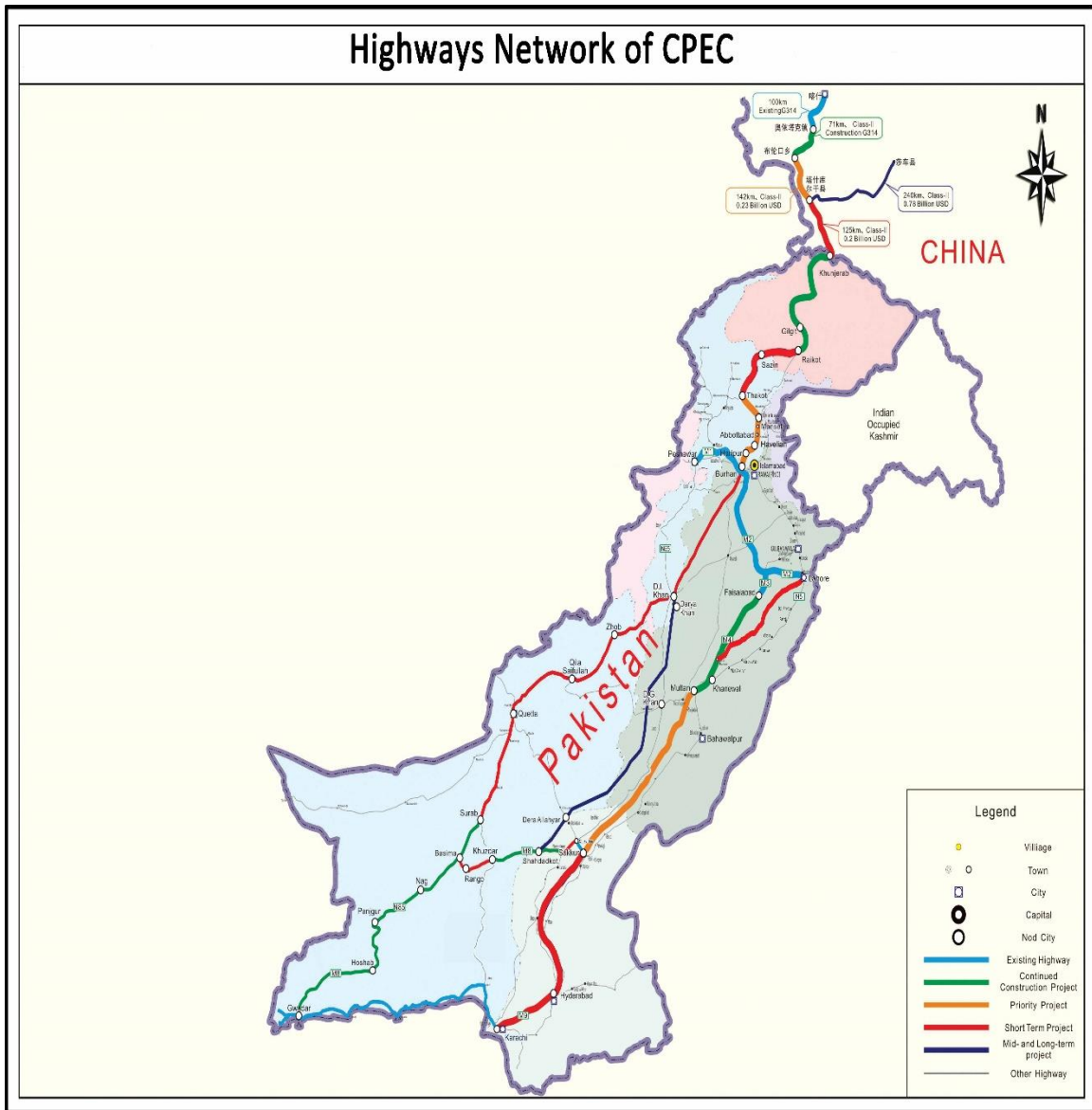
Eastern route which starts from Gawadar runs parallel to Makran Coast highway to reach Karachi. It passes through the cities of Sindh like Hyderabad, Mirpur Khas, and Sukkur, in Punjab, it passes through Multan, Faisalabad, Lahore to reach Rawalpindi-Islamabad, in KPK, it passes through Haripur, Abbotabad, and Mansehra districts. Then finally it passes through Muzaffarabad of AJK and reach Khunjrab through Gilgit-Baltistan. This route is the longest one among all the three and connects major industries and commercial sites of the cities.

#### **2. Western Route**

It starts from Gawadar and passes through Turbat, Punjgur, Khuzdar, Kalat, Quetta, Zhob, DI Khan, Bannu, Kohat, Peshawar, Hassanabdal and Abbottabad. Then it follows the same route as of Eastern Route.

#### **3. Central Route**

It starts from Gawadar and passes through Turbat, Punjgur, Khuzdar, Ratodero, Kashmore, DG Khan, DI Khan, Bannu, Kohat, Peshawar, Hassanabdal, Abottabad and onwards.



### Highway Networks of CPEC along its Three Routes<sup>30</sup>

<sup>30</sup> <http://cpec.gov.pk/map-single/1>



## Annexure II- Projects of CPEC

Sr. No	Nature of Project	Name Of Project
1.	Energy	Coal-fired Power Plants at Port Qasim Karachi
2.		Coal-fired Power Plant, Hub, Balochistan
3.		Suki Kinari Hydropower Station, Naran, Khyber Pukhtunkhwa
4.		Sahiwal 2x660MW Coal-fired Power Plant, Punjab
5.		Engro Thar Block II 2x330MW Coal fired Power Plant TEL 1x330MW Mine Mouth Lignite Fired Power Project at Thar Block-II, Sindh, Pakistan ThalNova 1x330MW Mine Mouth Lignite Fired Power Project at Thar Block-II, Sindh, Pakistan
6.		Surface mine in block II of Thar Coal field, 3.8 million tons/year
7.		Hydro China Dawood Wind Farm (Gharo, Thatta)
8.		300MW Imported Coal Based Power Project at Gwadar, Pakistan
9.		Quaid-e-Azam 1000MW Solar Park (Bahawalpur) Quaid-e-Azam
10.		UEP Wind Farm (Jhimpir, Thatta)
11.		Sachal Wind Farm (Jhimpir, Thatta)
12.		SSRL Thar Coal Block-I 6.8 mtpa & SEC Mine Mouth Power Plant (2x660MW) (Shinghai)
13.		Karot Hydropower Station
14.		Three Gorges Second Wind Power Project Three Gorges Third Wind Power Project
15.		CPHGC 1,320MW Coal-fired Power Plant, Hub, Baluchistan
16.		Thar Mine Mouth Oracle Power Plant ( 1320MW) & surface mine
17.		
18.		Matiari- Lahore Transmission Line Project
19.		Matiari- Faisalabad Transmission Line Project
20.	Infrastructure (Road Projects)	KKH Phase II (Thakot -Havelian Section)
21.		Peshawar-Karachi Motorway (Multan-Sukkur Section)
22.		Khuzdar-Basima Road N-30 (110 km)
23.		Upgradation of D.I.Khan (Yarik) - Zhob, N-50 Phase-I (210 km)
24.		KKH Thakot-Raikot N35 remaining portion (136 Km)

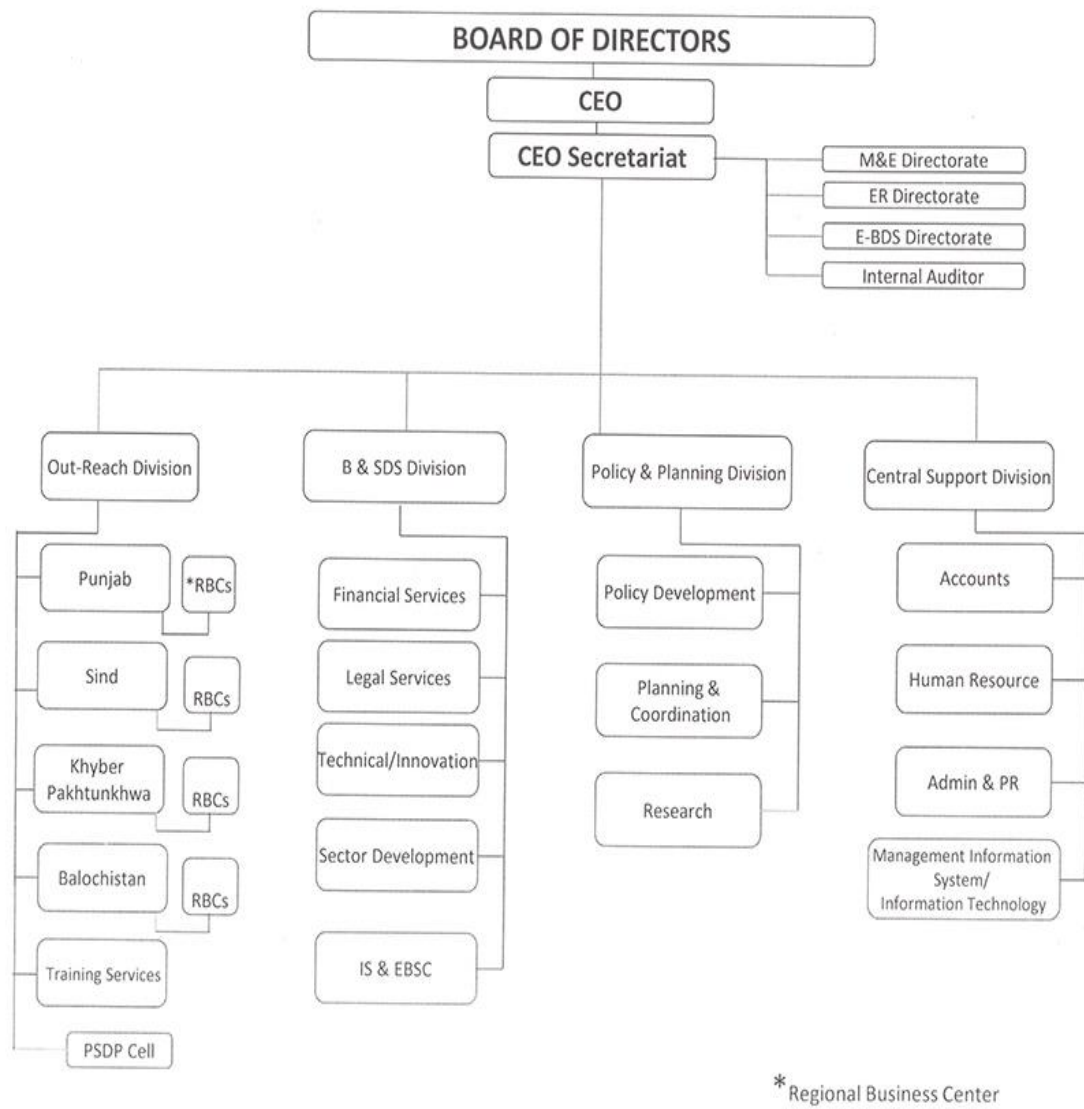
25.	Railway Sector	Expansion and reconstruction of existing Line ML-1
26.		Havelian Dry port (450 M. Twenty-Foot Equivalent Units)
27.		Capacity Development of Pakistan Railways
28.	Rail based Mass Transit	Karachi Circular Railway
29.		Greater Peshawar Region Mass Transit
30.		Quetta Mass Transit
31.		Orange Line - Lahore
32.	Proposed Special Economic Zones	Rashakai Economic Zone , M-1, Nowshera
33.		China Special Economic Zone Dhabeji
34.		Bostan Industrial Zone
35.		Allama Iqbal Industrial City (M3), Faisalabad
36.		ICT Model Industrial Zone, Islamabad
37.		Development of Industrial Park on Pakistan Steel Mills Land at Port Qasim near Karachi
38.		Special Economic Zone at Mirpur,AJK
39.		Mohmand Marble City
40.		Moqpondass SEZ Gilgit-Baltistan
41.		IT
42.	Pilot Project of Digital Terrestrial Multimedia Broadcast (DTMB)	
43.	Early Warning System (EWS), Pakistan Meteorological Department	
44.	Social Sector	Quetta Water Supply Scheme from Pat feeder Canal, Baluchistan
45.		Establishment of Pakistan Academy of Social Sciences
46.		Transfer of Knowledge in Education sector through Consortium of Business Schools
47.	CPEC New Provincial Projects	Keti Bunder Sea Port Development Project
48.		Naukundi-Mashkhel-Panjgur Road Project connecting with M-8 & N-85
49.		Chitral CPEC link road from Gilgit, Shandor, Chitral to Chakdara
50.		Mirpur – Muzaffarabad - Mansehra Road Construction for connectivity with CPEC route
51.		Quetta Water Supply Scheme from Pat feeder Canal, Baluchistan
52.		Iron Ore Mining, Processing & Steel Mills complex at Chiniot, Punjab

<b>53.</b>	Gawadar Projects	Gwadar East-Bay Expressway
<b>54.</b>		New Gwadar International Airport
<b>55.</b>		Construction of Breakwaters
<b>56.</b>		Dredging of berthing areas & channels
<b>57.</b>		Development of Free Zone
<b>58.</b>		Necessary facilities of fresh water treatment, water supply and distribution
<b>59.</b>		Pak China Friendship Hospital
<b>60.</b>		Pak-China Technical and Vocational Institute at Gwadar
<b>61.</b>		Gwadar Smart Port City Master Plan
<b>62.</b>		Bao Steel Park, petrochemicals, stainless steel and other industries in Gwadar
<b>63.</b>		Development of Gwadar University (Social Sector Development)
<b>64.</b>		Gwadar Livelihood Project

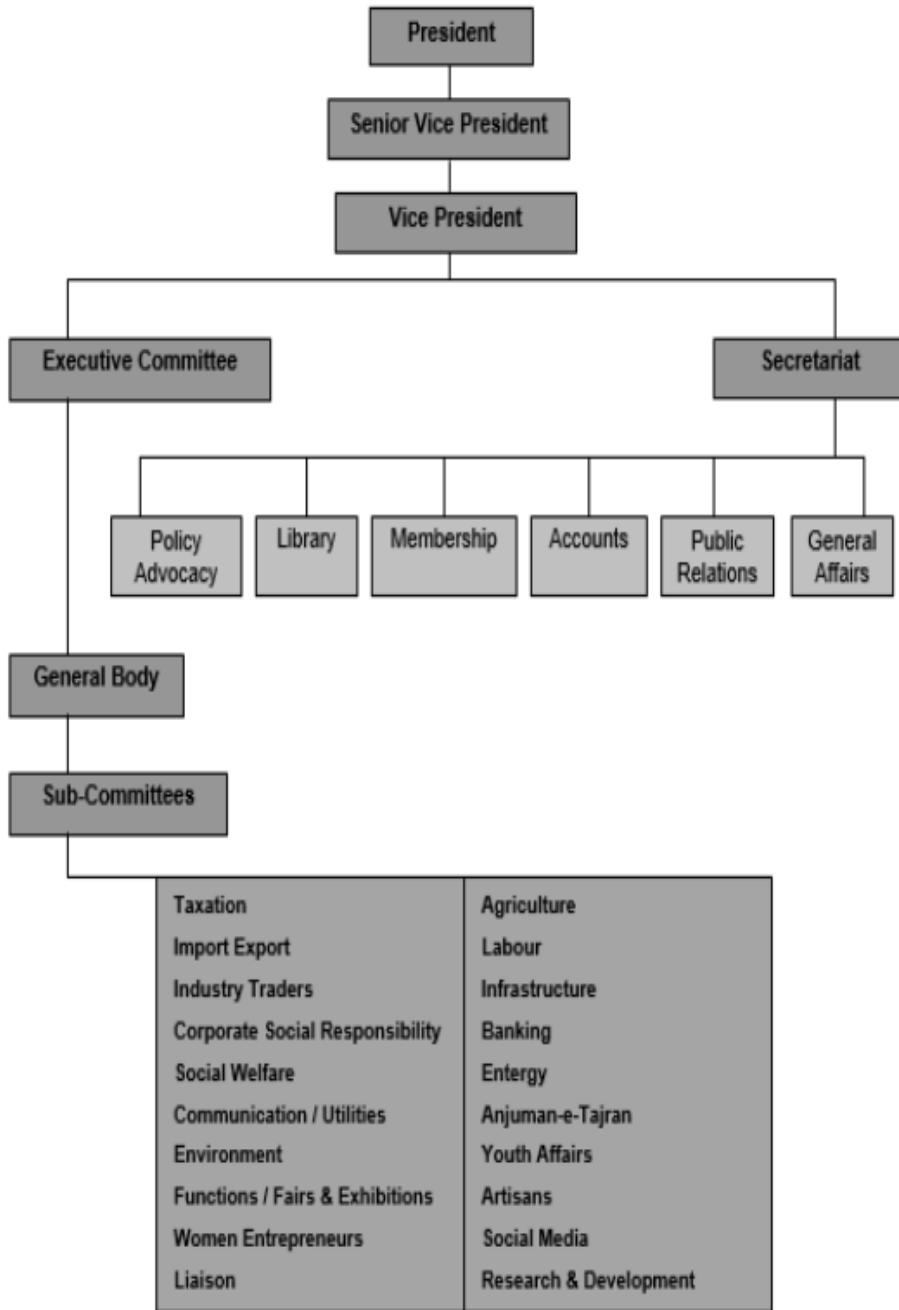
### **Annexure III- Definitions of SMEs followed around the Globe**

There is not a single definition of SMEs because it varies from country to country. (Verheugen, 2005) described that The European Union (EU) categorizes the SMEs as the enterprises having fewer than 250 employees with an annual turnover not exceeding 50 million euro and an annual balance sheet total not less or equal than 43 million euro. A Report published by World Trade Organization (WTO) and International Trade Center (ITC) and United States Conference on Trade and Development (UNCTAD) on the role of SMEs, picked out definitions of SMEs used by countries differently. The *National Small Business Act (Act 102 of 1996)* of South Africa classifies SMMEs according to five size categories, ranging from Survivalists to Medium-sized, that are micro (survivalist), very small, small and medium enterprises. Each and every category is defined separately on a set criteria. Malaysian SMEs are defined as the enterprises with less than 76 employees and capital less than \$US 198,000 for small and \$US 198,000-939,000 for medium enterprises. In India, Small scale industries are defined as the enterprises having investment up to \$US 750,000. There is another category of tiny sector whose investment limit does not exceed \$US 62,500. In Indonesia, SMEs are defined as the enterprises having less than 100 employees, capital less than \$US 84,000 and turnover of less than \$US 1000. In Thailand, SMEs are categorized on the basis of factor of inputs i.e., labor intensive industries and capital intensive industries. The number of workers ranges up to 50 workers for small scale enterprises and up to 100 for medium scale enterprises. In Pakistan, SMEs are defined in National SME Policy 2007 as the enterprise having up to 250 employees, capital up to Rs. 25 million and annual turnover of Rs. 20 million. Therefore, countries have formulated their own definition of SMEs based on their economic and social patterns.

## Annexure IV- Organograms of Organizations

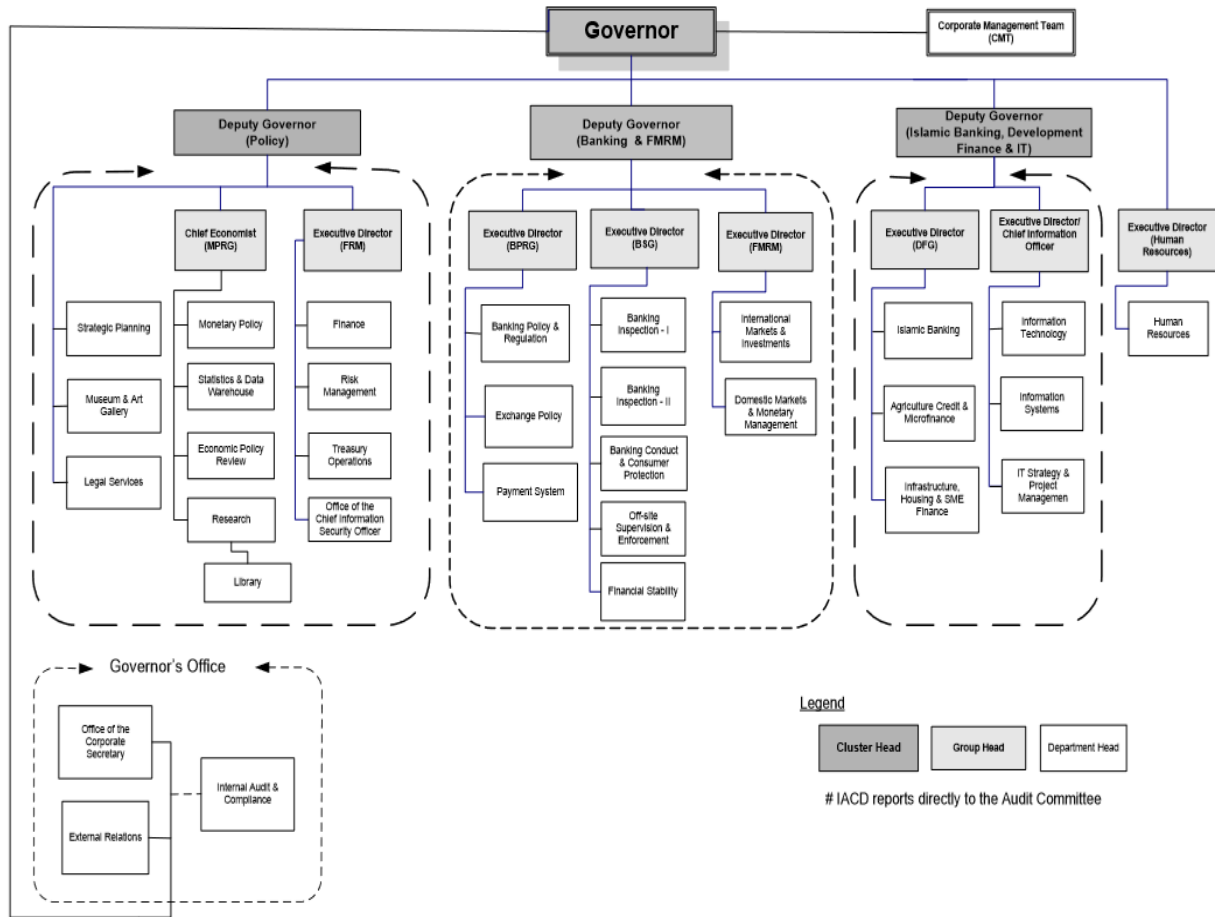


### Small and Medium Enterprises Development Authority (SMEDA)



**Multan Chamber of Commerce and Industry (MCCI)**

Organogram- State Bank of Pakistan



**State Bank of Pakistan (SBP)**

