

CPEC: Scope of Agriculture SMEs & Role of ZTBL



Planning and Research Department

Zarai Taraqati Bank Limited

Table of Contents

1. Introduction to CPEC	3
2. Government Projects under CPEC	3
3. Potential for SMEs along the CPEC Routes	5
4. Agriculture SMEs	7
5. Developing Agriculture SMEs along the Corridor	8
6. CPEC Master Plan for Agriculture	11
7. Role of Financial Institutions in CPEC	12
8. Investment Opportunities for ZTBL	12
9. Recommendations & Conclusion	14
10. References	15

1. Introduction to CPEC

Pakistan and China are going to execute the \$46 billion China-Pakistan economic corridor (CPEC), having a mix of streets, railroads, power era, data innovation system and improvement of a seaport. The notable financial investment bundle offered by China is a blessing for Pakistan and presentation of kinship between the two nations and would help in fortifying of economy, advancement of exchange and accomplishing other financial advantages through trade. The CPEC would contain three routes including western, central and eastern, having an aggregate length of roughly 3,000 kilometres that will interface Gawadar seaport with Kashgar, China. The Western Route originating from Gawadar will pass through Turbat, Panjgur, Nag, Basima, Sorab, Qalat, Quetta, Qilla Saifullah, Zhob and reach Dera Ismail Khan before leading to Islamabad. A couple of sections of the road between Gawadar and Quetta are currently at an advanced stage of construction.

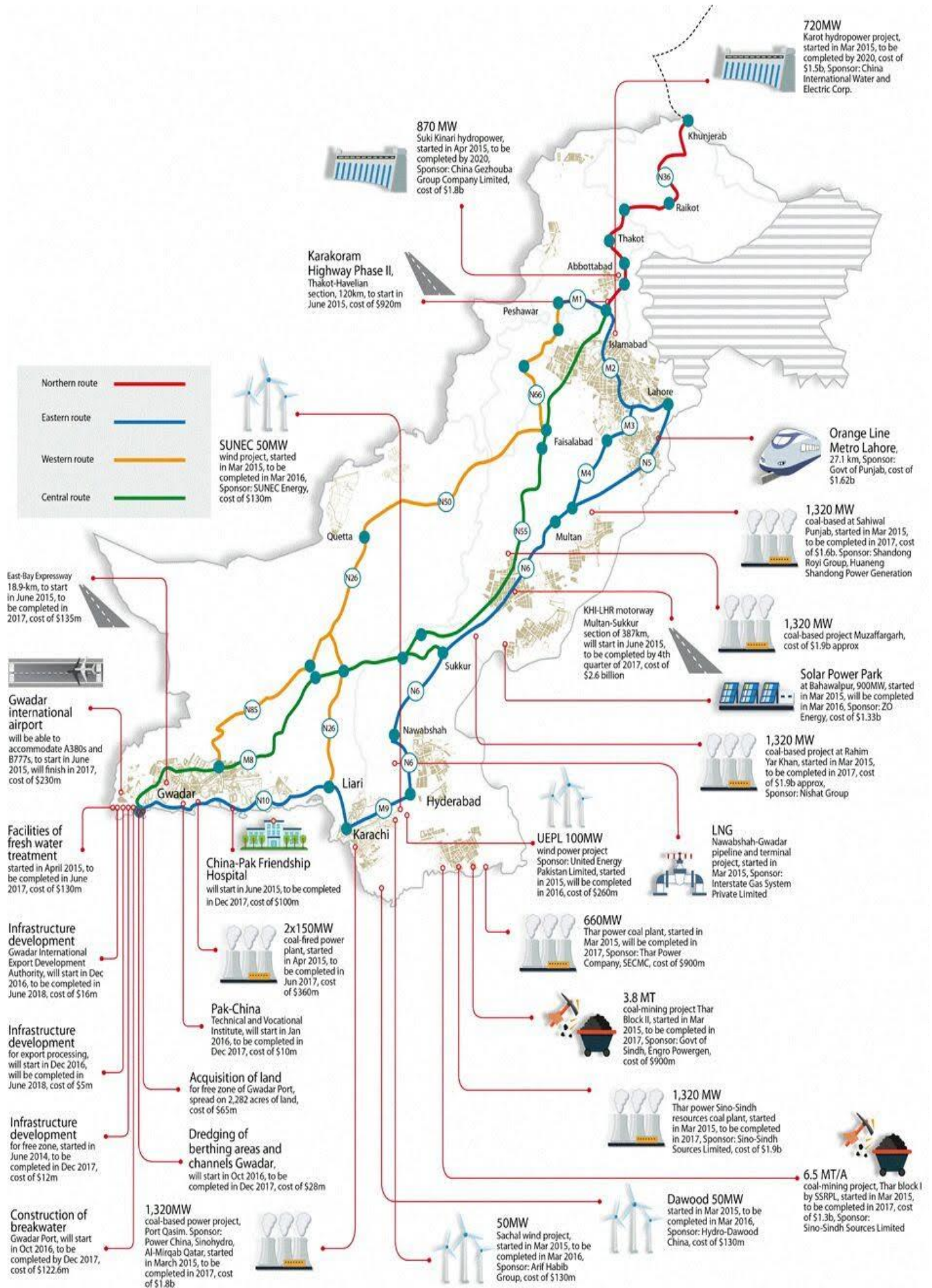
The Central Route will originate from Gawadar and reach Dera Ismail Khan via Basima, Khuzdar, Sukkur, Rajanpur, Layyah, Muzaffargarh and Bhakkar.

Eastern Route will include Gawadar, Basima, Khuzdar, Sukkur, Rahimyar Khan, Bahawalpur, Multan and Lahore/Faisalabad and then reach Islamabad.

In Pakistan, CPEC projects are being managed primarily by the Ministry of Planning, Reform, and Development in partnership with China's NDRC. The two sides have established a Joint Cooperation Committee with working groups focused on five main areas: the Gwadar Port, transport infrastructure, energy, agriculture and industrial cooperation.

2. Government Projects under CPEC

CPEC programme has two main components. It plans to develop a new trade and transport route from Kashgar in China to the Gwadar Port. The other component envisages developing special economic zones along the route, including power projects. The first-phase projects will receive \$46bn in concessionary and commercial loans, for which financial facilitation to the Chinese companies is being arranged by the Silk Road Fund.



These include \$33.79bn for energy projects, \$5.9bn for roads, \$3.69bn for railway network, \$1.6bn for Lahore Mass Transit, \$66m for Gwadar Port and a fibre optic project worth \$4m. The prioritised, short-term projects involve over \$17bn in investment. Apart from Karot, they include the upgrading of 1,681km Peshawar-Lahore-Karachi railway line (\$3.7bn); Thar coal-fired power plants worth 1,980MW (\$2.8bn); development of two Thar coal mining blocks (\$2.2bn); the Gwadar-Nawabshah natural gas pipeline (\$2bn); imported coal-based power plants at Port Qasim worth 1,320MW (\$2bn); a solar park in Bahawalpur worth 900MW (\$1.3bn); the Havelian-Islamabad link of the Karakoram Highway (\$930m); a wind farm at Jhimpir for 260MW (\$260m); and the Gwadar International Airport (\$230m). The Sindh Engro Coal Mining Company, a joint venture of Engro Powergen Ltd and the Sindh government, holds the lease of Thar Block-II coalfields, while its Thar Power Company will construct a series of mine-mouth power plants. Some of these projects have been completed while others are under way.

Sr. No.	Sector	No. of Projects	Estimated Cost (Million \$)
01	Energy	21	33,793
02	Transport Infrastructure	4	9,784
03	Gawadar	8	792.62

3. Potential for SMEs along the CPEC Routes

The Small and Medium Enterprise (SME) sector in Pakistan has the potential to become the engine for growth and propel the national economy into the world's top 25 economic powers, as envisioned by the Planning Commission of Pakistan in its vision 2025.

SMEs are looking forward for an opportunity of rapid growth in the ongoing phase of CPEC project across the country. In this respect, the SME foundations has demanded government to provide opportunities to the local SME sector whenever awarding contracts to various major and small projects in China-Pakistan Economic Corridor(CPEC).

Following investment opportunities envisage high potential for establishment along with CPEC across its route;

1. Makran Coastal Highway is playing a catalytic role for development of the entire Makran Coastal area of Baluchistan through development of fisheries, tourism and establishment of trading and processing markets. The major sectors of investment for SMEs in Baluchistan are Minerals, Agriculture (especially agriculture value added), Horticulture, Fisheries, Livestock and Tourism.

Fisheries sector of Baluchistan is the major source of employment for people residing the coastal belt, this include fishermen and other associated businesses such as boat building and net manufacturing. Boat/vessel/launch is one of the most important aspects of fishery; local fishermen use locally manufactured boats/launches for their catches. This industry is labour intensive; people earn their livelihood from boat manufacturing. Timber market can be established which will provide wood for boat manufacturing. Moreover Sea food industry can be established.

2. Gems and Jewellery sector can also be established, given the mineral rich endowment of Balochistan.
3. In addition to social sector development that is further building secondary infrastructure; construction of secondary level road infrastructure , construction of schools and housing society ,clubs, hospitals, hospitality industry, dispensary, veterinary clinics, trucking companies, sports centres, reefer trucks, establishment of rest areas, internet cafes, refreshment centres, cosmetics industry, boutiques, gymnasiums & health clubs, mega malls, international/national level fast food chains, security agencies, florist shops, seed treatment plant, hot water treatment plant also have great potential for their establishment.
4. Apple Treatment Plant, Grape-Processing Plant, Tomato Paste Manufacturing, Onion Frying and Drying Plant, Cut-flower Business and Floriculture Concerns, Cold Storage, Ice Factories, Fruit Processing Unit, Mini Steel Mills, Re-Rolling Mills, Wool Processing Units, Flour Mills, Edible Oil and Ghee Units can be established in Turbat.
5. Pasni is a small remote city of Balochistan with moderate population growth resulting in increased energy requirement. Being second largest coastal area of the province situated at Coastal Highway linked with Karachi and Turbat, a Mini Industrial Estate comprising of under mentioned units can be established by inviting interested SME investors of Pakistan and from Gulf States.
 - Fish & Shrimp Processing Plant
 - Hatcheries.
 - Ice Factories
 - Ware Houses
 - Fishing Net Production & Repair and Boat Making Units
 - Cold Storages
6. Khuzdar is rich in Mineral and units like Steel Mills, Mineral Warehousing, Copper Processing Plant, Marble Cutting Units and other mineral based industries can be

established. Rajanpur is situated in Punjab on the strip between River Indus and hilly tracts of Balochistan. It is one of the least industrially developed districts of Punjab. However, the availability of raw material especially cotton reflect good potential for cotton textile mills, because no such units exist in the district. Agriculture waste/ by products raw material based industries for maximization of value addition chain, wool processing/ spinning, textile spinning/weaving, plastic household item industries and chemical industries can be established.

7. The tobacco value chain is the most enterprising SME sector in Pakistan. Although its cultivation may not be that widespread, tobacco not only earns forex but contributes the most to Pakistan's excise tax base. Activities in the tobacco growing sector also create demand for input goods and services from agronomy support sectors such as fertilizers, pesticides, seeds, utilities, etc., giving rise to indirect revenue therefore it may be promoted along western route in the areas of Mardan and Mansehra.
8. Dead towel weaving looms units and garment manufacturing units can be revived which have seen deterioration due to energy crisis in Faisalabad as it is surrounded by Pakistan's largest cotton belt and eastern route would cross by the city.
9. Sukkur is the central city of Sindh province, It is located on the west bank of the River Indus. Small-scale cottage industries comprising of hosiery, boat making, fishing accessories, thread ball spooling, trunk making brass-wares, cutlery and ceramics can be established in Sukkur. Travel agencies can be established in order to promote tourism on western route. Trucking companies and timber processing units can also be installed along western route.
10. Alternate Delivery Channels like mobile banking and phone banking can be initiated in underdeveloped areas along the eastern route.

4. Agriculture SMEs

Agriculture SMEs are those businesses operating within the agriculture value chain. The needs of SMEs in agriculture may vary by the function they serve in the value chain in which they work. An SME that focuses on production may need financing for purchase of inputs at the beginning of a harvest cycle, whereas an SME in processing may need this capital at the end of harvest, to purchase produce for processing. The type of assistance they need may vary too. For example, SMEs in agricultural inputs and technology may need laboratory testing facilities to test and validate their products, whereas those in processing or trading may need access to high-value markets. Agriculture SMEs are found at every step of agri-value chain like:

- **Inputs and Technology Provider SMEs** which design, assemble, or manufacture key inputs or equipment for use in agriculture. They need *Pre-harvest* working capital for manufacturing.
- **Producers (Farmers) SMEs** which sow, farm and harvest crops, raise poultry and livestock, or fish. They need *Pre-harvest*, working capital for purchase of inputs and implement.
- **Logistics, Trade, and Distribution SMEs** which provide logistics, distribution and trade services for agricultural produce. Financing is needed for *Post harvest trade finance* or working capital finance for setting up of warehouses, cold storages and purchase of transport vehicle like ware house receipt, inland letter of credit and truck receipt financing or simply a running finance.
- **Processor SMEs** which process or package agricultural products for sale to consumers or traders. They need *post harvest inventory finance* or working capital finance for purchase of raw material.
- **Wholesaler SMEs** which procure raw or processed products from farmers and processors for export or sale to retailers or processors. Their financing needs include working capital financing for purchase of produce or trade finance *during harvest*.
- **Retailer SMEs** which sell agricultural products to consumers through retail markets. Their financing needs are *post harvest* working capital finance for operation of outlets.

These agriculture SMEs may take any legal forms like Sole Proprietorship, Partnership, Limited Liability Company, Private Limited Company, Producer Companies, Cooperatives, NGO-business entities and Non-Profit that may determine or affect the governance structure, sources of finance available, and attractiveness in potential investors organization. Public and Private Limited Companies may raise debt and equity finance while other forms of Agri-enterprise rely solely on debt finance. In a country whose economy is essentially an agro-economy, the importance of agriculture SMEs cannot be denied. In this context we all realize that economic corridor would be incomplete without inclusion and establishment of Agri-SMEs especially in economic and industrial zones benefitting from CPEC in the country.

5. Developing Agriculture SMEs along Corridor

The following agriculture SMEs have immense potential for inclusion in the CPEC.

- **Small Scale Agri-Machinery Suppliers**

Pakistan has low yield per acre that means the average crop in Pakistan is just 1/4th of that of developed economies due to traditional and conventional methods of cultivation.

Whereas neighbouring countries like China and India are using modern machines and scientific techniques to increase their yield per acres. In Pakistan mostly farmers are small and poor who have not sufficient resources to purchase Agri machinery and most of suppliers have their setups in populated or city areas where access of small farmers from remote areas is difficult. Therefore there is a big demand of small scale Agri-machinery suppliers to establish their setups in remote areas of the country and sell their products at subsidized rate thus transferring the benefits availed in economic zones & /industrial states. Agri-leasing business can also flourish in arable areas along the CPEC route.

- **Vegetable & Fruits Dehydration/Processing/Packaging Plants**

Pakistan is located at a strategic point where marketing of agriculture products has tremendous potential. Dehydrated fruits & vegetables is a new product of value addition series where the shelf life is increased & space for storage is reduced along with easy transportation. This leads to export avenues in international market especially to UAE, Saudi Arabia, Central Asian Republics where these products are already well known and fetch high price. If dehydrated fruits and vegetables plant is managed efficiently, farmers can earn good revenue in the form of foreign exchange by exporting dehydrated fruits & vegetables which will indirectly improve the status of farming community.

- **Agri- Export Development Companies**

Pakistan has a huge untapped potential for grabbing a significant share of world agro-food market. In this regard export companies exclusively meant for agriculture produce should come forward which would help in meeting international export standards like ISO & SPS.

- **Agri- Ware Houses and Cold Storages**

Harvested product need to be stored at proper temperature and humidity levels for use in future because environmental factors can disturb the quality as well as quantity of produce. In Pakistan most of farmers are poor they don't have proper storage facilities or they store their products by using traditional techniques which spoils their product which ultimately reduces the quantity produced and exported out of the country. Therefore government or financial institutions should facilitate farmers for building of more warehouses and cold storages in the country. Warehouses are also needed near seaport while dry ports can be established in cities away from sea.

- **Agri Logistics/Trucking/ Export Companies**

In Pakistan farmers and peasants live far away from any road on which grain can be transported to places of collection, storage, or marketing. Therefore, products are often carried in small quantities over very bad roads. This entails long transport times and high costs per unit of product transported, leading to a substantial decrease in incomes. This does not encourage farmers to increase their production. Different companies are providing transport facilities for transportation of agriculture produce. However there should be a vast network of such companies for easy access of farmers to transport their luggage at their destination especially in case of exports where refrigerated trucks are needed for most vegetables, fruits and cut flowers.

- **Green House Development**

As the world population is increasing rapidly, cultivable area is decreasing day by day and productivity of land has gone down therefore a technology is needed which gives more production per unit area. As in the month of December, January and February, the country receives severe cold in the plain areas, under this situation the production of summer vegetables is not possible therefore these vegetables can be grown under protected environment known as vegetable forcing or off-season vegetable production. Off-season vegetables give increased supply of produce for consumption and export purpose.

- **Alternate Energy Companies for Farming Needs**

In Pakistan most farm machines are driven by fossil fuels, which contribute to greenhouse gas emissions and, in turn, accelerate climate change. Secondly there is energy crisis in the country, therefore high requirement of energy can be met by the promotion of renewable resources such as solar, wind, biomass, tidal, geo-thermal, small-scale hydro, bio-fuels and wave-generated power kits. These renewable resource businesses have a huge potential in the agriculture sector. Therefore such SMEs must be encouraged and included in CPEC projects.

- **Sea Food Processing Plants**

Fishery plays an important role in the national economy. It is also a source of export earnings. About 30 – 35% of the fish and fishery products are exported to European Union countries while Japan, U. S. A. China, Saudi Arabia, U. A. E. Malaysia, S. Korea, Hong Kong, Sri Lanka and Singapore are other major importing countries. Export of seafood is facing many problems like post harvest losses are high due to handling of fish catch on board and long voyage time. There are more than 16,000 fish boats operating in Sindh zone. The storage capacity is only 10,000 tons which is not sufficient to cater the future requirements. There is a dire need to enhance the storage capacity,

ensure correct hygienic handling of fresh & processed fishery products. More seafood companies must be established to improve processing, fully utilize the available resources for export.

- **Meat/Poultry Processing/Cotton Ginning Plant**

The poultry sector is one of the most organized and vibrant segments of the agriculture industry of Pakistan. In the province of Sindh, there are farms in Mirpurkhas, Sukkur, Nawabshah as well as in other small cities. Similarly, in the province of Punjab, poultry farms have been well established in the areas of Rawalpindi, Faisalabad, Multan, Lahore, Bhawalpur, Rahimyar Khan and Mianwali. Pakistan exports poultry and meat to Afghanistan, Iran, Vietnam and Hongkong. In Pakistan, there are estimated 1500 cotton ginning factories with installed capacity of over 40 million bales on a seasonal three-shift basis. Pakistan ginning factories are lacking modern machines and unskilled labor therefore there is direct need to install modern machines with skilled labor to enhance the quality of cotton and export potential.

- **Poultry/ Cattle Farming**

In Pakistan poultry farming has become second largest industry after textile industry. It constitutes large portion in economy of the country. Poultry meat is an important protein source of our food. In beginning most of poultry farms were established in the areas of Punjab and Sindh. Therefore there is need to establish poultry farms in Baluchistan and KPK to widen the export potential and economy of the country.

6. CPEC Master Plan for Agriculture

CPEC Master Plan mainly eyes agriculture sector for development & growth. It outlines an engagement that runs from one end of the supply chain all the way to the other. Chinese enterprises will also operate their own farms, processing facilities for fruits and vegetables and grain. Logistics companies will operate a large storage and transportation system for agrarian produce.

It identifies opportunities for entry by Chinese enterprises in the myriad dysfunctions that afflict Pakistan's agriculture sector since due to lack of cold-chain logistics and processing facilities, 50% of agricultural products go bad during harvesting and transport. Thousands of acres of agricultural land will be leased out to Chinese companies for setting up demonstration projects in areas ranging from seed varieties to irrigation technology.

Enterprises entering agriculture will be offered extraordinary levels of assistance from the Chinese government. They are encouraged to invest free capital and loans from various ministries of the Chinese government as well as the China Development Bank.

The plan proposes to harness the work of the Xinjiang Production and Construction Corps to bring mechanization as well as scientific technique in livestock breeding, development of hybrid varieties and precision irrigation to Pakistan.

7. Role of Financial Institutions in CPEC

From the very announcement of CPEC, Financial Institutions of the country have come forward to extend support and cooperation. EXIM Bank has been opened in the country. Askari Commercial Bank Ltd has opened its representative office in China to facilitate the joint projects between the two countries. ZTBL is not far behind from its counterparts in this regard. In a recent initiative the Bank has taken the plan to create linkages between service provider SMEs and farmers and has also started financing for such service providers SMEs.

8. Investment Opportunities for ZTBL

Realizing the importance of CPEC and agriculture SMEs, Zarai Taraqiati Bank Limited has geared its policy focus towards mainly two components; first, the capacity building of the farming community and second, the development of SMEs to achieve this objective. It envisages undertaking various projects in order to turn around the negative growth of agriculture sector in yester years and for increasing export potential of the country. It realizes that this vision of CPEC is based on the understanding that technological developments can only be fully exploited when the physical infrastructures are in place supported by friendly policies, legislation and procedures with a win-win approach. Areas along the CPEC have every potential to become a trade, transit, transport and economic and energy hub for regional progress and development as well.

ZTBL should be allowed to enter into joint ventures with different indigenous companies of Pakistan and China in order to provide financing for Agriculture Projects along the CPEC routes as ZTBL is the only Specialized Bank for Agriculture in Pakistan which has a large network of 460 branches across the country ready to deliver agri-financing and technology to small farmers and farming fraternity at large. The following Projects are envisaged in CPEC master plan where ZTBL can play its role either singly or jointly in collaboration with Chinese enterprises and banks.

a. Livestock Breeding

The plan proposes to bring mechanization as well as scientific technique in livestock breeding. ZTBL can co-finance the project along with Chinese banks like ADBC.

b. Installation of Fertilizer Plants

They include the construction of one NPK fertilizer plant as a starting point with an annual output of 800,000 tons.

c. Leasing of Farm Implement

Enterprises will be inducted to lease farm implements, like tractors, efficient plant protection machinery, efficient energy saving pump equipment, precision fertilization drip irrigation equipment and planting and harvesting machinery.

d. Meat Processing Plants

Meat processing plants in Sukkur are planned with annual output of 200,000 tons per year, and two demonstration plants processing 200,000 tons of milk per year.

e. Crops Demonstration projects

In crops, demonstration projects of more than 6,500 acres will be set up for high yield seeds and irrigation, mostly in Punjab.

f. Transport and Storage of Grains

In transport and storage, the plan aims to build a nationwide logistics network, and enlarge the warehousing and distribution network between major cities of Pakistan with a focus on grains, vegetables and fruits. Storage bases will be built first in Islamabad and Gwadar in the first phase, then Karachi, Lahore and another in Gwadar in the second phase, and between 2026-2030, Karachi, Lahore and Peshawar will each see another storage base.

g. Vegetable & Fruit Processing Plant

Asadabad, Islamabad, Lahore and Gwadar will see a vegetable processing plant, with annual output of 20,000 tons, fruit juice and jam plant of 10,000 tons and grain processing of 1 million tons.

h. Cotton Processing Plant

A cotton processing plant is also planned initially, with output of 100,000 tons per year.

i. Superior Seeds

Chinese will impart advanced planting and breeding techniques to peasant households or farmers by means of land acquisition by the government, renting to China-invested enterprises and building planting and breeding bases.

j. Production of Agricultural Materials

In each field, Chinese enterprises will play the lead role. China-invested enterprises will establish factories to produce fertilizers, pesticides, vaccines and feedstuffs.

k. Warehousing

China-invested enterprises will, in the form of joint ventures, shareholding or acquisition, cooperate with local enterprises of Pakistan to build a three-level warehousing system (purchase & storage warehouse, transit warehouse and port warehouse).

l. Export of Agri-Commodities

Chinese will actively embark on cultivating surrounding countries in order to improve its own import therefore export potential of Pakistani agricultural products will enhance and it will accelerate the trade of agricultural products among both countries.

9. Recommendations & Conclusion

SME promotion is an important issue for many government departments and central offices. However, there is an existing lack of coordination and regular information exchange mechanism among institutions which constrains their collective ability to deliver in the SME development process. SMEs will be the main source of poverty reduction in Pakistan that will create the value and innovation for the country in the days to come.

Assistance to SMEs is not enough; the government and specialized financial and technical institutions should stand as partners of small and medium entrepreneurs, this is the only way to combat poverty by creating employment. Government could achieve its goal for poverty reduction, economic progress and above all the value creation process by promoting the culture of SMEs in the wake of CPEC. It is believed that once these are incorporated into economic corridor projects facilitated by the government and private sector, huge benefits to economy especially agriculture would be reaped.

The government's primary role should be to remove tariff and non-tariff barriers for agricultural trade with China. CPEC has set the stage to renegotiate Pak-China Free Trade Agreement and government should demand better tariffs for its agricultural exports. Furthermore, there is a need to rationalise sanitary and phytosanitary (SPS) restrictions, food and safety inspection requirements and standards. The private sector and agri-entrepreneurs should become the trailblazer and start exploring viable market opportunities in the Chinese

market and forge partnerships with international firms to get a foothold. The government and private sector should jointly invest in research and development and post-harvest technology to improve product variety and quality. Last, but not the least, value chain expansion should be prioritised. Fruit processing, for instance, can fetch greater value with far simpler SPS requirements and more stable demand.

10. References

- <http://cpec.gov.pk/>
- <http://www.pc.gov.pk/>
- <http://www.ztbl.com/>
- <https://tribune.com.pk>

Research & Editorial Team

Mr. Farhat Karim Hashmi,(EVP P,R&T D), Mr. Muhammad Rashid,(SVP P&RD), Miss. Abida Razzaq(VP P&RD) & Miss Aamna Imtiaz (OG-III P&RD).