

Challenges and Potential of SME Sector Financing in Pakistan: Way Forward through CPEC

China Pakistan Economic Corridor (CPEC) is a flagship programme of the Belt and Road Initiative (BRI). It is an opportunity for Pakistan to secure maximum advantage with this win-win initiative. It has an institutional framework with the formation of Joint Working Groups (JWGs) and Joint Cooperation Committees (JCCs) for the final implementation of every single project.

Financing is a very cardinal area of this mega project. This is particularly true for maintaining sustainable financing over the long run. Presently, prime chunk of the CPEC basket is allocated for energy projects in Independent Power Producers (IPP) mode. Other infrastructure and Gwadar projects are financed by the Public Sector Development Program (PSDP) and debt liabilities (preferential loans, lower interest rates, and zero interest payments and by grants etc). Industrial development is the major area which is going to start with the help of Special Economic Zones (SEZs).

In this context, role of financial markets, availability of diversified funding instruments and continuous reform of finance and insurance sectors are critical yet ignored. Currently, long-term project financing remains neglected in Pakistan. Raising long-term project financing from the local private sector, regional and global financial markets to facilitate Small and Medium Sized Enterprises (SMEs) and investments is also missing from the current discourse.

Against this backdrop, this panel aims to provide insight regarding the best financial market practices adopted by the developing regions/countries where China has started its economic corridors. The objective is to draw policy lessons which Pakistan can build on to ensure sustainable financing of CPEC, specifically for the SME sector. The panel will particularly explore:

- SME financing in Pakistan: Issues and needs
- Chinese SMEs financing models vis-à-vis Pakistan's needs
- International best practices to support SME sector financing
- Proposed model for SME financing for Pakistan through CPEC

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