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# USAID/PAKISTAN: TRADE SWOT ANALYSIS: MARBLE CITY RISALPUR

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# ACRONYMS

CFTCs	Common Training & Facility Centers
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
GOP	Government of Pakistan
IE	Industrial Estate
MCR	Marble City, Risalpur
MoI&P	Ministry of Industries and Production
NWFP	North West Frontier Province
PASDEC	Pakistan Stone Development Company
PIDC	Pakistan Industrial Development Corporation
PPP	Public Private Partnership
PTP	Pakistan Trade Project
R&D	Research & Development
SDA	Sarhad Development Authority
SEZ	Special Economic Zones
SME	Small & Medium Enterprise
USAID	United States Agency for International Development

# INTRODUCTION

Special Economic Zones (SEZs) (Industrial Estates, Export Processing Zones, Product/Sector Specific Cities...etc) world-wide account for increasing share of international trade flows and employ growing number of workers world-wide. In the global economy, SEZs are acknowledged to be by a significant tool to increased foreign exchange earnings, generate employment, enhance workforce capital and attract Foreign Direct Investment (FDI) inflows. Research on the impact of effective SEZs also suggests significant indirect economic benefits: indirect employment generation, investment and joint ventures, skill and technology spillovers.

Pakistan understood the potential of economic zones for regional development and industrialization as early as 1947 when it set up its first industrial estate. Since then the Government of Pakistan (GOP) has established several industrial estates in every province of the country. Industrial estates, till now have been a public sector endeavor in Pakistan and have yet to unleash the potential economic and social benefits that more successful models across the world have demonstrated.

The USAID Pakistan Trade Project (PTP) is a four year project (2009-2013) designed to focus and harness the power of international trade as an engine for sustainable economic growth and stability in Pakistan. Through targeted technical assistance, this USAID-funded program supports the GOP and private sector stakeholders in improving trade environment through effective trade policy formulation and implementation; enhances capacity, procedures and systems of Pakistan's institutions to increase regional trade, especially through across Pakistan's borders; and builds capacity of Pakistan's private and public sector institutions to develop and manage sustainable and competitive special economic zones.

After initial discussions, site visits and contact, the PTP believes there is a significant opportunity to be explored for creating an enabling business environment in existing and under developed industrial and sector/product specific estates through enhancing and rehabilitating them in lines of global best practices. Successful enhancement of some of the existing industrial estates could potentially harness the natural sources of competitiveness of some of the least developed yet potentially strategic areas in the northern and western borders of Pakistan.

This paper is a SWOT analysis of the Marble City, Risalpur (MCR) in North West Frontier Province (NWFP). It is one of a series of such analysis conducted of industrial estates in the northern and western regions of Pakistan. The series of analysis will be used to prioritize the existing industrial estates in the targeted region to initiate the capacity development of the selected industrial estates for maximum economic and development impact.

MCR is proposed to be a Cutting Edge Stone Technology Industrial Estate and will be setup under international business practices and as per industrial standards. The concept is to create the technologically advanced industrial park for Dimension Stone (Marble & Granite) Sector in Pakistan.

# MARBLE CITY RISALPUR

The Marble City, Risalpur (MCR) is the First City in a series of Marble industrial estates<sup>1</sup> envisaged and to be developed by Pakistan Stone Development Company (PASDEC)<sup>2</sup>. MCR is on 185 acres land provided by Sarhad Development Authority (SDA) and PASDEC will develop infrastructure and services.

## 1. LOCATION

MCR is located on the Nowshera Mardan Road, 27 miles east of Peshawar. MCR is located 48 km from Peshawar airport and 40 km from the city's dry port, the marble city is seven km away from Mardan, another marble rich district. It is close to other vast marble reserves as well. It is a junction point to major quarry clusters of Buner, FATA, Mingora, Dir, Manshera and Chitral. It is adjacent to M1 Motorway and transportation of products will have an access apart from Motorway to the main highway and the railway track.

## 2. EXISTING INFRASTRUCTURE

The MCR is in the process of planning and development of the estate. PASDEC, the management company of the "Marble City", has acquired the land from SDA and has completed a master plan and a detailed design. The ground breaking of the physical infrastructure will start in the last week of February 2010 since PASDEC will receive the 1<sup>st</sup> installment of the payment from tenants. PASDEC will develop infrastructure and services in the industrial city and tenants will develop their own manufacturing plants.

PASDEC has earmarked the land apart from industrial plots of multiple categories for power generation, processing facilities, Common Facility and Training centre (CFTC), warehousing, waste water treatment plants, mechanical and electrical workshops, waste collection management system, machinery pool, EXPO/stone complex, Stone testing laboratory, Mosaic handicraft & Inlay center, training institute for workforce development, labor colony, fire brigade and other auxiliary services like office block, bank, dispensary, guest house, truck station etc.

## 3. LAND USE AND AVAILABILITY

There are about 199 plots in multiple categories in MCR ranging from 1 acre (8 kanals), 0.5 acre (4 kanals) to 0.25 acre (2 kanals). The plots would be lease out on 99 years lease and the lease amount of plot is at the rate of PKR 120,000/- per kanal and would be recovered on 5 year installment basis<sup>3</sup>. If the allottee does not construct building on the plot within one year of allotment, his plot would be cancelled.

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<sup>1</sup> PASDEC has received approval from Government of Pakistan to establish seven model production clusters or "Marble Cities". Apart from Risalpur, other Marble Industrial cities are FATA, Gadani, Karachi, Chitral, Loralai and Islamabad.

<sup>2</sup> Pakistan Stone Development Company (PASDEC) has been established under the guidance of Ministry of Industries and Production, Government of Pakistan, as Public Private Partnership. The Company is being funded primarily by the Government of Pakistan. It is a not for profit organization incorporated under section 42 of the Companies Ordinance, 1984 as subsidiary of Pakistan Industrial Development Corporation (PIDC) and was incorporated on the 21st September 2005. The Board of Directors of PASDEC is made up of representatives of both the private and public sectors. Majority of Directors are from the private sector, and according to the Articles of Association of the Company, the Chairman must always be from the private sector. The purpose of creating PASDEC was to modernize dimensional stone mining and processing in Pakistan.

<sup>3</sup> Visit of PTP team to Marble City, Risalpur.

PASDEC received 409 applications against 199 plots and balloting is done through open and transparent system in front of all applicants. Neither PASDEC nor an allottee has started the construction in the MCR. The layout plan of marble city, Risalpur is shown at figure 1

**Figure 1: MCR in the Regional Context**

<b>BOX 1: Plot Categories in Marble City Risalpur</b>		
<b>S #</b>	<b>Plot Size</b>	<b>Number of Plots</b>
<b>1</b>	<b>1 Acre (8 Kanals)</b>	<b>102</b>
<b>2</b>	<b>0.5 Acre (4 Kanals)</b>	<b>56</b>
<b>3</b>	<b>0.25 Acre (2 Kanals)</b>	<b>41</b>
<b>TOTAL PLOTS</b>		<b>199</b>

#### **4. NATURE OF ECONOMIC ACTIVITY IN IEH**

The tenants are primarily small to medium size businesses involved only in Marble & Granite processing. This will cater to domestic demand as well as to export. However, due to nature of marble & granite, other industries especially the construction material will get boost and more construction material related industries will be set up around MCR. It is estimated that around 6,000 direct and another 18,000 indirect workers will be employed by MCR.

#### **5. MANAGEMENT AND GOVERNANCE**

IEH is owned, managed and governed by the public sector. The land is owned by Sarhad Development Authority (SDA) and leased to tenants for 99 years. The estate is managed by an Industrial Estate Management Committee (IEMC) with representation from local industrialists and SDA officials. The committee is authorized to spend funds collected from the industries in lieu of development charges, but this amount collected is too small given the huge expense of IEH. Though SDA is autonomous to a certain extent the absence of steady cash-flow and inadequate revenue generation limit the ability of the IEMC to maintain the estate. Due to the huge size of the estate resources are insufficient to meet its operational and maintenance expenditures, and for expenses beyond its financial capacity SDA has to look towards the provincial government for support. The Provincial Government has not been providing resources at a level required to maintain the Estate.

#### **6. SECURITY SITUATION**

IEH is located on the border of Punjab in a relatively peaceful region, and currently in terms of security not many challenges exist. However being connected to insurgency hit district Buner may have repercussions in the future so proactive steps are required. The local businessmen from IEH suggested that a boundary wall around the Estate would help enhance the security situation and to meet future IEH security requirements.

# STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT)

The strengths, weaknesses, opportunities and threats (SWOT) with respect to IEH rehabilitation are summarized in table below:

Strengths	Weaknesses
<ol style="list-style-type: none"> <li>1. Proximity to the trade route with China</li> <li>2. Resource endowed in terms of fruits and dimension stones</li> <li>3. Presence of anchor production units</li> </ol>	<ol style="list-style-type: none"> <li>1. No incentives for investor to set up industry in IEH or for current tenants to expand</li> <li>2. Limited decision-making power and financial authority of IEMC</li> <li>3. Dilapidated and insufficient infrastructure</li> <li>4. Weak capacity of SDA to manage and care for the Estate or to promote it to new tenants (only 45% of the 377 plots have functioning business units; no activity has taken place on 9% of the units (Figure 1)</li> <li>5. Lack of SDA financial capacity or authority to mobilize finances from the Provincial Government or other sources</li> <li>6. Lack of active provincial commitment</li> <li>7. Lack of collective action or strategizing by the industrialists to address estate problems or opportunities for growth</li> <li>8. Dependency mind-set</li> </ol>
Opportunities	Threats
<ol style="list-style-type: none"> <li>1. Planned Burhan- Bhasha Dam Road may improve access to the markets and ports.</li> <li>2. Extension plan to establish 500 acre Pak-China Economic Zone (PCEZ) could have a spillover benefit effect for the infrastructure and other ancillary logistical and utility requirements of the existing Hattar estate as well as PCEZ economic activity generating additional economic activity at the existing estate; expansion plans to acquire a</li> </ol>	<ol style="list-style-type: none"> <li>1. Untreated discharge of industrial effluents make it susceptible to environmental scrutiny</li> <li>2. Power outages</li> <li>3. IEH lies in the active seismic region which experienced high intensity earthquake</li> <li>4. Developing industry is not on the priority list</li> <li>5. Capital flight from this estate may be experienced in case a new estate is set up which provide incentive and more competitive environment</li> <li>6. Unskilled indigenous work-force</li> <li>7. If law and order situation in Pakistan deteriorate further that can delay the implementation of PCEZ</li> </ol>

<p>further 500 ac res for expansion</p> <p>3. Human Capacity Development to meet the future requirements of PCEZ can help in harnessing the employment potential.</p>	
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# CONCLUSION

The potential socio-political and economic impact of a successful rehabilitation of IEH can be significant as this used to provide employment to a significant proportion of population, but due to the lack of incentives, non-competitive environment, economic slowdown and other factor more than 100 units have closed down, and unemployment has surged. If this trend prevails more units are expected to face the same fate. The absence of an active support by the provincial and federal government to revive the Estate, may lead to further deterioration.

Rehabilitation of IEH where below mentioned facilities are present can turn the estate into a more attractive entity for local and foreign investors alike;

- a) supply of electricity is guaranteed,
- b) subsidized natural gas is provided,
- c) access to the markets and ports is improved,
- d) basic infrastructure is rehabilitated, and common facilities are developed, and
- e) a responsive governance structure is installed

There is a potential that if all the above-mentioned facilities are provided it can absorb a significant portion of the workforce. The PCEZ is an important development, which can accommodate a large percentage of workforce, so proactive steps have to be taken to prepare the workforce to harness that opportunity.

The current physical, economic, and governance infrastructure is not geared toward turning around this estate into a most attractive place for investors. The financial support of the provincial government is required to meet the economic constraint, and a more proactive and financially autonomous governance structure is required to oversee the operation & maintenance of the estate.

The rehabilitation of IEH needs political commitment, financial and human resources, attitudinal change, revamping management practices, and above all time, as the change cannot be affected in a short term. However steps needs to be taken immediately, so that their result can materialize in foreseeable future. Following interventions can help in making IEH a more attractive place for new and current investors:

1. Provide incentives to IEH's investors e.g. tax benefits, and subsidy on natural gas
2. Improved access to trunk roads; GT Road, and Motorways M-1
3. Steady and uninterrupted supply of electricity for the industrial estate
4. Develop the technical and human capacity of the SDA project office which manage IEH
5. Making the Industrial Estate Management Committee more proactive so the collective actions can be taken at their own with internally generated resources.

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