



PRIMARY RESEARCH

Investment climate analysis: A case of Khyber Pakhtunkhwa economy

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Abstract

Economic performance is one of the key factors for the growth of the country's economy, which will only be affected by the Investment Climate (IC), and it will help the private sector to create different opportunities for employment, which will completely cut down the poverty alleviation from the country. The research aim is to know about the IC in Khyber Pakhtunkhwa and merged areas and is planned to improve programs, policies, and regulatory reforms of the KP government, which is crucial for the betterment of developing private sectors and the data included in the cost of doing business, labor market, business governance, financial sector, investment level, and regulatory environment. This research shows the IC of Khyber Pakhtunkhwa and merged areas by using cross-sectional data of about 37 people from formal and informal sectors, and the nature of this research is qualitative. Furthermore, factors of IC are infrastructure, labor skills, regulatory governance, institutions, and access to finance. It was concluded that a restricted IC would lead the country to poverty. Furthermore, the results of this research were quietly different from the other studies. The basic issues in the development of organizations, which can also be based for further in-depth analysis for the future, are border clearance & price competitiveness, custom duties & tax registration, basic utility issues, financial inclusion, law enforcement & local administration, financial & operational issues, training & development, Policymakers will get to know from the study findings that how to enhance firm productivity and IC which will automatically add value to the country sustainable growth.

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INTRODUCTION

"The IC team provides evidence-based advisory services and support to help countries foster an "investment-grade" business environment, maximize the benefits of private investment, and secure a share in global value chains".

For developing countries, the key pillar for economic success and less poverty is the betterment of IC conditions, and World Bank is the backbone for the betterment to improve the conditions of IC, and they have their own standard way of calculating the ICAs of country. Organizations are mostly affected by the different conditions of the country, i.e., economic, financial, and socio-political, which refers to IC of a country, and the numerous factors which influence IC are poverty, crime, infrastructure, workforce participation, national security, political instability, regime un-

certainty, taxes, the rule of law, property rights, government regulations, government transparency, and government accountability.

As IC is an important factor for the success of developed countries and for reducing poverty and it also improves the living standard depending on the economic development, and the good economic factor comes from the improvement of labor productivity of an organization by investing in human and physical capital, but most of the organizations invest in an investment-friendly environment (Farid et al., 2021).

Improving living standards and reducing poverty depend on broad-based economic development, which occurs only when firms improve labor productivity by investing in human and physical capital. But firms will invest only when

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the investment environment is favorable (Gul, Ali, & Saeed, 2021).

The ICA will be largely based on the results of a firm-level survey of private enterprises, which includes data on the costs of doing business, the regulatory environment, the labor market, the financial sector, business governance, and investment levels. In the analysis, we will relate the constraints of the business environment to firm-level cost and productivity in KPK.

Introduction of KPK

The province of Pakistan is the third-largest in the country. KPK's share of Pakistan's total value has traditionally comprised 10.5%, though the province accounts for 11.9% of Pakistan's total population, rendering it the second-poorest province once neighboring Baluchistan. The part of the economy that Khyber Pakhtunkhwa dominates is Forestry, wherever its share has traditionally ranged from 34.9% to a high of 81%, giving a mean of 61.56%. Presently, Khyber Pakhtunkhwa accounts for 100 percent of Pakistan's value, 20% of Pakistan's mining output, and since 1972, it's seen its economy grow in size by 3.6 times.

After suffering for many years because of the fallout of the Soviet invasion of Asian nations, nowadays, they're more being targeted for wholly a distinct scenario of an act of terrorism. Agriculture remains vital and, therefore, the main money crops as it contains wheat, maize, Tobacco, rice, sugar beets, furthermore fruits also grown up within the province. Numerous workshops throughout the province support the manufacture of little arms and different weapons. The province accounts for a minimum of seventy-eight of the marble production in Pakistan.

Economic Growth Sectors of KPK

The Khyber Pakhtunkhwa's economy during the most recent four years has seen an unfaltering development. The GDP in FY 2013-14 saw a development of 5.18 percent, which proceeded with its enduring exhibition in 2014-15 with a development rate of 5.23%, said the second edition of the Economic Review of KPK 2016-17 issues recently.

In 2015-16, the economy of Khyber Pakhtunkhwa developed at 4.36 percent, and in the current monetary year 2016-17, it hopped to 4.65 percent. Ceaselessly accomplishing higher GDP development from 2013-14 to 2016-17 out of a marker that administration arrangements are working in a better way and giving commissions and vital help in the getting of financial exercises in the territory. These approach activities, the monetary survey said, will support the business atmosphere further in the coming years, and

higher potential development will be accomplished soon. It said that the provincial government had started various advances like exhaustive power arrangement, youth preparation, changes in tax collection framework, and work program, which are improving the business condition and making a friendlier atmosphere for business network and other financial operators to take most extreme advantages capability of the economy.

The economy of Khyber Pakhtunkhwa is described by different financial exercises, comprehensively partitioned into three primary divisions, including farming, industry, and administration. These all agribusiness and industry assume a significant job in the economy, and it is a key driver of progress in every macroeconomic pointer.

The commodity-creating segment represented 44 percent of GDP during the active financial year when contrasted with 46 percent of GDP in the monetary year 2011-12, which is diminishing after some time because of developmental phases as the portion of the non-commodity producing segment has upgraded. The agribusiness segment, which assumes a significant job in provincial improvement, nourishment security, and poorness decrease, during the financial year 2016-17 the development occurred at 4.29 percent when contrasted with 2.5 percent in FY 2015-16.

The ventures segment contributed about 2.3 percent to the GDP of KPK in FY 2016-17, developed at the rate of 3 percent when contrasted with 5 percent in FY 2015-16 and in the financial year 2016-2017, low development of enterprises segment occur because of the decrease in the development of manufacturing sub-division.

Mining and Quarrying contributed 28 percent share in the businesses and 7 percent to the GDP of KPK. In KPK during 2016-17. Mining and Quarrying have demonstrated the development of 1 percent in the current fiscal year when contrasted with 7.3 percent development from 2015-16.

Manufacturing in KPK also contributes 44 percent to the business division gross value-added estimates and 6-10 percent to the overall GDP of Khyber Pakhtunkhwa in the year 2016-17. Assembling also generates employment for many people. As it is indicated by Labor Force Survey 2013-14, in which the total labour force is about 10.18 percent.

Construction is likewise one of the potential segments of the ventures division, which also has a great role in generating employment up to 12 percent of the labour force. The commitment of development in enterprises division Gross Value Added (GVA) is 22 percent and 5 percent of the total GDP of Khyber Pakhtunkhwa during FY 2016-17. The development area kept up its development of 7 percent in 2016-17.

The Service section of Khyber Pakhtunkhwa has recorded a development of 5.47 percent in the financial year 2016-17 when contrasted with 4.97 percent in 2015-16. The development execution of this part is huge; practically all segments of services contributed equally and positively.

Introduction of Ex-FATA

History was made on 31st May 2018, as the President of Pakistan signed the 25th Amendment to the constitution of Pakistan, thereby completing the constitutional process for a merger of the Federally Administered Tribal Areas (FATA) with Khyber Pakhtunkhwa (KP) province.

The erstwhile FATA is a tribal region in the northwest of Pakistan, lying between the existing districts of Khyber Pakhtunkhwa to the north and east, Balochistan to the south, and the neighboring country of Afghanistan to the west. The territory is almost exclusively inhabited by various Pashtun tribes. These Merged Areas comprise seven tribal districts and six sub-divisions. These are as follows:

Tribal Districts:

- Bajaur
- Mohmand
- Khyber
- Orakzai
- Kurram
- North Waziristan
- South Waziristan

Sub-Divisions:

- Hassan Khel
- Darra Adam Khel
- Wazir
- Bettani
- Drazanda
- Jandola

Purpose of Study

The aim of this study is to find out the IC analysis in the newly merged areas of Khyber Pakhtunkhwa and is planned to inform policies and programs of the government and regulatory reforms necessary for the private sector development, which includes data on the costs of doing business, the regulatory environment, the labor market, the financial sector, business governance, and investment levels.

LITERATURE REVIEW

This part of the study provides a review of earlier studies that are done in this regard that; Better condition of IC produces social improvement, profit, new places for work, and cost reduction. The word "IC" is broadly used in scientific literature. According to the evaluation of the World

Bank, among 189 countries, Lithuania's position is 17th (Gasparyniene, 2015; J. Khan, Saeed, Ali, & Nisar, 2021). Research on IC is primarily on macro-level statistics, and firm stage studies are scattered (F. A. Jam, Mehmood, & Ahmad, 2013; Cull & Xu, 2003, 2005; Dao, 2008; La Porta, Lopez-de Silanes, Shleifer, & Vishny, 1997; McMillan & Woodruff, 2002).

In previous studies, there are different factors that influenced IC, and these factors were measured through "Qualitative" and "Quantitative". (Beck, Levine, & Loayza, 2000; Clarke, 2005; Sekkat & Vezanones-Varoudakis, 2007). There are theoretical motives to anticipate that a negative IC could result in a decrease in TFP on the firm stage, lower component expenses, and a slower increase in capital and employment. The higher IC ends in both better wages and better returns to capital (Dollar, Hallward-Driemeier, & Mengistae, 2005; Ullah et al., 2021).

Economic development in a country is by SMEs, and for long-term economic development, a stable macro environment is necessary. Furthermore, the High growth of the population requires more investment, and income-earning opportunities require promoting entrepreneurship (Farooq, Farooq, Rauf, & Sharan, 2012; Igwe, M., Egere, & Anigbo, 2018). For sustainability of micro-enterprises and a product, there are particularly some most important factors, i.e., networking facility, working in entrepreneurs group and effort to sustain in the market. Furthermore, innovation is also one of the most important factors, which includes product quantity, quality, advertisement, and packaging (Vedanthadesikan, 2018; Waheed, Kaur, Ain, & Sanni, 2015). The most important factor for a successful and sustainable micro-enterprise development is the right selection of opportunities, and the first step in the entrepreneur process is finding profitable opportunities (Baron & Shane, 2008; F. Jam et al., 2014; Qazi et al., 2014).

Important barriers to the development of micro-enterprises are the external factors, i.e., insufficient infrastructure, weak local economy, high cost of raw materials and non-availability of raw materials and unavailability of electricity for long hours, as well as no water supply system in villages (Chouksey & Karmarkar, 2017; Nadeem, Saeed, & Gul, 2020).

This part of the study is a review of an earlier study of south Africa of IC assessment, and its objective is to strengthen the private sector and promote different policies and this IC creates an opportunity for a firm to create jobs, For the small based businesses, Investment Climate Assessment (ICA) was done in South Africa to evaluate the atmosphere and to build different strategies for the private organiza-

tion besides which IC also make the chances to produce new places for a job, social improvement, and profit maximization. In this study of ICA they targeted 800 formal private organizations of South Africa in which 70 countries were included (low and middle), and the data gathered for this survey were of many aspects, i.e., firm performance, financial sector, cost of doing businesses, regulation of an organization, levels of investment, Trade regime, and labor (Burki, Khan, & Saeed, 2020; Clarke, 2005).

For developing countries, the key pillar for economic success and less poverty is the betterment of IC conditions, and for that World Bank (Bank, 2003) created its own way of the calculations and adopted some methodologies which were proved better in the previous time in terms of IC features which affect the income growth and productivity the most, specifically for low-income families. Changes in the IC were traced within the same regions or compared to different regions within countries.

In the country's IC, IC analysis make available the background to clearly recognize the priorities of the reform by relating productivity limitations and firm's cost. For IC analysis, the most intensive facts are basic measurement and microeconomics. In this regard, ICAs also provide the grounds about those aspects which are constraining the product market operations, infrastructure service, and economic and non-economic markets and also demonstrate the vulnerabilities of an institutional, regulatory, and country legal framework.

IC analysis is typically a survey instrument that provides a clear picture of past conditions, the conditions standard which allows to oversee the changes from time to time and also demonstrate the impact analysis of such conditions on firm-level productivity. IC analysis also reveals a common structure & procedure to enable comparability between countries.

Harmonization and alert plans making are the essence of successful ICA, successful ICA also requires time and fundamental assets to be allocated, and among all stakeholders, a strong basis of assistance needs to be developed before the commencement of work. A perception document, review of the people with the same competencies, and outlined review meeting are the requisites of ICAs. ICAs can be beneficial from surveys alliance and follow up with multi and bilateral development agencies due to the same interests and significant overlap of the other institution's work (T. I. Khan, Kaewsang-on, & Saeed, 2019).

Dethier, Hirn, and Straub (2008) conducted a study that analyzes that good investment and a high level of production were the most important and basic factors for the growth.

The impact of business climate variables on the growth and production of an organization was also surveyed in this study. Many developing countries were now focusing on how to improve productivity and stay in the market by using organizational surveys. About 70,000 firms were surveyed in 100 countries in today's market, and they have been locating new methods to reduce unemployment and to reduce poverty as lots as possible. The impact of Productivity of a firm is by some infrastructure, security, finance, competition, and variables regarding policies.

Such countries, when analyzing the key risks to their economy, consider IC as a primary model and also access the impact of the business environment on productivity. Dethier et al. (2008) primary aim was to study the impact of IC on productivity and growth of the economy (Joarder, Hasanuz-zaman, & Uddin, 2016).

A study was conducted by (Giang, Xuan, Trung, Que, & Yoshida, 2018) in which they studied the effect of IC on the performance of a firm. Infrastructure, access to finance, government-business relations, and human capital were treated as explanatory variables. They collected panel data of manufacturing firms operating in Vietnam. The sample size was 1,310 companies. The researchers have used different proxies to measure the problem variable, i.e., the productivity of a firm, like "LP" and "TFP". The statistical results showed that a defective IC decreases the productivity of firms and discourages competition. Besides that, while studying corruption as an independent variable, (Ahmad & Zafar, 2018; Giang et al., 2018) have found that corruption contributes to a bad IC. These identified problems like corruption and regulatory framework won't make the economy to be stable in the long-run as it eliminates productive investment decisions. The researchers have recommended that it is a need of time for developing countries to bring reforms in institutions and eliminate the curb of corruption.

Kinda, Plane, and Véganzonès-Varoudakis (2011) This study was conducted in different countries of "MENA", manufacturing industries, and some developing countries for the IC and firm performance; further this study reveals that heavy industries (textile, metal, wood, machinery, furniture) are more sensitive to "infrastructure deficit" as compare to others because of the competitions they faced which were empirically analyzed by this paper and by this paper (Kinda et al., 2011; Zia, Saeed, & Khan, 2018) reveals that IC of performance of a firm is increased by the infrastructure deficit (deficiency). For the manufacturing industry of "MENA" to be more successful and competent, this study brings different most important policy implications.

According to a previous research the aim of this "ICA" is to

make or understand the limitation in the region of Costa Rica and to generate employment, growth of productivity, and exports. Furthermore, in this study, we have found that improved productivity in "Costa Rica" could be done through continuous improvement of IC conditions because both productivity and IC have interesting relation in; he said that most of the developed countries work on their productivity and competitiveness. As the World bank mostly identifies obstacles to country competitiveness with the help of "ICS", they also evaluate the average productivity of Costa Rica through IC condition. The methodology used in this paper is "econometric methodology" which is based on the organizational level observation that generates robust elasticities on TFP in which relevant variable used for productivity in this paper is a block of Red Tape, Corruption and Crime.

Dollar et al. (2005) organize a study in which they target four datasets from World Bank, i.e., China, India, Bangladesh, and Pakistan. These different sectors were surveyed from different countries i.e., textile, leather products, food products, business services, IT, electronic equipment, components, consumer appliances, auto parts, textiles, leather goods, food products, drugs and pharmaceuticals, electronic consumer goods, metal products, plastics and machine tools and textiles, leather goods, food processing, sporting goods, electronics, chemicals, and IT. The sample used in this paper is by Dollar et al. (2005), which is stratified based on their location, and the sample size was from 1100-1900.

Furthermore, the indicators used in this paper were five, which were based on the availability in the countries and the importance of IC. TFP is then related to differences in the IC across the firm locations. Dollar et al. (2005) used indicators that are collectively highly significant and indicate that firms in the best IC can be nearly twice as productive as those in weaker environments. The next step is to examine if workers in areas with better IC share in the benefit from this higher productivity in the form of higher wages. On this second measure of firm performance, we again find that stronger IC indicators translate into higher wages. Finally, we confirm that profits or the return to capital are also higher in better IC locations. Dollar et al. (2005) reveal that because of different findings, a poor "IC" would lead to lower TFP at the firm level, lower factor prices, and slower growth of capital and employment.

In this paper, (Nawi & Al-Mamun, 2017) objective were to find out the impact (effect) of access of working capital and enterprise development training programs. This study contains about 450 micro-entrepreneurs from developing or-

ganizations who were selected randomly from the list of all participants.

Furthermore, this study was built on two theories by (Nawi & Al-Mamun, 2017) i.e., "Modern development" and "Human Capital". And its objective was to positively impact productivity and sustainability and to improve those activities of enterprises that generated income.

These research findings by (Fatima, Majeed, & Saeed, 2017; Mustapa, Al Mamun, & Ibrahim, 2018) reveals that uniform training programs and working assets access the micro-enterprises may not be effective for sustainability and performance improvement. Environmental sustainability is a concept that tells us the use of natural resources in such a method that stays longer and minimizes the harmful impacts on the operating environment of firms. Economic sustainability is a business concept that provides goods and services as a response to market demand conveyable and efficiently. Additionally, social sustainability refers to a business concept that demonstrates knowledge in regards to the societal need of all the stakeholders of the firm i.e. employees, shareholders, customers, and the community.

The purpose of development initiatives is to improve the activities that are related to income-generating of micro-enterprises and to effect sustainability and productivity in a positive way.

Research arranged by Vedanthadesikan (2018) in which they analyzed the factors which are affected by the sustainability of small enterprises, and their target was women enterprises which were done in Telangana State in which chocolate was produced. Furthermore, it also explains the factors which lead to sustainable small enterprises.

In this paper at the end Vedanthadesikan (2018) conclude that innovation of product and differentiation of the product is necessary to sustain and, more importantly, Networking Facility working as a group of entrepreneur and effort to succeed is the primary factors of sustainable product and an entrepreneur.

The private part is important for profitable growth. FDI is important for a corporation which is the main source of financing for development and for the implementation of the "Agenda of Sustainable Development".

In this paper, some of the strategies which were used for advertising and attracting the FDI are highlighted for developing sustainability. For sustainable growth and businesses, the barriers they face and the strategies they want to combine into the international and regional value chain are the two most important business sectors which are used i.e., "small and medium-sized businesses".

As most private sector businesses are small and medium-

sized enterprises, also emphasized and reviewed are the role of these enterprises for sustainable development, the obstacles that they face, and the policies that they need to help them integrate into global and regional value chains that are often dominated by transnational corporations.

Chouksey and Karmarkar (2017) conducted a study in the Malwa region on micro-enterprises whose objective was to identify the needs of people of micro-finance and also try to find the opportunities for sustainable small businesses. Which sample of 54 micro-enterprises was selected from different villages of Malwa.

The need for small enterprises is "Profitable business opportunity identification," which focuses on those projects which are of friendly environment. They were focusing on innovative projects, and a good small enterprise was needed there for the growth or development of the Malwa. Furthermore, for the successful and for the goodness of society, we have to give the right kind of training and information to the clients of small enterprises, and giving the right selection opportunity is the basic need for the profitability which can also give a successful micro-finance business and small enterprises (Chouksey & Karmarkar, 2017).

Chatterjee, DuttaGupta, and Upadhyay (2018) Objective of this study is to find the barriers and facilities related to sustainable micro-enterprise businesses. The limitation of the study is to find of the sustainable factor of small enterprises in an emerging economy. Furthermore, the design used in this research is primary data by (Chatterjee et al., 2018), in which in-depth interviews and focused groups were conducted. In which the study reveals those factors which determine the small enterprise sustainability. The most important and successful micro-enterprises factors are political, economic, and demographic factors, along with family contribution, and this research also reveals that SHGs which are micro-enterprises are also adding value to the society.

Abahumna (2019) paper is based on the sustainability of small and micro-enterprises "SMEs" which objective was to know about the issues faced by the small and micro-enterprises to maintain sustainability and perform properly and secondly to know about the strategies and to reduce the issues and improve the performance of SMEs, In this simple random sampling of 57 SMEs were surveyed, and the data collection tools used in this paper is a questionnaire and individual data form.

Furthermore, this research (Abahumna, 2019) further explores that the important source for employment and economic growth is SMEs, and the top challenger who was reported was faced by SMEs i.e., Land "79 pc", Increased of Power interruption and supply "93 pc", Access to market

"71 pc", and unlawful competition "69 pc".

RESEACRH METHODOLOGY

This chapter includes the methodology, sampling strategy, sampling implementation, database structure, universe estimates, weights, a survey in informal structure, and productivity computation.

The objective of the ICA for the newly merged areas of Khyber Pakhtunkhwa is planned to inform policies and programs of the government and regulatory reforms necessary for the private sector development. The ICA was carried out in the 7 districts and 6 subdivisions of the newly merged areas of Khyber Pakhtunkhwa, which helped to lay down a baseline for the IC changes as a result of the government policies and regulations. ICA is a well-known methodology of the World Bank comprised of different regulatory and business issues which affect the overall business condition faced by the individual firms. Mainly the methodology defines how a range of opportunities work under the regulatory and property rights constraints, contract enforcement, and dispute resolution systems. The major feature of the ICA is, it can be related to income growth and productivity, especially for the poorest segment of the society. ICA can track changes in the IC once conducted.

Target Population

The ICA was conducted for large, medium, and small firms along with the informal sector. Since 98% of the businesses are informal, hence most of the data were collected from the informal sector.

The whole population, or the universe, will be comprised of Agriculture, transportation, Agri-product, Mines & Minerals, Marble, Domestic Commerce, Livestock, and Construction sectors. Specifications on sector and enterprise selection for the survey were imposed, which may rely on the contributions of the sectors in investment, economy, and labor market.

Sampling Strategy

Sampling for registered establishments

Stratified random sampling was used to select the required Firms for the data analysis in all 7 districts and 6 subdivisions. The stratified sampling is preferable over other methods with certain objectives in mind, e.g., it will look into different districts and subdivisions individually with more focus and unbiased estimation. Different levels of firms along with micro-enterprises and different sectors were checked through stratified random sampling. Other methods, such as simple random or convenience sampling, lack powerful representation and inclusion of all demo-

graphic and size factors of the proposed firms. Further, the stratification may produce a smaller bound on the error of estimation than other methods of sampling.

Industry stratification of the survey is very limited due to the geopolitical and economic specifications of the region. Only 2% of the businesses are formally registered, and only one chamber of commerce exists. Mostly, the businesses or either micro or rely on the comparative advantage such as transport and livestock. The prominent sectors where most of the economic activities took place are; Construction, Marble, Mines, Transport, Agriculture, and Food. Due to the very limited size of the formal economy and registered firms, it is also proposed to conduct an informal sector survey with the modified ICA tool. Large, medium, and small size firms were interviewed, and a representative sample of 37 i.e., key informal interviews, were on modified ICA to get the width and breadth of the IC in merged areas.

It is important to mention that most of the registered firms' headquarters are located in Peshawar due to the law & order situation in the region. Hence, the KIIs were conducted in the merged area along with the border areas of Peshawar, DI Khan, and Kohat, where most of the enterprise owners reside. In which the Marble sector in Mohmand, the Construction sector in Bajaur, and Agri business (Pine Nuts) in South Waziristan, a field survey was also conducted.

Size stratification was defined following the standardized definition used for the Enterprise Surveys: micro (1 to 4 employees), small (5 to 10 employees), medium (10 to 12 employees), and large (more than 12 employees). For stratification purposes, the number of employees was defined on the basis of reported permanent full-time workers.

Sampling Implementation

Two sample frames were used for data collection.

A complete and detailed list of the formal establishment was obtained from the FDA & bureau of statistics, which served as a sample frame. Other information on all stratification variables (number of employees, industry, and region) was also obtained to ensure the quality of the proposed sample. The enumerated establishments were then used as the frame for the selection of a sample.

For the informal establishment, a two-step procedure was adopted. In the first step, the most promising sectors will be identified, which may contribute a major chunk to the local economy and job market. In the second step, the micro-enterprises on the basis of stratified sampling were assessed.

The quality of the frames was assessed with the support of the UNDP team. Due diligence was also done to avoid sam-

ple errors such as positive rates, non-eligibility, repetition, non-existent units, etc.

Universe Estimates

The universe estimates and weights of the firm survey were carefully computed. Parameters such as discontinued businesses, education or government establishments, or lesser employees, establishment, long delays in response, no phone connections, no fax connection, or any other response delay were carefully taken and the universe were reduced with such ineligible firms. Further different assumptions about the eligibility of establishments were made to identify the fully, partially and lesser qualified establishment. Criteria for each of the fully, partially and less qualified establishments were chalked out with consultation of UNDP team.

Survey in the Informal Sector

ICA survey were conducted on both formal and informal sectors of the newly merged area. The informal sectors provided further breadth and depth to ICA by providing insights into a segment of the regional economy which is perceived to play a very important role in household incomes and employment.

Classification between formal and informal sectors

To classify whether an economic unit is in the informal sector or not, the following criteria were adopted:

- The owner of the project is an employer or is self-employed;
- The legal status is either that of an individual property or of a partnership;
- Is there any use of books for accounts;
- The economic unit is not registered in the taxation records;
- The number of employees is less than 5, but only for the inside establishments.

The questionnaire for informal sector

The questionnaire for the informal survey, designed to meet the objectives of the ICA, required identifying characteristics pertinent to the local business environment. The questionnaire included questions in the following areas:

- Location and Infrastructure
- Crime
- Sales and Supplies
- Finance
- Labor
- Business Registration
- Business Environment

- Utility connections (Electricity, Gas)
- Taxation and access to finance

Our analysis strategy

To achieve the desired objectives, cross-sectional analysis tests were applied on different types of data.

Cross-sectional analysis

This is the analysis of the data at a single point in time from the 2018 Enterprise Survey data of the bureau of statistics and Fata Development Authority. The survey weights will be used to ensure the requirements in TORs. For this very reason, many commands in software SPSS/Excel & STATA are available.

RESULTS ANALYSIS

This chapter is comprised of an analysis in which interviews were conducted from 150 formal and informal sectors to examine the impact of IC variables on firm productivity in KPK and merged areas and after conducting interviews, we narrated the interviews, which led us to the below findings.

Study Findings

A sample survey was conducted in the local market to know the basic issues in the enterprise development, which can be based for further in-depth analysis for the future. Combine, tax, electricity, gas connections, border clearance, exchange rate fluctuation, local administration (police), financial inclusion, employee turnover, and bad debt are a few of the highlighted issues reported in the ICA survey. Furthermore, these Current issues to Business operation in Khyber Pakhtunkhwa and Merged Areas are as follows.

Boarder clearance & price competitiveness

Since most of the local enterprises are traders and they trade from China. Where, being the most populous province for refugees, the refugees are also involved in trading competing the locals. The refugees trade with China through Afghanistan and then with the support of some non-state elements they transfer their non custom paid goods into the local markets with highly competitive pricing, left the local traders far behind the competition, as a result the local also involved in the illegal trading through Afghan border and let the law enforcement agencies playing their regulatory role. Tightening of the border security and not allowing the refugees to trade in the local market, seizing the Afghan border for any import infiltration and price adjustment through duty imposition will help to develop the local enterprises.

Custom duties & tax registration

Most of the businesses operating in KPK and adjusted tribal districts are associated with non-custom paid imports. However, in shape, the traders paid per consignment at the Afghan border, but it is yet to be recognized by the government. Comparing the imports through Afghan border and through Karachi Port has created enormous price differentials, which cannot be covered through usual measures, not such businesses can be curtailed through regular administrations. However, if the customer duties at Afghan Border and tax registration (sales tax & income tax) at enterprise establishments can help to reduce huge influx of smuggled goods. Further, regularization and inclusion of Afghan refugees in the local market will also help to import through regular means.

Basic utility issues

Pakistan is improving each year in ease of doing business, rose by 28 points at 108 positions in 2019. But still the shortage of basic utilities created enormous issues in the smooth operation of the businesses. Perhaps the local enterprises are running on generators instead of regular electricity, and it cost them 8 times more than usual electricity invoice. Further, in winter, the gas fuel pressure was reduced so much that it cost a lot the local establishment to switch to alternate use of Gas fuels and also affect the regular business production efficiency. Similarly, water supply is also a hindrance, and the cost per delivery drastically increased due to inflation and supply shortage.

Financial Inclusion

According to the State Bank of Pakistan's study, KPK was the least financially dense province only 10% of the people used financial services which include; deposits, lending and other services. As per the academic works of many scholars, one of the major reasons for such happening is religiosity. The same fact is reflected in our sample survey, where most of the enterprise establishment was reluctant to use the bank services on religious grounds. They feel that the banks involved interest rate, which is prohibited in the religion of Islam, and hence they abstained from the use of banking services. The survey has also revealed that the local establishment needs financial services such as deposits, loans, and letters of credit for import. However, they fulfilled such needs from non-banking channels.

Exchange rate fluctuation is also a big hindrance, especially when they use the non-banking channels; their rate is determined only on the payment day. One of the examples quoted in the survey has shown a one day late payment has cost the

importer 1 M PKR loss in one consignment. Similarly, there are 100 of examples causing damage to the local enterprises just because they are not in the proper channel of money transferring and utilizing secure banking channels.

Law enforcement & local administration

Since most of the local establishments rely on imported goods and these are mainly smuggled through Afghan Border, the local police and administration hurdled the supply of goods from the main market. Such hurdles have drastically impacted the sale and productivity of the legal businesses in the local market. Differentiating between legal and smuggled goods, at the law enforcement level without a proper framework is quite cumbersome which required the attention of authority.

Financial & operational issues

Most of the businesses are informal, micro, and non-registered, creating many operational issues for the owners. These include; financial management, financial reporting, bookkeeping, auditing, tax return submission, compliance with standards, inventory management, supply chain maintenance, employee productivity, satisfaction, employee turnover, standardization, B2B marketing, etc.; perhaps no standard procedure of modernization has been adopted.

Training & development

Many small and medium enterprises consider the training and development of their employees as a waste of time and resources. Specifically, when we surveyed the pharma and marble sector, most of the employees are from other provinces, and they bargain their own terms and conditions with employers. Trained staff are not available in the pharmaceutical sector, and one experience employee is looking after many segments, which is indeed a grave violation of the health regulatory system.

CONCLUSION

The topic of this research was "ICA: A case of Khyber Pakhtunkhwa Economy". The data used in this research is secondary data that was gathered from the formal and informal sectors of KPK. The data gathered for this research was qualitative in nature by using key informal interviews. And the factors used for IC in this study are infrastructure, the capacity of labor, institutions, access to finance, and regulatory governance.

The finding of the study aim to policymakers in KPK to increase the IC; it also indicates the issues faced by the business organizations and improve policy should be focused.

This research shows that in KPK most of the industries are more sensitive, which can affect the IC. Furthermore, the implementation of this research in KPK will help to advance and come up with sustainable growth.

Empirically shown that restrictions related to internet accessibility, administrative procedure, access to finance, corruption, and quality of labor can reduce the IC of a country. Whereas, quality of labor is the main barrier for the company, which can lead the country IC to an economically weak position and poverty as most of the employees do their education more than matric. So to achieve a better IC, we have to improve the education system for every individual, which will require a lot of time and cost. Those of have no debt, internet access and other facilities have less productivity in KPK firms as compared to those firms which have all the facilities.

According to the research findings, good IC analysis can lead a country to higher growth of the economy, and different enterprises face different issues in KPK and their merged areas which were all reported in IC survey. Boarder Clearance & Price Competitiveness are the main issues face by the enterprises, as of doing the illegal trade and non-custom paid trade were done by different refuges which directly affect the local market of KPK, so by tightening the security of the border and not allowing the refuges of Afghanistan to local market and price adjustment can help the local market of KPK enterprise to work better.

RECOMMENDATIONS

Furthermore, the issue faced by the business organization in KPK and related merged areas are Boarder Clearance & Price Competitiveness, Custom Duties & Tax Registration, Basic utility Issues, Financial Inclusion, Law enforcement & local administration, Financial & Operational Issues, Training & Development. Tightening the border security and not allowing the refugees to trade in the local market, seizing the Afghan border for any import infiltration and price adjustment through duty imposition will help to develop the local enterprises.

Implementation of custom duties and tax registration should be kept compulsory on all imports and exports. Law enforcement and local administration should focus on the different goods which were smuggled to Afghanistan, to supply the good from main market and the hurdles they face are local police and administration, which impacted the local market. The government has to adopt the standard procedure of modernization for the informal and non-registered small firms as, without this, owners were faced with financial and operational issues.

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