



Pakistan's Investment Climate:
*Laying the Foundation
for Sustained Growth*

Eric Manes
The World Bank
May 2009

Organization of Presentation

- ❑ Investment Climate as Foundation for Growth
- ❑ Definition of Investment Climate Assessment
- ❑ Description of Pakistan's Second ICA
- ❑ Principal Findings
- ❑ Main Recommendations
- ❑ Next Research Agenda
- ❑ Suggested Research Topics Stemming From ICA

Sustained Economic Growth Requires “A Conducive Investment Climate”

- Target growth requires investment higher than Pakistan had been able to achieve - even during growth spurts
- Investment alone is necessary but not sufficient – factor efficiency (productivity) must increase
- In other words, growth in income per capita is determined by labor productivity, which is capital per worker plus total factor productivity (TFP).
- Both high rates of investment and its productive use requires a “Conducive Investment Climate”

What is the Investment Climate

From World Development Report 2005

- “Location specific conditions for a firm’s decision to invest, create jobs and expand affecting cost of production, risks of doing business and incentives to increase productivity.”
- “Institutional and policy variables that have a crucial bearing on business performance, but over which individual firms have no control individually.”
- “Covers (i) the functioning of markets for labor, land and capital (ii) the quality of economic governance (such as macroeconomic stability, rule of law, business regulation) and (iii) physical and social infrastructure”

What Is An Investment Climate Assessment (ICA)?

- *Methodology:* Two Products
 - Part I: Standardized, Representative and Statistically Significant Enterprise Survey
 - Part II: Analysis & Recommendations
- *Methodology:* Analytical Framework to Identify Top Constraints
 - Firm perceptions/opinions
 - Quantitative information on firm performance
 - Comparator country information to benchmark performance
- *Global Coverage:* 45 Countries (www.enterprisesurveys.org)
- *Regional Coverage:* Each SA Country on at least 2nd ICA

The Investment Climate Assessment for Pakistan (2002 & 2007)

- ❑ First ICA covered 956 firms in 2001/02
- ❑ Second ICA covered 1327 firms in 2006/07 in 13 cities covering 5 sectors and three size groups
- ❑ The First Representative Survey of Firms in Pakistan (based 2005 Economic Census)
- ❑ Focus on manufacturing, but looked also at small scale services (trade, food & hotels).
- ❑ Statistically significant at sector, province and size level to enable comparisons
- ❑ Three Volumes – I. Main Report, II. Annexes with Indicators, DataSets & Sampling Methodology, III Econometric Analysis

Firm Perceptions have Changed Dramatically Since 2002

(% of firms who view issue as a sever constraint)

	<i>2007</i>	<i>2002</i>
Deterioration		
Electricity	79.6	39.3
Corruption	56.7	40.3
Macro instability	56.6	34.5
Political instability	46.8	40.4
Crime, theft, disorder	32.5	21.4
Improvements		
Tax administration	23.2	47.0
Access to finance	17.6	38.3
Anti-competitive practices	14.1	21.4
Labor regulations	5.9	15.8
Customs regulations	5.8	24.4

Main Findings of Analysis

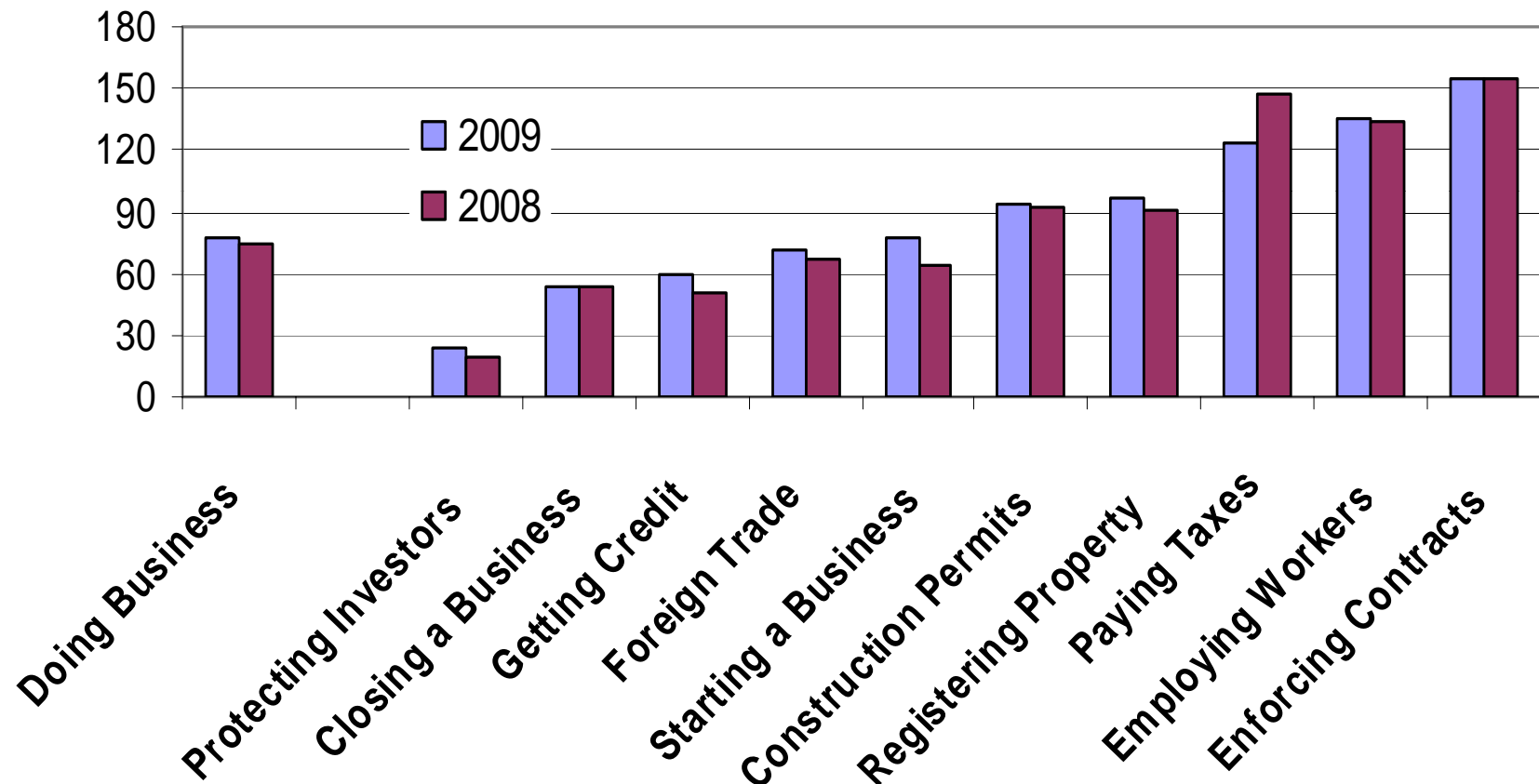
- ❑ **Bureaucracy and red tape** are no longer significant
- ❑ **Finance, innovation and labor skills** are associated with larger market share firms – depth (not access) is the issue
- ❑ **Formality** is associated with higher levels of productivity
- ❑ **Firms' ability to cope** (own power, security expenses, industrial zone, large inventory) is associated with higher productivity
- ❑ Deeper areas of **governance reform** constrains firm level growth and prevents scaling up by SMEs
- ❑ Productivity of **larger market firms** - efficiency or market power?
- ❑ **Macroeconomic stability and open markets** underpin the investment climate

Areas of Recommendation

- Removal of **infrastructure** constraints through more private sector involvement and partnerships
 - energy sector
 - transport & logistics
- Strengthened **governance** of market mechanisms
 - Contract enforcement, entry - exit, competition,
 - Legal review and regulatory streamlining
 - Provincial and district level DB type of reforms
- Increased depth and improved functioning in **labor and financial markets**
 - More skilled labor and wider range of financial products
 - More outreach by banks, more investment in labor
- **Technology adaptation** is needed through FDI & public private partnerships (PPPs) in standards, innovation, product upgrading

Doing Business Indicators

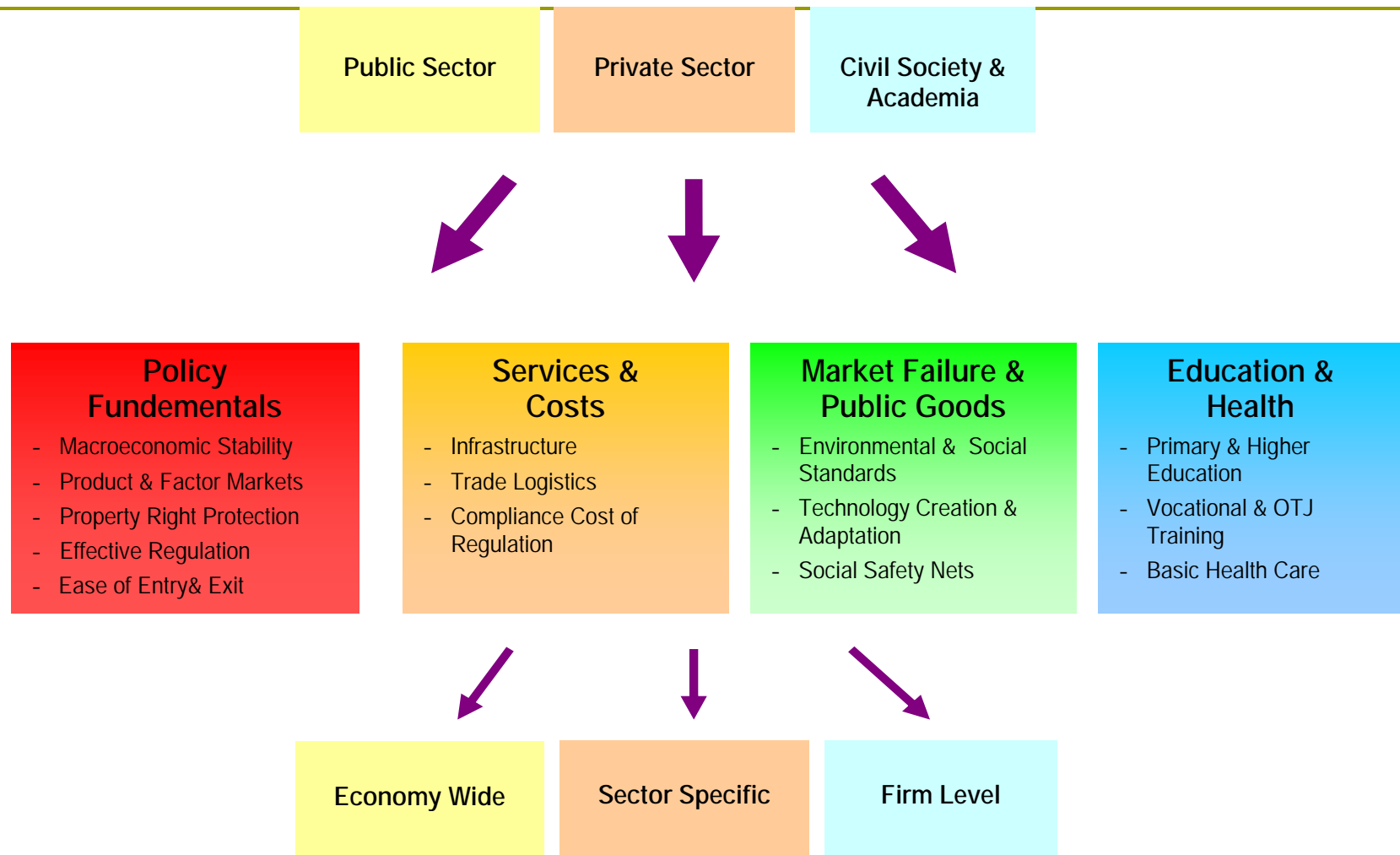
Pakistan's Global Ranking 2008-09



New Work – Exports Growth and Diversification

- Exporting – efficiency is necessary but not a sufficient condition for success.
- Proposing a Four Pronged Activity
 - Conceptual Framework for PSD and Competitiveness
 - Policy Note Series
 - Forum for Discussion and Dissemination
 - Trade / Competitiveness Intelligence Unit

PRO FORMA ANALYTICAL FRAMEWORK FOR TRADE COMPETITIVENESS



Trade Policy Note Series

- ❑ Analysis of **Pakistan's export trends**, at products, markets and competitors, to identify micro trends, constraints and opportunities in markets and products.
- ❑ **Firm level determinants** to trade, based on 2002 and 2007 Enterprise Survey .
- ❑ Changing **world market conditions** following the global financial crises, international, regional and bilateral agreements, security issues, and other exogenous factors
- ❑ Role of **trade, tariff and exchange rate policy** on export performance to help determine the policy implications on macroeconomic adjustment and trade.
- ❑ Efficacy of **export promotion**, including trade finance, programs and direct firm level support covering global experience in Asia and Latin America.
- ❑ **Cluster based approach to SMEs** including institutional reforms necessary for enhancing the pace of innovation and small firms participate in international trade.

Other Areas of For Research

- **Microfoundations of Growth**
 - Panel Data
 - Binding Constraints
- **Impact Monitoring and Evaluation**
 - Logical Framework
 - Empirical Measurement
- **Industrial Organization** (*both theoretical and empirical*)
 - Concentration of Production / Consumption
 - Market Structure
 - Firm Size and Relationship
- **Informality** - *Three Types*
 - Small firms (less than 10 workers – 20 in some cases)
 - Invisible Medium Size Firms
 - Large Firms using informal practices.
- **Business Legal and Regulatory Framework**
 - Review of Laws for Redundancy
 - Review of Binding Laws, Regulations and Cases

Contact Information

Eric Manes

Senior Economist

Finance and Private Sector Unit

South Asia Region

202 473 – 2418 (office)

202 557 – 8321 (cell)

emanes@worldbank.org