



# COMPETITIVENESS SUPPORT FUND

Linking Finance to Innovation and Competitiveness

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## National Policy Platform for Competitiveness and Economic Growth

### 3<sup>rd</sup> Meeting Report

By

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October 2009



## 1. Meeting Objectives

The 3<sup>rd</sup> meeting of the National Policy Platform (NPP) for Competitiveness and Economic Growth took place on the 26<sup>th</sup> of October, 2009 at Karachi under the Chairmanship of Mr. Shahid Javed Burki. The Platform was established by the Competitiveness Support Fund (CSF) to promote continuous dialogue amongst the various segments of academia, industry, and the government, regarding policy areas that need attention for enhancing Pakistan's competitiveness and stabilization along a course of inclusive economic growth.

The objective of the Platform is to identify the priority areas for policy research based on the needs of the private sector and the government, and to support the development of research capacity at the institutional level. Ultimately the Platform is envisioned to be a facilitating forum that will enable the formation of strong and lasting relationships both amongst the various research bodies, and also between these research bodies, the government, and the private sector. The 3<sup>rd</sup> meeting in particular placed a strong emphasis on the development of long term institutional capacity for conducting policy research in order to meet the needs of the private sector and to move towards more rigorous and fact based policy making at the government level.

## 2. Discussions

### 2.1 Work Program of the CSF

Arthur Bayhan, CEO of the CSF presented a brief overview of the objectives, activities, and achievements of the CSF since its inception in 2006. He also discussed at length the three year work program for enhancing Pakistan's competitiveness over the period 2010-2013. The CSF will perform a benchmarking exercise comparing Pakistan to Brazil and Thailand, in order to draw useful lessons for Pakistan based on the 12 pillars of competitiveness in the CSF's 3<sup>rd</sup> Annual Report. There will be a special focus on the development of a national innovation strategy to lead Pakistan towards knowledge based industrial growth. CSF is also engaging with the government to undertake regulatory, administrative, and legal reforms in improving the investment regime, and making the Board of Investment a one-stop shop for streamlining the foreign investment process. The CSF is also supporting regulatory and governance reform in a number of areas such as Special Economic Zones, Corporate Rehabilitation Act, Commercial Arbitration Act, Airport Food Processing Zones, and the setting up of an Export Credit Guarantee Agency.

The CSF has also identified the following 5 key sectors that hold growth potential in Pakistan: agriculture (including horticulture and fishery), leather, pharmaceutical, energy (oil and gas), and textiles. It will be undertaking strategic intervention programs in these areas to make these industries domestically and internationally competitive. It will also provide the government technical assistance for a number of legal, administrative, and regulatory reforms such as those in the areas of corporate rehabilitation,

dispute resolution, contract enforcement, and reducing the cost of doing business to support the industrial development of Pakistan.

The need to coordinate and synergize industrial policy development together with the supporting structural reforms was articulated by all participants at the Platform. The participants agreed that the government will need to develop a coherent economic growth strategy. It will also need to identify the appropriate public policies to support sun-rise industries and develop an apolitical restructuring mechanism for sun-set industries, while keeping a strong focus on export enhancement, employment creation, and poverty alleviation.

## 2.2 Growth and Development Challenges in Sindh and the Need for Policy Research

Naheed Shah Durrani, Special Secretary Finance to the Sindh Government presented the development strategy of the Sindh Government and indicated some areas for research that would be useful for addressing the challenges faced by the province. The Sindh Government has developed a 3 pillar strategy for increasing economic growth and addressing socio-economic disparities between the urban and rural classes. The first pillar will focus on social protection, the second on economic growth, and the third on attending to public service delivery.

The province despite its immense economic and natural resource potential faces a number of challenges such as ethnic divide, rising poverty and unemployment, stagnant industrial base, low agricultural productivity, and a range of governance and regulatory issues in the economic and social sectors. In this context the government has focused on improving the quality and access to education (particularly amongst girls), granting of state land to landless cultivators, youth skills development programs, union council based poverty reduction programs with a microfinance and entrepreneurial development components, and cash grants for women in the rural areas.

In the area of industrial policy, the government faces a number of challenges in making the industrial estates efficient, better governed, and independent from the public sector. The agriculture markets and the public sector organizations such as seeds corporations need to be gradually shifted to the private sector to get rid of inefficiencies in management. Public private partnerships (PPP) present a unique opportunity in this regard, and there is greater need for such projects in dairy, livestock, indigenous, and traditional crafts industries. Similarly in the area of energy generation and management, urban management services, education, health systems and infrastructure, PPP can be utilized to improve service delivery to the urban as well as the rural masses.

Based on the experience of the Sindh government, Ms. Durrani identified two broad areas for policy research and advocacy:

1. Developing better management and governance systems for improving the quality and access to social service delivery. This would encompass the areas of urban regulatory institutions, health, education (including technical education), and social protection programs.

2. Developing an industrial policy geared towards the development of agro-based industries, and removing the inefficiencies in the management of industrial estates and agricultural markets.

### 2.3. Suggestions for Policy Work in Light of Punjab's Experience

Khalid Mirza, Adviser to the Punjab Government gave a number of suggestions for policy work in light of his experience with the Punjab Government:

1. The need to develop sub-national accounts (GDP and its composition) to enable informed decision making in all aspects of public policy. For example in order to compute a target GDP growth rate to employ new labor force entrants and to make a dent in the unemployment rates data on elasticity of employment rate to GDP is required. This type of data and the associated numeric estimates of the responsiveness of key macroeconomic variables to policy variables do not exist at the national or provincial level.
2. The need to study the economics of crop growth for the major cash crops as well as potential cash crops to better understand Pakistan's comparative advantage in agriculture. This will allow agricultural development policy to be guided by the economic considerations as opposed to only political interests.
3. The problems of industrial development and the upgrading of firms need to be examined comprehensively. The factors that constraint the growth of Small and Medium Enterprises (SMEs) such as access to finance, contract enforcement, fiscal disincentives, need to be examined in-depth to exactly identify the policy distortions. Comparison to good practice economies which have created a business friendly environment will also be required in this regard.
4. The conditions and policies required to facilitate the formation of industrial clusters in the growing small and mid-size cities have to be identified. These clusters can act as a major driver of growth to provide jobs and support the rapidly increasing urban population.
5. The working of the bureaucracy, judicial systems, and other public service delivery systems has to be studied to improve governance and management of these organizations.
6. In the area of education policy, the lessons from recent programs such as the Learning and Educational Achievement in Punjab Schools (LEAPS) should form the basis of future research work in improving the quality and access to education in all provinces. The fundamental causes of poor student enrollment, attendance, achievement, and chronic teacher absenteeism need to be identified so that the appropriate policy responses can be devised. Similarly in the area of technical education the factors behind the successes and failure of the trainees in securing employment have to be studied to improve the outcomes of such programs.

To this list of suggestions the Chair also added the importance of addressing the issues of public finance and distribution of resources by the center amongst the provinces. In this area the legal frameworks need to be modified to enable decentralization of public finance and enable cities to become credit worthy. This shall allow them to borrow directly from the markets to meet their resource needs, thereby

reducing federal resource dependency. The Chair also stressed the need for analytical work in the area of facilitating domestic trade amongst the provinces, which could act as a major driver of growth.

#### **2.4 Research Needs for the Private Sector**

Omar Saeed, Director and Chief Operation Officer of the Servis Sales Corporation identified the following areas for research and analytical work that will be of use to the private sector:

1. Identification of the areas where the private sector has or can acquire a real competitive advantage in the global landscape, given the country's WTO obligations and various trading arrangements. This shall enable the private sector firms to make strategic decisions regarding long term investments.
2. Analysis of the factors such as logistics costs, employee productivity analysis, energy costs, and other factors that add to the cost of doing business in Pakistan. Such analysis can help the private sector focus its energy on challenges like supply chain efficiency, employee training and optimal energy solutions.
3. The impact of tax evasion by informal and small firms and on investments by formal sector firms. More generally fiscal reform to create a level playing field and ensure continuous investment by the private sector is needed.
4. A human resource needs assessment of major manufacturing and service industries and mapping the HR supply with projected demand. Organizations like TEVTA, TUSDEC and NAVTEC, spend billions on vocational training yet there is a mismatch between production and industry requirements.
5. Analysis of the impact of the weak and inefficient contract enforcement mechanisms on private sector investment and growth, together with proposals for appropriate legal and regulatory reform. Corporate rehabilitation and alternate dispute resolution mechanisms also need to be examined and reformed.
6. The impact of labor laws on the growth of private sector firms to help make a case for implementing a simplified and flexible labor code.
7. Identification of sectors especially in agro-based industries where R&D investments can jump start growth
8. Assess value addition of private versus public sector in the health and infrastructure to effectively implement PPP in these areas.

#### **2.5 Presentations by Lahore University Management Sciences (LUMS) and Institute of Public Policy (IPP)**

Shaukat Ali Brah, Dean of Suleman Dawood Business School at LUMS in his presentation to the Platform highlighted the need for developing an Energy and Environment policy research center. Such a center would employ expertise in economics, engineering, physical and environmental sciences to help implement efficient energy policies and energy solutions over the long term.

Aisha Ghaus-Pasha, Director Research at IPP outlined the work done thus far on the “Financing of Firms” study that was commissioned by CSF. The study will focus on identifying the key challenges to the flow of finance to firms, progress on the reforms already undertaken in this area, an assessment of the effectiveness of these reforms, and actionable recommendations given the status and effectiveness of previous reforms. The Chair in his remarks suggested that the study could also (1) compare the performance of public financial institutions as opposed to private financial institutions, (2) analyze the total amount of spending by SMEs financed from banking sources versus other sources, and (3) analyze enterprise to enterprise lending that is taking place in various sectors.

### 3. A Program for Policy Research

In light of the presentations and the ensuing discussion at the 3<sup>rd</sup> Meeting of the Platform, the Chair in his concluding statement proposed a list of priority policy research areas (see below) that require immediate attention for improving the state of public policy in Pakistan. With the assistance of USAID over a 3-5 year period, a four part program is envisioned for each policy area to be undertaken by 6-7 leading academic institutions. This work program will address the following issues for developing a comprehensive research agenda for each priority research area:

1. What are the key issues and policy research questions that need to be addressed?
2. For each of these issues what type of research program, outputs, and end-products will be developed?
3. Given the research agenda, what are the staffing, human resource and other assistance requirements?
4. What are the projected requirements for financial support and the time frame required by each institution to implement this program?

#### The Areas for Policy Research

1. **Social Service Delivery Systems:** The growing urban and rural poverty and the dysfunctional state of present public service delivery systems require urgent attention. Research work in this area will identify the impediments that hinder availability of quality education, health, and other urban management services. A review of existing programs accompanied by impact evaluations where possible will also help inform policy makers about the effectiveness of recent reform programs.
2. **Upgrading the Pakistani Firm:** For a country of its size and stage of development, Pakistan’s economy is heavily dominated by small and medium size establishments. Pakistan has 3.3 million economic establishments, 90 percent of which are sole proprietorships and another 2 percent are partnerships. The distribution of firms in the enterprise sector is heavily skewed towards informality. Micro-level research is required to determine the factors that act as a drag on the growth and productivity of firms. The work in this area will encompass the impact of

regulatory systems, fiscal policy, labor laws, and the associated factors that add to the cost of doing business. It will also focus on public policies to meet human resource development needs, to catalyze innovation and technological upgrading of firms, and to provide an environment conducive for development of entrepreneurship.

3. **Public Finance:** Pakistan has a very narrow tax base and the tax/GDP ratio has been declining in recent years. The provinces are heavily dependent on the center for resources as they collect only a marginal percentage of the total tax revenue directly. In this area the inefficiencies of the current public finance distribution regime needs to be examined with particular focus on development budgets. This can help make a case for devolution of major taxes to the provinces. To reduce federal resource dependency in the long term, the legal framework needs to be modified to enable cities to become credit worthy. A concrete policy proposal for making a medium size city such as Sialkot credit worthy in the next 3-5 years can serve as a test case for gradually reducing federal resource dependency.
4. **Decentralization of Policy Making:** Local governance system was implemented in Pakistan in 2002 as a result of which a number of functions were devolved from the provincial to the district level governments. Presently this system is being rolled back at the discretion of the provinces and there is an internal debate regarding the efficacy of the system. Fact based rigorous research regarding the effectiveness of decentralized governance and policy making is required to inform the debate. This will ultimately help the country decide the appropriate scope of decentralization of laws and responsibility for governance.
5. **Energy and Environment:** Pakistan currently faces an acute energy shortage with urban areas experiencing 8-12 hours of power outages per day. An energy and environment research center that brings together expertise in economics, engineering, and physical sciences is the need of the hour. Research is required to understand the drivers of demand and supply of energy, the optimal pricing of input and outputs, peak and off-peak load management, and the possibility of trading in energy. Similarly research will be required to understand the impact of energy systems on carbon emissions in the longer time horizon, and the impact of climate change on patterns of economic activity, particularly on agriculture and urbanization.
6. **Agriculture and Agro Based Industry:** There is a need to study the economics of crop growth for the major cash crops as well as potential cash crops to understand the nature of Pakistan's comparative advantage in agriculture. This shall enable agriculture and food subsidy policies to be guided by economics rather than merely politics. Also included in this category is research regarding the types of public policies to promote value addition in agro-based industries (such as dairy, livestock, meat processing), building global retail linkages for Pakistan's agro-based products, and strengthening market based information and governance systems.

7. **Industrial Development:** Pakistan has a very small and narrow industrial base that is inward looking and poorly integrated with the global economy. In recent decades, there has been a significant change in the structure of the global economy that has enabled a number of Asian economies to utilize exports as a driver of growth. The tremendous growth in trade of parts, components, and processes present a good opportunity for countries such as Pakistan that are lagging behind in industrialization. There is now a need to identify niches in global supply chains that the Pakistani firms can occupy and devise appropriate public policies to support the development of such strategic industries. Not only should such niches be identified, public policy should also indicate the support that can be provided to the private sector to develop and export the products related to them. This will require analytical work in the area of developing appropriate instruments of finance as well as strengthening legal and regulatory frameworks to assist corporate rehabilitation. Issues pertaining to the development of clusters and governance of industrial estates will also need special attention in this area.
8. **Tools for Managing the Economy:** There is an acute need to develop sub-national accounts (GDP and its composition) to enable informed decision making in all aspects of public policy. This type of data and the associated numeric estimates for elasticity responses of important macroeconomic variables to policy variables do not exist at the national or provincial level. The government also needs to develop a medium term macroeconomic framework to provide an anchor for all its medium term policies. Furthermore work is needed to identify analytical weaknesses in various government organs responsible for policy making, and to propose concrete changes in organizational practices to strengthen policy making.

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**Annex: Participants at the 3<sup>rd</sup> Meeting of NPP**

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*Chair*

Shahid Javed Burki	Institute of Public Policy (IPP)
Arthur Bayhan	CEO Competitiveness Support Fund (CSF) and Co-Chair NPP

*Academia*

<b>1</b> Aisha Ghaus-Pasha	Institute of Public Policy (IPP)
<b>2</b> Touseef Akhtar	Baluchistan University
<b>3</b> Shaukat Ali Brah	Lahore University of Management Sciences (LUMS)
<b>4</b> M. Akhtar Hai	Applied Economics Research Centre (AERC)
<b>5</b> Danishmand	International Islamic University (IIU)
<b>7</b> Niaz Ahmed Bhutto	Institute of Business and Administration (IBA) Sukkur
<b>8</b> Sarfaraz Ahmed Dhakkan	Institute of Business and Administration (IBA) Sukkur
<b>9</b> Fayaz Ahmed Rahoojo	Institute of Business and Administration (IBA) Sukkur
<b>10</b> Shahid Mir	Institute of Business and Administration (IBA) Karachi
<b>11</b> Raza Rajwani	Institute of Business and Administration (IBA) Karachi

*Government*

<b>12</b> Naheed Shah Durrani	Govt. of Sindh
<b>13</b> Sarwar Jawaid	Govt. of Baluchistan
<b>14</b> Sohail Ahmad Rajput	Ministry of Mines and Minerals Sindh
<b>15</b> Aqdas Ali Kazmi	Ministry of Industries and Production
<b>16</b> Niaz Butt	Ministry of Industries and Production
<b>17</b> Khalid Ikram	Former WB official
<b>18</b> Nazar Mahar	Ministry of Youth Affairs
<b>19</b> Riazuddin Shaikh	Sindh Technical Education & Vocational Training Authority (STEVTA)
<b>20</b> Abdul Wahid Uqaily	Sindh Technical Education & Vocational Training Authority (STEVTA)
<b>21</b> Shafique Shehzad	Pakistan Institute of Trade & Development (PITAD)
<b>22</b> Sajjad Akhtar	Pakistan Institute of Trade & Development (PITAD)
<b>23</b> Rehana Ghulam Ali	Planning and Development, Sindh
<b>24</b> Javed Ishrat	Planning and Development, Sindh

*Private Sector*

<b>25</b> Omar Saeed	Servis Sales Corporation
<b>26</b> Amin Hashwani	Hashwani Group
<b>27</b> Farrukh H Khan	Overseas Investors Chamber of Commerce & Industry (OICCI)
<b>28</b> Moin M Fudda	Center for International Private Enterprise (CIPE)
<b>29</b> Safdar Ali	Pakistan Business Council (PBC)
<b>30</b> Samir S Amir	Pakistan Business Council (PBC)
<b>31</b> Adnan Kehar	
<b>32</b> Kamran Azeem	Kashf Foundation
<b>33</b> Humayun Nabi Jan	Polygon Group



**34** Engr M.A. Jabbar

Federation of Pakistan Chamber of Commerce and Industry  
(FPCCI)

**35** Noruddin Muzaffar

Dawood Group

**36** Mohammad Anas

United Bank Limited

**37** Sarah Mazher

Global Securities

*Observers*

**38** Sarah Parvez

USAID

**39** Safdar Parvez

Asian Development Bank (ADB)