Islamic Republic of Pakistan
Information Collection Survey for Forming A Sector Program for Improving Investment Environment
Final Report

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Japan International Cooperation Agency

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Table of Contents

Abbreviation

Abbreviation	Official Name
ADB	Asian Development Bank
ADP	Automotive Development Policy
AFD	Agence Française de Developpement
AVTI	Atlas Vocational Training Institute
BBSYDP	Benazir Bhutto Shaheed Youth Development Program
BISP	Benazir Income Support Program
BMS	Bundesministerium fur wirtschaftliche Zusammenarbeit und Entwicklung
BOA	Board of Approval
BOI	Board of Investment
CBT-A	Competency Based Training and Assessment
CLICK	Competitive and Livable City of Karachi
COE	Center of Excellence
COVID-19	Coronavirus Disease 2019
CPEC	China-Pakistan Economic Corridor
DAE	Diploma of Associate Engineer
DFID	Department for International Development
DLIs	Disbursement-Linked Indicators
EC	European Commission
ECNEC	Executive Committee of the National Economic Council
EDB	Engineering Development Board
EDF	Export Development Fund
EFF	Extended Fund Facility
EIA	Environmental Impact Assessment
EODB	Ease of Doing Business
EPZ	Export Processing Zone
EPZA	Export Processing Zone Authority
EU	European Union
EXIMBP	EXIM Bank of Pakistan
FBR	Federal Board of Revenue
FDI	Foreign Direct Investment
FIEDMC	Faisalabad Industrial Estate Development & Management Company
FPCCI	The Federation of Pakistan Chambers of Commerce & Industry
GCT	Government College of Technology

GDP	Gross Domestic Product
GIZ	Deutshe Geselleschaft fuur Internationale Zusammenarbeit
ICISDD	Industries, Commerce, Investment, and Skills Development Department
IEE	Initial Environmental Examination
IFC	International Finance Corporation
IMF	International Monetary Fund
IPA	Investment Promotion Agency
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
KNIP	Karachi Neighborhood Improvement Project
KPT	Karachi Port Trust
KTDMC	Karachi Tools, Dies & Moulds Centre
MOC	Ministry of Communications
MOCT	Ministry of Commerce and Textile
MOIP	Ministry of Industry and Production
MOMA	Ministry of Maritime Affairs
MOR	Ministry of Railways
MQM	Muttahida Qaumi Movement
NAC	National Accreditation Council
NAVTEC	National Vocational Technical Education Commission
NAVTTC	National Vocational & Technical Training Commission
NCC	National Competitive Council
NHA	National Highway Authority
NIP	National Industrial Parks Development and Management Company
NSS	National Skills Strategy
NSW	National Single Window
NTP	NTP
NVQF	National Vocational Qualification Framework
OSS	One Stop Shop
OWF	One Window Facility
PAAPAM	Pakistan Association of Automotive Parts & Accessories Manufacturers
PBIT	Punjab Board of Investment and Trade
PCS	Port Communication System
PCSIR	Pakistan Council of Scientific & Industrial Research

PE	Permanent Establishment
PGG	Pakistan Goes Global
PHMA	Pakistan Hosiery Manufacturers & Exporters Association
PID	Project Information Document
PIDC	Pakistan Industrial Development Corporation
PIEDMC	Punjab Industrial Estates Development and Management Company
PIU	Project Implementation Unit
PKTI	Pakistan Knitwear Training Institute
PML-N	Pakistan Muslim League (Nawaz)
PNAC	Pakistan National Accreditation Council
PPP	Pakistan Peoples Party
PQA	Port Qasim Authority
PRGMEA	Pakistan Readymade Garments Manufacturers & Exporters Association
PRGTTI	Pakistan Readymade Garments Technical Training Institute
PRMI/BBRI	Pakistan Regulatory Modernization Initiative/ Better Business Regulatory Initiative
PRRP	Pakistan Raises Revenue Program
PSDA	Punjab Skills Development Authority
PSDF	Punjab Skills Development Fund
PSW	Pakistan National Single Window
PTI	Pakistan Tehreek-e-Insaf
PVTC	Punjab Vocational Training Council
RISE	Resilient Institutions for Sustainable Economy
SBP	State Bank of Pakistan
SDGs	Sustainable Development Goals
SDP	Skills Development Plan
SECP	Securities and Exchange Commission of Pakistan
SEPA	Sindh Environmental Protection Agency
SEZ	Special Economic Zone
SEZMC	Sindh Economic Zone Management Company
SME	Small and Medium Enterprises
SMEDA	Small and Medium Enterprises Development Authority
SOE(s)	State-Owned Enterprises
STPF	Strategic Trade Policy Framework
SRO	Statutory Regulatory Order

STEVTA	Sindh Technical Education and Vocational Training Authority
STEP	Special Terms for Economic Partnership
TEVTA	Technical Education and Vocational Training Authority
TDAP	Trade Development Authority of Pakistan
TRSP	Technical and Vocational Education and Training Reform Support Program
TVET	Technical and Vocational Education and Training
UNDP	United Nations Development Program
UNODC	United Nations Office on Drugs and Crime
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
USAID	United States Agency for International Development
WeBOC	Web Based One Custom
WB	World Bank

Chapter 1

1. Background and Objective of the Survey

1.1. Background

In 2013, the Government of Pakistan received Extended Fund Facility (hereinafter, "EEF") program support from International Monetary Fund (hereinafter, "IMF") for 3 years, due to deterioration of macro economy caused by various elements such as low GDP growth rate, doldrums in Foreign Direct Investment (hereinafter "FDI"), large fiscal deficit (8.5% against FY 2012 GDP) and accumulation of circular debt in the power sector. Thanks to that program, Pakistani economy was once recovered with actual GDP growth rate of 5.2% in 2016 (against in the order of 2% in FY2009), and with reduction of fiscal deficit and increased foreign reserves. However, macro economy has been deteriorated once again because of various factors, such as inconstant economic policy, weak taxation system, insufficient improvement in business environment, precarious financial situation of state-owned enterprises and substantial existence of underground economy. These factors have contributed to increase fiscal deficit and public debt and to decrease in foreign reserves, latter two of which were affected by currency market manipulation.

Upon this deterioration of macro economy, the new government led by Pakistan Tehreek-e-Insaf (hereinafter, "PTI"), arrived in power in 2018, requested IMF again for EFF program which resulted in the 13th EFF support for the country. This EFF program, in total amount of US$ 6 Billion and started in July 2019, requires, as its conditionality, action plans for establishing draft budget for 2020. It aims to increase revenue and spending in social security sector, introduction of market oriented foreign exchange system, proper financial policy, power sector reform with introduction of power tariff reform and restructuring of related governmental organizations aiming for improving the investment environment.

With conclusion of EFF, World Bank (hereinafter, "WB") and Asian Development Bank (hereinafter, "ADB") expressed to provide their supports for achieving the action plans under EFF program. WB support includes improvement in investment environment and human capital development, while ADB formed a program loan to support promoting trade development and power sector.

We set the main purpose of this survey to analyze and sort out current situation and issues of Pakistani economy, with regards to investment environment as well as productivity and competitiveness of Pakistani enterprises, in view of improving macroeconomic situation in Pakistan.

1.2. Purpose and Survey Area

This survey will focus on (i) picking up current situation and issues regarding business environment and productivity/competitiveness of enterprises, both of which are indispensable for improving Pakistani macro economy and (ii) support for preparing draft proposal for possible future JICA support which would enable to vitalize FDI from Japanese and overseas companies into the country. The team also supports JICA for their discussion with the Pakistani Government, based on survey outcome of the support activities of the other donners' support such as IMF, WB and ADB. The ultimate objective of this survey work is to provide materials which helps JICA to reach agreement with the relevant stakeholders on its proposal of support.

Though the targeted regions for this survey are assumed to be Islamabad, Karachi, Lahore, and Faisalabad, the other areas would be also added if necessary.

Chapter 2

2. Result of the Survey

2.1. Basic Information

2.1.1. Federal Government

(1) Political Situation

In the lower legislative house election in 2013, PTI jumped from zero seats to the opposition second party, supported by young people. The party has grown significantly due to the popularity of former Pakistani cricket leader Imran Khan and the public's expectations as a third power unrelated to corruption and hereditary affairs. The party led a major anti-government demonstration in August 2014, citing irregularities in the general election. In the lower legislative house election in July 2018, PTI, with the slogan "Naya Pakistan" (new Pakistan), emphasized its stance on promoting reform and broadened its support for the military ties. The former ruling Pakistan Muslim League Sharifs (hereinafter, "PML-N") have been well-received due to the strong economic situation. However, the administration lost its centripetal force due to the dismissal of former Prime Minister Sharif due to alleged funds. In the election, PTI, the country's first party, agreed to coalition with minority parties and secured the necessary seats for a majority, and in August 2018, Khan was designated as Prime Minister in the lower legislative house of parliament. After taking office, Khan announced an action plan on 20 priority areas, including government spending, health and education. Khan is expected to maintain good relations with China, as well as the previous administration, while keeping distance with India and the United States, taking into account the intentions of the military.

Tensions with India have continued, stemming from territorial disputes on the Kashmir region. In February 2019, an Indian fighter invaded Pakistani territory across control lines and launched an air strike. The next day, Pakistani troops shot down Indian aircraft and the tensions between the two countries grew rapidly. In August 2019, the Indian government stripped its jurisdiction over Jam Kashmir, Indian effective territory, and strengthened control of the Indian central government. In response, the Pakistani side has been violently opposing. The trade between Pakistan and India was completely suspended in August 2019 due to the deterioration of the relations between the two countries, affecting Japanese companies in Pakistan that procure raw materials and parts from India.

(2) Economy and Fiscal Situation

Pakistani real GDP growth in FY2016 / 2017 (July 2016 to June 2017) was 5.2%. The highest level in the last decade, with agriculture and services sector driving growth. Pakistani real GDP growth in FY2017 / 2018 (July 2017 to June 2018) was even higher at 5.5%. By industry, the growth of the mining industry has accelerated and the manufacturing industry has achieved high growth rates. Production of electrical appliances and transportation equipment (automobiles and motorcycles), which Japanese companies have a high market share, increased. Agriculture also continued to show high growth. On the other hand, the real GDP growth rate for the current fiscal year 2018/2019 (July 2018 to June 2019) is 3.3%, indicating a slowdown in economic growth. Agriculture was affected by poor crops such as cotton, rice and sugar cane. In the mining industry, production of textiles, foodstuffs, petroleum-related products, pharmaceuticals, chemicals, transportation equipment, and steel, etc., remained weak, although electrical appliances continued to show high growth. The reason that automobile industry did not perform is likely to be largely due to the restrictions imposed on taxpayers who purchased vehicles in early July 2018. In addition, the depreciation of the currency led to a rise in the price of imported parts and increased production costs. Pakistani economy, which had been strong until FY2017 / 2018, has turned to a difficult situation due to a large excess of imports and a decrease in foreign currency reserves.

The real growth rate of GDP in 2019/2020 would become △0.4 % based as of June announcement, reduced from government original budget plan of plus 3.3 %. Minus growth rate in the country was the first time in the past 68 years since 1951/1952.

Industry wise, agriculture: + 2.7%, manufacturing industry: - 2.6%, services: -0.6%.

- Agriculture: Production of corn, rice and wheat increased; however, April/ June production seems to decrease mainly due to locust plague.
- Manufacturing: Manufacturing operation in the country was severely damaged by lock down, production stoppage due to Coronavirus Disease 2019 (hereinafter, "COVID-19"), especially for large scale labour intensive companies, located in big cities.

According to WB forecast, GDP growth in 2019/2020 was △1.5%, worse than State Bank of Pakistan (hereafter, "SBP")'s announcement.

The government announced its forecast for GDP growth in 2020/2021 and 2021/2022 as plus 0.5% and 1.5% respectively.

Year	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20*
GDP Growth Rate (%)	4.1	4.6	5.2	5.5	3.3	-0.4

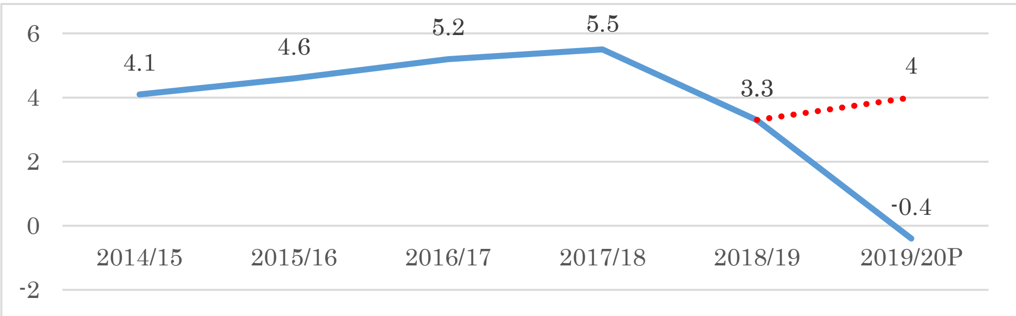


Figure 2.1.1 GDP Growth

(Source：State Bank of Pakistan)

Particularly since 2015, both the government and the private sector have increased both final consumption expenditure and total capital formation due to the increase in imports of capital goods associated with China-Pakistan Economic Corridor (hereinafter, “CPEC”) investment and the increase in individual demand as the economy recovered from the previous economic downturn. The shortfall of these GDP is covered by imports.

Pakistan rupee (PKR) has traditionally been overvalued, and the currency has been weakening for the last few years. Under these circumstances, Pakistan, which relies on imports for fuels, machinery, and chemical products, has experienced inflation due to a weak currency in and around 2019 as exports decreased and imports increased. In August 2019, the inflation rate reached double digits, which not only increased the production costs manufacturing enterprises incurred, but also hit the people's lives.

Though inflation rate increased until January 2020, it decreased due to slow down of economic activities by COVID-19 pandemic. After lock down in April / May 2020, figure calmed down to below 10%.

Table2.1.1 Gross Domestic Expenditure (GDP ratio)

		2015	2016	2017	2018	2019
Financial Consumption Expenditure		90.74%	91.33%	93.19%	94.22%	94.6%
	Government Financial Consumption Expenditure	10.97%	11.31%	11.27%	11.71%	12.0%
	Private Financial Consumption Expenditure	79.77%	80.02%	81.91%	82.50%	82.9%
Gross Capital Formation		15.71%	15.69%	16.15%	16.74%	16.0%
Exports		10.60%	9.16%	8.26%	8.79%	10%
Imports		17.05%	16.16%	17.60%	19.75%	20%
Exports-Imports		-6.45%	-7.00%	-9.34%	-10.96%	-10%

(Source: Index Mundi (OECD/World Bank))

Since 2018, import surplus has increased, and concerns have been growing over concerns about a decrease in foreign exchange reserves and a depreciation of PKR. The exchange rate of PKR against the US dollar (US$) was stable at around PKR105 for about two years from the end of 2015 to the end of 2017, but PKR depreciated rapidly thereafter. PKR reached a low of US$137 in October 2018, the lowest in the last decade. In the same month, SBP stated that the depreciation of PKR was due to the output gap in the foreign exchange market in Pakistan, that it would take some time before the effects of the policy interest rate hike taken as a countermeasure, etc. and that the preparations for intervention had been made by the government. At the same time, the IMF delegation visited Pakistan and noted that PKR were overestimated. The IMF has proposed measures to the Pakistani government, including flexible exchange rates, tight monetary policy, and higher gas and electricity rates.

In May 2019, through the EEF program, Pakistan agreed to receive a three-year loan of US$ 6 billion from the IMF. Prime Minister Imran Khan initially determined to avoid the IMF's re-assistance and sought funding from friendly countries such as China, Saudi Arabia and the United Arab Emirates. However, high inflation and the sharp depreciation of PKR over the past year have forced the IMF to support the economy, with foreign reserves shrinking to about two months of exports. In July 2019, a first loan of US$ 991.4 million was made and the second loan of US$ 452.4 million was made in December. By June 2019, the exchange rate against the US$ had fallen to around PKR160. After that, because of decrease of import and certain recovery of export during the first quarter (July-September 2019), trade deficit was reduced significantly into 2/3 of the same period in last year. And also, high level domestic policy interest has been maintained. Due to these factors, forex rate was recovered to PKR 155 level in the end of December 2019.

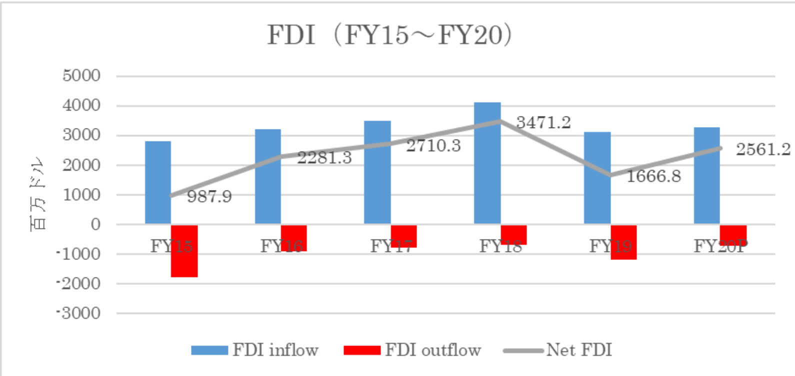
Furthermore, on 19th December, IMF first review was approved. Therefore, 328 million SDR (Special Drawing Rights) became available for Pakistan which has been attributable in steady PKR forex rate at 150-155 level in the beginning of 2020.

After that, due to market concern on COVID-19 pandemic in the country, PKR forex rate against US$ went down to stay at 160~170 level.

(Source: State Bank of Pakistan)

Figure 2.1.2 Exchange Rate

FDI to the country has been on an increasing trend over the past few years, with net FDI reaching US$ 3471.2 million in 2018. However, net FDI in 2019 was US$ 1666.8 million, a sharp decrease from the previous year. This was due to the unstable exchange rate and the depreciation of PKR, which hindered foreign companies from making investment decisions. Another factor was the slowdown in CPEC-related investment from China. The current FDI inflow in FY2020 is slightly recovering from the previous year. According to SBP, net FDI for the first four months of July to November 2019 was US$ 650 million, an increase of 228% from US$ 192 million in the same period last year. By country, Norway is the largest, followed by China.



(Source: State Bank of Pakistan)

Figure 2.1.3　FDI

By industry, investments in infrastructure, such as electricity, construction, telecommunications, and oil and gas exploration, as well as energy-related investments, top the list.

Large-scale projects invested in China's CPEC have had a significant impact.

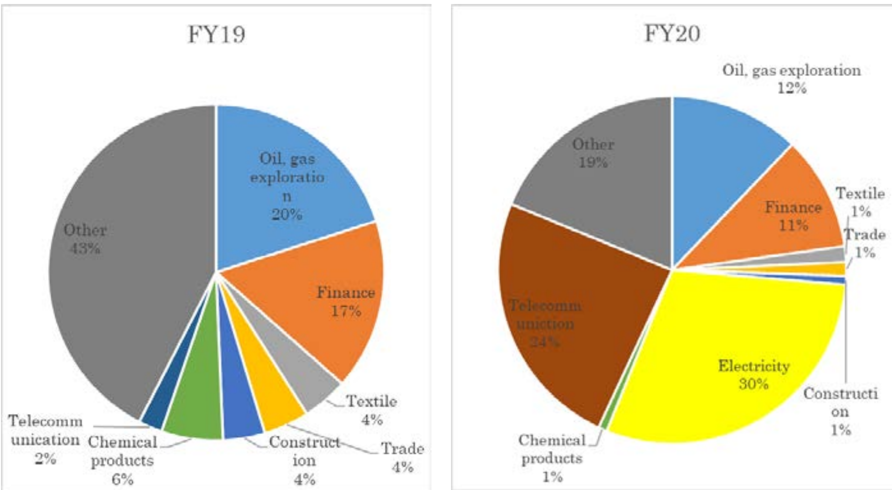


Figure 2.1.4 Ratio of FDI Inflow by Sector

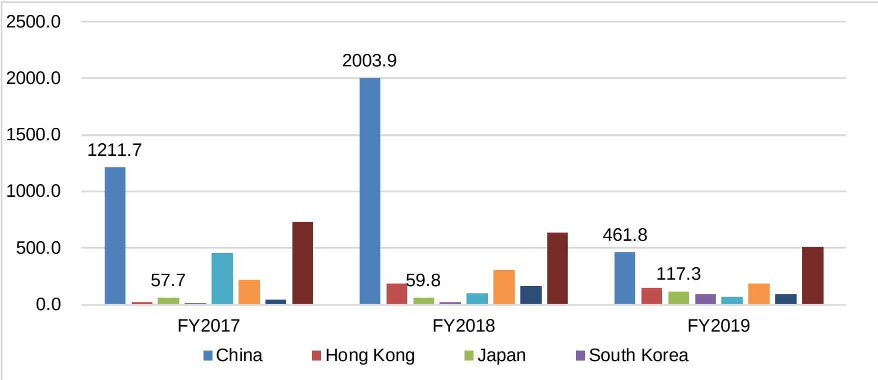
(Source: State Bank of Pakistan)

On a country basis, China is far ahead of other nations and remains at the top. However, China's FDI has declined significantly in the last fiscal year. Investment from Japan has been at a low level due to security concerns and issues in the investment business environment, but has been increasing in the past few years. As of November 2018, there were 74 Japanese companies operating in Pakistan (according to JETRO Karachi office data), and most of them entered Pakistan in the form of establishing local subsidiaries through distributors or joint ventures, mainly in the manufacturing industry. Japanese-affiliated companies have entered the field of manufacturing industries such as automobiles, textiles and foods, and service industries such as trading companies and finance. Many Japanese companies are aimed at the domestic market, and in the case of exports, the Middle East is the main market in many cases.

In FY 2020 (July 2019/ June 2020), FDI shown recovery in the first half year, partially contributed by FDI from Chine, however shown slowdown in the second half year due to deterioration of domestic economy damaged by COVID-19. Thus, the first quarter of FY2021 (July-Sept.) Figure has shown substantial decrease, by 24% from the same period in the previous year.

Table 2.1.2 FDI by Countries

Country	FY16	FY17	FY18	FY19	FY20	Jul-Sep FY21
China	1048.3	763.2	1,311.9	130.8	844.1	103.6
UK	151.7	215.4	304.6	185.0	117.3	27.9
USA	15.7	45.7	161.7	88.1	97.2	18.9
Hong Kong	187.0	123.0	183.6	171.0	190.7	38.4
Switzerland	59.5	101.7	78.5	21.2	61.8	7.3
UAE	114.6	120.1	-4.4	103.7	-44.2	-21.6
Italy	105.4	61.5	56.6	51.9	56.4	6.8
Holland	29.9	457.6	100.3	69.0	133.2	49.1
Austria	42.7	21.7	27.4	7.6	3.8	0.0
Japan	35.4	57.7	59.8	117.3	52.4	1.7
Turkey	16.9	135.6	29.8	73.8	24.9	0.9
Others	585.8	303.4	470.5	343.0	1023.6	182.7
Global (Total)	**2,392.9**	**2,406.6**	**2,780.3**	**1,362.4**	**2,561.2**	**415.7**



(Source: State Bank of Pakistan)

Figure 2.1.5 FDI by Countries

Under the Pakistan Peoples Party (hereinafter, "PPP") administration between 2008 and 2013, the low growth rate remained a range of 2-3% until 2012 / 2013. The depreciation of rupee and the expansion of the budget deficit occurred at the time, and the power shortage was a serious obstacle to economy. PML-N, which gained administrative power in May 2013, immediately applied for IMF providing EEF, and in September 2013, a loan of US$ 6.6 billion over three years was approved. In August 2016, the government completed the program, including the reduction of the budget deficit, boosting the independence of the central bank, the increase of revenue, and the reform of state-owned enterprises. After EFF began, the economy continued to expand, achieving a high real GDP growth rate of 5.3% in FY2016 / 2017. However, although EFF ended with the final review in August 2016, the speed of improvement of the budget deficit, which had been reduced by the support by EFF, slowed down, and in FY 2016 / 2017 it got worse to 5.8% against GDP.

Pakistan has structural problems such as dependence on subsidies, management difficulties of state-owned enterprises, lack of investment, and sluggish private enterprises, which cause the budget deficit. Particularly in the past few years, spending on imports for CPEC projects has increased sharply due to economic dependence on China. The provision of EEF by IMF, which was approved in May 2019, required the government to cope with a huge budget deficit, recent increasing consumption, and short-term growth.

According to the IMF review as of December 2019, the implementation of the policies for the past half year has received a certain evaluation that the policy effect toward economic stabilization has gradually appeared, and the review maintained that further improvement of revenue and cautious expenditures are required. However, as the government has been focusing on policies for economic stabilizer, economic growth has not realized yet, with a low growth rate. Now, the short-term economic outlook is rapidly getting worse due to COVID-19. The government must boost health care and social support. In this situation, IMF approved emergency funding of US$ 1,386 million.

In line with Economic Stability & Fiscal Policy under IMF program, fiscal balance started to improve and as of March 2020, fiscal deficit decreased by 4% form previous year. However, after that COVID-19 affected into lock down of the economy and urgent increase in governmental expenditure support. Thus, fiscal balance in FY July 2019/ June 2020 has deteriorated by △ 0.3% (provisional figure) from the previous year.

Table 2.1.3 Fiscal Revenue and Expenditure

		2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Government Revenue		2,983	3,638	3,931	4,447	4,936	5,228	4,901	6,272
GDP ratio		13.0%	14. 3%	14.4%	15.0%	15.5%	15.2%	12.7%	15%
	Revenue from Tax	2,200	2,565	3,018	3,660	3,969	4,467	4,474	4,747
	Federation	2,049	2,375	2,812	3,377	3,647	4,066	4,072	4,334
	Province	151	190	206	283	322	401	402	413
	Others	783	1,073	913	787	967	761	427	1,524
Government Expenditure		4,816	5,027	5,388	5,796	6,801	7,488	8,345	9,735
GDP ratio		21.0%	19.8%	19.7%	19.6%	21.3%	21.8%	21.6%	23.3%
	Current Expenditure	3,660	4,005	4,425	4,694	5,198	5,854	7,104	8,532
	Development Expenditure	1,140	1,237	1,141	1,314	1,681	1,622	1,219	1,203
	Statistical Discrepancy	16	-215	-178	-212	-78	12	22	48
Fiscal Revenue and Expenditure		-1,833	-1,389	-1,457	-1,349	-1,865	-2,260	-3,444	-3,540
GDP ratio		-8.0%	-5.5%	-5.3%	-4.6%	-5.8%	-6.6%	-8.9%	-8.6%
Monetary Financing		-1,833	-1,389	-1,457	-1,349	-1,865	-2,260	-3,444	-3,601
	Overseas	-2	512	181	370	541	785	417	895
	Domestic	1,836	877	1,276	979	1,322	1,475	3,028	2,705

(Source: Ministry of Finance)

With the spread of COVID-19, the Government of Pakistan has set out a policy to mitigate the impact on the economy. According to the Pakistani government, the cumulative number of people infected with COVID-19 as of October 2020 has exceeded 300,000, and the cumulative number of deaths is close to 7,000.

Table 2.1.2 Government Impact Mitigation Measures Related to COVID-19

Decision Date	Description
26th March, 2020	Pakistan is in negotiation with the IMF to seek additional US$ 1.4 billion fast-track and upfront payment package to fight of COVID-19.
30th March, 2020	PKR 200 billion of cash assistance for the daily wagers working in the formal industrial sector and who had been laid off as a result of COVID-19 outbreak.
30th March, 2020	PKR 50 billion for Utility Stores Corporation to provide essential food items to the vulnerable section of the society at subsidized rates.
30th March, 2020	The Government of Pakistan has approved the fiscal stimulus package of PKR 1.2 trillion and Supplementary Grant of PKR 100 billion for the "Residual/Emergency Relief Fund" in relation to provision of funds for mitigating the effect of COVID-19 for the impacted population.
3rd April, 2020	The Government of Pakistan announced a special incentive package for construction industry.
6th April, 2020	Power Division has reportedly prepared power tariff freezing for three months aimed at minimizing financial burden on the COVID-19 virus-hit consumers, estimated financial impact of which will be PKR 381 billion.
10th April, 2020	The Economic Coordination Committee of the Cabinet has approved the deferment of monthly and quarterly fuel adjustments in the electricity bills for power consumers for the next three months (till June 2020) under the government relief package.
10th April, 2020	The ADB has repurposed US$ 50 million from Pakistan's National Disaster Risk Management Fund (NDRMF) to support the government of Pakistan's preventive and response efforts to fight the outbreak of the COVID-19 in the country.

(Source: KPMG)

(3) Industries

According to Pakistan Bureau of Statistics, the GDP share of each sector was 18.53% for the agricultural sector, 20.27% for the industrial sector and 61.21% for the service sector in FY 2019. The agricultural sector has been declining from 22.6% of 2009, and the service sector has been increasing from 56.6% of 2008, while the GDP share of each sector has not changed significantly. As for the agricultural sector, the main products are sugar cane, wheat, rice, corn, cotton. Rice export is the fourth largest in the world (as of 2017), and cotton production is the fourth largest in the world (as of 2016). As for the industrial sector, Pakistani export is supported by the textile industry, which accounted for 56.0% of the value of major exports in 2018, amounting to

US$ 13,565 million. In addition to the textile industry, there is also an agglomeration of the automobile-related industries, and the government is promoting domestic production of automobiles by attracting new foreign automakers. In the service sector, the proportions of wholesale and retail businesses are high. In recent years, the IT industry has been promoted, and the government set up the National Incubation Center in 2016 as the domestic largest technology incubation center, aiming to incubate unicorns from Pakistan. At the beginning of fiscal year 2019, the government set growth targets at 3.8% for the agricultural sector, 7.6% for the industrial sector and 6.5% for the service sector. The targets were not achieved, and there were large deviations from them, especially in the industrial sector. This is because of negative growth in each sector; the large-scale manufacturing (10 or more employees) saw a 2.0% drop, the coal industry saw a 25.4% drop, and the steel industry saw a 10.3% drop. However, when looking at the Pakistani economy, it is important to note that the GDP statistics released by the government cannot reflect all of the country's economy. The uncaptured economy is called the "Undocumented Economy," and some say its size is comparable to the government's announced GDP.

(4) COVID-19 Effect on Corporate Production Activities

In Year 2020, due to expansion of COVID-19 contagion, lock down was conducted all over the country during the month of April and May, after that manufacturers gradually resumed their operation from June. As expansion of contagion calmed down during summer, domestic consumption has shown steady recovery in reflection to April/May lock down. Sales of main Japanese manufacturers also started to increase as well. However, real recovery would not be easily projected having concern with second wave of pandemic in the end of 2020 through 2021.

The followings are brief comments and information obtained from major Japanese manufacturers about their operations under COVID-19.

1) Company A (Apparel Zipper):

Japanese management staff returned to Japan in April, and the company has been continuing its operation by remote management for more than 6 months.

The company was forced to lock down on 20th March then resumed its operation on 12th May and production from 19th May. 80% of orders has come back from its local apparel clients, therefor the company currently maintains 80% of its production capacity with 3 shifts.

CEO of the company foresees apparel industry after COVID-19 would shrink substantially. According to him, worldwide apparel production is in the situation of 40% over supply from real demand and this 40% is disposed as outlet goods, donations to under-developing countries or merely disposed as junks. Even after COVID-19 pandemic ends, this 40% would be obliged to curtail due to worldwide regulation for CO_2 emissions. On the other hand, brand holders key words are now ‘more speedy’ and ‘more cheaper’ , which trend would give a favor to Pakistan apparel export industry.

2) Company B (4 Wheel Automotive Manufacturer):

Under COVID-19, resumed its operation from June after 2 months lock down. Since then, the sales have been recovering as economic activities resumed in all over the country.

Accordingly, the company also accelerates its production capacity. On the other hand, second wave of COVID-19 pandemic and second lock down is concerned, so it is rather difficult to forecast year 2021.

3) Company C (2 Wheel Auto Bike Manufacturer):

In Pakistan, manufacturers resumed their operation from end of May/ June. Although CEO had anticipated stagnation of domestic auto bike market would continue for certain period, consumers demand has been recovering rapidly. This may be attributable to the lock down in March/April.

The company now takes back to normal production base, yet enough to fulfil current orders.

4) Company D (4 Wheel Automotive Manufacturer):

The company operation stopped during the end of March to mid of May due to lock down in Pakistan. At that time, no single pickup truck- the main product- was sold and withdrawal from Pakistan market was once discussed. However, the management dared to expand the SUV production line and managed to start the sale of 2 types of SUV in August. Fortunately, SUV sales becomes busy with back log of 2,200 units. The company’s current production capacity of SUV is only 300 units per month, so it plans to make it double from January 2021.

The management is impressed by strong appetite of Pakistan consumers for this kind of high priced commodity (SUV), which is more than PKR 4 million per unit and by potentiality of Pakistan market.

2.1.2. Sindh

Sindh is located in the southern part of Pakistan and consists of 7 divisions and 29 districts. The provincial capital is Karachi, which has developed as a commercial city due to the closeness to the sea. The state's population is about 47 million (2017) (Karachi: about 16.05 million).

(1) Political Situation

From the 2013 elections, the PPP maintained its maximum seats in parliament in the 2018 elections despite a significant drop in turnout. The second party is PTI, which is the ruling party of Congress. Since 2016, PPP's Said Murad Alisha has served as the governor. In Sindh, the ruling party of the federal and the provincial government are different. In addition, the ruling party of the local council of Karachi is the Muttahida Qaumi Movement (hereinafter, “MQM”). In the federal government, MQM forms a coalition party with PTI. Such difficulty of policy coordination among the federal, provincial and local governments is noticeable in the political system of Sindh.

(2) Industries

Sindh has the second largest economy in Pakistan after Punjab. The economy of Sindh is affected by the economy of Karachi, the center of the economic activity of the province. Blessed with coastal access, Sindh’s economy is very diverse, from heavy industry and finance to large-scale agricultural bases. By sector, the manufacturing industry has a high share, accounting for just below 50% of the state's GDP. Manufacturing includes automobiles, mechanical products, cement, plastics and various other products. Agriculture and services account for more than 20% respectively. Agriculture is also an important industry in the state, and cotton, rice, wheat, sugarcane, bananas, and mangoes are important crops. Resources such as natural gas are also produced in Sindh.

2.1.3. Punjab

It is composed of 9 divisions and 36 districts. The provincial capital is Lahore. The population is 110 million (2017), the largest in Pakistan. Punjab has the largest area in Pakistan and has a comparative advantage in agriculture. Wheat, rice, and cotton are important products.

(1) Political Situation

In 2013, PML-N, which won far more than the majority, 313 seats; by contrast, PTI had only 30 seats. In 2018, PTI became the ruling party with the largest seats. Usman Buzde was nominated as PTI's candidate for the prime minister of Punjab by the party leader and the federal Prime Minister Imran Khan, and has served as the state's prime minister since 2018.

According to the interview in the field survey, Pakistani bureaucrats have a high proportion of Punjab graduates, and those from Punjab traditionally occupy a strong position within the government. Compared to other states, Punjab is economically rich, has a high level of education, and has a population of nearly 50% of the total Pakistan. In these circumstances, it is assumed that the current political system of the province has a good relationship with the federal government and the administrative organization is relatively strong.

(2) Industries

Punjab has the largest economy in Pakistan. Despite being inland, Punjab is the most industrialized province in Pakistan, along with Sindh. The manufacturing industry covers textiles, sports equipment, heavy equipment, electrical appliances, surgical instruments, vehicles, automobile parts, metals, sugar factories, aircraft, cement, agricultural machinery, processed foods, and so on. Extensive irrigation also makes Punjab a rich agricultural area despite the tropical climate. The canal irrigation system established during the British rule was the largest in the world, which has enabled the largest wheat and cotton production in the country. These are cash crops that greatly contribute to the national revenue. Mineral resources such as coal, iron and natural gas are also produced in Punjab.

2.1.4. Legal Framework and Administrative System and Organization

(1) Legal Framework

Pakistan was a country of British India until independence in 1947, so its legal system is based on the British common law. Pakistan is also an Islamic society, where Muslims make up more than 95% of the population, and there is Sharia law (Islamic religion law). A federal Sharia court has also been established, which has the power to determine whether the law violates Islamic orders. As mentioned above, Pakistan has adopted the federal system, so both the National Assembly and the Provincial Assembly have the authority to make laws. Legal federal and provincial authority and jurisdiction are governed by the Constitution.

Regarding foreign investment, Pakistan regulates foreign investment under the “Foreign Private Investment (Promotion and Protection) Act” (1976) and the “Future and Protection of Economic Reforms Act” (1972). The legal framework for foreign investment is subject to change at any time according to the investment policies of the Board of Investment (hereinafter, “BOI”). Pakistan does not have many restrictions on foreign capital investment, and 100% foreign capital is allowed in all sectors. There are no requirements for industry, geography, or scale, and it is possible to start a business without government permission[1]. Table 2.1.3 shows the main laws related to industry and investment.

Table 2.1.3 Main Laws related to Industry and Investment

Type	Law
Company Law	Company Ordinance, 1984 Company Rule, 1985
Tax Law	[Company and Individual Income Tax] Income Tax Ordinance, 2001 Income Tax Rules, 2002

[1] Government approval is required for the categories of weapons and ammunition, explosives, radioactive materials, securities printing and banknote printing, and coin casting for national security and religious reasons. For alcoholic beverages, manufacturing facilities cannot be constructed.

	Statutory Regulatory Orders Finance Acts/Ordinances [Sales Tax] Sales Tax Act, 1990 [Federal Excise] Federal Excise Act, 2005
Labor Law	[Manufacturing Industry] Factories Act, 1934 [Other than Manufacturing Industry] West Pakistan Shops and Establishments Ordinance, 1969 West Pakistan Industrial and Commercial Employment (Standing Orders) Ordinance, 1968

(Source: Tokyo Consulting Firm, JETRO, etc.)

(2) Administrative System and Organization

The Pakistan Constitution of 1973 stipulates a federal assembly system with the President as head of state and the Prime Minister as head of government. The National Assembly is composed of the Lower Legislative House and Senate of Pakistan (Lower House). With the 18th constitutional amendment, the president's authority has been greatly reduced, and it can be said to be symbolic and ceremonial. The president is elected by indirect elections by the Lower Legislative House. The head of the ministries is the Prime Minister, who is elected by a nomination vote in the Lower House.

Pakistani administrative divisions are divided into four provinces (Balochistan, Khyber Pakhtunkhwa, Punjab, and Sindh) and one federal territory (Islamabad metropolitan area). Pakistani effective territory in Kashmir is divided into two administrative regions (Azad Kashmir and Gilgit-Baltistan). Azad Kashmir is not constitutionally part of Pakistan because the Kashmir conflict has not been resolved.

The legal authority and jurisdiction of the federal and provincial governments are stipulated in the Constitution. In the past, the federal jurisdiction (Federal Legislative List) and federal and provincial multi-tiered legislation (Concurrent Legislative List) [2] were stipulated, and the remaining matters [3] were placed under the jurisdiction of the provinces. With the 18th Amendment to the Constitution in 2010, all matters except those listed in Federal Legislative List are under the jurisdiction of the provinces. The 18th constitutional amendment provided the provinces with financial and administrative independence, and the jurisdiction over health care, education, housing, social welfare, water, and sanitation issues were also delegated to each province.

[2] There were 48 items, such as civil law, criminal law, population planning, social welfare, and worker welfare.
[3] Security maintenance (police), land law, local autonomy, and so on.

Table 2.1.4 Federal Legislative List

Part 1	1. The defense of the Federation or any part thereof in peace or war; the military, naval and air forces of the Federation and any other armed forces raised or maintained by the Federation; any armed forces which are not forces of the Federation but are attached to or operating with any of the Armed Forces of the Federation including civil armed forces; Federal Intelligence Bureau; preventive detention for reasons of State connected with defense, external affairs, or the security of Pakistan o rany part thereof; person subjected to such detention; industries declared by Federal law to be necessary for the purpose of defense or for the prosecution of war. 2. Military, naval and air force works; local self- government in cantonment areas, the constitution and powers within such areas of cantonment authorities, the regulation of house accommodation in such areas, and the delimitation of such areas. 3. External affairs; the implementing of treaties and agreements, including educational and cultural pacts and agreements, with other countries; extradition, including the surrender of criminals and accused persons to Governments outside Pakistan. 4. Nationality, citizenship and naturalization. 5. Migration from or into, or settlement in, a Province or the Federal Capital. 6. Admission into, and emigration and expulsion from, Pakistan including in relation thereto the regulation of the movements in Pakistan of persons not domiciled in Pakistan; pilgrimages to places beyond Pakistan. 7. Posts and telegraphs, including telephones, wireless, broadcasting and other like forms of communications; Post Office Saving Bank. 8. Currency, coinage and legal tender. 9. Foreign exchange; cheques, bills of exchange, promissory notes and other like instruments. 10. Public debt of the Federation, including the borrowing of money on the security of the Federal Consolidated Fund; foreign loans and foreign aid. 11. Federal Public Services and Federal Public Service Commission. 12. Federal Pensions, that is to say, pensions payable by the Federation or out of the Federal Consolidated Fund. 13. Federal Ombudsmen. 14. Administrative Courts and Tribunals for Federal subjects. 15. Libraries, museums, and similar institutions controlled or financed by the Federation. 16. Federal agencies and institutes for the following purposes, that is to say, for research, for professional or technical training, or for the promotion of special studies. 17. Education as respects Pakistani students in foreign countries and foreign students in Pakistan. 18. Nuclear energy, including:- (a) Mineral resources necessary for the generation of nuclear energy; (b) The production of nuclear fuels and the generation and use of nuclear energy, and (c) Ionizing radiations; and

	(d) Boilers. 19. Port quarantine, seamen's and marine hospitals and hospitals connected with port quarantine. 20. Maritime shipping and navigation, including shipping and navigation on tidal waters; Admiralty jurisdiction. 22. Aircraft and air navigation; the provision of aerodromes; regulation and organization of air traffic and of aerodromes. 23. Lighthouses, including lightships, beacons and other provisions for the safety of shipping and aircraft. 24. Carriage of passengers and goods by sea or by air. 25. Copyright, inventions, designs, trademarks and merchandise marks. 26. Opium so far as regards sale for export. 27. Import and export across customs frontiers as deemed by the Federal Government, inter-provincial trade and commerce, trade and commerce with foreign countries; standard of quality of goods to be exported out of Pakistan. 28. State Bank of Pakistan; banking, that is to say, the conduct of banking business by corporations other than corporations owned or controlled by a Province and carrying on business only within that Province. 29. The law of insurance, except as respects insurance undertaken by a Province, and the regulation of the conduct of insurance business, except as respects business undertaken by a Province, Government insurance, except so far as undertaken by a Province by virtue of any matter within the legislative competence of the Provincial Assembly. 30. Stock exchanges and future markets with objects and business not confined to one Province. 31. Corporations, that is to say, the incorporation, regulation and winding- up of trading corporations, including banking, insurance and financial corporations, but not including corporations owned or controlled by a Province and carrying on business only within that Province, or cooperative societies, and of corporations, whether trading or not, with objects not confined to a Province, but not including universities. 32. International treaties, conventions and agreements and International arbitration. 34. National highways and strategic roads. 35. Federal surveys including geological surveys and Federal meteorological organizations. 36. Fishing and fisheries beyond territorial waters. 37. Works, lands and buildings vested in, or in the possession of Government for the purposes of the Federation (not being military, naval or air force works), but, as regards property situate in a Province, subject always to Provincial legislation, save in so far as Federal law otherwise provides. 39. Establishment of standards of weights and measures. 41. Elections to the office of President, to the National Assembly, the Senate and the Provincial Assemblies; Chief Election Commissioner and Election Commissions. 42. The salaries, allowances and privileges of the President, Speaker and Deputy Speaker of the National Assembly, Chairman and Deputy Chairman of the Senate, Prime

	Minister, Federal Minister, Ministers of State, the salaries, allowances and privileges of the members of the Senate and the National Assembly, and the punishment of persons who refuse to give evidence or produce documents before committees thereof. 43. Duties of customs, including export duties. 44. Duties of exercise, including duties on salt, but not including duties on alcoholic liquors, opium and other narcotics. 47. Taxes on income other than agricultural income; 48. Taxes on corporations. 49. Taxes on the sales and purchases of goods imported, exported, produced, manufactured or consumed, except sales tax on services. 50. Taxes on the capital value of the assets, not including taxes on immovable property. 51. Taxes on mineral oil, natural gas and minerals for use in generation of nuclear energy. 52. Taxes and duties on the production capacity of any plant, machinery, undertaking, establishment or installation in lieu of any one or more of them. 53. Terminal taxes on goods or passengers carried by railway, sea or air; taxes on their fares and freights. 54. Fees in respect of any of the matters in this Part, but not including fees taken in any court. 55. Jurisdiction and powers of all courts, except the Supreme Court, with respect to any of the matters in this list and, to such extent as is expressly authorized by or under the Constitution, the enlargement of the jurisdiction of the Supreme Court, and the conferring thereon of supplemental powers. 56. Offences against laws with respect to any of the matters in this Part. 57. Inquiries and statistics for the purposes of any of the matters in this Part. 58. Matters which under the Constitution are within the legislative competence of Majlis-e-Shoora (Parliament) or relate to the Federation. 59. Matters incidental or ancillary to any matter enumerated in this Part.
Part 2	1. Railways. 2. Mineral oil and natural gas; liquids and substances declared by Federal law to be dangerously inflammable. 3. Development of industries, where development under Federal control is declared by Federal law to be expedient in the public interest; institutions, establishments, bodies and corporations administered or managed by the Federal Government immediately before the commencing day, including the Pakistan Water and Power Development Authority and the Pakistan Industrial Development Corporation; all undertakings, projects and schemes of such institutions, establishments, bodies and corporations, industries, projects and undertakings owned wholly or partially by the Federation or by a corporation set up by the Federation. 4. Electricity. 5. Major ports, that is to say, the declaration and delimitation of such ports, and the constitution and powers of port authorities the rein. 6. All regulatory authorities established under a Federal law. 7. National planning and national economic coordination including planning and

	coordination of scientific and technological research. 8. Supervision and management of public debt. 9. Census. 10. Extension of the powers and jurisdiction of members of a police force belonging to any Province to any area in another Province, but not so as to enable the police of one Province to exercise powers and jurisdiction in another Province without the consent of the Government of that Province; extension of the powers and jurisdiction of a police force belonging to any Province to railway areas outside that Province. 11. Legal, medical and other professions. 12. Standards in institutions for higher education and research, scientific and technical institutions. 13. Inter-provincial matters and co-ordination. 13. Council of Common Interests. 14. Fees in respect of any of the matters in this Part but not including fees taken in any court. 15. Offences against laws with respect to any of the matters in this Part. 16. Inquiries and statistics for the purposes of any of the matters in this Part. 17. Matters incidental or ancillary to any matter enumerated in this Part.

(Source: Federal Legislative List, Constitution of Pakistan)

In the fields related to industry and investment, for example, legislation in fields such as entry, currency, exchange, trade, banking and taxation is the exclusive right of the federation. However, labor matters are set by the provinces. In the area of economic infrastructure, such as railways, ports, aviation, electricity and communications are under the jurisdiction of the federation. Important roads are under national jurisdiction. The constitution stipulates the establishment of the National Economic Council, which is established by the president and chaired by the prime minister. The National Economic Council advises the federal and provincial governments and formulates financial, commercial, social and economic development policies for the entire country. Although provincial legislative powers have been strengthened by constitutional amendments, important areas of legislation remain in federal jurisdiction. In Pakistan, most of the tax revenues except Provincial Excise Tax, Property Tax are concentrated in the federal government, and the financial base of the provinces is weak, and therefore, the authority and capacity of the provinces are considered to be limited.

BOI at the federal level, Punjab Board of Investment and Trade (hereinafter, “PBIT”) and the Investment Department in Sindh at the state level are responsible for investment promotion. They are responsible for formulating and implementing investment promotion policies at the federal and provincial level, but in Pakistan, due to the lack of regulations on foreign investment, the authority and role of investment promotion agencies in both the federal and provincial governments are limited. Therefore, although the role that an investment promotion institution should originally have is the coordination of various investment-related authorities and roles of relevant ministries, such a coordination function is not clearly defined in Pakistan. Promotional activities are considered to be carried out in cooperation with federal and state investment promotion agencies even now.

(For federal and state jurisdiction and functions in each field, refer to the following table.)

Table 2.1.5 Main Government Agencies related to Industry and Investment

Area	Federation	Province
Overall Investment	✓ Prime Minister's Office ➢ Board of Investment (BOI) (role･function) • Formulate federal investment promotion policy • Approve legal framework setting and develop plans for industrial parks (Special Economic Zone (SEZ), and so on) • Improve federal-level Ease of Doing Business (EODB) • Coordination between federal ministries, state investment promotion agencies and provincial governments • Provide investor services (establishment of branch office･representative office, online reception of visa･NOC, and so on) • Federal-level promotional activities	**【Punjab】** ✓ Punjab Board of Investment and Trade (PBIT) **【Sindh】** ✓ Investment Department, Government of Sindh (role･function) • Develop state-level investment promotion policy • Development plans and operation of industrial parks (SEZ, and so on) • Improve state-level EODB • Coordination between federal ministries (BOI and other ministries) and provincial governments • Provide investor services • State-level promotional activities
Foreign Exchange	✓ State Bank of Pakistan (SBP)	-
Revenue and Tax	✓ Federal Board of Revenue (FBR)	**【Punjab】** ✓ Sindh Revenue Board **【Sindh】** ✓ Punjab Revenue Authority

Commerce and Trade	✓ Ministry of Commerce and Textile Industry ➢ Trade Development Authority of Pakistan (TDAP)	**【Punjab】** ✓ Industries, Commerce, Investment and Skills Development Department, Government of Punjab **【Sindh】** ✓ Industries and Commerce Department, Government of Sindh
Industrial Development	✓ Ministry of Industry and Production ➢ Engineering Development Board (EDB) **＜Textile＞** ✓ Ministry of Commerce and Textile Industry ➢ Textile Division, Ministry of Commerce & Textile Industry	**【Punjab】** ✓ Industries, Commerce, Investment and Skills Development Department, Government of Punjab **【Sindh】** ✓ Industries and Commerce Department, Government of Sindh
Industrial Park	**＜Industrial Estate＞** ✓ Ministry of Industry and Production ➢ National Industrial Parks Development and Management Company (NIP) **＜Special Economic Zone: SEZ＞** ✓ Board of Investment: BOI Remarks： ✓ Board of Approval (BOA) approves SEZ development plans ✓ BOI is in charge of BOA's office function **＜Export Processing Zones: EPZ＞** ✓ Ministries of Industries and Production ➢ Export Processing Zone Authority (EPZA)	**【Punjab】** ✓ Industries, Commerce, Investment and Skills Development Department, Government of Punjab ✓ Punjab Board of Investment and Trade: PBIT ✧ SEZ Authority (under PBIT) ✓ Faisalabad Industrial Estate and Management Company (FIEDMIC) (SEZ Developer) ✓ Punjab Industrial Estate and Management Company (PIEDMIC) (Industrial Estate) 【Other relevant Organizations】 [Construction] Punjab Land Records Authority (PLRA)、Traffic Engineering and Planning Agency (TEPA)、Water and Sanitation Agency (WASA) [Environment] Sindh Environmental Protection Agency (SEPA) under the Environment Climate Change &Coastal Development Department, Government of Sindh.

		【Sindh】
		✓ Industries and Commerce Department, Government of Sindh
		    ✓ Sindh Industrial and Trading Estate Ltd. (Industrial Estate)
		✓ Investment Department, Government of Sindh
		    ➢ SEZ Authority (under Investment Department) (SEZMC; in charge of SEZ Authority's office function)
		    ✓ Sindh Economic Zones Management Company: SEZMC (SEZ Developer)
		【Other Relevant Organizations】
		[Construction] Sindh Building Control Authority (SBCA)
		[Environment] Environment Protection Department
		
		Remarks：
		✓ Each provincial SEZ Authority approves SEZ development plans
		✓ Each SEZ's Committees deal with each SEZ's issues

(Source: The survey team)

2.1.5. Policy

The following is an overview of the development policy, industrial promotion policy, and investment promotion policy in the federal, Sindh and Punjab government. At the federal level, BOI is in charge of the policy on investment promotion, and the Ministry of Industry and Production (hereinafter, “MOIP”) or the Ministry of Commerce and Textile Industry (hereinafter, “MOCT”) is in charge of the policy on industrial promotion. However, cooperation and coordination between ministries and agencies are generally insufficient in the policy formulation process, and comprehensive policy formulation including investment and industry has not been reached. Based on the results of the interviews, the policies and frameworks of Pakistan as a whole are developed at the federal level, while the concrete measures are formulated at the provincial level. In addition, there is a difference of policy development level between provinces. In Punjab, there are provisional policies that indicates industrial promotion and investment promotion; however, in Sindh, there is no such policies.

(1) The Federal Government

1) Development Policy

The Federal Government launched its “Vision 2025” in 2014 and set a medium-to long-term growth strategy based on the following seven pillars and 25 goals.

1. Putting People First - Developing Human and Social Capital
2. Achieving Sustained, Indigenous and Inclusive Growth
3. Democratic Governance, Institutional Reform & Modernization of the Public Sector
4. Energy, Water and Food Security
5. Private Sector and Entrepreneurship Led Growth
6. Developing a Competitive Knowledge Economy through Value Addition
7. Modernizing Transportation Infrastructure & Greater Regional Connectivity

2) Industrial Promotion Policy

Although there is a growth strategy, an industrial promotion policy has not been formulated in Pakistan. According to the interview with MOIP, such policy-making function might be strengthened when the integration between BOI, MOIP, and MOCT is realized.

【Promotion Policies by each sector】

An overview of the promotion measures in the textile industry, which is the main industry of Pakistan, and the automobile industry, which is the main sector for Japanese companies, will be shown. It should be noted that promotion policies are formulated only for these two sectors.

① Textile

Textile Policy is issued almost every five years. According to an interview with the MOCT Textile Division, a forthcoming Textile Policy is being formulating. The new policy will focus on improving the competitiveness of Pakistani Small and Medium Enterprises (hereinafter, “SME(s)”). It seems that the promotion of the local textile industry is prioritized rather than actively attracting investment in the textile field. Actually, the incentives for Japanese companies to invest in the textile field are just to use cheap raw materials such as cotton and a low labor cost, and GSP (Generalized System of Preferences) plus.

The Textile Policy 2014-2019 drafted by Textile Division of MOCT (formerly the Ministry of Textile Industry), describes the contents of support for the textile industry.

Table 2.1.6 Textile Promotion

	Overview
Drawback of Local Taxes and Levies	Regarding the portion where the FOB export value of textile product exporters increased by more than 10% from the previous year, the following ratios (clothing: 4%, made up: 2%, processed fabric: 1%) were applied to local tax and surcharge refund.
Easy Finance	Lowering the mark-up rate of the central bank's export refinancing scheme Providing Long Term Financing Facility for 3 to 10 years for investment in gradual improvement of technology
Sales Tax Regime	Introducing a quick refund system and building a fast track channel for manufacturers and exporters
Tariff on Machinery Import	Duty free import of machinery
Vocational Training	Providing a new vocational training programs through the Public Sector Development Program

(Source: Textile Policy 2014-2019)

② Automobile

The promotion policy of the automobile industry in Pakistan is shown in Automotive Development Policy 2016-2021 (hereinafter, “ADP 2016”) by MOIP and the Industrial Development Board (hereinafter, “EDB”). In the five-year plan, the goal is to increase the domestic production of automobiles to 350,000 by 2021. Although the number of vehicle manufacturers has increased, the number of suppliers is extremely small compared to other countries.

Since 2006, Pakistani policy of promoting the automobile industry has imposed a high tariff rate to completed vehicles, lower the tariff rates on parts and raw materials, and promote domestic production. In addition, assembly parts with a track record of domestic production by Pakistani domestic manufacturers are said to be “localized assembly parts”, and are subject to higher tariffs than "un-localized assembly parts" which have no track record of localization.

In ADP2016, new entrants (category A) will be able to import assembly parts for five years at a tariff rate 20% lower than existing manufacturers. Also, the automaker (category B) that resumes production will receive the same preferential treatment for three years. Since most Pakistani cars are made up of assembly parts, the tariff rates will directly affect the selling price, and existing manufacturers will have a significant handicap in competition.

Table 2.1.7 Tariff Rates on Cars by Each Category

	Raw Materials	Components	Assembly Parts	Un-localized Assembly Parts	Localized Assembly Parts	Completed Cars	Other Benefits
Existing Manufacturers	1%	10%	20%	30%	45%	50-100%	-
Category A	1%	10%	20%	10% (5 years)	25% (5 years)	50% (Limited to 100 cars)	Tax-free import of Machinery (Only Once)
Category B	1%	10%	20%	10% (3 years)	25% (3 years)	50-100%	-

(Source: JETRO)

MOIP and EDB are currently in the process of drafting the automobile industry promotion policy following ADP 2016, and there is interest from Japanese automobile manufacturers. It is also reported that the new policy will include measures to promote the spread of electric vehicles. In order to expand use of electric vehicles, however, it is required to introduce a subsidy system to cover the price difference with ordinary cars and develop various infrastructures. Due to the recent depreciation of the currency and the increase of the federal excise tax on automobiles introduced in July 2019, domestic automobile sales have been sluggish. From the perspective of automakers, it seems that the promotion of electric vehicles is premature. First of all, it is necessary to take measures to increase the domestic production volume. In addition, a deeper understanding of the automobile industry by EDB, which is responsible for policy making, is needed.

3) Investment Promotion Policy and Strategy

Investment Policy was formulated in 1997 and 2013. The 2013 Investment Policy stipulates a free investment environment that is open to foreign companies, and the following four points are in principle.

- Reduce the cost of doing business
- Reduce business processes (one-window operation)
- Improve Ease of Doing Business (hereinafter, "EODB") by developing industrial clusters and special economic zones (hereinafter, "SEZ)
- Strengthen coordination and convergence between trade, industry and monetary policies

The Foreign Direct Investment Strategy 2013-2017 was formulated together with the 2013 Investment Policy. The strategy focused on FDI promotion campaign, investment facilitation (one window), development of SEZs, network of collaboration with relevant ministries, and strategies on BOI reorganization and functional enhancement.

Investment Policy 2017 and FDI Strategy 2013-2017 are the latest investment policies and investment promotion strategies in Pakistan. Drafting of Investment Promotion Strategy 2020-2024 is currently underway with the cooperation of WB. According to an interview with BOI, the new strategy plans to be finalized soon and will be approved by the Cabinet. This strategy is the second investment promotion strategy in Pakistan following the strategy for 2013-2017, and its consistency with "Vision 2025" is kept in mind. The new strategy clarifies the priority sectors (automobile/auto parts, food processing, software/IT, logistics, and textile/apparel) and plans to work on strengthening the capacity of investment promotion agencies in federal and provincial government. Indicators to be achieved are set in terms of investment amount, job creation, and improvement of EODB score assessed by WB. Steady implementation of necessary actions would be required to achieve these strategic goals. It also seems necessary to clarify and strengthen the jurisdiction and authority of the federal and provincial governments and to clarify the contact point in order to improve investor services.

4) Export Promotion Policy

MOCT is currently in the process of formulating a new Strategic Trade Policy Framework (hereinafter, "STPF") 2018-2023. It will be finalized by March after consultation with stakeholders such as private sector and other ministries and agencies and expected to be submitted to the Prime Minister. In light of past issues, this policy places emphasis on an activity budget involving the central bank and the Ministry of Finance, harmonizing with the National Tariff Policy (hereinafter, "NTP"), and making sure export-oriented promotion and eliminating tariffs on raw materials for export products to rationalize a tariff system.

Prior to the new STPF, MOCT announced a draft of the Trade related investment policy in 2018.

The importance of promoting coordination between exports and industrial/investment policies, and attracting export-oriented new investment are emphasized in it.

The Export Development Fund (hereinafter, "EDF") is noticeable for export promotion. EDF was established in 1991 as a fund for projects aimed at promoting exports[4]. Basically, it targets not each company but public institutions and industry groups, and supports projects that contribute to overall export promotion of the country. At the time of exporting, 0.25% of the export value is levied as Export Development Surcharge, which is the source of funding. Traditionally, EDF has not monitored or evaluated the effects of implemented projects. EDF is working on strengthening an evaluation system, such as establishing a secretariat, in order to promote higher quality projects.

(2) Sindh

1) Development Policy

The Sindh Government launched “Sindh Vision 2030”, aiming to aspire the people of Sindh in working towards a healthy, productive and prosperous nation. This could be aligned with the Federal Government’s actions to achieve “Millennium Development Goals”.

2) Industrial Promotion Policy / Investment Promotion Policy

According to an interview with the Industries and Commerce Department and the Investment Department of Sindh, the current situation is that the province has not explicitly formulated policies for industrial promotion and investment promotion. At present, it is formulating policies with cooperation from development partners.

(3) Punjab

1) Development Policy

The Punjab Government launched “Punjab Growth Strategy 2023” in 2019 and set the growth strategy based on the following five pillars.

1. Increase focus on agriculture and the SME sectors, as Punjab has a clear significant comparative advantage in these sectors
2. Emphasize private sector development as main engine of growth and provide a detailed road map
3. Formation of human capital
4. Present the most optimal allocation of public investment for the province in terms of growth outcomes.

[4] As far as we can know, the EDF's business includes VHT equipment for mango export to Japan (about US$ 2 million) for TDAP, and a fund for National Exporter Training Program (NETP) of TDAP, which started last year.

5. Identify the key national policy variables on which Punjab should strongly advocate with the federal government.

2) Industrial Promotion Policy

Punjab Industrial Policy 2018 is aligned with the strategic goals in order to achieve the Punjab Growth Strategy 2023.

Although the province has a comparative advantage in agriculture, the food processing industry to take advantage of agricultural products and add value to them is still immature and therefore, are expected to be enforced. Strengthening the textile industry is also prioritized as well as Pakistan as a whole. In addition, the expansion of SEZ and capacity building are clear goals of industrial policy. The policy sets out the following four goals.

1. Promote SMEs
2. Innovate skill development (TVTA, Punjab Vocational Training Council (hereinafter, “PVTC”), Punjab Skills Development Fund (hereinafter, “PSDF”))
3. Establish SEZ / Industrial Estates
4. Promote investment in Punjab / EODB

According to an interview with Industries, Commerce, Investment and Skills Development Department of Sindh, the mapping of industrial clusters based on the location of SEZs and Industrial Estates (Including the mapping of home industry and SMEs), a cluster development program, and export promotion policies for the entry of local industries into the international market, such as branding, marketing and quality improvement, guarantees, loan interest rate assistance for export companies and start-up companies and financial access including microfinance will be tackled

3) Investment Promotion Policy

The Investment Policy Statement of the Government of the Province of Punjab in Pakistan states that this document should be consistent with the federal “Vision 2025”. The policy is aiming to treat domestic companies and foreign investment fairly and rationalize regulations relating to investment in order to increase investment.

2.2. Status and Issues of the Investment Environment

2.2.1. Investment Promotion Agencies and Investor Services

(1) Investment Promotion Agencies

At the federal level, the BOI established under the Prime Minister's Office is responsible for policy formulation, institutional design, investor services, and promotion related to investment.

Within the Government of Pakistan, discussions were underway on the integration of BOI, MOIP, and MOCT, which are the central government ministries related to investment and industry originally proposed by WB's Pakistan Goes Global (hereafter, "PGG") programme. Although its direction has been maintained at the time of this study, it seems that it will take some time due to the political issues (reduction of ministerial posts), concentration of operational and administrative burdens, and coordination of jurisdiction including other ministries.

In Punjab, PBIT was established under the umbrella of the Industry, Commerce, Investment and Skills Development Department of provincial government. In Sindh, Investment Department functions as a provincial level investment promotion agency, and its authority is strengthened as the "department" in charge of investment, not as a "committee (Board)" under the department.

(2) Investment Permission

In Pakistan, regulations on foreign investment (restricted industries, investment ratio, etc.) are relatively small. There is no need to obtain investment permission based on the investment law. Even foreign companies, they can start their business by registering with the Securities and Exchange Commission of Pakistan (hereinafter, "SECP") like local companies. The BOI functions related to investment permission are only those related to visa application and No-Objection Certificate. In addition, these functions only serve as an intermediary between investors and the Ministry of Interior. BOI is in charge of accepting applications when establishing branches and representative offices. Pakistani administration has a three-layer structure of federal, province, and local governments. There are various procedures and permits related to investment and business in each of the three layers, so it is not easy to grasp the whole picture.

[Pakistan Regulatory Modernization Initiative/ Better Business Regulatory Initiative (hereinafter, "PRMI/ BBRI")[5]]

According to the interview with BOI, in Pakistan, there are as many as 1500 investment / business-related procedures and permits estimated in all three layers. Most of them are procedures and permits at the local government level. The Government of Pakistan is working on PRMI, centered on BOI, to improve complicated and diverse procedures and permits related to business

[5] There are different names, PRMI and BBRI, but the name given by the Pakistani government is PRMI and the name given by World Bank is BBRI, indicating the same initiative.

and investment. WB supports this as BBRI.

Phase 1:	Mapping. BOI identifies various procedures and permits from the federal side, and at the same time collects information from the private side regarding the procedures and permits necessary for business.
Phase 2:	Analysis. Check if there are duplicate procedures and permits. For example, if there are duplicate permits related to food industry, unnecessary permits are deleted.
Phase 3:	Streamlining and simplifying.
Phase 4:	Automation. Allows online procedures.

(3) Investor Services – Necessity of One Stop Shop System

The role of the federal BOI and the board and department of the province is to support the investor's business, acting as the investor's back office in various procedures and permits when the investor conducts business in Pakistan. For example, BOI website allows online procedures such as visas, security clearances, and airport entry passes. In April 2019, the Pakistan On-line Visa System was opened.

On the other hand, the administration of Pakistan is complicated because it has a three-layer structure of federal, provinces and local governments. As an investor, it is very difficult to understand which institution should carry out the procedure when obtaining a procedure or obtaining a permit. Moreover, federal BOIs and provincial investment board and departments are not familiar with procedures in certain areas. Even if an investor consults with a federal BOI or a provincial investment board or department, there is a case in which the procedure is not carried out due to the misunderstanding. This is a cause of investor dissatisfaction.

If information on various procedures and permits is aggregated and contact points are clarified, it will be more convenient for investors. The federal BOI and provincial investment board and department also want to strengthen this function as a One Stop Shop (hereinafter, "OSS"). However, OSS has not been realized due to lack of coordination between related ministries and agencies and lack of clear definition of the roles and functions of the federal and province in providing investor services.

The efforts of PRMI / BBRI are considered to be based on the above issues. In addition, the city of Karachi, Sindh, is working to improve business-related systems and procedures with the support of WB. Similar problems are recognized in Punjab. According to PBIT, it had submitted a proposal to the federal government with the idea of establishing an Independent Business Facilitation Center that aggregates the process mapping for establishing OSS with the authority of business-related systems and procedures. In order to improve investor services, it is necessary to strengthen the federal-province cooperation system along with the progress of these efforts of the federal and provinces.

2.2.2. Incentives

In Pakistan, infrastructure, manufacturing (textiles, food processing, consumer goods, automobiles, etc.), energy, mining and exploration, construction and real estate, and agriculture, fisheries and livestock industries are considered as promoted sectors. The followings are common incentives, and there are many tax incentives provided by government ordinances.

[Exemption of taxation on imports of capital goods]

Tariffs have been reduced on imports of factory equipment, machinery and equipment that are not manufactured domestically. The list of equipment and machinery manufactured in Japan is notified by "Customs General Order". Certification is also possible with the EDB certificate. In addition, the sales tax rate on imports of factory equipment, machinery and equipment not manufactured domestically has been reduced.

[Accelerated Depreciation]

In the first tax year, a 25% depreciation rate on factory equipment and machinery is allowed. However, used products, transportation vehicles, furniture, etc. are excluded. In the case of setting up a business in a designated rural area or undeveloped area, the depreciation of the first stage will be 90%.

(1) Special Economic Zones

Companies in the SEZs are entitled to the following incentives under the SEZ Act:

- Tenant companies are exempt from tax on their 10-year income (5 years for the companies which start the operation after June 2020)
- Exemption of import duties on capital goods constructed and installed in SEZ

Despite the above-mentioned incentives, Japanese companies occupying the SEZ are facing the problem that the incentives stipulated in the SEZ Act are not being applied as they are.

The incentives for companies in SEZ are decided by the initiative of BOI, but the taxation on companies is a matter for FBR. The lack of coordination between BOI and FBR on how to operate the incentives seems to be the background of the problem.

[Issue with unpaid refund of withholding (or prepaid) corporate income tax]

The withholding (or prepaid) corporate income tax occurs at the time of receipt of sales and at the time of import customs clearance (the import price is the tax base). Companies in the SEZ are exempt from corporate income tax, so there should be no need to pay prepaid corporate income tax. Nevertheless, at the time of import clearance, Japanese companies are forced to pay the prepaid corporate income tax because the import of cargo cannot proceed without the payment. Originally, the prepaid amount should be refunded based on the incentive. The FBR is now recognizing the legitimacy of the incentive and the need for a refund as a result of negotiations with companies. However, due to the difficult financial situation of the government these days, the refund has not been implemented. A large amount of unpaid tax refund remains.

[Problems of exemption of import duties on capital goods]

The SEZ Act states that the import duty on capital goods into the SEZ is exempted once ("One Time"). Regarding the interpretation of "One Time," the BOI claimed that "One Time" was "One Shipment." However, it is not realistic to import capital goods for long-term projects by "One Shipment". The company side insisted that it should be "One Project." As a result of negotiations with companies on BOI and FBR regarding such differences in interpretation, the justification of the claims by the companies was confirmed. Currently, customs duties are exempted when importing capital goods. However, the custom duties already paid have not been refunded.

(2) Export Processing Zones

- Not applicable to foreign exchange control
- Imports and exports of machinery, parts, spare parts, raw materials, etc. necessary for production are free, and duties are exempt
- Sales tax exemption for inputs including utilities such as electricity and gas, etc.

The Export Processing Zone (hereinafter, "EPZ") provides bonded warehouses and facilities such as electricity, security, and customs clearance. According to an interview with a Japanese tenant company in EPZ, tariffs and sales tax reductions and exemptions are provided in accordance with the written incentives. Since the EPZ is treated as a foreign country in Pakistan and the Off-shore Banking Unit is installed, it is possible to carry out overseas remittance without any problem, which is considered a problem in other places.

2.2.3. Special Economic Zones and Export Processing Zones

(1) Special Economic Zones

As shown by the results of interviews with SEZ tenant companies, there are many dissatisfactions and issues regarding development, operation and investor services in SEZs in Pakistan, especially in terms of infrastructure. As mentioned, SEZ is developed by developers in each province. The developer is responsible for developing the on-site infrastructure within SEZ.

On the other hand, the laying transmission networks and the delivery of electricity, gas, and water are under the responsibility of the federal government. Federal and provincial coordination is essential for infrastructure development in SEZ. However, such coordination has not been made sufficiently. Overall, the infrastructure and investor services in Pakistani SEZs are inadequate.

In developing and operating the SEZ, the SEZ Authority in each province is given strong authority. However, based on the interviews, the functions and capabilities of the SEZ Authority were not sufficient for the given authority, and it seemed necessary to strengthen them.

In addition, in Pakistan, functions and authorities (or information) have not been sufficiently aggregated in the Federal BOI and the provincial investment board or department. Moreover, OSS, which is highly convenient for investors, has not been realized due to the lack of capacity of each institution. The situation is similar in SEZ, and it is difficult to say that sufficient investor services are provided. However, according to the interviews, the need for investor services seems to be recognized. In Punjab, OSS by Faisalabad Industrial Estate Development & Management Company (hereafter, "FIEDMC") was started as a pilot at SEZ, and each province is learning the model from FIEDMC.

1) General Information and Overview

Table 2.2.1 Basic Information on SEZs in Punjab and Sindh

	Status	Developer	Area (Acre)	Number of tenant companies	Sector	Note
Punjab						
M3 Industrial City	Operating	FIEDMC[6]	5856 (4356 based on website)	Unknown (According to the interview, the plot is almost sold out)	Textile, chemistry, automobile, engineering	Sojitz (Hyundai Motor) etc is operating
Value Addition City	Operating	FIEDMC	225	Unknown (According to the website, the plot is almost sold out)	Electric machinery, food, pharmaceutical, textiles, etc.	
Quaid-e-Azam Apparel Park	Operating	PIEDMC[7]	1526	Unknown	Apparel	
Allama Iqbal Industrial City (M3)	Developing	FIEDMC	3217	Unknown	Unknown	Adjacent to M3. CPEC project.
Bhalwal Industrial Estate	Developing	PIEDMC	427	2 companies are operating	Unknown	
Vehari Industrial Estate	Developing	PIEDMC	2771	0	Unknown	

[6] Faisalabad Industrial Estate Development & Management Company
[7] Punjab Industrial Estates Development and Management Company (hereafter, "PIEDMC")

Rahim yar Khan Industrial Estate	Developing	PIEDMC	456	2 companies are operating 4 companies are constructing factories	Unknown	
Rachna Industrial Park	Developing	NIP[8]	178	Unknown	Unknown	
Sindh						
Khairpur Special Economic Zone (KSEZ)	Operating	SEZMC[9]	140	3 companies have started operation	Agricultural processing, agricultural processing (other than food), light industry	First SEZ under SEZ Act 2012.
Bin Qasim Industrial Park (BQIP)	Operating	NIP	930	13 (7 companies have started operation)	Automotive, chemical, food processing, light industry, logistics, steel	Yamaha and ITOCHU Marubeni Steel Co., Ltd. Are operating.
Korangi Creek Industrial Park (KCIP)	Operating	NIP	250	35 (9 companies have started operation)	Food, chemical, textile, light industry, packaging / printing	
Naushero Feroz Industrial Park	Developing	NIP	80	-	Food, household goods, ceramics, agricultural equipment, feed	
Sapphire SEZ	Developing	Private	282.5	-	Food, spices, pharmaceutical, automobile parts, textiles	
Naveena Steel	Developing	Private	50.5	-	Steel, wire, pipe	
Dhabeji SEZ	Planning	SEZMC	1530	-	Unknown	CPEC Project
Marble City Karachi	Planning	SEZMC	300	-	Unknown	
NED Inter Regional Technology Park	Planning	Unknown	Unknown	-	Unknown	

(Source: Prepared by the study team based on the information provided by JICA, website of FIEDMC and PIEDMC, information provided by PBIT and SEZMC)

The Study Team visited M3 Industrial City and Bin Qasim Industrial Park (hereafter, "BQIP") and interviewed resident companies. From the interviews with the tenant companies, various problems were presented, especially focusing on the infrastructure aspect.

8 National Industrial Parks Development & Management Company (hereafter, "NIP")
9 Sindh Economic Zones Management Company (hereafter, "SEZMCC")

[M3 Industrial City]

- Initially, there was only land and drains. The embankment had to be implemented by tenant companies.
- The pamphlet stated that the utility was perfect, but the actual situation has not been accompanied.
  - ✓ It took time for electricity to come, so at the beginning it was necessary to generate electricity by tenant companies themselves.
  - ✓ There is no water. Water will come out if tenant companies dig a well, but a treatment facility is necessary. Tenant companies themselves need to maintain it.
  - ✓ The contract states that a common wastewater treatment facility will be installed. Nevertheless, there was no plan that could be done, so it was necessary to prepare it by tenant companies themselves.
  - ✓ The quality of gas is not stable because the import source changes depending on the value from time to time.

【Bin Qasim Industrial Park (BQIP)】

- Infrastructure is generally problematic.
  - ✓ As for the water pipes, regular ones have not been prepared yet, and temporary ones are used. Water for drinking is carried by tenant companies themselves.
  - ✓ There is no gas pipe described in the contract, and propane is purchased in-house.
  - ✓ There are cases where electricity allocation cannot be received. (As for the companies interviewed, there is an allocation because they moved in BQIP earlier)

2) Development and Management System

The management system for Pakistani SEZ is defined in the SEZ Act (2012). SEZ may be applied to existing industrial estates developed by federal (NIP etc.) and provincial corporations afterwards, or may be newly developed as SEZ from the beginning. As a general rule, applications from developers are first accepted by the provincial SEZ Authority. The application is submitted by the SEZ Authority to the Federal Board of Approval (hereinafter, “BOA”) for review and approval. More specifically, the SEZ development process proceeds as follows.

1. Application for development plan by developer
2. Confirmation by provincial SEZ Authority
3. Federal BOI review of plans
4. Review by Approvals Committee
5. Confirmation by Federal BOA

6. BOA approval
7. Notification
8. BOA approval of development agreement with developers

The operation of each SEZ is carried out by the developer and the SEZ Committee established in each SEZ by the developer. Individual enterprise (Zone Enterprises) applications are submitted to developers and approved by the SEZ Committee.

[Federal level system]

(1) BOI

Responsible for implementation of SEZ Act. As the secretariat of the BOA, it is responsible for coordinating the parties involved in the SEZ, the process of applying for the SEZ plan submitted by the SEZ Authority, and the process of incentives for tenant companies. It also serves as the SEZ Authority in the Islamabad metropolitan area.

(2) BOA

The prime minister of federal government is chaired. Responsible for approval of SEZ plan application and development agreement.

[Provincial level system]

(1) Provincial Investment Promotion Agencies (hereinafter, "IPA") (investment board, investment department, etc.)

Provincial IPAs support the activities of SEZ Authority.

(2) SEZ Authority

It is chaired by the chief minister or a nominee of the chief minister. It applies for SEZ plans and select developers according to the SEZ Act and related systems.

[SEZ level system]

(1) Developer

Any organizations under the law of Pakistan can be a SEZ developer. It promotes SEZ development based on the development agreement. It accepts applications for Zone Enterprises and monitors Zone Enterprises compliance in accordance with each SEZ system.

Both public and private organizations can be developers. At the federal level, NIP was established under MOIP. Developers have also been established at the provincial level (see below). Private companies can also be developers, and there are also SEZ development plans based on the PPP model under concession agreements with private companies (Dhabeji SEZ and Marble City SEZ in Sindh, etc.).

(2) SEZ Committee

It consists of developers, BOI, provincial IPA, SEZ Authority, and related local governments. Developer nominates chair. It reviews and approves Zone Enterprises applications.

3) System in Each Provinces

[Punjab]

SEZ Authority is established under PBIT, the provincial IPA in Punjab. As provincial developers, there are PIEDMC and FIEDMC.

[Sindh]

In Sindh, the Investment Department of the provincial government functions as an IPA, and the SEZ Authority was established under it. The provincial developer is Sindh SEZMC. However, the two main SEZs currently in operation, Bin Qasim and Korangi, are operated by the NIP, which is federal developer.

According to the interview, SEZMC is a separate organization from SEZ Authority, but SEZMC is the secretariat of SEZ Authority, accepts applications for special economic zone development plans in Sindh, and monitors all SEZs in the province. The SEZ Authority is like a forum presided over by the Chief Minister and has no office or full-time staff. The SEZ Authority, while being given high-level authority, has specific functional issues. In addition to being a developer, SEZMC also acts as a proxy for the SEZ Authority. However, there is a possibility of conflicts of interest in this system, so it is necessary to strengthen the functions of the SEZ Authority as a separate organization.

(2) Export Processing Zones

Table 2.2.2 Basic Information of Export Processing Zone

	Status	Main entity of development	Area (Acre)	Sector	Notes
EPZ Karachi (Sindh)	Operating	Export Processing Zone Authority (EPZA)	Phase 1: 211 Phase 2: 94 Phase 3: Planning	High-tech, software, IT, precision industry, etc.	YKK is operation.
EPZ Sialkot (Panjab)	Operating	JV of Punjab Small Industries Corporation (PSIC) and EPZA	238	Unknown (mainly small and medium enterprises such as textiles)	
EPZ Sandak (Balochistan)	Operating	Lease contract with foreign company	1284	Mineral resources such as copper and gold	
EPZ Risalpur (Khyber	Developing	JV of Sarhad Development	92	Unknown	

Pakhtunkhwa)		Authority (SDA) and EPZA			

(Source: EPZA website)

In Pakistan, EPZ system started in 1980. It provides a bonded warehouse and facilities such as electricity, security, and customs clearance, enables raw material imports without tax, and promotes industrial development within the zone. Although it targets export companies, 20% of shipments can be sold domestically instead of exported. Development and operation of EPZ is under the control of Export Processing Zone Authority (hereinafter, “EPZA”) under MOIP. EPZA handles the application and approval procedures for EPZ, and the EPZA chair has the approval authority.

The EPZ is treated in Pakistan as if it were a foreign country, and within the EPZ provincial powers are excluded. Therefore, construction permits can also be applied to EPZA, and procedures by provincial governments are unnecessary. Particularly noteworthy is that EPZ is not subject to exchange control by the central bank, so there are no cases such as the inability to foreign remittances for sending royalties, which is a serious problem of Japanese companies in Pakistan. According to the interviews with tenant companies at EPZ Karachi, the problem of tax refund as seen with SEZ tenant companies has not occurred (Study team Note: EPZ can be imported without tax at the time of import clearance, subject to the export of products, so there is no problem of corporate tax withholding at the time of import). Overall, the level of satisfaction was high.

According to the interview with EPZA, there is almost no cooperation with BOI at this time. However, at the time of the interview, EPZA chairman said that he would like to consider the cooperation such as making EPZ a part of the large-scale SEZ in the future.

(3) Industrial Estates

There are Industrial Estates in Pakistan. It can be understood that among industrial areas, SEZ is the industrial areas that is approved as SEZ based on the SEZ Act and is given preferential tax treatment, and the rest is Industrial Estate. No tax incentives will be given to the tenants of the Industrial Estate.

In Punjab, the Industry, Commerce, Investment and Skills Development Department of the provincial government is responsible for the development and operation of the Industrial Estate. Similar to SEZ, FIEDMC and PIEDMC are responsible for the development of Industrial Estate (However, according to the information obtained, in reality, FIEDMC is mainly responsible for the development and operation of SEZ). According to the information provided by PBIT, the basic information on the Industrial Estate of Punjab is as shown in the table below.

Table 2.2.3 Basic Information of Industrial Estate in Punjab

	Status	Developer	Area (Acre)	Number of tenant companies	Sector	Note
Punjab						
Sundar Industrial Estate	Operating	PIEDMC	1802	460 companies are operating 32 companies will be operating soon 101 companies are constructing factories	Unknown	
Multan Industrial Estate Phase II	Operating	PIEDMC	667	94 companies are operating 29 companies are constructing factories	Unknown	
Chunian Industrial Estate	Developing	PIEDMC	313	Not sold yet	Unknown	

(Source: information provided by PBIT)

In Sindh, the provincial government's Industries and Commerce Department is responsible for the development and operation of Industrial Estates. According to the information obtained from the Industries and Commerce Department website, there are five industrial estates, namely, Sindh Industrial Trading Estate (SITE), Korangi Industrial Trading Estate (KITE), Landhi Industrial Trading Estate (LITE), FB Area Industrial Trading Estate (FITE), and North Karachi Industrial Trading Estate (NITE).

2.2.4. Tax System

Pakistani income tax is stipulated in the Income Tax Ordinance 2001. Corporate Income Tax, Minimum Tax and Withholding Tax are mainly related to corporate management. In addition to these, Sales Tax (it is similar to Consumption Tax of Japan.) is stipulated in the Sales Tax Act 1990 as an indirect tax. The competent authority for these tax matters is FBR.

The Convention for the avoidance of double was concluded between Japan and Pakistan to prevent double taxation on residents of one country with the income generated in the other country.

In Pakistan, taxation is under the control of the FBR at the federal level and the Provincial Tax Authority at the provincial level. With the 18th Constitutional Amendment, sales tax for goods becomes federal tax and sales tax for services becomes provincial tax. In addition, the revenue of the province is about provincial excise tax and property tax, and much of the tax revenue is under the control of the federal government.

Table 2.2.4 Major Federal and Provincial tax

Federal	Provincial
Income Tax Sales Tax Custom Duty Federal Exercise Duty	Sales Tax Provincial Exercise Tax Property Tax

(Source: Survey team based on the web research, etc.)

In Pakistan, the frequent revision of tax law is being viewed as a problem by Japanese companies and other investors. Tax laws and rates have been changed in each case by Statutory Regulatory Orders (hereafter "SRO (s)"). In addition, information that systematically organized these SROs is not available. In response to this problem, the fiscal law of 2020 integrated past SROs. However, this document is a very long document. Hence, it still remains difficult for investors to grasp accurate information on tax laws and systems.

In addition, Pakistan has a registered taxpayer (Filer) of less than 2 million for a population of 200 million. Therefore, the majority of the population are non-registered taxpayers (Non-filers). Revenue enhancement is recognized by the government as essential. However, the government's revenue base is weak. As a result, taxable companies and individuals such as foreign-affiliated companies are being taxed. In Pakistan, for example, in July 2019, a federal excise tax increase on car sales was implemented. As a result, domestic automobile sales have become sluggish thereafter, and automakers, mainly Japanese companies, are struggling to respond the situation.

(1) Corporate Income Tax

In the Income Tax Ordinance 2001, which was revised on June 30, 2019, the tax rate of corporate income tax levied on companies excluding small businesses will be 29% in and after 2019 tax year (one tax year in Pakistan runs from July 1 to June 30.) The range of income subject to taxation differs between resident companies and non-resident companies. Resident companies are companies identified in the Income Tax Ordinance 2001, such as corporations established under the laws of Pakistan and corporations whose management is all conducted in Pakistan. Liaison offices are excluded from the definition of permanent establishment (hereinafter, “PE”) because they do not conduct business and are not subject to Corporate Income Tax; however, subject to Pakistani source income. If income they have from Pakistan sourced is confirmed by evidence, they may be recognized as a PE and taxed as a non-resident company.

(2) Minimum Tax

This tax is applied to resident companies with more than PKR 10 million sales. Such companies are levied higher of 1.5% of sales in the year or Corporate Income Tax. (As for certain sectors, such as petroleum marketing, poultry farming, fertilizer, pharmaceutical and FMCG product distributors and motorcycle dealers, are differentiated in tax rates.) Minimum tax is imposed on even deficit-making companies. Even if the SEZ resident is exempted from Corporate Income Tax, unless the Income Tax Ordinance 2001 tax exemption rule is applied, the Minimum Tax is not exempted.

(3) Withholding Tax

The tax is a prepaid income tax on dividends, interest, etc. No tax is levied on sources once imposed Withholding Tax. There are various tax rates, such as dividends receiving (7.5% to 25%) and interest receiving (15% to 20%). In addition, the tax rate specified in Income Tax Ordinance 2001 will be levied on the imported goods as advance tax. This can be substantially recognized as a prepaid Corporate Income Tax.

(4) Sales Tax

The tax is an indirect tax similar to Japanese consumption tax. The Sales Tax Act 1900 stipulates a standard tax rate of 17%. Those who meet the requirements stipulated in the law become filers and are required to pay. The 18th Amendment to the Constitution states that goods are governed by the Federal, and services are governed by the States. For services, the province imposes a tax rate of 13-16%. Sales Tax is also levied at the time of import using the value after payment of customs duty as the tax base.

(5) Customs Duty

Customs Duty currently accounts for about 40% of Pakistani total tax revenue. FBR is responsible for matters relating to Pakistani Custom Duty (The duty on automobiles and their parts are determined by the EDB). NTP was approved by the Cabinet in 2019, and the authority to determine Custom Duty will be delegated from the FBR to the MOCT in order to strengthen the link between tariffs and trade policies.) According to interviews with MOCT, the principle of NTP is to streamline tariffs as zero tariffs on raw materials for export products. In addition, NTP aims to establish a tariff system that is consistent with the development policies of each sector such as automobiles and textiles. The tariff rate will be approved by the Tariff Policy Board, which will be established in the future. MOCT will chair the board, but FBR will continue to be responsible for customs duties in practice. However, in light of Pakistani macroeconomic situation, fiscal consolidation through securing tax revenues is currently a top priority for the Pakistan government. It is necessary to continue to pay attention to the situation regarding how the effectiveness of the MOCT tariff policy system will be ensured. In order to rationalize and reduce tariffs for export promotion, a strong policy initiative, including the prime minister level, is considered necessary.

The duties in Pakistan are stipulated in the Customs Act 1969. Tariff rates are covered in Schedule 1 for all imported goods and are revised annually at the time of budgeting according to the provision of the Finance Act. In general, luxury goods and non-essential goods have high tariff rates, and the rates of plant materials and machinery required for industries are set lower than consumer goods. In addition, various reduction measures are taken by notification. Some items are subject to unit tax, but most are ad valorem tax, the tax bases of which are equivalent to the CIF prices. Item classification is based on HS Convention.

Import of certain goods is subject to other taxes than Custom Duty, such as Regulatory Duty. Regulatory Duty imposed on automobile raw materials, which had been loudly complained by Japanese automakers, is exempted by a notification issued in 2019.

(6) Mitigation measures for tax system following the spread of COVID-19

Following the spread of COVID-19, the Government of Pakistan has taken the following tax mitigation measures for food importers and constructors to mitigate its adverse effects. (The information source is from KPMG)

On March 30, 2020, the Government of Pakistan allowed various tax mitigation on food imports and supplies.

- Rate of advance tax on the import of different food items was reduced to 0% from 2%.
- Individuals and associations of persons providing basic food items to the government owned departmental stores without a brand name will pay 1.5% withholding tax instead of 4.5%.
- Additional customs duty (ACD) at 2% on soya bean oil, canola oil, palm oil and sunflower oil (as well as oil seeds) has also been exempted.

On April 3, 2020, a special incentive package for the construction industry was announced.

- Rate of Capital gain Tax to be reduced proportionate to increase in the valuation table.
- Capital gain tax holding period for constructed property to be reduced from 4 years to 3 years.
- In order to bring down the cost of construction, sales tax and excise duties levied on construction material (such as cement) are proposed to be reduced.
- Sales tax at the time of sale of property will be levied at a fixed rate of PKR 50/ square foot for builders and PKR 100/ square yard for developers.

- Construction services will be exempted from sales tax, since sales tax will be levied at the time of sale of property. Punjab Revenue Authority [PRA] has already reduced sales tax on services to zero for construction services till 30 June 2020.
- Low-cost housing by Naya Pakistan Housing & Development Authority (NAPHDA) /provincial housing authorities will be completely exempted from sales tax.
- Standard rate of 2% of valuation will be charged instead of Provincial and Municipal taxes/duties/fees/levies/charges on transfer /registration of urban properties.
- The Government of Pakistan has approved the status of 'industry' for construction sector. A suitable amendment in the tax laws will entitle the sector to certain tax credits and reliefs provided therein for industrial undertakings.
- Interest rate for Greenfield Projects is 7%. A lower interest rate (preferably 6%) is proposed for housing mortgage of one hundred thousand low-cost housing unit.

Effective May 1, 2020, the construction sector is entitled to seek exemption from advance tax on import of plant and machinery, besides claiming a tax credit on income from new projects according to the new tax regime. However, the credit is only available to noncorporate sector.

2.2.5. Finance and Foreign Exchange

Foreign exchange policy in Pakistan is regulated under the Foreign Exchange Regulation Act 1947, and in principle, no corporation or individual other than an authorized dealer shall engage in foreign exchange transactions. Although exchange rates are under the control of the State Bank, they substantially float. Under the Act, the basic provisions are promulgated by the government of Pakistan and the State Bank in the form of notifications.

Payments for imports are made in L/C, Registration of Contract or T/T remittance. In some cases, such as L/C opening to a third country other than the origin of the cargo, prior approval from the central bank is required to open the L/C.

(1) Service Export

Exporters of services such as financial services, wholesale, retail sales, warehousing, telecommunications services, medical services, education services, civil engineering services, real estate development, hotel and tourism-related services, technical testing facilities and consulting services, are permitted to hold 35% of the earned net foreign currency in an account at an authorized dealer in Pakistan.

(2) Remittance of Royalty/Franchise and Technical Fee

According to Foreign Exchange Manual, royalty is a fee paid by a local firm to the foreign collaborator in consideration of “License to use the foreign manufacturers’ patent/ brand name for making the products. Technical fee is paid by the local firm to the foreign collaborator in consideration of: Engineering and Technical Services (including assistance on manufacturing process, testing and quality control, assistance by way of making available patented process and/or secret know-how and right to avail of the technical/confidential information resulting from continuous technical research and development etc.); and Technical training of local personnel. The remittance of royalty/franchise and technical fee in agriculture, social infrastructure and service sector projects including international food chains may be allowed in accordance with the following guidelines:

(a) The initial sum fee payable to the foreign investor/the party providing technical expertise and/or allowing use of their brand name, should not exceed US$ 100,000 irrespective of the number of outlets under one franchise.

(b) A maximum of 5% remittance of net sales (excluding sales tax) in the food sector may be allowed as Franchise Fee only for those items, which are core items of the franchise and are the specialties of the trade name. The payment of such fees will be allowed on monthly basis. No item will be eligible for twice payment of Royalty/Franchise Fee.

(c) Percentage/amount of fees etc., for other non-manufacturing projects may also be up to the maximum of 5% of net sales (excluding sales tax).

(d) Initial period for which fee is to be allowed to projects in non-manufacturing sectors, including international food chains, should not exceed five years. Subsequent extension in time period will be considered and allowed by the Government/SBP, provided these projects also make investment in allied upstream projects.

The challenges faced by Japanese companies are mainly in non-trade transaction, such as the remittance of payment for service export, royalty/franchise and technical fees. The following voices have been heard from Japanese companies regarding royalty remittances.

- ✓ These days, foreign remittance is almost impossible except for remittances associated with the trade of goods. (Especially, strong complaint from manufacturers who generate a lot of technical fees (royalty) was observed.)
- ✓ In order to delay the remittance or prevent the remittance in the first place, detailed information on the grounds is requested by the bank staff etc.
- ✓ Even if we can send money, it will take a very long time.

(3) Financial Mitigation Measures Following the Spread of COVID-19

The financial mitigation measures taken in response to the spread of COVID-19 are as follows.

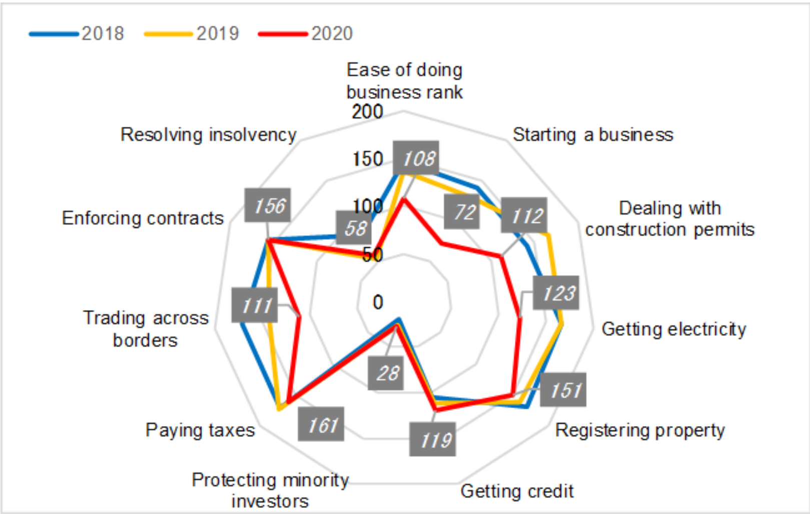
Table 2.2.5 Financial Mitigation Measures

Decision Date	Description
25th March, 2020	The SBP will refinance banks to provide financing at reduced end-user rate of 3 percent for 5 years for the purchase of equipment to detect, contain and treat the COVID-19.
29th March, 2020	The regulatory limit on extension of credit to SMEs has been permanently increased from PKR 125 million to PKR 180 million.
29th March, 2020	Keeping in view the steep decline in share prices, margin call requirement of 30% vis-a-vis banks' financing against listed shares has been significantly reduced to 10%.
29th March, 2020	Banks and Development Financial Institutions (DFIs) will defer the payment of principal on loans and advances for one year.
29th March, 2020	The SBP has relaxed the Debt Burden Ratio (DBR) for consumer loans from 50% to 60%.
1st April, 2020	The federal cabinet approved launching domestic Sukuk bond for generating Rs700 billion for financing the escalating budget deficit and meeting the increasing financial requirements for combating COVID-19.
4th April, 2020	The SECP allowed all lending Non-Bank Finance Companies (NBFCs) including Non-Bank Microfinance Companies (NBMFCs) to defer repayment of principal loans by their borrowers for one year.

(Source: KPMG)

2.2.6. Ease of Doing Business

The country's ranking in EODB has been around 140th out of 190 countries in the past few years, but has recently been on a rising trend. In FY2019, it improved slightly from 147th in FY2018 to 136th. Items that have improved are mainly “Starting a Business” (from 142nd to 130th), “Registering Property” (170th to 161st), and “Resolving Insolvency” (82nd to 53rd). Restructuring of various procedures, online one-stop and automation were successful. In 2020, the overall ranking improved to 108th. In terms of the degree of improvement, it was ranked 6th among all target countries, with the highest rate of change in Asia. Improvement was confirmed in 6 out of 10 items. In particular, “Starting a Business” (130th to 72nd), “Dealing with Construction Permit” (156th to 112nd), “Getting Electricity” (167th to 123rd), “Trading across Borders” (142nd to 111st) have improved significantly. In Pakistan, the Prime Minister chairs the EODB Steering Committee. According to the first field survey interview, the Pakistani government and the BOI intend to work on improving each item in order to further improve the business environment.



(Source: World Bank)

* Radar graph of EODB Rank for each year. The smaller the circle, the higher the evaluation. The ranking for FY 2020 is outlined in white.

Figure 2.2.1. Pakistan Ranking by the Items of EODB

Pakistani trends in EODB in FY2019 and 2020 are as follows.

FY2019

[Starting a Business]

Easier to start a business by enhancing the online one-stop registration system, changing several forms of business establishment into a single application, and establishing information exchange between registration and tax authorities.

[Registering Property]

Administrative procedures have been streamlined and automated, and the transparency of land management systems has increased, making property registration easier.

[Resolving Insolvency]

The introduction of a restructuring procedure has improved the continuity of the debtor's business during bankruptcy procedures, which has facilitated bankruptcy settlement.

FY2020

[Dealing with Construction Permits]

The approval process has been streamlined and the operation efficiency of one-stop shops for construction permits has been improved, making it easier and faster to obtain construction permits. In addition, the quality of buildings has been regularly inspected, which has increased the safety of construction.

[Getting Electricity]

Electricity access has become easier by institutionalizing the time frame for providing electric power services and launching an online portal for new applications. In addition, the transparency of setting and changing electricity rates has increased.

[Registering Property]

Registration of property has been expedited by facilitating the execution and registration at the sub-registry office. Also, the transparency of the land management system has increased.

[Paying Taxes]

Pakistan has facilitated tax payments by introducing online payments for VAT and corporate income tax. It also reduced costs by lowering the corporate income tax rate.

[Trading across Borders]

Enhanced cross-border trade by enhancing the integration of various agencies in the Web based One Customs (hereinafter, “WeBOC”) electronic system and coordinating joint physical inspections at ports.

2.3. Industrial Human Resource Development and Employment

2.3.1. Overview

(1) Labour Force and Employment by Industry and Province

Labour force[10] in Pakistan has increased from 61.04 million in 2014-2015 to 65.50 million in 2017-2018. By industry, while the employment rate declines in agriculture sector, it increases in Manufacturing, Transport, storage and communication and Service sector as shown in Table 2.3.1.

Table 2.3.1 Employment Components by Industry (%)

Industry	2014-15	2017-18
Total	100.0	100.0
Agriculture, forestry, hunting and fishing	42.3	38.5
Manufacturing	15.3	16.1
Construction	7.3	7.6
Wholesale, retail trade and restaurants & hotels	14.6	14.9
Transport, storage and communication	5.4	6.2
Community, social and personal services	13.2	14.7
Others	1.9	2.0

(Source: Pakistan Bureau of Statistics[11])

By major occupational groups, figures in skilled agricultural, forestry and fishery workers are the highest and its ratio in female workers compared to male workers is especially high. On the other hand, the portions of female workers engaged in professionals and technicians & associate professionals tend to increase.

Table2.3.2 Employment Components by Major Occupational Groups (%)

Major Occupational Groups	2014-15			2017-18		
	Total	Male	Female	Total	Male	Female
Total	100.0	100.0	100.0	100.0	100.0	100.0
Managers	2.2	2.8	0.3	2.3	2.8	0.5

[10] Pakistan Bureau of Statistics defines labour force as all persons ten years of age and above who can be categorized as employed or unemployed during the reference period.
[11] Labour Force Survey 2017-18

Professionals	4.7	4.2	6.4	5.1	4.4	7.7
Technicians & associate professionals	3.1	3.8	0.9	3.9	4.4	1.8
Clerical support workers	1.5	1.9	0.2	1.4	1.8	0.1
Service and sales workers	15.7	19.8	2.1	16.3	20.1	2.7
Skilled agricultural, forestry & fishery workers	37.1	29.7	61.7	31.6	25.2	54.6
Craft & related trades workers	13.6	13.8	12.6	14.6	14.6	14.4
Plant/ machine operators & assemblers	6.3	8.1	0.3	6.9	8.7	0.3
Elementary occupations	15.8	15.9	15.5	18.0	18.0	17.9

(Source: Pakistan Bureau of Statistics[12])

Population and labour force concentrate on Punjab and Sindh. There are 38.6 million labour force in Punjab and 14.7 million in Sindh.

Table 2.3.3 2017-18 Population and Labour Force (millions)

	Khyber Pakhtunkhwa	Punjab	Sindh	Balochistan
Population(age 15+)	17.6	70.0	29.5	5.1
Labour force(age 15+)	7.5	38.6	14.7	2.5

(Source: Pakistan Bureau of Statistics[13])

Labour participation rate by age group is summarized in Table 2.3.4. As a whole, the rate is higher in their 30s to 50s and lower in their late teens to the early 20s. The gap between males and females is considerable. For males, it is over 95% for the age between 25 and 54. On the other hand, it is not higher than 30% for all age categories of females.

Table 2.3.4 Labour Force Participation Rate by Age Group (Unit: %)

Age groups	2014-15			2017-18		
	Total	Male	Female	Total	Male	Female
15－19	33.5	47.6	18.0	32.6	47.6	15.6
20－24	52.6	82.3	25.7	52.5	84.6	23.3
25－29	58.6	96.7	26.6	57.1	96.1	24.7

12 Labour Force Survey 2017-18

13 Pakistan Employment Trend Report 2018

30－34	60.1	98.1	27.8	60.1	98.1	26.6
35－39	62.6	98.2	29.0	61.7	98.3	27.9
40－44	64.4	98.4	29.9	63.1	98.4	28.0
45－49	65.9	97.8	31.9	61.5	97.4	26.2
50－54	65.3	96.6	29.2	63.1	96.0	25.9
55－59	63.8	93.8	27.3	58.9	91.7	23.4
60 ＋	36.4	55.2	12.0	33.6	51.3	11.5

(Source: Pakistan Bureau of Statistics[14])

Nationwide unemployment rate[15] has been around 5 to 6% as 5.1% in 2006-07, 6.0% in 2012-13 and 5.7% in 2017-2018. As shown in the table below, the total unemployment rate is the highest in Khyber Pakhtunkhwa region and the lowest in Balochistan region since the rate for males is the lowest.

Table2.3.5 Unemployment Rate by Regions in 2017-18 (%)

		Khyber Pakhtunkhwa	Punjab	Sindh	Balochistan
Unemployment rate	Total	7.3	5.7	5.0	4.0
	Male	6.9	5.0	4.0	2.7
	Female	9.2	7.7	11.8	17.3

Source: Pakistan Bureau of Statistics[16]

(2) Wage Level, Working Condition and Labour-Related Laws

Wage level, working condition and labour-related laws in Pakistan are summarized in this subsection. Table 2.3.6 shows the average monthly wage by major industry division and gender. Although the wage level for females has been improving, the gender gap in wages has not been narrowed. Especially it is significant in the manufacturing sector.

Table2.3.6 Average Monthly Wage of Employees by Major Industry Divisions (Rs)

Major Industry Divisions	2014-15			2017-18		
	Total	Male	Female	Total	Male	Female
Total	14,971	15,884	9,760	18,754	19,943	11,884

[14] Pakistan Employment Trend Report 2018
[15] Pakistan Bureau of Statistics defines Unemployment as all persons at or above the age of 15 who were not in work during the reference period, and are currently available for work (or not currently available for certain reasons) or were seeking work.
[16] Labour Force Survey 2017-18

Agriculture, forestry, hunting and fishing	7,804	9,041	6,345	9,645	11,806	6,007
Mining & quarrying	14,968	15,064	8,000	23,843	23,947	5,040
Manufacturing	13,478	14,465	5,435	16,890	18,687	6,597
Electricity, gas and water	25,379	25,626	15,703	27,600	27,641	24,928
Construction	12,032	12,040	10,705	16,402	16,422	13,222
Wholesale, retail trade and restaurants & hotels	10,711	10,710	10,740	14,541	14,538	14,868
Transport, storage and communication	16,220	16,158	24,900	21,338	21,187	36,901
Financing, insurance, real estate and business services	36,659	36,805	33,985	40,178	40,892	25,531
Community, social and personal services	21,443	23,746	14,493	40,178	40,892	18,012

(Source: Pakistan Bureau of Statistics[17])

The table below summarizes information such as local employees' monthly salary, bonus, minimum wage, contribution rate of the employer for social insurance in Sindh. Most of the information is sourced from JETRO fact-finding research on Japanese companies in Karachi.

Table 2.3.7 Monthly Average Salary in Karachi (US$)

	Minimum wage	Manufacturing			Non-Manufacturing		
		Worker (General engineer)	Engineer	Middle manager (section chief)	Staff (general staff)	Store staffs (Apparel)	Manager (section chief)
Monthly salary (US$)	116.59	187	492	1,235	379	105[18]	1,190
・Bonus payment：2.90 months of basic salary(Average bonus of all occupations) ・Social insurance contribution percentage：Breakdown of employers' contribution(Medical insurance：6% of salary, Pension：5% of minimum wage) ・Nominal wage increase rate(in Pakistan)：8.6%(2013/2014)、13.8%(2014/2015)、7.8%(2017/2018)							

(Source: JETRO[19] and Pakistan Bureau of Statistics[20])

17 Labour Force Survey 2017-18
18 Same as above
19 JETRO, 2018 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania
20 Labour Force Survey 2017-18

Labour-related laws are summarized below. Any companies applicable for respective condition must comply with them. All the businesses need to confirm applicable laws since they may vary from province to province. Table 2.3.8 to Table 2.3.11 are the information cited from the JETRO website[21].

Table 2.3.8 Laws Concerning Social Security & Welfare

Employees' Old-Age Benefits Act (1976) (EOBI)	Applicable for all enterprises or establishments with 5 or more employees.
Contents: Each enterprise has to pay 6% of minimum wage and each employee has to pay 1% of minimum wage every month as pension fees.	
Workers' Welfare Fund Ordinance (1971)/ Sindh Workers' Welfare Fund Act (2014)	Applicable for enterprises with more than PKR 500,000 annual income.
Contents: 2% of company's income is imposed. The fund is used for development of residence for employees and for education, training and donations.	
West Pakistan Industrial and Commercial Employment Ordinance (1968)	Applicable for enterprises with 20 or more employees.
Contents: It defines and stipulates relative terms of employment such as classification of labors, attendance, wage, bonus, and obligation for group insurance, termination of employment contract, dismissal, and retirement, and obligation for retirement allowance. Note: It also stipulates calculation of retirement allowance, except in case of resignation or legal misconduct, which is 30 days wage per one-year employment. If the employee received the fixed wage, the calculation is based on the last month wage. If the wage was performance basis, the highest month within the past 12 months becomes the basis.	
Companies' Profit (Workers' Participation) Act (1968)	Applicable for enterprises with any one of the following conditions, (i) more than 50 employees, (ii) more than PKR 2 million capital (or PKR 5 million) or (iii) more than PKR 4 million fixed assets (or PKR 20 million). Conditions of amount for (ii) and (iii) are different, depending on the year of companies' establishment.
Contents: Company has to establish company fund to which 5% of net profit has to be funded	

[21] JETRO "Employment regulation on foreigners, residence permit and employment of local workers" https://www.jetro.go.jp/world/asia/pk/invest_05.html#block3 (accessed on December, 23, 2019)

within 9 months from the end of each fiscal year.

Table 2.3.9 Laws with regards to Wage Level

Minimum Wages Ordinance (1961)	Applicable for all enterprises
Contents: Upon Minimum Wage Committee advice, each province decides.	
The Minimum Wages for Unskilled Workers Ordinance (1969)	Applicable for enterprises with more than 50 employees.
Contents: It stipulates minimum wage level. Presently PKR 17,500 in Punjab and Sindh	
Apprenticeship Ordinance (1962)	Applicable for enterprises with more than 50 employees.
Contents: Rules of wage and other items on apprenticeship.	
Bonus rule	Payable for employees who work for more than 90 days in company which recorded profit.
Contents: Applicable employee has right to receive bonus of one-month wage, within 3 months from fiscal year end.	

Table 2.3.10 Laws with regards to Working Environment and Employment Conditions

Pakistan Shops and Establishments Ordinance (1969)	Applicable for all offices unless legally exempted.
Contents: It stipulates labor hour, overtime, holiday, sick leave, public holidays, and termination of employment. Legal labor hours are 9 hours a day with one-hour break in every 6 hours. Twice amount of wage is subject for overtime. At least once a week holiday. Minimum age of labor is 15 years old. Entitled paid holidays: 14 days, sick leave 8 days, emergency leave 10 days and religious holiday 10 days. However, it is applicable only for non-management employees.	
The Factories Act (1934)	Applicable for industrial and commercial facilities.
Contents: It stipulates labor hour, holiday, pay day and pay level. It is comprehensive and also stipulates working environment. Labor hours are 9 hours per day with 30 min. break in every 5 hours. Sunday shall be a holiday. In case that employees work on holiday, they must take a compensation day off. Annual payable leave is 14 days which can be carried forward up to accumulation of 28 days. Emergency leave is 10 days; sick leave is 16 days- with half of wage payable.	
Employment (Record of	Applicable for employers and workers designated by the

Service) Act (1951)	provincial government.
Contents: It stipulates obligation of employers to keep a record on each employees. Employers must record wage level, wage increment, dismissal and fines.	

Table 2.3.11 Laws with regards to Relationship between Employer and Employees

Sindh Industrial Relations Act (2013)	Applicable to all offices and industrial fields except governmental institutions (Defense, National Airline, National Printing, National Hospitals).
Contents: It stipulates rules on organizing trade union, improvement of employment relationship, solution of labor dispute. Employer needs to register names of employees who work for more than 3 months in order to execute employees' vote to elect representatives for trade union for negotiation with employer. Employees/employer joint committee shall be established with members not exceeding ten. More than 40% of the members shall be selected from employees. The employer side shall serve as chairman of the committee. In the committee, dispute between employees and employer is negotiated. During the negotiation in the committee and in arbitration court, lock out or dissolution shall not be allowed. In the law, secured rights of employees and ways for relief are also stipulated.	

As general rule in laws concerning dismissal, one month prior notice or payment of 1 month wage is required except case of non-compliance with rule. If the dismissal is judged as inappropriate, labour court shall order the company to pay 12 to 30 months of the base salary and housing allowance or to reinstate those dismissed to their original position in the company. The above information is cited from JETRO Website.

2.3.2. Development of Industrial Human Resources

In "Vision 2025", the Pakistan Government mentions improvement of efficiency in labor market as one of the measures in order to increase economic competitiveness. With the aim of development of industrial human resources and improvement of labour productivity it also mentions National Vocational and Technical Education Commission[22] (hereinafter, "NAVTEC") and provincial Technical and Vocational Education and Training (hereinafter "TVET") institutes need to cooperate and coordinate to make an effective way for sector- and region-wise approach. As one of the vital roles of province, it mentions the importance of accurate assessment of its labor market and of coordination with market as well as appropriate development of effective curricula. It also mentions technical standard shall be established so that evaluation of technics

[22] National Vocational & Technical Training Commission (NAVTTC) at present

which were obtained through vocational training institutions becomes accurate.

In line with this mid-term vision of the Pakistan Government, policies for TVET are published. The followings are policies for industrial human resource development of the Federal Government, Punjab and Sindh.

(1) Policy for Development of Industrial Human Resources (Federal Government)

Basic strategies of Pakistan Government for development of industrial human resources is stipulated in "The National Skills Strategy 2009-2013" (hereinafter, "NSS") which are 1) fostering technical workers in response to industry needs, 2) proper access and fairness in educational and training opportunity, 3) assurance of quality on its education and training.

Afterwards, TVET Reform Support Program (hereinafter, "TRSP")[23] has been being implemented for enhancing implementation of NSS. As the latest policy document, "National Skills for All" Strategy 2018 has been approved by the Pakistan government, and National Vocational & Technical Training Commission (hereinafter, "NAVTTC") enforces each program. The followings are process of enactment and outline of each policy document.

1) "The National Skills Strategy 2009-2013"（NSS）

NSS was drafted by NAVTEC to indicate strategy for fundamental reformation of technical/vocational training systems. It consists of 3 purposes and 20 main strategies in national level. Also it stipulates 5 years action plan and its target progress date.

2) "Skills for Growth & Development" TVET Policy for Pakistan (2015)

NSS was established in 2009, followed by TRSP for its implementation. This policy was drafted based on lessons learned from the Government's experience of implementation of NSS. This policy is also based on comments and advice by taskforce team on national TVET policy, in formation of the federal governments, provincial Technical Education & Vocational Training Authorities (hereinafter, "TEVTAs"), its related organizations, Chamber of commerce and industries and other industry associations.

In this policy paper it is stipulated that function for federal policy, legal system, budget drafting and its allocation and coordination with other educational organizations (formal and non-formal schools, TVET and universities) shall be undertaken by the Ministry of Federal Education & Professional Training[24]. NAVTTC was mentioned in "Skills for Growth & Development" as a supporter for the roles of the ministry and a coordinator in federal/provincial level of TVET with

[23] Phase 1 was supported by EU, the governments of Germany and Netherland, and Norwegian embassy from 2011 to 2016 and the second phase from 2017 to 2022 is in progress by the name of TVET Sector Support Programme.

[24] It is also mentioned that Ministry leads the dialogue and coordination between ministries and government agencies.

various specialized institutions.

It described a critical comment on NSS saying that progress of activities in NSS was not enough. On the other hand, certain progress was seen on introduction of training program based on vocational skills, trial of IT management system for TVET and development of national technical identification framework, which were financially and technically supported by development partners.

3) "National "Skills for All" Strategy 2018- A Roadmap for Skill Development in Pakistan"

Ministry of Federal Education & Professional Training formed up an education taskforce and after analyzation of issues, it has indicated action plans in 8 prioritized fields- governance, capital, capacity building, quality assurance, access and equity, ownership in industry, technology development aiming for international market and publicity plan- respectively.

Table 2.3.12 shows matrix of policy contents edited by each objective and theme. Items are divided into 3 objectives in accordance with NSS. Issues in each policy remain unchanged which are solution to avoid duplication among technical/vocational organizations by way of coordination, secure volume of training, reform contents of training based on skills, education for latest technology, identification of training institution, promotion for private sector participation, promotion for training opportunities for women and young generation, coordination with informal sector, improvement of image through research and publicity activities.

Table 2.3.12 National "Skills for All" Strategy 2018

Items	Contents
Providing Relevant skills for industrial & economic development	-Industry ownership (Apprenticeship, incentive ideas such as tax relaxation for enhancing the coordination with industries) -Skill development looking ahead to international market (Enhancing workforce export) -TVET communication for better perception
Improving access, equity and employability	-Multi-source funding ・Increase governmental budget and development partners funding, industry engagement through setting incentives or imposing tax ・Provide paid training courses in high-end technology -Capacity enhancement of TVET sector ・Modularize training courses and organize double shift options for more training provision ・Introduction training on high-end technology with coordinating with universities

	and apprenticeship -Access and Equity ・Enhance female students participation in the TVET ・Recognize and certify the skill learned in the informal sector ・Introduce online learning system
Assuring quality	-Improvement of TVET governance and funding (clear role assignment between federal and provincial government) -Quality assurance ・Designate Centers of Excellence ・Upgrade existing training facilities in TVET institutes ・Introduce and implement standardized curricula development and periodic review ・Establish international linkages to uplift national TVET system ・NVQF (National Vocational Qualification Framework) across Pakistan for Standardization and Quality enhancement ・Establish standardized TVET monitoring and evaluation framework

(Source: Produced by the survey team based on policy papers)

4) Current Major Programs of TVET

Current status of major programs of the policies mentioned in the prior section is summarized in Table 2.3.13.

Table 2.3.13 Major Programs of TVET in Pakistan

Programs	Current status
National Vocational Qualification Framework (NVQF)	NAVTTC with assistance of development partners agencies such as Deutshe Geselleschaft fuur Internationale Zusammenarbeit (hereinafter, “GIZ”), has been establishing the standardized qualification framework. It is the total system of training contents, qualification standard setting, examination, assessment and qualification. NAVTTC puts the most importance on this program. It aims for clarification of necessary skills in the workplaces, for standardization and systematization of qualifications acquired through TVET and for quality assurance of TVET. Level[25] 1 to 4 of NVQF are qualified for vocational certificates, level 5 is for Diploma, 6 is for Bachelor, 7 is Master and 8 is for Doctorate. NVQF and Competency Based Training and Assessment (hereinafter, “CBT-A”) is being introduced in parallel.
Competency Based Training and Assessment (CBT-A)	CBT-A is competency-based training and evaluation, analyzing the ability to pursue the work in each occupation. While the traditional style of TVET is taught on knowledge and technic by textbooks, CBT-A courses are constituted in order to acquire practical skills needed in the workplaces. The evaluation of trainees is done by the view point of practical skills as well. Presently, CBT-A is established in 57 occupations. However, the implementation is up to third level according to TVET institutes in Punjab and Sindh.
Apprenticeship	Apprenticeship is the On-the-Job-Training system in the industries’ workplaces. Although emphasis has been put in TVET, there are institutional issues such as limitation of the target sector (manufacturing only) and lack of merit to industries as well as lack of information available to trainees. Apprenticeship Act 2018 has been enacted and it targets all industry sectors and determines the obligations of industries, roles of NAVTTC such as provision of counselling to trainees and placement support for trainees and industries, and establishment of Apprenticeship fund. According to NAVTTC, while it is expected that 400,000 people a year are trained in the future, the total number of those trained remained 600 to 700 as of July 2019. Apprenticeship is being promoted also under “Skill for all” program explained

[25] NVQF level for job categories are defined by four items such as knowledge and understanding, skills, responsibility and qualification type.

	below.
Center of Excellence (COE)	COEs are model TVET institutes which can provide TVET courses to meet the necessary conditions of industry in Pakistan. COEs implement CBT-A courses, are equipped with machineries of modern technologies, and have training functions of managers, teachers and assessors. NAVTTC and TEVTAs agreed in November 2019 for establishing five COEs, one in each 4 provinces and Islamabad capital territory. The project is funded by TVET Sector Support Programme. VTI Kotri has been selected as the COE in Sindh.
Skills for All (Hunarmand Pakistan) program	"Skills for All" program has been launched by the Prime Minister and covers 14 cross-sectional areas of vocational training. The program consists of training in high-tech/end technologies, establishment of incubation centers as well as facilitation centers for workers abroad, providing apprenticeship training and so on. The program budget is PKR 9.8 billion. Online TVET courses are also provided under the COVID-19 situation.

(Source: Produced by the survey team based on policy papers and interview)

Status of applying NVQF level 5 to courses of the Government College of Technology (hereinafter, "GCT") is around 50 % in Khyber Pakhtunkhwa region and Kashmir, and 20 % in Sindh and Punjab regions, according to NAVTTC. TEVTA in Sindh has established the NVQF up to the level 4 and also started preparing the course materials of level 5 for 36 trades in December, 2019. Sindh TEVTA as well as private institutes started CBT-A courses of 132 trades in September 2020, with assistance from TVET Sector Support Programme. Punjab Board of Technical Education (hereinafter, "PBTE") which is a testing/qualifying body in Punjab, has prepared the examination materials of CBT-A courses up to level 3. With these circumstances, transition of training courses to CBT-A courses is in progress. However, a future issue is to operate CBT-A courses at level 4 and 5 of NVQF.

"National Skills for All" Strategy 2018 points out enhancing female participation in vocational training, setting a target that women account for 30% of all trainees. It was around 40 to 50 % at the TVET institutions visited in Punjab and Sindh during 2nd Field Survey and higher level of female trainees' participation was recognized. While all of the trainees in Stitching Machine Operators course at Pakistan Knitwear Training Institute[26] (hereinafter, "PKTI") were male[27] in 2015, there are now 60 % of females in February, 2020. Besides, there are more female participants than males in such courses as quality control and fashion designing. Other

[26] The implementing organization of the Project for Skills Development and Market Diversification (PSDMD) of Garment Industry of Pakistan supported by JICA

[27] JICA(2015) Report of the detailed planning survey for the Project for Skills Development and Market Diversification (PSDMD) of Garment Industry of Pakistan

TVET institutes also work on promoting female participation by organizing courses suitable for women in fashion areas such as dress making and beauty care.

(2) Policy for Industrial Human Resource Development (Province)

The followings are summary for industrial human resource policies in Sindh and Punjab.

1) Technology Development Plan by Sindh Government

TRSP published The Sindh Skills Development Plan in 2012 in line with NSS action plan for Sindh and the result of fact analysis concerning technical/vocational training in Sindh. In accordance with NSS contents, Sindh SDP reflected environment of regional socio-economy and needs for technology development expressed by enterprises' managements and Chamber of commerce and industries in its action plan. Purpose of Technical/vocational training policy in Sindh is to promote development of industrial human resources, to improve employability, to reduce poverty and to sustain economic development. Sindh is undergoing rapid economic growth but lacks industrial human resources. In order to promote employment of young ages, Sindh Government implemented Benazir Bhutto Shaheed Youth Development Program (hereinafter, "BBSYDP") and formed Sindh TEVTA (STEVTA).

According to STEVTA, it now follows the policy stipulated at "National Skills for All" Strategy 2018. Since there are many foreign companies residing in Karachi, it is required to enact an industrial human resource development policy based on provincial industrial policies as well as to provide TVET which meets the needs of industries.

2) Skills Development Plan by Punjab Government

Growth strategy of Punjab Government in 2018 is aiming for higher quality of employment toward higher income level, whose concept is also a basis concept of Punjab Skills Development Sector Plan 2018. As two third of population in Punjab is under 30 years of age, it is mentioned that education and technical development of young ages is a key for economic growth of Punjab.

Punjab Skills Development Sector Plan 2018 describes, based on analysis of labour market, its action should be focused on 1) supply of training based on needs of trainees, 2) supply of industrial human resources based on needs of employer side, 3) reduction of training costs.

Prioritized sectors stipulated in growth strategy are textile, light engineering[28], other high-value-added manufacturing, agriculture, livestock, health sector and educational equipment. It suggests to link technology development and technical/vocational training into clusters and value chain of these prioritized and high growth/employment sectors.

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[28] Punjab Small Industry Corporation defines products under the category of light engineering at" Diagnostic Study for Light Engineering Cluster, Gujranwala". They include domestic machineries and their spare parts, industrial and medical valves, fasteners, auto and motorcycle parts, kitchen sinks and fittings, and telecommunication equipment.

The same sector plan also mentions its effort for tackling issues on supply/demand between vocational training market and recruiting market. For example, one of the issues in vocational training market is limited opportunities for high quality training and in recruiting market narrow network channels based on personal connection and restriction on women's mobility. It also shows solution measures to the issues.

Punjab Government shows its idea to reform organization and systems, such as implementation of action based on mid-term strategy and ease of activities on reform of TVET, through establishment of one organization which bundles various TVET service providing institutions. Based on this direction, Punjab Skill Development Authority Act 2019 was prepared and it passed the provincial assembly in February 27, 2019. Detail will be explained in the next section of implementing structure in Punjab.

(3) Implementing Structure of TVET

TVET policies are developed by the Ministry of Federal Education and Professional Training and NAVTTC, and training is conducted by TEVTAs under each provincial government. Although there used to be departments of the governments managing technical education and vocational training, TEVTAs are now in charge of both areas. Current situations of implementing structure of TVET in each province as well as in major industrial sectors are elaborated below. Figure 2.3.1 shows the relation between the TVET policy and related organizations. Major federal and provincial government organizations in TVET sector are colored in purple, TVET institutions under those governments are in orange, and the institutions under different federal governments or private institutions are in green.

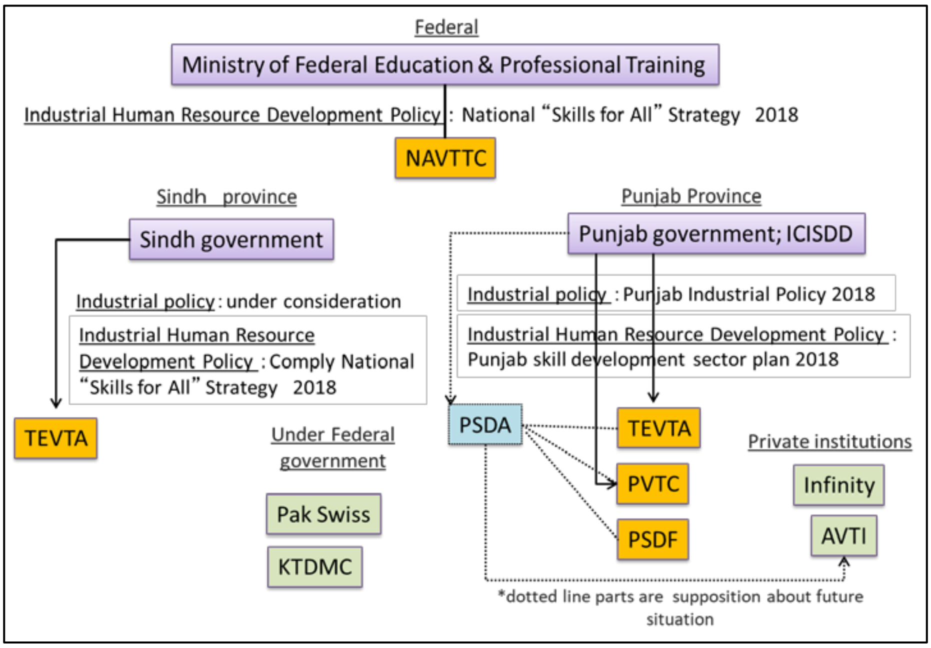


Figure 2.3.1 Major TVET Policy and Institutions in Federal and Province Level

1) Islamabad Capital Territory

1)-1 Ministry of Federal Education & Professional Training

It was established as the Ministry of Professional and Technical Training in July 2011 in the 18th constitutional amendment. After some reorganization, it became the current name of the Ministry in 2014. The Ministry consists of the departments of education, TVET and professional training. The Ministry is in charge of regulating the education policy at federal level and their functions are to formulate the national educational policy, to establish the standard of higher education and implementation, and to formulate and implement TVET policies.

1)-2 National Vocational & Technical Training Commission (NAVTTC)

NAVTTC is the organization which stipulates the direction of TVET policy at federal level. It has roles of enhancing coordination with the federal and provincial governments on TVET policy, and establishing/enhancing linkages with various stakeholders at international level. In recent years, NAVTTC puts emphasis on schematization and operationalization of NVQF.

Name of organization	National Vocational & Technical Training Commission (NAVTTC)
Year of establishment・Location	2005 as NAVTEC, Islamabad
Purpose of establishment	Established as an apex body to formulate TVET policy and promote the training implementation of TVET at the federal government level. The mission is to provide enabling environment to the public and private sector to implement training for skills development in order to enhance social and economic profile.
Function	・Formulate national policy, strategy and regulation on TVET ・Curricula development and management, training of teachers and course material development based on competency ・Accreditate TVET institutes ・Monitor and evaluate TVET institutes ・Promote Public-Private Partnership ・Provide the employment information service both for job seekers and companies ・Systematize and operationalize National Vocational Qualification Framework (NVQF) ・Introduce CBT-A ・Introduce Center of Excellences as the model schools of TVET
Organizational	Planning & Development, Skills Standards & Curriculum, Accreditation &

structure	Certification, Administration and Finance. Regional Offices
Website	http://navttc.org/

(Source: NAVTTC website, etc.)

The curricula which NAVTTC or TEVTAs in the regions prepare or certify are implemented by TVET institutions and testing/qualifying bodies evaluate and provide trainees with qualification. TVET institutions have to be registered with NAVTTC or TEVTAs and testing/qualifying bodies. Training courses need to be registered with the TEVTA in the region.

As an organization to enhance human resource development by industrial sectors at the federal level, the Federation of Pakistan Chambers of Commerce & Industry (hereinafter "FPCCI") summarizes the opinions from Chamber of Commerce and Industry in the provinces or industrial associations, and discusses issues such as setting criteria for each industry. Sector Skills Councils have been established in sectors such as textile, construction, hospitality and energy (electricity and gas). However, it is not functioning well according to NAVTTC.

2) Sindh

2)-1 Sindh TEVTA

The education department of the Sindh government used to be in charge of technical education and Labour department was for vocational training. Since STEVTA was established in 2008, it has been conducting technical and vocational training. STEVTA operates 252 schools in 23 districts.

Name of organization	STEVTA
Year of establishment・Location	2008, Sindh
Jurisdiction	Sindh government
Background of establishment	TVET in Sindh used to be managed by each TVET institute and lack of coordination hindered the effective TVET organized according to the policy framework of the federal and provincial governments. The government of Sindh established STEVTA and delegated management of all the TVET institutes in the province to it. In order to keep the autonomy and manage itself effectively, STEVTA board was established, consisting of representatives from public and private sectors from leading industries, and intellectuals from universities.
Purpose of	・Promote TVET trainings

establishment	・Establish teachings methodology & administration in TVET institutes ・Maintain infrastructure & equipment of TVET Institutes ・Improve employability for TVET trainees ・Improve faculty competencies through trainings ・Establish model institutions by upgrading existing institutions ・Establish Centers of Excellence ・Enhance Institute-Industry Linkages
Function	・Operation and management of 252 TVET institutes ・Job counselling center
Website	http://www.stevta.gos.pk/Default.aspx

(Source: STEVTA website, etc.)

2)-2 Sindh Board of Technical Education (SBTE)

Name of organization	Sindh Board of Technical Education (SBTE)
Purpose of establishment	Established to organize, regulate, develop and control technical, vocational, industrial and commercial education in the province of Sindh.
Function	Curricula development of TVET, quality assessment, testing and qualifying trainees, and registration and accreditation of training institutes.
Organizational structure	The headquarter is situated in Karachi and a branch is in Sukkur. There are 225 officers in total.
Website	https://www.sbte.edu.pk/

(Source: SBTE website, etc.)

2)-3 Other Organizations

Pakistan Industrial Development Corporation: PIDC

PIDC was established under the MOIP to support industries where the private sector was reluctant to invest and needed large amount of capital outlay with long gestation period. It implemented 94 industrial projects from 1952 to 1988 for enhancing industrialization in the industries such as cotton ginning, sugar mill, mine, chemical, fertilizer, cement and gas nationwide. PIDC established Karachi Tools, Dies & Molds Centre[29] (hereinafter, "KTDMC") in Karachi, which operates a manufacturing department of dies and molds as well as a training department to implement a diploma course.

[29] The detail will be explained at 4) TVET institutions in major industry sectors.

Skill Development Council: SDC

SDC Karachi was established in 2002 by the Pakistan government on the initiative of World Bank, ILO, and Employers Federation of Pakistan.

Its mission is to organize flexible and cost effective TVET training programmes based on the employers' needs. Presently it is under the Ministry of Federal Education and Professional Training. SDC provides training programs in the sectors such as finance, IT, business management and others.

Pak Swiss Training Center

Pak Swiss Training Center is a TVET institution established in 1965 by Pakistan Council of Scientific & Industrial Research (hereinafter, "PCSIR") which is under the Ministry of Science and Technology. It is still managed by PCSIR. SWISS CONTACT provided the fund and technical support to establish the training program. Currently the training center operates three Diploma of Associate Engineer (hereinafter, "DAE") courses shown below. Automobile OEMs and parts manufacturing companies evaluate the DAE courses highly for the technical aspect, since the practical training is well organized compared to DAE courses in other TVET institutions.

- Mechanical Technology with Specialization in Precision Mechanics to learn machine processing (3 years)
- Mechanical Technology with Specialization in Dies and Molds to learn manufacturing dies and molds, and produce metal and plastic parts with them (4 years)
- Instrumentation and Process Control Technology to learn process control (3 years)

3) Punjab

Industries, Commerce, Investment, and Skills Development Department of Punjab government (hereinafter, "ICISDD") is in charge of industrial human resource development. According to the Punjab skill development sector plan 2018 mentioned above, main training institutes in Punjab are Punjab TEVTA, PVTC and PSDF as shown in Table 2.3.14. There are private institutes, but the scale is not so large. Although there is segregation of roles according to their objectives of establishment, there seems also some duplication of training contents. Punjab TEVTA has the highest training capacity and provides from short term vocational training courses to technical education courses at diploma level. PVTC conducts short term vocational training for the targeted trainees under the poverty line. PSDF provides fund to private companies and training institutes for running training courses, and it also provides training for self-employed workers in rural areas. Brief overview is shown in the below table.

Table 2.3.14 Major TVET Institutes in Punjab

	Punjab TEVTA	PVTC	PSDF
Characteristics	Organize vocational training as well as technical education for trainees with wide range of levels of education and technic	Conduct vocational training for trainees under the poverty line	Organize training courses with private companies and training institutes as well as courses of livelihood improvement for youth in rural areas
Supervisory authority	Punjab government, ICISDD	Punjab government, ICISDD	Punjab government, Planning and Development
Areas for training implementation	21 districts in Punjab	36 districts in Punjab, regional cities	14 districts in Punjab (4 impoverished districts in south at inception)
No. of training institutes	- 335 Vocational training institutes - 43 GCTs - 20 service centers - 5 Staff training college	- 217 Vocational training institutes - Training courses in 73 trades	Consignment to private training institutes and companies - Around 400 Vocational training institutes - 150 companies
Training capacity(annually)	70,000 trainees	54,000 trainees	20,000 trainees
Ratio of female trainees	31%	51%	40%
Applicable NVQF level/Operational status of CBT-A courses	NVQF level 1 to 5/ Partial implementation	NVQF level 2 to 3/ Partial implementation	Unconfirmed (supposedly NVQF level 2 to 3 because of the short period of training)/ Partial implementation

(Source: Produced by the survey team based on Punjab skill development sector plan 2018, interviews, etc.)

As mentioned previously, Punjab Skills Development Authority Act 2019 passed the provincial assembly last year and Punjab Skills Development Authority (hereinafter, “PSDA”) is planned to operate in 2020 as the higher organization of major TVET institutes. ICISDD has jurisdiction of this organization and already appointed the Director General. PSDA is expected to have such functions as applying the national policy and criteria into TVET in Punjab, certifying and registering the public and private TVET institutes and their courses, establishing standard for trainers and assessors, coordinating in developing curricula and implementing training courses, and acting as a contact to receive assistance from development partners agencies.

3)-1 Punjab TEVTA

Name of organization	Punjab TEVTA
Year of establishment・Location	1999, Lahore
Jurisdiction	Punjab government, ICISDD
Background of establishment	Seven departments in Punjab government such as Technical education department, Labour department, Small Industry Cooperation department, Agency for Balani Area Development, Cooperation department, Agriculture department, and Industries department were consolidated.
Purpose of establishment	・ Provide demand driven technical & vocational training. ・ Re-engineer and consolidate the existing technical education and vocational training system under one management structure. ・ Develop a dynamic technical and vocational training system to ensure horizontal and vertical mobility. ・ Regulate and develop standards of technical education and vocational training including internationally recognized curricula, examination and certification system. ・ Upgrade teaching abilities, skills and knowledge of teaching staff. ・ Upgrade teaching equipment to the required standards. ・ Establish close relationship with various sectors of economy ・ Research the manpower training needs of the local and foreign market. ・ Enhance the participation of private sector in training activities at management level. ・ Establish a system of public coordination through boards of management at district level, coordinating all institutions in the district and their administration. ・ Set up regular monitoring/evaluation and feedback system for the vocational training.
Function	Operate and management of TVET institutes
Website	http://www.tevta.gop.pk/

(Source: STEVTA website, etc.)

3)-2 Punjab Vocational Training Council (PVTC)

Name of organization	Punjab Vocational Training Council
Year of establishment・Location	October 1998, Lahore
Jurisdiction	Punjab government, ICISDD
Purpose of establishment	Poverty alleviation through providing demand driven skill training
Function	Operate 217 vocational training institutes and conduct vocational training for trainees under the poverty line at 73 trades of courses including auto mechanic, electrician and stitching. PVTC conduct curricula development, teachers' training, facility preparation, examination & certificates, endowment of certificates/diplomas.
Organizational structure	Established on the basis of public-private partnership and is being operated by Muslim charity (Zakat) fund[30].
Website	http://www.pvtc.gop.pk/

(Source: PVTC website, etc.)

3)-3 Punjab Skills Development Fund（PSDF）

Name of organization	Punjab Skill Development Foundation
Year of establishment・Location	2010, Lahore
Jurisdiction	Punjab government, Planning and Development
Purpose of establishment	Established as a not-for-profit company set by the government of Punjab in collaboration with Department for International Development (hereinafter, "DIFD"). PSDF started its operations by giving skill training in the poorest districts of southern Punjab.
Function	PSDF organizes TVET courses, coordinating with around 400 TVET institutes and 150 private companies, by its function of financing the private institutes and companies.

[30] Budget had been provided by Punjab government, Zakat and Ushr Department. In 2019, the jurisdiction was diverted to ICISDD and possibly the budget also shifts to the department.

	【Formal training programmes】 PSDF has developed the formal training programmes and finance the private training providers to conduct them. **【Industrial Training Programmes】** ・Provide training in more than 10 sectors ・Employers can design the training programs, select the trainers in PSDF and organize it inside the company's facility. **【Community Based Programmes】** Training on agricultural technics is provided to agricultural and livestock farmers for improving productivity and income. The target is youth with self-employment objectives within their own community.
Organizational structure	Manages and utilizes the fund of Punjab Skill Development Programme[31] supported by Department for International Development (hereinafter, "DFID") and Punjab government and the fund of Punjab Skills Development Project by WB
Website	https://www.psdf.org.pk/

(Source: PSDF website, etc.)

3)-4 Other Organizations

Punjab Board of Technical Education (PBTE)

PBTE conducts the examinations of TVET courses, assesses and certifies the trains at diploma level or below. It also accredits the private training institutions and hundreds of them are registered at PBTE.

Technology Upgradation and Skill Development Company (TUSDEC)

TUSDEC was established in October 2014 for technology up-gradation in major industrial sectors. It is a wholly owned subsidiary of Pakistan Industrial Development Corporation. It is operated by a public-private partnership with its 2/3 board members from private and 1/3 from public sectors. It owns TUSDEC Skill Tech International Karachi which operates vocational training courses through which trainees can acquire the international certifications such as a British certification.

4) TVET Institutions in Major Industry Sectors

Implementation structures and contents of TVET for textile and automobile/motorcycle OEMs and parts manufacturing industries are summarized as the cases of major manufacturing industries of Pakistan. TVET institutions to visit for the survey were considered through hearing from

[31] DFID contributes 30% and Punjab government does 70% of the total budget.

experts of JICA projects such as ”The Project for Skills Development and Market Diversification (PSDMD) of Garment Industry of Pakistan”, ”The Project for Strengthening DAE in Mechanical Technology at Government College of Technology in Punjab Province” and ”The Project for Technical Support to Auto Parts Manufacturing Industry”. The industry sectors for the survey were decided as mentioned, from hearing of Small and Medium Enterprises Development Authority (hereinafter, “SMEDA”) at 2nd Field Survey, for the scale of industry including the value chain.[32] In textile industry, there are public institutions as well as institutions operated by industrial associations such as Pakistan Hosiery Manufacturers & Exporters Association (hereinafter, “PHMA”) and Pakistan Readymade Garments Manufacturers & Exporters Association (hereinafter, “PRGMEA”). In automobile industry, there are TVET institutions run by TEVTA in each region, other governmental institutions, and private entities.

4)-1 Automobile/Motorcycle OEMs and Parts Manufacturing Industries

In automobile/motorcycle and parts industries, there are diploma courses such as Auto & Diesel Technology and Mechanical Engineering by GCT and polytechnic institutes under TEVTA, short courses in auto-mechanic operated by vocational institutions. In Sindh, there are specialized diploma courses operated by public institutions under the federal governments such as Pak Swiss Training Center in machine processing and KTDMC in dies and molds manufacturing. In Punjab, there are many private institutions such as Infinity School of Engineering and Atlas Vocational Training Institute (hereinafter “AVTI”) which Atlas Honda group established two years ago, aside from the institutions such as Punjab TEVTA, PVTC and PSDF. These private institutions are registered with Punjab TEVTA.

According to the member companies of Pakistan Association of Automotive Parts & Accessories Manufacturers (hereinafter, “PAAPAM”), graduates from the DAE courses of Pak Swiss Training Center are skilled since they acquire technics such as grinding, turning or CNC turning/milling. Besides, there is only a little difference in skill level by the graduates. Therefore, member companies of PAAPAM hire the graduates as the junior supervisor even if they are new graduates without employment history. On the other hand, the difference of skill level by the graduates of GCT is rather large. By Japanese-affiliated companies and local companies visited, Pak Swiss Training Center was evaluated highly and reputation of NED University of Engineering and Technology was also good for the management level. They named other institutions such as Amman Tech and KTDMC; however, their evaluations were divided. Local as well as Japanese companies tend to think of GCT graduates as good in theory but not enough in practical skill. Major TVET courses for automobile/motorcycle OEMs and parts manufacturing industries in

[32] Other potential industries for export are mentioned such as leather, sport products and surgical instruments industries. However, SMEDA explained that those businesses are basically handled by each company and there is no supply chain in production.

Punjab and Sindh are summarized below.

Table 2.3.15 Major TVET Courses related to Automobile/Motorcycle OEMs and Parts Manufacturing Industries in Punjab

TVET institutes	Course	Duration
GCT, polytechnic and other institutes under Punjab TEVTA	DAE[33] in Auto & Diesel Technology, Mechanical Engineering	3 years
Vocational schools under Punjab TEVTA	Auto & Farm Machinery Mechanic, Auto-Mechanic, Tractor Mechanic, Motor cycle Mechanic, Inspection & Quality control of Auto-parts, Electronic Automotive Diagnostic & Engine Tune-up	3 months – 2 years
Infinity School of Engineering	Material Testing & Heat Treatment, Tool & Die Making, Auto Mechanic	6 months
Atlas Vocational Training Institute	Fitter General[34], Machinist, Welder, Motorcycle Mechanic	6 months, 12 months
PVTC	Auto-mechanic, Motorcycle Mechanic, Auto Electrician	12 months

(Source: Produced by the survey team based on interviews, collected documents, etc.)

[33] Diploma of Associate Engineer
[34] Mechanic for assembly of machines/machine parts

Table 2.3.16 Major TVET Courses related to Automobile/Motorcycle OEMs and Parts Manufacturing Industries in Sindh

TVET institutes	Course	Duration
NED University of Engineering and Technology	BE[35] in - Mechanical Engineering - Automotive & Marine Engineering - Industrial & Manufacturing Engineering	4 years
GCT, Polytechnic and other institutes under STEVTA	DAE in Auto & Diesel, in Auto & Farm and in Mechanical	3 years
KTDMC	DAE in Dies & Mold Technology	3 years
Pak Swiss Training Center	DAE in - Mechanical Technology With Specialization In Precision Mechanics & Instrument - Mechanical Technology With Specialization In Dies & Molds Technology - Instrumentation and Process Control Technology	3 years
Vocational schools under STEVTA	Auto Body Repair, Auto Electrician, Auto Mechanic, Sheet Metal, Tractor Mechanic, Welding, etc.	3 months – 1 years

(Source: Produced by the survey team based on interviews, collected documents, etc.)

4)-2 Textile Industry

In textile industry, there are training courses by TVET institutes under TEVTAs in each province as well as under industrial associations such as PKTI, Pakistan Readymade Garments Technical Training Institute[36] (hereinafter, "PRGTTI") and Institute of Knitwear Technology, Karachi. There is also National Textile University which provides human resources in various areas such as engineering, production/quality management, research & development, designing and marketing. Companies such as Masood Textile Mills Ltd. established in-house training centers to provide training according to its own job requirement and employ the trainees. While National Textile Universities in Faisalabad and GCT provide trainings to engineers or candidates for management positions, vocational schools of industrial associations and TVET institutions run short courses from 3 months to 1 year to train semi-skilled workers and self-

[35] Bachelor of Engineering
[36] The implementing organization of the Project for Skills Development and Market Diversification (PSDMD) of Garment Industry of Pakistan supported by JICA

employed workers. There were not many reputations heard about particular institutions from local textile companies.

Table 2.3.17 Major TVET Courses related to Textile Industries in Punjab

TVET institutes	Course	Duration
National Textile University	BS in Yarn Manufacturing, Weaving, Knitting, Textile processing, Garment manufacturing, Polymer engineering and Materials & Testing	4 years
GCT, Public and private polytechnic institutes	DAE in Textile Spinning, in Textile Weaving, in Textile Dyeing & Printing and in Dress Designing & Making	3 years
Vocational schools under Punjab TEVTA	Dress Making (Basic/Advance), Fashion Design, Textile Design, Industrial Stitching Machine Operator, Industrial Stitching Machine Operator (Denim), Machine Embroidery, Domestic Tailoring, Fabric Printing Knitting Machine Operator, etc.	3 months - 2 years
Vocational schools run by industrial associations(PKTI, PRGTTI, etc.)	Stitching Machine Operators, Knitting Machine Operators, Quality Control, Fashion Designing, Pattern Drafting and Grading, CAD/CAM, Production Planning & Control, Dress Making, etc.	3-6 months
PVTC	Industrial Stitching、Fashion Designing、Dress Making、Domestic Tailoring	6 months, 12 months

(Source: Produced by the survey team based on interviews, collected documents, etc.)

Table 2.3.18 Major TVET Courses related to Textile Industries in Sindh

TVET institutes	Course	Duration
GCT, Public and private polytechnic institutes	DAE in Textile Spinning, in Textile Weaving, in Textile Dyeing & Printing and Garments	3 years
PHMA Institute of Knitwear Technology, Karachi (IKTK)	Stitching, Fashion Design & Management, Pattern Making & Cutting, Production Planning & Management, Merchandising (Basics/Advance), Export Import Documentation	2-6 months
Vocational schools under STEVTA	Textile Weaving, Dress Making & Designing, Pattern Making	3 months - 1 year

(Source: Produced by the survey team based on interviews, collected documents, etc.)

(4) Coordination Structure of TVET Institutes with Private Industries

1) Sindh

Although Industry Coordination department in headquarter of STEVTA and Institute Management Committee[37] in each school cooperate with corporate managers, STEVTA regard coordination as not enough. The job titles which graduate anticipated and which the companies placed were not matched sometimes and the level of NVQF and the job position in the company need to be adjusted. Furthermore, STEVTA mentioned the necessity to have criteria of human resources from industries, with respect to technic and ability. Based on the criteria, they would like to prepare curricula, trainings for teachers and procurement of machineries. GCT S.I.T.E under STEVTA coordinates with private companies by industrial coordinators and representatives of teachers for each course. They coordinate company and school visits by students and companies. The school has relation with around 100 companies. Further, they support recruitment in cooperation with their former graduates who work in the companies.

Employment routes of graduates from NED University of Engineering and Technology are often to automobile/motorcycle OEMs and suppliers of automobile parts. They are often recruited by Japanese-affiliated companies such as Hinopak Motors Limited, Indus Motor Company Limited, Pak Suzuki Motor Co., Ltd and Atlas Honda Limited. Some general manager level of employees at those companies had graduated from the university and companies' needs are also heard from them, and the curricula are often revised, reflecting their opinions. As an organization, Directorate of Industrial Liaison is in charge of such coordination with companies as job fair inside the school, company visit, and internship (six weeks, requisite).

At Pak Swiss Training Center, the principal directly receives phone calls from companies and also works in cooperation with industry associations such as PAAPAM.

2) Punjab

In Punjab TEVTA, while Academic Wings at the head quarter seizes and analyzes the industrial needs, Board of Management placed at 21 districts conducts needs survey of companies in the area, decides the trades for training, and adjusts course contents from the job requirement. Industry Placement Officer at each school assists students on recruitment, and District Placement Office manages and supervises activities at each school. Punjab TEVTA operates Skilled Labour Market Information System as the portal website for recruitment, posting both information of students seeking jobs and companies offering jobs. However lack of companies to request for receiving interns and strengthening the linkage with industries is the issue. At GCT Railway Road, Institute Advisory Committee (upgraded from Institute Management Committee) works on enhancing linkages with industries on internship and recruitment. The Chamber of Commerce

[37] It consists of representatives from local industries and industry associations, the principal, STEVTA, and so on.

and Industry participates in the committee and department heads from the school are also the members of it.

In PVTC, Administration and Placement office deals with coordination with industries and three officers are placed in headquarter and two in each 14 districts' office and one in each school. At each district, the staffs establish a close relationship with industrial associations, trade unions and clusters which become the candidates for receiving interns and recruitment. After finishing vocational courses, there is two months of internship at companies. Around 80% of the trainees take employment at the same company. PVTC also operates some schools jointly with companies such as foreign or local large companies.

PSDF consigns vocational training to around 400 private vocational training institutes and 150 companies with Skill Development Fund. 98% of consignment is through private sector. At Industrial Training Program in which companies implement training, the companies propose the curricula to PSDF and Punjab TEVTA certifies them.

(5) Issues on Policy and Implementing Structure for Industrial Human Resource Development

This part will elaborate the issues recognized by the federal and provincial governments as well as the survey team. The following Table 2.3.19 summarizes the issues.

Table 2.3.19 Issues on Policy and Implementing Structures for Human Resource Development

	Issues recognized by organizations for industrial human resource development	Issues recognized by the survey team
Federal level	a) Operationalize NVQF and provide CBTs b) Coordinate with private companies and private training institutes c) Provide training to females and youths d) Coordinate with informal economy e) Improve image of vocational schools by PR activities	a) Methodology of operationalizing prioritized programs such as NVQF, CBT-A and Apprenticeship b) Lack of TVET strategies by industrial sectors c) Stagnation of female graduates' employment
Sindh	a) Enhance coordination with industries b) Identify criteria of human resources from industries (in technic and ability) and prepare curricula, trainings for trainers and procurement of machineries based on the	a) Policy for human resource development has not been developed b) Improve the level of TVET in prioritized industrial

	Issues recognized by organizations for industrial human resource development	Issues recognized by the survey team
	criteria.	sector c) Training institutes' coordination with industries is dependent on the officers in charge, lack of coordination methodology
Punjab	a) Lack of companies for coordination b) Update machineries at eleven GCTs c) Lack of trainers d) Research on the need of vocational training by industrial sectors e) Implementation of vocational training on the industrial sector where vocational institutes do not exist (ex. motorcycle industry)	a) Duplication and lack of training resources among TEVTA, PVTC and PSDF b) Deviation of levels among TVET institutes c) Training institutes' coordination with industries is dependent on the officers in charge

1) Issues recognized on Industrial Human Resource Development by Governmental Organizations

There are similar issues faced among the federal government, Sindh government and Punjab government in policy and implementing structure aspects. Duplication of service among TVET institutes, improvement in quantity and quality of TVET, national vocational qualification framework, coordination with private companies and private training institutes, enhancement of training on female and youth workers, coordination with informal economy, research and study, and improvement of TVET image through PR activities. There is, however, a gap on the status of implementation in programs for each issue.

STEVTA mentions the coordination with industries as the prioritized issue. They believe that it is necessary to recognize criteria of human resources from industries in technic and ability, and the matching situation between the graduates' levels and the job positions which companies expect at recruitment. Based on the criteria, they will set the level of each course, prepare curricula, conduct trainings for trainers and procure machineries.

Punjab TEVTA thinks the necessity of more coordination with industries (more companies to ask for receiving interns), more trainers (short by 20 to 30 % to the required number) and renewal of machineries for DAE courses of Electricity, Textile and Auto & Diesel at eleven GCTs in the province. In the same manner, PVTC considers challenges as lack of trainers, coordinating companies, machineries and female trainees. PSDF recognizes the issues as conducting research on the need of vocational training in the unexamined industrial sector and implementing vocational training on the industrial sector where vocational institutes do not exist such as in the motorcycle industry.

2) Issues on Industrial Human Resource Development recognized through the Field Survey

Although STEVTA is the only major TVET institution in Sindh, reputation was not so good from local automobile parts suppliers visited and there was a gap between that of training institutes such as Pak Swiss Training Center or KTDMC managed under federal governments. At Textile Spinning/Weaving and Auto and Diesel DAE courses in GCT S.I.T.E, many of old machineries did not work and lectures depended on video, textbooks and occasional practices at companies with request basis: Trainees cannot acquire enough practical experience. On the other hand, at DAE in Garments or Food Preservation courses of GCT Karimabad under STEVTA, there were also old machineries, however they seemed well maintained. The school utilized many kinds of machineries to their classes. The level of operation is thought to be different on each school.

In Punjab, there are three major training intuitions namely TEVTA, PVTC and PSDF. Although there is a division of roles, each organization faces lack in trainers, machineries, fund for operation and coordination of duplication and optimizing resources is anticipated among them. PSDA is planned to be established as a higher-level institution.

TVET institutes in both regions establish the coordination mechanism with local industries by setting up committee such as Institute Management Committee as well as a recruitment assistance department (one or two officers) in the schools. On the other hand, the coordination between the person in charge of recruitment assistance and companies is often personal and information about graduates is not reached widely to companies. Partly because of these situations, companies which receive interns and recruit graduates are limited to a portion of foreign and large companies. Communications with recruitment officers in companies need to be increased by enhancing mechanism for industrial associations to disseminate the information to member companies, mechanism to share information with companies online, networking events and school visits.

2.3.3. Employment

(1) Issues on Employment in Pakistan

Judging from mid-term development plan, policies for industrial human resource development and other statistics relating to labor power and employment, the survey team found out various issues of employment in Pakistan such as promotion of employment of youths and women, expansion of employment by improving the technical capability for particular industries, acquiring the competitiveness of overseas workers, income improvement in informal sector employees and promotion of start-up enterprises. Table 2.3.20 shows the summary.

Table 2.3.20 Major Issues on Employment in Pakistan

Issues	Current situation
Employment of women	School entry and employment rate of women tend to increase, however female participation in labor market is low at 22.8% and there is still big difference with male rate at 81.1% in 2017-2018. Even in the apparel industry where female employment is relatively higher than in other industries, percentage of female employee was around 20% in the companies visited. The majority of employee was male. The reasons would come both from the aspect of companies' recognition and the aspect of the employees' limitation. As for the former aspect, since there are more male workers who have received TVET or work experience, many company managers tend to think males' skills are higher than those of females. On the other hand, some advanced companies such as Masood Textile Mills Ltd understands the superiority of female workers and strategically conducts training and recruitment of them. As for the latter aspect, there are limitations such as transportation, distance to workplace, working hours, working environment, security, availability of day nursery and understanding from the family[38]. There are limited numbers of companies which can provide the transportation such as a rotation bus.
Expanding employment for particular industrial sectors	・Automobile/motorcycle OEMs and parts manufacturing industries : Under recent market stagnation, some companies work on downsizing labour workforces especially at worker level. On the other hand, OEMs facilitates domestic procurement in response to the special tariff imposed on imported parts and devaluation of Pakistan Rupee. Automobile OEMs need engineers on parts assembly, welding, and painting. Motorcycle OEMs need mechanics and machinists. Parts manufacturing companies need engineers on sheet metal processing, dies and molds manufacturing/heat treatment, machine processing such as CNC operation, casting, forging and injection molding. For casting and forging positions, companies tend to hire the experienced engineers. ・Textile industry：Continuous growth of export is recorded both on the knit wear segment such as T-shirts and polo shirts and ready-made garments segment such as

[38] JICA "Project for Skills Development and Market Diversification (PSDMD) of Garment Industry of Pakistan" (2016－2017)"Social and Gender Survey Report"

	denim jeans and business uniform.[39] The growth results from the steady transition of the US and Europe markets as well as growth of east Asia market including Japan. Accompanying this sound market trend, employment has been increasing. Industries put emphasis on the skill development of human resources. Some companies train human resources by themselves according to the job requirement of the companies. Other companies recruit them with skills accumulated by TVET institutes or persons with previous work experience. The most needed positions in textile industry are sewing workers. Graduates from TVET institutes such as PKTI and PRGTTI belonging to industrial associations, tend to be recruited promptly.
Expansion of overseas Pakistani employment	Main countries for Pakistani workers' employment are Saudi Arabia, Oman, Qatar and other Gulf region. The number of employment is reducing in recent years. Moreover, majority of employment is for simple labor and those workers are less competitive to workers from other countries. Utilization of technical/vocational training is necessary also in view of promoting employment opportunity in overseas.

(Source: Produced by the survey team based on interviews and references)

In relation to the employment of females, GCT Karimabad in Sindh is a school for women and conduct DAE courses in Garment, Computer Information Technology, Architecture and Food Preservation. According to the principle of the school, female workers have some limitations such as that they are not able to work overtime after 5 pm. However, there is no issue about commuting since they can use public transportation. Besides no harassment issues according to gender have been heard, after the graduates were employed. While the situations of transportation, working environment as well as understanding from the family vary depending on the places, increasing females who have received training would lead to change evaluation of female workers.

With regards to the employment rate from TVET institutes and universities, they are around 40～80%[40] for vocational training institutes conducting short courses, around 50% for GCT and around 75～90% for universities, according to hearing from the visited schools and publicized information. Many of graduates from short courses engage themselves in self-employed businesses. The employment rates of vocational training courses run by industrial associations are higher than those of other vocational institutes. The reason would be that there are member companies which can receive interns and recruit the graduates. Around half of GCT graduates enter higher education. Majority of the university graduates takes employment, although small number of graduates chooses further study. Generally, students or the trainees choose the company

[39] https://www.trademap.org/Index.aspx (accessed on May 12, 2020)
[40] The range of the point is wide because some institutes include self-employed persons in the employment figure and the others do not.

for employment through i) participating in career fairs or one to two month internship during the training course, or ii) being matched with companies by staffs in charge of recruitment assistance at schools (Industry Placement Officers) or by past graduates working in companies. Japanese-affiliated companies as well as local companies recruit the graduates with GCT or higher education as candidates for manager positions. Japanese automobile/motorcycle OEMs have relation with particular universities and recruit the candidate managers every year from them.

As described in Table 2.3.21, around 40% of total employment consists of employees, and more than 50% is self-employed and labor provider for family.

Table 2.3.21 Types of Employment (%)

Types	2014-15			2017-18		
	Total	Male	Female	Total	Male	Female
Total	100.0	100.0	100.0	100.0	100.0	100.0
Management	1.4	1.7	0.1	1.4	1.7	0.1
Own account workers[41]	36.1	40.9	20.4	34.8	39.1	19.5
Contributing family workers[42]	23.8	14.5	54.5	21.4	12.9	51.9
Employee	38.7	42.9	24.9	42.4	46.3	28.5

(Source: Pakistan Bureau of Statistics[43])

Related to this figure, more than 70% are employed work for both male and female[44] in informal sector, especially this rate is more remarkable in rural regions. In many cases self-employed person and informal sector worker cannot earn sufficient amount of money. Thus, income generation through employment promotion and support for start-up is challenging issues.

2.3.4. Result of Discussion with and Hearing from Japanese Companies and Organizations

According to JETRO[45] survey, recruitment and education of human resource is not listed as highly prioritized issues by Japanese enterprises. On the other hand, wage hike was reached beyond 10% in 2018-2019 and 2019-2020, which was the highest rate among 19 countries

[41] Pakistan Bureau of Statistics defines own account worker as a person working during the reference period, on own account or with one or more partners at a "self-employment job", without any employee engaged on a continuous basis. Thus, it is interpreted as self-employed.
[42] Pakistan Bureau of Statistics defines contributing family worker as a person who works without pay in cash or in kind on an enterprise operated by a member of his/her household or other related persons. Thus, it is regarded as labor provider for family.
[43] Labour Force Survey 2017-18
[44] Source: Pakistan Bureau of Statistics, Labour Force Survey 2017-18
[45] JETRO, 2018 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania

surveyed. The level of wage itself was considered lower than those of other countries and recruitment was relatively easy, which was a positive factor for investment. (By 2018 survey)

However, it may soon become a substantial issue if diminishing cost advantage is lost by continuous wage hike. According to JETRO survey 2018, number of Japanese manufacturing FDI regarded worker's wage hike, low quality of employees, difficulty in the recruitment of middle management, low settlement rate of employees and difficulty in the recruitment of technical human resources as the management concerns of the local human resources recruitment. Non-manufacturing FDI listed education and retaining the hired human resources as a serious issue for local market development.

Below is the summary of the issues recognized by Japanese companies on human resource development and employment, based on the result of the questionnaire survey conducted by the Survey and its 2nd field interview.

(1) Issues on Human Resource Development recognized by Japanese Companies

According to the questionnaire feedback of the Survey, only one Japanese company out of 23 respondents recognized and updated the situation of TVET institution[46]. It means that not many Japanese companies receive information from TVET institution. With regards to the capability of human resources, Japanese companies recognize several challenges at management and worker levels (14 and 10 respondents each). The breakdown is as follows; lack of education level was the most outnumbered answer, followed by inappropriate work ethics, unmatured specific skills of products/services, cultural gap and language issues. Some companies are worried about the high turnover ratio of employees under training processes. Comments below were addressed[47] by the Japanese companies at the 1st and 2nd field interviews. In general, the training courses didn't fully cover the technical areas in need of Japanese companies.

- More students in mechanical engineering need to be trained in Pakistan if the country plans to develop automotive or engineering industry. (Representative of a trading company)
- Since local procurement and mass production of the automobile and motorcycle parts depend on the domestic production capability of dies and molds, there should be training courses specializing on the dies and molds manufacturing. (Representative of an automobile/motorcycle parts manufacturing company)
- In higher education, needs of industries don't match with courses contents. (Representative of a trading company)
- Technic is not easily established in auto-parts sectors through technical guidance. Even though trainees received the guidance, there are cases that they could not continue the

[46] At free answer section
[47] Answers are indicated after the bullet point followed by the background of respondent in the parenthesis.

training after the experts returned to his/her country or the employees changed jobs after acquiring the technic. (Representative of a trading company)

- Line workers' basic education level is low such as secondary school level, evidenced by no English speaking capability and low literacy rate.(Representative of an automobile/motorcycle OEM)

In order to increase employment of Pakistani workers in foreign companies including Japanese companies, there are needs of TVET courses specializing on technical areas such as machine processing, along with dies and molds manufacturing.

(2) Issues on Employment by Japanese Companies

As evidenced by the answers to interviews of the Survey with Japanese companies, many companies did not regard recruitment and employment of human resources as critical issues for their management, similar to JETRO past survey. There is a case that key decision factor for FDI into Pakistan was lower wage level compared with other Asian countries. According to the result of questionnaire prepared by the Survey, issues in employment were headed by the surge of labour cost (10 respondents), followed by the difficulty in securing the labour force (6 respondents) and several constraints with regard to employment (4 respondents). "Difficulty in securing the labour force", consists from high turnover ratio[48] and securing female workers with three respondents for each. Textile industry and some relevant industries need female workers. However, there are issues such as the place of the company, working environment and skill levels of the female human resources.

During the interview, recruiting human resources at the management level was recognized as the critical concern. The followings are their comments on human resources at the interview:

- Joint Venture (JV) partner established its own vocational training school and hired dozens of its graduates as instructors; 600 applications rushed into 30 seats, and then vocational training school had to close the enrollment. (Representative of an automobile/motorcycle OEM)
- The issue of the company is to recruit the competitive managers who can direct subordinates, considering company's cost and profit. Next priority is to recruit the leader of the production department who can supervise workers technically and solve the technical problems. (Representative of a manufacturing company)
- Loyalty of each person for the company is low, and then quite a few jobs hopping are seen, especially among the young workers. (Representative of a trading company)
- After training in Japan, nearly half of trainees resigned soon after returned to Pakistan.

[48] There are answers such as sales employees shifting to another company with higher salary, changing jobs after receiving trainings and improving their skills, and female workers resigning after marriage.

(Representative of a trading company)

- There is no middle management, particularly in SMEs. Only top management and workers remained in the company, and human resources supervising production lines are missing.（Representative of an automobile/motorcycle OEM)
- Current issue is to hold the employees both at worker and management levels and to prevent them to move to new jobs. There are many local job seekers searching for the careers abroad such as in the Middle East.（Representative of an automobile/motorcycle OEM)

For Japanese companies and local large companies in which working environments are better than those of other local companies, recruitment of human resources at worker level is not difficult. On the other hand, challenges are observed even for these companies to employ and keep trained middle managements and engineers.

(3) Assistance expected on Human Resource Development by Japanese Companies

From the overview of the questionnaire to Japanese companies, we concluded that especially manufacturing companies which established and hired large number of employees were supposed to be more aware of recruitment and human resource development with the urgent concerns and to have higher needs on coordination with TVET institutions. Therefore, we conducted additional interviews to five Japanese companies[49] mainly in the manufacturing sector in order to hear their needs and expectation for assistance on human resource development. The results are classified per items, and the contents are shown at Table 2.3.22. Their opinions are about technical and system assistance as well as information sharing and coordination assistance among related organizations. They mentioned the assistance on technical and institutional issues, hoping for long-term effect both for Pakistan and Japan as well as on information sharing and coordination among organizations.

Table 2.3.22 Areas of Assistance expected by Japanese Companies visited

Item	Contents
Information sharing and placement of human resources	Information sharing of trainees after the training, job placement assistance on them, and enhancing coordination with TVETs institutes on recruitment
Technical training on particular areas	Human resources development on the technical areas which are high in local procurement needs but are not dealt with in Pakistan (Dies and Molds Designing/Manufacturing/Heat Treatment)
Coordination	Training provision on new technical areas, recruitment assistance and

49 Companies managed by Japanese officers are included, irrespective of the percentage of stocks hold.

among public and private TVET institutes	sharing use of machineries and equipment for training courses, will be done in collaboration between the TVET institutes run by the company group and by governmental organizations.
Human resource development considering also sending to Japan	Training is provided compatibly with Japanese systems of “Specified Skilled Worker” or “Technical Intern Trainees”

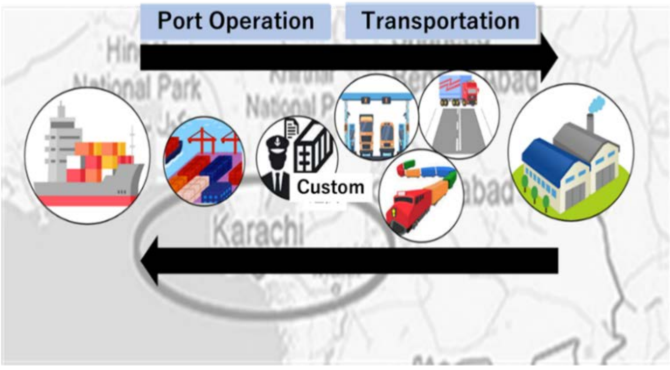
(Source: Produced by the survey team based on interviews from Japanese companies)

2.4. Infrastructure in Karachi (Logistics infrastructure)

2.4.1. Survey Scope and Target

Regarding the scope and target of the infrastructure survey, it was decided to specialize in "Infrastructure related to port logistics in Karachi in Sindh" in consultation with JICA.

The image of the specific survey scope is as follows.

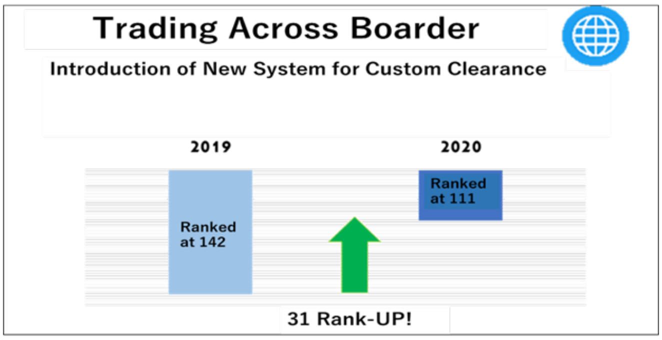


(Source: Survey Team)

Figure 2.4.1 Image of Specific Survey Scope

2.4.2. Current Status of Pakistani Logistics Infrastructure

In recent years, the Government of Pakistan has been improving logistics infrastructure with the cooperation of development partners such as the World Bank (see Figure 2.4.2 below).



(Source: WB EODB)

Figure 2.4.2 Ranking of Trade Across Boarder in WB EODB

Logistics in Pakistan is mainly through ports centering on Karachi Port and Muhammad Bin Qasim Port (hereinafter, "Port Qasim"), by air transportation through airports, India, China, Afghanistan and Iran. Some of them come via land routes, but statistical data show that more than 80% of Pakistani total imports and exports (on a monetary basis) are brought through ports.

In Pakistan, there are three ports, Gwadar Port[50] in Balochistan Province, Karachi Port, and

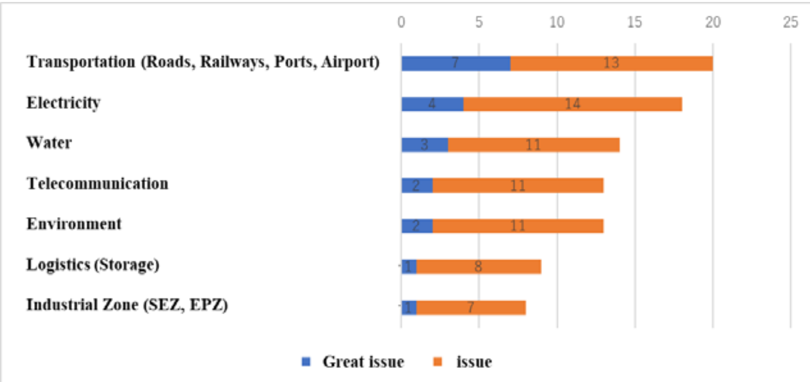
[50] The Gwadar Port in Balochistan Province in the southwestern part of Pakistan was transferred to a Chinese company in 2013 and its redevelopment has progressed as a core project of the CPEC concept. As an international port with container terminal 4, bulk

Port Qasim, but most of the total cargo is handled in Karachi Port and Port Qasim.

The Gwadar Port Authority, the gateway to CPEC, will begin handling transit trade in Afghanistan and the port development project is expected to be completed by April 2021(In November 2016, when China's cargo was transported by land to Gwadar Port for sea transportation to Africa and West Asia, the port was already partially operational).

2.4.3. Results of Questionnaire to Japanese Companies

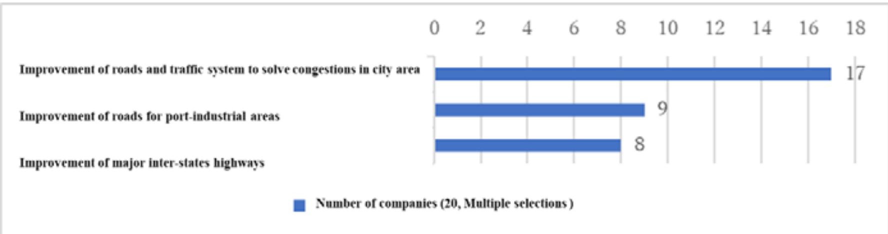
In the questionnaire survey to Japanese companies on issues related to Pakistani business environment, 23 companies pointed out that the status of infrastructure in Pakistan is one of issues. The categories of the issues in infrastructures are as follows.



(Source: Survey Team)

Figure 2.4.3 Issues in Infrastructures in Pakistan

Many of the respondents mentioned issues related to transportation infrastructure, especially road infrastructure. The details are summarized below.



(Source: Survey Team)

Figure 2.4.4 Issues in Transportation Infrastructures

terminal, grain terminal and oil terminal. In 2016 the port was reopened, and its commercial operation started in October 2019, but the handling volume in the first half of 2020 was very limited (according to information from the Gwadar Port Authority etc.).

The following specific points/reply were given as the issues of road infrastructure.

【Traffic alleviation】

- Elimination of chronic congestion in the city center in Karachi city (National Road No.5, Malir River Bridge, and urban expressways)
- Establishment of a new bypass to alleviate traffic congestion on airport roads (Karachi)
- Establishment of crossovers crossing to alleviate traffic congestion (Karachi)

【Road repair/paving】

- Repair of the road from National highway to Merahn highway (Sindh)
- Road paving around EPZA (Karachi)
- Repair of access road from the center of city to SEZ (Karachi)
- Improvement of road quality (Need support for road maintenance technology)
- Improvement of road designing (against flooding and depression)
- Improvement for paving of small roads and paths

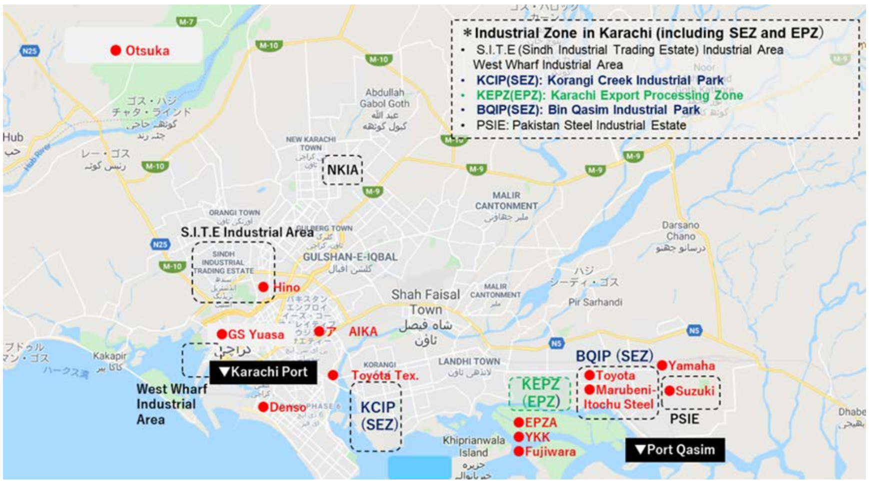
【Maintenance of Major Roads】

- Expansion of road width on highways
- Continuation of maintenance of major roads between Karachi and Lahore
- Development of highway between Hyderabad and Multan
- Improvement of the access from Karachi fish market to airports and highways (Karachi)

【Other】

- Construction period is too long (Lahore Multan RD).
- Thorough adherence to traffic rules (for example, crackdown on illegal motorcycles, phase-out of rickshaw)
- Enhancement/Expansion of public transportation
- Road blocks in urban areas only increase confusion and various logistics risks.
- There are transportation regulations/rules but it is not functioning.

From the results above, it is noted that traffic congestion and poor road condition in the Karachi area are major issues. The locations of industry zones and manufacturing/assembling Japanese companies in the Karachi area are shown in Figure 2.4.5 below. (Karachi Export Processing Zone/KEPZ is marked in green).



(Source: Survey Team)

Figure 2.4.5 Industrial Zone and Japanese Manufacturers

2.4.4. Public Administration for Logistics Infrastructure in Karachi

According to Pakistani law, infrastructure development is basically the responsibility, authority, and control of each province.

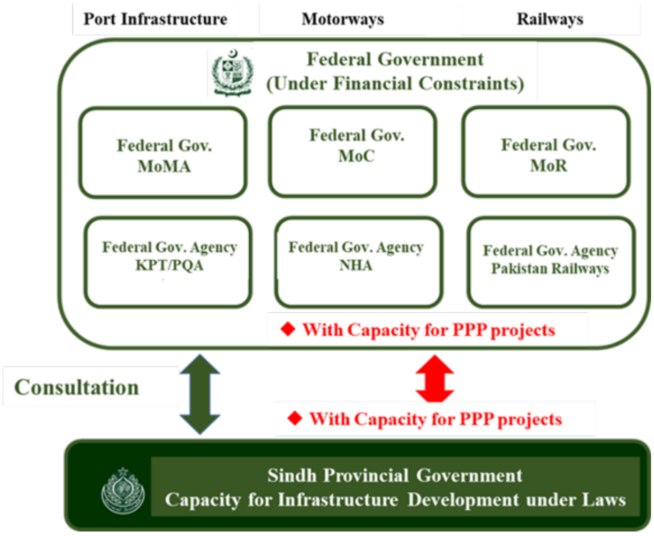
However, the development and management of ports are responsible under the Federal Ministry of Maritime Affairs (hereinafter, "MOMA") and its governmental agencies, Karachi Port Trust (hereinafter, "KPT") and Port Qasim Authority (hereinafter, "PQA").

The Federal Ministry of Communications (hereinafter, "MOC") and its governmental agency, National Highway Authority (hereinafter, "NHA") are in charge of the development and management of inter-states the motorway, while those for railway are responsible by the Ministry of Railways (hereinafter, "MOR") and its federal agency (Pakistan National Railways).

Since the federal government is under severe financial constraints, the NHA and Pakistan Railways are focusing on the implementation of large-scale projects under the scheme of PPP (Public Private Partnership). The budget for new road development is limited in the Public Sector Development Program for 2019-2020 (new construction is 25% or less in the MOC's budget including NHA).

On the other hand, the provincial governments such as Sindh are also looking forward to the development of large-scale transportation infrastructure by the PPP scheme, and there are some projects that require coordination between the federal government and the provincial governments.

Even in PPP projects led by NHA or other federal government agencies, it is important to discuss and cooperate with the provincial government regarding environmental and social considerations, acquisitions of lands and right of ways for projects, and other permissions to be issued by the provincial governments（Figure 2.4.6 below shows the image of the administration in charge of the development of logistics infrastructure in Karachi area).



(Source: Survey Team)

Figure 2.4.6 Public administration for logistics infrastructure in Karachi

Along with Punjab Province, Sindh Province has enacted the PPP Law ahead of the federal government[51] and is promoting infrastructure development through PPP, and the PPP unit under the State Government Finance Bureau is the center. We are promoting a PPP business. The following 10 projects have been completed.

Project Name	Department	Cost	Project Structure
Hyderabad Mirpurkhas Dual Carriageway	Road & Transportation	PKR 6.8bn	Toll road with Minimum Revenue Guarantee (MRG)
Jhirk Mulla Katiyar Bridge	Road & Transportation	PKR 4.5bn	Annuity based payments
Karachi Thatta Dual Carriageway	Road & Transportation	PKR 8.8bn	Annuity based payments
Safety and Security at NICH	Health	PKR 135m	Management Contract
Performance-Based Contracts Health‐ 2015	Health	Variable	Management Contracts
Children Hospital North Karachi	Health	Variable	Management Contract
Regional Blood Centers	Health	Variable	Management Contract
Sindh Ambulance Service	Health	Variable	Management Contract
Teachers Training Institute - Hussainabad	Education	Variable	Management Contract
Education Management Organizations	Education	Variable	Management Contract

(Source: PPP unit, Government of Sindh)

51 2010 Sindh Parliament approves THE SINDH PUBLIC-PRIVATE PARTNERSHIP ACT, 2010 (SINDH ACT NO: V OF 2010)

In addition, the projects currently underway are as follows (at November, 2020).

Sindh live PPPs	Sector	Cost	Project Structure
Ghotki Kandkot Bridge	Roads & Transportation	PKR 14bn	Annuity based payments
Malir Expressway	Roads & Transportation	PKR 28bn	Toll road with Minimum Revenue Guarantee (MRG) support
Dhabeji Special Economic Zone	Industrial Development	PKR 19bn	Revenue sharing model with a windfall sharing Mechanism

Source: PPP unit, Government of Sindh

Currently, the Sindh government is preparing to implement 16 projects, including the following projects, using the PPP method.

Prominent projects in pipeline	Description
Link Road (M9 to N5)	20 km road to connect main highways of Karachi Urban Road Initiatives in Karachi
Katiyar Bridge	Different projects of roads/bridges
Municipal Wastewater Recycling Plant	Wastewater recycling
Wastewater Recycling for Potable Water Production Project at TP-III	Wastewater recycling
Marble City Project	Special Economic Zone
NED Technology Park	Technology & Innovation
Nabisar to Vajihar Water Transmission	Water supply for power projects

Source: PPP unit, Government of Sindh

Due to the impact of COVID-19 in 2020, the financial situation of the central and state governments has become more serious, and PPP is becoming a more important method for infrastructure development. NHA, which is responsible for the development of road infrastructure by the central government, is also promoting the development of road infrastructure by PPP, and in March 2020, NHA announced that NHA plans to develop at least the following eight road projects by the PPP method.

Prominent projects in pipeline	Description
Hyderabad-Sukkur Motorway (M-6) Project	Construction of 306km long 6-lane on M-6
Karachi-Quetta-Chaman (N-25) Expansion Project	Dualization and rehabilitation of existing carriageway between Karachi-Quetta-Chaman (N-25),
Balkasar-Mianwali Expansion Project	Dualization and rehabilitation of existing carriageway between Balkasar to Mianwali
Mianwali-Muzaffargarh Expansion Project	Dualization and rehabilitation of existing carriageway between Mianwali to Muzaffargarh,
Shahdara Flyover Project (N-5/ Lahore)	Construction of flyover on N-5 at Lahore
Lyari Expressway Elevated Freight Corridor Project	Construction of Elevated Freight Corridor on Lyari Expressway
Bara Kahu Flyover Project (N-75 / Islamabad)	Construction of Flyover on N-75 at Islamabad
Sialkot -Kharian-Rawalpindi Motorway Project	Construction of motorway between Sialkot to Kharian and Rawalpindi

(Source: The Nation on August 11th 2020)

2.4.5. Port Infrastructure in Karachi

Karachi Port and Port Qasim are located in Karachi in Sindh, which are managed and operated by KPT and QPA, respectively, and are under the jurisdiction of MOMA.

1) Karachi Port Overview

Karachi Port is located in a calm water area shielded by coastal sand banks on both banks of China Creek at the mouth of the Lyari River, and has a history of more than 150 years that has been created and developed using natural terrain. It is divided into two wharfs, east and west, across the river mouth. The port is Pakistani largest commercial port and is characterized by good accessibility with the country's largest commercial city, Karachi, in the hinterland.

KPT was originally established based on the Karachi Chamber of Commerce in 1860 due to the commercial prosperity of the Port of Karachi. In 1880, it was developed to the Karachi Harbor Board with involvement of the representative members from the railways, the customs, and the engineers, and the Board was developed into the KPT.

After the independence of Pakistan, KPT became a national agency under the MOMA.

■ **Major facilities**

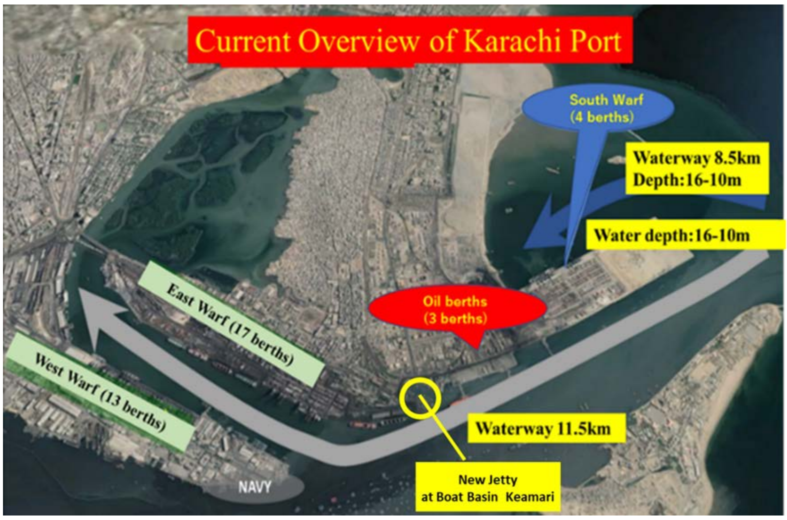
The major facilities of Karachi Port are as follows.

Facility	Berths Length/Water Depth	Operator
General Cargo Terminal	21berths 150-250m/7.5-13m	KPT
East Warf Container Terminal	3 berths 305m/13m	Pakistan International Container Terminal (PICT: ICTS Group, Philippine)

West Warf Container Terminal	3 berths 305m/13m	Karachi International Container Terminal (KICT: Hutchison Group, Hong Kong)
South Warf Container Terminal	4 berths 400m/14-16m	South Asia Port Terminal (SAPT: Hutchison Group, Hong Kong)
Oil/Chemical Terminal	3 berths 259 m/12-13 m	KPT

In 2020, KPT built a new jetty at Boat Basin, south of East Wharf, where Kemari Manora Ferry departs and small vessels are moored (approximately PKR 700 million investment).

■ Overview



(Source: KPT)

Figure 2.4.7 Current Overview of Karachi Port

■ Operation

In operation of Karachi Port, KPT is responsible for port management and facility management, but actual operations of KICT, PICT and SAPT container terminals are outsourced to Hutchison group (Hong Kong) and ICTS group (Philippines) under a concession contract. KPT's services include facility management of the entire Karachi Port including waterways and loading/unloading of bulk, liquid and general cargo.

The division of duties/responsibility of each area and each function at Karachi Port (demarcation) is shown as follows.

<table>
<tr><th rowspan="3">Area / Function</th><th rowspan="3">Waterways</th><th colspan="5">Warf/Berth/Jetty</th><th rowspan="3">Bonded Yard</th><th rowspan="3">Custom</th><th rowspan="3">Roads in Port</th><th rowspan="3">Port Gate</th><th rowspan="3">Roads outside</th></tr>
<tr><th>West Warf</th><th colspan="3">East Warf</th><th>South Warf</th></tr>
<tr><th>Container T.</th><th>General Cargo</th><th>Container T.</th><th>Oil Terminal</th><th>Container T.</th></tr>
<tr><td>Invest.& Mente.</td><td rowspan="2">KPT</td><td rowspan="2">KICT (Hutchison) Private</td><td rowspan="2">KPT</td><td rowspan="2">PICT (ICTS) Private</td><td rowspan="2">KPT</td><td rowspan="2">SAPT (Hutchison) Private</td><td rowspan="2">KPT/ Operators</td><td>FBR</td><td>KPT</td><td>KPT</td><td>Sindh Gov.</td></tr>
<tr><td>Operation
Shipping
Loading
Unloading
Info. System</td><td>FBR</td><td></td><td></td><td></td></tr>
<tr><td>Custom Clearance</td><td></td><td colspan="5">FBR</td><td></td><td>FBR</td><td></td><td></td><td></td></tr>
</table>

(Source: Survey Team)

Figure 2.4.8 Demarcation of Activities in Karachi Port

In 2020, the bidding for Dry Bulk Terminal has been initiated by KPT, and 11 companies have been shortlisted (a lot of them are internationally terminal operators).

■ Development Plans

The main new development plans disclosed by KPT in the discussion with the Study Team are as follows.

Name of Project	Project Outline	Project Stage
LNG Complex Project	To establish LNG complex consisting of offshore LNG receiving/storage terminal, regasification plant, seawater desalination plant, combined cycle gas thermal power plant (Co-generation Type) at PDWCP planned site (about 250 acres)	Before FS
TPX Business Center Project	To develop a business center in the TPX yard (140 acres) in a good location, which was planned to be developed as a container railway transportation terminal KPT plans to develop business in JV with private companies, and the financial sector/health sector/shipping company/media are assumed as the main tenant of the business center.	Inviting private investors
SEZ Development Project	To develop an SEZ for promoting FDI in a shallow water (mangrove) of about 2000 acres across the West Warf.	Not yet fixed
Wetland Park (sewage treatment plant construction) Project	Social project to build sewage treatment plants/environmental facilities and parks on 124 acres of wetland along My Corrachi Bypass Road	Not yet fixed
KPT Freight Corrido Project	To develop a 60km cargo link road connecting Karachi Port and Qasim Port in addition to north and southeast routes	Not yet fixed

2) Port Qasim Overview

Under the development policy to attract foreign direct investment to promote Pakistani industrialization policy, the Port Qasim was opened in 1980 at the eastern end of Karachi city, about 35 km east of Karachi Port, to alleviate congestion at Karachi Port.

Since the opening of Port Qasim, the progress of the port has been made in tandem with regional industrial development such as construction of steel mills and power plants. The first container terminal established in 1997 has been operated from the beginning by Qasim International Container Terminal (QICT: Dubai DP World) on BOT basis. The 2nd container terminal established in 2011 is also operated by QICT as well. Many port facilities other than container terminals are basically operated by private companies as follows.

PQA achieved record high profits in 2018-2019 (the shift from KPT to PQA in the handling of coal cargo in Karachi by the Supreme Court ruling contributed significantly). PQA has also begun night navigation of large vessels for the first time in early 2019, handling a record high of 270 vessels in March and April 2020.

In addition, PQA is planting more than 1 million mangroves under the initiative of the Prime Minister of Pakistan Green Year.

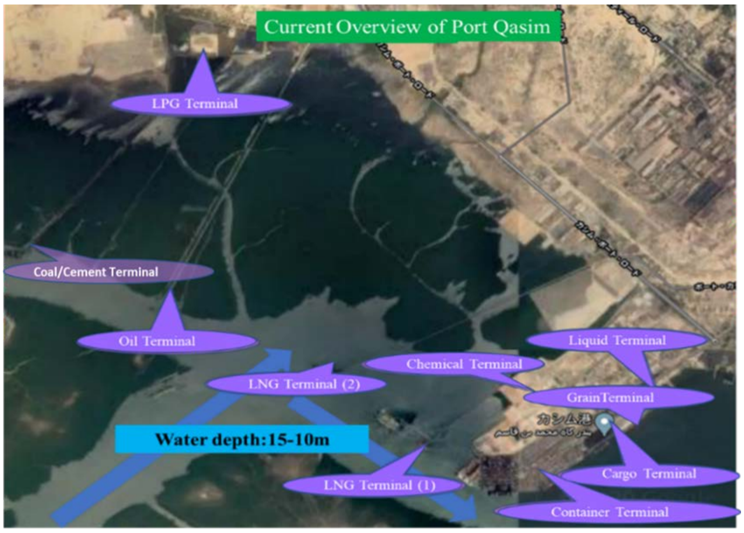
■ Major Facilities

The major facilities of Port Qasim are as follows.

Facility	Berths Length/Water Depth	Operator
General Cargo Terminal	4 berths 225m/10m	PQA
Container Terminal (1)	3 berths 712m/12m	Qasim International Container Terminal (QICT: DP World, Dubai)
Container Terminal (2)	2 berths 615m/12m	QICT
Oil Terminal	1 berth 245 m/13 m	Fotco Oil Terminal (Private)
Liquid Terminal	210 m /10 m	FWQ (Private)
LPG Terminal	163 m/10 m	SSGC (Private)
Chemical Terminal	225 m /11 m	EVTL (Private)
Grain Terminal	250 m/13 m	FAP (Private)
Coal & Cement Terminal	230 m/13 m	PIBT(Private)
LNG Terminal (1)	Floating Storage Regasification Unit	Engro Elengy (Private)
LNG Terminal (2)	Floating Storage Regasification Unit	PGPL(Private)

(Source: PQA)

■ Overview

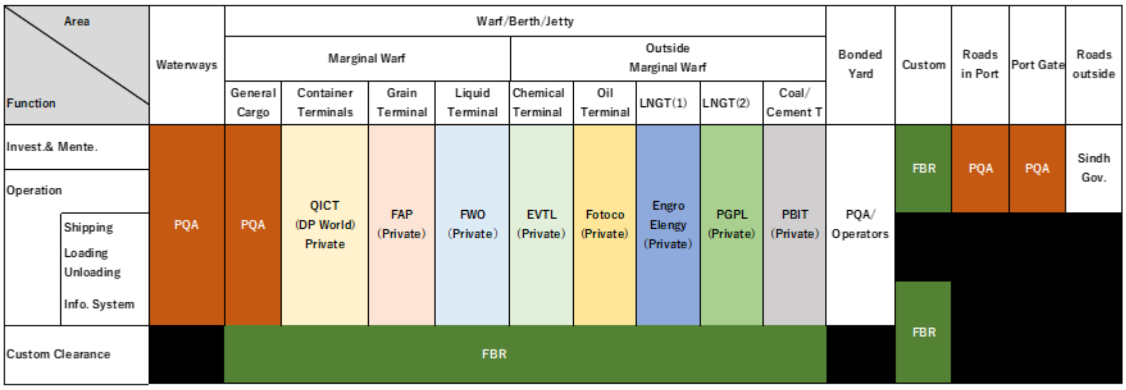


(Source: Survey Team)

Figure 2.4.9 Current Overview of Port Qasim

■ Operation

The division of duties/responsibility of each area and each function at Port Qasim (demarcation) is shown as follows.



(Source: Survey Team)

Figure 2.4.10 Demarcation of Activities in Port Qasim

■ Development Plans

The main new development plans at Port Qasim based on public information are as follows.

Name of Project	Project Outline	Project Stage
The 3rd LNG Terminal Project	To develop LNG Terminal 3 with a capacity of 750 million cubic feet per day (mmcfd) in the LNG zone of Qasim Port.	Under discussion with private sector
Waterways Deeping Project	PQA plans to improve and deepen alternative waterways that contribute to the increase in imports of coal, petroleum products, and LNG that meet the increasing energy demand (building deep waterways that allow large vessels to enter). The current main waterways with a depth of 13 meters is planned to be deepened to 15-16 m (all-weather type: ALL Season 14-meter draft vessels). The estimated cost is approximately US$ 200 million.	Planning stage
Port Qasim Access Road Improvement Project	To develop a 26 KM long double-lane road from the N5 T-junction. The assumed section is the section that passes through the PQA commercial area (western industrial area and eastern industrial area) to the Sassui Bridge Gagger Railroad Crossing, and includes the elevated main access road and two elevated roads based on BTS. The estimated cost is about PKR 9 billion.	Planning stage
Textile City Project (Industrial park specializing in textile processing and related	The Pakistani government plans to set up a 1250-acre “Textile City” in PQA's eastern industrial zone to enhance the production and export of value-added textiles, which PQA has	Suspended

industries)	handed over. As a result, raw material vendors and suppliers, downstream industries and support industries are expected to emerge. In 2009, a project company was established with investment by the Federal Government of Pakistan and a private investment company, but the project was suspended after that.	

3) Handling volume at Karachi Port and Port Qasim

Changes in the amount of cargo and containers handled at Karachi Port and Port Qasim are shown in Table 2.4.1 and 2.4.2.

Table 2.4.1 Cargo Handling Volume at Karachi Port and Port Qasim

(000 ton)

Year (April to Marchi)	Import			Export			Inmort & Export		
	Karachi Port	Port Qasim	Total	Karachi Port	Port Qasim	Total	Karachi Port	Port Qasim	Total
2007	25,649	21,933	47,582	11,634	5,545	17,179	37,283	27,478	64,761
2008	25,470	20,329	45,799	13,334	5,954	19,288	38,804	26,283	65,087
2009	27,892	19,046	46,938	13,754	7,087	20,841	41,646	26,133	67,779
2010	28,508	19,443	47,951	12,820	6,656	19,476	41,328	26,099	67,427
2011	26,240	17,740	43,980	11,673	5,696	17,369	37,913	23,436	61,349
2012	26,687	17,819	44,506	12,143	7,041	19,184	38,830	24,860	63,690
2013	30,336	18,172	48,508	10,985	7,608	18,593	41,321	25,780	67,101
2014	31,470	21,607	53,077	9,534	8,239	17,773	41,004	29,846	70,850
2015	40,254	25,747	66,001	9,781	7,439	17,220	50,035	33,186	83,221
2016	42,630	30,922	73,552	9,851	6,433	16,284	52,481	37,355	89,836

(Source: Pakistan Statistical Year Book 2017)

Table 2.4.2 Container Handling Volume at Karachi Port and Port Qasim

(000 TUE)

Year (April to Marchi)	Import			Export			Inmort & Export		
	Karachi Port	Port Qasim	Total	Karachi Port	Port Qasim	Total	Karachi Port	Port Qasim	Total
2014	829	468	1,297	792	503	1,295	1,621	971	2,592
2015	1,006	556	1,562	898	568	1,466	1,904	1,124	3,028
2016	1,038	567	1,605	1,031	608	1,639	2,069	1,175	3,244
2017	1,118	480	1,598	1,113	509	1,622	2,231	989	3,220
2018	1,068	526	1,594	1,093	526	1,619	2,161	1,052	3,213

(Source: Pakistan Statistical Year Book 2017and KPT/PQA)

The operation of container terminals at both ports is outsourced to private operators, and they are in a competitive relationship with each other. From the perspective of port sales, their efforts are being made to improve cargo handling services so that container cargo can be collected. The shipping companies can select terminal according to the conditions presented by each terminal.

4) Current Logistics Status of Karachi Port and Port Qasim

■ Karachi Port

Due to the above-mentioned increase in the cargo handling volume at Karachi Port and restrictions for heavy vehicle in Karachi urban areas, the current situation of logistics transportation from Karachi Port is severe.

In particular, when a large ship enters the port, congestions of the north route connecting Karachi Port and M9 and the southeast route from South Wharf of Karachi Port toward Korangi are issues.

The Sindh government is currently planning the following two projects (before the implementation of FS) in order to solve the traffic problem around Karachi Port.

Interchange at ICI Bridge Project

The project for rehabilitation of the so-called ICI Bridge (the road bridge over the Karachi Circular Railway where the traffic from both East Wharf and West Wharf of Karachi Port to M9/M10 merges city traffic) has the following objectives.

(i) Solving nighttime traffic congestion due to port logistics

(ii) Effectively connecting with the Moripur Road which causes traffic congestion near the Karachi Port.

The current situation is that it is crowded with two-way traffic, including left turns such as buses (public transport) that carry many daily commuters, and there is no alternative road nearby.

Link Road to Korangi and Bridge Over Malir River Project

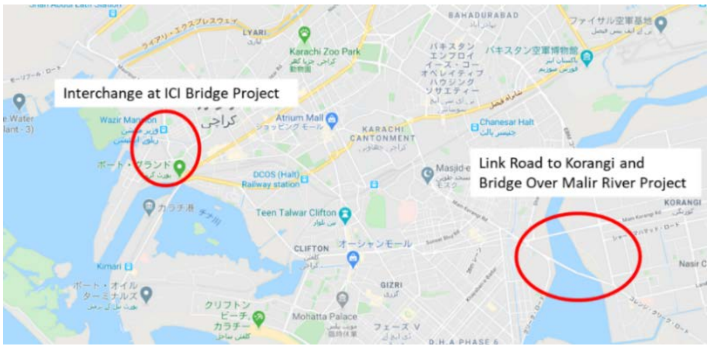
In addition to the population of the Korangi area reaching about 2.5 million, there are many public facilities and commercial/industrial facilities in the area, and about 500,000 people commute from other areas for business purposes every day. Due to those reasons the daily vehicle traffic in the area is estimated more than 20,000 in information from the Sindh Government.

In addition, logistics traffic entering and leaving KPT via Korangi Road is also increasing traffic congestion in the area.

However, the access roads to the Karachi city area such as the Main Korangi Road are not sufficient and are always crowded, so that it is necessary to improve the traffic conditions in the area.

At the same time, the starting point of the Malir Expressway which is planned to be constructed in the nearest future is near the existing KPT interchange, and this area would be linked directly to the M9 via the Malir Expressway in the future. Under those circumstance it is concerned that the traffic load in the area will further increase.

Considering the above situation, The Sindh Provincial Government is planning to develop a new link road to Korangi, including a new bridge on the Malir River.



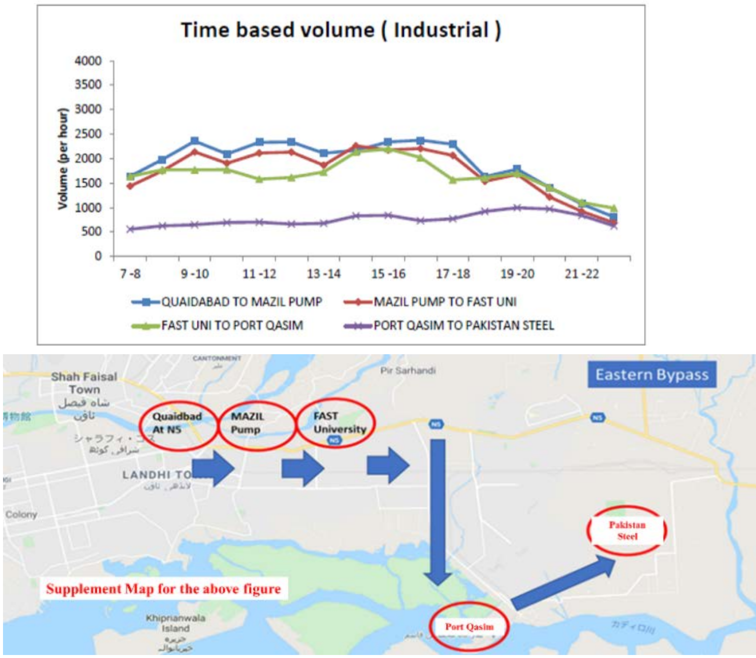
(Source: Local Government & HTP Department, Sindh Government)

Figure 2.4.11 Road Development Plan near to Karachi Port by Sindh Government

■ Port Qasim

For the current Logistics status of Port Qasim, the results of the N5 traffic survey of industrial vehicles in the "Prediction of Traffic Congestion in Karachi Metropolis using Artificial Intelligence Techniques" by Professor Mir Shabbar Ali of NED University of Engineering and Technology announced in July 2016, it is considered that the logistics from the Port Qasim via Eastern Bypass to M9 is smooth during the daytime (see the figure below).[52]

[52] The restrictions on heavy vehicles entering the city of Karachi were announced in September 2016, and it is considered that industrial vehicles such as trucks were allowed to run N5 at the time of the survey.



(Source: NED University of Engineering and Technology "Prediction of Traffic Congestion in Karachi Metropolis using Artificial Intelligence Techniques")

Figure 2.4.12 N5 Industrial Vehicle Traffic Change in Karachi

Although imports of petroleum products/LNG at Port Qasim would increase as demand for oil/gas products such as gasoline and natural gas in Pakistan grows, and if the necessary pipelines could not be expanded/constructed, it could be that transportation of tank trucks from the port would increase and traffic congestion would occur in the future.

However, it is said that the current urgent issue of port logistics in Karachi (bottleneck problem) is the connection from Karachi Port to inland Pakistan (Hinterland connectivity).

2.4.6. Systemization of Port Management (EDI/NSW/PCS) [53]

The Federal Government of Pakistan is focusing on introducing PSW including Port Communication System (hereinafter, "PCS") for the purpose of improving efficiency and convenience of port operations.

Since 2002, the FBR has been focusing on paperless and single-window customs clearance procedures for many years. Since November 2011, the full-scale operation of WeBOC system has been implemented at both PICT and KICT terminals at Karachi Port.

At present, the WeBOC system is being used by customs offices throughout the country, and about 80% of all Pakistani cargo, including sea and air cargo, is covered by this system.

[53] EDI (Electronic Data Interchange)/NSW (National Single Window) /PCS (Port Communication System)

The WeBOC system is a customs electronic information exchange (EDI for customs clearance), and the main functions are the following four functions.

a) Automatic customs clearance system

Cargo declaration, electronic payment, cargo inspection, risk management system, custom clearance, customs clearance status report, tariff evaluation, tax rate management, post clearance audit, user management, etc.

b) Tax collection

Collection of various tariffs related to imports and exports, link with HS code for details of taxation

c) Port cargo handling and port optimization

- Electronic document sharing by ship agents, customs brokers, port managers, customs
- Real-time monitor management function
- Link with EDI for terminal operator and port manager,
- Unmanned electronic gate (e-gate)
- Custom's risk screening of cargo before arrival.

d) Coordination with related organizations (ministries)

System connection function with ministries related to import/export, such as FBR, Central Bank, transportation sector, quarantine and Ministry of Commerce are already linked, and links with other related ministries are in progress.

In April 2018, the FBR established the National Single Window (hereinafter, "NSW"), including the NSW Roadmap, and in December 2019 the federal government approved the NSW Act.

PSW can be divided into four components, the first component is WeBOC mentioned above, and the second component is the PCS for port operations that meet the international security standards. Currently, International Finance Corporation (hereinafter, "IFC") of the World Bank Group is conducting a cooperative survey for PCS with the Federal Government. The third component is the introduction of OGA called LPCO[54], which is the international standard for quarantine certificates for food and animal imports. The fourth component connects the Central Bank of Pakistan and private banks.

[54] LPCO (Licenses, Permits, Certificates, and Other control documents)、OGA(Other Government Organization)

■ **Issues in Systematizing of Port Management**

Although the introduction of the policy and law framework (Pakistan Single Window/PSW) and WeBOC of Customs EDI, which is the basis of port operation systemization, has already been implemented, the development of PCS, which is the next STEP of PSW, and effective integration of WeBOC and PCS are future issues.

2.4.7. Land Transportation Infrastructure in Karachi

1) Road Traffic Situation in Karachi

There are approximately 10,000 kilometers of roads in Karachi, consisting of less than 5% of highways and major roads (7 routes below) and more than 90% of local roads.

1	National Highway	N5: Karachi -Torkham National Highway
2	National Highway	N25: Karachi -T Chaman National Highway
3	Motorway	M9: Hyderabad - Karachi Motorway
4	Motorway	M10：Karachi Northern Bypass
5	City Expressway	Lyari Expressway
6	Major road	Eastern Bypass (Eastern area of Karachi fromN5 to M9)
7	Major road	Main Korangi Road　(From N5 to Korangi Industrial area)

The number of vehicles moving in the city is about 14 million man-times a day, and about 40% of them are by public transportation such as route buses. [55]

Pakistani media frequently point out that the traffic congestion in Karachi is in the level of the worst in the world, and the World Bank report in 2018 “Transforming Karachi into a Livable and Competitive Megacity” also pointed out the problem of traffic congestion in Karachi.

Numbeo's Current Traffic Index ranking, one of the world-based analysis insights, said that the level of traffic congestion in Karachi is better than that of Delhi, Dhaka, and Kolkata, and is rated as Beijing, Shanghai, or Hyderabad. This evaluation is in agreement with the impression of the real-time survey by the Study Team and the timely check of traffic congestion information on Google Maps.

[55] Based on the 2018 WB Report "Transforming Karachi into a Livable and Competitive Megacity: A City Diagnostic and Transformation Strategy"

Table 2.4.3 Global Ranking of Traffic Congestion in Asian Cities (2020)

Name of City	Country	Global Ranking
Delhi	India	4
Kolkata	India	6
Mumbai	India	8
Manila	Philippines	9
Dhaka	Bangladesh	10
Tehran	Iran	12
Jakarta	Indonesia	13
Istanbul	Turkey	17
Bangkok	Thailand	30
Chennai	India	36
Kuala Lumpur	Malaysia	39
Beijing	China	43
Shanghai	China	44
Hyderabad	India	50
Karachi	Pakistan	57

(Source: Numbeo's Current Traffic Index)

Figure 2.4.13 Live Information on Traffic Congestion in Google Map (At AM9:00 Weekday)[56]

(Source: Survey Team)

At the hearing of a Japanese company in this survey, a major Japanese transportation company stationed in Karachi commented on the traffic situation, “I think the road conditions in Pakistan do not pose a big problem compared to India and Bangladesh.” The comment is in accordance with the above-mentioned study team’s recognition.

On the other hand, as Karachi City Diagnostic (KCD) 2014-2016 of WB, the following issues were pointed.

[56] The difference in traffic congestion status depending on the color of live traffic information on Google Maps shows [Green: No traffic congestion/Orange: Some traffic congestion/Red: Traffic congestion/Brown: Severe traffic congestion]

- There is no transportation policy or road improvement plan that covers the entire traffic of Karachi City (The World Bank also recommends that an urgently designed integrated package of policy measures is needed).
- Need for mass transit system
- Necessity of introducing traffic management system
- The road conditions are poor except for the main roads

2) Road Conditions in Karachi

As shown in the photo below, the road conditions in Karachi are fairly low except for national roads (N5, etc.), highways (M9, etc.), and major highways (Lyari Expressway, etc.)[57]。

Most of the main roads have 2 to 4 lanes on both sides, and most of the pavement is asphalt or concrete pavement, but roads in the block have pavements such as soil and gravel. National highways and expressways are under the jurisdiction of NHA, and other roads are under the jurisdiction of KMC (Karachi Metropolitan Corporation).

The shape of the intersection is almost a four-way intersection. There are few road leading line at intersections, and the line such as stop lines and lane marking line are peeled off, and there are many places with poor visibility.

The reason why there are many adverse effects on smooth automobile traffic is as follows; existence of large-scale intersection, existence of intersections where right and left turns are restricted due to one-way roads and viaducts, and the existence of places that require large detours for traffic.

		
Curb Breakage	There is unevenness on the road surface. Asphalt is peeling off and there are steps. It is necessary to configure the road structure according to at least the traffic capacity and weight.	There are many potholes on the road. Mesh shaped cracks can be seen in the vicinity.
		
Since the ICI bridge is a simple girder bridge, there are linear depressions at the joints between girders.	Step after buried road crossing pipe	Pavement peeling can be seen.

[57] Roads in Karachi are divided into seven categories (National Highway/Strategic Road, Expressway, Motorway, Principal Arterials, Minor Arterial, Collector Street, Local Street)

		
Steps at the buried object	Curb Breakage	Pavement peeling

3) Logistics status in Karachi

The logistics of the Port Qasim in the industrial area in the eastern part of Karachi city can be connected to M9 in a relatively short time using the Eastern Bypass without going through the urban area where traffic congestion occurs. It can be said that the issue is the connection from the Karachi Port to the main trunk line M9 that connects the whole country.

The issues related to truck transportation from the Karachi port include traffic restrictions for large vehicles in the city area of the Karachi in day time (trucks are allowed from 11pm to 7am) and the restrictions on impassability for trucks on Lyari Expressway. At present, truck transportation from Karachi Port uses the route to M9 via M10 (Northern Bypass), or goes east on Main Korangi Road to M9 via N5/Eastern Bypass in day time. At night, many trucks use urban roads near the northwest of Lyari Expressway.

Due to the above-mentioned status of the logistics and general traffic in Karachi city area, there are traffic congestions in the areas from East Wharf of Karachi Port (KPT Runabout) to Glubai (entrance to M10) and area from South Wharf to Korangi.

4) Railway infrastructure in Karachi

Railways in Pakistan played an important role in both passenger and freight transport from independence in 1947 to the mid-1980s, but since 1960s road transport has been gradually developed and exceeded railway sector in 1970s.

The railways share of transportation has further been declining since the latter half of the 1980s by the reason of the deterioration of railway infrastructure due to the insufficient budget investment.

At present, Pakistani transportation sector is mainly roads and relies on roads for more than 90% of freight and passenger transportation. It can be said that railways play an extremely small role in freight logistics in the Karachi area as well.

Currently, the trains of the Pakistan Railways run daily from Karachi Cantonment Station (located south of the city center) to major cities throughout Pakistan (passengers), but numbers are quite few.

The Karachi Urban Transportation Corporation (Pakistan National Railways was the main investor) used to operate the 44-km-long circular line (Karachi Circular Railway: KCR). it was started in 1964 but it is currently out of service (it stopped at the end of 1999 by the reason of the deterioration of profitability due to the development of automobile traffic and aged railway facilities).

Although KCR was operating on a single track, the site is reserved for multiple tracks.

Regarding the resumption of KCR, plan consultations have been conducted since the early 2000s, but they have not been realized yet.

2.4.8. Environmental and Social Considerations in Pakistan and Sindh

Regarding the environmental administration in Pakistan, under the 18th Amendment to the Constitution in 2010, environmental management functions and powers were delegated from the federal government to provincial governments, agencies, and local authorities.

In Sindh, the Sindh Environmental Protection Agency (hereinafter, "SEPA") as the environmental responsible authority conducts the authorization granting for Environmental Impact Assessment (hereinafter, "EIA") and Initial Environmental Examination (hereinafter, "IEE") according to "the Sindh Environmental Protection Act, 2014" and "the Review of Initial Environmental Examination and Environmental Impact Assessment Regulations, 2014." (See Reference 2.4.1: IEE/EIA_ Environmental Checklist Decision-Making Process) Project proponent shall obtain the EIA/IEE approval from the SEPA before commencing the construction of the project according to "the Sindh Environmental Protection Act, 2014". Projects are categorized either requiring an EIA or requiring an IEE based on the significance and magnitude of their potential environmental impacts. Regarding road construction projects, "Federal or Provincial highways or major roads (including rehabilitation or rebuilding or reconstruction of existing roads), Flyovers, underpasses and bridges having total length of more than 500m" are categorized requiring an EIA. (See Reference 2.4.2: List of projects requiring IEE/EIA, Environmental Screening)

In case of requiring an EIA, the draft EIA Report submitted by the project proponent shall be made publicly available and received comments from public participants. In case of requiring an IEE, receiving public comments is not required. However, in case of receiving a grant from international organizations, receiving public comments is required. Therefore, there is almost no difference between EIA and IEE.

The draft EIA Report shall be circulated to the relevant Government authorities and the project proponent are required to obtain "No objection letter" from the relevant Government authorities.

For example, if the project site is adjacent to the ecological sensitive area, "No objection letter" shall be obtained from Sindh Wildlife Department and if the project site is adjacent to the mangrove forests, "No objection letter" shall be obtained from Sindh Forest Department.

The project proponent is required to implement the planned measures in the EIA Report to mitigate the environmental impacts and monitor the effects during construction and operation, and is required to report the monitoring results to the SEPA.

In the case where involuntary resettlement is unavoidable in the project such as road construction project, another related project for Land Acquisition and Resettlement Action Plan shall be prepared for the road construction project. Project Affected Person and compensation for losses are confirmed in the Land Acquisition and Resettlement Action Plan. People who must be resettled involuntarily and people whose means of livelihood will be hindered or lost must be sufficiently compensated and supported, so that they can improve or at least restore their standard of living, income opportunities and production levels to pre-project levels. Project Proponent is required to consult with Karachi Commissioner to receive adequate assistance for development of Land Acquisition and Resettlement Action Plan compensation and other kinds of assistance when project outline is confirmed.

2.4.9. Analysis on Port-related Projects in Karachi

The following analysis have been conducted on port-related projects in the Karachi that have been implemented and planned so far.

1) PDWCP (Deep-sea container port) Project

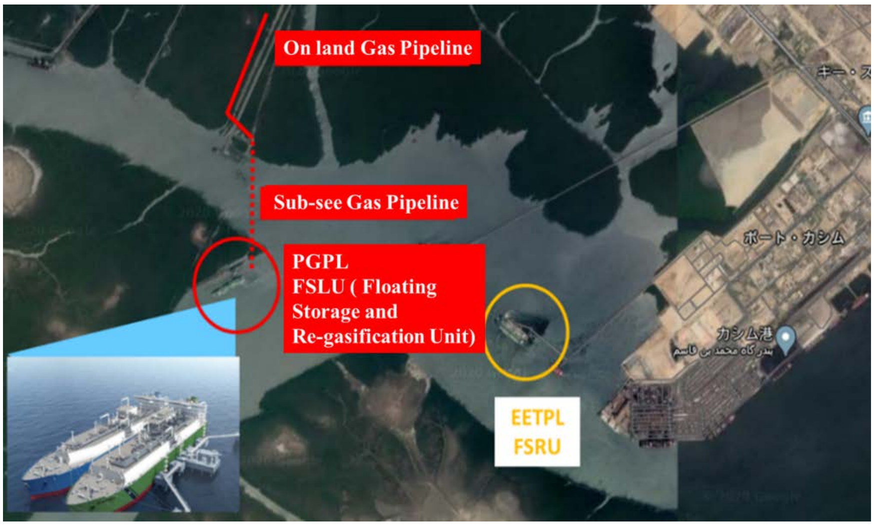
<table>
<tr><td colspan="2">Project outline:
■ KPT implemented an FS related to the construction of a deep-sea container port in 2005 in line with the appearance of a large container ship construction plan in the world market.
・Development of a 5 km quay with 10 berths with their water-depth of 18m
・Business implementation by PPP (public-private partnership) method
・Total project cost estimated at US$1.6 billion
・Initial schedule: Phase I (opening of port) : 2011
After the PPP tender, Hong Kong's leading port operator Hutchison Port Holdings (HPH) signed with KPP in 2007 for the Phase I project (1.5 km container terminal consisting of 4 berths with water-depth of 16m). The signing PPP contract was made (BOT contract for the construction and operation) for 25 years (that can be extended for 25 years + 25 years) in 2007.
■ Phase I (South Asia Port Terminal: SAPT) completed/started its operation at the end of October 2016. The operation is planned to handle more than 2 million TEU annually over 5 years.</td></tr>
<tr><td colspan="2">Project Map/Phots: </td></tr>
<tr><td colspan="2">Responsible Ministry: MOMA
Implementation Structure: KPT/Hutchison Port Holding</td></tr>
<tr><td colspan="2">Environmental and social considerations: April 2011 KPT submitted Final Report</td></tr>
<tr><td>Project cost (Phase I): US$ 457 million</td><td>Funding: PPP method /HPH financing</td></tr>
<tr><td colspan="2">Socio-Economic Effect: The effect of the entries of large container ships and the economic effect of a container handling capacity of 2 million TEU or more per year are significant.</td></tr>
<tr><td colspan="2">Project analysis and notes:
✓ The previous Karachi Port had a water-depth of 11.5m before, but the opening of SAPT with a water-depth of 16m, which enables the docking of large container vessels, was a great achievement for Pakistan.
✓ Through the BOT bid, HPH was selected from among the world's leading port operators and the new port was established/operated by HPH.
✓ Although the implementation was significantly delayed compared to the original plan, the achievement of the 2016 SAPT port opening in Phase I can be identified as a good progress.
✓ The schedule after Phase II has is not clear.
✓ There is an issue for transportation route from South Wharf.</td></tr>
</table>

2) LNG Receiving Terminal at Qasim Port (PGPL FSRU) Project

Project outline:

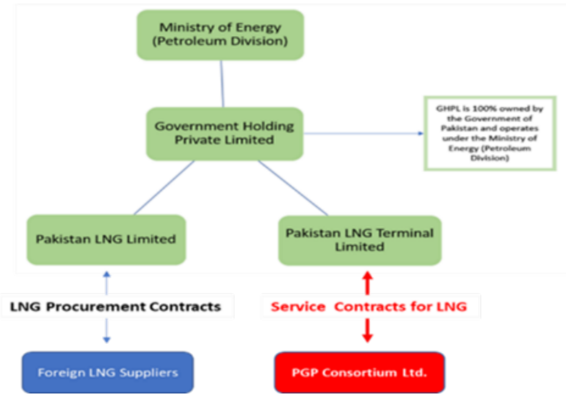
- ■ Pakistan GasPort Consortium Limited (PGPC), a wholly owned subsidiary of PGPL (Pakistan GasPort Limited), is the second LNG receiving facility project in Pakistan to construct/operate a 750mm scfd LNG import terminal at Mazhar Point in Port Qasim. The specifications are as follows.
  - ・ LNG storage scale: 170,582m3
  - ・ FSRU ship (modern floating storage and regasification unit)
  - ・ Length/Width: 292.5m/43.4m
  - ・ Regasification capacity: 750mmscfd (6 million tons of LNG per year)
- ■ PGPC (PGP Consortium Ltd.) provides the regasification service for LNG imported by the Pakistan government to a government-affiliated company (Pakistan LNG Terminal: PLTL). The service is up to 600 mm scfd LNG storage and regasification service for 15 years.
  - ・ The investment amount of PGPC: about US$ 500 million
  - ・ Project period:15 years
  - ・ Start of operation: 2017
- ■ The project involved approximately US$500 million investment from PGPC, including pier, offshore construction, weighing system and the sub-sea and the onshore pipeline for 12.3 km from the pier to the national gas grid.

Project Map/Phots:



Responsible Ministry: Ministry of Energy (Federal Government)

Implementation Structure:



Environmental and social considerations: PGPC's environmental and social action plan comply with WB guidelines.

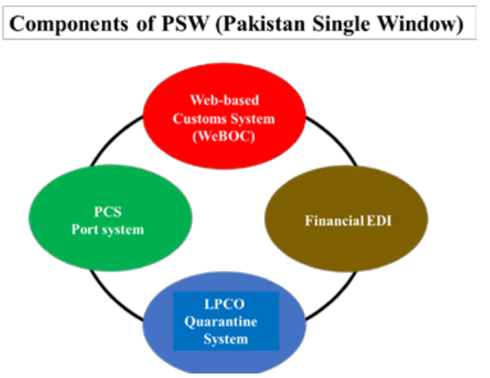
Project cost: Approximately US$ 500 million	**Funding:** PPP (Private sector funding)

	Related parties such as equipment providers procure funds based on their respective service contracts.
Socio-Economic Effect: It is said that the refueling between diesel and LNG will save about US$ 1.7 billion annually. The LNG has also become a major fuel source for the new 3,600 MW power plant established by the Federal and Punjab governments. The power sector has greatly benefited from clean and efficient power generation. Since LNG was introduced into Pakistani gas supply network, the government has realized the construction of a new power plant by switching from expensive liquid fuel to LNG.	
Project analysis and notes: ✓ The convenience of the Port Qasim area, where continuous development is progressing, has been successfully utilized. ✓ It is reasonable to carry out a small-scale FSRU project in stages, rather than constructing a large-scale receiving terminal that requires huge investment (currently under discussion to implement the 3rd LNG project). ✓ By maximizing the use of project finance by international private sector, the public burden was reduced. The federal government encourages the installation of LNG terminals and direct gas sales by the private sector. ✓ By using regasified LNG (RLNG) as fuel, the efficiency of the power plant (up to now about 30-35%) is improved to 55-62% (as energy efficiency).	

3) PSW（Pakistan Single Window）Project (including WeBOC)

Project outline/implementation status:

- The project introduces the NSW to Pakistan, a platform with a single-entry point for trade and transportation.
- In October 2017, the Federal Government designated the Pakistan Customs under FBR as the administrator for implementing ICT-based trade-related NSW.
- Pakistan Customs has implemented a uniquely designed automation-based trade facilitation initiative such as WeBOC that provides paperless processing for 90% of cross-border trade.
- Customs also electronically links WeBOC with internal resources using 14 different regulators under the INTRA (Regulatory Integration) program and all major commercial banks.
- Currently, the FBR Customs Department is working on establishing a Pakistan Single Window (PSW) through a dedicated program management office. With the help of development partners such as WB and United States Agency for International Development (hereinafter, "USAID"), various preparatory surveys for implementing PSW have been completed.
- The components of PSW are as follows.
  ① Web-based customs system (WeBOC)
  ① PCS port system
  ② LPCO quarantine system
  ③ Financial EDI



- The PSW Implementation Plan was prepared according to a situation analysis of 44 different regulators. Based on the report's recommendations, the Prime Minister established a high-level steering committee in May 2018. The committee supervises the timely implementation of PSW, chaired by the Ministers of Finance.
- In September 2018, six working groups responsible for key components of PSW were established to ensure wide collaboration.
- The establishment of the NSW system requires coordination of various national laws and procedures related to cross-border trade. FBR conducts legal gap analysis by technical experts. Based on this legal gap analysis and the business model approved by the steering committee, the PSW Act (The Pakistan Single Window Act, 2019) was prepared in 2019, and after approval by the Diet, by June 2020. It would be enforced.
- PSW is planned to be introduced in 2022, except for PCS and defense related (PCS introduction date is undecided).
- Schedule and Next Steps:
  According to the PSW consultant's report, the PSW implementation schedule and next steps are as follows.

In order to move on to the next steps, the PMO (Project Management Office) needs to initiate a number of projects to plan, analyze, design, develop/build, test and pilot. The following sub-projects are recommended:

1. **PSW Core Development:** A project that provides core PSW applications
2. **Introduction of trade information portal:** An important part of PSW is the

introduction of a trade information portal aimed at providing traders and users with information on regulations and other requirements regarding the processing of trade transactions. **3. OGA Application Development:** A project that provides OGA packages **4. IRMS (Integrated Risk Management System) solution app development:** Based on the future risk management framework and strategy, the development of applications is made or procured and integrated. **5. PCS Solution Option Design/Evaluation:** Detailed design and market evaluation of workable solution options, following analysis and design projects currently completed by external experts. **6. Support application development:** Many support applications are required	
Responsible Ministry: FBR Custom Department (Pakistan Custom)	
Environmental and social considerations: Nil	
Project cost: PKR 11 billion including PKR 9 billion foreign currency components	**Funding:** Budget of the Federal Government Financial support from WB and USAID (ADB and DFID are requested)
Socio-Economic Effect: This project can improve the ranking of "Transnational Transaction" in EODB of the World Bank and the transparency/compliance of business in Pakistan, and this improvement will lead to FDI promotion in Pakistan	
Project analysis and notes: ✓ August 2020, ECNEC approved PSW project (budget of 11 PKR billion including foreign currency component of PKR 9 billion), and the project was announced to be completed in June 2023. ✓ PSW will promote FDI to Pakistan. ✓ It is reasonable to make effort for acquisition of the support from the development partners. ✓ The degree of involvement of KPT and PQA is unclear.	

2.4.10. Analysis on Land Transportation Projects in Karachi

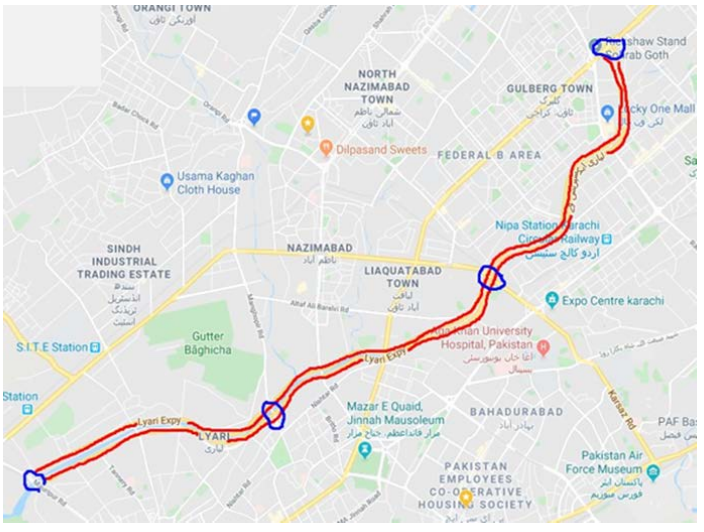
The land transportation projects in Karachi, which have been implemented and planned so far, are organized, and analyzed as follows.

1) LYARI EXPRESSWAY PROJECT

Project Outline:

- Lyari Expressway is a toll highway in the urban area constructed along the Lyari River in Karachi, Sindh, Pakistan. It was opened on January 28, 2018.
- Starting from Mauripur in Karachi and ending at the Solavgos interchange (connecting to M9) on a 16.5 km highway, including two interchanges, five elevated tracks and five underpasses on each side.
- The traffic on the expressway was assumed to be 34,000 vehicles/day. The toll expressway was designed as a commuting artery to alleviate the congestion in Karachi, and was expected to reduce the traffic burden on the Karachi Port and M9 ground routes.
- The Lyari Expressway was initially scheduled to be completed in December 2009, but due to lack of funds and the relocation of residents residing in the project site, the completion was delayed for nearly 10 years. The final budget estimate increased significantly from the initial estimate of PKR 5 billion to PKR 11 billion

Project Map/Photos:



Responsible Ministry: MOC / **Implementation Structure:** NHA

Environmental and Social Considerations: Although one of the world's largest resettlement was required and the implementation of the project was significantly delayed, the resettlement was successfully implemented.

Project Cost: PKR 11 billion (PKR 160 million/Lane/Km)	**Funding:** Budget of Federal gov./NHA (Tool road)

Socio-Economic Effect: It is considered that the cost-effectiveness of the project was considerably low due to the cost of resident relocation and a large delay.

Project Analysis and Notes:

- ✓ **Lyari Expressway Resettlement:** The construction of the Lyari Expressway required the demolition of 15,000 homes and the relocation of 24,400 families along the Lyari River, and the Federal government launched the Lyari Expressway resettlement project. The living environment in the resettlement area is generally good, and the resettlement project is generally highly evaluated.
- ✓ **Flood prevention effect:** The Lyari Expressway project, which had been suspended due to the 1993 flood, was revived as a plan for a highway with flood protection functions.

- ✓ **Restriction for heavy vehicles:** Although it was expected to be the fastest motorway connecting Karachi Port and M9, heavy vehicles are not allowed to pass due to the NHA's judgment (NHA said that it is a structural issue/ this issue is disputed with the Sindh government).

2) MALIR EXPRESSWAY PROJECT

Project Outline:

- Malir Expressway is 38.75 km in length that includes three elevated roads and eight tunnels, starting from Korangi Creek Avenue in the DHA area and connected to the M-9 (Karachi-Hyderabad Expressway) along the Malir River with a four-lane toll expressway project (PPP method).
- Malir Expressway has six interchanges and is expected to be used by thousands of citizens, and is expected to contribute to the alleviation of traffic congestion.
- In addition, industrial bases in Karachi (such as Karachi Port, Korangi Industrial Area, Randy Industrial Area) and the M9 Expressway, which is the main trunk line of Pakistan, will be connected in about 30 minutes.
- July 2019: April 2020, PPP contractor was approved and the PPP contract was signed.
- The design has already been completed, and the Sindh government announced that construction work will begin in the second week of November 2020.
- Scheduled to be completed around the end of 2023 (36 months).
- The Sindh Government approves construction of Korangi Link Road (12km long with four-lanes link road starting at Korangi Creek Avenue, Korangi Causeway intersection and ending at Airmen Golf Club). The study on the project using the PPP method will be implemented.

Project Map/Photos:

Responsible Ministry: Sindh government (PPP Policy Committee)
Implementation Structure: Private sector

Environmental and Social Considerations: Before 2019

Project Cost: PKR 39 Billion (PKR 150 Million/Lane/Km)	**Funding:** PPP (Private sector)

Socio-Economic Effect: The highway that connects the center of Karachi to the north and south is evaluated to have great economic effect. Higher cost effectiveness can be assumed.

Project Analysis and Notes:

- ✓ A very efficient route that linearly connects the M9 and the Korangi area on the south coast of Karachi, a new industrial and commercial area.
- ✓ Since the problem of resettlement is small, the risks of cost overrun and construction delay are also assumed small.
- ✓ Bridge construction is possible in the river
- ✓ DHA cooperation contributes to project implementation

3) KARACHI BRT (Bus Rapid Transit) PROJECT

Project Outline:

- The Karachi BRT Project is a 112.9 km long bus high-speed transportation network that is under construction in Karachi and consists of the following routes.
- When the project with an estimated passenger capacity of 350,000/day would be completed, it would become the largest metro bus network in Pakistan.
- The BRT project was scheduled to start operation in February 2017, but is currently delayed by more than 3 years.

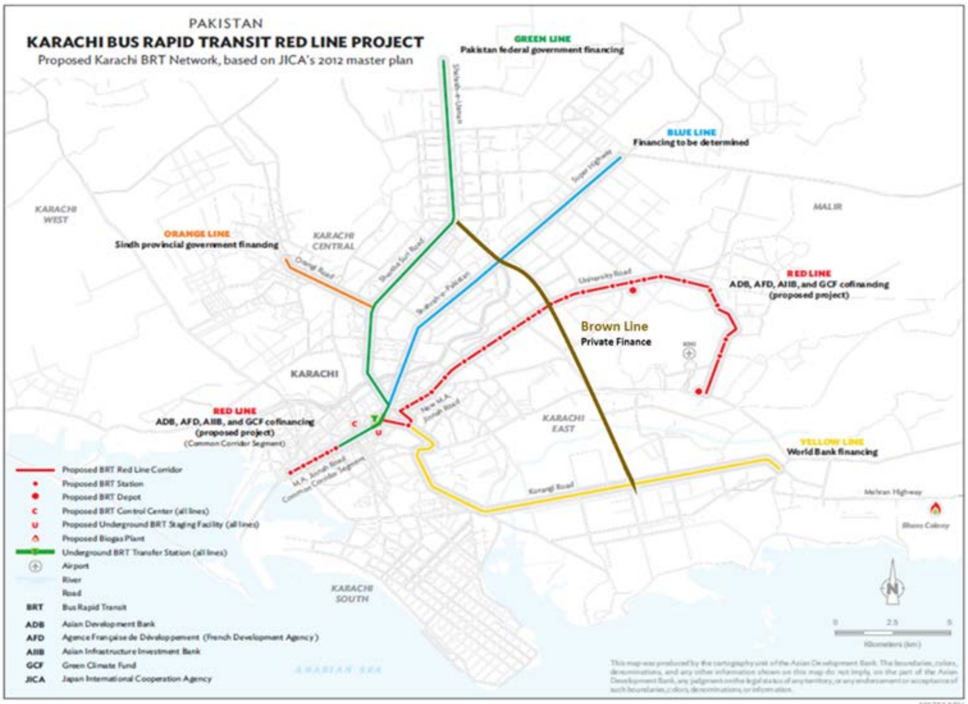
<table>
<tr><td>Green line</td><td>Main Organizer: Federal gov. (After 3 years, to handed-over to the Sindh gov.)</td><td>Funding: Budget of Federal gov. （PKR24.6 billion plus 11billion）</td></tr>
<tr><td colspan="3">・ In December 2014, the Executive Committee of the National Economic Council of the Federal government (ECNEC) approved a mass transit project at a cost of KPR 16.1 billion after shortening the route length by 3.2 km. The Green Line is 26 km in length from Mirweather Tower to Surjani Town (22 bus stops and plans to acquire 80 units of 18 meters long bus).
・ The construction of the green line started in February 2016. The schedule of the completion is in 2021.
・ The Federal government will be responsible for the management and operation of the Green Line for three years, after which it will be transferred to the Sindh government.
・ In October 2016, the Federal Development Working Party (CDWP) of the Federal Ministry of Planning and Development revised the cost of the project by 52% and revised it to PKR24.6 billion in addition to approving the design change.
・ The Federal government has announced that an additional PKR 11 billion is required to operate the bus, and the federal government has budgeted PKR 7.9 billion and plans to complete it by June 30, 2021.</td></tr>
<tr><td>Orange line</td><td>Main Organizer: Sindh Gov.</td><td>Funding: Budget of Sindh Gov. （PKR2.3billion）</td></tr>
<tr><td colspan="3">・ The Orange Line is the smallest BRT with 3.9 km with 4 stations and is in charge of the Sindh government.
・ Civil engineering work from the Orange town office to the Matrik board office Chorangi and Sharaeorangi was completed. It was scheduled to be completed in 2017, but the development work for the four BRT stations and bus terminals was significantly delayed.
・ In addition, due to lack of funding, the Orange line bus project has been unable to procure 25 buses, and the Sindh government is preparing an application for the Federal Government to undertake all operations of the Orange line project for 3 years (published in Express Tribune, March 19, 2020).
・ The completion is scheduled by June 2021.</td></tr>
<tr><td>Blue line</td><td>Main Organizer: Sindh Gov.</td><td>Funding: Budget of Sindh Gov.</td></tr>
<tr><td colspan="3">・ Blue line is 30 km length from Mirweather Tower to Barrier Town
・ Initially it was planned to be funded by a private Barriertown Group, this project is currently suspended due to the withdrawal of ownership by Barriertown Group
・ The start of construction was originally scheduled in the first quarter of 2017.</td></tr>
<tr><td>Brown line</td><td>Main Organizer: Sindh Gov.</td><td>Funding: Budget of Sindh Gov./ Private investment</td></tr>
<tr><td colspan="3">・ The Brown line was originally planned to be an MRT, but there is a high possibility that it will be changed to a BRT.
・ The Brown line is 18.5 km length with 16 stations (Nagan to Singer Chowrangi, Korangi (via Rashid Minhas /Shah Faisal Colony).
・ Currently suspended because private investors cannot be found (Nagan to Singer Chowrangi, Korangi (via Rashid Minhas /Shah Faisal Colony)</td></tr>
<tr><td>Yellow Line</td><td>Main Organizer: Sindh Gov.</td><td>Funding: US$438Million (Total)
Federal gov.US$18,5Million
Private sector invests. US$37.5Million
WB finance US$377Million</td></tr>
</table>

- The 26.5km Yellow line project from Landhi to New M.A. Jinnah Road runs from Dawood Korangi to Lucky Star Thadder via Korangi Road (one of the major industrial zones).
- The line connects the residential area of Korangi with the Korangi industrial area and central business district of Saran.
- In October 2017, the World Bank agreed to provide financial and technical assistance for the construction of the Yellow line and for the establishment of the BRT system in Pakistan
- The completion of designing is expected in 2020 and the start of the operation in 2025.

Red line	**Main Organizer:** Sindh Gov	**Funding:** US$188Million (Total) ADB52%、DFID（UK）12.62%、Sindh Gov.34.42%

- The Red line is 27 km length from Model Colony to Regal Chalk via Safura Goss and University Road.
- The cost of the project is estimated to be US$ 220 Million.
- ADB plans PDA US$10 million and project loan US$100 million. The Federation government has already approved the loan.
- August 2020, ECNEC approved change of cost sharing ratio of ADB and foreign partners (foreign currency cost is PKR 66.373 billion)

Project Map/Photos:



Responsible Ministry: Sindh government (Transport and Mass Transit Department)

Implementation Structure: The Planning and Development Department and Sindh Mass Transit Authority (SMTA). SMTA was established in October 2014 for the purpose of planning, development, operation, maintenance and regulation of mass transit system in Sindh, but it did not function as expected and faced many problems, so the operation for the Green line was transferred to the Sindh Infrastructure Development Co. Ltd. (SIDCL). SIDCL is a public limited company established under the Companies Act 2017.

Socio-Economic Effect: The BRT projects are economically justified by significant passenger time savings, vehicle operating cost savings and improving air quality. This is expected to improve the health of Karachi citizens and contribute to climate change mitigation.

Project Analysis and Notes:

✓ This project is a project that realizes an estimated number of passengers of 350,000 people/day by using a dedicated bus route of 112 km in total, and it can be evaluated as a project that makes a high degree of contribution to the socio-economic situation in Karachi where traffic congestion is intensifying.

- ✓ The BRT project, which utilizes the existing road transportation network to minimize costs, is considered to be more cost effective than other mass transit projects such as subways.
- ✓ On the other hand, due to problems such as financing problem, the implementation of the project by dividing the route into six and each project entity being different causes a large delay in the total planning.

4) KARACHI CIRCULAR RAILWAY (KCR) PROJECT

Project Outline:

- KCR started its operation in 1964, but it stopped the operation at the end of 1999 due to the less profitability by the deterioration of railway facilities and rolling stock and development of automobile traffic.
- In addition, the track in the ring section was operated as a single track, but the site has a double track.
- Reviving the KCR has been proposed several times since 1999, but unrealized due to lack of financial and political support.
- In 2004, the Task Force was established for the KCR restoration project chaired by the Minister of State of the Ministry of Railways as a priority project for activating Karachi.
- In 2008, Karachi Urban Transport Corporation (KUTC) was established for the purpose of project implementation.
- In 2014, the Government of Sindh signed a memorandum of understanding with the China Railway Construction Corporation (CRCC).
- In 2016, CPEC Joint Committee (JCC) agreed to make KCR project eligible for CPEC
- In 2017 Federal government approved the KCR restoration package at PKR 27.9 billion.
- In 2017, the feasibility study for the KCR restoration was completed.
- In 2017, the project was approved by the Executive Committee of the National Economic Council (ECNEC) with KCR total cost at US$1.97 billion.
- In 2020, the issue of the Right of Way (ROW) for the project was cleared, and the construction started for the boundaries / fences along the planned KCR site.
- The specifications of the KCR project are currently assumed as follows.
  - KCR route: Karachikant, Karachi City, Wajir Mansion, Lia Quatabad, Depot Hill, Drig Road, Departure Yard. Twenty-three stations are planned, and the stations are equipped with computerized ticket machines, vending machines, automatic ticket gates, and elevators.
  - Construction of 19 underpasses and 3 viaducts along with the removal of railroad crossings.
- The KCR vehicles can carry 1,400 passengers by the electric multi-units (EMU) (EMU's maximum speed is 100km/h: about 290 EMU are required)

Project Map/Photos:

Responsible Ministry: Sindh government
Implementation Structure: Karachi Urban Transport Corporation (KUTC)

Environmental and Social Considerations: Undecided (relocation of residents required in some parts of the project site)

Project Cost: US$ 2 billion	**Funding:** CRCC CRCC and Sindh government asked the Federal government to provide its guarantee for the funding

Socio-Economic Effect: 700,000 passengers/day can be covered by the project, so socio-economic effect is expected to be large.

Project Analysis and Notes:

- ✓ June 2020, The Government approved PKR 1.5 billion for train operation and 400 million PKR for rehabilitation of Samasatta-Bahawalnagar railroad tracks.
- ✓ The relocation of residents is required in some part of the project site
- ✓ There is an issue for land acquisition at the planned site
- ✓ The capacity of KUTC in its business management is still unclear.
- ✓ The optimization of large investment costs, boarding fares, and passenger numbers is one of the key issues
- ✓ There is an issue for the Federal government to provide its guarantee for the financing by CRCC. (PKR 250 billion).

2.4.11. Short List of Logistics Improvement Projects in Karachi

Based on the project analysis mentioned above, a short list of projects that are highly likely to be realized from the projects currently planned in Karachi was prepared as follows.

1) Premise

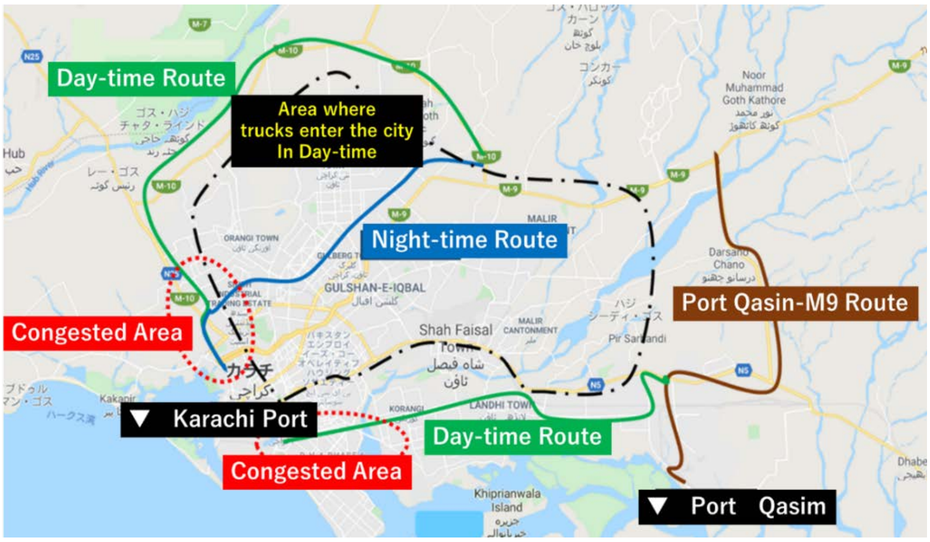
The premise of this short list is set as follows.

a) Limited to projects that contribute to "improvement of logistics in Karachi"

b) Regarding land logistics from the Port Qasim, since it is relatively smooth at present, priority is given to projects that contribute to land logistics from Karachi Port, which poses a major problem.

c) Many projects are planned in the area, but the project is selected based on a comprehensive evaluation of economic effects and feasibility risks.

d) Regarding the current status of logistics transportation and traffic conditions at Karachi Port area, the following is recognized by the Survey Team.



(Source: Survey Team)

Figure 2.4.14 Logistics Transportation and Traffic Conditions at Karachi Port Area

2) Evaluation Method for Short List Projects

For the short-listed projects, the project priority was evaluated by calculating the economic effects and analyzing the feasibility risk.

■ **Calculation and evaluation of economic effects**

There are several methods for evaluating the economic effects of projects in infrastructure investment.

In the economic evaluation of the shortlist project this time, the benefit-cost ratio (BCR) [58] of the

[58] BCR compares the future benefits created by the project at the net present value (NPV) with the cost required to

target project is estimated. At the same time, a qualitative evaluation, such as contribution to the improvement of logistics in Karachi, will be added.

■ **Feasibility risk analysis**

Regarding feasibility risk, the four items of (1) the driving force of the executing agency, (2) the issue of financing, (3) technical challenges, and (4) obstructive factors are analyzed and evaluated.

■ **Evaluation index**

The evaluation index has the following three basic levels, and plus (+) and minus (-) adjustments are added to the three-level evaluation.

A: High evaluation (high economic effect/low probability of risk)

B: Reasonable evaluation (with certain economic effect/some risk assumed)

C: Low evaluation (low economic effect/high probability of risk)

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implement the project at NPV (BCR= $\sum_{t=0}^{n} \frac{B_t}{(1+r)^t} \Big/ \sum_{t=0}^{n} \frac{C_t}{(1+r)^t}$) Generally, it is said that the feasibility of project implementation is extremely low when the BCR is 1 or less.

3) Outlines and Evaluation of the Short List Projects

3)-1 Lyari Expressway Expansion Project

Project Outline:
The Lyari Expressway toll road is a two-lane, 16.5 km highway designed to alleviate congestion in Karachi, but at the NHA's discretion (NHA considers it a structural issue), heavy vehicle traffic is not allowed to run. The trucks traveling to and from Karachi Port cannot travel. Today, the studies for the expansion of the expressway to construct new lanes for trucks along with existing expressway is started.

Project Location and Status:
See 2.4.10-1) LYRI EXPRESSWAY project map for location.
The current status of the expressway is as follows.

Current status of Lyari River from Lyari Expressway	Lyari Expressway	M9 exit
		
The amount of water in the Lyari River is small	Both lines have good road surface conditions and good driving.	The number of cars increases as the M9 approaching

Responsible Ministry: MOC **Implementation Structure:** NHA

Plan/Budget: Not yet

Purpose of the Project: By adding a new lane that allows trucks to travel from Karachi Port to the M9 entrance for 24 hours, the port logistics from Karachi Port will be greatly improved.

Project Specifications:
- Four lanes expressway with the same route, interchange and overpass as the existing Lyari Expressway toll road (16.5 km highway).
- Constructed inside the existing road to prevent further land acquisition and resettlement
- Structure/pavement specifications that can drive large trucks and container trailers

Schedule: The period of the construction is assumed for three years.

Project cost: PKR 11 billion (Based on the Malir Expressway project: About PKR150 million /Lane/Km)[59]

Economic effect/BCR estimation result: 2.55
The economic benefit calculation base is as follows.

- **Schedule:** Construction will start in 2022/ Operations will start in 2025
- **Road improvement (IRI) [60]:** From 7th level (with some small depressions) to 3rd level (new pavement)
- **Improved driving speed:** From 30km/h to 50km/h
- **Annual Number of running vehicle:** 2,216 thousand units/year (2025), thereafter adjusted by the average rate of the freight growth
- **Project cost:** PKR11,000 million (2018 price) to be adjusted with the annual average rate of CPI increase
- **Maintenance cost:** 1% of project cost/year to be adjusted with the annual average rate of CPI increase
- **NPV discount rate:** 12%/year

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59 Lane/Km is one of the standard units for estimating road construction costs (constructing 1 lane for 1 km).
60 IRI is International Roughness Index (An index showing the pavement condition of the road)

Feasibility Risk B	Executing agency: (B)	Financing: (C)or(A)	Technical Challenges: (A)	Obstructive factor: (B)

Note:

- NHA, which operates the existing toll road, is a Federal government agency and has severe financial restrictions, and it seems difficult to invest in this project.
- It seems to be difficult to make a dedicated freight road (freight only) into PPP project, because it is not profitable for a private company.
- The following two methods can be considered as PPP-able methods.
  - NHA implements a minimum toll guarantee
  - Methods for NHA to consign the new project and the existing road together to private sector on PPP basis.
- Since there is no new land acquisition or resettlement, many private companies might have interests to invest to the above PPP business.
- In August 2020, NHA announced that it would promote eight projects including "Lyari Elevated Freight Corridor" using the PPP method (from the article of the Nation dated August 11, 2020).

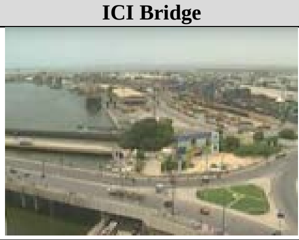
3)-2 Karachi Port Access Road Improvement Project I (North Route)

Project Outline:

The project is included in the general investment plan of KPT. Regarding the "PORT HINTERLAND CONNECTIVITY" described as a project under development planning in KPT Year Book 2017-2018, the following confirmation was made in the consultation meeting of the Study Team with KPT's P&D department.

- KPT recognizes that the biggest issue for logistics from Karachi Port is congestion of the road connecting Karachi Port and M9. KPT considers to improve the access road to the Lyari Express entrance/Glubai.
- This project is positioned as one of the priority business plans for KPT.
- KPT considers that cooperation with the Sindh government and the related parties such as the Pakistan Railways can be realized.
- FS has not been implemented (specific specifications of projects such as roads, bridges, and merge runabouts are unknown/undecided).
- PC-1 is not ready at this stage
- KPT expects the support from JICA

Project location and status:

Gate of the East Warf	ICI Bridge	To Glubai
		
Large trucks pass.	The asphalt surface layer is peeled off and unevenness is severe, which impedes passage. The railing on the bridge is obsolete.	Behind the bridge is the northern industrial area.

Responsible Ministry: MOMA **Implementation Structure:** KPT

Plan/Budget: Not yet

Purpose of the project:

The purpose of the project is to alleviate the traffic congestion around the ICI bridge, which is the bottleneck of the truck transportation (North route) from Karachi Port to M9/M10 and Lyari Expressway entrance.

It will also improve logistics throughout Karachi Port, including West Wharf, East Wharf and South Wharf, by expanding the roads within Karachi Port that will facilitate on-going connections from South Wharf to the North Route.

Project specifications:

1) Structure/pavement specifications that can drive large trucks and container trailers

2) The project can be separated into the following three parts.

- Road in the port area: 2-3km improvement of the port road (one lane on each side) from South Wharf to East Wharf Exit.
- New construction of East Wharf Bridge: Construction of a road lane with one lane on each side (250 m), which is attached to the currently built railway bridge.
- Improvement of ICI Bridge-Gulbai road: 2 lanes on each side 1.8 km (constructed on the site of Pakistan National Railways)

Schedule: The period of the construction is assumed for two years.

Project Cost: PKR 4.0 billion (Based on the Karachi Eastern Industrial Road project: About PKR100 million /Lane/Km)（Estimated by the project scope and specifications assumed by the Study Team）

Economic effect/BCR estimation result: 3.45

The economic benefit calculation base is as follows.

- **Schedule:** Construction will start in 2021/ Operations will start in 2024
- **Road improvement (IRI):** From 9th level (with depressions) to 4th level (with law level of pavement)
- **Improved driving speed:** From 20km/h to 30km/h
- **Annual Number of running vehicle:** 3,312 thousand units/year (2024), thereafter adjusted by the average rate of the freight growth
- **Project cost:** PKR4,000 million (2019 price) to be adjusted with the annual average rate of CPI increase
- **Maintenance cost:** 1% of project cost/year to be adjusted with the annual average rate of CPI increase
- **NPV discount rate:** 12%/year

Feasibility Risk	Executing agency:	Financing:	Technical Challenges:	Obstructive factor:
B+	**(B+)**	**(B)**	**(A)**	**(B)**

Note:

- The ownership of the project is considered to belong to KPT, but since KPT does not carry out FS for the project, details of the project such as project scope and specifications have not been clear yet.
- It is possible to implement the project for the roads and gates in the port of Karachi at the discretion of MOMA and KPT. However, with regard to the construction of new road bridges and road development towards Glubai, it seems to be necessary to establish a task force including the parties concerned, because there are many stakeholders such as the Sindh government, the Navy, and the Pakistan Railways.
- There is a strong need to resolve bottlenecks in advance or at the same time when the Northern Bypass and Lyari Expressway are expanded in the future.

3)-3 Karachi Port Access Road Improvement Project II (South-East Route)

Project outline:

- Karachi Port is currently planning further development of South Wharf since the opening of SAPT in 2016.
- In addition, traffic on the Southern Coast Road from the commercial and industrial areas of Clifton and Korangi (near South Wharf) to the eastern industrial area near Port Qasim is increasing day by day.
- In 2020, the development of Malir Expressway, a toll expressway project with three lanes on each side of the Marir River, which connects to the M-9 Karachi-Hyderabad Expressway from Korangi Creek Avenue in the DHA area, was also started.
- As mentioned above, traffic congestion in this area is becoming a major problem for the logistics of Karachi Port.

For the Sindh government, transportation improvement projects in the area have been an on-going issue. The Government of Sindh is also planning the “Road improvement project for smooth traffic in Korangi area”. The outline of the project planned by the Sindh government is as follows.

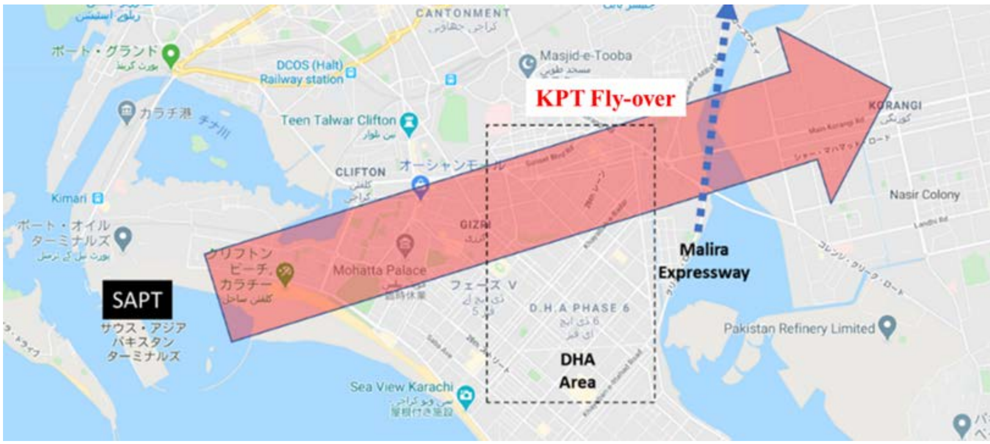
Background:

- Currently, there is only one access road (Shahra–e–Faisal) to connect the Korangi area and the central part of Karachi, and it has a large area population (about 2.5 million people) and a large vehicle traffic volume over 24 hours (It is very crowded due to the use of more than 20,000 units per day).
- Due to the daytime traffic restrictions of trucks in the city, intense logistics traffic to and from KPT via Korangi Road
  - During heavy rain/monsoon season, the roads are flooded and the region is isolated.
  - The planned Malir Expressway project has a starting point near the existing KPT interchange, and these areas will be linked directly to the Karachi Hyderabad Expressway (M9), which will the load is expected to increase further.

Road development plan:

In March 2020, the Sindh government issued a public announcement of recruitment of consultants for the implementation of the feasibility study for the project, including the construction of a new bridge.

Project location and status:



CLIFTON→KORANGI	KPT Fly-over	Main Korangi Road
		

Responsible Ministry: Sindh government
Plan/Budget: Not yet
Project specifications: Not clear
Schedule: The period of the construction is assumed for three years.
Project cost: Not clear
Economic effect/BCR estimation result/Feasibility Risk: Not clear
Note: ・ It is expected that the road development projects of the Sindh government related to the development of Malir Expressway will be clarified in the discussion between the private operator of the Malir Expressway and the Sindh government. ・ The road development projects are very important in the areas that is expected to develop, including the KPT LNG complex project (see 2.4.5 1of the Karachi Port New Development Project). ・ Road development from Clifton to Korangi area will be carried out along the interchange constructed by the development of Malir Expressway, and there is a possibility of a road expansion project from South Wharf of Karachi Port to Korangi.

3)-4 Karachi Eastern Industrial Road Improvement Project (Saba Cinema-Safoora Chowk)

For this project, PC-1 was approved by the Sindh government in 2019, and in the discussion of the Study Team with the Sindh government (Infrastructure of Planning and Development Dept.) they sounded the possibility of the support by JICA.

Project outline:
Improvement/Rehabilitation of Link Road from Saba Cinema to Safoora Chowk via Super Highway M-9 at District East, Karachi.

Project location and status:
Link Road from Saba Cinema to Safoora Chowk crossing Super Highway M-9 at District East, Karachi

- In the survey team's driving inspection (around 11:00 on weekdays), the current condition of Section 1 (Saba Cinema-M-9 Crossing: 4km) is that low-speed driving due to the poor road conditions, illegal occupation and slight congestion (20 km/h or less).
- The starting point is the northern industrial area beyond the Saba Cinema roundabout, and there is a large truck running in the Section
- The current condition of the Section II (M9 Crossing- Safoora Chowk: 6.5km) shows that the road condition is better than that of the Section 1 in the actual inspection by the survey team (around 11:30 on weekdays), and the level of congestion is also lower.

Traffic condition	Road condition	Bridge
		
There are heavy trucks passing through, which seems to be from the northern industrial area.	The asphalt surface layer is peeled off and unevenness is severe, which impedes passage.	The railing on the bridge is obsolete. Curb breakage. Behind the bridge is the northern industrial area.

Responsible Ministry: Sindh government
Maintenance of the road: Karachi Metropolitan Corporation (KMC)

Plan/Budget: In 2019 PC-1 approval (not included in 8th Five-Year Plan)

Purpose of the project:
- The project is part of the comprehensive road network improvement scheme in Karachi.

・ The implementation of the project will reduce traffic congestion from the central/western part of Karachi to the eastern part. In the current road network of Karachi, the east and west and the outer ring are relatively well maintained, but the roads connecting the center of Karachi to the north and south have been delayed. ・ Since there are many shops, apparel factories and parts-manufacturers in the Karachi eastern region, it can be expected to be effective in improving industrial logistics.
Project specifications: Total length 10.5km **[Section 1] Saba Cinema-M-9 Crossing: 4.00km** ・Road pavement width: 11.0m on each side ・Sidewalk: One side: 1.5m ・Median strip: 5.0m ・Service Road (parking area etc.): 7.2m on one side **[Section 2] M9 Crossing-Safoora Chowk: 6.50km** ・Road pavement width: 11.0m on each side ・Sidewalk: One side: 1.5m ・Median strip: 5.0m ・Service Road (Parking area etc.): 7.2m route on one side In addition, the use of RCC drainage pipes will improve the drainage capacity of the descending roads and reduce road floods.
Schedule: The period of the construction is assumed for 1 year.
Project cost: ：PKR4,684million (2020/ About PKR100 million /Lane/Km)
Economic effect/BCR estimation result: 3.05 The economic benefit calculation base is as follows. ・ **Schedule:** Construction will start in 2020/ Operations will start in 2022 ・ **Road improvement (IRI):** From 9th level (with depressions) to 4th level (with law level of pavement) ・ **Improved driving speed:** From 25km/h to 50km/h ・ **Annual Number of running vehicle:** 4,561 thousand units/year (2022), thereafter adjusted by the average rate of the growth of number of vehicles in Karachi ・ **Project cost:** PKR4,000 million (2019 price) to be adjusted with the annual average rate of CPI increase ・ **Maintenance cost:** 1% of project cost/year to be adjusted with the annual average rate of CPI increase ・ **NPV discount rate:** 12%/year

Feasibility Risk B+	Executing agency: (B)	Financing: (B)$^{-}$	Technical Challenges: (A)	Obstructive factor: (B)

Note:
- Given the tight budget of the Sindh government, the priority seems to be not high.
- JICA's financial support is expected.
- Since the area has a high commercial concentration, has 7 universities, and has a high population density, the project is expected to contribute to the alleviation of traffic congestion in Karachi.

4) Evaluation for short list projects

The overall evaluation (ranking) of the above short list projects was carried out as follows.

In the comprehensive evaluation, the “Karachi Port Access Road Improvement Project It (North Route)”, which can be judged to contribute significantly to the improvement of the logistics of Karachi port, was given the highest rating.

Although the BCR value is high, the “Karachi Eastern Industrial Road Improvement Project”, which is considered to have a low contribution to the improvement of Karachi port logistics, received a low overall rating.

Although it can be assumed that the “Karachi Port Access Road Improvement Project II (Southeast Route)” would contribute significantly to the improvement of Karachi Port Logistics, the basic scope of the project such as the project boundary has not been examined yet, so this time no comprehensive evaluation was possible.

<table>
<tr><td colspan="3">1. Karachi Port Access Road Improvement Project I (North Route)</td><td>Evaluation</td><td>B+</td></tr>
<tr><td>Economic effect: A</td><td>BCR:3.45</td><td colspan="3">It has high economic effect and possible contribution for the improvement of logistics at Karachi Port.</td></tr>
<tr><td>Feasibility Risk: B+</td><td>Executing agency: (B+)</td><td>Financing: (B)</td><td>Technical challenges: (A)</td><td>Obstructive factor: (B-)</td></tr>
<tr><td>Remarks</td><td colspan="4">The ownership of the project is expected to be the Federal government (MOMA/KPT) and the purpose for the port logistics improvement project is clear. However, since there are many stakeholders involved, it is necessary to prepare a feasibility study at earliest and to establish a task force for the project by the stakeholders.</td></tr>
<tr><td colspan="3">2. Lyari Expressway Expansion project</td><td>Evaluation</td><td>B</td></tr>
<tr><td>Economic effect: B</td><td>BCR:2.55</td><td colspan="3">Although it has a good effect on the improvement of logistics at Karachi Port, the economic effect will be slightly lower as it requires the construction of a new structure in the river area.</td></tr>
<tr><td>Feasibility Risk B</td><td>Executing agency: (B)</td><td>Financing: (C)or(A)</td><td>Technical Challenges: (A)</td><td>Obstructive factor: (B)</td></tr>
<tr><td>Remarks</td><td colspan="4">Although the Federal government and NHA are under severe financial restrictions, new road projects are considered to be PPP schemes in principle, but the use of ODA loan is also considered as an option.</td></tr>
<tr><td colspan="3">3. Karachi Eastern Industrial Road Improvement Project (Saba Cinema-Safoora Chowk)</td><td>Evaluation</td><td>B-</td></tr>
<tr><td>Economic effect: B</td><td>BCR:3.05</td><td colspan="3">Some economic effects can be expected, but little contribution to the improvement of logistics at Karachi Port can be expected.</td></tr>
<tr><td>Feasibility Risk B+</td><td>Executing agency: (B)</td><td>Financing: (B-)</td><td>Technical Challenges: (A)</td><td>Obstructive factor: (B)</td></tr>
<tr><td>Remarks</td><td colspan="4">・ Given the tight budget of the Sindh government, the priority seems to be not high.
・ JICA's financial support is expected.</td></tr>
</table>

<table>
<tr><td></td><td colspan="4">• Since the area has a high commercial concentration, has 7 universities, and has a high population density, the project is expected to contribute to the alleviation of traffic congestion in Karachi</td></tr>
<tr><td colspan="3">Out of Ranking: Karachi Port Access Road Improvement Project II (South-East Route)</td><td>Evaluation</td><td>No Evaluation</td></tr>
<tr><td>Economic effect:
Not clear</td><td>BCR:
No calculation</td><td colspan="3">It is considered that the economic effect might be high, but the scope of the project cannot be identified at this stage.</td></tr>
<tr><td>Feasibility Risk
Not clear</td><td>Executing agency:
-</td><td>Financing:
-</td><td>Technical challenges:
-</td><td>Obstructive factor:
-</td></tr>
<tr><td>Remarks</td><td colspan="4">The effect by the project on the improvement of logistics at Karachi Port is considered to be extremely high when the Malir Expressway is opened.</td></tr>
</table>

2.4.12. Possible JICA Support for Logistics Improvement in Karachi

The following are ideas for JICA support to improve logistics in the Karachi area.

1) Direction and Considerations for JICA Support

■ Recognition of issues

As shown in Table 2.4.1 “Cargo Handling Volume at Karachi Port and Port Qasim” above and Figure 2.4.15 “Increase in vehicle registration in Karachi”, the port logistics in Karachi has been increasing year by year and is becoming difficult situation. The IFC report also stated that about 60% of Pakistani imports and exports were cargo related to the EPZ and the Korangi industrial area in Karachi, and improvement of logistics in this area is recognized as an urgent issue.

Total number of Vehicles REGISTERED / ON ROAD in Karachi								
Types of vehicles	2013	2014	2015	2016	Growth 2014	Growth 2015	Growth 2016	Cumulative 2013-2016
Minibus	16,152	16,834	16,542	16,623	4.2%	-1.7%	0.5%	2.9%
Buses	6,361	6,449	6,393	6,696	1.4%	-0.9%	4.7%	5.3%
Mini Truck	13,983	14,468	15,802	16,655	3.5%	9.2%	5.4%	19.1%
Truck	16,572	17,145	18,650	20,325	3.5%	8.8%	9.0%	22.6%
Van/Pickup	118,479	119,564	133,510	155,374	0.9%	11.7%	16.4%	31.1%
Taxi	47,107	47,016	46,923	46,923	-0.2%	-0.2%	0.0%	-0.4%
Rickshaw	130,340	153,996	199,165	229,826	18.1%	29.3%	15.4%	76.3%
Tanker	3,027	3,069	3,156	3,337	1.4%	2.8%	5.7%	10.2%
PVT Vehicles	1,079,443	1,126,486	1,181,648	1,275,317	4.4%	4.9%	7.9%	18.1%
Motorcycles	1,560,674	1,759,852	1,976,252	2,344,976	12.8%	12.3%	18.7%	50.3%
Others	9,400	10,413	12,849	14,660	10.8%	23.4%	14.1%	56.0%
Total	3,001,538	3,275,292	3,610,890	4,130,712	9.1%	10.2%	14.4%	37.6%
Source: Transport & Communication, KDA								

(Source: Karachi Chamber of Commerce and Industry-Karachi Traffic Chaos-)

Figure 2.4.15 Increase in vehicle registration in Karachi

As described in 2.4.11 1) b), since it can be judged that there are currently no particular problems with the logistics at Port Qasim area, the issue of logistics at Karachi Port (KPT), which shall be the first target of JICA support.

The Sindh government, which is in charge of road development in Karachi, have not carried out sufficient traffic surveys and feasibility studies on traffic projects, which are essential for implementing infrastructure development, and many transportation-related projects have been delayed for many years. The main reason for the above lack of surveys/studies can be recognized as human resource/capacity and budget issues.

On the other hand, as the international competition between ports intensifies and the sophistication of NSW and PCS progresses, improving the KPT’s port management capacity, including traffic management inside and outside the port, can be recognized as an important issue.

■ **Direction and Considerations**

Improvement of logistics and solution of traffic problems in Karachi are inseparable, and it is considered necessary to take an integrated approach.

In addition, the stepwise approach, which starts with the detail study on the current situation, is considered effective.

At the same time, it is recommendable to improve KPT's port management capacity, including the management of traffic inside and outside the Karachi Port.

2) Recommendable approach for JICA support

Based on the above recognition of the issues, it is recommendable that JICA support shall be started from Technical Cooperation Projects which will be linked to ODA loan projects and grant aid projects in the next stages.

The counter parts for JICA support are expected be Federal government agencies (such as KPT/NHA) and the Sindh government.

3) Technical Cooperation Projects

a) Technical Cooperation Projects for Feasibility Study (FS) on Karachi Port Access Road Improvement Project

■ **Project outlines:**

Project to support KPT to prepare its FS for "Karachi Port Access Road Improvement Project" with the purpose of improving logistics at Karachi Port (ownership is KPT)

■ **Premise:**

Although KPT officially confirms the need for improvement of access road/logistics at Karachi Port and it expect for future improvement of the north and southeast routes, the basic matters such as project structure, scope of the project and project specifications are unclear. Before officially requesting Japanese government and JICA to support it, KPT must carry out its initial scoping study for the project by themselves.

■ **Project background/reasons:**

The volume of the cargo and container handling at Karachi Port is expanding, but access to the main roads connecting Karachi Port to the whole of Pakistan is poor, and it is becoming a bottleneck for the logistics of the Karachi Port. KPT recognizes that improvement of the access road is an urgent issue.

There are two possibilities to improve the access roads: the north route to Lyari Expressway/Gulbai and the southeast route to Malir Expressway/Korangi.

■ **Project Goals/Outcomes:**

Project Goal: A highly accurate FS will be prepared, the project will be approved by the relevant authorities and parties, including the Federal government and development partners.

Output (1): The FS of access road improvement project is prepared

Output (2): The FS of the access road improvement project determines the priority plan from the north route and the southeast route.

Output (3): Technology transfer related to FS to the departments and staff in KPT can be realized by the Hands-on instruction by the JICA technical cooperation team

■ **Eligible counterpart (Organization/department/human resources):**

・ Counterpart: MOMA and KPT

・ Department and human resources: Transportation Department of KPT etc.

■ **Activities of project:**

The project provides technical assistance for the following services.

1. Survey of traffic volume/freight volume and congestion status related to the logistics of the Karachi Port
2. Study on traffic demand forecast
3. Study on the current status of the following items
   ・ Land ownership/light of way at the project site.
   ・ Permissions for project implementation
   ・ Current road conditions
   ・ Environmental and social considerations for the project
4. Review of the project specifications
5. Preparation of project implementation plan and schedule
6. Estimation of the project cost
7. Economic analysis and risk analysis
8. Comparing north and southeast routes and setting priority
9. Consultation with relevant government agencies and project stakeholders

■ **Implementation period:** 1~1.5 years

b) Technical cooperation projects for KPT Port Management Capacity Improvement

■ **Project outlines:**

The technical cooperation project for the purpose of improving the port management capacity of KPT which is comprehensive management of Karachi Port. The capacity development of the project includes the traffic management and maintenance of port facilities at Karachi Port.

■ **Project background/reasons:**

・ In order to comply with the increase of the traffic at Karachi Port, it is needed to improve and update the KPT's capacity for traffic management inside and outside Karachi Port

・ In the discussion with KPT of this survey project, KPT requested for supports regarding capacity improvement for waterway management and environmental management. Those activities are included in comprehensive port management.

- **Project Goals/Outcomes:**

Japan's advanced port management technology shall improve KPT's comprehensive port management capacity and strengthen the international cooperation relationship between Japan and Pakistan.

- Output (1): Traffic management capacity of KPT will be improved by introducing RFID system, etc.
- Output (2): Capacity for information system management will be improved, including the expansion of the networks (PSW and PCS).
- Output (3): Technology transfer to the departments and staff in KPT can be realized by the Hands-on instruction by the JICA technical cooperation team

- **Eligible counterpart (Organization/department/human resources):**

- Counterpart: MOMA and KPT
- Department and human resources: Department of KPT in charge of operations and traffic Management etc.

- **Activities of project:**

The project provides technical assistance for the following services.

1. Business management

Business management including the following items.

- Compliance and corporate governance
- Relation management (RM with operators, customs, etc.)

2. Traffic management

Due to the increasing cargo handling volume year by year, traffic congestion in and around Karachi Port continues to deteriorate, and it is considered necessary to introduce effective traffic management inside and outside Karachi Port. Currently, the port gate (entrance/exit) operated by KPT, the customs gat by FBR and the terminal gate by a private operator of the container terminal are each operated and managed at Karachi Port, and there often are traffic congestion in front of each gate without integrated traffic management. The following technical services will be provided by the project.

- To establish the traffic management for the entire Karachi Port, including the introducing RFID system
- To implement RFID pilot project (sub-project)
- Introduction and training of RFID system for the staff
- Management technology of port traffic for the staff
- Port gate operation

・ Collaboration for traffic management with the parties outside of the Karachi Port

3. Management of port facility

The project will provide technical assistance for inspection and diagnosis (facility inspection, soundness evaluation), preparation of maintenance plan, and repair/repair design for appropriate maintenance of port facilities.

The project will transfer the Japanese technology for maintenance and management of port facility which is at a high level internationally, to KPT. The target technologies include the following items.

・Management for waterways (inspection of underwater area such as underwater shape survey)

The survey results by multi-beam sonar were organized as 3D images and water depth maps, and inspections were conducted based on the current status of facility use. If an abnormality is found, a diver will conduct a detailed survey as necessary. The underwater shape survey will clarify the shape of the waterway mound, scouring, accumulation status and the existence of obstacles, and the safe operation and maintenance of the waterway will be feasible.

・Environmental management (the surveys for water quality and bottom sediment in and around the port)

According to KPT, the environmental problems of Karachi Port (especially the deterioration of water quality due to the discharge of water from ships calling and neighboring factories) due to the expansion of operations of Karachi Port and the expansion of neighboring industrialization are becoming more serious. Environmental management at the port is considered to be a very important issue. It is considered necessary to conduct periodic sediment surveys in and around Karachi Port.

Depending on the season, the closeness of the Karachi Port waters and nutrient salts generated by living and industrial activities in the surrounding area may flow into and accumulate in the bay, resulting in eutrophication, affecting the aquatic life in and around the bay. It is recommendable to implement the survey of water quality, sediment quality, and habitat status centering on Karachi Port to deal with the conservation and restoration of the environment around Karachi Port.

・ Inspection of seawalls and quays

・ Technical support will be provided for inspection and diagnosis of revetments, quays, etc., including the areas managed by private operators. It will result to formulation of maintenance plans (repair/repair design). The status of concrete deterioration and steel corrosion will be inspected and investigated by visual inspection on land and diving survey.

・ Preparation of maintenance plan

Supporting to prepare for maintenance plan for efficient and effective maintenance of facilities

4. Management for information system

Information system includes the following items

- KPT system and external network
- Development of PCS and PSW
- Security of information system

■ **Implementation period:** 2~3 years

■ **Supplement/Note:**

The following confirmation was made in the discussion for technical assistance between the Survey Team and KPT.

(1) KPT is interested in the introduction of RFID and welcomes JICA support rather than PPP-based private proposal

(2) KPT is interested in technical support for environmental management related to waterway and drainage.

(3) Recognition that traffic control inside and outside Karachi Port is not sufficient

JICA's capacity building for traffic management including RFID system, which is based on the technical cooperation project for Chennai Port, will be at the core of the proposal.

c) Technical cooperation projects for Karachi Transportation Master Plan

■ **Project outlines:**

The project is to provide technical assistance to the Sindh government for its review of the "Master Plan Survey" in the JICA "Karachi Transport and Transport Development Project Preparatory Survey in Pakistan" (2012MP). The Sindh government and the World Bank also highly evaluate JICA's 2012 MP. The ownership of the reviewing project (the New Master Plan) is Sindh government.

■ **Project background/reasons:**

In recent years, many transportation projects have been planned/implemented in Karachi, but the basic policies/plans and traffic demand forecast have not been implemented since the 2012 MP.

For this reason, issues in policy, plan, and project consistency, and the fact that the demand forecast of 2012MP is still used for their feasibility studies of new transportation projects (data about 10 years ago).

The World Bank also pointed out this issue in "Transforming Karachi into a Livable and Competitive Megacity Karachi City Diagnostic (KCD) 2014-2016".

■ **Project Goals/Outcomes:**

The objective of the project is to improve the transportation environment in Karachi and strengthen the international cooperation relationship between Japan and Pakistan by using Japan's high-quality technology and experience in the establishment of transportation master plan.

- Output (1): Establishment of the Karachi New Transport Master Plan (MP202X)
- Output (2): Formulation of the new transportation policy and promotion of new transportation projects based on MP202X
- Output (3): Technology transfer to the departments and staff in the Sindh government can be realized by the Hands-on instruction by the JICA technical cooperation team

■ **Eligible counterpart (Organization/department/human resources):**

- Counterpart: Sindh government (Local Government Department & HTP DEPARTMENT)
- Department and human resources: Transport & Mass Transit Department

■ **Activities of project:**

The project provides technical assistance for the following services.

1. Reviewing 2012 JICA Master Plan (2012MP): Review of the following items in 2012MP.
   - Policies and development plans and existing surveys by the Federal government and Sindh government
   - Urban development policies and plans, related laws and regulations
   - Policies and development plans for the transport sector
   - Verification of the existing scenarios and assumptions for urban traffic
2. Conducting traffic surveys: To conduct new appropriate traffic surveys.
3. Implementation of traffic demand forecasting: A demand forecasting model will be established based on the above development plan review, traffic survey, etc.
4. Current status analysis: Analysis of the current status of the following items
   - Socioeconomic status
   - Land use.
   - Existing urban transportation facilities
   - Road
   - Public transportation.
   - Transport related organizations
   - Environment
   - Current status of PPP projects

In particular, the current SDGs approach from the perspective of "sustainability of growth (sustainability of the environment)" and the issues of PPP-type business promotion which is currently becoming the mainstream of infrastructure development in Pakistan. It is considered that these surveys and analyzes need to be sufficiently carried out in 202XMP because the analysis of the above were not sufficient at the time of 2012MP implementation.

5. Direction of the new master plan and setting of frame-work: Direction of the new master plan and frame-work will be set based on the above analysis of the current status.
6. Establishment of the new master plan: To establish the new master plan that includes the following items. The target period is short-term, medium-term (for 10 years), and long-term (up to 2050).
   - Overall policy and basic policies
   - Major considerations for roads, public transportation, traffic management, freight transportation.
   - Setting of future transportation network (road network and public transportation network)
7. Development plan for organizational and personnel capacity improvement in transportation department

- **Implementation period:** 2~3 years

4) ODA Loan Projects

Among the projects short-listed in 2.4.11 above, the following two projects are identified as possible projects which Japanese ODA (Official Development Assistance) loans might be provided in future.

<table>
<tr><td>1</td><td colspan="2">Lyari Expressway Expansion project</td><td>C/P: NHA</td></tr>
<tr><td colspan="2">Project cost：PKR 11 billion</td><td colspan="2">Category of ODA Loan: For lower-middle income countries/ Preferential or general terms</td></tr>
<tr><td colspan="4">・ If NHA chooses the project to be financed by ODA loan with preferable terms instead of PPP project, the project would be realized with ODA loan. Although It seems difficult to apply Japanese technology to standard expressways/toll roads, it is possible to recommend the advanced Japanese technology for infrastructure from the view point of “To extend infrastructure life and reduce life cycle cost”. Even the project cost might be 1.5 times or more in case Japanese technology would be adopted, the life cycle cost for 50 years might be small than that of PPP style. It can be explained to the Federal government and NHA by using persuasive case comparison.</td></tr>
<tr><td>2</td><td colspan="2">Karachi Port Access Road Improvement Project</td><td>C/P: KPT and/or Sindh government</td></tr>
<tr><td colspan="2">Project cost：
North route case: PKR 4 billion
Southeast route: Not estimated</td><td colspan="2">Category of ODA Loan: For lower-middle income countries/ Preferential or general terms</td></tr>
<tr><td colspan="4">・ Depending on the FS for the access road improvement project, either the north route or the southeast route becomes the priority project.
・ If the results of FS would be approved by the Federal government and a task force for the project would be established by the relevant parties, the viability of the project would increase.
・ As with the above Lyari Expressway Expansion project, Japanese ODA loan can be recommended for the project from the view point of “To extend infrastructure life and reduce life cycle cost”.</td></tr>
</table>

■ Challenges

a) ODA Loan (yen loan) for Road Projects

According to the recent guidelines for various ODA by the Japanese government, it is considered that the participation of Japanese companies is a very important point in case of implementing ODA loan for overseas infrastructure projects.

“Adopting high-quality Japanese technology” is highly recommended because it is highly likely t

While ODA loans are likely to be use in the projects of large-scale bridges, tunnels, special roads in the mountains, and other projects that can utilize the high technological capabilities and knowledge of Japanese companies, they are hardly used for general roads and highways.

However, as stated in JICA's presentation of "Issues and needs of developing countries in the field of roads and bridges" on August 3, 2018, there is a possibility that Japanese ODA loan (STEP: Special Terms for Economic Partnership） could be provided for projects with the purpose of the reduction of lifecycle cost by utilizing Japanese technology.

In recent years, Japanese companies are promoting the development of technologies aimed at further improvement of durability and reduction of life cycle cost (self-healing materials, fiber-reinforced plastics, high-strength steel materials, etc. in infrastructure projects.

However, regarding the application of STEP, sufficient consultation with the governments of both Japan and Pakistan is considered necessary.

b) Comparison of ODA Loan (yen loan) and PPP Financing

The current Federal government of Pakistan is in a difficult financial situation, and as far as possible, it is implementing/promoting private sector financing by PPP method in infrastructure development projects.

In both of the above two projects, it is possible to provide ODA loans, since project promotion entities are eligible governmental organizations. However, since both organizations have experience in implementing concession type PPP as well, they can select project method (ODA loan or PPP).

The following is a summary of the comparison of the ODA loan-based project and the PPP-based project.

	Advantages	Disadvantages
ODA **(Yen Credit)**	・ Project economics shall be greatly improved due to favorable loan conditions. ・ Basically, a wide range of competitive bidding is possible for construction contracts. ・ Improvement of the transparency and governance through the involvement of the Japanese government/JICA ・ It is possible to comprehensively solve the problem coordination with future national projects and related projects as a government project.	・ ODA loan is included in external debt of the Federal government ・ There is concern about inefficient operation of Government and Government agencies. ・ Concerned that it will take some time to implement the project, including the examination of ODA loan and negotiations between the governments
PPP Model	・ The project cost shall not be recorded in the government budget and external debt.	・ Project economics shall be significantly reduced due to unfavorable loan conditions for

	• Efficient management of private companies will be introduced. • Time to project implementation can be saved by not using the government budget and without negotiating between governments.	private company. • In case of PPP bidding, the number of bid participants shall be limited to some extent • Basically, the project will be implemented by a selected private company, so there may be concerns about the transparency and governance of the project. • It may be difficult to coordinate issues with future national projects due to the emphasis on profitability of the project.

■ **JICA Support for PPP Projects**

JICA has several support programs for PPP projects, but the scheme for utilizing ODA loans needs to be sufficiently coordinated with the governments of developing countries, including regulatory frame and institutional design.

On the other hand, if Japanese companies participate in the PPP business as the main party, it is possible to provide JICA's support through JICA Overseas Investment Loan and the JICA-funded trust fund "LEAP"[61] (Leading Asia's Private Infrastructure Fund).

Since the Japanese government and JICA are willing to collaborate with development partners to promote "Investment for High Quality Infrastructure" and contribute to the economic and social development of developing countries and regions, the participation of Japanese companies is a very important requirement from the perspective of the above "Investment for High Quality Infrastructure".

■ **Special Note on JICA ODA Loan**

The issues on the external debt and public debt have long been key issues for Pakistan, and in July 2019 the IMF agreed 39-month EEF to Pakistan for about US$ 6 billion. The facility has been approved, and the condition of EEF such as revenue reform and the problem of circulating debt such as electricity is being monitored (the second review originally scheduled for February 2020 was delayed due to the influence of COVID-19).

Pakistan's National Bank (SBP) reported that Pakistan's external debt surged to US$ 112.8 billion at the end of June 2020, an increase of US$ 17.6 billion (18.5%) over the past two years as the difficult financial situation continued. 87% of the external debt is the direct and indirect debt of the Federal Government, and even if it is a concessional loan such as Japanese ODA loan

[61] LEAP targets high-quality private sector infrastructure projects in Asia and the Pacific region, and provides loan support for infrastructure projects implemented by the private sector through various forms such as public-private partnerships (PPPs). In March 2016, JICA approved a $ 1.5 billion overseas investment and loan in LEAP. LEAP supports a wide range of quality, sustainable private sector infrastructure projects in ADB member countries in the Asia Pacific.

in infrastructure development, the implementation of foreign loan that becomes the government's external debt will be restrained. These circumstances have to be in to the considerations.

5) Japanese Grants Projects

Further discussions with MoMA and KPT are needed on the Japanese Grants projects, such as provision of equipment that will contribute to the improvement of port logistics.

(Reference 2.4.1: IEE/EIA_ Environmental Checklist Decision-Making Process)

Preparation of IEE/EIA_ Environmental Checklist and Decision-Making Process							
Preparation and Decision-Making Process	**Description**	**Proponent**	**SEPA**	**Category of the Project**			
				Projects requiring an "**EIA**" (Environmental Impact Assessment)	Projects requiring an "**IEE**" (Initial Environmental Examination)	Projects requiring "**Environmental Checklist**"	Projects **not requiring an IEE or EIA**
1. The Categorization of the Project	Proponent should consult with SEPA.	◎	○	any category listed in Schedule-II BRT (Bus Rapid Transport) Project is categorized in Schedule-II.	any category listed in Schedule-I	any category listed in Schedule-III	not falling in any category listed in Schedules-I, II and III
				SEPA Regulations 4.	SEPA Regulations 3.	SEPA Regulations 5.	SEPA Regulations 6.

Preparation of IEE/EIA_ Environmental Checklist and Decision-Making Process							
Preparation and Decision-Making Process	**Description**	**Proponent**	**SEPA**	**Category of the Project**			
				Projects requiring an "**EIA**" (Environmental Impact Assessment)	Projects requiring an "**IEE**" (Initial Environmental Examination)	Projects requiring "**Environmental Checklist**"	Projects **not requiring an IEE or EIA**
2. Land Acquisition and Resettlement Action Plan (LARP : if appropriate)	If proposed project need Parallelly implement LARP along with EIA. ↓ Consult with Commissioner Office, Sindh Government in terms of Compensation. LARP needs a lot of time and considerations. It may take up to two years depending on the situation (like a road construction).			○			

Preparation of IEE/EIA_ Environmental Checklist and Decision-Making Process							
Preparation and Decision-Making Process	**Description**	**Proponent**	**SEPA**	**Category of the Project**			
				Projects requiring an "**EIA**" (Environmental Impact Assessment)	Projects requiring an "**IEE**" (Initial Environmental Examination)	Projects requiring "**Environmental Checklist**"	Projects **not requiring an IEE or EIA**
3. **Preparation of IEE/EIA and Environmental Checklist** *SEPA Regulations 7.	Environmental • physical • ecological • socio-economic • health • other Social	◎		○	○	○	
4. Stakeholder Consultation	*Stakeholders • SEPA • Relevant Departments • Local Community • NGO	◎		○	△ IEE does not require Stakeholder Consultation. However, International donner usually requires Stakeholder Consultation.		

Preparation of IEE/EIA_ Environmental Checklist and Decision-Making Process							
Preparation and Decision-Making Process	**Description**	**Proponent**	**SEPA**	**Category of the Project**			
				Projects requiring an "**EIA**" (Environmental Impact Assessment)	Projects requiring an "**IEE**" (Initial Environmental Examination)	Projects requiring "**Environmental Checklist**"	Projects **not requiring an IEE or EIA**
5. Approval by Other Departments and Agencies		◎		○	○		
6. **Filing of IEE/EIA and Environmental Checklist**	Ten hard copies and two electronic copies for an IEE and EIA reports	◎		○	○		
*SEPA Regulations 9.	No objection certificates from the relevant departments in case of EIA	◎		○			
	Environmental Check list as per its guidelines .	◎		○	○	○	
7. Apply to SEPA		◎		○	○	○	○

Preparation of IEE/EIA_ Environmental Checklist and Decision-Making Process							
Preparation and Decision-Making Process	**Description**	**Proponent**	**SEPA**	**Category of the Project**			
				Projects requiring an "**EIA**" (Environmental Impact Assessment)	Projects requiring an "**IEE**" (Initial Environmental Examination)	Projects requiring "**Environmental Checklist**"	Projects **not requiring an IEE or EIA**
8. Preliminary **Scrutiny** *SEPA Regulations 10.(1)			◎	Within fifteen working days			
9. Confirmation of Completeness			◎	Go to Public participation	Come to SEPA and explain the IEE Report in one to three hours.		
10. Public participation *SEPA Regulations 11.	a public notice mentioning the type of project ・any English and Urdu national newspaper ・a local newspaper of general circulation ⇒fix a date, time and place of public hearing for any	○	◎	○ ・The date fixed shall not be earlier than fifteen days from the date of publication of the notice. ・All comments received by the Agency from the			

Preparation of IEE/EIA_ Environmental Checklist and Decision-Making Process							
Preparation and Decision-Making Process	**Description**	**Proponent**	**SEPA**	**Category of the Project**			
				Projects requiring an "**<u>EIA</u>**" (Environmental Impact Assessment)	Projects requiring an "**<u>IEE</u>**" (Initial Environmental Examination)	Projects requiring "**<u>Environmental Checklist</u>**"	Projects **<u>not requiring an IEE or EIA</u>**
	comments on the project or its EIA The circulation of the EIA to the concerned Government Agencies and solicit their comments			public or any Government Agency shall be collated, tabulated and duly considered by it before decision on the EIA.			
11. Response by the Proponent	Furnish quantitative and qualitative assessment of the documents and data. Response to the comments from the public and Government Agencies received under regulation 10.	◎		○	○	○	

Preparation of IEE/EIA_ Environmental Checklist and Decision-Making Process							
Preparation and Decision-Making Process	**Description**	**Proponent**	**SEPA**	**Category of the Project**			
				Projects requiring an "**EIA**" (Environmental Impact Assessment)	Projects requiring an "**IEE**" (Initial Environmental Examination)	Projects requiring "**Environmental Checklist**"	Projects **not requiring an IEE or EIA**
11. Review by the SEPA	*SEPA Regulations 12.(1)		◎	○ maximum four months of issue of confirmation of completeness	○ maximum sixty days of issue of confirmation of completeness	○ maximum thirty days of issue of confirmation of completeness	
11. Review by the SEPA			◎	○ In reviewing the EIA, the Agency shall consult such Committee of Experts be constituted for the purpose by the Director General, and may also solicit			

Preparation of IEE/EIA_ Environmental Checklist and Decision-Making Process							
Preparation and Decision-Making Process	**Description**	**Proponent**	**SEPA**	**Category of the Project**			
				Projects requiring an "**EIA**" (Environmental Impact Assessment)	Projects requiring an "**IEE**" (Initial Environmental Examination)	Projects requiring "**Environmental Checklist**"	Projects **not requiring an IEE or EIA**
				views of concerned Advisory Committee, if any, constituted by the Agency. *SEPA Regulations 12. (2)			
11. Review by the SEPA	*SEPA Regulations			The Director-General may, where he considers it necessary, constitute a committee to inspect the site of the project and submit its report on such matters as may be			

Preparation of IEE/EIA_ Environmental Checklist and Decision-Making Process							
Preparation and Decision-Making Process	**Description**	**Proponent**	**SEPA**	**Category of the Project**			
				Projects requiring an "**EIA**" (Environmental Impact Assessment)	Projects requiring an "**IEE**" (Initial Environmental Examination)	Projects requiring "**Environmental Checklist**"	Projects **not requiring an IEE or EIA**
				specified. *SEPA Regulations 12. (3)			
11. Review by the SEPA			◎		○ In reviewing the IEE, the Director General may constitute a committee of the officers from within the Agency on case to case basis in view of the jurisdiction and location of the project for the purpose to extend(inform) final recommendation		

Preparation of IEE/EIA_ Environmental Checklist and Decision-Making Process							
Preparation and Decision-Making Process	**Description**	**Proponent**	**SEPA**	**Category of the Project**			
				Projects requiring an "**<u>EIA</u>**" (Environmental Impact Assessment)	Projects requiring an "**<u>IEE</u>**" (Initial Environmental Examination)	Projects requiring "**<u>Environmental Checklist</u>**"	Projects **<u>not requiring an IEE or EIA</u>**
					about the approval or rejection of the IEE. *SEPA Regulations 12. (4)		
11. Review by the SEPA		◎	◎		○ In reviewing of the IEE, the Director General may direct the proponent and Firm to present the report before the committee as given under sub regulation (4) and the Director General may also invite environmental		

Preparation of IEE/EIA_ Environmental Checklist and Decision-Making Process							
Preparation and Decision-Making Process	**Description**	**Proponent**	**SEPA**	**Category of the Project**			
				Projects requiring an "**EIA**" (Environmental Impact Assessment)	Projects requiring an "**IEE**" (Initial Environmental Examination)	Projects requiring "**Environmental Checklist**"	Projects **not requiring an IEE or EIA**
					experts from outside the Agency for the purpose of assistance. *SEPA Regulations 12. (5)		
11. Review by the SEPA	*SEPA Regulations 12. (6) The review of the IEE or EIA by the Agency shall be based on quantitative and qualitative assessment of the documents and data furnished by the proponent, comments		◎	○	○		

Preparation of IEE/EIA_ Environmental Checklist and Decision-Making Process							
Preparation and Decision-Making Process	**Description**	**Proponent**	**SEPA**	**Category of the Project**			
				Projects requiring an "**EIA**" (Environmental Impact Assessment)	Projects requiring an "**IEE**" (Initial Environmental Examination)	Projects requiring "**Environmental Checklist**"	Projects **not requiring an IEE or EIA**
	from the public and Government Agencies received under regulation 10, and views of the committees mentioned in sub-regulations (2) and (3) above.						
11. Review by the SEPA	*SEPA Regulations 12. (7) The environmental check list shall be reviewed as per guidelines issued by the Agency.		◎			○	

Preparation of IEE/EIA_ Environmental Checklist and Decision-Making Process							
Preparation and Decision-Making Process	**Description**	**Proponent**	**SEPA**	**Category of the Project**			
				Projects requiring an "**EIA**" (Environmental Impact Assessment)	Projects requiring an "**IEE**" (Initial Environmental Examination)	Projects requiring "**Environmental Checklist**"	Projects **not requiring an IEE or EIA**
12. Decision *SEPA Regulations 13.				○ ・the documentary evidence in the form of videos (soft copies) of public Hearing shall be submitted by the proponent ・Environmental Management Plan(EMP)+Condition of Approval may be required to the Proponent.			
				the Agency shall be communicated to the proponent in the	the Agency shall be communicated to the proponent in the form	the Agency shall be communicated to	

Preparation of IEE/EIA_ Environmental Checklist and Decision-Making Process							
Preparation and Decision-Making Process	**Description**	**Proponent**	**SEPA**	**Category of the Project**			
				Projects requiring an "**EIA**" (Environmental Impact Assessment)	Projects requiring an "**IEE**" (Initial Environmental Examination)	Projects requiring "**Environmental Checklist**"	Projects **not requiring an IEE or EIA**
				form prescribed in **Schedule-VII**	prescribed in **Schedule-VI**	the proponent in the form prescribed in **Schedule-VI**	

(Reference 2.4.2: List of projects requiring IEE/EIA, Environmental Screening)

The Sindh Environmental Protection Agency (Review of Initial Environmental Examination and Environmental Impact Assessment) Regulations, 2014.

SCHEDULE I (List of projects requiring an IEE)

A. **Agriculture, Livestock and Fisheries**
1. Poultry, livestock, stud and fish farms 2. Projects involving packaging, formulation, cold storage and warehouse of agricultural products.
B. **Energy**
1. Hydroelectric power generation less than 50 MW 2. Thermal power generation less than 100MW 3. Coal fired power plants with capacity less than 50 MW 4. Transmission lines less than 11 KV, and grid station 5. Waste-to-energy generation projects including bio-mass less than 25 MW 6. Solar project 7. Wind project
C. **Oil and Gas projects**
1. Oil and gas 2D/3D Seismic survey and drilling activities 2. Oil and gas extraction projects including exploration and production located outside the environmentally sensitive areas 3. Construction of LPG storage facilities 4. Construction of LPG/CNG filling station and petrol pumps
D. **Manufacturing and processing**
1. Ceramics and glass units less than 500 million 2. Food processing industries with total cost less than PKR 200 million 3. Pharmaceutical units. 4. Marble units 5. Carpet manufacturing units 6. Rice mills, ghee/oil mills, 7. Brick kilns 8. Stone crushing units 9. Man-made fibers and resin projects with total cost less than PKR 200 million 10. Manufacturing of apparel, textile garments unit, including dyeing, bleaching and printing, with total cost less than PKR50 million 11. Wood products with total cost more than PKR 100 million

12. Steel re-rolling mills 13. Recycling plants
E. **Mining and mineral processing**
Commercial extraction of sand, gravel, limestone, clay, Sulphur and other minerals not included in Schedule II with total cost less than PKR 100 million 1. Crushing, grinding and separation processes 2. Smelting plants with total cost less than PKR 100 million
F. **Transport**
Flyovers, underpasses and bridges having total length less than 500 meters
G. **Water management, dams, irrigation and flood protection**
1. Dams and reservoirs with storage volume less than 25 million cubic meters of surface area less than 4 square kilometers 2. Small-scale irrigation systems and drainage system with total cost less than PKR 100 million
H. **Water supply and filtration**
Water supply schemes and filtration plants with total cost less than 100 million (Including projects of maintenance, up gradation, reconstruction of existing projects.)
I. **Waste disposal and treatment**
1. Solid and non-hazardous waste with annual capacity less than 10,000 tons 2. Waste water treatment for sewage treatment facility with total cost less than 200M 3. Industry specific Waste water treatment facility for Industrial effluent (small scale plant)
J. **Urban developmen**t
1. Housing schemes less than 10 acres 2. Multi-story buildings having residential and commercial setup on the total plot size is less than 2000 sq. yards 3. Hospitals with capacity of 50 beds, health care unit/laboratories with 500 OPD/day. 4. Construction of Educational, Academic institutions on land less than 10 acres.
K. **Other projects**
Any other project for which filing of an IEE is required by the Agency under sub-regulation (2) of Regulation 6.

SCHEDULE II

List of projects requiring an EIA

A. **Energy**
1. Hydroelectric power generation over 50 MW 2. Thermal power generation over 100MW 3. Coal power projects above 50 MW

4. Transmission lines (11 KV and above) and distribution projects. 5. Nuclear power plants 6. Wind energy projects if falls under any sensitive, protected area.
B. **Oil and Gas projects**
1. Petroleum refineries. 2. LPG and LNG Projects (including LNG Terminals, re-gasification units) except LPG filling stations 3. Oil and gas transmission systems 4. Oil and gas gathering system, separation and storage
C. **Manufacturing and processing**
1. Cement plants 2. Chemical manufacturing industries 3. Fertilizer plants 4. Steel Mills 5. Sugar Mills and Distilleries 6. Food processing industries including beverages, dairy milk and products, slaughter houses and related activities with total cost more than PKR 200 million 7. Industrial estates (including export processing zones) 8. Man-made fibers and resin projects with total cost of PKR 200 million and above 9. Pesticides (manufacture or formulation) 10. Petrochemicals complex 11. Synthetic resins, plastics and man-made fibers, paper and paperboard, paper pulping, plastic products, textiles (except apparel), printing and publishing, paints and dyes, oils and fats and vegetable ghee projects, with total cost more than PKR 10 million 12. Tanning and leather finishing projects 13. Battery manufacturing plant
D. **Mining and mineral processing**
1. Mining and processing of coal, gold, copper, sulphur and precious stones 2. Mining and processing of major non-ferrous metals, iron and steel rolling 3. Smelting plants with total cost of PKR 100 million and above
E. **Transport**
1. Airports 2. Federal or Provincial highways or major roads (including rehabilitation or rebuilding or reconstruction of existing roads) 3. Ports and harbor development 4. Railway works

5. Flyovers, underpasses and bridges having total length of more than 500m
F. **Water management, dams, irrigation and flood protection**
1. Dams and reservoirs with storage volume of 25 million cubic meters and above having surface area of 4 square kilometers and above 2. Irrigation and drainage projects serving 15,000 hectares and above 3. Flood Protection
G. **Water supply and filtration**
Large Water supply schemes and filtration plants.
H. **Waste Disposal and treatment**
1. Handling, storage or disposal of hazardous or toxic wastes or radioactive waste (including landfill sites, incineration of hospital toxic waste) 2. Waste disposal facilities for municipal or industrial wastes, with total annual capacity of 10,000 tons and above. 3. Waste water treatment facility for industrial or municipal effluents.
I. **Urban development and tourism**
1. Housing schemes above 10 acres 2. Residential/commercial high rise buildings/apartments from15 stories and above. 3. Land use studies and urban plans (large cities) 4. Large scale public facilities. 5. Large-scale tourism development projects
J. **Environmentally Sensitive Areas**
All projects situated in environmentally sensitive areas
K. **Other projects**
1. Any other project for which filing of an EIA is required by the Agency under sub-regulation (2) of Regulation 5. 2. Any other project likely to cause an adverse environmental effect

SCHEDULE-III

List of projects requiring environmental screening (through check list)

a. Construction of, offices and small commercial buildings (1-6 story),home industrial units, ware houses, marriage / banquet facilities, large scale motor vehicles workshops, restaurants / food outlets, large baking unit subject to the compliance with existing zoning laws.
b. Reconstruction / rehabilitation of roads (small roads in urban area and farm to market roads more than 2 km.
c. On-farm dams and fish farms
d. Pulses mills

e. Flour Mills
f. Projects promoting energy efficiency (small scale)
g. Lining of existing minor canals and /or water courses
h. Canal cleaning
i. Forest harvesting operations
j. Rain harvesting projects
k. Rural schools (Secondary and Higher Secondary) and rural and basic health units having at least ten beds capacity
l. BTS Towers
m. Lime Kilns
n. Ice factories and cold storage
o. Cotton oil mill
p. Warehouses for pesticides and pharmaceuticals

Schedule-IV (Application Fee)

Description	IEE	EIA	Environmental Check list
Projects	PKR100,000	PKR 200,000	PKR 30,000 except BTS Towers which is PKR 15,000

(Reference 2.4.3: Economic Effect Calculation)

1) Evaluation of economic effect by "Benefit-Cost Ratio (BCR)"

Although there are several methods for project evaluation in social infrastructure investment, the "Cost-Benefit (Benefit-Cost) Analysis" method is utilized for the evaluation of the short-listed projects in this survey report and the economic effects are quantified by the Benefit-Cost Ratio (BCR).

2) Estimation of cost

All of the short-listed projects to be evaluated in this report are road construction projects, but since the basic design of the project such as project scope, specifications of roads have not been done in almost all projects, the cost estimation of the project is executed by using the following simple method.

■**Capital investment:**

- The capital investment cost of the high-quality road (Lyari Expressway Expansion project) was calculated based on the data of the recent similar type of project, Malir River Expressway, the engineering work of which is currently just started by using the simple index of the "Lane/Km", that is one of the standard units for estimating road construction cost (cost required to construct 1 lane for 1 km).
- The capital investment cost of the general roads (Karachi Port Access Road Improvement Project)) was calculated based on the data of the Eastern Industrial Road Improvement in Karachi Project, which PC-1 application was just approved in 2019.

■ Maintenance and repair costs

- 1% of the above capital investment annually

3) Estimation of economic benefits

The main component of economic benefits is the cost saving benefit in the vehicle operating cost from the improvement of the road calculated

■Vehicle operating cost

Vehicle operating cost is estimated by calculating unit cost per km and running km. The basic unit of running cost is calculated according to fuel cost, oil cost, tire cost, repair cost, and depreciation value of vehicle.

- Fuel cost (US$/km) = Based on the fuel consumption x fuel cost
- Oil fee (US$/km) = Based on the oil consumption x oil cost
- Tire fee (US$/km) = Based on the tire consumption rate (%) x cost of tires
- Repair cost (US$/km) = Based on the average repair rate (%) x repair cost
- Value reduction of vehicles (US$/km) = Based on the rate of depreciation (%) x new car price

■ Estimated vehicle operating cost in Pakistan

Regarding vehicle operating cost estimation in Pakistan, since there is no information since the "Vehicle Operating Costs (2005)" published by the National Transport Research Center in September 2005, the figures in the information are adjusted by the averaged increase rate of CPI for these 10 years (increase at 8.632%/year)

(4) NPV of Benefit/Cost and BCR analysis

The NPV of benefit/cost and BCR of the project are estimated based on the following basis.

a) Business start year: 2020 (construction start)

b) Price level: The data on which the costs and benefits are adjusted based on the CPI of Pakistan over the past 10 years. The average rate of increase (8.632%/year)

c) NPV discount rate: 12% (actual base interest rate in Pakistan)

d) NPV calculation period: 20 years after the start of the project

5) Additional notes

The BCR and EIRR of transportation infrastructure projects in developing countries are generally high. The main reasons are considered as follows.

- Base vehicle operating cost is relatively high due to the high cost of import vehicles and import fuel in foreign currency-based
- In the IRI (International Roughness Index), which is an index of the pavement improvement effect of the roads, the improvement effect becomes large due to the low current pavement condition of developing country roads.
- The annual growth rate of traffic volume in the forecasts in emerging countries such as Pakistan is assumed higher.

(Reference 2.4.4: Other Referential Documents)

- Pakistan: Road Sector Development Program, ADB Performance Evaluation Report (December 2013)
- Vehicle Operating Costs (2005), National Transport Research Centre (NTRC)
- Transforming Karachi into a Livable and Competitive Megacity Karachi City Diagnostic (KCD) 2014-2016, World Bank
- Malir Expressway Project Traffic Study Report (April 2018)

2.5. The Trends of Assistance by Other Development Partners

This section covers the followings: (1) the outline of the on-going policy based lending and those under preparation for IMF, WB and ADB, (2) the outline of the two projects financed by WB in Sindh, (3) the supports by the bilateral development partners in relation with those of multilateral financial institutions, (4) the supports by the other bilateral development partners than those included in (2) and (5) the supports by multilateral and bilateral development partners in the area of industrial human resources development. After that, it also discusses the areas which are not supported by development partners.

2.5.1. Support by Multilateral Institutions for Investment Policy

The following table presents the policy-based lending provided by multilateral institutions, surveyed as of beginning March 2020. This section explains the outlines of those programs. "Pakistan Raises Revenue Program (hereinafter, "PRRP")" supported by WB aims to increase fiscal revenue. It does not have direct relationship with investment policy. It includes, however, the program titled "Resilient Institutions for Sustainable Economy" (hereinafter, "RISE") that includes fiscal reform as one of the components. Since the fiscal reform could be related to the investment environment and corporate income tax has direct implication to direct investment, this section describes the overview of the policy.

Table 2.5.1 Support by Multilateral Institutions on Investment Policy

Institution	Name of Program	Program Period	Lending Amount
IMF	Extended Fund Facility	39 months starting July 2019	SDR 4,269 Million (about US$ 6,000 Million)
WB	Pakistan Raises Revenue Program	June 13, 2019 to January 28, 2024	SDR 288.2 Million (about US$ 400 Million)
WB	Pakistan Goes Global	N/A*	US$ 200Million
WB	Resilient Institutions for Sustainable Economy	3 years starting from June 16, 2020	US$ 500 Million
ADB	Trade and Competitiveness Program, Subprogram 1	Starting July 2019	US$ 500 Million

(Source: Survey team)

*Note: The lending for Pakistan Goes Global was cancelled in August 2020.

(1) Outline of IMF Extended Fund Facility

The IMF report[62] pointed out the cause of macro-economic degradation after the previous EFF provided in 2013 as large fiscal deficit, loose monetary policy and overvalued exchange rate, together with insufficient implementation of the government policy reform as internal causes. As for the external chocks, it pointed out the increase of oil price and the reduction of capital inflow, both of which accelerated degradation.

In the report of the thirteenth EFF with covering period of 39 months which was extended in July 2019, IMF pointed out the following measures for macro-economic stability:

- Significant reduction of fiscal deficit and elimination of quasi-fiscal deficit (i.e. of State-Owned and public enterprises) (generation of revenue targeted to 4 to 5 percentage point of GDP through additional tax revenue and cost recovery from energy sector and State-Owned Enterprises (hereinafter, “SOEs”));
- Introduction of exchange rate based on market principle;
- Implementation of independent, forward looking and data dependent monetary policy;
- Increase of social and developmental expenditure for the most vulnerable.

IMF underlined that structural reform is necessary to support the above-mentioned policies, and pointed out the following issues needs to be strengthened:

- Improvement of fiscal management (instilling fiscal discipline and greater fiscal transparency);
- Securing more autonomy of the central bank;
- Reform of energy sector;
- Modernization of legal framework for SOEs);
- Strengthening of anti-corruption agency;
- Removing bottlenecks and regulations related to investment and employment creation.

To secure financing of the first 12 months of the 39 months period, the following countries and institutions expressed their commitment to provide financial support: China (US$ 6.3 Billion), Saudi Arabia (US$ 6.2 Billion), United Arab Emirates (US$1 Billion), WB (US$ 1.3 Billion) , ADB (US$ 1.6 Billion), Islamic Development Bank (US$ 1.1 Billion). Consequently, the financial gap is filled with those financing. Form the viewpoint of debt sustainability, it is necessary to secure the same quantity of capital inflow as at the time of program approval throughout the program period, and the Government of Pakistan has obtained the assurance of maintaining the current level of exposure from China, Saudi Arabia and United Arab Emirates.

The first staff review of the EFF was completed in November 2019 and the result was presented to the Board of IMF on December 19th. The Board member praised the good progress

[62] Extended Arrangement under the Extended Fund Facility Staff Report, IMF Country Report Number 19/212. July 2019

of the reform program and agreed to release SDR 325 Million (about US$ 452.4 Million). In February 2020, IMF mission visited to Pakistan to review the progress of performance criteria as of December 2019. The press release announced the staff level agreement on February 27th[63].

However, as the worldwide spread of COVID-19, which had infection first reported in March 2020, would result in the drastic reduction of remittance and in temporal reduction of export. It is envisaged that the economic growth rate would decline, and that balance of payment would deteriorate. On the other hand, since the public expenditure will increase because of expenditure related to COVID-19 countermeasures, (such as cash transfer to the vulnerable population, reduction of policy rate by the central bank and financing for cash shortage), the Government of Pakistan requested IMF for emergency lending. Consequently, a Rapid Financing Facility amounting to US$ 1,386 million was approved on April 16th, 2020[64]. The proceeds of the facility will be used to procure medicines, to support the vulnerable population, and to secure food security. On the other hand, the Government of Pakistan commits the continued implementation of the reform program supported by EFF: it will reduce the fiscal deficit, reform energy sector, and takes measures for governance and money laundering. IMF states that it is not possible to indicate the timing to resume EFF under the current situation where the effect of COVID-19 infection cannot be foreseen[65].

(2) The Policy Matrix of the Government Program Supported by IMF

The reform program which IMF supports is the policy which is elaborated and implemented by the Government of Pakistan. The details of the program are written in the Memorandum of Economic and Financial Policies attached to Letter of Intent, submitted to IMF prior to the IMF financing.

Table 2.5.2 describes the policy items, targets, structural benchmarks described in that memorandum.

The policy items are composed of the following five pillars: fiscal policy, poverty reduction and social protection, monetary and exchange policy, structural policies, energy sector policies, and anti-corruption measures. The IMF's structural benchmarks[66] were set to those items except anti-corruption measures and the structural policies other than SOEs reform. It is understood from this placement that IMF's viewpoint concentrates on macro-economic stability and poverty

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[63] https://www.imf.org/en/News/Articles/2020/02/26/pr2073-pakistan-imf-reaches-stafflevel-agreement-2nd-reviewunder-eff (accessed on February 29, 2020)
[64] https://www.imf.org/en/News/Articles/2020/04/16/pr20167-pakistan-imf-executive-board-approves-disbursement-to-address-covid-19 (Acceessed on April 21, 2020） For Rapid Financing Facility, see the following: https://www.imf.org/en/Publications/CR/Issues/2020/04/16/Pakistan-Request-for-Purchase-Under-the-Rapid-Financing-Instrument-Press-Release-Staff-49342
[65] https://www.imf.org/en/Countries/PAK/FAQ (accessed on April 21, 2020)
[66] Indicators measuring reform progress, not quantifiable but essential for achieving program objective and used only to monitor the progress. https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/28/IMF-Conditionality

reduction.

According to the IMF staff[67], although the promotion of private investment under the structural policies is included in the government reform program, IMF did not, though monitorable as the IMF supported government reform program, put structural benchmark on it since such measure are outside of IMF's expertise, and it will be supported by WB.

- The summary of the review conducted in December 2019 is as follows[68]:
    - Continuous performance criteria have been accomplished with wide margins (net international reserves, ceiling of net domestic assets, ceiling on the central bank's stock of net foreign currency swaps/forwards, ceiling on the net government budgetary borrowing from the central bank, and ceiling on the general government primary budget deficit);
    - Ceiling on government guarantee also observed and no external public payment arrears observed.

- Delay was observed among the following indicative targets:
    - Cash flow transfer (expected to be corrected by the end of December);
    - Net accumulation of tax refund arrears (achieved under the newly proposed targets);
    - Power sector arrears (achieved under the newly proposed targets);
    - Expenditure on health and education (targets revised due to significantly lower actual outturns);
    - Net tax revenue by the FBR.

- A part of the following structural benchmarks was delayed:
    - Licenses for the track-and-trace system for excises on cigarettes (issued in October instead of end September);
    - Electricity tariff adjustments of the first quarter 2020 (completion of adjustment works to be completed end September was took place in end November, completion of prior action completed only at the time of first review).

- The following structural benchmarks were completed as scheduled:
    - Finalization of Benazir Income Support Program (hereinafter, "BISP") banking contract and launching the financial inclusion strategy for women;
    - Elaboration of circular debt reduction plan;

[67] The meeting with Ms. Sanchez, Resident Representative of IMF on December 9, 2019.
[68] https://www.imf.org/en/Publications/CR/Issues/2019/12/20/Pakistan-First-Review-Under-the-Extended-Arrangement-Under-the-Extended-Fund-Facility-and-48899

- Notification of electricity tariff adjustments as determined by the regulator;
- Granting of no further tax amnesties;
- Amendments to the National Electric Power Regulatory Authority Act;
- Selection of auditors for Pakistan International Airlines and Pakistan Steel Mills;
- Updating of benefit structure of Wasseela-e-Taleem.

- Progress was observed on the strengthening of the effectiveness of the Anti-Money Laundering and Counter Facing Terrorism (AML/CFT), but not completed at end October.

- The progress under the structural reforms is the following:
  - Financial advisors for privatizing two LNG fired power plant have been appointed and the transaction structure was approved. The government expects to privatize them by the end of FY2020.
  - International auditors for conducting Pakistan International Airlines and Pakistan Steel Mills were hired and audit report of 2018 account is expected to be published by end December.
  - As for the legal framework for the SOEs, IMF provided the technical assistance for elaborating new SOEs law and its assistance is on-going;
  - The strategy and criteria for classifying the SOEs is still under designing;
  - The improvement in ranking under WB's EODB was noted, but degradation of scores related to resolving insolvency was also observed as well as scores remained very low for paying taxes and enforcing contracts and the importance of enforcing documentation of the informal economy, strengthening of rule of law, and reducing regulatory burdens. The government reported effectuation of 50,000 rupees threshold on tax identification number, introduction of online portals for General Sales Tax (hereinafter, "GST") and Corporate Income Tax (hereinafter, "CIT") by end October;
  - Streamlining of business procedures for new commercial electricity connection;
  - Establishment of dedicated financial crime unit established in the Federal Investigation Agency and continuous upgrading of capacity of law enforcement agencies; Task force review of the institutional framework of anti-corruption institutions to be completed by end-June 2020;
  - A centralized asset declaration system for high-level public officials to be established by end October 2020;
  - Under progress is the enhancement of the fiscal autonomy and resources of the Financial Monitoring Unit.

Table 2.5.2 EFF supported Program: Policy Item, Targets and Measures

Category	Policy items	Targets (including Structural Benchmark)	Policy measures
Fiscal policy	Generate the revenue resources	・Increase tax revenue by 4-5% of GDP by FY2023 ・Target a cumulative fiscal primary adjustment of 4.5% of GDP by FY2023 <u>・Issue licenses for the track-and-trace system for excise on cigarettes (end September 2019)</u> <u>・Commit not to grant further tax amnesties (continuous)</u> <u>・Adopt by parliament the FY2020 budget consistent with program targets (prior action)</u> <u>・Reach formal public agreement between the federal and provincial governments on the fiscal targets consistent with the program (prior action)</u>	・**Tax policy reform** -Harmonizing and coordinating inter-provincial GST and eliminate all GST exemptions and preferential rates except for basic foods and medicines -Transforming GST into a broad-based VAT -Further strengthening taxation on agricultural turnover or income by provinces -Raising the upper-end of personal income tax (hereinafter “PIT”) structure -Eliminating PIT tax credit and deduction for the higher income slabs -Ensuring equivalent taxation of all sources of income -Eliminating distortionary withholding taxes -Real estate taxation ・**Tax administration reform** -Create a new semi-independent national tax authority -Implement a full, risk-based audit framework -Increase legal penalties for tax non-compliance -Issue licenses for the track-and-trace system for excise on cigarettes ・**Modernize the public finance management framework** ・**Eliminate the legal authorization for the executive to grant tax exemptions/concessions through Statutory Regulatory Orders (hereinafter “SROs”) without National Assembly approval** ・**Enhance fiscal discipline** ・**Building strong PPP framework** ・**Improve cash and debt management** ・**Passing on additional spending responsibilities from the federal to provincial governments (additional contribution for higher education, health, social protection, agricultural subsidies, regional public infrastructure investment)** ・**Create jointly funded contingency fund for economic shocks and natural disasters** ・**Increase own tax-collection efforts in sales tax on services, property**

			tax and agricultural income tax, harmonize their tax system to eliminate fragmentation **・Reform of the revenue sharing formula**
Poverty reduction and social protection		<u>・Finalize BISP's banking contract and launch financial inclusion strategy for women (end October 2019)</u> <u>・Update the benefit structure of Waseela-e-Taleem to narrow the educational gender gap</u> <u>・Finalize the update of the BISP beneficiaries' database (National Socio-Economic Registry) (end June 2020)</u>	・Providing a one-off disbursement to BISP recipients (end August 2019) ・Finalizing the update to the National Socio-Economic Registry, 35% of estimated household caseload surveyed, quality assured and validated with NADRA database (end December 2019) ・Increase the amount of BISP cash transfer after completion of database ・Launching BISP's graduation program
Monetary and exchange rate policies	Maintain flexible market-determined exchange rate	<u>・Announcing the moves to a flexible, market-determined exchange rate (prior action)</u>	・Gradually scale back the SBP's short swap/forward foreign exchange position to US$ 4 billion by the end of the program
	Further strengthening of the SBP's monetary policy and operational framework	<u>・Tightening the monetary stance by 150bps (Prior action)</u> ・Eliminate any further direct financing of the budget by SBP (continuous) ・Target a reduction of SBP stock of net government budgetary borrowing (continuous)	・Keep interest rates close to market levels agreed with SBP ・Immediate launch of a liability management operation of the stock of government credit held by the SBP to transform it into short- and long- term tradable instrument at various maturities ・Phase out a requirement to fully pre-funded letters of credit, restriction on advance payment for imports against letters of credit ・Submission of the compliance measures for capital requirements for all undercapitalized banks (end June 2020) ・Strengthening the AML/CFT framework in line with international standards to support the country's exit from the FATA list of jurisdiction with serious deficiencies
	Improving communication with the general public and markets to better guide their decisions and inflation expectations	<u>・Submit to parliament amendment to the SBP Act (end December 2019)</u> ・No introduction or tightening of exchange restrictions, multiple currency practices or import restrictions for balance of payment purposes (continuous)	

Energy sector policies	Price adjustment to the tariff schedule determined by the regulator Developing strategy to address circular debt Ensuring regulation and timely notification for end-consumer tariff in the electricity sector	・Implement a quarterly automatic tariff adjustment (Prior Action) ・Notify FY2020 electricity tariff structure as determined by the regulator (end September 2019) ・Preparation of comprehensive circular debt reduction plan (end September 2019) ・Submit parliament amendments to the NEPRA Act (end December 2019) ・Notify by government the FY2020 gas tariff adjustment as proposed by the regulator to become effective on July 1st, 2019 (Prior Action)	・Production and publication of quarterly monitoring reports documenting the implementation of UFG reduction plan and assessing compliance level by Ministry of Energy ・Approval of two gas companies' UFG reduction plan by government (end September 2019) ・Transmission segment of the gas network under one national gas transmission company and to create multiple gas DISCOs through unbundling of two companies (FY2020) ・Review of the petroleum policy and its approval by Council of Common Interest ・Operationalization of third party access agreement through the issuance of a network code ・Approval by Council of Common Interest of changes in OGRA Act (end December 2019) ・Insulate household consuming 300 units or below from annual tariff increase through tariff differential subsidies
Structural policies	Jumpstarting the privatization process		・Privatization of two newly commissioned RLNG power plants at Balloki and Haveli Bahadur ・Privatization of SME Bank and First Women Bank ・Privatization of Jinnah Convention Center Islamabad and Services International Hotel Lahore ・Offering of Government of Pakistan residual 18.39% equity in Mari Petroleum
	Strengthening monitoring of SOEs	・Conduct a triage of all SOEs (maintain, privatize or liquidate) (end September 2020)	・Preparation of a comprehensive report on SOEs
	Increasing SOEs transparency	・Conduct and publish new audit by reputable international auditors of Pakistan International Airlines and Pakistan Steel Mill (end December 2019)	・A special audit of Pakistan Railroad by Auditor General of Pakistan based on FY2019 financials to be completed and published (by March 2020)
	Enhancing SOEs legal framework	・Submit to Parliament a new SOEs law (end September 2020)	・Introduction of a new SOEs law (draft by end December 2019)

	Establishing a holding company		
	Improving the business environment to encourage private investment		・Improve trading across borders ・Further simplify procedures to start a business ・Conduct a systematic and transparent stock-taking and review of existing regulations
Anticorruption	Strengthening the effectiveness of anticorruption institutions		・Legislative amendments to allow for criminal liability for legal persons and protection of whistleblowers ・Review of the institutional framework of anticorruption institutions to enhance independence and effectiveness in investigation and prosecution ・Strengthening Anticorruption Establishment by improving laws of provinces ・Establishment of a dedicated AML unit in the Federal Investigation Agency ・Creation of Asset Recovery Unit at the Prime Minister's Office
	Enhancing the use of AML tools		・Further outreach to banks and other reporting institutions in complying with obligations to file suspicious transaction reports ・Provision of sufficient human and financial resources to empower Financial Monitoring Unit (financial intelligence unit) ・Reining the use of registering prize bonds and other bearer instruments for potential illegal activities/tax avoidance

Note: Underlined indicators are the structural benchmarks agreed with IMF and the others are those selected by the Government of Pakistan in its Letter of Intent.

Source: IMF Report[69]

[69] Extended Arrangement under the Extended Fund Facility Staff Report, IMF Country Report Number 19/212. July 2019 Attachment I. Memorandum on Economic and Financial Policies

(3) Outline of WB Programs

WB had already approved PRRP and was under processing of PGG and RISE in early March 2020, the time of this survey[70]. While RISE was approved in June 2020, PGG was canceled in August 2020.

1) PGG[71]

PGG is a project for aiming at reforming policy for investment and at enhancing the competitiveness of enterprises for accessing international markets.

Its project concept was published in April 2019 by the Project Information Document ("the old PID"). Some changes were made at component level in the PID issued in February 2020 ("the new PID"), though there are no change in the overall framework. Table 2.5.3 presents and compares the components and specific measures under each component between the old and new PID. In the old PID, the project consisted of the following three pillars: "strengthening institutions", "making integration profitable for firms" and "supporting firms' capabilities for internationalization", while in the new PID, there are only two components, i.e. "investing in institutional strengthening of the government" and "investing in firms' capabilities". The project seems to focus more on export promotion. WB staff in charge[72] explained that he would not expect a drastic change of the situation in Pakistan at the end of PGG, and he took a practical approach to achieve the objective, which is to start with where it can be implementable.

For "strengthening institutions" which is the first pillar of the project, PGG aims to improve the effectiveness of the mutual effect of policies related to trade, investment and SME development which are implemented individually by the authorities in charge without any coordination. The old PID described that "National Competitiveness Council" (hereinafter, "NCC") would be newly created and make it serve as the platform for improving policy for trade and investment, while in order to set up a mechanism for comprehensively implementing trade and investment related policies, which are not currently coordinated, MOCT and MOIP as well as BOI will be merged. The new PID will newly create PGG Board instead of NCC, but it does not change its coordinating role as NCC; WB staff in charge explained that it is just a change of name. While NCC was intended to be created under the Prime Minister's office, PGG Board will be housed in MOCT and the advisor to MOCT will chair PGG Board. From here, it can be understood that nature and focus of the project has been centered on MOCT.

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[70] Although it is not directly related to investment policy, due to the spread of COVID-19 virus, the World Bank extended a US$ 200 Million IDA credit for "Pandemic Response Effectiveness Project". https://www.worldbank.org/en/news/press-release/2020/04/02/world-bank-fast-tracks-support-for-covid-19-coronavirus-response-to-pakistan (accessed on April 21, 2020)

[71] This section is based on PIDs (dated April 15, 2019 and February 12, 2020) and the meeting with WB staff in charge (on February 26, 2020) and with the Ministry of Commerce (on February 27,2020).

[72] Mr. Gonzalo Varela, Senior Economist

On the other hand, the merger of the three authorities were not explicitly described in the new PID. It seems that such process will remain at preparatory stage during the project implementation period, while the orientation of merger is maintained. In detail, the project will proceed the integration of IT system and business processes between MOCT and MOIP. An official of MOCT explained that it intended to build a mechanism of mutual information sharing on domestic industry, as such sharing of information will benefit both ministries' activities[73]. The official of MOCT stated the recognition that the use of information on domestic industry owned by MOIP is essential for examining the export promotion measures. Through this, it gives an impression that the understanding on the essential nature of inter-ministerial coordination for export promotion, is being expanded within the government of Pakistan. On the other hand, WB staff explained that the harmonization of business process will build in the coordination mechanism so that the coordinating function is expected to dwell even if the merger of ministries and agency will not happen.

Sub-component 1.1 of PGG includes the activity related to establish One Stop Shop for licensing and business registration by BOI. This activity is PRMI by WB, while the Pakistani government called it as BBRI. It aims to identify all the business-related regulation throughout federal, provincial and local government levels, to eliminate duplications and make them workable online after abolishing unnecessary regulations, thereby reducing the administrative burden of the investors. The different names of this initiative may infer the difference in thinking and approach between the Pakistani government and WB team. According to the WB staff in charge, the priority was given in order of federal, provincial and local government for identifying the business-related regulations.

For the support for export promotion, there are two contents; the one for the government and the other for enhancing the capacity of individual enterprises. The one for government includes (i) country branding campaign, (ii) revamping of the role of trade attaches' network in Pakistani embassies, and (iii) establishing export intelligence system including One Stop Shop. Although the new PID does not explicitly describe, item (i) and (iii) are the activities of Trade Development Authority of Pakistan (hereinafter, "TDAP"), and the strengthening of the capacity of TDAP is planned. Country branding campaign and export intelligence system succeeded to the new PID from the old one. The program for supporting firms' capability includes capacity enhancement of SMEDA and its Export Readiness Program (export readiness assessment for individual firm, capacity enhancement of those firms aiming at export and provision of matching and performance grant). Those two also succeeded to the new PID from the old PID.

WB staff in charge expressed his interest to seek JICA's assistance in terms of (i) introducing the experience of merging and creating Ministry of Economy, Trade and Industry of Japan and

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[73] The meeting with Mr. Waqas Azeem, Director General (Trade Policy) on February 27, 2020.

(ii) the capacity enhancement of TDAP.

Whereas loan negotiation for PGG started in February 2020, the World Bank decided to cancel the loan in August 2020[74].

[74] The World Bank website indicates its status as “dropped” with the latest update on August 20, 2020. It is confirmed from Pakistani newspapers that Central Development Working Party under the Planning Commission which takes the Government of Pakistan’s decision of project approval, deferred the approval of PGG on August 19th and 26th due to budgetary and technical reasons.
https://www.dawn.com/news/1575385 （accessed on November 12）
https://nation.com.pk/E-Paper/islamabad/2020-08-28/page-9/detail-1 （accessed on November 12）

Table 2.5.3 Policy Items for PGG

PID as of 2019/4/15			PID as of 2020/2/20		
Component 1	**Strengthening institutions**		**Component 1**	**Investing in the Enabling Environment for Exporting**	
Sub-component 1	Creation of National Competitiveness Council		Sub-component 1	Institutional strengthening for Export Competition	Establishment of PGG Board
Sub-component 2	Merging Commerce, Industry and Production and Board of Investment				Establishment of monitoring and evaluation platform for trade public support intervention
Component 2	**Making integration profitable for firms**				Redesigning and integration of information technology system and business processes of MOC and MOIP
Sub-component 1	Strengthening national quality infrastructure system oriented to exports	Identifying gaps in national quality infrastructure system with focus on standards and certification			Establishment of One Stop Shop for business licensing and registration in Pakistan
Sub-component 2	Harmonizing investment policy framework and strengthening of investment promotion strategy and practices	Harmonizing the investment policy framework and strengthening investment promotion strategy and practices			Roll-out of an e-payment system for registration and licensing fees
Sub-component 3	Reducing the anti-export bias of trade policy	Reducing anti-export bias through tariff rationalization and streamlining of duty suspension scheme			Design and implementation of monitoring and communication strategy to ease the implementation of regulatory reform

Sub-component 4	Designing and prompting the country brand	An effective promotion design and campaign			Establishment and operations of Trade Promotion Wing
Component 3	**Supporting firms' capabilities**				Strengthening of National Tariff Council
Sub-component 1	Design and Implementation of an Export Development Program		Sub-component 2	Investing in export promotion infrastructure	Investing in export promotion infrastructure
Sub-component 2	Provision of export intelligence services				Revamping of the role of trade attaches' network
					Design and roll-out of export intelligence platform, as One Stop Shop for exporters
			Component 2	**Investing in firms' export capabilities**	
			Sub-component 1	Export Readiness Program	Export readiness assessment
					Capacity building and training for participating firms
					Provision of matching and performance grant
			Sub-component 2	Institutional strengthening of SMEDA	Establishment and operations of business development centers in major cities
					Human resources and functional review of SMEDA
					T/A and training to implement the key recommendations of key functional review

			Establishment and operations of customer relationship management system in business development centers
			Commissioning of analytical work on key clusters
			Enabling SMEDA to perform its supervisory role in Export Readiness Program
			Need assessment to identify barriers preventing access to new export markets and compliance with global buyers' requirement for Women led enterprises
			Development and implementation of awareness campaign focused on women exporters

(Source: WB material[75])

[75] Pakistan Goes Global: A Programmatic Initiative for a Global & Technology-Driven Pakistan, Project Information Document, Report No. PIDC26712, March 29, 2019 and February 20, 2020.

2) RISE

RISE[76] was under preparation during the field survey in February and March 2020. It was subsequently approved by the World Bank board on June 16, 2020.

RISE is composed of two pillars: enhancement of policy and institutional framework for improving fiscal management and improvement of regulatory framework. It aims to stabilize macro-economy and to consolidate the basis of sustainable economic growth. In terms of the content of program, while PGG orients toward enhancement of competitiveness of Pakistani economy through export, that of RISE is rather complement IMF's EFF. During the field survey in February 2020, WB staff explained the repetition of cycle in the past, composed of boosting demand, no catching up of domestic supply-side and increase in import, all of which resulted in a balance of payment crisis. Therefore, it considers it necessary to address the fiscal issues behind them. This resulted in one pillar of the program which is to improve fiscal management from both policy and institutional side. It is understood that such perception of WB intends to stop the tendency of the Government of Pakistan in the past, which was to boost demand by borrowing from abroad including that from IMF, and to redirect such tendency to increase government savings, Also, in order to enhance the competitiveness of private firms, it deals with the general sales tax issue which is complex between federal and provincial levels, as well as electricity prices and tariff.

For the enhancement of policy and institutional framework for improving fiscal management, which is the first pillar, the program tackles with the following 4 issues:

1. Improvement of fiscal policy and its sustainability through establishment of effective institutions and enhancement of inter-governmental coordination;
2. Enhancement of transparency and management of debt;
3. Expansion of tax base and reduction of distortions in tax policy;
4. Improvement of financial viability of power sector through resolution of circular debt, reduction of dependency on imported oil, tariff reduction of renewable energy through competitive bidding.

The second pillar which is about the improvement in regulatory reform, deals with the following 4 issues:

1. Nationwide harmonization of general sale tax;
2. Confirmation of all the bank accounts with biometrical verification and usage of

[76] The description is based on the hearing conducted at WB Pakistan office on December 10, 2019 and published "Report No. PGD149 Program Document for a Proposed Development Policy Credit in the Amount of SDR182.3 Million (Equivalent to US$250 Million) and Proposed Development Policy Loan in the Amount of US$250 Million to the Islamic Republic of Pakistan for the Resilient Institutions for Sustainable Economy Development Policy Financing" dated June 16, 2020.

electronic money platform by non-banks;

3. Promotion of better regulated real estate development thereby furthering competition;
4. Rectification of anti-export bias of NTP.

Table 2.5.4 presents those policy items, the reasons behind their selection and expected results related to the above issues.

Table 2.5.5 is the policy matrix describing the specific policy actions composed of two pillars. According to this matrix, the financing for RISE is composed of three successive loans with further financing conditioned to be provided with the achievement of policy objectives under the two pillars.

Table 2.5.4 Policy items, background and expected results of RISE

Policy items	Background for selecting the policy item	Expected results
Enhancement of policy and institutional framework for improving fiscal management		
1. Improvement of fiscal policy and its sustainability through establishment of effective institutions and enhancement of inter-governmental coordination	・Structural fiscal deficit of federal government due to the decision of the 7th National Finance Commission award ・Expansion of fiscal deficit by the 18th Constitution Amendment which reinforced fiscal autonomy of the provincial governments without incorporating the mechanism for adjusting overall fiscal target	・Establishment of mechanism for effective fiscal coordination between federal and provincial governments ・Budgeting and execution of the consolidated government budget based on MTEF ・Establish the consolidated government target for fiscal deficit for FY23 and keep the deviation between MTEF and the consolidated government budget less than 10%
2. Enhancement of transparency and management of debt	・Management of public debt is fragmented among Budget wing, Central Directorate of National Savings, Economic Affair Division, External Finance Wing, Debt Policy Coordination Office and no central single entity for managing the entire debt ・SOE as the major source of fiscal deficit	・Enhancement of debt reporting through biannual publication of debt, cost-risk indicators ・Annual reporting of the status of implementation of debt management strategy ・Reduction of borrowing costs and its related risks through integrated public debt management
3. Expansion of tax base and reduction of distortions in tax policy	・Low tax revenue due to numerous tax exemption measures ・Tax on capital gain and immovable assets are imposed based on the notional values stipulated in “district collectorate valuation tables” which does not reflect market value ・Narrow income tax base	・Increase of tax revenue from land, agricultural income and real estate by 10% in FY23 ・Resolution of inconsistency among tax policy, rationalization of tax expenditure, broadening tax base through enhancement of

		transparency and accountability
4. Improvement of financial viability of power sector through resolution of circular debt, reduction of dependency on imported oil, tariff reduction of renewable energy through competitive bidding	・Discrepancy between tariff and cost of power generation due to government policy with no indemnification by subsidy ・Technical and commercial loss by power distribution companies, delay in government payment of penalties to IPP ・Delay in reflecting surcharges on power tariff due to the increase of fossil fuel prices ・Revenue from financial cost surcharge being not enough for the interest payment to private banks ・Cost plus method of US dollar based power purchase contract which was concluded without competitive bidding ・Heavy dependence on imported fossil fuel for power generation	・Reduction of circular debt flow starting from FY22 and elimination of stock in FY29 ・Improvement in management for power tariff and subsidy ・Improvement in monitoring of sector performance ・Avoidance of discretionary policy decisions negatively affecting finance and sector cashflow
Improvement in regulatory reform		
1. Nationwide harmonization of general sale tax	● Difference in general sales tax rate between services (taxation by provincial government) and goods (taxation by federal government) and those among provinces ● Inter-provincial and federal-provincial jurisdictional conflicts, such as double taxation and export of taxes to other provinces, tax evasion which result in high compliance cost for business	・Nationwide harmonization of general sales tax law and administration ・Reduction of number of general sales tax related fillings for private sector (down from 60 to12) ・Reduction of cost of compliance for tax related laws through elimination of double taxation, reduction of tax administration cost and of tax gap
2. Confirmation of all the bank accounts with biometrical verification and usage of electronic money platform by non-banks	● Generalized use of Prize Bond as a substitute for bank accounts and bank notes, thereby being in competition with bank deposits ● Generalized use of Benani account, which allows financial transaction related to real estate deals with the other name than the real estate owner, and which serve as breeding ground for money laundering ● Concentration of short-term financing to large scale enterprises and the public sector thereby crowding out small and medium enterprises ● Lack of moveable collateral registry ● Limited scope of policy and regulatory support regarding new entrants for fintech sector, impeding growth of fintech sector through innovation ● Underdevelopment and under-utilization of digital payment	・Verification of all bank accounts ・Registration of all Prize Bond ・Improvement of regulatory framework related to digital finance ・Greater interoperability between banks and fintech ・Transfer to digital payment of salary, pension and vender payment by federal and provincial governments by FY23

3. Promotion of better regulated real estate development thereby furthering competition	● Limited financing for real estate developers, especially those constructing low- and middle class housing, resulting into insufficient number of construction of low- and middle class housing	・Creation of fit-for-purpose regulatory regime for real estate developers ・Increase in number of license issued to real estate developers from 0 in FY19to 5 in FY23
4. Rectification of anti-export bias of NTP	● High protection of domestic market through high import duty and complex duty structure ● Reduction of export industry's competitiveness due to high import duty on imported intermediate goods	・Elimination of anti-export bias in trade policy ・Reduction of average import duty (from 12.6% in FY19 to 10.8% in Y23) ・Reduction of dispersion measured as the standard deviation (from 15.4% to at least 13.2% by FY23)

（Source：WB document[77]）

[77] Report No. PGD149 "Program Document for a Proposed Development Policy Credit in the Amount of SDR182.3 Million (Equivalent to US$250 Million) and Proposed Development Policy Loan in the Amount of US$250 Million to the Islamic Republic of Pakistan for the Resilient Institutions for Sustainable Economy Development Policy Financing" dated June 16, 2020

Table 2.5.5 RISE Policy Matrix

Objective	First DPF Prior Actions	Second DPF Trigger	Third DPF Trigger
Pillar 1：Enhancing the policy and institutional framework to improve fiscal management			
Improving fiscal policy and sustainability	**Prior action 1** Finance Division (FD) does the followings: ・ Granting fiscal coordination responsibilities to the National Finance Commission Monitoring Committee (NFCMC) and; ・ Establishing Macro-Fiscal Policy Unit (MFPU).	**Trigger 1** Issuance by FD of revised Rules of Business, following the amendment of Fiscal Responsibility and Debt Limitation Act (FRDLA) 2005 which contains the followings: ・Providing legal mandate to the Marco-Fiscal Policy Unit; ・Providing automatic safeguards in case of breach of ceiling as per FRDLA and; ・notifying regulations for the implementation of the Fiscal Responsibility Laws by the Provincial Finance Departments.	**Trigger 1** ・Alignment of Federal and Provincial budgets for FY2023 with MTEFF prepared by MFPU and approved by NFCMC.
Enhancing debt management and transparency	**Prior action 2** FD does the followings: ・transferring domestic and external debt management and issuance of guarantee to the Debt Policy Coordination Office; ・mandating the publication of medium-term debt management strategy; ・mandating semi-annual publication of debt bulletin and; ・issuing sovereign guarantees for all SOEs to be contingent upon publication of previous year's audited financial accounts and a detailed plan to achieve financial stability.	**Trigger 2** FD does the followings: ・notifying the transfer of the responsibility for the choice of retail debt instruments and pricing from Budget Wing to Debt Management Office (DMO) and; ・issuing the detailed rules for DMO.	**Trigger 2** ・Publication by FD of an annual report on public debt with comparison of debt management strategy implementation with targets
Broadening the tax base and reducing distortions in tax policy	**Prior action 3** FBR does the followings: ・increasing the immovable property valuation	**Trigger 3** ・ Issuance of notification by Provincial governments for adopting FBR valuation tables	**Trigger 3** Provincial governments do the followings: ・ Increasing agriculture income tax rates and

	to 85% of the market value for withholding income tax and capital gain tax; ・reducing the personal income tax thresholds and; ・removing the special treatment on general sales tax for 5 sectors.	applicable to Urban Immovable Property Taxes and keep the assessment ratio at 85% of market value.	thresholds to those existing in non-agricultural sectors and; ・extending land-based taxation to uncultivated land.
Addressing the stock and flow of circular debt in the power sector	**Prior action 4** ・Cabinet's approval of the Circular Debt Management Plan and; ・Issuance of notification by FD to transfer the PHPL debt to the public debt stock.	**Trigger 4** ・Cabinet's ratification of tariff guidelines including surcharge mechanism in accordance with the Amended NEPRA Act (2020); ・Ministry of Energy signing performance contracts with the board of all DISCOS and; ・Cabinet ratification of a subsidy reform to improve targeting of power sector subsidies.	**Trigger 4** ・Implementation of the revised power sector subsidy targeting mechanism by the Government.
Reducing dependency of imported fuels and lowering electricity generation cost	**Prior action 5** ・Approval of the Renewal Energy Policy by Council of Common Interests.	**Trigger 5** ・Adoption of competitive bidding principle for issuance of Request for Proposals by the Alternative Energy Development Board (or equivalent provincial organization).	
Pillar II：Improving the regulatory framework to foster growth and competitiveness			
Harmonization of the general sales tax across the country	**Prior action 6** ・Approval by MFCMC of a general sales tax harmonization framework.	**Trigger 6** ・Issuance of implementing regulations by the FD and Provincial Finance Departments following the approval of common general sales tax laws by the federal and provincial assemblies.	**Trigger 5** ・Issuance of regulation by FD and provincial ministries of finance for reducing the general sales tax filing frequency for all firms from monthly to quarterly.
Financial sector transparency and deepening	**Prior action 7** ・Notification of Rules for Benami Transaction (Prohibition) Act 2019 by FBR and; ・Mandating biometric verification of all bank account holders by all commercial banks as instructed by the State Bank of Pakistan (SBP).	**Trigger 7** ・Conversion by FD of all bearer price bonds into registered instruments through biometric identity verification and; ・Issuance of notification on establishing secured transactions collateral registry by	**Trigger 6** ・Approval of Development Finance Reform Framework by the Economic Coordination Committee

		SECP.	
Increasing the use of digital payments	**Prior action 8** SBP does the followings: ・Issuing regulations for Electronic Money Institutions, enabling non-bank institutions to issue electronic money and; ・Granting of 5 licenses to Electric Money Institutions.	**Trigger 8** ・Issuance of implementing regulations by SBP of amended Payment Systems Electronic Funds Transfer Act to National Assembly and Senate; ・Update of the Payment Services Provider/Payment System Operator Regulations and Foreign Exchange Manual and; ・Issuance of regulations by FD to mandate the use of digital payment to vendors.	**Trigger 7** ・Issuance of regulation to mandate the use of digital payments to vendors from FY2022 by the Departments of Finance of all provincial levels
Creating an enabling environment for developer finance		**Trigger 9** ・Issuance of implementing regulations following the promulgation of the Real Estate Regulatory Authority Act (2019) by the Ministry of Housing/SECP.	**Trigger 8** ・Establishment of Federal and Provincial Real Estate Regulatory Authorities by the Prime Minister's Office and respective provincial Chief Ministers Office, based on respective Federal and provincial registrations.
Reducing the anti-export bias of the NTP	**Prior action 9** ・Adoption of NTP by the Cabinet.	**Trigger 10** ・Reduction of the unweighted average import duty rates by 5% and its dispersion by 5% with respect to the import duty schedule in the gazetted FY2021 budget.	**Trigger 9** ・Reduction of the unweighted average import duty rates by 10% and its dispersion by 10% with respect to the import duty schedule in the gazetted FY2022 budget

(Source：WB Document[78])

[78] Ibid

3) PRRP

WB approved PRRP in May 2019. The project supports the reform of FBR to increase fiscal revenue. There are four pillars of activities: namely, simplification and transparency of tax system, effective control of taxpayer obligations and facilitation of compliance and institutional development. The loan is a hybrid of two different operations; the first is a result-based loan, monitoring the progress of reform through Disbursement Linked Indicators (hereinafter, “DLIs”), and the second is an investment component to renew the ICT system for tax revenue. Among the 10 DLIs, the following items are included; reduction of withholding regime, unification of tax system (avoidance of duplication), simplification of FBR’s 17 core businesses (such as export, transit, transshipment, etc.), introduction of e-payment, while the intermediate results indicators covers the simplification of Income Tax Ordinance, Sales Tax Act, Customs Act, Federal Excise Act and FBR Act. The unification of tax system between federal and provincial level covers agreement on methodology for property valuations and on valuation tables between federal and provincial level, agreement on the general sales tax adjustment, development of automatic data sharing system, agreement on economic activities subject to general sales taxes. Through those reforms, it is expected that such issues that the Japanese firms are facing, as advanced income tax (reduction in withholding) and minimum income tax (reform of corporate income tax) will be eliminated through relevant tax reform. Table 2.5.6 presents the 17 core activities of FBR to be simplified. WB seems to pursue fundamental tax reform through RISE as well as PRRP by complementing IMF’s EFF.

Table 2.5.6 Core Businesses of FBR

	Core businesses
1	taxpayer/trader registration
2	tracking delays in filing
3	issuing notices to taxpayers
4	tracking and collection of tax arrears
5	cross-checking of tax declarations/ Goods Declaration with FBR records and third-party information
6	risk-based selection and management of tax audit cases
7	processing the tax refunds
8	case management of appeal and litigation
9	taxpayer/trader information and assistance
10	pre-arrival
11	abandoned cargo
12	notification of overstayed goods
13	import
14	export
15	transit trade
16	transshipment
17	risk-based post clearance audit

(Source: WB document[79])

[79] Pakistan Raises Revenue Project, Project Appraisal Document, Report No. PAD3237, May 22, 2019

(4) The Outline of ADB Program[80]

ADB extended Trade and Competitiveness Program in July 2019. This engagement is consistent with the policy framework of IMF's EFF, approved also in the same month to cover the fiscal gap of the first program year. ADB has also extended Energy Sector Resilience Program (Subprogram 1, US$ 300 million), and Special Policy Based Loan (US$ 1 billion) at the same time.

Trade and Competitiveness program is composed of subprogram 1 and 2, among which the first subprogram was extended in July 2019, amounting to US$ 500 million.

ADB focuses, among the elements to support economic activities, on the poor performance of export. It pointed out tariff and regulatory duties, both of which are serving to reduce import and current account deficit as well as to increase fiscal revenue, resulting in a high cost of raw materials and imported intermediary goods used by the exporters thereby weakening their competitiveness. From this recognition, the program focuses on tariff related policy issues. Also, institutional building is combined from the viewpoint of export promotion.

Subprogram 1 of the ADB loan has already been disbursed with the accomplishment of subprogram 1program objectives on August 31, 2019, and the objectives for subprogram 2 are expected to be fulfilled by December 31, 2020.

According to ADB staff[81], subprogram is different from tranche; the former allows slight modification in achieving objective, in order to cope with the change of situation during the program implementation. However, the modification is expected to be minor ones and the overall framework of the program would not be changed.

(5) The Policy Matrix

Table 2.5.7 shows the policy matrix for subprogram 1 and 2.

Table 2.5.7 Policy Matrix on Trade and Competitiveness Program

Category	Policy actions for Subprogram 1	Policy actions for Subprogram 2	Post-Program Partnership Framework
Tax and tariff rationalization	Submission of draft NTP to the Federal Cabinet for approval	Approval of NTP approved by the Federal Cabinet	
			Pursuit and

[80] The description of this paragraph is based on "Report and Recommendation of the President to the Board of Directors, Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1, Islamic Republic of Pakistan: Trade and Competitiveness Program, Project Number: 52049-001, July 2019" and "Report and Recommendation of the President to the Board of Directors, Proposed Programmatic Approach and Policy-Based Loan for Subprogram 2, Islamic Republic of Pakistan: Trade and Competitiveness Program, Project Number: 52049-003, November 2020".
[81] Statement by Mr. Zheng Wu, Unit Head, Project Administration during the meeting on December 12, 2019.

			implementation of abolition of the requirement of confirmation by the importers of unavailability of locally manufactured machinery to avail exemption from the customs duty for import of machinery
	Rationalize the tariff structure into maximum of 4 slabs	Removal of electricity surcharge of PKR 3.35/kwh on industrial consumers	
	Reduced regulatory duty on varnishes, adhesives and glues, articles of leather, glass beads, glass wares, machinery parts and cables, generating sets: Abolished regulatory duty on organic surface agents		
	Reduced custom duty on bituminous & other coal, chemicals, cotton, yarn, woven fabric, coated textile fabric, knitted or crocheted fabrics: Abolished custom duty on chemicals, tanning or dying extracts, rubber and articles, raw hides and skins, cotton, carded	Exemption of the customs duty on carded wool, combed wool, cotton, carded or combed, yarn, textile fabric and raw hides and skins, chemicals and; reduced customs duty with specified percentages on carbon black, chemicals, dyes	

	or combed fiber and man-made staple fiber		
	Reduce corporate tax rate from 30% to 29%		Monitoring and pursuit of rationalization of corporate tax and dividend tax rates with inclusion in FY 2022 budget
Institutional Strengthening	Submission of draft e-commerce policy framework to the Federal Cabinet	Approval of a plan (implementation strategy) for the implementation of the approved e-commerce policy by National E-Commerce Council	Establishment and complete operationalization of the e-commerce portal, monitoring and facilitation by T/A support
	Board of Governors of the Pakistan National Accreditation Council (hereinafter “PNAC”) approved the rules concerning the appointments, promotions and transfers of its employees	Recommendation to the Federal Government by the Board of Governors of PNAC for amending the Pakistan National Accreditation Act of 2017	Monitoring of approval of the amendments by the National Assembly
	PNAC publishes on its website the draft long-term plans, policies and schemes in line with the international best practices, including certification for gems and jewelry exports	Board of Governors of PNAC to approve long- and short-term plans of PNAC	Monitoring and support by Technical Assistance for implementation of automation of the certification process

	Full operationalization of NSW	Incorporation and operationalization of PSW by FBR	Implementation of unified registration and e-payment system as per the approved Business Requirement Specification documents and; Signing of Memorandum of Understanding for information exchange among NADRA, SECP and e-payment network
	NSW Steering Committee approved the NSW Blue Print and implementation plan together with estimated timeline	Reconciliation of trade related business processes of PSW with those of Pakistan Standard and Control Quality Authority, Drug Regulatory Authority of Pakistan, Plant Protection Department, Seed Certification & Registration Department and Anti-Narcotics Force, by approving the integrated risk management system	Implementation of the Integrated Risk Management System
	GOP prepared and circulated the draft NSW Act	Submission of draft PSW Act to the Parliament for approval by the Government of Pakistan	Approval of PSW Act by the National Assembly
	Inclusion of all the districts of Pakistan and allowing working capital financing to women	Government approval of further amendments in Refinance and Credit Guarantee Scheme for	Continuation of public awareness campaign for women entrepreneurs' scheme, adoption of

	entrepreneur under the Refinance and Credit Guarantee Scheme for Women Entrepreneurs in Underserved Areas	Women Entrepreneurs which increases the credit upper limit	alternative mechanism to enhance women entrepreneurs' access to finance and business development support based on CARES program's survey approved in June 2020
	Initiate the process of recruitment of a full-time professional chief executive officer for EXIM Bank of Pakistan (hereinafter "EXIMBP")	Approval by the Board of Directors of EXIMBP of business plan and financial model for EXIMBP and publication of draft EXIMBP Act on Finance Division Website	Approval of EXIM Bank Act by Federal Cabinet; Hiring of all the top management position and; Establishment, deployment and implementation of complete automation system in EXIMBP business process

(Source: ADB document[82])

ADB program is composed of 2 pillars; the first covers tax related policies including elaboration of NTP, reduction of regulatory duties, abolition or reduction of customs and reduction of corporate income tax; the second includes preparation of e-commerce policy framework, approval of the operational rules of PNAC and blueprint and implementation plan to operationalize PSW, approval of amendment to the Refinance and Credit Guarantee Scheme for Women Entrepreneurs in Underserved Areas and the preparation of establishing EXIMBP.

Among the reduction of regulatory duties and abolition of customs, the items listed in Table 2.5.7 are specified with merchandise codes.

Since the conditionalities for ADB lending were upfront, both subprograms 1 and 2 had been completed.

[82] Report and Recommendation of the President to the Board of Directors; Proposed Programmatic Approach and Policy Based Loan for Subprogram 1, Islamic Republic of Pakistan: Trade and Competitiveness Program, Project Number: 52049-001, July 2019, Appendix 1,4 and "Report and Recommendation of the President to the Board of Directors, Proposed Programmatic Approach and Policy-Based Loan for Subprogram 2, Islamic Republic of Pakistan: Trade and Competitiveness Program, Project Number: 52049-003, November 2020", Appendix 4

2.5.2. WB Assisted Projects in Karachi

WB is financing the following 4 projects in Karachi. All of them except Karachi Neighborhood Improvement Project (hereinafter, "KNIP") was approved in June 2019.

Table 2.5.8 WB Financed Project in Karachi

Project name	Approved date	Loan Amount (US$ Million)
Competitive and Livable City of Karachi	June 27th, 2019	230
Karachi Water Service and Sewerage Improvement Project	June 27th, 2019	40
Karachi Mobility Project	June 27th, 2019	382
Karachi Neighborhood Improvement Project	May 19th, 2017	86

(Source: WB website)

(1) KNIP

KNIP was approved in May 2017 with the loan amount of US$ 86 million. The project implementation period is from June 2017 to the end November 2021. The content of the project is described in Table 2.5.9. The project is composed of the following three components: (1) public space and mobility improvements in selected neighborhoods, (2) support to improved administrative services and city capacity development and (3) support for implementation and technical assistance.

Table 2.5.9 Components and Subcomponents of KNIP and their Contents

Component	Subcomponents	Specific items of financing
1. Public space and mobility improvements in selected neighborhoods	1. Redevelopment of Saddar downtown area	Upgrading roads and streets, sidewalks and pedestrian crossings within existing right-of-way (ROW), upgrading open spaces, installing shade features, removing barriers for visitors, reorganizing traffic patterns and closing certain street segments, installing signs, street furniture, lighting and bus stop shelters, organizing parking and installing safety barriers to reduce vehicular encroachment on sidewalks, rehabilitating underground infrastructure and storm water drainage beneath upgraded roads.

	2. Malir area road and public spaces enhancements	Upgrading main roads, sidewalks and pedestrian crossings within existing ROW, reorganizing vehicular travel lanes to provide adequate space to pedestrians, rehabilitating/enhancing existing open spaces with shade, adequate drainage and trash collection facilities, installing street furniture, bus shelters, safety barriers, shade features, and lighting, rehabilitating underground infrastructure and storm water drainage beneath upgraded roads.
	3. Korangi neighborhood mobility improvement	Upgrading main roads, streets, sidewalks and pedestrian crossings within existing ROW, improving open spaces such as markets, playgrounds, and road medians, installing street furniture, lighting, bus shelters and safety barriers for pedestrians, rehabilitating underground infrastructure and storm water drainage beneath upgraded roads.
2. Support to improved administrative services and city capacity development	1. Automation of construction permits and business registration in Karachi	▪ Design and implement provincial One Stop Shop system: （related departments） Excise and Taxation, Employees Social Security Institution, Employees Old-Age Benefits Institution, Labor Department, Industries and Commerce Department ▪ Automation of processes related to issuance of construction permits, upgrading of inspection services, capacity building, integrated public facilitation counters, counters for industrial and commercial building, information availability and complaints management and resolution.
	2. Laying the foundation for better city management	▪ Integrated financial management information system for Karachi Metropolitan Corporation, design and develop asset management system, Measures for improving municipal utility tax revenue (survey to access the potential tax base and computerized database of establishments) ▪ Improved public access to information on city management, budgeting, planning, gathering citizen feedback to services, enabling electronic payment of selected municipal fees and taxes

3. Support to implementation and technical assistance		▪ Operating costs, training, technical advisory, goods- and services-related procurement and financial management, consultant's fee ▪ Study on comprehensive parking plan for Saddar downtown area ▪ Support to Karachi Transformation Steering Committee

(Source: WB document[83])

The first component titled "public space and mobility improvements in selected neighborhoods" provides funds to the projects prepared in accordance with the pre-determined procedures, including consultation with the beneficiaries. Table 2.5.10 lists all the phase 1 projects as of end February 2020. The short list for the phase 2 projects is under consideration.

Table 2.5.10 KNIP Component 1 Projects

Area	Name of project	Content
Saddar	Dr. Ziauddin Road	road improvement
	Strachan Road	road improvement
	Junction at Pakistan Chowk	carrefour improvement
	M.R. Kiyani Road	road improvement
	Shara-e-Kamal Road	road improvement
	Mohammad bin Qasim Road	road improvement
	Arts Counril Area	public space improvement
Korangi	Korangi Phase 1	road improvement
Malir	Malir Phase 1	road improvement

(Source: WB document)

The component related to the interest of this survey, i.e. investment environment, is component 2, "support to improved administrative services and city capacity development." This component includes support to the design and implementation of a Sindh Provincial Electronic One Stop Shop for business licenses for reducing the time and labor necessary for application. It also plans to introduce integrated fiscal management information system in Karachi Metropolitan Corporation.

The project establishes a Project Implementation Unit (hereinafter, "PIU") in the Directorate

[83] Project Appraisal Document; Karachi Neighborhood Improvement Project, Report No. PAD2265, May 19, 2017

of Urban Policy & Strategic Planning under which various departments of Sindh government implement individual components. For the construction permit, it will be Sindh Building Control Authority which will automate the process for construction permit. For business licensing, the system connects excise and taxation departments, employee social security institution, employee old-age benefit institution, labor department, industries, and commerce department, allowing application to be sent on-line. Among those, the on-line application for category 1 construction permit has been already materialized, while those for categories 2 to 4 are under preparation.

The component 3, “support to implementation and technical assistance” is for project implementation unit.

The effect of the project is appearing as the ranking of EODB went up, thanks to the online submission of application for building permit, while it is necessary to carefully observe whether the measures related to increase city-run utility tariff is implemented as planned.

(2) Competitive and Livable City of Karachi Project

Competitive and Livable City of Karachi (hereinafter, “CLICK”) was approved in June 2019, amounting to US$ 240 million. Table 2.5.11 describes the content of the project. This project is composed of the following 4 components: (1) performance-based grants to local councils (total cost US$ 169.4 million), (2) modernizing urban property tax administration and system (total cost US$ 40.4 million), (3) improvement of city competitiveness and business environment (total cost US$ 20.2 million), and (4) technical assistance for solid waste management (total cost US$ 10.0 million).

The first component is to provide grant fund to implement community related infrastructure subprojects in accordance with the implementing capacity of the administrative unit. The capacity of the administrative unit is evaluated by the pre-determined indicators and calculation method and the grant fund is to be provided in accordance with the assessed capacity of an administrative unit. The second component, i.e. modernization of urban property tax administration aims to update the property tax database and to materialize property tax payment through on-line system. The third component tries to strengthen the intra-coordination among the business-related administrative units, thereby simplifying the administrative procedures. A working group, organized for implementing EODB and constituted by the Chief Minister of Sindh and the chairperson of planning and development board, will further pursue the existing coordination mechanism and after reviewing the procedure, it is expected that the investors will be able to complete all the necessary procedures through Sindh Business Portal. The fourth component, solid waste management will start with raising public awareness and behavior changes of the citizens. It intends to materialize sorted collection of garbage, thereby optimizing solid waste treatment.

According to the Sindh Investment Department, the project director of this project has been appointed very recently and the project is yet to be started as of December 2019. WB staff confirmed in February 2020 that the loan had been effectuated only on November 26, 2019. The preparatory works for project implementation, such as finalization of operational manual has been completed while the formation of project implementation unit in each of three implementation agencies are still on going. According to WB staff[84], it is expected that the first tranche of performance-based grants to local councils is to be disbursed within this fiscal year.

On the other hand, on-line treatment of investment related application has been materialized for the following four areas; professional tax, social security, shop and commercial facilities and sale tax. In addition, the necessary procedure for starting business in Sindh as well as applicable regulations are available on website[85]. Those improvements are so far financed by the Sindh Government budget and the technical assistance from WB.

It can be said that the issue for CLICK is PIU of the project which is yet to be formed at the time of the field survey conducted in February to March 2020.

[84] Meeting with Ms. Namoos Zaheer on February 26, 2020.
[85] https://sindhinvestment.gos.pk/generalpro.php（accessed on December 24, 2019）

Table 2.5.11 Components and Subcomponents of CLCK and its Contents

Component	Subcomponent	Indicative permissible capital investments
1. Performance based grants to local councils and capacity building	1. Performance based grants to local councils	▪ Repair, maintenance, improvement, rehabilitation and construction of roads, streets, signalized intersections etc. ▪ Repair, maintenance, rehabilitation, construction etc. of sidewalks and walkways, bicycle paths, pedestrian bridges and crossings, etc. ▪ Repair, maintenance, replacement, installation etc. of street lighting, road signage, etc. ▪ Repair, maintenance, improvement, rehabilitation and construction of small-scale secondary and tertiary drainage systems and associated wastewater system. ▪ Covering of exposed street level drainage and sewerage channels. ▪ Selected machinery and equipment. ▪ Maintenance, improvement, rehabilitation, construction and operation of parks, playgrounds, greenery, recreational facilities, public and open spaces, lighting, street furniture, landscaping, tree plantation including dedicated facilities and areas for women. ▪ Improved facilities for shops, mobile vendors, etc. ▪ Repair, maintenance, improvement, rehabilitation, construction and operation of public toilets, including dedicated facilities and areas for women. ▪ Repair, maintenance, improvement, rehabilitation, construction and operation of buildings and facilities of local communities, community centers, sports facilities, including dedicated facilities and areas for women. ▪ For DMCs and District Council; repair,

		maintenance, improvement and rehabilitation of existing primary health facilities and education buildings operated by local communities. ▪ Purchase and hiring of selected related equipment and items. ▪ Primarily for KMC; repair, maintenance, improvement and rehabilitation of fire control stations and facilities. ▪ Purchase and hiring of selected equipment for emergency response / disaster management. ▪ Purchase of new vehicle, salaries of staff, utility bills, fuel for vehicles
	2. Technical assistance and performance grants implementation and management	Consultancy and non-consultancy services, goods, trainings, and incremental operating costs for local government department
2. Modernizing urban property tax administration and system		• All Karachi property survey to update the property tax database • Developing and upgrading ICT system to house property tax data • Strengthening staff capacity on property tax administration • Developing IT system to facilitate taxpayer billing and payments • Reviewing relevant property tax laws and regulations • Carrying out taxpayer sensitization and outreach activities
3. Improvement of city competitiveness and business environment	1. Streamlining and integrating business regulations for city competitiveness	▪ Regulatory reform and simplification ▪ Regulatory process mapping and re-engineering ▪ Design and establishment of Sindh Business Portal ▪ Analytical work on women-run business and feasibility of Karachi Infrastructure Fund （related departments） Excise and Taxation Department, Labor Department, Sindh

		Environment Protection Agency, Industries Department, Food Authority, Education and Literary Department, Sindh Healthcare Commission, Agriculture Dept., Sindh Building Control Authority, Sindh Employees Social Security Institution
	2. Establishment of PPP node at local government	▪ Provision of assistance to local agencies under local government ▪ Carrying out of prefeasibility study for potential PPP in municipal services
4. Technical assistance for solid waste management		▪ T/A for policy and regulatory development for solid waste management (SWM) sector ▪ Capacity building for Sindh Solid Waste Management Board ▪ Technical, environmental and social baseline studies for existing SWM facilities and infrastructure ▪ Social sustainability, public awareness and behavior change activities focusing on community-level engagement and baseline study for community-level job creation in SWM.

(Source：WB document[86])

(3) Effort to Improve Business Environment in Sindh

The BOI of the federal government has been conducting EODB as an effort to improve business environment of Pakistan. Its reform efforts are done at the provincial level. On the other hand, in Sindh, KNIP and CLICK have sub-components to address its business environment of Karachi. Figure 2.5.1 shows the inter-relationship of the regulatory items to be addressed by EODB, KNIP and CLICK. Since the names of each of EODB's 10 indicators are objective related, in Figure 2.5.1, they are translated into the names of related authorities under each indicator. For example, first item of EODB, "1. Starting Business", the names of authorities related to this item are numbered "1." before its name, indicating that all those authorities are related to "1. Starting Business". For KNIP and CLICK, only the names of related authorities, and not the title of licenses and approvals, are described.

[86] Project Appraisal Document; Competitiveness and Livable City of Karachi, Report No. PAD2849, June 6, 2019

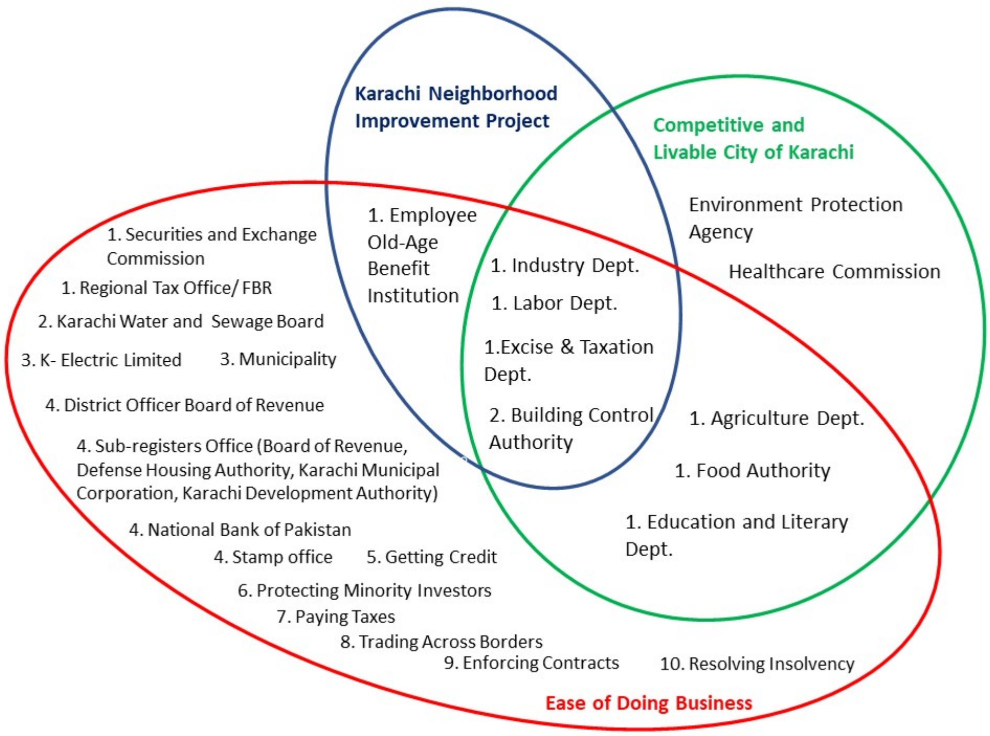

Figure 2.5.1 Improving Business Environment in Karachi

(Source: WB documents)

As seen from Figure 2.5.1, the targeted reform items under KNIP and CLICK do not necessarily match with those of EODB, while there are those which are addressed by two or three of them. For example, KNIP makes construction permits online, and completion of the phase 1 works of KNIP had contributed to the improvement of ranking of “Construction Permit” of EODB. It is understood from Figure 2.5.1 that the improvements to be materialized by KNIP and CLICK will contribute to the improvement in ranking of EODB.

According to WB staff[87], CLICK succeeds KNIP as far as the business environment improvement component is concerned. KNIP which is preceding to CLICK provides IT equipment to the authorities concerned to improve each authority’s related licensing process. Therefore, it is envisaged that each licensing procedure is to be made online, while the mechanism for one window service seems yet to be established. It is necessary to note that both KNIP and CLICK covers Karachi only and does not cover entire area of Sindh.

87 Meeting with Ms. Namoos Zaheer on February 26, 2020.

2.5.3. Support from Bilateral Development Partners Related to Investment Policy

Two bilateral development partners, USAID and DFID of the United Kingdom provide support for improvement of investment environment.

(1) Outline of the Support by USAID

Table 2.5.12 provides the on-going trade and investment related programs by USAID.

Table 2.5.12 Trade and Investment Related Program of USAID

Program Name	Activities
Pakistan Private Investment Initiative	Creation of three investment funds to inject capital into high-growth SMEs
US-Pakistan Partnership for Access to Credit	Loan portfolio guarantee to support SMEs (collaboration with USAID's Development Credit Authority)
Pakistan Regional Economic Integration Activity	Improving ability to develop and implement reforms to trade-related policies, strengthening public and private sector engagement in trade policymaking and its reform. Improving regional trade and transit facilitation by Pakistan Customs, improving regional business-to-business linkage
Small and Medium Enterprise Activity	Enhance the competitiveness of SMEs, building capacity of the government officials for improving business enabling environment, improve SMEs' economic performance

(Source: USAID document[88])

USAID's main part of the support activity is the establishment of fund for SMEs and the improvement of access to finance by SMEs through guarantee. In the Partnership for Access to Credit Program, USAID provides guarantee for the loans extended by local banks or micro-finance institutions. It also provides capital from a challenge fund for those SMEs with innovative ideas.

USAID is also implementing a program for improving commercial laws and regulatory regime, in collaboration with the US Department of Commerce. This program provides training opportunity for the government officials and Pakistani private entities in the areas of business incubation, intellectual property right, commercialization of innovation, commercial law and customs clearance, etc.

USAID is under preparation of a project for investment promotion. This project consists of

[88] Obtained on December 12, 2019 at the time of visit to USAID.

promotion of foreign direct investment by creating “foreign direct investment one window” (FDI-OW) and of US-Pakistani bilateral trade and investment through improvement of domestic business and investment environment. This project sets around 5 targets, and USAID makes contractors compete with each other based on their proposals related to methods to achieve those around 5 targets. The fund will be given to the contractor who made the best proposal. Given this method, it was not possible to know further detailed information on the 5 targets because of the reason that their disclosure is procurement sensitive. On the other hand, USAID explained part of the selection criteria, such as avoidance of duplication with the existing projects, complementary to the existing efforts, and totally new approach to the issue. It also explained that one window for FDI is under discussion with BOI and WB.

(2) Outline of Support by DFID

Among the aid recipients of DFID in the FY2019/20, Pakistan benefited from GBP 388 million, which is the largest budget allocation[89]. DFID is implementing 39 projects and the proportion of budget allocation by sector is as follows: education sector 25.43%, health sector 20.18%, government and civil society 16.2%, other social infrastructure and services 11.61%, disaster relief 8.32%. The social sector is the largest beneficiary of UK aid.

In the area of trade and investment and private sector development, two projects are under implementation.

For trade and investment, Stability and Growth Program (GBP 266,442,540) has been implemented since July 2014 and will terminate by the end of 2019. The components of this program are shown in Table 2.5.13.

Table 2.5.13 Components under Stability and Growth Program

Component Title	Start Date	End Date
Support to Government – IMF Program	2014/2/12	2017/9/30
World Bank Trust Fund Stability and Growth program	2013/8/26	2019/12/31
T/A monitoring and evaluation	2013/8/26	2017/9/30
Support to Government – National Cash Transfers, Benazir Income Support Program	2013/8/26	2017/9/30
Her Majesty’s Revenue & Customs Technical Support to FBR	2015/3/19	2019/12/31
Budget Support to Government of Pakistan – IMF program	2013/6/4	2017/9/30

[89] https://devtracker.dfid.gov.uk/?_ga=2.214002775.1545913190.1576754641-1489247149.1512636054 (accessed on December 19, 2019)

World Bank Trust Fund – Stability and Growth Program – International Climate Fund	2016/5/18	2017/9/30
Support to Government- National Cash Transfer, Benazir Income Support Program, International Climate Fund	2016/5/18	2017/9/30
Procurement of Common Reporting Standards System for FBR	2017/8/28	2019/12/31

(Source: DFID Website[90])

This table reveals the fact that DFID contributes funds to IMF and WB: for IMF, DFID's fund supplements IMF financing, while in case of WB, it injects fund to trust funds. Other than those is a budget support to Pakistani Government for its social policy and for technical assistance or procurement of equipment for FBR. Provision of fund by DFID is in a form of contribution to trust fund which in turn finances procurement of consultant for fulfilling the requirements of Pakistani government as well as WB. By providing funds to WB, it is considered that DFID staff is involved in the individual policy formulation with WB staff. This project disbursed 99.42% of the budget as of August 2019[91].

In the area of private sector development, Enterprise and Assets Growth Program (GBP 199,995,186) was approved on May 18, 2014 and its implementation will continue until March 31, 2024. In this project, DFID created NPO (Karandaaz[92]) to improve access to finance by the SMEs. The NPO provides loans and equity to SMEs.

In addition, DFID approved Revenue Mobilization, Investment and Trade Program (ReMIT) (STP 10,987,999) on November 11, 2019. This program includes the components which aim to strengthen tax revenue mobilization (increase in tax revenue from 13% to 18% of GDP), to address the challenges in investment environment faced by UK and local businesses, to promote investment and to enhance competitiveness, to address barriers to trade and to make macro-economic policy and its implementation. Table 2.5.14 presents components of the program.

Table 2.5.14 Components under Revenue Mobilization, Investment and Trade Program

Component title	Start date	End date
Research and Design of program	2018/4/1	2021/3/31
Commercial supplier led Technical Assistance	2019/11/9	2024/6/30
World Bank Trust Fund Economic Reform	2019/10/15	2024/6/30

90 https://devtracker.fcdo.gov.uk/projects/GB-1-204024/transactions (accessed on December 19, 2019)
91 https://devtracker.dfid.gov.uk/projects/GB-1-204024 (accessed on December 19, 2019)
92 https://karandaaz.com.pk/ (accessed on December 19, 2019)

DFID managed Technical Assistance (other government departments)	2019/9/2	2024/6/30
Responsive Policy Function + NSW	2019/11/9	2024/6/30
Monitoring and Evaluation	2019/9/2	2024/6/30
International Trade Center led Technical Assistance on Trade Policy and Trade Facilitation	2019/10/16	2024/6/30

（出所：DFID Website[93]）

DFID is under preparation of two new projects[94] in the above mentioned two sectors. The first is titled “job and economic transformation for export” which provides fund catalyzing for further fund mobilization. The second is named “business environment access fund”. The targeted sector and province are yet to be decided. It also plans to set up a climate fund for supporting private sector entities dealing with the climate change or for public-private partnership projects. DFID plans to provide seed fund, while it expects the other development partners to invest in that fund which in turn invests in financial institutions. DFID expects equity investment from Kreditanstalt für Wiederaufbau (hereinafter, “KFW”) and IFC for that fund.

2.5.4. Assistance from Other Bilateral Development Partners

The summary of the assistance programs of European Commission (hereinafter, “EC”) which is the major development partner in Europe, Bundesministerium fur wirtschaftliche Zusammenarbeit und Entwicklung (German Federal Ministry of Economic Cooperation) (hereinafter, “BMZ”) and Agence Française de Developpement (French Development Agency) (hereinafter, “AFD”) are described as follows.

Those development partners do not provide their assistance directly to development of investment environment. However, Germany and EU in collaboration do assist vocational training and labor environment improvement of textile industry.

(1) EC

The priority areas under draft EU- Pakistan multi-annual indicative plan for 2014 – 2020 period[95], are the following three areas:

- Rural development (indicative budget allocation EUR 340 million)
- Education (EUR 210 million)

[93] https://devtracker.fcdo.gov.uk/projects/GB-GOV-1-300134/transactions（accessed on December 19, 2019）
[94] Hearing from Ms. Gillian Rogers on December 12, 2019
[95] https://eeas.europa.eu/sites/eeas/files/mip20142020-programming-pakistan-20140811_en.pdf (accessed on December 21, 2019)

- Good governance, human rights and rules of law (EUR 97 million)

The allocation for education includes the programs aiming at productivity increase through technical and vocational training and improvement of employability of workers.

Aid program for 2019 available on website includes the following 4 programs[96][97]:

- Rules of law support[98] (20 million Euros, implementation delegated to UNDP, UNOPS and UN Women)
- Public Financial Management Support Program II (13 million Euros, direct procurement)
- Revival of Balochistan Water Resources Program[99] (40 million Euros, direct procurement)
- Balochistan Education Support Program II (18 million Euros, implementation delegated to UNICEF)

Public financial management program not only targets the provinces of Sindh and Balochistan for their public financial management improvement but also consolidation of medium-term budgetary framework at federal level. It is a five-year program covering 2019 to 2024, and it will be implemented in close coordination with PGG of WB[100].

(2) BMZ

BMZ elaborates assistance policy to be implemented by KfW Development Bank and GIZ. German aid to Pakistan focuses on consolidation of democracy through government and civil society and sustainable economic growth, and targets the following sectors:

- Governance
- Sustainable economic growth
- Energy

The amount of aid by BMZ for Pakistan between 2019 and 2020 amounts to 109.1 million Euros. It is concentrated in north-east area (province of Khyber Pakhtunkhwa and Federally Administered Tribal Areas (FATA) and province of Punjab. The aid programs of KfW Development Bank and GIZ are provided in line with assistance policy of BMZ.

KfW Development Bank does not disclose the on-going project list in English on website, while the annual commitment is shown in Table 2.5.15. Judging from those sector names, their support may not be directly extended to the improvement of investment environment.

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[96] https://ec.europa.eu/europeaid/sites/devco/files/aap-financing-pakistan-decision-c_2019_3276_en.pdf (accessed on December 21, 2019)
[97] https://ec.europa.eu/europeaid/sites/devco/files/aap-financing-pakistan_part2-decision-c_2019_7736_en.pdf (accessed on December 21, 2019)
[98] https://ec.europa.eu/europeaid/sites/devco/files/aap-financing-pakistan-decision-c_2019_3276_en.pdf (accessed on December 21, 2019)
[99] https://ec.europa.eu/europeaid/sites/devco/files/aap-financing-pakistan_part2-decision-c_2019_7736_en.pdf (accessed on December 21, 2019)
[100] "Action Document for the "Public Financial Management Support Program II" p.14 Section 3.2 https://ec.europa.eu/europeaid/sites/devco/files/aap-financing-pakistan-annex2-c_2019_3276_en.pdf (accessed on December 21, 2019)

Table 2.5.15 KfW Development Bank: Commitment by Sector (million Euros)

Targeted Sector	2019	2018	2017	2016	2015
Energy generation, distribution and efficiency	1			6	40
Government and Civil Society					20
Health	12	25	29.595		8
Population policies/programs and reproductive health				17.5	
Banking and financial services				8	
Refugees in development partners countries				7.5	
Reconstruction relief and rehabilitation			25		

(Source: KfW Development Bank website[101])

GIZ provided in total 143.2 million Euros between 2015 and 2018, in which 34.5 million Euros were distributed to sustainable economic development. GIZ website[102] indicates that the project under sustainable economic development category is Technical and Vocational Education and Training Sector Support Program. That program amounts 56 million Euros and its implementation period is between 2017 and 2021. The program targets entire territory of Pakistan. The program was originally financed by the Governments of Germany, Netherland and Norway as well as EU, while its second phase started in 2017 with the Governments of Germany and Norway and EU.

Apart from that project, GIZ provided improvement of labor and social standards in Pakistani textile industry in 2016.

(3) AFD

AFD puts the following three sectors as the pillars of its assistance program for Pakistan[103] covering 2018 to 2022.

- Support to resolve energy crises
- Improve the quality of services provision in urban areas (water, sanitation, transport)

101 https://www.kfw.de/microsites/Microsite/transparenz.kfw.de/#/country/PAK/2019 (accessed on December 21, 2019)
102 https://www.giz.de/en/downloads/giz2018_en_Factsheets_GIZ_Pakistan_2017.pdf (accessed on December 21, 2019)
103 https://www.afd.fr/en/ressources/pakistan-strategy-2018-2022 (accessed on December 21, 2019)

- Contribute to bolstering the resilience of vulnerable populations and to protecting the territories against natural disasters

AFD website[104],[105] explains that its assistance to Pakistan started in 2006. With 23 projects, accumulated commitment amount reaches EUR 804 million in 2017. Among those projects, energy sector counts 73%, and urban transport 15% and water and sanitation 10%. The approval between 2016 and 2017, amounted to EUR 465.5 million, had increased considerably compared with the previous years, and 65% of which was allocated to urban transport. In energy sector, loans were provided to the rehabilitation of hydropower plants (Warsak, Dargai, Chitral) and construction of hydropower plants (Jaggran II, Harpo), while in water and sanitation sector, a 95 million Euro loan was extended to water resources development, construction of drinking water production plant and water distribution network for Faisalabad Water and Sanitation Agency in 2018. For transportation sector, AFD provided a EUR 130 million loan for constructing Bus Rapid Transit (BRT) in Peshawar city in co-financing with ADB. It also considers its participation to a BRT project in Karachi. In Punjab, AFD finances the renovation of Fort Lahore and neighboring environment improvement with Aga Khan Trust for Culture.

2.5.5. Support by the Multilateral Institutions/Bilateral Development Partners for Industrial Human Resource Development

The survey team summarizes the brief snapshot of the support from development partners agencies for industrial human resource development. Major ongoing projects are outlined in Table 2.5.16. TVET Sector Support Programme implemented by EU, the German government and Norwegian embassy (Implementing agency: GIZ), covers whole nation. These institutions implement action plans stipulated by NSS, establish NVQF, and operationalize CBT-A and train teachers and assessors. Skills Development Programme supported by DFID, financially assists PSDF which covers the operational cost of training courses run by private training institutes or private companies.

Punjab Skills Development Project supported by the WB conducts activities such as unifying quality standards for examination and qualification, strengthening Punjab TEVTA's job placement mechanism and implementation structure, and delivering CBT-A courses in particular trades. Improving Workforce Readiness in Punjab Project supported by ADB is conducted currently (as of March, 2020) for the detailed planned research for one year and designs a six years project from the year 2021. Except for TVET Sector Support Programme mentioned firstly and completed Sindh Skill Development Project supported by WB, all of the major projects target Punjab. Finished projects and project in related areas are summarized below.

[104] https://www.afd.fr/en/page-region-pays/pakistan (accessed on December 21, 2019)
[105] https://www.afd.fr/en/ressources/afd-and-pakistan (accessed on December 21, 2019)

- WB “Sindh Skill Development” Project (2012 - 2018)

The project area was Sindh, and main project activities were the expansion of short-term vocational training (53% of trainees are female and 69% of them are from rural areas), development and implementation of training programs which were highly demanded in market, capacity building of STEVTA, and so on. US$ 20.10 million was disbursed.

  - Implementing agency：Sindh TEVTA、BBSYDP
  - Targeting sectors：Develop and implement CBT-A courses in 63 trades, enhance coordination with private companies (establishment of Institute Management Committee) , upgrade machineries in 66 programs and train teachers

- GIZ “Promoting Sustainability in the Textile and Garment Industry in Asia” (2015 - 2021)

The project purpose is to improve social and environmental sustainability in textile industry. It covers six Asian countries such as Pakistan, Bangladesh, Cambodia, China, Myanmar and Viet Nam and organizes international forums to share knowledge of participating countries on labour standard as well as energy efficiency.

- GIZ “Improvement of labour and social standards in Pakistani textile industry” (2017 - 2020）

The project objective is to improve the working environment and conditions in textile industry. The project worked on strengthening major functions of labour inspection by the Labour and Human Resource Department of Punjab provincial government and assistance for companies to understand and take measures for compliance.

Table 2.5.16 Major projects supported by the Multilateral Institutions/Bilateral Development Partners for Industrial Human Resource Development

	EU, German government, Norwegian embassy (Implementing agency: GIZ)	DFID	WB	ADB
Name of projects	TVET Sector Support Programme	Skills Development Programme	Punjab Skills Development Project	Improving Workforce Readiness in Punjab Project
Implementation area	Nationwide[106]	Punjab	Punjab	Punjab
Project period	January 2017 to December 2021	July 2015 to June 2022	July 2015 to December 2020	2021 to 2026
Implementing Agency / C/P organization	NAVTTC, TEVTAs in each province、PVTC, Business and Industry associations	Punjab government, PSDF	Punjab government ICISDD	Punjab government ICISDD, PSDF, Punjab TEVTA, PVTC
Activities / Outputs	• Policy making on TVET, Implementation of NSS • Establish NVQF (Development of 70 new CBT-A courses and implementation to 18,600 training) • Training of 4,000 teachers and 1,800 assessors • Enhance coordination with industries (Establishment of Institute Management Committee at 550 TVET institutes and placement offices)	• Train 350,000 trainees[107] (40% females) • Financial aid grant to the Punjab government for training through PSDF • Develop capacity of PSDF's operation on skill development and improve policy and regulatory environment governing the skills sector • Assist in establishing public private partnerships for skill development	• Establish quality standard of operations on examination and qualification • Capacity development of Punjab TEVTA • Provide 30 CBT-A courses at 80 training institutes and 6,800 trainees graduated them • Consolidate agreement between 40 training institutes under Punjab TEVTA and industries • Increase registered training courses in prioritized industry sector	• Reform the framework of TVET (enhance implementation of Punjab skill development sector plan 2018) • Strengthening and establishing of COEs and Sector skills councils, Implementation of CBT-A courses at COEs • Improve access to TVET (Finance to PSDF)
Target industry / Trades	No limitation for industries. Sector skills councils have been established in textile, construction, hospitality and energy	No limitation for industries. It has conducted research about needed skills for major industries such as food processing,	Conduct CBT-A courses for the following trades (Building Electricity, Plumbing cum Solar water heating technology, Fashion designing, Auto-	Establish COEs in the following sectors (Tourism and hospitality, Automobile/motorbike assembly, parts and

106 Punjab, Sindh, Balochistan, Khyber Pakhtunkhwa, Azad Jammu & Kashmir and Gilgit Baltistan
107 Due to the situaioin caused by Covid-19, delay for the target figures is reported in the annual report published in June, 2020.

	EU, German government, Norwegian embassy (Implementing agency: GIZ)	DFID	WB	ADB
	(electricity and gas) sectors	auto-parts, and textile as well as export potential industry such as leather and shoe manufacturing industries. For measures to the impact of COVID-19, training in health, IT and agriculture sectors are being strengthened.	mechanic, Industrial Electricity, Computer Operator and CAD/CAM operator)	repair, Construction, Textiles and garments, Food processing, Light engineering and Information communication technology)
Budget	EUR 62.50 Million	GBP 89.50 Million	US$ 50.00 Million	US$ 110.00 Million

(Source: Produced by the survey team based on interviews and collected documents)

2.5.6. Interrelationship among the Development Partners on Investment Policy

Figure 2.5.2 maps the contents of policy support programs of multilateral institutions by the policy areas related to investment environment improvement. During the hearing from the Japanese firms, issues related to tax were raised by most of the firms, so that policy reform related to tax reform has been added.

The major thrust of this mapping is as follows:

- For trade policy, tariff policy reform taking into consideration of export promotion is on-going by ADB's program loan;
- In addition to tariff reform, support for institutional settings for export promotion (capacity building of exporting firms for export promotion and promotional activities) is planned under PGG;
- For improvement of business environment, efforts to improve EODB ranking have been implementing, while at the provincial level, WB plans and implements mapping and improvement of various business-related licensing in Karachi.

From the above, it can be understood that the support from multilateral institutions centers on export promotion and business-related procedure improvement, as represented by EODB.

More detailed observation of this interrelationship reveals the following.

- The policy making body for NTP has been transferred from FBR to MOCT; the major actors are ADB and WB, and the tariff policy has been shifted from fiscal revenue focus to export promotion focus;
- Tariff structure has been simplified to four slabs and the regulatory duties as well as customs for a part of imported raw materials and intermediate goods including machinery parts and cables and generating sets were either reduced or abolished.;
- Export promotion measures will thoroughly be implemented by WB through PGG. PGG addresses the coordination among the related government authorities around export promotion, planning of country brand, desterilizing trade attaches in the embassies abroad, provision of export intelligence services, management guidance for individual export-oriented firms. ADB's program addresses the creation of National Single Window, strengthening of PNAC and establishment of EXIMBP;
- The coordination among industrial and investment policies in view of export promotion is expected at PGG Board to be created under WB's PGG. On the other hand, the multilateral institutions do not provide their support related to both industrial and investment policies.
- For export promotion, USAID is supporting policy improvement, strengthening of policy elaboration capacity, facilitation for transit cargos, while both USAID and DFID are providing support to establish National Single Window, which aims to simplify the

administrative procedure related to export and import;

- In the area of improving business policy environment, PGG plans (i) to reveal and to map the complete picture of regulatory environment among federal, provincial and local governments with priority on federal government, (ii) to eliminate duplications and (iii) to make the application procedure online. On the other hand, KNIP has already started to make the procedure for granting construction permit online in Karachi and CLICK will further develop streamlining and automation of business-related procedures.
- In tax system, WB's RISE will deal with expansion of tax base, harmonization of tax structures (general sales tax), elimination of tax exemptions and acceleration of e-payments. The immediate target of the reform is securing the consistency of general sales tax across federal and provincial governments;
- In addition to RISE, WB's PRRP supports tax reform and the measures for increasing tax revenue; in that context, WB monitors the review works for Income Tax Ordinance, Sales Tax Act, Customs Act, Federal Excise Act, and FBR Act. The immediate focus of the task is to reduce withholding lines.

However, it is not certain how the coordination among export promotion policy, industrial policy, and investment policy, especially the latter two are both having eye on export promotion policy is going to be done after cancellation of WB's PGG. Therefore, it is necessary to follow up how those inter-related policies will be oriented.

2.5.7. Policy Areas Not Supported by Development Partners

Based on the above-mentioned supports provided by multilateral institutions, the following issues are not addressed by multilateral institutions or by other development partners. Figure 2.5.2 also describes the possible areas for JICA's support.

(i) Elaboration and implementation of industrial policy

The Pakistani government officials share the view that implementing export promotion policy requires the improvement of quality of domestic products and strengthening of competitiveness, while FDI is essential for in that regard. However, there has been no function of policy formulation in federal MOIP. This means there exists no mechanism for selecting the targeted industry to develop, for elaborating the structured policy and for setting up the implementation mechanism for policy implementation. The government of Punjab is the sole provincial government which elaborated strategic development plan and its Industry Department elaborated the industry policy in line with the strategic development plan. However, even in the government of Punjab, it is judged that not all the policy contents seem to be implemented as seen from the following example; the mapping of cottage industry has not been realized yet while that of industrial clusters and SEZs has been completed. This situation suggests the possibility of finding specific areas of support either in elaborating or implementing industry policy. The government of Sindh is under elaboration of its industry policy.

(ii) Investment promotion and investment policies

As a result of shifting of weight of PGG around export promotion of MOCT, it is considered that the promotion of inbound FDI is out of sight of the supports provided by multilateral institutions. Although BOI produced Investment Promotion Strategy FY2020-2024 with the support from WB, it is yet to be approved by the government. In addition, it is unknown whether BOI coordinates with the other ministries (such as MOCT for trade policy, MOIP for industrial policy) to promote FDI's linkage with the domestic industries. USAID is preparing a project to support setting up a single window for investment promotion, but its content is not known at the time of survey. After the approval of Investment Promotion Strategy FY2020-2024 by the government, BOI must implement that strategy. However, the multilateral institutions seem not to provide their support for its implementation. Therefore, there is a possibility for JICA to support it, from the viewpoint of the implementing investment policy by coordinating with trade and industrial policies, as well as of the strengthening of BOI's organizational implementation settings.

At the provincial level, the government of Sindh is preparing its investment policy, and the support for that work has been requested during this survey.

(iii) Improving business environment at provincial level

While the federal BOI is implementing the reform effort to improve EODB ranking, its result is the accumulation of the efforts done at the provincial level. Since both the federal and provincial governments do not grasp the total picture of regulatory requirements, PGG was supposed to map them out and to eliminate duplication. Although the loan for PGG has been canceled, the works on mapping and elimination of duplication will be continued by the other World Bank financing. At the provincial government level, WB's KNIP and CLICK address to the business environment improvement in Karachi in addition to EODB at the provincial level. On the other hand, as the results of the field survey, it was found that PBIT elaborated a project plan for the mapping of regulatory environment in order to promote investment in Punjab and already submitted it to the government of Punjab. It is waiting for that project's approval from the government. PBIT expressed its desire to obtain support from JICA for implementing this project. It is judged that the support to the business environment improvement can be a possible for JICA's support, since PGG starts with the mapping at the federal level.

When dealing improvement of provincial level business environment, it is quite important to establish a coordination mechanism with federal government as well as those of the other provinces.

(iv) Improvement of the settings for SEZ

Multilateral institutions do not include SEZs as the targeted areas of support. Although provincial SEZ Authority is mandated to plan SEZs within its territory, to obtain the approval from the federal government, to constructs and to operates zones, the reality of SEZ Authority, for example in Sindh, is that it is not an administrative body but a forum of the heads of related authorities. In addition, in view of administrative procedures, they are not well structure as seen from the followings; (a) the approval of SEZ construction is from the federal BOI, (b) the application for construction, operation and various licensing is to be submitted to the SEZ developer, (c) the judgement of investment approval for a specific SEZ is to be done by the SEZ Committee of that SEZ. Furthermore, while the construction of off-site infrastructure requires the works from the national utility and electricity distribution companies, their coordination are lacking. Consequently, many SEZ suffers from lack of electricity, gas and water supply. Among the SEZs in which investors have already started to operate, the central effluent plant has not been constructed and some investors were obliged to construct their own effluent plant. In terms of tax administration, while the exemption of income tax and the one time import of capital goods for factory construction are granted, in practice, the firms had to pay them and there is no reimburse of payed taxes. Given those, it is judged that the entire mechanism of SEZ is dysfunctional, and that it needs turnaround. Sindh Economic Zone Management Company manifested its desire to obtain support for the improvement of SEZ's institutional settings, centered on the strengthening of SEZ Authority.

The following items are considered to be possible to complement the supports provided by the multilateral institutions;

(v) Strengthening of the function of TDAP

PGG intended to address various export promotion measures, such as country branding campaign, participation in trade fairs, establishment of export intelligence platform, creation of One Stop Shop for export. The implementing body of those measures is TDAP. During the field survey, the WB staff welcomed the support from JICA in this regard as the resources for strengthening TDAP would not sufficient. However, since the loan for PGG was canceled, there would be no possibility to support TDAP in collaboration with WB. On the other hand, the capacity strengthening of TDAP continues to be necessary, and it is worth examining specifically the targets and measures.

(vi) Strengthening of inspection mechanism for export product

While ADB supports the strengthening of PNAC, it is targeted only to the council itself, as the contents includes the change of membership of the council, elaboration of long-term plan and support policy and scheme in line with international best practices. ADB staff explained[108] that within the long-term plan, which is to be elaborated under the ADB financed program, the procurement of IT equipment for making the certification approval process online and the strengthening of the certification for gems and jewelry export are the priority issues. Those actions are considered to be the items needed to comply with the policy matrix of ADB's program loan. While PNAC provides technical support to the member inspection institutions, ADB's support does not include such support for strengthening the capacity of individual inspection institution. ADB staff pointed out that their capacity building is also necessary in addition to the support which PNAC itself requires. Here is also the possibility of JICA's support.

(vii) Assistance on policy making for industrial human resource development and enhancing implementation of CBT-A courses (Sindh)[109]

As summarized in Table 2.5.14, current supports provided by the multilateral institutions/bilateral development partners are concentrated in Punjab. The government of Punjab has enacted the industrial policy and human resource development policy and there are major TVET agencies providing vocational training. Thus, Punjab has received support from development partners agencies. On the other hand, the industrial human resource development policy has not been enacted, and supports from development partners agencies were limited in Sindh. As explained at 2.5.2. (5), there is variability of TVET institutes' levels in Sindh and enough human resources haven't been provided to automobile/motorcycle and textile industries.

TVET Sector Support Programme contributed to establishing NVQF, and Sindh Skill Development Project of WB assisted curricula development, teachers' training and upgrading machineries for CBT-A courses in 63 trades. According to Sindh TEVTA, NVQF has been established up to level 4, and it has been working on preparing the course textbooks for 36 trades at level 5 since December 2019. Under these circumstances, assistance is thought to be needed on establishment and implementation of CBT-A courses at level 4 and 5. Besides, the policy for industrial human resource development hasn't been enacted and support for policy making is also needed.

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108 Hearing from Mr.Hiranya Mukhopadhyay on February 21, 2020.

109 The detail will be explained at support plan 3 in the section of 3.2.2.(2).

(viii) Assistance to public training institutes other than TEVTA for specific training areas (Sindh) [110]

Many of the multilateral institutions/bilateral development partners target TEVTAs in each province. Since TEVTAs are implementing and supervising agencies of TVET, it is appropriate to provide the assistance to TEVTAs. On the other hand, TEVTAs cover wide varieties of trades and there is limitation of capacity in terms of staff organization and the budget. Therefore, there is lack of the staffs and machineries in TEVTAs to provide TVET in specific sectors. Especially in automobile/motorcycle OEMs and parts manufacturing industries, there are foreign companies having been entering in Sindh and development of human resources can lead to further FDIs and industrial development. In Sindh, there are public institutes providing the specific training courses. There is one self-sustenance public institution specialized in manufacturing of dies & molds which TEVTA institutions don't provide. Another institution provides diploma courses on machine processing for which TEVTA institutions don't provide enough technical training. Assistance to these public training institutes specializing in particular trades and technics can be considered for improving their training capacity.

(ix) Assistance on training female high-skill engineers and managers (Punjab) [111]

Most of the employees engaged in manufacturing industry in Pakistan are male. Exceptionally, textile industry is one of the industry sectors in which female workers are engaged. For the textile industry, most of the courses run by vocational institutions under Punjab TEVTA as well as under industrial associations such as PKTI and PRGTTI, are designed to provide semi-skill workers from beginners. On the other hand, local large companies work on recruiting and training high-skill workers in order to improve the productivity. Therefore there needs training courses to train high-skill workers by training institutes as well. Although there have been more opportunities for women to learn at vocational schools recently, evaluation of female workers on skill aspects by the employers has still remained low, and the employment of female workers is still sluggish. Assistance to promote female employment is necessary through training high-skill female workers and improving the reputation of employers along with the training female middle managers and arranging environment for females to work at ease.

ADB plans to place COEs on textile and garment industries through Improving Workforce Readiness in Punjab Project. In COEs, short courses of CBT-A level one to three are to be organized. It is anticipated to provide assistance for developing female high-skill workers and middle managements coordinating with this project.

[110] The detail will be explained at support plan 1 in the section of 3.2.2.(2).
[111] The detail will be explained at support plan 2 in the section of 3.2.2. (2).

Table 2.5.17 Support provided by the Multilateral Institutions and the Other Development Partners and Possible Areas for JICA's support

Policy Area		Industrial Policy		Investment Promotion Policy			Trade Policy						Tax Policy			
Policy Content		Priority Industry Development	SME Development	Investment Promption	Investment Procedure Improvement	SEZ Development	Policy Improvement	Institutional Strengthening	Export Promotion Activities	Inspection/ Certification/ Quality Control	National Single Window	Export Import Bank	General Sales Tax	Advanced Income Tax	Tariff	Minimum Tax
Policies supported by Multilateral Institutions	Federal Govern-ment		Export Readiness Program		Mapping of investment related regulations, streamlining, making them on-line			Creation of Trade Promotion Wing	Country barnding campaign	Strengthening of National Accreditation Council	Approval of NSW blue print plan and implementation plan	Appointment of Chairman, finalization of business plan, financing model and EXIMBP Act	Hamonization of tax rates between federal and provincial governments	Reduction of withholding line items	Approval of National Tariff Policy Transfer of authority of tariff policy from FBR to MOC	Reduction of withholding line items
			Awareness campaging for women exporters		EODB			Strengthening of TDAP function (Trade Fair Grants, Export Intelligence System, One stop shop for export)	Revamp of commercial attache in diplomatic unit in abroad		Reduction of frequency of physical inspection and documantary checks		Sharing of tax base database among federal and provincial governments		Reduction and abolishing of regulatory duties and custom duty for specific items	
								Monitoring and evaluation of platform for trade public support interventions								
Policies supported bilaterally		*Support for elaborating new automobile industry policy*	Investment fund for SMEs	*Support for implementing Investment Promotion Strategy 2020-24*	One window for investment	*Support for SEZ's instutuional settings*	Trade policy improvement Strengthening of capacity for elaborating trade policy	*Strengthening of TDAP's implementation capacity*		*Strengthening of quality control mechanism for export*	Facilitation of transit cargos					
		Support for implementing textile policy	Guarantee for loans to SMEs	*Strengthening of BOI's function*			*Support for merger of ministries*									
Policies supported by Multilateral Institutions	Provin-cial Govern-ment				Automation of issuance of construction permit Provincial electronic One Stop Shop											
					Business process reengineering											
Policies supported bilaterally		*Support for elaborating Provincial Industry Policy(Punjab, Sindh)*		*Support for elaborating investment policy(Sindh)*	*Mapping of investment related regulations and streamlining (Punjab)*	*Support for investment promotion for SEZ(Punjab) Strengthening of SEZA, establishing One Window for SEZ(Sindh)*										

WB Pakistan Goes Global
WB Ease of Doing Business
WB Pakistan Raises Revenue
ADB Trade and Competitiveness
WB Neighborhood Improvement Project
Competitive and Livable City of Karachi
USAID
Candidates for JICA support

(Source: WB and ADB documents, field survey)

Chapter 3

3. Summary of Survey and Issues and Discussion on Possible Areas for JICA's Support

3.1. Policy Matrix

Based on the result of this survey, a policy matrix, composed of the issues related to investment and business environment as well as the necessary measures to deal with them, is produced. In order to comprehensively cover and structure the issues related to investment and business environment, the policy areas were selected by referring to those described in OECD Policy Framework for Investment. It also contains the possible areas of JICA's support.

The remaining part of this section explains the thinking behind leading to the proposal of possible support by JICA described in the policy matrix, except the items related to industrial workforce development and investment in infrastructure.

Given the current situation of the manufacturing industry in Pakistan and the industry development measures in the other countries, in order to develop industry, among others the manufacturing industry, it is considered essential to upgrade the technical skills of the domestic manufacturing industry by tying up with foreign investors. From this perspective, the survey team focused on the improvement of investment environment from the viewpoint of foreign companies. The survey team also considers SEZ as one of the elements of investment environment and as an appropriate venue for attracting foreign companies. The combination of all those are the main elements of the survey team's paradigm. Since the Government of Pakistan currently puts its policy emphasis on export promotion, the policy issue from the perspective of the above-mentioned paradigm is how to invite the foreign companies, which are expected to contribute the development of the domestic export-oriented industry, to SEZ. In dealing with this issue, the combination of the following policies is needed: an investment promotion policy for attracting foreign companies, an industrial policy to develop the domestic industries which will be a counterpart of foreign companies, and a trade policy for export promotion. Viewed the result of this survey from the above-mentioned paradigm, what appeared was the lack of coordination in terms of policy and its implementation, not only among the federal government ministries but also between federal and provincial governments. It was inferred that PGG of WB intended to materialize the coordination of the policies among MOCT, MOIP and BOI by physically merging those ministries. However, the PID published in February 2020 gave the impression that the main point of policy focus for the government was shifted to export promotion and strengthening of MOCT. The policy coordination mechanism with investment promotion and industrial policy was also changed and mandated to PGG Board, and eventually, PGG was cancelled. Judging from this, it became difficult to foresee whether the orientation toward the comprehensive export promotion policy which takes both export-oriented investment promotion and industrial development into consideration is maintained. Since the policies for investment promotion and industry development are not thoroughly supported by the multilateral institutions, there is a possibility for JICA to provide support for those areas. On the other hand, the key for implementing those policies is the inter-ministerial cooperation. The cancellation of PGG symbolizes the difficulty in materializing it, while it also suggests the inherent limitation of supporting individual policy. Therefore, it is considered that focusing its support on technical issues rather than on the heart of policy making and arrangement to effectively implement it would be more productive for the support to be provided by JICA.

Within those two authorities of the policies, BOI, being in charge of investment promotion, has been making a lot of efforts to improve Pakistani ranking in EODB. As an extension to this effort, the needs to streamline the investment related regulations arose and this is expected to be handled in sequential order starting from the federal level with the support from WB despite cancellation of PGG. Apart from that WB support, Punjab intends to implement the same streamlining effort by itself and is about to start it. Since no other development partners manifested their willingness to support this effort, the survey team considers that it is possible for JICA to support this effort from the viewpoint of reviewing and strengthening the existing functions. On the other hand, as for the investment promotion policy, no policy has been put into place after Investment Policy 2013, which has expired in 2017. While WB supported Investment Promotion Strategy FY2020-2024, it is yet to be approved. In addition, it is not clear whether BOI conducted an ex-post evaluation of the results of implementation of the Investment Policy 2013. Given those circumstances, the survey team considers that BOI is not properly functioning as an investment promotion agency compared with the international standard. Based on the fact that the proposed Investment Promotion Strategy FY2020-2024 refers to reorganization and change of corporate culture, it deemed necessary to provide support which will comprehensively strengthen the entire organization, such as functional strengthening of the units for investment promotion as well as the capability of its staff, and the strengthening of BOI's authority within the federal government, as seen in the case of Thailand's BOI. In addition, investment cannot only be promoted by BOI itself but also needs coordinated effort with the other ministries. For that to happen, it is necessary for BOI to lead the activity with a strong will and continuous effort. The survey team evaluates that, in order to convert BOI into such an organization, it requires a strong commitment by the Government of Pakistan and everlasting effort of the related stakeholders to achieve that objective. Support for materializing such process requires coordination within the Government of Pakistan and since it targets the current officials of BOI, it is considered difficult to achieve the objective within a short period. In addition, it deems to contain quite high risk of not achieving the objective under the current employment system of public officials in Pakistan.

On the other hand, such activities as the reviewing and strengthening of the specific individual function of promotional activities to attract investment, including SEZ system improvement, may be easier to deal with and their results are expected to be sustained. Those types of support are, therefore, considered to be more appropriate for JICA's support. Among the provinces which are object of this survey, Punjab puts the utilization of SEZ including industrial parks in the first core activity in its provincial level industrial policy, while in Sindh, the number of SEZ is to be increased. It is considered that the importance of SEZ is high in their industrial policy. Judging from the above, the survey team concludes the possibilities for JICA's support as follows: streamlining the investment related regulation to be conducted by PBIT in Punjab, investment promotion activities to be conducted by BOI of the federal government and improvement of SEZ mechanism at the provincial level.

Based on the paradigm of this survey, industrial policy is important in terms of linkage with investment and trade policies, given the export promotion policy of the Government of Pakistan. It does have a meaning in the sense that the government requires to develop an export-oriented industrial policy by specifying what industry to target and how such industry is to be developed by matching with foreign company. Those led to the conclusion that the possible support for elaborating industrial policy to be proposed in this survey focuses on this perspective among the other elements constituting an industrial policy. The manufacturing sector occupies around 25% of GDP of Pakistan, which is a half of the services sector; services sector counts about half of GDP. That proportion had increased only slightly since the 1970s[112]. Within the manufacturing sector, textile has the biggest share with 25% of GDP, followed by food and beverage with 23%, industrial medicine with 15% and metal and non-metal with 13%.[113] On the other hand, 90% of the existing enterprises in Pakistan are SMEs[114]. From the viewpoint of developing export-oriented domestic industry intended by the Government of Pakistan, it is appropriate to target the industries whose share in GDP are more than 10% when the government elaborates an industrial policy aiming to develop domestic manufacturing industry to become the counterparts of foreign companies. Also, this survey focuses on the investment policy surrounding the Japanese companies as foreign investor. The answers of the survey conducted among the Japanese companies suggested that they, including the automobile industry, invested in Pakistan by valuing the growth potential of the domestic market. While continuing to put its hands on to the automobile policy is important from the point of view of the Japanese industries' interest, the current biggest issue for the automobile industry is a lackluster market after the tax increase in 2019. Solution to this problem requires coordination between MOIP and FBR on the implementation of automobile industry policy, therefore, it does not directly correspond to this survey's context which is based on the policy of industry development related to the export

[112] "Revitalizing Industrial Growth in Pakistan: Trade, Infrastructure and Environmental Performance"

[113] Ibid.

[114] https://smepakistan.net/about-smes/economic-significance/ (accessed on April 24, 2020)

promotion of the Government of Pakistan. The required next step for expanding the production of automobile is to penetrate foreign parts manufacturer into Pakistan. For that, BOI and MOIP needs to elaborate investment promotion measures by coordinating among each other, but this requires a continuous expansion of domestic automobile market as a prerequisite. Taking those into consideration, it is not appropriate to include the support for developing automobile industry at this time, given consistency with the paradigm of this survey to back the Pakistani government policy. On the other hand, it is considered possible to include JICA's support to such industrial policy that addresses to the entire industry for implanting export orientation focus or to develop the other export-oriented industries than textile sector, if the Government of Pakistan so desires. However, the survey team did not receive any such request from MOIP to elaborate policy for developing a specific industry during the survey. Therefore, the survey team does not propose any possible support plan on the industry development policy in accordance with the paradigm of survey.

Taking all above mentioned into account, the survey team concludes the followings as the appropriate options of support of JICA from the viewpoint of the survey paradigm, of likelihood of accomplishing the objective and of appropriate size of the scope of works; those are promotional activity for investment for promoting foreign direct investment and improvement of SEZ system at provincial level with consultation with the federal level.

As the survey also seeks the opportunity to collaborate with multilateral institutions, the survey team proposes the capability enhancement of quality inspection institutions as candidates; it supplements policy actions under ADB program loan. The survey team also had nominated capacity enhancement of TDAP to supplement PGG under the assumption that the WB loan for PGG would be provided. Due to cancellation of the loan for PGG, there is no prospect for collaboration between JICA and WB through PGG. However, all activities such as branding campaign and establishment of export intelligence system, including one stop shop, are essential elements for enhancing export promotion. On the other hand, it is considered that those measures are implementable only with the reform in MOCT as back-up. Therefore, if JICA plans to provide support to TDAP, it is necessary to examine whether there is a need to upgrade its current support method, which is a dispatching of expert, through the discussion with MOCT and TDAP.

<table>
<tr><td colspan="2">OECD Policy Framework for Investment</td><td>Policy issues</td><td>Necessary measures</td><td>Possible support measures by JICA</td></tr>
<tr><td rowspan="4">Investment promotion and facilitation</td><td rowspan="4">Promotion and facilitation of investment, taking into consideration of correcting market failure and of effective utilization of strong points of investment environment. For example;
✓ Rationalization of system and procedure, reduction of investment costs;
✓ Furtherance of linkage between FDI and domestic industry;
✓ Participation in a global value chain through investment.
Concreate measures;
✓ Enhancement of collaboration among the related institutions for investment promotion;
✓ Establishment of effective One Window Facility (hereinafter, “OWF”);
✓ Development of Special Economic Zones (SEZs) and industrial clusters, etc.</td><td colspan="3">Investment Policy</td></tr>
<tr><td>(Federal)
• Absence of investment policy covering after 2018.
• Insufficient perception on the importance of FDI for export industry development; shallow linkage of targeted industry development with export promotion.
• Unclear regulatory framework on investment.</td><td>(Federal)
• Establishment of system which develops the targeted industry identified under the export promotion strategy and promotes such investment (promotion of collaboration among the ministries to elaborate, coordinate and implement the mutually related policies, such as elaboration of coherent policy for providing incentives for the targeted industry)
• Identifying the entire picture of investment related regulations and providing its explanation in the manner easy to understand for the investors</td><td>(Federal)
• PGG Board to be set up by WB’s PGG was intended to coordinate industry development, investment and trade policies in a consistent manner. It is considered that this effort requires a tremendous effort. While a support to complement the effort to enhance PGG Board’s function from the sides of MOIP and BOI can be an option, such support, even if PGG is revived, is usually given in the form of conditionality under a program lending. Therefore, it is necessary to examine whether it is possible to provide such support with JICA’s existing technical assistance scheme.</td></tr>
<tr><td colspan="3">Investment promotion strategy</td></tr>
<tr><td>(Federal)
• Yet-to-be-approved investment promotion strategy.
• Insufficient promotional activities for investment promotion.
• Unclear facilitation mechanism of investment viewed from the investors.
• Absence of authority and of implementation mechanism sufficiently enough to promote investment of BOI over the other approving and licensing authorities.
• Absence of coordination and consistency in investment promotion policy and in investment facilitation system (such as development of industrial parks and SEZs, enforcement in providing incentives) in country.
• Absence of integrated management mechanism for SEZ development and administration at the federal BOI.
• Unclear division of roles between the federal and provincial governments.
(Province)
• Absence of investment strategy (Punjab has its own Investment Policy Statement).
• Absence of OWF (=One Stop Shop) for investment approval; absence of sufficient authority and implementation mechanism of provincial investment authority over the other provincial approving and licensing authorities.
• Absence of capability to function SEZ in a completely satisfactory manner for the investors within the provincial jurisdiction.</td><td>(Federal)
• Identification of approval processes required under the regulations related to investment promotion and administration of BOI-led regulatory process (operation of OWF (=One Stop Shop)).
• Establishment of the system in BOI needed to pursue the above-mentioned function and enhancement of capability of its staff to perform it.
• Strengthening of capability of the unit in charge in BOI to develop and administer SEZ (including the upgrading of its status of BOI for enables it to issue compulsory orders toward the federal agencies).
• Elaboration of development strategy of industrial parks and SEZs linked with industry development policy.
(Province)
• Elaboration and establishment of implementation system of the province’s own investment strategy linked with its own development strategy within the framework of federal policy.
• Elaboration of each province’s investment promotion measures and establishment of its implementation system.
• Enhancement of SEZ administration system by SEZ Authority.
• Introduction of OWF (=One Stop Shop) to the investment procedure of SEZs.</td><td>(Federal)
• Streamlining of regulatory framework is to be implemented by WB (PRMI/BBRI).
• Support for the promotional activities for attracting investment (technical cooperation project).
• Support for enhancing the capability of the unit in charge of SEZ development and administration in BOI (Reexamination of the existing system, system enhancement, clarification of issues necessitating the coordination among the federal ministries and with provincial departments, and establishment of coordination mechanism) (technical cooperation for development planning)
(Province)
• While support for elaborating provincial investment strategy can be possible, such effort at provincial level is to be built on the federal framework; therefore, the appropriate timing of implementation is after the works on general framework at the federal level progresses and it becomes available.
• Support for streamlining of regulatory framework of Punjab. (technical cooperation project, need to match the implementation timing of Punjab)
• Support for establishing the system of SEZ development and administration by SEZ Authority. (especially Sindh) (technical cooperation for development planning)
• Support to introduce One Stop Shop in SEZ. (technical cooperation project)</td></tr>
</table>

Trade policy	Trade policy for expanding the opportunities for benefiting from economy of scale, for accelerating Pakistani integration into international supply chain and for improving the productivity and return on investment.	(Federal) • Simplistic recognition of trade policy being equal to conclusions of FTA. • Imposition of high tariff on imported raw materials and intermediate goods. • Absence of marketing of the destination markets of export. • Ill-preparedness of quality inspection system for export goods to comply with international quality standard. • Absence of perception related to the necessity of linking industry development and export promotion. • Insufficient capability of TDAP. • Insufficient support measures for the domestic export-oriented firms. • Simplification and acceleration of customs procedure.	(Federal) • Elaboration and establishment of implementation system of trade policy linked with industry and investment policies. • Reexamining of import tariff. • Marketing for the export of domestically produced product. • Production of export goods with competitiveness in the international market. • Introduction of National Single Window in the custom clearance procedure. • Examination of EDF utilization measures linked with export promotion measures.	(Federal) • Strengthening of capability of TDAP. (technical cooperation project) • Enhancement of capability of inspection institutions conducting quality control with supply of equipment. (technical cooperation project) • ADB, USAID and IFC are supporting OWF (=One Stop Shop) for custom clearance. • Support for functional reform of EDF. (technical cooperation project)
Tax policy	Solid tax policy to back up investor friendly investment environment; provision of incentive which contributes positively to the investment decision of investors.	(Federal) • Unexpected and frequent change of tax policy. • Difficulty in grasping changes and totality of legislation due to SRO. • Tax policy with insufficient coverage and tax authority's tendency to collect tax from easy-to-tax entity. • Gap between the legislation and its practices in implementation (Tax- and duty-free measures in SEZ). (Province) • Capture of taxable objects. • Streamlining of tax offices in line with tax system reform.	(Federal) • Identification of the entire tax system and its thorough explanation to the foreigners. • Prohibition of issuance of SRO without approval by the parliament. (Province) • Capture of taxable objects • Streamlining of tax offices in line with the streamlining of tax system and making it known to the foreigners.	(Federal) • This policy area is covered by IMF's EFF and WB's PRRP and RISE. • Possibility exists for capability enhancement of the tax officers for establishing tax system, while the program needs to assure consistency with the orientation suggested by the multilateral institutions (however, the outcome will be limited unless the public servant system is not changed). (training in Japan)
Developing human resources for investment	Policy to train or keep the skilled human resources or to allocate human resources effectively	(Federal) • Establishment of operational methodology of major key programs（NVQF, CBT-A and Apprenticeship） • Lack of TVET strategies for specific industry sectors • Stagnant employment rate of female graduates after training courses (Province) • Deficient industrial human resources policy（Sindh） • Scarce training resources (machineries, trainers, budget, etc.) • Duplication of training resources among organizations (Punjab) • Insufficient training capacity of TVET institutes under TEVTAs • Ineffective coordination between private companies and TVET institutes	(Federal) • Enhancement of operation of CBT-A courses at high levels (four and five) in NVQF • Coordination among industrial promotion policy, Sector Skills Councils, The Federation of Pakistan Chamber of Commerce & Industry and NAVTTC • Identification of the potential industry for female employment and the support for employment enhancement (Province) • Enactment of industrial human resources development (Sindh) • Coordination between Public and private TVET institutions and shared use of the machineries (Punjab) • Capacity development of TVET institutes under TEVTAs	(Federal) • Assistance on establishing the implementation structure and on introduction of CBT-A courses at level four and five of NVQF (Dispatch of Experts) • Support for establishment of introduction system of apprenticeship to SMEs (Dispatch of Experts) (Province) • Assistance on enactment of industrial human resources development(Dispatch of Experts) • Strengthen TVET functions for particular industrial sectors/develop capacity of TVET institutes under TEVTAs (Technical Cooperation Projects) • Train female engineers and managements in textile industry (Technical Cooperation Projects) • Strengthen coordination among public/private TVET institutes and industry (Technical Cooperation Projects)
Investment in Infrastructure	Infrastructure development to comply with issues that hinder FDI. This study focused on "infrastructure	• In Pakistan, infrastructure development is basically the responsibility, authority, and control of each province, but the development and management of ports is handled by	• Establishment of master plan, which is the basis of transportation infrastructure development • Implementation of Karachi Port Logistics Improvement	Described in 2.4.12 "Possible JICA support for Logistics Improvement in Karachi"

	related to port logistics in Karachi."	MOMA and its government agencies, KPT and PQA. For the development and management of some national roads such as expressways that cross the states, MoC and its governmental agency, NHA, are responsible. • Since both the federal government and the provincial governments have severe financial constraints, they are focusing on the implementation of large-scale projects based on the PPP (Public Private Partnership) scheme. • There is no master plan and guideline for development of transportation infrastructure with reliable information on demand forecast (the information has not been reviewed for a long time). • It takes too much time for infrastructure development from planning to completion. • Issues for the logistics at Karachi Port, such as traffic congestion.	Project	
Financing Investment	Effective policy designed for finance sector to provide stable access to financing environment to the companies.	(Federal) • Delay in and difficulty for the payment of services fees. • Access to finance for SMEs.	(Federal) • Payment of foreign exchange depending on the availability of foreign reserve. • Change of mind set of the central bank and government officers who concentrate their mandate on accumulating foreign reserve. (Province) • Improvement of access to financing for the investors. • Credit guarantee on the loan to the investors.	(Federal) • This policy area is under the coverage of IMF program (revision of foreign exchange manual is on-going). (Province) • The resources for improving access to financing is to be provided by Yen loan, therefore such support is less likely in immediate future.
Public governance	Public sector ethicality and quality of regulation which are trusted by the investors; systems and procedures with high quality and efficiency.	(Federal) • Complicated regulatory environment with three tiers; federal, provincial and local levels. • Duplication of regulations among federal, provincial and local levels. • Investment regulations system difficult to understand by the investors.	(Federal) • Establishment of an agreement across the entire federal and provincial governments on the investment promotion strategy in a broad sense which includes industry and trade policies. • Establishment of implementation system with defined individual role, with securing of a collaborative system and with well-functioning implementation mechanism of investment promotion strategy, based on the above-mentioned agreement. • Elaboration and implementation of the investment promotion strategy based on the above-mentioned agreement. • Granting BOI an authority superseding to the approving and licensing ministries and exercise of such authority in a concrete manner.	(Federal) • For strengthening the function of BOI, comprehensive approach under a strong initiative within the Pakistani government is needed; support for such activity goes beyond the framework of a bilateral assistance. (refer to item 1. above) • Possibility exists in the support for the implementation of investment promotion measures and for parts of systemic reform of SEZ. (for SEZ system improvement, refer to item 2.).

			• Identification of regulatory environment necessary for investment promotion, its reexamination and presentation in the manner easy to understand by the investors. • Strengthening of the function, organization and authority of BOI within the government in view of investment promotion. • Clarification on the division of labor between BOIs at federal and provincial levels and its presentation to the investors.	

Domestic industry development policy		
Policy issues	Necessary measures	Possible support measures by JICA
(Federal) • Absence of industry development policy in line with national development vision. (Province) • Elaboration or implementation of provincial level industry development policy.	(Federal) • Elaboration of industrial policy which contains matching of domestic industries with FDI as policy measure (elaboration of development policy for diversifying industry other than textile). • Strengthening of policy elaboration capability of MOIP, including the collaboration with the other ministries. • Elaboration of automobile industry development policy for the next term. (Province) • Implementation of industry policy (industry development policy is under elaboration in Sindh)	(Federal) • The Japanese companies intend to increase their domestic sales. Therefore, the industry development policy having its sights set on the Japanese industries has less affinity with the policy paradigm of this survey which is to develop export oriented domestic industry by leveraging FDI. • The major issue of the automobile industry is demand creation and expansion of market size. Since the cause of demand plunging is enhancement of taxation, policy coordination between MOIP and MOF is necessary. It is appropriate to raise this issue from the Government of Japan at the Japan-Pakistan Public Private Dialogue and ask the Pakistani side to take necessary measures. Therefore, this subject is considered not appropriate as an object of development assistance. • It is possible to support for developing the automobile support industry. However, such support entails to level up individual firms across the manufacturing sector, thus unrealistic. Alternative way is to attract the foreign support industries. For that to happen, it is essential to expand market size while equally important is the measures for attracting investment. (Province) • Among the policy measures described in Industry Policy 2018 of Punjab, the sole policy making approaches to the industry per se is the support for SMEs, while Punjab had already established a financing scheme for SMEs. Since the possible form of support for SMEs is to provide financial resources, such support cannot be included as candidate given the difficulty in extending Yen Loan.

3.2. Consideration of Each Issues

3.2.1. Investment & Business Environment

(1) Investment Promotion & Facilitation

①　Investment Policy & Promotion Strategy

①－１　Investment Policy

[Result of Survey and Issues]

Focal federal organization in charge of investment is BOI under prime minister's office, which is responsible for legislation of investment related laws and procedures. At the time of field survey, merger of 3 ministries/organization related to investment and industry development -MOCT, MOIP and BOI- is reported to be discussed. In order this merger to be materialized, harmonization of each functions, organization, post allocation and rationalization are required which would need certain time. Generally speaking, it was observed coordination and smooth communications among investment related ministries/organization needs to be strengthened.

As for other donners support, it is reported that unification of information systems in MOCT and MOIP was planned under PGG by WB.

It is crucial to strengthen BOI capability for investment promotion policy and its implementation which should be designated in line with prioritize important industry sectors aiming for domestic industry development and export industry development and with linkage between FDI and these sectors. Although in PGG, it was planned to support to harmonize industry policy, investment policy and trade policy, further support and efforts seems to be required to achieve this harmonization in reality.

①－２　Investment Promotion Strategy

[Result of Survey and Issues]

BOI is now drafting a new Investment Promotion Strategy FY2020-2024 in cooperation with WB. In this strategy, 5 prioritized sectors and needs for strengthening of federal BOI and provincial IPA are referred. It will be finalized in a few months after consultation with stake holders.

In provincial level, Investment Policy Statement of the Government of the Province of Punjab in Pakistan is published in Punjab, in which action plans for modernizing and expanding of investment promotion strategy, proactive investment promotion by PBIT and effort for archiving all incentives are mentioned. On the other hand, there is no such investment policy or strategy existing in Sindh. It is informed to our research team that they started to draft it.

Overall it is observed that non finalized situation of new investment promotion strategy in federal level and lack of existence of investment policy in certain provinces make promotion activities sluggish in the end. Therefore, it is necessary to draft these policies/strategies and to establish their implementation system immediately. Also, harmonization and coordination between policy/strategy of federal and provinces are required.

[Consideration on Possible Support by JICA]

In order to consider JICA support to BOI as a counterpart, it is necessary to watch and follow carefully on development in merger of MOCT, MOIP and BOI. Functions of each ministries/organization must be maintained even after merger, such as BOI's function as IPA. In order to support to strengthen the function of Pakistan Government and BOI for their investment promotion capability, it is necessary to educate them to understand the importance of equal treatment for existing FDI to new FDI. It seems however, not easy under current bureaucratic system and frequent position changes.

It is understood that the multilateral institutions' support activities pay less attention to the support for investment promotion. While the viewpoint of enhancing competitiveness of domestic industry to promote export is still maintained, for that to happen, it is essential for domestic industry to tie-up with FDI and to accelerate FDI, strengthening of the function of BOI is needed. Since it is considered difficult to strengthen the entire function of BOI at once, the proposed support focuses on partially enhancing the functions of an investment promotion agency. The followings are the contents of the proposed support program.

<u>Support for promotional activities to attract investment</u>

- ✓ Streamlining of investment environment (selection of industry to be attracted in line with industrial development policy, review of incentives for industry attraction);
- ✓ Selection of industry to be attracted (market analysis of specific industry/company, domestic demand analysis, analysis of appealing points of domestic market as investment destination, status of FTA with the countries of export destination);
- ✓ Promotional activities (planning to attract specific industry/company, coordination with the other ministries for implementation of promotional activities, production of promotional materials);
- ✓ Corresponding to the consultations for investment (recording of proposed deals, grasping the investment tendency);
- ✓ Establishing the follow-up mechanism for materialized investments;

② Coordination among Related Ministries and Organizations

[Result of Survey and Issues]

For investment regulation, procedures, service for investors in Pakistan, various ministries/ organizations are involved in all federal, provincial and local government levels. Originally BOI was expected to make investment promotion activities, to supervise, manage construction and operation of SEZs, as investment site, and to offer aftercare service to investors. As for coordination among relative ministries/organizations, WB in its PGG planned to support for establishment of PGG Board which would aim for functioning these coordination systems and for establishment of feedback system from private sector.

As a conclusion, lack of BOI's coordination function and lack of harmonization among industrial/trade/investment policies are considered as major issues.

[Consideration on Possible Support by JICA]

It is considered indispensable to strengthen BOI's coordination capability for investment promotion and for improvement of business environment in Pakistan. In particular, promotion strategy and action for priority sectors in close coordination with MOIP etc. and find out/ secure land of SEZ as appropriate investment site and strengthening of coordination system of SEZ management among relative ministries/organizations are suggested. The specific support measures and methods need further examination in light of cancellation of WB financing for PGG as well as subsequent movement of the Government of Pakistan and WB.

③ One Window Facility (OWF)

[Result of Survey and Issues]

As a service for investors, OWF in Pakistan supposes to offer application service for visa, security clearance, airport entry pass and so on through BOI website. However, according to hearing from Japanese companies, BOI website service is just for registration of application and in fact investors have to go directly to separate relative office with necessary documents.

To achieve real and useful OWF, various authorizations for investment procedure have to be concentrated and assigned to BOI from other relative federal/provincial authorities which enable BOI to handle all investment procedures in one window. It is, however, on truck.

Under this situation, BOI acknowledges themselves as facilitator of procedures for investors in coordination with federal/provincial authorities. Many investors, particularly Japanese, complain that even this facilitation service function is far from satisfaction due to lack of information, knowledge within BOI.

As for supports from other donners in this field, WB's PGG offers support for OWF on business related procedure and establishment of e-payment system. The same WB offers, in its KNIP and CLICK programs, support for establishment of electronic OWF, rationalization and harmonization of business-related procedures.

[Consideration on Possible Support by JICA]

Establishment of OWF is mainly initiated by WB, which makes business related procedures by on line systems, starting with federal level. Through our hearing from related ministries/ organization about its current progress, there are certain issues and needs for JICA support. However, it needs to be well coordinated and adjusted with existing support by other donners, particularly in case of federal level support.

④ Special Economic Zone (SEZ)

④－１ SEZ System and Organization of SEZs

[Result of Survey and Issues]

SEZ Act (2012) stipulates that development of SEZs shall be initiated by each province. SEZ development plan shall be examined and approved by provincial SEZ Authority which shall be finally approved by BOA which administration is undertaken by federal BOI. SEZ Committee is established in each province which handles applications from investors and various decision makings regarding SEZ. SEZs developers are categorized into three types, one is a national NIP under MOIP, second is province owned developers and third is private sector developers mainly under PPP scheme. Issues are seemed to remain on SEZs developed by private sector, such as how SEZ Authority and other governmental organizations involve, supervise and support them.

In case of Punjab, SEZ Authority is established under PBIT and FIEDMC, PIEDMC exist as provincial developers. In Sindh, SEZ Authority is established under Investment Department of Sindh Provincial Government and SEZMC exists as province owned developer, which is also functioning to supervise all SEZs in Sindh, including ones converted from national industrial park as well as functioning as administrative office for SEZ Authority.

In Pakistan, it has been observed that unified system of SEZ development, management through federal government to provinces does not smoothly function. It results to the issues of non-compliant infrastructures or tax incentives entitled to SEZ resident companies. In federal level, it is necessary to strengthen BOI’s authorization and capabilities.

According to our hearing from SEZMC in Sindh, SEZ Authority in Sindh, although it has a high-level authorization as a committee consisting of representative from provincial government, developer, and representative from private sector, does not function well due to no permanent secretarial office setting. In provincial level, there is no sufficient capability to properly develop and manage SEZs.

④－２ Infrastructures for SEZs

[Result of Survey and Issues]

In Pakistan, one of main reasons for non-compliant infrastructure in SEZs is that basic infrastructure-electric power, gas and water supply and distribution to SEZ site becomes under federal responsibility, and out of province or developers' control. As it seems difficult to improve the situation only if province or developer negotiate with federal public company or utilities, BOI's facilitation might be necessary.

Shortage of developer's capital for in site infrastructure such as road or water treatment is also an issue. Typically, in Punjab M3 SEZ, a Japanese resident company reported, due to lack of capability of FIEDMC, the company was imposed to start even land embankment at their cost as well as power and water, although it was stipulated in residential contract as FIEDMC's responsibility. The similar issues were reported in Bin Qasim SEZ in Sindh.

④－3 One Window Service within SEZs

[Result of Survey and Issues]

Although IPA and developers in each province recognize necessity for setting up OWF for SEZ, however it does not exist currently. Establishment of OWF in SEZs requires its actual framework, implementing party, and system for authorization and functions. As circumstance and organization system in each province differs, BOI is suggested to show common framework and system.

[Consideration on Possible Support by JICA]

SEZ system in total does not seem functioning sufficiently, meanwhile other development partners' supports for SEZ have not been observed so far. Therefore, JICA support in this field is considered valuable. We suggest JICA support which focuses on framework of SEZ development and management feasible for FDI. Each actual item deemed as JICA support are mentioned as follows.

Support for capacity enhancement of the BOI unit in charge of SEZ development and administration

- ✓ Review of the existing institutional settings, extraction of issues;
- ✓ Elaboration of SEZ development guidelines (crystallizing the required conditions for obtaining SEZ status, elaboration of development framework and procedures);
- ✓ Coordination with various stakeholders for off-site infrastructure development, elaboration of measures to strengthen the authority of BOI in this regard;
- ✓ Clarification of the issues which needs coordination between the federal and provincial levels, institutionalizing coordination mechanism;
- ✓ Elaboration of SOPs with the federal level approval procedures, agreeing SOPs with the related ministries and establishing a mechanism of collaboration;

- ✓ Discussion with the related authorities of federal level, including FBR, on thoroughly enforcing the provision of incentives to the unit investors.

<u>Support for establishing the system of SEZ development and administration by SEZ Authority (Especially Sindh)</u>

The chairman of SEZMC requested the survey team during the survey to support establishing and strengthening the function of SEZ Authority, as the separation of roles between SEZMC as developer and SEZ Authority which is a regulatory authority is necessary. The proposed support aims to establish the administrative function of SEZ Authority as the regulatory body of SEZ development and administration in Sindh.

- ✓ Review of the current mechanism of SEZ development, extraction of issues;
- ✓ Elaboration of provincial SEZ rules;
- ✓ Establishing the organizational setting in line with the SEZ Authority’s function;
- ✓ Establishing the workflow of SEZ development, elaboration of SOP and manuals;
- ✓ Elaboration of SOP for various approvals, establishment of One Stop Shop;
- ✓ Establishment of organizational setting and budget proposal;
- ✓ Assuring the coherence between the industry development and investment plans of the province and SEZ development;
- ✓ Support for the approval process of SEZ development applications;
- ✓ Establishment of the mechanism of collaboration with the other departments;
- ✓ Discussion with the related authorities of federal level, including FBR, on thoroughly enforcing the provision of incentives to the unit investors.

(2) Trade Policy

① Export Development Organization

[Result of Survey and Issues]

Export development is handled under MOCT responsibility in federal government. MOCT has drafted a new STPF which is expected to be finalized in March 2020. STPF emphasizes assured budget allocation, actual action plan and harmony with NTP. Under MOCT, TDAP undertakes various export promotion activities. As for other donners’ support, WB in its PGG planned to support for building up a country brand, promotion for participation in international trade fair, establishment of export intelligence platform/one stop shop for export, strengthening of SMEDA and Export Readiness Program.

According to our hearing from JICA Advisor for TDAP, it is essential to strengthen the function of TDAP on its export promotion. In particular, strengthening of capability for overseas export market and expansion of support for domestic export companies are considered as major issues.

As a part of support function for export companies, EDF was established in Pakistan. Its funding source is Export Development Surcharge imposed to all exporters. EDF aims to financially support export-oriented projects proposed by governmental organization such as TDAP and export association of each industry. According to our hearing from Executive Director of EDF, currently EDF becomes just funding organization, due to lack of capability to find out, evaluate and monitor good/efficient projects proactively. For instance, monitoring each project is totally undertaken by TDAP on its behalf. Now it is starting restructuring organization to strengthen the required functions in many ways, such as recruiting more capable officers, making manuals etc.

[Consideration on Possible Support by JICA]

<u>Support for strengthening of the function of TDAP</u>

WB's PGG included within its scope of work the items listed below as capacity enhancement of TDAP. Although the implementation of such project scope at TDAP were planned to be synchronized with the implementation of PGG at MOCT, such item as establishing OSS system for export, exploring export market, and elaborating export promotion strategy falls into the scope of work of TDAP. Therefore, it is judged implementable by TDAP by itself. According to WB document, the evaluation of TDAP by ITC is below average, therefore, it is without dispute for TDAP to need to strengthen its capability. It is inferred that the improvement of organizational capacity enhancement of TDAP requires not the improvement in individual activity but bottom-up overhaul of entire institutional capacity. Therefore, a proposal of expanding its activity from the current method of support, which is to dispatch an expert, to introduce project type assistance may continue to be an option. Consequently, it is proposed that the specific contents of the support, including whether or not to continue the current support method, are to be discussed and decided with MOCT and TDAP.

- ✓ Support for elaborating bland campaign strategy of Pakistan;
- ✓ Support for establishing OSS system for export;
- ✓ Support for exploring export markets and for elaborating the strategy to participate in trade fairs;
- ✓ Support for elaborating export promotion strategy;
- ✓ Reorganization and strengthening of staff capability related to the above.

<u>Support for functional reform of EDF</u>

The field survey identified EDF's needs to step up the export promotion projects with good quality. The proposed support reviews the current program and reframe the activities and organizational settings from the viewpoint of being a part of export promotion activities of which is an important policy of government and by taking into consideration of the MOCT policy and of the coordination with the other relevant institutions. It also supports to improve its communication to the industrialists.

- ✓ Review of the existing activities (including the measurement of effectiveness on the export promotion);
- ✓ Ensuring the consistency with the export promotion policy of MOCT;
- ✓ Strengthening the mechanism of collaboration with TDAP and SMEDA;
- ✓ Elaboration of criteria for selecting support object and for administration;
- ✓ Establishment of ex-post evaluation mechanism for support;
- ✓ Improvement in approach to the targeted firms for support.

② Quality & Standard of Export Products

[Result of Survey and Issues]

In order to promote export, it is necessary for Pakistan product to obtain international standard and therefore necessary to strengthen capability of each company's quality management. Currently National Accreditation Council (hereafter "NAC") exists in Pakistan and quality check is undertaken by individual institutions under NAC supervision. However, capability of these institutions seems not sufficient. For this issue, ADB is now supporting for strengthening capability of NAC.

[Consideration on Possible Support by JICA]

Support for enhancing capability and for provision of inspection equipment to the quality control inspection institutions

While ADB supports PNAC, its support does not include its member institutions. The requirements of quality control vary as they are to comply with the quality which export market demands. Therefore, they are different from one export market to the other. The proposed support is to strengthen the quality inspection system targeting to increase the export to Japan. The specific targeted sectors include vegetables, animal products, food processing, surgical equipment and other manufacturing products. MOCT explains that those products' export to Japan are not growing due to the need for quality improvement.

- ✓ Assessment of quality inspection capability of the existing quality inspection institutions by focusing on the targeted industries;
- ✓ Elaboration and execution of a program for capability enhancement (including dispatching of experts, training in Japan and in the third country);
- ✓ Elaboration of procurement plan for the necessary equipment under the program above;
- ✓ Review of the standards of national quality control.

③ Trade Policy

[Result of Survey and Issues]

GSP+ obviously gives advantages for export to EU of Pakistan products, such as textile and leather products. For export to Japan, local exporters expect similar treatment, while Bangladesh enjoys its LDC (least developed country) status. It does not affect much on Japanese companies' operation which mostly trade in domestic market.

[Consideration on Possible Support by JICA]

As for trade policy, Pakistani main concern for Japan is to obtain favorite trade conditions such as lower duty tariff for Pakistan textile products which seems to be out of JICA support scope as a development cooperation agency.

(3) Tax Policy

① Strengthening & Efficiency of Taxation System

[Result of Survey and Issues]

According to our hearing from Japanese companies, frequent changes in taxation rate/rules and arbitrary imposition of tax are opined as main issues. Tax filers in Pakistan are reported less than 2 million against country population of 200 million. Overwhelming majority is non tax filer. Federal Government well recognize the increase of tax revenue is dispensable to manage fiscal deficit and public debts of the country. Due to weak and poor taxation base, however, Japanese and other foreign companies are targeted as easy and obedient tax payers to impose.

In this field, various supports have been offered by WB and IMF. In its EEF, IMF supports for taxation reform, tax policy and strengthening & rationalization of administrative framework, on the other hand, WB in its PRRP supports for automatic-data sharing between FBR and provinces, one time submission & payment of GST, establishment of on line trace and supervision system in major sectors, identification of tax payer, tax audit based on risk criteria, simplifying FBR tax collecting practice and review of FBR capability etc.

[Consideration on Possible Support by JICA]

Strengthening of tax collection system is a main subject of EEF of IMF and RISE and PRRP of WB, then various supports have been already offered and implemented. Therefore, it seems difficult to find out other expected field for JICA by its own, although partial support to complement other development partners will be considerable such as staff training.

<u>**Support for capability enhancement of the customs officers for tax reform**</u>

Tax reform per se is on-going under the WB financed PRRP. This proposal aims to supplement the tax reform supported by PRRP through the capability enhancement of the tax officers.

- ✓ Tax officers’ participation to collective tax training courses conducted in Japan.

To prevent further deterioration of macro economy, expansion of tax revenue base is considered as essential subject for Pakistan Government. Strengthening and increasing efficiency of tax collection system is needed to be implemented along with activation of domestic economy.

② Duty Tax Policy & System

[Result of Survey and Issues]

In view of export promotion, MOCT shows its policy toward zero level import duty tax for materials and basic components. Duty policy making is now assigned to MOCT from FBR. Presently finalization of duty tax rates in each item is in process under National Tariff Commission which MOCT chairs. Introduction of new NTP is reported to start from next fiscal year and rationalization of duty tax is expected to be achieved in 3~5 years.

High tax rate imposed on import materials and intermediate goods is claimed as one of major issues for investment environment in Pakistan. Therefore, the above new duty tax policy is in process initiated by MOCT. Actual implementation and monitoring its effect, which also require coordination with other relative ministries/bureaus such as FBR, need a strong leadership by prime minister to achieve.

In the field of this issue, ADB supports for adoption of new Duty Tariff Policy, transfer of authorization of policy making to MOCT from FBR and deduction/abolishment of regulated duty tax on certain items. Also, WB in its RISE supports for the same adoption of new NTP and transfer of power for policy making to MOCT from FBR as well as strengthening of function of National Tariff Commission.

[Consideration on Possible Support by JICA]

As mentioned above, various supports have been already given by WB and ADB. Basically, it is difficult for JICA to propose additional support in this field.

New NTP was already approved in July 2019, and rationalization/deduction of tariff in each item is in process. Further assistance might be needed the advices for decision on feasible rate in respective items. However, this type of support seems not appropriate for JICA as bilateral cooperation agency.

③ Taxation System (Corporate Income Tax, Sales Tax, Individual Income Tax, etc.)

[Result of Survey and Issues]

According to our hearing from Japanese companies, various issues were shown in taxation system in Pakistan, the following issues are in particular pointed out by several companies:

- ✓ In July 2019, an increase of commodity tax on automotive was introduced and imposed suddenly without any prior notice, which was attributed to radical decrease in sales of vehicles in domestic market.
- ✓ Incentives of corporate income tax exemption is not practiced as promised on SEZ resident companies. (Withholding import tax is not reimbursed.)

For various issues on taxation system, ADB is handing its support for reduction of corporate tax. On the other hand, WB in its RISE is handling deletion of special treatment and harmonization of commodity taxes, reduction of uncounted tax payers as well as checking withholding rules and analysis of effect of existing tax exemption in its PRRP.

[Consideration on Possible Support by JICA]

As mentioned above, various supports have been already given by WB and ADB. Basically, it is difficult for JICA to propose additional support in this field. Possible field for further assistance might be the advices for decision on feasible rate in respective items. However, this type of support seems not appropriate for JICA as bilateral cooperation agency.

As for arbitrary imposition of tax and lack of pre-announcement, it seems to be attributable to capability of FBR itself. Strengthening of FBR capability must be designated in different view of approach from environment/business improvement, such as management for public finance. As for non-practice of presumed tax exemption for SEZ resident companies, it seems to be attributable to SEZ system itself and coordination ability between BOI and FBR. Therefore, these issue can be handled in our proposed support in ④-3 above.

(4) Financial Policy

① Foreign Exchange Control

[Result of Survey and Issues]

Against the background of insufficient foreign currency reserves, difficulties and delays in payment of fees for services that do not involve the trade of goods, such as royalties, have become serious problems for Japanese companies. The problem is becoming more serious among companies, such as automobile manufacturers, whose technical support fees are high. Regarding the foreign exchange control of the Pakistan government, the IMF is working on improving and strengthening import restrictions and exchange restrictions at the EEF.

[Consideration on Possible Support by JICA]

The problem with royalty remittances is due to the lack of central bank approval. This seems to be due to the policy of the central bank, which reflects the situation of Pakistani current account and trade balance, not due to institutional problems and administrative capacity problems. Therefore, this issue is difficult to consider as a support area for JICA.

The increase in the cost of imported raw materials due to the sharp depreciation of exchange rates is also recognized as an issue for Japanese companies. However, it is considered difficult to work on this issue as a support field for development assistance. At present, the exchange rate has moved to a floating exchange rate system and the exchange rate is stable.

② Financing Environment

[Result of Survey and Issues]

Credit access for SMEs can be said to be an issue for industrial promotion in Pakistan. In light of this issue, Punjab is working to improve financial access for local SMEs, including expansion of microfinance. In the efforts of other development partners, ADB is supporting the establishment and operation of the Pakistan Export-Import Bank in order to improve the financing environment for export companies.

[Consideration on Possible Support by JICA]

The support for credit to SMEs is based on support measures. According to the information gathered in this study, the target of support may be Punjab. However, the SME loan scheme by the government has already been implemented in Punjab and it is necessary to confirm the need for additional support. Furthermore, although yen loans can be considered as a method of supporting credit to SMEs, it is currently difficult to provide yen loans in light of Pakistani financial problems.

(5) Governance in Public Sector

① Framework of Systems and Procedures

[Result of Survey and Issues]

Pakistani administration has a three-layer structure of federal, province, and local governments. In each of the three layers, various departments are in charge of public systems and procedures. In short, it is difficult for an investor to grasp all of them because the administrative structure is complicated and there are no documents that explain various procedures related to investment and explain them in an easy-to-understand manner at this point. BOI and provincial IPAs do not comprehensively understand all procedures related to investment and business. As a result, as an investor, it is difficult to know where and what to do when carrying out any procedure. In light of the above issues, the status of efforts at the federal and provincial levels is as follows.

Federal Government:

BOI is working on the PRMI/BBRI with support from PGG of WB. BOI, in cooperation with provincial and local governments, will working on ①mapping, ②analyzing, ③rationalizing and simplifying business-related procedures in all three layers (e.g. Abolishment of duplicated systems/ procedures), and ④making them online. While the loan for PGG was cancelled, PRMI/BBRI will continue to be implemented with financial support from WB.

Sindh:

WB's CLICK works on improving business-related systems and procedures. Although funding has already been provided from WB, a team of experts for project implementation has not been established yet. In addition, part of WB's KNIP has begun efforts to establish OSS and rationalize business-related permits and procedures by bringing business-related procedures online.

Punjab:

According to a field survey hearing, PBIT intends to work on the following in order to improve business-related systems and procedures, i.e. "Process Mapping" (performs process mapping to build an appropriate OWF), "Recommendation" (establishing a state-level Business Facilitation Committee and reviewing mapping results), and "Independent Business Facilitation Center" (consolidates related departments in one place and provides services to investors). PBIT reportedly submitted a proposal to the provincial government regarding these policies and is considering how to implement them.

[Consideration on Possible Support by JICA]

WB supported PRMI/BBRI plans to identify investment related regulations and their procedures, and to make them usable through on-line. The priority in that task is given to the federal government and the works for provincial governments follow after the works at federal level. It is considered that the works on the federal level One Window Facility will continue for a while. On the other hand, at provincial level, WB's support on the same works had already started in Sindh. Therefore, it is considered appropriate for JICA to support Punjab which is planning to streamline the investment related regulations. The proposed support program is as follows:

Support for streamlining investment related regulations in Punjab

- ✓ Identification of the investment related regulations;
- ✓ Streamlining the approval requirements between federal and provincial levels, finalization of the procedure with the federal government;

- ✓ Identification of approval procedure of individual regulation, elaboration of SOP;
- ✓ Establishment of mechanism of collaboration with federal government as well as with the other provincial departments;
- ✓ Establishment of a platform for making the procedures on-line.

However, it is understood that the BOI's PRMI/ BBRI efforts are federal level efforts, including the provinces. It is necessary to confirm the relevance to the individual effort in each province.

(6) Domestic Industry Promotion Policy

[Result of Survey and Issues]

In Pakistan, there is no industrial promotion policy that covers the whole country or industry. By sector, there are individual promotion policies only for the automobile and textile sectors. In Pakistan, consistency and harmony between investment promotion and industrial promotion, linkage between FDI and local industries, and technology transfer have not been fully examined. The weak cooperation between ministries such as BOI, MOIP, and MOCT is also considered to be the reason why the domestic industrial promotion policy is not clearly shown.

In Pakistan, under the federal system, industrial promotion is basically the responsibility of the province. Industrial promotion by the province is mainly to support domestic industries and SME, and cluster development considering local industries is being promoted. Industrial Policy 2018 has been established as an industrial promotion policy in Punjab. Although the policy stipulates promotion of SMEs, skill development, SEZ and industrial cluster development, investment promotion, etc., not all planned contents are implemented, and many remain at the planning stage. At present, there is no industrial promotion policy in Sindh.

[Consideration on Possible Support by JICA]

Support for strengthening the capability of elaborating industrial policy of MOIP

For the development of domestic industries, technology transfer from the foreign to domestic companies is important. For that to happen, it is necessary to implement the policy which induces matching between the attracted FDI and the domestic industries. During the survey, MOIP officials confirmed its intention to enhance their capability to elaborate industry development policy. Thus, JICA has an opportunity to provide assistance in this regard. Since implementation of industry development policy needs linkage with the policy domain of the other ministries, including BOI, in such policy areas as investment promotion and SEZ, a collaborative function needs to be assured. In case JICA decides to provide support for elaboration of industrial development policy, it is necessary to examine the targeted industry sectors.

For example, if a support is given to the elaboration of new automobile industry policy, as the

Japanese manufacturers had already invested in, it is important to examine and discuss, in addition to the manufacturing and supply-side perspective, the mechanism to boost domestic demand from the marketing perspective, including the tax system. However, this needs a thorough discussion among the related ministries including FBR at first hand and before examination of extending a support.

3.2.2. Industrial Human Resource Development and Employment

(1) Summary of Survey Result and Issues

The survey team summarizes main issues on industrial human resource development and employment based on the analysis on industrial human resource development and employment including policies as well as issues recognized by the relevant industry including Japanese companies. Below we suggest support plans at the next section.

■ Policy for Industrial Human Resource Development

- Progress of implementation of CBT-A courses at NVQF level 4 and 5 is moderate. (→Support plan 1～3, 5a)
- Progress of Apprenticeship introduced to SME is moderate. (→Support plan 1～4)
- Industrial human resource development policy has not been enacted in Sindh. (→Support plan 5b)
- Development of female high-skill engineers and managers has not been progressed and employment rate of females has not been improved. (→Support plan 2, 3）

■ Implementation Structure of TVET

- In Sindh, STEVTA is the major training institute. However, the reputation of its training courses on automobile/motorcycles OEMs and parts manufacturing industry is not so high. Other training institutes such as Pak Swiss Training Center and KTDMC under the federal governments are evaluated highly by industry, but the training capacity (number of trainees to provide training) is limited. (→Support plan 1, 3, 4 and 5b)
- While there is some duplication of resources among the TVET institutes such as TEVTA, PVTC and PSDF in Punjab, each organization also raises issues of lacked resources. Functioning PSDA which is established as management organization for these training institutes would enable the efficient redistribution of resources to them. Besides, private institutes and AVTI of Atlas Honda group seeks for coordination with public TVET institutes. Coordination with private training institutes or private companies can be considered (→Support plan 4).
- Coordination among the officers for recruitment assistance at TVET institutes and private

companies is personal and the information of graduates does not reach to companies. Interns are received at a portion of foreign and large companies. Opportunities of communications with persons in charge of recruitment at companies need to be increased through enhancing mechanism for industrial associations to disseminate the information to member companies, mechanism to share information with companies online, networking events, school visits, and so on. (→Support plan 4).

■ Contents of TVET

- TVET lacks provision of training in the technical areas of machine processing and dies & molds manufacturing needed by foreign companies.[115] Especially in Sindh, quality of training courses for automobile/motorcycle industries need to be improved, by strengthening TVET institutes under STEVTA. (→Support plan 1, 3, 4 and 5b)
- Efforts to improve the skills of female workers, to enhance female employment and to develop female managers are not enough. Especially the training to teach advanced technical skills for female workers is needed in textile industry where there is relatively large number of female employment. In addition to it, there needs development of female managers in order to employ female employees constantly. (→Support plan 2 and 3)

■ Issues and Needs of Foreign Companies such as Japanese Companies

- In the automobile/motorcycle industries which many of Japanese companies enter in, there needs enhanced provision of human resources in the areas of dies and molds designing/ manufacturing/heat treatment, mechanics, machine processing, welding, parts assembly and painting. (→Support plan 1, 3, 4 and 5b)
- Many of Japanese companies are worried about wage hike in recent years. In order for Pakistan to keep the superiority as a candidate country for FDI based on labour cost, even when the wage increase continues, it is necessary to improve the skills of workers into high level and to improve labour productivity. (→Support plan 1 ~ 4)
- Japanese enterprises concern issues about the quality of human resources at management and worker levels, especially about the education level and work ethics. Although measures to improve basic education are out of scope of the research, education for managements as well as education of work ethics for workers are needed. (This is related to all the support at the activity level such as revision of curricula)

[115] Local automobile parts manufacturing companies mentioned the necessity of engineers also in casting, forging and injection molding. However, the courses teaching especially those technics are not identified. It is expected that the courses of machine processing or dies & molds manufacturing provides the technical education including these technical areas.

- Resignation of employees after receiving training is seen, and it is a challenge to retain employment of the middle managements and workers. Within the limit of the direct support on this matter from outside entity above mentioned education for managements and education of work ethics along with the support on enhancing coordination among the training institutes and the company are relatively effective. The coordination includes information sharing about the requirement of recruitment and human resources. (→ Support plan 1 ~ 4)
- Some companies mostly in textile industry face difficulty in employing enough female workers for job categories more suitable to females. (→Support plan 2 and 3)

(2) Consideration on Support Plans by JICA

Based on the analysis of the main issues summarized above on industrial human resource development and employment, five prioritized support plans can be considered to the issues recognized by Japanese companies and areas which development partners agencies do not support.

① Project to strengthen TVET functions for industrial sectors where there is high demand from foreign companies

- Back ground/Summary：In Sindh, there is a large number of foreign automobile/motorcycle industries. Although the market condition has not been favorable, OEMs have been working on procuring the parts locally. In addition, needs of human resources were recognized. Since the local companies and Japanese companies evaluate highly the TVET institutes such as Pak Swiss Training Center and KTDMC, improving capacity of these institutes lead to providing more industrial human resources. KTDMC manages running courses on its own budget and is one of the organizations which MOIP manages and anticipates. Pak Swiss Training Center also runs their courses with its own machineries. If the support is provided for improving their capacity, the effect is expected to continue. To check expandability of output from these supports, possibility of coordination among these institutes and organizations such as STEVTA and PAAPAM.
- Industry sector：Automobile/motorcycle OEMs, parts manufacturing and maintenance industries
- Objective : Improve the environment for investment and expand the local supporting industry through human resources development in the industry sector where foreign companies are expected to enter.
- Target area：Sindh
- Implementing organizations：Pak Swiss Training Center、KTDMC
- Cooperating organizations：PAAPAM, SMEDA, STEVTA, SBTE, foreign companies, local

companies

- Project period：3 years
- Activities：
  - Expand scale and improve quality of existing courses run by training institutes, such as dies & molds designing/manufacturing/heat treatment, machine processing, parts assembly, painting, mechanics and so on.
  - Coordinate the requirement of recruitment by foreign and local companies with the training targets at the vocational training institutes
  - Install necessary machineries
  - Enhance implementation of apprenticeship
  - Promote matching between training institutes and companies on recruitment
  - Strengthen operationalization of CBT-A courses of concerned job categories at NVQF level 4 and 5

② Project to train female engineers and managements in textile industry

- Back ground/Summary：Textile industry yields large amount of export and create long value chains from raw materials, manufacturing and up to distribution. Since there is more female participation in workforce compared to other industry, it is meaningful to support the industry not only for strengthening the export competitiveness but also for enhancing female employment. Although the participation rate of female trainees has been improving, the employment rate is still stagnant. It is considered effective for enhancing female employment to train high-skill female workers for the companies which recruit trained and experienced human resources from outside. It is also effective to train female middle managements in order for the female employees to work constantly. Improving Workforce Readiness in Punjab Project of ADB plans to support CBT-A courses at level one to three. Since these courses are expected to be at semi-skill levels, coordination with the support of training human resources on higher level is conceivable. In general, career paths at companies are clearly classified between workers and candidates for managers. Candidates for managers need to have the background of GCT or higher education. Therefore, training females at these levels would lead to development of female managements.
- Industry sector：Textile industry
- Objective：Promote female employment in Punjab where the textile industry is active.
- Target area：Punjab
- Implementing organizations：National Textile University, Punjab TEVTA, PKTI, PRGTTI
- Cooperating organizations：Foreign companies, Local companies (Masood Textile Mills, Ltd)

- Project period：3 years
- Activities：
  - Establish a new diploma course for developing female middle managements at National Textile University.
  - Expand it to establish new diploma courses (or add new subjects to the existing diploma courses) of GCT (for females) under Punjab TEVTA
  - Establish female engineers courses for areas such as sewing and inspection (PKTI, PRGTI)
  - Coordination with local company (such as Masood Textile Mills, Ltd) for training and recruitment of female engineers
  - Install necessary machineries[116] at model institutes of implementing organizations
  - Strengthen operationalization of CBT-A courses of concerned job categories at NVQF level 4 and 5

③ Project to develop training functions of GCTs and strengthen coordination with industry in Sindh

- Back ground/Summary：As mentioned in support plan 1, STEVTA does not seem to be able to provide enough human resources both in quality and quantity even though demands are observed from many foreign companies in the area. Besides, major development partners except for GIZ do not provide relevant support in Sindh. Capacity development of STEVTA and its managed training institutes will improve and increase TVET, which lead to providing more industrial human resources in Sindh. Target industry sectors are thought to be automobile/motorcycles and textile industries. Especially in textile industry, support is expected to provide to GCT Karimabad (women's school). In addition, support is given for enhancing coordination between companies and STEVTA for preventing mismatch.
- Industry sector：Automobile/motorcycle and textile industries
- Objective：Improve the training capacities of GCTs, Prevent the mismatch between companies and human resources
- Target area：Sindh
- Implementing organizations：GCTs under STEVTA including Karimabad (women's school), SBTE
- Cooperating organizations：Association of automobile/motorcycle and textile industries (PAAPAM, PHMA, PRGMEA, etc.) , foreign companies, local companies
- Project period：4 years
- Activities：

[116] Consider from the contents of curricula and possessed machineries by the schools.

- Train mainly male engineers for automobile/motorcycle industry and female engineers for textile industry
- Improve the quality of diploma courses at GCTs
- Coordinate the requirement of recruitment by foreign and local companies with the training targets at the vocational training institutes
- Install necessary machineries[117] at model institutes of implementing organizations
- Enhance implementation of apprenticeship
- Promote matching between training institutes and companies on recruitment
- Strengthen operationalization of CBT-A courses of concerned job categories at NVQF level 4 and 5

④ Project to strengthen coordination among public/private TVET institutes and industry

- Back ground/Summary : There are issues of TVET institutes in Punjab such as lack of training resources as well as coordinating companies for internship and recruitment. On the other hand, companies have issues such as high turnover ratio and training employees. It is expected by enhancing coordination between training institutes and companies, to enhance provision of practical training by TVET institutes, to share information of human resources, and to enhance recruitment and prevent early resignation of employees. Assistance is provided for major TVET institutes' resources of to be utilized efficiently, such as Punjab TEVTA, PSDF and PVTC, by enhancing coordination among these institutes through support to PSDA. Besides, support is also made to improve the effectiveness of training, by enhancing the coordination of the institutes with private TVET institutes such as AVTI and Infinity School of Engineering.
- Industry sector : Automobile/motorcycle industries
- Target area : Punjab
- Objective : Utilize resources of training institutes, implement the effective TVET and prevent mismatch between companies and human resources by enhancing coordination among public and private training institutes as well as industry.
- Implementing organizations : PSDA, Punjab TEVTA, PSDF, PVTC
- Cooperating organizations : AVTI, Infinity School of Engineering, foreign companies, local companies
- Project period : 4 years
- Activities :
  - Enhance coordination among major TVET institutes on shared use of training resources

[117] Consider from the contents of curricula and possessed machineries by the schools.

and other activities through PSDA framework

- Promote coordination between private training institutes including the ones managed by foreign companies and public institutes on course operation and placement.
- Install necessary machineries[118] at model institutes of implementing organizations
- Strengthen the coordination system between TVET institutes and companies such as Institute Management Committee
- Enhance implementation of apprenticeship
- Strengthen sharing information between TVET institutes and foreign companies such as about contents of training courses and about graduates
- Coordinate the requirement of recruitment by foreign and local companies with the training targets at the vocational training institutes
- Promote matching between training institutes and companies on recruitment

⑤ Dispatch of experts

Dispatch of experts can be considered in the following professional areas and activities.

a) Support on establishing and introducing industrial human resource development system

- Back ground/Summary：In NVQF, high level courses such as diploma courses haven't been smoothly shifted to CBT-A. Level 5 in NVQF is defined equivalent to DAE in the existing system. Assistance on coordination is considered necessary between the NVQF and traditional system, for example, skill level defined by NVQF and necessary subjects for DAE courses as educational qualification. Assistance is also needed for GCTs to introduce CBT-A courses.
- Industry sector：All industries or specific industry
- Objective：Assist on establishing NVQF which NAVTTC have been working on, and on introduction of CBT-A courses at high levels in Punjab
- Target area：Islamabad capital territory and Punjab
- Beneficiary Organization：NAVTTC, Punjab TEVTA
- Support period：3 years
- Activities: For introduction of CBT-A courses at level 4 and 5 of NVQF, provide consultation to NAVTTC or Punjab TEVTA on establishing NVQF as well as on the methodology of introducing CBT-A courses.

b) Support on policy making for industrial human resource development

- Back ground/Summary：In Sindh, policy for industrial human resource development has not

[118] Same as above

been enacted. Assistance to STEVTA on this policy making is effective since STEVTA is managed by the board members consisting of the departments in Sindh government for industry, education and social welfare and the opinions of the government are consolidated to STEVTA.

- Industry sector：All industries or specific industry
- Objective：Assist on policy making of industrial human resource development in relation to industrial policy
- Beneficiary Organization：Sindh TEVTA
- Support period：3 years
- Activities：Assistance on policy making of industrial human resource development

3.2.3. Infrastructural Development

Described in 2.4.12 “Possible JICA support for Logistics Improvement in Karachi”

3.3. Issues Japanese Companies Face

We conducted questionnaire surveys and interviews with almost all companies (30 companies: 24 in Karachi, 4 in Lahore and 2 in Islamabad) to clarify the issues faced by Japanese companies in terms of investment and business environment and lead the result to consideration in future JICA support. The following is a table summarizing the survey results and the status of response to the issues by development partners.

Issues	Overview	Current Situation / Possibility of support by JICA
Remittance	• Remittance other than import values（ex. Royalty, expenses relating to technical assistance (dispatched engineer expenses), dividend, costs relating to complaints） • Excessive orders by banks taking into account the policy of State Bank of Pakistan	• Request and support regarding exchange control by IMF • It seems difficult to propose a support by JICA because this issue is significantly affected by the State Bank's policy (Japanese companies are making a claim against the president of State Bank through Japanese Chamber of Commerce and Overseas Investors Chamber of Commerce and Industry (OICCI))
Foreign Exchange	• Business negotiations with local companies are stuck, and formulating business plans is difficult due to rapid exchange rate fluctuations,	• Request and support regarding exchange control by IMF • After State Bank revised its foreign exchange intervention policy since the end of last year, the value of rupee remained stable at low, with PKR 150 to 160. • It seems difficult to propose a support by JICA because this issue is significantly affected by the State Bank's policy
Tax：Corporate Income Tax, Sales Tax, Excise Duty, and so on	• Minimum Tax（applied to SEZ as well） • Withholding Tax (badly affect cash flow, cannot be completely set offset） • High taxation on automobile sales, difficulty in understanding domestic production standard of parts, design policy that is disadvantageous to existing manufacturers	• Setting appropriate tax rates, supported by ADB and WB (RISE・PRRP) • It seems difficult to propose a support relating to tax rates by JICA. The issues are already supported by other development partners. (Regarding the operational issues of

		incentives for SEZ companies, there seem to be fundamental issues in the institutional design of SEZ and the coordination ability of BOI related organizations.)
Tax: Custom Duty	• Custom Duty: high-rate tax on intermediate materials for export and automobile parts. • Frequent and abrupt change of SRO	• Improve custom duty policy, supported by ADB and WB (RISE・PRRP) • MOCT has announced a policy of aiming for zero import tariffs on raw materials in the manufacturing industry, and the NTP was approved in July 2019. • It seems difficult to propose a support relating to custom duty rates by JICA. Tthe issues are already supported by other development partners.
Government Systems / Investment procedures	• Frequent policy changes • Uncertainty of the roles of the Federal Government and the Provincial Governments and the relationship between them • The application window for investment is unclear (BOI・IPA・SEZ) • There is no One Stop Shop working well	• Supported by WB (PGG・KNIP・CLICK) • PMRI / BBRI by BOI is promoted for review and mapping of business-related systems and procedures. • JICA can provide support in this area, taking into account the cooperation with WB. At the provincial level, Punjab can be a partner.
SEZ	• Unsatisfactory SEZ Act (Minimum Tax application, and so on) • Refund of Withholding Tax is delayed / No refund • Unsatisfactory infrastructure (especially, gas, water and sewage)	• Regarding inadequate incentives, the problem is that the operation has not been established and the coordinating function between BOI and FBR does not work well. • The coordinating function between provinces that develop and supervise SEZs and the federal level ministries (electricity,

		transportation, and so on) does not work well, which leads to the problem of inadequate infrastructure (the need for BOI authority and boosting it) • It is a field where support from other development partners is weak, so there is room for JICA's support, such as strengthening the functions of SEZ authorities at the provincial level, reviewing system and guidelines, and coordination among related organizations for incentive operation.
Infrastructure	Described in 2.4.12 "Possible JICA support for Logistics Improvement in Karachi"	
Industrial human resources	• Lack of basic education • Lack of middle management and skilled workers • Women Employment Problem	• There is room for JICA's support • Supports could include strengthening the technical and vocational training function in the industrial sector highly demanded by foreign-affiliated companies, strengthening cooperation between public and private technology and vocational training institutions and the industry, and training program for female labours and managers in the textile industry.

(Survey Team)

In this survey, we have confirmed that Japanese companies are focusing on issues relating to foreign exchange control, such as foreign remittances and exchange fluctuations, and tax issues, such as corporate income tax and custom duty. These problems are caused by various factors, such as State Bank's policy based on macro-economic conditions, and the ability of foreign exchange and tax affairs personnel to implement rules. To address these issues, other development partners, such as the IMF and WB, are working on support and institutional reforms to improve the situation. It is important for JICA to continue sharing information with the Japanese companies and timely follow the results by other development partners.

On the other hand, in the medium to long term, working on reviews and improvements of investment and business-related procedures, establishment of SEZ systems, infrastructure development, and development of industrial human resources will lead to the essential improvement of the investment and business environment. These efforts will benefit the overall business activities of Japanese companies operating in Pakistan. In this research, JICA's support plan was examined in consideration of the investment and business environment issues in Pakistan as well as the efforts of other development partners. Currently, other development partners' efforts, such as the WB's PGG, are mainly focusing on export promotion. It is considered significant to provide support for government, investment and SEZ systems and operations. At present, Japanese companies, mainly automobile manufacturers, are interested in the Pakistan domestic market. While complementing the efforts of other development partners, JICA's supports can improve the investment and business environment and promote export-oriented FDI in the medium to long term. It is believed that these efforts will also contribute to the diversification and activation of investment by Japanese companies in the future.