COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN PAKISTAN

Bolstering the Private Sector

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EXECUTIVE SUMMARY

1. Pakistan has tremendous untapped economic potential. Built upon one of the world's oldest civilizations, Pakistan is strategically located as it borders energy rich Iran and the world's two largest emerging economies: China and India. Pakistan has the world's fifth largest population with two-thirds under the age of 30. The country boasts a diaspora of nine million residing mainly in the Middle East, the United States and Europe. The east of the country is endowed with fertile land and great rivers that have rendered Pakistan among the world's top producers of cotton, dates, mangoes and oranges. The textiles and garment industry has been a major source of export earnings for decades. Yet despite these endowments and the demographic dividend, Pakistan's economy has stagnated relative to its regional and aspirational peers, and this divergence in economic fortunes has accelerated in the last decade. A history of political turbulence, regional insecurity and macroeconomic instability have shaped the economy and investment decisions. A relatively slow growth in both human and physical capital accumulation coupled with restrictive and distortive policies maintained by special interest groups have left the country unable to realize its economic potential.

2. This Country Private Sector Diagnostic (CPSD) analyzes and synthesizes cross-cutting and sectoral impediments to private sector development in Pakistan. It also proposes a policy reform agenda that would be transformational for the growth and competitiveness of the private sector. It complements the World Bank's Systematic Country Diagnostic (SCD, 2020) and aims to contribute to the national dialogue by focusing specifically on private sector issues. The Pakistan@100 body of work is the base and it draws on recent thematic World Bank reports and consultations with business leaders and public officials. Technical solutions to Pakistan's institutional constraints and policy distortions are readily available, but the implementation of these solutions requires committed political leadership. This has proven hard to muster in Pakistan's young and noisy democracy. Successive administrations have been humbled by vocal public opposition or internal resistance to change influenced by special interest groups. Maintaining political stability has been challenging with frequent transfers of power between civilian and military administrations. The devolution of powers to the provinces and local governments has resulted in an institutional footprint with sometimes overlapping or unclear mandates that give rise to uncertainty for businesses. The question is therefore what it would take for Pakistan's policymakers—and its elites and informal decision makers—to step up to address the multitude of issues as Pakistan falls behind its peers. Or, in other words, what would enable the government to break the economy's many sub-optimal equilibria.

3. The reforms identified in this CPSD can be transformative in catalyzing private investments and creating new market opportunities, with or without the COVID-19 pandemic. The reforms and policy recommendations presented in the action matrix summarize core constraints faced by the private sector and link them to concrete solutions that could be implemented within the next five years. The core of this work was prepared in the fall of 2019 and the beginning of 2020 before the COVID-19 pandemic reached Pakistan. Consequently, while the fundamental policy issues that inhibit the private sector will remain as relevant in a post-COVID-19 world, this exogenous shock to the Pakistani economy will have profound negative effects on many sectors and exacerbate structural issues. The Government of Pakistan (GoP) may thus find itself under stronger pressure to tackle structural issues that distort and impede private sector growth to promote an economic recovery. This medium- and long-term agenda will need to complement short-term initiatives to mitigate the demand and supply shocks resulting from the COVID-19 pandemic such as the rescue and recovery efforts of businesses.

Pakistan is in urgent need of a more sustainable and equitable growth model that can help create jobs and offer better opportunities for the more than two million youth who join the labor force every year.

4. Pakistan's economic growth rate has been on a downward trajectory for four decades with comparatively low human and physical capital accumulation contributing to low productivity growth. In the decade ending in 2018, the gross domestic product (GDP) per capita grew by less than 2 percent per year. Periods of growth have generally been fueled by consumption and financed by debt, which has resulted in boom-bust cycles. Public spending today is mostly servicing debt and maintaining a strong security complex. There are few resources left for investment in enabling infrastructure, health and education. For example, in 2017, health expenditure per capita was US$45, or approximately 10 percent of the amounts in neighboring China and Iran. In 2017, government expenditure on education per capita was 2.9 percent of GDP (US$43) compared to an average of 4.6 percent in lower-middle income countries. The implications of underinvestment in human capital are stark as it depresses labor productivity and reduces life expectancy—only Afghanistan has a lower life expectancy than Pakistan in South Asia. Without a reorientation toward investment in human and physical capital it will be difficult to raise the economic growth potential and improve economic performance.

5. Pakistan needs to nearly double its investment-to-GDP ratio to 25-30 percent to become an upper middle-income country by its centenary (World Bank, 2019a). Pakistan's total investment-to-GDP ratio has remained below 20 percent over the last four decades, of which private investment has remained around 10 percent of GDP over the last decade. This is roughly half of regional peers and only one-third of more dynamic emerging markets in Asia. Capital deepening, or the rate at which the stock of capital per worker grows, has been declining in Pakistan and it has impeded growth in labor productivity. The net inflow of foreign direct investment (FDI) has averaged 0.8 percent of GDP since 2010, with much of the FDI targeting oil and gas exploration, telecoms and the financial sector. Market seeking FDI currently accounts for 94 percent of total FDI while efficiency seeking FDI accounts for less than 1 percent of FDI. Despite some highly successful clusters in for example textiles and sport equipment, Pakistan has not benefitted as much from globalization as most other countries, and it has largely been a spectator amidst the rapid expansion of global value chains (GVCs). Consequently, the economy is not benefiting from the capital, technology, knowledge and business networks that tend to accompany FDI in many sectors.

6. The level of competition in many local markets is muted and it has adversely affected the dynamism of local businesses. Pakistani businesses are significantly older on average than comparable businesses in South Asia and beyond. Weak competition reduces investments in innovation and technology and inhibits creative destruction, which in turn impede growth in productivity. There are seemingly few incentives to invest in, and adopt new, technologies and diversify products, as captured by relatively low levels of R&D expenditure and use of technologies licensed from foreign companies. An inward oriented and protectionist trade policy, with an anti-export bias, shields some domestic producers from external competition. And while Pakistan is a relatively open economy to foreign investment, the country has a relatively modest record of attracting FDI. The state's sizable footprint in key economic sectors and ineffective implementation of the competition legal framework deter market entry. There is also a risk that the economic fallout from the COVID-19 pandemic may lead to market concentration in some sectors if publicly owned or politically connected businesses benefit more from emergency programs and policy initiatives than the large small and medium-sized enterprise (SME) community and the many dynamic startups that are exposed to the economic downturn. A World Bank enterprise survey conducted in the summer of 2020 found that large enterprises are indeed much more likely to benefit from early government COVID-19 relief programs than are micro enterprises.

7. Pakistan's export competitiveness is declining, the export profile is concentrated in terms of products and markets, and few businesses are integrated in the global economy. Between 2005 and 2019, Pakistan's exports as a share of global exports dropped from 0.15 percent to 0.12 percent. Exports of goods and services as a proportion of GDP is at its lowest level since 1971. Besides China, with which bilateral trade grew 200 percent in 2008-18 on the back of the Pakistan-China Free Trade Agreement (FTA), Pakistan's trade and investment with neighbors and within its greater region are modest. Textiles and clothing accounts for 55 percent of exports, and leather and rice jointly make up another 15 percent. This share has remained unchanged for over a decade. The exports of information technology-enabled services are growing but from a relatively modest base. The value of foreign inputs in Pakistan's exports has dropped to 8 percent, or one-fifth of the value in emerging markets such as Malaysia and Vietnam. It illustrates Pakistan's relative exclusion from global supply chains. The national trade policy has been used as a tool to generate public revenue and protect select industries rather than as a force for increased competition, global value chain participation, product diversification and productivity growth. Pakistan is currently the world's seventh most protected economy as measured by the Overall Trade Restrictiveness Index. The complexity of the tariff structure is relatively high with tariff lines augmented with para tariffs such as additional duties, regulatory duties and special regulatory orders (Varela et al., 2020). The complexity of the tariff structure leads to resource allocation towards highly protected sectors, which affects economic performance. Despite GoP efforts in recent years to simplify the trade policy, including by reducing the average level and dispersion of custom duty rates, the pace of change is low, and Pakistan's producers have been slow to adapt to changes in the global economy.

Pakistan's greatest achievement over the last few decades has arguably been the rapid reduction in extreme poverty. The COVID-19 pandemic may result in a temporary reversal of this positive trend.

8. Pakistan has made impressive strides in reducing poverty, but most citizens remain economically vulnerable and many struggle as a result of the COVID-19 pandemic. In 2001–2015, the World Bank Group's poverty headcount ratio at US$1.90 a day (2011 purchasing power parity) dropped from 29 percent to 4 percent. This reduction is largely attributed to the expansion of economic opportunities outside the agricultural sector, such as growth in male off-farm employment in the informal sector, and the increase in out-migration and associated remittances, which helped boost domestic consumption and demand for goods and services. Despite the progress toward poverty reduction, many citizens are still economically vulnerable, with more than three-quarters of the population estimated to live on less than US$5.5 a day in 2015 (2011 purchasing power parity). Gains made in recent decades in reducing absolute poverty will be challenged in the coming years as economic growth slows at home and abroad as a result of the COVID-19 pandemic. The economy had started to slow down even before the COVID-19 pandemic struck the country and it came to a near halt during the imposition of COVID-19 outbreak containment measures, including partial lockdowns, limitations to travel, and closures of non-essential businesses in 2020.

9. The COVID-19 pandemic has led to a deterioration in the economic outlook despite the GoP's bold macroeconomic reforms initiated in 2019. SMEs have been particularly hard hit with little public support or access to formal finance. .Prior to the onset of the pandemic, Pakistan had made considerable progress towards macroeconomic stability supported by the IMF-Extended Finance Facility (EFF), with the GoP moving to a market-based exchange rate regime, expenditure consolidation, increased revenue mobilization, energy price adjustments and the tightening of monetary policy to control inflation. But COVID-19 containment measures have adversely affected most businesses. Temporary fiscal stimulus measures and an expansion of the social safety net have helped mitigate some of the economic effects.. The GDP is projected to grow by 1.5 percent in FY21 following a contraction of 0.4 percent in FY20. A World Bank enterprise survey conducted in June-July 2020 found that only 28 percent of the surveyed businesses were fully operational. 51 percent were operating under reduced hours, 12 percent were temporarily closed, and 9 percent were permanently closed. More than two-thirds of the businesses reported a drop in sales of an average 27 percent. 13 percent of the businesses had laid off staff and 41 percent of remaining staff were employed in vulnerable businesses. Small businesses and those operating in the services sector—in particular retail services—were most adversely affected. The Pakistan Economic Survey 2019-20 cites preliminary estimates that the COVID-19 pandemic may adversely affect employment by between 1.4 million and 18 million depending on the length and severity of restrictions (GoP, 2020).

Pakistan's policymakers need to address critical cross-cutting and sectoral constraints to promote economic recovery and private sector-led growth. A private sector-led growth agenda needs to be equitable and benefit Pakistan's many SMEs.

10. This CPSD assesses several cross-cutting constraints to private sector-led growth that the GoP will need to address if it wants to arrest the decline and foster a more innovative and entrepreneurial economy. First, the GoP needs to promote greater competition in the economy by reducing the cost of doing business and removing policy distortions to trade and investment. Second, the GoP needs to reduce its footprint of largely inefficient and often loss-making state-owned enterprises (SOEs), including in sectors such as electricity, transport and industry. This would not only free up public resources that could be invested in social services and public infrastructure, but also remove distortions from the preferential treatment of SOEs. Essential reforms include a clear separation and fair competition between the private sector operated by civilians and companies controlled and/or operated by the state complex. In addition, the government could scale up the design and implementation of public-private partnerships (PPP) in critical enabling sectors. A robust PPP agenda could help strengthen private participation with more capital investment, more advanced technology and prudent management. Third, deepening the financial sector and expanding its reach to SMEs and more households is essential to promote equitable growth and to increase private investment. Treasury operations, as opposed to lending operations, have become the mainstay of the sector. The GoP needs to create a more conducive environment for long-term financing, help leverage private capital and ideas through strategic partnerships, and divest the state from what are natural private markets.

11. A private sector-led growth agenda needs to be equitable and benefit Pakistan's many SMEs. Most businesses in Pakistan operate in the informal sector. Estimates of informality indicate that between 25 and 35 percent of economic activity is undocumented. The pandemic has led millions of daily wage earners in the undocumented sector to lose their livelihoods. An estimated 67 percent of urban employment is in the informal sector, including 92 percent of employed women. Entrepreneurship is often driven by necessity rather than opportunity with more than one-third of the active labor force defined as self-employed. Pakistan also has a large SME sector, which by some estimates accounts for 90 percent of all businesses in the country, and roughly 80 percent of the non-agricultural labor force. Despite its size and importance, the sector accounts for only 7 percent of the credit extended by the financial sector. Of the formal businesses, the great majority are family-owned businesses registered as sole proprietorships, which exposes the household to full liability of the business and limits risk taking and investment.

Pakistan's policymakers can increase private sector participation and investment by implementing a reform agenda focused on three broad policy objectives: (i) to enhance institutional capacity and policy coordination; (ii) to strengthen competition and level the playing field; and (iii) to facilitate development of a diversified and inclusive financial sector. This reform agenda would generate higher returns if complemented by other initiatives to address systemic macroeconomic fragilities and to increase both public and private investments in human capital.

(i) **Enhance institutional capacity and policy coordination:** The strengthening of public institutions and governance are long-term objectives. The GoP could help remove constraints for private businesses in the short- to medium-term by reforming the commercial judicial system, clarifying federal and provincial mandates, and modernizing administrative procedures in the public-private interface. Priority reforms to improve commercial justice include: (i) the enactment of Commercial Courts Acts at the provincial level to provide specialized fora for dispute resolution, and (ii) the development of an insolvency registry and introduction of special simplified procedures for SME insolvency. The latter would be especially useful for the COVID-19 recovery phase. The GoP could help address overlaps in federal and provincial mandates and reduce transaction costs through: (i) the modernization of administrative records and processes, including the digitization of land records, construction permits and property registration; and (ii) the simplification of tax administration, including the harmonization of the general sales tax on goods and service, the adoption of an electronic portal for tax submissions and payments, and the merger of the sales tax registration number and the national tax number. Lastly, it has been ten years since the 18th Amendment to the Constitution was approved and it would be timely to assess its impact on the private sector with the view to provide guidance on how to improve interprovincial and federal coordination.

(ii) **Strengthen competition and level the playing field:** A short- to medium-term reform agenda to promote more competitive markets would seek to reduce the judicial backlog of competition cases, reform the policy for foreign investment, reduce anti-export bias in the national trade policy, and rein and limit the state's role in markets. Priority actions would be to (i) introduce investor relationship management and grievance management systems; (ii) promote transparency by launching a virtual one-stop information portal that identifies laws and regulations affecting market entry at both federal and provincial levels; and (iii) develop pro-competitive principles in sectoral regulations at both tiers of government. Reducing anti-export bias in the trade policy entails (i) the implementation of a National Tariff Policy with tariff reductions on intermediate goods and machinery, and a gradual tariff reduction on final goods; (ii) simplifying procedures and documentary requirements and automating the process of refunds for sales and import-duty for exporters; and (iii) lowering tariffs on digital goods included in the World Trade Organization's Information Technology Agreement, and reducing taxes levied on data. The GoP should also advance fair competition principles and restructure its SOEs, including through the adoption of an SOE ownership policy and SOE Law as well as amend the corporate governance rules for SOEs. Initiatives that increase transparency at all levels of the public administration would offer some of the most effective—and sometimes game changing—reforms to reduce the waste of public resources, improve public services and render economic sectors shielded by government policy more competitive. Reforms to increase transparency generally consume few, if any, public resources.

(iii) **Facilitate development of a diversified and inclusive financial sector:** The GoP is absorbing much of the credit generated by the domestic market. The situation is not sustainable in the long run and it has seriously impaired access to finance for businesses and particularly for SMEs and women. Besides adopting a more prudent fiscal policy, the GoP could help increase SME finance by operationalizing the SME Credit Guarantee Company and promote the development of alternative financing methodologies to substitute traditional collateralized lending for SMEs. To increase the uptake of digital finance and promote innovation and private investment in this space, the GoP could adopt a sandbox approach that allows for a risk-based regulatory, supervisory and oversight framework for the fintech sector. SBP has announced the launch of instant digital payment system 'Raast', a micropayment gateway. Operationalization of this initiative would allow merchants, businesses, individuals, fin-techs and government entities in Pakistan to send and receive near real-time payments through the internet, mobile phones and agents. The mobilization of more long-term finance is critical to help meet infrastructure investment needs. Priority reforms would align KYC requirements of the National Savings Scheme (NSS) with those of financial institutions and harmonize taxes between NSS and financial institutions. It would also entail limiting NSS access to retail investors to support capital market development and alignment of the issuance feeds and processing times for non-government securities with international standards. Medium-term reforms to increase long-term finance would include the development of a sovereign Sukuk issuance program for a wide range of maturities, and the consolidation of government owned and managed development finance institutions into a single development bank.

Pakistan exhibits high GDP multipliers across most sectors in the economy in comparison to other countries. It signifies a relatively high impact of investment on economic growth and employment, and it captures chronic public and private underinvestment in many areas of the economy.

12. The CPSD also assesses some sectors where sector-specific reforms could help unleash private sector growth and attract investment in the near- to medium-term. The IFC Country Strategy identified, among others, fintech/digital finance, port logistics, renewable energy and agribusiness as sectors of high potential and where a coordinated effort is needed to implement the IFC 3.0 strategy that aims to create new private sector opportunities. These four sectors and sub-sectors are priority sectors for the GoP and score high in social accounting calculations that estimate the impact on overall output of an increase in investment in each sector through backward and forward business linkages. Pakistan exhibits relatively high GDP multipliers across most sectors, which signifies the high impact of investment on economic growth and employment. The sectors are highly relevant in the COVID-19 context given for example the rapid increase in the demand for digital payments and better storage and distribution in the agribusiness sector, whereas energy and ports logistics will contribute to the economic recovery phase. There are other sectors with high growth potential such as pharmaceuticals, auto and auto-parts, and specialty textiles that could be explored in future sectoral analyses.

13. The key cross-cutting constraints highlighted above affect the select sectors to varying degrees, and thereby create distinct limitations for greater private sector participation and investments. However, there are some common challenges, for instance, the lack of inter-agency coordination at the federal and provincial levels in the fintech/digital payments and agribusiness sectors. Similarly, policy distortions and poorly functioning markets impede development of the renewable energy and agribusiness sectors. The development of the port logistics sector is constrained by weak governance and a lack of clarity of mandates and responsibilities by the governing entities.

(i) **Fintech and digital finance:** Enhanced financial inclusion is at the core of Pakistan's long-term sustainable and inclusive growth agenda. Digital finance and digital transactions can also help improve health outcomes and build a more resilient economy during a pandemic. Digital finance powered by fintech can both broaden and deepen the financial sector, especially for women. Intentional design of digital finance platforms that meet the specific needs of women, focusing on convenience, security, reliability and privacy can go a long way in reducing gender disparity in the access to finance. Unlocking sector growth would require, first, better access for the fintech industry to citizen identification infrastructure, which should include rationalizing the cost structure and making eligibility criteria transparent. Second, the digital landscape would expand greatly if government payments were digitized. Third, updating the legal framework for digital payments would entail operationalizing micropayment gateways and automated transfer systems, and enabling interoperability of retail payment systems with automated clearing houses. Finally, the fintech sector would benefit from the setting up of 'sandboxes' and adopting a 'test and learn' approach to allow for a risk-based regulatory, supervisory, and oversight framework.

(ii) **Port logistics:** The development of seaports and the modernization of the customs administration are vital to facilitate trade, increase Pakistan's export competitiveness and establish stronger links to GVCs. The country's location offers its traders easy access to markets in the Middle East, East Africa, Central Asia, and Western China. The investments in port and transport logistics associated with the China-Pakistan Economic Corridor (CPEC), which is part of China's Belt and Road Initiative, coupled with the Quadrilateral Traffic Transit Agreement could help turn Pakistan into a transit hub for sea-bound traffic with Central Asia and Western China. International trade currently goes through two ports: Karachi Port, which accounts for around 60 percent of marine shipments, and Port Qasim, which accounts for 35 percent. Two big challenges are to improve the management of port operations and to facilitate trade through customs modernization. The GoP alongside the respective trust/authorities must reform port governance structures, including by promoting professional management and professional boards with private sector representation. Karachi Port could improve efficiency by fully embracing the landlord model and outsource operational activities to private specialists, while attracting private investors to help upgrade and rehabilitate existing berths, to optimize capacity utilization, etc. Implementation of an automated processing system for border management will be essential to address customs and border delays, which cause congestion and add high indirect costs especially for small traders.

(iii) **Renewable energy:** Demographic changes and economic growth will drive energy demand in the coming decades. To meet this demand, the GoP has set bold targets for expanding the share of renewable energy in the production mix. Pakistan is well-equipped to do so given its wind, solar and hydro energy potential. To realize this potential, the GoP will need to tackle three broad sets of challenges. First, it must raise competitiveness and financial viability in the sector. Key priorities are to initiate competitive auctions for renewable energy capacity additions and private transmission projects; and ensure proper pricing and payment mechanisms in the sector. Second, technical and regulatory obstacles need to be addressed to facilitate greater integration of renewable energy in the system. This involves amending the grid code, installing modern monitoring and forecast systems, and refurbishing infrastructure. Third, off-grid solutions warrant support to overcome early-stage risks. This could be done in the form of a rural electrification fund that may provide grants to solar systems providers, as well as the establishment of strong quality standards.

(iv) **Agribusiness:** The agriculture sector employs nearly two-fifths of the labor force and generates one-fifth of GDP. It has experienced declining productivity growth for decades. The production of low-value crops is relatively inefficient and there is little value-addition along supply chains. Transforming agribusiness will require, first, the removal or at least a significant reduction of distortionary policies such as flat rates on water and fertilizer gas subsidies. Similarly, phasing out public procurement of wheat and reducing strategic reserve requirements are essential to crowd in private participation. Second, the GoP should seek to strengthen the enabling environment with better-functioning wholesale markets, collateral systems and physical infrastructure. A third set of initiatives should seek to improve food safety and raise the quality of produce through reforms at the farm and market levels. Establishing a complete warehouse receipts system is key to improving storage and facilitating post-harvest financing. Enhancing food testing lab capacity and outreach are key to raise compliance with SPS standards. Farmers require better extension services and better research would help raise the quality of inputs and facilitate the adoption of more efficient technologies.

14. Reforms in one sector often have positive spillover effects in other sectors. A more efficient logistics sector would for example support exports of agricultural produce and manufactured products. More reliable, cleaner and affordable energy would be advantageous for all sectors, including by improving health outcomes and living standards. Greater financial inclusion through fintech would facilitate transactions and investments for consumers and SMEs, render society more resilient to pandemics and help modernize tax administration.

15. The two-tiered Action Matrix that is presented below summarizes key constraints, recommended reforms or actions to address the constraints, and the expected outcomes as identified in this paper. **Tier 1** recommendations cover seven of the most critical, or "game changing", policy reforms that could help break the status quo of low investment levels, declining exports and private sector competitiveness. There is no single reform that would turn the economy around and the list of reforms should be viewed as a package with one reform often reinforcing the outcome of another one. The recommendations are synthesized from a rich body of analytical work produced by the World Bank Group in recent years and they are anchored in the continuous dialogue with public and private sector representatives.

16. Tier 2 recommendations cover fifteen other priority reforms that would help address specific constraints to boost private investment and competitiveness. The Matrix includes an indicative timeframe and the perceived difficulty to implement the reforms ('+' as "less challenging" or low hanging fruit; '++' as "moderately challenging"; and '+++' "challenging"). There are also action matrices presented for each of the four individual sectors under the sectoral sections towards the end of the paper.

ACTION MATRIX: POLICY PRIORITIES TO PROMOTE PRIVATE INVESTMENT AND ENTERPRISE

Tier 1—Game Changing Reforms to Boost Private Investment and Competitiveness

CONSTRAINT	RECOMMENDED REFORM OR ACTION	DIFFICULTY	TIME	OUTCOME	RESPONSIBILITY
Lengthy and uncertain commercial justice	1. Introduce Commercial Courts Acts at the provincial level to provide for a permanent and exclusive specialized forum and procedure for commercial dispute resolution.	++	18-36 months	Faster and fairer commercial justice	Provincial Industries, Law Departments
Uncertainty and high transaction costs for businesses	2. Modernize administrative records and processes; and digitize urban land records, land administration, construction permits and property registration.	+++	>36 months	Greater transparency, less uncertainty, less discretion, lower transaction costs	Provincial BORs, FBR, Land Record Management Authorities
High transaction costs for businesses	3. Simplify tax administration: (i) harmonize the General Sales Tax on goods and services; (ii) adopt an electronic tax payment system that allows for e-filing, e-payments and e-invoicing; and (iii) merge the Sales Tax Registration Number and the National Tax Number, and introduce a unique business identification number.	+++	>36 months	Greater transparency, lower transaction costs, more efficient tax collection	Provincial Revenue Authorities, FBR
Anti-export bias	4. Implement a national tariff policy with tariff reductions on intermediate goods and machinery, and a gradual tariff reduction on final goods.	++	12-24 months	Fairer competition, removal of anti-export bias	MoC, National Tariff Commission
Public sector crowding out private participation	5. Adopt an SOE ownership policy and an SOE Law to streamline regulations governing SOEs and safeguard principles for public ownership. Create a central SOE ownership entity with mandate to oversee financial and operational performance of the portfolio.	+++	24-36 months	Greater transparency, fairer competition, stronger corporate governance	MoF
Uncertainty, high cost of capital, underdeveloped banking and financial sector	6. Strengthen the institutional framework underlying fiscal management to support macroeconomic stability through: (i) the establishment and operationalization of a Macro-Fiscal Policy Office; and (ii) tasking the NFC Monitoring Committee to set, review and monitor national fiscal policy decision.	++	12-24 months	Policy certainty, lower inflation, less public borrowing from banking sector	MoF
	7. Implement a robust debt management strategy and improve primary and secondary market operations.	++	12-24 months	Depth and function of capital markets	MoF

ACTION MATRIX:
POLICY PRIORITIES TO PROMOTE PRIVATE INVESTMENT AND ENTERPRISE

Tier 2—Other Priority Reforms to Boost Private Investment and Competitiveness

	CONSTRAINT	RECOMMENDED REFORM OR ACTION	DIFFICULTY	TIME	OUTCOME	RESPONSIBILITY
Public institutions and governance	Lack of clarity on federal and provincial mandates	1) Evaluate the impact of the 18th Amendment to the Constitution on the private sector and strengthen the capacity and collaboration of key constitutional organs such as the National Finance Commission Secretariat, the Council of Common Interests, and the Council of Ministers, to effectively support devolution.	+	36 months	Stronger coordination and clarity on priorities	EAD and CCI
	Uncoordinated regulatory process with little consideration of impact on business	2) Establish a National Regulatory Delivery Office (NRDO) under the PMO as part of the Better Business Regulatory Initiative to instill coordinated approach to business regulation. Formulate a Regulators' Code as framework of principles for new regulation to be proportionate, risk-based, targeted and cost-effective.	++	18-24 months	Stronger coordination and formulation of more business-friendly regulation	PMO, NRDO
	Inefficient commercial dispute resolution and insolvency administration	3) Introduce a new Arbitration Act based on United Nations Commission on International Trade Law to repeal the application of the Arbitration Act (1940).	++	18-36 months	Faster and fairer commercial justice	MoLJ
		4) Create an insolvency registry and introduce special simplified procedures for SME insolvency and corporate restructurings. Improve the distressed assets resolution framework to promote secondary market creation. Incorporate a pre-packaged restructuring option to the Corporate Rehabilitation Act to enable swift court processing of out of court restructurings.	+++	18-36 months	More effective firm exit and utilization of private capital	SECP and SBP
Promoting competitive markets	High trade transaction costs and anti-export bias	5) Simplify procedures and document requirements and automate the processing of refunds for sales and import-duty for exporters.	+	12-24 months	Lower trade transaction costs, predictability	MoC and FBR
		6) Lower tariffs on digital goods, included in the WTO Information Technology Agreement, and reduce taxes levied on data.	+	12-24 months	Greater tech and knowledge diffusion	MoC and FBR
	Opaque SOE governance and use of public subsidies	7) Amend corporate governance rules for SOEs to ensure that Board members and senior management are selected based on merit; and enforce the publication of annual financial statements and external audit reports.	+++	12-24 months	Transparency, fairer competition, less waste of public resources	MoF and SECP

ACTION MATRIX: POLICY PRIORITIES TO PROMOTE PRIVATE INVESTMENT AND ENTERPRISE

Tier 2—Other Priority Reforms to Boost Private Investment and Competitiveness, *continuation*

	CONSTRAINT	RECOMMENDED REFORM OR ACTION	DIFFICULTY	TIME	OUTCOME	RESPONSIBILITY
Promoting competitive markets	Opaque and uncoordinated investment policy & administrative interface discouraging market entry and impeding competition	8) Establish an Investor Relationship Management System at the Board of Investment and deploy an investor grievance management system.	+	<12 months	Fairer competition, more market entry	Board of Investment
		9) Create a virtual one stop information portal that identifies all the laws and regulations affecting investors entry.	+	<18 months	Information symmetry	Board of Investment
		10) Develop pro-competition principles in sectoral regulation through greater collaboration between the CCP and sectoral regulators and ensure consistency between the Competition Act (2010) and sectoral acts and regulation.	++	12-24 months	More market competition	CCP
		11) Improve competition enforcement through advocacy with the judiciary.	+	18-36 months	More market competition	CCP
Promoting private participation	Poor use of public assets and barriers to private participation	12) Identify risks and develop effective PPP modalities.	+	<12 months	Stronger public capacity	Provincial and Federal PPP cells
		13) Develop a bankable framework with concession agreements, risk allocation, and standardized legal agreements aimed at promoting private sector investments in water, waste management, tourism, urban transport, etc.	+	12-24 months	Stronger public capacity	Prov. and Fed. PPP cells + relevant departments
		14) Empower municipalities, cities and local governments to undertake and implement PPP projects in primary healthcare, education, waste-water treatment, water supply, etc.	++	12-24 months	More market competition and private solutions	Local Government Department
		15) Develop a realistic pipeline of bankable infrastructure projects that can be effectively developed and maintained through private participation.	++	18-36 months	Improved service delivery, reduced public investment	Provincial and Federal PPP Authority

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