Pakistan
Improving the Performance of the Housing, Tourism and Retail Sectors
August 2005

FIAS
Leaders in Investment Climate Solutions
A multi-donor service managed by the International Finance Corporation and The World Bank
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**Acronyms**

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<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>ABAD</td>
<td>Association of Builders and Developers</td>
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<td>ABR</td>
<td>Administrative Barriers to Investment Report (FIAS)</td>
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<td>ADR</td>
<td>Alternative Dispute Resolution</td>
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<td>AGHF</td>
<td>Advisory Group on Housing Finance</td>
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<td>AHLEI</td>
<td>American Hotel and Lodging Educational Institute</td>
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<td>AoP</td>
<td>Association of Persons</td>
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<td>ATM</td>
<td>Arabian Travel Market (Dubai)</td>
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<td>BDS</td>
<td>Business Development Services</td>
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<td>CDA</td>
<td>Capital Development Authority</td>
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<td>CDDGL</td>
<td>City District Government of Lahore</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>COTHM</td>
<td>College of Tourism and Hotel Management</td>
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<td>DHA</td>
<td>Defense Housing Authority</td>
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<td>DTS</td>
<td>Department of Tourist Services</td>
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<td>FAR</td>
<td>Floor Area Ratio</td>
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<td>FBS</td>
<td>Federal Bureau of Statistics</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FIAS</td>
<td>Foreign Investment Advisory Service</td>
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<td>FY</td>
<td>Fiscal Year</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNI</td>
<td>Gross National Income</td>
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<td>GoP</td>
<td>Government of Pakistan</td>
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<td>HBFC</td>
<td>Housing Building Finance Corporation</td>
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<td>HKB</td>
<td>H Karim Buksh</td>
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<td>HP</td>
<td>Horsepower</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IHDS</td>
<td>Incremental Housing Development Scheme</td>
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<td>IMPL</td>
<td>Integrated Master Plan of Lahore</td>
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<td>ITB</td>
<td>International Tourism Fair (Berlin)</td>
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<td>kWh</td>
<td>Kilowatt Hour</td>
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<td>LDA</td>
<td>Lahore Development Authority</td>
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<td>MD</td>
<td>Managing Director</td>
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<td>MGI</td>
<td>McKinsey Global Institute</td>
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<td>Ministry of Finance</td>
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<td>National Bank of Pakistan</td>
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<td>National Horticulture Board</td>
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<td>National Housing Policy</td>
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<td>National Productivity Organization</td>
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<td>NorthWest Frontier Province</td>
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<td>O&amp;M</td>
<td>Operations and Maintenance</td>
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<td>PAITHOM</td>
<td>Pakistan-Austrian Institute of Tourism and Hotel Management</td>
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<td>Acronym</td>
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<tr>
<td>PC</td>
<td>Pearl Continental Hotel</td>
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<td>PEP-MENA</td>
<td>Private Enterprise Partnership – Middle East and North Africa (International Finance Corporation)</td>
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<td>PIA</td>
<td>Pakistan International Airlines</td>
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<td>PITHM</td>
<td>Pakistan Institute of Training and Hotel Management</td>
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<td>PPIAF</td>
<td>Public-Private Infrastructure Advisory Facility</td>
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<td>PTDC</td>
<td>Pakistan Tourism Development Corporation</td>
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<td>Rs</td>
<td>Rupee (Pakistan)</td>
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<td>SECP</td>
<td>Securities and Exchange Commission of Pakistan</td>
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<td>SMEDA</td>
<td>Small and Medium Enterprise Development Authority</td>
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<td>TAAP</td>
<td>Travel Agents Association of Pakistan</td>
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<td>TDCP</td>
<td>Tourism Development Corporation of Punjab</td>
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<td>TPC</td>
<td>Tourism Partnership Core</td>
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<td>Tourism Promotion Services</td>
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<td>UK</td>
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<td>VCA</td>
<td>Value Chain Analysis</td>
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<td>Water and Sanitation Agency</td>
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<td>World Development Indicators</td>
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<td>World Travel Market (London)</td>
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<td>WTO</td>
<td>World Tourism Organization</td>
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Foreword

The Foreign Investment Advisory Service (FIAS) was invited by Dr. Salman Shah, Advisor to the Prime Minister on Finance and Revenue, to assist the Ministry of Finance (MoF), and the Government of Pakistan (GoP) more generally, in highlighting the key policy and institutional issues constraining productive investment in selected service sectors in Pakistan, and in providing industry solutions based on these preliminary hypotheses.

In order to respond to the Government’s request for quick mobilization and analysis prior to the culmination of ongoing FY 2006 budget discussions, FIAS conducted a brief scoping study of 3 service sectors – housing construction, tourism, and retail in May 2005.¹ The analysis contained in the main report reflects a one month project, including a two-week mission to Islamabad, Lahore, and Karachi led by Vincent Palmade and consisting of Fatima Shah and Pepukaye Bardouille. The report also benefited from key inputs from several colleagues at the World Bank and the IFC, as well as Saud Bangash at the Ministry of Finance.

Each sector chapter in this report begins with a brief summary, followed by an evaluation of sector performance, an exposition of the main policy and institutional constraints to stronger industry performance, the value at stake if reforms are not undertaken, and recommendations for quick, medium- and longer-term reform options.

The analysis is based on in-depth interviews with industry players – including industry associations, private firms and their suppliers, business intermediaries, and public sector officials – and supplemented by a stock-taking exercise of existing sector studies. Recommendations for reform are made in light of global good practices in each sector as well as Pakistan’s specific country context. Due to the limited time in which this services sectors scoping work was conducted, it is recommended that further analytic work be undertaken to guide more detailed solution design and implementation of recommendations.

Due to the particularly complex nature of housing markets and pervasive role that land markets play in the performance for all 3 sectors evaluated, MoF requested FIAS for a presentation that probed deeper into the key issues constraining housing construction and land markets in Pakistan. The power point presentation containing a dozen solution levers submitted to MoF for consideration can be accessed in Annex A of this report.

¹ The initial long list of sectors for study included consumer electronics, trucking, and urban transport. Consumer electronics was not covered in this study in light of an ongoing FIAS Value Chain Analysis (VCA) Study in Pakistan which plans to look at the light engineering sector. Similarly, trucking was not analyzed here due to an ongoing World Bank road freight study. Finally, since the World Bank’s transport group is better placed to assist on urban transport issues, FIAS put MoF in touch with the appropriate experts.
Executive Summary

This report lays out the findings and recommendations from a four week FIAS study of the housing, tourism and retail sectors in Pakistan. We list our main recommendations in the Executive Summary below. Our findings and recommendations are discussed in more detail in the following three chapters on each of the industries.

We found opportunities for major improvement in all three industries which could significantly contribute to increased and sustained economic and employment growth in Pakistan. This is because these sectors are huge (they represent more than 25% of GDP and employment) and because they drive the performance of many other industries, including manufacturing for export, such as construction materials and food processing.

A number of microeconomic reforms will be necessary to capture this potential additional growth. Many reforms could be enacted quickly - at least from a technical point of view. The main ones are:

- Relax tenant laws
- Relax zoning restrictions and building codes
- Make more government land available for development
- Designate more areas as quarries with secured concession rights
- Reduce import tariffs and duties on construction materials, commercial vehicles, consumer goods and chilling equipment
- Relax entry requirements for foreign visitors
- Remove monopoly privileges on overland routes to India, China and Iran
- Privatize government hotels
- Increase tourism promotion budget
- Collect sales tax from manufacturers of consumer goods

Other key reforms will require more time and effort to implement:

- Reform pricing of utility services to promote private public partnerships
- Streamline and computerize land registration process
- Improve and enforce national and local land development master plans
- Align revenue and expenditure authorities across levels of governments
- Improve performance of the judiciary for resolving land disputes
• Strengthen the Ministry of Tourism to implement a new tourism strategy
• Promote conservation techniques along the food value chain

A number of relevant World Bank Group initiatives are underway:

• Urban development strategy
• Computerization of land titles in Punjab
• Development of housing finance markets
• PPIAF projects on Public Private Partnerships in infrastructure and utilities
• Implementing decentralization in Pakistan
• Sustainable development of the walled city of Lahore
• Tourism study for the NWFP economic report
• Value chain studies on marble, horticulture, dairy and shrimp
• Pakistan tax administration reforms project
• Custom automation and revenue enhancement
• Alternative dispute resolution mechanisms (IFC - PEP MENA)

The following eight studies, complementing the above, will be necessary to design specific solutions and launch implementation:

1) Reform of tenant laws, zoning restrictions and building codes – including the provision of budget incentives to local governments to enact the reform
2) Harmonization, acceleration and scaling-up of the streamlining and computerization of land registration initiatives
3) Completion of the inventory of unused government land and development of a strategy for releasing it to private investors
4) Reduction of import tariffs – including estimates of the impact on the budget and domestic enterprises as well as accompanying measures to ease the transition
5) Specification of the tax reforms necessary to level the playing field in retail – building on the tax administration reform project
6) Development of a national tourism strategy – building on the initiative currently underway at the Ministry of Tourism
7) Development of a national land development master plan
8) Alignment of revenue and expenditure authorities across levels of governments – building on the “Implementing Decentralization in Pakistan” project.

The responsibility for coordinating this reform agenda should be given to a dedicated five member team at the center of government, which could be located within the Ministry of Finance. The technical studies listed above, which are expected to cost on average $200,000 each, should be launched as soon as possible. FIAS would be honored to continue to provide support to this critical effort and would have the capacity to assist with three of the eight technical studies, including providing 50% co-financing.
1 Improving Housing Construction and Land Markets in Pakistan

Chapter Summary: Housing construction activity and productivity have been rising (especially in the upper end of the market) in recent years from a very low level. The growth has been the result of macroeconomic stabilization, rising income and foreign receipts as well as partial reforms in the sector. Nevertheless, there remain serious issues in the housing sector value chain and land market that need to be addressed urgently. The current growth trajectory is threatened by very high land prices, high and rising real interest rates and prices of construction materials. Also, urban growth has been largely unplanned and concentrated around major cities, with little benefit to the middle and lower classes of the population. Reforming the sector and the land market would also benefit many other parts of the economy.

Some of the key necessary reforms could be achieved relatively quickly, at least from a technical point of view. They include relaxing tenant laws, relaxing zoning laws and building codes, auctioning more unused government land, and removing entry barriers in the construction material industry. Others will require longer term, concerted and sustained efforts. They include streamlining the land registration process, developing and enforcing national and local land development master plans, reforming price regulations to promote private investments in utilities as well as aligning revenue and expenditure authorities of local governments.

We discuss these recommendations, and the sector findings on which they are based, in more detail in the following four sections of this chapter:

1) Current performance of the industry
2) Constraints to a stronger performance
3) Economic and social value at stake
4) Recommendations

Current Performance of the Industry

Despite increases in output and productivity in recent years, the construction industry has the potential to do much better

Output performance. Construction activity has been increasing in recent years from a low level, especially in the upper end of the market. According to the Federal Bureau of statistics, construction output accounts for 2% of GDP, with housing representing less than half that total. Output growth has been around 8% in 2003. The growth has been fueled by macroeconomic stabilization, the rise in income following many structural reforms (e.g., trade
liberalization, banking sector reform) in the economy, the rise in money coming from abroad, the reallocation of domestic investments from the stock market into real estate as well as reforms in the housing construction sector itself (e.g., lower stamp duties on land transactions, and lower tariffs on equipment and materials). The growth in real estate investments was further fueled by rapidly rising land prices (they more than tripled over the last three years in the main urban areas). Despite the decline in land prices in recent weeks (about 20%), land prices are still very high relatively to international benchmarks. They are now at comparable levels to Mumbai and New Delhi, which were found by the McKinsey study to have the highest land prices in the world relative to income levels. High land prices result largely from factors constraining the supply of secured land for investors (discussed later).

At less than one percent of GDP, the housing sector is still relatively small when compared to other developing countries (see chart below). The sector has much room for growth, given unmet demand, rapid growth in the working age population and continued emigration to urban areas – e.g. the population of Lahore is expected to double by 2021. The 2001 National Housing Policy estimated that there is a housing backlog of more than 4 million units, which is growing by 300,000 units a year, given that new production is insufficient to meet growing demand, which is estimated at 600,000 units annually.

![Figure 1: Housing Construction in Pakistan](image)

**Productivity performance.** The productivity performance of housing construction has also increased from very low levels, with the growth happening mostly within the small segment of large scale developer building
upper end and government housing. Interviews with developers suggest that, in the vast majority of cases, traditional construction techniques are still being used. These techniques are similar to the ones being used in India, where detailed estimates show that they achieve around 10% of international benchmarks such as the US and the Netherlands. It was also shown in India that, even at the prevailing low labor costs, labor productivity could be increased five times with larger scale production, better organization of functions and tasks, on the job training, higher quality and standardized construction materials, together with relatively small investments in equipment (e.g., cement pumps and wheel barrows). All our interviews with developers in Pakistan indicated similar operational improvement opportunities. Estimates from the Federal Bureau of Statistics suggest that productivity has increased by around 10% in 2003 – a rise which was also indicated by interviews with developers.

We discuss these trends in more detailed for each of the key housing segments:

- **Housing for the upper class (more than $1,000 monthly income).** There has been a rapid rise in the construction of quality houses and apartments for the one percent richest Pakistanis. The price range for these units is from $100,000 to more than $1,000,000. Large high quality apartment complexes (e.g., Creek City in Karachi) are being developed by a handful of large foreign (from Malaysia, China and Dubai) and domestic developers (e.g., Eden and Bahria). Land costs for such developments are high – e.g., $5,000 per square meter. Construction costs are also relatively high at $300 per square meter, with 50% of imported material value (compared to about 70% a few years ago). More sophisticated construction techniques (e.g., compressed arc technology) are being used to meet higher quality standards and to speed up construction. Foreign managers and architects are often relied upon.

- The Defense Housing Authority (DHA) is a major player in this segment (it owns or acquires large amounts of prime land). It has eight developments under way in Karachi mixing residential, commercial, hotels and leisure (e.g., aquarium and amusement parks) and major developments around the new Lahore airport. DHA land has the most secured land titles in Pakistan. DHA has relatively little trouble getting good utility connections and infrastructure to service its land. There are some concerns about the lack of transparency in the acquisition of land and allocation of development contracts by DHA. Such upscale developments attract both foreign and domestic investors.

- Developments outside Defense land are prone to serious delays and disruptions due to interference from the “land mafia”, largely made possible by the poor titles and registration process as well as problematic utility connections (especially water and gas). Comparison
with Dubai suggests that productivity and speed of construction could at least double if these issues did not exist.

- The nascent private mortgage industry is geared towards this upper end segment – the average mortgage size is $30,000. About $200 million worth of such mortgages have been issued over the last five years (this figure excludes $130 million worth of mortgages issued in support of speculative activities). Bankers expect the growth of mortgages to slow down significantly as a result of high land prices and high interest rates as the government tries to keep rising inflation in check (interest rates have increased by 300 basis points over the last year).

- **Housing for the middle class (around $400 monthly income).** Low quality housing for the middle class consists of either four-story apartment buildings built by medium sized developers or individual houses built by very small informal individual developers. Some apartment building projects are very large - e.g., Scheme 33 north of Karachi, 4,500 units being built by the Pakistan Housing Authority for government employees, 9,500 units for Karachi media satellite city, reallocation of the Defense headquarters to Islamabad and 8,000 flats to be built over the next three years by the Capital Development Authority (CDA). The Lahore Development Authority (LDA) has recently announced the development of a 30,000 acre satellite city to be developed by an Abu Dhabi-based construction company. Volumes are growing from a low level and are still far from satisfying the huge latent demand for such housing. The cost of such units ranges from $5,000 (for a small apartment with a 50% subsidy under government schemes) to $30,000 for a small suburban house, with land accounting for most of the cost in the case of houses. In Karachi, the land comes mostly from the Government, while in Lahore and Islamabad it mostly comes from the conversion of private rural land.

- Quality is low, starting with the materials which are all local, the construction process is poorly organized and entirely manual, and there is a lack of prefabricated and/or standardized materials (e.g., windows, partition walls and doors). Even more in this segment, construction is delayed by difficulties with utility connections, red tape and financing issues. As a result, productivity is very low – such buildings take two to three years to build against nine months in good practice countries (e.g., International City of Dubai). Some large developers (e.g., KNK) have started to enter this segment relying on more equipment (e.g., cement pumps – first used for highways) and prefab materials (e.g., walls and roofs).

- Private banks are for now shying away from providing mortgages to this segment leaving HBFC (housing bank controlled by the government) to do most of the financing (HBFC is not in a very sound financial health). The rental market for housing is very small due to
overly generous tenant laws – except in Islamabad where rentals account for about 40% of the market.

- **Housing for the working class (around $80 monthly income).** Because of very high land prices and tenant laws, slums are today the only alternative for the urban lower class and migrants from subsistence agriculture – 38% of Lahore’s population now lives in slums. For what they offer, slums are relatively expensive and construction productivity extremely low (e.g., owners build them over long periods of time as cash becomes available). Slums do not use land efficiently (e.g., typically only one-storey developments are constructed). Utility provision is incremental and thus expensive and inadequate, especially with respect to sewage. Finally, slums are prone to crime and harassment by the local police.

- Legalizing slum developments ex post has not solved as many problems as publicized by De Soto. As in most other developing countries, attempts by the Pakistani government at providing social housing have been captured by corrupt public and private interests and have not benefited the lower classes. There has been nevertheless been one promising initiative: the Incremental Housing Development Scheme in Karachi. This is a public-private partnership which entailed the provision of subsidized government land, legal titles on the land, efficient provision of basic utilities, low cost construction facilitated by the private developer, affordable mortgages provided by commercial banks, careful screening of prospective owners and reliance on community self-organization for ensuring law and order. The results have been very promising, according to a detailed comparative study conducted by the Acumen Fund released in April 2004. Another interesting initiative is the plan by the CDA to redevelop the slum in sector G6 in Islamabad. Half of the slum area will be redeveloped for commercial purposes, while the proceeds will be used to build very basic small apartments costing only $2,500, thanks to large scale production and advanced construction techniques.

- **Housing for farmers.** The fourth housing segment is rural housing. More than 65% of housing units are in rural areas. These are individual houses (kuchha and semi-pukka houses) built by farmers using traditional materials (e.g., wild grass combined with wooden structure). The McKinsey India study showed that such techniques achieve only 5% the productivity of large scale housing schemes, but the potential to increase it is low, given the materials being used and the fact that the opportunity cost of this labor is close to zero. Local governments are making new land available to increase the rural housing stock (through rehabilitation schemes).

**Output and productivity performance of the construction materials industry.** The construction materials industry has also experienced growth in volumes, quality and productivity (again from very low level). This has been the result of privatization (e.g., cement), more demanding developers as well
as increased pressure from low cost quality imports (e.g., from China) following the lowering of import tariffs.

Thermopole blocks are now being used. Increased use of prefabricated gypsum sheets also holds potential, as there is a vast amount of untapped gypsum available in Pakistan. Some domestic companies (e.g., Izhar) have started to develop new construction materials adapted to the Pakistani market, such as pre-compressed mud. As a result of these improvements, the Pakistani construction material industry has started to export to neighboring countries (e.g., cement to Afghanistan and bathroom amenities to Iran).

Prices of construction materials have increased sharply over the last year – the prices of cement, steel and bricks have almost doubled. Such increases cannot be explained by the rise in oil prices or improvements in quality. Developers have suggested the existence of cartels in the construction materials industry (discussed below) may be the primary cause.

**Constraints to Stronger Performance**

Although key reform initiatives have been undertaken in the past few years by the government (e.g., lower stamp duties, foreclosure laws favorable to banks, computerization of land title pilots, relaxation of the prudential regulations on mortgages, privatization of banks and cement companies, privatization of Karachi power, reform of telecom, etc.), many issues in the housing and land markets remain to be addressed to sustain and expand the current growth of the sector. Land market issues were actually reported as the most important barrier to investment in the survey of 700 firms (across many industries) that FIAS recently conducted (see the draft FIAS administrative barriers report). Without these reforms, there is a risk that construction activity will fall significantly, with the saturation of the small upper end segment and demand from the middle class rapidly falling as a result of prices on land and construction materials maintained at artificially high levels.

**Main constraints**

**Vacant private developed plots.** Estimates suggest that as much as 80% of formally developed plots in Lahore remains vacant. There are several reasons for this. First, rapidly rising land prices encourage investors to hold vacant land as an investment. This will be much less attractive as prices start to stabilize or even fall as a result of more government land being put onto the market. Rising interest rates and enforcement of fees on unused land (or higher property taxes) would also make it more difficult to hold on to vacant land. Relaxing tenant laws, zoning laws and building codes would also increase the attractiveness of building on these vacant lots. Issues with land titles also lead to multiple owners or contested ownership of the same lot. Finally, the lack of financing for infrastructure development and problematic
utility connections also leads to vacant lots. We discuss these root causes in more detail below.

**Unused government land.** According to the Association of Builders and Developers (ABAD), the government of Pakistan directly controls 40% of the land. The remainder is leased to the private sector. A large share of the land directly controlled by the government is not being used for productive or strategic purposes. Although statistics on government controlled land are not available, it appears that Defense controls the majority of government land (e.g., 50,000 acres in Karachi). Although Defense is very effective at securing and servicing its land, it makes it available for development at a relative slow pace and the allocation process for receiving and selling the land is not always transparent. Acquiring land from the government is problematic. The FIAS administrative barriers study found that it takes on average 135 days to acquire it (as compared to 63 days in the case of private land—which is by no means a good practice benchmark). Other government institutions that should make more land available to the market include Railways, Telecom and Port Authority.

**Poor titles.** Although the basic regulatory framework for land registration and transfer is sound, the process by which land is acquired and registered is extremely non-transparent and cumbersome: Patwaris typically maintain manually fifteen separate books of land registries to which nobody else has access. This state of affairs, combined with very weak law enforcement, enables illegal activities by well connected land mafias and short-lived opportunistic developers (this is not an issue for Defense land where the registration processes are much more transparent and efficient). Such activities can take many different forms. One form consists in acquiring illegally and physically the central lots of a major real estate project in order to blackmail developers who need to regain these lots to move ahead with their project. Another form is to sell to many different buyers lots of land which may not even exist. It can also consist of grabbing vacant land which is then turned into slums, from which they extort “protection” money as well as the provision of basic utility services at very high prices. These issues lead to much uncertainty and higher final costs as well as numerous litigations and long delays. They also discourage private banks and foreign investors, which refuse to deal outside Defense land. Other (less serious) land title issues include: (i) the name on the registry is not that of the original owner - this is to avoid appearing on the radar screen of tax authorities and/or to avoid high stamp duties (although they have now been reduced from 10% to 1%) in the case of transfers or inheritances, (ii) subdivisions are not always reported to the sub lease registry, and (iii) land records are separate from land deeds. Land title computerization efforts have started in the Sindh (Sukkur), Punjab (Gujarat), Islamabad and North West Frontier Provinces.

**Zoning restrictions.** Although it is the other key means of increasing the supply of building land, and one which would benefit the lower classes
(including farmers) the most, the conversion of rural land into urban land at the town periphery is made problematic by misguided interventions of local and provincial governments. The government of Karachi has put a ban on the conversion of Barani land around Karachi following various mispractices (converted land made available with the intention of developing social housing ended up being used for more profitable ventures). The Sindh government has also cancelled the validity of 5,000 land allotments around Karachi – but the original culprits have long resold their land and moved on. The government is slowly regularizing these cases (but only 170 cases have been reviewed so far). In Lahore, the Provincial government now requires housing projects to be at least 160 canals in size (20 acres) in an ill designed attempt at stopping speculative pyramid schemes initiated by small short lived developers. This law actually affects the large professional developers the most (such large lots are impossible to find within cities at decent prices), while it is very difficult to influence the behavior of the small opportunistic developers it is supposed to discourage! Before these restrictions were put in place, the conversion of rural land into urban areas was the main source of growth for the industry – e.g. Lahore has doubled in size over the last ten years. The real solution to the speculation and fraud problems is to infuse transparency and efficiency in the land acquisition/registration process and to become serious about punishing illegal behavior.

**Restrictive building codes.** Overly-restrictive building codes and laws on subdivision limit an efficient use of urban land and increase the price to consumers, especially in high land price zones. Lahore has a restrictive Floor Area Ratio at 1:1.5 (the ratio of the gross floor area of a building in relation to the total area of the site). As a result, the densities of Lahore appear as a U shaped profile instead of the usual negatively sloped exponential profile. Similar issues prevail in Karachi, which has a very low limit on the height of apartment buildings. Furthermore, a large share of the city buildings cannot be put on the secondary market or used as collateral because their developers did not respect the limit on number of storeys. Resolution of their legal status has been pending for years, but many developers are either well connected or no longer around (e.g., it is estimated that there are 300 such buildings in Karachi alone).

**Generous tenant laws.** Very generous tenant laws make most renting a very risky operation, resulting in a very small rental market. Private Banks refuse to finance developments destined for the rental market. A large share of land disputes are tenant related. This issue disproportionately affects the middle and lower classes for whom renting is the only option for moving out of the slums, especially in the current high price environment. This issue also affects the retail sector, especially the development of professionally managed shopping malls – see the retail section of this report. Tenant laws in Islamabad are more appropriate, and the rental market is as a result significantly more developed (40% of the market against 20% in Lahore).
Problematic utility connections. Poor incentives and governance within government controlled companies (especially a problem in power and gas) can typically delay large scale construction projects by a year. Some developers rely on gas powered self-generation power plants as an alternative source of electric power. Poorly targeted subsidized pricing, widespread theft and large technical losses considerably reduce the incentives and financial capacity of government-owned utility companies to connect new housing developments – for example, WASA estimates that 40% of water is lost to technical losses and thefts.

Poor master planning and governance issues at national and local government level. National and local master plans have been inadequate or poorly enforced, which has led to inefficient allocation of land and uncontrolled urban development. The root cause is the lack of clear responsibility between a multitude of government institutions (e.g., in the case of Lahore between the Land Development Authority, the City District Government of Lahore (CDDGL) and the Tehsil Municipal Administrations), as well as a mismatch between expenditure and revenue responsibilities. We refer to the Aide Memoire of the World Bank mission to Lahore in October 2004 for a detailed discussion of these issues. The lack of transparency and accountability in the planning process also gives opportunities to land mafias to have valuable inside information as to future infrastructure developments or to be able to influence such plans so that its land increase in value.

Lack of revenues for local governments to develop infrastructure. The new Integrated Master Plan of Lahore (IMPL) requires $1bn a year for infrastructure development: however, current local government revenues only permit $0.1bn. Property tax is the main source of local government revenues in most good practice countries. In Pakistan, property tax revenues have fallen far short of local government financing needs – they have barely increased in real terms despite a marked increase in construction activities and a tripling in property prices! One of the key reasons is that the tax is based on rents which are controlled. Other reasons include poor enforcement and coverage.

Cartel-like behavior in the construction materials industries. Developers cite cartel-like behavior to explain the steep rise in the price of basic construction materials. It was also reported that so-called “lease mafias” act as monopolist intermediaries in the provision of construction materials to developers, further raising their costs.

Ineffective judiciary. Courts have a huge backlog of land-related disputes which take years to resolve – more than 40% of all court disputes are land related. There are over a million land-related disputes pending resolution. Because of this backlog, court proceedings typically take years to resolve, allowing illegal activities of the land mafias and short-lived opportunistic developers to flourish.
Less important constraints

Pakistan has not ratified the New York convention on international arbitration – this is a major constraint for foreign investors.

Difficulties in foreclosing on land collateral – while the legal regulatory environment has improved, banks are still not completely convinced regarding the effectiveness of the foreclosure law (even with the new extra-judicial Ordinance introduced in 2001). Most banks are awaiting the outcome of two high profile cases challenging the requirements of the Ordinance that have gone to the superior court, to gauge the reaction of the judiciary regarding the effectiveness of the Ordinance and thus the true capacity to foreclose. Citibank did manage to foreclose on some mortgages using “aggressive” process.

Absence of long-term yield curve makes the sector vulnerable to short term movements in the real interest rates. This is particularly an issue now, given the recent rise in the real interest rate – 300 basis points higher than six months ago. The real cure to that problem is prudent fiscal policy – e.g. the UK construction industry has been doing quite well with variable rate mortgages.

HBFC remains plagued by financial and operational issues, despite new management.

Land to the west and east of Karachi is problematic to develop because of law and order issues; the same is true in remote areas with high potential for tourism-related developments.

Mortgage documentation and registration is complex and not standardized – it typically takes 60 days for Banks to receive all documents from borrowers.

Lack of a clear regulatory framework and incentives for owners to establish corporatized owners’ cooperatives for apartment buildings – this results in the lack of professional management of buildings leading to poor maintenance and cleanliness.

The CDA regulation limiting the advance deposits that can be taken by developers (in an attempt to limit fraud prone speculative pyramid schemes) is very constraining to developers. Developer certification schemes are a better alternative.

Another government measure to try to rein in speculation has been to prohibit loans to individuals for the purpose of buying undeveloped land. Like the CDA regulation, it is not clear that such regulations are effective at curbing speculation; however, they certainly make it more difficult for the middle and lower classes to step onto the home ownership ladder.
About 5% of Karachi land is up for the renewal of pre-partition leaseholds. The government has recently decided to renew them with a 40% discount – it is still early to tell whether the market will accept it.

Government employees cannot borrow against their retirement housing endowment. The National Bank of Pakistan (State-owned) has recently provided financing facilities to government employees.

The construction industry suffers from the fact that the trucks available in Pakistan are too small and lack power as a result of high import duties on 300+ HP trucks.

Skilled labor (e.g., masons and carpenters) is now in short supply – the industry estimates that there is a shortage of 800,000 skilled laborers in the construction sector. Previous studies have shown that the best form of training is on-the-job training by professional managers under competitive pressures. This was confirmed through our interviews with large scale developers. These developers have increased the wages of their workers by 20% after a year on the job, while entry level wages have only increased by 5% - suggesting a productivity improvement of at least 15% over a year!

**Economic and Social Value at Stake**

Without reforms, there is a significant risk that the industry will enter a slump, as most consumers can no longer afford the current high prices on land and construction materials. With reform, on the other hand, construction activity and productivity could grow even more rapidly and in a more orderly way, with multiple benefits to the rest of the economy. The main sources of growth will be.

- Continued high growth possible in the upper and upper middle class. $50,000 homes (100 square meters) – much lower prices due to much higher development of prime land made available by the government. For example, according to Standard Chartered Bank, the mortgage market could reach $5 billion in five years’ time from $200m today (taking $130m speculative mortgages out of the picture) - $1 billion if no reforms. $5 billions would represent a stock of 160,000 new homes built for the upper middle class ($30,000 mortgage on average).

- Huge growth potential in middle class. $20,000 quality homes and apartments (80 square meters) built in large scale development (e.g., satellite cities) which could be afforded by millions of middle class Pakistani ($400 monthly wage) with $15,000 private mortgages. Enabling the building of new cities as well as the growth of existing medium size and small cities will be the only sustainable way of accommodating the continued migration of millions out of rural areas.
• Dramatic improvement in the life of the poor living in slums. The $2,500 basic apartments (50 square meters) mentioned earlier would represent a major improvement to the living conditions of slum residents ($80 monthly earnings) which account for half the urban population. Relaxed rental laws would make such apartments even more affordable to them. They would also enjoy much higher security of their investments and lower rates on their utilities.

• Massive positive spillover benefits to the rest of economy – e.g., construction material industries, utilities and mortgage backed financing to entrepreneurs.

• Resolving the land related issues in housing would directly benefit many other critical industries with high growth potential – e.g., retail and tourism (see the retail and tourism chapters of this report. Land reform would also directly benefit the manufacturing and mining sectors – e.g., cheaper and better land available for industrial zones, more secured property rights in quarries (see the marble value chain analysis).

Recommendations

Improving the performance of the housing construction sector and reforming the land market have been high on the agenda of the government of Pakistan since 2004. The World Bank held a four-hour meeting in November 2004 with President Musharraf discussing these issues. The Chief Minister of the Punjab region has also put these reforms on the top of its agenda. This commitment has been accompanied by a number of important reforms (e.g., lower stamp duties on land registration) and initiatives (e.g., pilots on land title computerization). Still, as discussed above, many important constraints remain to be lifted. Some of the necessary reforms are relatively straightforward (the so-called “quick wins”), at least from a technical point of view. Others will require a concerted and sustained effort. Many of the reforms at hand (including many of the quick wins) fall in the domain of local and provincial governments. In such cases, the role of the national government will be to convince, provide technical assistance and budget incentives to them. We list our technical recommendations below:

Quick wins

1. **Relax tenant laws.** The prevailing regime in Islamabad could be used as a model. There is also a draft proposal available through the Advisory Group on Housing Finance. If needed, the government can always put in place a “grand father” clause which exempts existing tenants from the new law. Relaxing rent controls would also increase badly needed property tax revenues for local governments – the property tax is based on rental values.
2. **Relax zoning restrictions and building codes.** The Sindh and Punjab governments should rely on enforcing the fee on unused land (as opposed to zoning restrictions) to limit undesirable use of land and speculation (Islamabad managed to do just that). Building codes and laws on subdivision should also be relaxed to increase the supply of inhabitable space per unit of land (e.g., decreasing the Floor Area Ratio) while keeping negative externalities in check. This should be accompanied with the regularization of buildings which violated previous building codes.

3. **Make more government land available for development.** The first step will be to complete the inventory of unused government owned land which was started in 2001. The government needs to ensure full cooperation from all interested parties – budget incentives/pressure could be used to that end. An independent national commission should then earmark large amounts of such land for strategic national development initiatives (e.g., housing schemes, industrial zones and tourism zones). This land should then be transferred to the privatization ministry to be sold to private developers through competitive auctions. The land owned by the railways, the Karachi port authority, the telecom and local governments would be a good place to start.

4. **Use proceeds from land auctions to develop necessary infrastructure.** The proceeds from the auction of government land should be used to develop the land and infrastructure necessary for large-scale housing schemes, which could include provision for cheap social housing. The proceeds should also be used to renew existing slums. This should entail the construction of basic multi-store buildings to ensure more efficient use of land as well as reliance on public/private slum governance techniques inspired by the successful Incremental Housing Development Scheme of Karachi.

5. **Reduce barriers to entry in the construction material industries.** The government should immediately investigate the reasons for the recent sharp increase in prices, especially in cement, steel, bricks, crush, sand and glass. Probable solutions are to remove the remaining barriers to imports (import tariffs now vary from 5 to 25%) as well as to designate more areas as quarries with secured property and concession rights – e.g., the lack of such rights were found to be a key issue in the marble value chain study just being completed by the World Bank (draft available).

6. ** Expedite large land disputes and promote Alternative Dispute Resolution (ADR).** Cases should be prioritized so as to free up as much land as possible from endless judiciary proceedings. ADR (e.g.,
arbitration and mediation) should be promoted to offload courts from small cases (see recent IFC initiative on ADR). The streamlining of the land registration process and computerization of land records discussed below should also considerably reduce the future flow of land related disputes.

Other less important quick wins

7. Streamline and standardize mortgage registration (the Advisory Group on Housing Finance should draft this document).

8. Reform/privatize HBFC – India’s successful Housing Development Financial Corporation (HDFC) could be a good model to emulate. A team from the International Finance Corporation (IFC) will visit Pakistan in June 2005 to conduct a diagnostic of HBFC.

9. Enact new regulatory framework and incentives to enable professionally managed owners’ cooperatives for apartment buildings (the Advisory Group on Housing Finance should draft this document).

10. Remove the CDA regulation limiting the advance deposits that can be taken by developers as well as the ban on lending money to individuals who want to buy empty land – to be substituted by enforcement of the fee on unused land. It should also be noted that the end of rising land prices (as more government land is put on the market) should considerably reduce land speculation.

11. Remove the 60% import tariffs on trucks. A specific study should be launched immediately to determine the rate at which tariffs on key industrial goods (e.g., trucks and refrigerated equipment – see the retail chapter of this report) could be reduced without resulting in local industries being wiped out and without causing too much damages to public finances. Accompanying measures to help companies and workers to adjust should also be examined as part of this study.

12. Ratify the New York convention on international arbitration.

 Longer term and critical initiatives

13. Reform utility pricing regulations to promote public private partnerships. This study has shown yet another compelling reason to improve the performance of utilities. The current privatization program should thus be accelerated. The first step is to reform utility pricing policies, set and enforce service delivery standards on government owned utilities (at least for large scale housing projects) and promote Public Private Partnerships (PPPs) – the International Financial Corporation (IFC) and PPIAF have been appointed by the Planning and Development Board and the CDGL to advise on PPPs.
14. **Fix land titling processes.** The national government (through the independent commission discussed above) should support financially and technically provincial governments so that they harmonize, accelerate and scale up their existing reform of land title initiatives. The national government should help them share experiences and good practices, prioritize and ensure that the new systems are at least compatible with each other (if not identical).

15. **Improve and enforce national and local master plans.** The national government (again through the independent commission) should take the lead in drafting a national land development plan with critical inputs from the provinces. It should also provide technical assistance to help provincial and local governments define their own master plans. This should build upon the work which was done by the Ministry of Construction four years ago for eleven cities in Punjab (the second phase of that initiative never got funded). These master plans should include the provision for satellite cities, good practice large industrial zones (including social housing accommodation for the workers), special tourism zones (see the tourism chapter of this report) as well as plans to rely much more on the growth of medium size cities to accommodate the future rural/urban migration. Such an exercise will also be essential to help determine public infrastructure priorities. We should build on the momentum created by the development of the Medium Term Development Framework (see chapter 12 of draft report) under the auspices of the Planning Commission with the support of the World Bank. The World Bank has also been providing inputs to the new Lahore master plan (IMPL).

16. **Align revenue and expenditure authorities across levels of governments and reform the property tax system.** This will increase the financial means and incentives for local governments to implement the master plan. Relaxing rent controls will be a critical first step. See the Aide Memoire of the World Bank Urban Development Mission to Lahore (October 2004) for more details.
2 Improving Tourism in Pakistan

Chapter Summary: The traditionally neglected tourism sector is now receiving more Government attention in Pakistan. While the creation of an independent Tourism Ministry earlier this year was meant to signal the importance of the sector, it is not clear that the split from the Ministry of Culture has actually benefited the new Ministry, which lacks adequate staffing, budget, and institutional capacity needed to fulfill its mandate. It is recommended that an in-depth assessment be carried out to ascertain the most effective institutional set up and strengthening initiatives for the Ministry.

Once this has been undertaken, a comprehensive tourism strategy, complete with a feasibility study, an infrastructure needs assessment, cultural heritage preservation, environmental sustainability, and training components should be drafted with private sector and international experts inputs.

While this process and its implementation may take the next couple of years, there are a number of immediate actions that the Government can take to facilitate sector growth. These include: visa liberalization, increasing the supply of land, relaxing zoning requirements, providing business development services (BDS) to new and potential hoteliers, privatizing motels owned and operated by the Pakistan Tourism Development Corporation (PTDC), exploring private sector management contracts for operating historical tourist attractions, withdrawing PTDC monopoly overland transit routes, ensuring adequate promotion budget and reducing overstaffing at the Tourism Ministry, and establishing a public-private Tourism Partnership Core (TPC).

We discuss these recommendations, and the sector findings on which they are based, in more detail in the following four sections of this chapter:

1) Current performance of the industry
2) Constraints to a stronger performance
3) Economic and social value at stake
4) Recommendations

Current Performance of the Industry

Globally, the tourism industry is the single largest employer due to its direct and indirect impacts and generates nearly $500 billion in annual revenues. By 2020, it is expected to generate $2 trillion in revenues worldwide. South Asia’s collective international tourism receipts were $3.86 billion in 2001, out

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2 People and Planet website.
3 Tourism Possibilities in Pakistan and SMEDA Travel and Tourism Sector Study.
of which Pakistan’s share was just 2 percent (see Figure 1) – marginally higher than Bangladesh and 33 times less than India’s share!

**Figure 2: International Tourism Receipts (in millions of US$)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Receipts (in millions of US$)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>$3,042</td>
<td>79%</td>
</tr>
<tr>
<td>Maldives</td>
<td>$327</td>
<td>8%</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>$211</td>
<td>5%</td>
</tr>
<tr>
<td>Nepal</td>
<td>$140</td>
<td>4%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>$92</td>
<td>2%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>$48</td>
<td>1%</td>
</tr>
</tbody>
</table>

While inbound foreign tourists almost disappeared entirely after 9-11 (Sheraton’s occupancy rate fell from 70% to a mere 14%), the domestic – and more recently the regional – tourist segments slowly filled the gap. Approximately 27% of Pakistan’s population now engages in domestic tourism – while the figure is the same for India, domestic tourism there has grown by 30% over the last 4 years, whereas the Pakistan MTDF draft aims for only a 12% increase in domestic tourism over the next 4 years.\(^5\)

Since last year, even the foreign tourist numbers have rebounded and tour operator services are now more in use than ever before – their profit margins are in the 20-25% range. And five-star hotels nationwide are now at 80-90% occupancy rates (with 30+% in gross operating profit margins) despite an increase in average room rates of 40% from the previous year. As a result, most 5-star hotels have expansion projects in the pipeline – this may swing the pendulum from shortage to overcapacity in Islamabad and perhaps Karachi, although Lahore is expecting a large increase in regional tourism with liberalizations at the Indian border.

Foreign tourists are also on the increase once again – from 2003 to 2004, inbound tourists increased by 150,000 (a 30% increase).\(^6\) The World Travel and Tourism Council expects tourism demand in Pakistan to grow by 6.9% per annum over the next 10 years. Managing this growth through appropriate

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\(^4\) Tourism in Pakistan (data missing for Afghanistan and Bhutan).  
\(^5\) Neoncarrot India Travelog, Tourism in Pakistan, Pakistan MDTF 2005-10 Draft, and World Development Indicators Database 2005.  
targeting and product development on the one hand and ensuring environmental and social sustainability on the other hand will be important in keeping the sector on this high growth trajectory.

Tourism interacts with multiple sectors in the economy, including land and construction, hotels and lodging, travel and transport, infrastructure, food and beverage, recreation and entertainment, retail and services, etc. These linkages, the labor-intensive nature of the industry, and the fact that the “tourist dollar” creates a multiplier effect in the economy signal the importance of tourism development in the Pakistan’s growth and poverty reduction targets.

**Constraints to a Stronger Performance**

**Affordable hotels missing for the domestic and regional tourist profile.**  
The Travel Agents Association of Pakistan (a group that includes both travel agents and tour operators) ranks the shortage of hotels, particularly the neglected mid-level standard, as the number one problem facing them in serving their clients today. While five-star hotel occupancy rates are very high and, as mentioned above, many are undertaking expansions to meet the rising demand, a large segment of the growing domestic and regional tourist segments are looking for two- and three-star hotels.

**High land prices make access to finance difficult for mid-level hoteliers.**  
With the increasing land prices (see chapter on housing construction and land), project development costs relative to average room rates are 60-80% higher than the traditional 1000:1 benchmark, making access to finance difficult for most medium-level hotels that rely primarily on revenues from room occupancy. Upper-end hotels are able to absorb the high land prices by offering mixed use facilities, including banquet halls, conference centers, and shopping arcades. Since the projected revenue from upper-end hotels is much more than the marginal cost of developing a five star hotel rather than a three-star one (since land price is the major development cost component), commercial banks are much more willing to finance the upper end of the market.

**Zoning regulations impose burden on hotel development.**  
Both upper and mid-level hoteliers experience problems in project expansion due to zoning restrictions. In the case of the Pearl Continental (PC) hotels in Karachi and Lahore, the Hashoo Group is facing resistance to building expansion wings of 600 room towers adjacent to their current structures on grounds of traffic congestion and cultural heritage. Regulations on the height/number of storeys in a commercial building need to be relaxed (see housing chapter).

While the PC may be able to split each planned tower into two separate ones if need be, each of shorter height, the case becomes more difficult when a commercial zone is being converted into a residential one and new
business/expansion is prohibited (although existing ones operate under a grandfather clause). The CC Motel, a mid-level hotel in Lahore, was unable to resolve a case in which its 30+ year old original receipt of fee for commercial use was misplaced by the Lahore Development Authority (LDA) and the authenticity of the duplicate owner copy was questioned. As a result, upward expansion of the establishment has been denied, and the owners are now seeking to build a new hotel at a different location which is commercially zoned – however, once again, the prohibitive land costs of the new plot have meant that financing remains unsecured.

Access to trained staff remains a constraint. While the Government operates the Pakistan Institute of Training and Hotel Management (PITHM) in Karachi, and apparently serves 250 students at any one time, all hoteliers interviewed still complain of access to trained staff at all levels, from bell attendants to operations managers. PITHM is regarded as a sub-standard institute with faculty staffed by those that did not survive in the industry themselves!

A few years ago, a Pakistan-Austrian Institute of Tourism and Hotel Management (PAITHOM) was established in Swat, complete with training facilities and equipment, but never became operational. Aziz Bolani, managing director of TPS Pakistan, offered to run the Institute free of charge since Serena Hotels end up training their own staff in-house (like most hotels in Pakistan) in any case due to the lack of trained labor in the market. Apparently the Austrian-Pakistan agreement required PTDC involvement in running PAITHOM and Mr. Boolani did not want government bureaucracy interfering, so he withdrew the offer.

Three years ago, the College of Tourism and Hotel Management (COTHM) was established in Lahore and now has 100 students. It offers a variety of programs, from three month skill certifications to three-year diplomas on Hospitality Management or Food and Beverage Management, certified by the American Hotel and Lodging Educational Institute and costing $1,400 per year. However, while the program builds in practical training opportunities at the PC Lahore, owners of this hotel are themselves thinking of establishing a training institute due to shortage of trained staff.

Poor infrastructure prevents the diversification of tourist destinations. While Pakistan has many tourism products to offer (see next section on assets and opportunities), the poorly developed and maintained secondary road network makes access to many of these destinations difficult. This is particularly a problem for domestic tourists, 90% of whom travel by road.

Where airport access to some of the northern areas exists (e.g., Gilgit, Skardu, Chitral), the national carrier feels that air access could be improved by

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7 GNI per capita in 2003 was $520 (World Development Indicators 2005).
8 Tourism in Pakistan.
improving airport landing facilities. There are only one to two flights daily to 
these destinations and weather conditions often lead to delays/cancellations – 
expanded landing fields could counter some of the weather conditions. 
However, some travel agents feel that PIA’s irregular service to these 
destinations reflects the poor incentive structure which comes with operating 
loss-making routes due to subsidized fares. If the Government intends to 
maintain subsidies on these routes, the least distortionary method would be to 
apply a general airport tax on all domestic passengers and use the revenues to 
cross-subsidize these routes.

Once at the tourist destinations, some of the supporting infrastructure – water, 
electricity, suitable lodging, health care, hygiene standards, etc – is also 
lacking in quality. While the tourist looking for trekking, mountaineering, and 
camping opportunities may expect some level of discomfort, the tourist 
seeking natural, historical, or religious assets – e.g., the Japanese are frequent 
visitors to Moenjedaro, ruins of an ancient Indus Valley civilization – is likely 
to demand more facilities.

**High duties limit the quality of tourism transportation services.** The 
prohibitively high duty on imported vehicles (20% for buses and vans, and as 
high as 100% on cars) makes it difficult for tour operators to offer their clients 
reliable and comfortable quality service comparable to international standards. 
Car rentals are very expensive compared to US standards, for instance – an 
overnight return trip from Islamabad to Peshawar can cost between $250-300. 
In large part, this is because of the high tariffs on imported cars and the 
resulting high price of domestically produced cars as well.

**Pakistan’s image in the foreign press linked to security issues.** According 
to the World Tourism Organization (WTO), inbound tourists from Pakistan’s 
main source market, Europe, declined from a peak of 258,000 in 2000 to 
188,000 in 2003, mainly due to 9-11 and the Afghanistan war. In addition, the 
sectarian violence that often draws the attention of the international press just 
adds to the damaged image of the country. In fact, tour operators have been 
providing security services in their packages at special request from clients.

On the positive side, the business environment reforms (which have increased 
inbound business travelers) undertaken over the last five years and increasing 
friendship with India are sending positive signals to potential foreign tourists. 
Renewed marketing efforts can build upon some of these wins. Promotion 
materials need to find their way to the international markets by way of 
Pakistani embassies abroad – both the PTDC and tour operators have 
recounted experiences where stacks of promotion materials were found locked 
away in embassy stockrooms. The embassies really need to act as front line 
promotion agencies. In addition, many countries post advertisements in 
foreign print and electronic media as part of their promotion efforts. Finally, 
Pakistani tour operators lack adequate links with foreign tour operators in the
main source markets – Europe accounts for 40% of incoming tourists and South Asia for 29%.

**Economic and Social Value at Stake**

As we saw in Figure 1 above, Pakistan does not fare well in regional comparisons of international tourism receipts. Despite this poor record, and because tourism impacts so many sectors in the economy (“ripple effect”), tourism still accounts for $5.4 billion per year in Pakistan (5.1% of GDP) and provides employment to 2.22 million people nationwide (4.1% of total employment).\(^9\) Moreover, the World Travel and Tourism Council (WTTC) estimates that tourism demand will grow by nearly 7% per year over the next ten years. As such, devoting more attention to tourism can have tremendous economic impact.

**Diversification of destinations needed.** Pakistan is able to offer the whole gambit of tourism products given its geographic (deserts, mountains, lakes, valleys, and coasts) and cultural diversity (over 50 spoken languages and dialects and numerous festivals throughout the year). For the adventure tourist, there are overland routes into China, India, Afghanistan, and Iran, plus multiple opportunities for trekking, mountain climbing (6 of the 15 highest peaks in the world are in Pakistan), white water rafting, skiing, desert jeep rally, camping, fishing, and hunting. For the nature lovers, there are hill stations, valleys, orchards, lakes, rivers, mines (gems, marble, second largest salt mines in the world), glaciers, and forests. For the sports fans, there is cricket, hockey, horseback riding, and polo (Pakistan is home to the world’s highest polo ground). For religious pilgrims, they can visit many Islamic mosques (largest mosque in the world), Buddhist monasteries, sculptures, and ruins (Swat, Peshawar, Mansera, Taxila), Sikh shrines (birthplace of Nanakana Sahib), Hindu temples (Tilla Jogia and Kalar Kahar), and old Christian churches. Finally, for the history connoisseurs, there are remnants of ancient Mughal civilization, the silk route into China, Alexander’s trail, Gandhara heritage, and the Indus Valley civilization. Moreover, seven sites in Pakistan (including the Fort and Shalimar Gardens in Lahore) are included in the World Heritage list.

Despite all these assets, a few destinations remain the focus of international as well as domestic tourists – there is a need to diversify these visited destinations through targeted promotion, innovative product development fitted to tourist profiles, and supporting infrastructure. The Ministry of Tourism recently held two key events to promote some of Pakistan’s less frequented destinations – Gandhara Week which attracted archeological and religious scholars from many countries to sites in Taxila and the NWFP, and the Cholistan Desert Jeep Rally in the South of Punjab. PTDC has many innovative ideas for launching events over the coming year, including hot air

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\(^9\) SMEDA’s Travel and Tourism Sector Study.
ballooning over the northern mountains, paragliding, extreme skiing, Lahore car rally, Mughal-e-Azam express train into India, and Alexander’s Trail. However, it is not clear that it is equipped with adequate funding, event management skills, institutional capacity, or political clearance to put these plans into action. Holding events such as these (and sponsoring foreign “familiarization trips” as was the case with Gandhara Week) is a good promotion technique.

It is less clear whether government-operated motels (PTDC and TDCP) and attractions (e.g., Patriata cable cars) are a good promotion technique. While conducting market analysis and adopting strategies for opening up new locations by supplying the access routes and the first accommodation facilities that can create demand for those tourist destinations, it can also lead to heavy losses for the government and crowding out of private investment if not thought through properly. It may be adequate to provide infrastructure to potential destinations, after which private hoteliers will come themselves if there is a market demand that can be filled; for instance the Pearl Continental hotel chain built a hotel in the Bhurban hills, and created a tourist inflow into an area where there previously was none. The impact is even less clear of building government-run motels in areas where private lodging facilities already exist, with the rationale that it will prompt the private sector to offer a better quality of service.

Private tour operators are also arranging new packages and activities. For instance, the Khyber Steam Safari is a collaboration of a private tour operator and the Pakistan Railways. It operates British era steam trains from Peshawar to the Afghan border and back. Similarly, another tour operator offered a Mughal Tour package for Pakistan and India but the demand dried up post 9-11 and he hasn’t revisited this option. PIA also offered a 2-hour air safari in 1995 but it didn’t prove financially viable since it operated on a large 737 (rather than a smaller plane) and only the 26 window seats were sold; it is now only offered on a charter basis at $8,000. Similarly, other products to explore may be desert safaris or beach development, including water sports training and cruises.

**A successful strategy recognizes and caters to the market.** Product development should be tied to potential tourist segments and their demand profiles. Pakistan shares borders with the two most populous countries in the world – tapping into the Chinese and Indian markets could mean untold tourism growth in Pakistan. Jordan and Israel’s tourism sectors benefited from a spike after peace talks – the so called “peace dividend.” Similarly, by opening its doors to Indian tourists, Pakistan would not only be able to attract Indian tourists and foreigners visiting India, but it would also send a message of regional stability to potential tourists around the world. A close

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10 According to The Financial Express (16 March 2005), Pakistan and India issued 69,000 visas each (the only countries to operate on a system of reciprocal visa issuing) but this number could multiply several fold if restrictions are removed.
source market that could be tapped with the peace dividend would be Dubai, which is just a two-hour plane ride from Karachi and had 3 million inbound tourists in 2001. As regards China, in several interviews with both the government and private sector tourism distribution channels, it has not been appreciated as a potentially large source market. It is claimed that the Chinese want very cheap packages – if this is the case, it is not clear why the market shouldn’t provide this level of service, given the large volumes that could be tapped. In 2001, there were 10 million outbound tourists from China (Pakistan was the destination for only 1% of them); this figure is expected to grow ten-fold by 2020.11 In 2002, India received nearly 18 times as many Chinese tourists as did Pakistan12 – it would be a mistake for Pakistan not to recognize this as a potentially major source market

While the northern areas and the Frontier hold the primary destinations for foreign leisure tourists, these tourists enter through Karachi, Lahore, or Islamabad – tours can be organized so that a city tour/daylong excursion (e.g., to the beaches in the case of Karachi) is a side feature built in to the itinerary. Similarly, business travelers can be enticed to stay an extra day or use their weekends to engage in some leisure activities as well – developing products to fit the needs of this segment (e.g., two hour, half day, and day tours) may be relatively cost-effective particularly since the ratio of inbound business to leisure travel is 1.5 to 1.13 These features are meant to offer tourists additional choices in their travel itinerary rather than restricting their more direct access to the Frontier.

While promotion activities geared towards foreigners are more profitable at the margin, domestic and overseas Pakistanis are major markets that should be recognized. Three-fifths of inbound tourists are overseas Pakistanis.14 This group accounts for much of the summer seasonal peak. Similarly, according to the WTO, hotels in Pakistan received 13 times as much occupancy from domestic tourists as from international tourists in 2003. In Kenya, where foreign tourists peak in the summer and winter, a variety of techniques (prices, events, products) have been used to tap the domestic market and smooth out fluctuations in tourism demand over the year. Pakistan should similarly think of levers.

Foreign business travelers are in large part connected to the country’s investment climate – as this has been improving in recent years, so have the numbers of inbound business travelers. Domestic businesses are also a potential domestic tourism market that has not fully been appreciated. Providing a range of innovative team building packages can prove lucrative. The more successful tour operators, and those that were able to survive the

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11 Tourism Possibilities in Pakistan.
12 As a region, Northeast Asia accounted for 41,473 tourists to Pakistan in 2002 as compared to 115,424 tourists to India (Yearbook of Tourism Statistics).
13 WTO website.
14 Tourism Possibilities in Pakistan.
tourism dips following 9-11, have relied more on domestic tourists and particularly on corporate clients who tend to be less seasonal.

**Recommendations**

There are a number of actions the Government of Pakistan can take to allow the tourism sector to grow much faster than is currently the case. Some of these actions can be instituted, and the benefits realized, almost immediately – the so-called “quick wins” – while other policy actions may be more appropriate for a medium-term strategy – i.e., those that can produce benefits in the next one to three years.

**Quick wins**

1. **Relax entry requirements for foreign visitors.** Much is to be gained by liberalizing visa policy, particularly for inbound tourists from SAARC countries. In fact, reinstituting on-arrival visas for foreigners for a six-month period would represent best practice and would be particularly attractive for “swing” visitors – i.e., those in neighboring countries (e.g., India, China) or countries with direct flights to Pakistan (e.g., UAE, Bangladesh, Thailand). As in any other country, airport authorities in Pakistan would still retain the prerogative of turning back entrants on real security grounds, while still benefiting from an influx of tourists. At present, only Europeans can obtain 72 hour visa on-arrival, during which time they can visit a visa office and get an extension – providing longer stay visas directly at the airport would just remove one more step in the process. Similarly, it is possible to remove the requirement of police registration for foreigners from 16 identified countries while retaining visitor information for security purposes by simply linking port of entry forms to police records.

2. **Reform land markets.** The price of land currently makes development costs, relative to average room rates, too high (particularly for medium level hotels) to justify investment, particularly from international players. Part of the problem of high land prices (for all levels of hotels) can be addressed by the release of government land, particularly in the city centers, on to the market (see chapter on housing construction and land for more details). In addition, relaxing zoning requirements will allow expansion projects that are currently in the pipeline.

3. **Provide business development services.** Using the Small and Medium Enterprise Authority (SMEDA) to deliver BDS services to potential two and three star hoteliers will enable them to adequately assess market risk, prepare feasible business plans and access commercial finance for development/expansion purposes.
4. **Privatize PTDC (and provincial arms like TDCP) motels/hotels and refocus resources for promotion activities.** Beyond promotion and marketing of Pakistan’s tourism assets and provision of an enabling environment for private investors and operators in the industry to function, the role of the Government should be limited. While the original intention of cultivating demand in new tourism destinations by providing accommodation facilities where none previously existed can a good strategy for diversifying Pakistan’s tourist destinations, it can also backfire if location decisions are not built upon adequate market analysis, sufficient marketing, and proper exit strategies. For instance, when PTDC motels crowd out private investment, they are no longer serving a useful purpose – these should be immediately transferred to the private sector. Similarly, where PTDC motels have been in operation for more than three years and are still loss-making (or have not demonstrated the tourism potential of a chosen location), they should be sold to the private sector – the MD of PTDC himself supports privatization, stating that “the private sector is always more efficient” and the organization should instead be promoting, monitoring, and ensuring standards. Where PTDC continues to operate “pilot” motels for demonstration effects, a staffing needs assessment should be conducted and a one-time budget allocation provided for retrenchment. Instead of justifying over-staffing due to seasonality of some tourist destinations, PTDC should instead rely on short-term contract labor for peak seasons and train a core staff that can fulfill multiple functions – e.g. hotel management in peak season but tourism promotion strategizing in off-peak season. Performance-based incentives for operating successful pilots should be provided. Monopoly privileges given to PTDC for bus operation on routes from Pakistan into China, Iran, India, and Afghanistan also need to be withdrawn – instead private tour operators need to be encouraged to offer multi-country destination packages through use of these routes.

5. **Use the private sector to run tourist attractions.** The private sector should be involved in the operation and maintenance of tourism attractions that the government currently manages, including historical sites. A management contract, with adequate performance evaluation criteria and good regulatory oversight, would ensure that sites are more actively promoted to potential tourists and that maintenance and upkeep is not neglected.

6. **Remove barriers to the private sector running PAITHOM.** A common complaint is the inadequacy of current hotel training institutes. It is a waste to have a fully operational training institute remain unused. Barriers to its functioning should be identified and removed, and the center should be operated by the private sector.

7. **Ensure an adequate tourism promotion budget for the Ministry of Tourism.** At the very minimum the Ministry of Tourism should: be able to
adequately supply promotion materials to all foreign embassies; have representation at the key tourism exhibitions – ITB Berlin, WTM London, and ATM Dubai; develop/maintain PTDC pilot hotels for the purpose of “cultivating” tourism demand; and adequately preserve historical sites.

8. **Establish a “Tourism Partnership Core” (TPC).** Private distribution channels for tourism – e.g., the hotel, travel agents and tour operators associations – do not have adequate linkages among each other. Similarly, while the tourism sector is impacted by policies from the Ministries of Tourism, Communication and Transportation, Information, Foreign Affairs, and Planning, they each operate independently of one another. Moreover, there is very little opportunity for the **public and private sectors to collaborate** with one another in the development of the tourism sector. The TPC would offer an opportunity for **structured dialogue** among the various public and private sector agents influencing development of the sector. Since the Ministry of Tourism at present has neither the capacity nor the political clout to convene this Core, either the **Ministry of Finance or the Planning Commission** would be best placed to inaugurate this Forum. It is recommended that the TCP have no more than 12-14 representatives (an equal number from the public and private sector) so it operates as a working group. The Core should meet monthly at first to agree on its structure, objectives, and strategy, and then on a six monthly basis with rotating chairs from the public and private sectors. To the extent possible, the TPC should organize a regional **tour operators convention** to increase the number of linkages and multi-country destination packages that can be offered – e.g., a mountaineering expedition can include both Nepal and Pakistan; a Mughal tour can include both India and Pakistan; etc.

**Medium-term strategy**

9. **Restructure and strengthen the Ministry of Tourism.** In order to adequately promote tourism in Pakistan, the Ministry of Tourism needs institutional strengthening, both in terms of available resources as well as the capacity to effectively utilize those resources. As a starting point, it is not clear why the Ministry of Tourism has split apart from the Ministry of Culture – while the objective may have been to give the tourism sector a more pronounced role, the Tourism Ministry was left with less staff, less budget, and practically the same mandate as it had before. In fact, as the Federal Minister of Tourism states, “culture is my main tourism product. I promote culture – they [Ministry of Culture] cannot promote culture.” An **in-depth diagnostic** should be carried out to assess whether the two Ministries should be re-merged, what the staffing and budget requirements are, and the most effective institutional set-up. This should include an evaluation of how the federal and provincial promotion arms work together – e.g., DTS (federal level) licenses tour operators but implementation and monitoring is done at the provincial level. In addition, training should be provided, especially to the management tier of the Ministry, to empower Pakistan: Housing, Tourism and Retail 2 Improving Tourism 27
them with the market and policy tools to deliver effective sector strategy/impact.

10. **Invest in a comprehensive tourism strategy.** While there is a tourism strategy under preparation, it is not clear that it includes input from all stakeholders. It is essential that time be taken to **convene the various stakeholders** and finalize a strategy that has support behind it. The strategy should have an in-built **feasibility study** carried out on current and tourism assets in Pakistan as well as current and potential tourist segments – to the extent that **infrastructure** (especially secondary road networks) remains a barrier to accessing potential destinations, priority funding should be earmarked to this end. The Strategy should also pay close attention to the **promotion and preservation of cultural heritage**, such as the current World Bank funded pilot in the Walled City of Lahore. This pilot should be leveraged throughout Pakistan and key segments should be identified with steps detailed as to developing them. Sustainable development of the sector, paying attention to cultural/social and environmental externalities, will ensure that tourism continues to grow rather than level off and eventually decline. Once gaps in know-how have been identified, a strategy for bridging them should materialize – the premium would be on specificity of action rather than a vague plan. **International best practice** examples of tourism development – e.g., Dubai, Malaysia – should be leveraged in drawing the action plan. **Monitoring and evaluation** of Strategy components will go a long way in identifying the areas that have the greatest investment impact.
3 Improving the Retail Sector in Pakistan

Chapter Summary: The retail sector in Pakistan contributes significantly to GDP, and employs a sizeable portion of the work force. With improving macro-economic conditions, investment in retail businesses--particularly from Pakistani nationals living overseas--is increasing, as is shown by the rapid growth in the number of outlets operating in the country over the past five years. However, the industry remains fragmented and underdeveloped: productivity is low, notably in the food retail sub-sector, and small one-person stores dominate. Furthermore, despite the government’s favorable position on FDI and open policies on foreign companies owning and operating retail business in the country, the presence of international retailers in food retail sector is essentially non-existent. Barriers to the growth of large retail outlets include tax collection methods with loopholes for evasion by smaller, informal shops who can then sell goods cheaper than formal, more productive supermarkets; high import tariffs on key equipment; low supply chain efficiency, which makes it difficult for large food stores to operate effectively; and high land prices which hamper store expansion. Actions that could yield relatively quick wins in terms of stimulating investment and productivity growth in the sector include: (i) reducing customs duties on critical imported food retail equipment, notably chilling equipment and refrigerated trucks used for transportation and storage of perishable goods as well as consumer goods; (ii) deducting sales tax on locally produced packaged goods from manufacturers, rather than retailers; (iii) strengthening local institutions’ capacity to address barriers to productivity in the production, storage, transport and wholesale of fresh produce; and (iv) releasing government land and planning zones in developments to increase land access and affordability.

We discuss in more details these findings in the following four sections:

1) Current performance of the industry
2) Constraints to a stronger performance
3) Economic and social value at stake
4) Recommendations

Current Performance of the Industry

Output performance. The retail sector plays a critical role in Pakistan’s economy. The sector contributes 18% to the country’s gross domestic product (GDP). In terms of employment too, the sector is very important, with 14.8%\(^{15}\) (4.43 million people) of the working population engaged in retail

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\(^{15}\) Government statistics, 2005
activities. In 2003, retail sales amounted to 73% of consumer expenditures. It is estimated that 20% of upper middle class, 65% of middle class, and 90% of poorer consumers’ expenditure goes on retail, and within this latter group, it is spent mainly on food items and other basic necessities.

The sector has experienced growth in recent years. In all, retail sales, which amounted to approximately Rs.2,100 billion in 2002 (or 55% of GDP), rose at an average rate of 8% (nominal) per annum between 1999 and 2003. Food, beverage and tobacco sales accounted for by far the highest portion of sales, at an estimated 73%.

Food sales rose at a slightly slower pace of 7.5% (from about Rs.1.2 billion to 1.6 billion between 1999 and 2003) than non-food retail, which increased by 8.2% (from Rs.444 billion to 610 billion) over the same period. In terms of regional split, Punjab, home to two-thirds of the population, accounted for about 60% of total sales in 2003, and at 8.5% per annum, has a sales growth rate that is higher than the national average.

With improving macro-economic conditions and low interest rates over the past several years, investment in retail businesses--particularly from the Diaspora/Pakistani nationals living overseas—has been on the increase, as is shown by the rapid growth in the number of outlets operating in the country, from 1.75 million in 1999 to 2.4 million in 2003. Growth in retail-related employment was of the order of 33% from 1999-2003.

As shown in Table 1, by far the largest retailers are those selling clothing and footwear. Bata, an international company, leads the pack with close to Rs.1.9 billion in turnover (2003), dwarfing by almost seven-fold the leading supermarket, Agha’s Superstore.

<table>
<thead>
<tr>
<th>Retail Group</th>
<th>Turnover, 2003 (Rs. m)</th>
<th>Number of Outlets</th>
<th>Retail Sales Area (m2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bata (clothing, footwear)</td>
<td>1,885</td>
<td>257</td>
<td>128,500</td>
</tr>
<tr>
<td>Service (clothing, footwear)</td>
<td>1,100</td>
<td>213</td>
<td>106,500</td>
</tr>
<tr>
<td>Singer (durable goods, appliances)</td>
<td>736</td>
<td>6</td>
<td>2,400</td>
</tr>
<tr>
<td>Fazal Din’s (health/beauty, pharmacy)</td>
<td>720</td>
<td>17</td>
<td>6,800</td>
</tr>
<tr>
<td>Agha’s (food)</td>
<td>279</td>
<td>1</td>
<td>5,000</td>
</tr>
</tbody>
</table>

16 Retailing in Pakistan, EuroMonitor International, 2004

17 Exchange rate: 1 USD = Rs.60 (Pakistani Rupees)
Productivity performance. The general characteristics of the retail sector suggest that there is much room for productivity improvement. The industry is highly fragmented, with 99% of outlets being small, one-two person operations. Of these, 63% are general stores, 22% are mobiles\textsuperscript{18} and 15% are kiosks.\textsuperscript{19} While the number of outlets is growing rapidly at the rate of 7.9% (1999-2003), the average number of outlets per business is low at 1.1 and only growing at a rate of 0.2%. Average annual sales per employee are about Rs.613,000 for general stores; Rs.83,000 for mobiles, and Rs.167,000 for kiosks.

Department stores\textsuperscript{20} and supermarkets\textsuperscript{21} are very much in their infancy. Indeed, there are only 115 locally-owned supermarkets and fewer than 70 department stores in the country. Sales through these larger outlets account for no more than 1% of the total. However, productivity, as defined by average annual sales per employee, in these modern formats is far greater than in traditional outlets: annually, supermarkets sell some Rs.3,704,000 in goods per employee, while for department stores this figure is Rs.2,924,000.

Despite the government’s favorable position on foreign direct investment (FDI) and open policies on foreign companies owning and operating retail business in the country, the presence of international retailers in food retail sector is essentially non-existent.

Format mix. The most prevalent food retailing formats in Pakistan are small, independent grocers--selling domestic produced and imported packaged, non-perishable goods--, and specialists (see Figure 1) selling fresh fruits, vegetables and meats.

Food shopping is a near-daily undertaking in Pakistan: fresh produce is preferred. Fruits and vegetables are typically purchased in open-air markets, and meat bought freshly-slaughtered at the local butcher. Together with small neighborhood grocers, this format, which is often based on storekeeper-client relationship, accounts for some 90% of total food retail activities. Across the board, food sales are on the increase. However, as illustrated in Table 2, supermarkets are becoming increasingly popular, particularly in urban centers: sales through this format have risen by 360% over the past five years.

\textsuperscript{18}Mobiles are a traditional form of retailing where outlets are not only confined to open air stalls, but also include operators who knock on car windows to sell their products.
\textsuperscript{19}Kiosks are located in streets or parks, mainly selling confectionary, newspapers and tobacco.
\textsuperscript{20}Department stores have a sales area of at least 2,500 m\textsuperscript{2}, and sell mainly non-food merchandise in at least five different departments, usually arranged over several floors.
\textsuperscript{21}Supermarkets typically have an area of 400-2,500 m\textsuperscript{2}, with about 70% foodstuffs/everyday commodities.
A number of local supermarkets exist, with some already at multiple locations and others at the expansion planning stage, including HKB and Pace (Lahore area), Imtiaz (Karachi) and Agha’s Superstore (Islamabad). To date, no international food retailers either are present or have advanced plans to set-up business in Pakistan. However, the Habib Group is in discussions with Germany’s Macro to establish wholesale outlets in the country.

Supermarkets carry a mix of fresh foods, dried locally-produced items such as pulses, packaged foods, and other locally-produced as well as imported fast-moving goods. It is notable that the fresh produce departments in these stores are usually very small, demonstrating customer preferences for buying such goods from specialists/markets. With the exception of Imtiaz (see Figure 2) which also has several store-branded products--primarily due to the fact that they also own a rice mill and buys nuts in bulk for on-site packaging, imported brand-name items are the norm in their packaged foods sections.
Constraints to a Stronger Performance

Issues facing supermarkets vary in importance, and can be summarized as follows:

Main constraints

Inefficient fresh fruit- and vegetable supply chain results in high costs:

- Wastage, which is ultimately factored into the purchase price of produce, as well as the loss/overall cost to retailers, is very high. Only some 65-70% of fruits and vegetables harvested reach the market without significant damage, which, in turn, leads either to immediate disposal or short shelf-life. The main causes of in-transit damage is lack of refrigerated transport and warehousing; poor roads (although the government has done a lot to improve road quality in recent years); low quality packaging materials and methods used to load produce at farms and unload it at wholesale markets (see Figure 3); and lack of waxing of fruits.  

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22 Interview with National Productivity Board.
The process for getting produce from farms to consumers is inefficient, and lacks fundamental incentives to reduce losses and keep costs down. There are few large-scale commercial farms, and the produce supply sector is dominated by unorganized small farmers who are at the mercy of intermediaries for transporting harvests from fields to town. These middlemen buy produce from multiple small farmers, and then sell items in bulk to a second set of intermediaries, who have a distribution network. Fruit and vegetables are then sold in small quantities by individual or groups of vendors (see Figure 4), often in the employ of a handful of businessmen with operations based at the market. Both retailers and individuals purchase from the same
“wholesale markets”--which, in effect, are better-termed “central markets”, rather than wholesale points that offer bulk discounts—and it is therefore difficult for supermarkets to offer customers discounts on fresh fruit and vegetables sold through these modern, theoretically more efficient formats.

- While meat is generally supplied by small vendors directly to the retail outlet (selection is done on the spot and items that are rejected are taken back by the vendors), fresh fruits and vegetables are neither graded at the source, nor when delivered to retailers. Hence it is up to supermarket buyers to do grading by going to individual vendors (see Figure 1) at the centralized market to fill their store stock. This is a time-consuming process that involves a dedicated purchaser personally visiting markets and selecting produce, and several staff on-site at the store sorting and then displaying produce. There is no guarantee of the quality of goods purchased, and available volumes of any given product can not be assured. For larger supermarkets, it is not unusual for shelves to be empty or under-stocked because desired volumes were unavailable from a given market. If Pakistan is to attract investment in more productive food retail formats, the supply chain must be improved to cater to large stores in terms of guaranteeing delivery of appropriate quantities and quality of produce, and this, too, in a timely manner.

Retailers suffer the consequences of poor fresh produce supply chain daily:

- 04.30: Buyer goes to wholesale market to inspect and select fruit & vegetables; then pack purchases into sacks
- 07.00: Goods are transported to retail outlet
- 08.00-09.30: Goods are unloaded and grading is undertaken at store, before items are put out for display
- Next Day: Rejected goods are transported back to the wholesale market in the afternoon, and sold at a loss (at the retailer’s expense)

- Poorly-developed wholesale sector affects supply of imported goods: The lack of a well-developed wholesale sector, especially for imported food items, results in high costs for retailers, which, ultimately, means higher costs for consumers. Individual retailers typically import themselves from a range of suppliers, often based in the United Kingdom, Dubai and Thailand. Consequently, imported volumes are small, so prices can not be pushed down. Moreover, in an effort to secure volume discounts, supermarket purchasers often inadvertently create further wastage though mismatches between supply and demand for both packaged foods and imported household items. Again, although they should in theory be more productive and
cheaper suppliers of goods, these larger retail formats are unable to offer items at a significant discount.

**High operating expenses make operating businesses costly**

- **Import duties and taxes:** Several retailers have estimated that operating expenses are some 9-10% of sales, while average gross margins are approximately 7.5%. The most important expense identified by interviewees relates to the government’s general import tariff regime. Imported basic equipment, for instance (such as chillers), are prohibitively expensive, being subjected to import tariffs of 25% plus sales tax of 15%. Furthermore, vehicles designed to transport fresh produce are subject to import tariffs of 60% plus sales tax. Imported goods are typically undervalued by retailers so that precedence is not set for future imports. Indeed, it is claimed that supermarket purchasers are actually encouraged to declare imports at 50-65% of their actual value. In exchange, they pay lower duties, but also are encouraged to offer up to a 10% “bonus” on the value of imports to customs officers for their assistance. High duties and transparency could be a barrier to entry for large, international retailers.

- **Price of land:** The current high price of prime land severely limits business’ ability to expand in Lahore, Karachi and Islamabad (where current demand for the supermarket concept is greatest). This, compounded with poor security situation outside of many of the largest cities in the country where land is more affordable, make both retailers and potential customers wary of going to the outskirts of town.

- **Lack of talent (or ability to attract it) for managerial positions:** Supermarkets compete with “more attractive” multinationals for good managers. They are generally unable to attract graduates from top-tier management school in Pakistan to help grow their businesses and tackle their important supply chain issues. Those who are recruited typically lack skills and must undergo lengthy on-the-job training.

**Unequal taxation methods benefits small and informal players:** All registered retailers are expected to collect a sales tax of 15% on all items sold. Loopholes in the tax collection system give an unfair advantage to small retailers over “more visible”, supermarkets. Supermarket owners estimate that 10-15 stores in Lahore actually pay sales tax on items sold.23 “Law abiding” supermarkets that do pay tax have a hard time competing with smaller shops that automatically have a 15% price advantage over them due to avoided sales tax. They claim, too, that the government has, for all intents and purposes, given up on collecting sales tax from smaller retailers. International retailers,

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23 From interviews with HKB, Pace and Al Fatah supermarkets in Lahore
in particular, are more likely to want to “play by the rules” and follow Pakistan’s tax system carefully; however, this would be to their disadvantage.

Customer preferences make break-through of modern formats slow: In Pakistan’s upper-middle class segment, food shopping and preparation is usually undertaken by house-help; hence the concept of pre-prepared or frozen food “for convenience” is seen both as unnecessary and unappealing. A consequence of this preference is that food retailers have little incentive to establish outlets designed to cater specifically to the well-off segment of society, such as large, clean, air-conditioned stores where everything can be found under one roof. Hence, competing with small neighborhood retailers becomes an issue of price alone, rather than price and comfort or convenience. With the emergence of a bigger middle class segment in Pakistan, however, a more modern retail experience can be expected to take-off.24

Less important constraints

- **Tax disincentive for businesses to grow**: There exists an additional withholding tax for larger/more sophisticated companies. In Pakistan, companies grow from (i) sole proprietors, to (ii) association of persons (AOP), to (iii) private limited companies, to (iv) public limited companies. However, private limited companies must pay a 3.5% withholding tax, which they cannot realistically pass on to suppliers (through deductions in the cost of goods purchased) or to customers. Hence, many private limited partnerships, including HKB, have re-registered as AOPs, rather than going public.

- **Poor after-sales service**: There is a lack of local servicing operations, notably for chilling equipment used to preserve fresh produce in supermarkets (once equipment breaks down, it is typically out-of-service for long periods at a stretch or simply retired and replaced earlier than necessary). This is most likely as a result of the small volumes of machinery imported, which, in turn, is linked to high tariffs.

- **High electricity prices**: Retailers complain about electricity prices (8 Rupees/kWh) with no relief from sales tax, however this privilege is afforded to manufacturers. As a result, modern retailers that have larger stores and, importantly, operate energy-intensive chilling equipments, are penalized more than smaller, traditional outlets.

- **High pilferage rates**: Losses due to theft are estimated at above 2% of sales, whereas global best-practice is closer to 1%. Some 95% of thefts can be attributed to employees, whereas in the West it is typically 70%.

24 From interviews with retailers in Karachi, Lahore and Islamabad
Economic and Social Value at Stake

Improving the performance of the retail sector is not only essential because it accounts for more than 15% of GDP and employment but also because it directly influences the performance of industries upstream – e.g., wholesalers, food processors, manufacturers of consumer goods and even agriculture. Indeed, the experience from other countries have shown how competitive and productive retailers have forced/helped these upstream industries restructure. It is also increasingly the case that large international retailers are becoming a source of manufacturing exports – e.g., Tesco in Thailand and Wal-Mart in Brazil are helping local manufacturers improve the standards of their products so that they can sell them throughout their global networks of stores. Finally, a competitive retail sector is a critical component of a vibrant tourism industry.

Governments around the world have been reluctant to liberalize the retail sector to enable the growth of large-scale foreign retailers for fear that it would lead to an employment blood bath. In fact, detailed analysis from the McKinsey Global Institute has shown that retail employment continues to grow with an increasing share of modern formats. This is because the price elasticity of demand for goods and retail service is higher than one – so when productivity increases, output increases even more. It is on the basis of such analysis that the Indian government has recently agreed to lift the restrictions on FDI in the sector.

Recommendations

Quick wins

Several measures can be implemented by the Government of Pakistan at the short-term to improve productivity in the retail sector, notably by supporting the growth of local supermarkets and attracting foreign investment in this sector. These are four-fold.

1. Reduce import levies
   - Reduce customs and excise duties on imported critical retail equipment, including chilling equipment and refrigerated trucks used for transportation and storage of fresh produce/perishable goods; and imported packaged goods. Reducing import tariffs and simplifying the general excise regime (by streamlining clearance procedures, to reduce number of windows and payments to which importers are subjected) would lower costs to retailers and thus consumers. Furthermore, this would lower the administrative costs to both government and companies; as well as likely reduce smuggling of goods into the country and, ultimately, generate more—rather than less--documented revenue for the Pakistani government.
Customs duties on imported chilling equipment are 20-25%, while vehicles for goods transport are subject to a 60% levy. When coupled with a sales tax of 15%, tariffs levied on machinery are very high.

Added to this are excise duties of 5-50% for packaged goods.

Currently, the time and costs (“speed money”) to which importers are subjected significantly add to the costs of doing business.

2. Improve efficiency/transparency of sales tax collection

- Deduct sales tax on locally-made packaged goods directly from manufacturers (who are often fairly large and operate in the formal sector) rather than leaving it to individual retailers to declare sales or passing-up collection from small stores. Charging sales tax at the manufacturer side would create a more level playing-field for all retailers, and also increase Government revenues from the sector.

- Small retailers can easily avoid declaring sales taxes owed to the Government, allowing them to offer goods at cheaper prices than larger formats, who typically declare sales volumes more consistently.

3. Improve productivity along supply chain

- Strengthen the capacity of institutions—such as the National Horticulture Board and National Productivity Organization— to provide training and support information dissemination to both small-scale and commercial farmers as well as wholesalers/middlemen for improving product storage, preservation and packaging.

- 30-40% of produce is wasted due to preventable damage during transportation between farms and wholesale markets.

- Raising the percentage of saleable produce would save a range of resources, increase returns to producers, and reduce costs to consumers.

- Introduce structured wholesale markets for fresh fruits and vegetables. As a consequence of the current quasi-monopoly system in the fresh produce supply chain, inefficiency is rampant and layers of middlemen take a hefty margin, both on the producer and consumer ends. Improvements to the supply chain could be achieved by introducing large, professionally-managed wholesalers, such as Macro, to Pakistan. However, this may take a while to achieve. Hence, government intervention is needed to kick-start improvements in this area.

4. Address high cost of land

- Release Government land and plan zones in new developments. Increasing the availability of prime land and allocating sufficiently large plots for commercial usage in new communities would allow...
expansion of more productive retail outlets that can better and more cheaply serve residents (see Land chapter).

- A significant barrier to the expansion of large-scale retailers is the high cost of land in existing residential areas, and lack of commercial sites of appropriate size in planned developments.
Annex A: Presentation on Housing Construction and Land Markets

Improving housing construction and land markets in Pakistan

Washington DC, 28th July 2005

KEY ISSUES IN HOUSING CONSTRUCTION AND LAND MARKETS

- Restrictive building codes and zoning laws
- Undeveloped government land
- Problematic provision of infrastructure and utilities
  - Inefficient public operators
  - Subsidized prices
  - Low property tax revenues
- Non-transparent and unreliable land registration process
- Multiplicity of institutional structures and confusion in roles
  - Conflicting building codes and zoning laws
  - Overlapping jurisdiction for infrastructure provision
- Informal and inefficient developers
- Cartels in construction material industry
- Generous tenant laws and rent controls
- Governance issues in social housing schemes
- Slow upgrading of slums (40% of urban population)

Very high costs and high risks of secured and developed land
High construction costs
Lack of formal affordable housing
ECONOMIC VALUE AT STAKE

Housing construction share of GDP (percentage)

U.S  Korea  Brazil  Russia  India  Pakistan

4  5  6  3  1  1

Many other key industries affected:

- Construction material
- Retail
- Tourism
- Agriculture
- Utilities

Similar issues estimated to cost India 1.3% annual GDP growth - McKinsey

Issues with land collateral limit access to formal and affordable finance for SMEs

Land market issues mentioned as the most important constraint by investors in FIAS Admin Barriers study

A DOZEN SOLUTION LEVERS

1. Upgrade slums following international good practices
2. Improve transparency and targeting of social housing subsidies
3. Relax building codes and zoning laws as appropriate for area land use
4. Relax tenant laws and rent controls
5. Institute housing developer certification and regulations governing project accounts containing advance deposits
6. Auction government land
7. Reduce huge backlog of land related court disputes through prioritization, segmentation and alternative dispute resolution (ADR)
8. Streamline and computerize land registration processes – starting with areas earmarked for new developments
9. Secure and auction concession rights for quarries and reduce import tariffs on construction material
10. Enable public-private partnerships in infrastructure for new housing schemes through higher utility prices and private distribution
11. Align revenue and expenditure authorities of local governments (and build capacity for administration) and reform property tax systems
12. Modernize and enforce national and local master plans

Lessons from best practice: Ministry of Finance to drive this reform agenda
1. SLUM UPGRADING – THE OPTIONS

<table>
<thead>
<tr>
<th>Options</th>
<th>Pros</th>
<th>Cons</th>
<th>Country examples</th>
</tr>
</thead>
</table>
| Upgrade / regularize existing settlements | • Public support  
• Relatively low cost  
• Increased land value  
• More hygienic  
• Good targeting through self-selection  
• Services provided where demand is | • Subsequent O&M provisions to be ensured  
• Increased housing costs to the households | Jakarta (Indonesia),   |
| Relocation of slum / squatter settlements  
(In special cases such as pavement / railroad track dwellers, environmentally sensitive land, etc., relocation can be considered) | • Reduce vulnerability of households  
• Improved efficiency of (transport) infrastructure | • High risk  
• High admin. costs  
• Long and costly implementation  
• Subsequent O&M provisions to be ensured  
• Increased housing and transportation costs to the households | Lima (Peru)   
Mumbai (India) |
| Multi-use developments, where proceeds from sale of some land for commercial use cover all or some infrastructure costs | • Fully or partially self-financing  
• Efficient land use  
• Lower “ghetto” effect due to mixed land used  
• Possible gentrification of areas | • Viability of commercial project if next to low-income housing  
• May “squeeze” out the poor due to increased costs and prices | Thailand  
(private-private deal)   
Islamabad, Pakistan  
(public-private deal) |

1. SLUM UPGRADING – COUNTRY EXAMPLES

**Lima, Peru: Slum upgrading and low-income housing**

In 1975, SINAMOS (the national social mobilization institution) identified an area northwest of Lima where they surveyed plots and relocated thousands of squatter families. In addition to legal land, the Government provided transportation, water tankers, and a military field hospital. The community provided the labor, laying out the plots and building homes. The area is now an integral part of metropolitan Lima, with low to middle-income neighborhoods with paved streets, piped water, and street lighting.

**Jakarta, Indonesia: Kampung Improvement Program (KIP)**

As an independent agency, the KIP was established in 1969 in response to growing sub-standard settlements known as kampungs – then home to 60% of Jakarta’s population. The KIP aimed to provide settlements with basic amenities, sanitation, and infrastructure. Instead of constructing high-rises as a solution to the housing problem, the program focused on upgrading what was already in place and in having community residents participate in this process. Five years after the program started and early successes were apparent, the World Bank became involved to scale-up the program and in 1979, the national government replicated the program nationwide. Over the first 30 years of its existence, the program benefited some 15 million.

**Thailand: Urban land-sharing**

Working outside of government, an architect Somsok Boonyabancha created a system in which slum dwellers get legal title to new housing on the back portion of disputed plot, and the owner gets the street-front portion for immediate development. Since the program began in the early ‘80s, 10,000 families have benefited. In the early ‘90s, Somsok began a program through the National Housing Authority’s Urban Community Development Office (UCDO), in which a squatter community facing eviction could ask UCDO for help in negotiating with the landowner to purchase a tract of land. UCDO provides low-cost loans to local groups for housing, land purchase, and income generation.
## 1. SLUM UPGRADEING – BASIC PRINCIPLES

Whichever option is chosen, any slum upgrading program should have the following basic elements:

- Institutional capacity – clearly identified implementing and monitoring responsibilities with sufficient funding and technical resources
- Legal titles/ security of tenure – to ensure incentives for maintenance and upgrading
- Pilots – impact of intervention ascertained before scaling up
- Basic infrastructure and social service provision part of program
- Although targeting is not a problem (self-selection), project design to minimize incentives for slum proliferation
- Training and employment part of package – goal to make slums transitional, rather than permanent, arrangement

## 2. SOCIAL HOUSING – THE OPTIONS

<table>
<thead>
<tr>
<th>Options</th>
<th>Pros</th>
<th>Cons</th>
<th>Country examples</th>
</tr>
</thead>
</table>
| Vouchers (rental or purchasing certificates) | - transparent  
- means-tested targeting  
- promotes choice  
- creates construction efficiency (as developers compete on price/quality)  
- avoids creation of "ghettos"  
- supports person, not asset | - if lack of low-cost housing, vouchers are unusable  
- upward pressure on prices if supply limited  
- "house rich, cash poor"  
- high admin. costs | Chile, Russia (repatriation of soviet army in early 1990s – USAID), Armenia earthquake (USAID) |
| Housing allowances             | - transparent, means-tested targeting  
- promotes choice  
- avoids creation of "ghettos"  
- supports person, not asset | - may lead to "poverty trap", if allowance very high relative to income  
- relatively high admin. Costs | Russia, Latvia, Armenia |
| Utility subsidy based on level of service | - effective screening (if designed appropriately)  
- subsidizes basic needs (promotes hygiene, health) | - costly and unsustainable  
- not available to poorest (unconnected to network)  
- requires careful targeting | East and Central Asia, Latin America, West Africa |
| Subsidy to developers – land or tax credits | - lower construction costs  
- make affordable units possible | - off-budget  
- regressive (if no criteria to build low-cost units)  
- supports asset, not person  
- oftentimes subsidy is captured by the developer and not passed to the buyer | Bangladesh, India, Iran, US |
### 2. SOCIAL HOUSING – THE OPTIONS (continued)

<table>
<thead>
<tr>
<th>Options</th>
<th>Pros</th>
<th>Cons</th>
<th>Country examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land readjustment schemes (land pooling or land swaps)</td>
<td>• land use efficiency • self-financing</td>
<td>• requires agreement of all landowners (lengthy process) • reliance on government • tenure security needed first</td>
<td>Japan, Korea, Singapore</td>
</tr>
<tr>
<td>Interest rate subsidy</td>
<td>• leverage private financing • promotes savings • promotes choice (demand based) • supports person, not asset</td>
<td>• off-budget (non transparent) • regressive (lower income groups no financing access) • inflationary effect if supply constrained • contingent liability to govt • little flexibility to govt</td>
<td>Mexico, Argentina, Iran</td>
</tr>
<tr>
<td>Public housing</td>
<td></td>
<td>• inefficient and costly • crowd out private sector • perverse incentives • targeting problematic • supports asset, not person</td>
<td>Russia, Latvia, Iran</td>
</tr>
<tr>
<td>Rent control</td>
<td>• poor targeting • poor transparency • off budget • supports asset, not person • inflationary effects • low incentive to invest</td>
<td></td>
<td>India, Pakistan, Russia and most CIS countries, New York (USA)</td>
</tr>
</tbody>
</table>

### 2. SOCIAL HOUSING – COUNTRY EXAMPLES

- **Japan: Land pooling to internalize infrastructure costs**
  Effective extension of infrastructure systems to urban fringe areas requires cost recovery. Land is temporarily pooled in a well-defined area on the urban fringe, infrastructure services developed, sale of some of the lands by public authorities to recover costs, and reallocation of remaining land to the original owners. The increased land value compensates for the smaller plot sizes. 30% of Japan’s urban land (77% of Nagoya’s land) was developed using this technique.

- **Ivory Coast: Subsidizing water connections for the poor**
  Water connections in the Ivory Coast are 90% subsidized if households meet specific criteria (e.g. pipe diameter). The policy is based on the notion that the poor will self-select while wealthier consumers would want a higher quality service. Restricting circumference of pipes would help target low-income households. However, the scheme has not been effective as the poor live far from network mains. In the ’90s, 91% of all new connections installed were subsidized and benefited both poor and non-poor households alike.

- **Chile: Housing Voucher System**
  Prior to 1974, the Government provided large, unmeasured, unpredictable, and poorly targeted credit subsidies and direct production of housing. The new system of “capital housing subsidies” to low-income groups was direct, explicit, one-time, demand-based, and (later) based on private sector mortgage financing. The result was an increase in housing units, decline in unit costs, and 90% staff reduction in public housing agencies. The program targeted the “deserving poor” – i.e. those that demonstrated savings capacity and a desire to invest in their own housing. Beneficiaries deposited savings into a financial institution, received a housing voucher, and a mortgage loan for the balance. The beneficiary then chose whether to build or purchase a new or existing unit. The program emphasized choice and private ownership.
2. SOCIAL HOUSING – BASIC PRINCIPLES

One size doesn’t fit all – government should choose an option based on capacity vs complexity of program, and sector maturity. However, the following principles should be considered in program design:

- Administrative simplicity – recognize limits of public sector administrative capacity and contract out management where needed
- Housing developments built on land with secure titles
- Government land should be released to the private sector via auctions
- Leave construction to the private sector
- Reduce zoning/building regulations and tenant laws that promote inefficient land use and constrain supply of affordable rentals/real estate
- Pilots are an effective way of assessing impact before scaling-up
- Subsidies should be transparent, on-budget, and progressive
- Ensure sustainability by monitoring and minimizing expenditure
- Subsidize the person, not the building
- Design screening and targeting devices effectively to avoid leakage (to non-poor) or non-coverage (of poor)
- Align central and local programs – do not allow fragmentation

3. RELAXING BUILDING CODES AND ZONING LAWS

• Very restrictive and uniform Floor Area Ratio
• Cumbersome and restrictive zoning laws for commercial development
• Optimal profile for efficient land use and infrastructure expenditures

High costs to households and businesses (in Bangalore, low FARs were estimated to cost 3-6% of household wealth)
4. RELAXING TENANT LAWS AND RENT CONTROLS

- Open up decent housing to low income groups
- Increase occupancy of existing stock
- Encourage vertical construction
- Stimulate upgrades and development of vacant lots
- Increase property tax revenues - some are indexed to rental values

Good practice reform options
- Grand father clauses (new laws apply to old developments only after change in tenants) – New York
- Bands on rental increases – France
- Big bang – Massachussets (1996)

5. REGULATING HOUSING DEVELOPERS

- Shallow capital market
- Unsecured land tenure
- Inefficient courts
- Expensive construction materials
- High land prices

Limited access to commercial finance
Reliance on consumer advance payments
Risk of “vanishing” developers

Limited new construction

Short-term options for screening developers: Licensing/certification or trust structures
- Third party regulation to reduce risk for both developer and purchaser
- Mandatory establishment of project account, with regulations governing use
- Consumers willing to pay premium for licensed developer (security of investment)
- Recourse for investors in the event that contract terms not fulfilled
- Commercial banks more willing to lend if screening device in place
6. RELEASING GOVERNMENT LAND

Best practice
• Shenzhen
• Hong Kong
• Singapore

Request for proposals to get optimal development ideas in strategic land parcels

Auction to get maximum price for predefined land use and development potential

Drive land inventory process from the top

Share the “spoils”

Use the threat of reduced budget transfer

Ministry of Finance to purchase the land from other parts of government

Addressing vested interest

7. REDUCING BACKLOG OF LAND DISPUTES

Problems
• 40% of court disputes are land related (150,000 cases)
• 5 - 10 year litigation processes
• 90% of cases go to trial
• Prevent land development and financing

Solutions
• Prioritize cases and expedite resolution of most important ones
• Segment cases and establish national guidelines for resolution
• Institutionalize mediation processes and systems to increase efficiency and relieve courts from relatively simple and small cases (IFC initiative just starting)
• Streamline and computerize land registration processes to reduce flow of new disputes (discussed next)
8. STREAMLINING LAND REGISTRATION PROCESS

Current situation

Pilots under way in Sindh, Punjab and NWP

- Process driven by Ministry of Finance with large financial resources
- Guarantees given to new investors in case of disputes
- 2 year deadline set for claims on new transactions

Time to completion

<table>
<thead>
<tr>
<th>Good practices</th>
<th>Best practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 years</td>
<td>2 years</td>
</tr>
</tbody>
</table>

- Thailand
- Peru
- Eastern Germany
- Tunisia

9. BREAKING CONSTRUCTION MATERIAL CARTELS

Prices of cement, steel and bricks doubled over the last year

- Reduce import tariffs (up to 25% level currently)
- Increase the number of secured quarrying licenses (see FIAS marble value chain study)
10. IMPROVING PROVISION OF PUBLIC INFRASTRUCTURE

Current situation
- Large number of non connected buildings (Karachi)
- Construction process lengthened by several years
- Large areas of vacant lots not connected by roads (fivefold increase in public infrastructure investments required to implement new Lahore master plan)

Set and enforce service delivery standards for public utilities
Enable Public Private Partnerships by removing price subsidies on utilities for new development and privatizing distribution (initiative under way with the Planning Commission)
Increase property tax for local governments to have the financial means and incentives to develop new land (property taxes account for 50% of local government revenues in the U.S.)

11. ALIGNING REVENUE AND EXPENDITURE RESPONSIBILITIES OF LOCAL GOVERNMENTS AND INCREASING PROPERTY TAX

<table>
<thead>
<tr>
<th></th>
<th>Revenues</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>National government</td>
<td></td>
<td></td>
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<tr>
<td>The Punjab Provincial Government</td>
<td></td>
<td>○</td>
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<tr>
<td>The City Distric Government of Lahore</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Tehsil Municipal Administration</td>
<td>○</td>
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</tr>
</tbody>
</table>

Misalignment of responsibilities and financing deficit to be resolved by re-allocating and increasing property tax revenues (marked based valuation combined with increase in rate, coverage and collection)

New property tax system will also discourage speculative holding of vacant land

Aligns local government interests with those of the private sector and economic development
12. DEVELOPING AND ENFORCING NATIONAL AND LOCAL MASTER PLAN

**Land development national master plan** (Planning Commission)
- Strategic development plans indicating planned public investments (may be used to promote medium sized cities if megacities are unable to manage growth – caution should be exercised to avoid distortionary effects)
- Develop access to tourism destination with greatest potential (see FIAS report)
- Develop best practice industrial zones around existing clusters and trade links

Specify and prioritize national public infrastructure needs as well as requirements for government land release

**Integrated master plan** (City of Lahore)
- Relax building codes and zoning laws to optimize land use and infrastructure utilization (as discussed)
- Increase flexibility to convert land from residential to commercial uses
- Include cantonment area in the plan
- Do feasibility study for development across Ravi River to the Northwest (similar initiative under way in Mumbai)

Large cities need technical assistance to develop/refine their master plans (large cities project under discussion with World Bank)

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DRIVING THE REFORM AGENDA HOME

**Current actions**
- Counter productive new law preventing advanced payment to developers by consumers
- Problematic Public Private Partnerships
- Three uncoordinated land titling pilot projects
- Housing construction policy shelved since 2001
- Inventory of government land never completed
- Slum upgrading progressing at a snail pace despite local expertise
- Conversion of rural land for residential use frozen in Sindh following abuses in social housing schemes

**Best practice cases** (e.g. Eastern Europe) show that Ministry of Finance has to assume overall leadership of the reform process to:
- Overcome vested interests (with support from President and Prime Minister)
- Prioritize actions
- Share lessons learned, good practices
- Establish regulatory guidelines
- Set implementation targets linked to budget support
- Coordinate and monitor overall process
- Maximize support from eager donor community
Annex B: Sources of Information

Housing Construction and Land Markets

Interviews in Pakistan:

1. Muhammad Rafiq Tumbi – Director, AR Securities
2. Liaqat Ali Bhatti – Assistant Director, Directorate of Land Records, Punjab
3. Raheel Ahmed – Head of Consumer Banking, Standard and Chartered
4. Shehzad Hameed – General Manager, Mortgage, Standard and Chartered
5. Mehmood Mandviwalla – Advocates and Legal Consultant
6. Shahid Hameed – Chief Engineer, Ministry of Housing and Works
7. Jawad Amjad – Chief Executive, Invisor Securities
8. Khalid Mehmood Soomro – Secretary, Land Utilization Department, Sindh
9. Aqeel Karim Dhedhi – Chairman, AKD Securities
11. Zahid Arif – Senior Manager Banking, Eden developers
12. Yasrab Hinjara – Director Land Record, Board of Revenues, Government of Punjab
13. Tauqir Ahmad Faiq – Director General, Lahore Development Authority
14. Syed Mohammad Irfan – Chartered Architect and Development Consultant
15. Sikander Hayat Khattak – Chairman of All Pakistan Contractors Association (APCA)
16. Syed Iqbal Yunas – member APCA
17. Athar Nawaz Malik, Deputy General Manager, Pakistan Housing Authority
18. Kamran Ali Qureshi, Financial Adviser, Capital Development Authority
19. Nusrat Ullah, Member Planning, Capital Development Authority
20. Tahir Banuri, Architect, Capital Development Authority
**Key documents:**

1. Aide-Memoire of World Bank Mission to Lahore (October 2004) – Urban development project
2. Affordable Housing for Every Pakistani Family – Pakistan Housing Authority
3. Draft Medium Term Development Framework- Chapter 12 on Urban Development and Housing, Planning Commission
4. Establishing a secondary mortgage entity in Pakistan – Aries Group for IFC
5. FIAS admin barrier report for Pakistan, draft
6. Home financing – presentation by Zaigham Mahmood Rizvi, CEO, HBFC
7. Housing the Urban Poor, Acumen Fund
8. India the Growth Imperative, Housing Construction Chapter, McKinsey Global Institute
9. Land tenure, land use and land degradation – Tarique Niazi
10. Major impediments facing by housing and construction industry – Association of Builders and Developers
11. National Housing Policy 2001 – Ministry of Housing and Works

**Tourism**

**Interviews in Pakistan:**

1. Ghazi Gulab Jamal, Federal Minister of Tourism, Ministry of Tourism
2. Hashim Khan, MD, Pakistan Tourism Development Corporation (PTDC)
3. Irfan Ali, MD, Tourism Development Corporation of Punjab (TDCP)
4. Asim Saeed, Manager, Small and Medium Enterprise Development Authority (SMEDA)
5. Ahmad Shafiq, Director, College of Tourism and Hotel Management
6. Aziz Boolani, MD, Chair of the Hotels Association, Tourism Promotion Services Pakistan Ltd, owners of Serena Hotels
7. Murtaza Hashwani (CEO), Hashoo Group, owners of Pearl Continental (PC) and Marriott Hotels
9. Saqib Ashfaq, CEO, Country Club (CC) Motel
10. Mohammad Kalamuddin, Chairman, and member, Travel Agents Association
11. Muhammad Hassan Baqir, MD, Baqir Travel, travel agency,
12. Yousuf Butt, Manager, Manager, Travel Agency, American Express
13. Hussain Jafri, MD, tour operator, Millenium Tours
14. Shiraz Poonja, MD, Sitara, tour operator
15. Nauman Shah, District Manager, Pakistan International Airline (PIA)
16. Azra Sultan, Tour Promotion Manager, Pakistan International Airline (PIA)

Key documents:
1. Assistance on Tourism Development and Management – UNDP and WTO
3. National Tourism Policy – Ministry of Tourism
4. Pakistan Tourism Facts and Figures 2004 – Ministry of Tourism
5. Pakistan Travel and Tourism 2005 – World Travel and Tourism Council
6. People and Planet website
7. Sustainable Development of the Walled City, Mission Report – World Bank
8. The Tourism Development Handbook – Godfrey and Clarke
9. Tourism in Pakistan – Ministry of Tourism
10. Tourism Possibilities in Pakistan, Presentation to PM – Senate Standing Committee on Tourism
11. Travel and Tourism Sector Study – SMEDA
13. World Development Indicators Database 2005 – World Bank
14. World Travel Organization website

Retail

Interviews in Pakistan:
1. Yasim Tahir, Joint Secretary, Ministry of Commerce
2. Sakub Moyadeen, CEO, National Productivity Organization
3. Azhar Saeed Butt, Chairman, All Pakistan Traders Association
4. Mohammad Yusuf Rehman, Chairman, All Pakistan Fruit & Vegetable Exporters, Importers and Retailers Association
5. Bashir A. Buksh, CEO, H. Karim Buksh Enterprises
6. Shehryar Buksh, MD, H. Karim Buksh Supermarkets
7. Moeed Rahman, COO, Pace Pakistan Super Market Limited
8. Irfan Iqbal Sheik, CEO, Al Fatah Super Market
9. Mohammed Imtiaz, CEO, Imtiaz Super Market
10. Kamran Faruqui, General Manager Finance, Imtiaz Super Market
11. Nadeem Khalid, CEO, 7th Avenue Super Market
12. Muhammad Arif, CEO, ARIQ Int. Importers, Exporters & Trade Indentors
13. Amin Mohammed Lakhani, President & CEO, Development Licencee for McDonalds Pakistan

Key documents:
1. India the Growth Imperative, Retail Chapter, McKinsey Global Institute
2. Retailing in Pakistan, EuroMonitor International, 2004