

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: 99030

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Program Name	<i>Punjab Jobs and Competitiveness Program for Results</i>
Region	<i>South Asia</i>
Country	<i>Pakistan</i>
Sector	<i>General industry and trade sector, Public administration- Industry and trade, solid waste management</i>
Lending Instrument	<i>Program for Results</i>
Program ID	<i>P155963</i>
Borrower(s)	<i>Government of Punjab</i>
Implementing Agency	<i>Planning and Development Department</i>
Date PID Prepared	<i>July 15 2015</i>
Estimated Date of Appraisal Completion	<i>November 19 2015</i>
Estimated Date of Board Approval	<i>February 25 2016</i>
Concept Review Decision	To proceed with the preparation of the Program for Results
Other Decision {Optional}	

I. Introduction and Context

A. Country Context

Pakistan is the world's sixth most populous country with an estimated 182 million people and a per capita income of US\$1,300 in 2013 placing it in the lower income country category. Pakistan's GDP growth rates have averaged 4.1 percent since 2010, and though it is forecast to reach 6% in 2015, it is still much below the 7% figure from 2005.¹ The country's rebound from the global financial crisis has been slow and fragile; in fact, its recovery from the 2008/09 global financial crises has been the weakest in South Asia, with a double-dip pattern. Disappointing growth and the resulting marked slow-down in poverty reduction is likely due to a confluence of factors, including worsening and more volatile macroeconomic, political and security conditions, catastrophic natural shocks as well as unreliable energy and human capital constraints. Adding to these factors are weak public sector management, governance and capacity which hamper service delivery performance. Pakistan's performance on the Ease of Doing Business index has also been deteriorating in recent years (rated 128 out of 189 countries in 2015, down from 76 in 2008). Private investments and exports have been stagnating at a low level.

Punjab accounts for more than half of Pakistan's GDP and population. The province generates 60 percent of national GDP and is home to more than 100 million people. Despite trends in 2008/09 in which Punjab outperformed Pakistan's growth (growing at 6% relative to the national 4% rate), growth in the Province has since slowed to 3.5%. Although agriculture remains the largest employment sector in Punjab, it has been declining in importance over time.

¹ World Development Indicators.

Going forward, the main growth drivers of Punjab will be manufacturing (including agribusiness), mining (major deposits have been recently discovered), construction (driven by rapid urbanization) and services (both domestic and internationally traded such as ICT and tourism once the security situation improves). Manufacturing, which accounts for 21% of Punjab's GDP, is a major growth driver and employment generator.² The main industries of Punjab are textiles, apparel, leather goods, light engineering and agribusiness. The industrial structure is tilted towards SMEs often grouped as clusters - particularly within and around the "Golden Triangle" (Sialkot, Gujrat and Gujranwala) north of Lahore. Some of these clusters date back more than one hundred years and have achieved global pre-eminence (e.g. the sports goods and surgical equipment clusters of Sialkot). Unfortunately, a poor business environment and a growing technology/skill gap are compromising the growth and competitiveness of existing clusters. Furthermore, much of this manufacturing activity is taking place informally in and around rapidly growing cities, where there is insufficient land formally zoned for industry. This is putting stress on inadequate infrastructure and is resulting in a mounting pollution threat, as there are no effective combined effluent treatment plants (CETPs) in Punjab.

B. Sectoral and Institutional Context of the Program

The Government of Punjab has approved in March 2015 the Punjab Growth Strategy (PGS). The strategy sets a target of doubling Punjab's GDP growth by 2018 (from 3.5 to 7%) which will be necessary to absorb the one million people entering the workforce every year. The strategy was developed under the leadership of the Planning & Development (P&D) Department with the support of eminent Pakistani economists and the World Bank through the Jobs & Competitiveness just in time technical assistance (see Annex 3). The strategy also leveraged a large body of other recent analytical work – e.g. the 2010 "Private Sector Development Strategy for the Punjab" (Crown Agents-DFID), the 2010 "Industrial Policy, its Spatial Aspects and Cluster Development in Pakistan" (LUMS), the 2010 "The Constraints to Industry in Punjab, Pakistan" as well as detailed industry studies such as the 2013 "Garments as a Driver of Economic Growth" (IGC).

The key features of the Punjab Growth Strategy are as follows:

- To be sustainable, the strategy is private sector and export led – private investments will have to increase from US\$8 billion in 2013 to US\$17.5 billion in 2018, and exports will have to grow by 15% a year, particularly in labor intensive manufacturing given Punjab's abundant and competitive labor force. The other main sources of growth are agribusiness, mining, ICT and productive urbanization. The strategy is inclusive, regionally balanced and environmentally sound.
- The strategy calls for reforms (at both the Federal and Provincial levels) to improve the business environment as well as increase the quantity and quality of public investments in

² Pakistan Urban Sector Assessment (2014): Location quotient analysis (share of employment in a given sector for the province relative to that share for the country) for agriculture is currently less than 1 (0.937) while manufacturing has the highest location quotient for the province (1.224), and has also been growing modestly over time.

support of infrastructure and skills development (in partnership with the private sector). The main areas of reforms at the Federal level include trade and energy policies, while at the Provincial level, it includes policies governing business entry and operations, contract enforcement, property registration, building regulations, agribusiness, irrigation, mining, access to skills, regional economic planning, land use rules, access to industrial land, PPPs, property tax, urban water, sales tax and governance (see Annex 3 for more details).

The Punjab Growth Strategy is the “Government’s program” as per the PforR terminology. It consists of six sector plans: Industrial Development, Energy, Urban Development, Agriculture and Livestock, Skills Development and Health. Each sector plan has its own program of reforms, public investments and capacity building activities. Its total budget is US\$11.1 billion over five years allocated as follows:

Sector Plans of the Punjab Growth Strategy	Five year budget (2015-19) US\$ Billions	Of which not yet budgeted US\$ Billions
Industrial Development	1.1	0.5
Energy	0.5	0.1
Urban Development	6.3	4.5
Agriculture and Livestock	0.9	
Skills Development	0.7	
Health and Demography	1.6	
Total	11.1	5.1

The proposed Program for Results (PforR) operation will support the Industrial Development sector plan which, unlike the other sectors, is not currently supported by World Bank lending. The budget for this sector plan is US\$ 1.1 billion over five years (see Annex 4 for more details). The Government has adopted the following vision for industrial development:

The Government seeks to promote industry and investment in Punjab in order to generate employment, increase per capita income and ensure sustainable growth. This is to be achieved through policies and regulations which facilitate private sector investment, increase productivity of firms and lead to the development of internationally-competitive, export-oriented industrial clusters.³

The proposed US\$100 million J&C PforR will support a specific US\$205 million Program of expenditures of the Industrial Development sector plan focusing on the following two core pillars:

- **The Business Environment Pillar (~US\$30m).** The J&C PforR will support regulatory reforms to reduce the costs and risks of doing business in Punjab. It will support improvements along the four (out of ten) Doing Business indicators which are primarily under the purview of the Province – business registration, contract enforcement, construction

³ Punjab Growth Strategy 2018, p.23.

permits and property registration. It will also support licensing and inspection reforms, a structured process of public private dialogue as well as improved investment promotion and facilitation. This process of reform will be coordinated by the newly created Investment Climate Reform Unit (ICRU) under the Planning and Development Department (P&D) as there will be several implementing agencies involved in reducing regulatory compliance costs (Departments of Industry, Law, Housing and Urban Development – in particular the Lahore Development Agency, Finance – in particular the Board of Revenue, and the Punjab Board of Investment and Trade).

- **The Spatial Development Pillar (~US\$175m).** The J&C PforR will support the sustainable development of industrial clusters in Punjab. It will support the development of a Provincial spatial economic development plan which will help identify and prioritize public infrastructure investments in support of high potential industrial clusters. It will help improve the processes through which the government facilitates the development of industrial estates. It will support the rehabilitation of existing industrial zones as well as the upgrading and development of CETPs to address existing pollution issues. Finally, it will support the reform of the public institutions responsible for developing the capabilities of SMEs. The Urban Unit, also under the P&D, will coordinate the implementation of activities under this pillar and will be responsible for the spatial plan - implementation of other activities related to industrial estates will be undertaken by PIEDMC, FIEDMC, and PSIC,⁴ and actions related to CETPs will also involve the Environment Department.

C. Relationship to the Country Partnership Strategy (CPS)

The proposed operation directly addresses the CPS objective of private sector development (CPS Results Area 2). As discussed above, the project will promote private sector development by reducing the cost and risk of doing business in Punjab (pillar 1) as well as by supporting the sustainable development of industrial clusters in Punjab (pillar 2). By promoting private investments, particularly in labor intensive industries, the project will lead to more and better jobs – especially for women – thus contributing to reducing underemployment and poverty.

II. Program Development Objective(s)

A. Key Program Results

The Program Development Objective is to improve the business environment and support high potential industrial clusters in Punjab.

As such the Program will contribute to the higher level objectives of the Punjab Growth Strategy which is to increase growth and job creation.

⁴ The primary agency responsible for development and managing large industrial estates in Punjab is the Punjab Industrial Estates Development and Management Company (PIEDMC); in the case of Faisalabad, a specialized city level entity exists – the Faisalabad Industrial Estates Development and Management Company (FIEDMC). There is also a third agency that is responsible for support to SMEs and also develops and operates industrial estates for SMEs – this is the Punjab Small Industries Corporation (PSIC).

B. Key Program Results

The Program will support five result areas grouped along two pillars:

Pillar 1: Business Environment

- 1) Improved Ease of Doing Business Indicator (i.e. business registration, contract enforcement, construction permits and property registration)
- 2) Reinforced institutions to improve the business environment (e.g. Public Private Dialogue, Investment Promotion, on-line registry of all business regulations)

Pillar 2: Spatial Industrial Development

- 3) Spatial economic development plan to prioritize and coordinate public investments
- 4) Improved industrial estates (including CETPs)
- 5) Increased support to SMEs

III. Program Description

The PGS program has strong strategic relevance. First, the overall scope of the program demonstrates a comprehensive and ambitious plan for economic and social development for the province. Across the six sector plans, the strategy has identified and sequenced critical areas for investment and reform. It directly addresses priority areas that are identified in the Bank's current Country Partnership Strategy. The proposed operation will support the implementation of the Industrial Development sector plan, the only sector plan which is not currently supported by existing World Bank lending. Revitalization of manufacturing in Punjab will support economic and job growth.

The government has identified the industrial sector as a key priority for support. As discussed above, Punjab has a great industrial tradition and potential in a number of labor intensive manufacturing sectors (e.g. garments and light engineering). However there are currently several constraints that must be overcome. These include the high cost and risks of doing business (addressed by the first pillar of the proposed operation), difficulties to access well located and well serviced (e.g. reliable power and CETPs) industrial land as well as growing technology and skill gaps (all addressed by the second pillar).

IV. Initial Environmental and Social Screening

Environment and social risks are moderate, though the Bank will seek ways to reduce or mitigate these risks through the ESSA. New industrial estate development poses a risk of displacement due to the way the government may acquire land from private owners. The ESSA will include a detailed assessment on existing practices and identify alternatives to ensure that possible land acquisition activities undertaken by the government under the program would be consistent with what is allowable under the program. Second, new and upgraded industrial estates would also benefit from environmental and occupational management plans. The purpose

of these plans would be to provide guidance to industrial estate management about how to improve the upstream environmental efficiency of tenants through reducing, where possible, the need for water, power and materials that would generate solid waste, as well as downstream procedures for capturing or treating waste in line with appropriate environmental regulatory standards. The plan would also ensure that tenants administer and report appropriate worker health and safety conditions on a regular basis. Currently, however, there appears to be limited capacity for regulatory agencies to ensure compliance or reporting to such plans. Finally, as there are no industrial estates with functioning CETPs, the capacity for developing and operating these facilities is low. Technical assistance will be used to develop detailed plans along with appropriate financial and operational guidelines to ensure long term sustainability of CETPs.

An environmental and social systems assessment (ESSA) will be completed prior to appraisal. The consultation will take place beginning at the end of August/early September 2015, with the disclosure and circulation of the assessment expected to occur the first week of September, 2015.

V. Tentative financing

Source:	
Borrower/Recipient	\$105m
IDA	\$100m
Total	\$205m

VI. Contact point

World Bank

Contact: Vincent Palmade
Title: Lead Economist
Tel: 202-473-9432
Email: vpalmade@worldbank.org

Borrower/Client/Recipient

Contact: Irfan Illahi
Title: Chairman, Planning and Development
Tel: +92 42 99268046
Email: chairman@pndpunjab.gov.pk

VII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>