



# **PUNJAB INDUSTRIAL POLICY 2018**

INDUSTRIES COMMERCE & INVESTMENT DEPARTMENT

GOVERNMENT OF THE PUNJAB



# Table of Contents

<b>Foreword .....</b>	<b>4</b>
<b>Executive summary.....</b>	<b>6</b>
<b>Context for industry in Punjab.....</b>	<b>9</b>
<b>Strategy vision, objectives and targets .....</b>	<b>14</b>
<b>Core themes of the policy .....</b>	<b>17</b>
<b>Social and environmental considerations .....</b>	<b>35</b>
<b>CPEC implications.....</b>	<b>38</b>
<b>Institutional framework .....</b>	<b>40</b>





# Foreword



# Foreword

The Government of Punjab has set ambitious economic goals for the province. Economic growth will help change the lives of tens of millions of people in Punjab, and the manufacturing sector will have a vital role to play in realizing this.

Building on the provincial Growth Strategy, this document outlines a Strategy through which the Government can address key challenges facing the sector to accelerate the growth of industry in Punjab. This policy focuses on realizing Punjab's potential as a manufacturing hub, but its underlying motivation is the broader economic and social objective of promoting inclusive economic growth for all. Growth in the industrial sector will benefit the rest of the economy in the services and agriculture sectors. Particular attention is paid to the ways that industrial investment can create more and better job opportunities for Punjab's rapidly growing working age population.

Unlocking industrial growth in Punjab will require a combination of short-term initiatives at the provincial level to achieve high impact in the short-term, sustained efforts at longer-term institution building and reform, and support from and collaboration with the federal Government. This strategy identifies a combination of short and long-term enablers, and where necessary calls out specific areas where support will be needed from the federal Government.

The proposals outlined in this document represent the perspective of the Government, based on the input of a broad range of private and public sector stakeholders, and domestic and international experts. The Department invites input and feedback from all who are concerned with industrial development, in order to construct a plan, which reflects the priorities of all who are working together for the development of Punjab.



# **Executive summary**



# Executive summary

Punjab holds tremendous potential for industrial growth. Plentiful land for industry and for agricultural development to supply inputs, a large working age population, strategic location and political stability. Development of the China Pakistan Economic Corridor (CPEC) through Punjab also provides an impetus to create opportunities for industrial growth.

However, despite Punjab's natural advantages, the manufacturing sector has not played its full role relative to services, and export performance has been declining. The manufacturing sector has faced years of under-investment thanks to a combination of challenges which discourage investment as they increase the cost of doing business and create an unpredictable business environment.

The Government aims to directly tackle these challenges and develop Punjab as a competitive manufacturing hub, enabling firms to serve domestic and overseas demand with increasingly value-added and sophisticated products. To do this, the province must offer an attractive ecosystem for the private sector (both domestic and foreign) to invest and operate. The goal of this strategy is to stimulate investment and build an enabling environment for the private sector through five themes:

- 1. Revamp Industrial Zones as anchors for Industrial Transformation:** Build on existing special economic zones and industrial zones, leveraging investments through CPEC. These zones will offer attractive incentives, be optimally located along industrial corridors in line with the provincial spatial strategy, and feature dedicated infrastructure, and a business friendly regulatory regime. To enable this, the system of governance for zones will be revamped.
- 2. Transform productivity through people and processes:** Increase productivity of manufacturing sector in Pakistan by instituting reforms to the vocational training system to allow it to better serve industry needs in terms of number and skills of graduates, and by facilitating firms to increase their productivity through greater adoption of advanced management and operational practices.
- 3. Expand access to financing for industry:** Increase access to finance for businesses throughout their lifecycle, in particular with a focus on supporting SMEs by offering credit guarantees, establishing an enhanced credit bureau, and creating an 'investment matching' program for Venture Capital and Private Equity firms seeking to invest in SMEs



- 4. Address specific governance challenges:** Improve business environment for business in Punjab by increasing private sector consultation before introduction of any new regulation, implementing a “grace period” to allow the private sector to adapt to regulatory changes, and establishing an Industrial Intelligence Unit to facilitate better awareness and use of data and evidence based decision making by investors and government, and revamping standards and processes to increase export readiness
- 5. Develop strong industrial clusters:** Facilitate growth of industrial clusters which benefit from economies of co-location e.g., shared infrastructure, skilled workforce, technology transfer, some of which can attract and support globally leading large-scale manufacturers as anchor investors. The Government will improve the investor attraction process and work closely with industrial sectors to unlock productivity gains through specific initiatives.

In addition to these targeted interventions, the Government will ensure that industrial development produces broader societal benefits, increased and improved job opportunities for all Punjab’s residents, with a particular focus on creating opportunities for currently disadvantaged segments of society. The Government will put in place policies which supports growth in less affluent areas of the province, increase labour market opportunities for women, continue its focus on the elimination child labour, and enable the participation of people with disabilities in the labour market.





## **Context for industry in Punjab**





# Context for industry in Punjab

## Potential strengths for industry in Punjab

Punjab has seen strong economic growth in recent years, averaging between 4 and 5%. The province has the potential to be an attractive destination for investment, for three main reasons: its overall investment incentive regime, its natural endowments, and the overall enabling ecosystem which the government has put in place.

### 1. Liberal and investor friendly regulatory regime

The Government has put in place a series of policies reflecting an overall pro-business approach. These include an overall openness to FDI, a number of bilateral investment treaties, and a series of incentives encouraging capital investment for both foreign and domestic investors.

### 2. Natural endowments

The province also has a number of natural advantages which could position it as an attractive location for investment. These include:

- a. **Large amounts of available land, especially fertile land:** Punjab, despite being relatively arid region, has five major rivers and an extensive canal irrigation system. Water from these rivers is managed through an extensive system of large earthen dams and reservoirs, barrages and headworks, and irrigation and link canals. ~25% of total cultivable land (3.41 million hectares) is still not cultivated, indicating that Punjab has still not fully utilized its natural endowment of land.
- b. **Presence of major cities:** Punjab is the largest province in Pakistan, and a sizeable minority of Punjab's population is concentrated in a relatively small number of large cities, which offers a large and concentrated market for consumer goods.

### 3. Developing infrastructure ecosystem

There are a number of other critical strengths which the government has put in place:

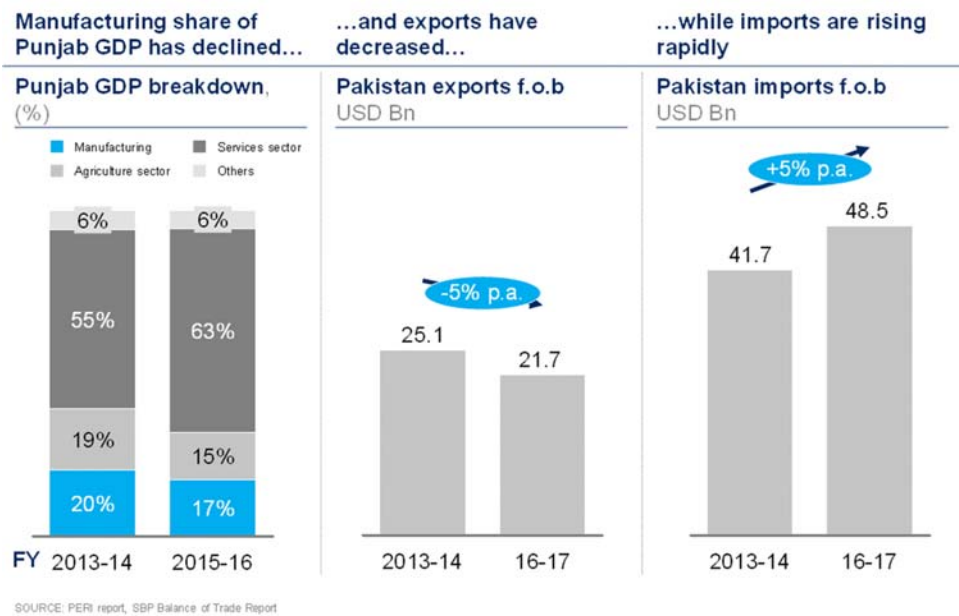


- a. **Road and rail connectivity:** in recent years, the rail and road network has developed linking major cities across the province, providing convenient access to the domestic market.
- b. **CPEC opportunity:** The China Pakistan Economic Corridor is a 50B+ USD project to develop transport infrastructure, energy assets, and SEZs, linking Gwadar port in Pakistan to Kashgar in the Xinjiang Uygur Autonomous Region of China. The project takes advantage of Pakistan’s position as a potential logistics hub at the centre of global trade routes. In particular, the project’s \$33 Bn worth of energy projects span across renewable energy, coal and LNG, which will help address Pakistan’s existing energy shortfall of 4,000 MW.

### Key challenges faced by industries in Punjab

However, despite these advantages, Punjab has been unable to fulfil its industrial potential, as reflected in overall economic indicators:

#### EXHIBIT 1: CURRENT ECONOMIC PERFORMANCE



This overall performance has been driven by a set of key challenges. Under-investment is the key bottleneck facing industry in Punjab, with Investment as a share of GDP in Pakistan being only 15%, compared to peer countries that have almost twice as much investment as a share of GDP.





These challenges, which have resulted in underinvestment, broadly belong to seven categories as outlined below. The Government of Punjab is fully committed to addressing these challenges and attracting increased investment, and these challenges form the basis for the interventions proposed in the Strategy.

### **1. Infrastructure challenges**

Punjab faces electricity shortages, which impede industrial growth. Although the supply situation has been improving, over three quarters of managers surveyed by Punjab Economic Research Institute considered electricity as a major or very severe obstacle for operation and growth. A related issue is the availability of gas, in particular LNG, which is a challenge for firms in Punjab.

Firms also face difficulties due to long waiting periods for new connections. Poor planning of industrial land has resulted in high cost of development, low colonization rate, and uneven spread of industrial estates without alignment with markets or demand from investors.

### **2. Administrative challenges**

Inefficient administrative processes create challenges for businesses. For example, business permitting, construction permitting, and customs clearance, which increase costs in money and time. Businesses have to liaise with several entities, at both the Provincial and Federal level, during business set-up and operation. In particular, tax policy and administration create challenges as there are multiple tax authorities, refund processes are complex, and regulations change frequently. Furthermore, contract enforcement processes are slow and costly.

### **3. Low manufacturing productivity**

Compared to peer countries, industry in Punjab has relatively low levels of productivity, due to largely unskilled workforce and unsophisticated manufacturing techniques. For example, in certain industries, due to lack of automated equipment, use of piece rates is causing a hindrance towards increased output, and poor management practices prevent focus on quality and quantity. Technology and innovation

### **4. Limited access to finance to SMEs**

Although overall costs for capital for private sector investors have reduced in recent years, in line with overall interest rates, SMEs in Punjab often face challenges accessing finance. In its place, they instead finance their operations based on retained earnings, leaving them unable to invest in growth and productivity improvements. Commercial banks have historically focused on lending to the government and large corporates





while SMEs are often side-lined as they are perceived as too risky. The situation has worsened recently, with SME share of total private sector lending almost halved in the last decade.

#### **5. Lack of publicly available and updated information**

Most enterprises, especially new entrants, do not have access to a central source for securing market information, thereby limiting their ability to assess feasibility for market-entry. For instance, despite the amount of data and studies created by government and by academic institutions, there is no central repository of data with critical trade, industrial and economics statistics at a provincial or district level. Similarly, the government has limited data on which type of firms are located where.

#### **6. Policy instability**

Frequently changing policies increase cost of compliance and create uncertainty for industry. Furthermore, although there are some channels for public-private dialogue, there have been instances where insufficient consultation and impact analysis have resulted in overly restrictive policies or the adoption of measures with unintended consequences.

#### **7. Underdevelopment of industrial clusters**

There is already significant industrial activity in Punjab, in particular in light manufacturing, garments, and basic agri processing. However, the industrial sector is dominated by small firms, and the lack of larger, more sophisticated players inhibits the development of thriving industrial clusters. This means that the potential benefits of agglomeration – from shared knowhow, value chain linkages, technology transfer, and shared workforce – are not available to Punjab's businesses.





## **Strategy vision, objectives and targets**



# Strategy vision and objectives

Economic growth is a core priority for the Government of Punjab. The vision laid out in the Punjab Growth Strategy 2018 clearly stated that “the provincial government envisions Punjab as a secure, economically vibrant, industrialized and knowledge-based province, which is prosperous and where every citizen can expect to lead a fulfilling life”.

In line with this vision, the Government has sought to promote industry and investment in Punjab in order to generate employment, increase per capita income, grow exports and ensure sustainable growth – and identified a set of targets for itself to track progress. These targets prioritized growth, job creation and in particular skilled jobs, export promotion, and private sector investment.

The core objective of this industrial policy is to maintain the progress on this agenda, and help the Government achieve its vision by unlocking constraints on private sector investment, driving greater activity in the industrial sector and stimulating rest of the economy.

## Key objectives

This industrial policy therefore has five key objectives:

1. Facilitate private sector investment growth by providing an enabling eco-system
2. Boost productivity and competitiveness to drive up exports and compete with imported goods
3. Ensure level playing field for domestic and foreign players across sectors
4. Create attractive job opportunities for Punjab’s rapidly growing labour force
5. Provide special focus on disenfranchised segments of the society – impoverished districts, women, and disabled people



## Targets

Industrial policy 2018 aims to achieve following targets by 2023

1. Achieve an average industrial growth of 10% per annum
2. Increase the formal employment creation to 1.2 million annually
3. Train 0.5 million skilled labour annually
4. Improve product competitiveness in priority sectors





### **The scope of this policy**

Success on this agenda requires a combination of actions which can be taken in the short- to medium-term, and those which will take many years to fully achieve. For example, the broader spread of basic infrastructure actors Punjab is critical for broad-based economic development, but is beyond the mandate of the Industries department. By contrast, the Department and related entities can ensure the provision of infrastructure within dedicated industrial zones. Another example is the overall transformation in institutional trust and confidence which is vital for a sound investment climate. Achieving this is also a very long-term project, on which much progress has already been made. In the context of this policy, the Department focuses its efforts on specific reforms to administrative processes and the business environment which can help support on that journey.

Industrial development will also require close alignment between the federal and provincial governments. Federal issues are outside the scope of this policy, but the Government intends to maintain a close dialogue with the Federal government on critical issues which have been identified during the preparation of this policy, in particular on taxation and trade.





A glowing lightbulb with a wireframe overlay, held by hands, symbolizing an idea or innovation. The background is a solid green color with a subtle radial gradient.

## **Core Themes of the Policy**



# Core themes of the policy

Government of Punjab is focusing on five main themes, aimed at facilitating greater investment in the short to medium term:

- 1. Revamp Industrial Zones as anchors for Industrial Transformation:** Build on existing Special Economic Zones and Industrial Estates to scale up a series of export-oriented Industrial Zones. These zones will offer attractive incentives, be optimally located along industrial corridors, feature dedicated infrastructure and a business friendly regulatory regime. The Government will ensure active private sector participation in the development, marketing and operation of zones and will ensure widespread benefit of these zones in the broader economy through promoting locally integrated value chains, technology transfer, and upskilling local workforce.
- 2. Transform productivity through people and processes:** Increase productivity of manufacturing sector in Pakistan by instituting reforms to the vocational training system to allow it to better serve industry needs and by facilitating adoption of advanced manufacturing practices and operational excellence.
- 3. Expand access to financing for industry:** Increase access to finance for SMEs by offering credit guarantees on loans to SMEs, establishing an enhanced credit bureau, and creating an ‘investment matching’ program for Venture Capital and Private Equity firms seeking to invest in SMEs
- 4. Address specific challenges in governance environment:** Improve governance environment for business in Punjab by requiring private sector consultation before introduction of any new regulation, implementing a gestation period to allow the private sector to adapt to regulatory changes, establishing an Industrial Intelligence Unit to facilitate evidence based decision making by investors and government and introduction of one window facilitation for all kinds of regulations, registrations and taxation etc. pertaining to provincial and federal governments to provide ease of doing business for the private sector.
- 5. Develop strong industrial clusters:** Facilitate growth of industrial clusters which benefit from economies of co-location e.g., shared infrastructure, skilled workforce, technology transfer, and are home to globally leading large-scale manufacturers. The Government will work with industrial sectors to unlock productivity gains through specific initiatives, to enable them to compete effectively in export markets and enhance value addition.



## 1. Revamp Industrial Zones as anchors for Industrial Transformation

### Punjab today

While Punjab currently has several Industrial Estates, these have had mixed success in enabling manufacturing-led growth in the province. There are a number of challenges which have led to this performance, including availability of power and waste treatment, sub-optimal location of zones, and relatively high cost to develop the land. These Industrial Estates have also suffered from the administrative issues which affect the rest of the province.

### Our Aspiration

The Government aspires to create a network of industrial zones which spread benefits to the broader economy and feature an attractive combination of aligned incentive regime, carefully chosen locations, streamlined administrative processes, and high quality hard and soft infrastructure.

### Our Approach

The Government of Punjab's new approach to Industrial Zones is based on six key initiatives. The Government will focus not only on how to encourage investment in the zones, but also on how to ensure that this investment translates into broader socioeconomic benefits by strengthening value chains, creating attractive jobs, and making economic development more inclusive. These key initiatives are:

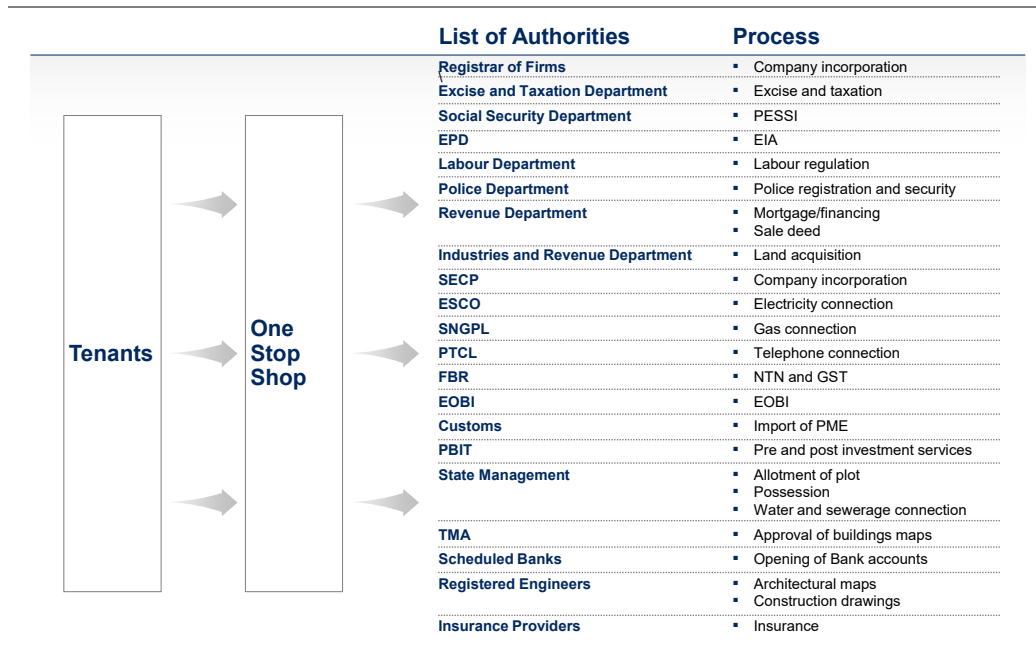
- **Establish an Industrial Zone Authority:** a new IZA will be created with strengthened responsibility for performance management of zones. This authority will be chaired by the Chief Minister, or his appointed representative, and will have overall oversight and decision-making responsibility. In particular, the IZA will create a new performance management scorecard for zones to measure their performance on key metrics.
- **Ensuring zones are located in areas which offer potential for economic growth and development:** in line with the Punjab Spatial Strategy, and in consultation with zone developers the government will encourage zone development in areas which offer access to raw materials, to markets, and to skilled labour. To ensure that benefits are spread outside existing well-developed areas of Punjab, the government will align future infrastructure plans to ensure that zones can be feasible even in less developed areas of the province





- **Offer business friendly regulatory regime:** the Government of Punjab is currently working with the Punjab Information and Technology Board (PITB) to create a single interface between relevant government authorities and enterprises in the zones. These one-stop shops will liaise with 21 different government departments to facilitate processes ranging from company incorporation to acquisition of land and electricity connections.

**EXHIBIT 2: ZONES IN PUNJAB TO OFFER ONE WINDOW FACILITY FOR COMPLIANCE SERVICES**



- **Ensure basic infrastructure place and offer value-added services:** zone operators will ensure that necessary infrastructure is in place. However, in line with other zones around the world, zone operators will move beyond providing land and infrastructure to offer other value-added services, whether with a particular sector focused, or working with other entities to improve the productivity of zone enterprises, for example establishing dedicated training facilities through TEVTA, or setting up demonstration centres for modern manufacturing techniques.
- **Offering competitive financial incentives:** financial incentives for zones operators and for zone tenants will include a competitive long-term lease policy contingent on development, tax holidays for an initial period, rebates for the import of machinery, and for certain zones, additional rebates linked to exports. A tax





exemption on training for zone tenants will also encourage the development of a skilled workforce in the zones.

- **Encouraging the private sector to play a pivotal role in development and operation of zones through PPP arrangements:** the government will clarify the regulatory regime for zone set up and operation. This includes a public tendering process, a transparent evaluation mechanism for proposals, and a one-stop shop for approvals under ICI.
- **Leveraging zones to promote inclusive and sustainable growth:** analysing successful economic zones reveals the importance of making economic zone-led growth inclusive and sustainable. The Government of Punjab will execute 4 broad initiatives to spread benefits and create spill over effects for the broader provincial economy:
  - **Encouraging establishment of value chains:** Taking lessons from successful Chinese Economic Development Zones, the ICI department will establish an office responsible for establishing manufacturing value chains in Punjab.
  - **Develop local suppliers:** this office will actively promote business linkages between local small and medium enterprises (SMEs) and zone tenants across the value chain. This will help local companies develop to meet the quality standards of zone tenants, facilitating an increase in local content share within zones.
  - **Developing impoverished areas:** The Government will co-ordinate with Federal Departments to lead infrastructure projects in impoverished areas of Punjab. Providing connectivity and establishing “backbone” infrastructure will enable rapid industrialization of less productive areas, unlocking growth and allowing for creation of future successful zones in the regions. This will allow Punjab to address productivity weaknesses across the province and drive inclusive growth for all stakeholders.
  - **Addressing skills gap:** The Government of Punjab will augment province wide skills programs to address areas with lagging skills development by facilitating employer driven work force and skills development programs and enforcing regulations which require businesses to provide apprenticeship opportunities for a specific number of trainees. This will allow Punjab to develop human capital across the province and ensure ready availability of skilled labour.





## 2. Transform productivity through people and processes

### Punjab Today

Productivity of manufacturing firms in Punjab is relatively low compared to peer countries, which increases their costs and hurts competitiveness in export markets (and relative to imported goods). Even though labour costs in Pakistan are low and may be considered an advantage, adjusted for productivity, they are significantly higher than countries such as India and China. Furthermore, manufacturing firms in Punjab (especially SMEs) use relatively unsophisticated production practices.

### Our Aspiration

The Government aspires to transform productivity in Punjab through increasing investment in human capital through making available high-quality and industry-relevant vocational training programs. Furthermore, the Government wishes to facilitate the adoption of advanced manufacturing practices which increase manufacturing productivity.

### Our Approach

The Government of Punjab will pursue efforts to increase manufacturing productivity through two key actions:

- **Upskill Punjab's workforce through skills sector reform:** The Government of Punjab is on track to achieve its ambitious target of delivering 2 million vocational person trainings during the five-year period 2013-2018, thereby making a major contribution to increasing Punjab's labour productivity, a key enabler for industrial-led growth. In addition to delivering more than 500,000 trainings annually, going forward, the Government of Punjab will invest in making the vocational training program sustainable through three initiatives.
  - **Improve quality through industry involvement:** The Government of Punjab will collaborate with industry at every stage of the skills value chain, from candidate attraction to skill building and job placement. Industry-led Sector Skills Councils and localized Industry Advisory Boards will be created to help solicit input in design and management of programs, as well as provide a feedback mechanism. Jointly developed programs with employers will be expanded, as will the provision of some financial support to employers who already conduct trainings in house.





- **Expand training availability and access:** The Government of Punjab will partner with medium and large size businesses to fund capacity expansion of existing programs, while also collaborating with them to develop part-time on-site training programs. Current vocational training programs will be supplemented by more flexible localized offerings in terms of the skills offered, duration of courses, and the types of certification available. The Government is also committed to ensuring that economic opportunities are created for currently underserved segments e.g. women, rural populations, cottage industry.
- **Improve governance for vocational ecosystem:** The Government of Punjab will strengthen the governance the skills sector. This will involve creating an umbrella governance entity, the Punjab Skills Development Authority, to oversee and coordinate activities across the skills ecosystem, and a clarification of roles and responsibilities between various players in order to fill missing functions and prevent overlaps or conflicts of interest.
- **Develop model factories to improve manufacturing practices:** The Government of Punjab will facilitate the creation of model factories and demonstration centers, many located in industrial zones, to promote operational excellence and improve productivity of manufacturing firms, with particular focus on aiding SMEs. These facilities serve as centers of excellence, which can demonstrate the transformation of a typical production system in hands-on simulations, and offer trainings on and provide live demonstrations of lean tools in practice. Furthermore, for top management, principles of effective planning and performance management can be delivered as modules in a risk-free environment. These centers will be funded through a co-funding model where firms will be expected to contribute. Punjab can follow a number of examples from around the world, including in India and Morocco.





### 3. Expand access to financing for industry

#### Punjab Today

In the manufacturing sector, it is estimated that firms with fewer than 50 employees account for ~90% of all employment in the manufacturing sector. Small firm size is a barrier preventing industry from realizing economies of scale and increasing export competitiveness. Punjab's SMEs find growth difficult, because they primarily rely on retained earnings or private capital to finance their operations, as they are unable to access financing needed to invest in growth from the banking sector. Banks have historically preferred lending to the Government and large corporations, and SMEs are often constrained by limited financial statements, collateral, and credit application capabilities.

#### Our Aspiration

The Government's aspiration is that businesses of all sizes and at all stages of development have access to appropriate capital to be able to invest in growth, productivity and innovation. The Government of Punjab aims to facilitate and encourage the growth of small and medium-sized enterprises (SME) in the province, in order to encourage entrepreneurship and increase social mobility. SMEs play a key role in development of industrial clusters. Furthermore, the growth of the SME segment will be vital to increasing productivity in Punjab, and thereby export competitiveness and economic growth, as growing firms are able to realize economies of scale.

#### Our Approach

There are four key pillars to our approach to developing financing for industrial businesses:

- **Provide credit guarantees for SME lending:** The Government will put in place a Credit Guarantee scheme to incentivize commercial banks to increase lending to the SME segment by alleviating some of the associated risk. Several countries (developed and developing) have found instituting credit guarantees an effective mechanism for increasing lending to the underserved SME segment.
- **Set up Credit Scoring Bureau:** The Government of Punjab will work with the private sector to advocate to the State Bank of Pakistan the need to create an enhanced Credit Scoring Bureau, which collects data on businesses and conduct risk assessments, in order to alleviate information asymmetry in the lending process. The establishment of a Credit Scoring Bureau will help alleviate the funding gap for SMEs in the province, as a key constraint for commercial banks is







the lack of information with which to conduct a risk assessment of prospective borrowers. An enhanced Credit Scoring Bureau will help commercial banks assess default risk and price their loans accordingly, opening the door for SME lending.

- **Create Public-Private Venture Capital and Private Equity Funds:** the Government of Punjab will explore the establishment of a public-private fund to make direct investments to support high-growth manufacturing SMEs in Punjab. The fund will rely on a “matching” mechanism where the Government will match certain private sector contributions into funds focusing on investing in manufacturing SMEs. Responsibility for managing the fund will be completely contracted to a private sector fund manager. For such a scheme to be successful, certain prerequisites will need to be put into place including the availability of feasible exit mechanisms in ~5 years.
- **Support SMEs to develop management capabilities:** these initiatives will be complemented by efforts to provide guidance and training for the managers and owners of smaller businesses to enable them to effectively apply for financing, whether through keeping accurate financial statements, or putting together an effective application. These activities will be delivered in part through the model factories located in the industrial zones.





#### 4. Address specific challenges in governance environment

##### Punjab Today

Consultation with private sector players has revealed the presence of specific governance challenges (in addition to broader governance issues addressed elsewhere in this Paper) that create an unfavourable environment for investment. These challenges include:

- Most enterprises, especially new entrants, do not have access to a central source for securing market information, thereby limiting their ability to assess feasibility for market-entry. Similarly, the government has limited data on which types of firms are located where.
- Private sector players lack confidence in the policy environment, resulting from frequent changes in policy and in some cases, formulation of overly restrictive policies
- Environmental / quality standards are not maintained and enforcement mechanisms are weak and poorly defined

##### Our Aspiration

The Government of Punjab is committed to improving the overall governance environment through building and strengthening institutions and practices. In addition to long-term efforts to strengthen the institutional framework of the province, the government will also focus on creating an enabling environment by tackling specific governance challenges around lack of reliable market information, policy instability, and environmental degradation.

##### Our Approach

In addition to broader reforms to improve governance in the province, the Government will prioritize four governance initiatives to unlock growth in the manufacturing sectors.

- **Create Industrial Intelligence Unit:** the Intelligence Unit will be tasked with collating and publishing data, conducting assessments of the Industrial sector in order to facilitate evidence-based decision making by all stakeholders i.e. existing and potential investors, as well as Government. A particular focus will be placed on enabling investors to obtain the data necessary to develop business cases for investing in Pakistan. The Industrial Intelligence Unit would collect and compile data from a variety of public and private sources, including The Bureau of Statistics,





PIEDMC, FIEDMC, Department of Planning and Development, and define data collection standards for these institutions. The Industrial Intelligence Unit will create an easy to use publicly available computerized data repository, and publish annual assessments of industry performance.

- **Expand impact analysis and private sector consultation:** The Government will seek to expand and enhance existing channels for public-private dialogue to ensure that the private sector is consulted regularly. This consultation will include seeking input on new policies under consideration, and receiving proposals for future policy changes. This will help improve alignment between the private sector and the policymaking process, as part of a thorough impact evaluation process for new policy ideas. Similar consultative committees have been successfully established in both developed and developing economies several countries to great success.
- **Provide gestation period for regulatory compliance:** The Government of Punjab will design a scheme to ensure that new policies and regulations affecting industry have a sufficient gestation period for businesses to adapt their operations. This period will be recommended by the relevant department based on international benchmarks for similar policies. The provincial government will also work with the private sector to propose a similar approach to changes in federal regulation.
- **Revamp environmental standards and enforcement mechanisms:** The Government is committed to protecting Punjab's environment and ensuring that economic growth is sustainable. The Punjab Environment Policy 2015 provides an overarching framework for addressing the environmental issues facing Punjab. The Government will review the existing standards to identify gaps and enhance standards to ensure that the quality of Punjab's air, water, land, climate and biodiversity can be measured and compared to an objective evaluation criteria. Particular attention will be paid to environmental / quality standards, which influence Punjab's ability to export value-added products to key export markets, e.g., standards which impact award of global food quality certifications. In addition to creating environmental standards, the Government will redesign and bolster enforcement mechanisms. Industry input will be sought on how best to implement enforcement mechanisms without creating undue burden on businesses. A cross-functional Provincial Environment Policy Implementation Committee, chaired by the Secretary Environment will drive the implementation.
- **Business Environment Reforms:** A one window operation for all provincial government registrations, taxation, monitoring and compliance. The work force for each unit may be registered with the park authority who can be made responsible





for managing EOBI, SS and other worker benefits. This includes both aspects that are in provincial domain and those that are under federal but are impeding growth of the industrial sector. Areas under the provincial government include local taxation, registration and payments for EOBI and Social Security, Land titling and registration process, issues with planning including at local TMA level and LDA, other intrusive behaviour by inspectors such as Dengue inspections, building fitness certifications and environmental compliance. The provincial interventions will also cover setting up policy dialogue institutional setup and also a central repository of knowledge and information to assist industry. The areas that will be advocated strongly with federal government would include national taxes, business registration costs and delays, connections and availability of utilities and with State Bank on developing credit policy focus geared for SME development.





## 5. Develop strong industrial clusters

### Punjab Today

Punjab's industrial landscape has multiple industries with significant activity, concentrated in several key locations, including a number of industrial Estates. However, these industries have failed to grow into thriving industrial clusters. Most manufacturing firms in Punjab are small, driven by managerial and financing constraints, and are unable to achieve enough scale to compete effectively in export markets. Large global-scale players have so far not entered the market. While some efforts have been made to develop clusters e.g., Quaid-e-Azam Apparel Park Project, there is a need to attract large investors to create momentum ensure their success.

### Our Aspiration

The Government's aspiration is for Punjab to be home to thriving industrial clusters which bring together large scale, globally competitive players and SMEs to benefit from value chain linkages, technological spill over, specialized workforce, and the presence of related and supporting industries. Strong clusters can be facilitated by encouraging the entry of vertically integrated global firms, who will help build local capabilities and transfer technology.

Furthermore, the Government's aims to transform Punjab's industrial clusters into hubs for world-leading sectors, leveraging Punjab's natural advantages to compete effectively in global markets.

### Our Approach

In order to build strong industrial clusters, which are home to globally competitive industry, the Government will pursue three initiatives:

- **Encourage investment in specific clusters:** the Government of Punjab will encourage initiatives to realize economies of scale across sectors, in an effort to increase productivity. The creation of clusters will be vital to increasing productivity of several sectors and will in particular benefit SMEs. Clusters will feature access to high quality infrastructure, logistics services, manufacturing expertise through model factories, and access to required raw material and labour inputs. Furthermore, clusters will benefit from the creation of an industrial ecosystem and the emergence of intricate localized supply chains.
- **Attract anchor investors, especially leading global players:** Punjab's economy will greatly benefit from attracting international companies to invest in and source





products from Punjab, both for domestic consumption and exports. Such investors will help professionalize their respective sectors and transfer knowledge and technology, thereby leading to productivity improvements along the value chain. The Government of Punjab will actively participate in attracting such anchor tenants, in order to share expertise and convey to investors that Government of Punjab is fully committed to ensuring their needs and challenges are addressed. The Government, in collaboration with private sector players, has already formulated an investor attraction strategy and has structured model deals for several sectors.

**Facilitate value addition and productivity improvements in industrial sectors:** even though this Strategy focuses on creating an enabling environment for all sectors, The Government believes that there can be significant advantages realized from working with particular sectors to unlock their potential e.g. addressing specific gaps in vocational programs, supporting growth of particular supply chains, creating quality standards and procedures, or building infrastructure required for a particular sector to succeed. The Government of Punjab does not believe that it is the best judge of which interventions are needed in each sector. At the same time, Government can create value through sector-specific interventions, and is eager to actively listen to how it can play a role in unlocking productivity growth.




## Developing core sectors

Currently, agro-based sectors which build on Punjab's natural endowments, such as food, beverages, and textiles, account for almost 80% of Pakistan's total exports. These sectors are supported by enabling sectors. The Government of Punjab's expectation is that in the medium to long term Punjab will build on these core areas of strength become increasingly competitive in capability intensive sectors such as Chemicals and Light Engineering, which will benefit from Punjab's growing skilled workforce (see Exhibit 4). The following section lays out a set of options through which the Government will collaborate with the private sector to encourage growth.

**EXHIBIT 3: HORIZON FOR GROWTH OF SECTORS IN PUNJAB**

	Short term: Natural endowment based sectors	Medium-long term: Capability intensive sectors
<b>Primary sectors</b>	 Livestock, dairy, leather and their value added products	 Plastic products
	 Horticulture	 Fertilizers
	 Value addition in Cash crops and textile	 Optical and surgical instruments
	 Tourism	 Chemicals
		 Iron and steel products
<b>Supporting sectors</b>	 Construction	 Furniture
	 Financial services	 Electrical machinery
	 Power	 Rubber products
	 Vocational training	 Auto manufacturing
	 Information Technology	 Engineering
	 Mining	
	 Technical training	



Through continued consultation with the private sector, with particular focus on sectors where Punjab is most competitive today, the Government has so far identified four key areas where it can play a facilitating role and work with players in specific sectors to increase productivity.

**Creating value chain partnerships:** The Government of Punjab will support the development of Value chain partnerships to increase sector productivity, in particular for agro-based sectors. Value chain partnerships involve strings of companies or collaborating players working together to fulfil market needs and address market failures. Value chain partnerships will be particularly beneficial for Punjab's agro-based sectors, where they are typically created to allow for better financing risk allocation across the value chain. Providing Value chain financing to farmers leads to increased output, productivity and quality as farmers can invest in higher quality inputs such as seeds and equipment, as well as scale their operations.


Value chain partnerships are particularly beneficial for small-scale farms, thereby also supporting the Government's vision of promoting inclusive growth. They offer Punjab the opportunity to formalize the agriculture sector while retaining control in the hands small-scale farms.

The Government of Punjab will also support the creation of rural registers in an effort to accelerate the creation of value chain partnerships and improve policy implementation. A rural register is a monitoring database that gathers data on both farms and farmers, thereby creating transparency on a largely informal economy, and granting downstream buyers knowledge of potential partners for value chain partnerships.

**Encouraging economies of scale:** The Government of Punjab will encourage initiatives to realize economies of scale within sectors, in an effort to increase productivity and export competitiveness. The creation of SME clusters will be vital to increasing productivity of several sectors as they will provide SMEs with access to high quality infrastructure, logistics services, manufacturing expertise through model factories, and access to required raw material and labour inputs. Furthermore, clusters will benefit from the creation of an industrial ecosystem and the emergence of local supply chains.

**Improving marketing and branding:** The Government of Punjab will work closely with players in all sectors to improve the branding and marketing of their products as this has been identified by the private sector as a major barrier to Pakistan producing high value products. In order to increase production of high value products, it will be






vital to develop globally recognizable Pakistani brands, projected through promotional events and leading trade fairs. Developing an improved presence at expos will be critical as current modest pavilions fail to entice buyers as they lack innovative branding and design. Markets of interest will be prioritized with specific campaigns launched to create awareness of Pakistani products.

The Government of Punjab will also facilitate the creation of trading companies, which will be set up to buy generic products in industries such as textiles, furniture, handicrafts from SMEs in the province, and brand, market and sell these products in key overseas markets such as the Middle East, Europe, and North America. The creation of trading companies will address the issues of poor buyer relationships and branding, which particularly affect smaller players. These issues arise from foreign buyers being unwilling to visit Pakistan, the lack of strategic relationships with foreign sourcing or retail houses, and insufficient brand cultivation and marketing expertise of local firms. Through the creation of intermediary trading companies, issues related to marketing and branding can be overcome by concentrating expertise in these areas within a Trading company. Furthermore, trading companies will be better equipped to, and more focused on, cultivating enduring strategic relationships with foreign buyers.

**Improving product quality and controls:** The Government of Punjab will actively support efforts to increase the quality of goods produced in the province to ensure that manufacturers can effectively compete globally. The Government will have a role to play in investing in innovation, facilitating specific interventions to address quality challenges, and creating and enforcing quality standards.

The Government is also willing to facilitate specific interventions by private sector players to address quality challenges in their sectors. For example, in the livestock sector, the Government has received proposals to facilitate creation of disease-free zones to combat the spread of foot-and-mouth disease.

Such interventions will be critical in increasing the quality of Punjab's products and the Government is willing to play an enabling role wherever possible.



A hand is shown in the foreground, holding a white cloth. The background features a lush green park with a large, leafy tree, a wooden bench, and a city skyline with several tall skyscrapers under a bright sky. A small pond is visible in the middle ground.

## **Social and environmental considerations**



# Social and environmental considerations

While it is important for an Industrial Strategy to focus on economic development in the most practical and feasible manner, it is imperative that this is done in an inclusive and sustainable way without marginalising specific groups of people or damaging the environment.

Some of the most pressing social issues currently being faced in the province can be categorized into four major categories. Given these issues, the industrial policy ensures that these issues are taken into consideration and opportunities created for individuals affected by them.

- **Lack of women inclusion:** To address the issue of gender discrimination, the Government will work on four major areas. Firstly, strict enforcement of existing women facilitation laws will be ensured with a specific focus on workplace harassment laws, women protection laws and employment benefit laws such as paid maternity leave. Secondly, women will be provided with technological and infrastructural facilities to increase their ease of participation. Initiatives will be undertaken to provide safe and affordable transportation to work and provision of separate restrooms will be made mandatory for employers of women. Thirdly, capability building of women to increase their productivity will be prioritized through after school coaching programs for girls, agricultural extension courses and scholarships/cash vouchers for targeted vocational trainings. Lastly, awareness campaigns will be run to encourage women to join the formal workforce, and educate men on gender discrimination issues and the importance of empowering women.
- **Lack of development in certain provincial areas:** In order to tackle the underdevelopment of rural areas, the Government will identify underdeveloped and low productivity areas within the province and create an assessment of their infrastructure needs. This will be followed by initiatives to provide basic infrastructural facilities required for economic development, and incentivize industries to set up shop in underdeveloped regions. The Government will also establish industrial zones in these areas, once the requisite infrastructure is in place. Industrial growth in Punjab's rural areas will be key to creating improved employment opportunities for the broader population.



- **Exploitative labour practices:** in order to tackle child labour, committees will be established to improve enforcement of existing laws. A provincial committee on elimination of child and bonded labour, chaired by the Department of Labour will be set up to oversee ongoing efforts and introduce new initiatives. Furthermore, District Vigilance Committees will also be activated under the DCOs to monitor child labour compliance by industries within the region. Efforts will be made to integrate these children into the education system, including through more flexible approaches, collaboration with both the School Education Department and the Non Formal Education Department, and provision of transport options. Additionally, efforts will be undertaken to provide protection and rehabilitation services to children already affected by child labour. Lastly, awareness will be created regarding child rights and consequences of hiring children in the workforce. Youth-led community engagement and awareness programs will also be organized to encourage children to seek education and vocational pathways.
- **Lack of disabled people inclusion:** To facilitate the inclusion of disabled people into the workforce, the Government will target specific training and vocational programs towards the disabled population with a wider scope of offerings including guidance and counselling, job placements and soft skills trainings. Furthermore, the possibility of introducing quotas for hiring of disabled persons and adoption of rehabilitation and safe return-to-work policies to address post workplace injury and disabilities will be evaluated. The Government will also propose legislation to prevent discrimination against disabled people and ensure they are able to compete for jobs on merit. Lastly, to tie these initiatives together, seminars, publications, features in newspapers and advertisement campaigns will be organized to create awareness and encourage the disabled population to actively participate in the workforce.
- **Environmental considerations:** as noted above, it is also critical that growth in Punjab is limited in its impact on the province's environment and the long-term health and well being of the population. The ICI Department will work with the Environment Department to develop updated standards and processes for environmental compliance, which can also serve as a source of export competitiveness by being a requirement for market access.





# CPEC implications





# CPEC implications

The China Pakistan Economic Corridor will benefit many aspects of the economy across the country as a whole. In the context of this policy, it will in particular create significant opportunities for industrial growth in Punjab, and as such, every initiative and policy position outlined above reflects this role.

Firstly, CPEC and the planned Economic Zones will in themselves attract domestic and foreign investors to establish industries. In addition to creating jobs and fuelling economic growth, these industries will produce goods that are currently being imported, thereby reducing Pakistan's import bill and improve the balance of payment situation.

Secondly, the investments in infrastructure will significantly improve Punjab's industrial ecosystem and address a major challenge currently facing industry. The planned CPEC route through Punjab creates an attractive corridor around which to build Industrial Zones, due to the presence of enabling infrastructure.

Thirdly, CPEC makes Punjab an attractive destination from which to export goods to both to China and overseas, relative to existing sea and land routes. This provides export opportunities for Punjab's businesses, and will also encourage both domestic and foreign investors to locate themselves in Punjab and take advantage of the province's natural endowments. The improvements in productivity and competitiveness described in this policy will help Punjab's businesses compete and succeed in these new markets.

Lastly, Chinese investment in modernizing Punjab's infrastructure and the accompanying entry of Chinese firms will enable much needed technology transfer. The Government will seek to maximize benefits of technology transfer by encouraging local businesses to enter into Joint Ventures with Chinese companies. However, in order to benefit from this dividend of Chinese Investment Punjab will need a clear and futuristic policy. Punjab will also introduce the land lease policy and labour deletion policy to ensure majority of the Punjab's labour finds employment in CPEC SEZs.

A green-tinted photograph featuring a wooden gavel resting on a stack of books in the foreground. In the background, a metal scale of justice is visible, also resting on books. The text "Institutional framework" is overlaid in the center of the image.

# **Institutional framework**



# Institutional framework

Implementation of this Strategy will be led by the Department of Industries, Commerce and Investment but with large dependencies on several other provincial and federal departments.

To enable this, the Department will follow five key principles:

- **Maximise private sector role**, with government providing an enabling environment except in cases where required to be more active. In particular, the government will explore whether initiatives can be delivered entirely or in partnership with the private sector.
- **Ensure delivery focus**, by implementing a specific set of practical initiatives essential to boost industrial growth, and measuring implementation through a high-level steering committee including senior representation from all relevant departments. In addition to the Industries, Commerce and Investment Department, this committee will include representatives from the Planning and Development Board, and the Agriculture, Mines, Labour and Human Resources, Livestock, Food and Environment departments.
- **Guarantee transparency through open access to information and regular consultation with the private sector**, strengthening and building on existing channels and making more use of online communication.
- **Build effective governance capabilities** by upskilling government officials involved in policy setting and implementation in key areas including financial modelling, institutional set-up, vocational training, operational excellence programs, investor attraction, spatial analysis, and industry outreach
- **Work closely with Federal Government** to ensure smooth implementation of initiatives which rely on Federal Government approval, and alignment of priorities for maximum impact