

Executive Summary: Pakistan Country Strategy Note

1. Country Context

Since May 2013, the Pakistan Muslim League (N) (PML-N) has headed the federal and the Punjab governments. IGC Pakistan had developed a good working relationship with the Punjab government in its previous tenure and is continuing to undertake significant demand driven work in the Punjab in this term as well. It is noteworthy that governments in Sindh (Pakistan People's Party (PPP)) and Khyber Pukhtunkhwa (KPK) (Pakistan Tehreek-e-Insaf (PTI)) are not led by regional parties with centrifugal tendencies. They all aspire to gain electoral success across Pakistan to form national government in Islamabad in the next round of elections, establishing the principle of contestability in Pakistan's democratic framework. As the election of 2018 approaches, elected federal and provincial governments across are under pressure to improve economic performance if they are to have a chance of winning the next election.

There are several recent developments that affect the overall policy environment, including:

- The army's countrywide operation to eradicate terrorism, extremism and corruption; this has mitigated the terrorist threat including in Karachi and is contributing to improved investment climate, especially for large infrastructure projects.
- Taking the devolution process forward, the first local body elections were held in 2013; even though the responsibilities of the newly elected local governments are evolving, this is an important step forward for building expectations for service delivery at the local level.
- After a gap of 19 years, the government rolled out the population census in March 2017; this will generate rich data to facilitate evidence-based policy making.

Primary drivers of growth in the medium to long term:

- *Urbanization*: Pakistan is experiencing one of the highest rates of urbanization in South Asia. While there is some awareness that Cities can be drivers of growth, policy response is sporadic. Urban challenges include divided responsibilities for urban management, increasing urban sprawl, lack of a credible system of land titling and registration, poorly functioning labour markets, shortage of affordable housing, and poor quality and coverage of water supply, sewerage and sanitation and public transport.
- *Trade*: Pakistan's unique location at the confluence of South Asia, West-Central Asia and Western China, and the rapid economic developments in the neighbouring countries present a great opportunity. Macroeconomic fragility (particularly fiscal, trade and exchange rate policies), inadequate energy supply and festering political disputes with neighbouring countries are the key constraints to the development of regional trade and connectivity.
- *Human capital*: With the ongoing demographic transition, the share of young adults (15-29 years of age) in the population is increasing rapidly which promises a demographic dividend in the shape of productivity led growth. This requires improved human capital of both new entrants as well as existing participants in the labour market. The current low levels of female labour force participation and its adverse impact on productivity is another important challenge.

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2. IGC Pakistan Country Programme

The IGC Pakistan work program was launched in late-2010 and up to 2017 a total of 133 projects have been commissioned, of which 106 have been completed and 27 are ongoing. The main focus of the program has been on the themes of State and Firms that address many of the growth drivers and their challenges listed above. These two themes have accounted for 86 percent of all projects. It has been difficult to get traction on the growth drivers and constraints under the themes of Cities and Energy because of weak policy maker interest/demand. However, some progress has been made in the last couple of years, particularly on the Cities theme, whose share has increased to 15 percent of the ongoing projects from 8 percent of completed projects. Our expectation is that after the election in 2018 (and as ongoing energy and other infrastructure projects are completed) there will be increasing awareness among policy makers for research in energy demand management, as supply will no longer remain the binding constraint.

3. Thematic Areas

IGC Pakistan will continue to deepen its ongoing research under the four thematic areas and will engage with the political leadership to maximise research impact on growth drivers and their constraints.

(a) State

IGC Pakistan aims to enhance the capability of the state at the federal and provincial levels. Research has focused on strengthening economic and political governance, improving social service delivery, streamlining public expenditure and improving tax collection. On macroeconomic management, IGC Pakistan has worked closely with the State Bank of Pakistan (SBP), the Finance Ministry and the Planning Commission. The IGC has supported preparation of a new economic framework, formulating tariff reforms and helping to develop Dynamic Stochastic General Equilibrium (DSGE) models at SBP. The program has had a productive engagement on these topics and this is expected to deepen further in the next phase.

(b) Firms

To improve competitiveness of firms and industry, IGC Pakistan works with both the government and private sector. The work has focused on helping Punjab government design a policy framework for the garments sector as a key driver of export led, employment generating growth. Research has also addressed technology and productivity challenges faced by sports goods and light engineering firms. The engagement is expected to deepen on strengthening firm capability in the next phase. More industrial sectors will be covered and more research will be undertaken on the impact of interventions to increase firm productivity.

(c) Cities

IGC Pakistan is keen to deepen its programme on urbanization and engage with key academics and practitioners working in this area, particularly in Punjab and KPK. An urban mapping exercises has been conducted in select cities, economic ties between small cities and large urban centres have been investigated and the impact of urban transport on labour market outcomes and women empowerment is being assessed. IGC Pakistan will remain engaged in this important theme in the next phase focusing on research that addresses the constraints to city led economic growth.

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(d) Energy

Energy shortages have been a crucial growth retarder. Punjab and KPK growth strategies supported by IGC Pakistan have proposed reforms pertaining to the demand- and supply-side of the energy equation. The research in Punjab and Sindh has mapped feeder-level electricity consumption and investigated mechanisms of decentralised electric power delivery models, particularly solar power. The importance of this theme is likely to increase in the next phase.

(e) Women’s empowerment

Under this sub-theme that underpins state and firms’ capability, research will aim to identify reasons why a relatively small proportion of women are entering the labour market after completing post-secondary education when women make up a very large proportion (more than 50 percent in the Punjab) of the students currently enrolled at this level. It will also focus on economic mobility, and assess the impact of uneven education quality on job mobility and productivity growth on the economy. Research will continue in areas such as microcredit to advance women entrepreneurship, skills provision to improve access to better paid higher productivity jobs and transportation to enhance participation of women in the labour market.

(f) Fragility

There are fragile regions (FATA, Baluchistan) and sub-regions within provinces. There is also policy and institutional fragility at the federal level as seen in poor revenue collection, poor oversight of the federal regulatory authorities, deteriorating design and execution capability of the public investment program and the need for tighter provincial coordination following the 18th amendment of the constitution. The ongoing work on KPK addresses some of the dimensions of fragility at the provincial level as does skills development in South Punjab. In the next phase, the IGC Pakistan programme will look for additional opportunities to address such dimensions of fragility in the overall context of heterogeneity in Pakistan.

(g) CPEC

CPEC is a \$54 billion investment programme focused on developing 1) Gwadar port, 2) road network, 3) energy projects and 4) industrial and commercial activity. Balanced progress on all four will be needed to fully realise the employment and sustained income growth benefits associated with CPEC. Provinces will have to play an important role on an extended version of the fourth pillar that would include agriculture, livestock, mining, transport and tourism, in addition to industry and commerce. IGC Pakistan has already started responding to the needs of the Punjab (in particular the industries and agriculture departments), KPK and Sindh governments on this. A substantial engagement in this area is expected in the next phase.

4. Engagement Strategy and Collaborations

Theme	Relevant Stakeholders and Partners
State	State Bank of Pakistan, Ministry of Finance, Revenue and Economic Affairs, Federal Board of Revenue, Pakistan Bureau of Statistics, Planning & Development Departments of Punjab, KP and Sindh, Punjab Procurement Regulatory Authority, Punjab Excise and Taxation Department, Punjab Energy Department, Punjab Agriculture Department, Punjab Skills Development Fund, Punjab Environment Protection Department, Benazir Income Support Program, Pakistan Poverty Alleviation Fund, Sindh Revenue Board, Sindh Board of Investment, Punjab Revenue Authority, AJK Gov., KP Elementary & Secondary Education Dept., KP

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	Local Government Department, KP Department for Information and Public Affairs, DFID Pakistan, Asian Development Bank, World Bank
Firms	Punjab Small Industries Corporation, Punjab and KP Industries Departments; Sialkot Chamber of Commerce, Pakistan Business Council, Institute of Business Administration, Pakistan Readymade Garments Manufacturers & Exporters Association, Small and Medium Enterprise Development Authority, Punjab Agriculture Department, Telenor, Pakistan Microfinance Bank
Energy	Punjab Energy Department, Punjab Environment Protection Department, HIMA Verte
Cities	Punjab Urban Unit, Lahore Development Authority, KP Urban Policy Unit, KP Water and Sanitation Agency, Lahore Transport Company
Cross-cutting	Governments of Punjab, Sindh, KPK and AJK, The Planning Commission, Ministry of Planning, Development & Reform

Key in-country partners: Almost a hundred local and international researchers have been involved in research projects/studies in Pakistan. Local researchers, about half of all researchers, are from the leading universities (such as LUMS, Lahore School, IBA and BNU) and research institutions/departments (including PIDE, IDEAS, SBP, Punjab Urban Unit and NADRA). IGC Partner policy makers include the Chief Minister of Punjab, current/former Finance Ministers, Deputy Chairmen Planning Commission, Governor State Bank of Pakistan, provincial Chief Secretaries, Chairmen Punjab Planning and Development Department, federal and provincial secretaries, and other senior Government officials. Finally, eminent private business partners include Syed Babar Ali (businessman, philanthropist), Roshaneh Zafar (social entrepreneur), Abdul Razak Dawood (businessman, former federal minister) and heads of industry associations such as Pakistan Business Council, Sialkot Chamber of Commerce, Pakistan Readymade Garments Manufacturers and Exporters Association and Pakistan Sports Goods Manufacturers and Exporters Association.

Who should they be in phase III? Through Phase I and II, IGC Pakistan has developed wide and deep ties with agents of change in the academia, among policy makers and eminent business persons. This network is a key strength of the program. In Phase III, working together with Center for Economic Research in Pakistan (CERP) and Institute for Development and Economic Alternatives (IDEAS) on the dissemination platform of the Consortium for Development Policy Research (CDPR), the network will be strengthened by bringing the civil society and the media into the fold.