Draft Economic Agenda 2018

Note: This document derives proposals from Centre for International Private Enterprise (CIPE) – Sustainable Development Policy Institute (SDPI) pre-budget meetings, focus group discussions and key informant interviews held during the period July - November 2017. Information is also drawn from panel discussion with business community and public officials at the 19th Sustainable Development Conference.

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SUMMARY

To be viable actors in the 2018 election, political parties must develop concrete, sustainable economic policy solutions that respond to Pakistan’s socio-economic challenges and their constituents’ needs. They must also be able to communicate these policies (as part of their political party manifestos) to citizens and advocate for them with stakeholders. Therefore it is important that policy research think tanks including Sustainable Development Policy Institute (SDPI) should engage the local business community to develop inclusive economic agendas that strengthen fair competition, level playing field and promote efficiency that can also help the interests of consumers.

CIPE and SDPI have embarked upon a series of national and provincial consultations all over Pakistan with the following objectives:

- Reaching out to a maximum number of representatives from business community, consumer associations, trade associations, labour unions and rights-based organizations and solicit their feedback on the current state of economy
- Based on the feedback from various key informants, suggest transition towards a fair and just taxation structure in Pakistan
- Based on the feedback from various key informants, suggest more inclusive public expenditure at national and sub-national levels and related public finance management reform.
- Informing all mainstream political parties regarding priorities highlighted by the business community for reducing cost of doing business and promoting competitiveness
- Persuading all mainstream political parties through appropriate engagement and outreach to consider these priorities for their 2018 election agendas.

In light of the above objectives we have split this document in to various key themes for future economic agenda including: revival of agriculture sector productivity, industry and exports competitiveness, investment promotion, ensuring energy security in the country, women entrepreneurship, social enterprise uplift, and promoting reform of provincial tax system which in turn could help in bringing down the cost of doing business in Pakistan. Following are key policy recommendations:

A. Agriculture Sector Development

   I. The provincial annual development programmes need to increase budgetary allocations for improving irrigation, farmer’s access to markets and water
   II. The Ministry of National Food Security & Research in consultation with the provinces needs to formulate strategy for development of value chains and agro-based industries
   III. All forms of agricultural subsidies should target only the micro and small farmers
   IV. There is a need to reduce burden of indirect taxes on farm inputs
   V. Remove trade barriers and allow zero-rating of agriculture machinery and inputs.

B. Manufacturing and Industrial Exports

   I. Improve inter-ministerial and inter-governmental coordination for timely implementation of policy measures and fiscal incentive packages announced to promote competitiveness
II. Improve federal-provincial coordination mechanism to harmonize the regulatory regime for exports

III. Improve Pakistan’s logistics performance particularly in the areas of customs clearance process, transport, warehousing, ability to track and trace consignments

IV. Pakistan may pursue simplification of tariff regime where a three-slab structure may be retained. Regulatory duties should be gradually abolished. In the medium-term, a move toward a uniform tariff regime is recommended

V. Reduce regressive withholding taxes, compliance and reporting costs under direct and indirect taxes, and broaden the corporate tax base to reduce burden on manufacturing sector

VI. Stronger measures are needed for crackdown on harassment faced by businesses at the hands of tax and regulatory authorities including environment, labour, food and municipal administration departments.

C. Budgetary Measures to Promote Investment

I. Improve coordination for investment diplomacy across various economic ministries/departments at the federal and provincial levels

II. Remove unfair exemptions and concessions allowed to select sectors in the tax code

III. A sectoral regulatory impact assessment can highlight the key barriers to investment

IV. A long term outreach programme is required to inform the private sector regarding possible opportunities arising as a result of timely completion of China Pakistan Economic Corridor (CPEC) programme.

D. Efficiency and Competition in Energy Sector

I. Stronger policy stance is required to end hidden and cross-subsidies in the oil, power and gas sectors

II. Expedite reforms to improved electricity transmission and distribution

III. Introduce fiscal measures for promotion of clean energy

IV. The unbundling of gas distribution companies should result in optimization of the company overheads, and put in place mechanisms to curb technical losses and theft

V. In the longer run it is important to change the energy mix and bring about efficiency measures in generation and distribution companies so that cost of energy faced by the industrial user come down.

E. Measures to Promote Women Entrepreneurship

I. Ensure greater access to information and networking for women enterprises

II. Women’s participation in exhibitions organized by Trade Development Authority of Pakistan (TDAP) needs to be subsidized through appropriate policy measures

III. Women are faced with gender-specific non-tariff barriers which needs urgent redressal

IV. Product testing and certification offices will need to be more sensitive to the needs of women

V. To help improve access to finance, it is important that banks customize their credit products for reaching out to a maximum number of women entrepreneurs.
F. Social Enterprise Development

I. The Planning Commission and provincial Planning and Development Departments should support social enterprise development through provincial growth strategies already under implementation

II. Federal Board of Revenue will have to devise a tax system for social enterprises that values social impact

III. SBP will need to assess why formal finance is not reaching the social enterprises

IV. The federal and provincial governments can encourage social enterprises through preferred treatment under public procurement of goods and services.

One hopes that in the coming days our political parties will meet the business community at the grass-root level, get to know their challenges and then firm up their promises as part of the election manifestos. Furthermore timely release of the manifesto documents by all political parties will allow voters a fair chance to make informed choice in Elections 2018.
1 AGRICULTURE AND FOOD SECURITY

**Background:** The average annual growth of agriculture sector dropped from 5.4 per cent during 1980-90 to 2.2 per cent during 2011-16. The crop sector exhibited a negative 6.3 percent decline during 2015-16. Reduced growth of fixed investment in agriculture has led to lack of desired modernization which in turn has also contributed to reduced yields in cotton and wheat. This has implications for food security, agriculture enterprise and rural self- and wage-employment.

- **Focus on consolidating national and provincial priorities:** The Ministry of National Food Security & Research, responsible for policy formulation, economic coordination and planning of agriculture sector needs to formulate in coordination with the provinces a national vision for uplift of this sector. Recommendations from a broad base of stakeholders may be invited to provide inputs for development of value chains and agro-based industries. A more transparent and certain mechanism is also required for procurement of food grains, fertilizer and other inputs.

- **Subsidy should target only the micro and small farmers:** Current evidence suggests weak benefits of support price mechanism to the poorest farmers. All agriculture subsidies at national and sub-national level should be subject to a scientific benefit incidence analysis and allowed only after approval of Parliament or relevant parliamentary committee. In order to protect only the micro and small farmers (as per land size criteria) and to prevent distorting production incentives only direct and targeted cash subsidies at production stage should be allowed to farmers with micro and small land holdings. An updated census of the poorest farming units is already available with Benazir Income Support Programme (BISP) and can help in targeting the beneficiaries.

- **Reducing burden of indirect taxes on farm inputs:** We understand from available evidence that the benefits of lower international oil prices were not fully passed on to the agricultural community. The high effective GST rate on HSD, light diesel oil (used for tube wells) and kerosene remained on the higher side since 2014. This has prevented the farming costs to come down. The tax authorities which under the pressures of meeting revenue targets committed with International Monetary Fund and due to slow progress towards strengthening the audit capacities imposed withholding taxes (WHTs) on several forms of incomes which acted as an indirect tax for all micro and small farmers unable to file for adjustments and rebates.

- **Increase budgetary allocations for improving irrigation, farmer’s access to markets and water:** A revision of Fiscal Responsibility and Debt Limitation Act should protect public spending on agriculture development and food security and direct these protected expenditures towards poorest districts in the country. One additional criteria for selection of these districts should be malnutrition. A mapping of such food insecure districts is already available with the Government and was also recently highlighted during official findings of Pakistan Multidimensional Poverty Report. There is a need to also better resource Ministry of Food Security and Research to enable this institution for playing a country-wide planning and coordination role towards competitive and transparent agriculture markets. The government and political parties may also revisit the zero hunger
programme designed in 2012 aimed at expansion of farm output and market access. The programme at that point could not be funded due to fiscal constraints.

- **Remove trade barriers and allow zero-rating of agriculture machinery:** The small and medium farmers have greatly benefited from importing low-cost agriculture machinery from India. However recently erected barriers to trade and increased regulatory duties, tariffs and para-tariffs have increased the cost of importing such machinery (and related inputs) for agriculture including livestock. The business community has proposed looking into tariff and non-tariff barriers that could be removed to facilitate the import of intermediate agricultural inputs from neighboring India. Second, in view of the on-going energy crisis, solar-based equipment is now being extensively used in agriculture. Federal government has exempted the import of finished solar equipment from customs duty, however if the same solar-based equipment is assembled by local farmers, the imported ingredients/parts are not exempt. This anomaly may be carefully studied and addressed.
2 MANUFACTURING AND INDUSTRIAL EXPORTS

**Background:** Pakistan has continuously missed the annual export targets since the past five years. Putting this in comparison to peer economies; Bangladesh and Vietnam - also producers of textile and garments have seen growth in manufacturing exports. The political leadership has unsuccessfully resorted to short term export promotion packages rather than sustained structure reforms to arrest the decline in exports. The current evidence indicates that the major issues affecting the industrial sector include energy shortages, relatively high costs of electricity and gas, low efficiency of logistics, trade-related infrastructure and trade facilitation, inadequate levels of export-related lending, non-tariff barriers hurting import of export-oriented machinery and raw material, exchange rate misalignment, and slow processing of refunds by Federal Board of Revenue (FBR).

- **Designing interventions by Finance Division and FBR for improved competitiveness:** A more targeted policy focus to boost competitiveness rather than only short-term export promotion is need of the hour. A comprehensive review is required to assess if export promotion incentives managed by Finance Division and FBR have rendered results. The majority of industrial and export promotion measures take the form of tax rebates and subsidies that cut production costs. It is a repeated complaint by the business community that such measures are usually not subject to scrutiny, consultation or ex ante review of the parliament. Given the recent arbitrary changes in the fiscal regime faced by exporters, a tax incidence analysis is required to understand which sectors are being hurt by: multiplicity of taxes and double taxation at national and sub-national level; exemptions provided in the tax code for select sectors, business entities and individuals; and the inability to rationalize tariffs on trade, and refrain from arbitrary imposition of regulatory duties and cascading in the sales tax system. The tax incidence analysis should then guide the next Finance Act and directives related to industrial and export promotion by Economic Coordination Committee (ECC).

- **Improve inter-ministerial coordination for timely implementation of policy measures:** The government and in particularly Ministry of Commerce (MoC) will need to carefully analyze the macro, meso and micro level regulatory and policy-related constraints to export growth. For each constraint a desired policy response will be beyond the domain of the MoC and hence the need for an inter-ministerial coordination group. Alternatively, the Cabinet Committee on Production and Exports may be restructured with more specific terms of reference. Such a high powered coordination forum can then protect budget allocation for trade policy initiatives, credit guarantee support for exporting Small and Medium Enterprises (SMEs), reducing human interface in tax collection, and ensure greater autonomy for the Central Bank for exchange rate management.

- **Improve Federal-Provincial coordination mechanism to harmonize the regulatory regime for exports:** Post 18th constitutional amendment, provinces have come forward with their own
growth and investment strategies. The export and industrial promotion incentives provided under these require harmonization. Several current incentives hurt product sophistication of non-traditional exports and geographical diversification of Pakistani exports. Furthermore, they have given rise to unfair business practices which have strengthened monopolies and allowed businesses to relocate and evade their tax and other liabilities. The reform of various regulatory constraints on competitiveness now rests with provinces. For example, the provinces will have to ease compliance with local taxes, enforcement of legal contracts, execution of real estate transactions, obtaining of utilities connection (e.g. electricity) for commercial purposes, and dealing with permits (e.g. for construction and trade).

- **Curtail informal trade to safeguard local competitiveness**: Studies have suggested a joint working group of Ministry of Finance, Ministry of Interior, FBR, MoC and Central Bank to discuss policy measures that could curtail or incentivize formalization of current informal inflow of merchandise from Afghanistan, China, India, Iran and United Arab Emirates. Integrated border management systems at the land trade routes may be effectively operationalized.

- **Improve Pakistan’s stagnant logistic performance**: Pakistan’s score on logistics performance index has not improved since 2012. This indicates lack of improvement in customs clearance process, quality of trade- and transport-related infrastructure and logistics, ease of arranging competitively priced shipments, ability to track and trace consignments, and frequency with which shipments reach the consignee within the scheduled time. MoC in collaboration with FBR and National Logistics Cell (NLC) should update assessment on missing trade facilities and non-tariff barriers at border points. The business community has long desired that more land-trading routes should be opened with Afghanistan, India and Iran to foster trade activity.

- **Strategy for promoting services trade**: There is a need for special unit at MoC to gather data on services trade as per international definition and standards. A network may be created to help government organizations, related to trade in services, interact with each other. FBR may be consulted on provision of tax incentives and business enterprise financing to facilitate services sector. A Service Export Development Strategy can be initiated with support of the private sector and Trade Development Authority of Pakistan (TDAP). The latter can enhance Pakistan’s presence in international services trade exhibitions.

- **Enhancing Pakistan’s trading benefits from EU GSP plus scheme**: Pakistan will need to expediently ratify 27 conventions required by EU. While a focus on export marketing in EU region is essential, MoC and Ministry of Industries will need to work with the private sector to improve exporters’ ability to comply with EU’s regulatory framework on Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT) issues.

- **Helping exporting sectors to integrate with global value chains**: The existing and new exporters will require support in skills upgradation and dissemination of innovative production techniques. This may initially be targeted for few sectors in which Pakistan has dynamic comparative advantage. For future the government may reduce burden on its development expenditure by inviting foreign investors for export-oriented joint ventures with the mandate of
capacity building and technology transfer. MoC may use the capacity available with Board of Investment to mobilize effort in this direction.

- **Greater regional integration through deep agreements that go beyond market access:** Revisions to already signed FTAs should now include investment and services trade provisions. Specific measures in the regional context could include careful revision of transit agreements and one-stop border posts. MoC should initiate the next round of trade negotiations with India and offer deep forms of integration at the next heads of state SAARC Summit to be hosted in Islamabad.

- **Encourage export diversification through the promotion of intra-industry competition:** In the short term, MoC may pursue simplification of tariff regime where a three-slab structure may be retained. Regulatory duties should be gradually abolished. In the medium-term, a move toward a uniform tariff regime is recommended.

- **China – Pakistan cooperation for local industrial development and job creation.** The Bhurban Declaration at All Pakistan Chambers Presidents’ Conference 2017 recognized CPEC as a game changer. It was urged to the Government that information of the fourth part of CPEC Plan, which is “Industrial Zones Development” shall be shared immediately with all the Chambers. The package negotiated for the Chinese industrialist shall be shared and at par packages shall be extended to the Pakistani Industrialist as well. The Government should negotiate with the Chinese Government to evolve a policy to have joint ventures between China and Pakistan for long lasting win-win cooperation. The government was urged that labor intensive industry from China under CPEC shall be relocated in Pakistan to boost the local employment.

- **Reduce compliance and reporting costs under direct and indirect taxes:** Most tax-payers are not complaining of the actual financial burden of taxes but the costs associated with the compliance with various taxes. In our bid to increase tax revenues, and revenue collections of multiple authorities the current tax regime has burdened the existing (tax) payers (i.e. salaried class and industry). It is proposed that only a single return should be filed for all forms of tax and this return should be submitted to a single tax authority. The one-window operations for income and corporate tax payers need to be made effective with more elaborate engagement and outreach.

- **Broaden the corporate tax base to reduce burden on industry:** Currently industrial sector ends up paying most of the corporate tax contributions due to lack of documentation in other sectors of the economy. The use of ICT tools, biometric information and a data warehouse that links banking information with NADRA’s database can help the efforts of tax authorities to earn revenue from untapped sources. The reform for corporate taxes should also aim to boost corporatization of businesses. There is a need to simplify corporate tax regime which currently includes standard corporate tax, turnover tax, and alternate corporate tax. The cost related to annual and other reporting and compliance also need to be reduced for corporate tax payers.
- **Reduce regressive withholding taxes:** There are currently 58 withholding taxes on utilities, traded goods, ICT, banking transactions, remittances, asset transfer, real estate transactions etc. This is responsible for increased informal sector of the economy, as a large number of small-scale manufacturing and services sector entities are reluctant to formalize their business. A gradual reduction in WHTs is possible once efforts to increase overall direct tax base are successful.

- **Reducing burden of high effective indirect taxes on SMEs:** The government through the budget of 2015-16 has burdened the SMEs in the industrial sector (through regulatory duties and high effective GST), rather than recognizing the losses SMEs have incurred due to lack of energy, non-processing of tax refunds by Federal Board of Revenue (FBR), reluctance of banking sector to lend for working capital, etc. The direct tax rates faced by SMEs should be rationalized and the sales tax rate across the board should be gradually reduced to a single digit. Currently Pakistan continues to have one of the highest number of varying rates for sales tax. The sales tax slabs/categories may be gradually reduced to a maximum of three as seen in India and other regional economies.

- **Strong reform of tax administration and crackdown on harassment faced by businesses.** This can be addressed through appropriate legal revisions that empower tax payers, automation at FBR, separating audit and appeal functions at FBR (in order to avoid conflict of interest). The Bhurban Declaration at All Pakistan Chambers Presidents’ Conference 2017 demanded that in the context of recovery of tax demand under section 140 of Income Tax Ordinance 2001, government is urged that a portion of tax demand needed to be deposited to make an appeal may be reduced to 10% from existing 25%. Furthermore, Section 38A&B, 40&40B of Sales Tax Ordinance 1990 may only be exercised by Member (or equivalent ranking official) of Federal Board of Revenue (FBR), rather than regional tax office authorities. It is recommended to stop all the raids on the business community by any authority of FBR including Intelligence and Investigation Branch.
3 BUDGETARY MEASURES TO PROMOTE INVESTMENT

- The Ministry of Finance may like to see why current tax and expenditure policies are a hindrance in investment inflows. A regulatory impact assessment can highlight the key hindrances. Earlier this year, SDPI’s study had pointed out that the current fiscal policy regime is hurting investment in energy sector. The study suggested that (a) FBR may be asked to look into the unnecessary ‘differentiated’ slabs of corporate taxation, (b) the part of the Finance Act that discourages investment in the renewable and alternative means of energy generation should be removed, (c) business community should be taken into confidence regarding the utilization of levies such as Gas Infrastructure Development Cess, (d) procedures in the import of petroleum products for raw material should be rationalized, and (e) the issue of circular debt, untargeted/hidden/cross subsidies, and high non-receivables in energy sector should be resolved. The management of circular debt needs to be made more transparent with real time technical and financial losses posted online.

- Improve coordination for investment diplomacy across various economic ministries/departments. Currently investment diplomacy is being handled in a fragmented manner by federal and provincial Boards of Investment, Planning Commission (in case of CPEC), Economic Affairs Division, Ministry of Foreign Affairs, and Ministry/Departments of Industries and Production. The efforts to lure investment from abroad lack coordination. It is therefore proposed that all such efforts should have a central data and facilitation secretariat at the Board of Investment in Islamabad. This office should also regularly follow up with delegations who have visited and not pursued their business interests in Pakistan.

- Remove unfair exemptions and concessions allowed to select sectors: This is preventing a level playing field for most businesses. Profits from an electric power generation project, information technology services, export of software and IT enabled services are exempt from tax. Similarly, some exemptions have been allowed to Chinese investment regarding which the Parliament and local businesses require clarity. All incentives allowed to foreigners should be available for local investors as well.

- Ensure peoples’ participation and oversight to strengthen investor confidence: Citizen participation and oversight which will lead to more transparency, better governance of tax administration and better utilization of available revenue should be allowed through Finance Act. Open Government Partnership and related initiatives including Open/Citizen’s Budgets, practiced in several commonwealth countries can strengthen fiscal transparency and overtime enhance taxpayers’ confidence. The civil society organizations should be allowed to act as observers on policy boards of FBR, SECP and SBP.
4 EFFICIENCY AND COMPETITION IN ENERGY SECTOR

- **End hidden and cross-subsidies in the energy sector:** The Ministry of Finance in collaboration with Ministry of Water and Power needs to conduct a detailed incidence analysis of prevalent subsidy structure in oil, power and gas sectors. In order to ensure a level playing field, all untargeted, hidden and cross subsidies allowed through discretion of Economic Coordination Committee and Prime Minister should be carefully reviewed and phased out.

- **Remove any biases in the structure of corporate taxation:** It is indicated in the Finance Act 2014 that 20% corporate taxation rate will be charged to foreign investors for a time period of 5 year in setting up new plant. This is in contrast to the local investor who is being charged a rate of 33%. Some businessmen are of the view that such concessions can crippling the local industry and reduce incentives for longer term investment by local investors. The position is opposite in India where corporate tax rate is 40% for foreign investors and 30% for local businessmen.

- **Reforms to improved electricity transmission and distribution:** Timely investment and governance reforms at DISCOs will be needed to improve the transmission and distribution in the power sector. Smarter ways of power metering can curb technical losses, theft of power and also promote the use of solar energy.

- **Fiscal measures for promotion of clean energy:** One possible area of interest of business community may be the prospect of clean energy. New survey and feasibility studies may be conducted throughout Pakistan to analyze the potential of wind, solar and other forms of renewable energy. A revised Independent Power Plant framework may be used for provision of attractive tariff rates with respect to demographic and economic profile of the province (e.g. a more attractive tariff for Balochistan) in order to secure interest of foreign and local investors.

- **Unbundling of the Gas Distribution Companies:** The feasibility of new companies may ensure optimization of the company overheads, rationalization of the distribution distance, put in place mechanisms to curb losses and theft. Furthermore the regulator and the government will need to ensure that the un-bundling should not in any way lead to a rise in per unit rate of the gas faced by the industrial and residential consumers.
5 PROVINCIAL TAX REFORMS

**Background:** The provincial governments have now been empowered to collect taxes and augment their revenue position through appropriate tax policy and administration reforms. In this regard, there is a need for census-based baseline of provincial tax bases, improving coordination between federal and provincial tax authorities, IT-based tax compliance for reducing human interface, integrated database of income and wealth sources at provincial level, GIS-based validation of land holdings, commercial, wholesale and retail activity and internal capacities for audit, monitoring and evaluation. Most of these measures will fall under the purview of the provincial governments however support from federal and development partners will be required.

In the case of sales tax on services, current system needs harmonization across provinces as different rates of sales tax are being charged from same type of businesses. The issue of double taxation between FBR and provincial revenue authorities also needs to be addressed. This matter was also highlighted in the report of National Tax Commission.

- To strengthen their audit functions, provincial revenue authorities will require access to databases maintained by Pakistan Revenue Automation (Pvt.) Ltd., National Database & Registration Authority (NADRA) and lending/borrowing information at State Bank of Pakistan. This will allow digital integration of all revenue authorities across Pakistan and reduce cases of misreporting.

- Varying rates of several progressive provincial taxes (e.g. property, agriculture, wealth taxes) are being charged across provinces. This allows misuse of lower rates and post unfair market competition. It is therefore proposed that all provincial revenue authorities should agree on a uniform standard rate for all taxes including GST on services. Other rates may be allowed only under certain eligibility conditions. During September 2016 the provincial revenue authorities of Punjab, Sindh and Khyber Pakhtunkhwa had decided to apply uniform rate of tax on inter-city carriage of goods through oil tankers across provinces. Similar treatment may be considered for all services.

- The tax registration and monthly filing of returns with multiple revenue authorities has also increased the cost of doing business. This has prompted micro businesses not to register and continue operations in the informal sector. To encourage formalization and reduce compliance costs of existing businesses it is recommended that: a) tax rates and bases on which rates are applicable may be decided by the provinces themselves, b) single tax return should be filed once all revenue authorities are virtually integrated, and c) collection of tax should be sole task of a single collection company or delegated institution.
5 Measures to Promote Women Entrepreneurship

A key demand of most current women entrepreneurs is greater access to information and networking. The availability of smart phones has indeed reduced the cost of accessing information, however finding relevant and timely information online still remains a challenge under a milieu where state regulations and policies towards businesses are fast changing. The women chambers of commerce can be provided support to organize a central processing unit, from where information could be transmitted through all available mediums.

Second, women’s voice in mainstream chambers of commerce and industry (CCI) and federation of CCIs is still weak. Their representation at senior levels of key CCIs in Pakistan is still missing. This can be resolved through appropriate advice by the Ministry of Commerce to all CCIs across Pakistan.

Third, women’s participation in exhibitions organized under the auspices of Trade Development Authority of Pakistan and other relevant bodies needs to be subsidized through appropriate policy measures.

Fourth, women are faced with gender-specific non-tariff barriers. For example, there is a need to offer safe amenities in border areas where trade via land routes is taking place. Similarly, instead of women having to visit one-window trade or tax facilitation centers, it is advised to make all regulatory compliance processes online.

Fifth, the testing and certification offices will need to be more sensitive to the needs of women. It is recommended that such offices may be provided the necessary capacity or training to improve their procedures, skills and attitudes so that they can better respond to women-led businesses.

Sixth, it is recommended that for micro, small and medium enterprises (MSMEs) provisions related to tax-free raw material imports and tax holiday to start-up and expand enterprises may be allowed. The policy community can also promote the output of MSMEs through preferred purchase and this may require some changes in the rules being currently followed by Public Procurement Regulatory Authority.

Seventh, to help improve access to finance, it is important that banks customize their credit products, simplify the process of application and offer flexible payback options. Such customization should also include guarantees by the government which can save MSMEs from collateral requirements. Similarly the central bank will need to consult the women led MSMEs before introducing any new financial services in order to ensure appropriate uptake. Mandatory training of bank staff on gender-sensitive banking operations is also desired.

Finally for capacity building of women entrepreneurs it is important to create training hubs at the offices of women CCIs which should have their own quarterly training cycles. Similarly it is important that for stay-at-home women, online and app-based training modules may be designed.
5 Social Enterprise Development

There is a need to provide a legal identity to social enterprises (SEs) in Pakistan. This could start by invigorating Centre for Social Entrepreneurship (CSE) at Planning Commission which in turn can devise a working definition of SEs in liaison with Securities and Exchange Commission of Pakistan (SECP).

Second, CSE can initiate work with the provincial Planning and Development Departments and promise support to SEs through provincial growth and development strategies, already under implementation in most provinces. Third, start-ups will need capacity building in business planning, organizational development, and strengthening compliance with legal, financial and product requirements. Such capacity building can be supported and facilitated through the offices of regional Chambers of Commerce and Industries.

Related organizations such as Benazir Income Support Programme, Pakistan Poverty Alleviation Fund, and Small and Medium Enterprise Development Authority may join hands to devise innovative outreach methods for scaling up and ensuring uptake of capacity building efforts across SEs. The Trade Development Authority of Pakistan (TDAP) in collaboration with provincial governments’ industries departments may help in regional and global integration through support in marketing and visibility at foreign exhibitions.

For integration in agriculture supply and value chains, Ministry of National Food Security and Research in collaboration with TDAP and provincial government’s agriculture departments can raise new support services for SEs.

Fourth, Federal Board of Revenue will have to devise a tax system for SEs that values social impact. There are models from several developing economies, which have incentivized the growth of SEs through appropriate changes in national and sub-national tax policy. Currently all provinces offer a different tax regime. The overlaps in tax policy and administration across federal and provincial revenue authorities is also resulting in double taxation issues.

Fifth, SBP will need to assess why formal finance is not reaching the SEs. Existing financial framework and prudential regulations may be appropriately modified for meeting needs of social impact investments and incentivizing lending institutions.

Finally, federal and provincial governments can encourage SEs through preferred treatment under public procurement of goods and services. For this CSE may approach Public Procurement Regulatory Authority to amend rules and ensure minimum quota for SEs, at least for projects with social impact at local level. A community-benefit clause under official (procurement) rules will ensure inclusion of social outcomes in procurement objectives.

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