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

Report No. PIDC0147966

Program Name	*Sindh Jobs and Competitiveness Program*
Region	*South Asia*
Country	*Pakistan*
Sector	*Finance, Competitiveness and Innovation*
Financing Instrument	*Program for Results*
Program ID	*P165765*
{If Add. Fin.} **Parent Program ID**	*N.A.*
Borrower(s)	*Government of Sindh*
Implementing Agency	*Sindh Planning and Development Department*
Date PID Prepared	*2/01/2018*
Estimated Date of Appraisal Completion	*April 24, 2018*
Estimated Date of Board Approval	*July 24, 2018*
Concept Review Decision	Following the review of the concept, the decision was taken to proceed with the preparation of the operation.

I. Introduction and Context

Country Context

Pakistan has seen a recovery in economic growth accelerating for 5 consective quarters, with gross domestic product (GDP) expanding at 5.3 percent in 2017, its highest level in the last decade. Key growth drivers include strong consumption, which accounts for almost 92% of GDP, a robust services sector and recovery in agriculture. Foreign direct investment has increased since 2011 from $1.3 billion to $2.3 billion in 2016 largely due to China-Pakistan Economic Corridor (CPEC) projects and other large investments. On the other hand, a persistent trade deficit caused by weak export performance has seen exports decline from $25.1 billion in 2011 to $21.9 billion in 2017. Many factors have contributed to this decline including an inability and lack of dynamism to keep up with the changing global marketplace, a continued focus on low-tech, low-value added exports, and an investment climate that both results in a high cost of doing business and stifles innovation.

While recent economic indicators show moderate improvement in some areas, Pakistan needs to increase its focus on strengthening its global competitiveness both to maintain the sustainablity of the economy and to meet the demands for job creation as the 'youth bulge' results in significant growth in the number of new labor force entrants. Pakistan's working-age population is expected to continue to grow at 2.1 percent per year over the next decade. The country faces the triple challenge of creating enough jobs for this growing population, improving the quality and productivity of jobs, and enhancing access to jobs and economic opportunities for women.

Ongoing investment climate reforms, which include implementation of a three-year Doing Business Reform Strategy as well as simplification, streamlining and automation of regulatory interfaces with the private sector will help build investor confidence in long-term business opportunities and hopefully reverse the downward trend of Pakistan's Doing Business ranking now at 147 of 190 economies. While these pro-growth reform actions have been initiated at the Federal level, progress on reforms will depend significantly on a Provincial-level response following the delegation of policy making under the 18th Amendment. As Sindh accounts for one-fourth of Pakistan's GDP and population, the business climate and potential for economic growth in the Province will have a direct impact on national development.

Sectoral and Institutional Context

As a major employment and trade hub, Sindh is well positioned to contribute to improving competitiveness and job creation. While long-term growth has been below par, Sindh has considerable potential to revitalize and enhance growth over the next 10 to 15 years, driven in part by increased global trade and trade with the rest of Pakistan. Sindh's young and growing workforce, its strategic location, abundant natural resources and vibrant business community could transform the province into an engine of Pakistan's economic growth if coupled with the right policies. Sindh's inherent advantages also include the city of Karachi, a gateway to foreign markets and a potential source of agglomeration economies.

To achieve this potential the Government of Sindh will need to address many contraints impacting investor confidence, including a weak business environment, insufficient and unproductive industrial infrastructure and a low level of skills and firm capabilities. While demonstrating its commitment to regulatory reform through improvements recognized in the Doing Business 2018 report in the areas of starting a business and registering property, the Government of Sindh needs to further these reforms to more significantly improve the ease of doing business. Regulatory burdens identified in the 2013 Enterprise Survey indicated that 25% of firms consider business licensing to be a major constraint and regulatory compliance costs are high.

The manufactuirng sector is a major employer in Sindh accounting for 18% of Sindh's GDP. The declining growth rate of Sindh's manufacturing sector from almost 9.0 percent from 1999 to 2005 to just 3.4 percent from 2010 to 2015 indicates a need to support the sector. Sindh's firms are also not competitive in global value chains (GVCs): using Pakistani trade statistics as a rough approximation for Sindh suggests that, in 1996, about 5 percent of Sindhi firms were connected to GVCs through upstream linkages. Fifteen years later, in 2011, the share had risen to only about 7 percent. In comparison, the corresponding statistics in Bangladesh increased from 6 to 12 percent, and in India from 15 to 20 percent. Declining productivity of manufacturing as measured by output per worker is another concern.

The services sector is becoming an increasingly important driver of growth and employment. While services account for close to half of employment in Sindh, with the largest share in wholesale and retail trade, attracting more private investment in skill intensive areas, especially in IT and professional services would help to address the untapped potential for higher value added services.

Improving technical and vocational skills is another important factor for increasing competitiveness and productivity. Vocational training programs often rely on obsolete curriculum and training materials and instructors with limited industry experience contribute to a mismatch between the skills required in the labor market and those provided by training programs. As a result, many students are trained in less relevant occupations and lack the industry exposure necessary to acquire required soft skills and job experience. To alleviate this mismatch more private sector involvement in skills development is needed.

Relationship to Country Partnership Strategy

The proposed project directly contributes to the Country Partnership Strategy (CPS) 2015-2019 for Pakistan, which is structured to help the country tackle the most difficult but potentially transformational areas to reach the twin goals of poverty reduction and shared prosperity. The project addresses the strategic pillar of supporting private sector development by improving the business environment to improve competitiveness. The project is a follow on to the support provided by the World Bank for the Sindh Growth Strategy with the objective of implementing reforms regulatory reforms, improving industrial infrastructure and supporting skills development. The project complements other World Bank programs in Sindh, including the Sindh Skills Development Project, the Karachi Neighborhood Improvement Project and the Sindh Public Sector Reform Project. It also complements wider efforts to improve the business regulatory environment as measured by the World Bank's Doing Business report.

Rationale for Financing Instrument Choice

The Sindh 2025 Vision and Sindh Growth Strategy (SGS) call for major reforms across multiple sectors in the province, allocating budget to this end. The Sindh Jobs and Competitiveness Program for Results (PforR) therefore offers an opportunity to significantly contribute to the implementation of the Sindh Government's Public Sector Development Program and the achievement of core aspects of the SGS, while also strengthening provincial government systems and institutions. PforR is a financing instrument of the World Bank centered on result achievement, program effectiveness, and efficiency. This instrument has four main features, including (1) Financing and supporting the government's existing programs, which have pre-defined expenditures and activities; (2) Disbursement upon the achievement of program results as defined by verifiable indicators called "Disbursement-linked Indicators" (or DLIs), rather than by inputs; (3) A focus on strengthening the institutional capacity, processes and procedures needed for government programs to achieve their desired results; and (4) Assuring the Bank and government that funds are used appropriately and that the program's environmental and social aspects are addressed.

II. Program Development Objective(s)

The program development objective is to improve the business environment and economic competitiveness of Sindh to generate new investment and employment opportunities. The program expects to obtain the following set of key results:

1. Improved investment climate as measured by the Doing Business indicators;
2. Increased investment attracted to the province;
3. Strengthened institutional capacity for implementing public-private partnerships;
4. Improved management of infrastructure in industrial zones; and
5. Improved skills, firm capabilities, and employment opportunities.

III. Program Description

To achieve its desired development outcomes, the program will address reforms in three main thematic areas of business environment, industrial infrastructure, and skills and firm capabilities. A cross-cutting theme will specifically address the constraints to women participation into the labor force. Each thematic area will be associated with a number of specific reforms, the results of which will be tracked by one or more Disbursement Linked Indicators.

Business Environment

Pakistan currently ranks 144 out of 190 countries in terms of the Ease of Doing Business indicators, and sub-national analyses for 2010 show that the three leading cities in Sindh (Karachi, Sukkur, and Hyderabad) are in the lower half of the national rankings. The program will therefore work towards improving the business environment particularly relating to construction permitting, property registration, business registration, contract enforcement, licensing, and public-private dialogue. The program will also include a focus on investment policy by working with the Sindh Board of Investment to streamline FDI entry procedures, revise investment incentives, and strengthen investment promotion. The program will also promote the automation and digitization of key governance processes, to improve transparency, accountability, and efficiency.

Industrial infrastructure

The program will support the development of industrial infrastructure by supporting the Government of Sindh to devise a framework for attracting private sector investment in the rehabilitation, development, and management of industrial zones. The program will support the design of a regulatory framework and management structure with appropriate monetary incentives for private developers to manage industrial zones efficiently. To enhance the efficiency of existing zones, the program will seek to generate private sector investment to rehabilitate industrial zone infrastructure and improve zone management.

To create an enabling framework that encourages private sector participation and development, the program will support the government in pursuing Public-Private Partnerships (PPPs) in these activities. To this end, the program will include capacity building for the Sindh government to improve service delivery and infrastructure through PPPs, and will support government funding of PPPs.

Skills and firm capabilities

While the detrimental effects of a restrictive business environment affect all firms, the damage is often particularly severe for small and medium enterprises (SMEs). The program will support the development and implementation of a provincial approach to improving SME capabilities and accelerating the development of SME manufacturers. The program will aim to improve SME access to technology, innovation, skills, and advice. The program will work with the Sindh Small Industry Corporation in the development and implementation of a strategic framework for cluster development, and in building firm capabilities and linkages across product spaces and value chains.

Human capital development will be integral to the upgrade of firm capabilities envisaged by the program. Aligning the skills of the workforce with market demand will require improving the relevance of the curriculum offered by technical and vocational education and training (TVET) institutions by making them more competency-based and demand-driven. The program will thus support skills development by strengthening linkages between TVET institutions and target employment industries.

Women and competitiveness

Sindh's female labor force participation is only 13.5 percent, and the average income of women workers in Sindh is around one-fifth that of men. Many factors contribute to low female labor force participation, including women's low skills and low participation in education and training, social norms, lack of gender responsive infrastructure and occupational segregation. This gender gap will be addressed within all components of the program and solutions will be sought to increase the participation of women in the labor force.

IV. Initial Environmental and Social Screening

The team will commence an Environment and Social Systems Assessment (ESSA) in February 2018 to gain a general understanding of potential environmental and social risks and identify program systems for managing these risks. Elements to be reviewed in the ESSA include a summary of potential risks, assessment of Sindh government management systems, review of industrial zones performance in resource efficiency and recommendations for institutional arrangements and actions for mitigating potential environment and social risks.

V. Tentative financing

Source:		($m.)
Borrower/Recipient		
IBRD		200
IDA		
Others (specify)		
	Total	200

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